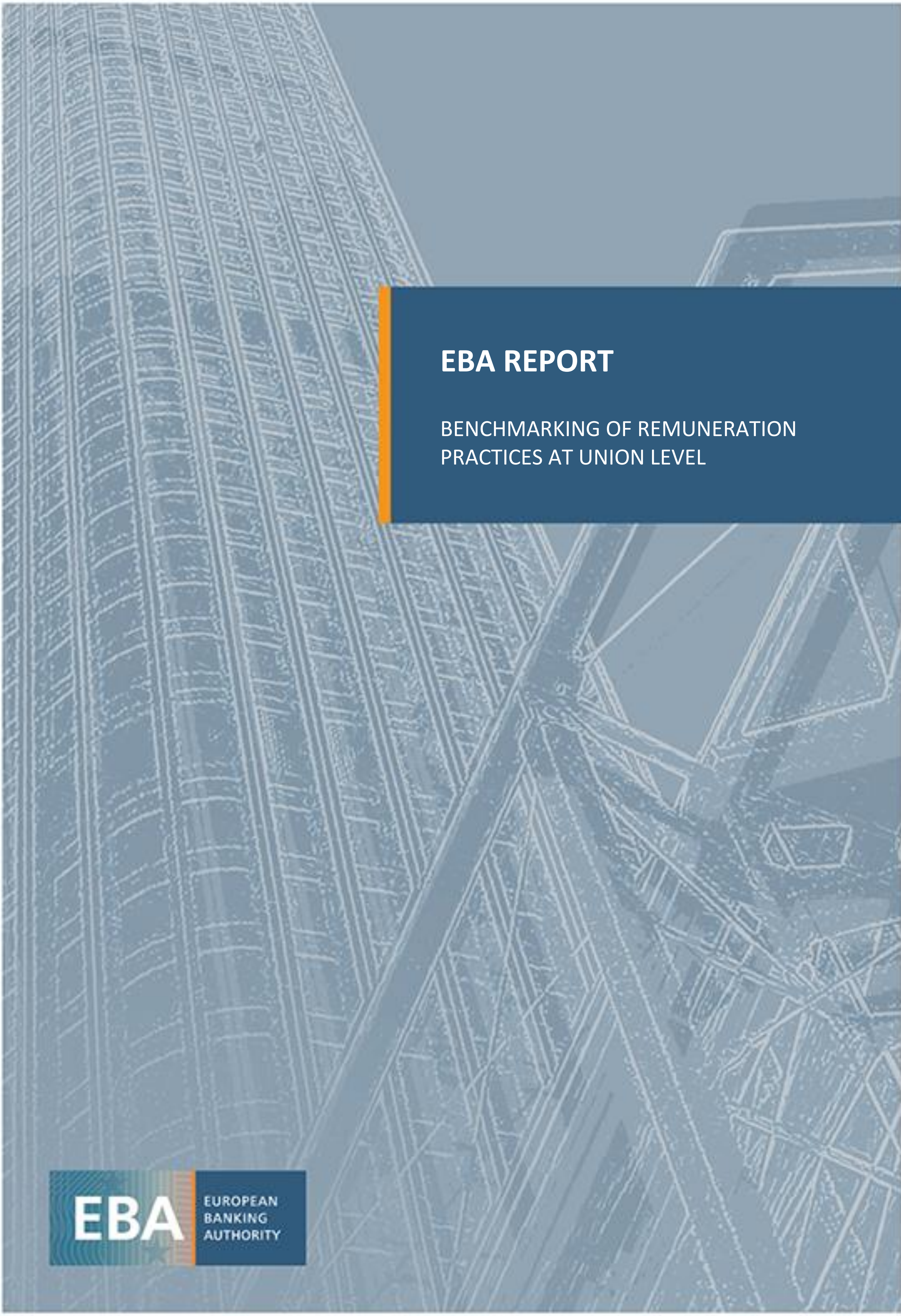

EBA REPORT

BENCHMARKING OF REMUNERATION PRACTICES AT UNION LEVEL

EBA EUROPEAN BANKING AUTHORITY

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Executive summary

Under Directive 2013/36/EU (CRD IV), the European Banking Authority (EBA) is required to benchmark remuneration trends at Union level. This requirement had already been introduced by Directive 2006/48/EC as amended by Directive 2010/76/EU (CRD III). The EBA has issued 'Guidelines on the remuneration benchmarking exercise' to facilitate the collection of data. The national competent authorities are responsible for collecting information on the remuneration practices of credit institutions and investment firms and to use the information to benchmark remuneration trends and practices. These data are submitted to the EBA to benchmark for remuneration practices and trends at Union level.

The guidelines ensure that within each Member State a significant share of the banking market is covered by the data collected. In line with the disclosure requirements, the information is provided at the highest level of consolidation within the Union. The EBA has received the data for 2012 for 137 groups of institutions, for 2011 for 124 groups and for 2010 for 113 groups and for single significant institutions which are not included in the consolidated group data. The requirements on remuneration were introduced by CRD III and were applied to variable remuneration (bonuses) awarded for 2010 onwards. Additional requirements were introduced by the CRD IV, most prominently a cap on the variable remuneration of identified staff, which applies to remuneration awarded for the performance year 2014 and onwards.

The EBA has analysed the data disclosed by institutions on their remuneration practices (provided via the national competent authorities). The main result of this peer review is that remuneration practices within institutions were not sufficiently harmonised under CRD III, even if different levels of remuneration paid in Member States, and the nature, size and complexity of institutions are taken into account. In particular, major differences between remuneration practices within institutions exist regarding:

- ratios between variable and fixed remuneration,
- deferral arrangements,
- the use of claw back and
- the level of staff identified as having a material impact on the risk profile, which differs significantly between similar institutions.

Overall, the remuneration paid to identified staff, and therefore the number of high earners (staff receiving more than EUR 1 000 000 per year) increased in 2012 compared to the preceding periods. While the variable remuneration follows the economic development of the institutions, a trend to increase the fixed remuneration component can be observed. However, the ratios between variable and fixed remuneration for identified staff remained, in many institutions and business lines, above the ratio permitted in future periods, 100% (200% with shareholder's approval).

In addition to the annual benchmarking analysis, the EBA is conducting further analysis of the recent developments in the remuneration policies implemented by institutions, in particular the use of 'allowances' and their treatment as either variable or fixed remuneration.

1. Benchmarking of remuneration practices on Union level

1.1 Introduction and legal basis

1. The Directive 2010/76/EU (CRD III) introduced remuneration requirements for staff whose professional activities have a material impact on an institution's risk profile, which came into force on 1 January 2011. Article 75[1] of the Directive 2013/36/EU of the European Parliament, and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV) includes similar requirements and introduces a cap on the variable remuneration (bonus) that can be paid.

2. Home Member State competent authorities must use the information collected in accordance with the criteria for disclosure to benchmark remuneration trends and practices. The competent authorities must provide the European Banking Authority (EBA) with that information. Point 15(f) of Part 2 of Annex XII of CRD III requires institutions to disclose aggregate quantitative information on remuneration to staff who have a material impact on the risk profile, broken down by business area. Article 450(1) of Regulation (EU) No 575/2013 resumes these disclosures and introduces additional transparency requirements.

3. Separate to remuneration benchmarking data, home Member State competent authorities are required to collect information on the number of individuals per institution who earn at least EUR 1 000 000 (high earners), including the business area involved and the main elements of salary, bonus, long-term award and pension contribution. The data collected in 2014 and onwards also has to include the responsibilities of high earners, and requires the separate collection of data in payment brackets of EUR 1 000 000. The EBA publishes these data on an aggregate home Member State basis in a common reporting format. The EBA has aggregated these figures and published the results for 2010 to 2012.[2] Some additional analysis of these figures is provided within this report.

4. To ensure consistent data collection, the EBA has issued 'Guidelines on the remuneration benchmarking exercise'[3]. The EBA also issued 'Guidelines on the data collection exercise regarding

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[1] Art 75 requires that '(1) competent authorities shall collect the information disclosed in accordance with the criteria for disclosure established in points (g), (h) and (i) of Article 450(1) of Regulation (EU) No 575/2013 and shall use it to benchmark remuneration trends and practices. The competent authorities shall provide EBA with that information. (2) EBA shall use the information received from the competent authorities in accordance with paragraph 1 to benchmark remuneration trends and practices at Union level.'

[2] The reports with figures for 2010-12 can be found under the following link: https://www.eba.europa.eu/regulation-and-policy/remuneration

[3] The guidelines can be found under the following link: https://www.eba.europa.eu/regulation-and-policy/remuneration/guidelines-on-the-remuneration-benchmarking-exercise

high earners'. Both guidelines will be updated in 2014 to accommodate the changes made in Directive 2013/36/EU and Regulation (EU) No 575/2013.

5. The analysis within this report is based on data for 2010 to 2012, collected in accordance with the CRD III requirements and the EBA guidelines. It is expected that remuneration practices will change as the CRD IV introduces additional requirements for the variable remuneration of identified staff, most prominently a cap of 100% (200% subject shareholder's approval) on the ratio between the variable and the fixed component of the total remuneration. The EBA will publish a benchmarking report on an annual basis.

1.2 Data collected for benchmarking purposes

6. In two separate periods in 2013, benchmarking data was collected for 2010 to 2012. It should be considered that the remuneration requirements within CRD III only came into force in 2011, and were only applied for variable remuneration awarded for 2010 if it was not paid before the date of effective implementation in each Member State.

7. The benchmarking data collection was conducted at the highest level of consolidation, the EEA consolidation level, and covered all subsidiaries and branches established by EEA institutions in other Member States and in third countries. In accordance with the EBA 'Guidelines on the remuneration benchmarking exercise' each Member State should ensure that at least 60% of the banking system (based on total assets) is covered by the data. Due to the collection of data on the highest consolidated level, no country by country analysis can be made, but benchmarks have been calculated for the Union as a whole as required by the EBA's mandate.

