HEALTH WEALTH CAREER

HIGHLIGHTS OF MERCER GLOBAL FINANCIAL SERVICES EXECUTIVE COMPENSATION SNAPSHOT SURVEY

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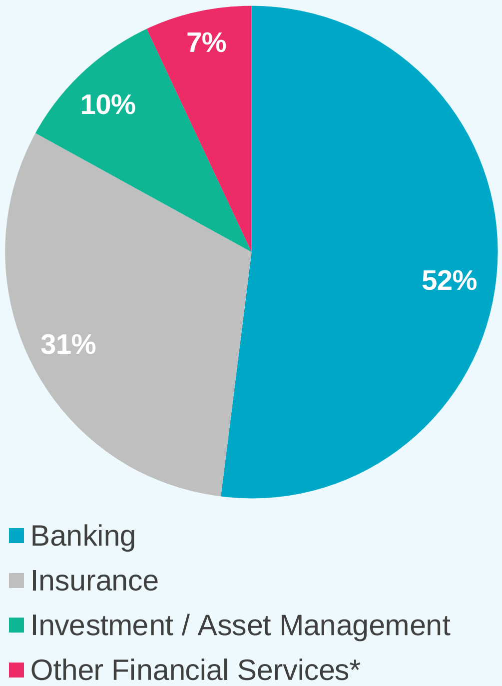
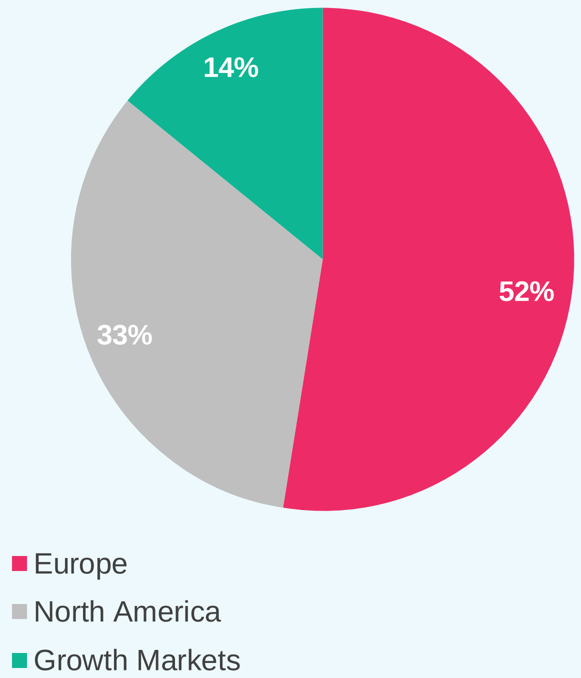
PARTICIPANT PROFILE

