



AUDIT COMMITTEE CHARTER

**By: Mary C. Knight
SVP/ERM OFFICER**

**APPROVED BY THE BOARD OF DIRECTORS OF HARFORD BANK
ON NOVEMBER 23, 2022.**

AUDIT COMMITTEE CHARTER

Purpose

The Audit Committee (Committee) is appointed by the Board of Directors (“Board”) to assist the Board in fulfilling its oversight responsibilities for (1) the integrity of the Bank’s financial statements and reporting process, (2) the Bank’s compliance with legal and regulatory requirements and the code of conduct, (3) the independent auditor’s qualifications and independence, and (4) the performance of the Bank’s internal audit and compliance function, and the Bank’s independent auditor. In doing so, it is the responsibility of the Committee to maintain free and open means of communication between the directors, the independent auditors, the Internal Auditor, and the financial and senior management of the Bank.

Composition

The Audit Committee will consist of at least four external members of the Board of Directors. The Board of Directors or its nominating committee will appoint committee members and the committee chair. All members of the Audit Committee shall be independent of the management of the Bank and free of any relationship that, in the judgment of the Board, would interfere with their exercise of independent judgment as Audit Committee members. All members of the Audit Committee shall be financially literate at the time of their appointment. “Financial literacy” shall be determined by the Board in the exercise of its business judgment and shall include a working familiarity with basic finance and accounting practices and the ability to read and understand fundamental financial statements, including a balance sheet, cash flow statement, and income statement. At least one member shall be designated as the “financial expert,” as defined in item 401 of Regulation S-K and as determined by the Board of Directors.

The responsibilities of a member of the Audit Committee are in addition to responsibilities as a member of the Board. Each member of the Audit Committee will be compensated separately for service on the Audit Committee.

Meetings

The Committee shall meet as frequently as circumstances dictate, but no less than six times annually. The Board shall name a chairperson of the Committee, who shall approve an agenda in advance of each meeting. A majority of the Committee shall constitute a quorum. All Committee members are expected to attend each meeting, in person or via telephone-conference. Meetings may be held in person, electronically (Microsoft Teams Meeting) or by telephone at the discretion of the chair of the Audit Committee.

The Committee may ask members of management or others to attend the meeting and is authorized to receive all pertinent information from management. Portions of all meetings with independent accountants and the Internal Auditor shall be held without any other members of management present. Each regularly scheduled meeting will conclude with an executive session of the Committee absent members of management. As part of its responsibility to foster open communication, the Committee will meet periodically with management, the Internal Auditor, Compliance Officer and the independent auditor(s) in separate executive sessions.

The Committee shall maintain minutes of meetings and activities of the Committee.

The Committee shall, through its chairperson, report regularly to the Board following the meetings of the Committee, addressing such matters as the quality of the Bank’s financial statements, compliance with legal or regulatory requirements, the performance and independence of the independent auditors, the performance of the internal audit and compliance functions or other matters related to the Committee’s functions and responsibilities.

Responsibilities of the Audit Committee

The Audit Committee shall be directly responsible for the appointment, retention, compensation and oversight of the Bank's independent auditor, and may not delegate any of such responsibilities to others. The Audit Committee shall assist the Board in fulfilling its oversight responsibilities by:

- Reviewing any Bank financial information that will be provided to its shareholders.
- Reviewing the reporting of the systems of internal controls and reports of variance from those controls.
- Reviewing all audit processes and results of internal audits.
- Reviewing the Bank's accounting, reporting, and financial practices.

In addition, the Audit Committee:

- Shall meet separately at the request of the chief financial officer, the independent auditor, the Internal Auditor, or Compliance Officer as circumstances dictate.
- Shall meet with the chief financial officer at least once every quarter to review the accounts of the Bank and approve the filing of the Form 10-Q.
- Shall review and approve the audited financial statements prior to the financial statements being included in the Bank's Annual Report on Form 10-K.
- Shall review and discuss with management the policies and guidelines for risk assessment and management.
- Shall ensure the Internal Audit Manager and Compliance Officer, as designated by the Board of Directors, have sufficient authority and the degree of independence to exercise their authority including full unrestricted access to all areas, books, records, properties, securities and accounting procedures relating to the Bank's activities as deemed appropriate to carry out their responsibilities.
- Shall provide a report of the Audit Committee, which contains certain required disclosures, in the Bank's annual proxy.
- Establish procedures whereby employees can confidentially and anonymously submit to the Audit Committee concerns or issues regarding the Bank's accounting or auditing matters (Whistle Blower Policy).
- Review with management the Bank's policies to encourage the reporting of potential illegal acts and questionable accounting or auditing matters.
- Establish procedures for the receipt, retention, and treatment of complaints regarding accounting or auditing matters, including their controls.
- Review the Bank's Code of Ethics and recommend any changes or additions.
- Discuss periodically with management and evaluate the effectiveness of the program that management establishes to monitor compliance with the Bank's Code of Ethics and laws and regulations.
- May take any other action permitted by applicable laws, rules and regulations necessary to accomplish any action authorized by this Charter or to further the goals of the Audit Committee as set forth in the Charter.
- May conduct or authorize investigations into any matters within its scope of responsibilities.
- Shall report its actions to the Board of Directors.

