HIGHLIGHTS OF MERCER GLOBAL FINANCIAL SERVICES EXECUTIVE COMPENSATION SNAPSHOT SURVEY

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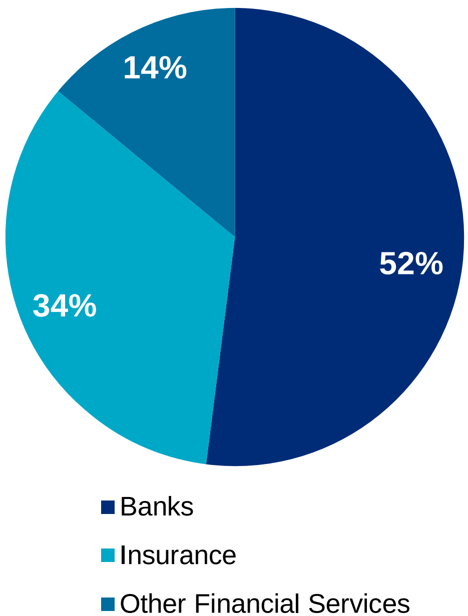
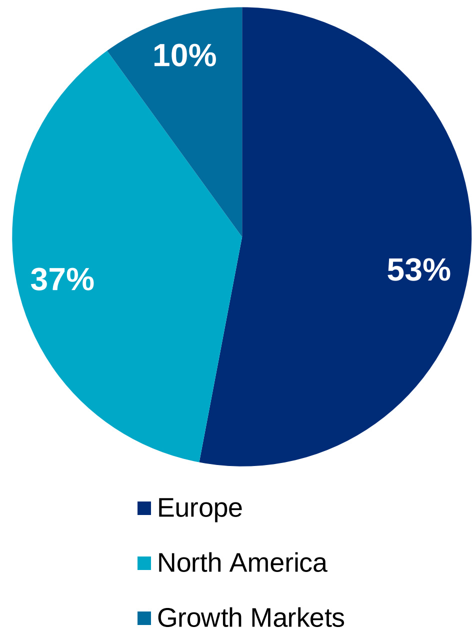
PARTICIPANT PROFILE

