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Long-term Incentives Survey (2016)

Sample Report for General Industries

September 2016

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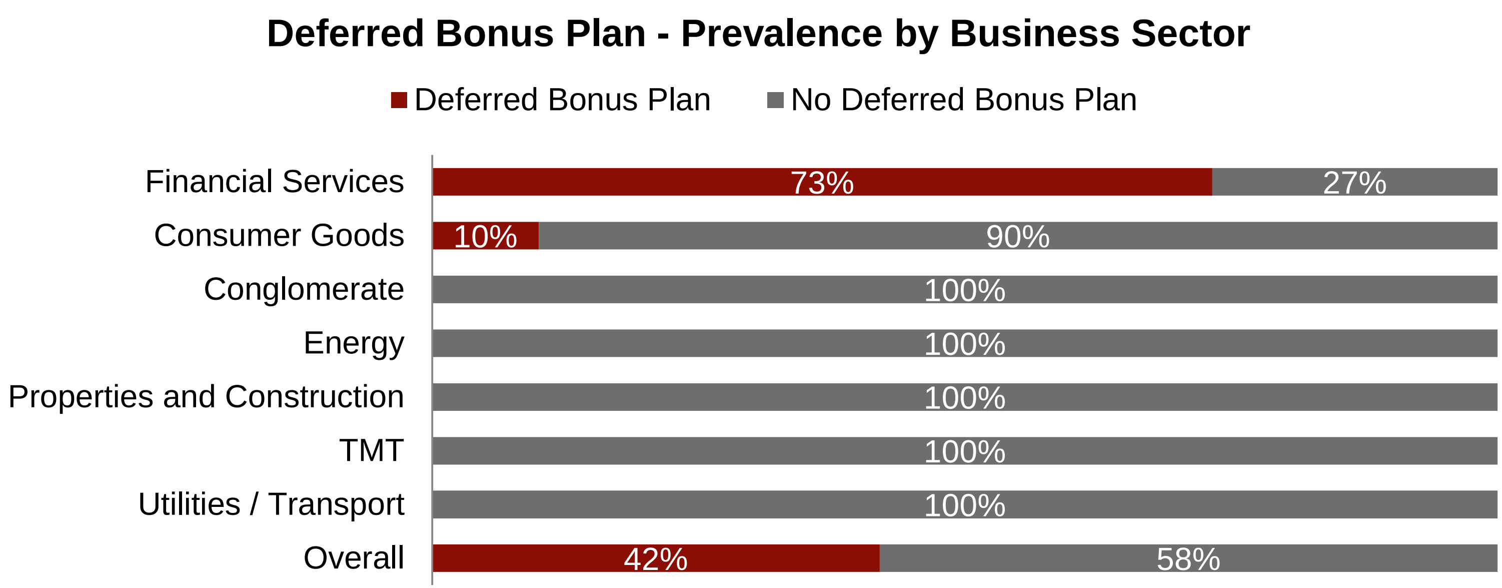
Deferred Bonus Plan Practices – Sample Pages

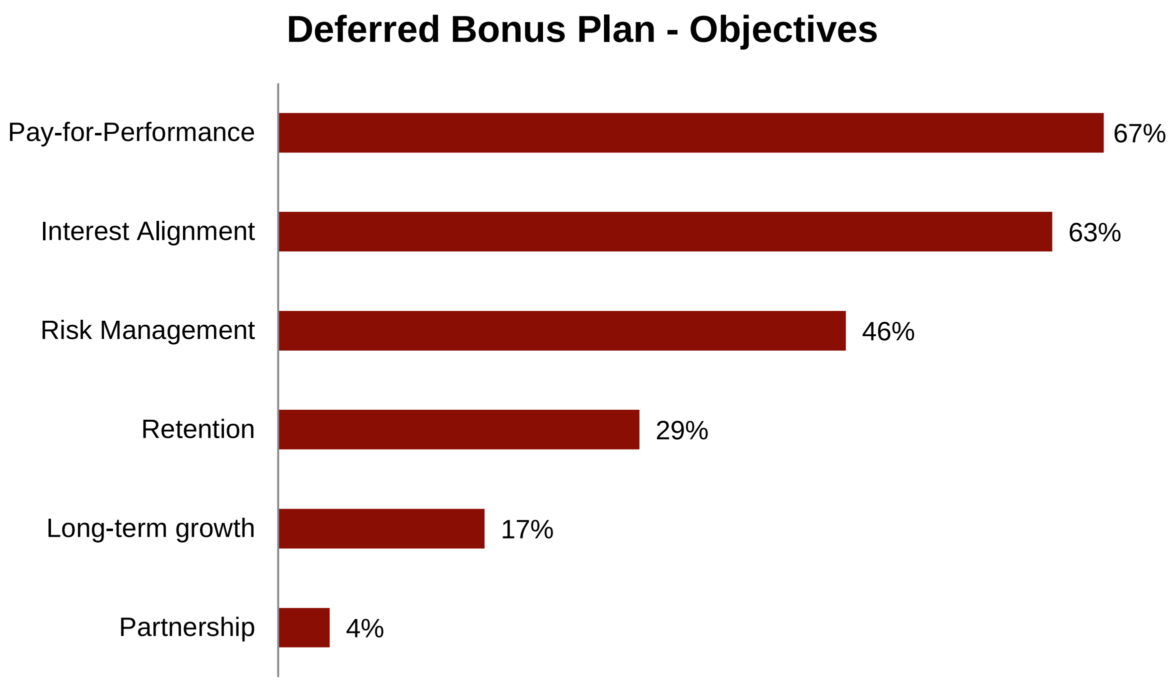
Deferred Bonus Plan – Prevalence by Sector

