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Bank Directors' Training Program Recommendations

WIB Mission

Assist members achieve the highest standards of personal and organizational performance.

Requiring bank directors to have annual education is one of those "best practices" for corporate governance and is a part of the board's obligation to prepare for the long term and to have qualified directors for the organization. Being proactive in the area of director education is good for your bank, good for your directors and is looked upon favorably by the regulators.

Directors Education Policy

Set up a director education policy and follow it. What should be considered in a director education policy? According to Jeff Gerrish, Gerrish & McCreary, author of "The Bank Directors Bible: Commandments for Community Bank Directors", it does not have to be long, but it should address at least the following issues:

- Is director education mandated, required, suggested, recommended or encouraged? You pick the "verb"!
- Will the directors be evaluated based on whether they obtain the requisite director education annually?
- What type of education qualifies as director education? Does it have to be external? Does it have to be a trade association seminar? Can it be audiotapes, videotapes or Internet training?
- Will it qualify if the board brings somebody into the boardroom to meet with the board? There are many banks doing this simply due to its cost effective nature.
- Who pays for the training? The systems on this vary all over the board from the bank paying everything, including the cost of the training plus travel, to simply the bank paying the cost of the training, or in some cases, the director absorbing all the costs as a net from his or her director's fee.

Amount & Types of Training

WIB recommends a minimum of 6-12 hours of training per year for a bank director. This recommendation is based upon the requirements of the Bank Directors' Certification program offered by the American Association of Bank Directors' Institute for Bank Director Education (IBDE). The minimum recommendation varies depending upon the age of the bank, the background of the director, and the issues facing the bank.

As of mid 2008, WIB is currently designing a certification program. The following are the requirements for the AABD - IBDE Certificate Program:

Certificate of Completion

The educational program leading to a Certificate of Completion is designed to provide individuals with the basic information they will need to serve as directors of a bank or savings institution, and may facilitate discounts on premiums paid for D&O Insurance.

To fulfill the requirements for a Certificate of Completion, an individual must, during the first calendar year in the program, complete 12 hours of education:

- Participation in 6 hours of material from the Core Course curriculum, and
- Participation in an additional 6 hours of Supplemental Courses selected from the Course Guide or pre-approved by IBDE.

(NOTE: IBDE certification is only open to members in good standing of the American Association of Bank Directors.)

At a minimum, a Core Course Curriculum will cover the following topics:

- Corporate Governance/Fiduciary Duties-What are a bank director's responsibilities, how should the Board of Directors govern itself to help it do the job it is required to do, and what are the keys to independence?
- Essential Board reports, financial statements, bank performance reports, and reports of examination-What are they and how to read and understand them
- Red Flags -- What are they, how to become aware of them, and what to do about them?
- Understanding external audit, internal audit, internal controls, and the role of the Audit Committee
- Lending and the role of the Board and loan committees
- Asset/Liability management and bank investments
- Risk Management Principles -- What do the bank regulators expect, and what does the Board need to do?
- The Board's role in strategic planning, the offering of new products, and the use and control of third party vendors, suppliers, contractors and partners
- Evaluation of the CEO and the Board, and the selection and nomination of new board members
- Director and executive officer compensation and Board oversight responsibilities
- Basic bank legal and regulatory rules that all bank directors need to know
- Steps to minimize potential personal liability

Supplemental Courses cover a wide range of topics that are of value to bank directors. Recent offerings have included:

- AABD & WIB Annual Directors Convention
- WIB's Annual Conference for Bank President, Senior Officer & Directors
- Directors & ALM
- Directors & Lending
- Directors Key Performance Indicators
- Effective Strategic Planning
- Bank Simulation Program

Certificate of Maintenance through AABD- IBDE

The educational program leading to an annual Certificate of Maintenance is designed to provide individuals with valuable supplemental knowledge they will need to serve as directors following their receipt of a Certificate of Completion.

To fulfill the requirements for an annual Certificate of Maintenance, an individual must participate, on an annual basis, in Supplemental Courses which, in the aggregate, represent at least 6 hours of credit. The supplemental course(s) must be selected from the Course Guide or pre-approved by IBDE.

All the Directors Programs offered through WIB are approved by IBDE for their certificate programs.

Skills & Knowledge Required

John Oliver, Laurel Management Systems, has outlined a 5-step plan for directors' education.

