



THE 2018 BDO 600 CEO AND CFO COMPENSATION TRENDS IN THE BANKING INDUSTRY

The banking industry continues to face many challenges related to legislative and regulatory changes, digital transformation, cybersecurity risks, new competitors, and the need to reimagine its workforce. However, a stable U.S. economy and general sense of optimism related to consumer spending have had a positive influence on this very traditional industry that is often resistant to change.

These challenges are reflected in the trends impacting banking industry CEO and CFO compensation, which remains the lowest relative to other industry sectors reviewed in this year's BDO 600 Compensation Study. This conservative tendency can also be seen in the mix of pay, with greater emphasis placed on the cash component (base pay and annual incentives) over long-term incentives such as equity awards. For those executives receiving long-term incentives, restricted stock is favored over stock options, which is a trend that spans virtually every industry studied.

Among the industries we reviewed, CFOs in the banking industry are the highest compensated in comparison to their CEO counterpart. This may be partially due to the relatively low level of CEO pay as compared to other industries, which naturally brings CFO pay closer to this level. Another contributing factor may be that CFOs in the banking industry are often the second highest paid in terms of rank order relative to other C-suite positions; whereas, the COO is often rank-ordered second in other industries.

Key takeaways and trends to watch

Other notable trends in the banking industry include the impact of the Tax Cuts and Jobs Act, along with deregulation of portions of Dodd-Frank, which has led to an increase in business investment, discretionary spending, and a more active M&A environment. While these changes could all be viewed as positive for banks in general, this has led to some consolidation within the industry as large, money-center banks are acquiring community banks in the middle market segment.

In addition, digital transformation and an increase in online banking has resulted in the closing of brick and mortar branches as more consumers look for mobile apps to fulfill their customer service needs. The emergence of fintech and

retail/technology companies as new competitors poses a new and unique emerging threat. As a result of these trends, we expect CEOs and CFOs who are innovative and have the ability to think strategically about the type of transformation in which to invest a bank's resources will be the most highly rewarded in the future.

Planning for the future

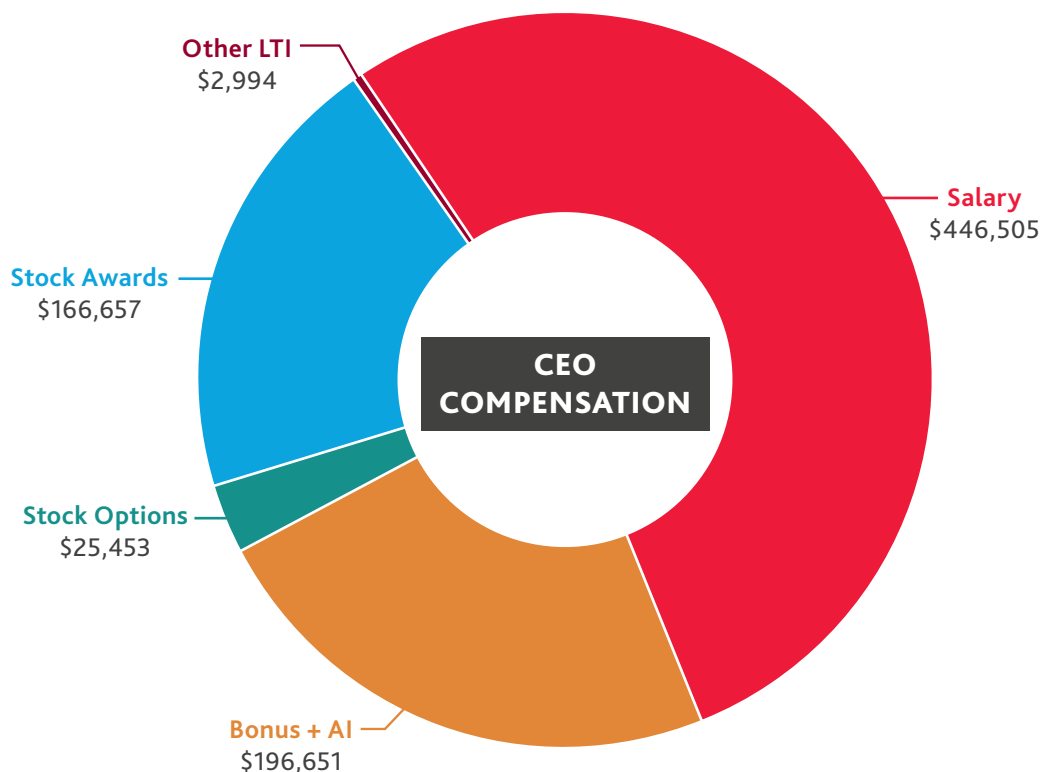
Moving forward, the key factors that banks and their boards should consider with regard to compensation are as follows:

- ▶ Strategic planning: Ensure the strategic plan clearly defines how the bank will position itself in response to both economic trends and changes within the banking industry.
- ▶ Incentive plan design (annual and long-term): Select performance metrics that are directly linked to the strategic plan and that reward the achievement of the most critical goals.
- ▶ Turnover and millennials: Draft an HR strategy that addresses how to fill the talent pipeline for positions that historically have high turnover rates, and develop compensation strategies that offer plan features valued by millennials, making sure base pay is competitive relative to the external marketplace.

