

1st Enterprise Bank

Audit Policy

I. PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors of Enterprise Bank (the “Bank”) in fulfilling its oversight responsibilities for financial and compliance matters. The committee performs this function by:

- Serving as an independent and objective party to monitor the Bank’s financial reporting process and internal control system;
- Reviewing and assessing audit efforts of the Bank’s independent auditors;
- Reviewing and monitoring efforts relating to IT, BSA, Credit and Operations; and
- Providing an avenue of open communication among the Bank’s independent auditors, financial and senior management, and Board of Directors.

While the Audit Committee has the responsibilities set forth in the policy, it is not the duty of the Audit 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. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations.

II. SCOPE

The Committee has full, free, and unrestricted authority to access any and all of the Bank’s records, documents, and facilities. The Committee may interview any of the Bank officers, employees, attorneys, independent accountants and independent auditors, or any other persons deemed necessary to perform its responsibilities, and may retain the Committee’s own counsel and experts as deemed necessary and appropriate by the Committee.

III. COMPOSITION

The Audit Committee shall have a Chairman appointed by the Board of Directors and must consist of at least three directors, all of whom are to be independent of the Bank and its management. According to NASDAQ Rule 4200, an “independent director” means a person other than an officer or employee of the Bank or its subsidiaries or any other individual having a relationship which, in the opinion of the Bank’s Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:

1. A director who is employed by the Bank or any of its affiliates for the current year or any of the past three years;
2. A director who accepts any compensation from the Bank or any of its affiliates in excess of \$60,000 during the previous fiscal year, other than compensation for board service, benefits under a tax-qualified retirement plan, or non-discretionary compensation;
3. A director who is a member of the immediate family of an individual who is, or has been in any of the past three years, employed by the Bank or any of its affiliates as an executive officer. Immediate family includes a person’s spouse, parents, children, siblings, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, and anyone who resides in such person’s home;
4. A director who is a partner in, or a controlling shareholder or an executive officer of, any for-profit business organization to which the Bank made, or from which the Bank received, payments (other than those arising solely from investments in the Bank’s securities) that exceed 5% of the Bank’s or

business organization's consolidated gross revenues for that year, or \$200,000, whichever is more, in any of the past three years;

5. A director who is employed as an executive of another entity where any of the Bank's executives serve on that entity's compensation committee.

Each director member of the audit committee must be able to read and understand fundamental financial statements including the Bank's balance sheet, income statement, and cash flow statement, or must become so within a reasonable time.

The Committee is required to have at least one member who possesses "financial sophistication". NASD defines "financial sophistication" as past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background that results in the individual's financial sophistication, including being or having been a CEO, CFO or other senior officer with financial oversight responsibilities.

The Board of Directors reserves all authority permitted under the rules of the SEC and NASD in connection with any matter referred to in this Policy, including but not limited to the determination of independence of Audit Committee members.

Annually, the composition of the existing Audit Committee shall be reaffirmed or the Audit Committee shall be reconstituted.

IV. MEETINGS AND ATTENDANCE

The Audit Committee shall meet at least four times a year or more frequently if circumstances dictate. The Chief Executive Officer and Chief Financial Officer are not designated members of the Audit Committee, however, their attendance at the Committee's meetings will be customary. They shall report on financial results, accounting problems, staffing of accounting functions and other elements of financial controls. They will discuss the coordination of external and internal audit resources for all audit areas, including the Bank's independent public accountants in relation to their periodic and/or annual visitations.

This involvement of management with the Committee will ensure good communication between the Chief Executive Officer, Chief Financial Officer, internal and external auditors, and the Bank's independent public accountants without impairing the independence of the Audit Committee. Each Audit Committee meeting will include an executive session without presence of members of management.

At the invitation of the Audit Committee Chairman, other members of management or outside consultants may attend the Audit Committee meetings.

V. RESPONSIBILITIES

Audit Committee Policy

The Audit Committee shall review this policy at least annually for adequacy and recommend to the Board any necessary changes. Should necessary policy changes come to the Audit Committee's attention prior to its scheduled annual review, such changes may be recommended to the Board prior to the annual review.

Independent Auditor

It is understood that the independent auditor is ultimately accountable to the Audit Committee and the Board. In that regard, the Audit Committee and the Board have the ultimate authority and responsibility to select, evaluate, and where appropriate, replace the auditor.

The Audit Committee shall annually recommend to the Board the selection of the independent auditor. Factors considered in making that recommendation include the auditor's independence, effectiveness, and fees.

At least annually, the Audit Committee shall review a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Bank and discuss with independent auditor all significant relationships the independent auditor has with the Bank to determine its independence and objectivity. Any necessary action resulting from that review shall be recommended to the Board by the Audit Committee.

