



Pay for Performance

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■ Today's Discussion

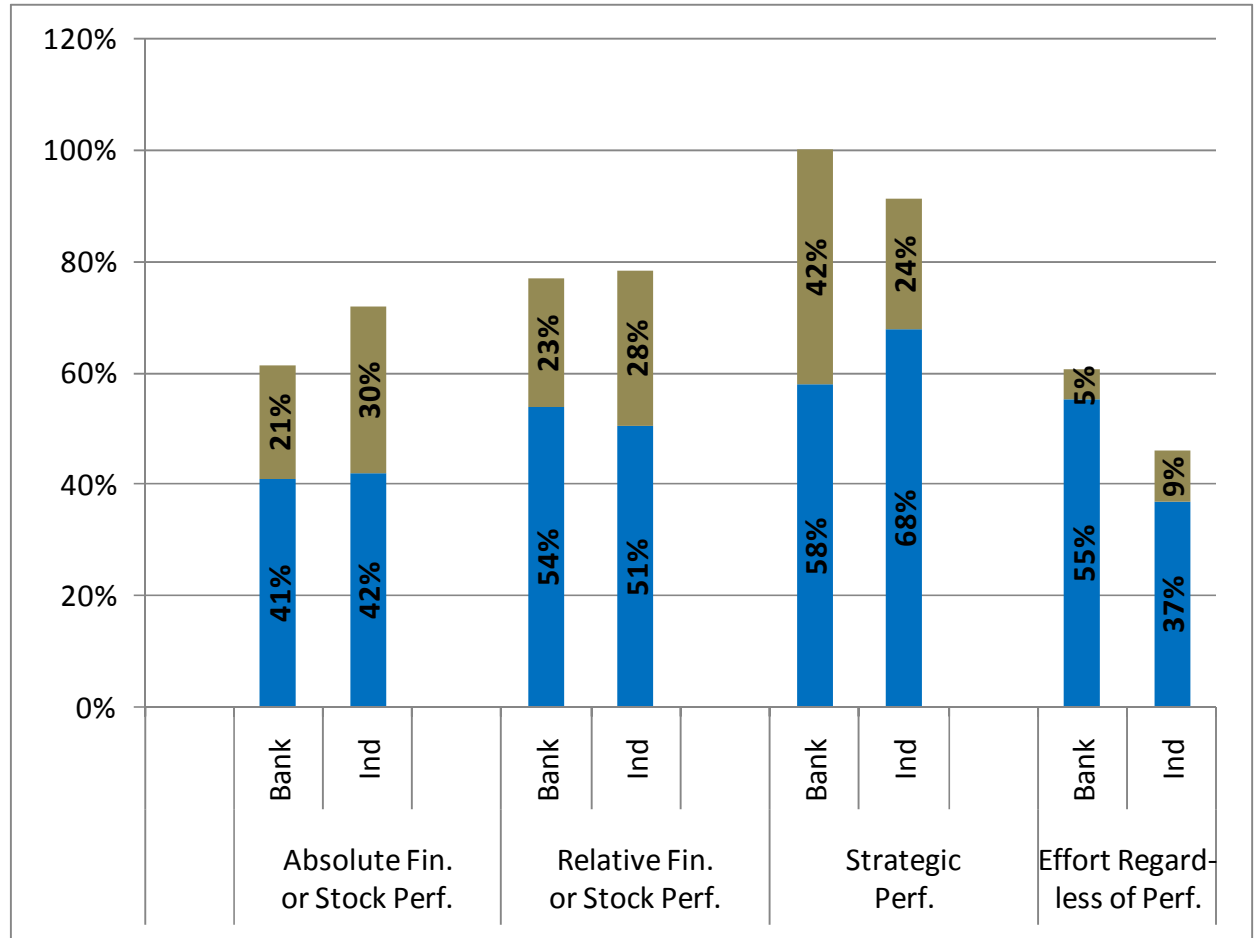
- Results from Pearl Meyer & Partners 2011 Executive Pay-for-Performance Survey
 - Banking – 39 institutions (16%)
 - Other Industries – 202
- Tools to facilitate pay-for-performance

■ Respondents were asked...

- What specific performance is relevant in the pay-for-performance equation?
- Which types of measures are important in annual vs. long-term incentive plans?
- How much discretionary adjustment of incentives is appropriate and under what circumstances?
- Who is involved in performance measure selection and goal-setting?
- What kind of data and analysis is being used to determine performance measures and goals?

What aspects of performance should be reflected in a pay-for-performance philosophy?

- Strategic and other non-financial performance is considered important to the philosophy
- Relative financial or stock price performance is slightly more important than absolute performance
- Individual effort is not likely to be considered part of the “pay-for-performance” definition, especially by directors

