

August 26 ,2009

**“I’m Spending \$1 Million on My Top 5
People...What Am I Getting For It?”**



THE VISIONLINK
ADVISORY GROUP

Key Concepts



- Every compensation plan should produce a return on investment
- No one measures it; but they should
- The right compensation allocation creates a more efficient return
- If you first define shareholder growth goals you'll build more effective compensation plans
- Paying people more does not necessarily produce better results



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

Tom Miller

President

(949) 265-5700

tmiller@vladvisors.com



Today's Hosts



M Benefit Solutions™
Bank Strategies
An M Financial Group Company



Preferred
SERVICE PROVIDER



THE VISIONLINK
ADVISORY GROUP

We're happy to provide a copy of today's slides.
Information will be provided at the close
of the presentation.

You will receive an email summary of today's
presentation - courtesy of M Benefit Solutions

For questions during today's presentation:

Use the question panel to the right of your screen

\$1,000,000

(All numbers are samples only)

Jack Welch

- \$9 million annual retirement benefit, plus perks—very controversial
- Less than 3/100ths of 1% of value created during his tenure (0.03 of \$396B)
- Total comp during his entire period of service was less than 2/10ths of 1%
- Would you pay that?

\$369 billion of growth

That's called results!

Purpose of Pay?



Execution of the business plan

You have a plan

You have good people

**Why aren't you getting the
sustainable results you know
you're capable of?**

**There are things going on
below the surface that are
hindering your execution**

Alignment

Action

Clarity • Focus • Rewards

Attitude

Ownership • Accountable • Commitment

People

Talent • Vision • Right fit

Plan

Achievable • Understandable • Compelling

**“Growth” implies different results,
therefore the pay cannot be the
same**

Plan



- Where are we going?
 - Are we headed in the right direction?
- How are we going to get there?
 - Do we have the best strategy to get us there?

People



- Can we recruit top tier talent?
 - Anyone we want or need?
- Can we retain them?
 - Is there a long-term commitment?

Attitude



- Do they have an ownership mentality?
 - Do they own the results?
- Are they aligned with the shareholders?
 - Are their rewards at risk?

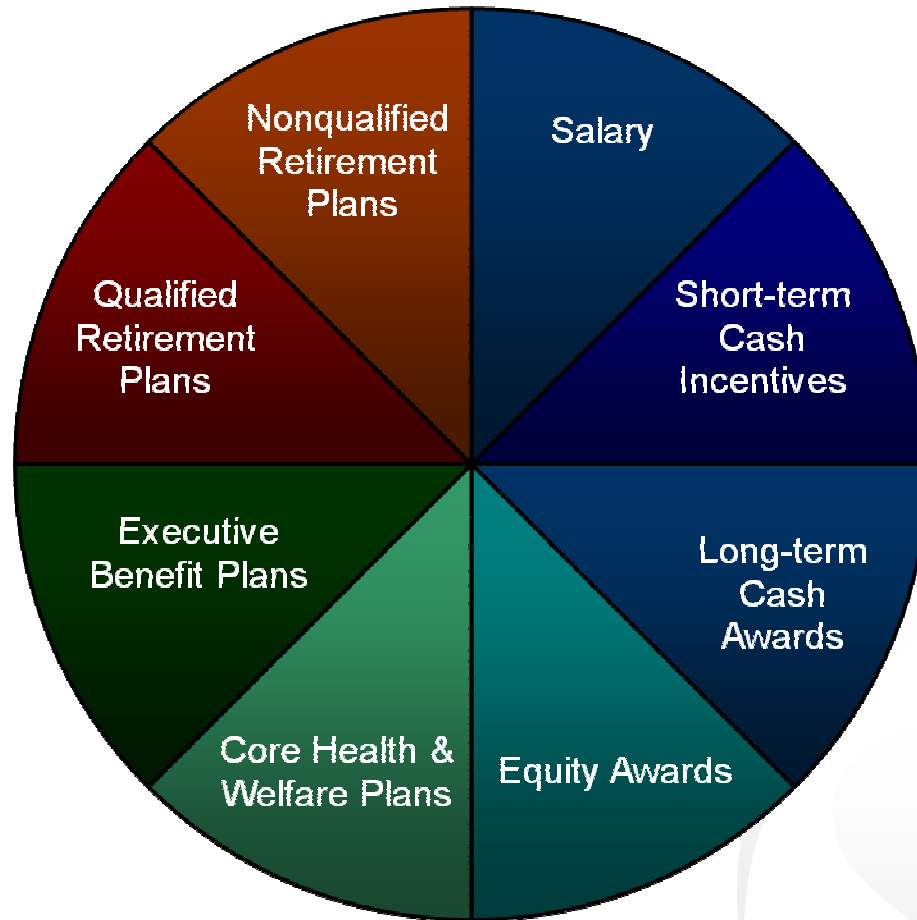
Action



- Are they focused on daily execution?
- Do we reward for performance?

