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Long-term Incentives Survey (2016)

Financial Services Industry

Sample Report

July 2016

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Table of Content

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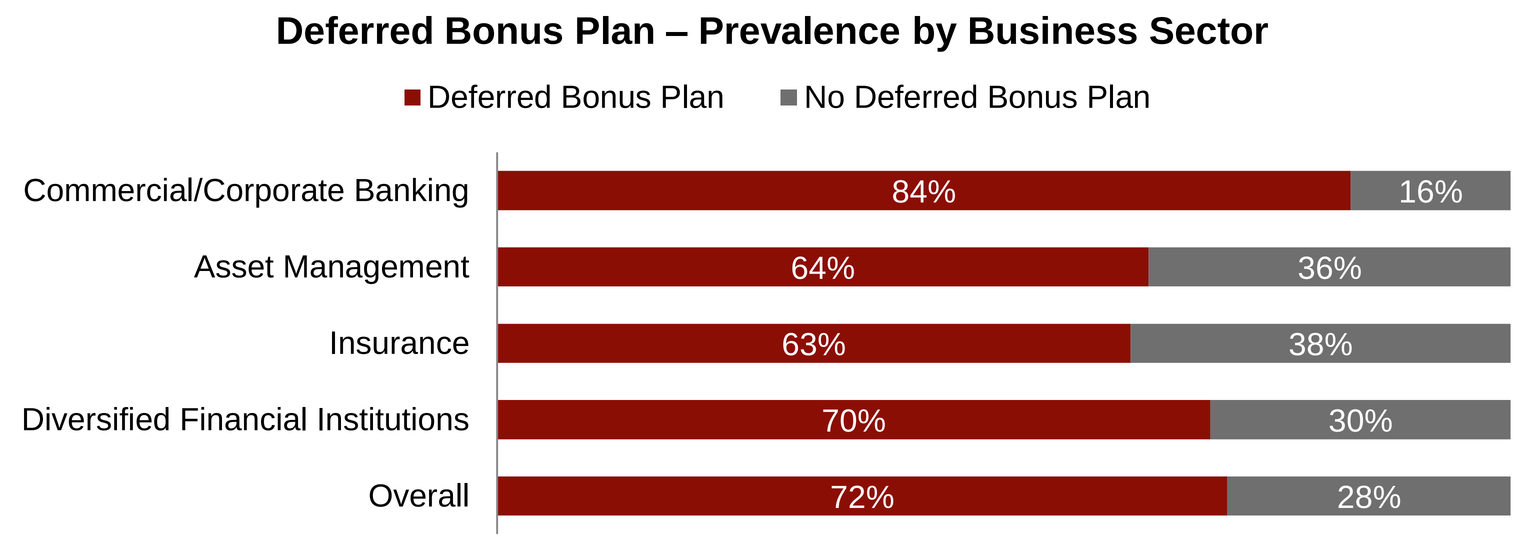
Deferred Bonus Plan Practices – Sample Pages

