Striking the Balance

Executive Pay in Uncertain Economic Times



d. hilton associates inc.

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It's not so much **what** a credit union pays its executives, it's what the credit union pays **for**

A credit union that **links** executives' **pay** to **performance** is executing the strongest governance principles.

What the Banks are Doing….

In essence, high-performing banks treat exec comp as a value alignment mechanism to connect leadership outcomes directly to organizational longevity and shareholder prosperity.



- Emphasis on Performance-Based Pay
- Alignment with Strategy and Shareholder Value
- Fewer but High-Impact Performance Metrics
- Greater Pay Leverage and Realizable Pay
- Long-Term Focus and Governance Discipline

What are Credit Unions Doing….

- Align mission & member value creation
- Pay-for-performance accountability
- Market awareness amid supply pressures
- Transparency coupled with Board oversight
- Strategic flexibility during periods of uncertainty



An Executive Compensation Committee Work Primer

Key Questions to Ask Annually

- Are we market competitive?

  Competitive with the national credit union and community banking markets.

- Is our program reasonable?

  Being within peer group compensation as well as performance parameters.

- Is our program defensible, or could it be called into question?

  Providing a means to support a pay practice that may otherwise be misunderstood or misinterpreted.

Philosophy

- **How does our philosophy support our strategic vision/culture?**

  Have pay strategies rewarded executives for protecting the elements of the member experience while making our brand more valuable?

- **What is our compensation mix in terms of base salary, variable pay, benefits, and retirement/retention programs?**

  True pay-for-performance ensures that pay programs provide meaningful rewards and consequences and doesn't change the rules too often if things are not going as planned.

- **Are we able to recruit and retain the right people?**

  The key to long-term executive continuity is securing existing executive talent and rewarding them for success.

Design Concepts

- **Are our programs fundamentally competitive in terms of components, mix, and levels?**

  It's a good bet that if you know your execs are great, the marketplace knows it as well. Ensuring you retain these types of individuals is the best business decision and should take greater precedence over internal equity.

- **Where is our program most vulnerable to member and community criticisms?**

  Many credit union execs earn more than many of their members and volunteers. An executive compensation committee must be able to document the value of the executive management team's performance.

Performance Leverage and Risk

- **Do we have an appropriate linkage between pay and performance?**

  There is a sweet spot when it comes to establishing variable pay targets as a percentage of base pay. If the target is too small, it is not motivational. If it's too large, it lends itself to allegations of encouraging too much risk-taking.

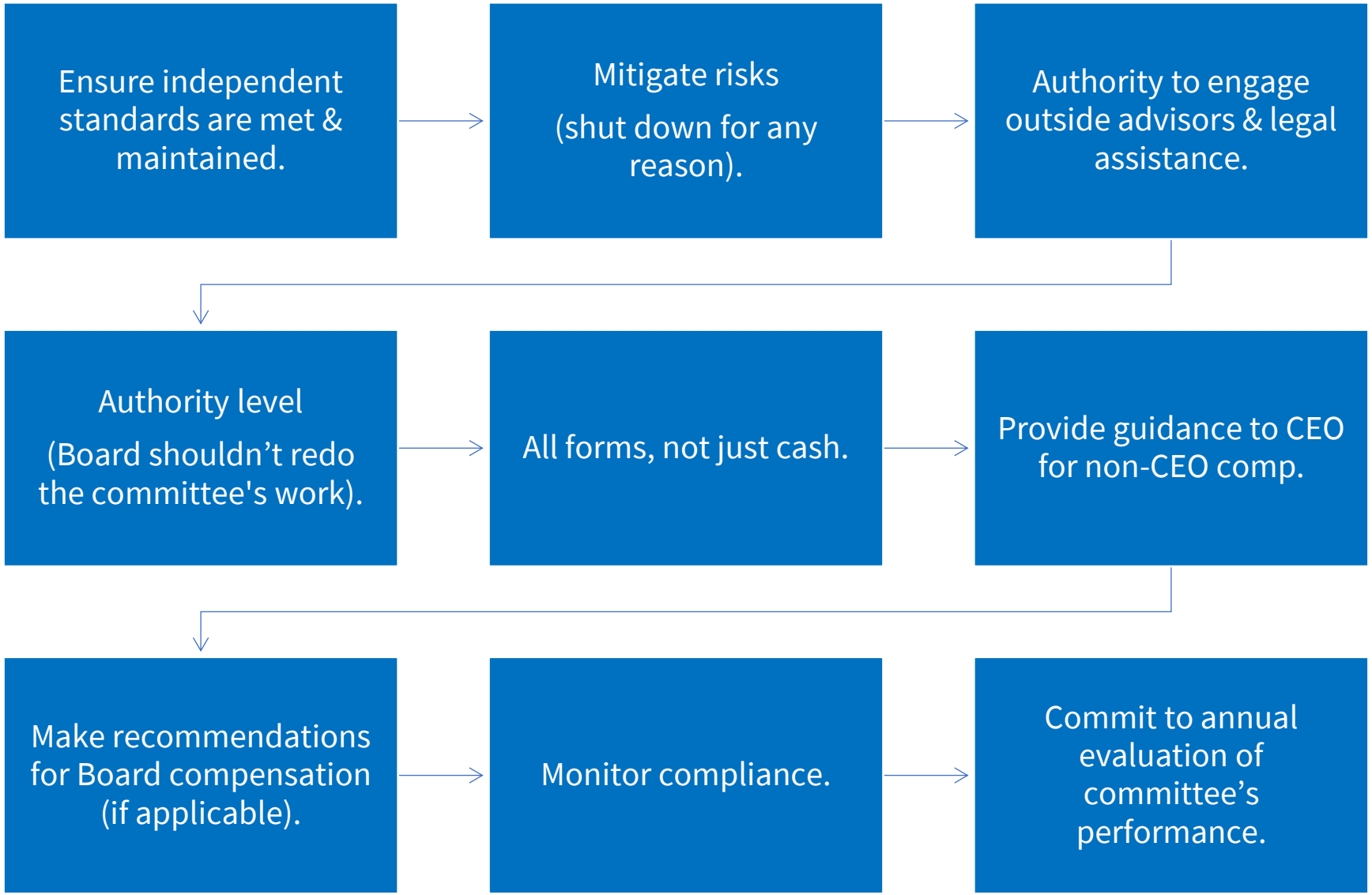
- **Do we set threshold and maximum performance goals commensurate with pay opportunities?**

