

Audit Committee Charter

Colonial Farm Credit, ACA, PCA, FLCA

Purpose

The Audit Committee (the Committee) is a committee of the Board of Directors (the Board). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities relating to the quality of financial reporting and internal controls. Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Association's policies, procedures and practices at all levels.

While the Committee has the powers set forth in this charter, it is not the duty of the 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. This is the responsibility of management and the independent auditor.

Further, it is recognized that additional oversight, control and protection are provided by the Farm Credit Administration (FCA) regulation of the Association, and that FCA imposes certain disclosure, reporting and governance requirements that differ from (and exceed) those of accounting principles generally accepted in the United States of America (USGAAP) and normal business practices.

The Committee's primary duties and responsibilities are to:

- Oversee management's preparation of the report to shareholders.
- Review the impact of any significant accounting and auditing developments.
- Review accounting policy changes relating to preparation of financial statements.
- Review annual and quarterly reports prior to release.
- Approve the employment of a qualified independent accounting firm to audit and report on the Association's financial statement on an annual basis.
- Serve as an independent and objective party to monitor the Association's financial reporting process and internal control system.
- Review and appraise the audit efforts of the Association's independent accountants and internal audit function.
- Review the Farm Credit Administration (FCA) examination processes and results.
- Monitor the Association's compliance with legal and regulatory requirements.
- Provide an open avenue of communication among the independent auditors, financial and senior management, the internal auditor(s), and the Board.

The Committee will fulfill these responsibilities by carrying out the activities and processes enumerated in the following sections of this Charter. In doing so, the Committee has full access to all books, records, facilities, and personnel of the Association and the power to retain and compensate outside counsel or other experts considered necessary in discharging its oversight role. The Committee will be provided whatever monetary and nonmonetary resources necessary to enable it to contract for these external resources and ordinary administrative expenses. A two-thirds majority vote of the full Board is required to deny the Committee's request for resources.

Composition

The Committee shall be comprised of at least three directors as determined by the Board Chairman, each of whom shall be free from any relationship that, in the opinion of the Board Chairman, would interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the Committee should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure, or accounting procedures (or be willing to acquire same within a reasonable period of time). At least one member of the Committee must be a financial expert as defined by FCA regulations.

The Audit Committee Chairman and members of the Committee shall be appointed by the Chairman of the Board after consultation with the Governance Committee, and shall serve until their successors shall be duly selected and qualified.

Meetings

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee shall meet as often as needed, but at least once per year, with management, the internal auditor(s) and the independent auditors in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed.

Responsibilities and Duties

To fulfill its responsibilities and duties the Audit Committee shall, with such assistance from management and the internal auditor as the Committee deems appropriate:

Documents/Reports Review

1. Review the adequacy of this charter on an annual basis.
2. Review the Association's annual financial statements and reports or other significant financial information including any certification, report, opinion, or review rendered by the independent auditors.
3. Review and approve the scope of internal audit plans for the year.
4. On a semi-annual basis, review a summary of major findings by the internal auditor(s) and management's response for addressing the conditions reported.
5. Review the interim financial information with management (and the independent auditors, if deemed necessary), prior to filing the quarterly Call Report with the FCA.
6. Review the FCA examination process and the report of examination issued by the FCA.
7. Meet at least annually, or as needed, with the chief executive officer to discuss and provide input on the Association's system of internal controls. Approve the Association's Internal Control Policy and revisions thereto, as necessary.

Independent Auditors

8. Approve the selection of the independent auditors and internal auditor(s) considering independence and effectiveness, review the planning and staffing for the annual audit, and approve the fees and other compensation to be paid to the independent auditors.

9. On an annual basis, the Committee should obtain and review a formal written statement from the independent auditors that discusses all significant relationships the auditors have with the Association to determine the auditor's independence.
10. Review the performance of the independent auditors and internal auditor(s) and approve any replacement of either or both when circumstances warrant.
11. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 114.
12. Consult with the independent auditors and internal auditor(s) in executive session when deemed necessary to discuss internal controls and the accuracy of the Association's financial statements.
13. Review with the independent auditors and internal auditor(s) any problems or difficulties the auditors may have encountered during the annual audit including any disagreement among management and the independent auditors or the internal auditor(s) in connection with the preparation of the financial statements.
14. Review any significant recommendations in the management letter provided by the auditors and the Association's response to the letter.

Financial Reporting Processes

15. In consultation with the independent auditors and the internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
16. Discuss with the independent auditors their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
17. Consider and approve, if appropriate, major changes to the Association's auditing and accounting principles and practices as suggested by the independent auditors, management, or the internal auditing department.
18. If deemed appropriate after review and discussion, recommend to the Board that the financial statements be included in the Association's annual report.

Process Improvement

19. Following completion of the annual audit, review separately with management, the independent auditors and the internal auditor(s) any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
20. Review with the independent auditors, the internal auditor(s) and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)

Ethical and Legal Compliance

21. Review annually the Association's Conflict of Interest policy, annual board member and Leadership Team member certifications and disclosures, and ensure that management has established a system to enforce this policy.
22. Review, with the Bank's General Counsel (if deemed necessary), legal compliance matters that may have a material impact on the financial statements, the Association's

compliance policies, and any material reports or inquiries received from regulators or governmental agencies.

23. Review the appointment and replacement of the internal auditor(s); Approve related contracts.
24. Perform any other activities consistent with this Charter, the Association's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.
25. Receive and investigate complaints from employees and others regarding questionable accounting, internal controls, unethical dealing, corporate waste, illegal activities or fraud.