Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

The Next Stage of the Coronavirus Impact – Banking Edition

Survey of Compensation-Related Actions and Considerations

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Introduction

Earlier this year, Pearl Meyer conducted a series of Quick Poll surveys on COVID-19-related compensation topics. This follow-up survey incorporates a variety of questions from the earlier surveys as well as additional topics to gauge actions and perspectives in response to the pandemic. The survey was conducted online in late May, with a total of 285 responses. This Banking Edition includes 75 financial institutions: 40 publicly traded; 20 privately held, for-profit; and 15 privately held, not-for-profit.

Most financial institutions continue to take a “wait and see” approach with regard to compensation program designs, goal setting, and potential use of discretion in response to COVID-19. Generally, pay and workforce actions have been limited; however, as more is known about the financial impact of recent events, we anticipate the greater actions will be taken, especially in regard to incentive plan metric, goals, and payouts.

We hope you find this information useful as you make compensation-related decisions in response to COVID-19, year-end results, and the coming year. If you have any questions or are interested in discussing survey findings, please contact:

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Practical Implications

As financial institutions and their boards begin to address uncertainty in the environment including the pandemic, interest rate cuts, potential credit losses, and social issues, establishing a principled philosophy may be beneficial:

- Workforce and compensation actions must continue to support the institution's business strategy, pay philosophy, and culture.
- Pay and performance must still align. This is especially important as shareholders consider reduced shareholder value from depressed stock prices and potentially lower dividends as credit losses are realized.
- There needs to be greater sensitivity regarding pay equity and pay opportunity. There is growing unrest for disparities and the lack of progress. Now is not the time to enact workforce and pay actions that may be perceived as having winners and losers.
- Compensation decisions must include business judgement. Proxy advisor guidelines should be considered but not limit the board from implementing measures that are vital to long-term success.
- Continued dialogue with shareholders and appropriate disclosure is vital. Any material changes should be communicated early, and clearly explain the rationale for the modifications.

Key Highlights

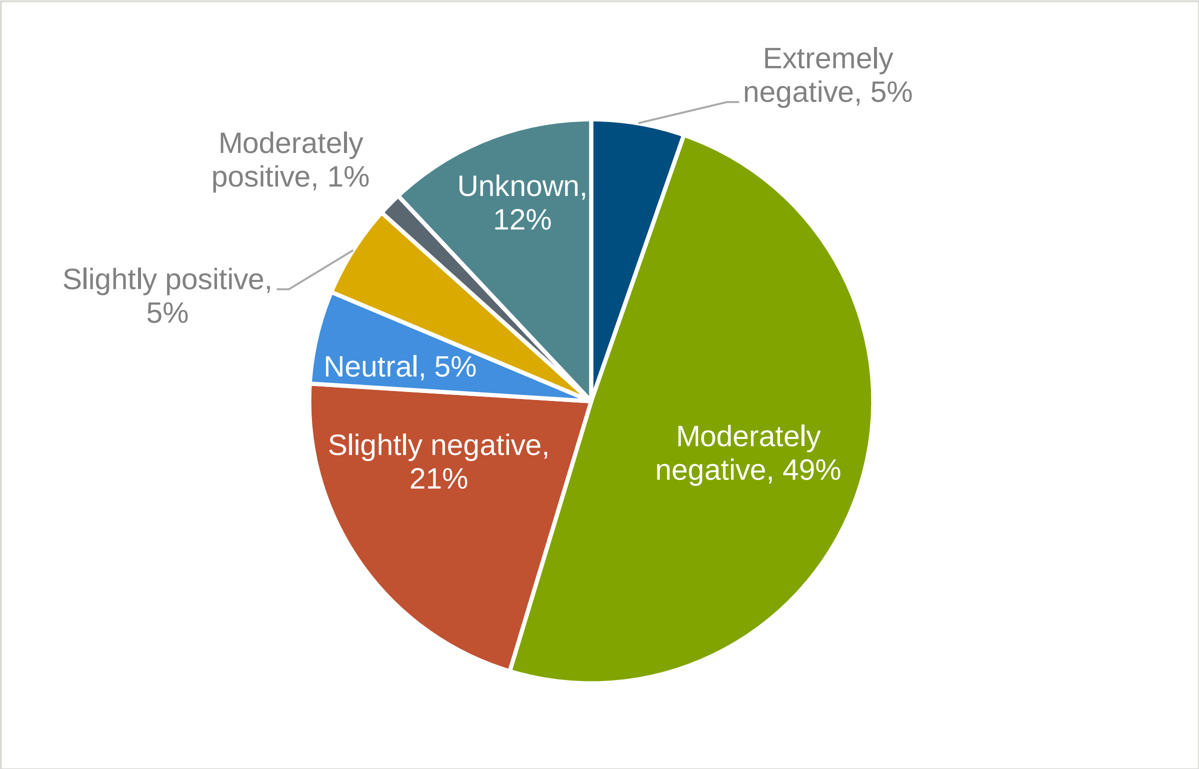
- COVID-19 has adversely impacted financial performance for most respondents, with 70% citing a slightly negative (< 15%) or moderately negative (15% - 49%) impact.
- Financial institutions have been more conservative with workforce and compensation actions than other industries in part because as essential businesses they have remained open.
- Hiring freezes are the most commonly reported workforce action, which is consistent with the broader industry findings. However, many financial institutions also reported providing bonuses and hazard pay for select key employees.
- Most financial institution respondents have not made changes to incentive plan performance goals (63%), which is consistent with the all industry findings. Similarly the vast majority of respondents report not changing incentive plan metrics (92%).
- Among respondents able to provide forecasts, most expect below-target or near target payouts for incentive cycles ending in 2020; however there is greater uncertainty for long-term incentive outcomes.
- More than 60% of respondents have not yet discussed the possible use of discretion for incentive cycles ending in 2020.

