



Pearl Meyer

Virtual Northwest Bank Directors Series
Linking Strategy, Succession Planning, and
Compensation

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Kathy Baron, Vice President

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About Pearl Meyer and Today's Presenters

Pearl Meyer is a leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.

Kathy Baron



Greg Swanson



Banks, as well as all industries, are facing a unique talent management situation—one originally driven by economic growth, baby-boomer retirements, and a decreasing supply of entry-level talent and now highlighted by uncertainty due to the global pandemic. Now, more than ever, banks need to be strategic and proactive about their leadership succession and associated compensation policies and practices—at both the board and executive levels—planning out five or more years and in alignment with their bank’s strategic plan.

Part One – Succession Planning: In the first segment we will explore succession planning and talent management in alignment with and in support of your organization’s vision and strategic plan. We’ll discuss how to measure the health of your talent and leadership pipelines and ways to ensure that you have a ready supply of talent to meet your organization’s challenges.

Part Two – Board and Executive Compensation: In the second section of our presentation, we will discuss the current trends in bank board and executive compensation, the connections to strategic leadership succession planning, and the related governance implications for those charged with oversight in these areas.

- Post pandemic scramble for employees—aka the “war for talent”—for both attraction and retention of key people
- Remote work affects talent acquisition and retention strategy
- Diversity, equity, and inclusion considerations in talent and succession strategy
- New leadership competencies required for managing a remote workforce

Evaluate Organizational Health For Future Success

Culture
Purpose Driven

- The model of community banking is serving the needs of the community—creating “purpose driven” cultures.
- What aspects of culture will move your bank forward or hold you back?

Leadership
Strong and Agile

- Do the current leadership skills and expectations set you up for success?
- Can leaders adapt to remote work and rapidly changing technology?

Talent
Flexible and Growth Mindset

- How will I use the talent in my organization to contribute to the organization’s long-term strategy?
- Are there any red flags in my organization’s talent portfolio that might prevent me from achieving my goals? What talent gaps exist in my organization?
- What steps must I take to ensure the talent in my organization is prepared and aligned to achieve strategic goals (e.g., recruiting, development)?

Does your bank have the right leadership skills to ensure future success?

Pressure for Talent

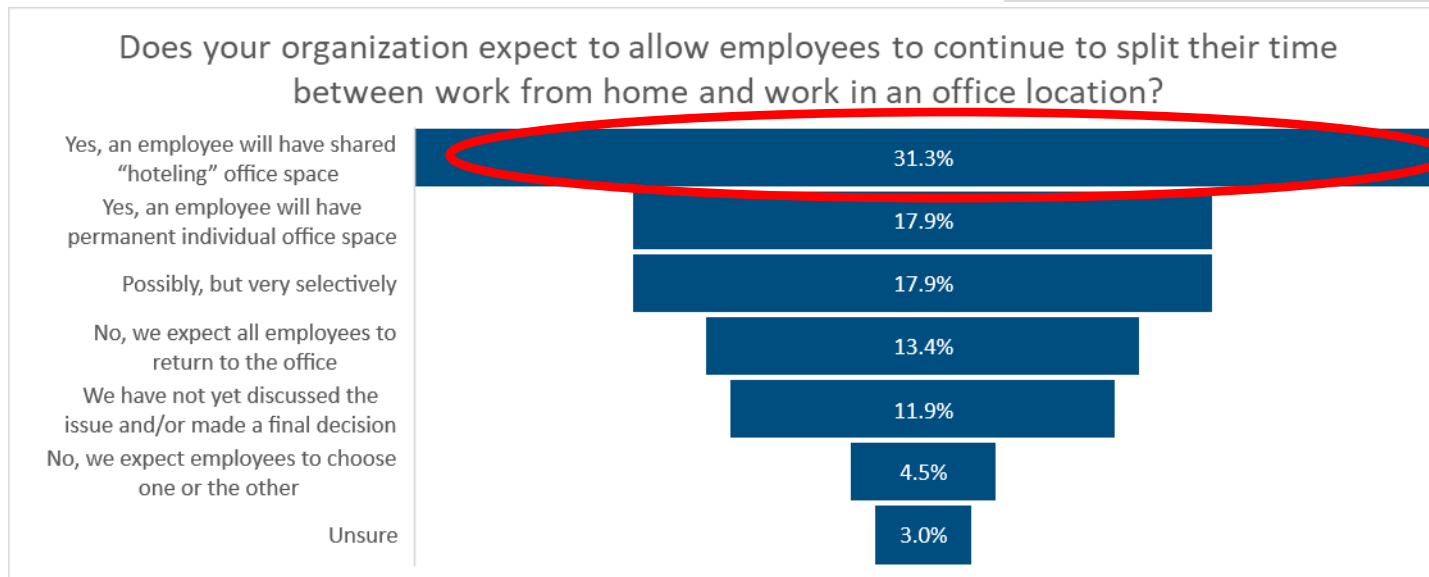
- ✓ Commercial Lending
- ✓ Credit
- ✓ Mortgage Area: Underwriting, Processing
- ✓ Risk and Compliance
- ✓ C-Suite
- ✓ Digital Leadership



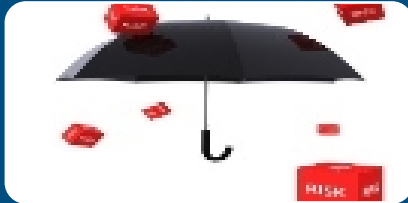
Remote Work

Remote work options are here to stay

- 28% of the total work force will permanently work from home
- Close to 50% anticipate hybrid work arrangements
- 25% plan to decrease their locations/office footprint and 15% are unsure or undecided



The Business Case for Succession Planning



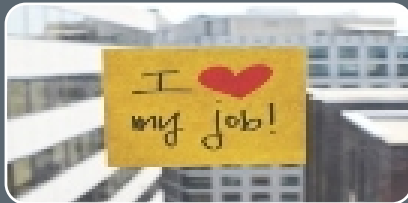
Reduce Risk/Business Continuity

- For executive and other key organizational roles—ensure there is **minimal interruption to the business**
- Decreases **time to fill, vacancy time, and recruitment costs**
- Ensures the **business continuity**
- Proves **sound governance practices** to interested parties



Diversity

- Supports and enhances **diversity talent pipelines**
- Utilizes objective, unbiased tools for all levels for key roles to **enhance diversity**



Employee Engagement/Productivity

- Internal candidates for executive roles have a **much higher rate of success**—cultural fit/assimilation is not a potential risk
- Demonstrates a **commitment to developing career opportunities**—leaders and will facilitate an organization's ability to recruit and retain top-performing and high potential individuals



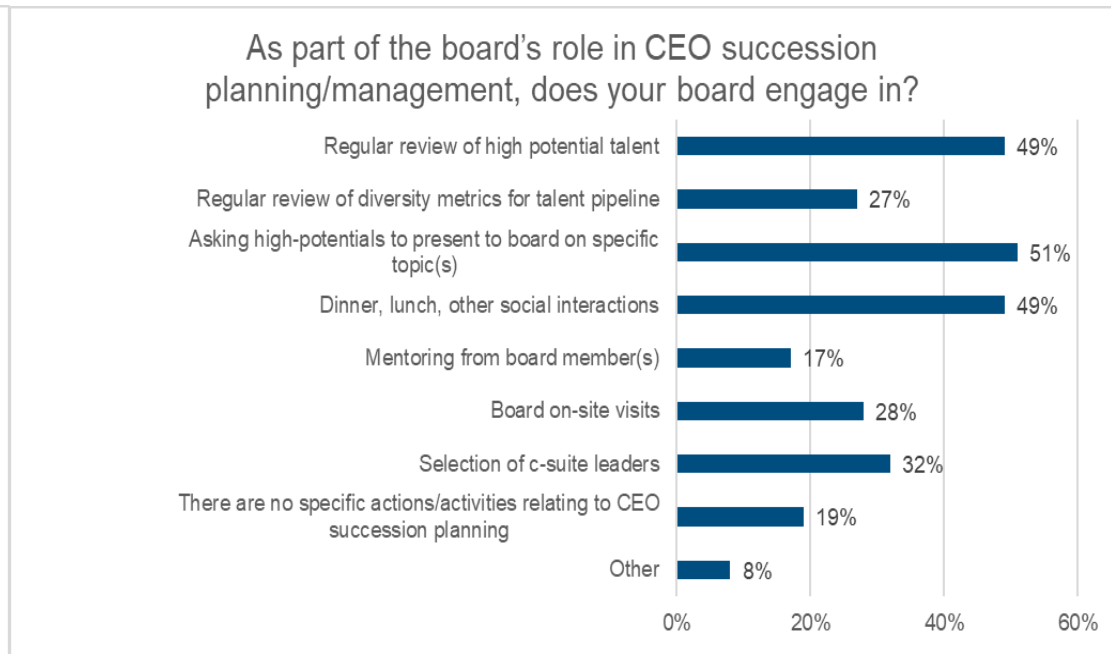
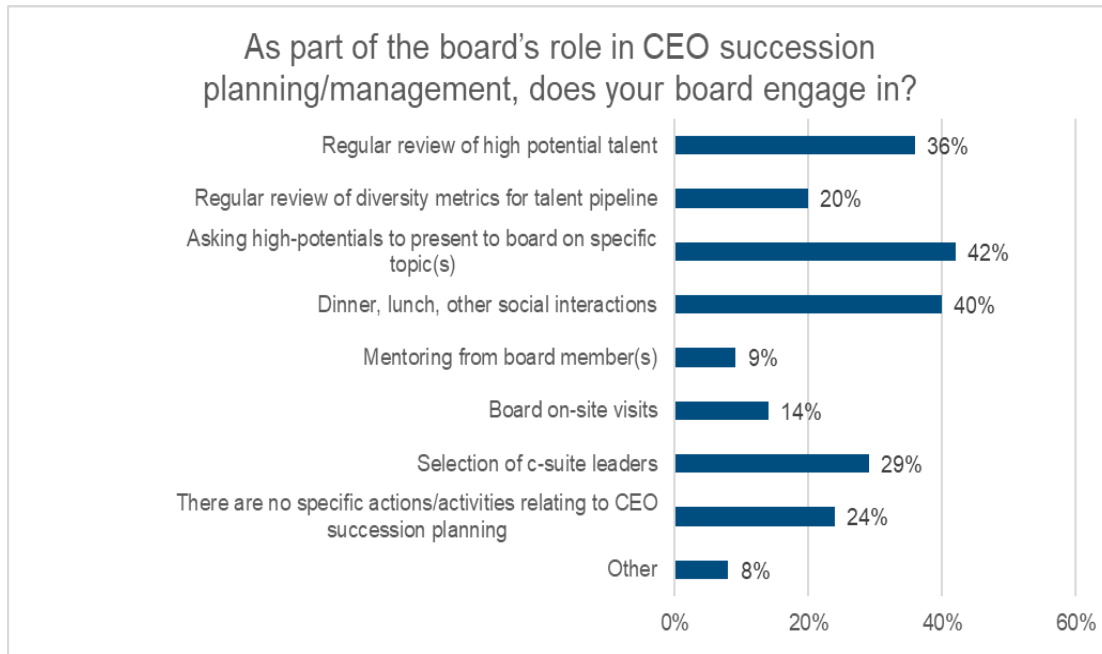
Profitability

