MERCER

MERCER FINANCIAL SERVICES EXECUTIVE COMPENSATION SNAPSHOT SURVEY

JUNE 2013

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Overview

1.1. About the Survey

Mercer is pleased to present the results for the eighth edition of the **Mercer Financial Services Executive Compensation Snapshot Survey**, conducted in April 2013. This report provides an update on key changes and practices in corporate level compensation programs.

The survey was completed by 78 financial services organizations, of which 55% were banks, 28% insurance firms, and 17% other financial services organizations. Survey participants are based in 20 different countries with 46% in Europe, 40% in North America, and 14% in Emerging Markets (which combines Asia and South America). A list of the organizations submitting their data is included in Section 2.

The next five sections cover questions about:

- (Expected) changes in and structure of annual incentives/variable compensation in light of global regulatory developments.
- Developments on malus adjustments and clawbacks.
- Prevalence of performance measures.
- Characteristics of material risk takers.
- Details on the structure of the compensation function.

1.2. Definitions

Mandatory deferral – programs that have a portion of the short-term incentive award deferred over time with potential inclusion of performance-based vesting criteria which considers how business results in an award year develop over a multi-year period (for example, performance of 2012 will be tested in 2015).

Forward-looking long-term incentives (LTI) – programs that grant long-term incentive awards for rewarding future success in addition to the short-term incentive award; an LTI award generally vests based on performance over a multi-year time frame going forward (for example, with a 2012 grant, performance criteria are set for 2015 achievement and payout).

Stock tracking mechanism – compensation vehicle (payable in stock or cash), the underlying value of which is based on an organization's stock price.

Clawback – already vested compensation is reclaimed based on gross negligence or other malfeasance.

Malus – any adjustment in the unvested deferred compensation in the subsequent or current year, based on performance.

Members of the executive committee – executive members of the organization, such as members of the management board/committee and named executive officers.

Senior managers – executives reporting to a member of the executive board/committee.

Material risk-taking positions – as defined by the organization, staff members whose professional activities – either individually or collectively, as a member of a group/unit/department – can exert influence on the institution's risk profile.

Control functions – senior staff responsible for heading the Compliance, Legal, Risk Management, Human Resources, Internal Audit, and similar functions.

1.3. Confidentiality

To ensure the confidentiality of all data, a minimum number of observations is required in order for statistics to be displayed. Three organizations must report at least three observations for a variable in order for the mean to be displayed. Four organizations and four observations are required for display of the median. Five organizations reporting at least five observations are required to display 25th and 75th percentiles. Where there has been insufficient data for analysis, this has been indicated with "--".

The information and data contained in this report are for information purposes only and are not intended nor implied to be a substitute for professional advice. In no event will Mercer be liable to you or to any third party for any decision made or action taken in reliance of the results obtained through the use of the information and/or data contained or provided herein.

1.4. If You Have Questions

If you have questions regarding the survey or the report, contact us at:

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1.5. Commentary on Survey Results

Financial services organizations continue to face uncertainty as regulators immerse themselves in an increasing number of compensation policies, and the economy in many parts of the world remains under pressure.

Mercer conducted an online survey in April 2013 in order to provide the most updated information on changes and emerging trends in compensation and to share these insights with organizations as they wrestle with the current environment.

The survey was completed by 78 financial services organizations, of which 55% were banks, 28% insurance firms, and 17% other financial services organizations. Survey participants are based in 20 different countries with 46% in Europe, 40% in North America, and 14% in Emerging Markets (which combines Asia and South America). A list of the organizations submitting their data is included in Section 2.

The snapshot survey questions were related to current approach to annual incentives, expected changes in and structure of variable compensation in light of global regulatory developments, developments on malus adjustments and clawbacks, prevalence of performance measures, characteristics of material risk takers, and details on the structure of the compensation function.

Current approach to annual incentives
Half of the organizations utilize a top-down pool approach to annual incentives, in which pool funding is aligned to company or division/business unit financial measures and is ultimately allocated to individuals. A third of the organizations utilize a bottom-up multiplicative approach, in which the sum of individual target incentive opportunities is adjusted by a measure representing the financial results. A bottom-up additive approach, in which individual target incentive opportunities and financial results are added up, is the least prevalent. In North America and Europe, both the top-down pool approach and bottom-up multiplicative approach are common. The bottom-up multiplicative approach to annual incentives is more prevalent in the insurance organizations (43%). The top-down pool approach is predominant in the banking industry.

Half of the organizations describe target incentive opportunities as a percentage of base salary. The percentage of base salary approach is most prevalent in the insurance industry and in North America. Only about 20% of organizations describe target incentive opportunities as a fixed amount. Setting target incentives as a percentage of base salary is not as predominant in the European banking and insurance industries compared with other regions. Forty-three percent of European banks do not set target incentive opportunities. European insurance organizations use a fixed incentive amount for targets more often than elsewhere. Two-thirds of organizations communicate incentive opportunities to their employees upfront. Not communicating incentive opportunities to employees is only prevalent in the Emerging Markets. Insurance and other financial services organizations communicate target incentive opportunities more than banks do.

In terms of bonus pool approach, having multiple incentive pools for each division/business unit (49% of organizations) is somewhat more prevalent than having only one single pool (36%). The single pool approach is most prevalent in North America. One-quarter of insurance organizations do not use a pool approach; of those that do use a pool approach, prevalence is split between single and multiple pools. In Europe, a multiple pools approach is more prevalent in banking and other financial services organizations, while half of the insurance organizations do not utilize any pool approach for bonus. In North America, half of the banking organizations utilize a multiple pool approach, while a single pool approach is more prevalent in insurance (67%) and other financial services organizations (63%).

In terms of the bonus pool funding approach, the results vary. Scorecard evaluation, in which the pool is funded based on an evaluation of pre-defined financial and non-financial measures, is the most common funding approach (40%), while a formulaic approach with multiple measures is more prevalent in insurance organizations (33%). Half of the banks use a formulaic approach, using either one financial measure to fund the bonus pool based on a set formula (26%) or a weighted formula with two or more financial measures (26%). The scorecard evaluation (set of measures) method is prevalent in Emerging Markets (60%) and other financial services organizations (75%), and half of the North American organizations use one of the formulaic approaches. The vast majority of organizations across all regions and industries apply discretion on the formulaic bonus funding approach.

Allocation methods of bonus pools vary widely across regions and industries. Scorecard evaluation is the most common approach in allocating an incentive pool to divisions/business units, especially in the insurance industry. Forty-one percent of banks use a formulaic approach with or without discretion. Generally, a solely formulaic approach is the least prevalent allocation method. The scorecard approach is slightly less prevalent in North America compared with the other regions. Half of other financial services organizations and a third of organizations in Emerging Markets utilize a discretionary approach to allocate incentives to divisions/business units.

In allocating bonuses to individuals, a performance evaluation with guided distribution is predominant in the insurance industry (63%), while 41% of banking organizations use a discretionary approach. A third of the organizations in Emerging Markets use a performance evaluation with forced distribution, which is far less common in other regions.

In general, it is prevalent for organizations to cap incentives for individuals throughout the entire organization. However, 40% of organizations in Emerging Markets do not cap or are not planning to cap incentives. Twenty-eight percent of the banking organizations only cap incentives for some select individuals, while 38% of the insurance organizations cap incentives at the pool level. Maximum incentive opportunities are commonly articulated as a percentage of target (46% of organizations). Thirty-seven percent of organizations in Europe articulate caps as a percentage of base salary, while 73% of organizations in North America articulate incentive caps as a percentage of target incentive.

The majority of organizations (62%) have not set fixed/variable compensation ratios. Few organizations in Emerging Markets set ratios and only 20% in North America have them. However, European organizations have fixed/variable compensation ratios for either all (24%) or some select employees (24%). For the organizations that set fixed/variable compensation ratios, the ratios are most commonly articulated as base salary versus short-term and long-term incentives (including non-deferred, deferred, and forward-looking long-term incentives). Few organizations were planning to introduce the ratios in 2013, however, this will likely change in Europe with the recent CRD IV developments.

Expected changes in and structure of annual incentives/variable compensation design in 2013

In light of global regulatory developments, almost half (46%) of organizations plan to make changes to their annual incentive plans in 2013. However, 67% of organizations in Emerging Markets and insurance organizations do not plan to make changes in 2013. Planned changes vary by organization. Increasing the individual differentiation in bonus distribution (45%), increasing the portion of annual variable compensation delivered over a multi-year time frame (36%), and decreasing the maximum incentive levels (35%) are amongst the most prevalent changes that are being considered. The fewest changes are planned for the company funding target and the use of maximum/caps, with 71% of organizations indicating no change. European organizations are considering increasing individual differentiation in bonus distribution (73%) and increasing the portion of annual variable compensation delivered over a multi-year time frame (55%). Thirty-six percent of North American organizations are planning to decrease the maximum incentive levels, while 33% plan to increase target incentive levels. Sixty percent of insurance organizations plan to increase the number of employees with mandatory deferral. Forty-two percent of the banks plan to increase individual target incentive levels.

As for pay mix, the majority of organizations did not anticipate making changes in 2013. Nevertheless, some organizations (20%–25%) plan to increase the weight of base salary and multi-year compensation (including deferral and LTI), while some organizations (17%) plan to decrease the weight of annual/non-deferred incentives. Pay mix changes related to the recent regulatory announcements are most prevalent in Europe. More banks are considering increasing the weight of base salary (31%) and multi-year compensation (27%) than insurance companies.

Overall, although organizations anticipate more impact on executive compensation programs in 2014 than in 2013 in light of global regulatory developments (such as CRD IV and Say on Pay), more than half of the organizations do not anticipate any changes to their executive compensation programs in 2014. A majority of European organizations (61%) anticipate an impact on their executive compensation programs as a result of global regulatory developments in 2014. The top three changes European organizations are considering making are raising base salary (57%), raising allowances and non-core compensation (39%), and increasing the vesting period for deferred compensation to five years (30%) for impacted employees. Approximately three-quarters of organizations in North America and Emerging Markets do not expect to be impacted. The banking industry anticipates the most impact in 2014, with 62% of organizations anticipating changes to their executive compensation programs. The top three changes banks are considering making in 2014 are raising salary (58%), raising allowances and non-core compensation (42%), and increasing the vesting period for deferred compensation to five years (27%) for impacted employees.

Developments on malus adjustments and clawbacks

Typically members of the executive committee and material risk takers are subject to malus and clawbacks. In more than one-third of the organizations, the type of position, job level, and level of bonus award are also factors that determine malus. Thirty-seven percent of organizations have clawback agreements throughout the entire organization. Factors that determine whether employees are subject to malus and clawback do not vary significantly by region and industry. Type of position (58%) and job level (67%) are factors that are most prevalent in the insurance industry, whereas for banks, it is their material risk takers who are most subject to malus. In the banking industry, 50% of respondents indicated that the entire organization is subject to clawback.

Malus clauses are most prevalent in the banking industry, both in Europe and North America. Seventy-three percent of organizations in Emerging Markets and 57% of insurance organizations do not have malus conditions in place. For organizations that will reduce unvested amounts if firm-wide or business unit performance conditions are not met, the most common response was that only awards that would have vested that year will be reduced.

When participants were asked whether any actual unvested awards had been reduced (malus applied) for 2012 performance, the majority of organizations had not reduced any actual unvested awards for 2012 performance. Nevertheless, 25% of European organizations have reduced actual unvested awards for 2012 performance in part of their organization and an additional 8% in their entire organization. When participants were asked whether any actual vested awards or payments made to recipients have been clawed back over 2012, the majority of organizations have not clawed back any actual vested awards over 2012. Nevertheless, 19% of insurance organizations and 12% of European organizations have clawed back or reclaimed actual vested awards over 2012, while only 10% of the banks have.

Prevalence of performance measures

Performance measures for bonus funding and individual performance evaluation vary by industry. Overall, operating profit, net profit, revenue sales/asset growth and ROE are the top four measures that determine bonus funding. Compliance and conduct, customer satisfaction, quality of risk management, and revenue/sales/asset growth are the top four performance measures used to evaluate individual performance by more than half of all organizations. Primary performance measures for bonus funding used in banks are net profit (51%), operating profit (49%), ROE (41%), and return on risk-weighted assets (32%). Insurance organizations primarily measure operating profit (63%), revenue/sales/asset growth (53%), and ROE (47%). The use of risk-adjusted performance measures (such as economic profit and return on risk-weighted assets) is more common in Europe than in North America. EPS is more prevalent in North America (35%) than elsewhere. Quality of risk management (41%) and compliance and conduct (41%) are primary bonus funding measures in Europe, but less so elsewhere.

Overall, nearly half of the organizations do not use any risk-adjusted metrics for adjustments of company-wide pools and business unit pools. Others typically utilize economic profit and return on risk-weighted assets as quantitative risk-adjustments. Seventy-five percent of banking organizations use quantitative risk adjustments, such as economic profit (44%), return on risk-weighted assets (41%), and return on economic capital (22%) in allocating company-wide pools. Quantitative risk adjustments are far less common outside the banking industry.

When allocating business unit pools, 74% of banking organizations and 68% of European organizations use quantitative risk adjustments, such as economic profit (41%) and return on risk-weighted assets (41% for European organizations and 48% for banking organizations). Quantitative risk adjustments are far less common outside the banking industry.

When measuring individual performance, explicit performance targets set at the beginning of the year (84%), performance ratings (79%), and formal scorecards used to combine financial and non-financial performance (50%) are amongst the most common approaches and tools used in determining incentive compensation. Guided performance distribution is used in more than half of the insurance organizations and in Emerging Markets.

In light of the difficult market environment of the past several years, the majority of organizations have found new models to deal with executive compensation. New models vary by region and industry. Revision of balanced scorecard/measures (25%), inclusion of more non-financial performance measures (25%), and decreasing payout for lower performance ratings (24%) are the most prevalent methods.

Changes in non-core compensation and benefits policies
The top three changes in non-core compensation and benefits policies implemented in the last 12 months are regarding executive retirement programs (36%), severance packages (28%), and company cars (28%). The top three changes in non-core compensation and benefits policies planned to be implemented in the next 12 months are related to executive retirement programs (38%), executive contracts (33%), and company cars (29%).

The median upper limit of the severance policy for members of the executive committee is slightly higher in North America (150% of base salary) than in Europe (125%). Overall, 81% of organizations provide sign-on awards to new hires. Sign-on awards are mostly used for key talent when newly hired externally (43%). In North America and in insurance organizations, sign-on awards are more widely used throughout the entire organization when talent is newly hired externally. Overall, more than half of organizations provide bonus guarantees to select employee groups or all employees with the exception of organizations in the insurance industry, in which 65% of organizations do not provide guaranteed bonuses. Fifty-five percent of banking organizations provide bonus guarantees for key employees when newly hired externally. While most of the banks do provide one-year bonus guarantees, they rarely provide multi-year guarantees anymore.

Material risk takers
Members of the executive committee (82%) and individuals at a defined organizational level (54%) are the most prevalent criteria in defining material risk takers. Control functions are more often defined as material risk takers in Europe (63%) than elsewhere. Material risk takers in banks are typically placed within two reporting levels below the executive committee.

The median number of material risk takers is 153 in a core group and 653 in a broader group (which may include a group of employees who collectively can have an impact on risk). The size of this broader group varies. The median number of (core) material risk takers is higher in Europe (166) than in North America (113). However, the broader group is larger in North America (1,745) than elsewhere. The median number of (core) material risk takers is twice as high in banking (168) as it is in insurance (80). In the banking industry, the median number of employees defined as a broader group of material risk takers is 1,215.

The median proportion of material risk takers is 1.00% of total employees in the core group and 3.75% of total employees in a broader group. The median percentage of (core) material risk takers (of total employees) is higher in North America (1.00%) than in Europe (0.5%). The median percentage of employees in the broader group of risk takers is 8.00% in North America and only 1.65% in Europe.

Structure of compensation function
The median number of employees (FTE) in the compensation functions (including leave of absence, not including contract workers) is 17 with little variability between regions. Global organizations have 40 employees in their corporate compensation function. Typically, 60% of them labeled as technical experts, 20% as managers, and around 20% as administrative support, which is fairly consistent across all industries.

While the most common structure is a combination of local and central, several multi-country companies use one central structure. Only 14% of organizations outsource or co-source a part of their compensation function. Outsourcing and co-sourcing is less prevalent in global organizations.

2

Participant List and Profile

2.1. Participant List

Alphabetical list of all participants

The following 78 organizations participated in this survey:

Organization Name	Country	Industry
Achmea	Netherlands	Insurance
AIA	Hong Kong	Insurance
AIB Bank	Ireland	Banking
AIG	United States	Insurance
Allianz	Germany	Insurance
Allianz Asset Management	Germany	Other Financial Services
American Express	United States	Other Financial Services
Ameriprise Financial	United States	Other Financial Services
Australia and New Zealand Banking Group	Australia	Banking
AXA Equitable	United States	Insurance
Banco Itaú	Brazil	Banking
Banco Mare Nostrum	Spain	Banking
Bank of America	United States	Banking
Bank of Hawaii	United States	Banking
Bank of Nova Scotia	Canada	Banking
Bank of the West	United States	Banking
BB&T	United States	Banking
BBVA	Spain	Banking
BBVA Compass	United States	Banking
BNP Paribas	France	Banking
BNP Paribas Fortis	Belgium	Banking
BNY Mellon	United States	Banking
CAIXABANK	Spain	Banking

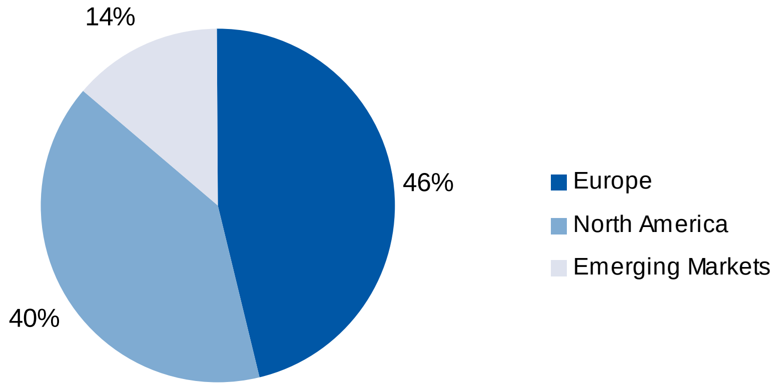
Organization Name	Country	Industry
Cathay United Bank Singapore Branch	Singapore	Banking
Central Bank of Ireland	Ireland	Other Financial Services
Chinatrust Commercial Bank	Taiwan, Province Of China	Banking
CIBC	Canada	Banking
CIT Group	United States	Banking
Commerzbank	Germany	Banking
Credit Suisse	Switzerland	Banking
DekaBank Deutsche Girozentrale	Germany	Banking
Deutsche Bank	Germany	Banking
Fifth Third Bank	United States	Banking
GE Capital	United Kingdom	Other Financial Services
Great Eastern Life Assurance	Singapore	Insurance
HSBC	United Kingdom	Banking
If Skadeförsäkring	Sweden	Insurance
ING Bank	Netherlands	Banking
ING Insurance	Netherlands	Insurance
Intesa Sanpaolo	Italy	Banking
Irish Stock Exchange	Ireland	Other Financial Services
Ironshore	United States	Insurance
KBC Group	Belgium	Banking
Länsförsäkringar	Sweden	Insurance
Liberty Mutual Insurance Group	United States	Insurance
Malayan Banking Berhad	Singapore	Banking
Manulife Financial	Canada	Insurance
MAPFRE USA	United States	Insurance
MassMutual	United States	Insurance
MasterCard	United States	Other Financial Services
Mediobanca	Italy	Banking
Metlife	United States	Insurance
Natixis	France	Banking
NIBC	Netherlands	Banking
Nomura	Japan	Banking
Northern Trust	United States	Other Financial Services
Overseas Assurance Corporation	Singapore	Insurance
Portoseg Serviços Financeiros	Brazil	Insurance
Raymond James Financial	United States	Other Financial Services
Regions Bank	United States	Banking
RenaissanceRe	Bermuda	Insurance
Royal Bank of Scotland Group	United Kingdom	Banking
SEB	Sweden	Banking
Seguros Caracas	Venezuela	Insurance
Société Générale	France	Banking

Organization Name	Country	Industry
Standard Life	United Kingdom	Insurance
State Street Corporation	United States	Other Financial Services
SunTrust Bank	United Kingdom	Banking
Swiss Re	Switzerland	Insurance
TD Ameritrade	United States	Other Financial Services
TD Bank Group	Canada	Banking
Thrivent Financial for Lutherans	United States	Other Financial Services
U.S. Bank	United States	Banking
UBS	Switzerland	Banking
UniCredit	Italy	Banking
Visa Europe	United Kingdom	Other Financial Services
Wells Fargo & Company	United States	Banking
Zurich Insurance Group	Switzerland	Insurance

2.2. Participant Profile

Organizations' country of domicile

The survey was completed by 78 financial services organizations. Survey participants are based in 20 countries with 46% of the organizations in Europe, 40% in North America, and 14% in Emerging Markets.



