

**THE COMMUNITY FINANCIAL CORPORATION**  
**AUDIT COMMITTEE CHARTER**

The Board of Directors of The Community Financial Corporation (the “Company”) has constituted and established an audit committee (the “Committee”) with authority, responsibility, and specific duties as described in this Audit Committee Charter.

Committee Mission: The primary responsibility of the Committee is to assist the Board of Directors in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to:

- (1) the quality and integrity of the Company’s consolidated financial statements,
- (2) the effectiveness of the Company’s internal control over financial reporting,
- (3) the Company’s compliance with legal and regulatory requirements,
- (4) the independent auditor’s qualifications and independence,
- (5) the performance of the Company’s internal audit function and independent auditor.

In fulfilling its purpose, the Committee is responsible for maintaining free and open communication between itself, independent auditors, the internal auditors, the Board of Directors and management of the Company, and for determining that all parties are aware of their responsibilities.

**A. COMPOSITION**

The Committee shall consist of at least three directors, each of whom shall be independent as defined by applicable NASDAQ Listing Standards and Rule 10A-3 of the Securities Exchange Act of 1934, as amended, and free from any relationship that, in the opinion of the Board of Directors, as evidenced by its annual selection of such Committee members, would interfere with the exercise of independent judgment as a Committee member.

Each member of the Committee shall be financially literate or become financially literate within a reasonable period of time, and at least one member shall be an “audit committee financial expert,” as defined by Securities and Exchange Commission (SEC) rules. The members of the Committee shall be elected by the Board annually or until their successors shall be duly elected and qualified. Unless a Chairperson is elected by the full Board, the members of the Committee may designate a Chairperson by a majority vote of the full Committee membership.

**B. DUTIES AND RESPONSIBILITIES**

Management of the Company is responsible for the preparation, presentation and integrity of the Company’s consolidated financial statements; for the appropriateness of the accounting principles and reporting policies that are used by the Company; and for establishing and maintaining internal control over financial reporting. The independent auditors retained by the Committee are responsible for auditing the Company’s consolidated financial statements and the effectiveness of internal control over financial reporting, and for reviewing the Company’s unaudited interim financial statements.

The Committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to overall changing conditions and circumstances. The Committee should take the appropriate actions to monitor the overall corporate tone for quality financial reporting, sound business risk management practices and ethical behavior.

The Committee shall perform the following duties and responsibilities. These matters are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

## **RISK MANAGEMENT AND CONTROLS**

1. In consultation with the senior management, discuss the Company's policies on enterprise-wide audit risk. Discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
2. Discuss with the internal auditors and the independent auditor their risk assessments and the related scope and plans for their respective audits, including the adequacy of staffing and budget or compensation.
3. The Audit Committee will coordinate its activities with the Enterprise Risk Management Committee to foster the continued development of a dynamic risk management environment appropriate for the institution.

## **FINANCIAL REPORTING AND DISCLOSURE MATTERS**

1. Review and discuss the Company's audited financial statements and related footnotes with the independent auditors and the "Management's Discussion and Analysis" portion of the annual report on Form 10-K with management and recommend to the Board whether the audited consolidated financial statements should be included in the Form 10-K prior to the filing of such report. Also, discuss the results of the annual audit and any matters required to be communicated to the Committee by the independent auditor under professional standards including:
  - a. any significant matter arising from the audit or report as disclosed to the Committee by management or the independent auditors,
  - b. the form of opinion the independent auditors propose to render with respect to the audited annual financial statements,
  - c. significant changes to the Company's accounting principles, policies, or procedures proposed by management or the independent auditors,
  - d. significant risks or exposures, if any, that have come to the attention of the independent auditors,
  - e. any difficulties encountered in conducting the audit, including any restrictions on the scope of activities or access to requested information and
  - f. any significant disagreement with management over the application of accounting principles, the basis for management's accounting estimates, and the disclosures in the financial statements.
2. Review and discuss the Company's unaudited financial statements and related footnotes and the "Management Discussion and Analysis" portion of the Company's Form 10-Q for each interim quarter, with management and the independent auditors prior to the filing of such report. Also, discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditor under the standards of the Public Company Accounting Oversight Board (PCAOB).
3. The Committee's review of the financial statements shall include:
  - a. major issues regarding accounting principles and financial statement presentations, including any significant changes in accounting principles and major issues as to the adequacy and effectiveness of the Company's internal control over financial reporting and any specific remedial actions adopted in light of significant deficiencies or material weaknesses;
  - b. discussions with management and the independent auditor regarding significant financial reporting issues and judgments made about the preparation of the financial statements and the reasonableness of those judgments, including analyses of the

