AS SEB Pank

Annual Report

(translation of the Estonian original)

2008

Contents

Statement of the Management Board

Management Board of AS SEB Pank confirms that the Annual Report 2008 consists of the following parts and reports:

Introduction – general information (page 3)
Management Report (pages 4-10)
Consolidated Financial Statements (pages 11-96)
Independent Auditor's Report (pages 97-98)
Proposal of the Management Board regarding the profit distribution (page 99).

The financial and other additional information published in the Annual Report 2008 is true and complete. There is no financial or other information, missing from the Annual Report 2008, which could affect the meaning or contents of the report. Consolidated financial statements give a true and fair view of the actual financial position, results of operations and cash flows of the Group.

Consolidated financial statements have been compiled in accordance with the International Financial Reporting Standards, as adopted by the European Union and as stipulated in § 17 of the Estonian Accounting Law. The Annual Report 2008 has been compiled in accordance with the requirements of Estonian laws. AS SEB Pank and subsidiaries of the consolidated group are assumed to be going concern.

The audit of consolidated financial statements for the year 2008 was conducted in accordance with International Standards of Auditing. The Annual Report 2008 will be submitted for the approval to the Ultimate Shareholder. Previous Annual Report 2007 was approved on 04.04.2008.

Members of Management Board:

"10" March 2009		Ahti Asmann
"10" MARCH 2009		Paulius Tarbūnas
"10" March 2009		Kristoffer Lindberg
"10." märts 2009		Erki Pugal
"10." MARCH 2009		Riho Unt

I. Introduction - general information

1. Credit institution

Company name	AS SEB Pank
Address	Tornimäe Str.2, Tallinn 15010, Estonia
Registred in	Republic of Estonia
Registry date	08.12.95
Registry code	10004252 (Estonian Commercial Register)
Phone	+372 6 655 100
Fax	+372 6 655 102
SWIFT	EEUHEE2X
e-mail	info@seb.ee
Internet homepage	http://www.seb.ee

2. Auditor

Audit company	AS PricewaterhouseCoopers
Registry code	10142876
Address	Pärnu Str. 15, 10141 Tallinn, Estonia
Report balance sheet date	31.12.08
Reporting period	01.01.2008 - 31.12.2008
Report currency	Estonian kroon (EEK), millions

II. Management Report

1. Credit institution's group as defined in Credit Institutions Law

1.1. Consolidated group

Company name	Register	Reg.date	Address	Activity	Holding (%) ***	At an acqui-sition cost (EEK mio)
AS SEB Liising	10281767	03.10.97	Tallinn, Tornimäe 2	Leasing	100.0%	23.4
AS SEB Kindlustusmaakler*	10723587	16.01.01	Tallinn, Tornimäe 2	Insurance brokerage	100.0%	-
AS Rentacar*	10303546	20.10.97	Haapsalu, Karja 27	Leasing	100.0%	-
AS SEB Varahaldus	10035169	22.05.96	Tallinn, Tornimäe 2	Asset management	100.0%	42.5
AS SEB Elu- ja Pensionikindlustus	10525330	21.01.99	Tallinn, Tornimäe 2	Life and pension insurance	100.0%	30.0
AS Bangalo	10088272	18.10.96	Tallinn, Tornimäe 2	Rental of computers	100.0%	47.0
AS SEB Enskilda	11354037	16.02.07	Tallinn, Tornimäe 2	Financial consulting	100.0%	11.5
OÜ Strongler	10141919	23.04.97	Tallinn, Tornimäe 2	Real estate	100.0%	26.2
SEB IT Partner Estonia OÜ**	10002566	20.11.95	Tallinn, Liimi 1B	IT consulting, programming	35.0%	0.3
AS Sertifitseerimiskeskus**	10747013	27.03.01	Tallinn, Pärnu mnt 12	Data communication services	25.0%	15.1
OÜ TietoEnator Support **	11065244	30.08.04	Tallinn, Roosikrantsi 11	IT consulting, programming	20.0%	0.6
						196.6

All enterprises registered in Estonian Commercial Register.

* Consolidated subsidiaries of AS SEB Liising
** Associates
*** For all investments the percentage of holding equals to both, the holding from the number of shares as well as from the number of votes.

Parent company of the Group is AS SEB Pank, it's activity being banking (information on page 3).

The ‘consolidated group’ in the meaning of Credit Institutions Law in Estonia and the ‘Group’ for IFRS consolidation purposes are identical.

