

2011 INDEPENDENT BANK COMPENSATION SURVEY

FORTNER, BAYENS, LEVKULICH
& GARRISON, P.C.

Certified Public Accountants • A Professional Corporation

“Full Service Banking Experts”

SEPTEMBER 2011

Summary of Compensation Levels

	By Asset Size in Millions of Dollars						By Type of Community			
	Less than \$50	\$50 to \$100	\$100 to \$150	\$150 to \$250	\$250 to \$500	Greater than \$500	Rural	Resort	City Population less than 500,000	City Population more than 500,000
President										
Salary	\$ 92,478	\$ 122,651	\$ 144,795	\$ 170,849	\$ 209,614	\$ 205,413	\$ 126,703	\$ 206,856	\$ 172,293	\$ 185,251
Bonus	12,627	8,381	14,531	29,902	50,013	17,461	22,528	21,348	15,165	18,036
Total	\$ 105,105	\$ 131,031	\$ 159,326	\$ 200,751	\$ 259,626	\$ 222,873	\$ 149,231	\$ 228,203	\$ 187,458	\$ 203,287
Senior Lending Officer										
Salary	\$ 67,268	\$ 89,527	\$ 102,700	\$ 113,313	\$ 136,269	\$ 146,650	\$ 89,788	\$ 143,888	\$ 116,397	\$ 134,828
Bonus	8,480	4,896	7,073	15,869	19,561	7,006	10,549	14,500	12,119	7,944
Total	\$ 75,747	\$ 94,423	\$ 109,774	\$ 129,182	\$ 155,830	\$ 153,656	\$ 100,337	\$ 158,388	\$ 128,516	\$ 142,772
Chief Financial Officer										
Salary	\$ 67,461	\$ 91,305	\$ 99,858	\$ 104,508	\$ 124,411	\$ 139,300	\$ 90,418	\$ 130,698	\$ 106,661	\$ 126,945
Bonus	7,913	3,606	6,354	14,408	18,859	5,022	10,896	16,081	6,457	9,537
Total	\$ 75,374	\$ 94,911	\$ 106,212	\$ 118,916	\$ 143,270	\$ 144,322	\$ 101,314	\$ 146,779	\$ 113,118	\$ 136,482
Cashier										
Salary	\$ 46,426	\$ 56,060	\$ 56,737	\$ 72,475	\$ 84,152	\$ 126,667	\$ 56,766	\$ 78,667	\$ 73,092	\$ 84,157
Bonus	6,921	3,345	4,627	4,100	8,842	2,667	5,824	1,000	3,743	2,967
Total	\$ 53,347	\$ 59,405	\$ 61,363	\$ 76,575	\$ 92,994	\$ 129,333	\$ 62,590	\$ 79,667	\$ 76,835	\$ 87,124
Average Branch Manager										
Salary	\$ 45,952	\$ 54,027	\$ 54,634	\$ 59,144	\$ 61,794	\$ 60,244	\$ 56,050	\$ 58,115	\$ 59,752	\$ 54,889
Bonus	3,746	2,402	3,991	6,446	5,090	1,791	4,478	1,211	6,414	2,134
Total	\$ 49,698	\$ 56,430	\$ 58,625	\$ 65,590	\$ 66,884	\$ 62,035	\$ 60,528	\$ 59,326	\$ 66,166	\$ 57,023
Average Teller										
Salary	\$ 22,149	\$ 23,779	\$ 25,107	\$ 24,529	\$ 25,145	\$ 25,947	\$ 23,153	\$ 26,243	\$ 25,701	\$ 27,268
Bonus	1,930	734	1,325	1,091	898	583	1,478	433	592	462
Total	\$ 24,079	\$ 24,513	\$ 26,432	\$ 25,620	\$ 26,043	\$ 26,530	\$ 24,631	\$ 26,676	\$ 26,293	\$ 27,730
Average Customer Service / New Accounts Representative										
Salary	\$ 25,693	\$ 28,732	\$ 29,835	\$ 30,073	\$ 29,874	\$ 30,892	\$ 27,150	\$ 33,081	\$ 31,805	\$ 33,446
Bonus	1,631	807	1,376	1,481	1,295	792	1,514	749	839	697
Total	\$ 27,324	\$ 29,538	\$ 31,210	\$ 31,555	\$ 31,170	\$ 31,684	\$ 28,664	\$ 33,830	\$ 32,644	\$ 34,142
Annual Directors' Fees										
Board of Directors										
Inside Director	\$ 3,715	\$ 3,882	\$ 5,287	\$ 5,536	\$ 7,348	\$ 1,425	\$ 5,335	\$ 5,867	\$ 4,467	\$ 1,643
Outside Director	\$ 4,446	\$ 4,780	\$ 6,139	\$ 8,670	\$ 13,024	\$ 9,125	\$ 7,233	\$ 9,175	\$ 6,063	\$ 6,930
Board Committees										
Inside Director	\$ 133	\$ 571	\$ 180	\$ 1,134	\$ 529	\$ 0	\$ 570	\$ 1,770	\$ 500	\$ 69
Outside Director	\$ 736	\$ 1,082	\$ 2,384	\$ 1,431	\$ 5,271	\$ 8,097	\$ 1,532	\$ 2,973	\$ 4,829	\$ 2,761

