Breakout 2:

Do Your Incentive Plans Align With Your Compensation Philosophy

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#BBTF24

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Do Your Incentive Plans Align with Your Compensation Philosophy?

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Key Topics To Be Covered

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

Total Compensation

01

Elements of Total Compensation

Total Compensation

Salary Compensation
- Annual Salary
- Hourly Wages

Incentive/ Bonus Compensation
- Annual Bonus
- Annual Incentive Plan

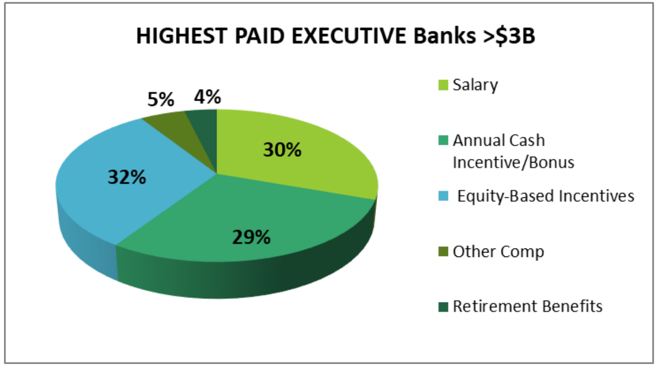
Equity Plans
- Stock Options
- Restricted Stock
- Restricted Stock Units (RSUs)
- Phantom Stock
- Stock Appreciation Rights (SARs)
- Performance Units

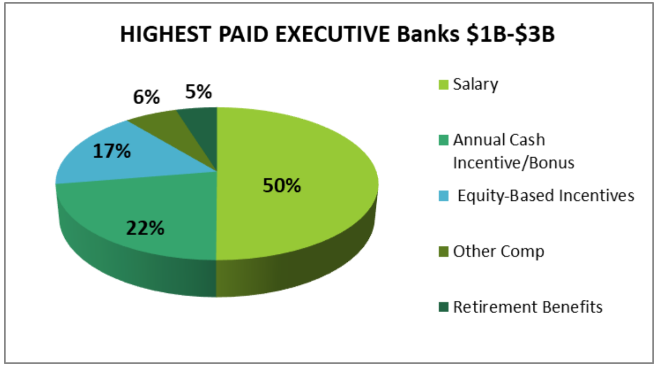
Non-Qualified Plans
- Supplemental Executive Retirement Plans (SERPs)
- Salary Continuation Plans (SCPs)
- Deferred Compensation Plans (DCPs)

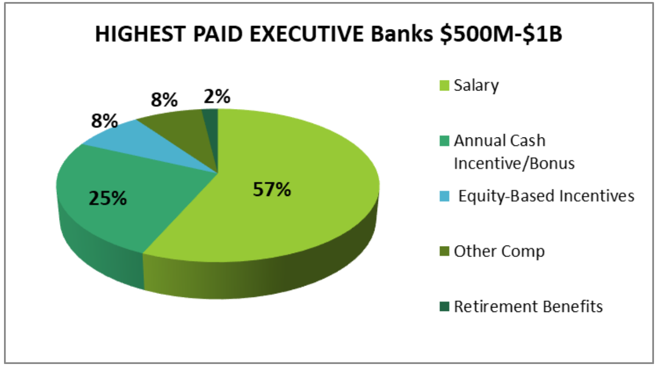
Qualified Plans
- Pension
- 401(k)
- ESOP
- Profit Sharing

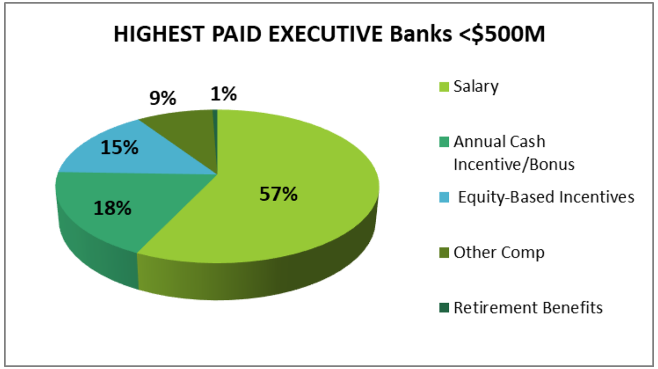
Benefits & Perks
- Supplemental Disability
- Long Term Care
- Employment Agreements
- Change-in-Control (CIC) Agreements
- Country Clubs, Auto Allowances, etc.

