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## HOMELAND COMMUNITY BANK

### AUDIT COMMITTEE CHARTER

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#### I. Purposes

The Audit Committee (the “Committee”) is appointed by the Board of Directors of Homeland Community Bank (the “Bank”) to assist the Bank’s Board of Directors in overseeing the Bank’s accounting and financial reporting processes, and the audits of the financial statements of the Bank.

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

- Monitor the integrity of the Bank’s systems of internal controls and financial reporting processes.
- Monitor the independence and performance of the Bank’s independent auditors and internal auditing department, and to retain independent auditors.
- Provide communications among the independent auditors, management, the internal auditing department, and the Board of Directors.
- Review and approve the financial reports of the Bank.
- Review the Bank’s compliance with applicable laws, including those banking laws and regulations concerning loans to insiders and the federal and state laws and regulations concerning dividend restrictions, (the “Designated Banking Laws”).

The Audit Committee shall provide the services of an audit committee required under Section 36 of the Federal Deposit Insurance Act, as amended (the “FDI Act”), and under any rules and regulations thereunder, including 12 C.F.R 363 under the FDI Act. The Board of Directors and the Committee shall keep themselves informed of developments in such laws and regulations thereunder, and the Committee shall recommend for approval by the Board of Directors such changes in this Charter as may be necessary or appropriate in light of such developments and to the Bank’s situation.

Herein, the term “independent auditors” shall mean and include a “registered public accounting firm” upon and after the effectiveness of the Public Company Accounting Oversight Board and the implementing rules of such Board and the Securities and Exchange Commission (the “SEC”) and such firm shall meet any other requirements of 12 C.F.R. Part 363. The term “including” and derivations thereof shall mean “including, without limitation,” whether by enumeration or otherwise.

The Committee is authorized to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Committee has the ability to retain, at the Bank’s expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

#### II. Membership

Members of this Committee shall meet the requirements set forth herein and the requirements of FDI Act, Section 36 and 12C.F.R. Part 363 thereunder.

The Committee shall be comprised of three or more directors of the Bank elected by the Board, each of whom shall be independent and free from any relationship that would interfere with the exercise of his or her independent judgment, and independent of management of the Bank. “Large customers” (or representatives or affiliates of such large customers), as such term is defined in Exhibit I, of the Company are not “independent.” To be “independent” a member of the Committee may not, other than in his or her capacity as a member of the Committee, the Board of Directors or any other Board Committee, accept any consulting, advisory or other

compensatory fee from the Bank or be an affiliated person of the Bank.

All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise.

In addition, although not required, to the extent practicable, members of the Committee should have “banking or related financial management expertise” consisting of significant executive, professional, educational, or regulatory experience in financial, auditing, accounting, or banking matters as determined by the Board of Directors. Significant experience as an officer or member of the board of directors or audit committee of a financial services company would satisfy these criteria. The Bank will not be considered in violation of this Charter if a minority of the members of the Committee do not meet these criteria.

The Bank’s Board of Directors shall appoint a member of the Committee with appropriate accounting or financial management experience to serve as the Committee’s Chairperson. If a Committee Chairperson is not designated or present at a meeting, the members of the Committee may designate a Chairperson by majority vote of the Committee membership, *provided*, in all cases, that the person serving as Chairperson must have accounting or financial management experience.

### **III. Meetings of the Committee**

The Committee shall meet at least four times annually, and more frequently as the Committee’s members determine necessary or appropriate. The Committee’s Chairperson shall circulate an agenda in advance of each meeting. The Committee may request any officer or employee of the Bank or the Bank’s outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall meet privately in executive session, without management, but shall invite management to make such presentations or provide such information as such persons or the Committee may request. The Committee may request the director of the internal auditing department, the independent auditors, the Bank’s financial and accounting personnel or any other person to discuss any matters that the Committee or each of these groups believe should be considered or discussed by the Committee in performing its responsibilities hereunder.

The Committee shall maintain, as part of the Bank’s permanent records written minutes of the proceedings and actions of the Committee and shall make such reports to the Board of Directors as may be requested by the Board of Directors or the Chairman of the Board.