Amounts represent averages of anticipated salaries and bonuses for 2011 for each category described. Results include information from Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Texas, Utah, Washington and Wyoming.

What's Old is New Again

Traditional Corporate Executive Compensation Financing is Emerging in the Community Bank Marketplace

By Jerry Middel

Financial Designs, Ltd.

Recent regulatory changes aimed at mitigating risky behavior in the financial industry has led to a strategic shift in everything from redefining bank permissible investments to executive compensation. In terms of compensation, the government has proposed rules to incent executives to make sound, longer-term business decisions. The regulations promote more incentive-based rewards as well as longer vesting periods. Many feel the regulations make fiscal common-sense, while others believe they are too onerous. Regardless of your opinion, the regulations appear imminent and while aimed mainly at the mega-banks, the weight of the new rules will most likely trickle down to the community bank space.

Designing an appropriate executive compensation and benefit program that fits into these requirements while also aligning with a bank's strategic goals may require some banks to embrace unfamiliar

designs and strategies. Banks can use the excuse of waiting for the shifting regulatory sands to settle before implementing an executive compensation and benefit framework for only so long. Forward looking banks understand that waiting, and risking the loss or motivation of key staff, could be devastating.

Compensation is just a small part of the regulatory objective to reduce risk while building capital, reserves and the liquidity necessary to stave off another economic calamity. Effectively designing a compliant executive compensation and benefit program comes with a cost, and finding a way to efficiently finance that cost while achieving regulatory capital and liquidity standards is a challenge.

Newly Relevant

Traditionally, an effective method to finance or offset the cost of executive benefit plans and programs is through the use of bank owned life insurance (BOLI). BOLI is a tax-favored investment vehicle that allows for tax-deferred (tax free

if held to death) growth of its cash value. Most community bank BOLI products are structured as single premium Modified Endowment Contracts. A modified endowment contract ("MEC") is created when the amount by which the contract death benefit exceeds the policy cash value or "amount at risk" is less than the minimum allowed by the IRS. A MEC does not receive the same beneficial tax treatment as a life insurance contract. Also, if a life insurance contract becomes a MEC while in force, the policy holder may be subject to additional taxes and penalties.

Single premium MECs are designed with minimum death benefits to maximize internal rates of return and are immediately accretive to earnings. The single premium concept is still a very attractive option for many banks, but another premium structure, annual pay Non-MEC BOLI, has been rarely used in the community bank market but is growing in popularity. Annual pay (Non-MEC) corporate owned life insurance (COLI) has been used for executive benefit design purposes

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Increase Range Percent

Reduction	0.7%
No Increase	29.9%
0-3%	18.5%
3-5%	33.6%
5-7%	9.1%
7% or more	8.1%

The overall average base salary increase for the 2011 Independent Bank Compensation Survey was 2.83%.

