

The Board's proposal to issue convertible bonds to employees

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The Board proposes that the Annual General Meeting resolves on the implementation of a convertible bond programme for group employees. The programme means that Svenska Handelsbanken AB (publ) (the "**Bank**") raises a subordinated convertible loan in the nominal amount of not more than SEK 3,179,000,000 through an issue of convertible bonds. In the event Ordinary Conversion Price at the issue day is determined, in accordance with paragraph 7, at a price which would lead to a dilution effect after full conversion at the Ordinary Conversion Price exceeding 2 per cent of the share capital or the votes, the highest loan amount shall however be reduced by such amount, whereby the maximum dilution effect equals 2 per cent. These calculations shall be made as if the subordinated convertible loan issued by the Bank in 2008 and 2011 had been converted at the current conversion price of SEK 187.56 and SEK 235.98, respectively.

The convertible bond programme presents a personal long term ownership for the employees, which is expected to stimulate an increased interest in the Bank's business and results. It benefits the Bank to be able to offer employees an opportunity to participate in the development of the group in a way that also is favourable to the shareholders. A personal investment by the participants is required to participate in the programme and the programme is constructed on market terms and in a way that prevents short term risk taking. Further, the Board's opinion is that the convertible bond programme's construction is consistent with the group's guidelines governing remuneration policies and the Swedish Financial Supervisory Authority's (Sw. *Finansinspektionen*) regulations governing remuneration systems in credit institutions, investment firms and fund management companies with authorisation for discretionary portfolio management (FFFS 2011:1).

The convertible bond programme also means that previously unsettled allocations (the years 2010-2013) to units in the profit allocation scheme Oktogonen in the UK may be settled. The convertible bond programme therefore gives an opportunity to settle these allocations in an appropriate way.

The above constitutes the Board's reasons to issue convertible bonds deviating from the shareholder's pre-emptive rights.

The following terms shall apply to the convertible bonds:

1. The right to subscribe for convertible bonds shall, with deviation from the shareholder's pre-emptive rights, apply to persons who at the end of the subscription period are employees of the group, provided that the hours of work during 2014 is estimated to a minimum of 25 per cent of a full time employment. Eligible employees shall include employees with regular employment, employment on trial and temporary employment, who have not resigned, retired or been given notice of termination of their employment, prior to the last day of the subscription period, i.e. 16 May 2014. Also employees on sick leave, on leave of absence, on parental leave or that work part time shall be included in the programme. Members of the Board who are not employed by the group shall not be entitled to participate in the programme. Employees of subsidiaries acquired by the Bank which are subject to liquidation shall not be covered by the programme. Convertible bonds may also be subscribed for by wholly owned subsidiaries to enable transfer of convertible bonds to employees, if required to fulfil local regulations outside Sweden. The terms for

such transactions shall correspond to the terms applicable to employees subscribing for the convertible bonds.

The allocations of convertible bonds shall be decided by the Board in accordance with the following principles:

Category	Position	Guaranteed nominal amount	Maximum nominal amount that may be allocated
I	Employees and managers (approx. 10,900 persons)	SEK 160,000	SEK 1,200,000
II	Branch office managers and country managers, managers reporting directly to a head of a regional bank, a head of a business area or a chief of staff, as well as those with equivalent positions (approx. 1,200 persons)	SEK 820,000	SEK 5,000,000
III	Members of the group management team, the head of central compliance, the head of independent risk control and the head of central auditing department (excluding the CEO) (36 persons).	SEK 5,000,000	SEK 12,000,000
IV	Chief executive officer (CEO)	SEK 9,000,000	SEK 18,000,000

The above mentioned amounts are based on a maximum loan amount of SEK 3,179,000,000, of which a maximum nominal amount of SEK 200,000,000 shall be subject to allotment in accordance with paragraph 2 below. If the final loan amount is adjusted for the purpose of not exceeding the maximum dilution effect, a corresponding adjustment shall be made in respect of the above allocation amounts, subject to rounding off to appropriate amounts. In the event of over-subscription, employees shall *at first hand* obtain the guaranteed allotment and *secondly* allotment of additional convertible bonds corresponding to the same percentage share, regardless of which category they belong to, in proportion to the subscribed amount exceeding the guaranteed allotment as set forth above, however, not exceeding the maximum nominal amount for each category in accordance with the above.

