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2022 COMPENSATION SURVEY
An Uphill Struggle for Talent

WHITE PAPER

newcleus COMPENSATION ADVISORS

The banking business became more expensive last year, as banks were forced to pay up to attract and keep talent. Some of the talent pressures stem from temporary hurdles, such as inflation. But Bank Director's 2022 Compensation Survey, sponsored by Newcleus Compensation Advisors, points to broader existential challenges the industry faces in cultivating talent for the long term.

Respondents almost unanimously report that their banks raised non-executive pay last year to keep talent, and a majority also raised executive compensation. But higher pay did not necessarily translate into an easier time recruiting, with clear majorities of bankers and directors indicating that it had also become more difficult to attract and retain talent in 2021.

"Banks are just one industry. I don't think they're going to be spared what every other industry is experiencing in terms of the shortage of talent and a reluctance, perhaps, of some people to come back," says Flynt Gallagher, president of Newcleus Compensation Advisors.

Of course, the banking industry has some unique nuances to its particular talent challenges. Competition for commercial bankers has always been stiff, for instance, and it's likely to intensify as banks look to commercial lending to offset net interest margin compression.

Demand for talent hasn't been limited to specialty roles; entry-level and branch staff were also difficult to hire and retain in 2021. Some of that, no doubt, was influenced by the pandemic and its ripple effects, but banks also had a lot more competition for even entry-level workers. Job candidates with cash handling experience pretty much had their pick of opportunities, and banks weren't competing solely with other financial institutions.

"In many of our markets we're not just competing with banks anymore," says Eric Thompson, chief human resources officer at San Antonio-based Vantage Bank Texas. "We're competing with the grocery store that's now offering $20 an hour."

Rising Pay, Rising Concerns

Ninety-eight percent of all directors and executives who participated in the 2022 Compensation Survey say their bank raised non-executive pay in fiscal year 2021; 85% say their institution increased executive compensation. By way of comparison, 81% of respondents to the 2021 Compensation Survey said their bank raised non-executive pay, while 68% increased executive compensation.

Compensation expenses rose by a median of 5%, according to participants in this year's survey.

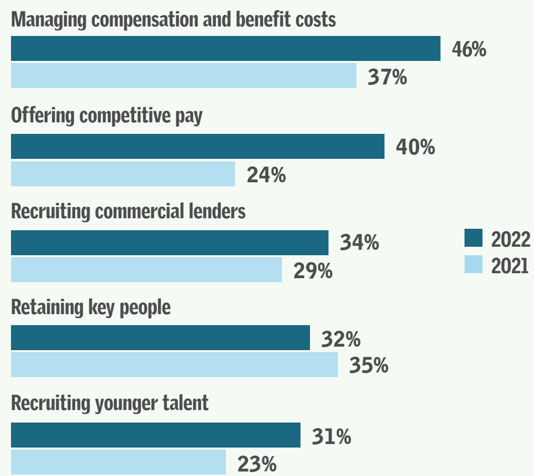
As a result, respondents say they've focused on paying competitively, raising wages for certain positions and offsetting those expenses elsewhere. This year, 40% say that offering competitive pay has also been a top compensation-related challenge, up from 24% who said as much a year earlier. The proportion of respondents who named managing compensation costs as a top challenge rose from 37% in 2021's survey to 46% this year. Conversely, those concerned about tying compensation to performance fell sharply, from 43% in 2021 to 21% this year.

Just 8% of respondents believe that increased compensation expense had an overall negative effect on their bank's profitability and financial performance. In anonymous comments, some respondents say their bank closed less profitable branches, reconsidered vendor relationships or reduced advertising and marketing expenses. Others have managed rising compensation costs via attrition, choosing not to replace some workers when they retire or otherwise leave the organization.

"We have continued to look at all of our vendors we work with [to] see if they are providing important services to us and if we are fully using them," writes one chief financial officer at a Midwestern community bank, who adds that the bank has carefully watched its deposit pricing, as well.

FIG. 1

Top Five Compensation Challenges, 2022 (vs. 2021)



Still, others believe that while their bank hasn't yet cut costs, they expect it will be forced to do so eventually or find their bank's profitability under serious pressure.

