

Breakout II: ESG Metrics: Are They Right for Your Bank's Incentive Plans?

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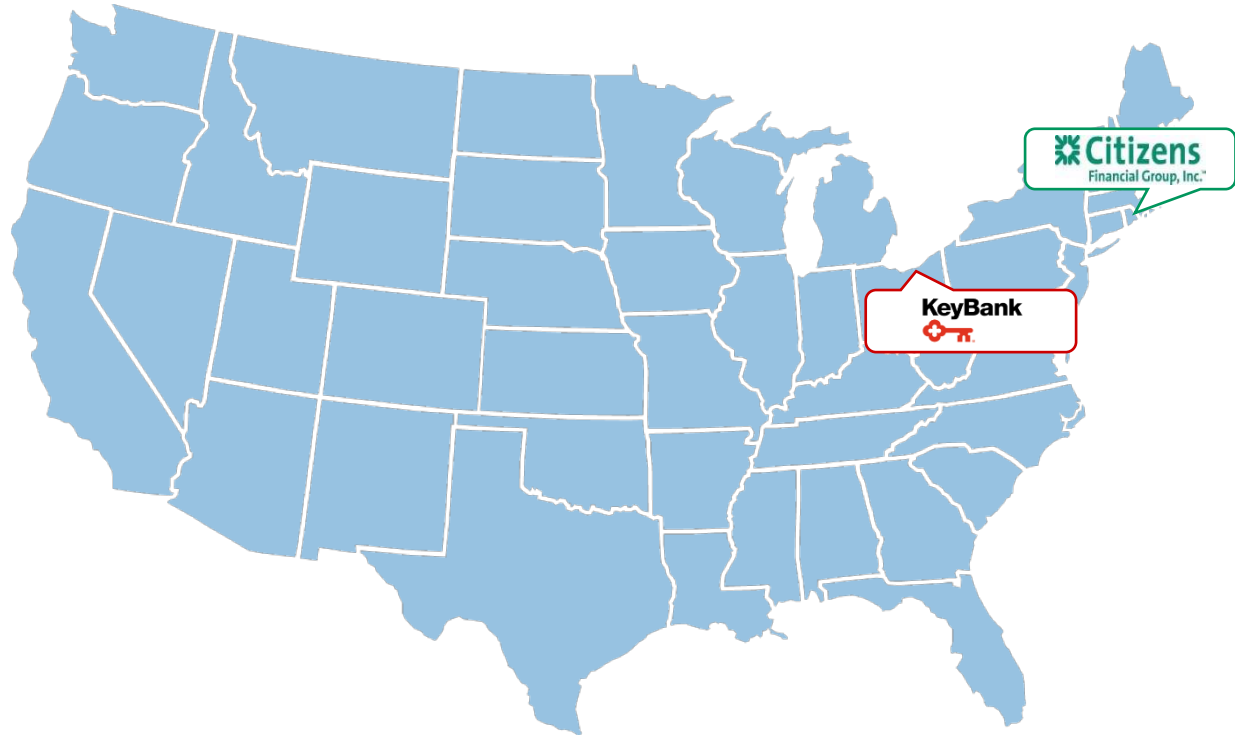
Background



- Public Company
- Providence, RI
- \$227B Assets
- 995 Branches
- 17,463 Employees



- Public Company
- Cleveland, OH
- \$187B Assets
- 999 Branches
- 17,654 Employees



Agenda

- What is environmental, social and governance (ESG)
- Prevalence of ESG incentive plan metrics
- Approaches to measure ESG
- Role of management and Compensation Committee
- Shareholder and proxy advisory considerations

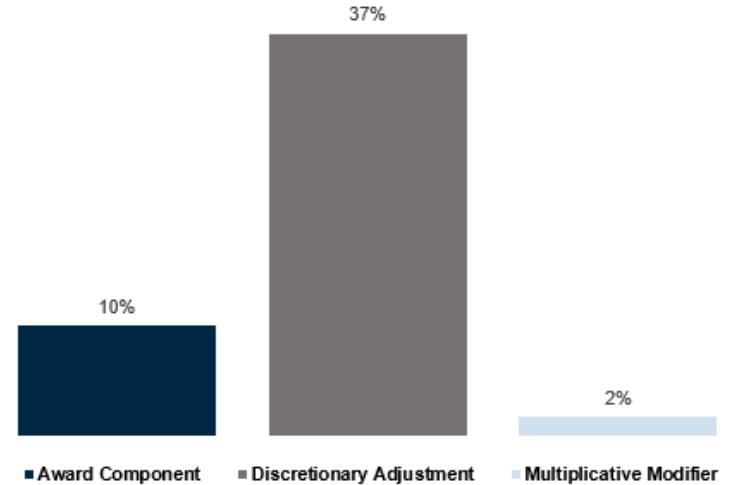
Banks are Continuing to Assess Whether Incentives Should Incorporate ESG

