

# Lessons learnt in the aftermath of the Global Financial Crisis of Financial Services Remuneration

*And what effect has this had on  
remuneration governance  
across all sectors of the  
economy ?*

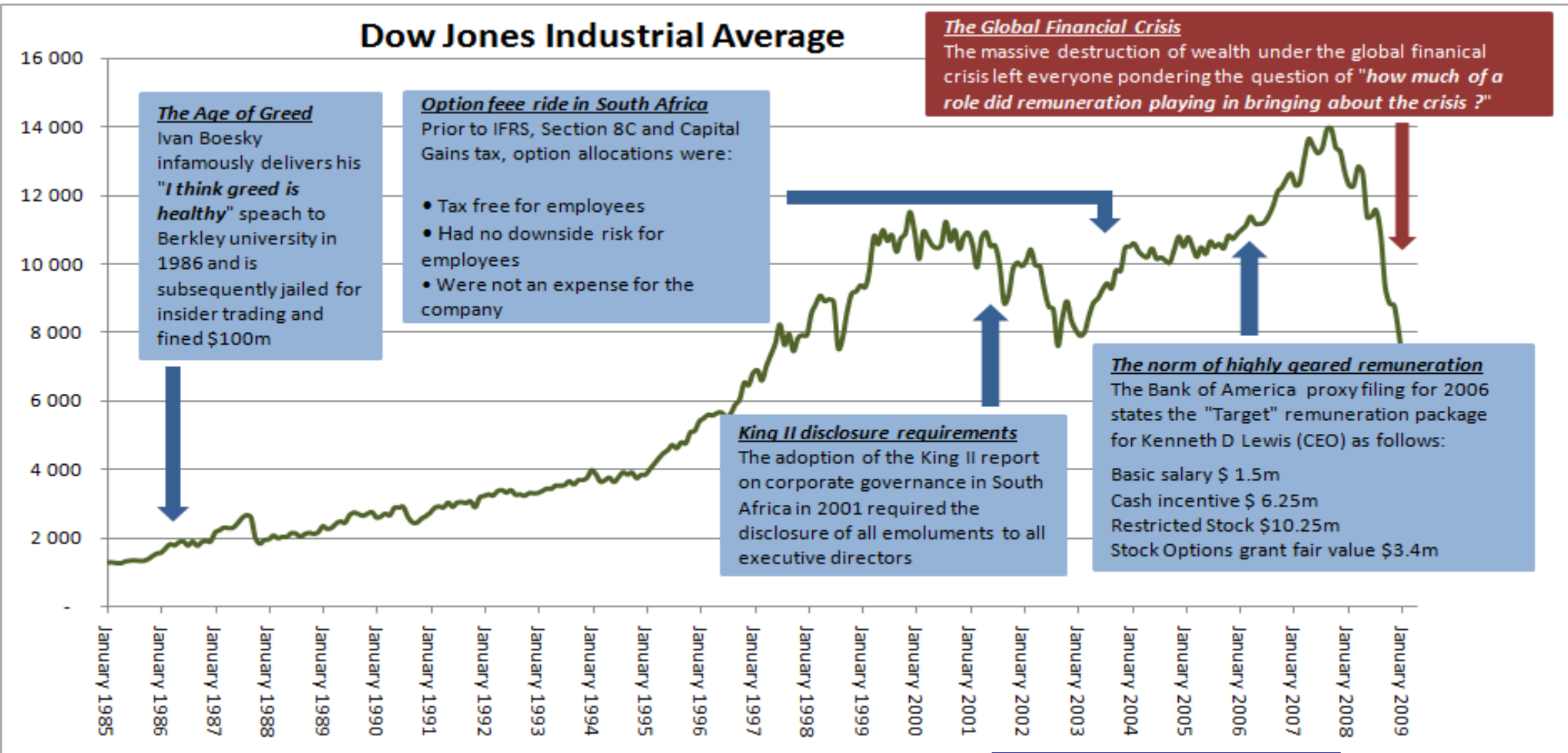


# Remuneration themes for 2010

The latter months of 2008 and entire year of 2009 has witnessed a marked increase in the attention and focus created on remuneration amongst media commentators, statutory authorities, regulatory bodies and external stakeholders

- **Global financial crisis and role remuneration has played**
- **The flood of guidelines on governance and industry regulation**
- **Myriad of schemes and complexity in configuration**
- **Declining executive pay**

# The buildup to the global financial crisis



Sep 15 2008  
Lehman Brothers files for bankruptcy protection

# Spotlight on remuneration

## Obama 'stunned' by millions in AIG bonuses

President promises on 'Tonight Show' to get payments back

By Savannah Guthrie and Alex Johnson  
Reporters  
NBC News and msnbc.com  
updated 12:45 p.m. ET March 20, 2009

LOS ANGELES - President Barack Obama said Thursday evening that he was "stunned" to hear about the \$165 million in bonuses that were paid to employees of troubled insurer AIG over the weekend, promising to do everything he could to "get these bonuses back."

"These financial industries are holding us hostage," Obama said in an interview on NBC's "Tonight Show With Jay Leno." It was the first time a sitting president has been a guest on a late-night talk show.

Obama said the AIG payments raised moral and ethical problems, but he stressed that the bigger problem was the culture that allowed traders to claim them.

Video



Launch

Obama talks economy on 'Tonight'  
March 20: President Obama discusses the AIG bonuses and Treasury Secretary Tim Geithner in an appearance on "The Tonight Show With Jay Leno." NBC's Chuck Todd reports.  
Today show

## COMPANY NEWS

### Investec halves Koseff's package

July 3, 2009



By Renée Bonorchis

Investec has cut the pay of chief executive Stephen Koseff by half following talks with the Reserve Bank on "toning down" executive compensation.

Koseff was paid £1.66 million (R21.4m), including a bonus of £1.25m, in the year to March, according to the Johannesburg- and London-listed bank's annual report published yesterday.

He was paid £3.3m, including a bonus of £2.9m, for the previous year.

"We met the remuneration committee of every bank last year," Errol Kruger, the registrar of banks, said in an interview yesterday. "They did get the message that we think it should be toned down a bit."

