



Board Assessments and Director Peer Evaluations

FLASH SURVEY

January 2010

Board governance and director evaluations are in their relative infancy, and both thinking and practices around this important topic are evolving. This survey was conducted with the intent to gain an understanding of how banks are currently approaching governance assessments. It also gives us a baseline for future measurements of trends in this arena.

For this survey, we asked questions about whether or not banks have conducted formal assessments of their boards and formal evaluations of their individual directors. If they had, we looked at frequency and effectiveness. If they had not, we asked if they were planning to, or thought doing so would be useful to their bank. We also garnered an insightful assortment of open-ended comments.

EXECUTIVE SUMMARY

Board assessments

- Bank board assessments are growing in popularity, with 54% of respondents having conducted at least one.
- The practice seems to be valuable, as two thirds of banks who conduct them do so regularly.
- A significant majority (82%) reported their assessments as either “extremely helpful” or “helpful.” Importantly, none reported it as unhelpful.
- Among those conducting assessments, 77% felt they were either a “good idea” or a “self-defense necessity”, relative to regulator relations. None felt it would increase their risk with regulators.
- The practice is more common among coastal banks, and among public banks. Also the larger the bank, the more likely it was to have conducted a board assessment.
- More than twice as many banks have used an internal process versus hiring an outside consultant. Responses regarding the effectiveness of board assessments are strongly positive for both approaches. The data suggest that an internal process is more consistently helpful, but that exceptional results may be more likely with outside help. They also suggest greater variation in outcomes with external consultants, highlighting a need to choose external help carefully. In all cases where the process itself was seen as the cause of a less helpful outcome, the assessment had been designed and implemented internally.
- Among banks that have not conducted a board assessment, 55% felt it would be either beneficial or crucial to do so.

Director peer evaluations

- Formal director peer evaluations seem to be less common than overall board assessments. Nationwide, 40.6% of respondents have conducted a formal director peer evaluation.
- One third of banks who conducted director peer evaluations used their own internally-designed process, while just 7.3% hired outside consultants to lead the process.
- Among the banks in the study that have conducted a formal director peer evaluation, 79.5% found it “extremely helpful” or “helpful”. Over half of them conduct them regularly.

OVERVIEW

Total participants - 96 banks participated in our Board and Director Peer Evaluations Flash Survey in December 2009.

BOARD ASSESSMENTS

Prevalence of banks that have conducted a formal board assessment – Formal board assessments seem to be emerging as a standard practice. Nationwide, 54.2% of respondents have conducted a formal assessment. Nearly seventeen percent (16.7%) hired outside consultants to lead them, while 37.5% did so using their own internally-designed process.

Frequency of board assessments – Among banks who have conducted board assessments, 67.3% do so regularly. Over one fifth (21.2%) have done so just once, and 11.6% have completed more than one assessment, but do not do it regularly. This suggests that among those who do these assessments, there is enough value in the practice to bear repeating.

Effectiveness of board assessments – Among the 52 banks in the study that have conducted a formal board assessment, 66% found it “helpful” (gave good information), and 16% found it “extremely helpful” (the bank has implemented changes as a result). Eighteen percent (18%) felt the process had a neutral impact (neither helped nor hindered governance); while none reported the process was unhelpful or very unhelpful.

Impact of approach – There was greater variance in results among those who hired outside help, than among those who used an internal process. Twenty percent (20%) of those who used outside help reported the assessment as “extremely helpful”, while only 14.3% of those using an internal process did so. Over half (53.3%) of those hiring outside help found the process “helpful” compared to 71.4% of those using an internal process. And 26.7% of those who used outside help considered the process “neutral”, compared to 14.3% of those using an internal process. These results suggest that hiring an outside consultant can have a greater positive impact, but care must be taken in choosing the right provider and process.

Attributed cause of neutral or worse effect – Among banks rating their board assessment outcome as “neutral”, 44.4% attributed that outcome to the design of the process itself. All respondents who attributed the neutral outcome to the design of the process came from banks that conducted their assessment using their own internally-designed process. Thirty-three percent (33.3%) attributed a neutral outcome to the way the information was used. Among them, two thirds had used outside consultants, and one third had used their own internal process. Eleven percent (11.1%) attributed the neutral outcome to the (outside) facilitator, and 11.1% to directors’ “unwillingness to be completely honest”.