Key Highlights (Continued)

- Half (50%) of respondents made routine base pay adjustments prior to COVID-19; in contrast to the broader industry survey, only 3% have temporarily reduced executive salaries compared to 19% in the all industry survey. Similarly, only 7% reported freezing salaries for executives compared to 16% in the all industry survey.
- Salary cuts below the executive level is not prevalent (1%); for hourly employees a variety of pay actions were reported including pay increases (23%).
- 67% of respondents have not made or contemplated changes to incentive plan award opportunities and designs or retirement programs.
- Slightly less than half of respondents that previously set non-employee director pay are undecided on whether to make any changes in response to COVID-19. Only 6% of respondents will reduce pay or roll back planned increase for directors.

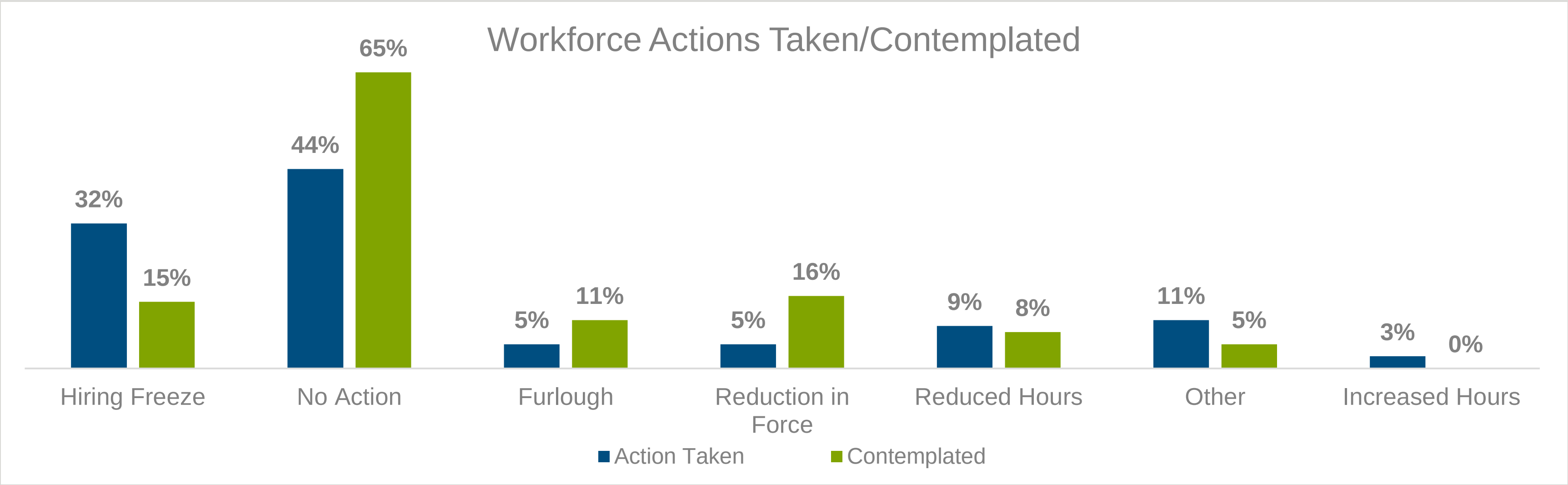
COVID-19 Perceived Financial Impact

- 70% of financial institutions cite a moderate or slightly negative financial impact from the pandemic, while only 5% cite a positive impact. This mirrors the general industry results.