71 Organizations Across
20 Countries

By Industry



By Region

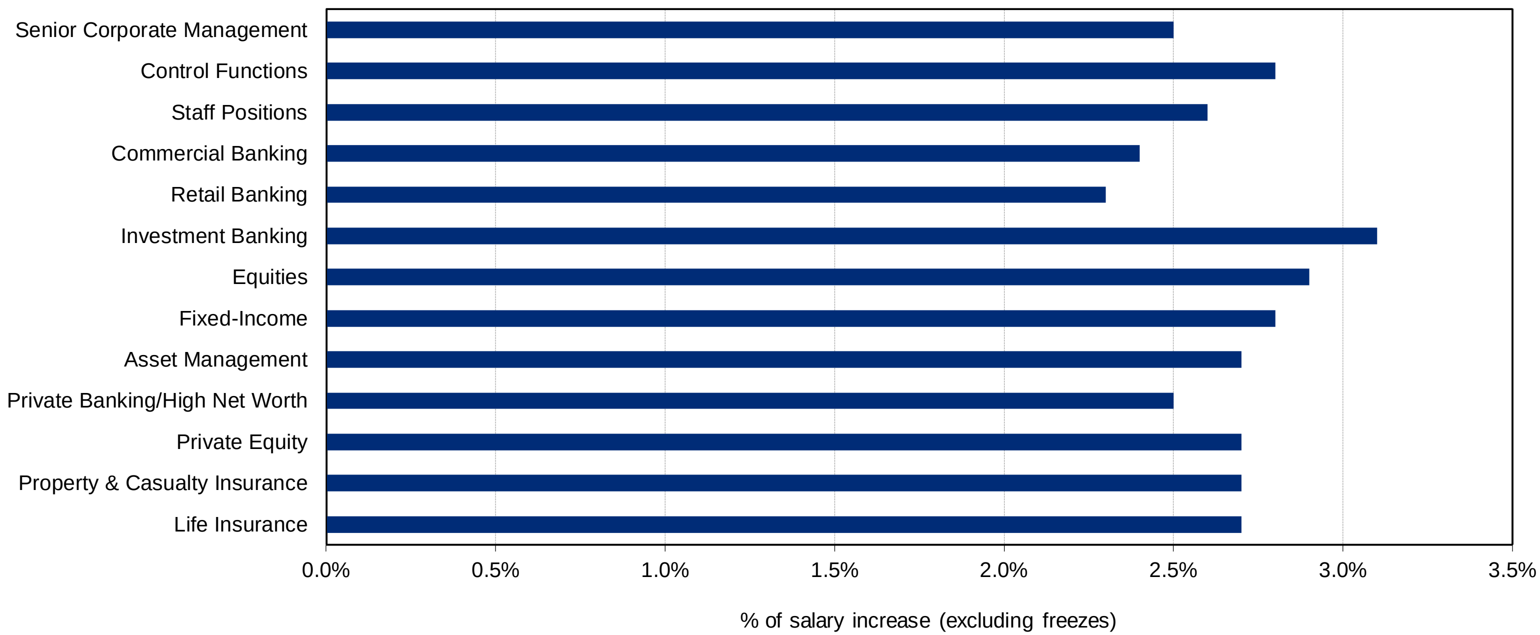


PROJECTED CHANGES IN 2016 BASE SALARIES AND ANNUAL INCENTIVES

PROJECTED 2016 BASE SALARY INCREASES

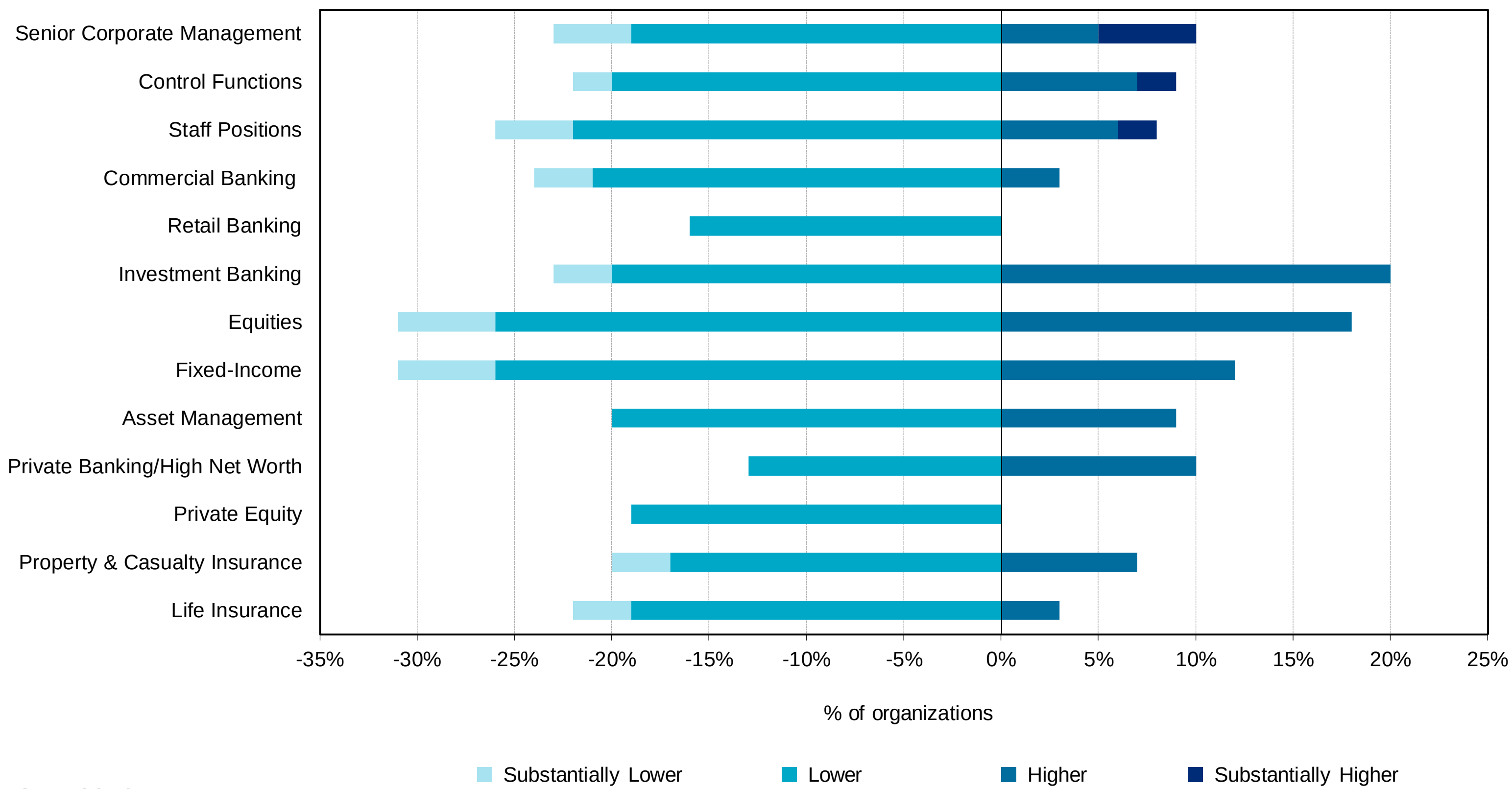
- Across all lines of business in the global financial services industry, the projected 2016 base salary increases are modest. On average, 2016 base salary increases for all roles are expected to be between 2.0% and 2.7%
  - Salary freezes are uncommon: salary increases excluding freezes are expected to be between 2.3% and 3.1%
  - The banking industry is generally projecting slightly lower salary increases than the insurance industry
  - The investment banking line of business is projecting the highest average increases at 3.1%
  - At the lower end, the average 2016 base salary increase for retail banking business is 2.3%

- Organizations vary base salary increases significantly by region
  - Latin and South America and Asia are projecting higher average salary increases (4.3%)
  - North America and Europe are forecasting lower average salary increases, 2.4% and 2.3% respectively



