Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

Looking Ahead to Executive Pay Practices in 2024
Banking Edition

Executive Summary

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Introduction

Pearl Meyer's "Looking Ahead to Executive Pay Practices" is an annual, online survey and valuable compensation planning tool. This year's survey was conducted in August and September of 2023, with total participation of 69 financial services companies, including 33 publicly traded and 36 private banks and credit unions. As with prior surveys, responses are broken out separately by asset size.

This year's survey addresses key topics associated with the current environment, including the expanding role for compensation committees with broader human capital oversight, actions taken to address incentive plan goal-setting challenges, and the potential impact of recent regulatory developments on executive pay practices at publicly traded companies. As with prior surveys, it also covers subjects such as compensation philosophy, expected pay outcomes for Fiscal 2023, projected salary increase levels for 2024, recent or anticipated incentive plan design changes and use of discretion for cycles ending in 2023, and long-term incentive award prevalence and participation.

We believe this information will serve as a useful tool as your organization prepares for year-end pay determinations and Fiscal 2024 compensation planning.

Please feel free to contact us with any questions.

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Key Highlights

After a tumultuous first quarter, many banks faced significant uncertainty surrounding the achievement of annual objectives. As the year approaches an end, about half of respondents expect performance at or above the prior year's performance. However, accruals relative to budget for short-term incentives ("STI") are averaging 87% of budget, with larger organizations more negatively impacted than smaller ones. As a result, nearly half of respondents have either applied positive discretion or are taking a "wait and see" approach at year end to their STI plans.

Similar to prior surveys, most respondents target executive compensation at or near the market 50th percentile, especially in the case of publicly traded companies. While most respondents did not recently change or anticipate changes to their executive compensation philosophy, nearly 28% increased or plan to increase competitive positioning for one or more pay components, suggesting that labor markets remain somewhat tight.

Compensation committees continue to address a variety of topics beyond executive and non-employee director compensation, with many respondents starting to become more involved with broader human capital oversight, and 9% of respondents having already taken on any additional oversight responsibilities.

Salary increase projections for 2024 continue to be elevated compared to historical norms. Across the entire sample, 50th percentile or median increase projections equal 4.0% for CEOs and 3.8%-4.0% for other senior executives and employees.

Key Highlights (cont.)

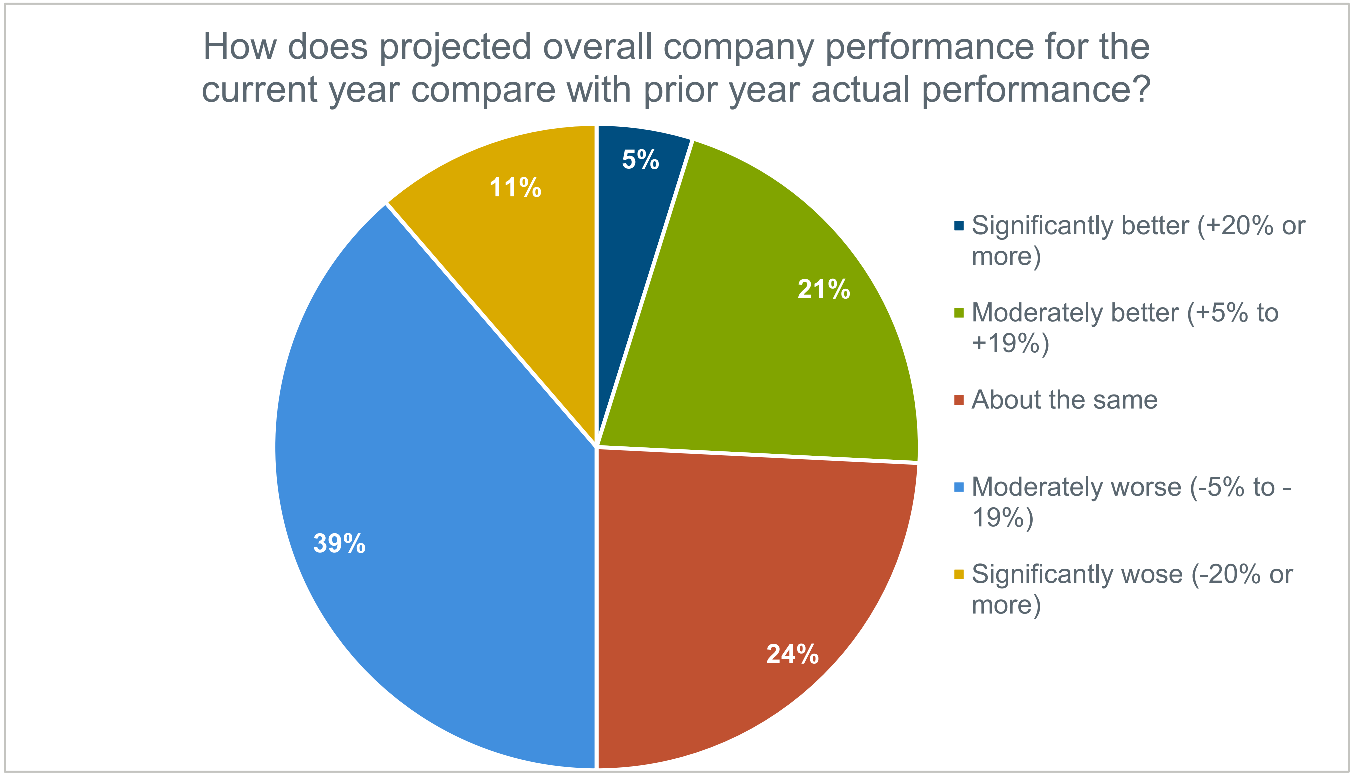
More than 40% of all respondents took one or more actions this year to address incentive plan goal-setting challenges, including delaying the timing for finalizing goals (13%), widening performance range spreads, and adding or increasing the emphasis on relative (vs. absolute) or qualitative (vs. quantitative) measures. About 40% of all respondents described current-year incentive plan performance goals as having similar degrees of stretch compared with 2022, with nearly 32% citing more aggressive hurdles.

