

Pearl Meyer

On Point

TIMELY, ACCURATE, INSIGHTFUL

**Looking Ahead to Executive Pay
Practices in 2018**

Banking Edition



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Introduction

Pearl Meyer's annual survey ***Looking Ahead to Executive Pay Practices*** provides a consistent look at what changes banks are projecting in the coming year for their C-suite's base salary and short- and long-term incentive pay. We also provide a look at current trends and responses to regulation. This year, we see how well banks are prepared for the upcoming CEO Pay Ratio disclosure, and we look at the practice of using discretion in incentive payouts.

Our online survey was conducted between August and September 2017 and the data is based on responses from 72 banks and 275 organizations overall. The results are summarized by bank asset size and primary role of the respondent (management versus board member).

Please feel free to contact us to discuss any aspect of the survey and thank you for your participation.

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Key Highlights

Compensation Committee Governance

- Most compensation committees (39%) review pay for the CEO and his/her direct reports, although 32% limit their review to just the named executive officers (NEOs).
- Compensation committees overwhelmingly rely on market values (85%) and peer group review and analysis (85%) when making pay-related decisions.
 - Sixty-four percent of banks surveyed also rely on executive pay history.
 - On average, about half of all banks take pay-for-performance analysis into account (49%), although there is a significant difference between banks under \$1 billion (30%) and banks over \$1 billion (62%) who examine pay-for-performance.
 - Very few compensation committees (13%) use incentive pay communications for managing executive pay or when making pay-related decisions.
 - Surprisingly, only 8% of committees review tally sheets as part of setting pay.
- In addition to executive compensation, most compensation committees are also responsible for director compensation (82%) and executive succession planning (81%).
 - Many committees (41%) also report responsibility for leadership and talent development and this is even higher (46%) amongst banks with over \$1 billion in assets.
 - A quarter (25%) of compensation committees reported responsibility for oversight of corporate culture.

2018 Pay Projections

- At median, banks are projecting base salary increases of 3% for the CEO and his/her direct reports, which is identical to last year's projections. The salary projections are very tight as 3% is both the market 50th percentile and 25th percentile and the market 75th percentile is 5% for the CEO and his/her direct reports.
- Most banks (74%) are projecting 2017 annual incentive payments at target (40%) or above target (34%). Only 24% of respondents indicated that 2017 payments will be below target.
- Most banks (71%) expect the grant date value of 2018 long-term incentive awards to be about the same as 2017. Some banks (19%) are projecting somewhat higher award values, which would be expected at this time given the strong double-digit performance of stock indices thus far in 2017.



CEO Pay Ratio

- Fifty percent of banks have completed a pro-forma calculation of the CEO Pay Ratio.
- Most banks (54%) project a CEO Pay Ratio of less than 50 to 1. Twenty-one percent project a ratio between 101 to 1 and 250 to 1.
- Most banks under \$1 billion in assets (67%) project a ratio of 50 to 1 or less versus 47% for those banks with assets over \$1 billion.
- Banks are generally not discussing the pay ratio, as 84% have had no board-level discussions on the company's communication strategy for the CEO Pay Ratio, including the required disclosure in the Compensation Discussion & Analysis (CD&A).

Annual Incentives: Plan Satisfaction and Communication

- The vast majority of banks (89%) reported that they are satisfied with the annual incentive plan and only about 11% reported being somewhat dissatisfied. However, 21% of board members did report some level of dissatisfaction.
- Almost all banks (84%) believe that the annual incentive plan has some or significant impact on executive behavior and focus.
- Most banks (51%) believe that there are opportunities to improve annual incentive plan communication.

Annual Incentives: Plan Measures

- The most common annual incentive plan metrics are as follows: Return on Assets (ROA) (60%), net income (57%), efficiency ratio (50%), asset quality (35%), Return on Equity (ROE) (34%), and Earnings per Share (EPS) (27%).
- Forty percent of banks reported utilizing non-financial metrics in the annual incentive plan with the most common being executive MBOs/KPIs (16%) and employee workforce metrics (16%).

