

CoBANK, ACB AND CoBANK, FCB BOARDS OF DIRECTORS Audit Committee Charter

Overall Objective of the Audit Committee

The primary purpose of the Audit Committee, established by and reporting only to the CoBank, ACB and CoBank, FCB (individually and collectively, the “bank”) boards of directors (individually and collectively, the “board”), is to assist the board in fulfilling its oversight responsibilities as follows:

1. Oversee management’s conduct of the bank’s financial reporting process and systems of internal accounting and financial controls;
2. Monitor the independence and performance of the bank’s Internal Audit and Asset Review functions, the risk assessment process, and the independent auditor;
3. Ensure compliance with applicable legal and regulatory requirements;
4. Provide an avenue of communication among the independent auditor, management, and the board; and
5. Perform those functions on behalf of, and serve as the audit committee for, the bank’s wholly owned subsidiary, Farm Credit Leasing Services Corporation (FCL).

Committee Operations

The Audit Committee (the “committee”) shall consist of at least three board members and a majority of the members shall constitute a quorum. The act of the majority of the committee members present at a meeting at which a quorum is present shall be the act of the committee. Each member shall be independent as determined by the objective criteria set forth in the board policy statement on Director Independence, and each member shall be free of any relationship that, in the opinion of the board, would interfere with his or her individual exercise of independent judgment as a committee member. No member of the committee shall accept any consulting, advisory or other compensatory fee from the bank other than in connection with serving on the committee or board.

In addition:

1. Each member should be knowledgeable in at least one of the following: corporate finance, financial reporting and disclosure or accounting procedures, or should be able to become knowledgeable within a reasonable period of time after appointment to the committee.
2. Annually, in accordance with the Sarbanes-Oxley Act of 2002, at least one member of the committee shall be designated an “Audit Committee Financial Expert” and shall possess the qualifications for this designation as defined by such regulations.

The committee shall meet as often as it determines, but no less frequently than four times annually. The committee shall retain records of its meetings, including attendance, for at least three fiscal years. The committee shall report on its meetings at the next regular meeting of the board. Minutes of each committee meeting will be signed by the committee chair and recording secretary, or any other individual acting in their places at the meeting. Minutes will be available for review by the committee in advance of its next regularly scheduled meeting. The committee is encouraged to meet in executive sessions and may excuse management representatives from any meetings where their presence might discourage open discussion among directors or unduly influence decisions that are within the committee's prerogative.

Authority

The Audit Committee shall have the following authorities that have been specifically assigned by the board and/or that are required by regulation. From time to time, the board may adjust existing authorities or assign additional authorities on either a continuing or a one-time basis.

1. The committee has the authority to appoint or replace the independent auditor. The Audit Committee shall be responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the committee.
2. The committee has the authority to retain independent counsel, accountants or other outside expert resources to assist in carrying out its responsibilities. Bank management will ensure the availability of staff and financial resources to support the function of the committee. The bank shall provide for appropriate funding, as determined by the committee, for payment of compensation to the independent auditor for the audit report and to any advisors employed by the committee and for administrative expenses.
3. The committee has the authority to form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approval shall be presented to the full committee at the next scheduled meeting.
4. The committee shall have unrestricted access to the Chief Audit Officer and Senior Vice President and Director of Asset Review and to all bank properties, records, transactions, procedures, activities and personnel relevant and necessary to the fulfillment of its responsibilities.
5. The committee may request any officer or employee of the bank or the bank's outside counsel or independent auditor to attend a meeting of the committee or to meet with any members of, or consultants to, the committee.
6. The committee may request other reports and information as it may deem desirable and appropriate from internal and external sources, including from other committees of the board, and shall similarly provide access to its reports and information.

7. The committee chair will be immediately notified on all investigations involving potential significant ethics issues or financial or reputational risk to the bank.
8. The committee has the authority to conduct independent investigations.

Responsibility

The Audit Committee shall have the following responsibilities, and from time to time, the board may adjust existing responsibilities or assign additional responsibilities on a continuing or a onetime basis.

