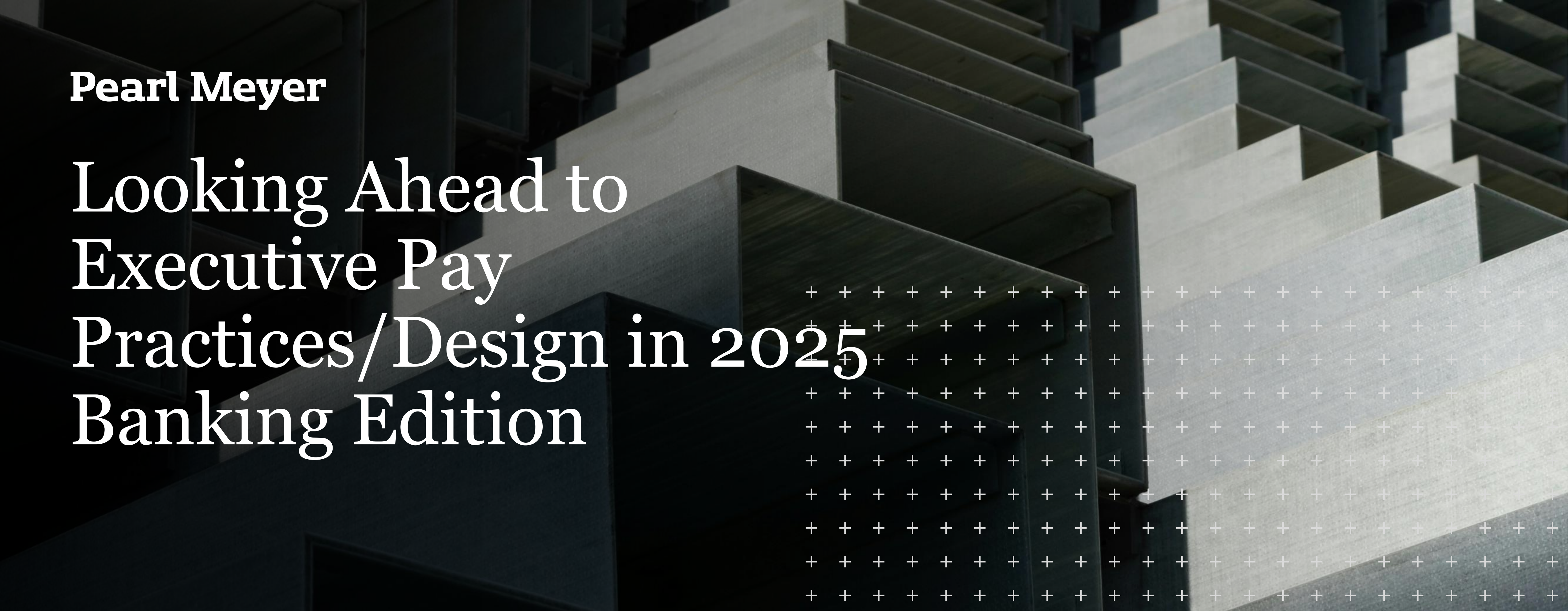
Pearl Meyer



Looking Ahead to Executive Pay Practices/Design in 2025 Banking Edition

Executive Summary

November 2024

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 2024, with total participation of 46 financial services companies.

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 financial impact of AI. As with prior surveys, it also covers subjects such as compensation philosophy, recent or anticipated incentive plan design changes, 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 2025 compensation planning.

Please feel free to contact us with any questions.

