

FARM CREDIT SYSTEM INSURANCE CORPORATION POLICY ON INTERNAL CONTROLS AND AUDIT COVERAGE

Background

The FCSIC is an independent U.S. Government-controlled corporation. The Corporation's primary purpose is to ensure the timely payment of principal and interest on insured debt obligations issued on behalf of Farm Credit System (System) banks. The System is a nationwide Government-sponsored enterprise of privately owned banks and affiliated associations that serve borrowers and related entities in the agricultural sector. By protecting investors, FCSIC helps to maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System. The Corporation administers the Farm Credit Insurance Fund, which is invested in U.S. Treasury Securities, and collects annual insurance premiums from System banks. Congress directed the Corporation to build the Fund to a "secure base amount." The secure base amount is defined as 2 percent of the aggregate of outstanding insured debt obligations of all insured banks, adjusted to exclude certain government-guaranteed loans and investments.

Through its strategic planning process, the Board of Directors (Board) of the Farm Credit System Insurance Corporation (Corporation) identifies the principal programs and activities necessary to fulfill the Corporation's statutory mission. Additionally, each year the Board reviews and approves an annual plan which is derived from the strategic plan. The annual plan provides focus to the goals, objectives and performance measures needed to evaluate the Corporation's performance. Progress on the annual plan is reported to the Board on a regular basis and quarterly reports to the Board include the Corporation's financial statements.

The Board has demonstrated its commitment to accurate and transparent disclosure since 1990 by directing the preparation of financial statements and requiring an annual independent¹ audit of those statements in voluntary compliance with the primary requirements of the Chief Financial Officers Act of 1990. The results of the audit are published each year in the Corporation's Annual Report, which is mailed to stakeholders and posted on the Corporation's web site. The Board also has directed that the Corporation's operations, policies and procedures and other internal controls be independently reviewed periodically to ensure their overall efficiency and effectiveness.

The efficient and effective operation of the Corporation is promoted by an integrated internal control system that includes not only financial and accounting controls but also administrative controls for its program activities to ensure compliance with all applicable statutes and prudent business practices. While the Corporation prides itself on a consistent record of unqualified opinions on its financial statements, this is an outcome that the Corporation does not take for granted.

Management's responsibility for creating and maintaining adequate internal controls over financial reporting and their assessment of the effectiveness of these controls serves to enhance the quality of reporting, identify any potential weaknesses, and maintain confidence in Corporation reports. Thus, management makes representations twice a year on the adequacy of the internal control environment. Management reviews internal controls and compliance with laws and policies in its management representation letters to the independent external auditor and its annual report to

¹ The independent public auditor does not function in the role of management or as an advocate to management by assuming responsibility for justification of any accounting practice.

Congress and the President's Office of Management and Budget (OMB) required by the Federal Managers' Financial Integrity Act (FMFIA).

OMB has requested that the independent auditor perform a special purpose review of FCSIC's financial statements as part of FCSIC's filing of the fiscal yearend reports. The firm audits the Corporation's investments in U.S Treasuries and the premium receivables as of September 30th. The audit requirements are set out in U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700. To complete the audit, the independent auditors review the Corporation's fiscal yearend financial statements and certain related internal controls that cover the investment portfolio and the calculation of premium receivables. These agreed-upon procedures from the TFM link allow FCSIC's special purpose fiscal year financial statements to be included in the Financial Report of the U.S.

In conjunction with their testing of internal controls, the independent auditor reports on their consideration of internal control over the financial reporting process for the financial statements as a basis for designing their auditing procedures and on their testing of compliance with certain provisions of laws, regulations, and contracts that have a direct and material effect of the financial statements. Their report includes any control deficiencies that come to their attention; however the objective of their tests is not the expression of opinion regarding the effectiveness of the Corporation's internal controls.

Additionally, the Government Accountability Office (GAO) performs certain audit procedures in an annual review of the Corporation's financial year-end independent audit. Specifically, it reviews any accounting, auditing, and financial management issues at the Corporation to support its Federal Government Consolidated Financial Statement (CFS) audit. This includes attending key audit meetings, conducting discussions with the Corporation's auditors and assessing the auditor's independence, objectivity and qualifications. GAO also assesses the auditor's financial reporting, which includes a review of the Corporation's financial reports and related auditor's reports.

To establish its commitment to the concept of a strong internal control system, and provide clear direction to management, the Board adopts the following policy statement.

Policy Statement

The Corporation shall establish and maintain a cost effective system of accounting and administrative internal controls to provide the following reasonable assurances that:

- i. All obligations and costs are in compliance with applicable law;
- ii. All funds, property, and other assets are safeguarded against waste, loss or unauthorized use;
- iii. All revenues and expenditures applicable to Corporation operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets; and
- iv. All programs and administrative activities are managed efficiently to fulfill the mission of the Corporation.