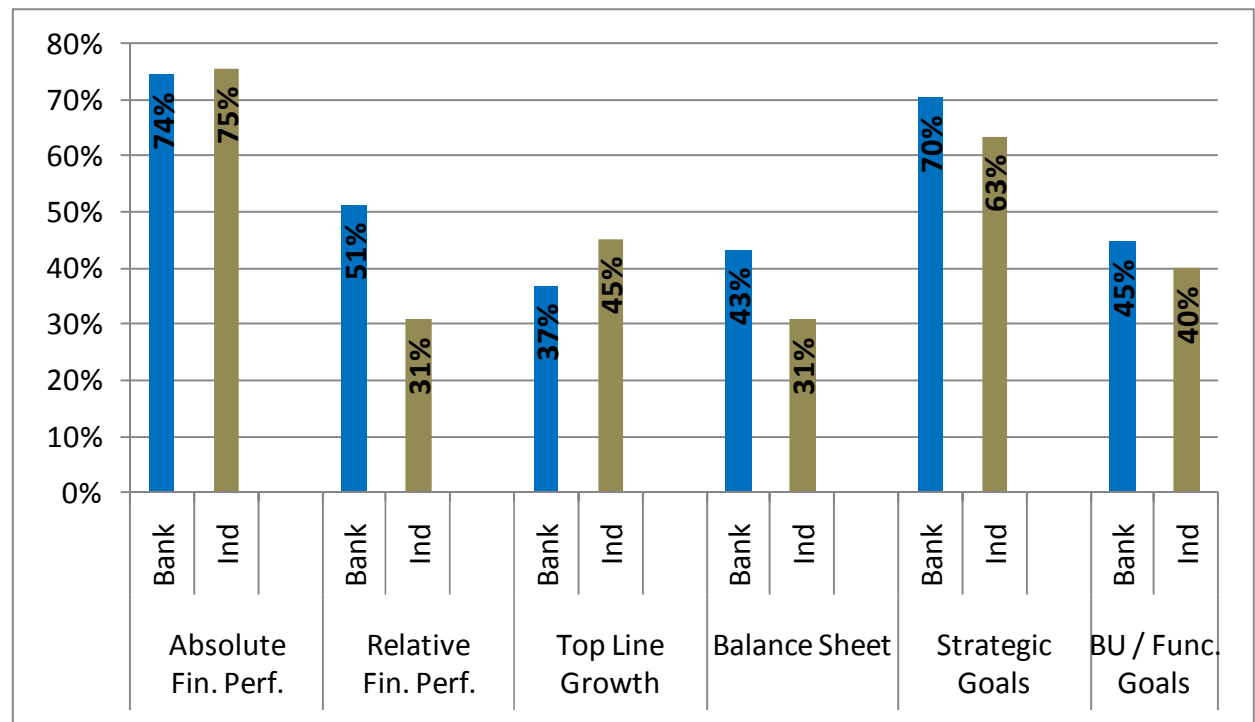


Percentage of banks and general industry who “agree” (blue) and “strongly agree” (beige) with the form of measurement

What specific performance is relevant in the pay-for-performance equation?

- Views differ regarding annual and long-term incentive plan performance
- Absolute financial performance is the most critical
- Relative financial performance is seen as “critical” by more than half of the banking respondents
- Strategic goals have greater focus than growth
- Balance sheet measures are seen as more critical by banks than general industry

ANNUAL incentive plans should focus on...

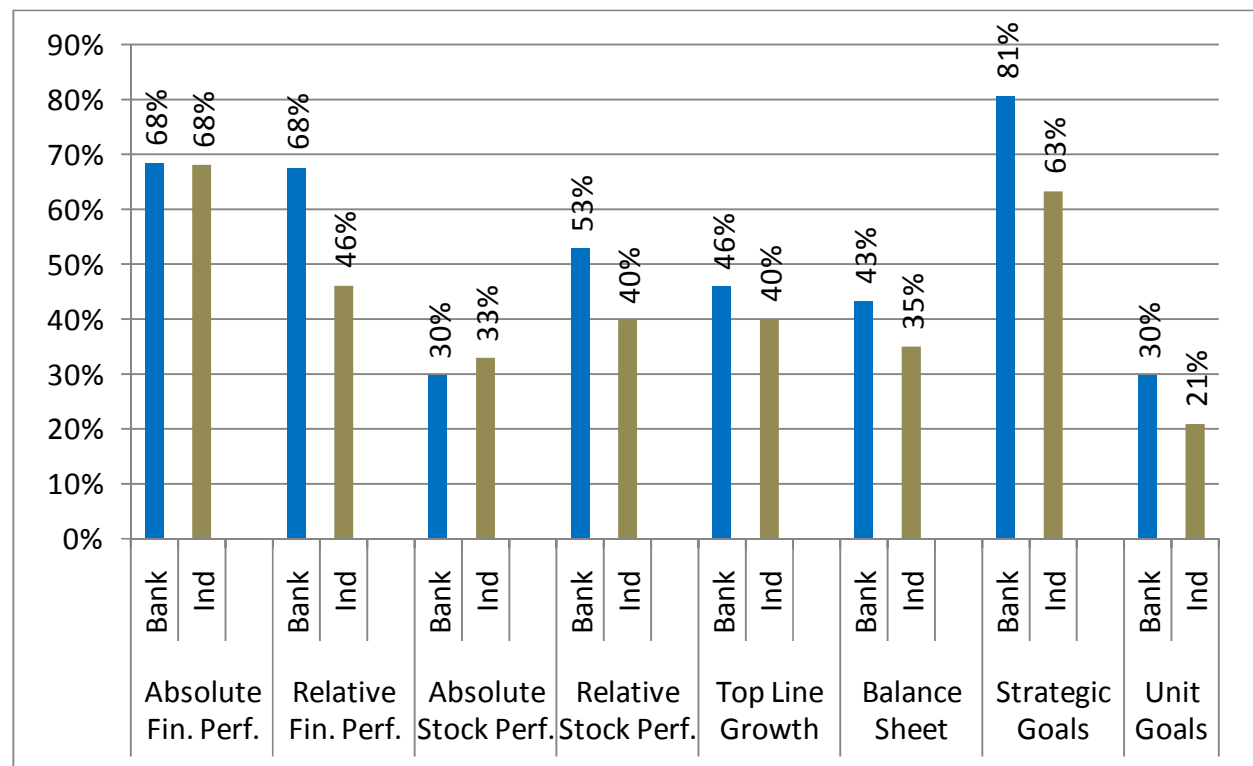


Bars represent the “critical” responses for each aspect of performance

What specific performance is relevant in the pay-for-performance equation?

- Strategic goals and absolute and relative financial performance are the preferred measures of long-term incentive plans
- Strategic goals and relative financial and stock performance tend to be rated “critical” more often by banks than general industry
- Business unit and functional goals tend to be challenging for long-term plans

LONG-TERM incentive plans should focus on...



