



Executive Comp Research:
**Cash is King at Regional Banks
in the West**

Written by Vivient Consulting

Data compiled by Main Data Group



Regional banks in the Western states rely heavily on cash to compensate their Chief Executive Officers (CEOs), according to recent proxy data analyzed by Vivient Consulting and compiled by Main Data Group. We analyzed the 2014 proxies for the Chief Executive Officer position at over 40 publicly-traded banks ranging in asset size from \$500 million to \$10 billion in the 10 Western states. The median bank asset size is \$1.4 billion, with approximately one-third of the banks in the \$2B to \$9.9B asset size range. Median performance metrics were 1.0% Return on Assets (ROA) and 8.7% Return on Equity (ROE).

Chief Executive Compensation and Pay Mix

Median total direct compensation consisting of salary, annual bonus, and long-term incentives (as reported in the summary compensation table) is close to \$700,000. With an additional \$100,000 in other compensation (including benefits), the median total reported compensation for the CEO is \$800,000. The median base salary is close to \$400,000, and the median actual short-term incentive is \$225,000. Long-term incentives continue to be granted to CEOs on a periodic basis, with two-thirds of banks making equity grants in 2013. The median long-term incentive grant value is approximately \$100,000, which includes data from CEOs who did not receive a grant in 2013.

Compensation is typically correlated to company size, and we find this to hold true at Western regional banks, where target total direct compensation (salary, target bonus and planned stock grants) is a function of the bank's asset size. Figure 1 shows a scatterplot of CEO target total direct compensation relative to its bank asset size. Two-thirds of CEO compensation falls within the appropriate pay alignment band.

We analyzed CEO compensation across other common bank metrics such as Return on Assets, Return on Equity, and Total Shareholder Return but we found no discernable correlation between pay and any of these metrics. This finding implies that asset size is the predominant factor in setting CEO compensation, which is not surprising as base salary comprises 50% of pay mix and bonuses and long-term incentive plans are not directly tied to conventional metrics. Incentive plans are still fairly discretionary at the publicly-traded regional banks.

Short-Term Incentives

Banks are progressing on surer financial footing after experiencing a downturn in the recent recession. Many banks have repaid TARP funds and are focused on increasing profitability and asset quality. With more financial stability, banks have returned to awarding cash bonuses to their top executives, with close to 90% of banks granting bonuses to the CEO in 2013. Median short-term incentives are approximately \$225,000, which is close to the reported median target bonus of 60% of salary. While discretion is still a prevalent way to determine bonuses at regional banks, we see a trend toward establishing "scorecard" frameworks to determine bonus awards, using financial metrics – such as profitability, return (ROA, ROE), and asset quality – as well as a qualitative assessment of how well the banks are performing against their strategic plans.

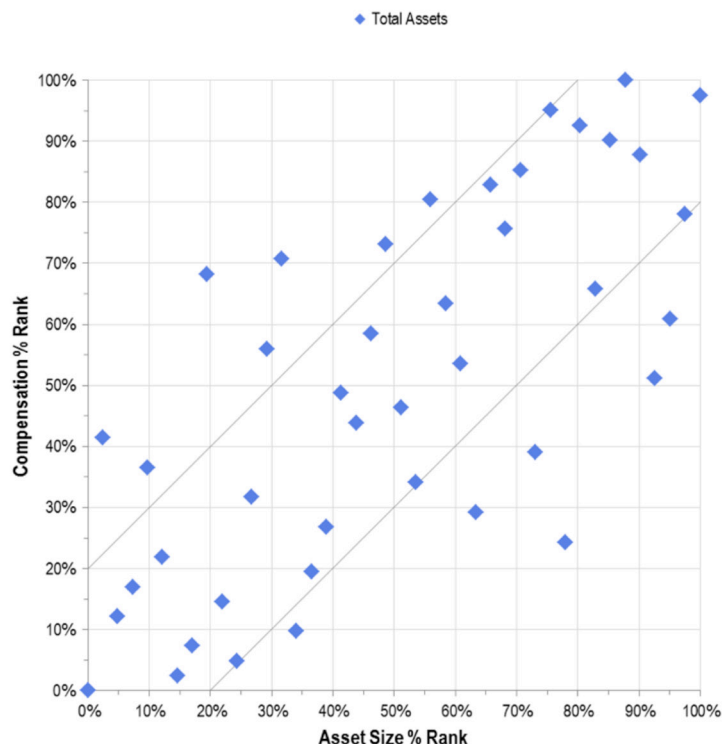
Long-Term Incentives and Non-Qualified Benefit Plans

With respect to long-term incentives, two-thirds of the banks granted equity to the CEO in 2013. Banks that grant long-term incentives typically provide one type of equity, with time-based vesting restricted stock as the preferred equity vehicle. Interestingly, one-fifth of banks have adopted performance-based stock plans, mirroring the broader trend of performance-based equity grants found in general industry.

- Approximately 40% of banks grant time-based vesting restricted stock with three- and four-year graded vesting being typical
- Close to 20% of banks grant time-based vesting stock options with five-year graded vesting being typical
- Close to 20% of banks grant performance-based stock that is earned based on a variety of measures (TSR, ROA, ROE, and other strategic measures)

With respect to benefits, close to 60% of banks have established retirement plans such as Supplemental Employee Retirement Plans (SERPs), also known as Salary Continuation Plans, for the CEO. Not surprisingly, we see banks providing defined benefit plans in lieu of making equity grants. Approximately two-thirds of the banks that did not grant equity have defined benefit plans in place for their CEOs. Deferred compensation plans where CEOs can defer receipt of salary, bonus, and equity are also prevalent, with half of banks offering such a plan.

Target Total Direct Compensation Vs Asset Size: Percentile Rank





Summary

For publicly-traded regional banks, CEO pay is still oriented toward cash (base and bonus). Longer-term compensation components include modest and periodic equity grants supplemented by benefit plans such as SERPs and deferred compensation plans. Banks are beginning to adopt performance-based short-term and long-term incentive plans, and we expect that trend to continue in the future.

About Vivient Consulting

Vivient Consulting is an independent compensation consulting firm that helps companies address their most important compensation issues. Our sole focus is on performance and rewards, so we provide an independent perspective to boards of directors and management teams. We advise public and private companies of all sizes and across many industries, with a specialty in the financial services industry. Our hallmark is a collaborative and multi-disciplinary approach, involving strategy, finance, tax and accounting practices, that enables us to design pay programs that are tailored to each of our client's objectives.

For more information contact Bertha Masuda of Vivient Consulting at bmasuda@vivient.com

About Main Data Group

Main Data Group is a provider of high-resolution executive compensation data. We have a robust, cloud-based platform which streamlines peer comparison work for compensation professionals. Our breadth-of-data and ease-of-use goes above and beyond any other products currently available.

For more information contact your account manager, or email info@maindatagroup.com