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Key Highlights

+ After a challenging 2023, changes to compensation plans for 2024 remained elevated relative to 2022, but expectations for 2025 are forecast at a lower rate of change.
+ Similar to prior surveys, most respondents target executive compensation at or above the market 50th percentile. While most respondents did not recently change (nor do they anticipate changes to) their executive compensation philosophy, nearly 18% 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 becoming more involved with broader human capital oversight, and 14% of respondents having already taken on additional oversight responsibilities.
+ About half of all respondents took one or more actions this year to address incentive plan goal-setting challenges, including delaying the timing for finalizing goals (9%), widening performance range spreads, and adding or increasing the emphasis on relative (vs. absolute) or qualitative (vs. quantitative) measures. Two thirds of all respondents described current-year incentive plan performance goals as having similar degrees of stretch compared with 2023, with nearly 21% citing more aggressive hurdles.
+ Only 30% of all respondents anticipate making changes to short-term or long-term incentive designs for 2025. 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.
+ AI remains a hot topic with banks making investments in training and development, software licenses, and for larger banks, hiring AI talent. To date few have included or contemplated including AI goals in executive compensation metrics, but a few have added it to their upcoming agendas.

Targeted Executive Pay Positioning

- Most respondents now target executive compensation at or above 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, generally through the delivery of LTI.
- While 71% of respondents have not changed (nor plan to change) their executive compensation philosophy, 18% increased targeted pay positioning vs. market and 11% increased the overall emphasis on variable pay (STI and/or LTI) primarily by increasing LTI awards.
- Principal reasons for targeting pay above median include a tight labor market and targeting stretch goals.

Pay Component	Targeted Pay Positioning (% of All Respondents)			
	Below 50th Percentile	At 50th Percentile	Above 50th Percentile	No Positioning
Base Salary	9%	44%	39%	9%
Short-Term Incentives (STI)	7%	41%	31%	22%
Long-Term Incentives (LTI)	4%	30%	28%	37%
Total Direct Compensation	7%	33%	48%	13%

Peer Group Selection for Compensation Comparisons

+ More than 75% of respondents listed company size among their top three most relevant factors for market benchmarking and peer group development, with approximately one third also selecting competitors for business/talent, even if not falling within a comparable size.
+ Company size, company performance, and talent competitors—even if not falling within a comparable size—was generally uniformly important regardless of asset size, while geography and company performance declined as asset size increased.
+ Business model, while never the most important factor, increased in consideration as asset size increased.

Selection Criteria	% Most Important	% 2nd Most Important	% 3rd Most Important	% Within Top 3
Company Size	15%	48%	15%	78%
Company Performance	28%	4%	11%	44%
Geography	0%	15%	26%	41%
Talent Competitors	2%	13%	15%	30%
Business Model	0%	7%	15%	22%