- The right to subscribe for the convertible bonds on a non-pre-emptive basis shall also apply to (i) persons employed by the Bank in the UK with unsettled units in the Bank's profit allocation scheme Oktogonen (in addition to such right to subscription that these may be entitled to under paragraph 1 above) and (ii) persons who are retired or beneficiaries with unsettled units in the Bank's profit allocation scheme Oktogonen, provided that they receive payment of pension benefits under the Bank's UK pension plan the "Svenska UK retirement and death benefit scheme". Convertible bonds of a total nominal amount of not more than SEK 200,000,000 may be subscribed for and be allotted in accordance with this

paragraph 2. These convertible bonds may also be subscribed for by a wholly-owned subsidiary in the Group or a third party in order to transfer the bonds to such individuals. The terms for such transactions shall in other respects correspond to the terms applicable to employees subscribing for the convertible bonds. The allotment of convertible bonds in accordance with this paragraph 2 shall be made with such number of convertible bonds whose total nominal amount corresponds to each individual's above mentioned units in the Bank's profit allocation scheme, calculated in proportion to the term of employment during the four years 2010 up to and including 2013, less such an amount that is required to cover tax and social security charges. Convertible bonds that are not subscribed for and allotted in accordance with this paragraph 2, shall be allocated in accordance with the guidelines set out in paragraph 1 above.

3. The convertible bonds may be subscribed for during the period from and including 2 May 2014 up until and including 16 May 2014 and shall be paid in cash no later than 13 June 2014. The convertible bonds shall be issued at a subscription price equal to 100 per cent of the nominal amount.
4. The convertible bonds have no set repayment date. As set out in the complete terms for the convertible bonds according to **Appendix A**, the holders of convertible bonds are not entitled to repayment of the loan other than after the Bank's decision to repay the loan or in case of the bankruptcy or liquidation of the Bank. In case of repayment, the loan shall be repaid, to the extent that the loan has not been converted, together with accrued interest. The date for repayment is referred to hereafter as the "**Repayment Date**".

As set out in Appendix A, the Bank shall be entitled to, at a date determined by the Bank, repay the loan amount, in whole or in part, together with accrued interest.

With exception of certain situations set out in Appendix A, the Repayment Date may not occur prior to 1 July 2019 and not earlier than 40 days after the bond holders have been notified of the Bank's decision to repay the loan.

5. The loan shall bear interest from 13 June 2014, to be paid on 20 April each year commencing on 20 April 2015, and on the Repayment Date. Each interest payment includes interest for a period of 12 months except for the first interest payment which only comprises the time from 13 June 2014 until and including 20 April 2015, and the last interest payment which only comprises the time from the most recent interest payment date until and including the Repayment Date. The interest shall be paid annually in arrears on the interest payment dates, and in the event interest shall be calculated for a shorter period than one year, the interest shall be calculated as if each month were to consist of 30 days and one year were to consist of 12 months with 30 days each (30/360). At conversion requested by the bondholder and at automatic conversion (for further information on automatic conversion, please see under paragraph 7 below) the right to interest will cease for the period from the nearest preceding interest payment date.

As set out in Appendix A, the Bank is entitled to cancel an interest payment where the Bank, as per a Measurement Date (as defined in Appendix A) immediately preceding the interest payment date, does not meet the applicable combined buffer requirement under legislation implementing and/or applying Directive 2013/36/EU of the European Parliament and of the Council (CRD IV). Should the Bank cancel an interest payment, the bondholders' rights to such non-paid interest shall be forfeited. The interest rate is determined for each interest period and shall correspond to 1 year Swap Rate (ASK) in SEK (as defined in Appendix A) with the addition of 0.50 percentage points.

