INTERNATIONAL BANCSHARES
CORPORATION

March 3, 2022

Via Online Form Submission

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. S7-07-15, Comments to Proposed Pay Versus Performance Rule and Amendments to Item 402 of Regulation S-K

Dear Secretary Countryman,

The following comments are submitted on behalf of International Bancshares Corporation ("IBC"), a publicly-traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 170 facilities and 263 ATMs, serving 76 communities in Texas and Oklahoma through five separately chartered banks ("IBC Banks") ranging in size from approximately $474 million to $9.5 billion, with consolidated assets totaling over $16 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

This letter responds to the request of the Securities and Exchange Commission (the "SEC") for comment on its proposal to implement Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") by amending Item 402 of Regulation S-K to require registrants to describe the relation between the executive compensation that a registrant actually paid and the registrant's financial performance (the "Proposed Rule"). This letter supplements the comments that IBC submitted to the SEC during the original comment period on June 29, 2015 (our "Initial Comment").[1] The current version of the Proposed Rule expands upon the disclosures that were considered when the rule was initially proposed in 2015. Under the Proposed Rule, registrants would be required to disclose: (1) cumulative total shareholder return ("TSR"); (2) the TSR of a peer group chosen by the registrant, which is commonly referred to as relative TSR ("rTSR"); (3) pre-tax net income; (4) net income; (5) a measure selected by the registrant as the registrant's most important performance measure (the "Company-Selected Measure"); and (6) a list of the five most important performance measures to the registrant. IBC appreciates the opportunity to reiterate and expand upon the positions advanced in our Initial Comment.

1 Letter from Dennis Nixon, Chief Exec. Officer & Chairman, Int'l Bancshares Corp., to Sec. & Exch. Comm'n (June 29, 2015), https://www.sec.gov/comments/s7-07-15/s70715-23.pdf.

While IBC supports the intention of the Proposed Rule to increase transparency in compensation practices and to assist shareholders in evaluating executive compensation in relation to company performance, ultimately, IBC remains opposed to the Proposed Rule for several reasons. As discussed in more detail below, the Proposed Rule: (i) emphasizes TSR and rTSR as the basis for determining financial performance even though TSR has several shortcomings that make it an unreliable performance indicator and many companies rely on other performance metrics; (ii) assumes that financial-performance metrics and executive-compensation formulations can be meaningfully compared from one company to the next, which ignores the complexity of companies' compensation determinations, the array of performance metrics that companies utilize, and the subjectivity and potential manipulation involved in financial reporting; (iii) creates the potential for shareholders to be misled due to confusion regarding the comparability of performance metrics, compensation practices, and the link between the two; (iv) ignores the potential for pay-versus-performance data to be manipulated by registrants to bolster performance and justify excessive compensation awards; and (v) disregards the experience, acute knowledge of company affairs, and contextual understanding that compensation committees rely on when evaluating executive-compensation decisions, which investors cannot be expected to glean from the rigid disclosures proposed by the SEC.

I. Total Shareholder Return is market sensitive, easily manipulable, based on an inaccurate assumption about shareholders' investment behavior, and short-sighted.

In response to concerns raised by commenters during the 2015 comment period regarding the SEC's proposed use of TSR as the exclusive measure of financial performance in relation to executive pay,[2] the current version of the Proposed Rule considers requiring registrants to disclose not only TSR and rTSR, but also pre-tax net income, net income, and a Company-Selected Measure in order to purportedly establish a link between compensation actually paid and company performance. While the updated Proposed Rule acknowledges the reality that public companies rarely use TSR as their exclusive financial-performance metric for setting executive compensation, the Proposed Rule still lauds TSR as the universal standard for measuring financial performance

[2] *See, e.g., id.* at 3 ("The Proposal links compensation "actually paid" to TSR, as the sole metric of performance. IBC is concerned that the TSR metric creates a narrow view of executive success and completely ignores other factors that affect TSR that are unrelated to an executive's performance . . . ."); Letter from Mary D. Maloney, Assoc. Gen. Counsel, Senior Director, Benefits & Hum. Res. & Assistant Sec'y, NACCO Indus., Inc., to Sec. & Exch. Comm'n 4 (June 9, 2015), https://www.sec.gov/comments/s7-07-15/s70715-13.pdf ("[T]here is nothing in the statute or the legislative history that requires the use of a single metric, such as TSR, to establish [the] link" between pay and performance); Letter from James R. Peacock III, Vice President, Deputy Gen. Counsel & Corp. Sec'y, Celanese Corp., to Sec. & Exch. Comm'n 5-6 (June 12, 2015), https://www.sec.gov/comments/s7-07-15/s70715-15.pdf ("We do not think that TSR, standing alone, provides sufficient information about financial performance. We note that many investors have criteria other than TSR for making investment decisions to purchase or sell our stock and for determining whether the past efforts of our executives have created shareholder value that is likely to be realized in the future.")

despite its several downsides and creates an additional administrative burden and expense on registrants with minimal utility and benefit for shareholders.

Although the SEC proposed TSR as the required measure of financial performance in part because it believe it is "objectively determinable and not open to subjective determinations of performance," TSR can be highly sensitive to external, subjective influences that are out of registrants' control, such as market cycles, market perception, competitor activity, regulatory and political changes, and economic factors.[3] TSR measures a change in a company's stock prices over two points in time rather than a change in the underlying value or economic profit of the company's business.[4] Because TSR ultimately reflects shareholders' expectations about how management decisions will affect future cash flows, any external influence that may be wholly unrelated to the company's performance can sway shareholders' expectations and thus impact TSR. Performance is measured against what analysts predict a company will do and how the company provides market guidance. In most cases, those assessments are subjective and can alter one company's stock performance against another's. Positive market influences can create positive TSR even if a company's return on invested capital ("ROIC") and economic profit ("EP") are negative, meaning executives with compensation tied to TSR could be rewarded even though underlying shareholder value has been destroyed. Conversely, negative market influences (e.g., a global pandemic, inflation fears, international strife) can negatively impact TSR despite the underlying business having positive ROIC and EP, thus creating underlying shareholder value that would go unrewarded in a TSR-measured incentive plan.[5] An industry sector's projected performance in light of various market factors can beneficially or detrimentally influence the stock price of a company and its competitors, which would in turn affect TSR and rTSR measures.