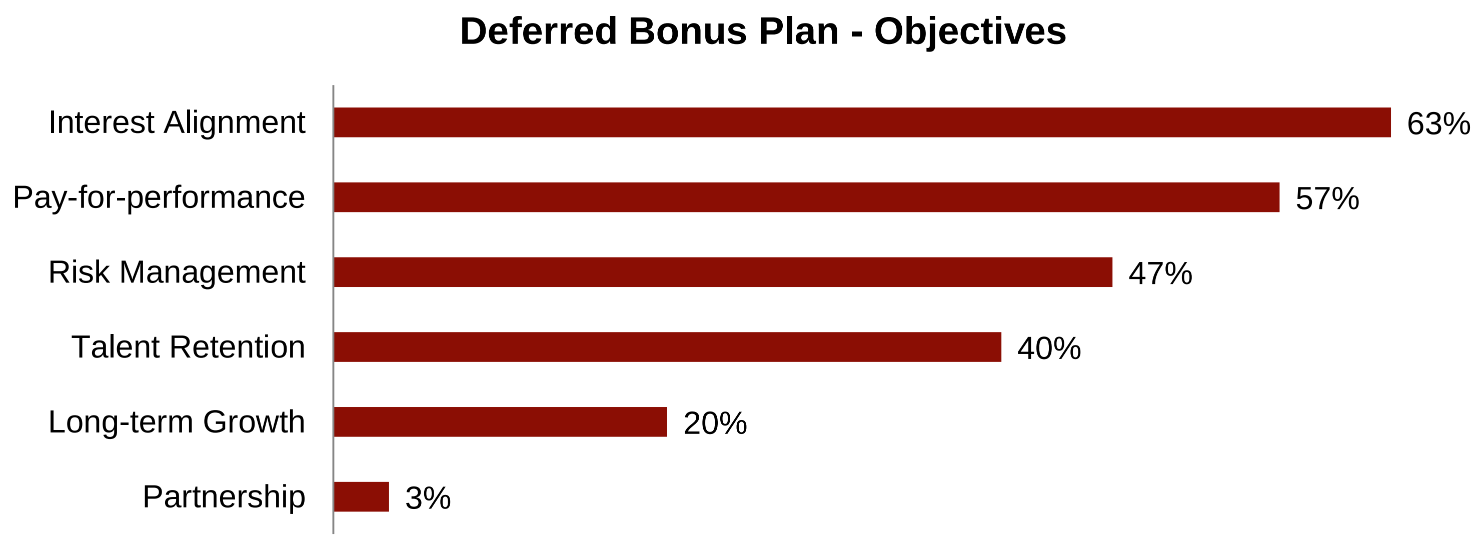
Deferred Bonus Plan – Prevalence by Sector

- In terms of sector, commercial / corporate banking had the highest prevalence (86%) among financial institutions 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.
- Long-term was in fact the keyword among banks, which was reflected from the emphasis of sustainable performance and risk mitigation over a long-term horizon. This was in contrast to retention being the key driver for most of the deferred bonus among insurance and asset management firms.



Deferred Bonus Plan – Objectives

- The objectives of deferred bonus plan varied among the benchmark firms. Interest alignment between employees and the company (63%) was the most typical objective which emphasized linkage of organizational goals with the employees' personal goals.
- As most of the deferred bonus plan was based on time vesting rather than performance vesting, it was not surprised to see only slightly more than half (57%) of firms viewed pay-for-performance as one of the key objectives.
- International firms focused more on interest alignment and pay-for-performance whereas talent retention was the key objective for deferred bonus among firms in Asia Pacific.



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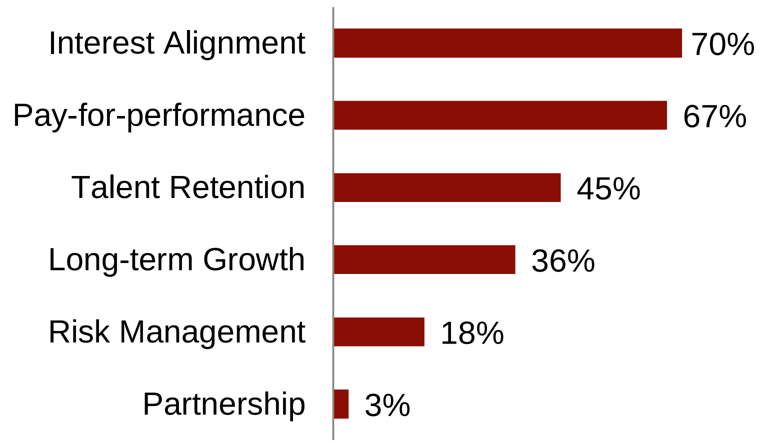
Additional Long-Term Incentive Plan Practices – Sample Pages