- Investors continue to focus on ESG, including the use of ESG metrics in compensation programs
- ESG has become a critical factor in company culture, employee engagement and company reputation
- ESG metrics tend to vary by industry based on the companies' business strategy and ability to impact certain issues. Incentive plan metrics are typically related to “E” and “S”

Component	Areas of Focus	Prevalence
Environmental	Climate change, greenhouse gas emissions, carbon footprint, waste reduction, waste consumption, sustainable sourcing, and other sustainability efforts	Most common in industries such as energy, utilities, manufacturing and technology
Social	DE&I, human capital, pay equity, employee engagement, turnover / retention, and impact of a company's operations on society	Most common across all industries. Industries that have seen a particular increase include financial & professional services, retail and technology
Governance	Improving shareholder rights, board refreshment, aligning pay and performance and overall risk management	Least common of the three areas of ESG to include in incentives

ESG Prevalence Among Banks - Annual Incentive Plans

- Use of ESG metrics are used exclusively in the annual incentive plan vs. long-term incentive plans
- Most common approach to incorporate ESG metrics is a qualitative assessment to determine results rather than establishing specific quantitative targets
- Social issues tend to be the most prevalent, led by a focus on diversity, equity and inclusion (DE&I)
- In the annual plan, 49% include ESG metrics (10% use a standalone weighted component, 37% use as a discretionary award adjustment and 2% use as a modifier)