In addition to external influences, TSR may also be internally distorted by management tactics that game executive compensation by paying higher dividends and aggressively buying back shares.[6] For example, an opportunistic management team might engage in

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[3] Bob Romanchek, *The Demise of TSR as the Primary Executive Pay Performance Measure*, MERIDIAN COMPENSATION PARTNERS: THOUGHT LEADERSHIP (Nov. 15, 2018) (noting "line of sight and external influences" as one of the potential concerns with TSR).

[4] *See* Roland Burgman & Mark Van Clieaf, *Total Shareholder Return (TSR) and Management Performance: A Performance Metric Appropriately Used, or Mostly Abused?*, ROTMAN INT'L J. PENSION MGMT., Fall 2012.

[5] *See* Mihir A. Desai, Mark Egan, & Scott Mayfield, *A Better Way to Assess Managerial Performance*, HARV. BUS. REV., Mar.–Apr. 2022, at 1, https://hbr.org/2022/03/a-better-way-to-assess-managerial-performance.

[6] Sarah Keohane Williamson, Ariel Fromer Babcock, and Allen He, *The Dangers of Buybacks: Mitigating Common Pitfalls*, HARV. L. SCH. FORUM ON CORP. GOV. (Oct. 23, 2020), https://corpgov.law.harvard.edu/2020/10/23/the-dangers-of-buybacks-mitigating-common-pitfalls/ (describing buybacks being used for personal gain and enrichment as one of their pitfalls). *See also* Comm'r Daniel M. Gallagher, Dissenting Statement at an Open Meeting Proposing Mandated Pay versus Performance Disclosures (Apr. 29, 2015), https://www.sec.gov/news/statement/dissent-proposing-mandated-pay-versus-performance-disclosures.html ("As a stock price-based measure, TSR may be gamed by any of the usual corporate strategies for boosting stock prices in the short term — for example, cutting

buybacks to reduce the number of shares outstanding in the marketplace in order to artificially inflate earnings per share (EPS) with the intention of increasing stock price and thereby increasing TSR.[7] A correctly timed buyback can boost share price, which will positively impact TSR and potentially satisfy a TSR incentive metric despite no organic increase in shareholder value having occurred.[8] A similar manipulation of TSR can occur by taking on more debt and assuming more risk in order to increase leverage.[9] As between two equally performing companies, the company that is more leveraged with a higher debt-to-equity ratio will have a more volatile TSR that will be amplified on the upside, but destroyed on the downside.[10]

Another shortcoming of using TSR as the standard for comparing pay to performance is that it assumes a buy-and-hold model that evaluates changes in share price and dividends over a specified holding period. To understand TSR over a multi-year period, TSR makes the flawed assumption that shareholders reinvest their dividends in the company's stock. In reality, very few shareholders act in accordance with the TSR hypothetical by reinvesting their dividends.[11] As a result of the flawed dividend-reinvestment assumption, a stock's performance is compounded by TSR in unrealistic ways. When a company performs below market, TSR still assumes that the company's shareholders reinvest their dividends in the company instead of in a higher-return

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spending on R&D projects to inflate net profit, or focusing resources on a corporate strategy that pays off in year 3, at the expense of one with a much larger payoff in year 10. Thus, the Commission's chosen metric risks exacerbating the current overemphasis on short-term performance at the expense of long-term shareholder value creation.") (internal footnotes omitted).

7 Mark Maurer, *SEC Digs Deeper Into Companies' EPS Manipulation*, WALL ST. J.: CFO J. (Oct. 10, 2021, 9:00 AM), https://www.wsj.com/articles/sec-digs-deeper-into-companies-eps-manipulation-11633870803.

8 *See* BENNETT STEWART, ISS ANALYTICS, THE LINK BETWEEN TSR AND EVA (2019), https://www.evaexpress.com/librarylanding/evaLibraryApp/downloadFile/BD403D69-3057-EB11-911F-005056BB576A ("Many executives imagine that the market responds to cash distributions and the growth in earnings-per-share (EPS), for example. They attempt to boost TSR though higher dividend payments or by aggressively buying back shares.").

9 *See* Sirio Aramonte, *Mind the Buyback, Beware of the Leverage*, BIS QUARTERLY REV., Sept. 2020, at 49, 53, https://www.bis.org/publ/qtrpdf/r_qt2009d.pdf ("Executive compensation linked to stock prices or EPS targets can lead managers to repurchase equity with the narrow objective of boosting their pay. Managers would not bear the full costs of this action: the resulting increase in leverage increases the likelihood of financial distress, but it is likely to materiali[z]e well after managers have received their compensation.")

10 Bennett Stewart, *What's Wrong with TSR, and How to Fix It*, NACD BOARDTALK (June 29, 2016), https://blog.nacdonline.org/posts/whats-wrong-with-tsr-and-how-to-fix-it; Robin Ferracone, *Pay For Performance Alignment: Total Shareholder Value Vs. Economic Value Added*, FORBES (Mar. 7, 2016, 12:03 PM), https://www.forbes.com/sites/robinferracone/2016/03/07/pay-for-performance-alignment-total-shareholder-value-vs-economic-value-added/?sh=669913837c33 (explaining that the more leveraged a company, the more volatile its TSR will be, "rising and falling in ways that aren't sustainable and don't necessarily reflect intrinsic value").