Annual Incentives: Performance Targets

- The most important factor in selecting performance metrics is the preference of the board/committee followed by industry/peer practices, then management preferences.
- Most banks (53%) automatically use the board-approved budget for annual incentive targets. Even in the case of banks where management proposes incentive targets (23%), about 40% of the time these targets are the same as the budget.
- The majority of the banks (65%) believe that the incentive targets have a "fair stretch." However, 26% of banks report challenges in ensuring consistent stretch from year to year.
- Most banks (70%) use simple formulas in order to determine incentive ranges (threshold and maximum).



Annual Incentives: Determining Payments

- Only 23% of banks include formal provisions in the annual incentive plan to exclude unusual events impacting performance results.
 - Among the banks who do formally address potential unusual events, the large majority (73%) cite non-recurring items/restructuring charges.
- Twenty-nine percent of banks reported exercising discretion to address unusual items for the most recent annual incentive payout.

Long-Term Incentives: Satisfaction and Communication

- Most banks (88%) indicated that they are satisfied with their long-term incentive program. However, board members reported a much higher level of dissatisfaction (29%) than management (7%).
- The majority of banks (85%) believe that the long-term incentive program has at least “some impact” on executive behavior and focus. However, only 27% indicated that the plan has a significant impact.
- Forty-eight percent indicate the long-term incentive plan is well-communicated, however, 51% see opportunities to improve plan communication.

Long-Term Incentives: Plan Measures

- The most common performance metrics reported by respondents for the long-term incentive plans were as follows: Return on Assets (ROA) (50%), net income (48%), efficiency ratio (39%), Return on Equity (38%), and asset quality (36%). Only 20% utilize relative total shareholder return (rTSR).

Long-Term Incentives: Performance Targets

- The most important consideration in selecting long-term incentive metrics is the view of the committee/board. The second most important consideration is industry/peer group practice followed by management preference.
- In setting financial operating performance targets, 67% use the board-approved strategic plan, while 23% report that targets are proposed by the management team for each performance period.
- Most banks (61%) believe that the long-term incentive metrics have the right stretch but many believe that the stretch is a bit inconsistent at times (30%). However, board members (39%) are far less likely than management (67%) to believe that the targets have the right stretch.
- In terms of setting incentive performance ranges (threshold and maximum), the majority of banks (71%) rely on simple formulas and some (14%) take an ad-hoc approach.



Long-Term Incentives: Determining Payments

- Most banks (58%) do not have formal provisions in the long-term plan regarding how to handle unusual events and 19% reported that they make no adjustments.
- Only 23% of banks include explicit provisions. By far, the most common item addressed is M&A charges (69%). Asset write-downs/goodwill impairment is second at 39%, followed by organizational change and restructuring (31%).
- Unlike annual incentives, the vast majority of banks (90%) do not exercise discretion when determining long-term incentive payouts.

Long-Term Incentives: Impact of M&A

- Thirty-two percent of surveyed organizations report having been through a significant merger and/or acquisition within the last three years.
- M&A can have a significant impact on outstanding long-term incentive awards. For those banks with a recent M&A, the majority (35%) reported leaving outstanding LTI operating goals as-is for the remaining performance period. A number of banks (20%) exercised discretion in determining final awards, and 25% revised outstanding long-term goals for the remainder of the performance period.



Results Displayed By Asset Size and Primary Role

Results by asset size is reported for the most recently completed fiscal year. Results for role identify an employee or an outside director and whether they were responding on behalf of the bank where they are employed or in their role as director.



Compensation Committee Governance

Table 1	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Which executive positions does your board's compensation committee review?						
CEO only	9%	15%	13%	17%	7%	17%
Named Executive Officers	23%	32%	27%	36%	36%	31%
CEO and direct reports to CEO	45%	39%	43%	36%	50%	36%
Section 16 officers	15%	10%	10%	10%	7%	10%
Broader management group	6%	3%	3%	2%		3%
Other	3%	1%	3%			2%
Which materials/references does the committee utilize for managing executive pay and making pay-related decisions?						
Executive compensation market values	86%	85%	73%	93%	71%	88%
Peer groups	83%	85%	83%	86%	86%	85%
Tally sheets	21%	8%	3%	12%	7%	9%
Executive pay history	65%	64%	57%	69%	64%	64%
Pay-for-performance analysis (e.g., realized or realizable pay)	46%	49%	30%	62%	50%	48%
Board of director compensation data	30%	38%	33%	41%	71%	29%
Participant incentive pay communications	10%	13%	7%	17%	14%	12%
Other	5%	6%	13%	0%	0%	7%
In addition to executive compensation, which responsibilities are under the purview of the compensation committee?						
Board of director compensation	69%	82%	90%	77%	93%	80%
Executive succession planning	67%	81%	79%	82%	71%	83%
Corporate culture oversight	21%	25%	24%	26%	43%	20%
Leadership and talent development	41%	41%	35%	46%	43%	41%



