

**Item 18 a)–b)****The Board of Directors' of Skandinaviska Enskilda Banken AB (publ) proposal for decision at the Annual General Meeting on 24 March 2011 on Long-term Equity Based Programmes for 2011**

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**Background**

SEB promotes a sound and dynamic performance culture to encourage performance, the right behaviour and balanced risk taking for the benefit of the customers. This will over time give the shareholders the best return.

Long-term equity based compensation is an important part of SEB's total remuneration structure. It is a means to attract and retain staff with the competence required and build a long-term commitment to SEB among the participants. The long-term equity based programmes offer an opportunity to take part in SEB's long-term success and value creation and create an incentive for the employees to become shareholders in SEB.

SEB first introduced a long-term equity based programme in 1999; employee stock option programmes between 1999 and 2004 and performance share programmes between 2005 and 2010. In addition a share savings programme and a share matching programme were introduced 2008 and 2009, respectively. Information about the programmes has been provided in the annual reports and at the Annual General Meetings. The scope of the programmes can be found in the Annual Report 2010.

**Review and evaluation**

An in-depth review and evaluation of the previous programme structure has been conducted during autumn 2010. The evaluation was performed from a shareholder, employer, employee and legal perspective by an external advisor to the Board and Remuneration and Human Resources Committee. The evaluation has shown that

- the programmes are well in line with the shareholders' interests,
- the programmes are considered to help attract and retain staff with the competence required,
- the programmes could be less complex and more transparent, especially the Performance Share Programme.
- the share savings programme meets the objectives by strengthening "one SEB", increasing commitment and having a retention value, and is regarded as a good way of saving,
- approximately 50 per cent of all invited employees participates in one or more of the LTI programmes (approximately 65 per cent among employees in Sweden).

As a result of the evaluation conducted and discussions with shareholders representing a significant share of the holdings in SEB, the Board proposes that the Annual General Meeting resolves on two long-term equity based programmes for 2011; a Share Savings Programme and a Share Matching Programme. The aim is to better meet stakeholders' interests of more transparent and less complex programmes. The Share Savings Programme is kept unchanged and both programmes have the same platform. The programmes are equity-based and participation requires own investment. The Share Matching Programme is performance based with pre-determined quantitative performance criteria.

## **The preparation of the proposal**

The proposal has been prepared by the Board of Directors and the Remuneration and Human Resources Committee of the Board. The Board's and the Committee's view is that the proposal strikes an appropriate balance between motivating the employees and achieving a cost efficient and well-balanced compensation.

## **Long-term Equity Based Programmes 2011**

### **One platform – two programmes**

The proposed long-term equity based programmes for 2011 are:

- a Share Savings Programme for all employees and
- a Share Matching Programme for selected senior managers, employees with major impact on the Group's business performance and other key employees.

The proposed Share Matching Programme allows for risk adjustment of final outcome as well as the cancellation of part of or the entire outcome in extraordinary circumstances.

The performance criteria used in the Share Matching Programme is the total nominal shareholder return, comprising share price appreciation and dividends, ("TSR") compared to SEB's competitors and TSR compared to the markets requirement for return based upon the rate of the Swedish 10 year government bond i.e. the long term risk free interest rate ("LTIR").

### **Share Savings Programme (18 a)**

All employees are offered to, during a twelve month period from the implementation of the Programme, from their salary, save an amount corresponding to five per cent of gross base salary and for the amount, at current price, purchase SEB Class A-shares. If the shares are retained for three years from the investment date and the participant remains with SEB during this time, the Bank will give the participant one SEB Class A-share for each retained share. The Programme is proposed to comprise an obligation for the Bank to deliver approximately 2.75 million shares.

### **Share Matching Programme (18 b)**

Approximately 500 selected senior managers, employees with major impact on the Group's business performance and other key employees are offered to participate in an extended share savings programme with a higher own investment in SEB Class A-shares with the possibility to receive matching shares and additional performance based matching shares. The investment amount is pre-determined and capped for each participant. If the purchased shares are retained for three years and the participant remains with SEB during this time, the Bank will give the participant one SEB Class A-share for each retained share and, if the pre-determined performance criteria are fulfilled, a maximum of three performance based Matching Shares (for the President and members of the Group Executive Committee a maximum of four performance based Matching Shares) for each retained share.

