

# Press release

20 August 2010

## Swedbank's Board of Directors resolves on a revised remuneration program to promote long-term sustainability

**Swedbank's Board of Directors has resolved on extensive changes in the bank's performance based remuneration program for 2010. The program is the first of its kind in the Swedish banking market to convert a portion of variable cash remuneration to restricted shares. The Board's resolution that a portion of the variable remuneration will be deferred and paid in the form of shares is subject to the approval of the 2011 Annual General Meeting.**

The program in summary:

- Swedbank's performance and share based remuneration program for 2010 ("Program 2010") divides variable remuneration into two parts, cash remuneration and deferred remuneration in the form of shares.
- The program implies no increase of the total amount of variable remuneration as compared to previously.
- The cash remuneration is paid out in the year after the vesting year and the deferred remuneration is held in escrow for three years.
- For individuals who qualify as risk-takers according to the Financial Supervisory Authority's definition, 60 percent is deferred, while for others who qualify for variable remuneration 40 percent is deferred.
- The program's performance targets are based on the Group's performance after tax, profit adjusted for capital costs and risks in each business area and risk-adjusted results on an individual and/or team level as well as a number of behavioral variables tied to the Swedbank Group's values.
- The program includes approximately 6,400 employees of the business areas Retail, Large Corporates & Institutions and Asset Management as well as certain personnel within the support functions Group Business Support, Group Risk, Group Finance and Group Treasury.
- In 2010, around 830 employees of the program qualify as risk-takers according to the Financial Supervisory Authority's definition.
- The performance targets for employees who audit operations (including the risk control function) are independent of the results of the units they audit.
- Program 2010 does not include senior management who are members of the Group Executive Committee or employees of Baltic Banking or the Russian and Ukrainian operations.
- The program contains a ceiling on the deferred share-related component in the Group (a maximum of SEK 333 million excluding social security costs), a ceiling on allotments in each business area and a ceiling on each employee's remuneration.
- At a share price of SEK 85 in January 2011, the maximum dilution effect is 0.4 percent.

- The delivery of shares in 2014 is contingent on evidence that the performance targets that have been achieved are sustainable long-term.
- As proposed the program will be repeated annually.

Swedbank's CEO Michael Wolf comments:

"First it is important to state that the Board has made this decision in order to create a more long-term oriented remuneration system, not because we are being forced to. We have taken a large number of measures since spring 2009 to build a more sustainable bank, and this is another step in that direction. Through this change we harmonize what had become a wide array of more than 70 different remuneration programs previously established in the bank and switch to a single system that is open, transparent and is easy for all to understand by motivating employees to help strengthen the bank long-term."

Swedbank's Chairman of the Board Lars Idermark comments:

"This program, with a deferred share-based component, harmonizes the interests of employees with those of shareholders and encourages long-term value creation in the bank. We are convinced that this will benefit Swedbank's shareholders, customers and employees. Through this program we improve our ability to recruit and retain competent personnel and encourage key persons to take actions that strengthen the bank long-term."

Swedbank has presented the proposal to its largest Swedish shareholders in order to create support for the principles of the program. The resolution regarding the program's deferred remuneration will be taken by the 2011 Annual General Meeting.

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## Appendix

### Background to the resolution

In the aftermath of the financial crisis, Swedbank's Board of Directors, like other participants in the financial industry, has devoted special attention to variable remuneration and its effect on profit and risk taking. To create a sustainable and uniform structure for variable remuneration, the Group launched a review of its various variable remuneration systems in 2009.

As a result of this review, the Board of Directors decided in September 2009 to adopt a new incentive policy for variable remuneration where the long-term business strategy, shareholders' interests and the bank's risk tolerance were all taken into account. Early in 2010, the bank also resolved to revoke all variable remuneration for 2009, since neither the Group's results nor the bank's new incentive policy made it possible or appropriate to pay variable remuneration.

At the same time, the bank continued its efforts to ensure that the new structure for variable remuneration drafted during the spring conformed to the Financial Supervisory Authority's new rules on variable remuneration that entered into effect on 1 January 2010. The review showed that the remuneration structure the bank desired not only met the FSA's rules but went even further by tying a portion of the variable remuneration to shares. During the summer, the EU also introduced new rules on variable remuneration, which require, among other things, that a portion of variable remuneration is paid in shares or other financial instruments. Swedbank has scrutinized EU's decision and come to the conclusion that the bank's desired remuneration structure also is in line with these regulations.

