Review of the Reward Environment in the Banking Industry

Prepared for the Association for Financial Markets in Europe

January 2015
Executive Summary

Throughout the report, McLagan has highlighted several insights and findings with respect to the evolution of the reward environment in the banking and capital markets (BCM) industry since the crisis. In particular, we have noted the following:

• Industry pay has in general become much more stable since 2007 and will continue to remain so in 2014, in line with more sustainable industry performance.

• Total compensation within EMEA has fallen significantly over past years, decreasing by 32% from 2009 to 2013. This trend is expected to continue into 2014, with an estimated drop of 35% between 2009 and 2014. Total compensation within the UK is significantly below that of the US (-21% in 2013).

• The portion of fixed pay in total compensation increased from 30% in 2007 to 62% in 2013.

• 2014 bonus pools are expected to decline faster within EMEA than on a global basis, leading to a widening gap between European and US total compensation.

• Bonus pay-out ratios (bonus as a percentage of net revenue) have decreased more at European banks versus US banks (-17 vs -11 percentage points for European vs US banks, from 2007 to 2014).

• Since 2007, bonus deferral rates have increased significantly, especially for higher earners.

• BCM total compensation has moved below other financial sectors and the gap increases when looking at total cash compensation (27pp and 14pp lower than average cash compensation in Private Equity and Asset Management respectively). BCM continues to defer more pay than these sectors.

• There is an increased focus on cultural change within firms, with a greater emphasis on behaviours and values.
Introduction

This report focuses on the key trends in remuneration in banking and capital markets (BCM) activity in 2013 and provides 2014 estimates where available, based on a detailed study conducted by McLagan. For the analysis McLagan used data from 18 of the AFME Board-members firms, which have a combined 2013 BCM revenue of €135bn (from published accounts) and make up 83% of the 2013 BCM revenue of all AFME Board-members firms.

This study aims to give insight into how the following have changed in the period since the financial crisis:

- An authoritative understanding of the size of total compensation and bonus pool, and the total compensation and bonus pool per capita.

- How remuneration is structured between various pay elements – share of allowances; make up of bonus; variable to fixed ratio.

- A clear understanding of how the nature of that variable remuneration has changed in recent years in response to regulation. For example, the size of deferral, how long remuneration is deferred for and the change in upfront cash bonuses .

- The global context – how does total and variable remuneration compare, in other financial centers across the world and other industries?

- The relationship of remuneration with bank performance – looking at compensation to income ratio.
Definitions

• **APAC** – Asia Pacific geographical region.

• **BCM** – Banking and Capital Markets (primarily equities, fixed income and investment banking), also described as the Investment Bank.

• **Bulge** (bracket) – Comprises of the industry recognised largest top 9 global banks.

• **EMEA** – Europe, Middle East and Africa geographical regions.

• **MD** – Managing Director or equivalent level within an organisation.

• **Net Revenue** – All revenue including nonrecurring, net of interest expense.

• **Officer Levels** – Staff with corporate titles of Vice President (or equivalent) and above.

• **Role-Based Allowance** – Is a cash and/or equity allowance paid alongside base salary to Material Risk Takers (MRTs)/Identified Staff, in response to CRD IV regulation.

• **Total Cash** – Is the summation of base salary and non deferred cash bonus in a given year.

• **Total Compensation** – Total compensation is the summation of all applicable compensation elements (base salary, cash bonus, long-term/deferred incentives). This amount should reflect the total amount communicated to an employee for a given performance year.

• **Total Compensation / Total Bonus Pay out Ratio** – Is the total compensation / total bonus pool as a percentage of net revenue.
Changing the Culture in Banking

• Immediately following the financial crisis, there were marked changes in the reward environment with respect to the quantum, structure, and determination of reward. Firms were focused too heavily on the immediate pool of incentive compensation, and overly motivated by product performance versus client focus. Over the past few years, numerous initiatives have resulted in firms thinking beyond simple pay levels.

