

## LONE STAR AG CREDIT

### COMPENSATION COMMITTEE CHARTER

January, 2020

#### **Purpose**

The Compensation Committee (the “Committee”) established by this charter is a committee of the Board of Directors of Lone Star ACA (the “Association”) which shall report only to the Board of Directors. The primary function of the Compensation Committee is to assist the Board in fulfilling its responsibilities with respect to matters involving the compensation of the Chief Executive Officer, and to review and approve the compensation policies, plans and programs for the Association’s senior officers and employees and to review and recommend compensation for the Board of Directors.

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

The Compensation Committee will fulfill these responsibilities by carrying out the activities and processes enumerated in the following sections of this charter. In doing so, the Committee has full access to all books, records, facilities, and personnel of the Association. It also has the power to retain and terminate outside counsel or other experts considered necessary in discharging its oversight role, including sole authority to approve the fees and retention terms for such outside advisors. Any such outside advisors shall be independent of management.

#### **Composition and Term**

The Compensation Committee will be comprised of at least three members, each of whom shall be a member of the Board of Directors who is free from any relationship that would 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 the lesser of one year, or until the next organization meeting of the Board. At the appropriate annual organizational meeting of The Board, the Chairman of the Board shall appoint the members of the Committee and shall also designate one of the members as Chairman. The Committee members shall serve until their successors shall be duly selected and qualified. The Board, upon recommendation of the Committee or otherwise, may remove any Committee member at any time. The Chairman of the Compensation Committee shall be the principal contact between the Committee and the Board, as well as the Committee and Senior Management. The Committee may elect a Vice Chairman, if so determined that this position is needed.

## **Meetings**

The Committee shall meet at least two times annually, or more frequently as circumstances dictate. Meetings may be called by the Chairman of the Committee or by the Chairman of the Board. 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. The Committee may also hold executive sessions without management to discuss any matters that the Committee believes should be discussed privately.

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 and approved by the Committee, made available to Committee members and Board members, and maintained for at least three years.

## **Responsibilities and Duties**

As a Committee of the Board, the Compensation Committee shall report only to the Board. The Committee may report its activities to the Farm Credit Administration upon their specific request. In order for Committee members to discharge their responsibilities, they shall maintain an awareness of current compensation practices and their impact on the association. To fulfill its responsibilities and duties, the Compensation Committee shall, with such assistance from management and any professional advisors as the Committee deems appropriate, determine that:

- a) The Association's projected long-term compensation and retirement benefits obligations are appropriate to the services performed and not excessive;
- b) Any current or future incentive-based compensation program and payments are reasonable and proportionate to the services performed, and structured so the payout schedule considers the potential for future losses or undue risks to the Association;
- c) Senior officer compensation, incentive, and benefits programs support the institution's long-term business strategy and mission, as well as promote safe and sound business practices; and,
- d) Compensation programs designed for specific groups of employees, other than senior officers, pose no imprudent risk to the institution.

## **Duties**

1. Review the adequacy of this charter on an annual basis and recommend any proposed change to the Board for approval.
2. Establish and oversee the overall compensation structure and executive compensation philosophy and principles of the Association and assess whether the Association's compensation structure establishes appropriate incentives for management and employees. When and where appropriate, include these items in any required Compensation disclosures.
3. Annually, review and approve the corporate goals and objectives of the CEO, assist the Board in the performance evaluation of the CEO and recommend to the Board the base salary and incentive, and other compensation of the CEO.

4. Annually, review the compensation policies and plans including incentive plans, for senior officers and employees, and approve the overall compensation program for senior officers including bonus and/or incentive compensation plans.
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. Conduct periodic self-assessments of the Committee and its performance and recommend any changes to the charter based on an evaluation of the results of the self-assessment.
7. Analyze 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 the individual senior officers.
8. 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 future losses or undue risks.
9. Understand key assumptions imbedded in pension and compensation plans and the impact of these assumptions on the Association.
10. Communicate regularly and directly with the CEO, senior officers, and Human Resources managers or service providers.
11. Challenge 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.
12. Provide prompt notice to FCA of any material changes in compensation programs and disclose such changes to shareholders in a timely manner.
13. The Compensation Committee shall recommend to the Board the form and amount of Director compensation.

**Acknowledgement:**

The Consultant has reviewed the Compensation Committee's Charter and finds it appropriate as presented to comply with FCA Bookletter 060. Several minor grammatical or styling edits were done to the document to correct the previous edition of the Charter, none of which were material to the content of the document.

**Actions Requested:**

1. Review this Charter for content and appropriateness for the conduct, structure and expectations of the Compensation Committee in 2020.
2. Propose any edits or additions to the wording of the Charter, as deemed appropriate.
3. Ensure that any material actions taken, including the review of the Charter, are chronicled in the minutes of this meeting and available to review by the Board of Directors and/or FCA Regulators, if so requested.