



SBT Bancorp

AUDIT & COMPLIANCE COMMITTEE CHARTER

AUDIT & COMPLIANCE COMMITTEE CHARTER

I. Purpose

The Audit and Compliance Committee (the “Committee”) is appointed by the Board of Directors of SBT Bancorp, Inc. (the “Company”) to assist the Company’s Board of Directors (“Board of Directors”) in the oversight of:

- The integrity of the Company’s financial statements.
- The independent auditor’s qualifications and independence.
- The performance of the Company’s internal audit function.
- The Company and the Bank’s compliance with legal and regulatory requirements.

II. Authority

The Committee will have authority to:

- Appoint, compensate, retain, terminate and oversee the Company’s independent auditor.
- Ensure the direct reporting of the independent auditor to the Committee.
- Determine the independence of the independent auditor and oversee the continuing independence of such independent auditor.
- Conduct or authorize any investigation appropriate to fulfill its responsibilities.
- Engage such independent counsel and other advisors as the Committee deems necessary to carry out its responsibilities.
- Access directly the independent auditor, the internal audit firm, and employees of the Company and the Bank, including the Company’s and the Bank’s outside legal counsel.
- Resolve disputes between management and the independent auditor or the internal audit firm concerning financial reporting or any other matter.

III. Specific Duties and Responsibilities

The Board of Directors set forth the Committee’s duties in this charter and by resolution. Accordingly, the Committee will have the following duties and responsibilities:

A. Financial Statements and Reporting

The Committee will review and discuss with management and the independent auditor the accounting and financial reporting processes for the Bank and the auditing of the Company’s financial statements.

The Committee will receive and review the audited financial statements from the Company's independent auditors, and will review and consider with the independent auditor the matters required to be discussed by SAS No. 61, as it may be modified or supplanted.

The Committee will receive and review the written disclosures and the letter from the independent auditor required by Independence Standards Board Standard No.1, as it may be modified or supplanted, and will discuss with the independent auditor their independence.

Upon completion of its review, the Committee will recommend to the Company's Board of Directors that the audited financial statements be included in the Company's annual report to its shareholders, and will, to the extent necessary, review and discuss with management and the independent auditor the Company's interim financial statement information to be included in the Company's quarterly reports.

The Committee will prepare the report required by Regulation S-B and Schedule 14A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and will recommend that such report be included in the Company's annual proxy statement.

The Committee will review such other factors as it deems appropriate that affect the integrity of the Company's published financial reports, including the implementation of appropriate recommendations of the Company's independent auditor.

B. Relationship with Independent Auditors

The Committee will appoint, compensate and oversee independent auditor work for the Company regarding the preparation and issuance of any audit report or related work. However, such selection and appointment by the Committee will be subject to the ratification by the Company's shareholders at the Company's annual meeting. The independent auditor will report directly to the Committee.

The Committee will review with the independent auditor the proposed scope of audit services and plan for the annual audit. It will also review and pre-approve any non-audit services performed on behalf of the Company that are permitted under applicable law.

The Committee will periodically discuss with management and the independent auditor the quality and adequacy of the Company's internal procedures and controls, the effect of regulatory and accounting initiatives, the effect of off-balance-sheet structures, and the matters required to be discussed by SAS No. 61, as it may be modified or supplanted.

The Committee will evaluate the independent auditor's qualifications, performance, and independence. This includes ensuring that the independent auditor submits annually a formal written statement delineating all relationships between the independent auditor and the Company.

The Committee will ensure appropriate audit partner rotations and any independent auditor rotations that may be required by law.

C. Internal Audit

The Committee will approve the Company's Internal Audit Policy on an annual basis. This Policy addresses the internal audit function and related applicable regulations and guidelines.

The Committee will make the final decision as to the internal audit firm selected. This internal audit firm will be a different firm than the independent auditor, as is required by Sarbanes-Oxley Act of 2002.

The Committee will recommend to the full Board approval of the internal audit firm's audit plan for the Company.

The Committee will review and discuss with management and the internal audit firm any material issues as to the adequacy of the Company's internal controls, the adequacy of the disclosures about changes in internal control over financial reporting, and related risks.

The internal audit firm will report directly to the Committee.

The Committee will meet as often as it determines is necessary with the internal audit firm but no less often than four times annually.

The Committee will review the performance of the internal audit firm on an annual basis.

D. Compliance with Laws and Regulations

The Committee will review periodic reports prepared by the Company's and the Bank's Compliance Coordinator and other materials deemed appropriate to evaluate the Company's and the Bank's program for complying with laws and regulations. These reports will include those prepared by the Company's independent auditor, the Company's internal audit firm, and the Company's and the Bank's regulatory examiners.

E. Administrative and Other

The Committee will maintain minutes of Committee meetings, report activities to the Board on a regular basis, and make recommendations as the Committee deems appropriate.

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

The Committee will perform any other activities consistent with this Charter and the Company's bylaws and governing laws, as the Committee or the Board deems necessary.

IV. Committee Membership and Composition

The Committee will have a minimum of 3 members who are appointed by the Board of Directors and may be replaced by the Board of Directors at any time. Vacancies on the Committee may be filled by the Board of Directors.

Each member of the Committee will meet the independence requirements of Rule 10A-3 of the Exchange Act, the rules of applicable bank regulatory authorities, and the applicable rules of any securities exchange on which the Company's securities are listed.

Each member of the Committee will be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement.

At least one Committee member will qualify as an "Audit Committee Financial Expert" as defined by Item 401 of Regulation S-B of the Exchange Act.

If the Company's Corporate Governance Committee determines that a Committee member is no longer independent, such Committee member may continue his or her membership on the Committee until the earlier of the Company's next annual shareholders' meeting or one year from the discovery of the event which caused the Committee member to cease to be independent.

V. Meetings

The Committee will meet as often as it determines is necessary but no less often than four times annually. The Committee may call additional meetings as necessary to perform their duties.

The Committee may meet, at its discretion, in executive sessions with management, the Company's internal auditors, or the Company's independent auditor or any combination of them.

The Committee may request that any officer or employee of the Company or the Bank, the Company's or the Bank's outside legal counsel, independent auditor or internal audit firm, to attend the meetings of the Committee or to meet with any members of or consultants to the Committee as necessary to perform the duties of the Committee.

VI. Disclosure of Charter

The Charter will be appended to the Company's Proxy Statement in accordance with Schedule 14A of the Exchange Act or more often if so required by the applicable rules of any securities exchange on which the Company's securities are listed.

VII. Limitation of Committee's Role

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of this 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 duties are the responsibility of management and the independent auditor.