• While scandals and fines have tarnished the industry’s image for many, firms have heavily focused on changing the culture of the organisation with the ultimate goal of treating customers and colleagues fairly. Through reviews of how the business operates, many firms have strived to measure and reward people not just on financial, business, or commercial results, but on how they achieved them and how they have embraced the values of the organisation.

• This is demonstrated through the introduction of a two-tiered performance management process (incorporating ‘the what and the how*’). Specific documented examples include Barclays’ balanced scorecard being used at all levels of the organisation, and HSBC introducing an ‘override’ on CEO pay contingent solely upon embracing company values. Firms have become more transparent as to the effect of individual’s actions, and in some cases, are communicating specific negative reward consequences as a result.

• Furthermore, there is increasing documentation, enhanced approaches, and more disciplined pay determination occurring at organisations – especially at the senior levels. The goal is to drive consistency, defensibility, and better tracking of reward to ensure that firms are recognising and rewarding the right behaviours.

• Finally, firms are examining their employee value proposition (EVP) and using it to communicate what the organisation values and drive change. Work/life balance initiatives and new policies, clearly defined career progression, recognition schemes, and a deeper focus on engagement have all been in focus in recent months as banks strive to enhance talent management and improve the culture within banks.

*‘How’ typically defined as a separate behavioural / risk component to the performance management process
We see increasing focus on cultural change, a particular priority for EU based firms. Examples of recent activities include:

- **Values** assessment integrated within *performance management* approach
- **Balanced scorecard** approach being cascaded to all business units/functions and all employees
- **Values** being embedded into HR processes including recruitment, promotion, and all training/development
- Introduction of global recognition plans *(non-financial)* to reward role-model behaviours
- Specific (mandatory) **values/conduct training**
- Introduction of senior level oversight committees charged with *enhancing/protection brand* and *embedding values*
- Senior **leadership scorecards** including measures of:
  - Employee engagement
  - Diversity
  - Reputation (independent surveys)
Compensation Pools
Change in the size of Total Compensation

- On a global BCM-wide basis, total compensation awarded for the 2013 performance year remains at the same level that was seen in 2012, which is mainly due to the average headcount remaining relatively flat.
- This is still 22% below the level of total compensation awarded in respect of the performance year 2009, with the average year-on-year decline at approximately 6%.
- EMEA basis BCM-wide total compensation awarded in 2013 has declined at a quicker rate than the global level, with total compensation down 32% from 2009 and the average year-on-year decline at approximately 9%.
- The quicker decline is in part caused by pressure from various stakeholders, including shareholders and the public as well as regulators. CRD IV-linked increases in capital charges reducing risk adjusted profitability have been more impactful in reducing total compensation than direct CRD compensation regulations (e.g. bonus ratio cap, deferral requirements).
- In 2014 we expect the total compensation spend to decrease in line with flat to down revenues, with EMEA affected more than global total compensation.

Scope: 8 AFME firms with combined Global BCM revenue of €90bn.
Change in the size of Total Compensation per capita

- On a global BCM-wide basis total compensation awarded per capita, in respect of the 2013 performance year has dropped by 12% compared to 2009.
- This remains at the same level of total compensation per capita seen in 2012 and represents an average year-on-year decline of 3% since 2009.
- EMEA BCM-wide total compensation per capita levels have fallen sharper compared to global levels, down 18% since 2009. This represents an average year-on-year decline of 4.5% since 2009.
- We expect with total compensation predictions being slightly down and only small changes in headcount, that total compensation per capita will decrease for 2014.

**Total Compensation per Capita: Largest Global Banks – BCM Wide (2009 Index)**

**Scope:** 8 AFME firms with combined Global BCM revenue of €90bn.
Change in the size of Bonus Pool

• Global BCM-wide bonus pools have seen a rapid decline in their size since 2009, with the 2013 bonus pools down 42% from 2009.
  