11 Jesse M. Fried, Paul Ma, Charles C.Y. Wang, *Stock Investors' Returns Are Exaggerated* 5 (Harv. Bus. Sch., Working Paper No. 22-036), https://www.hbs.edu/ris/Publication%20Files/22-036_aed46dec-9f82-4915-bb1f-ed3b9b28ef4f.pdf (arguing that few investors are "TSR investors" because they rarely reinvest dividends).

alternative. Conversely, when a company performs above the market, the shareholders' assumed reinvestment in the company inflates the company's TSR. In both cases, TSR reflects a distorted depiction of the company's performance by neglecting to account for the realistic tendency of shareholders to reallocate, rather than reinvest, their dividends.[12]

Lastly, TSR is an unreliable pay-for-performance metric because it conflates short-term stock performance with long-term value creation.[13] Despite its prevalence as a performance metric in companies' long-term incentive programs ("LTIPs"), the length of the performance period that most companies measure is considerably short. Among the 250 largest public companies in the S&P 500 as of March 31, 2021 (the "Top 250"), a mere 1% measured performance over a five-year period while the vast majority (89%) employed a three-year measurement period.[14] LTIP incentive awards based on a short-term TSR metric hinge performance-based compensation on factors that are beyond executives' control and are unrelated to the company's performance or underlying value. The shortsightedness of TSR may also incentivize executives to make management decisions that prioritize the appearance of short-term success at the expense of shareholders' long-term value and interests. Ultimately, using TSR in an LTIP does not correlate to increased financial performance, making it an unsuitable metric to link executive compensation actually paid and financial performance.[15]

II. Even with the additional performance-metric disclosures, the Proposed Rule overstates the importance of TSR and rTSR to companies' performance-based incentive decisions and fails to account for the multi-metric approach that most companies employ.

While TSR continues to be one of the most widely used performance metrics in public companies' LTIPs, the majority of LTIPs do not use TSR in isolation. Among the incentive metrics used by the Top 250, 69% used TSR, with 95% of those companies measuring TSR on a relative basis compared to peer or industry standards (i.e., rTSR); 53% used a measure of profit (including EPS, net income, EBIT, EBITDA, and pre-tax profit); and 38% used a measure of capital efficiency (including return on equity, return on assets, and return on capital).[16] Among the LTIPs that leveraged TSR, 80% paired TSR with at least

12 Desai et al., *supra* note 5, at 1 (concluding that the flawed assumption that shareholders reinvest their dividends in company stock "reinforces the effect of the stock's performance relative to the market in a way that is divorced from reality").

13 Bennett Stewart, EVA Dimensions LLC, *What Determines TSR*, J. APPLIED CORP. FIN., Winter 2014, at 47, https://www.isscorporatesolutions.com/file/documents/what-determines-tsr-jacf.pdf ("Paying dividends or buying back stock simply changes the form of the return, but cannot change the overall return unless it somehow changes the [economic value added (EVA)] profit the firm will earn or is perceived to be able to earn.")

14 FW COOK, 2021 TOP 250 REPORT 7 (2021), https://www.fwcook.com/content/documents/Publications/12-29-21_FWC_2021_Top_250_Final.pdf.

15 PEARL MEYER, THE MYTH AND REALITY OF TSR AS AN INCENTIVE METRIC 12 (2015), https://www.pearlmeyer.com/myth-and-reality-tsr-incentive-metric.pdf (explaining that "overreliance on TSR is both insufficient and ineffective").

16 FW COOK, *supra* note 14, at 4, 7.

one other financial or strategic metric, and 33% used TSR as a performance modifier rather than a separately weighted metric.[17]

When assessed by industry sector, the prevalence of performance metrics varied. For example, companies in the financials industry sector (12% of the Top 250) were more likely to use capital efficiency as a performance metric than TSR or any other metric, with 65% measuring performance using returns compared to 45% using TSR and 35% using profit.[18] Companies in the consumer-discretionary and consumer-staples industry sectors (which collectively account for 20% of the Top 250) used profit more commonly than TSR as a performance-award metric.[19] Collectively, as of February 25, 2022, the financials, consumer-discretionary, and consumer-staples industry sectors represented 29.61% of the U.S. equity market.[20] If the prevalence of performance metrics within each industry sector of the Top 250 represents the prevalence of performance metrics among all public companies within an industry sector, then the Proposed Rule's mandated disclosure of TSR and rTSR to establish a link between performance and pay will be inconsistent with the factors that actually contribute to performance-based compensation for companies representing nearly one-third of the market.

Accordingly, the Proposed Rule's emphasis on TSR and rTSR as the basis for establishing a link between pay and performance overstates the use and importance of TSR in public companies' LTIPs. Even in combination with the newly proposed measures of pre-tax net income, net income, and a Company-Selected Measure, categorically disclosing TSR and rTSR as distinct measures of financial performance fails to depict the multi-metric approach that most public companies employ.

Further, disclosure of the profit-based measures and Company-Selected Measure may provide additional context to a company's pay-versus-performance relationship, but the picture will still be incomplete and misleading given the array of metrics and calculation

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[17] *Id.* at 7.

[18] *Id.* at 14. While patterns in the incentive-compensation practices of the Top 250 are not necessarily applicable to smaller public companies, the prevalence of the capital-efficiency performance metric within the Top 250 financials sector tracks with IBC's performance-based compensation arrangements, which emphasize capital-efficiency measures of performance. As noted in Exhibit A to this comment letter, IBC pays annual cash discretionary bonuses to its named executive officers based on four measures of corporate performance: (1) EPS and EPS growth; (2) return on average assets; (3) return on average equity; and (4) non-financial objectives. IBC also awards compensation under its Management Incentive Plan depending on the company's satisfaction of certain performance goals, which for fiscal year 2021 included either (i) a 0.90% return on average total assets, or (ii) an 8% return on average total shareholders' equity. Int'l Bancshares Corp., Schedule 14A Definitive Proxy Statement (Form DEF 14A) 14 (Apr. 16, 2021).