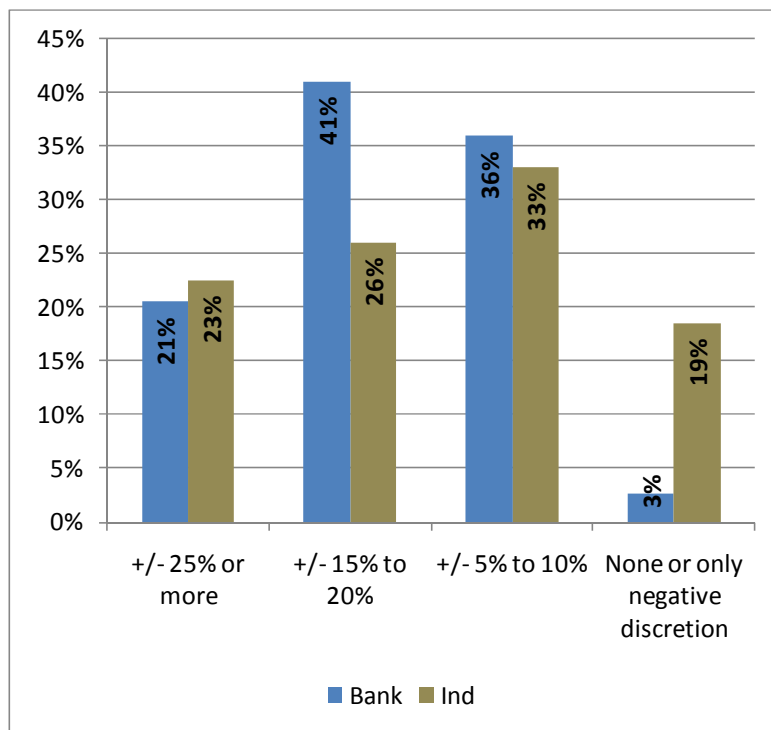
Bars represent the “critical” responses for each aspect of performance.

How much discretionary adjustment of incentives is appropriate and under what circumstances?

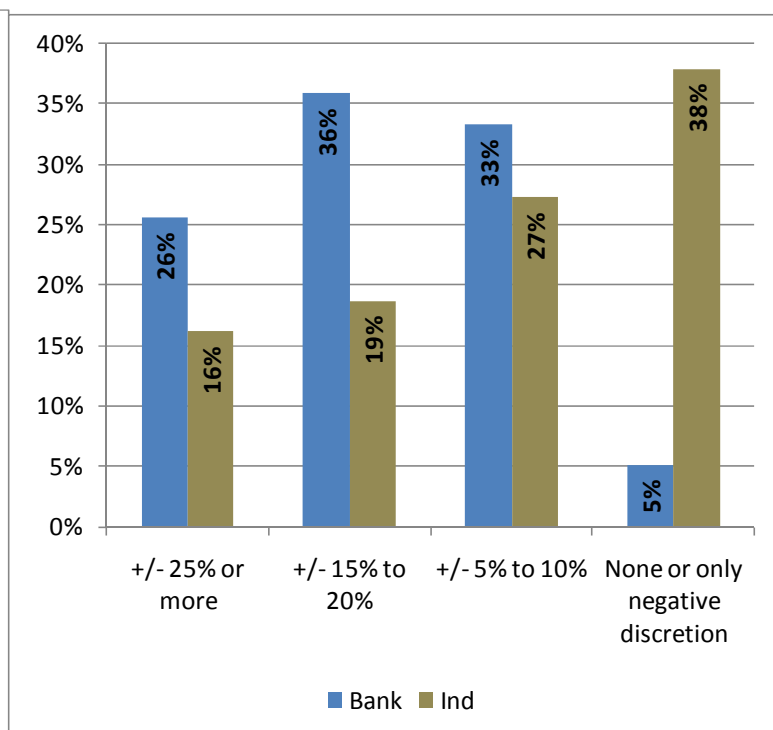
- Discretion is generally viewed as a necessary element of executive plan design
- Banks in general are more comfortable allowing for a reasonable level of discretionary adjustment (positive or negative) for incentive awards

How much, if any, discretion should be available to adjust incentive plan results?

Annual Incentive Plan Discretion



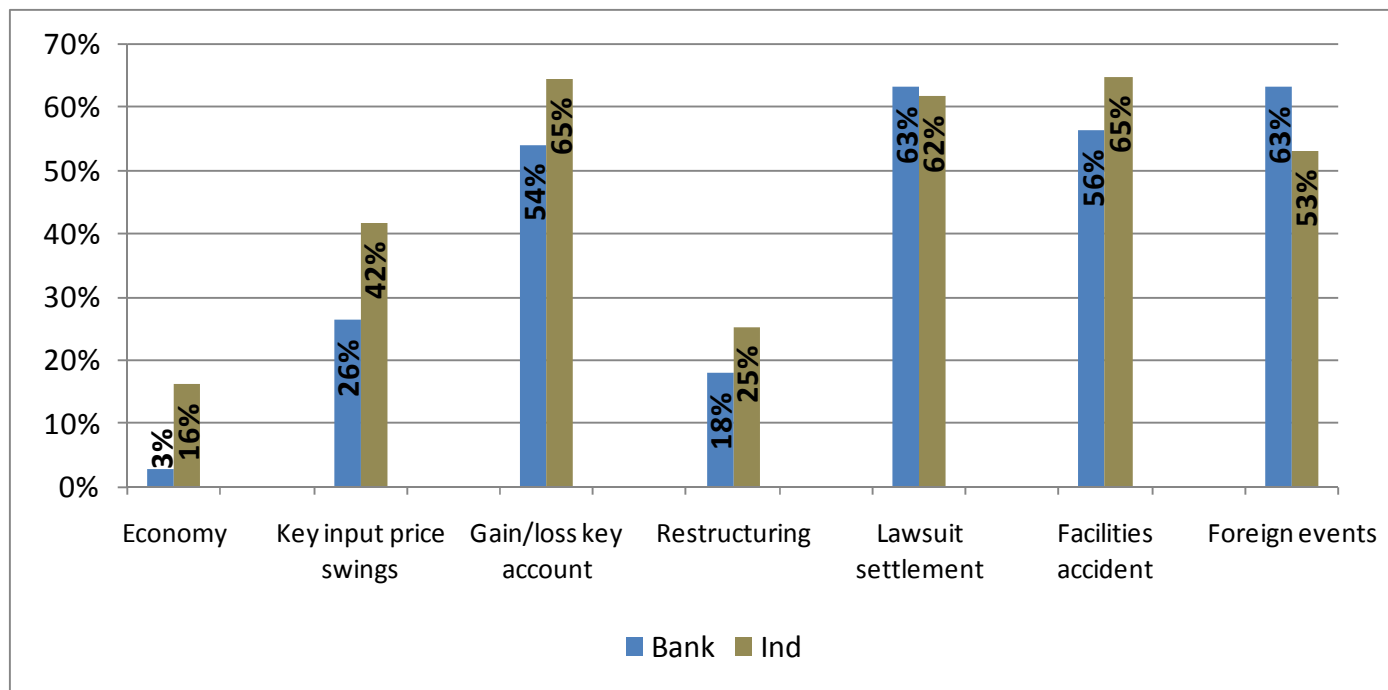
LTI Plan Discretion



How much discretionary adjustment of incentives is appropriate and under what circumstances?