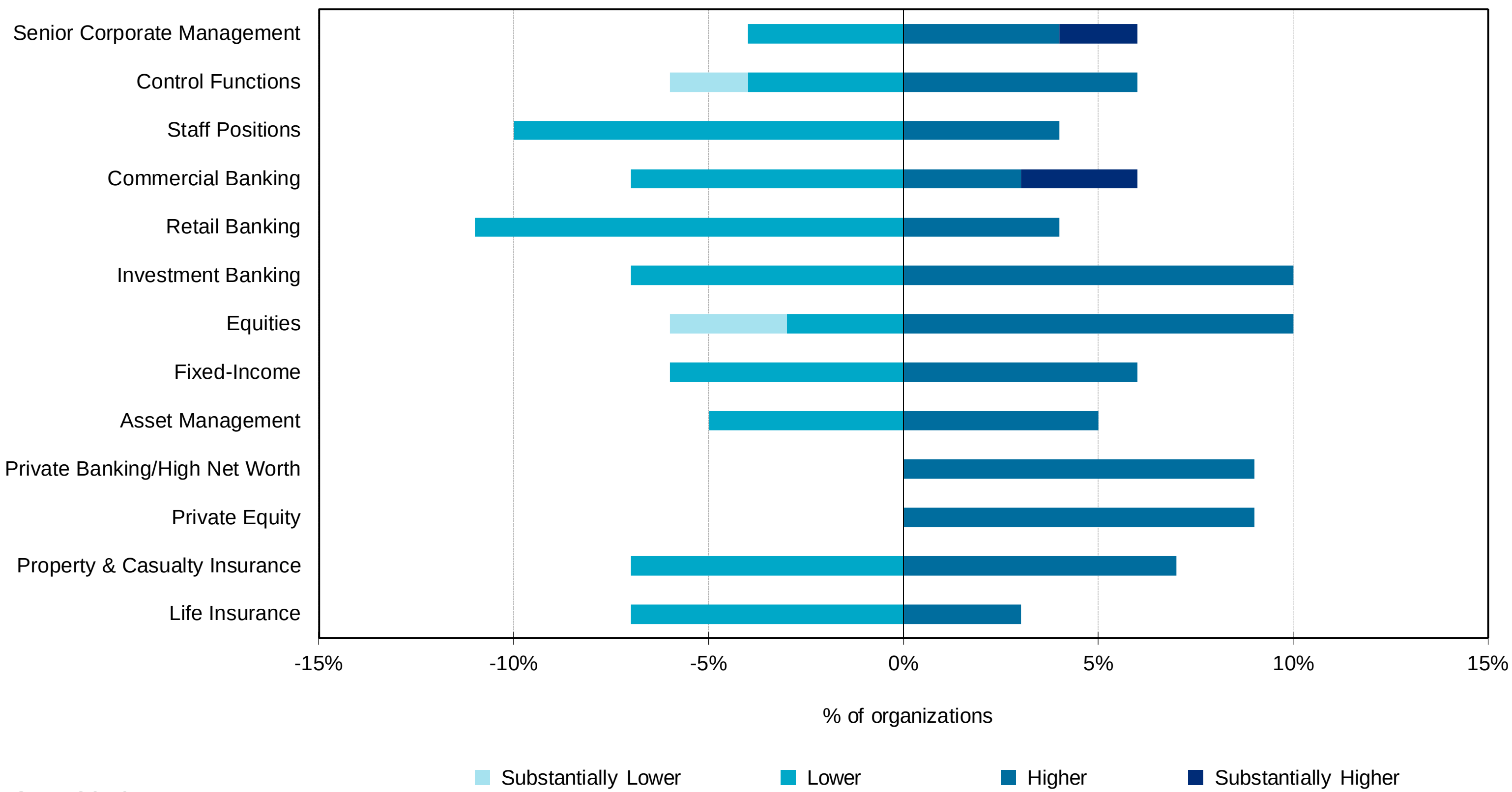
PROJECTED CHANGE IN 2016 ACTUAL INCENTIVES

- The majority of organizations predict 2016 annual incentive levels to be similar (+/- 5%) to 2015. However, more organizations expect annual incentive levels to decrease from last year than increase
  - Higher 2016 actual incentives are expected to be most prevalent in investment banking roles (20%) and equities (18%)
  - 30% of the insurance organizations predict 2016 annual incentive levels for their senior corporate management to be (significantly) lower, compared to 25% in banks
  - North America has the highest proportion of firms that are predicting lower annual incentives than last year



PROJECTED CHANGE IN 2016 TARGET INCENTIVES

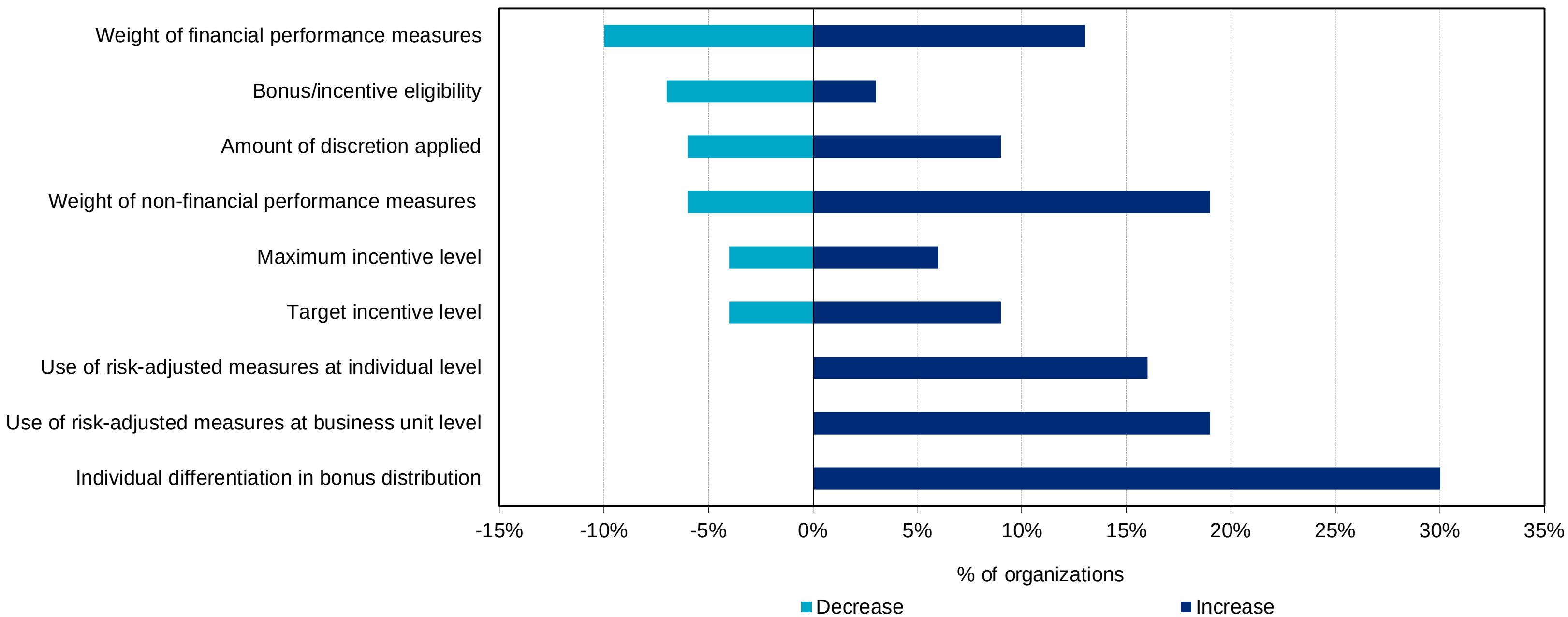
- Over three-fourths of the organizations are not planning to change their target annual incentive levels for 2016
  - Some European companies are planning to raise target annual incentive levels, with equities and investment banking lines of business being the most affected
  - In North America, nearly all organizations are forecasting similar 2016 target annual incentive levels
  - About 10% of organizations are planning to reduce target annual incentive levels in retail banking and for staff positions



