

ABSTRACT

This study is carried out to investigate the nature of correlation between stability of bank and CEO's pay difference as compared to other executives for the sample of 17 Pakistani commercial banks over the period of 9 years (2005 to 2013). The study finds that CEO's pay difference as compared to other executives has a significant but negative association with stability of bank performance i.e. higher pay difference between CEO and other executives induce greater risk taking practices in bank. Hence, the banks with lower stability scale must try to reduce the compensation gap between CEO & its executive teams so that safer policies could be implemented.

JEL classification: E58; G21; G32; G34; G35

Keywords: Banks' stability, Pay out policy, Financial risk, Corporate governance