



FEDERAL FARM CREDIT BANKS

FUNDING CORPORATION

FARM CREDIT SYSTEM AUDIT COMMITTEE CHARTER

1. Mission Statement

The Farm Credit System Audit Committee (“Committee”) is established by and reports only to the Board of Directors (“Board”) of the Federal Farm Credit Banks Funding Corporation (“Funding Corporation”), as required by Farm Credit Administration (“FCA”) Regulations 12 CFR Part 630 (Disclosure to Investors in Systemwide and Consolidated Bank Debt Obligations of the Farm Credit System).

The mission of the Committee is:

- To ensure the integrity of each Farm Credit System ("System") Information Statement¹ by overseeing the reporting process and internal controls implemented by the Funding Corporation with respect to the preparation of each System Information Statement;
- To support the Funding Corporation Board of Directors in discharging its responsibilities under the Farm Credit System Disclosure Program ("Disclosure Program"); and
- To assist the Boards of Directors of System Banks and Associations in fulfilling their fiduciary responsibilities relating to accounting, auditing, financial reporting and disclosure issues determined by the Committee to be of Systemwide importance.

2. Membership, Qualifications and Terms of Office

(a) Membership

The Committee shall consist of at least five, but not more than 6 members designated as follows:

- Funding Corporation Outside Director Member – one of the outside directors of the Funding Corporation;

¹ The FCA regulations refer to the System Information Statement as the "Report to Investors," which, as defined in FCA regulations 12 CFR Part 630, means "... a report that presents the Systemwide combined financial statements, supplemental financial statement information, and related financial and nonfinancial information pertaining to the System ..." as required under the regulations.

- Two Bank or Association Director Members – System Bank or Association shareholder-elected directors who can also be members of the Funding Corporation Board of Directors;
- One Outside Member – an individual who has no current affiliation with the System and is a financial expert²; and
- A Second Funding Corporation Outside Director Member or a Second Outside Member, at the Funding Corporation’s Board discretion – the second Outside Member must be an individual who has no current affiliation with the System and is a financial expert.

At the discretion of the Board, a sixth member of the Committee may be added for purposes of succession planning.

These positions are intended to provide the Committee with different perspectives with respect to accounting, financial reporting and disclosure issues. The Committee members shall be appointed by the Funding Corporation Board of Directors for the terms set forth herein. The Chairman and Vice Chairman shall be appointed annually by the Board. The Chairman must be a financial expert. The Board, upon the recommendation of the Committee or otherwise, may remove any Committee member at any time.

(b) Qualifications of Members

- (i) Each member shall be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure practices or accounting procedures.
- (ii) Each member shall be independent of management of any System disclosure entity or any Association, and shall be free from any relationship that, in the opinion of the Funding Corporation Board of Directors, would interfere with the exercise of independent judgment as a Committee member.
- (iii) Members must continue to serve in the capacity that allowed their selection as a Committee member. If, prior to the expiration of their term of office on the Committee, any Committee member ceases to serve in the capacity that allowed that person’s selection as a Committee member, the member shall continue in office until (x) the public distribution of the next Annual Information Statement and (y) his/her successor is appointed and qualified.

² A financial expert, as defined in FCA regulations 12 CFR Part 630, is one who either has experience with internal controls and procedures for financial reporting or experience in preparing or auditing financial statements.

(iv) Notwithstanding the foregoing, a member may not continue in office if he/she no longer serves in the capacity that allowed his/her selection as a committee member due to:

- lack of independence from management of any System disclosure entity or organization;
- regulatory action; or
- conviction of a felony.

(c) Terms of Office

The term of office for the Bank/Association Director and Outside Member positions on the Committee shall be three years. The term of office for Funding Corporation Outside Director Member positions shall be one year.

Notwithstanding the above, a member shall continue to serve until his/her successor is appointed and qualified except in the case that the member is disqualified pursuant to Section 2(b)(iv)

All members may succeed themselves, with no limitation on the number of terms or years they can serve, except in the event the succession is contrary to the requirements in Section 2(b) - Qualification of Members, above.

