Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

Non-Employee Director Pay Practices at Financial Institutions

Executive Summary

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Introduction

Pearl Meyer's "On Point: Non-Employee Director Pay Practices" survey provides real-time insights on the latest trends in non-employee director (NED) compensation practices and potential responses to increased external scrutiny. This online survey was conducted in March and April of 2019, with participation from 204 companies, including 55 financial institutions.

This survey addresses a variety of topics relating to NED compensation, including: time commitments and supplemental pay, NED pay-setting process and compensation philosophy, equity grant practices, and public company responses to enhanced external scrutiny on director compensation. These survey findings will prove useful to any financial institutions looking to evaluate their NED pay program, and understand how practices in this industry differ from others.

A note on methodology: throughout this summary, "other industries" represents all non-financial institution responses to our survey.

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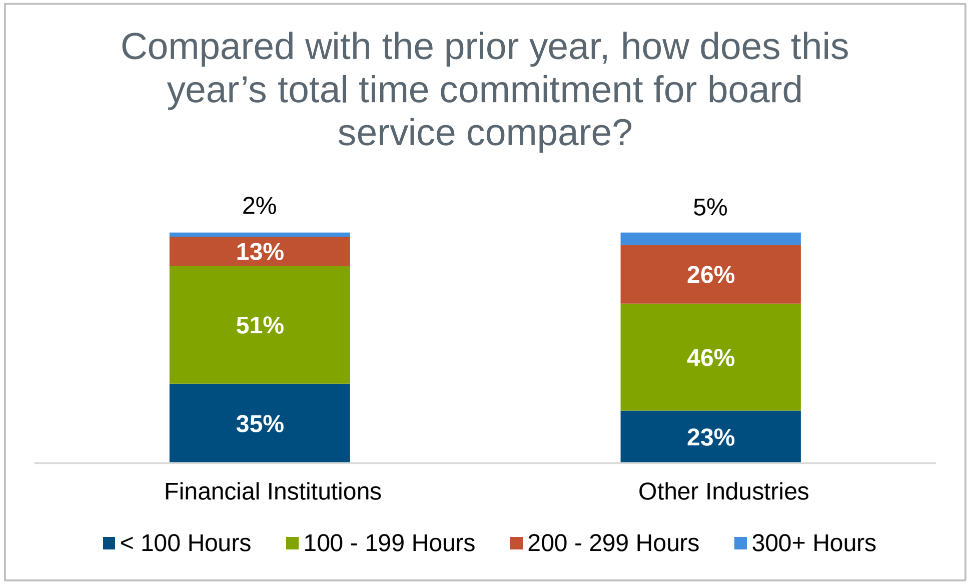
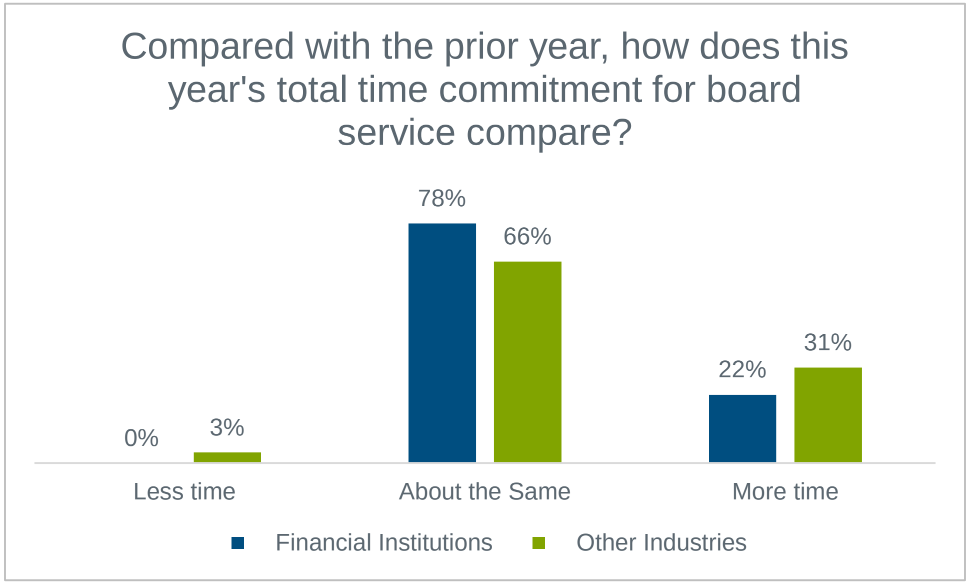
Hours Committed to Board Service