- In terms of business sector, financial institutions especially commercial / corporate banking had the highest prevalence (73%) as risk management was the key theme in driving years of changes in deferral following the global financial crisis and due to the Principles for Sound Compensation Practices issued by the Financial Stability Board and similar guidelines issued by the China Banking Regulatory Commission. They emphasized incentive schemes should be regarded as a critical component of the bank's corporate governance mechanism.
- European financial services firms had high prevalence as Capital Requirement Directive (CRD) IV provisions required European firms to defer at least 40% (and, in some cases, up to 60%) of bonus over 3 to 5 years. Unlike in financial industry, deferred bonus plan was not prevalent among non-financial services industries. Only a few companies in consumer goods industry (10%) had deferred bonus plan.



Deferred Bonus Plan – Objectives

- The objectives of deferred bonus plan varied among the benchmark companies. Pay-for-performance (67%) and interest alignment between employees and the company (63%) were the most typical objectives which emphasized linkage of organizational goals with the employees' personal goals.
- Fewer companies viewed partnership (4%) and long-term growth (17%) of the company as the objective of deferred bonus plan.
- International companies focused more on interest alignment and pay-for-performance whereas talent retention was the key objective for deferred bonus among companies in Asia Pacific.



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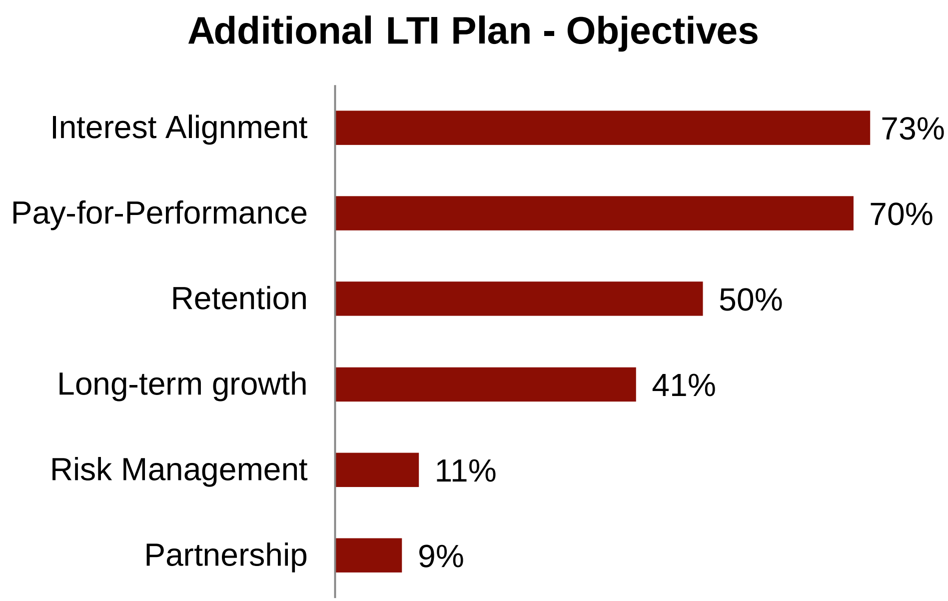
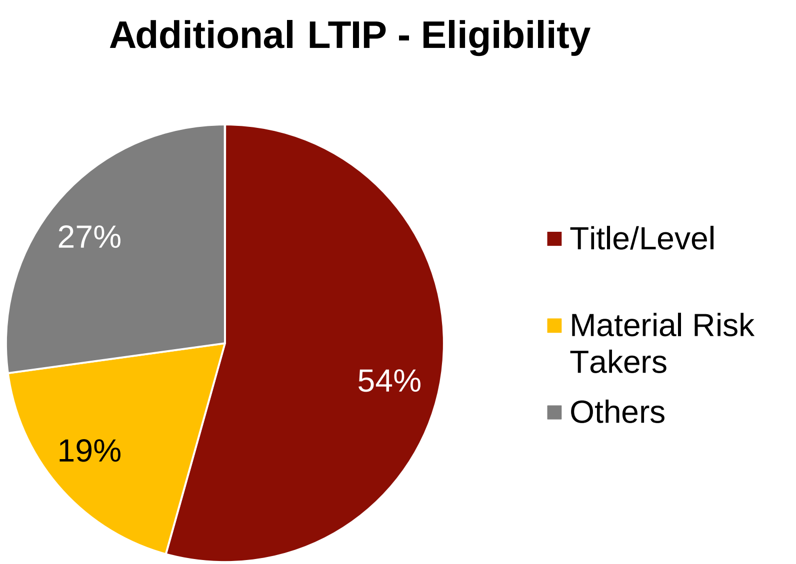
Additional Long-Term Incentive Plan Practices – Sample Pages