3. Meetings and Other Actions

The Committee shall meet at least four times a year in connection with the review of the Quarterly and Annual Information Statements and at such additional times as may be necessary to carry out its responsibilities. Meetings may be called by the Chairman of the Committee or by the Chairman of the Funding Corporation Board. All meetings and other actions of the Committee shall be held or otherwise taken pursuant to the Funding Corporation's bylaws, including bylaw provisions governing notices of meetings, waivers, the number of Committee members required to take actions at meetings or by written consent, and other related matters.

Minutes shall be kept of each meeting of the Committee. Reports of meetings and actions taken at meetings or by consent by the Committee since the most recent Funding Corporation Board meeting (except to the extent covered in an interim report circulated to the Board) shall be made by the Committee Chairman or his/her delegate to the Board at its next regularly scheduled meeting following the Committee meeting or action and shall be accompanied by any recommendations from the Committee to the Board. In addition, the Committee Chairman or his/her delegate shall be available to answer any questions the Board members may have regarding the matters considered and actions taken by the Committee. The Committee shall maintain records of meetings, including attendance, and all actions taken at meetings or by consent by the Committee in accordance with the Funding Corporation's Document Retention Schedule.

4. Responsibilities and Authorities

For the purpose of achieving the Committee's objectives, the Committee shall have the following responsibilities and authorities. Unless otherwise authorized by an amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee.

- (a) Approve those policies and procedures contained in the Disclosure Program that are to be carried out by the System's disclosure entities³ with respect to the preparation of each quarterly or annual System Information Statement;
- (b) Oversee the Funding Corporation's system of internal controls relating to the preparation of each quarterly or annual System Information Statement including those controls relating to compliance with applicable laws and regulations;
- (c) Review and assess the impact on the System-level financial reporting process of any significant accounting or auditing developments or any accounting policy changes relating to the System's combined financial statements;
- (d) Periodically review and discuss with Funding Corporation management and the independent public accountant the System's disclosure controls and procedures;
- (e) Be responsible for the appointment, compensation, retention and oversight of the work of the independent public accountant (with Agreement of the Board), who shall report directly to the Committee, (including resolution of disagreements between Funding Corporation management and the independent public accountant regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services at the System level;
- (f) Pre-approve allowable non-audit services related to the System's financial reporting process at the Funding Corporation to be provided by the independent public accountant, and take appropriate steps to ensure that the independent public accountant is not providing prohibited non-audit services, including the receipt of a written certification from the independent public accountant to that effect. System institution audit committees are also responsible for pre-approving non-audit services for their institution. On a quarterly basis, receive a report from the independent public accountant summarizing non-audit services performed throughout the System;
- (g) Review and approve the scope and planning of the annual audit by the independent public accountant of the System's combined financial statements, and to review the interim and final reports of the independent public accountant with respect to the audits;

³ "Disclosure entities," as defined in FCA regulations 12 CFR Part 630, means the Funding Corporation and the System Banks.

- (h) Review and approve, prior to issuance, each annual press release of financial results. Review each quarterly press release of financial results and provide questions or concerns to the Chair and management prior to release;
- (i) Receive a report, prior to the release of the annual or quarterly System Information Statement, from the Funding Corporation regarding (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 System'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 System's internal controls;
- (j) Receive a report from the Funding Corporation and the independent public accountant regarding (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 (generally accepted accounting principles), information;
- (k) Receive a report from the System's independent public accountant regarding (a) all critical accounting policies and practices used by the System, (b) all material alternative accounting treatments of financial information within GAAP that have been discussed with the Funding Corporation, including the ramifications of the use of alternative treatments and disclosures and the treatment preferred by the independent public accountant, and (c) other material written communications between the independent public accountant and the Funding Corporation, such as any management letter, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded and the independent public accountant's independence letter;
- (l) Receive a report from the System's independent public accountant on differences in accounting methods used by System institutions that could materially affect the System's financial statements if only one method were followed by System institutions;
- (m) Receive a written report annually from the independent auditors that describes: the independent public accounting 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 reports prepared by the PCAOB, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits and other services carried out by the firm; and any steps taken to deal with any such issues. Discuss with the independent public accountants the contents of the report and the impact of the matters addressed in the report on the quality of services performed by the independent public accountants;
- (n) Evaluate annually, the quality of services provided by the System's independent public accountants and review responses by the independent public accountant to address any

