



**PACIFIC MERCANTILE BANCORP & SUBSIDIARIES**

**BOARD OF DIRECTORS  
HR & COMPENSATION  
COMMITTEE CHARTER**

**Adopted:**

**December 20, 2012**

**Revised 3/2/2016**

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**PACIFIC MERCANTILE BANCORP & SUBSIDIARIES**  
**COMPENSATION COMMITTEE CHARTER**

This Compensation Committee Charter ("Charter") was adopted by the Board of Directors of Pacific Mercantile Bancorp and Subsidiaries (collectively the "Company") on November \_\_, 2012. This Charter sets forth the authority and duties of the Compensation Committee (the "Committee"). The Committee shall serve as the Compensation Committee for Pacific Mercantile Bancorp and Subsidiaries (the "Company"). The Board of Directors of the Company has delegated to the Committee responsibility on a range of compensation and benefit issues with the purpose to assure the effectiveness of the Bank's compensation plans, policies and programs consistent with the strategic objectives of the Bank and shareholder interests.

The Committee will discharge the Board's responsibility in matters relating to:

- Administration of the Company's Executive cash compensation, incentive compensation and equity-based plans;
- Production of an annual report on executive compensation for inclusion in the Company's Proxy Statement at such time as such a report is required by applicable rules and regulations of the Securities and Exchange Commission;
- Conduct an annual Chief Executive Officer performance evaluation process for the Company's Chief Executive Officer;
- Review the performance evaluations of the Company's President(s) and Executive Vice Presidents;
- Review all other officer and employee compensation and benefit plans;
- Review and recommend for Board approval director compensation plans;
- Oversight of employee contracts, change of control agreements, and severance agreements;
- Oversight of executive officer hiring practices;
- Oversight of Human Resources Compliance;
- Adopt and maintain the Company's Compensation Philosophy and Sound Incentive Compensation Policy.

The principal responsibility in compensating executives, officers and employees is to align their incentives with the strategic plan of the Company and with actions that will enhance long-term shareholder value.

The Committee will have the resources and authority appropriate to discharge its responsibilities, including authority to retain and terminate any experts.

This Charter will be available in written form upon request of any shareholder and referenced in the Company's Annual Proxy Statement or made available on the Company's website if so required by applicable rules and regulations of the Securities and Exchange Commission.

The Committee will review and assess the adequacy of this Charter annually and recommend changes to the Board of Directors when necessary.

## **II. COMMITTEE MEMBERSHIP & CHAIRMAN**

The Committee will be appointed by the Company's Board of Directors each year, and the Chairman of the Committee will be designated by the Board of Directors.

Committee members will serve at the pleasure of the Board and may be removed by the Board of Directors in its discretion at any time. The Chairman will chair all regular sessions of the Compensation Committee and set the agendas for Committee meetings. To establish a quorum and convene a meeting of the Committee, there must be present in person, by telephone or other means of communication, at least three voting members of the Committee. Approval of the Committee requires a simple majority of the Committee members participating in the meeting. In the event of a tie vote, no approval can be issued.

The Committee shall be composed of at least three members of the Board each of whom shall: (a) meet the independence requirements of the NASDAQ Stock Market listing standards and any other applicable laws, rules and regulations governing independence, as determined by the Board; (b) qualify as "non-employee directors" as defined in Section 16 of the Securities Exchange Act of 1934; and (c) qualify as "outside directors" under Section 162(m) of the Internal Revenue Code.

## **III. STRUCTRE AND MEETINGS**

The Committee will meet at least two times annually and as often as necessary to fulfill its duties and responsibilities.

Minutes of the meetings will be approved by the Committee and will be filed with the Company's Secretary. The Chairman of the committee will report its activities to the Board of Directors.

The Committee may request any officer or employee of the Company or the Company's outside advisors, or any special counsel or advisors to attend a meeting of the Committee or to meet with any member of, or consultants to, the Committee.

## **IV. DUTIES AND RESPONSIBILITIES**

The Committee will ensure appropriate personnel, including the Chief Risk Officer, will have input into incentive plan design and assist with modeling various risk outcomes and monitoring of payments. In setting compensation programs the Bank will consider a wide range of risks, which will include but not be limited to: credit, market, liquidity, operational,

legal, compliance and reputational risks, as well as other risks to the viability or operation of the organization.

