

## **AUDIT COMMITTEE CHARTER**

### **1.0 OBJECTIVE AND PURPOSE**

The purpose of the Audit Committee is to represent and assist the Board of Directors in discharging its oversight responsibilities relating to the Bank's: accounting, reporting, and financial practices, including the integrity of its financial statements; oversight of financial and other controls; compliance with legal and regulatory requirements; external auditor's qualifications and independence; performance of the internal audit function; and performance of the external auditor.

### **2.0 RESPONSIBILITIES AND SPECIFIC DUTIES**

2.1 The Audit Committee is responsible for, among other things:

- 2.1.1 Providing an independent, direct channel of communication between the Board of Directors and the Bank's internal auditors and external auditors, and facilitating communication, as needed, with the regulator.
- 2.1.2 Overseeing the external audit function by being directly responsible, in its capacity as a committee of the Board of Directors, for the appointment and compensation of the external auditor, approval of the external auditor's annual engagement letter, reviewing the performance of the external auditor, retention, or termination of the external auditor, and oversight of the work of the external auditor. At least annually considering the replacement of the external auditor if their current tenure exceeds ten years. The external auditor shall report directly to the Audit Committee.
- 2.1.3 Ensuring that after extended engagement periods (normally five years and exceptionally ten years) the Bank, in cooperation with the FHLBanks and Office of Finance causes a process to occur for evaluation of other providers of audit services in accordance with current best practices and regulatory guidance.

- 2.1.4 Obtaining and reviewing, at least annually, a report by the external auditor describing the external auditor's internal quality-control procedures, and any material issues raised by the most recent internal quality-control review, or peer review, 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 external auditor, and any steps taken to deal with any such issues.
- 2.1.5 Reviewing the basis for the Bank's financial statements and the external auditor's opinion rendered with respect to such financial statements (including the nature and extent of any significant changes in accounting principles or their application) and ensuring that policies are in place that are reasonably designed to achieve disclosure and transparency regarding the Bank's true financial performance and governance practices. Evaluation of significant accounting policies and treatments that have significant judgment, legal, reputation and safety and soundness risk or potentially do not follow GAAP or preferred practice.
- 2.1.6 On behalf of the Board cause to be submitted a summary description of the Housing GSE's consistency (Report on Consistency with the Accounting Guidance) to the regulators Chief Accountant no later than June 30th of each year. The audit committee should assure that the report on consistency includes a summary of the current plans, policies, procedures, and organizational structure the bank has developed.
- 2.1.7 No less frequently than every two years, the Audit Committee should assess the need for an independent consultant or accounting firm to conduct an evaluation of one or more accounting policy areas, and report its findings to the committee, board of directors, senior management, and the regulator. If the Audit Committee determines that the results of the assessment warrant a targeted evaluation, the Audit Committee should then consider the

appropriate form and scope of engagement (for example, agreed-upon procedures, review, etc.).

- 2.1.8 Approving in advance all audit and permissible non-audit services to be provided by the external auditor, and establishing policies and procedures for the pre-approval of audit and permissible non-audit services to be provided by the external auditor and other public accountants.
- 2.1.9 Considering, at least annually, the independence of the external auditor, including whether the external auditor's performance of permissible non-audit services is compatible with the auditor's independence, and obtaining and reviewing a report by the external auditor describing any relationships between the external auditor and the Bank and any other relationships that may adversely affect the independence of the external auditor.
- 2.1.10 Reviewing and discussing with the external auditor: (i) the scope of any external audit; (ii) the results of the annual external audit; (iii) any problems or difficulties the auditor encountered in the course of its audit work and management's response; and (iv) any reports of the external auditor with respect to interim periods.
- 2.1.11 Reviewing and discussing with management, internal audit and the external auditor: (i) the annual audited and quarterly financial statements and earnings releases of the Bank; (ii) the Bank's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," including accounting policies that may be regarded as critical; and (iii) major issues regarding the Bank's accounting principles and financial statement presentations, including: any significant changes in the Bank's selection or application of accounting principles and financial statement presentations, alternative treatments, including those suggested by the external auditor, and their implications.

- 2.1.12 Recommending to the Board of Directors, based on the review and discussion described in this charter, whether the financial statements should be included in the Bank's Annual Report on Form 10-K, if any.
- 2.1.13 Determining that no restrictions are imposed upon audit scope.
- 2.1.14 Ensuring that management has established and is maintaining an adequate internal control system within the Bank by: (i) receiving from the external auditor and management, and reviewing, reports regarding 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; (ii) reviewing the programs, policies and compliance systems of the Bank designed to ensure compliance with applicable laws, regulations, other legal and regulatory requirements and policies; and (iii) monitoring the results of these compliance efforts, as well as reviewing the Bank's codes of conduct and programs to monitor compliance with such codes.
- 2.1.15 Reviewing security for computer systems, facilities, and back-up systems.
- 2.1.16 Reviewing the findings of any examination by a regulatory agency.
- 2.1.17 Reviewing management's response to audit findings and reports and regulatory examinations.
- 2.1.18 Reviewing implementation by management of corrective actions.
- 2.1.19 Conducting or authorizing investigations into any matters within the Audit Committee's scope of responsibilities.

