Pearl Meyer & Partners
Comprehensive Compensation®

ON POINT

TIMELY, ACCURATE, INSIGHTFUL

PM&P On Point: Looking Ahead to Executive Pay Practices in 2015

Banking Edition

Executive Summary

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Introduction

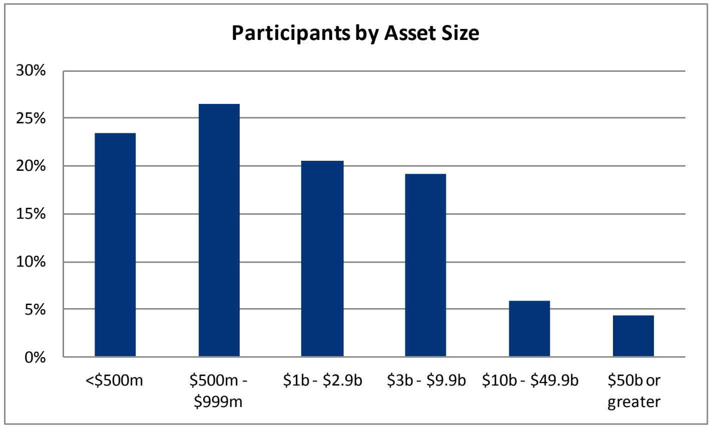
- Pearl Meyer & Partners' annual survey series "On Point: Looking Ahead to Executive Pay Practices" is designed to provide the latest information on competitive practices regarding executive compensation program design and trends. This special edition provides insight into banking industry practices.

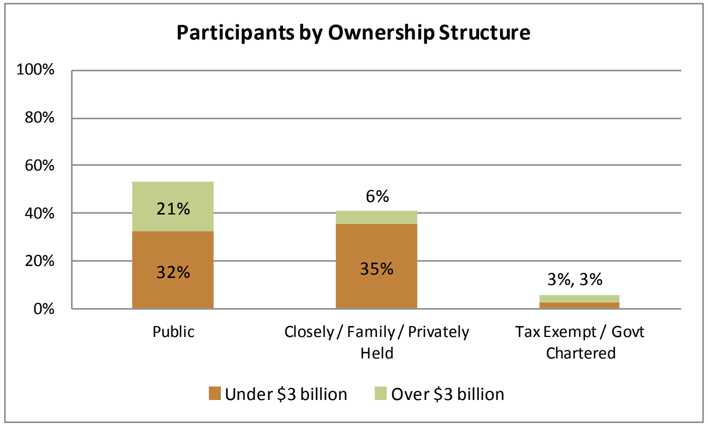
- The broad survey was conducted online between August 5, 2014 and September 22, 2014 and included input from 298 participants.

- The 68 participants in the banking industry represent organizations ranging in size from less than $500 million in assets to over $50 billion in assets.
  - 50% of the banks are less than $1 billion in assets and another 40% are between $1 and $10 billion in assets.
  - Over 90% of the banks are publicly, closely, or privately held.

- The complete survey results are available for purchase at www.pearlmeyer.com/orderlookingaheadtoexecpayin2015.

- Please contact Laura Hay to discuss any aspect of these findings at laura.hay@pearlmeyer.com or 704-844-0437.





The Current Environment for Executive Pay Decision-Making

- **Creating alignment of compensation plans with business strategy and performance**
  - After years of turbulence and efforts to right size compensation plans to address regulatory mandates, there is now renewed interest in designing pay programs that will help executives and the broader workforce meet the bank's objectives. As the 2015 programs are refined, there is continuing focus on aligning compensation with actual performance, a concept that has been growing over the last several years.