- Banks tend to be more “forgiving” than general industry regarding situations that may warrant discretion

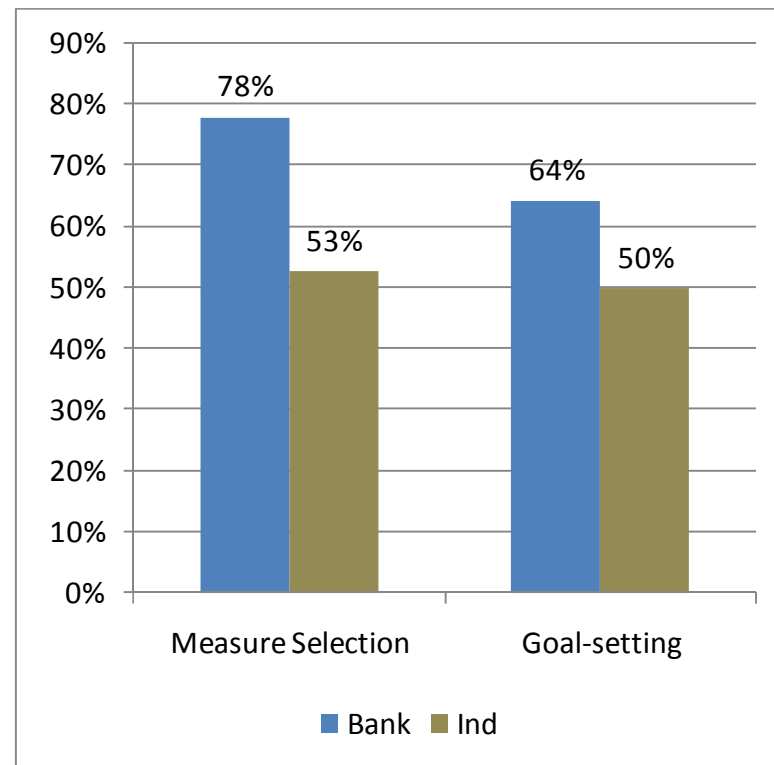
Situations Viewed as LESS Appropriate for Discretionary Adjustment



Who is involved in performance measure selection and goal-setting?

- CEO continues to play a central role. The CFO and HR head is likely to be involved.
- Directors are more involved with measure selection and the goal-setting processes than in the past.

Board is MORE Involved in Each Process

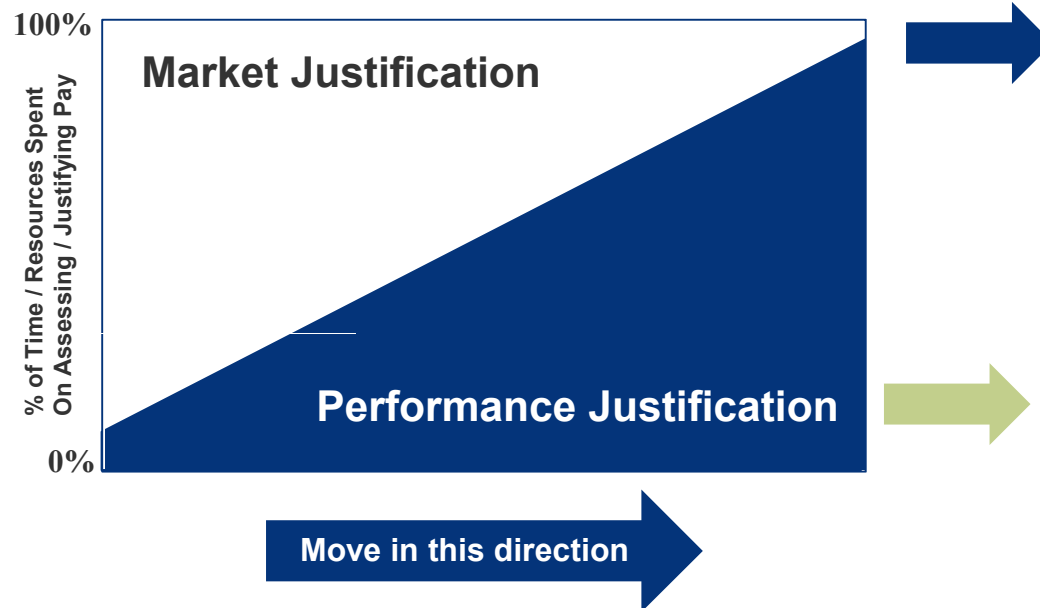


What kind of data and analysis is being used to determine performance measures and goals?

■ Inputs considered in selecting performance measures

- Long-range or strategic plan (95%)
- Annual budget (84%)
- Review of company performance against peers (76%)
- Review of peer and industry practices (68%)
- Percentage of value sharing (40.5%)
- Statistical analysis of the link between various performance measures and stock price performance (35%)
- Business unit “bottom-up plans (29%)
- Consideration of adjustments to GAAP or standard measures based on company-specific economic circumstances (24%)
- Statistical analysis of financial measure linkage to share price (18.4%)

Variable Pay Needs to be “Performance Justified”