• The 2011 to 2013 bonus pool sizes have remained relatively stable after a circa. 40% drop in size between 2009 and 2011.
  
• EMEA BCM-wide bonus pools have declined even further from 2009 levels, with 2013 bonus pools approximately 50% lower than in 2009.
  
• As with global bonus pools, EMEA bonus pools have plateaued after a significant (45%) drop between 2009 and 2011.
  
• With revenues flat to down in 2014 and fixed pay increasing, we expect to see bonus pools decrease. The impact of this will be seen more in EMEA, due to the introduction of Role-Based Allowances.

**Bonus Pool: Largest Global Banks - BCM Wide (2009 Index)**

Scope: 8 AFME firms with combined Global BCM revenue of €90bn.
Change in the size of Bonus Pool per capita

- The global BCM-wide bonus pool awarded per capita in respect of the 2013 performance year, has declined by 30% since the 2009.

- 2009 indexed levels have increased from 63% in 2011 to 70% in 2013 after sharp year-on-year falls between 2009 and 2011.

- The bonus pool awarded per capita in EMEA, has seen a very similar decline from 2009 performance year to 2011, but has not recovered to the global 2013 level and trails the 2009 performance year (35% vs. 30% below).

- Due to higher fixed pay and some decline in performance in 2014, we expect the bonus pool per capita to decrease.

**Bonus Pool per Capita: Largest Global Banks - BCM Wide (2009 Index)**

Scope: 8 AFME firms with combined Global BCM revenue of €90bn.
Structure of Compensation
Total Compensation awarded in Fixed Pay has rapidly increased from 2007

- Pay has become much more stable since 2007 and will continue to do so in 2014, in line with more sustainable and predictable performance.

- The percentage of total compensation that is paid as fixed pay in 2013 has risen to 62%, up from 57% in 2012.

- This is a significant increase to the levels of fixed pay seen in 2007, when fixed pay constituted 30% of total compensation.

- The percentage of fixed pay is only 1pp higher in 2013, when looking at EMEA versus Global BCM. We expect this variance to increase in 2014, as a result of the bonus cap, but as this will only affect a limited number of employees the impact should be small.

- Levels of fixed pay as a proportion of total compensation will likely increase further in 2014 as a result of heightened regulatory pressure to limit variable compensation and the introduction of Role-Based Allowances for Material Risk Takers.

Drop in variable pay % in 2008 was due to a significant reduction in bonus pools vs. 2007 and 2009.

Scope: 18 AFME firms with combined Global BCM revenue of €135bn.
Delivery of Variable Pay

- Variable awards continue to be most commonly made up of cash / deferred cash and share awards.

- Share awards are most commonly in the form of either Time-Vested Restricted Stock (usually on a three year pro-rata vesting schedule) or Phantom Stock (units that vest in cash but track the firm’s share price while unvested).

- Other vehicles used:
  - Performance shares – Shares provided as compensation only if certain performance targets are met. These are typically more common for regulated staff populations than they are within broad-based mandatory deferral programs.
  - Bonds – Bond-like vehicles which, earn a coupon until maturity are being used by a few firms. This trend that emerged two years ago does not appear to have gained more prevalence.

- Most firms that award all or part of their deferral in a cash vehicle will allow the amount to earn interest or appreciate during the vesting period. The interest is normally linked to the money market rate, LIBOR, or the consumer price index. These approaches have not changed versus the prior year.

- In 2014 we expect to see some reduction in the size of variable pay awarded, as firms attempt to maintain total compensation levels whilst fixed pay levels rise.
Higher deferral rates seen since 2007

- Since 2007 effective deferral rates have increased significantly for higher paid staff with lower paid staff facing effective deferral rates which are more in line with 2007 levels.

- Effective deferral rates in 2013 remain similar to 2011 and 2012 levels, as the majority of firms have not made wholesale changes to their broad-based mandatory deferral programs.

- UK / EMEA headquartered firms typically have higher deferral rates than firms that are in headquartered in the US and Asia Pacific.