Investec, South Africa's fifth-largest bank by market value and the country's only bank with a London listing, reported a 25 percent drop in full-year profit to £292m in May. The company cut its dividend by 48 percent to 13p a share.

## RBS shareholders vote down remuneration report at AGM

Fri Apr 3, 2009 3:36pm BST

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### MARKET NEWS

- STOCKS NEWS UK-Sabien sees profit taking after rally
- US STOCKS SNAPSHOT-Market turns up; Wal-Mart earnings help
- STOCKS NEWS UK-Sabien sees profit taking after rally
- More Business & Investing News...

LONDON, April 3 (Reuters) - Royal Bank of Scotland Group said on Friday there was a 90.42 percent vote against remuneration report in the shareholder vote.

## Citigroup set to clash with Washington over executive pay

Andrew Hall, head of Phibro, is at the centre of a dispute between Citigroup and US pay tsar Kenneth Feinberg who wants to curb bonuses that increase the risk taking activities of banks

Phillip Inman

guardian.co.uk, Sunday 26 July 2009 19.31 BST

Article history



A British oil trader in line for a \$100m (£60m) bonus is expected to pitch his employer Citigroup into direct conflict with the US treasury after a clampdown on excessive pay by the Obama administration.

FT.com  
FINANCIAL TIMES

COMPANIES  
Banks

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## Barclays top bosses give up bonuses

By Patrick Jenkins, Kate Burgess and Megan Murphy in London

Published: February 16 2010 19:41 | Last updated: February 16 2010 20:02

Print

The top two executives of **Barclays** have given up their 2009 bonuses to win more credibility in influencing regulatory reform in the wake of the financial crisis.

# 2008 & 2009 US Banking bonuses

## Banks earnings: breakdown bank by bank

Published: January 22 2010 14:05 | Last updated: February 4 2010 16:39

The chart records the revenue, income and compensation figures for banks disclosed to date:

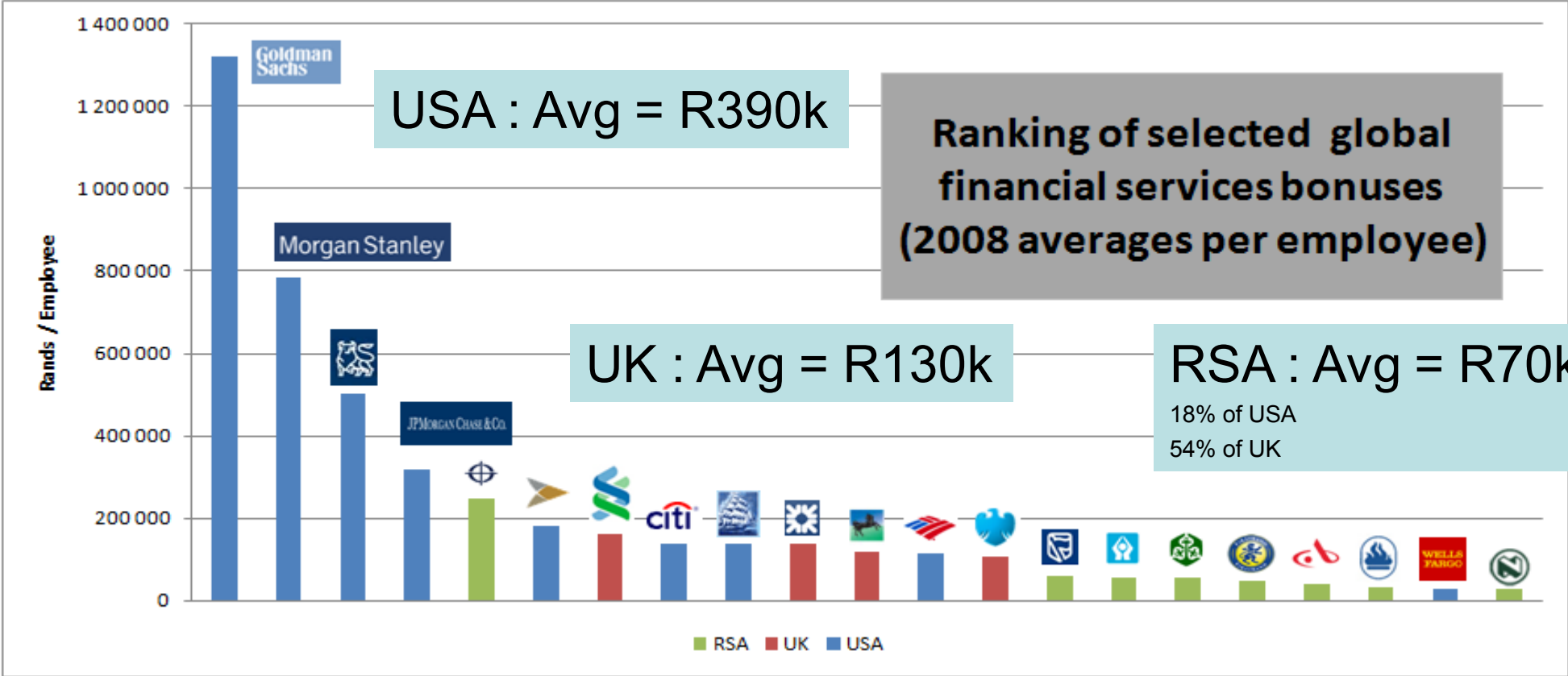
Banks earnings table							
	4Q earnings	2008 net profit/ (loss)	2009 net profit/ (loss)	2008 revenue	2009 revenue	2009 compensation*	2009 employees
JPMorgan Chase	January 15	\$5.6bn	\$11.7bn	\$67.3bn	\$100.4bn	\$26.9bn	222,316
Citigroup	January 19	(\$27.7bn)	(\$1.6bn)	\$51.6bn	\$79.8bn	\$25.0bn	265,000
Bank of America Merrill Lynch	January 20	\$4bn	\$6.3bn	\$74bn	\$122.5bn	\$31.5bn	283,717
Goldman Sachs	January 21	\$2.3bn	\$13.4bn	\$22.2bn	\$45.2bn	\$16.19bn	32,500
Morgan Stanley	January 21	(\$807m)	\$1.1bn	\$18.2bn	\$23.4bn	\$14.4bn	61,388
Wells Fargo	January 21	\$2.66bn	\$12.28bn	\$41.9bn	\$88.7bn	\$26.5bn	267,300
BBVA	January 27	€5bn	€4.2bn	€19.1bn	€20.7bn	€4.6bn	103,721
Santander	February 4	€8.9bn	€8.9bn	€31bn	€39.4bn	€8.4bn	169,500
Deutsche Bank	February 4	(€3.9bn)	€5bn	€13.6bn	€28bn	€11.3bn	77,053