Additional LTIP – Objectives and Eligibility

- Though some of the objectives such as interest alignment (73%) and pay-for-performance (70%) were similar to those of deferred bonus plans, the emphases were different. Fewer companies deployed additional LTI as a risk management tool (11%) and to promote partnership (9%). Though European and American companies seldom emphasize partnership as the key objectives, interest alignment, pay-for-performance, talent retention and long-term growth are all key element of a partnership model.
- Title/ Level (54%) was the most typical approach to define eligibility for additional LTI, as it was provided in addition to annual bonus (no matter upfront or deferred), it was usually confined to director level or above, selective key employees and material risk takers to drive long-term growth and performance.





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Share Retention, Malus, Clawback, and Forfeiture Provisions – Sample Pages

Share Retention, Shareholding Requirements and Dividends

- Share Retention
  - International companies usually included provisions to prevent employees, especially for senior management, from selling share based incentives shortly after vesting. Share-based or non-cash instrument were typically subject to at least 6-month holding period post vesting. However, share retention requirement was not yet common outside Europe and the United States.
- Shareholding Requirements
  - The benchmark companies were also slow in introducing shareholding requirements in which senior executives had to hold a predetermined amount of shares with value equal to a multiple of their base salaries. This echoed with the concept of partnership and alignment of interest which required senior management to have significant ownership stake so they would act in the best interest of the company.
- Dividends and dividend equivalent
  - Payment of dividend was uncommon for unvested restricted stocks or units among the benchmark companies. However, with the growing emphasis of ownership, participation and engagement required by a partnership model, a few benchmark companies had started to provide dividend equivalents to the awardees based on the unvested portion of the share based incentives to promote ownership during the vesting period.

Malus and Clawback

- The global trend is to empower the Board to have more discretion in incentive payment through malus so that the Remuneration Committee could make adjustments to awards based on unexpected circumstances. A severe downturn in economic conditions, or problems discovered during an audit, could lead to circumstances where payment of incentives would seem inappropriate. For the purpose of shareholders (particularly for listed companies), Remuneration Committee needs to be able to explain the situations in the form of guidelines and scorecards which malus would apply and implement the provision consistently.
- Although some companies started to introduce malus and clawback provisions, there were some considerations to reduce the complications during implementation such as:
  - What kind of employee misbehavior would warrant a trigger of clawback provision?
  - How much variable remuneration should be claw backed if the provision is triggered?
  - How to deal with the legal and tax impact during clawback?