  Committees should think of establishing three success points, not just one. All-or-nothing targets (cliffs) can be demotivational should executives determine that they cannot be reached.

Retention and Severance

- Does our program promote the retention of top talent?
- Do we have a sound business purpose and rationale for our severance agreements?
- Do our committee minutes accurately and completely reflect our process, analysis, and decisions?
- Do any of the committee members have a conflict of interest?

Annual Committee Responsibilities



Suggested Annual Work Plan

Q1

- Evaluate past year financial/strategic performance.
- Conduct CEO evaluation.
- Certify prior year's incentive plan payout.
- Determine comp levels for current year as guided by market data and past year's performance.
- Establish the structure and targets for next year's scorecard.

Q2

- Prepare Comp Committee Report for Board.
- Review/Discuss what should be shared with ownership relative to pay.
- Review retirement & retention program performance.

Q3

- Conduct Midyear Scorecard Review to assess how it is tracking.
- Review designated peer group to determine if any changes are required.

Q4

- Review independent comp consultant's comp data and comp practices/trends.
- Affirm goals of the comp programs.
- Conduct risk-based review of compensation policies/practices to ensure appropriateness.

How would you approach…



Current Metrics

Current Trends

Measuring success in three dimensions

past, present, and future

Examining guiding principles

mission alignment and accountability

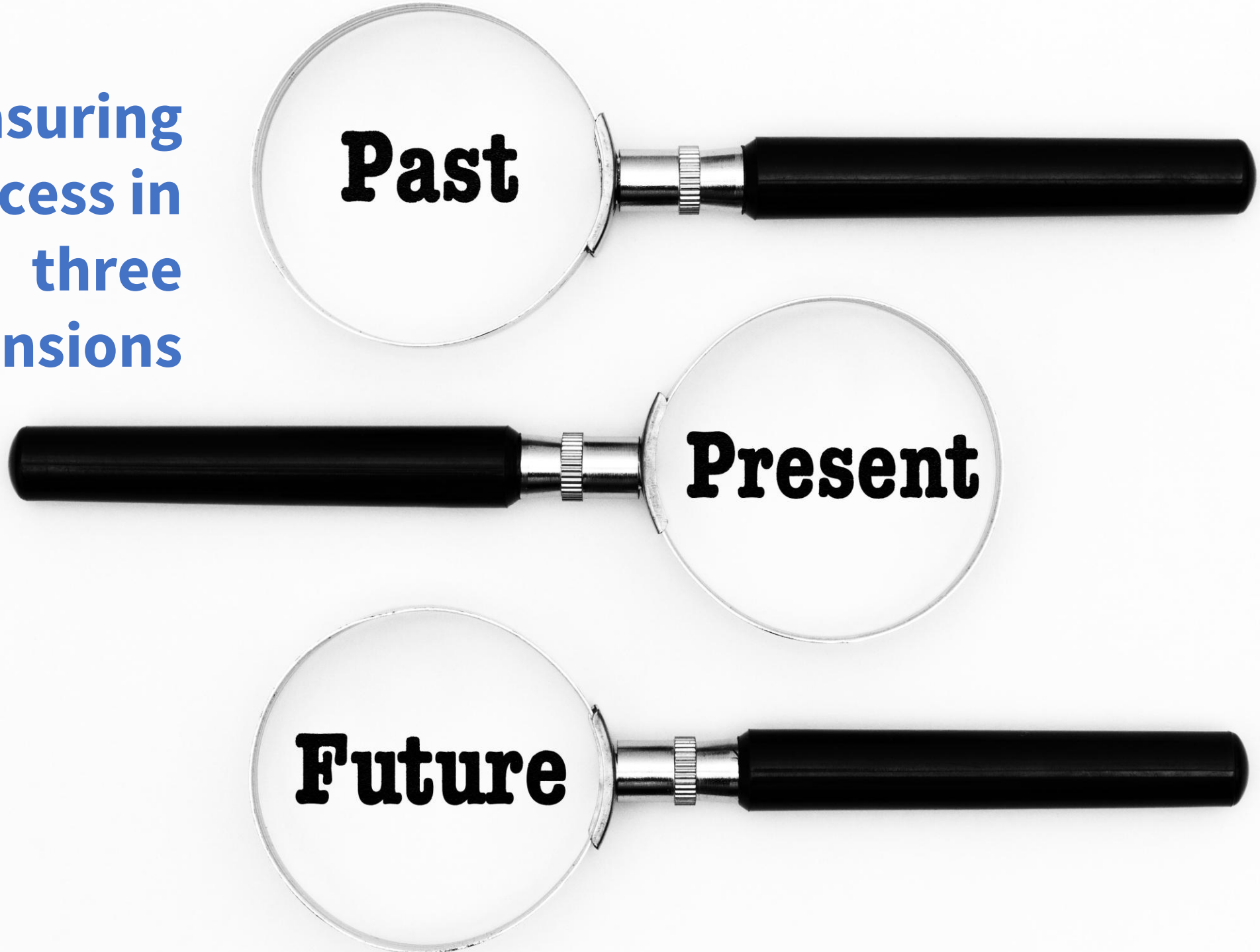
How much responsibility should the C-Suite accept for poor performance?

exploring circuit breakers and clawbacks

Why do we start over every year?

