

ON POINT

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2009 Say on Pay Survey Banking Industry



Table of Contents

Introduction	2
Key Highlights – Banking Industry	3
Results:	
Demographics	5
Say on Pay Expectations	7
Say on Pay Actions Already Taken	8
Actions Planned for Next 6 Months	9
Team Involved in Say on Pay	10
Voting Guidelines and Shareholder Relations	11
TARP Company Say on Pay Perspectives	12
Non-TARP Company Say on Pay Perspectives	13
About Pearl Meyer & Partners	14



Introduction

Say on Pay provides shareholders with an annual, non-binding advisory vote in favor of, or against, a company's executive compensation program and is mandatory for companies receiving funding under the Troubled Asset Relief Program (TARP). In July, the U.S. House of Representatives approved the Corporate and Financial Institution Compensation Fairness Act of 2009, which includes the specific Say on Pay provisions detailed below.

Given Congressional support for this issue and the increased targeting of companies with "poor pay practices" by major institutional investors, proxy advisory firms and the SEC, PM&P expects a shareholder advisory vote on executive pay will become mandatory for all U.S. public companies in 2011.

Survey Overview

Pearl Meyer & Partners' "Say on Pay" survey was conducted in July and August 2009 to determine corporate views on Say on Pay and what steps companies have taken or plan to take to prepare for a Say on Pay vote. This report provides a detail regarding banking industry responses in addition to the "All Firms" data.

The following issues are addressed in the survey:

- Expectations for Say on Pay
- Preparations for Say on Pay
- Responsibilities for leading Say on Pay efforts
- Familiarity with proxy voting guidelines
- Shareholder outreach on executive compensation

Thirty-six banking institutions and a total of 231 respondents participated in the survey, mainly compensation committee members, top human resources professionals, and members of the compensation group. In addition to providing a banking and "All Firms" perspective, we summarized results across a variety of categories, including:

- TARP vs. Non-TARP firms.
- Employees vs. Directors.
- Company Size.
- Industry.

We hope that you find this information useful. If you would like to discuss these findings further, please contact:

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Key Highlights – Banking Industry

Expectations for Say on Pay

- 77% of banking respondents predict a mandatory shareholder vote on pay is “likely” or “very likely” in 2011. The number of banking respondents who expect a requirement in the upcoming proxy season was higher than the all firms results – 63% compared to 48%.
- Many banks are “somewhat” concerned (34%) or “very” concerned (9%) about the prospects for Say on Pay.

How Banks are Preparing for Say on Pay

- A little over half (54%) of banking respondents have taken steps to prepare for the possibility of a mandatory Say on Pay vote.
- Among those banks that indicated they are actively preparing for Say on Pay, the most common initiatives were:
 - Reviewing proxy CD&A and related tables for clarity and completeness (84% of companies).
 - Staying abreast of Say on Pay vote results at other companies (63%).
 - Conducting a risk assessment of incentive programs (63%)
 - Reviewing market benchmarking practices, particularly peer group selection (58%).
- Compared to the all firms results, banking respondents are:
 - Currently more likely to conduct a risk assessment of the incentive programs – 63% vs. 42%, which may be the result of mandatory TARP requirements and continue to be more likely to assess risk in the next six months – 73% vs. 36%
 - Currently less likely to stay abreast of the results of Say on Pay proposals at other companies (63% vs. 81%); however they are equally likely to stay abreast in the next six months (91% vs. 90%)

Proxy Voting Guidelines

- Half of the banking respondents said they are unfamiliar with the voting guidelines of the major proxy advisory groups.
- The voting guidelines of institutional investor groups were even less well known, with 23% of companies expressing familiarity with those proxy standards.



TARP Companies - Say on Pay Votes and Shareholder Outreach

- Half of the TARP companies in the survey said they garnered upwards of a 90% positive shareholder vote on their compensation programs.
- Only 7% said they are reaching out more to shareholders about executive pay issues than before Say on Pay was mandated.

Banking Respondents - Say on Pay Votes and Shareholder Outreach

- 91% of banking respondents indicated they think shareholders would vote in favor of their executive compensation program if a Say on Pay vote took place today.
- 62% of banking respondents say that at present, they “never” seek shareholder input on executive pay matters and none reach out more than once annually. However, 71% say they will increase their outreach effort if Say on Pay becomes mandatory.