### **IV. Committee Responsibilities and Duties**

The Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and each registered public accounting firm shall report directly to the audit committee. In addition, the Committee shall have and exercise the following responsibilities and duties:

1. Review and reassess the adequacy of this Charter at least annually, and submit the Charter to the Board of Directors for approval.
2. Review the Bank’s periodic audited and unaudited financial statements and reports and any related management statements or certifications prior to the filing thereof. These reviews should include discussion with management and independent auditors of significant issues relating to, or changes in, accounting principles, practices and judgments.
3. Review and discuss with financial management, the independent auditors and internal auditors the independent auditors’ report, including:
  - (a) all critical accounting policies, and related practices, assumptions and methodologies to be used;
  - (b) all alternative treatments of financial information within generally accepted accounting

principles that have been discussed with management, the ramifications of using such alternative disclosures and treatments, and the treatment preferred by the independent auditors, together with the independent auditors' judgments about the quality and appropriateness of the Bank's accounting principles as applied in its financial reporting; and

- (c) other material written communications from the independent auditors and management, such as management letters or a schedule of unadjusted differences.
4. In consultation with Bank management, the independent auditors, and the internal auditors, consider the integrity of the Bank's financial reporting processes and controls, require management to report as of the end of each fiscal year on the effectiveness of the Bank's internal control structure and the Bank's procedures for financial reporting, and evaluate such reports, prior to their inclusion in any annual report, and the resolution of identified material weaknesses and reportable conditions in internal controls, including the prevention or detection of management override or compromise of the internal control system. The Committee shall require that the independent auditors report to the Committee and provide, as part of their audit engagement, an attestation to the Committee of the independent auditors' assessment of internal controls in accordance with applicable rules of the Public Company Accounting Oversight Board. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses.
5. Review with financial management and the independent auditors the Bank's quarterly financial results and statements, including the results of the independent auditors' review of the quarterly financial statements. Discuss any significant changes to the Bank's accounting principles and any items required to be communicated by the independent auditors in accordance with Statement on Auditing Standards No. 61, *Communication with Audit Committees* ("SAS 61").
6. Review with management and the independent auditors the effect of regulatory and accounting initiatives and off-balance sheet structures on the Bank's financial statements, as well as compliance by the Bank with applicable laws and regulations.
7. The independent auditors are ultimately accountable to the Committee and the Board of Directors. The Committee shall review the independence and performance of the auditors annually.
8. Consider and be responsible for the appointment, compensation, oversight and discharge of the Bank's independent auditors (including resolution of disagreements between management and the independent auditors) for all auditing services and for any permissible non-audit services. The independent auditors shall report directly to the Committee.
9. Supervise and require that the lead (or coordinating) audit partner and the reviewing partner of the Bank's independent auditors rotate consistent with applicable rules. At least annually, the Committee shall review and discuss with the independent auditors all significant relationships they have with the Bank that could impair the auditors' independence, including the absence of any conflict of interest. It is unlawful for a registered public accounting firm to provide the Bank with any audit services if the chief executive officer, controller, chief financial officer, chief accounting officer or any person serving in an equivalent position with the Bank was employed by such accounting firm and participated in any capacity in the audit of the Bank during the one year period preceding the initiation of the audit. As part of these reviews, the Committee shall discuss the written disclosures, letter, and other matters required of the outside auditors by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The Committee shall also receive written confirmation that the independent auditors are a registered public accounting firm and receive reasonable assurance of the auditors' independence under applicable rules and the Public Company Accounting Oversight Board and its rules.
10. Review the independent auditors' audit plan, including discussing the scope, staffing, locations, reliance upon management, and internal audit and general audit approach.
11. Discuss certain matters required to be communicated to audit committees in accordance with SAS 61.

