



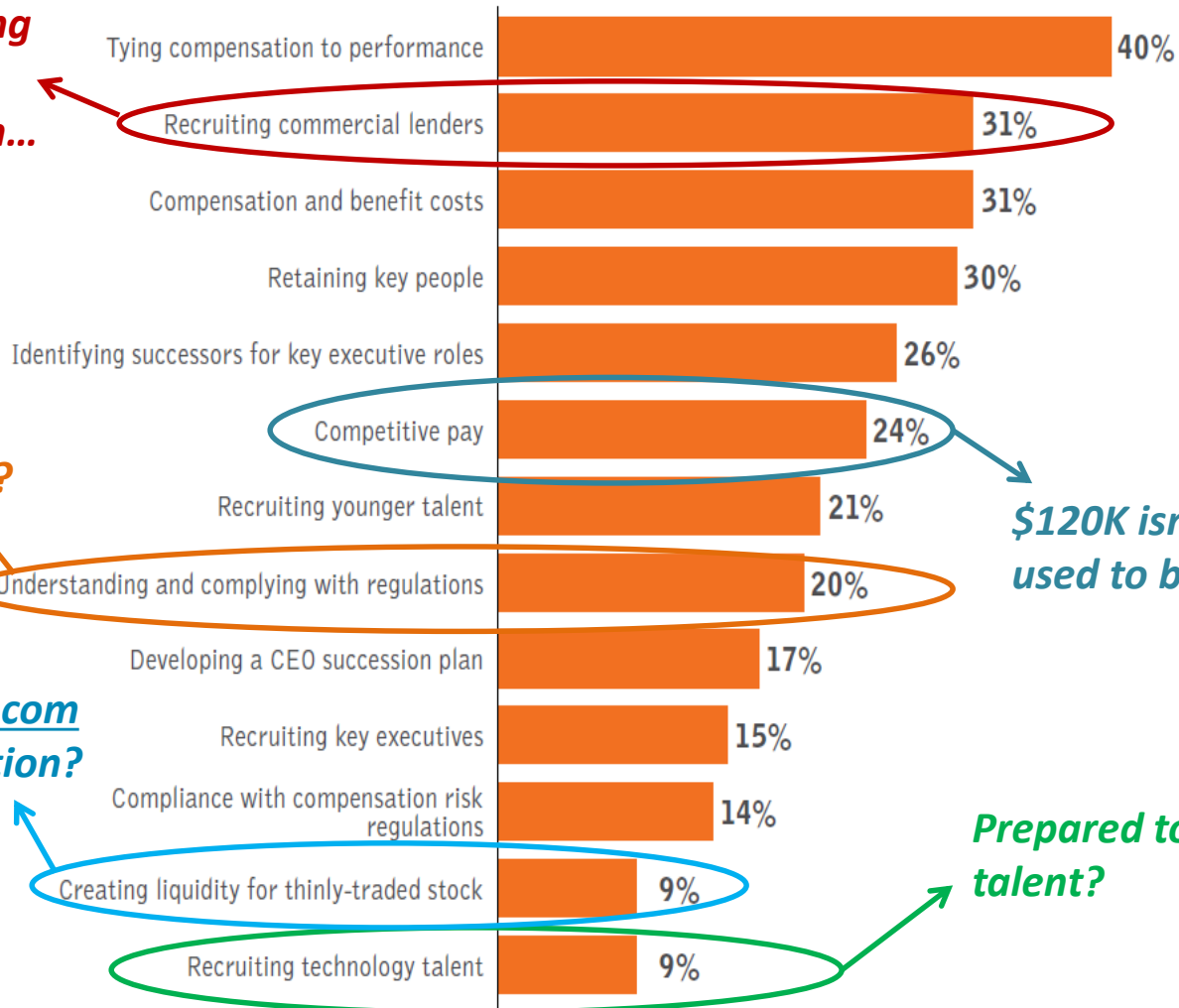
# Let's look at data relayed in the Bank Director 2017 Bank Compensation Survey.

Bank Director's 2017 Compensation Survey, sponsored by Compensation Advisors, a member of Meyer-Chatfield Group, surveyed 286 outside directors, chief executive officers, human resources officers and other senior executives of U.S. banks to examine trends in executive and board compensation. The online survey was conducted in March and April of 2017.

During that time, CEO and director compensation data for fiscal year 2016 was also collected from the proxy statements of 108 publicly traded institutions. Twenty-nine percent of the data represents institutions between \$1 billion and \$5 billion in assets, and 57 percent represents publicly traded companies.

