

skandia :

report on remuneration in
Skandia

REPORT ON REMUNERATION IN SKANDIA INSURANCE COMPANY LTD, (registered number 502017-3083)

New rules for remuneration

The Swedish Financial Supervisory Authority (Finansinspektionen – “FI”) has issued regulations and general guidelines governing remuneration policies in credit institutions, investment firms and fund management companies (FFFS 2009:6 – “the Regulations”) and general guidelines regarding remuneration policies in insurance undertakings, exchanges, clearing organisations and institutions for the issuance of electronic money (FFFS 2009:7 – “the General Guidelines”). The Regulations and Guidelines, which took effect on 1 January 2010, provide guidance on how a company should measure, govern, report and maintain control over the risks that remuneration systems can give rise to. The new rules entail, among other things, that companies shall adopt a remuneration policy and make detailed disclosures on remuneration. For employees who can influence the risk exposure of the company, at least 60 per cent of their variable remuneration should be deferred for at least three years. Prior to being paid out, the amount should then be risk-adjusted, that is, the result that the remuneration is based on shall be validated and evaluated. For employees who can influence the company’s risk exposure, the rules, to the extent they pertain to requirements for effective risk management, shall be applied for remuneration that is decided on in 2010 but pertains to time before 1 January 2010. However, the rules do not affect obligations pursuant to already applicable, binding agreements. By 31 August 2010, the company’s shall report to FI if there are any agreements remain that are not in compliance with the new rules.

Remuneration policy

Skandia has adopted a remuneration policy in accordance with the new rules and regulations, which will be applied by Skandia and its subsidiaries in the Nordic countries (“Skandia Nordic”). The remuneration policy applies for all remuneration of all employees in Skandia Nordic. By all remuneration is meant remuneration including benefits that Skandia Nordic pays out directly or indirectly to a person within the framework of employment. Remuneration does not include commission-based salary with no connection to such future risk undertakings that could have bearing on the company’s income statement or balance sheet.

Subsidiaries that are subject to the oversight of FI and where remunerations have been paid during 2009 have adopted their own remuneration instructions that correspond to Skandia’s remuneration policy. In Denmark, new legislation is expected shortly, and once this is enacted, Skandia’s subsidiaries under supervision in Denmark will adopt their own remuneration instructions. Skandia Life Insurance Company Ltd (publ) (“Skandia Liv”) has adopted its own remuneration policy.

The following is a report on the remuneration policy that has been drawn up and adopted by Skandia as a result of the new regulations, as well as on the remuneration principles that have been applied for remuneration earned in 2009.

Decision-making process

Skandia's board decides on the remuneration policy.

Skandia Nordic has a remuneration committee. The committee is a permanent board committee that is tasked with conducting drafting on essential issues regarding remuneration of employees in Skandia Nordic (with the exception of Skandia Liv, which has its own remuneration committee). The Remuneration Committee consists of board members Lars Otterbeck (committee chair), Andrew Birrell and Paul Hanratty. The CEO and Human Resources Director are co-opted, to the extent requested by the Remuneration Committee.

The remuneration policy stipulates the principles that apply for decisions on remuneration of senior executives. Skandia's board has delegated to the Remuneration Committee the responsibility of making decisions on remuneration of the CEO. The board has also delegated responsibility to the Remuneration Committee – in accordance with the so-called grandfather principle¹ that is applied in Skandia Nordic – to approve decisions by the CEO on compensation of members of the Skandia Nordic Management Team and others who are responsible directly to the board or CEO. Decisions on remuneration of other senior executives in Skandia Nordic are made in accordance with the grandfather principle. The Remuneration Committee shall report back to Skandia's board on decisions made by the committee.

Risk analysis

Before a decision can be made on a remuneration system or on significant changes in the system, an analysis must have been performed of how the system affects the risks that Skandia Nordic is exposed to and how these risks are to be managed. By risks is meant such risks that could lead to a deterioration of Skandia Nordic's result or financial position in the future. Such an analysis shall be made by Skandia's Head of Independent Risk and Compliance Control/Chief Risk Officer. A summary of the risk analysis that forms the basis for Skandia Nordic's remuneration policy is available at www.skandia.se.