- 2.1.20 Reviewing and discussing the Bank's practices with respect to risk assessment and risk management.
- 2.1.21 Overseeing any investigation of conflicts of interest or unethical conduct.
- 2.1.22 Conducting and approving the selection, compensation, performance evaluation, and if necessary, replacement of the chief audit executive. Ensuring that the compensation of the chief audit executive and staff is appropriate, with a focus on performance of internal audit activities and not financial performance of the bank. The chief audit executive may be removed only with the approval of the Audit Committee.
- 2.1.23 Establish an independent Internal Audit function, providing oversight for the internal audit function by reviewing the scope of audit services required, adequacy of audit resources, significant accounting policies, significant risks and exposures, audit activities and audit findings, internal audit performance evaluation and reviewing and approving the Internal Audit Department's plan and any revisions.
- 2.1.24 At least annually, the Audit Committee should review, with appropriate professional assistance, the requirements of laws, rules, regulations and guidelines that are applicable to its activities and duties as well as those of the Internal Audit Department. Reviewing, assessing the adequacy of, amending if necessary, and approving the Charters of the Audit Committee, the Internal Audit Department at least annually. The committee will consider requirements of applicable laws regulations and guidelines in conducting its review.
- 2.1.25 Performing an Audit Committee self-evaluation at least annually.
- 2.1.26 Re-approving the Charter of the Audit Committee at least every three (3) years.

- 2.1.27 Directing management to maintain the reliability and integrity of accounting policies and financial reporting and disclosure practices of the Bank.
- 2.1.28 Reviewing the policies and procedures established by management to assess and monitor implementation of the Bank's strategic business plan and its operating goals and objectives.
- 2.1.29 Reviewing and discussing: (i) bank practices with respect to earnings press releases and financial information; and (ii) earnings guidance provided to analysts and ratings agencies.
- 2.1.30 Establishing procedures for handling complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.
- 2.1.31 Establishing policies for the hiring of employees and former employees of the external auditor.
- 2.1.32 Reporting periodically its findings to the Board of Directors.
- 2.1.33 Preparing a report of the Audit Committee to be included in the annual public financial filings.
- 2.1.34 Ensure management provides it with adequate information and reports to carry out its duties and functions.
- 2.1.35 Ensuring that the regulator is informed of significant events impacting the safety and soundness of the bank particularly with respect to financial reporting and audit governance. Specifically:
  - 2.1.35.1 Proposals to change the external auditor, selection plans for the external auditor, transition plans for changes in the external auditor.

- 2.1.35.2 Any accounting treatments or policies identified as having significant legal, reputation, or safety and soundness risk with a focus on accounting treatments or policies that do not employ GAAP or preferred methods.
  - 2.1.35.3 The Audit Committee should provide the Chief Accountant with the materials and procedures employed in any review of its activities and duties
  - 2.1.35.4 No less frequently than every two years, the Audit Committee should assess the need for an independent consultant or accounting firm to conduct an evaluation of one or more accounting policy areas, and report its findings to the board of directors, senior management, and the Chief Accountant. The Chief Accountant may review the conclusions from the assessment.
  - 2.1.35.5 If the Audit Committee determines that the results of its assessment warrant a targeted evaluation (of areas of accounting policy) ensuring the regulator is notified of the evaluation, its form and scope and work plan. The Chief Accountant should have access to the firm during the engagement.
- 2.1.36 Considering, at least annually, the independence of the public accountants engaged by the bank in the light of their potential to participate in a selection process as external auditor for the FHLBank system, including whether the accountants performance of permissible non-audit services is compatible with the potential auditor's independence, and obtaining and reviewing a report by the public accountants describing any relationships between the public accountants and the Bank and any other relationships that may adversely affect their ability to provide external audit services to the Bank.
- 2.2 The above responsibilities of the Audit Committee will be discharged through discussions with the internal and external auditors and Bank management and review of audit reports.

