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Executive Officer Total Compensation: Trends and Best Practices

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OnCourse Learning

Key Topics To Be Covered

- Total Compensation — 01
- Base Salary Strategies — 02
- Annual Cash Incentive/Bonus Plans — 03
- Equity-Based Incentives — 04
- Executive Benefits — 05

Total Compensation

01

Elements of Total Compensation

Total Compensation

Salary Compensation
- Annual Salary
- Hourly Wages

Incentive/ Bonus Compensation
- Annual Bonus
- Annual Incentive Plan

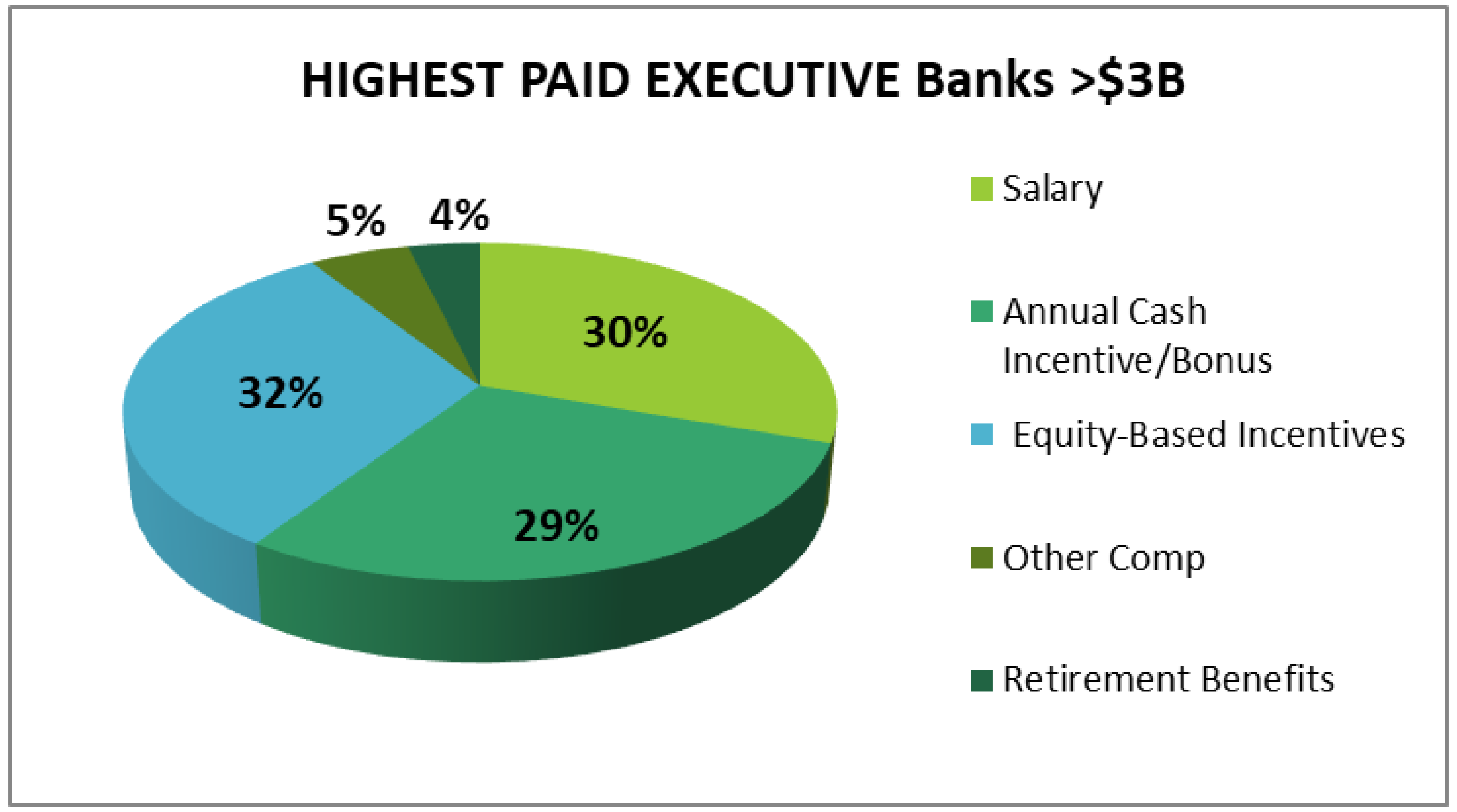
Equity Plans
- Stock Options
- Restricted Stock
- Restricted Stock Units (RSUs)
- Phantom Stock
- Stock Appreciation Rights (SARs)
- Performance Units

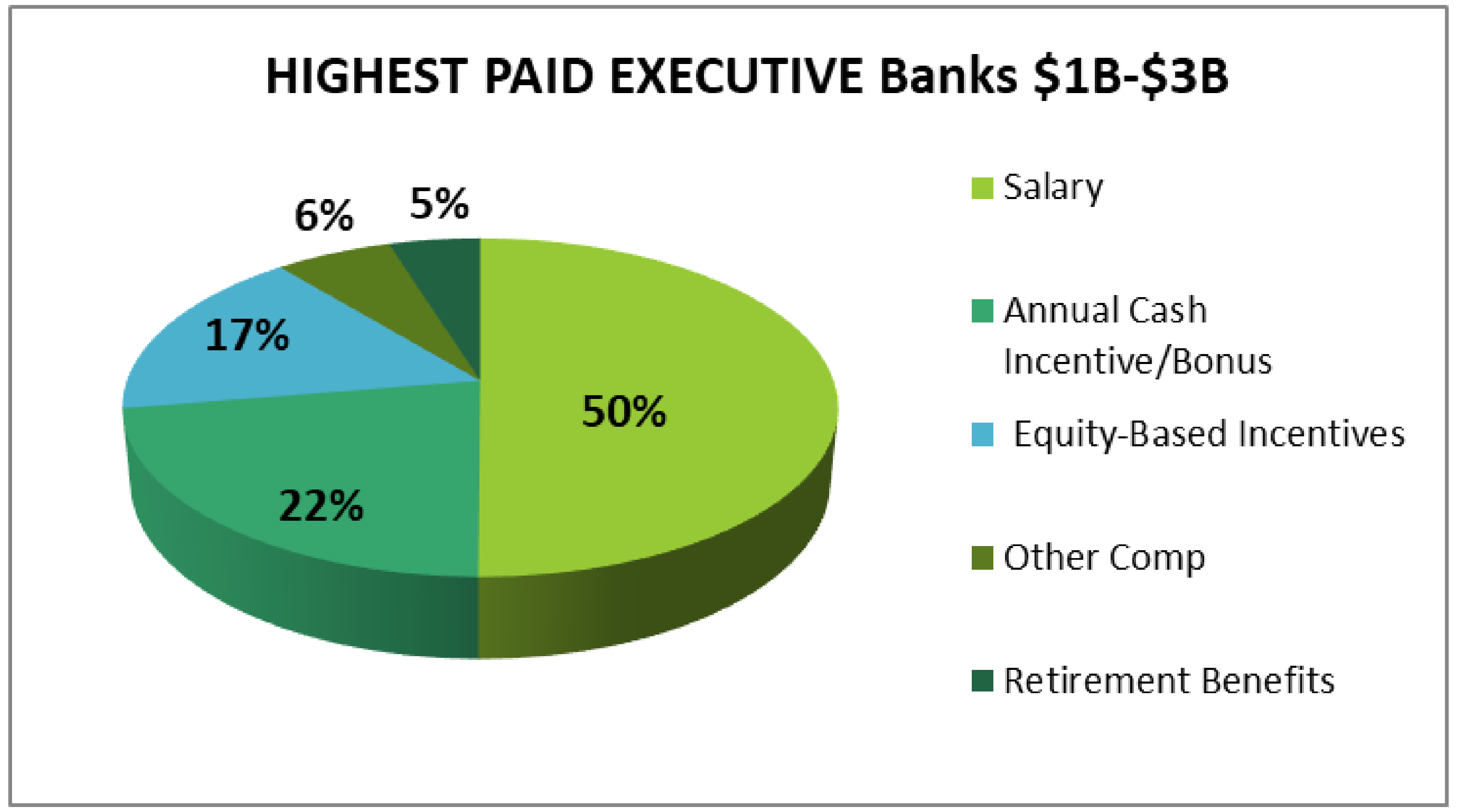
Non-Qualified Plans
- Supplemental Executive Retirement Plans (SERPs)
- Salary Continuation Plans (SCPs)
- Deferred Compensation Plans (DCPs)

