

FIRST HARVEST FEDERAL CREDIT UNION SUPERVISORY COMMITTEE CHARTER

I. Purpose

The Supervisory Committee (“the Committee”) of First Harvest Federal Credit Union (“the Credit Union”) supports the Board of Directors in the fulfillment of its oversight responsibilities for the following:

- Integrity of financial reporting;
- Compliance with legal and regulatory requirements;
- Appointment and supervision of independent auditors;
- Evaluation of internal controls and operational risk management.

II. Organization

The Board of Directors appoints the Committee from members of the Credit Union. One member of the Committee may be a Director, as long as that individual is not the financial officer/treasurer of the Board of Directors. All Committee members must be members of the Credit Union at the time of getting nominated to the committee and remain members throughout their term. The number of members of the Committee may not be fewer than three or more than five.

Committee members, as a group, shall ensure they maintain the qualifications necessary to ensure the Committee’s particular fiduciary responsibilities can be effectively executed. In addition, a basic understanding of financial and accounting matters is required. The

Committee members choose from among their number a Chair, who must fulfill the definition of an independent director, and a Secretary. The Secretary of the Committee prepares, maintains and has custody of full and correct records of all actions taken by the Committee. The same person may hold the offices of Chair and Secretary.

There are term limits for the Committee members. Committee members are appointed for a three year term and may serve three consecutive terms of three years each. The committee member has to relinquish the position for a minimum of twelve months prior to being able to reapply for a position on the committee again. Non-voting advisory members will include the Chief Financial Officer, Head of Audit, Internal Controls, Quality Assurance and BSA Officer (If Applicable).

III. Structure and Meetings

The Committee shall convene a minimum of eight times per calendar year and may meet more frequently if needed. All Committee members need to attend a minimum of six scheduled meetings per calendar year. A minimum of 4 meetings need to be attended in person per calendar year while the rest can be attended via a teleconference or a video conference.

The Committee will periodically invite management, external auditors or others to provide pertinent information as necessary. All such invitees can attend the in person, telephone or video conferencing.

The Committee shall meet with the external auditor and management after the annual audit. The Committee's meeting with the auditor after the annual audit must include an executive session without management.

Meeting agendas and minutes will be prepared and distributed based on an agreed upon timeframe. Roberts Rules of Order will be the meeting protocol.

IV. Goals and Responsibilities

The Committee has the authority to conduct or authorize any review of matters within its scope of responsibilities and duties. The Committee's authority includes the power to:

- Appoint, compensate and oversee the work of an external firm hired by the Credit Union to conduct annual audits and to pre-approve all auditing and non-auditing services to be performed; this firm will report directly to the Committee;
- Maintain unrestricted access to Credit Union personnel and documentation;
- Initiate a member account verification process;
- Engage the Credit Union's audit/ quality control department to perform such functions as necessary to meet its responsibilities related to adequacy of internal controls, risk management and governance practices;
- Resolve disagreements between the management and the auditor regarding financial reporting;
- *Board Intervention:* It may become necessary for the Committee to take appropriate actions within its authority, as specified in the Credit Union bylaws, to address situations threatening the financial soundness and safety of the Credit Union up to and including the removal of Directors and calling for special member meetings to report violations.

Specific duties include:

(1) Financial Reporting

Review the integrity of the Credit Union's financial reporting processes and results, including:

- Critical management estimates, judgments and complex or unusual transactions underlying the financial statements;
- Any significant changes in accounting principles, practices, standards or policies;
- The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements;
- Review the results of the audit with management and the external auditor, including any difficulties encountered; this review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreement with the management;
- Discuss the annual audited financial statements with management and the external auditors;

(2) Compliance

Review the effectiveness of the system for monitoring compliance with laws and regulations, as well as the results of management's investigation and follow-up of any instances of non-compliance, including:

- Review the findings of any examination by regulatory agencies and any auditor observations;
- Meet if needed with the Credit Union's Outside Counsel to review any matters that may have a material impact on safety and soundness;
- Obtain regular updates from the management and the Compliance Officer or equivalent regarding compliance matters, including how compliance is being monitored and how any follow ups are being tracked and reported;
- Review the process for communicating and monitoring the Code of Conduct to employees of the Credit Union (e.g., ensure on an annual basis employees sign off on the Code of Conduct and that Human Resources monitors compliance);
- Review the effectiveness of the process by which employees may submit confidential and anonymous concerns for investigation and correction as required.

(3) Independent Audit

Oversee the independent audit including:

- Retain and review the performance of the external auditor;
- Review the external auditor's proposed audit scope and approach;
- Review the external auditor's performance, including any difficulties or disputes between management and the external auditor during the audit;
- Present written results of the external auditor to the Committee;
- Confirm the external audit firm does not provide consulting services to the Credit Union;
- Conduct annual meeting each year with external auditors to include executive session:

(4) Internal Audit (When in house)

Oversee internal audit functions including:

- Review the overall scope, personnel qualifications, budget resources, activities, effectiveness and organizational structure of the internal audit function;
- Review the yearly Audit Plan to ensure its relevance to the overall Credit Union business objectives;
- Participate in the selection of the Head of Audit, Internal Controls and Quality Assurance and ensure the head of the department direct access to the Committee; meet periodically with him/her in separate executive session to discuss privately any issues of concern.
- Conduct the annual performance review of the Head of Audit, Internal Controls and Quality Assurance - including compliance with International Internal Auditing Standards.

(5) Internal Controls and Operational Risk Management

Review the effectiveness of the Credit Union's internal controls and operational risk management including:

- Operational efficiencies;
- Control environment and governance, including information technology security;
- Financial Reporting, including the scope of internal and external auditors' reviews of internal control;
- Compliance with laws and regulations;
- Process for assessing material risks and the steps management has taken to manage such risks.

(6) Other Responsibilities and Duties

The Committee will perform other responsibilities and duties including:

- Keep fully informed of decisions made by the Board of Directors;
- Report its activities, findings and recommendations to the Board regularly;
- Prepare a report for inclusion in the annual report to members and presentation at the annual meeting;
- Commission and oversee special investigations pertaining to the financial safety and soundness of the credit union. As and when deemed necessary.
- The Chair of the Committee shall write an annual report to the membership describing the Committee's actions, how they discharged their responsibilities and if they approved any non-audit services. This annual report shall be presented to the membership at the annual meeting and posted on the public credit union website.
- The responsibilities set forth in this Charter should serve as a guide only, with the express understanding that the Committee may carry out additional responsibilities and duties, and adopt additional policies and procedures as may be necessary in light of any changing business, legislative, regulatory, legal or other condition.

V. Committee Resources

The Committee shall have the sole authority to retain or terminate consultants to assist the Committee in the fulfillment of its duties. The Committee shall have sole authority to determine the terms of engagement and the extent funding is necessary for payment to any counsel, advisor, consultant or other professional retained to advise the Committee. The Committee also shall have sole authority over ordinary administrative expenses that are necessary or appropriate in carrying out its duties.

VI. Disclosure of Charter

This Charter will be made available on the Credit Union's Web site.