Approaches to Using ESG in the Annual Incentive Plan

- Three common approaches to measure ESG in the annual incentive plan

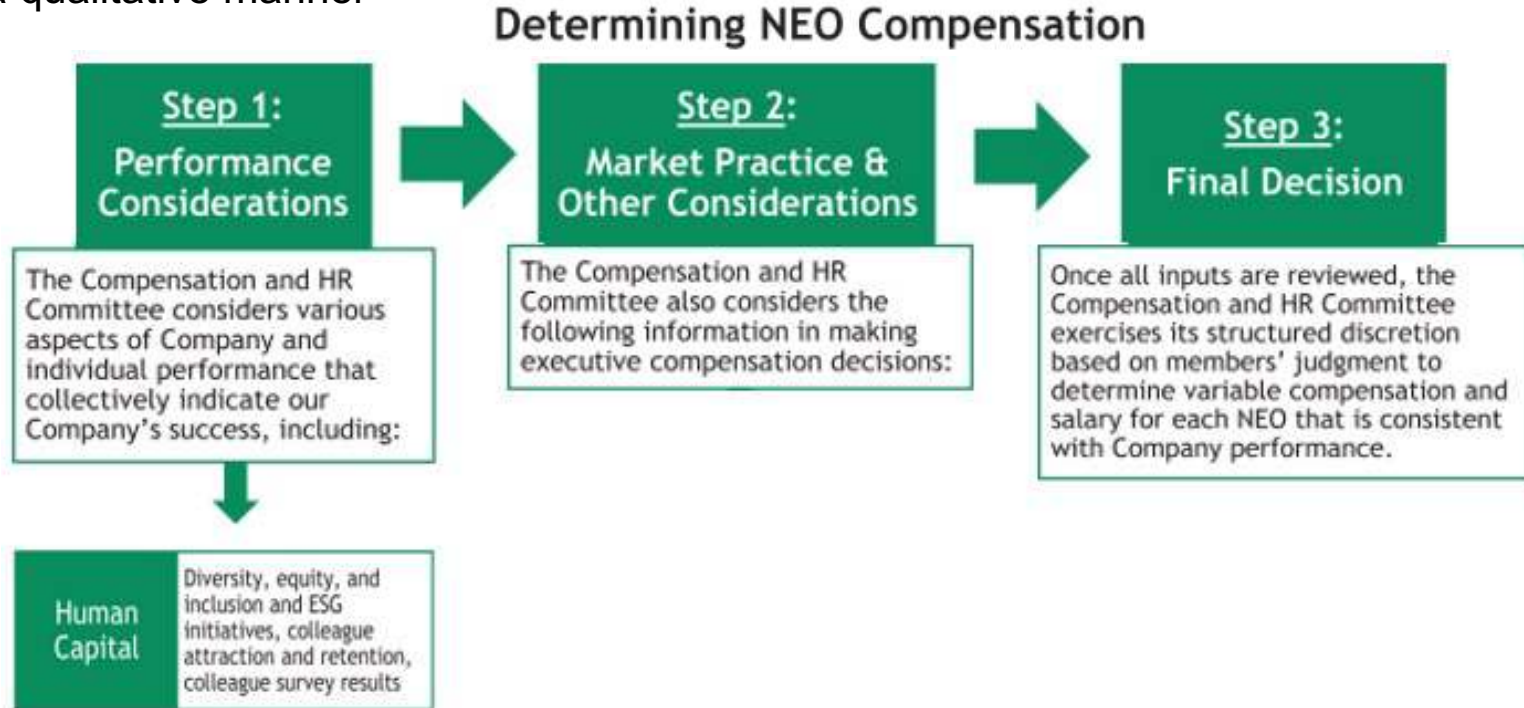
**Discretionary
Consideration**

**Weighted
Component**

Modifier

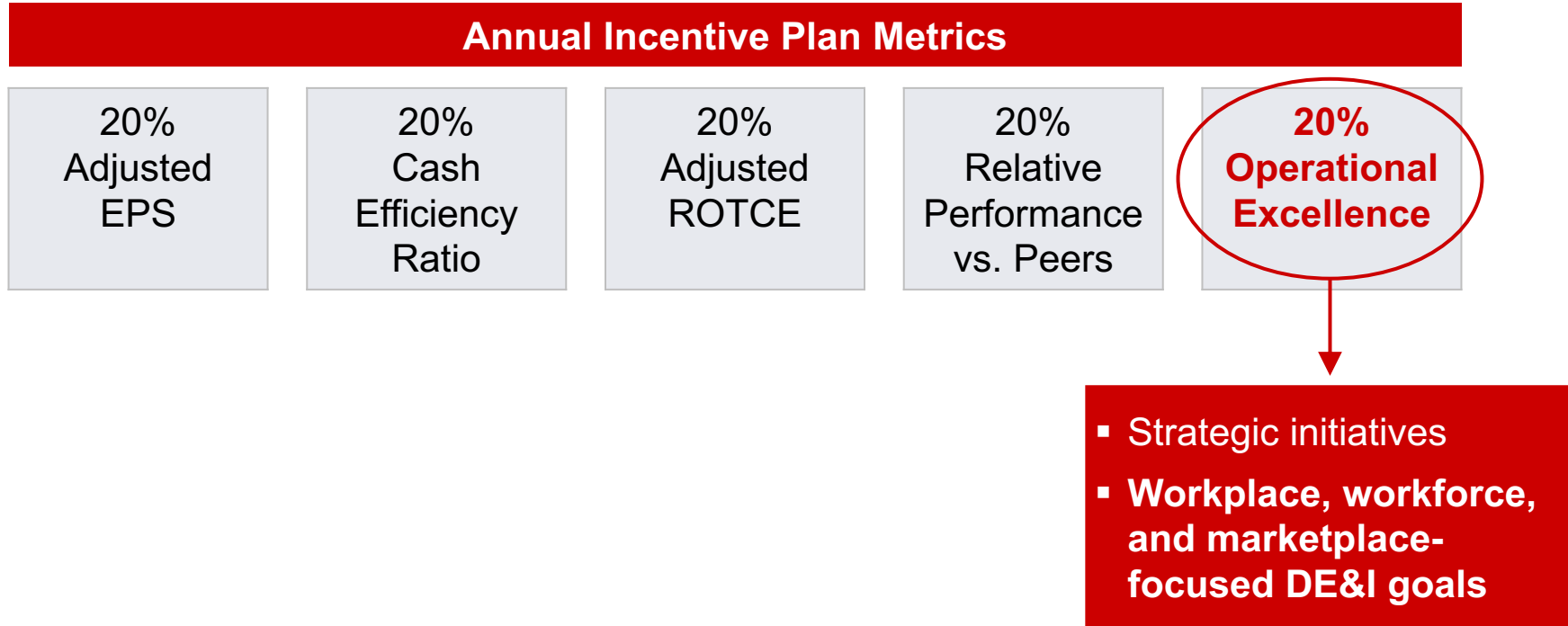
Citizens Financial Group Approach

- Structured discretion determines variable compensation and incorporates DE&I performance in a qualitative manner