42 Organizations Across **14** Countries

By Industry



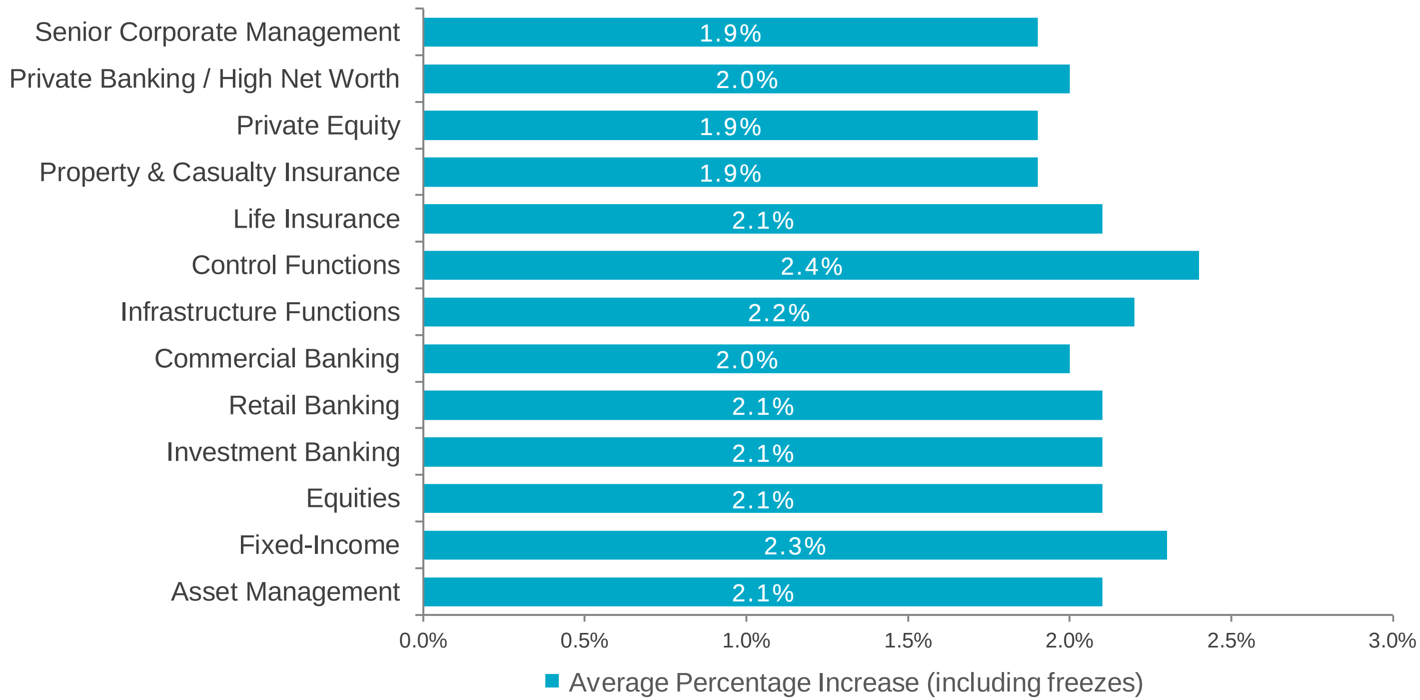
By Region



PROJECTED CHANGES IN 2017 BASE SALARIES AND ANNUAL INCENTIVES

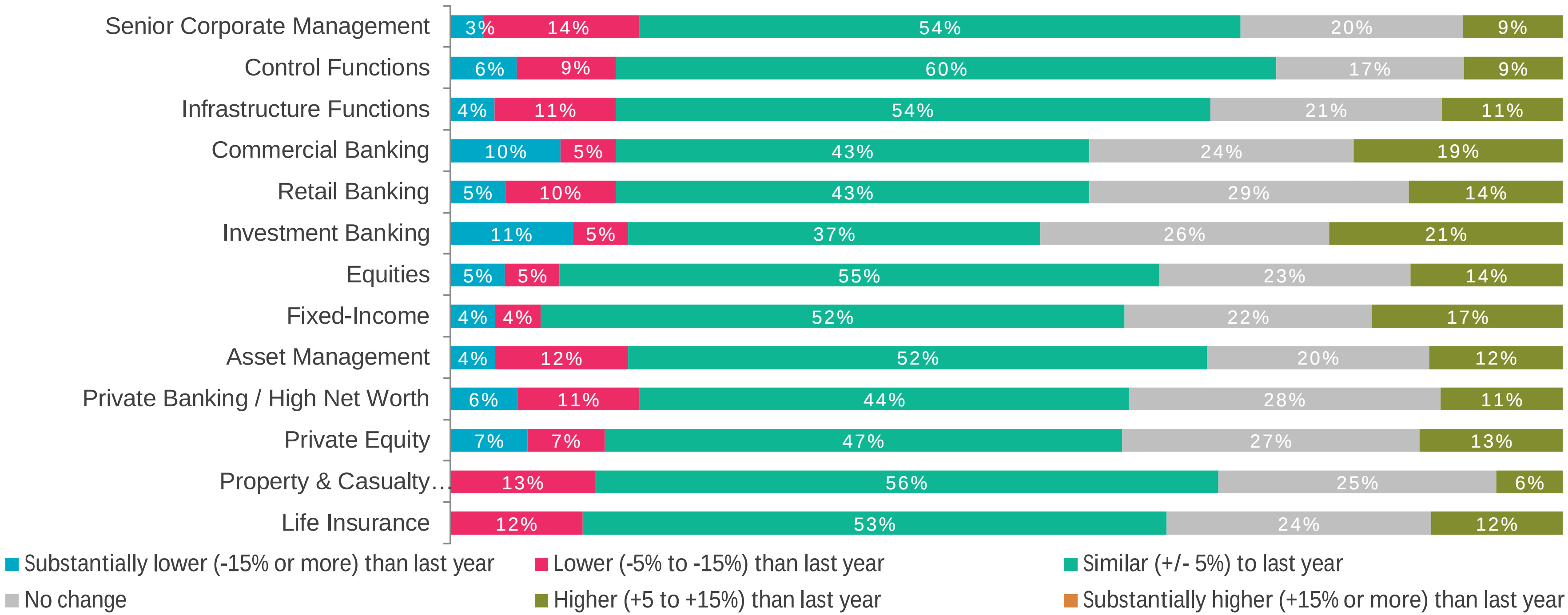
PROJECTED 2017 BASE SALARY INCREASES

- Across all lines of business in the global financial services industry, the 2017 projected base salary increases are modest. On average, 2017 base salary increases for all roles are expected to be between 1.9% and 2.4%:
  - Salary freezes are less common in general, but exist more in Europe than in North America
  - Control Functions are projecting the highest average increases of 2.4%. At the lower end, the average 2017 base salary increase for Senior Corporate Management, Private Equity, and Property & Casualty Insurance is 1.9%
- Forecasted base salary increases are lower in Europe than North America:
  - Average salary increases are expected to be between 1.6% and 2.6% in North America, and 1.4% and 2.0% in Europe
  - Average increases in European banking and insurance lines of business are slightly lower than in North America
- Organizations' base salary increases vary significantly by region:
  - Projections for India (6.0%) are higher than any other growth market like Latin and South America (3.5%) and Asia (3.8%)



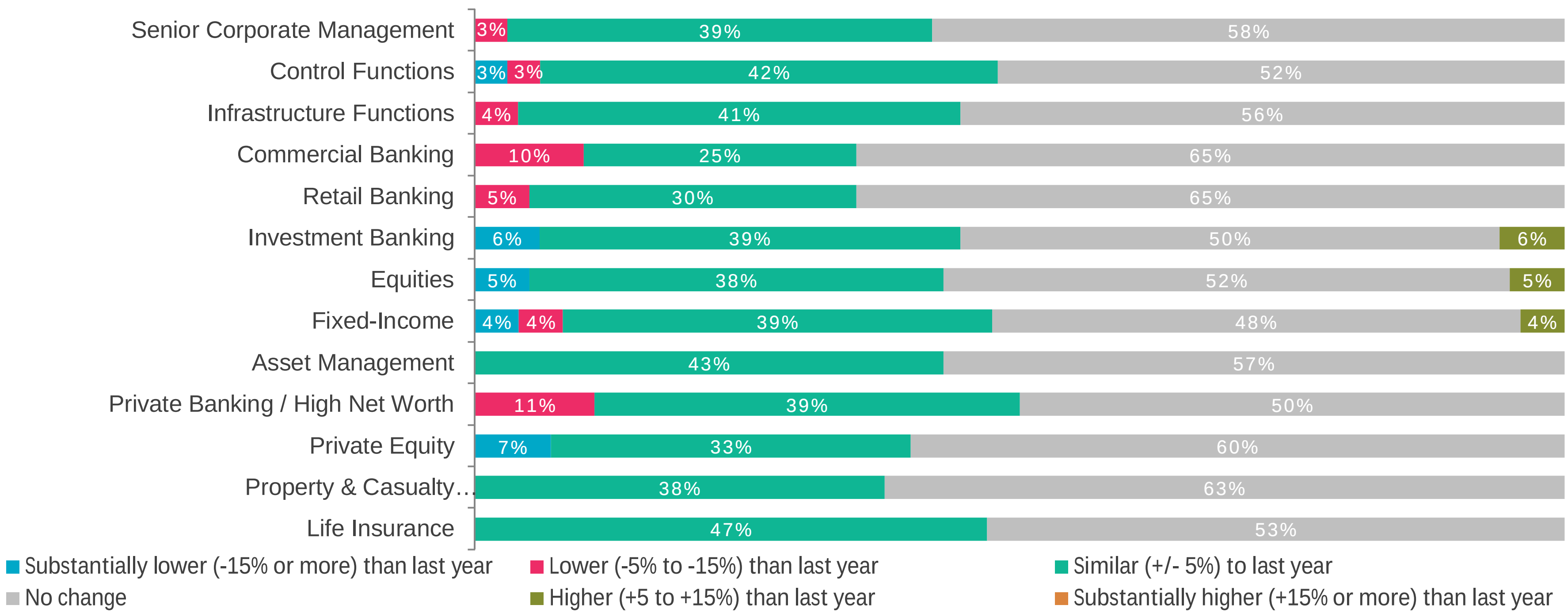
PROJECTED CHANGE IN 2017 ACTUAL INCENTIVES

- The majority of organizations predict 2017 annual incentive levels to be similar or unchanged to 2016. However, more organizations expect annual incentive levels to decrease from last year than increase:
  - Higher 2017 actual incentives are expected to be most prevalent in Investment Banking roles and Commercial Banking
  - Most organizations in Europe predict 2017 annual incentive levels will be similar or unchanged to 2016
  - North America is slightly more positive with more organizations expecting higher and none expecting substantially lower 2017 annual incentive levels, whereas some European organizations expect substantial decreases in annual incentives
  - 27% of the insurance companies predict 2017 annual incentive levels for their senior corporate management to be lower
  - Both banks and insurers predict 2017 annual incentive levels for their control functions to be similar or unchanged to 2016