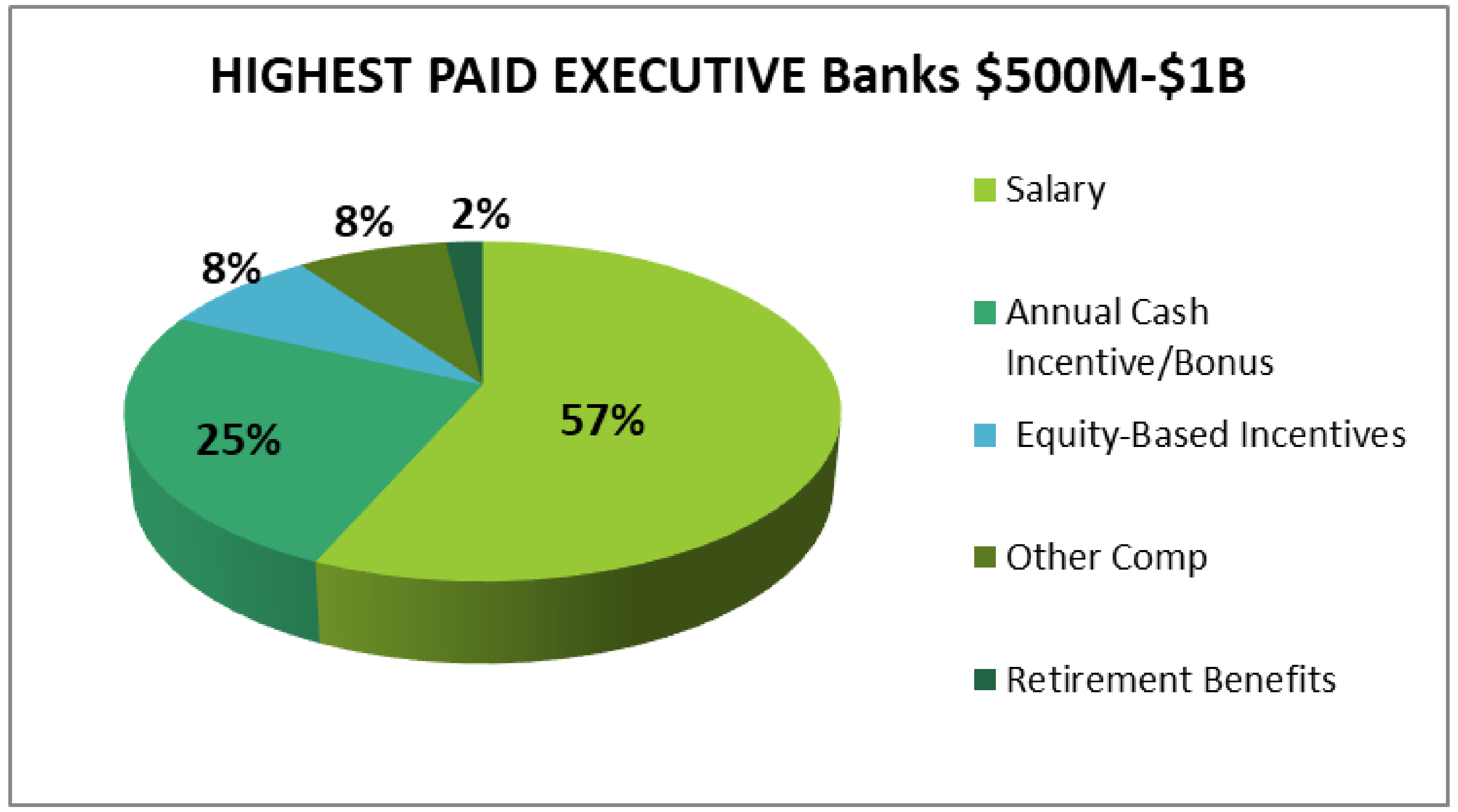
Qualified Plans
- Pension
- 401(k)
- ESOP
- Profit Sharing

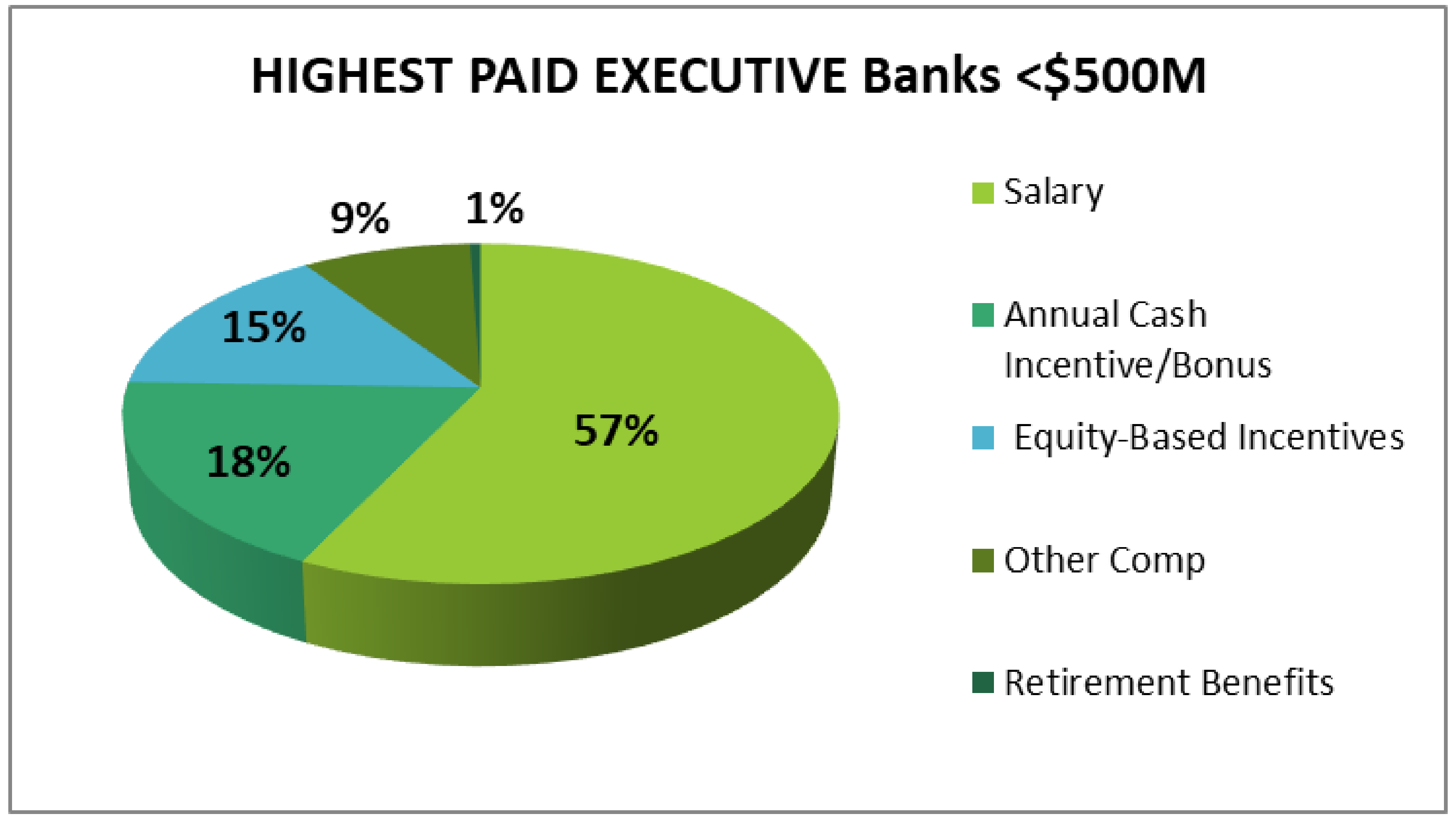
Benefits & Perks
- Supplemental Disability
- Long Term Care
- Employment Agreements
- Change-in-Control (CIC) Agreements
- Country Clubs, Auto Allowances, etc.