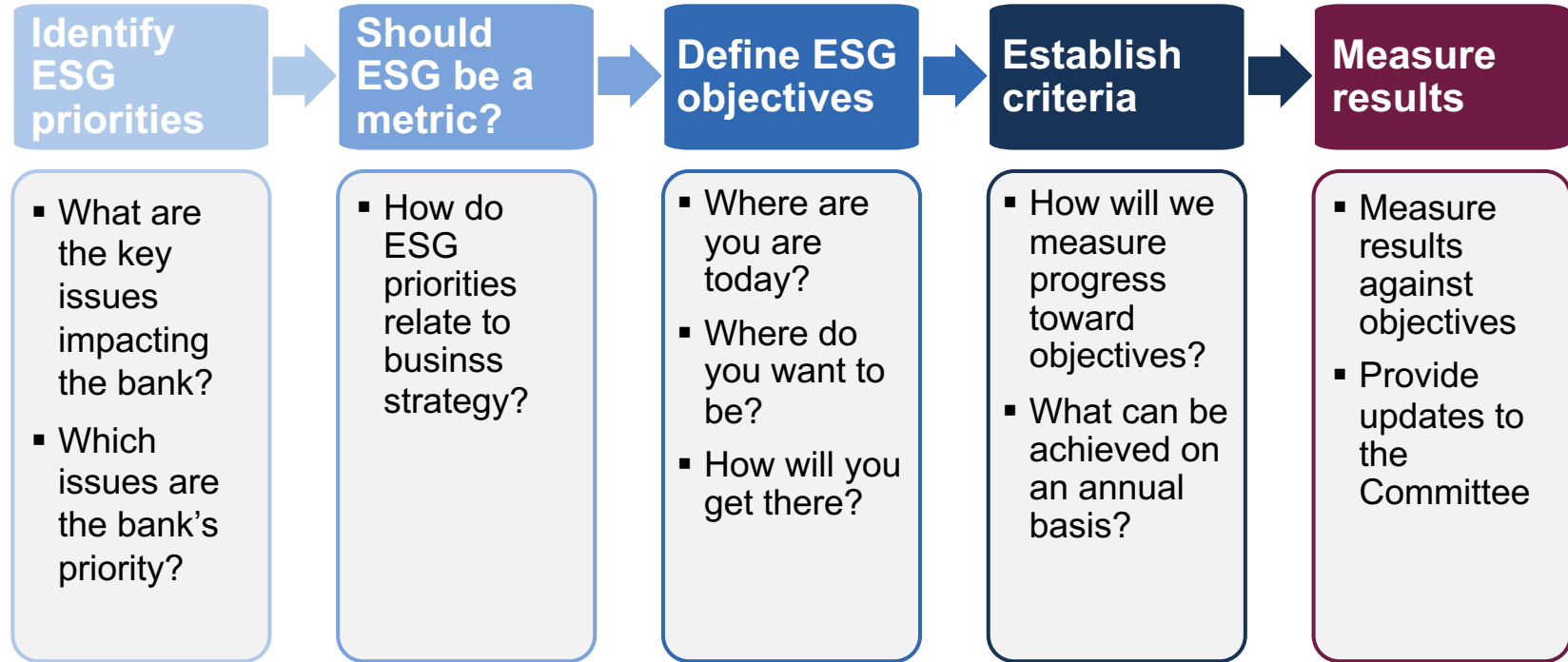


KeyCorp Approach

- Annual incentives include DE&I goals as part of a strategic component



Is an ESG Metric Right for Your Bank?



Shareholder and Proxy Advisor Considerations

- Discretionary vs. formulaic
- Quantitative vs. qualitative measurement
- Disclosure of goals

Key Takeaways

- ESG metrics are most commonly incorporated into the annual incentive plan
- DE&I metrics are the most common ESG metrics utilized among banks
- Typically measured in a qualitative manner
- Unintended consequences
 - Disclosing missing a goal
 - Signaling importance of certain ESG metrics over others (e.g., DE&I vs. sustainability)
 - Differing perspectives from stakeholders
- Challenges of including ESG in the LTIP
- What gets measured, gets done

Creative Solutions from a Dedicated Team



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