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Executive Compensation in Today's Environment

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- How today's legislative and corporate governance environment have affected executive compensation
- Trends in total executive compensation
- Preparing for the future and best practices



- Recent events and legislation have caused dramatic changes in the way banks approach executive compensation.
 - ◆ Sarbanes-Oxley Act
 - ◆ 409A
 - ◆ S-K legislation
 - ◆ Increased shareholder scrutiny
 - ◆ Corporate governance

Dealing with Executive Compensation

- The compensation committee should deal with compensation for the NEOs.
- The compensation committee should have a charter clarifying its role and responsibilities.
- CEO input is still valuable however the compensation committee should be informed of recommendations for all NEOs and approve them.
- The CEO and other internal resources (i.e., HR executives, etc.) may attend the compensation committee but should not sit on the committee.
 - ◆ Allow for executive sessions
 - ◆ Document all activity

- It is critical to use independent outside resources
 - ◆ Credibility of analysis and decisions
 - ◆ Rationale for setting compensation
- Compensation Philosophy
 - ◆ Have a formal philosophy that defines target benchmarks, rationale, and incentive compensation pay
 - ◆ Define the use of industry data (peer groups, survey data)
- Paying attention to 409A

Trends in Executive Compensation

- Executive annual and long-term incentive compensation is performance-based.
 - ◆ Use of specific measurable goals and metrics that are communicated to executives
- There has been a trend to use a blend of stock options and restricted stock.
 - ◆ Impact to the bank – dilution and expense
 - ◆ Affect on potential upside for executives
 - ◆ Alternative minimum tax impact
- Increase in the use of performance-vested equity
 - ◆ Different than time vesting of equity grants

- Employment agreements and change in control provisions
 - ◆ Still very desirable and used widely
 - ◆ Balanced agreements
 - ◆ Multiples are being examined in light of new full disclosure
 - ▶ Gross ups
 - ▶ 280G
- Signing bonuses
 - ◆ Still widely used in situations with key talent and expertise
 - ◆ Best if provided in the form of cash and equity
 - ▶ Vesting of equity provides more protection to the bank

- Nonqualified benefits are still very prevalent for key executives
 - ◆ Deferred compensation
 - ◆ SERPs
 - ◆ There is somewhat of a trend for these benefits to be designed as performance-based
- Stock Ownership Guidelines for executives
 - ◆ A new trend but being considered for executives and directors
 - ◆ Allow time for guidelines to be met

CEO Compensation Allocation Among Banks

2006 CEO Compensation Mix						
Data Cut	n	Salary	Bonus	Full Value Equity	Appreciation Equity	All Other Comp
<\$250M	9	66%	13%	--	6%	19%
\$250M-\$500M	10	57%	23%	6%	4%	8%
\$500M-\$1B	32	46%	27%	21%	8%	9%
\$1B-\$5B	34	38%	33%	15%	14%	8%
\$5B-\$15B	14	31%	23%	25%	21%	6%
>\$15B	7	22%	35%	9%	43%	11%
All Banks	106	43%	28%	19%	14%	9%

This data is derived from Clark Consulting's proxy study of 106 publicly traded banks utilizing 2007 proxy statements representing fiscal year 2006 compensation.

Amount of annual incentive & stock options increase with asset size, performance and location.

CEO Total Compensation – Impact of Location

2006 Comp Data - Median Values

Data Cut	n	Salary	Bonus	Total Cash	Total Equity	Total Direct	Total Comp
All Banks							
<\$250M	79	156,250	25,313	175,000	18,560	187,135	209,632
\$250M-\$500M	149	200,000	47,612	240,000	20,207	246,520	296,355
\$500M-\$1B	198	243,237	73,492	320,467	36,537	346,150	422,843
\$1B-\$5B	211	350,000	151,250	498,438	79,485	557,280	698,612
\$5B-\$15B	61	625,992	466,125	1,001,320	487,177	1,348,447	1,927,254
>\$15B	43	975,000	1,500,000	2,252,250	3,717,249	4,430,751	5,916,496
All Asset Sizes	741	262,500	93,204	345,300	64,872	375,228	478,097
Western Region Banks							
<\$250M	9	157,000	27,500	191,829	9,800	191,829	213,572
\$250M-\$500M	10	229,827	62,500	318,637	16,132	329,577	374,541
\$500M-\$1B	32	239,600	153,530	367,192	58,362	460,851	587,455
\$1B-\$5B	34	359,313	287,100	594,892	119,279	762,581	930,132
\$5B-\$15B	14	651,608	342,500	1,112,230	628,042	1,820,062	2,412,551
>\$15B	7	995,000	700,000	1,791,300	7,399,603	3,602,287	3,968,350
All Asset Sizes	106	280,000	186,000	499,469	118,376	593,710	716,667

Benefit Prevalence

Prevalence of various compensation and benefit plans offered to executives

Western Region – Data based on 2006 proxy statements

Data Cut	Median Assets	n	Cash Incentive Plan	Equity			Agreements		Retirement					
				Equity Plan	Director Stock Plan	ESOP/ ESPP	Employment	Change-In-Control	401(k)	Qualified Pension Plan	Qualified Profit Sharing	Deferred Comp. Plan	SERP	Deferred Comp or SERP
<\$250M	178,923	7	57%	86%	43%	29%	86%	71%	71%	0%	29%	29%	43%	57%
\$250M-\$500M	351,275	10	90%	100%	90%	20%	70%	90%	100%	0%	50%	50%	80%	90%
\$500M-\$1B	703,602	28	96%	100%	93%	46%	75%	86%	96%	4%	46%	68%	57%	82%
\$1B-\$5B	1,940,753	31	97%	97%	87%	48%	81%	71%	100%	3%	48%	68%	58%	77%
\$5B-\$15B	7,760,669	13	92%	100%	100%	38%	62%	85%	100%	15%	62%	85%	46%	92%
>\$15B	52,619,576	6	100%	100%	83%	67%	67%	67%	100%	50%	50%	100%	50%	100%
All Asset Sizes	1,035,825	95	93%	98%	87%	43%	75%	79%	97%	7%	48%	67%	57%	82%

- Director education regarding executive compensation is critical
- Helpful to have compensation committee members that have compensation and benefit experience
 - ◆ Emerging trend to have longer tenure as members of the compensation committee
- If a public institution, think about all decisions in light of drafting the CD&A and S-K disclosure