CEO Total Compensation Mix





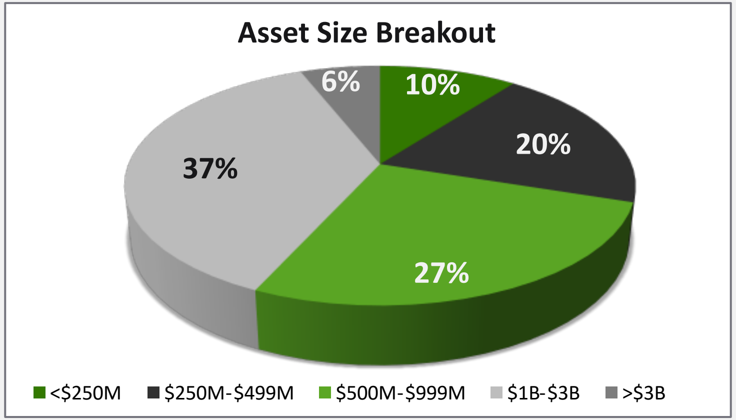




Survey Findings Included Throughout

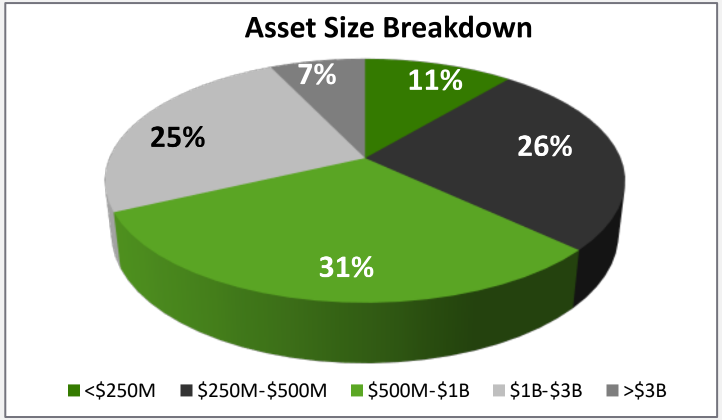
2024 Compensation Trends & Employee Benefits Survey
(BCG Trends Survey)

Included 184 banks (128 private & 56 public)



BCG 2023 Salary & Cash Compensation Survey
(BCG Salary Survey)

Included 224 banks in 2023 ***<u>(337 Banks in 2024)</u>***



Compensation Philosophy

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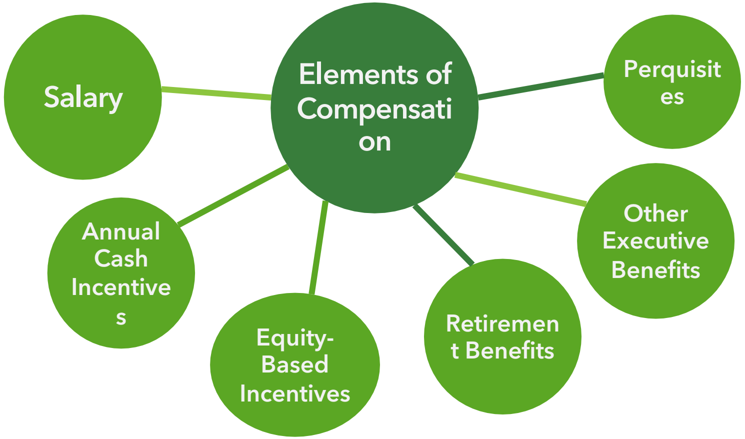
Compensation Philosophy Statement

Provides a framework to help the organization make compensation related decisions, assess the effectiveness of its programs, and communicate a consistent "message" to shareholders, management, and employees about the role of compensation.