8. To establish the sample of institutions included in the exercise, the competent authorities within the EEA provided the EBA with a list of institutions, which ensures that 60% of the banking market is covered. The sample contains very few subsidiaries which are significant for a local market. When these significant institutions were included in the list, the EBA ensured that the data was only collected separately if the institution was not already included in consolidated data reported by another Member State. Regarding EEA countries who are not EU Member States, only Norway submitted data for benchmarking purposes. In 2012, 22 Member States submitted data; in some Member States the coverage of the banking sector is achieved by data on a group level reported by other competent authorities. The EBA has received the data for 2012 for 137, 2011 for 124 and data for 2010 for 113 groups and single significant institutions. The main difference in the scope results from two countries who only reported data for 2011 onwards, and one country who only reported data for 2012. Smaller changes to the scope of the data reported resulted from mergers and acquisitions, and a few changes of the list of institutions were due to changing market shares.

9. The data on high earners were collected in a different data collection exercise. This data covers all staff of institutions and branches of parent institutions seated in third countries who receive total remuneration of EUR 1 000 000 or above within a Member State. The aggregated figures on

the number of high earners per Member State and their remuneration have been published separately.[4]

1.3 Aspects analysed for benchmarking purposes

10. The requirements on variable remuneration apply to staff whose professional activities have a material impact on the institution's risk profile (identified staff). Institutions are required to set a ratio for the variable and fixed components of total remuneration, pay at least 50% of variable remuneration in non-cash instruments and defer at least 40% of variable remuneration (60% if a particularly high variable remuneration is awarded) for a period of not less than three to five years.

11. The report comprises an analysis of the above aspects and the development of these ratios over time (2010 to 2012) and for different business areas. Specific elements of variable remuneration which are disclosed separately (e.g. severance payments) were also analysed.

12. Within the benchmarking report, the EBA provides ratios for the different elements of remuneration, their development over time and information on the distribution of these elements between reporting institutions.

1.4 The EBA's supplementary analysis of specific remuneration practices

13. It is the EBA's intention to perform additional work in terms of peer review and benchmarking of remuneration policies.

14. Recently the possibility of using 'allowances' as part of the fixed remuneration has been suggested by many institutions. These allowances were often perceived by the media as a tool to circumvent the so called bonus cap.

15. The European Commission, European co-legislators and the EBA have concerns that these practices do not conform to the requirements specified in the CRD. The European Commission asked the EBA in a letter dated 12 February 2014 to use its powers under Regulation (EU) No 1093/2010 (including the power to request all the necessary information from the competent authorities responsible for ensuring that the institutions referred to above comply with CRD IV), to rapidly establish the facts and to determine whether the remuneration schemes being put in place within banks conform with Union law.

16. Subsequently, the EBA requested information from all competent authorities on the implementation of the specific CRD requirements, in particular the use of allowances by institutions, the supervisory actions taken and planned to ensure compliance with the regulatory

[4] The reports on high earners are available under: https://www.eba.europa.eu/regulation-and-policy/remuneration

requirements, and the content of the remuneration policies put into place by institutions regarding the use of allowances.

17. The results of the EBA assessment on these practices will be used to revert as appropriate to the European Commission and European co-legislators and inform the update of the EBA guidelines on remuneration policies. The guidelines will also detail strict processes related to the complete identification of staff whose professional activities have a material impact on the institutions' risk profile (risk takers) and the notification procedures under which staff members could be excluded from the scope of identified staff under certain conditions .

2. Benchmarking results

2.1.1 Information on the benchmarking sample

18. The sample of institutions included in the benchmarking exercise covers a major part of the banking system within the Union and EEA. Even if only Norway directly reported figures for groups where they are home supervisor, the data of other groups reported comprise figures for the other EEA countries (Iceland and Liechtenstein). However, the EBA has no information detailing to what extent the markets within these countries are covered. The latter also applies to institutions in Poland for 2010 and 2011 and Hungary in 2010. The data contains not only information on institutions' staff, but on all staff within the scope of consolidation of the banks (including also non-banking activities), while the number of staff in EU credit institutions in the table below refers to credit institutions only.

Figure 1: Numbers regarding the sample of banks submitting data for the benchmarking exercise

	2012	2011	2010
Number of groups of institutions	137	124	112
Number of all staff reported (includes all group entities within the EEA)	2 993 067	2 992 753	2 915 962
Number of all identified staff	35 996	32 648	28 221
Overall ratio of staff identified/all staff in %	1.20	1.09	0.97
Sum of fixed remuneration identified staff in euro	6 204 956 466	4 943 187 088	3 711 454 537
Sum of variable remuneration identified staff in euro	6 747 141 336	6 326 699 323	7 599 510 462
Sum of total remuneration identified staff in euro	12 952 097 801	11 269 886 411	11 310 964 999
Overall ratio of variable/fixed remuneration in %	108.74	127.99	204.76
Number of staff in credit institutions within the EU[1]	3 063 539	3 115 199	3 111 352

19. It can be observed that the fixed remuneration for identified staff was increased over time, while the variable remuneration, in the medium term, was reduced. The remuneration is responding to changes in the profitability of firms and regulation changes, amongst other factors.

20. **The number of staff identified as having a material impact on the institution's risk profile slightly increased. However, the number of staff identified in 2012 remained very low with only 1.2% of the total staff covered by the sample**. The average ratio between variable and fixed remuneration for all identified staff was reduced from 204.76% in 2010 to 127.99% in 2011 and 108.74% in 2012. This is triggered by the reduced profitability of institutions in 2011 compared to 2010, changes within the remuneration framework which came into force in 2011 and a higher fixed remuneration paid in 2011, which was further increased in 2012. The average net profit per staff member dropped from EUR 16 722 in 2010 to a net loss of EUR 1 146 in 2011 and increased in 2012 to a profit of EUR 29 784.

2.1.2 Analysis of high earner data

21. The national competent authorities reported details regarding the salaries of staff earning more than EUR 1 000 000 total remuneration per year to the EBA. The EBA has aggregated the figures and published them on 15 July 2013 and 29 November 2013[5]. The following more detailed analysis shows only countries for which high earners have been reported. All Member States of the Union participated in this exercise. However, just as in the remuneration benchmarking exercise of 2010 and 2011, the following needs to be considered. Poland only submitted data from 2012 onwards. Hungary and Norway have only reported data for 2011 and 2012, and for this reason, the 2010 figures for these countries include only high earners that have been reported by other Member States. Liechtenstein did not report data.

22. The EBA has aggregated the number of high earners and compared them to the number of staff working in credit institutions in Member States. A significant number of high earners in absolute or relative terms can only be observed in a few Member States as shown in Figures 2 and 3 below. The graphs below show the distribution of high earners within the EEA from 2010 to 2012 in absolute figures compared to the staff working in the banking system of the country. Although payment levels in Member States are different, the relative percentage of high earners in most banking systems compared to the overall staff numbers are similar with a median value of 0.04% in 2012. In the UK, the percentage of high earners within the banking system is significantly higher than in all other Member States. Based on all staff in credit institutions in the EU, 0.115% of staff were high earners in 2012 (2010: 0.110%; 2011: 0.102%). This slight fluctuation in values is consistent with the fluctuation in the total remuneration paid.

[1] Data from the European Central Bank (ECB) statistical data warehouse

[5] The data on High Earners can be found on the EBA website under:
http://www.eba.europa.eu/documents/10180/16145/EBA-Report-High_Earner_results.pdf
https://www.eba.europa.eu/documents/10180/16145/EBA+Report+High+Earners+2012.pdf

Figure 2: Number of high earners per Member State (values shown refer to 2012; logarithmic scale)

