Pearl Meyer

TRENDS & ISSUES

Bank Board of Directors Pay, Policies, and Practices

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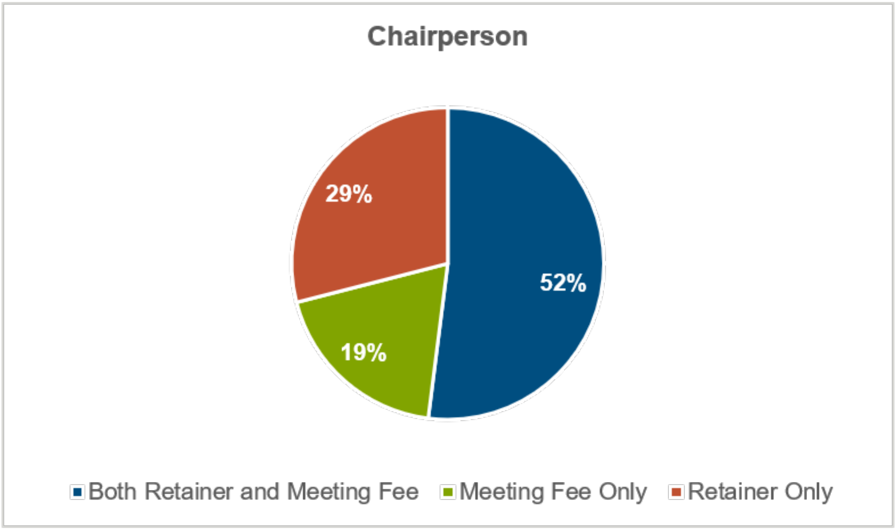
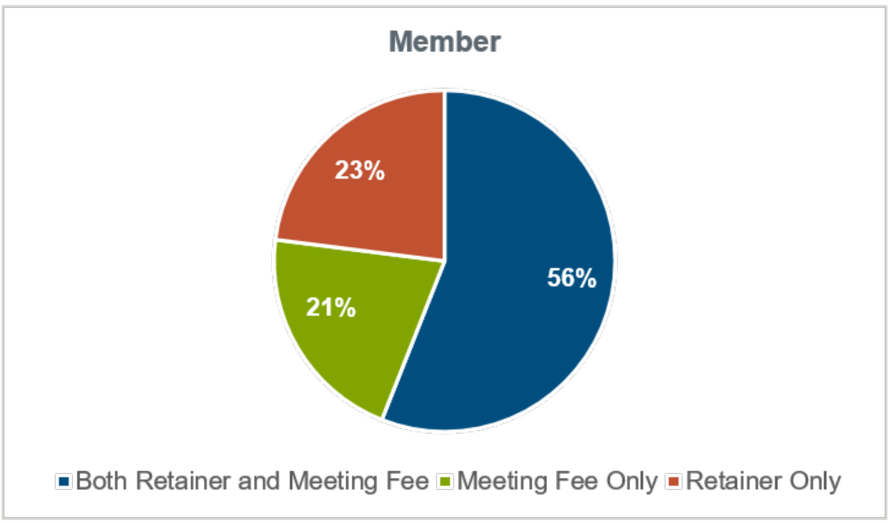
In May of this year, Pearl Meyer published the *2021 Banking Board of Directors Compensation and Governance Practices Survey*. With a more than double increase in participation, from 69 participating institutions in 2019 to 172 in 2021, it's clear that board of directors' compensation and the associated pay practices and governance issues are on the forefront. This year's survey provides data on current practices for compensating quality board of director leadership as institutions work to maintain profitability and support their customers' businesses during difficult and unprecedented times. The 172 institutions that participated are comprised of stock/public companies, stock/private companies, mutual savings banks, and credit unions. Below are a few highlights from the report.

Board Compensation

Most institutions establish director compensation programs by reviewing and benchmarking to peer market data. It has become a challenge to determine the proper mix of compensation to attract board members, compensate them properly for their service (for the risks they take and for the time commitment they make) while also aligning with shareholder interest.