The Audit Committee views updates on emerging accounting auditing issues as critical to its function. In this regard, the independent auditor and management shall provide updates on emerging accounting and auditing issues, as well as an assessment of their potential impact on the Bank, on a timely basis throughout the year.

Internal Controls

Periodically, the Audit Committee shall review with the independent auditor and management personnel the adequacy and effectiveness of the Bank's accounting and financial controls (including a review of any reports or communications required by or referred to in Statement of Auditing Standards No. 61), and elicit any recommendations for improvement of existing controls or the addition of new or more detailed controls.

Financial Reporting Process

Annual Process

In the first quarter of each year, the Audit Committee shall review with the independent auditor and management, the Bank's annual audited financial statements and related financial disclosures. As a result of that review, the Audit Committee shall recommend to the Board whether the audited financials and related disclosures should be included in the Bank's Annual Report on Form 10-K and the Annual Report to Shareholders as reflected in the Appendix to the Bank's annual Proxy Statement. In connection with that review:

- The independent auditor shall report on its completion of the annual audit, any significant issues arising and whether it intends to issue an unqualified opinion on the financials;
- The independent auditor shall express its judgment regarding the quality and appropriateness of the Bank's accounting principles as they apply to its financial reporting;
- Management shall review the annual consolidated financial statements with the Audit Committee, discussing significant changes from the previous year and the impact of any new accounting pronouncements;
- The Audit Committee shall consider any significant changes to the Bank's auditing and accounting practices as suggested by the independent auditor or management;
- The Audit Committee shall review separately with management and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and
- The Audit Committee shall review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as previously approved by the Audit Committee, have been implemented.

Throughout the year, both the independent auditor and Chief Financial Officer shall describe their audit plans (in terms of scope and procedures to be used) for the year and the progress of those plans to date.

Quarterly Process

Prior to each Form 10-Q filing by the Bank, if applicable, the Audit Committee shall review with the independent auditor any significant issues arising in the independent auditor's review of the quarterly financial statements and related disclosures.

Annual Audit Committee Report

If the Bank has more than 500 shareholders, in the first quarter of each year, the Audit Committee shall review and approve for inclusion in the annual Proxy Statement a "Report of the Audit Committee," containing information required under Securities & Exchange Commission rules.

Report of Significant Litigation and Regulatory Matters

At least once a year, the Corporate Secretary and General Counsel shall discuss with the Audit Committee any significant litigation or regulatory matters outstanding involving the Bank. If significant litigation or regulatory matters arise during the year outside of a regularly scheduled report, those matters shall be brought to the attention of the Audit Committee at its next regularly scheduled meeting.

Additional Areas of Review

The Audit Committee may participate in other areas of review as designated by the Board, including, but not limited to, the following:

Transactions with Management

The Audit Committee shall review past or proposed transactions between the Bank, members of management, directors, and associates of directors.

Information Technology, IT Penetration Testing, Electronic Banking

The Audit Committee shall receive periodic reports on the adequacy of the bank's computerized information system controls and related security.

Income Tax Matters

Annually, the Audit Committee shall receive a report from the Bank's Chief Financial Officer regarding income tax matters, including the status of income tax reserves and governmental tax audits.

Derivative Securities

Annually, the Audit Committee shall receive a report from the Bank's Chief Financial Officer on the Bank's use of derivative securities and compliance with the Investment Policy of the Board.

Bank Secrecy Act

The Audit Committee shall receive periodic audit reports on the Bank's compliance with the Bank Secrecy Act.

VI. GENERAL

Prior to the beginning of each fiscal year, the Audit Committee Chairman shall ask management to draft a proposed schedule of the Committee's activities for the coming year, and the times at which such activities shall occur, including preliminary agendas for each proposed meeting of the Committee, which shall be submitted to the Committee for its review and approval, with such changes as the Committee shall determine to be appropriate.

More specifically, the Audit Committee will approve an Audit Responsibilities Calendar, which will prioritize audits conducted over a twelve month period to include but not limited to the following activities:

- 1) IT Penetration Testing (two times annually)
- 2) Bank Secrecy Act (annually, no longer than twelve months apart)
- 3) Credit Review (semi-annually)
- 4) Wires/ACH (annually, once wires are in-house)
- 5) Investments: includes Due Froms, Fed Funds, and other investments (annually)
- 6) Interest Rate Risk (annually)
- 7) New Branch Audit (annually)
- 8) Internal Controls: Certifications, Security, New Accounts, Transfers, Bancontrol accounts (annually)
- 9) Note Department/Loan Servicing (annually)
- 10) Selection and Review of Independent CPA, Operational and Loan Auditors (annual)
- 11) Review Annual Financial Statement