



CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

I. Purpose

The primary purpose of the Audit Committee of the Board of Directors of Pacific Financial Corporation ("Company") is to provide independent and objective oversight of the financial reporting and internal controls of the Company, its subsidiary Bank of the Pacific ("Bank") and affiliates (as applicable) to ensure compliance of its financial statements with generally accepted accounting principles ("GAAP") as applied in the United States of America. The Committee shall have the sole authority and responsibility to select, evaluate and, where appropriate, replace the independent accountants and the senior internal audit officer. The Committee shall also review and advise the Board with respect to the Company's risk management policies and tax policies.

II. Authority of Committee. The Board of Directors hereby delegates to the Committee, in its capacity as a committee of the Board, the sole authority to engage, determine the compensation of, and provide oversight to the independent accounting firm engaged to prepare and issue an audit report (and related work) for the Company, which firm shall report directly to the Committee. The Committee shall approve in advance any permissible non-audit services provided by the independent accountants. The Committee may delegate to the Chair and/or one or more other designated members of the Committee the authority to grant preapprovals of permissible non-audit services. Any such preapprovals shall be presented to the full Committee at its next scheduled meeting. The Committee shall have the authority to engage independent counsel or external consultants, as the Committee determines necessary to perform its functions. The Committee shall also resolve disagreements, if any, between management and the independent auditor to assure the Company's compliance with applicable laws, regulations and GAAP.

III. Duties and Responsibilities

The Committee's function is one of oversight and review, and it is not expected to audit the Company, to define the scope of the audit, to control the Company's accounting practices, or to define the standards to be used in preparation of the Company's financial statements. As such, the Audit Committee shall perform the following functions:

- 1. Plan of Audit.** Consult with the independent accountants and the internal audit manager regarding the annual audit plan, as appropriate. The Committee also shall review with the independent accountants their report on the audit, including any required communications from the independent accountants, and review with management the independent accountants' suggested changes or improvements in the Company's accounting practices or controls.

2. Accounting Principles and Disclosure. The Committee shall review with management and independent accountants any significant developments or changes in accounting principles that may warrant changes in the Company's methods of accounting or presentation of financial statements.

3. Internal Accounting Controls. Consult with management and the independent accountants regarding the adequacy of internal accounting controls. Where appropriate, consultation with the independent accountants regarding internal controls shall be conducted out of management's presence. In connection with this function, the Committee may require the Company's counsel to circulate a questionnaire to evaluate the Company's compliance with banking, financial disclosure and accounting standards.

4. Financial Disclosure Documents. Review with management and the independent accountants the Company's financial disclosure documents, including all financial statements and reports filed with the Company's primary federal regulator, or sent to stockholders and, following the satisfactory completion of each year-end review, recommend to the Board the inclusion of the audited financial statements in the Company's annual report to the shareholders. The review shall include any significant problems and material disputes between management and the independent accountants and a discussion with the independent accountants out of management's presence of the quality of the Company's application of accounting principles as applied in its financial reporting, the clarity of the Company's financial disclosures and degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates, and a frank and open discussion of other significant decisions made by management in preparing the financial disclosure.

5. Internal Control Systems. Review with management and internal auditors the Company's internal control systems intended to ensure the reliability of financial reporting and compliance with applicable codes of conduct, laws and regulations. The review shall include any significant problems and regulatory concerns.

6. Ethical Environment. Consult with management on the establishment and maintenance of an environment that promotes ethical behavior, including the establishment, communication, and enforcement of codes of conduct to guard against dishonest, unethical, or illegal activities.

7. Oversight of Executive Officers and Directors and Conflicts of Interest. Review significant conflicts of interest involving directors, executive officers or related parties, as defined in Section 10A of the Securities Exchange Act of 1934. The Committee shall examine the results of any review by the internal auditor or the independent accountant of the Company's compliance with its policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets. The Committee also shall review any significant payments brought to light by such a review that may be questionable or illegal.

8. Oversight of Independent Accountants. Evaluate the independent accountants on an annual basis and, where appropriate, replace the independent accountants. In such evaluation, the Committee shall ensure that the independent accountants deliver to the Committee a formal written statement delineating all relationships between the accountants and the Company. The Committee also shall engage in a dialogue with the accountants with respect to any disclosed

relationships or services that may impact the objectivity and independence of the independent accountants and in response to the independent accountant's report take appropriate action to satisfy itself of the independent accountant's independence.

9. Adequacy of Internal Audit Personnel. Review periodically the adequacy of the Company's internal audit personnel resources with the internal audit manager.

10. Risk Management. Review and evaluate risk management policies in light of the Company's business strategy, capital strength, and overall risk tolerance. As such, the Committee shall examine third-party reviews of the Company's risk management practices in various functional areas including, but not limited to, investments, branch and administrative operations, lending, liquidity and interest rate risk, cyber-security and regulatory compliance to ensure there is a culture and practice of proper adherence to policies and procedures.

11. Tax Policies. Review periodically the Company's tax policies and any pending audits or assessments.

12. Charter Amendments. Review this Charter annually, assess its adequacy and propose appropriate amendments to the Board.

13. Complaint Procedures. Establish procedures to receive complaints or concerns regarding accounting or auditing matters and investigate any matter brought to its attention within the scope of its duties.

14. Outstanding Issues. Review and monitor the progress of remediation of outstanding items raised in audits, third-party reviews or regulatory examinations.

III. Composition & Independence

The Committee shall consist of not less than three members who shall be appointed by the Board of Directors. All members shall be independent of management, and at least one member of the committee shall be qualified as a financial expert or have accounting, related financial management expertise, or any other comparable experience or background that results in the individual's financial sophistication, in the spirit of the requirements described in 12 CFR 363.5. No member of the Committee shall be employed or otherwise affiliated with the Company's independent accountants.

In the event that a Committee member faces a potential or actual conflict of interest with respect to a matter before the Committee, that Committee member shall be responsible for alerting the Committee Chairman, and in the case where the Committee Chairman faces a potential or actual conflict of interest, the Committee Chairman shall advise the Chairman of the Board of Directors. In the event that the Committee Chairman, or the Chairman of the Board of Directors, concludes that a potential or actual conflict of interest exists, an independent substitute Director shall be appointed as a Committee member until the matter posing the potential or actual conflict of interest is resolved.

IV. Quorum and Meetings

A quorum of the committee shall be declared when a majority of the appointed members of the Committee are in attendance. The Committee shall meet on a quarterly basis, or otherwise, as called by the Chairman. Meetings shall be scheduled at the direction of the Chairman. Except in emergency situations, notice of the meetings shall be provided at least three days in advance. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

V. Reports

The Committee will report to the Board from time to time with respect to its activities and its recommendations. When presenting any recommendation or advice to the Board, the Committee will provide such background and supporting information as may be necessary for the Board to make an informed decision. The Committee will keep minutes of its meetings and will make such minutes available to the full Board for its review.

The Committee shall report to shareholders in the Company's proxy statement for its annual meeting whether the Committee has satisfied its responsibilities under this Charter.

VI. Other Authority

The Committee is authorized to confer with Company management and other employees to the extent it may deem necessary or appropriate to fulfill its duties. The Committee is authorized to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

The Committee will perform such other functions as are authorized for this Committee by the Board of Directors.