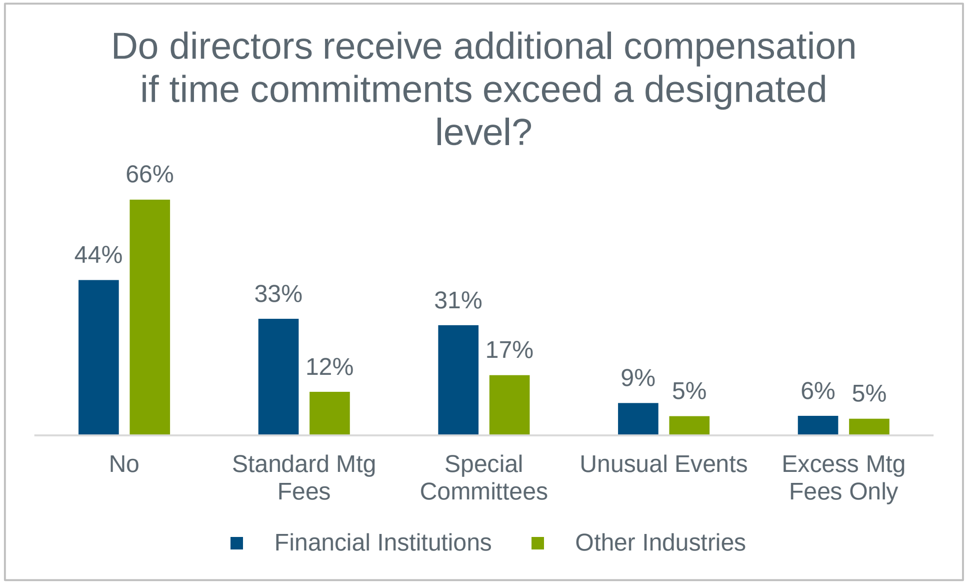
- Eighty-six percent of respondents from financial institutions reported annual time commitments of less than 200 hours, versus only 69% of respondents from other industries.
- Annual time commitments were correlated strongly with asset size—66% of directors at financial institutions with fewer than $1B in assets had annual time commitments of less than 100 hours.

Time Commitment Comparison



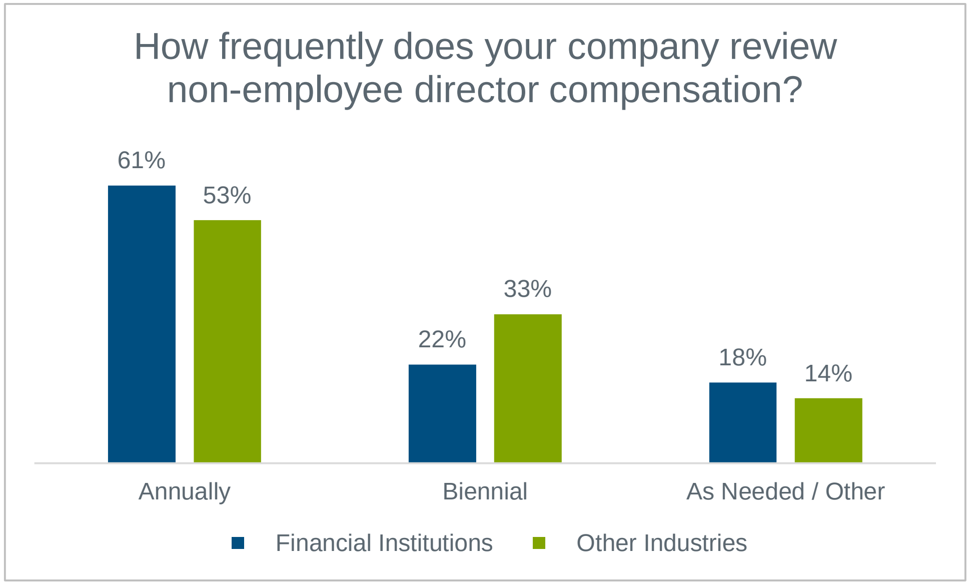
- Most respondents from financial institutions expect similar time commitments compared with the prior year.
- Only 22% of respondents from financial institutions expect higher NED time commitments this year, compared with 31% of respondents from other industries.
- Increasing time commitments at financial institutions are strongly correlated with assets—38% of directors at financial institutions with assets more than $3B expected higher time commitments this year compared to last year.