Demographics

	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Organization's form of ownership						
Publicly Held - For Profit	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Organization's reporting entity						
Parent/Stand Alone	88.9%	95.2%	93.3%	95.4%	94.7%	97.7%
Subsidiary	11.1%	4.3%	6.7%	4.2%	4.8%	2.3%
Division		0.4%		0.5%	0.5%	
Organizational size represents...						
Revenue	8.3%	82.3%	6.7%	87.5%	84.0%	75.0%
Assets	91.7%	17.7%	93.3%	12.5%	16.0%	25.0%
Organizational size (revenue / assets)						
Under \$100 Million		3.0%		3.2%	1.1%	11.4%
\$100 Million to less than \$300 Million	2.8%	5.6%	6.7%	5.6%	4.3%	11.4%
\$300 Million to less than \$1 Billion	19.4%	19.0%	20.0%	19.0%	14.4%	38.6%
\$1 Billion to less than \$3 Billion	33.3%	23.8%	26.7%	23.6%	25.1%	18.2%
\$3 Billion to less than \$10 Billion	19.4%	19.5%	20.0%	19.4%	20.3%	15.9%
\$10 Billion to less than \$20 Billion	5.6%	13.4%	6.7%	13.9%	15.5%	4.5%
\$20 Billion to less than \$30 Billion	5.6%	4.8%	6.7%	4.6%	5.9%	
\$30 Billion or greater	13.9%	10.8%	13.3%	10.6%	13.4%	
Current market capitalization						
Under \$100 Million	30.3%	9.5%	50.0%	6.8%	6.2%	23.8%
\$100 Million to less than \$300 Million	18.2%	12.3%	7.1%	12.6%	9.6%	23.8%
\$300 Million to less than \$1 Billion	15.2%	20.0%	7.1%	20.9%	16.3%	35.7%
\$1 Billion to less than \$3 Billion	12.1%	17.3%	7.1%	18.0%	18.5%	11.9%
\$3 Billion to less than \$10 Billion	12.1%	19.1%	28.6%	18.4%	23.0%	2.4%
\$10 Billion to less than \$20 Billion		7.7%		8.3%	9.0%	2.4%
\$20 Billion to less than \$30 Billion	3.0%	5.5%		5.8%	6.7%	
\$30 Billion or greater	9.1%	8.6%		9.2%	10.7%	

Demographics

	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Industry						
Industrials / Materials		16.9%		18.1%	18.2%	11.4%
Consumer Discretionary / Staples		19.9%	6.7%	20.8%	19.8%	20.5%
Health Care		6.5%		6.9%	7.0%	4.5%
Financials	100.0%	21.6%	93.3%	16.7%	20.3%	27.3%
Info Tech / Telecomm Services		21.2%		22.7%	20.3%	25.0%
Energy / Utilities		13.9%		14.8%	14.4%	11.4%
Respondents role at the company						
Member of the Compensation Committee	25.0%	16.9%	13.3%	17.1%		88.6%
Member of the Board of Directors (Other than the Compensation Committee)		2.2%		2.3%		11.4%
CEO	11.1%	3.5%	13.3%	2.8%	4.3%	
CFO	2.8%	1.3%		1.4%	1.6%	
Head of Human Resources	22.2%	13.9%	33.3%	12.5%	17.1%	
Other Direct Report to the CEO	5.6%	1.7%	13.3%	0.9%	2.1%	
Human Resources Staff (Excluding the Compensation Group)	5.6%	3.0%		3.2%	3.7%	
Member of the Compensation Group	22.2%	48.1%	20.0%	50.0%	59.4%	
Other	5.6%	9.5%	6.7%	9.7%	11.8%	

