

Alabama Farm Credit, ACA

AUDIT COMMITTEE CHARTER

I. 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 the financial reporting process, the system of internal control, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct. 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 adequacy of the Association's system of internal controls.

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

- Determine the appointment, compensation, retention and work of the independent accountants retained to prepare the financial audit reports and internal review functions. The independent accountant shall report directly to the Audit Committee.
- Evaluate the selection of the independent accountants retained to prepare an annual audit report.
- Evaluate the selection of the accountants retained to perform internal audit/review function, and determine the scope of such services.
- Review and appraise the audit efforts of the Association's independent accountants and internal auditors.
- Serve as an independent and objective party to review the financial information and internal control assertion presented by management to the shareholders, regulators and the general public.
- Oversee the institution's system of internal control related to the preparation of financial reports, including controls of the institution to ensure compliance with laws and regulations.

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Committee -11.2017

- Monitor the Association's compliance with legal and regulatory requirements.
- Monitor the activities of the internal audit and internal credit review functions.
- Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditors, 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 Association and 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. The Association shall provide for appropriate funding, as determined by the Committee.

II. COMPOSITION

The Board of Directors will appoint an Audit Committee ("Committee") and delegate to that Committee all of the rights, obligations, responsibility and authority necessary to fulfill its duties under this charter. The 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. Other directors may serve as alternates on the Committee at the Board's discretion. All members of the Committee should have a working familiarity with general business and/or basic finance and accounting practices, and collectively should have the accounting or related financial management expertise to fulfill their responsibility. The Committee must have one financial expert as required by FCA regulation 620.30.

The members of the Committee shall be appointed by the Board at the first regularly scheduled board meeting following the annual Stockholder's meeting and shall serve until their successors shall be duly selected and qualified. Committee members shall appoint a chairman at its first scheduled committee meeting following the annual meeting and reorganization of the Board.

III. 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 auditors, the independent accountants, and others as deemed necessary, in separate executive sessions to discuss any matters that the Board, Committee or any of these groups believe should be discussed. These meetings should be attended in person if possible; however use of telephone and/or video-conferencing may be used as well as determined by the Committee. Meeting agendas and appropriate materials will be prepared and provided in advance to members whenever possible. Minutes shall reflect the meetings, parties involved and any actions taken. The Committee Chairman shall report on the activities of the Committee to the full board. Meetings may be called by the Chairman of the Committee, by the Chairman of the Board, CEO or CFO.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Audit Committee shall, with such assistance from and consultation with management, independent accountants, internal auditors, credit review personnel, regulatory personnel, legal counsel and others, as the Committee deems appropriate:

Documents/Reports Review

1. Review the adequacy of this charter on a periodic basis, at least annually, and update the charter as necessary.
2. Meet at least annually, or as needed, with management to review and discuss the Association's system of internal controls, the quality of credit, and the integrity of the Association's internal and external financial reporting processes.
3. Discuss with the independent accountants, prior to the release of the annual audited financial statements, all (1) critical accounting policies and practices used by the Association, (2) material alternative accounting treatments of financial information within authoritative accounting guidance that have been discussed with management, including the ramifications of the use of such alternative treatments, and disclosures and the treatment preferred by the independent accountant, and (3) other material written communications between the independent accountants and management, such as management letters, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded, and the independent accountant's independence letter.

4. Review the Association's financial and other reports with management, the independent accountants, internal auditors and others, as necessary:
 - Quarterly and Annual shareholders' reports
 - Quarterly Call Reports required by FCA
 - Internal Audit report
 - Internal Credit Review report
 - Any other reports or significant financial information including any certification, report, opinion, or review rendered by the independent accountants.
5. Review, prior to the issuance, each press release of financial results.
6. On a quarterly basis, review reports of complaints from the whistleblower/corporate ethics hotline.
7. Evaluate the adequacy of the Association's internal controls by review of written reports from the internal and external auditors, and monitor management's response and actions to correct any noted deficiencies
8. Review the interim and annual financial information with management and the independent accountants as reported in the quarterly Call Report with the FCA.
9. Review the risk assessment process and approve the scope of Internal Audit's plan for the year.
10. On at least an annual basis, review the status of all internal audit's corrective action matrixes status of items found during reviews.

Independent Accountants, Internal Auditors and Reviewers

11. Independent External Accountants:
 - Determine the selection of the independent accountants for the coming year, considering independence and effectiveness;
 - Review and approve the audit plan, scoping, staffing, the fees and other compensation to be paid for the annual audit;
 - Pre-approve audit, audit related and allowable non-audit services, including an evaluation of independence in accordance with Association policy, to be provided by the independent accountants;
 - Discuss with the external independent accountants the matters required to be discussed by AU 380.04 (Statement of Auditing Standards No. 114) (The Auditor's Communication with those Charged with Governance).
 - Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
 - If deemed appropriate after review and discussion, recommend that the financial statements be included in the Association's annual report;
 - 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 in connection with the preparation of the financial statements;
 - Review any recommendations in the management letter provided by the accountants and management's response to the letter.
 - Review fees paid to the external auditor on an annual basis;
 - Periodically consult with the independent accountants, executive session to discuss internal controls and the fullness and accuracy of the organization's financial statements.
 - 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.
13. Internal Auditors and Reviewers:
- Determine the selection of the internal auditors for the coming year;
 - Review, approve and monitor the audit risk assessment and scope of the internal auditors;
 - Review and approve the budget, staffing, and organizational structure of the internal auditors;
 - Review the performance of the internal auditors and approve any replacement of the independent accountants when circumstances warrant.
 - Review and approve the fees and other compensation to be paid to the internal auditors;
 - Review and track recommendations provided by the internal auditors and the Association's responses;
 - Review with the internal auditors any problems or difficulties they may have encountered during the annual review including any disagreement among management and/or staff;

Financial Reporting Processes

14. In consultation with the independent accountants and the internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
15. Discuss with the independent accountants their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
16. 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 Auditors.

17. Review, prior to release, any information or reports regarding significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
18. Review, if applicable, (1) 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 and (2) earnings press releases and other reports or written electronic material disclosing “pro-forma,” or “adjusted” non-GAAP information.

Process Improvement

19. Following completion of the annual financial statement audit and/or internal audit, review separately with management, the independent accountants and the internal auditors, any problems or significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
20. Review and monitor management’s efforts to respond to audit findings.
21. Review with the independent accountants, the Internal Auditors 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.)
22. Receive periodic reports on internal controls or certain control environments (i.e. SSAE 16, AUP, Section 404, SOC2 from FCBT)
23. The committee will meet with each member of the senior management in an executive session at least annually.

Ethical and Legal Compliance

24. Review periodically (at least annually) the Association’s Standard of Conduct policy and ensure that management has established a system to enforce this policy.
25. 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.

26. Review the findings of any examinations by regulatory agencies, and management actions to address findings and recommendations.
27. Establish procedures for the receipt, retention, and treatment of complaints received regarding the Association's accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by the employees of the Association of concerns regarding questionable accounting or auditing matters.
28. Confirm annually that all responsibilities outlined in this charter have been carried out.
29. 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.

Communication and Documentation

30. Maintain records of meetings including attendance for three fiscal years.
31. Minutes must contain record of agreement or disagreement when committee reviews financial policies, procedures and reports.
32. Evaluate the Committee's and individual member's performance at least annually.
33. Maintain records of meetings including attendance in accordance with the Association's record retention policy but no less than three fiscal years.
34. Regularly report to the board of directors about committee activities, issues, and related recommendations.
35. Report annually to the shareholders, the committee's composition, responsibilities and how they were discharged, and any other information required by regulation, including approval of non-audit services.