CAP REPORT
CAP Compensation Advisory Partners INDUSTRY REPORT | JUNE 2016

FINANCIAL SERVICES

2015/2016 INDUSTRY REPORT

CAP is a leading independent consulting firm specializing in executive and director compensation and related corporate governance matters. Our consultants have served as independent adviser to Boards and senior management at many leading companies in the areas of compensation strategy, program design and in promoting sound corporate governance principles.

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Compensation Advisory Partners (CAP) examined the 2015 pay and performance relationships across four segments of the financial services industry. The segments we examined are Wall Street Banks, Trust Banks, Regional Banks and Asset Managers and our sample includes twenty-seven companies with median revenue of approximately $8B and median assets of approximately $180B[1].

FINANCIAL RESULTS: 2015 MARKED A DOWNWARD TREND IN INDUSTRY PERFORMANCE

2015 performance was not strong for U.S. companies, including most financial institutions. 2015 financial results were generally weaker than 2014 results, marking a downward trend in industry performance. Highlights of median reported results for all financial service companies included in the S&P 500 are:

- Slower revenue growth, declining from +6% in 2014 to +3% in 2015
- Profitability, as measured by EPS growth, declined from +12% to +4%
- Total shareholder returns (TSR) were flat (+1%) after a +16% increase in 2014

Consistent overall with industry trends, the 2015 performance of the twenty seven companies in CAP's four industry segments was down substantially compared to 2014:

- Revenue growth was flat (+1%) vs. +4% for 2014
- EPS growth was +2%, well below the 11% growth achieved in 2014
- TSR results underperformed the returns of the S&P 500 Financial Index (+1%),with approximately sixty percent of the financial firms in our study ending the year with negative TSR

While overall industry results were disappointing, there was some variation across the business segments and among individual companies:

- Asset managers registered the most significant declines in revenue growth, profitability and TSR (-13%)
- Three out of five Wall Street Banks reported significant improvement in earnings; however, TSR for this subset declined by 5%
- Trust Banks reported the highest growth in EPS and the only positive improvement in TSR (+3%) among the industry segments

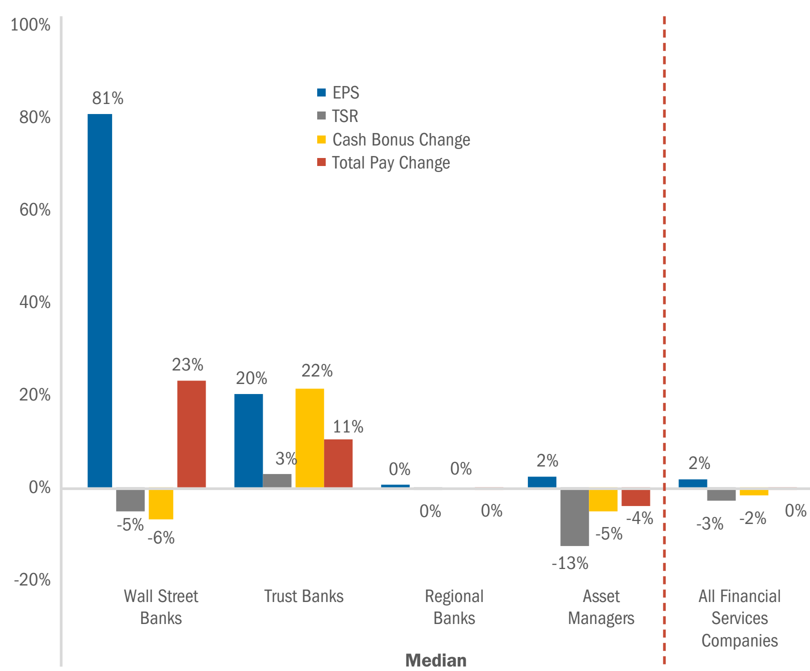
1 See Exhibit 1 for list of companies included.

