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

CORPORATE GOVERNANCE PRINCIPLES and PRACTICES

The following principles and practices have been developed and formally approved by the Board of Directors (the "Board"), of U.S.B. Holding Co., Inc. (the "Company") and along with the charters of the various Board Committees (the "Committees") and its Business & Ethical Codes of Conduct, provide the framework for the corporate governance of the Company. These documents are filed as Exhibits to the Company's annual report on Form 10-K or the Company's annual Proxy Statement and are also posted on the Company's website.

The Corporate Governance Principles and Practices and the Committee charters reflect the Board's commitment to monitor the effectiveness of policy and decision-making at both the Board and management level, with a view toward enhancing long-term stockholder value.

The Corporate Governance Principles and Practice and Committee charters are consistent with the Securities and Exchange Commission ("SEC") regulations and New York Stock Exchange ("NYSE") listing standards. The Corporate Governance Principles and Practices are reviewed annually by the Nominating/Corporate Governance Committee and approved by the Board. The Corporate Governance Principles and Practices are subject to modification from time to time by the Board as circumstances warrant.

I. Responsibilities of the Nominating/Corporate Governance Committee and Board of Directors

The business and affairs of the Company are conducted under the Board's authority as delegated by the stockholders. Management must review major actions and strategies with the Board prior to implementation as required by Company policy or as considered significant in the judgment of management. The Board of Directors is responsible for the oversight of management on behalf of the Company's stockholders. The principle functions of the Board and the Committees are to:

- oversee programs for evaluating the adequacy of internal controls, risk management, financial reporting and compliance with the law and the Company's Codes of Conduct;
- evaluate and determine compensation of the Chief Executive Officer and to review the Company's compensation and benefits programs;
- review and evaluate succession planning;
- review and approve major strategic, financial and other objectives of the Company;
- review the Company's community oriented activities;
- nominate Directors and fill vacancies on the Board; and
- evaluate the policies and practices of the Board to provide for sound corporate governance.

The foregoing functions are accomplished directly by the Board of Directors or through the Committees.

II. Director Service and Qualifications

A. Director Qualities.

Directors should possess the highest personal and professional ethical integrity and values, and be committed to representing the long-term interests of the Company and its stockholders. Directors must possess independence from conflicts that would compromise their business judgment, have the ability and diligence to fulfill his/her Director responsibilities and be able to work effectively with other Directors and management. Upon a change in circumstances or employment status material to one's independence or qualifications, a Director is required to ask the Nominating/Corporate Governance Committee to review and recommend whether he/she should continue in service.

B. Board Size.

The Company's preference is to maintain a smaller Board for the sake of efficiency. A smaller Board helps promote effective discussion and decision making, while providing a sufficient number of independent Directors to result in a majority of independent Directors on the Board and to serve on the Committees, as required by SEC and NYSE standards. The Board is currently comprised of eight Directors.

C. Composition.

Setting the criteria for composition of the Board and the selection of new Directors are Board functions. The Nominating/Corporate Governance Committee, in consultation with the Chairman, periodically reviews the criteria for composition of the Board and evaluates and recommends potential candidates to the Board. The Nominating/Corporate Governance Committee has established a Director Nomination and Election Process which is disclosed in the Company's annual Proxy Statement and is attached hereto as an Exhibit.

D. Tenure.

The Board does not believe it is appropriate to institute fixed limits on the tenure of Directors; such limits would deprive the Company and the Board of the knowledge and valuable experience derived from Board service.

E. Retirement.

The Nominating/Corporate Governance Committee has not established a mandatory retirement age for Directors. Each Director may serve as long as he or she has a demonstrated ability to effectively fulfill his or her responsibilities as a Director.

F. Other Responsibilities.

Each person serving as a Director must devote the time and attention necessary to fulfill the obligations of his/her position. Key obligations include appropriate attendance at Board and Committee meetings and appropriate advance review of meeting materials. Directors are also encouraged, but not required, to attend the annual meeting of the Company's stockholders. Directors must review proposed service on the board of any other public company or any governmental position with the Nominating/Corporate Governance Committee. It is expected that a Director will serve on the Board of no more than two other public companies.

G. Review.
Annually, the Nominating/Corporate Governance Committee will conduct a review of the performance of the Board and the Committees. A report shall be furnished to the Board summarizing the findings of the Nominating/Corporate Governance Committee on Board and Committee performance.

III. Director Independence

A. Purpose.
The Company believes that a combination of Directors who are executives of the Company, as well as Directors who are independent, provide an effective Board to ensure the Board is well informed, understanding of business results, transactions and strategic plans and goals. Consistent with the Sarbanes-Oxley Act of 2002, NYSE rules and the standards established by the Nominating/Corporate Governance Committee, the majority of the Board is comprised of independent Directors.

