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2017 COMPENSATION SURVEY
Rewards of Board Service

WHITE PAPER

Compensation Advisors

A Member of Meyer-Chatfield Group

Are bank boards becoming savvier?

In 2007, the life of a bank board member was less stressful. That was before Lehman Brothers Holdings filed for bankruptcy, before the full impact of the financial crisis was felt by the nation's banks and almost three years before the Dodd-Frank Act was passed. By contrast, Bank Director's 2012 Compensation Survey found bank boards "Overworked, Underpaid and Unappreciated."

However, directors may be breathing a little easier or at least have adjusted to their enhanced responsibilities, according to our findings in the 2017 Compensation Survey, sponsored by Compensation Advisors, a member of Meyer-Chatfield Group. This white paper looks at the evolving trends both in composition and compensation that have occurred over the past ten years.

Today, most directors—73 percent—believe that their compensation is competitive enough to attract new board members. Just seven percent of the independent directors and chairmen responding to this year's survey cite additional income as the greatest reward for board service—meaning that attracting top talent to the board doesn't boil down to money. "Compensation is not a primary driver in choosing to serve on a board," says Flynt Gallagher, president of Compensation Advisors. "You'll never pay them for the actual value of the time spent."

As the oversight responsibilities of bank boards expand, fueled not just by the regulatory environment but also an evolving marketplace, the composition of bank boards are gradually shifting to meet these new demands. Sixty percent of survey respondents say their board has a plan in place to identify prospective directors, and 51 percent say their board will actively seek to become more diverse in the next two years.

But will today's banks be able to find and attract the board members needed to take the organization into the future?

Changing Pay & Responsibilities

The amount of time that directors spend on board activities every month—from time in meetings to education and training—has increased 50 percent since the financial crisis: The 2007 review found directors spending a median of just 10 hours a month on board activities. Median hours spent related to the board spiked to 20 hours per month in the surveys conducted in 2015 and 2016. However, this year's survey indicates that median hours on board activities dropped to 15 hours per month.

Do boards have a better handle on their enhanced regulatory responsibilities following the passage of Dodd-Frank? "Yes. It has been our experience that boards are confident in navigating the 'new' regulatory environment, both within compensation practices and general operations," says JR Llewellyn, senior vice president at Compensation Advisors. "On a cautionary note, although earnings continue to improve and capital markets remain strong, boards need to continue to be proactive in efforts to take advantage of market opportunities. Accordingly, I would anticipate directors to spend more time evaluating strategic initiatives such as M&A, fintech partnerships or diversified business lines."

Given emerging competitive challenges, it's worrisome that boards could be spending less time on banking issues. "Although banks have weathered the downturn and regulatory pressures, board members should be spending equivalent time in helping banks develop new business lines and opportunities to address the compressed margins and competitive environment," says Llewellyn. "I would expect directors to be spending at least the same amount of time on banking activities as new challenges are apparent within the industry."

Forty-four percent of respondents report that the board most recently raised director pay in 2016 or 2017. (A consistent portion of respondents reported a pay raise within the prior two years in 2015 and 2016.) Over the past decade, meeting fees paid to independent directors have increased 50 percent, from a median of $600 per meeting in the 2007 survey to $900 in fiscal year 2016. (All compensation data reported in the 2017 Compensation Survey reflects FY 2016.) The results indicate an annualized increase of an estimated 4.15 percent.

More time spent in boardrooms and on related activities has resulted in a shift not only in ***how much***, but ***how*** boards are compensated. Five years ago, meeting fees were the favored way to pay directors. But retainers, paid annually, have increased in popularity, and the 2017 Compensation

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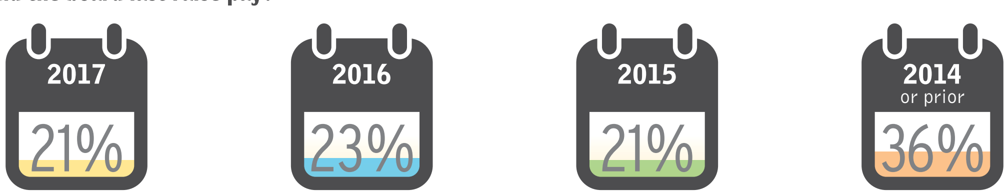
FIG. 1

When did the board last raise pay?