Say on Pay Expectations

	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
In the past year, has your company been asked by any major shareholder, watchdog, or activist group (excluding government mandates) to provide shareholders a Say on Pay vote?						
No	80.0%	82.4%	66.7%	83.5%	80.3%	90.9%
Yes	20.0%	17.6%	33.3%	16.5%	19.7%	9.1%
How likely do you think it is that Say on Pay will be required for all U.S. public companies for 2010 proxies?						
Very likely	22.9%	11.9%	46.7%	9.4%	13.7%	4.5%
Likely	40.0%	35.7%	40.0%	35.4%	37.2%	29.5%
Neutral	14.3%	19.8%	6.7%	20.8%	19.1%	22.7%
Unlikely	20.0%	26.9%	6.7%	28.3%	24.6%	36.4%
Very unlikely	2.9%	4.0%		4.2%	3.3%	6.8%
No opinion		1.8%		1.9%	2.2%	
How likely do you think it is that Say on Pay will be required for all U.S. public companies for 2011 proxies?						
Very likely	42.9%	34.6%	53.3%	33.3%	38.0%	20.5%
Likely	34.3%	38.2%	46.7%	37.6%	37.5%	40.9%
Neutral	14.3%	13.6%		14.6%	13.0%	15.9%
Unlikely	8.6%	11.4%		12.2%	8.7%	22.7%
Very unlikely		0.4%		0.5%	0.5%	
No opinion		1.8%		1.9%	2.2%	
How concerned is your company about Say on Pay?						
Very concerned	8.6%	6.6%	6.7%	6.6%	6.0%	9.1%
Somewhat concerned	34.3%	34.8%	40.0%	34.4%	35.0%	34.1%
Neutral	22.9%	33.0%	20.0%	34.0%	37.2%	15.9%
Not very concerned	28.6%	19.8%	26.7%	19.3%	18.0%	27.3%
Not at all concerned	5.7%	4.0%	6.7%	3.8%	2.2%	11.4%
Unknown		1.8%		1.9%	1.6%	2.3%

Say on Pay Actions Already Taken

	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Has your company taken any steps to prepare for Say on Pay?						
No	45.7%	65.8%	20.0%	69.0%	62.5%	79.5%
Yes	54.3%	34.2%	80.0%	31.0%	37.5%	20.5%
If yes, what steps has your company taken to prepare for Say on Pay (select all that apply)?						
Inquired about our institutional shareholder's general views on Say on Pay and whether they are likely to follow recommendations from proxy advisory firms like RiskMetrics Group and Glass Lewis	21.1%	35.1%	25.0%	36.9%	35.3%	33.3%
Identified any perceived poor pay practices in our executive compensation philosophy and program design	42.1%	57.1%	50.0%	58.5%	58.8%	44.4%
Reviewed our proxy CD&A and related tables to ensure executive compensation disclosure is clear, complete, and not subject to misinterpretation	84.2%	81.8%	75.0%	83.1%	79.4%	100.0%
Stayed abreast of the results of Say on Pay proposals at other companies	63.2%	80.5%	50.0%	86.2%	79.4%	88.9%
Conducted an analysis to ensure there is a strong link between executive pay and performance	52.6%	62.3%	50.0%	64.6%	60.3%	77.8%
Conducted a risk assessment to ensure incentive programs do not motivate 'unnecessary and excessive risk-taking'	63.2%	41.6%	66.7%	36.9%	39.7%	55.6%
Reviewed market benchmarking practices, particularly with respect to selection of appropriate peer group(s)	57.9%	68.8%	50.0%	72.3%	67.6%	77.8%
Established an effective shareholder communication strategy, including a process for gathering feedback from institutional shareholders, unions and / or other constituencies on executive compensation programs	26.3%	22.1%	33.3%	20.0%	20.6%	33.3%
Other	0.2%	0.2%	0.3%	0.1%	0.2%	0.1%

Actions Planned For Next 6 Months

Actions Planned For Next 6 Months	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Within the next 6 months, is your company planning to take any steps to prepare for Say on Pay?						
No	31.3%	64.9%		66.2%	63.0%	71.4%
Yes	68.8%	35.1%	100.0%	33.8%	37.0%	28.6%
If yes, what steps is your company planning to take to prepare for Say on Pay (select all that apply)?						
Inquire about our institutional shareholder's general views on Say on Pay and whether they are likely to follow recommendations from proxy advisory firms like RiskMetrics Group and Glass Lewis	18.2%	38.0%	33.3%	38.3%	42.5%	20.0%
Identify any perceived poor pay practices in our executive compensation philosophy and program design	54.5%	64.0%	33.3%	66.0%	57.5%	90.0%
Review our proxy CD&A and related tables to ensure executive compensation disclosure is clear, complete, and not subject to misinterpretation	90.9%	84.0%	100.0%	83.0%	82.5%	90.0%
Stay abreast of the results of Say on Pay proposals at other companies	90.9%	90.0%	100.0%	89.4%	90.0%	90.0%
Conduct an analysis to ensure there is a strong link between executive pay and performance	54.5%	40.0%	66.7%	38.3%	32.5%	70.0%
Conduct a risk assessment to ensure incentive programs do not motivate 'unnecessary and excessive risk-taking'	72.7%	36.0%	100.0%	31.9%	27.5%	70.0%
Review market benchmarking practices, particularly with respect to selection of appropriate peer group(s)	63.6%	60.0%	33.3%	61.7%	55.0%	80.0%
Establish an effective shareholder communication strategy, including a process for gathering feedback from institutional shareholders, unions and / or other constituencies on executive compensation programs	36.4%	22.0%	33.3%	21.3%	22.5%	20.0%
Other	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%

