



CFO, Investments & Operational Risk Conference

INCENTIVE COMPENSATION MANAGEMENT

Kenneth Levey

Director, Financial Institutions



AGENDA

1. Incentive Compensation Overview
2. ICM for Financial Institutions
3. A Bank Story
4. Key Benefits
5. Summary

INCENTIVE COMPENSATION GOALS

- ▶ Influence employee behavior to align with company objectives
 - ▶ Make the connection between strategy and results
- ▶ Promote a “pay for performance” culture
- ▶ Provide flexibility - as strategy changes incentives can also - quickly and efficiently
- ▶ Recognize and retain your best talent
- ▶ Integrate with your overall performance management process

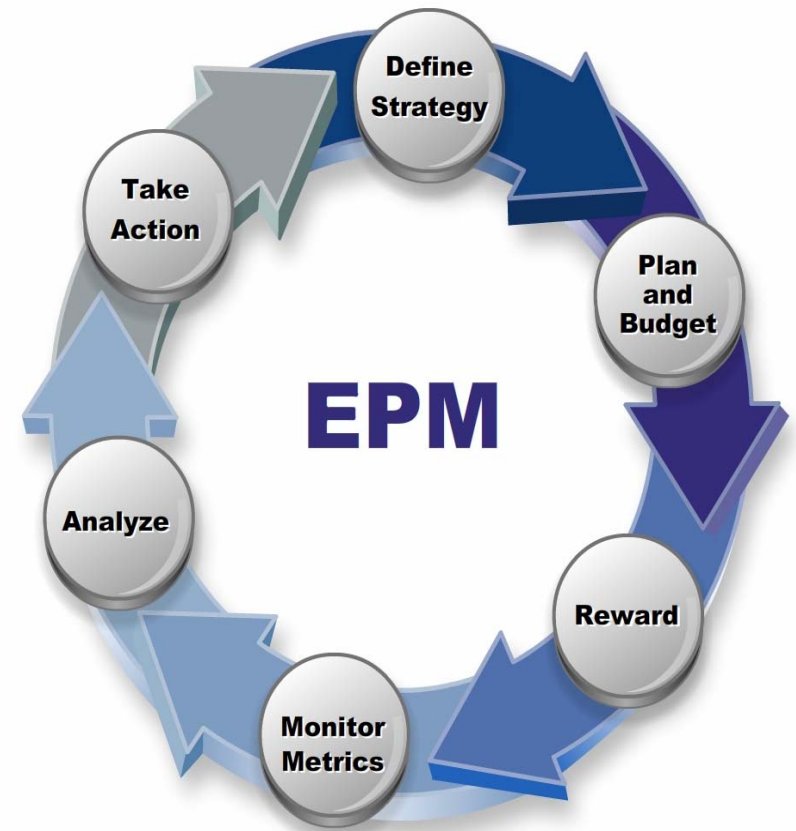


COMPENSATION STUDY – HEWITT ASSOCIATES

- ▶ Variable pay as a percentage of payroll is 11.2%
- ▶ Integrate with your overall performance management process
- ▶ >3 times the 2006 average base salary increase
- ▶ Variable pay in 2007 is projected to remain strong at 11.0% of payroll
- ▶ 80% of responding companies currently offer at least one type of broad-based variable pay plan compared with 51% in 1991

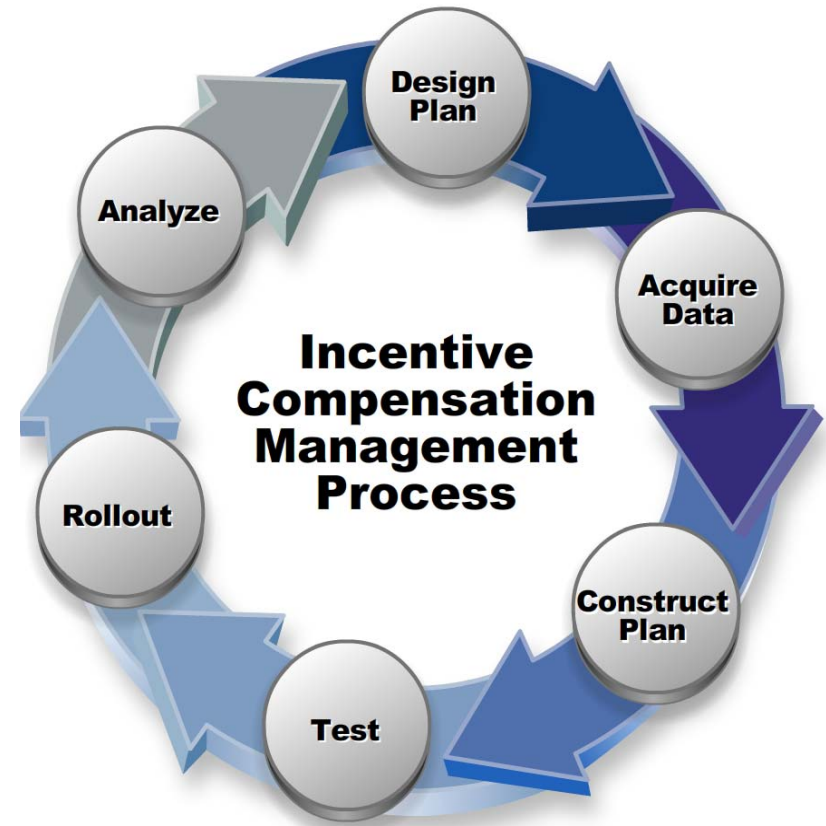
THE ENTERPRISE PERFORMANCE MANAGEMENT PROCESS

- ▶ ICM should be part of the EPM process
- ▶ Integrate with your overall performance management process
- ▶ Employee rewards must align with corporate objectives
- ▶ EPM initiatives should include an ICM component

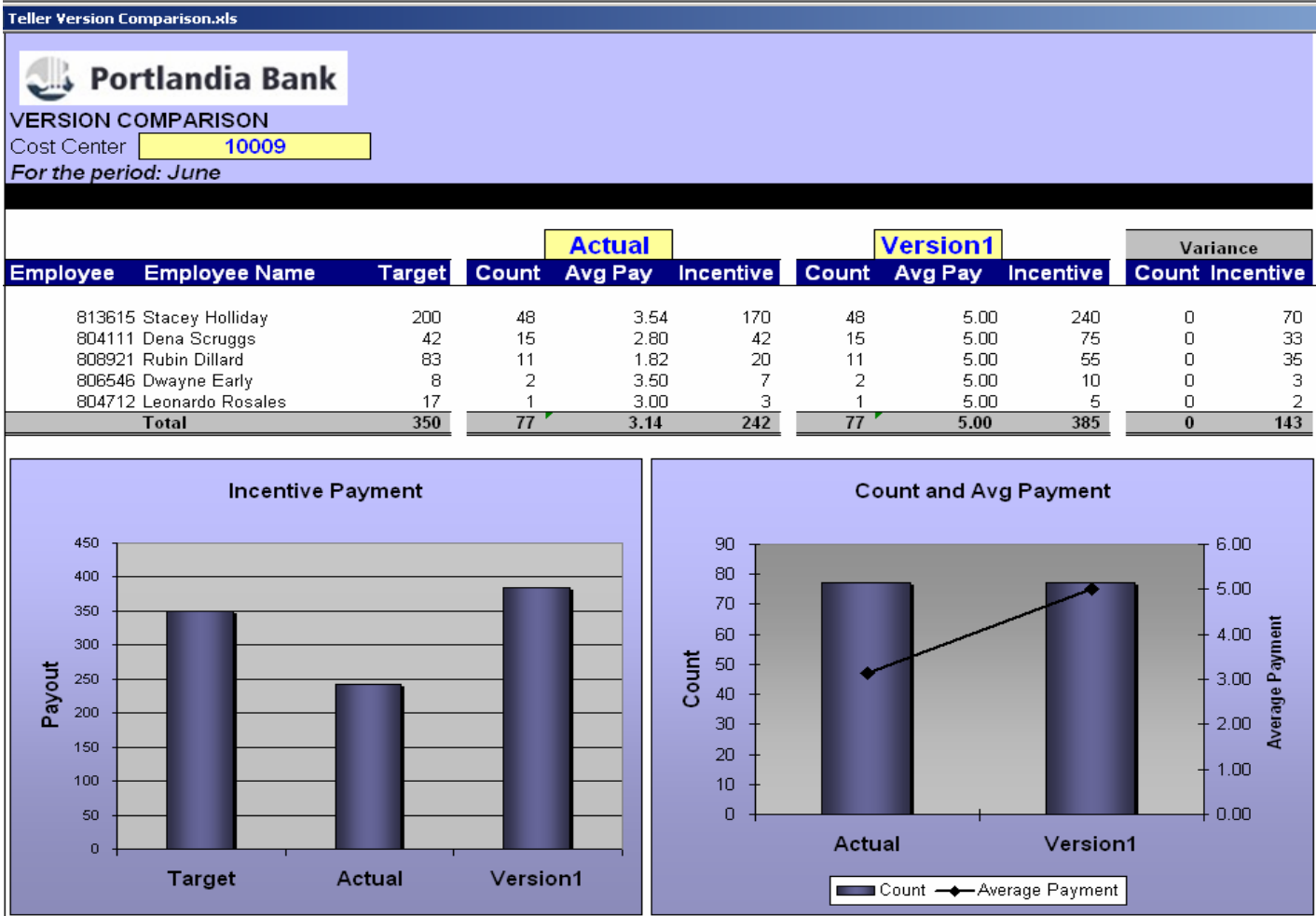


THE INCENTIVE COMPENSATION MANAGEMENT PROCESS

- ▶ Don't underestimate good design!
- ▶ Data acquisition is critical
- ▶ Test on historical data before rolling out
- ▶ New plans or plan alterations should be tested against actual customer information
- ▶ Allow Access to Employees
- ▶ What-if Scenarios?



