

Board Self-Assessment Program

Level Five Strategic Partners Inc.

January 2014

Overview

The Level Five Board Self-Assessment (BSA) Program is designed to provide insight into how well the board perceives their performance and how consistent this perception is across the entire board. It will also help the board operate at a higher level by raising the key questions around strong corporate governance. The BSA Program will compare the board's performance relative to the requirements under Corporate Governance in by-law #5.

As part of the BSA there is a Management Self-Assessment (MSA) that is focused specifically on issues relative to management's role in corporate governance. The MSA is used to determine the amount of consistency between the board and management in the areas supporting corporate governance.

What will the BSA Program do for the board? It will provide the following:

1. It will identify where there are gaps in governance best practices and where the board should be focusing attention on to improve their governance skills.
2. It will be a reflection as to how each of the directors perceive the way the board governs the credit union. It will identify the areas where there are inconsistencies in how each director perceives how well a particular area or function is performed. By identifying these inconsistencies the board can design programs to bring the issue closer in line with the desired level of performance.
3. In the BSA Program there is a MSA that is mapped to comparative questions in the BSA to determine the level of agreement between management and the board on the areas where management is involved in supporting corporate governance. Understanding how management and the board perceive how they perform in these areas will determine if there needs to be any changes or action plans.
4. The BSA and MSA can be mapped directly to the areas identified by DICO in their evaluation of governance and the direct impact on deposit insurance premiums paid by the credit union. The BSA will show how well corporate governance meets the requirements of by-law #5. Where there are shortcomings or areas of improvement a Development Plan can be created that will close these gaps and ensure the board will be strengthening their governance skills. This document can be packaged up and given to the DICO inspectors when they come to do a corporate governance inspection on the credit union.
5. The reports and analysis generated from the BSA Program can be provided to new directors as a way of providing additional information in their orientation package that outlines the state of the current board and the actions that are being taken to improve and meet best practices. It also details through the questionnaire what the roles and responsibilities are of the board in providing oversight to the credit union.
6. The BSA Program will enhance the credibility of the board and the organization for taking proactive steps towards enhancing their governance skills and performance.

Using this self-assessment and the analysis and action plan that is created, the board can develop its skills and improve its performance in becoming more effective at corporate governance.

Guide to Understanding the Scoring Methods

Scoring Methods

The BSA Program includes two scoring methods. Below is a description of the two scoring methods as well as what the goal should be for the board. Although these two methods measure different things, when analyzed together they tell a very important fact about the board.

The scoring in the self-assessment range from 0 to 6. For the purposes of mapping this to the DICO governance measures in the DPS the following are used:

- Not Sure = 0
- Inadequate = 1, 2
- Needs Improvement = 3, 4
- Adequate = 5, 6

Average Score (Avg.)

The respondents to the questionnaire are asked to rate the answer to the question on a scale of Not Sure (score of 0) to Low or Strongly Disagree (score of 1) to High Strongly Agree (score of 6).

The goal is to have the self-assessment at a 5 or 6 Avg. for every question. Anything below that would be considered a shortfall and will be identified as a gap to be closed.

Consensus Index (CI)

The Consensus Index (CI) measures the range of consensus or agreement among the board for a particular question. The CI is calculated using a standard straight line variation. If all the answers were the same score for a particular question than the CI would be 100%. The greater the variance in responses the lower the CI.

This measure is a key to how consistent each director on the board perceives a particular situation or issue. Since the self-assessment is completed independently, this provides a good indication of how consistent the perception or reality is to a particular question.

As an example of what the CI exposes, posing the same question to two different boards (each board is made up of only two directors), one board has a score from its two directors of 3 and 3 to average 3.00 and the other board has a score from its two directors of 1 and 5 to average 3.00. The question is are these two answers or averages telling the same story about these two boards? The answer is obviously no. What is the CI telling us about these two boards? One board has a consistent response from its two directors and can certainly be confident that 3.00 is the true score for that particular question. The same cannot be said for the other board where they have a wide variation of opinion/perception on the answer to the question. That variation implies that there are either misconceptions and/or inconsistencies in how the two directors view the same issue. Either way, unlike the other board this board requires active follow up and a solution to address the inconsistency and variation in the response.

