

I. PURPOSE/MISSION STATEMENT

The Audit and Review Committee is a standing committee of the Board of Directors. The primary function of the Audit and Review Committee is to assist the Board of Directors in fulfilling its internal control oversight responsibilities relating to accounting, auditing, credit review, financial reporting and risk management issues. Consistent with this function, the Audit and Review Committee will encourage continuous improvement of and compliance with Association policies, procedures and practices as well as legal and regulatory requirements.

The Audit and Review Committee has the powers set forth in this Charter and the board of directors' Internal Control System policy/Risk Management policy. Association management has primary responsibility for complete and accurate preparation of the Association's financial statements with the independent accountant (PricewaterhouseCoopers) responsible for evaluating the financial statement preparation in accordance with generally accepted accounting principles.

Additionally, the Audit and Review Committee's objectives include:

- Oversight and evaluation of the quality of the audit/review and risk management effort of the Association's internal audit function and risk management function, including outsourcing as appropriate, and those of its independent accountants/auditors;
- Maintaining open lines of communication among the board of directors, association financial and senior management, its internal audit function, its independent accountants/auditors, regulatory agency representatives and the Farm Credit System Audit Committee to exchange views and information to promote effective internal controls in the association accounting and credit operations as well as confirming their respective authority and responsibilities; and
- Evaluating the adequacy of and compliance with the Association's internal administrative, credit and accounting controls to reasonably ensure that association financial statements and disclosure information are prepared in accordance with its prescribed procedures. Thereby serving as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public.

II. COMPOSITION (Membership, Qualifications, Term)

The Audit and Review Committee will be appointed by the Governance Committee of the association Board of Directors and will serve until their successors have been duly selected. Committee members will be free from any relationships that would interfere with the exercise of independent judgment. Committee members should have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements. The Audit and Review Committee will typically consist of three board members including an outside director. Committee members typically will serve in rotation with other board members at the direction of the Governance Committee. The board of directors has added outside director(s) with "audit committee financial expert" qualifications. At least one of the outside directors with such qualifications will serve as a member of the Audit and Review Committee. The Committee will elect a chairman from its membership.

III. MEETINGS

The Audit and Review Committee will meet periodically (typically monthly during regularly scheduled board of director meetings and will conduct a separate meeting semi-annually [March and August] to review annual association financial reporting and the internal control and risk management processes) or more frequently as circumstances dictate. The Committee will meet in Executive Session with the association Internal Auditor and General Counsel to conduct Committee affairs and may request to meet with specific management personnel during separate semi-annual meetings. The Committee will maintain minutes of their meetings including members in attendance with three year retention period for meeting records. The Internal Auditor will present risk assessments, rotation schedule, internal review plans, internal and external audit/review reports, and management corrective action response to the Committee for direction and evaluation. After the Committee meeting, the board will reconvene in a full board session. The Committee chairman or as directed, the Internal Auditor will present a synopsis of the Committee reports/actions, including any recommendations from the Committee, to the full board with the opportunity for discussion regarding matters considered and actions taken by the Committee. The Committee or a member of the committee will be available, as needed, for meetings with independent accountants and/or regulatory agency representatives to discuss external audit/examination reports. The audit and review committee will be compensated for additional meetings at the Board approved per diem for such meetings.

IV. RESPONSIBILITIES AND AUTHORITIES

The Audit and Review Committee is responsible for and has authority to:

