

First Defiance Financial Corp.

Audit Committee Charter

Audit Committee of the Board of Directors

Approved 01/21/2019

Committee Role

The role of the audit committee of the board of directors of First Defiance Financial Corp. (“The Company”) is to act on behalf of the board of directors and oversee all material aspects of the Company’s accounting and financial reporting processes and the audits of the financial statements of the Company. The audit committee’s role includes a particular focus on the qualitative aspects of financial reporting to shareholders and on company processes for the management of business/financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements.

The role also includes coordination with other board committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel, and other committee advisors.

Organization

The audit committee shall be comprised of three or more independent directors as determined by the Board. Members of the audit committee shall be considered independent if they meet the criteria for independence as defined by the NASDAQ Stock Market, Inc. (“Nasdaq”). All audit committee members shall have (1) knowledge of the financial services industry; (2) the ability to read and understand fundamental financial statements, including a balance sheet, income statement, statement of cash flows, and key performance indicators; and (3) the ability to understand key business and financial risks and related controls and control processes. The committee shall have access to its own counsel and other advisors at the committee’s sole discretion.

At least two members of the audit committee shall have banking or related financial management expertise, to include significant executive, professional, educational, or regulatory experience in financial, auditing, accounting, or banking matters. Preferably these members should have experience in finance or accounting, experience in supervising finance or accounting function or other comparable experience or background. Committee appointments shall be approved annually by the full board and the committee chairperson shall be selected and approved by the full board.

Statement of Policy

The audit committee shall provide assistance to the directors in fulfilling their responsibility to the shareholders, potential shareholders, and investment community relating to corporate accounting, reporting practices of the Company, and the quality and integrity of financial reports of the Company. In so doing, it is the responsibility of the audit committee to maintain free and open communication between the directors, the external auditors, the internal auditors, and the financial management of the Company.

Meetings

The committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the committee should meet at least semi-annually with management, the internal auditors, and the external auditors in separate executive sessions to discuss any matters the committee or each of these groups believe should be discussed separately. The committee may ask members of management or others to attend meetings and provide pertinent information as necessary.

Operating Principles

The committee shall fulfill its responsibilities within the context of the following overriding principles:

Communications – The chairperson or others on the committee shall, to the extent appropriate, have contact throughout the year with senior management, other committee chairpersons, and other key committee advisors, external and internal auditors, etc. to strengthen the committee’s knowledge of relevant current and prospective business issues.

Committee Education/Orientation – The committee, with management, shall develop and participate in a process for review of important financial and operating topics that present potential significant risk to the company. Additionally, individual committee members are encouraged to participate in relevant and appropriate self-study education to assure understanding of the business environment in which the company operates.

Annual Plan – The committee, with input from management and other key committee advisors shall develop an annual plan responsive to the “primary committee responsibilities” detailed herein.

Meeting Agenda – Committee meeting agendas shall be the responsibility of the committee chairperson, with input from committee members. It is expected that the chairperson would also ask management and key committee advisors to participate in this process.

Committee Expectations and Information Needs – The committee shall communicate committee expectations and nature, timing, and extent of committee information needs to management, internal audit and external audit and other external parties. Written materials, including key performance indicators and measures related to key business and financial risks, shall be received from management, auditors and others.

External Resources – The committee shall be authorized to access internal and external resources, as the committee requires, to carry out its responsibilities.

Reporting to the Board of Directors – The committee, through the committee chairperson, shall report to the full board following each meeting of the committee. In addition, minutes of the audit committee meetings shall be available to each board member upon request.

Relationship with External and Internal Auditors

The external auditors, in their capacity as independent public accountants, shall be responsible to the board of directors and the audit committee as representatives of shareholders. The audit committee has the sole authority to appoint, retain, determine funding for and oversees the Company's external auditors.

As the external auditors review financial reports, they will be reporting to the audit committee. They shall report all relevant issues to the committee responsive to agreed-on committee expectations. In executing its oversight role, the committee should review the work of external auditors.

The committee shall annually review the performance (effectiveness, objectivity, and independence) of the external and internal auditors. The committee shall ensure receipt of a formal written statement from the external auditors consistent with standards set by the Independence Standards Board. Additionally, the committee shall discuss with the auditor relationships or services that may affect auditor objectivity or independence. If the committee is not satisfied with the auditors' assurances of independence, it shall take or recommend to the full board appropriate action to assure the independence of the external auditor.

The internal audit function shall be responsible to the board of directors through the committee.

If either the internal or the external auditors identify significant issues relative to the overall board responsibility that have been communicated to management but, in their judgment, have not been adequately addressed, they should communicate these issues to the committee chairperson.

Changes in outsourced internal audit firms, or directors of internal audit should the committee decide to establish the function in-house, shall be subject to committee approval. Changes in the compliance officer shall also be subject to committee approval.