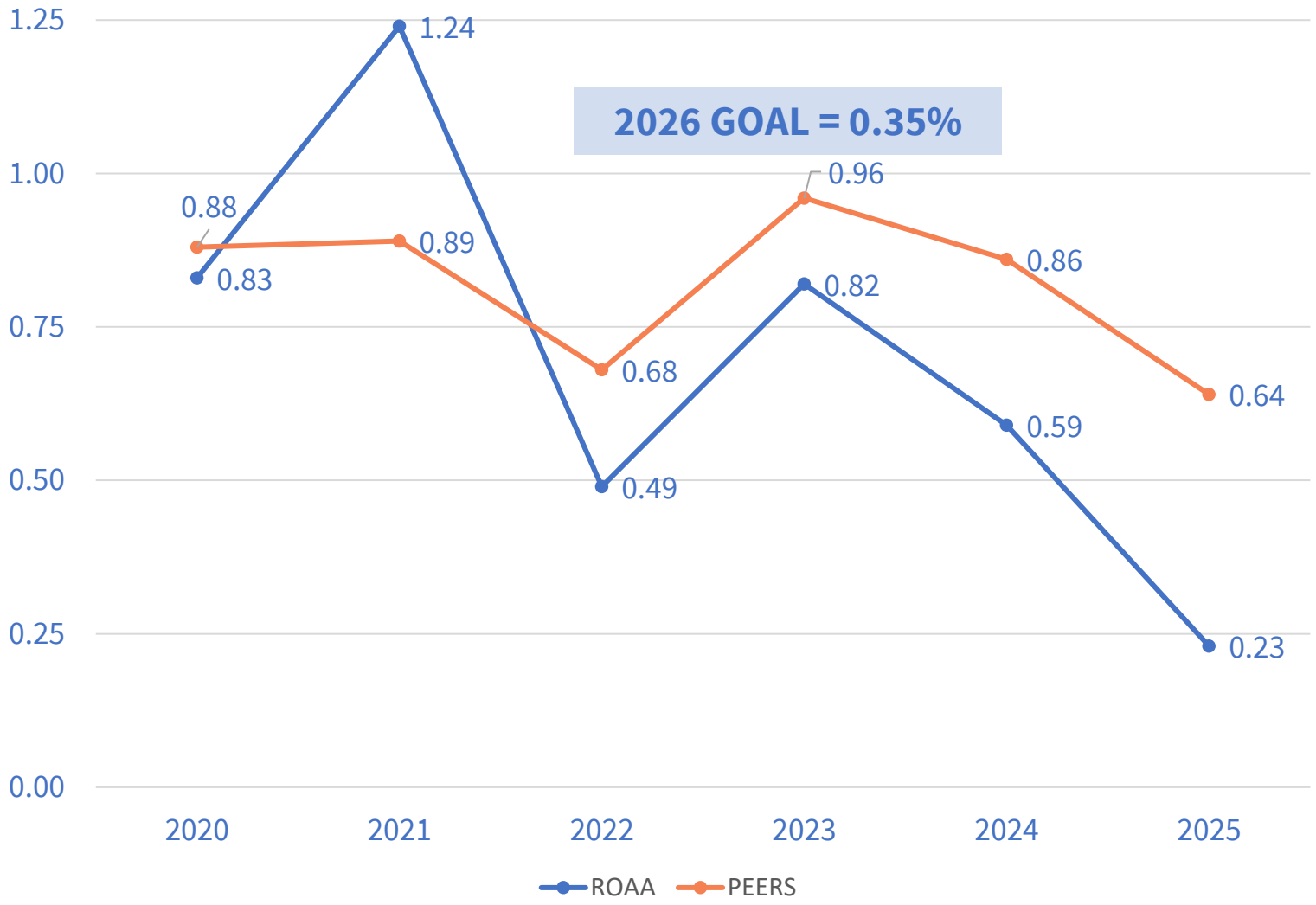
Incorporating EVA principles into your program

Measuring success in three dimensions



PAST

So You Like Historical Comparisons?



PAST

So You Like Historical Comparisons?

	ROAA	PEERS	3-YR AVG
2020	0.83%	0.88%	