SCENARIO TESTING - WHAT-IF MODELING



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WHY IS ICM IMPORTANT FOR FINANCIAL INSTITUTIONS?

- ▶ Increasing competitive nature in all financial services
 - ▶ Hiring the best talent
 - ▶ Retaining your talent
- ▶ Embracing a Sales Culture
- ▶ Is there anyone who hasn't done sales training?
 - ▶ Emphasis on organic growth
- ▶ Sharing Risk/Reward with employees

PROGRESSION OF REWARD PROGRAMS FOR BANKS

Total Volume

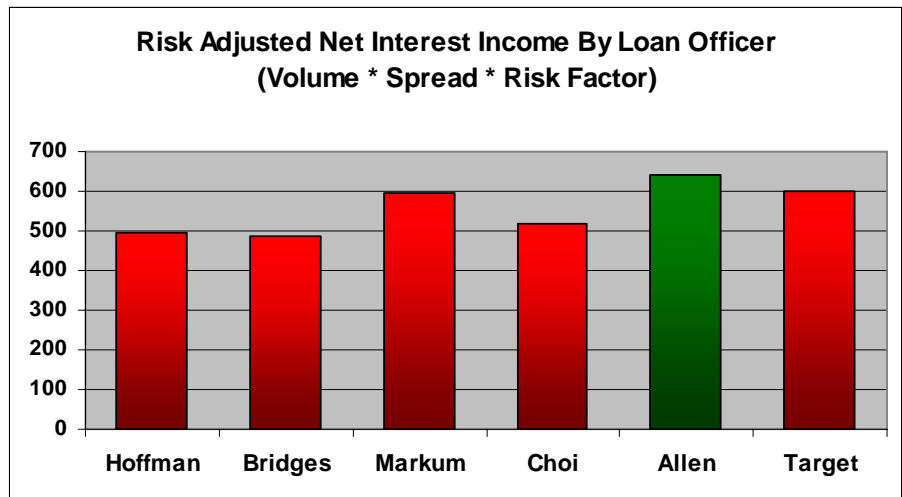
▶ Loan Origination

Profit Contribution (Spread)

▶ Interest Rate – FTP Rate

Risk Adjusted

▶ Credit Risk



Which Officer Should Be Rewarded?

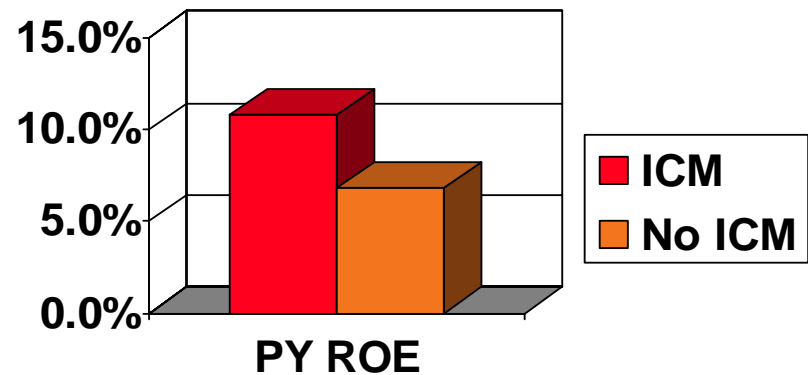
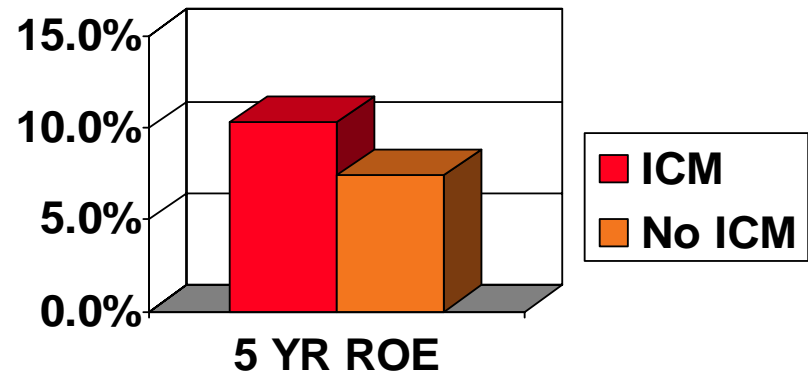
QUALITATIVE PLAN

