

2024 Governance Best Practices Survey



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About Bank Director

Bank Director reaches the leaders of the institutions that comprise America's banking industry. Since 1991, Bank Director has provided board-level research, peer insights and in-depth executive and board services. Built for banks, Bank Director extends into and beyond the boardroom by providing timely and relevant information through *Bank Director* magazine, board training services and the financial industry's premier event, Acquire or Be Acquired. For more information, please visit www.bankdirector.com.

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About Bradley

Founded in 1870, Bradley is a national law firm with a reputation for skilled legal work, exceptional client service, and impeccable integrity. Bradley's Banking & Financial Services attorneys serve as counsel for a broad range of banks, lenders and financial institutions across the United States. As part of its nationwide practice, the team (which includes more than 80 members) advises banks, mortgage servicers, lenders, credit unions and other consumer finance companies across a broad spectrum of legal issues, including litigation, regulatory compliance, governmental investigations and enforcement actions, risk assessments, and multi-state settlements. The firm's unique, cross-disciplinary team has a national reputation as a leader in the consumer finance industry with a particular focus on mortgage origination and servicing compliance, enforcement, and litigation. For more information, please visit www.bradley.com.

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EXECUTIVE SUMMARY



Emily McCormick is the vice president of editorial & research for Bank Director, an information resource for directors and officers of financial companies. You can get connected on LinkedIn.

Can a dominant CEO or board member have a negative impact on their bank?

In July 2023, Heartland Tri-State Bank closed after its CEO funneled \$47.1 million out of the \$139 million Kansas bank over a matter of weeks, according to prosecutors. Federal agents said that was the direct cause of the Elkhart bank's insolvency, but the Federal Reserve's Office of the Inspector General pointed to an underlying factor: Hanes' excessive influence as the bank's CEO and one of its larger shareholders.

Employees asked to conduct the wire transfers were reluctant to question or report the activity, which didn't align with the wire policy and limits approved by the board. "Significant internal control breakdowns and the influence of the CEO as a dominant management official created an opportunity for the series of apparently fraudulent wire transfers to be initiated and processed," wrote the OIG.

In Bank Director's 2024 Governance Best Practices Survey, sponsored by the law firm Bradley Arant Boult Cummings, almost one-fifth of responding directors and CEOs report that a single individual directly or indirectly dominates their board's deliberations. Most say this presents a mixed effect on discussions, and some even believe it's beneficial.

But Bradley Partner Robert Maddox says boards overly influenced by one individual can't act in the best interests of the bank and its owners. "They're not exercising independent control," he says. The outsized influence of a dominant personality "means the other directors are not independently asserting themselves."

Proposed guidelines from the Federal Deposit Insurance Corp., issued in October 2023, set out the agency's expectations for banks above \$10 billion in assets that are regulated by the agency. The guidelines focus on board independence, composition and risk oversight, and highlight the dangers of any individual having too much influence in the boardroom. "Dominant policymakers" could inhibit directors' independent judgment; the FDIC also expressed concerns about prospective mismanagement and a "power vacuum" should that individual leave.

Training focused on the board's role could help directors address this potential problem without being adversarial, says Maddox, "because you're not discussing the person; you're discussing the broader responsibilities of the board."

The survey of directors and CEOs, conducted in May and June, examines board engagement, risk oversight and recent regulatory scrutiny around governance practices.

KEY FINDINGS

➔ Confident Directors

Respondents widely indicate assurance in the board's ability to execute on its responsibilities, particularly meeting its fiduciary responsibility to shareholders, supporting an independent audit and risk function, and reviewing and approving bank policies.

➔ Active Deliberations

Forty-four percent say all board members actively contribute to discussions; almost half say most directors contribute, with one or two who don't actively participate. When asked about their own participation, two-thirds say they speak more than the average board member.

➔ Few Perfect Cultures

Respondents point to various shortfalls in their boardrooms, including a lack of diverse viewpoints or backgrounds (21%), a dominant board member or executive (21%) and a lack of long-term vision (20%). One-third perceive no deficiencies in their board's culture.

➔ Board Composition

Almost half say their board has three or more members who they would characterize as diverse, based on gender, race or ethnicity. Most say their board relies on directors' (87%) and/or executives' (66%) personal and professional networks to source candidates.

➔ Onboarding Practices

Eighty-five percent have an onboarding plan for new directors, which commonly includes one-on-one meetings with the CEO (83%), reviewing recent financial statements (73%), and meeting with the chair or another director to discuss board policies and procedures (66%).

➔ Setting The Risk Appetite

Forty percent say their board reviews the bank's risk appetite — put simply, the amount of risk the bank would accept, measured by metrics like concentration limits — every year. Another 33% review this statement quarterly, while 12% say their board doesn't review the risk appetite at all.

BOARD EFFECTIVENESS

1. How effective is your board at executing its responsibilities in the following areas?

Holding management accountable for achieving strategic goals in a safe and sound manner



Meeting the board’s fiduciary responsibilities to the bank’s shareholders/owners



Setting the bank’s strategy



Establishing/maintaining the bank’s values, mission and vision



Providing a credible challenge to management



Monitoring risk across the enterprise



- Very effective
- Somewhat effective
- Somewhat ineffective
- Completely ineffective
- Not applicable

Setting the bank's risk appetite



Monitoring asset/liability risks



Supporting an independent audit/risk function



Establishing a succession plan for the CEO/key executives



Overseeing compensation practices



Reviewing/approving bank policies



Establishing expectations for the bank's culture



- Very effective
- Somewhat effective
- Somewhat ineffective
- Completely ineffective
- Not applicable

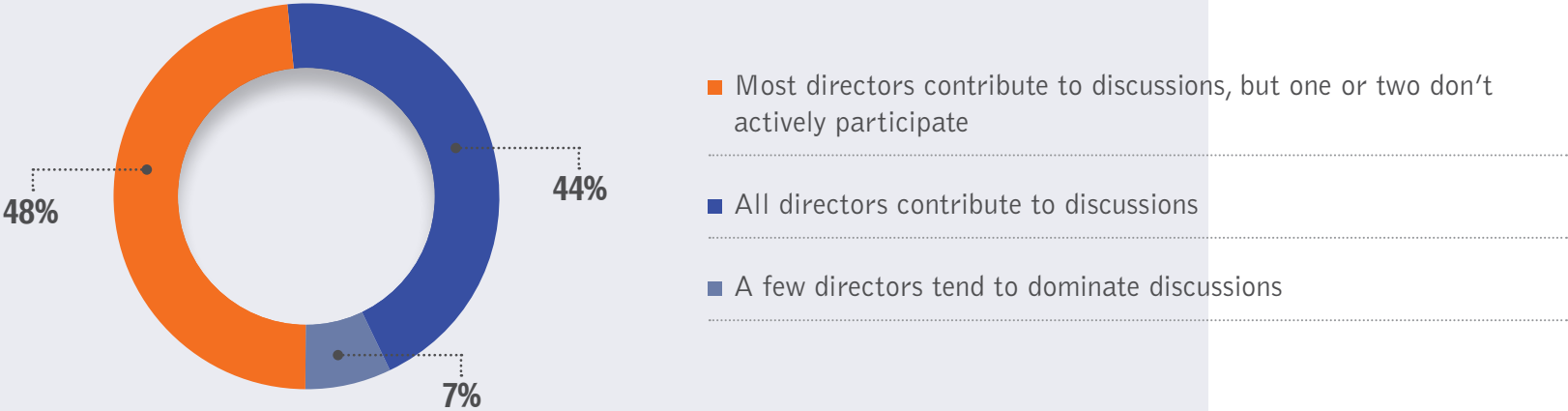
2. Does the board set expectations for individual directors in the following areas?

Respondents were asked to select all that apply.