PLANNED CHANGES TO COMPENSATION PLAN DESIGN AND PAY MIX

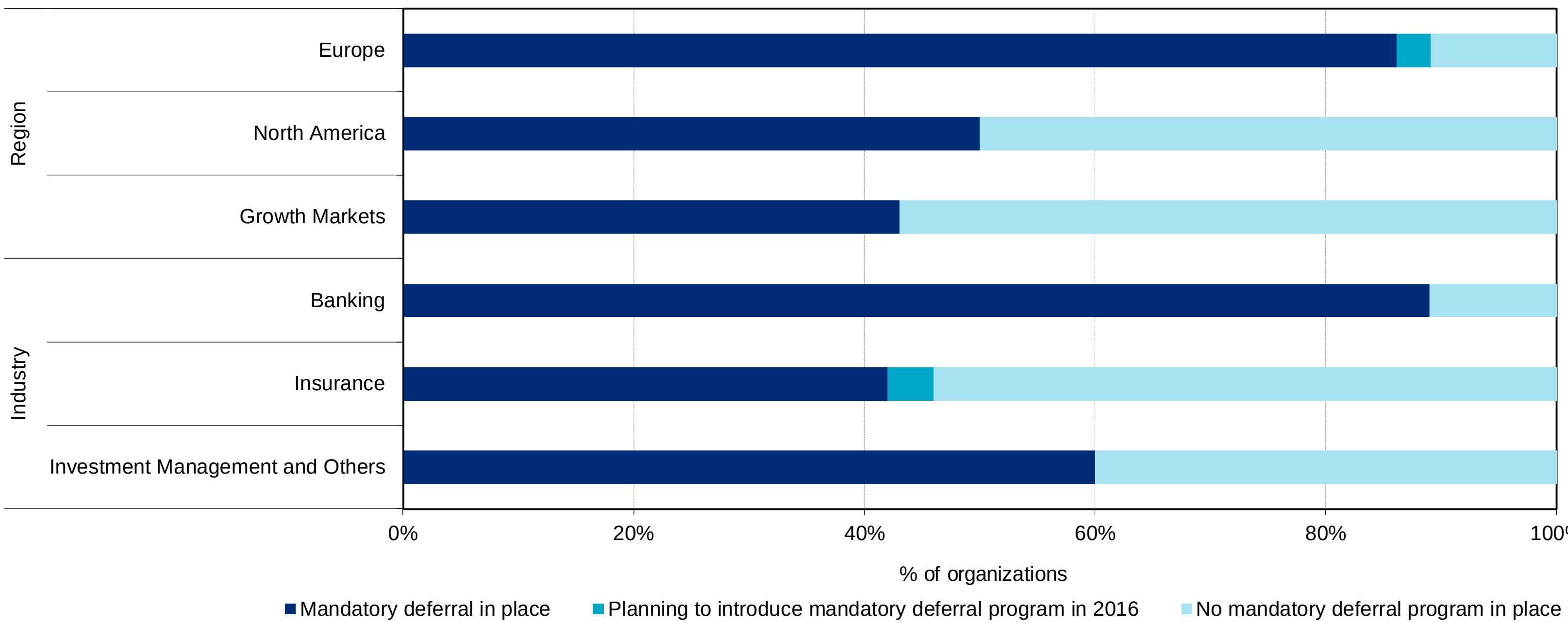
PLANNED CHANGES TO CORPORATE ANNUAL INCENTIVE DESIGN

- Most organizations are not planning to make changes to their incentive design in 2016
  - More European organizations (35% of organizations) are planning to increase individual differentiation in bonus distribution, than in North America (27%)
  - European organizations cite the increased weight of non-financial performance measures and use of risk-adjusted measures at business and individual levels more frequently than their North American counterparts
  - 14% of European organizations are planning to decrease the bonus/incentive eligibility while none are in North America
- Significant differences exist between the insurance and banking industry. Nearly 40% of insurance organizations want to increase individual differentiation in bonus distribution, compared to 26% in banking
  - Banks cite the increased use of risk-adjusted measures at business and individual levels more frequently than insurers



