

# Report on Directors' Remuneration

**Alison Hutchinson**

Chairman of the Remuneration Committee



## Annual Statement

Dear member,

I am pleased to share the Directors' Remuneration Report, including details of directors' pay for the year ending 31 December 2018. Our role as a committee is to ensure that our remuneration policy aligns with the board approved strategy and performance, as well as value created for members.

This report is split into three sections;

- This Annual Statement.
- The Directors' Remuneration Policy, which was put forward and approved by members at the 2018 AGM with a 94% vote "for", is summarised on page 77.
- The Annual Report on Remuneration on pages 78 to 85. This includes information on the pay decisions made in respect of 2018 and details of how the policy will be implemented in 2019, and will be subject to a member vote at the 2019 AGM.

### Remuneration policy and the link to long-term business performance

Our remuneration policy is designed to support the strategy of the Society, promote the long-term sustainable success of the Society, and seeks to align remuneration with performance. Variable remuneration, with the amount paid linked to performance forms an important part of the remuneration package for all employees.

All employees are eligible to participate in the group annual bonus, with the total pool to be shared amongst all employees calculated based on group performance. Group performance for the purposes of determining the annual bonus pool is assessed based on the group balanced scorecard with a mix of financial and non-financial performance conditions.

Each individual's bonus amount is then determined based on their individual performance. For more senior employees, a proportion of any bonus award may be deferred and paid out in a later year, ensuring that our executives remain focused on both the short-term and long-term health of the Society.

Senior employees also participate in the group Long-Term Incentive Plan (LTIP). The final value of an LTIP award is determined based on long-term performance conditions measured over a three year period. The LTIP therefore incentivises senior employees and rewards them for delivering the strategic priorities and strong business performance over the long term.

As chair of the Remuneration Committee, since June 2018, I and the committee are keen to ensure even stronger alignment between member value and executive and employee remuneration going forward. Further information on the changes made to remuneration for 2019 is set out later in this Annual Statement.

### Overview of performance

2018 threw up a number of challenges but there were positive outcomes as our capital position remains strong at 172%, and the group generated £89m of surplus operating capital.

Following the sale of a 49% equity stake in the general insurance business to Allianz at the end of 2017 the group has established a strong strategic partnership with Allianz, and in the first full year of working together, the general insurance business has performed as expected.

As outlined earlier in this report the business experienced challenging trading in the life business, especially in the generation of profitable new business measured by Economic Value of New Business ('EVNB'), but overall the group achieved an operating profit of £136m.

## 2018 performance and remuneration outcomes

The 2018 group balanced scorecard, used to measure performance and determine the size of the bonus pool, was structured as follows:

- 50% on financial measures (each with equal weightings):
  - Life operating capital surplus
  - General insurance dividend flow
  - Economic value of new business (EVNB)
- 50% on non-financial measures:
  - Strategy and change (20%)
  - Customer, member and brand (10%)
  - Risk and compliance (10%)
  - Leadership and diversity (10%)

As set out above, during 2018 the group made good progress on capital generation and maintaining a strong capital position, and in the first year of the strategic partnership with Allianz the general insurance business has performed as expected. Generating profitable new business, measured by EVNB, has been more challenging. Performance against the Customer, member and brand measure has been strong, whilst we recognise that further work could have been done against the Strategy and change, Leadership and diversity, and Risk and compliance targets during 2018. The targets across all measures were set at very stretching levels which is reflected in the final outturn.

Further analysis of the group's performance against the 2018 group balanced scorecard is shown on page 80.

This has resulted in the Remuneration Committee determining that a bonus pool of £6.5 million for distribution amongst LVFS employees would be appropriate in respect of 2018. This is lower than in 2017 (£23m for the combined LV group and £12m for the equivalent LVFS), reflecting a reduced headcount in 2018 following the strategic partnership with Allianz, the very stretching targets set for 2018, and actual performance in 2018. The distribution of the bonus resulted in the average percentage bonus received by our employees being 8.6% of bonus-able earnings.

In addition to performance against the group balanced scorecard, individual performance targets for each of the executive directors are used to determine their individual bonus amounts. The 2018 outcomes for each of the executive directors range from 38% of maximum to 51% of maximum. Further commentary on the personal performance of each individual executive director against their objectives and their 2018 bonus awards is shown on pages 80 and 81.

Our 2016-18 LTIP awards were subject to stretching performance conditions related to growth in Average Adjusted Group Profit Before Tax (AAGPBT), and awards held by current and former executive directors, had a further performance condition based on Relative Investment Performance (RIP), which had a 25% weighting. The threshold target has not been met under either performance condition and therefore the 2016-18 LTIP will lapse in full. Further detail is provided on page 81.

## Remuneration from 2019 onwards

To improve our remuneration policy and practices, a number of refinements have been made for 2019 to further align our remuneration policies and practices with our business strategy and member interests. Whilst the general structures remain appropriate and aligned to market practice, we have made changes to the detail of how the policy is structured and will operate. These changes are summarised below.

### Base salary

We review executive directors' salaries at the same time as all other employees. Richard Rowney and Andy Parsons will not receive any salary increases for 2019. Wayne Snow will receive a salary increase from £325,000 to £350,000 effective from 1 April 2019. This increase reflects a commitment made on appointment to increase his salary to £350,000 effective from 1 April 2019, based on his performance and development into the role during 2018.

