

Federal Home Loan Banks – Office of Finance

Charter for the Audit Committee

of the Board of Directors

1.0 OBJECTIVE

The objective of the Audit Committee (“Committee”) of the Board of Directors (“Board”) of the Office of Finance (“OF”) is to provide general oversight of:

- ❖ The integrity of the combined financial statements of the Federal Home Loan Banks (“FHLBanks”) and the financial statements for the Office of Finance Operating Fund (“OF Operating Fund”).
- ❖ The OF’s accounting and financial reporting processes as it relates to the combining process and OF Operating Fund.
- ❖ The OF’s internal control system.
- ❖ The financial statement audits of the FHLBanks’ combined financial report and OF Operating Fund.
- ❖ The appointment, qualifications, independence, performance and compensation of the OF’s external and internal auditors.
- ❖ The OF’s compliance with legal and regulatory requirements and the ethical standards adopted by the OF.

In accordance with guidance from the Federal Housing Finance Agency (“FHFA”), the Committee shall not be responsible for the underlying financial statements and other data of the FHLBanks contained in the combined financial reports, and is entitled to rely on those financial statements and other data as submitted by the individual FHLBanks. Furthermore, the combined financial reports and combined financial statements are the responsibility of the OF and its senior management.

2.0 RESPONSIBILITIES AND DUTIES

2.1 Management is primarily responsible for the preparation, presentation and integrity of the combined financial reports and the OF Operating Fund financial reports, the OF’s accounting policies and the OF’s internal controls and procedures designed to address operational and administrative risks and promote compliance with accounting standards, financial reporting and disclosure requirements, applicable laws and regulations and the OF’s ethical standards. The external auditor is responsible for performing an audit of the annual combined financial statements and OF Operating Fund financial statements, expressing an opinion as to the conformity of those financial statements with generally accepted accounting principles, and reviewing the quarterly combined, financial statements. The individual FHLBanks are responsible for their respective underlying financial statements, accounting policies and internal controls and procedures.

The Committee oversees but is not intended to duplicate or to certify the activities of management and the external auditor. The Committee is specifically responsible for:

Financial Statements:

- ❖ Oversee the audit function of the OF and the preparation and the accurate and meaningful combination of information submitted by the FHLBanks in the FHLBank System's combined financial reports.
- ❖ Ensure, for purposes of the combined financial reports, that the FHLBanks adopt consistent accounting policies and procedures to the extent necessary for information submitted by the FHLBanks to the OF to be combined to create accurate and meaningful combined financial reports.
- ❖ Consider whether to establish, in consultation with FHFA, common accounting policies and procedures for the information submitted by the FHLBanks to the OF for the combined financial reports where the Committee determines such information provided by the several FHLBanks is inconsistent and that consistent policies and procedures regarding that information are necessary to create accurate and meaningful combined financial reports.
- ❖ Direct OF senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the OF.
- ❖ Review the basis for the OF Operating Fund's financial statements and the external auditor's opinion rendered with respect to such financial statements.
- ❖ Discuss any matters required to be discussed by Statement of Auditing Standards ("SAS") 61 (as amended) and other concerns the external auditors have with respect to positions taken in the combined financial statements and the OF Operating Fund financial statements.
- ❖ Review and discuss any matters, including the responses of management with regard to these matters, that the external auditors are required under professional auditing standards to communicate to the Committee, such as:
 - Significant audit adjustments,
 - Disagreements with management, and
 - Any irregularities or illegal acts detected during the audits.
- ❖ Review and discuss with management and the external auditors and approve, prior to release to the public, the annual audited combined financial statements of the FHLBanks and quarterly combined financial statements of the FHLBanks.
- ❖ Obtain regular reports from the CFR Disclosure Committee regarding its activities related to system-wide reporting.
- ❖ Prepare a report for inclusion in the FHLBanks' annual combined financial report describing the discharge of its responsibilities relating to the FHLBanks' combined financial statements, to the extent required by law.
- ❖ Assure there are policies in place to notify the FHFA of any accounting treatments or policies identified as having significant legal, reputation, or safety and soundness risk with focus on accounting treatments or policies that do not employ GAAP or preferred methods.

Internal Controls & Compliance:

- ❖ Ensure that senior management has established and is maintaining an adequate internal control system within the OF by:
 - Reviewing the OF'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, and
 - Reviewing the programs and policies of the OF designed to ensure compliance with the applicable laws, regulations, and policies, including OF ethics policies, and monitoring the results of these compliance efforts.
- ❖ Review the policies and procedures established by senior management to assess and monitor implementation of the OF strategic business plan and the operating goals and objectives contained therein.
- ❖ Obtain reasonable assurance that significant findings and recommendations made by the Chief Audit Executive, external auditors, FHFA, and any other regulatory body relating to the FHLBanks' combined financial reports and OF's general operations, including the OF Operating Fund financial statements, are received and discussed on a timely basis, including evaluating management's response to the findings and reports.
- ❖ Establish procedures for: (a) the receipt, retention, and treatment of complaints received regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- ❖ Oversee compliance with the OF's Anti-Fraud Policy and Response Program, discuss such compliance with management as needed, and review and recommend approval of the OF's Anti-Fraud Policy and Response Program in accordance with the provisions of that policy.