2008 Avg =  
R/\$ 8.25



Tarp recipients' bonus payments							
	Tarp funds received	2008 profits / (losses)	2008 total bonuses paid	Total employees	# bonuses over \$3m	# bonuses over \$2m	# bonuses over \$1m
Bank of America	\$45bn	\$4bn	\$3.3bn	243,000	28	65	172
Citigroup	\$45bn	(\$27.7bn)	\$5.33bn	322,800	124	176	738
JPMorgan Chase	\$25bn	\$5.6bn	\$8.693bn	224,961	>200	--	1,626
Wells Fargo	\$25bn	(\$42.933bn)*	\$977.5m	281,000	7	22	62
Goldman Sachs	\$10bn	\$2.322bn	\$4.823bn	30,067	212	391	953
Merrill Lynch	\$10bn	(\$27.6bn)	\$3.6bn	59,000	149	--	696
Morgan Stanley	\$10bn	\$1.7bn	\$4.475bn	46,964	101	189	428
Bank of New York Mellon	\$3bn	\$1.4bn	\$945m	42,900	12	22	74
State Street	\$2bn	\$1.811bn	\$469.97m	28,475	3	8	44

# How do South African financial services bonuses compare against international counterparts ?



# Governance guidelines and frameworks

Financial Stability Forum  
(FSF)

- Principles published 2 April 2009

Commission of  
European Union (EU)

- Recommendations published  
30 April 2009

Financial Services  
Authority (FSA)

- Final Rules published  
August 2009

King III

- Publication due on 1 September 2009

JSE Listing  
requirements

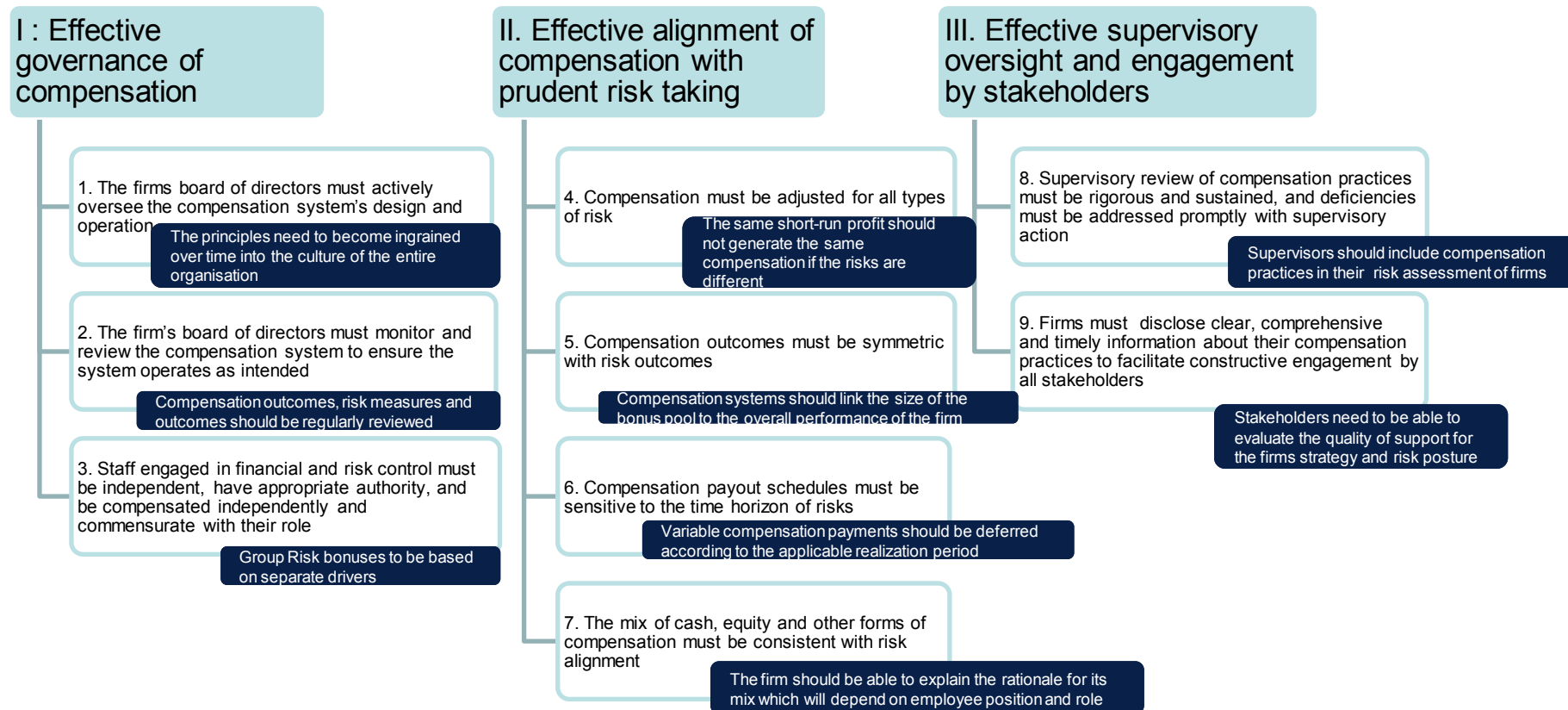
- Replacement schedule 14 effective 15  
October 2009