Pay Projections

Table 2	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Anticipated CEO Base Salary Increase						
Percent Providing Zero Increase	24%	13%	7%	17%	14%	12%
Average (Excl 0)	3.7%	4.0%	4.2%	3.8%	3.6%	4.1%
25th Percentile	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
50th Percentile	3.0%	3.0%	3.6%	3.0%	3.3%	3.0%
65th Percentile	4.0%	4.0%	4.9%	3.7%	4.0%	4.8%
75th Percentile	4.8%	5.0%	5.0%	5.0%	4.8%	5.0%
Anticipated CEO Direct Reports Base Salary Increase						
Percent Providing Zero Increase	14%	8%	3%	12%	14%	7%
Average (Excl 0)	3.5%	3.7%	3.9%	3.6%	3.5%	3.8%
25th Percentile	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
50th Percentile	3.0%	3.0%	3.2%	3.0%	3.0%	3.0%
65th Percentile	3.0%	3.5%	4.0%	3.0%	3.5%	3.6%
75th Percentile	4.0%	5.0%	5.0%	4.6%	4.8%	5.0%
How do you expect 2017 annual incentive payments will compare to 2017 target annual incentive?						
Significantly above target (+120% of target to maximum)	5%	1%	2%		2%	
Above target (101% to 120%)	26%	34%	38%	32%	43%	32%
Target (100%)	34%	40%	38%	42%	36%	41%
Below target (80% to 99%)	27%	21%	21%	22%	21%	21%
Significantly below target (less than 80%)	9%	3%	3%	2%	4%	
How do you expect the grant date value of your next LTI awards for executives to compare to early 2017 awards?						
Considerably higher than 2017	2%	3%	7%		4%	
Somewhat higher than 2017	19%	19%	21%	17%	36%	14%
About the same as 2017	69%	71%	66%	76%	57%	75%
Lower than 2017	9%	7%	7%	7%	7%	7%
Considerably lower than 2017	1%					



CEO Pay Ratio

Table 3	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Has your organization completed a pro-forma CEO pay ratio calculation (for those where it applies)?						
Have calculated	55%	50%	41%	56%	46%	51%
Have not begun calculations	45%	50%	59%	44%	55%	49%
Based on pro-forma calculations, what range do you project for your organization's CEO Pay Ratio?						
Greater than 401:1	4%	4%	11%			4%
Between 251:1 and 400:1	14%	7%		11%	20%	4%
Between than 101:1 and 250:1	38%	21%	11%	26%	20%	22%
Between 51:1 and 100:1	16%	14%	11%	16%	40%	9%
50:1 or less	27%	54%	67%	47%	20%	61%
Has your board discussed the company's communication strategy for the CEO Pay Ratio?						
Yes, we have discussed the external disclosure for the Compensation Discussion & Analysis (CD&A)	11%	10%	10%	10%	9%	10%
Yes, we have discussed internal communication to the workforce	3%					
Yes, we have discussed both internal and external communication	10%	6%		10%	9%	5%
No discussions yet	76%	84%	90%	81%	82%	85%



Annual Incentives: Plan Satisfaction and Communication

Table 4	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
In general, how satisfied are you with your organization's annual incentive plan?						
Very satisfied	19%	20%	17%	21%	36%	16%
Somewhat satisfied	26%	30%	35%	26%	29%	30%
Satisfied	41%	39%	35%	43%	14%	46%
Somewhat dissatisfied	10%	11%	14%	10%	21%	9%
Dissatisfied	3%					
In your opinion, to what extent does the annual incentive plan impact executive behavior and focus?						
Significant impact	36%	35%	38%	33%	43%	33%
Some impact	49%	49%	41%	55%	43%	51%
Little impact	9%	9%	10%	7%	7%	9%
No impact	2%	3%	3%	2%	7%	2%
Unsure	3%	4%	7%	2%		5%
Do you believe that the annual incentive plan is well-communicated to participants?						
Yes	44%	49%	45%	52%	57%	47%
Moderately so; there are some opportunities to improve communication	46%	44%	45%	43%	29%	47%
No	8%	7%	10%	5%	14%	5%
Unsure	3%					