In our survey, director compensation is broken down into the following components: annual retainer, board and committee meeting fees, equity, and benefits. Typically, a cash retainer and/or cash meeting fees are the core compensation elements for directors, although we are seeing an increasing prevalence of equity awards. More than half of all institutions pay the chairperson and/or members of the institution's board both a retainer and a per-meeting fee for service.

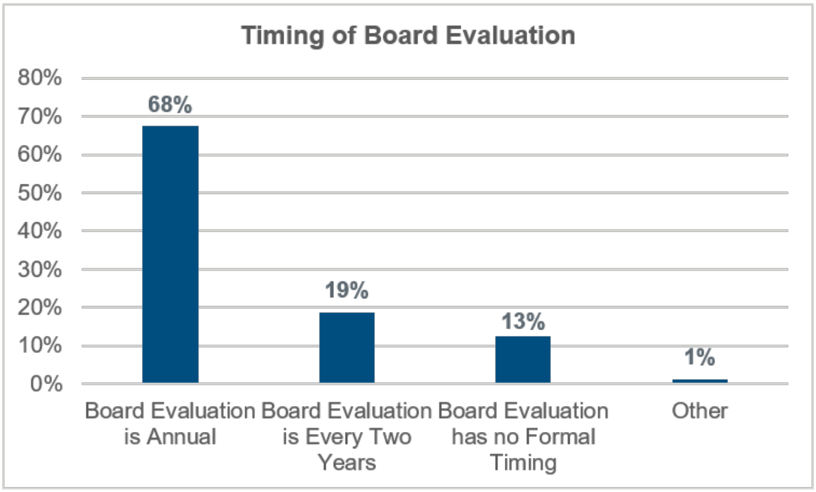




The survey offers additional detailed, in-depth data on board retainers, meeting fees, and committee compensation broken down by asset size, form of ownership, and board structure. In this year's report, average cash compensation pay per director ranged from $21,263 to $50,833 and average total board cash compensation ranged from $171,817 to $512,666 depending upon asset size.

Board Evaluation

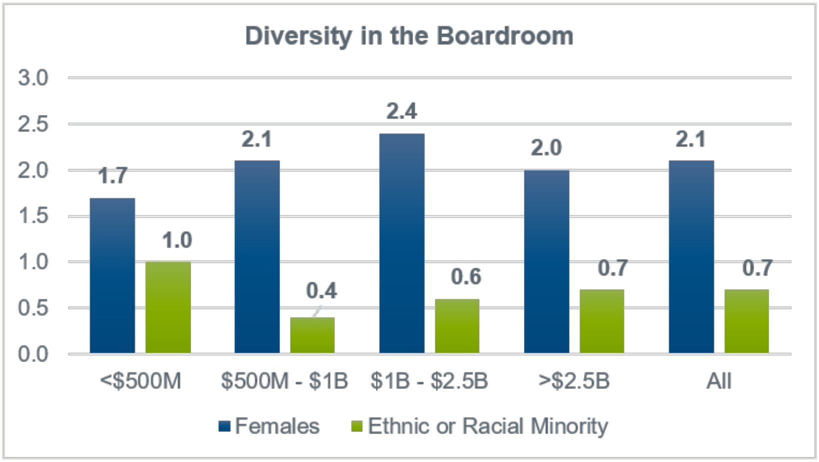
In today's climate of increasingly complex compliance and regulatory guidelines, boards are under pressure to be effective and achieve a multitude of goals. Board evaluations are a tool designed to review corporate governance practices and the effectiveness of the board and its committees. When conducted properly, board evaluations benefit stakeholders, directors, and the institutions by developing a stronger board that is a strategic asset to the institution and its management. Forty-seven percent of participants conduct a formal evaluation of the board, and of these institutions, the majority (66%) conduct the evaluation themselves instead of using a third party (1.3%) or an evaluation tool developed by a third party (18%). Eleven percent opt for both self-evaluation and that of a third party. As might be expected, board evaluations occur on an annual basis at most of the institutions conducting evaluations (68%) and evaluations of individual directors occur at only 22% of the participating institutions.