WHAT IT “SOUNDS” LIKE

MARKET JUSTIFICATION

- We need to increase pay to be competitive

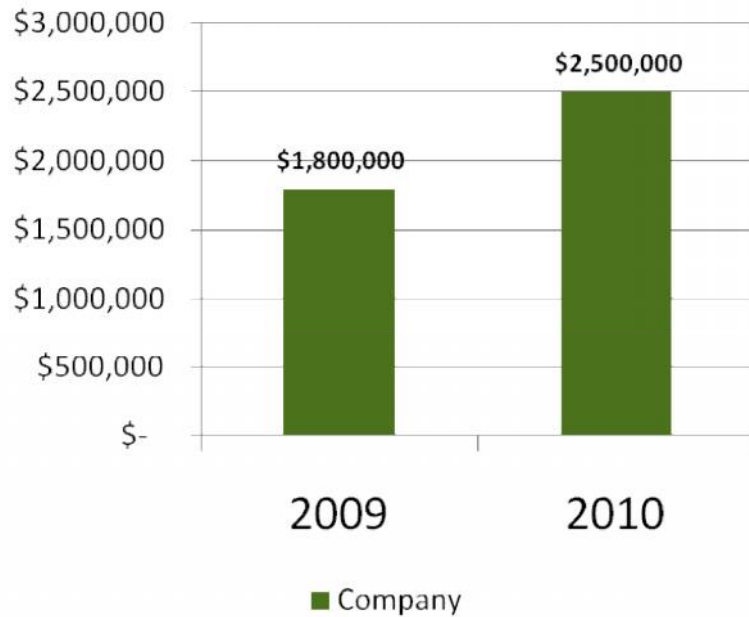
PERFORMANCE JUSTIFICATION

- We need to increase pay to bring pay and performance into alignment

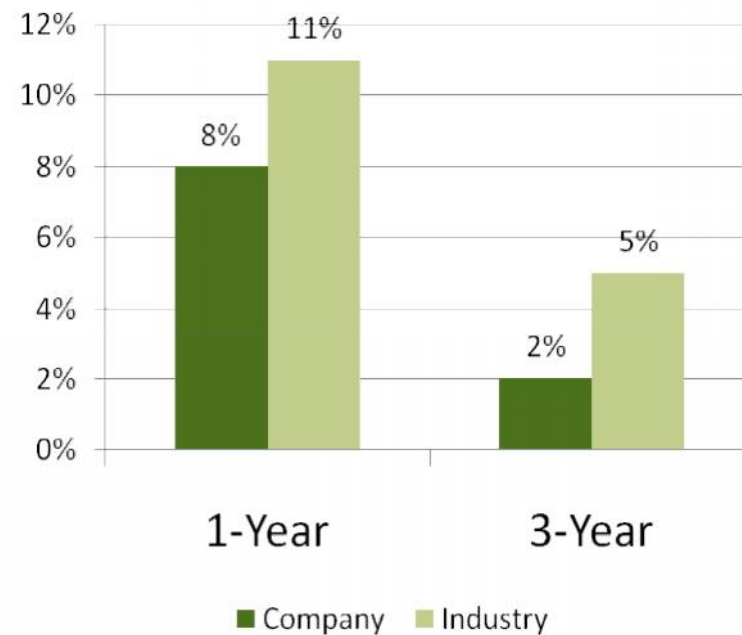
Which do you think resonates better with shareholders?

