Compensation
Advisory Partners

Industry Report // 2016-2017

Financial Services

Compensation Advisory Partners (CAP) examined 2016 executive pay and company performance at 33 companies across five segments of the financial services industry: Wall Street Banks, Trust Banks, Regional Banks, Investment Banks, and Asset Managers.

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2016 Overview

2016 was an uneven year for the banking and capital markets space. Among our sample covering five industry segments, median Total Shareholder Return (TSR) for the year (+23%) was more than double that of the S&P 500 excluding financial companies (+11%). However, operating earnings were up only modestly (+2%), at median, as most of the increases in stock price came near the end of the year and appear to have been related to changes in investor sentiment following the election results. Median total CEO pay was flat year-over-year, aligning it more closely with operating earnings than TSR.

In addition, compensation-related governance remained an important area of focus. In Q3, scandal at Wells Fargo breathed new life into the importance of compensation-related risk assessments – for all employees, not just executives – and moved incentive compensation clawbacks into the spotlight.

Finally, the bar for success with the annual Say on Pay (SoP) vote remained high. Most companies in our sample received more than 90% shareholder support for their SoP resolution. In the limited instances where shareholder support was lower (or much lower) – e.g., BB&T and Goldman Sachs – executive compensation practices were under the microscope, and companies typically reacted with changes to their executive pay programs and executive pay disclosure, which resulted in SoP support of greater than 90% in 2017. Of the companies in our sample that have held their 2017 annual meetings, the vast majority have received more than 90% support. While not close to failing (i.e., less than 50% support), U.S. Bancorp stood out with 75% shareholder support, reflecting a departure from strong prior year results, in part, due to an "against" SoP vote recommendation from Institutional Shareholder Services (ISS).

Financial and TSR Results

At median, profit growth was up modestly versus prior year (+2%) among our 33 sample companies, with some notable outliers by segment: Investment Banks and Regional Banks reported the highest median profit growth (+45% and +11%, respectively) versus prior year and Asset Managers reported the largest decrease in profits (-10%) versus prior year.

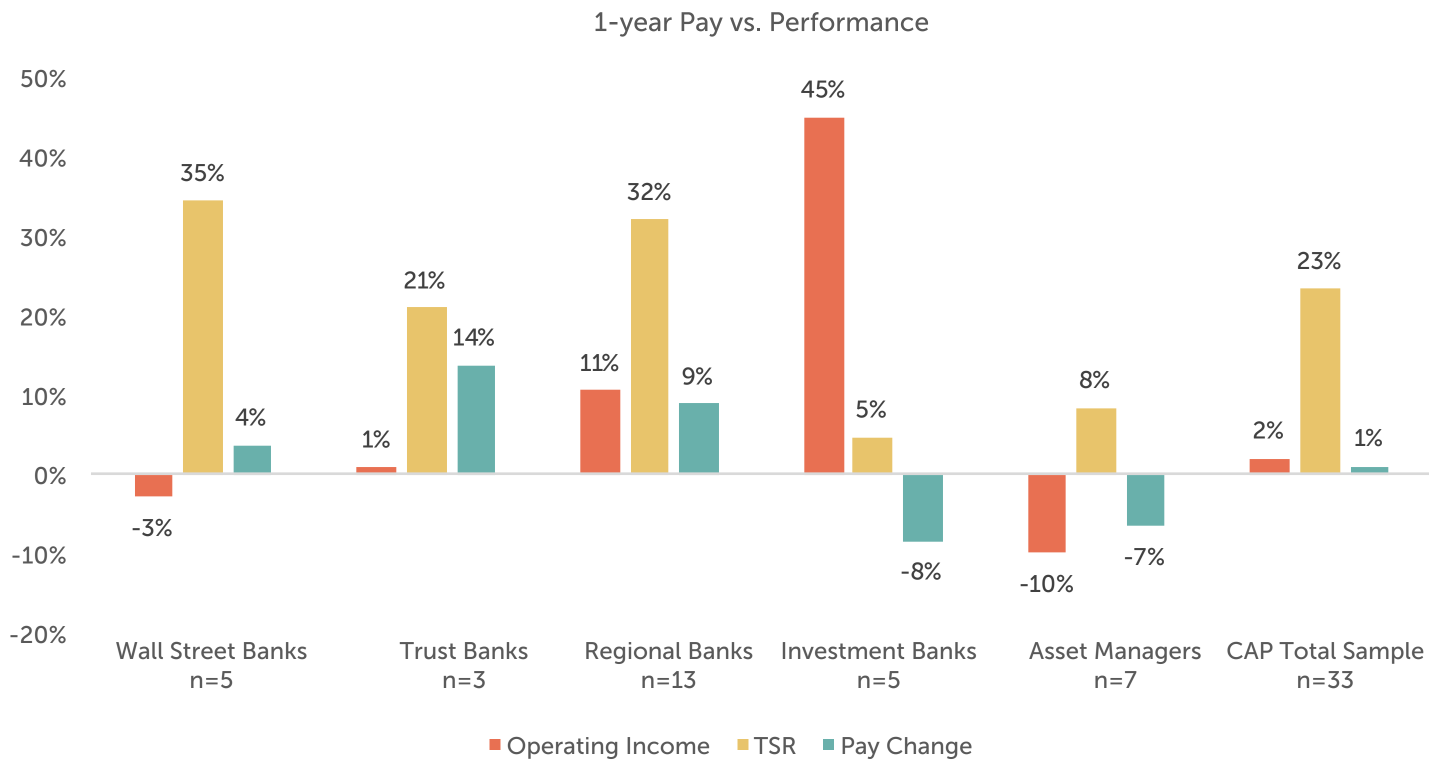
TSR for the year among our sample companies was half that of the non-financial S&P 500 companies... that is, until the 2016 presidential election on November 8. Median TSR among our sample companies during the nearly two months following the election was more than seven times that of the non-financial S&P 500 companies. Given this timing, Boards may have viewed the overall strong 2016 TSR performance among our sample companies as more the result of expectations for de-regulation and corporate tax reform than a reflection of strong 2016 operating results.