Eight components of pay

- Core benefits
- Executive benefits
- Qualified retirement plans
- Supplemental retirement plans
- Salary
- Short-term incentives
- Long-term incentives (cash)
- Long-term incentives (equity)



FoxHill Bank Executive Rewards Summary

	Annual Salary	Target STIP	Target LTIP Cash	Target LTIP Equity	Core Benefits	Executive Benefits	QRP	Target SRP	Total
Donna Smith	180,000	72,000	36,000	36,000	8,500	9,000	5,400	41,479	388,379
Greg Hill	160,000	48,000	24,000	24,000	8,500	7,500	4,800	37,529	314,329
Alex Redding	160,000	48,000	24,000	24,000	8,500	7,500	4,800	56,703	333,503
	500,000	168,000	84,000	84,000	25,500	24,000	15,000	135,711	1,036,211

FoxHill Bank Executive Rewards Summary

Fixed Commitments

	Annual Salary	Target STIP	Target LTIP Cash	Target LTIP Equity	Core Benefits	Executive Benefits	QRP	Target SRP	Total
Donna Smith	180,000	72,000	36,000	36,000	8,500	9,000	5,400	41,479	388,379
Greg Hill	160,000	48,000	24,000	24,000	8,500	7,500	4,800	37,529	314,329
Alex Redding	160,000	48,000	24,000	24,000	8,500	7,500	4,800	56,703	333,503
	500,000	168,000	84,000	84,000	25,500	24,000	15,000	135,711	1,036,211