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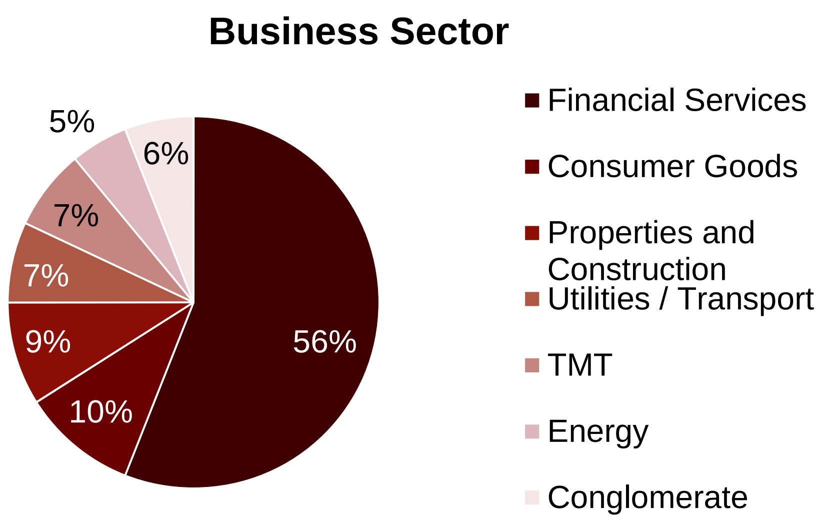
Appendices

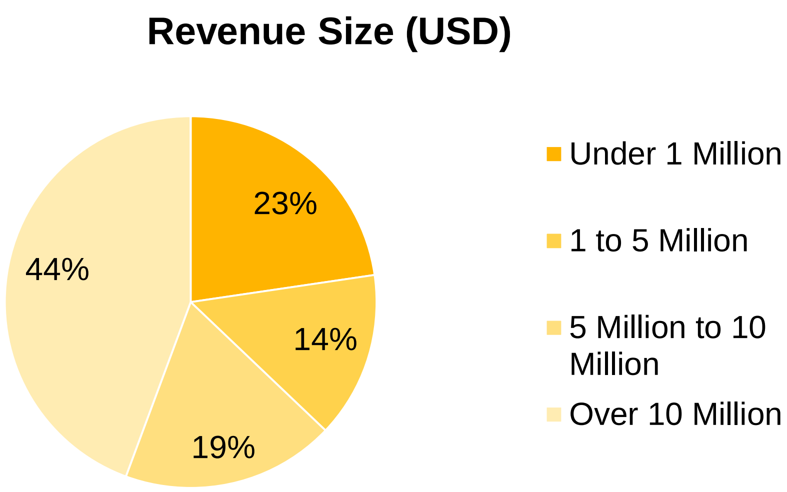
About Long-term Incentives Survey (2016) for General Industries

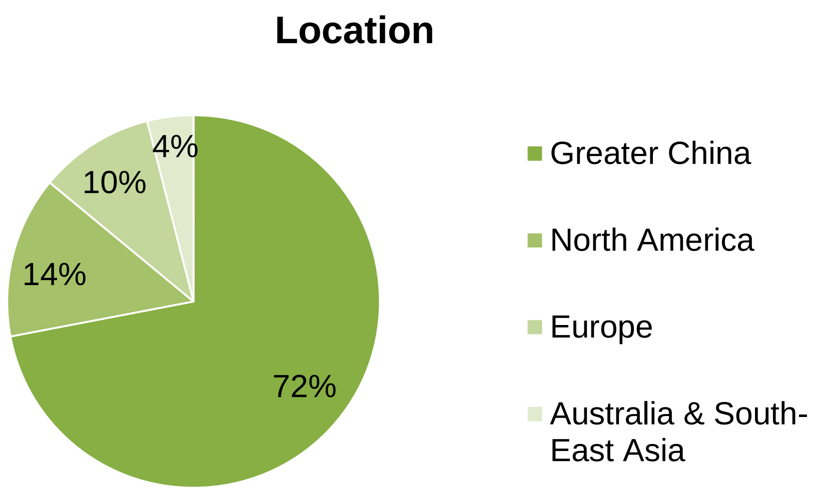
About Long-term Incentives Survey (2016)

