



ELMIRA SAVINGS BANK

AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

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I. GENERAL

- A. The Audit Committee is an extension of the oversight function of the Board of Directors. It will cause an independent evaluation to be made of any and all functions and processes of the Bank that it deems appropriate. The Committee will report its actions and recommendations to the Board of Directors.
- B. The Audit Committee shall be comprised of no less than three members all of whom must be independent Directors. The definition of “independent Director” is included in the Bank’s Corporate Governance Principles.
- C. Each member of the Audit Committee shall be able to read and understand fundamental financial statements in accordance with the rules of NASDAQ as to audit committees. At least one member shall have past employment experience in finance or accounting, a professional certification in accounting or other comparable experience or background that results in the individual’s possessing the requisite financial sophistication, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities to qualify as an “Audit Committee Expert.”
- D. The Committee will meet at least four times each year, more frequently if circumstances warrant. The Audit Committee chairman has the power to call a Committee meeting whenever he or she thinks there is a need. The Committee may ask members of management or others to attend the meeting and is authorized to receive all pertinent information from management.
- E. The Audit Committee will perform and approve the Internal Auditor’s performance appraisal and compensation with management acting in an advisory role.
- F. The Committee will do whatever else the law, the Bank’s charter or bylaws or the Board of Directors requires.

II. RESPONSIBILITIES FOR ENGAGING INDEPENDENT EXTERNAL AUDITORS AND APPOINTING THE INTERNAL AUDITOR

- A. The Audit Committee will select, and if necessary, dismiss the independent external auditors for audits of the Bank’s financial statements.
- B. The Audit Committee of the Board of Directors is exclusively authorized and

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directed to consider and, in its discretion, approve in advance any services proposed to be carried out for the Bank by its then current independent auditors or by any firm of independent auditors proposed to be engaged by the Bank as its independent auditors. Such consideration shall entail determining:

1. Whether the services are permissible services under applicable law and regulation.
2. Whether the proposed service provider meets the independence and other requirements of applicable law and regulation,
3. Whether the proposed services are reasonably necessary or advisable for the benefit of the Bank,
4. Whether the proposed fees for the services are reasonable, and
5. Whether, in the discretion of the Committee, such services shall be approved and on what terms and conditions.

C. The Audit Committee will review and approve the appointment, replacement, reassignment or dismissal of the Bank's Internal Auditor.

D. The Audit Committee will confirm and assure the independence of the Internal Auditor.

E. The Audit Committee will consider, in consultation with the independent external auditors and the Internal Auditor, the audit scope and procedural plans made by the internal auditors and the independent external auditors.

F. The Audit Committee, in consultation with management and the independent external auditors, will decide whether to engage an additional audit firm and, if so, which one.

G. The Audit Committee will make sure that the Internal Auditor and the independent external auditors coordinate the internal and external audits in order to maximize the efficiency of the Bank's audit function.

3. RESPONSIBILITIES FOR REVIEWING INTERNAL AUDITS, THE ANNUAL EXTERNAL AUDIT AND THE REVIEW OF ANNUAL FINANCIAL STATEMENTS

- A. The Audit Committee will ascertain that the independent external auditors view the Board of Directors as their client, that they will be available to the Board of Directors at least annually and that they will provide the Committee with a timely analysis of significant financial reporting issues.
- B. The Audit Committee will ask management, the Internal Auditor and the independent external auditors about significant risks and exposures and will assess management's steps to minimize them.
- C. The Audit Committee will review the following with the independent external auditors and the Internal Auditor:
 - 1. The adequacy of the Bank's internal controls, including computerized information system controls and security.
 - 2. Any significant findings and recommendations made by the independent external auditors or Internal Auditor, together with management's responses to them.
- D. Shortly after the annual examination is completed, the Audit Committee will review the following with management and the independent external auditors:
 - 1. The Bank's annual financial statements and related footnotes along with Management's Discussion and Analysis proposed to be included in the Bank's Annual Report on Form 10-K. The Committee will discuss those financial statements and related notes and Management's Discussion and Analysis with management and to make a recommendation to the Board whether such financial statements should be included in the Company's Annual Report on Form 10-K.
 - 2. The results of the annual audit, including with limitation, their report and all matters required to be communicated to the Committee by the independent auditor in accordance with SAS 61 Communication with Audit Committees.
 - 3. The Bank's process of compliance with New York State Department of Financial Services' regulations regarding the Certification of Financial Statements by the Chief Executive Officer and the Chief Financial Officer.
- E. The Audit Committee will consider and review with management and the Internal Auditor:

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1. Any significant findings and management's responses to them.
2. Any difficulties the Internal Audit Department encountered while conducting audits, including any restrictions on the scope of its work or access to required information.
3. Any changes to the planned scope of the Internal Audit Plan that the Committee thinks advisable.
4. The Internal Audit Department's policy, budget, and staffing.

4. PERIODIC RESPONSIBILITIES

- A. Review and update the Committee's charter annually.
- B. Review, with the Internal Auditor and the independent external auditors, the results of any examinations of compliance with Bank policies.
- C. Review legal and regulatory matters that may have a material effect on the Bank's financial statements, compliance policies, and programs.
- D. Meet with representatives from regulatory agencies as necessary.
- E. Meet, as necessary, with the Internal Auditor, the independent external auditors and management in separate executive sessions to discuss matters the Committee or these groups believe should be discussed privately with the Audit Committee.