- UK / EMEA based firms generally defer 5-10% more than their peers in other locations and this differential is even more significant at the highest incentive levels.

Scope: 16 AFME firms with combined Global BCM revenue of €125bn.

<table>
<thead>
<tr>
<th>Bonus in Euros</th>
<th>75k</th>
<th>375k</th>
<th>750k</th>
<th>1.5M</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0%</td>
<td>23%</td>
<td>26%</td>
<td>29%</td>
</tr>
<tr>
<td>2013</td>
<td>5%</td>
<td>36%</td>
<td>58%</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bonus in Euros</th>
<th>75k</th>
<th>375k</th>
<th>750k</th>
<th>1.5M</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK / EMEA</td>
<td>0%</td>
<td>32%</td>
<td>49%</td>
<td>56%</td>
</tr>
<tr>
<td>Non UK / EMEA</td>
<td>13%</td>
<td>29%</td>
<td>35%</td>
<td>44%</td>
</tr>
</tbody>
</table>
Latest Trends in Mandatory Practices

Program Changes

- Mandatory deferral programs for 2013 performance year pay-outs did not change significantly vs. previous years practice, due to big structural changes already implemented.
- Only about 25% of firms made structural changes (i.e. changes to deferral eligibility criteria, deferral schedules, vehicles or vesting) to the design of their deferral programs and of these changes almost all were minor adjustments as opposed to wholesale re-design.

Effective Deferral Rates

- Deferral rates did not change drastically in 2013 vs. 2012. While several firms made tweaks to their deferral schedules, the impact on effective deferral rates was minimal.
- The factors which have the biggest impact on effective deferral rates include firm type (bulge vs. non-bulge), headquarter location (UK/EMEA vs. Non-UK/EMEA) and whether or not the employee is a Material Risk Taker (bulge, UK/EMEA and MRTs would all have higher effective deferral rates).

Participation Threshold

- €100k incentive continued to be median threshold in 2013, that was used across participants to determine eligibility for firms' broad based mandatory deferral programs (see chart).
- €100k entry point driven by differences across US firms, who most commonly have a €75k incentive threshold vs. UK based firms that may have a £100k threshold.
- For firms that use total compensation level to determine eligibility, the median threshold increased from €190k to €205k. European firms tend to have a higher eligibility threshold when compared to US firms.

Source: McLagan mandatory deferral / LTIP study.
Latest Trends in Mandatory Practices (continued)

**Variance by Region**
- The highest earners / most senior staff at UK / EMEA based firms are having a much greater portion of incentives deferred than US and APAC based firms. This is most notable for incentive levels greater than €565K.
- The difference in deferral rates between US / APAC firms and UK / EMEA firms, is explained by the fact that only 14% of non-UK / EMEA based firms have an effective deferral rate at or greater than 70%. On the other hand, 38% of UK / EMEA headquartered firms have effective deferral rates greater than this threshold.

**Regulated Staff**
- UK regulated staff will be subject to more onerous clawback periods for awards made after January 1 2015. The new rules mean that awards can be recouped for up to seven years after the award is granted for this population.
- Material Risk Takers in the UK and European Union are subject to specific incentive deferral ratios and are therefore typically covered by a separate deferral schedule vs. the rest of the population.
- All incentives are typically deferred at either a 40% or 60% deferral rate (depending on their incentive level).

**Vesting Schedules**
- Approximately 85% of deferred awards vest within the first three years. In most cases this is done on a pro-rata basis where a portion of the deferred award vests each year (most commonly 1/3rd after each year).
- For UK / EMEA based regulated staff populations (code / identified staff) and global regulated populations for UK / EMEA headquartered firms, equity vehicles are also required to have an additional retention period.
- Generally, this retention period was 6 months but, in very limited circumstances, could be as much as 2 years (based on a firm’s home country regulator).
- The PRA is currently consulting in the UK, to make both deferrals and vesting periods even more strict.