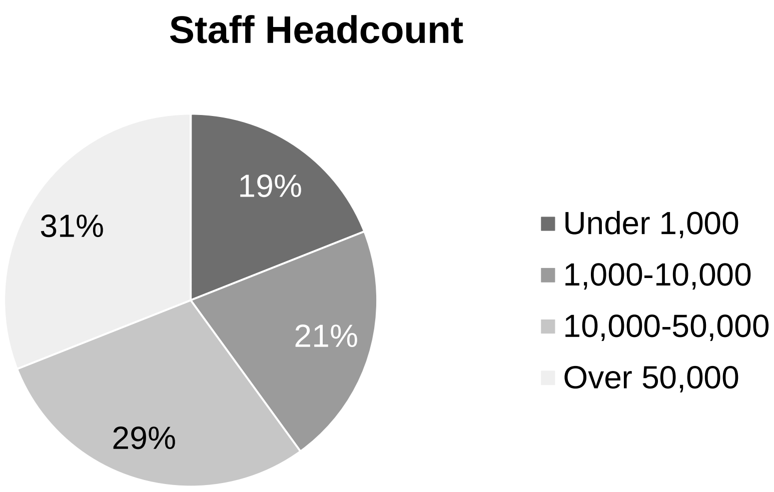
- Long-Term Incentives Survey (2016) for General Industries examined the features of 204 long-term incentive plans in 100 international and Asian companies across different industries. These included :
  - Utilities / Transport
  - Technology, Media and Telecom (TMT)
  - Properties and Construction
  - Energy
  - Consumer Goods
  - Conglomerate
  - Financial Services
- The Survey provided a comprehensive picture about the structure and key features of deferred bonus and additional long-term incentives plans among international and Asian companies across Greater China, North America, Europe, Australia and South-East Asia.
- Riding on the success of our LTI study in the past three years, the Survey enables benchmark and design of LTI practices to serve the multi facets of partnership, alignment of interest, risk management and retention to enable business strategies.

Statistics of Benchmark Companies









Methodology

- To ensure comprehensive understanding of long-term incentive practices among benchmark companies, Pretium adopted an integrated approach in data collection. In addition to completing the survey questionnaire, benchmark companies were encouraged to submit the original deferred bonus programs and long-term incentive plans to supplement the structured data collection process. We also conducted research on public disclosure of long-term incentive programs as well as extracted relevant proprietary data from previous consulting work and our on-going client discussions to maximize its value propositions and data comprehensiveness.
- All individual companies' data was treated in the strictest confidence and only aggregate data or public information was presented in the report.
- Data reporting rule:
    - Less than 4 data points: market range was presented
    - 4 to 8 data points: market median was presented
    - More than 8 data points: market P25, median and P75 were presented

Definitions

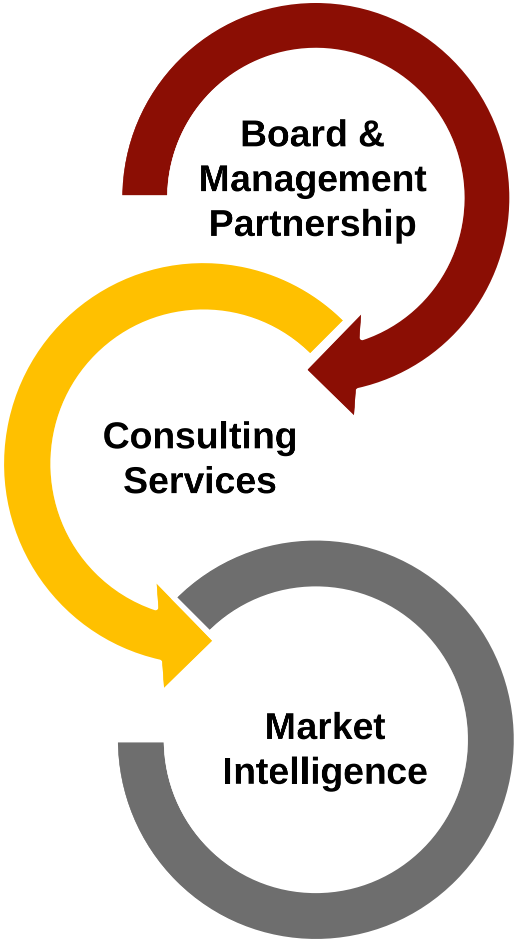
- **Long-term Incentives –** Incentives vest at least one year after the performance year ends. For example, if a portion of the variable compensation for 2015 performance year is vested on or after January 1st, 2017, it is regarded as long-term incentive in our study.
- **Deferred Bonus –** A portion of annual incentive that is payable at a later date. It is mandatory for employees to defer part of their annual bonus in cash or shares when their total incentive / compensation levels reach or exceed a pre-determined deferral threshold. The deferred bonus are normally forfeited on cessation of employment during the vesting periods. These awards are not typically subject to performance targets.
- **Additional Long-term Incentive –** All the long-term incentives, other than deferred bonus, which are usually granted on top of annual bonus. Participants are entitled to awards after a performance period (at least three years) provided service and/or performance conditions are met.
  - Participation is typically confined to senior executives but may be extended to other employees.
  - Awards are normally subject to comparative and graduated performance targets which are designed to be stretching in order to align the interests of senior executives and shareholders.
- **Material Risk Takers –** Staff categories whose professional activities have a material impact on an institution's risk profile. It is commonly referred to Identified Staff in Europe, Code Staff in the UK and Covered Employees in the US.
- **Malus –** Forfeiture of unvested incentive awards.
- **Clawback –** Forfeiture of vested incentive awards.