Non-profit association SEB Heategevusfond is an association, not belonging to the consolidation group, registered on 06.01.2006. The founders of the association are AS SEB Pank and AS SEB Elu- ja Pensionikindlustus. The association is aimed at raising and distributing funds for charitable cause to organisations, dealing with children, who have been deprived of parental care. Upon dissolution of the association, the assets remaining after satisfaction of the claims of creditors shall be transferred to a non-profit association or foundation with similar objectives, entered to the list of associations subject to income tax incentive of the Government of the Republic, or a legal person in public law, state or local government.

Non-profit association Spordiklubi United is an association, not belonging to the consolidation group, which started activitiy from September 2008. The association is found by AS SEB Pank. The assiotiation is aimed at organising on hobby and competition level sport events and organising promotions for advertising of own and supporter´s activities. Upon dissolution of the association, the assets shall be transferred to a non-profit association, foundation or other persons filling the objects by articles in public interests.

Changes in the consolidated group during the accounting period and plans for year 2009

In January HF Liisingu AS was liquidated, respective entry was made by Estonian Commercial Register on 31.01.2008.

In June was sold a subsidary JSC SEB Leasing (Russian entity), which was moved in SEB Group to direct ownership by SEB AB. In June also was sold ownership in the associate Pankade Kaardikeskus AS (card centre), (Note 21).

Recent volatility in global financial markets and impact on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets is described in Note 1.2. on page 16 and in Note 2 on pages 39-68. No such events or trends have occurred by the time of publishing the report, which would affect the strategy of the group in 2009.

1.2. Members of Management and Supervisory Board and shares held by them.

Members of the Management Board: Ahti Asmann, Paulius Tarbūnas, Kristoffer Lindberg, Erki Pugal, Riho Unt.

Members of the Supervisory Board: Bo Magnusson, Anders Arozin, Ainārs Ozols, Audrius Žiugžda, Ulf Pettersson.

The members of AS SEB Pank Management and Supervisory Board and their confidants, as well as the commercial undertakings controlled jointly or severally by the mentioned persons did not hold any shares of AS SEB Pank as of 31.12.2008.

1.3. Strategy and organisation

SEB Pank Group, a member of SEB Group, is an Estonian financial group that serves private individuals, companies and the public sector. The bank is a universal bank that offers its customers a wide range of financial services.

SEB Group is a North European financial group for corporate customers, institutions and private individuals with 750 branch offices in Sweden, Germany, the Baltic States, Poland, Russia and Ukraine. SEB Group has more than 5 million customers, of whom approximately 2.2 million use the Internet for their banking transactions.

SEB Pank Group brings the vision of the SEB Group, which is to be the leading bank in Northern Europe based on long-term customer relationships, competence and technology, to life.

The largest area of our operations is commercial banking and leasing. However, long-term saving products offered by retail banking, asset management and life insurance are with growing importance. Our operations are focused on Estonia. AS SEB Pank acts as a Centre of Excellence within the SEB Group for Asset Management activities concerning Eastern Europe.

More than 800,000 customers of SEB Pank Group are served by approximately 1550 employees. The customers are served through many different channels, including our 60 branches, 202 online post offices, 350 ATMs and 6129 POS terminals. There are more than 500,000 debit and credit cards in use. In addition, more than 65% of our customers use our U-Net and U-Net Business services.

Customer surveys during 2008 showed that we continue to have very satisfied customers. This is a key strength of our group, a strength that we are determined to maintain.

AS SEB Pank is 100% owned by Scandinavian Enskilda Banken (SEB AB), which is a financial group with a remarkable history of business. We receive a lot of support from our parent company and SEB group companies in providing our customers with even better services. In many product/service areas our owner is the strongest bank in the Nordic arena – expertise that we can draw on to serve our customers. In addition, we receive strong support in controlling and managing our risks – something that is especially important given our country's rapid development and the situation currently in the global financial markets.

2. Highlights

Efficiency and development

The number of the AS SEB Bank's active customers grew by 17,500 individuals and 2,000 companies in 2008.

Since 7 March 2008, AS SEB Eesti Ühispank has been rebranded and the bank now operates under the name AS SEB Pank.

In January, AS SEB Pank successfully launched SEPA payments, becoming the only bank in Estonia to be a direct member of the pan-European clearing system.

AS SEB Pank was the first bank in Estonia to gain approval from the Financial Supervisory Authority to use IRB (Internal Ratings Based Approach) and AMA (Advanced Measurement Approach) models for credit and operational risk management and measurement for capital requirements.

