

## **FCA REMUNERATION DISCLOSURES AT 31 DECEMBER 2013**

### **FCA Remuneration Disclosures at 31 December 2013**

This report has been prepared to supplement the Directors' Remuneration Report contained in the Legal & General ("L&G") 2013 Annual Report and complies with the FCA's Handbook for banks, building societies and investment firms ("BIPRU").

As an insurance company, not all of L&G's activities are subject to the FCA Remuneration Code. The following L&G businesses have been identified as Code firms:

- Legal & General Investment Management Limited (LGIM) – L&G's asset management subsidiary;
- Legal & General Retail Investments (Holdings) Limited and associated entities – L&G's retail investment businesses; and
- Legal & General Investment Management International (LGIMI).

Legal & General Retail Investments (Holdings) Limited is required to complete remuneration disclosures on behalf of its UK Consolidation Group which includes:

- Legal & General (Portfolio Management Services) Limited (PMS);
- Legal & General (Unit Trust Managers) Limited (UTM); and
- Suffolk Life Pensions Limited (SLP).

In this context, PMS is the BIPRU firm.

#### **Code Staff**

The Remuneration Committee has identified 45 Code Staff within these businesses for the year ending 31 December 2013.

The Code firms identified above are all Level 3 firms.

#### **Code Staff criteria**

The following groups of employees have been identified within the code firms as meeting the FCA's criteria for Code Staff:

- Certain members of the Group Board and Executive Committee;
- Employees performing a Significant Influence Function in relation to the code firms within L&G Group; and
- Key control function roles.

#### **Role of the Remuneration Committee**

The Remuneration Committee operates under a formal terms of reference which are reviewed regularly to monitor the Group's compliance with the principles of the Remuneration Code.

The Remuneration Committee determines and approves the remuneration policy of the Group's most senior executives and the principles and parameters of the remuneration policy for employees who are considered Code Staff pursuant to the Remuneration Code.

The Committee also determines the framework of the remuneration policy for all other employees in the Group.

The Committee reviews all bonus arrangements across the Group and is responsible for approving the budget for group-wide salary increases and the cost of all bonus plans. All share schemes operated by the Group are monitored by the Committee.

No individual is included in decisions regarding his or her own remuneration.

### **Decision-making process for determining remuneration policy**

The Committee determines the remuneration policy of the Group having regard to the views of the Group's shareholders and other stakeholders, the risk appetite of the Group, alignment to the Group's long term strategic goals and the requirement that a significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Group.

The Committee has due regard to market competitiveness, internal relativities, individual and corporate performance when setting and reviewing remuneration. The Committee also has regard to the principles of good corporate governance, including but not limited to the UK Corporate Governance Code, the Remuneration Code and guidelines laid down by the investor community.

The Committee undertakes a regular review of the adequacy and effectiveness of the remuneration policy to seek to ensure it is fully aligned with the group's long-term objectives.

The Committee receives a number of reports to assist it in its oversight of remuneration policy, for example, on risk and financial performance across the group. In considering any remuneration proposals, the Committee considers a report from the Group Chief Risk Officer and reserves appropriate discretions to adjust payments having regard to responsible and effective risk management.

The Committee receives regular updates on regulatory developments and general remuneration issues, as well as market and benchmarking data from its remuneration advisors to support its decisions.

During 2013 the Committee met eight times. Its terms of reference are available on the Group's website ([www.legalandgeneralgroup.com](http://www.legalandgeneralgroup.com)).

More information on L&G's remuneration principles can be found in the Directors' Remuneration Report in the 2013 Annual Report & Accounts also available on the Group's website.

### **Members of the Remuneration Committee**

During the year ending 31 December 2013, the L&G Remuneration Committee included the following independent non-executive directors:

- Rudy Markham (Chairman since May 2011)
- Nick Prettejohn (member from November 2010 until June 2013)
- Mike Fairey (member from May 2011);
- Stuart Popham (member from July 2011); and
- Lindsay Tomlinson (member from May 2013).

### **Independent Consultants to the Remuneration Committee**

Kepler Associates Partnership LLP was the independent advisor to the Remuneration Committee until October 2013. Kepler is also engaged to provide updated forecasts of the PSP vesting.

In October 2013, the Committee appointed Deloitte LLP to replace Kepler Associates as their independent advisers.

Both Kepler Associates and Deloitte are signatories to the Remuneration Consultants' Group Code of Conduct in relation to Executive Remuneration Consulting in the UK.

## **Link between pay and performance**

Remuneration at L&G is made up of fixed pay (base salary, retirement and other benefits) and performance-related pay (consisting of annual incentives, deferred awards and long-term incentives). Performance related pay is designed to reflect success or failure against a range of performance measures and targets taking into account the businesses performance. Performance related pay accounts for a considerable proportion of total remuneration of Code Staff.

### *Annual incentives*

Annual incentives are designed to reward financial and non-financial performance that supports the business strategy, taking into account the Group's risk appetite and personal contribution in the business context that it was delivered. Targets are specific, measurable, set at the beginning of the year and communicated to employees.

For Code Staff in the control functions (Internal Audit, Regulatory Compliance and Risk), separate performance measures have been designed which exclude any direct linkage to financial performance.

Individual performance assessment is supported by a structured performance management framework. In reviewing an individual's performance against their objectives, the individual's approach to risk management (including environmental, social or governance ('ESG') risks) is considered when determining the overall level of bonus payout. The bonus policy allows for zero bonus payments to be made when appropriate.

The Committee exercises strong central governance and oversight of both the overall cost of bonuses and individual awards and has established a Bonus Steering Committee (BSC) to assist it in reviewing incentive scheme proposals.