Source: McLagan mandatory deferral / LTIP study.
The Global Context – Regions and Financial Sectors
2013 Regional differentials in pay for Managing Directors

**2013 BCM-wide Remuneration Differentials for Managing Directors**

- **MDs used for analysis, as they are the most comparable title commanding the largest proportion of total compensation.**
- **BCM-wide total compensation varies significantly across the different regions, with the United States seeing the highest levels of total compensation across the MD population.**
  - US BCM-wide total compensation 21pp above the UK.
  - UK BCM-wide total compensation 12pp above Hong Kong.
- **BCM-wide total cash varies less significantly than total compensation across the different regions, due to higher variable awards being subject to higher deferrals.**
  - UK BCM has lower levels of deferred pay vs. the US. This is due to the lower pay levels in the UK.
  - The highest rate of income tax in Hong Kong is 17% compared to the 45% in the UK.

**Percentage of Total Compensation Deferred for Managing Directors**

**Notes:**
- United States indexed to 100%.

**Scope:** 18 AFME firms with combined Global BCM revenue of €135bn.
• BCM total compensation for UK MDs trails both Private Equity firms (7pp difference) and Asset Management firms (1pp difference).

• The gap increases when looking at total cash compensation, which is due to the impact of higher deferral rates within BCM.

• UK BCM MDs within the AFME member firms have on average 36% of total compensation deferred, versus only 18% in Private Equity firms and 25% in Asset Management firms.

• Due to Private Equity and Asset Management firms facing less regulation than BCM firms.

**Scope:** 18 AFME firms with combined Global BCM revenue of €135bn, 106 Private Equity firms and 82 Asset Management firms.
Comparison of pay for CEO roles in the FTSE 100 brings into question the premium for financial services.

Base salaries are 6 – 32pp lower in Financial Services vs. other industries.

While target total compensation is 3 – 13pp lower than Consumer Goods and Consumer Services levels, but 5 – 10pp above Basic Material and Industrials.

Leaders in other industries do not face the same issues as banking executives:

- Regulation
- Risk / Personal Liability
- Claw-backs / Downside only of LTI’s

Source: New Bridge Street - FTSE 100 Report on Directors Remuneration 2014

Note: Consumer Goods indexed to 100%
Compensation Relationship with Performance
Total Compensation Pay-out Ratios have decreased more at European banks

- Global total compensation as a percentage of net revenue has decreased by 14 percentage points since 2007.
- European banks have seen a larger decline compared to the US banks (16 vs. 9 percentage points).
- The rapid decrease seen from 2008 to 2009, was largely due to the large increases in revenue in 2009. This trend did not continue in 2010/2011 and with total compensation spending declining at a slower rate, the percentage of revenue spent on total compensation increased.
- For 2014 we expect the trend to be flat against 2013. This is due to expectations that total compensation spend will be in line with flat to down revenues.

Scope: 10 AFME firms with combined Global BCM revenue of €105bn.
Bonus Pay-out Ratios have decreased more at European banks vs. US banks

- Global bonus pools as a percentage of net revenue have decreased by 15 percentage points since 2007.
- European banks have seen a larger decline in pay-out ratios than US banks (17 vs. 11 percentage points).
- For 2014 we expect the trend to be flat or down marginally against 2013. This is mainly due to revenue predictions being flat to down and the anticipation that bonus pools will be reduced, with the increases in fixed pay levels already seen.

**Total Bonus as a Percentage of Net Revenue**

- **Scope:** 10 AFME firms with combined Global BCM revenue of €105bn.
Malus and Clawback
Many firms have been refining the language in their mandatory deferral plan to put more definition around what would trigger a forfeiture event. The large majority of firms have now incorporated language into their plans that mandates all or a portion of unvested awards can be forfeited in the event that the individual is found to have engaged in fraudulent or malicious activities (misconduct) or engaged in hedging activity of the firms common stock.