Basel II

- Compensation Principles published  
January 2010

# FSF (Financial Stability Forum)

- The FSF published its principles for sound compensation principles on 2 April 2009 and it has been endorsed by the G20 leaders at their summit in London (South Africa included)
- The FSF has subsequently been re-established as the Financial Stability Board to strengthen its effectiveness as a mechanism for national authorities, standard setting boards and international financial institutions in the interest of financial stability



# EU (European Union)

- On 14 December 2004, the commission adopted a recommendation (2004/913/EC) fostering an appropriate regime for the remuneration of directors of listed companies
- On 15 February 2005, the commission adopted a recommendation (2005/162/EC) on the role of non-executive or supervisory directors of listed companies
- On 30 April 2009, the commission adopted a recommendation (2009/385/EC) complementing the two previously mentioned recommendations

<b>SECTION I : Scope and definitions</b>
1. Scope
2. Definitions
<b>SECTION II : Remuneration policy</b>
3. Structure of the policy on directors' remuneration
4. Share-based remuneration
5. Disclosure of the policy on directors' remuneration
6. Shareholders' vote
<b>SECTION III : The remuneration committee</b>
7. Creation and composition
8. Role
9. Operation
<b>SECTION IV : Final provisions</b>
10. Member States are invited to take the necessary measures to promote the application of this Recommendation by 31 December 2009
11. This Recommendation is addressed to the Member States

3.1. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.
3.2. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria. Performance criteria should promote the long-term sustainability of the company and include non-financial criteria that are relevant to the company's long-term value creation, such as compliance with applicable rules and procedures.
3.3. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.
3.4. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.
3.5. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof. Termination payments should not be paid if the termination
4.1. Shares should not vest for at least three years after their award. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award.
4.2. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.
4.3. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).
4.4. Remuneration of non-executive or supervisory directors should not include share options.

# FSA (Financial Services Authority)

- The FSA published policy statement 09/15 “**Reforming remuneration practices in financial services**” in August 2009, after receiving feedback on its earlier consultation paper CP09/10 on the same topic
- The FSA expects changes to policies and procedures should be fully in place by 1 January 2010 and be effective from that date (certain contractual obligation may require a transitional adjustment period until 31 December 2010)

Remuneration Principle 1 : Role of bodies responsible for remuneration policies and their members	<ul style="list-style-type: none"> <li>• A remuneration committee should exercise independent judgement, be able to demonstrate that decisions are consistent with the firms financial situation and be responsible for approving and reviewing the remuneration policy</li> </ul>	
Remuneration Principle 2 : Procedures and risk and compliance function input	<ul style="list-style-type: none"> <li>• Procedures for setting remuneration within a firm should be clear and documented and should include appropriate measures to manage conflicts of interest</li> <li>• A firms risk management and compliance functions should have appropriate input in setting remuneration policy for other areas</li> </ul>	
Remuneration Principle 3 : Remuneration of employees in risk and compliance functions	<ul style="list-style-type: none"> <li>• Remuneration for employees in risk management and compliance functions should be determined independently of other business areas and be based on principally on metrics for those functions</li> </ul>	
Remuneration Principle 4 : Profit based measurement and risk-adjustment	<ul style="list-style-type: none"> <li>• Assessment of financial performance used to calculate bonus pools should be based <b>principally on profits</b></li> <li>• A bonus pool calculation should include an adjustment for current and future risk and take into account the <b>cost of capital employed and liquidity</b> required</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue based measures and quality of business</li> </ul>
Remuneration Principle 5 : Long-term performance measurement	<ul style="list-style-type: none"> <li>• When the performance-related component of an employee’s remuneration is a significant part of his total remuneration, the assessment process should be designed to ensure assessment is based on <b>longer-term performance</b></li> </ul>	<ul style="list-style-type: none"> <li>• Proportion and magnitude of performance related component</li> <li>• Averaging and deferral</li> </ul>
Remuneration Principle 6 : Non-financial performance metrics	<ul style="list-style-type: none"> <li>• Non-financial performance metrics should form a <b>significant part</b> of the performance assessment process</li> <li>• Non-financial metrics should include adherence to effective risk management and regulatory compliance</li> </ul>	
Remuneration Principle 7 : Measurement of performance for long-term incentive plans	<ul style="list-style-type: none"> <li>• The measurement of performance for long-term incentive plans, including those based on the <b>performance of shares</b> should take into account future risks</li> </ul>	<ul style="list-style-type: none"> <li>• Risks associated with EPS and TSR boosting (e.g. leverage)</li> </ul>
Remuneration Principle 8 : Remuneration structures	<ul style="list-style-type: none"> <li>• It is good practice for the fixed component of an employee’s remuneration to be a sufficient proportion of their total remuneration to allow for a <b>fully flexible bonus policy</b></li> </ul>	<ul style="list-style-type: none"> <li>• Guaranteed bonus likely to be inconsistent</li> </ul>

# King III Code on corporate governance

- The King III code on good corporate governance in South Africa will be published on 1 September 2009, which will contain principles with significant implications for executive remuneration and disclosure

11 February 2009  
Mutual and Federal to Reward Execs



As executive payouts in major corpora under the spotlight in today's sluggish economy, the Managing Director of Mutual and Federal...  
Mutual and Federal...  
The company...  
loss...

143. Factors affecting company performance, but outside the control of executives, and **to which they have made no contribution should not be taken into account.** At lower levels in the company the effect of outside factors should be less.

174. Companies should provide full disclosure of executive and non-executive directors' remuneration on an individual basis, giving details as required in the Act of base pay, bonus, share-based payments, granting of options or rights, restraint payments and all other benefits (including present values of current awards). Similar information should be provided for the **three mostly highly-paid employees who are not directors in the company.**

**Remuneration of five highest paid individuals**

As a result of the Company's listing on The Stock Exchange of Hong Kong Limited, it is necessary to disclose certain information relating to the five highest paid employees in the Group. Set out below are details for five individuals, (none of whom were executive directors) whose emoluments\* were the highest in the year ending 31 December 2008:

Components of remuneration	\$
Basic salaries, allowances and benefits in kind	2,659,535
Pension contributions	521,949
Bonuses paid or receivable*	43,040,294
Payments made on appointment	-
Compensation for loss of office	-
- contractual	-
- other	-
<b>Total**</b>	<b>46,221,778</b>

160. Shareholders should approve in advance all long-term incentive schemes **whether share-based or not** and any substantive changes to existing schemes.

