

SAFE FEDERAL CREDIT UNION

SUPERVISORY COMMITTEE CHARTER

I. Purpose

The Supervisory Committee (“the Committee”) of SAFE Federal Credit Union (“the Credit Union”) supports the Board of Directors (“the Board”) 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;
- Performance of internal audit functions;
- Evaluation of internal controls and operational risk management;
- Other duties as requested by the Board.

II. Organization

The Board of Directors appoints the Committee from members of the Credit Union. The Board will name one Director as a non-voting representative of the Board to the Committee, as long as that individual is not the financial officer. To serve on the Committee, an individual may not be an employee of the Credit Union.

The Board determines the number of members of the Committee, which may not be fewer than three or more than five.

- **Committee Member Qualifications**

Committee members, as a group, shall ensure they maintain the competences necessary to ensure the Committee's particular fiduciary functions can be effectively executed.

All Committee members shall have substantially all the following competencies:

1. Ability to understand and analyze financial statements of the Credit Union;
2. An understanding of the application of generally accepted accounting principles with respect to such financial statements, especially with respect to estimates, accruals and reserves;
3. Experience in reviewing and assessing risk management processes and internal controls;
and
4. An understanding of supervisory committee functions.

- 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.
- Regular terms of members are for a period of one year until the appointment and qualification of successors.

III. Structure and Meetings

- The Committee should normally meet monthly and convene at least one meeting each quarter. The Committee will periodically invite management, external auditors or others to provide pertinent

information as necessary.

- Supervisory Committee members are expected to attend each meeting, in person, by telephone, or via telepresence (virtual). Committee members shall miss no more than 3 meetings in any 12 month period. Failure to meet the attendance requirements may result in vacating position. Removal of a Committee member for failure to meet this attendance requirement will be recommended to the full Board through the mutual decision of the Committee Chairperson in collaboration with the Board Chairperson.
- The Committee shall meet with the external auditor and management both before and after the annual audit. The Committee's meeting with the auditor after the annual audit must include a meeting without management or the Board.
- The Committee shall meet with the examiner at the conclusion of the examination without management or the Board.
- Meeting agendas and minutes will be prepared and distributed in advance based on an agreed upon timeframe.

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;
- Review the Credit Union's business objectives, strategies and plans;
- Initiate a member account verification process;
- Engage the Credit Union's audit 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 Internal Audit;
- *Board Intervention:* It may become necessary for the Committee to take appropriate actions within its authority, as specified in the SAFE Federal 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 annual 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;

- Review selected key indicators in interim financial reports filed with regulators (i.e., CALL reports) over a three year period for trends.

(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 Outside Counsel to review any matters that may have a material impact on safety, soundness and reputational issues;
- 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 External 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 Board;
- Ensure rotation on the lead partner and other audit partners every seven years;
- Consider whether there should be a rotation of the external audit firm;
- Confirm the external audit firm does not provide consulting or other services to the Credit Union that impair its independence;
- Conduct two meetings each year with external auditors;
- One pre audit, and;
- One post audit.

(4) Internal Audit

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 and removal of the Chief Audit Executive (or equivalent);
- Ensure Chief Audit Executive has direct access to the Supervisory Committee;
- Meet periodically with Chief Audit Executive in separate executive session to discuss privately any issues of concern;

- Conduct the annual performance review of the Chief Audit Executive and internal audit function-including compliance with the Standards for Professional Practice of Internal Auditing;
- Submit written results of internal audits to the Board as needed;
- Ensure follow-up is performed to determine that corrective action was taken on findings and recommendations for internal audits, external audits, and NCUA Examinations.

(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 Duties and Responsibilities

The Committee will perform other responsibilities and duties including:

- Keep fully informed of the financial condition of the Credit Union and the integrity of its financial reporting;
- Keep fully informed of decisions made by the Board;
- Report its activities, findings and recommendations to the Board regularly;
- Appoint, compensate, and oversee the work of any external firms hired by the Credit Union to conduct audits (IT, BSA, 401k) detailed in the yearly Audit Plan; these firms will report directly to the Committee. Requests for external audits outside of the yearly Audit Plan must be made to the Supervisory Committee who will appoint, compensate, and oversee the work of the external firm performing the requested audit;
- Prepare a report for presentation at the annual meeting and posting on the credit union website;
- Commission and oversee special investigations as deemed necessary;
- Ensure a self-assessment evaluation of Internal Audit's activities is completed annually.

The Chair of the Committee shall submit an annual report to the membership describing the Committee's actions, how they discharged their responsibilities and if they approved any critical non-audit services. All committee members shall sign and this annual report shall be 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 that 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 at www.safefed.org along with information on how to contact the Committee.

Approved: February 20, 2014

Amended: November 21, 2019