# What are your top three challenges for 2017?

**Quit competing with cash compensation...**



**CEO Pay Ratio – have a strategy?**

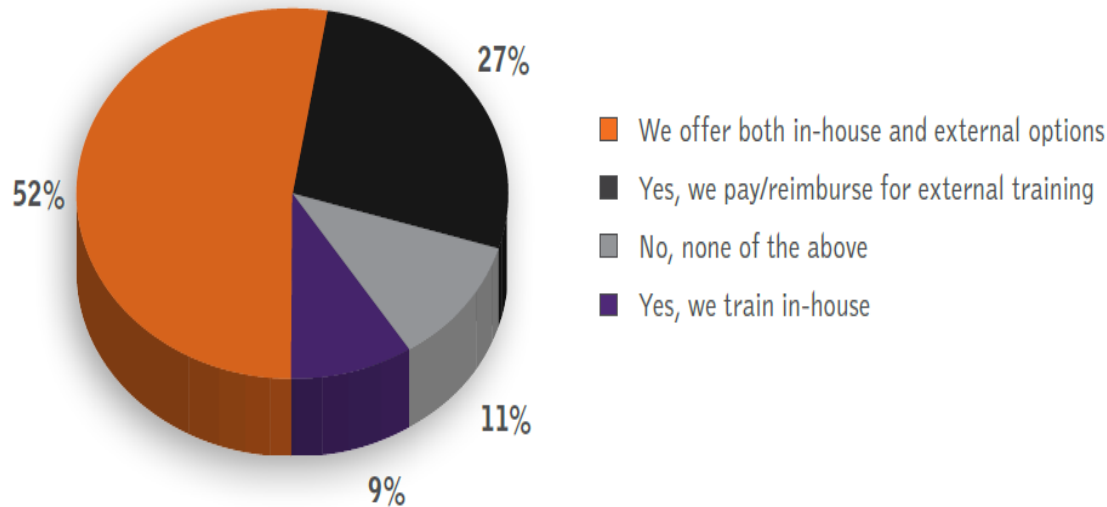
**\$120K isn't what it used to be...**

**[www.Banclist.com](http://www.Banclist.com)  
Potential solution?**


**Prepared to pay up for talent?**

# Does your bank offer a in-house training program or external training options to develop the skills needed at the executive level?

**BankDirector.**  
Strong Board. Strong Bank.



Bank Asset Size	>\$5B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
We offer both in-house and external options	70%	63%	45%	39%	51%	52%
Yes, we pay/reimburse for external training	15%	21%	32%	35%	29%	27%
No, none of the above	-	9%	11%	18%	14%	11%
Yes, we train in-house	15%	7%	12%	8%	6%	9%

 **Compensation Advisors**

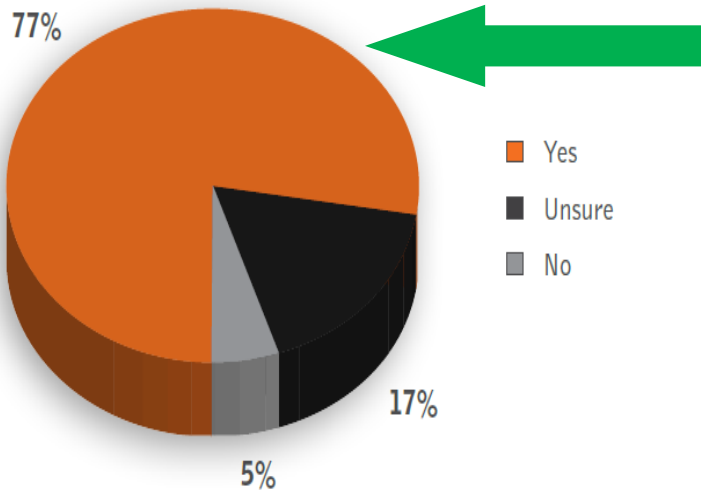
# Regarding executive talent & key positions, do you believe that your bank's compensation plans are competitive...?

WITH OTHER BANKS						
Bank Asset Size	>\$5B	\$1B - \$5B	\$500M- \$1B	\$250M- \$500M	<\$250M	Total
Yes	100%	99%	89%	95%	76%	93%
No	-	1%	11%	5%	24%	7%

*Banks are no longer just competing with banks for talent...*

WITH TECHNOLOGY COMPANIES						
Bank Asset Size	>\$5B	\$1B - \$5B	\$500M- \$1B	\$250M- \$500M	<\$250M	Total
Yes	26%	37%	48%	31%	27%	36
No	74%	63%	52%	69%	73%	64%

# Does your bank pay enough to attract and/or retain the necessary executive-level talent to sustain the bank?

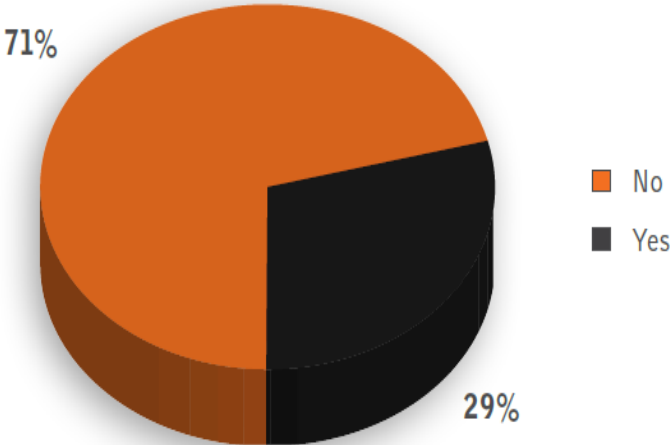


*The bank pays enough, but is it allocated correctly? Are the dollars sticky?*

Bank Asset Size	>\$5B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	89%	84%	72%	82%	57%	77%
Unsure	11%	15%	23%	10%	31%	17%
No	-	1%	5%	8%	11%	5%

# Do you expect your bank's CEO to retire within the next five years?

\*\*Indicates a base count of less than 10 within a category.



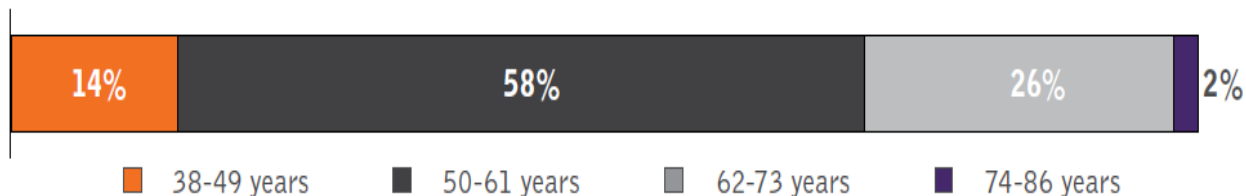
Where is the new CEO coming from...other banks? Your bank?

