

First South Farm Credit, ACA

AUDIT COMMITTEE CHARTER

I. PURPOSE

The Audit Committee is a committee of the Board of Directors and with the Board's consent the primary function of the 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.

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

- Oversee management's preparation of the report to shareholders.
- Oversee disclosure controls and procedures, internal controls over financial reporting, and compliance with ethical standards adopted.
- Review the impact of any significant accounting and auditing developments.
- Review accounting policy changes relating to preparation of financial statements.
- Review annual and quarterly reports prior to release.
- 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, internal auditors and Chief Audit Officer.
- Review the Farm Credit Administration (FCA) examination processes and results.
- Monitor the Association's compliance with legal and regulatory requirements.
- Monitor the AgFirst and the Association's information security practices.

- 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. The Committee will be provided whatever monetary and nonmonetary resources necessary to enable it to contract for these external resources and ordinary administrative expenses. A two-thirds majority vote of the full Board is required to deny the Committee's request for resources.

II. 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 in the aggregate the Committee should have accounting or related financial management expertise. 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 (or be willing to acquire same within a reasonable period of time). At least one member of the Committee must be a financial expert as defined by FCA regulations.

The Chairman and members of the Committee shall be appointed by the Chairman of the Board at the annual organizational meeting of the Board with ratification by the full Board and shall serve until their successors shall be duly selected and qualified.

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 and the independent accountants in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed.

IV. 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 adequacy of the internal audit activity charter on an annual basis.
3. 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.
4. Review and approve the scope of the internal audit, the internal credit review and the internal appraisal review plans for the year.
5. On an annual basis, review and approve the internal audit budget and resource plan.
6. On a quarterly basis, review a summary of major findings by the internal auditors and management's response for addressing the conditions reported.
7. Review the interim financial information with management and the internal auditor prior to filing the quarterly Call Report with the FCA.
8. Review the FCA examination process and the report of examination issued by the FCA.
9. Meet at least annually, or as needed, with the Chief Executive Officer to discuss and provide input on the Association's system of internal controls and the quality of credit.
10. After the audit committee reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.
11. At least annually, in consultation with management of the Association, evaluate the performance and remuneration of the Chief Audit Officer.
12. Receive communications from the Chief Audit Officer on the internal audit activity's performance relative to its plan and other matters.

Independent Accountants

13. 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 recommend to the Board of Directors for approval the fees and other compensation to be paid to the independent accountants.
14. 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.
15. Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
16. Discuss with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 61.
17. Periodically consult with the independent accountants in executive session to discuss internal controls and the fullness and accuracy of the Association's financial statements.
18. 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 auditors in connection with the preparation of the financial statements.
19. Review any significant recommendations in the management letter provided by the accountants and the Association's response to the letter.
20. The external auditor must report directly to the Audit Committee.

Financial Reporting Processes

21. In consultation with the independent accountants and the internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
22. Periodically review the adequacy and effectiveness of disclosure controls and procedures and the association's internal control over financial reporting, including any significant deficiencies and significant changes in internal controls.
23. Discuss with the independent accountants their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.

24. 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.
25. 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

26. 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.
27. 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, Legal Compliance and Risk Management

28. Review annually the Association's Conflict of Interest policy and Code of Ethics to ensure that management has established a system to enforce this policy.
29. Review, with the Association's General 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.
30. Review the appointment and replacement of the internal auditors.
31. Review risk assessment and risk management processes.
32. Perform any other activities consistent with this Charter, the internal audit activity charter, the Association's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.
33. Receive and investigate complaints from employees and others regarding questionable accounting, internal controls, unethical dealing, corporate waste, illegal activities or fraud.

Other Responsibilities

34. Review the appointment and replacement of a competent tax professional to provide tax services for the Association. The Committee shall assess the experience and qualifications of the tax professional prior to making the selection.
35. On an as needed basis, approve the appointment and removal of the Chief Audit Officer.
36. Monitor information system security reports from AgFirst, the Association and the internal auditors at least annually. Provide input as needed to management on the Association's information system controls and practices.
37. The Audit Committee shall maintain records of meetings, including attendance, for at least 3 years.