- **2x** more likely to excel at **meeting or exceeding financial targets**
- **4x** more likely to excel at **innovating**
- **6x** more likely to excel at **anticipating and responding effectively to change**
- **8x** more likely to excel at **maximizing efficiency**

Board Involvement in Succession Planning/Management

Financial Industry

Full Survey



Bank boards appear to be somewhat less involved in CEO succession than their counterparts in other industries.

Shifting Focus

- From emergency/temporary succession planning to long-term succession planning for CEO
- From CEO-focused succession planning to monitoring the overall health of the leadership and talent pipeline: do we have the right people, in the right roles, at the right time to support our strategic plan? Look at roles two to three levels removed from CEO
- From succession planning to succession management and talent development—actively managing the talent pipelines
- From talent risk management to employee engagement—can we motivate and retain our high performers?

“Far from trying to second guess or micro-manage the senior management team, boards understand that these human capital issues present real, strategic business challenges, risks, and opportunities to their companies.” *-The Compensation Committee Agenda for 2019*

The Board's Expanding Responsibility:

- Review strategic talent plan alignment with strategic objectives to minimize risk and maximize shareholder return
- Ensure a leadership succession strategy that incorporates talent two to three levels below c-suite
- Invest in intentional development opportunities and experiences for potential CEO and c-suite executives
- Understand overall health of the organization's leadership pipeline

CEO/Management Responsibility:

- Work with board on talent strategy and insure flawless execution
- Determine key roles that are critical to future organizational success
- Actively monitor and manage succession plan
- Identify and invest in future leaders
- Plan your leadership legacy





Key Questions for Strategic Succession Planning

- How will the organization's strategy change over the next three to five years?
 - What have we learned from the COVID-19 global pandemic that will influence our strategy?
- How will I use the talent in my organization to contribute to the organization's long-term strategy?
- Are there any red flags in my organization's talent portfolio that might prevent me from achieving my goals? What talent gaps exist in my organization?
- What steps must I take to ensure the talent in my organization is prepared and aligned to achieve strategic goals (e.g., recruiting, development)?

An organization's human capital strategy should include decisions on how to fill roles from the CEO down through the leadership ranks and other critical/key roles.



Build: Create a long-term succession plan and invest in assessing and developing potential leaders; build your leadership pipeline



Buy: Look to the industry for available leadership talent



Borrow: Typically used as a stop-gap measure; find temporary leadership from retirees or current and past board members



Why “Build” is the Most Effective Strategy

Unless you plan to dramatically shift your bank’s strategic direction, building your talent internally and identifying two or three potential successors is generally the most effective method of replacing key leadership positions.

- **Higher success rate:** Average tenure in one study* showed that for externally recruited CEOs, 40% last two years or less and 64% last four years or less. Groomed successors can provide for shareholder exposure (and comfort) well ahead of the transition.
- **Shorter learning curve:** Inside transitions tend to go more smoothly as the incoming CEO is knowledgeable about the company operations, policies, processes, and culture.
- **Culture fit and messaging:** Internal CEO succession sends a strong message about the importance of leadership and employee development to the organization’s success.
- **Retention of high potential talent:** Potential future CEOs will see a path to career success at your organization.
- **Cost/internal equity:** Externally recruited successors typically demand higher compensation packages than those internally promoted.

* NACD presentation by Korn/Ferry International 2013

Key Questions to Ask About the Health of Your Leadership Pipeline

- What is the supply and demand for talent in your strategically critical areas?
- How are you investing in the workforce to deliver on strategic objectives?
- How are you closing gaps in pools of critical talent?
- Which leaders are you investing in? Who have you placed in critical roles and what ways are you investing in their development?
- What are the potential leaks in your leadership pipeline?

