

PUERTO RICO FARM CREDIT, ACA

BOARD AUDIT COMMITTEE CHARTER

Purpose

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to 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.

Functions of Committee

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

- Recommend to the Board the employment of a qualified independent accounting firm to prepare an annual audit report.
- 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 auditing department.
- 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 accountants, financial and senior management, the internal auditing department, the Farm Credit System Audit Committee and the Board of Directors.

The Audit 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 Bank and the power to retain outside counsel or other experts considered necessary in discharging its oversight role.

Composition

The Audit Committee shall be comprised of at least three directors as determined by the Board, each of whom shall be free from any relationship that, in the opinion of the Board, 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 practices, and at least one member of the Committee should have accounting or related financial management expertise.

The Chairman and members of the Committee shall be appointed by the Chairman of the Board at the annual organizational meeting of the Board 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 reviewer, the external accountants (HRK) and the independent accountants (PwC) in executive sessions, if necessary, 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 any reports or other significant financial information including any certification, report, opinion, or review rendered by the independent accountants.

3. Review and approve the scope of internal audit's plan for the year.
4. On a quarterly basis, review a summary of major findings by the internal auditing department and management's response for addressing the conditions reported.
5. Review the interim financial information with management and the independent accountants prior to filing the quarterly Call Report with the FCA. Review and approve on a quarterly basis the allowance for loan losses.
6. Review the periodic FCA examination process and the report of examination issued by the FCA.
7. Meet at least annually, or as needed, with the CEO, CFO and CCO to discuss and provide input on the Association's system of internal controls and the quality of credit.

Independent Accountants

8. Recommend to the board of Directors the selection of the independent accountants 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 accountants.
9. On an annual basis, the Committee should obtain and review a formal written statement from the independent accountants that discusses all significant relationships the accountants have with the Association to determine the accountants' independence.
10. Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
11. Discuss with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 61.
12. Periodically consult with the independent accountants in executive session to discuss internal controls and the fullness and accuracy of the organization's financial statements.
13. Review with the independent accountants any problems or difficulties the accountants may have encountered during the annual review including any disagreement among management and the independent accountants or the internal auditing department in connection with the preparation of the financial statements.

14. Review any significant recommendations in the management letter provided by the accountants and the Association response to the letter.

Financial Reporting Processes

15. In consultation with the independent accountants and the internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
16. Discuss with the independent accountants 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 accountants, 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 accountants and the internal auditing department 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 accountants, the internal auditing department 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

21. Review annually the Association's Conflict of Interest policy and ensure that management has established a system to enforce this policy.

22. Review 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/reviewer.