"The economy is uncertain. We expect loan demand to decrease, and the net interest margin is showing signs of suffering," says the CEO of a small, Southeastern bank. "I think we can pull out of this, but the next 18 months will be very tight."

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— **Flynt Gallagher, Newcleus Compensation Advisors**

The $3 billion Vantage Bank Texas, based in San Antonio, had absorbed rising compensation costs but moved to a self-funded healthcare plan when its insurer proposed rate increases as high as 40%.

"As an organization, we're fortunate because we have done very well over the past couple of years. We've been able to manage a lot of that [compensation] increase through our budget," Thompson says. "But one thing we've had to focus on is benefits. The rising cost of benefits was not something we'd planned for."

Directors and executives responding to the survey share mixed opinions about the performance impacts of rising compensation expenses. Forty-nine percent believe increased compensation expenses have had a positive impact on their bank's financial performance, while 43% say the impact was neutral.

"I'd love to know why they think that. What led them to that conclusion? Is it because they were able to fill positions, and therefore they're looking at it that way?" Gallagher says. He speculates, "Perhaps higher pay motivated increased productivity."

Talent Troubles

For most banks, higher wages did not make it any easier to keep people on staff. Seventy-eight percent of respondents say that it was harder in 2021 to attract and retain talent, although there are some regional nuances to those trends. Those representing banks in the Southeast, which experienced a lot of population growth, were slightly less likely to report that this had become harder for them. Meanwhile, participants in the Midwest and the Pacific West are somewhat more likely to report that 2021 was a difficult year for talent.

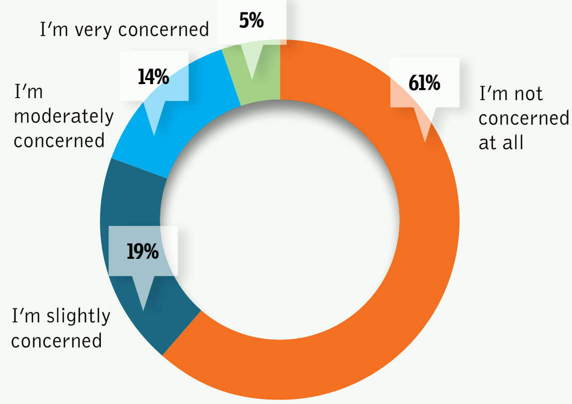
Banks' talent difficulties boil down to a myriad of factors that plagued employers throughout the pandemic. In some cases, protracted childcare difficulties kept workers from returning to the office full-time. Others were reluctant to return to customer-facing positions as various strains of Covid-19 continued to circulate. The virus also tragically shrank the broader U.S. workforce through death and long-term disability.

Put simply, the talent strain on banks largely comes down to a problem of supply and demand. Seventy-six percent of survey respondents say a lack of qualified candidates was their No. 1 challenge in attracting and retaining talent last year.

FIG. 2

How concerned are you that a rival financial institution could hire away your CEO and/or key executives?

Question asked of independent board members. Numbers don't add up to 100% due to rounding.



That was particularly true in the case of commercial bankers, a role that's long been in high demand for its revenue-generating capabilities. Fifty-seven percent of respondents say that business lenders were the most difficult roles to fill in 2020 and 2021.

With 71% saying their bank plans to add commercial lenders this year, the issue is likely to only be exacerbated. After all, seasoned commercial bankers are a finite resource and one that the industry has not done a great job of replenishing over the years.

The result? "Because we've got everybody looking at lending to drive performance going forward, that is going to continue to drive up pay for commercial lenders," Gallagher says.

Just over a third of respondents say their bank adjusted incentive plan goals for its commercial lenders in anticipation of greater demand in 2022, while 54% did not make any changes to incentive plans.

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Branch staff and entry-level positions were the next two toughest positions to fill last year, respondents say. Here, again, the issue comes down largely to a supply-and-demand problem: Customer service and similar entry-level workers were in high demand across all industries last year. Banks were suddenly competing not just with other financial institutions, but also with warehouses and supermarkets that have been paying $20 or more per hour. Target announced in February 2022 that it would raise its starting wage to a range of $15 to $24 per hour, based on the position and the local market; the big retailer also augmented benefits. In the spring, Bank of America Corp. said it was raising its hourly wage to $22 this year, with an additional planned increase to $25 by 2025; Truist Financial Corp., the $545 billion regional bank also based in Charlotte, North Carolina, will increase its starting hourly pay to $22 effective Oct. 1, 2022.