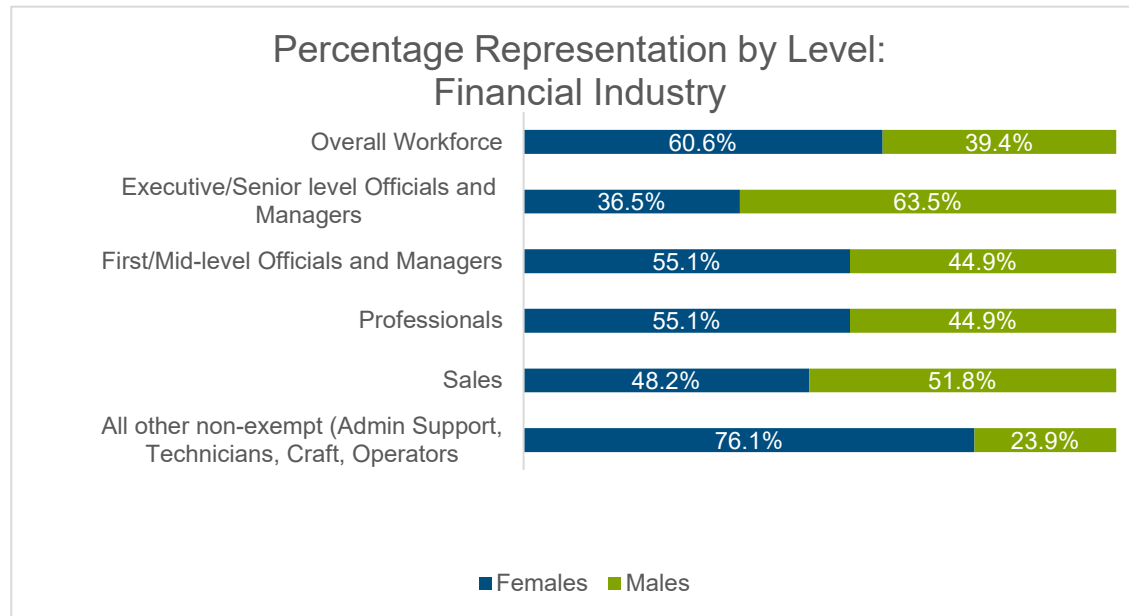




Diversify Your Leadership Pipeline

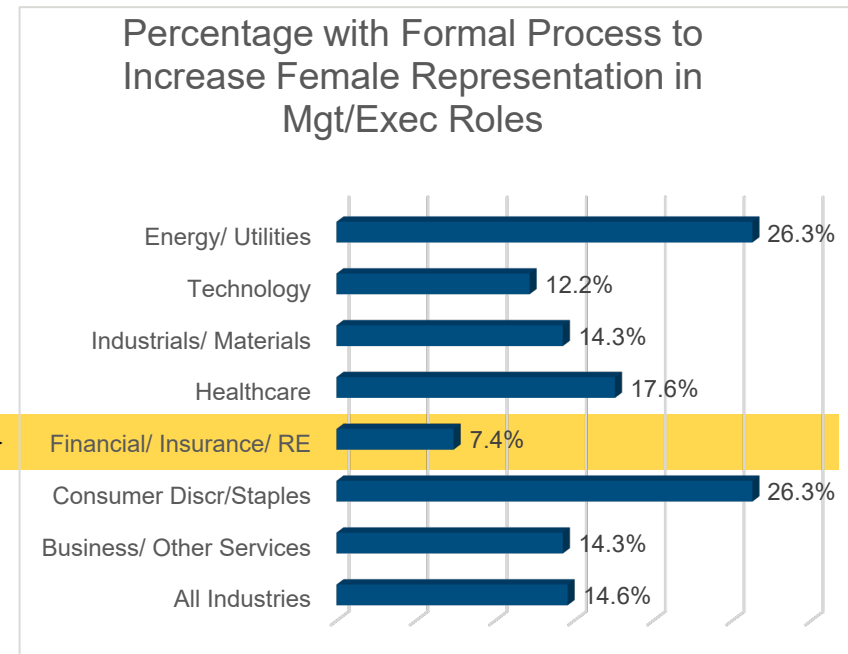
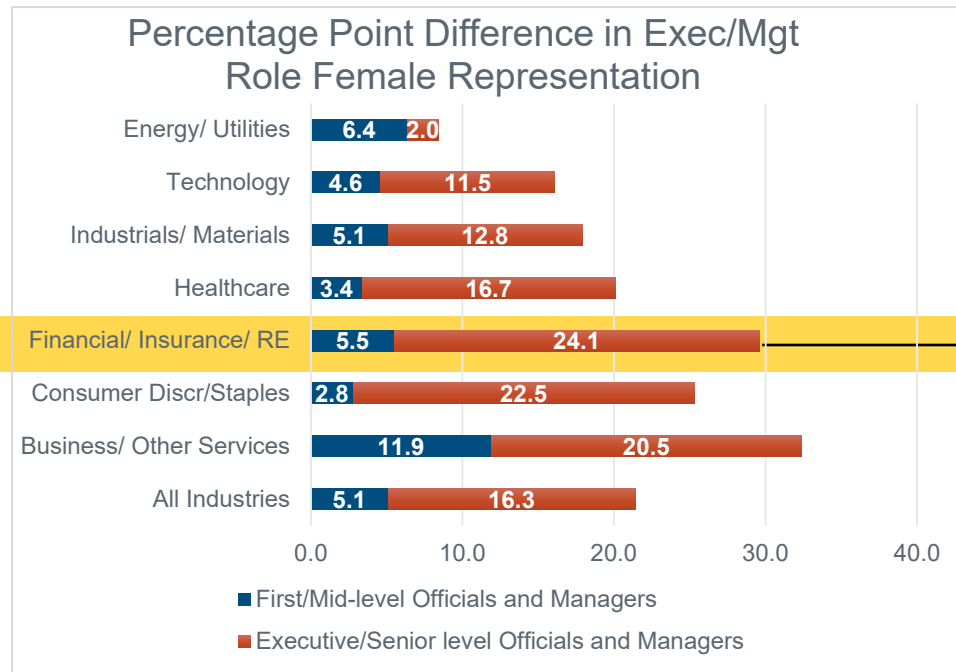
Pearl Meyer Survey in 2019 Found....

- In the financial industry the overall workforce is over 60% female while representation at the executive/senior levels is 36.5%.
- This relatively lower representation of women in executive and senior level roles creates the representation gap and will contribute to the overall gender pay gap.



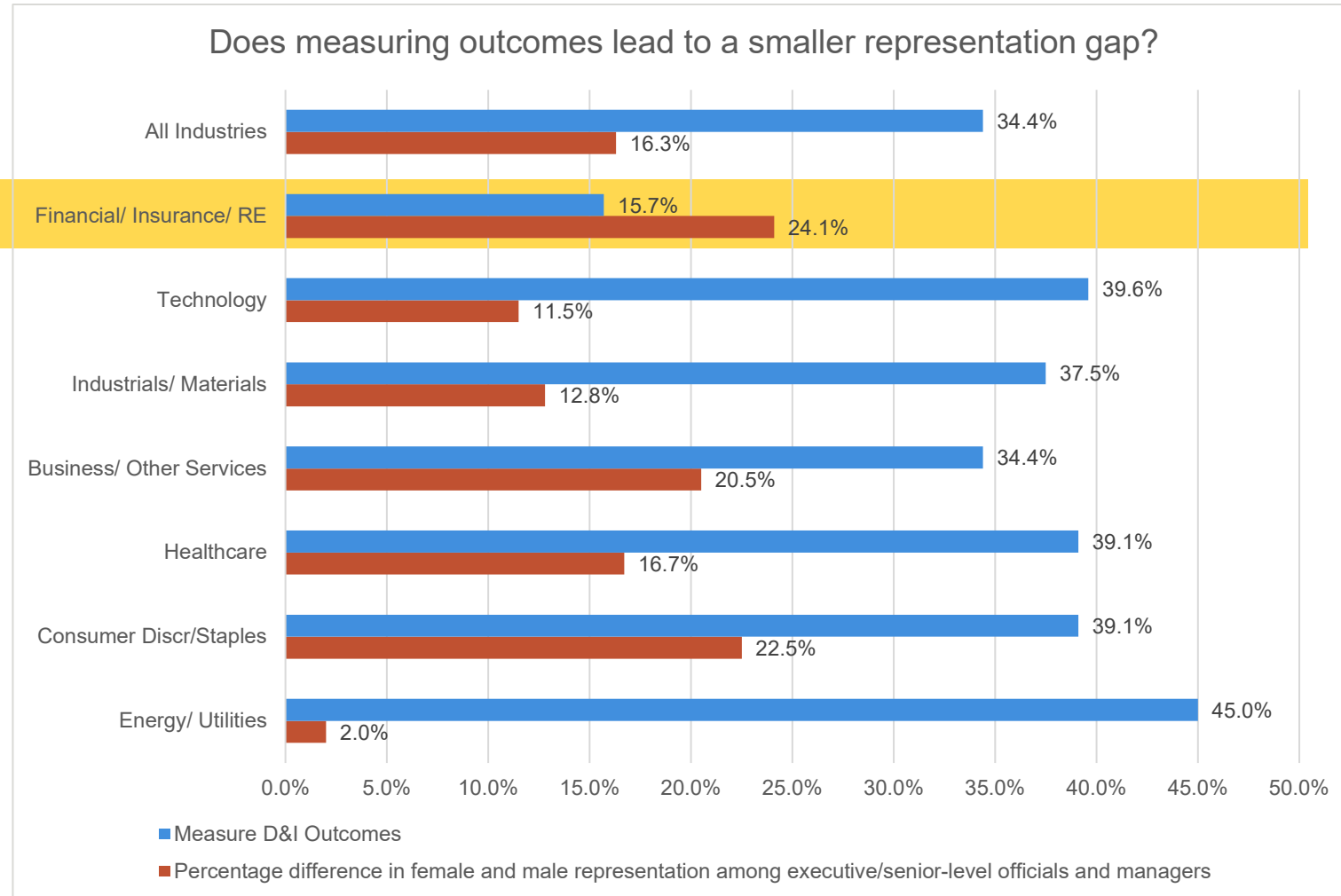
The Representation Gap by Industry

- Does industry matter in the representation of women in executive/senior level or first/mid-level roles?
- In aggregate, only 14% of organizations report that they have a formal process in place to increase female representation in management and/or executive positions and only 7.4% in the financial industry.



Source: Pearl Meyer On Point: D&I Survey Report – Financial Industry Participants

Measurement & Outcome by Industry



Source: Pearl Meyer On Point: D&I Survey Report – Financial Industry Participants

➤ Systemic Failures

- Rationalization of non action: “We don’t know where to start or what our role is”
- Organizations’ willingness to devote resources to the issue (time, people, money)
- Inability (or lack of interest) in connecting the value of a diverse workforce to the bottom line
- Other?

➤ Systemic Fixes

- Look critically at the current practices: get to the heart of what the barriers are; fix root causes, such as unconscious bias, unnecessary job requirements, closed networks of talent, etc. Be willing to change practices!
- Establish goals that work at eliminating systemic bias
- Complementary goals/processes that ensure diverse workforce feels a sense of inclusion and belonging
- At the board level, frequently review a DE&I scorecard/dashboard and be prepared to strategically address problematic areas

Talent Pipeline

- Is your talent pipeline diverse?
- Do you recruit, hire and promote diverse talent?

Leaders

- Are your leaders diverse?
- Do leaders create an inclusive environment?

Culture & Community

- Is your culture inclusive?
- Is your community diverse and inclusive?

