Compensation
Advisory Partners

Industry Report // 2017-2018

Regional Banks

Compensation Advisory Partners (CAP) examined 2017 executive pay levels and pay practices among 26 companies in the regional bank industry. The companies were divided into two groups based on asset size: $5B - $10B in assets and $10B - $20B in assets. This report analyzes pay levels and practices among the two sets of banks.

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Highlights

The mix of fixed pay (base salary) vs. variable pay (incentives) is similar among both sets of banks; however, incentive plan metrics and mix of long-term incentive (LTI) vehicles used varies by group.

- The smaller banks in our study focus on Earnings Per Share (EPS), Return on Assets (ROA), Return on Equity (ROE) and Return on Tangible Common Equity (ROTCE) in their annual incentive plans while the larger banks rely more heavily on Net Income and Efficiency Ratio
- $5B - $10B banks tend to place more emphasis on time-based restricted stock, whereas $10B - $20B banks weight performance-based LTI more heavily; there is limited use of stock options among both groups
- $10B - $20B banks are more likely to cap performance-based LTI plan maximums below 200%, reflecting a trend among much larger financial institutions which have limited upside in their performance plans due to regulator input. Among the $5B - $10B banks, caps of 200% of target are more prevalent

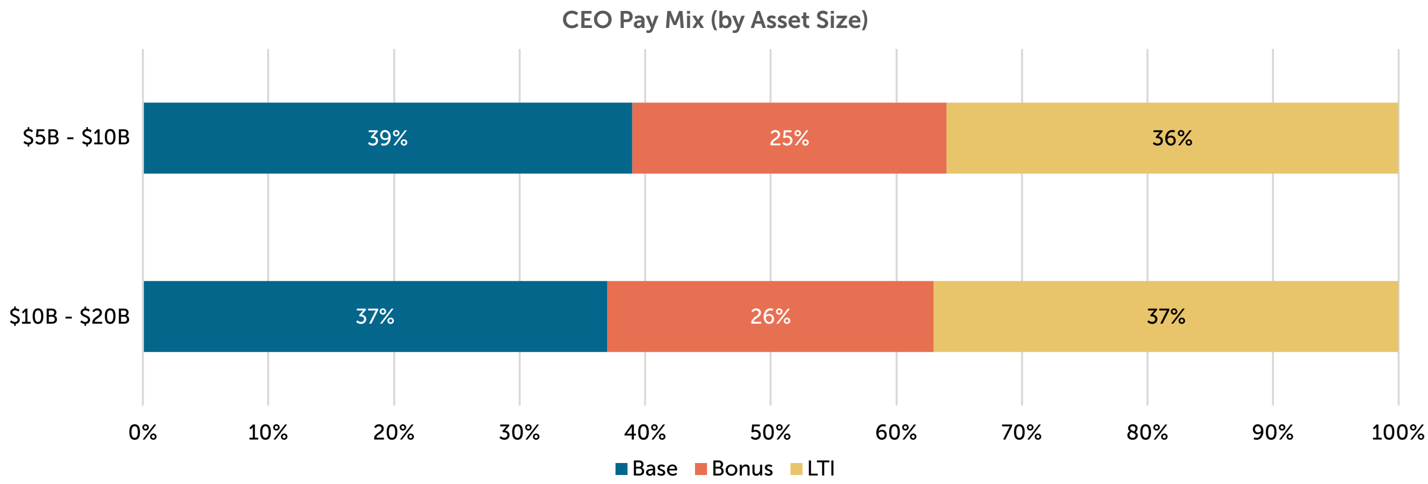
CEO Compensation

As is the case in most industries, CEO compensation generally increases as the size of the bank increases; larger banks have more stringent regulatory requirements, tend to offer a broader range of services, and may be exposed to higher levels of risk. The range between the 25th percentile and 75th percentile for CEO pay among the $5B - $10B in assets banks is very narrow, which is likely driven by the smaller spread in asset size ($5B) compared to the larger group ($10B).

