



## **BOARD OF DIRECTORS CHARTER**

### **PURPOSE**

Western AgCredit's Mission Statement is "To provide the most dependable source of constructive credit and related services to agriculture and the rural community."

The Board adopts this Charter to bring clarity and focus to key board composition and process areas that support the Board's leadership and oversight role in the accomplishment of this mission.

### **BOARD COMPOSITION**

#### **Board Functions**

These are the Board's primary functions:

- Developing the Association's long-term vision and conducting the long-term planning and strategic thinking needed to realize the vision.
- Determining policy matters, periodically reviewing operations and being informed of the fulfillment of objectives, goals and performance.
- Work with management in the regular review, identification and prioritization of risks; in establishing risk tolerance levels; and in monitoring actual performance. This includes oversight and active participation in the Enterprise Risk Management function.
- Understanding the Association's primary and other lines of business, including:
  - The key business opportunities that may exist and the strategies to pursue them.
  - The significant related risk areas presented and the tools to manage them.
- Putting effective management in place to conduct operations through strong hiring, compensation, evaluation, and succession planning programs.
- Delegating authority to management and holding management accountable for results.
- Overseeing the Association's financial reporting and disclosure, compliance with laws and regulations and audit programs.
- Addressing the Association's need to grow.

#### **Roles and Responsibilities**

The Board's key roles and responsibilities are:

- Maintaining linkage with the shareholders and customers
- Maintaining high standards of ethics and excellence when conducting board business, e.g.:
  - Taking adequate time to prepare for and deliberate on matters coming before the Board
  - Asking the pointed questions and considering options
  - Reasonably relying on management, auditors, advisors
  - Exercising objectivity and autonomy to make independent, informed decisions
  - Taking action when necessary
- Fostering a healthy relationship with management; watching for changes in management's chemistry

- Determining the “rules of the road” for board communications with employees, customers, and important external parties
- Promoting the Association’s political interests, fostering an excellent public image and building healthy relationships with stakeholders (commodity groups, dealers, consumers, etc.)
- Setting the Association’s culture and philosophy of doing business in ways such as: generating good customer feelings, operating as a true cooperative, and fostering a set of values fundamental to the Association’s success
- Having a common interest in the well being of the Association

## **Qualifications**

The Board will meet all by-law and regulatory board qualification requirements for service on the Board. Given the nature of its functions, the Board has found one or more of these additional qualifications to be desirable:

For elected Directors:

- Residence or farming in Association’s geographic territory
- A background in the types of agriculture (commodities, markets, etc.) practiced in Association’s territory
- A basic understanding of financial and credit matters appropriate for a financial services cooperative
- A working knowledge about disclosure and compliance (audits, financial statements, internal controls, regulations)
- Background, education or experience in the areas of agribusiness, agricultural economics, or management
- An understanding of the Association’s financial strength and performance, competitive position in the marketplace and the impact of mergers in the financial services industry
- Political background, experience or relationships

For appointed Directors the Board will look to those persons with financial, accounting, legal, business or related background, experience or expertise to provide or supplement the collective set of qualifications desired for service on the Board.

## **Traits, Character, and Temperament**

To perform its roles and responsibilities the Board seeks members who have the following types of traits, character and temperament:

- Commitment to customers and owners
- Ability to read people
- Honesty and integrity
- Ability to ask the right questions and press for answers
- Ability to apply common sense to resolve problems or issues
- An understanding of and appreciation for the differing roles of board and management, but ability to hold management accountable
- Effective communication skills
- Willingness to speak one’s mind in the course of deliberations and then support the final decision
- Willingness to regularly and faithfully attend board meetings and functions

## **Independence**

Directors must exercise independent judgment in deciding matters in the Association's best interest. The Board will be vigilant to ensure that independence is not jeopardized. Appropriate codes of ethics and standards of conduct are in place and will be followed to maintain the highest standards of ethics, honesty and integrity for the Association.

The Association is a financial services cooperative. The Board firmly believes that it is important to have members serve as elected Directors. As members, they have a vested interest in making sure that the Association remains strong and successful. The Board will make certain that all needed controls or requirements are in place and applied so that the loan relationship does not compromise Director independence.

To achieve these stated goals and standards, the Board has established the following criteria regarding independence:

- Directors will be committed to maintaining the highest ethical and moral standards.
- Directors will understand and adhere to the Association's policies and practices regarding Standards of Conduct, including those prohibiting nepotism.
- Director transactions with the Association (other than loans) will be arms' length and represent fair value.
- No Director will have any board or significant management position or material (five percent or greater) ownership interest in any other entity that competes with the Association.
- Directors will be committed to maintaining the highest standards for Director loans to ensure that objectivity in the boardroom is not compromised. To this end:
  - All Director loans will be made and serviced on the same terms and subject to the same conditions as applied to borrowers generally.
  - All Director loans will be and remain in good standing, subject to such opportunity to address any loan deterioration and restoration to good standing as the Board may allow.
  - All Directors' loans will be subject to the same requirements and loan underwriting standards that are in place for all Stockholders.
  - All Directors loans will be subject to the standard internal lending limits of the Association.

## **Number**

The Board comprises ten positions: eight shareholder-elected Directors and two appointed Directors.