2021	1.24%	0.89%	
2022	0.49%	0.68%	0.85%
2023	0.82%	0.96%	0.85%
2024	0.59%	0.86%	0.63%
2025	0.23%	0.64%	0.55%
2026 A	0.35%		0.39%
2026 B	0.40%		0.41%


PRESENT
Peer Benchmarking Pitfalls

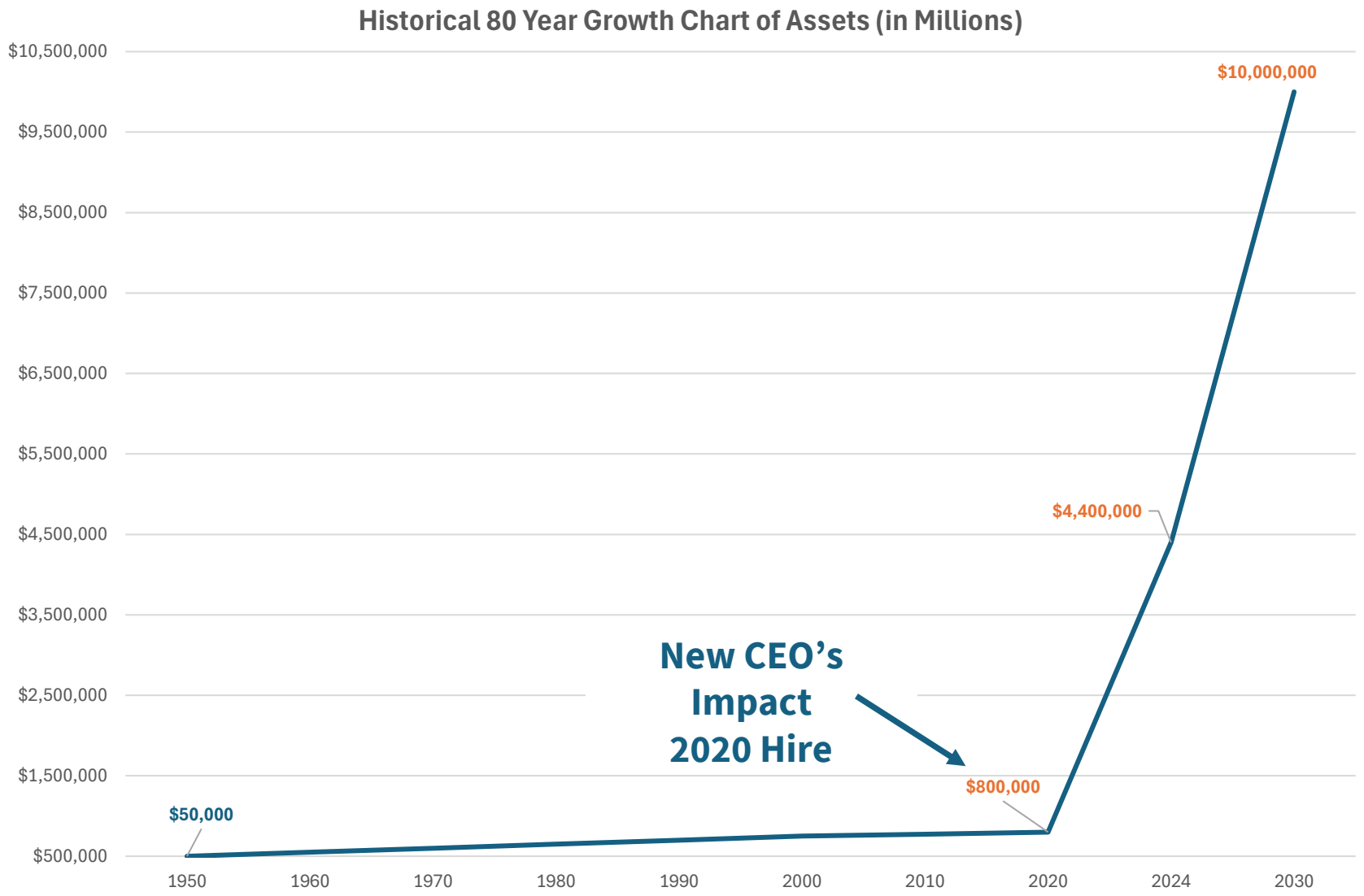
So You Like Peer Comparisons?