  - The perceived “degree of impact” to institutions financial results was defined as 50%+ for extreme, 15% - 49% for moderate, and <15% for slight.
  - Only 6% of respondents cited a moderately or slightly positive impact; and no institutions reported an extremely positive impact.



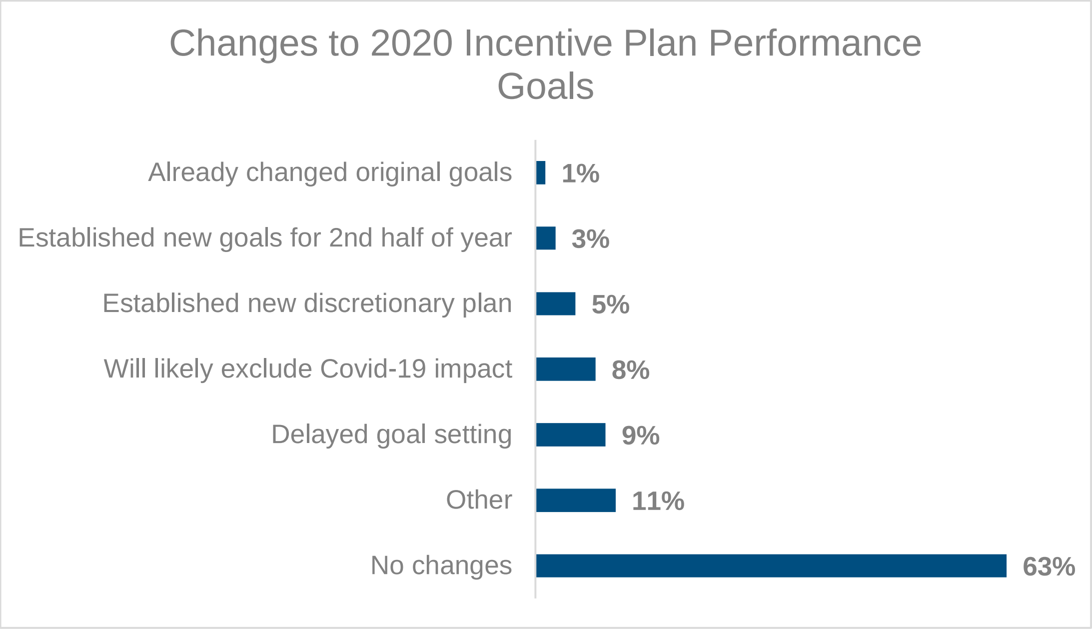
Workforce Actions Taken/Contemplated

- The results of this poll are consistent with earlier results from April. Financial institutions have been cautious with workforce actions, with 44% reporting having taken no action and 65% not considering taking actions.
- For those institutions that have taken workforce actions, hiring freezes are most common (32%). Other actions include: reduction in hours (9%), furloughs (5%), and reductions in force (5%).
- Reductions in force (16%) and furloughs (11%) are the most common future workforce actions being considered by survey respondents.
- “Other” actions included bonuses for select frontline workers, split shifts, and salary freezes.