CEO Total Compensation Mix

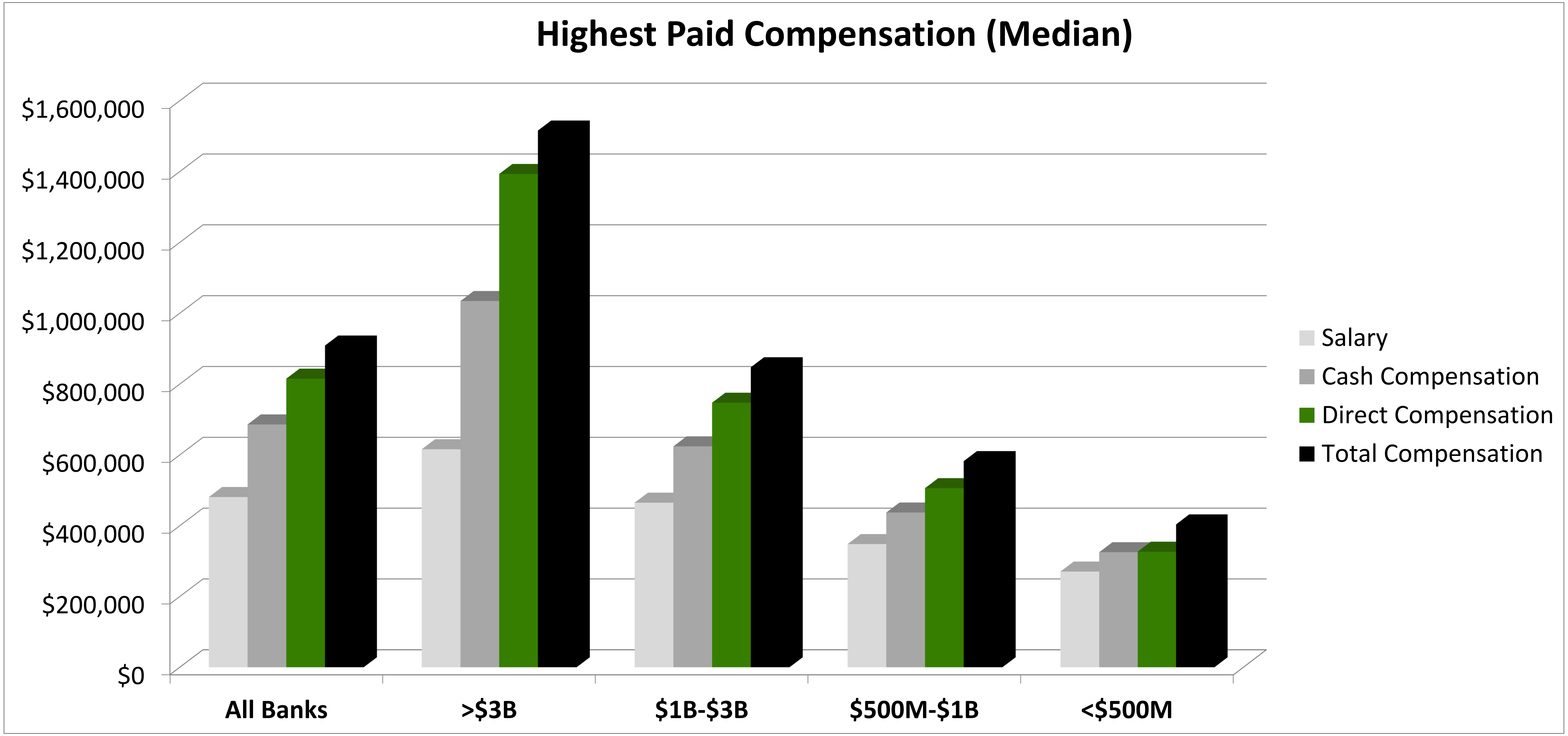




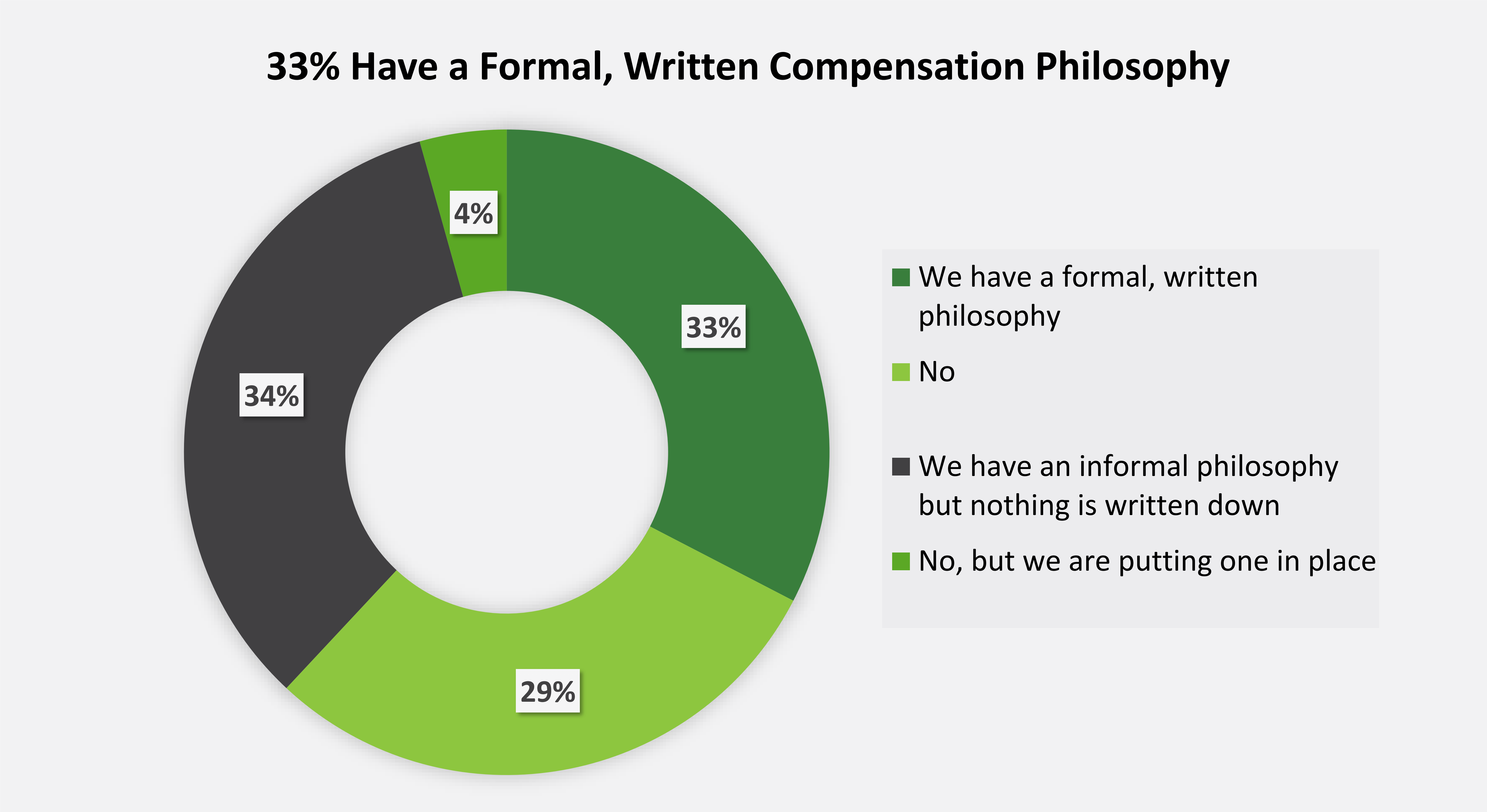




CEO Total Compensation



Compensation Philosophy – BCG Trends Survey



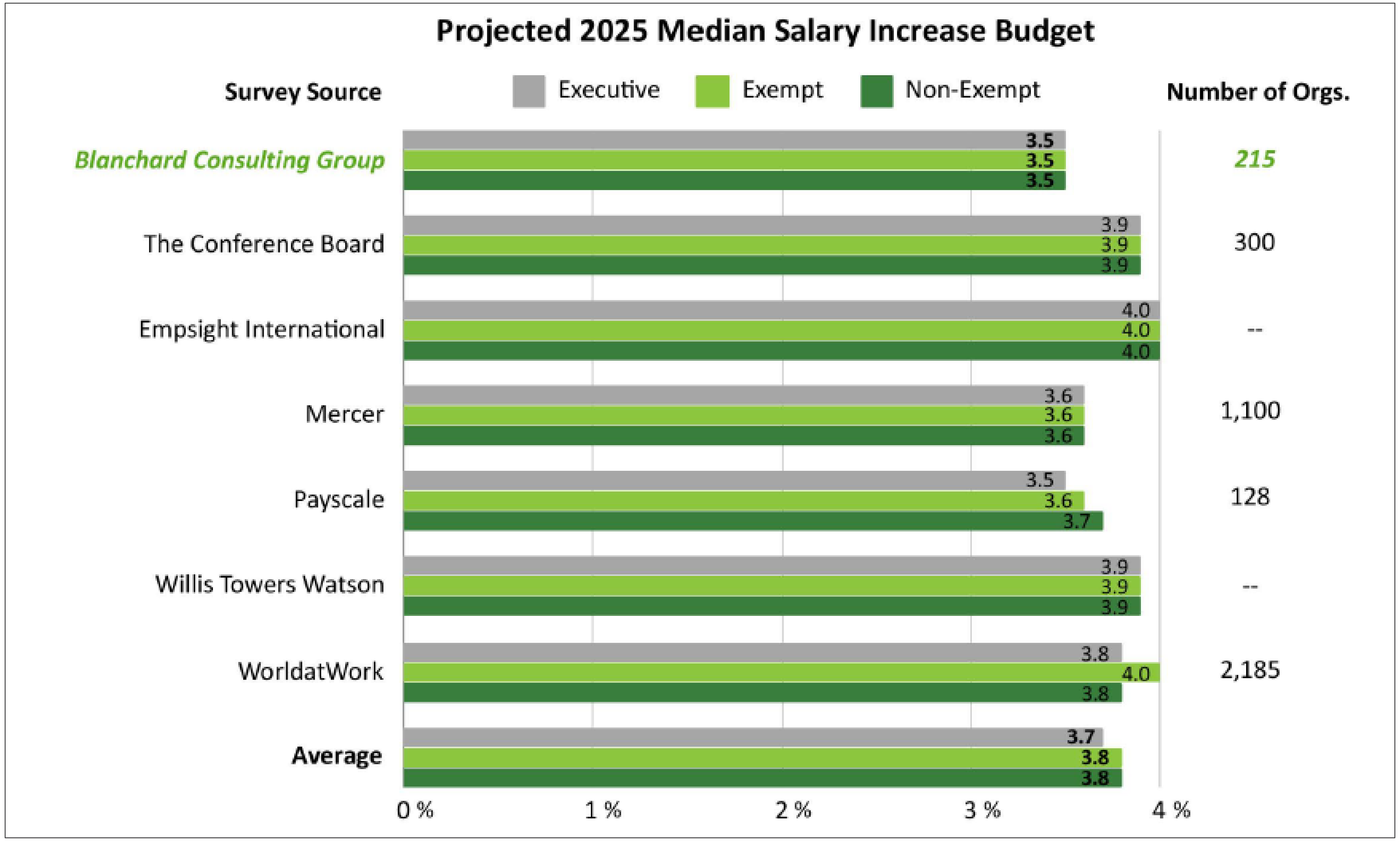
- A well-written compensation philosophy should align the Bank's goals/strategy with its compensation practices, define its market, and indicate the Bank's targeted compensation levels versus market.

Base Salary Strategies

02

Salary Budget Increases

