TRANSLATION

Proposal of the Board of Directors of Swedbank AB for a resolution regarding authorisation for the Board of Directors to decide on the issuance of convertibles, in accordance with item 21 of the proposed Agenda for the AGM 2018

Background and purpose

During 2015, the SFSA clarified its opinion on the capital requirements for the so-called Pillar 2 risks, inter alia, concerning which methods for calculation that should be used for credit concentration risks, pension risks and interest risks in the bank's business outside of the securities market. In January 2016, the SFSA confirmed its previously presented intention to not pass any formal resolutions concerning capital requirements for Pillar 2 risks. During 2016, the SFSA formalized the new methods used for review of the banks' internal models, particularly with regards to corporate exposures. The new methods increase the risk weights and the capital requirements for the banks' corporate exposures. During 2016 and 2017, the increased capital requirements due to the new methods within Pillar 2 were reported. In 2017, the rules for calculating regulatory requirements for sovereign exposures changed which increased the risk exposure amount (REA) and the capital requirement. The countercyclical buffer value was increased from 1.5 to 2.0 per cent in March 2017.

By reason hereof, it can be assessed that the Common Equity Tier 1 capital requirement for Swedbank's individual Pillar 2 risks amounts to 1.8 per cent and that the capital requirement, calculated as of 31 December 2017, corresponds to a Common Equity Tier 1 capital ratio of 21.9 per cent and a total capital requirement of 27.7 per cent,. Swedbank's Common Equity Tier 1 capital ratio was 24.6 per cent and the total capital ratio was 30.7 per cent as of 31 December 2017.

Swedbank's leverage ratio, using the principles of the EU Commission's clarified definition, was 5.2 per cent as of 31 December 2017.

Given the current capitalization and earnings capacity, the Board of Directors is of the opinion that the bank meets the capital regulatory requirements with an adequate buffer.

At the same time, there is an ongoing international effort regarding revisions of current capital requirements regimes. Among other things, the EU Commission proposed changes to the EU's capital requirements and resolution framework in November 2016. The proposals within this so-called Banking Reform Package imply coming changes within multiple areas, including the capital add-ons regime in Pillar 2, automatic dividend restrictions, permissions for reducing the capital base and eligible liabilities, and the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) which the authorities may write-down or convert, among others. Also included in the proposals is the introduction of several new additions to the framework, such as a binding minimum requirement for the leverage ratio, a new category of liabilities to fulfil MREL, the Basel Committee's new standardized method for measuring counterparty risk, the Basel Committee's revised market risk framework, and the standard for Total Loss-Absorbing Capacity (TLAC). The European Parliament and the European Council are in the process of assessing the proposals and will begin negotiations once they have adopted their respective positions. The proposals will therefore be subject to a number of changes before being finalized and adopted by the EU. Before this, and before Swedish lawmakers and the Swedish authorities have decided upon how the revised framework shall be applied and transposed into national law in Sweden, it remains uncertain how the proposals will affect Swedbank.

On 7 December, the Basel Committee presented the final revision of the Basel III regulatory framework (a.k.a. Basel IV). The revision includes changes to several policy and supervisory measures that aim to enhance the reliability and comparability of risk-weighted capital ratios and to reduce the potential for exaggerated and undue variation in capital requirements for banks across the globe. The changes comprise, among others, revisions to the standardized approaches for calculating capital requirements and the introduction of an aggregate capital output floor, a minimum level, for the REA based on the standardized approach. The new rules are implemented from 1 January 2022 with a transitional period for the output floor for the REA until 2027. The impact on Swedbank's capital position will depend on how the EU chooses to transpose the rules, and if and how the SFSA chooses to adjust its capital requirements.

In addition, on 1 February 2016, Swedish national legislation implementing the EU's Bank Recovery and Resolution Directive (BRRD) entered into force, providing the relevant authorities with resolution and bail-in tools for handling banks in crisis. Part of the legislation is the introduction of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), which is applied to Swedish banks from January 2018. This legislation may also affect the Board of Directors' opinion on the future capital need.

Further, the conditions for the bank's business as well as the external conditions are constantly changing. Hence, it may become desirable to increase or decrease the capital base or change the composition between Common Equity Tier 1 capital and other capital, for example by repurchase of own shares, issue of loans eligible for inclusion in the capital base or a combination of different measures.

An authorization by the AGM to the Board of Directors to decide on issuance of convertibles is therefore justified as one of several measures to give the Board of Directors the possibility to continuously adapt the bank's capital structure to existing capital needs. In accordance with item 20 of the proposed agenda, the Board of Directors propose that the AGM, in addition to the authorization proposed below, authorize the Board of Directors to decide on acquisition of the bank's own shares.

A loan must, in order for it to be eligible for inclusion as Additional Tier 1 capital in the capital base, contain conditions to the effect either that the loan may be converted into shares if a predetermined trigger event occur, for example that the bank's Common Equity Tier 1 ratio drops below a certain level, or that the loan will be written down under corresponding conditions. Debt instruments eligible for inclusion as Tier 2 capital in the capital base may also be issued with similar terms and conditions. An issue of debt instruments convertible into shares can only be made in accordance with the rules of the Swedish Companies Act on issuance of convertibles. Convertibles may be used to strengthen the bank's equity in the event of future actual or anticipated financial difficulties. This possibility should be advantageous also to current shareholders.

As of year-end 2017, Swedbank had issued Additional Tier 1 capital in the form of convertible instruments where the total amount of additional shares which could be issued in the event of a conversion reaches approximately 79,617,834 shares.

Since convertibles issued in accordance with the authorization would mainly be demanded by debt investors of the Swedish and international capital markets, it must be possible to offer them to the market with or without deviation from the shareholders' preferential rights. The purpose of this proposal is for the bank, without convening a General Meeting of Shareholders, through decision by the Board of Directors, to be able to issue convertibles if considered necessary in order to effectively handle the capital base.

Conditions for issuance

Based on the foregoing the Board of Directors proposes that the AGM authorises the Board of Directors, during the period until the AGM in 2018, to resolve on the issuance of convertibles as set out below:

1. The authorisation may be utilised on one or several occasions prior to the AGM in 2019
2. The issuance may be made with or without deviation from shareholders' preferential rights

3. The convertibles shall mandatorily convert into shares under the conditions stated in the terms and conditions of the convertibles but not be convertible at the option of the holders
4. Loan amounts and conditions for conversion shall be set so that the total number of shares which may be issued upon conversion of convertibles, by virtue of this authorisation, may not exceed 110,000,000 (or the corresponding number due to any bonus issue, share issue, conversion of convertibles, share split or reversed share split or similar corporate events), including the number of shares resulting from any conversion of convertibles issued under authorisation from previous AGM(s).
5. The Board of Directors resolves on all other terms and conditions for issuance according to this authorisation

Majority requirement

For a decision in accordance with the Board's proposal, it is required that the resolution of the AGM is supported by shareholders representing at least two-thirds both of the votes cast and of the shares represented at the Meeting.

Stockholm in February 2018
Swedbank AB (publ)
The Board of Directors