Changes to 2020 Incentive Plan Goal-Setting

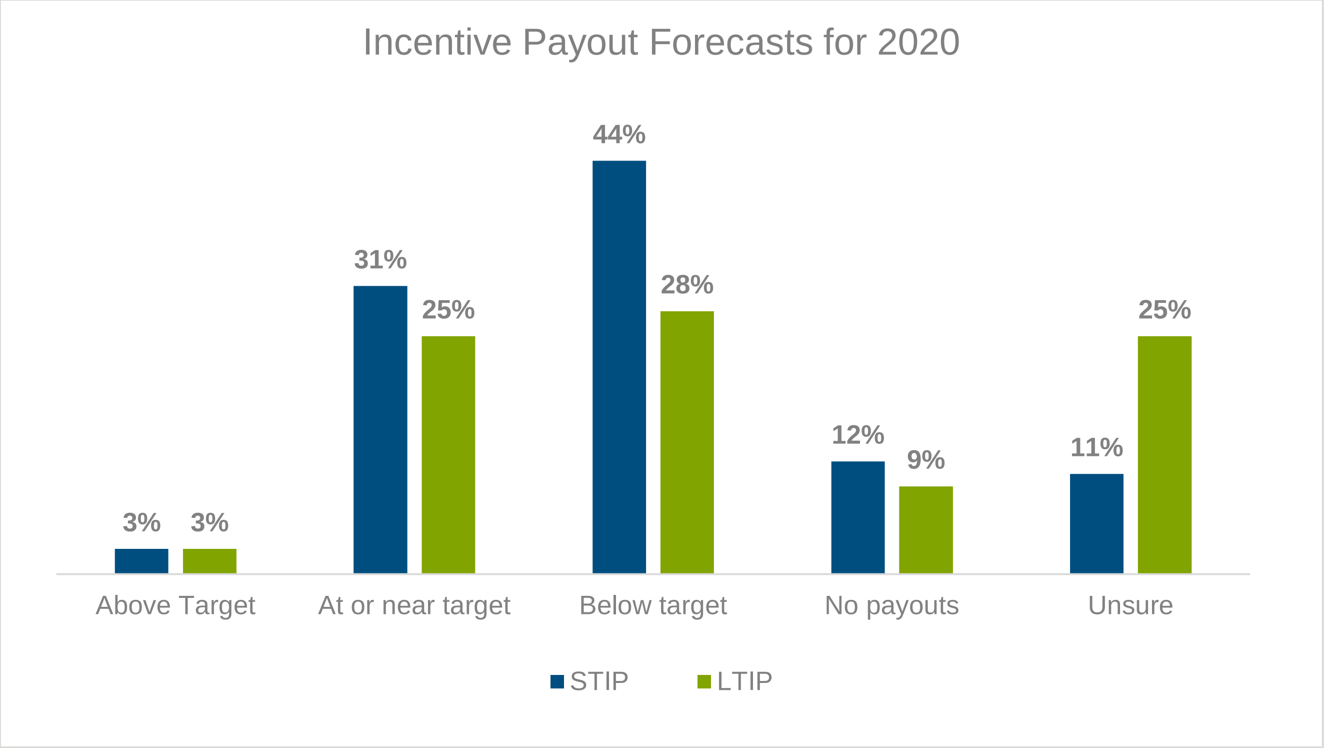
- Similar to other industries, most financial institutions have not yet made changes to 2020 incentive plan goals.
  - 9% have delayed goal-setting and only 1% have already changed original goals.
  - Another 8% have agreed to consider excluding the COVID-19 impact when evaluating year-end performance results.
  - “Other” responses include waiting until later in the year, considering adjustments, and considering discretion.



- The majority of financial institutions (92%) have not changed performance metrics or ranges, this is consistent with the all industry survey. A small percentage (8%) reported adding relative metrics or non-financial metrics.

