



Community
Heritage
Financial, Inc.

COMMUNITY HERITAGE FINANCIAL, Inc. AUDIT COMMITTEE CHARTER AND AUDIT POLICY

June 2021



Middletown
Valley Bank.

Community Heritage Financial, Inc. Companies

MISSION

The Audit Committee (the "Committee") is appointed by the Board of Directors, on the recommendation of the Executive/Governance committee, to assist the Board in fulfilling its responsibilities to oversee activities related to accounting and financial reporting policies, internal controls, auditing practices, and legal and regulatory compliance. The Committee's primary duties and responsibilities are to:

- Monitor the quality and integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and regulatory compliance.
- Review the qualifications and independence of the Company's independent auditors and monitor the performance of the independent auditors and internal auditing function.
- Provide an avenue of communication among the independent auditors/outsourced firms, management, the audit function, and the Board of Directors.
- Review the findings of any examination by regulatory agencies such as the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, or the State Banking Commission.
- Monitor the quarterly report of Enterprise Risk Management (ERM) to ensure risk remains within the Board's risk appetite.

To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership.

COMMITTEE ORGANIZATION AND MEMBERSHIP

The Committee shall be comprised of three or more directors as determined by the Board, on the recommendation of the Executive/Governance committee. One of the members shall be designated "Chairperson" by the Board of Directors, on the recommendation of the Executive/Governance committee. The Committee shall select a "Vice Chairperson" from the remaining members in order to ensure the continuation of business in the absence of the "Chairperson". All members shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. The Committee has the authority to engage legal counsel or other experts or consultants as it deems appropriate to carry out its responsibilities.

In connection therewith, the Committee shall be provided appropriate funding as determined by the Committee, for payment to such counsel and other advisors. In addition, the Committee shall be provided funding for ordinary administrative expenses of the Company.

The Committee shall meet quarterly, or more frequently as circumstances dictate. Special meetings may be called by the Chairperson of the Committee or any other Committee member.

The Committee believes that the above mission statement sets forth its primary roles and responsibilities. In that connection, the following is meant to serve as a guide in achieving that mission.

ROLES AND RESPONSIBILITIES

FINANCIAL STATEMENTS

1. Review the Company's annual audited financial statements prior to filing or distribution, including a review of the independent auditor's opinion regarding such financial statements. The review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments. Discuss with independent auditors its judgment about the quality, not just acceptability, of the Company's accounting principles as applied in its financial reporting.
2. In consultation with management, independent auditors, and internal auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and steps taken by management to monitor, control, and report such exposures.
3. Review significant findings prepared by the independent auditors and the internal auditors together with management's responses. Gain an understanding of whether internal control recommendations made by internal and independent auditors have been implemented by management.
4. Review the adequacy of the Company's internal control over financial reporting and review the certifications by the CEO and the CFO regarding any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.
5. While the Committee's job is one of oversight as set forth in this Audit Charter, the Committee is not providing any expert or special assurance as to the Company's financial statements, internal controls, or any professional

certifications as to the independent auditors' work. It is not the duty of the Committee to prepare the Company's financial statements, to plan or conduct audits, or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. The Company's management is responsible for preparing the Company's financial statements and for maintaining internal control, and the independent auditors are responsible for auditing the financial statements. Nor is it the duty of the Committee to assure compliance with laws and regulations and the Company's Code of Ethics.

6. In performing their duties and responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by:

- One or more officers or employees of the Company whom the Committee member reasonably believes to be reliable and competent in the matters presented;
- Counsel, independent auditors, or other persons as to matters which the Committee member reasonably believes to be within the professional or expert competence of such person; or
- Another committee of the Board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.

INDEPENDENT AUDIT

1. The independent auditors are ultimately accountable and must report directly to the Committee and the Board of Directors. The Committee is responsible for the appointment, compensation, retention and oversight of the work of the independent auditors. In addition to assuring the regular rotation of the lead audit partner as required by law, the Committee shall also review and evaluate the lead audit partner and consider whether, in order to assure continuing auditor independence, there should be regular rotation of the firm. Based on this review and evaluation, the Committee shall annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.

2. Review the independent auditors' timetable, scope and approach of the annual audit of the financial statements.

3. Obtain from the independent auditors their annual communication to the Committee in satisfaction of SAS 61 regarding communication with the

Committee, and, if applicable, any commentary on internal contracts or other recommendations.

