

U.S.B. HOLDING CO., INC.  
AUDIT COMMITTEE

CHARTER  
U.S.B. HOLDING CO., INC. (the "Company")  
AUDIT COMMITTEE

**CHARTER**

**I. Purpose**

The Audit Committee of U.S.B. Holding Co., Inc. (the "Audit Committee") is established by the Board of Directors of U.S.B. Holding Co., Inc. (the "Board") for the primary purpose of:

1. assisting the Board in:
  - i. overseeing the integrity of the Company's financial statements,
  - ii. overseeing the Company's compliance with legal and regulatory requirements,
  - iii. overseeing the independent auditors' qualifications and independence,
  - iv. overseeing the performance of the Company's internal audit function and independent auditors,
  - v. overseeing the Company's system of disclosure controls and internal controls regarding finance, accounting, legal, compliance, and ethics that management and the Board have established, and;
  - vi. overseeing the process of receiving and monitoring external and internal reports of complaints or concerns with respect to accounting and auditing matters.
2. preparing an audit committee report as required by the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

Consistent with this function, the Audit Committee encourages continuous improvement of, and fosters adherence to, the Company's policies, procedures and practices throughout the organization. The Audit Committee provides an open avenue of communication among the Audit Committee, the independent auditors, senior management, the internal audit function, and the Board of Directors, and also provides for employee communication as appropriate.

**II. Organization, Membership, and Qualifications**

1. The Company will maintain a qualified Audit Committee. The Audit Committee shall be comprised of three or more Directors, each of whom shall be independent Directors (as defined by the applicable rules and regulations of the Commission, the New York Stock Exchange ("NYSE") and other applicable regulatory agencies), and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.

- 46 2. The qualifications and independence of Committee members will be reviewed  
47 annually by the Board of Directors.  
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- 49 3. The Chairman of the Audit Committee and the members of the Audit Committee  
50 shall be elected by a majority vote of the Board of Directors on an annual basis within  
51 90 days after the end of the Company's fiscal year.  
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- 53 4. Committee members shall serve until their successors shall be duly elected and  
54 qualified or until their earlier resignation or removal. All members of the Committee  
55 shall be financially literate and at least one member of the Committee must qualify as  
56 an "audit committee financial expert" in compliance with the criteria established by  
57 the Commission. The existence of an audit committee financial expert, including his  
58 or her name and whether or not he or she is independent, shall be disclosed in  
59 periodic filings as and when required by the Commission. If the Company does not  
60 have an audit committee financial expert, this will be explained and disclosed in  
61 periodic filings as required by the Commission.  
62
- 63 5. Vacancies on the Committee shall be filled at the next meeting of the Board based on  
64 the recommendation of the Nominating/Corporate Governance Committee and by a  
65 majority vote of the Board at the next meeting of the Board following the occurrence  
66 of a vacancy.  
67
- 68 6. New Committee members will attend an orientation program to review audit  
69 committee responsibilities and duties and existing members are encouraged to  
70 participate in educational programs conducted by the Company or outside  
71 consultants.  
72
- 73 7. No member of the Audit Committee may serve on the audit committee of more than  
74 two other public companies. If a member of the Audit Committee wishes to serve on  
75 the audit committee of another public company, the Board must approve such  
76 additional service before the Director may accept the additional audit committee  
77 position. The Board shall have the sole discretion to permit or deny such additional  
78 service.  
79
- 80 8. The Board shall make any final decisions with respect to Committee structure or  
81 membership.  
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84 **III. Meetings**  
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- 86 1. The Chairperson of the Committee will preside at each meeting and in consultation  
87 with other members of the Committee, set the frequency and length of each meeting  
88 and the agenda of the items to be addressed at each meeting.  
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- 90 2. The Chairperson shall ensure that the agenda for each meeting is circulated to each  
91 committee member and attendee in advance of the meeting.

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3. The Chairperson shall direct that the minutes of all meetings and other relevant records will be maintained and distributed to the Committee members.
  4. The Committee may request any officer or employee of the Company, outside counsel of the Company, the independent auditors or any special counsel or advisors to attend a Committee meeting. Members of management may also submit a request to present items to the Committee.
  5. The Committee shall report regularly to the full Board after each committee meeting and with respect to such other matters as deemed appropriate by the Committee.
  6. The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Notwithstanding other matters, the Committee will meet with management and the independent auditors prior to the issuance of financial earnings releases and prior to the filing of Reports on Form 10-Q and Form 10-K with the Commission.
  7. A majority of the number of Committee members shall constitute a quorum. Committee members may participate in, or conduct, a meeting of the Committee through the use of any means of communication by which all Committee members participating can hear each other during the meeting and participation by such means shall constitute presence at the meeting.
  8. At least quarterly, the Committee will meet in a separate session with the independent auditors.
  9. The Audit Committee is to meet in separate executive sessions with management, the Chief Internal Auditor and General Counsel at least once each year and at other times as necessary.

