Legal & General (Portfolio Management Services) Limited

MIFIDPRU Disclosure
31 December 2022

Contents

1. Introduction

Legal & General (Portfolio Management Services) Limited ("PMS") is authorised and regulated by the Financial Conduct Authority ("FCA") under Firm Reference Number 146786. PMS is a wholly owned subsidiary of Legal & General Retail Investments (Holdings) Limited and ultimately owned by Legal & General Group Plc ("the Group").

The specific requirements of MIFIDPRU draw a distinction between small and non-interconnected ("SNI") and non-SNI firms, with more stringent measures applying to non-SNI firms. Under the FCA's Prudential Sourcebook for MIFID Investment Firms ("MIFIDPRU") definition, PMS, by virtue of having permission to hold client money, is an investment firm and is classified as a non-SNI firm.

This document sets out the disclosures for PMS in accordance with MIFIDPRU chapter 8. The disclosures are as at 31 December 2022 in line with PMS's latest set of published annual financial statements.

2. Risk management objectives and policies

PMS operates in accordance with the Group's risk management policy, which is made up of a framework and processes in place to identify, measure, monitor, manage and report the risks that the Group is (or could be) exposed to, including the categories of risks addressed by MIFIDPRU 4, MIFIDPRU 5 and MIFIDPRU 6.

To ensure operations remain within risk appetite, it is the Group's policy that processes must be in place to:

- identify and record all material risk exposures;
- regularly monitor actual exposures versus appetite;
- take appropriate and timely management action to address identified issues;
- accurately measure risk-based capital requirements; and
- produce timely and accurate reporting for stakeholders, including regulators.

The sections below detail the Group's risk management policy which is adopted by PMS.

2.1 High level approach to risk management

Taking informed risk is part of being in business, and understanding the risks faced, in the markets operated in, gives the Group a competitive advantage. The Group balances the risks that provide sustainable returns with those that do not and makes the best use of its capital to deliver its strategy. This is done to deliver increased earnings, business performance, and shareholder value, at the same time as keeping its reputation intact and safeguarding its customers' interests.

Managing risk effectively is not a constraint on business growth. The Group's managers need a positive attitude to risk, so they can: take advantage of business opportunities, and meet business objectives; control areas of greatest risk, and act promptly to remediate any weakness and failures in processes; and be satisfied that the capital held is sufficient to deal with risks the business is exposed to.

2.2 Risk governance framework

The Group's risk governance framework, which is underpinned by the Group's risk appetite, provides structure to enable informed risk taking and decision making. It allows the Group's Board to draw comfort that risk exposures are appropriately identified and managed, and that the risk of significant loss or reputational damage is minimised.

The framework is made up of six elements, each with a distinct purpose:

- **Risk taking authorities**: cascade the risk appetite; empowering decision making within clear parameters.
- **Risk policies**: define the required approaches to managing specific risk types, in order that residual exposures remain within appetite.
- **Risk identification and assessment**: resources to help managers identify and evaluate risk exposures.

- **Risk management information (“MI”)**: effective reports that facilitate the assessment of risk exposures versus appetite.
- **Risk committees**: review key risk exposures and develop/refine risk management strategies.
- **Risk oversight**: oversight of risk management by the Group and divisional Chief Risk Officer (“CRO”) teams.

2.3 A ‘risk aware’ culture

The Group fosters a risk aware culture and relies on this culture and the behaviours it delivers within the business for the risk framework to operate successfully. The Group’s risk aware culture is based upon the following principles:

- Openness and transparency in how decisions are made and risks managed;
- Significant decisions are aligned with strategy, capital targets, and expected returns, whilst considering the effects on the Group’s reputation and customers;
- Individuals with risk taking authorities act as a ‘prudent person’, and consider the impact of risk on the entire Group;
- Managers own and manage the risks associated with the activities they are responsible for, and must aim to manage these without process errors;
- Risk events are reported and addressed in good time, as it is recognised that no system of control is fail-safe;
- Individuals make decisions within delegated authorities and management committees facilitate informed decision making on more complex matters; and
- Risk committees are established as forums for the review and challenge of how risks are identified and managed, and for the agreement of risk appetite parameters.

2.4 Three lines of defence

The Group’s risk governance framework is based on a three lines of defence model, whereby:

- **1st line**: business managers identify and manage risks;
- **2nd line**: CRO teams and risk committees oversee and challenge the management of risk; and
- **3rd line**: Group Internal Audit provide independent assurance that risks are effectively managed and that appropriate oversight exists.

2.5 Risk and capital management

The Group’s core measure of risk exposure is risk-based capital. Approaches to calculating risk-based capital requirements are set within the calibration standards and methodologies defined within the Group’s Internal Model.