Annual Incentives: Plan Measures

Table 5	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Metrics used in most current annual incentive plan						
Growth/Income/Cash Flow Metrics	88%	88%	100%	80%	93%	87%
Revenues	46%	22%	29%	18%	7%	26%
Operating income (EBIT)	27%	9%	14%	5%	7%	9%
EBITDA	24%	4%	4%	5%	0%	6%
Net income	32%	57%	75%	45%	64%	56%
Earnings per share (EPS)	17%	27%	11%	38%	57%	19%
Operating cash flow	10%	2%	4%	0%	0%	2%
Free cash flow	10%	2%	4%	0%	0%	2%
Return on Investment Metrics	31%	71%	71%	70%	93%	65%
Return on invested capital (ROIC)	8%	2%	0%	3%	0%	2%
Return on assets (ROA)	17%	60%	61%	60%	86%	54%
Return on equity (ROE)	13%	34%	32%	35%	64%	26%
Return on sales (ROS)	2%	0%	0%	0%	0%	0%
Efficiency Metrics	30%	28%	36%	23%	36%	26%
Gross margin (%)	11%	6%	11%	3%	14%	4%
Operating margin (%)	10%	7%	4%	10%	0%	9%
Net profit margin (%)	11%	16%	25%	10%	7%	19%
Working capital	8%	6%	11%	3%	14%	4%
Cost/expense metrics	16%	18%	14%	20%	21%	17%
Industry-Specific Metrics	26%	71%	71%	70%	86%	67%
Combined ratio (e.g., insurance)	3%	0%	0%	0%	0%	0%
Efficiency ratio (e.g., banking)	14%	50%	54%	48%	79%	43%
Asset quality (e.g., banking)	11%	35%	36%	35%	50%	32%
Same-store sales (e.g., retail)	2%	0%	0%	0%	0%	0%
Finding and development cost (e.g., oil and gas)	1%	0%	0%	0%	0%	0%
Reserves (e.g., oil and gas)	2%	0%	0%	0%	0%	0%
Asset/Loan/Deposit Growth	5%	19%	21%	18%	0%	24%
Non-Financial Metrics	48%	40%	29%	48%	50%	37%
Customer satisfaction	12%	9%	7%	10%	14%	7%
Customer retention	6%	2%	4%	0%	7%	0%
Market share	8%	9%	11%	8%	29%	4%
New products	7%	0%	0%	0%	0%	0%
Employee/workforce metrics	16%	16%	14%	18%	14%	17%
Quality metrics	11%	10%	4%	15%	0%	13%
Safety metrics	15%	0%	0%	0%	0%	0%
Other ESG/sustainability metrics	1%	0%	0%	0%	0%	0%
Individual executive metrics (KPI/MBO)	19%	16%	7%	23%	14%	17%
Other Metrics	18%	12%	7%	15%	14%	11%

Annual Incentives: Performance Targets

Table 6	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Importance of factors when selecting metrics for the annual incentive plan (5= most important)						
Management preferences	3.7	3.7	3.7	3.7	3.6	3.7
Committee/board preferences	4.1	4.3	4.2	4.3	4.5	4.2
Industry and peer practices	3.5	4.0	4.0	4.0	4.2	3.9
Investor preferences	2.9	2.7	2.2	3.1	3.1	2.6
Proxy advisory group(s) (e.g., Glass Lewis, ISS, etc.)	2.5	2.6	2.0	2.9	3.1	2.4
Third party/advisor recommendations	3.1	3.4	3.3	3.4	3.5	3.3
What is the basis for setting the financial performance targets in the annual incentive plan?						
We always use annual budget approved by the board for annual incentive targets	58%	53%	61%	47%	50%	54%
Incentive goals are proposed by management	20%	23%	14%	29%	21%	23%
Performance targets are formula-based (e.g., X% annual growth rate or flat % ROI)	13%	20%	25%	16%	21%	19%
Targets are based on investor and/or analyst guidance (e.g., EPS)	2%					
Other	7%	5%		8%	7%	4%
If incentive goals are proposed by management, are they:						
Usually the same as annual budget	45%	40%		55%	33%	42%
Sometimes different than annual budget	53%	60%	100%	46%	67%	58%
Almost always different than annual budget	2%					
In your opinion, do the annual incentive targets have the appropriate amount of “stretch” (i.e., degree of difficulty)?						
Yes	57%	65%	57%	71%	43%	71%
Stretch is generally fair, but a bit inconsistent from year-to-year	32%	26%	32%	21%	43%	21%
No, incentive targets are too difficult	7%	6%	4%	8%		8%
No, incentive targets are too easy	4%	3%	7%		14%	
How does management set the performance threshold and maximum?						
Simple formula (e.g., threshold = 80% of target; maximum = 120% of target)	66%	70%	71%	68%	79%	67%
Ad hoc approach	17%	12%	4%	18%	14%	12%
Unsure	8%	8%	14%	3%		10%
Other	9%	11%	11%	11%	7%	12%