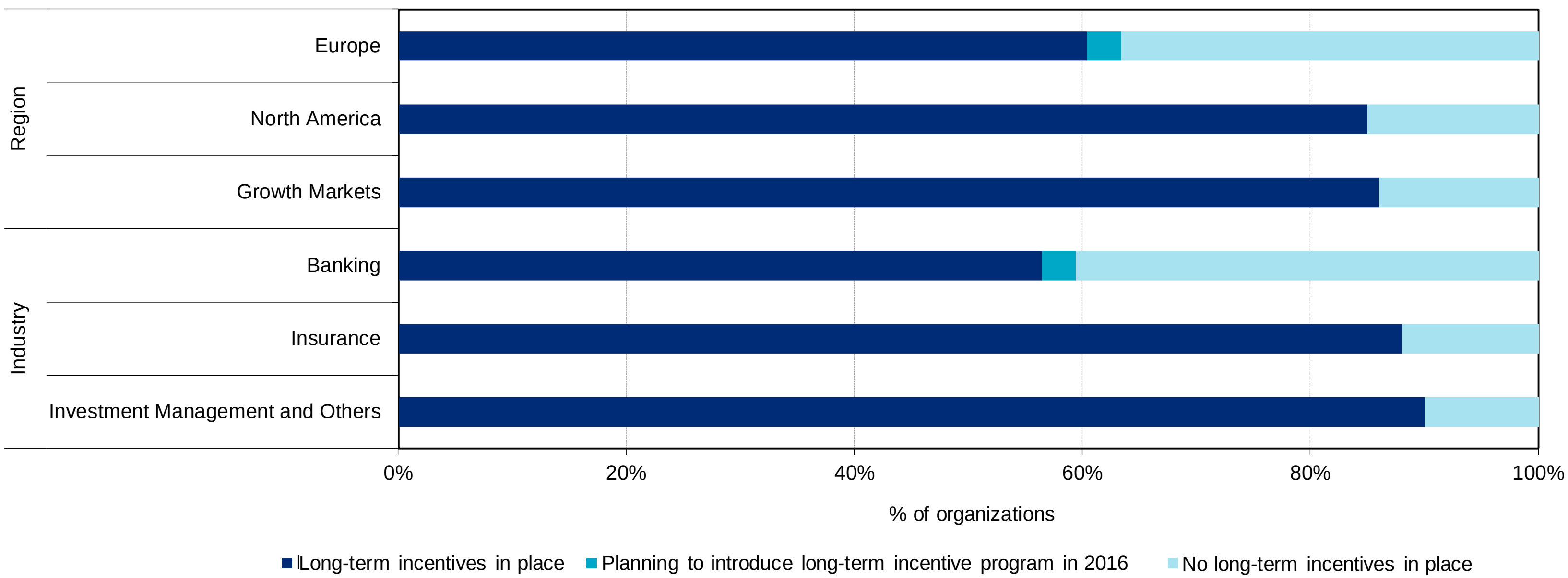
PREVALENCE AND PLANNED CHANGES TO MANDATORY DEFERRAL

- Half of the North American organizations have a mandatory deferral program in place, and the vast majority (87%) in Europe
  - Nearly all banks and around 42% of insurance firms have a mandatory deferral mechanism in place
- Only a few organizations are planning to make changes to their mandatory deferral program design, particularly insurers
  - Approximately 20% of European and North American organizations are planning to increase eligibility
  - 24% of European organizations plan to increase the mandatory deferral period, whereas only 7% in North America do
  - 14% of North American organizations are increasing the mandatory deferred portion of bonus, compared to only 6% in Europe
  - Very few organizations are planning to change the vehicle mix of mandatory deferrals for 2016



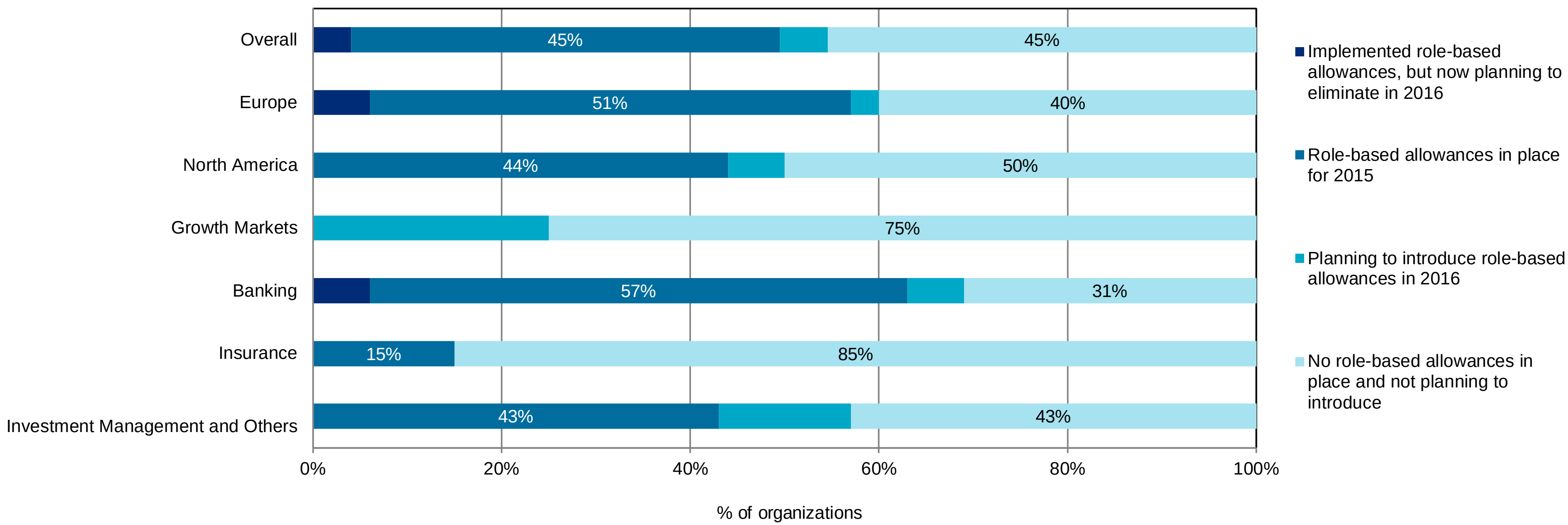
PREVALENCE AND PLANNED CHANGES TO FORWARD-LOOKING LONG-TERM INCENTIVES

- The majority of organizations have a forward-looking long-term incentive plan in place, particularly insurance firms with 88%. Around 41% of banking organizations do not have a forward-looking long-term incentive program in place
  - Forward-looking long-term incentive plans are more prevalent in North America (85%) than in Europe (61%)
- Although changes to forward-looking long-term incentive plans are not prevalent, increasing the eligibility is more common in Europe and Growth Markets at 17% and 20% compared to less than 5% in North America
  - 13% of North American organizations are considering decreasing eligibility
  - More organizations in North America plan to increase the use of clawbacks (18%) and the rigor of performance conditions (17%), compared to Europe (4% and 8% respectively)
  - Some differences are observed by industry: around 10% of banking organizations plan on increasing performance/vesting period and additional required holding period (after vesting period), whereas none of the insurers are planning this
  - The large majority of organizations are not planning to change the vehicle mix in multi-year awards for 2016