- 2.3 The responsibility of the Audit Committee is limited to matters upon which the Board of Directors has the authority to make a final determination.
- 2.4 The Audit Committee may retain independent outside counsel, accountants, experts and other advisors as it determines appropriate to assist it, upon determination that such action is necessary to properly discharge its responsibilities and duties, and shall receive appropriate funding, as determined by the Audit Committee, from the Bank for payment of compensation to any such advisors.
- 2.5 The Audit Committee's duties do not include planning or conducting audits or preparing the Bank's financial statements.
- 2.6 The chief audit executive shall report directly to the Audit Committee on substantive matters and is ultimately accountable to the Audit Committee and the Board of Directors. The chief audit executive and external auditors shall have unrestricted access to the Audit Committee without the need for any prior management knowledge or approval.
- 2.7 Monitoring compliance with the Bank's Anti-Fraud Program.

### **3.0 MEMBERS, OFFICERS AND TERMS**

- 3.1 **Chairman.** A Chairman and a Vice-Chairman of the Audit Committee shall be designated by the Board of Directors from time to time, but at least annually. In the event of the absence of the Chairman of the Audit Committee, the Vice-Chairman of the Audit Committee shall act as Chairman.
- 3.2 **Members and Terms.** The other members of the Audit Committee (i) shall be chosen from among the remaining Directors of the Board, (ii) shall include member and independent Directors, (iii) shall be balanced among community financial institutions and other members, and (iv) shall serve such terms as may, from time to time, be set by the Board of Directors. In determining membership of the Audit Committee, the Board of Directors will provide for continuity of service. All Audit Committee members, including the Chairman and Vice-Chairman, shall meet the criteria of independence set forth below in section 3.4. At least one member of the Audit Committee shall have extensive accounting or related financial management experience. To facilitate transition from year to year, the Chairman

of the Committee may designate members of the prior year's committee as full voting members at any meeting of the Committee.

- 3.3 **Staff.** The chief audit executive and his/her staff shall serve as staff to the Audit Committee, and shall conduct such studies and analyses and make such presentations as the Audit Committee needs to carry out its responsibilities.
- 3.4 **Independence.** Any Board Member shall be considered to be sufficiently independent to serve as a member of the Audit Committee if that Director does not have a disqualifying relationship with the Bank or its management that would interfere with the exercise of that Director's independent judgment. Such disqualifying relationships include, but are not limited to: being employed by the Bank in the current year or any of the past five years; accepting any compensation from the Bank other than compensation for service as a Board Director; serving or having served in any of the past five years as a consultant, advisor, promoter, underwriter, or legal counsel of or to the Bank; or being an immediate family member of an individual who is, or has been in any of the past five years, employed by the Bank as an executive officer.
- 3.5 **Financial Expert.** The Audit Committee shall at least annually evaluate its membership and determine if one or more members of the committee would qualify as a Financial Expert as currently defined by regulation and best practice. The Committee shall also evaluate if the individuals qualify as 'independent' within the terms of the current NYSE or similar rulings.

#### **4.0 MEETINGS**

- 4.1 **Meetings.** The Audit Committee shall establish its own procedures and shall meet in accordance with such procedures.
- 4.2 **Required Meetings.** The Audit Committee shall meet at least four times annually with the chief audit executive and the external auditors shall attend at least two of such meetings. The Audit Committee shall meet in executive session at its discretion with such participants as it may determine, as often as it desires. The Audit Committee shall meet separately in executive session, periodically, with management, the chief audit executive and the external auditor. The Audit Committee shall report regularly to the full Board of Directors with respect to its activities.

- 4.3 Telephone Meeting. An Audit Committee meeting may be conducted by telephone, video conference or through other approved electronic means.
- 4.4 Special Meeting. The chairman of the Audit Committee or the President & Chief Executive Officer of the Bank may call a special meeting of the Audit Committee upon not less than one day's notice to the members of the Audit Committee.
- 4.5 Quorum. At any meeting of the Audit Committee, a majority of the current members of the Audit Committee shall constitute a quorum and the affirmative vote of a majority of that quorum shall be necessary to pass any resolution.
- 4.6 Minutes. Minutes of all meetings of the Audit Committee will be submitted to the Board of Directors and be signed by the chairman of the Audit Committee. The minutes of the meetings shall contain a record of the persons present, significant matters discussed, and resolutions adopted. Minutes of meetings of the Audit Committee shall be preserved by the Bank in minute books in the custody of the Bank's Corporate Secretary. A copy of all minutes shall be forwarded to the regulator.

**References:**

Federal Housing Finance Agency Bank Act 12 CFR 1422a  
Federal Housing Finance Agency Regulation 12 CFR 1233.3  
Institute of Internal Auditors International Standards for the Professional Practice  
of Internal Auditing  
Public Company Accounting Oversight Board  
U.S. Securities and Exchange Commission Regulation S-K 407

Approved by the Board of  
Directors this 15<sup>th</sup> day of  
December, 2011

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Its Corporate Secretary