Compensation
Advisory Partners

Industry Report // 2016-2017

Regional Banks

Compensation Advisory Partners (CAP) examined 2016 executive pay levels and practices among 43 companies in the regional bank and thrifts and mortgage finance industries. The companies were divided into three groups: small banks (< $20B in assets), mid-size banks ($20B - $50B in assets) and large banks (≥$50B in assets). This report analyzes the differences in pay levels and practices among the three sets of banks given the different sizes and regulatory oversight affecting each group of companies.

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Highlights

Pay practices across banks of various sizes are generally consistent; however, there are still a few key differences:

- Larger banks tend to place more emphasis on variable pay (annual and long-term incentives)
- Smaller banks generally use a wider array of metrics in their annual incentive plan compared to larger banks that tend to use a few key measures
- Most larger banks cap long-term incentive plan maximums at 150% of target as a result of regulator input; among smaller banks, caps above 150% of target are still used, although many use a 150% maximum

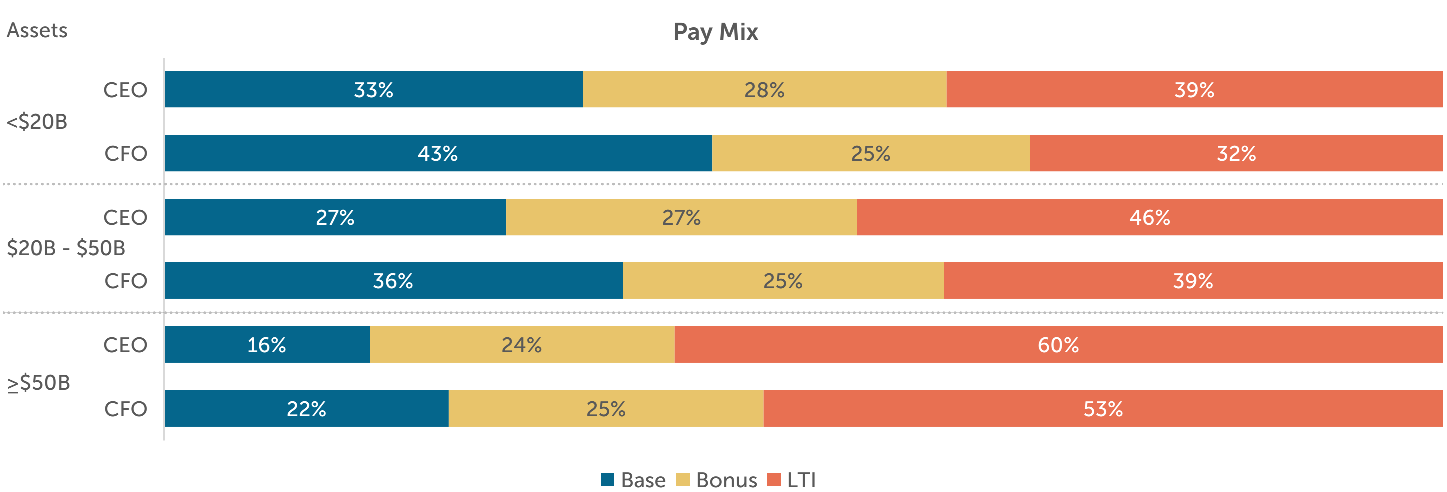
CEO and CFO Compensation

CEO and CFO compensation increases as the size of the bank increases which is not surprising as size is viewed as an indicator of increased complexity. This trend is generally true in most industries. The range between the 25th percentile and 75th percentile for CEO pay among the large banks (≥$50B) is very narrow.

	CEO Total Direct Compensation			CFO Total Direct Compensation		
Assets	**25th %ile *($000s)***	**Median *($000s)***	**75th %ile *($000s)***	**25th %ile *($000s)***	**Median *($000s)***	**75th %ile *($000s)***
< $20B	$2,023	$2,469	$2,897	$727	$778	$1,149
$20B - $50B	$3,274	$3,614	$4,299	$1,112	$1,394	$1,528
≥ $50B	$7,242	$7,901	$8,088	$2,480	$2,608	$3,400

When comparing pay mix across our three groups of banks, there is a strong relationship between asset size and amount of variable or incentive pay. For CEO's among the small banks, base salary (fixed pay) represents one-third of total compensation and incentives (variable pay) represent two-thirds of total compensation. This contrasts with the other groups, in which variable pay comprises almost 75% and 85% for the mid-size and large banks, respectively. As salaries generally fall within the same range ($800K - $1M) among the three groups of banks, the differences in pay come largely in the form of increased long-term incentives.