- effects of alternative generally accepted accounting principles (GAAP) methods on the financial statements, the process used by management in formulating certain accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates;
- c. information regarding the auditor's judgment about quality, not just acceptability, of the Company's accounting principles;
  - d. methods used to account for significant unusual transactions;
  - e. consideration of the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements and
  - f. the completeness and clarity of the disclosures in the financial statements.
4. Review and discuss with the independent auditor, before the filing of the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K):
    - a. the critical accounting policies and practices of the Company;
    - b. material alternative treatments of financial information within US GAAP that have been discussed with management, including the ramifications of using such alternative treatments and disclosures, and the treatment preferred by that independent auditor; and
    - c. other material written communications between the independent auditor and management.
  5. Review and approve all related-party transactions required to be disclosed according to SEC Regulation S-K, Item 404, and discuss with management the business rationale for the transactions and whether appropriate disclosures have been made.
  6. Review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
  7. Discuss, with management and the internal auditors, management's process for assessing the effectiveness of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, including any material weaknesses or significant deficiencies identified.
  8. Review management's report on its assessment of the effectiveness of internal control over financial reporting as of the end of each fiscal year and the independent auditor's report on the effectiveness of internal control over financial reporting.
  9. Discuss with the independent auditor characterization of deficiencies, if any, in internal control over financial reporting. Discuss with management its remediation plan to address internal control deficiencies. Determine that the disclosures describing any identified material weaknesses and management's remediation plans are clear and complete.
  10. Discuss with management its process for performing required quarterly certifications under Section 302 of the Sarbanes-Oxley Act, including the evaluation of the effectiveness of disclosure controls by the Chief Executive Officer and Chief Financial Officer.
  11. Discuss with management, the internal auditors, and the independent auditor:
    - a. any changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting that are required to be disclosed, and
    - b. any other changes in internal control over financial reporting that were considered for disclosure in the Company's periodic filings.
  12. Meet and discuss with the Company's legal counsel, as appropriate, legal matters that may have a significant impact on the Company or its financial reports.

## INDEPENDENT AUDITOR OVERSIGHT AND RESPONSIBILITIES

1. Appoint, compensate, retain, and oversee the work of the independent auditors employed (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report with respect to the Company or preparing other audit, review, or attest services for the Company; such independent auditors shall be duly registered with the PCAOB; and such independent auditors shall report directly to the Committee.
2. At least annually, obtain and review a report by the independent auditor describing:
  - a. the firm's internal quality control procedures;
  - b. any material issues raised by the most recent internal quality control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
  - c. all relationships between the independent auditor and the Company to assess the auditors' independence.
3. Ensure that the independent auditors submit to the Committee written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 Independence Discussions with Audit Committees and discuss with the independent auditors their independence.
4. After reviewing the foregoing report and the independent auditor's work throughout the year, evaluate the auditors' qualifications, performance, and independence. This evaluation should include the review and evaluation of the lead audit partner and consider the opinions of management and the Company's personnel responsible for the internal audit function.
5. Determine that the independent auditor has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under the SEC independence rules.
6. Regularly review with the independent auditor any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditor's activities or access to requested information, and management's response. Review differences that were noted or proposed by the auditors but were passed (as immaterial or otherwise) and any management or internal control letter issued, or proposed to be issued, by the audit firm to the Company that is in addition to its audit report on the effectiveness of internal control over financial reporting.
7. Approve in advance all audit and non-audit services provided by the independent auditor, including specific preapproval of internal control-related services based on PCAOB Rule 3525, and receive certain disclosure, documentation and discussion of non-prohibited tax services by the independent auditor based on PCAOB Rule 3524 unless such prior approval may be waived because of permitted exceptions under the Act, including but not limited to the 5% *de minimis* exception. The Committee shall not engage the independent auditor to perform non-audit services proscribed by law or regulation.
8. To the extent required by applicable regulations, disclose in periodic reports filed by the Company with the SEC, approval by the Committee of allowable non-audit services to be performed for the Company by its independent auditors.

