



## **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

### **PURPOSE**

The Audit Committee (the “Committee”) of the Board of Directors of Sound Financial Bancorp, Inc. (the “Company”) is established to represent and provide assistance to the Board in fulfilling its oversight responsibility for the integrity of the Company’s financial statements; internal controls over financial reporting; compliance with legal and regulatory requirements; annual independent audit of the financial statements; and Internal Audit function. In addition, the Committee is responsible for: oversight of the registered public accounting firm’s qualifications, performance and independence; establishing procedures for the receipt, retention and treatment of complaints received relating to accounting, internal accounting controls or auditing matters (both internal and external) and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and any other areas specified by the Board.

The Company’s Internal Audit function is performed by in-house personnel (who are not auditing areas of operation in which they conduct the underlying activities) and outside consultants.

The Committee annually prepares a report to shareholders as required by the Securities and Exchange Commission for inclusion in the Company’s annual proxy statement.

In discharging its duties and responsibilities, the Committee is empowered to investigate any matter brought to its attention, with full access to all necessary books, records, facilities and personnel, and has the authority to retain, at the Company’s expense independent counsel or other advisors, consultants or experts as it deems appropriate.

### **COMMITTEE COMPOSITION AND MEETINGS**

The Committee composition complies with the NASDAQ Stock Market listing standards. The Committee is comprised of three or more directors (including a chairperson) as appointed annually by the Board who meet the independence requirements of the NASDAQ and Securities and Exchange Commission (SEC) for audit committee members, and are free from any relationships that would interfere with exercising their independent judgment.

Each Committee member must be able to read and understand financial statements, including the Company’s balance sheet, income statement, and cash flow statement. Additionally, at least one Committee member must possess employment experience in finance or accounting, a requisite professional certification in accounting, or other comparable experience or background which results in

the individual's financial sophistication, including experience being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. At least one Committee member must be designated by the Board as an "audit committee financial expert," as the Board interprets such qualification in its business judgment, consistent with SEC definition. The Board has the power at any time to change the Committee membership and to fill vacancies, subject to this Charter's qualification requirements.

The Committee meets at least quarterly. The Committee chairperson prepares and/or approves an agenda in advance of each meeting. If the chairperson is not available for a meeting, the other Committee members may appoint a temporary chairperson. The Committee may ask members of management or others to attend meetings and provide information. Periodically, the Committee meets separately, with management, the internal auditor and the registered public accounting firm, to discuss matters that the Committee or any of these persons believes should be discussed. The Committee may also meet separately with regulatory examiners.

#### **COMMITTEE DUTIES, RESPONSIBILITIES, AND PROCESS**

In fulfilling its responsibilities, it is recognized that Committee members are not employees of the Company. The Company's management is responsible for preparing the financial statements. The registered public accounting firm is responsible for auditing the annual financial statements and reviewing the quarterly financial statements prior to the filing annual and quarterly reports on Forms 10-K and 10-Q with the SEC.

It is not the duty or responsibility of the Committee or its members to conduct auditing or accounting reviews or procedures or to determine that the financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles ("GAAP") and applicable rules and regulations. Management is responsible for preparing and the registered public accounting firm is responsible for reviewing the financial statements and disclosures. The Committee is responsible for hiring the registered public accounting firm that reports directly to the Committee.

Each Committee member may rely on the integrity of management and outside organizations providing information to the Committee, absent actual knowledge to the contrary (which must be promptly reported to the Board).

The following are the principal Committee duties, responsibilities and processes in carrying out its oversight role:

#### **Review Procedures**

1. Reviews and discusses the form of presentation and type of information to be contained in earnings press releases. The Committee need not discuss in advance each earnings release or instance where earnings guidance is provided.
2. In conjunction with filing of quarterly and annual reports on Forms 10-Q and 10-K, reviews and discusses with management and the registered public accounting firm: (i) quarterly and annual

consolidated financial statements; (ii) matters that affect consolidated financial statements, including disclosures; (iii) results of the registered public accounting firm's reviews, the firm's report, and discussions regarding qualitative judgments about the appropriateness, not just the acceptability, of accounting principles, and the clarity of the financial statements; (iv) critical accounting policies and practices; (v) any other matters required to be communicated to the Committee in accordance with applicable standards; and (vi) other material written communications between the registered public accounting firm and management.

3. Prior to the filing of the Annual Report on Form 10-K, recommends to the Board whether the audited financial statements should be included in the Annual Report on Form 10-K.
4. Regularly reviews with the registered public accounting firm any problems or difficulties encountered in performing audit and/or review work and management's response, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management.
5. Reviews: (i) any major issues regarding accounting principles and financial statement presentations, including any significant changes in the selection or application of accounting principles, and adequacy of internal controls and special audit steps adopted in light of any material control deficiencies; (ii) analyses prepared by management and/or the registered public accounting firm on significant financial reporting issues and judgments made in preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and (iii) the effect of regulatory and accounting initiatives, and off-balance sheet structures, on the financial statements. The registered public accounting firm and the internal audit function, monitor the integrity and effectiveness of the financial reporting processes and systems of internal controls, including reviewing and discussing major financial risk exposures and the steps management has taken to monitor, control and report such exposures; and review significant findings, together with management's responses and follow-up to these reports.
6. Establishes procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Such procedures have been established by the Committee and are set forth in the Code of Business Conduct and Ethics.