- Oversee the employment, compensation, retention and work of the qualified independent accounting firm to conduct the financial statement audit including resolution of disagreements between management and the independent auditor regarding financial reporting and issuing an opinion regarding the association's financial statement preparation or performing other audit, review or attest services for the Association. The independent accounting firm is expected to report directly to the audit and review committee. Evaluate annually, after giving due consideration to the need for a single auditor for all System institutions and taking into consideration all relevant circumstances known to the Committee, whether the Association should change its independent auditor or the partner in charge of performing or reviewing the Association's audit or other audit team personnel. Non-audit services to be performed by the independent accounting firm will also require the pre-approval of the audit and review committee.
- The audit and review committee has unrestricted access to the association's books, records, facilities and personnel as well as the authority, with association commitment for adequate funding, to engage independent counsel and other advisors as the committee deems necessary to carry out their duties.
- Review the audit scope of the independent accountants and approve the audit plans of the Internal Auditor.
- Evaluate the adequacy of the system internal controls by reviewing internal audit reports and external reports by independent accountants and the regulatory agency. The Internal Auditor will summarize significant findings within a monitoring report format for management corrective action response and evaluation of satisfactory disposition.
- Oversee the financial reporting process (noting the board Operations Committee also specifically reviews the monthly/quarterly reports) including procedures for preparation of

- quarterly and annual financial statements and procedures for timely review of annual and quarterly reports/press releases. The audit and review committee will also receive and review quarterly representations from management regarding internal control/fraud issues. The audit and review committee will on a quarterly basis receive and review management report addressing off-balance sheet interests and earnings reports.
- Direct the internal review function of the association including annual review and approval of the internal review program procedures, review and approval of branch office and audit component risk assessments, and determination of the audit and review rotation schedule.
 - Review the effectiveness of the internal audit function including the performance evaluation of the Internal Auditor, outsourcing needs, and annual self-evaluation of the Committee's performance.
 - Report performance of its duties and responsibilities to the full Board of Directors as referenced in the board Internal Control System policy.
 - Establish procedures for confidential, anonymous submission by employees of the association regarding concerns of questionable accounting/auditing matters and require reporting to the audit and review committee to monitor timely resolution. Procedures for handling such complaints are intended to provide an early warning of potential problems and to promote safety and soundness.
 - Provide oversight/direction for implementation of the enterprise risk management process within the association.
 - Review need for revisions to the audit and review committee charter at least annually during the August semi-annual meeting in conjunction with internal review program planning.

The Audit and Review Committee will fulfill these responsibilities and authorities by carrying out the activities and processes enumerated in the board Internal Control System policy, Risk Management policy and the association internal review program procedures.

V. REPORTING

The Audit and Review Committee will receive and review periodic reports from Association management, the independent auditor and the internal audit/risk management function to support the ability to fulfill its responsibilities. Such reporting requirements include:

- Any significant proposed regulatory, accounting or reporting issue, accounting or auditing developments or any accounting policy changes to assess the potential impact on the Association's financial reporting process. Such matters to be reported by Association management, independent auditor and/or internal audit function.
- Annual written report from the independent auditor describing: the independent auditing 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 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. Discuss with the independent auditors the contents of the report and the impact of the matters addressed in the report on the quality of services performed by the independent auditor.

- From management, prior to the release of the Association's annual or quarterly report, (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Association's ability to record, process, summarize and report financial information and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Association's internal controls.
- Any alleged complaints deemed to have potential impact to the AgFirst Farm Credit Bank, the AgFirst District or the Farm Credit System will also be reported to the AgFirst FCB General Counsel, the AgFirst FCB Chief Financial Officer, the AgFirst Director of Internal Audit, the Farm Credit Administration and the independent accountants/auditors.
- From management and the independent auditor, (a) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors and (b) earnings press releases and other reports or written or electronic material disclosing "pro forma" or "adjusted" non-GAAP information.
- From the independent auditor, (a) all critical accounting policies and practices used by the association, (b) all material alternative accounting treatments of financial information within GAAP that have been discussed with Association management, including the ramifications of the use of alternative treatments and disclosures and the treatment preferred by the independent auditor, and (c) other material written communications between the independent auditor and Association management, such as any management letter, schedule of unadjusted differences/uncorrected misstatements, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded and the independent auditor's independence letter.

The Audit and Review Committee will annually prepare a report for the Association board of directors that summarizes the work performed by the Committee to discharge its responsibilities and authorities.