Defines the use and objects of each element of compensation:

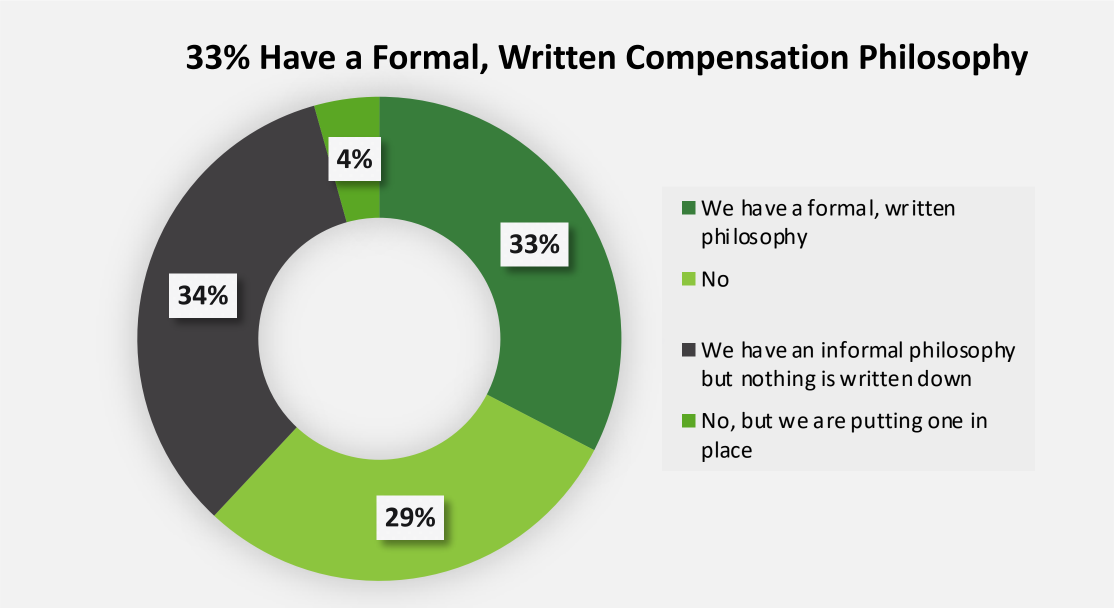
** The Compensation Philosophy should be reviewed annually and can certainly change over time



Discusses how the pay elements should compare based on:

- The market
- The bank's own performance

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.
- **The strategic use of compensation starts with a well-defined compensation philosophy.**

Basic Compensation Philosophy Example

The Compensation Committee seeks to target executive compensation at levels that the Committee believes to be consistent with others in the banking industry. The executive officers' compensation is contingent upon the Company's a. In general, for senior management positions of the Company (including the Bank's named executive officers (NEOs), the Bank will pay base salaries that target the market median (50^{th} percentile) of other banks of our asset size, complexity and with similar products and markets.

Goals for specific components include:

- Base salaries for executives are targeted at the 50^{th} percentile for individuals who have multiple years of experience and are fully executing their role within the organization.
- The Annual Incentive Plan will provide cash compensation levels near the 50^{th} percentile when target performance-based goals are achieved and towards the 75^{th} percentile if targeted goals are exceeded and performance is above expectations.
- Performance-based equity awards target compensation near the 50^{th} percentile when target goals are met with the potential for direct compensation to meet or exceed the 75^{th} percentile if targeted goals are exceeded.

