

BAY COMMENT

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Pay day, and I mean PAY DAY

Did you catch the news on the big pay day this year for executives of the Canadian banking institutions?

The CEO of Bank of Montreal (affectionally referred to as BMO) received \$9.5 million. An increase of 28% from last year – not a bad increase. Bank of Montreal had net income in 2010 of \$2.8 billion – up from the \$1.8 billion from the prior year – a 55% increase. The Board of Directors explains that the 2010 earnings are tangible results of the CEO's efforts. Was it really? Remember 2008 and 2009 were the years of the global recession that hit the markets. In 2010, there was some return to the old normal. Were the 2010 results really a result of the CEO's efforts? Are you sure that the Bank wasn't just riding a wave?

The CEO of TD Bank received \$11.3 million for the 2010 year, up from the \$10.4 million in 2009 – a 8.7% increase. The CEO of the Royal Bank received \$11 million in 2010, up from the \$10.4 million in 2009. The TD Bank guy squeaked ahead of the Royal Bank guy.

Let's do a bit of an analysis of these numbers. If the TD Bank CEO works 260 days per year, and works let's say 10 hours per day, he got paid \$4,350 per hour. Not bad. And people complain about the rates that lawyers and accountants get paid. It will soon be sunshine list time and we will see



FAY BOOKER

the pay for the CEO of the hospitals, lottery corporations, and other public sector organizations. I am guessing that we will not see anything that rivals an hourly rate of over \$4,000 per hour.

The website for Bank of Montreal says that it has 11 million personal, commercial, corporate and institutional customers – this means that each one of these customers pays \$1 to the CEO's pay.

How much of the \$2.8 billion in earnings should go to the CEO? The \$9.8 million was just shy of .3% of the net income. His \$7.4 million in the prior year was .4% of the net income – heck on that basis he had a decrease in 2010.

The Royal Bank website says that it has 18 million personal, business, public sector and institutional clients. And in its 2010 year, it made \$5.2 billion. The TD Bank website states that it has 19 million customers. And in its 2010 year, it made \$4.6 billion.

So comparing Royal Bank and TD. The TD paid its CEO more but made less in net income. Maybe when you get to these billions of dollars in earnings, the number of millions paid to the CEO doesn't matter as much. Each customer at TD would put out 60 cents for the CEO, while the Royal Bank customers would put out 61 cents for the CEO. A deal compared to the \$1 each customer pays for the BMO CEO.

Royal Bank and TD made twice as much in net income than BMO made, yet the BMO guy gets paid just as much as the Royal Bank and TD guys.

It must be an interesting discussion around the Board table to determine how many millions to pay the CEO. I wonder how the Board really decides that its CEO is worth \$4,000 per hour. Are the CEOs really being paid for his work effort or are they riding an economic wave.

Hint to all of your parents who are trying to give career advice to your children – either become a sports idol, entertainment idol or a bank CEO – if you want the big bucks.

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