3. Do all board members actively contribute to board-level discussions?

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



4. How well does your board demonstrate the following attributes?

Collaboration



Respect



Knowledge



Active engagement in board deliberations



Honesty/integrity



Strategic alignment



- Very well demonstrated
- Somewhat demonstrated
- Not well demonstrated

Preparedness



Passion/commitment



Diversity of opinions/backgrounds

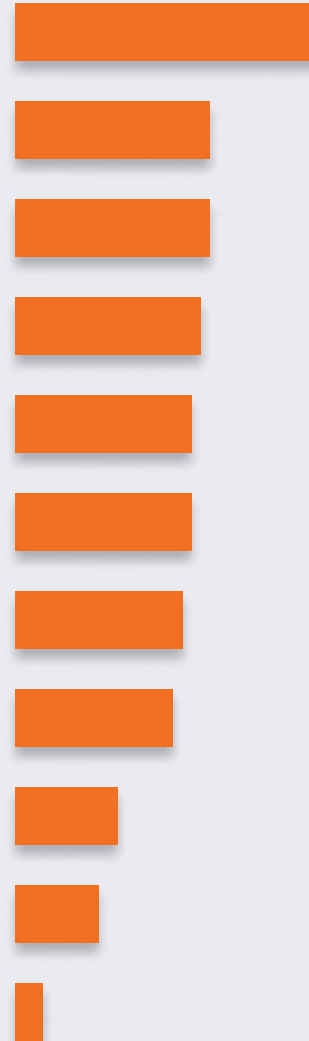


- Very well demonstrated
- Somewhat demonstrated
- Not well demonstrated

5. What deficiencies do you perceive in your board's culture?

Respondents were asked to select all that apply.

33%	I see no deficiencies in the board's culture
21%	Dominant board member or executive
21%	Lack of diverse viewpoints/backgrounds
20%	Lack of long-term vision
19%	Insufficient training/education
19%	Lack of credible challenge
18%	Blurred line between management and board duties
17%	Insufficient understanding of the banking industry
11%	Lack of specific expertise
9%	Cliques within the boardroom
3%	Other



6. How would you rate your performance as a director in the following areas?

Providing an independent perspective



Exercising sound judgment



Preparing for board meetings



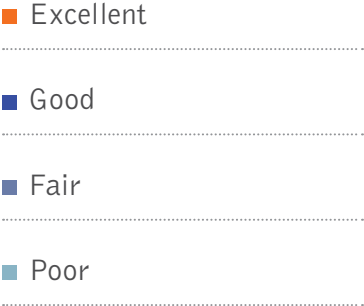
Collaborating with other directors



Dedicating time to training/education

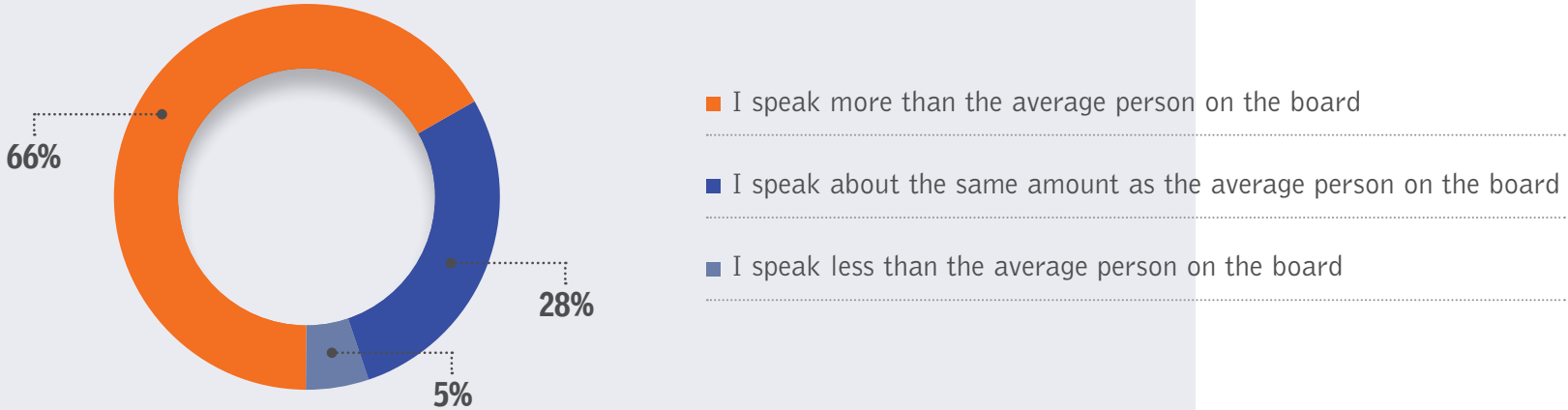


Demonstrating personal integrity

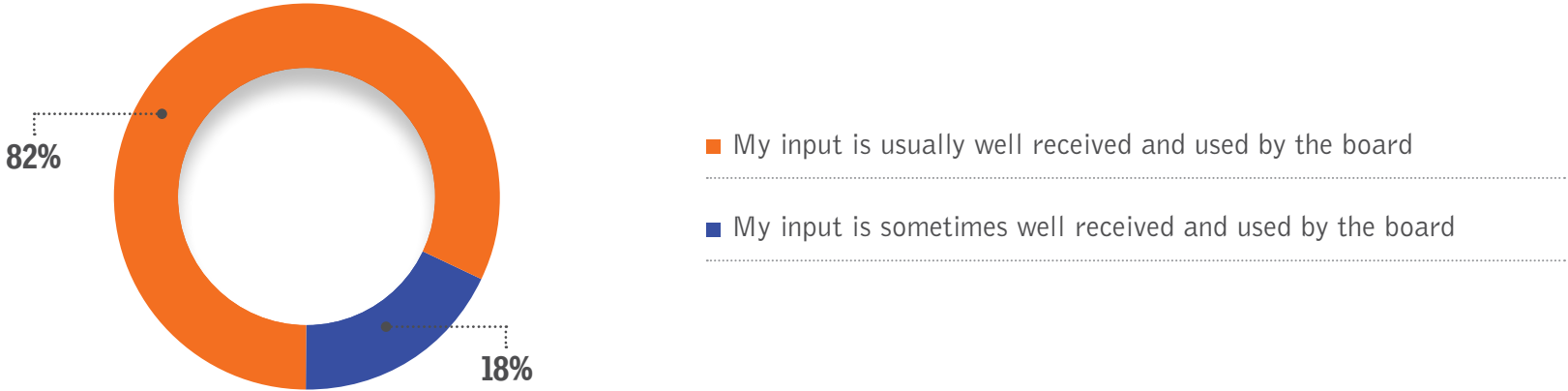


7. Which of the following statements best describes your engagement during board meetings?

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



8. When you contribute during board meetings, how does the board receive your input?



9. Do you serve on other corporate or nonprofit boards, in addition to that of your primary/largest bank?

Respondents were asked to select all that apply.

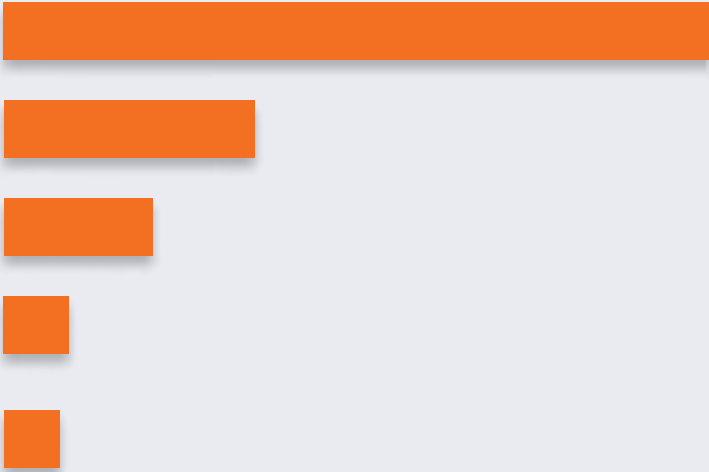
- 76%** I serve on nonprofit board(s)

- 27%** I serve on other, nonfinancial corporate board(s)