Among all three groups, the CEO had a higher percentage of variable pay than the CFO. It is common across all industries for the CEO to have a slightly greater emphasis on performance-based compensation.



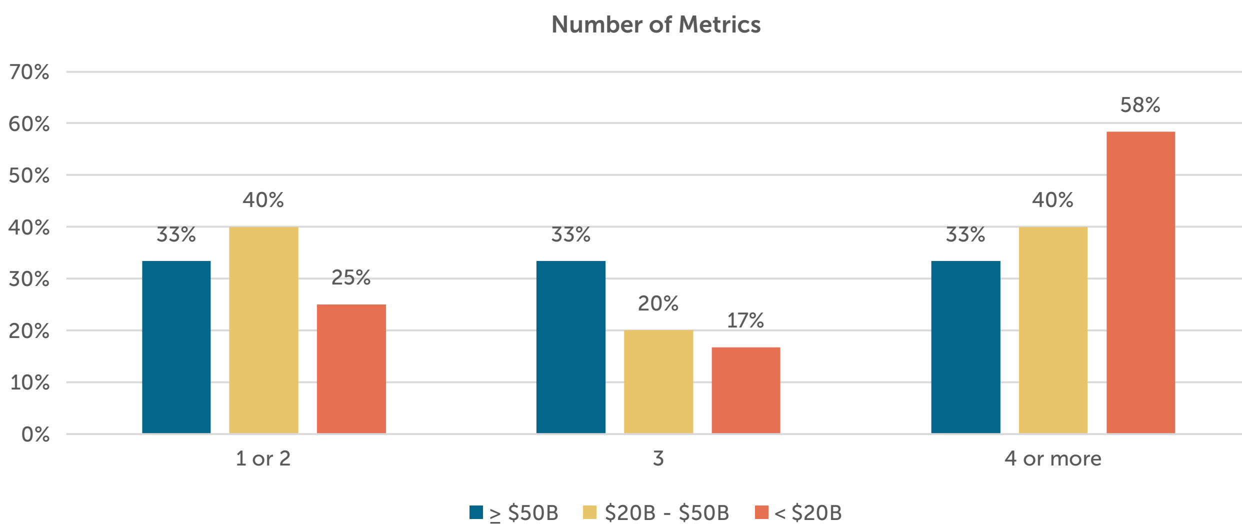
Pay Practices

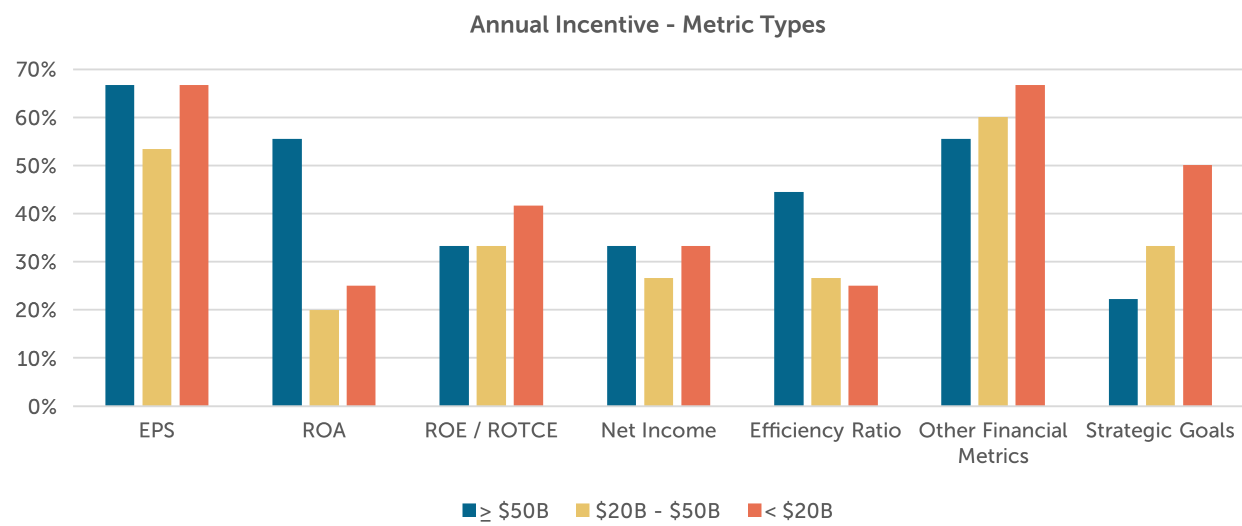
Annual Incentive Plans

A majority of companies in our study use "goal attainment" annual incentive plan funding. These are plans in which the company compares actual results to pre-established metrics, with set weightings, and performance goals to determine incentive funding. However, some companies use "discretionary" funding annual incentive plans, a common practice in larger financial services companies (for example, Bank of America and JPMorgan). These companies consider a wide range of performance results — financial, strategic and/or individual -- to determine incentive payouts, with no specific formula to determine earned awards. This approach allows a company to not only consider the level of performance results each year, but to consider external or internal factors influencing such results and make adjustments based on this qualitative review as appropriate.

Annual Incentive Plan - Metrics

Companies with goal attainment plans



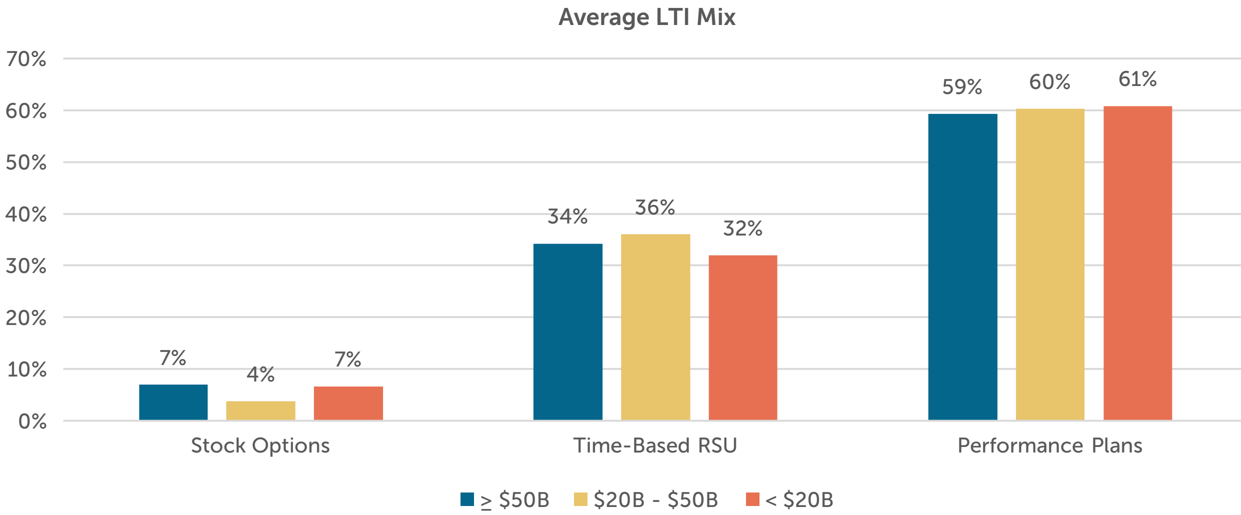


The small banks tend to use more metrics in their annual incentive plan compared to the other groups. Earnings per share (EPS) is the most prevalent metric across all subsets followed closely by return measures (particularly Return on Assets and Return on Equity/Return on Tangible Common Equity). Notably, the small banks use strategic metrics more frequently than the larger banks. This may be due to the emphasis on growth and driving strategic results that cannot adequately be captured by a typical financial metric.

Long-Term Incentive (LTI) Plans

Mix Of LTI Vehicles

Regardless of size, long-term incentive mix remains consistent across all groups. Stock options account for approximately 5% of total mix (only about 30% of companies use them, on average), while performance-based plans account for about 60% of total long-term incentive mix and time-based restricted stock makes up the difference. This is comparable to general industry, where performance-based equity accounts for about two-thirds of total LTI mix; however, we see much less use of stock options in the regional banking industry than the broader market. Stock options are viewed as risky by the regulators and many financial services companies have decreased or eliminated the use of stock options entirely. Time-based restricted stock may provide better retention and performance-based plans may offer a better link between pay and financial performance.