About half of all respondents anticipate making changes to short-term incentive design and 30% anticipate making changes to long-term incentive designs for 2024. Among those that do, the most commonly cited change is to add new performance metrics, but respondents are also considering adding strategic, new objective, subjective, and relative performance metrics. Compared with prior surveys, anticipated prevalence of adding new environmental, social, and/or governance (ESG) metrics within short-term incentive plans declined, perhaps in response to the recent Supreme Court ruling against race-based affirmative action admission practices at certain universities and the growing ESG backlash.

Most public company respondents state that the new "pay versus performance" disclosure requirement has not had a significant impact on executive compensation designs or practices, with many viewing it as a compliance exercise. While most public company respondents plan to exactly mirror the new requirements within their new or revised clawback policy, 35% either have or expect to establish a broader policy (e.g., in terms of covered participants and/or recoupment triggers) or maintain multiple plans. These and other key survey findings are addressed in more detail on the following pages.

Overall Performance Projections vs. Prior Year

- A wide variety of financial performance is anticipated for FY 2023 as compared to FY 2022, with 26% of respondents expecting year-over-year (YOY) increases, 24% expecting results in line with last year, and 50% expecting moderately worse or significantly worse results YOY.
  - Prevalence of anticipated YOY improvement is higher among smaller organizations



Excludes non-responses

Targeted Executive Pay Positioning

- Nearly half of all respondents target executive compensation at the market 50th percentile, with prevalence higher for base salary than variable pay (STI and LTI).
  - Larger organizations are much more likely to target executive pay at the 50th percentile (or median) or between the 50th and 75th percentile

Pay Component	Targeted Pay Positioning (% of All Respondents)			
	Below 50th Percentile	At 50th Percentile	Above 50th Percentile	No Positioning
Base Salary	14%	48%	35%	3%
Short-Term Incentives (STI)	12%	44%	29%	16%
Long-Term Incentives (LTI)	13%	33%	23%	30%
Total Direct Compensation	13%	39%	41%	7%

- While most respondents have not changed (or plan to change) their executive compensation philosophy, 28% increased targeted pay positioning vs. market and 10% increased the emphasis on variable pay (STI and/or LTI).

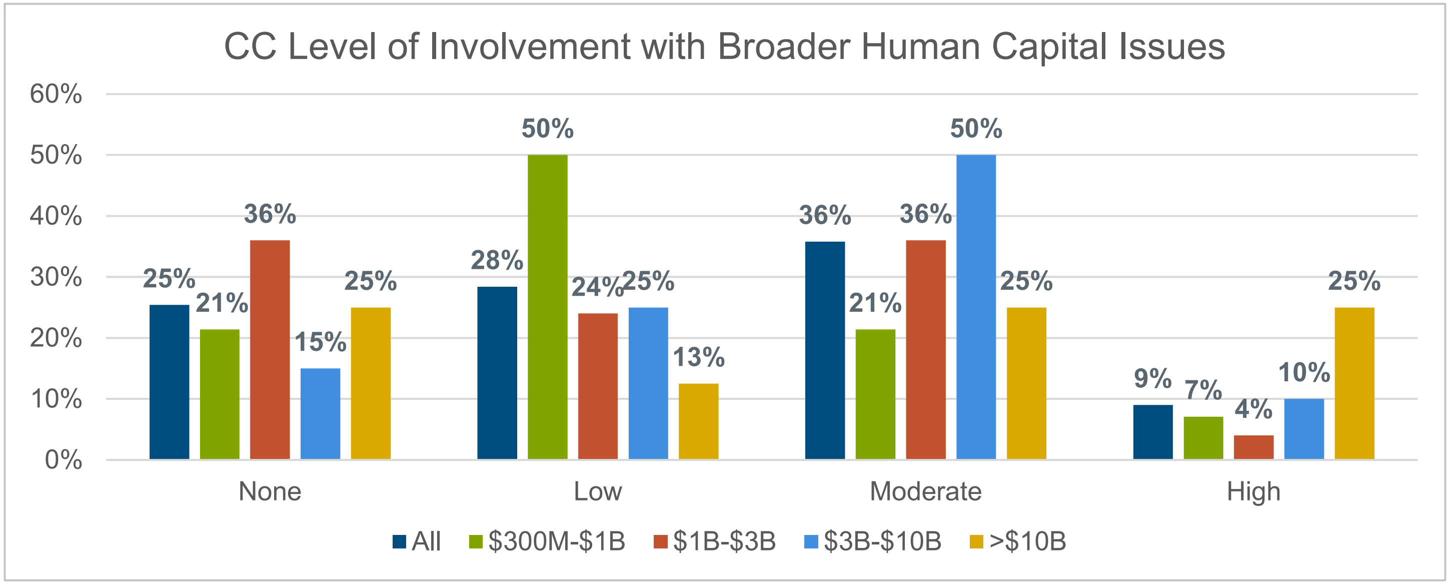
Compensation Committee Oversight Roles

- In addition to executive pay, most compensation committees are also responsible for executive succession planning across all asset sizes.
  - Approximately 9% of all respondents increased compensation committee oversight within the past year, typically as it relates to DE&I and other broader human capital-related topics
  - Compensation committee oversight roles were viewed more broadly by outside director vs. employee respondents, as were YOY increases in responsibilities
- Compensation oversight responsibilities vary by asset size, with larger organizations' compensation committees overseeing a broader range of topics.

Oversight Category	Compensation Committee Oversight Prevalence		
	All	$300M-$1B Assets	>$10B Assets
Board of Director Pay	79%	79%	88%
Executive Succession Planning	60%	50%	63%
Leadership/Talent Development	25%	14%	50%
Diversity & Inclusion (D&I)	19%	7%	50%
Employee Engagement	13%	7%	50%
Culture	13%	7%	25%

Compensation Committee Oversight Roles (cont.)

- Compensation committees at publicly traded companies are typically more involved with broader human capital issues vs. other ownership types, although very few currently have an active oversight role.
  - While most respondents have not changed or considered changing the name of the compensation committee (CC) to reflect a more active role with broader human capital oversight, 12% have or plan to do so, and 50% of organizations over $10B in assets have already done so
  - Prevalence of moderate to high involvement levels tends to correlate with company size, with active oversight reported by 25% of respondents in organizations with >$10B in assets
  - We expect many compensation committees will take a more active role going forward given the ongoing tight labor market, hybrid work arrangements for many organizations, and high levels of employee mobility, especially among younger employees.