External Auditors:

- ❖ Have exclusive authority to employ and contract for the services of an independent, external auditor for the FHLBanks' annual and quarterly combined financial statements and of an independent, external auditor for OF.
- ❖ Approve the external auditor's annual engagement letter, which shall require the external auditor to audit the annual OF Operating Fund financial statements and FHLBanks' combined financial statements and review the FHLBanks' combined financial statements prior to their inclusion in the FHLBanks' quarterly combined financial reports.
- ❖ Review and approve audit plans and budgets of the external auditor.
- ❖ Pre-approve all audit, audit-related and permitted non-audit services to be performed for the OF by the independent external auditor.
- ❖ Require annually a written statement from the external auditors disclosing relationships between the FHLBank System and the external auditors, consistent with Independence Standards Board Standard No. 1, and shall discuss with the external auditors their

independence in fact and in appearance, as well as consulting and other non-audit services provided by the external auditors, to determine any potential effect on independence.

- ❖ Review the performance of the external auditor.
- ❖ Assure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
- ❖ Provide that the external auditor shall have unrestricted access to the Committee without the need for any prior management knowledge or approval.

Internal Audit:

- ❖ Oversee internal audit activities, including: (1) review of the scope of the audit services required, significant risks and exposures, audit activities and significant audit findings; (2) selection, evaluation, compensation and, where appropriate, replacement of the Chief Audit Executive; and (3) review and approval of the internal auditor's work plan and budget. The Chief Audit Executive shall report directly to the Committee and administratively to executive management.
- ❖ Provide that the Chief Audit Executive shall have unrestricted access to the Committee without the need for any prior management knowledge or approval.

Other:

- ❖ Provide an independent, direct channel of communication between the Board and the internal and external auditors.
- ❖ Conduct or authorize investigations into any matters within the Committee's scope of responsibilities under applicable regulations or Board-approved policies, and carry out all other responsibilities assigned to the Committee under Board-approved policies.
- ❖ Report periodically its findings and activities to the Board.
- ❖ Perform a self-assessment annually relating to its effectiveness.

2.2 The above responsibilities of the Committee will be discharged through committee meetings, reports and discussions with OF management and reports of the Committee to the Board.

2.3 The Committee has the authority to retain staff and outside counsel, independent accountants, or other outside consultants at the expense of the OF.

3.0 MEMBERS, OFFICERS AND TERMS

3.1 Membership. The independent directors of the Board shall serve as the Committee as set forth in the By-Laws and applicable regulations.

3.2 Chair and Vice-Chair. The Committee shall elect its Chair and Vice-Chair from among its members. The Chair of the Board may also serve as Chair or Vice-Chair of the Committee, if the Committee members so decide. In the event of the absence of the Chair of the Committee, the Vice-Chair of the Committee shall act as the Chair.

3.3 Members and Terms. Members shall serve terms that shall be staggered as set forth in the By-Laws and applicable regulations.

3.4 Staff Access. The Committee shall have unrestricted access to management without the need for any prior management knowledge or approval.

3.5 Charter Review. The Committee and the Board shall review, and assess the adequacy of and, where appropriate, amend the charter annually. The Committee and the Board shall re-adopt and re-approve, respectively, the charter not less often than every three years. The charter and any revisions thereto shall be subject to the approval of the Board. The charter shall be subject to review and approval by the FHFA.

4.0 MEETINGS

4.1 Required Meetings. The Committee shall meet at least quarterly, with additional meetings as the Committee deems appropriate. The Committee shall meet at least twice annually with the Chief Audit Executive with regard to Internal Audit oversight responsibilities. The Committee shall meet at least annually in separate executive sessions with management, the Chief Audit Executive and the external auditors. As provided for in the By-laws, a Committee meeting may be conducted by conference telephone or other communications equipment.

4.2 Special Meeting. A special meeting of the Committee may be called by the Chair or Vice-Chair of the Committee or any of the persons authorized to call a meeting of the Committee under the By-laws (including the Chair of the Board). As provided for in the By-laws, notice shall be given in the manner as required under the By-laws for notice of meetings of the Board of Directors.

4.3 Quorum. At any meeting of the Committee, a majority of the sitting members of the Committee shall constitute a quorum, and the affirmative vote of a majority of that quorum shall be necessary to conduct the business of the Committee. For purposes of this quorum requirement, the term sitting member shall not include any independent director who is unable to participate in the meeting in person or through use of conference telephone or other communications equipment due to a medical reason.

4.4 Minutes. Minutes of all meetings of the Committee will be submitted to the Board and be signed by the Chair of the Committee. The minutes of the meeting shall contain a record of the persons present, significant matters discussed, and resolutions adopted. Minutes of the meeting shall be filed with the OF Corporate Secretary.

4.5 Executive Session. The Committee shall have the right to conduct a portion of its business in closed executive session when a majority of its members agree in good faith that such a closed session is appropriate, but shall not approve in closed executive session the publication of any financial information of the FHLBanks, including the annual audited combined financial reports of the FHLBanks or the quarterly combined financial reports of the FHLBanks.

Approved by the Board of Directors

(Committee adopted 10/29/15, Board approved 12/09/15, FHFA approved 02/19/16)

OF Corporate Secretary _____

Nancy Galie