

Committee Membership

Committee members, chair and vice chair are assigned as provided for in the Board Charter. Capitalized terms used herein and not defined shall have the same meaning as used in the Board Charter. Only directors may serve as members of the Committee. Any three members (or alternates) shall constitute a quorum.

Composition

The Committee will consist of at least four members of the Board, including at least one outside director. The Board chair will appoint committee members. In addition:

- Members of the Committee must be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a committee member.
- No member of the Committee shall accept any consulting, advisory or other compensatory fee from Northwest FCS, other than in connection with serving on the Committee or as a member of the Board.
- All Committee members should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure or accounting procedures. Alternatively, they should obtain knowledge within a reasonable period of time after appointment to the committee.
- The director identified as the Board's "financial expert" shall serve on this Committee and act as chair.
- To the extent two or more directors qualify as a "financial expert," the Board may designate an alternate to serve in that capacity should the designated Financial Expert become unable or unwilling to serve in that capacity.

Coordination of Committee Activities

Committee agendas and activities may overlap or impact those of other committees. Each committee will use communications, minutes and board reporting to coordinate all committee activities and ensure effective operations.

Authority

The authorities of the Committee include those identified in this charter or in other board action.

- The authorities of the Committee are generally as follows:
 - Appoint, compensate and oversee all audit and non-audit services performed by auditors, including the work of any registered public accounting firm retained by Northwest FCS.
 - Resolve any disagreements between management and the external auditor regarding financial reporting and other matters.
 - Pre-approve all auditing and permitted non-audit services performed by the external auditor.

- Retain independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation.
- Meet with the employees, officers, external auditors and/or outside counsel as necessary and have unrestricted access to information, records and files as appropriate to accomplish its duties.
- Unanimous direction by the Committee, within the scope of its delegated authorities from the full Board, shall carry the same force and effect as though a full quorum of the Board was duly convened, present and acting.
- Northwest FCS shall provide for appropriate funding, as determined by the Committee, for payment of compensation to advisors employed by the Committee to fulfill its responsibilities. These professionals shall report directly to the Committee.
- A two-thirds majority vote of the Board is required to deny request for resources.

Purpose – Key Objectives

1. Assist the Board in fulfilling its oversight responsibilities for:
 - Internal controls;
 - The integrity of Northwest FCS' financial statements;
 - The performance of the external auditors, including their qualifications and independence;
 - The performance of Northwest FCS' internal audit function; and
 - Northwest FCS' process for monitoring compliance with laws, regulations and the code of ethics.
2. Promote Northwest FCS' awareness of, and commitment to, establishing a strong internal control and Enterprise Risk Management (ERM) environment.
3. Monitoring the adequacy of Northwest FCS' internal controls which are designed and implemented by management.
4. Provide independent and objective review of the reliability and integrity of financial information presented to stockholders, regulators and the general public.
5. Maintain, by scheduling regular meetings, open lines of communication among the Board, Chief Auditor and external auditors to promote an exchange of views and information, as well as confirm their respective authorities and responsibilities.
6. Enhance the independence of the internal audit function and monitor the independence and performance of the external auditors.

Responsibilities

The Committee chair will collaborate with Northwest FCS management and the Chief Auditor to establish a work plan for undertaking the responsibilities of the Committee.

The Committee, to the extent it deems necessary or appropriate will:

Financial Statements and Disclosure Issues

- Review significant accounting and reporting issues and understand their impact on the financial statements.
- Review and understand periodic accounting and financial reports and level of involvement of the external auditor.
- Review and discuss with the external auditors and management Northwest FCS' audited financial statements that are to be included in the Northwest FCS' Annual Report and the external auditors' opinion with respect to such financial statements. This will include:
 - Significant financial reporting issues and judgments made in connection with the preparation of Northwest FCS' financial statements;
 - Reviewing the nature and extent of any significant changes in accounting principles or applications of such accounting principles;
 - Inquiring of the external auditors regarding their judgments with respect to the quality of Northwest FCS' accounting principles (not just acceptability), including the clarity of financial disclosures;
 - Discussing the effect of regulatory and accounting initiatives as well as off-balance sheet structures on Northwest FCS' financial statements;
 - Reviewing any major issues as to the adequacy of Northwest FCS' internal controls over financial reporting, and any special steps adopted in light of material control deficiencies;
 - Inquiring into any accounting adjustments that were noted or proposed by the external auditors but were "passed" as immaterial or otherwise;
 - Discussing Northwest FCS' disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
 - Reviewing the results of the audit, including any difficulties encountered and significant changes from the planned audit procedures. This review will include any restrictions on the scope of the external auditors' activities and/or access to requested information, as well as any significant disagreements with management.
- If one is being issued, review and approve financially related press releases prior to issuance.
- Approve the annual financial statements and recommend to the Board that the financial statements be included in the Annual Report prior to their release. The Board must also approve the annual financial statements.
- Review and approve the quarterly financial statements, including the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" prior to their release.
- Review disclosures made to the Committee by Northwest FCS' Chief Executive Officer (CEO) and Chief Financial Officer (CFO) during their certification process about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in Northwest FCS' internal controls.

- Record in the minutes the Committee's agreement or disagreement with financial policies, procedures or reports that it has reviewed.