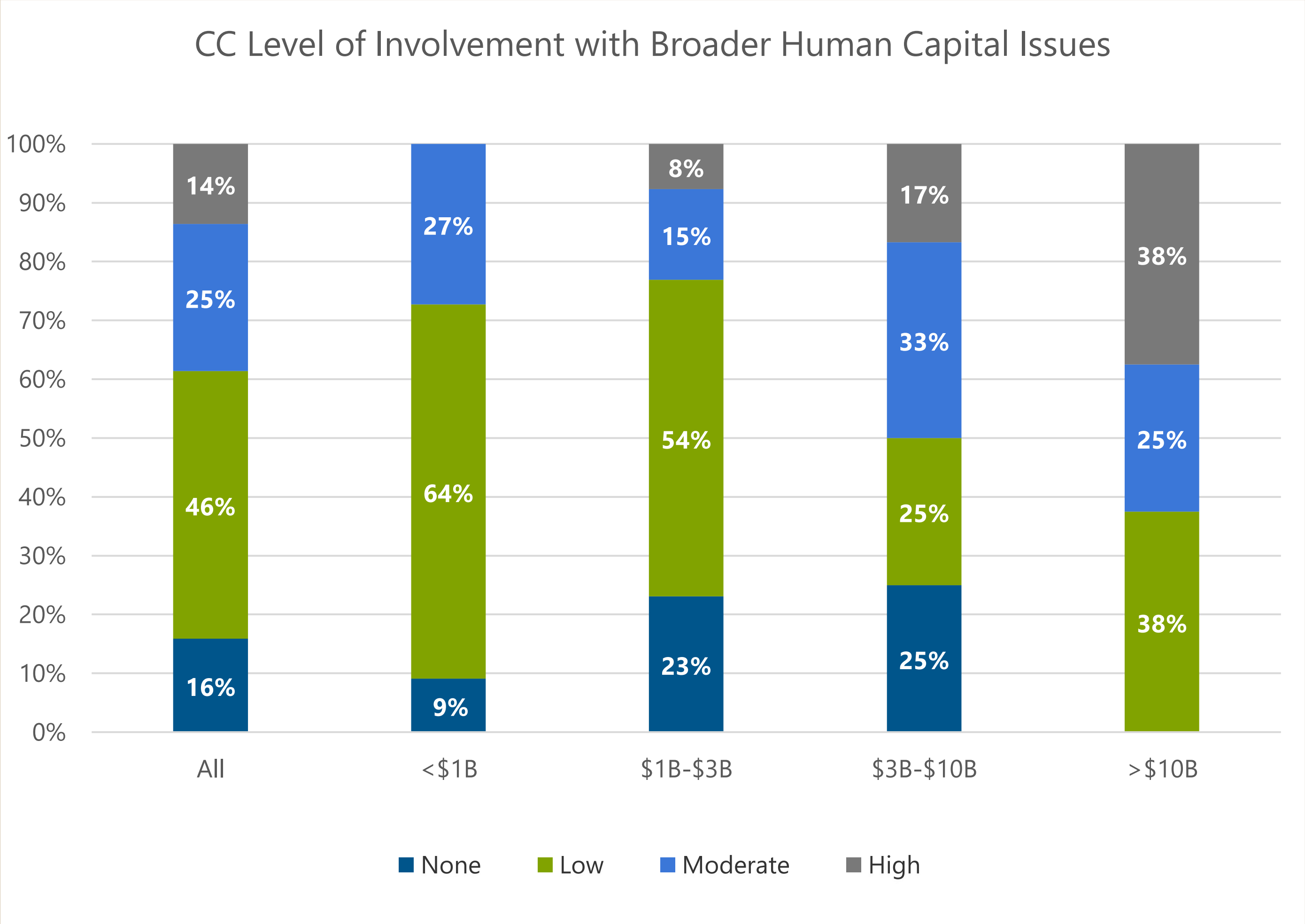
Compensation Committee Oversight Roles

- In addition to executive pay, most compensation committees are also responsible for executive succession planning across all asset sizes as well as for board remuneration.
  - Respondents reported increased compensation committee oversight within the past year, typically as it relates to DE&I and other broader human capital-related topics.
- 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	<$1B Assets	>$10B Assets
Board of Director Pay	82%	64%	88%
Executive Succession Planning	73%	91%	75%
Diversity & Inclusion (D&I)	27%	9%	50%
Employee Engagement	27%	9%	75%
Culture	27%	18%	50%
Leadership/Talent Development	23%	9%	38%

Compensation Committee Oversight Roles (cont.)

- Compensation committees at publicly traded companies are typically more involved with broader human capital issues vs. other ownership types, with involvement increasing as asset size increases.
  - 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, 18% already have changed the name, and 9% are considering doing so.
  - Prevalence of moderate to high involvement levels tends to correlate with company size, with active oversight reported by more than 38% 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.

