

2022 Governance Best Practices Survey



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About Bank Director

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About Bryan Cave Leighton Paisner

With 1,275 lawyers in 30 offices across North America, Europe, the Middle East and Asia, Bryan Cave Leighton Paisner LLP is a fully integrated global law firm that provides clients with connected legal advice, wherever and whenever they need it. The firm is known for its relationship-driven, collaborative culture, diverse legal experience and industry-shaping innovation and offers clients one of the most active M&A, real estate, financial services, litigation and corporate risk practices in the world. www.bryancave.com.



EXECUTIVE SUMMARY



Laura Alix is the director of research for Bank Director, an information resource for directors and officers of financial companies. You can follow her on Twitter or get connected on LinkedIn.

Even the strongest corporate boards benefit from a regular infusion of fresh ideas.

Culture, composition and governance practices — all of these are critical elements for boards to fulfill their oversight role, support management, and maintain the bank’s vision, mission and values. The results of the 2022 Governance Best Practices Survey, sponsored by Bryan Cave Leighton Paisner LLP, suggest that while most directors and CEOs believe their board’s culture is generally solid, they also see room for improvement in certain areas.

Specifically, the majority (54%) say their boardroom culture would benefit from adding new directors who could broaden the board’s perspective. In comments, some expressed a desire to get more tech expertise, greater diversity and younger directors into the boardroom. Others cited a need to retire ineffective directors or cut out micromanagement.

Bringing new perspectives, skills and backgrounds to the table can help boards tackle a host of rapidly evolving challenges, from cybersecurity to environmental or social risks.

Culture can be hard to define, and the survey finds varying opinions about the attributes of a strong board culture. Forty-five percent point to alignment around common goals and 42% value engagement with management on the performance of the bank. Just 30% favor an independent mindset as an important attribute of board culture, something that can be derived through cultivating diverse perspectives in the boardroom.

A majority believe gender, racial and ethnic diversity can improve the board’s performance, similar to previous surveys. Yet, 58% claim it’s difficult to attract suitable board candidates representing diverse racial and ethnic backgrounds.

That’s not necessarily for lack of trying, however. When asked to explain why they find it hard to attract diverse board candidates, many respondents state that they have a limited pool of candidates in their markets or personal networks. But that’s changing as the U.S. population grows more diverse.

“We have a very non-diverse community, although it is changing,” writes one respondent. “I believe the difficulty will lessen with time.”

KEY FINDINGS

→ ESG Oversight

A vast majority – 82% – believe that measuring and understanding where banks stand on environmental, social and governance issues is important for at least some financial institutions, but there's little uniformity when it comes to how boards address ESG. Nearly half – 45% – say their board does not discuss or oversee ESG at all. Forty-four percent say their board and management team has developed or has been working to develop an ESG strategy for their bank.

→ Training Mandates Vary

Forty-nine percent indicate that all directors must meet a minimum training requirement; 36% say training is encouraged but not required of members. Just over half of respondents say their board has an effective onboarding process in place for new directors. However, 27% say their board lacks an onboarding process and 13% say their current onboarding process is ineffective.

→ Knowledge Gaps

Respondents identify cybersecurity, digital banking and commerce, and technology as the top areas where their boards need more knowledge and training. Forty-three percent also believe they could use more education about ESG issues.

→ Board Evaluations

Almost half, or 47%, of respondents conduct board evaluations annually; another 23% assess their board's performance, but not on a yearly basis. Of those that performed assessments, 58% say they then created an action plan to address gaps identified in those evaluations.

→ Assessing Peer Performance

Few boards take advantage of peer-to-peer evaluations, with 51% revealing that their board does not use this tool, nor have they discussed it. Of the 29% of respondents whose bank has conducted a peer evaluation, 83% use the exercise to inform conversations with individual directors about their performance.

→ Committee Structure

An overwhelming majority of respondents say their board had enough directors to staff all its committees, but 16% say that would no longer be the case if they added more committees. Nearly all respondents say their committees are provided adequate resources to carry out their jobs. The survey reveals continued variation in risk governance practices, with 54% managing audit and risk oversight within separate committees. In boardrooms where there isn't a technology committee, half believe their organization would benefit from one.

BOARD CULTURE

1. Does the board set expectations for individual directors in the following areas?

Respondents were asked to select all that apply.



Attendance



Participating in board training and education



Contributing to board-level discussions



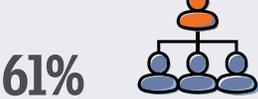
Preparation for meetings



Respectful interaction with other board members



Contributing to committee-level discussions



Engaging with bank executives



Using the bank's products and services



Engaging with bank employees



Engaging with shareholders/owners



Engaging with clients

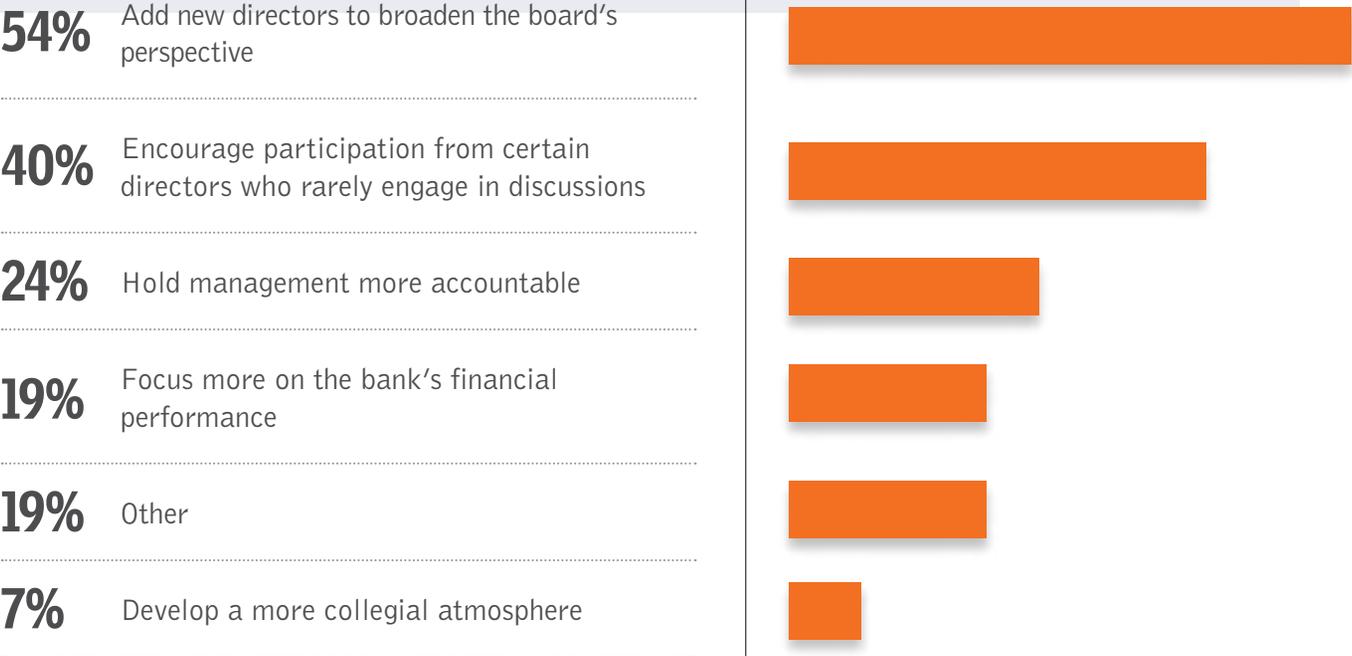
2. How would you describe your board’s culture?

- Our board has a strong culture that helps drive the bank’s success
- Our board has a generally good culture that contributes to the bank’s success, but there are areas where we need to improve
- Our board culture is adequate, but the board has little/no impact on the bank’s success
- Our board has a dysfunctional culture that holds the bank back from being successful



3. In which areas could your board’s culture be improved?

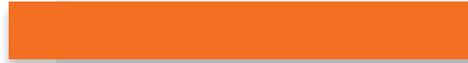
Respondents were asked to select all that apply.