| RECORD INFORMATION | | | | PAYMENT CALCULATIONS | | | | | | | | Total | | |
|--------------------|------------|---------|--------------------------------------|----------------------|-------------------|---------------|--------------------|-----------|----------|--------|------------------|--------------|--------------------|------------------|
| LoanID | Borrower | Product | Product Description | Loan Amount | Incentive Payment | Loan Type | Origination Payout | Loan Rate | COF Rate | Spread | Potential Payout | Credit Score | Qualitative Payout | Incentive Amount |
| 1043791 | Lacey | 30_018 | Jumbo 6 Year Variable | 315,250 | \$222.57 | Wholesale | \$5.90 | 4.55 | 2.64 | 1.91 | 180.56 | 1 | 216.67 | 222.57 |
| 1086872 | Hinton | 30_031 | Home Equity Line of Credit 15 Year | 34,000 | \$15.41 | Wholesale | \$5.90 | 6.77 | 4.44 | 2.33 | 23.78 | 5 | 9.51 | 15.41 |
| 1116470 | Connell | 30_031 | Home Equity Line of Credit 15 Year | 65,000 | \$29.30 | Wholesale | \$5.90 | 5.45 | 4.45 | 1.00 | 19.50 | 1 | 23.40 | 29.30 |
| 1168291 | Dunn | 30_018 | Jumbo 6 Year Variable | 500,000 | \$324.50 | Wholesale | \$5.90 | 5.53 | 3.41 | 2.12 | 318.60 | 2 | 318.60 | 324.50 |
| 1194847 | Flynn | 30_031 | Home Equity Line of Credit 15 Year | 125,000 | \$43.40 | Wholesale | \$5.90 | 6.26 | 5.26 | 1.00 | 37.50 | 2 | 37.50 | 43.40 |
| 12201 | David | 30_008 | 3 Year ARM | 565,800 | \$369.96 | Wholesale | \$5.90 | 5.61 | 3.82 | 1.79 | 303.39 | 1 | 364.06 | 369.96 |
| 1247751 | Huber | 30_018 | Jumbo 6 Year Variable | 496,000 | \$240.29 | Wholesale | \$5.90 | 6.61 | 3.98 | 2.63 | 390.66 | 4 | 234.39 | 240.29 |
| 129510 | Boggs | 30_031 | Home Equity Line of Credit 15 Year | 126,000 | \$75.41 | Wholesale | \$5.90 | 5.14 | 3.61 | 1.53 | 57.92 | 1 | 69.51 | 75.41 |
| 1298513 | Potter | 30_033 | Small Business 1 Year ARM | 565,000 | \$209.30 | Commercial RE | \$5.90 | 4.62 | 3.62 | 1.00 | 169.50 | 1 | 203.40 | 209.30 |
| 1367236 | Gutierrez | 30_031 | Home Equity Line of Credit 15 Year | 58,600 | \$23.48 | Wholesale | \$5.90 | 5.32 | 4.32 | 1.00 | 17.58 | 2 | 17.58 | 23.48 |
| 1395610 | O'Neill | 30_006 | 3 Year ARM | 468,000 | \$146.30 | Wholesale | \$5.90 | 6.40 | 5.40 | 1.00 | 140.40 | 2 | 140.40 | 146.30 |
| 1485139 | Browning | 30_032 | Home Equity Line of Credit 30 Year | 175,000 | \$88.45 | Wholesale | \$5.90 | 5.02 | 3.06 | 1.97 | 103.19 | 3 | 82.55 | 88.45 |
| 1541835 | Watkins | 30_012 | 1 Year Treasury ARM with ceiling | 804,000 | \$463.02 | Wholesale | \$5.90 | 5.83 | 3.93 | 1.90 | 457.12 | 2 | 457.12 | 463.02 |
| 1570063 | Hastings | 30_019 | Jumbo 3 Year ARM | 376,000 | \$155.28 | Wholesale | \$5.90 | 5.85 | 4.53 | 1.32 | 149.38 | 2 | 149.38 | 155.28 |
| 1679966 | Stephenson | 30_004 | 5 Year Variable | 153,000 | \$104.20 | Wholesale | \$5.90 | 5.05 | 3.27 | 1.78 | 81.91 | 1 | 98.30 | 104.20 |
| 171519 | Carroll | 30_019 | Jumbo 3 Year ARM | 376,000 | \$257.41 | Wholesale | \$5.90 | 4.82 | 2.97 | 1.86 | 209.59 | 1 | 251.51 | 257.41 |
| 1765241 | Doss | 30_018 | Jumbo 6 Year Variable | 556,000 | \$170.32 | Wholesale | \$5.90 | 6.99 | 5.76 | 1.23 | 205.52 | 3 | 164.42 | 170.32 |
| 1784792 | Pace | 30_017 | Jumbo 30 Year Fixed | 524,000 | \$163.10 | Wholesale | \$5.90 | 5.56 | 4.56 | 1.00 | 157.20 | 2 | 157.20 | 163.10 |
| 1869406 | Abbott | 30_031 | Home Equity Line of Credit 15 Year | 72,900 | \$32.14 | Wholesale | \$5.90 | 4.95 | 3.95 | 1.00 | 21.87 | 1 | 26.24 | 32.14 |
| 1929896 | Simon | 30_031 | Home Equity Line of Credit 15 Year | 151,300 | \$60.37 | Wholesale | \$5.90 | 5.42 | 4.42 | 1.00 | 45.39 | 1 | 54.47 | 60.37 |
| 1971905 | Moreno | 30_008 | 3 Year ARM | 355,700 | \$112.61 | Wholesale | \$5.90 | 5.43 | 4.43 | 1.00 | 106.71 | 2 | 106.71 | 112.61 |
| 2022598 | Wyatt | 30_019 | Jumbo 3 Year ARM | 586,400 | \$218.05 | Wholesale | \$5.90 | 5.49 | 4.48 | 1.00 | 176.80 | 1 | 212.15 | 218.05 |
| 2044075 | Underwood | 30_031 | Home Equity Line of Credit 15 Year | 100,000 | \$47.90 | Wholesale | \$5.90 | 5.73 | 2.23 | 3.50 | 105.00 | 5 | 42.00 | 47.90 |
| 2073830 | Mcnally | 30_011 | 1 Month Treasury ARM | 640,000 | \$261.08 | Wholesale | \$5.90 | 7.24 | 5.58 | 1.66 | 318.97 | 3 | 255.18 | 261.08 |
| 2146992 | Doran | 30_018 | Jumbo 6 Year Variable | 520,000 | \$193.10 | Wholesale | \$5.90 | 5.63 | 4.63 | 1.00 | 156.00 | 1 | 187.20 | 193.10 |
| 2201923 | Bender | 30_031 | Home Equity Line of Credit 15 Year | 80,000 | \$64.28 | Wholesale | \$5.90 | 4.92 | 2.49 | 2.43 | 58.38 | 2 | 58.38 | 64.28 |
| 2234845 | Dubois | 30_041 | Construction Loans 2 Year ARM | 360,000 | \$261.38 | AgriBusiness | \$5.90 | 4.88 | 2.91 | 1.97 | 212.90 | 1 | 255.48 | 261.38 |
| 2296082 | Lane | 30_043 | Jumbo Construction Loans 5 Year ARM | 435,000 | \$295.52 | Unsecured LOC | \$5.90 | 4.64 | 2.79 | 1.85 | 241.35 | 1 | 289.62 | 295.52 |
| 2330268 | Barnes | 30_013 | 1 Year Treasury ARM | 280,000 | \$205.96 | Wholesale | \$5.90 | 6.38 | 4.00 | 2.38 | 200.06 | 2 | 200.06 | 205.96 |
| 2385398 | Thornton | 30_041 | Construction Loans 2 Year ARM | 448,000 | \$145.49 | AgriBusiness | \$5.90 | 5.46 | 4.16 | 1.30 | 174.49 | 3 | 139.59 | 145.49 |
| 2423347 | Washington | 30_031 | Home Equity Line of Credit 15 Year | 31,500 | \$19.86 | Wholesale | \$5.90 | 5.58 | 3.12 | 2.46 | 23.27 | 4 | 13.96 | 19.86 |
| 2478010 | Connell | 30_024 | Jumbo 1 Year LIBOR ARM | 432,000 | \$295.38 | Wholesale | \$5.90 | 4.57 | 2.34 | 2.23 | 289.48 | 2 | 289.48 | 295.38 |
| 2542406 | Bergman | 30_020 | Jumbo 30 Year Fixed | 508,000 | \$158.30 | Wholesale | \$5.90 | 5.31 | 4.31 | 1.00 | 152.40 | 2 | 152.40 | 158.30 |
| 2610792 | Montes | 30_044 | Jumbo Construction Loans 10 Year ARM | 220,000 | \$85.10 | Unsecured LOC | \$5.90 | 5.14 | 4.14 | 1.00 | 66.00 | 1 | 79.20 | 85.10 |
| 2674681 | Hooker | 30_031 | Home Equity Line of Credit 15 Year | 260,000 | \$95.31 | Wholesale | \$5.90 | 7.40 | 6.12 | 1.27 | 99.26 | 3 | 79.41 | 95.31 |
| 271905 | Grove | 30_013 | 1 Year Treasury ARM | 536,000 | \$140.34 | Wholesale | \$5.90 | 5.15 | 3.06 | 2.09 | 336.10 | 5 | 134.44 | 140.34 |
| 2789790 | Berry | 30_018 | Jumbo 6 Year Variable | 385,600 | \$247.24 | Wholesale | \$5.90 | 6.60 | 3.12 | 3.48 | 402.24 | 4 | 241.34 | 247.24 |
| 2873093 | Shafer | 30_013 | 1 Year Treasury ARM | 485,000 | \$144.87 | Wholesale | \$5.90 | 5.85 | 4.65 | 1.19 | 173.71 | 3 | 138.97 | 144.87 |
| 3144532 | Dunlap | 30_010 | 1 Year Treasury ARM | 448,800 | \$178.73 | Wholesale | \$5.90 | 5.96 | 4.36 | 1.60 | 216.04 | 3 | 172.83 | 178.73 |
| 3151948 | Temple | 30_016 | Jumbo 6 month Variable | 595,000 | \$285.01 | Wholesale | \$5.90 | 4.89 | 3.58 | 1.30 | 232.59 | 1 | 279.11 | 285.01 |
| 3159751 | Dominguez | 30_013 | 1 Year Treasury ARM | 448,000 | \$271.62 | Wholesale | \$5.90 | 7.24 | 3.94 | 3.30 | 442.87 | 4 | 265.72 | 271.62 |
| 3176074 | Bledsoe | 30_031 | Home Equity Line of Credit 15 Year | 81,700 | \$55.63 | Wholesale | \$5.90 | 4.81 | 2.78 | 2.03 | 49.73 | 2 | 49.73 | 55.63 |

DOES ICM HAVE A PAYBACK?

Crowe Chizek studied 598 financial institutions late last year and found that the five-year average ROE as well as the most recent year's ROE was measurably higher for banks doing ICM.

▶ ***American Banker 4/26/2006***



AGENDA

1. Incentive Compensation Overview
2. ICM for Financial Institutions
3. A Bank Story
4. Key Benefits
5. Summary

BANK STORY

Bank Summary

- ▶ Fortune 500 company and part of S&P 500
- ▶ One of the 20 largest banks in the country
- ▶ Top 10 mortgage originators
- ▶ 360 retail bank branches with roughly \$40 Billion in deposits
- ▶ Highly efficient and profitable bank

ICM CASE STUDY

Challenge

- ▶ Manually administered and complex incentive plans
- ▶ Potential for calculation errors that could cost the company
- ▶ Limited visibility of sales and service staff into their production and corresponding incentives

Approach

- ▶ Implement a system to realize strategic and tactical objectives:
 - ▶ **Strategic**
 - ▶ Link business strategy and employee actions
 - ▶ Ability to quickly adapt to changing business conditions
 - ▶ **Tactical**
 - ▶ Improve data integrity and calculation accuracy
 - ▶ Consolidate and streamline incentive management