- 16%** I don't serve on additional boards

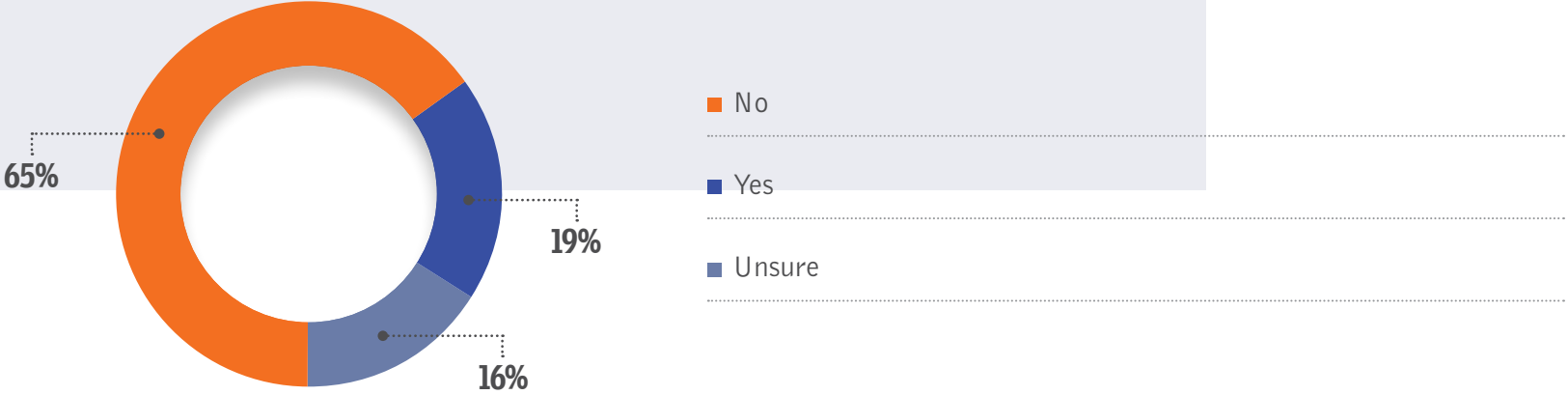
- 7%** I serve on one or more additional bank boards

- 6%** I serve on the board(s) of other financial companies that aren't banks

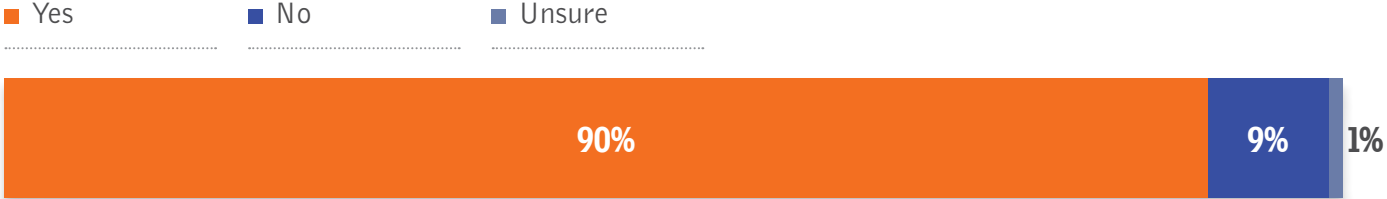


REGULATORY SCRUTINY

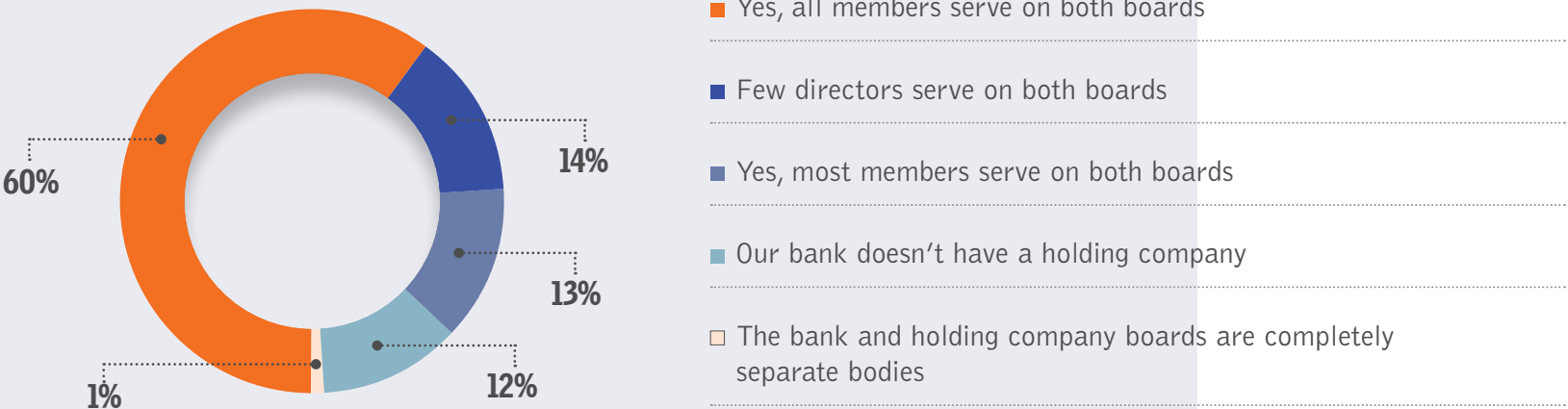
10. Proposed corporate governance guidelines from the FDIC would require the directors of some banks above \$10 billion in assets to “consider the interests of all its stakeholders, including shareholders, depositors, creditors, customers, regulators, and the public.” Thinking about your institution, do you believe this proposed requirement would conflict with your fiduciary duties as a director?



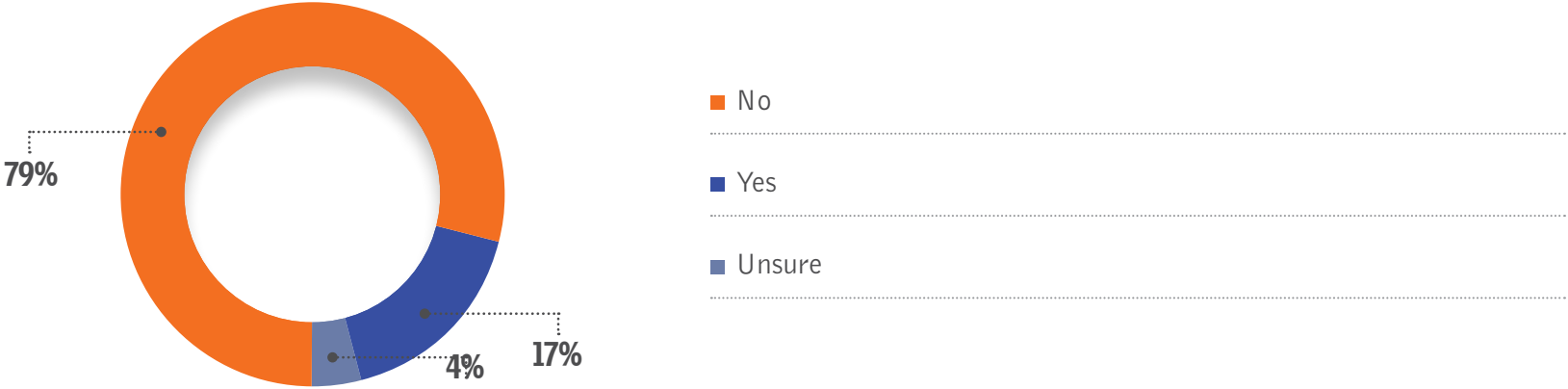
11. Are the majority of the directors serving on the board considered to be independent, based on their relationships with the bank and its employees?



12. Do members of the bank’s board also serve on the holding company board?

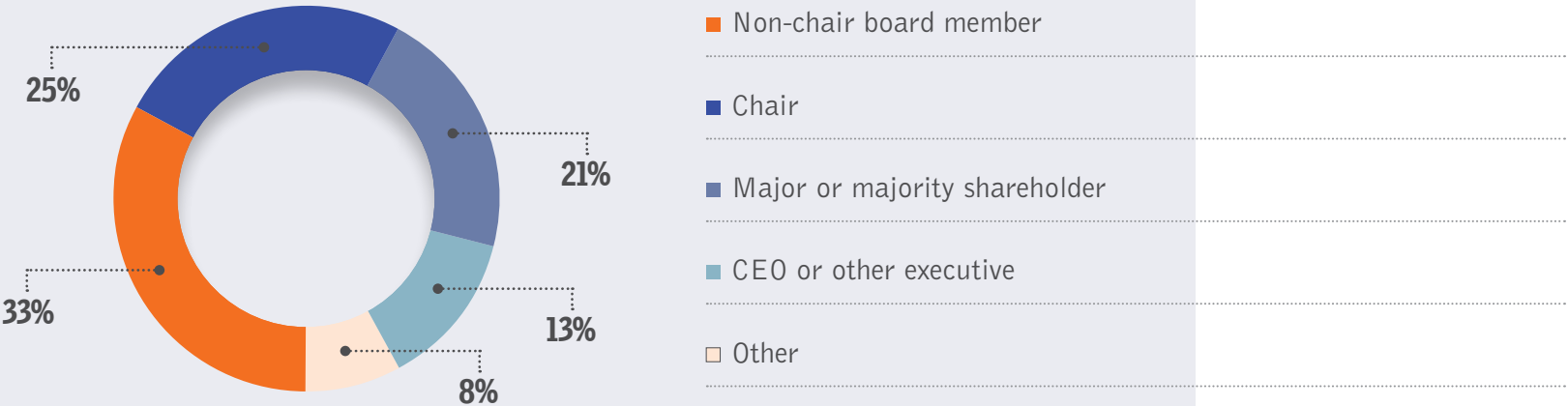


13. Do you believe the board is unduly influenced by a single individual who directly or indirectly dominates deliberations?