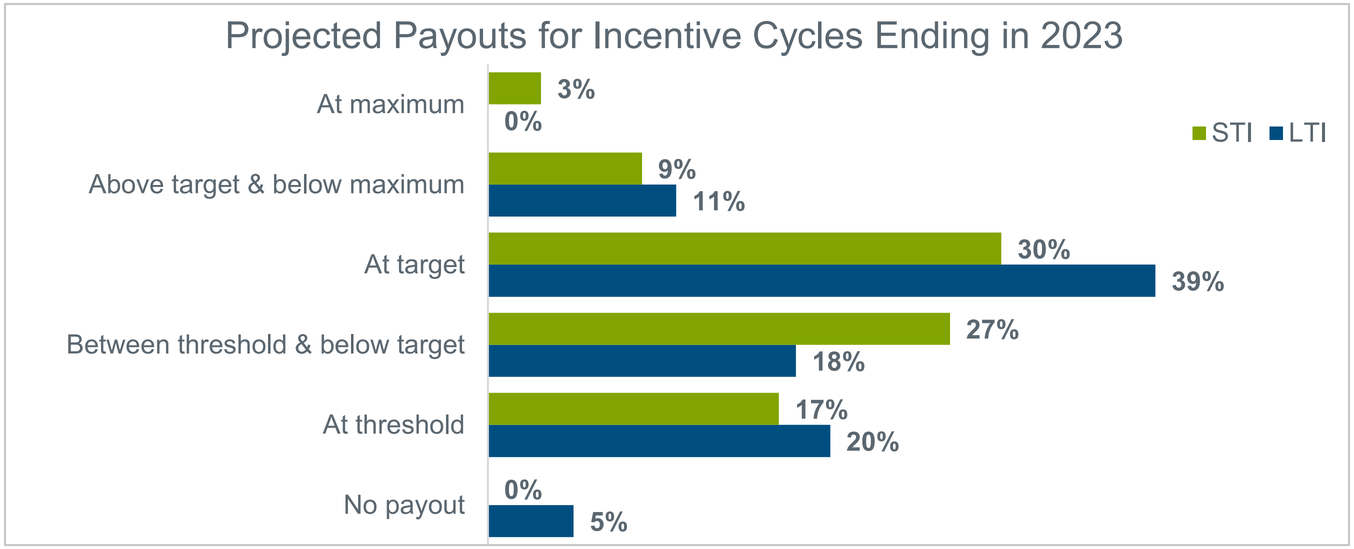


Pay Projections

- Salary increase projections for 2024 are moderating vs. 2023 but remain above longer-term historical levels, with 50th percentile overall values equal to 4.0% for executives and 3.8% for other employees.
  - 86% of all respondents expect increases for senior executives and 100% for other employees.

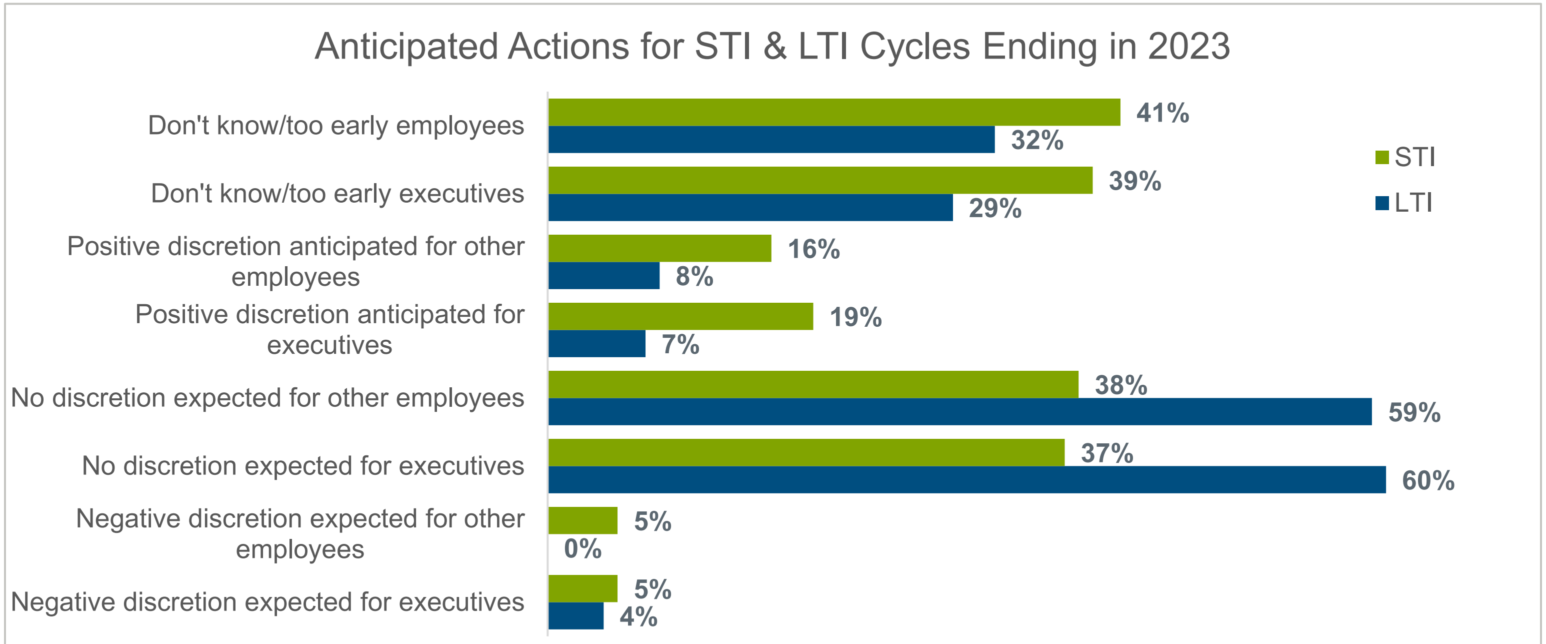
Employee Category	Average %	50th Percentile %	75th Percentile %
CEO	4.2%	**4.0%**	5.0%
CEO Direct Reports	4.1%	**4.0%**	5.0%
Other Employees	3.7%	**3.8%**	4.0%

- Less than 15% of all respondents (including those answering “don’t know”) expect payouts for incentive cycles ending in 2023 to be above target, with at least 40% forecasting payouts for STI and LTI below target.