4. What are the three most important attributes of a strong board culture?

Respondents were asked to select no more than three options.

45% Alignment around a common set of goals



42% Engaged with management on the performance of the bank



41% Take fiduciary responsibility to shareholders seriously



37% Directors are willing to put in the time and work hard



36% Focused on safety and soundness



36% Board holds itself accountable for its performance



30% Independent mindset



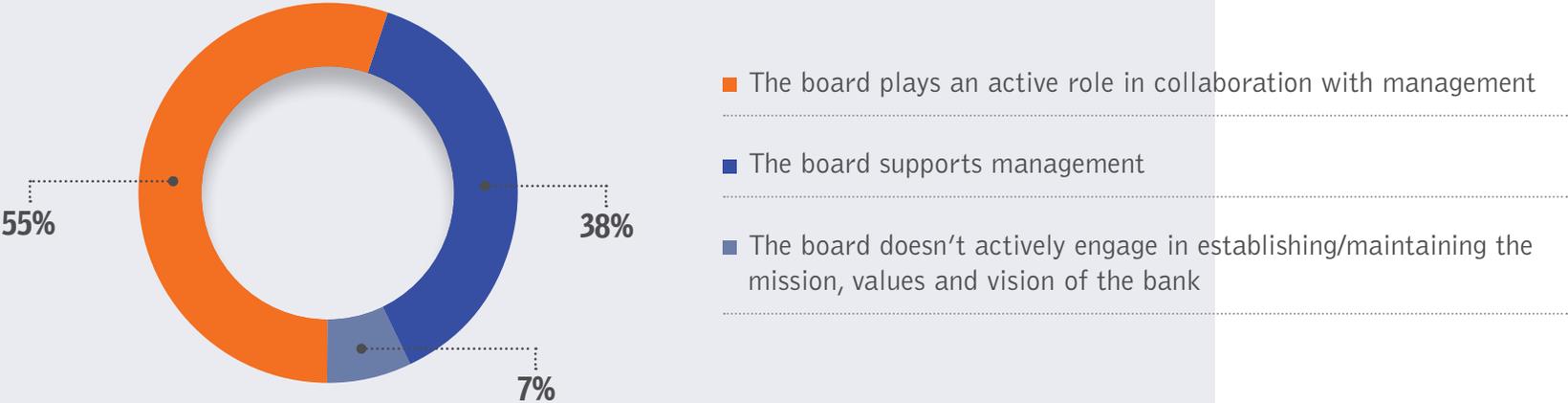
26% Top objective of the board is to have a high performing bank



7% Collegiality



5. How would you describe your board’s role in establishing and maintaining the bank’s values, mission and vision?



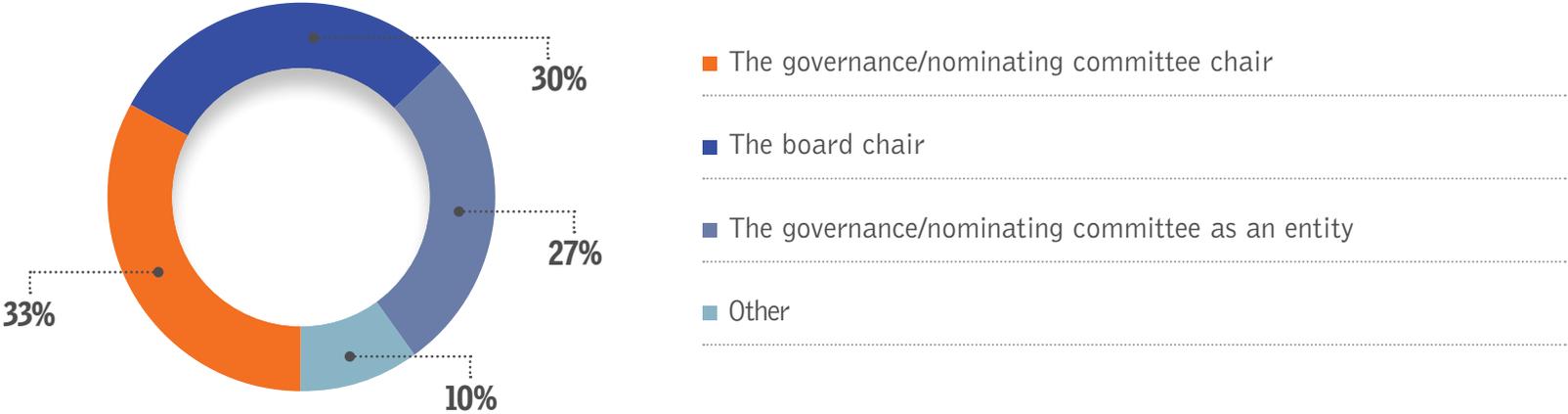
EVALUATING PERFORMANCE

6. Does your board conduct performance assessments?



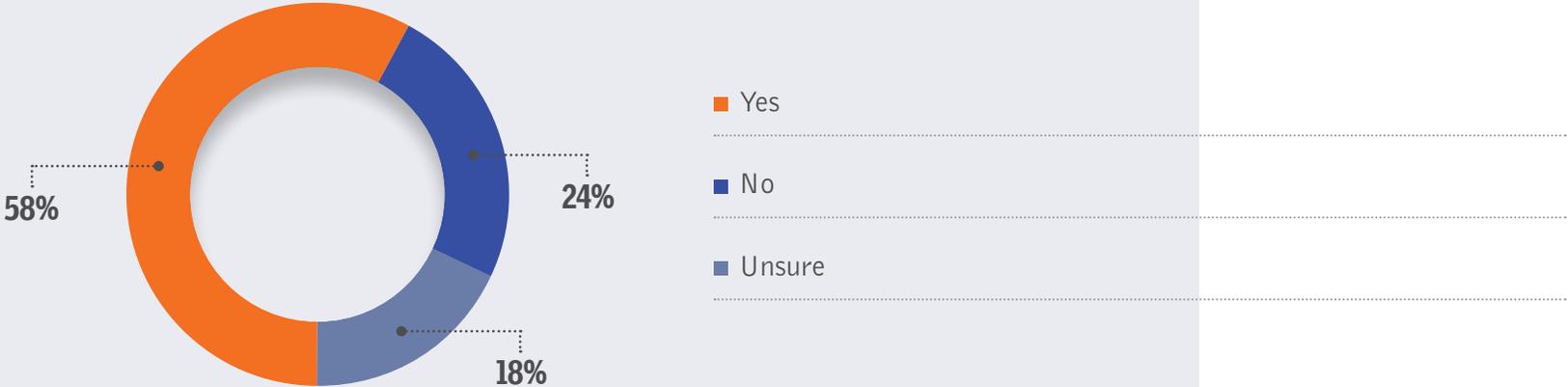
7. Who leads the board evaluation process?

Question asked of respondents indicating their board conducts a performance assessment.



8. Does the board member or committee responsible for the performance assessment – or the board as a whole – create an action plan to address gaps and issues identified in the assessment?

Question asked of respondents indicating their board conducts a performance assessment.



9. How does the board use the results of its assessment?

Respondents were asked to select all that apply. Question asked of respondents indicating their board conducts a performance assessment.