“Disconnects” Cause SOP Challenges

CEO Pay

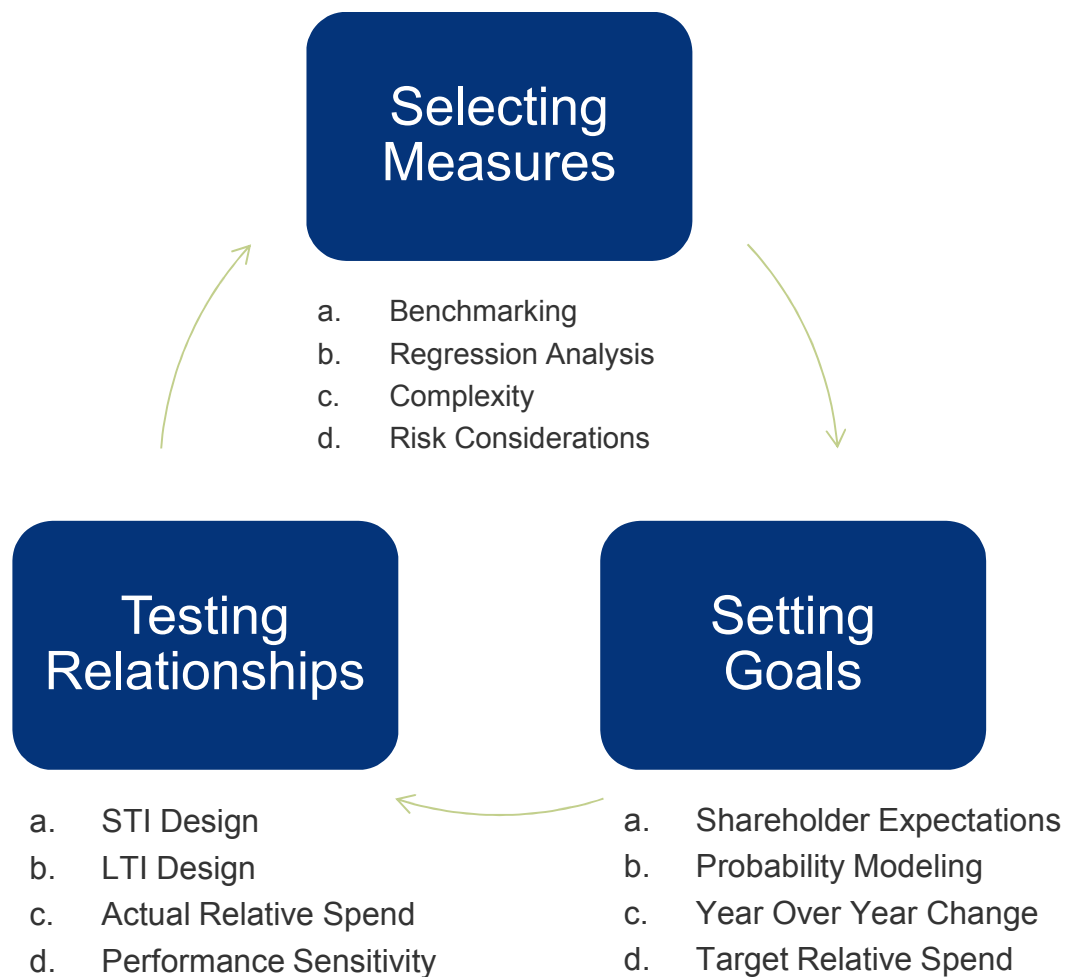


Company TSR



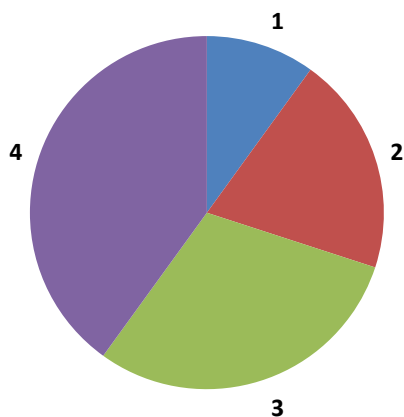
Increased CEO Pay + Below Market Returns = AGAINST SOP