Based on 78 responses

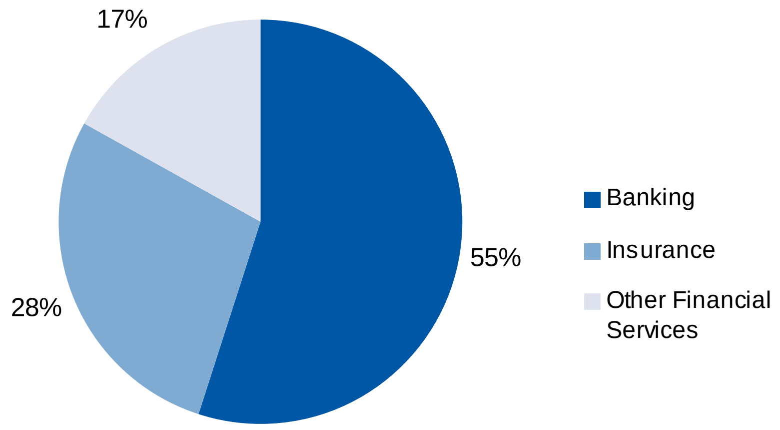
Organization nationality

Country	Percentage of Organizations
United States	34%
United Kingdom	8%
Germany	6%
Switzerland	5%
Singapore	5%
Netherlands	5%
Canada	5%
Sweden	4%
Spain	4%
Italy	4%
Ireland	4%
France	4%
Brazil	3%
Belgium	3%
Taiwan, Province Of China	1%
Japan	1%
Hong Kong	1%
Bermuda	1%
Australia	1%
Venezuela	1%
No. of Responses	**78**

Note: The total may not equal 100% due to rounding.

Industry

The survey was completed by 78 financial services organizations, of which 55% were banks, 28% insurance firms, and 17% other financial services organizations.



Based on 78 responses

Organization geographical scope

The majority of participating organizations are global in scope.

Industry	Percentage of Organizations
Global	47%
Local	27%
Multi-countries	26%
No. of Responses	**78**

Note: The total may not equal 100% due to rounding.

Organization type

Organization type	Percentage of Organizations
Parent	82%
Subsidiary	18%
No. of Responses	**78**

Note: The total may not equal 100% due to rounding.

Employee location

The majority of organizations have employees located in Europe, North America, and Asia. Around 40% of the organizations have employees in other parts of the world, such as Latin and South America, Middle East and Africa, and Australia and New Zealand.

Employee Location	Percentage of Organizations
Europe	74%
North America (Canada and US)	72%
Asia	60%
Latin and South America	40%
Middle East and Africa	40%
Australia and New Zealand	38%
No. of Responses	**78**

Note: Organizations have indicated more than one option; therefore the total exceeds 100%.

Number of employees

Number of Employees	Percentage of Organizations
Less than 3,000	22%
3,000 – 14,999	28%
15,000 – 49,999	22%
55,000 or More	28%
No. of Responses	**78**

3

Approach to Annual Incentives

3.1. Approach to Annual Incentives

Approach to annual incentives – all regions and industries

As shown below, half of the organizations utilize a top-down pool approach to annual incentives, in which pool funding is aligned to company or division/business unit financial measures and is ultimately allocated to individuals. A third of the organizations utilize a bottom-up multiplicative approach, in which the sum of individual target incentive opportunities is adjusted by a measure representing the financial results. A bottom-up additive approach, in which individual target incentive opportunities and financial results are added up, is the least prevalent.

Approach to Annual Incentives	Percentage of Organizations
Top-down Pool Approach: Pool Funding Aligned to Company or Division/Business Unit Financial Measures That Is Ultimately Allocated to Individuals	51%
Bottom-up Multiplicative Approach: Sum of Individual Target Incentive Opportunities Adjusted by Measure Representing the Financial Result	33%
Bottom-up Additive Approach: Adding Up Individual Target Incentive Opportunities and Financial Results	16%
No. of Responses	**75**

Note: The total may not equal 100% due to rounding.
Note: 3 companies do not have annual incentive plans in place.

Approach to annual incentives – by region and industry

In North America and Europe, both **the top-down pool approach** and **bottom-up multiplicative approach** are common. The **bottom-up multiplicative approach** to annual incentives is more prevalent in the insurance organizations (43%). The **top-down pool approach** is predominant in the banking industry.

Approach to Annual Incentives	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Top-down Pool Approach	55%	42%	64%	62%	29%	50%
Bottom-up Multiplicative Approach	33%	39%	18%	26%	43%	42%
Bottom-up Additive Approach	12%	19%	18%	12%	29%	8%
No. of Responses	**33**	**31**	**11**	**42**	**21**	**12**

Note: The total may not equal 100% due to rounding.

3.2. Target Incentive Opportunities Description

3.2.1. Target incentive opportunities – all organizations, by region and industry

Half of the organizations describe target incentive opportunities as a percentage of base salary. The percentage of base salary approach is most prevalent in the insurance industry and in North America. A third of the organizations in the banking industry and Europe do not have target incentive opportunities. Only about 20% of organizations describe target incentive opportunities as a fixed amount.

Target Incentive Opportunities	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
As Percentage of Base Salary	52%	39%	65%	55%	49%	55%	58%
As Fixed Amount	21%	27%	23%	0%	17%	23%	33%
No Target Incentive Opportunities	27%	33%	13%	45%	34%	23%	8%
No. of Responses	**75**	**33**	**31**	**11**	**41**	**22**	**12**

Note: The total may not equal 100% due to rounding.

Target incentive opportunities – regions by industry

Setting target incentives as a percentage of base salary is not as predominant in the European banking and insurance industries compared with other regions. Forty-three percent of European banks do not set target incentive opportunities. European insurance organizations use a fixed incentive amount for targets more often than elsewhere. In North America and Emerging Markets, the results for the banking and insurance industries are similar. The majority of banking and insurance organizations (approximately 70%) in North America provide target incentive opportunities as a percentage of base salary. In Emerging Markets, half of the organizations provide target incentive opportunities, while the other half do not, regardless of industry.*

Target Incentive Opportunities	Europe			North America			Emerging Markets		
	Banking	Insurance	Other FS	Banking	Insurance	Other FS	Banking	Insurance	Other FS
As Percentage of Base Salary	33%	38%	75%	71%	67%	50%	50%	60%	--
As Fixed Amount	24%	38%	25%	14%	11%	13%	0%	0%	--
No Target Incentive Opportunities	43%	25%	0%	14%	22%	38%	50%	40%	--
No. of Responses	**21**	**8**	**4**	**14**	**9**	**8**	**6**	**5**	**0**

* No organization in other financial services in Emerging Markets responded to this question.

Note: The total may not equal 100% due to rounding.

3.2.2. Communications of target incentive opportunities – all regions and industries

Two-thirds of organizations communicate target incentive opportunities to their employees upfront. Not communicating incentive opportunities to employees is only prevalent in the Emerging Markets. Insurance and other financial services organizations communicate target incentive opportunities more than banks do.

Communications of Target Incentive Opportunities	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes, Communicated to Employees Upfront	67%	61%	84%	36%	57%	76%	83%
No, Not Communicated to Employees	8%	6%	3%	27%	12%	0%	8%
No Target Incentive Opportunities	25%	33%	13%	36%	31%	24%	8%
No. of Responses	**75**	**33**	**31**	**11**	**42**	**21**	**12**

Note: The total may not equal 100% due to rounding.

Communications of target incentive opportunities – regions by industry

Across all regions and industries, the majority of organizations providing target incentives communicate the opportunities to employees upfront, with the exception of some banking organizations in Emerging Markets and Europe.

Communications of Target Incentive Opportunities	Europe			North America			Emerging Markets		
	Banking	Insurance	Other FS	Banking	Insurance	Other FS	Banking	Insurance	Other FS
Yes, Communicated to Employees Upfront	50%	71%	100%	86%	89%	75%	17%	60%	--
No, Not Communicated to Employees	9%	0%	0%	0%	0%	13%	50%	0%	--
No Target Incentive Opportunities	41%	29%	0%	14%	11%	13%	33%	40%	--
No. of Responses	**22**	**7**	**4**	**14**	**9**	**8**	**6**	**5**	**0**

Note: The total may not equal 100% due to rounding.

3.3. Bonus Pool Approach

Bonus pool approach – all regions and industries

Having multiple incentive pools for each division/business unit (49% of organizations) is somewhat more prevalent than having only one single pool (36%). The single pool approach is most prevalent in North America. One-quarter of insurance organizations do not use a pool approach; of those that do use a pool approach, prevalence is split between single and multiple pools.

Bonus Pool Approach	Percentage of Organizations
Multiple Pools: Division/Business Unit Financial Measures Determine Pools for Each Division/Business Unit	49%
Single Pool: One (Set of) Company Financial Measure(s) Determines Pool for Organization	36%
No Pool Approach	15%
No. of Responses	**75**

Note: The total may not equal 100% due to rounding.

Bonus pool approach – by region

Bonus Pool Approach	Europe	North America	Emerging Markets
Multiple Pools: Division/Business Unit Financial Measures Determine Pools for Each Division/Business Unit	56%	35%	70%
Single Pool: One (Set of) Company Financial Measure(s) Determines Pool for Organization	24%	52%	30%
No Pool Approach	21%	13%	0%
No. of Responses	**34**	**31**	**10**

Note: The total may not equal 100% due to rounding.

Bonus pool approach – by industry

Bonus Pool Approach	Banking	Insurance	Other Financial Services
Multiple Pools: Division/Business Unit Financial Measures Determine Pools for Each Division/Business Unit	60%	38%	33%
Single Pool: One (Set of) Company Financial Measure(s) Determines Pool for Organization	29%	38%	58%
No Pool Approach	12%	24%	8%
No. of Responses	**42**	**21**	**12**

Note: The total may not equal 100% due to rounding.

Bonus pool approach – regions by industry

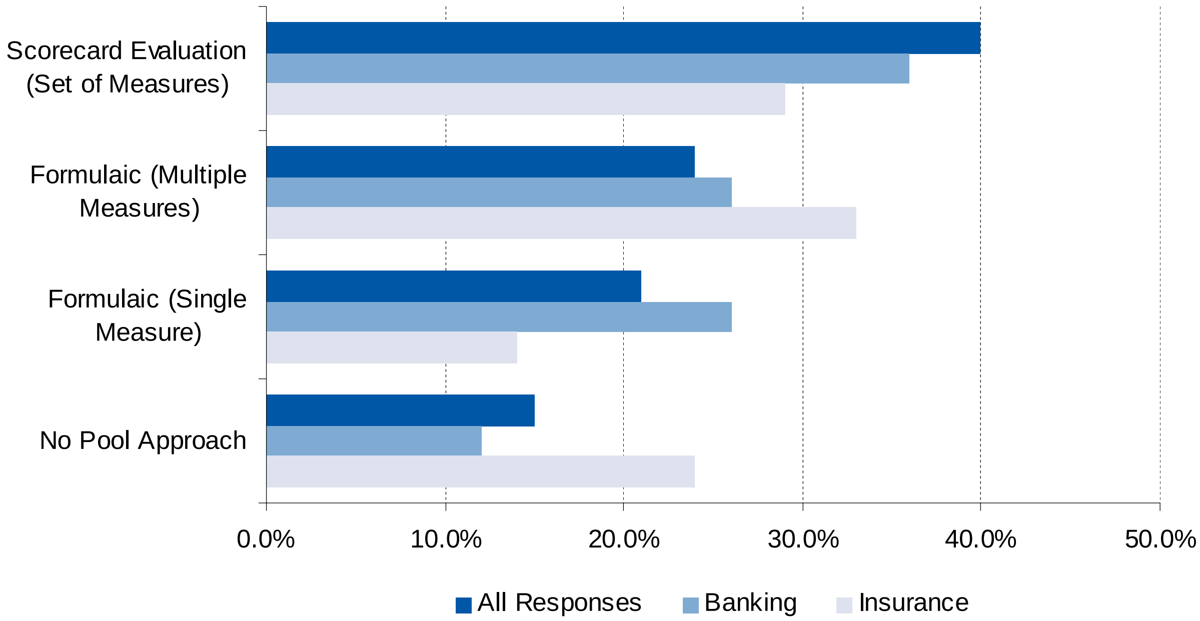
In Europe, a multiple pools approach is more prevalent in banking and other financial services organizations, while half of the insurance organizations do not utilize any pool approach for bonus. In North America, half of the banking organizations utilize a multiple pool approach, while a single pool approach is more prevalent in insurance (67%) and other financial services organizations (63%). Few organizations across all industries do not utilize a pool approach for bonuses.

Bonus Pool Approach	Europe			North America			Emerging Markets		
	Banking	Insurance	Other FS	Banking	Insurance	Other FS	Banking	Insurance	Other FS
Multiple Pools: Division/ Business Unit Financial Measures Determine Pools for Each Division/Business Unit	64%	38%	50%	50%	22%	25%	67%	75%	--
Single Pool: One (Set of) Company Financial Measure(s) Determines Pool for Organization	23%	13%	50%	36%	67%	63%	33%	25%	--
No Pool Approach	14%	50%	0%	14%	11%	13%	0%	0%	--
No. of Responses	**22**	**8**	**4**	**14**	**9**	**8**	**6**	**4**	**0**

Note: The total may not equal 100% due to rounding.

3.4. Bonus Pool Funding Approach

Results on the bonus pool funding approach vary. Scorecard evaluation, in which the pool is funded based on an evaluation of pre-defined financial and non-financial measures, is the most common funding approach in general (40%), while a formulaic approach with multiple measures is more prevalent in insurance organizations (33%). Half of the banks use a formulaic approach, using either one financial measure to fund the bonus pool based on a set formula (26%) or a weighted formula with two or more financial measures (26%). The scorecard evaluation (set of measures) method is prevalent in Emerging Markets (60%) and other financial services organizations (75%), and half of the North American organizations use one of the formulaic approaches.



Bonus funding approach – all regions and industries

Bonus Funding Approach	Percentage of Organizations
Scorecard Evaluation (Set of Measures): The Pool Is Funded Based on an Evaluation of Pre-Defined Financial and Non-Financial Measures	40%
Formulaic (Multiple Measures): Two or More Financial Measures Fund the Bonus Pool Based on Weighted Formula	24%
Formulaic (Single Measure): One Financial Measure Funds the Bonus Pool Based on a Set Formula	21%
No Pool Approach	15%
No. of Responses	**75**

Note: The total may not equal 100% due to rounding.

Bonus funding approach – by region and industry

Bonus Funding Approach	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Scorecard Evaluation (Set of Measures)	38%	35%	60%	36%	29%	75%
Formulaic (Multiple Measures)	21%	29%	20%	26%	33%	0%
Formulaic (Single Measure)	21%	23%	20%	26%	14%	17%
No Pool Approach	21%	13%	0%	12%	24%	8%
No. of Responses	**34**	**31**	**10**	**42**	**21**	**12**

Note: The total may not equal 100% due to rounding.

Discretion on formulaic approach (single and multiple measures) – by region and industry

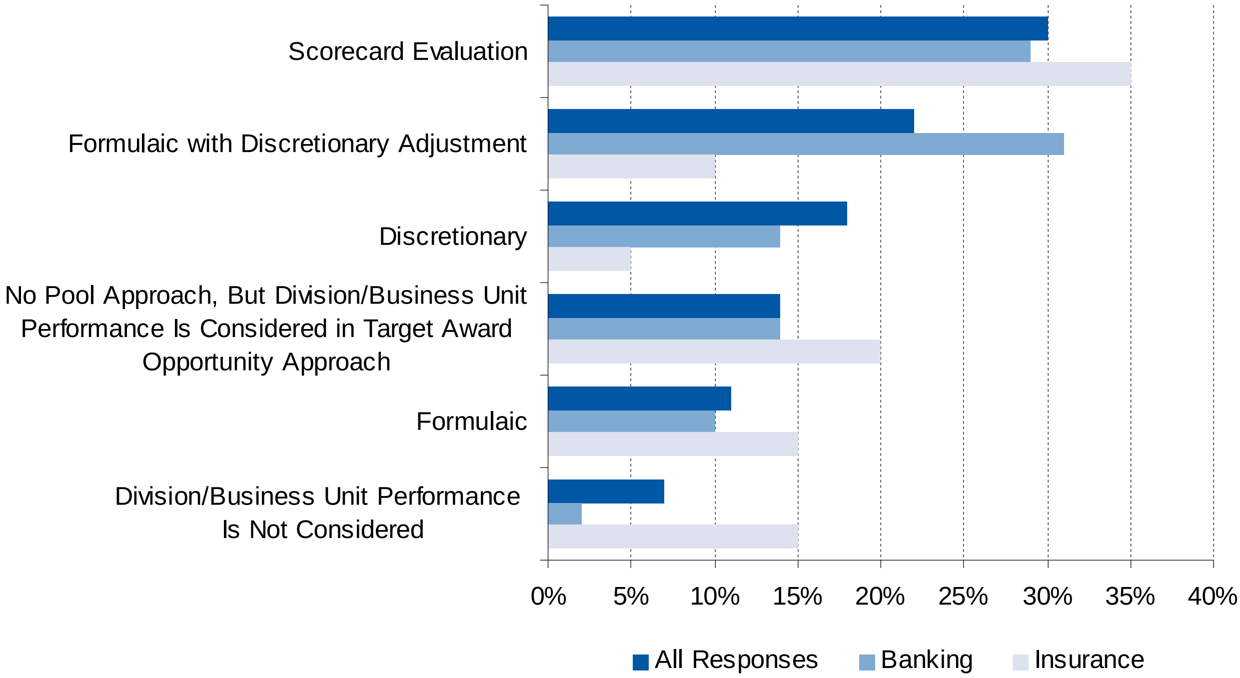
The vast majority of organizations across all regions and industries apply discretion on the formulaic bonus funding approach.

Discretion on Formulaic Approach	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Single Measure							
Yes	93%	100%	86%	--	100%	67%	--
No	7%	0%	14%	--	0%	33%	--
No. of Responses	**15**	**6**	**7**	**2**	**10**	**3**	**2**
Multiple Measures							
Yes	89%	86%	89%	--	91%	86%	--
No	11%	14%	11%	--	9%	14%	--
No. of Responses	**18**	**7**	**9**	**2**	**11**	**7**	**0**

Note: The total may not equal 100% due to rounding.

3.5. Incentive Allocation to Divisions/Business Units

Scorecard evaluation is the most common approach in allocating an incentive pool to divisions/business units, especially in the insurance industry. Banking organizations also use a formulaic approach with discretionary adjustment to allocate incentives to divisions/business units. Generally, a solely formulaic approach is the least prevalent allocation method.



Allocation to divisions/business units approach – all regions and industries

Allocation to Divisions/business Units Approach	Percentage of Organizations
Scorecard Evaluation: An Evaluation of Various Financial And Non-Financial Measures at Division/Business Unit Level Determines Bonus Pool	30%
Formulaic With Discretionary Adjustment: Factor That May Apply to the Formula Result	22%
Discretionary: Bonus Pool for Division/Business Unit Is Determined by Discretion of CEO/Executive Committee	18%
No Pool Approach, but Division/Business Unit Performance Is Considered in Target Award Opportunity Approach	14%
Formulaic: One or More Financial Measures at Division/Business Unit Level Determine Bonus Pool Based on a Set Formula	11%
Division/Business Unit Performance Is Not Considered	7%
No. of Responses	**74**

Note: The total may not equal 100% due to rounding.

