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2021 COMPENSATION SURVEY

Sharpening Your Competitive Edge

WHITE PAPER

newcleus COMPENSATION ADVISORS

Banks have long understood the important contribution that people and culture make when it comes to the financial success of their organizations. But a pandemic that forced the U.S. economy from business-as-usual to work from home threatens that foundation. Now, companies across the country — including banks — may be facing a talent crisis.

MVB Financial Corp. — a $2.7 billion financial holding company in Fairmont, West Virginia — already had employees working outside its physical footprint in West Virginia and Virginia when the Covid-19 pandemic hit. "We really stress on the communication side, making sure we're staying connected to the team," says Don Robinson, MVB's chief financial officer. The communication strategy includes brief daily huddles with direct reports, monthly bank-wide meetings featuring key executives — all virtual, of course — and a quarterly "Ask Mazza" session with CEO Larry Mazza. "He spends as much time as necessary to make sure all the questions are exhausted," says Robinson.

More than 80% of the executives and directors responding to Bank Director's 2021 Compensation Survey say their bank introduced or expanded remote work in 2020. Newcleus Compensation Advisors sponsored the survey.

Some bank leaders welcome a return to normal, in-person operations. Employees at JPMorgan Chase & Co. were expected to report back starting July 6, though that varied by location. "We want people back to work," Chairman and CEO Jamie Dimon told The Wall Street Journal in May, citing remote work's negative impact on idea generation and talent development. He sounded practically euphoric about interacting in-person with employees and clients on a recent trip to California. "I'm about to cancel all my Zoom meetings ... I'm done with it."

But do workers want to come back to the office? "Employees have discovered that there's more to life than work," says Flynt Gallagher, president of Newcleus Compensation Advisors. He expects competition for talent to remain a key challenge for financial institutions and the broader economy heading into 2022 and beyond. Banks will wrestle with demands for flexibility, as well as a greater focus on social issues. And boards will need to ensure they're appropriately compensating the CEO and top executives as they grapple with these competitive pressures.

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Competing for Talent

Bank Director's 2021 Compensation Survey finds that banks generally expanded employee pay and benefits in 2020. Eighty-one percent of respondents say their institution increased non-executive pay, and 68% increased executive compensation. Banks also expanded or introduced a number of benefits, including caregiver leave, offered by more than half of respondents; health and wellness perks, offered by 87%; and mental health support, offered by 83%.

It's no wonder that 37% identify managing compensation and benefit costs as a top compensation challenge, right behind tying compensation to performance (43%).

Comments from survey respondents reinforce how difficult it is to offer a competitive compensation package, particularly for entry and mid-level roles. One bank CEO says his bank had raised its minimum wage to $15 an hour. This puts it on par with retailers such as Target Corp. — but doesn't come close to Bank of America Corp., which recently announced a minimum wage hike to $25 an hour by 2025, from a previous raise to $20 hourly.

"Some of your other banks already pay between $15 and $20 an hour," says Gallagher. This makes managing compensation costs an even greater challenge for smaller banks. And the talent crisis could accelerate M&A, he adds. "The only way community banks can compete is to become more efficient or completely change their model — and they aren't going make such a radical change to the way they've always done business."

"The biggest banks can reduce the number of branches [and] staff; smaller banks like ours don't have that opportunity," says Marnie Oldner, CEO at Mountain View, Arkansas-based Stone Bank, the $565 million subsidiary of Stone Bancshares. Competing for talent, she believes, will require an attractive culture, with remote work options, flexibility and higher pay. "I think if smaller banks find themselves having a problem with talent, particularly on the technology side, then they'll probably sell," she says. "For larger banks that are looking to improve earnings, they have very tight margins, they'll look to buy. So, you're going to see more and more M&A in the coming years."

"Employees have discovered that there's more to life than work."

