

CARTER BANK & TRUST

AUDIT COMMITTEE
CHARTER

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I. Mission Statement

The primary function of Carter Bank & Trust's audit committee is to assist the board of directors in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information provided by the bank to any governmental board or the public; the bank's system of internal controls regarding finance, accounting, legal compliance and ethics that management and the board have established; and the bank's auditing, accounting and financial reporting processes generally. Consistent with this function, 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 to monitor the bank's financial reporting process and the internal control system;
- Review and appraise the audit efforts of the bank's external auditors and its internal auditing department; and
- Provide an open avenue of communication among the external auditors, financial and senior management, the internal auditing department and the Board of Directors.

The audit committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this charter.

II. Membership

Carter Bank & Trust's audit committee shall include no less than three members as determined by the board of directors, each of whom shall be independent directors, and free from any relationships that, in the opinion of the board, would interfere with the exercise of his or her independent judgment as a committee member. Each member shall be considered financially literate, and the chairperson shall qualify as a "financial expert" as defined in the regulations of the U. S. Securities and Exchange Commission. Committee members may enhance their familiarity with finance and accounting by attending educational programs conducted by the bank or an outside consultant.

Committee members shall be elected by the board at the annual organizational board meeting or serve until their successors have been duly elected and qualified. The committee members will elect a chair by majority vote of the full committee membership.

To remain a member in good standing, committee members must be present at three of the four regularly scheduled quarterly meetings each year. Participation by teleconference is permitted at only one regularly scheduled meeting annually.

III. Frequency of Meetings

The audit committee of Carter Bank & Trust shall hold regularly scheduled meetings on a quarterly basis. A schedule of the meetings will be established by the board of directors on an annual basis. Special meetings may be called as the audit committee chairperson deems necessary to conduct the committee's business.

The audit committee shall meet at least four times annually, or more frequently as circumstances dictate. The committee is to meet in separate executive sessions with management and its independent accountants at least once each year and other times when considered appropriate. The committee is to meet in executive session with its internal auditor on a quarterly basis and other times when considered appropriate. The committee shall provide regular reports with recommendations, as deemed necessary, to the board of directors.

IV. Responsibilities

To fulfill its responsibilities and duties, the audit committee shall:

Documents/Reports Review

- Review and update this charter periodically, at least annually, as circumstances warrant.
- Review the bank's annual financial statements and any reports or other financial information, including footnote disclosures, submitted to any governmental agency, or the public, including any certification, report, opinion, or review rendered by the external auditors.
- Review with financial management the bank's quarterly financial statements prior to filing or prior to the release of earnings. The chair of the committee may represent the entire committee for the purpose of this review.
- Review the routine reports prepared by the internal auditing department and management's responses when applicable.
- Review the routine exception tracking report prepared by the internal auditing department for timely action by management on significant findings and validation by the internal auditing department.
- Review any other management reports prepared by the internal auditing department for management of the audit function and its resources.
- Review and approve, at least annually, the audit policy and the proposed audit schedule.
- Review and approve any changes to or deletions from the annual audit schedule.

External Auditors

- Recommend to the board of directors the selection of the external auditors, considering independence and effectiveness and approve the fees and other compensation to be paid to the external auditors;
- Pre-approve the engagement of the external auditor or other independent accountant to conduct any non-audit services to be performed during the year;
- On an annual basis, the committee should review and discuss with the external auditor all significant relationships the auditors have with the bank to determine the auditor's independence;
- Review the performance of the external auditors and approve any proposed discharge of the external auditors when circumstances warrant; and
- Periodically consult with the external auditors out of the presence of management about internal controls and the fullness and accuracy of the bank's financial statements.

Financial Reporting Processes

- In consultation with the external auditor and the internal auditors, review the integrity of the bank's financial reporting processes, both internal and external.
- Consider the external auditor's judgments about the quality and appropriateness of the bank's accounting principles as applied in its financial reporting.
- Consider and approve, if appropriate, any major changes to the bank's accounting and auditing principles and practices as suggested by the external auditors, internal auditors, or management.

Process Improvement

- Establish regular and separate methods of reporting to the audit committee by senior management, the external auditors and the internal auditors regarding any significant judgments made in management's preparation of the financial statements, and solicit the view of each regarding the appropriateness of such judgments.
- Following completion of the annual audit, review separately with senior management, the external auditors, and the internal auditor any significant difficulties encountered during the course of the financial statement/internal controls audits, including any restrictions on the scope of work or access to required information.
- Review any significant disagreements among senior management and the external auditors or the internal auditor in connection with the preparation of the financial statements or the design, existence, or effectiveness of internal controls.

- Review with senior management, the external auditors and the internal auditor 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 before the expected implementation of changes or improvements, as approved by the committee.

Ethical and Legal Compliance

- Review the bank's code of ethical conduct and ensure that senior management has established a system to enforce this code.
- Review senior management's monitoring of the bank's compliance with its ethical code, 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 regulatory agencies, and the public satisfy legal requirements.
- Establish an anonymous whistleblower contact and monitor any comments received from employees, customers or suppliers.
- Review activities, organizational structure, and qualifications of the staff of the internal audit department.
- Review the qualifications and performance of the internal auditor and recommend any appropriate changes to his/her compensation.
- Review, with the bank's legal counsel, any legal compliance matters including corporate securities trading policies.
- Review, with the bank's legal counsel, any legal matter that could have a significant impact on the bank's financial statements.

Other

- The audit committee chair shall make a full report on its activities quarterly to the Board of Directors.
- The audit committee shall maintain complete and faithful minutes of its meetings.

Authorities

The board of directors of Carter Bank & Trust grants the following authorities to its audit committee in performance of its duties:

- The audit committee may perform any other activities consistent with the intent of this charter, the bank's by-laws and governing law, as the committee or the board deems necessary or appropriate.

- The audit committee shall engage an outsourcing vendor or authorize the hiring of additional auditors in the event it determines such resources are needed to ensure that the annual audit policy and the audit schedule can be completed as the committee deems appropriate.
- The audit committee is empowered to demand that external auditors and the internal audit department have full access to all employees, accounts and records of the bank.
- The audit committee shall investigate any internal or external accounting or auditing irregularities reported to the Bank's whistleblower contact including engaging a forensic accountant if circumstances warrant.