In 2019, the average LVFS employee salary increase will be 2.1% (effective from 1 April 2019).

### Group annual bonus

There are no proposed changes to the bonus opportunity for executive directors for 2019, with the chief executive officer having a bonus opportunity of 150% of bonus-able earnings and other executive directors an opportunity of 120% of bonus-able earnings. The committee reviewed the performance measures used and is proposing to increase the weighting of the Member and advisory advocacy measure (from 10% to 20%) to emphasise the critical importance of acting in our members' best interests, and correspondingly decrease the weighting of the Strategy and change measure (from 20% to 10%). The committee will consider the size of the member bonus, as well as performance in the round, when determining the size of any bonus pool and individual bonus pay-outs. Further information on the 2019 group balanced scorecard is shown on page 84.

### LTIP

For the 2019-21 LTIP awards, the committee is proposing to make lower target awards of 120% of salary for the chief executive officer and 101% (rounded) of salary for the group finance director and 100% of salary for the chief risk officer, taking into account the reduced complexity of the business following the strategic partnership with Allianz.

The LTIP will continue to be based on a mixture of financial measures (75% weighting) and strategic goals (25% weighting) as set out below:

- 75% weighting: Financial measures, based around Growth in own funds, Return on capital supporting new business and total life operational expenses.
- 25% weighting: Strategic goals, based around developing a sustainable, vibrant business with a diverse and talented workforce, with measures based on customer satisfaction, employee engagement, and gender.
- An underpin related to risk whereby no vesting will occur if appropriate levels of risk management have not been achieved.

For 2019 Return on Capital Supporting New Business has replaced Economic Value of New Business (EVNB) as a measure as we believe it is clearer to express this measure as a target return on the capital rather than a £ amount.

For 2019 LTIP awards onwards there will be a two-year holding period following the end of the performance period for executive directors, taking into account the provisions of the new UK Corporate Governance Code.

Further information on the LTIP is shown on pages 84 and 85.

## Board changes

I was appointed to the board on 1 January 2018 and then appointed to chair the Remuneration Committee from 7 June 2018 to replace Caroline Burton.

Wayne Snow performed the role of chief risk officer from the date he was employed by LV= on 26 June 2018. Formal appointment to the board took place on 2 July 2018. Wayne Snow's remuneration package upon appointment is in line with our existing remuneration policy, which included no buy-outs from his previous employer.

Further changes to board composition are shown on page 51.

## Listening to members

We have discussed remuneration with members during 2018 and value their views and opinions. It has also been useful to continue open dialogue with each other and we intend that this will continue during 2019.

We aim to comply with the highest standards of corporate governance and our Report on Directors' Remuneration has again been prepared in line with the reporting requirements which apply to listed companies.

We are aware of the changes to the UK Corporate Governance Code for listed companies and the implications on remuneration and with our advisors, Deloitte, we are monitoring how we introduce these changes. As a matter of principle, we look to follow the Code where possible.

We already comply with a number of the provisions within the new Code, for example, the committee already sets the remuneration for the senior management team as well as for the executive directors and has historically reviewed wider workforce pay policies and trends when setting executive director pay. We have also taken a proactive decision to implement a two-year holding period for the executive directors for the 2019-21 LTIP award onwards.

At a wider board level, we are considering how best to further employee engagement on matters such as remuneration. Whilst we do not have shares (due to our mutual status) which executive directors can hold post-employment, deferred bonus and LTIP awards (for good leavers) continue on their original timescales (including any holding period), ensuring that executive directors continue to have an interest in the Society's performance post-leaving. The committee will continue to review

the remuneration arrangements and policies in light of the new Code and how best practice evolves.

We have published our gender pay gap report and at an overall level there has been no significant change to 2017's results. This was expected as many of the actions we put in place to address our gender pay gap are long term and it will take a number of years before we start to see the changes taking effect. We have identified that our gender pay gap is driven by the structure of our workforce. At present, we have a lower representation of females in senior leadership roles and higher representation of females in more junior roles. As part of the actions put in place to address this, we are using remuneration as another lever and have included a gender measure in both the annual bonus and LTIP for 2019-21.

In conclusion, I trust that members will agree that given the challenging backdrop the group has delivered a solid performance which has been reflected in the remuneration of the executive directors in 2018 and that it warrants your approval of the Annual report on remuneration.

I hope that as members you will support the resolution at this year's AGM. As always, the committee and I are keen to receive feedback so we can take on board your views in the future.

On behalf of the Remuneration Committee I recommend you endorse the report.