ICM CASE STUDY

Results

▶ **Strategic**

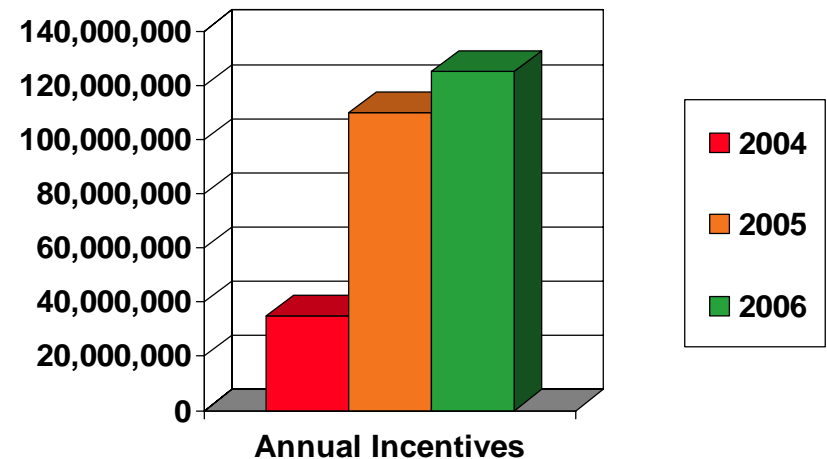
- ▶ Analysis and recognition of top performers / key talent
- ▶ Modeling and Pro-Forma capabilities
- ▶ Data converted to Information

▶ **Tactical**

- ▶ Automated incentive management process
- ▶ Reduced incentive-related staff time
- ▶ Greatly improved accuracy, reporting, and analytics

A TRUE PAY FOR PERFORMANCE CULTURE

- ▶ Incentive payments roughly 30% of total compensation and benefits
- ▶ Significant growth in non-discretionary incentives (\$45 million to over \$125 million!)



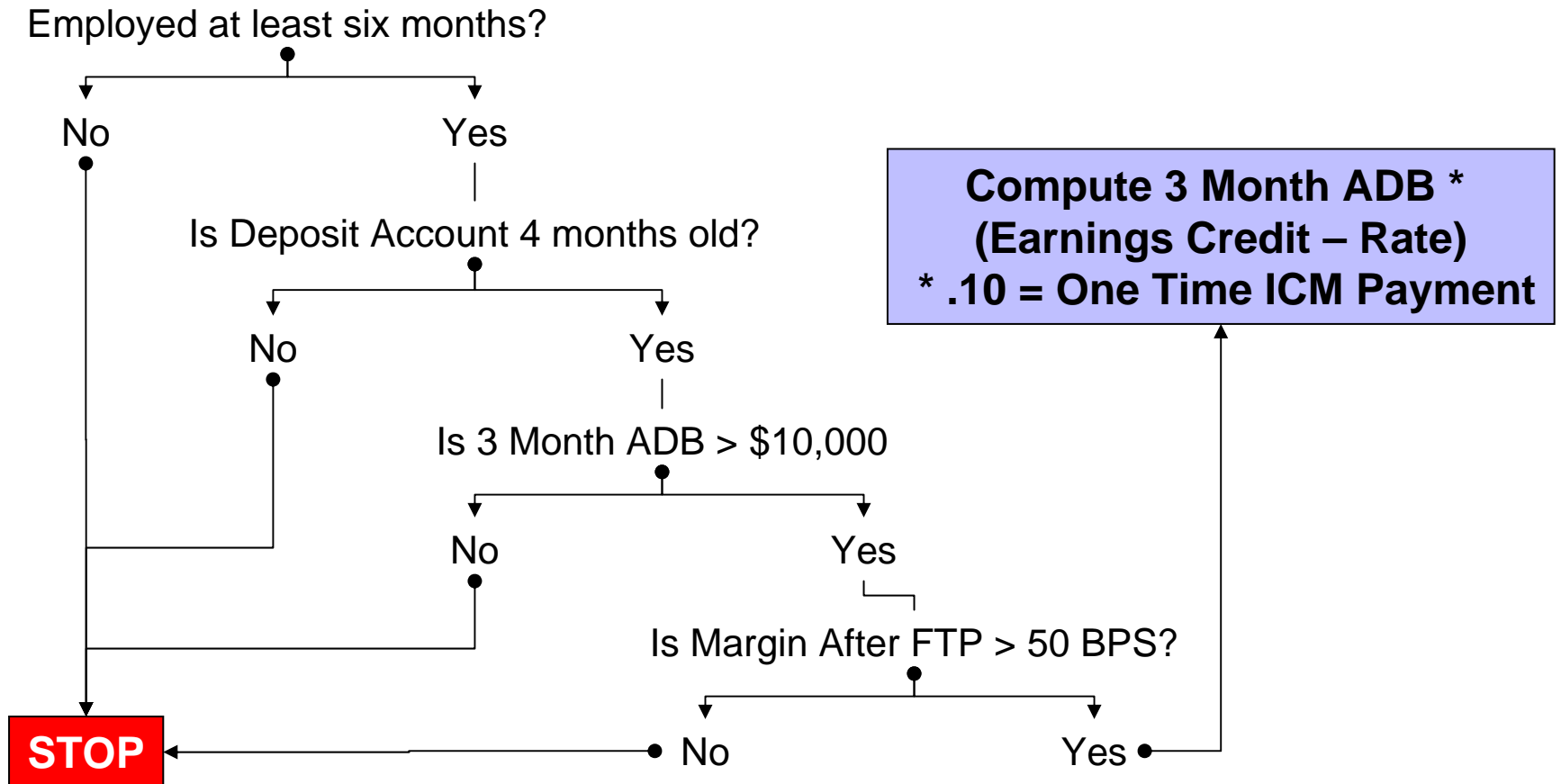
SIMPLE TRANSACTION PLAN

| RECORD INFORMATION | | | | CustNum | | Incentive Payment | DATA FIELDS | | PAYMENT CALCULATIONS | | | |
|--------------------|-------------------|--------|------------------------------------|----------|-----------------|-------------------|-------------|------------|----------------------|------------------|------------------|---------------|
| EmpID | EmpID Description | PROD | Product Name | | CustName | | Branch | Trans Date | Product Amount | Payment Override | Previous Payment | Final Payment |
| 8216 | Ernie Leslie | 10_011 | Business NOW Accounts | 19366788 | Abraham Addison | \$2.00 | 1 | 20050618 | \$2.00 | | \$0.00 | \$2.00 |
| 8216 | Ernie Leslie | 10_041 | Passbook Savings | 19384964 | Shirley Woodson | \$3.00 | 1 | 20050606 | \$3.00 | | \$0.00 | \$3.00 |
| 8216 | Ernie Leslie | 10_046 | Incredible Checking | 20246378 | Fabian Barton | \$3.00 | 1 | 20050606 | \$3.00 | | \$0.00 | \$3.00 |
| 8216 | Ernie Leslie | 20_030 | Passbook Cd's < \$100m = 13 Months | 2961802 | Sadie Dooley | \$2.00 | 1 | 20050601 | \$2.00 | | \$0.00 | \$2.00 |
| 8216 | Ernie Leslie | 20_030 | Passbook Cd's < \$100m = 13 Months | 2975692 | Amanda Norris | \$2.00 | 1 | 20050605 | \$2.00 | | \$0.00 | \$2.00 |
| 8216 | Ernie Leslie | 20_030 | Passbook Cd's < \$100m = 13 Months | 3011284 | Pasquale Costa | \$2.00 | 1 | 20050606 | \$2.00 | | \$0.00 | \$2.00 |
| 8216 | Ernie Leslie | 20_030 | Passbook Cd's < \$100m = 13 Months | 3019857 | Felipe Levine | \$2.00 | 1 | 20050606 | \$2.00 | | \$0.00 | \$2.00 |

- ▶ Volume Processing
- ▶ Incentive per transaction logic

REAL LIFE COMPLEXITY OF MANY INCENTIVE PLAN

There are often a series of thresholds or tests:



“THRESHOLD TESTING” PLAN

| EMPLOYEE | | PRODUCT | | FOUR MONTH DATE TEST | | | AVG BALANCE TEST | | PAYMENT CALCULATIONS | | | | | | |
|----------|------------------|---------|--------------------------------|----------------------|-----------------------|---------|------------------|-------------|----------------------|---------------|-----------------|-----------|----------------|----------|-----------|
| EmpID | Name | PROD | Product Name | Threshold Date | Months from Threshold | Pay Tag | Average Balance | Average Tag | Interest Sum | Customer Rate | Earnings Credit | Diff Rate | Payment Factor | Payout % | Final Tag |
| 9000078 | Harvey Mcghee | 10_030 | Professional Business Checking | 0 | - | FAIL | 9,460 | FAIL | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_001 | Regular Checking Account | 20040831 | 12 | FAIL | 368,524 | PASS | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_001 | Regular Checking Account | 0 | - | FAIL | 365 | FAIL | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808313 | Rod Blevins | 10_001 | Regular Checking Account | 20040831 | 12 | FAIL | 125,806 | PASS | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808313 | Rod Blevins | 10_001 | Regular Checking Account | 20040831 | 12 | FAIL | 42,689 | PASS | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_030 | Professional Business Checking | 20040831 | 12 | FAIL | 110,699 | PASS | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_030 | Professional Business Checking | 20040930 | 7 | FAIL | 9,295 | FAIL | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_030 | Professional Business Checking | 0 | - | FAIL | 23 | FAIL | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_030 | Professional Business Checking | 20041031 | 2 | FAIL | 31 | FAIL | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |
| 808384 | Christopher Nash | 10_030 | Professional Business Checking | 0 | - | FAIL | 3,444 | FAIL | 0.00 | 0.0000% | 1.5200% | 1.5200% | 20.00% | 0.3040% | Fail |

