

Market Impact on Incentive Compensation Trends

December 2010

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OVERVIEW

McLagan conducted an online survey in November and December 2010 regarding current and planned performance metrics and payment vehicles at community and regional banks. The intent was to sample the latest thinking in light of the current economic and legislative environment. Survey questions were focused on the following topics, relative to both 2010 and planned 2011 incentive practices:

- Performance Measures
 - Annual Incentive Plans
 - Equity-Based Incentive Plans
- Incentive Compensation Payment Methods

Total Participants - 76 banks participated in our Market Impact on Incentive Compensation Trends Flash Survey.

KEY FINDINGS

Performance Measures – Annual Incentive Plans: Banks are continuing to set annual performance measures that focus on growth and profitability. Plans for 2011 indicate an increase in Asset / Credit Quality and Operational / Non-Financial Goals, perhaps as a response to the recent Sound Incentive Compensation Policies (SICP) released earlier this year.

Top Performance Measures Annual Incentive Plans	Used In 2010	Will Use in 2011
Net Income / Earnings / Profitability	60.5%	60.5%
Loan Volume/Growth	48.7%	51.3%
Asset / Credit Quality	42.1%	47.4%
Deposit Balance / Growth	46.1%	46.1%
Operational / Non-Financial Goals	27.6%	31.6%
Return On Equity	26.3%	31.6%

Performance Measures – Equity Incentive Plans: Profitability is also the leading performance metric in equity incentive plans. Additional frequently used measures were “Other,” Loan Volume / Growth, Return on Equity, and Asset / Credit Quality. For those banks that listed “Other,” examples included customer satisfaction and net interest margin.

Top Performance Measures Equity Incentive Plans	Used In 2010	Will Use in 2011
Net Income / Earnings / Profitability	18.4%	22.4%
Other	25.0%	15.8%
Return On Equity	10.5%	13.2%
Loan Volume/Growth	9.2%	13.2%
Asset / Credit Quality	9.2%	11.8%
Deposit Balance / Growth	9.2%	10.5%



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KEY FINDINGS (Continued)

Payment Methods: Participants reported a number of changes to plans in 2011 regarding methods of payment – most relating to policies covered by either SICP or the Dodd-Frank Wall Street Reform & Consumer Protection Act (Dodd-Frank). Some of the goals becoming more prevalent are:

- *Adding clawbacks to incentive awards:* Already a requirement under TARP, this provision is also forthcoming under the Dodd-Frank legislation.
- *Adjusting the amount of incentive awards, based on risk measures*
- *Deferring a portion of annual incentive awards pending sustained performance*
- *Incorporating board discretion in pay decisions*

SURVEY PARTICIPATION

- **Total Participants:** 76
- **Geographical Representation:**

AL	2	IA	3	MI	1	NJ	3	VA	2
CA	7	IL	2	MN	3	NY	5	WA	2
CO	1	IN	2	MO	1	OH	2	WI	5
CT	2	KS	3	MS	1	OK	1		
FL	1	LA	1	NC	2	PA	4		
GA	2	MA	9	NE	1	SD	1		
HI	1	MD	2	NH	1	TX	3		

- **Asset Size Representation:**

Assets <\$250M	Assets \$250M-\$500M	Assets \$500M-\$1B	Assets \$1B-\$5B	Assets >\$5B
10	13	19	27	7