Fundamental principles for remuneration of employees

The board's remuneration policy stipulates, among other things, that the design of employee remuneration shall take into account the importance of maintaining operations that are cost-effective and competitive. Remuneration systems should encourage long-term value creation for Skandia Nordic with a well-balanced risk horizon. The results that form the basis of decisions on variable remuneration should include an assessment of whether the results are sustainable even during an economic downturn. The remuneration offered by Skandia Nordic shall be business-steered, individual and differentiated, and shall be based on:

- The market, i.e., what other companies pay for similar work duties in what can be regarded as the employee's potential labour market,
- The degree of difficulty and responsibility of the employee's position, and
- Competence, experience and performance.

¹The "grandfather principle" entails that approval must be obtained from the manager's manager.

Performance-based remuneration shall be based on the employee's performance as well as on the pertinent profit centre's and company's overall performance. Consideration shall also be given to qualitative criteria, such as how the employee has handled and reported risks in the operations. If the remuneration includes a variable component, then there shall be a suitable balance between the fixed and variable components. It shall be possible to set the variable remuneration to zero. With respect to variable remuneration, a cap shall be in place which indicates the maximum level of remuneration that can be paid if all targets are exceeded.

For employees who affect Skandia's risk exposure, special principles are applied for variable remuneration, see below.

Remuneration components

The remuneration policy stipulates that an employee's remuneration can consist of a fixed and a variable component, consisting of one or more of the following components:

- Monthly salary, i.e., a fixed salary that is paid out monthly
- Bonus (incentive), which pertains to remuneration based on results, i.e., performance-based remuneration. As a rule, such remuneration is paid out based on results in relation to expectation
- Skandianen, which is a profit-sharing foundation (however, not a foundation as defined in the Foundations Act (*Stiftelseslagen* [1994:122]) or Pension Obligations Vesting Act (*Tryggandelagen* [1967:531])). For employees who are not entitled to a bonus, a yearly allocation is made to Skandianen based on Skandia Nordic's financial result
- Pension and risk insurance
- Other benefits

Skandia's pension plans consist primarily of retirement benefits pursuant to the collective agreement within the insurance industry (FTP), and in certain cases additional retirement benefits for senior executives. The pension plans consist primarily of retirement pension, disability pension and family pension.

Employees who influence Skandia Nordic's risk exposure

With a starting point from the risk analysis that is conducted by Skandia's Head of Independent Risk and Compliance Control/Chief Risk Officer, Skandia has – in accordance with the Regulations and General Guidelines – defined the categories of employees who could influence Skandia Nordic's risk exposure. By an employee who could influence the company's risk exposure is meant an employee who belongs to a personnel category which, in the course of business, has or could have a not insignificant influence over the company's risk exposure (referred to as "Risk Takers").

The categories of Risk Takers that have been identified are evaluated by Skandia on a regular basis and can thereby, against the background of the influence they have on Skandia Nordic's risk exposure, be changed from time to time.

For Risk Takers, payment of at least 60 per cent of variable remuneration shall be deferred for a minimum of three years. Before this remuneration is paid out, the amount must be risk-adjusted, i.e., the result that the remuneration is based on shall be validated and evaluated. This means that the variable remuneration may be reduced if it is subsequently learned that the employee, profit centre or Skandia has not met the performance criteria that have been set. The intention is that this risk adjustment shall be made within the scorecard model that is applied at Skandia for variable remuneration. See more details below under "*Specific information about variable remuneration*". The board has the right to unilaterally void the right to payment of the deferred remuneration in the event of such extraordinary circumstances that entail that Skandia Nordic's financial stability is threatened or if a wrongdoing is committed in such way that the performance criteria have not rightfully been met.

The vesting period or, alternatively, the date for final earning of remuneration that is provided in the form of equities, equity-related instruments or other financial instruments, is at least three years.

Remuneration of persons in control bodies

Employees who work in a review capacity for operations, such as employees in Independent Risk and Compliance Control and Internal Audit, shall be paid remuneration that is independent of the areas they control. In certain cases, such employees have the opportunity to receive variable remuneration, but only based on individual targets for own performance that is not dependent on the performance of the area under review. Employees in control bodies that are not included in variable remuneration systems based on individual targets are currently entitled to participation in Skandianen.