Responsibilities

In carrying out its responsibilities, the audit committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to ensure to the directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

In carrying out these responsibilities, the audit committee will:

- Obtain the full board of directors' approval of this Charter and review and reassess this Charter as conditions dictate (at least annually).
- Review and recommend to the directors the external auditors to be selected to audit the financial statements of the Company and its divisions and subsidiaries and evaluate the performance of the external auditors on an on-going basis.

- Approve all audit services and permitted non-audit services (as defined by the SEC) entered into with the external auditors prior to such services being performed. If it is necessary to engage the external auditors for permitted services prior to scheduled meetings of the committee, such services can be approved by the committee chairperson and reported after the fact to the committee. Such circumstances are expected to be infrequent.
- The committee approves the following de minimus exception to the pre-approval requirements for non-audit services. Such services:
 - must not aggregate to more than 5% of the total revenues paid by First Defiance to the external auditor in the fiscal year in which such services are provided,
 - were not recognized by First Defiance as non-audit services at the time of the engagement of the external auditor, and
 - are promptly brought to the attention of the audit committee via timely communication with the audit committee chairperson and approved prior to the completion of the audit by the audit committee
- Review internal auditor performance and changes in internal audit firms/leadership.
- Review and approve the internal audit policy.
- Review the independence and authority of internal audit's reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the external auditors. Review the qualifications of the Internal Auditor to specific areas within the audit plan.
- Meet with the external auditors and financial management of the Company to review the scope of the proposed audit and timely quarterly reviews for the current year and the procedures to be utilized, the adequacy of the external auditor's compensation, and at the conclusion thereof review such audit or review, including any comments or recommendations of the external auditors.
- Review with the external auditors, the Company's internal auditor, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit any recommendations for the improvement of such internal controls or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.
- Review reports received from regulators and review other legal and regulatory matters that may have a material effect on the financial statements or related company compliance policies.
- Inquire of management, the internal auditor, and the external auditors about significant risks or exposures and assess the steps management has taken to minimize such risks to the Company.

- Receive prior to each meeting, a summary of findings from completed internal audits and a progress report on the proposed internal audit plan, with explanations for any deviations from the original plan.
- Engage the external auditors to perform timely reviews of interim financial statements following procedures set forth in Statement of Auditing Standard (SAS) No. 71, or such other auditing standards that may in time modify, supplement or replace SAS 71. Such review should be completed prior to the Company filing its form 10-Q.
- Review with management and the external auditors any changes in important accounting principles and the application thereof in both interim and annual financial reports.
- Review the quarterly financial statements with financial management and the external auditors prior to the filing of the Form 10-Q (or prior to the press release of results, if possible) to determine that the external auditors do not take exception to the disclosure and content of the financial statements, and discuss any other matters required to be communicated to the committee by the auditors. The chair of the committee or his designee may represent the entire committee for purposes of this review.
- Review the financial statements contained in the annual report to shareholders with management and the external auditors to determine that the external auditors are satisfied with the disclosure and content of the financial statements to be presented to the shareholders. Also review with financial management and the external auditors their judgements about the quality, not just acceptability, of accounting principles and the clarity, consistency, and completeness of the Company's accounting information contained in the financial statements and related disclosures. Discuss items that may have a significant impact on the representational faithfulness, verifiability, neutrality, and consistency of the accounting information. Review with financial management and the external auditors the results of their timely analysis of significant financial reporting issues and practices, including changes in, or adoptions of, accounting principles and disclosure practices, and discuss any other matters required to be communicated to the committee by the auditors.
- The following communications are explicitly required to be made between the external auditors and the audit committee prior to the filing of any audit report with the SEC:
 - critical accounting policies and practices used
 - all alternative treatments within GAAP for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the accounting firm; and
 - other material written communications, including but not limited to, the management representation letter, reports on observations and recommendations on internal controls, the schedule of adjusted audit differences and a listing of adjustments and reclassifications not recorded, the engagement letter, and the independence letter.
- Disclose in the annual proxy statement in connection with the annual meeting of shareholders at which directors are to be elected a statement that audit committee members are independent.

- Disclose in the annual proxy statement in connection with the annual meeting of shareholders at which directors are to be elected a statement which states: (1) the audit committee has reviewed and discussed the audited financial statements with management, (2) the audit committee has discussed with the independent auditors the matters required to be discussed by SAS 61, as may be modified or supplemented and (3) the audit committee has received the written disclosures and the letter from the independent auditors required by ISB Standard No. 1, as may be modified or supplemented, and has discussed with the auditors the auditors' independence. The audit committee should then state whether, based on the reviews and discussions referred to above, it recommended to the Board of Directors that the financial statements be included in the Annual Report on Form 10-K for the last fiscal year for filing with the SEC. This disclosure is to appear over the printed names of each voting member of the audit committee.
- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
- Establish procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Investigate any matter brought to its attention within the scope of its duties.
- Review all significant conflicts of interest and related party transactions.
- Review with senior management any changes in key financial management.