2.6 Risk taking authorities

Risk and capital mandates (“mandates”) cascade the Group’s risk appetite to each of its operating divisions. These mandates set out the risk-taking parameters that each division’s managing director is empowered to operate within, and whilst the risk types, limits and tolerances will vary between each mandate, they follow a standard structure, including:

- permitted products;
- capital and volatility in earnings;
- risk preferences;
- key risk limits and risk monitoring metrics; and
- delegated authorities.

2.7 Risk policies

The Group's risk policies define the overall approach to monitoring and controlling specific risk types. Policies are in place for market, insurance, credit, liquidity, operational, and Group risks, defining:

- risk appetite;
- the framework for management and oversight of the risk; and
- the minimum control standards and procedures required to ensure that the Group is only exposed to the residual risks set out within the risk strategy.

The Group Internal Control Policy provides guidance on the design of effective internal control and supports the risk governance framework through defining the control environment and activities that need to be in place to support risk mitigation.

2.8 Risk identification and assessment

Business managers are responsible for identifying and assessing the risks in their business. Divisional CRO teams support the risk identification and assessment process and provide objective review and challenge.

- **Enterprise risks**: relate to inherent factors that impact the delivery of the business's strategy, or transient/developing matters that require active senior management involvement to ensure that they do not result in significant loss or reputational damage.
- **Financial risks**: exposures to market, insurance, credit and liquidity risks, which are characteristics of the Group's products and the investment assets held.
- **Operational risks**: potential for loss from failed systems, processes, people, or external events. Exposures associated with the Group's activities are identified and assessed with reference to business processes and the factors that may prevent those objectives being achieved. Significant risks together with key controls are recorded on OneSumX (the risk management system used within the Group), and are reviewed regularly with the effectiveness of controls being attested to by relevant individuals within the business in respect of controls they operate.

2.9 Risk management information ("MI")

Effective MI is a key tool used by the Group for risk management. Business management are responsible for ensuring that appropriate and adequate MI is in place. Group and divisional CRO teams are responsible for overseeing the flow of MI on risks, mitigation actions and issues. The Group CRO team conducts independent analysis and reporting on significant, thematic, and emerging risk matters and reports upon the aggregation and concentration of risks on a Group wide basis.

2.10 Risk oversight

Risk management is the responsibility of all business managers and directors, who are supported by the Group and divisional CROs and their teams.

The Group CRO role is:

- independent of business lines, and has an independent reporting line to the Chair of the Group Risk Committee ("GRC");
- within the 2nd line of defence, providing advice, oversight and challenge for all of the Group's risks; and
- involved, where appropriate, in all material decisions to influence and provide objective challenge.

Divisional CRO's perform a similar role, working with business management to ensure an appropriate risk management framework is in place, and that risk management is embedded in each division.

Group Internal Audit are responsible for reporting to the Group Audit Committee on adherence to internal systems and controls, procedures, and policies, and to the GRC on both the effectiveness of the Group's risk governance framework and adherence to the framework by the operating divisions. Group Internal Audit are independent of the day to day activities of the Group.

2.11 Risk committees

Risk committees provide forums to review key risks and develop risk management strategies. Group level committees provide forums for Board oversight and challenge of the operation of the risk framework, and the management of key risks.

3. Governance arrangements

3.1 PMS Board

The PMS Board ("the Board") is the governing body of the firm, having overall responsibility for approving and overseeing the firm's strategic objectives, risk strategy and internal governance.

The Board meets quarterly, with additional meetings held as required to meet business needs. The Board has a schedule of regular items which it discusses, including MI on the performance and operations of PMS, and a schedule of matters reserved for the Board is in place, being reviewed annually.

The Board allocates responsibility for the conduct of the business to the Chief Executive Officer who is supported by other Senior Managers, who collectively form the management body. The management body are allocated specific responsibilities in line with their Senior Management Functions ("SMF"), with the allocation of these responsibilities including appropriate segregation of duties in accordance with the Senior Management and Certification Regime.

A conflicts of interest register is maintained and reviewed by the Board.

3.2 Committees

The Board is supported by several committees, including the Workplace Savings and Retail Annuities Risk Committee ("The Committee").

The Committee is a key element of the governance structure being responsible for ensuring that business management maintain a proportionate system of risk management and internal control, overseeing the management of risk events and deficiencies. The Committee meets at appropriate intervals throughout the year, typically monthly with a minimum of eight meetings a year. Details of the risk management framework and objectives are covered within Section 2 of this document. In addition to the Committee, there are further sub-committees that report to the Board and have responsibility for the oversight of specific risks.

MIFIDPRU 7.1.4 states that MIFIDPRU 7.3 does not apply "where the value of the firm's on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £100 million of less." As this condition is held for PMS, it is not required to have its own risk committee separate from the Workplace Savings and Retail Annuities Risk Committee.