As a result of the work with variable remuneration in the last year, Swedbank can now present the Board of Director's proposal on a revised performance and share based remuneration program to replace previous short-term incentive plans, with the exception of agreements on commission-based remuneration that do not affect the risk level in the Group. The program also takes into consideration the bank's compensation philosophy that total remuneration should be competitive while at the same time harmonizing with the bank's values of simplicity, care and openness and supports its business purposes and sustainability vision. Swedbank believes that a performance based remuneration system is an important component to compete for the top talent in the financial market. The Board of Directors and management will both continue to work to ensure that the total remuneration the bank offers remains competitive. With this proposal, the Board of Directors and management also underscore the importance of systems that are reasonable and include long-term incentives and sound risk management in respect of variable remuneration, as the financial crisis has proved are necessary.

### Summary of Program 2010:

Program 2010 divides variable remuneration into both cash remuneration and deferred remuneration in the form of shares. Essentially, employees included in Program 2010 can be awarded variable remuneration in early 2011 to the extent that certain performance targets are met in 2010. A portion of this remuneration is intended to be awarded in the form of conditional, non-transferable rights ("Performance rights"), which entitle participants to receive without cost a predetermined number of ordinary shares in Swedbank ("Performance Shares") in 2014. The remaining remuneration is intended to be issued as cash remuneration. As proposed the program will be repeated annually.

For the majority of participants, the performance targets are based on the Group's after-tax profit, profit adjusted for capital costs and risks in each business area, risk-adjusted results on an individual and/or team level, and a number of behavioral variables tied to the Swedbank Group's values. The Board of Directors, or the Board's proxy, will determine whether the performance targets have been met and have the discretion to resolve on allotment.

The maximum variable remuneration is predetermined and varies depending on each employee's business area and individual position and responsibilities, among other things.

Performance rights entitle the holder to receive Performance Shares three years after the allotment, in part to facilitate an evaluation of how well the performance targets have been met. The total duration of Program 2010 is approximately four years and two months, consisting of an initial performance year, 2010, followed by three qualification years (2011-2013) plus a two-month period during which final delivery of the shares is scheduled, i.e. before the end of February 2014.

Program 2010 includes broad-based personnel categories in the business areas Retail, Large Corporates & Institutions and Asset Management as well as certain personnel within the support functions Group Business Support, Group Risk, Group Finance and Group Treasury. This comprises a total of around 6,400 employees of the Swedbank Group. However, Program 2010 does not include senior executives who are members of the Group Executive Committee or employees of Baltic Banking or Russia and Ukraine. Other business areas and functions are likely to be included in future programs beginning in 2011.

Program 2010 distinguishes risk-takers from non risk-takers, where risk-takers, as defined by the bank, are proposed to receive 60 percent of their variable remuneration in Performance Rights, while for non risk-takers this portion amounts to 40 percent. The remainder will be paid out in cash in the year after the performance year. The cash payout can be reduced or eliminated entirely if the Board of Directors finds it appropriate or due to amended, reinterpreted or new regulatory requirements. Approximately 8 percent of the Group's employees are classified as risk-takers, according to the bank's definition. In Program 2010, which is limited to around 6,400 employees, there are about 830 risk-takers, corresponding to approximately 13 percent of the participants.

Program 2010 is in line with the Financial Supervisory Authority's requirement on long-term sustainability and sound risk management practices for variable remuneration and the new EU rules on variable compensation that are expected to take effect shortly.

**Additional terms to receive Performance Shares:**

To receive a Performance Share, participants, as a rule, may not at the time have resigned, been dismissed or left the Group for any other reason and must meet certain other terms at the time of delivery. These additional terms include that the performance targets have still been reached to the same extent as at the time of delivery and that the bank's or the Group's profit has not deteriorated significantly.

The Board of Directors, or its compensation committee with the Board's authorization, will evaluate before and in close connection with each pending transfer of Performance Shares to what extent these terms have been met. Unless all the terms are considered to have been met, the Board of Directors has the right, within the framework of Program 2010, at its discretion, to amend the terms as it finds appropriate and, for example, declare outstanding performance rights to be forfeited

wholly or partly, meaning that the Participant could receive a small number or no Performance Shares at all.