79% To assess the effectiveness of the board as a whole

57% To identify training needs for the board

57% To improve governance processes

39% To assess committee performance

35% To identify underperforming directors

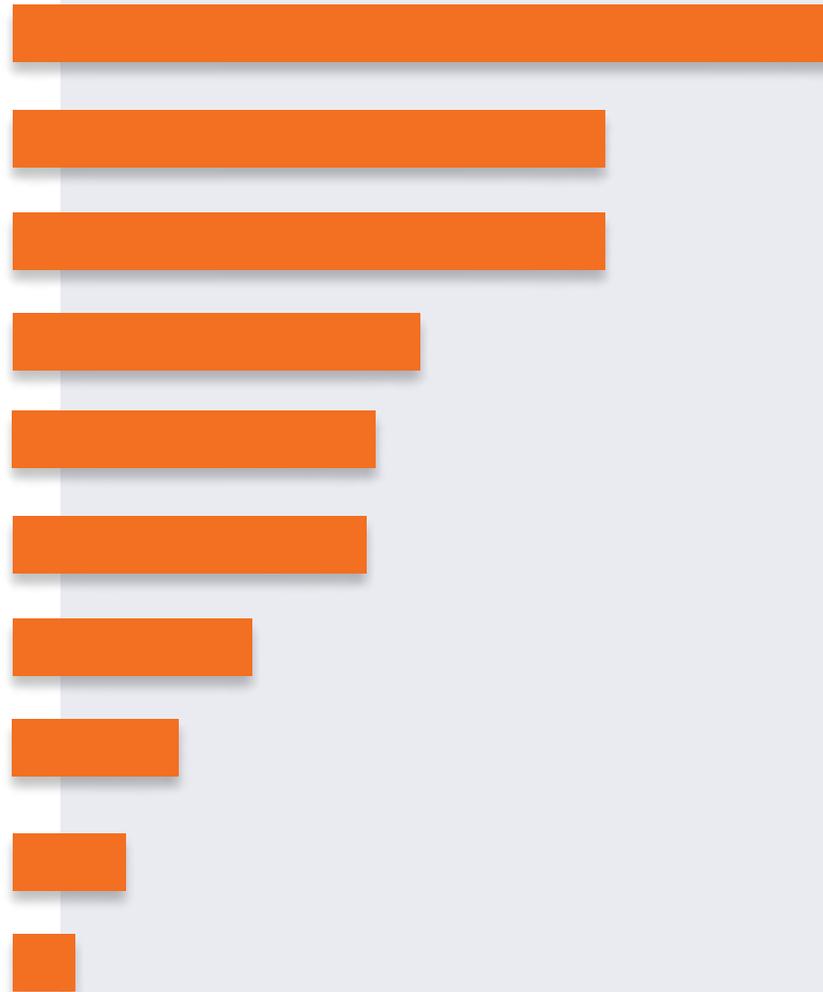
34% To conduct one-on-one conversations with directors

23% To modify the board's composition

16% To inform the strategic plan

11% To identify a need for external consultants/ advisors

6% Other

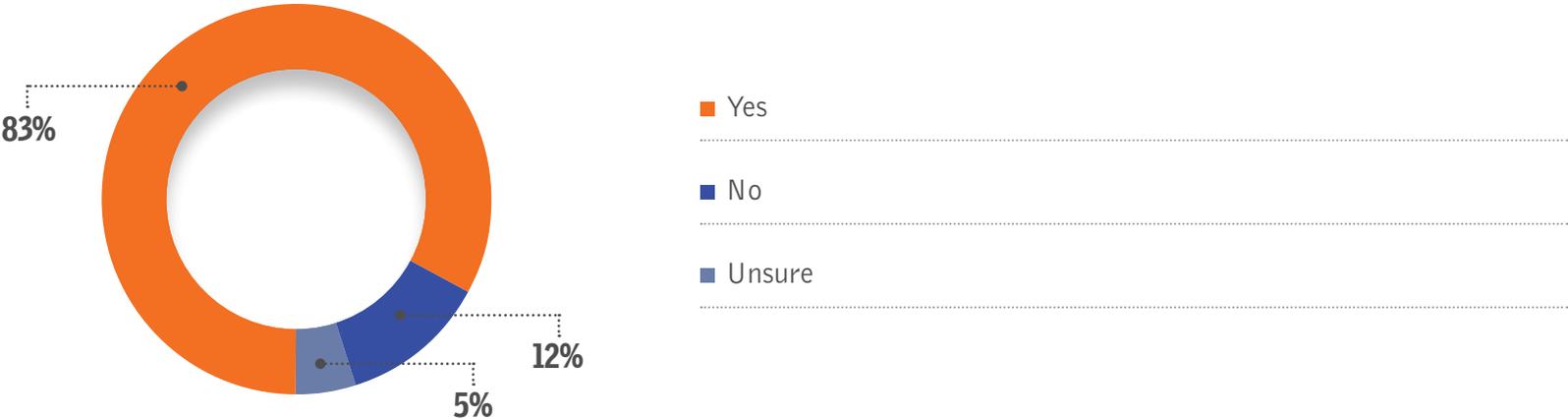


10. Does your board conduct peer-to-peer evaluations of its members?



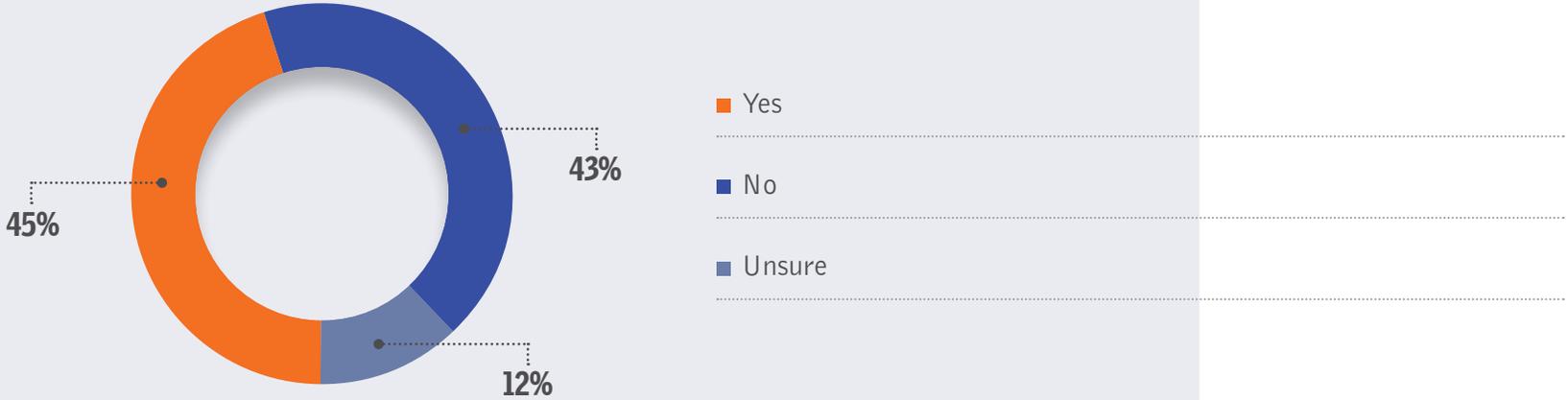
11. Does the board chair or another individual on the board use the results of the peer evaluations to inform conversations with individual board members about their performance?

Question asked of respondents indicating that their board conducts peer evaluations.



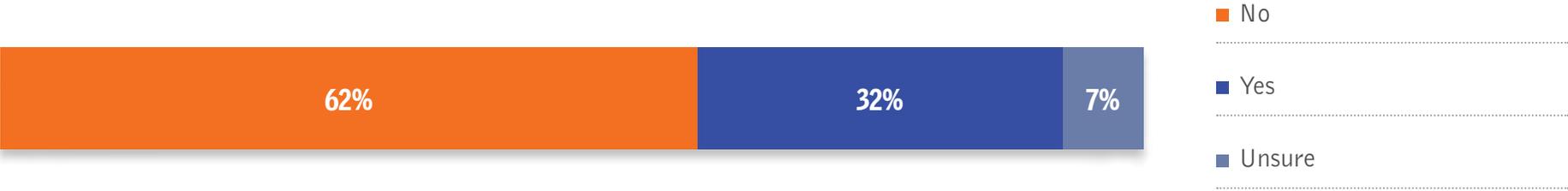
12. Has your board used a peer evaluation process to specifically address a problem director(s)?

Question asked of respondents indicating that their board conducts peer evaluations.



