

U.S. AGBANK, FCB  
BOARD OF DIRECTORS' CHARTER

PURPOSE

The mission of U.S. AgBank, FCB (AgBank) is "to provide high-value wholesale funding to our Stockholder Associations." The Board of Directors (Board) adopts this Charter to support the Board's leadership and oversight role in the accomplishment of this mission.

POWERS AND DUTIES

The Board has the authority and responsibility to direct the operations of AgBank. It shall have access to all books, records, facilities, and personnel of AgBank, and may use reasonable amounts of time of AgBank staff to assist in the performance of its responsibilities. The Board also has the authority to hire independent accounting experts, independent counsel and other consultants to assist and advise it in the performance of its responsibilities. The Board shall keep the Chief Executive Officer (CEO) advised as to the general range of anticipated expenses for such resources hired by the Board.

KEY RESPONSIBILITIES

The Board's primary responsibilities include:

- Understanding the Bank's primary business, including the key business opportunities and the strategies and plans related to this business;
- Understanding the significant areas of risk in AgBank operations and ensuring the processes and tools utilized to monitor and control this risk are effective;
- Selecting, evaluating, and compensating the CEO. Redirecting or replacing the CEO, when appropriate;
- Maintaining effective AgBank leadership through sound selection, training, performance evaluation, compensation, and succession planning programs;
- Developing AgBank's long-term vision and conducting the long-term planning and strategic thinking needed to realize the vision;
- Establishing policies that provide overall direction to management for day-to-day operations;
- Utilizing the broad range of knowledge and experience of directors to advise and counsel senior management on significant issues facing AgBank;
- Delegating authority to management through policies and other means and holding the CEO accountable for the results achieved;

- Overseeing AgBank's:
  - Performance (profitability, achievement of business plan goals, and related matters);
  - Risk management (appropriate capital levels, effective internal controls, interest rate and credit risk);
  - Compliance with laws and regulations; and
  - Risk Management, Audit, and Compensation Committees.
- Maintaining high standards of excellence in conducting Board business by:
  - Adopting "Best Practices" in governance, where appropriate and applicable;
  - Taking adequate time to prepare for and deliberate on matters coming before the Board;
  - Asking questions and considering options and the advantages/disadvantages of issues presented to the Board;
  - Reasonably relying on management, auditors, and advisors;
  - Exercising objectivity and autonomy to make independent, informed decisions; and
  - Demonstrating leadership and taking action, when appropriate.
- Supporting the political process to protect AgBank's interests and public image.

### KEY ROLES

The Board's key roles include:

- Fostering a healthy, but arms-length, relationship with management by:
  - Respecting differing roles served by the Board and management;
  - Routinely using executive sessions as a tool to encourage open, candid, and productive discussions among Board members on problems, strategic opportunities, or on matters such as compensation or performance;
  - Maintaining a sense of continued trust and confidence in management when questioning, probing, or opposing management's position or recommendations on an issue before the Board; and
  - Speaking with a unified voice to management.

- Fostering a sound relationship with Farm Credit Associations (Associations) by:
  - Interacting with Association Board members and management;
  - Effectively communicating the positions of AgBank;
  - Listening and engaging in discussion of business issues; and
  - Focusing on the interests of the end-user borrowers.
- Establishing the tone for Board communications with stockholders and other important external parties;
- Representing AgBank in venues determined to be important to AgBank and/or the Farm Credit System (System).

### QUALIFICATIONS

- Elected Directors. In addition to AgBank Bylaw requirements, following are desirable qualifications for elected directors:
  - Experience with production agriculture practiced in AgBank's geographic territory;
  - An understanding of financial and credit matters;
  - A working knowledge of financial disclosure and compliance (audits, financial statements, internal controls);
  - Background, education, or experience in the areas of agricultural business, agricultural economics, or management;
  - Knowledge and experience in political advocacy with strong political relationships being advantageous; and
  - A working knowledge of Association credit and financial disciplines, competitive environments, and business strategies.
- Appointed Directors. For appointed directors, in addition to AgBank Bylaw requirements, the following general qualifications will be considered, 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 experience;
  - 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 preparing, auditing, analyzing, or evaluating financial statements with the breadth and complexity of accounting and financial reporting issues similar to those of AgBank;
- An understanding of internal controls and procedures for financial reporting and Audit Committee functions;
- Experience and/or education related to financial and capital markets, including asset/liability management, derivatives, and capital structures;
- Knowledge and experience in political advocacy with strong political relationships being advantageous.