AS SEB Pank, along with other major banks in Estonia, successfully completed the sale of the card payment processing company Pankade Kaardikeskus AS (PKK) to Northern European Transaction Services (NETS), see Note 21.

SEB group and the leading international insurance company Genworth Financials launched Payment Protection Insurance for private borrowers, which allows their loan obligations to be fulfilled even in the event that they involuntarily become unemployed or temporarily incapacitated as a result of an accident or illness. 2000 clients made use of this opportunity in 2008.

Encouraged by the success of SME start packages, SEB group also launched package-based products for private individuals. In terms of pricing the more relevant banking products are free of charge for clients and there is just one fixed monthly fee instead of various bank charges. The packages have proven to be very popular and SEB group has attracted a number of new active customers; in fact 50% of package clients are completely new or previously passive clients. The packages have also boosted customer satisfaction since they make our banking services easier and simpler. By the end of 2008 more than 50,000 clients used package-based pricing.

SEB Estonia (AS SEB Pank and his subsidiaries in Estonia) introduced a new service concept in September with a relationship agreement called the SEB Pension Plan. This new concept is something we believe will differentiate us from our main competitors, as we are the only bank in Estonia that provides a systematic overview of pension investments in all three pillars. The SEB Pension Plan attracted 10,000 customers within four months.

In October SEB Estonia launched the new II pillar pension fund SEB Optimal Pension, which invests 75% of its assets in less risky instruments: bonds, money market instruments, deposits and other assets.

More than 10,000 pensioners opened an account in AS SEB Pank in Q4 in order to obtain their retirement pay through the bank. Previously they received their pension through post offices. AS SEB Pank offered them a special bank card which provides discounts in 185 pharmacies across Estonia operated by AS SEB Pank's partner Apteek1. The pharmacy discount bank card is the first of its kind in Estonia.

SEB Estonia has effectively increased its market share among companies which are starting up. More than half of all newly established companies started their business with AS SEB Pank in 2008.

Customer relations and customer satisfaction

AS SEB Pank ranked third in an image profile survey carried out in 2008 by TNS Emor in Estonia, up one position on the previous survey. The survey covered 66 major companies in the country and measured their image based on people's general attitude and perceived strength. The survey was conducted in April and was the eighth of its kind

The latest customer satisfaction poll conducted by TNS Emor revealed that despite a difficult year on the financial market and for the world economy, private and corporate customer satisfaction is still highest with AS SEB Pank. The fact that AS SEB Pank's customer relations are significantly stronger than the European average is also worthy of mentioning. Whereas in Europe the average customer satisfaction index for retail banking is 68, the corresponding index in AS SEB Pank is 77. 98% of our customers are satisfied with our services, and 93% would recommend AS SEB Pank and its services to their friends and family. Our customers feel that the bank's main strengths lie in staff competence; its ability to consider the customer's interests; appealing customer service; and the bank's good reputation.

The Banker, the global financial magazine published by the Financial Times publishing group, selected AS SEB Pank as the best bank in Estonia in 2008 – the second year in a row that AS SEB Pank received the award.

AS SEB Pank and AS SEB Enskilda were also recognised as the "Best Equity House in Estonia" by the pre-eminent international finance magazine Euromoney. The magazine highlighted AS SEB Enskilda's roles in Estonia in the IPO of Arco Vara for €83M in June 2007 as well as the groundbreaking listing of Trigon Agri. In conclusion, Euromoney noted that "of the three banks operating in the Estonian IPO market in the past 12 months – AS SEB Enskilda, Suprema and UniCredit – the first is clearly the market leader."

In early 2009 the world's leading magazine on securities services, Global Custodian, gave AS SEB Pank's Custody Services the highest possible rating on the Estonian market – Top Rated, based on customer satisfaction surveys in 2008.

Social responsibility and sponsorship

AS SEB Pank supports Estonia's leading business plan competition 'Ajujaht', which is designed to contribute to the creation of new knowledge-based companies and to boost the business skills of students and young scientists. 259 business ideas were submitted this year. These are transformed into business plans with the help of experts and perfected until the teams are ready to meet investors and take the idea to a successful launch. The competition will run until spring 2009.

In 2008 the MTÜ SEB Heategevusfond (Charity Fund) conducted several campaigns to raise money to support children without parental care. Since the foundation of the fund in 2006 almost 9 million kroons has been raised in support of children's shelters and safe houses all over Estonia. Our aim is to provide children who have no parental care with more equal opportunities, allowing them to feel that they are on the same level as peers raised in conventional families, to be active and to broaden their horizons. The bank provides the fund with two million kroons in support every year. To date over 6000 bank customers have joined us in our efforts and are making donations on a regular basis. The funds raised with the help of these good people have been used to organise various events for children – sports days, first aid courses, visits to the theatre and cinema and more. We have also distributed more than 1000 children's books and bought sports equipment.