12. Review the budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal audit department, as needed.
13. Review the appointment, performance, and replacement of the internal auditor.
14. Recommend to the Board guidelines for the Bank's hiring of employees of the independent auditors who were engaged on the Bank's account, and include in the guidelines a prohibition on hiring any such employee of the independent auditors to serve as the Bank's chief executive officer, controller, chief financial officer, chief accounting officer or any person serving in an equivalent position with the Bank who participated in any capacity in the audit of the Bank during the one year period preceding the initiation of the audit.
15. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
16. The Committee shall approve all auditing services and all non-audit services. The Committee shall not permit the Bank's independent auditors to provide to the Company, contemporaneously with the audit, any "non-audit services," which are listed in the 1934 Act, Section 10A or applicable regulations thereunder, including any of the following non-audit services:
  - a. bookkeeping or other services related to the accounting records or financial statements of the Bank;
  - b. financial information systems design and implementation;
  - c. appraisal evaluation services, fairness opinions, or contribution-in-kind reports;
  - d. actuarial services;
  - e. internal audit outsourcing services;
  - f. management functions or human resources;
  - g. broker or dealer, investment advisor, or investment banking services;
  - h. legal services and expert services unrelated to the audit; and
  - i. any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible or that the SEC or applicable banking regulators by rule or regulation have deemed impermissible, except and to the extent permitted by such authorities and rules and regulations.
17. Review with management and the independent auditors any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Bank's financial statements, accounting policies or compliance by the Bank with laws and regulations.
18. Establish procedures for the receipt, evaluation, retention and treatment of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters, and establish procedures for the confidential, anonymous submission by Bank employees of concerns regarding questionable accounting or auditing matters.
19. Review with the independent auditors any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the Bank's response to that letter. Such reviews should include:
  - (a) any difficulties encountered in the course of the audit work, including restrictions on the scope of activities or access to required information, and any disagreements with management;

- (b) any changes required in the planned scope of the internal audit; and
  - (c) the internal audit department responsibilities, budget and staffing.
20. Prepare and file or cause to be filed, the audit committee report to be included in the Bank's annual proxy statement. Cause to be printed in the Bank's proxy statement, every three years after the Bank becomes a reporting company, a copy of the Audit Committee Charter.
  21. Evaluate and make recommendations to the Board of Directors with respect to transactions with directors, officers and principal shareholders of the Bank, and with other related parties, including review and oversight of potential conflicts of interest, and compliance with applicable laws and regulations.
  22. Evaluate with management, any accounting, internal controls, or financial reporting comments received from the Bank's independent auditors, applicable bank and bank holding company regulators or other governmental authority, and make recommendations thereon.
  23. Review annually the quarterly and annual certifications by the Bank's CEO and CFO in accordance with applicable laws and regulations.
  24. Require the annual review and approval of the Bank's Ethics Policy.

#### **V. Other Duties and Authority**

The Committee has the authority to engage independent counsel and such other advisors as it determines necessary to carry out its duties. The Bank shall provide for the Committee's appropriate funding, as determined by the Committee, for payment of compensation to the registered public accounting firm employed by the Company for the purpose of issuing or rendering an audit report and for any advisors employed by the Committee including independent counsel.

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 Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. As stated in The New York Stock Exchange, Inc.'s *Guiding Principles for Audit Committee Best Practices*:

"In its oversight capacity, the audit committee is neither intended nor equipped to guarantee with certainty to the full board and shareholders the accuracy of a company's financial statements and accounting practices. Proper financial reporting, accounting and audit functions are collaborative efforts conducted by full-time professionals dedicated to these purposes."

This is the responsibility of management and the independent auditor. Further, the Committee may rely upon the reports of legal counsel, accountants and other experts, as well as members of the Bank's management.

This Charter is not intended to, and shall not, alter the conduct set forth in the Tennessee Business Corporation Act for directors, including those directors who serve as Committee members. Members of the Committee shall have the duties and the benefits of all limitations and protections from liabilities provided by the Tennessee Business Corporation Act and other applicable laws and regulations, or otherwise with respect to their service on the Committee.

Further, nothing herein is intended to or shall limit the responsibilities, duties and liabilities of the independent auditors to the Bank, the Board and the Committee.

Adopted by the Board of Directors on November 5, 2002.