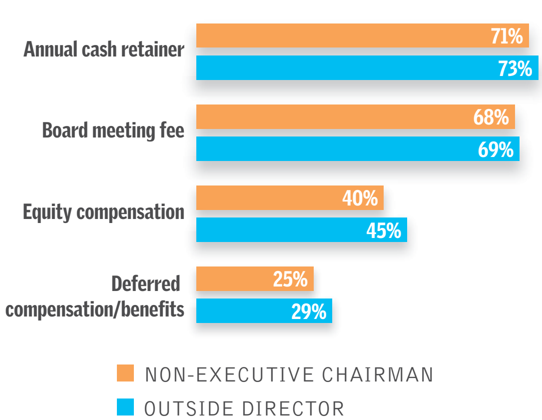


Survey finds this method of pay has finally overtaken meeting fees as the preferred choice of boards—but only by a hair. Seventy-three percent report that outside directors were paid an annual retainer in FY 2016, and 69 percent were paid a meeting fee. "We're seeing the continuing trend where an annual retainer is becoming more popular," says Gallagher. Of course, many boards use both forms of compensation: Forty-three percent report that independent directors were paid both meeting fees and an annual retainer in FY 2016.

The annual retainer paid to independent directors has also risen dramatically, from a median of $9,600 10 years ago to $21,000 in this year's survey.

FIG. 2

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



"Director pay for banks has historically been below market practices when compared to other industries," says Llewellyn. "Directors are far more aware of the responsibility and liability associated with directorship, and the past five years proved to push more regulation to the banking industry than probably most of the previous years combined." That awareness, in conjunction with their additional oversight responsibilities, has resulted in a larger pay package for bank board members.

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The percentage of respondents reporting that directors receive no additional benefits for board service has remained the same since 2012, at 46 percent. The most common benefit paid to directors, according to 31 percent of respondents, is travel expenses. Medical insurance and similar benefits may not be desired by board members, as 78 percent of respondents report that four or more directors hold some sort of paid position at another entity and are not retired. These directors, it would be inferred, would receive benefits such as medical and life insurance, and retirement benefits, through their employer rather than the bank board.

The survey findings for 2017 indicate that meeting fees are still preferred for committees over an annual retainer. Fifty-nine percent report that outside directors receive committee fees, and 37 percent say that committee retainers are paid. For committee members, median committee fees range from $315 per meeting for the loan committee, which meets a median of 12 times annually per respondents, to $600 per meeting for the executive committee, which meets six times a year, and the governance and nominating committee, which meets quarterly.

To account for differences in compensation struc-

FIG. 3

Board Composition a Growing Issue

52% don't have a director with technology expertise

33% don't have a woman serving on the board

70% don't have a younger director, defined as 40 years old or less

51% say the board will seek to be more diverse in the next two years

tures, Bank Director began collecting total compensation data both from respondents and proxy statements in this year's survey. Independent directors received median annual compensation of $38,610, ranging from a median of $10,800 for small banks, below $250 million in assets, to a median of $119,996 for banks above $5 billion in assets.

Committee assignments have expanded in the past decade. Bank Director began to track pay for risk committees three years ago and technology committees in last year's survey, as those issues have grown increasingly important.

Institutions above $10 billion in assets are required to establish a committee tasked with risk oversight, a practice that has trickled down to smaller organizations: Sixty-two percent of banks between $1 billion and $10 billion in assets have a separate board-level risk committee, according to Bank Director's 2017 Risk Practices Survey. According to the Compensation Survey, the risk committee is staffed with a median of five directors and meets five times annually. The median fee paid to members is $500 per meeting, and those that receive an annual retainer are paid $6,000. Committee chairmen earn a median of $500 per meeting and/or $10,000 annually.

Technology impacts all facets of banking, and in addition to their own internal efforts, more banks are partnering with technology firms to meet consumer demands and create more efficient processes within the organization. As part of its governance role, bank boards have found technology making its way to a regular place on the board agenda. Twenty-four percent have established committees focused on the issue, according to Bank Director's 2016 Technology Survey. The technology committee is staffed with a median of four directors and meets quarterly, according to the Compensation Survey. The median fee paid to members is $350 per meeting. (Retainer data for members was limited for this committee.) Technology committee chairmen earn a median of $400 per meeting and/or $10,000 annually.