[19] Among the Top 250 companies in the consumer-staples industry, 81% used profit as a measure of performance, while 62% used TSR. Among the companies in the consumer-discretionary industry, 69% used profit as a performance metric, while 50% used TSR. *See* FW COOK, *supra* note 14, at 14.

[20] *Sectors & Industries – Weighting Recommendations,* FIDELITY (last visited Mar. 2, 2022), https://perma.cc/XK7J-9L2Q?type=image (providing each sector's market weight as follows: (i) consumer discretionary (11.73%); (ii) financials (11.60%); and (iii) consumer staples (6.28%)).

methods within each performance-metric category.[21] For example, IBC utilizes EPS as one performance metric for assessing executive compensation. While EPS, pre-tax net income, and net income are all measures of profit, disclosure of the latter two metrics in accordance with the Proposed Rule would not be useful for purposes of determining how executive compensation is actually paid under IBC's performance-incentive programs.

III. The disclosures required by the Proposed Rule are ineffective for comparing companies' pay-for-performance practices.

Using rTSR as a comparator between companies presents additional causes for concern. First, as Commissioner Hester M. Peirce explained in her respectful dissent of the SEC's Proposed Rule, the mandated disclosures under the Proposed Rule "go well beyond the statutory mandate of Section 953(a)[.]"[22] Nothing in the Dodd-Frank Act requires a peer comparison, restricts a company's ability to measure financial performance to any specific, narrow metric, or mandates the ranking of factors required by the Proposed Rule.

Second, the value in reporting rTSR is dismal due to the subjectivity in selecting a peer group, the inherent unreliability that the group selected represents the true peers of the registrant, and the artificial comparability between companies' TSR values. Calculating rTSR requires a company to select a peer group, which is a subjective process that is open to endless peer combinations. While on its face, a company's peer group may provide a basis for comparison that could influence a company's payment of performance incentives, in reality, companies can craft their peer groups to justify their incentive-payment decisions.[23] Rather than a company transparently disclosing that its shareholder returns and performance-based executive compensation were unaligned with comparable "peers," the company could simply adjust its peer group to include companies with similar shareholder returns and executive compensation amounts until the reported rTSR aligns with the company's absolute TSR and thus justifies the executive compensation paid. The disclosures might comply with the Proposed Rule's far-reaching requirements, but they would not reflect an authentic basis for comparison among companies.

Even if a company is given the benefit of the doubt when evaluating the company's motivation in selecting its peer group, the diversity in how companies measure performance makes any comparison attempt futile. The difficulty in comparing financial

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21 *See* FW COOK, *supra* note 14, at 4 (defining each performance-metric category as including the following list of non-exhaustive metrics: (i) TSR: stock price appreciation plus dividends; (ii) Profit: EPS, net income, EBIT, EBITDA, and pre-tax profit; (iii) Capital Efficiency: return on equity, return on assets, and return on capital; (iv) Revenue: revenue, organic revenue, sales; (v) Cash Flow: cash flow, operating cash flow, free cash flow; and (vi) Other: safety, quality assurance, new business, individual performance).

22 Comm'r Hester M. Pierce, Dissenting Statement on Reopening of Comment Period for Pay Versus Performance (Jan. 27, 2022), https://www.sec.gov/news/statement/peirce-dissent-pvp-20220127.

23 *See* Williamson et al., *supra* note 6 ("In addition to the short-term nature of most of these metrics, peer groups are subject to interpretation – or even manipulation – with companies pursuing different strategies.").

performance across companies is compounded by the fact that companies regularly rely on non-GAAP alternative measures to evaluate performance and to determine performance-based executive compensation. When companies utilize these alternatives measures, comparing metrics across companies or even from one year to the next within the same company is ineffective.[24]

This is demonstrated by a review of the LTIPs of the companies that have included IBC in their reported peer groups during the past two years, as detailed in the chart included at Exhibit A to this comment letter. Among these companies, the performance metrics that determine executive compensation vary drastically, not only from company to company but, for some companies, from executive to executive and from year-to-year. Of the 14 companies included in the chart, a mere two companies measured performance using rTSR (each weighing rTSR as 50% of performance), and three companies used TSR as a modifier, in each case relative to members of the KBW Regional Banking Index. Several companies' descriptions of performance-based compensation, including IBC's, clarify that compensation decisions are ultimately made in the compensation committee's discretion and can be adjusted according to that discretion as necessary. This makes a meaningful comparison even more difficult.

Further, requiring companies to consolidate their decision-making process for determining executive pay into basic tabular disclosures consisting of a Company-Selected Measure column and a table of the top five most important performance metrics oversimplifies the compensation committee's unique insight, experience, and discretion in making compensation decisions, many of which cannot fit neatly into a table and would require lengthy explanations to be of any value to investors. By requiring registrants to emphasize some factors over others, the Proposed Rule fails to acknowledge the multi-factor, balanced assessment that many companies employ when setting executive compensation. The in-depth discussions that would have to accompany the tabular disclosures places an additional reporting burden on registrants with little utility for investors.

The SEC's assertion that disclosing a Company-Selected Measure and listing the "Five Most Important Performance Measures for Determining NEO Compensation" will assist investors with context that will help them interpret a company's pay-versus-performance disclosure is well-intentioned but misguided. The disclosures would create an information overload that places an unrealistic expectation on investors to carefully read through multiple tables and to dissect the accompanying clarificatory analysis in order to differentiate between the performance metrics that a company actually considered when

[24] H. David Sherman & S. David Young, *The Pitfalls of Non-GAAP Metrics*, MITSLOAN MGMT. REV. (Winter 2018), https://sloanreview.mit.edu/article/the-pitfalls-of-non-gaap-metrics/ ("Since companies devise their own methods of calculation, there's no way to compare the [alternative non-GAAP] metrics from company to company — or, in many cases, even from year-to-year within the same company. Lately, in the course of examining the financial statements and communications of thousands of public companies in at least a dozen countries, we have seen a troubling trend. Alternative measures, once used fairly sparingly and shared mostly with a small group of professional investors, have become more ubiquitous and further and further disconnected from reality.").

making its incentive payment decisions versus the performance metrics that were simply disclosed to comply with the SEC's Proposed Rule.

