



# AgWest Farm Credit, ACA, PCA, FLCA (AgWest) Board Charter

## Purpose and Limitation of Charter

This charter outlines and further clarifies key governance practices, Bylaw and Board policy provisions, and other Board directives. It also documents Board expectations regarding director qualifications, responsibilities, and conduct.

This charter supplements but does not supersede, amend, or replace any Bylaw, policy, or formal Board directive. The terms of those documents control for any inconsistent terms.

## Authority and Responsibilities of Board of Directors

The Board acts as a fiduciary, representing the interests of all stockholders. This is accomplished by fostering a healthy, but arms-length, relationship with management, respecting the differing roles served by the Board and management, building a sense of trust and confidence in management, and questioning, probing, or opposing positions respectfully. The Board functions best with open discussion and debate on matters brought before it and then speaks with a unified voice to management, customers, and stockholders when decisions are made. Primary Board responsibilities include:

- Selecting, evaluating, and compensating the CEO including:
  - Establishing, in collaboration with the CEO, reasonable, measurable performance expectations that support accomplishment of key strategic and business objectives.
  - Evaluating CEO performance relative to expectations through a formal process.
  - Designing a competitive compensation plan for the CEO.
  - Providing for effective CEO succession, including a CEO emergency succession plan.
  - Assuring the CEO develops senior officer succession plans.
  - Redirecting or replacing the CEO, when appropriate.
- Developing, in collaboration with the CEO and senior management, AgWest's long-term vision and participating in the planning and strategic thinking to realize the vision including:
  - Working with senior management in establishing strategic priorities through an annual business planning process.
  - Reviewing and approving the annual business plan.
  - Monitoring performance relative to the business plan through, at a minimum, quarterly update reports from senior management.
- Adopting Board policies governing all key areas of governance, operations, and risk to achieve the following:
  - Appropriately delegate key business responsibilities to the CEO (which may be further delegated to management).
  - Provide policy-level guidance to the CEO and management to conduct business.

- Identify minimum levels of reporting to support the Board’s responsibility for governance, oversight, and monitoring of AgWest’s performance.
- Comply with the Farm Credit Act and Regulations.
- Assuring financial statements, stockholder and other published disclosures are in all material respects complete, accurate and in compliance with laws and regulations by:
  - Establishing a Board Audit Committee to oversee audit controls.
  - Selecting and evaluating an individual to lead the internal audit function who reports directly to the Board and Audit Committee.
  - Approving the selection of an Audit Committee Chair with financial and/or accounting expertise. This role is typically filled by an Appointed Outside Director.
- Implementing sound governance practices, consistent with cooperative principles, in all Board nomination, election and other governance practices.
- Supporting efforts to seek diversity on the Board, in the workforce and among AgWest’s stockholders.

## Board Structure

At the merger of Northwest FCS and Farm Credit West, the AgWest Board consisted of twenty-two elected directors and two appointed directors. The Board size will be reduced in accordance with a Board Transition Plan (“BTP”), outlined in AgWest’s Bylaws, and will result in the Board ultimately being comprised of fourteen elected directors and three appointed directors (of which one will be an appointed stockholder director and two will be appointed outside directors).

Stockholder-elected Directors – A stockholder-elected director is elected by voting members. To assure geographic representation, and that of different types of agriculture, AgWest’s territory is divided into eight nominating regions. The number of directors from each nominating region is identified in the BTP (in addition to rules governing geography from which candidates are selected within a nominating region).

Appointed Outside Directors – An appointed outside director cannot be a customer, director, employee, stockholder, or agent of any other Farm Credit institution. They are selected to bring expertise and independent perspective to the Board in one or more areas of specialized finance, accounting, audit, human resources, and executive compensation. Generally, one serves as the “Financial Expert” required by regulation. As required by regulation, at no time shall there be less than two Appointed Outside directors.

Appointed Stockholder Directors – An appointed stockholder director is a stockholder eligible to serve as an elected director but who is appointed by the Board to bring geographic or industry diversity for areas or industries that may not be adequately represented by the elected directors.