Non-Standard Duties and Pay



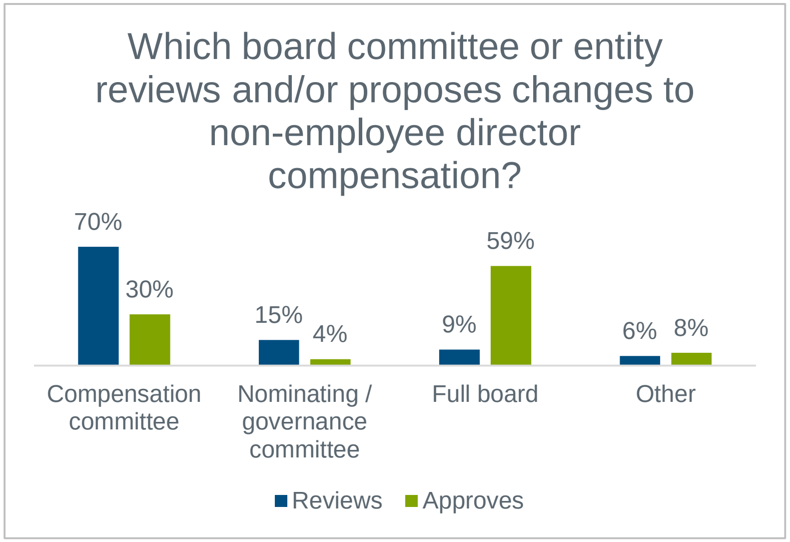
- Fifty-six percent of respondents from financial institutions provide additional pay for higher-than-expected time commitments, while only 34% of respondents do so in other industries.
- Among financial institutions, additional compensation is most common at smaller asset levels. Only 12.5% of respondents from institutions with less than $500M in assets did not provide additional pay to their directors.

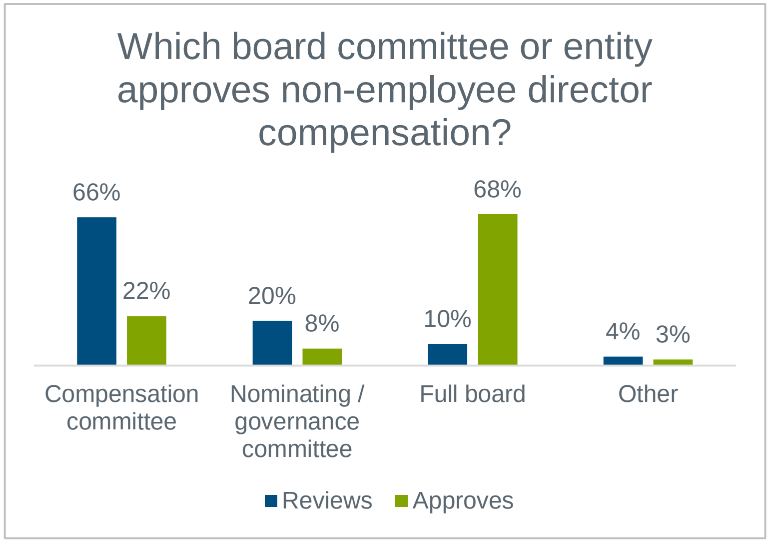
Frequency of Director Pay Review



- Financial institutions are more likely to review director pay on an annual basis.
- Twenty-nine percent of respondents from financial institutions with less than $500M in assets review director pay on an as-needed basis.