3.3 Directorships

The number of directorships (both executive and non-executive) held by each member of PMS's management body is set out below.

This excludes directorships held in organisations that do not pursue predominantly commercial objectives and directorships within the Group.

Name	Senior management function	Number of executive directorships	Number of non-executive directorships
Alastair William Hall	SMF3 Executive Director	1	0
Colin Murphy	SMF16 Compliance Oversight	0	0
Emma Miller Byron	SMF1 Chief Executive (resigned 27 January 2023)	0	0
Lorna Louise Shah	SMF1 Chief Executive (appointed 26 January 2023) SMF3 Executive Director	0	0
Marco Groot-Wassink	SMF3 Executive Director (appointed 2 November 2022)	0	0
Richard Bethune	SMF17 Money Laundering Reporting Officer	1	0
Simon Jonathan Burke	SMF9 Chair of the Governing Body	1	1

PMS is not a SYSC significant firm under the definition of SYSC 1.5.2R and therefore its management body are not limited on the number of directorships they can hold.

3.4 Diversity

In line with the Group, PMS recognises that diversity of experience, thought and perspective drives greater proximity to its customers, better informed decisions and a culture which more readily embraces innovation. PMS operates in accordance with the group-wide diversity and inclusion policy which is overseen by the Group Board. This policy applies to all individuals directly employed by the Group and therefore includes the PMS management body. It has been designed to support the Group achieve its targets of:

- 40% female leadership by 2025;
- Equal gender balance across the Group workforce by 2025; and
- 17% of the Group workforce being from ethnic minority backgrounds by 2027.

Progress towards these targets are monitored and overseen by the Group Board. The Group diversity and inclusion policy sets out a number of standards, followed by PMS, including that the Group:

- will be fair and transparent, and treat its people with integrity and openness;
- will be respectful of differences and will not tolerate behaviour that marginalises, disadvantages or devalues others;

- will aim to build a workforce that reflects the diverse communities it serves;
- will invest in its hiring processes so it can attract a more diverse pool of people, and will tackle barriers that prevents it from attracting and retaining more diverse talent.
- will create an inclusive environment where people feel comfortable sharing their opinions and feel like they belong;
- will encourage its people to embrace difference, to listen to other points of view, and work together to achieve the best outcome; and
- will ensure that everyone across the Group understands their responsibilities in driving an inclusive and diverse culture and the opportunities it can bring.

PMS is supported in following these standards by the Group's Global Diversity and Inclusion Council that is tasked with developing the Group plans for improving diversity and Inclusion across the Group.

It is acknowledged that at an entity level the PMS management body does not currently meet the Group level targets in terms of gender balance and ethnic minority representation. However, the selection of management body members is dependent on the suitability and diversity of senior employees from which to promote to management body/Board level.

The following table shows gender split of the Groups overall workforce.

The Group's workforce (as at 31 December 2022)	Female	Male
Board directors	5 (42%)	7 (58%)
Executive Committee	3 (25%)	9 (75%)
Middle/senior management	38%	62%
All employees	45%	55%

The Group is focussed on recruitment and early careers along with widening opportunities for employees. The Group Board reviews, at least annually, the progress against the diversity objectives and targets backed up by analysis of the Group's workforce demographic. It is therefore expected that these measures, applied at a Group level, will translate into the targets being met by the PMS management board by the target dates. Remedial action plans will be put in place and tracked in the event there is any shortfall in performance at an overall level.

4. Own funds

The own funds disclosures as made in line with the template requirement set out in MIFIDPRU 8.4 and MIFIDPRU 8 Annex 1.

4.1 Composition of regulatory own funds

As at 31 December 2022, to meet its regulatory obligations, PMS held own funds (regulatory capital) of £9,088k. All own funds are held within common equity tier 1 capital and the composition is shown below:

Composition of regulatory own funds – OF1

		Amount (£000s)	Source based on reference numbers/letters of the balance sheet in the audited financial statements (Appendix I)
1	**OWN FUNDS**	**9,088**	***11***
2	**TIER 1 CAPITAL**	**9,088**	***11***
3	**COMMON EQUITY TIER 1 CAPITAL**	**9,088**	***11***
4	Fully paid up capital instruments	63,602	***6***
5	Share premium	36,898	***7***
6	Retained earnings	(94,784)	***9***
7	Accumulated other comprehensive income/(expense)	(11,628)	***9***
8	Other reserves – Capital contribution reserve	15,000	***8***
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	**(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1**		
19	CET1: Other capital elements, deductions and adjustments		
20	**ADDITIONAL TIER 1 CAPITAL**		
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	**(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1**		
24	Additional Tier 1: Other capital elements, deductions and adjustments		

25	**TIER 2 CAPITAL**	
26		Fully paid up, directly issued capital instruments
27		Share premium
28	**(-) TOTAL DEDUCTIONS FROM TIER 2**	
29		Tier 2: Other capital elements, deductions and adjustments

An extract from the audited financial statements providing the statement of financial position (balance sheet) with relevant references can be found in Appendix 1.