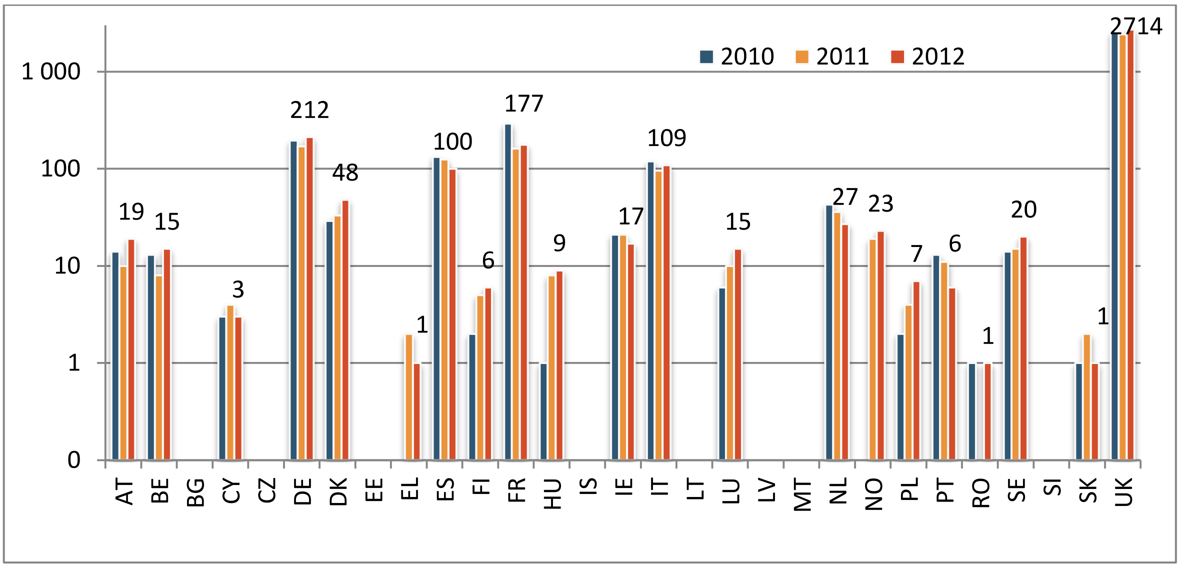
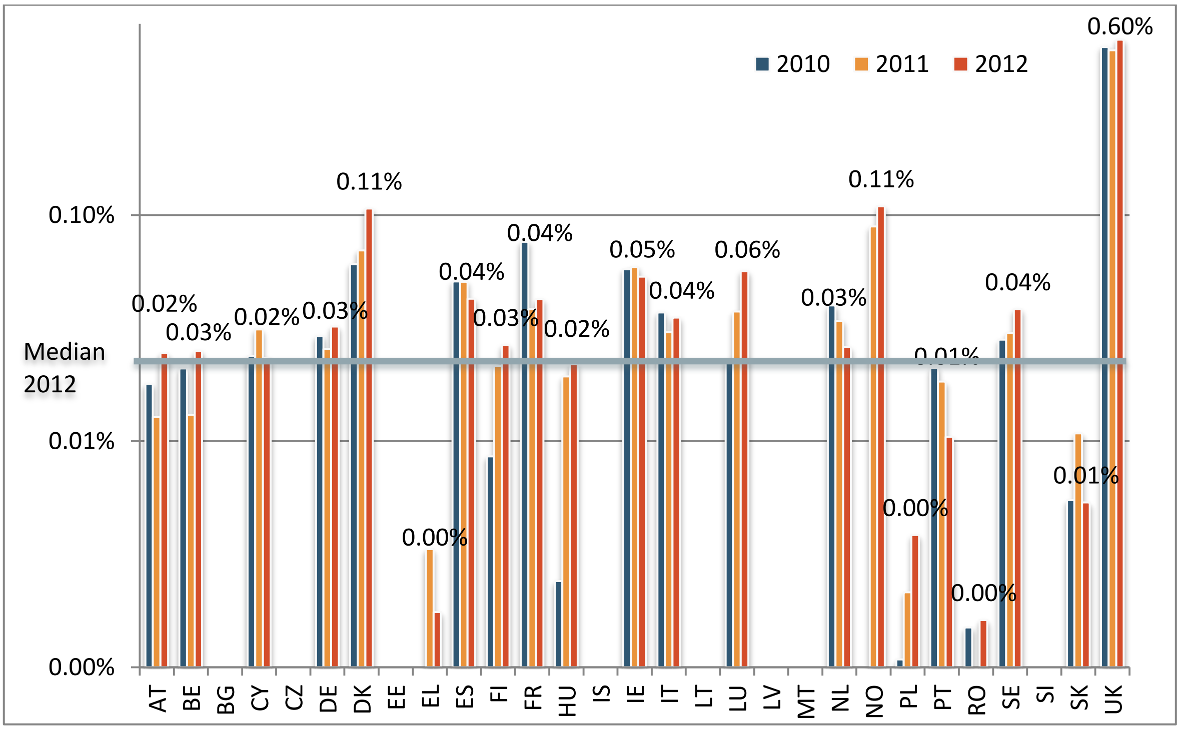


Figure 3: Percentage of high earners of all staff within credit institutions per Member State [6] **(values shown refer to 2012; logarithmic scale)**



23. **The percentage of high earners who are considered 'identified staff' differs significantly between Member States**. While in some Member States all high earners are considered to have a

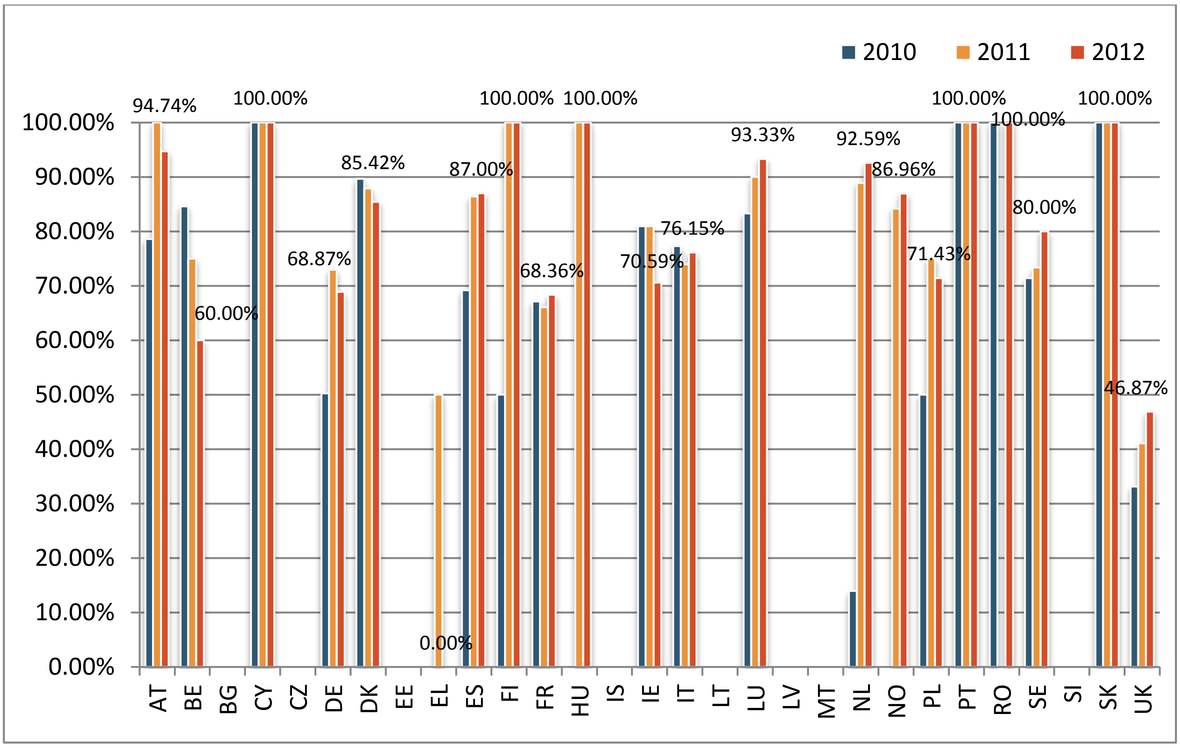
[6] Numbers of all staff of all credit institutions within each member state per end of year as published by the European Central Bank (ECB) www.ecb.int in the ECB data warehouse

material impact on the institution's risk profile, data for other countries in 2012 show ratios between 46% and 95%. In total, the percentage of staff identified within the group of high earners increased slightly over time. **Currently only 54 % of high earners are categorised as identified staff overall**. Regarding this issue, the implementation of the RTS on the criteria for the identification of staff whose professional activities will have a material impact on an institution's risk profile will lead to a more harmonised identification with all high earners being classified as identified staff unless exclusion from this class is approved in exceptional cases where institutions can demonstrate that staff have no material impact on the risk profile of the institution.

Figure 4: Number of high earners in all Member States and high earners who are identified staff

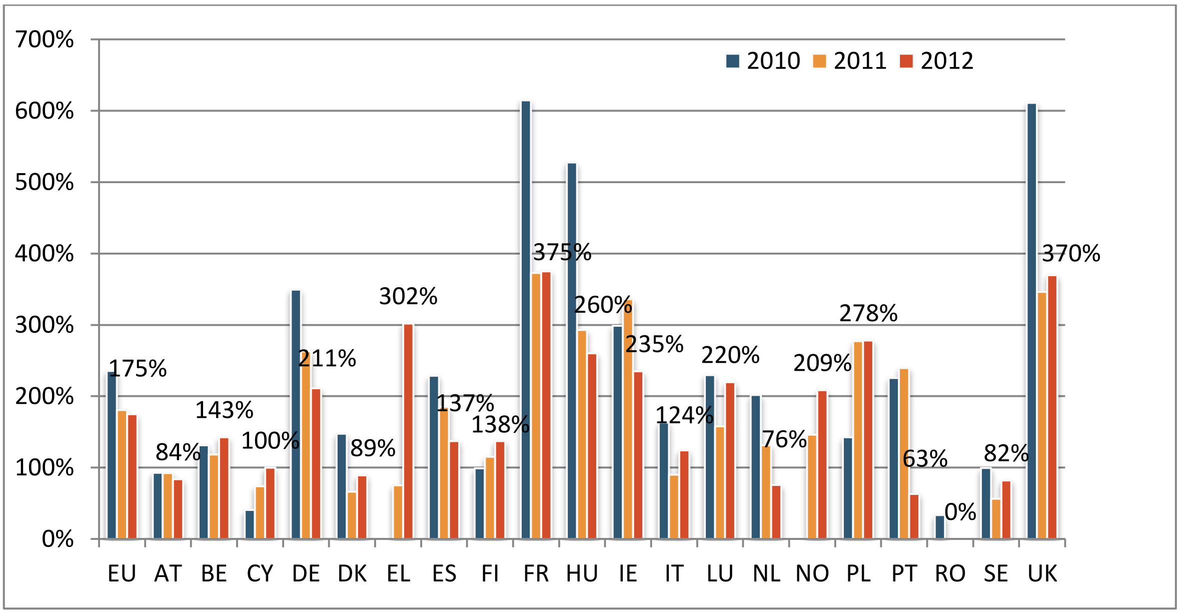
	Total number of high earners 2012	Thereof identified staff	Percentage of identified staff within high earners
2010	3 427	1 420	41.44%
2011	3 177	1 574	49.54%
2012	3 530	1 895	53.68%

Figure 5: Percentage of high earners which are identified staff per Member State (values shown refer to 2012)



24. For high earners, the EBA calculated the ratio between the variable and fixed components of total remuneration and the ratio between the deferred and non-deferred variable remuneration. The graph only includes countries for which high earners were reported and the EU average.

Figure 6: Ratio between variable and fixed remuneration for Member State with high earners (values shown refer to 2012)[7]



25. It can be observed that the ratios are significantly lower in 2012 than in 2010. This is the same for the benchmarking data for all identified staff. This development results from the implementation of CRD III, a significantly reduced profitability of institutions in 2011 and significantly increased fixed remuneration in 2012. This may be a result of the political discussion around the possible limitation of variable remuneration. Future ratios will be significantly lower as CRD IV introduces a cap for the variable component of remuneration of 100% (200% with shareholders' approval) for identified staff.