Base Salary Strategies

03

Salary Budget Increases

Blanchard Consulting Group conducted a flash survey about "projected" 2024 salary budget increases in October. The results of this survey and others are shown below

Projected Median Salary Increase Budget				
	Number	Projected 2024 Salary Budgets		
Survey Source	of Orgs.	Executive	Exempt	Non-Exempt
Blanchard Consulting Group ⊥Financial Institutions	***154***	***4.0%***	***4.0%***	***4.0%***
The Conference Board	--	4.1%	4.1%	4.1%
Empsight International	178	4.0%	4.0%	4.0%
Mercer	932	3.9%	3.9%	3.9%
Payscale	98	4.0%	4.0%	4.1%
Salary.com	1,015	4.0%	4.0%	4.0%
Willis Towers Watson	--	4.0%	4.0%	4.0%
WorldatWork	2,146	4.0%	4.0%	4.0%
Average		**4.0%**	**4.0%**	**4.0%**

40%

Of participants reported that inflation and/or market pressure has had no impact on their projected salary increase budget for 2024.

4%

The projected salary increase budget has stayed consistent from 2023 to 2024 at **4%** in both the general industry and in financial institutions

- 3% was the salary increase budget number from 2012 to 2022 (2023 was the first year we saw a 1% increase)

Base Salary Reviews & Job Benchmarking

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

Market Pricing Example

Position/ Benchmark Job Match	Data Source	Data Cut	N	Market Salary 25th	Market Salary 50th	Market Salary 75th
Marketing Manager						
Marketing Manager	ABA	$500M-$699M	--	76.4	87.9	104.5
Marketing Manager	BalComp	$500M-$999.9M, Med = $692M	8	62.8	65.7	83.7
Marketing Manager	Blanchard	$500M-$1B, Med = $638M	21	64.0	73.8	80.9
Marketing Manager	Crowe	$500M-$1B, Med = $701M	25	65.5	78.6	96.9
Marketing Manager	ERI	5 years experience	--	90.1	96.9	106.3
		Survey Average		**71.8**	**80.6**	**94.5**

Base Salary Reviews & Job Benchmarking (Cont.)

STEP 03

Determine Other Influences on Market Value

STEP 04

Determine Market Value

1. **Asset Size:** Evaluate market values based on the asset size of the Bank. *Has a bigger impact on executive officer compensation.*
2. **Geography:** Consider geographic location and impact on salaries. Cost of living and salary and wage levels (Economic Research Institute).
3. **Production Level:** Production positions may have a different market value for level of production. *Examples: portfolio size or branch/region deposits may influence the market value.*
4. **Responsibility Level:** Support positions may have a different market value based on responsibility levels, supervisory duties, or the ability to handle complex issues.

1. Determine appropriate market value for the position(s)
2. Then review the individual(s)

Salary Increase Matrix

This table shows an example of a performance-based salary increase matrix. The percentages will vary based on the bank's budget, the employee's performance, and the employee's positioning within their salary range.

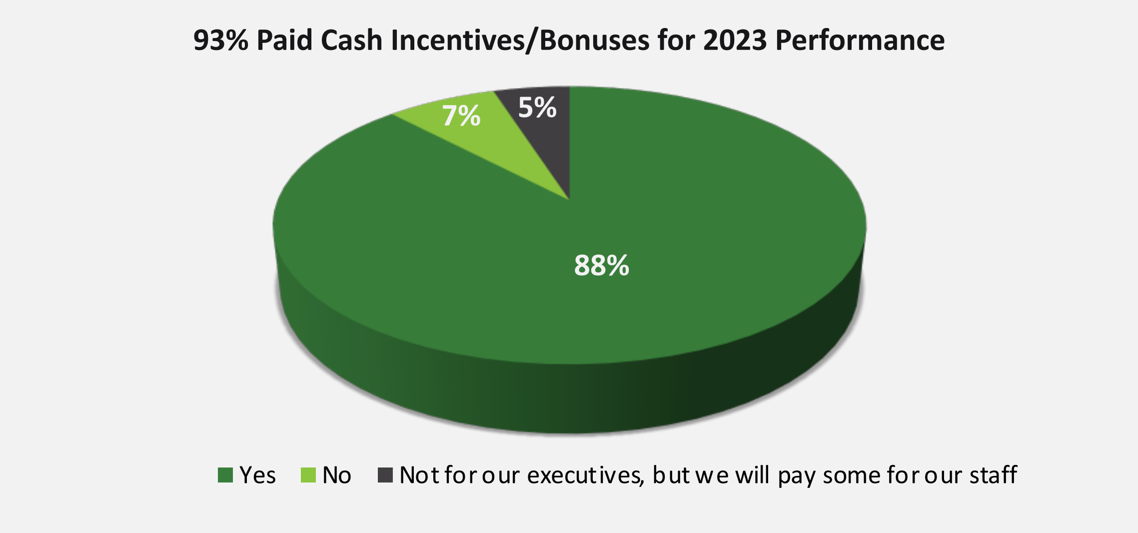
**** Part of a STRATEGIC salary administration process ****