Perceived value to the bank of board assessments among banks that have never completed one – Among banks that reported not having completed a board assessment, 54.6% felt it would be beneficial to do so, and 2.3% felt it was crucial. Thirty four percent (34.1%) didn’t see a need for a board assessment, but would not object to one, and 9.1% did not think an assessment would be helpful.

Perceived value of board assessments in helping with regulators – All banks were asked if they thought that, apart from their sense of internal need, a board assessment would be a plus in the eyes of regulators. On the positive side, 44.2% responded “yes – it would probably be a good idea”, while 9.3% felt it was a “self-defense necessity”. Over one quarter (27.9%) responded “no – it wouldn’t make a difference,” and 18.6% had no opinion.

OVERVIEW (CONT.)

DIRECTOR PEER EVALUATIONS

Prevalence of banks that have conducted a formal individual director peer evaluation – Formal director peer evaluations seem to be less common than board assessments. Nationwide 40.6% of respondents have conducted a formal director peer evaluation. One third (33.3%) did so using their own internally-designed process, while just 7.3% hired outside consultants to lead the process.

Frequency of individual director peer evaluations – Among banks who have conducted director peer evaluations, 53.9% do so regularly. Nearly a quarter (23.1%) has done so just once, and another 23.1% have completed more than one evaluation, but do not do it regularly.

Effectiveness of director peer evaluations – Among the 39 banks in the study that have conducted a formal director peer evaluation 53.9% found it “helpful” (gave good information), and 25.6% found it “extremely helpful” (the bank has implemented changes as a result). The strong positive outcome compares favorably to board assessments which were reported as 16% for “extremely helpful”. Twenty percent (20.5%) felt the process had a neutral impact (neither helped nor hindered governance). None said the process was unhelpful or very unhelpful.