For these reasons, IBC urges the SEC to reassess the utility of the Proposed Rule in light of the incomparable metrics that companies rely on when evaluating performance and awarding incentive compensation. Mandating that companies disclose specific metrics in order to guide investors' assessments of how executive compensation actually paid relates to a company's financial performance is counterproductive if the metrics required to be disclosed are not actually relied on by the company when measuring performance and awarding incentive pay.

Thank you for your consideration.

Respectfully,

Dennis E. Nixon
President

EXHIBIT A

PERFORMANCE METRICS OF PUBLIC COMPANIES THAT CONSIDER IBC A "PEER" ***based on 2020-2021 EDGAR filings***	
Purpose. International Bancshares Corporation ("IBC") was included as a member of the peer group of each company listed in the chart below based on EDGAR filings made by each company since 2020. The chart describes the performance metrics that each company used to award long-term incentive compensation, as described in each company's most recently filed proxy statement or a previously filed compensation plan.[25]	
Company	**Description of Performance Metrics**
International Bancshares Corporation **(IBOC)** Proxy Link	The Company adopted the Management Incentive Plan (MIP) in 2013, "which was designed to enable certain incentive awards to be deductible to the Company under Internal Revenue Code Section 162(m). . . . In February 2021, the Compensation Committee established the performance goals under the MIP for fiscal year 2021, which are either one of the following ratios: (1) a .90% return on the average total assets or (2) an 8% return on the average total shareholders' equity." Under the MIP (see Exhibit A to the Proxy Statement filed April 17, 2017), performance goals "shall be (i) based on the attainment of specified levels of one or more of the following measures (a) earnings per share, (b) return measures (including, but not limited to, return on assets, equity or sales), (c) net income (before or after taxes), (d) cash flow (including, but not limited to, operating cash flow and free cash flow), (e) cash flow return on investments, which equals net cash flows divided by owner's equity, (f) earnings before or after taxes, interest, depreciation and/or amortization, (g) internal rate of return or increase in net present value, (h) gross revenues, (i) gross margins or (j) stock price (including, but not limited to, growth measures and total shareholder return) and (ii) set by the Committee within the time period prescribed by Section 162(m) of the Code."
First Financial Bankshares Inc. **(FFIN)** Proxy Link	The Company "offer[s] the opportunity to earn the targeted level of pay through incentive compensation that correlates to the Company's short- and long-term performance. These incentives are based on financial and investment metrics underlying Company performance, including earnings growth, return on assets, return on equity, net interest margin, credit quality and efficiency ratio." Restricted stock is one component of the long-term incentive compensation. Under Section 2.04 of the 2015 Restricted Stock Plan (see Appendix A to the Proxy Statement filed March 2, 2015), performance-based compensation awards are based on "one or more of the following business criteria: earnings as a percentage of revenues; pre-tax income, after-tax income or adjusted net income; earnings per share (basic or diluted); operating profit; revenue, revenue growth or rate of revenue growth; return on assets (gross or net), return on investment, return on capital, or return on equity; returns on sales or revenues; operating expenses; stock price appreciation; total shareholder return; earnings growth; return on average assets; return on average equity; efficiency ratio; net interest margin; audit, compliance and asset quality objectives; cost targets, reductions and savings, productivity and efficiencies; strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, goals relating to

[25] A hyperlink to each company's most recently filed proxy statement is provided below the company's ticker symbol. Where applicable, a hyperlink to the company's previously filed compensation plan is provided within the description of performance metrics.

	acquisitions, divestitures, joint ventures and/or similar transactions and/or goals relating to budget comparisons; and any combination of, or a specified increase or decrease in, any of the foregoing." Under the 2015 Restricted Stock Plan (as amended and restated on April 28, 2020), Section 2.04 now grants the plan administrator greater flexibility and discretion in determining awards, providing: "The Administrator may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions."
Hilltop Holdings Inc. **(HTH)** Proxy Link	The Company's "long-term incentive compensation is delivered in the form of restricted stock units, or RSUs . . . . Half of the RSUs awarded vest upon achievement of predefined performance goals. The percentage of these awards that vest is based first on cumulative EPS over a three-year period and then multiplied by a modifier based on [the Company's] TSR, relative to members of the KBW Regional Banking Index during the same period. The calculation for the vesting of performance RSUs is as follows: • 3-year EPS (50% to 150%) x 3-year TSR (80% to 120%) = Payout Percentage (40% to 180%). Since July 2020, all equity-based awards have been made pursuant to the 2020 Equity Incentive Plan, under which awards "may be made subject to the attainment of Performance Goals relating to one or more business criteria that may consist of, but are not limited to, one or more or any combination of the following criteria: stock price; book value; book value per share; tangible book value; tangible book value per share; earnings (including earnings before taxes, earnings before interest and taxes or earnings before interest, taxes, depreciation and amortization); earnings per share (whether on pre-tax, after-tax, operations or other basis); operating earnings; total return to stockholders; return on assets or operating assets; asset quality; net interest margin; or stockholder value added ("Performance Criteria"). Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index."
First Midwest Bancorp, Inc. **(FMBI)** Proxy Link	"The Compensation Committee may grant performance-based awards that vest, are paid or become exercisable upon the attainment of performance goals. Performance goals established with respect to an award may be based upon, but are not limited to, one or more of the following performance criteria or metrics: • Return measures (including, but not limited to, total stockholder return, return on assets and return on equity); • Income or earnings measures (including, but not limited to, earnings per share, net income, net interest income, net interest margin and noninterest income); • Revenue measures; • Expense measures (including, but not limited to, expenses, operating efficiencies, efficiency ratios and non-interest expense); • Balance sheet measures (including, but not limited to, assets, loans, charge-offs, loan loss allowances, non-performing assets, deposits, asset quality levels and investments); • Wealth management measures (including, but not limited to, assets under management, held in trust or custody, client growth, client retention and wealth management fees); • Enterprise risk management measures (including, but not limited to, interest-sensitivity gap levels, regulatory compliance, satisfactory internal or external audits and financial ratings); • Fair market value of our common stock;