Bank Asset Size	>\$5B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
No	60%	69%	80%	70%	66%	71%
Yes	40%	31%	20%	30%	34%	29%

CEO Age (Years)	38-49	50-61	62-73	74-86**	Total
No	97%	84%	14%	25%	71%
Yes	3%	16%	86%	75%	29%

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# What is the age of your bank's CEO?



Bank Asset Size	>\$5B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Median CEO age	61	57	55	56	58	57

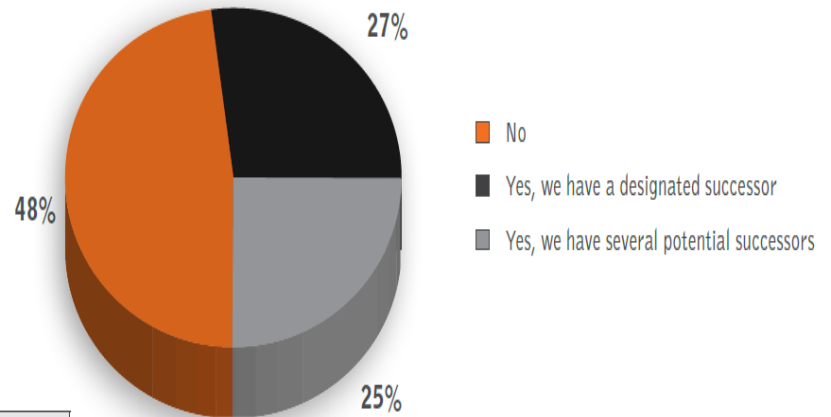
Bank Asset Size	>\$5B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
38 - 49 years	4%	12%	17%	22%	24%	14%
50 - 61 years	52%	63%	64%	56%	47%	58%
62 - 73 years	39%	23%	17%	20%	29%	26%
74 - 86 years	4%	2%	2%	2%	-	2%



# Has your bank identified a successor or potential successors for the CEO?

\*\*Indicates a base count of less than 10 within a category.

**48% say "NO" ...WOW!!!!!!**



Bank Asset Size	>\$5B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
No	19%	45%	61%	53%	44%	48%
Yes, we have a designated successor	25%	33%	20%	20%	38%	27%
Yes, we have several potential successors	56%	22%	20%	27%	19%	25%

CEO Age (Years)	38-49	50-61	62-73	74-86**	Total
No	59%	46%	43%	-	48%
Yes, we have a designated successors	16%	26%	31%	75%	25%
Yes, we have several potential successor	24%	28%	26%	25%	27%

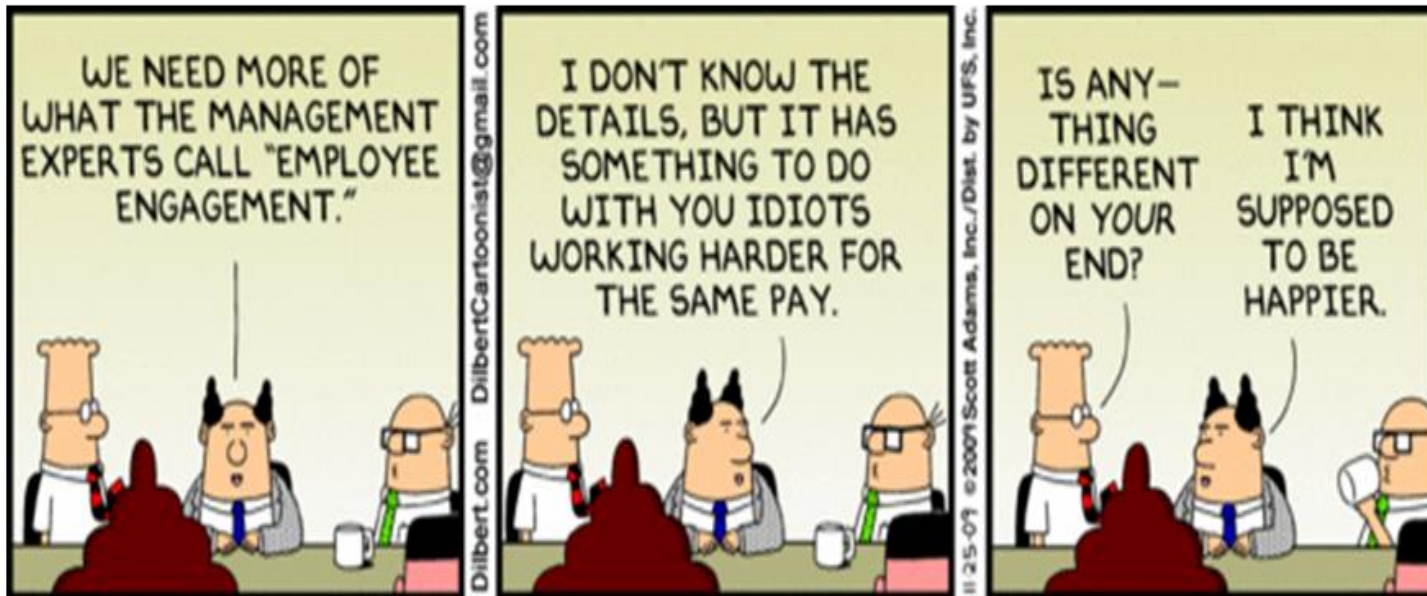
## Question:

- How does an organization motivate top talent?
  - Culture.
  - Driving a Sense of Value.
  - Compensation Structure.
  - The Market Influence.