Workers juggling multiple job offers started exhibiting behaviors many human resources executives had never seen before in their careers: Prospective employees would sometimes drop out midway through the application process or even fail to show up for their first day of work, having accepted the job offer and already gone through the hiring process.

"Entry-level employees continually do not show up or call to postpone job interviews," writes the CEO of a Northeastern community bank, who also notes the "[o]verall lack of interest in seeking employment for a career. More interest in making $25 per hour working in a warehouse environment."

Remote work has had a profound impact on workplaces across the U.S. In the survey, three quarters of respondents say their bank offers remote work to at least some staff, and an equal proportion believe the option helps their organization attract and keep valuable employees.

But many in the industry remain resistant to changes in workplace norms, and the survey indicates that executive and board member attitudes toward remote work could be souring. While 31% report that remote work has had a positive impact on the company's culture, an equal number report a negative impact. A year ago, 38% said remote work's impact was positive, while 24% said it was negative.

And while it wasn't a major concern for most respondents, 28% cite job candidates' unwillingness to commute for at least part of their schedule as an obstacle in attracting talent.

Conflicts over the future of the office, including remote and hybrid work, could be indicators of sharpening generational divides with potentially long-lasting consequences for the workforce. The 2022 Compensation Survey results hint at some of this generational friction in the banking industry. Thirty-one percent of respondents cite recruiting young talent as a top talent-related challenge, an increase from 23% who said the same last year.

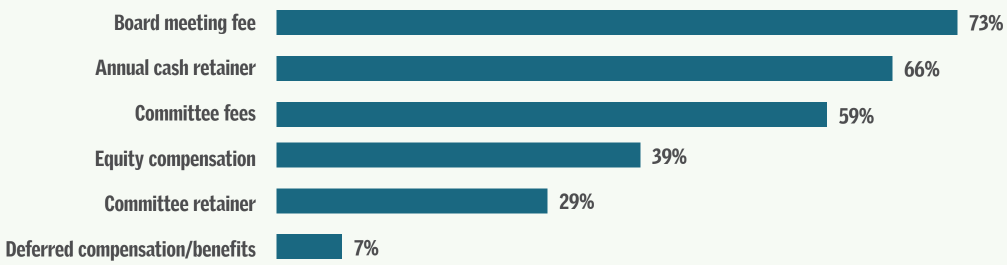
Some comments reflect uncertainty about the long-term impact of remote and hybrid work, as well as a growing sense of frustration with attracting and keeping the next generation of bankers. One CEO of a privately-held bank in the Southwest notes that younger bankers are generally less interested in long-term incentives, like stock grants or deferred compensation. The CEO of a small, publicly traded bank based in the Northeast comments that, "Younger talent very rarely works past 5."

What's less clear is how bankers will be able to position themselves as desirable places to work in the longer term.

"The industry as a whole has an image problem,"

FIG. 3 Director Compensation Snapshot

Outside directors receive the following types of compensation.



Compensation Amounts, FY 2021

By title	Non-executive chair	Outside directors	Inside directors
Fee per board meeting	$1,000	$1,000	$1,000
Annual cash retainer	$30,000	$20,000	$11,500
Equity compensation	$20,292	$29,995	$8,000*

**Indicates fewer than 10 responses.*

says the CFO of a publicly-traded Southwestern bank. "We need to bring our organizations into a much more modern operating and workplace style to attract talent in the long run."

Director Compensation Holds Steady

Director compensation remains largely consistent with the prior year's survey, although fewer respondents this year indicate that their bank offers additional benefits or perks for independent directors.

Seventy-three percent of respondents indicate that outside directors receive board meeting fees as compensation; 66% say that outside directors receive an annual cash retainer, and 59% say that directors receive committee fees. The median fee per board meeting was $1,000 in FY 2021, while the median annual cash retainer was $20,000.

Three-quarters of respondents say that non-executive chairs receive an annual cash retainer for their services. Sixty-seven percent say the chair receives board meeting fees, and just over half (52%) say the chair receives committee fees. A majority, 64%, say their board chair is an independent director, and 26% say the board chair is the CEO, roughly comparable to last year's results.

