PURPOSE AND OBJECTIVE

The Board of Directors (the “Board”) of Ag New Mexico, Farm Credit Services, ACA (the “Association”) has established a committee of directors to be known as the Audit Committee (the “Committee”) for the purpose of assisting the Board with its responsibilities to oversee the quality of financial reporting and internal controls of the Association. 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 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 whether the Association’s financial statements are complete and accurate, or whether they are in accordance with generally accepted accounting principles, as such responsibility lies with management of the Association and the independent external auditor. However, it is the responsibility of the Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and adequacy of the Association’s internal controls, such that the Association operates in a safe and sound manner. As such, the Committee will:

1. Oversee and appraise the quality of the audit effort of the Association’s internal audit function and that of its independent external auditor and accountants;
2. Serve as an independent and objective party to review the financial information presented by Association management to stockholders, regulators and other stakeholders; and
3. Determine the adequacy of the Association’s administrative operating and internal accounting controls.

The Committee reports solely to the Board.

COMPOSITION

The Committee shall be comprised of at least three directors of the Association as determined by the Board, each of whom shall be free from any relationship, conflict of interest or appearance of a conflict of interest, which, as determined solely by the Board, would interfere with the exercise of his or her independent judgment as a Committee member. Any director of the Board who is designated as a financial expert under Farm Credit Administration (“FCA”) regulation 611.210(a)(2) shall be a member of the Committee. Members of the Committee should have a working familiarity with general business and/or basic finance and accounting practices, and collectively have the accounting or financial management expertise to fulfill their responsibility. 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. The Board shall, at its annual organizational meeting, appoint a Chairperson of the Committee, who shall serve until the Board duly selects a qualified successor.
Further, Committee members must have sufficient time available to fulfill their Committee responsibilities effectively, taking into consideration their other professional commitments. In the event that a Committee member simultaneously serves on a committee having similar responsibilities and functions as that of the Committee for other companies, the Board must determine if that Committee member’s other service impairs their ability to serve effectively.

Finally, any other Board member may participate on the Committee, but only on a non-voting basis.

**MEETINGS AND RECORDS**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. A majority of the voting members of the Committee shall constitute a quorum. As part of its job to foster open communication, the Committee shall meet as often as needed, but at least once per year with Association management and the independent external auditor or 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 Chairperson of the Committee or by the Chairperson of the Board. In addition, the Audit and Risk Management Committees will meet jointly at least annually.

Upon initiation of a meeting of the Committee, the Chairperson shall appoint a person to record the minutes of the meeting. The minutes of the meeting shall include attendance records and shall be safely maintained and stored by the Association for a period of no less than three years from the date of the meeting.

**AUTHORITY AND RESOURCES**

The Committee shall have all authority and resources necessary to fulfill its responsibilities and duties as set forth in this Charter. The Committee has full access to all books, records, facilities, and personnel of the Association. The Committee also 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. Only upon two-thirds (2/3) majority vote of the Board shall the Association deny a Committee request for resources. At a minimum, the Association shall provide annual training or orientation for Committee members.

**PRIMARY DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

The Committee’s primary duties and responsibilities include:

1. Providing 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 ensure that Association personnel exhibit the highest moral and ethical standard of...
conduct;

2. Evaluating, selecting, approving and supervising the:
   a. The firm retained to perform the independent accountant audit function and provide
      an opinion of the Association’s financial condition, and its compensation for
      providing such services;
   b. The individual or firm to conduct an independent internal credit review;
   c. The individual or firm to perform an annual SOX audit; and
   d. Any other independent auditor as delegated to the Committee by the Board;
      all of whom shall report directly to the Committee;

3. Serving as an independent and objective party to monitor the Association’s financial
   policies, reporting process and internal control system to ensure that it is designed to
   provide accurate, complete and fairly stated financial information to the shareholders,
   regulators, and the general public;

4. Reviewing the work of the independent auditors;

5. Monitoring the Association’s compliance with legal and regulatory requirements;

6. Review, annually, the Association’s Code of Ethics, including a review of the
   Association’s compliance with the Code of Ethics with management, independent
   accountants and internal auditors; and

7. Providing an open avenue of communication among the independent accountants,
   management and the Board.

The Committee will strive to fulfill these responsibilities by utilizing the resources provided to it
by the Association and carrying out the activities and processes enumerated in this Charter.