124 **IV. Responsibilities and Duties**

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126 To fulfill its responsibilities and duties the Audit Committee will:

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128 A. General

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1. Report regularly to the Board and review with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements. Also, report such matters immediately to the C.E.O. and C.F.O. Management is responsible for the preparation, presentation and integrity of the Company's consolidated financial statements, including adequate and timely disclosure. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies, as well as internal controls and procedures designed to assure compliance with accounting standards and applicable laws and

- 137 regulations, and disclosure controls and procedures to ensure appropriate and  
138 timely disclosure in public reports.  
139
- 140 2. Review and report to the Board regularly on the Company's compliance with  
141 legal or regulatory requirements, the performance and independence of the  
142 Company's independent auditors, and the performance of the Company's internal  
143 audit function.  
144
- 145 3. Review and assess the adequacy of this written Charter annually and recommend  
146 changes to the Board of Directors as necessary.  
147
- 148 4. Review and discuss with management and the independent auditors, the  
149 Company's annual consolidated financial statements, quarterly consolidated  
150 financial statements (including the Company's disclosures under Management's  
151 Discussion and Analysis of Financial Condition and Results of Operations), and  
152 all internal control reports or summaries thereof. Review other relevant reports or  
153 financial information submitted by the Company to any governmental body, or  
154 the public, including management certifications as required by the Sarbanes-  
155 Oxley Act of 2002 (Sections 302 and 906) and relevant reports rendered by the  
156 independent auditors.  
157
- 158 5. Approve financial earnings press releases, after having performed a review with  
159 management and having had the required discussions with the independent  
160 auditors. These reviews and discussions will focus on the type and presentation of  
161 information to be included in the financial earnings press release, paying  
162 particular attention to any use of "pro forma" or "adjusted" non-GAAP  
163 information.  
164
- 165 6. Review with financial management and the independent auditors the Quarterly  
166 Reports on Form 10-Q and Annual Report on Form 10K. Approve each Quarterly  
167 Report on Form 10-Q and Annual Report on 10-K and recommend to the Board  
168 whether such reports should be filed with the Commission.  
169
- 170 7. Review and discuss with management financial information and earnings  
171 guidance provided to analysts and rating agencies. Discussions may be on  
172 general terms, such as the types of information to be disclosed and the type of  
173 presentation to be made.  
174
- 175 8. In consultation with the independent auditors and internal auditors, review the  
176 integrity of the Company's internal and external financial reporting processes, and  
177 the internal control structure, including disclosure controls and procedures.  
178 Receive information provided by the Disclosure Committee so as to review any  
179 matters of concern arising from the Disclosure Committee quarterly process.  
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- 181 9. Review with management and the independent auditors the content and basis for  
182 reports issued related to internal controls over financial reporting, including

183 safeguarding of assets, as required under the Federal Deposit Insurance  
184 Corporation Improvement Act of 1991.

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186 10. Review with management and the independent auditors major issues regarding  
187 accounting principles and financial statement presentations, including any  
188 significant changes in the Company's selection or application of accounting  
189 principles, and major issues as to the adequacy of the Company's internal controls  
190 and any special audit steps adopted in light of material control deficiencies.  
191 Review compliance with and reports issued under Section 404 of the Sarbanes  
192 Oxley Act as required by applicable rules and regulations.  
193
- 194 11. Review analyses prepared by management and/or the independent auditor setting  
195 forth significant financial reporting issues and judgments made in connection with  
196 the preparation of the financial statements, including analyses of the effects of  
197 alternative GAAP methods on the financial statements.  
198
- 199 12. Review with management, the effect of regulatory and accounting initiatives, as  
200 well as off-balance sheet structures, on the financial statements of the Company.  
201
- 202 13. Establish and maintain procedures for the receipt, retention, and treatment of  
203 complaints received by the Company regarding public reporting, accounting,  
204 internal accounting controls or auditing matters. Report such matters immediately  
205 to the C.E.O.  
206
- 207 14. Establish and maintain procedures for the confidential, anonymous submission by  
208 Company employees of concerns regarding questionable accounting or auditing  
209 matters, and any other matters that present a significant risk to the Company.  
210 Report such matters immediately to the C.E.O.  
211
- 212 15. Review with the independent auditors, the internal auditors and management the  
213 extent to which changes or improvements in financial or accounting practices, as  
214 approved by the Audit Committee, have been implemented.  
215
- 216 16. Oversee and monitor management's efforts to correct deficiencies noted in  
217 periodic audits and examinations.  
218
- 219 17. Prepare the Audit Committee Report as required by the Commission to be  
220 included in the Company's annual proxy statement.  
221
- 222 18. As applicable for subsidiaries of the Company, fulfill the requirements of Section  
223 122 and 123 of the New York State Banking Department Law with respect to  
224 conducting an annual Directors examination.  
225
- 226 19. Perform an annual self-assessment relative to the Audit Committee's purpose,  
227 duties and responsibilities outlined herein.  
228