Baseline/Target Percentage Increase = 4%	Employee Salary as a Percent of Grade Midpoint		
	Minimum to 90% of Midpoint Low in Salary Range	**90.1% to 109.9%** Middle of Range	**110% to Maximum** High in Range
Employee Performance Rating	**Salary Increase Percentages**		
Far Exceeds Expectations	X%	X%	X%
Exceeds Expectations	X%	X%	X%
Meets Expectations	X%	**4%**	X%
Does not Meet All Expectations	X%	X%	X%
Fails to Meet Expectations	X%	X%	X%

Annual Cash Incentive/Bonus Plans

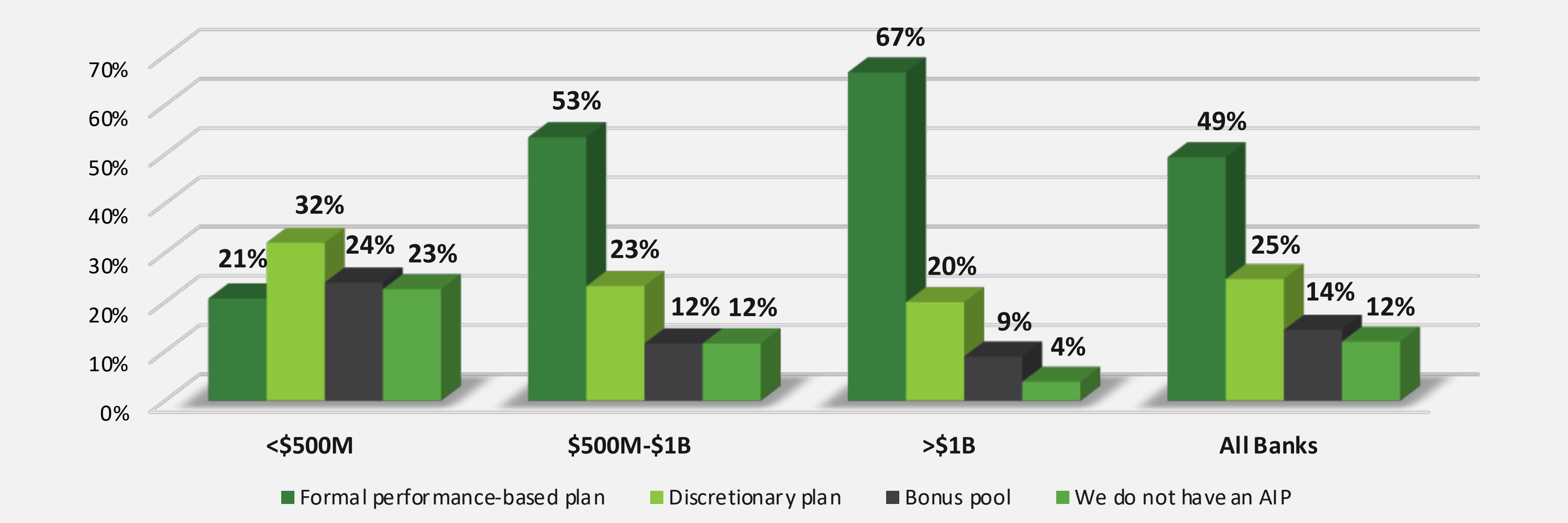
04

Annual Incentive Plan Payouts – BCG Trends Survey



- **<u>93% of banks paid some type of incentives based on 2023 performance.</u>**
- 53% of respondents with an incentive plan set incentive goals *based on the bank's budget*.
- 27% use a combination of both the bank's budget and comparisons to a peer group (i.e. ROA must be at the 65th percentile of the peer group).