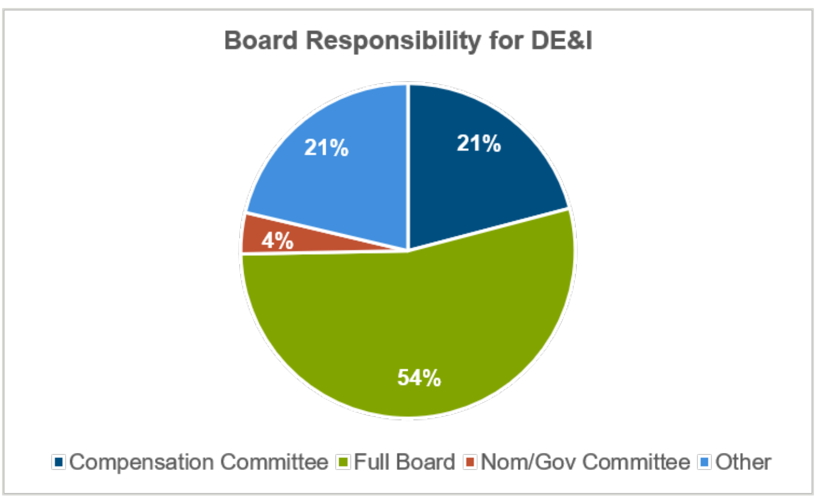
Each board should have its own unique set of objectives and goals by which to be measured. Evaluations can be a full board activity or fall under the purview of the compensation committee as they increasingly cover leadership development, talent management and set board pay. An outside party can objectively assist the board to identify their strengths and weaknesses and to improve board performance. Pearl Meyer Managing Director Tim O'Rourke, who often conducts board evaluations said, "We have seen a significant increase in compliance with governance policy since board evaluations have become more common."

Diversity in the Boardroom

With the increased spotlight on diversity, equity, and inclusion (or DE&I), institutions and boards are becoming more aware of the need to focus on creating a more diverse representation in the boardroom. "This is one of the many areas where bank boards increasingly focus when conducting board evaluations," according to O'Rourke. Our 2021 survey reports on board representation by gender and ethnic or racial minority. While there is much more to be accomplished, 97% of institutions that participated in our survey reported an average of two female board members and 93% reported at least one board member of an ethnic or racial minority. Additionally, illustrating what a hot topic this is, there has been an increase in education surrounding DE&I (35%), and environmental, social, and governance (ESG) issues (23%).



Pearl Meyer's *2020 Equity, Diversity, and Inclusion—Management and Pay Practices Survey Report* further highlights the board's role in organizational diversity, as it reveals that many are taking ownership for improving diversity. Fifty-four percent of banking institutions responded that the full board has oversight of DE&I. Additional insights into not only organizational diversity and inclusion practices, but also gender and minority representation, approaches to pay equity, and closing the pay gap are available in this informative report.



Summary

All institutions are unique, and banking is an ever-evolving business. Successful banks require quality directors with a varied range of knowledge, skills, and abilities to navigate the most unpredictable of circumstances. Developing a compensation program that fits your board's needs and attracts knowledgeable directors is a challenge. The Pearl Meyer *2021 Banking Board of Directors Compensation and Governance Practices Survey* is a valuable resource and provides the most comprehensive look at board data, trends, and practices.

About the Authors

Jordan Gagnon is a Survey Account Manager in the Boston Office. He manages Pearl Meyer's portfolio of Banking Compensation and Benefit Surveys in addition to assisting with other compensation surveys and client accounts.

Rhonda Snyder is a Survey Account Manager based out of the Boston Office. She joined Pearl Meyer in August of 2019 and she works as a liaison to the Southeast banking associations on banking salary surveys while also assisting many other state and national survey clients.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.

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