For participants who receive short term cash based variable compensation for 2010 and who are considered as risk takers, the investment amount is taken from the short term cash based compensation outcome and mandatory deferred for three years. The deferred amount is allocated to a deferral incentive pool and for each participant a determined number of Deferral Rights is registered in the pool. One Deferral Right shall correspond to the average market price for one SEB Class A-share during a pre-determined period of ten banking days.

After three years the participant receives one SEB Class A-share, one matching share and, if the pre-determined performance criteria are fulfilled and the participant remains with SEB, a maximum of three performance based Matching Shares for each Deferral Right.

The outcome of the Programme, i.e. the number of performance based Matching Shares received, depends on the extent of fulfilment of two pre-determined performance criteria. The performance criteria are measured during a three year performance period.

#### *Performance criteria*

To reach full outcome of performance based Matching Shares under the Programme, two performance criteria, TSR compared to SEB's competitors (1/3 of the total maximum outcome) and TSR compared to long-term interest rate (LTIR) (2/3 of the total maximum outcome), must be met:

- 1) The criterion **TSR compared to SEB's competitors** gives a minimum outcome if the TSR increase for SEB per year equals TSR for a weighted Banking Index. Competitors are weighted 75 per cent Nordic banks and 25 per cent FTSEurofirst300 Banks Index. The outcome is then set at 20 per cent of the maximum outcome under this criterion. Above that level, the number of performance based Matching Shares increases with a linear distribution within the interval until a ceiling of 7 per cent increase per year above the Banking Index is achieved. At that level the maximum outcome under this criterion is reached (1/3 of total maximum outcome). Performance is measured based on the average share price 1 January – 31 March 2011 compared to the average share price 1 January – 31 March 2014.
- 2) The criterion **TSR compared to LTIR** gives a minimum outcome if the TSR for SEB reaches LTIR + 2 per cent per year. The outcome is then set at 20 per cent of the maximum outcome under this criterion. Above that level, the number of performance based Matching Shares increases with a linear distribution within the interval until a ceiling at a TSR increase of LTIR + 11 per cent per year is achieved. At that level the maximum outcome under this criterion is reached (2/3 of total maximum outcome). Performance is measured based on the average share price 1 January – 31 March 2011 compared to the average share price 1 January – 31 March 2014.

Participants in the Share Matching Programme 2011 are not eligible to participate in the Share Savings Programme 2011.

#### *Cap for the Share Matching Programme*

The value of the Share Matching Programme is capped at full vesting under the two performance criteria and a doubled share price based on a pre-determined initial share price.

If the share price at the time of vesting has more than doubled, the number of Matching Shares and performance based Matching Shares that are transferred to a participant will be reduced proportionately so that the value corresponds to the doubled share price capped value.

If the share price exceeds the cap during a sustainable period, but the value decreases below above referred doubled share price during the remaining vesting period, the participant is nevertheless entitled to the full number of performance based Matching Shares under the TSR vs. LTIR criterion. The same vesting schedule applies for performance based Matching Shares under the TSR vs. peer criterion if the SEB TSR during a sustainable period over performs the peer index with 50 per cent. Should the share price continue to increase above

the above referred cap, the number of performance based Matching Shares will be reduced proportionately.

The Programme is proposed to comprise an obligation for the Bank to deliver approximately 15 million Matching Shares/performance based Matching Shares. The expected outcome for the Programme is approximately 56 per cent.

#### **Allotment under the two programmes**

The maximum number of shares that can be transferred under the two programmes (excluding shares invested by the employees) is 17.75 million. The calculated expected outcome is approximately 11 million shares. The maximum number of shares under the programmes equals approximately 0.8 per cent (expected outcome equals 0.5 per cent) of the total number of shares in the Bank. The delivery of Class A-shares is proposed to be effectuated with existing shares. Allotment under the programmes shall be made before the 2012 Annual General Meeting.

The number of shares which each participant may receive in the two programmes may be subject to recalculation under the terms and conditions of the programmes as a consequence of bonus issues, splits, preferential issues and similar measures.

The Group Executive Committee, including the President, is estimated to receive a maximum of 5.5 per cent (the President approximately 1.1 per cent and the other members of the Group Executive Committee approximately 4.4 per cent) at maximum under the programmes.

Participation in the programmes requires that it is legally and appropriately possible in the jurisdiction concerned and that such participation in the Bank's judgement is possible with reasonable administrative and financial costs.