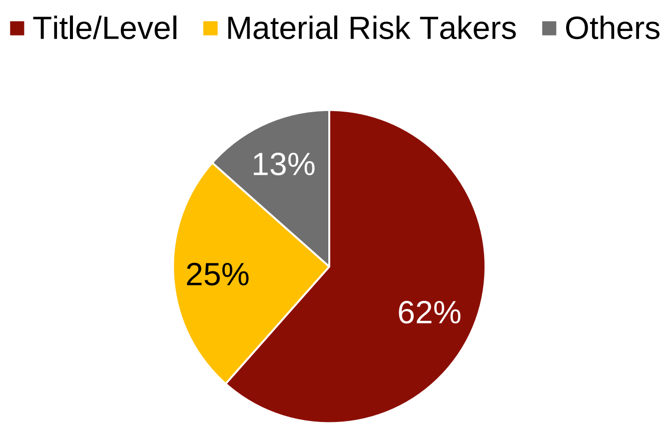
Additional LTIP – Objectives and Eligibility

- Though some of the objectives of additional LTI plans such as interest alignment and talent retention were similar to those of deferred bonus plans, the emphases were different. More firms (67%) introduced additional LTI to reinforce pay-for-performance while fewer firms (18%) deployed additional LTI as a risk management tool. Though European and American firms 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.
- As additional LTI plan 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.

Additional LTIP - Objectives



Additional LTIP - Eligibility



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Share Retention, Malus, Clawback, and Forfeiture Provisions

Share Retention, Shareholding Requirements and Dividends

- Share Retention
    - International firms 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 firms 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 firms. 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

- Global regulations regarding malus and clawback were still evolving with wider coverage, longer effective period and stricter requirements. International Asset Management and Private Equity firms had built more discretion in the form of malus into incentive design, so that they 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 purposes of financial services regulators and shareholders (particularly for listed companies), Remuneration Committee needed to be able to explain the situations in the form of guidelines and scorecards which malus would apply and implement the provision consistently.

- Prudential Regulatory Authority in UK required that all variable remuneration(both short and long term, cash and non-cash) awarded to material risk takers must be subject to ex-post risk adjustment through combined malus and clawback provisions for a period of 7 years. If the bank was required to restate its financial statements or discovered other wrongdoing after incentive payment had been made, the bank had the authority to force the executive to repay certain, or the whole, amounts. These requirements and provisions were obviously more prevalent and stringent among international firms than Asian firms.

Forfeiture

- The forfeiture arrangement for termination was quite standard among the benchmark firms:
  - The award would lapse if the employee resigned or he/she was terminated with cause. Payment of unvested awards to resigned employees subject to non-competition and non-solicitation provisions was occasionally found.
- In the case of death, vesting was mostly accelerated to 100% and the award would be paid immediately regardless of performance.

Reasons for Termination	Forfeiture Arrangement
Voluntary Resignation	Lapse
Death	Vest immediately
Disability	Per schedule
Termination with Cause	Lapse
Redundancy	Per schedule
Retirement	Per schedule
Change in Control	Per schedule or at discretion

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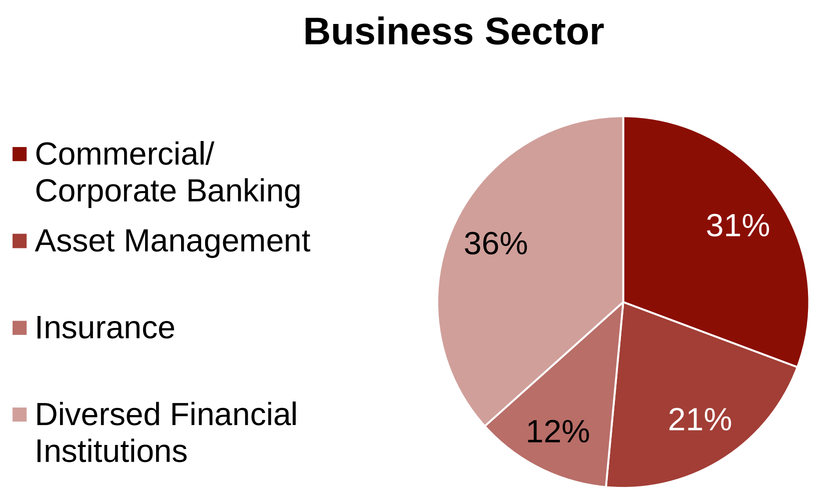
Appendices