BCG conducted a flash survey about "projected" 2025 salary budget increases in late 2024. The results of this survey and others are shown below.



Base Salary Reviews & Job Benchmarking

STEP 01
Evaluating the Position

STEP 02
Review Market Data

1. **<u>Review Job Description</u>:** duties, accountabilities, knowledge, skills, and abilities
2. **<u>Review Responsibility Level</u>:** supervision, decision making authority, impact on policy and procedures
3. **<u>Experience Level</u>:** necessary banking experience, supervisory experience, and education level

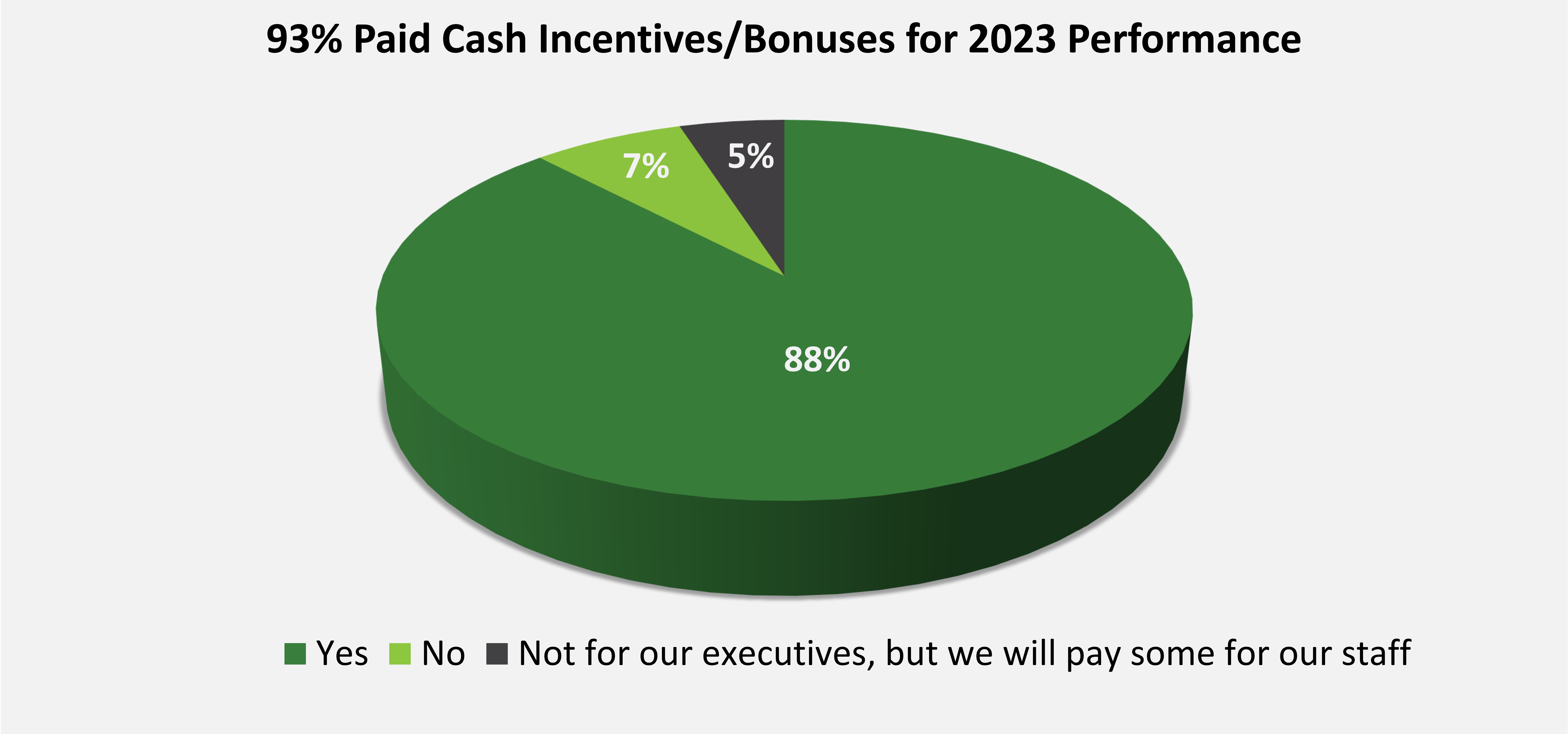
Example Resources:

