A Ride Like No Other – Create a Course That Drives Performance For Your Employees

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Agenda

- Welcome and Introductions
- Performance Awards Overview
- Performance Award Trends
- E*TRADE Case Study
- Prudential
- Genpact
- What’s Next?
- Open Discussion & Q/A
Performance Awards Overview

- **Performance Condition**
  - A condition affecting the vesting, exercise price, exercisability, or other pertinent factors used in determining the fair value of an award that relates to both (a) an employee’s rendering service for a specified period and (b) achieving a specified performance target that is defined solely by reference to the employer’s own operations or to the same performance measure of another entity or group of entities
    - Examples: EPS growth, relative operating margin, ROE

- **Market Condition**
  - A condition affecting the exercise price, exercisability, or other pertinent factors used in determining the fair value of an award that relates to the achievement of a specified price of the issuer’s shares or a specified price of the issuer’s shares in terms of a similar equity security or index
    - Examples: stock price, stock price growth, TSR (relative or absolute)
Performance Trends

CEO Average Target Pay Mix

Fixed 14%  Variable 86%  Annual Incentive 20%  Long-Term Incentive 66%

CEO Average Target Pay Mix By Vehicle

<table>
<thead>
<tr>
<th>Base Salary 14%</th>
<th>Annual Incentive 20%</th>
<th>Performance-Vested Awards 27%</th>
<th>Time-Vested Restricted Stock 24%</th>
<th>Time-Vested Stock Options 15%</th>
</tr>
</thead>
</table>
Performance Trends

**CEO LTI Mix**
- Performance Vested: 41%
- Stock Options: 22%
- Time-Vested Restricted Stock: 37%

**Number of LTI Vehicles**
- Two Vehicles: 46%
- Three Vehicles: 32%
- One Vehicle: 22%
Performance Trends

Stock Option Vesting Type

- Step 86%
- Cliff 14%

Time Until Fully Vested

- Years
  - 1: 2%
  - 2: 3%
  - 3: 46%
  - 4: 37%
  - 5: 14%
  - 6+: 1%

Restricted Stock Vesting Type

- Step 55%
- Cliff 45%

Time Until Fully Vested

- Years
  - 1: 4%
  - 2: 3%
  - 3: 57%
  - 4: 23%
  - 5: 11%
  - 6+: 1%
Performance Trends

# of Performance Metrics in CEO Long-Term Incentive Plan

- 53% for 1 metric
- 32% for 2 metrics
- 11% for 3 metrics
- 4% for 4+ metrics

CEO Long-Term Performance Metric Prevalence

- 54% for TSR/Stock Price
- 47% for Earnings
- 29% for Financial Returns
- 17% for Revenue
- 13% for Other Financial Measures
- 8% for Other Non-Financial Measures
- 6% for Cash Flow
- 3% for Strategic Goals
- 1% for Customer Satisfaction
- <1% for Safety
Philosophy on Performance Metrics

- Performance measures should be aligned with business strategy
- Reflect the key drivers of corporate and shareholder value
- Create clear line of sight for key employees that focuses their efforts and maps their accountability
- Goals should be realistic and motivational and represent sustainable performance relative to benchmarks
  - Historical performance and volatility
  - Future prospects / market expectations
- Ability to forecast future performance – how strong is the budgeting / business planning process?
Absolute vs. Relative Performance Metrics

- **Absolute metrics**
  - Highly dependent upon the ability to predict future performance
  - Strength of internal strategic planning / budgeting process
  - Stability of macro-economic conditions

- **Relative metrics**
  - Viewed favorably by shareholders and shareholder advisory firms
  - Can serve as useful “plugs” when absolute performance is difficult to project
  - Can produce unintended results and payouts
    - Possibility of payouts for negative/poor performance that is merely “less poor” than that of some comparators
    - May penalize steady performers
  - Performance gates or circuit breakers can help avoid embarrassing or unintentional payouts
E*TRADE Financial Corporate Services, Inc.

Case Study
E*TRADE Case Study – What Are We Seeing?

- Evolving compensation strategies – Performance Based

- Decline in Stock Option Grants – 66% of S&P 1500 companies granted in 2010, down to 57% in 20141

- Last 4 Years – CEO pay packages with Performance Based Awards increased from 63% to 83%2

- Performance Programs:
  - Accountability
  - Benchmarking to be competitive
  - Keep it Simple – Metrics and Performance Periods

1 Source: Equilar, Inc., 2015 Equity Trends Report featuring commentary from E*TRADE Corporate Services (2016)
2 Source: Equilar, Inc., Executive Incentive Plans: How Leading Companies Pay for Performance, featuring commentary from E*TRADE Corporate Services (2016)
E*TRADE Case Study – Overview

- 160 Clients Issuing Performance Awards / Units
  - Complete Status

- Combination of CEO and broader based (VP, SVP) awards

- Over 3500 Performance Goal Records

- Catalogued 17 Performance Award / Unit Features

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16.
E*TRADE Case Study – Industries

Industries – E*TRADE Client Issuers

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16.
E*TRADE Case Study – Performance Periods

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16.
E*TRADE Case Study – Payout Ranges and Market Condition Types

Min - Max Payout Ranges

- 52%
- 31%
- 10%
- 7%

0-100% 0-150% 0-200% 0-300%

Market Condition Type

- 90%
- 8%
- 2%

All None Some

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16
E*TRADE Case Study – Metrics

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16.
E*TRADE Case Study – Expense Methods

Override Expense Method

- 82% Retrospective
- 18% Prospective

Expense Reversal Based On

- 69% Expected / Actual Vest Date
- 31% Service Period End Date

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16.
E*TRADE Case Study – Target vs. Actual Expense

Target Payout % Different From Actual Expense %?