Institutional Investor Perspective: Diversifying your Board



Board diversity, equity and inclusion

- **ISS and GL approaches to director racial/ethnic diversity**
 - For 2022, will recommend against nominating/governance chairs for lack of (disclosed) diversity (follow up to ISS and GL non-binding requests for companies to share racial/ethnic and gender diversity for boards and officers)
- **State Street**
 - For 2021, vote against S&P 500 Chair of Nom/Gov for lack of disclosure for racial and ethnic composition of their boards
 - For 2022, vote against S&P 500 Chair of CC for lack of disclosure of EEO-1 report
 - For 2023, vote against S&P 500 Chair of Nom/Gov if no director representation from underrepresented community
- **NASDAQ** proposes new listing requirements to disclose diversity statistics regarding their board of directors and explain why there is not at least two diverse directors (female or underrepresented community - Black or African American, Hispanic or Latinx, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander or Two or More Races or Ethnicities)
- **California law** supplements prior gender diversity requirement for boards (also in Hawaii, Mass, Michigan, NJ, Wash) with focus on underrepresented communities

Glass Lewis' 2021 Proxy Voting Guidelines Update

- **Expanded Board gender diversity**
 - For companies with < 2 female directors, will recommend vote against nominating committee chair starting in 2022
 - If boards have <6 members, a minimum of one female director is expected
- **Proxy disclosure of director diversity and skills**
 - Includes: Board's current percentage of racial/ethnic diversity, definition of diversity, board skills, and any policies requiring women and minorities to be included in future candidate pool
- **Board refreshment:**
 - Will note concerns when average tenure >10 years or no independent directors have joined in past 5 years
- **Environmental and social risk oversight**
 - For companies not providing clear disclosure concerning board-level oversight for environmental and/or social issues, will recommend a vote against governance chair starting in 2022

ISS' 2021 Proxy Voting Guidelines Update

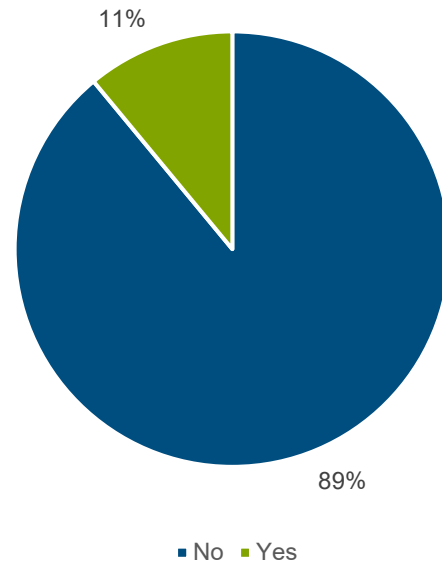
- **Director elections: racial/ethnic Board diversity**
 - Companies with no apparent racial or ethnically diverse members will have "Against" or withheld vote recommendation for nominating committee chair starting in 2022
- **COVID-19 pay guidelines**
 - Change in annual metrics/goals/targets: ISS realizes that discretion or changes in performance goals may be needed; proper disclosure, including 8-Ks for material changes, is essential by companies
 - Change in LTI Awards: ISS is generally NOT supportive of changes to mid-stream awards since they cover multi-year periods; ISS will evaluate in-flight and structural changes on a case-by-case basis
 - Repricing: ISS will likely vote against any companies that perform actions around repricing, exchanging, or cancelling and re-granting options without shareholder approval
- **Shareholder litigation rights**
 - Will recommend vote for provisions in charter/bylaws that specify the "district courts of the United States" as exclusive forum for federal securities law matters



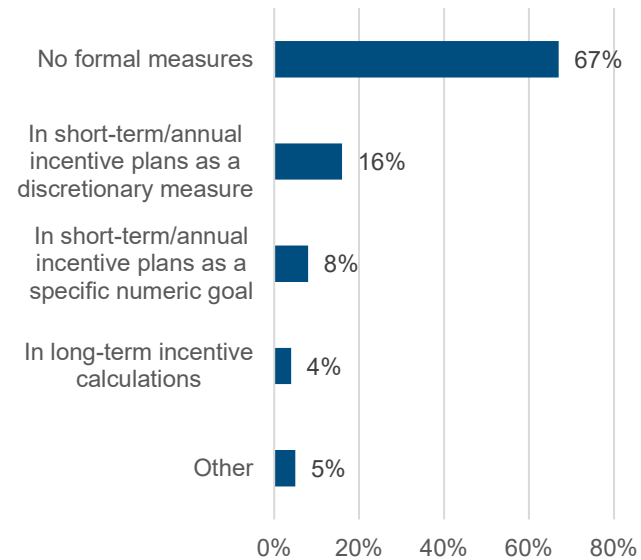
Measure Your Leadership Pipeline

Survey Findings: Talent Scorecards and Accountability

Does the committee/full board regularly review a talent management scorecard?



How does the board hold management accountable for talent management?



- Financial industry boards do not regularly review scorecards
- Two-thirds reported no formal measures for holding management accountable

Source: Pearl Meyer On Point: Talent Management – Financial Industry Participants

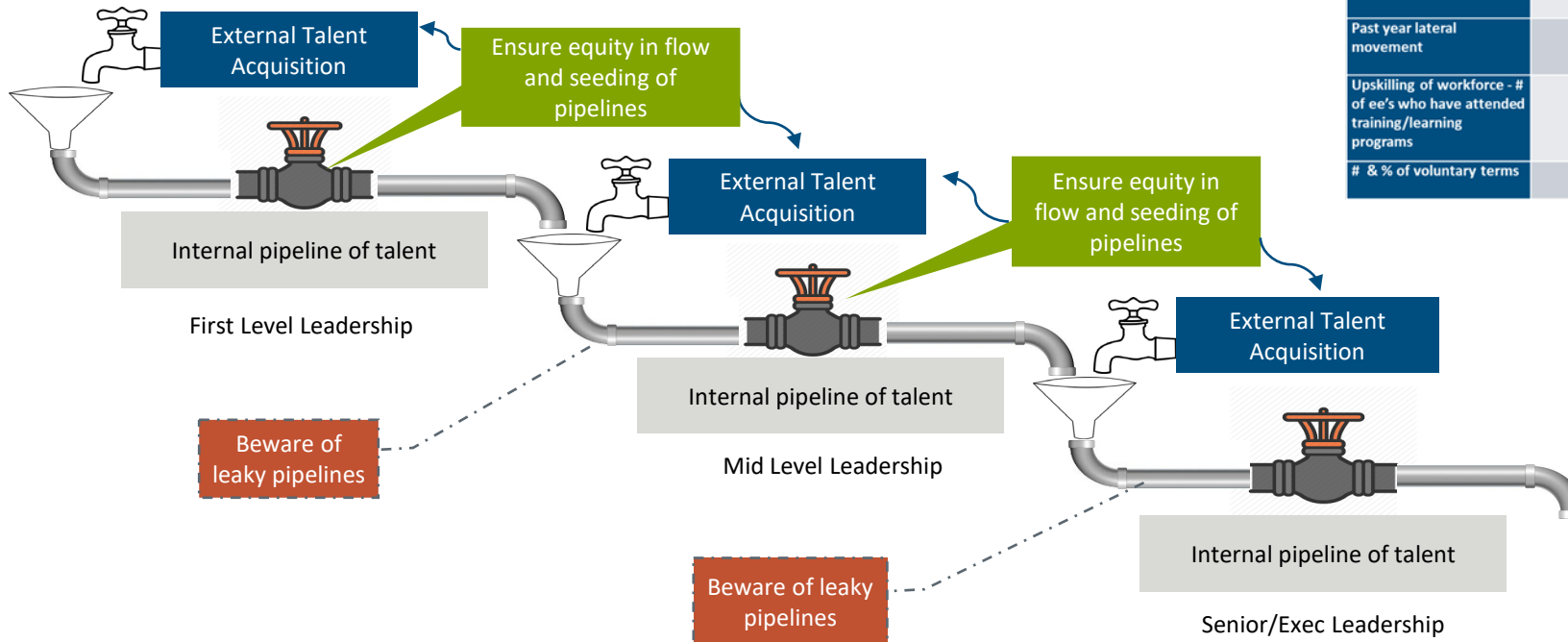
Leadership Pipeline Health Dashboards

Metric	Target	Actual	Gap
Ready Now coverage % of roles with Ready Now successors	70%	45%	-25%
Ready 1-2 years coverage % of roles Ready 1-2 years	90%	90%	0%
Ready 3+ years coverage % of roles with Ready 3+ years	100%	100%	0%
# of successors identified - % female	50%	30%	-20%
# of successors identified - % under-represented minorities	30%	15%	-15%
Turnover in talent pool - voluntary - Overall t/o %	15%	5%	-10%
- % female	25%	5%	-20%
- % minority	30%	5%	-25%
Readiness movement - Conversion ready 1-2 to Ready Now	80%	90%	+10%
- Conversion ready 3+ to 1-2	80%	95%	+15%
Development % of development plans completed in 12 months	90%	60%	-30%

Succession Positions	Ready Now	Ready 1-2yrs	Ready 3+	High Potentials (# of people in pool)
CEO	0	1	2	30
COO	1	3	1	
CFO	3	3	4	
CMO	2	2	1	
CTO	0	1	3	
CHRO	2	1	2	
Total	14	11	13	38
			Total Talent Pool	68*

External Talent Pipeline Indicators	Current	Anticipated in next 12-18 months
# of new roles		
Market for new roles		
Compensation competitiveness: Any roles you are worried about?		
Overall job market for your organization: Specific skills/areas that you are worried about?		

