

# AUDIT COMMITTEE CHARTER

## *Purpose*

The principal purpose of the Audit Committee is to assist the Board of Directors (the “Board”) of BlueHarbor Bank (together with its subsidiaries, the “Bank”) in fulfilling its responsibility to oversee: (i) the integrity of the Bank’s financial statements; (ii) the Bank’s financial reporting process; (iii) the Bank’s systems of internal accounting and financial controls; (iv) the performance of the Bank’s internal audit function and independent auditors; (v) the independent auditors’ qualifications and independence; and (vi) the Bank’s compliance with its policies about ethical conduct and legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and each of the independent auditors, the internal auditors, and management of the Bank.

In discharging its oversight role, the Committee is granted the authority to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Bank and the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties. The Bank shall provide appropriate funding, as determined by the Committee, for compensation to the independent auditors and to any advisers, including independent counsel, that the Committee chooses to engage.

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

## *Composition*

The Committee shall be comprised of no fewer than three members of the Board. The members of the Committee shall be appointed by the Board. Committee members may be replaced by the Board.

The Committee’s members will meet the requirements of any applicable listing standards of the stock exchange or inter-dealer market on which the Bank’s common stock may be listed or qualified for quotation (“Listing Standards”). Accordingly, all members of the Committee shall be directors who:

- Have no relationship with the Bank’s management or with the Bank that may interfere with the exercise of their independent judgment;
- Do not receive any consulting, advisory or other compensatory fee from the Bank, other than in the members’ capacities as members of the Board or any of its committees;
- Are not “affiliated persons” (as defined by applicable law or regulation) of the Bank, other than as members of the Board; and
- Are financially literate as required by applicable Listing Standards.

In the event that regulations of the Securities and Exchange Commission (“SEC”) impose more stringent requirements or are otherwise in conflict with the Listing Standards, such regulations shall be controlling under this Charter. In addition, at least one member of the Committee will have accounting or related financial management expertise and, to the extent practicable, be an “audit committee financial expert” (as that term is defined by the SEC) as determined by the Board.

The Committee shall meet no less often than three times a year, or more frequently as circumstances dictate. The Committee shall periodically meet separately with each of the Bank's management, internal auditors, and independent auditors to discuss issues and concerns warranting Committee attention. The Committee may delegate authority to any subcommittees created by it and composed of one or more of its members or individuals when appropriate. Any such subcommittee or individual acting under authority delegated by the Committee shall report any actions taken to the Committee at its next scheduled meeting. The Committee shall report regularly to the Board.

### ***Duties and Responsibilities***

The primary responsibility of the Committee is to oversee the Bank's financial reporting process on behalf of the Board and report the results of its activities to the Board. While the Committee has the responsibilities and 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 ("GAAP") and applicable rules and regulations. Management is responsible for the preparation, presentation, and integrity of the Bank's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Bank. The independent auditors are responsible for auditing the Bank's financial statements and for reviewing the Bank's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to ensure that there is an overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior. The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

#### Financial Statement and Disclosure Matters

- The Committee shall review and discuss with management and the independent auditors the annual audited financial statements, and disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Bank's Annual Report on Form 10-K or 10-KSB, as applicable from time to time, and the Annual Report to Stockholders.
- The Committee shall review and discuss with management and the independent auditors the Bank's quarterly financial statements prior to the filing of its Quarterly Reports on Form 10-Q or 10-QSB, as applicable from time to time, including the results of the independent auditors' reviews of the quarterly financial statements.
- The Committee shall periodically review with management and the independent auditors the quality, as well as acceptability, of the Bank's accounting policies, and discuss with the independent auditors (i) how the Bank's accounting policies compare with those of other companies in the industry in which the Bank is a participant and (ii) all alternative treatments of financial information within GAAP that have been discussed by

management and the independent auditors, the ramifications of use of such alternative disclosures and treatments and the treatments preferred by the independent auditors.

- The Committee shall periodically discuss with the independent auditors whether all material correcting adjustments identified by the independent auditors in accordance with GAAP and applicable SEC rules are reflected in the Bank's financial statements.
- The Committee shall review with management and the independent auditors any material financial or other arrangements of the Bank which are not reflected in the Bank's financial statements and any transactions or courses of dealing with third parties that are significant in size or involve terms or other aspects that differ from those that typically would be negotiated with independent parties, and which arrangements or transactions are relevant to an understanding of the Bank's financial statements.
- The Committee shall discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Bank's financial statements, including (i) any significant changes in the Bank's selection or application of accounting principles, (ii) any material issues as to the adequacy of the Bank's internal controls, (iii) the developments, selection and disclosure of critical accounting policies, practices and estimates, and (iv) any analyses of the effect of alternative accounting principles, assumptions, practices or estimates on the Bank's financial statements. Such discussions also shall address why any practices, estimates or policies have not been deemed critical.
- The Committee shall review and discuss with management the Bank's public disclosures with respect to earnings, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts, rating agencies or other participants in the securities markets.
- The Committee shall discuss with management and the independent auditors the effect of regulatory and accounting initiatives as well as existing (or proposed) off-balance sheet structures on the Bank's financial statements.
- The Committee shall discuss with management 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.
- The Committee shall discuss with the independent auditors the matters required to be discussed by Statement on Accounting Standards No. 61 relating to the conduct of an audit of the Bank's annual financial statements and other similar matters. In particular, the Committee shall discuss:
  - < The adoption of, or changes to, the Bank's significant auditing and accounting principles and practices as suggested by the independent auditors, internal auditors or management.

