

# **Alabama Farm Credit, ACA**

## **COMPENSATION COMMITTEE CHARTER**

### **I. PURPOSE**

The Compensation Committee, established by this charter, is a committee of the board of directors of the Alabama Farm Credit, ACA ("Association") which is accountable only to and shall report only to the board of directors of the Association. The primary function of the Compensation Committee is to provide assistance to the Board of Directors in fulfilling the Board's responsibilities with respect to matters involving (1) the compensation of the board and the CEO; (2) to review the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, and (3) engage in such other matters as may from time to time be specifically delegated to the Committee by the Board.

While the Compensation Committee has the authority set forth in this charter, it is not the duty of the Compensation Committee to approve the compensation of individual senior officers or employees. This is the responsibility of management.

The Compensation Committee will discharge these responsibilities by carrying out the activities and processes set forth in the following sections of this charter. In doing so, the committee shall have full access to all books, records, facilities, personnel of the Association, outside professionals and advisors engaged by management, and is authorized to retain and terminate outside counsel or other experts considered necessary in discharging its role, including sole authority to approve the fees and retention terms for such outside advisors. Any such outside advisors shall be independent of management.

### **II. MEMBERSHIP**

The Compensation Committee shall be appointed by the board of directors and shall be composed of at least three members, each of whom shall be a member of the board of directors who is free from any relationship, conflict of interest or appearance of conflict of interest that could interfere with the exercise of his or her independent judgment as a committee member as determined by the board of directors.

The term of office for each position on the committee shall be for one year. The chair and members of the committee shall be appointed by the board at the annual organizational meeting of the board and shall serve until their successors shall be duly selected and qualified. The chair of the Compensation Committee shall be the principal contact between the committee and the board and the committee and senior management. The chair of the board of directors may serve as chair of the Compensation Committee. The board, upon recommendation of the committee or otherwise, may remove any committee member at any time.

### **III. MEETINGS**

The committee shall meet at least two times annually, but as frequently as the committee deems necessary. Meetings may be called by the chair of the committee, by the chair of the board or as recommended by the CEO. A majority of the members of the committee shall constitute a quorum. The committee shall have the authority to delegate any of its responsibilities to subcommittees as the committee deems appropriate. The committee may meet with, and receive reports from management and professional advisors engaged by management. The committee shall also hold executive sessions without management to discuss any matters that the committee believes should be discussed privately or with its independent advisors.

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The committee meetings shall be separate from meetings of the board of directors. Meeting agendas will be prepared and provided in advance to committee members, along with appropriate briefing materials. Minutes of all committee meetings will be prepared, approved by the committee, and provided to the board. The minutes of the committee shall reflect attendance at committee meetings. Minutes of committee meetings shall be made available to committee members during their term of service on the committee and shall be maintained for at least three years.

### **III. RESPONSIBILITIES AND DUTIES**

As a committee of the board, the Compensation Committee shall report its activities only to the board. To discharge its responsibilities and duties, the Compensation Committee shall maintain an awareness of current compensation practices and their impact on the Association. In performing the responsibilities and duties set out below, the committee may obtain the assistance of management and/or the committee's outside advisors as it deems appropriate, and it must determine that:

- a. Association's projected long-term compensation and retirement benefit obligations are appropriate to the services performed and not excessive;
- b. Senior officer compensation, incentive, and benefit programs support the institution's long-term business strategy and mission, as well as promote safe and sound business practices; and,
- c. Compensation programs designed for specific groups of employees, other than senior officers, pose no imprudent risk to the institution

#### Committee Duties and Responsibilities

- 1) Review the adequacy of this charter on an annual basis, and recommend any proposed changes to the board for approval.
- 2) Establish and recommend to the full board the overall compensation structure and executive compensation philosophy and principles of the Association and include these items in the Association's Compensation Disclosures.
- 3) In order to ensure an appropriate relationship of pay to performance, annually review with the full board the Association goals and objectives of the CEO, evaluate performance of the CEO and establish the base salary, incentive and other compensation of the CEO.
- 4) Annually review and recommend the overall compensation policies and plans, including bonus and/or incentive plans, for senior officers and employees.
- 5) Review the Compensation Disclosures of the Association's financial reports to ensure compliance with laws and regulations and ensure that such disclosures are clear and understandable.
- 6) Annually review and recommend to the full board the overall compensation program.
- 7) Conduct an annual self-assessment of the committee and its performance and recommend any changes to the charter based on an evaluation of the results of the self-assessment.

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- 8) Consider and report to the board the long-term financial impact of the compensation programs on the Association and specifically understand the effects of these programs as they pertain to the CEO and individual senior officers.
- 9) Ensure that incentive payments 1) relate to the long-term financial performance of the Association, 2) encourage sound operations and prudent risk-taking, 3) discourage unreasonable risk-taking, 4) are reasonable and proportionate to service performed, and 5) are structured so that the payout schedule considers potential for future losses or undue risks.
- 10) Understand key assumptions imbedded in pension and compensation plans and the impact of these assumptions on the Association.
- 11) Ensure that retirement benefits are appropriate and not excessive based on market trends and that such plans are appropriately funded.
- 12) Communicate regularly and directly with the CEO, senior officers and Human Resources.
- 13) Challenge association management and outside advisors to ensure that compensation programs are fair and appropriate with respect to the Association and are competitive and appropriate with respect to the CEO, senior officers and employees.
- 14) Provide notice to FCA of any material changes in compensation programs and disclose such changes to shareholders in a timely manner.
- 15) Perform any other activities consistent with this charter, the Association's by-laws and governing law, as the Committee or the Board deems necessary or appropriate.