



AUDIT COMMITTEE CHARTER

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Individual Responsible for Maintaining/Updating:	<i>Audit Committee Chair</i>

Revision History

Version Number	Date	Author	Comments
1.0	12/20/2008	Audit Committee	Accepted by Board of Directors
1.1	4/11/2008	Sears/Robbins	Amended "Complaints Regarding Audit and Accounting Matters" to include whistleblower information
1.2	4/21/2008		Audit Committee review. Whistleblower information to go to Audit Committee Chair
2.0	5/29/2008		Board reviewed and approved

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California Bank of Commerce Audit Policy

THE AUDIT COMMITTEE'S CHARTER

The Audit Committee is appointed by the Board of Directors ("Board") to assist the Board in monitoring (1) the integrity of the financial reporting systems of the California Bank of Commerce ("Bank"), (2) the qualifications and independence of the independent audit firm, (3) the performance of the independent auditor and Bank's internal audit function, (4) the Bank's compliance with accounting and audit standards and (5) the Bank's compliance with legal and regulatory requirements.

The Committee also has responsibility for creating, implementing and policing a system of internal control. This workload will demand delegation to management and non-management employees, with the Committee retaining oversight and approval.

Internal control comprises the plan of organization and all coordinate methods and measures adopted within the Bank to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The Institute of Certified Public Accountants has subdivided this broad definition of internal control into two components which may be characterized as Administrative Control and Accounting Control.

Administrative control includes, but is not limited to, the plan of organization and the procedures and records concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.

Accounting control comprises the plan of organization and the procedures and records concerned with the safeguarding of assets and the reliability of financial records. Consequently, it is designed to provide reasonable assurance that transactions are executed in accordance with the board's general or specific authorization; transactions are recorded as necessary to maintain accountability of assets and to permit preparation of financial statements in conformity with generally accepted accounting principals (or any other appropriate criteria applicable to such statements); access to assets is permitted only in accordance with prescribed authorization; assets are properly reconciled, and appropriate action is taken with respect to any difference.

The Audit Committee works through the Bank's internal and external auditors and compliance personnel to closely monitor the Bank's system of internal control.

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It has sole authority to (1) appoint, compensate, and oversee the work of the public accounting firm employed by the Bank to conduct the annual audit, (2) resolve any disagreements between management and the auditor regarding financial reporting, (3) approve all auditing and permitted non-audit services performed by the company's external audit firm and (4) retain independent counsel,

accountants, or others to advise the committee or assist in the conduct of an investigation. Pre-approval of all auditing and permitted non-audit services is delegated to the Audit Committee Chairman or designate. If circumstances deem it necessary, the retention of independent counsel or accountants is delegated to the Audit Committee Chairman.

The Audit Committee will establish and follow procedures for the receipt and handling of complaints received from customers, shareholders, employees, and other individuals regarding accounting, internal accounting control and auditing matters.

The Audit Committee shall be composed of solely outside directors.

The Bank's Audit Program

The Bank's audit program will consist of a continuous program of internal audit coupled with an external auditing program. The Committee will ensure the auditors have sufficient authority and the degree of audit independence essential to exercise their authority.

External Audit

The Bank's external auditing program shall include an annual audit of its financial statements by an independent public accountant. Any other responsibilities assigned the external auditors will be determined annually in conjunction with the Bank's risk review and the Committee review of the audit program.

Internal Audit

The Committee, at its discretion, may hire an internal auditor as an employee of the bank or may outsource any or all of the internal audit functions. This determination will be in conjunction with the Bank's risk review and the Committee review of the audit program. For purposes of this policy, the title "internal auditor" refers to both an employee of the Bank or an outside person or firm. The internal auditor will report directly to the Audit Committee for overall direction. The auditor should have sufficient qualifications and experience to do the job.

The internal auditor will report to the Committee at least quarterly or, the Audit Committee members will attend exit meetings related to the internal review. The Committee will review the written audit reports, management's written responses, and the status of the audit plan and schedule. The auditor will also submit written audits and responses to the Audit Committee Chairperson as they are completed during the quarter.