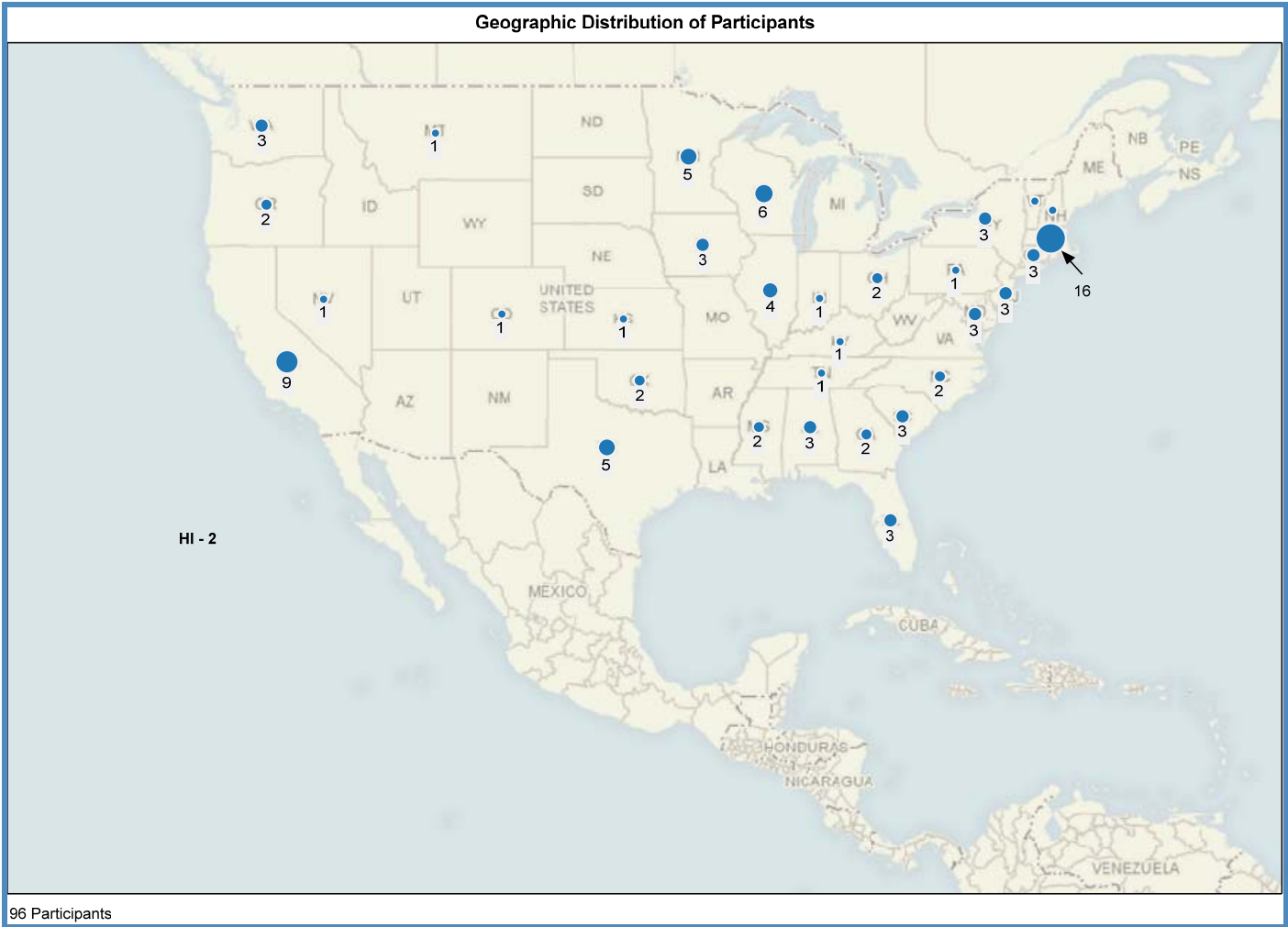
Attributed cause of neutral or worse effect – Among banks rating their individual director peer evaluation outcome as “neutral”, the reasons attributed to that lack of success are different than for board assessments. Most, 62.5% attributed that outcome to the way the information was used.

Perceived value to the bank of director peer evaluations among banks who have never completed one – Among banks that reported not having completed a director peer evaluation, 49.1% felt it would be beneficial to do so, while 3.5% felt it was crucial. Just over thirty five percent (35.1%) didn’t see a need for a director peer evaluation, but would not object to one, and 12.3% did not think an assessment would be helpful.

Perceived value of director peer evaluations in helping with regulators – All banks were asked if they thought an individual director peer evaluation would be a plus in the eyes of regulators. On the positive side, 15.6% felt it was a “self-defense necessity”, while 40.6% responded “yes – it would probably be a good idea”. 26% responded “no – it wouldn’t make a difference” and 17.7% had no opinion.

SURVEY PARTICIPATION

- **Total Participants: 96**
- **Geographical Representation:**



- **State Representation:**

<i>AL</i>	3	<i>IA</i>	3	<i>MN</i>	5	<i>NV</i>	1	<i>SC</i>	3
<i>CA</i>	9	<i>IL</i>	4	<i>MS</i>	2	<i>NY</i>	3	<i>TN</i>	1
<i>CO</i>	1	<i>IN</i>	1	<i>MT</i>	1	<i>OH</i>	2	<i>TX</i>	5
<i>CT</i>	3	<i>KS</i>	1	<i>NC</i>	2	<i>OK</i>	2	<i>VT</i>	1
<i>FL</i>	3	<i>KY</i>	1	<i>NH</i>	1	<i>OR</i>	2	<i>WA</i>	3
<i>GA</i>	2	<i>MA</i>	16	<i>NJ</i>	3	<i>PA</i>	1	<i>WI</i>	6
<i>HI</i>	2	<i>MD</i>	3						

SURVEY PARTICIPATION (CONT.)

