

## The Board's proposal to issue convertible bonds to employees

*This English version is a translation only and in the event of any discrepancies between this translation and the Swedish original version, the latter shall prevail.*

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 2,512,500,000 through an issue of convertible bonds. In the event the 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 be reduced by such amount whereby the maximum dilution effect equals 2 per cent.

The convertible bond programme presents a personal long term ownership for the employee on market terms, which is expected to stimulate an increased interest in the business and its results. It thus benefits the Bank in being 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 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 and general guidelines governing remuneration policies in credit institutions, investment firms and fund management companies (FFFS 2009:6). 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 the convertible bonds, with deviation from the shareholder's pre-emptive rights, shall apply to persons who at the end of the subscription period are employees of the group, providing that the hours of work during 2011 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 temporarily employment, who has not resigned, retired or been given notice of termination of his or her employment, prior to the end of the subscription period. Also employees being reported sick, absent with leave, on paternal leave or 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. 10,400 persons)	SEK 150,000	SEK 1,000,000
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 (approx. 1,100 persons)	SEK 750,000	SEK 4,250,000
III	Members of the central management of the group (excluding the CEO) (approx. 30 persons). The CEO and the chairman of the Board are jointly authorised to decide on guaranteed allocation within the category provided that the aggregated amount for the category does not exceed SEK 30 x 4,000,000.	SEK 2,500,000 – 5,000,000	SEK 10,000,000
IV	Chief executive officer (CEO)	SEK 7,500,000	SEK 15,000,000

The above mentioned amounts are based on a maximum loan amount of SEK 2,512,500,000. 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 respect of 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.

2. The convertible bonds may be subscribed for during the period from and including 19 April 2011 up until and including 5 May 2011 and shall be paid in cash no later than 1 June 2011. The convertible bonds shall be issued at a subscription price equal to 100 per cent. of the nominal amount.
3. 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 the complete terms for the convertible bonds according to Appendix A, the Bank shall be entitled to, at a date determined by the Bank, repay the loan amount, in whole or partially, together with accrued interest.

With exception of certain situations set out in the complete terms for the convertible bonds in Appendix A, the Repayment Date may not occur prior to 1 July 2016 and not earlier than 40 days after the bond holders have been notified of the Bank's decision to repay the loan.

4. The loan shall bear interest from 1 June 2011, to be paid on 20 April each year, commencing on 20 April 2012, 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 1 June 2011 until and including 20 April 2012, 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 based on the actual number of days and one year shall consist of 12 months, each with 30 days (Act/360). At conversion requested by the bondholder the right to interest will cease for the period from the nearest preceding interest payment date.

Bondholders are only entitled to interest payment provided the Bank has distributable profits available in accordance with Swedish law and regulations. In the event that interest has not been paid on the basis that distributable profits are not available, the bondholders' right to such unpaid interest will lapse.

The interest rate is determined for each interest period and shall amount to STIBOR 12 months plus 0.45 percentage points.

5. 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 complete terms of the convertible bond according to Appendix A.
6. If the Bank has prepared a special balance sheet for liquidation purposes indicating that the Bank is obliged to go into liquidation or if it is necessary to avoid or remedy a breach of the capital requirements applicable to the Bank, as set out in the complete terms for the convertible bonds according to Appendix A with stipulated limitation, the Bank may, through a decision at a shareholders' meeting, convert the whole or parts of the loan including accrued interest to a capital contribution to restore equity capital in order to avoid liquidation or avoid or remedy a breach of the capital requirements, respectively.
7. As from 1 May 2016 until and including the 15th business day prior to the Repayment Date, but in any event not after the 30 November 2016, the bondholder shall be entitled to convert each of the convertible bonds into one Class A share of the Bank at a conversion price which shall be set at 122 per cent. of the average volume weighted price paid for Class A shares on the NASDAQ OMX Stockholm during the period from and including 19 April 2011 up to and including 4 May 2011 ("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 20. In case of a bonus issue, reversed share split or share split, the SEK 20-amount will be adjusted, applying the principles set out in Appendix A, Section 8, subsections A and B. Assuming the full loan amount SEK 2 512 500 000 is allotted, the share capital will increase by SEK 584 156 250 at most, at full conversion at a conversion price of SEK 20 and a quota value of SEK 4.65.

8. As set out in the complete terms for the convertible bonds according to Appendix A, a bondholder may, in the event of a liquidation, demerger, merger and compulsory redemption, request for a conversion at an adjusted conversion price calculated to compensate the bondholder for the loss of the convertible's option value. This should also apply in case of default on interest payments. Further, if the bondholder requests for conversion on 31 May 2016 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 for conversion on 31 May 2016 or thereafter and conversion thereby is taking place at the adjusted conversion price, or if the bondholder requests for conversion due to liquidation, demerger, merger, compulsory redemption or default on interest payments, the Bank shall be entitled to repay the loan amount in full or in part, which the holder has requested for conversion instead of effectuate the conversion.

As set out in the complete terms for the convertible bonds 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 for conversion of the convertible bonds into new Class A shares of the Bank. For conversion that has been requested for by the Bank prior to the 31 May 2016, 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 for by the Bank on 31 May 2016, 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.

9. The complete terms for the convertible bonds is 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 complete 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.

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## **Additional information in relation to the proposed convertible bond programme**

### **Financing**

The Bank intends offering financing to the employees who have registered participation in the convertible bond programme. Such financing will be provided on market terms and be conditional upon credit analysis.

## **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.

The Board has also received financial advice from each of Deutsche Bank AG, London Branch ("Deutsche Bank") and UBS Investment Bank ("UBS").

Deutsche Bank and UBS have each advised the Board as to the range of terms for comparable offerings and that the proposed convertible bond terms are, as at 2 March 2011, 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 the Board, Deutsche Bank and UBS has taken into account the Board's commercial assessment of the transaction.

UBS and Deutsche Bank 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 and UBS or advising any person involved in the offering other than Svenska Handelsbanken AB. The advice severally provided by Deutsche Bank and UBS to the Board of Directors of 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 2 March 2011 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 258.03 corresponding to 122 per cent. of SEK 211.50, which was the latest price paid on 28 February 2011 for the Bank's Class A shares on the NASDAQ OMX Stockholm, the share capital will increase by SEK 45 278 1616 at full conversion and based on the present quota value of SEK 4.65 per share. This represents a dilution effect of approx. 1.54 per cent. of the share capital and 1.56 per cent. of the votes after full conversion. Assuming that the convertible bonds issued in 2008 are converted at the current conversion price the dilution effect will amount to 1.51 per cent. of the share capital and 1.53 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 7,000,000 under the tenure of the convertible bonds. In addition hereto, the Bank will have internal prime 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 meetings on 8 February 2011 and on 1 March 2011. The detailed structure of the programme has been prepared by the executive management of the bank in accordance with guidelines adopted by the Board of Directors.

### **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. 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 the 2008 programme in most aspects corresponds with the terms of the proposed convertible bond programme.

### **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 that the proposal is supported by shareholders holding not less than nine-tenths of both the shares voted and of the shares represented at the general meeting