168. To align shareholders' and executives' interests, vesting of share incentive awards should be conditional on the achievement of performance conditions. Such performance measures and the reasons for selecting them should be fully disclosed. They should be linked to factors enhancing shareholder value, and **require strong levels of overall corporate performance, measured against an appropriately defined peer group** or other relevant benchmark where annual awards are made. If performance conditions for share-based incentive schemes are not met, they should not be re-tested in subsequent periods. Where performance measures are based on a comparative group of companies, there should be disclosure of the names of the companies chosen.

170. When companies face the risk of losing key employees, remuneration policies to retain them may be adopted. Incentive schemes to encourage retention should be **established separately, or should be clearly distinguished**, from those relating to reward performance and should be disclosed in the annual remuneration report voted on by shareholders.



# JSE Listing requirements

- Schedule 14 of the JSE listing requirements, “**Requirements for share incentive schemes**”, applies to all schemes involving the issue of equity securities (including options) and is effective from 15 October 2009
- The rules apply to schemes for companies at listed company level and also apply to schemes of all subsidiaries of issuers which provide for the issue of equity securities in the listed holding company

Provision	Description
14.1	The scheme must be approved by equity security holders passing an ordinary resolution, requiring a <b>75% majority</b> of the votes cast in favour of such resolution
	the category of persons to whom or for the benefit of whom securities may be purchased or issued under the scheme (“participants”)
	the number of equity securities which may be utilised for purposes of the scheme must be stated and this number <b>may not be exceeded</b> without equity securities holders’ approval
	use of the wording “from time to time” <b>or a percentage</b> is prohibited
14.2	The provisions relating to 14.1 cannot be altered without the prior approval of equity securities holders
14.3	Allocated equity securities which are not subsequently issued to the identified participant/s, for example as a result of forfeiture, must revert back to the scheme
14.4	Executive directors may not be appointed as trustees of schemes
14.5	The trustees may not be participants under the scheme
14.6	The resolution to approve a scheme must make specific reference to the scheme and be accompanied by either the full scheme or a summary of the principal terms
14.7	The scheme document, if not circulated to the equity securities holders, must be available for inspection by equity securities holders
14.8	The issuer must summarise the securities in its annual financial statements financial year.
14.9	Equity securities may only be issued once a participant has been formally identified
14.10	Equity securities held by a share trust will not have their votes taken into account for the purposes of resolutions proposed in terms of the Listings Requirements
14.11	Any issue of equity securities to employees which do not fall within the rules of an issuer’s scheme will be treated as a specific issue for cash
14.12	Rolling over is prohibited.
14.13	Back-dating of options i.e. the practise of issuing options retrospectively is not permitted
14.14	The provisions of Schedule 14 become effective in respect of all share schemes approved by the JSE on or after 15 October 2009
	All issuers will be required to make appropriate amendments to their existing schemes by no later than 1 January 2011

# Basel II compensation principles

## I. Effective governance of compensation

- PRINCIPLE 1: The firm's board of directors must actively oversee the compensation system's design and operation. The compensation system should not be primarily controlled by the chief executive officer and management team. Relevant board members and employees must have independence and expertise in risk management and compensation
- PRINCIPLE 2: The firm's board of directors must monitor and review the compensation system to ensure the system operates as intended. The compensation system should include controls. The practical operation of the system should be regularly reviewed for compliance with design policies and procedures. Compensation outcomes, risk measurements, and risk outcomes should be regularly reviewed for consistency with intentions
- PRINCIPLE 3: Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm. Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk management's influence on incentive compensation.

## II. Effective alignment of compensation with prudent risk-taking

- PRINCIPLE 4: Compensation must be adjusted for all types of risk. Two employees who generate the same short-run profit but take different amounts of risk on behalf of their firm should not be treated the same by the compensation system. In general, both quantitative measures and human judgment should play a role in determining risk adjustments. Risk adjustments should account for all types of risk, including difficult-to-measure risks such as liquidity risk, reputation risk and cost of capital
- PRINCIPLE 5: Compensation outcomes must be symmetric with risk outcomes. Compensation systems should link the size of the bonus pool to the overall performance of the firm. Employees' incentive payments should be linked to the contribution of the individual and business to such performance. Bonuses should diminish or disappear in the event of poor firm, divisional or business unit performance.
- PRINCIPLE 6: Compensation payout schedules must be sensitive to the time horizon of risks. Profits and losses of different activities of a financial firm are realised over different periods of time. Variable compensation payments should be deferred accordingly. Payments should not be finalised over short periods where risks are realised over long periods. Management should question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payout.
- PRINCIPLE 7: The mix of cash, equity and other forms of compensation must be consistent with risk alignment. The mix will vary depending on the employee's position and role. The firm should be able to explain the rationale for its mix.

## III. Effective supervisory oversight and engagement by stakeholders

- PRINCIPLE 8: Supervisory review of compensation practices must be rigorous and sustained, and deficiencies must be addressed promptly with supervisory action. Supervisors should include compensation practices in their risk assessment of firms, and firms should work constructively with supervisors to ensure their practices conform with the Principles. Regulations and supervisory practices will naturally differ across jurisdictions and potentially among authorities within a country. Nevertheless, all supervisors should strive for effective review and intervention. National authorities, working through the FSF, will ensure even application across domestic financial institutions and jurisdictions
- PRINCIPLE 9: Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders. Stakeholders need to be able to evaluate the quality of support for the firm's strategy and risk posture. Appropriate disclosure related to risk management and other control systems will enable a firm's counterparties to make informed decisions about their business relations with the firm. Supervisors should have access to all information they need to evaluate the conformance of practice to the Principles.