2017 CEO Target Compensation

Asset Size / Pay Component	$5B - $10B			$10B - $20B		
	25th %ile *($000s)*	Median *($000s)*	75th %ile *($000s)*	25th %ile *($000s)*	Median *($000s)*	75th %ile *($000s)*
Base Salary	$613	$700	$737	$700	$780	$916
Bonus ($)	$321	$450	$568	$450	$701	$876
Bonus (% of salary)	55%	70%	80%	70%	85%	100%
Target Total Cash	$943	$1,200	$1,325	$1,291	$1,519	$1,577
LTI ($)	$453	$567	$745	$588	$1,117	$1,574
LTI (% of salary)	70%	81%	113%	84%	121%	164%
Target Total Direct	$1,469	$1,655	$1,924	$1,769	$2,694	$3,261

The relationship between fixed and variable incentive pay is similar across the two groups of banks. For CEOs in our sample, base salary (fixed pay) represents approximately 40% of total compensation, while incentives (variable pay) represent 60% of total compensation. In our experience, this contrasts with the banks over $20B in assets, where variable pay often comprises over 75% of the total pay mix. As salaries generally fall within the same range ($600K - $900K) among all banks studied, the differences in dollar amounts come largely in the form of increased long-term incentives, where the median LTI as a percent of salary is 81% for the $5B - $10B banks, compared to 121% for the $10B - $20B banks.



Pay Practices

Annual Incentive Plans

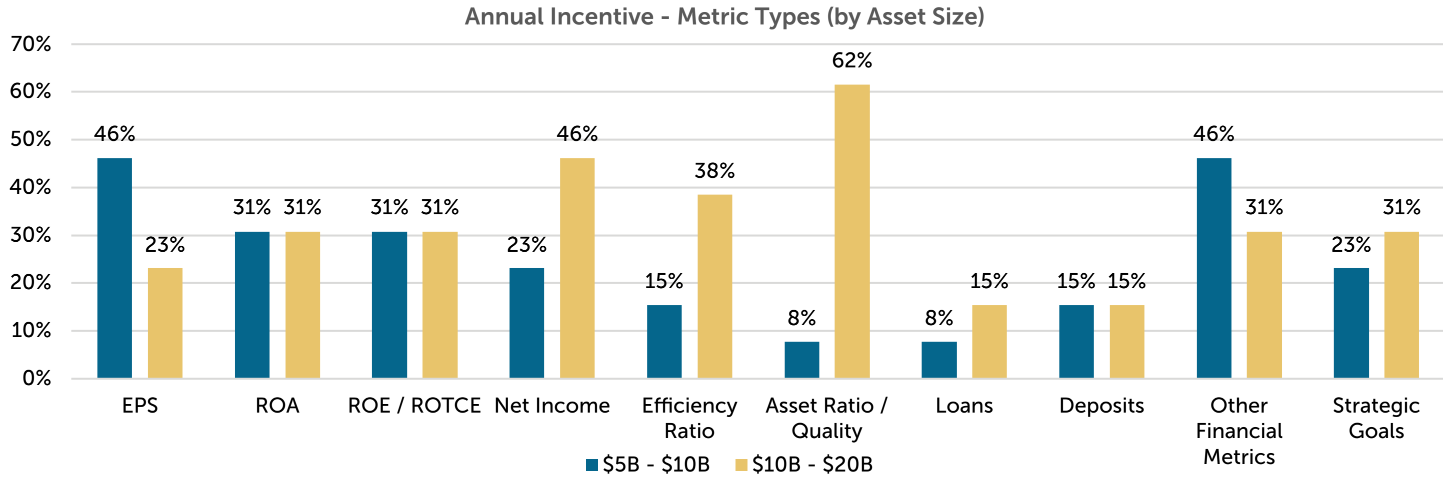
Most companies in our study use "goal attainment" annual incentive plans. These are plans in which the company compares actual results to pre-established metrics with set weightings, leverage, and performance goals to determine incentive funding. Nearly a quarter of the companies instead use "discretionary" annual incentive plans, wherein companies consider a wide range of performance results — financial, strategic and/or individual performance — to determine incentive payouts, with no specific formula to determine earned awards. This approach allows a Compensation Committee to consider not only annual performance results, but external or internal factors influencing such results and adjust as appropriate.

Annual Incentive Plan - Metrics

Companies with Goal Attainment Plans

Among the $5B - $10B banks, EPS is the most prevalent metric followed closely by return measures (particularly ROA, ROE / ROTCE). Notably, the larger banks' most prevalent metrics are asset-related metrics followed by net income and efficiency ratio. The larger banks tend to use metrics that emphasize more than just profitability and incentivize how efficiently the bank utilizes its resources to generate a profit and operate the business, while incorporating metrics that measure the underlying profitability.

Strategic goals are not prevalent in either group; only three banks, all in the $10B - $20B group, include strategic initiatives tied to the technology strategy or diversity and inclusion. These priorities are likely being discussed at all banks, but, companies and committees may shy away from including them in incentive plans as it is challenging to set measurable goals. Therefore, they must rely more heavily on discretion.