## Eligibility and Qualifications for Board Membership

Eligibility criteria for Board Membership are set forth in AgWest’s Bylaws. In addition to these basic requirements, following are desirable director qualifications. While it is understood all directors will not have all these qualifications, they should demonstrate, or work diligently to develop knowledge in these areas within a reasonable time:

### Elected Directors and Appointed Stockholder Directors

- An understanding of agriculture and the mission of AgWest and the Farm Credit System

- An understanding of financial and credit matters
- A working knowledge of financial disclosure and compliance (audits, financial statements, and internal controls)
- Background, education or experience in agricultural business, agricultural economics, or management
- Knowledge and experience in political advocacy with positive political relationships being advantageous

Appointed Outside Directors. In addition to AgWest Bylaws requirements, the following general qualifications will be considered when appointing an Outside Director, although specific areas may be emphasized based on the needs of the Board related to the position being filled:

- Experience and/or emphasis in business, financial services, economics, accounting, financial reporting, auditing, or legal matters
- An understanding of Generally Accepted Accounting Principles (GAAP) and financial statements and the ability to assess the general application of GAAP in connection with the accounting for estimates, accruals, and reserves
- Experience in analyzing or evaluating financial statements
- An understanding of internal controls and procedures for financial reporting and Audit Committee functions
- Experience and/or emphasis in human resource management or advising, labor laws and regulations, and compensation matters
- Knowledge and experience in political advocacy with positive political relationships being advantageous

### **Additional Qualities of Effective Directors**

In addition to Board eligibility requirements and desired qualifications, the Nominating committee will consider certain skills and exhibited characteristics as they review director candidates including:

- Committed to the purpose and mission of AgWest Farm Credit and the Farm Credit System
- Integrity, honesty, and trustworthiness
- Respected in the community and industry
- Demonstrated success in personal and professional life
- Diversity of all types
- Active engagement in business and operations
- Prior board experience
- Inquisitive with a drive to learn
- Open minded, an effective listener and able to work toward consensus
- Formally educated with a bachelor's degree or other advanced/specialized degree or course of studies, or equivalent business and management experience

## Director Responsibilities and Expectations

Directors shall meet the following common law duties and responsibilities:

- **Diligence** – Exercise a reasonable level of diligence to support decisions including reviewing reasonably accessible information prior to a decision and considering all information and points of view. Assess continued Board service if the director does not have, or cannot develop in a reasonable time, the understanding, background, or skills to carry out their responsibilities.
- **Loyalty** – Support decisions made by the Board and senior management, avoid conflicts of interest, and comply with AgWest’s standards of conduct. Do not use director position, or information gained from being a director, for personal gain.
- **Obedience** – Comply with laws and regulations by assuring appropriate Board policies, internal controls, Board reports and independent audit/reviews/examinations are in place to confirm all laws and regulations are reasonably complied with and deficiencies promptly and effectively corrected.

In addition to these basic responsibilities directors are expected to:

- Act as a fiduciary for all stockholders throughout the entire AgWest territory
- Represent the best interests of AgWest in all matters
- Conduct themselves professionally with all audiences
- Attend Board meetings. Absences should be cleared with the Board chair, reported to the Board Secretary, and may, at the Board chair’s discretion, lead to adjustments of a director’s compensation.
- Commit the time and attention needed to prepare for Board meetings
- Actively, respectfully, and constructively participate in Board meetings by asking questions, engaging in debate, and considering diverse points of view
- Exercise objectivity and autonomy to make informed decisions after considering the advantages and disadvantages of questions and matters for Board consideration
- Demonstrate leadership by acting when appropriate
- Support Board actions and decisions when made
- Support the Local Advisory Committee (LAC) program including attendance at assigned LAC meetings
- Respect the role and process of the Nominating Committee and participate, as any other candidate would, in the Nominating Committee process if running for reelection
- Maintain the confidentiality of non-public information gained through Board service
- Participate in Director training, learning and development
- Coordinate communications on AgWest business with senior management and avoid external communications that make it appear the director is speaking for the Board or AgWest

## Director Conduct

Directors are entrusted to carry out the business affairs of AgWest in a manner that is in the best interests of all stockholders. This fiduciary duty imposes a significant legal obligation to comply with standards of conduct and other rules of professional conduct, maintain independence, avoid conflicts of interest, and otherwise comply with all laws and regulations applicable to directors.

## Director Independence and Standards of Conduct

Directors must exercise independent judgment in deciding matters in AgWest's best interest. The Board will vigilantly ensure independence by maintaining appropriate codes of ethics and standards of conduct and ensuring director compliance.

AgWest is a financial service cooperative and the Farm Credit Act and FCA Regulations require stockholder-elected directors to have a borrowing relationship with AgWest. In some situations, this relationship may compromise (or may be viewed as compromising) a director's independence. Accordingly, the Board establishes criteria to ensure the borrowing relationship does not compromise a director's independence.