4.2 Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

Amount (£000s)	Column A - Balance sheet as in published/audited financial statements	Column B - Under regulatory scope of consolidation	Column C - Cross-reference to template OF1
As at period end	31 December 2022		
ASSETS – Breakdown of asset classes according to the balance sheet in the audited financial statements			
Investment in subsidiary	20		
Deferred tax asset	22		
Trade and other receivables	3,890		
Cash and cash equivalents	9,845		
Total Assets	**13,777**		
LIABILITIES - Breakdown by liability classes according to the balance sheet in the audited financial statements			
Trade and other payables	(4,689)		
Total Liabilities	**(4,689)**		
SHAREHOLDERS' EQUITY			
Share capital	(63,602)		4
Share premium	(36,898)		5
Capital Contribution Reserve	(15,000)		8
Retained earnings	106,412		6&7
Total Shareholders' equity	**(9,088)**		1

As PMS has the same accounting and regulatory scope of consolidation, disclosure is only required under column a above, and column b has therefore been left blank.

4.3 Main features of own instruments issued

The main features of own funds instruments issued by PMS are:

- Share capital consists of fully paid ordinary shares of £1 each, with 63,601,600 shares in issuance as at 31 December 2022 (2021: 63,501,600). The original share capital has increased in tranches since incorporation, with the most recent tranche of 100,000 which was issued on 23 January 2023.
- 100% of the called-up share capital is owned by the immediate parent company, Legal & General Retail Investments (Holdings) Limited, a company registered in England and Wales.
- A dividend of £Nil (2021: £Nil) was paid during the year.
- 100% of total shareholder's equity is recognised as regulatory own funds capital.
- Share capital and retained earnings have no specific terms and conditions attributed to them.

5. Own funds requirements

MIFIDPRU 4.3 states that PMS must at all times maintain own funds so that they are at least equal to its own funds requirement.

As PMS is classed as a non-SNI MIFIDRU firm, the own funds requirement is the highest of:

- permanent minimum capital requirement;
- K-Factor requirement; and
- fixed overhead requirement (“FOR”).

5.1 Permanent minimum capital requirement

This is the initial capital required for authorisation by the FCA and is a fixed amount of £150k, which is based on the investment services and activities PMS undertakes.

5.2 K-factor requirements

The purpose of the K-factor requirement is to align capital requirements to the level of risk posed by investment firms and the activities they undertake. There are 9 K-Factors, which are split into 3 categories:

- **Risk to Client:** risks carried by an investment firm during its services, actions or responsibilities, which could negatively impact clients. For many investment firms, failure to carry out its services or operations correctly will be the most important risks they need to manage.
- **Risk to Market:** applies capital requirements against the impact an investment firm could have on the markets in which it operates, and on those counterparties it trades with.
- **Risk to Firm:** intended to capture risks to an investment firm’s solvency from its trading activity and market participation. While the primary impact of crystallised risk is on the investment firm itself, its shareholders and its counterparties and creditors, a deterioration in an investment firm’s financial standing can lead to increased risks to its clients and/or the wider market.

The Risk to Market and Risk to Firm categories are largely only relevant for firms that trade on their own account and are therefore not generally applicable to PMS.

The K-Factor requirement for PMS is broken down as follows:

K-Factor requirements (£K)	31 December 2022
K-AUM, K-CMH and K-ASA	9
K-COH and K-DTF	0
K-NPR, K-CMG, K-TCD and K-CON	-
Total	**9**

A summary to explain the various K-Factors can be found in Appendix 2 – Glossary of Terms.

5.3 Fixed overheads requirement (“FOR”)

The purpose of the FOR is to ensure that firms hold a minimum amount of capital to support an orderly wind-down. As determined by MIFIDPRU 4.5, the FOR equates to 3 months’ worth of relevant expenditure. Relevant expenditure is the total expenditure before distribution of profits and firms may deduct certain items of variable expenditure such as staff bonuses, if fully discretionary.

The FOR is based on the annual expenditure reported in the most recent audited financial statements. When a material[1] change to projected relevant expenditure is anticipated during the financial year, the FOR is recalculated based on the revised projected expense base and immediately becomes the requirement.

PMS’s FOR is £3,504k, which has been calculated using the annual expenditure from the most recent audited financial statements relating to the financial year ending 31 December 2022.