Types of Annual Incentive Plans – BCG Trends Survey



- **Highest prevalence is performance-based plans (49%).**
- 71% have a document that lists out the various incentive plan(s) and describes how they work.
- 72% of banks reported their compensation committee has reviewed their incentive plans for risk.

Incentive Plan Prevalence

Formal Performance-Based Cash Incentive Plan Prevalence

BCG 2023 Salary Survey

Data Cut	N	Median Assets (as of 3/31/23) ($Millions)	Performance-Based Plan
All Orgs	224	646	38%
<$250M	25	166	16%
$250M-$500M	57	385	21%
$500M-$1B	70	674	41%
$1B-$3B	56	1,519	52%
>$3B	16	4,586	69%

Cash Incentive Plan Prevalence – BCG Public Bank Database

			Cash Incentive Plan	
Data Cut	N	Median Assets ($000)	Bonus/ Discretionary Plan	Performance-Based Plan
All Orgs	221	1,964,229	98%	71%
<$500M	20	342,964	80%	15%
$500M-$1B	34	795,447	100%	47%
$1B-$3B	93	1,816,386	100%	76%
>$3B	74	5,346,664	100%	89%

Basic Principles of Cash Incentive Plans

Objectives

- ✓ Motivate and reward achievement of goals/metrics
- ✓ Reward for performance "within some control of the participant"
- ✓ Align employee behaviors with the Bank and shareholders
- ✓ Position total compensation at market competitive levels
- ✓ Provide "upside" and an ability to differentiate "superstars"

Key Considerations

- ✓ Consider the ***"riskiness"*** of plan designs
- ✓ Determine the appropriate **BALANCE** between profitability, quality, and strategy
- ✓ Implement "**clawback**" features
- ✓ Acknowledge regulatory impacts: Sound Incentive Guidance, Dodd-Frank, Reg Z, etc.

Important Question:
Do we have effective controls, administration, documentation, and corporate governance surrounding our incentive plans?

Participation, Tiering, & Objective Weights

Tier	Title	Award Opportunity Levels			Award Objectives	
		Threshold	Target	Max	Bank	Department/ Individual
I	President & CEO	X%	X%	X%	90%	10%
II	EVPs	X%	X%	X%	75%	25%
III	SVPs	X%	X%	X%	60%	40%
IV	VPs/Mgrs.	X%	X%	X%	50%	50%
V	Staff	X%	X%	X%	25%	75%
		Percent of Salary			*Weighting of Award*	

- Tiering varies by bank, but it should be defendable and non-discriminatory.
- Award opportunity levels will frequently vary based on asset size of bank.
- Awards also influenced by compensation philosophy, salary levels vs. market, and other available compensation programs (equity, deferred compensation, etc.).
- Weighting of bank and department/individual goals in this example are just a guide – these will often vary slightly from bank to bank and individual to individual.