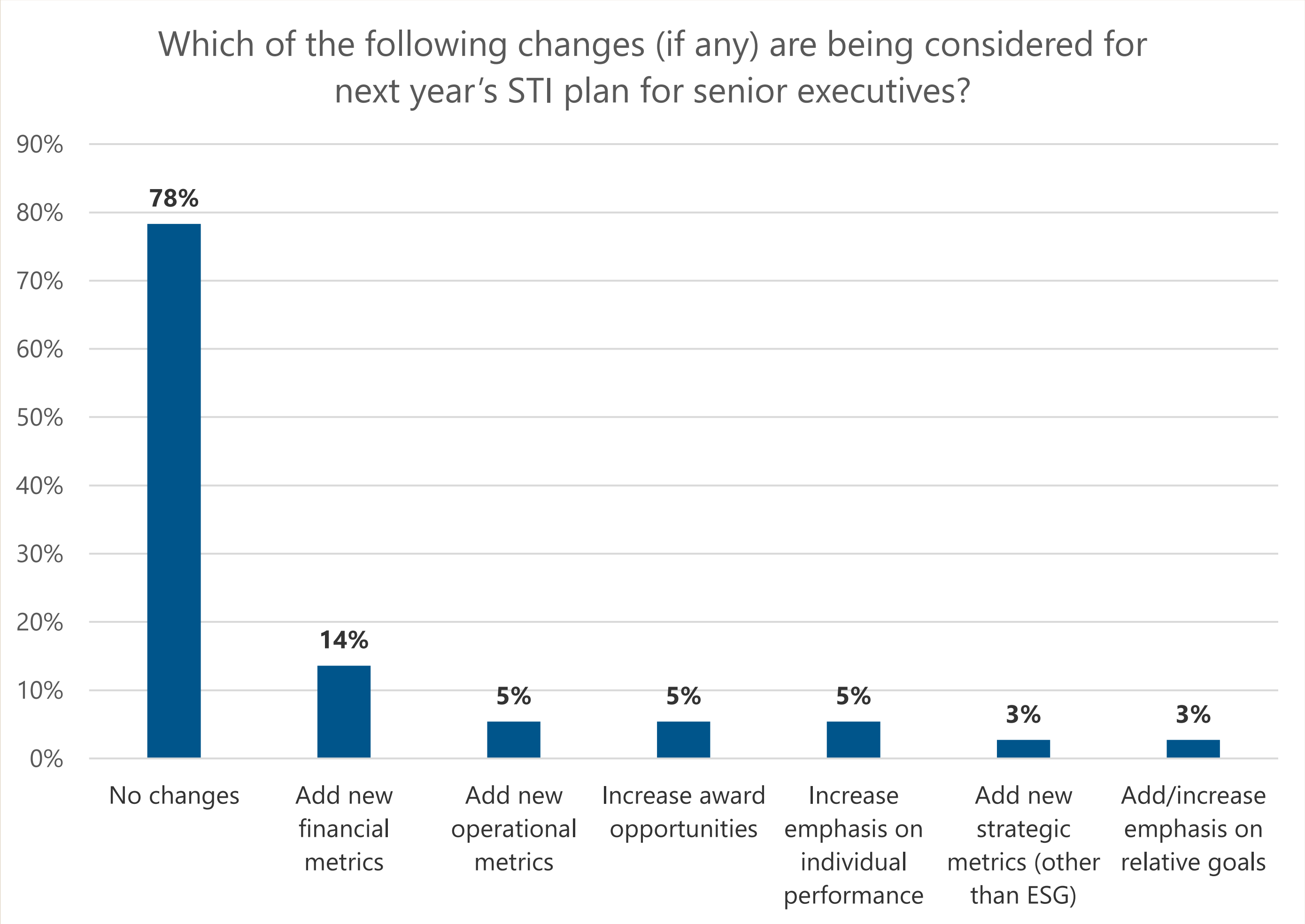


Actions Taken to Address Incentive Plan Goal Setting Challenges

- Less than half of all respondents took one or more actions to address incentive plan goal-setting challenges within the current environment, a reduction from the challenging prior year.
  - Prevalence of companies taking action was fairly uniform among asset sizes.
- About 67% of all respondents state that current performance hurdles have a similar degree of stretch vs. the prior year, with 21% using more aggressive and 13% less aggressive goals (others are uncertain or responded “not applicable”).