Yours sincerely



**Alison Hutchinson,**  
Chairman of the Remuneration Committee

# 2018 Remuneration Summary

LV= financial performance  
in 2018



## £89m

Operating capital  
generation



## 172%

Capital cover ratio



## (4.2)%

LVFS main  
With-profits fund  
performance



LV= non-financial  
performance in 2018



## Best loved



## 74%

LVFS employee  
engagement

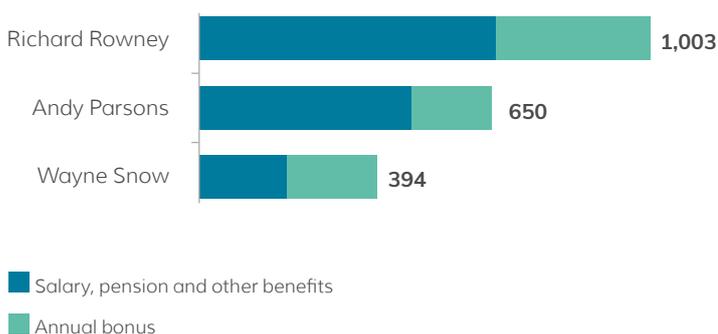
Achieved target

Missed target

## Measures used for the 2018 annual bonus scheme and long-term incentive plan

| 2018 Annual bonus                                 |                     |
|---|---------------------|
| Financial   | Payout = 39%        |
| Non-financial                                     | Payout = 39%        |
| <b>Total</b>                                      | <b>Payout = 78%</b> |
| 2016-2018 LTIP                                    |                     |
| Average Adjusted Group Profit Before Tax (AAGPBT) | Payout = 0%         |
| Relative Investment Performance (RIP)             | Payout = 0%         |
| <b>Total</b>                                      | <b>Payout = 0%</b>  |

## How much our executive directors earned in respect of 2018 from our ongoing remuneration policy (£'000)



|                | Total remuneration (£'000) | Annual bonus (% of maximum) | Long-term incentives (% of maximum) |
|----------------|----------------------------|-----------------------------|-------------------------------------|
| Richard Rowney | 1,003                      | 44%                         | –                                   |
| Andy Parsons   | 650                        | 38%                         | n/a                                 |
| Wayne Snow     | 394                        | 51%                         | n/a                                 |

## Remuneration policy

Our remuneration policy was approved by members at the AGM held on 7 June 2018. The full remuneration policy can be viewed in the 2017 LV= Annual Report.

The key elements of our remuneration framework are set out below.

### Remuneration policy for executive directors

|  | Operation   | Maximum opportunity   |
|--|---|---|
| <b>Salary</b>                                | Salaries are reviewed annually (but not necessarily increased) taking into account several factors including individual experience, responsibilities, function and sector, along with individual and group performance.   | No prescribed maximum.  |
| <b>Benefits</b>                              | Includes temporary living costs, car allowance, medical insurance, income protection and life assurance, which are available to all staff and directors on equal terms.   | No prescribed maximum <sup>1</sup>  |
| <b>Pensions</b>                              | Directors can elect to join a defined contribution pension scheme or receive a cash sum in lieu of pension contributions.   | Chief executive: maximum 22% of base salary.<br>Other directors: maximum 14% of base salary. <sup>2</sup>   |
| <b>Annual Bonus</b>                          | The annual bonus pool is measured against annual group financial objectives, accounting for 50% of the assessment, and a balanced scorecard of objectives covering Strategy and change, Customer, member and brand, Risk and compliance and Leadership and diversity, accounting for the remaining 50%.   | Chief executive: maximum payment of 150% of bonus-able earnings. <sup>3</sup><br>Other directors: maximum payment of 120% of bonus-able earnings. <sup>3</sup>                |
| <b>Group long-term incentive plan (LTIP)</b> | Performance is measured over a three year period, which is then followed by a two year holding period. For 2019-21 awards 75% weighting will be based on three financial measures covering Growth in own funds, Return on capital supporting new business and Total life operational expenses. The remaining 25% weighting will be based on non-financial measures. There is an underpin related to risk whereby no vesting will occur if appropriate levels of risk management have not been achieved. | Maximum payout is capped at two times the initial award, the value of which is up to:<br>Chief executive: 150% of salary;<br>Other board executive directors: 125% of salary. |
| <b>Deferral</b>                              | Between 40%-60% of the variable remuneration paid to executive directors is deferred, initially through the Long Term Incentive Plan (LTIP). If this ratio is not met, then a portion of the annual bonus payment for that year will be deferred.   |   |
| <b>Malus/Clawback</b>                        | The committee may apply malus and/or clawback in respect of deferred awards and/or LTIP in any circumstances in which the committee, in its absolute discretion, considers that the Society is required to do so by any Remuneration Code.  |   |

<sup>1</sup> There is no prescribed maximum for benefits overall however car allowance has a maximum of £10,200.

<sup>2</sup> For all new appointments maximum pension contribution is 14% of salary (including Andy Parsons and Wayne Snow). The chief executive has a higher percent pension contribution at 22% due to historic reasons and he is the only employee who has this arrangement.

<sup>3</sup> Bonus-able earnings is all basic salary paid in 2018 (includes statutory payments). It excludes additional payments such as overtime, salary supplements and holiday pay.

As outlined on page 84, remuneration decisions taken in respect of the coming year differ from the policy outlined above as follows:

- For the 2019-21 LTIP awards, the committee is proposing to make lower target awards of 120% of salary for the chief executive officer, 101% (rounded) of salary for the group finance director and 100% of salary for the chief risk officer, taking into account the reduced complexity of the business following the strategic partnership with Allianz.
- For 2019-21 LTIP awards onwards there will be a two-year holding period following the end of the performance period for executive directors.

Details of our policy on recruitment and promotions, service contracts, payments for loss of office and non-executive directors can be found in our remuneration policy as set out in the 2017 LV= Annual Report.