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%)

Equity-Based Incentives

05

Common Types of Equity-Based Incentives

Real Equity

Definition: *Actual shares of stock, which create real equity holdings and shareholder dilution*

- Incentive stock options (ISOs)
- Non-qualified stock options (NSOs)
- Stock appreciation rights (SARs) – stock settled
- Restricted stock
- Restricted stock units – stock settled

"Synthetic" Equity

Definition: *Value is tied to share price, but no real stock is transferred (cash payments)*

- Stock appreciation rights (SARs) – cash settled
- Phantom stock
- Performance shares
- Restricted stock units – cash settled

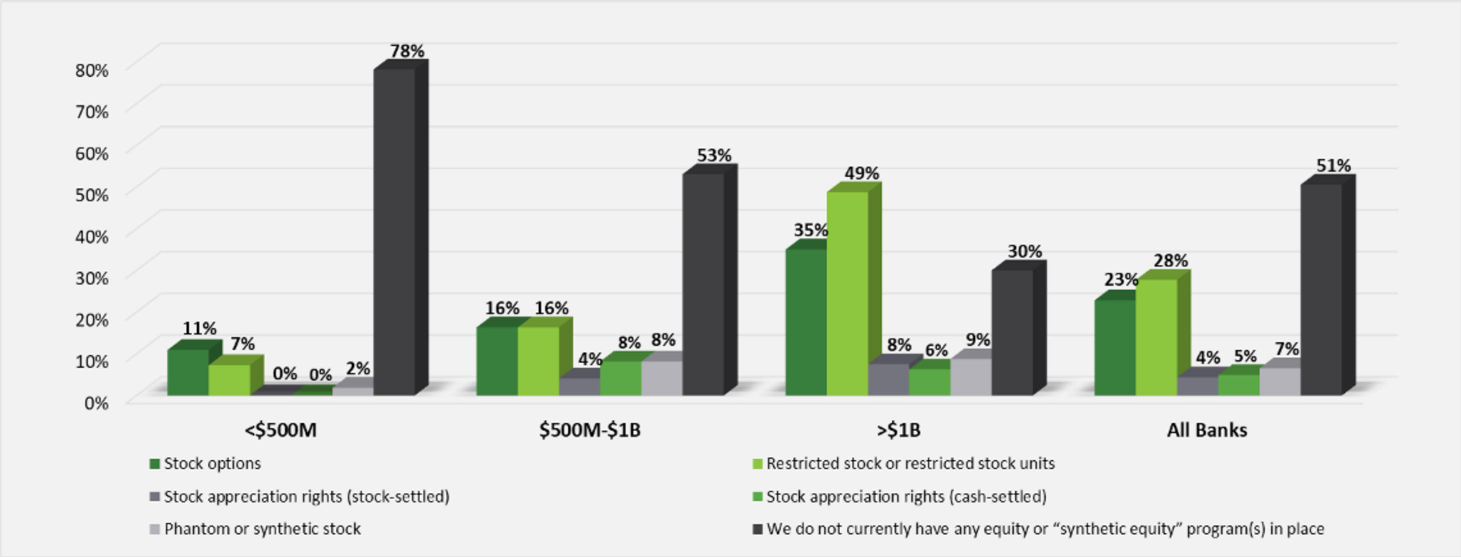
Reminders:

** Appreciation-based vehicles (example: stock options) - value is only created with appreciation

** Full-value vehicles (example: restricted stock) - value is immediate and remains if underlying share continues to have value

Equity-Based Incentives (Prevalence) – BCG Trends Survey

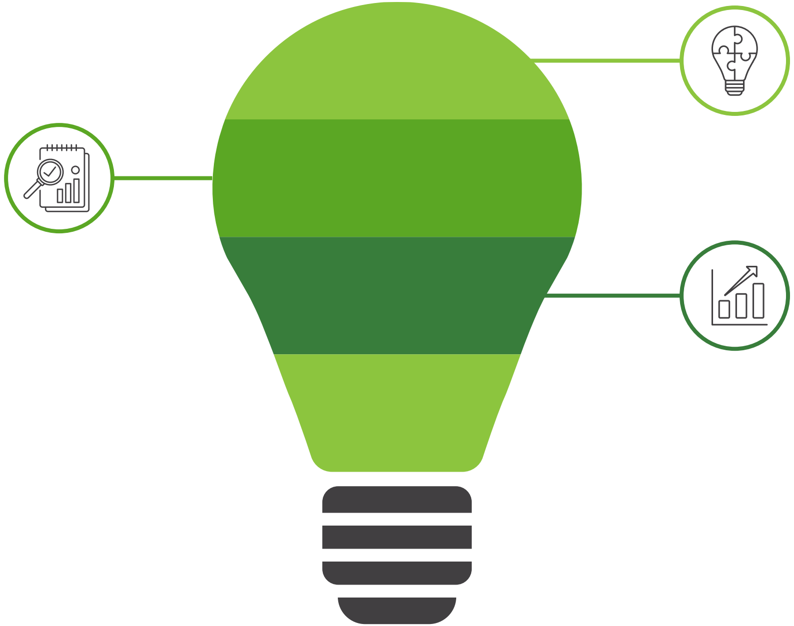
- The table below from the BCG Trends Survey shows the prevalence of equity-based compensation programs/plans.