# 07, 08 & 09 changes to executive pay

- Many media publications are reporting lower levels of executive pay for 2008 than for 2007
- There are however some conflicting reports which suggest otherwise



Best Practice and Remuneration Report  
June 2009

Component	2004 – 2005	2005 – 2006	2006 – 2007	2007 – 2008
Base pay	-1%	32%	16%	34%
Benefits	-32%	41%	21%	31%
Performance bonuses	56%	16%	37%	-5%
Total annual compensation	16%	34%	25%	16%

## Bank bonuses 'to tumble in 2009'

Bankers' bonuses in the UK are likely to be down 70% from their 2007 peak, the Centre for Economics and Business (CEBR) has forecast.

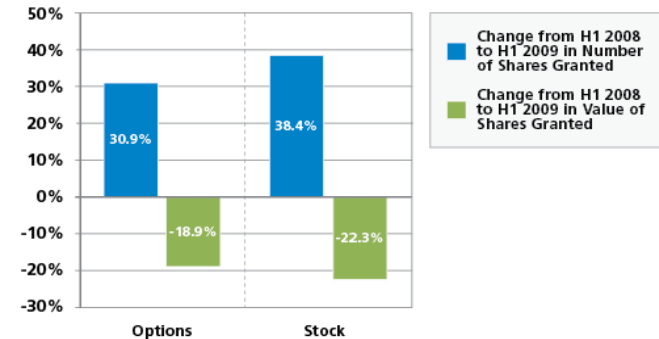
It also said that "the public has a completely inaccurate perception of what makes up bankers' bonuses".



## EQUILAR® EXECUTIVE COMPENSATION TRENDS August 2009

### Award Values Fall While Grant Sizes Grow

An analysis of S&P 500 equity grant practices in H1 2009 and H1 2008



## FORTUNE SMALL BUSINESS 20 highest-paid CEOs

CEO	Company	2008 Total Compensation (\$ millions)	Change Since 2007
Scott Ginsburg	DG Fastchannel	\$6.9	590%
Stephen Daly	Hittite Microwave	\$1.6	334%
Paul Sinsheimer	Financial Federal Corp.	\$3.8	132%
Bruce Barrett	Somanetics Corp.	\$1.2	72%
Sophocles Zoullas	Eagle Bulk Shipping	\$35.8	68%
James Hawkins	Natus Medical	\$1.8	62%
Robert Weiler	Phase Forward Inc.	\$1.9	56%
Robin Raina	Ebix Inc.	\$2.8	46%
William Saxeby	Landauer Inc.	\$1.4	43%
Charles Willis, IV	Willis Lease	\$3.4	11%
R. Jeffrey Bailly	UFP Technologies Inc.	\$1.6	9%
Steven Anderson	CryoLife	\$1.4	5%
Tony Jensen	Royal Gold Inc.	\$1.8	4%
Peter Chase	Chase Corp.	\$1.8	0%
Peter Cittadini	Actuate Corp.	\$1.8	-15%
Lawrence Sala	Anaren Inc.	\$1.1	-19%
Bradley Meier	Universal Insurance Holdings	\$4.8	-27%
William Staunton	Ramtron International Corp.	\$1.2	-38%
John Higginbotham	Integral Systems	\$6.5	N/A
John Kraeutler	Meridian Bioscience	\$1.6	N/A

**MEDIAN 27%**

# Many different compensation plans

- Most large listed organisations now operate a number of different long and short term variable compensation plans
- The same trend has occurred in South Africa in the last 5 years, where prior to 2004 the two schemes in operation were almost exclusively a *Share Option Plan* and a *Discretionary Annual Bonus Plan*

Incremental Value

Absolute Value

Long-term incentive plans

















<p><b>Share Options</b></p> <ul style="list-style-type: none"> <li>• May acquire offer for payment of strike price</li> <li>• Typically vest in 3-5 yrs and expire 5-10 yrs</li> <li>• Usually settled by issuing new shares</li> </ul>	<p><b>Share Appreciation Rights (SARs)</b></p> <ul style="list-style-type: none"> <li>• Participants receive benefit above the strike price (spread benefit)</li> <li>• May be equity or cash settled</li> <li>• Vesting and exercise similar to options</li> <li>• Currently more prevalent in RSA due to lower dilution and better tax efficiency for cash settled arrangements</li> </ul>	<p><b>Private Equity carried interest schemes</b></p> <ul style="list-style-type: none"> <li>• Investment carry a compounding hurdle or carried interest</li> <li>• Value for participants is determined as a percentage of the excess value generated above the carried interest hurdle</li> <li>• Distributions typically happen on an ill-defined time line and align with liquidation of underlying investments</li> </ul>	<p><b>Deferral plans</b></p> <p><b>Cash Deferral Plans</b></p> <ul style="list-style-type: none"> <li>• Forced deferral of a percentage of absolute or incremental bonus amounts with potential forfeiture</li> <li>• Typ 6-36 months with interest</li> </ul> <p><b>Share Based Deferral Plans</b></p> <ul style="list-style-type: none"> <li>• Compulsory deferral into a share price linked instrument</li> <li>• Most often a 3 yr vesting period with fault termination forfeiture</li> </ul>	<p><b>Short-term incentive plans</b></p> <p><b>Discretionary bonus plan</b></p> <ul style="list-style-type: none"> <li>• No structured plan or specific drivers in place</li> <li>• Total bonus payments and individual amounts are decided annually on a discretionary basis</li> </ul> <p><b>Pure scorecard approach</b></p> <ul style="list-style-type: none"> <li>• A maximum bonus potential is measured against a pre-defined balanced scorecard of measures</li> <li>• Discretionary adjustment are typically made to temper the final bonus amounts</li> </ul>	
<p><b>Restricted Shares (RSPs)</b></p> <ul style="list-style-type: none"> <li>• Free company shares granted</li> <li>• Subject to continued employment over typically a 3 year period before vesting</li> <li>• Dividends and voting rights from date of offer</li> </ul>	<p><b>Restricted Share Units (RSUs)</b></p> <ul style="list-style-type: none"> <li>• Mechanism identical to Restricted Shares but cash settled</li> </ul>	<p><b>Performance Unit Plan (PUPs)</b></p> <ul style="list-style-type: none"> <li>• Participants granted a number of units vesting over typically 2-4 years</li> <li>• Unit value or the number of units vary based on performance criteria over the vesting period</li> </ul>	<p><b>Appreciation Unit Plan (AUPs)</b></p> <ul style="list-style-type: none"> <li>• Similar to PUP but based on incremental appreciation</li> </ul>	<p><b>Co-investment plans</b></p> <p><b>Matched Share Scheme (MSS)</b></p> <ul style="list-style-type: none"> <li>• Voluntary contribution of bonus earned or other security typically into equity</li> <li>• Investment matched at end of typ 3 year vesting period on ratio of 0.5 :1 up to 2:1</li> </ul> <p><b>Co-investment plan (CIP)</b></p> <ul style="list-style-type: none"> <li>• Typical in private equity arrangements</li> <li>• Leveraged plans have a loan arrangement in place</li> <li>• Investment in shares or more leveraged convertible or preference shares</li> </ul>	<p><b>Residual income schemes</b></p> <ul style="list-style-type: none"> <li>• Residual income (EVA / EP / CFROI) derives pool amount</li> <li>• Market benchmarking and discretion used for individuals</li> </ul>
<p><b>Performance Shares (PSPs)</b></p> <ul style="list-style-type: none"> <li>• Mechanism identical to Restricted Shares but with additional Corporate Performance Targets which additionally determine vesting</li> </ul>	<p><b>Forfeitable shares</b></p> <ul style="list-style-type: none"> <li>• Mechanism identical to Restricted Shares but delivery granted up front with forfeiture clauses</li> </ul>	<p><b>Long-term EVA/EP Schemes</b></p> <ul style="list-style-type: none"> <li>• A percentage of incremental EVA/EP accumulates into a fund</li> <li>• Performance always measured relative to prior year and negative variances decrease the fund</li> <li>• A percentage of the fund liquidates annually</li> </ul>	<p><b>Cash Retention Schemes</b></p> <ul style="list-style-type: none"> <li>• A fixed cash amount is awarded</li> <li>• Payment may be made up front with payback clauses or paid only at end of period (typ. 1-3 yrs)</li> </ul>	<p><b>Structured model</b></p> <ul style="list-style-type: none"> <li>• Specific financial funding drivers which defined total pool liability across full spectrum of potential results</li> <li>• Non-financial sustainability drivers typ used to "modify" the pool</li> <li>• Team and individual performance ratings used to "carve" the funded pool and distribute to participants</li> </ul>	