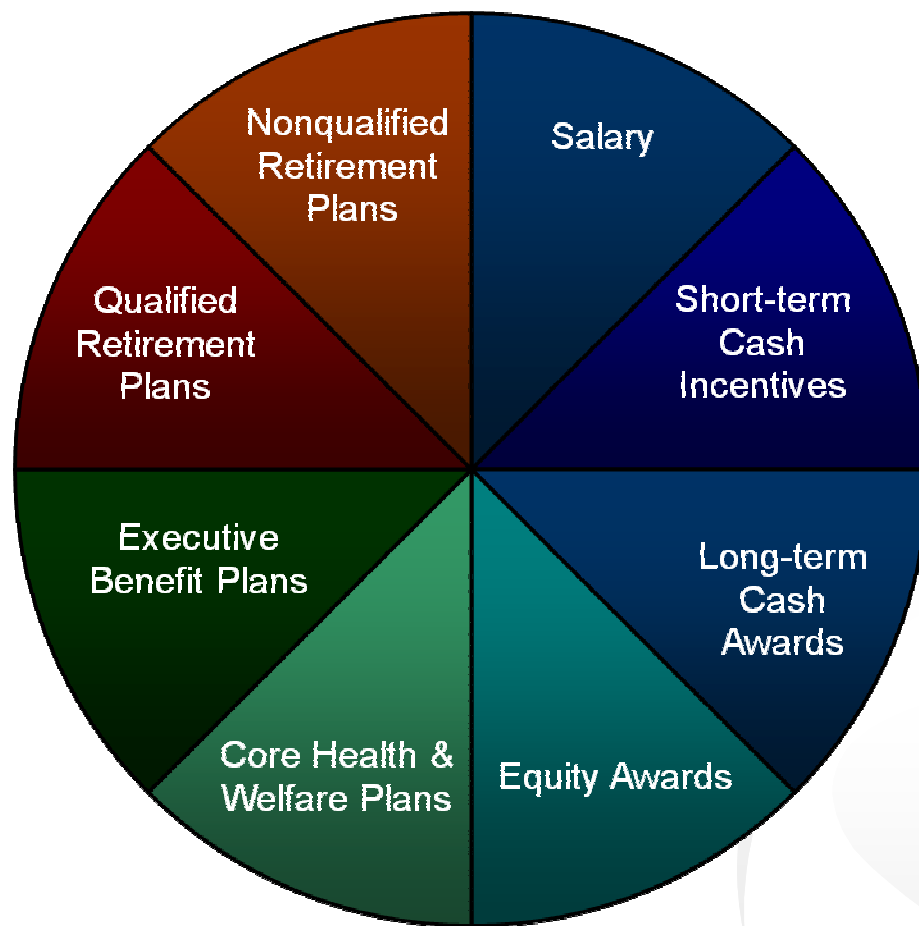
FoxHill Bank Executive Rewards Summary

Fixed Commitments

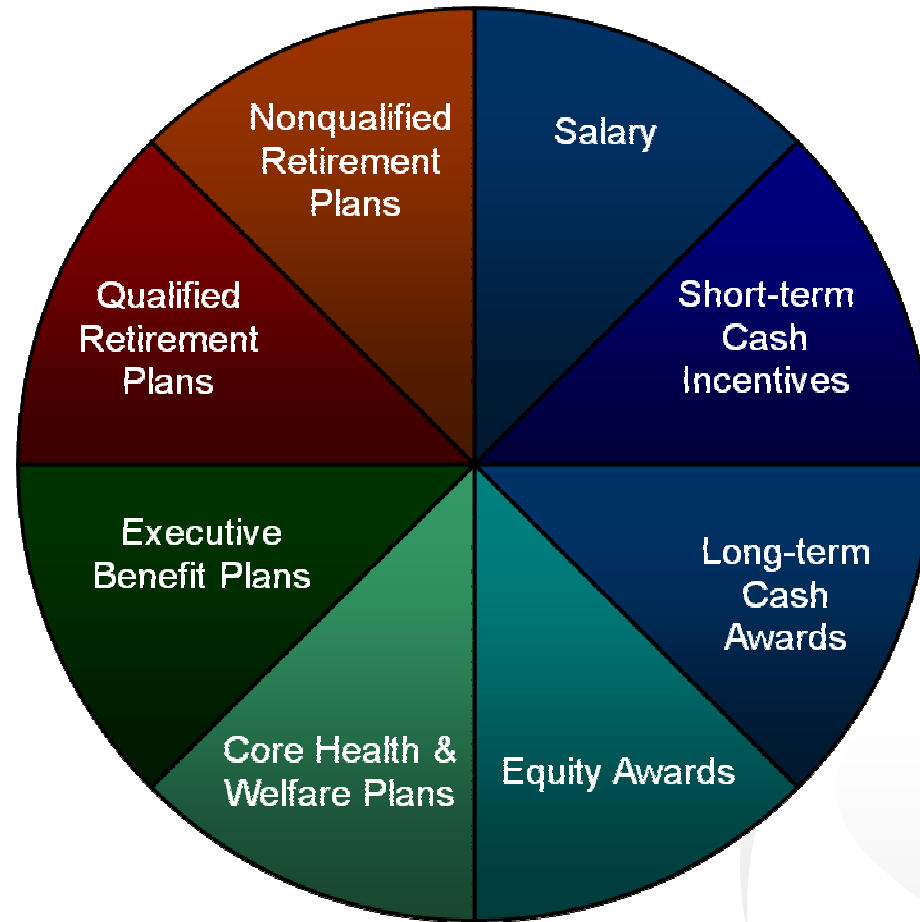
	Annual Salary	Target STIP	Target LTIP Cash	Target LTIP Equity	Core Benefits	Executive Benefits	QRP	Target SRP	Total
Donna Smith	180,000	72,000	36,000	36,000	8,500	9,000	5,400	41,479	388,379
Greg Hill	160,000	48,000	24,000	24,000	8,500	7,500	4,800	37,529	314,329
Alex Redding	160,000	48,000	24,000	24,000	8,500	7,500	4,800	56,703	333,503
	500,000	168,000	84,000	84,000	25,500	24,000	15,000	135,711	1,036,211