- (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-Based Incentive Plan Objectives



Focus executives on a multi-year performance period and assist with executive retention.

Create executive ownership in the Bank.

Link a component of Senior Management's compensation to the long-term success of the Bank.

Equity Incentive Plans – Usage Trends

Prevalence[1]	Equity Prevalence in Public Banks Restricted Stock	 Stock Options	 Blend[2]
All Banks (n=419)	77%	16%	13%
Banks that Granted Equity (n=337)	96%	20%	16%

[1] Represents publicly traded banks in Blanchard Consulting Group's internal database using 2022 proxy statements.

[2] Blend indicates that the bank granted both restricted stock and stock options in 2022 (not necessarily to the same executive).

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

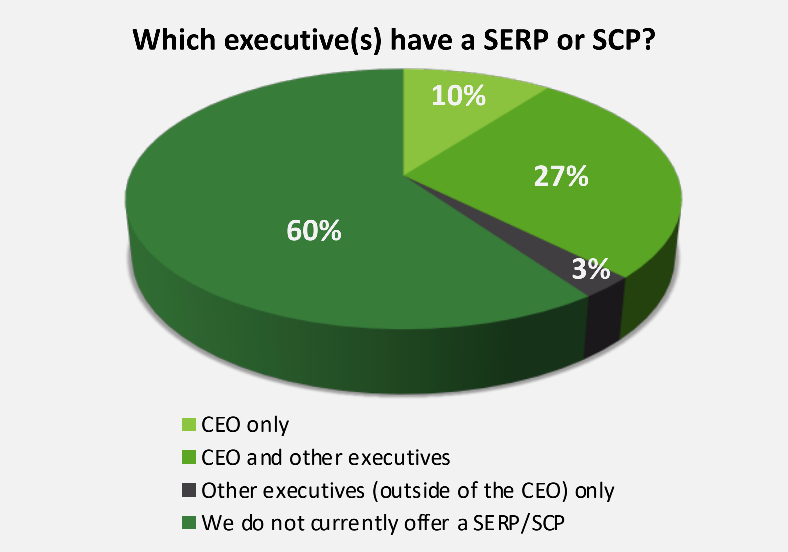
06

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.

Assets	N	Median Assets ($000)	Agreements		Retirement					
			Employ-ment	Change-in-Control	401(k) Plan	Qualified Profit Sharing	Qualified Pension Plan	Deferred Comp. Plan	SERP	Deferred Comp or SERP
All Orgs	221	1,964,229	73%	86%	99%	61%	9%	36%	47%	67%
<$500M	20	342,964	80%	80%	95%	60%	5%	20%	25%	35%
$500M-$1B	34	795,447	65%	76%	94%	68%	6%	15%	62%	71%
$1B-$3B	93	1,816,386	75%	88%	100%	55%	13%	33%	53%	68%
>$3B	74	5,346,664	72%	91%	100%	66%	7%	53%	39%	73%

Executive SERP/SCP and Deferred Compensation Prevalence



- 44% of the responding banks offer a deferred compensation plan to executives.
- Approximately 40% of the responding banks offer a SERP/SCP to at least one executive.

Questions?

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