- **Regional Representation:**

Northeast	Southeast	North Central	South Central	West
31	17	21	9	18

- **Coast vs. Non-coast Representation:**

Coast	Non-Coast
55	41

- **Ownership Type Participation:**

Public Banks	Private Banks	Mutual Banks
44	35	17

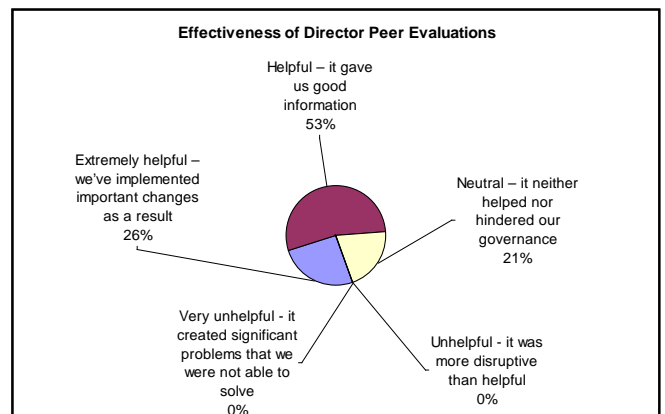
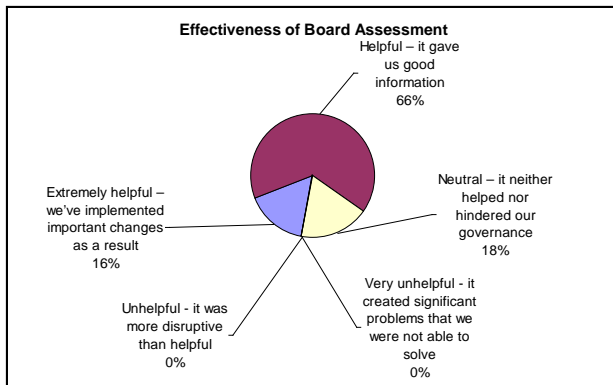
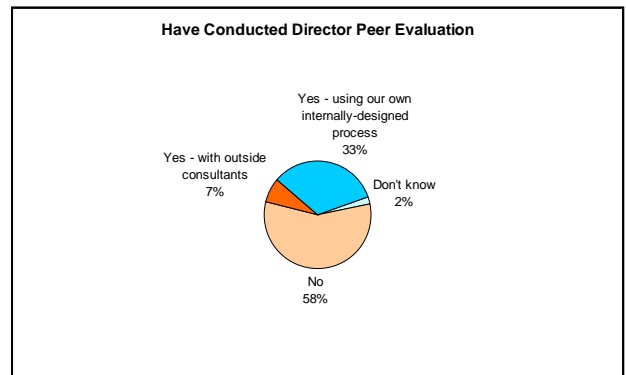
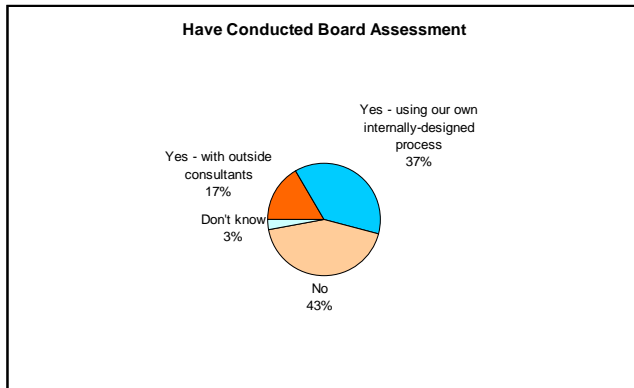
- **Asset Size Representation:**