FoxHill Bank Executive Rewards Summary

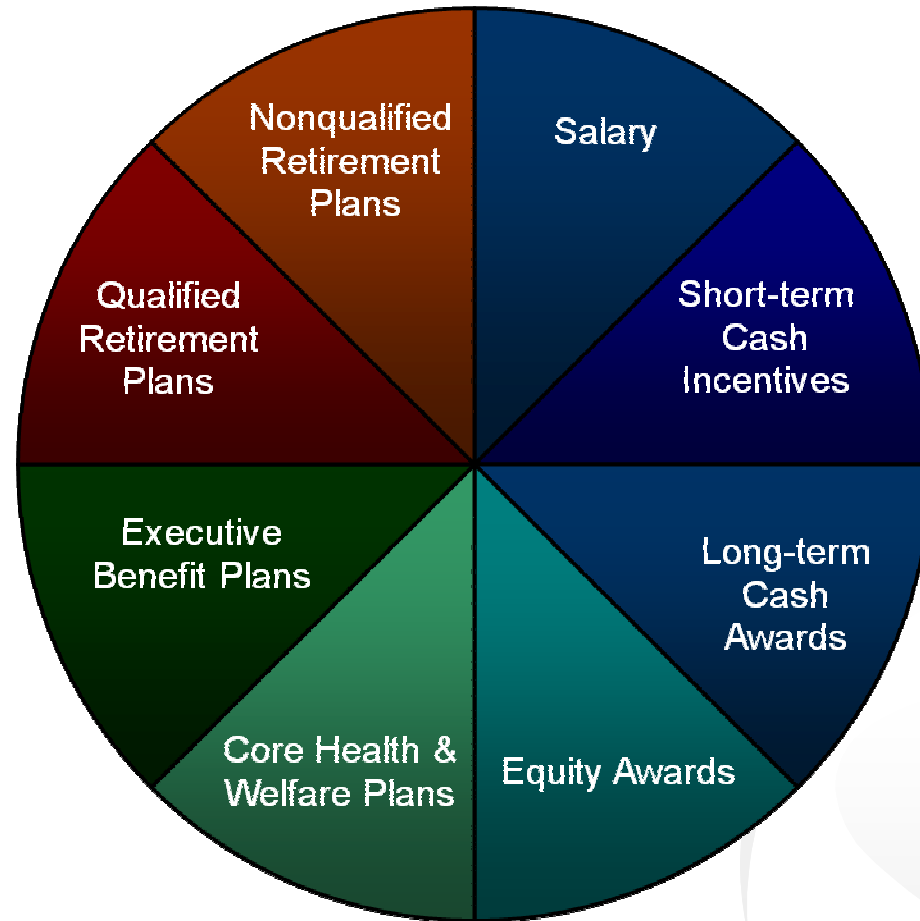
	Annual Salary	Target STIP	Target LTIP Cash	Target LTIP Equity	Core Benefits	Executive Benefits	QRP	Target SRP	Total
Donna Smith	180,000	72,000	36,000	36,000	8,500	9,000	5,400	41,479	388,379
Greg Hill	160,000	48,000	24,000	24,000	8,500	7,500	4,800	37,529	314,329
Alex Redding	160,000	48,000	24,000	24,000	8,500	7,500	4,800	56,703	333,503
	500,000	168,000	84,000	84,000	25,500	24,000	15,000	135,711	1,036,211
	Committed	564,500			Can be or is self-financing		471,711		



How do these slices differ?