significant service issues identified, which may include changes in the independent public accountant senior engagement team performing the System audit;

- (o) Review any significant deficiency or material weakness in the Funding Corporation's, the System Banks' or the Associations' internal control over financial reporting by the entity's management or the entity's independent public accountants, and monitor the correction of any such deficiency;
- (p) Oversee the Funding Corporation's preparation of each quarterly or annual System Information Statement;
- (q) Review and approve each quarterly or annual System Information Statement prior to its dissemination to the public;
- (r) Comply with those policies, duties and procedures set forth in the Disclosure Program that specifically apply to the Committee;
- (s) Consult with the Funding Corporation's legal counsel or outside counsel, as the Committee may deem appropriate, in order to discharge its responsibilities and authorities;
- (t) Hold executive sessions, at least annually, separately with management and the System's independent public accountants; hold executive sessions regularly with members only;
- (u) Request that Bank audit committees respond to any concerns identified by the Committee and direct Bank audit committee efforts that are necessary to fulfill the Committee's responsibilities;
- (v) Adopt such additional procedures, undertake such activities or utilize such resources, including utilizing the staff of the Financial Management Division of the Funding Corporation, as the Committee may deem appropriate, in order to discharge its responsibilities and authorities and to accomplish the stated objectives;
- (w) Establish and maintain procedures for the receipt, retention, treatment and reporting of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission of concerns regarding questionable System accounting or auditing matters;
- (x) Review, on at least an annual basis, with management and the independent public accountants, compliance with the System level code of ethics;
- (y) Discharge any additional responsibilities and authorities as may be imposed by law or regulation;
- (z) Perform an annual self-evaluation of the Committee's performance and annually reassess the adequacy of and, if appropriate, propose to the Board, any desired changes in, the Committee's Charter;

- (aa) Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Funding Corporation Board; and
- (bb) Prepare annually a report for the Funding Corporation Board of Directors and for the Boards of Directors of System Banks that summarizes the work performed by the Committee to discharge its responsibilities and authorities.

The Committee must record in its minutes its agreement or disagreement with any financial policy, procedure or report that the Committee reviewed.

5. Members' Compensation

The Funding Corporation shall pay compensation to the members of the Committee in accordance with the following policy:

- (a) Each Member of the Committee shall be compensated in accordance with arrangements agreed to by the Funding Corporation Board of Directors.
- (b) The Chairman of the Committee shall be compensated in accordance with arrangements agreed to by the Funding Corporation Board of Directors.

The Funding Corporation shall reimburse all members of the Committee for reasonable out-of-pocket expenses incurred in connection with their activities related to the Committee.

6. Additional Resources

The Committee shall have the right to engage external resources as necessary to carry out its duties, with funding to be provided by the Funding Corporation, as determined by the Committee, for (a) legal services, (b) consultants and advisors, and (c) other services as deemed necessary by the Committee.

The Committee shall keep the Funding Corporation Board and the Corporate Accounting Department advised as to the general range of anticipated Committee expenses including administrative expenses the Committee incurs in carrying out its duties. The Committee will provide the Funding Corporation Board with a quarterly accounting of such expenses.

7. Amendment

This Charter may be amended from time to time by action of the Funding Corporation Board. The Committee may make recommendations for amendments to this Charter for the Funding Corporation Board's consideration.

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