

Charter of the Audit Committee of the Board of Directors of Security Federal Corporation

I. Purpose

The Audit Committee is appointed by the Board of Directors of Security Federal Corporation (“Company”) to assist the Board in fulfilling its oversight responsibilities. The Audit Committee’s primary duties and responsibilities are to:

1. Monitor the integrity of the Company’s financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance.
2. Monitor the independence and performance of the Company’s independent auditors and the performance of the Company’s internal auditing department.
3. Provide an avenue of communication among the independent auditors, management, the internal auditing department, and the Board of Directors.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

II. Composition

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent non-employee directors, free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements. The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and at such other times as may be necessary in the event of any vacancies in the Committee (including a decision by the board to increase the number of members of the Committee), and shall serve until their successors shall be duly elected and qualified. If an Audit Committee Chair is not designated by the Board, the members of the Committee may designate a Chair by majority vote of the Committee membership.

III. Meetings

The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. If the Audit Committee Chair is not available for a meeting, the other members of the Committee may appoint a temporary chair for such meeting. The Committee may ask members of management or others to attend meetings of the Committee and provide pertinent information as necessary or appropriate. As part of its job to foster open communication, the Committee should meet from time to time, with management, the senior internal audit executive and the independent auditors in separate executive sessions to discuss any matters that the Committee or any of these persons believe should be discussed separately. In addition, the Committee or at least its Chair should meet with the independent auditors and management quarterly to review the Company’s financials consistent with IV.4 below.

IV. Responsibilities and Duties

To fulfill its responsibilities and duties, the Audit Committee shall:

Review Procedures

1. Review and reassess the adequacy of this Charter, at least annually, as needed. The Committee shall submit the Charter to the Board of Directors for approval.
2. Review the form of presentation and type of information to be resented in earnings press releases. The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.
3. Review the regular internal reports prepared by the internal auditing department and management's responses thereto.
4. Prior to the filing of the Company's quarterly and annual reports on Forms 10-Q and 10-K, review and discuss with management the Company's quarterly and annual consolidated financial statements, the matters in those reports affected by the consolidated financial statements, including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations, and the results of the independent auditors' reviews of the quarterly financial statements, the audit of the annual financial statements and the independent auditors' report. The independent accountants would be available to the Committee for any questions they have in connection with their review of the quarterly reports other than year end. Prior to the filing of the Company's annual report on form 10-K the Committee shall recommend to the Board whether or not the audited financial statements should be included in the Form 10-K.
5. Review disclosures made by the Company's chief executive officer and chief financial officer regarding compliance with their certification obligations as required under the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder, including the Company's disclosure controls and procedures and internal control over financial reporting and evaluations thereof any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and any fraud, whether or not material, involving management or other employees who have a significant role in the Company's internal control over financial reporting.

Independent Auditors

6. Have the sole authority to appoint or replace the independent auditors.
7. Review the audit plan of the independent auditors – discuss scope, staffing, estimated and actual fees, reliance upon management and internal auditors and general audit approach. At the conclusion of the audit, review and discuss with the independent auditors any significant changes from the original audit plan.
8. Approve all audit engagement fees and terms and all non-audit engagements with the independent auditors. The Committee may delegate authority to pre-approve non-audit services to one or more members of the Committee. If this authority is delegated, all approved non-audit services will be presented to the Committee at its next scheduled meeting.
9. Ensure the independent auditors' ultimate accountability to the Audit Committee and the Board of Directors, as representatives of the stockholders, receiving reports directly from the auditors.
10. Be directly responsible for the oversight of the work of the independent auditors, reviewing their performance regularly.
11. Ensure receipt from the independent auditors of the written disclosures and the letter from the independent auditors required by applicable requirements of the Public

Company Accounting Oversight Board regarding the independent auditors' communications with the Committee concerning independence (including a formal written statement delineating all relationships between the independent auditors and the Company) and discuss the independent auditors' independence with them. On an annual basis, the Committee should review and discuss with the independent auditors any such relationships to determine the auditors' independence and objectivity. The Committee should take, or recommend to the Board that it take, appropriate action to oversee the independence of the auditors.