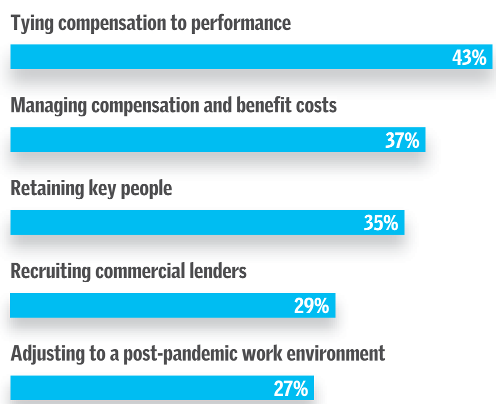
— Flynt Gallagher, Newcleus Compensation Advisors

As banks exit the pandemic, executives and boards will need to weigh how to incorporate remote work going forward, mitigating its potential cultural effects while leveraging it to bring in the talent they need.

More than 80% say their bank introduced or expanded remote work options in 2020; another 8% offered but didn't expand this benefit. When these respondents were asked how remote work impacted their bank's culture, less than a quarter saw a negative effect. Thirty-nine percent believed their culture had not changed due to remote work, and 38% saw a positive result.

FIG. 1

What are your top compensation challenges for 2021?
Top five options.



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David Findlay is the CEO at Warsaw, Indiana-based Lakeland Financial Corp., with $6.2 billion in assets. His views on remote work have a lot in common with Dimon's remarks — Findlay says the bank's employees were thrilled to return to their offices in April. Overall, "it was greeted with excitement as opposed to frustration," he says. "The great majority of employees wanted to be back in their workplace." Those are the types of employees Findlay wants at Lakeland, and the bank won't hire outside its market area due to the strong value his organization places on building cultural strength. "We lean into people that want to be part of a culture as opposed to being part of an organization."

Even bank leaders who don't buy into a permanent remote work option see benefit in allowing it in some cases — when an employee needs to care for a sick relative, for example. Thirty-nine percent expanded flexible scheduling in 2020; another 22% introduced it, and 18% already offered but didn't expand this option. Findlay says the bank will be "more flexible as we look at talent, to understand where it might make sense." Lakeland staff have "remote work kits" that allow them to — temporarily — work outside the office if a family emergency comes up.

In a May interview for *Bank Director* magazine, Kayleen Kohler, executive vice president of human resources at $16.2 billion Banner Corp., stressed the importance of flexibility as the Walla Walla, Washington-based bank figured out what works going forward. "If we don't offer that kind of hybrid/remote flexibility, I am concerned at the attrition rate we'll have," she says. "I can't imagine the churn in our workplace if we take a hard-and-fast rule that people have to be on site."

Applications for open positions at Banner had dropped by half compared to the pre-pandemic rate; labeling positions as "remote" doubled and even tripled the number of applicants, she says.

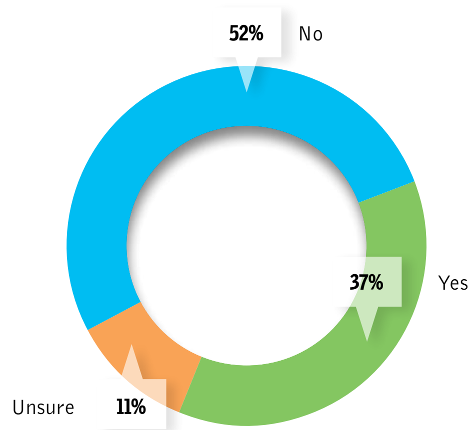
Time will tell how individual banks will adapt to remote work and incorporate it into their cultures, but flexibility promises to be more of a permanent feature than a fad.