## Annual Report on Remuneration

### The Remuneration Committee

The Remuneration Committee determines the remuneration policy for the executive directors and agrees the remuneration of each executive director and other senior managers. The committee reviews the effectiveness of the remuneration policy and strategy at least once a year and all incentive and bonus schemes are established and monitored by the committee.

Members of the committee are provided with training and topical briefing sessions on developments and trends in executive remuneration, particularly as this relates to the financial sector.

### Committee membership, attendance and advisors to the committee

During 2018 the committee members were:

- Alison Hutchinson, who was appointed to the board on 1 January 2018 and then appointed to chair the Remuneration Committee from 7 June 2018.
- Caroline Burton who resigned on 7 June 2018 from the role as chair of the Remuneration Committee and as board member.
- David Neave, who was a member of the committee for all of 2018.
- Alan Cook who is board chairman and was a member of the committee for all of 2018.
- Tanya Lawler who joined as a member of the committee from 1 September 2018.

The chief executive is invited to meetings except when his own remuneration is being discussed. Other senior employees, such as the group finance director, the chief risk officer, the human resources director and the head of reward and benefits, regularly provide advice to the committee and normally attend meetings by invitation.

Following their appointment in 2015 as external advisor, Deloitte LLP provided advice to the committee on remuneration levels and structures, and attended committee meetings by invitation. The committee undertakes due diligence periodically to ensure that our committee advisor remains independent of the Society and that the advice provided is impartial and objective. Deloitte LLP are members of the Remuneration Consultants' Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The total fees paid to Deloitte in respect of services that materially assisted the committee during the year were £68,800 for LVFS. During the year Deloitte also provided the group with advice in relation to internal audit services and payroll tax services and advised the LVGIG Remuneration Committee. Fees for these additional services are not included in the figure above.

### Committee activities in 2018

In 2018 the committee met seven times.

The matters which were addressed included:

- Review of the overall policy relating to directors' remuneration.
- Review of salary and bonus levels.
- Ongoing requirements in relation to compliance with the remuneration regulations of the Solvency II regulations and the UK Corporate Governance Code.
- Determination of recruitment and termination arrangements for joiners, promotions and leavers.
- Review of the 2018 balanced scorecard and 2018-20 LTIP.
- Consideration of various remuneration issues related to the strategic partnership with Allianz.
- Preparation of the report on directors' remuneration.
- Other routine matters throughout the year.

### All-employee remuneration

The committee also takes an active role in overseeing remuneration arrangements for the wider employee population. LV= has committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees, with employees paid a minimum of £9.00 per hour outside London and £10.55 in London (including our Croydon office).

LV= conducts regular salary benchmarking, both internally and externally against the wider market, to ensure our employee pay rates remain competitive. We also offer all employees the opportunity to participate in an incentive arrangement (bonus or sales incentive) as well as the opportunity to individually select the benefits they receive as part of their total reward package.

## Remuneration for the past year (year ended 31 December 2018)

### Summary table of executive directors' remuneration – Audited

The remuneration of individual directors, including that of the highest paid director, was as follows:

| £'000                   | Year        | Salary and fees | Other benefits <sup>1</sup> | Pension <sup>2</sup> | Annual bonus <sup>3</sup> | Long-term incentives <sup>4</sup> | Total from ongoing remuneration policy | Other remuneration <sup>5</sup> | Total        |
|-------------------------|-------------|-----------------|-----------------------------|----------------------|---------------------------|-----------------------------------|--|---------------------------------|--------------|
| Richard Rowney          | 2018        | 525             | 17                          | 116                  | 345                       | –                                 | 1,003                                  | –                               | 1,003        |
|                         | 2017        | 505             | 17                          | 111                  | 606                       | 480                               | 1,719                                  | –                               | 1,719        |
| Andy Parsons            | 2018        | 396             | 29                          | 45                   | 180                       | n/a                               | 650                                    | –                               | 650          |
|                         | 2017        | 217             | 8                           | 22                   | 250                       | –                                 | 497                                    | 450                             | 947          |
| Wayne Snow <sup>6</sup> | 2018        | 168             | 7                           | 19                   | 200                       | n/a                               | 394                                    | –                               | 394          |
|                         | 2017        | –               | –                           | –                    | –                         | –                                 | –                                      | –                               | –            |
| <b>Total</b>            | <b>2018</b> | <b>1,089</b>    | <b>53</b>                   | <b>180</b>           | <b>725</b>                | <b>–</b>                          | <b>2,047</b>                           | <b>–</b>                        | <b>2,047</b> |
|                         | <b>2017</b> | <b>722</b>      | <b>25</b>                   | <b>133</b>           | <b>856</b>                | <b>480</b>                        | <b>2,216</b>                           | <b>450</b>                      | <b>2,666</b> |

1 Benefits include car allowance, medical insurance, health screening, income protection cover and life cover. Benefits also include £14k temporary living costs provided to Andy Parsons for six months of 2018 per his service agreement.

2 These amounts have been taken as cash in lieu of forgone pension contributions by all executive directors.

3 This relates to the annual bonus awarded for the year ended 31 December 2018. Further details of this payment are set out on pages 80 and 81. An element of these full year amounts may be subject to deferral.