12. Discuss with the independent auditors all matters required to be discussed by Statement of Auditing Standards No. 61, as amended.
13. Periodically consult with the independent auditors out of the presence of management about internal controls and the completeness and accuracy of the Company's financial statements.
14. Ensure that the lead audit partner of the independent auditors and the concurring audit partner are rotated at least every five years, and that all other audit partners are rotated at least every seven years in compliance with the rules and regulations of the Securities and Exchange Commission.
15. Discuss with management any second opinions sought from an accounting firm other than the Company's independent accountants, including the substance and reasons for seeking any such opinion.

Financial Reporting Processes

16. In consultation with management, the independent auditors and the internal auditors, review the integrity of the Company's financial reporting processes and controls, both internal and external.
17. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
18. Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditors, management, or the internal auditing department.

Process Improvements

19. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses.
20. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
21. Review at least annually the exceptions noted in the reports to the Audit Committee by the internal auditors and the independent accountants, and the progress made in responding to the exceptions.
22. Establish regular and separate systems of reporting to the Audit Committee by each of management, the independent auditors and the internal auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.

23. Establish procedures that allow employees of the Company or any of its subsidiaries to submit confidential and anonymous concerns regarding questionable accounting or auditing matters.
24. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
25. Review separately, as needed, with each of management, the independent auditors 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.
26. Review (and in the case of the independent auditors, settle) any disagreement among management and the independent auditors or the internal auditing department in connection with the preparation of the financial statements.
27. Review with the independent auditors, the internal auditing department and management the adequacy and effectiveness of the accounting and financial controls of the Company and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.
28. Review with the independent auditors, 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.

Compliance

29. Review findings from completed internal audits and progress reports on the proposed internal audit plan, together with explanations for any deviations from the original plan.
30. Review the internal audit function of the Company, including the budget, plan, changes in plan, activities, independence, competence, staffing adequacy, authority and organization of the internal auditing department, the reporting relationships among the internal audit department, financial management and the Audit Committee, the internal audit reporting obligations, the proposed internal audit plans for the coming year, and the coordination of such plans with the independent auditors.
31. Review the appointment, performance and replacement of the senior internal audit executive.
32. Review the Company's policies and procedures for regular review of the expense accounts of senior management.
33. Obtain reports from management, the Company's senior internal auditing executive and the independent accountants as to whether the Company and its subsidiaries are in conformity with applicable legal requirements.
34. Review reports and disclosures of insider and affiliated party transactions.
35. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations.
36. Discuss with management and the independent accountants (and legal counsel, if necessary) any correspondence with regulators or governmental agencies and any

employee complaints or reports which raise material issues regarding the Company's financial statements, internal controls or accounting policies.

37. Review with legal counsel legal compliance matters including corporate securities trading policies.
38. Review with legal counsel legal or regulatory matters that may reasonably be expected to have a material impact on the Company's financial statements or its compliance and reporting policies.
39. Review, with management and legal counsel, the Company's system for assessing whether the financial statements, reports and other financial information required to be disseminated to the public and filed with governmental organizations satisfy the applicable requirements of the Securities and Exchange Commission and other government agencies.

Reporting

40. Prepare an audit committee report for inclusion in the Company's annual proxy statement, consulting with the Company's legal counsel, if necessary.

Miscellaneous

41. Determine the appropriate funding to be provided by the Company to the Committee for payment of (i) compensation to the independent auditors and any advisers employed by the Committee and (ii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
42. At its discretion, request that management, the independent accountants or the internal auditors undertake special projects or investigations which the Audit Committee deems necessary to fulfill its responsibilities.
43. At its discretion, investigate any matter brought to the attention of the Committee, with full access to all necessary books, records, facilities, properties and personnel of the Company, and with full authority to retain at the Company's expense special legal, accounting or other advisors, consultants or experts as the Committee deems appropriate.
44. Perform any other activities consistent with this Charter, the Company's Bylaws, and governing law, as the Committee or the Board deems necessary or appropriate.
45. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

V. Limitations of Audit Committee's Roles

While the Committee has the responsibilities and powers set forth in this Audit Committee Charter, it is not the duty of the Committee to prepare financial statements, plan or conduct audits or accounting reviews or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

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