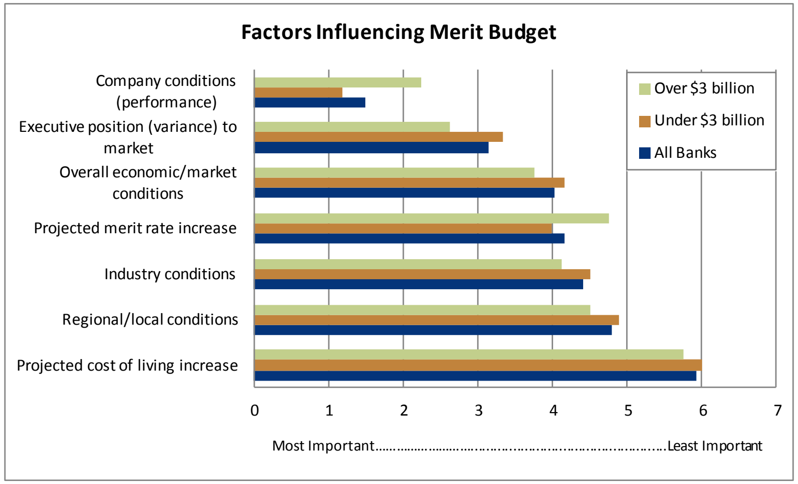
- **Focusing on programs that support recruitment and retention**
  - A continuing concern as the economy strengthens is attracting and retaining the key talent required to deliver long-term results. The compensation package is a significant component of the overall value proposition offered to executives. An effective package includes programs that are market competitive, deliver rewards that differentiate for performance, and offer near- and long-term value to executives.

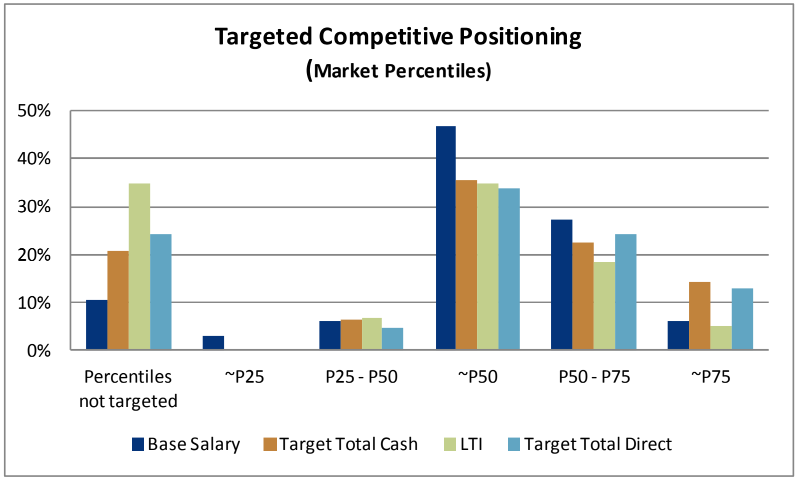
- **Developing a culture of rigorous goal setting**
  - Although incentive plan funding is still not back to previous levels, there is year over year improvement. At the same time, banks are revisiting their goal setting approach and many expect more rigorous levels of performance in 2015.

Report Findings:
Factors in Executive Pay Decisions

- The top three factors used to make executive pay decisions within the banking industry are:
  1. Company performance
  2. Executive compensation variance to market
  3. Overall economic / market conditions