	• Employee, customer or market-related objectives (including, but not limited to, employee satisfaction, customer growth, customer retention, customer satisfaction, number or type of customer relationships and market share); • Achievement of balance sheet or income statement objectives; • Individual participant or team performance objectives (including, but not limited to, key performance indicators, strategic or operational objectives, or project or personnel management); or • Other financial, accounting or quantitative objectives established by the Compensation Committee. Performance goals for these criteria or metrics may be measured for achievement or satisfaction during the performance period set by the Compensation Committee. The performance goals may be in absolute terms or measured against, or in relationship to, other companies comparably, similarly or otherwise situated or other external or internal measures and may be based on, or adjusted for, other objective goals, events or occurrences established by the Compensation Committee." "*Grant of 2020 Performance Share Awards (2020-2022 Performance Share Program).* In February 2020, our Compensation Committee granted performance share award opportunities to our named executive officers for the 2020-2022 performance period. Based upon a review of peer practices and input from management and the Compensation Committee's independent compensation consultant, our Compensation Committee selected relative TSR and relative CRATCE, each weighted equally at 50%, as the program's metrics."
Texas Capital Bancshares Inc. **(TCBI)** Proxy Link	"Long-term incentive awards for [the Company's] NEOs include equity-based awards issued pursuant to our Amended and Restated 2015 Long-Term Incentive Plan (the "2015 Plan") that are designed to directly align the interests of the NEOs with those of our stockholders and to motivate the NEOs to increase the value of the Company to stockholders over the long term. <u>2020 Grant of Equity Awards.</u> . . . The 2020 NEO equity awards consisted of RSUs, 50% of which were time-based awards and 50% of which were performance-based awards. The time-based RSUs vest in March 2023, subject to the executive's continued employment with the Company. The performance-based RSUs may be earned in amounts ranging from 0% to 150% of the target award, based on the Company's level of achievement of performance goals relating to (i) cumulative EPS (50% weighting) and (ii) cumulative EPS relative to the peer group (50% weighting) for the three-year period ending December 31, 2022. . . . . <u>2018 Grants of Performance-Based RSUs - Performance Results and Payouts.</u> The Company made an annual grant of RSUs in March 2018. The grants were structured in a manner consistent with the 2020 grants described above, with awards consisting of 50% time-based RSUs and 50% performance-based RSUs. The 2018 performance-based RSUs could be earned in amounts ranging from 0% to 150% of the target award, based on the Company's level of achievement of performance goals relating to EPS average growth and average ROE over a three-year performance period."
First Hawaiian, Inc. **(FHB)** Proxy Link	"The performance share award for the 2020-2022 LTIP cycle provides for cliff vesting following the end of a three-year performance period, and can be earned between 0-200% of target based on performance. Performance is measured solely on a relative basis using two core return metrics and a modifier as follows: • 70% of earnout based on core Return on Average Tangible Equity (ROATE) vs. Compensation Peer Group • 30% of earnout based on core Return on Average Tangible Assets (ROATA) vs. Compensation Peer Group

<table>
<tr><td></td><td>

- +/-25% modified based on the Company's TSR vs. KBW Regional Bank Index"

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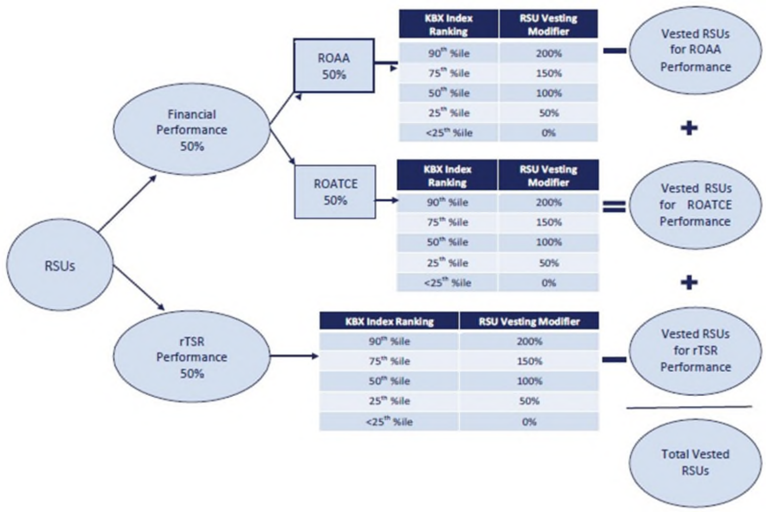
Pacific Premier Bancorp, Inc.

(PPBI)

[Proxy Link]

</td><td>

"*Long-Term Incentives.* RSUs vest based on the achievement of performance goals at the end of a 3-year performance period. RSU performance goals are based 50% on rTSR [relative total shareholder return] percentile compared to the KRX, 25% on average ROAA [return on average assets] percentile compared to the KRX, and 25% on average ROATCE [return on average tangible common equity] percentile compared to the KRX. Payout on the third anniversary of the date of grant ranging between 0% and 200% of a target award."



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First Interstate Bancsystem Inc.

(FIBK)

[Proxy Link]

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"In 2020, long-term incentives awarded to the [Company's] Named Executive Officers included a mix of performance (60% of the award) and time (40% of the award) restricted stock awards.

Time restricted equity awards have a three-year graded vesting period. Performance restricted equity awards vest in varying percentages based upon the Company's performance relative to that of the group comprising the 2020 Peers.