- **TARP Participation:**

Not Participating	Participating
54	22

- **Ownership Type:**

Public Banks	Private Banks
43	33

- **Coastal Location:**

Coast	Non-Coast
39	37

- **Region:**

North East	South East	North Central	South Central	Western
26	10	20	10	10



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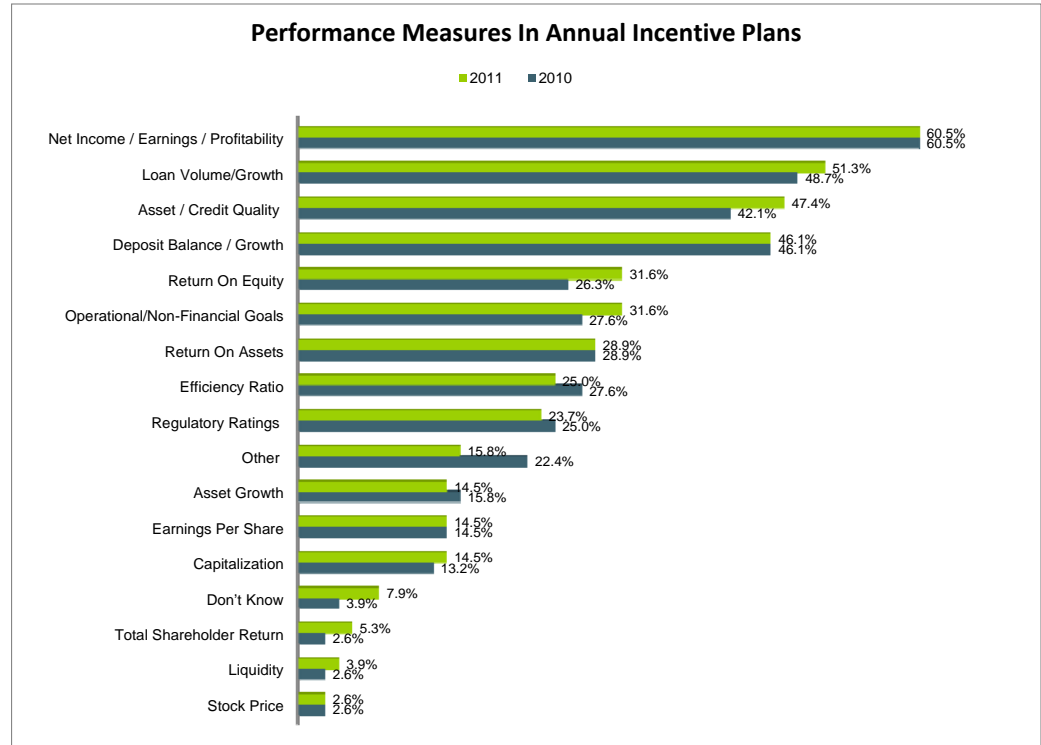
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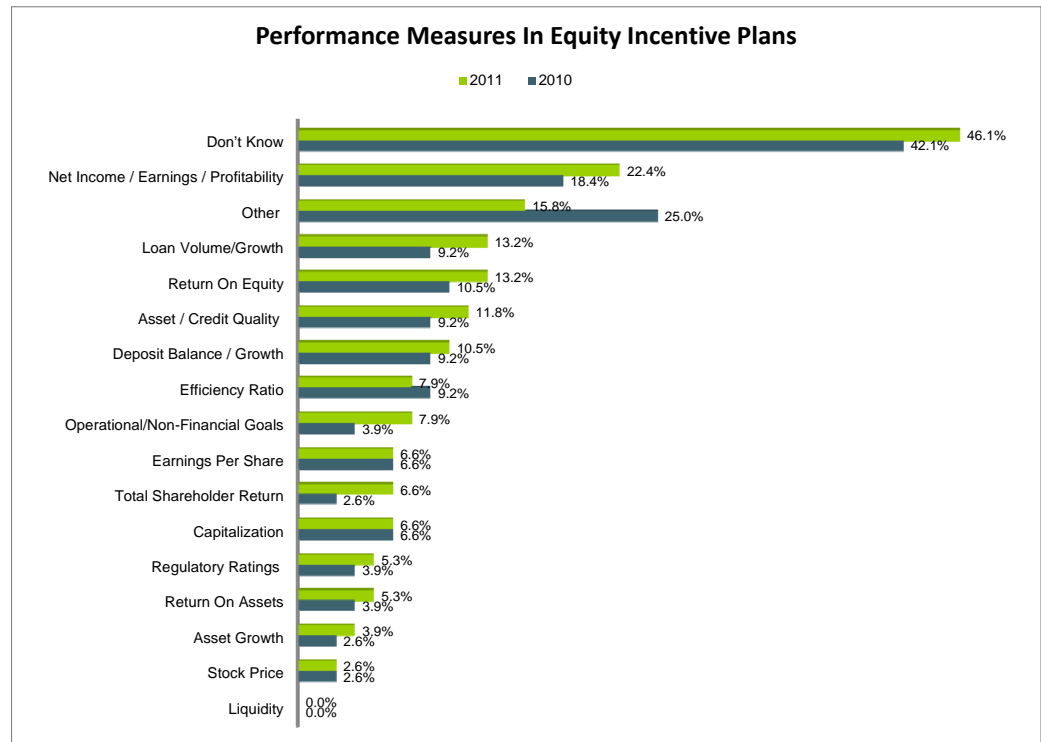
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Prevalence of Annual Incentive Plan Performance Measures: 2011 vs. 2010