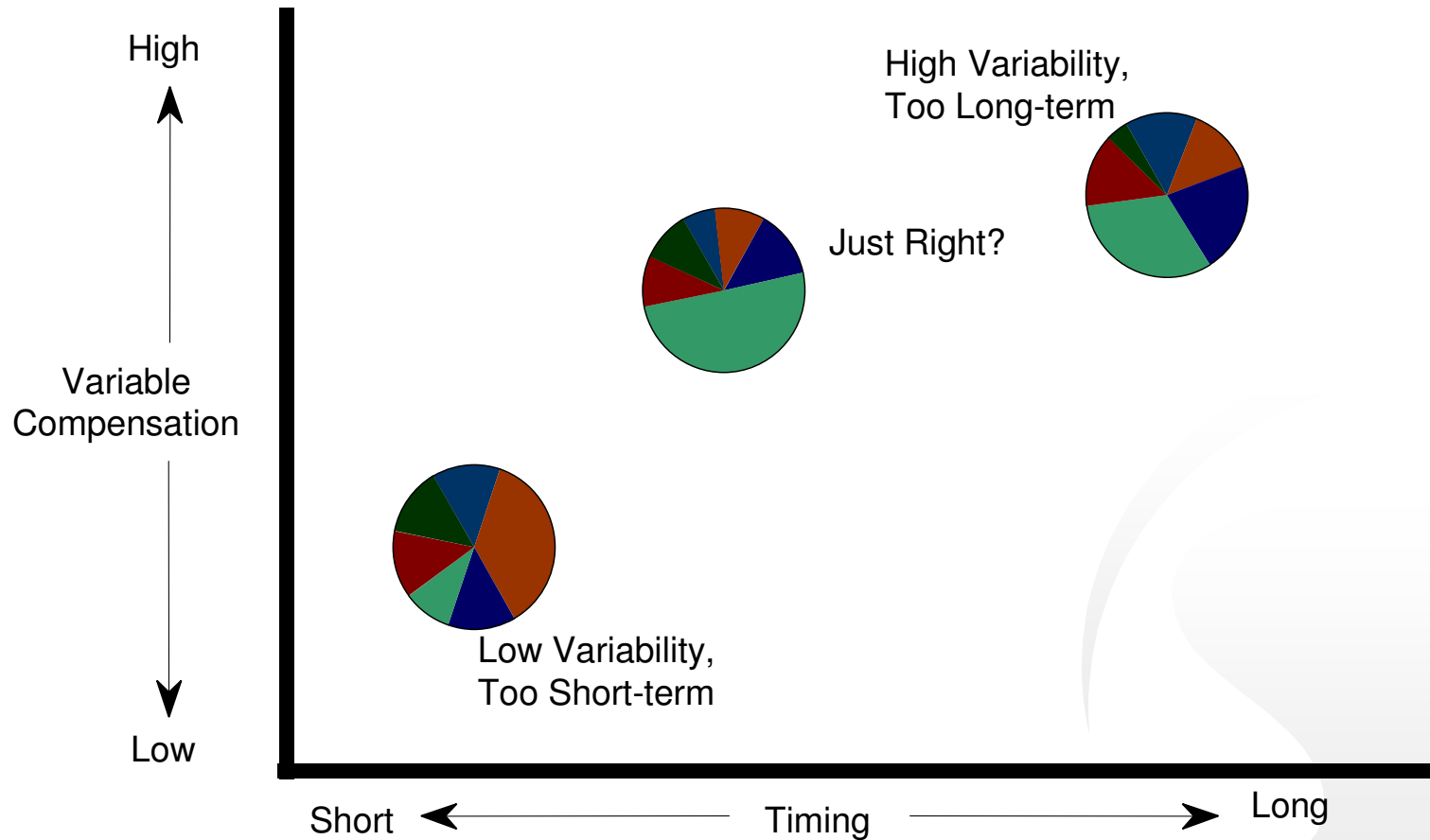


When they're paid



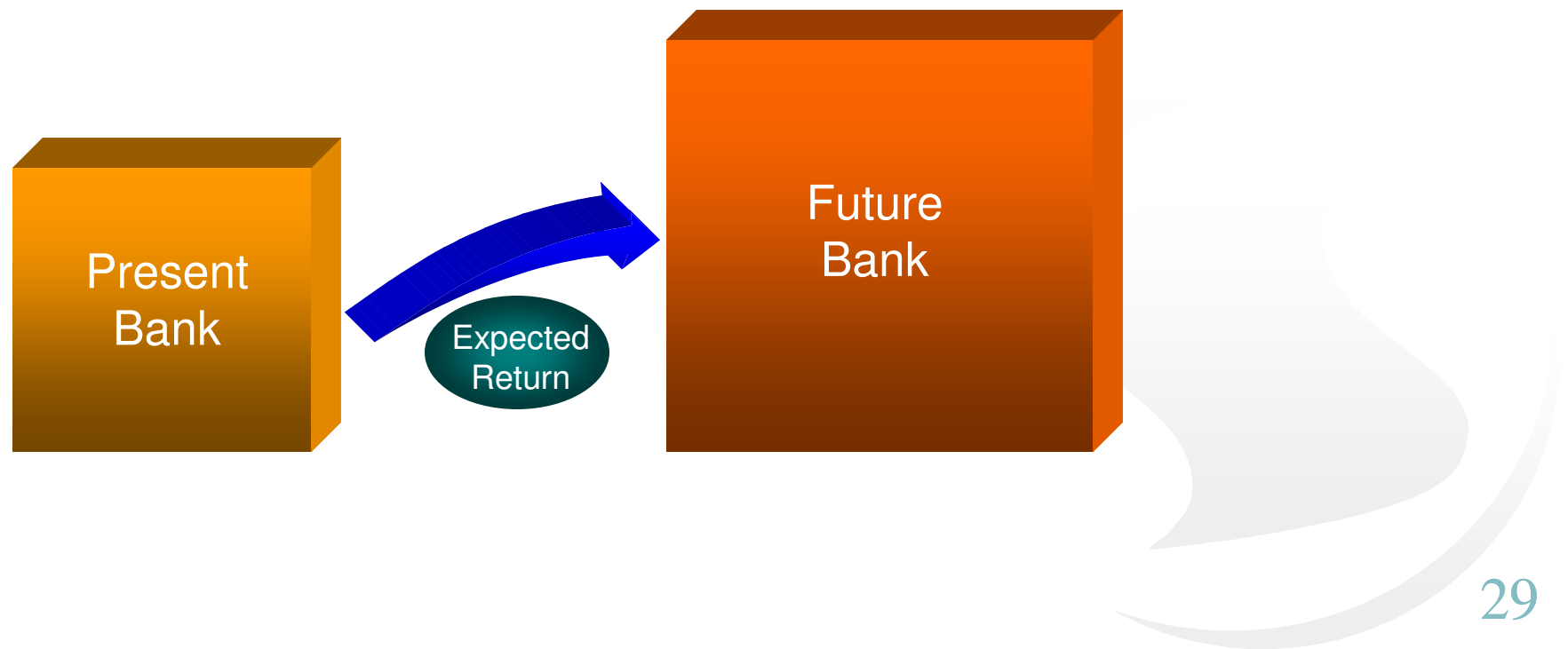
And whether they're received (how much they'll be worth when received)

