

AUDIT COMMITTEE CHARTER

This charter shall be reviewed, reassessed, updated and approved annually by the Audit Committee and the Board of Directors of Victory State Bank and VSB Bancorp, Inc. ("Bancorp").

Role and Independence

The Audit Committee of the Board of Directors assists the board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Bancorp and other such duties as directed by the Board. The membership of the Committee shall consist of at least three directors who are generally knowledgeable in financial and auditing matters, each of whom is able to read and understand fundamental financial statements, including the Bancorp's balance sheet and income statement and cash flow statements or will become able to do so within a reasonable period time after his or her appointment to the Audit Committee. At least one member of the Committee will have accounting or related financial management expertise (i.e. said member has past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive or chief financial officer or other senior officer with financial oversight responsibility). Each member shall be free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise of independent judgment, and shall meet the director independence requirements for serving on audit committees as set forth in the corporate governance standards of the *National Association of Securities Dealers*. Each member shall evaluate their status of director independence, at a minimum, on an annual basis. The Committee is expected to maintain free and open communication (including private executive sessions at least annually) with the independent accountants, the internal auditors and the management of the Bancorp. In discharging this oversight role, the Committee is empowered to investigate any matter brought to its attention, with full power to retain, and to set compensation for, outside counsel or other experts for this purpose.

The Board of Directors shall appoint one member of the Audit Committee as Chairperson. He or she shall be responsible for leadership of the committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting to the board of directors. The Chairperson will also maintain regular liaison with the CEO, CFO or Principal Accounting Officer, the lead independent audit partner and the internal audit partner. The Audit Committee will meet quarterly, at a minimum, and more often as necessary.

Responsibilities

The Audit Committee's primary responsibilities include:

- Selecting and compensating the independent accountant to be retained to audit the financial statements of the Bancorp and presenting such selection to the Board at its next scheduled meeting. In so doing, the Committee will require from the auditor receipt of a written affirmation that the auditor is in fact independent and delineating all relationship between the auditor and the Bancorp consistent with the Independence Standards Board Standard No. 1. The Audit Committee shall also discuss with the auditor any disclosed relationships or services that may impact the auditor's independence. Furthermore the Audit Committee shall take or recommend to the Board that it take any actions necessary to oversee the auditor's independence.

- Overseeing the independent auditor relationship by discussing with the auditor the nature and rigor of the audit process, receiving and reviewing audit reports, and providing the auditor full access to the Committee (and the Board) to report on any and all appropriate matters.
- Providing guidance and oversight to the internal audit activities of the Bancorp including reviewing the organization, plans and results of such activity.
- Reviewing the audited financial statements and discussing them with management and the independent auditor. These discussions shall include consideration of the quality of the Bancorp's accounting principles as applied in its financial reporting, including review of estimates, reserves and accruals, review of judgmental areas, review of audit adjustments whether or not recorded and such other inquiries as may be appropriate. Based on the review, the committee shall make its recommendation to the Board as to the inclusion of the Bancorp's audited financial statements in the company's annual report.
- Discussing with management, the internal auditors and the external auditors the quality and adequacy of the Bancorp's internal controls.
- Discussing with management the status of pending litigation, taxation matters and other areas of oversight to the legal and compliance area as may be appropriate.
- Reporting audit committee activities to the full Board and issuing annually a report to be included in the proxy statement (including appropriate oversight conclusions) for submission to the shareholders.
- Reviewing the independent auditor's ultimate accountability to the Board of Directors and to the Audit Committee as representatives of shareholders and these shareholder representatives' ultimate authority and responsibility to select, evaluate and where appropriate, replace the independent auditor (or to nominate the independent auditor to be proposed for shareholder approval in any proxy statement).
- Approving all non-audit services to be provided by the independent auditor after giving due regard to the effect of such non-audit services on the independence on the external auditor and the legality of providing such non-audit services.