



Audit Committee Charter

I. PURPOSE

The Audit Committee (Committee) is a Committee of the Board of Directors (Board) of Legacy Ag Credit, ACA (Association). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities relating to the quality of financial reporting and internal controls. The Committee also establishes and oversees an independent, objective audit review function. It is not the duty of the 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 Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and that strong, independent internal controls which are essential to safe and sound operations are in place. The operational audit, credit review, and appraisal review programs are critical components of a financial institution's internal control environment. The Committee delegates responsibility for meeting these objectives to the management team and provides appropriate resources to ensure that the objectives are achieved.

II. COMPOSITION

The Committee will be comprised of at least three (3) directors as determined by the Board. Members appointed to the Committee must be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee Member. The Committee must include any Director designated as a financial expert under 620.30. All Committee Members should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure or accounting procedures.

The Chairperson and members of the Committee will be appointed by the Board at the annual organizational meeting of the Board and serve until their successors are duly selected and qualified. The outside or Board-appointed Director will typically serve as the Chairperson of the Committee. Committee Members will attest annually that they meet the independence requirements as stated in 620.30.

III. MEETINGS

The Committee will meet at least four (4) times annually, or more frequently as circumstances dictate. To foster open communication, the Committee will meet as often as needed, but at least once per year, with management, the audit coordinator, external auditor(s), internal auditor(s), and other auditors in separate executive sessions to discuss matters the Committee or any of these groups believe should be discussed. Special meetings may be called at any time by the Committee Chairperson. Members of the Committee may participate in meetings via teleconference conference or similar electronic communication equipment, so long as all members participating in the meeting can hear one another, have all information needed to participate, have been given sufficient time to examine all materials, and are able to participate in discussions. Participation in a meeting constitutes attendance at the meeting which will be treated in accordance with the Association's Director Compensation Policy.

IV. QUORUM AND VOTING

If the Committee is comprised of an even number of directors, one-half of the number of Directors will constitute a quorum for the transaction of business. If the Committee is comprised of an odd number of Directors, a majority of the Committee Members will constitute a quorum for the transaction of business. If the quorum consists of three (3) or more members, majority vote is required for any action. If the quorum consists of two (2) members, a unanimous vote is required for any action.

V. RESPONSIBILITIES AND DUTIES

The Committee's primary responsibilities and duties are to:

- Oversight of management's preparation of the quarterly financial statements and the annual report to shareholders.

- Oversee the Association’s system of internal controls relating to the preparation of financial reports, including controls relating to compliance with applicable laws and regulations.
- Review annual financial statements and any reports or other significant financial information.
- Monitor compliance with legal and regulatory requirements.
- Review the impact of any significant accounting and auditing developments, and review accounting policy changes relating to the preparation of the financial statements.
- Review quarterly and annual reports prior to release.
- After review of a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.
- Provide an open avenue of communication to external auditor(s), internal auditor(s), other auditors, senior management, audit coordinator, and the Board, which may include a separate executive session as deemed necessary.
- Pre-approve any non-audit services performed by external auditor(s), except for those non-audit services specifically prohibited by FCA regulation.
- Ensure external auditor(s), internal auditor(s), and other auditors report directly to the Committee.
- Determine the appropriate appointment, compensation, and retention of external auditor(s), internal auditor(s), and other auditors.
- Receive updates on audit and review plan progress from external auditor(s), internal auditor(s), and other auditors as deemed necessary.
- Review, compare and document any variance of the actual work performed by external auditor(s), internal auditor(s), and other auditors to the audit scope.
- Assess the effectiveness and reliability of the audit and review function.
- Conduct an annual performance evaluation of the Audit Coordinator.

In fulfilling its duties, the Committee has full access to all books, records, facilities and personnel of the Association and the authority to retain outside counsel or other experts necessary to discharge their oversight role including retaining services for training on industry best practices. Per FCA Regulation 620.30 (c) a two-thirds majority vote of the full Board is required to deny the Committee’s request for resources.

To fulfill its responsibilities and duties the Committee will, with such assistance from management and the operations auditor as the Committee deems appropriate:

1. Review the adequacy of this charter on an annual basis.
2. Oversee the development of the annual audit plan and approve the audit plan and audit scopes. The Association’s management team may assist the Committee in the development of the audit scopes by reviewing the current audit plan and making recommendations to the Committee for revisions based on changes in risk elements or operating practices. The Committee will make the final determination concerning the scopes.
3. Review additions and revisions to Association policies to determine if they necessitate a change in the approved audit scopes.
4. Review any findings and recommendations by external auditor(s), internal auditor(s), and other auditors including management’s response for addressing the findings.
5. Review deviations from approved audit scopes and request appropriate follow-up actions as needed.
6. Review interim financial reports.
7. Review the FCA examination process and the report of examination issued by the FCA, including management’s response for addressing the findings.
8. Review as needed the Association’s system of internal controls, including but not limited to information provided to Farm Credit Bank of Texas as required by the General Financing Agreement.
9. The Committee should obtain and review a formal written statement from external auditor(s), internal auditor(s), and other auditors attesting to their independence.
10. Review performance of external auditor(s), internal auditor(s), and other auditors, and approve any replacement of auditors as circumstances warrant.
11. Consult with external auditor(s), internal auditor(s), and other auditors in executive session as needed.
12. Review with external auditor(s), internal auditor(s), other auditors, and management any problems or difficulties encountered during audit engagements, including any disagreement between management and auditors.
13. In consultation with external auditor(s), internal auditor(s), and other auditors, evaluate the integrity of the financial reporting processes, both internal and external.

14. Review, prior to release of information, any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
15. Review legal compliance matters that may have a material impact on the Association, including any material reports or inquiries received from regulators or governmental agencies.
16. Perform any other activities consistent with this Charter, Association by-laws, regulations, and governing law, as deemed appropriate by the Committee or the Board.
17. Meet as needed with management to discuss and provide input on the system of internal controls and credit quality.
18. The Committee completes annual self-evaluations which provide insight into the Committee's strengths and weaknesses, developmental needs, and potential changes to membership.
19. The Committee receives quality, ongoing training.

VI. RECUSAL FROM PROCEEDINGS

The Committee's responsibilities relate to matters of general applicability that affect all stockholders/borrowers in a nondiscriminatory way. However, if any Committee Member determines their participation in an issue being deliberated presents a conflict of interest, that Committee Member should recuse themselves from participation in those deliberations. To provide other Committee Members freedom of discussion, the Committee Member will physically remove themselves from Committee discussion while the issue is under consideration. Meeting minutes will reflect the Committee Member's disclosure of the potential conflict of interest and subsequent recusal from the proceedings.

VII. REPORTING TO THE BOARD

Association staff, approved by the Committee, will record minutes of each meeting and approved minutes will be presented to the Board at the next regularly scheduled meeting. The Committee must maintain records of meetings, including attendance, for at least three (3) fiscal years.