Identifying Ideal Compensation Allocations

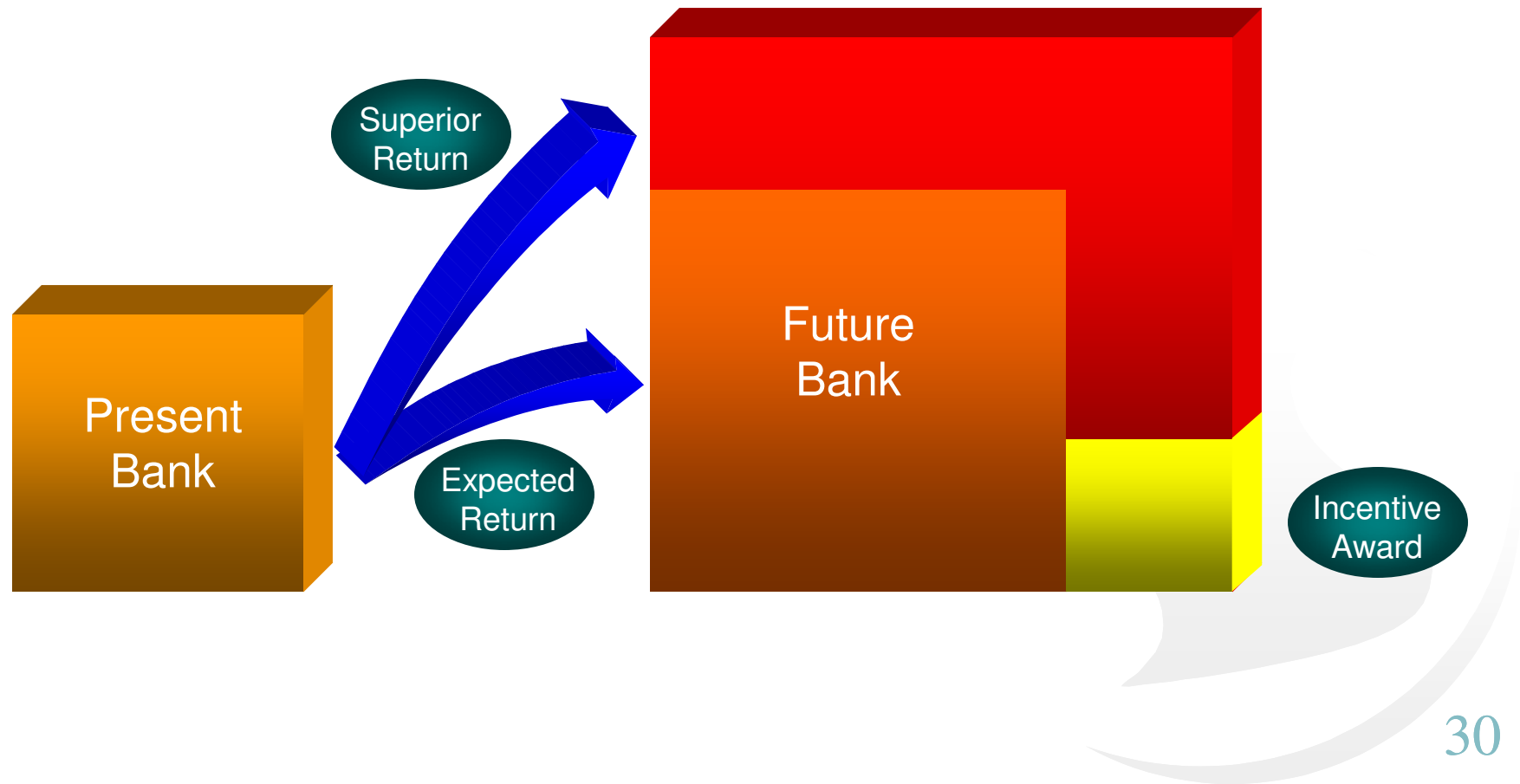


Form of Pay	Purpose	Standard	Investment	ROI
Salaries	Provide for the current cash needs of our executives	40-50th percentile for peer group	\$500,000	Achieve ROA standard of 0.75%
Short-term Incentives	Enhance current cash payments to executives for achieving top and bottom line annual goals	30-40% of base salary	\$168,000 (Target)	15% revenue growth and 12% margin
Long-term Incentives (Cash)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Long-term Incentives (Equity)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Core Benefits	Meet basic security needs of the executives	50th percentile for peer group	\$25,500	ROA of 0.75%
Executive Benefits	Enhance basic security needs and meet market standards for perquisites	50th percentile for peer group	\$24,000	ROA of 0.75%
Qualified Retirement	Provide wealth accumulation opportunity for executives	40th percentile (3% of salary)	\$15,000	ROA of 0.75%
Supplemental Retirement	Strengthen rewards value proposition to help recruit and retain executives; meet wealth accumulation needs	30th percentile compared to banks that have plans	\$135,000	ROA of 0.9%

How should we think about compensation as an investment?



How should we think about compensation as an investment?



ROTRI™ - Return on Total Rewards Investment

How much is the Total Rewards Investment?

- Salaries
- Commissions
- Bonuses
- Deferred award accruals (LTIP)
- Core benefits
- Executive benefits
- Retirement contributions
- Payroll taxes

What return do you get on that investment?

____%



ROTRI™ Example:

Capital Account	\$ 2,000,000
Cost of Capital	12%
Capital Charge	\$ 240,000
NOPAT	\$ 1,000,000
Productivity Profit	\$ 760,000
Total Rewards Investment	\$ 4,500,000
ROTRI™	16.9%

(ROTRI = Productivity Profit/Total Rewards Investment)

Current Equity Value	EOY	10% GR (Threshold)	11% GR	12% GR	13% GR	14% GR	15% GR
25,000,000	1	27,500,000	27,750,000	28,000,000	28,250,000	28,500,000	28,750,000
	15	104,431,204	119,614,737	136,839,144	156,356,759	178,448,449	203,426,541
	Incremental increase in value		15,183,533	17,224,407	19,517,615	22,091,690	24,978,091
	Cum Value Increase Above Threshold		15,183,533	32,407,940	51,925,555	74,017,245	98,995,336
	% Shared		10%	15%	20%	25%	30%
	\$ Shared		1,518,353	4,861,191	10,385,111	18,504,311	29,698,601
	Net Increase for SH		13,665,180	27,546,749	41,540,444	55,512,934	69,296,736
	New SH Value		118,096,384	131,977,953	145,971,648	159,944,138	173,727,940
	IRR		10.9%	11.7%	12.5%	13.2%	13.8%

Rewards Pyramid



Rewards to Results





Total Rewards

**Sustainable
Cash Flow**

Salary / STIP

Security

Benefits

**Wealth
Accumulation**

Retirement / LTIP

**Confidence in
Lifestyle**

**Participation in
Value Creation**

**Ownership Mentality
Line of Sight
Deferred Gratification
Win Talent Wars
Self-financing
Abundance Mentality**

Sustainable Growth

**Culture is Competitive
Advantage**



Fundamental Philosophy

Fair salaries, strong benefits, great upside for short- and long-term growth and profitability. We share the economic value our employees help create.