B. Determination and Disclosure.
Directors must keep themselves free of conflicts of interest and avoid situations that give the appearance of conflicts. For the purposes of evaluating the independence of a Director, the Board considers the circumstances of each person. A Director may be determined to be independent only if the Director has no material relationship with the Company, either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with the Company, and meets the further independence standards set forth below.

The Board through its Nominating/Corporate Governance Committee, will review all commercial and charitable relationships of Directors and make independence determinations on an annual basis, at the time the Board approves Director nominees for inclusion in the Proxy Statement, or at the time a Director joins the Board between annual meetings. The Board must make an affirmative determination as to the independence of each Director. In its annual Proxy Statement, the Company will disclose the evaluation and determination of the independence of its Directors.

C. Standards for Independence.
In connection with the Board's assessment of its independent Directors, the following categorical standards and criteria have been established for evaluating such determination:

1. A Director will not be considered independent if, within the preceding three years:
    a. The Director, or any of his/her immediate family members, were employed by or held a position as an executive officer with the Company or any of its subsidiaries;

b. The Director, or any of his/her immediate family members received more than $100,000 per year in direct compensation or any consulting, advisory, or other compensation from the Company, other than Director or Committee fees and pension or other deferred compensation for prior service, provided that such compensation is not contingent in any way on continued service;
c. The Director, or any of his/her immediate family members, were affiliated with or employed by the Company's present or former internal or external auditor;
d. The Director, or any of his/her immediate family members, were employed (in the case of an immediate family member as an executive officer) by a another company at a time when a Company executive officer served on that company's compensation committee;

2. The relationship between the Company and an entity will be considered in determining a Director's independence where the Director serves as an officer of the entity or, in the case of a for-profit entity, where the Director is a general partner or owns more than five (5) percent of the entity.

3. Generally, where a Director is an officer of a for-profit entity that is a client of the Company, whether as borrower, trading counterparty or otherwise, the financial relationship between the Company and the entity will not be deemed material to a Director's independence if:

    a. the relationship was entered into on terms substantially similar to those that would be offered to comparable counterparties in similar circumstances; and

    b. the termination of the relationship in the normal course of business would not reasonably be expected to have a material and adverse effect on the financial condition, result of operation or business of the borrower or other counterparty.

    However, the Board shall consider all relevant facts and circumstances when evaluating the materiality of such relationships.

4. Ownership of twenty percent (20%) or more of any equity security of the Company with voting rights will not automatically preclude a determination of independence. Rather, such percentage of ownership will require consideration and determination by the Board and the Nominating/Corporate Governance Committee in evaluating independence.

5. A Director who is an executive officer or employee, or whose immediate family member is an executive officer or a partner, of a company (A) that accounts for at least 2% or $1 million, whichever is greater, of the Company's consolidated gross revenues, or (B) for which the Company accounts for at

least 2% or $1 million, whichever is greater, of such other company's consolidated gross revenues, will not be deemed independent until three years after falling below such threshold.

6. A Director will not be considered independent if the Director or his/her immediate family member is an executive officer, employee, Director, or trustee of a not-for-profit organization to which the Company, its affiliates or the Company's Foundation makes payments in any year in excess of two percent (2%) of either the Company's or the organizations consolidated gross annual revenues, or $1 million dollars, whichever is greater. The Nominating/Corporate Governance Committee will also administer standards concerning any charitable contribution to organizations otherwise associated with a Director or his/her family member. The Company shall be guided by the interest of the Company and its stockholders in determining whether and the extent to which it makes charitable contributions.

7. The Company provides personal banking and other financial services to individuals in the ordinary course of business. The Sarbanes-Oxley Act of 2002 prohibits loans to Directors, as well as executive officers, except loans in the ordinary course of business and loans by an insured depository institution subject to Regulation "O" of the Board of Governors of the Federal Reserve System. Any loans to Directors will be made pursuant to the Sarbanes-Oxley Act of 2002 and related regulations. Generally, all such relationships in accordance with the foregoing provisions will not be deemed material for Director independence determinations unless a Director has an extension of credit that is on a non-accrual basis. However, the Board shall consider all relevant facts and circumstances when evaluating the materiality of such relationships.

D. Current Directors.

Based on the criteria set forth herein, the Board affirmatively determined at its meeting on February 25, 2005, that each non-employee Director of the Company meets the above criteria for independence. In addition, all Directors that serve on the Compensation, Stock Option, and Nominating/Corporate Governance Committees are independent based upon an evaluation using the above standards. In addition, the Audit Committee members each meet the foregoing criteria for independence, as well as the independence standards established by the SEC and NYSE specific to the Audit Committee.