- ▶ Logic testing to qualify products for incentive
- ▶ Multiple levels of threshold analysis
- ▶ Demonstrates employee centric view of current production state

BRANCH MANAGER PLAN

| RECORD INFORMATION | | | | | | | | | | | | | | | |
|--------------------|----------------|--------|-----------------------------|------------|----------|-----------|-----------|--------|---------------|---------------|------------|--------------|-----------------|------------------|----------|
| EmpID | Branch Manager | Branch | Branch | Hire Date | Employee | Actual | Budget | Target | % to Increase | P&L Incentive | Volume | Credit Score | Pay Target / MM | Volume Incentive | |
| 822129 | Roland Brandt | 1 | New York Branch Office | 7/23/2002 | TRUE | 8,318,833 | 5,789,427 | 10,230 | 144% | 14,699.50 | 21,942,550 | 2.33 | 90% | \$120 | 2,363.04 |
| 830132 | Marty Lackey | 2 | Los Angeles Branch Office | 10/6/1997 | TRUE | 7,698,583 | 4,182,637 | 5,200 | 184% | 9,571.15 | 14,341,500 | 2.49 | 96% | \$120 | 1,648.30 |
| 823791 | Cliff Ortiz | 3 | Chicago Branch Office | 4/1/2002 | TRUE | 4,607,286 | 3,982,519 | 8,580 | 116% | 9,926.01 | 46,728,850 | 2.63 | 101% | \$120 | 5,682.37 |
| 824543 | Darnell Graham | 5 | Philadelphia Branch Office | 11/15/1999 | TRUE | 2,504,383 | 2,041,251 | 5,041 | 123% | 6,185.10 | 26,984,250 | 2.44 | 94% | \$185 | 4,678.70 |
| 823587 | Mae Medeiros | 8 | San Diego Branch Office | 11/4/2002 | TRUE | 5,299,479 | 2,151,262 | 7,425 | 246% | 18,290.95 | 36,797,650 | 2.60 | 100% | \$135 | 4,965.25 |
| 823313 | Elisa Richey | 11 | San Antonio Branch Office | 9/21/1998 | TRUE | 2,082,113 | 1,713,313 | 6,396 | 122% | 7,773.14 | 15,750,800 | 2.71 | 104% | \$215 | 3,535.28 |
| 823189 | Alfredo Hanna | 12 | Dallas Branch Office | 4/22/2005 | FALSE | 2,462,587 | 1,633,267 | 9,650 | 151% | 0.00 | 24,814,450 | 2.65 | 102% | \$200 | 0.00 |
| 823748 | Shanna Duncan | 13 | San Jose Branch Office | 5/17/2005 | FALSE | 2,720,635 | 1,297,048 | 9,750 | 210% | 0.00 | 20,700,150 | 2.63 | 101% | \$150 | 0.00 |
| 823296 | Stacy Crane | 15 | Detroit Branch Office | 12/2/1996 | TRUE | 2,467,442 | 2,230,773 | 7,500 | 111% | 8,295.70 | 20,068,150 | 2.65 | 102% | \$150 | 3,066.79 |
| 824132 | Lea McNeill | 19 | Indianapolis Branch Office | 6/18/2002 | TRUE | 3,039,038 | 1,863,259 | 7,226 | 163% | 11,786.34 | 17,519,600 | 2.91 | 112% | \$235 | 4,613.35 |
| 822858 | Roxie Flowers | 25 | Jacksonville Branch Office | 4/18/1996 | TRUE | 908,851 | 1,599,747 | 5,273 | 57% | 2,995.42 | 10,979,550 | 2.44 | 94% | \$190 | 1,960.18 |
| 822203 | Mauro Grimes | 26 | San Francisco Branch Office | 12/8/2003 | TRUE | 7,308,067 | 2,344,053 | 6,500 | 312% | 20,265.09 | 32,214,850 | 2.63 | 101% | \$200 | 6,507.15 |
| 822091 | Jimmie Carson | 27 | Columbus Branch Office | 6/14/1993 | TRUE | 612,237 | 873,819 | 4,950 | 70% | 3,468.19 | 9,655,100 | 2.38 | 91% | \$180 | 1,590.05 |
| 822003 | Noreen McQueen | 28 | Austin Branch Office | 10/2/2000 | TRUE | 1,565,669 | 1,819,668 | 6,950 | 86% | 5,979.88 | 6,590,400 | 2.53 | 97% | \$200 | 1,282.30 |

- ▶ Summary performance as indicator of incentive qualification
- ▶ Performance goals established at multiple tiers
 - ▶ Financial Performance – Net Contribution
 - ▶ Loan Origination v. blended credit scoring
- ▶ Demonstrates reporting and analytics on rolled-up detail

EMPLOYEE SUMMARY REPORT



Portlandia Bank

EMPLOYEE SUMMARY REPORT

EmpID: 822061

Prepared for: Pablo Winter

For the period: June

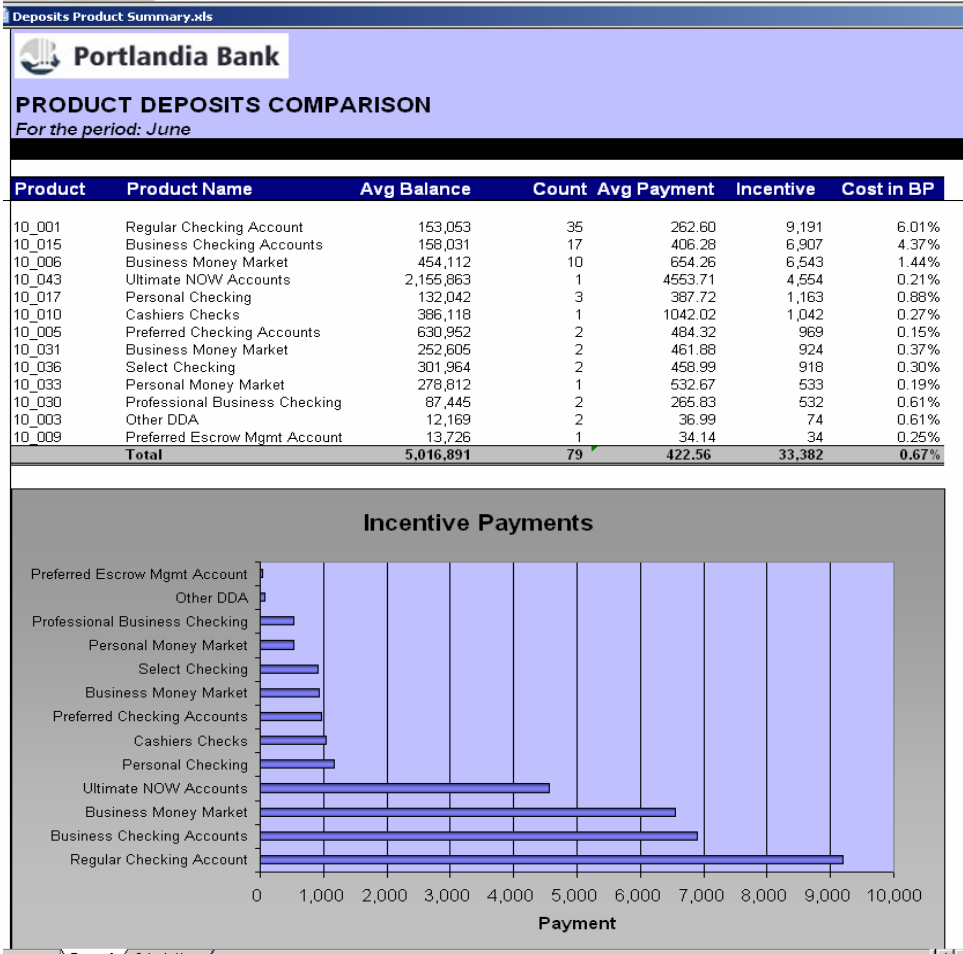
| Summary | Plan | Actual |
|-----------------------------|-------------------|-------------------|
| Outstandings | 9,952,031 | 10,531,250 |
| Average Spread | 1.750 | 1.992 |
| Average Credit Score | 2.750 | 2.713 |
| Payout | \$5,000.00 | \$5,551.19 |