**Technical details for Program 2010:**

Swedbank intends to fulfill its commitment to transfer ordinary shares without costs to qualified employees according to Program 2010 by introducing a special class of shares, C-shares, followed by a directed issue of such shares to a financial institute engaged for this particular purpose, a repurchase of the shares and a conversion of these shares to ordinary shares followed by a delivery to qualified employees.

This alternative, utilizing the issuance and repurchase of C-shares, carries little market risk and is considered by the bank to be the most cost-effective and flexible way to ensure delivery of the shares.

The C-share issue will be implemented at the lowest possible subscription price, equivalent to the quota value, which is currently SEK 21. The shares will be repurchased immediately for essentially the same price as the subscription price. They will then be converted to ordinary shares, after which Swedbank will have its own holding of ordinary shares to match the number of shares that will be transferred to employees in 2014 as well as the ordinary shares that can be sold to hedge social security costs arising in connection with the program.

The allotment of Performance Rights for Program 2011 is scheduled for February 2011, contingent on the approval of the Annual General Meeting of the deferred remuneration in the form of shares. As proposed, the performance shares would be delivered in February 2014, provided that the above-mentioned terms are considered to have been met.

The maximum outcome for the Performance Rights, or the deferred share related component, is capped at SEK 333 million, excluding social security costs. This corresponds to the ceiling if all participants meet the performance targets.

The program will lead to a slight dilution of the Swedbank share, the extent of which will depend on the total amount that is allocated in the form of Performance Rights (the "Share Performance Amount") and the share price at the time of allocation. Theoretically, the maximum number of Performance Shares that participants in Program 2010 can receive is 6.67 million, which is equal to (a) the highest total Share Performance Amount for all participants divided by (b) the lowest allowable translation price, i.e. SEK 50 per share. Assuming the maximum outcome, the dilution effect of Program 2010 would be approximately 0.75 percent at a translation price floor of SEK 50 per share and 0.44 percent at a share price of SEK 85 per share. The dilution is estimated as the theoretical maximum number of Performance Rights plus additional shares to hedge social security costs as a percentage of the total number of shares in Swedbank, including future Performance Shares and other additional shares.

The total cost of Program 2010 is determined by multiplying the value of each Performance Right by the estimated number of Performance Rights that will result in the delivery of Performance Shares in 2014 (i.e. the number of Performance Rights allocated to participants in 2011 less an estimated number of Performance Rights that presumably will be forfeited by participants who resign or are dismissed, or left the Group for any other reasons, over the duration of the program). Furthermore, the social security costs are additional.

The total cost of Program 2010 will not exceed the cost of the old incentive programs it replaces. The cost is expected to have a marginal impact on the Swedbank Group's key financial ratios and result.

If the Annual General Meeting 2011 does not approve to the proposed hedging arrangements regarding issue and repurchase of C-shares, the Board of Directors intends to hedge the bank's commitment regarding delivery of ordinary shares by an agreement (equity swap agreement, certificate or similar) with a financial institute especially engaged for the purpose.

### **Preparation of the proposal**

The proposal has been prepared by the Board of Directors' compensation committee in 2010 and approved by the Board of Directors on August 19, 2010.

### **The Board of Directors proposes that the 2011 Annual General Meeting resolve as follows:**

- To approve the Board of Directors' resolution on deferred variable remuneration in the form of shares.
- To introduce a new class of shares (convertible C-shares) through an amendment to the Articles of Association.
- To authorize the Board of Directors to decide on a directed issue of new C-shares at a subscription price corresponding to the quota value (currently SEK 21) to a financial institute engaged for this particular purpose.
- To authorize the Board of Directors to decide to repurchase all own C-shares in Program 2010.
- To allow the repurchased own shares, after conversion to ordinary shares, to be transferred directly and indirectly to qualified employees without costs and to some extent on NASDAQ OMX Stockholm at market price in order to cover certain costs associated with Program 2010.

The resolution by the Annual General Meeting in point 1 requires a simple majority, i.e. more than half of the votes cast. The resolution by the Annual General Meeting in points 2-5 will pass if supported by shareholders with at least nine tenths of the votes cast and shares represented at the 2011 Annual General Meeting. The proposals in points 2-5 are contingent on each other, and will therefore be voted on as one resolution, as well as on the approval of the resolution in point 1.