Despite an increase in board attention on technology, many boards lack the necessary expertise to fully understand its impact. Fifty-two percent of respondents report that there isn't a director with a background or expertise in technology on the board. Finding technology talent could be tough for many boards because technology professionals may not be enticed by the same compensation packages as bankers.

Adding more diverse board members, whether by gender, race or some other factor, can also present challenges. While 73 percent of respondents believe that the board's compensation structure is competitive enough to attract the directors needed to govern the bank, convincing a director to join a board in a highly regulated industry carries some additional baggage.

This year, Bank Director repeated two questions from its 2007 compensation review to gauge the risks and rewards of board service, and how those sentiments have changed. In the 2017 survey, 62 percent of directors and chairmen cite personal growth as the greatest reward received for board service, followed by respect from the community, at 13 percent. Nine percent cite career growth. Ten years ago, just 27 percent cited personal or career growth. Another 27 percent cited respect from the community.

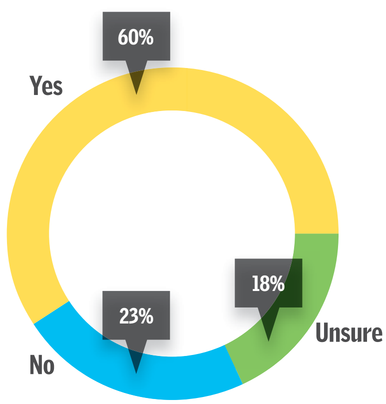
"Respect from the community—that used to be why you served on a community bank board," says Gallagher. "The primary responsibility to be a board member has changed over time. The days of a community bank board being allied with the CEO's agenda is in the pre-crisis past. Today's director must be an advocate and an independent voice of good governance. In today's banking arena, board members have become more aware of being held accountable and liable for the decisions they make."

Regarding the greatest risk faced by responding directors, 54 percent cite the risk of litigation, followed by financial loss (17 percent) and loss of reputation (10 percent). Surprisingly, 16 percent see no risk in serving as a director.

FIG. 4

Is there a plan in place to identify prospective new directors?

Figures don't add up to 100 percent due to rounding.



Despite the enhanced regulatory environment, how directors feel about the risks facing them hasn't changed all that much. In 2007, 58 percent cited litigation risk, 17 percent financial loss and 14 percent reputation loss; 10 percent saw no risk in board service.

As bank boards seek to add new talent, these aforementioned barriers should be examined.

FIG. 5

Attracting & Retaining the CEO

Median CEO age: 57

29%
say their bank's CEO will retire within five years.

48%
of total respondents haven't identified a CEO successor.

91%
believe the CEO compensation package is competitive enough to attract/retain the CEO.

67%
who believe the CEO compensation package could be improved say the bank should offer equity.

52%
paid equity grants to their bank's CEO in FY 2016.

12%
would consider a CEO candidate without banking experience.

"If something happens to the bank, [directors] suffer as well," says Gallagher. "The majority of directors are still working in their own careers, and they've got to worry about litigation and reputation risk."

Executive Talent Should Be a Board Priority

For all that's changed, much has remained the same—including the compensation challenges facing boards. Today, as they did five years ago, directors and officers indicate that tying compensation to performance is the top issue facing boards and management teams. But succession planning has quietly become a pressing marketplace and regulatory issue—one to which boards may not be paying enough attention.

Indeed, succession planning may be the elephant in the room that boards are ignoring: Forty-eight percent of respondents indicate that the board hasn't identified a successor or potential successors for the chief executive, and just 17 percent indicate that developing a succession plan is a top challenge.

Twenty-nine percent say their bank's CEO will retire within the next five years. Of those whose bank lacks a successor for the CEO, 53 percent say the CEO doesn't plan to retire soon. Twenty-five percent say they have a young CEO. Nevertheless, there's always a chance that the CEO could leave for another opportunity or other reasons, such as health. "You always need to have a potential successor identified, even for the short term," says Llewellyn.