### *Deferred bonus*

Under the Group-wide deferral arrangements a significant proportion of the annual bonus for senior employees is deferred into Group shares over a three year period. The purpose of the deferral plan is to promote the sustainable long-term performance of the Group and to align the interests of our senior management with our shareholders.

Deferred awards for senior employees may be subject to forfeiture if the performance which led to a bonus being paid is found to be incorrect or in the event of personal misconduct.

### *Long-term incentives*

The Group provides long-term incentives which link reward with the long-term success and growth in value of L&G. Long-term incentive awards for most Group staff are conditional on the satisfaction of total shareholder return ("TSR") performance conditions which clearly aligns reward to the interests of shareholders and provides a degree of risk management (TSR reflects both underlying financial performance and the market's assessment of the quality and sustainability of those earnings).

The Committee may exercise its discretion to scale back the vesting of awards if it was felt that the Group's financial performance did not justify the level of vesting (the Committee may not increase the award). The parameters which the Committee uses in making this assessment include market share, partnerships entered into and maintained, cost constraint, capital management, risk and shareholder perception.

## **Design and structure of remuneration**

### *Salary and fees*

All Code Staff receive either a salary (employees) or fees (non-executive directors) to reflect their experience, skills, competencies and contribution to the Group relative to the market for comparable

roles. L&G Group seeks to ensure that fixed remuneration is sufficient while generally seeking to pay around a mid-market range.

#### *Benefits*

Code Staff receive benefits in line with other employees that includes pension, staff discounts and may include car allowance and private medical insurance. Non-executive directors who are listed as Code staff do not receive any benefits.

#### *Annual incentives*

All executive Code Staff are eligible to receive an annual incentive. Non-executive Code Staff are not eligible to receive annual incentives.

Performance is central to the determination of any annual incentive payouts. Performance assessment is based on objectives that, where appropriate, are linked to Group or divisional key performance indicators or individual strategic or personal targets (see *"Link between pay and performance"* section above for further details on performance measurement / assessment).

Overall expenditure on annual incentives is reviewed by the Remuneration Committee at the end of each year taking into account the performance of the business.

#### *Deferred bonus*

The majority of Code Staff are required to defer a portion of their annual bonus into shares in the Group. Executive directors defer 50% of any bonus awarded for three years via the Share Bonus Plan (see *"Link between pay and performance"* section above for further details on performance measurement / assessment).

#### *Group long-term incentives*

The Group provides employees in senior roles (executive level and selected senior management) the opportunity to receive annual awards of long-term incentives. The Performance Share Plan ("PSP") permits awards of conditional shares to employees who hold key roles. The Remuneration Committee reviews the quantum of awards made each year to ensure that it is in line with the market. The maximum annual award possible in 2013 was 200% of salary and the Company awarded 200% to each executive director in 2013. However, when making awards, it will also consider wider factors such as company performance in determining whether to grant at this normal policy level.

The number of shares that vest is dependent on Legal & General's relative total shareholder return ("TSR") performance over a three-year period as follows:

Legal & General's TSR relative to the comparator group at the end of the performance period	Percentage of award which vests
Below median	0%
Median	25%
Between median and 80th percentile	25%-100%
80th percentile or above	100%

Vesting is on a straight-line basis between each level of performance.

Two distinct performance measures are used: half is measured relative to the FTSE 100 constituents (as set at a date shortly prior to the grant date), with the balance being measured against the insurance constituents of the FTSEurofirst 300 plus any FTSE 350 Life Insurers not in the FTSEurofirst 300. Performance under the two elements is assessed independently.

Performance against TSR conditions are independently reviewed by the independent adviser to the Remuneration Committee.

The Committee reviews the measures prior to each award. It continues to believe that the current measures and targets remain appropriate. They endorse consistency in the remuneration policy and provide a clear alignment of interests with shareholders.

See “*Link between pay and performance*” section above for further details on performance measurement / assessment.

Within the LGIM business, a separate phantom LTIP operates. Awards are made annually and reward growth in the notional value of LGIM (subject to a cap that participants cannot benefit from awards more than doubling) over each three year performance cycle.

#### *LGIM LTIP*

Since 2007 a separate cash-settled LTIP has operated for key staff within LGIM. 27 individuals have participated in the 2013 award. Awards are made annually and reward growth in the notional value of LGIM (subject to a cap that participants cannot benefit from awards more than doubling) over each three year performance cycle. The sterling face value of the awards made in 2013 was £4.32M (so the maximum exposure is £8.64M). Vesting is contingent on meeting challenging earnings targets over the three year performance period. The 2010 awards were measured in March 2013 and 86.5% of the award vested.

#### **Risk adjustment**

Care is taken into account to manage the risk aspects of remuneration policy. For 2013, the Remuneration Committee considered the Group's performance against risk objectives and regulatory compliance in determining the bonus out-turn and requires the Chief Risk Officer and Group Regulatory Risk & Compliance Director to report to the Committee on this in future years

#### **Quantitative Remuneration Disclosure**

Although 45 individuals held Code Staff positions during 2013, each individual did not necessarily hold the position for the full year. The numbers shown below therefore are calculated based on time spent as Code Staff and therefore the total number differs from 45.

There were 2 Code Staff that have been classified as Senior Management, 1 as Non-Executive Directors and 42 as other Code Staff. Aggregate remuneration expenditure broken down by type of Code Staff was as follows:

<b>Non-Executive Directors</b>	<b>Senior Management</b>	<b>Others</b>
<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
0.07	6.10	24.55

There were 3 Code Staff that have been classified as Group, 15 as LGIM and 27 as Retail Investment Businesses. Aggregate remuneration expenditure broken down by business area was as follows:

<b>Group</b>	<b>LGIM</b>	<b>Retail Investment Businesses</b>
<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
4.94	15.68	10.09