

ORRSTOWN BANK

Orrstown Financial Services, Inc. Audit Committee Charter

Charter	
Applicable To:	Orrstown Financial Services, Inc., Orrstown Bank, and all affiliates and subsidiaries (collectively, "Orrstown")
Renewal/New Approval Date:	July 26, 2018
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Key Responsibilities	
Approval Authority:	Orrstown Financial Services, Inc. Board of Directors
Document Owner:	VP, Risk Management & Audit Officer
Document Manager:	VP, Risk Management & Audit Officer
Approval of Non-material Changes:	Audit Committee
Approval of Exceptions to Charter:	Audit Committee

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OVERVIEW

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Orrstown Financial Services, Inc. (the “Corporation”) to assist the Board in the oversight of:

- the independent auditor’s qualifications, independence and performance;
- the performance of the Corporation’s internal audit function;
- management’s responsibility to assure that an effective system of controls is in place which is reasonably designed to:
 - safeguard the assets and income of the Corporation;
 - assure the integrity of the Corporation’s financial statements; and
 - maintain compliance with the Corporation’s ethical standards, policies, plans and procedures, and with laws and regulations; and
- the Corporation’s system of internal controls.

MEMBERSHIP

The Committee shall be composed of not fewer than three members, appointed annually by the Board of Directors at its annual reorganization meeting. Each member shall: (i) be “independent” as defined in NASDAQ Stock Market Rule 5605(a)(2) and Section 10A (m) (3) of the Securities Exchange Act of 1934, as amended; (ii) not have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the past three (3) years; and (iii) be able to read and understand fundamental financial statements including the Corporation’s balance sheet, income statement and cash flow statement. At least one member of the Committee shall have past employment experience in finance or accounting, or other comparable experience or background, which results in the member’s financial sophistication as contemplated by NASDAQ Stock Market Rules.

At least one member of the Committee must qualify as a financial expert as required by Section 407 of the Sarbanes-Oxley Act of 2002.

The term financial expert means a person who has the following attributes: (i) an understanding of financial statements and Generally Accepted Accounting Principles (GAAP), (ii) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant’s financial statements and, (iv) an understanding of internal controls and procedures for financial reporting.

Compliance with the foregoing requirements shall be determined by the Board in its business judgment and in accordance with applicable rules, regulations, and standards in effect from time to time. Committee members shall not serve on the audit committees of more than two other public companies.

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DUTIES AND RESPONSIBILITIES

The Committee shall have the following duties and responsibilities:

A. Meetings and certain responsibilities.

1. The Committee shall meet as often as it determines, but not less frequently than quarterly.
2. The Committee has authority to retain outside legal counsel, or accounting or other advisors, when deemed necessary, without prior permission from the Corporation's Board of Directors or management, and shall be provided the necessary resources for such purposes.
3. The Committee shall review, at least annually, the Committee's charter and recommend any proposed changes to the Board for approval.
4. The Committee shall report to the Board not less frequently than quarterly on: issues that arise with respect to the quality or integrity of the Corporation's financial statements; the Corporation's compliance with legal or regulatory requirements; the performance and independence of the independent auditor; and the performance of the internal audit function.
5. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Corporation employees of concerns regarding questionable accounting or auditing matters, including but not limited to those reviewed under and pursuant to the Corporation's "Whistleblower Policy."
6. The Committee is granted the authority to investigate any activity of the Corporation, and all employees are directed to cooperate as requested by members of the Committee.
7. The Committee shall perform duties required by applicable law or regulation to be performed by the audit committee of any subsidiary of the Corporation that does not have its own audit committee.
8. The Committee shall prepare the Committee report required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.
9. The Committee shall perform an annual review and self-evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall report the results of the evaluation to the full Board.

B. Oversight of the Corporation's relationship to independent and internal auditors.

1. The independent auditor for the Corporation is accountable to the Board of Directors and Committee of the Corporation, and shall report directly to the Committee. The Committee shall have the sole authority and direct responsibility to appoint, retain, compensate (as more fully enumerated herein), oversee the work of, evaluate and, where appropriate, replace the independent auditor and shall inform the Board of Directors on these matters.
2. The independent auditor shall submit, at least annually, a report to the Committee regarding (a) the auditor's internal quality-control procedures and (b) any material issues raised by the most recent internal quality-control or peer review or by any inquiry or investigations by governmental

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or professional authorities within the preceding five years respecting one or more independent audits carried out by the auditor, and any steps taken to deal with such issues. The independent auditor shall also submit such a report to the Committee promptly after any review, inquiry, or investigation referred to in the preceding sentence.