1. Proxy data from publicly traded companies (executives)
2. Market surveys - regional, national, Blanchard Survey (all employees)
3. HR department/compensation consultant's internal database/s

Annual Cash Incentive/Bonus Plans

03

Annual Incentive Plan Payouts – BCG Trends Survey



Annual Incentive Plans - Typical Payout Opportunities

The table below shows typical ranges for annual incentives as a percentage of salary for banks with assets between $250M - $1B and between $1B - $10B. The data is based on market research and BCG's experience in the banking industry.

Typical Annual Cash Incentive Payouts as a Percentage of Base Salary

	Annual Award as a % of Salary				Typical Allocation/Weighting of Goals & Objectives	
	(Assets $250M-$1B)		*(Assets $1B-$10B)*			
Executive	**Target**	**Maximum**	**Target**	**Maximum**	**Company**	**Dept./Individual**
CEO	15% - 40%	30% - 60%	30% - 60%	50% - 100%	90%	10%
EVP	12.5% - 30%	25% - 50%	20% - 40%	30% - 70%	60%-80%	40%-20%
SVP	10% - 20%	20% - 40%	15% - 30%	30% - 60%	50%-60%	50%-40%
VP/Producer	5% - 15%	10% - 25%	12.5% - 25%	20% - 50%	25%-50%	75%-50%
Staff	2.5% - 10%	5% - 20%	5% - 15%	10% - 30%	25%-75%	75%-25%

Incentive Plan Goals

The Most Prevalent Company Incentive Criteria – BCG Trends Survey

CEO Incentive Criteria

- Net Income (57%)
- Board Discretion (53%)
- Loan Growth (42%)
- ROA (38%)
- Core Deposit Growth (33%)
- Efficiency Ratio (36%)

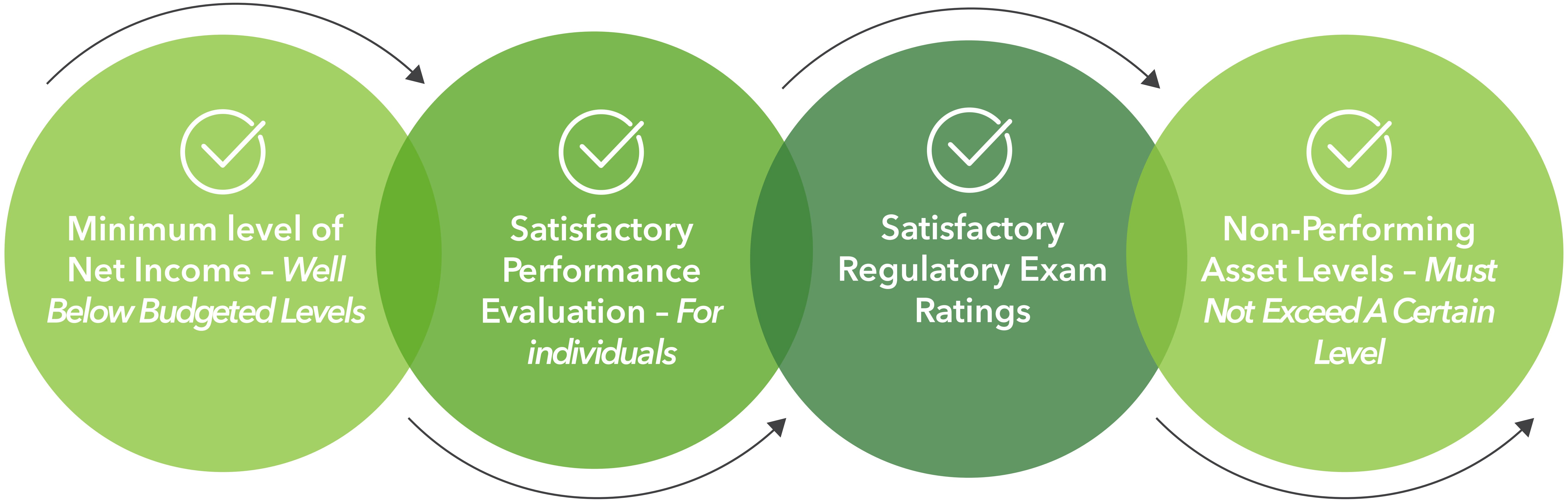
Sr. Management Incentive Criteria

- Net Income (58%)
- Board Discretion (43%)
- Loan Growth (53%)
- ROA (39%)
- Core Deposit Growth (37%)
- Efficiency Ratio (33%)

"Triggers"

Plans often have "triggers", or minimum acceptable performance standards, that must be achieved before any awards are paid. This is a common approach to prevent inappropriate funding of awards and to protect the Bank.

EXAMPLES:



Sample Officer Incentive Plan Worksheet – Executive A – SVP

SALARY = $100,000

Factor Weight	Individual Weight	Summary of Criteria	Threshold	Target	Maximum
100%	50.0%	Overall Bank – 1 (Net Income)	TBD	TBD	TBD
100%	50.0%	Department -2 (Loan Growth)	TBD	TBD	TBD

Notes:
A) Incentive payout predicated on satisfactory audit and regulatory review and a satisfactory individual performance evaluation.
B) The Bank will use a proportional approach to calculate incentive payouts for performance that falls in-between the criteria levels.