Matching Shares/performance based Matching Shares received and shares purchased under the programmes are ordinary SEB Class A-shares with the right to a dividend. The Deferral Rights are not securities that can be sold, pledged or transferred to others.

#### **General**

Before the number of Matching Shares and vested performance based Matching Shares in the Share Matching Programme is finally determined, the Board, or if the Board so decides its Remuneration and Human Resources Committee, shall examine whether the outcome inter alia from a risk perspective is reasonable considering SEB's financial results and position, the conditions on the stock market, conditions related to the participant and other circumstances such as changes in accounting principles, and if not, as determined by the Board and within the limit of the total programme, change the outcome to a number deemed appropriate. In extraordinary circumstances the outcome may be set to zero. In exercising the examination, the Board shall act reasonably so that any change is set with the intention that it is no more and no less difficult to satisfy the performance criteria than originally intended. Any such change shall be communicated in connection with SEB's first financial report following the decision.

The Board of Directors, or if it so decides its Remuneration and Human Resources Committee, is authorised to decide on the detailed terms and conditions for the programmes based on the aforementioned principles. The aggregate total maximum number of shares under the programmes may be distributed between the programmes as decided by the Board or the Committee. The Board or the Committee is also authorised to make changes to the programmes from time to time if so deemed advisable and provided that the

programmes following such changes are within the limits of the maximum number of shares, the maximum number of shares as percentage of total number of shares and the calculated maximum costs for the programmes combined.

### **Taxation**

The programmes have been designed in such a way that participants will normally be taxed for the benefit in the income year when the Matching Shares/performance based Matching Shares are received. The taxable value of the benefit will be equal to the closing price for the shares when the Matching Shares/performance based Matching Shares are received. The value of the benefit is taxed as income from employment for the participant. Thus, social security contributions will in most cases be charged on the benefit amount and be a cost for the employer.

### **The cost for the programmes**

The *maximum* annual charge for the two programmes, calculated according to the below, that may affect the profit and loss account is SEK 280m. With the exception of social charges, calculated to SEK 87m, paid out when the programmes are utilised, the maximum calculated annual charge does not affect equity. The annual charge to the profit and loss account for the *expected* calculated outcome under the programmes is estimated to SEK 229m, out of which SEK 53m is related to social charges. The expected annual charge in the profit and loss account, SEK 229m, is equivalent to approximately 1.5 per cent of the total annual staff costs in the SEB Group.

The maximum calculated annual charge is based on the assumptions that;

- the price of the SEB Class A-share is SEK 55,
- no participant in any of the proposed programmes is leaving SEB during the three year performance period,
- the Share Matching Programme is fully vested from both criteria and
- the investments in the Share Savings Programme are on the same level as for 2010.

Furthermore, it should be noted that should the SEB share price increase from the assumed SEK 55 the increase in maximum calculated annual charge will be approximately SEK 4m for every SEK in increase.

### **Hedging and transfer of shares**

The programmes lead to certain financial exposure for the Bank, due to market price changes for the SEB share. The aim is to hedge this exposure by the acquisition of own shares (item 19 b) on the agenda for the Annual General Meeting) or by equity swap contracts with third parties. The social security contribution is not hedged. Based on the current interest level, it is estimated that the annual interest expense for the hedging arrangement for the programmes will amount to approximately SEK 18m.

There are different methods for effectuating the transfer of shares to the participants under the programmes, such as delivery of own shares and an agreement with a third party under which the third party transfers shares to the participants under the programmes. The Board of Directors considers delivery of own shares as the most cost efficient and flexible method. Therefore this is the main alternative (item 19 c) on the agenda for the Annual General Meeting).



**Proposed decision concerning Long-term Equity Based Programmes for 2011 (item 18 a)–b) on the agenda)**

The Board proposes that the Annual General Meeting decides on long-term equity based programmes for 2011 based on the scope and main guidelines referred to above in the form of

- a) a Share Savings Programme and
- b) a Share Matching Programme.

There is a requirement for resolutions to be passed in accordance with the Board's proposals that the resolutions of the Annual General Meeting are supported by shareholders representing more than half of the votes cast.

Stockholm in February 2011

**Skandinaviska Enskilda Banken AB (publ)**

THE BOARD OF DIRECTORS