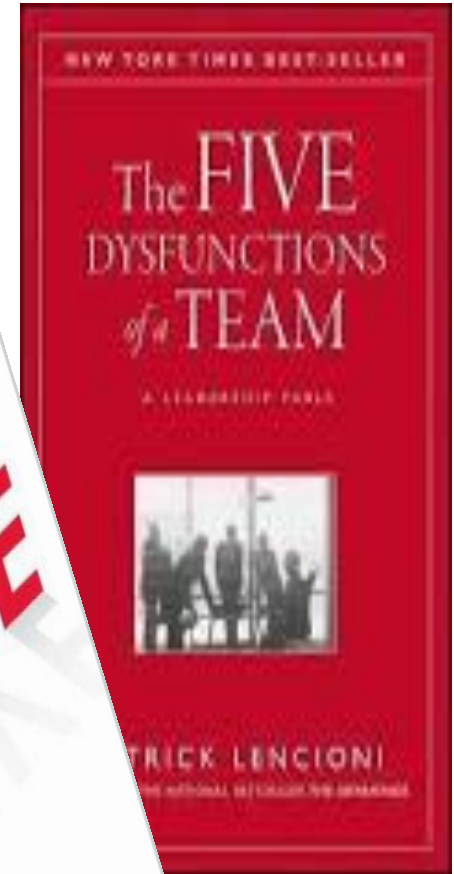
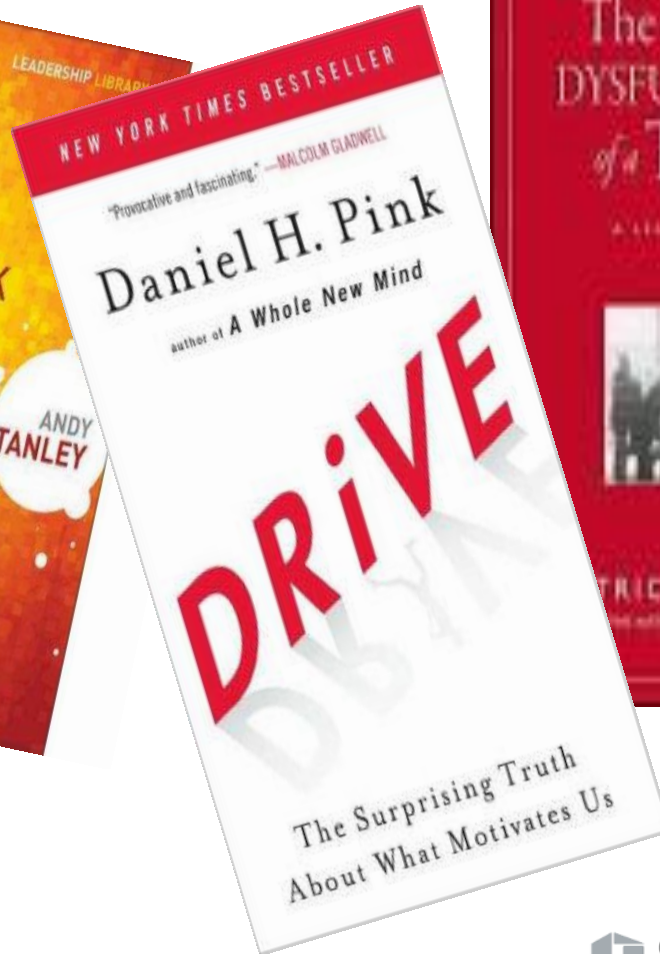
Is this an Art or Science...or both?