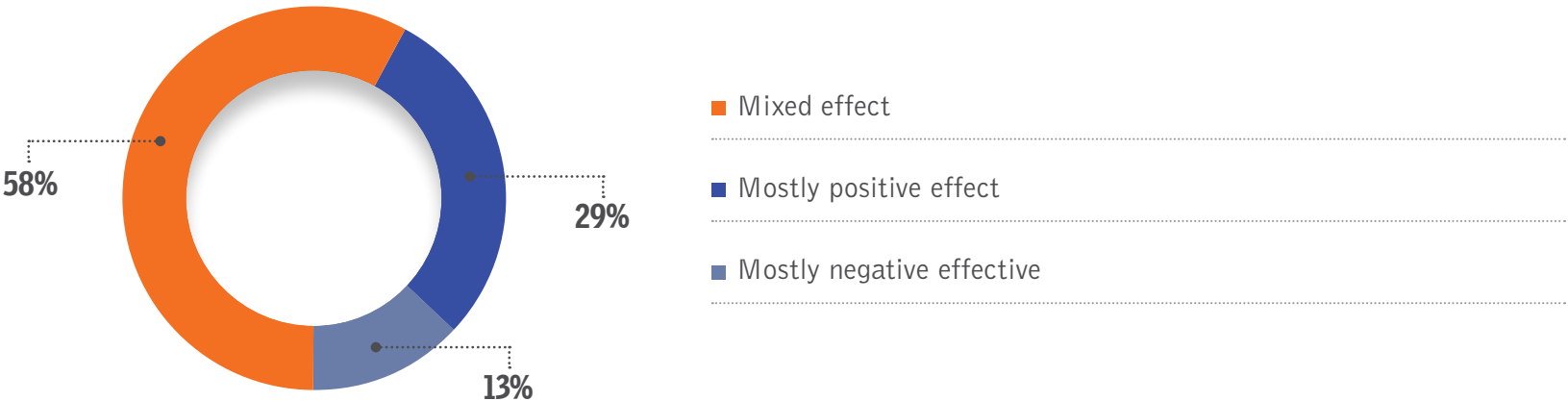
14. What position is held by the dominant individual with significant influence on the board?

Question only asked of respondents indicating their board was unduly influenced by an individual who dominates deliberations.



15. Does the dominant individual have a positive or negative effect on deliberations and decision-making?

Question only asked of respondents indicating their board was unduly influenced by an individual who dominates deliberations.



RISK OVERSIGHT

16. Regarding the following tasks and responsibilities related to risk oversight and regulatory compliance, how would you rate your board's effectiveness?

Aligning risk with the bank's strategy and operations



Regularly reviewing the bank's risk profile



Reviewing, approving and monitoring risk limits



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



Establishing effective risk governance practices and policies



- Very effective
- Somewhat effective
- Somewhat ineffective
- Completely ineffective
- Not applicable

Measuring and monitoring risk



Establishing effective controls



Ensuring effective training for bank staff



Ensuring effective regulatory change management



Responding to emerging risks



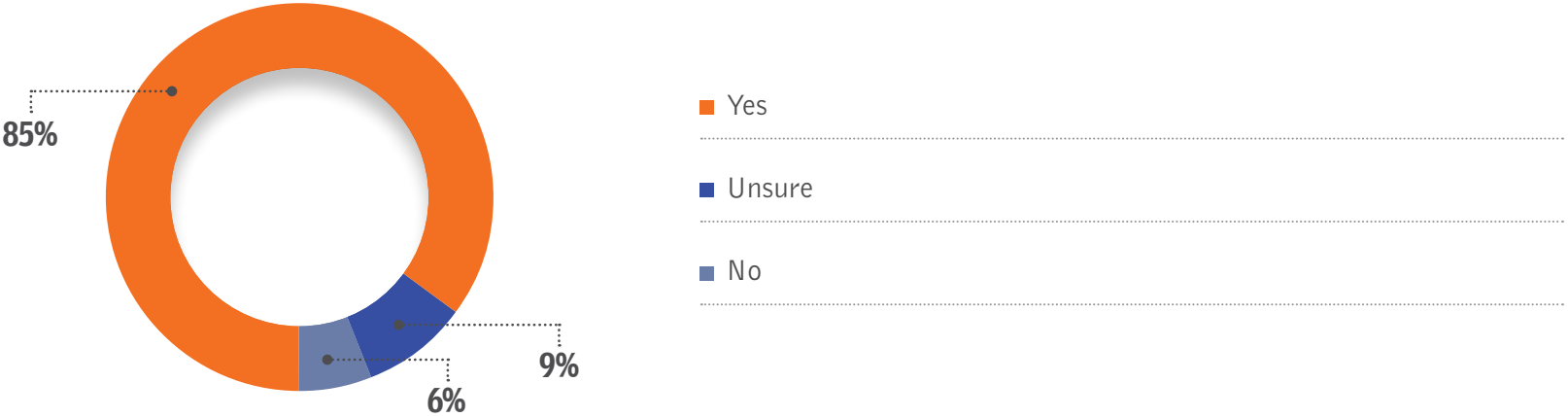
- Very effective
- Somewhat effective
- Somewhat ineffective
- Completely ineffective
- Not applicable

17. How often does the board review the bank's risk appetite statement?

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

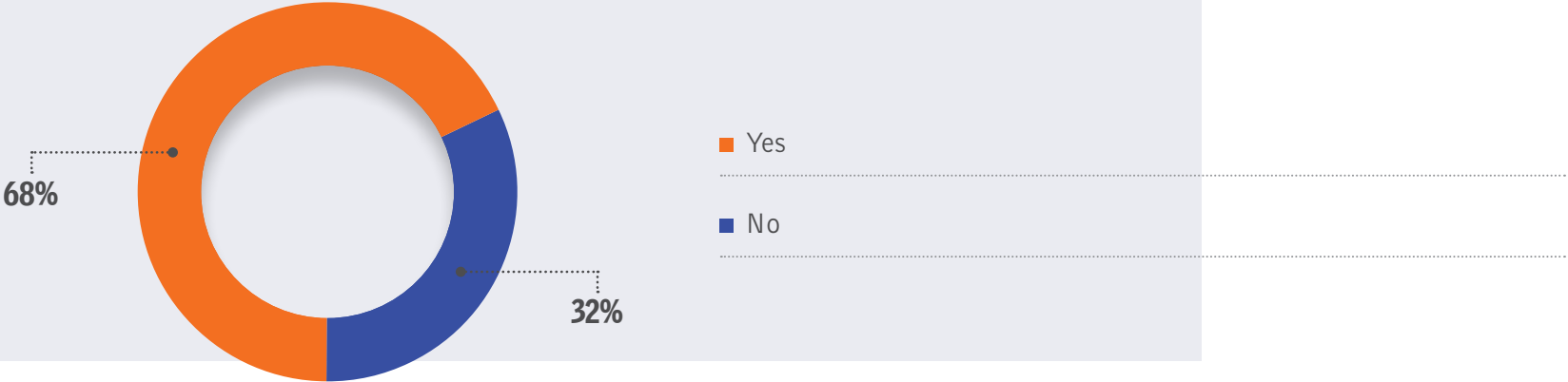


18. As a director, do you believe you have the appropriate knowledge and skills to determine the bank's risk appetite?



BOARD COMPOSITION

19. Is the role of the director on your board clearly defined, including qualifications and criteria for membership?



20. Does the board possess expertise in the following areas?

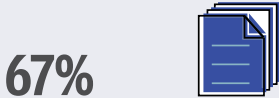
Respondents were asked to select all that apply.