- < The management letter provided by the independent auditors and the Bank's response to that letter.
- < The independent auditors' report on observations and recommendations on internal controls, the schedule of material adjustments and reclassifications proposed by the independent auditors in connection with an audit (and any adjustments and reclassifications not recorded), the independent auditors' engagement letter and the independent auditors' independence letter.
- < Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
- The Committee shall prepare its report as required by SEC regulations to be included in the Bank's annual proxy statement.

Oversight of the Bank's Relationship with the Independent Auditors

- The Committee shall be directly responsible for the appointment, compensation and oversight of the work of the independent auditors in preparing or issuing any audit report or related work, including resolution of any disagreements between management and the independent auditors regarding financial reporting.
- The Committee shall approve the engagement of the independent auditors and shall approve, in advance, all audit services and all permitted non-audit services to be provided to the Bank by the independent auditors. The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.
- On an annual basis, the Committee shall obtain from the independent auditors and review a formal written statement delineating all relationships between the independent auditors and the Bank consistent with Independence Standards Board Standard No. 1 and such other requirements as may be established by the Public Bank Accounting Oversight Board, discuss with the independent auditors any disclosed relationships and their impact on the independent auditors' independence, and take appropriate action regarding the independence of the independent auditors.
- At least annually, the Committee shall obtain and review a report by the independent auditors describing:
  - < The independent auditors' internal quality control procedures;
  - < Any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities within the preceding five years

respecting one or more independent audits carried out by the independent auditors, and any steps taken to address such issues; and

< All relationships between the independent auditors and the Bank.

- The Committee shall evaluate the qualifications, performance and independence of the independent auditors, including considering whether the independent auditors' quality controls are adequate and the provision of permissible non-audit services is compatible with maintaining the independent auditors' independence, while taking into account the opinions of the Bank's management and internal auditors. The Committee shall present its conclusions to the Board and, if so determined by the Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the independent auditors.
- The Committee shall recommend to the Board policies for the Bank's hiring of employees or former employees of the independent auditors of the Bank.
- The Committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and compensation.
- The Committee shall discuss with management, the internal auditors, and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Bank's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (e.g., the Bank's Code of Business Conduct and Ethics).

#### Oversight of the Bank's Internal Audit Function

- The Committee shall review the appointment and replacement of the internal auditor.
- The Committee shall review all significant reports to management prepared by the internal auditor and management's responses.
- The Committee shall discuss with the independent auditors the internal audit function, the internal auditors' responsibilities, budget and staffing, and any recommended changes in the planned scope of the internal audit.
- The Committee shall periodically (and at least annually) discuss with management and the independent auditors the quality and adequacy of the Bank's internal controls and internal auditing procedures, including any significant deficiencies in the design or operation of those controls which could adversely affect the Bank's ability to record, process, summarize and report financial data or the Bank's ability to detect any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls, and discuss with the independent auditors how the Bank's financial systems and controls compare with industry practices.

- The Committee shall review annually management's most recent assessment of the effectiveness of the Bank's internal controls and the independent auditors' report on management's assessment.

#### Compliance Oversight Responsibilities

- The Committee shall review and approve a Code of Business Conduct and Ethics for senior financial and executive officers of the Bank in accordance with applicable SEC regulations and such Code also shall be applicable to such other employees and agents of the Bank as the Board or the Committee determines.
- The Committee shall obtain reports from the Bank's management, internal auditor and independent auditors that the Bank and its affiliates are in conformity with applicable legal requirements and the Bank's Code of Business Conduct and Ethics. The Committee shall advise the Board with respect to the Bank's policies and procedures regarding compliance with applicable laws and regulations and with the Bank's Code of Business Conduct and Ethics.
- The Committee shall review reports and disclosures of insider and affiliated party transactions.
- The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by employees of the Bank and its subsidiary, if any, of concerns regarding questionable accounting or auditing matters.
- The Committee shall discuss with the Bank's general and other counsel any legal matters that may have a material impact on the financial statements or the Bank's compliance policies.
- The Committee shall evaluate its performance at least annually to determine whether it is functioning effectively.