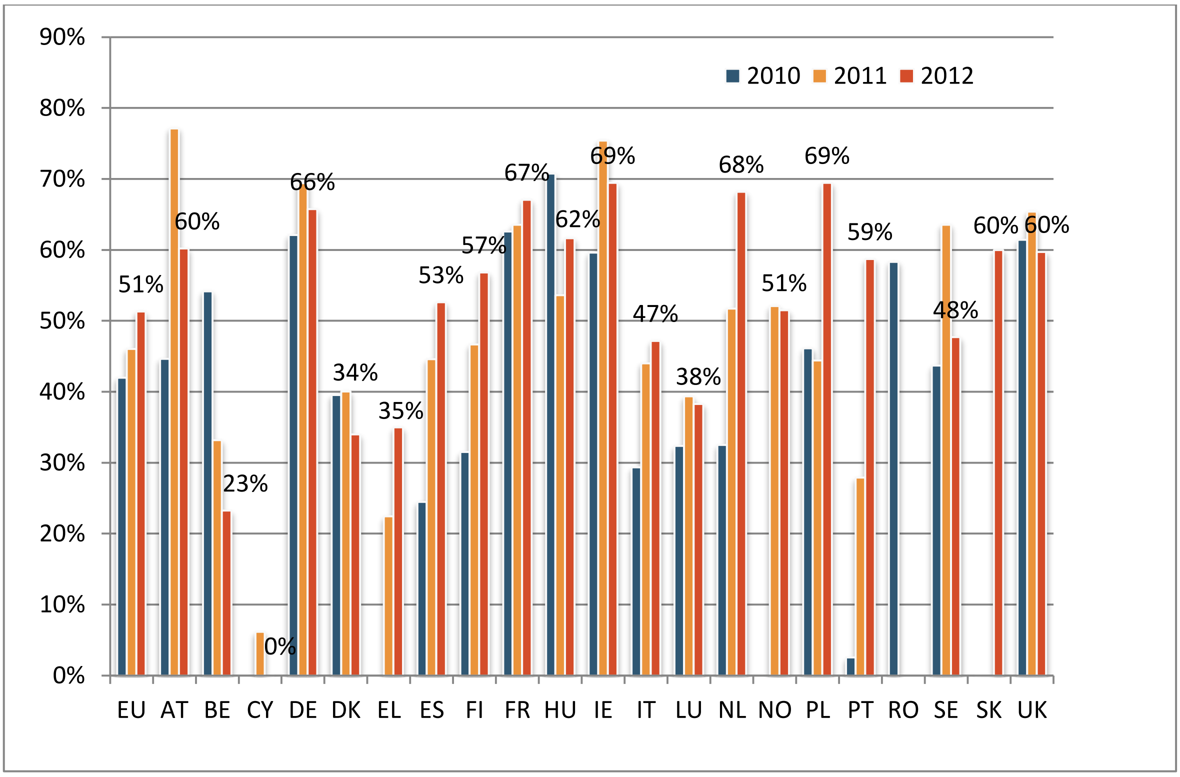
26. Not all high earners have been identified as having a material impact on an institution's risk profile. Some of the remuneration requirements apply explicitly to identified staff. Consequently the requirement to defer at least 40% of variable remuneration and in cases where a particularly high amount was awarded up to 60%, does not directly apply to all high earners. However, for most of the high earners, the awarded variable remuneration (considering the ratios observed between variable and fixed remuneration in particular) should be considered a particularly high amount, and therefore if high earners are identified staff at least 60% of the variable remuneration should be deferred.

27. The percentage of deferred variable remuneration has increased in most cases, as has the EU average in 2012 compared to 2010. There seems to be a tendency for many institutions to just comply with the minimum CRD deferral requirements, rather than considering if higher deferral ratios should be applied to achieve a better risk alignment. The average deferred remuneration is below 40% or 60% in some cases. It seems that institutions do not apply similar remuneration

[7] Data for SK has been removed for presentational reasons, the ratio of 1911% in 2011; 571% in 2012 results from only one high earner who received mainly variable remuneration.

policies with regard to the deferred part of variable remuneration, in case they do not consider all high earners to be identified staff. However, institutions are required to apply appropriate remuneration policies to all staff members and it would be prudent to apply strict policies to all high earners.

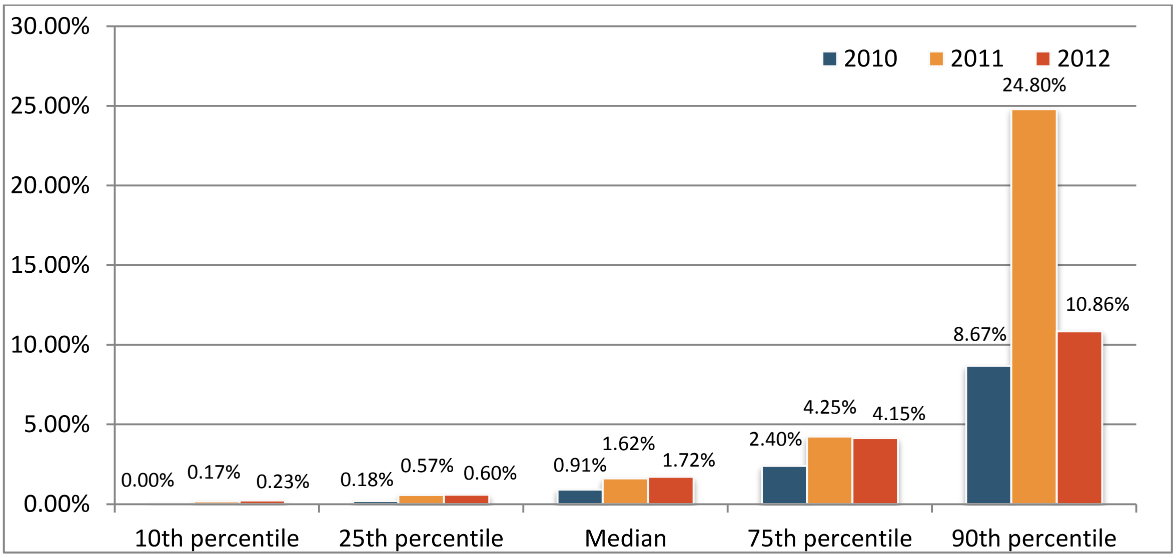
Figure 7: Ratio between deferred and total variable remuneration for Member States with high earners (values shown refer to 2012)



2.2 Identified staff within institutions

28. The percentage of staff identified differs significantly between institutions. To compare institutions of different sizes and to provide an overview of the distribution of values the EBA calculated percentiles for the ratio between the identified staff and all staff within institutions. Overall, this ratio has increased over time from 0.97% in 2010, 1.09% in 2011 to 1.20% in 2012. While a quarter of the reporting institutions show significant higher values, more than a quarter of institutions identify only half of the average percentage of staff, or even less. In the 90th percentile, values change significantly over time; this is due to a growing sample of institutions and a very limited number of institutions showing high ratios of identified staff. The distribution of these ratios compared to the size of institutions is explained in the value plot in Figure 9.

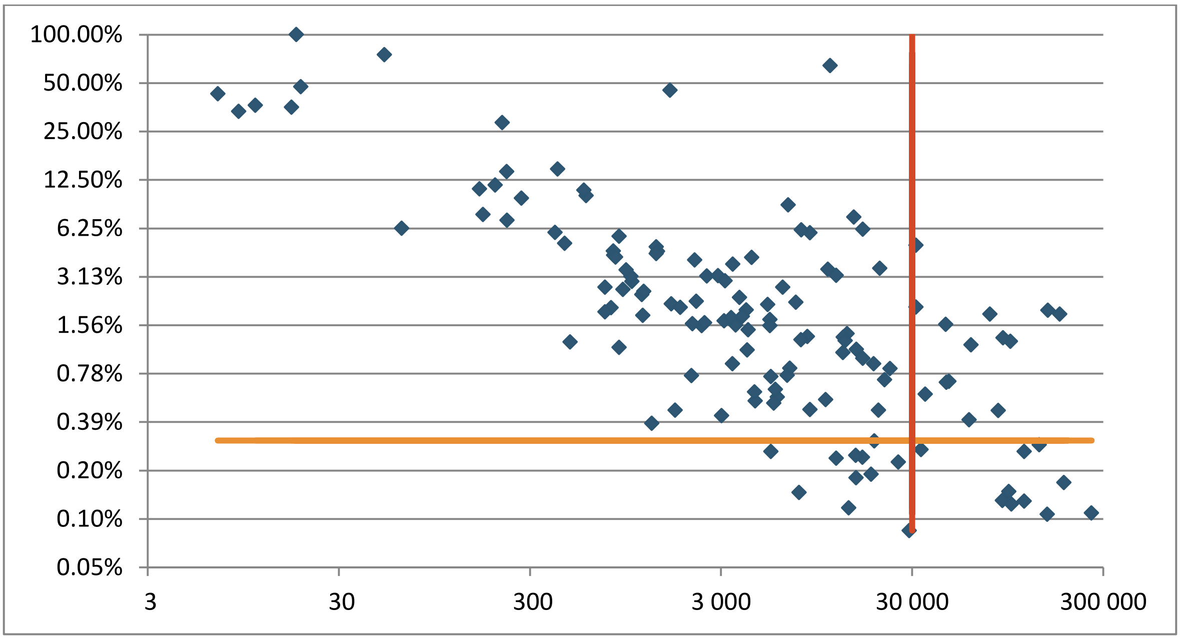
Figure 8: Percentiles of the ratio between identified staff and all staff in percent



29. On average, institutions had 21 847 staff members in 2012 (2011: 24 135; 2010: 26 035) and 263 (2011: 263; 2010: 250) thereof were identified. Of the total number of identified staff in 2012, on average 21% (2011: 19%; 2010: 17%) belonged to senior management, and 14% (2011 14%; 2010: 13%) belonged to the control functions. Even if the ratio of senior managers being identified increased over time, it seems implausible that a significant number of staff in senior management positions (who report directly to the management body and who are responsible for the day to day activities of institutions) have no material impact on their risk profile. In the future, all senior management staff should be considered as identified staff in accordance with the EBA’s proposal for regulatory technical standards (RTS) on the criteria for the identification of staff whose professional activities have a material impact on the institution’s risk profile.

