



CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF HOWARD BANK

I. Purpose

The purpose of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Howard Bank (the “Company”) is to assist the Board by monitoring:

- (1) the integrity of the financial statements of the Company;
- (2) the independent auditors’ qualifications and independence;
- (3) the performance of the Company’s and its subsidiaries’ (if such exist) internal audit function and independent auditors;
- (4) the Company’s system of internal controls;
- (5) the Company’s financial reporting and system of disclosure controls; and
- (6) the compliance by the Company with legal and regulatory requirements.

The Committee’s job is one of oversight as set forth in this charter. 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 (“GAAP”). The Company’s management is responsible for preparing the Company’s financial statements and for maintaining internal controls, and the independent auditors are responsible for auditing the financial statement. Nor is it the duty of the Committee to assure compliance of the Company’s policies and procedures with applicable laws and regulations. The Committee acknowledges that it is not subject to the rules of the Securities and Exchange Commission and the NASDAQ, but references herein to such rules refer to the adoption thereof by the Company as a best practice.

II. Membership

1. The Committee shall be comprised of three or more members of the Board.
2. Each member of the Committee shall be “independent” as defined by applicable law, SEC rules and regulations and the rules of the NASDAQ, each as they may be interpreted or amended from time to time

("Applicable Law, Rules and Regulations"), except as otherwise permitted by Applicable Law, Rules and Regulations.

3. Each member of the Committee shall have the ability to read and understand fundamental financial statements and shall have a working familiarity with basic finance and accounting principles.
4. The members of the Committee shall be appointed and its Chair shall be designated by the Board, after due consideration of the recommendation of the Corporate Governance, Nominating and Compensation Committee, and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by action of the Board.
5. The Chair will chair all regular sessions of the Committee and set the agendas for Committee meetings. In his absence the Chair may designate another member to serve in his place.

III. Meetings

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Chair or any member of the Committee may call meetings of the Committee provided that all members of the Committee have been notified and invited to attend such meeting. A majority shall constitute a quorum of the Committee. Written minutes shall be kept of all meetings. All meetings of the Committee may be held telephonically, and the Committee may act by unanimous written consent. Unless taken by unanimous written consent, all Committee acts shall require the approval of a majority of the quorum present at a meeting.

Subject to the powers of the Committee to exclude persons, all members of the Board who are not members of the Company's management may attend meetings of the Committee but may not vote. Additionally, the Committee may invite to its meetings any director, Company management and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities. The Committee may, at its discretion, meet in executive session with or without the presence of the independent auditors, internal auditors, or corporate officers.

The Committee members, or the Chair of the Committee on behalf of all the Committee members, should communicate with management and the independent auditors on a quarterly basis in connection with their review of the Company's financial statements.

IV. Responsibilities and Authority

The Committee shall have the following responsibilities and authority:

A. Financial Reports/Internal Controls

1. Review and discuss with the internal auditors (as used in this charter, “internal auditors” shall also mean the outside internal audit firm to which internal audit functions may be outsourced) and the independent auditors, their respective annual audit plans, reports and the results of their respective audits.
2. Review and discuss with management and the independent auditors the Company’s quarterly financial statements (if such are prepared).
3. Review and discuss with management and the independent auditors the Company’s annual audited financial statements.
4. Review and discuss with management and, where appropriate, the independent auditors, in a manner that facilitates timely compliance with applicable laws and regulations, the Company’s financial disclosures in its earnings—releases, real time disclosures, or other public financial disclosures before the same are filed, posted, disseminated or released to the public.
5. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company’s annual proxy statement.
6. Discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company’s financial statements, including any significant changes in the Company’s selection or application of accounting principles, the development, selection and disclosure of critical accounting estimates and principles and the use thereof, and analyses of the effect of alternative assumptions, estimates, principles or GAAP methods on the Company’s financial statements.
7. Discuss with management and the independent auditors the effect of regulatory and accounting initiatives and off-balance sheet transactions on the Company’s financial statements, conditions or results and any necessary disclosures related thereto.
8. Discuss with management the Company’s major financial risk exposures and the steps management has taken to monitor and control such

exposures, including the Company's risk assessment, risk management and insurance policies.

9. Discuss with the independent auditors and management any audited financial statements.
10. Ensure that the Company's independent auditors report to the Committee all of the Company's critical accounting policies and procedures and alternative accounting treatments of financial information in accordance with GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditors.
11. Ensure that the Company's independent auditors share with the Committee all material written communication between the auditors and management.
12. Discuss with the Company's independent auditors, internal auditors, and management their assessments of the adequacy of the Company's internal controls and disclosure controls and procedures.
13. Assess whether management is diligently resolving any internal control weaknesses.
14. Discuss with the Company's independent auditors, internal auditors and management, as appropriate, any weaknesses or deficiencies that any of the foregoing have identified relating to financial reporting, internal controls or other related matters and their proposals for rectifying such weaknesses or deficiencies.
15. Monitor the Company's progress in promptly addressing and correcting any and all identified weaknesses or deficiencies in financial reporting, internal controls or related matters.
16. Receive periodic reports from the independent auditors and appropriate officers of the Company on significant accounting or reporting developments proposed by the Financial Accounting Standards Board or industry regulators that may impact the Company.
17. Receive periodic reports from independent auditors and appropriate officers of the Company on significant financial reporting, internal controls or other related matters of the Company's subsidiaries.