While most firms have incorporated similar criteria to define what would trigger a forfeiture event, there are differences across firms in regards to how the forfeiture process is administered. Roughly a third of firms have a formulaic process to determine if and how much of an unvested award is forfeited in the event a forfeiture event, such as a loss, is triggered. In these cases, the size of the loss would generally determine how much of the unvested awards should be forfeited.

More prevalent, however, is a discretionary review in order to determine if / how much of the unvested awards should be forfeited based on the circumstances of the event. Two thirds of firms use this process which is illustrated in the chart below.
Clawback

- Most firms have implemented true clawback provisions - the right to take back an already delivered award. These provisions are almost always based on activities that would be grounds for termination for cause. They may also be used in instances when it was determined that previous bonuses were awarded based on inaccurate / incorrect information that an employee had knowingly hidden from management.

- Prevalence of clawback language is common, but the use of clawback has been limited due to the difficulty and complexity caused by the issues in logistics, cost and legal ramifications.

- The PRA are focused on strengthening the conditions in which vested remuneration can be clawed back if;
  - There is evidence of misdemeanour of error
  - The firm or business unit suffers a material downturn in performance; or
  - The firm or business unit suffers a material failure of risk management

- Many deferral plans have already had forfeiture provisions for cause, so the most significant changes is the ability for firms to now revoke already delivered awards.
2014 Trends
Performance Impacted by Varied Regional Trends seen in 2014

The Good
Economic expansion continues into 6th year - US commercial banks report near record profits on the back of increased lending activity

The Bad
Low interest rates, slowdown on mortgage origination and securities trading activity

US

The Good
Some improvement seen in lending activity & corporate banking results, although YOY trend lifted by reduced provisions vs. new revenues

The Bad
Deflationary pressure and geopolitical risks overshadow the region

EU

The Good
Optimism in India with new government / reforms; improved growth and lower inflation projected

The Bad
Performance impacted by deteriorating asset quality (e.g. China)

Asia

The Good
Fixed Income Pay and Business Trends

Business Trends

- Revenue engine of the largest firms is dragging down front office results – FI revenues down 5-10% across the largest banks.
- Incremental market share moving outside traditional bulge.
- Largest firms overhauling FX practices following scandal (customer information sharing).
- Headcount down ~5% YTD; selective downsizing into year-end.

Pay Trends

- Fixed Income total compensation is expected to be flat to down 10%, across Officer levels and total incentive pay likely to be flat to down 20%.
  - Commodities, Credit and Securitisation expected to be at the higher end and Rates and FX at the lower end of the trend.
- FX fines impacting firms differently but dragging down average product and divisional trends.
Equities Pay and Business Trends

Business Trends

- Divisional revenues down ~5% through 9 months across the bulge firms.
- Better performance in UK & Western Europe Cash business likely results in better pay trend.
- Trend in asset valuations not in-line with trading activity – buy and hold.
- European Regulators (FCA, ESMA) pressuring commission structure – may have big implications on banks research funding.

Pay Trends

- Equities total compensation is expected to be flat to down 5%, across Officer levels and total incentive pay likely to see the same trend.
  - Prime Brokerage expected to be at the higher end of the trend.
Investment Banking Pay and Business Trends

Business Trends

• Divisional revenues flat to up 5 – 10% through 9 months.

• M&A and ECM performing well YOY, with DCM ~flat following a strong 2013.

• M&A boutiques gain prominence and performing above global banks as Boards become increasingly receptive to independent advice.

• Pressure cited at junior level to compete with PE, Hedge Fund.

• Tech firms also driving salary increases at banks to attract undergraduates.

Pay Trends

• Investment Banking total compensation is expected to increase approximately 3 to 8%, across Officer levels and total incentive pay likely to be up 5 to 10%.

• M&A and ECM expected to be at the higher end and DCM at the lower end of the trend.