5.4 Own funds requirement assessment

The FOR is the highest own funds requirement and PMS held sufficient own funds throughout the year to cover this minimum regulatory obligation.

As at 31 December 2022, PMS holds excess own funds of £5,584k over the regulatory own funds requirement.

5.5 Approach to assessing the adequacy of Own Funds

The K-factor requirements and FOR, as determined above, establish the regulatory minimum level of own funds which PMS is required to hold.

The overall financial adequacy rule as set out in MIFIDPRU 7.4.7 requires that PMS must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that it is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and its business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

PMS has in place an ICARA process which seeks to identify all material harms that could result from the ongoing operation of the business, or from the winding-down of the business, and to establish the amount of capital and liquid assets required to cover those potential harms.

PMS’s risk management and control framework enables the identification, mitigation, and monitoring of risks to the business and consideration of potential harms to clients, the firm, and the wider financial markets.

The ICARA process reflects PMS’s risk management framework, incorporating assessment of its business model planning and forecasting, stress and scenario testing, recovery planning and wind-down planning.

[1] Material is defined by MIFIDPRU as a 30% or more increase in the firms projected relevant expenditure for the current year or an increase of £2m or more in the firms FOR based on the projected relevant expenditure for the current year.

Risk-based capital and liquidity assessments are determined on a “1-in-200 year” basis, such that the internal capital and liquid assets threshold requirements are sufficient to ensure solvency and liquidity over a one-year time horizon with 99.5% confidence.

The assessments are forward-looking in terms of expected business plans and risk exposures, although are prepared on the basis of the existing systems and controls framework, and as such do not take account of any future risk-mitigating management actions or any planned control improvements not yet implemented at the time of the assessment.

The assessments are performed at entity level and also at the parent company consolidated level.

PMS’s Board has set a capital coverage risk appetite aimed at ensuring that the amount of own funds held exceeds the higher of the assessed internal capital threshold requirement and the minimum regulatory level, together with an additional margin for prudence.

PMS complies with the overall financial adequacy rule by regular monitoring of its capital and liquidity positions in comparison to the calculated threshold requirements, and by regular monitoring of risk exposures and associated metrics. This allows implementation of timely management action as and when appropriate to ensure continuing compliance, including updated assessments at least annually of threshold requirements to reflect emerging exposures and material changes in the business and risk control environment.

The adequacy of the ICARA process is reviewed at least once every 12 months, and (irrespective of the annual review) following any material change in the business model or operating model.

PMS’s governance structure provides significant oversight of the business and the ability to raise issues with relevant subject matter experts, and to discuss and implement appropriate management actions as and when required.

PMS’s ICARA risk-based assessment ascertains that it holds higher own funds than the regulatory minimum of the own funds requirement (K-Factors/FOR).

6. Remuneration policy and practices

PMS has no direct employees, with all staff employed by other subsidiaries of the Group.

6.1 Group Remuneration Committee

The Group Remuneration Committee ("the Remuneration Committee") has responsibility for determining and approving the principles and parameters for the Group's remuneration policy for all employees, managing the remuneration of executive directors and designated senior managers, and overseeing compliance with remuneration regulations that apply across parts of the Group.

The Remuneration 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;
- 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 Remuneration Committee is supported by the Reward Steering Committee, which helps review the implementation of the remuneration policy and 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 and within the relevant regulatory framework applying to remuneration.

A number of regulatory regimes impact the Group, all of which are taken into account in the remuneration policy. In particular, the policy is consistent with the way the Group integrates risks, including sustainability risks under applicable regulation.

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

The Remuneration 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 Remuneration Committee receives a number of reports to assist it in its oversight of remuneration policy, including reports on risk and financial performance across the group, company culture, including progress on key diversity goals, and progress against strategic climate goals.

In considering remuneration proposals, the Remuneration Committee considers a report from the Group CRO which assesses the performance of the Group from a risk appetite perspective across a range of measures including:

- capital and earnings risks;
- prudential risk limits and tolerances;

- operational risk and internal control;
- conduct risk; and
- sustainability risks.

The Remuneration Committee reserves appropriate discretions to adjust payments having regard to responsible and effective risk management.

The Remuneration 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 the year ending 31 December 2022, the Remuneration Committee was made up of the following members:

- Lesley Knox (Chair);
- Philip Broadley;
- Henrietta Baldock;
- George Lewis;
- Ric Lewis;
- Tushar Morzaria (appointed 27 May 2022); and
- Laura Wade-Gery (appointed 14 October 2022).

PricewaterhouseCoopers was the independent adviser to the Remuneration Committee in 2022.