The 2020 performance-based awards vest in percentages ranging from 0% to 200% of target, based on the Company's three-year return on average equity (weighted at 50%) and the three-year total shareholder return (weighted at 50%) as compared to the 2020 Peers . . . ."

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WSFS Financial Corp

(WSFS)

[Proxy Link]

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The Company's Management Incentive Plan performance measures "are Return on Average Assets ("ROA"), Return on Average Tangible Common Equity ("ROTCE") and Earnings per Share ("EPS") growth. ROTCE is computed by dividing net earnings allocable to common stockholders by average tangible common stockholders' equity. ROTCE is a non-GAAP financial measure and may not be comparable to similar non-GAAP financial measures used by other companies. Where appropriate, individual goals may be tied to asset quality or other operational metrics."

"*2020 Incentive Award Determinations.* . . . In March 2021, the P&C Committee and Board of Directors approved supplemental 2020 performance metrics including PPNR as a percentage of assets (PPNR %) compared to [the Company's] \$10-\$20 billion asset size peer group, Customer Engagement ("Gallup CE3"), Associate Engagement ("Gallup Q12"), and Community Efforts. PPNR is a non-GAAP financial measure calculated as pre-tax net revenue before provision for credit losses less pre-tax noninterest expense."

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<tr><td>TFS Financial Corporation

(TFSL)

Proxy Link</td><td>As stated in the Proxy Statement filed January 12, 2022: “On December 17, 2020, the Committee, with advice from the Compensation Consultant, awarded equity grants to each named executive officer under the TFS Financial Corporation Amended and Restated 2008 Equity Incentive Plan (the “Amended Plan”).” Under the Amended Plan (see Appendix B of the Proxy Statement filed January 9, 2018), performance measures may be based on any one or more of the following:
(i) basic earnings per Share;
(ii) basic cash earnings per Share;
(iii) diluted earnings per Share;
(iv) diluted cash earnings per Share;
(v) net income;
(vi) cash earnings;
(vii) net interest income;
(viii) non-interest income;
(ix) general and administrative expense to average assets ratio;
(x) cash general and administrative expense to average assets ratio;
(xi) efficiency ratio;
(xii) cash efficiency ratio;
(xiii) return on average assets;
(xiv) cash return on average assets;
(xv) return on average stockholders' equity;
(xvi) cash return on average stockholders' equity;
(xvii) return on average tangible stockholders' equity;
(xviii) cash return on average tangible stockholders' equity;
(xix) core earnings;
(xx) operating income;
(xxi) operating efficiency ratio;
(xxii) net interest rate spread;
(xxiii) growth in assets, loans (including home equity lines of credit), or deposits;
(xxiv) loan production volume;
(xxv) non-performing loans;
(xxvi) cash flow;
(xxvii) capital preservation (core or risk-based);
(xxviii) interest rate risk exposure - net portfolio value;
(xxix) interest rate risk - sensitivity;
(xxx) liquidity parameters;
(xxxi) strategic business objectives, consisting of one or more objectives based upon meeting specified cost targets, business expansion goals, and goals relating to acquisitions or divestitures, or goals relating to capital raising and capital management;
(xxxii) stock price (including, but not limited to, growth measures and total shareholder return);
(xxxiii) increase in book value or tangible book value per share; or
(xxxiv) any combination of the foregoing.</td></tr>
<tr><td>Home Bancshares Inc.

(HOMB)

Proxy Link</td><td>The [Compensation] Committee may evaluate various financial performance criteria such as net income, earnings per share, return on assets, growth in assets (including through acquisitions), asset quality, return on equity, net interest margin, efficiency ratio, net cash flow and other metrics, as well as regulatory capital ratios and examination results. The Committee believes that the following metrics in particular are key indicators of the Company’s financial performance and has most closely evaluated these measures, in addition to the overall earnings results and asset growth of the Company, in establishing incentive compensation decisions:
• Return on assets,
• Return on tangible common equity,
• Efficiency ratio,</td></tr>
</table>

	• Net interest margin, and • Net charge-off ratio (i.e., asset quality). . . . . Because the Compensation Committee believes the metrics listed above are key drivers of the Company's earnings results and value for the Company's shareholders, the Committee utilized these measures specifically in evaluating our named executive officers' performance for 2020 and in designing the Company's 2021 performance-based incentive programs. While total shareholder return (TSR) can be a useful measure in aligning compensation with shareholder value, the Committee believes that macroeconomic factors, *overall market volatility and other external forces which can affect a company's stock price from period to period substantially limit the effectiveness of TSR in evaluating whether the Company's performance is in line with its strategic goals.*" (emphasis added).
Cadence Bancorporation **(CADE)** Proxy Link	"*2020 LTIP Grants.* In 2020, each of [the Company's] named executive officers received a LTIP grant with a target (goal) incentive opportunity expressed as a percentage of his or her base salary. One half of the target LTIP opportunity was granted as time-based equity in the form of RSUs that vest ratably over a four-year period if the executive is employed on the anniversary date of the grant each year. . . . The other half of the target LTIP opportunity is a performance-based cash award representing the opportunity to earn between 0% and 200% of the target cash award depending on the Company's performance against specific objectives. One performance measure was established for the 2020 performance-based cash award: Core Return on Average Assets ("Core ROAA"), which measures core net income divided by average total assets. "Core net income" for this purpose is defined as net income after taxes and before extraordinary items, less net income attributable to noncontrolling interest, gain on the sale of held to maturity and available for sale securities, amortization of intangibles goodwill and, at the discretion of the Compensation Committee, nonrecurring items." The Core ROAA relative performance will be measured as compared to peers on the KBW Regional Bank Index (KRX) . . . . For the performance-based cash award in 2020, the target award level was increased from the 50th percentile of the peer group to the 60th percentile of the peer group. The Company's Core ROAA relative performance is measured annually and cumulatively at the end of the four-year performance period, and the cash award will be earned at the greater of the sum of the annual payout rates or the payout rate based on cumulative performance."
First Foundation Inc. **(FFWM)** Proxy Link	Awards are granted under the 2015 Equity Incentive Plan (see Exhibit D of the Proxy Statement filed September 25, 2015). Under the 2015 Equity Incentive Plan: "Performance Factors" means any of the factors selected by the Committee and specified in an Award Agreement, from among the following measures, either individually, alternatively or in any combination, applied to the Company as a whole or to any Subsidiary or business unit, either individually, alternatively or in any combination, on a GAAP or non-GAAP basis, and measured, to the extent applicable on an absolute basis or relative to a pre-established target or index or group of comparator companies, to determine whether the performance goals established by the Committee with respect to applicable Awards have been satisfied: (i) our stock price, including as compared to the stock prices of a pre-determined index of comparable companies; (ii) net income or (ii) net income per share; (iii) pre-tax income; (iv) interest income; (v) interest expense; (vi) net interest income; (vi) net interest margin; (viii) noninterest income; (ix) revenue (net interest income plus noninterest income); (x) earnings before interest, earnings before interest and taxes, earnings before interest, taxes and depreciation, earnings before interest, taxes, depreciation and amortization, and other metrics based on or derived from earnings; (xi) wealth management fees; (xii) noninterest expense; (xiii) efficiency ratio; (xiv) return on equity or average equity; (xv) return on assets or