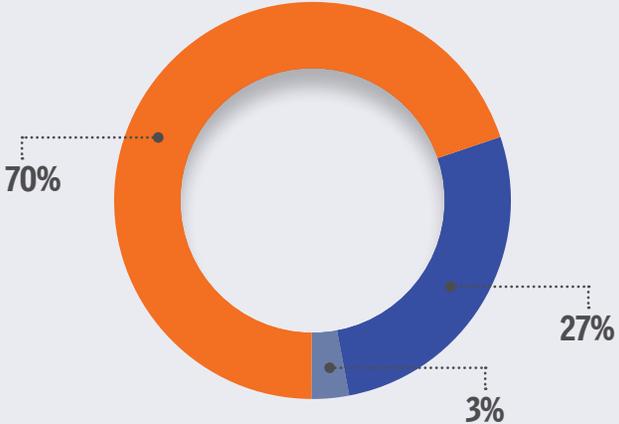
13. Have the results of a peer evaluation led to the resignation or departure of a board member?

Question asked of respondents indicating that their board conducts peer evaluations. Numbers don't add up to 100% due to rounding.



BUILDING KNOWLEDGE

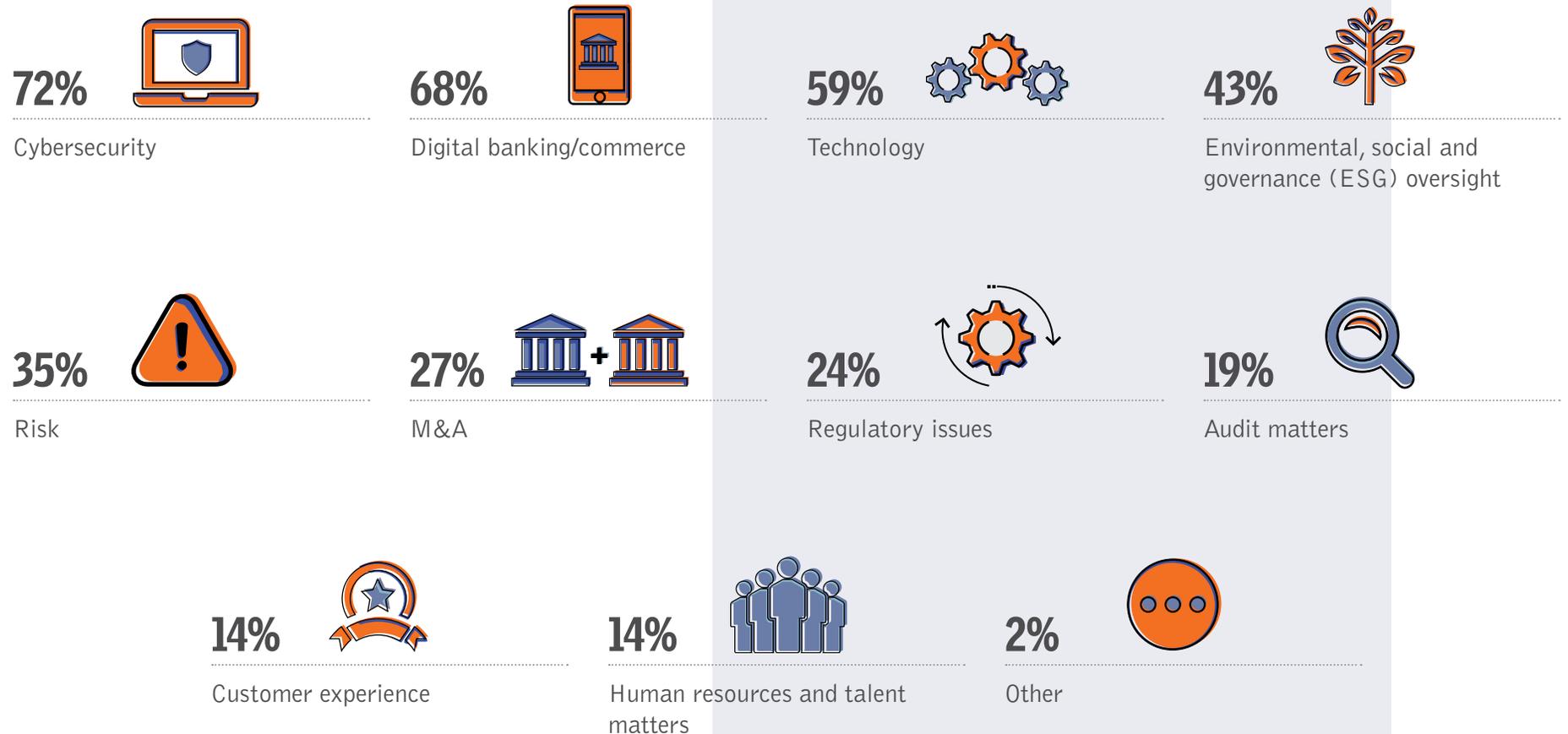
14. How would you rate your independent directors' knowledge of banking?



- Most of our independent directors know enough about banking to provide effective oversight
- Some of our independent directors know enough about banking to provide effective oversight, but others do not
- Most of our independent directors lack sufficient knowledge about banking to provide effective oversight

15. In which areas does the board as a whole need more knowledge and training?

Respondents were asked to select all that apply.



16. Does the board regularly (at least annually) bring in outside experts to educate the board on relevant topics?

Numbers don't add up to 100% due to rounding.