PROJECTED CHANGE IN 2017 TARGET INCENTIVES

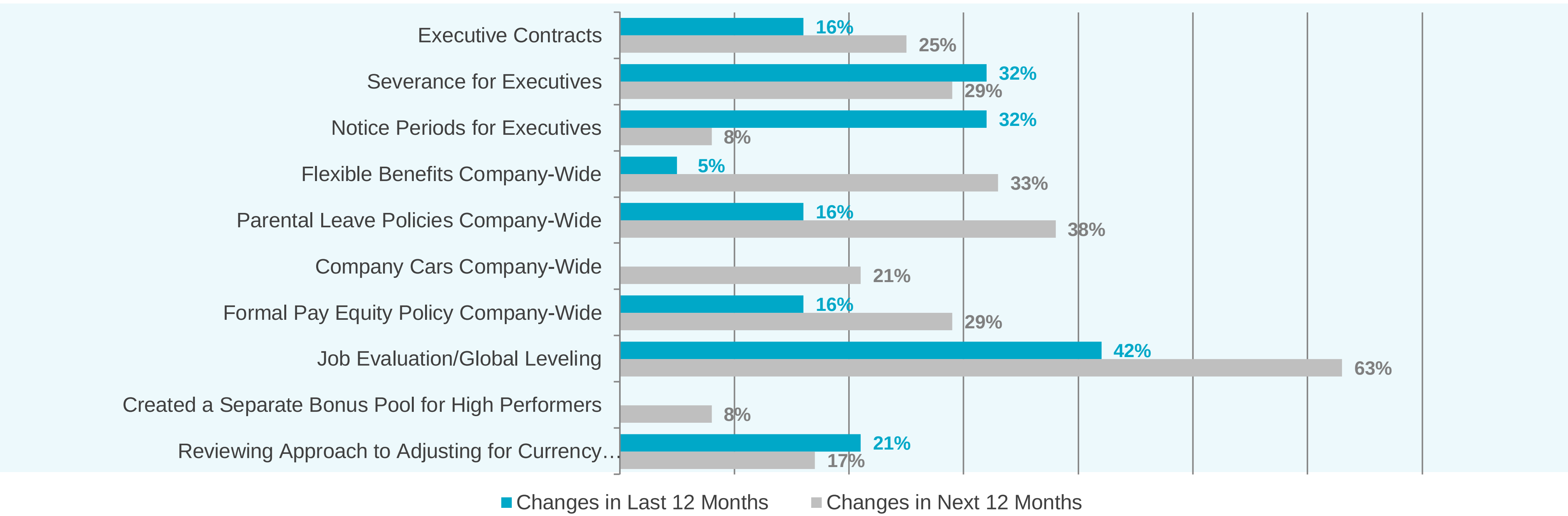
- Generally, half of the organizations are not planning to change their target annual incentive levels for 2017:
  - An additional 25% to 47% of organizations plan to keep their target annual incentive levels for 2017 similar to 2016
  - Some organizations (10%-11%) are planning to decrease target annual incentive levels for next year in their Commercial Banking and Private Banking/High Net Worth businesses. Increases in 2017 target annual incentives are very uncommon
  - In North America, all surveyed companies are projecting target annual incentives to be similar to last year's
  - A large majority of banking and insurance organizations are forecasting similar 2017 target incentive levels for their Senior Corporate Management



PLANNED CHANGES TO COMPENSATION PLAN DESIGN AND PAY MIX

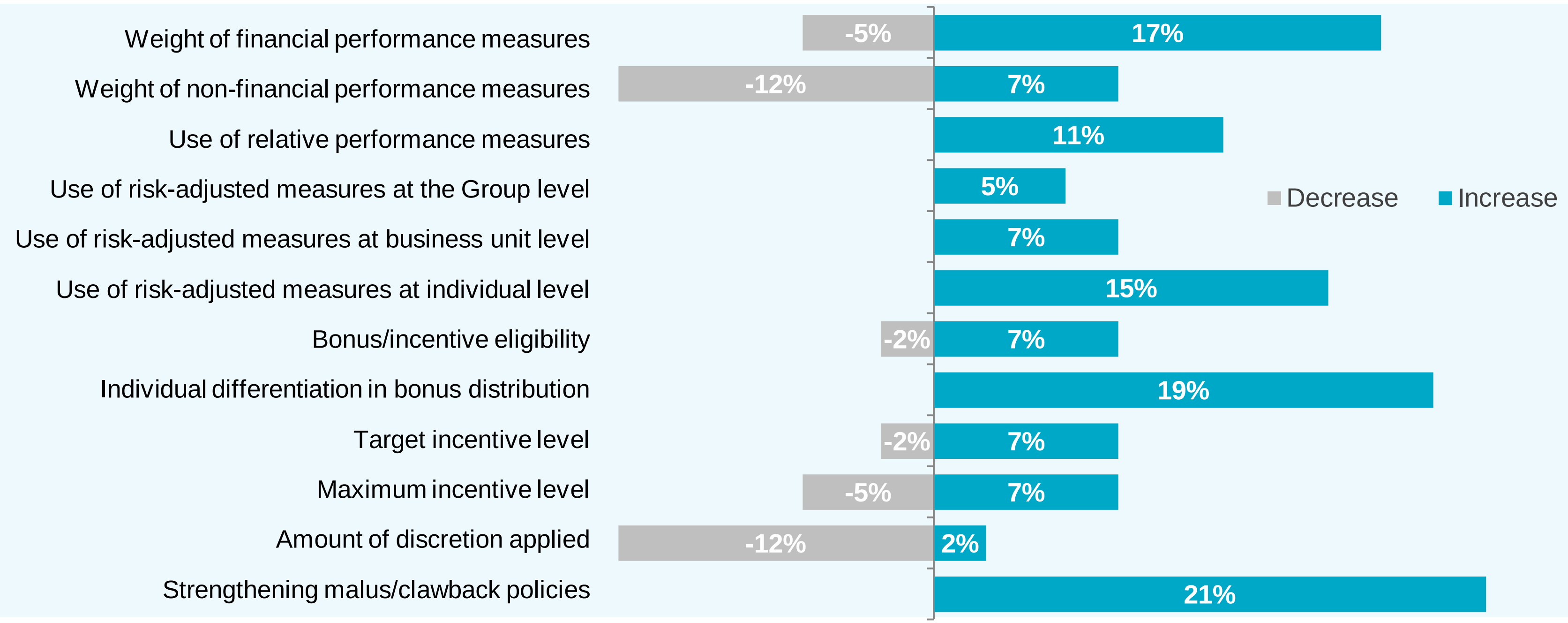
CHANGES TO REMUNERATION POLICY IN THE LAST AND NEXT 12 MONTHS

- The most prevalent changes in remuneration policy and practices organizations implemented **in the last 12 months** were job evaluation/global levelling (42%), severance for executives (32%), and notice periods for executives (32%):
  - One quarter of the European organizations implemented a formal pay equity policy company-wide
  - Changes to parental leave policies were more commonly cited by North American organizations (40%)
  - Changes to job evaluation/global levelling and severance for executives were more prevalent in banking than insurance
- Job evaluation/global levelling (63%), parental leave policies company-wide (38%), and flexible benefits (33%) are the most prevalent changes in remuneration policy and practices planned by organizations **in the next 12 months:**
  - European organizations are planning more changes than North American ones in all categories except Parental leave