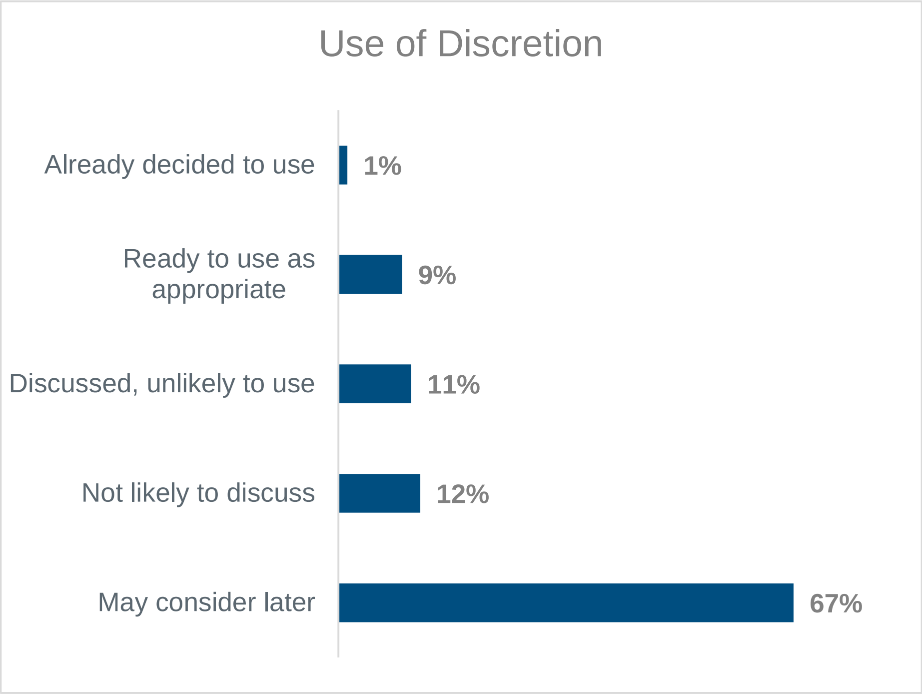
2020 Incentive Award Forecasts

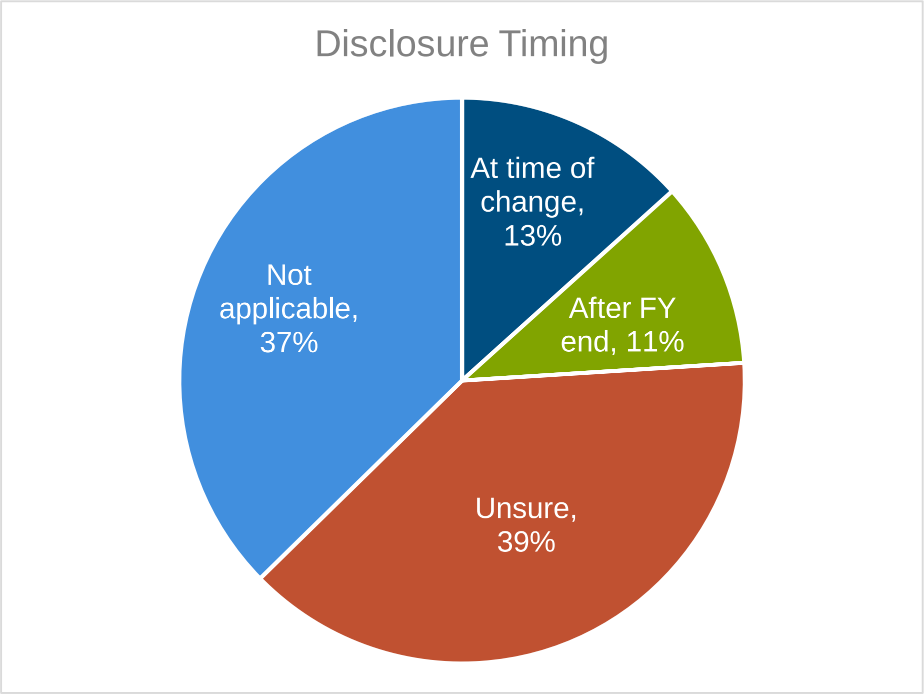
- Among financial institutions able to forecast results, most expect at or below-target for short-term incentive plan (STIP) and long-term incentive (LTIP) cycles ending in 2020.
- Similar to the all industry survey, uncertainty with award funding outcomes was higher for LTIP cycles (25% of respondents responded with “unsure”) than for STIP (11%).



