

Alabama Ag Credit, ACA

AUDIT COMMITTEE CHARTER

I. PURPOSE & AUTHORITY

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to fulfill its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations. 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. The independent accountants shall report directly to the Audit Committee.
- Serve as an independent and objective party to review the financial information and internal control over financial reporting (ICFR) assertion presented by management to the shareholders, regulators, and the general public.
- Review and appraise the audit efforts of the Association's independent accountants and internal auditors (including credit review, collateral evaluation review, and collateral custodian audit).
- Monitor the Association's compliance with legal and regulatory requirements.
- Oversee and monitor the activities of the internal audit function.
- Provide an open avenue of communication among the independent accountants, 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 shall have full, unrestricted 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. A two-thirds majority vote of the full Board of Directors is required to deny an audit committee's request for resources.

II. COMPOSITION

The Audit Committee shall be comprised of the full Board, each member of which shall be free from any relationship that would interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure, or accounting procedures. Additionally, all

committee members must be able to read and understand the Association's financial statements. The Committee must have at least one financial expert as required by FCA regulation 620.30. Annually, the Committee must document how its members meet the financial knowledge requirements.

The Chairman and members of the Committee shall be appointed by the Board at the annual organizational meeting of the Board and shall serve until their successor shall be duly selected and qualified. The Board Chairman will not serve as chairman of the Committee. The Board, upon recommendation of the Committee or otherwise, may remove any Committee member at any time.

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, on-staff and outsourced internal auditors, and the independent 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 Chairman of the Committee or by the Chairman of the Board. A majority of the members shall constitute a quorum. These meetings should be attended in person if possible, however, use of tele- 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 of meetings will be prepared, shall include attendance records, and be maintained for a period of at least three years.

IV. RESPONSIBILITIES AND DUTIES

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

Documents/Reports Review

1. Review the adequacy of this charter on an annual basis, and recommend changes as needed for board approval.
2. Review and approve the Association's annual and quarterly financial statements and any reports or other significant financial information including any certification, report, opinion, or review rendered by the independent accountants. Discuss as necessary complex or unusual transactions, highly judgmental areas, recent professional or regulatory pronouncements, and understand their impact on the Association's financial statements.
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) all 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 letter, 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 and approve the quarterly allowance for loan losses and provision expense. Allowance and provision expense will be post-approved at the next regularly-scheduled meeting after quarter-end for interim reporting and year-end for annual reporting.
5. Review, prior to the issuance, each press release of financial results.
6. 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.
7. Provide input to and review the risk assessment process and approve the Association's Audit Plan for the year.
8. On a periodic basis, review the status of the audit plan and ascertain management's efforts to respond to audit issues.
9. Meet at least annually, or as needed, with management to discuss and provide input on the Association's system of internal controls. Receive periodic reports on internal controls or certain control environments (i.e. SSAE 16, UAP, Section 404).

Independent Accountants

10. Determine the selection of the independent accountants considering independence and effectiveness, review the planning, scoping and staffing for the annual audit, and approve the fees and other compensation to be paid to the independent accountants.
11. Pre-approve audit, audit related and allowable non-audit services to be provided by the independent accountants. 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.
12. Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
13. Discuss with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 114 (The Auditor's Communication with those Charged with Governance).
14. Periodically consult with the independent accountants in executive session to discuss ICFR and the completeness and accuracy of the Association's financial statements.
15. 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.
16. Review any significant recommendations in reports provided by the accountants and management's response to the reports.
17. Review fees paid to the external auditor.

Internal Auditors

18. Determine the selection of the internal auditors considering independence and effectiveness, review the planning, scoping and staffing for the audit, and approve the fees and other compensation to be paid to the internal auditors.
19. Pre-approve audit, audit related and allowable non-audit services to be provided by the internal auditors.
20. Review the performance of the internal auditors and approve any replacement of the internal auditors when circumstances warrant.
21. Periodically consult with the internal auditors in executive session.

22. Review with the internal auditors any problems or difficulties they may have encountered during the internal audit.
23. Review any significant recommendations in reports provided by the internal auditors and management's response to the reports.
24. Review fees paid to the internal auditor.
25. Consult with the CEO on the annual performance appraisal of on-staff internal auditors.
26. Encourage to the extent possible, compliance with The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing as these standards are consistent with sound, prudent business practices.

Financial Reporting Processes

27. In consultation with the independent accountants and internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
28. Discuss with the independent accountants their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
29. 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.
30. Review, prior to release of information, any (1) significant deficiencies and material weaknesses in the design or operation of ICFR and (2) any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
31. Review (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

32. Following completion of the annual audit, review separately with management, the independent accountants, and the internal auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
33. 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.)

Ethical and Legal Compliance

34. Review with the Association's legal counsel, 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.
35. Review the findings of any examinations by regulatory agencies, and management actions to address findings and recommendations.

36. Establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters for the confidential, anonymous submission by Association employees of concerns regarding questionable accounting or auditing matters. On a quarterly basis, review reports, if any, of complaints from the whistleblower hotline.

Communication and Documentation

37. Regularly report to the board of directors about committee activities, issues, and related recommendations.
38. Report annually to the shareholders, the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
39. Evaluate the Committee's and individual members' performance at least annually.
40. Minutes must contain record of agreement or disagreement when committee reviews financial policies, procedures and reports.

Charter reviewed by Audit Committee on April 25, 2023, and approved by Board of Directors on April 25, 2023.