Internal Talent Pipeline Indicators	Current	Anticipated 12-18 months
Past year # of hires By grade/role		
Past year # of promotions		
Past year lateral movement		
Upskilling of workforce - # of ee's who have attended training/learning programs		
# & % of voluntary terms		



Dashboards for Gauging Organizational Culture

COMMITMENT TO COMMUNITY

\$1 Billion, 4 year commitment to help local communities advance racial equality and economic opportunity through targeted investments aimed to address barriers to economic progress and confront issues of systemic racism

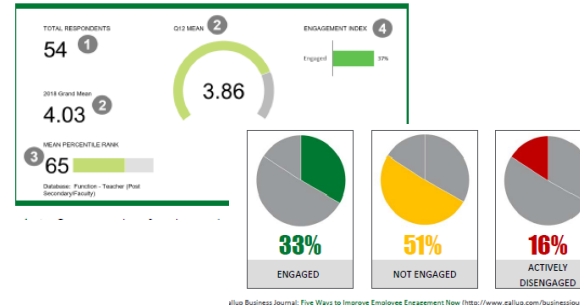
Areas of Focus

- Health:** Address the inequities of access to healthcare, including specific response to COVID-19, with a focus on societal determinants of health
- Jobs:** Upskilling and reskilling workers and creating a pipeline of talent
- Small Business Success:** Supporting Small and Minority-Led Businesses
- Affordable Housing:** Affordable Housing (rental and home ownership)/ Neighborhood Revitalization

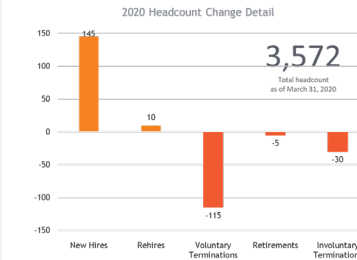
Recent Headlines

- Allocated \$25 million in support of jobs initiatives: Partnerships with 11 Community Colleges and 10 HBCUs/HSI together with other large employers to build skills and create pathways for jobs
- \$25 million in support of community outreach and initiatives: Focused on underserved and minority communities that were adversely impacted by the global health and humanitarian crisis
- \$50 million in direct equity investments to Minority Depository Institutions: Facilitate benefits to the communities they serve through lending, housing, neighborhood revitalization and other banking services
- \$200 million of proprietary equity funding to minority entrepreneurs, businesses and funds: Help supply growth capital as well as to invest substantially in programs to create future entrepreneurs

2020 EMPLOYEE ENGAGEMENT ANNUAL SURVEY



HEADCOUNT



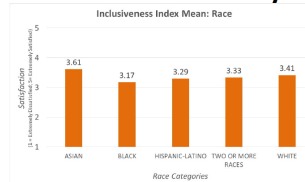
EMPLOYEE PERFORMANCE



DIVERSITY & INCLUSION

	Q4 2019	Q1 2020	YTD
Hiring (Females)			
Hiring (Minorities)			
Promotions (Females)			
Promotions (Minorities)			
Pay Gap - Female			
Pay Gap - Minority			

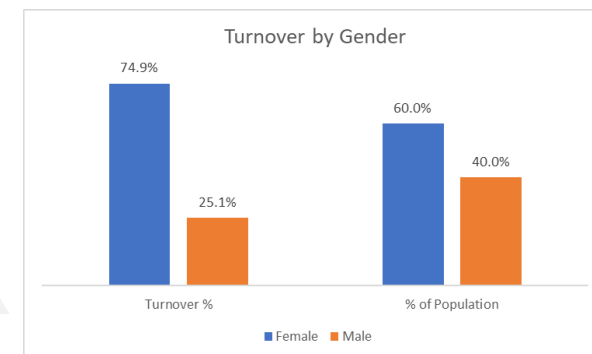
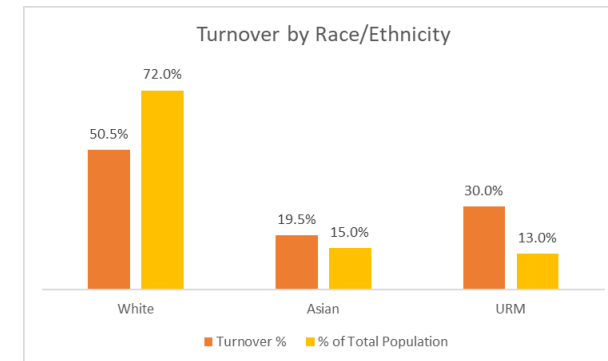
"Inclusiveness" Index By Race



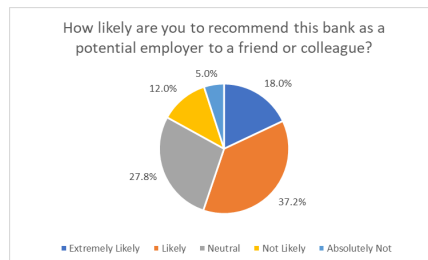
"Inclusiveness Index" By Gender



TURNOVER DATA



NET PROMOTOR SCORE



Key Takeaways



Ensure that your bank is staying true to its mission while embracing the trends in the banking industry and aligning culture to future strategy



Measure culture and employee engagement to gauge organizational health



Evaluate leadership pipeline health with a lens of changing leadership requirements to include managing a changing, diverse, flexible, and remote workforce



Invest in developing your talent and reinforcing your purpose-driven culture



Compensation Matters: Board of Directors



The Environment for Bank Boards

- Breadth of director oversight continues to expand (e.g., technology, risk, human capital matters)
- More complex social and governance environment
- Despite this backdrop, total director compensation levels have only seen modest year-over-year growth
- Additionally, community and regional bank director pay continues to lag other industries

Expansion of Director Responsibilities

- ... but increasing areas under the purview of boards may create upward pressure going forward

Responsibility	Prevalence	Comments
CEO and senior officer succession planning	67%	<ul style="list-style-type: none">May be defined as an oversight role for the full board, or either the compensation or nominating & governance committee
Leadership and talent development	40%	<ul style="list-style-type: none">Typically, an area which the compensation committee oversees
Corporate culture and employee engagement	28%	<ul style="list-style-type: none">Typically, an area which the compensation committee oversees
Diversity, equity, and inclusion	33%	<ul style="list-style-type: none">May be defined as an oversight role for the full board, or either the compensation or nominating & governance committee

Executive Compensation

Pay for Performance



Board of Directors Compensation

Pay for Governance





NACD Blue Ribbon Commission on Director Compensation

Principles for Non-Employee Director Compensation

1. Director compensation should be determined by the board and disclosed completely to shareholders
2. Director compensation should be aligned with the long-term interest of shareholders
3. Compensation should be used to motivate director behavior
4. Directors should be adequately compensated for their time and effort
5. Director compensation should be approached on an overall basis rather than as an array of separate elements

Leading Practices for Non-Employee Director Compensation

1. Establish a transparent process by which directors can determine the compensation program in a deliberate and objective way
2. Set a substantial target for stock ownership by each director and a time period during which this target is to be met.
3. Define a desirable total value of all forms of director compensation
4. Pay directors solely in the form of equity and cash—with equity representing at least 50% of the total value; dismantle any existing benefit and perquisite programs, and avoid creating new ones
5. Adopt a policy stating that a company should not hire a director or a director's firm to provide professional services to the company
6. Disclose fully in the proxy statement the philosophy and process used in determining director compensation and the value of all elements of the compensation program

Source: Report of the NACD Blue Ribbon Commission on Director Compensation (issued June 1995, revised 2006)