Documentation, disclosure and information to employees

According to the remuneration policy, Skandia Nordic's remuneration system and processes for governance, measurement and follow-up shall be described, documented, and openly disclosed within Skandia Nordic. Decisions regarding which employees constitute Risk Takers in Skandia Nordic shall be documented.

Information on remuneration shall be publicly disclosed in connection with the adoption of the annual report, in the manner prescribed by FI's rules.

Employees covered by the remuneration policy shall be informed about the criteria that govern their remuneration as well as how their performance has been assessed. The assessment process and remuneration system shall be documented in a clear description that is available for all employees.

Report on remuneration for 2009

Specific information about variable remuneration

The Regulations and General Guidelines do not affect obligations pursuant to existing, binding agreements.

Skandia has a variable remuneration programme for senior executives and key persons. The programme entails that the CEO has an opportunity to receive a bonus of a maximum of 80 per cent of his fixed annual salary. Other members of the Skandia Nordic Management Team have the opportunity to receive a bonus of a maximum of 60 per cent of their fixed annual salary. Key persons have the opportunity to receive a bonus of a maximum of 40 per cent, 20 per cent or 10 per cent of their fixed annual salary. For certain employees in the fund asset management operations, a variable remuneration model exists under which they can receive a maximum of 50 per cent of their fixed annual salary.

Skandia's variable remuneration programme is based on the preparation of detailed and individual scorecards. The outcome is based on the individual's performance, the profit centre's performance, Skandia's overall performance and in certain cases Skandia Nordic's overall performance. In Skandia's opinion, the rules for variable remuneration that apply under this programme, and the methods that have been drawn up for preparing the scorecards, are such that they constitute a part of the individual employment contracts and are therefore binding for Skandia. Skandia will fulfill its obligations pursuant to applicable agreements for variable remuneration according to this programme. The programme deviates from the requirements stipulated in the Regulations and General Guidelines in two main respects. For members of the Skandia Nordic Management Team, one-third of the vested variable remuneration is locked in for a period of three years (see *Share-based payments* below), and the remaining two-thirds are payable in cash. There is no opportunity to rescind the deferred portion of the variable remuneration. For other employees the variable remunerations (for 2009) are payable in cash.

For employees who do not have the right to variable remuneration in accordance with the above-mentioned programme, variable remuneration corresponding to a maximum of 120 per cent of *one-half* of the Price Base Amount for 2009 may be payable (the *full* Price Base Amount for 2009 was SEK 42,800). Any remuneration will be deposited in a profit-sharing foundation, Skandianen, and will be locked in for a period of five years. Skandia has determined that the rules that apply for allocations to the Skandianen profit-sharing foundation do not apply for the individual employment contracts. This means that the Regulations and General Guidelines shall apply for allocations to Skandianen. To ensure that Skandia can rescind the deferred remuneration, in certain cases, allocations for Risk Takers for 2009 will be made in a special tranche, entailing that such allocations are segregated and will be handled separately.

Share-based payments

Of the vested, variable remuneration for senior executives, two-thirds is payable in cash. The remainder will be granted in shares and options in Old Mutual plc, Skandia's parent company.

Eligible employees were granted shares and options in April 2009. The options give the holders the right in the future to purchase shares in Old Mutual plc at a predetermined price. The

options have an exercise price of GBP 0.5410. The term of the options is six years. The options can be exercised at the earliest three years after they have been granted. In accordance with international practice, options and shares are granted without cost to the employee. Skandia has not conducted any hedging of the programmes, but has established a reserve for additional social insurance costs associated with the exercise of the options and shares. Skandia has not had any administrative costs for the option programmes.

Pensions

The CEO has retirement benefits in accordance with the FTP plan, department 2. This plan is primarily a defined benefit plan with a maximum benefit of 65 per cent of pensionable salary. The retirement age according to the FTP plan is 65 years. For pensionable salary amounts above the plan's ceiling of 30 times the income base amount, a defined contribution premium of 37 per cent is paid. For other senior executives, the retirement age varies between 60 and 65. For this group, both defined contribution and defined benefit pension obligations have been made.