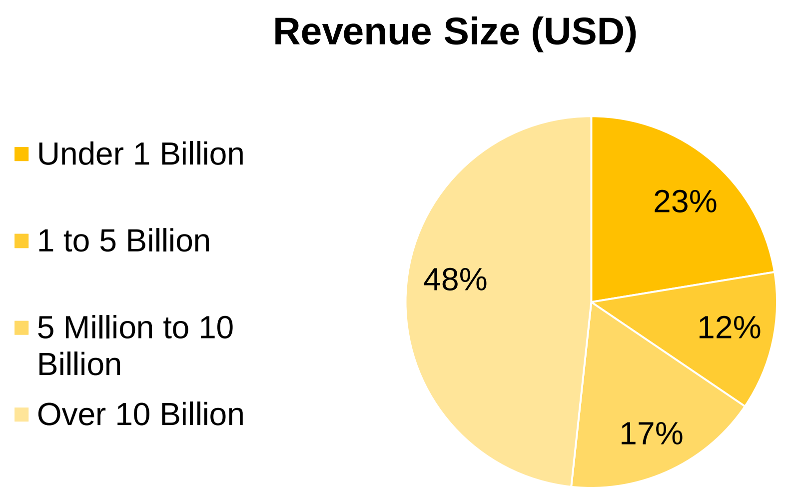
About Long-term Incentives Survey (2016)

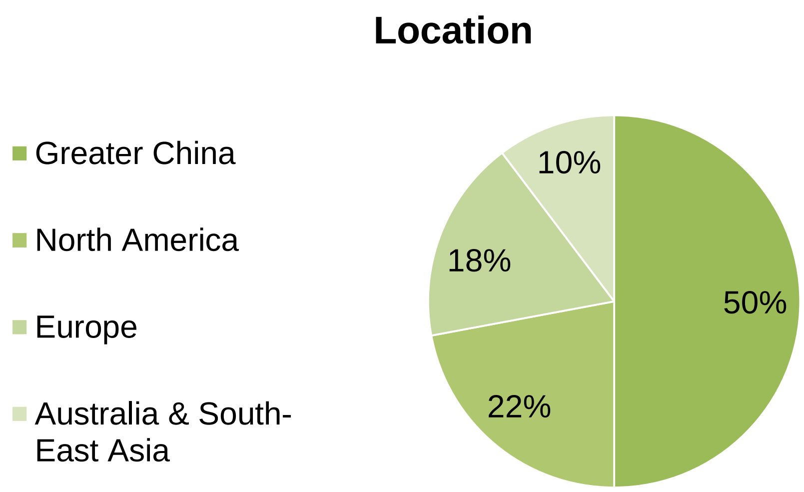
About Long-term Incentives Survey (2016)

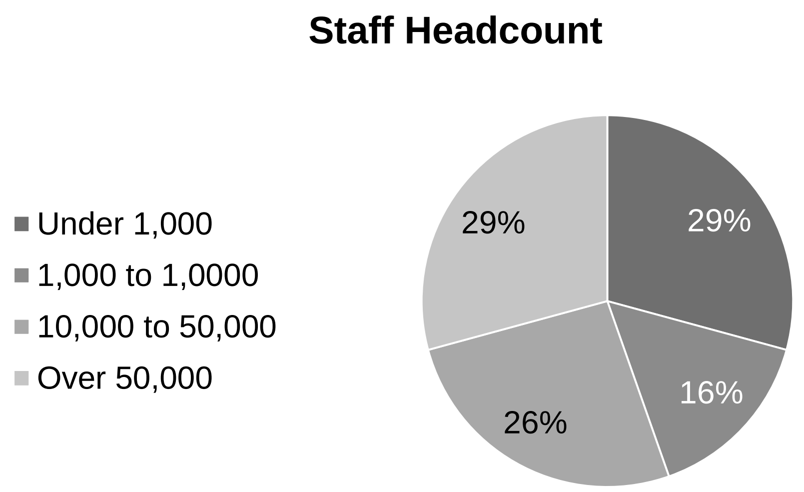
- Long-Term Incentives Survey (2016) examined the features of more than 90 long-term incentive plans in 68 international and Asian financial services firms. These included :
  - Commercial/Corporate Banks
  - Asset Management Firms
  - Insurance Firms
  - Diversified Financial Institutions
- The Survey provided a comprehensive picture about the structure and key features of deferred bonus and additional long-term incentives plans among international and Asian firms 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 Firms