Use and Magnitude of Discretion and Disclosure Timing

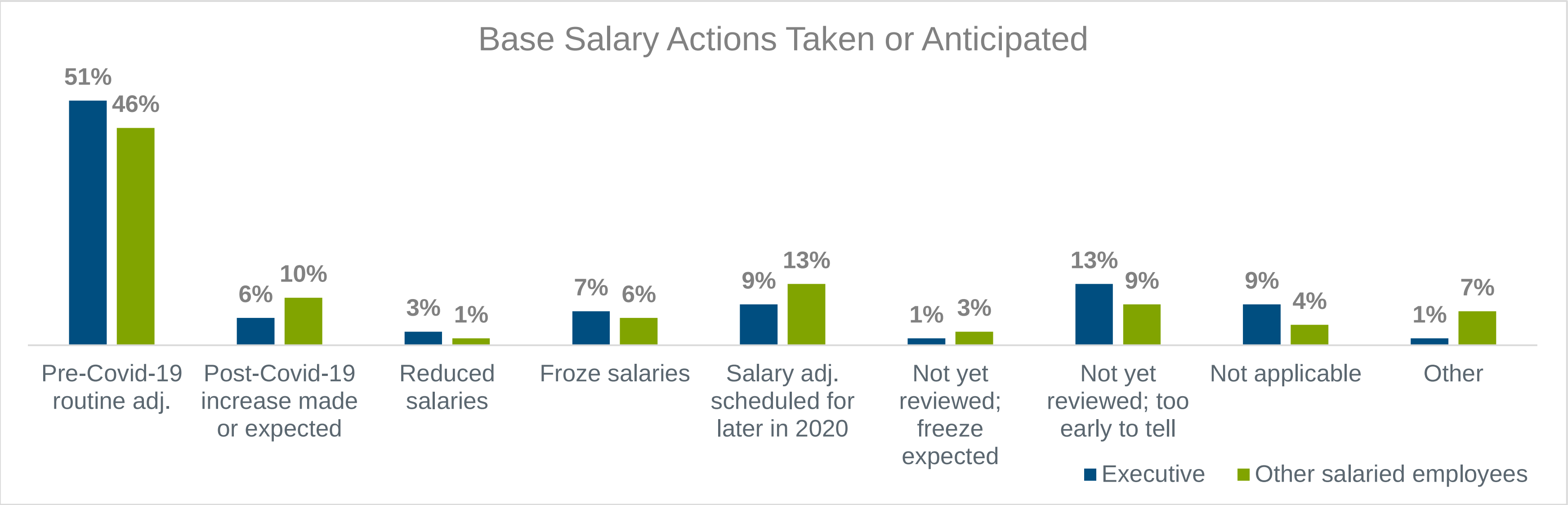
- The majority of financial institutions reporting have not yet discussed the use of discretion for incentive award cycles ending in 2020.
  - 67% may consider applying discretion later, while 23% are unlikely to either discuss or use.
- For those financial institutions with disclosure requirements, most respondents (39%) are unsure of when they would disclose any changes to incentive plan goals, with the remainder evenly balanced between real-time and delayed (after fiscal year end) disclosure.