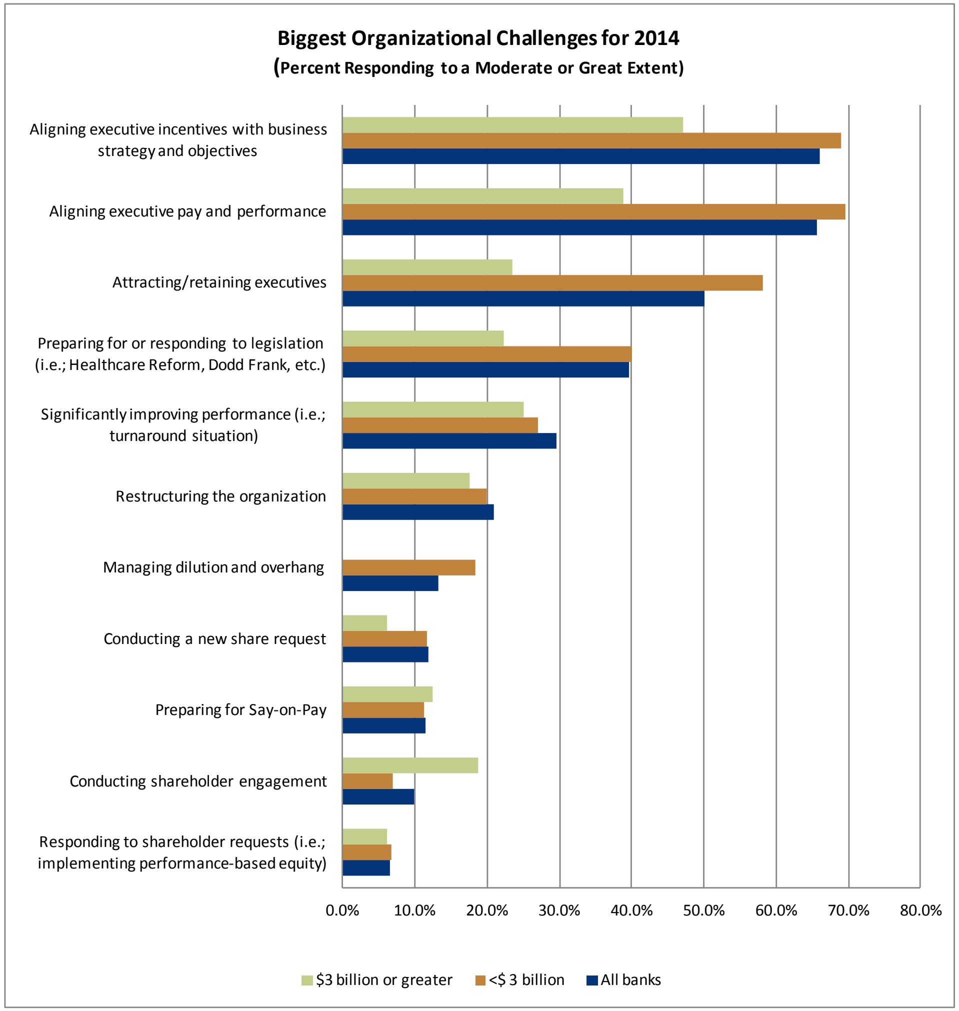
- A typical approach for banks is to target base salary at median, with total cash and total direct targeted slightly higher.
  - 47% of banks target base salary at the market median.
  - A smaller, yet meaningful percentage (37%) target above median levels (between P50 and P75 and up to P75) for total target cash and total target direct compensation.





Top Challenges for Executive Pay Decision-Making

- Participants were asked about the current challenges facing their organization. The three most pressing issues are:
  1. Alignment of incentives with business strategy and objectives
  2. Assuring that compensation plans ultimately result in pay and performance alignment
  3. Attraction and retention of key executives
- All three issues are of significant importance to banks of all sizes. Yet in order of magnitude, these challenges are of greater concern among smaller banks relative to those over $3 billion in assets.



Executive Base Salary Changes

- Merit increase percentages for 2015 are strengthening relative to 2014.

  CEO Base Salary Growth

  – There are signs of strengthening base salary increases as 41% of banks anticipate increases between 2% and 4%, up from 26% in 2014.