### PERSONAL CHARACTERISTICS

Board members should have the following personal characteristics to most effectively perform the responsibilities and roles of a director:

- Commitment to the System, AgBank, Associations, and Association customers, and dedication of the time needed for a Board position;
- Ability to apply common sense to resolve problems or issues;
- Respect for fellow Board members and the ability to find a balance between assertiveness and cohesiveness;
- Effective communication skills;
- Good people skills and a team player orientation;
- Willingness to contribute and speak out in the course of deliberations and then support the final decision of the Board;
- Integrity and loyalty;
- Willingness to delegate to management;
- Void of actual, apparent, perceived, or potential conflicts of interest.

### TYPES OF DIRECTOR POSITIONS

The types of director positions on AgBank's Board are discussed below:

- Elected Directors. These positions are elected by Associations affiliated with AgBank. A candidate for an elected director position, by law and Farm Credit Administration Regulations, must be a borrower of an Association. The elected directors must constitute at least 60% of the Board.

Annually, each director will be evaluated by the Board for independence, based on the criteria discussed below. The determination that a director's status is not independent does not change the director's status on the Board, but could affect Board Committee assignments.

- Appointed Directors. These positions are appointed by the elected directors. Candidates for these positions cannot have a borrowing relationship with a Farm Credit System institution.

## DIRECTOR INDEPENDENCE

All directors must exercise independent judgment in deciding matters in AgBank'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 governance for AgBank.

All AgBank directors are independent from the perspective that no AgBank management or staff serve as Board members. Each elected director is required by Farm Credit Administration Regulations to have a lending relationship with an Association(s) affiliated with AgBank.

The elected directors, as borrowers of affiliated Associations, have a vested interest in ensuring that AgBank remains strong and successful. However, in some situations, this Association borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to manage and maintain this independence and to ensure that an Association loan relationship does not compromise the independence of an AgBank Board member.

Annually, in conjunction with AgBank's analysis and reporting of director loans, each director will provide financial information and any other documentation and/or assertions needed for the Board to determine the independence of the Board member. Stockholders will be informed of the independence evaluation results through the AgBank and AgBank District Annual Reports to Stockholders.

If the percent of independent directors falls below 75%, the Board will notify the AgBank Nominating Committee of the need and desire for independent directors to be elected by the stockholders.

The Board has established criteria to determine director independence which have been incorporated into the AgBank Director Independence Criteria Policy.

## BOARD EVALUATIONS

The Board will conduct an annual self-evaluation to help it identify strengths and weaknesses and improve its own performance. A summary of the results of this self-evaluation will be provided to the AgBank Nominating Committee for its confidential use in the AgBank director election process.

## LEADERSHIP

- Election of Officers.

Annually, at the conclusion of the first regularly scheduled meeting following commencement of the term year (October 1), the Board will elect a Chair and Vice Chair to serve as officers for the term year.

- Chair

The Chair will preside at all meetings of the Board. The Chair will coordinate and direct the activities of the Board and will perform such other duties as required by the AgBank Bylaws (typically presiding at stockholder meetings) or as the Board shall determine from time to time.

The Board's role can be best accomplished through an interactive Board that has sound and constructive leadership. It is the Board's desire to elect officers that are both willing and capable of providing appropriate leadership. Open and candid discussion to avoid politicizing the process is encouraged. Generally, the Board believes that no director should be precluded from the opportunity to serve as Chair. To that end, the terms of the Chair position will generally be limited to no more than two consecutive years.