Good Offense Requires Robust Tools & Techniques

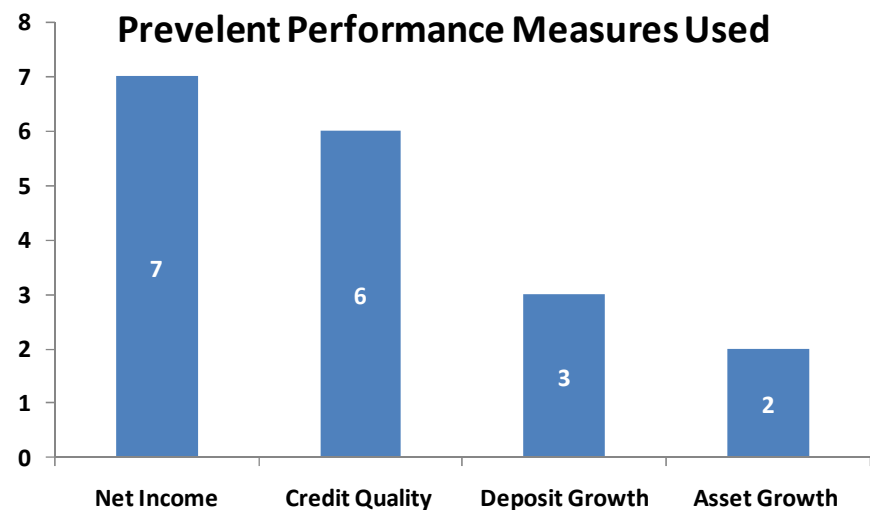


Understand Market / Peer Group Practices

Number of Measures Used



Prevalent Performance Measures Used

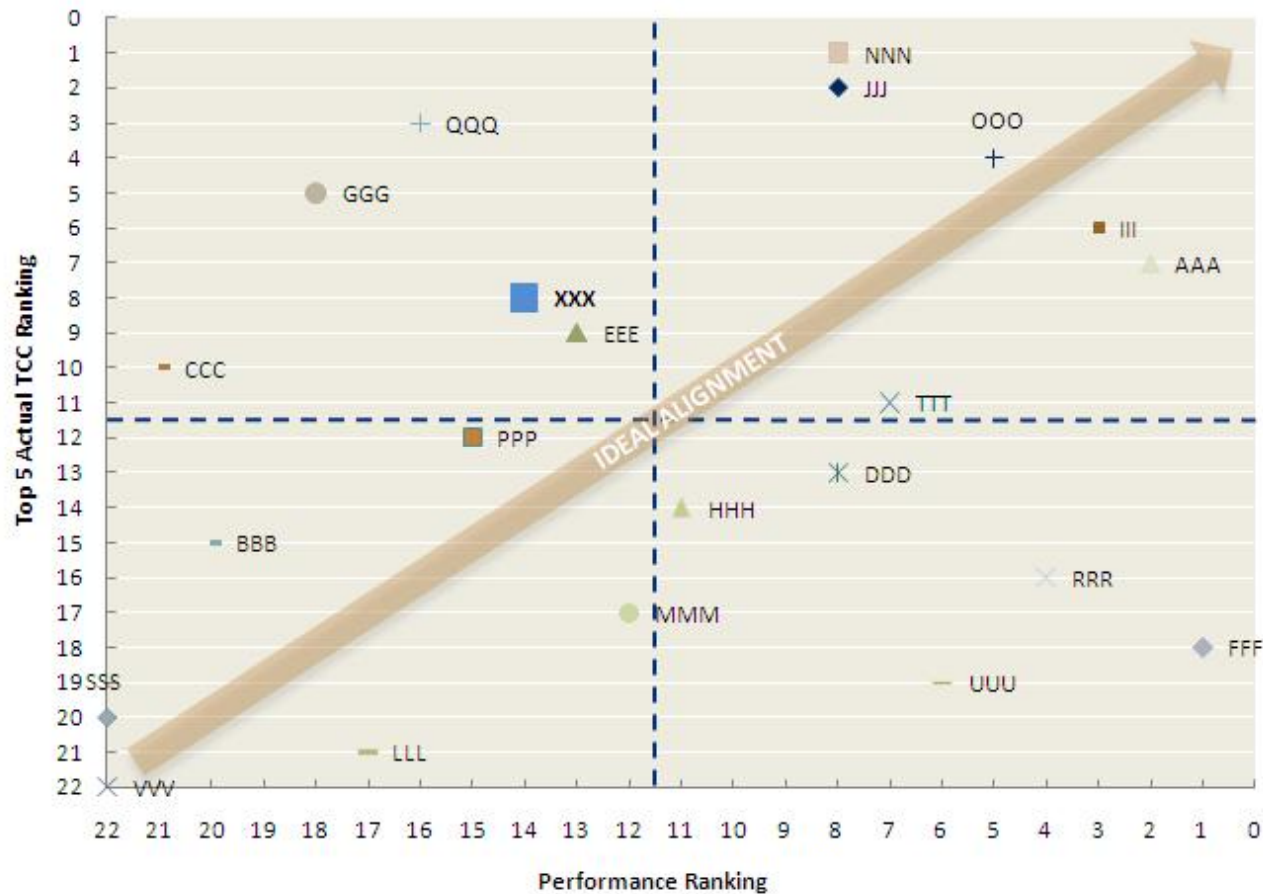


What everyone else is doing may not be right for your bank

Look at Performance Relative to Peers

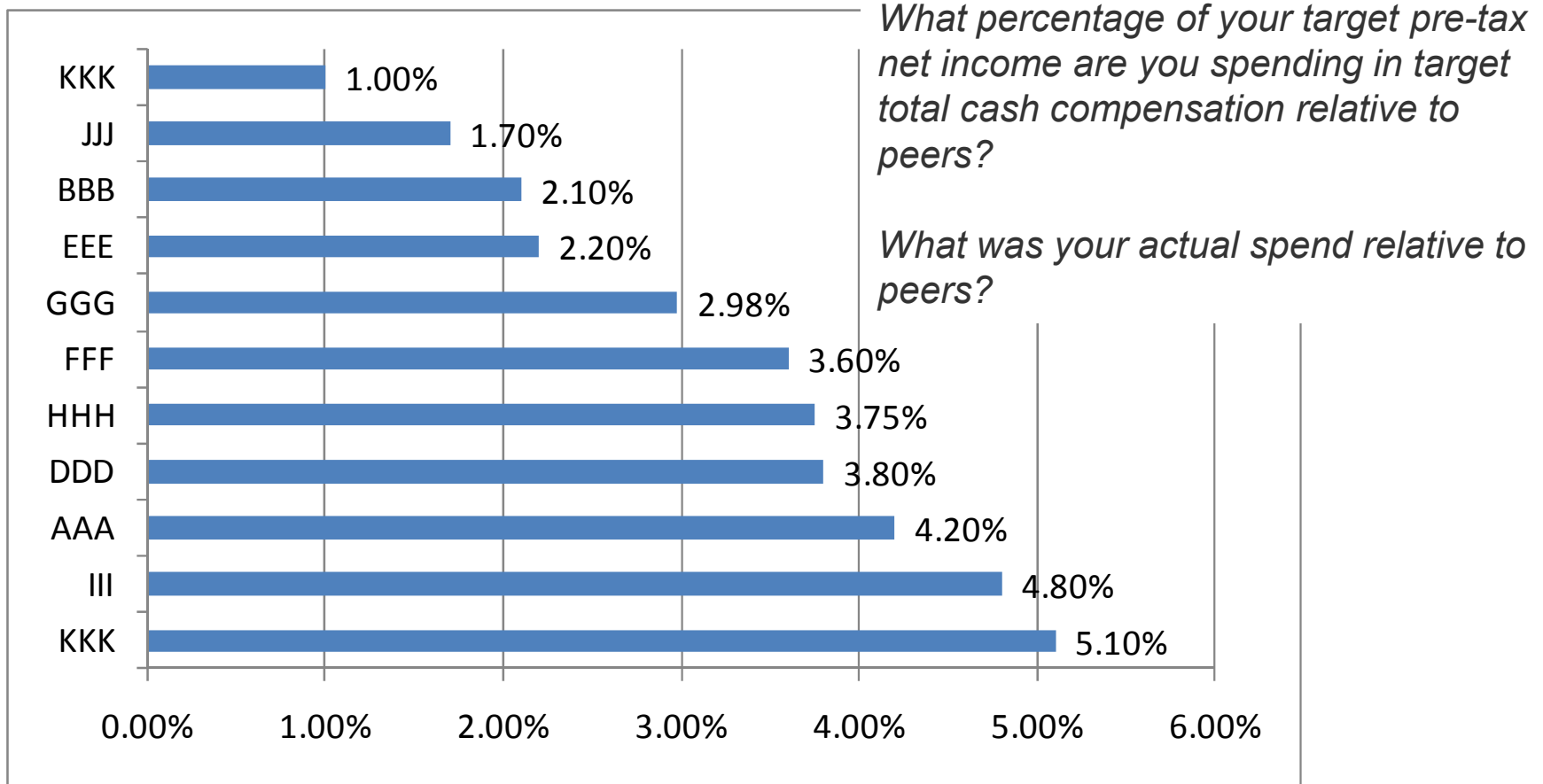
Bank	TARP	Total Assets	Total Revenue	Net Income	Efficiency		Net Interest	3-Year TSR	NPAs / Assets (%)	NCOs / Avg Loans (%)	
		(\$000) 2010Y	(\$000) 2010Y	(\$000) 2010Y	ROAA (%) 2010Y	ROAE (%) 2010Y	Ratio (%) 2010Y				Margin (%) 2010Y
AAA	Participating	1,807,161	90,783	3,380	0.18	2.04	65.88	4.00	-54.18	4.28	2.01
BBB	Participating	1,067,652	47,920	1,841	0.17	1.81	62.74	3.46	-61.30	5.86	2.16
CCC	Redeemed	1,064,487	56,428	8,639	0.85	9.57	69.75	3.21	-50.02	2.25	1.94
DDD	No	1,022,238	46,328	15,569	1.57	12.07	43.42	4.52	105.89	0.99	0.46
EEE	No	971,055	21,847	-1,081	-0.11	-0.85	49.38	2.58	n/a	4.13	0.86
FFF	Participating	919,869	39,914	860	0.09	0.99	69.87	3.36	-41.73	2.89	1.64
HHH	Participating	904,137	86,268	8,110	0.91	8.87	64.57	7.17	-12.30	3.05	1.48
III	No	886,841	43,547	1,547	0.17	1.87	73.16	3.63	-35.55	3.83	0.55
JJJ	Redeemed	825,583	83,875	6,212	0.80	8.97	77.60	4.22	-16.42	1.17	1.29
KKK	Approved	797,246	45,219	-2,380	-0.29	-2.74	61.32	4.59	-65.31	10.56	2.69
	<i>Average</i>	848,390	42,953	1,857	0.15	1.86	65.23	3.87	-42.21	4.61	1.58
	<i>25th Percentile</i>	628,638	26,514	-2,055	-0.25	-2.27	70.10	3.39	-65.31	5.79	2.12
	<i>50th Percentile</i>	811,415	38,315	1,489	0.17	1.96	66.40	3.73	-51.79	4.20	1.56
	<i>75th Percentile</i>	958,259	47,522	3,567	0.62	7.21	61.67	4.05	-36.87	2.93	0.86
ZZZ	No	833,664	36,328	8,278	1.00	7.59	58.83	3.78	36.34	0.76	0.24
	Rank	56	44	89	94	78	89	50	94	100	100