Team Involved in Say on Pay	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
What function will LEAD (or is leading) the company's efforts associated with Say on Pay?						
Human Resources	14.3%	22.5%	6.7%	23.6%	27.3%	2.4%
Legal	17.1%	29.8%	20.0%	30.5%	34.7%	9.5%
Finance		0.5%		0.5%	0.6%	
Outside Compensation Consultant		2.8%		3.0%	3.4%	
Outside Legal Counsel	5.7%	2.8%	13.3%	2.0%	2.8%	2.4%
Compensation Committee	42.9%	28.9%	40.0%	28.1%	19.3%	69.0%
Members of the Board of Directors (Other than the Compensation Committee)		1.8%		2.0%		9.5%
Senior Executives	14.3%	3.2%	20.0%	2.0%	3.4%	2.4%
Other	5.7%	4.6%		4.9%	5.1%	2.4%
None		3.2%		3.4%	3.4%	2.4%
What function(s) are or will be PART OF THE TEAM addressing your company's efforts associated with Say on Pay?						
Human Resources	65.7%	77.3%	66.7%	78.0%	81.5%	59.5%
Legal	45.7%	69.5%	53.3%	70.7%	71.9%	59.5%
Finance	40.0%	36.8%	46.7%	36.1%	37.1%	35.7%
Investor Relations	34.3%	45.5%	20.0%	47.3%	47.2%	38.1%
Outside Compensation Consultant	65.7%	69.1%	66.7%	69.3%	68.5%	71.4%
Outside Legal Counsel	51.4%	45.0%	53.3%	44.4%	44.4%	47.6%
Proxy Solicitor	5.7%	10.0%	13.3%	9.8%	11.8%	2.4%
Compensation Committee of the Board of Directors	74.3%	83.6%	86.7%	83.4%	83.1%	85.7%
Members of the Board of Directors (Other than the Compensation Committee)	34.3%	29.5%	26.7%	29.8%	26.4%	42.9%
Senior Executives	54.3%	50.9%	53.3%	50.7%	51.7%	47.6%
Other	2.9%	2.7%	0.0%	2.9%	3.4%	0.0%
None	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Voting Guidelines and Shareholder Relations

	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Are you familiar with the overall voting guidelines of proxy advisory groups such as RiskMetrics Group, Glass Lewis, and Proxy Governance with respect to Say on Pay?						
No	50.0%	30.1%	40.0%	29.4%	28.7%	35.7%
Yes	50.0%	69.9%	60.0%	70.6%	71.3%	64.3%
Are you familiar with the overall voting guidelines of major institutional investors (e.g., Fidelity, CalPERS) with respect to Say on Pay?						
No	77.1%	54.8%	66.7%	54.0%	54.9%	54.8%
Yes	22.9%	45.2%	33.3%	46.0%	45.1%	45.2%
How often does your company typically reach out to shareholders for feedback on executive compensation matters?						
Never	61.8%	45.8%	42.9%	46.0%	44.1%	52.4%
Less than once a year	11.8%	26.9%	7.1%	28.3%	28.2%	21.4%
Once a year	26.5%	22.2%	50.0%	20.2%	21.8%	23.8%
2 to 3 times a year		3.8%		4.0%	4.1%	2.4%
4 to 5 times a year		1.4%		1.5%	1.8%	