30. The numbers of staff and the ratio of identified staff for institutions are shown in the value plot below for 2012. In accordance with the RTS on the criteria for the identification of staff whose professional activities have a material impact on the institution’s risk profile (RTS on identified staff), institutions will identify at least 0.3% of the staff with the highest remuneration, and therefore the ratio will increase for some institutions (as indicated by the orange line in the chart below). In smaller banks, the ratio shows higher values compared to larger banks and there seems to be a correlation between these variables for small and medium-sized institutions. This seems plausible as the relative number of members of the management body, senior management and heads of business units within smaller institutions is higher than in larger ones. For banks above 30 000 staff members (indicated by the red line) the correlation between size and the percentage of staff being identified is weaker.

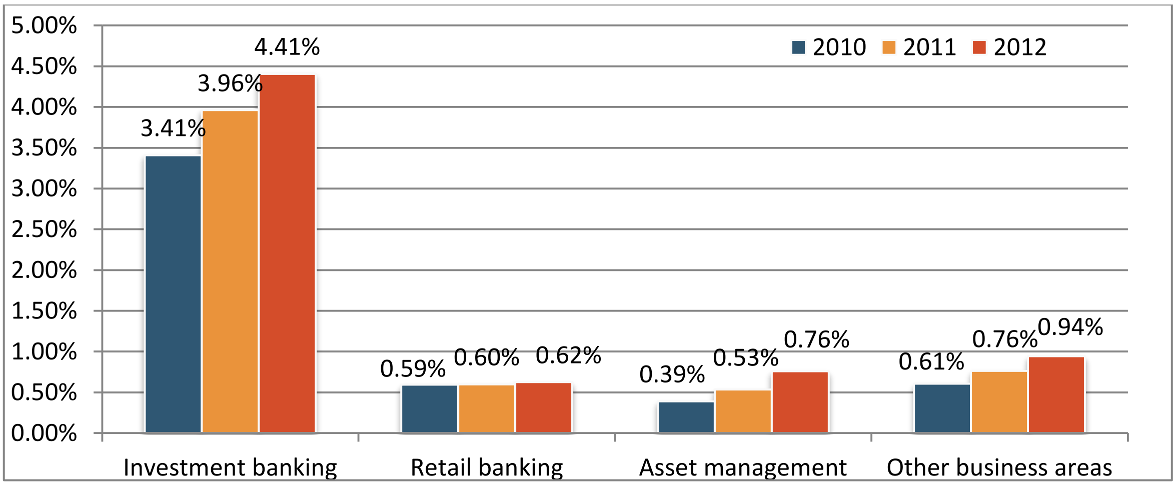
Figure 9: Ratio of identified staff compared to the number of staff within institutions in 2012 (logarithmic scale, orange line at 0.3% as set under the RTS on identified staff)



31. It can be observed that the ratios of identified staff for institutions of a similar size differ significantly, even though often the institutions have similar business models. This is mainly driven by different identification practices. However, an in depth or country-by-country analysis is not possible as only consolidated data is available.

32. The numbers of identified staff were reported for different business lines: investment banking, retail banking, asset management and all others. The business line 'all other' contains corporate functions, including the management body, IT, legal, HR and control functions. The average percentage of identified staff in the business line investment banking is, as expected, higher compared to all other business lines as shown below.

Figure 10: Ratios of identified staff/all staff for different business lines



2.3 Remuneration of identified staff

33. In 2012, identified staff received on average EUR 187 441 variable remuneration and EUR 172 379 fixed remuneration, a total of EUR 359 820. **This is a 31% increase of fixed remuneration and a 30% decrease of variable remuneration, resulting in an overall decrease of the average remuneration of 10% since 2010**. The average total remuneration differs between business lines as shown in the table (Figure 11) below. In investment banking, the highest variable remuneration was paid on average, followed by asset management, other business areas (which includes the members of the management body) and retail banking (Figure 12). The biggest changes in variable remuneration can be observed in investment banking, whereas the variable remuneration for staff in retail banking remained more stable. This is due to more volatile profits and losses within investment banking. The same applies to the ratio between variable and fixed remuneration (Figure 13).

Figure 11: Average of total remuneration in euro for identified staff per business line

Business area	2010	2011	2012
Investment banking	644 795	493 720	518 893
Retail banking	124 167	141 900	181 564
Asset management	492 725	400 302	441 038
Other business areas	368 462	347 643	311 327

Figure 12: Average of variable remuneration in euro for identified staff per business line

Business area	2010	2011	2012
Investment banking	497 069	318 625	333 225
Retail banking	38 855	42 076	47 119
Asset management	333 078	229 457	248 328
Other business areas	195 069	170 301	116 303

Figure 13: Average ratio between variable and fixed remuneration for identified staff per business line

Business area	2010	2011	2012
Investment banking	**336.48%**	**181.97%**	**179.47%**
Retail banking	45.55%	42.15%	35.05%
Asset management	**208.63%**	**134.31%**	**128.86%**
Other business areas	112.50%	96.03%	59.64%

34. The range of average salaries for all identified staff, and the ratio between variable and fixed remuneration differs significantly between different institutions, as indicated in the chart below, with total remuneration levels varying from around EUR 30 000 to EUR 3 200 000. On average, for most institutions a maximum ratio of variable and fixed remuneration of 100% seems to be appropriate based on their own remuneration policies implemented under CRD III, and in the absence of the cap on variable remuneration introduced by CRD IV. **A large number of**

institutions show average ratios of up to 200%, corresponding to the maximum ratio introduced under Article 94 of CRD IV. In a few cases, the ratio shows excessive values with particularly high amounts being paid. For individual staff members, values have a significantly wider spread.

35. It can be observed that between the four business areas, for which separate data are available, the overall distribution of ratios and total amount of remuneration is significantly different (Figures 14 to 17).The business line investment banking shows the highest ratios and the highest amounts paid. While some institutions show very high ratios between variable and fixed remuneration, in particular in the areas of asset management and investment banking, other institutions that pay a similar level of total remuneration have an average ratio which is below 200%; in only a few cases institutions pay out even higher amounts of variable remuneration combined with significantly higher ratios. Based on this observation, it seems that the newly introduced limitation of these ratios may have less impact on the competition of firms in Member States than frequently argued. In particular in retail banking the average ratios observed suggest that, in most cases, an institution’s remuneration policies are already in line with the requirements of CRD IV for most identified staff members.

Figure 14: Ratio (variable/fixed) and total remuneration for identified staff in investment banking 2012

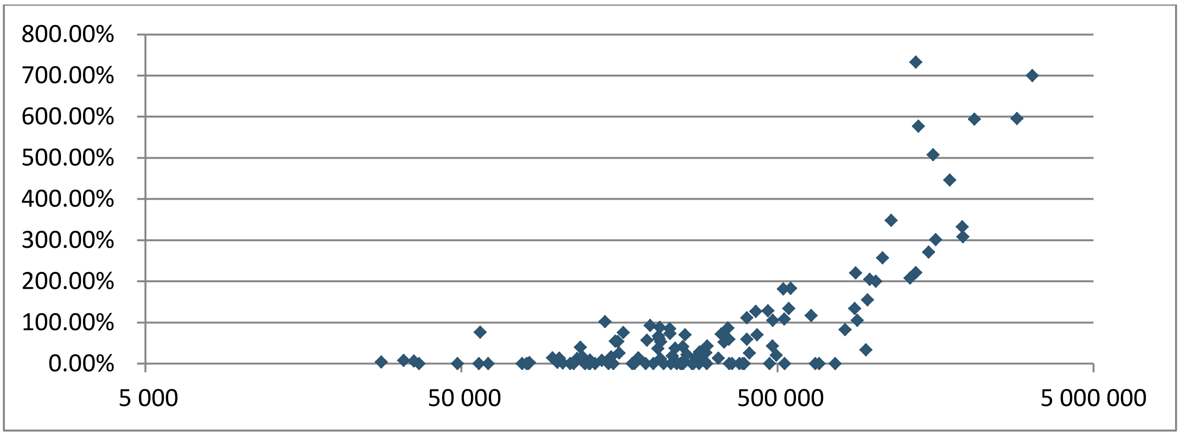


Figure 15: Ratio (variable/fixed) and total remuneration for identified staff in asset management 2012

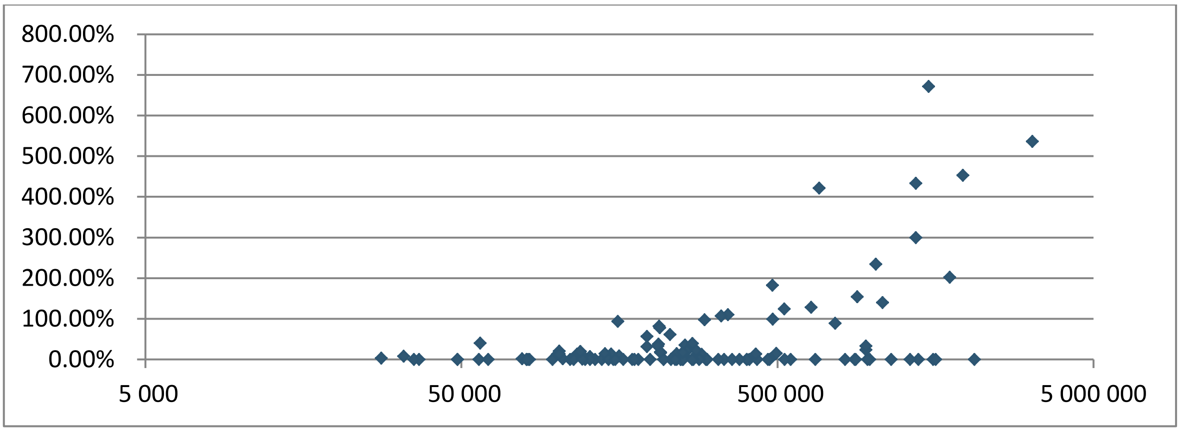


Figure 16: Ratio (variable/fixed) and total remuneration for identified staff in retail banking 2012