Allocation to divisions/business units approach – by region and industry

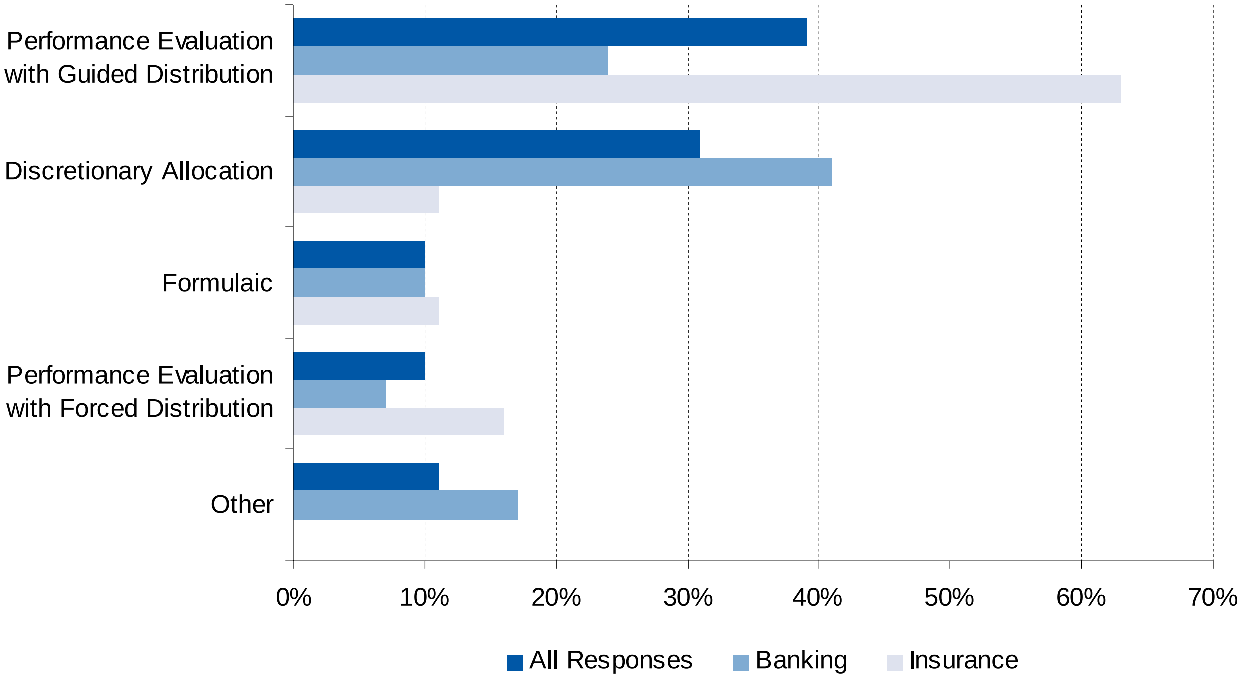
Allocation methods vary widely across regions and industries. The scorecard approach is slightly less prevalent in North America compared with the other regions. Half of other financial services organizations and a third of organizations in Emerging Markets utilize a discretionary approach to allocate incentives to divisions/business units. Forty-one percent of banks use a formulaic approach with or without discretion.

Allocation to Divisions/business Units Approach	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Scorecard Evaluation	33%	23%	40%	29%	35%	25%
Formulaic With Discretionary Adjustment	24%	19%	20%	31%	10%	8%
Discretionary	15%	16%	30%	14%	5%	50%
No Pool Approach, but Division/ Business Unit Performance Is Considered in Target Award Opportunity Approach	18%	13%	0%	14%	20%	0%
Formulaic	9%	13%	10%	10%	15%	8%
Division/Business Unit Performance Is Not Considered	0%	16%	0%	2%	15%	8%
No. of Responses	**33**	**31**	**10**	**42**	**20**	**12**

Note: The total may not equal 100% due to rounding.

3.6. Incentive Allocation to Individuals

In allocating bonuses to individuals, a performance evaluation with guided distribution is predominant in the insurance industry (63%), while 41% of banking organizations use a discretionary approach. Only 10% of organizations are respectively using a formulaic approach and performance evaluation with forced distribution.



Method used to allocate incentives to individuals – all regions and industries

Method Used to Allocate Incentives to Individuals	Percentage of Organizations
Performance Evaluation With Guided Distribution: Pre-Determined Distribution Curve as Guidance for Ratings/Bonus Distribution	39%
Discretionary Allocation	31%
Formulaic: Formulaic Determination Based on Achievement of Objective Performance Measures	10%
Performance Evaluation With Forced Distribution: Employees Assigned to Performance Ratings and Managed to Pre-Determined Distribution Curve as Guidance for Ratings/Bonus Distribution	10%
Other	11%
No. of Responses	**72**

Note: The total may not equal 100% due to rounding.

Method used to allocate incentives to individuals – by region and industry

Performance evaluation with guided distribution and discretionary approaches are most prevalent in allocating incentives to individuals for all organizations. Discretionary allocation is most prevalent in banking organizations (41%), especially so in North American banks (50%). A third of the organizations in Emerging Markets use a performance evaluation with forced distribution, which is far less common in other regions.

Method Used to Allocate Incentives to Ikndividuals	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Performance Evaluation with Guided Distribution	34%	40%	50%	24%	63%	50%
Discretionary Allocation	28%	37%	20%	41%	11%	25%
Formulaic	19%	3%	0%	10%	11%	8%
Performance Evaluation with Forced Distribution	6%	7%	30%	7%	16%	8%
Other	13%	13%	0%	17%	0%	8%
No. of Responses	**32**	**30**	**10**	**41**	**19**	**12**

Note: The total may not equal 100% due to rounding.

Note:

Other includes:

- Formulaic Allocation With Management Discretion
- Determined Partly by Individual Performance Evaluation and Formulaic
- Utilize Profit-sharing Plan With No Individual Performance Consideration

3.7. Incentive Maximum/Caps

3.7.1. Maximum/capped incentives – by region and industry

In general, it is prevalent for organizations to cap incentives for individuals throughout the entire organization. However, 40% of organizations in Emerging Markets do not cap or are not planning to cap incentives. Twenty-eight percent of the banking organizations only cap incentives for some select individuals, while 38% of the insurance organizations cap incentives at the pool level.

	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes, for Individuals Throughout the Entire Organization	44%	47%	45%	30%	40%	43%	62%
Yes, for Some Individuals	21%	25%	23%	0%	28%	5%	23%
Yes, at the Incentive Pool Level	17%	6%	26%	30%	12%	38%	0%
No, not on the Agenda	16%	17%	6%	40%	19%	14%	8%
No, but Planning to Introduce in 2013	3%	6%	0%	0%	2%	0%	8%
No. of Responses	**77**	**36**	**31**	**10**	**43**	**21**	**13**

Note: The total may not equal 100% due to rounding.

3.7.2. Maximum incentive opportunities/caps – by region and industry

Maximum incentive opportunities are commonly articulated as a percentage of target (46% of organizations). Thirty-seven percent of organizations in Europe articulate caps as a percentage of base salary, while 73% of organizations in North America articulate incentive caps as a percentage of target incentive.

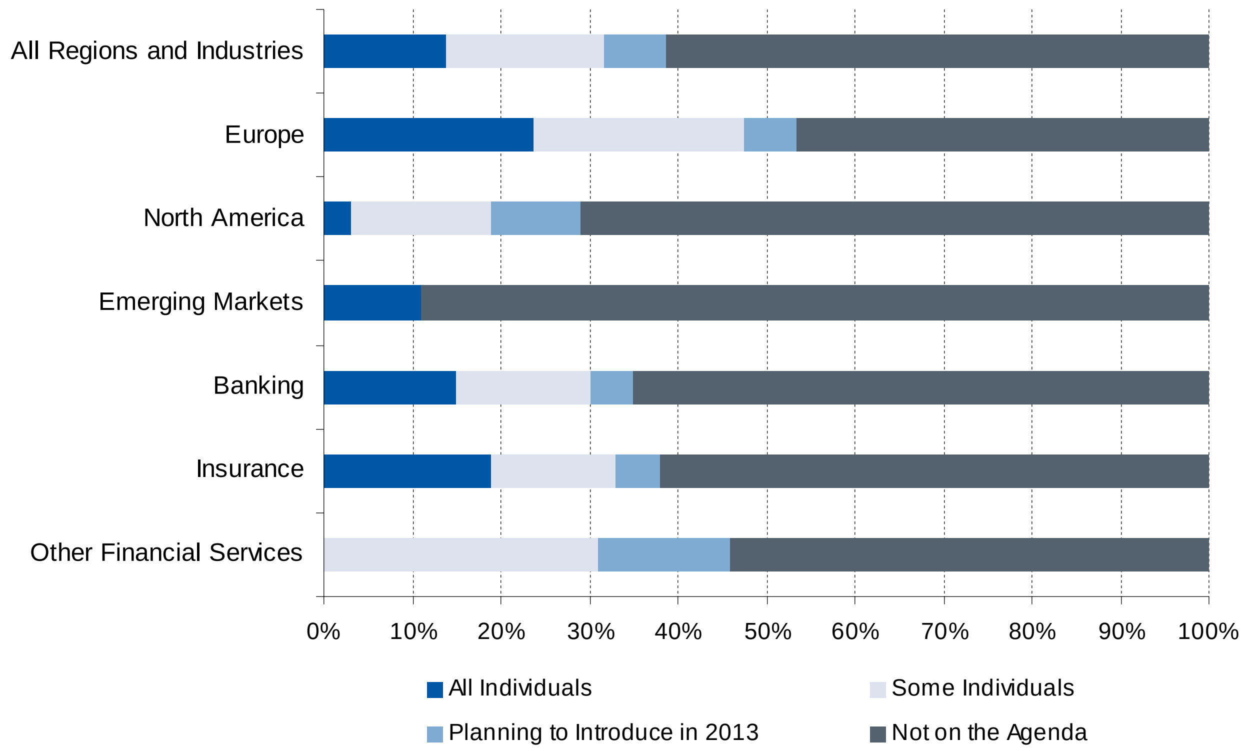
	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
As Percentage of Target Incentive	46%	26%	73%	33%	39%	52%	58%
No Maximum Opportunities Articulated	26%	31%	10%	56%	29%	19%	25%
As Percentage of Base Salary	24%	37%	13%	11%	22%	29%	25%
As Fixed Amount (to the Individual)	12%	14%	10%	11%	12%	10%	17%
As Fixed Amount (to the Pool)	9%	3%	13%	22%	7%	14%	8%
No. of Responses	**74**	**35**	**30**	**9**	**41**	**21**	**12**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

3.8. Fixed/Variable Compensation Ratios

3.8.1. Fixed/variable compensation ratios – by region and industry

The majority of organizations (62%) have not set fixed/variable compensation ratios. Few organizations in Emerging Markets set ratios and only 19% in North America have them. However, European organizations have fixed/variable compensation ratios for either all (24%) or some select employees (24%). Few organizations were planning to introduce the ratios in 2013, however, this will likely change in Europe with the recent CRD IV developments.



Fixed/variable Compensation Ratios	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes, for Individuals Throughout the Entire Organization	14%	24%	3%	11%	15%	19%	0%
Yes, for Some Individuals	18%	24%	16%	0%	15%	14%	31%
No, but Planning to Introduce in 2013	7%	6%	10%	0%	5%	5%	15%
No, Not on the Agenda	62%	47%	71%	89%	65%	62%	54%
No. of Responses	**74**	**34**	**31**	**9**	**40**	**21**	**13**

Note: The total may not equal 100% due to rounding.

3.8.2. Articulation of fixed/variable compensation ratios – all regions and industries

For the organizations that set fixed/variable compensation ratios, the ratios are most commonly articulated as base salary versus short-term and long-term incentives (including non-deferred, deferred, and forward-looking long-term incentives).

	Percentage of Organizations
No Fixed/Variable Compensation Ratio Articulated	60%
As Base Salary Versus Short-term and Long-term Incentives (Including Non-Deferred, Deferred, and Forward-looking Long-term Incentives)	26%
As Base Salary Versus Target Incentives (Including Non-Deferred and Deferred, but Excluding Forward-looking Long-term Incentives)	7%
As Base Salary Versus Short-term Incentives (Including Deferred Bonuses, but Excluding Forward-looking Long-term Incentives)	4%
As Base Salary Versus Short-term Incentives (Including Non-Deferred, but Excluding Deferred and Forward-looking Long-term Incentives)	1%
Other	6%
No. of Responses	**72**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

3.9. Changes to Annual Incentive Design in 2013

Changes to the annual incentive design in 2013 – by region and industry

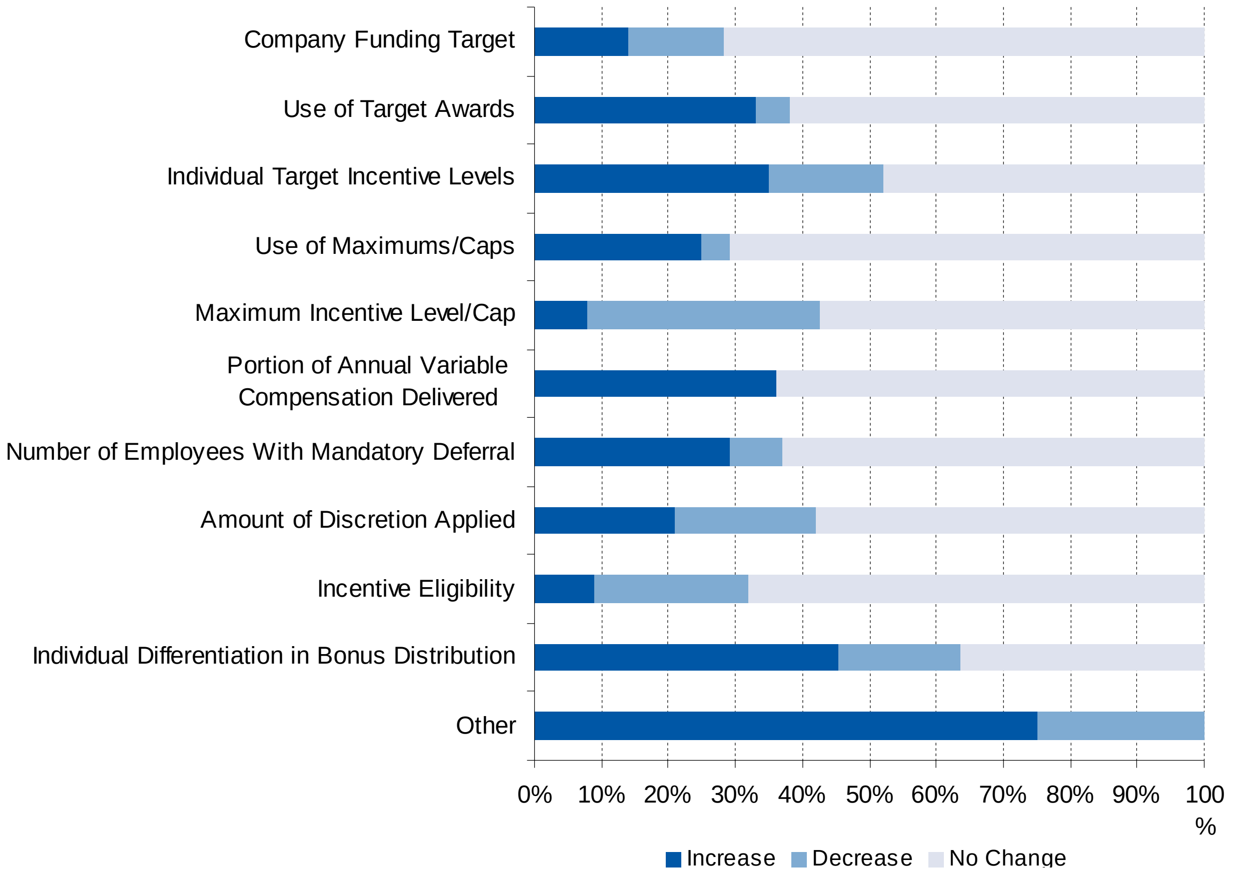
Overall, almost half (46%) of organizations plan to make changes to their annual incentive plans in 2013. However, 67% of organizations in Emerging Markets and insurance organizations do not plan to make changes in 2013.

	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes	46%	47%	48%	33%	53%	33%	46%
No	54%	53%	52%	67%	48%	67%	54%
No. of Responses	**74**	**34**	**31**	**9**	**40**	**21**	**13**

Note: The total may not equal 100% due to rounding.

3.9.1. Planned changes in the annual incentive design in 2013 – all regions and industries

Planned changes vary by organization. Increasing the individual differentiation in bonus distribution (45%), increasing the portion of annual variable compensation delivered over a multi-year time frame (36%), and decreasing the maximum incentive levels (35%) are amongst the most prevalent changes that are being considered. The fewest changes are planned for the company funding target and the use of maximums/caps, with 71% of organizations indicating no change.



Note:

Other includes:

- Changing pool funding to control growth in incentive expense. Considering using total variable target approach rather than separate targets for bonus and LTI.
- Changing plan metrics.
- Considering bonus pool approach.
- Deferrals based on flat amounts increasing if the bonus payments increase.
- For non-US, from bottom-up to top-down approach.
- Increasing revenue business line performance weighting.
- Increasing use of multiple vest dates for LTIs.
- May be decreasing maximum target bonus according to CRD IV even though it should apply to bonus payout in 2015 in order to "manage" public scrutiny.

Planned changes in the annual incentive design in 2013 – by region

European organizations are considering increasing individual differentiation in bonus distribution (73%) and increasing the portion of annual variable compensation delivered over a multi-year time frame (55%). Thirty-six percent of North American organizations are planning to decrease the maximum incentive levels, while 25% plan to increase target incentive levels.

Planned Changes in the Annual Incentive Design	Europe			North America		
	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses
Company Funding Target	10%	20%	**10**	25%	13%	**8**
Use of Target Awards	30%	20%	**10**	25%	0%	**8**
Individual Target Incentive Levels	33%	33%	**12**	25%	0%	**8**
Use of Maximums/Caps	25%	8%	**12**	33%	0%	**9**
Maximum Incentive Level/Cap	17%	33%	**12**	0%	36%	**11**
Portion of Annual Variable Compensation Delivered Over Multi-Year Time Frame	55%	0%	**11**	13%	0%	**8**
Number of Employees With Mandatory Deferral	36%	9%	**11**	30%	0%	**10**
Amount of Discretion Applied	18%	18%	**11**	20%	20%	**10**
Incentive Eligibility	10%	40%	**10**	11%	0%	**9**
Individual Differentiation in Bonus Distribution	73%	18%	**11**	13%	13%	**8**

Note:

The total in rows for each region equals 100%. Rest of the organizations chose “No Change” option.

Planned changes in the annual incentive design in 2013 – regions by industry

Sixty percent of insurance organizations plan to increase the number of employees with mandatory deferral. Forty-two percent of the banks plan to increase individual target incentive levels.