Step 1

Understanding the Director's Role— All Directors

Core concepts

Step 2

Industry Knowledge – All Directors

- Major Concepts
- Terminology
- Performance Measurements

Step – 3

Business Knowledge – All Directors

- Accounting Concepts
- Macro Economics
- Strategic Planning

Step 4

Regulation and Compliance – All Directors, but more detailed knowledge required if monitoring compliance.

Step 5 – Job Skills – Only those directors with specific committee responsibilities

Other tips from John Oliver, about the level of understanding required by directors on a variety of different topics are:

- Know your bank. Understand how bank's stakeholders impact bank – shareholders, management, employees, customers, and regulators.
- Know the industry. Directors need a basic understanding of the industry, the factors that govern, drive and constrain banks.
- Economics. Directors need to understand how a bank's profitability that can be affected by the national, regional and local economies, including interest rate risk.
- Financial Statements. Directors should be able to understand the construction of the bank's Balance Sheet, Income Statement, and Statement in Changes in Financial Position.
- Regulation & Compliance. The directors aren't compliance officers, but directors should know which are the current hot issues for regulators and education themselves on these. Directors should attain a level of understanding of the issues to enable them to prudently ensure that their institution is complying with the regulations.
- Bank Management Concepts. Some of the concepts that should be understood include: capital adequacy, A/L management, investment portfolio management, asset quality, and credit scoring.
- Performance Measurement Concepts. Directors need to be able to recognize red flags and understand concepts such as ROA, ROE, NIM, Loan to Deposit Ratio and how to compare their own bank to peers using the currently available data.

The DeNovo vs the Mature Bank Training Needs

Paula Johannsen, managing director of The Carson Medlin Company, wrote in an article for *Western Banking* that the focus for a de novo bank and a mature bank board would be different. As a result, their educational needs may be different, as she has noted in the following summary.

The core of de novo bank boards are typically the organizing directors. These are usually local entrepreneurs who may or may not have banking experience but have been chosen because of their business contacts and position in the community. Their initial function is to tap into their connections and help raise the initial capital to start the bank. Once established, this board is responsible for promoting the bank in the business community and assisting in business development. This is generally a very “hands on” period when the directors most directly impact the daily operations of the bank

It would seem that the education of de novo bank board members would need to make sure that their directors have a good “core course” to understand the Role of the Director. Spending time at directors workshops which offer basic tools may be the best use of the limited time of a director during this period.

Once the foundation is established, directors for a more mature bank must become the strategic thinkers of the organization. While it is still important that the board continue to promote the bank and grow the customer base, the bank’s long-term strategic issues need to be discussed and implemented. During this period, the emphasis of board meetings should shift to strategic issues from the daily operational needs of the bank itself.

It would seem that directors from a mature bank would benefit from specialized education, such as a Bank Simulation program (a –3 day hands on workshop) and larger conferences which have a more strategic approach to the issues, such as the Annual WIB Conference or Directors Conference. The former includes a directors’ track and allows directors to have both strategic and tactically workshops. The Conference focuses entirely on director’s issues, and keeps board members up to date on some of the changing environmental landscape in the industry

Director Education Resources

Associations

Western Independent Bankers
601 Montgomery Street, Suite 1200
San Francisco, CA 94111
Nancy Sheppard, President & CEO
415-352-2323
www.wib.org

American Association of Bank Directors
4701 Sangamore Road, Suite P15
Bethesda, MD 20816
David H. Baris, Esq., Executive Director
(301) 263-9841
www.aabd.org

Regulator Publications & Programs

Federal Deposit Insurance Corporation

www.fdic.gov

The FDIC publishes and issues guidance for insured institutions and their officers and directors to use to fulfill their responsibilities. This useful and practical information is now available in a special section of this web site called “**Director’s Corner**” and includes items such as Interagency Policy Statements, Supervisory Guidance, and Financial Institution Letters on the topics of Corporate Governance Practices, Auditing and Internal Controls, Accounting Practices and the Allowance for Loan and Lease Losses, and other areas of interest to bank directors. The FDIC’s “Pocket Guide for Directors,” which provides directors with accessible and practical guidance for meeting their duties and responsibilities, is also included in this section. Directors Guidebook online @ <http://www.fdic.gov/regulations/resources/directors/index.html>

The FDIC offers a limited number of bank directors educational programs including the “Directors College”.

Office of the Comptroller of the Currency

www.occ.treas.gov

Publications available for purchase or free if downloaded from this site:

- Red Flags in Board Reports – A Guide For Directors, 2000 - \$10
- The Director’s Book – The Role of a National Bank Director, 1997 - \$10

The OCC offers a limited number of bank directors educational programs.