Finance/accounting



Audit



Legal



Real estate



Risk



Human resources



Technology



Regulations



Marketing/communications



Capital markets



Mergers & Acquisitions (M&A)



Cybersecurity



Data privacy



Public company



Military service

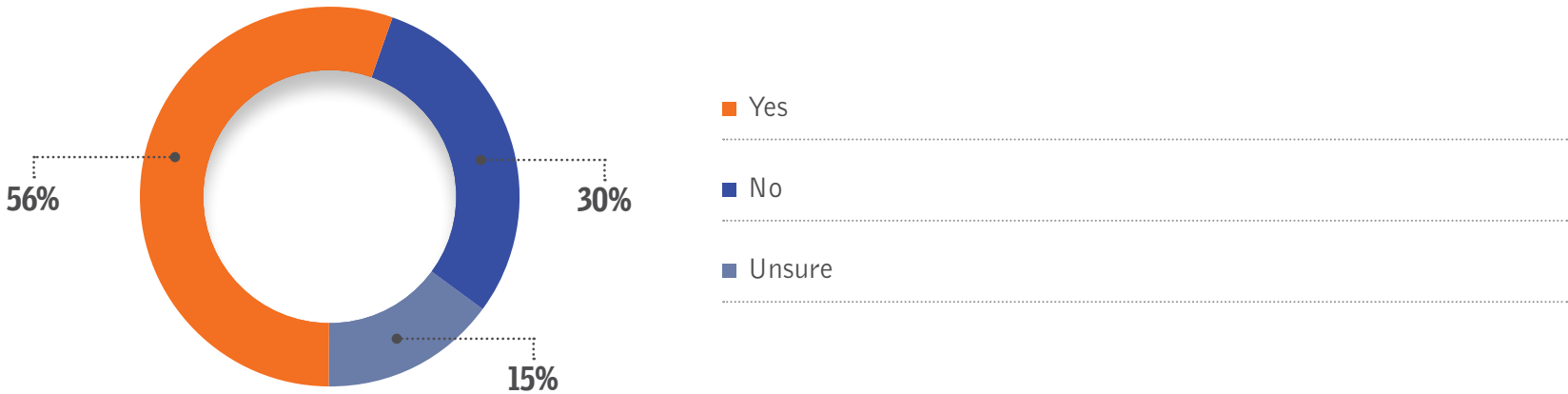
21. How would you characterize your board’s diversity as defined by race, gender or ethnicity?

- We have three or more board members who fit that definition of diversity
- We have one or two directors who fit that definition of diversity
- We don’t have any directors who fit that definition of diversity



22. In addition to skills and expertise, does your board specifically consider race, ethnicity, gender or LGBTQ+ status when evaluating director candidates?

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



23. Are there any directors currently serving on your board who are under the age of 55 years old?

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

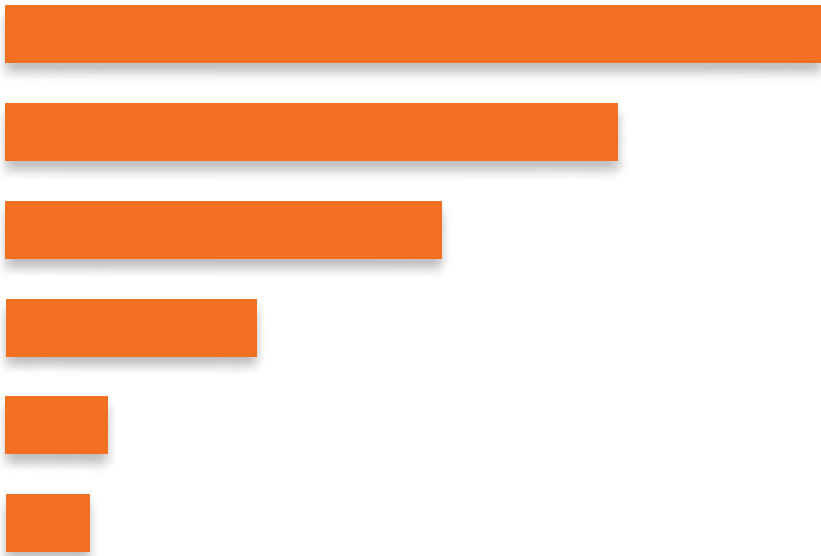
- We have one or two directors who are 55 or younger
- We have three or more directors who are 55 or younger
- We don't have any directors who are 55 or younger



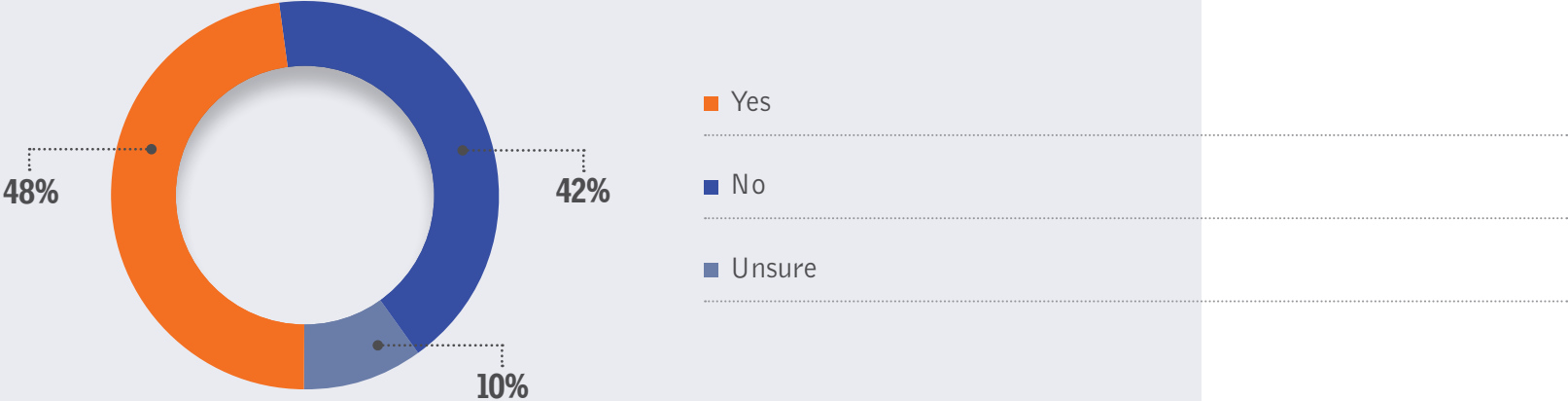
24. How does your board source candidates for board membership?

Respondents were asked to select all that apply.

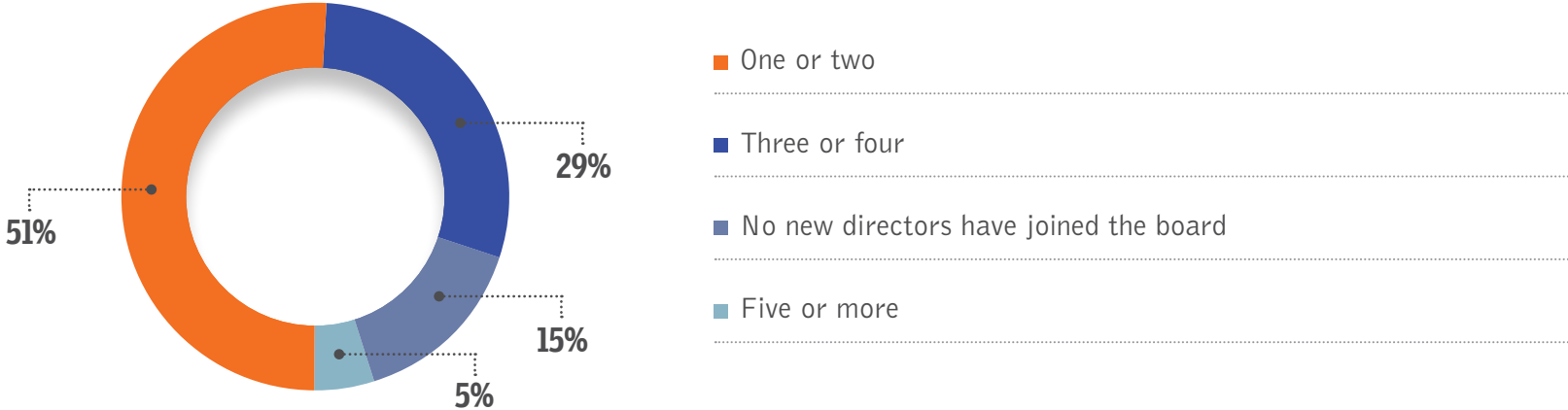
- 87%** Directors' personal and professional networks
- 66%** Executives' personal and professional networks
- 47%** Business leaders/professionals in the bank's markets
- 27%** Advisory board(s), corporators and/or shareholders
- 11%** Consultants and/or search firms
- 9%** Other



25. Does your board or governance/nominating committee use a board matrix or similar tool to identify skills and experience gaps?