Anticipated Use of Discretion for Incentive Cycles Ending in 2023

- While the majority do not expect to exercise discretion for LTI incentive cycles ending in 2023, 16%-19% have already applied positive discretion to STI plans and another 40% are unsure of whether discretion will be applied.
  - More larger organizations have already used positive discretion (33%) than smaller ones for STI and are less likely to consider future adjustments

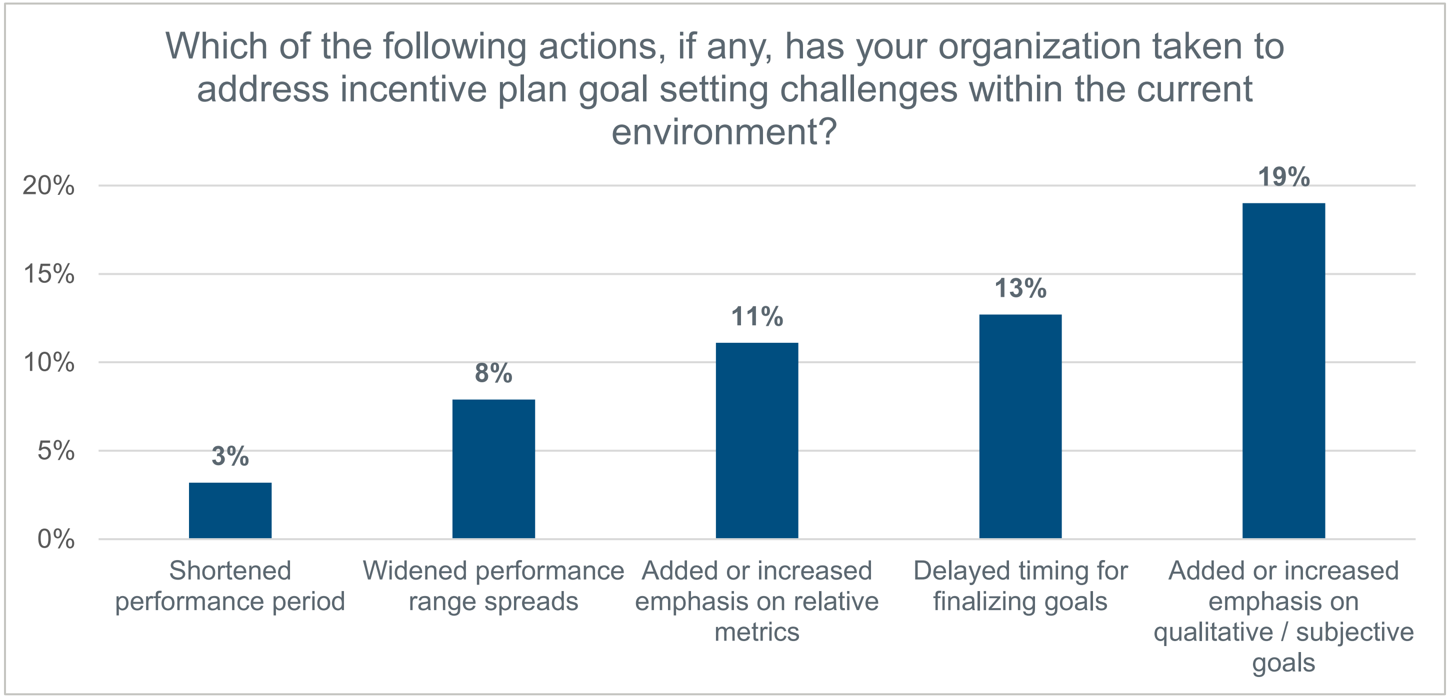


Excludes non-responses

- Among respondents anticipating adjustments, the most commonly cited potential triggers include extraordinary changes in interest rates (43%) and unanticipated transactions (19%) with a notable decline for the COVID-19 pandemic (to 3%).

Actions Taken to Address Incentive Plan Goal Setting Challenges

- More than 40% of all respondents took one or more actions to address incentive plan goal-setting challenges within the current environment, with the most commonly cited actions shown below.
  - Prevalence of companies taking action was highest for the largest organizations (50% for >$10B assets vs. 30% for $300M-$1B in assets)



- Slightly less than half of all respondents state that current performance hurdles have a similar degree of stretch vs. the prior year, with 32% using more aggressive and 5% less aggressive goals (others are uncertain or responded “not applicable”).