| Customer # | Customer Name | Product | Product Name | Loan Amt | Customer Rate | COF Rate | Spread | Cr. Score | Payment |
|------------|---------------|---------|-------------------------------------|-----------|---------------|----------|--------|-----------|---------|
| 202372603 | Kessler | 30_034 | Small Business 3 Year ARM | 340,000 | 6.8090 | 3.8137 | 2.9953 | 4 | 187.12 |
| 202398632 | Grimes | 30_031 | Home Equity Line of Credit 15 Year | 100,000 | 5.6155 | 3.8267 | 1.7888 | 2 | 57.46 |
| 202423562 | Webb | 30_031 | Home Equity Line of Credit 15 Year | 15,900 | 6.8093 | 3.5434 | 3.2659 | 5 | 10.03 |
| 202449914 | Waddell | 30_018 | Jumbo 6 Year Variable | 641,400 | 6.3683 | 3.9183 | 2.4500 | 2 | 475.24 |
| 86409752 | Darby | 30_031 | Home Equity Line of Credit 15 Year | 23,100 | 4.9181 | 3.7828 | 1.1353 | 1 | 13.24 |
| 86442969 | Mcneal | 30_013 | 1 Year Treasury ARM | 102,400 | 5.5301 | 3.7052 | 1.8249 | 1 | 71.07 |
| 86509098 | Elkins | 30_031 | Home Equity Line of Credit 15 Year | 14,500 | 7.3386 | 4.9107 | 2.4280 | 4 | 10.14 |
| 86663002 | Hurd | 30_015 | Jumbo 30 Year Fixed | 117,900 | 7.4471 | 5.2819 | 2.1651 | 5 | 34.43 |
| 86739398 | Manley | 30_015 | Jumbo 30 Year Fixed | 190,800 | 6.7040 | 4.9519 | 1.7521 | 3 | 84.03 |
| 86774023 | Mccain | 30_018 | Jumbo 6 Year Variable | 200,000 | 5.3403 | 1.9387 | 3.4016 | 5 | 85.44 |
| 86792892 | Ogden | 30_019 | Jumbo 3 Year ARM | 104,000 | 5.8726 | 4.2578 | 1.6148 | 2 | 54.18 |
| 86823341 | Platt | 30_008 | 3 Year ARM | 117,600 | 5.2876 | 3.5438 | 1.7437 | 1 | 77.62 |
| 86824422 | Shepherd | 30_031 | Home Equity Line of Credit 15 Year | 53,200 | 6.7641 | 4.9702 | 1.7939 | 3 | 26.70 |
| 86853652 | Ferrell | 30_031 | Home Equity Line of Credit 15 Year | 130,600 | 4.5629 | 3.2510 | 1.3119 | 3 | 44.92 |
| 86864428 | Lyles | 30_043 | Jumbo Construction Loans 5 Year ARM | 1,000,000 | 6.3333 | 4.3359 | 1.9974 | 3 | 483.18 |
| 86887643 | Pritchett | 30_007 | 3 Year ARM | 108,000 | 6.9800 | 5.1791 | 1.8008 | 2 | 62.15 |
| 86904745 | Doss | 30_001 | 15 Year Fixed | 103,900 | 4.9736 | 3.9633 | 1.0103 | 2 | 35.29 |
| 86918869 | Gardner | 30_031 | Home Equity Line of Credit 15 Year | 10,100 | 6.2595 | 2.8321 | 3.4275 | 4 | 10.03 |
| 86926318 | Carlton | 30_008 | 3 Year ARM | 112,000 | 4.7081 | 3.2053 | 1.5027 | 1 | 64.39 |
| 86931235 | Bravo | 30_021 | Jumbo 30 Year Fixed | 122,300 | 6.8361 | 4.1858 | 2.6503 | 4 | 62.14 |
| 86945664 | Bonds | 30_031 | Home Equity Line of Credit 15 Year | 15,700 | 6.2258 | 4.5882 | 1.6377 | 2 | 11.51 |
| 86949112 | Tanner | 30_013 | 1 Year Treasury ARM | 121,600 | 6.1532 | 3.8334 | 2.3199 | 2 | 88.43 |
| 86950763 | Fischer | 30_013 | 1 Year Treasury ARM | 122,400 | 6.8346 | 4.0159 | 2.8186 | 4 | 65.90 |

