

## **Monitoring and evaluation of equity-based programmes, application of guidelines on remuneration as well as the current remuneration structure and levels of remuneration in the Bank**

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### **General**

The Board of Directors of SEB has a Remuneration and Human Resources Committee (RemCo) that continuously monitors and evaluates, *inter alia*, the current remuneration structure and levels of remuneration in the Bank. RemCo also monitors and evaluates programmes for equity-based remuneration as well as the application of the guidelines approved at the Annual General Meeting for salary and other remuneration to the President and members of the Group Executive Committee (GEC).

RemCo has in consultation with the Risk and Capital Committee (RCC) reviewed that the incentive structure created by the Bank's Remuneration Policy takes into account risk, capital and liquidity on the basis of among other things a Risk Analysis performed jointly by Group Risk, Group Compliance and Group HR.

SEB aims to attract and retain committed and competent employees who contribute to the Bank's long-term success. Employee remuneration should encourage high performance, sound and responsible behaviour and risk-taking that is aligned with SEB's values and the level of risk tolerance set by the Board of Directors. It should promote the employees' long-term commitment to creating sustainable value for customers and shareholders. Remuneration is based on experience, responsibility and performance. Performance is evaluated on the basis of financial and non-financial goals, with SEB's values as a starting point.

Remuneration shall be competitive in the markets and segments where SEB operates in order to reward high performing employees. SEB's competitors consist of both local and regional financial institutions as well as global firms in the markets on which SEB operates.

SEB's remuneration structure is based on three main components; (i) base pay, (ii) equity-based remuneration and collective profit sharing programmes, and (iii) pension and other benefits. The total remuneration reflects the complexity, responsibility and leadership skills required in each position as well as the performance of the individual employee. A minor share of the employees in SEB is eligible for individual cash-based variable remuneration where it is common market practice. The payout horizon for variable remuneration is aligned with the risk horizon.

The remuneration structure for the Group Executive Committee is based upon three main components; base pay, equity-based remuneration and pension and other benefits. These three components shall form a competitive total remuneration within the market where the Executive is active.

SEB complies with the Swedish Financial Supervisory Authority (FSA) regulations on remuneration in financial companies as well as the Swedish Corporate Governance Code and Swedish and international regulations and guidelines in relevant parts. According to the regulations, the Bank shall identify categories of staff whose professional activities have a material impact on the SEB Group's risk profile (Identified staff). The categories of staff have been identified based on (i) a risk analysis and, (ii) by guidance in the rules and regulations which set forth the qualitative and quantitative criteria to be measured. The members of GEC are included in the Identified staff category.

For the employees identified, at least 40 to 60 per cent of the variable remuneration shall be deferred for at least three to five years if the annual variable remuneration is SEK 100,000 or more. Before pay-out the deferred amount will be subject to risk adjustment. For identified employees the maximum level of variable remuneration may not exceed 100 per cent of the fixed remuneration.

Employees within the Internal Audit, CRO and Compliance functions (control functions) are compensated in a manner that is independent of the business areas that they oversee, commensurate with their key role in the organisation and based on objectives linked to their functions, meaning that they do not normally have any individual performance based variable remuneration.

### **Equity-based remuneration**

Equity-based remuneration is a means to attract and retain staff with key competences in SEB. It is also an incentive for the employees to become shareholders of SEB, which builds and strengthens long-term commitment in the interests of the shareholders. Furthermore, regulatory requirements for financial institutions demand that variable remuneration to a large extent is paid out in equity or equity-related instruments. The final outcome is subject to risk adjustment.

Currently, four different types of long-term equity programmes are on-going:

- The Performance Share Programmes 2010 (closed in 2017),
- The Share Matching Programmes 2012-2014,
- The Share Deferral Programmes 2012-2017, and
- The All Employee Programmes 2013-2016 (the 2013 programme closed in 2017), replacing the Share Savings Programmes as from 2013.