26. How many new directors have joined your bank's board since January 2021?



27. Which of the following activities are part of the onboarding process for new directors?

Respondents asked to select all that apply.

83%



One-on-one meeting(s) with the CEO

73%



The opportunity to review the bank's recent financial statements

66%



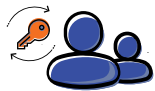
One-on-one meeting(s) with the chair or appropriate director to discuss board policies and procedures

50%



External training and education to learn about banking or governance issues

49%



One-on-one meetings with key executives

49%



An introductory meeting (dinner, for example) with other board members

48%



The opportunity to review recent board and committee minutes

41%



Details of the bank's relationship with its regulators

37%



The opportunity to attend all committee meetings during an introductory period

26%



Visiting bank branches and facilities

21%



Assigning an experienced board member as a mentor or coach for the new director

15%



Our board doesn't have a formal onboarding process

2%



Other

28. Thinking about your bank’s current board — its culture and level of engagement, skills and expertise, and governance practices — do you think the board is equipped to oversee the challenges facing the bank from various risks and opportunities, including technology and a shifting supervisory landscape?

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

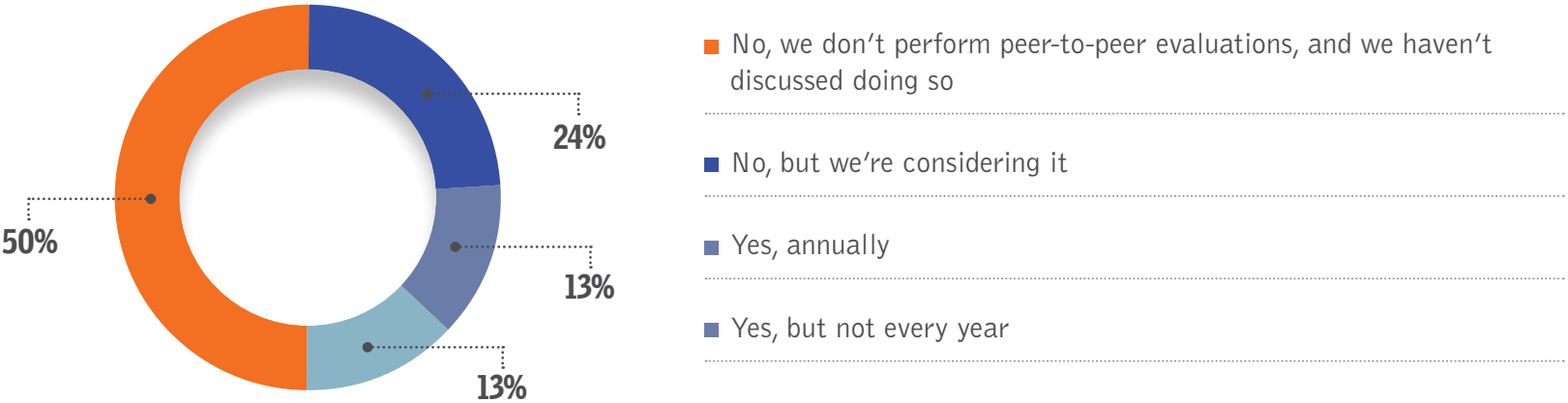


29. Does your board conduct performance assessments?

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

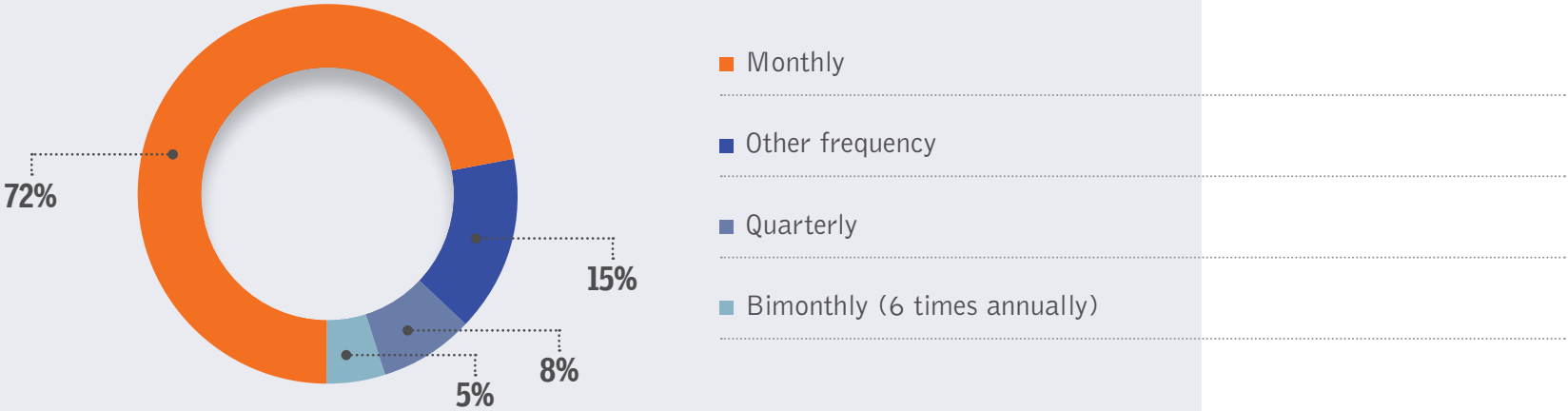


30. Does your board conduct peer-to-peer evaluations of its members?



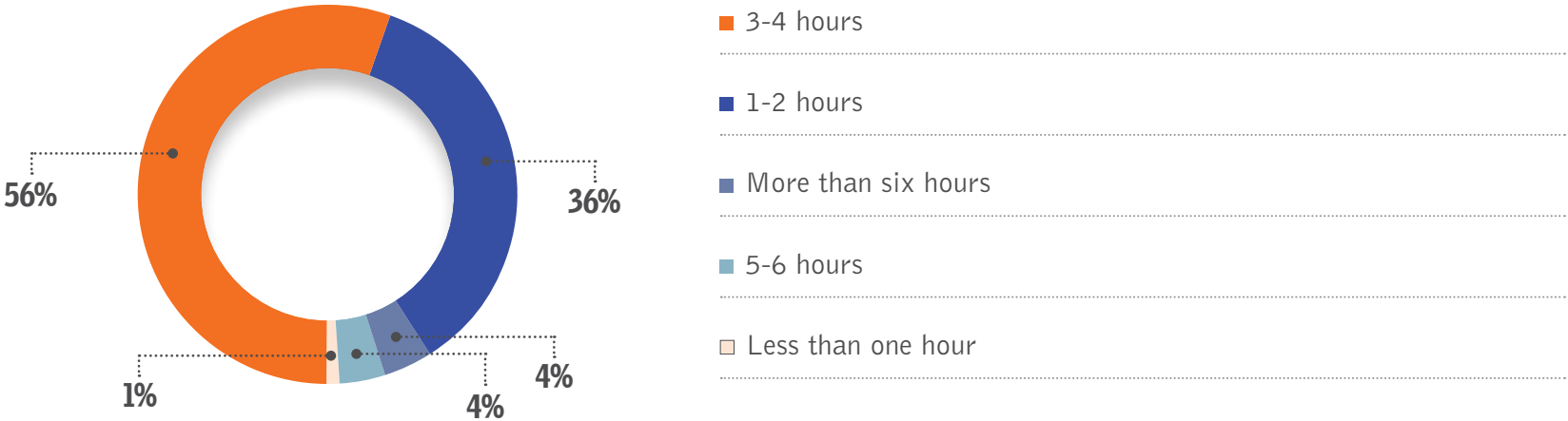
THE GOVERNANCE PROCESS

31. How often does your full board meet?

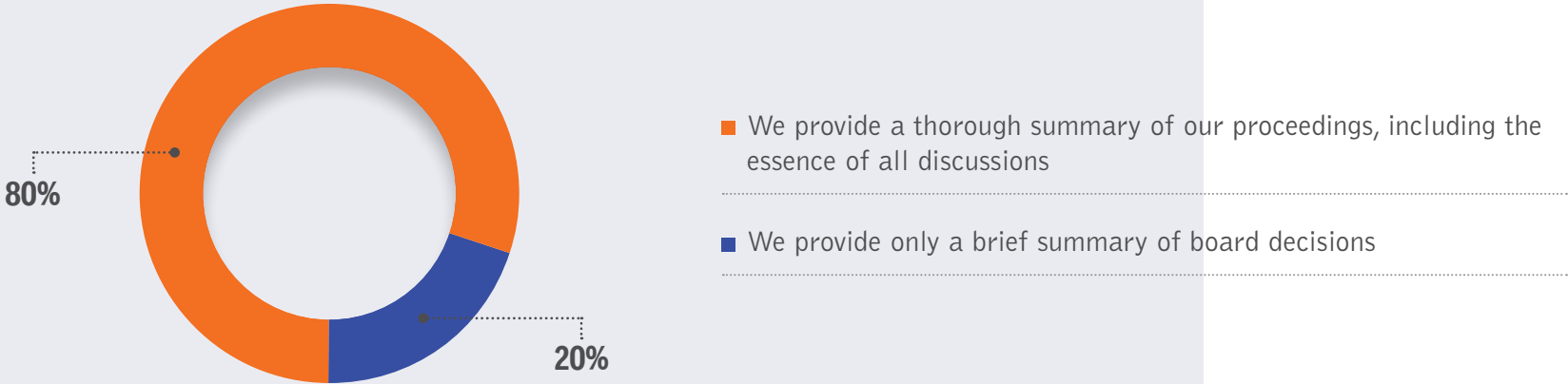


32. How long is an average meeting of your full board?

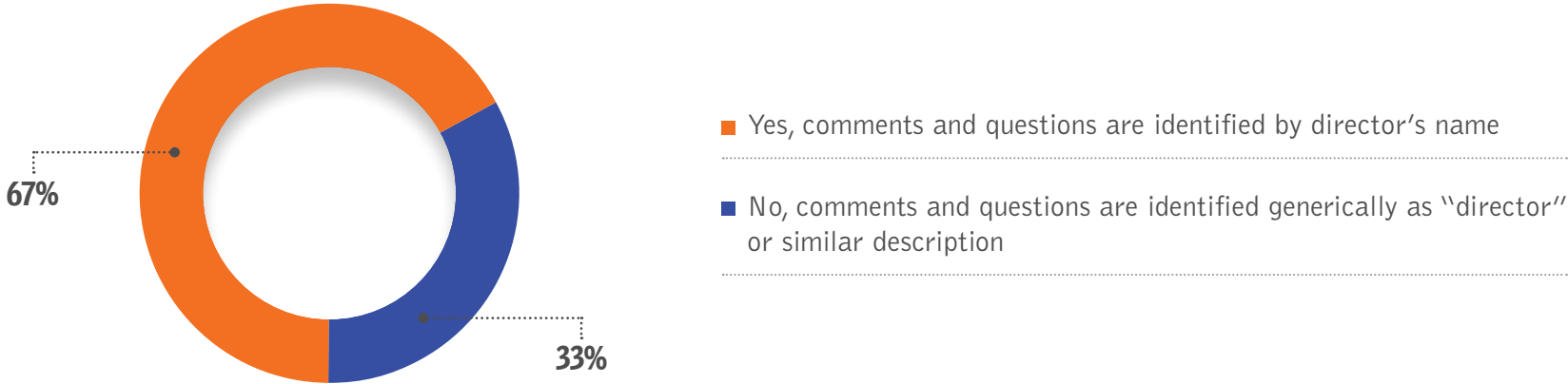
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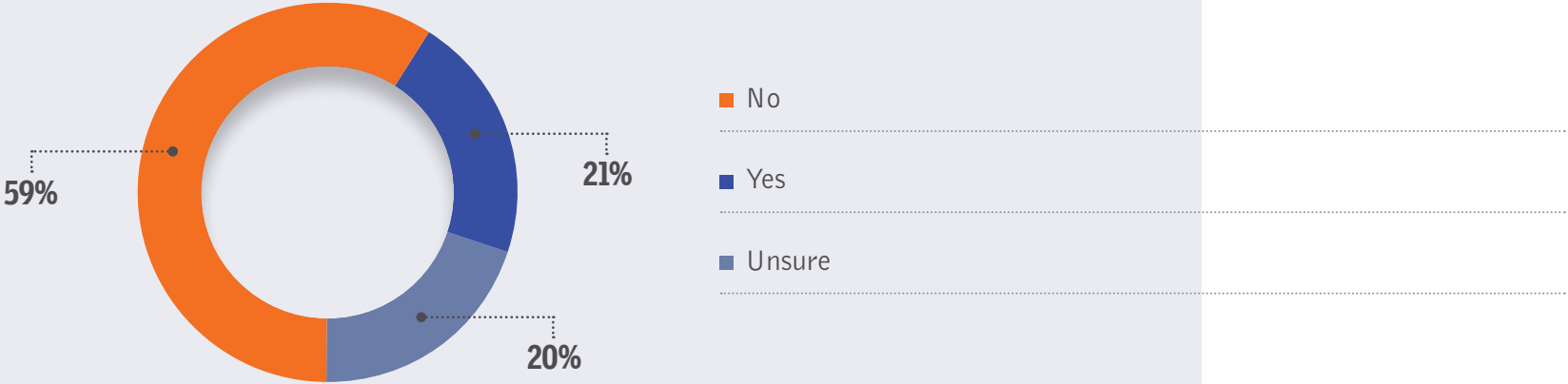
33. What is your board’s practice regarding minutes?



34. Regarding board minutes, are an individual director’s questions or comments identified by the individual director’s name?



35. Are directors expected to destroy their personal notes once the board’s meeting minutes have been reviewed and approved?

