CHARTER

AUDIT AND RISK MANAGEMENT COMMITTEE OF THE BOARD OF DIRECTORS

FEDERAL RESERVE BANK OF SAN FRANCISCO

PURPOSE

The primary purpose of the Audit and Risk Management Committee is to assist the Board of Directors in fulfilling its oversight responsibility to ensure that management achieves organizational objectives. The Audit and Risk Management Committee will accomplish this principally by promoting and evaluating the effectiveness and independence of the Bank's internal audit function in its role of assessing the adequacy and effectiveness of controls over the reliability and integrity of financial and operational reporting, efficiency and effectiveness of operations and programs, safeguarding of assets, and compliance with laws and regulations, policies, procedures, and contracts.[1]

MEMBERSHIP

The Audit and Risk Management Committee will consist of five members of the Board of Directors. Four members shall be appointed annually by the Chair of the Board of Directors, and the Chair, serving in an ex officio capacity, shall be the fifth voting member. The Audit and Risk Management Committee Chair and Vice Chair shall be appointed by the Chair of the Board of Directors. At least three members of the Audit and Risk Management Committee shall constitute a quorum.

Committee members shall be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of their independence from management and the Bank.[2] All members of the Audit and Risk Management Committee will have a working familiarity with general finance concepts and understand financial statements and one member should have banking, accounting, or other relevant financial proficiency.[3]

INDEPENDENCE OF THE GENERAL AUDITOR

The General Auditor reports to the Audit and Risk Management Committee of the San Francisco Board of Directors. This promotes Audit independence and comprehensive audit coverage within the Bank and ensures adequate resources and appropriate consideration and awareness of audit recommendations. Internal Audit is a staff function with no direct authority over the activities it reviews.

MEETINGS

The Audit and Risk Management Committee will meet periodically to discuss audit results, losses and irregular occurrences, and other matters of concern to the General Auditor and Audit and Risk Management Committee members. Additional meetings may be convened at the discretion of the Audit and Risk Management Committee Chair as circumstances warrant. An executive session with the General Auditor will be held at the conclusion of any meeting attended by other officers of the Bank.

The Committee will invite branch directors, members of management, or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared by the General Auditor, in consultation with the Audit and Risk Management Committee Chair, and provided in advance to Committee members along with appropriate briefing materials. Minutes will be prepared by the Internal Audit Division for all meetings and will be provided to the Audit and Risk Management Committee for their approval. Following each meeting, the Audit and Risk Management Committee Chair will report on the Committee's activities, discussions, and decisions to the Board of Directors of the Bank.

PRIMARY RESPONSIBILITIES

A. Obtain approval of the Audit and Risk Management Committee charter and any subsequent changes from the Board of Directors. Review and assess the adequacy of the Committee charter and confirm that all responsibilities outlined in the charter have been carried out, at least annually.

B. Review and approve the charter for the internal audit function and any subsequent changes.

C. Discuss with the General Auditor and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function, including the “essential conditions,” described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.

D. Ensure the General Auditor has unrestricted access to and communicates and interacts directly with the board, including in private meetings without senior management present.

E. Assess the effectiveness and independence of the internal audit function, including compliance with The Institute of Internal Auditors’ *International Professional Practices Framework,* including the *Global Internal Audit Standards.* Ensure a quality assurance and improvement program has been established, and review results of the program annually.

F. Obtain from the General Auditor an independent and objective assessment of the adequacy and effectiveness of controls over financial and operational reporting, effectiveness and

efficiency of operations and programs, safeguarding of assets, and compliance with laws and regulations, policies, procedures and contracts.

G. Inform the Board of Directors of any matter reported by the General Auditor or external auditors that warrants its attention and ensure that issues receive appropriate attention by Bank management.

H. Review and approve an annual risk-based Internal Audit program that provides for audits whose scope and frequency are reasonably expected to ensure appropriate audit attention. Periodically receive updates about the internal audit function including its performance relative to its plan.

I. Review and approve an annual Internal Audit budget that is sufficient to carry out an effective audit program, review performance against budget, and determine whether any significant variances from existing System and Bank guidelines are justified.