Financial Statement and Disclosure Issues

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

1. Review and discuss, with the independent auditor and management, the bank's audited financial statements that are to be included in the bank's annual report and the independent auditors' opinion with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or application of such accounting principles.
2. Oversee the preparation of and review all quarterly and annual financial statements prior to release.
3. Review with Farm Credit Administration ("FCA") officials the focus of the annual examination, the reports issued by such FCA officials and concerns arising from examination work.
4. Review disclosures made to the committee by the bank's Chief Executive Officer and Chief Financial Officer 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 the bank's internal controls.
5. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the bank's financial statements, including any significant changes in the bank's selection or application of accounting principles, any major issues as to the adequacy of the bank's internal controls and any special steps adopted in light of material control deficiencies. The committee will inquire into any accounting adjustments that were noted or proposed by the independent auditor but were "passed" as immaterial or otherwise.
6. Require the independent auditor to discuss with the committee the auditors' judgments with regard to the quality of the bank's accounting principles (not just acceptability), including the clarity of financial disclosure.

7. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the bank's financial statements.
8. Discuss with the independent auditor any item not reported as a contingent liability or loss in the bank's financial statements as a result of a determination that such item does not satisfy a materiality threshold.
9. Review reports by management on any significant and material disclosure events.
10. Meet periodically with management, the independent auditor, Chief Audit Officer, and Senior Vice President and Director of Asset Review in executive sessions.
11. Discuss with management the bank's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the bank's risk assessment and risk management policies.
12. Approve the certification of the annual report.
13. Recommend to the board the designation of officers to certify financial reports and other reports required by FCA regulations.
14. Respond to any concerns identified by the System Audit Committee and conduct any committee activities that are necessary for the System Audit Committee to fulfill its chartered responsibilities.
15. In light of the responsibilities of the board's Risk Committee with respect to risk assessment and management, as well as compliance, the committee shall meet in joint session with the Risk Committee to discuss and review areas of common interest unless the respective chair of such committees declares a joint meeting unnecessary.
16. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the board for approval.
17. Require the Chief Audit Officer, as well as the Ethics, Compliance and Standards of Conduct Officer, to provide regular and timely reporting on ongoing investigations, regulatory concerns, or other matters requiring direct board oversight.

Independent Auditor

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

1. Have the authority to appoint or replace the independent auditor. The Audit Committee shall be responsible for the compensation and oversight of the work of the independent auditor.

2. Evaluate the qualifications, performance, and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and the Chief Audit Officer. The committee will present its conclusions with respect to the independent auditor to the board.
3. 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 by law.
4. Provide pre-approval to hire employees or former employees of the independent auditor who participated in any capacity in the audit of the bank must be obtained from the committee chair in advance of hiring said employee. The committee will not approve the hiring of an employee of the independent auditor for a position with the bank in a Financial Reporting Oversight Role, if such employee or former employee was the lead or concurring partner, or any other member of the Audit Engagement Team who provided more than ten hours of audit, review, or attestation services for the bank during the one (1) year period preceding the date that audit procedures commenced for the fiscal period. Further, the committee will not approve the hiring of any individual either currently or previously employed by the independent auditor if the employment of that individual is likely to negatively impact the determination of independence of the auditors as set forth in any applicable statute, regulation or rule.
5. Meet with the independent auditor prior to the audit to discuss the planning, scope, staffing and procedures to be used on the annual audit, as recommended by the independent auditor.
6. Provide pre-approval of the annual audit and of all other permitted non-audit services performed by the independent auditor as negotiated by management. Approval of any non-audit services must be obtained from the committee in advance of engaging the independent auditor to render such services. The committee will not approve the engagement of the independent auditor to render non-audit services prohibited by law or rules and regulations promulgated by appropriate rule-making bodies.

Internal Controls and Risk Assessment

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

1. Provide input to and approve the Asset Review and Internal Audit Plans, which outline goals, objectives, schedule and resource requirements, and recommend the annual plan and budget to the board.
2. Approve material changes to the previously approved annual Asset Review or Internal Audit plans that would broadly adjust the scope or coverage of the previously approved plan. The committee may approve these changes without recommendation to the board.