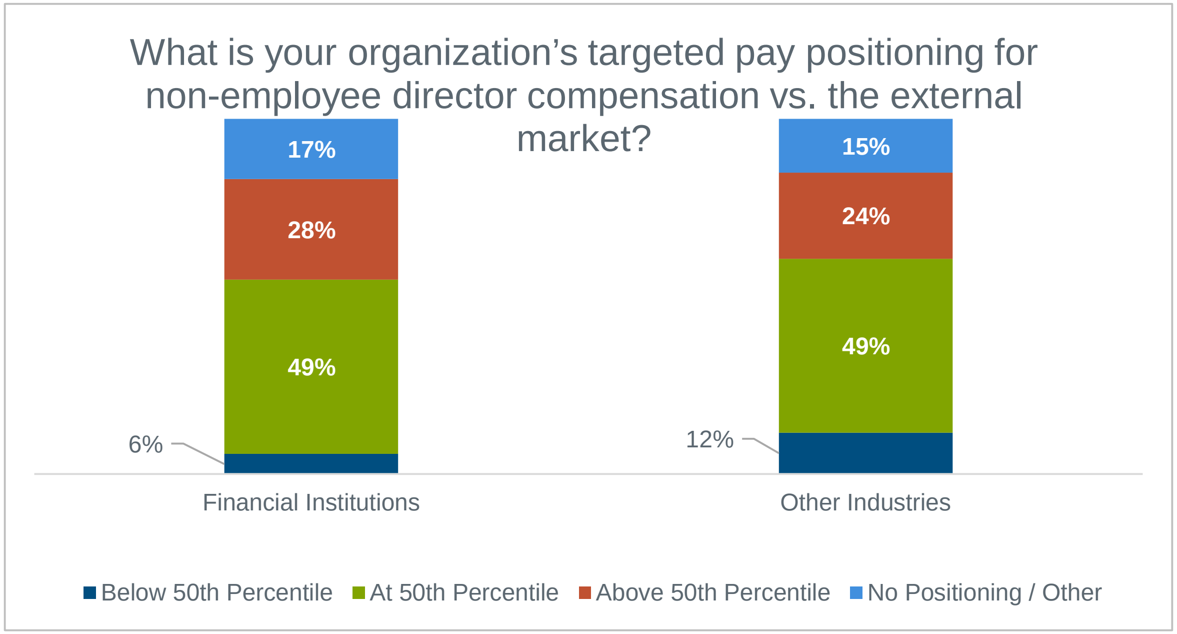
Pay Review and Approval Responsibility





- For most respondents across industries, the compensation committee is responsible for *reviewing* NED pay, while the full board *approves* actual pay levels.
- Respondents from financial institutions were more likely than those in other industries (30% vs. 22%) to have the compensation committee both review and approve NED pay.