ABOUT THE BDO 600 STUDY

The BDO 600 Study examines CEO and CFO compensation plans of 600 middle market public companies, reviewing the key components of pay packages and providing comparisons by title, company size and industry. Companies in the six non-financial services industries have annual revenues between \$100 million and \$3 billion. Companies in the two financial services industries have assets between \$100 million and \$6 billion. Data in our 2018 study were extracted from proxy statements that were filed between April 2017 and March 2018. Consolidated proxy data were provided by Salary.com.

BDO 600 Study Results in the Banking Industry - CEO



The average total direct compensation paid to CEOs of companies in the financial services-banking industry for fiscal years 2017 and 2016 is listed below. Financial services-banking institutions provide the highest percentage of compensation in terms of salary and bonus/annual incentives among all industries studied. Average CEO (and CFO) compensation levels, however, remain the lowest of all industries included in our study.

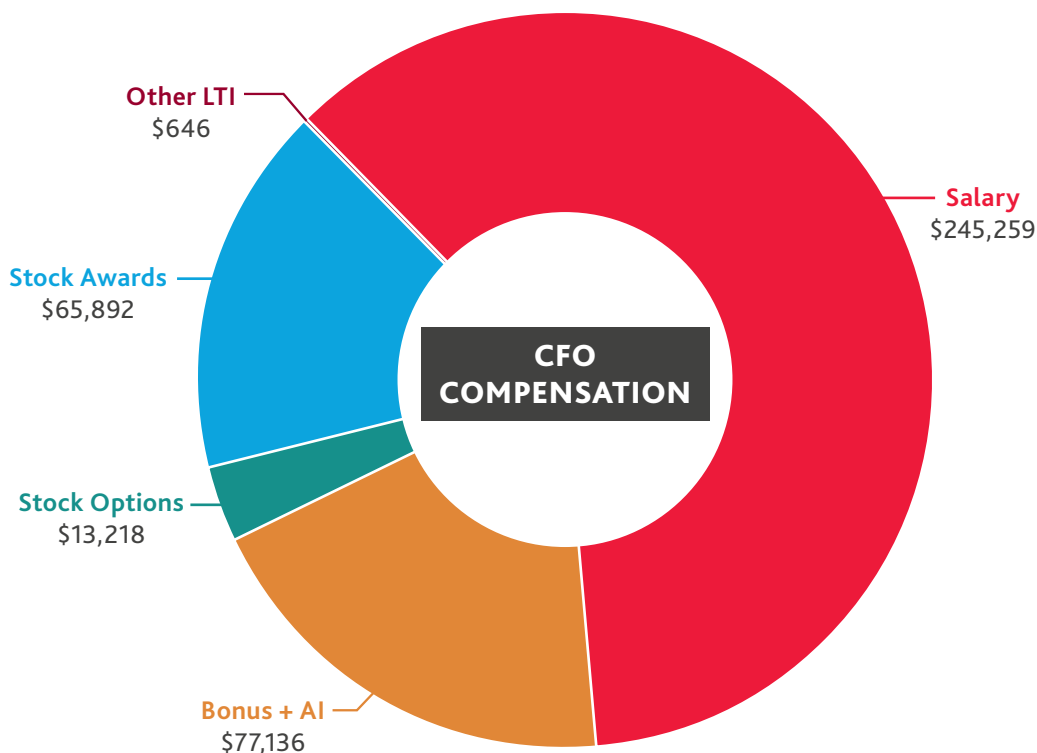
Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CEO 2017	\$446,505	\$196,651	\$25,453	\$166,657	\$2,994	\$838,260
CEO 2016	\$430,201	\$187,597	\$24,934	\$167,820	\$13,471	\$824,023
Change Over Prior Year	3.8%	4.8%	2.1%	-0.7%	N/A*	1.7%

(*Because not all CEOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

Position	Year	Annual Cash	LTI	Total
CEO	2017	77%	23%	100%
	2016	75%	25%	100%

BDO 600 Study Results in the Banking Industry - CFO



The average total direct compensation paid to CFOs of companies in the financial services-banking industry for fiscal years 2017 and 2016 is listed below.

Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CFO 2017	\$245,259	\$77,136	\$13,218	\$65,892	\$646	\$402,151
CFO 2016	\$239,833	\$73,947	\$7,229	\$56,001	\$1,476	\$378,486
Change Over Prior Year	2.3%	4.3%	82.8%	17.7%	N/A*	6.3%

(*Because not all CFOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

Position	Year	Annual Cash	LTI	Total
CFO	2017	80%	20%	100%
	2016	83%	17%	100%

Read the full BDO 600 CEO/CFO study: www.bdo.com/2018-bdo-600-ceo-cfo

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