The Committee is responsible to:

- A. At least annually, review and approve corporate goals and objectives, consistent with the performance objectives established by the Finance and Risk Committee, relevant to the compensation of the Company's CEO; evaluate the CEO's performance in light of those goals and objectives; and recommend to the Board for action at an executive session<sup>1</sup> the compensation level for CEO based on this evaluation (*the CEO may not be present during voting or deliberation on CEO compensation by the Committee or at the executive session of the Board*). In determining the long-term incentive component of CEO compensation, the Committee will consider various measures of the Company's performance, including relative shareholder return, the value of similar incentive awards to CEO's at comparable companies, and the awards made to the CEO in past years.
- B. At least annually, review and approve corporate goals and objectives consistent with the performance objectives established by the Finance and Risk Committee, relevant to the compensation of the Company's other Executive Officers (defined as President(s) or Executive Vice President(s)), evaluate their performance in light of those goals and objectives; and recommend to the Board for action at an executive session their compensation level based on this evaluation. In determining the long-term incentive component of these executives' compensation, the Committee will consider various measures of the Company's performance, including relative shareholder return, the value of similar incentive awards to other executive officers at comparable companies, and the awards made to such executive officers in past years;
- C. Evaluate the Company's financial performance and relative shareholder return in determining executive compensation taking into consideration such factors as the economic environment, risk profile of the bank, and general market conditions;
- D. Review and approve any employment agreement, change of control agreement, severance or similar termination payments or arrangements proposed to be made presently or in the future to any officer of the Company;
- E. Make recommendations to the Board of Directors with respect to the Company's overall cash compensation, incentive compensation and equity-based plans to assure they are effective in attracting, retaining and motivating the best quality workforce;
- F. Serve as the Stock Option Committee for stock option plans or equity incentive plans of the Company;
- G. Evaluate and recommend to the Board the sufficiency of management succession plans;

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<sup>1</sup> "Executive session" of the Board shall mean a meeting comprised of only directors who are "independent" for purposes of the Nasdaq listing requirements.

- H. At least annually, review and recommend to the Board for action at an executive session compensation of the Company's directors. In determining director compensation the Committee will consider various measures of the Company's performance, and the compensation paid to other directors at comparable companies;
- I. The Committee will also review and recommend for Board approval the Company's compensation, benefits and health insurance packages for management and employees; and personnel policies;
- J. The Committee will review and approve any and all policies related to compensation;
- K. The Committee will review, approve and recommend the hiring of all Executive-level officers to the Board for approval; and
- M. Prepare, or oversee the preparation of, and approve the annual Committee Report on Executive Compensation for inclusion in the Company's annual proxy statement;
- N. Review executive officer compensation in reference to Section 162(m) of the Internal Revenue Code, as it may be amended from time to time, and any other applicable laws, rules and regulations;
- O. Annually review employee compensation strategies, benefits, and equity programs, and conduct peer compensation studies as necessary to assure market based compensation is in place;
- P. Review and make recommendations to the Board with respect to incentive based compensation plans and equity based plans, establish criteria for the terms of awards granted to participants under such plans, grant awards in accordance with such criteria and exercise all authority granted to the Committee under such plans, or by the Board in connection with such plans;
- Q. Conduct a review of the adequacy of the Committee's charter, at least annually, and recommend changes to the Board as needed;
- R. Keep the Board informed of its activities, and the activities of management, through submission of timely and accurate meeting minutes and of a report from the Chairman of the Committee to the Board at its next meeting.
- S. Obtain advice and assistance, as needed, from internal or external legal, accounting, search firms, compensation specialists or other advisors, including the retention, termination and negotiation of terms and conditions of the assignment;
- T. Perform any other activities consistent with the Charter, the Company's By-laws and governing law as the Committee or Board deem appropriate;

U. Delegate responsibility to subcommittees of the Committee or to management of the Company as necessary or appropriate.

V. Delegate responsibility to management of the Company to approve certain severance payment not to exceed \$50,000.

## **V. PERFORMANCE EVALUATION**

The Committee will conduct annual self-evaluations by reviewing and assessing the adequacy of this Charter and recommend any proposed changes to the Board for approval. The Committee shall also evaluate its own performance. In conducting such self-evaluation, the Committee shall address all matters that it considers relevant to its performance including but not limited to the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board; the manner in which they were discussed or debated; and whether the number and length of meetings were adequate for the Committee to complete its work in a thorough and thoughtful manner.

## **V1. COMMITTEE RESOURCES**

The Committee shall be empowered, subject to approval of the Board, to engage or compensate independent legal, accounting or other advisors as it determines necessary to carry out its duties. The Committee shall receive appropriate funding, as determined by the Committee, from the Bank for payment of (A) compensation to any advisor so employed by the Committee; and (B) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. The Committee may form and delegate authority to subcommittees when appropriate.