6.2 Principles guiding remuneration policies and practice

The remuneration policy for all employees across the Group is built around a set of key principles designed to ensure that remuneration is fair, recognises performance, is competitive within our market, and rewards appropriately against risk appetite, promoting the right culture, values and behaviours, including a strong focus on our customers and sound risk management. The remuneration principles aim to be clear and simple, and strengthen the link between reward, exceptional performance, and balanced risk-taking, as well as emphasise the importance of collaboration.

6.3 Material Risk Takers

The Remuneration Committee has identified 14 Material Risk Takers with responsibilities relating to PMS ending 31 December 2022.

Identification of Material Risk Takers

The following groups of employees have been identified within the code firms as meeting the criteria for Material Risk Takers, based on the guidance set out in SYSC 19G.5:

- members of the Board and Executive Committee;
- employees performing a SMF in relation to PMS firm within the Group;
- members of key decision making committees in relation to PMS;
- individuals responsible for information technology and information security; and

- key control function roles.

6.4 Key characteristics of remuneration policy and practice

Remuneration at the Group is made up of fixed pay (base pay, retirement and other benefits) and performance-related pay (consisting of annual bonuses, 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 for the majority of Code Staff.

Annual bonuses

Annual bonuses 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 Material Risk Takers 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 the integration of sustainability risks) is considered when determining the overall level of bonus pay out. 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. Annual incentive awards (including any deferred element) are subject to malus and clawback for material risk takers.

6.5 Design and structure of remuneration

Details on the individual components of remuneration are set out below.

6.5.1 Fixed pay

Base pay

The Group aims to attract and retain key employees by paying base pay which delivers competitive total remuneration. Factors taken into account when determining salaries include:

- the individual's skills, experience and performance;
- scope of the role;
- external market data;
- pay and conditions elsewhere in the Group; and

- overall business performance.

As a member of the Living Wage Foundation, base pay is also set with reference to the Foundation's UK and London living wage levels.

Benefits

All UK employees of the Group have access to private medical insurance, life insurance, and a range of family-friendly policies (maternity, paternity, adoption and shared parental leave).

In addition there are several wellbeing support packages including Unmind (a confidential mental health app), childcare and elderly care support.

Pension

All employees are given the opportunity to participate in a Group Pension Scheme. The pension opportunity offered to the majority of the UK Group workforce is 10% of base pay.

6.5.2 Variable performance related pay

Annual bonuses

The majority of the Group's employees participate in a discretionary bonus plan, unless an alternative plan applies based on role. An employee will be considered for a discretionary bonus award based on achievement against objectives, conduct and behaviours, the role performed during that year and internal relativities.

Annual bonuses 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.

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 the integration of sustainability risks) is considered when determining the overall level of bonus pay out. The bonus policy allows for zero bonus payments to be made when appropriate.

The Remuneration Committee has ultimate discretion over all bonus plans and overall expenditure on annual bonuses is reviewed by the Remuneration Committee at the end of each year taking into account the performance of the business.

Deferred bonus

Bonuses above a certain threshold are subject to deferral with the deferral amount increasing with the size of the bonus. Deferred awards are normally held in shares for three years and are subject to malus and clawback. 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. Annual incentive awards (including any deferred element) are subject to malus and clawback for material risk takers.

The Group reserves the right to adjust deferral levels for Material Risk Takers as deemed necessary to comply with regulatory requirements.

The value of PMS's on-balance sheet assets and off-balance sheet items over the proceeding 4-year period has been a rolling average of £100 million or less as set out in SYSC 19G.1.1R(2). It is therefore not required to provide details of its deferral and vesting policy under MIFIDPRU 8.6.6R(4).

Share bonus plan ("SBP")

SBP is the main form of long term variable remuneration for senior roles below the executive committee level. An employee will be considered for an SBP award based on their role and performance during the year. Awards may also be made on an exceptional basis to more junior roles.

Awards are made in the form of restricted shares (or nil-cost options or a conditional award of shares). In normal circumstances awards are subject to a 3 year vesting period.

Performance share plan ("PSP")

Participation in the PSP is offered to a small number of senior management each year in recognition of the strategic and influential role that they hold in terms of driving company performance, as well as their individual contribution. PSP awards are conditional on the achievement of specific level of performance in respect of total shareholder return ("TSR") and Earnings Per Share growth. In addition, vesting of awards is subject to an assessment of performance against Solvency II objectives and progress against long term Environmental, Social and Governance objectives. These measures are intended to ensure an alignment between reward and 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 Remuneration Committee may also 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 Remuneration Committee may not increase the award).

Participation in the plan for one year does not guarantee participation in future years.

6.5.3 Approach to risk adjustment

The Group's remuneration policy is designed to align with the risk appetite of the Group. Our remuneration arrangements are intended promote effective risk management and appropriate risk-taking and ensure the appropriate consideration of prudential, operational, reputational, conduct and sustainability risks.

