

Excerpts from Corporate Manual

BOARD AUDIT

Responsibility

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities relating to the quality and integrity of accounting, auditing, financial reporting and internal controls practices of the Association and such other duties as directed by the Board. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the association's policies and business plan.

In fulfilling its responsibilities, the committee shall be provided with such resources as needed to fulfill its responsibilities, including outside consultants, as appropriate. The committee has sole authority to retain and terminate outside counsel or other experts or consultants for the committee's use, as it deems appropriate, including sole authority to approve the firms' fees and other retention terms. Any communications between the committee and legal counsel in the course of obtaining legal advice will be considered privileged communications, and the committee will take all necessary steps to preserve the privileged nature of those communications.

While the Audit Committee has the powers set forth in this charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the association's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for determining that the association's financial statements are complete, accurate, and in accordance with generally accepted accounting principles and establishing satisfactory internal control over financial reporting. The independent auditor is responsible for auditing the association's financial statements and the effectiveness of the association's internal controls over financial reporting. While the committee may oversee the work of others to assure compliance with laws and regulations or the Association's standards of business conduct, code of ethics, internal policies, procedures, and controls, members of the committee are not personally responsible for performing these functions.

Membership

The Committee shall be comprised of three or more members of the Board appointed by the Chairman of the Board on an annual basis. The Committee Chairman and Vice Chairman will be appointed by the Board Chairman annually. At least one member of the committee must, in the judgment of the Board, be deemed an "audit committee financial expert" as defined by the rules and regulations of the Farm Credit Administration. The committee membership should be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the committee should have a working familiarity with general business and/or basic finance and accounting practices. In addition, the Chairman of the Board may participate on a non-voting basis.

Meetings

The Committee shall meet at least four times a year with additional meetings as deemed appropriate. The committee will meet in executive session at each meeting and shall reserve for such sessions all matters it determines should be discussed and voted on in executive session. Depending on the findings of credit reviews, audits, or FCA examinations, the committee may meet from time to time jointly with the Credit Risk Committee. At a minimum, the Credit Risk and Audit Committees will meet jointly at least annually.

Minutes

Actions taken and/or issues discussed at each meeting will be reported to the full Board. Minutes will be prepared and submitted to the committee for review and approval.

Excerpts from Corporate Manual

Primary Duties

- Recommend to the Board the employment of a qualified independent auditing and accounting firm to prepare an annual audit report;
- Oversee and appraise the quality of the audit effort of the Association's internal audit function and those of its independent auditors;
- Maintain, by scheduling regular meetings, open lines of communications among the Board, its internal audit function and its independent auditors to exchange views and information as well as confirm their respective authority and responsibilities;
- Serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public;
- Review the Farm Credit Administration examination process and results;
- Monitor the Association's compliance with legal and regulatory requirements; and
- Determine the adequacy of the Association's administrative, operating, and internal accounting controls and evaluate adherence thereto.

Specific Duties

The Committee with assistance from management and the internal auditor shall:

- Review periodically the Committee's charter, and make appropriate recommendations to the full board.
- Recommend to the full Board the appointment, compensation, retention and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the coming year;
- Ensure that an audit is conducted in compliance with statutory requirements;
- Review and approve any other services provided by the independent auditor;
- Review and approve the audit plan of the independent auditor;
- Review the appointment and replacement of the internal function auditor, and establish compensation, retention and oversight of the work of the internal auditor.
- Review and approve the audit plan of the internal audit function;
- Evaluate the effectiveness of both the internal and external audit effort through regular meetings with each respective group;
- Discuss with the independent auditor any matters of standard accounting policies and practices used by the Association to include discussion related to required Statements of Auditing Standards;
- Periodically consult with the independent auditor in executive session to discuss internal controls and the fullness and accuracy of the association's financial statements;

Excerpts from Corporate Manual

- Review annually with management, the external auditor and internal auditor compliance with the association's Code of Ethics;
- Determine that no management restrictions are being placed upon either the internal or external auditors;
- Evaluate the adequacy and effectiveness of the Association's administrative, operating and accounting policies through active communications with operating management, internal audit, and the independent auditor;
- Evaluate the adequacy of the Association's internal control system over financial reporting by review of written reports from and consultation with the internal and external auditors and monitor management's response and actions to correct any noted deficiencies;
- Review and approve for publication the Association's annual and quarterly financial statements and any other significant financial information including any certification, report, opinion, or review rendered by the independent auditors;
- Review all regulatory reports submitted to the Association and monitor management's response to them;
- Require periodic reports from management, the independent auditor and internal audit function on any significant proposed regulatory, accounting or reporting issue to assess the potential impact upon the Association's financial reporting process;
- Review and approve all significant accounting changes; and
- Perform any other activities consistent with this Charter, the association's by-laws, and as the Committee or the Board deems necessary or appropriate.
- Complete an annual self-assessment of the Committee's performance.

The Audit Committee may at times handle duties and responsibilities of the Committee in concert with the Board at Board meetings.