# Engaging employees...it's simple right?

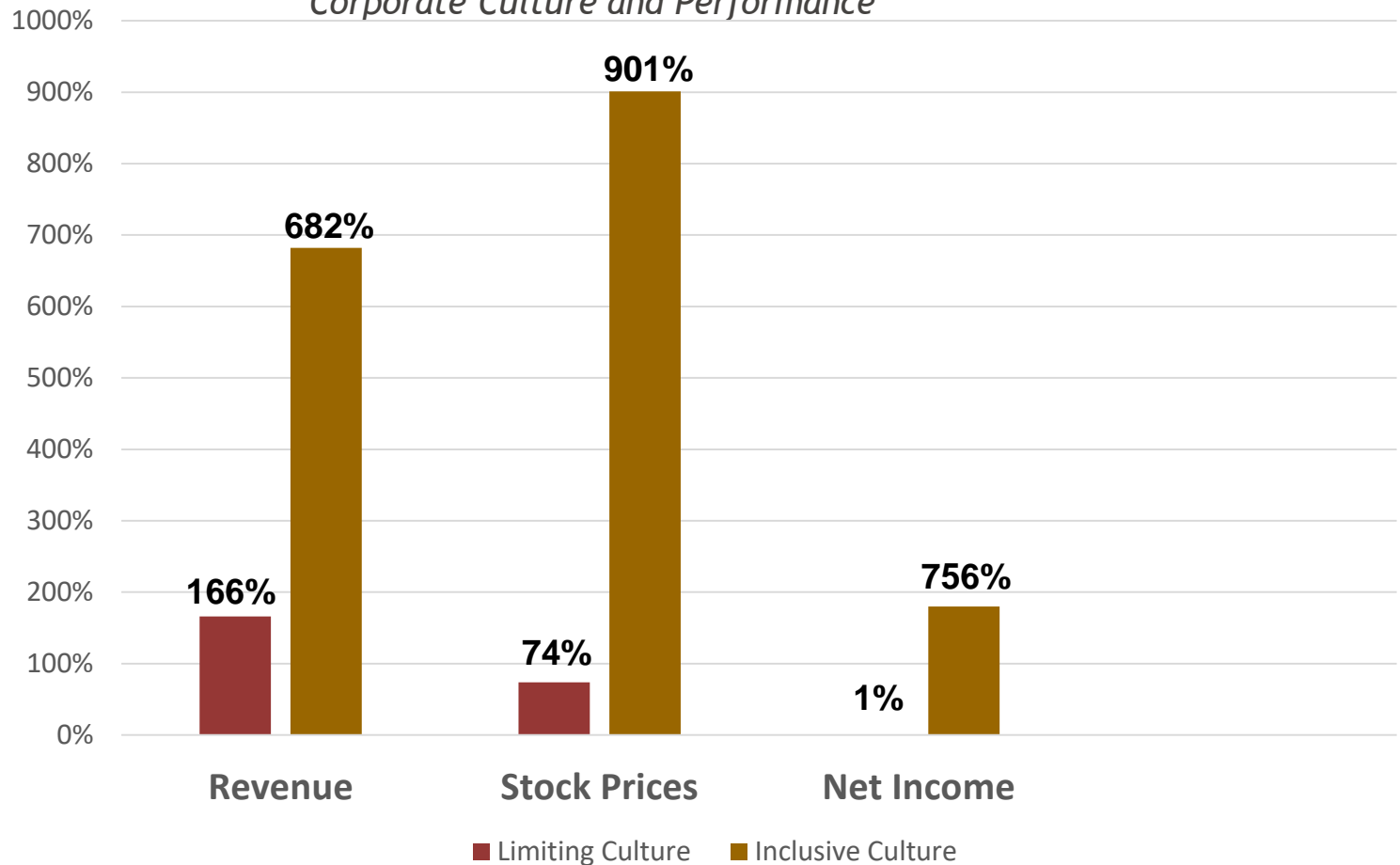


# Culture is the trump card...



# Why is culture so important? ...because it drives performance!

**Kotter & Heskett:** Study of 207 firms over an eleven year period as reported in their book *Corporate Culture and Performance*



Courtesy of



## What Drives Value? *Feelings...*

“People will forget what you said,  
people will forget what you did,  
but people will never forget how you made them feel.”

– *Maya*

*Angelou*



People must have a sense of being, belonging...

## But “FEELINGS” don’t pay the light bill...

- Compensation remains an integral facet of company success.
- Compensation should provide VALUE to the Employee AND the Company:
  - Find out what the employee VALUES
  - Provide enough of it to influence behavior

# So what is valued?

## What Different Generations Value

The top attributes that matter most to different generations of tech professionals.



### Millennials Value...

1	Competitive Salary
2	Benefits
3	Challenging / Interesting Work
3	Positive Organizational Culture
5	Open / Transparent Communication
5	Opportunities for Promotion
7	Manageable Working Hours
8	Strong Leadership
9	Solid Training / Skills Development
10	Financial Performance
10	Office / Team Environment



### Gen Xers Value...

1	Competitive Salary
2	Benefits
3	Challenging / Interesting Work
4	Open / Transparent Communication
4	Positive Organizational Culture
6	Manageable Working Hours
7	Strong Leadership
8	Financial Stability / Record of Success
9	Office / Team Environment
9	Opportunities for Promotion
9	Solid Training / Skills Development



### Boomers Value...

1	Challenging / Interesting Work
2	Positive Organizational Culture
3	Competitive Salary
4	Open / Transparent Communication
5	Benefits
6	Financial Stability / Record of Success
7	Strong Leadership
8	Manageable Working Hours
9	Office / Team Environment
10	Good Corporate Citizen / Strong Values
10	Solid Training / Skills Development



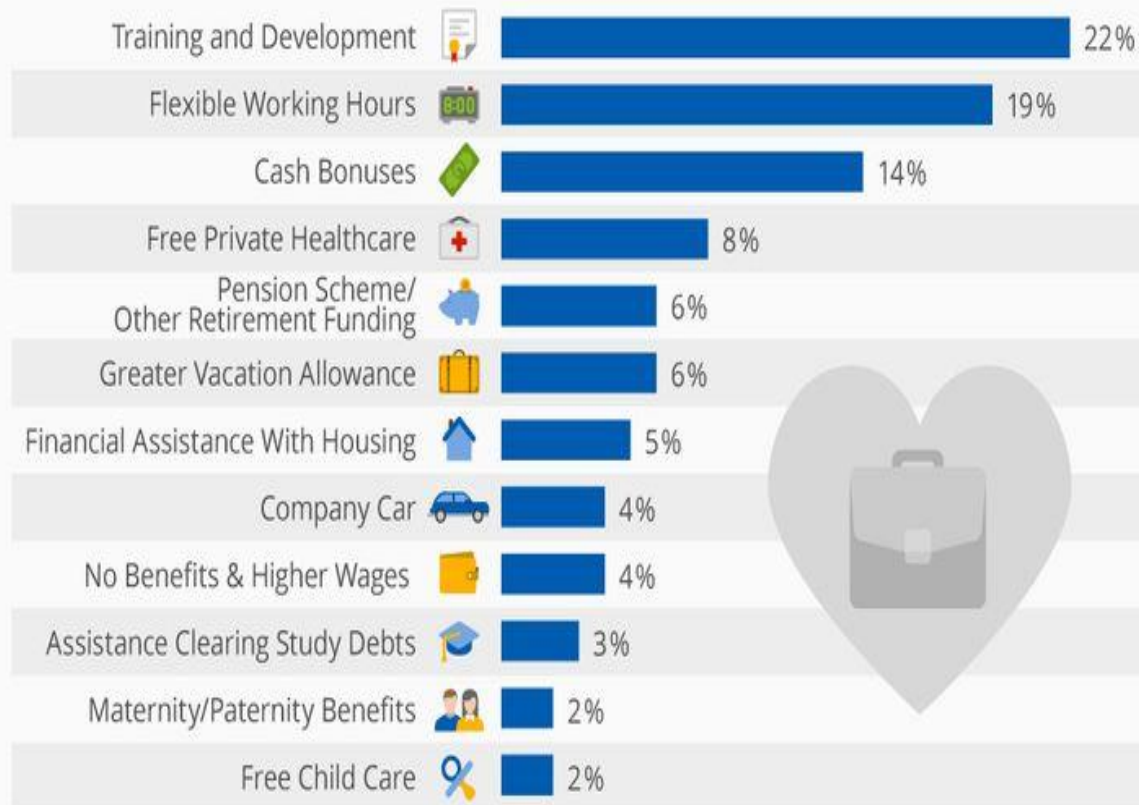
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# Difference between “Compensation” and “Benefits/Perks”?

