

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

Audit Committee Charter

Approved: April 19, 2011

Revised and Approved: June 23, 2015

Overall Responsibility

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to oversee the quality of financial reporting and internal controls. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Association's policies, procedures, and practices at all levels.

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. This is the responsibility of management and the independent accountant. However, it is the responsibility of the Audit Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and adequate and effective internal controls that are essential to safe and sound operations are in place.

The Audit Committee's primary duties and responsibilities are to:

- Provide oversight of the Association's business activities and financial reporting through the use of independent accountants and contractors whose primary responsibility will be to examine operational procedures designed to detect and prevent fraud, identify areas of excessive or un-quantified business risk, assure accurate financial reporting and that association personnel exhibit the highest moral and ethical standard of conduct.
- Evaluate and approve the selection and compensation of the firm retained to perform the independent accountant audit function and provide an opinion of the Association's financial condition, evaluate the selection of an individual/firm to conduct an independent Internal Credit Review, evaluate and approve the selection of an individual/firm to perform an annual SOX audit and evaluate and approve the selection of any other independent audit delegated to it by the Board. All independent auditors shall report directly to the Audit Committee.
- Serve as an independent and objective party to monitor the Association's financial reporting process and internal control system that is designed to provide accurate, complete and fairly stated financial information to the shareholders, regulators, and the general public.

- Review the work of the independent auditors.
- Monitor the Association's compliance with legal and regulatory requirements.
- Review annually the Association's Code of Ethics. The audit committee shall review with management, independent accountants and internal auditors the Association's compliance with the Code of Ethics.
- Provide an open avenue of communication among the independent accountants, management and the Board of Directors.

The Audit Committee will strive to 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. The Audit Committee has the power to retain outside counsel or other experts considered necessary in discharging its oversight role including retaining services for training on industry best practices and access to the funding necessary to fulfill its duties.

Composition

The Audit Committee shall be comprised of at least three directors as determined by the Board, each member of which shall be free from any relationship that 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 practice, and collectively have the accounting or financial management expertise to fulfill their responsibility. The Committee must have at least one financial expert as required by FCA regulation 620.30. All members of the committee should be knowledgeable in at least one of the following: public or corporate finance, financial reporting and disclosure or accounting procedures. Audit Committee members must have sufficient time available to fulfill their Audit Committee responsibilities when their other professional commitments are considered. The Board of Directors must determine if a member's other service would impair their ability to serve effectively in the event that an Audit Committee member simultaneously serves on more than three public company Audit Committees. In addition, any other board member may participate on a non-voting basis.

At a minimum, the association will provide an annual training/orientation for Audit Committee members. The Chairperson shall be appointed by the Board at the annual organizational meeting of the Board and shall serve until their successor 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 and the independent accountants in separate executive sessions to discuss any matters that the Committee or any of these groups

believe should be discussed. Meetings may be called by the Chairman of the Committee or by the Chairman of the Board. At a minimum, the Audit Committee and Risk Management Committees will meet jointly at least annually.

Responsibilities and Duties

To fulfill its responsibilities and duties, the Audit Committee shall be provided with such assistance from management as well as legal counsel and expert advisors as the Committee deems appropriate.

Documents/Reports Review

1. In coordination with the Governance Committee, conduct an annual self-assessment evaluation of the Committee's performance, the adequacy and relevance of this charter and recommend any proposed changes to the Governance Committee for their review and subsequent Board approval.
2. Review the Association's annual and quarterly financial statements, all other reports prepared by independent accountants/reviewers who report to the Audit Committee and any other significant financial information including any certification, opinion or review rendered by the independent reviewers/accountants.
3. Review, prior to the issuance, each press release of financial results. All Association officers, or others that are required to make certifications to the FCA on annual and quarterly reports or certifications should disclose to the Audit Committee all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Association's ability to record, process, summarize and report financial information and any fraud, whether or not material, that involves management or other employees who have a significant role in the Association's internal controls.
4. Evaluate the adequacy of the Association's internal controls by review of written reports from the internal and external accountants, and monitor management's response and actions to correct any noted deficiencies.
5. Review and approve the scope of Internal Audit's plan for the year as well as the Internal Credit Review programs.
6. On a periodic basis, review the status of the internal audit plan and ascertain management's efforts to respond to audit issues.
7. Review reports of complaints related to questionable financial reporting, accounting, internal accounting controls, or auditing matters for materiality and suggest ways to alleviate material issues.

8. Review the interim financial information with management as reported in the quarterly Call Report to the FCA.
9. 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 and the quality of credit.

Independent Accountants

Under SOX, at least annually, the Audit Committee should consider: a) the Independent Accountant's internal quality control procedures; b) material issues raised by the Independent Accountants peer review; c) all relationships between the Independent Accountant and the company to assess independence; d) review and evaluate the lead partner with the Independent Accountant; and e) the Audit Committee should present its conclusions to the full Board.

10. Recommend to the Board the selection of the independent accountants and other reviewers considering independence and effectiveness and determine the fees to be paid.
11. Pre-approve allowable non-audit services to be provided by the independent accountants.
12. Review the performance of the independent accountants.
13. Discuss with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 114.
14. Periodically consult with the independent accountants in executive session to discuss internal controls and the completeness and accuracy of the organization's financial statements.

Financial Reporting Processes

15. Review, prior to release of information, any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting.
16. Review the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Process Improvement

17. Review with the independent accountants and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit 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

18. 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.
19. Establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters for the confidential, anonymous submission by Association employees of concerns regarding questionable financial reporting matters. One part of those procedures will be for the Audit Committee Chairman to serve as one of the primary contacts for the association's Whistle Blower Program.
20. Maintain records of meetings including attendance for three fiscal years.
21. Coordinate with any other Board committees to respond to regulatory examinations, interim examinations, and activities associated with any Supervisory Agreements with the regulator.