Appendices

About Pretium

Our Service Chain

- Pretium is a niche management consulting firm that helps accelerate clients' growth and increase profitability through effective reward, performance and strategic human resource strategy.



- We facilitate Board and Management partnership by strengthening incentive review & design, conducting pay-for-performance alignment assessment, reinforcing corporate governance model, reviewing composition and fees for board members.

- We help our clients create value and architect change through our unique spectrum of management consulting services which includes short/long-term incentive plan review and design, organization transformation, business performance management.

- Our extensive experience in clients' projects and ongoing proprietary benchmarking researches enable clients fully utilize the value of market intelligence at the strategic & implementation level.

Our Recent Studies

- Global Incentive Review Study
- Pretium Year-end Rewards & HR Trends Survey
- Compensation Level Survey
- Top Management Study
- Benefits and Employment Conditions Study
- Independent Non-Executive Director Fee Study

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Financial Institutions to Increase Salaries by 5% and Pay 6 Months Bonus in 2016, Albeit Tightened Belts

Pretium study finds financial institutions will increase salaries by 5% and pay bonus equivalent to 6 months salaries despite cost cutting

HONG KONG, December 3, 2015 – Financial institutions will increase pay by 5% in Hong Kong and China, and will pay 6 months salaries as bonus despite cost cutting, according to independent management consulting firm, Pretium Partners Asia Limited ("Pretium").

The Pretium Year-end Reward and Human Resource Trends Study - 2015 ("Study") shows the financial services industry is planning to increase pay by 5% in Hong Kong and China, and pay bonus equivalent to 6 months salaries despite belt tightening. Regional and local firms are more aggressive than their international counterparts in terms of pay increase and bonus payouts to retain staff.

The Study examined actual results and expectations on business performance, salary review budget, bonus pool movements, headcount changes, long-term incentives, benefits and performance management practices among financial institutions. It covers 76 international and Asian investment banks, asset management and private equities firms as well as insurance companies with multiple offices in Asia.

Cost cutting is the main theme among global banks in Asia due to unsatisfactory

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Globalization – It's Easier Said Than Done

With the rapid expansion of Asian companies, outbound investment continues to expand at a rapid pace. Many successful Asian companies in particular the Chinese ones have ambitious plan in "going global" and have made major breakthroughs. The emphasis on the Belt and Road Initiative has given new impetus to companies to tap on the opportunities and hop on the bandwagon of globalization. With the rapid expansion of global markets, many companies are struggling to balance the paradoxical demand to think globally and act locally. When companies try to globalize, many of them adopt an "entrepreneurial" approach: rent an office, send a team and start the business. This kind of "hit and run" mentality has the quick mover advantage, however, this may also lead to lack of structure and consistency.

Organization Structure – Making it Right the First Time

One of the first questions in globalization is to design a proper organization structure and manpower plan for the overseas subsidiary. This is important to set the scene for governance structure which drives approval and decision making authority. Rather than just replicating the model at the headquarters, companies are often facing with the dilemma on whether the structure is functionally aligned or geographically aligned as this will have a significant impact on the extent of control and autonomy between the parent company and overseas subsidiary.

Whether the structure is functionally aligned or geographically aligned will have significant impact on the extent of control and autonomy

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Strengthen Pay & Performance Alignment For Top Executives

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Steering Through the Uncertainties

Pretium Year-end Reward & Human Resources Trends Study Report

November 2015

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