3. Key Figures

	2008	2007
Net profit, EEKmio	766.4	2,026.5
Average equity, EEKmio	8,457.8	7,076.9
Return on equity (ROE), %	9.06	28.64
Average assets, EEKmio	86,625.7	79,553.0
Return on assets (ROA), %	0.88	2.55
Net interest income (excl. off-balance sheet transactions), EEKmio	1,873.3	1,601.7
Average interest earning assets, EEKmio	81,912.8	74,606.4
Net interest margin (NIM), %	2.29	2.15
Credit losses adjusted net interest income	1,119.4	1,430.4
Average interest earning assets, EEKmio	81,912.8	74,606.4
Credit losses adjusted net interest margin (%)	1.37	1.92
Interest income (excl. off-balance sheet transactions), EEKmio	4,993.4	4,157.5
Average interest earning assets, EEKmio	81,912.8	74,606.4
Yield on interest earning assets, %	6.10	5.57
Interest expenses (excl. off-balance sheet transactions), EEKmio	3,120.1	2,555.8
Average interest bearing liabilities, EEKmio	73,660.1	68,294.4
Cost of interest bearing liabilities, %	4.24	3.74
SPREAD, %	1.86	1.83
Cost / Income ratio, %	43.0	39.2
Impaired NPL / gross portfolio, %	2.35	0.38

Explanations

Return on equity (ROE) = Net profit / Average equity * 100

Average equity = (equity of annual year + equity of previous year) / 2

Return on assets (ROA) = Net profit / Average assets * 100

Average assets = (assets of annual year + assets of previous year) / 2

Net interest margin (NIM) = Net interest income (excl. off-balance sheet transactions) / Average interest earning assets * 100

Yield on interest earning assets = Interest income (excl. off-balance sheet transactions) / Average interest earning assets *100
Cost of interest bearing liabilities = Interest expenses (excl. off-balance sheet transactions) / Average interest bearing liabilities *100

SPREAD = Yield on interest earning assets - Cost of interest bearing liabilities

Cost / Income Ratio = Total Operating Expenses / Total Income * 100

Impaired NPL / gross portfolio = Impaired, non-performing loans, gross / Loans and advances to customers without allowances for doubtful debt * 100

Interest earning assets:
Balances with central bank
Loans and advances to credit institutions
Loans and advances to customers
(Financial assets held for trading + Financial assets at fair value through profit or loss + Available-for-sale financial assets) excl. shares and fund participations
(all without accured interests)

Interest bearing liabilities:
Due to credit institutions
Due to customers
Loan funds
Issued securities
Subordinated loans
(all without accured interests)

Total Operating Expenses:
Personnel expenses
Other expenses
Depreciation, amortization and impairment of tangible and intangible assets

Total Income:
Net Interest Income
Net fee and commission income
Net income from foreign exchange

Gains less losses from financial assets at fair value through profit or loss
Income from insurance activities
Income from dividends
Gains less losses from investment securities
Share of profit of associates
Other income

Assets quality

(millions of EEK)	**31.12.08**	**31.12.07**
Assets	85,096.4	88,155.0
Overdue loans and receivables*	1,826.8	401.7
Overdue / total assets, %	2.15%	0.46%
Allowances for losses on amounts due from customers and credit institutions	1,093.9	345.9

* this part of the loan principal that has become overdue

III. Consolidated Financial Statements

1. Consolidated Income Statement

(millions of EEK)	Note	2008	2007
Interest and similar income	3	*4,993.4*	*4,157.5*
Interest expenses and similar charges	4	*-3,120.1*	*-2,555.8*
Net Interest Income		1,873.3	1,601.7
Fee and commission income	5	*1,045.2*	*1,228.3*
Fee and commission expense	6	*-317.8*	*-393.2*
Net fee and commission income		727.4	835.1
Net income from foreign exchange	7	134.0	161.8
Gains less losses from financial assets at fair value through profit or loss	8	-198.3	47.7
Income from insurance activities	9	-44.6	74.2
Income from dividends		30.0	0.6
Gains less losses from investment securities	21	148.8	15.2
Share of profit of associates	21	1.6	10.8
Other income	1	13.4	549.3
Personnel expenses	11	-677.6	-690.4
Other expenses	12	-412.0	-350.4
Depreciation, amortization and impairment of tangible and intangible assets	22, 23	-65.0	-61.3
Profit before impairment losses on loans and advances		**1,531.0**	**2,194.3**
Impairment losses on loans and advances	13	-761.0	-152.4
Profit before income tax		**770.0**	**2,041.9**
Income tax	14	-3.6	-15.4
Net profit	15	**766.4**	**2,026.5**
Attributable to the sole equity holder		766.4	2,026.5
Earnings per share (EEK per share)	33	11.51	30.45
Diluted earnings per share (EEK per share)	33	11.51	30.45