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A self-assessment that only uses averages as the scoring system to measure performance is obviously not adequate enough to identify key shortcomings that exist. The use of averages and CI is certainly not a perfect measurement method but if used regularly and if the respondents to the questionnaire are honest and independent in their answers to the questions then this scoring method can be extremely useful in gauging the board's performance.

The goal is to have a minimum CI of 60%. Anything below 60% indicates that there is too wide of a variation of responses from the directors and that further analysis and investigation is required.

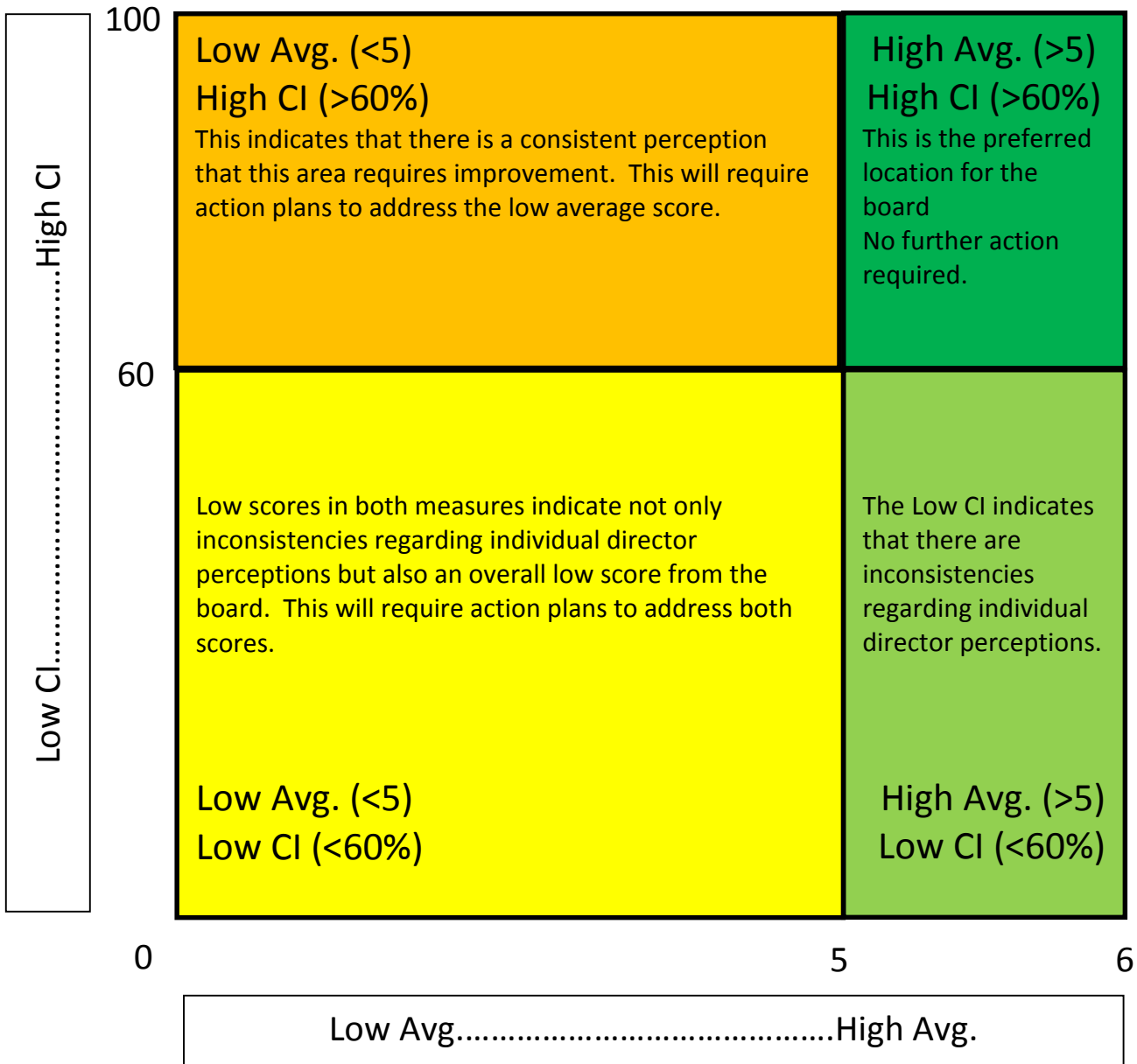
Using Both the Average and Consensus Index

As outlined above these two scoring methods are not nearly as effective on their own, however in tandem they are much more effective. When the scores are used together they provide a much more accurate analysis of the perceptions of the board for each question. As a result, in order to meet the required level of acceptance both scores must reach the minimum standard.