- 229 20. Perform any other activities consistent with this Charter, the Company's by-laws  
230 and governing law, as the Committee or the Board deems necessary or  
231 appropriate.  
232

233 B. Independent Auditors

- 234 1. Appoint, compensate, retain and oversee the work performed by the independent  
235 auditors for the purpose of preparing or issuing an audit report or performing  
236 other audit, review or attest services for the Company. Review the performance  
237 of the independent auditors and remove the independent auditors if circumstances  
238 warrant. The independent auditors of the Company are ultimately accountable to  
239 the Audit Committee and the Audit Committee has the ultimate authority and  
240 responsibility to select, evaluate and where appropriate, replace the independent  
241 auditor. The independent auditors shall report directly to the Audit Committee and  
242 the Audit Committee shall oversee the resolution of disagreements between  
243 management and the independent auditors in the event that they arise.  
244
- 245 2. At least annually, obtain and review a report (the "Auditor's Report") by the  
246 independent auditor describing: the firm's internal quality control procedures; any  
247 material issues raised by the most recent internal quality control review or peer  
248 review of the firm, or by any inquiry or investigation by governmental or  
249 professional authorities within the preceding five years, respecting one or more  
250 independent audits carried out by the firm, and any steps taken to deal with any  
251 such issues; and (to assess the auditor's independence) all relationships between  
252 the independent auditors and the Company.  
253
- 254 3. At least annually evaluate the independent auditors' qualifications, performance  
255 and independence, including the review and evaluation of the lead partner of the  
256 independent auditor, based on the Audit Committee's review of the Auditor's  
257 Report and the independent auditors' work throughout the year and taking into  
258 account the opinions of management and the Company's internal auditors. The  
259 Audit Committee shall present its conclusions with respect to the independent  
260 auditors to the Board.  
261
- 262 4. Review with the independent auditors the proposed scope of services and plan for  
263 the annual audit.  
264
- 265 5. The independent auditors are responsible for planning and performing their audit  
266 of the consolidated financial statements of the Company in accordance with  
267 auditing standards generally accepted in the United States of America, for  
268 performing an examination of management's assertions regarding the  
269 effectiveness of internal control over financial reporting in accordance with  
270 attestation standards established by the AICPA or PCAOB and for performing  
271 quarterly reviews in accordance with standards for such reviews promulgated by  
272 the AICPA or PCOAB.  
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6. Regularly review with the independent auditors the communications required under Generally Accepted Auditing Standards; any problems or difficulties encountered in the course of the audit work, including any restrictions on the scope of the independent auditor’s activities or on access to requested information, and any significant disagreements with management, and management's response; and hold timely discussions with the independent auditors regarding the following:
    - i. all critical accounting policies and practices;
    - ii. any accounting adjustments that were noted or proposed by the independent auditors but were “passed” (as immaterial or otherwise);
    - iii. all alternative treatments of financial information within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including: ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors;
    - iv. other material written communications between the independent auditors and management;
    - v. an analysis of the auditor's judgment as to the quality of the Company's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements;
    - vi. at least annually, obtain and review a report by the independent auditors describing all relationships between the independent auditors and the Company, addressing the matters set forth in the Securities Acts administered by the Commission and Independence Standards Board Standard No. 1 (as modified or supplemented);
    - vii. any instances whereby officers, Directors and persons acting under their direction have coerced, manipulated, mislead or fraudulently influenced (collectively referred to herein as “improperly influenced”) the independent auditor when the officer, director or other person knew or should have known that the action, if successful, could result in rendering the Company’s financial statements materially misleading;
    - viii. any communications between the independent auditors engagement team and the firm’s national office regarding auditing or accounting issues related to the Company; and
    - ix. the responsibilities, budget and staffing of the Company’s internal audit function.
  