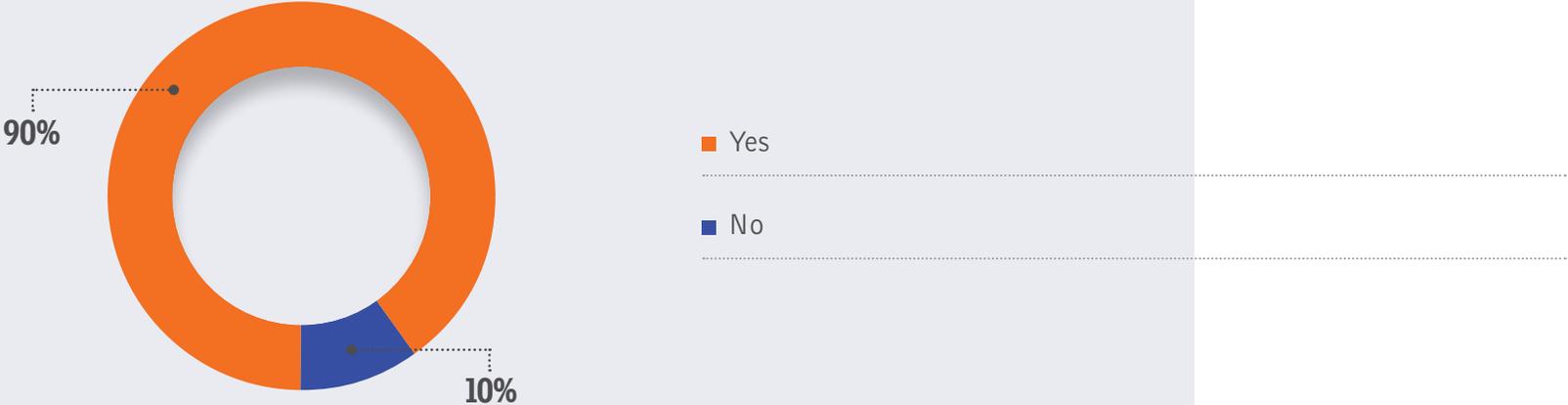


17. Does the board mandate or encourage training for its members?

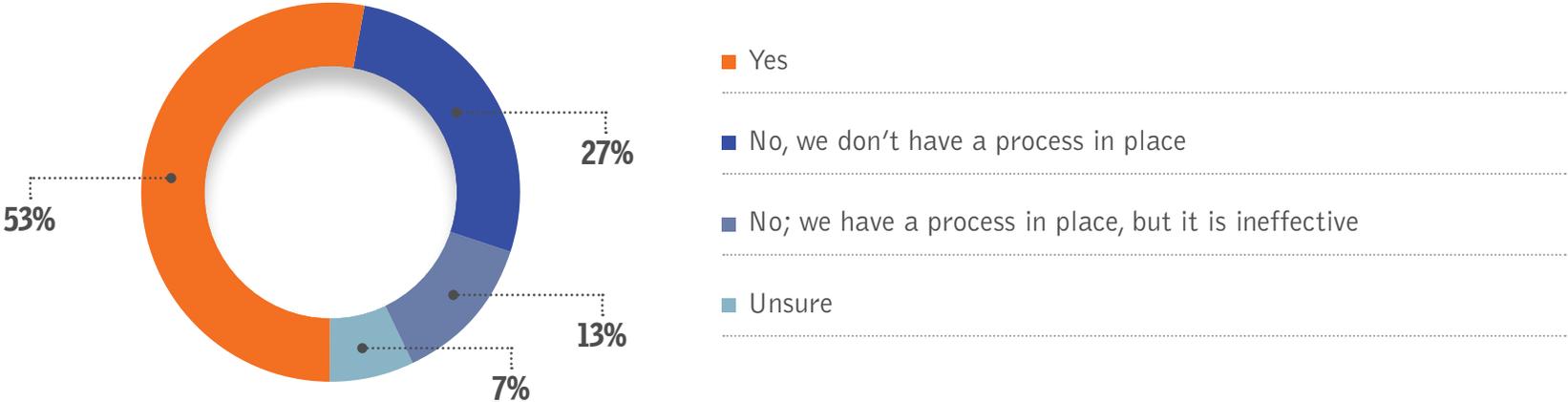
- All directors must meet a minimum training requirement set by the board
- Training isn't required but is encouraged for members
- Training is required for new directors but only encouraged for legacy members
- Our board neither mandates nor encourages external training



18. Does the board provide training materials and share opportunities for outside education with members of the board?

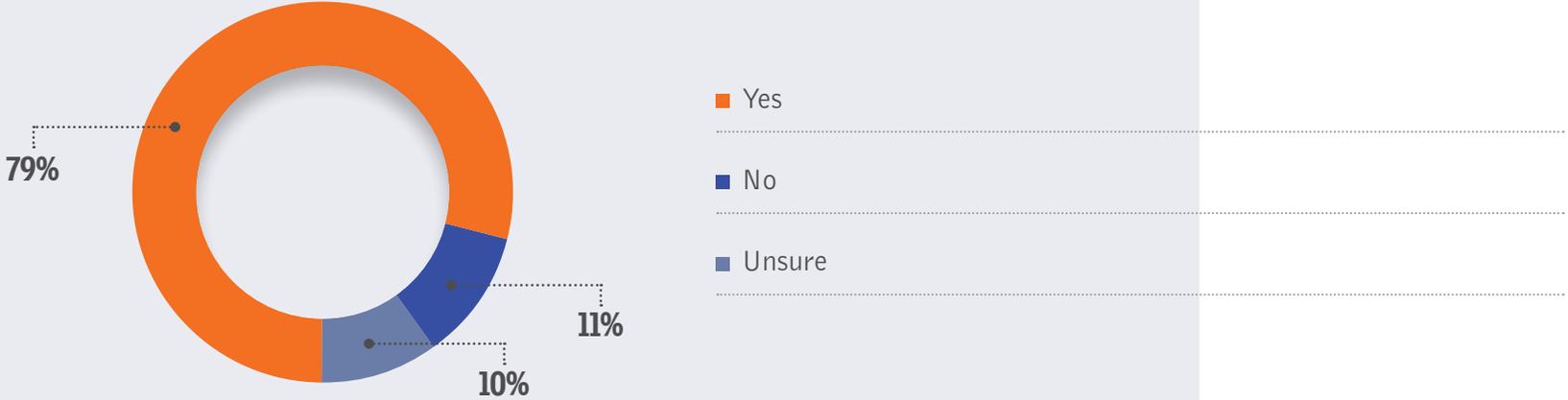


19. Does the board have an effective onboarding process in place for new directors?



20. Does the onboarding process for new directors include training on bank terminology and key measurements for bank performance?

Question asked of respondents indicating their board has an onboarding process for new directors.



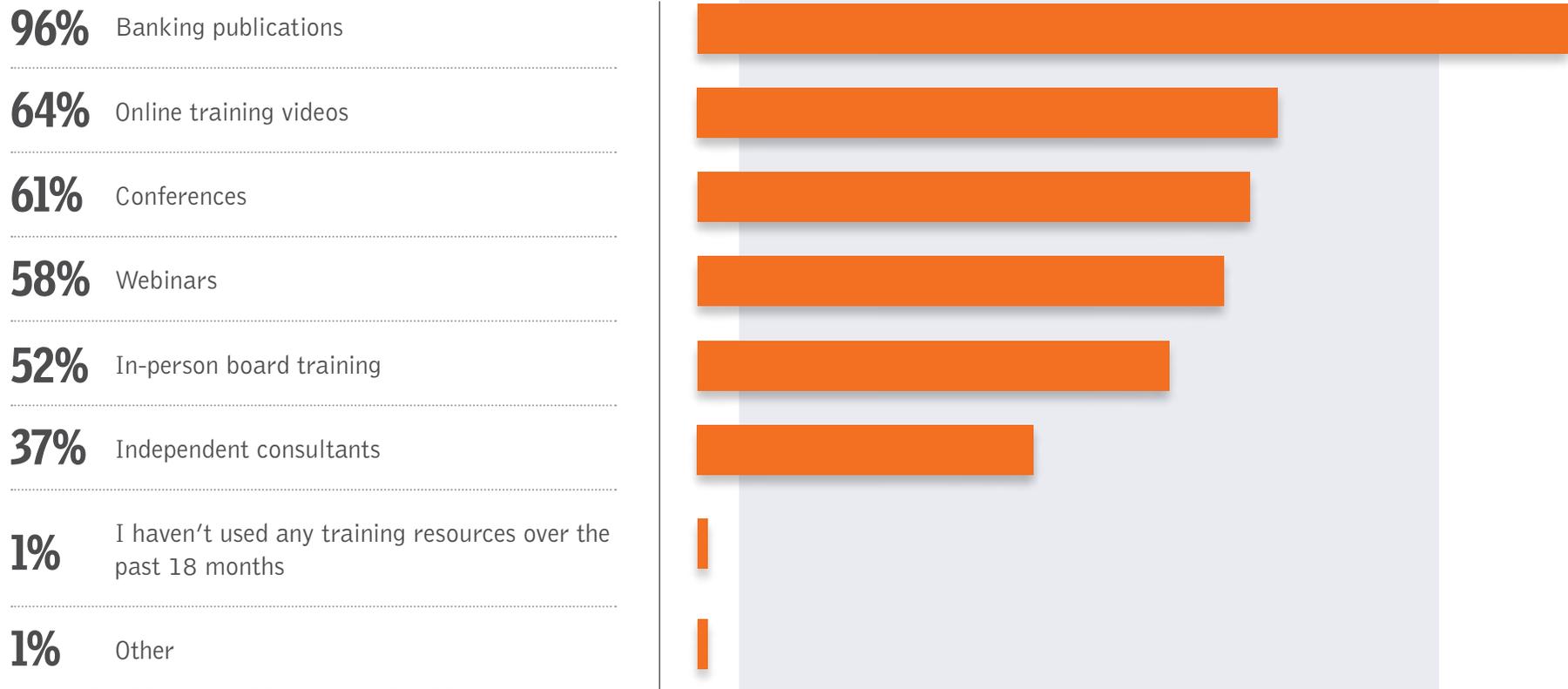
21. Are you satisfied with the training and educational opportunities offered to you as a board member?

Question asked of independent directors, independent chairs and lead directors.



22. Have you personally used any of the following training resources over the past 18 months?

Respondents were asked to select all that apply. Question asked of independent directors, independent chairs and lead directors.