4 This relates to the vesting of the 2016-2018 LTIP awards based on the performance to 31 December 2018 which resulted in nil payout.

5 Other remuneration in 2017 relates to incentive arrangements that Andy Parsons had with his previous employer which the committee agreed to buy-out as part of his offer to join the Society.

6 Wayne Snow performed the role of chief risk officer from the date he was employed by LV= on 26 June 2018. Formal appointment to the board took place on 2 July 2018, however his full remuneration since commencing employment has been included in the table above.

### Summary table of non-executive directors' remuneration – Audited

| £'000   | Year        | Base fee   | Other fees <sup>1</sup> | Total fees <sup>2</sup> |
|---|-------------|------------|-------------------------|-------------------------|
| Alan Cook (chairman) <sup>3</sup><br>Member of Investment, Risk and Remuneration Committees. Chair of the Corporate Governance and Nomination Committee. Chairman of LVGIG board.   | 2018        | 200        | 50                      | 250                     |
|   | 2017        | 153        | –                       | 153                     |
| Alison Hutchinson <sup>4</sup><br>Chair of Remuneration Committee, member of Corporate Governance and Nomination Committee.   | 2018        | 53         | 10                      | 63                      |
|   | 2017        | –          | –                       | –                       |
| Caroline Burton <sup>5</sup><br>Chair of Remuneration and Investment Committees and member of Audit and Corporate Governance and Nomination Committees.   | 2018        | 23         | 12                      | 35                      |
|   | 2017        | 53         | 29                      | 82                      |
| David Barral<br>Senior independent director, chair of Risk Committee, member of Audit, Investment and Corporate Governance and Nomination Committees. Non-executive director and Audit Committee chair of LV= general insurance subsidiaries. | 2018        | 53         | 46                      | 99                      |
|   | 2017        | 53         | 22                      | 75                      |
| Colin Ledlie<br>Chair of Investment Committee, member of With-profits, Risk and Audit Committees.   | 2018        | 53         | 20                      | 73                      |
|   | 2017        | 22         | 6                       | 28                      |
| Luke Savage <sup>6</sup><br>Chair of Audit Committee and member of Corporate Governance and Nomination Committee.   | 2018        | 48         | 12                      | 60                      |
|   | 2017        | –          | –                       | –                       |
| David Neave<br>Member of Risk, Remuneration and Corporate Governance and Nomination Committees. Non-executive director and Risk and Remuneration Committee chair of LV= general insurance subsidiaries  | 2018        | 53         | 37                      | 90                      |
|   | 2017        | 53         | 24                      | 77                      |
| Tanya Lawler <sup>7</sup><br>Member of Remuneration and Risk Committees.  | 2018        | 18         | 3                       | 21                      |
|   | 2017        | –          | –                       | –                       |
| James Dean <sup>8</sup><br>Senior independent director, chair of Audit Committee and member of Risk and Corporate Governance and Nomination Committees.   | 2018        | 13         | 7                       | 20                      |
|   | 2017        | 53         | 25                      | 78                      |
| <b>Total</b>  | <b>2018</b> | <b>514</b> | <b>197</b>              | <b>711</b>              |
|   | <b>2017</b> | <b>387</b> | <b>106</b>              | <b>493</b>              |

No additional fees are paid for membership of the Corporate Governance and Nomination Committee.

1 Other fees relate to committee chair and membership fees and subsidiary board fees.

2 For all those who started or left in the year or were appointed to a different role, the total fees figure is reflective of these changes. Changes in committee membership during the year are shown on pages 57 to 69.

3 Alan Cook's other fees relate to his position as chairman of LVGIG.

4 Alison Hutchinson was appointed to the board on 1 January 2018.

5 Caroline Burton resigned on 7 June 2018.

6 Luke Savage was appointed on 1 February 2018.

7 Tanya Lawler was appointed on 1 September 2018.

8 James Dean resigned on 31 March 2018.

## Annual bonus for the year ended 31 December 2018 – Audited

The annual bonus for the year under review was based on performance against annual group financial objectives, risk metrics and a balanced scorecard of personal objectives. Details of actual performance against targets are as follows:

| Measure                                      | Payout % for target performance | Threshold                            | Plan | Maximum | Actual    | Vesting    |
|--|---------------------------------|--------------------------------------|------|---------|-----------|------------|
| Life operating capital surplus <sup>1</sup>  | 16.7%                           | £30m                                 | £45m | £60m    | £91m      | 22%        |
| General insurance dividend flow <sup>2</sup> | 16.7%                           | £29m                                 | £37m | £44m    | £37m      | 17%        |
| Economic value of New business               | 16.7%                           | £10m                                 | £15m | £20m    | £(3)m     | 0%         |
| Strategy and change                          | 20%                             | See target objectives in table below |      |         | Threshold | 17%        |
| Customer, member and brand                   | 10%                             |                                      |      |         | Plan      | 10%        |
| Risk and compliance                          | 10%                             |                                      |      |         | Threshold | 7%         |
| Leadership and diversity                     | 10%                             |                                      |      |         | Threshold | 5%         |
|  | <b>100%</b>                     |                                      |      |         |           | <b>78%</b> |

1 Life operating capital surplus is operating capital generation excluding the impact of general insurance and group items.