The establishment and maintenance of the Corporation's internal control system shall be executed in accordance with the Board's direction, the requirements of the FMFIA, and guidelines set forth by the GAO and the OMB. The Corporation's internal control system shall include the following components:

- A financial management system that conforms to Federal Financial Management System Requirements;
- Certification by the officers who approve financial reports that those reports are financially accurate and that the Corporation is in compliance with applicable legal requirements that have a direct and material effect on those reports. The signatories will state in the certification that they have reviewed the reports. If anyone refuses to sign, then the person and reason for the refusal would be disclosed. The Corporation's annual report will be dated and signed or electronically approved by the Chairman;
- A Vulnerability Assessment and corrective actions performed annually according to the requirements of the FMFIA;
- Policies and procedures that foster compliance with laws, regulations and government ethics, including annual ethics training. A policies, procedures, and delegations manual related to administrative and program functions which is available to staff and reviewed and updated annually;
- A financial statement audit conducted annually by an independent public auditor free of potential conflicts of interest² in voluntary compliance with the principal requirements of the Chief Financial Officers Act of 1990. Corporation audit engagements shall be conducted in accordance with the Board's audit committee charter;
- The independent auditor's attestation to, and report on, the effectiveness of management's internal control over financial reporting on the financial statements included in the annual report. At a minimum, the assessment will affirmatively state that internal control over the financial reporting process for the financial statements are in place, have been reviewed during the reporting period, and indicate that details of the review were reported to the Board of Directors and include a conclusion of the effectiveness of the financial statement internal control environment;
- Regular reports from senior management to the Board addressing the Corporation's compliance and operational risk oversight responsibilities.
- Periodic operational audits will be conducted by an independent audit firm or other appropriate experienced consultant;
- Opening and annual audits of any receiverships; and
- Quarterly reports to the Board regarding the results of any audits conducted during the period and the status of incorporating any recommendations made by the auditors.

² To avoid conflicts of interest or the appearance thereof, the independent audit firm cannot have an accounting partner or concurring partner, or lead audit team member who was an employee, officer or director of the Corporation for the 12 months prior to contracting for audit services or within one year of its conclusion. In addition, the qualified public accounting firm is required to rotate the lead and reviewing audit partners after five consecutive years of service for a five-year time-out period.

FARM CREDIT SYSTEM INSURANCE CORPORATION AUDIT COMMITTEE CHARTER

Statement of Policy

The Farm Credit System Insurance Corporation (Corporation) has a Policy on Internal Controls and Audit Coverage that establishes audit requirements for its financial statements, operations and programs. To ensure the quality, integrity and transparency of its financial reports, the Board of Directors (Board) shall exercise oversight of the Corporation's accounting and financial statement audits reporting practices and oversee the Corporation's compliance with legal and regulatory requirements by serving as the Audit Committee. The Audit Committee will maintain free and open communication between the Directors, the independent auditors, and the management of the Corporation.

Responsibilities

The policies and procedures will remain flexible, in order to best react to changing conditions and to ensure that the accounting and reporting practices of the Corporation are in accordance with all requirements and are of the highest quality.

The Board, as the Audit Committee, will:

- Review and approve the selection of independent auditors to audit the financial statements of the Corporation. The lead and reviewing audit partners may serve for no more than five consecutive years. They must rotate out of these roles for five years. If necessary, the Audit Committee may terminate the independent auditor. If the Board terminates an auditor, it shall disclose the reason for such termination.
- The external auditor shall report directly to the Audit Committee.
- Meet with the independent auditors as often as it determines, but initially to review the scope of the proposed audit for the current year, the audit procedures to be utilized, and at the conclusion thereof, review such audit, including any comments or recommendations of the independent auditors.
- Review with the independent auditors and Corporation management, the adequacy and effectiveness of the accounting and financial controls of the Corporation, and how management and the auditors evaluate materiality. Elicit any recommendations for the improvement of the internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.
- Discuss with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements. This includes management estimates for the Secure Base Amount in connection with premium assessments and the establishment of any allowances for loss or claims against the Farm Credit Insurance Fund.

- Review the financial statements contained in the annual report with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements as presented. Any changes in accounting principles should be reviewed.
- Review the results of any audits conducted during the year, including the OMB required special purpose review of the fiscal year financial statements audit and the calendar yearend financial statements audit.
- Meet with the independent auditors without members of management present. Among the items to be discussed in these meetings are the independent auditors' evaluation of the Corporation's financial and accounting personnel, and the cooperation that the independent auditors received during the course of the audit.
- Review the programs and policies of the Corporation that are designed to ensure compliance with applicable laws and regulations and monitor the results of these compliance efforts.
- Obtain and evaluate a report on the external auditor's internal quality control procedures, any issues raised by the most recent internal quality control review or peer review and the steps taken to deal with any such issues.
- Obtain a list of any relationships between the auditor and any other company that in the auditor's judgment may reasonably bear on its independence. For example, does the audit firm perform audit services or non-audit services for any Farm Credit System institutions.
- Review and pre-approve the selection of auditors and scope for any non-financial audit engagements.
- Reaffirm to Corporation employees that they may submit a confidential report of questionable internal control, audit findings or suspected fraud to the Audit Committee. Investigate any matter brought to its attention. Perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Board deems necessary or appropriate.

DATED THIS 8TH DAY OF DECEMBER 2011

BY ORDER OF THE BOARD OF DIRECTORS