Annual Incentives: Determining Payments

Table 7	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Does your annual incentive plan include formal provisions for excluding unusual events when assessing performance results?						
No formal provisions in plan—company addresses any potential adjustments on an as-needed basis	67%	67%	82%	55%	71%	65%
No formal provisions in plan—company does not make adjustments to plan	9%	11%		18%	14%	10%
Yes, annual incentive plan includes formal provisions	24%	23%	18%	26%	14%	25%
If yes, what events or changes are formally addressed?						
Asset write-downs/goodwill impairment	47%	40%	40%	40%	50%	39%
Non-recurring items/restructuring charges	87%	73%	60%	80%	100%	69%
Share buy-backs	11%	13%	0%	20%	0%	15%
Extraordinary changes in interest rates	7%	7%	20%	0%	50%	0%
Extraordinary (unplanned) FX changes	24%	27%	20%	30%	0%	31%
Other	18%	20%	0%	30%	0%	23%
For the most recent annual incentive payout, did the company make any discretionary adjustments for certain financial items?						
No	75%	71%	75%	68%	64%	73%
Yes	26%	29%	25%	32%	36%	27%
If yes, what events or changes warranted the use of discretion?						
Asset write-downs/goodwill impairment	7%	7%	0%	10%	0%	8%
Non-recurring items/restructuring charges	32%	13%	0%	20%	0%	15%
Share buy-backs	0%	0%	0%	0%	0%	0%
Extraordinary changes in interest rates	0%	0%	0%	0%	0%	0%
Extraordinary (unplanned) FX changes	7%	7%	20%	0%	0%	8%
Other	6%	7%	0%	10%	0%	8%



Long-Term Incentives: Satisfaction and Communication

Table 8	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
In general, how satisfied are you with your organization's long-term incentive plan?						
Very satisfied	19%	19%	17%	20%	21%	18%
Somewhat satisfied	35%	37%	33%	40%	36%	38%
Satisfied	28%	32%	38%	29%	14%	38%
Somewhat dissatisfied	14%	12%	13%	11%	29%	7%
Dissatisfied	4%					
In your opinion, to what extent does the long-term incentive plan impact executive behavior and focus?						
Significant impact	28%	27%	29%	26%	43%	22%
Some impact	53%	58%	50%	63%	43%	62%
Little impact	12%	10%	13%	9%	7%	11%
No impact	3%	2%		3%	7%	
Unsure	5%	3%	8%			4%
Do you believe that the long-term incentive plan is well-communicated to participants?						
Yes	44%	48%	46%	49%	57%	44%
Moderately so; there are some opportunities to improve communication	42%	37%	42%	34%	21%	42%
No	10%	14%	8%	17%	14%	13%
Unsure	4%	2%	4%		7%	