Testing Relationships – STI Design

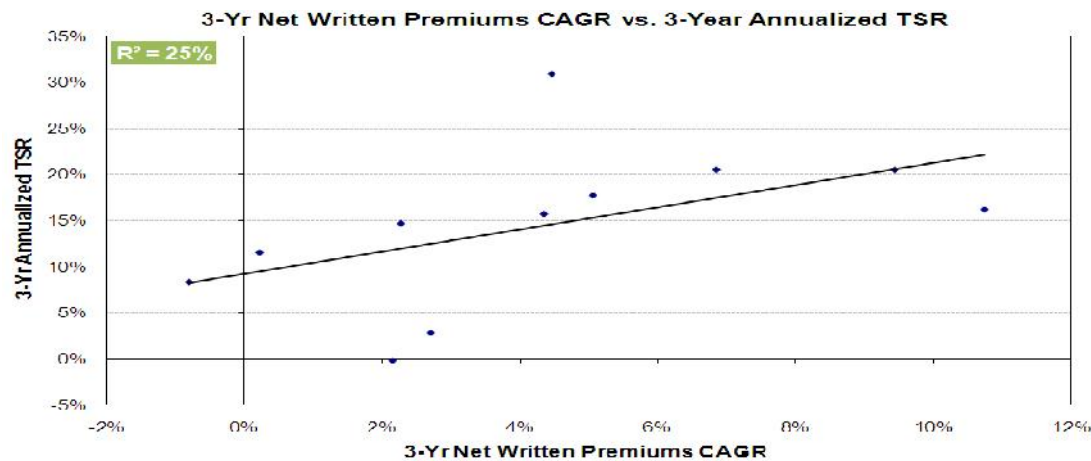
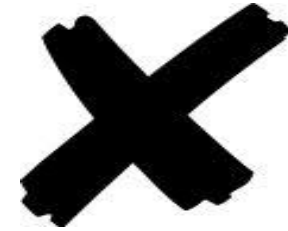
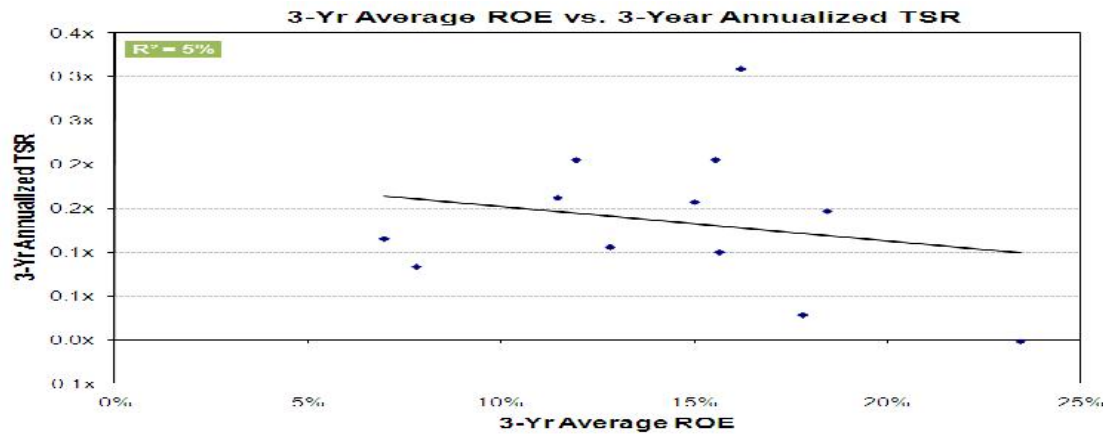


Rear view mirror – prior year pay and performance alignment vs. peers

Testing Relationships – Actual and Relative Spend



Test Relationships Between Measures and Value Creation



Intended to provide directional not absolute guidance

Complexity and Risk Considerations

- Manage trade-offs to minimize complexity
 - There is a trade-off between complexity and the ability to predict value
 - Participants need to understand measures and how they can impact it
- Consider risks

Instructions: Please evaluate the plan under each scoring line. For each section, please also document important notes and commentary relating to each specific section.

Score of 1: suggests perfect alignment with the "Low Risk / High Effectiveness" column.

Score of 2: suggests strong alignment with the "Low Risk / High Effectiveness" column with some aspects considered "High Risk / Low Effectiveness"

Score of 3: suggests moderate alignment with both the "Low Risk / High Effectiveness" and "High Risk / Low Effectiveness" columns

Score of 4: suggests strong alignment with the "High Risk / Low Effectiveness" column with some aspects considered "Low Risk / High Effectiveness"

Score of 5: suggests perfect alignment with the "High Risk / Low Effectiveness" column.

I. Performance Metrics

		SCORE						
Low Risk / High Effectiveness		1	2	3	4	5	High Risk / Low Effectiveness	
Incentive plan metrics align and support the business strategy	Incentive plan metrics are not aligned or supportive of the business strategy							
Incentive plan metrics are linked with key business risks	Incentive plan metrics are not linked with key business risks							
Multiple Metrics	Single Metric							
No metric has >75% weighting for the overall plan	More than 75% of the plan weighting is on one metric							
No one metric represents less than 20% of the overall incentive	Presence of one or more metrics representing less than 20% of the overall incentive							

■ Key Takeaways

- A large portion of executive compensation is performance-based, and this compensation needs to be justified by performance
- Failure to achieve and demonstrate pay and performance alignment has increased consequences when shareholders have a Say on Pay
- More time should be spent on achieving and demonstrating pay and performance alignment
- There are effective tools and techniques for assessing and recalibrating the relationship between pay and performance
- The intention of these tool and techniques is not to produce an answer, but rather to further inform decision-making