## Which Working Benefits Do Millennials Value Most?

% of global millennials ranking each of the following benefits first



n= 4,364 graduates across 75 countries

Source: KPCB

Forbes statista

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# Why compensation & benefits matters...

30%

Say they lay awake at night **worrying about money.**

23%

Say they're less productive at work **because of financial worries.**

Work Redefined: A  
New Age of Benefits

MetLife 2017

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# The Compensation Tools You Have...



Salary - attracts talent



Annual cash incentives – to drive specific behaviors



Equity & LTI – executive and shareholder linkage



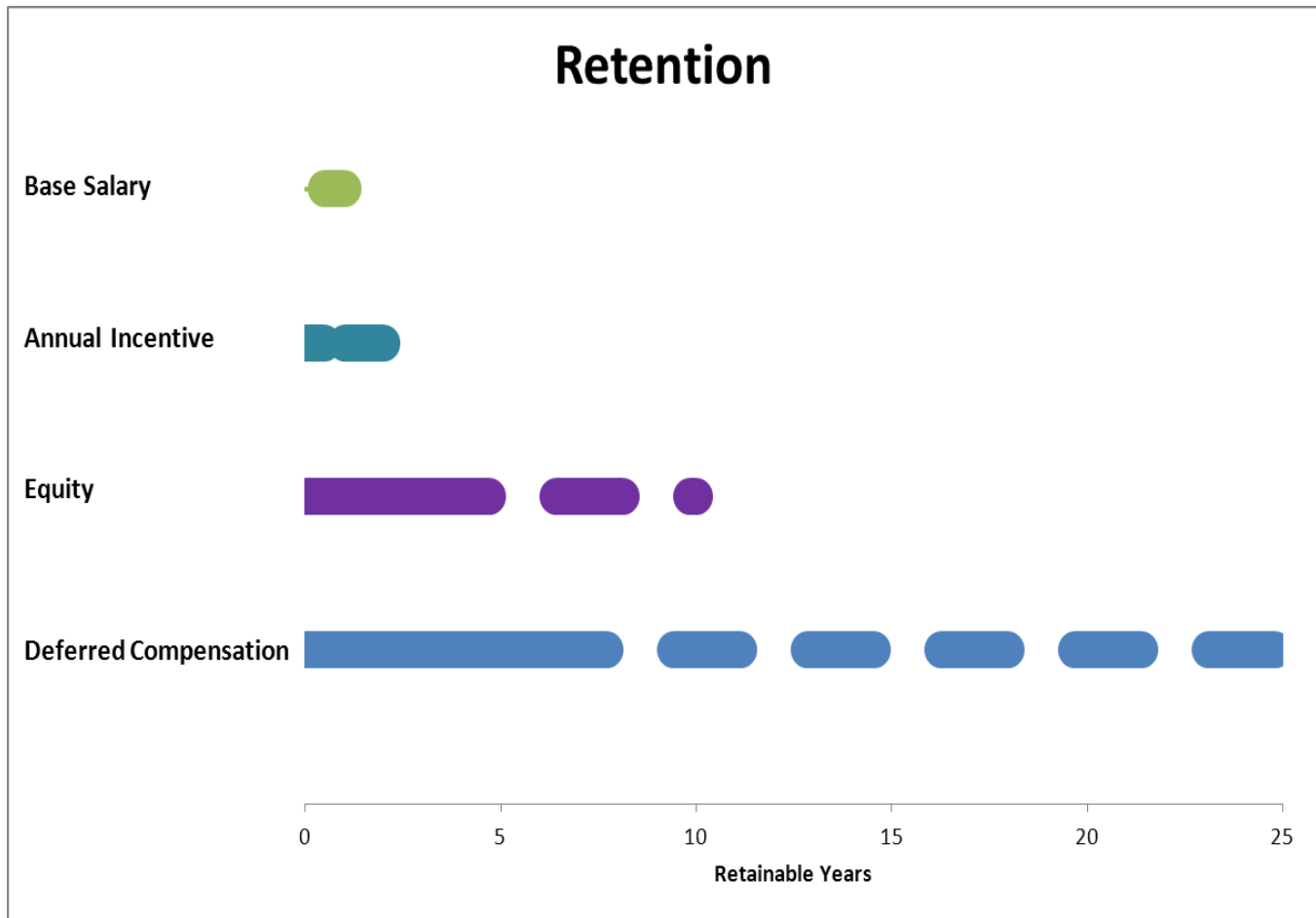
NQDC Plans – focus on franchise value and retention



Perks & Benefits – provides tools for client relationships, bank image and executive peace of mind



# How Effective are Our Tools?



# Annual Incentives

- Keep it SIMPLE!!
- Shareholders should get paid first.
  - Minimum Acceptable Return approach – good optics in proxy.
  - If reasonable returns can be justified, incentives are justified.
- There to drive specific results (execution).
  - Should support long term goals, which support strategic objectives.
- Metrics should be limited (recommended a max of 4).
  - Employee must be able to control outcome on some level.
  - For “associate level” – a portion should be on personal performance goals.
  - Professional objectives are not out of the question for some employees (certifications/education, community involvement, etc.).