J. Collaborate with senior management to determine the qualifications and competencies the organization expects in a chief audit executive, as described in the Global Internal Audit Standards.

K. Recommend to the Board of Directors the appointment and termination (including separation payments) of the General Auditor and concur with any reassignment of the General Auditor to another position in the Bank. The Chair of the Board of Directors will consult with the Chair of the Board of Governors Committee on Federal Reserve Bank Affairs at least two weeks in advance of any action on the appointment, termination, or reassignment of the General Auditor.

L. Evaluate annually the performance of the General Auditor, following guidelines set forth by the Bank for evaluating the performance of other officers, and make recommendations to the Board of Directors on all classification and compensation actions, within guidelines issued by the Board of Governors and the Bank.

M. Review with the Bank’s General Counsel or designee any legal matters that could have a significant impact on the Bank’s financial statements. Review the litigation report prepared by the General Counsel at least annually.

N. Review management's assertion and the external auditor’s attestation as to the adequacy of controls over financial reporting and safeguarding of assets as they pertain to financial reporting.

O. Discuss with the external auditors the Bank's financial statements, significant deficiencies in the design or operation of internal controls over financial reporting, significant difficulties encountered in performing the audit, and other issues arising from the external audit.

P. Meet at least once a year with the external auditor, in executive session, without management or the General Auditor present, to discuss any matter that the Committee or external auditor believes should be discussed and to respond to the external auditor's inquiries regarding the Audit and Risk Management Committee's views about the risks of fraud and whether the Audit and Risk Management Committee has knowledge of any fraud or suspected fraud affecting the Bank. The Committee should also be prepared to discuss with the auditor how it exercises oversight of the assessment of and activities that mitigate the risks of fraud. [4]

Q. Perform other activities related to this charter as appropriate, such as authorizing investigations, and perform other related activities as may be requested by the Board of Directors.

R. Oversee a program providing for the confidential, anonymous submission by employees and external parties of complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters, and the receipt, retention, and treatment of such complaints and concerns.

S. Oversee the Bank's enterprise risk management approach and most significant risks and ensure that steps are taken to manage risks appropriately.

T. Secure, as needed and following consultation with the Chair of the Committee on Federal Reserve Bank Affairs, independent counsel and other advisors necessary to carry out the Committee's duties.

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[1] The internal audit function consults with legal counsel in all matters involving legal issues and does not render legal advice or substitute its legal judgment on legal matters for those of the General Counsel.

[2] Members of the Audit and Risk Management Committee are considered to be independent if they have no relationship to the Reserve Bank that might interfere with the exercise of their independence from management and the Bank. Examples of relationships include: i) a director being employed by that Reserve Bank within the past five years; ii) a director accepting compensation from that Reserve Bank other than compensation for Board services; iii) a director being a member of the immediate family of an individual who has been employed by that Reserve Bank as an officer within the past five years; and iv) a director being a partner in, or controlling shareholder or an executive officer of, any for-profit business organization to which that Reserve Bank made, or from which that Reserve Bank received, payments that have been significant to the Reserve Bank within the past five years. A director who is an officer or director of a depository institution or its holding company is not considered to have a relationship that interferes with his/her independence solely because the depository institution makes payments to the Reserve Bank for financial services or an extension of credit.

[3] Banking, accounting, or other relevant financial proficiency means significant employment experience in finance, accounting, auditing, or banking functions, professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication, including being or having been a Chief Executive Officer or other senior officer with financial oversight responsibilities.

[4] SAS 99, Consideration of Fraud in a Financial Statement Audit, requires the external auditors to obtain information to identify the risks of material misstatement due to fraud, including making specific inquiries of management, the general auditor, and the Audit and Risk Management Committee. Members of the Audit and Risk Management Committee should be prepared to answer the auditors' questions about the risks of fraud in the Bank and whether the Committee members have knowledge of fraud or suspected fraud affecting the Bank. Audit and Risk Management Committee members also should be prepared to discuss how the Audit and Risk Management Committee exercises oversight of the assessment of the risk of fraud, and activities that mitigate those risks.