IV. Board Committees

A. Present Board Committees.

The Board as a whole is responsible for the oversight of management on behalf of the stockholders. The Board is assisted in its oversight function by Board Committees. The Board approves the members, charter and responsibilities of each Committee. The standing Committees of the Board are: the Nominating/Corporate Governance

Committee, the Compensation Committee, the Stock Option Committee and the Audit Committee. The Board has allocated oversight of risk matters to the Audit Committee, thereby making the Audit Committee responsible for discussion of guidelines and policies to govern the process by which risk assessment and management is monitored and controlled by the Company. The Board may authorize special committees from time to time to meet as necessary to review particular matters.

B. Composition.

Each standing Committee is comprised of at least three (3) independent Directors who meet the applicable qualifications for service as determined by the Board. Officer Directors do not serve on any Committees. Officer Directors and other senior officers may attend Committee meetings at the invitation of the Committee Chairman.

C. Responsibilities.

Each standing Committee has a written charter setting out its purpose, duties and other matters, and each special Committee has clearly defined responsibilities and authority. Committees meet on a scheduled basis and at the call of the Committee Chairman. All Committees report on their activities to the Board at the next regularly scheduled Board meeting following a Committee meeting.

D. Limitations on Membership.

If a member of the Audit Committee wishes to serve on the audit committee of another public company, the Board must approve such additional service before the Director may accept the additional audit committee position. The Board shall have the sole discretion to permit or deny such additional service.

E. Review.

Periodically, the Board shall review the number of Committees and their relevant responsibilities. Membership on the Committees is reviewed each year by the Nominating/Corporate Governance Committee and approved by the full Board. There is no strict Committee rotation policy. The Board believes experience and continuity are more important than rotation. Changes in Committee assignments are made based upon Committee needs, Director experience and independence, interest and availability, as well as evolving legal and regulatory considerations.

F. Other Committees.

In addition to the Board Committees, the Company’s principal commercial bank subsidiary, Union State Bank (the “Bank”) has established Board and Management Committees to ensure quality and integrity in business practices. Those Committees are:

- Executive Committee (Board)
- Examining Committee (Board)
- Compensation Committee (Board)
- Asset Liability Committee (Management)
- Management Loan Committee (Management)

V. Director Access to Management and Operations

Directors have complete and open access to the CEO, CFO, Chief Credit Officer and other Senior Executive Vice Presidents of the Company. In addition, Directors are offered opportunities to meet and discuss issues with other members of management.

VI. Other Directorships

Directors limit their directorship of other companies in order to provide sufficient time for informed participation in their current board responsibilities. The Nominating/Corporate Governance Committee is notified of the intention of Directors and the Chief Executive Officer and other senior managers to serve on the board(s) of another public company, and the Committee reviews such requests for the possibility of conflicts of interest or time constraints.

VII. Director Access to Outside Advisors

The main responsibility for providing assistance to the Board rests on the internal organization of the Company and its subsidiaries. The Board and the Committees shall have access and right to obtain outside financial, legal or other advisors to assist them in the performance of their functions. Generally, although not a condition to retaining advisors, access to outside advisors should be accomplished with the full knowledge of the Chief Executive Officer.

VIII. Director Compensation and Stock Ownership Requirements

The Nominating/Corporate Governance Committee, in accordance with the policies and principles set forth in its charter, will recommend the form and amount of Director compensation and benefits. The Nominating/Corporate Governance Committee will periodically review Director's fees and other compensation, including how such compensation relates to Director compensation for companies of comparable size and complexity. As part of such review, the Nominating/Corporate Governance Committee will also consider the impact that excessive Director compensation could potentially have on Director independence. The Nominating/Corporate Governance Committee's review will also include an examination of both indirect and direct forms of compensation to the Directors, including charitable contributions to organizations in which a Director is affiliated, and consulting or similar arrangements. In evaluating Director compensation, the Board will consider the effect on a Director's independence of (i) Director's fees and emoluments in excess of what are customary, (ii) substantial charitable contributions by the Company to organizations with which a Director is affiliated and (iii) consulting contracts with, or other indirect forms of Company compensation to, a Director. The Board will critically evaluate each of these matters when determining the form and amount of director compensation, and the independence of a Director. The Nominating/Corporate Governance Committee will propose changes to Director compensation to the Board for its consideration.

The Board believes it is desirable that a significant portion of overall Director compensation be linked to the Company stock. Furthermore, the Board acknowledges that the number of shares of the Company's stock owned by each director is a personal decision and encourages Directors to own shares or share equivalents of Company stock.

IX. Board Approval of Compensation and Benefits

Compensation of Senior Executive Officers is approved by the Compensation Committee and then submitted to the Board for ratification. Compensation of senior management, other than Senior Executive Officers, is reviewed annually by the Compensation Committee, which reviews its determinations with the Board.