How to Reduce Risk in Annual Incentive Plans

01	Avoid "excessive" incentive payout opportunity levels and/or "uncapped" plans
02	Review performance measures
03	Ensure performance targets are not set too high or too low
04	Use annual or multi-year performance criteria
05	Ensure appropriate plan approval, governance, documentation, and communication
06	Implement a "clawback" policy
07	Consider deferrals for incentives (cash or stock)

- Ensure award opportunities are reasonable and appropriate

- Variety of internal and external performance measures
- Ensure appropriate number of measures (not one & not too many)
- Do not focus solely on single short-term financial metrics (i.e. ROA and ROE)
- Incorporate asset and credit quality metrics
- Include some level of discretionary adjustment
- Ensure a link to the Bank's strategic plan and long-term goals

- Use historical bank and peer group information to ensure goals are appropriate

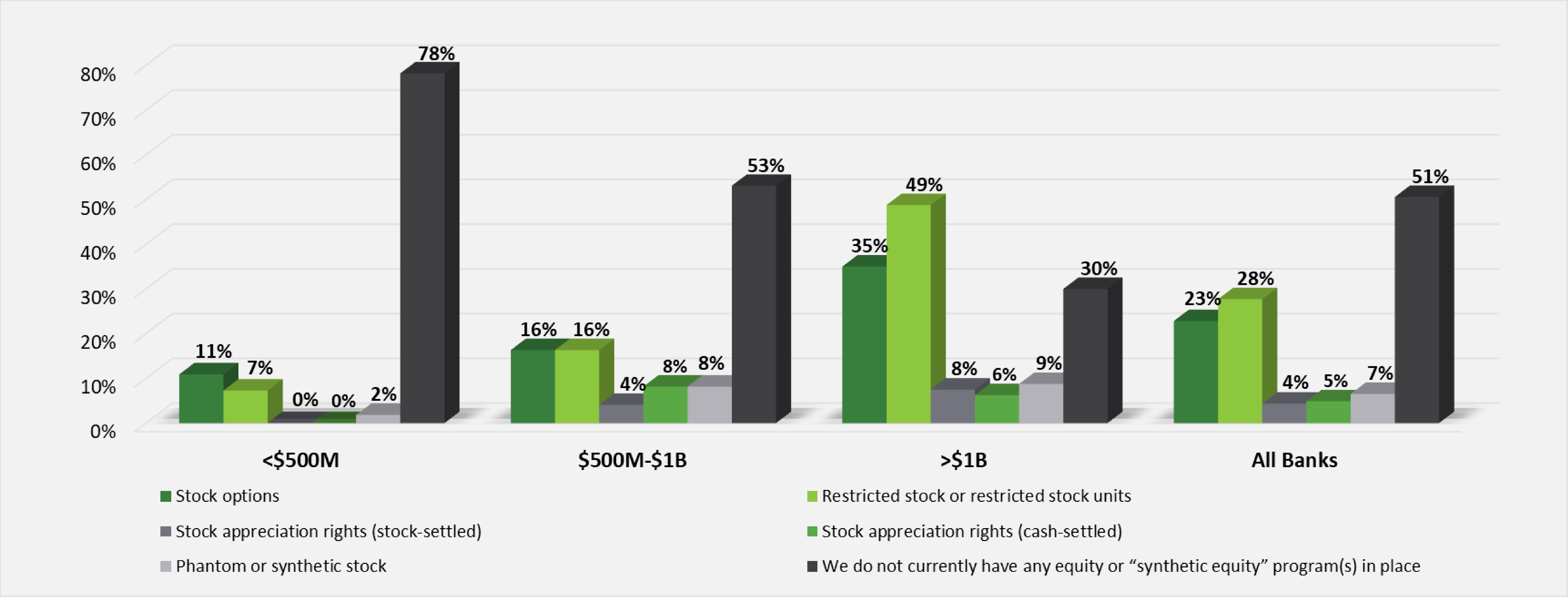
- Remove quarterly payments and short turnarounds on awards

Equity-Based Incentives

04

Equity-Based Incentives (Prevalence) – BCG Trends Survey

- The table below from the BCG Trends Survey shows the prevalence of equity-based compensation programs/plans.



- (49%) of participating banks offer some form of equity-based incentive program. As shown in the chart above, the prevalence of banks utilizing equity-based incentives increases with asset size.
- Banks over $1 billion in assets are more likely to use restricted stock or restricted stock units.

Equity Incentive Plans – Usage Trends

Prevalence[1]	Equity Prevalence in Public Banks Restricted Stock	 Stock Options	 Blend of Both[2]
All Banks (n=408)	78%	14%	12%
Banks that Granted Equity in 2023 (n=328)	97%	18%	15%

Full-value shares are more prevalent than stock options.

Equity Incentive Plans - Vesting

Executives & Officers: Most vesting provisions in banks are 3-5 years

Ratable Vesting

Definition: Awards vest in tranches over the vesting period (i.e. ¼ per year in each of 4 years)

Cliff Vesting

Definition: Awards vest entirely at the end of the vesting period (which is typically a specific time-frame or after meeting performance criteria)

Equity-Based Plans – Typical Payout Opportunities

The following table shows typical ranges for equity-based incentives as a percentage of salary for banks with assets between $250M - $1B and between $1B - $10B. The data is based on market research and BCG's databases.

Industry Data - Typical Equity-Based Incentive Payouts as a Percentage of Base Salary

	Annual Award as a % of Salary			
	(Assets $250M-$1B)		*(Assets $1B-$10B)*	
Executive	**Target**	**Maximum**	**Target**	**Maximum**
CEO	10% - 30%	20% - 50%	25% - 60%	50% - 100%
EVP	7.5% - 20%	15% - 40%	20% - 40%	40% - 80%
SVP	5% - 10%	10% - 20%	15% - 30%	30% - 60%
VP/Producer	0% - 7.5%	0% - 15%	0% - 15%	0% - 30%

Executive Benefits

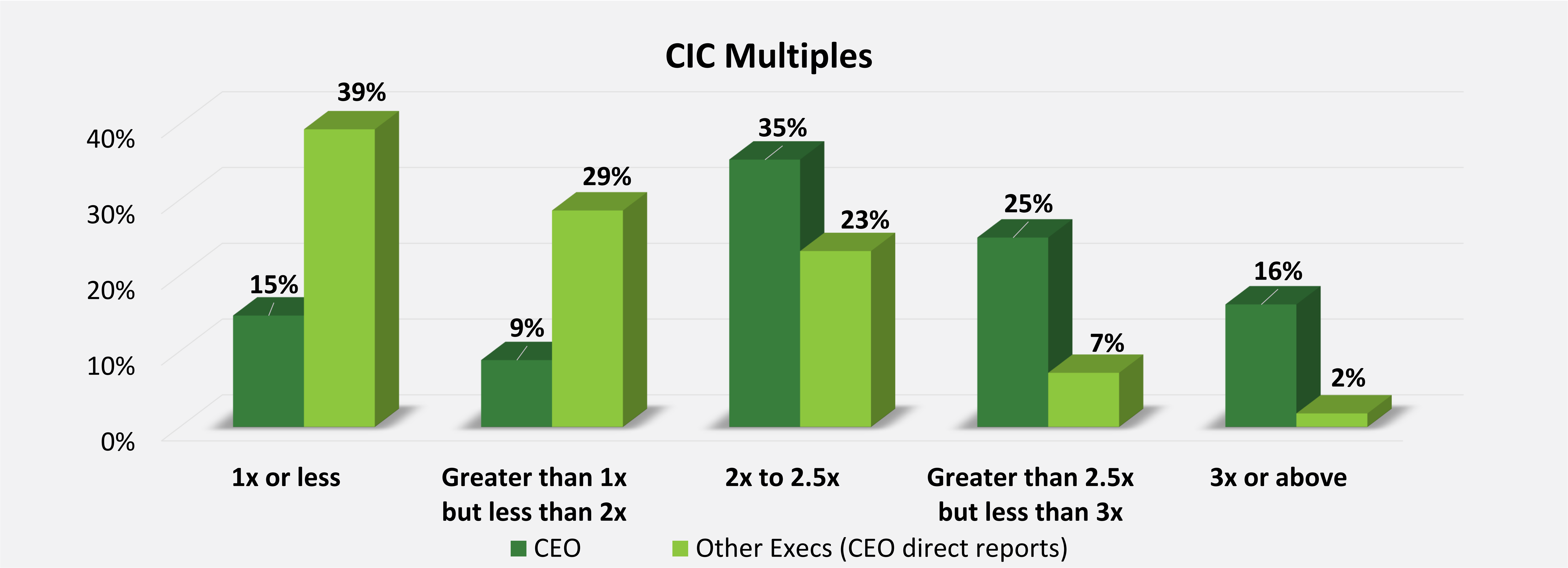
05

Executive Benefits

This table provides industry prevalence information on various compensation and benefit plans. This information is from BCG's internal database of publicly-traded banks.