Methodology

- To ensure comprehensive understanding of long-term incentive practices among benchmark firms, Pretium adopted an integrated approach in data collection. In addition to completing the survey questionnaire, benchmark firms 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 firms' 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.

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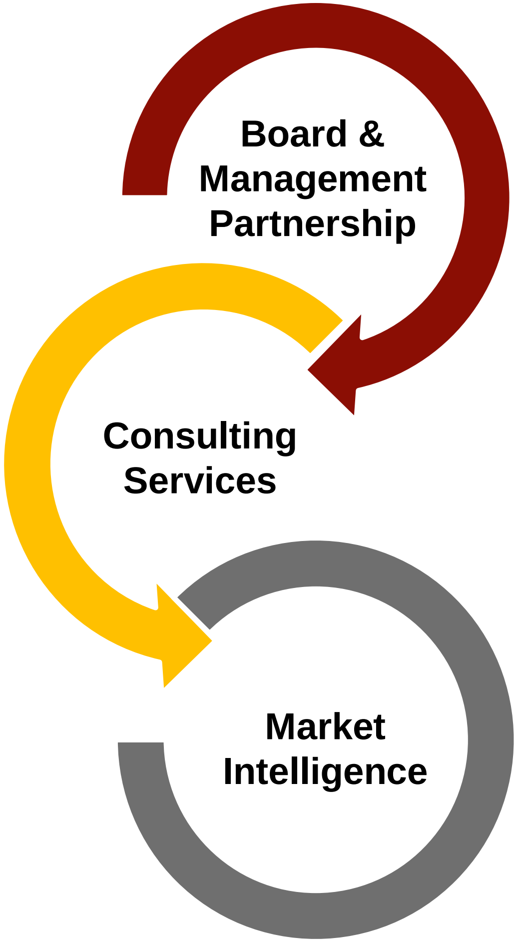
Appendices

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

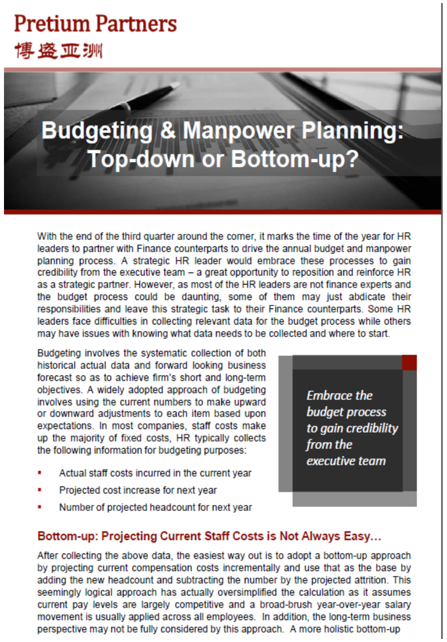
Pretium study finds financial institutions will increase salaries by 5% and pay bonus equivalent to 6 months salaries despite cost cutting

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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With the end of the third quarter around the corner, it marks the time of the year for HR leaders to partner with Finance counterparts to drive the annual budget and manpower planning process. A strategic HR leader would embrace these processes to gain credibility from the executive team – a great opportunity to reposition and reinforce HR as a strategic partner. However, as most of the HR leaders are not finance experts and the budget process could be daunting, some of them may just abdicate their responsibilities and leave this strategic task to their Finance counterparts. Some HR leaders face difficulties in collecting relevant data for the budget process while others may have issues with knowing what data needs to be collected and where to start.