X. Director Orientation and Continuing Education

Director orientation and continuing education is promoted to maintain directors' knowledge relevant to the business and their responsibilities. At the time a new Director joins the Board, the current Board members and the Chief Executive Officer will provide appropriate orientation for the new Director, including arrangement of meetings with management. The Company supports Directors' periodic participation in continuing education programs and Directors are encouraged to take advantage of outside education opportunities. The Company considers such continuing education participation an appropriate expense to be reimbursed by the Company.

XI. Management Succession

Annually, the non-management directors will meet and consider succession planning with the Chief Executive Officer. Such succession planning shall include policies and principles for CEO selection and performance review, as well as policies regarding succession in the event of an emergency or the retirement of the CEO. The Board will adopt at least annually, a formal succession plan document addressing succession in the event of an emergency or the retirement of the Chief Executive Officer, as well as the succession of other key management positions. The succession plan will include critical elements of each position as well as the experience, qualities and skills required for each position. Generally, the Compensation Committee considers management development and performance in its evaluation of compensation and severance planning in preparation for discussion by the full Board.

XII. Board Performance Evaluation

The Nominating/Corporate Governance Committee in conjunction with the Board will conduct an annual self-evaluation to determine whether the Board and the Committees are functioning effectively. The Nominating/Corporate Governance Committee will ask all Directors to comment as to the Board's performance and the Committees on which they serve. The Nominating/Corporate Governance Committee will report annually to the Board with an assessment of the Board's and the Committees' performance, to be discussed with the full Board following the end of each fiscal year.

XIII. Meetings of the Board and Committees

A. Executive Sessions for Non-Management Directors.

At least twice each year the non-management Directors will meet in executive session. Prior to the Company's annual stockholder's meeting, one meeting will be held for the review of the Chief Executive Officer's performance and will be led by the Chairman of the Compensation Committee. In addition, prior to the Company's annual stockholder's meeting, a meeting will be held for the review of the Board and its Corporate Governance Principles and Practices, led by the Chairman of the Nominating/Corporate Governance Committee. Both meetings and others that may be scheduled will provide the opportunity for discussion of such other topics as the non-management Directors may deem appropriate, with discussion to be led by the chairman of the Committee most relevant to the topic of discussion. All non-management Directors are also currently considered independent Directors of the Board.

B. Committee and Board Agendas and Attendance.

To the extent feasible, information and material related to agenda items should be provided sufficiently in advance of all meetings to allow Directors to prepare for discussion.

Board members are expected to attend all Board and Committee meetings. However, in order to allow for time conflicts due to other obligations, Directors are required to attend a minimum of 75% of all Committee and Board meetings. Attendance at less than the required minimum shall be referred to the Nominating/Corporate Governance Committee for evaluation.

Various members of the Company and the Bank's management may be requested to attend Board meetings, including, but not limited to, the Chief Financial Officer, Chief Internal Auditor, Controller, the General Counsel, Chief Operations Officer, Security Officer and senior loan officers. Other members of management may be present at the invitation of the Chairman.

XIV. The Chief Executive Officer/ Non-Executive Chairman of the Board

The Board does not currently have a non-executive chairman. The Board believes that because of the required background and expertise required of the chairman, the position must be an executive position.

The Chief Executive Officer (the "CEO") is responsible for establishing effective communication with the Company's stockholders, customers, Company associates, communities, governments and other entities. Directors may be asked to speak with stockholders or others, as appropriate.

Annually, the Compensation Committee, comprised of independent Directors only, makes an evaluation of the Chief Executive Officer and reports such evaluation to the non-management Directors for their concurrence. This review will normally be conducted in connection with the Chief Executive Officer's annual compensation review.

XV. Lead Director

There is no Lead Director. Committee Chairmen provide leadership for matters under the jurisdiction of their respective Committees.

XVI. Communications with the Board

The Board values stockholder opinions and the Company maintains communication avenues to provide appropriate and effective communications. Procedures for interested parties to communicate directly with non-management or management Directors will be posted on the Company's website. Employees and others are provided means to contact the Board with concerns about questionable conduct or possible financial or accounting improprieties.

XVII. Code of Business Conduct and Ethics

The Directors and all employees must be familiar with and adhere to the Company's Code of Business Conduct and Ethics. This Code addresses compliance with the law, reporting of violations of the Code, employment and diversity, confidentiality of information, protection and proper use of Company assets, conflicts of interest and personal securities and other financial transactions. The Bank and the Company has also established a Code of Ethics specific to the Chief Executive Officer and Chief Financial Officer and other financial officers. Any waiver of either Code must be approved by the Board and promptly disclosed to the stockholders.

Approved by the Board of Directors: February 25, 2005

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