<\$500M	\$500M-\$1B	\$1B-\$5B	>\$5B
49	21	20	6

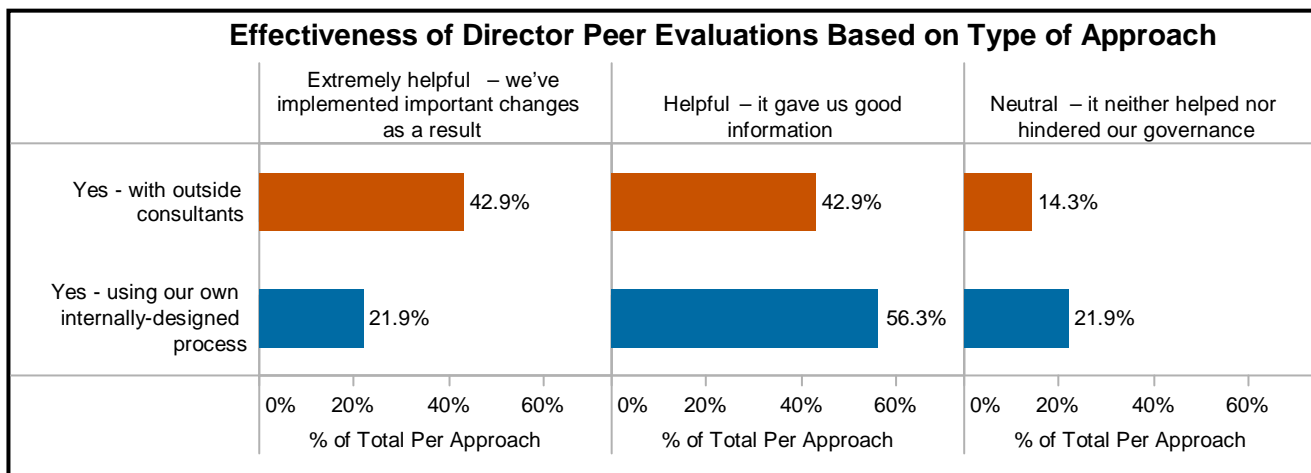
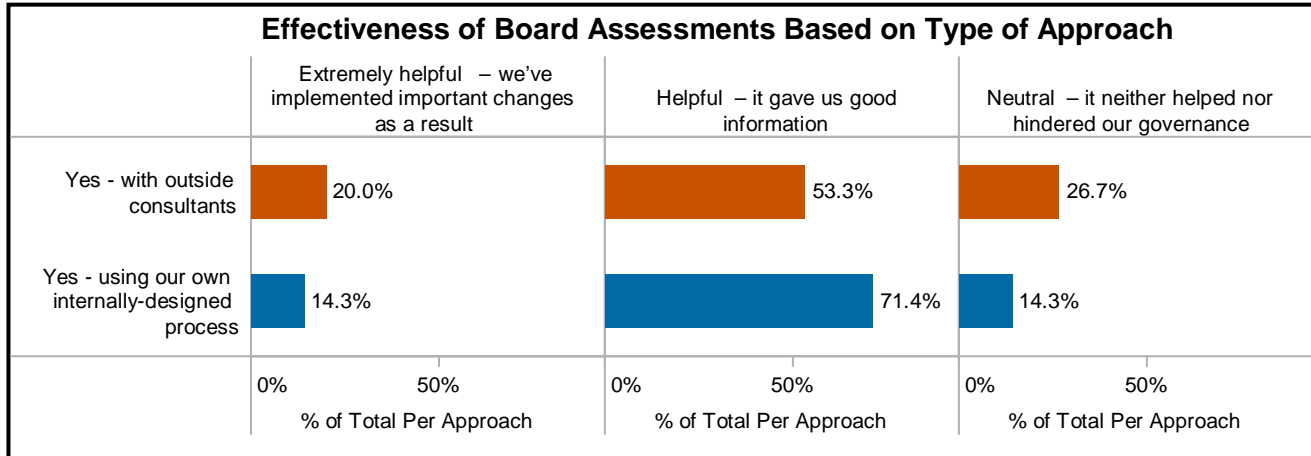
- **TARP Participation:**

Not Participating	Participating	Applied-Approved	Applied	Redeemed
65	24	1	3	3

PREVALENCE AND EFFECTIVENESS OF BOARD ASSESSMENTS AND DIRECTOR PEER EVALUATIONS



EFFECTIVENESS OF BOARD ASSESSMENTS AND DIRECTOR PEER EVALUATIONS BASED ON TYPE OF APPROACH



PREVALENCE OF RESPONDANTS THAT HAVE CONDUCTED A FORMAL BOARD ASSESSMENT

Have conducted a formal board assessment	All		Public		Private		Mutual	
	N		N		N		N	
Yes - with outside consultants	96		44		35		17	
	16	16.7%	11	25.0%	3	8.6%	2	11.8%
Yes - with internally-designed process	36	37.5%	23	52.3%	6	17.1%	7	41.2%
No	41	42.7%	9	20.5%	26	74.3%	6	35.3%
Don't know	3	3.1%	1	2.3%	0	0.0%	2	11.8%