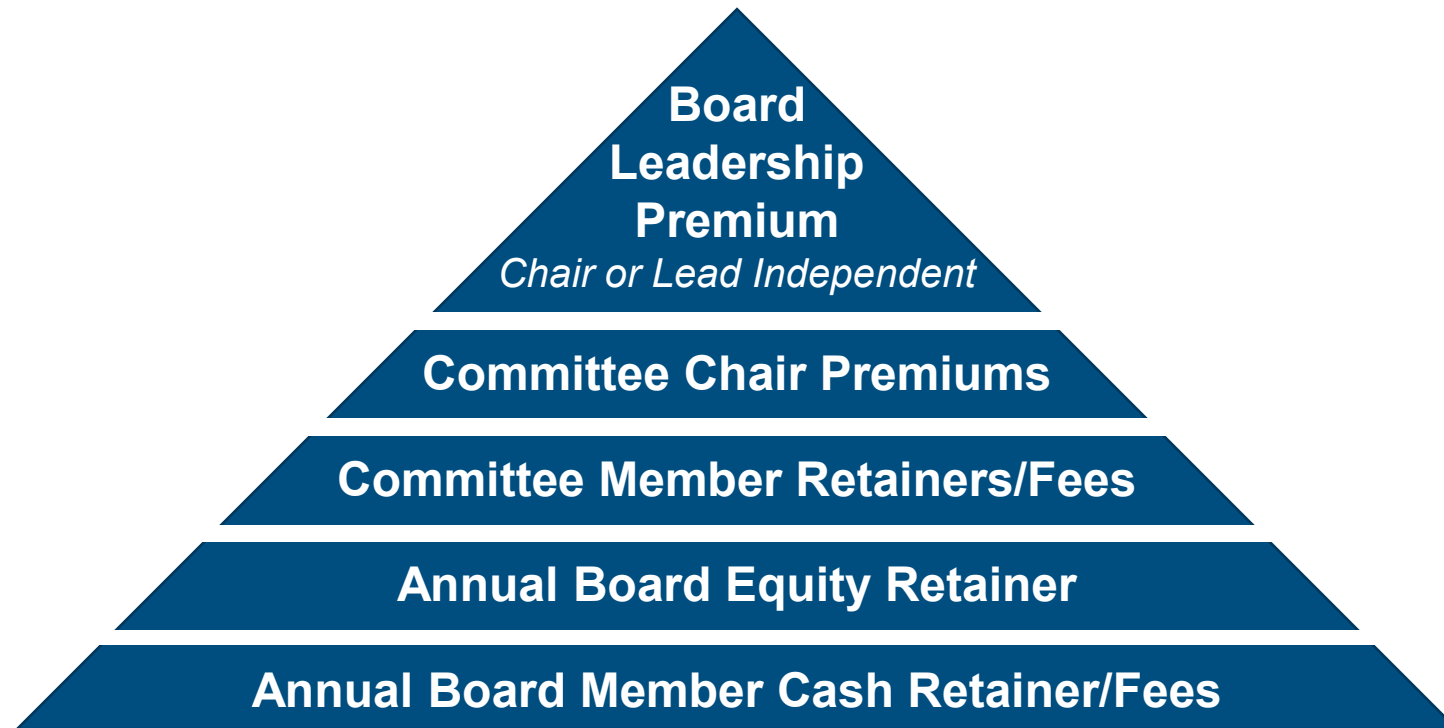
- Board compensation typically reviewed either annually or biennially
- Benchmarking analyses use the executive compensation peer group for market comparisons
- Pay levels and practices are converging; most boards endeavor to avoid being an outlier
 - Common to target median of the comparator group
 - Focus on simplifying pay delivery and adding market best practice governance features (e.g., share ownership guidelines)



Board Compensation in the Spotlight

- Boards set their own pay
- Has led to increasing external scrutiny in recent years
 - Litigation alleging “excessive” director pay levels, typically targeting the grant date fair value of equity awards
 - Evaluation of disclosed values by proxy advisory firms
- In response, practices are evolving
 - Some companies have submitted binding proposals to shareholders to approve non-employee director compensation plans
 - Many new or amended equity plans are including annual limits on non-employee director compensation

Elements of Director Compensation



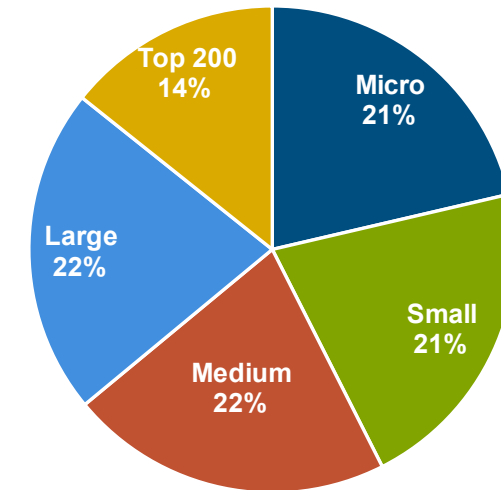
Elements of Director Compensation (continued)

Annual Cash Retainers	Used by nearly all public companies Often the basis for share ownership requirements
Board Meeting Fees	Declining in prevalence Useful component when board time requirements are variable
Equity Awards	Used by nearly all public companies Primarily delivered as full value shares Vesting consistent with board term (e.g., one-year vest for declassified boards) Best practice to deliver at least 50% of total board pay in the form of equity (may be synthetic/phantom)
Committee Compensation	Additional compensation to chairs nearly universal Compensation for committee members shifting from meeting fees to fixed cash retainer Internal equity is key, reflecting varying individual committee assignments

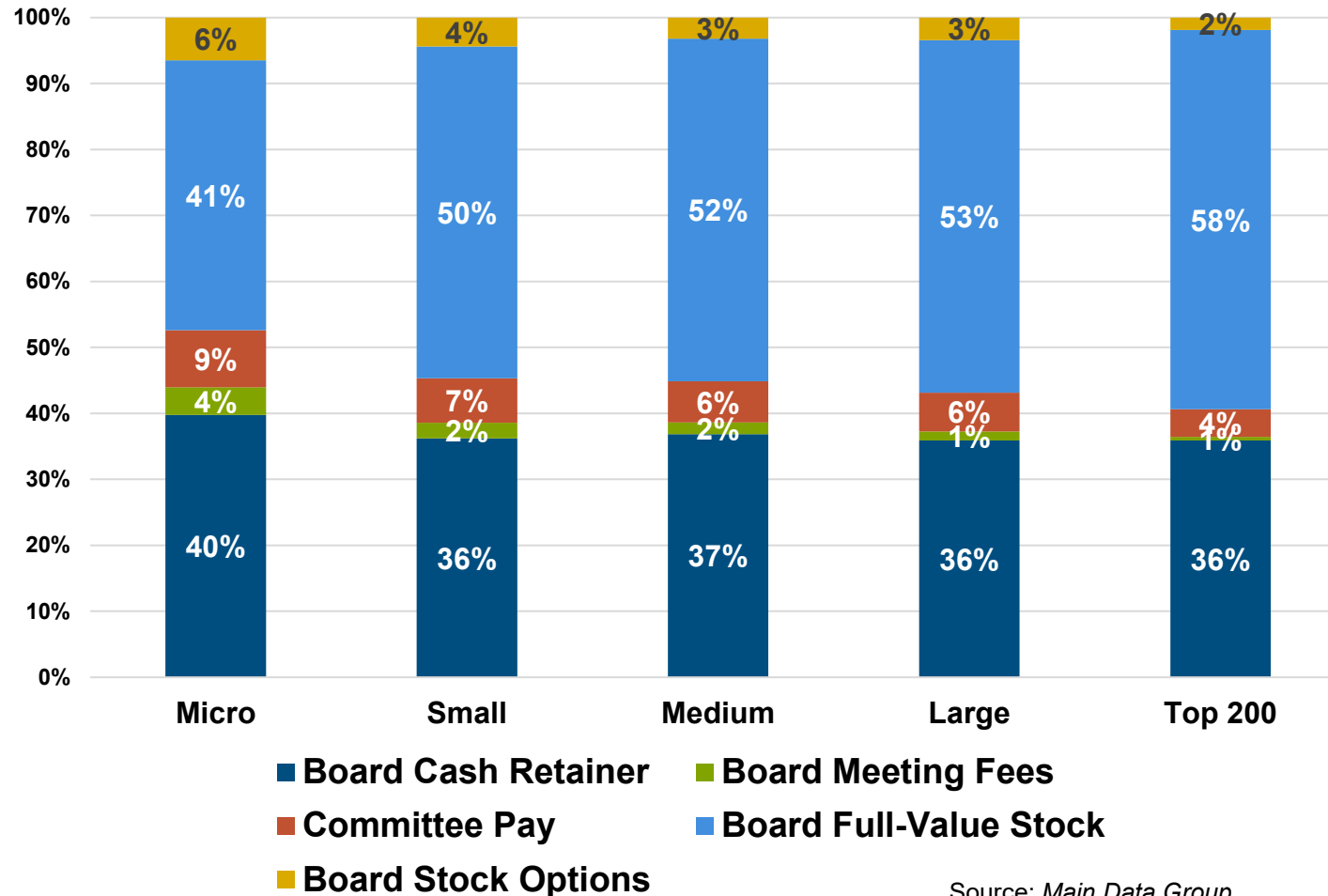
Larger Companies Set the Directional Trends: Survey of 1,400 Companies

- All companies are publicly-traded
- Information is collected across 24 industries based on the GICS (Global Industry Classification Standard) code
- Size categories (by revenue) [bank equivalent]
 - Micro: \$50M - \$500M [larger community banks]
 - Small: \$500M - \$1B [regional banks]
 - Medium: \$1B - \$2.5B [large regionals]
 - Large: \$2.5B - \$5B [super-regionals]
 - Top 200: Largest 200 in S&P 500 [e.g. Wells, BofA]
- Data source: Main Data Group