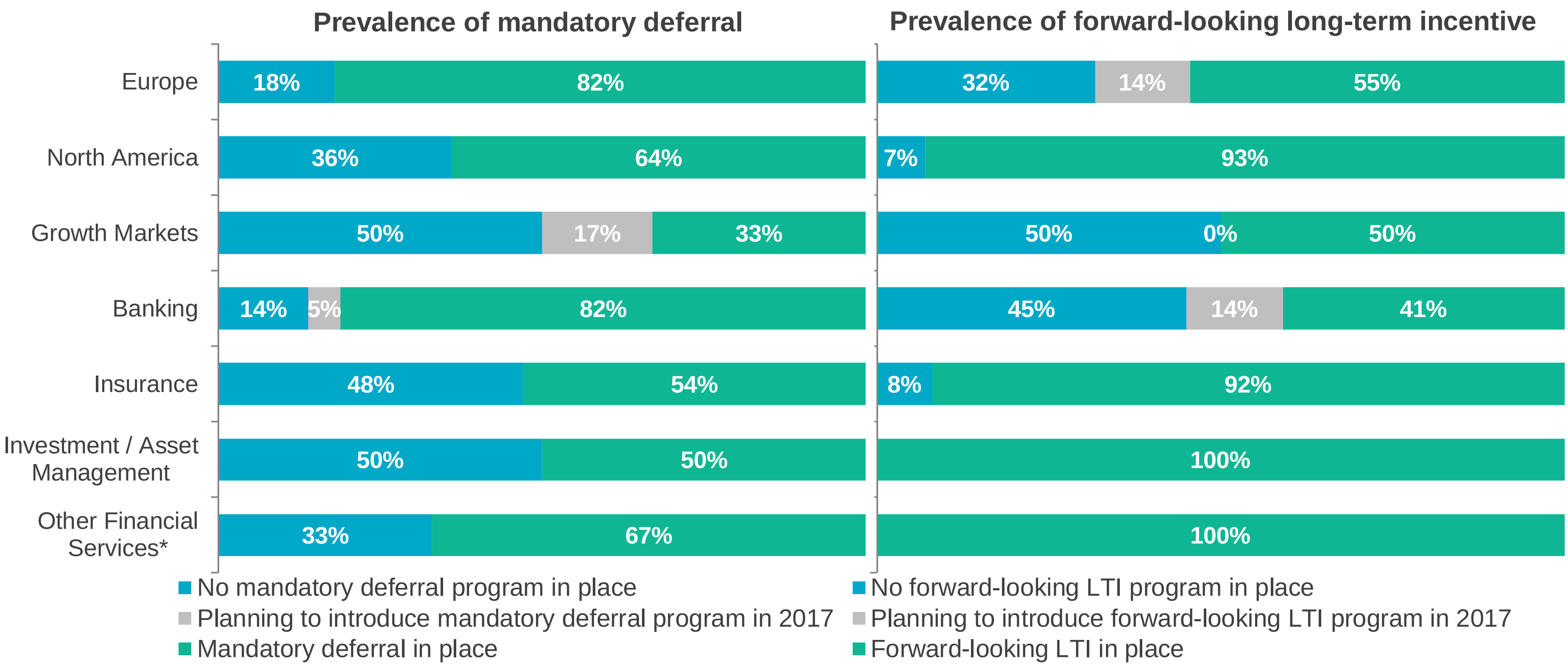
PLANNED CHANGES TO CORPORATE ANNUAL INCENTIVE DESIGN

- Most organizations are not planning to make changes to their incentive design in 2017:
  - Some organizations are considering increasing the strength of malus/clawback policies (21%), individual differentiation in bonus distribution (19%), and weight of financial performance measures (17%)
  - These changes are more prevalent in European organizations than in North American organizations
  - Increasing the weight of non-financial performance measures is more prevalent in insurers than banks, although many banks have already done this previously
- More than three quarters of organizations across Europe and North America, and banking and insurance industry segments expect no changes planned to allocation of annual incentives to individuals:
  - Overall, 12% of organizations are planning to tie awards more directly to performance ratings
- Most cited key drivers for changing annual incentive design over the forthcoming year are: regulation (75%), market alignment (61%), and risk management (56%). Costs are more frequently reported as a key driver in Europe than in North America



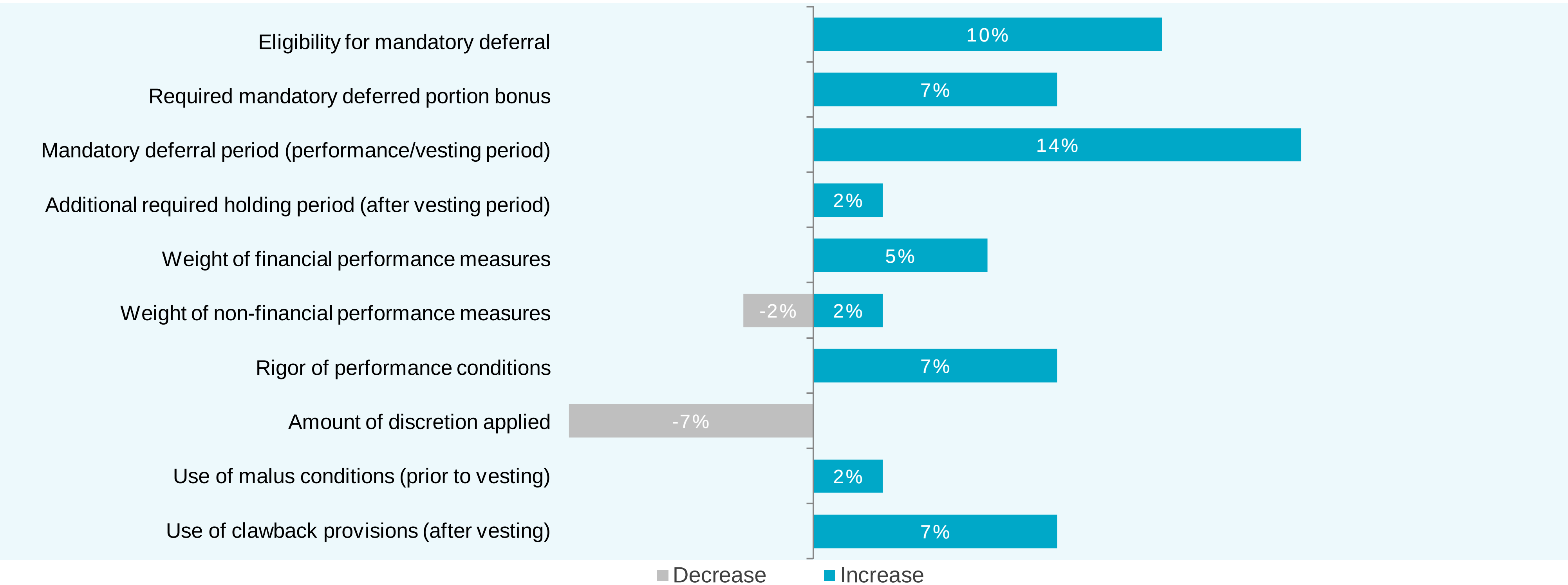
PREVALENCE OF MANDATORY DEFERRAL AND FORWARD-LOOKING LONG-TERM INCENTIVES

- Almost two-thirds of North American organizations (64%) have a mandatory deferral program in place, and the vast majority (82%) in Europe:
  - Nearly all banks (82%) and half of insurance firms (54%) have a mandatory deferral mechanism in place
- Two-thirds of organizations have a forward-looking long-term incentive plan in place, particularly insurance (92%) and North American organizations (93%):
  - Similar to last year, around 41% of banking organizations have a forward-looking long-term incentive program in place
  - 14% of banking organizations are planning to introduce a forward-looking long-term incentive program in 2017