Rank	State	Name	ROA	ROC	EFFICIENCY RATIO	AVG CAP/ASSTS	TTL ASSETS (billions)
1			1.98%	14.73%	47.42%	13.45%	$8.0
2			1.93%	18.64%	53.86%	10.34%	$7.4
3			1.55%	13.32%	54.90%	11.61%	$8.5
4			1.53%	9.17%	48.00%	16.66%	$8.8
5			1.48%	20.97%	65.29%	7.05%	$7.5
6			1.47%	30.23%	52.94%	4.87%	$6.2
7			1.40%	14.99%	60.66%	9.34%	$7.5
8			1.36%	13.05%	59.18%	10.42%	$13.4
9			1.31%	11.42%	65.01%	11.46%	$8.8
10			1.26%	14.12%	61.53%	8.96%	$18.0
40			0.37%	5.79%	76.39%	6.39%	$12.9
41			0.29%	4.25%	88.03%	6.89%	$9.0
42			0.24%	3.10%	72.14%	7.85%	$16.8
43			0.18%	3.28%	88.14%	5.50%	$13.6
44			0.12%	1.27%	81.79%	9.40%	$10.0
45			0.09%	0.98%	60.83%	9.24%	$8.2
46			0.06%	0.72%	88.91%	8.81%	$7.7
47			0.06%	0.76%	91.23%	7.50%	$11.9
48			0.04%	0.72%	90.09%	5.63%	$7.1
49			0.00%	0.01%	83.04%	7.85%	$6.8
50			-0.56%	-7.02%	74.09%	7.93%	$11.4
		Top 50 AVG	0.75%	8.34%	68.55%	8.99%	$10.4

PRESENT

The Right CEO at the Right Time

Impact vs. Activity




How would you approach…
Future Metrics



Strategic flexibility

The Heavy Lifting is Done During Planning

- Board oversight is the primary responsibility.
- Spend more time assessing strategic options that were considered and rejected – not just the path that was taken.
- Monitoring from the perspective as to whether the strategy is really working.
- Once-a-year discussion doesn't cut it anymore.
- Use timely metrics that will give early indications when strategy isn't delivering the promised results.
- Be willing to initiate change where necessary – close the loop.

Strategy: Don't Just Approve It - Measure It… Check It… Change It…


Pay Alignment
with mission and
member value
creation


Should plans have discretion?
How much responsibility should the C-Suite accept for poor performance?

Why do we start over every year?

Incorporating Economic Value Added principles into your variable pay program



It's Pay for Performance, Right?