Increases in Base Salaries over 2010

Total Assets	President	Senior Lending Officer	Chief Financial Officer	Cashier	Average Branch Manager	Average Teller	Avg Cust Svc / New
Less than \$50 million	1.31%	5.12%	1.76%	2.79%	1.99%	2.96%	2.75%
\$50 to \$100 million	3.65%	2.47%	1.62%	2.34%	2.06%	2.57%	2.34%
\$100 to \$150 million	1.75%	1.56%	2.67%	3.17%	2.31%	2.92%	2.52%
\$150 to \$250 million	3.27%	3.91%	3.20%	3.61%	2.90%	2.68%	2.53%
\$250 to \$500 million	5.40%	3.78%	3.13%	3.55%	2.57%	3.19%	2.74%
More than \$500 million	2.56%	4.29%	3.25%	5.67%	2.06%	1.90%	2.01%
All Banks	2.99%	3.52%	2.60%	3.52%	2.32%	2.70%	2.48%

for decades, but community banks have historically shied from this structure because the spread of short term yields versus the single pay products was too wide. However, there are now Non-MEC products in the marketplace that have closed that gap.

Generally, single pay (MECs) products have greater short term yields, but are also considered less liquid. Gains distributed from MECs are taxed on a LIFO basis and are subject to a 10% penalty tax. Annual pay (Non-MECs) products, on the other hand, are taxed on a FIFO basis and are not subject to the penalty tax. Thus, a Non-MEC is an attractive alternative for some banks due to its lower initial cash requirement, tax efficient access to cash values and flexible premium payments.

The chart to the right provides a comparison of characteristics of MECs and Non-MECs.


	MEC	Non-MEC
Annual Premiums	1	Flexible, typically 5 or 7
Product Pricing	Institutional	Institutional
Taxation on Cash Value Growth	None if held until death	None if held until death
Taxation on Death Benefit	None	None
Withdrawals: Taxation*	Gains taxed first as ordinary income plus 10% penalty tax on gains	Basis first with ordinary income tax on gains**
Surrenders: Taxation	Gains taxed first as ordinary income plus 10% penalty tax on gains	Ordinary income to the extent gains exceed basis
Liquidity	Generally less liquid <ul style="list-style-type: none"> • Greater initial cash requirement • Less favorable tax treatment on liquidity event (withdrawals/surrenders) • Policy less effective as source of cash for benefit payments, if desired 	Generally more liquid <ul style="list-style-type: none"> • Lower initial cash requirement • More favorable tax treatment on liquidity event (withdrawal/surrenders) • Policy more effective as source of cash for benefit payments, if desired
Short-term Yields	Generally greater than Non-MECs	Generally lower than MECs
Life of Plan Tax-equivalent IRRs	Generally lower than Non-MECs	Generally greater than MECs
<i>*Partial withdrawals from life insurance will decrease the death benefit and cash value and may be subject to limitations and tax.</i>		
<i>**Subject to restrictions.</i>		

While this strategy has been around for decades in the corporate world, due to improved design and a structure that fits into today’s regulatory goals, this concept is now very relevant to the community bank marketplace.

Regulations and Economic Uncertainty

Some banks are either not in a proper financial position, or are unwilling, to make a substantial initial cash investment in single pay BOLI but still have strategic executive compensation program needs with associated costs. They now have a viable alternative in an effective financing vehicle, annual pay BOLI.

Jerry Middel has been actively involved in financial planning for business owners and executives since 1961. For more information on the concepts presented in this article, please contact Jerry at 303.948.4068 or jmiddel@fdltd.com.



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Management Position	Years
President	12.5
Senior Lending Officer	10.4
Chief Financial Officer	9.4
Cashier	11.8
Overall Average	11.0

Position	Life Insurance	Pension/ 401(k)	Deferred Comp	Stock Options
President	73%	83%	83%	24%
Senior Lending Officer	61%	83%	83%	23%
Chief Financial Officer	62%	79%	79%	25%
Cashier	63%	85%	85%	8%

Our 23rd annual Independent Bank Compensation is based on 227 responses of surveys mailed to 1,866 independent banks in July 2011. The overall response rate was 12.2%, and the level of responses should provide meaningful peer group comparisons. Independent banks in Arizona, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Texas, Utah, Washington and Wyoming were included in our survey.

How Does Your Bank Compare?

If you did not previously request a bank compensation custom survey report, simply complete the enclosed postcard and we will send you a series of reports segmented by asset size, state and type of community. A sample customized report is shown below. The peer group sample is for banks with between \$150 and \$250 million in total assets from all states surveyed and all types of communities.

