

# Board of Directors' Audit Committee Charter

## I. PURPOSE

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling the Board's oversight responsibilities for: (1) the integrity of the Bank's financial reporting; (2) the maintenance of effective administrative, risk management, operating, and accounting internal control systems; (3) compliance with legal and regulatory requirements; (4) the qualifications, independence and performance of the external auditors; (5) the performance of the Bank's internal audit function; and (6) the Bank's compliance with internal policies and procedures.

## II. MEMBERSHIP

The Committee will be composed of at least five members of the Board, who must all meet the independence requirement in Section 917.7(c) of the regulations of the Federal Housing Finance Board. Committee members and the Committee chair will be designated by the Board, as follows:

- The Committee will include a balance of (i) representatives of community financial institutions and other Bank members; and (ii) elected and appointed Directors.
- The terms of the Committee members will be appropriately staggered to provide for continuity of service.
- At least one member of the Committee will have extensive accounting or related financial management experience.

## III. POWERS AND RESPONSIBILITIES

The Committee will:

1. In conjunction with the Board:
  - Review, assess the adequacy of, and amend the Committee charter (as needed) on an annual basis or more often, as appropriate
  - Readopt and reapprove the Committee charter at least every three years
2. Direct senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Bank.
3. Review the basis for the Bank's financial statements and the external auditor's opinion rendered with respect to the financial statements (including the nature and extent of any significant changes in accounting principles or the application in the financial statements) and ensure that policies are in place that are reasonably designed to achieve disclosure and transparency regarding the Bank's true financial performance and governance practices.
4. Review significant accounting and reporting issues and understand their impact on the financial statements.
5. Review analysis prepared by management and/or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternative generally accepted accounting principle methods.
6. Oversee the internal audit function by:
  - Selecting, evaluating and, where appropriate, replacing the Director of Audit, who may be removed only with the approval of the Committee
  - Assessing the performance and determining the compensation of the Director of Audit
  - Requiring that the Director of Audit report directly to the Committee on substantive matters and be ultimately accountable to the Committee and the Board
  - Reviewing and approving the internal audit department charter
  - Reviewing budget and staffing needs for the Bank's internal audit department and making appropriate budget and staff recommendations to the Board for approval
  - Reviewing and approving the internal audit plan and revisions, as needed
  - Reviewing the scope of audit services required, significant accounting policies, significant risks and exposures, audit activities and audit findings
  - Reviewing internal audit department compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing
  - Meeting in executive session with the Director of Audit on a regular basis to discuss any matters that the Committee or Director of Audit believes should be discussed in confidence
  - Reviewing and confirming the qualifications and independence of the Audit Department staff annually
7. Oversee the external audit function by:
  - Approving the external auditor's annual engagement letter, including compensation (if applicable)
  - Reviewing the performance of the external auditor
  - Making recommendations to the Board regarding the appointment, renewal or termination of the external auditor
  - Reviewing and confirming the qualifications and independence of the external auditor
  - Preapproving non-audit services performed by the external auditor in accordance with a preapproval policy and procedure established by the Committee
  - Requiring the rotation of the lead audit partner and concurring partner every five years and other "significant" partners every seven years
  - Meeting in executive session with the external auditor on a regular basis to discuss any matters that the Committee or external auditor believes should be discussed in confidence
8. Provide an independent, direct channel of communication between the Board and the internal and external auditors.
9. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

10. Ensure that senior management has established and is maintaining an adequate internal control system within the Bank by:
    - Reviewing the Bank's internal control system and the resolution of identified material weaknesses and reportable conditions in the internal control system, including the prevention or detection of management override or compromise of the internal control system
    - Reviewing the programs and policies of the Bank designed to ensure compliance with applicable laws, regulations and policies and monitoring the results of these compliance efforts
  11. Review the policies and procedures established by senior management to assess and monitor implementation of the Bank's strategic business plan and the operating goals and objectives contained in the plan.
  12. Review with senior management and the external auditor at the completion of the annual audit:
    - The Bank's annual financial statements, Management's Discussion and Analysis and related notes
    - The external auditor's audit of the financial statements and audit report
    - All critical accounting policies and practices
    - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the Bank's accounting firm
    - Other material written communications between the auditor and management of the Bank, such as any management letter, reports on observations and recommendations on internal controls, engagement letter, independence letter or schedule of unadjusted differences
    - Any significant changes required in the external auditor's audit plan
    - Any serious difficulties or disputes between the external auditor and management encountered during the course of the audit
  13. Review with senior management and the Director of Audit:
    - Significant audit findings and recommendations and management's responses
    - Management's implementation of significant audit recommendations
    - Difficulties encountered in the course of any internal audit, including restrictions on the scope of the auditors' work or access to required information
    - Legal and regulatory matters that may have a material effect on the financial statements of the Bank, compliance with the Bank's policies and programs, and reports received from regulators
  14. Assist the Board in reviewing senior management's risk assessments and addressing risk management and controls, as needed.
  15. Provide an "Audit Committee Report" to be included with each Bank Annual Report that states the following:
    - The Committee has reviewed and discussed the audited financial statements with management
    - The Committee has discussed with the external auditors the matters required to be discussed by SAS No. 61 and SAS No. 90, as modified or supplemented, on Audit Committee Communications
    - The Committee has received the written disclosures and the letter from the independent auditors required by ISB Standard No. 1, as modified or supplemented, and has discussed with the auditors the auditor's independence
    - Based on the review and discussions above, the Committee has recommended to the Board that the financial statements be included in the Bank Annual Report
  16. Review and discuss with the Chief Executive Officer, Chief Operating Officer and any other officer responsible for the evaluation of internal controls over financial reporting any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.
  17. Establish procedures for:
    - Receiving, retaining and treating complaints received by the Bank relating to accounting, internal accounting controls or audit matters; and
    - The anonymous, confidential submission by employees of the Bank of concerns regarding questionable accounting or auditing matters
- In carrying out its responsibilities, the Committee may rely on the assistance, advice and recommendations of Bank management and other advisors, as needed, and may refer specific matters to other committees of the Board. The Committee may, at its sole discretion and without consultation with management or the Board, obtain separate legal counsel or other outside professional services to enable it to fulfill the responsibilities and perform the functions set forth in this charter. The Board will approve appropriate funding, as determined by the Committee, for the compensation of independent advisors to the Committee and the compensation of the external auditor for issuing audit reports.
- The Committee will report its activities and recommendations to the Board through the Committee chair.

#### IV. MEETINGS

The Committee will meet at least four times per year, and more frequently as needed, as determined by the Board, the Committee chair, the Bank President, or the Director of Audit.