Planned Changes in the Annual Incentive Design	Banking			Insurance			Other Financial Services		
	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses
Company Funding Target	17%	8%	**12**	0%	25%	**4**	20%	20%	**5**
Use of Target Awards	25%	8%	**12**	0%	0%	**4**	80%	0%	**5**
Individual Target Incentive Levels	42%	8%	**12**	20%	40%	**5**	33%	17%	**6**
Use of Maximums/ Caps	29%	7%	**14**	0%	0%	**5**	40%	0%	**5**
Maximum Incentive Level/Cap	6%	38%	**16**	20%	40%	**5**	0%	20%	**5**
Portion of Annual Variable Compensation Delivered Over Multi-Year Time Frame	33%	0%	**12**	40%	0%	**5**	40%	0%	**5**
Number of Employees With Mandatory Deferral	14%	7%	**14**	60%	20%	**5**	40%	0%	**5**
Amount of Discretion Applied	21%	14%	**14**	0%	25%	**4**	33%	33%	**6**
Incentive Eligibility	15%	15%	**13**	0%	50%	**4**	0%	20%	**5**
Individual Differentiation in Bonus Distribution	42%	17%	**12**	40%	40%	**5**	60%	0%	**5**
Other	67%	33%	**3**	--	--	**0**	--	--	**1**

Note:

The total in rows for each region equals 100%. Rest of the organizations chose “No Change” option.
Other include:
Revenue business line performance weighting, mandatory deferrals, incentive eligibility, maximum target bonus

3.9.2. Changing how annual incentives are allocated to individuals – by region and industry

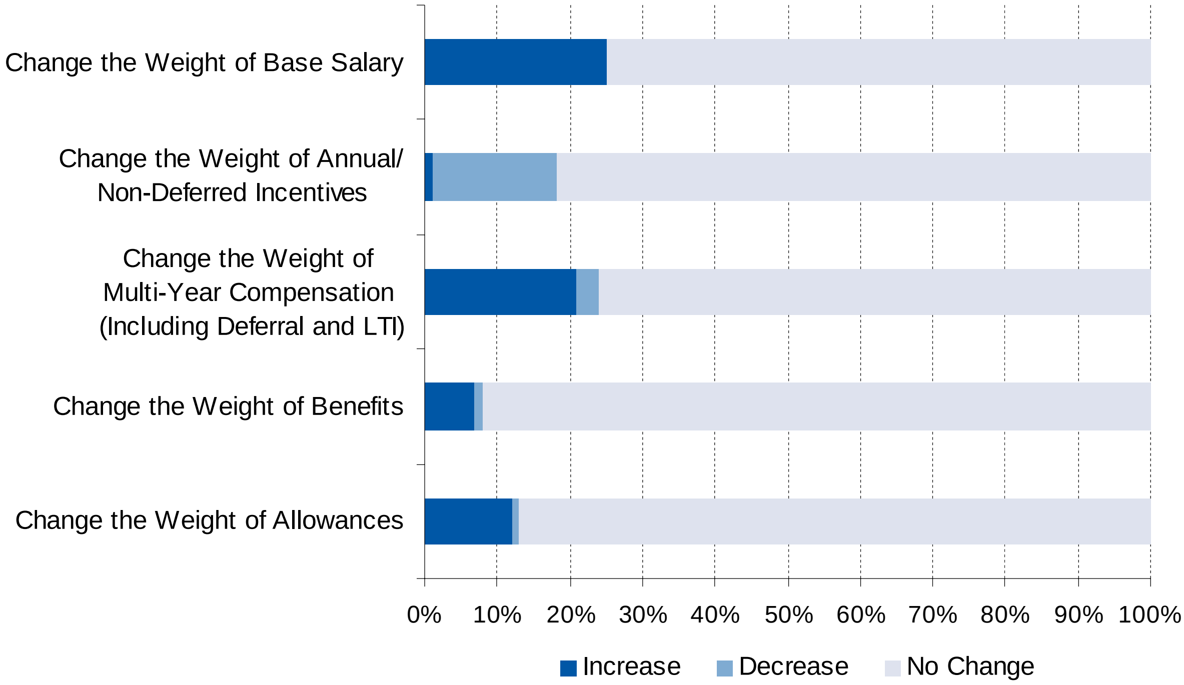
The vast majority of organizations (84%) are not considering changing how annual incentives are allocated to individuals, regardless of region or industry. A few North American organizations (10%) are considering moving to a more structured, formulaic approach.

Changing How Annual Incentives are Allocated to Individuals	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Moving to More Structured, Formulaic Approach	8%	3%	10%	20%	10%	10%	0%
Moving to More Discretionary Allocation	4%	6%	3%	0%	2%	0%	15%
Moving to Formal Target Bonus System	4%	6%	0%	10%	5%	0%	8%
No Changes Planned	84%	86%	87%	70%	83%	90%	77%
No. of Responses	**76**	**35**	**31**	**10**	**42**	**21**	**13**

Note: The total may not equal 100% due to rounding.

3.10. Changes in Pay Mix in 2013

As shown in the graph below, the majority of organizations do not anticipate making changes to pay mix in 2013 in light of recent regulatory announcements. Nevertheless, some organizations (21%–25%) plan to increase the weight of base salary and multi-year compensation (including deferral and LTI), while some organizations (17%) plan to decrease the weight of annual/non-deferred incentives.



Planning on changing the pay mix in 2013 – all regions and industries

Planning on Changing the Pay Mix	Increase	Decrease	No Change	No. of Responses
Change the Weight of Base Salary	25%	0%	75%	**76**
Change the Weight of Annual/Non-Deferred Incentives	1%	17%	81%	**75**
Change the Weight of Multi-Year Compensation (Including Deferral and LTI)	21%	3%	76%	**75**
Change the Weight of Benefits	7%	1%	92%	**76**
Change the Weight of Allowances	12%	1%	87%	**76**

Note: The total may not equal 100% due to rounding.

Planning on changing the pay mix in 2013 – regions by industry

Pay mix changes related to the recent regulatory announcements are most prevalent in Europe and the Emerging Markets. Forty-three percent of European organizations are considering increasing the weight of base salaries, and 30% of organizations in Emerging Markets are considering increasing the weight of multi-year compensation. Twenty percent of organizations in Europe are considering increasing the weight of allowances. In North America, most organizations do not anticipate changing the pay mix, while some (16%) are considering increasing the weight of multi-year compensation.

	Europe			North America			Emerging Markets		
	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses
Change the Weight of Base Salary	43%	0%	**35**	6%	0%	**31**	20%	0%	**10**
Change the Weight of Annual/Non-Deferred Incentives	0%	24%	**34**	0%	6%	**31**	10%	30%	**10**
Change the Weight of Multi-Year Compensation (Including Deferral and LTI)	24%	3%	**34**	16%	0%	**31**	30%	10%	**10**
Change the Weight of Benefits	14%	3%	**35**	0%	0%	**31**	0%	0%	**10**
Change the Weight of Allowances	20%	3%	**35**	0%	0%	**31**	20%	0%	**10**

Note:

The total in rows for each region equals 100%. Rest of the organizations chose “No Change” option.

Planning on changing the pay mix in 2013 – by industry

More banks are considering increasing the weight of base salary (31%) and multi-year compensation (27%) than insurance companies.

Planning on Changing the Pay Mix	Banking			Insurance			Other Financial Services		
	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses	Increase	Decrease	No. of Responses
Change the Weight of Base Salary	31%	0%	**42**	14%	0%	**21**	23%	0%	**13**
Change the Weight of Annual/Non-Deferred Incentives	2%	20%	**41**	0%	19%	**21**	0%	8%	**13**
Change the Weight of Multi-Year Compensation (Including Deferral and LTI)	27%	0%	**41**	14%	10%	**21**	15%	0%	**13**
Change the Weight of Benefits	12%	2%	**42**	0%	0%	**21**	0%	0%	**13**
Change the Weight of Allowances	17%	0%	**42**	5%	0%	**21**	8%	8%	**13**

Note:

The total in rows for each region equals 100%. Rest of the organizations chose “No Change” option.

3.11. Changes to Executive Compensation Programs in Light of Global Regulatory Developments

Use of different structures for executive compensation in 2013 and 2014 – all regions and industries

Overall, although organizations anticipate more impact on executive compensation programs in 2014 than in 2013 in light of global regulatory developments (such as CRD IV and Say on Pay), more than half of the organizations do not anticipate any changes to their executive compensation programs. For those organizations that anticipate changes, some are considering raising base salary (39% in 2014) and/or allowances and non-core compensation for impacted employees (24% in 2014).

Use of Different Structures for Executive Compensation	2013	2014
Not Impacted	76%	57%
Raising Base Salary for Impacted Employees	18%	39%
Raising Allowances and Non-Core Compensation for Impacted Employees	9%	24%
Increasing the Vesting Period for Deferred Compensation to 5 Years	7%	16%
Introducing New Long-term Incentive Program (5 Years+)	2%	14%
Using “Bail-in”, Convertible Bonds as Long-term Compensation Vehicle	2%	6%
Using Carried Interest Incentive Programs	2%	6%
Stock Salary Compensation	2%	4%
Using Partnership Style Compensation Structure	0%	4%
Rolling Fixed Compensation	0%	2%
No. of Responses	**45**	**49**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Use of different structures for executive compensation in 2013 and 2014 – by region

A majority of European organizations (61%) anticipate an impact on their executive compensation programs as a result of global regulatory developments in 2014. The top three changes European organizations are considering making are raising base salary (57%), raising allowances and non-core compensation (39%), and increasing the vesting period for deferred compensation to five years (30%) for impacted employees. Approximately three-quarters of organizations in North America and Emerging Markets do not expect to be impacted.

Use of Different Structures for Executive Compensation	2013			2014		
	Europe	North America	Emerging Markets	Europe	North America	Emerging Markets
Not Impacted	65%	85%	75%	39%	78%	63%
Raising Base Salary for Impacted Employees	24%	10%	25%	57%	22%	25%
Raising Allowances and Non-Core Compensation for Impacted Employees	18%	5%	0%	39%	11%	13%
Increasing the Vesting Period for Deferred Compensation to 5 Years	12%	5%	0%	30%	0%	13%
Introducing New Long-term Incentive Program (5 Years+)	0%	5%	0%	22%	6%	13%
Using “Bail-in”, Convertible Bonds as Long-term Compensation Vehicle	6%	0%	0%	13%	0%	0%
Using Carried Interest Incentive Programs	0%	5%	0%	0%	6%	25%
Stock Salary Compensation	6%	0%	0%	4%	0%	13%
Using Partnership Style Compensation Structure	0%	0%	0%	4%	0%	13%
Rolling Fixed Compensation	0%	0%	0%	0%	0%	13%
No. of Responses	**17**	**20**	**8**	**23**	**18**	**8**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Use of different structures for executive compensation in 2013 and 2014 – by employee location: banks in Europe

The table below shows results for banking organizations with employees located in Europe. As noted before, raising base salaries and allowances as well as increasing the vesting period for deferred compensation to five years and/or introducing a new LTI plan are amongst the most common reactions to recent regulatory developments.

Use of Different Structures for Executive Compensation	2013	2014
Not Impacted	56%	21%
Raising Base Salary for Impacted Employees	33%	79%
Raising Allowances and Non-Core Compensation for Impacted Employees	22%	57%
Increasing the Vesting Period for Deferred Compensation to 5 Years	22%	43%
Introducing New Long-Term Incentive Program (5 Years+)	0%	29%
Using 'Bail-In', Convertible Bonds as Long-Term Compensation Vehicle	11%	21%
Using Carried Interest Incentive Programs	0%	0%
Using Partnership Style Compensation Structure	0%	7%
Rolling Fixed Compensation	0%	0%
Stock Salary Compensation	11%	7%
No. of Responses	**9**	**14**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

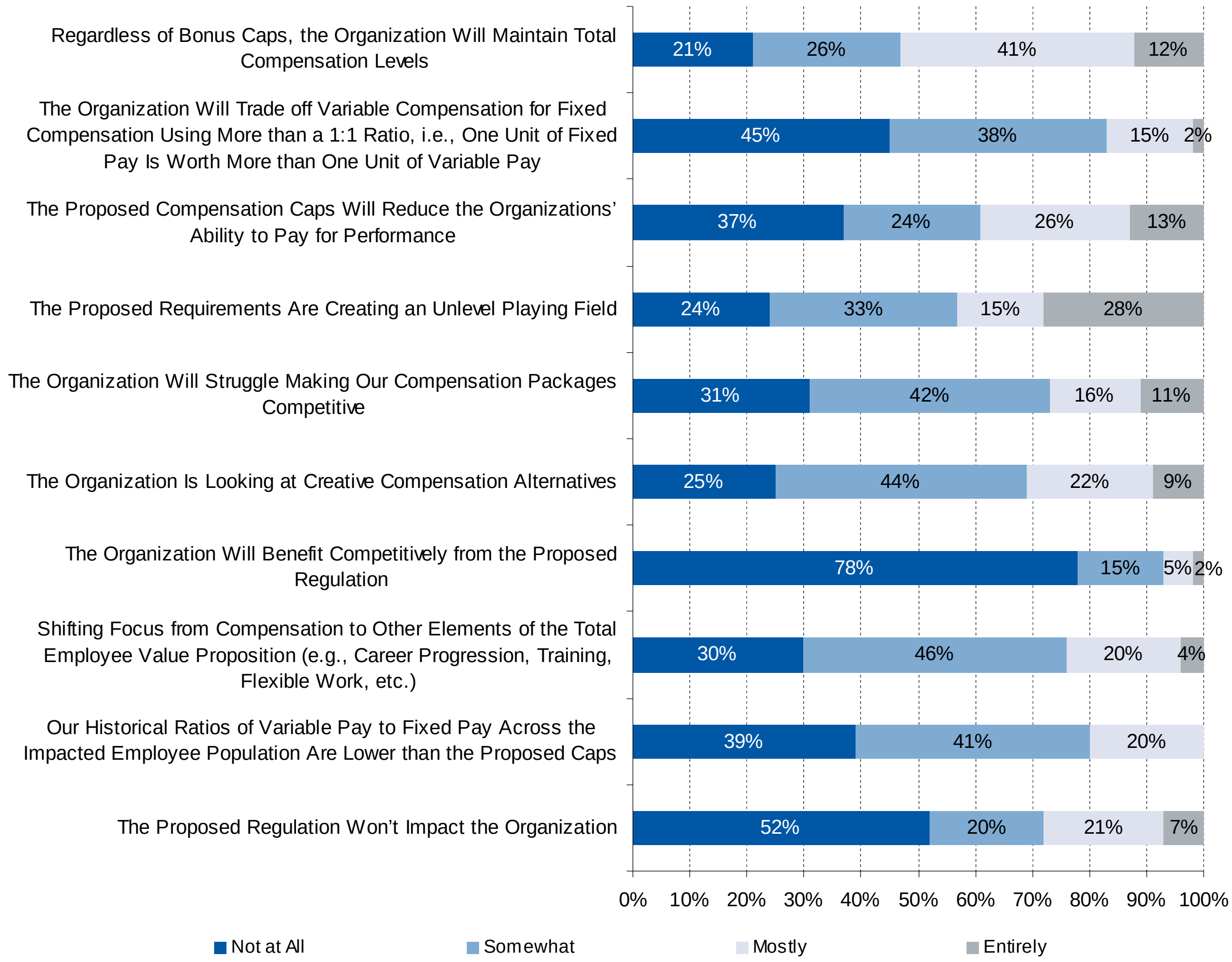
Use of different structures for executive compensation in 2013 and 2014 – by industry

The banking industry anticipates the most impact in 2014 in light of global regulatory developments, with 62% of organizations anticipating changes to their executive compensation programs. The top three changes organizations are considering making in 2014 are raising base salary (58%), raising allowances and non-core compensation (42%), and increasing the vesting period for deferred compensation to five years (27%) for impacted employees.

Use of Different Structures for Executive Compensation	2013			2014		
	Banking	Insurance	Other Financial Services	Banking	Insurance	Other Financial Services
Not Impacted	74%	73%	82%	38%	71%	89%
Raising Base Salary for Impacted Employees	21%	27%	0%	58%	21%	11%
Raising Allowances and Non-Core Compensation for Impacted Employees	11%	0%	18%	42%	0%	11%
Increasing the Vesting Period for Deferred Compensation to 5 Years	11%	7%	0%	27%	0%	11%
Introducing New Long-term Incentive Program (5 Years+)	0%	7%	0%	15%	21%	0%
Using “Bail-in”, Convertible Bonds as Long-term Compensation Vehicle	5%	0%	0%	12%	0%	0%
Using Carried Interest Incentive Programs	0%	0%	9%	4%	14%	0%
Using Partnership Style Compensation Structure	5%	0%	0%	8%	0%	0%
Stock Salary Compensation	0%	0%	0%	8%	0%	0%
Rolling Fixed Compensation	0%	0%	0%	4%	0%	0%
No. of Responses	**19**	**15**	**11**	**26**	**14**	**9**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

3.11.1. To what extent the following statements are applicable for organizations – all regions and industries



To what extent the following statements are applicable for organizations – by region

	Region	Not at All	Somewhat	Mostly	Entirely	No. of Responses
Regardless of Bonus Caps, the Organization Will Maintain Total Compensation Levels	EU	13%	27%	50%	10%	**30**
	NA	29%	29%	33%	10%	**21**
	EM	29%	14%	29%	29%	**7**
The Organization Will Trade Off Variable Compensation for Fixed Compensation Using More Than a 1–1 Ratio, That Is, One Unit of Fixed Pay Is Worth More Than One Unit of Variable Pay	EU	21%	46%	29%	4%	**28**
	NA	75%	25%	0%	0%	**20**
	EM	57%	43%	0%	0%	**7**
The Proposed Compensation Caps Will Reduce the Organization's Ability to Pay for Performance	EU	24%	17%	41%	17%	**29**
	NA	50%	33%	6%	11%	**18**
	EM	57%	29%	14%	0%	**7**
The Proposed Requirements Are Creating an Unlevel Playing Field	EU	7%	25%	21%	46%	**28**
	NA	45%	40%	10%	5%	**20**
	EM	33%	50%	0%	17%	**6**
The Organization Will Struggle Making Our Compensation Packages Competitive	EU	11%	46%	25%	18%	**28**
	NA	50%	40%	5%	5%	**20**
	EM	57%	29%	14%	0%	**7**
The Organization Is Looking at Creative Compensation Alternatives	EU	25%	39%	21%	14%	**28**
	NA	25%	50%	25%	0%	**20**
	EM	29%	43%	14%	14%	**7**
The Organization Will Benefit Competitively From the Proposed Regulation	EU	82%	14%	4%	0%	**28**
	NA	80%	10%	5%	5%	**20**
	EM	57%	29%	14%	0%	**7**
Shifting Focus From Compensation to Other Elements of the Total Employee Value Proposition (for Example, Career Progression, Training, Flexible Work)	EU	11%	52%	30%	7%	**27**
	NA	50%	41%	9%	0%	**22**
	EM	43%	43%	14%	0%	**7**
Our Historical Ratios of Variable Pay to Fixed Pay Across the Impacted Employee Population Are Lower Than the Proposed Caps	EU	25%	43%	32%	0%	**28**
	NA	57%	33%	10%	0%	**21**
	EM	43%	57%	0%	0%	**7**
The Proposed Regulation Won't Impact the Organization	EU	56%	30%	11%	4%	**27**
	NA	52%	12%	24%	12%	**25**
	EM	44%	11%	44%	0%	**9**

Note: The total may not equal 100% due to rounding.

To what extent the following statements are applicable for organizations – by industry

	Industry	Not at All	Somewhat	Mostly	Entirely	No. of Responses
Regardless of Bonus Caps, the Organization Will Maintain Total Compensation Levels	Banking	17%	33%	44%	6%	**36**
	Insurance	23%	15%	38%	23%	**13**
	Other FS	33%	11%	33%	22%	**9**
The Organization Will Trade Off Variable Compensation for Fixed Compensation Using More Than a 1–1 Ratio, That Is, One Unit of Fixed Pay Is Worth More Than One Unit of Variable Pay	Banking	38%	41%	21%	0%	**34**
	Insurance	50%	42%	0%	8%	**12**
	Other FS	67%	22%	11%	0%	**9**
The Proposed Compensation Caps Will Reduce the Organization's Ability to Pay for Performance	Banking	21%	24%	35%	21%	**34**
	Insurance	58%	33%	8%	0%	**12**
	Other FS	75%	13%	13%	0%	**8**
The Proposed Requirements Are Creating an Unlevel Playing Field	Banking	15%	29%	18%	38%	**34**
	Insurance	27%	55%	9%	9%	**11**
	Other FS	56%	22%	11%	11%	**9**
The Organization Will Struggle Making Our Compensation Packages Competitive	Banking	24%	35%	26%	15%	**34**
	Insurance	25%	67%	0%	8%	**12**
	Other FS	67%	33%	0%	0%	**9**
The Organization Is Looking at Creative Compensation Alternatives	Banking	21%	41%	26%	12%	**34**
	Insurance	25%	50%	17%	8%	**12**
	Other FS	44%	44%	11%	0%	**9**
The Organization Will Benefit Competitively From the Proposed Regulation	Banking	82%	15%	3%	0%	**34**
	Insurance	58%	25%	17%	0%	**12**
	Other FS	89%	0%	0%	11%	**9**
Shifting Focus From Compensation to Other Elements of the Total Employee Value Proposition (for Example, Career Progression, Training, Flexible Work)	Banking:	26%	46%	26%	3%	**35**
	Insurance	25%	50%	17%	8%	**12**
	Other FS	56%	44%	0%	0%	**9**
Our Historical Ratios of Variable Pay to Fixed Pay Across the Impacted Employee Population Are Lower Than the Proposed Caps	Banking	37%	46%	17%	0%	**35**
	Insurance	25%	50%	25%	0%	**12**
	Other FS	67%	11%	22%	0%	**9**
The Proposed Regulation Won't Impact the Organization	Banking	71%	21%	9%	0%	**34**
	Insurance	18%	18%	47%	18%	**17**
	Other FS	50%	20%	20%	10%	**10**

Note: The total may not equal 100% due to rounding.