Equity compensation remains a far less common form of compensation for both non-executive chairs and outside directors, although publicly-traded banks and those with over $1 billion in assets are more likely to offer this award.

The majority (71%) do not offer compensation to inside directors for their board service, beyond their pay as an employee of the bank. Those who pay inside directors for their work on the board report a median meeting fee of $1,000 per board meeting and/or a median $11,500 annual cash retainer.

Most respondents (65%) report that their bank doesn't offer extra benefits or perks for independent directors, compared to 55% who stated the same a year earlier. In 2022, almost a quarter say that independent directors are reimbursed for travel expenses, compared with 31% a year ago.

Gallagher suggests the decline in travel benefits

FIG. 4

Which of the following benefits and perks are offered to independent directors?

65%	No benefits offered
24%	Travel expenses
7%	Retirement plan
6%	Eligibility for group medical insurance
3%	Life insurance
3%	Other perks
2%	Paid medical insurance
1%	Long-term care insurance

could be related to the travel restrictions imposed by Covid-19, along with an increasing familiarity with video conferencing.

Looking at the broader talent landscape over the next year, Gallagher thinks wage and hiring pressures could moderate, due to greater automation and other technologies that help firms get by with fewer employees. He also suggests that the Great Resignation could begin to wind down as the economy cools.

"I think, as the economy slows down a little bit, it's making people think twice about, 'Do I leave this job and go find something else? Maybe I'm better off staying here,'" Gallagher says. "It goes in cycles. We just had all of it compressed into a very short period of time because of the pandemic."

About the Survey

Bank Director's 2022 Compensation Survey, sponsored by Newcleus Compensation Advisors, surveyed 307 independent directors, chief executives, human resources officers and other senior executives of U.S. banks below $100 billion in assets. The survey regularly tracks compensation for bank CEOs and directors. This year, it also examines the competitive landscape for talent faced by the industry. The survey was conducted in March and April 2022. Compensation data for directors, non-executive chairs and CEOs for fiscal year 2021 was also collected during this period from the proxy statements of 96 publicly traded banks. Just over half of the data represents financial institutions above $1 billion in assets. The survey results are available in the research section at BankDirector.com.

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, qualified retirement planning 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/

About Bank Director

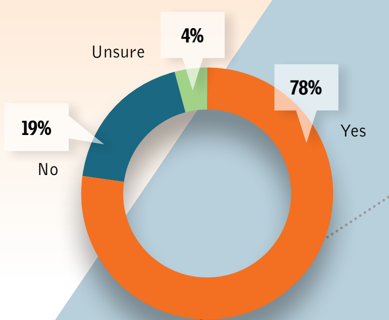
Bank Director reaches the leaders of the institutions that comprise America's banking industry. Since 1991, Bank Director has provided board-level research, peer-insights and in-depth executive and board services. Built for banks, Bank Director extends into and beyond the boardroom by providing timely and relevant information through *Bank Director* magazine, board training services and the financial industry's premier event, Acquire or Be Acquired. For more information, please visit www.bankdirector.com.

A CHALLENGING LANDSCAPE

The 2022 Compensation Survey reveals some particular difficulties banks faced in holding onto talent in the past year and hints at areas where the industry could struggle in the year ahead.

In 2021, was it more difficult for your bank to attract and/or retain talent compared to previous years?

Numbers don't add up to 100% due to rounding.



Rising Compensation Costs

98% increased employee pay in 2021

85% increased executive compensation

49% believe increased compensation expense had an overall positive effect on the institution

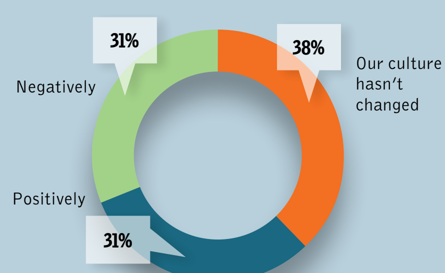
5% Median Compensation Increase

What types of roles has your bank had the most difficulty filling?

The State of Remote Work

3/4 offer remote/hybrid work options to at least some staff

How do you believe remote work has affected your bank's culture?



Source: Bank Director's 2022 Compensation Survey