Long-Term Incentives: Plan Measures

Table 9	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Metrics used in most current long-term incentive plan						
Growth/Income/Cash Flow Metrics	77%	75%	96%	59%	79%	74%
Revenues	27%	9%	17%	3%	7%	10%
Operating income (EBIT)	13%	2%	4%	0%	0%	2%
EBITDA	21%	4%	4%	3%	0%	5%
Net income	27%	48%	71%	31%	57%	45%
Earnings per share (EPS)	20%	27%	21%	31%	43%	21%
Operating cash flow	7%	0%	0%	0%	0%	0%
Free cash flow	7%	0%	0%	0%	0%	0%
Other Growth Metric	4%	5%	4%	6%	0%	6%
Return on Investment Metrics	40%	70%	75%	66%	93%	62%
Return on invested capital (ROIC)	16%	2%	4%	0%	0%	2%
Return on equity (ROE)	15%	38%	33%	41%	71%	26%
Return on assets (ROA)	17%	50%	58%	44%	71%	43%
Return on sales (ROS)	2%	0%	0%	0%	0%	0%
Efficiency Metrics	27%	30%	29%	31%	36%	29%
Gross margin (%)	7%	7%	4%	9%	21%	2%
Operating margin (%)	7%	5%	4%	6%	7%	5%
Net profit margin (%)	12%	20%	25%	16%	14%	21%
Working capital	3%	4%	4%	3%	7%	2%
Cost/expense metrics	8%	7%	4%	9%	14%	5%
Non-Financial Metrics	28%	27%	33%	22%	36%	24%
Customer satisfaction	11%	5%	8%	3%	14%	2%
Customer retention	7%	4%	8%	0%	7%	2%
New product development	7%	2%	0%	3%	7%	0%
Employee/workforce metrics	10%	5%	13%	0%	0%	7%
Quality metrics	7%	7%	4%	9%	0%	10%
Safety metrics	6%	0%	0%	0%	0%	0%
Strategic initiative metrics	10%	5%	8%	3%	14%	2%
Other ESG/sustainability metrics	0%	0%	0%	0%	0%	0%
Individual executive metrics (e.g., KPI, MBO)	8%	4%	4%	3%	0%	5%
Industry-Specific Metrics	20%	54%	67%	44%	79%	45%
Combined ratio (e.g., insurance)	3%	0%	0%	0%	0%	0%
Efficiency ratio (e.g., banking)	11%	39%	46%	34%	57%	33%
Asset quality (e.g., banking)	11%	36%	54%	22%	64%	26%
Same store sales (e.g., retail)	0%	0%	0%	0%	0%	0%
Finding and development (e.g., oil and gas)	0%	0%	0%	0%	0%	0%
Reserves (e.g., oil and gas)	1%	0%	0%	0%	0%	0%
Shareholder Value Metrics	31%	21%	13%	28%	21%	21%
Relative total shareholder return (TSR)	27%	20%	8%	28%	21%	19%
Absolute stock price	6%	2%	4%	0%	0%	2%
Other Metrics	5%	2%	4%	0%	0%	2%

Long-Term Incentives: Performance Targets

Table 10	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Importance of factors when selecting metrics for the long-term incentive plan (5=most important)						
Management preferences	3.7	3.7	3.8	3.7	3.6	3.7
Committee/board preferences	4.3	4.3	4.3	4.3	4.5	4.2
Industry and peer practices	3.5	3.9	3.8	4	3.9	3.9
Investor preferences	3	2.7	2.2	3	2.8	2.6
Proxy advisory group(s) (e.g., Glass Lewis, ISS)	2.6	2.5	2	2.9	2.7	2.4
Third party/advisor recommendations	3.2	3.4	3.2	3.5	3.6	3.3
What is the basis for setting the financial operating performance targets?						
Use targets from the board-approved strategic plan	61%	67%	64%	69%	85%	61%
Targets are proposed by management for each performance period	26%	23%	27%	20%	8%	27%
Unsure	13%	11%	9%	11%	8%	11%
What information is used to set targets?						
Targets are informally set (e.g., by "gut feel" or intuition)	10%	20%	20%	10%	0%	20%
Internal forecasts or projections	80%	70%	80%	60%	100%	70%
Peer analysis	30%	30%	30%	30%	0%	30%
Other	10%	10%	0%	10%	0%	10%
In your opinion, do the performance-based LTI targets have the appropriate amount of "stretch" (i.e., degree of difficulty)?						
Yes	58%	61%	46%	71%	39%	67%
Stretch is generally fair, but a bit inconsistent for each performance period	32%	30%	41%	24%	46%	26%
No, performance-based LTI incentive targets are too difficult	5%	4%	5%	3%		5%
No, performance-based LTI incentive targets are too easy	6%	5%	9%	3%	15%	2%
How does management set the performance threshold and maximum?						
Simple formula (e.g., threshold = 80% of target; maximum = 120% of target)	65%	71%	68%	74%	77%	70%
Ad hoc approach	18%	14%	14%	15%	23%	12%
Unsure	9%	7%	9%	6%		9%
Other	8%	7%	9%	6%		9%