COMMITTEE STRUCTURE

23. Considering the opportunities, risks and challenges facing your bank, do you believe your board’s committee structure allows it to effectively oversee the institution?

Numbers don't add up to 100% due to rounding.



24. Based on your experience, are the committees of your board provided with adequate resources to carry out their responsibilities?

Question asked of independent directors, independent chairs and lead directors.



25. Does your board have a sufficient number of directors to adequately staff its committees?

- Yes, we have enough directors to staff our current committees
- Yes, we have enough directors to staff our current committees, but not if we add another committee
- No, we don't have enough directors to staff our current committees



26. Are audit and risk oversight managed within separate committees?



27. Which of the following tasks and responsibilities are part of risk oversight by your board and/or the applicable committee?

Respondents were asked to select all that apply.

83% Regularly reviewing the bank's risk profile

73% Ensuring that management can identify, measure, monitor, control and report about the risks facing the bank

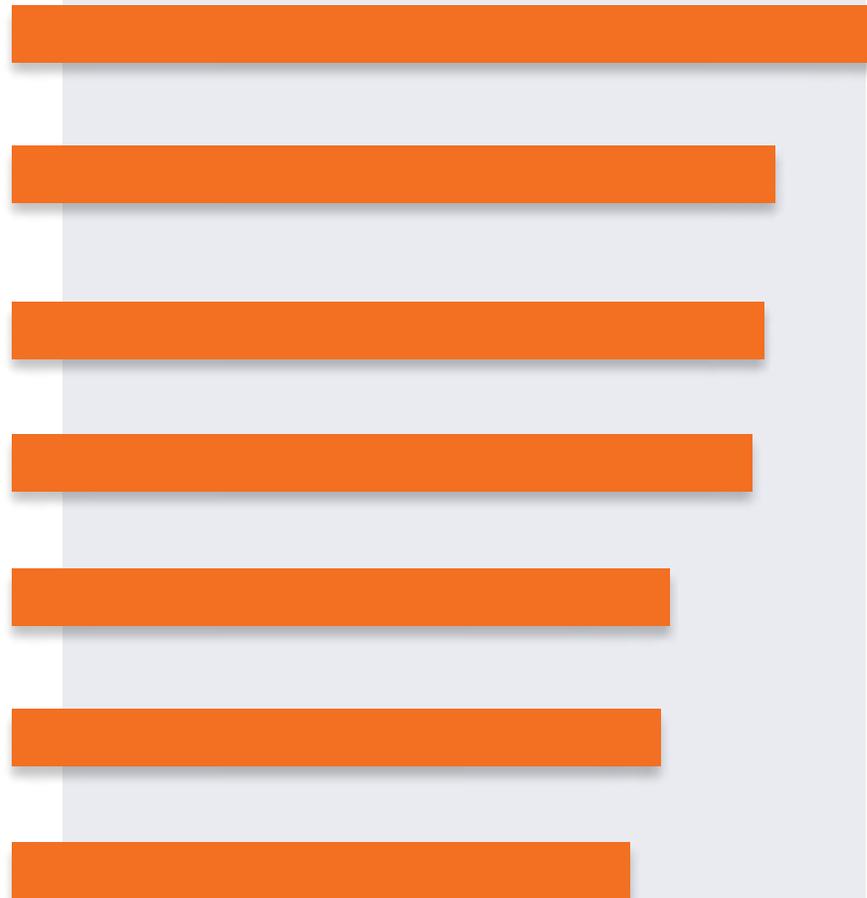
72% Monitoring compliance with the risk governance framework

71% Reviewing, approving and monitoring risk limits

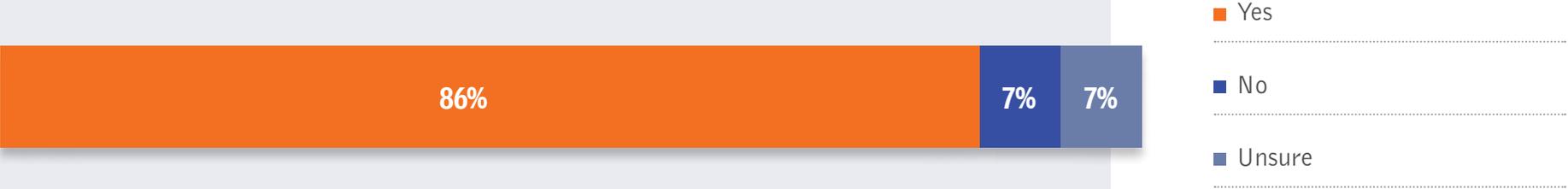
63% Approving the bank's risk governance framework

62% Holding management accountable for adhering to the risk governance framework

59% Reviewing and approving the bank's risk appetite statement



28. Do you believe your current committee structure allows the bank to effectively oversee risk?



29. Do you believe that it would benefit the board to have a standing technology committee?

Question asked of respondents indicating their board doesn't have a technology committee.



30. Do you believe that it would benefit the board to have a standing cybersecurity committee?

Question asked of respondents indicating their board doesn't have a technology committee.



31. Is the governance/nominating committee responsible for any of the following?

Respondents were asked to select all that apply. Question asked of respondents indicating their board has a governance/nominating committee.



32. Do directors contribute to the development of committee meeting agendas?

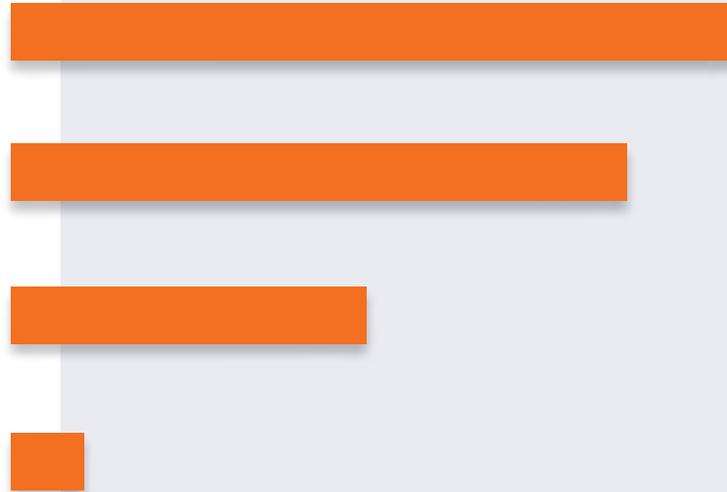
Respondents were asked to select all that apply. Question asked of independent directors, independent chairs and lead directors.

70% A committee member or chair is actively involved in developing the committee agenda

59% Independent directors can request that an item be placed on the committee agenda

34% There is an open spot on the committee agenda where any independent director can ask a question on any topic

7% No, directors cannot contribute as indicated above



ESG IN THE BOARDROOM

33. How are environmental, social and governance (ESG) issues comprehensively addressed in the boardroom?

Respondents were asked to select all that apply.