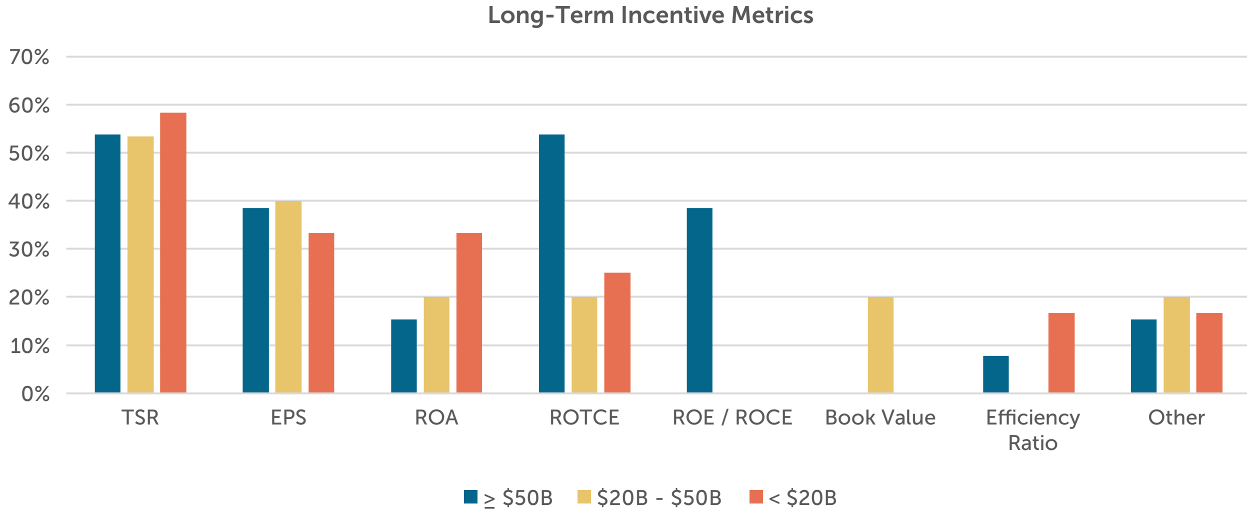


Performance Plan Leverage

Median upside leverage on performance plans among all three groups is 150% of target, influenced by input from regulators for the largest regional banks (general industry often pays maximum at 200% of target). Larger banks face increased scrutiny from regulators to discourage excessive risk taking. While the regional banks have followed to some extent, several of the smaller companies (particularly those less than $20B) have maximums of 175% or 200% of target.

	As a % of Target					
LTI Payout Leverage	≥ $50B		$20B - $50B		< $20B	
	Threshold	Maximum	Threshold	Maximum	Threshold	Maximum
75th Percentile	50%	150%	50%	175%	40%	200%
Median	50%	150%	50%	150%	25%	150%
25th Percentile	27%	125%	25%	150%	21%	150%

Long-Term Incentive Plan Metrics



Total Shareholder Return (TSR) is the most common metric in the long-term incentive plan, followed by EPS and return metrics. Many mid-size and small banks use TSR as a stand-alone weighted metric, accounting for at least 50% of performance plan results. The impact of shareholder advisory groups, such as ISS, may be driving the heavy use of TSR. Larger companies tend to use TSR as a modifier and not as a weighted metric. Long-term performance plans tend to be less complex than annual incentive plans with more than 60% of regional banks (as a whole) using only one or two metrics.

Conclusion

Overall, the smaller regional banks generally have similar pay practices to their larger counterparts. However, pay mix, number of metrics in annual incentive plans and long-term incentive plan leverage vary. Larger banks have made significant pay practice changes in the post-financial crisis era, and while regional banks have adopted some of these changes as well, not all have cascaded down. The current economic uncertainty may present some additional challenges in this industry but we expect the trend to continue toward increased performance compensation.

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Robert Martin provided research assistance for this report.