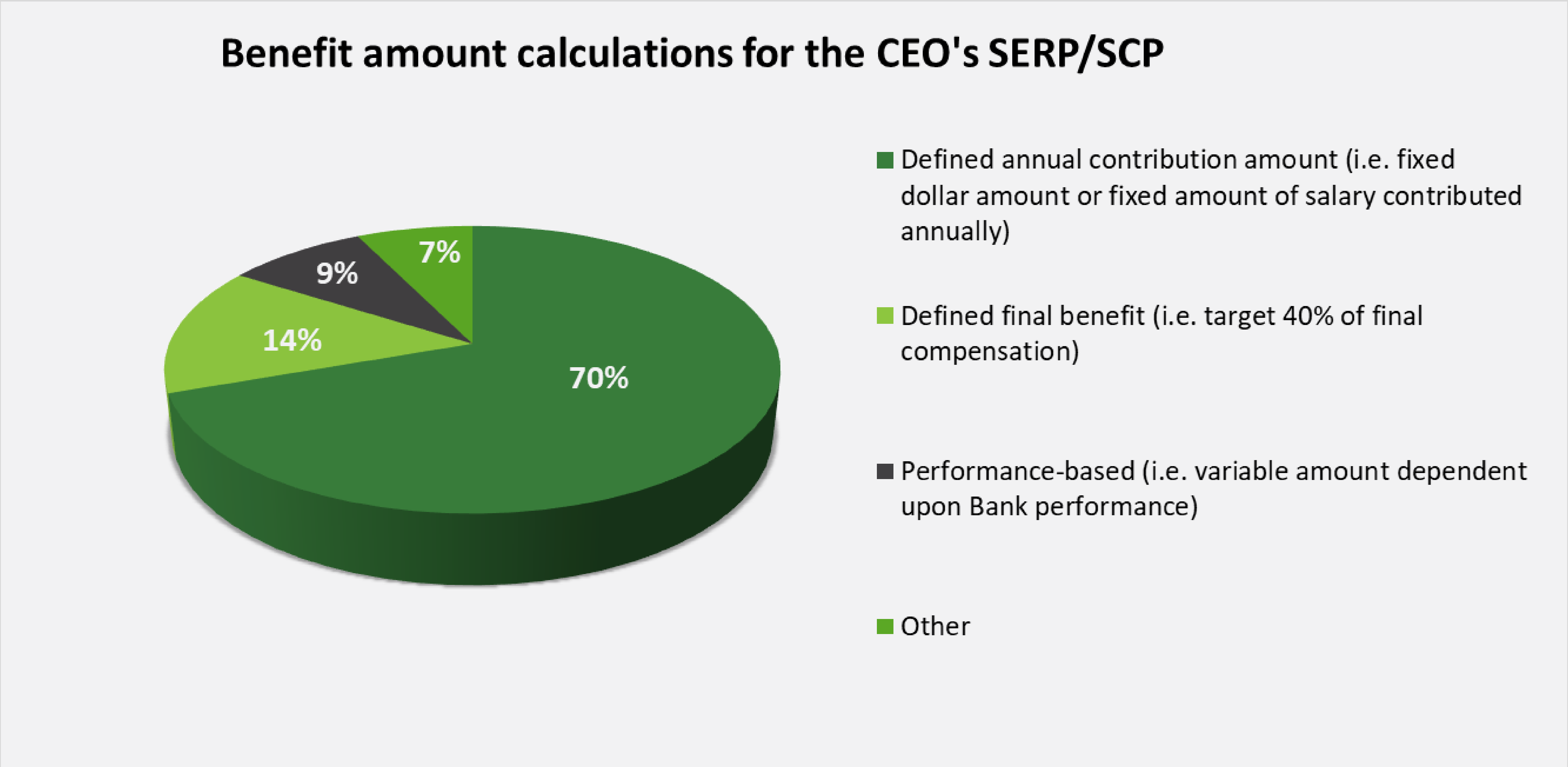
			Agreements		Retirement					
Assets	N	Median Assets ($000)	Employ-ment	Change-in-Control	401(k) Plan	Qualified Profit Sharing	Qualified Pension Plan	Deferred Comp. Plan	SERP	Deferred Comp or SERP
All Orgs	199	2,246,193	74%	88%	99%	56%	9%	42%	48%	71%
$500M-$1B	28	809,695	61%	68%	96%	68%	7%	18%	61%	68%
$1B-$3B	93	1,827,688	77%	91%	100%	46%	12%	38%	51%	69%
>$3B	78	5,277,259	74%	91%	99%	63%	6%	56%	41%	74%

Change-in-Control (CIC) Severance Multiples – BCG Trends Survey (Cont.)



- The severance benefit payout is typically a multiple of salary, cash compensation (salary + annual cash incentive/bonus), W2 average compensation, etc. at the time of termination.
- 40% of respondents who pay CIC severance benefits to the CEO determine the benefit based on the CEO's salary and 46% determine the benefit based on cash compensation.

CEO SERP Benefits – BCG Trends Survey



Prevalence of the typical annual contributions/defined benefits for the CEO's SERP/SCP:

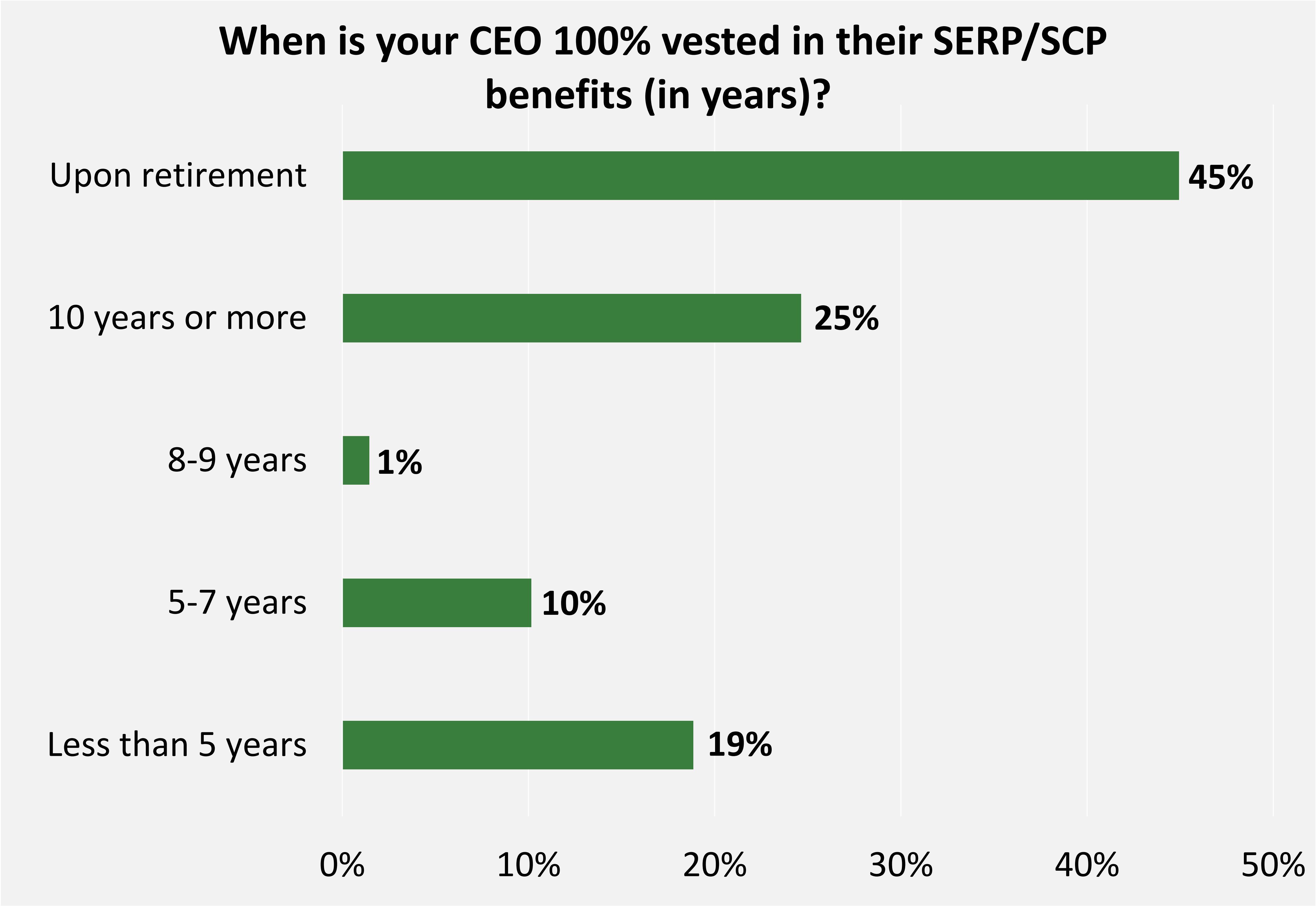
Annual Contribution (fixed dollar amount):