To what extent the following statements are applicable for organizations – banking location: Europe

	Not at All	Somewhat	Mostly	Entirely	No. of Responses
Regardless of Bonus Caps, the Organization Will Maintain Total Compensation Levels	14%	33%	48%	5%	**21**
The Organization Will Trade Off Variable Compensation for Fixed Compensation Using More Than a 1–1 Ratio, That Is, One Unit of Fixed Pay Is Worth More Than One Unit of Variable Pay	15%	50%	35%	0%	**20**
The Proposed Compensation Caps Will Reduce the Organization’s Ability to Pay for Performance	10%	19%	48%	24%	**21**
The Proposed Requirements Are Creating an Unlevel Playing Field	5%	24%	19%	52%	**21**
The Organization Will Struggle Making Our Compensation Packages Competitive	10%	35%	35%	20%	**20**
The Organization Is Looking at Creative Compensation Alternatives	25%	35%	25%	15%	**20**
The Organization Will Benefit Competitively From the Proposed Regulation	85%	10%	5%	0%	**20**
Shifting Focus From Compensation to Other Elements of the Total Employee Value Proposition (for Example, Career Progression, Training, Flexible Work)	5%	47%	42%	5%	**19**
Our Historical Ratios of Variable Pay to Fixed Pay Across the Impacted Employee Population Are Lower Than the Proposed Caps	25%	45%	30%	0%	**20**
The Proposed Regulation Won’t Impact the Organization	72%	28%	0%	0%	**18**

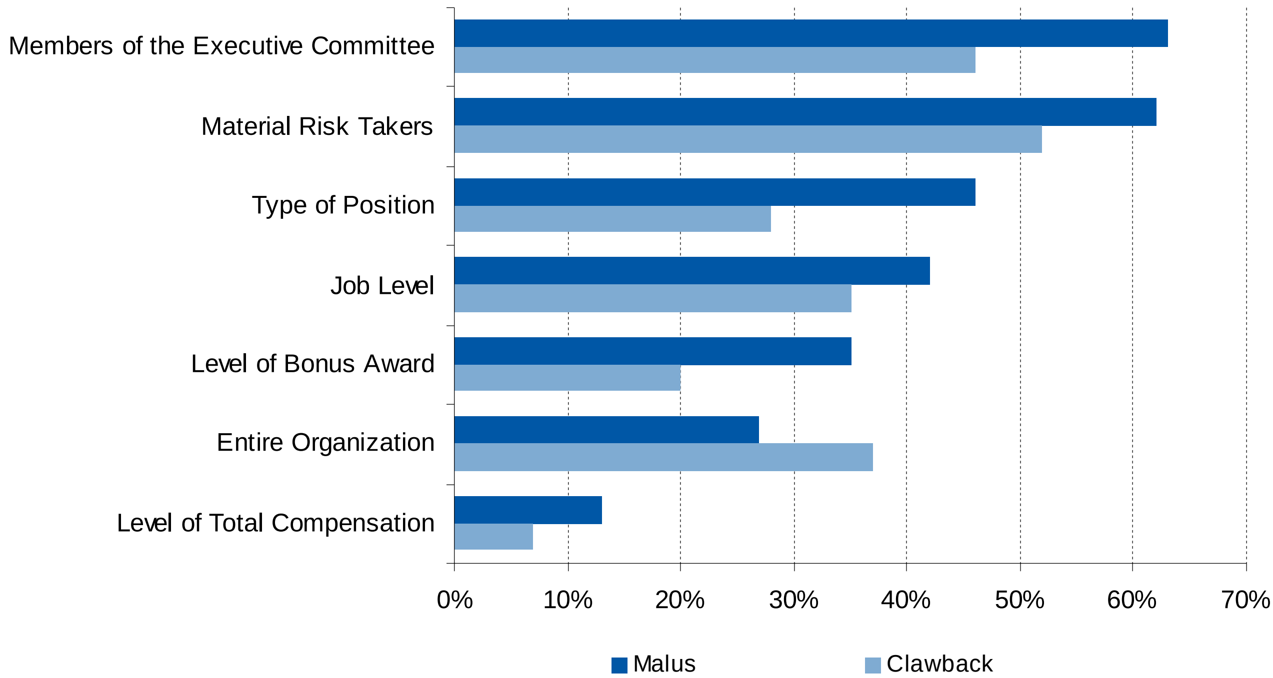
Note: The total may not equal 100% due to rounding.

4

Malus and Clawbacks

4.1. Factors That Determine Whether Employees Are Subject to Malus or to Clawback

As shown in the chart below, typically members of the executive committee and material risk takers are subject to malus and clawbacks. In more than one-third of the organizations, the type of position, job level, and level of bonus award are also factors that determine malus. Thirty-seven percent of organizations have clawback agreements throughout the entire organization.



Note:

Malus: Any adjustment in the unvested deferred compensation in the subsequent or current year, based on performance.
Clawback: Already vested compensation is reclaimed based on gross negligence or other malfeasance.

Malus – by region and industry

Factors that determine whether employees are subject to malus do not vary significantly by region and industry. Type of position (58%) and job level (67%) are factors that are most prevalent in the insurance industry, whereas for banks, it is their material risk takers who are most subject to malus.

	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Members of the Executive Committee	63%	59%	71%	67%	66%	58%	60%
Material Risk Takers	62%	72%	47%	50%	69%	42%	60%
Type of Position	46%	45%	41%	67%	49%	58%	0%
Job Level	42%	31%	53%	67%	37%	67%	20%
Level of Bonus Award	35%	48%	12%	33%	37%	42%	0%
Entire Organization	27%	28%	29%	17%	29%	25%	20%
Level of Total Compensation	13%	10%	12%	33%	14%	17%	0%
No. of Responses	**52**	**29**	**17**	**6**	**35**	**12**	**5**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Clawback – by region and industry

Factors that determine whether employees are subject to clawback do not vary significantly by region and industry. In the banking industry, 50% of respondents indicated that the entire organization is subject to clawback.

	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Members of the Executive Committee	46%	45%	50%	25%	50%	43%	40%
Material Risk Takers	52%	55%	50%	50%	59%	43%	50%
Type of Position	28%	40%	18%	25%	32%	29%	20%
Job Level	35%	25%	45%	25%	27%	43%	40%
Level of Bonus Award	20%	35%	5%	25%	23%	29%	0%
Entire Organization	37%	30%	41%	50%	50%	21%	30%
Level of Total Compensation	7%	10%	5%	0%	14%	0%	0%
No. of Responses	**46**	**20**	**22**	**4**	**22**	**14**	**10**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

4.2. Application of Malus in Actual Unvested Awards for 2012

Participants were asked whether any actual unvested awards had been reduced (malus applied) for 2012 performance – responses by region and industry

Overall, the majority of organizations have not reduced any actual unvested awards for 2012 performance. Nevertheless, 25% of European organizations have reduced actual unvested awards for 2012 performance in part of their organization and an additional 8% in their entire organization.

Application of Malus	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes, Malus Applied in Entire Organization	4%	8%	0%	0%	7%	0%	0%
Yes, Malus Applied for Part of Organization	16%	25%	3%	20%	19%	18%	0%
No	81%	67%	97%	80%	74%	82%	100%
No. of Responses	**77**	**36**	**31**	**10**	**42**	**22**	**13**

Note: The total may not equal 100% due to rounding.

4.3. Reduced Unvested Amounts

Participants were asked which unvested amounts will be reduced (malus) if firm-wide or business unit performance conditions are not met (for example, loss in financial performance) – responses by region and industry

Malus clauses are most prevalent in the banking industry, both in Europe and North America. Sixty-three percent of organizations in Emerging Markets and 57% of insurance organizations do not have malus conditions in place.

For organizations that will reduce unvested amounts if firm-wide or business unit performance conditions are not met, the most common response was that only awards that would have vested that year will be reduced.

Reduced Unvested Amounts	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Only Awards That Would Have Vested That Year	36%	41%	36%	13%	49%	24%	17%
None, No Malus in Place	33%	18%	43%	63%	16%	57%	42%
A Portion of All Unvested Awards	21%	26%	14%	25%	24%	10%	33%
All Unvested Awards	10%	15%	7%	0%	11%	10%	8%
No. of Responses	**70**	**34**	**28**	**8**	**37**	**21**	**12**

Note: The total may not equal 100% due to rounding.

4.4. Application of Clawback Over 2012

Participants were asked whether any actual vested awards or payments made to recipients have been clawed back over 2012 – responses by region and industry

Overall, the majority of organizations have not clawed back any actual vested awards over 2012. Nevertheless, 19% of insurance organizations and 12% of European organizations have clawed back or reclaimed actual vested awards over 2012.

Application of Clawback Over 2012	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes	6%	6%	6%	10%	5%	14%	0%
No	90%	89%	90%	90%	90%	82%	100%
Organization Reclaimed, but Not Repaid	4%	6%	3%	0%	5%	5%	0%
No. of Responses	**77**	**36**	**31**	**10**	**42**	**22**	**13**

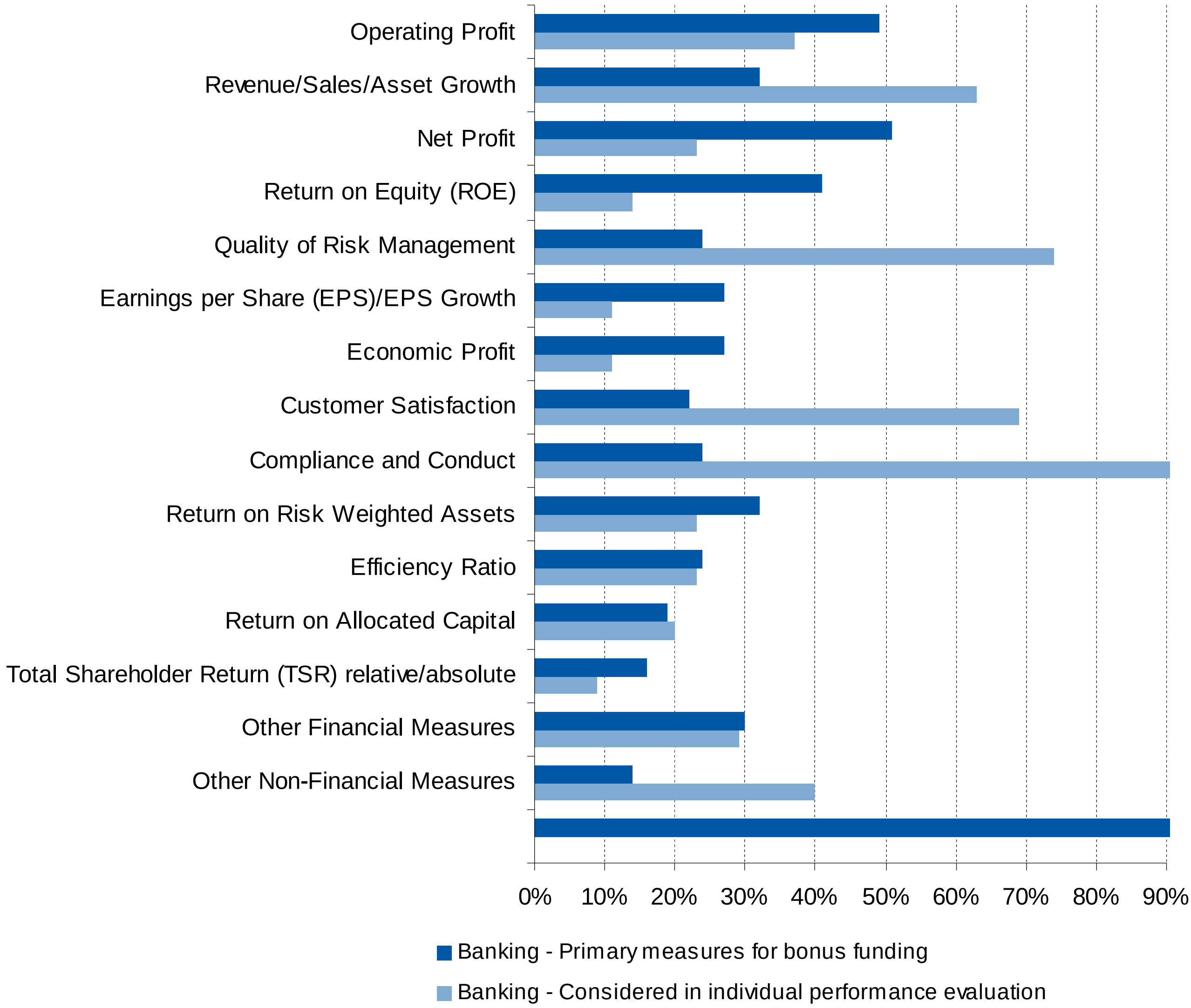
Note: The total may not equal 100% due to rounding.

5

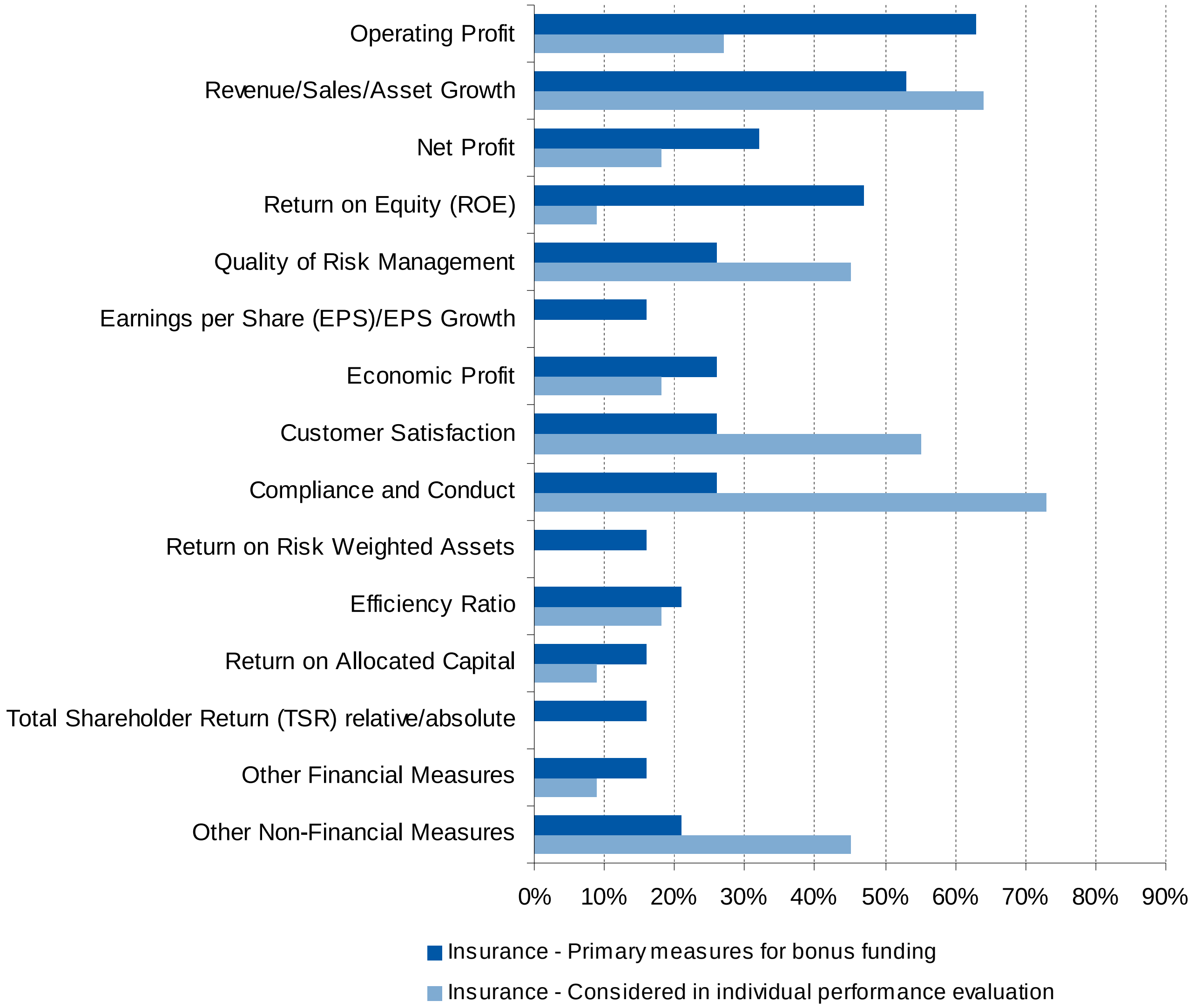
Performance Measures

As shown in the chart below, performance measures for bonus funding and individual performance evaluation vary by industry. Overall, operating profit, net profit, revenue sales/asset growth and ROE are the top four measures that determine bonus funding. Compliance and conduct, customer satisfaction, quality of risk management, and revenue/sales/asset growth are the top four performance measures used to evaluate individual performance by more than half of all organizations.

Banking


Operating Profit
Revenue/Sales/Asset Growth
Net Profit
Return on Equity (ROE)
Quality of Risk Management
Earnings per Share (EPS)/EPS Growth
Economic Profit
Customer Satisfaction
Compliance and Conduct
Return on Risk Weighted Assets
Efficiency Ratio
Return on Allocated Capital
Total Shareholder Return (TSR) relative/absolute
Other Financial Measures
Other Non-Financial Measures
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
Banking - Primary measures for bonus funding
Banking - Considered in individual performance evaluation

Insurance


Operating Profit
Revenue/Sales/Asset Growth
Net Profit
Return on Equity (ROE)
Quality of Risk Management
Earnings per Share (EPS)/EPS Growth
Economic Profit
Customer Satisfaction
Compliance and Conduct
Return on Risk Weighted Assets
Efficiency Ratio
Return on Allocated Capital
Total Shareholder Return (TSR) relative/absolute
Other Financial Measures
Other Non-Financial Measures
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
Insurance - Primary measures for bonus funding
Insurance - Considered in individual performance evaluation

5.1. Performance Metrics Included in Determining Annual Incentive Awards and Evaluating Underlying Performance

Primary measures for bonus funding – by region and industry

Primary performance measures used in banks are net profit (51%), operating profit (49%), ROE (41%), and return on risk-weighted assets (32%). Insurance organizations primarily measure operating profit (63%), revenue/sales/asset growth (53%), and ROE (47%). The use of risk-adjusted performance measures (such as economic profit and return on risk-weighted assets) is more common in Europe than in North America. EPS is more prevalent in North America (35%) than elsewhere. Quality of risk management (41%) and compliance and conduct (41%) are primary bonus funding measures in Europe, but less so elsewhere.