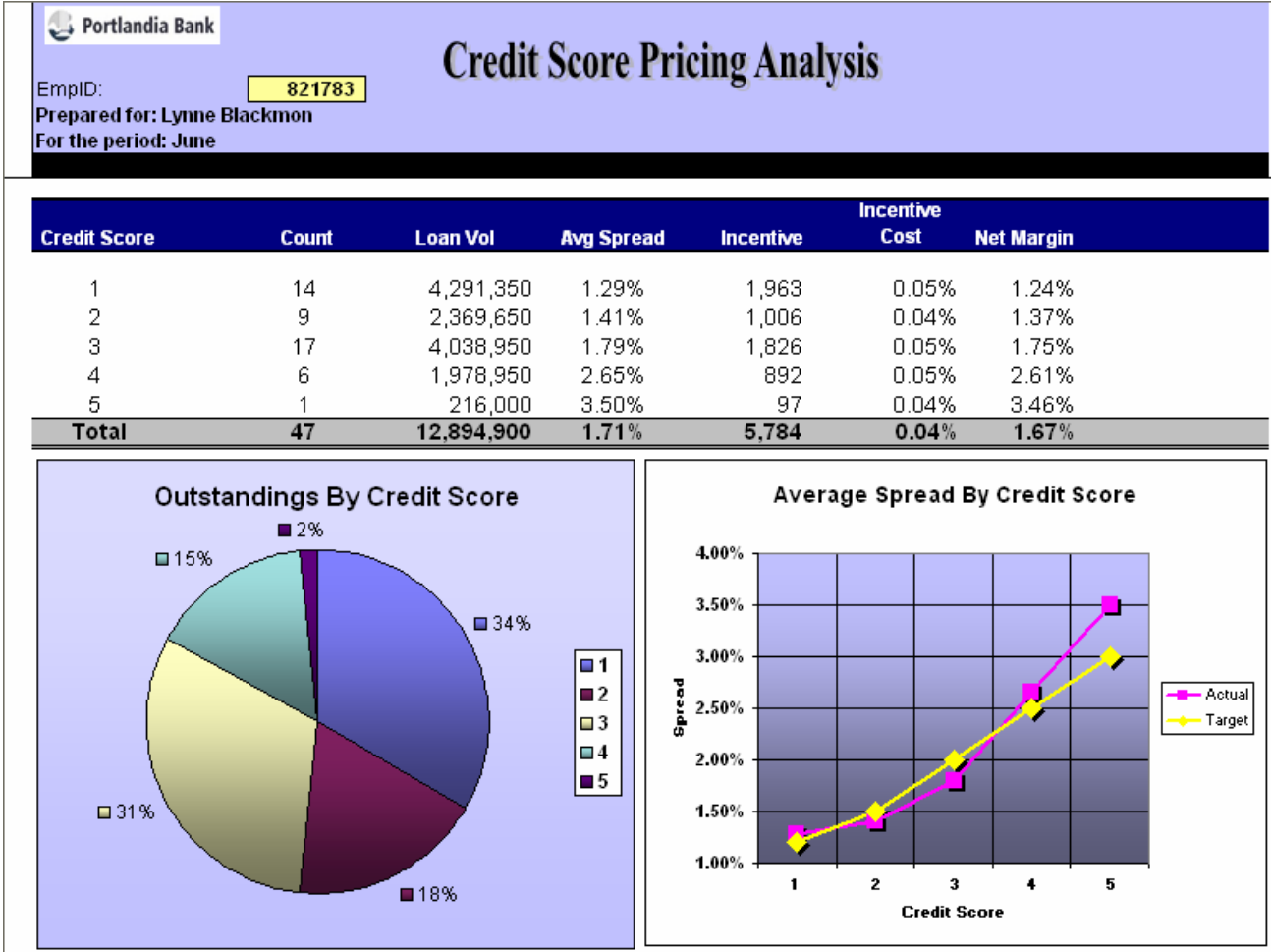
TREND REPORTING FOR PLAN MANAGEMENT



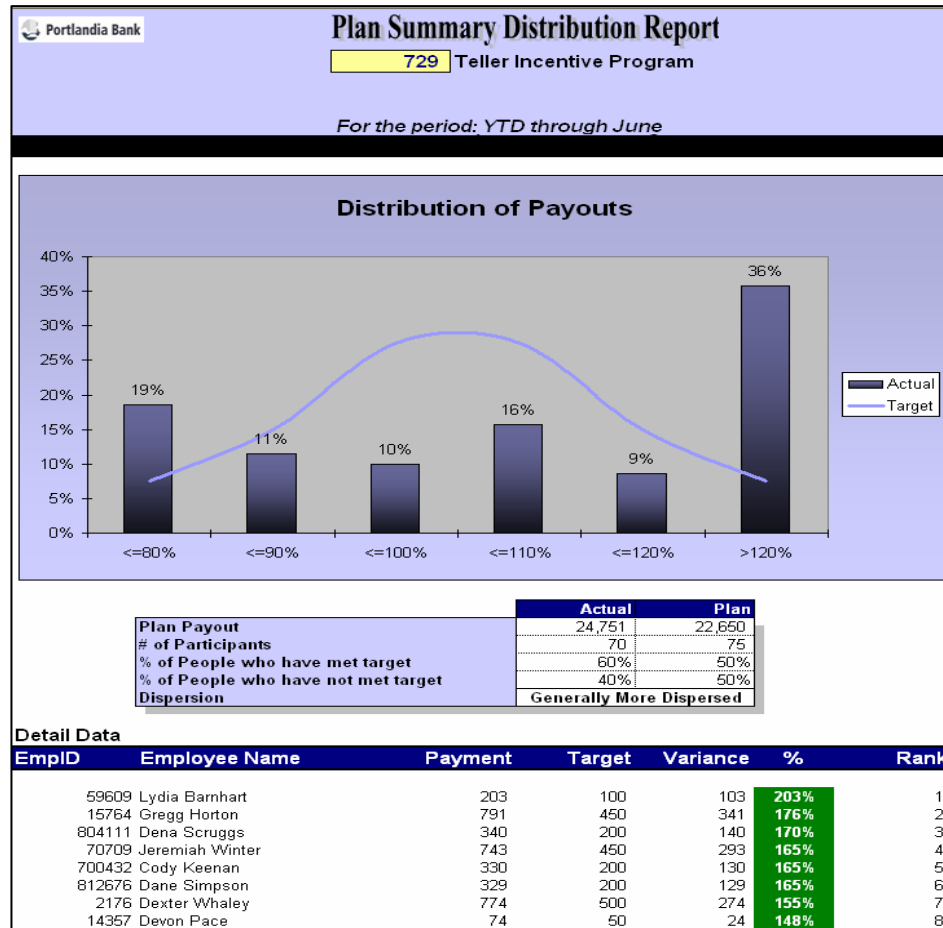
PRODUCT DEPOSIT COMPARISON



DIFFERENTIATING COMPENSATION BY CREDIT QUALITY



IS YOUR PLAN WORKING?



SUCCESS FACTORS

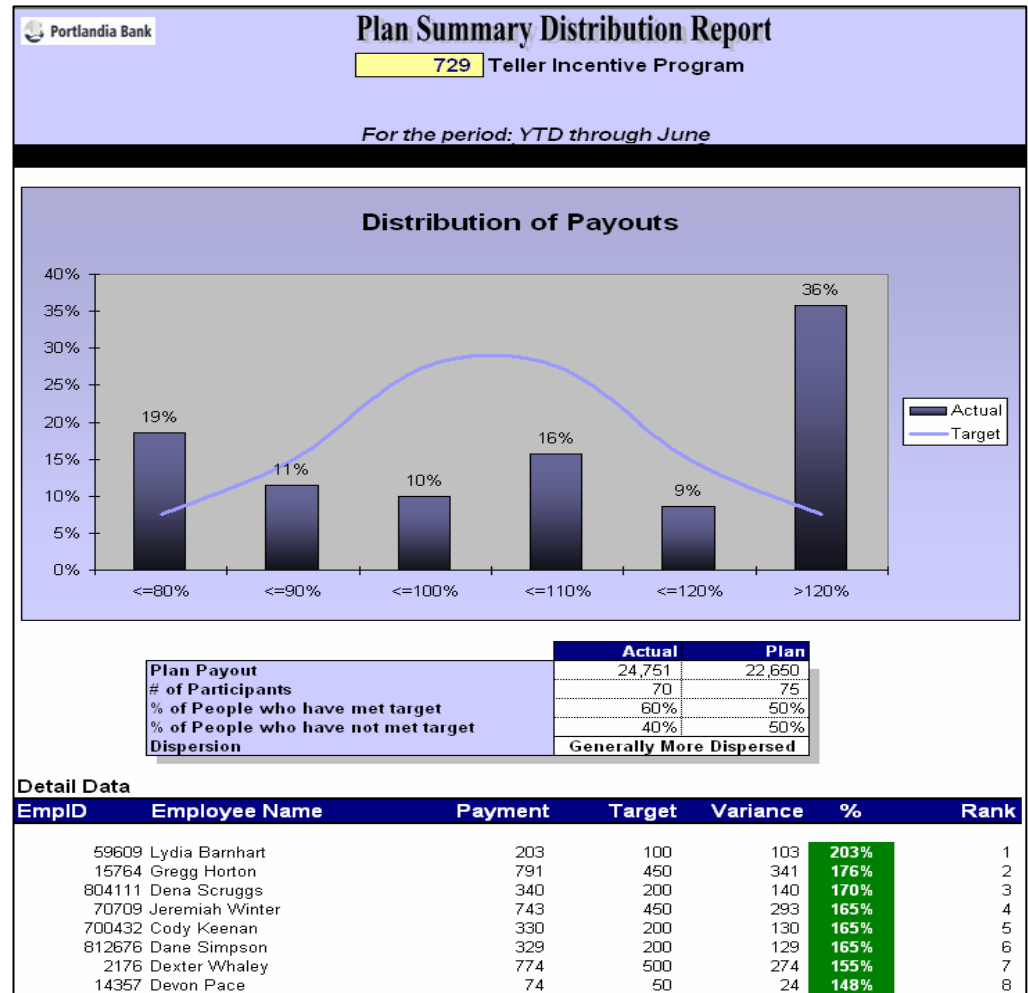
- ▶ Cultural
 - ▶ Change management concerns mitigated
 - ▶ Core philosophies on incentives unchanged
- ▶ Economic
 - ▶ Assimilate and administer more plans without adding resources
 - ▶ Effective cost of entry and manageable implementation
- ▶ Strategic
 - ▶ Operational Scalability
 - ▶ Modeling Flexibility
 - ▶ Decision Making Tool

AGENDA

1. Incentive Compensation Overview
2. ICM for Financial Institutions
3. A Bank Story
4. Key Benefits
5. Summary

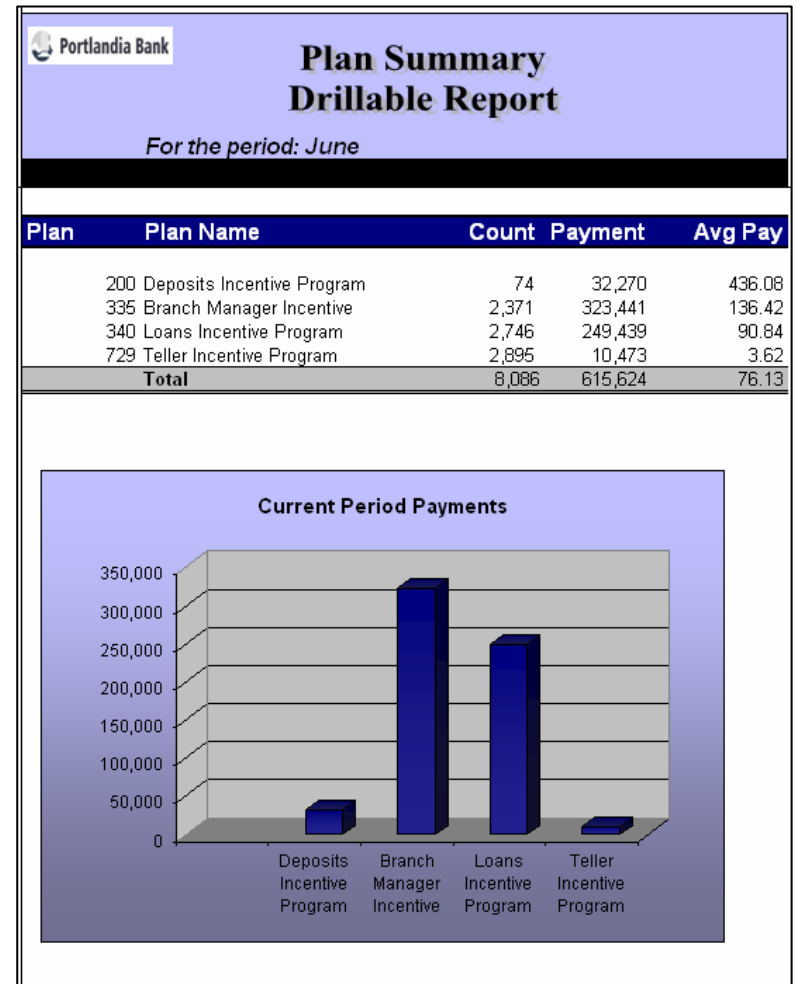
ICM BENEFITS

- ▶ Automation
- ▶ Integrity
- ▶ Strategy



ICM BENEFITS

- ▶ Automation
 - ▶ Automate imports from source systems
 - ▶ Process plans with server side engine
 - ▶ Distribute reports or provide them real time
 - ▶ Interface with payroll
 - ▶ Increase productivity of ICM staff