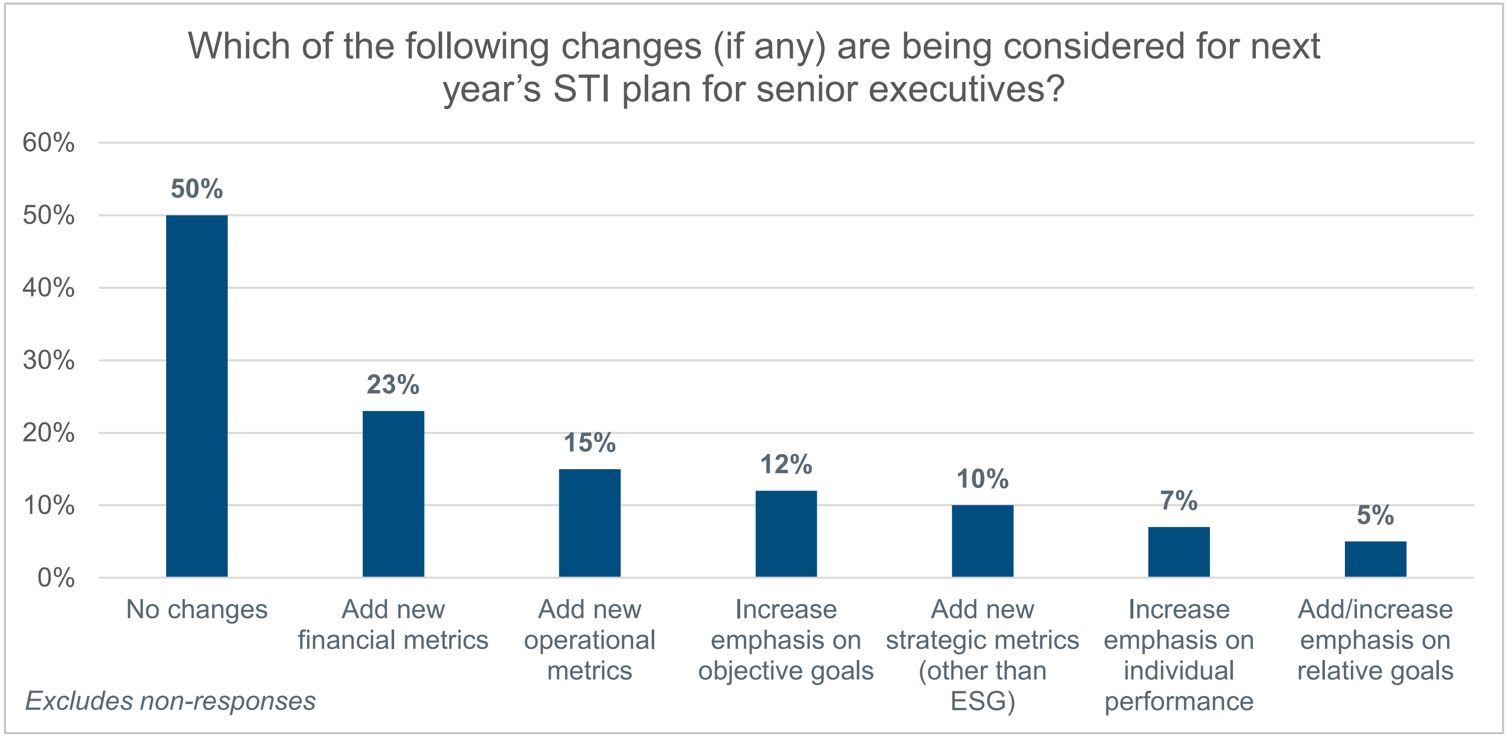
STI Performance Mix Projections for 2024

- Most respondents (67%) have formulaic STI plan designs, with pre-defined weightings for metrics and award opportunities.
- The anticipated performance mix for 2024 is very similar to 2023, with a primary emphasis on objective corporate / business unit financial goals; approximately 50% of respondents also plan to also use operational, ESG, strategic, and/or individual goals, with median weightings ranging from 10% to 25%.
  - Approximately 70% of respondents use multiple performance metric categories
  - Prevalence of ESG as a stand-alone metric remains at or near 13%, similar to last year's survey; while not explicitly stated, many other companies may include ESG-related criteria within individual or discretionary metric categories

Performance Metric Category	2024 STI Performance Mix: CEO		2024 STI Performance Mix: Direct Reports	
	Prevalence	Median Weighting (when provided)	Prevalence	Median Weighting (when provided)
Financial	92%	80%	95%	70%
Operational	34%	25%	37%	23%
ESG	13%	10%	11%	15%
Strategic	16%	25%	21%	20%
Individual	37%	20%	42%	23%
Discretionary	24%	20%	21%	20%