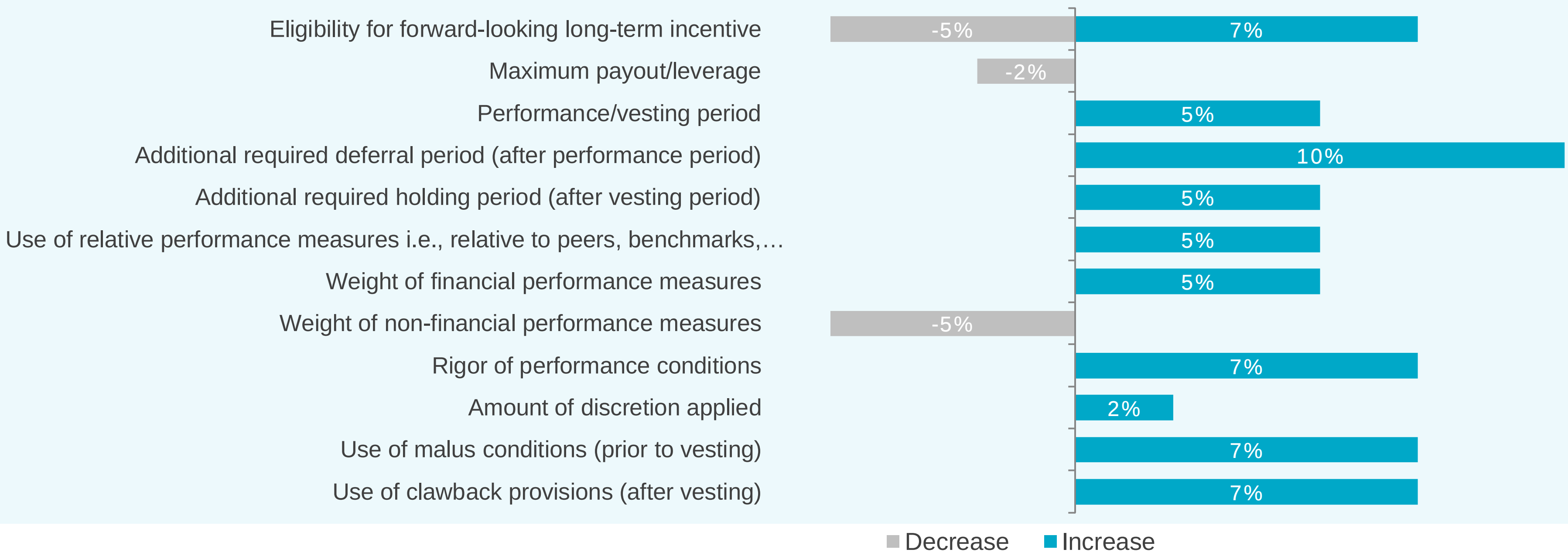
PLANNED CHANGES TO MANDATORY DEFERRAL DESIGN FOR 2017

- Only a few organizations are planning to make changes to their mandatory deferral program design:
  - Similar to last year, about 14% of organizations are increasing the mandatory deferral period and 10% are increasing eligibility for their mandatory deferral program
  - Increasing the mandatory deferral period and increasing eligibility for their mandatory deferral program are primarily planned by European organizations (23% and 14% respectively) and banks (27% and 18% respectively), compared to none of the North American and insurance organizations
  - Approximately 15% of Growth Markets organizations are planning to increase eligibility
  - 14% of North American organizations are increasing the mandatory deferred portion of bonus, compared to none in Europe



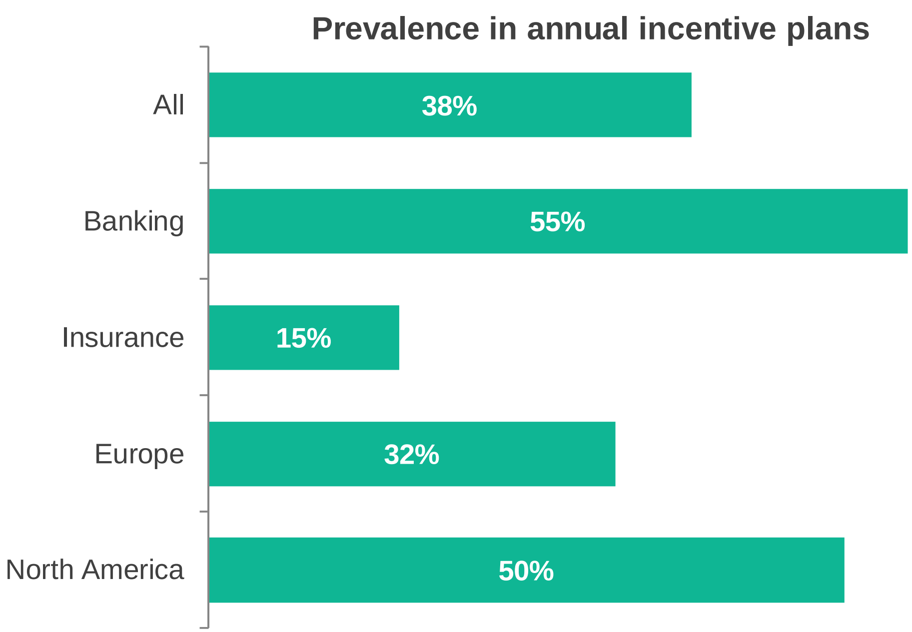
PLANNED CHANGES TO FORWARD-LOOKING LONG-TERM INCENTIVE DESIGN FOR 2017

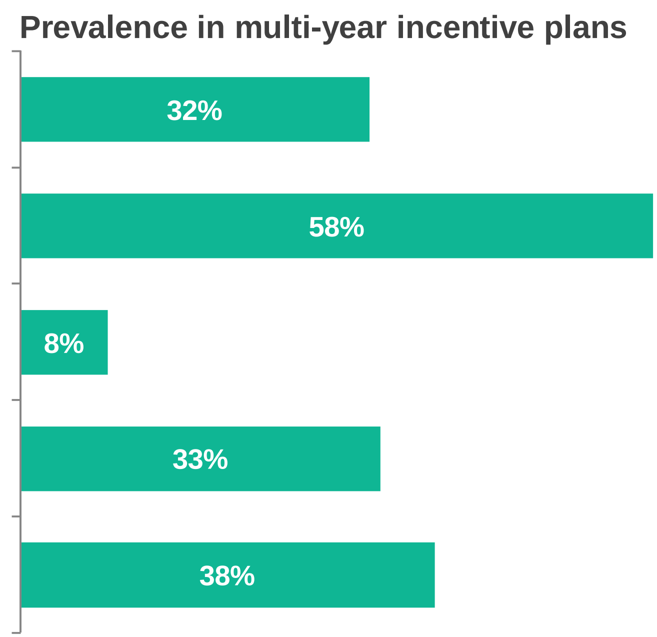
- Although changes to forward-looking long term incentive plans are not prevalent, 10% of all organizations (18% of European) are planning to increase additional required deferral period (after performance period):
  - A few North American organizations are planning to increase the weight of financial performance measures and decrease the weight of non-financial performance measures; none of the European counterparts are planning this
  - A few European organizations are increasing employee eligibility
  - Increasing the use of malus conditions and clawback provisions is a more prevalent change for insurers than banks
- Most cited key drivers for changing forward-looking long-term incentive programs over the forthcoming year are: market alignment (83%) and regulation (71%):
  - As with drivers of change in annual incentive and mandatory deferral, market alignment is the most prevalent driver in insurance (100%) and North America (100%), while regulation is the most prevalent driver for banks and European firms



