

2007 Directors Conference

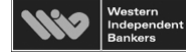
CONCURRENT SESSION

Keeping Pace with the Changing Landscape of Directors Compensation

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John Bley, Foster Pepper

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10:30-11:30 am



CLARK CONSULTING.

Keeping Pace with the Changing Landscape of Director Compensation

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Agenda



- The role and responsibilities of directors in today's ever-changing environment
- Trends and issues in director compensation
- Director total compensation details
- Emerging best practices



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Page 3

- There have been dramatic changes in the role of the directors as a result of legislation and litigation.
 - ◆ Sarbanes-Oxley Act
 - ◆ 409A
 - ◆ S-K legislation
 - ◆ Increased shareholder scrutiny
 - ◆ Corporate governance

- As everyone knows, first and foremost, the board has a fiduciary responsibility to the shareholders.
- It is important that the board and the committees maintain their independence. That being said, the directors must work closely with management and other internal resources.
- Legislative changes have produced new responsibilities such as the CD&A, etc. which have resulted in increased liability, responsibility and expanded roles for directors.

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Page 4

Roles and Responsibilities (continued)



- The responsibilities of each of the committees should be dictated by committee charters.
- The charters should clarify the following:
 - ◆ Is the compensation committee overseeing compensation for all proxy/senior executives or just for the CEO?
 - ▶ If the CEO sets the compensation for the other NEOs, it is critical that the committee be aware of these compensation recommendations and approve them.
 - ◆ Is the compensation committee establishing compensation for the Board of Directors as well as the executives or is this being handled by the Board of Directors or another committee (i.e. Executive Committee, etc.)?

Trends and Issues in Director Compensation



- Total compensation for directors increased 15% on average from 2006 to 2007. It is expected that this will continue to increase in the near future although there is no certainty about the rate of increase. Given today's market it is difficult to pay directors sufficiently for their time and liability.
- Equity grants continue to be a significant portion of director total compensation.
 - ◆ On average this may range from 25% to 40% or more of total director compensation.
 - ◆ For directors, the trend is for equity grants to be in the form of restricted stock rather than nonqualified stock options. This is thought to promote more independent decision making on the part of directors.
 - ◆ In some organizations, equity grants made to directors vest immediately as retention is not a major issue with directors and the equity is considered to be part of total compensation.

- Most directors receive a retainer for serving on the board, and are compensated additionally for serving on committees.
 - ◆ While the trend initially was to provide per meeting fees for both board and committee meetings, the emerging trend is for this compensation to be paid in the form of a retainer. While per meeting fees encourage attendance, it creates considerable administration and recordkeeping.
 - ◆ Board chairs and committee chairs are receiving increased compensation.
- Director compensation should not be performance-based.
- Benefits such as deferred compensation plans, life insurance and long-term care coverage are still very prevalent among directors.

2006 Board Compensation – Median Values

Asset Cut	Median Assets (2006)	n	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Total Equity	Non-Equity Incentive Plan Comp	Change in Pension Value	Other Compensation	Total Compensation
All Banks										
<\$250M	166,000	41	12,194	3,690	2,231	3,835	NA	1,414	2,000	13,533
\$250M-\$500M	359,997	85	14,829	6,072	5,468	8,765	4,828	2,855	1,430	20,666
\$500M-\$1B	678,314	105	21,402	7,990	5,496	6,752	3,966	3,395	1,797	27,883
\$1B-\$5B	2,021,091	132	28,476	14,000	7,231	13,563	22,083	3,388	2,880	36,596
\$5B-\$15B	7,808,400	54	47,833	25,660	14,087	30,781	2,903	4,144	5,324	75,547
>\$15B	29,495,316	17	52,500	46,354	57,700	69,366	NA	3,352	3,933	122,155
All Banks	907,900	434	23,228	15,210	7,531	12,075	4,280	3,330	2,799	30,193
Coast Banks										
<\$250M	159,241	26	7,912	16,621	2,972	7,223	NA	1,414	1,369	12,548
\$250M-\$500M	359,767	48	12,575	8,171	11,414	12,974	2,292	1,562	5,000	18,181
\$500M-\$1B	674,695	54	20,846	8,710	7,889	8,865	3,966	6,702	2,799	30,743
\$1B-\$5B	1,885,957	65	31,367	14,763	7,591	15,502	22,083	3,746	2,695	44,188
\$5B-\$15B	7,432,982	28	51,343	38,319	12,649	44,467	2,903	3,407	6,005	93,559
>\$15B	35,506,581	9	63,692	89,336	57,700	89,336	NA	3,352	3,933	165,764
All Banks	851,802	230	24,245	18,049	9,173	15,526	2,903	3,749	3,856	34,289
Non-Coast Banks										
<\$250M	204,865	15	13,467	1,622	2,231	2,221	NA	1,644	3,500	15,400
\$250M-\$500M	368,400	37	17,885	6,072	3,292	7,505	7,364	3,519	961	20,941
\$500M-\$1B	681,872	51	21,632	7,351	3,467	4,866	8,862	2,537	1,161	24,994
\$1B-\$5B	2,170,628	67	24,531	11,598	6,599	9,845	20,634	2,035	3,174	32,219
\$5B-\$15B	8,333,330	26	37,706	18,593	16,829	23,178	NA	4,303	4,051	60,344
>\$15B	21,822,817	8	50,557	35,000	54,307	45,133	NA	NA	4,208	67,880
All Banks	979,174	204	22,188	11,549	5,620	8,981	7,364	2,589	1,680	27,981