The Share Matching Programmes and Share Deferral Programmes are performance based with pre-determined quantitative performance criteria. The programmes allow for risk adjustment for current as well as future risks and final outcome may therefore be cancelled partly or entirely in accordance with regulations, among other things taking the Bank's result and capital and liquidity required in the business into account. The All Employee Programme is a programme for all employees in most of the countries where SEB operates where 50 per cent of the outcome is paid in cash and 50 per cent is deferred for three years and linked to the SEB A-share value development.

Further information on the long-term equity programmes such as outcome, participation ratio, and number of issued and outstanding instruments etc. are found in the Annual Report 2017.

**Evaluation of programmes for equity-based remuneration**

The equity-based programmes are evaluated on a continuous basis throughout the year by the RemCo including monitoring the employees' participation in the programmes.

The evaluation has, based on last year's in-depth evaluation following a three year evaluation cycle, continued to focus on the effectiveness, attractiveness and competitiveness of the Bank's programmes while taking into consideration further regulatory changes. Furthermore, market, shareholder preferences and society trends are analysed as well as the external and internal communication. The outcome of the evaluation is reported to the Board and also discussed with the major shareholders together with the suggested proposal for the upcoming Annual General Meeting.

This year's evaluation showed a strong support for the programme structure adopted by the 2017 AGM. In addition to regulatory compliance, there is a strong support to align the employees' and shareholder's interest, to be able to attract, retain and reward key employees and to create a long-term interest for the Bank through the programmes.

There is also a strong view that the programmes strengthen the culture and behaviours facilitating customer satisfaction, shareholder value and a long-term sustainability.

The effectiveness of the programmes are verified by the responses from participants where the majority confirms the programme's support of the above mentioned intentions.

This is also confirmed by the retention rates among the programme participants where the majority of the participants maintained their holding six months after the possibility to exercise the programmes and many of them keep the holding through the whole programme life cycle. In addition, the employee turnover rate is substantially lower within the employee categories participating in the SEB Share Deferral Programme compared with the rest of the organisation.

A number of improvement areas were identified which will be addressed during the coming period, including the strengthening of communication, adjusting some programme features to increase the perceived value amongst the participants and adaptation to regulatory requirements.

The Board of Director's view is that the equity-based programmes fulfil the function to attract and in the long run retain the most qualified and committed employees. Furthermore, the programmes strengthen long-term commitment in the interests of the shareholders.



Based on the evaluation and discussions with major shareholders in SEB, it is proposed that the Annual General Meeting resolves on the following three long-term equity programmes for 2018:

- SEB All Employee Programme 2018 (AEP) for all employees in most of the countries where SEB operates,
- SEB Share Deferral Programme 2018 (SDP) for the Group Executive Committee (GEC), certain other senior managers and key employees, and
- SEB Restricted Share Programme 2018 (RSP) for some employees in certain business units.

The complete proposal for Long-term Equity Programmes for 2018 can be found on [www.sebgroup.com](http://www.sebgroup.com).

### **Evaluation of guidelines**

The guidelines for salary and other remuneration to the President and members of the Group Executive Committee are evaluated continuously throughout the year. In order to carry out the evaluation, RemCo collects information from the Head of Group Human Resources and the external auditors, and regarding remuneration to the Group Executive Committee also from the President. The internal and external information facilitates to ensure that the remuneration in SEB is in line with market conditions and competitive. Further, comparative benchmarks of relevant industries and markets are carried out annually in order to determine what constitutes a total level of remuneration in line with market conditions and in order to evaluate current remuneration levels. The results of such benchmarks form an important component when determining the total remuneration for the Group Executive Committee and other employees.

The external auditors have given a statement to the Board of Directors on that SEB has applied the guidelines for salary and other remuneration for the President and members of the Group Executive Committee adopted by the Annual General Meeting 2017.

### **Remuneration structure and levels of remuneration**

The Board of Director's view is that the remuneration for the President and other members of the Group Executive Committee strikes an appropriate balance between motivating the Executives and achieving a long-term, well-balanced and competitive remuneration.

Stockholm in February 2018

**Skandinaviska Enskilda Banken AB (publ)**

THE BOARD OF DIRECTORS