

## **FCA REMUNERATION DISCLOSURES AT 31 DECEMBER 2014**

### **FCA Remuneration Disclosures at 31 December 2014**

This report has been prepared to supplement the Directors' Remuneration Report contained in the Legal & General ("L&G") 2014 Annual Report and complies with the requirements of the Capital Requirements Directive IV ("CRD IV"), the FCA's Handbook for investment Firms ("IFPRU") and 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:

#### *IFPRU Firms*

- Cofunds Ltd; and
- Legal & General (Portfolio Management Services) Limited (PMS).

#### *BIPRU 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);
- LGIM Corporate Director Ltd;
- L&G Property Partners (Operator) Ltd; and
- Suffolk Life Pensions Limited (SLP) (BIPRU Firm in itself, however forms part of an IFPRU consolidation group).

### **Code Staff**

The Remuneration Committee has identified 81 Code Staff within these businesses for the year ending 31 December 2014.

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.

The Remuneration Committee is supported by the Reward Steering Committee (RSC), which helps set the framework within which incentive arrangements are normally reviewed and implemented, with a view to supporting business strategy, whilst acting within the Group's risk appetite.

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 2014 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 2014 Annual Report & Accounts also available on the Group's website.

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

During the year ending 31 December 2014, the L&G Remuneration Committee included the following independent non-executive directors:

- Rudy Markham (Chairman since May 2011)
- Stuart Popham (member from July 2011)
- Lindsay Tomlinson (member from May 2013)
- Mike Fairey (member from May 2011 to May 2014)
- Richard Meddings (member from December 2014)

- Carolyn Bradley (member from December 2014)

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

Deloitte LLP was the independent advisor to the Remuneration Committee.

Deloitte LLP 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 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.

### *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. From 2015 onwards, annual incentive awards (including any deferred element) are subject to malus and clawback for material risk takers.

### *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"), Dividends Per Share, Earnings Per Share and Return on Equity 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.

Awards under the Group long-term incentive plan are subject to malus and clawback provisions.

## **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 2014 was 300% of salary. When making awards, the Remuneration Committee also considers wider factors such as company performance in determining whether to grant at this normal policy level.

The performance measures and weightings applicable to the 2014 awards, assessed over a three year performance period, are as follows:

- 25% based on TSR performance relative to the FTSE 100.
- 25% based on TSR performance relative to the insurance constituents of the FTSEurofirst 300 plus any FTSE 350 Life Insurers not in the FTSEurofirst 300.
- 50% based on a financial matrix of Earnings per Share and Dividends Per Share growth % p.a. A Return on Equity underpin also applies to this element.

Awards are normally released in three equal tranches following the third, fourth and fifth anniversaries of the start of the performance period.

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.*

#### *LGIM LTIP*

Since 2007 a separate cash-settled LTIP has operated for key staff within LGIM. 32 individuals participated in the 2014 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. Vesting is contingent on meeting challenging earnings targets over the three year performance period. The 2011 awards were measured in March 2014 and 61% of the award vested.

#### **Risk adjustment**

Care is taken into account to manage the risk aspects of remuneration policy. For 2014, 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

81 individuals held Code Staff positions during 2014; however each individual did not necessarily hold the position for the full year. The numbers shown below are calculated based on total remuneration paid in the year for each individual that was a Code Staff during 2014 (even if they were Code Staff for only part of the year).

Aggregate remuneration for Code Staff in the IFPRU firms was as follows:

	<b>Cofunds</b> (£m)	<b>PMS</b> (£m)
Total Pay	2.70	8.92

	Senior Management (£m)	Other MRTs (£m)
<b>Total Pay</b>	<b>4.59</b>	<b>7.03</b>
Fixed Pay	2.22	4.03
Cash based variable pay	0.80	0.89
Share based variable pay	1.58	2.03
Share linked instruments	0.00	0.00
Total Variable Pay	2.37	2.92
Deferred unvested remuneration outstanding as at 1 January 2014	3.86	3.51
Deferred Remuneration awarded in 2014	1.34	1.93
Deferred Remuneration reduced through performance adjustment	0.00	0.04
Deferred Remuneration vesting in 2014	1.45	0.98
Deferred unvested remuneration outstanding at 31 December 2014	3.74	4.42

	No. of beneficiaries	Senior Management (£m)	Other MRTs (£m)
Sign on payments	0	0	0
Severance Payments	2	0	0.09

There were 9 Code Staff that have been classified as Group, 36 as LGIM and 36 as Retail Investment Businesses. Aggregate remuneration expenditure broken down by business area was as follows:

<b>Group</b> <i>(£m)</i>	<b>LGIM</b> <i>(£m)</i>	<b>Retail Investment Businesses</b> <i>(£m)</i>
6.54	21.04	13.29