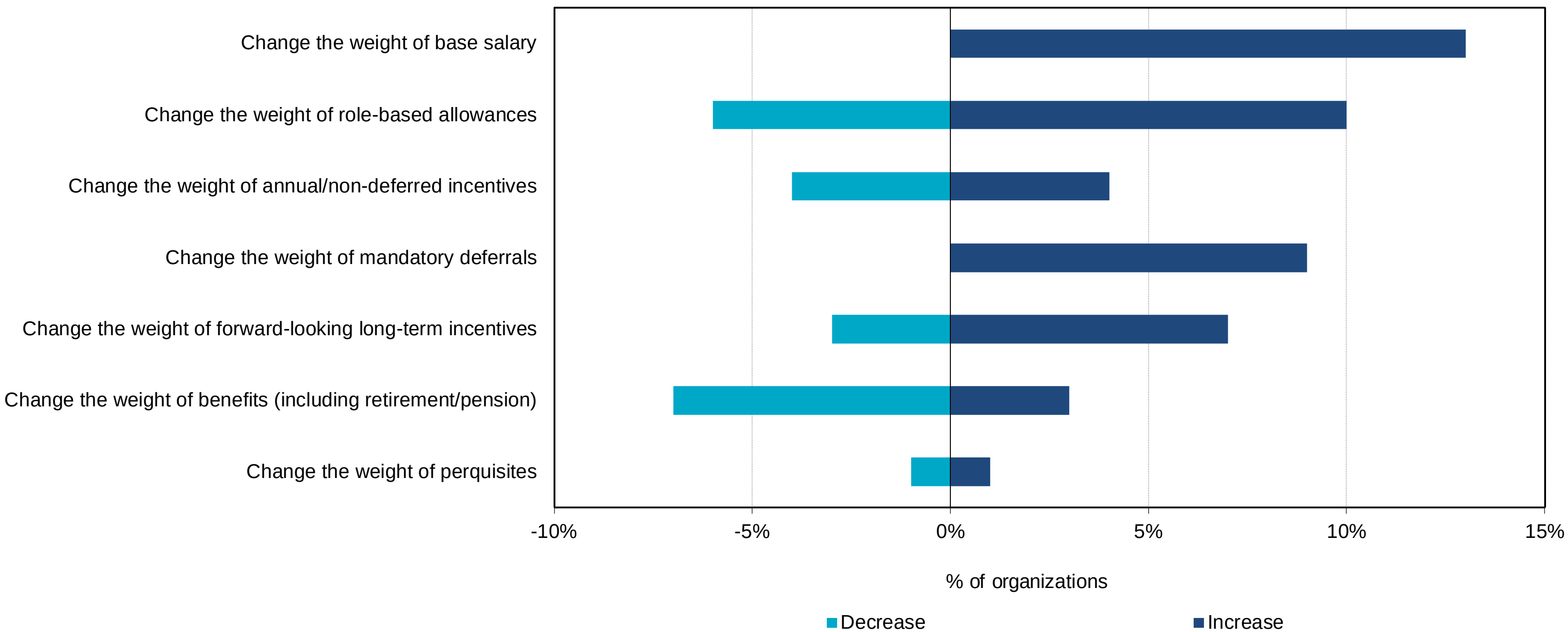
PREVALENCE AND PLANNED CHANGES TO ROLE-BASED ALLOWANCES

- Over 57% of banks had role-based allowances in place for 2015 and an additional 6% are planning to introduce them
  - Very few organizations that implemented role-based allowances are now planning to eliminate them (4%)
  - Insurance organizations generally do not have role-based allowances in place and have no plans to introduce in the future
- 25% of the banking organizations are making changes to their role-based allowance program design
  - Most cited changes are: Shifting from role-based allowance to ordinary base salary (38%), decreasing eligibility for role-based allowances (23%), unifying level/amount for MRTs with the same role (23%), and changing the vehicle from equity to cash (23%)
  - The changes are being driven by banking organizations in Europe



PLANNED CHANGES IN PAY MIX

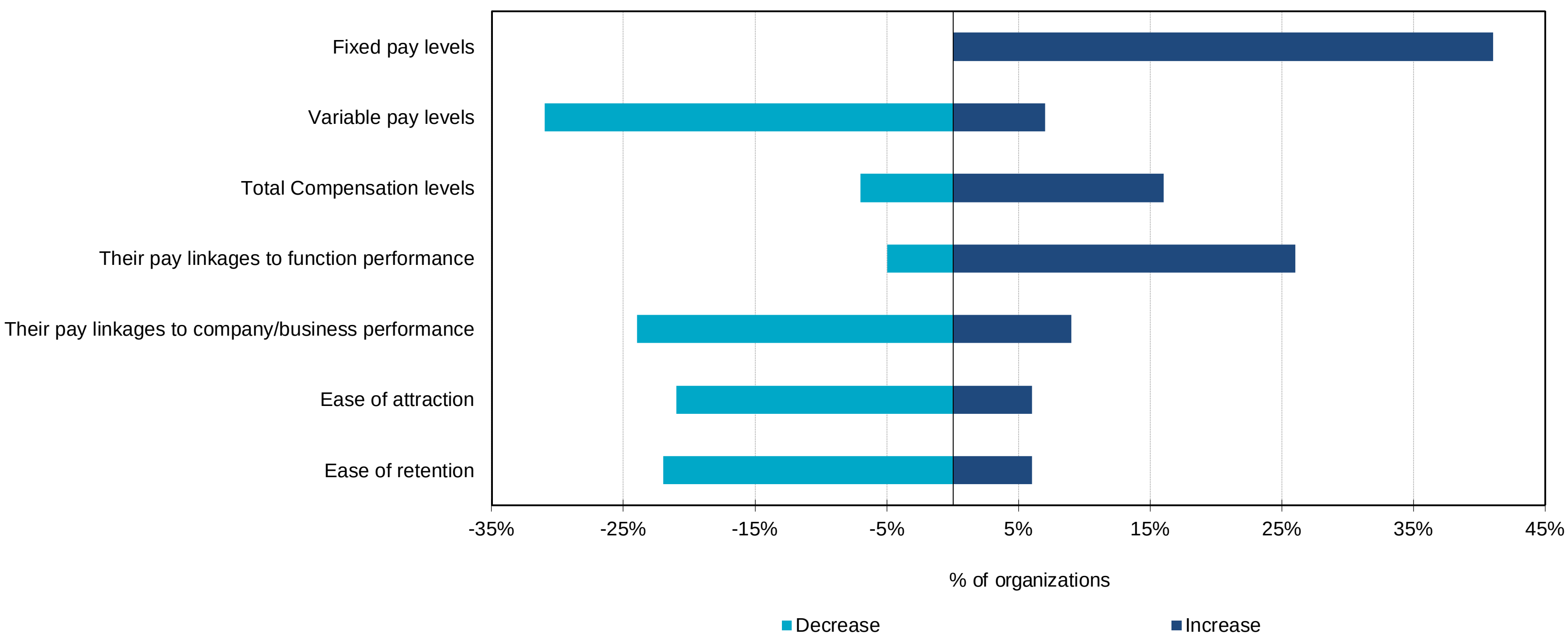
- The majority of organizations are not planning to make changes to their pay mix in 2016
  - 13% of organizations are increasing the weight of their base salaries
  - 10% of organizations are increasing the weight of role-based allowances
  - 9% of organizations are increasing the weight of mandatory deferrals
- Approximately 20% of the European organizations are expected to increase the weight of base salaries. North America expects to see an increase in the weight of mandatory deferrals
- Changes to the pay mix are more prevalent in the banking industry than in the insurance industry