- Yes
- No

Source data collected from E*TRADE Corporate Service’s Equity Edge Online®. Data as of 6/1/16.
Prudential
Prudential

- Company Info: Founded in 1875 and is headquartered in Newark, NJ
- Total revenues in Fiscal 2015 were $57.5 billion
- Assets Under Management in Fiscal 2015 were $1.18 trillion
- Approx. 49,000 employees

- Sr. Executive Long-Term Award Composition

<table>
<thead>
<tr>
<th>Award Type</th>
<th>Weight</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Shares</td>
<td>60%</td>
<td>Stock-Settled (50%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash-Settled (50%)</td>
</tr>
<tr>
<td>Stock Options</td>
<td>20%</td>
<td>NQSO</td>
</tr>
<tr>
<td>Book Value Units</td>
<td>20%</td>
<td>Cash-settled awards that track book value per share</td>
</tr>
</tbody>
</table>

- Industry Sector: Life & Health Insurance
Prudential – Performance Awards

- Performance Awards are granted to approximately 150 Senior Executives each February

- Performance vesting award based on absolute and relative performance over three-year performance period

- Performance-vesting awards based on three-year performance period
  - Standard Metrics - Absolute
  - Performance Modifier - Relative
Prudential – Performance Units

- Compensation Committee approves performance metrics and award levels in February. Awards granted shortly thereafter.

- Performance metrics selected to comport with market guidance and with the assistance of Committee’s consultant.

- Metrics are communicated to participants through multiple channels:
  - Terms & Conditions of the awards, themselves
  - Long-Term Incentives brochure that is delivered on an annual basis
  - “Always available” total compensation summary on the Company’s Intranet

<table>
<thead>
<tr>
<th>Metric</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Equity (ROE)</td>
<td>Operating Return on Average Equity : After-Tax Adjusted Operating Income for the continuing operations of the Company, adjusted for items not considered representative of operations</td>
</tr>
<tr>
<td>Relative Performance Modifier:</td>
<td>+/- 10% modifier based on relative performance vs. North American Life Insurance Peer Group</td>
</tr>
</tbody>
</table>
  - ROE (50%)                                 |
  - EPS Growth (25%)                           |
  - BV per Share Growth (25%)                  |
Performance Award Mechanics

ROE Performance Factor
(0% - 125% of Target)

3-Year Average ROE

Target = 13%

Relative Performance Modifier
(+/- 10% within 0% - 125% Range)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Modifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>+10.0%</td>
</tr>
<tr>
<td>2</td>
<td>+6.7%</td>
</tr>
<tr>
<td>3</td>
<td>+3.3%</td>
</tr>
<tr>
<td>4</td>
<td>0.0%</td>
</tr>
<tr>
<td>5</td>
<td>-3.3%</td>
</tr>
<tr>
<td>6</td>
<td>-6.7%</td>
</tr>
<tr>
<td>7</td>
<td>-10.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EPS Growth</th>
<th>ROE</th>
<th>BVPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>50%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Prudential – Performance Units - Expensing

- Awards are expensed on a grant-date fair value basis
- Expense is accrued on a straight-line basis each month over the three-year vesting period
- Expense is recouped for cancelled and forfeited awards on a monthly basis
Genpact
Genpact

- Company Info: Founded in 1997, registered in Bermuda with Corporate headquarters in New York City
- Total revenues in Fiscal 2015 were $2.46 billion
- Approx. 70,000 employees
- Equity Composition – PSUs, Options, RSUs, ESPP
- Industry Sector: Technology
Genpact – Performance Units

- Who is Eligible? Band 3 and Above; C Suite
- Award Type: PSUs, Options, RSUs
- Min and Max Payout
  - GLC (Reports directly to the CEO) 50% to 250%
  - SVP: 50% to 250%
  - VP: 75% to 150%
- Vesting Design
  - Adjusted Operating Income, Adjusted Operating Income Margin and Revenues and New Bookings
  - One Year performance period and Three Year service period
Genpact – Performance Units

- Board Approval Process – Senior managers receive a certain budget and then submit recommendations to the board for approval.

- Metrics – The metrics for the C Suite is more aggressive than the one for the VPs but so is the possible payout.

- Do You Display Metrics to Participants? Yes, via online grant agreements.

<table>
<thead>
<tr>
<th>Metric Type</th>
<th>Metric Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Operated Income</td>
<td>At least $398M</td>
</tr>
<tr>
<td>Adjusted Operation Income Margin</td>
<td>At least 14.9%</td>
</tr>
<tr>
<td>Revenues and New Bookings</td>
<td>Threshold, Target and Outstanding – See Below</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Revenues ($MM)</th>
<th>New Bookings ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Threshold</td>
<td>$2,625</td>
<td>$2,400</td>
</tr>
<tr>
<td>Target</td>
<td>$2,670</td>
<td>$2,900</td>
</tr>
<tr>
<td>Outstanding</td>
<td>$2,720</td>
<td>$3,500</td>
</tr>
</tbody>
</table>
Genpact – Performance Units - Expensing

- Awards are expensed based on Fair Market Value of the Company’s shares on the grant date of such awards
- Expense is accrued on a straight-line basis
- Expense is recouped for cancelled and forfeited awards
What’s Next?

- **Prudential**
  - Continual evaluation of the best strategic approach to meet business goals

- **Genpact**
  - Global Expansion? We are a global company currently operating in 25 countries around the world.
  - New Award Types? We are granting more PSUs and for the past 2 years RSUs have only been awarded to outside directors.
  - New Employee Populations? Yes, depending on the countries we open sites in. For example, we recently opened a location in Morocco but did not grant any equity there.
Q&A