

The Chairman's speech on the work of the Board at the Annual General Meeting 2016

Honoured guests,

In the environment that we operate in, with continued great uncertainty about the strength of global growth prospects, an exceptional monetary policy with negative interest rates, and further changing and far-reaching international and Swedish regulation for the banking sector, the work of the Board remained intense.

An important area of work for the Board during the year has been digital developments in the financial sector. We have also discussed new regulations, and the Bank's adherence to these. Other issues have been IT security as well as internal processes, for example, against money laundering. We have also discussed new rules for auditing and auditor independence.

Based on these issues, we have discussed the implications for the bank and decided on SEB's strategic and financial goals. From the Board's side, we note that even in this environment, SEB has continued on the course to create long-term, sustainable growth.

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I do not think any of us believe we operate or live in a time where everything is as usual.

The introduction of negative interest rates means fundamental economic relationships can no longer be taken for granted, which increases uncertainty for all of society.

At the same time, we live in a time of change.

We are currently experiencing what many call the fourth industrial revolution. First came the steam engine, and laid the foundation for the industrialisation that gained real momentum with electrification and mass production. Followed by the information revolution, or what is usually called the processor era.

Today we are in the midst of digitization, which alters production, distribution and consumption of goods and services. Nowadays, machines and systems can be intelligent, that is, learn from experience. At the same time, everything and everyone is interconnected – which is called "the internet of things".

Because of this, we must reconsider old truths:

- Airbnb has shown that you do not need to own hotels to rent out rooms in the travel industry...
- Uber has shown that it is possible to be active in the transport sector without owning cars or having your own employees...
- And Spotify has shown that the great leaps in terms of offering consumers a particular service in an entirely new way – in this case, music – does not always happen within that specific industry.

Transformation is happening rapidly, and business logic is now changing in industry after industry. This is true in the financial industry too, where these changes combined with new customer behaviour

has a major impact on, among other things, the competitive landscape, cost levels and required competencies.

SEB has, under Annika Falkengren's management, taken a series of initiatives to address both the opportunities and challenges that digitization bring. During the past year, this work was intensified ... and together with the management, we on the Board worked through a long-term vision for the Bank. Annika will soon tell you more about this work, as well as the Bank's business plan for the next few years.

We do not know what it will really mean to be a bank in an environment where customer behaviour, technology, competition and regulation in the future looks very different than today. However, we know that at SEB, we have always made sure to have the financial strength and flexibility so that we can act in best way possible to meet long-term opportunities and challenges.

SEB has financial resilience and flexibility. We currently fulfil, by far, all regulatory requirements. But regulations continue to be both uncertain and changing, and they hit very hard against the banking sector.

It is still difficult to assess what the overall effect of all the new rules at the international Basel level, as well as at the EU and national level, will be on the real economy. Once again, it is important to highlight the role of the banking system as a lubricant for the real economy. At a time when it is so obviously difficult to raise companies' willingness to invest, one has to ask whether the regulatory framework for the banking system is being hit too hard.

We therefore look with great concern at further regulatory changes, such as discussion on the international Basel level regarding standardisation of how much capital a bank must set aside when it lends to different customers and thus takes risk. This is called risk weights. If these discussions become reality, the European risk-based system that has benefited us well for many years will need to be reconsidered. International discussion on the topic should take into account the major structural differences between European and US banking systems.

If the European - and Swedish – risk-based model is abandoned, that means banks will have to inject more capital to serve our customers. With increased costs as a result. It could furthermore reinforce the trend that systemic risk in the banking sector, which of course is under regulator control, is shifted to the unregulated part.

This could lead to increased risk for the real economy – which is contrary to the politicians' and authorities' intentions. Therefore, we want Sweden to jointly act to maintain the risk-based approach.

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We're here at the Annual General Meeting today to make a series of decisions on, among other things, the previous calendar year's accounts, and dividends. So let me briefly comment on the Board's dividend proposal.

The Board has, in connection with management's work with the business plan for the coming years, also reviewed SEB's long-term financial goals.

They remain the same, namely:

- Dividend per share will be 40 percent or more of earnings per share annually;
- Maintain a Common Equity Tier I ratio of about 1.5 percentage points higher than the prevailing capital requirements from Finansinspektionen (Sweden's Financial Supervisory Authority);
- Create a competitive return on equity.

As before, SEB strives to over time achieve sustainable profitability of 15 percent.

In line with our financial objectives, we believe from the Board's side that the proposed dividend, an increase of 50 Swedish öre to 5 kronor and 25 öre, is well balanced considering the requirements that the nature, scope and risks place on the size of shareholder capital, as well as on the Bank's consolidation requirements, liquidity and position in general.

This means a dividend rate equivalent to 66 percent of profit (excluding one-off items).

Today, we will also make a number of other decisions on amendments to the Articles of Association, which means greater flexibility in terms of the number of board directors to meet the election committee's proposal. We will decide on the election of directors, compensation principles and the related share programme.

We will also address the issue of the mandate of the Board to decide on issuance of subordinated convertible bonds designed to give the bank the opportunity to adapt the capital structure to the new regulatory capital requirements.

These convertibles entail a mandatory conversion into shares under certain predetermined conditions for a possible future, financially difficult situation for the bank - however, at a conversion, shareholders of the Bank have an option to purchase the newly issued shares.

The Board follows one of the Board's approved work plans that govern our role and working methods as well as specific instructions for the Board committees: Risk and Capital Committee, Audit and Compliance Committee, and the Remuneration Committee.

We have had 10 Board meetings, and the committees that prepare certain questions for decisions by the Board have met on a total of 34 occasions.

One such issue that has been prepared by the Remuneration Committee is that the Board has the responsibility to propose to the AGM guidelines for remuneration to executive management as well as the long-term share programme.

And as you have seen in the meeting documentation, the proposal adheres to the guidelines the AGM decided on a year ago.

From the Board's side, we emphasise a long-term approach, equity ownership and clear achievements. We consider it desirable to promote a culture that encourages behaviour of employees that in the long term is for the benefit of customers, and thereby the Bank's long-term success.

From the Board's side, we see furthermore that the long-term share programme helps the Bank's management and other participants have the same long-term interests as us shareholders.

If it's good for the bank in the long term, it will also be a good outcome for programme participants.

The Board of Directors proposes to the AGM the same share programme as last year, namely:

- A long-term performance share programme covering 2000 of the Bank's senior management and key personnel, and
- A profit-sharing programme for all employees, with the exception of the Bank's management.

But with a change in the profit-sharing programme, which means an increase of the maximum allocation from 55 000 to 75 000 kronor per employee. This is to give all bank's employees additional incentives for really good future performance that exceeds our ambitious goals.

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Even this year, the Board has held intensive work, and many issues have been of great importance for the Bank's future. As Chairman, I can state that the Board has worked well. I would therefore like to conclude by thanking my colleagues on the Board for the past year.

I would also like to, on behalf of the entire Board, extend a warm thanks to the bank's management and employees.

It has been an inspiring effort together with them to form a new, long-term vision for SEB on world-class service.

Thank you!