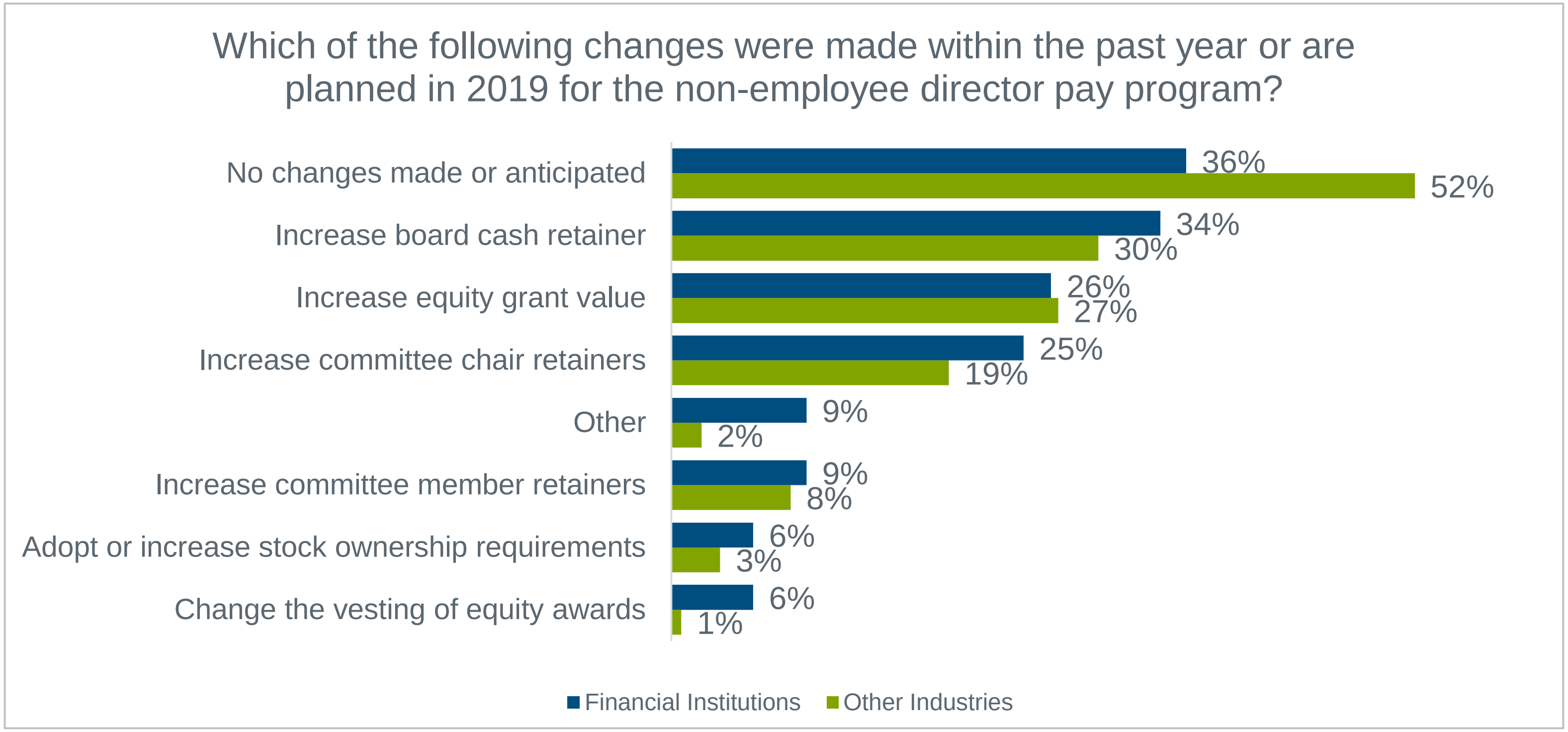
Pay Positioning and Benchmark Comparisons



	Most Important	2nd Most Important	3rd Most Important
Financial Institutions	Industry (55% of respondents)	Company Size (62% of respondents)	Geographic Location (29% of respondents)
Other Industries	Industry (38% of respondents)	Company Size (40% of respondents)	Ownership Type (23% of respondents)

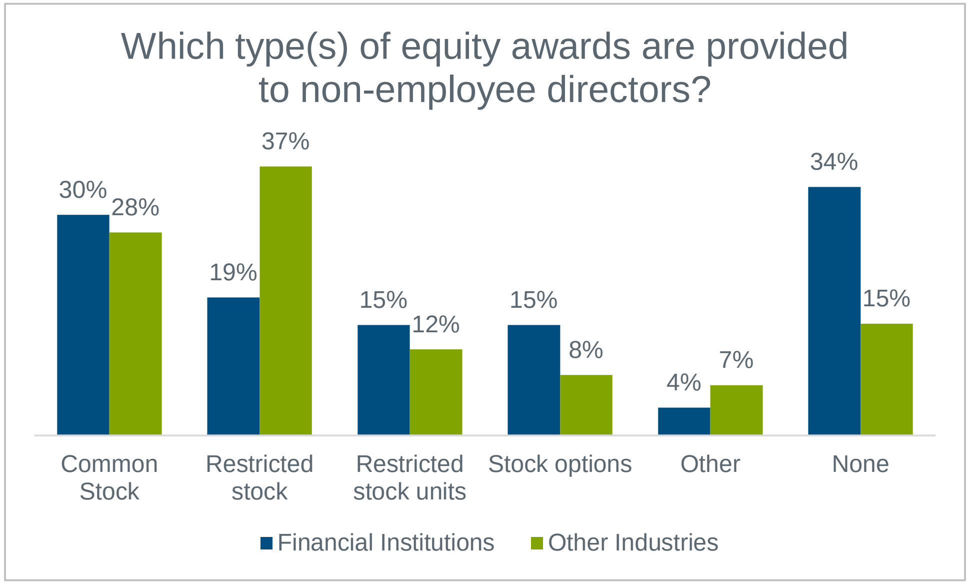
- Approximately half of respondents from financial institutions and other industries target the 50th percentile for NED pay.
- Respondents from financial institutions were significantly more concerned with ensuring alignment of industry and company size than were respondents from other industries.