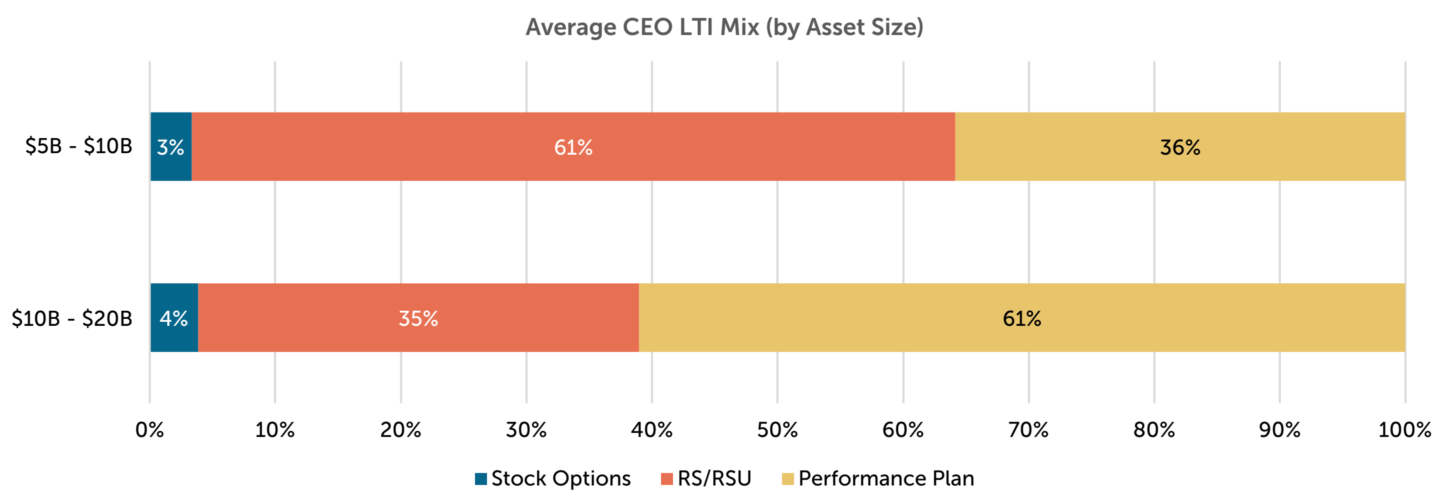


Notes: Other Financial Metrics include Earnings Before Income Tax (EBIT)/Op. Income, Net Interest Margin, Non-Perf. Assets, Total Shareholder Return (TSR), Core Non-Interest Income, Charge-Offs, Operating Expense, Regulatory Criteria, Revenue, Price-to-Book Ratio, Non-Interest Expense, Dividend Increase, Fee Income Growth.

Long-Term Incentive Plans

Mix of LTI Vehicles

For CEOs among the $10B - $20B banks, performance-based LTI represents 60% percent of the LTI mix. This contrasts with $5B - $10B banks, where time-based restricted stock represents 60% of the mix. Stock options account for less than 5% of total mix (only about 10% of companies use them) for all banks in our sample. The $10B - $20B banks' LTI is more 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 in the broader market. Regulators view stock options as risky, as the value can be realized based on macro-economic conditions, rather than company-specific events or financials and many financial services companies have decreased or eliminated the use of stock options entirely.