  7. Review and pre-approve both audit and permitted non-audit services to be provided by the independent auditors. The Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditors. Prior to the engagement of the independent auditors for the next year's audit, management will submit an aggregate of services expected to be rendered during that year for each of the four categories of services (audit, audit-related, tax and other) to the Audit Committee for approval. Unless a type of service to be provided by the independent auditors has received general pre-approval as outlined above, it will require specific pre-approval by the Audit

320 Committee. The Audit Committee may delegate pre-approval authority to one or  
321 more of its members, with such member reporting any pre-approval decisions at  
322 the next scheduled Audit Committee meeting.  
323

- 324 8. Though ultimate responsibility for partner compensation programs and executing  
325 partner rotation requirements rests with the independent auditors, the Committee  
326 will review compliance with these requirements as promulgated by applicable  
327 rules and regulations. The Audit Committee will assure the regular rotation of the  
328 lead audit partner as required by law and further consider whether, in order to  
329 assure continuing auditor independence, there should be regular rotation of the  
330 audit firm itself. Rotations of the independent auditing firm will also be reviewed  
331 as required by law or as otherwise appropriate.  
332
- 333 9. The Committee will set clear hiring policies for employees or former employees  
334 of the independent auditors, including prohibiting management from hiring as a  
335 manager an individual responsible for overseeing financial reporting matters of  
336 the Company, any person who was employed by the independent auditors and  
337 was the lead partner, concurring partner, or any other member of the audit  
338 engagement team who provided more than ten hours of audit, review or attest  
339 services for the Company within the one-year period preceding the  
340 commencement of the audit of the current year's financial statements.  
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342 C. Internal Audit

- 343 1. Review and advise on the selection and removal of the Chief Internal Auditor and  
344 the annual performance evaluation of the Chief Internal Auditor.  
345
- 346 2. Review the organizational structure, qualifications, staffing and budgeting of the  
347 internal audit function, including a discussion of these internal audit items with  
348 the independent auditors.  
349
- 350 3. Review the Internal Audit Charter on an annual basis and propose changes as  
351 applicable.  
352
- 353 4. Review and approve the annual Internal Audit Plan. All internal audit reports are  
354 issued to the Chairman of the Audit Committee with copies provided to senior  
355 management. On a quarterly basis receive from the Chief Internal Auditor:  
356 i. a description of the progress against this plan;  
357 ii. a summary of internal audit activities and significant reports, including Loan  
358 Review Function matters;  
359 iii. a description of any significant deficiencies in the system of internal controls;  
360 iv. a summary of any significant difficulties, disagreements with management, or  
361 scope restrictions encountered in the course of the internal audit function's  
362 work; and  
363 v. a report of any significant unresolved issues.  
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365 D. Ethical Compliance, Legal Compliance, and Risk Management

- 366 1. Review the Company's written Business Code of Ethics and the Company's  
367 written Code of Ethics Applicable to Financial Officers and the Chief Executive  
368 Officer and ensure that they are in compliance with all applicable rules and  
369 regulations. Ensure that management has established a system to monitor  
370 compliance with these Codes of Ethics, including the receipt of a report each year  
371 from the Company's General Counsel.
- 372
- 373 2. Ensure that management has a proper review system in place to ensure that the  
374 Company's financial statements, reports and other financial information is in  
375 compliance with applicable laws and regulations.
- 376
- 377 3. Review periodic reports prepared by the Compliance Officer regarding the  
378 Company's program for complying with laws and regulations.
- 379
- 380 4. Review with the Company's General Counsel, legal compliance matters including  
381 corporate securities trading policies.
- 382
- 383 5. Review with the Company's General Counsel, legal matters that could have a  
384 significant impact on the organization's financial statements.
- 385
- 386 6. Discuss policies with respect to risk assessment and risk management. Such  
387 discussions should include the Company's major financial risk exposures and the  
388 steps management has taken to monitor and control such exposures. The Audit  
389 Committee shall discuss risk assessment and risk management guidelines and  
390 policies to govern the process by which risk assessment and risk management is  
391 undertaken.
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394 V. Resources

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396 The Audit Committee has the authority to obtain advice and assistance from and engage  
397 independent counsel, accountants, or other advisors as deemed appropriate to perform its  
398 duties and responsibilities. The Company shall provide appropriate funding, as  
399 determined by the Audit Committee, for payment of compensation to the independent  
400 auditors and to any advisors that the Audit Committee chooses to engage. The Audit  
401 Committee has ultimate authority to approve all audit engagement fees and terms. In  
402 addition, the Company shall provide appropriate funding, as determined by the Audit  
403 Committee, for ordinary administrative expenses of the Audit Committee that are  
404 necessary or appropriate in carrying out its duties.

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406 VI. Disclosure

407 This Charter will be made available on the Company's website.

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412 Approved by the Board of Directors: February 25, 2005

413 Approved by the Nominating/Corporate Governance Committee: February 16, 2005

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