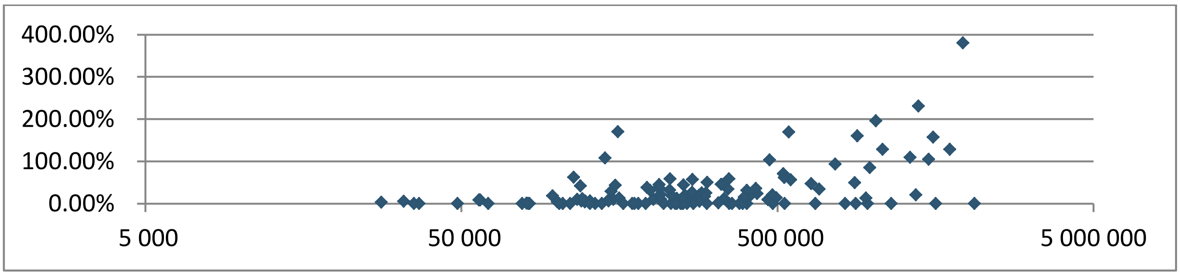
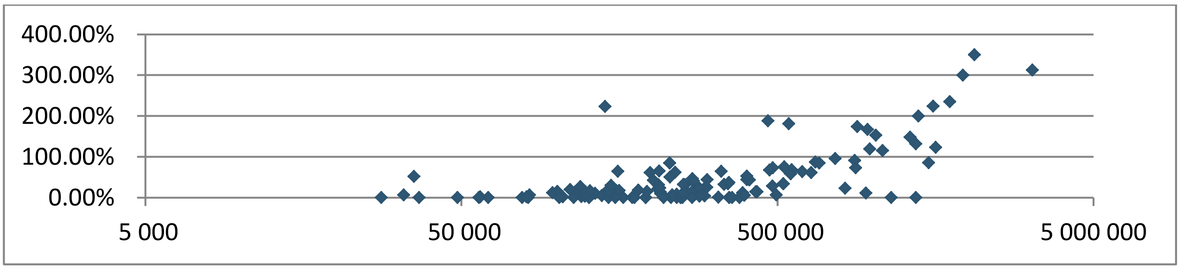


Figure 17: Ratio (variable/fixed) and total remuneration for identified staff in all other areas in 2012

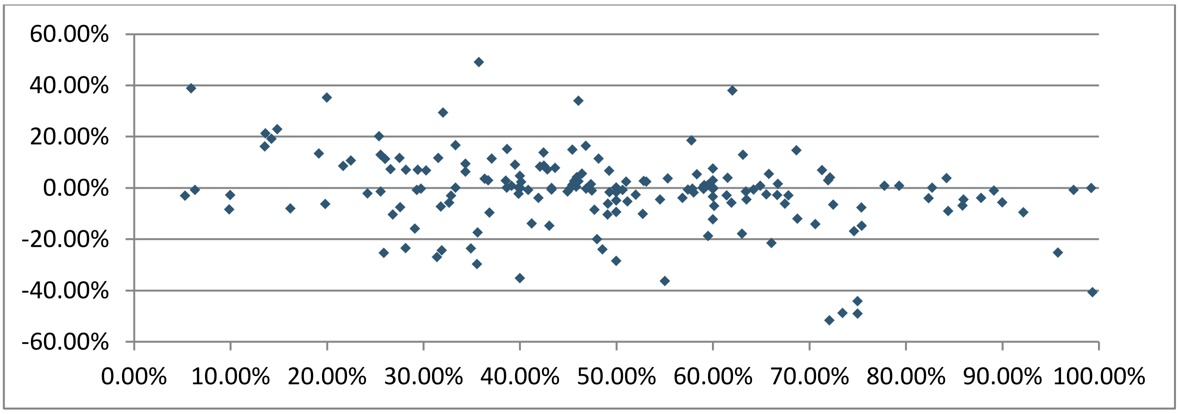


2.3.1 Deferred variable remuneration

36. The variable remuneration of identified staff is subject to deferral requirements. The CRD requires that at least 40% of variable remuneration be deferred for a period of at least three to five years, and if a particularly high amount of variable remuneration is paid, at least 60% must be deferred. A significant portion of variable remuneration (at least 50%) must be paid in equity or debt instruments. Some of the values shown below do not comply with the above requirements; this is due to the CRD III requirements being implemented in 2011 for the first time, and may be due to proportionality considerations when only low amounts of variable remuneration were paid.

37. On average, variable remuneration in investment banking and asset management is higher than in retail banking or other business areas, and consequently the ratios of deferred variable remuneration are higher, as in several cases where a minimum of 60% of the variable remuneration had to be deferred. However, in 2012, it can be observed that the share of deferred remuneration was sometimes reduced. This is the case for institutions which, in particular, showed higher deferral ratios in 2011, and sometimes increased, particularly when more variable remuneration was paid or the deferred part was below the regulatory requirements.

Figure 18: Percentage of variable remuneration deferred in 2011 and incremental change of the ratio of deferred variable remuneration in 2012 for identified staff



38. The CRD requires the deferral of variable remuneration for identified staff. However, this provision is subject to proportionate application, and for some staff members with low amounts of variable remuneration, deferral might not be applied. In 2012, the average variable remuneration within an institution and the ratio of deferred variable remuneration was analysed. However, it should be borne in mind that some identified staff members receive lower than average amounts, and therefore a deferral might not be applied under proportionality considerations, while other identified staff members in the same institution would receive higher amounts of variable remuneration and at least 40%, or even 60%, of the variable remuneration would be deferred.

39. A material number of institutions seem to consider average amounts of variable remuneration of EUR 50 000, or even EUR 100 000, as minor amounts and have not deferred any of the variable

remuneration, while many other institutions applied the regulatory requirements to even smaller amounts based on an empirical analysis of the value plot below. Some institutions seem to apply a very high threshold to define a particularly high amount of variable remuneration, with amounts sometimes above even EUR 500 000. These institutions may not have deferred the 60% of variable remuneration as required under the CRD, while other institutions have deferred these higher ratios for significantly lower amounts. The EBA contacted some competent authorities and asked them to analyse the proportionate application of the deferral requirements for institutions which show for average amounts of variable remuneration of EUR 50 000 Euro and above deferral rates of below 40%. Initial results show that the differences can be explained by the exclusion of small subsidiaries (e.g. institutions with a small balance sheet or asset management firms) or staff members with a low variable remuneration from the scope of this requirement. The EBA will update the guidelines on remuneration policies taking into account the specific analysis of the application of deferral arrangements. The above thresholds are indicated as shaded area in Figure 19.

Figure 19: Average variable remuneration in 2012 for identified staff in euro, and the rate of deferral plotted separately for all business lines