6. In the event of the liquidation or bankruptcy of the Bank, the convertible loan is subordinated and entitles to payment after (a) the Bank's obligations with preferential rights, (b) the Bank's unsubordinated obligations, (c) the Bank's obligations according to subordinated debt with a fixed maturity date and (d) the Bank's obligations according to perpetual subordinated debt, however, with the exception of certain obligations in accordance with the terms of the convertible bond according to Appendix A.
7. As from 1 May 2019 until and including the 15th business day prior to the Repayment Date, but in any event not after the 30 November 2019, the bondholder shall be entitled to convert each of the convertible bonds into one Class A share in the Bank at a conversion price which shall be set at 117 per cent of the volume weighted average price paid for Class A shares on NASDAQ OMX Stockholm during the period from and including 2 May 2014 up to and including 14 May 2014 ("the **Ordinary Conversion Price**"). The calculated conversion price shall be rounded off to the nearest Swedish öre, where 0.5 öre shall be rounded down. The conversion price shall however be set at least to the higher of the quota value of the Bank's shares and SEK 90. In case of a bonus issue, reversed share split or share split, the SEK 90-amount will be adjusted, applying the principles set out in Appendix A, Section 8, subsections A and B. Assuming the full loan amount SEK 3,179,000,000 is allotted, the share capital will increase by a maximum of SEK 164,248,332.30, at full conversion at a conversion price of SEK 90 and based on a quota value of SEK 4.65.
8. As set out in Appendix A, conversion of all outstanding convertible bonds shall occur automatically if the common equity tier 1 capital ratio of the Bank's consolidated situation or of the Bank falls below 7 per cent pursuant to Regulation 575/2013 of the European Parliament and of the Council (CRR), as per a Measurement Date (as defined in Appendix A). The conversion price in respect of automatic conversion shall correspond to the conversion price which would have applied if the Bank had exercised conversion at the same time as the automatic conversion, as set out below and further in Appendix A.
9. As set out in Appendix A, a bondholder may, in the event of a liquidation, demerger, merger and compulsory redemption, request conversion at an adjusted conversion price calculated to compensate the bondholder for the loss of the convertible's option value. This also applies in case of default on interest payments. Further, if the bondholder requests conversion on 31 May 2019 or thereafter, the conversion shall take place at an adjusted conversion price based on the current market price for the share at such point in time, if this price is lower than the Ordinary Conversion Price. In the event that a bondholder requests conversion on 31 May 2019 or thereafter and conversion thereby would take place at the adjusted conversion price, or if the bondholder requests conversion due to liquidation, demerger, merger, compulsory redemption or default on interest payments and conversion thereby would take place at the adjusted conversion price, the Bank shall be entitled to repay the loan amount in whole or in part, which the holder has requested conversion instead of implementing the conversion.

As set out in Appendix A, the Bank shall be entitled to, immediately following registration of the resolution to issue the convertible bonds until and including the 15th business day prior to the Repayment Date, request conversion of the convertible bonds into new Class A shares in the Bank. For conversion that has been requested by the Bank prior to May 2019, conversion shall take place at an adjusted conversion price calculated to compensate the bondholder for the loss of the convertible's option value and for conversion that has been requested by the Bank on 31 May 2019, or thereafter, conversion shall take place at a conversion price corresponding to the current market price or the

Ordinary Conversion Price, whichever is lower, as further set out in the complete terms for the convertible bonds according to Appendix A.

10. The terms for the convertible bonds are set forth in Appendix A.

The conversion price may be subject to adjustment, *inter alia* in connection with cash dividend distributed to shareholders, bonus issue, share split, reversed share split, share issue as well as in certain other cases, pursuant to the terms for the convertible bond loan, see Appendix A.

The Board proposes that the Annual General Meeting resolves to authorise the Chairman of the Board to make such amendments to the resolution which are necessary for the registration of the issue of convertible bonds with Swedish Companies Registration Office or Euroclear Sweden AB. Further, the Board of Directors proposes that the Annual General Meeting resolves to commission the Board to, within the framework of the above stated conditions, draw up the further particulars of the rules and regulations which shall apply to subscription of the convertible bonds. In connection therewith, the Board shall be entitled to make adjustments to fulfil specific regulations or market conditions abroad. The Board shall also be entitled to exclude employees in certain jurisdictions from the programme if the costs for the implementation of the programme cannot be justified or where, due to other circumstances e.g. tax regulations or securities legislations, it is not appropriate to offer employees the opportunity to subscribe for convertible bonds.

Additional information in relation to the proposed convertible bond programme

Financing

The Bank intends to offer financing to the employees who have notified their participation in the convertible bond programme. Such financing will be provided on market terms and be conditional upon credit approval.

Valuation of the convertible bonds

Subscription of convertible bonds is made at market price according to a valuation requested by the Board of Directors and performed by Handelsbanken Capital Markets applying such valuation models as deemed generally applied by professional market participants when valuing comparable securities.