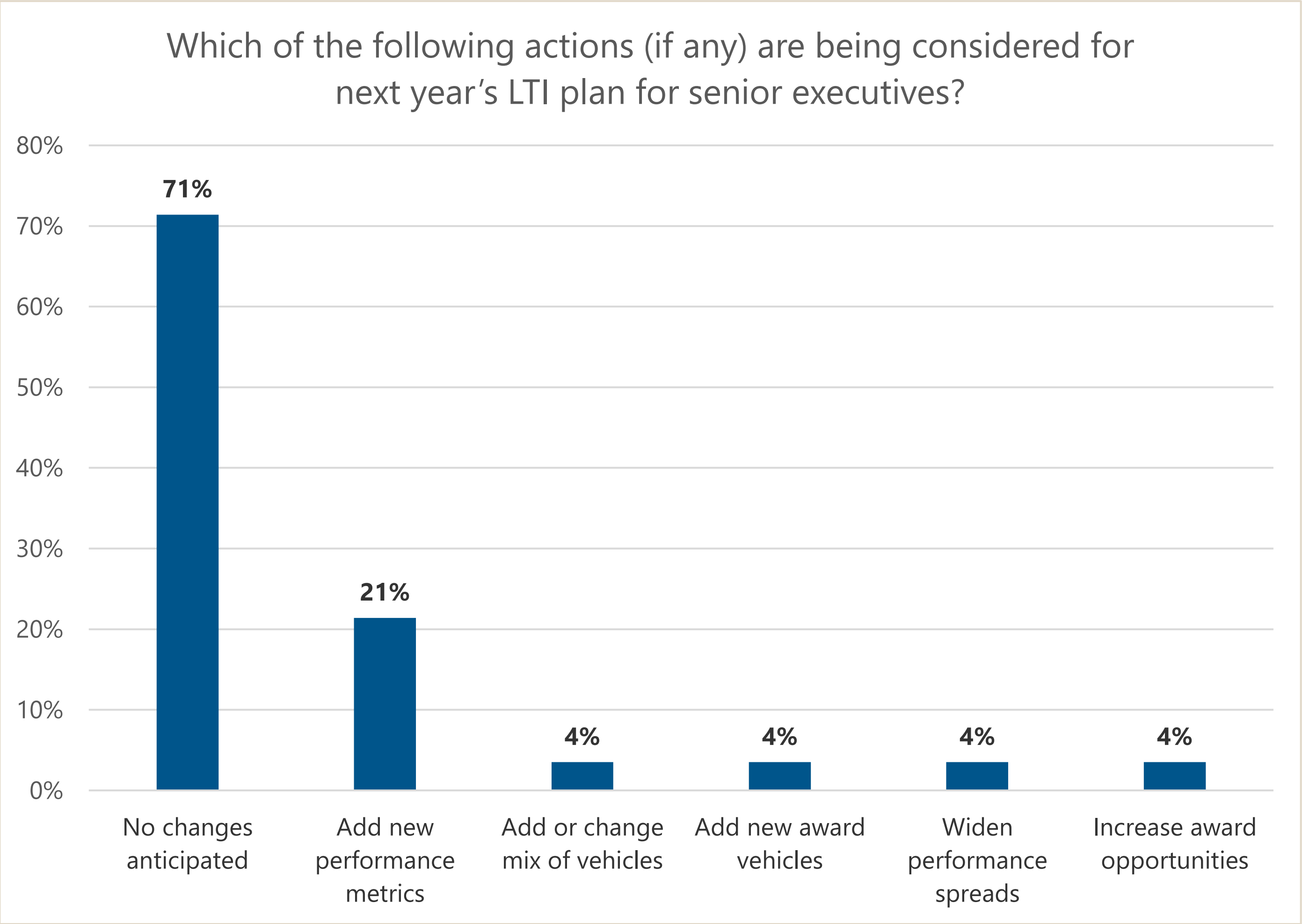
STI Plan Design Changes for 2025

+ More reflective of 2022 and significantly less than last year's expectations, only 22% of respondents are considering making changes to senior executive STI designs for 2025, with the most common actions (expressed as a percentage of all responses, not just for those making changes) shown to the right.



