

**COLONIAL BANKSHARES, INC.  
AUDIT COMMITTEE CHARTER**

**Purpose**

The Audit Committee is appointed by the Board to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. The Audit Committee will assist the Board in overseeing (1) the integrity of the financial statements of the Company, (2) the independent registered public accounting firm's qualifications and independence, (3) the performance of the Company's internal audit function and independent registered public accounting firm, (4) the Company's system of disclosure controls and system of internal controls regarding finance, accounting and legal compliance, and (5) such other duties as may be assigned by the Board or required by law.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

**Committee Membership**

The Audit Committee shall consist of no fewer than three members. The members of the Audit Committee shall meet the independence and skill requirements of the Nasdaq Stock Market, Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations of the Commission. Either (i) at least one member of the Audit Committee shall be an Audit Committee Financial Expert as defined by the Commission, or (ii) if required by Commission rules, the Company must disclose the lack of an Audit Committee Financial Expert in its annual meeting proxy materials.

A majority of the membership of the Audit Committee shall constitute a quorum, and all actions of the Audit Committee shall require the affirmative vote of a majority of the membership of the Committee. Unless a Chair is appointed by the full Board, the members of the Audit Committee shall designate a Chair by majority vote of the full Audit Committee membership. The entire Audit Committee or any individual Audit Committee member may be removed without cause by the affirmative vote of a majority of the Board of Directors. Audit Committee members shall not simultaneously serve on the audit committees of more than two other public companies.

**Meetings**

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee may meet periodically with management, the internal auditors and the independent registered public accounting firm in separate executive sessions.

**Committee Authority and Responsibilities**

**A. Registered Public Accounting Firms**

The Audit Committee, in its capacity as a committee of the Board, is directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. The responsibility includes the resolution of disagreements between management and the independent registered public accounting firm regarding financial reporting. The registered public accounting firm reports directly to the Audit Committee.

The Audit Committee shall preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent registered public accounting firm, subject to the de minimus exceptions for non-audit services described in Section 10A(I)(1)(B) of the Exchange Act that are approved by the Audit Committee prior to the completion of the audit.

## **B. Responsibilities Regarding Financial Statements and Disclosure Matters**

1. Review and discuss with management and the independent registered public accounting firm the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K and filed with the Commission.
2. In connection with the annual audited financial statements, review and discuss with the independent registered public accounting firm:
  - (a) All critical accounting policies and practices to be used.
  - (b) All alternative treatments of financial information within generally accepted accounting principals that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent registered public accounting firm.
  - (c) Other material written communications between the independent registered public accounting firm and management such as any management letter or schedule of unadjusted differences.
3. Review and discuss with management and the independent registered public accounting firm the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent registered public accounting firm's reviews of the quarterly financial statements. The review may be accomplished by one or more designated members of the Committee, or by the entire Committee.
4. Discuss with management and the independent registered public accounting firm significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
5. Discuss with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 114 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to the requested information, and any significant disagreements with management.
6. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

## **C. Oversight of the Company's Relationship with the Independent Registered Public Accounting Firm**

1. Evaluate the qualifications, performance and independence of the independent registered public accounting firm.
2. 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.
3. Meet with the independent registered public accounting firm prior to the audit to discuss the planning and staffing of the audit.
4. Receive and review the written disclosures and the letter from the independent registered public accounting firm required by Independent Standards Board No. 1, *Independence Discussions with Audit Committees*, and discussing with the independent registered public accounting firm their independence. Consider whether the provision of permitted non-audit services is compatible with maintaining the independent registered public accounting firm's independence.

5. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent registered public accounting firm who participated in any capacity in the audit of the Company.

#### **D. Oversight of the Internal Audit Function**

The functions of the Internal Auditor and the Internal Audit Department are under the direction of the Audit Committee. The Internal Auditor is hired by and reports directly to the Audit Committee. Oversight duties include:

1. Reviewing and approving the audit plan, which shall include all appropriate control and compliance matters;
2. Reviewing reports of internal auditors as well as management's response;
3. Monitoring adherence to the audit plan;
4. Monitoring corrective action taken by management;
5. Monitoring corrective actions resulting from examination reports or external audit reports as tracked by the Internal Audit Department; and
6. Reviewing the policies adopted by the Board of Directors governing the Internal Audit Department and recommending modifications thereof if indicated.

#### **E. Compliance Oversight Responsibilities**

1. Obtain from the independent registered public accounting firm assurance they have adhered to the requirements of Section 10A(b) of the Exchange Act.
2. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
3. Discuss with management and the independent registered public accounting firm any correspondence with regulators or governmental agencies and published reports that raise material issues regarding the Company's financial statements or accounting policies.
4. Review with management the Company's compliance with laws and regulations.
5. Establish and maintain a policy and procedures for the review and approval of related person transactions and review and approve all related person transactions in accordance with such policy and procedures.
6. Discuss policies with respect to risk assessment and risk management. Such discussions should include the Company's major financial and accounting risk exposures and the steps management has undertaken to control them.

#### **Audit Committee Governance**

The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit

Committee, for payment of compensation to the independent registered public accounting firm for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

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

**Limitation of Audit Committee's Role**

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to 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 rules and regulations. These are the responsibilities of management and the independent registered public accounting firm.

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