3. The independent auditor shall also submit on a periodic basis, but at least annually, to the Committee the written disclosures required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Committee concerning independence and the Committee shall discuss with the independent auditor whether any disclosed relationships or services, or any other factors, may impact the objectivity and independence of the independent auditor.
4. The Committee shall approve all fees and terms of engagement of the independent auditor and shall pre-approve, or adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditor, subject to the de minimis exceptions for non-audit services defined in SEC Regulations and approved by the Committee prior to completion of the audit.
5. The Committee shall recommend to the Board policies for the Corporation's hiring of employees of the independent auditors who participated in any capacity in an audit of the Corporation, including in particular the prohibition on employment under Section 10A (1) of the Exchange Act as chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving in equivalent position for the Corporation, during the preceding one-year period.
6. The Committee shall review and concur in the appointment, replacement, reassignment, or dismissal of the Corporation's Internal Auditor. The Committee shall review and approve the Internal Auditor's proposed annual audit plan and financial budget and staffing. The Committee shall receive periodic communications from the Internal Auditor on the status of the annual audit plan, as well as a summary of significant changes made to such plan.
7. The Committee shall discuss with management and the independent auditor, and resolve, any disagreements regarding financial reporting. The Committee shall review with the independent auditor any audit problems or difficulties and management's response thereto.

C. Compliance and regulatory oversight responsibilities.

The Committee shall:

1. Receive from the Internal Auditor, on not less than a quarterly basis, and from management, as appropriate, communications and presentations on significant operating and control issues in internal audit reports, management letters, and regulatory authorities' examination reports, and on the initiation and status of significant special investigations; and initiate such other inquiries into the affairs of the Corporation as it deems necessary or appropriate.
2. Receive periodic presentations from management and the independent auditor on the identification and resolution status of material weaknesses and reportable conditions in the internal control environment, including any significant deficiencies in the design or operation of internal controls that could adversely affect the Corporation's ability to record, process, summarize and report financial data, and on any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls.
3. Review with management the Corporation's program for compliance with laws and regulations relating to safety and soundness, as designated by regulators of the Corporation and its subsidiaries and review the record of such compliance; and review significant legal cases

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outstanding against the Corporation or its subsidiaries and other regulatory or legal matters that may have a material impact on the Corporation's financial statements.

4. Review all "related party transactions" as such terminology is defined under Item 404 of SEC Regulation S-K.
5. Review the program established by management that monitors compliance with the Corporation's Code of Conduct and review the record of such compliance.
6. Review regulatory authorities' significant examination reports pertaining to the Corporation, its subsidiaries and associated companies.

D. Financial Statements and disclosure matters.

The Committee shall:

1. Review and discuss, at least annually, with management, the independent auditor, and the internal auditor, the scope of the audit.
2. Review and discuss, at least quarterly, with management, the independent auditor and the internal auditor, the annual audited financial statements, quarterly financial statements and significant current reports, including the independent auditor's attestation reports on the assertions made by the CEO and CFO regarding the effectiveness of internal controls and specific disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operation," and recommend to the Board whether the audited financial statements should be included in the Corporation's Annual Report on Form 10-K.
3. Review and discuss with management, the independent auditor and the internal auditor, and receive a timely report from the independent auditor with respect to, any significant accounting, income tax or financial reporting policies, issues or judgments made in connection with the preparation, or audit, of the Corporation's financial statements and other financial or information reports, including any major issues regarding or significant changes in the Corporation's selection or application of accounting principles, the development, selection and disclosure of critical accounting estimates or judgments (including reserves), an analysis of the effect of any alternative assumptions, estimates or GAAP methods on the financial statements, and the effect of regulatory examinations or any regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements, and obtain from the independent auditor a timely report relating to any material communications between the independent auditor and management, such as any "management" letter or schedule of unadjusted differences.
4. Review internal accounting control reports (management letters) submitted by the independent auditor which relate to the Corporation. Review summaries of significant issues in management letters addressed to subsidiaries of the Corporation.
5. Discuss with the independent auditor the matters required to be discussed by PCAOB Audit Standards including, without limitation, any difficulties encountered in the course of the audit work, any restriction on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.

E. Authority

1. The Committee is empowered to determine appropriate funding for payment of:
 - Compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation;

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- Compensation to any advisers or counsel retained by the Committee; and
- Ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out the duties of the Committees.