	average assets; (xvi) assets under management (or AUM); (xvii) total assets; (xviii) book value or book value per share; (xix) common equity tier 1 (or CET-1) ratio; (xx) tier 1 leverage ratio; (xxi) tier 1 risk-based capital ratio; (xxii) total risk-based capital ratio; (xxiii) ratio of nonperforming assets to total assets; (xxiv) ratio of loan charge-offs to average loans outstanding; (xxv) ratio of allowance for loan losses to loans outstanding; (xxvi) total shareholder return; (xxvii) growth in stockholder value relative to a pre-determined index; (xxviii) cash flow, including free cash flow or cash from operations; (xxix) individual confidential business objectives; (xxx) strategic plan development and implementation; (xxxi) succession plan development and implementation; and (xxxii) attainment of objective operating goals." As described in the 2021 Proxy Statement, the Company's pay-for-performance philosophy measured the company's financial performance based on: (i) income before taxes; (ii) net income; (iii) earnings per fully diluted share; (iv) non-performing assets to total assets; (v) loans, including loans held for sale; (vi) deposits; (vii) return on tangible book value; and (viii) tangible book value per share.
Heartland Financial USA, Inc. **(HTLF)** Proxy Link	"The three-year performance-based RSUs that [the Company] granted in 2020 have a three-year performance period and are earned based upon Heartland's earnings per share growth in comparison to the 50th percentile of its proxy peer group. The number of performance-based RSUs can be adjusted plus or minus 25% based upon a total shareholder return compared to peers. The three-year performance-based RSUs granted in 2020 will vest on a measurement date in 2023, upon a review of the aggregate performance from fiscal year 2020 through fiscal year 2022. . . . In granting performance-based RSUs to the Named Executive Officers, the Compensation, Nominating and Corporate Governance Committee considered the overall allocation of RSUs to ensure that the target number of performance-based RSUs granted is equal to or greater than the number of time-based RSUs granted. For 2020, the RSU awards to the Named Executive Officers were 50% time-based RSUs and 50% three-year performance-based RSUs. The Committee strives to grant RSUs with an aggregate grant date fair value that is competitive in the context of an executive's performance and position. The performance period for our three-year performance-based RSU awards granted in 2018 ended as of December 31, 2020. These awards vested on the measurement date of March 16, 2021. Based on above peer median performance on both earnings per share growth and [return on average tangible common equity] ROATCE, the three-year performance based RSU's paid out at a blended payout of 112% of target, which consisted of a 55% weighted payout on EPS growth and 57% weighted payout on ROATCE. All metrics for these performance-based RSUs were provided by S&P Global Market Intelligence."
Ameris Bancorp **(ABCB)** Proxy Link	"The performance measures used in 2020 were unchanged from the metrics used in 2019 as they continue to align with [the Company's] internal operating plan and business strategy. The 2020 goals included the following: • Credit Quality (33%) • ROA (Return on Assets) (34%) • Efficiency Ratio (33%)." The Company's long-term equity incentive program consists of 50% Time-based Restricted Stock and 50% Performance Stock Units, which was based on the following: • 50% "was based on three-year tangible book value growth objectives. The Targets and corresponding performance range requires meaningful growth

	over the three-year performance period. Elsewhere in this Proxy Statement, we also refer to these awards as Internal Metric Performance Stock Units . . . ." • 50% "was based on relative return on tangible common equity ("ROTCE") of the Company ranked in terms of a percentile in relation to the three-year ROTCE for the same period of a peer group consisting of the companies comprising the KBW Nasdaq Regional Banking Index ("KRX"). In addition, the performance stock units awards have a relative Total Shareholder Return ("TSR") modifier comparing the Company to the KRX. Dividend equivalents accrue, and are credited, with respect to the award to the extent dividends are paid on the Common Stock but are paid out only when, and if, the award is earned. Awards earned will vest on December 31, 2022, which is the end of the three-year performance period, and shares in respect of such awards will become issuable upon the Compensation Committee's certification of the Company's performance for the performance period, which would be expected to occur in the first quarter of 2023. If the Company delivers three-year TSR that falls between the 25th and 75th percentiles, relative to the KRX, then no adjustment to the payout determined by the cumulative EPS goal will be applied. However, if performance is below the 25th percentile of the KRX, then a 20% discount will be applied to the earned award. Further, if performance is above the 75th percentile of the KRX, then a 20% premium would be applied to the earned award. Regardless of performance, the total award cannot exceed 200% of Target. Elsewhere in this Proxy Statement, we also refer to these awards as Total Shareholder Return Performance Stock Units [or TSR PSUs]."