Good Times…Tough Times…Just Times

In a crisis, you channel focus by:

- Creating alignment
- Clarifying objectives
- Setting strategy
- Establishing priorities
- Defining accountabilities
- Motivating performance
- Doubling down on mission and values

Circuit Breakers

Serve as a crucial risk management tool, helping reinforce prudent decision-making, accountability, and long-term value creation.

Circuit breakers contribute to a more balanced and sustainable approach to executive compensation.

Performance Thresholds

Risk-Adjusted Compensation

Communication/Transparency

Adjustment Mechanisms

Board Discretion

Regulatory Mandates

Clawbacks



Public Company Trends
(beyond financial restatements)

20% Inappropriate Conduct

51% Breaches of Company Policies/Legal Requirements

49% Breaches of Fiduciary Duty or Fraud

33% Misconduct with Reputational or Financial Harm

29% Administrative Enforcement (allow administrators to enforce comp recovery)

24% Termination for Criminal Resolutions

Clawbacks



It's important to outline specific triggers, procedures, and processes for initiating clawback actions. These provisions help promote accountability, risk management, and alignment of comp with long-term credit union interests.

- Financial Misstatement
- Risk Management Failures
- Performance Metric Errors
- Termination for Cause
- Misconduct/Breach of Duty
- Regulatory Violations
- Failure to Achieve Long-Term Goals



Market Competitiveness Amid Talent Pressures

Mid-Term/Gain Share Plans Emerge

Mid-Term Incentive Plans with Mandatory Retention Elements which are performance and/or time-based (3-5 years) are emerging as highly valued retention tools for executives.

Due to Omni-Channel Delivery, more credit unions are turning to team-based and gain share-based corporate incentive plans – allowing executive goals to align with even more levels of employees.

Transparency coupled with Board oversight



Where is our program most vulnerable to member and community criticisms?

But What About in Tough Times?



Ex-Citi Bankers Urge Board to Claw Back Hundreds of Bonuses

- Letter to board criticizes slow turnaround, heavy spending
- Citi spokesperson says letter contains 'factual inaccuracies'

By Todd Gillespie

October 31, 2024 at 10:18 AM CDT
Updated on October 31, 2024 at 11:08 AM CDT

- Many credit unions face the fact that their execs earn more than many of their members and volunteers.
- While it's an apple-and-oranges comparison, it's still an emotional and highly-charged issue.
- An exec comp committee must be able to document the value of the executive management team's performance.

Credit Union Example

CU's executive compensation practices are designed specifically to:

- Ensure executives' interests are closely aligned with those of our member/owners.
- Attract/retain highly qualified executives who can drive a complex enterprise to succeed in today's competitivemarketplace.
- Motivate our executives to deliver high business performance and member satisfaction.
- Differentiate compensation so that it varies based on individual and team performance.
- Utilize tax-effective means of compensation to maximize the net value of compensation items.

SEC DEF 14A Example

The BOK Financial executive compensation program has many objectives, all of which are designed to enhance Company value. Because no single type of compensation award or performance criteria could achieve all objectives, several types of compensation performance criteria and awards are used to achieve the maximum benefit from executive compensation. Company executive compensation objectives include:

- Sustained, Above Peer Performance
- Encourage Individual Performance and Teamwork
- Link Compensation to Operational Results
- Assess Competition with Peer Banks
- Align Executive Interests with Shareholders

SEC Attestation

- Compensation must ultimately be approved by an independent body (not the individuals receiving the compensation)
- The group responsible must obtain and review comparable data (specific to size, market, and strategic focus)
- The group responsible must document the process (who did what and when)

Credit Union Reasonableness Statement

- Our Board is elected directly by the membership to oversee the organization.
- Directors are paid/unpaid volunteers who devote substantial time to the organization and exec pay.
- The Board's #1 responsibility is to attract, identify, reward, and retain the best talent to run the organization on behalf of the membership.
- The Board routinely uses an independent compensation consultant to assist in establishing competitive pay packages for its execs by requesting compensation data to be gathered from credit union and bank peers.
- The Board's executive compensation committee is independent with no personal ties to President/CEO.
- The credit union and its practices are routinely audited by federal regulators and an outside auditing firm.


How would you approach...
Community Involvement

Activity Metrics

The foundation you need to dig before you can start constructing the building the organization wants.

- ✓Show you have been busy
- ✓Moved through various milestones
- ✓Typically non-financial metrics

Impact Metrics

If activity metrics are the foundation, you can think of impact metrics as the building that eventually rises out of that foundation.