Total Average Director Compensation



2006 Total Median Director Compensation Per Average Director

Western Region

Data Cut	Median Assets	n	2006 Average Director Total Compensation						
			Fees Earned or Paid in Cash	Full Value Equity (\$)	Appreciation Equity (\$)	Total Equity (\$)	Change in Pension Value (\$)	Other Comp (\$)	Total Comp (\$)
<\$250M	199,049	6	13,227	33,440	1,380	13,417	NA	8,583	25,973
\$250M-\$500M	341,611	11	20,286	10,012	5,215	8,478	5,312	5,715	33,086
\$500M-\$1B	604,003	21	23,663	4,050	6,709	6,709	4,097	1,000	30,896
\$1B-\$5B	1,961,539	29	36,029	8,913	13,976	18,354	3,524	7,047	58,305
\$5B-\$15B	8,607,338	16	50,722	38,960	12,495	44,156	1,638	4,631	81,870
>\$15B	23,325,002	4	74,604	33,371	46,286	79,656	10,096	2,596	108,831
All Asset Sizes	1,209,518	87	30,129	15,381	9,772	15,514	3,666	3,891	45,554

Director Compensation – Chair Compensation



This table reflects the difference in total compensation between average directors and committee and board chairs. Ranges shown are the 25th to the 75th percentiles.

Western Region

Data Cut	Median Assets	n	Committee Chair Spread				
			Board Chair	Audit Chair	Executive Chair	Nominating/Governance Chair	
<\$250M	199,049	6	200 - 3,250	350 - 2,880	--	--	--
\$250M-\$500M	341,611	11	7,300 - 9,000	2,350 - 11,850	--	2,050 - 8,450	3,000 - 14,600
\$500M-\$1B	604,003	21	5,300 - 17,600	2,600 - 7,000	--	2,610 - 8,200	3,500 - 9,500
\$1B-\$5B	1,961,539	29	14,250 - 28,750	7,550 - 14,750	--	3,200 - 11,125	3,850 - 9,600
\$5B-\$15B	8,607,338	16	35,650 - 200,800	9,350 - 38,085	--	6,740 - 27,700	9,200 - 40,200
>\$15B	23,325,002	4	445,500 - 445,500	15,600 - 35,800	--	24,100 - 29,450	5,300 - 15,400
All Asset Sizes	1,209,518	87	7,200 - 29,100	3,000 - 15,700	3,650 - 8,555	2,515 - 11,800	3,400 - 13,400

- In addition to the best practices already mentioned, it is always a good test for directors to think about the consequences of each decision being made. For instance, ask yourself, “how would I answer if a shareholder asked...”?
 - ◆ Some examples might be:
 - ▶ How did you arrive at the director and executive compensation levels that were set?
 - ▶ Is executive compensation performance-based?
 - ▶ What information was used to establish salary levels?
 - ▶ How was the bank’s proxy peer group formed? What were the criteria for the peer group?
 - ▶ How did you determine the appropriate benchmark levels for compensation?
 - ▶ What was management’s involvement in these decisions?

- The recent years have resulted in increased liability and knowledge requirements for directors, particularly so for members of the compensation committee. Hence, ongoing director education is critical.
- Committees should review their charters to make sure that they are current and address all relevant issues, providing the authority this is necessary to be effective.
- Committees should develop a calendar to adhere to during the fiscal year.
- Since continuity is a key issue, tenure on certain committees (i.e., compensation) seems to be longer than in past years. This has been the recent case with so many significant changes (i.e., CD&A, etc.).