4. Review periodic reports regarding non-audit activities of the independent auditors and related fees.

5. The Committee should confirm the independence of the independent auditors by requiring them to disclose in writing all relationships that, in the independent auditors' professional judgment, may reasonably be thought to bear on the ability to perform the audit independently and objectively. The Committee shall confirm receipt of the written disclosures and the letter from the independent auditors required by AICPA standards regarding the independent auditors' communications with the Committee concerning independence.

INTERNAL AUDIT AND RISK ASSESSMENTS

1. Approve Annual Risk Assessments and Audit Plans developed by the internal auditors/outsourced firms/internal staff.

2. Meet periodically with the internal auditors to gain an understanding of the effectiveness of the internal audit function. These meetings will also serve in evaluating their performance.

3. Meet regularly with risk assessment firms to review the assessments and evaluate the firms' performance.

3. Review significant reports and assessments prepared by the internal auditors/outsourced firms/internal staff together with management's response. Monitor the appropriateness of management's response and follow-up to these reports.

4. The Committee may contract for internal audit services as necessary to assess the adequacy and effectiveness of internal controls, the accuracy of management reporting and compliance with laws, regulations and Company policy. The Committee will set forth the outsourcing vendor's responsibilities in a written contract the terms of which comply with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing.

COMPLIANCE WITH LAWS AND REGULATIONS

1. Periodically obtain updates from management and compliance auditors regarding compliance with laws and regulations.

2. Review the findings of any examination by regulatory agencies such as the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, or the State Banking Commission.
3. Be familiar with management's response to regulatory examinations.
4. The Committee shall review periodically, but no less frequently than quarterly, a summary of the Corporation's transactions with directors and executive officers of the Company and with firms that employ directors, as well as any other related person transactions, for the purpose of recommending to the disinterested members of the Board of Directors that the transactions are fair, reasonable and within Corporation policy and should be ratified and approved.
5. Review and validate, at least annually, the Allowance for Loan and Lease Losses (ALLL) methodology employed by the Bank.
6. Review and approve the charter of the internal Compliance Committee no less than annually. Provide leadership, direction and ongoing monitoring of the actions of the internal Compliance Committee which reports directly to the Board Audit Committee. Provide Board representation at quarterly internal Compliance Committee meetings.

ENTERPRISE RISK MANAGEMENT

1. Serve as the primary monitor of the Company's Enterprise Risk Management (ERM) program on behalf of the full Board of Directors. The Board Audit Committee will coordinate and give consideration and recommendations as to Key Risk Indicator (KRI) changes to the full Board.
2. Analyze current and potential ERM KRIs related to Compliance/Regulatory, Operational Risk, and Information Security Risk annually and recommend changes to the Board of Directors.

OTHER COMMITTEE RESPONSIBILITIES

1. Review and update the Audit Committee Charter annually and submit the charter to the Board of Directors for approval.
2. Perform other oversight functions as requested by the Board of Directors. Further, the Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

3. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
4. Meet periodically with the internal auditors, the independent accountants, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.
5. Report Committee actions to the Board of Directors with such recommendations, as the Committee may deem appropriate.
6. Establish procedures with regard to the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and provide for confidential, anonymous submission by employees of their concerns regarding such matters.
7. Review risk assessment and risk management in connection with the enterprise risk management process. While the Company's executive management team is responsible for assessing and managing the entity's exposure to risk, the audit committee will discuss guidelines and practices to govern the process by which this is accomplished and to discuss the entity's major financial risk exposures.
8. Serve as the independent selection committee for external loan review. While any external loan review would report findings to both the Directors Loan Committee and the Board Audit Committee, the issuance of the request for proposal and the selection of the firm shall be done by the Board Audit Committee as long as Directors Loan Committee is involved in loan approval.

AUDIT LIAISON

The Company's Chief Risk Officer, or person delegated similar responsibilities, reports directly to the Committee and serves as the Audit Liaison. Responsibilities of the Audit Liaison role include:

1. Coordinating logistics of internal audits and examinations
2. Coordinating audit and examination responses
3. Maintaining Master Audit Schedule
4. Coordinating maintenance of Audit Findings Log