Further, the FCA has established standards of conduct for all Farm Credit directors as set forth in AgWest policies and procedures and summarized below. These identify prohibited transactions/relationships as well as transactions/relationships not prohibited but that must be reported.

### Independence Criteria

- The director's loans do not exceed 5% of AgWest's total loan volume.
- The director's loans are not adversely classified.
- The director, or the spouse of the director, is not an officer or employee of any non-Farm Credit System financial institution which is authorized to make the same type of loans available through AgWest.
- The director does not directly or indirectly accept any consulting, advisory or other non-director compensatory fees from AgWest.
- The director has no outside business relationship or family relationship with any member of AgWest's senior management.
- With some exceptions, the director does not borrow from, lend to, or become financially obligated to/with other directors, employees, or agents of AgWest.
- The Director does not acquire any interest in property acquired by AgWest through loan collection action.

Each director must meet all established criteria to be considered an independent director. Annually, management will conduct an analysis of this criteria to confirm adherence and assist the Board in determining each director's continued independence. Further, directors are required to make regular disclosures and ongoing reports and disclosure updates during Board service to ensure continued compliance.

AgWest will notify the director, and the director will notify AgWest, as soon as reasonably possible, of any information that would cause the director to not meet any test for director independence. In that instance, when the director resolves any issues and then meets all independence criteria, the

Board can reconsider the director's eligibility as an independent director and their continued service on the Board.

AgWest's General Counsel is the Standards of Conduct Official and is always available to answer questions and assist directors in compliance efforts.

## **Board Governance**

The Board's commitment to Best Governance Practices includes regular election of Board leadership, use of a committee structure, and the Board's self-assessment to improve the Board's effectiveness in carrying out its responsibilities.

## **Election of Board Chair and Vice Chair**

The Board reorganizes annually. This process includes election of the Board chair and vice chair by the full Board. Limits for Board chair or vice chair service is no more than three consecutive one-year terms.

## **Board Chair and Vice Chair Responsibilities**

The Board chair, and vice chair in the chair's absence, have significant additional duties and responsibilities including:

- Certifying financial and other reports, including the Annual Report, on behalf of individual Board members
- Providing overall Board leadership
- Effectively managing and conducting Board and related meetings
- Acting as a key liaison between the Board and CEO
- Recommending Board committee membership for full Board approval. The chair and vice chair may collaborate with the CEO (other than for the Human Capital Committee).
- Representing AgWest at key AgWest, Farm Credit System, and other meetings

## **Board Chair and Vice Chair Qualities and Skills**

Candidates should be nominated who have demonstrated understanding of AgWest's mission and core values, effectiveness as a director, and leadership characteristics over their Board and committee service. Candidates who are not comfortable they have developed these skills and characteristics should carefully consider seeking or accepting nomination.

The necessary characteristics include:

- Diligence and effectiveness as a member of the Board
- The ability to quickly grasp complex issues and understand their implications
- Comprehensive understanding of AgWest's strategic/business priorities
- Respect toward and from other directors and management
- Professionalism in and outside the boardroom
- Good communication, social and interpersonal skills
- The ability to foster an environment where opposing views are voiced and considered and then guide the Board toward consensus after reasonable discussion

## Board Committees

The Board has four standing committees: Governance, Human Capital, Audit, and Risk. The committees study issues in more depth prior to making recommendations to the full Board. Committees generally meet in conjunction with regularly scheduled Board meetings, with telephonic meetings as needed.

Annually, following Board elections, the Board chair and vice chair recommend directors to the various committees. Since the Human Capital Committee is responsible for CEO performance management/compensation, neither the CEO nor any management or staff may participate in any recommendation of this committee's membership. Recommendations for committee membership are subject to full Board approval.

In making committee recommendations, the Board chair and vice chair take into consideration each director's interests, background, expertise, and prior committee assignments. Directors will be surveyed prior to assignments to gauge interest in various committees. Directors will serve on no more than two committees.

Committee meetings will be open to any director who would like to attend. While any director can attend any committee meeting, only directors assigned to the committee can vote on committee actions. The chair of any committee can call for an executive session, at which time directors not assigned to the committee and management may be dismissed at the discretion of the chair and depending on topics to be discussed.

Each committee has a charter further detailing its membership, responsibilities, and authorities.