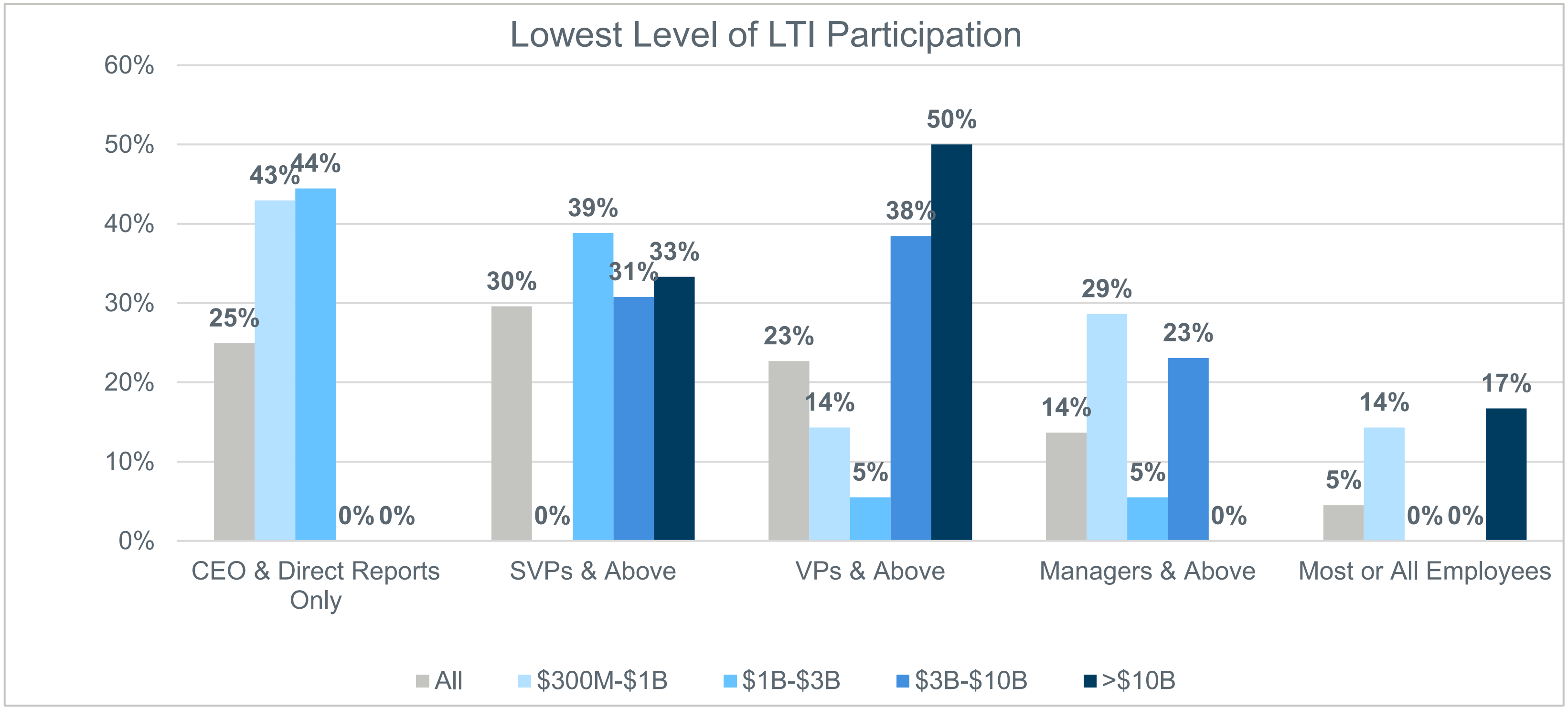
STI Plan Design Changes for 2024

- Slightly more than 50% of all respondents are considering making changes to senior executive STI designs for 2024, with the most common actions (expressed as a percentage of all responses, not just for those making changes) shown below.
  - Prevalence for adding new ESG metrics declined to 2% of all respondents
  - Prevalence of anticipated changes was highest within the smaller organizations relative to larger ones



LTI Prevalence and Participation Levels

- Last year, 20% of respondents with LTI increased participation levels and 6% decreased participation.
- Most respondents do not grant LTI below the vice president level with practices varying depending on the size of the organization.



Excludes non-responses

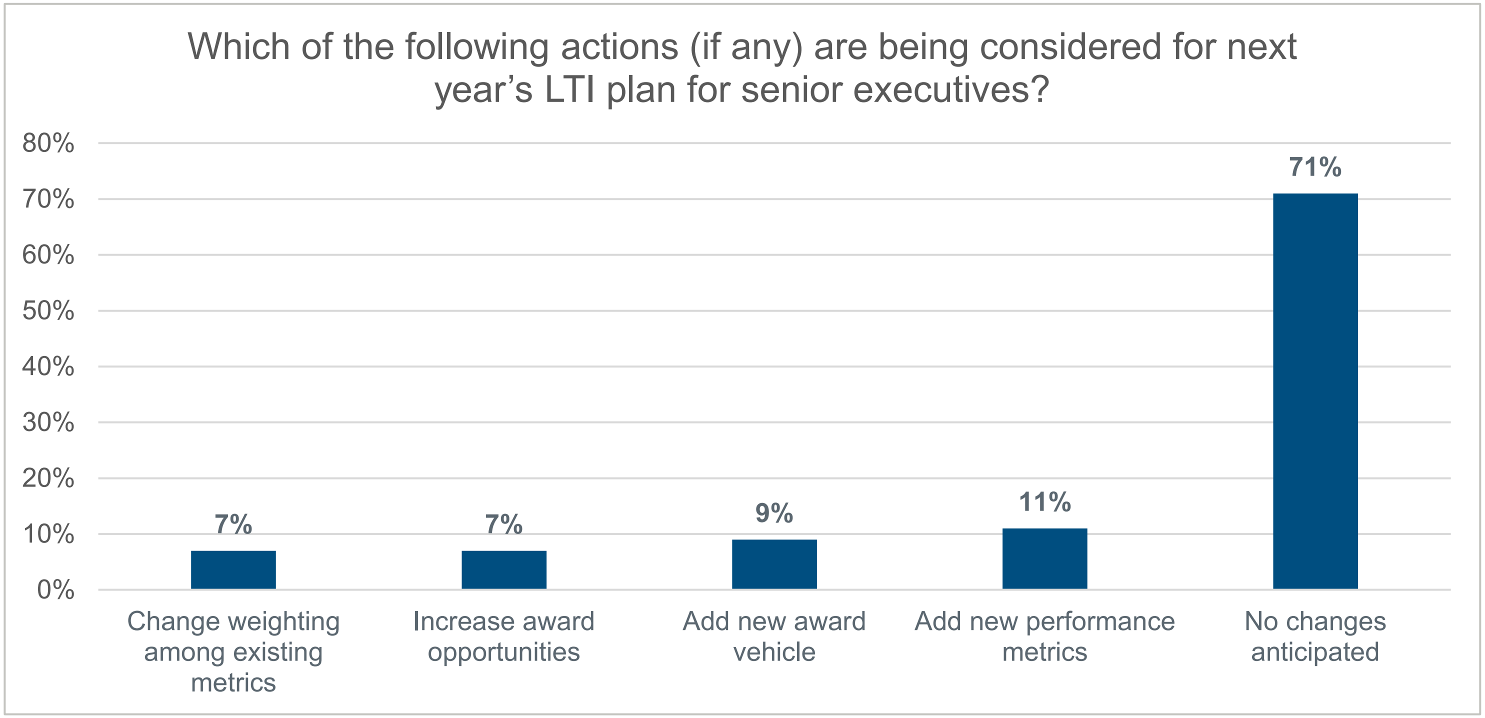
Target LTI Value Mix Projections for 2024

- Most publicly-traded respondents grant time-based and performance-based equity to executives, while private companies rely more heavily on performance-based cash (cash LTIP).
  - Most respondents expect little or no YOY change in award vehicle prevalence
  - Most (79%) express LTI award opportunities as percentages of salary; when provided
- Most larger public company respondents grant multiple types of award vehicles to senior executives and public companies vary their equity award type based on employee position.