The Committee will annually review the written internal audit program, identify the scope of the program, approve the program and revise it when necessary.

If the Committee opts to outsource any or all of the internal audit function, the Committee will annually appoint an employee of the Bank as an Audit Liaison to facilitate communication with the auditors, Bank management, and the Audit Committee.

Annual Risk Review

The internal auditor, together with executive management, will present to the Committee an annual review of the Bank's risk and associated rating. The review will consist of specific areas of risk, the associated rating, and the reasons for the rating. The Committee will review and approve the areas and rating. The Committee will assign specific audit responsibility (internal or external) and determine the audit frequency.

COMPLAINTS REGARDING ACCOUNTING AND AUDIT MATTERS

The following procedure outlines the handling of complaints regarding the company's accounting, internal accounting, and auditing matters received from customers, shareholders, employees or other individuals. Such complaints can be either anonymously or by name to the Bank's whistleblower hotline:

By mail to:	Ed Traille Gallina LLP 201 North Civic Drive, Suite 230 Walnut Creek, CA 94596-3880
By email to:	etraille@gallina.com
By telephone to:	925-943-1776

The Committee acknowledges that is unlawful for the Bank to penalize the employee complainant in any way based upon lawful actions of the employee with respect to good faith reporting of the compliant. The Committee will take steps to ensure that the employee rights in this regard are respected and that this information is communicated.

- 1) Complaints and concerns will be delivered to the Chairperson of the Board of Directors Audit Committee by the Bank's Audit Liaison immediately after receipt. In his absence, complaints may be delivered to any other bank employee that reports directly to the Chairperson of the Audit Committee, currently the Compliance Officer or Credit Review Officer.
- 2) The Chairperson will arrange for a special Audit Committee meeting or a closed session of the Audit Committee members to discuss the complaint or concern.
- 3) The Audit Committee will evaluate the complaint or concern as to validity by reviewing various financial reports prepared by management or outside auditors.
- 4) If deemed necessary, the Chairperson of the Audit Committee will meet with a representative of the Bank's outside auditing firm or legal counsel to resolve the discrepancy or determine the validity of the claim. If the nature of the complaint warrants, the Chairperson of the Audit Committee may have preliminary discussions with the outside auditing firm or legal counsel prior to meeting with the Audit Committee members.
- 5) Written resolution from the Audit Committee will be sent to the individual voicing the concern or complaint, provided that the communication was signed and a return address indicated.

- 6) Anonymous complaints from any person including employees will be handled in the same manner, however no response will be sent. Instead, a file will be maintained by the Corporate Secretary or Assistant Corporate Secretary for the purpose of documenting resolution to each complaint. The file must be made available for employee review.

BOARD OF DIRECTORS RESPONSIBILITIES – POLICY REVIEW

The Board of Directors is responsible for establishing a clear framework of objectives and policies that govern and guide the day-to-day operations of the Bank. The policies are primarily intended to ensure that the risks undertaken by the Bank are prudent and are being properly managed. The Board of Directors will annually review all the Bank's policies.

INTERNAL AUDIT DEPARTMENT POLICIES

The following outlines the policy of the Bank's internal Audit Department. The internal audit staff will follow these policies as it conducts its audits. When these policies are found deficient, the auditor will discuss the deficiency with the Audit Committee of the Board of Directors. Only the Audit Committee can approve changes to these policies. Each change will be made in writing.

The Audit Committee, at its discretion, may hire an internal auditor as an employee of the Bank or may outsource any or all of the internal audit functions. The following policies are applicable to both.

Training and Personal Conduct

The auditor and audit personnel will maintain adequate training and proficiency in their areas of responsibility and in generally accepted auditing standards.

Audit personnel will maintain the confidentiality of information acquired through audits and examinations.

Audit personnel will not engage in activities or relationships that will impair the independence or objectivity of audits.

Audit personnel will not engage in activities that conflict with the interests of the Bank.