Long-Term Incentives: Determining Payments

Table 11	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Does your LTI plan include formal provisions for excluding unusual events when assessing performance results?						
No formal provisions in plan—company addresses any potential adjustments on an as-needed basis	57%	58%	59%	57%	62%	57%
No formal provisions in plan—company does not make any adjustment to the LTI plan	22%	19%	23%	17%	8%	23%
Yes, long-term incentive plan includes formal provisions	21%	23%	18%	26%	31%	21%
If yes, what type of events or changes does your LTI plan formally address?						
Asset write-downs/goodwill impairment	42%	39%	50%	33%	50%	33%
M&A, divestiture	78%	69%	75%	67%	50%	78%
Share buy-backs	12%	8%	0%	11%	0%	11%
Extraordinary changes in interest rates	6%	8%	25%	0%	25%	0%
Extraordinary (unplanned) FX changes	20%	15%	25%	11%	25%	11%
Organizational change or reorganization	32%	31%	25%	33%	25%	33%
Change in strategy	0%	0%	0%	0%	1%	0%
Other	1%	1%		1%		1%
For the most recent LTI payout, did the company make any discretionary adjustments for certain financial items?						
No	89%	90%	86%	91%	77%	93%
Yes	11%	11%	14%	9%	23%	7%
If yes, what events or changes warranted the use of discretion in the LTI plan payout?						
Asset write-downs/goodwill impairment	33%					
Non-recurring items/restructuring charges	67%					
Share buy-backs	33%					
Extraordinary changes in interest rates	0%					
Extraordinary (unplanned) FX changes	0%					
Organizational change or reorganization	17%					
Change in strategy	0%					
Other	0%					



Long-Term Incentives: Impact of M&A

Table 12	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Has your company been through a significant merger and/or acquisition within the last three years?						
Yes	29%	32%	28%	34%	39%	30%
No	71%	68%	72%	66%	62%	70%
How did your company handle operating performance metrics for outstanding long-term awards after the M&A?						
Left outstanding LTI operating goals as-is and completed the performance period	42%	35%	29%	39%	20%	40%
Revised outstanding operating goals (e.g., to reflect acquisition or change in strategy)	17%	25%	29%	23%	20%	27%
Created a stub plan with new goals for remainder of the performance period	7%	5%		8%	20%	
Committee used discretion/evaluation to determine LTI results and payouts	21%	20%	43%	8%		27%
Do not recall how company handled outstanding LTI grants	13%	15%		23%	40%	7%



Demographics

Table 13	Total	Banking	Asset Size		Primary Role	
	All Organizations	All Organizations	Under \$1B	Over \$1B	Board Member	Management
Number of Organizations	275	72	30	42	14	58
Asset range for most recently completed fiscal year (financial institutions)						
Under \$100 million	14%	1%	3%			2%
\$100 million to less than \$300 million	9%	8%	20%		7%	9%
\$300 million to less than \$1 billion	22%	32%	77%		29%	33%
\$1 billion to less than \$3 billion	21%	21%		36%	21%	21%
\$3 billion to less than \$10 billion	20%	24%		41%	14%	26%
\$10 billion to less than \$20 billion	7%	7%		12%	14%	5%
\$20 billion to less than \$30 billion	3%	4%		7%	14%	2%
\$30 billion or greater	5%	3%		5%		3%
What is your organization's ownership status?						
Public	61%	57%	40%	69%	71%	53%
Private for profit	29%	38%	53%	26%	29%	40%
Private not-for-profit/mission-based	9%	6%	7%	5%		7%
Private quasi-governmental	2%					
Geographic scope of organization						
U.S. only	53%	97%	100%	95%	93%	98%
Global, under 50% of revenue outside the U.S.	34%	1%		2%		2%
Global, greater 50% of revenue outside the U.S.	14%	1%		2%	7%	
Primary industry						
Consumer Discretionary / Staples	12%					
Energy	9%					
Financial	35%	100%	100%	100%	100%	100%
Healthcare / Pharma / Biotech	8%					
Industrials / Materials	11%					
Tech-nology	11%					
Business Services	6%					
Not for Profit / Quasi Govt	10%					



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