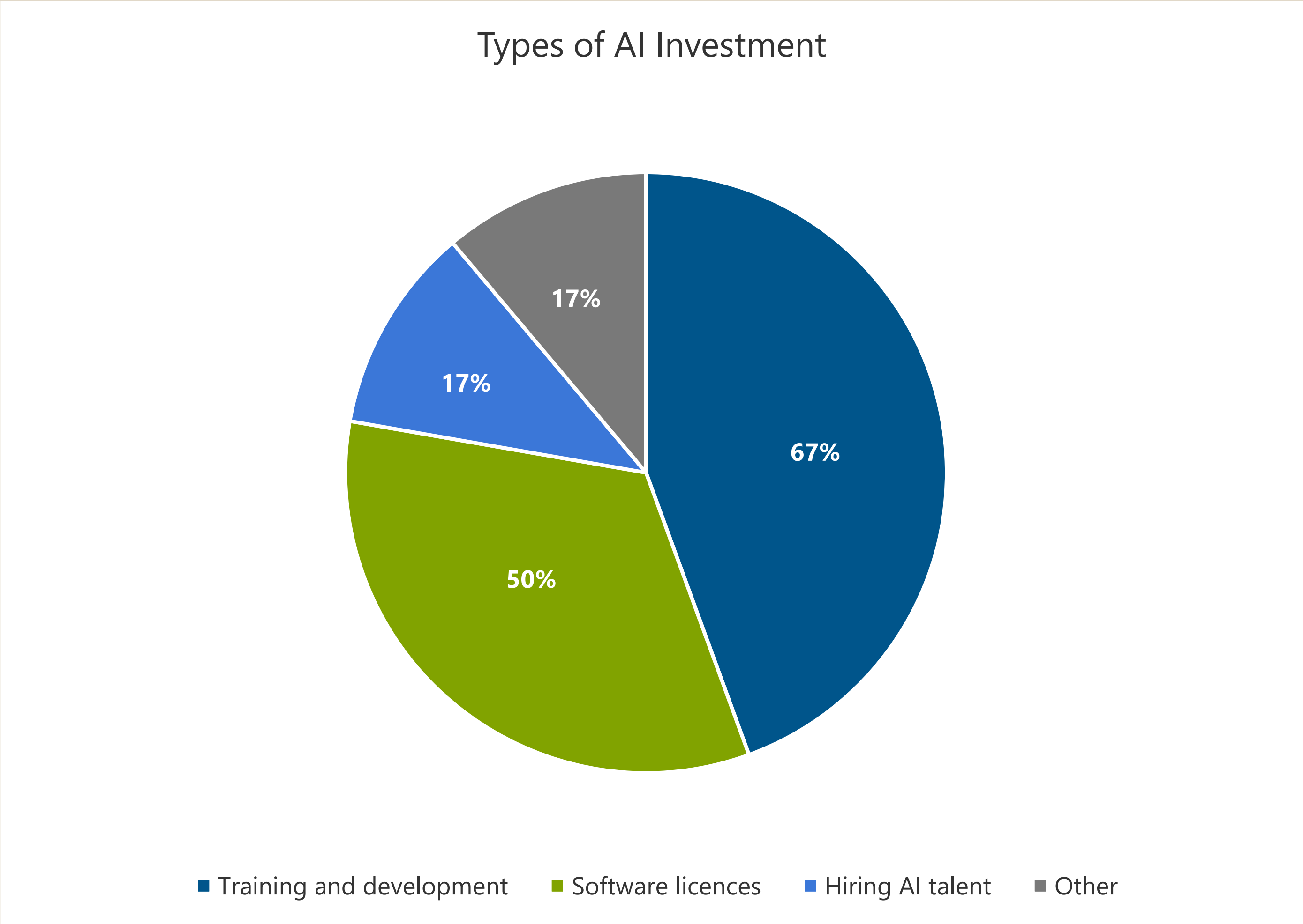
LTI Plan Design Changes for 2025

- Consistent with the past two years, about 30% of all respondents currently anticipate making one or more LTI plan design changes for 2025, with the most common actions (expressed as a percentage of all responses excluding "not applicable") shown to the right.
- 11% expect to increase executive participation levels while 4% expect to decrease executive participation levels.



Impact of AI on Company Performance and Executive Compensation

+ Larger banks are more likely to make or are planning to make significant AI investments; when made, these typically include acquiring software licenses and hiring or developing AI talent/skills. Some respondents are making multiple types of investments.
+ To date few respondents have contemplated incorporating goals related to AI in the executive compensation plan although it is on the agenda for 5% of respondents.



Demographics