EFFECTS OF REGULATIONS ON COMPENSATION PLAN DESIGN

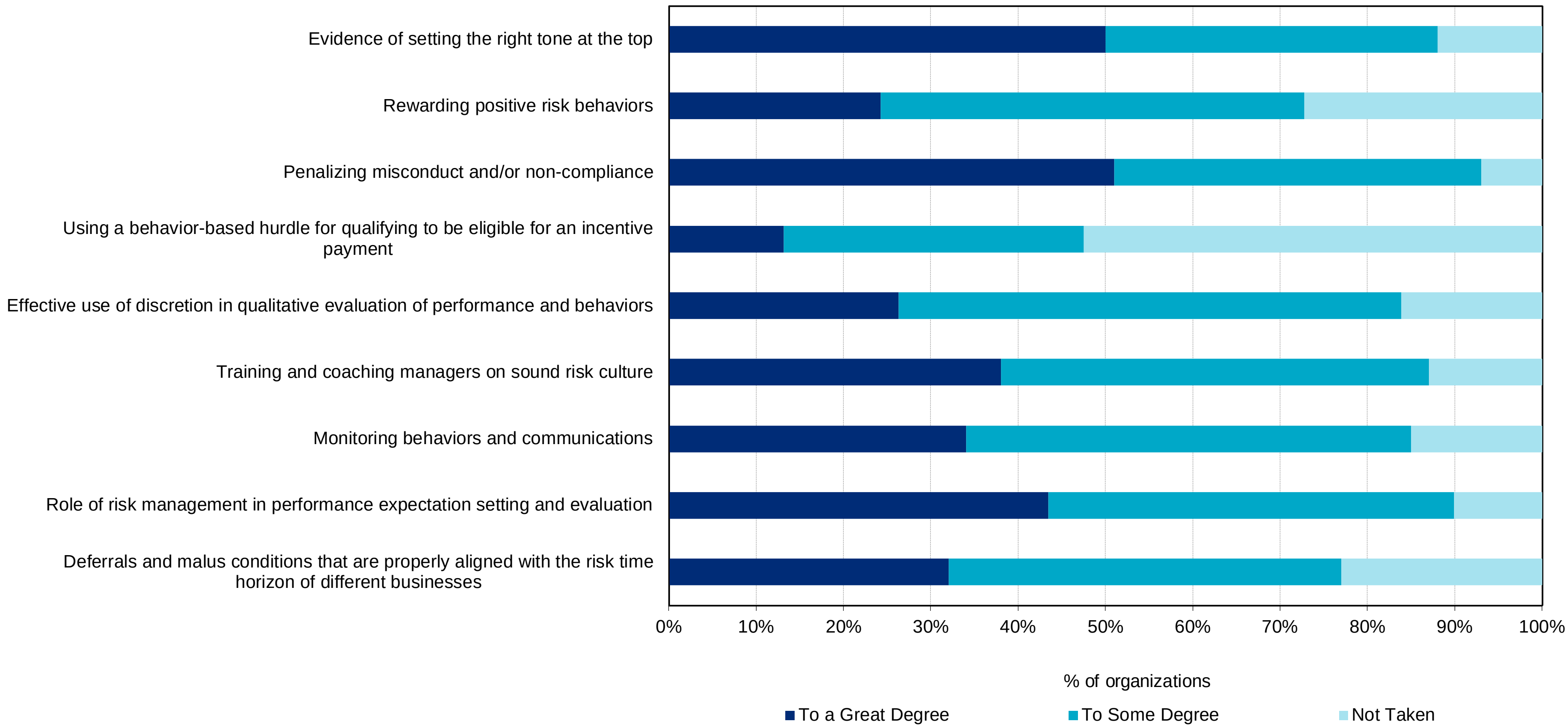
EFFECT OF REGULATIONS ON CONTROL FUNCTIONS

- Across all regions and industries fixed pay levels are increasing for control functions (41% of organizations) while variable pay levels are decreasing (31% of organizations) due to regulations
  - 46% of European organizations are increasing their fixed pay levels and their pay linkages to function performance (28%) while decreasing pay linkages to company/business performance (31%)
  - In North America, the regulations are causing the organizations to see a decrease in the ease of attraction and retention as well as in variable pay levels
  - The regulations on control functions are increasing the total compensation levels in banking and investment management and others (19% and 30% of organizations respectively)