Have conducted a formal board assessment	<\$500M		\$500M-\$1B		\$1B-\$5B		>\$5B	
	N		N		N		N	
Yes - with outside consultants	49		21		20		6	
	5	10.2%	6	28.6%	2	10.0%	3	50.0%
Yes - with internally-designed process	14	28.6%	7	33.3%	13	65.0%	2	33.3%
No	27	55.1%	8	38.1%	5	25.0%	1	16.7%
Don't know	3	6.1%	0	0.0%	0	0.0%	0	0.0%

Have conducted a formal board assessment	TARP - Not Participating		TARP - Participating		TARP - Applied / Approved		TARP - Applied		TARP - Redeemed	
	N		N		N		N		N	
Yes - with outside consultants	65		24		3		1		3	
	9	13.8%	6	25.0%	0	0.0%	0	0.0%	1	33.3%
Yes - with internally-designed process	23	35.4%	10	41.7%	2	66.7%	0	0.0%	1	33.3%
No	30	46.2%	8	33.3%	1	33.3%	1	100.0%	1	33.3%
Don't know	3	4.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

Have conducted a formal board assessment	Region - Northeast		Region - Southeast		Region - North Central		Region - South Central		Region - West	
	N		N		N		N		N	
Yes - with outside consultants	31		17		21		9		18	
	3	9.7%	6	35.3%	2	9.5%	1	11.1%	4	22.2%
Yes - with internally-designed process	15	48.4%	4	23.5%	6	28.6%	2	22.2%	9	50.0%
No	10	32.3%	7	41.2%	13	61.9%	6	66.7%	5	27.8%
Don't know	3	9.7%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

PREVALENCE OF RESPONDANTS THAT HAVE CONDUCTED A FORMAL BOARD ASSESSMENT (CONT.)

Have conducted a formal board assessment	Coast		Non-Coast	
	N		N	
Yes - with outside consultants	55		41	
	10	18.2%	6	14.6%
Yes - with internally-designed process	25	45.5%	11	26.8%
	No	18	32.7%	23
Don't know	2	3.6%	1	2.4%

FREQUENCY OF ASSESSMENTS, AMONG THOSE WHO HAVE CONDUCTED THEM

Frequency of assessments, among those who have conducted them	All	
	N	
Among respondents who said yes - with outside consultants:	52	
	Just once	5 9.6%
	More than once, but infrequently	2 3.8%
Regularly	9 17.3%	
Among respondents who said yes - using internally-designed process:		
	Just once	6 11.5%
	More than once, but infrequently	4 7.7%
Regularly	26 50.0%	

RATING OF BOARD ASSESSMENT EFFECTIVENESS AMONG BOARDS THAT HAVE DONE ONE

Rating of board assessment effectiveness	All	
	N	
Yes - with outside consultants	15	
	Extremely Helpful	3 20.0%
	Helpful	8 53.3%
	Neutral	4 26.7%
	Unhelpful	0 0.0%
Very Unhelpful	0 0.0%	
Yes - using internally-designed process	35	
	Extremely Helpful	5 14.3%
	Helpful	25 71.4%
	Neutral	5 14.3%
	Unhelpful	0 0.0%
Very Unhelpful	0 0.0%	

ATTRIBUTED CAUSE OF NEUTRAL OR WORSE OUTCOME

If board assessment success rating was neutral or worse, what caused the poor outcome?	All	
	N	
Yes - with outside consultants	9	
Process	0	0.0%
Facilitator	1	11.1%
Information Used	2	22.2%
Other	1	11.1%
Yes - using internally-designed process		
Process	4	44.4%
Facilitator	0	0.0%
Information Used	1	11.1%
Other	0	0.0%