Primary Performance Metrics	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Operating Profit	50%	62%	39%	50%	49%	63%	33%
Revenue/Sales/Asset Growth	44%	45%	45%	38%	32%	53%	67%
Net Profit	44%	62%	29%	38%	51%	32%	42%
Return on Equity (ROE)	38%	45%	35%	25%	41%	47%	17%
Quality of Risk Management	25%	41%	10%	25%	24%	26%	25%
Earnings per Share (EPS)/EPS Growth	24%	14%	35%	13%	27%	16%	25%
Economic Profit	24%	38%	10%	25%	27%	26%	8%
Customer Satisfaction	24%	34%	16%	13%	22%	26%	25%
Compliance and Conduct	24%	41%	3%	38%	24%	26%	17%
Return on Risk-weighted Assets	22%	38%	3%	38%	32%	16%	0%
Efficiency Ratio	21%	31%	13%	13%	24%	21%	8%
Return on Allocated Capital	15%	24%	3%	25%	19%	16%	0%
Total Shareholder Return (TSR) Relative/Absolute	15%	17%	13%	13%	16%	16%	8%
Other Financial Measures	25%	21%	26%	38%	30%	16%	25%
Other Non-Financial Measures	15%	21%	6%	25%	14%	21%	8%
No. of Responses	**68**	**29**	**31**	**8**	**37**	**19**	**12**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Considered in individual performance evaluation – by region and industry

Performance Metrics in Individual Performance Evaluation	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Operating Profit	31%	37%	29%	17%	37%	27%	13%
Revenue/Sales/Asset Growth	61%	67%	48%	83%	63%	64%	50%
Net Profit	22%	30%	14%	17%	23%	18%	25%
Return on Equity (ROE)	11%	19%	5%	0%	14%	9%	0%
Quality of Risk Management	63%	70%	57%	50%	74%	45%	38%
Earnings per Share (EPS)/EPS Growth	7%	7%	10%	0%	11%	0%	0%
Economic Profit	11%	19%	5%	0%	11%	18%	0%
Customer Satisfaction	65%	78%	52%	50%	69%	55%	63%
Compliance and Conduct	81%	85%	76%	83%	91%	73%	50%
Return on Risk-weighted Assets	15%	19%	10%	17%	23%	0%	0%
Efficiency Ratio	20%	30%	5%	33%	23%	18%	13%
Return on Allocated Capital	15%	30%	0%	0%	20%	9%	0%
Total Shareholder Return (TSR) Relative/Absolute	6%	4%	10%	0%	9%	0%	0%
Other Financial Measures	20%	22%	19%	17%	29%	9%	0%
Other Non-Financial Measures	44%	33%	62%	33%	40%	45%	63%
No. of Responses	**54**	**27**	**21**	**6**	**35**	**11**	**8**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100

Note:

Other includes:

Insurance:

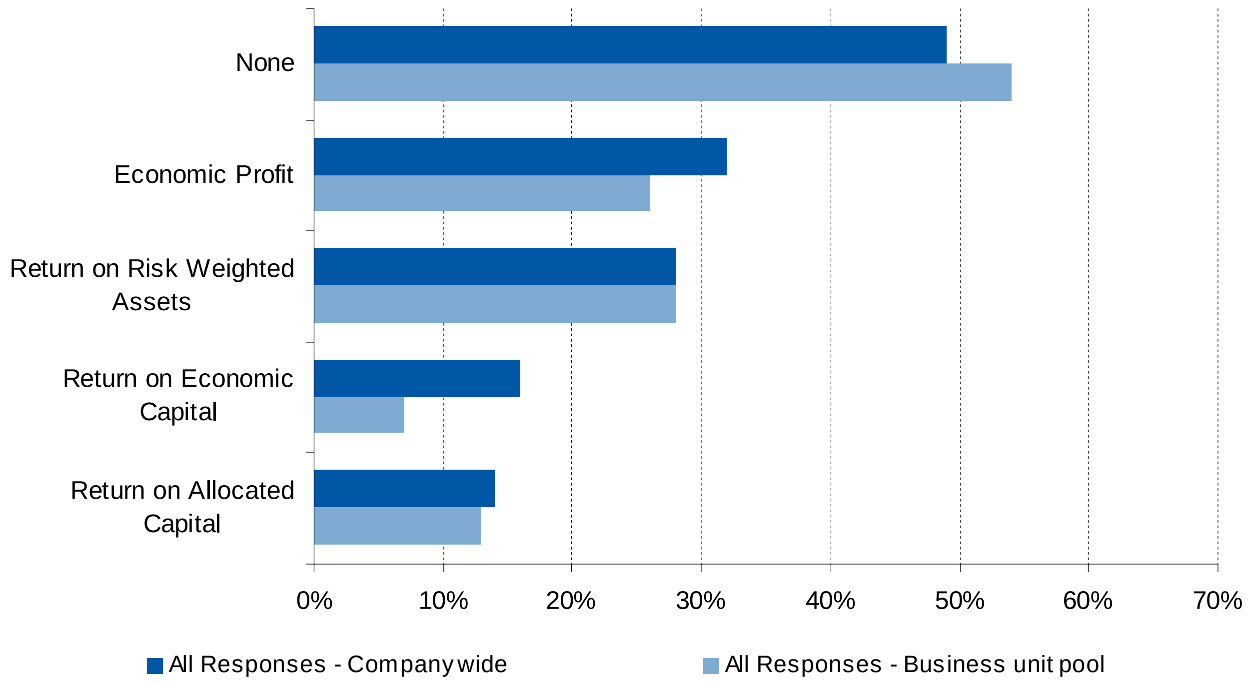
- EV and VONB
- Expense savings target, dividend to parent
- Increase in gross written premium, cost ratio, combined ratio
- New business embedded value

Banking

- A number of profitability metrics and credit metrics
- Achieve annual profit plan
- Cost income ratio
- Cost of risk
- Cost/income; income (loss) before tax from continuing operations/tangible equity vs. peers; Price/BV vs. peers; loan loss provisions; deposit/loan imbalance
- Economic value added
- Loan loss provision/net charge-offs
- Maximum cost
- Net income after tax
- Net income before bonus and tax
- Operating expenses, total capital ratio, liquidity, credit provision
- Risk-adjusted net income
- Return on assets (ROA)
- ROA, loans to deposits
- Tangible efficiency ratio
- Third-party assets

5.2. Risk Adjustment in Allocation of Pools and Awards: Quantitative Risk-adjustment Examples Used For Adjustments of the Pools

As shown in the chart below, overall nearly half of the organizations do not use any risk-adjusted metrics for adjustments of company-wide pools and business unit pools. Others typically utilize economic profit and return on risk-weighted assets as quantitative risk-adjustments.



Company-wide – by region and industry

Seventy-five percent of banking organizations use quantitative risk adjustments, such as economic profit (44%), return on risk-weighted assets (41%), and return on economic capital (22%) in allocating company-wide pools. Quantitative risk adjustments are far less common outside the banking industry.

Risk Adjustment in Allocation of Pools and Awards	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
None	49%	32%	67%	50%	25%	82%	75%
Economic Profit	32%	48%	17%	25%	44%	18%	13%
Return on Risk-weighted Assets	28%	40%	17%	25%	41%	12%	13%
Return on Economic Capital	16%	12%	21%	13%	22%	6%	13%
Return on Allocated Capital	14%	24%	4%	13%	19%	12%	0%
No. of Responses	**57**	**25**	**24**	**8**	**32**	**17**	**8**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Business unit pool – by region and industry

When allocating business unit pools, 74% of banking organizations and 68% of European organizations use quantitative risk adjustments, such as economic profit (41%) and return on risk-weighted assets (41% for European organizations and 48% for banking organizations). Quantitative risk adjustments are far less common outside the banking industry.

Risk Adjustment in Allocation of Pools and Awards	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
None	54%	32%	82%	57%	26%	92%	100%
Economic Profit	26%	41%	12%	14%	41%	8%	0%
Return on Risk-Weighted Assets	28%	41%	12%	29%	48%	0%	0%
Return on Economic Capital	7%	5%	6%	14%	11%	0%	0%
Return on Allocated Capital	13%	18%	6%	14%	22%	0%	0%
No. of Responses	**46**	**22**	**17**	**7**	**27**	**13**	**6**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

5.3. How Organizations Qualitatively Adjust for Risk When Setting Bonus Pools and Allocating Individual Awards

Business unit pool – all regions and industries

Qualitatively Adjustments for Risk	Percentage of Organizations
Considers risk-adjusted metrics (for example, return on allocated capital, return on RWA, provision, and net charge-offs)	26%
Considers an independent assessment by committee of the board (Risk, GCO, Audit, Compliance, and HR)	11%
Risk evaluation process on main business lines by key control officers	8%
Discretion of the CEO/executive committee	8%
Considers risk factors in key performance indicators	8%
Discretion of the CEO/executive committee and considers an independent assessment by key control officers	5%
Discretion of compensation committee	5%
Discretion of chief risk officer	5%
Considers risk-adjusted metrics (for example, return on allocated capital, return on RWA, provision, and net charge-offs) plus discretion of executive committee	5%
Risk evaluation process on main business lines by key control officers and compliance breaches	3%
No measure in place	3%
Business unit pool is funded based on economic profit (thus taking into account the riskiness of the business); input from the risk function is taken into account both when determining the overall pool and when allocating the pool to business areas	3%
None	11%
No. of Responses	**38**

Individual awards – all regions and industries

Qualitatively Adjustments for Risk	Percentage of Organizations
Individual audit/compliance/risk rating applied to all bonus recommendations	11%
Considers risk-adjusted metrics (for example, return on allocated capital, return on RWA, provision, and net charge-offs)	8%
Considers risk factors in key performance indicators	8%
Discretion of the CEO/executive committee	5%
Considers risk factors in key performance indicators, compliance breaches, and managerial behavior of the concerned party	5%
Considers risk factors in key performance indicators, compliance breaches, and assessment of control roles	5%
Considers an independent assessment by committee of the board (Risk, GCO, Audit, Compliance, and HR)	5%
Value at risk limits, the credit risk limits exposure, and operational risks	3%
Setting goals based on regulatory capital consumption	3%
Individual performance	3%
Individual audit/compliance results	3%
Discretionary	3%
Discretion of the executive committee and considers an independent assessment by key control officers	3%
Discretion of the compensation committee	3%
Discretion of a committee and considers an independent assessment by key control officers	3%
Considers risk-adjusted metrics (for example, return on allocated capital, return on RWA, provision, and net charge-offs) and compliance breaches	3%
Considers risk factors in key performance indicators, compliance breaches	3%
Considers risk factors in key performance indicators and risk assessment	3%
Considers risk factors in key performance indicators and compliance	3%
Appraisal process on material risk takers	3%
360 feedback review and individual risk assessments as well as measured/assessed via accountability review committees	3%
None	13%
No. of Responses	**38**

5.4. Functions Involved in Individual Performance Evaluation, Bonus Determination, and Target Setting

Functions Involved	All Regions and Industries			
	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination
Human Resources				
Major Involvement/Sign-off	44%	30%	57%	46%
Some Involvement	53%	52%	33%	48%
No Involvement	3%	18%	10%	6%
No. of Responses	**64**	**61**	**63**	**65**
Finance				
Major Involvement/Sign-off	59%	54%	37%	31%
Some Involvement	27%	30%	25%	32%
No Involvement	14%	16%	38%	37%
No. of Responses	**66**	**63**	**65**	**62**
Risk Management				
Major Involvement/Sign-off	31%	19%	22%	7%
Some Involvement	51%	50%	45%	45%
No Involvement	19%	31%	33%	48%
No. of Responses	**59**	**58**	**60**	**60**
Compliance				
Major Involvement/Sign-off	7%	2%	9%	0%
Some Involvement	43%	41%	48%	35%
No Involvement	50%	57%	43%	65%
No. of Responses	**58**	**56**	**58**	**57**

Functions Involved	All Regions and Industries			
	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination
Internal Audit				
Major Involvement/Sign-off	5%	2%	9%	2%
Some Involvement	26%	28%	33%	21%
No Involvement	68%	70%	58%	77%
No. of Responses	**57**	**54**	**57**	**56**

Note: The total may not equal 100% due to rounding.

By Region

Functions Involved	Europe				North America				Emerging Markets			
	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination
Human Resources												
Major Involvement/Sign-off	31%	21%	48%	45%	48%	33%	61%	41%	83%	50%	83%	71%
Some Involvement	66%	64%	38%	52%	48%	41%	32%	48%	17%	50%	17%	29%
No Involvement	3%	14%	14%	3%	3%	26%	7%	10%	0%	0%	0%	0%
No. of Responses	**29**	**28**	**29**	**29**	**29**	**27**	**28**	**29**	**6**	**6**	**6**	**7**
Finance												
Major Involvement/Sign-off	47%	45%	23%	32%	69%	63%	50%	26%	71%	57%	43%	43%
Some Involvement	43%	41%	40%	39%	10%	19%	14%	26%	29%	29%	0%	29%
No Involvement	10%	14%	37%	29%	21%	19%	36%	48%	0%	14%	57%	29%
No. of Responses	**30**	**29**	**30**	**28**	**29**	**27**	**28**	**27**	**7**	**7**	**7**	**7**
Risk Management												
Major Involvement/Sign-off	28%	18%	17%	7%	33%	17%	28%	4%	33%	33%	17%	17%
Some Involvement	66%	61%	55%	59%	38%	42%	32%	36%	33%	33%	50%	17%
No Involvement	7%	21%	28%	34%	29%	42%	40%	60%	33%	33%	33%	67%
No. of Responses	**29**	**28**	**29**	**29**	**24**	**24**	**25**	**25**	**6**	**6**	**6**	**6**

Functions Involved	Europe				North America				Emerging Markets			
	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination
Compliance												
Major Involvement/Sign-off	7%	4%	11%	0%	8%	0%	8%	0%	0%	0%	0%	0%
Some Involvement	61%	52%	54%	46%	25%	35%	42%	26%	33%	17%	50%	17%
No Involvement	32%	44%	36%	54%	67%	65%	50%	74%	67%	83%	50%	83%
No. of Responses	**28**	**27**	**28**	**28**	**24**	**23**	**24**	**23**	**6**	**6**	**6**	**6**
Internal Audit												
Major Involvement/Sign-off	8%	0%	7%	0%	4%	4%	13%	4%	0%	0%	0%	0%
Some Involvement	27%	32%	30%	35%	28%	26%	33%	8%	17%	17%	50%	17%
No Involvement	65%	68%	63%	65%	68%	70%	54%	88%	83%	83%	50%	83%
No. of Responses	**26**	**25**	**27**	**26**	**25**	**23**	**24**	**24**	**6**	**6**	**6**	**6**

Note: The total may not equal 100% due to rounding.

By Industry

Functions Involved	Banking				Insurance				Other Financial Services			
	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination
Human Resources												
Major Involvement/Sign-off	53%	32%	58%	50%	35%	38%	44%	39%	27%	9%	73%	45%
Some Involvement	47%	56%	31%	42%	59%	38%	44%	56%	64%	64%	27%	55%
No Involvement	0%	12%	11%	8%	6%	25%	13%	6%	9%	27%	0%	0%
No. of Responses	**36**	**34**	**36**	**36**	**17**	**16**	**16**	**18**	**11**	**11**	**11**	**11**
Finance												
Major Involvement/Sign-off	62%	51%	27%	25%	56%	59%	53%	44%	55%	55%	45%	30%
Some Involvement	27%	34%	27%	33%	28%	24%	18%	25%	27%	27%	27%	40%
No Involvement	11%	14%	46%	42%	17%	18%	29%	31%	18%	18%	27%	30%
No. of Responses	**37**	**35**	**37**	**36**	**18**	**17**	**17**	**16**	**11**	**11**	**11**	**10**
Risk Management												
Major Involvement/Sign-off	39%	20%	24%	8%	15%	23%	15%	7%	20%	10%	20%	0%
Some Involvement	53%	57%	49%	51%	54%	38%	46%	50%	40%	40%	30%	11%
No Involvement	8%	23%	27%	41%	31%	38%	38%	43%	40%	50%	50%	89%
No. of Responses	**36**	**35**	**37**	**37**	**13**	**13**	**13**	**14**	**10**	**10**	**10**	**9**
Compliance												
Major Involvement/Sign-off	11%	0%	11%	0%	0%	8%	8%	0%	0%	0%	0%	0%
Some Involvement	43%	50%	53%	42%	54%	38%	46%	31%	30%	11%	33%	13%
No Involvement	46%	50%	36%	58%	46%	54%	46%	69%	70%	89%	67%	88%
No. of Responses	**35**	**34**	**36**	**36**	**13**	**13**	**13**	**13**	**10**	**9**	**9**	**8**

Functions Involved	Banking				Insurance				Other Financial Services			
	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination	Selecting Performance Measures	Performance Target Setting	Performance Evaluation	Bonus Determination
Internal Audit												
Major Involvement/Sign-off	6%	0%	8%	0%	9%	9%	17%	8%	0%	0%	0%	0%
Some Involvement	28%	32%	39%	26%	27%	27%	25%	17%	20%	11%	22%	11%
No Involvement	67%	68%	53%	74%	64%	64%	58%	75%	80%	89%	78%	89%
No. of Responses	**36**	**34**	**36**	**35**	**11**	**11**	**12**	**12**	**10**	**9**	**9**	**9**

Note: The total may not equal 100% due to rounding.

5.5. Approaches Used to Measure Individual Performance

Explicit performance targets set at the beginning of the year (84%), performance ratings (79%), and formal scorecards used to combine financial and non-financial performance (50%) are amongst the most common approaches and tools used in determining incentive compensation. Guided performance distribution is used in more than half of the insurance organizations and in Emerging Markets.

Measurement tools/approaches used to determine individual performance in incentive compensation – by region and industry

	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Explicit Performance Targets Set at Beginning of the Year	84%	87%	83%	75%	79%	84%	100%
Performance Ratings	79%	68%	90%	88%	74%	79%	100%
Formal Scorecard Used to Combine Financial and Non-Financial Performance	50%	45%	59%	38%	54%	37%	60%
Guided Performance Distribution	46%	42%	48%	50%	33%	53%	80%
360° Reviews Incorporating Qualitative Assessment	29%	39%	21%	25%	33%	21%	30%
Peer Rankings	24%	26%	17%	38%	23%	16%	40%
External Benchmarks to Assess Quantitative Performance	19%	23%	14%	25%	23%	16%	10%
Progress Following (Multi-Year) Personal Development Plan	18%	26%	10%	13%	15%	21%	20%
Forced Performance Distribution	13%	6%	7%	63%	10%	21%	10%
Other	13%	16%	14%	0%	21%	0%	10%
No. of Responses	**68**	**31**	**29**	**8**	**39**	**19**	**10**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Other includes:

- Discretionary.
- No explicit formula between performance rating and level of incentive compensation.
- Progress towards individual goals established.

5.6. Changes to Performance Management Under Difficult Market Conditions

Participants were asked, in light of the difficult market environment of the past several years, whether they had found new models to deal with executive compensation – responses by region and industry

In light of the difficult market environment of the past several years, the majority of organizations have found new models to deal with executive compensation. New models vary by region and industry as shown in the table below. Revision of balanced scorecard/measures (25%), inclusion of more non-financial performance measures (25%), and decreasing payout for lower performance ratings (24%) are the most prevalent methods.