The number of Directors on the Board must be sufficient to maintain linkage with the customers and shareholders and collectively have the qualifications and temperaments to perform the Board's functions and carry out its roles and responsibilities. The Board may consider other factors such as:

- Need to generate, maintain focus on issues in the board room
- Logistics and costs of assembling the board to conduct its business
- Frequency of board meetings or other official duties
- The use of committees to assist a larger board do its work

## **BOARD LEADERSHIP, ORGANIZATION, AND PROCESSES**

### **Chair**

The chairman will preside at all meetings of the Board; will coordinate and direct the activities of the Board and will perform such other duties as required by the bylaws (typically presiding at stockholder meetings) or as

the Board determines from time to time. The chairman will see that all orders and resolutions of the Board, regulations with respect to the Association, and all policies and procedures proscribed by the FCB are carried into effect.

It is the Board's desire to elect officers that are both willing and capable of providing appropriate leadership. The Board believes that those who have reached the Director level typically have these qualities. For this reason, the Board's philosophy is that each member should have the opportunity to serve as chairman. To promote development and orderly transition, each chairman will serve two-year terms with the vice-chair taking the chairman position at the end of each term and a new vice-chairman then selected by the board.

To provide appropriate leadership in this position, desired roles and attributes for the chair include:

- Ability to lead fairly but firmly
- Willingness to welcome diversity of opinion
- Ability to promote fair, open deliberation in a timely, orderly, and to the point manner
- Ability to draw out leadership that may be dormant in the group
- Capability of enforcing the Board's own agreed upon rules of conduct
- Capability of representing the Board to the public, other system institutions, other important external parties
- Ability to prepare the vice-chair for leadership
- A good understanding of group dynamics and decision making
- Ability to maintain a key role with management, especially the CEO
- Capability of taking an impartial stance during discussions

### **Process to Elect Chairman and Vice-Chairman**

Per the Association Bylaws, as soon as practical following the Annual Meeting of members, and at such other times as necessary, the Board shall elect a Chairman and a Vice-Chairman. The vote will be conducted by secret ballot and all Board members are eligible to vote. In the event of a tie vote, ballots will be cast a second time. In the event of a tie with the second ballot, the tie will be broken by a coin toss.

### **Committees**

In determining whether to create a committee the Board will evaluate whether or not the use of a committee will assist it in fulfilling a board function. When establishing a standing committee, the Board will follow these guidelines:

- There will be a clear charter of authorities, composition and roles and responsibilities approved by the full Board
- Committee members' qualifications will be tied to the board functions that the committee has been formed to address
- Committees will ordinarily be considered a subset of the Board and thus consist of fewer than all Directors

To assist the Board in the carrying out all of its functions, the Board has established the following standing committees:

- Audit Committee
- Compensation Committee
- Corporate Committee
- Risk Committee

In addition to these standing committees, the Board may from time to time establish such ad hoc committees as may be deemed useful or convenient for the conduct of particular matters of board business.

## **Board Member Development**

**Director Elections/Board Vacancies.** The Board is committed to the principle that there be adequate representation from all areas of the Association's territory and also, to the extent possible, that all major commodity groups financed by the Association are represented on the Board. To this end, the nominating process is done on a regional basis. The Board also considers any other desired qualifications when providing information to the nominating committee during the election process or when filling vacancies.

**New Director Orientation.** To assist a newly elected or appointed Director with the performance of his or her duties as a Director:

- The Board will review this Charter and discuss Association philosophy, culture and similar board level subjects with the Director.
- The Director will receive training and information on the structure, operations and business objectives of the Association in the overall context of the Farm Credit System
- The Director will receive information on the legal duties and responsibilities of board service
- The chairman and the CEO will work with the Director to target any areas where the Director desires specific training and organize a process to obtain that training

**Director Training.** Making high quality and effective training programs available to Board and committee members is a high priority. To achieve this objective at least annually the Board will review training needs (especially those that will aid the Board in obtaining or maintaining desired qualifications) and develop a training plan or schedule to meet those needs.

**Evaluation.** The Board desires to maintain high standards of excellence in conducting board business. On an annual basis the chairman will lead the Board through an informal assessment of its own performance during executive session. To guide this process the Board will look to such matters as the achievement of the standards and criteria set out in this Charter, regulatory evaluations, external financial and operational performance measurements and meeting key business plan goals and objectives.

## **Meetings**

The Board will meet at such frequency and at such locations as may be necessary and convenient to fulfill its responsibilities and conduct its business. Meeting guidelines are:

- A yearly calendar of proposed meeting dates, times and locations will be developed by the chairman and the CEO for the review and approval of the Board.
- Materials relating to matters to be taken up at meetings will ordinarily be furnished to the Board sufficiently in advance of the meeting to give the members reasonable time to review and consider.
- Meeting agenda will be developed with the input of the chairman and the CEO.
- The Board will use executive sessions as appropriate to promote open, candid and full discussion of sensitive or internal matters.

## **Reports**

The Board will require reports, advice, or other information to monitor performance, make decisions and keep informed on important issues affecting the Association.

Information will be derived from such sources, received at such frequency, and presented in such form as may be satisfactory to the Board. Management will ordinarily serve the Board's information needs. Depending on the circumstances and the perceived need, the Board may use external experts and advisors as an additional resource.

## **CHARTER REVIEW**

The Board recognizes that for this Charter to be useful, it must be kept current and relevant. To that end, the Board will conduct a Charter review annually and make any changes that are needed to meet the Charter's purpose.