Pay Program Changes



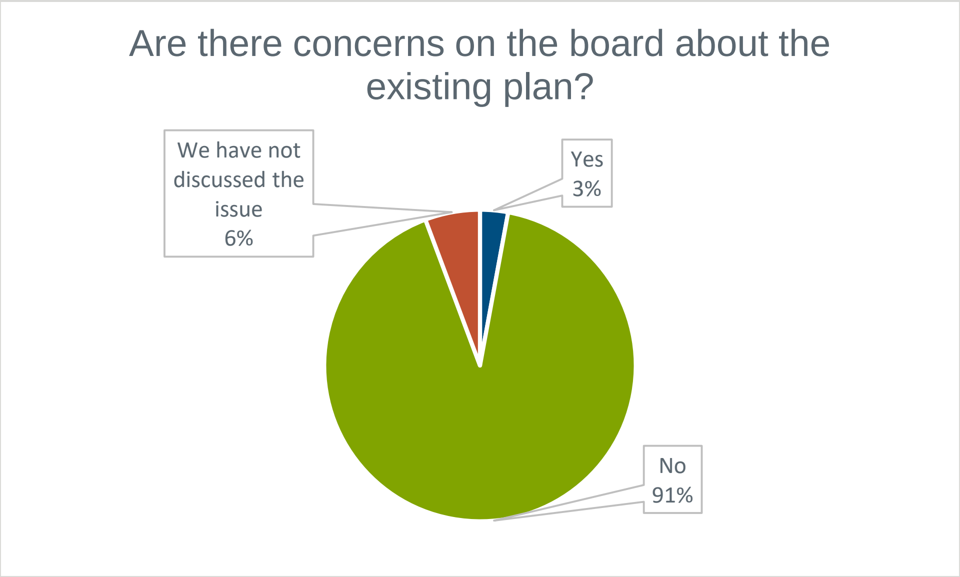
- Sixty-four percent of respondents from financial institutions have recently made, or are planning changes to the NED pay program in 2019, compared to only 48% of respondents from other industries.
- Changes that were noticeably more prevalent among financial institution respondents included: increase to the board cash retainer, increase to committee chair retainers, and changes to the vesting of equity awards.

Equity Grant Practices



- Significantly more respondents from financial institutions do not grant their NEDs any equity (34%) compared to other industries (15%).
- Seventy-one percent of respondents from financial institutions with assets under $500M reported not granting any equity, compared to only 19% of respondents from financial institutions with assets of $3B or more.
- Respondents from financial institutions were less likely to grant a fixed target value (36% versus 72%) and more likely to grant a fixed number of shares (17% versus 6.3%) than those from other industries.