The chart below explains how these two scores are used together when scoring each question in the BSA:



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The goal is to score in the upper right dark green section. The dark green section indicates that the directors on average self-assess themselves at adequate or greater level and with a high degree of consensus or agreement. The three other sections result in various action plans that need to be implemented so as to reduce the gap and score in the upper right section.

The BSA report will present only those scores that require immediate action.

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The following are sample questions that are not at the level required and how they would be presented in the report. This is a sample of what would appear in the Phase 1 Summary Self-Assessment Report (outlined at the end of this document).

	Sample Question	Average	CI
1	All directors participate fully in board deliberations and apply their oversight responsibilities at the board meetings.	4.50	75%
2	The length of time taken for board meetings is adequate to accomplish what is required and expected from the board.	4.50	45%
3	All directors actively participate and contribute to the strategic planning process and the building of the strategic plan.	5.25	55%
4	There is an effective process and evaluation to select the most effective directors for the Audit Committee.	3.50	85%
5	The board has a CEO succession plan which is fully documented and reviewed regularly.	3.50	45%
6	The board adequately oversees the financial performance and fiduciary accountability of the credit union.	5.75	50%

The list of the questions that did not meet the required average score of 5.00 or higher **and** a CI of 60% or higher are identified as areas that are short of the required levels and need to be addressed.

These are areas that the self-assessment has identified as needing attention and require a governance improvement plan. A plan would be to implement action(s) that will improve specific area and would bring the self-assessment to the required level.



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The BSA Program Product Offering

Phase 1 Summary Self-Assessment Report

The Phase I Summary Self-Assessment Report will include the following:

1. A summary report that identifies the specific questions and areas where the average score and the Consensus Index did not meet the required standards. These are the areas where action plans would need to be developed and implemented.
2. A copy of each of the individual director self-assessments spreadsheets.
3. Optional online presentation to the board providing a more detailed explanation of the scoring report and the results.

The fee for the Self-Assessment Report is a set price and can be provided upon request.

Phase 2 Analysis and Governance Improvement Action Plans

The Phase 2 Analysis and Governance Improvement Plans is the implementation of action that will take the Phase 1 results and focus on the areas that were identified as needing improvement. The objective would be to implement strategies and plans that would bring the self-assessment scoring to the levels required in both scoring and consensus. The implementation strategies and plans would be developed through interviews with directors to identify the reason why scoring was low and areas that need improvement, ensure that interpretations and perceptions are clear and consistent, determine action that must be taken to improve the area and ensure that the entire board is satisfied with the plans and the strategy to achieve the required level of governance. This plan will become the basis of a report that would outline the proactive steps taken by the board to improve their governance and to meet the requirements under by-law #5.

Since each situation and credit union can be unique in its governance improvement plan the pricing will be done on an individual credit union by credit union case.

How to get started

The first step is to contact Candis Mirtl at cmirtl@levelfive.ca or 1-888-311-3030 ext. 236 to sign up for Phase 1 and get the full board to complete the Self-Assessment provided in this program. This is a simple excel spreadsheet that would be emailed to each director. Once completed the director will email it back to Candis Mirtl at cmirtl@levelfive.ca to be tabulated with the rest of the submissions.

Note, that any self-assessment is only useful if the individual is completing it on their own without influence from others. There are no right and wrong answers. These are the individual director's perceptions and are not to be influenced. The true value of any self-assessment is unbiased with true responses. Chances are if there is a differing of opinions then it is healthy to hear them out and address them openly.



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Upon receipt of all the director responses from the board then the Phase 1 report is completed and sent to all directors. As mentioned above if the board would like Level Five to provide a brief verbal summary of Phase 1 this can be done through an online presentation (not more than 30 minutes). Contact Candis Mirtl if you wish to exercise this option.

If the board would like to pursue Phase 2 then Level Five can provide a detailed quote and deliverables for this phase.



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