Audit Department Operating Policies

Audits will be conducted by evaluating the control system and by testing the Bank's records, procedures, and controls to determine if they meet banking industry standards, comply with Bank policy, and fulfill legal and regulatory requirements. In addition, audit procedures will include testing of procedures and control systems for weaknesses. If weaknesses are found, the auditor will make appropriate recommendations for strengthening bank controls or changing the procedures.

Audits will be performed with absolute independence and with absolute control over audit work. Friendships, personal relations, reputations, influence, or other factors must not be allowed to alter the scope of the audit.

Auditors must maintain an adequate and accurate system of work papers to facilitate the following:

Preparation of audit reports for the Board's Audit Committee, executive management, and Bank staff.

To substantiate findings and recommendations contained in audit reports and to support conclusions regarding the systems of control.

To provide evidence of audit work performed by the Audit Department. The Audit Department itself will be audited by independent public accountants. Internal audit work papers are a major factor in this outside audit.

These must be proper supervision of persons performing audits and proper review of work performed.

A central part of each audit will be a follow-up of previous audits. Corrective actions to comply with previous recommendations and to correct previous deficiencies should be in place when the follow-up audit is conducted.

To the extent possible, internal and external audits should be cooperative ventures to minimize unnecessary duplication of effort.

The Auditing Department will evaluate significant new bank systems and services and major modifications to old systems before they become operational.

Audit Department Reporting Policies

Audit reports will be prepared regarding the scope and results of each audit performed by the Department. These reports will include corrective action recommendations regarding significant (1) internal control deficiencies and weaknesses, and (2) deviations from legal, regulatory, and Bank policy requirements. Each audit report shall contain an opinion concerning the overall adequacy of controls and operational procedures. When an adverse opinion is expressed, the report shall contain a statement regarding the exposure to the Bank if proper corrective action is not taken.

Audit reports will contain statements of fact only when such facts can be substantiated in the auditor's workpapers.

Audit finding and recommendations will be reviewed with the supervisor in charge of the audited function before the final report is circulated. The final report will be issued as soon as reasonably possible after the audit is completed. The unit or function manager is

required to provide written responses to all audit reports within 30 days of receipt of the final report.

The Audit Committee of the Board of Directors

The auditor reports directly to the Audit Committee for overall direction.

The auditor will report at least quarterly to the Audit Committee, reviewing all written audit reports, management's written responses, and the status of the audit plan and schedule. In addition, the auditor will submit all written reports and responses to the Audit Committee Chairperson as they are completed during the quarter.

The auditor, together with executive management, will present to the Committee an annual review of the Bank's risk and associated rating. The review will consist of specific areas of risk, the associated rating, and the reasons for the rating. The Committee will review and approve the areas and rating. The Committee will assign specific audit responsibility (internal or external) and, together with the auditor, determine the audit scope and frequency.

The audit frequency and scope are not strict policies. Instead, they are guidelines and are subject to revision. The scope of each audit should be reviewed before commencement of that audit. If, during the review, major changes in the operational function to be audited are discovered, the auditor will determine if the changes will affect the scope of the audit and, if so, make appropriate schedule changes. Changes in the scope of an audit may also be necessary during performance of the audit if the following situations occur:

The results of audit test cannot be accurately measured and the nature of the exceptions disclosed requires further investigation.

When a change in operational policies and procedures renders current audit techniques meaningless.

After an audit is complete, the overall condition of the Department, as determined by the audit, should provide a basis for determining if a change in audit frequency is appropriate. If internal controls are found to be weak, the auditor will shorten the audit frequency until controls are improved. If internal controls are strong and no material findings or errors were noted, the auditor should consider lengthening the audit frequency. The cost of auditing must be weighed against the risk of material errors, irregularities, and losses occurring in the operational function.

All audit frequency and scope changes will be documented in the audit workpapers. Changes that materially affect the audit plan or schedule should be communicated to the Audit Committee Chairperson as soon as is practical.