Overall CEO pay for 2015 was flat tracking with weaker financial performance

2015 CEO COMPENSATION TRACKS COMPANY PERFORMANCE

Overall, total direct compensation, including base salary, annual incentive/bonus and long-term incentives, stayed flat compared to 2014. We saw variations by segment and by company, in line with performance. Pay rose in firms with stronger performance and declined in those reporting weaker financial results.

1-year Pay-for-Performance



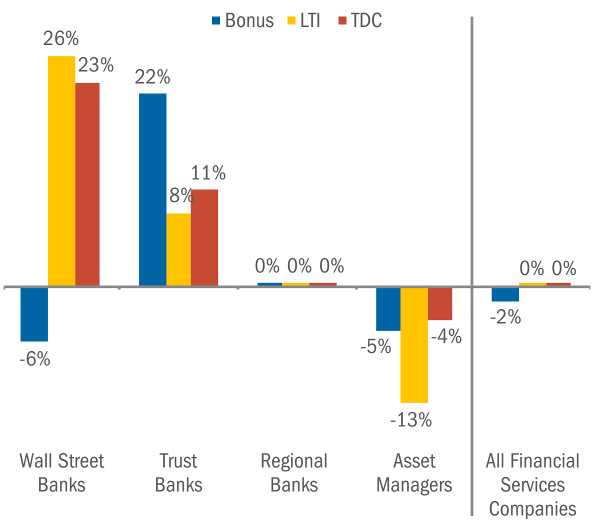
- ***Wall Street Banks:*** Three out of five reported significantly higher earnings and awarded increases in total compensation, primarily through larger long-term incentives rather than cash awards.

- ***Trust Banks:*** Two out of the three companies reported significantly higher income and also reported higher bonuses and total compensation.

- ***Regional Banks:*** Overall experienced flat growth on all metrics, and reported flat pay vs. 2014.

- ***Asset Managers:*** This group had the largest decline in pay, consistent with the significant drop in revenues and earnings growth, with an overall compensation decline of 4% primarily through a decrease in long-term incentives.

Median Change in Compensation (2015 vs 2014)



PAY PRACTICES: THE CHANGING MIX OF LONG TERM PLANS

All but one of the companies in our study maintains a long-term performance plan based on achieving goals set over a 3-year period. This continues a trend that began following the financial crisis that has taken on greater momentum in the last 3-4 years. The latest adopter includes JP Morgan Chase, last among the Wall Street Banks to introduce a long-term performance plan.

Performance plans may be denominated and paid in stock or cash. The majority of firms prefer to use stock to provide strong alignment between senior management, the long-term goals of the institution, and shareholder returns. Performance plans have become more popular with institutional investors and now represent the largest portion of long-term incentives for CEOs and other named executive officers (NEOs). In 2016, long- term performance plans comprised approximately 60% of a CEO's long-term award and 55% of long-term awards for other NEOs. The remaining portion of long-term incentive was primarily made up of restricted stock (30-35%) and a modest amount of stock options (< 10%). Wall Street Banks is the only industry segment that does not award stock options to NEOs.

Performance plans are the dominant form of long term incentives offered while options continue to lose favor

LTI Mix

CEO			
	STOCK OPTIONS	**RS/RSU**	**PERFORMANCE PLAN**
Wall Street Banks	0%	36%	64%
Trust Banks	8%	33%	59%
Regional Banks	8%	28%	64%
Asset Managers	14%	32%	54%
All Companies	**8%**	**31%**	**61%**

OTHER NEOS			
	STOCK OPTIONS	**RS/RSU**	**PERFORMANCE PLAN**
Wall Street Banks	0%	54%	46%
Trust Banks	8%	34%	58%
Regional Banks	8%	30%	62%
Asset Managers	14%	37%	49%
All Companies	**8%**	**36%**	**56%**

LONG-TERM PERFORMANCE PLAN LEVERAGE

Maximum upside leverage for performance plans has remained the same for the last few years, with the median for all companies set at 150% of the target award. Non-financial firms generally offer 200% of the target award as upside leverage. Financial firms have been deleveraging their plans at the request of regulators. If the re-proposed rules under Section 956 of the Dodd-Frank Act are approved, all firms with greater than $50 billion in assets will be required to adopt a cap on upside leverage of 125% of the target award for senior executives.

