

## **Audit and Compliance Committee Charter of Sound Federal Bancorp, Inc.**

### **Organization**

This Charter governs the operations of the Audit and Compliance Committee (the “Committee”) of Sound Federal Bancorp, Inc. (the “Company”) and its subsidiary, Sound Federal Savings and its subsidiaries. The Committee shall review and reassess the charter at least annually and obtain the approval of the Board of Directors as to any modifications thereof. The Committee shall consist of members of, and shall be appointed by, the Board of Directors and shall comprise at least three directors, each of whom is independent of management and the Company. Members of the Committee shall be considered independent so long as they do not accept any consulting, advisory, or other compensatory fee from the Company and are not an affiliated person of the Company or its subsidiaries, and meet all other independence requirements set forth in the applicable NASDAQ regulations and Securities Act Rule 10A-3. All Committee members shall be financially literate, and at least one member shall be an “Audit Committee financial expert,” as defined by SEC and applicable NASDAQ regulations.

### **Purpose**

The Committee shall provide assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to: the integrity of the Company’s financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Company’s internal audit function and external auditors; the external auditor’s qualifications and independence; and the Company’s compliance with ethics policies and legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, external auditors, the internal auditors, and management of the Company.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

### **Duties and Responsibilities**

The primary responsibility of the Committee is to oversee the Company’s financial reporting process on behalf of the Board of Directors and report the results of its activities to the Board of Directors. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine itself that the Company’s financial statements are complete and accurate and are fairly presented, in all material respects, in conformity with generally accepted accounting principles in the United States. Management is responsible for the

preparation, presentation, and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The external auditors are responsible for auditing the Company's financial statements and for performing timely reviews of the Company's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its duties and responsibilities should remain flexible and subject to periodic revision in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to ensure that Management sets the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior. The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

- The Committee shall be directly responsible for the appointment, termination, compensation, and oversight of the work of the external auditors, including resolution of disagreements between Management and the auditor regarding financial reporting.
- The Committee shall pre-approve all audit and non-audit services provided by the external auditors and shall not engage the external auditors to perform the specific non-audit services prohibited by law or regulation.
- The Committee may delegate pre-approval authority to one or more members of the Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee for ratification at its next scheduled meeting.
- At least annually, the Committee shall obtain and review a report or reports prepared by the external auditors describing:
  - The matters specified by Statement on Auditing Standards ("SAS") No. 61, "Communication with Audit Committees", as amended; and
  - The firm's communication concerning independence matters, as required by rules promulgated by the Independence Standards Board.

The communication under SAS No. 61 should include a discussion of the critical accounting policies and practices of the Company and alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

- The Committee shall discuss with the external auditors the results of inspections and quality control reviews of the external audit firm conducted by the Public Company Accounting Oversight Board.
- The Committee shall discuss with the internal auditors and the external auditors the overall scope and plans for their respective audits, including the adequacy of staffing and compensation.

- The Committee shall discuss with management, the internal auditors, and the external auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risks and legal and ethical compliance programs (e.g., the Company's Code of Conduct).
- Periodically, the Committee shall meet separately with Management, the internal auditors, and the external auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the internal auditors and the external auditors to meet privately with the members of the Committee.
- The Committee shall review Management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the external auditors' report on Management's assertion.
- The Committee shall review the interim financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the external auditors under generally accepted auditing standards. The Chair of the Committee may represent the entire Committee for the purposes of this review.
- The Committee shall review with Management and the external auditors the financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations to be included in 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), including their judgment about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.
- The Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
- The Committee shall receive a report from the Company's General Counsel of any evidence of any material violation of securities laws or breaches of fiduciary duty.
- The Committee shall also prepare its report to be included in the Company's annual proxy statement, as required by SEC regulations.

- The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.