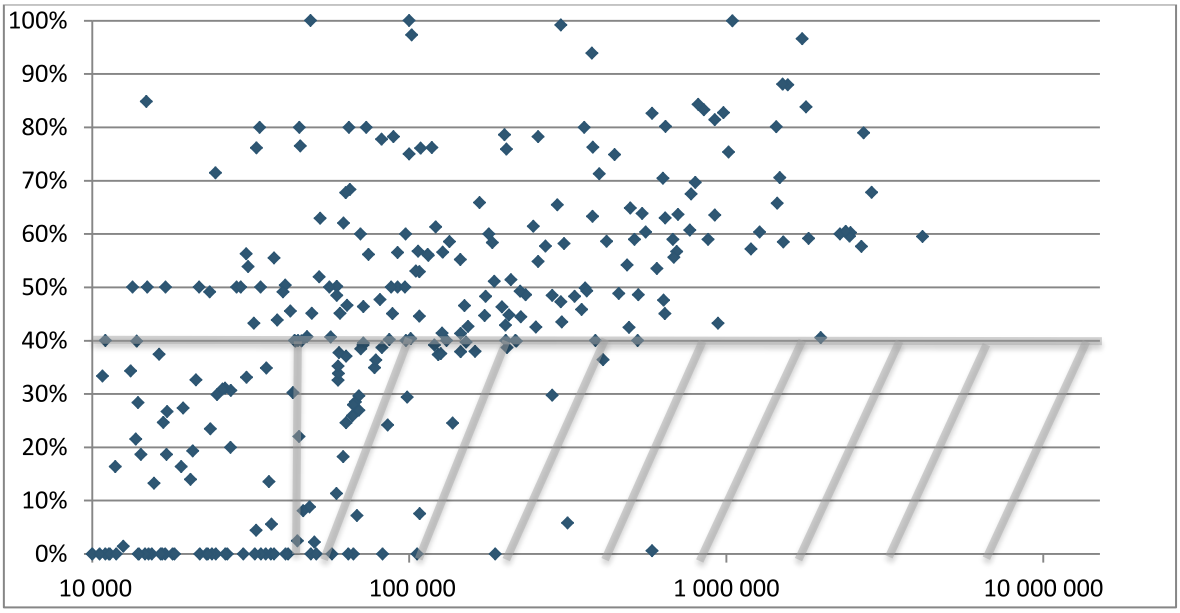
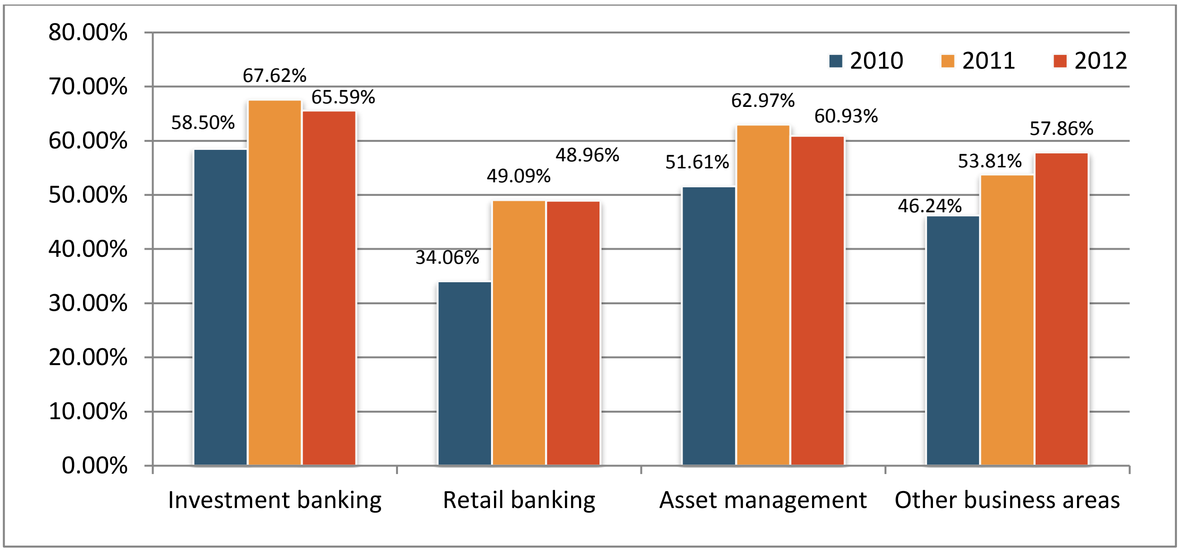
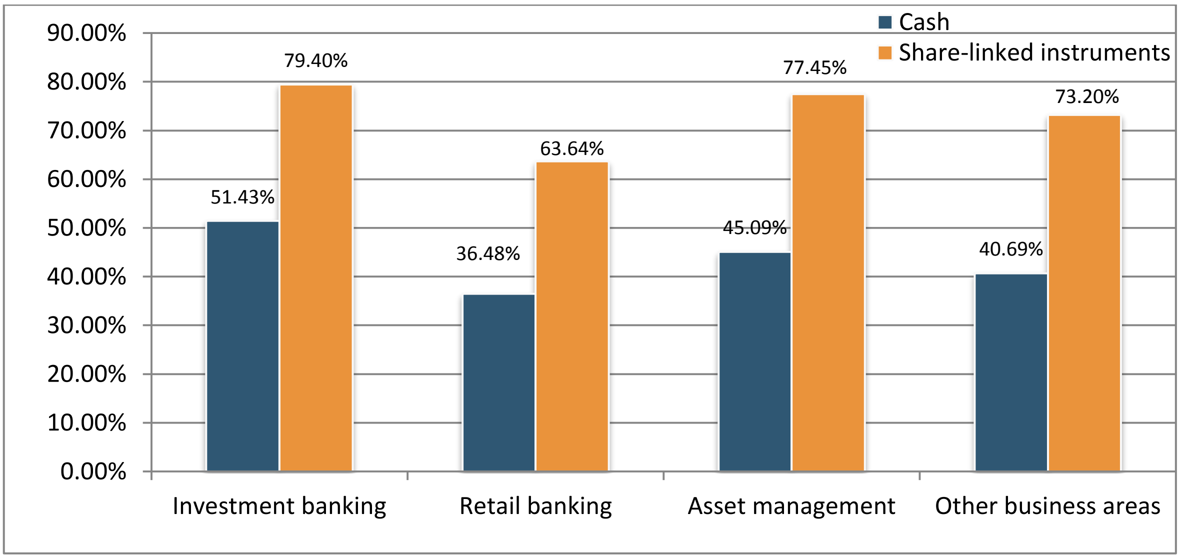


Figure 20: Ratio of deferred variable remuneration/total variable remuneration for identified staff



40. Deferral arrangements were applied in particular to non-cash instruments. Figure 21 shows the percentages of deferred variable remuneration for different instruments and business areas. Other types of instruments were only used in a few cases and were not added to the graph as the total amount is insignificant (compare also Figures 22 and 23). However, for other types of instruments, the deferred ratios are similar to the deferred ratios for shares, share-linked and equivalent instruments (referred to as share-linked instruments).

Figure 21: Ratio between deferred variable remuneration and total variable remuneration for identified staff per instrument for 2012; separate for cash and share-linked instruments (including shares, share linked and equivalent instruments)



41. Roughly half of the institutions only deferred small parts of the cash components, and some institutions did not apply deferral to cash components at all. Over time, the observed ratios for the use of deferred cash show that the deferral practices are slightly narrowing. At the same time,

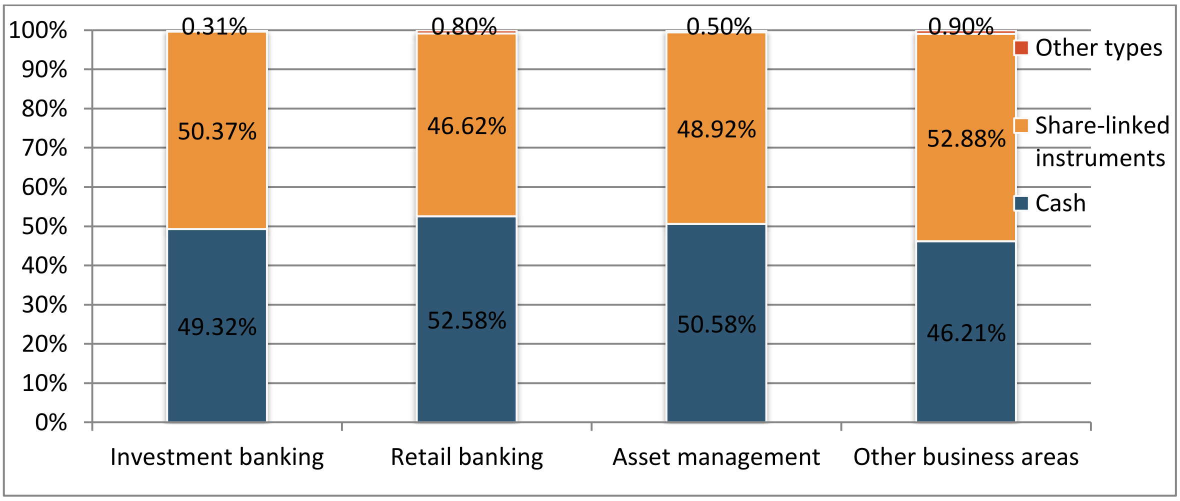
some institutions reduced the deferred part of shares awarded as variable remuneration. For higher amounts of variable remuneration and in the area of investment banking in particular, the ratio of variable remuneration awarded in shares and other instruments compared to cash payments in 2012 was 135% higher than in 'all other' business areas with 114%, asset management with 98% and retail banking with 95%.

Figure 22: Percentiles of ratios for deferred variable remuneration for different types of instruments (cash, shares including share-linked, equivalent instruments and other types of instruments)

Year	Cash 25	Shares 25	Other 25	Cash 50	Shares 50	Other 50	Cash 75	Shares 75	Other 75	Cash 90	Shares 90	Other 90
2010	0%	60%	0%	0%	83%	60%	42%	100%	100%	65%	100%	100%
2011	0%	46%	20%	16%	67%	60%	47%	100%	100%	63%	100%	100%
2012	0%	47%	0%	23%	70%	40%	44%	100%	57%	59%	100%	62%

42. A further analysis of the data shows that with higher amounts of variable remuneration, there is an increase of the non-cash elements, while under proportionality considerations, in some cases smaller amounts of variable remuneration were paid mainly in cash elements and without deferral arrangements.

Figure 23: composition of variable remuneration in 2012



2.4 Specific elements of identified staff's variable remuneration

2.4.1 Ex-post risk adjustments

43. The level of ex-post adjustments differed significantly between 2011 and other years. The table in Figure 24 shows the total amounts of applied ex post risk adjustments to identified staff. These adjustments affect the variable remuneration awarded for previous performance periods and are usually applied to deferred variable remuneration. The percentages calculated refer to the variable remuneration awarded in the previous year, even if the sample of banks changed

slightly over time. In the absence of data for 2009, the ratio for 2010 refers to the variable remuneration awarded for 2010. The data also supports that lower ratios of variable remuneration compared to fixed remuneration generally provide sufficient amounts to apply ex-post risk adjustments.

Figure 24: Total amounts of ex-post risk adjustments applied for previous years in euro

Business area	2010	2011	2012
Investment banking	33 451 767	636 847 789	103 212 172
Retail banking	24 213 721	211 460 670	3 562 850
Asset management	0	96 127 000	261 146
Other business areas	56 130 204	363 212 291	39 384 221
Total	113 795 692	1 307 647 750	146 420 388
total ex- post adjustment in % of variable remuneration of the previous year	1.5	17.2	2.17

44. Compared to the overall level of variable remuneration, on average only minor amounts of ex-post risk adjustments have been applied to the variable remuneration of identified staff in 2010 and 2012, while more significant adjustments were made in 2011. However, the ex-post adjustments were only made in a very limited number of institutions, while in most institutions no such adjustments were made.

45. In 2010, only four institutions made these ex-post risk adjustments, and in only two institutions did they exceed on average 20% of the variable remuneration. After CRD III was implemented, 10 institutions made ex-post risk adjustments in 2011, and 15 institutions made these adjustments in 2012. However, in 2011 the adjustments exceeded 20% of the variable remuneration only in three large banking groups and solely within one of these institutions reached up to around 65 % of the variable remuneration in single business lines. In 2012, the level of adjustments was relatively low and only one large banking group applied significant ex-post risk adjustments of 20% to 45% of the variable remuneration depending on the business line.