Financial Institutions’ Responses to Enhanced External Scrutiny of NED Pay

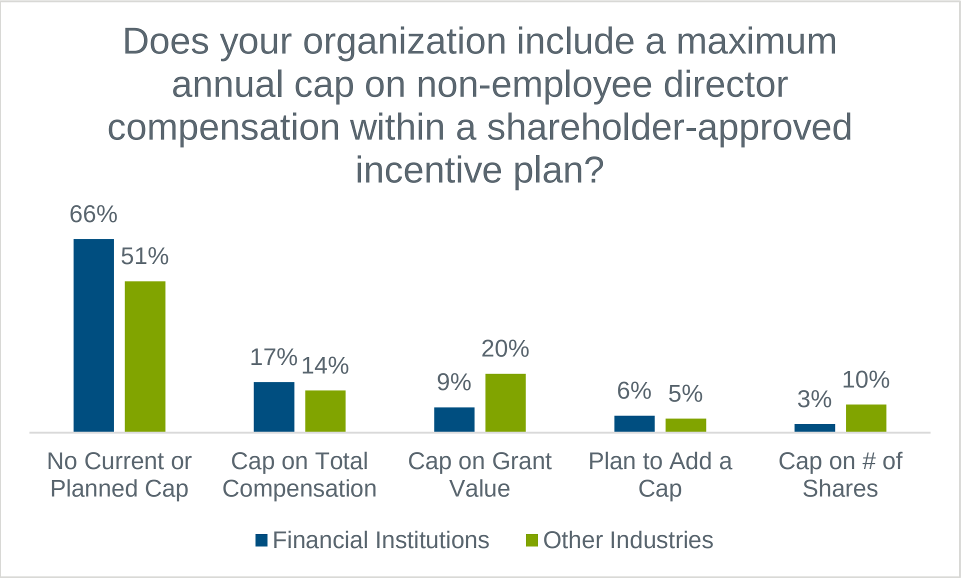


- Enhanced external scrutiny of NED pay does not concern most respondents (91%).
- No respondents from financial institutions with assets less than $3B reported concern about their existing plan.

Changes in Proxy Narrative

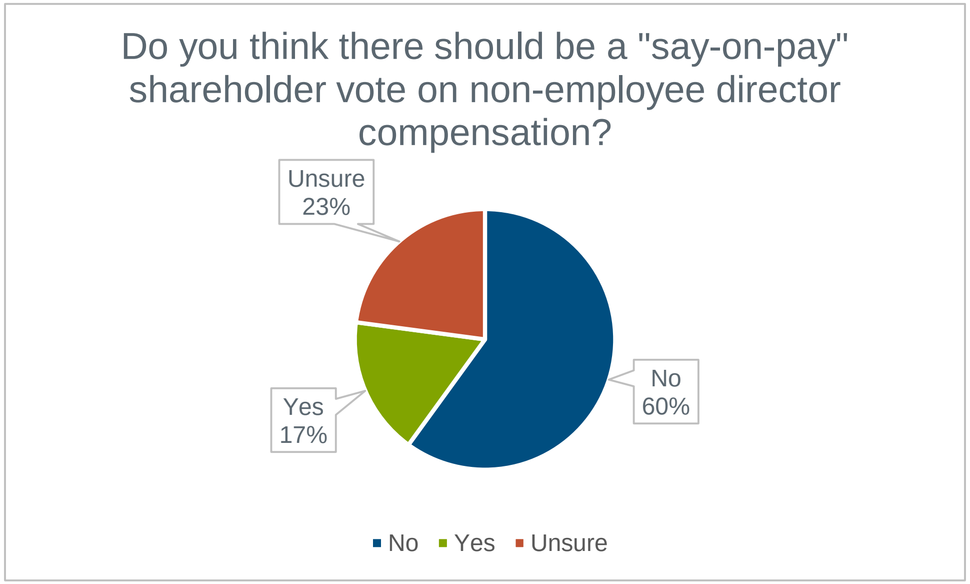
- Just 6% of financial institutions respondents have made or are planning proxy disclosure changes for NED pay versus 21% of respondents from other industries.

NED Pay Caps



- Only 34% of respondents from financial institutions had established NED pay caps within shareholder-approved incentive plans, versus 49% of respondents from other industries.

Say-on-Pay for Directors?



- Most respondents from financial institutions (60%) do not favor a “say-on-NED-pay” requirement, while 17% would support advisory votes, and 23% are undecided on their preference.
- The lack of support is consistent with broader market sentiment.

Summary Observations

- Financial institutions are more likely than other industries to:
  - View industry, size, and geographic location as the most important factors for identifying peers;
  - Review NED pay on an annual basis;
  - Have NED pay approved by the compensation committee;
  - Make changes to NED pay programs;
  - Offer additional pay for higher-than-expected time commitments; and
  - Target pay above the 50th percentile of peers.

- Financial institutions are less likely than other industries to:
  - See a year-over-year increase in NED time commitments;
  - Grant equity as part of their NED pay program;
  - Make changes to proxy disclosure around NED pay programs; and
  - Have pay caps within shareholder approved plans.

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