All variable remuneration awards are subject to potential adjustment at a Group wide, divisional or individual level in line with the Group's risk adjustment policy. The policy allows for in-year adjustments, end of year adjustments or the application of malus and/or clawback.

In year adjustments may be applied on an individual basis based on issues raised through the Group's conduct risk referral process.

Group wide adjustments may be made based on:

- assessment of Group's risk profile, taking into account;

    - performance against the Group's risk appetite statement;
    - response to emerging risks; and
    - management of core business risks.
- robustness of the Risk Framework and Internal Control;
- regulatory Perceptions and Risk Culture, including;
    - PRA perceptions of the Group's prudential risk;
    - FCA perceptions of conduct risk management; and
    - overall risk management culture.

Divisional/ team adjustments may be made based on:

- performance against capital and earnings risk appetite;
- performance against prudential risk tolerances;
- operational and risk controls;
- IT security;
- conduct;
- internal audit findings; and
- sustainability risks.

Malus and clawback

For Executive Directors and Code Staff cash awards, deferred bonus awards and long-term incentive awards may be subject to malus and clawback. For all other employees any deferred bonus award or long-term incentive award may be subject to malus and clawback.

In all cases up to 100% of an award may be subject to malus and clawback with awards being potentially subject to clawback for up to 4 years from the payment date.

Ex-post risk adjustments may be applied in the following circumstances:

- financial misstatement;
- factual error in calculating payment/ vesting;
- personal misconduct;
- material failure of risk management;
- serious reputational damage;
- material downturn in performance; and
- other circumstances that are similar in nature or effect.

Recruitment remuneration

The remuneration levels set for new recruits will normally be in line with the existing remuneration policy and guidelines.

In some instances new recruits may have accrued deferred remuneration which may be lost upon change of employment. Accordingly the Group may grant cash or share awards to compensate for awards forfeited upon leaving a previous employer, ensuring that they are no more generous than those being forfeited, and taking into consideration:

- the form of the award
- any performance conditions
- the vesting profile; and
- relevant regulatory requirements and guidance.

In the first performance year only, new recruits may also be offered a bonus assurance, in recognition of lost bonus opportunity with their previous employer in that year. Bonus assurances may be subject to performance conditions assessed on a case by case basis.

Severance pay

Any termination payments in lieu of notice would consist solely of base pay and the cost of providing benefits for the outstanding notice period. Any statutory requirements are observed.

Eligibility for annual bonus, SBP awards and PSP awards are governed by their respective plan rules, as summarised below:

- **Annual bonus:** there is no automatic entitlement to an annual bonus in the year of cessation of employment. However, the Group may determine, at its discretion, that an individual will receive a bonus pro-rated for the period through to leaving based on targets and performance for the full year, and an assessment of overall business and personal performance.
- **SBP:** in the event that a participant is a 'good leaver' any outstanding unvested deferred awards will normally be released in accordance with the ordinary timescale. Exceptionally, the Group reserves the right to accelerate any vesting or payment, for example in the case of terminal illness.
- **PSP:** unless the Remuneration Committee determines otherwise, in the event that a participant is a 'good leaver' any unvested PSP awards will be pro-rated for the period through to leaving and vest based on targets and performance to the end of the performance period, with awards released at the normal times. Exceptionally, the Remuneration Committee reserves the right to accelerate vesting or payment due, for example in the case of terminal illness.

6.6 Quantitative disclosures

The tables below summarises remuneration for the year ending 31 December 2022 for PMS's senior management, other material risk takers and other staff.

PMS identified 14 material risk takers under SYSC 19G.5.

	Senior management	Other material risk takers
Fixed pay (£m)	1.12	2.15
Variable pay (£m)	1.09	1.48

Total pay (£m)	2.21	3.64

PMS has no direct employees, with all staff employed by other subsidiaries of the Group.

	Senior management	Other material risk takers
Total amount of guaranteed variable awards made	-	-
Number of material risk takers receiving guaranteed variable awards	-	-

	Senior management	Other material risk takers
Total amount of severance payments made	-	-
Number of material risk takers receiving severance payments	-	-
Highest severance payment awarded to a material risk taker	-	-

The value of PMS's on-balance sheet assets and off-balance sheet items over the proceeding 4-year period has been a rolling average of £100 million or less as set out in SYSC 19G.1.1R(2). It is therefore not required to provide details set out under MIFIDPRU 8.6.8R(6).

7. Investment policy

MIFIDPRU 7.1.4R states:

"(1) MIFIDPRU 7.3 (Risk, remuneration and nomination committees) does not apply to a non-SNI MIFIDPRU investment firm:

(a) where the value of the firm's on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £100 million or less; or

(b) where:

(i) the value of the firm's on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £300 million or less; and

(ii) the conditions in (2) are (where they are relevant to a firm) satisfied.