2 Although no formal dividend has been declared due to the uncertainties regarding Brexit, the expected dividends to be remitted in respect of the 2018 general insurance performance have been included in determining the annual bonus out-turn.

The financial performance of the group accounts for 50% of the annual bonus target, which is made up of three measures, each with equal weighting. The group operates a performance range for the three financial elements that are included within the scheme (see table above) which is considered to be stretching at all levels. Threshold is the level of performance that must be achieved to release 70% of the bonus pool. Plan is the level of performance that must be achieved to release 100% of the bonus pool. Maximum is the level of performance that must be achieved to release 130% of the bonus pool.

As detailed in the table above, the total weighted outcome, including non-financial measures, results in executive directors and other senior managers receiving a bonus pool vesting at 78%. Discretion has been applied in increasing the bonus pool for all other employees to 80% as recognition of employee's contribution in a challenging year when the business is being split.

### Individual and strategic

The table below gives a broad indicator of how each executive director performed against their individual and strategic objectives along with a description of those objectives. The total bonus awarded to each director and the percentage deferred is set out in the next table.

|                | Individual and strategic objectives (50% weighting)  | Indication of performance |
|----------------|--|---------------------------|
| Richard Rowney | <p>Objectives as chief executive:</p> <ul style="list-style-type: none"> <li>Progress against key strategic priorities including maintaining the group's capital position, securing our future as a sustainable mutual and clarifying the ownership of the group.</li> <li>Manage a well-controlled separation of the general insurance business by the end of 2019.</li> <li>Deliver the financial plan and targets, including strong expense control.</li> <li>Operate within the group's risk appetite.</li> <li>Deliver excellent customer satisfaction scores to remain Britain's best loved insurer.</li> <li>Continue to deliver good employee engagement scores and champion diversity and inclusion.</li> </ul> | Perform                   |
| Andy Parsons   | <p>Objectives as group finance director:</p> <ul style="list-style-type: none"> <li>Maintain the Society's capital position, secure our future as a sustainable mutual and clarifying the ownership of the Society.</li> <li>Deliver financial operational performance.</li> <li>Operate within the group's risk appetite.</li> <li>Develop the investment strategy.</li> <li>Deliver the financial plan and targets, including strong expense control.</li> </ul>   | Perform                   |
| Wayne Snow     | <p>Objectives as chief risk officer:</p> <ul style="list-style-type: none"> <li>Progress against key strategic priorities including development and implementation of the risk management framework.</li> <li>Operate within the group's risk appetite.</li> <li>Ensure the Society is compliant with relevant regulations including General Data Protection Regulation and Senior Managers and Certification Regime.</li> </ul>   | Perform                   |

Risk is taken into account when appraising all performance measures and the committee may reduce (including to nil) any bonus payment if it considers that risk exceeded acceptable levels.

The Remuneration Committee looks at the performance of the business in the round to understand any internal and external factors that have impacted performance and the broad trajectory of the business and market conditions, before determining the appropriate level of bonus to be released.

|                         | Payout<br>(% of<br>maximum) | Total<br>2018 bonus<br>(£'000s) | Total<br>2018 bonus<br>(% of bonus-<br>able earnings) | 2018 bonus<br>deferred % | 2018 bonus<br>deferred <sup>1</sup><br>(£'000s) |
|-------------------------|-----------------------------|---------------------------------|---|--------------------------|---|
| Richard Rowney          | 44%                         | 345                             | 66%   | 0%                       | –   |
| Andy Parsons            | 38%                         | 180                             | 45%   | 0%                       | –   |
| Wayne Snow <sup>2</sup> | 51%                         | 200                             | 62%   | 0%                       | –   |

1 Amounts deferred achieve the deferral criteria whereby 40% of variable remuneration (60% if variable remuneration is above £500,000) is deferred. Amounts are calculated using the 2018 bonus and the 2019-2021 LTIP award. Any variable pay amount deferred will be paid in equal parts over the following three years. During the deferral period, the value of deferred amounts will be tied to the value of members' invested funds, thereby creating a link to ongoing performance.

2 As part of his joining contract, the Remuneration Committee agreed that Wayne Snow would have the opportunity of being entitled to a full year's bonus.

### Group LTIP payments made in the year (2016 – 2018 scheme) – Audited

The 2016-18 LTIP scheme is based on a performance period from 1 January 2016 to 31 December 2018.

For the 2016-2018 scheme, the payout is based on:

- AAGPBT\*: 75% of award for Richard Rowney and former directors Mike Rogers and Philip Moore.
- Relative Investment Performance: 25% of award for Richard Rowney and former directors Mike Rogers and Philip Moore.

Performance against the specific performance targets is as follows:

- AAGPBT\* of £94m was below threshold of £103m and resulted in nil payout.
- Relative investment performance of 105 basis points below benchmark was below threshold of equal to the benchmark and resulted in nil payout.

\* AAGPBT – Average Adjusted Group Profit Before Tax over the three year period of the scheme.



The unvested awards are subject to malus and the vested awards paid are subject to claw-back provisions, which can apply in scenarios where events later come to light that would have meant the payout amount was inappropriate (such as a material re-statement of the Society's financial results, an error was made in determining the payout amount, the recipient committed an act of gross misconduct or a material failure in risk management).