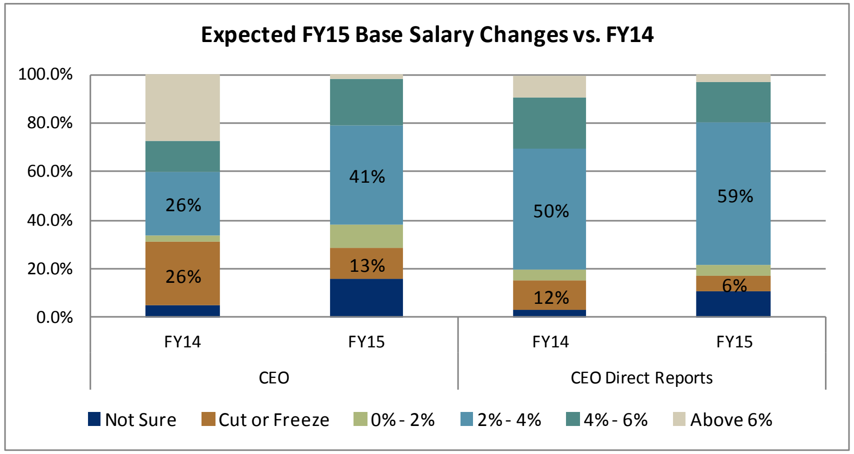
  – It is also expected that a larger percentage of banks will offer increases from 4% to 6% in 2015 versus 2014.

  – It should be noted that even though improved from 2014, 13% of banks anticipate salary freezes for the CEO.

  CEO Direct Report Salary Growth

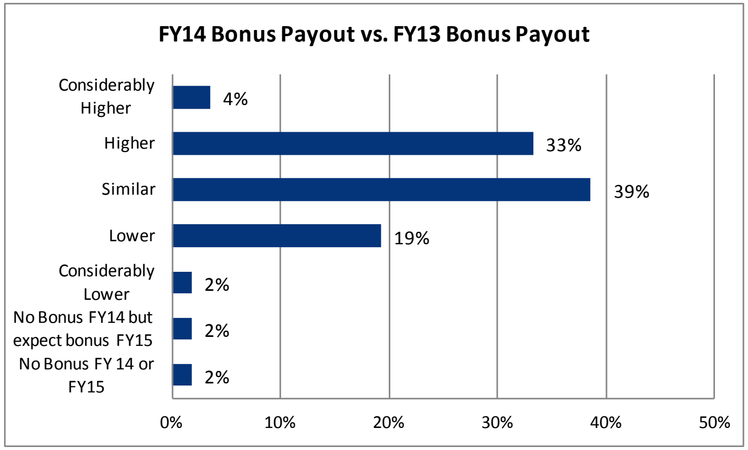
  – Likewise, 59% of banks anticipate increases of 2% to 4% for the CEO direct reports, up from 50% in 2014.

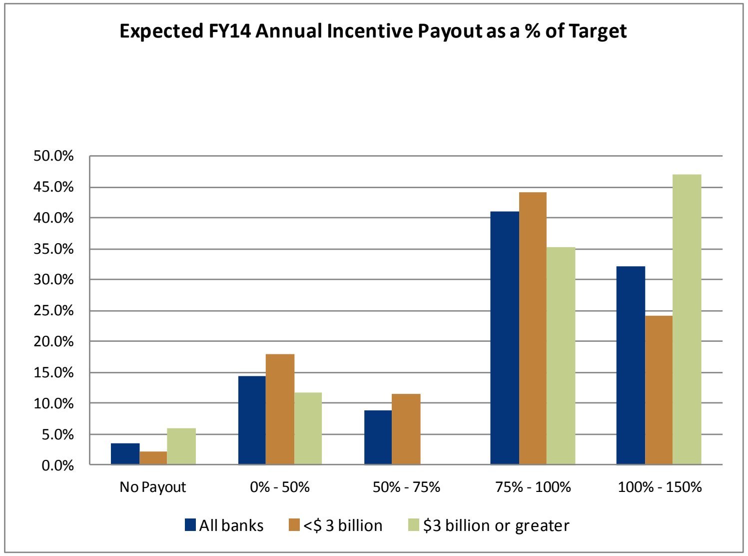
  – A relatively small percentage (6%) of banks anticipate cuts or freezes, down from 12% in 2014.



