

**VIRGINIA FINANCIAL GROUP, INC.
BOARD OF DIRECTORS**

AUDIT COMMITTEE CHARTER

February 2004

VIRGINIA FINANCIAL GROUP, INC.
Audit Committee of the Board of Directors
Charter

PURPOSE

The Audit Committee (the “Committee”) is appointed by the Board of Directors of Virginia Financial Group, Inc. (the “Company”) to assist the Board of Directors in fulfilling its oversight responsibilities for the Company’s accounting and financial reporting processes and audits of the financial statements of the Company. The purpose of the Committee is to monitor (1) the integrity of the Company’s financial statements, (2) the independence and qualifications of its external auditor, (3) the Company’s compliance with legal and regulatory requirements, (4) the performance of the Company’s internal audit function, (5) the performance of the Company’s external auditors and (6) the Company’s system of internal controls. The Committee will also prepare the report required by the SEC’s proxy rules to be included in the Company’s annual proxy statement.

AUTHORITY

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to (1) appoint, compensate, retain and directly oversee the work of the Company’s external auditor, (2) resolve any disagreements between management and the auditor regarding financial reporting, (3) pre-approve all audit services and permitted non-audit services performed by the Company’s external audit firm, (4) retain independent counsel, accountants, or others to advise the Committee or assist in the conduction of an investigation, (5) seek any information it requires from employees – all of whom are directed to cooperate with the Committee’s requests – or external parties, (6) meet with Company officers, external auditors, or outside counsel, as necessary, and (7) form and delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, provided that such decisions are presented to the full Committee at its next scheduled meeting.

The Company shall provide appropriate funding, as determined by the Committee, for payment of compensation to any registered public accounting firm engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company and to any advisors employed by the Committee.

COMPOSITION

The Committee will consist of at least three members of the Board of Directors. All Committee members will be independent directors, 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. All members of the Committee shall have a familiarity with

basic financial and accounting practices. Committee members may enhance their familiarity with finance and accounting practices by participating in educational programs approved by the Board of Directors. At least one Committee member shall satisfy the definition of, and be designated as, a “financial expert” as defined by applicable legislation and regulation.

Members of the Committee shall be elected by the Board of Directors at the annual organizational meeting of the Board. Committee vacancies that may occur in interim periods between organizational meetings will also be filled by Board of Director election. Unless a Committee Chairman is elected by the Board of Directors, the members of the Committee may designate a Chairman by majority vote of the full Committee membership.

No Committee member shall simultaneously serve on the Audit Committees of more than two other public companies.

MEETINGS

The Committee will meet at least four (4) times per year, with authority to convene additional meetings as circumstances require. All Committee members are expected to attend each meeting, in person or via tele-conference or video-conference. The Committee will invite members of Company management, external auditors, internal auditors, or others to attend meetings and provide pertinent information as necessary. The Committee will periodically meet separately with Company management, external auditors and internal auditors.

Each regular Audit Committee meeting will include an executive session.

Meeting agendas will be prepared and provided in advance to members along with appropriate briefing materials. Minutes of the meetings will be kept by a member of the Committee or a person designated by the Committee.

RESPONSIBILITIES

The Committee will carry out the following responsibilities:

- External/Independent Auditors

Assume sole responsibility for the appointment, compensation, retention and evaluation of the work of any external/independent accounting firm engaged to audit or review the Company’s financial reports, audit the Company’s report on internal control, and perform any allowable non-audit service. This responsibility will include nominating the external auditor to be proposed for shareholder approval in any proxy statement. The external auditors will report directly to the Committee.

At least annually, obtain and review a report by the Company’s external/independent auditor that describes: (1) the auditor’s internal quality control procedures, (2) any material issues raised by the most recent internal quality control review, or peer

review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years, and any steps taken to deal with any such issues, and (3) all relationships between the external auditor and the Company.

Obtain from the external auditors information regarding the auditors' compliance with applicable independence requirements, including auditor rotation rules, scope of service rules, and audit partner compensation rules. Based on information received in these reports, and on other information obtained by the Committee, including discussions with the external auditor, Company management, and the Company's internal auditors, the Committee will evaluate the auditor's qualifications, performance and independence. The Committee's conclusions in this regard will be reported to the full Board of Directors of the Company.

Pre-approve non-audit services to be performed by the external auditors. The Committee may delegate to one or more Committee members the responsibility to approve such services, provided that timely reports are made to the full Committee. In addition, the Committee may establish pre-approved categories of services.

Review with the external auditors any audit problems or difficulties and Company management's response. The Committee is responsible for resolving any differences between management and the external auditors regarding accounting and auditing issues.