#### Group LTIP summary of awards and amounts vested during 2018 – Audited

| £'000          | Award     | Unvested awards at 1 January 2018 <sup>1</sup> | Awards made in the year | To be paid in respect of 2016-2018 scheme | Of which deferred | Unvested awards at 1 January 2019 <sup>2</sup> |
|----------------|-----------|--|-------------------------|---|-------------------|--|
| Richard Rowney | 2016-2018 | 246  |                         | –   | –                 | –  |
|                | 2017-2019 | 490  |                         |   |                   | 490  |
|                | 2018-2020 |  | 788                     |   |                   | 788  |
| Andy Parsons   | 2017-2019 | 293  |                         |   |                   | 293  |
|                | 2018-2020 |  | 497                     |   |                   | 497  |
| Wayne Snow     | 2018-2020 |  | 406                     |   |                   | 406  |

1 Unvested awards are shown at the value of the base award level. Unvested awards at 1 January 2018 are in respect of awards granted in March 2016 and 2017.

2 Unvested awards at 1 January 2019 are in respect of awards granted in March 2017 and 2018.

#### Group LTIP awards made in the year (2018 – 2020 scheme) – Audited

|                | Type of award | Initial award (£'000) | Financial   | Non Financial | % of initial award that would vest at maximum performance | Vesting determined by performance over |
|----------------|---------------|-----------------------|---|---------------|---|--|
|                |               |                       | % of initial award that would vest at threshold performance |               |   |  |
|                |               |                       | 75% weighting   | 25% weighting |   |  |
| Richard Rowney | Cash          | 788                   | 50%   | 50%           | 200%  | 3 years to 31 December 2020            |
| Andy Parsons   | Cash          | 497                   | 50%   | 50%           | 200%  |  |
| Wayne Snow     | Cash          | 406                   | 50%   | 50%           | 200%  |  |

#### Pensions – Audited

Since the closure of the defined benefit (DB) section of our pension scheme to future accrual in 2013, executive directors have had the choice of receiving contributions into the defined contribution (DC) section of our pension scheme or being paid an equivalent cash allowance. All executive directors received cash payments in lieu of pension contributions.

### Additional information on 2018 remuneration

#### Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for the group chief executive between the current and previous financial year compared to the total amounts for the same elements for all employees.

|   | Salary            | Taxable benefits | Bonus |
|---|-------------------|------------------|-------|
| Chief executive   | 0%                | 3.3%             | (43%) |
| % change based on a static population excluding the chief executive | 2.4% <sup>1</sup> | 3.9%             | (24%) |

1 The increase in employee salary reflects the annual payrise from April 2018 of 2.4% (As reported in the 2017 Remuneration Report) and excludes the impact of promotions.

Ratio of chief executive salary to average employee FTE salary 16:1, (2017: 16:1). We aim to adopt the new UK Corporate Governance Code CEO ratio from 1 January 2020.

### Relative importance of the spend on pay

The table below shows the group's actual spend on pay (for all employees) relative to the mutual bonus, which represents a significant, discretionary disbursement of profit to members.

|              | Total remuneration |         |          |
|--------------|--------------------|---------|----------|
|              | 2018 £m            | 2017 £m | % change |
| Staff costs  | 256                | 255     | 0%       |
| Mutual bonus | 26                 | 26      | 0%       |

### Chief executive's remuneration over ten financial years

The total remuneration figures for the chief executive during each of the last ten financial years are shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three year performance periods ending in the relevant year.

For 2016, total remuneration reflects the amounts received by Richard Rowney and Mike Rogers for the periods each director performed the role of chief executive.

The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

|                              | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |                | 2017           | 2018           |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|----------------|----------------|
|                              | Mike Rogers | Richard Rowney | Richard Rowney | Richard Rowney |
| Total remuneration (£'000)   | 997         | 1,247       | 2,177       | 2,622       | 2,364       | 1,666       | 1,970       | 891         | 610            | 1,719          | 1,003          |
| Bonus % of maximum awarded % | 77%         | 86%         | 95%         | 100%        | 74%         | 80%         | 86%         | 13%         | 79%            | 80%            | 44%            |
| LTIP % of maximum vesting %  | 0%          | 0%          | 100%        | 100%        | 90%         | 25%         | 59%         | 49%         | 50%            | 100%           | 0%             |

### Payments upon recruitment and promotion of directors

Wayne Snow was appointed as the chief risk officer in June 2018.

Upon appointment Wayne's salary was set at £325,000 with a commitment made on appointment to increase this to £350,000 effective 1 April 2019 based on his performance and development into the role. Wayne's bonus maximum opportunity and LTIP award level were set in line with our remuneration policy, i.e. a bonus maximum of 120% of salary and LTIP maximum award of 125% of salary (with payout capped at two times the LTIP initial award). There are no buy-outs associated with this appointment.

### Payments to past directors – Audited

Previous Directors, Mike Rogers and Philip Moore, retained eligibility to participate in the long-term incentive schemes to which they had already been invited to participate. All awards were pro-rated to their final dates in employment, 31 December 2016 for Mike and 30 June 2017 for Philip, with the amount payable based on the applicable performance conditions.

The 2016-18 LTIP was below threshold and resulted in a nil payout.