## Board Terms and Compensation

**Director Terms** – As provided in the Bylaws, director terms are five years, except as provided for in the Board Transition Plan, where two positions will have an initial four-year term to stagger terms in those regions. Directors are limited to three full terms, not counting the period served as the result of an appointment or election to fill out the partial term of a vacated position. Prior to the Board's re-appointment of appointed outside or appointed stockholder directors, the Board shall conduct a needs assessment to assure the background or expertise that led to their previous appointment remains a priority for the succeeding five years.

**Compensation** – Directors are compensated on a retainer basis. Director compensation is periodically reviewed to make sure it remains competitive, with changes recommended by the Human Capital Committee and approved by the Board. To reflect additional responsibilities and time commitments, the Board chair, vice chair and committee chairs may receive additional compensation above basic director compensation. Directors are paid 1/12 of the retainer monthly. Any recommended changes to director compensation shall be reviewed for compliance with applicable regulatory guidance.

Directors are reimbursed reasonable expenses incurred in Board service and expenses related to spouses or guests accompanying a director on Board business are reimbursed as outlined in board policy.

## Board, Committee and Annual Meetings

**Meeting Schedule** – The Board generally has four in-person meetings each year (subject to Board discretion) plus one annual planning session (typically in the third quarter). In-person meetings are scheduled at least one year in advance and are generally two to three days in length. Committee meetings are typically held in conjunction with Board meetings, although committees may meet separately from scheduled Board meetings as needed.

**Telephonic Meetings** – Board telephonic business or update meetings will be scheduled as needed in months where there is no scheduled in-person meeting and are generally no more than one to two hours long.

**Agenda Development** – Board and committee agendas are initially developed by senior management for review and input by the Board and committee chairs/vice chairs prior to meetings. Agendas should assure required Board approvals are obtained and support the Board’s oversight responsibilities. The Board and committees may utilize consent agendas as desired by the Board for effective and efficient meetings.

**Distribution of Board and Committee Materials** – To allow directors to prepare for Board and committee meetings, materials should, when reasonably possible, be posted electronically at least five days prior to a meeting. Proprietary or highly confidential materials may be presented at the meeting and occasionally updates to posted materials will be provided.

**Confidentiality of Board Materials** – Board materials and other information directors receive often contain confidential and proprietary information about AgWest and its customers, employees, and others. It is inappropriate, and often illegal, to share this information with others – including family members. Directors are expected to protect this information from accidental disclosure and should use AgWest provided email addresses for material communications related to Board duties. Computers, cell phones and other electronic devices on which this information is stored should be password protected and encrypted. In the event this information (or an electronic device storing this information) is lost or a director has reason to suspect that it has been inappropriately accessed, they should immediately inform AgWest management so protective action can be taken, and confidentiality laws complied with.

**Executive Sessions** – Executive sessions are a normal part of most Board meetings. They provide an opportunity for the Board to visit solely with or without the CEO, as well as to discuss issues without management present. If the Board takes a confidential action in executive session, such action may be documented in executive session minutes, to which access may be restricted.

**Annual Stockholders’ Meetings and Special Meetings** – In accordance with the Bylaws, AgWest holds an annual stockholder’s meeting. Special meetings can be called by the Board or stockholders as provided in the Bylaws.

## **Board Evaluations**

Annually, the Board conducts a self-assessment evaluating effectiveness of Board duties and responsibilities. Results are provided to the full Board. Material deficiencies may require strategies for correcting identified weaknesses at the Board’s discretion.

## **Board Learning and Development**

Evaluation, learning, orientation, and recruitment programs will be in place to maintain effective and skilled Board members. The Board will periodically evaluate director learning and development needs and with the assistance of management develop an annual Board learning plan based on needs identified therein. The needed director skills that are outlined in this Charter will be considered when developing the annual plan and in determining individual learning and development needs. In addition, newly elected or appointed directors participate in a comprehensive orientation/onboarding program during the first year of their term.

## **Use of Independent/Outside Resources**

Complex, independent areas such as executive compensation, financial reporting, and audit often require the use of expert outside resources. These resources assist the Board in effectively

considering management recommendations, assessing and mitigating risk, and evaluating alternate courses of action. The determination of when and if the Board accesses these resources is at the discretion of the Board.

## **Disclosure of the Charter**

This Charter will be posted on AgWest's website and available in print to any stockholder by request.

## **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 at least annually and make any changes that are needed to meet the Charter's purpose.