• Fixed pay increases across the largest firms at Associate-Vice President level ladder, with these changes communicated at net neutral total compensation.
## Appendix A: Summary Table of Key Metrics with Year Comparisons

<table>
<thead>
<tr>
<th>Metric</th>
<th>Performance Year 2007</th>
<th>Performance Year 2009</th>
<th>Performance Year 2013</th>
<th>Estimate for Performance Year 2014</th>
<th>Slide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global BCM Total Compensation Pool as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>78%</td>
<td>77%</td>
<td>9</td>
</tr>
<tr>
<td>EMEA BCM Total Compensation Pool as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>68%</td>
<td>65%</td>
<td>9</td>
</tr>
<tr>
<td>Global BCM Total Compensation Pool per Capita as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>88%</td>
<td>88%</td>
<td>10</td>
</tr>
<tr>
<td>EMEA BCM Total Compensation Pool per Capita as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>82%</td>
<td>80%</td>
<td>10</td>
</tr>
<tr>
<td>Global BCM Bonus Pool as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>58%</td>
<td>56%</td>
<td>11</td>
</tr>
<tr>
<td>EMEA BCM Bonus Pool as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>49%</td>
<td>46%</td>
<td>11</td>
</tr>
<tr>
<td>Global BCM Bonus Pool per Capita as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>70%</td>
<td>66%</td>
<td>12</td>
</tr>
<tr>
<td>EMEA BCM Bonus Pool per Capita as a proportion of 2009</td>
<td>-</td>
<td>100%</td>
<td>65%</td>
<td>62%</td>
<td>12</td>
</tr>
<tr>
<td>Fixed pay as a proportion of Total Compensation for AFME members</td>
<td>30%</td>
<td>-</td>
<td>62%</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Variable pay as a proportion of Total Compensation for AFME members</td>
<td>70%</td>
<td>-</td>
<td>38%</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Proportion of pay deferred at €1.5M</td>
<td>29%</td>
<td>-</td>
<td>60%</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Change in Median Incentive Threshold</td>
<td>113k</td>
<td>-</td>
<td>100k</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Europe HQ firms, Total Compensation as a % of Net Revenue</td>
<td>41%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
<td>24</td>
</tr>
<tr>
<td>US HQ firms, Total Compensation as a % of Net Revenue</td>
<td>36%</td>
<td>25%</td>
<td>27%</td>
<td>27%</td>
<td>24</td>
</tr>
<tr>
<td>Europe HQ firms, Bonus as a % of Net Revenue</td>
<td>30%</td>
<td>19%</td>
<td>13%</td>
<td>13%</td>
<td>25</td>
</tr>
<tr>
<td>US HQ firms, Bonus as a % of Net Revenue</td>
<td>25%</td>
<td>17%</td>
<td>14%</td>
<td>14%</td>
<td>25</td>
</tr>
</tbody>
</table>

**Note:** The basis of calculation for some of the figures above differs depending on the metric / availability of data and therefore the scope / source can be found in the body of the report.
## Appendix B: 2013 Other Metrics

### Deferral rates between UK / EMEA and Non-UK / EMEA (slide 18)

<table>
<thead>
<tr>
<th>Metric</th>
<th>UK / EMEA HQ Firms</th>
<th>Non-UK / EMEA HQ Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of with effective deferral rates greater than 70%</td>
<td>38%</td>
<td>14%</td>
</tr>
</tbody>
</table>

### Regional differentials in pay (slide 20)

<table>
<thead>
<tr>
<th>Metric</th>
<th>US</th>
<th>UK</th>
<th>HK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 BCM Managing Directors Total Compensation</td>
<td>100%</td>
<td>79%</td>
<td>67%</td>
</tr>
<tr>
<td>2013 BCM Managing Directors Total Cash</td>
<td>100%</td>
<td>88%</td>
<td>79%</td>
</tr>
<tr>
<td>2013 BCM Total Compensation Deferred</td>
<td>42%</td>
<td>36%</td>
<td>31%</td>
</tr>
<tr>
<td>2013 BCM Total Compensation Immediately Received</td>
<td>58%</td>
<td>64%</td>
<td>69%</td>
</tr>
</tbody>
</table>