- 
- 1 There were 3,054 abstentions to this resolution.
  - 2 There were 3,541 abstentions to this resolution.
  - 3 An increase in weighting has been applied to member and advisor advocacy to emphasise the critical importance to employees of acting in our members interests.

## Directors' Loans

As at 31 December 2018 there were no loans outstanding to directors.

## Results of members' votes on remuneration resolutions at 2018 AGM

At the Society's AGM in June 2018 the members approved the 2017 Remuneration Report, with 95% of the 49,996 total votes cast in favour<sup>1</sup> and the Remuneration Policy with 94% of the 49,521 total votes cast in favour<sup>2</sup>.

## Remuneration decisions taken in respect of the coming year (year ending 31 December 2019)

### Executive director salary

Current salary levels and those which will apply from 1 April 2019 are as follows:

|                         | Effective from April 2019<br>£'000 | As at 31 December 2018<br>£'000 | Percentage change |
|-------------------------|------------------------------------|---------------------------------|-------------------|
| Richard Rowney          | 525                                | 525                             | 0%                |
| Andy Parsons            | 398                                | 398                             | 0%                |
| Wayne Snow <sup>1</sup> | 350                                | 325                             | 8%                |

<sup>1</sup> At the time of appointment a commitment was made to increase Wayne's salary to £350,000 effective from 1 April 2019, based on his performance and development in the role during 2018.

### Performance targets to be applied for the 2019 annual bonus and group LTIP (2019-2021 scheme)

For 2019, the annual bonus will continue to be based on a balanced scorecard of group financial and non-financial objectives. For 2019, the financial objective weighting is 50%, with the non-financial measures accounting for the remaining 50%. There are no proposed changes to the bonus opportunity for executive directors for 2019, with the chief executive officer having a bonus opportunity of 150% of salary and other executive directors an opportunity of 120% of salary.

The details of our 2019 group balanced scorecard are shown below:

| Target                      | Measure  | Weighting |
|-----------------------------|--|-----------|
| Financial                   | Life operating capital surplus, operating expenses and the economic value of new business.   | 50%       |
| Member and advisor advocacy | Putting in place the foundations for a fitter mutual for the future, brand and customer satisfaction metrics, subject to discretion if member bonus not in line with policy <sup>3</sup> . | 20%       |
| Strategy and change         | Progress made towards the delivery of the five year strategic objectives.  | 10%       |
| Risk                        | Embedding of the risk management framework and operating within the groups risk appetite.  | 10%       |
| Leadership and diversity    | Strong employee engagement and diversity and inclusion metrics.  | 10%       |

The committee reviewed the performance measures used and is proposing to increase the weighting of the Member and advisory advocacy measure (from 10% to 20%) to emphasise the critical importance of acting in our members' best interests, and correspondingly decrease the weighting of the Strategy and change measure (from 20% to 10%).

For the 2019-21 LTIP awards, the committee is proposing to make lower target awards of 120% of salary for the chief executive officer, 101% (rounded) of salary for the group finance director and 100% of salary for the chief risk officer, taking into account the reduced complexity of the business following the strategic partnership with Allianz.

The LTIP will continue to be based on a mixture of financial measures (75% weighting) and strategic goals (25% weighting).

For 2019 Return on Capital Supporting New Business has replaced Economic Value of New Business (EVNB) as a measure as we believe it is clearer to express this measure as a target return on the capital rather than a £ amount.

For 2019-21 LTIP awards onwards there will be a two-year holding period following the end of the performance period for executive directors.

The 2019-21 LTIP awards (to be granted in 2019) will be subject to the following performance conditions:

| Performance condition  | Weighting | Underpin   |
|--|-----------|--|
| Financial measures based around growth in own funds, expenses and return on capital supporting new business.   | 75%       | An underpin related to risk whereby no vesting will occur if appropriate levels of risk management have not been achieved. |
| Non-financial measures, based around (i) Being ranked number one for customer experience and business growth for IFAs by 2022 (ii) Financial Services norm for staff engagement (iii) Senior female band C and above percentage by 2020. | 25%       |  |

The actual targets associated with the bonus and LTIP are considered commercially sensitive at this time. They will be disclosed retrospectively in the relevant Directors' Remuneration Report.

#### Non-executive directors' fees

Fees for the non-executive directors are determined by the board, based on the responsibility and time committed to the group's affairs and appropriate market comparisons. Individual non-executive directors do not take part in discussions regarding their own fees. Fees are reviewed annually and any changes are implemented from 1 June each year. No fee increase was made during 2018 and so the fees that have been effective from 1 June 2016 still apply from 1 June 2018, as set out below:

|   | Current fees   |
|---|----------------|
| Chairman  | £200,000       |
| Non-executive director base fee   | £53,000        |
| Additional fees:  |                |
| Senior independent director   | £6,500         |
| LVGIG board chair   | £50,000        |
| Committee chair (various including of general insurance subsidiary boards)      | £7,500-£13,000 |
| Committee membership (various including of general insurance subsidiary boards) | £3,650-£5,500  |

Fees effective from 1 June 2019 will be approved in May 2019. Additional fees are payable for being a member of LV= general insurance subsidiary boards.

The directors approved the Report on Directors' Remuneration on 21 March 2019.



**Alison Hutchinson**  
Chairman of the Remuneration Committee