Receive reports directly from the external/independent auditors. At least annually, these reports will include: (1) audit staffing and supervision, and scope of audit, (2) critical accounting policies and practices, alternative accounting treatments, the reasons for selecting such policies, and their impact on the fairness of the Company's financial statements, (3) significant estimates made by management in the preparation of financial reports, (4) the nature and content of communications between auditors and Company management, (5) off-balance sheet transactions, joint ventures, contingent liabilities, or derivative transactions, and their impact on the fairness of financial statements, (6) auditor proposed adjustments, both those recorded by Company management and those not recorded by Company management, (7) difficulties encountered with Company management during the audit, (8) disagreements with Company management regarding accounting and reporting issues, (9) material legal matters that may impact the financial statements, and (10) the external auditor's opinion on the overall fairness of the financial statements.

Keep a written record of all communications with the external auditors. The Committee may request that the auditors put their comments in writing. The Committee will receive a complete report from the auditors on the above noted matters prior to the completion of the annual audit. In addition, the Committee will maintain regular communications with the auditors on these topics in connection with quarterly reports, and other financial reports issued by the Company.

Establish policies concerning the Company's hiring of employees or former employees of the external auditor, as required by law and applicable listing standards.

On a regular basis, discuss with the external auditor the need to meet separately to review any matters that the Committee or auditor believes should be discussed privately.

- Financial Statements/Reports

Discuss the annual audited financial statements and quarterly financial statements, and any off-balance sheet structures, with Company management and the external auditors, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Review analyses prepared by Company management and/or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements and any complex or unusual transactions.

Review significant accounting and reporting issues and understand their impact on the financial statements, including the effect of regulatory and accounting initiatives and any significant changes in the Company's selection or application of accounting principles.

Review with Company management and the external auditors the results of the independent audit, including any difficulties encountered, any restrictions on the scope of the external auditor's activities or access to requested information, and any significant disagreements with management.

Review disclosures made by the CEO and CFO during the Forms 10-K and 10-Q certification process about significant deficiencies in the design or operation of internal controls or any fraud that involves Company management or other employees who have a significant role in the Company's internal controls.

Review with Company management and the external auditor all matters required to be communicated to the Committee under generally accepted auditing standards, including matters required to be discussed by Statement on Auditing Standards No. 61 relating to conduct of the audit.

Discuss with Company management the Company's earnings press releases, including the use of "pro-forma" or "adjusted" non-GAAP information, and financial information and earnings guidance provided to analysts and rating agencies.

- Internal Audit

Act as the direct reporting entity for the Company's internal auditors from a functional perspective.

Review and approve the organization, staffing, and budget of the internal audit function and hire and appoint the internal audit supervisor.

Discuss with Company management and the internal audit supervisor the budget, charter, plans, scope, activities, staffing and organizational structure of the internal audit function.

Review and approve reports prepared by the internal auditors, including recommendations made by the internal auditors to Company management.

Insure that there are no unjustified restrictions or limitations placed by Company management upon the internal auditor(s)' scope of activities or access to information.

Review the effectiveness of the internal audit function and the internal audit staff qualifications, and recommend any changes thereto.

On a regular basis, meet separately with the internal audit supervisor to discuss any matters that the Committee or internal auditor believes should be discussed privately.

- Internal Controls and Risk Management

Consider the effectiveness of the Company's internal control systems, including information technology security and control.

Gain an understanding of the scope of internal and external auditors' reviews of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Company management's responses.

Meet with Company management to review the Company's major financial risk exposures and the steps that Company management has taken to monitor and control such exposures, including any Company risk assessment and risk management programs.

- Compliance

Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of Company management's follow-up and correction of any instances of non-compliance.

Establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Review the findings of any examinations by regulatory agencies and any auditor observations.

Review the process for communicating the Code of Ethical Conduct to Company personnel and for monitoring compliance to the Code.

Obtain regular updates from management and Company legal counsel regarding compliance matters and legal matters that may have a significant impact on the financial statements or the Company's compliance policies.

- Reporting Responsibilities

Regularly report to the Board of Directors regarding Committee activities and issues with respect to the quality or integrity of the Company's financial statements, compliance with legal or regulatory requirements, performance and independence of the Company's independent auditors, and performance of the internal audit function.

Provide an open avenue of communication between internal audit, the external auditors, and the Board of Directors.

Report annually to the Company's shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by law or rule, including approval of non-audit services.

Review any other reports the Company issues that relate to Committee responsibilities.

- Other Responsibilities

Perform other activities related to this Charter as requested by the Board of Directors.

Institute and oversee special investigations as needed.

Review and assess the adequacy of the Audit Committee Charter annually, requesting Board of Director approval for proposed changes, and insure appropriate disclosure as may be required by law or regulation.

Confirm annually that all responsibilities outlined in this Charter have been adhered to and completed.

Evaluate the Committee's and individual members' performance at least annually.