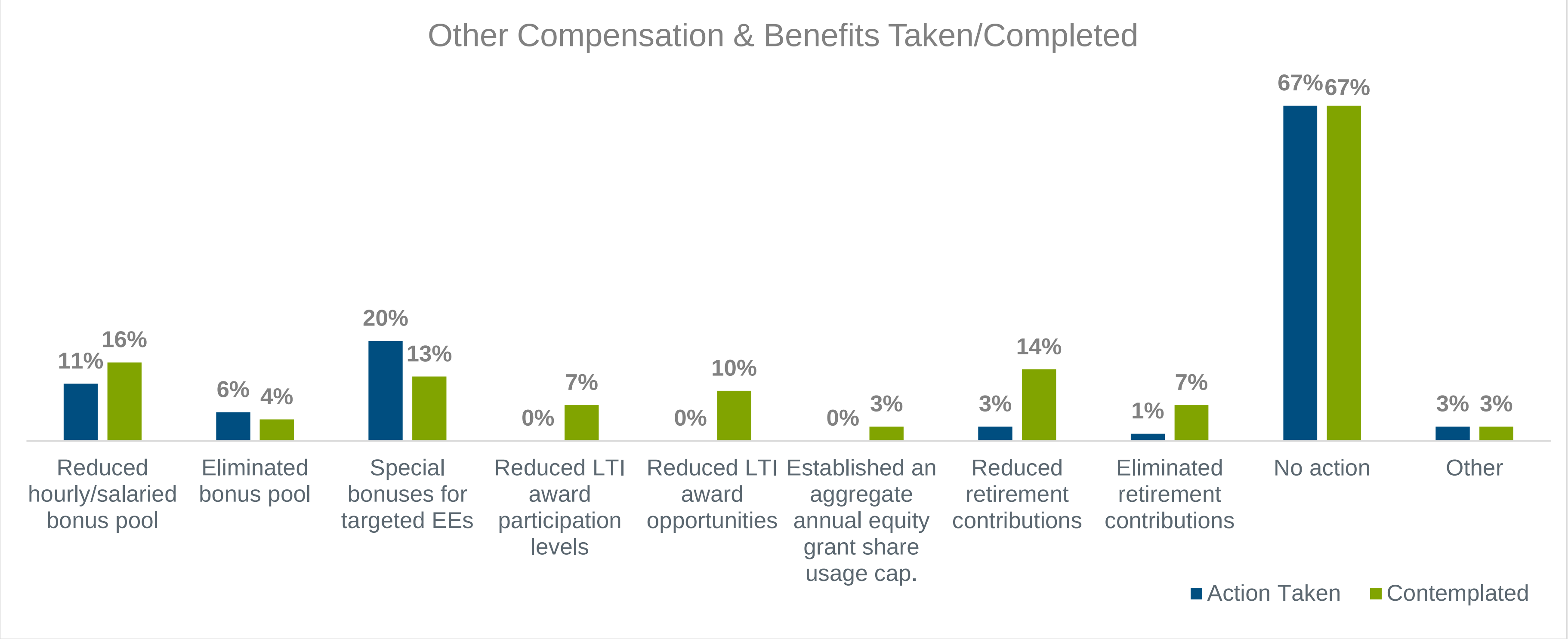
Base Salary Actions

- Approximately 50% of financial institution respondents made base salary adjustments before the pandemic; respondents reported limited temporary salary cuts and freezes at executive and salaried employee levels.
- Close to 10% of respondents provided or are expected to provide post-COVID-19 increases. Another 13% have salary adjustments scheduled for later in 2020.
- For hourly employees, 23% increased, 20% made no adjustment, and 7% froze hourly rates. 21% provided temporary increases to a subset of targeted employees in customer-facing or other critical roles (“hazard” pay).



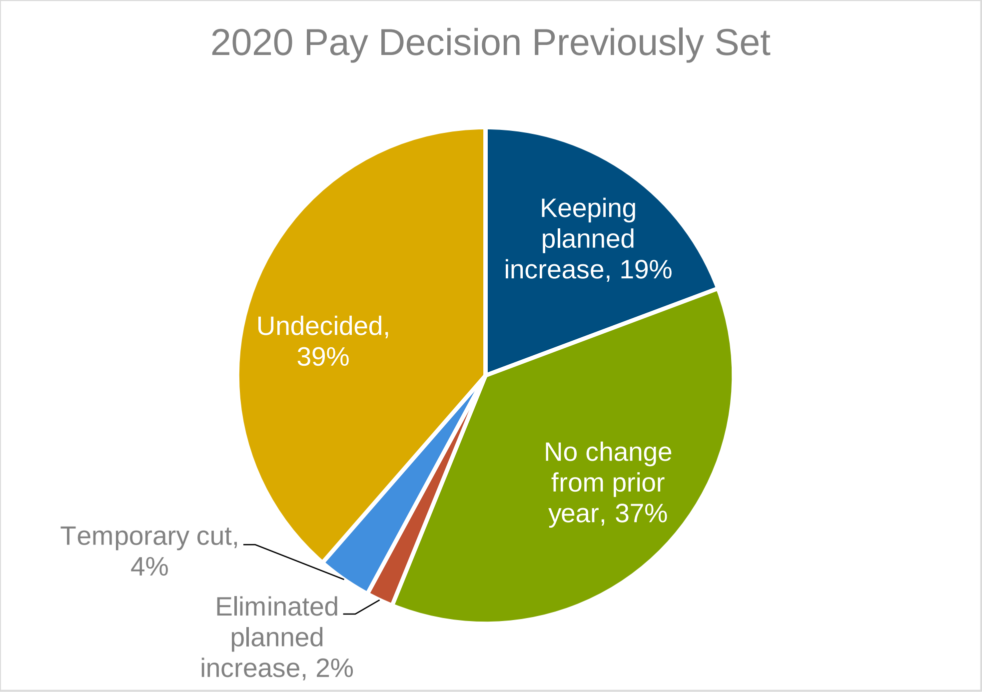
Other Compensation & Benefits Actions Taken/Contemplated