Outperformance plans are highly geared with little or no vesting for only real growth, but many multiples vesting (typ up to 3 x) for outperformance against stretch targets

Share Based

Non-share based

# Long-term incentive plan comparisons

Company	Share Option / Appreciation Scheme	Restricted Share / Performance Share Plan	Deferral Schemes	Co-investment / Matching Schemes	Comments
	n/a	PSP & Phantom PSP	ESAS, Phantom ESAS	Voluntary ESAS	<ul style="list-style-type: none"> <li>• 100% 3yr vesting with Equity &amp; Cash settled</li> <li>• PAT / EPS / TSR CPT's</li> <li>• Matching 20%, 30% (ESAS) &amp; 1:1 or 3:1 (PSP)</li> </ul>
	Employee Stock Options	Restricted Stock / Retricted Stock Units	Director Deferral Plan	n/a	<ul style="list-style-type: none"> <li>• 3/4 yr vesting in equal tranches</li> <li>• TARP future recovery for misrepresentation</li> </ul>
	n/a	PSP & Phantom PSP	ESAS, Phantom ESAS	Voluntary ESAS	<ul style="list-style-type: none"> <li>• 3yr 100% vesting</li> <li>• TSR &amp; EP performance targets</li> </ul>
	Performance Priced Options	Performanc Vested Equity Awards	Deferred Cash Retention Award	Voluntary Deferred Compensation Plan	<ul style="list-style-type: none"> <li>• Ratable vesting over a 4 yr period</li> <li>• Clawback provision for Stock Awards</li> </ul>
	Share Based Incentive Scheme	<i>under investigation</i>	Cash deferral	n/a	<ul style="list-style-type: none"> <li>• 25%pa 2/3/4/5 yr vesting for SAR scheme</li> <li>• <u>NO</u> CPT's applied</li> </ul>
	Share Appreciation Rights Scheme	<i>under investigation</i>	Cash deferral	Co-investment (by special invitation)	<ul style="list-style-type: none"> <li>• 33%pa 3/4/5 yr vesting for SAR scheme</li> <li>• Internal Earnings growth CPT's</li> </ul>
	Special SAR's	Restricted Stock Units	Deferral into RSU's	Voluntary Deferred Compensation Plan	<ul style="list-style-type: none"> <li>• Ratable vesting over a 5 yr period</li> <li>• Clawback compliance with TARP regulations</li> </ul>
	Equity Growth Scheme	<i>under investigation</i>	<i>under investigation</i>	n/a	<ul style="list-style-type: none"> <li>• 50%,25%,25% for 3/4/5 year vesting</li> <li>• <u>NO</u> CPT's applied</li> </ul>
	Share Options	Performance Shares	Cash Deferral (subject to clawback)	n/a	<ul style="list-style-type: none"> <li>• 3yr 100% vesting</li> <li>• TSR, EPS &amp; EP performance targets</li> </ul>
	Share Option Plan	Restricted Share Scheme	<i>under investigation</i>	Matched Share Scheme	<ul style="list-style-type: none"> <li>• 100% 3yr vesting for Equity settled RSP &amp; Option plan</li> <li>• 3x3 matrix of CPT's</li> </ul>
	Performance Share Plan (Options)	Performance Share Plan (Restricted Shares)	Share Reward Plan	Sharesave Plan	<ul style="list-style-type: none"> <li>• 100% vesting at 3 yrs</li> <li>• EPS CPT's</li> <li>• Matching 1:1</li> </ul>
	Executive Share Option Plan	Restricted Share Award / Medium Term Performance Plan	Deferred Shares	n/a	<ul style="list-style-type: none"> <li>• 100% vesting at 3 yrs</li> <li>• Options have EPS performance target</li> <li>• MTI plan has TSR &amp; EPS CPT's</li> </ul>
	Restricted Share Plan	Share Option Plan	Deferred Performance Bonus Plan	Share Purchase Plan	<ul style="list-style-type: none"> <li>• 40%,30%,30% for 3/4/5 year vesting</li> <li>• CPT based on adjusted return on group equity value per share</li> </ul>
	Equity Growth Scheme	n/a	Deferred Share Plan / Performance Deferred Share Plan	n/a	<ul style="list-style-type: none"> <li>• 50%,25%,25% for 3/4/5 year vesting (Type A)</li> <li>• <u>NO</u> CPT's applied</li> </ul>
	n/a	Performacne Share Plan / Restricted Share Scheme (no awards since 2003)	Deferred Shares	Sharesave Scheme	<ul style="list-style-type: none"> <li>• 100% vesting at 3 yrs</li> <li>• CPT's based on TSR &amp; EPS</li> </ul>
	LTICP Stock Options, SAR's (Approved)	LTICP Restricted Stock, Performance Share, Stock Units (Approved)	Directors Plan (deferral distributions)	Deferred Compensation Plan (not approved)	<ul style="list-style-type: none"> <li>• Ratable vesting over a 3 yr period</li> <li>• Clawback policy under TARP regulations</li> </ul>