### Financial Sector differentials in pay (slide 21)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Private Equity</th>
<th>Asset Management</th>
<th>BCM</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 BCM Managing Directors Total Compensation</td>
<td>100%</td>
<td>94%</td>
<td>93%</td>
</tr>
<tr>
<td>2013 BCM Managing Directors Total Cash</td>
<td>100%</td>
<td>87%</td>
<td>73%</td>
</tr>
<tr>
<td>2013 BCM Total Compensation Deferred</td>
<td>18%</td>
<td>25%</td>
<td>36%</td>
</tr>
<tr>
<td>2013 BCM Total Compensation Immediately Received</td>
<td>82%</td>
<td>75%</td>
<td>64%</td>
</tr>
</tbody>
</table>

**Note:** The basis of calculation for some of the figures above differs depending on the metric / availability of data and therefore the scope / source can be found in the body of the report.
Appendix C: Corporate title level guidelines (Officer levels)

<table>
<thead>
<tr>
<th>Managing Director</th>
<th>Director</th>
<th>Vice President</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Functional Responsibilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incumbent has the highest level of relevant experience and / or skill of all staff that is not primarily management-focused.</td>
<td>Responsibilities are similar to Senior I, however incumbent has less relevant experience and / or skill and smaller scope of activities.</td>
<td>Works with a large degree of independence, however, requires management oversight on most complicated issues / situations.</td>
</tr>
<tr>
<td>In client relationship management roles, incumbent has primary responsibility for developing, maintaining and generating revenue from the most important clients. Handles all aspects of client interaction, including directing and coordinating execution of transactions.</td>
<td>In client relationship management roles, incumbent has primary responsibility for medium and smaller sized clients, but is often No. 2 on relationships with larger clients.</td>
<td>In client relationship management roles, incumbent may be the No. 2 or No. 3 on relationships with the most important clients, but may be the key contact with mid-sized clients. Has begun to assume some important business development responsibilities.</td>
</tr>
<tr>
<td>In trading / capital commitment roles, incumbent is the most seasoned incumbent in assigned securities, independently handles the most complex transactions and may be viewed as a partner by management in establishing commitment limits.</td>
<td>In trading / capital commitment roles, incumbent has primary responsibilities for the firm in assigned securities and works with a large degree of independence.</td>
<td>In trading / capital commitment roles, incumbent may have primary responsibilities in a given security but will have less relevant experience and/or skill than Senior II. Increasingly assumes responsibility for independently handling complex transactions.</td>
</tr>
<tr>
<td>In research roles, incumbent has extensive knowledge and experience / skill that enables independent company-specific, economic or trend analysis. Publishes written research and strategy reports.</td>
<td>In research roles, incumbent has seasoned and proven judgment in research sector and publishes written research and strategy reports. Continues to develop sources of research information on topics covered.</td>
<td>In research roles, incumbent is developing seasoned and proven judgment in research sector and may publish written research and strategy reports. May provide ideas and help to enhance client relationships.</td>
</tr>
<tr>
<td>Supervisory</td>
<td>Limited staff management responsibilities.</td>
<td>May supervise more junior staff. Manages day-to-day work of associates and analysts.</td>
</tr>
<tr>
<td>May oversee staff within the business area.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience/Guideline</td>
<td></td>
<td></td>
</tr>
<tr>
<td>An individual in this position typically has a minimum of 10 years of experience since graduation from an MBA program or has an equivalent combination of experience and education.</td>
<td>An individual in this position typically has a minimum of 7 years of experience since graduation from an MBA program or has an equivalent combination of experience and education.</td>
<td>An individual in this position typically has more than 5 years of experience since graduation from an MBA program or has a comparable combination of education and related industry experience.</td>
</tr>
</tbody>
</table>