Long-Term Performance Plan - Potential Upside Leverage as % of Target

	25TH %ILE	MEDIAN	75TH %ILE
Wall Street Banks	150%	150%	150%
Trust Banks	n/a	125%	n/a
Regional Banks	125%	150%	150%
Asset Managers	113%	150%	165%
All Companies	**125%**	**150%**	**150%**

REGULATORY UPDATE – DODD FRANK

On April 21, 2016, the National Credit Union Association (NCUA) issued a joint proposal with the five other agencies[2] responsible for oversight of incentive-based compensation arrangements in financial institutions under Section 956 of the Dodd-Frank Act. The proposed rules replace the proposed guidelines/rules first issued in 2011. While much of the proposed rules are not new, there are several areas where the new rules are more specific and will influence the compensation programs of most of the institutions in our study. Those areas include:

- Covered institutions are split into three categories by asset size; requirements vary by category but are more stringent for institutions with assets greater than $50 billion
- Expanded deferral and vesting requirements for senior executives and significant risk takers (a newly defined role)
- Potential expansion of the number of employees covered due to formulaic tests/criteria
- Inclusion of deferrals made up of significant amounts of both cash and equity like instruments
- Limit on the maximum upside leverage that can be paid by an incentive program at 125% of the target award for senior executives and 150% for significant risk takers
- Extension of claw back on all cash and equity incentives for seven years post-vesting

For further detail on the proposed rules, see CAP*flash* #83, April 25, 2016. Available at www.capartners.com.

2 Agencies include the Federal Reserve, FDIC, OCC, FHA and SEC.

CONCLUSION

Since the financial crisis, financial institutions have come a long way in aligning pay with performance and improving their governance and risk management practices. Say on Pay results last year among the group were 95% at median, similar to those received by other industries and indicating overall support of pay programs and pay levels by shareholders.

> The Fed and other Agencies' newly proposed rules are more specific and will impact the pay programs of all covered institutions

From a performance perspective, 2016 got off to a slow start. First quarter results were generally lackluster. While the stock market has somewhat improved (the S&P 500 is down 3% as of May, 2016), financial institutions are trading well below the index (S&P 500 Financials are -9% and CAP's sample is -17%). Prospects for the global economy, as well as for meaningful growth in the U.S and the future interest rate environment are uncertain. Regulatory compliance continues to place added pressure on shrinking margins and limits on the kinds of businesses institutions can pursue. Given continuing scrutiny of the industry by shareholders, the media and populist opinion, financial services companies would need a significantly more robust economy to prevent pay levels from being further restrained in 2016.

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Exhibit 1.

WALL STREET BANKS

Bank of America Corporation
Citigroup Inc.
The Goldman Sachs Group, Inc.
JPMorgan Chase & Co.
Morgan Stanley

TRUST BANKS

The Bank of New York Mellon Corporation
Northern Trust Corporation
State Street Corporation

REGIONAL BANKS

BB&T Corporation
Citizens Financial Group, Inc.
Comerica Incorporated
Fifth Third Bancorp
Huntington Bancshares Incorporated
KeyCorp.
M&T Bank Corporation
The PNC Financial Services Group, Inc.
Regions Financial Corporation
SunTrust Banks, Inc.
U.S. Bancorp
Wells Fargo & Company
Zions Bancorporation

ASSET MANAGERS

Affiliated Managers Group Inc.
BlackRock, Inc.
The Charles Schwab Corporation
Franklin Resources, Inc.
Invesco Ltd.
T. Rowe Price Group, Inc.