Corporate Governance

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Before we get started…

- Today's presentation slides can be downloaded at www.wolfandco.com/webinars/2016
- The session will last about an hour, and we'll then have time for Q & A.
- Our audience will be muted during the session.
- Please send your questions in using the "Questions Box" located on the webinar's control panel.

About Wolf & Company, P.C.

- Established in 1911
- Offer Audit, Tax, and Risk Management services to over 250 financial institutions
- Offices located in:
  - Boston, Massachusetts
  - Springfield, Massachusetts
  - Albany, New York
  - Livingston, NJ
- Over 200 professionals

As a leading regional firm founded in 1911, we provide our clients with specialized industry expertise and responsive service.

Financial Institution Expertise

- Over 45 Risk Management Professionals:
  - IT Assurance Services Group
  - Internal Audit Services Group
  - Regulatory Compliance Services Group
  - WolfPAC® Solutions Group

- Provide services to over 300 financial institutions:
  - Approximately 85 FIs with assets > $1B
  - Approximately 40 publicly traded FIs
  - Constant regulatory review of our deliverables

- Provide Risk Management Services in 27 states and 2 U.S. territories

Today’s Presenter

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Today's Agenda

- What is corporate governance?
- Learn about the different roles and responsibilities in the corporate governance process
- How can corporate governance benefit your organization

Corporate Governance

- The system by which organizations are directed and controlled. The corporate governance structure identifies responsibilities among different participants in the organization, such as the board, management, shareholders and other stakeholders.

A Typical Structure

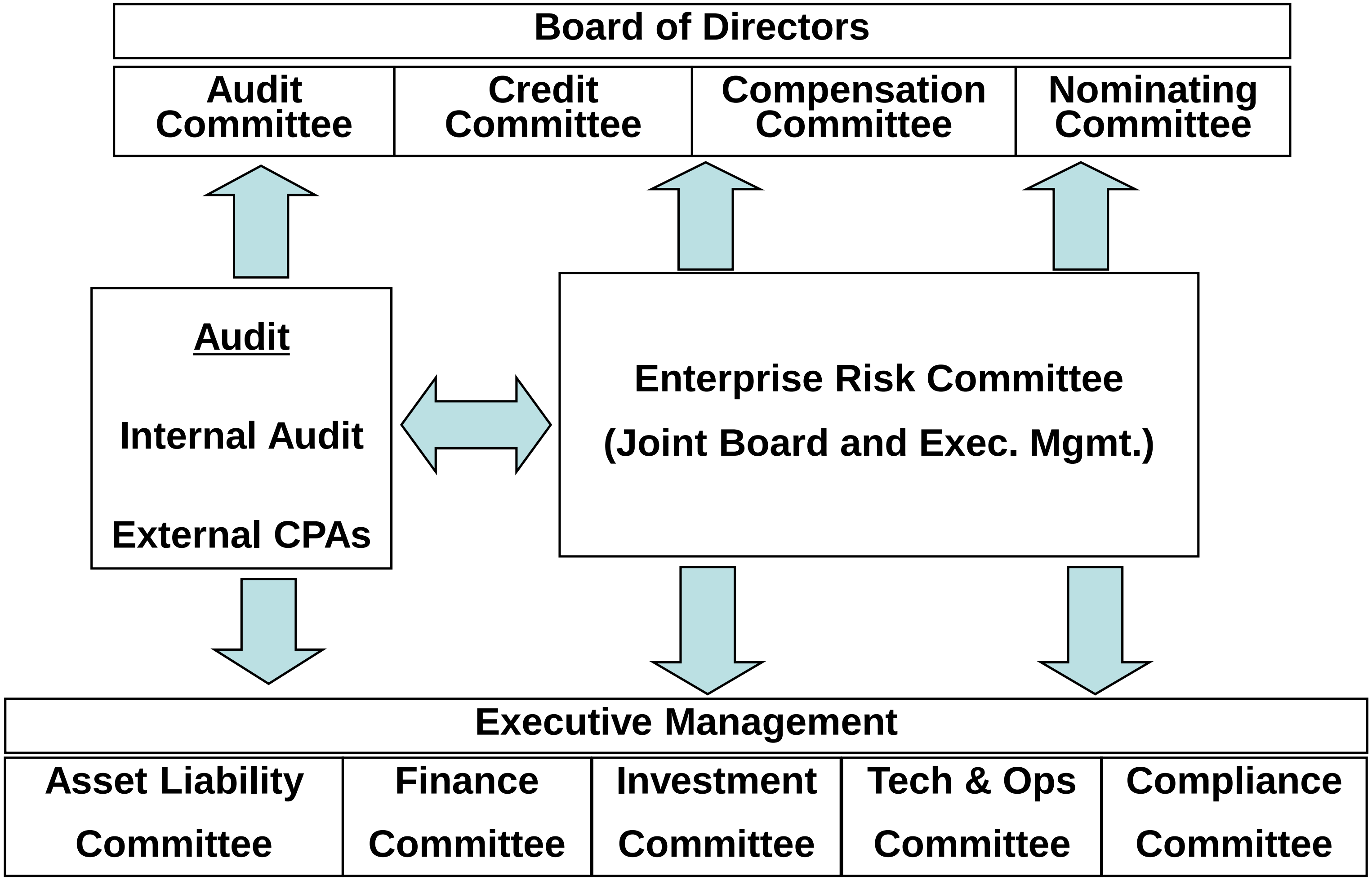
Integrated with bank's business strategy and objectives, and not viewed as a compliance obligation.