B. Independent Auditors

1. Be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors (including resolution of disagreements between management and the auditors regarding financial reporting) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and the independent auditors must report directly to the Committee.
2. Review the experience, rotation and qualifications of the senior members of the independent auditors' team.
3. Monitor the independence, qualifications and performance of the independent auditors by, among other things:
 - a. Obtaining and reviewing a report from the independent auditors at least annually regarding (1) the independent auditors' internal quality control procedures, (2) any material issues raised by the most recent quality-control review, and peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the same, (3) any steps taken to deal with any such issues, and (4) all relationships between the independent auditors and the Company;
 - b. Evaluating the qualifications, performance and independence of the independent auditors, including considering whether the auditors' quality controls are adequate and whether the provision of any non-audit services is compatible with maintaining the auditors' independence, and taking into account the opinions of management and the internal auditors;
 - c. Establishing and overseeing restrictions on the actions of directors, officers, or employees of the Company in improperly influencing, coercing, manipulating or misleading the Company's independent auditors; and
 - d. If so determined by the Committee, taking additional action to satisfy itself of the qualifications, performance and independence of the auditors.
4. Meet with the independent auditors prior to each annual audit to discuss the planning and staffing of the audit.

5. Pre-approve all auditing services and permitted non-audit services to be performed for the Company by the independent auditors or any other auditing or accounting firm, except as provided in this paragraph. In no event shall the independent auditors perform any non-audit services for the Company which are prohibited by the rules of the SEC or the Public Company Accounting Oversight Board (or other similar body as may be established from time to time). The Committee shall establish general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and shall review such guidelines with the Board. Pre-approval may be granted by action of the full Committee or, in the absence of such Committee action, by the Committee Chair whose action shall be considered to be that of the entire Committee and such pre-approval shall be reported to the entire Board prior to the commencement of non-audit services.
6. Oversee the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit at least once every five years and considering whether, in order to assure continuing auditor independence, it is appropriate to rotate the auditing firm itself from time to time.
7. Monitor compliance with regulatory requirements applicable to the hiring of employees and former employees of the independent auditors.
8. Ensure that the independent auditors have access to all necessary Company personnel, records or other resources.

C. Internal Audit Function

1. Review and oversee the appointment, compensation, performance and replacement of the Company's senior internal audit executive or outside internal audit firm.
2. Review the internal audit plan and assess whether it is consistent with the Company's needs.
3. Review the significant reports to management prepared by the internal auditors and management's responses.
4. Review and discuss with the internal auditors the results of their work (including their audit report) as well as their control risk assessment.
5. Discuss with the independent auditors and approve the internal audit responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

6. Ensure that the internal auditors have access to all necessary Company personnel, records or other resources.

D. Compliance Oversight

1. Discuss with management and the internal auditors the Company's processes regarding compliance with applicable laws and regulations and with the Company's Code of Conduct, Corporate Governance Guidelines and Policy Regarding Securities Trading, obtain reports from management, internal auditors and the independent auditors regarding compliance by the Company with applicable legal requirements (including suspicious activity reports and regulatory exam reports) and the Company's Code of Conduct, Corporate Governance Guidelines and Policy Regarding Securities Trading and from time to time advise the Board of Directors with respect to the same.
2. Review procedures designed to identify related party transactions that are material to the financial statements or otherwise require disclosure.
3. Establish procedures and require the Company to obtain or provide the necessary resources and mechanisms for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
4. Discuss with management and the independent auditors any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies or compliance with the Company's Code of Conduct, Corporate Governance Guidelines and Policy Regarding Securities Trading.
5. Discuss with the Company's counsel legal matters that may have material impact on the financial statements and that may have an impact on the Company's compliance policies.

E. General

1. Review and assess the quality and clarity of the information provided to the Committee and make recommendations to management, the independent auditors and the internal auditors as the Committee deems appropriate from time to time for improving such materials.

2. Form and delegate authority to subcommittees or members when appropriate.
3. Engage and determine the compensation of independent counsel and other advisers, as the Committee deems necessary to carry out its duties.
4. Incur and approve for payment any and all administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
5. 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:
 - a. One or more officers or employees of the Company whom the Committee member reasonably believes to be reliable and competent in the matters presented;
 - b. Counsel, independent auditors, internal 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
 - c. Another committee of the Board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.
6. The Company must provide for appropriate funding, as determined by the Committee, for payment of the compensation to the independent auditors and to any independent counsel and other advisers engaged by the Committee and for payment of the administrative expenses of the Committee.

V. Reports

Minutes of each meeting shall be kept and distributed to each member of the Committee, members of the Board of Directors who are not members of the Committee and the Secretary of the Company. In addition, the Chair of the Committee will report to the Board of Directors at each Board meeting or whenever so requested by the Board. The Chair of the Committee shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

VI. Annual Performance Evaluation

The Committee shall perform a review and evaluation, at least annually, of its performance and the performance of its members, including the Committee's compliance with this Charter. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.