TARP Company Say on Pay Perspectives	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Is your company a TARP participant?						
No	60.0%	93.2%		100.0%	92.7%	95.2%
Yes	40.0%	6.8%	100.0%		7.3%	4.8%
Did your company file a proxy in 2009 that included a management Say on Pay proposal?						
No		6.7%	6.7%		7.7%	
Yes	100.0%	93.3%	93.3%		92.3%	100.0%
Are you familiar with the voting recommendations given to shareholders by proxy advisory firms such as RiskMetrics Group or Glass Lewis regarding your company's Say on Pay proposal?						
Yes	57.1%	57.1%	57.1%		58.3%	50.0%
No	42.9%	42.9%	42.9%		41.7%	50.0%
Have the vote results of your company's 2009 Say on Pay proposal been determined?						
Yes	100.0%	100.0%	100.0%		100.0%	100.0%
What were the results of the vote on your company's 2009 Say on Pay proposal?						
75% to less than 90% of our shareholders voted in favor of our executive compensation program	50.0%	50.0%	50.0%		50.0%	50.0%
90% or more of our shareholders voted in favor of our executive compensation program	50.0%	50.0%	50.0%		50.0%	50.0%
How prepared was your company for Say on Pay in 2009?						
Very prepared	42.9%	42.9%	42.9%		41.7%	50.0%
Prepared	28.6%	28.6%	28.6%		33.3%	
Somewhat prepared	21.4%	21.4%	21.4%		16.7%	50.0%
Very unprepared	7.1%	7.1%	7.1%		8.3%	
Now that a Say on Pay vote is required at your company, how often are you reaching out to shareholders to discuss executive compensation matters?						
More often	7.7%	7.1%	7.1%		8.3%	
About the same as previously	92.3%	92.9%	92.9%		91.7%	100.0%

Non-TARP Company Say on Pay Perspectives	Peer Group	All Firms	Covered by TARP		Primary Role	
	Banking	All Firms	TARP	Non-TARP	Employee of the firm	Outside director
Number of Firms Reporting	36	231	15	216	187	44
Did your company voluntarily adopt Say on Pay or include a management Say on Pay proposal in its most recent proxy?						
No	90.5%	97.5%		97.5%	97.5%	97.5%
Yes	9.5%	2.5%		2.5%	2.5%	2.5%
If Say on Pay were required for your company today, how prepared would your company be?						
Very prepared	4.8%	4.5%		4.5%	4.3%	5.1%
Prepared	19.0%	21.5%		21.5%	19.3%	30.8%
Somewhat prepared	61.9%	51.5%		51.5%	51.6%	51.3%
Not prepared	14.3%	21.5%		21.5%	23.6%	12.8%
Very unprepared		1.0%		1.0%	1.2%	
If Say on Pay becomes mandatory, how often do you expect your company will reach out to shareholders to discuss executive compensation matters?						
More often	71.4%	61.7%		61.7%	62.7%	57.5%
About the same as now	28.6%	38.3%		38.3%	37.3%	42.5%
If a Say on Pay vote were conducted at your company today, do you think most shareholders would cast their ballots...						
In favor of your executive compensation program	90.5%	76.1%		76.1%	77.6%	70.0%
Against your executive compensation program		2.5%		2.5%	2.5%	2.5%
Unpredictable	9.5%	21.4%		21.4%	19.9%	27.5%
If your company were required to have a Say on Pay vote, would you anticipate changing the proxy Compensation Discussion & Analysis (CD&A) section in your proxy?						
No	47.6%	49.7%		49.7%	45.3%	67.5%
Yes	52.4%	50.3%		50.3%	54.7%	32.5%



About Pearl Meyer & Partners

For 20 years, PM&P has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges through the development of programs that align rewards with business goals to create long-term value for all stakeholders: shareholders, executives and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles and San Jose.

Our Community Banking Expertise

Our banking practice is headed in our Boston office where we provide consulting services and administer compensation surveys for bank executives, employees and board of directors. We have a team of consultants exclusively dedicated to serving the banking industry. To learn more about PM&P's Bank compensation services and to review additional content go to www.pearlmeyer.com/banking or email us at banking@pearlmeyer.com.

Contact Us

For other information and guidance on compensation issues, or to learn more about Pearl Meyer & Partners' services, please feel free to contact any of our offices listed in this report or you may contact each office by email at the addresses listed below:

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