Fortner, Bayens, Levkulich & Garrison, P.C.						
2011 INDEPENDENT BANK COMPENSATION SURVEY						
Custom Survey Results For: Sample Bank						
Demographic Data						
Total Assets:	\$150 to \$250 million				Estimated return on	
State:	Not sorted by state					
Community:	Not sorted by type of community					
Number of responses:	29		Average Total Assets:	\$186		Average Median
EXECUTIVE & STAFF COMPENSATION						
	President		Senior Loan Officer		Chief Financial Officer	
	Average	Median	Average	Median	Average	Median
Current annual salary	\$153,559	\$150,000	\$101,975	\$94,800	\$97,213	\$102,500
Estimated bonus or incentive pay for 2011	25,943	10,816	13,976	8,849	11,059	5,500
Total	\$179,502	\$160,816	\$115,951	\$103,649	\$108,272	\$108,000
Percentage increase in base salary over 2010	4%	2%	4%	3%	3%	2%
Years in current position	9	5	6	5	7	5
Other Compensation:						
(% indicating "yes" response) Supplemental life insurance	52%		45%		45%	
Pension or profit sharing plan participant	90%		90%		95%	
Deferred compensation/salary continuation plan	28%		21%		14%	
Phantom stock or stock option plan	21%		14%		18%	

If you have any questions about this survey, or would like to discuss your bank's issues and how our firm could help, please call Tom Wessels at (303) 296-6033. This survey can also be found on our web site at www.fblg-cpa.com.

Survey Responses

The tables below show response rates by Total Assets and by State. Also included is the number of surveys received by Community, however no response rate is available as this is a self-described variable.

Total Assets	Surveys Returned	Surveys Sent	Response Rate
Less than \$50	46	446	10.3%
\$50 to \$100	56	439	12.8%
\$100 to \$150	44	262	16.8%
\$150 to \$250	44	296	14.9%
\$250 to \$500	29	216	13.4%
More than \$500	8	207	3.9%
Total	227	1,866	12.2%

State	Surveys Returned	Surveys Sent	Response Rate
Arizona	9	35	25.7%
Colorado	47	109	43.1%
Idaho	2	18	11.1%
Kansas	23	323	7.1%
Montana	18	72	25.0%
Nebraska	22	223	9.9%
Nevada	1	17	5.9%
New Mexico	8	52	15.4%
Oklahoma	30	240	12.5%
Oregon	2	31	6.5%
Texas	28	601	4.7%
Utah	5	37	13.5%
Washington	13	71	18.3%
Wyoming	19	37	51.4%
Total	227	1,866	12.2%

Type of Community	Surveys Returned
Resort	9
Rural	154
Urban/Suburban (<500,000)	35
Urban/Suburban (>500,000)	29
Total	227

Of the 227 surveys received, 106, or 46.70%, self-identified as S Corps.

Fortner, Bayens, Levkulich & Garrison, P.C., is a bank accounting and consulting firm experienced in operational and organizational consulting, accounting and tax advice, mergers and acquisitions, regulatory compliance, asset management, auditing and information security risk management services for community banks. We have been in business since 1977, and we exclusively serve financial institutions. Our shareholders average more than 20 years of banking experience, and we draw on our wide range of banking expertise and on our unique perspective to identify options, and work with our more than 180 clients to develop creative solutions.

We believe without a doubt that our growth and success are due to our commitment to custom tailor our services to our clients' individual needs, while maintaining our trademark attention to detail and overall standard of excellence.

Our firm offers:

ACCOUNTING & TAX SERVICES - We conduct internal and external audits, directors' examinations, and mergers & acquisitions consultation, including FDIC-assisted transactions. We do trust accounting and employee benefit plan audits. Our tax services include current tax position assessment, compliance and planning and 1099 consulting.

LOAN REVIEW - We assist banks in evaluating their portfolios, potential portfolio acquisitions, loan quality and allowance for loan loss methodology.

REGULATORY COMPLIANCE - We provide in-house training and consultation related to regulatory issues, including ACH and BSA.

IT SECURITY RISK MANAGEMENT - We use a variety of tools and techniques, including social engineering, to conduct internal and external vulnerability assessments, bank information system audits and GLBA compliance examinations. We also provide SOC1, SOC2 and SOC3 reporting services as part of SSAE 16 audits.

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