# Equity & Benefits – Three Primary Types

## Equity

- Incentive Stock Option (ISO)
- Nonqualified Stock Options (NSO)
- Restricted Stock Awards
- Performance Adjusted Restricted Stock (PARS)

## Synthetic Equity

- Stock Appreciation Rights (SARS)
- Restricted Stock Units (RSU)
- Full Value Rights

## Nonqualified Plans

- Voluntary Deferral Plan
- Supplemental Executive Retirement Plan (SERP)
- LINQS+

# Equity & Synthetic Equity – Yes, this is too small to read!

Issues and Features Equity Types	Primary Compensation Use	Typical Recipient	Main Features	Key Accounting Issues	Key Legal Issues	Key Tax Issues	Key Administration Issues
Incentive Stock Options (ISO)	Attract. Motivate. Retain. Best for "Growth" opportunities.	C-level executives & management.	Preferential tax treatment. Limitations on award values. Captures upside appreciation.	Accounting based upon 'complex' valuations and assumptions. Can provide a challenge for privately held, or thinly traded companies.	FMV \$100K limit (can grant \$300K, but cannot vest more than 1/3 per year to maintain tax treatment). 2 year holding period must be met. Must comply with plan documents, Sarbanes-Oxley. ERISA. etc.	Taxed upon sale of options (not exercise). Possible AMT exposure.	General accounting and option tracking, to include forfeitures, exercises, expirations, etc.
Non-Qualified Stock Options (NQSO)	Attract. Motivate. Retain. Best for "Growth" opportunities.	General employee population.	Corporate tax deduction when exercised. Captures upside appreciation.	Accounting based upon 'complex' valuations and assumptions. Can provide a challenge for privately held, or thinly traded companies.	No specific rules other than complying with plan documents, Sarbanes-Oxley, ERISA, etc.	Taxed upon exercise.	General accounting and option tracking, to include forfeitures, exercises, expirations, etc.
Restricted Stock Shares (RSS)	Attract. Motivate. Retain. Best for Performance Driven Awards.	C-level executives & key management.	Intrinsic value in the award (as long as stock price remains above \$0). Typically less dilutive than options for same value.	Simple, straight line expense calculation. Accelerated vesting, such as retirement, accelerates the expense.	No specific rules other than complying with plan documents, Sarbanes-Oxley, ERISA, etc. If deferrals are allowed, IRC 409A needs be of consideration.	Taxed upon vesting (can be deferred if plan allows). Alternative, 83b election can be implemented at time of grant.	General accounting and share tracking. Must remain considerate of potential tax impact upon withholding, 83b elections and dividend rights.
Restricted Stock Units (RSU)	Attract. Motivate. Retain. Best for closely held companies.	General employee population.	Can be settled in stock or cash (impacts accounting treatment). Number of units times stock price determine value.	Mirrors restricted stock shares expense if settled in stock. If settled in cash, then liability accounting determines the end expense. Projected quarterly.	No specific rules other than complying with plan documents, Sarbanes-Oxley, ERISA, etc. If deferrals are allowed, IRC 409A needs be of consideration.	Taxed upon vesting (can be deferred if plan allows), if settled in stock. Taxed at time of receipt if settled in cash.	General accounting and unit tracking. Must remain considerate of potential tax impact upon withholding, dividend rights, if any.
Stock Appreciation Rights (SAR)	Attract. Motivate. Retain. Best for closely held companies.	C-level executives & key management.	Can be settled in stock or cash (impacts accounting treatment). Number of rights times stock price increase over 'basis' determines value.	Mirrors stock option valuations if settled in stock. If settled in cash, then liability accounting determines the end expense. Projected quarterly.	No specific rules other than complying with plan documents, Sarbanes-Oxley, ERISA, etc. If deferrals are allowed, IRC 409A needs be of consideration.	Taxed at time of exercise.	General accounting and rights tracking. Must remain considerate of potential tax impact upon withholding.
Phantom Stock Awards (PSA)	Attract. Motivate. Retain. Best for closely held companies.	C-level executives & key management.	Typically settled in cash. Provides mirror to restricted stock shares.	Liability accounting determines the end expense. Projected quarterly.	No specific rules other than complying with plan documents, Sarbanes-Oxley, ERISA, etc. If deferrals are allowed, IRC 409A needs be of consideration.	Taxed at time of receipt (if cash).	General accounting and PSA tracking. Must remain considerate of potential tax impact upon withholding.

# LTI Plan Designs

- Performance Based Long Term Incentive Plan Illustration

- Assumptions: 25% award as a percent of salary, 4% annual salary increase, crediting rate equal to ROE (7%), 3 year cliff vesting schedule and retirement at age 65 (alternative to the illustrations, a lump sum of the account balance could be distributed upon retirement)

Age	Salary	Contribution	Crediting Rate (ROE = 7%)	Interest Credited (\$)	Vested Payments	Account Balance	Estimated Annual Pre- Tax Expense
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
55	100,000	25,000	7%	0	0	25,000	<b>8,333</b>
56	104,000	26,000	7%	1,750	0	52,750	<b>18,750</b>
57	108,160	27,040	7%	3,693	0	83,483	<b>29,706</b>
58	112,486	28,122	7%	5,844	<b>30,626</b>	86,822	<b>32,898</b>
59	116,986	29,246	7%	6,078	<b>31,851</b>	90,295	<b>34,214</b>
60	121,665	30,416	7%	6,321	<b>33,125</b>	93,906	<b>35,582</b>
61	126,532	31,633	7%	6,573	<b>34,450</b>	97,663	<b>37,005</b>
62	131,593	32,898	7%	6,836	<b>35,828</b>	101,569	<b>38,486</b>
63	136,857	34,214	7%	7,110	<b>37,261</b>	105,632	<b>45,727</b>
64	142,331	35,583	7%	7,394	<b>38,752</b>	109,857	<b>71,050</b>
65	0	0	0	0	<b>109,857</b>	0	<b>0</b>
66	0	0	0	0	<b>0</b>	0	<b>0</b>
		<b>300,153</b>		<b>51,598</b>	<b>351,751</b>		<b>351,751</b>