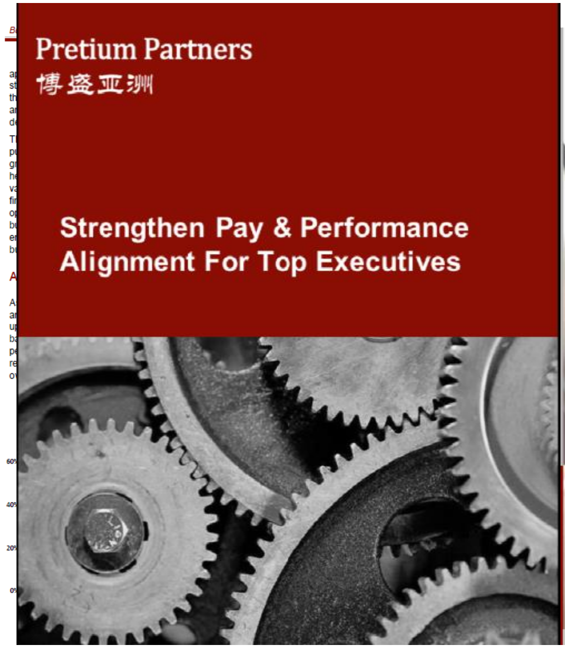
Budgeting involves the systematic collection of both historical actual data and forward looking business forecast so as to achieve firm's short and long-term objectives. A widely adopted approach of budgeting involves using the current numbers to make upward or downward adjustments to each item based upon expectations. In most companies, staff costs make up the majority of fixed costs, HR typically collects the following information for budgeting purposes:

Embrace the budget process to gain credibility from the executive team

- Actual staff costs incurred in the current year
- Projected cost increase for next year
- Number of projected headcount for next year

Bottom-up: Projecting Current Staff Costs is Not Always Easy…

After collecting the above data, the easiest way out is to adopt a bottom-up approach by projecting current compensation costs incrementally and use that as the base by adding the new headcount and subtracting the number by the projected attrition. This seemingly logical approach has actually oversimplified the calculation as it assumes current pay levels are largely competitive and a broad-brush year-over-year salary movement is usually applied across all employees. In addition, the long-term business perspective may not be fully considered by this approach. A more holistic bottom-up



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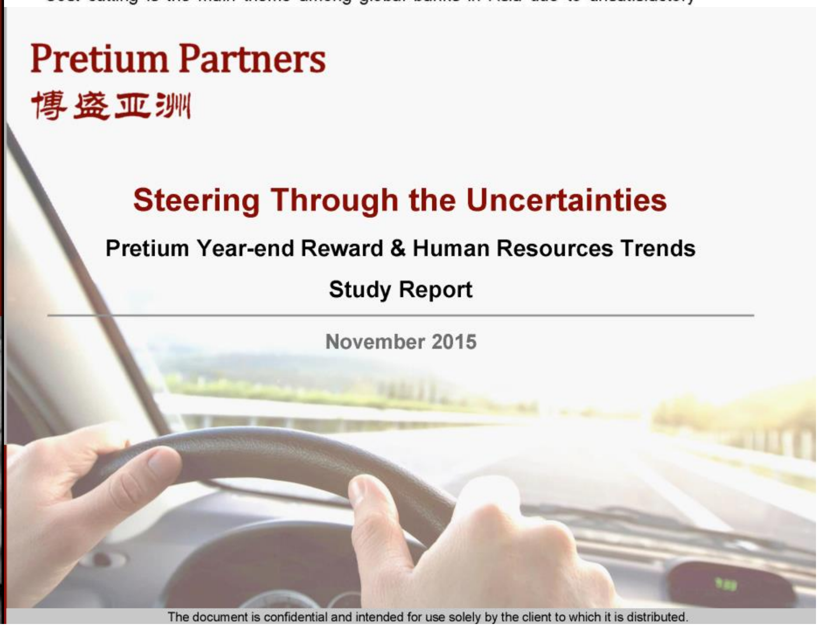
Strengthen Pay & Performance Alignment For Top Executives



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Steering Through the Uncertainties

Pretium Year-end Reward & Human Resources Trends Study Report

November 2015

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