Desired attributes for the Chair include the ability to:

- lead fairly, but firmly, and to maintain an environment of trust and respect among members;
- welcome diversity of opinion;
- promote fair, open deliberation in a timely, orderly, and concise manner;
- encourage participation by directors who may not verbally express themselves during Board discussions;
- enforce the Board's own agreed upon rules of conduct;
- represent the Board to the public, other System institutions, and other important external parties;
- understand group dynamics and decision making;
- know when to bring discussions to a close and keep the meeting running smoothly;

- maintain a key role with management to:
    - ❖ promote a mutually beneficial environment;
    - ❖ represent the Board in working with management; and
    - ❖ encourage two-way communication with the CEO on developing issues.
  - accept the responsibilities of the Chair and devote the extra time required of the position;
  - take an impartial stance during discussions;
  - communicate with and help prepare the Vice Chair for possible leadership responsibilities in the event of the absence of the Chair.
- Committees

The Board has chartered an Audit Committee, a Compensation Committee, and a Risk Management Committee. In determining whether to create a Committee, the Board will evaluate whether the use of a Committee will assist it in fulfilling a Board function. If the decision is to use a Committee, the Board will consider the advantages and disadvantages of using a Committee composed of fewer than all members. In addition, the following guidelines will be utilized:

- The full Board will approve a charter of authorities, composition, and roles and responsibilities for all Board Committees;
- The Board has delegated to the Chair the authority to appoint the members of the Audit Committee and the Compensation Committee. In the selection process, the Board Chair will correlate director qualifications, independence, and personal characteristics to the functions the Committee has been formed to address;
- These appointments will be announced to the Board in its December meeting each year. The intent is that, each year, the Committees will have at least one new member. Newly elected directors will serve on the same Committee as their predecessor until the Chair makes the Committee appointments.
- The Audit Committee will consist of eight directors who meet the independence criteria outlined in the AgBank Director Independence Criteria Policy and who are determined by the Board to be independent members; provided, however, that no more than two directors of the Audit Committee may be members of the same Association affiliated with AgBank. Farm Credit Administration Regulations require that, annually, the Board designate at least one director as a “financial expert.” Directors who have been so designated by the Board are to be permanent members of the Audit Committee. The Board Chair shall serve as an ex-officio, non-voting member of the Audit Committee.

- The Compensation Committee will consist of the number of directors as determined by the Board Chairman (but always at least three) who meet the independence criteria outlined in the AgBank Director Independence Criteria Policy and who are determined by the Board to be independent members; provided, however, that no more than two directors of the Compensation Committee may be members of the same Association affiliated with AgBank. The Board Chair shall serve as an ex-officio, non-voting member of the Compensation Committee;
- The Risk Management Committee will consist of all AgBank directors;
- If a Committee composed of less than the full Board is utilized:
  - ✓ Any director may sit in on any Committee meeting;
  - ✓ Communication and reporting back to the full Board will occur; and
  - ✓ Committee meeting minutes will be furnished to the full Board.

## TRAINING

Evaluation, training, and orientation programs will be in place to develop and maintain trained and skilled Board and Committee members. The Board will maintain a Director Training Policy, and training calendars for the Board and each Committee will be developed annually. The needed director skills that are outlined in this Charter and each Committee Charter will be considered when developing the training calendars and in determining individual director training programs.

## MEETINGS

The Board will meet at such frequency and at such locations as may be necessary and appropriate to fulfill its responsibilities and conduct its business. Guidelines for Board meetings include:

- An annual calendar of meeting dates, times, and locations will be developed by the Chair and the CEO for the review and approval of the Board;
- Meeting agendas will be prepared in consultation with the Chair and provided in advance to Board members, along with appropriate meeting materials.
- Minutes of all Board meetings will be prepared by the Corporate Secretary and approved by the Board.
- Minutes of all Committee meetings will be prepared by the Committee Secretary and approved by the appropriate Committee.

- Executive sessions will be held in connection with each Board meeting to promote open, candid discussion of sensitive or internal matters and to ensure that the Board is unified in its strategies, positions, and communications.

#### REPORTS TO THE BOARD

The Board will receive reports, advice, and other information in order to monitor performance, make decisions, and keep informed on important issues and events relating to AgBank, the Associations, and the System. Information will be from such sources, at such frequency, and in such form as may be satisfactory to the Board. Ordinarily, management will serve as a primary source of the Board's information needs. However, depending on the circumstances, the Board also may use external experts, advisors, and customers as additional resources.

In addition, each Board policy will address Board reporting requirements.

#### 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.

#### DISCLOSURE OF THIS CHARTER

This Charter will be posted on the Public area of the AgBank website and copies made available in printed form, upon request.