**Five Size Categories
Based on Annual Revenue**



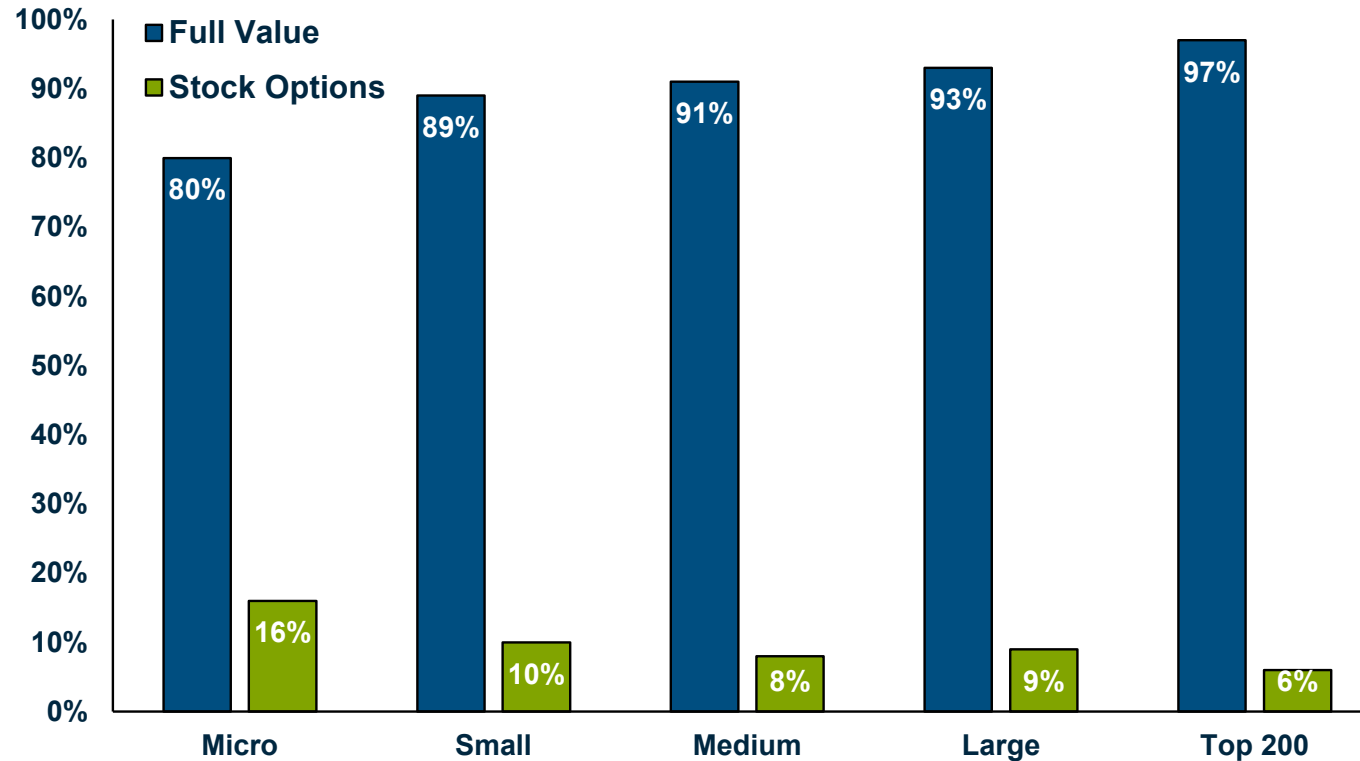
Equity Accounts for Largest Portion of Total Director Pay for Public Companies



Source: Main Data Group

Full-Value Shares (e.g., RSUs) Have Become the Preferred Equity Vehicle

Prevalence of Full-Value Equity and Stock Options



Source: Main Data Group

Premium Pay for Board Leadership Roles

- A larger “premium” is typically provided to non-executive board chairs relative to other types of board leadership (e.g., independent lead or presiding directors)

	Median Board Leadership TDC as a Multiple of Board Member TDC (a)	
	Non-Executive Chair	Lead/ Presiding
Micro	1.38x	1.15x
Small	1.45x	1.13x
Medium	1.48x	1.13x
Large	1.54x	1.13x
Top 200	1.68x	1.12x

(a) Total direct compensation; excludes fees for committee service.

Source: Main Data Group



Compensation Matters: Executives



Three Marketplace Topics and Trends Impacting Executive Pay Practices

Topics

Trends

1 COVID-19: what have we learned?

- Modest impact on bank 2020 incentive payouts (discretion used more liberally)
- Exploration of prospective incentive plan changes to better accommodate uncertain times

2 ESG: oversight responsibilities in environmental, social, and governance matters

- Boards and compensation committees wrestling with the best way to support company ESG philosophy and objectives within their compensation structures

3 Leadership strategy

- Continued consolidation in the banking industry heightens attention being placed on employment and change-in-control (CIC) agreements
-

1 COVID-19: What Have We Learned?



▶ **Moderate impact on 2020 incentive plan outcomes for most banks**

- In early months of pandemic, there were fears of significant disruption to incentive plan structures and the potential need for heavy discretion
- Ultimate payouts were much closer to “target” than originally feared
- While greater than historical discretion was exercised by some bank boards, the extent was more modest than originally anticipated

▶ **2021 incentive plan changes have been incremental rather than dramatic change; certain changes may persist into 2022 and beyond**

- For plans with absolute performance metrics/goals – widening of performance goal ranges, more use of pretax/pre-provision metrics (often partnered with credit quality goals/modifiers)
- For plans with relative performance metrics/goals – limited impact; some banks have considered introducing relative performance metrics/modifiers to address some of the difficulty of setting absolute performance goals in such an uncertain environment
- Greater accommodation for discretion to be exercised, as deemed appropriate

▶ **2021 merit salary increases were generally “normal,” and 2022 increases appear on track**

2 ESG in Incentive Plans

ESG is Here to Stay



ISS

- E&S QualityScore evaluates quality of disclosures and monitors controversies/lawsuits



Glass Lewis

- Uses data from Sustainalytics, Inc. to evaluate ESG risks and performance



Responsible Investing

- Mainstream mutual funds are offering ESG-themed funds

ESG metrics remain a minority practice in the US, but committees are discussing ESG for 2021 and beyond

Companies evaluating whether to include ESG incentive metrics should ask:

What are the company's immediate, mid- and long-term priorities?

What do investors, customers and employees want?

Is there a robust process in place to collect and analyze relevant data?

What progress on ESG metrics is possible, and over what time period?

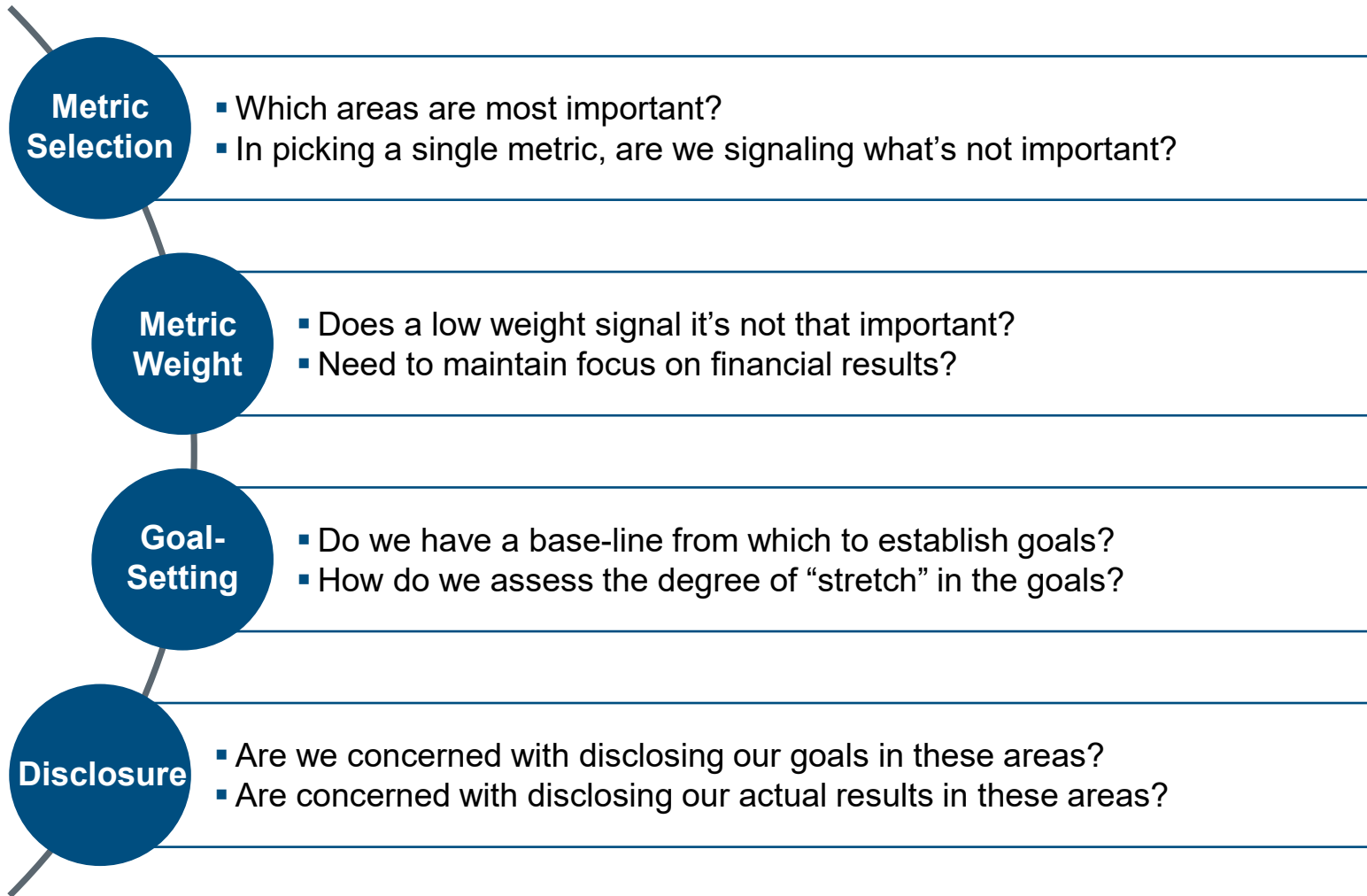
- In general, we recommend:
 - Consider ESG incentive metrics only if ESG initiatives are part of the business strategy; and
 - Continue to monitor ESG disclosure trends to avoid investor and advisory firm pushback.