The Audit Committee shall perform such other functions as are required by law, the Bank's articles of incorporation or bylaws, or the Board of Directors. However, while the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Bank's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

Independent Auditors

The Committee shall be responsible for the appointment, compensation, retention, oversight (including resolution of disagreements between management and the independent auditors regarding financial reporting) and termination of the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit review attest services. The independent auditor will report directly to the Committee.

In retaining independent auditors to audit the records and accounts of the Bank, the Audit Committee shall:

- Have the sole authority to appoint and dismiss independent auditors to conduct Bank audits or to perform permissible non-audit services, with the independent auditor ultimately accountable to the Audit Committee with respect to audit and related work, and to oversee the performance of services by the independent auditor.
- Review the scope of the of the audit and the associated fees to be paid to the independent auditor for both audit and permissible non-audit work.
- Discuss with the independent auditor any relationships that may affect the auditor's independence.
- Confirm and oversee the independence of the auditor.
- Establish policies for the Bank's hiring of employees or former employees of the auditor.

In its review of the independent auditor, the Audit Committee shall:

- Review the qualifications and experience of senior members of the audit team, determine that all partner rotation requirements, as promulgated by applicable rules and regulations, are executed and present review conclusions to the Board of Directors.
- Ensure that the independent auditor provides the Audit Committee (for their review) with timely reports of; (1) all critical accounting policies and practices, (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, effects of using such alternatives and the treatment preferred by the independent auditing firm, (3) other material written communications between independent auditor and management, and (4) other matters required pursuant to applicable standards and/or requested by the Audit Committee.
- Review the independent auditor's reports on the adequacy of the Bank's internal controls, including computerized information system controls and security.
- Obtain and review annually a report from the independent auditor describing: (1) the auditing firm's internal quality control procedures, (2) any material issues raised by its most recent quality control review or investigation within the preceding five years and steps taken to resolve those issues, and (3) all relationships between the independent auditor and the Bank.

Approval of services provided by the Independent Auditors

The Audit Committee shall approve any audit services and any permissible non-audit services prior to the commencement of the services. In making its preapproval determination, the audit committee shall consider whether providing the non-audit services is compatible with maintaining the auditor's independence. The following services **may not** be provided by the independent auditor contemporaneously with the audit:

- Bookkeeping or other services related to the accounting records or financial statements of the Bank.
- Financial information systems design and implementation.
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports.

- Actuarial services.
- Internal audit outsourcing services.
- Management functions or human resources.
- Broker-dealer, investment service provider or investment banking services.
- Legal services.
- Expert services unrelated to the audit.
- Any other service that the SEC or Public Company Accounting Oversight Board determines is impermissible.

Internal Audit Function

The Committee shall oversee the internal audit function as it relates to the affairs of the Bank. The Audit Committee shall:

- Be solely and directly responsible for the appointment, replacement, reassignment, or dismissal of the Bank's Internal Auditor.
- Establish procedures to assess the effectiveness and performance of the Internal Auditor.
- Take steps that are, in the sole judgment of the Audit Committee, responsible or necessary to ensure that the Internal Auditor is competent and objective.

The Audit Committee shall consider and review with management and the Internal Auditor:

1. The Bank's risk assessment process.
2. The Bank's internal control structure and procedures for financial reporting and disclosure.
3. The results of internal audits, recommendations, reports of variance from the Bank's internal controls, and reports of the Internal Auditor.
4. Outstanding findings and management responses from audits and examinations performed by the independent auditor and federal and state regulators.
5. Any significant findings during the year and management's responses to them.
6. Significant difficulties encountered during the course of the audits, including any restrictions on the scope of work or access to required information.
7. Changes required in the planned scope of the audit plan.
8. Compliance with the Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.

Oversight of the Corporate Compliance Function

The Audit Committee shall:

- Discuss significant risk exposures periodically with management, the independent auditor, Compliance Officer, and Internal Auditor.
- Review the steps and programs that management, the Compliance Officer, and Internal Auditor have taken to identify, monitor, control, and report such exposures.
- Review management's recommendations to the Board for changes that respond to changes in law or policy.
- Consider any emerging issues with which the Audit Committee should become involved in the future.
- Discuss significant difficulties encountered during the course of compliance reviews, including any restrictions on the scope of work or access to required information.
- Changes required in the planned scope of the audit plan.

Audit Committee Formalities and Charter

The Audit Committee shall:

- Review and reassess annually the adequacy of this Audit Committee Charter and recommend any changes to the Board.
- Report periodically to the Board on the Audit Committee's activities and findings, including any issues regarding the quality or integrity of the Bank's financial statements, compliance with legal or regulatory requirements, the performance and independence of the Bank's independent auditor, and the performance of the Bank's compliance and internal audit functions.
- Take action to assess its own performance on an annual basis, such as retaining counsel, the independent auditor or other consultants for the purpose of reviewing its performance and report the results of the assessment to the Board of Directors.
- Keep appropriate meeting minutes.