# Corporate Performance Targets

- There is increasing pressure from institutional shareholders, media and governance forums for the introduction of corporate performance targets on long-term incentive grants



TSR Measuring growth in share price plus dividends paid to shareholders, relative TSR is recognised as one of the best indicators of whether a shareholder has achieved a good return on investing in the Group relative to a basket of companies or a single index

EPS An EPS performance condition provides an appropriate measure of the Group's underlying financial performance



## More Companies Adopt Relative TSR Plans

*A Short Report on Relative TSR Metrics at S&P 100 Companies*

According to a recently completed analysis by Equilar, 34 companies in the S&P 100 index used relative total shareholder return (TSR) metrics for their performance-based incentive plans in fiscal year 2008. This count includes plans with annual and multi-year performance periods and plans payable in cash or equity.



**Long-term incentives**, in the form of Performance Shares, are awarded annually under the Long Term Incentive Plan (LTIP). The diversified natural resources industry is capital intensive, cyclical and long term. Outstanding performance comes from accessing high-quality resources, successfully developing new projects and maintaining efficient and safe operations. The Committee believes that in this environment, success can best be measured by our Total Shareholder Return (TSR) performance relative to the TSR of an index of a peer group of companies weighted 75 per cent to mining and 25 per cent to oil and gas (the Index).

### TSR element

For awards made in 2009 and after

Banco Santander	JPMorgan Chase
Bank of America	Kookmin
Bank of China	Lloyds Banking Group
Bank of East Asia	Overseas Chinese Banking Corporation
Barclays	Royal Bank of Scotland
Citigroup	Standard Bank
DBS Group	State Bank of India
Deutsche Bank	Unicredito
HSBC	United Overseas Bank
ICBC	Standard Chartered
ICICI	

### EPS element

The percentage of award which will normally be exercisable at the end of the relevant three-year performance period is as follows:

Increase in EPS	Percentage of award exercisable
Less than 15%	nil
15%	15
Between 15% – 30%	>15 but <50*
30% or greater	50

# Bonus Deferral

- In years past some organisations would defer bonuses for reasons of
  - Smoothing payout in volatiles businesses
  - Retention through increasing cost of buyout
- Now the question has change into

***Are the business results, which generated the award in the first place, sustainable and based on “untainted” disclosure to justify the original award ?***

## REMUNERATION REPORT

### Statement from the Chairman of the Group Remuneration Committee

This remuneration report was prepared by the Group Remuneration Committee (the 'committee') and approved by the board.

This report describes the Nedbank Group total reward philosophy and the key elements of reward for staffmembers and executive and non-executive directors. In summary, the overall philosophy and practices remained unchanged from the previous year, aside from the [introduction of the Bonus Deferral Scheme](#). During 2009, other than the normal course of business, the committee attended to the following matters:

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## Developments over the past year

During the prior financial year the group refined its performance bonus policies by introducing a non-cash element (in the form of forfeitable share awards) for all employees whose bonuses exceed a pre-determined hurdle level and by introducing a formal deferral requirement. These awards are made in terms of our existing long-term incentive plans

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# Typical Variable Remuneration Construct

- Bonus amounts released in the form of cash and equity
  - Only a portion of bonus paid in cash (typ exec directors or large amounts)
  - Cash deferral typically carries interest compensation
  - Equity deferral (more common) carries 20% to 30% matching as compensation for time value of money
  - Recoupment for material misrepresentation or non-disclosure
- Voluntary deferral schemes in fairly common use
  - Matching arrangements are at least 1:1 but may be up to 3:1
- Companies using share and option based schemes
  - Option based schemes more common in USA
  - Share based schemes more common in UK
  - South Africa has a spread of Top40 companies using both types of schemes
  - Equity and cash settled schemes widely used
- Corporate Performance targets for vesting
  - Common practice in UK and RSA but still uncommon in USA
  - Outperformance rewarded with additional vesting (typ 50% to 300% additional units vesting)
  - Relative TSR and EPS growth above inflation are the most common measures used

# What has changed in remuneration ?

- The spotlight is firmly on remuneration
- Good corporate governance is on everyone's lips
- Risk (all types including financial, operational, reputational etc) and it's effect on remuneration is key
- Introduction of CPT's
- Introduction on bonus deferral arrangements

***The effect has been felt in all industries, even though financial services remuneration issues may have instigated the movement***

# What will change in in the future ?

- A simplification of the currently complex structures into
  - A total remuneration pitch (all in)
  - Split between fixed and variable
  - Split between cash and shares
- More disclosure on CPTs / peergroup benchmarking and serious interrogation of the level of stretch in CPTs
- Clawback of previous deferrals

***The landscape of remuneration has not yet reached a new level of stability and is unlikely to do so for the next 18 to 24 months***



**Questions and comments?**