More Focus on Diversity & Inclusion

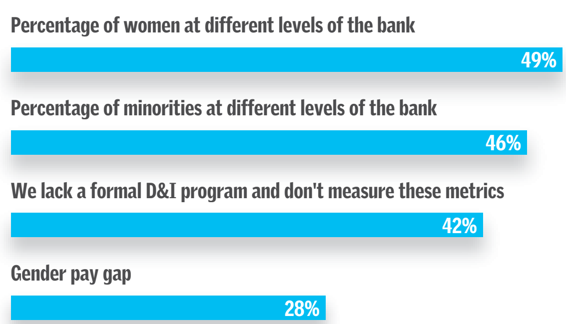
An April survey conducted by CNBC and SurveyMonkey found that 78% of U.S. workers value an employer that prioritizes diversity and inclusion.

FIG. 2

Compared to 2019, did your bank focus more on diversity, equity and inclusion initiatives and/or programs in 2020?



Does the bank measure any of the following when evaluating its diversity and inclusion progress or initiatives? *Top four options.*



"Workers who are satisfied with their company's efforts on [diversity] issues are actually happier with their jobs," Laura Wronski, research science manager at SurveyMonkey, told CNBC. "They are more likely than others to say that they have good opportunities to advance their careers, and they are more likely to feel like they are paid well for the work they do."

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Diversity and inclusion isn't just about doing the right thing for employees — it could also provide a competitive edge in a tight talent market.

Thirty-seven percent of the executives and directors responding to the 2021 Compensation Survey tell us that their bank focused more on diversity, equity and inclusion initiatives or programs in 2020, compared to their efforts in 2019. When asked what their program measures, more than 40% say it tracks the percentage of women and/or minorities at different levels of the bank. However, 42% lack a formal D&I program and as a result, don't measure their progress on the advancement of women, minorities and other less-represented groups throughout the organization.

Respondents representing larger banks — above $10 billion, at 79%, and ranging from $1 billion to $10 billion, at 52% — are more likely to report that they increased their focus on this issue. They are also more likely to indicate that D&I progress is tracked by various metrics.

Lakeland Chief Human Resources Officer Kyra Clark, who joined the bank in August 2020, has been charged with creating a task force to focus on diversity and inclusion at the bank. The group, composed of team members with varying backgrounds across the organization, held its first meeting in February.

"It is simply not good enough to say we have a culture that encourages diversity and inclusion. You've got to have actions that are concrete evidence of that commitment," says Findlay. "There is a long country mile between having the right words and having the right actions."

Clark says the program is in early stages, but she's impressed by the team's enthusiasm. And the actions Findlay mentioned? Those ideas come straight from the bank's employees. "There are some very real, concrete steps that are great opportunities for us to be able to implement, whether that's training, whether that's doing a better job of highlighting who the bank is and highlighting the folks [who] are within the bank," Clark says. "Building the networks that the bank already has, to try [to] increase recruiting — just a wealth of different opportunities that the task force is working on."

"It is simply not good enough to say we have a culture that encourages diversity and inclusion. You've got to have actions that are concrete evidence of that commitment. … There is a long country mile between having the right words and having the right actions."

— David Findlay, Lakeland Financial Corp.

Community bank leaders often bemoan the challenges they perceive in finding qualified talent representing diverse backgrounds, particularly in smaller, more homogenous communities, says Gallagher. But regulators and legislators could force their hands.

The Securities and Exchange Commission recognizes that measurement and disclosure can be a powerful driver for change. "[W]hen companies have to formulate disclosure on topics it can influence their treatment of them, something known as the 'what gets measured, gets managed' phenomenon," said SEC Commissioner Allison Herren Lee at a September 2020 conference. "Moreover, when companies have to be transparent, it creates external pressure from investors and others who can draw comparisons [from] company to company."

At MVB, Robinson says the human resources team reviews applications and hiring results, as well as diverse characteristics throughout the bank's workforce. They're also examining how to improve mentorship and recruiting programs

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FIG. 3

Common Factors Tied to CEO Performance
Top five options.