Annual Incentive Program Payout Levels

- 39% of banks anticipate that 2014 bonuses will be about the same as 2013 payouts. Yet another 33% expect somewhat higher bonuses over FY13.
- For many banks, incentive plan funding will fall short of target.
  - 64% of banks expect below-target (less than 100%) annual incentive payouts for FY14 performance.
- 32% are predicting bonuses exceeding 100% of target. It is notable that 47% of banks over $3 billion in assets are predicting bonuses that exceed 100% of target.





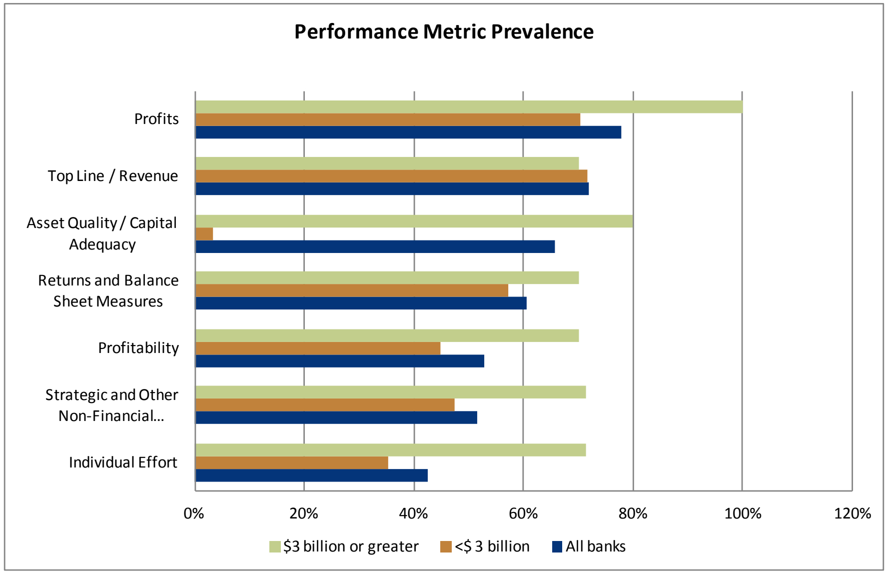
Annual Incentive Program Performance Metrics

- Banks utilize multiple performance measures in their executive compensation programs.

- Revenue and profit measures, as expected, are most widely used in executive compensation plans.

- Banks also incorporate measures that are unique to their strategy and may be non-financial in nature and individual in orientation.

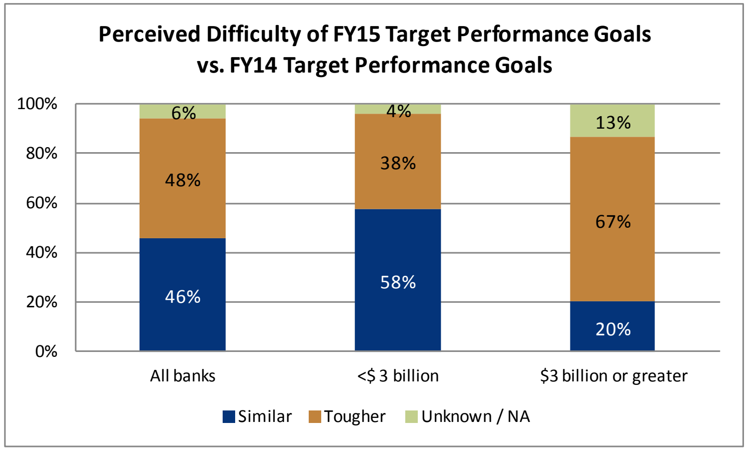
- The larger banks use a greater variety of performance metrics when compared to the smaller organizations. Strategic and other non-financial measures, for example, are utilized by over 70% of large banks while in contrast, under 40% of banks less than $3 billion in assets use a similar measure.



Annual Incentive Program Performance Goals

- Nearly half (48%) of participants plan to impose tougher hurdles for executive performance in 2015. This is even more significant (67%) among banks with over $3 billion in assets.