45% The board doesn't discuss or oversee ESG

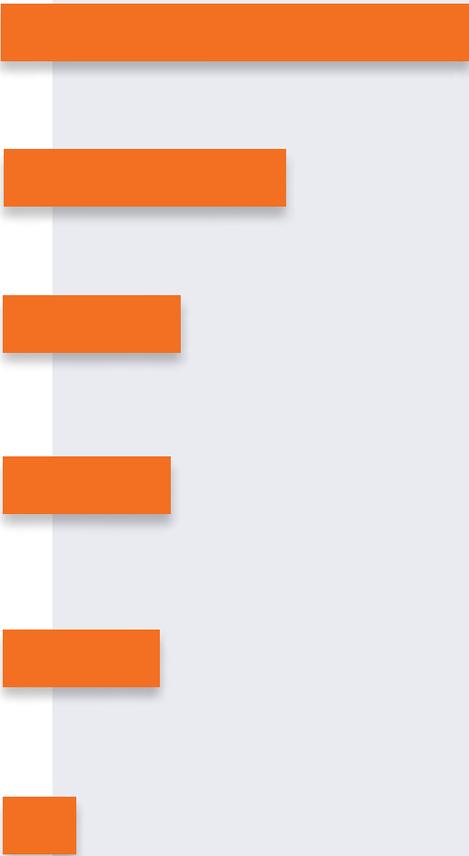
27% The board and management team are developing or will soon develop an ESG strategy

17% Responsibility for ESG has been assigned to one or more committees

16% The board and management team have developed an ESG strategy and defined goals for the organization

15% The board and/or management team engage with company stakeholders on ESG to understand their concerns

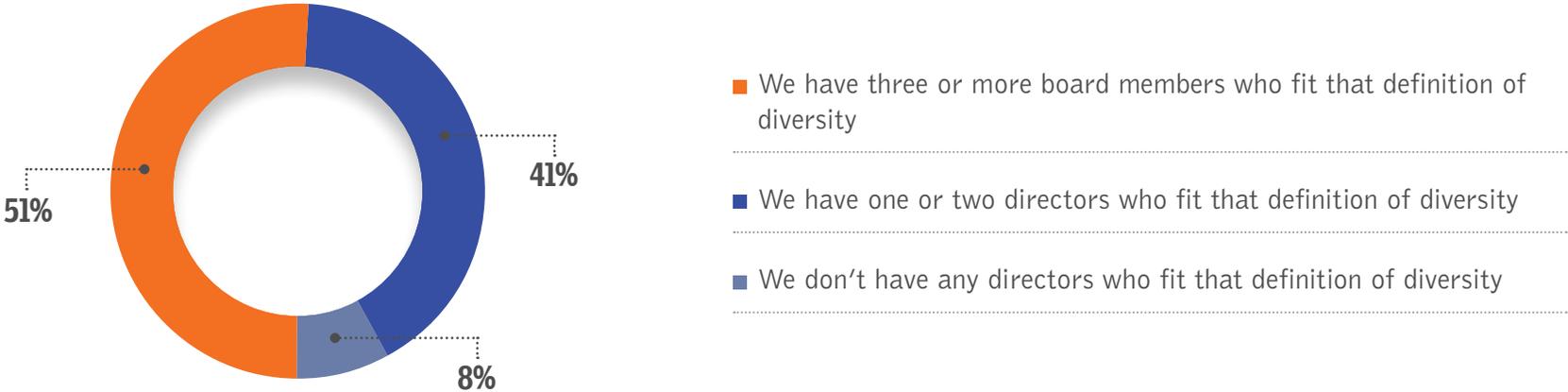
7% The board has set goals and incentives around ESG matters for the management team



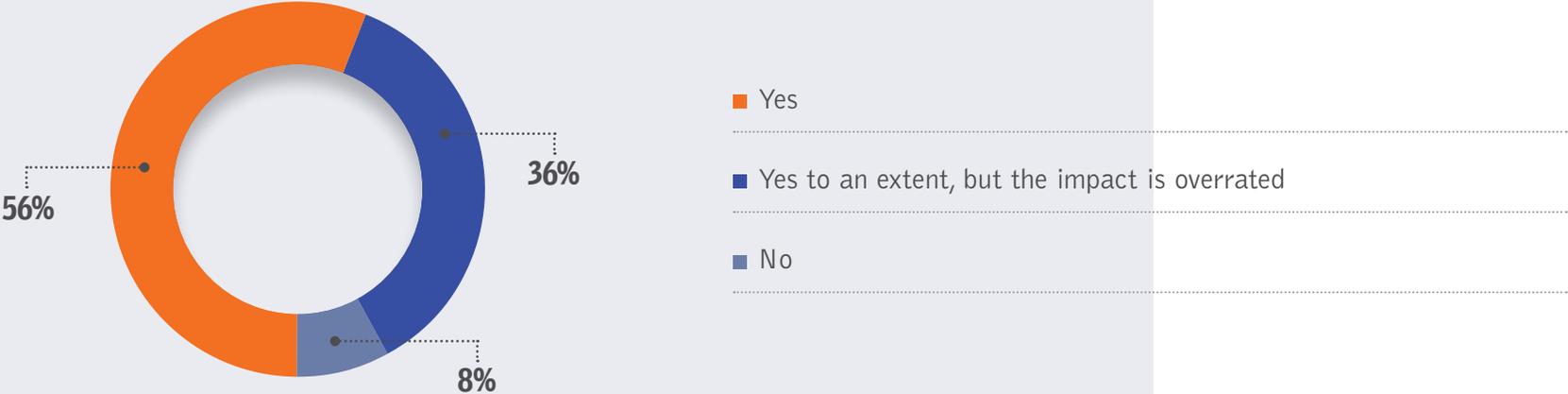
34. Do you believe that it's important for financial institutions to comprehensively measure and understand where they stand on ESG?



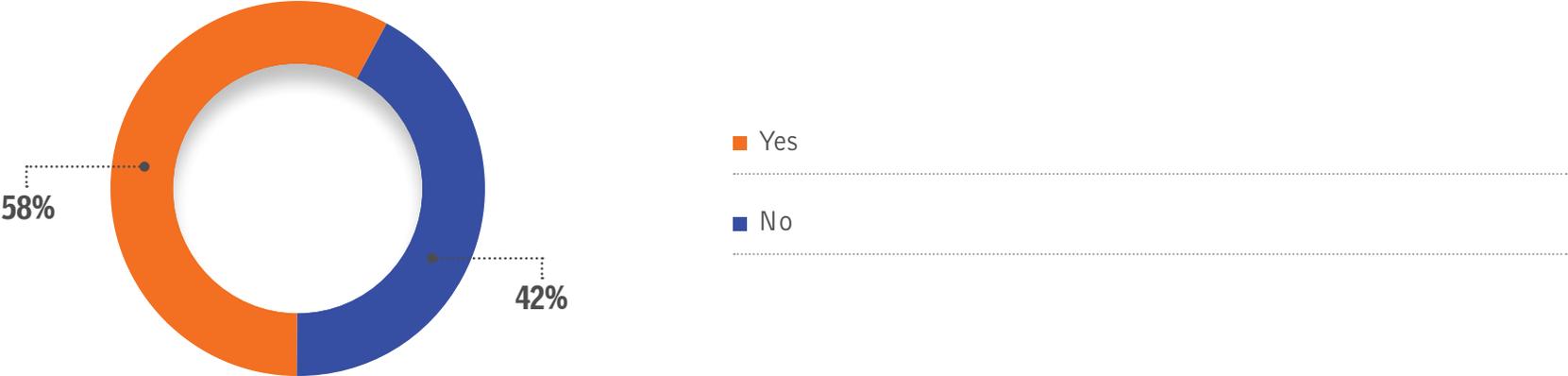
35. How would you characterize your board's diversity as defined by race, gender or ethnicity?



36. Do you believe that greater diversity defined by race, gender and ethnicity improves the performance of a corporate board?



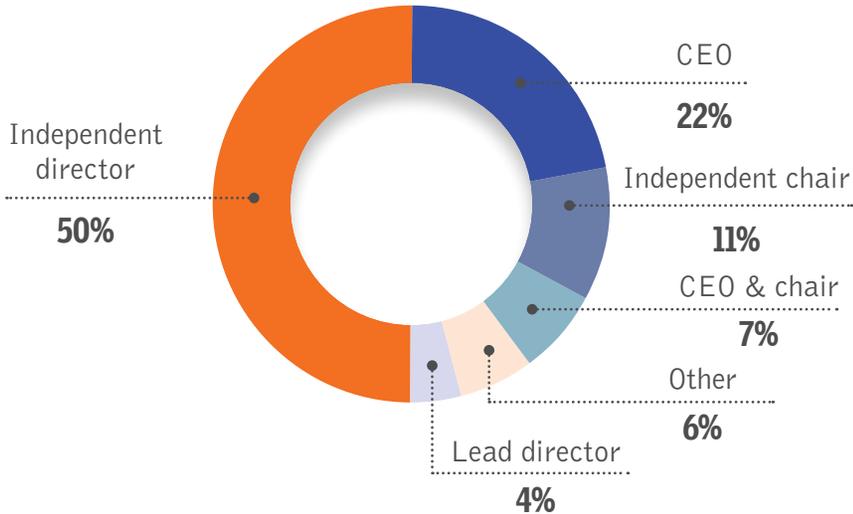
37. Do you believe it's difficult to attract candidates with diverse racial and ethnic backgrounds to serve on your bank's board?