56% Income growth

56% Strategic plan/ corporate goals

53% Return on assets

46% Asset quality

39% Return on equity

to enhance its "robust" training and culture programs. And he believes his bank's flexibility and openness to remote work is a key differentiator in attracting qualified talent from varied backgrounds. "[W]e're fortunate because we're not focused on a singular market," Robinson says. "That strategy has been beneficial in expanding our talent pool across the board."

Measuring CEO Performance

Bank CEOs and executive teams led their organizations through a challenging year, dealing with myriad issues including remote work and temporary branch closures, scrambling to enhance digital channels and meeting customer needs for assistance through the Paycheck Protection Program and loan forbearances.

Tying compensation to performance was already a top compensation challenge for the industry, as indicated in past iterations of our survey, and it's been further complicated by the pandemic.

Survey participants indicate that they look at a number of metrics to measure their CEO's performance, with income growth (56%), return on assets (53%), asset quality (46%), return on equity (39%) and efficiency (37%) the most commonly used by responding banks. Twenty-two percent don't tie CEO compensation to performance metrics.

Bank boards expect 2021 to be a strong year, and that's driving expectations for CEO performance, says Gallagher. "Boards are focusing on growth and income."

More than 60% of respondents say that CEO pay is tied to qualitative factors, predominantly strategic goals (56%). Community involvement (29%) and employee engagement (19%) are used by some banks as well; both attributes are tied to building and maintaining an institution's culture and its reputation as an employer.

Boards want their CEO and senior staff to be involved in the community, affirms Gallagher. "[It's a] differentiator in their minds — 'this is our community, this is how we secure loyalty, [by being] involved in our community.'"

Eighteen percent tied the CEO's performance to their response to the Covid-19 pandemic. Further, one-quarter exercised more discretion in examining CEO performance for 2020.

FIG. 4

Total CEO Compensation, FY 2020

By asset size	
>$10B	$3,467,714
$1B-$10B	$959,767
$500M-$1B	$515,186
$250M-$500M	$339,376
<$250M	$250,000
All banks	$613,610

1/4 **say their board exercised more discretion in examining CEO performance for 2020.**

Despite the increased focus on diversity, equity and inclusion initiatives in 2020, just 7% tie these goals to CEO performance. But it is a growing factor when it comes to evaluating the performance of CEOs at banks above $10 billion of assets, according to the survey — 36% representing banks of that size include diversity initiatives among the factors considered when evaluating the CEO.

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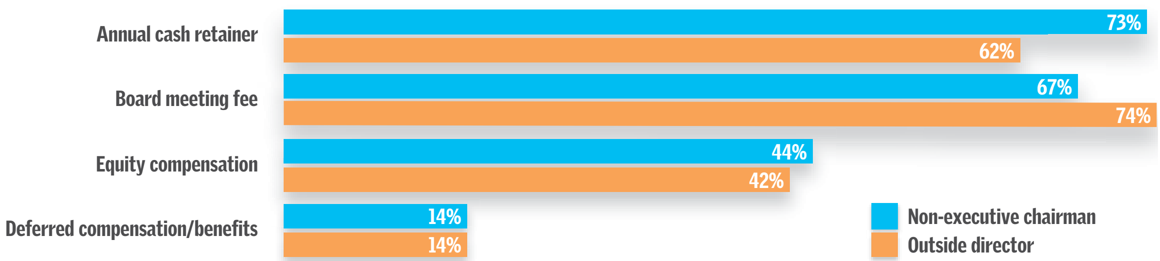
FIG. 5

Non-executive chairs and outside directors receive the following types of compensation.



Cash Compensation Amounts, FY 2020

By title	Non-executive chairman	Outside director
Fee per board meeting	$1,175	$1,000
Annual cash retainer	$32,500	$21,600
Equity compensation	$18,000	$18,851

In comments made at a June 2021 conference, Commissioner Lee drew a clear connection between CEO pay and performance, and achieving environmental, social and governance goals; diversity falls under the ESG umbrella. "Directors' decisions on compensation can spur progress on corporate strategies and approaches to address the risks associated with ESG matters," she said. "Boards that tie executive compensation to ESG metrics are using one of the most powerful tools they have to make real progress on ESG goals, and at the same time signaling the strength of their commitment to these issues."