SPECIFIC DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

In addition to the Committee’s primary duties and responsibilities set forth in this Charter, the
Committee is also tasked with the following specific duties and responsibilities:

A. Financial Reporting

   The Committee must oversee management’s preparation of financial reports to shareholders;
   review the impact of any significant accounting and auditing developments; review
   accounting policy changes relating to preparation of financial statements; and review annual
   and quarterly reports prior to release. After the Committee reviews a financial policy,
   procedure or report, it must record in its minutes its agreement or disagreement with the
   item(s) under review.

   1. Prior to their release to the public, review quarterly and annual financial reports, and the
      associated press release, and consider whether they are complete, consistent with
      information known to the Committee, and reflect appropriate accounting principles.
2. Review significant accounting and reporting changes and issues, including accounting policy changes, complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the Association’s financial statements.

3. 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 are material to investors.

4. Review the interim financial information with management as reported in the quarterly Call Report to the FCA.

B. External Auditor/Independent Accountant

1. Review the performance of the external auditor, review and approve the engagement letter, and exercise final approval on appointment, compensation and discharge of the external auditor.

2. Review all reports prepared by the external auditor, who shall report directly to the Committee, and any other significant financial information including any certification, opinion or review rendered by the external auditor.

3. Discuss with the external auditor the matters required to be discussed by Statement of Auditing Standards No. 114.

4. Periodically consult with the external auditor in executive session to discuss internal controls and the completeness and accuracy of the Association’s financial statements.

5. Pre-approve allowable non-audit services to be provided by the external auditor, except for those non-audit services prohibited by FCA regulation 621.31(a).

6. Ensure that the external auditor complies with the auditor independence requirements set forth in FCA regulations found at Part 621, Subpart E.

7. Ensure that the external auditor reports directly to the Committee.

C. Internal Controls

1. Evaluate the adequacy of the Association’s internal controls by review of written reports from the internal and external auditors or accountants, and monitor management’s response and actions to correct any noted deficiencies.

2. Ensure that the Association’s internal controls comply with applicable laws and regulations.

3. Review, prior to release of information, any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting.

4. Ensure that all Association officers, or others that are required to make certifications to the FCA on annual and quarterly reports or certifications disclose to the 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.

5. 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.

D. Internal Audit

1. Review and approve the annual risk assessment and audit plans developed and recommended by the internal audit function.
2. Ensure there are no unjustified restrictions or limitations placed on the internal audit function.
3. Review all reports, findings and management responses resulting from the internal audit function’s independent evaluation of the Association’s internal controls and continuing operations.
4. Review the effectiveness of the internal audit function, including compliance with applicable industry standards.
5. On a periodic basis, review the status of the internal audit plan and ascertain management’s efforts to respond to audit issues.
6. On a regular basis, meet with the internal audit function outside of the presence of management to discuss any matters the Committee or internal audit function believes should be discussed privately.

E. Internal Credit Review

1. Determine the selection and direct retention of qualified experts to conduct the Association’s internal credit review.
2. In consultation with the qualified expert selected for the internal credit review, determine the scope and timing of the review, and ensure that the engagement letter or other written communication reflects the approved scope.
3. Upon conclusion of the internal credit review, meet with the qualified expert in executive session of the Committee to discuss any matter the Committee or qualified expert wishes to discuss, present the findings of the review, and confirm that management did not impose any restrictions, limits or barriers on the qualified expert during the course of the review.
4. Require management to prepare written responses to the findings of the review, which shall include corrective actions to be taken.

F. Process Improvement

1. Following completion of the annual audit, review separately with management, the independent auditor, and internal accountants or audit, any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
2. Review with the independent auditor 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.
3. Receive periodic reports on internal controls or certain control environments.
G. Additional Responsibilities

1. Establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters and for the confidential, anonymous submission by Association employees and others of concerns regarding questionable financial reporting matters. The procedures will require the Committee Chairperson to serve as one of the primary contacts for the Association’s Whistle Blower Program.

2. 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.

3. Coordinate with any other Board committees to respond to regulatory examinations, interim examinations, and activities associated with any Supervisory Agreements with the FCA.

4. Committee will conduct an annual self-assessment evaluation of the Committee’s performance, including the performance of individual members of the Committee, and the adequacy and relevance of this charter and recommend any proposed changes to the board for their review and subsequent Board approval.

5. Review, with the assistance of any external party deemed necessary by the Committee, legal compliance matters that may have a material impact on the Association’s financial statements, compliance policies, and any material reports or inquiries received from regulators or governmental agencies.

6. Maintain records of meetings including attendance for at least three fiscal years.

7. 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.