Internal Control

- Meet regularly with the Chief Auditor to review his/her assessment of the adequacy and effectiveness of Northwest FCS' system of internal controls, compliance with laws, regulations, the code of ethics, policies and rules regarding conflict of interest and the quality of credit.
- Review the significant reports to management prepared by Northwest FCS' Internal Audit Department (Audit Department) and management's responses. Review proposed actions taken by management to address weaknesses identified and report significant concerns to the Board.
- Establish and review procedures for:
 - The receipt, retention and treatment of complaints received by Northwest FCS regarding accounting, internal accounting controls or auditing matters; and
 - The confidential, anonymous submission by employees of Northwest FCS of concerns regarding questionable accounting or auditing matters.
- Review the quarterly Allowance for Credit Losses Report.
- Participate as needed or appropriate in the Executive Committee meeting held with the FCA to discuss the exam of Northwest FCS.
- Consider the effectiveness of Northwest FCS' operational (including information technology and security), financial reporting, and regulatory compliance internal control systems as designed and implemented by management.

Internal Audit

- Review with management and the Chief Auditor the charter, budget, plans, activities, staffing and organizational structure of the internal audit function annually.
- Approve the internal audit charter.
- Approve the internal risk-based audit plan and all major changes to the plan. Review the Audit Department's performance relative to plan.
- Consult with the CEO on the annual performance appraisal and the annual compensation and salary adjustment of the Chief Auditor.
- Review and concur in the appointment, replacement or dismissal of the Chief Auditor.
- Ensure there are no unjustified restrictions or limitations for the internal audit function.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.
- On a regular basis, meet separately with the Chief Auditor to discuss any matters that the Committee or the Audit Department believes should be discussed privately.

External Audit

Concur with the selection of the external auditors by the System Audit Committee and notify the Board of the selection and, where appropriate, the replacement of the external auditors.

- To the extent practical, determine the appointment, compensation and retention of external auditors issuing audit reports of the institution.
- Evaluate the qualifications, performance and independence of the external auditors. In performing this review, at least annually obtain and review a report by the external auditors describing:
 - The firm's or firm's internal quality-control procedures;
 - Any material issues raised by the most recent internal quality control review or peer review of the firm, 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 firm, and any steps taken to deal with any such issues;
 - All relationships, including permitted non-audit services, between the external auditors and Northwest FCS to assess the auditors' independence. In addition, the Committee will take into account the opinions of management and the Chief Auditor.
- Ensure the rotation of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required.
- Unanimously approve Northwest FCS' hiring of employees or former employees of the external auditors who participated in any capacity in the audit of Northwest FCS in the prior 12 months.
- Meet with the external auditors prior to the audit to discuss the planning, scope, staffing and procedures to be used on the annual audit, as recommended by the external auditors.
- Provide pre-approval of the annual audit and of all other permitted non-audit services performed by the external auditors as negotiated by management. Approval of any non-audit services must be obtained from the Committee in advance of engaging the external auditors to render such services. The Committee will not approve the engagement of the external auditors to render non-audit services prohibited by law or rules and regulations promulgated by appropriate rule-making bodies.
- Review the external auditor's work.
- At least annually, meet separately with the external auditors to discuss any matters that the Committee or external auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies and any auditor observations.

- Review the process for communicating the code of ethics to Northwest FCS personnel and for monitoring compliance therewith.
- Review and assess policies, procedures and practices regarding Northwest FCS' code of ethics and monitor its compliance with the laws, regulations, policies and standards of ethical conduct.
- Obtain regular updates from management and Northwest FCS' legal counsel regarding compliance matters.

Reporting Responsibilities

- Annually, prepare an Audit Committee Report, to be included in the Annual Report to stockholders. The Audit Committee Report will disclose whether the Committee has reviewed and discussed the audited financial statements with management. The Audit Committee Report will also state whether or not it reviewed with external auditors the matters required to be discussed by Statement on Auditing Standards No. 114, as amended (Communication with Audit Committees) and whether external auditors and the Chief Auditor directly provided reports on significant matters to the Committee. The name of each Audit Committee member will appear at the bottom of the Audit Committee Report.
- Regularly report to the Board about Committee activities and issues that arise with respect to the quality or integrity of Northwest FCS' financial statements, compliance with legal or regulatory requirements, performance and independence of Northwest FCS' external auditors and the performance of the Audit Department.
- Provide an open avenue of communication between the Audit Department, the external auditors and the Board.

Other Responsibilities

- Discuss with management Northwest FCS' risk assessment and risk management, including Enterprise Risk Management (ERM).
- Perform other activities related to this charter as requested by the Board.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the Committee charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the Committee's performance at least annually.
- Respond to any material concerns identified by Northwest FCS' funding bank and/or System Audit Committee and conduct any Committee activities that are necessary for the funding bank and/or System Audit Committee to fulfill its chartered responsibilities.

Reporting and Records Retention

- The Committee shall maintain minutes of its proceedings and provide such minutes and reports of Committee meetings to the full Board. The minutes shall identify items

recommended for approval of the full Board. To the extent possible, the minutes should be provided no later than the next regular board meeting.

- The agenda and minutes (including attendance) shall be maintained for no less than three years. The Committee chair will establish agendas for Committee meetings in consultation with its members, Northwest FCS management and the Chief Auditor.
- Actions approved under delegated authority shall be reported to the Board no later than the next regularly scheduled board meeting.

Meetings

The Committee will meet at least four times a year with authority to convene additional meetings, as circumstances require. The Committee may request members of management, auditors or others (both internal and external) to attend meetings and provide pertinent information as necessary and will meet in executive session periodically.

Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. The Committee will schedule and hold, if necessary, a private session with the CEO, the CFO and the Chief Auditor and any other necessary and appropriate parties as required to satisfy its duties under this charter and the Board Charter.