- Independent & objective board oversight
- Accountability among all stakeholders
- Compensation programs that incentivize long-term growth
- Establish criteria aligned with business goals
- A culture of integrity

A Typical Structure

A Typical Structure

A risk-based governance structure:



The Board

- Boards should:
  - Select and retain competent management
  - Establish, with management, the organization’s long- and short-term business objectives
  - Monitor operations
  - Oversee the organization’s business performance

The Board

- Balances the appointment of independent and non-independent Directors. Ensuring an appropriate range and mix of expertise, diversity and knowledge on the board.
- May appointment a minority of Directors who possess in-depth knowledge of the company and its industry could be helpful for the board as it assesses the company's strategy, risk profile, competition and alternative courses of action.

The Board

- Steers the organization towards policies supporting long-term sustainable growth in shareholder value.

- Along with management, establishes compensation plans that align goals with long-term value creation.

The Board

Oversight responsibilities include:

- Evaluating the adequacy of internal controls
- Reviewing the risk management program
- Reviewing the financial reporting process
- Determining compliance with applicable laws and the organizations code of conduct

The Board

- Ensures all significant activities are covered by clearly communicated and current written policies that can be readily understood by all employees.

- Establishes mechanisms for obtaining information needed to monitor operations. These mechanisms include various reports.

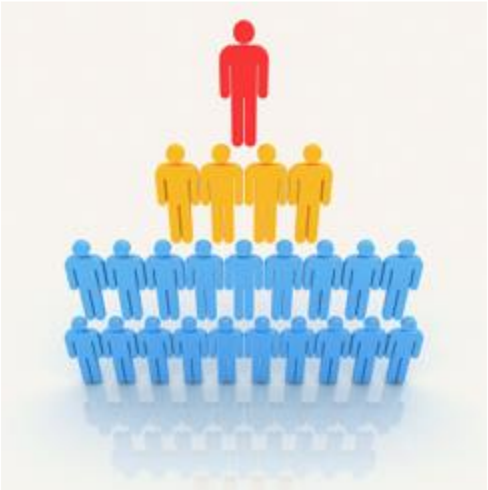
The Board

- Establishes channels to independently review the bank’s performance for compliance with board policies and procedures, laws and regulations, and accuracy of information.

- This is accomplished by having direct responsibility for hiring, firing, and evaluating the auditors, and having access to corporate counsel as required.

Management

Primarily responsible for creating a culture of integrity and ethical behavior. Successful corporate governance depends upon successful management of the organization.



Management

- Management should:
  - Establish and monitor effective processes and procedures
  - Evaluate all employees according to high ethical standards
  - Have systems encouraging open internal communication to address problems without fear of retaliation

Management

- Promote accountability through incentive plans encouraging disciplined and transparent risk taking
- Provide reliable information to the board
- Develop and communicate the strategic plan to shareholders and other stakeholders
- Formalize informal compliance and governance practices

Management

"Constructive tension" between the board and management is a characteristic of good corporate governance - debates should be conducted within the context of a productive discussion.

"A 34% cut in our corporate ethics should return us to profitability."

Employees

Perform roles and responsibilities in an ethical manner. Employees should be ready to report/discuss issues affecting the integrity and ethical operations of the organization.

Employee Training

- Provide mandatory trainings on policies and procedures
- Customize training to the individual's or department's role in the organization
- Review the training program periodically with the board of directors

How effective is your Bank's Corporate Governance?

What Can Go Wrong?

- In 2012 JPMorgan Chase had no directors with risk expertise on the board's risk committee - a deficiency that was corrected only after $6 billion in trading losses.

- In 2008, with an apparent lack of thorough due diligence, Bank of America acquired the flailing brokerage house Merrill Lynch & Co. The ultimate cost was billions to the shareholders.

Big banks and high-profile yet theme was a lack of strong and effective governance.

Sample Internal Audit Procedures

Corporate Governance

- Review the corporate governance related policies including the Code of Ethics
- Review the Board's oversight responsibilities for inclusion of the following:
  - Evaluating the adequacy of internal controls
  - Reviewing the risk management program
  - Reviewing the financial reporting process
  - Determining the compliance with applicable laws and the code of conduct
  - Approving the compensation and benefits program
  - Approving policies

Corporate Governance

- Review corporate governance related board reports for adequacy and accuracy
- Review Board committees for charters
- Determine that each non-management director is independent

In Summary

Strong corporate governance is the foundation for an institution’s safe-and-sound operations. Done well, it can have a positive impact on costs, revenues and efficiency.

Questions

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