(2) The conditions referred to in (1)(b)(ii) are that the:

(a) exposure value of the firm's on- and off-balance sheet trading book business is equal to or less than £150 million; and

(b) exposure value of the firm's on- and off-balance sheet derivatives business is equal to or less than £100 million.

(3) For the purposes of paragraph (1), paragraph (4) applies where a non-SNI MIFIDPRU investment firm does not have monthly data covering the 4-year period referred to in that paragraph.

(4) Where this paragraph applies, a non-SNI MIFIDPRU investment firm must calculate the rolling averages referred to in paragraph (2) using the data points that it does have."

PMS is a non-SNI investment firm that meets condition (1)(a) set out above, given that the value of its on-balance sheet assets and off-balance sheet items over the proceeding 4-year period has been a rolling average of £100 million or less. MIFIDPRU 8.7.1R therefore does not require PMS to disclose its investment policies.

8. Appendix 1 – statement of financial position

LEGAL & GENERAL (PORTFOLIO MANAGEMENT SERVICES) LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	2022 £000	2021 £000	Cross Reference to OF1 template (Section 4.2)
Assets				
Non-current assets				
Investments in subsidiaries	10	20	20	
Deferred tax asset	11	22	26	
Current assets				
Trade and other receivables	12	3,890	6,101	
Cash and cash equivalents	13	9,845	23,927	
Total assets		13,777	30,074	
Equity attributable to owners of the Company				
Share capital	14	63,602	63,502	4
Share premium	14	36,898	29,998	5
Capital contribution		15,000	15,000	8
Accumulated losses		(106,412)	(94,784)	6&7
Total equity		9,088	13,716	1
Liabilities				
Current liabilities				
Trade and other payables	15	4,689	16,358	
Total liabilities		4,689	16,358	
Total equity and liabilities		13,777	30,074	

The notes on pages 18 to 27 form an integral part of these financial statements.

The financial statements on pages 15 to 27 were approved by the Board of Directors on 20 April 2023 and signed on its behalf by:

DocuSigned by:
Marco Groot Wassink
B54BEABC2CC4420

DocuSigned by:
A Hall
CE8D9809E79B4BE

M Groot-Wassink
Director

A Hall
Director

Registered No. 02457525
One Coleman Street, London, EC2R 5AA

9. Appendix 2 – glossary of terms

Term	Explanation
K-ASA	K-ASA (Assets Safeguarded and Administered) – is the K-factor requirement for the amount of own funds assigned against the risk of harm associated with the safeguarding and administering of a client's financial instruments.
K-AUM	K-AUM (Assets Under Management) is the K-factor requirement for the amount of own funds investment firms are required to hold against risks associated with managing assets for clients. It covers both assets managed on a discretionary portfolio management basis and assets under an ongoing non-discretionary advisory arrangement.
K-CMG	K-CMG (Clearing Margin Given) is an alternative to K-NPR to provide for market risk for firms that deal on own account or execute for clients in the name of the investment firm It is based on the total margins an investment firm is required to give to a clearing member and can only be used with the agreement of the FCA.
K-CMH	K-CMH (Client Money Held) is designed to capture the risk of an investment firm causing potential harm to clients where it holds their money. It takes into account whether the funds are recorded on the investment firm's own balance sheet or in third party accounts, and arrangements provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm.
K-COH	K-COH (Client Orders Handled) is the K-factor own funds requirement designed to cover potential risks from both the execution of orders in the name of the client and the reception and transmission of client orders.
K-CON	K-CON (Concentration Risk) is an own funds requirement that only applies to exposures in the trading book for investment firms that deal on own account or execute for clients in the name of the investment firm. It seeks to provide additional own funds to manage concentration risk to a single counterparty or group of connected counterparties.
K-DTF	K-DTF (Daily Trading Flow) is an own funds requirement that applies to investment firms that are dealing on own account, including where executing client orders in the name of the investment firm. It is designed to capture operational risks related to the value of trading activity an investment firm conducts throughout each business day. It excludes the value of orders handled which are already captured by K-COH.
K-NPR	K-NPR (Net Position Risk) is the K-factor that applies to firms that deal on own account or execute for clients in the name of the investment firm. It provides for market risk and is based on the market risk framework (standardised approach, or if applicable, internal models) of the Capital Requirements Regulation.
K-TCD	K-TCD (Trading Counterparty Default) is a K-factor own funds requirement that only applies to investment firms dealing on their own account or execute for clients in the name of the investment firm. It aims to capture risks from trading counterparties failing to meet their obligations to the investment firm.