About the Survey

Bank Director's 2021 Compensation Survey, sponsored by Newcleus Compensation Advisors, surveyed 282 independent directors, chief executive officers, human resources officers and other senior executives of U.S. banks below $50 billion in assets to understand talent trends, cultural shifts, CEO performance and pay, and director compensation. The survey was conducted in March and April 2021. Compensation data for directors and CEOs for fiscal year 2020 was also collected in April from the proxy statements of 103 publicly traded banks. Almost half of the data represents financial institutions above $1 billion in assets; 51% represent a public bank.

About Newcleus Compensation Advisors

Newcleus Compensation Advisors are the premier consulting experts on compensation strategies to include: base salaries, incentive plans, equity compensation, nonqualified executive retirement plans and director compensation strategies. Our greatest strength is helping financial organizations spend smart dollars in efforts to help attract and retain the top talent. Our unbiased solutions bring best of industry practice related to products, services, administration, and regulatory compliance support. newcleus.com/compadvisors/

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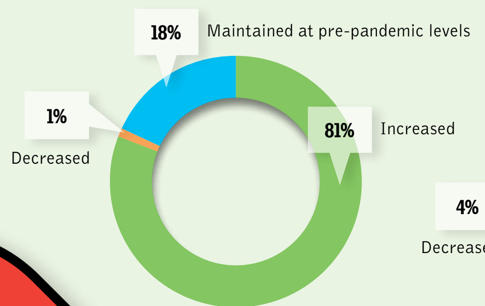
ATTRACTING THE TALENT YOU NEED

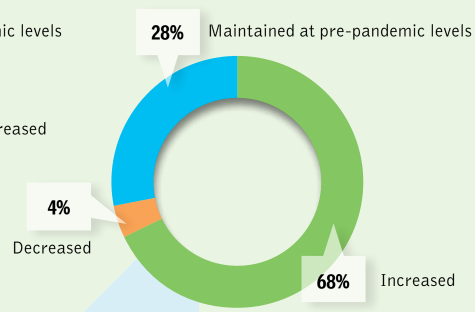
The 2021 Compensation Survey examines how banks supported employees during the Covid-19 pandemic, which provides clues about its long-lasting effects when it comes to an organization's abilities to attract and retain qualified talent to drive the organization forward.

Most banks increased employee pay and executive compensation in 2020.

Employee Pay



Executive Compensation



Banks also increased numerous benefits in response to the pandemic.

82%
Remote work options

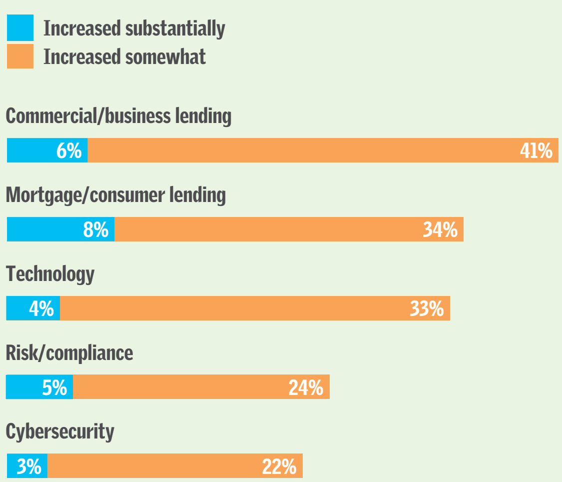
61%
Flexible scheduling

32%
Sick leave

28%
Caregiver leave

25%
Health and wellness perks

Top areas where banks added staff in 2020



Source: Bank Director's 2021 Compensation Survey

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