Public Companies	2024 LTI Mix: CEO Direct Reports		2024 LTI Mix: Non-Execs	
	Prevalence	Median Weighting (when provided)	Prevalence	Median Weighting (when provided)
RS/RSUs	94%	50%	76%	100%
Performance Shares	61%	50%	18%	50%
Stock Options	11%	23%	12%	63%
Performance Cash/Shares	0%	n/a	18%	100%

LTI Plan Design Changes for 2024

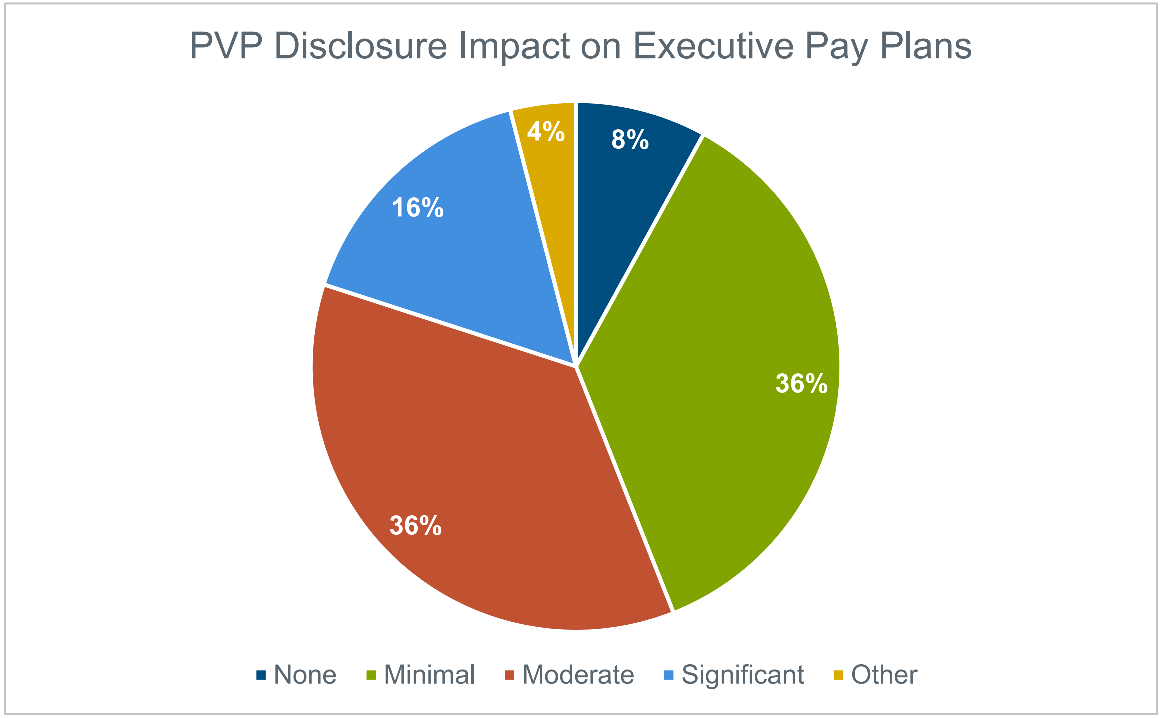
- About 30% of all respondents currently anticipate making one or more LTI plan design changes for 2024, with the most common actions (expressed as a percentage of all responses excluding “not applicable”) shown below.



- Less than 10% of respondents currently anticipate making any additional changes in LTI grant practices for 2024.

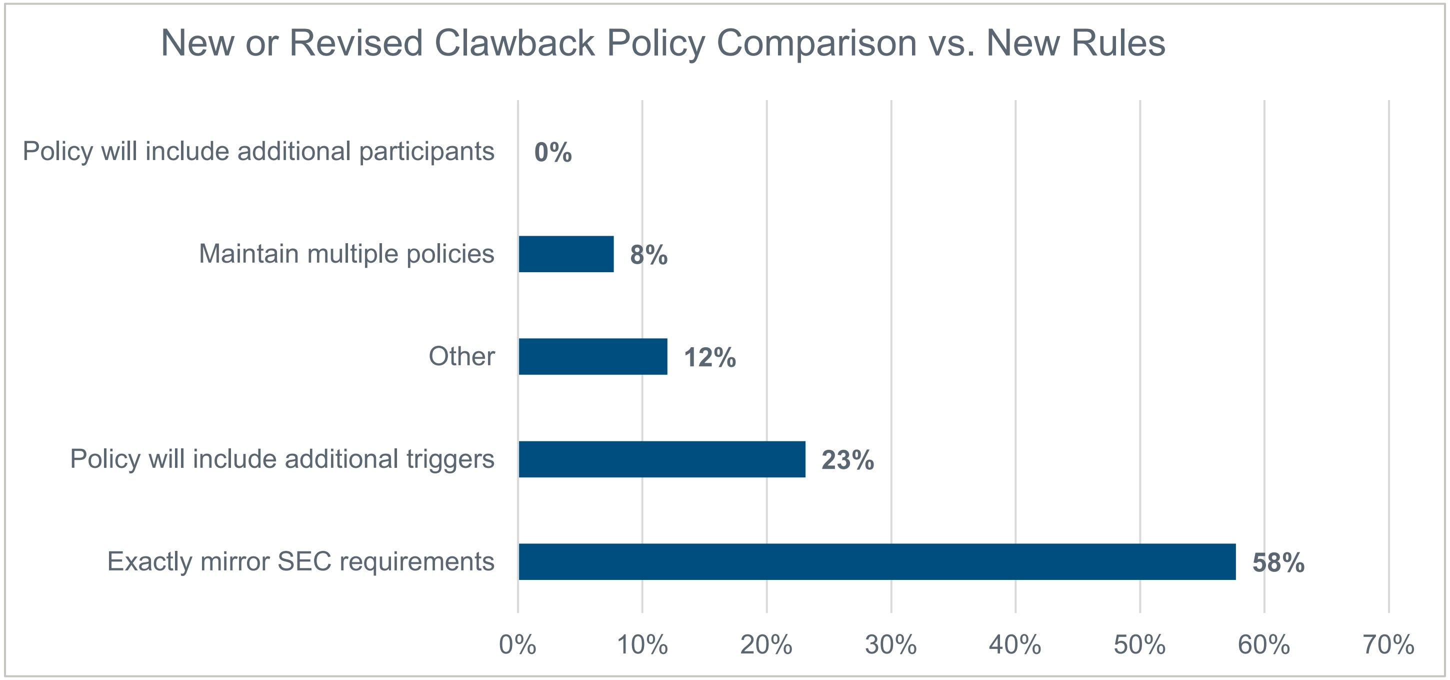
Impact of Recent/Pending Regulatory Developments on Public Company Executive Pay Practices: Pay vs. Performance Disclosure