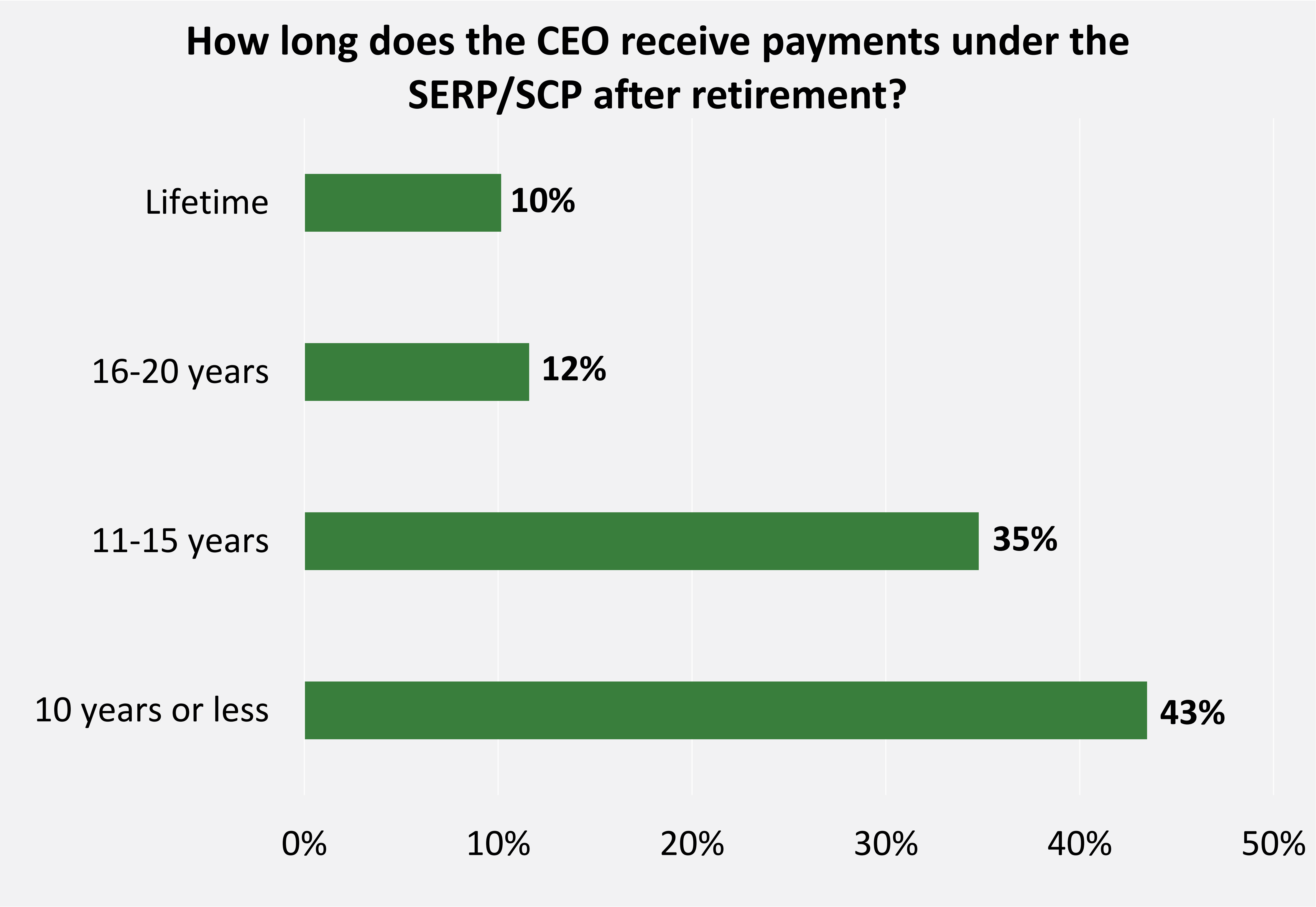
- Greater than $300,000 (19%)
- $200,001-300,000 (15%)
- $150,001-$200,000 (6%)
- $100,001-$150,000 (21%)
- $50,001-$100,000 (29%)
- Less than $50,000 (10%)

Defined Final Benefit (target percent of final comp)

- 50% or more of final compensation (40%)
- 40%-49% of final compensation (10%)
- 30%-39% of final compensation (30%)
- 20%-29% of final compensation (10%)
- 10%-19% of final compensation (0%)
- Less than 10% of final compensation (10%)

CEO SERP Vesting and Length of Benefit – BCG Trends Survey





Questions?

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Mr. Michael Blanchard is the CEO of Blanchard Consulting Group. He has extensive experience in the human resources field and has conducted or supported over 500 compensation planning, market research, and organizational development projects over the past seventeen years, with over thirteen years specific to the banking industry. Mike has presented to various national and state banking associations including the American Bankers Association, the Southeastern Bank Management and Director Conference, and the Western Independent Bankers association on a variety of compensation and board governance topics. With a master's degree in advanced industrial and organizational psychology, Mr. Blanchard's experience includes advising clients on assessing total compensation, incentive planning, and performance appraisals.

Blanchard Consulting Group Services

Executive Consulting

We assess compensation plans compared to market utilizing various market data and our industry expertise.

- Executive Total Compensation Review
- Cash Compensation Review
- Annual Cash Incentive Plan Design
- Equity-Based Incentive Plan Design

Board Consulting

Rely on us to optimize your board compensation and governance through tailored reviews and education.

- Board Total Compensation Review
- Committee Education & Best Practices
- CEO Reviews & Board Evaluations
- Compensation Philosophy Development

Staff Consulting

Help your bank align pay structures with industry standards, strategic goals, and best practices.

- Base Salary Review
- Salary Administration & Grade Structure Design
- Annual Incentive Plan Design & Reviews
- Performance Management & Reviews

Governance Consulting

Certify that your bank meets evolving SEC, shareholder, and regulatory requirements.

- Proxy Disclosures – CD&A Assistance
- Pay vs. Performance Analysis
- Risk Assessments of Incentive Plans
- Compensation Committee Toolkit