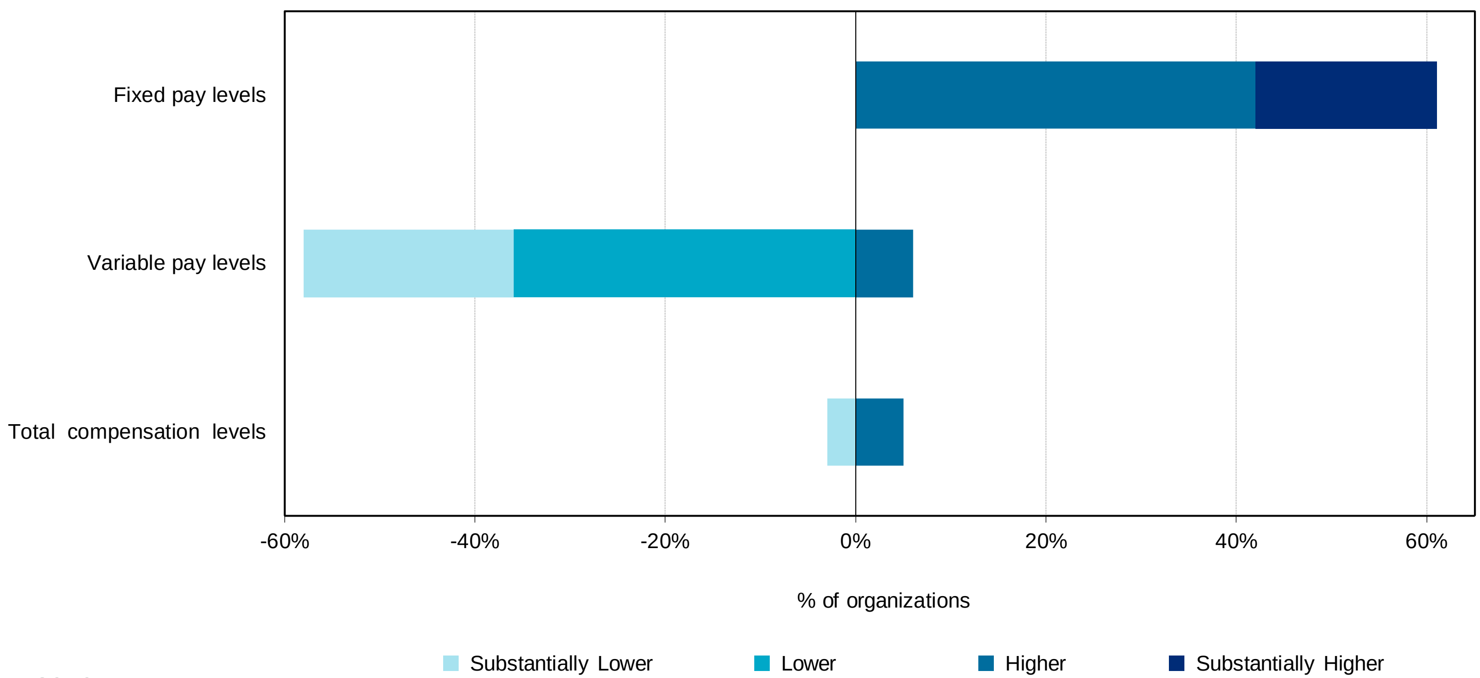
STEPS UNDERTAKEN TOWARDS FOSTERING A SOUND RISK CULTURE

- To create a sound risk culture a majority of the organizations are focusing on setting the right tone at the top of the organization (88%), penalizing misconduct and/or non-compliance behavior (93%), and utilizing the role of risk management in performance expectation setting and evaluation (89%)
- Rewarding positive risk behaviors and alignment of deferrals and risk time horizons are more prevalent in banking than insurance



IMPACT OF RATIO CAPS

- 61% of organizations indicated that ratio caps have increased fixed pay levels. Conversely, 58% of organizations have decreased their variable pay levels, with 36% of the population keeping similar variable pay levels before the use of ratio caps
  - Total compensation levels are expected to stay the same as before the ratio caps were applied
- Across all regions and industries deferred amounts have stayed similar (64%) or decreased (30%)
  - Deferral levels have remained more similar in Europe while in North America they have decreased more
- Staffing levels have not been impacted by the ratio caps, with 94% of organizations reporting similar staffing levels
- Ratio caps are not affecting organizations' compensation and benefits costs for the most part. If compensation and benefits are being affected, they are only slightly lower or higher than pre-cap levels across all industries and regions



KEY INSIGHTS AND CONCLUSIONS

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- Even though base salary increases are projected to be modest overall, meaningful increases in fixed pay due to regulation have been observed, particularly in the banking industry
- As fixed pay levels are increasing, variable pay levels are decreasing, but overall total compensation levels are remaining the same in absolute terms; if values were risk-adjusted considering more is guaranteed and less is at-risk based on performance, the perceived value of total compensation should be higher
- Total compensation and benefits costs are generally the same, but there is less flexibility for organizations to decrease these costs due to larger amounts of guaranteed pay; so far this has not resulted in major staffing reductions, but it could be an issue in the future
- The compensation of control functions has been significantly changed due to regulatory requirements, including pay mix with more fixed/less variable pay and pay de-linked from company and business performance and re-focused on function performance
- Progress on fostering a sound risk culture has been impacted most by evidence of setting the right tone at the top and penalizing misconduct and/or non-compliance as well as the role of risk management in performance expectation setting and evaluation
- Banks, in particular, are continuing to seek ways to better reward “positive’ risk behaviors and coaching managers accordingly
- In our roundtable discussions with professionals in the financial services industry and our experiences working directly with financial services clients, we have concluded that the most positive impacts on sound risk-taking behaviors and decision making have come from the significantly improved governance and substantially increased involvement of risk management in the performance management and evaluation process

QUESTIONS?

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QUESTIONS

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To submit a question while in full screen mode, use the Q&A button, on the floating panel, on the top of your screen.

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