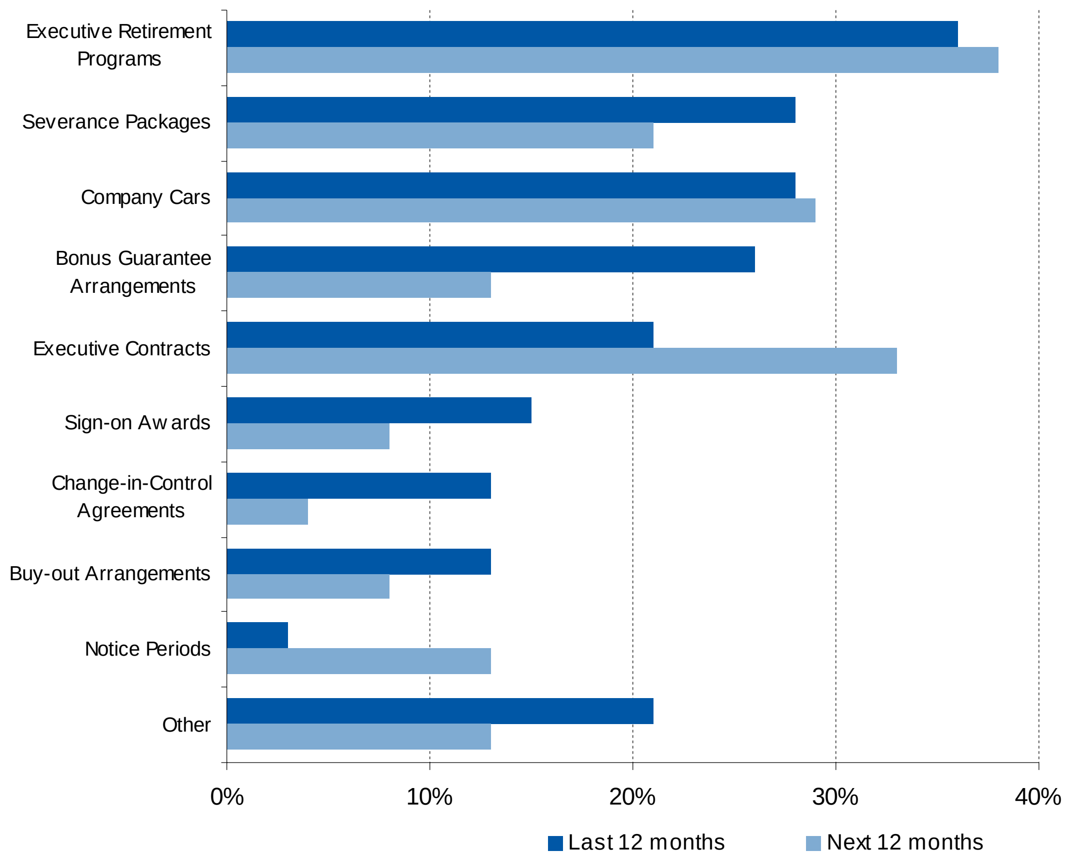
	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
No Change Related to Difficult Market Environment	43%	31%	50%	63%	32%	53%	64%
Organization Revised the Balanced Scorecard/Measures	25%	22%	29%	25%	34%	16%	9%
Include More Non-Financial Performance Measures	25%	44%	7%	13%	34%	16%	9%
Decreased Payout for Lower Performance Ratings	24%	34%	11%	25%	29%	16%	18%
Organization Increased the Difficulty/Toughness of Performance Conditions	18%	31%	7%	0%	26%	11%	0%
Increased Payout for Highest Performance Ratings	18%	31%	7%	0%	26%	11%	0%
Changed the Expected Distribution of Performance Ratings	12%	16%	11%	0%	11%	16%	9%
Organization Reduced the Difficulty/Toughness of Performance Conditions	6%	3%	11%	0%	0%	11%	18%
Created a Separate Bonus Pool for High Performers	4%	6%	4%	0%	5%	5%	0%
No. of Responses	**68**	**32**	**28**	**8**	**38**	**19**	**11**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

6

Changes in Non-core Compensation and Benefits Policies

As shown in the chart below, overall, the top three changes in non-core compensation and benefits policies implemented in the last 12 months are regarding executive retirement programs (36%), severance packages (28%), and company cars (28%). The top three changes in non-core compensation and benefits policies planned to be implemented in the next 12 months are related to executive retirement programs (38%), executive contracts (33%), and company cars (29%).



6.1. Changes Implemented to Remuneration Policy in the Past 12 months, or Planned to Be Implemented in the Next 12 Months

Changes implemented in the last 12 months – by region and industry

Changes Implemented to Remuneration Policy	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Executive Retirement Programs	36%	38%	29%	--	30%	43%	44%
Severance Packages	28%	33%	24%	--	26%	43%	22%
Company Cars	28%	33%	24%	--	35%	43%	0%
Bonus Guarantee Arrangements	26%	29%	18%	--	30%	29%	11%
Executive Contracts	21%	33%	6%	--	30%	14%	0%
Sign-on Awards	15%	24%	0%	--	22%	14%	0%
Change-in-Control Agreements	13%	5%	24%	--	9%	14%	22%
Buy-out Arrangements	13%	19%	6%	--	22%	0%	0%
Notice Periods	3%	5%	0%	--	4%	0%	0%
Other	21%	19%	24%	--	17%	43%	11%
No. of Responses	**39**	**21**	**17**	**1**	**23**	**7**	**9**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Changes planned to be implemented in the next 12 months – by region and industry

Changes Implemented to Remuneration Policy	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Executive Retirement Programs	38%	43%	29%	33%	55%	33%	0%
Severance Packages	21%	29%	14%	0%	18%	22%	25%
Company Cars	29%	29%	29%	33%	18%	44%	25%
Bonus Guarantee Arrangements	13%	0%	14%	67%	9%	22%	0%
Executive Contracts	33%	50%	14%	0%	45%	33%	0%
Sign-on Awards	8%	14%	0%	0%	9%	11%	0%
Change-in-Control Agreements	4%	7%	0%	0%	0%	11%	0%
Buy-out Arrangements	8%	14%	0%	0%	9%	11%	0%
Notice Periods	13%	14%	14%	0%	9%	11%	25%
Other	13%	14%	14%	0%	9%	11%	25%
No. of Responses	**24**	**14**	**7**	**3**	**11**	**9**	**4**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note(s):

Other include:

- Compensation Strategy
- executive perquisites
- Introduced Target Compensation Model
- LTIP Awards [Size, Eligibility; Performance Conditions]
- retirement provision in LTI plan
- share retention guidelines
- Tax Gross ups

6.2. Primary Reasons for Change in Non-core Compensation and Benefits Policies

Primary reasons for change – by region and industry

Primary reasons for change vary by region and industry. To comply with newly issued regulation (30%) and to reduce costs (26%) are the two top reasons for change.

Changes Implemented to Remuneration Policy	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
To Comply With Newly Issued Regulation	30%	45%	15%	20%	32%	33%	17%
To Reduce Costs	26%	38%	15%	20%	24%	33%	25%
Made in Conjunction With Changes to Programs Available to All Employees	10%	17%	4%	0%	15%	7%	0%
Other	34%	21%	48%	40%	35%	33%	33%
No Changes	26%	21%	30%	40%	29%	20%	25%
No. of Responses	**61**	**29**	**27**	**5**	**34**	**15**	**12**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Other includes:

- Adjust to market trends/norms, to remain competitive.
- Change made to simplify plan design and participant understanding.
- Consistency across the group, set a global policy.
- In response to shareholder proposal, support our Say on Pay advisory vote, to remain compliant.

6.3. Severance Policy

Upper limit of the severance policy as percentage of base salary – all regions and industries

The median upper limit of the severance policy is 150% of base salary for members of the executive committee and 100% for their direct reports and throughout the entire organization.

Upper Limit of the Severance Policy	25th Percentile	Median	Average	75th Percentile	No. of Responses
Members of the Executive Committee	100%	150%	176%	200%	**33**
Senior Managers (Direct Reports of EC)	100%	100%	124%	150%	**27**
Throughout the Organization	79%	100%	120%	150%	**24**

Upper limit of the severance policy as percentage of base salary – by region

The median upper limit of the severance policy for members of the executive committee is slightly higher in North America (150% of base salary) than in Europe (125%).

Upper Limit of the Severance Policy		25th Percentile	Median	Average	75th Percentile	No. of Responses
Europe	Members of the Executive Committee	100%	125%	152%	200%	**12**
	Senior Managers (Direct Reports of EC)	100%	110%	146%	200%	**10**
	Throughout the Organization	50%	100%	144%	200%	**11**
North America	Members of the Executive Committee	100%	150%	199%	200%	**19**
	Senior Managers (Direct Reports of EC)	100%	100%	119%	130%	**14**
	Throughout the Organization	100%	100%	101%	125%	**10**

Note:

- There were insufficient data to show statistics for Emerging Markets.

Upper limit of the severance policy as percentage of base salary – by industry

The median upper limit of the severance policy for members of the executive committee is higher in banks (150% of base salary) than it is in insurance organizations (100%).

Upper Limit of the Severance Policy		25th Percentile	Median	Average	75th Percentile	No. of Responses
Banking	Members of the Executive Committee	100%	150%	168%	200%	**17**
	Senior Managers (Direct Reports of EC)	100%	100%	139%	200%	**15**
	Throughout the Organization	75%	100%	124%	165%	**16**
Insurance	Members of the Executive Committee	100%	100%	180%	200%	**9**
	Senior Managers (Direct Reports of EC)	75%	100%	107%	135%	**8**
	Throughout the Organization	100%	150%	127%	150%	**5**
Other Financial Services	Members of the Executive Committee	100%	150%	187%	200%	**7**
	Senior Managers (Direct Reports of EC)	79%	100%	102%	125%	**4**
	Throughout the Organization	--	--	86%	--	**3**

6.4. Sign-on Awards

Use of sign-on awards for new hires – by region and industry

Overall, 81% of organizations provide sign-on awards to new hires. Sign-on awards are mostly used for key talent when newly hired externally (43%). In North America and in insurance organizations, sign-on awards are more widely used throughout the entire organization when talent is newly hired externally.

Sign-on Awards	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes, for Select Positions but Only With Executive Committee and/or Board of Director Approval	21%	18%	17%	50%	18%	26%	18%
Yes, for Key Employees When Newly Hired Externally	43%	39%	45%	50%	53%	21%	45%
Yes, Throughout the Entire Organization When Newly Hired Externally	21%	9%	38%	0%	11%	32%	36%
Yes, but Planning to Abolish the Policy in 2013	0%	0%	0%	0%	0%	0%	0%
No	19%	30%	3%	33%	21%	21%	9%
Other	13%	9%	14%	33%	13%	21%	0%
No. of Responses	**68**	**33**	**29**	**6**	**38**	**19**	**11**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Other includes:

- For graduate/MBA hires when it is market practice.
- Discretionary.
- Only for buyout, that is, in case of the loss of bonus or forfeitures from the previous employer.
- Sign-on awards granted on an individual basis. Consideration given to outstanding equity at previous employer, difficulty of filling role, need for relocation.

6.5. Bonus Guarantees

Use of bonus guarantees – by region and industry

Overall, more than half of organizations provide bonus guarantees to select employee groups or all employees with the exception of organizations in the insurance industry, in which 65% of organizations do not provide guaranteed bonuses. Fifty-five percent of banking organizations provide bonus guarantees for key employees when newly hired externally, while 43% of organizations in Emerging Markets only provide bonus guarantees for select positions with executive committee and/or board of director approval.

Bonus Guarantees	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes, for Select Positions but Only With Executive Committee and/or Board of Director Approval	20%	15%	20%	43%	24%	10%	25%
Yes, for Key Employees When Newly Hired Externally	39%	48%	30%	29%	55%	15%	25%
Yes, Throughout the Entire Organization	13%	6%	17%	29%	8%	20%	17%
Yes, but Planning to Abolish the Policy in 2013	0%	0%	0%	0%	0%	0%	0%
No	34%	33%	33%	43%	16%	65%	42%
Other	10%	3%	20%	0%	13%	10%	0%
No. of Responses	**70**	**33**	**30**	**7**	**38**	**20**	**12**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Other includes:

- Bonus guarantees are given on a very limited basis.
- In very limited cases, guarantees provided only for the year of hire, HRC reviews guarantees.
- Only to sales/revenue-producing positions.
- Situational, recent preference is to offer it as sign-on.
- Some new hires in key roles are given bonus guarantees for the first year.
- The practice of guaranteeing bonuses is under review and discussion.
- Used on infrequent basis when necessary for external hires made late in the year.

Use of one year or multi-year guarantees – by region and industry

While most of the banks do provide one-year bonus guarantees, they rarely provide multi-year guarantees anymore. Fifty percent of insurance organizations do not provide bonus guarantees to new hires. In Emerging Markets, 33% of organizations have multi-year bonus guarantees for new hires.

Bonus Guarantees	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
One-Year	72%	78%	76%	33%	86%	25%	86%
Multi-Year	2%	4%	0%	0%	3%	0%	0%
Both	9%	0%	14%	33%	3%	25%	14%
No Guarantees	17%	19%	10%	33%	9%	50%	0%
No. of Responses	**54**	**27**	**21**	**6**	**35**	**12**	**7**

Note: The total may not equal 100% due to rounding.

6.6. Executive Retirement Programs

Change in executive retirement programs – by region and industry

As shown in the table below, the majority of organizations did not make or are not planning to make changes to their executive retirement programs across all regions and industries. Twenty-two percent of the insurance organizations changed the benefit structure, such as moving from a defined benefit to a defined contribution plan. Some banks and European organizations reduced the benefit value.

Change in Executive Retirement Programs	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
No Changes	71%	65%	75%	83%	72%	72%	64%
Changed Benefit Structure*	15%	19%	11%	17%	11%	22%	18%
Reduced Benefit Value	14%	19%	7%	17%	17%	6%	18%
Other	8%	10%	7%	0%	6%	11%	9%
Increased Benefit Value	5%	6%	4%	0%	8%	0%	0%
No. of Responses	**65**	**31**	**28**	**6**	**36**	**18**	**11**

* Moved from defined benefit to defined contribution, final average pay to account balance, or other.
Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Other includes:
- Cash in lieu
- Changes further to IFRS/IAS19R and in conjunction with reduction of the cash employer's cost of the retirement benefit.
- Froze pension plans, qualified and nonqualified.

Review pension and defined contribution match.

6.7. Executive Benefits Policy

Type of executive benefits policy across all operating countries – by region and industry

Across all regions and industries, executive benefits policies in most organizations (77%) vary by country.

Executive Benefits Policy	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Executive Benefits Vary by Country	77%	79%	68%	100%	76%	88%	60%
Global Executive Benefits Policy	23%	21%	32%	0%	24%	12%	40%
No. of Responses	**61**	**28**	**25**	**8**	**34**	**17**	**10**

Note: The total may not equal 100% due to rounding.

6.8. International Pension Plan

Employee group(s) eligible for international pension plan (one global pension plan usually accessible for highly mobile employees)

Overall, as shown in the table below, the majority of organizations across all regions and industries do not have an international pension plan and do not plan to introduce one. Eighteen percent of the global organizations use no consistent criteria and handle international pensions on a case-by-case basis.

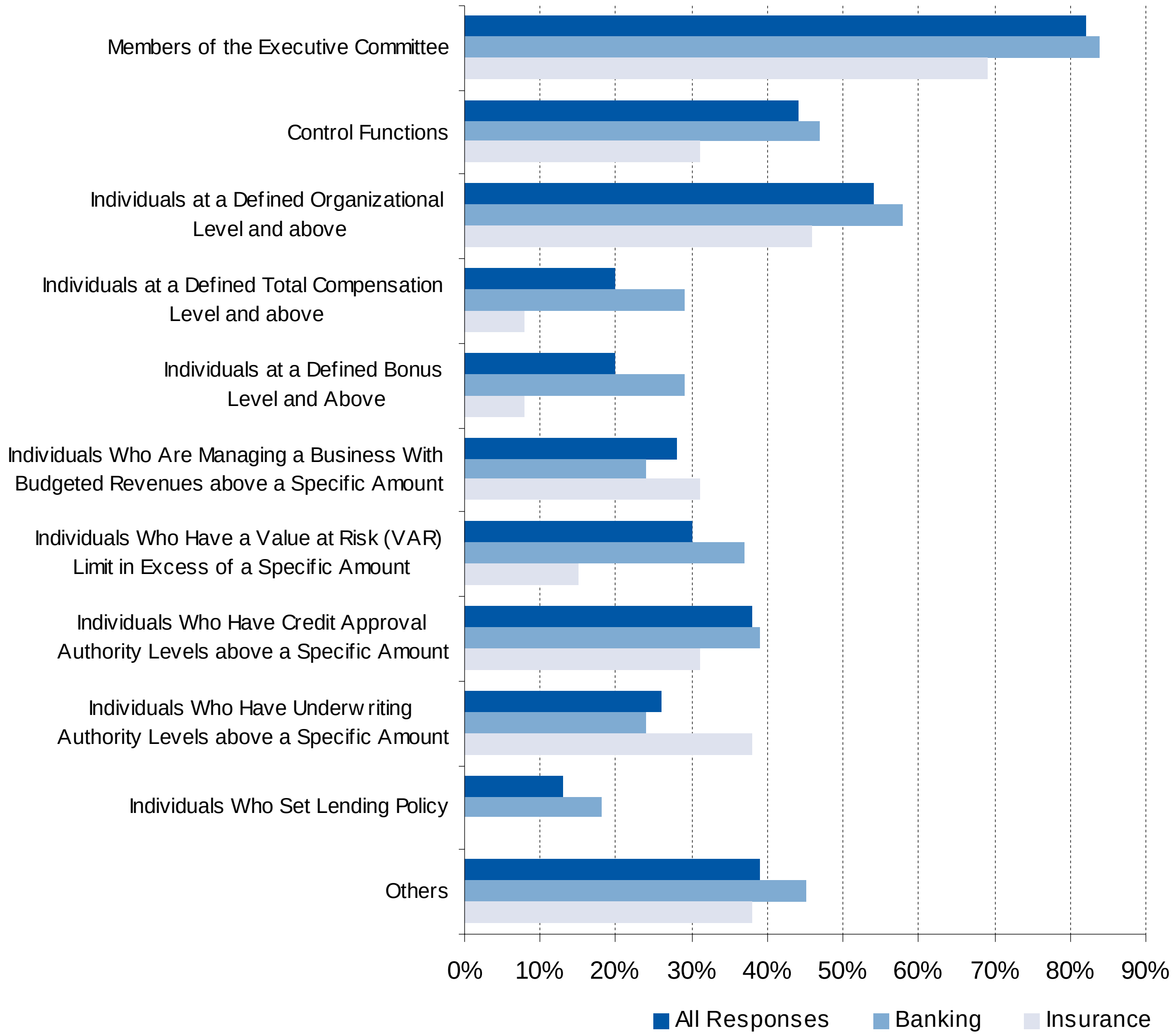
Eligible for International Pension Plan	Global	Multi-countries	Local
Employees on Assignment (Located Outside Home Country but Employed by Home Country)	6%	0%	0%
All Employees Employed Outside Their Home Country	0%	0%	0%
All Employees Who Can Not Be Kept on Home Country Plan	3%	0%	0%
No Consistent Criteria Applied/Handled on a Case-by-Case Basis	18%	0%	8%
The Organization Does Not Have an International Pension, but Planning to Introduce One	3%	0%	0%
The Organization Does Not Have an International Pension and Is Not Planning to Introduce One	62%	94%	85%
Other	12%	6%	8%
No. of Responses	**34**	**18**	**13**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

7

Material Risk Takers

7.1. Definition of Material Risk Takers



Definition of material risk takers – by region and industry

Members of the executive committee (82%) and individuals at a defined organizational level (54%) are the most prevalent criteria in defining material risk takers. Control functions are more often defined as material risk takers in Europe (63%) than elsewhere.

Definition of Material Risk Takers	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Members of the Executive Committee	82%	83%	85%	60%	84%	69%	90%
Control Functions	44%	63%	23%	40%	47%	31%	50%
Individuals at a Defined Organizational Level and Above	54%	63%	42%	60%	58%	46%	50%
Individuals at a Defined Total Compensation Level and Above	20%	27%	12%	20%	29%	8%	0%
Individuals at a Defined Bonus Level and Above	20%	33%	4%	20%	29%	8%	0%
Individuals Who Are Managing a Business With Budgeted Revenues Above a Specific Amount	28%	33%	27%	0%	24%	31%	40%
Individuals Who Have a Value at Risk (VAR) Limit in Excess of a Specific Amount	30%	43%	12%	40%	37%	15%	20%
Individuals Who Have Credit Approval Authority Levels Above a Specific Amount	38%	57%	23%	0%	39%	31%	40%
Individuals Who Have Underwriting Authority Levels Above a Specific Amount	26%	37%	19%	0%	24%	38%	20%
Individuals Who Set Lending Policy	13%	20%	8%	0%	18%	0%	10%
Others	39%	40%	38%	40%	45%	38%	20%
No. of Responses	**61**	**30**	**26**	**5**	**38**	**13**	**10**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Other include:

- Ability to impact the financial soundness of the organization.
- Balance sheet impact.
- Employees responsible for investment decisions (investment managers, head of reinsurance, head actuary); employees with control over credit, liquidity, market, operational, or reputational risk with an emphasis on revenue producers.
- Individuals in other critical roles as identified by the risk controllers/EC members in each division.
- Individuals who participate in higher risk incentive plans.

7.2. Material Risk Takers by Organizational Level

Material risk taker by organization level – by region and industry

Material risk takers in banks are typically placed within two reporting levels below the executive committee.