Severance pay

The CEO is entitled to salary during his term of notice, which is twelve months in cases where the company serves notice. Other senior executives have, in the event the company serves notice, the right to salary during the notice period plus severance pay. Only in exceptional cases does termination salary and severance pay together amount to 24 months' salary.

Reporting of remuneration and benefits

Remuneration and benefits for 2009, broken down into the categories of senior executives, other employees who influence the company's risk exposure, and other employees of Skandia, are shown in the tables below.

Quantitative disclosure in accordance with Finansinspektionen's regulatory code FFFS 2009:7

Skandia does not apply segment reporting according with Finansinspektionen's regulatory code FFFS 2008:26. Amounts are presented in Swedish kronor, rounded off to the nearest million.

Table 1a: Expensed amount of remuneration for employees of Skandia in 2009
In accordance with FFFS 2009:7 5 Ch. 1 § 7p

2009	Average number of employees	Base salary and other cash remuneration ¹	Variable remuneration	Pension contribution ²	Benefits	Total
Senior executives	10	19	16	7	2	44
Other employees who influence the company's risk exposure	17	19	5	4		29
Other employees	1 446	614	60	189	36	899
Total	1 473	652	81	200	39	972

¹ Including severance pay, excluding social security charges

² Excluding special employers' payroll tax.

Table 1b: Expensed amount of remuneration for senior executives who were not employees of Skandia in 2009¹

2009	Average number of employees	Base salary and other cash remuneration	Variable remuneration	Pension contribution	Benefits	Total
Senior executives	4	12	4	4	0	20
Total	4	12	4	4	0	20

¹ Refers to senior executives whose remunerations have not been paid or expensed by Skandia.

Table 2a: Percentage distribution of variable remuneration for employees of Skandia in 2009
In accordance with FFFS 2009:7 5 Ch. 1 § 8p

2009

Cash	Share-based payments	Other	Total
54 %	16 %	30 %	100 %

Table 2b: Percentage distribution of variable remuneration for senior executives who were not employees of Skandia in 2009

2009

Cash	Share-based payments	Other	Total
71 %	29 %	0 %	100 %

Table 3a: Deferred variable remuneration for employees of Skandia in 2009
In accordance with FFFS 2009:7 5 Ch. 1 § 9-10 pp

Opening balance as at January 1, 2009	98
Vested variable remuneration during 2009 ^{1 2}	94
Paid remuneration vested during previous financial years	-58
Adjusted but unpaid vested remuneration for previous financial years ²	-44
Closing balance as at December 31, 2009	90

¹ Skandia makes a provision for the Skandianen during the vesting year which is, in the following year, paid to a foundation wherefrom the employee finally receives the remuneration after five years at the earliest.

² In connection with a transfer of Skandia's internal sales force and customer service unit from Skandia to Skandiabanken, provisions for deferred variable remuneration amounting to 22 MSEK were taken over by Skandiabanken. The amount was vested and expensed in Skandia until September 30, 2009.

Table 3b: Deferred variable remuneration for senior executives who were not employees of Skandia in 2009

Opening balance as at January 1, 2009	2
Vested variable remuneration during 2009	4
Paid remuneration vested during previous financial years	0
Adjusted but unpaid vested remuneration for previous financial years	-1
Closing balance as at December 31, 2009	5

Table 4a: Severance pay and guaranteed variable remuneration for employees of Skandia in 2009
In accordance with FFFS 2009:7 5 Ch.1 § 11-13 pp

No guaranteed variable remuneration exist.

Expensed severance pay during 2009	3
Paid severance pay during 2009	8

Expensed and paid severance pay during 2009 covers 43 people in connection with restructuring within Skandia Nordic.

Severance pay awarded in 2009	10
- Number of beneficiaries	4
- Highest single amount in 2009	5

Table 4b: Severance pay and guaranteed variable remuneration for senior executives who where not employees of Skandia in 2009

No guaranteed variable remuneration exist.

Severance pay awarded in 2009	7
- Number of beneficiaries	2
- Highest single amount in 2009	4