OVERRIDE BY NON-FINANCIAL MEASURES

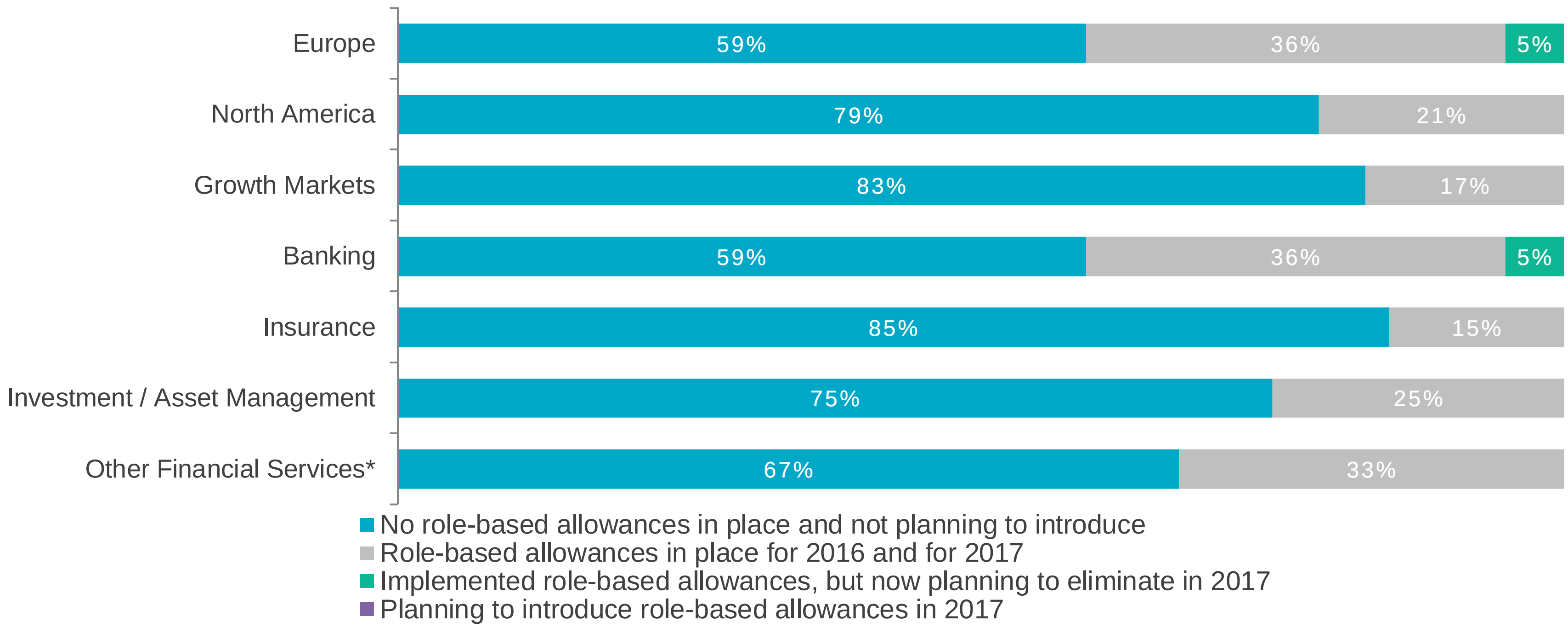
- Non-financial measures of conduct, compliance and risk management are increasingly being allowed to override financial outcomes
  - In annual incentive plans, 38% of organizations allow for non-financial measures to override financial measures. This is more common in banks (55%) than in insurance firms (15%)
    - Non-financial measures that allow for the override include Compliance (76%), Risk Management (76%), and Conduct (71%). Some organizations also include Customer Metrics
  - In multi-year incentive plans, 32% of organizations allow for non-financial measures to override financial measures. This is more common in banks (58%) than in insurance firms (8%)
    - Non-financial measures that allow for the override include Conduct (90%), Compliance (80%), and Risk Management (70%)





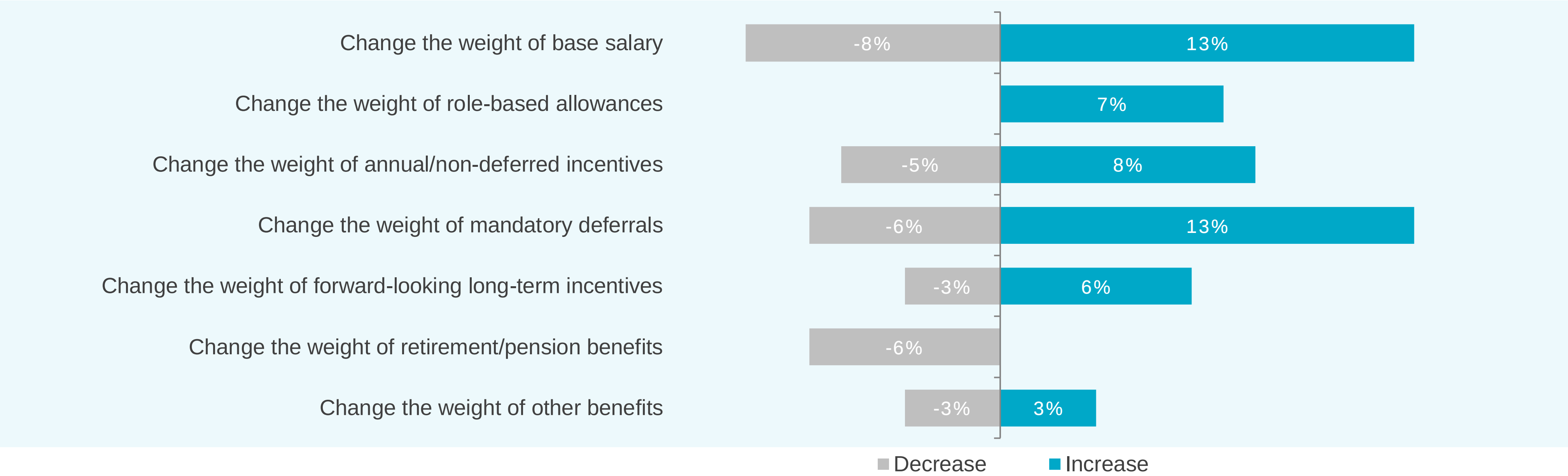
ROLE-BASED ALLOWANCES

- About 36% of banking organizations have role-based allowances in place for 2016 and 2017:
  - Very few organizations that implemented role-based allowances are now planning to eliminate them (2%) across all regions and industries
  - Insurance organizations generally do not have role-based allowances in place and have no plans to introduce in the future
- Approximately half of banking organizations are making changes to their role-based allowance program design:
  - Changes are equally prevalent in European and North American organizations
  - Those organizations that are planning to make changes to their role-based allowances programs are primarily shifting from role-based allowance to ordinary base salary (25%), increasing level/amount of role-based allowances (25%), changing the vehicle from equity to cash (25%) and changing pay-out schedule (25%)