Definition of Material Risk Takers	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Level 1: Executive Committee	68%	81%	62%	40%	81%	42%	63%
Level 2: Direct Reports to Level 1	60%	81%	38%	60%	78%	25%	50%
Level 3: Direct Reports to Level 2	36%	38%	29%	60%	44%	25%	25%
Level 4: Direct Reports to Level 3	4%	5%	5%	0%	7%	0%	0%
Level 5: Direct Reports to Level 4	0%	0%	0%	0%	0%	0%	0%
Level 6: Direct Reports to Level 5	0%	0%	0%	0%	0%	0%	0%
Not Defined by Organizational Level	30%	19%	38%	40%	19%	50%	38%
No. of Responses	**47**	**21**	**21**	**5**	**27**	**12**	**8**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Note:

Additional comments made:

- Criteria are more dependent on role than level.
- In addition to the executive committee, other material risk-taker roles are defined through a risk assessment which is used to determine the amount of risk an individual or group could expose the company to.
- Level is a guide – significance based on assessment of impact to revenues.
- We have different groups of MRTs for different countries, EU, Federal Reserve, etc., due to different regulatory requirements.
- Will depend on the business: lower in the organization amongst investment banks due to a larger concentration of risk takers.

7.3. Number and Proportion of Material Risk Takers

Number of Material Risk Takers

Number of employees (absolute number) identified as material risk takers for this year's performance – all regions and industries

The median number of material risk takers is 153 in a core group and 653 in a broader group (which may include a group of employees who collectively can have an impact on risk). The size of this broader group varies.

Number of Material Risk Takers	25th Percentile	Median	Average	75th Percentile	No. of Responses
Core Group of Material Risk Takers	48	153	234	319	**44**
Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	142	653	3,749	2,800	**18**

Number of employees (absolute number) identified as material risk takers for this year's performance – by region for parent organizations

The median number of (core) material risk takers is higher in Europe (166) than in North America (113). However, the broader group is larger in North America (1,745) than elsewhere.

Number of Material Risk Takers		25th Percentile	Median	Average	75th Percentile	No. of responses
Europe	Core Group of Material Risk Takers	75	166	272	341	**24**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	20	142	904	2,566	**7**
North America	Core Group of Material Risk Takers	30	113	203	338	**18**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	400	1,745	5,560	4,000	**11**
Emerging Markets	Core Group of Material Risk Takers	--	--	--	--	**2**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	--	--	--	--	**0**

Number of employees (absolute number) identified as material risk takers for this year's performance – by industry

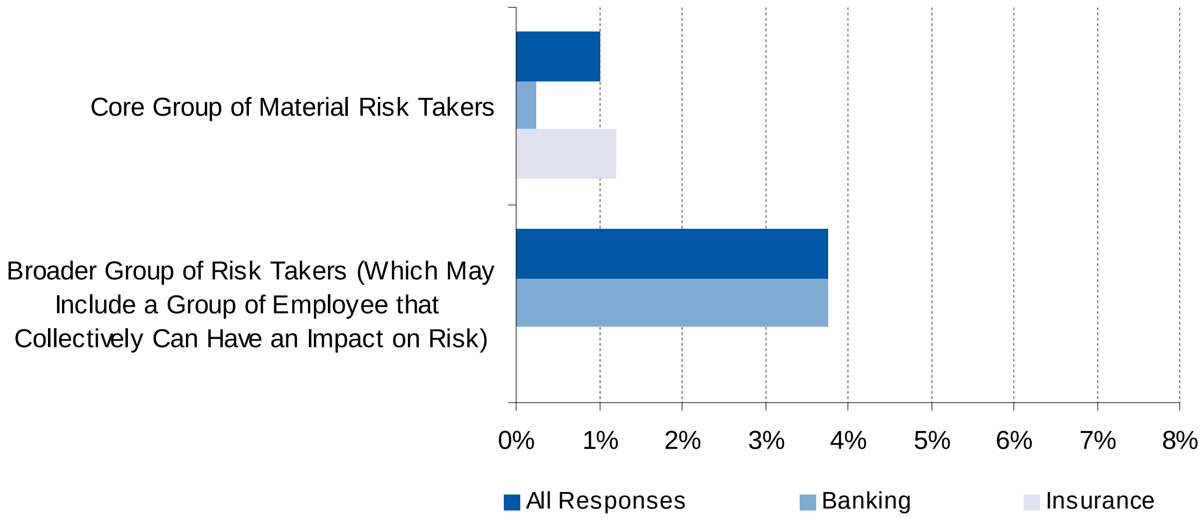
The median number of (core) material risk takers is twice as high in banking (168) as it is in insurance (80). In the banking industry, the median number of employees defined as a broader group of material risk takers is 1,215.

Number of Material Risk Takers		25th Percentile	Median	Average	75th Percentile	No. of Responses
Banking	Core Group of Material Risk Takers	45	168	244	338	**31**
	Broader Group of Risk Takers	115	1,215	4,153	2,900	**16**
Insurance	Core Group of Material Risk Takers	50	80	102	164	**10**
	Broader Group of Risk Takers	--	--	--	--.	**0**
Other Financial Services	Core Group of Material Risk Takers	8	166	287	480	**7**
	Broader Group of Risk Takers	--	385	699	--	**4**

Material risk takers as a percentage of total employees

Percentage of employees (percentage of total) identified as material risk takers for this year's performance – all regions and industries

The median proportion of material risk takers is 1.00% of total employees in the core group and 3.75% of total employees in a broader group.



Material Risk Takers as a Percentage	25th Percentile	Median	Average	75th Percentile	No. of Responses
Core Group of Material Risk Takers	0.13%	1.00%	2.10%	1.60%	**43**
Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	1.60%	3.75%	7.08%	10.00%	**18**

Percentage of employees (percentage of total) identified as material risk takers for this year's performance – by region: parent data only

The median percentage of (core) material risk takers (of total employees) is higher in North America (1.00%) than in Europe (0.5%). The median percentage of employees in the broader group of risk takers is 8.00% in North America and only 1.65% in Europe.

Material Risk Takers as a Percentage		25th Percentile	Median	Average	75th Percentile	No. of Responses
Europe	Core Group of Material Risk Takers	0.10%	0.50%	1.63%	1.30%	**21**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	0.50%	1.65%	5.23%	2.50%	**6**
North America	Core Group of Material Risk Takers	0.20%	1.00%	2.91%	2.10%	**17**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	2.00%	8.00%	7.90%	10.00%	**10**
Emerging Markets	Core Group of Material Risk Takers	--	--	--	--	**1**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	--	--	--	--	**0**

Percentage of employees (percentage of total) identified as material risk takers for this year's performance – by industry: parent data only

Material Risk Takers as a Percentage		25th Percentile	Median	Average	75th Percentile	No. of Responses
Banking	Core Group of Material Risk Takers	0.10%	0.25%	1.55%	1.15%	**24**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	1.30%	3.75%	6.03%	9.00%	**12**
Insurance	Core Group of Material Risk Takers	0.40%	1.20%	3.78%	3.50%	**8**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	--	--	--	--	**0**
Other Financial Services	Core Group of Material Risk Takers	1.00%	1.00%	2.73%	3.00%	**7**
	Broader Group of Risk Takers (Which May Include a Group of Employees Who Collectively Can Have an Impact on Risk)	--	6.00%	9.50%	--	**4**

8

Structure of Compensation Function

8.1. Employees (FTE) by Compensation Functions

Number of employees (FTE) in the following areas of compensation functions (including leave of absence, not including contract workers) – by organization type

The median number of employees (FTE) in the compensation functions (including leave of absence, not including contract workers, in parent organizations) is 17 with little variability between regions. Global organizations have 40 employees in their corporate compensation function. Typically, 60% of them labeled as technical experts, 20% as managers, and around 10% as administrative support, which is fairly consistent across all industries.

Number of FTE by Compensation Functions		25th Percentile	Median	Average	75th Percentile	No. of Responses
Parent	Total in Compensation Functions	10	17	38	68	**49**
	Corporate Compensation	5	12	16	20	**41**
	As Part of a Region or Country	3	8	17	19	**22**
	As Part of a Division or Line of Business	3	9	23	24	**18**
Subsidiary	Total in Compensation Functions	5	7	7	9	**8**
	Corporate Compensation	3	5	5	6	**7**
	As Part of a Region or Country	4	5	5	5	**5**
	As Part of a Division or Line of Business	--	--	--	--	**0**

Number of employees (FTE) in the following areas of compensation functions (including leave of absence, not including contract workers) – by region

Number of FTE by Compensation Functions		25th Percentile	Median	Average	75th Percentile	No. of Responses
Europe	Total in Compensation Functions	6	13	38	68	**25**
	Corporate Compensation	5	10	16	20	**19**
	As Part of a Region or Country	2	11	19	21	**12**
	As Part of a Division or Line of Business	2	4	16	24	**10**
North America	Total in Compensation Functions	8	16	32	35	**25**
	Corporate Compensation	4	10	14	19	**22**
	As Part of a Region or Country	3	5	8	14	**9**
	As Part of a Division or Line of Business	5	21	37	64	**6**
Emerging Markets	Total in Compensation Functions	9	10	27	44	**7**
	Corporate Compensation	5	6	8	13	**7**
	As Part of a Region or Country	4	6	17	7	**6**
	As Part of a Division or Line of Business	--	--	--	--	**2**

Number of employees (FTE) in the following areas of compensation functions (including leave of absence, not including contract workers) – by industry

Number of FTE by Compensation Functions		25th Percentile	Median	Average	75th Percentile	No. of Responses
Banking	Total in Compensation Functions	10	20	47	90	**30**
	Corporate Compensation	5	14	19	30	**28**
	As Part of a Region or Country	5	13	19	20	**16**
	As Part of a Division or Line of Business	3	23	31	55	**11**
Insurance	Total in Compensation Functions	6	11	19	19	**16**
	Corporate Compensation	4	7	8	12	**12**
	As Part of a Region or Country	2	3	10	7	**7**
	As Part of a Division or Line of Business	--	--	7	--	**3**
Other Financial Services	Total in Compensation Functions	4	15	20	30	**11**
	Corporate Compensation	3	5	7	11	**8**
	As Part of a Region or Country	--	4	6	--	**4**
	As Part of a Division or Line of Business	--	12	12	--	**4**

Number of employees (FTE) in the following areas of compensation functions (including leave of absence, not including contract workers) – by geographical scope

Number of FTE by Compensation Functions		25th Percentile	Median	Average	75th Percentile	No. of Responses
Global	Total in Compensation Functions	16	40	57	91	**27**
	Corporate Compensation	6	15	20	27	**24**
	As Part of a Region or Country	4	14	19	20	**19**
	As Part of a Division or Line of Business	4	17	27	55	**14**
Multi-countries	Total in Compensation Functions	5	9	15	17	**16**
	Corporate Compensation	3	6	8	10	**13**
	As Part of a Region or Country	--	2	3	--	**4**
	As Part of a Division or Line of Business	--	--	8	--	**3**
Local	Total in Compensation Functions	3	10	10	12	**14**
	Corporate Compensation	2	6	9	12	**11**
	As Part of a Region or Country	--	5	6	--	**4**
	As Part of a Division or Line of Business	--	--	--	--	**1**

Percentage of compensation function – all regions and industries

	25th Percentile	Median	Average	75th Percentile	No. of Responses
Administrative	3%	14%	21%	30%	**46**
Technical Professionals	45%	60%	55%	74%	**54**
Managerial	15%	20%	23%	33%	**54**

Percentage of compensation function – by region

Percentage of compensation function		25th Percentile	Median	Average	75th Percentile	No. of Responses
Europe	Administrative	5%	23%	25%	34%	**22**
	Technical Professionals	33%	55%	51%	74%	**25**
	Managerial	13%	20%	22%	33%	**22**
North America	Administrative	0%	10%	17%	25%	**17**
	Technical Professionals	50%	61%	57%	71%	**21**
	Managerial	16%	25%	25%	33%	**24**
Emerging Markets	Administrative	5%	17%	17%	30%	**7**
	Technical Professionals	50%	55%	63%	79%	**8**
	Managerial	15%	19%	23%	27%	**8**

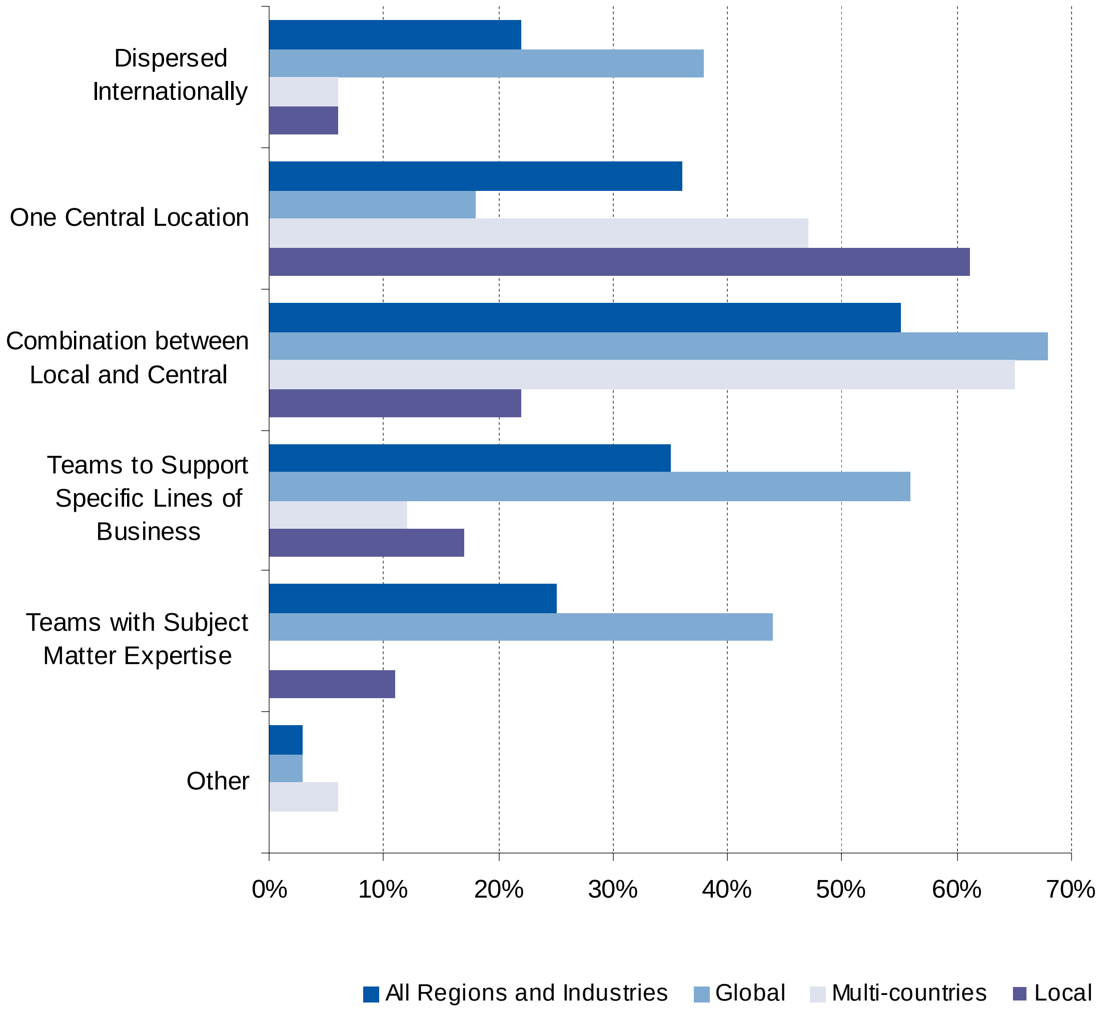
Percentage of compensation function – by industry

Percentage of compensation function		25th Percentile	Median	Average	75th Percentile	No. of Responses
Banking	Administrative	2%	10%	18%	28%	**25**
	Technical Professionals	45%	60%	56%	75%	**31**
	Managerial	10%	19%	20%	29%	**30**
Insurance	Administrative	5%	30%	28%	40%	**11**
	Technical Professionals	50%	50%	55%	60%	**14**
	Managerial	16%	20%	26%	40%	**15**
Other Financial Services	Administrative	7%	13%	18%	25%	**10**
	Technical Professionals	33%	59%	53%	70%	**9**
	Managerial	20%	27%	31%	40%	**9**

Percentage of compensation function – by geographical scope

Percentage of compensation function		25th Percentile	Median	Average	75th Percentile	No. of Responses
Global	Administrative	5%	10%	18%	28%	**21**
	Technical Professionals	48%	60%	55%	74%	**24**
	Managerial	15%	20%	21%	25%	**25**
Multi-countries	Administrative	5%	15%	17%	28%	**11**
	Technical Professionals	50%	60%	59%	80%	**15**
	Managerial	15%	27%	27%	40%	**14**
Local	Administrative	0%	25%	27%	50%	**14**
	Technical Professionals	25%	50%	51%	75%	**15**
	Managerial	10%	25%	24%	33%	**15**

8.2. Primary Compensation Function Within Organization Across the Globe



Structure of the global compensation function – by region and industry

While the most common structure is a combination of local and central, several multi-country companies use one central structure.

Structure of the Global Compensation Function	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Dispersed Internationally	22%	23%	23%	13%	23%	28%	8%
One Central Location	36%	39%	40%	13%	36%	33%	42%
Combination of Local and Central	55%	55%	43%	100%	56%	56%	50%
Teams to Support Specific Lines of Business	35%	35%	37%	25%	41%	28%	25%
Teams With Subject Matter Expertise	25%	29%	20%	25%	41%	6%	0%
Other	3%	3%	0%	13%	3%	6%	0%
No. of Responses	**69**	**31**	**30**	**8**	**39**	**18**	**12**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

Structure of global compensation – by geographical scope

Sixty-eight percent of global organizations and 65% of multi-country organizations set up their global compensation using a combination of local and central structures.

Structure of the Global Compensation Function	Global	Multi-countries	Local
Dispersed Internationally	38%	6%	6%
One Central Location	18%	47%	61%
Combination of Local and Central	68%	65%	22%
Teams to Support Specific Lines of Business	56%	12%	17%
Teams With Subject Matter Expertise	44%	0%	11%
Other	3%	6%	0%
No. of Responses	**34**	**17**	**18**

Note: Some organizations may have indicated more than one option; therefore the total may exceed 100%.

8.3. Number of Hierarchical Job Levels Within Compensation Function

Number of hierarchical job levels within compensation function

	25th Percentile	Median	Average	75th Percentile	No. of Responses
Number of Hierarchical Job Levels Within Compensation Function	3	4	4	5	**58**

Number of hierarchical job levels within compensation function by region

	25th Percentile	Median	Average	75th Percentile	No. of Responses
Europe	3	4	3	4	**26**
North America	3	5	5	6	**25**
Emerging Markets	3	3	4	4	**7**

Number of hierarchical job levels within compensation function by industry

	25th Percentile	Median	Average	75th Percentile	No. of Responses
Banking	3	4	4	5	**33**
Insurance	3	4	4	5	**14**
Other Financial Services	3	4	5	6	**11**

Number of hierarchical job levels within compensation function by geographical scope

	25th Percentile	Median	Average	75th Percentile	No. of Responses
Global	4	4	5	6	**29**
Multi-countries	3	3	4	4	**15**
Local	3	3	4	5	**14**

8.4. Outsourcing or Co-sourcing of Compensation Function

Participants were asked whether their organizations outsource or co-source any part of their compensation function – responses by region and industry

Only 14% of organizations outsource or co-source a part of their compensation function. Outsourcing and co-sourcing is less prevalent in global organizations.

Outsourcing Compensation Function	All Regions and Industries	Europe	North America	Emerging Markets	Banking	Insurance	Other Financial Services
Yes	14%	17%	10%	13%	14%	11%	17%
No	86%	83%	90%	88%	86%	89%	83%
No. of Responses	**66**	**29**	**29**	**8**	**36**	**18**	**12**

Note: The total may not equal 100% due to rounding.

Participants were asked whether their organizations outsource or co-source any part of their compensation function – responses by geographical scope

Outsourcing Compensation Function	Global	Multi-countries	Local
Yes	6%	18%	24%
No	94%	82%	76%
No. of Responses	**32**	**17**	**17**

Note: The total may not equal 100% due to rounding.

Part of the compensation function outsourced or co-coursed:

- Administrative functions, e.g. stock plan administration are located in shared services.
- At the board level, compensation committee has a designated consultant who annually reviews pay, pay mix, etc.
- Benchmarking and participation in external surveys.
- LTI administration and payroll
- Periodically utilize contract help.

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