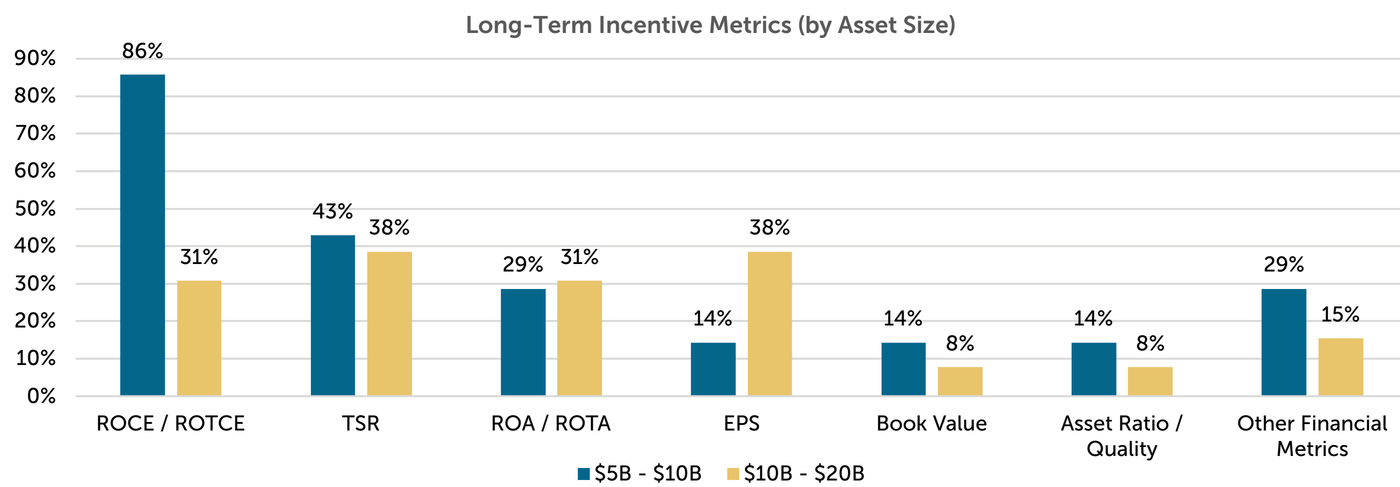


Performance Plan Leverage

Among the $5B - $10B group, the most prevalent upside leverage on performance plans is 200% of target, similar to general industry. For the $10B - $20B group, 150% and 200% of target are equally prevalent. Capping performance plans at 150% of target is common among banks over $20B in assets, as increased scrutiny from regulators led to a practice of reduced upside leverage. While the $10B - $20B banks have followed to some extent, most of the $5B - $10B and nearly half of the $10B - $20B companies have maximums of 200% of target.

	Performance Plan Maximum Prevalence			
Asset Size	**< 150%**	**150%**	**>150% - <200%**	**200%**
$5B - $10B	14%	14%	0%	72%
$10B - $20B	0%	45%	10%	45%

Long-Term Incentive Plan Metrics



Note: Other financial metrics include Loan Growth, Tier 1 Capital Ratio, Efficiency Ratio, Price-to-Book Ratio; Prevalence is shown for companies that have LTI that use performance metrics.

The most prevalent metric in the LTI plan, used by nearly all $5B - $10B banks is Return on Common Equity (ROCE) / ROTCE followed by TSR. Among the $10B - $20B banks, TSR and EPS are the most common metrics, followed by return metrics. In our experience, the use of relative TSR in performance plans is a majority practice for banks over $20B in assets.

CEO Pay Ratio

As expected, the pay ratio correlates with the size of the bank, with the $10B - $20B banks having higher ratios at median and overall. Among the $5B - $10B banks, the median CEO pay ratio was 35:1, and almost doubles to 64:1 among the $10B - $20B banks. 2018 was the first year of CEO pay ratio disclosure which received much less attention overall than anticipated.

Conclusion

Overall, asset size has a significant impact on pay practices, particularly in banks with less than $20B in assets. The $10B - $20B banks generally have similar pay practices to their larger counterparts. On average, all banks in our sample have a similar total pay mix; however, annual incentive and LTI plan metrics, LTI mix, and LTI plan leverage vary. While the banks over $20B in assets have made significant pay practice changes in the post-financial crisis era, not all have cascaded down to banks less than $20B in assets. Regardless of size, we are seeing banks continue to focus on aligning pay and performance with an increased focus on strategic priorities. Bank boards today are discussing how to remain competitive, including how to enhance the customer relationship and to keep up with the digital transformation the industry is undergoing. We expect more boards to start to consider implementing strategic metrics in incentive plans in order to incentivize executives to enrich the customer experience and implement digital strategies.

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Appendix: Regional Banks

Banks with Assets $5B - $10B

Boston Private Financial Holdings, Inc.
Brookline Bancorp, Inc.
First Busey Corporation
First Foundation Inc.
First Merchants Corporation
Independent Bank Corp.
Lakeland Bancorp, Inc.
LegacyTexas Financial Group, Inc.
Mercantil Bank Holding Corporation
Opus Bank
Pacific Premier Bancorp, Inc.
Seacoast Banking Corporation of Florida
Tompkins Financial Corporation

Banks with Assets $10B - $20B

BancorpSouth Bank
Bank of Hawaii Corporation
Berkshire Hills Bancorp, Inc.
Cadence Bancorporation
CenterState Bank Corporation
First BanCorp.
First Midwest Bancorp, Inc.
Great Western Bancorp, Inc.
Home Bancshares, Inc. (Conway, AR)
MB Financial, Inc.
Old National Bancorp
Trustmark Corporation
United Bankshares, Inc.