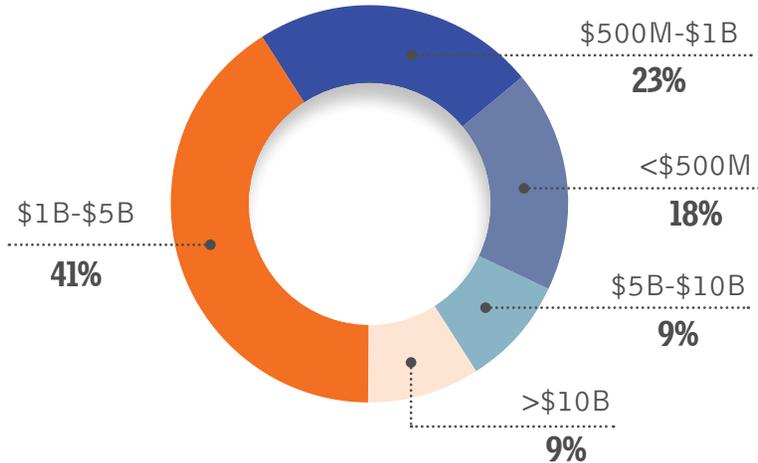
ABOUT THE SURVEY

Bank Director’s 2022 Governance Best Practices Survey, sponsored by Bryan Cave Leighton Paisner, surveyed 234 independent directors, chairs and chief executives of U.S. banks below \$100 billion in assets, with the majority of respondents representing regional and community banks. The survey regularly explores the fundamentals of board performance, and this year examined board culture, committee structure, and how ESG is governed in the boardroom, along with practices such as evaluations and training that help boards improve their performance. The survey was conducted in February and March 2022.

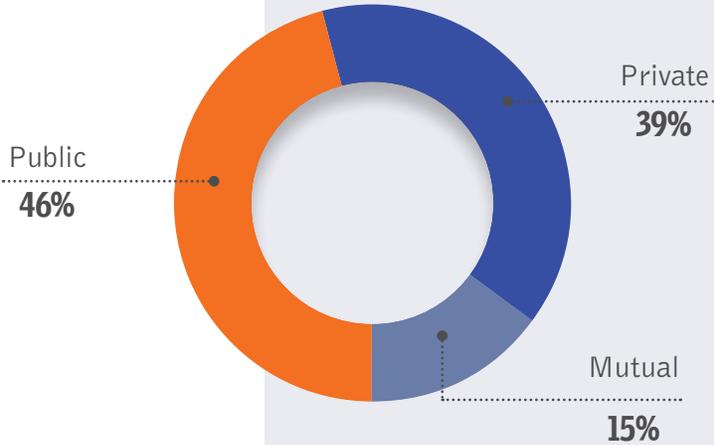
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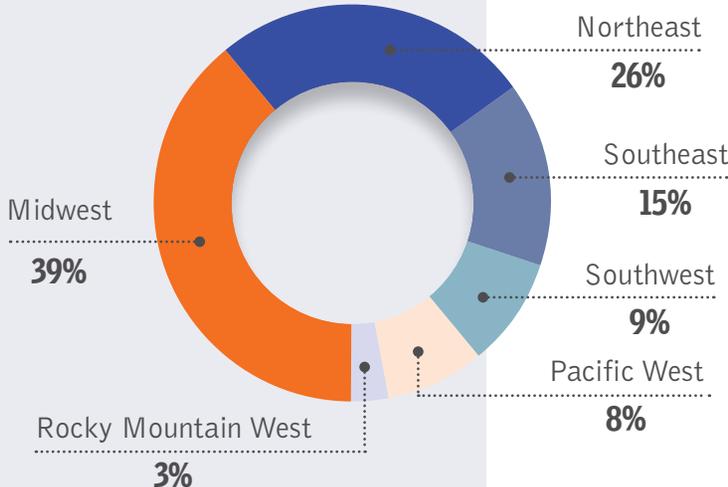
ASSET SIZE



OWNERSHIP STRUCTURE

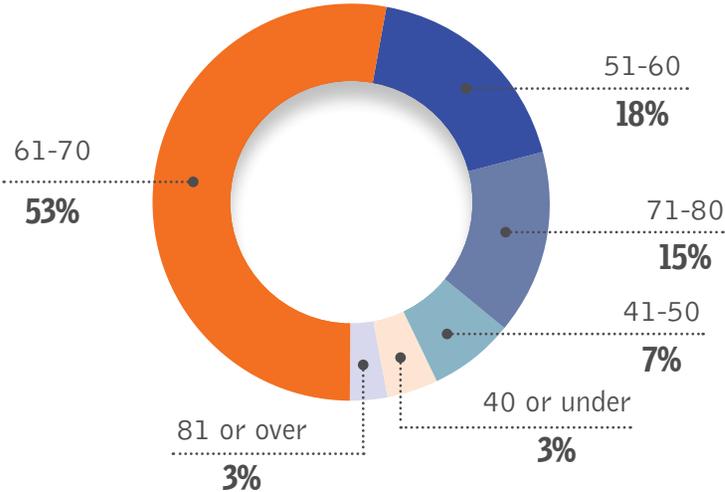


REGION*



RESPONDENT AGE

Numbers don't add up to 100% due to rounding.



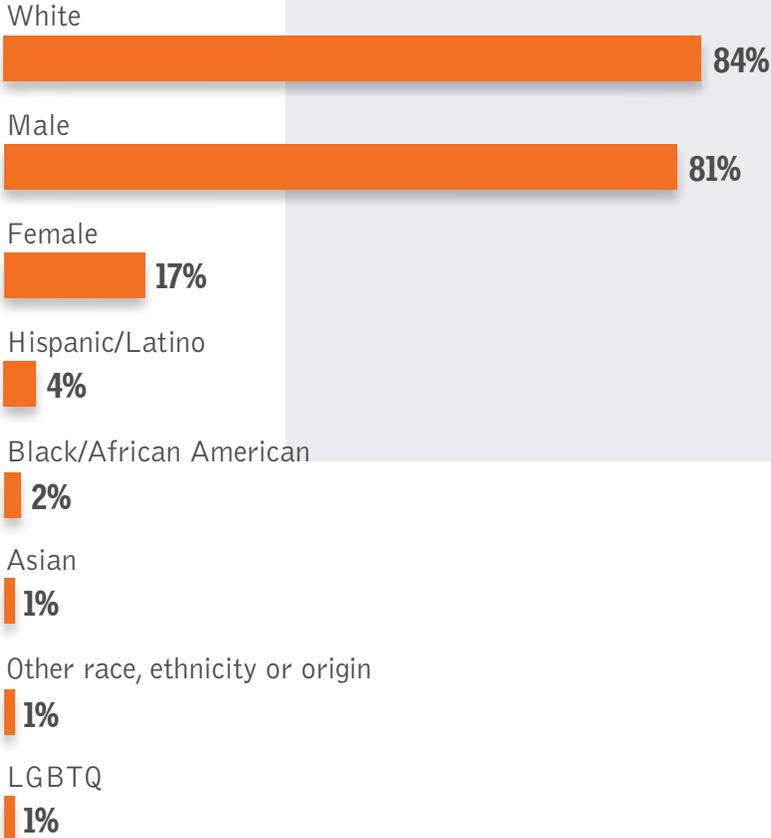
BOARD TENURE

15

Median Years Served on the Board

*Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ, NM, OK, TX)

RESPONDENT BACKGROUND



COMMITTEE MEMBERSHIP