# Benefits (NQDC)

## Voluntary Deferral

- Participant contributes earnings (Elective NQDC)
- 100% vested in contributions
- Taxable upon payout
- Individual election to participate

## SERP

- Paid by Bank (Non Elective NQDC)
- Payments begin upon retirement
- Lump sum or periodic (Typically - 15 years)
- Taxable when received

## LINQS+

- Similar to SERP
- Payments paid until Death (Lifetime)
- Less Expensive than SERP
- Payments made by third party
- Creditor Risk eliminated in certain designs

# Financing SERPs with LINQS+

*LINQS+: Lifetime Income Non-Qualified Solution*

## Supplemental Executive Retirement Plans - Two types of SERP designs (Traditional and LINQS+)

- Typical traditional SERP
  - Period certain payment (industry standard is 15 years)
  - Percentage of final pay as a retirement benefit (expense is NOT fixed in this design)
  - Benefit is typically hedged with BOLI to provide beneficiaries a benefit in the event of premature death
- LINQS+ design
  - LIFETIME payment stream
  - Retirement benefit is fixed from day 1 (expense is fixed)
  - Benefit is FIXED and GUARANTEED – NOT contingent upon any investment performance
  - Benefit is typically hedged with BOLI to provide beneficiaries a benefit in the event of premature death

## Comparing a Typical SERP Benefit to a LINQS+ Lifetime Benefit

Participant	Age (EOY)	Benefit Start Age	Annual Benefit	SERP (15 yrs)	LINQS+ (Lifetime)	PROJECTED SAVINGS	Percentage of Savings
Executive #1	35	65	\$50,000	\$750,000	\$245,868	\$504,132	67%
Executive #2	40	65	\$50,000	\$750,000	\$299,136	\$450,864	60%
Executive #3	45	65	\$50,000	\$750,000	\$363,945	\$386,055	52%
Executive #4	50	65	\$50,000	\$750,000	\$442,795	\$307,205	41%
Executive #5	55	65	\$50,000	\$750,000	\$524,418	\$225,582	30%
Total			\$250,000	\$3,750,000	\$1,876,162	\$1,873,838	50%



## LINQS+ Average Annual Expense Projections

Participant	Age (EOY)	Benefit Start Age	Annual Benefit	Benefit Paid (yrs)	Avg. Annual Expense During Service Period
Executive #1	35	65	\$50,000	LIFE	\$5,399
Executive #2	40	65	\$50,000	LIFE	\$8,850
Executive #3	45	65	\$50,000	LIFE	\$14,279
Executive #4	50	65	\$50,000	LIFE	\$23,518
Executive #5	55	65	\$50,000	LIFE	\$39,897



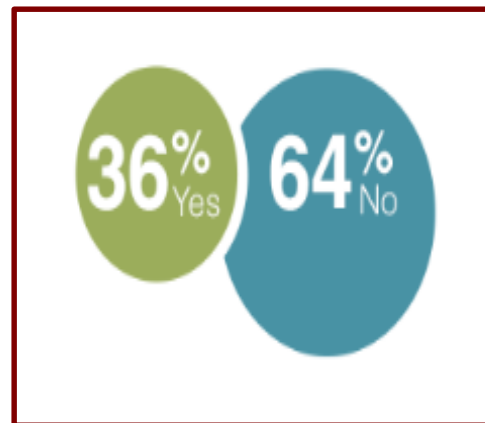
# The Market

## Are Your Compensation Practices Competitive...

With other banks?



With technology companies?



With other companies outside the banking sector?



**Why This Matters...**

# M&A Evolution

What is happening?

- Banking vs IT? Why is this important...
  - Banking continues to move to an IT platform
  - Fintech disruption in banking
  - Banks are essentially technology companies that take deposits
- New talent is required – must ***“Think Differently”*** about recruiting and retaining your talent
  - Commercial Lenders are valuable to FinTech companies
  - Operation staff is valuable to FinTech companies
  - Executives are valuable to FinTech companies

# Takeaways

## What can you do to protect yourself?

- Culture
  - No Eeyores...
  - Smart Hires that fit your culture
  - Autonomy
  - N.O.W. – Next Opportunities at Work
- Driving a Sense of Value
  - Extract the emotion
  - Employee engagement
- Compensation
  - Design for long term
  - Spend “Smart” dollars...
  - Make it matter...back to the emotion
- The Market Influence
  - Understand where banking is going...
  - Your people have value to other organizations!



## Our Presenter:



**JR Llewellyn, SVP**

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As a Senior Vice President at Compensation Advisors (CA), JR Llewellyn provides both strategic direction and tactical planning expertise for all compensation programs designed by the company. Over the past 10 years while at CA, Llewellyn has provided the guidance and creativity needed to craft customized nonqualified compensation plans, equity allocation plans, annual incentive plans, and comprehensive executive and director compensation reviews that has firmly positioned the company as a leader in the compensation consulting industry.

Llewellyn has been instrumental in the creation and launch of a patent-pending retirement methodology program developed by CA called LINQS+ (Lifetime Income Nonqualified Solution). In addition, Llewellyn brings professional experience as a financial advisor from Morgan Stanley. Prior to his career in the financial industry, Llewellyn played golf professionally on the NGA Hooters Tour and other mini tours in the southeast. He holds a BBA with a Banking concentration as well as Series 7, 66 and 31 FINRA Securities Licenses and insurance licenses.

Llewellyn lives in Greensboro, GA with his wife and son. He remains active in church and community activities.



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**Questions?**



**Finding Solutions Others Miss**



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