RATING OF THE NEED FOR A BOARD ASSESSMENT, AMONG RESPONDANTS WHO HAVE NEVER COMPLETED ONE

Rating of the need for board to conduct a board assessment	All	
	N	
Desperately Needed	44	
Desperately Needed	1	2.3%
Beneficial	24	54.5%
Don't see need - wouldn't object		
Don't see need - wouldn't object	15	34.1%
Don't think it would be helpful		
Don't think it would be helpful	4	9.1%

PREVALENCE OF ALL RESPONDANTS BELIEFS THAT A FORMAL BOARD ASSESSMENT WOULD HELP IN DEALING WITH REGULATORS

Believe conducting a formal assessment of the board would help with dealing with regulators	All	
	N	
Yes-Self-Defense	78	
Yes-Self-Defense	14	17.9%
Yes-Good Idea	36	46.2%
No Opinion	13	16.7%
No- No Difference	15	19.2%
No-Increases Risk	0	0.0%

PLANS TO CONDUCT A BOARD ASSESSMENT, AMONG RESPONDANTS WHO HAVE NEVER COMPLETED ONE

Planning to conduct board assessment	All	
	N	
Yes - with outside consultants	44	
Yes - with outside consultants	2	4.5%
Yes - with Internally-designed process	2	4.5%
No	15	34.1%
Undecided	25	56.8%

PREVALENCE OF TYPES OF ASSESSMENTS/EVALUATIONS BANKS HAVE TAKEN

Comparison between actions taken to evaluate Board as compared to Individual Directors	All	
	N	
Have formally evaluated both Board and Individual Directors	96	
	35	36.5%
Have formally evaluated Board, but not Individual Directors	17	17.7%
Have formally evaluated Individual Directors, but not Board	4	4.2%
Have formally evaluated neither Board nor Individual Directors	40	41.7%

PREVALENCE OF RESPONDANTS THAT HAVE CONDUCTED A FORMAL DIRECTOR PEER-EVALUATION

Have conducted a formal director peer evaluation	All		Public		Private		Mutual	
	N		N		N		N	
Yes - with outside consultants	96		44		35		17	
	7	7.3%	4	9.1%	2	5.7%	1	5.9%
Yes - with internally-designed process	32	33.3%	18	40.9%	9	25.7%	5	29.4%
No	55	57.3%	21	47.7%	24	68.6%	10	58.8%
Don't know	2	2.1%	1	2.3%	0	0.0%	1	5.9%

Have conducted a formal director peer evaluation	<\$500M		\$500M-\$1B		\$1B-\$5B		>\$5B	
	N		N		N		N	
Yes - with outside consultants	49		21		20		6	
	2	4.1%	1	4.8%	2	10.0%	2	33.3%
Yes - with internally-designed process	13	26.5%	8	38.1%	10	50.0%	1	16.7%
No	33	67.3%	12	57.1%	8	40.0%	2	33.3%
Don't know	1	2.0%	0	0.0%	0	0.0%	1	16.7%

PREVALENCE OF RESPONDANTS THAT HAVE CONDUCTED A FORMAL DIRECTOR PEER-EVALUATION (CONT.)

Have conducted a formal director peer evaluation	TARP - Not Participating		TARP - Participating		TARP - Applied / Approved		TARP - Applied		TARP - Redeemed	
	N		N		N		N		N	
Yes - with outside consultants	65		24		3	0.0%	1		3	
	6	9.2%	0	0.0%	0	0.0%	0	0.0%	1	33.3%
Yes - with internally-designed process	23	35.4%	8	33.3%	0	0.0%	0	0.0%	1	33.3%
No	35	53.8%	15	62.5%	3	100.0%	1	100.0%	1	33.3%
Don't know	1	1.5%	1	4.2%	0	0.0%	0	0.0%	0	0.0%