- ✓Tangible results delivered to the organization or its members
- ✓Usually financial metrics

Top 5 Organizations Supported in 2023


Team volunteering at a food bank


Fundraiser for Imagination Library

By TwinStar Employees

1. **All Kids Win**
2. **Concern for Animals**
3. **American Cancer Society**
4. **Rebuilding Together Thurston County**
5. **Emergency Food Network**

By Northwest Community Employees

1. **Bags of Love**
2. **Kidsports**
3. **Young Marines**
4. **Coburg Community Foundation**
5. **Food for Lane County**



Check donation to All Kids Win



American Cancer Society - Relay for life

"More than just a financial gamechanger, TwinStar Credit Union is a beacon of unwavering support in the fight against cancer. Their partnership with Relay For Life of Thurston County goes beyond sponsorship, making them a catalyst for hope and action. As a top 10 team, TwinStar inspires others to join, building a powerful community around a shared mission: improving lives touched by cancer. They actively participate in American Cancer Society programs, hosting rallies and raising awareness for critical resources that support patients and families. TwinStar is a true force for good, proving that together, we can end cancer as we know it - for everyone."

Jessica Silva, American Cancer Society, Vice President, Pacific Northwest & Alaska Development

Serving our Communities

We are committed to helping people realize their financial dreams. It's at the heart of everything we do. In 2023, TwinStar and Eugene, Oregon-based Northwest Community Credit Union merged. By bringing together two financially strong credit unions, we continue to deliver unparalleled products and service to our 250,000+ members in Washington and Oregon.

TwinStar Credit Union started as a teachers' credit union in 1938. In the 1930s, small loans were difficult for teachers to obtain due to their low salaries and high interest rates. Dewey Noblitt, a math teacher at Olympia High School, brought together 15 teachers who started Thurston County Teacher Credit Union – and made loans easier to obtain and more affordable for its members.

Northwest Community Credit Union was started in 1949 by six friends who worked together at Weyerhaeuser Company. During lunch one day, they decided they wanted to help each other, so they put $50 dollars in a lunchbox. Later that year, the Weyerhaeuser Springfield Federal Credit Union made its first loan.

Throughout both credit unions' histories, they have prided themselves on providing amazing service to their members and helping their local communities thrive. Now as one combined organization, we look forward to making an even greater impact in the decades to come.

This report highlights the impact we made in 2023 on the communities we serve.

$1,186,458
Donated in 2023 to 100+ organizations*

5,160
Hours volunteered by TwinStar and Northwest Community Credit Union employees in 2023.

*Totals include social responsibility and sponsorship dollars across the credit union but do not include TwinStar Foundation giving or auction item donations.

At a Glance: Our 2023 impact by the numbers



Rise Coalition Winter Drive

$362,143
Education & Scholarships
K-12 support, scholarships, leadership programs and literacy.

$183,365
Children, Youth, and Family
Health and wellness, youth centers, basic needs, childhood development and family services.

$151,734
Diversity, Equity and Inclusion (DEI)
Celebrating cultures, diversity and inclusion and LGBTQ+ youth.

$127,607
Health and Wellness
Supported American Cancer Society and cancer research, mental health and addiction services, maternity services, and various children's hospitals.

$119,118
Economic Development
Donations, scholarships & memberships to organizations that support local businesses and improving economic development, chamber of commerce memberships, support for Onward Eugene.

$242,491
Other
(Social Services, Food Insecurity, Housing, etc.)

Financial Wellness for All

Our mission is to help improve the financial well-being of our members and the greater community. We partner with two free financial wellness programs, MoneyEdu and BALANCE, to help members enhance their financial journey.

We held free financial wellness events in 2023 for adults, presented in English and Spanish. Strong financial well-being can lead to thriving communities.

BALANCE

We also offer members free counseling and guidance through our financial education partner, BALANCE, which can help members realize their fiscal goals with budget counseling, debt management, and loan extensions.

518
Members connecting with BALANCE

75
Appointments scheduled for financial counseling

73
Online courses taken

MoneyEdu

Every year, hundreds of adults and teenagers enroll in MoneyEdu, our self-directed online financial wellness education program, to increase their financial knowledge. Our members use interactive tools to create budgets, track spending, and calculate things such as how much interest they will pay when making minimum payments on credit cards.