Svenska Handelsbanken AB has received financial advice from Deutsche Bank AG ("Deutsche Bank") and UBS Limited ("UBS").

Deutsche Bank and UBS have each advised Svenska Handelsbanken AB as to the range of terms for comparable offerings and that the proposed convertible bond terms are, as at 4 March 2014, consistent with the range of terms for a transaction of this nature that would reasonably be expected to be marketable to the wider institutional market. In providing its financial advice to Svenska Handelsbanken AB, Deutsche Bank and UBS has taken into account the Board's commercial assessment of the transaction.

Deutsche Bank and UBS are severally acting for Svenska Handelsbanken AB in relation to the offering of the convertible bonds and for no one else and neither Deutsche Bank nor UBS shall regard any other person (including, without limitation, any person who is a director, officer, employee, shareholder or creditor of Svenska Handelsbanken AB) as its client in relation to the offering and shall not be responsible to any person other than Svenska Handelsbanken AB for providing protections afforded to clients of Deutsche Bank or UBS advising any person involved in the offering other than Svenska Handelsbanken AB. The advice severally provided by Deutsche Bank and UBS to Svenska Handelsbanken AB do not constitute (i) "investment advice" (as defined

in paragraph 1(4) of Article 4 of the Markets in Financial Instruments Directive (2004/39/EEC)) in connection with the offering; or (ii) a recommendation to Svenska Handelsbanken AB, or for the benefit of, any holder of shares or other securities in and/or employees of Svenska Handelsbanken AB as to whether the offering should be completed (and the terms thereof) or whether any such holder and/or employee should vote or act with respect to the offering. Furthermore, such advice is based on market conditions, economic, financial and other circumstances and information obtained by or provided to Deutsche Bank and UBS up to 4 March 2014 and neither Deutsche Bank nor UBS assume any obligation to update or revise such advice.

Dilution and effect on key ratio

If all convertible bonds are allotted and the conversion price is assumed at SEK 389.26 corresponding to 117 per cent of SEK 332.70, which was the latest price paid on 4 Mars 2014 for the Bank's Class A shares on NASDAQ OMX Stockholm, the share capital will increase by SEK 37,975,513.05 at full conversion, based on the present quota value of SEK 4.65 per share. This represents a dilution effect of 1.26 per cent of the share capital and 1.28 per cent of the votes after full conversion. Assuming that the employee convertible bonds issued in 2008 and 2011 respectively are converted at the current conversion price, the dilution effect from the proposed convertible bonds will amount to 1.25 per cent of the share capital and 1.27 per cent of the votes.

Costs for the convertible bond programme

The costs related to the programme in the form of fees to external advisers, are estimated not to exceed SEK 10 million during the term of the convertible bonds. In addition, the Bank will have internal costs for the preparation and administration of the programme.

Preparation of the convertible bond programme proposal

The structure of the convertible bond programme had been considered by the Board on the Board meeting on 4 February 2014. The detailed structure of the programme has been prepared by the executive management of the Bank in accordance with guidelines adopted by the Board.

Other share linked programmes

The Bank issued, after a shareholders' resolution at the Annual General Meeting 2008, a convertible bond programme for its employees with a maximum nominal amount of SEK 2,300,000,000. The bonds may be converted into Class A shares of the Bank at the bond holder's request from and including 1 June 2011 at the conversion price SEK 187.56. The terms of that programme correspond in most aspects with the terms of the proposed convertible bond programme. SEK 10.363.820 of the nominal amount is outstanding as per the date of this proposal.

The Bank furthermore issued, after a shareholders' resolution at the Annual General Meeting 2011, a convertible bond programme for its employees with a maximum nominal amount of SEK 2,512,500,000. The bonds may be converted into Class A shares of the Bank at the bond holder's request from and including 1 May 2016 at the conversion price SEK 235.98. The terms of that programme correspond in most aspects with the terms of the proposed convertible bond programme. The entire nominal amount is outstanding as per the date of this proposal.

Majority requirements

The resolution to approve the convertible bond programme is subject to the provisions in chapter 16 of the Swedish Companies Act (2005:551) and requires to be valid that the proposal is supported by shareholders holding not less than nine-tenths of both the votes cast and of the shares represented at the general meeting.