#### **Registered Public Accounting Firm and Other External Services**

1. Appoints, compensates, retains and oversees of the work of the registered public accounting firm, including resolution of disagreements between management and the firm regarding financial reporting. The registered public accounting firm reports directly to the Committee. The Committee evaluates the qualifications, independence and performance of the registered public accounting firm annually. This evaluation includes a review and discussion of required annual independence communication delivered by the registered public accounting firm. Ensure the rotation of the lead (or coordinating) audit partner having primary audit responsibility and the audit partner responsible for reviewing the audit and the rotation of any other audit partner whose rotation is required by SEC regulations.

2. Pre-approves the engagement letters and the fees to be paid to the registered public accounting firm for all audit and permissible non-audit services and considers the possible effect that any non-audit services could have on the independence of the registered public accounting firm. The Committee may establish pre-approval policies and procedures, as permitted by applicable law and SEC regulations and consistent with this Charter, for the engagement of the registered public accounting firm to perform permissible non-audit services, including policies that would allow the delegation of pre-approval authority to one or more members of the Committee, provided that any pre-approvals delegated are reported to the Committee at its next scheduled meeting.
3. Reviews the audit plan of the registered public accounting firm. Discusses scope, staffing, timing, estimated and actual fees, reliance upon management and internal audit and general audit approach.
4. Sets Company hiring policies for employees or former employees of the registered public accounting firm.

#### **Internal Audit Function**

1. Oversees the internal audit function and approves internal audit policy on an annual basis. This includes review of the audit plan, activities, strategies, organizational structure and qualifications of the Internal Audit function. The in-house and outside elements of the Internal Audit function reports directly to the Committee. Evaluates whether the Internal Audit function operation and structure permits unrestricted access to records, personnel and physical properties to perform responsibilities and to top management, the Committee and the Board. Assesses the appropriate resources are allocated to the Internal Audit function. Evaluates the effectiveness of the Internal Audit function.
2. Reviews the appointment, performance and replacement of the senior in-house personnel and outside consultants who perform elements of the Internal Audit function. Decisions regarding hiring, and termination of these persons and entities require approval by the Committee. The chairperson of the Committee is also involved in performance evaluation and compensation decisions related to these persons and entities.
3. Reviews significant issues presented by the Internal Auditor together with management's response and follow-up to these reports.

#### **Other Committee Responsibilities**

1. Annually reviews and reassesses the adequacy of this Charter and recommends any proposed changes to the Board for approval. Ensures the publication of the Charter in accordance with SEC regulations.
2. Maintains minutes of meetings and reports regularly to the Board on the Committee's activities. Reviews with the Board any issues that arise with respect to the quality or integrity of the financial statements, compliance with legal or regulatory requirements, performance and independence of the registered public accounting firm, or performance of the Internal Audit function.

3. Conducts reviews of related party transactions, as required by the NASDAQ listing standards. For these purposes, the term “related party transactions” refers to transactions required to be disclosed by SEC Regulation S-K, Item 404.
4. Reviews with the corporate counsel: (i) significant legal matter that could have a material impact on the financial statements; (ii) legal compliance matters, including corporate securities trading policies and material notices or inquiries to or from governmental agencies; and (iii) reports of evidence of a material violation of securities laws or breaches of fiduciary duty.
5. Monitors remediation of regulatory issues and ensures the examination reports are responded to in a timely manner and corrective action taken is sufficient to remedy the exception, violation, or recommendation.
6. Reviews disclosures made to the Committee by the CEO and CFO during their certification process for the Forms 10-K and 10-Q regarding the financial statements and about any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and any fraud involving management or employees who have a significant role in the internal control over financial reporting.
7. Ensures required certifications are made to NASDAQ regarding independence of the Committee members.
8. Performs any other activities consistent with this Charter, the Company’s bylaws or governing law as the Committee or the Board deems necessary or appropriate.

#### **FUNDING**

The Company provides the Committee with appropriate funding, as determined by the Committee, ifor payment of: (i) compensation to the registered public accounting firm and any advisors engaged by the Committee; and (ii) ordinary administrative expenses that are necessary or appropriate in carrying out its duties.

#### **DOCUMENT APPROVAL HISTORY**

This Document’s Approval Date: September 25, 2018

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#### **DOCUMENT OWNERSHIP AND APPROVAL REQUIREMENTS**

Maintained by: Bank Internal Auditor

Reviewed by: Audit Committee

Approved by: Board of Directors

Review Cycle: Annually