2 Overview of ESG Metrics

- ▶ Environmental, social, and governance (ESG) criteria are a set of standards that are increasingly viewed by investors as important indicators of a company’s long-term sustainability
 - **Environmental** criteria consider how a company performs as a steward of nature
 - **Social** criteria examine relationships with employees, suppliers, customers and local communities
 - **Governance** deals with a company’s leadership, executive pay, internal controls and shareholder rights
- ▶ ESG metrics are usually company/industry specific, but often include one or more of the following:

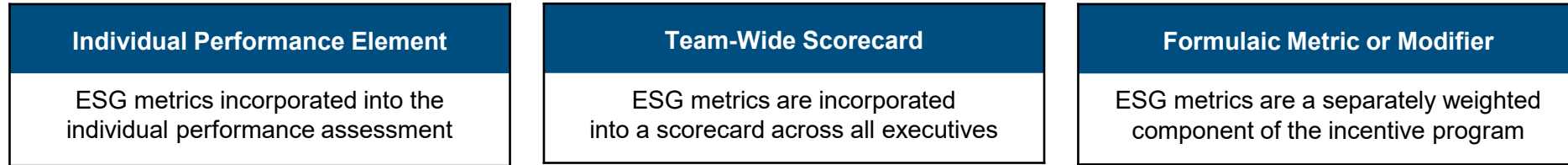
Environmental	Social			Governance	
Environment & Sustainability	Human Capital & Culture	Diversity & Inclusion	Health & Safety	Governance	Cyber Security & Data Protection
<i>Reduction in Carbon Emissions</i>	<i>Employee engagement</i>	<i>Gender Representation</i>	<i>Fatalities</i>	<i>Regulatory Compliance and Internal Controls</i>	<i>Cybersecurity</i>
<i>Waste Reduction</i>	<i>Succession Planning</i>	<i>Racial Minority Representation</i>	<i>Lost Workdays</i>	<i>Risk Management Processes</i>	<i>Fraud Prevention</i>
<i>Environmental stewardship</i>	<i>Recruitment and Retention</i>	<i>Inclusion Survey</i>	<i>Accident Prevention</i>	<i>Stakeholder Engagement</i>	<i>Data Governance</i>
	<i>Employee Training and Development</i>		<i>Food or Product Safety</i>		

2 Common Challenges for Separately Weighted ESG Metrics/Goals

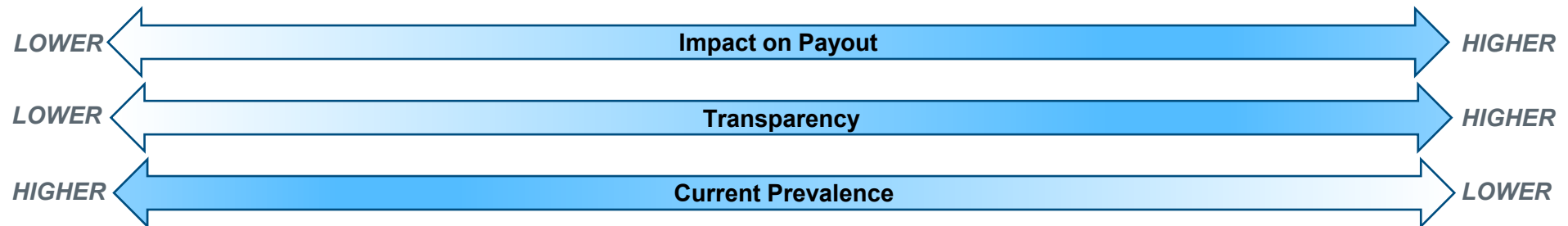
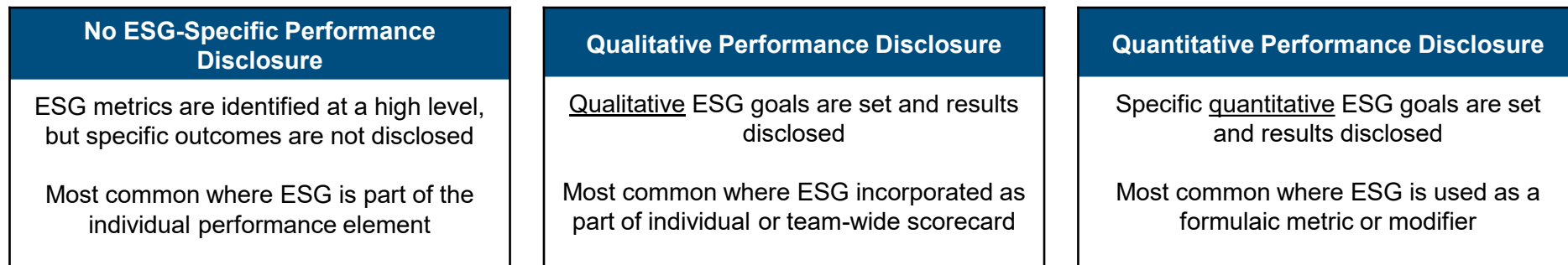


2 Role of ESG in Incentive Programs

How is ESG incorporated into the incentive programs?



To what degree are ESG goals and results disclosed?





3 Employment and CIC Agreements

■ Employment Agreements

- When offered, the employment agreement serves less as a guide for day-to-day employment, but rather to set the rights and obligations of the employer and employee in the event of termination
- The ongoing employment relationship between an executive and the Company is best managed outside of a contract. However, with respect to ongoing employment, the contract can set expectations, set the basis for the employment relationship, and provide additional job security under otherwise difficult circumstances
- Some employment agreements are structured to “sunset” certain provisions after the initial term, with only certain provisions persisting (e.g., CIC protection, certain restrictive covenants), or transition to a CIC agreement thereafter
- Market practice is to offer full employment agreements only to a very select group of executives (i.e., eligibility for banks does not typically extend beyond the EVP level)

■ Severance Agreements or Severance Plan

- Some companies offer arrangements that only spell out the rights and obligations in the event of an involuntary termination; these types of arrangements are typically limited to cash severance
- Eligibility may be much deeper than employment and CIC agreements, with more modest severance amounts deeper into the organization

■ Change in Control (CIC) Agreements

- CIC protection is almost universally provided to top management positions
- When not covered within a full employment agreement, a CIC agreement sets out the rights and obligations of the employer and employee in the event of a merger or acquisition
- Like employment agreements, CIC agreements typically address more than just cash severance
- Eligibility is often at the level of SVP and above, but may also be a more select group

3 Employment and CIC Agreements

- No single arrangement is deemed an appropriate fit for all companies and/or executives
- The first step is to determine which vehicle(s) is the best fit from a holistic assessment of the strategic, cultural, and philosophical considerations
- The chart below illustrates the effectiveness of certain arrangements at addressing common areas of concern to the company and the executive; scenarios are provided for a new recruit, an internal promotion, and an ongoing role

Perspective / Common Concerns	Employment Agreement (EA)			CIC Protection Only
	New Recruit	Newly Promoted	Ongoing Role*	
Executive Risk of leaving existing job and unvested awards / relocating Unknowns about strategic / cultural fit Market pressures / negotiation item Events outside executive's control				
Company/Shareholder Perspective Unknowns about strategic / cultural fit Market pressures / negotiation item (cost/benefit) Executive retention Value of restrictive covenants Alignment with shareholder interests Manage long-term cost risk assoc. with underperformers Clarity / structure for facilitating a not-for-cause termination Compensation cost of facilitating a not-for-cause termination				
Overall				

- Depending on the design of the employment agreement, executive and company/shareholder perspectives are likely to differ depending on the term and renewal provisions (“sunset” vs. “auto-renew”)
- *Note: This is not intended to be comprehensive nor scientific; rather, it is intended to provide directional insights*

Notes:

EA = Employment Agreement; CIC = Change in Control

*Beyond initial term

Key:

- = Strong Level of Effectiveness in Addressing Concern
- ◐ = Moderate Level of Effectiveness in Addressing Concern (or neutral)
- = Low Level of Effectiveness in Addressing Concern

QUESTIONS