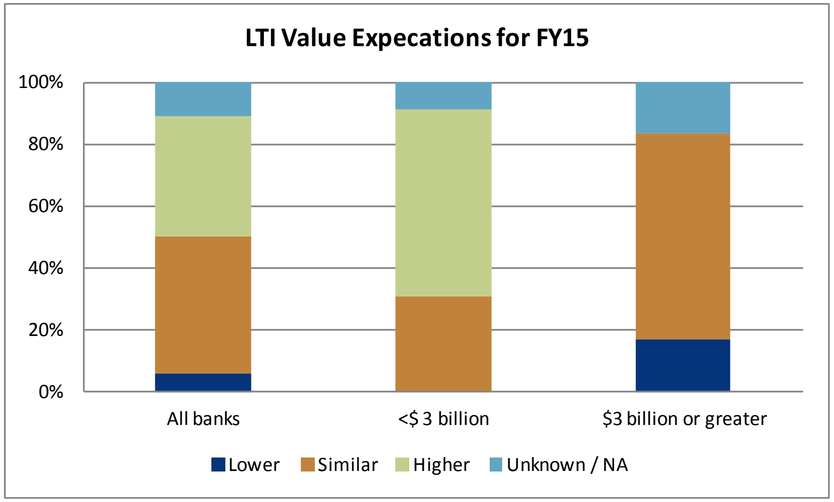
- This suggests that as a movement toward target and above-target payouts occurs, companies may be recalibrating goals to assure a proper pay and performance alignment.



Long-Term Incentive Programs

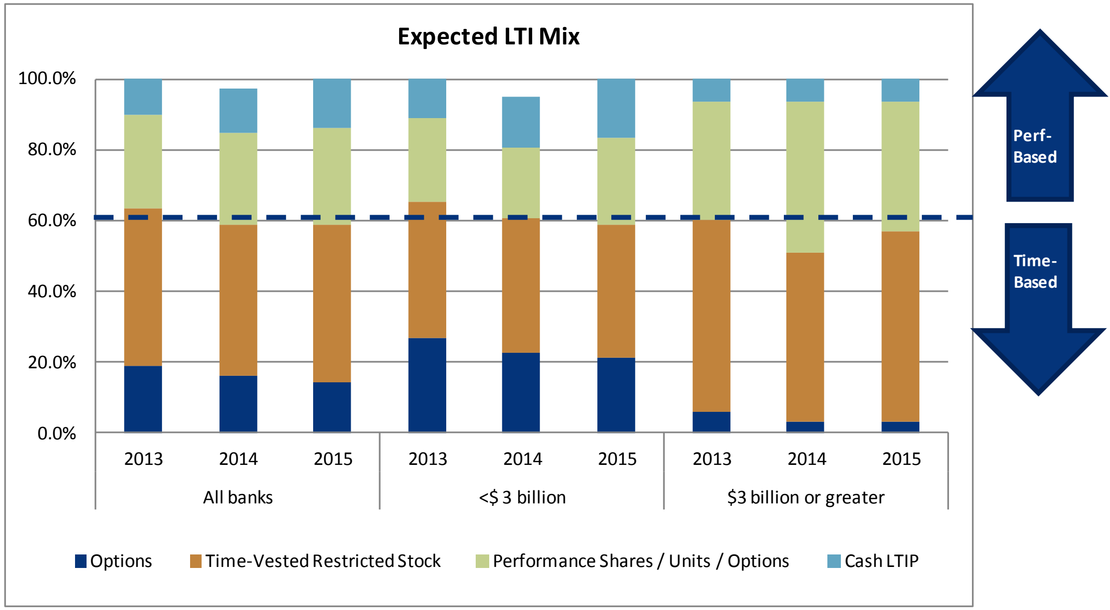
LTI Value Expectations

- 44% of banks predict the value of 2015 equity awards will be about the same as in 2014. Among larger banks, this trend is even more prevalent with 67% indicating comparable value in 2015 versus 2014.
- Another 38% anticipate awards that are somewhat or considerably higher in value than 2014.