9. Delegate to one or more members of the Committee the authority to grant pre-approvals for auditing and allowable non-auditing services, which decision shall be presented to the full Committee at its next scheduled meeting for ratification.

#### **INTERNAL AUDIT OVERSIGHT AND RESPONSIBILITIES**

The Internal Audit function is established by the Audit Committee and comprises the Audit Coordinator and co-sourced internal audit partners, as more fully described in the Internal Audit Charter.

1. Review and approve the Internal Audit function's annual audit plan and all major changes to the plan.
2. Review and discuss with the internal auditors the scope, progress and results of executing the internal audit plan.
3. Receive reports on the status of significant findings and recommendations, and management's responses.
4. Review the Charter, reporting relationship, activities, staffing, organizational structure and credentials of the Internal Audit function.
5. Appoint, compensate, oversee, and evaluate the Audit Coordinator, who shall report directly to the Committee. For day-to-day administrative purposes, the Audit Coordinator will report to the CEO.
6. Appoint, compensate, oversee, and evaluate the work of co-sourced internal audit partners.
7. Review the annual performance of the internal audit function, including conformance with auditing standards and co-sourced resources as specified in the Internal Audit Charter.

#### **COMPLIANCE OVERSIGHT AND RESPONSIBILITIES**

1. At least annually, review the Company's compliance programs, including those governed by the Compliance Management Program Policy and the Unfair, Deceptive, or Abusive Acts or Practices Policy. Consider legal and regulatory requirements and review with management its periodic evaluation of the effectiveness of such programs.
2. At least annually, review the Company's compliance and ethics programs, including legal and regulatory requirements, and review with management its periodic evaluation of the effectiveness of such programs. review the Company's Code of Ethics Policy & Whistleblower Procedure and programs that management has established to monitor compliance with such code. Receive any corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty by the Company.
3. Review any significant correspondence and the findings of any examinations by regulatory agencies and any related auditor observations.
4. Establish procedures for the receipt, retention and treatment of complaints received by the Company about accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting, internal accounting controls or auditing matters.
5. Obtain updates from management and the Company's legal counsel regarding compliance matters, including any significant issues that potentially create regulatory attention.

#### **OTHER**

1. Determine the appropriate funding needed by the Committee for payment of compensation to the independent auditor engaged for preparing or issuing audit reports or performing other audit, review or attest services for the Company.
2. Retain outside counsel, accountants, experts and other advisors that it deems appropriate to assist the Committee in performing its functions. The Committee shall be provided with appropriate funding, as determined by the Committee, for payment of compensation to such outside counsel, accountants, experts and other advisors as well as any ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.
3. Discuss with the independent auditor their observations related to the effectiveness of the Committee.
4. Review and reassess the adequacy of this Charter annually and obtain approval of the Board of Directors. Confirm annually that the responsibilities outlined in the charter are carried out.
5. Have the authority to investigate allegations of managerial misconduct by its executives or any other matters brought to its attention with full access to all Company books, records and personnel, using special counsel or outside experts when necessary or appropriate.
6. Prepare a report for inclusion in the Company's annual meeting proxy statement, in accordance with applicable rules and regulations.

### **C. MEETINGS**

Meetings of the Committee will be held at least quarterly and such other times as shall be required by the Chairperson of the Board, the Chairperson of the Audit Committee, or by a majority of the members of the Committee. All meetings of the Committee shall be held pursuant to the Bylaws of the Company with regard to notice, quorum, voting and waiver thereof. Written minutes pertaining to each meeting shall be filed with the Company's Secretary and an oral report shall be presented by the Committee at each Board meeting following an Audit Committee meeting.

At the invitation of the Chairperson of the Committee, the meetings shall be attended by the Chief Executive Officer, President, other Chief officers of the management team, representatives of Internal Audit, the representatives of the independent auditors, and such other persons whose attendance is appropriate to the matters under consideration. The Committee shall meet separately and periodically with management, the personnel responsible for the internal audit function and the independent auditor.

Approved by Committee: February 20, 2020