Fundamental Philosophy— Written Guidelines

- Salaries targeted between 40th and 50th percentile (varying by experience and contribution)
- Total cash opportunity targeted at 75th percentile for excellent performance
- Security program at 50th percentile
- Wealth accumulation opportunity at the 90th percentile for excellent long-term growth

FoxHill Bank Results Map

Desired Results

Five Year Goals:
Double Interest Revenue
Triple Non-interest Revenue
Triple Net Income
Open 6 new branches

Barriers

Current real estate environment stifling growth in mortgage business

Technology platform is out-of-date and will need complete overhaul

Tough recruiting market is challenging ability to attract new management talent

Actions

Adopt written compensation philosophy that aligns growth strategy with highly focused incentives

Re-structure short-term incentive plan to create greater accountability for top- and bottom line results (including departmental focus)

Add long-term incentive plan that creates rewards for growing shareholder value and serves as retention tool

Implement modest supplemental retirement plan that will enhance recruiting value proposition

Adopt a process for ongoing communication of the bank's total rewards value to employees

Expected Outcomes

Moderate payroll expenses in down years coupled with above market pay in superior performance periods

More motivated and focused entrepreneurial management team

Improved profitability in all departments

Ability to recruit and retain any desired manager or executive

For compensation to do its part in changing results, the following must occur:

- Both the forecast and the compensation plan must be understood
- Both the forecasted results and the compensation plan must be valued
- The results must be believable (achievable)
- Employees must be committed (ownership)
- Results must be measurable (concrete)
- Results must be communicated (regularly)

Steps



1. Set your goals
2. Build a model
3. Identify key measurements
4. Select each compensation tool with a purpose
5. Test
6. Build

Measuring Employee Commitment

- Net Motivation Score (NMS)
- Examines three responses:
 - Clarity of the plan
 - Believability of the plan
 - Value of the plan

Net Motivation Score

- I clearly understand what personal and organizational results need to be achieved in order to receive my targeted incentive award
- I believe the bank can, and likely will, achieve the results that will enable me to earn my targeted incentive award
- It is important that we achieve our results because my targeted incentive award value is very meaningful to me

Net Motivation Score

- I clearly understand what personal and organizational results need to be achieved in order to receive my targeted incentive award
- I believe the bank can, and likely will, achieve the results that will enable me to earn my targeted incentive award
- It is important that we achieve our results because my targeted incentive award value is very meaningful to me

Typical Score

Component	Motivated	Unsure	Not Motivated	Score
Clarity	4	3	3	1
Belief	3	5	2	1
Value	4	2	4	0
Composite				0.7

Positive Score

Component	Motivated	Unsure	Not Motivated	Score
Clarity	9	1	0	8
Belief	7	2	1	6
Value	8	2	0	8
Composite				7.3

Complimentary Offer

- Net Motivation Score evaluation
- Confidential (and no obligation)
- Web survey
- Includes commentary (recommendations)

Goal

- NMS of 8 or higher within 2 years
- Increased confidence, commitment, understanding and appreciation

Next Online Seminar:

“What Your Employees Are Not Telling You About Your Current Rewards Programs”

To be held on:
Wednesday, September 23rd, 2009

Check out our NEW website:

www.VLadvisors.com

The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, which consists of a stylized 'V' icon and the text 'THE VISIONLINK ADVISORY GROUP'. To the right of the logo is a 'CLIENT login' section with input fields for 'user name' and 'password', and a 'Login' button. Below the login section is a phone icon and the number '(888) 703 - 0080', along with an RSS feed icon. A navigation menu below the header includes links for 'Home', 'About Us', 'Client Profile', 'Information and Resources', 'Client Locations', 'Events', 'Blog', and 'Contact Us'. The main content area features a large banner with a blue-tinted image of people in a meeting. The banner text reads: 'How Do I Structure Compensation in Recessary Times ...and Still Maintain a Competitive Advantage?'. On the left side of the banner are three vertical buttons: 'Structure Compensation', 'Top People Management', and 'Entitlement Mentality'. Below the banner is a section for a webinar invitation list, with the text 'Join our webinar invitation list: Please enter your email address:' and a 'Join' button. To the right of this is a section titled 'Strategic Compensation Development and Management Firm'. Below this title is a short paragraph: 'VisionLink enables mid-market companies to achieve greater execution and productivity from key talent through pay-for-performance compensation strategies.' To the right of this paragraph is a quote from a client: 'VisionLink has helped us successfully navigate a number of complex issues regarding our rewards programs. It has'.

You can also subscribe to our new blog

Questions



Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

*You may request a copy of our slides, our “Incentive Plan Guidelines” document, and the “**Net Motivation Score**” Assessment.*

Thank you!



M Benefit Solutions™
Bank Strategies
An M Financial Group Company



THE **VISIONLINK**
ADVISORY GROUP

Tom Miller

President

(949) 265-5700

tmiller@vladvisors.com