WIB DIRECTORS EDUCATIONAL PROGRAMS

We will offer a number of opportunities for directors. Here is a list of the workshops and Conferences that we offer periodically. Visit www.wib.org and click the “Directors Program” link from the Conferences and Education tab, or call (415) 352-2323 for the most current information.

Conferences

Annual Conference for Bank Presidents, Senior Officers & Directors – 3 ½ Days

Our Annual Conference in March features a director’s track and three sharing sessions especially for directors. We also have special sessions for Chairman. This program provides for a combination of workshops featuring the latest information that directors need to know, plus a wide number of speakers that are appropriate for management and directors to both attend. This is a wonderful opportunity for the board to get a strategic look at issues impacting banks as well as improving their own individual skills as a director.

Annual Directors Conference – 2 ½ Days

This gathering of directors, which is co-sponsored with the American Association of Bank Directors, has been expanded this year to provide for more time for sessions and interactions with other board members.

Directors Institute

WIB offers a series of workshops which focus on the core competencies that all directors need. *Most of the workshops here can be “in-house” programs for your bank – contact WIB for more details to bring one of these programs to your board for a separate program or as part of your board retreat.*

Corporate Governance - Core Competencies

The Modern Bank Director Workshops

Part I focuses on your legal & fiduciary responsibilities; planning, overall business strategy, your bank stock and how to appropriately deal with shareholders; shareholder liquidity; earnings growth, product & service expectations; technology; board structure, composition, size, committee, evaluations and regulatory expectations.

Part II of this workshop is ideal for those directors who have successfully completed Part I or have a good overall understand of the basic fiduciary responsibilities of a board member. This workshop focuses on: identifying red flags in board reports, dealing with the regulators; a director’s role in compliance; monitoring risk; protecting and enhancing shareholder value; capital allocation as well as topics relative to M&A.

The Role of the Bank Director

This half-day workshop has been redesigned to highlight the changes in responsibilities for bank directors. A perfect workshop for new directors and those who have “been around” but now realize their duties are truly far greater than they have believed in the past. This program has been one of WIB’s most highly regarded director’s workshops.

Directors and Planning

Boards are rightfully expected to participate, to one degree or another, in Strategic Planning, Operational Planning and Succession Planning. Often directors are inadequately prepared for this effort and unsure of the degree to which they should be involved. This workshop will explore each planning function and the appropriate level of board involvement.

Directors Key Performance Indicators

Many board reports that are presented to directors contain information that can be, at best confusing for those with a non-financial background. The program presents almost thirty key performance indicators that make up a “Directors Key Performance Indicators Report”©. This set of indicators enables directors of community banks to spot “red flags” or operational warning signs and to ask knowledgeable questions of senior management.

Job Specific Committee Role - Core Competencies

Directors and The Audit Committee – ½ Day

This workshop covers best practices and requirements in the relationship between the Audit Committee, the Board of Directors, management and your bank's independent auditors.

Directors & Investments/ALM – ½ Day

Few topics elicit more passion and confusion than does interest rate risk. Also referred to as ALM, or Asset-Liability Management, rate risk is rampant with jargon, convoluted concepts, misconceptions and technicalities that obscure rather than clarify the bank's exposure. The objective of this presentation is to cut through the jargon, expose the misconceptions and present interest rate risk so that it is clearly understood and easily monitored by the board.

Supplemental Offerings

Effective Strategic Planning - 1 Day

A recent ABA Survey of Best Practices in Strategic Planning produced alarming results...90% of respondents agreed "strategic planning is very important" but only 32% agreed with the statement "we are effective at it". Research shows a direct correlation between excellence in strategic planning and superior operating performance. This half-day course is designed to act as the first step in putting into place a superior strategic planning process. It deals with the strategic planning function in a down-to-earth style without much of the "management-speak" that is often associated with this areas. Attendees should include directors, members of the executive management team, as well as everyone who will be on the strategic planning team.

Strategic Management of Financial Institutions: A Bank Simulation – 3 Days

This is an interactive learning environment that uses a computer simulation. The participants' goals are to excel in management in the face of competition by making team-based, strategically focused decisions, to ensure that their institution is viewed as the most profitable and sound bank in the "market area" at the end of the course.

Directors' Series Webinars (90 Minutes)

WIB offers a series of telephone and web-based programs. Please check our calendar for specifics

**Western Independent Bankers
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(415) 352-2323**

www.wib.org