3. Meet regularly with the Chief Audit Officer and Senior Vice President and Director of Asset Review to review performance relative to plans and their assessments of the adequacy and effectiveness of the bank's system of internal controls; compliance with laws, regulations, ethics, policies and rules regarding conflict of interest and the quality of credit.
4. Meet with the Chief Audit Officer to review their assessments of the adequacy and effectiveness of Farm Credit Leasing Services Corporation's (FCL), the bank's wholly owned subsidiary, system of internal controls, compliance with laws, regulations, ethics, policies and rules regarding conflict of interest, and the quality of credit.
5. Ensure the Chief Audit Officer has unrestricted access to and communicates directly with the board, including in private meetings without senior management present. This includes making appropriate inquiries of management and the Chief Audit Officer to determine whether scope or resource limitations are inappropriate
6. Review reports to management prepared by Internal Audit that warrant the attention of the Board.
7. Review actions taken by management to address weaknesses identified and report concerns to the board. The committee will discuss with the independent auditor and management Internal Audit's responsibilities, budget and staffing and any recommended changes in the planned scope of Internal Audit. The Internal Audit and Asset Review functions are subject to the committee's review and supervision.
8. The Chief Audit Officer and Senior Vice President and Director of Asset Review shall have a functional reporting relationship to the committee chair.
9. The committee will consult with management in the recruitment of the Chief Audit Officer. This includes collaborating with management to determine the qualifications and competencies expected in a Chief Audit Officer. The committee is responsible for and will authorize the appointment and remuneration. Additionally, the Committee will also review and act on any proposed action to dismiss the Chief Audit Officer.
10. Obtain from the independent auditor its recommendations regarding internal controls and other matters relating to the accounting procedures as well as the books and records of the bank and its subsidiaries and review the correction of controls deemed to be deficient.
11. Review the Annual Enterprise Risk Assessment and Risk Outlook Report presented by Risk Management.
12. Review financial accounting and reporting risks that warrant the attention of the committee and the guidelines and policies that management has put in place to govern the process of monitoring, controlling and reporting such exposures. The committee will review proposed actions taken by management to address weaknesses identified through Internal Audit and Asset Review reports, external audits and regulatory examinations and report significant concerns to the board.

13. Establish procedures for (a) the receipt, retention and treatment of complaints received by the bank regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the bank of concerns regarding questionable accounting or auditing matters.
14. Review the quarterly allowance for credit losses, including the reserve for unfunded commitments, and determine its adequacy.
15. Obtain and review compliance reports on the bank's standards of conduct and ethics and, if exceptions warrant, conduct necessary investigations utilizing outside resources if required.
16. Review annual compensation actions (including short- and long-term incentive compensation, as well as merit compensation actions) for the Chief Audit Officer.
17. Review the aggregate of merit and short-term incentive compensation for the Assurance Group in comparison with CoBank average with the Chief Human Resources Officer.
18. Consult with the Chief Executive Officer and the Chief Human Resources Officer and authorize the annual performance appraisals of the Chief Audit Officer and Senior Vice President and Director of Asset Review and on any changes in assignment or responsibilities of these groups.
19. Review annual self-evaluation results of the committee's performance.
20. Ensure establishment of a quality assurance and improvement program and review its results annually.
21. Establish, maintain, and ensure that CoBank's internal audit function has sufficient authority by engaging with the chief audit executive and senior management to define its authority, role, responsibilities, scope, and services, and by participating in discussions about the "essential conditions" from the Global Internal Audit Standards that enable an effective internal audit function.

Compliance

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

1. Review current or pending litigation or regulatory procedures related to non-compliance with laws or regulations.
2. Receive reports from management on legal matters and litigation of material concern.

Other Areas of Responsibility

1. Review and recommend to the board dividends on any non-patronage based equity securities of the bank.

While the committee has the powers and responsibilities set forth in this charter, it is not the responsibility of the committee to plan or conduct audits or to determine that the bank's financial statements present fairly the financial position, the results of operations and the cash flows of the bank in compliance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. In carrying out the oversight responsibilities, the committee is not providing any expert or special assurance as to the bank's financial statements or any professional certification as to the independent auditors' work. In exercising its role as Audit Committee for FCL, the committee may rely upon the bank's disclosures, controls, procedures and examinations that extend to cover FCL. The performance by the audit committee of its responsibilities shall not prevent Internal Audit, Asset Review, independent auditors or the Farm Credit Administration from discussing their plans, reviews and findings with the entire Board of Directors of FCL, unless otherwise directed by the committee.