PLANNED CHANGES TO PAY MIX FOR 2017

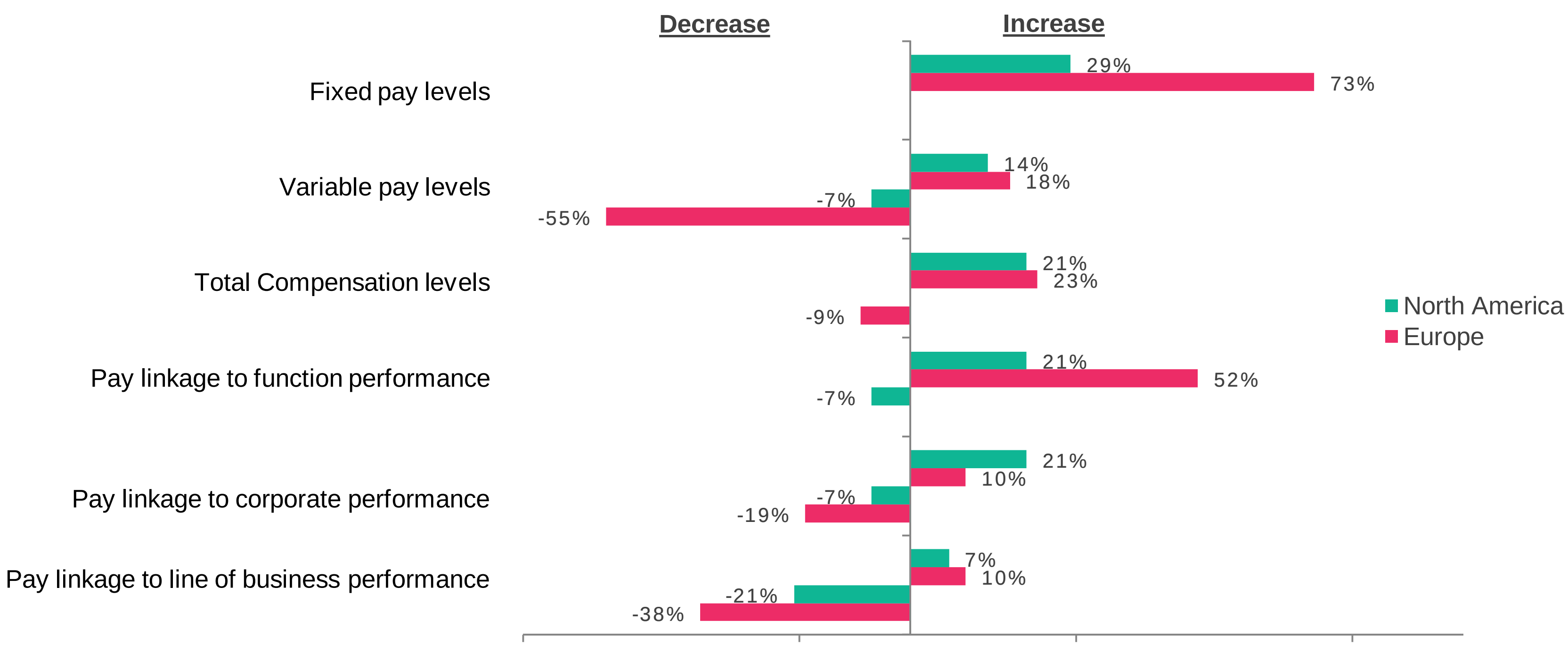
- The majority of organizations are not planning to make changes to their pay mix in 2017:
  - Insurance firms plan little change
  - 13% of all organizations (and 24% of banks) are increasing the weight of base salaries
  - About 14% of banks are planning to decrease the weight of base salaries
  - 13% of all organizations (and 22% of banks) 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:
  - Some European organizations are increasing the weight of forward-looking long-term incentives, but none are in North America
- Changes to the pay mix are more prevalent in the banking industry than in the insurance industry



COMPENSATION FOR CONTROL FUNCTIONS

REGULATORY IMPACT ON CONTROL FUNCTIONS' COMPENSATION

- Regulation has impacted compensation of Control Functions. About half (48%) of organizations indicated an increase in fixed pay, one-third a decrease in variable pay, and 19% an increase in total compensation levels.
- The impact is bigger in Europe and for banks compared to North America and insurers:
  - While about 20% of firms in Europe and North America and all industries report increases in total compensation levels, far more European organizations and banks report a shift from variable pay to fixed pay
  - About half (52%) of European organizations reported an increase in pay linkage to function performance compared to 21% in North America
  - About one-third of both insurers and banks reported that regulatory impact decreased the link between pay and business performance



CONTROL FUNCTIONS' COMPENSATION LINKED TO CORPORATE FINANCIAL PERFORMANCE

- Compensation for Control Functions is generally linked to corporate financial performance. Most executives and team members at both corporate and line of business levels have compensation linked to the overall corporate financial results, although slightly less prevalent in Europe than in North America:
  - Compensation for Control Functions is linked to corporate non-financial performance with little difference between regions
  - However, linking Control Functions' compensation to corporate non-financial performance is less prevalent in the insurance industry compared to banking

- There are mixed findings on the link between compensation for Control Functions and business financial performance:
  - In North America, 62% of the organizations have line of business Control Function executives and team members linked to financial performance of the business, whereas only 32% of European organizations do
  - Compensation for line of business Control Functions is typically linked to business non-financial performance, which is less prevalent in the insurance industry compared to banking

Control Functions' Compensation Linked to Business Financial Performance	All Regions and Industries			Europe			North America			Growth Markets		
	Yes	No	No. of Responses	Yes	No	No. of Responses	Yes	No	No. of Responses	Yes	No	No. of Responses
Line of Business Control Function Executive (e.g., Retail Banking Risk Officer)	45%	55%	38%	32%	68%	19	62%	38%	13	50%	50%	6
Line of Business Control Function team member (e.g., Branch Auditor)	45%	55%	38%	32%	68%	19	62%	38%	13	50%	50%	6

MISCELLANEOUS COMPENSATION POLICIES

SEVERANCE/REDUNDANCY PAYMENTS POLICY

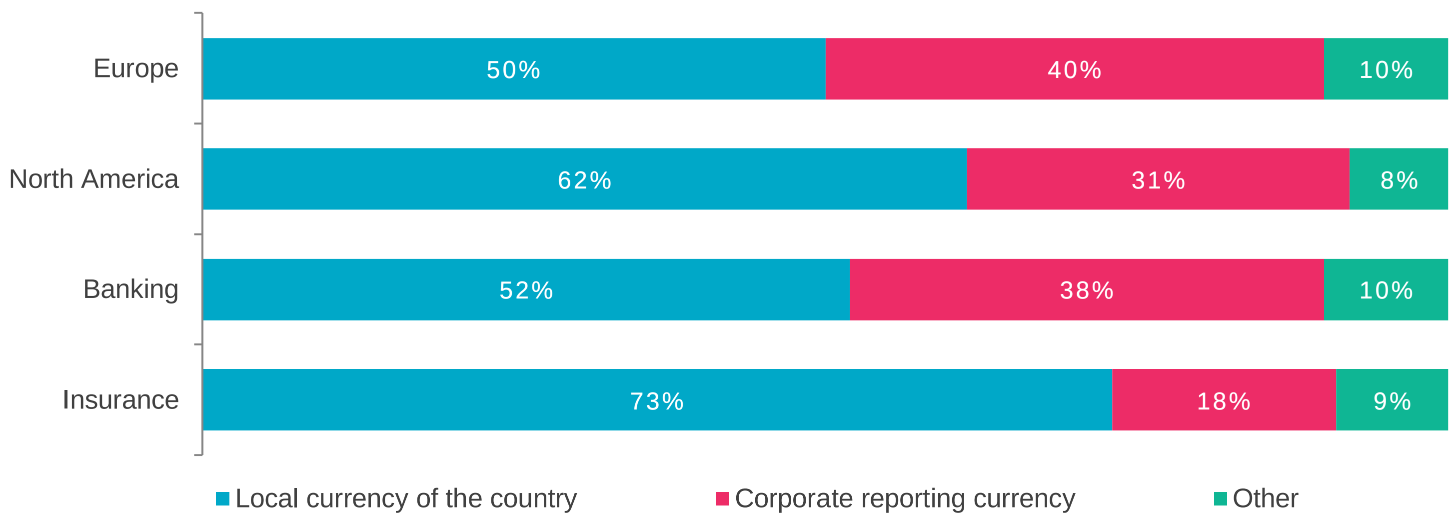
- A majority of organizations have an established policy to determine any discretionary element of severance/redundancy payments (beyond statutory requirements):
  - 43% of organizations have a globally consistent policy set, and an additional 28% set policy by country
  - A discretionary approach or no policy at all is less common (18% and 13% respectively), but are more frequently found in insurance organizations (31% and 23% respectively)
- A majority of organizations (81%) are not planning any changes to their severance policy in light of EBA guidelines which came into effect 1 January 2017:
  - More banks (32%) are planning for change than insurers (none)
  - If changes are planned, they typically apply globally and beyond the EU countries (63%)