1,383
Total users since launch

949
New users in 2023

915
Total courses completed by participants in 2023

635
Hours spent learning



Booked for the Evening fundraiser



Lemonade Day



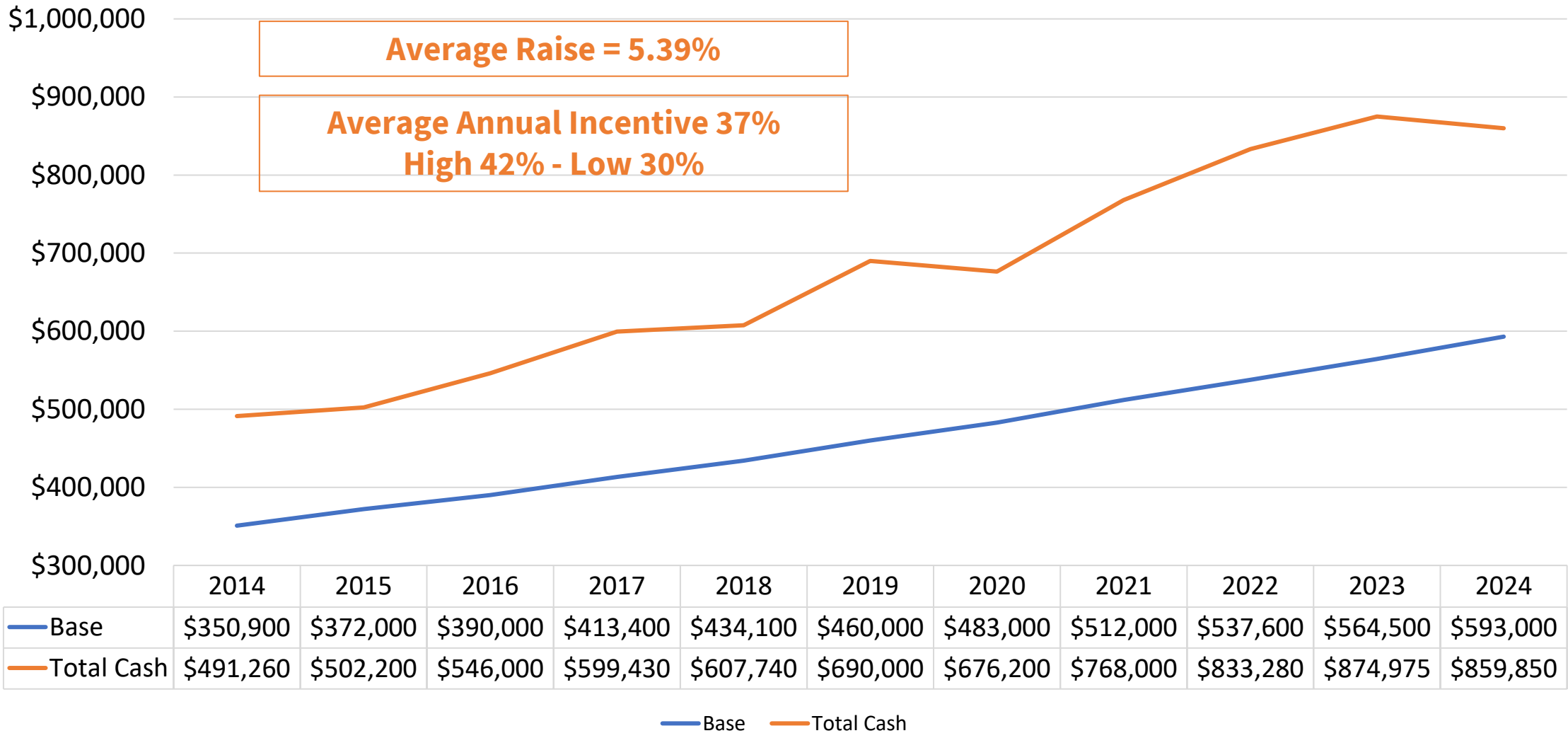
Abundance auction

"At FESS, we want to ensure we can meet the immediate need while also addressing long-term solutions. One of the ways we manage this is by utilizing TwinStar's Financial Literacy program with MoneyEdu. We present this to our clients in such a way that lets them know this is a huge resource, with so many learning tools for them to access as many times as they want. We have made it a requirement that every person seeking financial assistance takes the Financial Difficulties course. As of this date, we have nearly 400 participants who have accessed financial literacy! Our partnership with TwinStar is truly making a difference in people's lives, and we are honored to be a part of it."

Karin Oceguera, MSAFM | CFO/Deputy Director
Family Education & Support Services


VISION
IDEA
PLAN
TEAM-UP
SUCCESS

CEO Compensation History



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Base	$350,900	$372,000	$390,000	$413,400	$434,100	$460,000	$483,000	$512,000	$537,600	$564,500	$593,000
Total Cash	$491,260	$502,200	$546,000	$599,430	$607,740	$690,000	$676,200	$768,000	$833,280	$874,975	$859,850

11TH Annual

Total Rewards Symposium *2025*



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