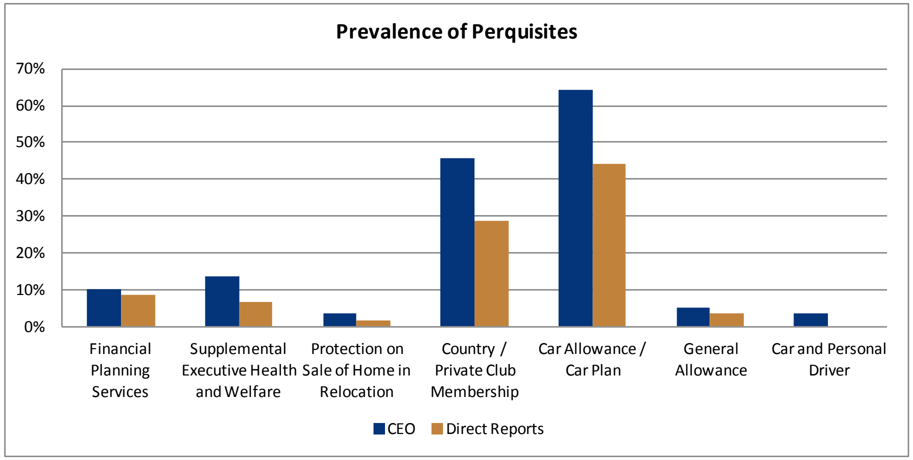
LTI Vehicles

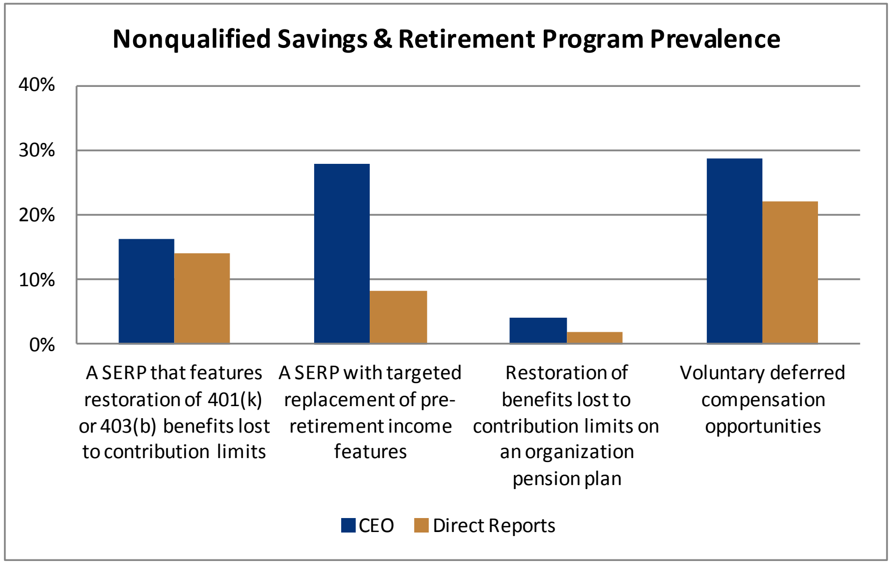
- The mix of LTI instruments utilized in 2015 will not shift dramatically from that utilized in the previous years.
- Larger banks utilize options less than the smaller banks.
- Performance-based awards typically make up over 40% of the mix while the remaining continues to be time-vested vehicles.



Perquisites and Retirement/Savings

- After years of intense scrutiny of executive pay practices, limited perquisites have become the new norm.
  - The use of club memberships and car allowances / car plans are the most widely used perquisites among banks.
- Deferred compensation arrangements are offered by 28% of banks, as are SERPs with targeted replacement income features.





About Pearl Meyer & Partners

For 25 years, Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create long-term value for all stakeholders: shareholders, executives and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.

Contact Us

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