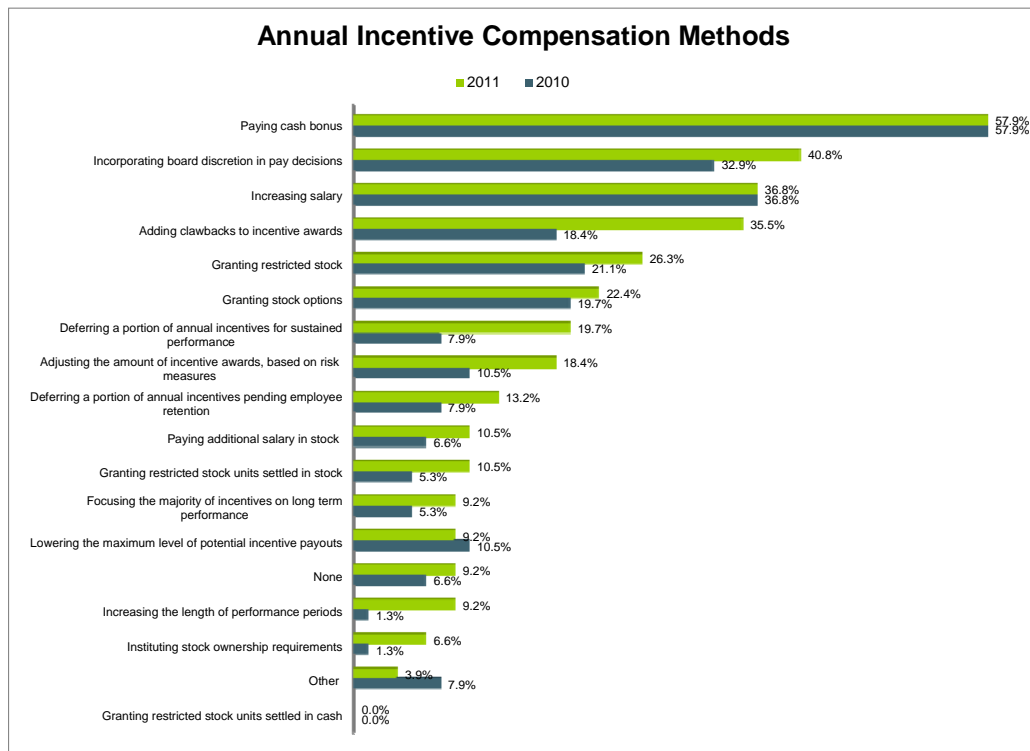
Prevalence of Equity Incentive Plan Performance Measures: 2011 vs. 2010



Comments pertaining to "Don't Know" often indicated no current use of equity-incentive plans.



Prevalence of Incentive Compensation Methods: 2011 vs. 2010



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