- Most respondents have not made or contemplated changes to incentive plan award opportunities and designs or retirement programs.
  - Among those taking action, special bonuses for targeted employees groups (such as “hazard” pay) and reductions to or elimination of bonus pools are the most common.
- Prevalence of actions taken was similar to Pearl Meyer’s early April survey, with more participants in the current survey reporting no other actions taken or contemplated.



Non-Employee Director Compensation Actions

- Among respondents that previously set director pay for 2020, 39% have not yet decided whether to make any changes.
  - 19% will keep previously approved increases and 37% report no changes from the previous year.
  - Director pay cuts are not common. Only 6% of participants indicated that they will reduce pay or roll back a planned increase. When applicable, director pay cuts typically apply to board cash retainers only.
- 45% of respondents that did not previously set director pay are undecided as to whether to make any changes or plan to make no changes.

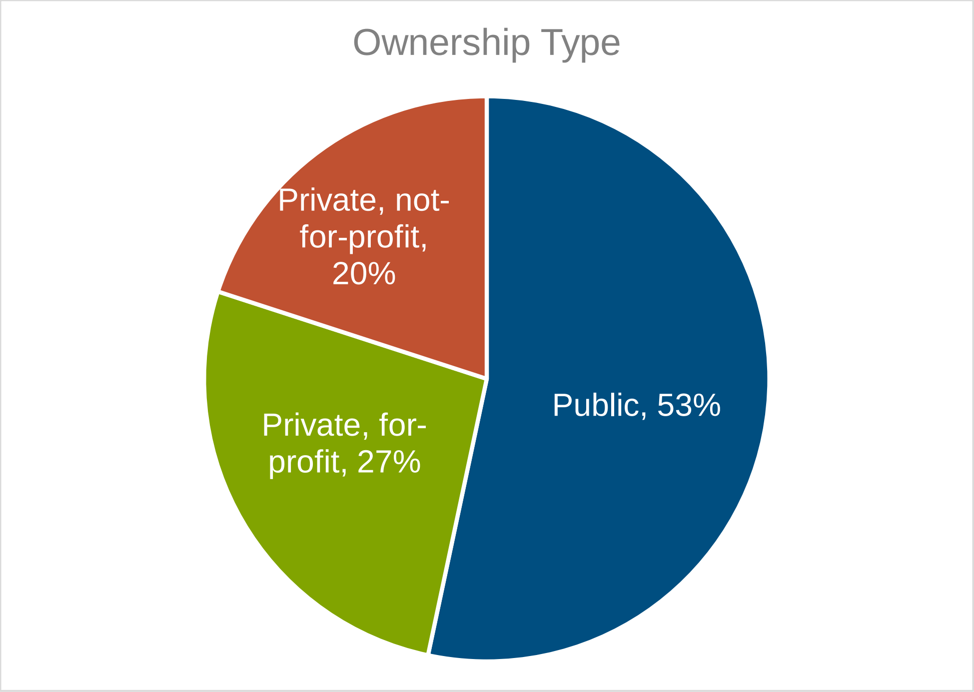


Appendix

Survey Demographics

Participant Demographics

- 75 financial institutions
  - 40 publicly traded companies
  - 20 privately held, for-profit
  - 15 privately held, not-for-profit



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, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.

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