Have conducted a formal director peer evaluation	Region - Northeast		Region - Southeast		Region - North Central		Region - South Central		Region - West	
	N		N		N		N		N	
Yes - with outside consultants	31		17		21		9		18	
	2	6.5%	3	17.6%	2	9.5%	0	0.0%	0	0.0%
Yes - with internally-designed process	9	29.0%	6	35.3%	7	33.3%	4	44.4%	6	33.3%
No	19	61.3%	8	47.1%	12	57.1%	5	55.6%	11	61.1%
Don't know	1	3.2%	0	0.0%	0	0.0%	0	0.0%	1	5.6%

Have conducted a formal director peer evaluation	Coast		Non-Coast	
	N		N	
Yes - with outside consultants	55		41	
	2	3.6%	5	12.2%
Yes - with internally-designed process	18	32.7%	14	34.1%
No	34	61.8%	21	51.2%
Don't know	1	1.8%	1	2.4%

FREQUENCY OF PEER EVALUATIONS, AMONG THOSE WHO HAVE CONDUCTED THEM

Frequency of director peer evaluations, among banks that have conducted them	All	
	N	
Yes - with outside consultants	39	
Just once	3	7.7%
More than once, but infrequently	0	0.0%
Regularly	4	10.3%
Yes - using internally-designed process		
Just once	6	15.4%
More than once, but infrequently	9	23.1%
Regularly	17	43.6%

RATING OF DIRECTOR PEER EVALUATIONS EFFECTIVENESS AMONG BOARDS THAT HAVE DONE ONE

Rating of director evaluation effectiveness	All	
	N	
Yes - with outside consultants	7	
Extremely Helpful	3	42.9%
Helpful	3	42.9%
Neutral	1	14.3%
Unhelpful	0	0.0%
Very Unhelpful	0	0.0%
Yes - using internally-designed process	N 32	
Extremely Helpful	7	21.9%
Helpful	18	56.3%
Neutral	7	21.9%
Unhelpful	0	0.0%
Very Unhelpful	0	0.0%

ATTRIBUTED CAUSE OF NEUTRAL OR WORSE OUTCOME

If director assessment success rating was neutral or worse, what caused the poor outcome?	All	
	N	
Yes - with outside consultants	8	
Process	0	0.0%
Facilitator	0	0.0%
Information Used	1	12.5%
Other	0	0.0%
Yes - using internally-designed process		
Process	1	12.5%
Facilitator	0	0.0%
Information Used	4	50.0%
Other	2	25.0%

RATING OF THE NEED FOR A DIRECTOR PEER EVALUATION, AMONG RESPONDANTS WHO HAVE NEVER COMPLETED ONE

Rating of the need for board to conduct director assessments	All	
	N	
Desperately Needed	57	
Desperately Needed	2	3.5%
Beneficial	28	49.1%
Don't see need - wouldn't object		
Don't see need - wouldn't object	20	35.1%
Don't think it would be helpful		
Don't think it would be helpful	7	12.3%
Would be a bad thing		
Would be a bad thing	0	0.0%

PREVALENCE OF ALL RESPONDANTS BELIEFS THAT A FORMAL DIRECTOR PEER EVALUATION WOULD HELP IN DEALING WITH REGULATORS

Believe conducting a formal assessment of directors would help with dealing with regulators	All	
	N	
Yes-Self-Defense	15	15.6%
Yes-Good Idea	39	40.6%
No Opinion	17	17.7%
No- No Difference	25	26.0%
No-Increases Risk	0	0.0%

PLANS TO CONDUCT A DIRECTOR PEER EVALUATION, AMONG RESPONDANTS WHO HAVE NEVER COMPLETED ONE

Planning to conduct director peer evaluations	All	
	N	
Yes - with outside consultants	2	3.5%
Yes - with Internally-designed process	1	1.8%
No	21	36.8%
Undecided	33	57.9%

ABOUT AMALFI CONSULTING, LLC

Amalfi Consulting, LLC is an independent consultancy which has been providing compensation consulting solutions for more than a decade. Our focus is banks and other financial institutions.

Amalfi has served over 400 banks on a national basis from de novo to large publicly-traded organizations. In addition to a full array of compensation services, we also offer board governance consulting. Our principal consultants are hands-on, personally and actively involved in every step of the consulting process.

CONTACTING AMALFI CONSULTING, LLC

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