FIG. 6

Median CEO Compensation (FY 2016)

Bank Ownership	All	Public	Private	Mutual
Salary	$366,250	$465,000	$244,000	$336,000
Cash Incentive	$131,697	$213,958	$40,000	$62,500
Equity Grants (fair mkt value)	$240,160	$395,070	$35,000	n/a
Benefits & Perks	$35,000	$45,911	$15,000	$40,000

Eighteen percent of those lacking a successor say the bank lacks the necessary internal talent. Retaining key people is a top challenge for 30 percent of respondents, as well as identifying successors for key executive positions, for 26 percent—meaning that a number of banks need to recruit and retain a stronger bench. Seventy-seven percent of respondents say the bank pays enough to attract and retain the necessary executive-level talent to sustain the bank, and the vast majority of respondents—93 percent—believe that their compensation package is competitive with that of other financial institutions.

However, Gallagher recommends that boards not be overly confident in their levels of compensation. "Many banks believe they pay enough, but at the same time they're losing people," he says. "A competing bank that needs a successor is willing to do whatever it takes to get one. Your young CEO could be enticed to leave by a competing bank. That's why having a properly structured compensation plan in place is vital."

Is your bank willing to pay what it takes to attract top talent?

About the Survey

Bank Director's 2017 Compensation Survey, sponsored by Compensation Advisors, a member of Meyer-Chatfield Group, examines trends in executive and board compensation, including CEO succession and board composition. The survey also tracks salary data for CEOs, chairmen and independent directors. The survey was completed by 286 independent directors, chairmen, chief executive officers, human resources officers and other senior executives from U.S. banks in March and April 2017. Additional data on CEO and board compensation was supplemented using data from the proxy statements of 108 publicly traded institutions for fiscal year 2016. Independent directors and chairmen account for 41 percent of the respondent data, CEOs 24 percent and HROs 13 percent. Fifty-seven percent of the combined proxy and respondent data derives from publicly traded banks, and half from banks with more than $1 billion in assets.

About Compensation Advisors

Compensation Advisors, a member of Meyer-Chatfield Group, has served the community banking industry providing guidance on the latest compensation and hiring developments. As benefit experts they convey insightful strategies and solutions to help retain, recruit and reward critical talent at all levels. Simply put, they find solutions others miss. Compensation Advisors works with financial institutions across the United States delivering: Executive and Director Compensation Reviews, Pay-for-Performance Incentive Plan Structures, Equity Allocation Plans, Benefit Plan Designs, Base Salary Reviews (company-wide), Risk Assessments, Regulatory Updates and Compensation Committee Governance. Visit the website at www.compensationadvisors.com.

About Bank Director

Since 1991, Bank Director has served as a leading information resource for the directors and officers of financial institutions. Through its print and digital editions of *Bank Director* magazine, executive-level research, annual conferences and its website, BankDirector.com, Bank Director reaches the leaders of the institutions that comprise America's banking industry. Bank Director is headquartered in Brentwood, Tennessee.

Directors are spending more time in bank boardrooms. Here's how board compensation and sentiments about board service have shifted in the past decade.

BOARD PAY THEN AND NOW

2006  2016

THEN — CASH COMPENSATION AMOUNTS — NOW

Non-executive chairman

	THEN	NOW
Median meeting fee	$700	$1,000
Median annual retainer	$12,000	$30,000

Outside director

	THEN	NOW
Median meeting fee	$600	$900
Median annual retainer	$9,600	$21,000

THEN — BOARD STATS — NOW

Greatest reward for board service

THEN: 27% Respect from the community
NOW: Personal growth 62%

Median hours spent on board activities per month

THEN: 10
NOW: 15

Greatest risk facing directors

THEN: 58% Litigation risk
NOW: Litigation risk 54%

THEN — COMMITTEE MEETING FEES — NOW

THEN

	MEMBER FEE
AUDIT	$475
COMPENSATION	$400
EXECUTIVE	$400
GOVERNANCE/NOMINATING	$400
LOAN	$300
RISK	n/a
TECHNOLOGY	n/a

NOW

	MEMBER FEE
AUDIT	$500
COMPENSATION	$500
EXECUTIVE	$600
GOVERNANCE/NOMINATING	$600
LOAN	$315
RISK	$500
TECHNOLOGY	$350

Source: Bank Director's 2017 Compensation Survey and 2007 Compensation Review