	Median TSR		
	Pre-Election (1/1/16 - 11/8/16)	Post-Election (11/9/16 - 12/31/16)	2016 (1/1/16 - 12/31/16)
Wall Street Banks (n=5)	2%	26%	35%
Trust Banks (n=3) [1]	8%	13%	21%
Regional Banks (n=13)	7%	28%	32%
Investment Banks (n=5)	-10%	23%	5%
Asset Managers (n=7)	-9%	9%	8%
CAP Total Sample (n=33)	**4%**	**22%**	**23%**
S&P 500 excluding Financial Companies	**9%**	**3%**	**11%**

[1] Reflects average for Trust Banks, given sample size.

CEO Compensation

Across our sample of 33 companies, at median, total awarded pay (salary, bonus and long-term incentives) was flat (+1%) versus prior year, aligned with profit performance. In general, pay rose at firms with stronger financial results and declined at those firms reporting weaker financial results.



Pay Practices: Mix Of Long-Term Plans

Long-term incentive vehicle mix has generally reached a steady state across the banking and capital markets space with the majority of awarded value delivered in multi-year performance plans, modest use of time-based restricted stock units, and very limited use of stock options.

- No Wall Street Banks or Investment Banks in our study awarded stock options to their Named Executive Officers
- For the most part, Investment Banks lagged other industry segments in adopting multi-year performance plans though, more recently, this gap is beginning to narrow

	CEO LTI Mix		
	Stock Options	RS / RSUs	Performance Plan
Wall Street Banks (n=5)	0%	25%	75%
Trust Banks (n=3)	8%	33%	59%
Regional Banks (n=13)	6%	27%	67%
Investment Banks (n=5)	0%	69%	31%
Asset Managers (n=7)	12%	25%	63%
CAP Total Sample (n=33)	**6%**	**33%**	**61%**

With the increase in stock price at the end of 2016, companies in the space had greater flexibility in making 2017 stock awards, as they needed to use fewer shares to deliver a similar value to 2016 awards.

Long-Term Performance Plan Leverage

Maximum upside leverage for performance plans has remained the same for the last few years. Across companies studied, the median upside opportunity is 150% of the target award. Outside of financial services, the most common maximum upside leverage is 200% of the target award. This difference is primarily the result of pressure from regulators. Investment Banks tend to have greater leverage in their long-term performance plans than other industry segments studied. In part, this is a result of different risk and regulatory considerations for advisory firms than companies with retail or commercial banking businesses.

	Long-term Performance Plan – Potential Upside Leverage		
	25th Percentile	Median	75th Percentile
Wall Street Banks (n=5)	150%	150%	150%
Trust Banks (n=3) [1]	n/a	147%	n/a
Regional Banks (n=13)	125%	150%	150%
Investment Banks (n=5)	190%	200%	200%
Asset Managers (n=7)	131%	150%	161%
CAP Total Sample (n=33)	**140%**	**150%**	**150%**

[1] Reflects average for Trust Banks, given sample size.

Outlook And Regulatory Update

What's next for executive compensation in banking and capital markets?

The House Financial Services Committee recently passed the Financial CHOICE Act 2.0. The bill calls for the repeal of many provisions of Dodd Frank, including Section 956, which governs incentive compensation of financial institutions. Although its future is uncertain, the Financial CHOICE Act would have a significant impact on the regulatory landscape of the industry. This potential regulatory shift, coupled with uncertainty around the timing of interest rate increases and corporate tax reform, will add complexity to an already challenging incentive plan goal-setting environment.

Although the current environment may present challenges in the industry, companies across industry segments have established executive compensation programs that align executive pay with performance. We expect highly performance-oriented executive compensation programs to remain the norm.

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Robert Martin and Rebecca Wertman provided research assistance for this report.

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

Investment Banks

Cowen Group, Inc.
Evercore Partners Inc.
Greenhill & Co., Inc.
Lazard Ltd
Stifel Financial Corp.

Asset Managers

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