Severance/ Redundancy Payments Policy	All Regions and Industries	Region			Industry			
		Europe	North America	Growth Markets	Banking	Insurance	Investment/ Asset Management	Other Financial Services *
Yes, set company policy (globally consistent)	43%	48%	54%	0%	43%	31%	50%	–
Yes, set policy by country	28%	29%	31%	17%	38%	15%	25%	–
Discretionary (no set policy)	18%	14%	8%	50%	10%	31%	25%	–
No	13%	10%	8%	33%	10%	23%	0%	–
No. of Responses	40	21	13	6	21	13	4	2

Note: The total may not equal 100% due to rounding.
* Other Financial Services includes e.g., Payments, Stock Exchange, Consumer Finance organizations.

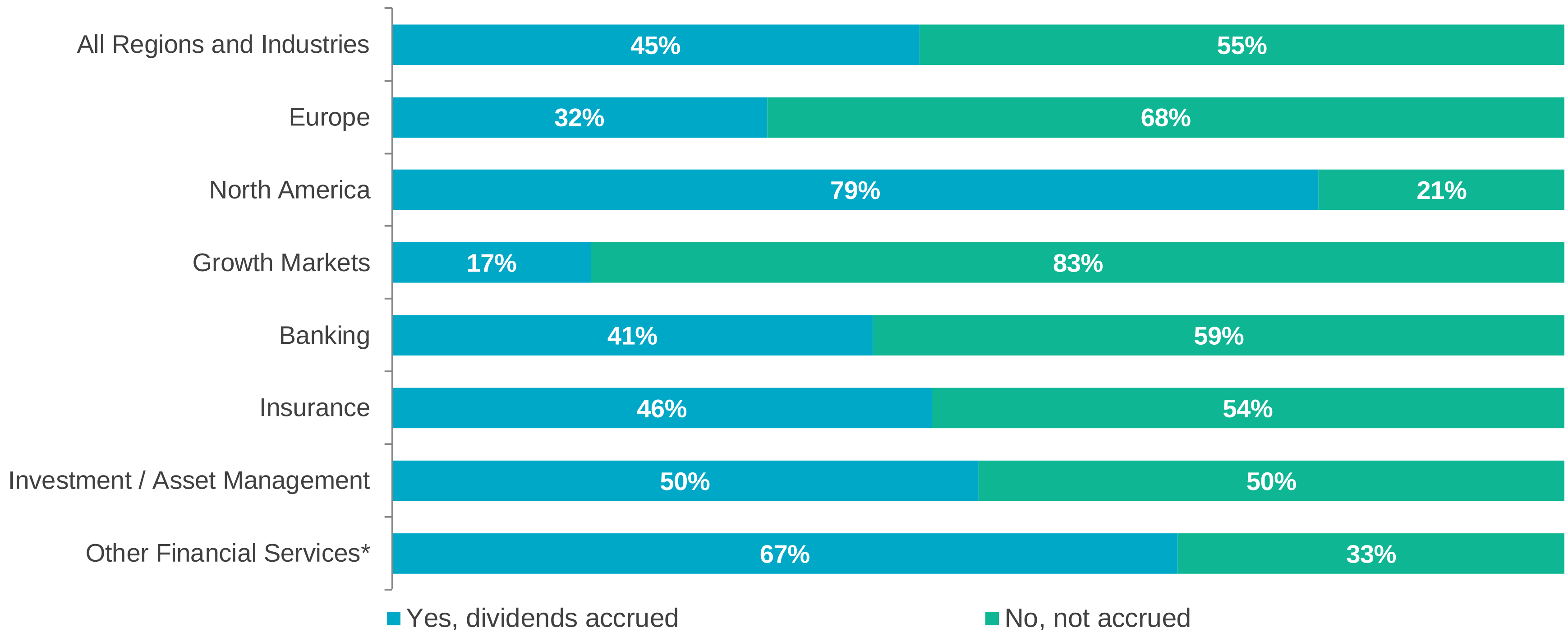
DEFINITION OF BONUS POOLS FOR LOCAL COUNTRIES

- A majority of organizations (59%) define the bonus pools for local countries based on the local currency of the country:
  - This approach is more prevalent in the insurance industry (73%) than banking (52%)
  - Alternatively, the corporate reporting currency approach is used by 1/3 of the organizations, and is slightly more prevalent in Europe and the banking industry
- About a quarter of organizations (27%) do not manage high currency volatilities in their rewards programs (more prevalent in insurance companies):
  - The most common approach to managing high currency volatilities is using annually consistent currency exchange rates for performance assessment (27%)
  - Some organizations (24%) allow discretion to adjust bonus pools due to currency impacts (24%)
  - More European organizations rely on discretion compared to North American organizations (28% vs. 17%)



DIVIDEND EQUIVALENTS ACCRUED DURING VESTING PERIOD

- In relation to multi-year incentive plans for executives, slightly more than half (55%) of organizations currently do not allow for dividend equivalents to accrue during the vesting period:
  - More European organizations (68%) do not allow for accrual compared to North American organizations (21%)
  - Almost 80% of North American organizations do accrue for dividend equivalents
  - About one-third of European organizations have dividend equivalent accruals. Half of these European organizations that currently allow accrual are considering ceasing dividend equivalents accrual for the future in light of the EBA guidelines. Generally, no additional remuneration is offered for this change
  - North American organizations are not planning any changes to their dividend equivalent policy



KEY INSIGHTS AND CONCLUSIONS

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- Base salary increases are projected to be modest as banks and insurers feel the impact of continued low economic growth and low inflation. However, meaningful increases in fixed pay due to regulation have already occurred, particularly in the banking industry
- The majority of organizations predict *actual* annual incentive levels for 2016 performance to be similar or unchanged compared to prior year and also do not foresee changing their *target* incentives for 2017
- Over the past several years, a large number of organizations have changed their incentive program design and are now seemingly stabilizing these plans. A few changes to annual incentive plans are still planned in 2017
  - There continues to be an emphasis on improving differentiation of pay based on performance
  - Similar to last year, the inclusion of more non-financial performance metrics, such as risk management and compliance continues
    - Thirty-eight percent of organizations allow for non-financial measures to override financial measures in their annual incentive plans, and thirty-two percent of organizations in their multi-year incentive plans (includes mandatory deferral and forward-looking long-term incentives). This trend is more common in banks
  - Continued strengthening of malus/clawback policies
- In addition, an increasing number of organizations are investing in job evaluation/global leveling as a major tool to help in workforce management
- 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 line of business performance and re-focused on function performance. Generally, compensation for Control Functions remains linked to corporate financial performance

QUESTIONS

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QUESTIONS

Please type your questions in the Q&A section of the toolbar and we will do our best to answer as many questions as we have time for.

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