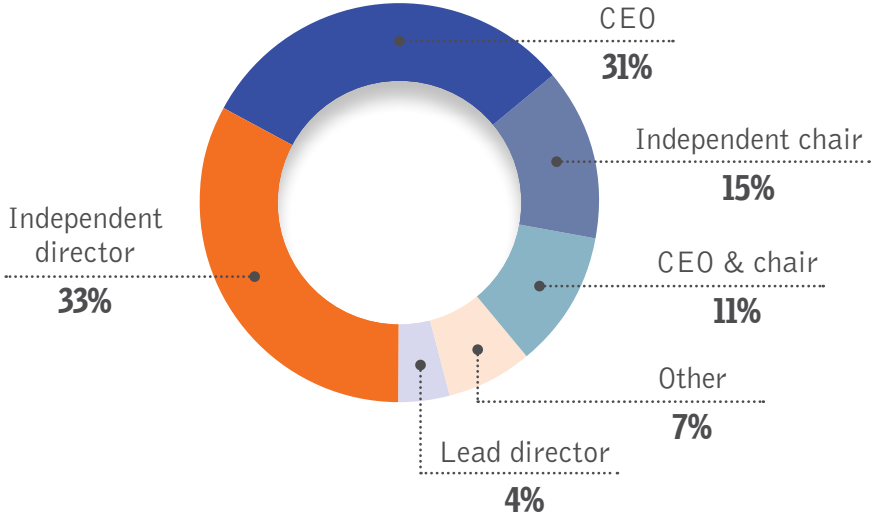


ABOUT THE SURVEY

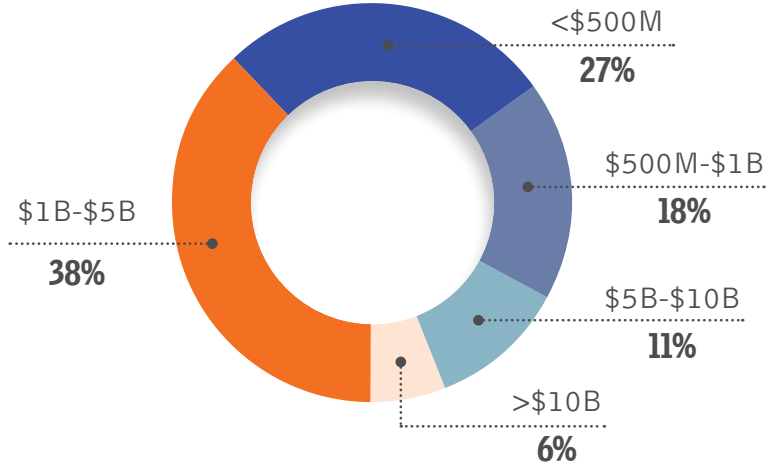
Bank Director’s 2024 Governance Best Practices Survey, sponsored by the law firm Bradley Arant Boult Cummings, surveyed 178 independent directors, chairs and chief executives of U.S. banks below \$100 billion in assets. The survey regularly explores the fundamentals of board performance, and this year examines board engagement, risk oversight, recent regulatory scrutiny around governance practices and composition. The survey was conducted in May and June 2024.

TITLE

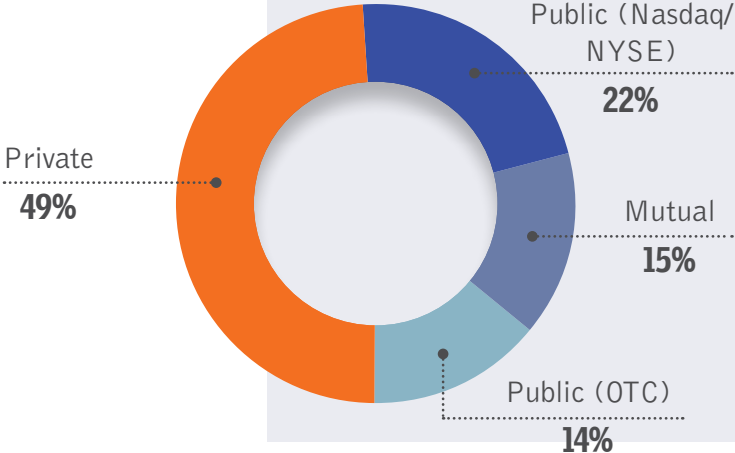
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ASSET SIZE

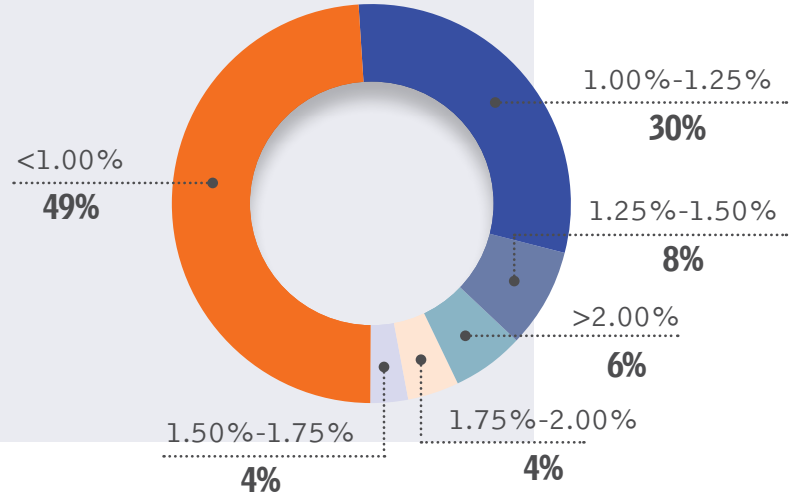


OWNERSHIP STRUCTURE

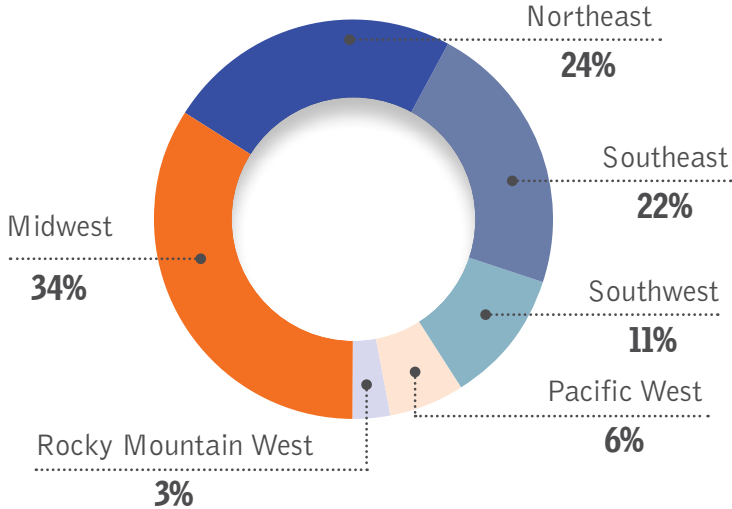


RETURN ON ASSETS, FY 2023

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

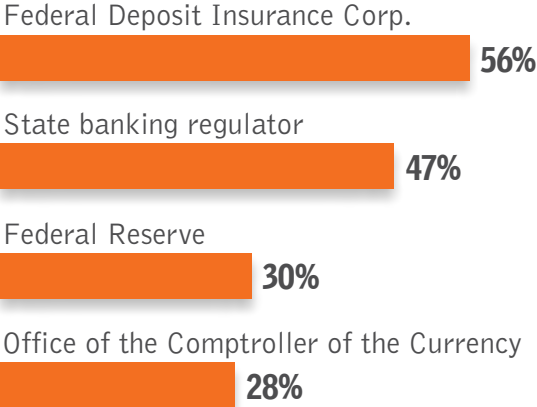


REGION*



PRIMARY REGULATORS

Respondents were asked to select all that apply.



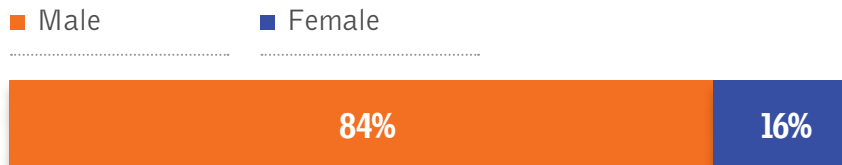
*Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ,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

REPRESENTED COMMITTEES

Independent chairs, lead directors and independent directors were asked to select the board-level committees on which they serve. Respondents were asked to select all that apply.

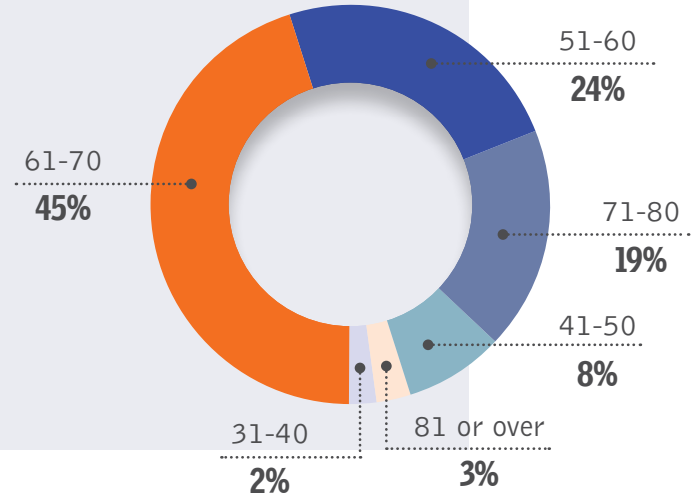


RESPONDENT GENDER



RESPONDENT AGE

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



DIRECTOR TENURE

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

12

Median Years Served on the Board