ICM BENEFITS

- ▶ Integrity
 - ▶ Eliminate errors
 - ▶ Eliminate the need for “shadow accounting” (Trust)
 - ▶ Contain Audit Reports
 - ▶ Not a “Black Box”

| Portlandia Bank | | | | | | | | | |
|------------------------------------------------------|---------------|----------------------|------------------------------------|-------------------|---------------|---------------|---------------|---------------|-----------------|
| Employee Payout Loan Summary Report by Account | | | | | | | | | |
| EmpID: 822061 | | | | | | | | | |
| Prepared for: Pablo Winter | | | | | | | | | |
| For the period: June | | | | | | | | | |
| | | Summary | | Plan | Actual | | | | |
| | | Outstandings | | 9,952,031 | 10,531,250 | | | | |
| | | Average Spread | | 1.750 | 1.992 | | | | |
| | | Average Credit Score | | 2.750 | 2.713 | | | | |
| | | Payout | | \$4,991.67 | \$5,551.19 | | | | |
| Customer # | Customer Name | Product | Product Name | Loan Amt | Customer Rate | COF Rate | Spread | Cr. Score | Payment |
| 418099 | Pritchett | 30_007 | 3 Year ARM | 108,000 | 6.9800 | 5.1791 | 1.8008 | 2 | 62.15 |
| 465532 | Doss | 30_001 | 15 Year Fixed | 103,900 | 4.9736 | 3.9633 | 1.0103 | 2 | 35.29 |
| 515218 | Gardner | 30_031 | Home Equity Line of Credit 15 Year | 10,100 | 6.2595 | 2.8321 | 3.4275 | 4 | 10.03 |
| 535817 | Carlton | 30_008 | 3 Year ARM | 112,000 | 4.7081 | 3.2053 | 1.5027 | 1 | 64.39 |
| 53765 | Elkins | 30_031 | Home Equity Line of Credit 15 Year | 14,500 | 7.3386 | 4.9107 | 2.4280 | 4 | 10.14 |
| 556982 | Bravo | 30_021 | Jumbo 30 Year Fixed | 122,300 | 6.8361 | 4.1858 | 2.6503 | 4 | 62.14 |
| 611236 | Bonds | 30_031 | Home Equity Line of Credit 15 Year | 15,700 | 6.2258 | 4.5882 | 1.6377 | 2 | 11.51 |
| 628138 | Tanner | 30_013 | 1 Year Treasury ARM | 121,600 | 6.1532 | 3.8334 | 2.3199 | 2 | 88.43 |
| 634062 | Fischer | 30_013 | 1 Year Treasury ARM | 122,400 | 6.8346 | 4.0159 | 2.8186 | 4 | 65.90 |
| 683143 | Diaz | 30_022 | Jumbo 5 Year LIBOR ARM | 153,600 | 5.4974 | 3.0381 | 2.4593 | 2 | 117.13 |
| 727093 | Esposito | 30_018 | Jumbo 6 Year Variable | 180,800 | 5.3726 | 4.2040 | 1.1686 | 1 | 79.86 |
| 750485 | Woods | 30_008 | 3 Year ARM | 114,800 | 5.3149 | 4.3149 | 1.0000 | 1 | 45.13 |
| 797076 | Sutton | 30_031 | Home Equity Line of Credit 15 Year | 16,500 | 4.8277 | 3.6965 | 1.1292 | 2 | 9.39 |
| 871371 | Chatman | 30_008 | 3 Year ARM | 62,050 | 7.2050 | 3.9277 | 3.2773 | 4 | 40.40 |
| 890020 | Pearson | 30_031 | Home Equity Line of Credit 15 Year | 29,700 | 6.0332 | 4.1729 | 1.8603 | 3 | 17.06 |
| 904251 | Timmons | 30_005 | 5 Year Variable | 90,400 | 7.2145 | 4.1901 | 3.0244 | 5 | 36.61 |
| 965615 | Segura | 30_012 | 1 Year Treasury ARM with ceiling | 144,000 | 4.7377 | 3.7377 | 1.0000 | 1 | 55.64 |
| | | | | 10,531,250 | 5.9681 | 3.9761 | 1.9920 | 2.7128 | 5,551.19 |

ICM BENEFITS

► Strategy

- Design and create incentives which support corporate goals
- Allow creation and management of numerous multi-faceted reward programs
- Perform “What-if” scenarios that allow the altering of key plan variables

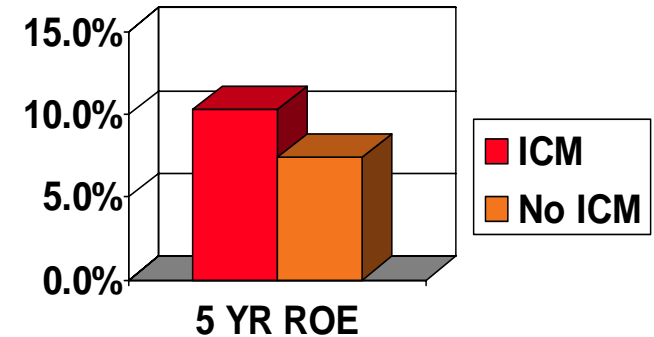
| ICM Line of Business Forecast Calculator | | | | | | | | | | | | | |
|------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| | January | February | March | April | May | June | July | August | September | October | November | December | Total |
| Credit Ranking Incentive | | | | | | | | | | | | | |
| 1 | | | | | | 120% | 120% | 120% | 120% | 120% | 120% | 120% | |
| 2 | | | | | | 100% | 100% | 100% | 100% | 100% | 100% | 100% | |
| 3 | | | | | | 80% | 80% | 80% | 80% | 80% | 80% | 80% | |
| 4 | | | | | | 60% | 60% | 60% | 60% | 60% | 60% | 60% | |
| 5 | | | | | | 40% | 40% | 40% | 40% | 40% | 40% | 40% | |
| Payment Factor | | | | | | | | | | | | | |
| | | | | | | 3% | 3% | 3% | 3% | 3% | 3% | 3% | |
| Construction Jumbo | | | | | | | | | | | | | |
| Count | 29 | 31 | 38 | 41 | 32 | 34 | 38 | 42 | 46 | 46 | 43 | 49 | 469 |
| Origination Payout | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.90 | 8.99 |
| Volume Originated | 15,742,600 | 15,900,026 | 16,059,026 | 16,219,617 | 16,381,813 | 16,545,631 | 15,780,000 | 16,360,704 | 16,962,778 | 17,587,008 | 18,234,210 | 18,905,229 | 200,678,641 |
| Coupon Rate | 5.98% | 6.03% | 6.20% | 6.10% | 6.30% | 5.99% | 6.20% | 6.16% | 6.20% | 6.32% | 6.37% | 6.40% | 6.07% |
| COF Rate | 4.18% | 4.14% | 4.10% | 4.05% | 4.01% | 3.98% | 4.35% | 4.36% | 4.46% | 4.46% | 4.50% | 4.50% | 4.26% |
| Spread | 1.81% | 1.89% | 2.10% | 2.05% | 2.29% | 2.01% | 1.85% | 1.80% | 1.74% | 1.86% | 1.87% | 1.90% | 1.80% |
| Payment | 6,800 | 6,923 | 7,003 | 7,100 | 6,800 | 6,588 | 7,208 | 7,305 | 7,362 | 8,110 | 8,410 | 8,892 | 88,502 |
| Credit Mix | | | | | | | | | | | | | |
| 1 | 20% | 22% | 50% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| 2 | 25% | 23% | 10% | 11% | 11% | 11% | 11% | 11% | 11% | 11% | 11% | 11% | 11% |
| 3 | 30% | 33% | 10% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% |
| 4 | 20% | 17% | 10% | 38% | 38% | 38% | 38% | 38% | 38% | 38% | 38% | 38% | 38% |
| 5 | 5% | 5% | 20% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| Total | | | | | | | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

AGENDA

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THE COST OF DOING NOTHING

- ▶ Are you leaving ROE behind?
- ▶ Risk of losing top performers
- ▶ Create a Pay for Performance Culture – “A Culture of Excellence”
- ▶ Manual administrative processes
- ▶ Increased risk of errors
- ▶ Timeliness



“There are risks and costs to a program of action. But they are far less than the long-range risks and cost of comfortable inaction.”

John F. Kennedy

KEY ICM MESSAGES

- ▶ ICM is part of EPM
- ▶ Align incentives with corporate goals – (your system should be a strategic tool)
- ▶ ICM is an ongoing process (re-evaluate plans as corporate goals change)
- ▶ Share Risk/Rewards with employees
- ▶ Create easy-to-understand plans where rewards are attainable and immediate