- Most public company respondents say the “pay versus performance” (PVP) proxy disclosure requirements which became effective this year have not significantly impacted their organization’s executive compensation design or pay practices.
  - 16% of respondents, generally among larger respondents, said the new PVP disclosure requirement will materially impact plan design or practices, with most others citing either a minimal impact (i.e., primarily viewed as a compliance exercise, 36% of respondents) or a moderate impact (i.e., primarily used for comparison versus peer group disclosures, 36%)

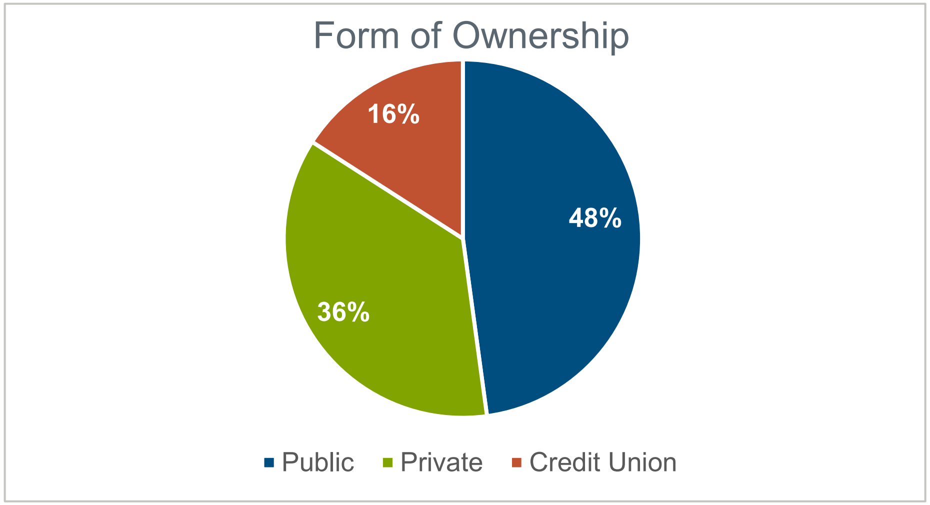


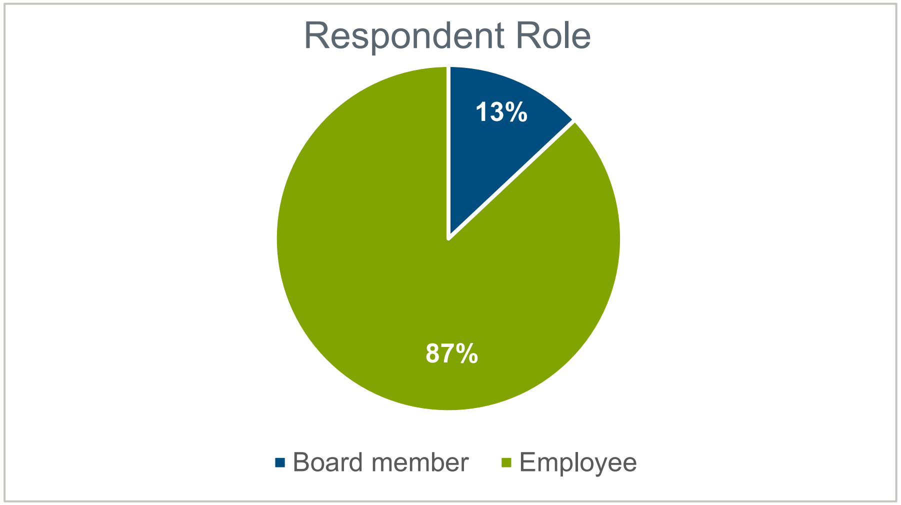
Impact of Recent/Pending Regulatory Developments on Public Company Executive Pay Practices: New Clawback Rules

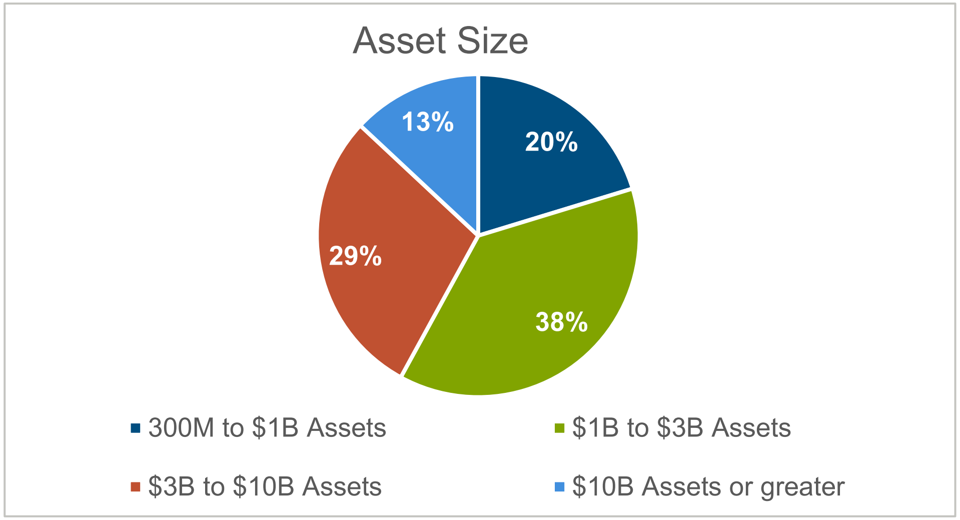
- Most public company respondents plan to exactly mirror the SEC clawback requirements within their new or revised plans while approximately 23% will either include broader parameters in terms of recoupment triggers (e.g., also include fraud/misconduct even if no restatement) and/or covered participants (i.e., beyond executive officers) or will also maintain a separate broader policy.
  - Some companies with multiple clawback policies may maintain board discretion under the non-compliant policy



Demographics







About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our industry experts focused exclusively on the banking sector have helped hundreds of financial institutions achieve their objectives.

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