

CoBANK BOARD 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 board of directors, is to assist the board in fulfilling its oversight responsibilities as follows:

1. Oversee management's conduct of the company's financial reporting process and systems of internal accounting and financial controls;
2. Monitor the independence and performance of the company's Internal Audit and Asset Review functions, the risk assessment process and the independent auditor;
3. Ensure compliance with legal and regulatory requirements; and
4. Provide an avenue of communication among the independent auditor, management and the board.

Committee Operations

The Audit Committee shall consist of at least three board members. 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 company 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 secretary, or any other individual acting in their places at the meeting. Minutes will be available for review by the committee at its next regularly scheduled meeting.

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Management representatives will be excused from any meetings where their presence might discourage open discussion among directors or influence decisions that are within the board'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 company 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 directors of Asset Review and Internal Audit 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 company or the company'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.

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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 one-time 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 company's audited financial statements that are to be included in the company'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 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 company'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 company'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 company's financial statements, including any significant changes in the company's selection or application of accounting principles, any major issues as to the adequacy of the company'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 company'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 company's financial statements.

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8. Discuss with the independent auditor any item not reported as a contingent liability or loss in the company's financial statements as a result of a determination that such item does not satisfy a materiality threshold.
9. Meet periodically with management, the independent auditor and directors of Internal Audit and Asset Review in executive sessions.
10. Discuss with management the company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the company's risk assessment and risk management policies.
11. Approve the certification of the annual report.
12. 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.
13. 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 chairmen of such committees declare a joint meeting unnecessary.
14. Review and reassess the adequacy of this Charter periodically and recommend any proposed changes to the board for approval.
15. Require the Risk Management Group executive and/or the manager of Internal Audit, 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 director of Internal Audit. 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.

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4. Provide pre-approval to hire employees or former employees of the independent auditor who participated in any capacity in the audit of the company 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 company 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 company 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 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, schedules and resource requirements, and recommend the annual plan and budget to the board.
2. Meet regularly with the directors of Asset Review and Internal Audit to review 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.
3. Review the significant reports to management prepared by Internal Audit. Review actions taken by management to address weaknesses identified and report significant 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 function is subject to the committee's review and supervision. The committee will consult with management in the recruitment of the director of Internal Audit. The committee will also review and act on any proposed action to dismiss the director of Internal Audit.

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4. Obtain from the independent auditor its recommendations regarding internal controls and other matters relating to the accounting procedures and the books and records of the company and its subsidiaries and review the correction of controls deemed to be deficient.
5. Review the Annual Enterprise Risk Assessment and Risk Outlook Report presented by Risk Management.
6. Review major financial accounting and reporting risks 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.
7. Establish procedures for (a) the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters.
8. Review the quarterly allowance for credit losses and reserve for credit exposure and determine its adequacy.
9. Obtain and review compliance reports on company's standards of conduct and ethics and, if exceptions warrant, conduct necessary investigations utilizing outside resources if required.
10. Consult with the Chief Credit and Risk Officer on the annual performance appraisal of the directors of Asset Review and Internal Audit and on any changes in assignment or responsibilities of these groups. The Chief Credit and Risk Officer shall have a "dotted line" reporting relationship to the committee chair.
11. Perform an annual self-assessment of the committee's performance.

Compliance

1. Review current or pending litigation or regulatory procedures related to non-compliance with laws or regulations.

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 company's financial statements present fairly the financial position, the results of operations and the cash flows of the company 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 company's financial statements or any professional certification as to the independent auditors' work.