2.4.2 Guaranteed variable remuneration

46. Guaranteed variable remuneration is exceptional and can only occur when hiring new staff, when the institution has a strong capital base and is limited to the first years of employment. The overall number of identified staff who received these payments is relatively small compared to the total staff numbers. However, while the numbers of these payments were reduced in investment banking, the amounts paid on average are significant as shown in Figure 26 and Figure 27.

Figure 25: Number of staff per business line who received guaranteed variable remuneration

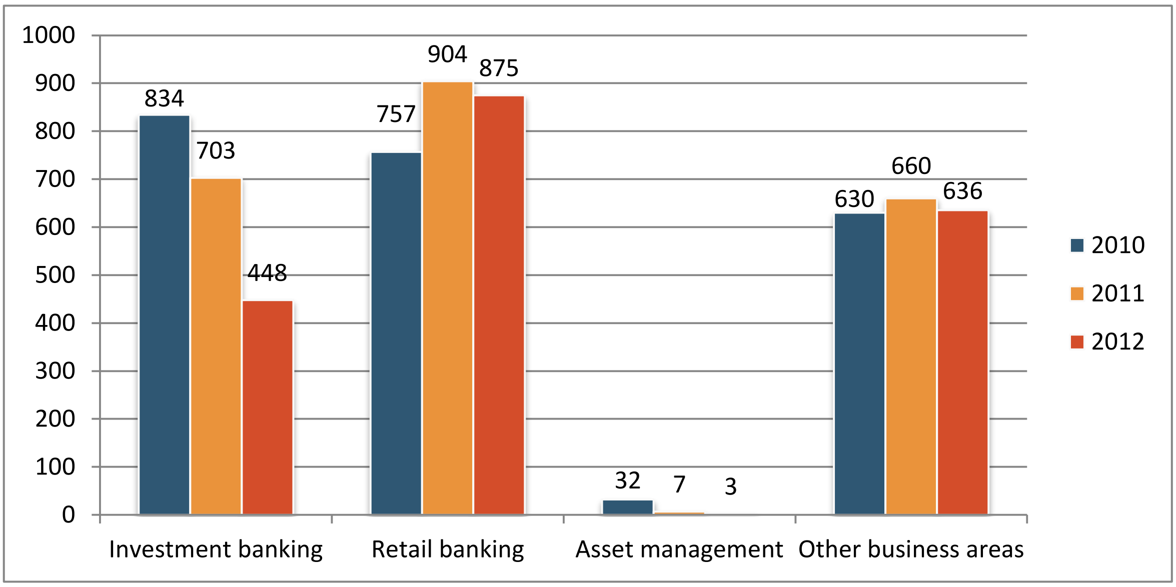


Figure 26: Total amount of guaranteed variable remuneration awarded to identified staff in euro

Business area	2010	2011	2012
Investment banking	339 035 245	306 988 895	130 895 082
Retail banking	5 948 771	5 858 568	6 128 171
Asset management	27 951 649	3 519 453	2 654 777
Other business areas	14 946 202	20 468 687	14 605 787

47. The amounts (median) of so called sign-on-bonuses per receiving identified staff member decreased between 2010 and 2012 in all business areas with the highest reduction in relative terms in the area of retail banking.

Figure 27: Amounts (median) of guaranteed variable remuneration in euro per recipient

Business area	2010	2011	2012
Investment banking	589 707	339 375	300 000
Retail banking	240 289	26 306	50 612
Asset management	1 060 894	400 000	757 694
Other business areas	108 000	60 690	100 000

2.4.3 Severance payments

48. The number of severance payments made to identified staff is very limited compared to the overall staff figures in institutions. However, the number has increased over time responding to the need to restructure institutions, including changes in top paid positions. In 2012, 1 390 staff members received these payments (2010: 387; 2011: 1 011). Figure 29 shows the number of staff who received severance payments per business line whilst Figure 30 shows the median of amounts paid by institutions. However, as institutions only report aggregated figures, single payments could be significantly higher.

Figure 28: Total amounts of severance payments in euro

Business area	2010	2011	2012
Investment banking	63 712,356	108 836 064	94 916,804
Retail banking	11 324,207	21 132 998	51 007,735
Asset management	3 273,190	10 680 427	19 348,126
Other business areas	76 402,013	53 812 816	123 813,655
Total	154 711 766	194 462 305	289 086 320

Figure 29: Number of identified staff per business line receiving severance payment

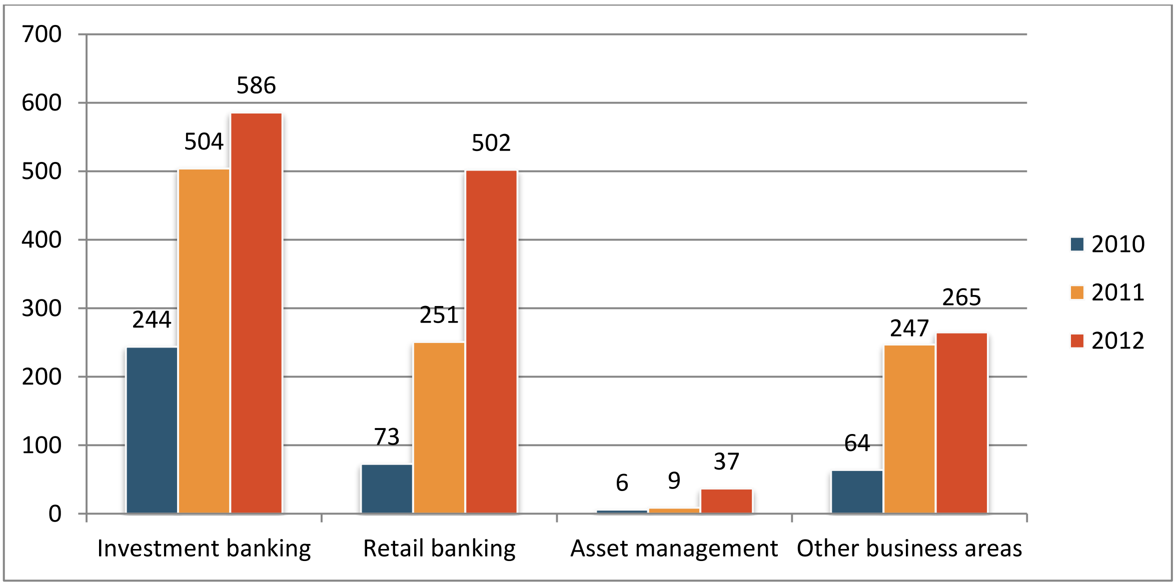


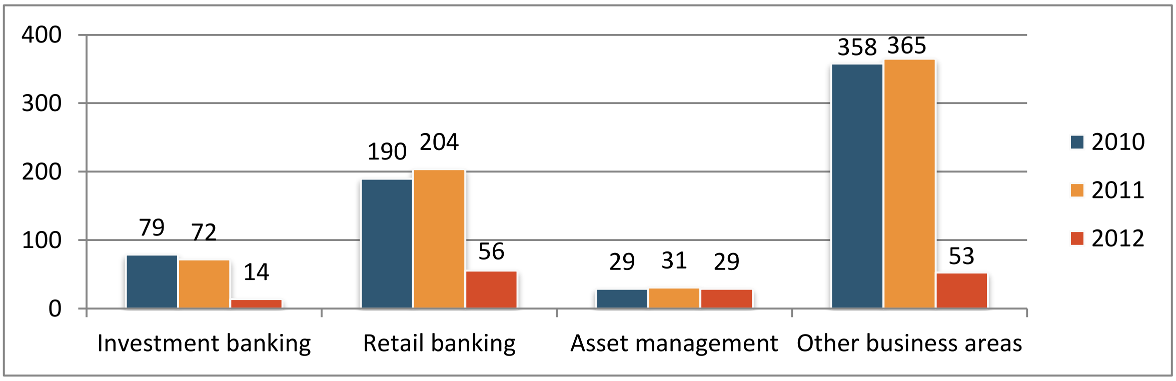
Figure 30: Amount (median) of severance payment in euro awarded to single identified staff members

Business area	2010	2011	2012
Investment banking	207 647	341 548	221 000
Retail banking	118 483	156 234	177 250
Asset management	605 095	79 180	258 251
Other business areas	205 000	268 112	342 696

2.4.4 Discretionary pension benefits

49. The absolute amount of discretionary pension benefits awarded to identified staff is very limited and these benefits only formed a material element of the overall remuneration framework in one institution. The use of these payments was reduced significantly in 2012 with only 152 staff receiving payments (2011: 672; 2010: 656).

Figure 31: Number of persons per business line receiving discretionary pension benefits



50. The total amount of discretionary pension benefits were reduced over time in all business lines. The median amount of these payments does not form a material component of the variable remuneration. However, these payments were, in exceptional circumstances, a relevant component of single identified staff members' remuneration.

Figure 32: Total amount of discretionary pension benefits per business line in euro

Business area	2010	2011	2012
Investment banking	734 542	1 051 084	475 876
Retail banking	4 794 103	6 802 151	3 072 784
Asset management	88 241	498 006	75 052
Other business areas	4 417 000	5 359 367	2 234 500

Figure 33: Amount (median) in euro of discretionary pension benefits per recipient

Business area	2010	2011	2012
Investment banking	20 667	40 667	31 195
Retail banking	27 632	29 762	11 765
Asset management	1 549	2 500	11 000
Other business areas	37 500	39 286	18 583

EUROPEAN BANKING AUTHORITY

Tower 42, 25 Old Broad Street
London EC2N 1HQ

Tel: +44 2073821770
Fax: +44 207382177-1/2

E-mail: info@eba.europa.eu
http://www.eba.europa.eu