The notes on pages 15 - 95 are integral part of these consolidated financial statements.

2. Consolidated Balance Sheet

(millions of EEK)	Note	31.12.08	31.12.07
ASSETS			
Cash		712.1	751.9
Balances with central bank	16	5,739.4	4,192.5
Loans and advances to credit institutions	17	6,026.6	5,436.8
Loans and advances to customers	18	69,619.0	71,989.0
Financial assets held for trading	19	399.2	527.1
Financial assets at fair value through profit or loss	19	1,043.3	1,461.8
Available-for-sale financial assets	19	412.4	66.2
Other assets	20	598.1	3,120.2
Deferred income tax assets	28	0.0	0.7
Investments in associates	21	9.2	53.7
Intangible assets	22	390.5	392.9
Property plant and equipment	23	146.6	162.2
TOTAL ASSETS		**85,096.4**	**88,155.0**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to credit institutions	24	35,776.4	35,410.1
Due to customers	25	35,006.2	35,889.0
Lending funds	26	129.9	144.0
Other liabilities	27	1,516.2	4,446.1
Deferred income tax liabilities	28	0.0	4.2
Issued debt securities	29	106.1	667.5
Financial liabilities at fair value through profit or loss	30	497.6	361.2
Provisions	31	611.2	527.0
Subordinated loans	32	2,620.9	2,622.3
Total Liabilities		**76,264.5**	**80,071.4**
Share capital	33	665.6	665.6
Share premium		1,346.6	1,346.6
Other reserves	35	318.9	332.9
Translation reserve		0.0	-0.8
Retained earnings		6,500.8	5,739.3
Total shareholders' equity		**8,831.9**	**8,083.6**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**85,096.4**	**88,155.0**

The notes on pages 15 - 95 are integral part of these consolidated financial statements.

3. Consolidated Cash Flow Statement

(millions of EEK)

	Note	2008	2007
I. Cash flows from operating activities			
Interest received		4,712.9	3,883.3
Interest paid		-2,529.9	-2,015.5
Dividends received		29.9	0.6
Fee and commission received	5	1,045.2	1,228.3
Net trading income and other operating income		-65.7	463.3
Personnel expenses and other operating expenses		-1,047.2	-1,001.9
Income taxes paid		-3.5	-15.4
Revaluation adjustments		-37.9	-12.2
Cash flows from operating profits before changes in the operating assets and liabilities		**2,103.8**	**2,530.5**
Changes in operating assets:			
Loans and advances to credit institutions		2,014.9	-1,646.2
Loans and advances to customers		1,231.1	-11,987.7
Other assets		740.6	-468.5
Changes of operating liabilities:			
Due to credit institutions		-2,169.5	10,015.5
Due to customers		-923.6	2,979.7
Lending funds		-14.2	29.5
Other liabilities		-710.9	462.5
Cash flow from operating activities		**2,272.2**	**1,915.3**
II. Cash flows from investing activities			
Purchase of investment portfolio securities		-1,901.9	-10,817.7
Proceeds from sale of investment portfolio securities		2,120.3	10,428.6
Proceeds from sale and liquidation of associates	21	46.1	0.0
Purchase of tangible and intangible assets	22, 23	-51.8	-94.9
Proceeds from sale of tangible and intangible assets	22, 23	4.8	10.1
Cash flow from (used in) investing activities		**217.5**	**-473.9**
III. Cash flows from financing activities			
Proceeds from debt securities (issuing)	29	250.1	615.6
Repurchasing and redemption of debt securities	29	-810.0	-234.7
Proceeds from subordinated loans	32	0.0	782.3
Cash flow from financing activities		**-559.9**	**1,163.2**
Net increase in cash and cash equivalents		**1,929.8**	**2,604.6**
Cash and cash equivalents at beginning of period		**10,219.9**	**7,601.5**
Effect of exchange rate changes on cash and cash equivalents		3.4	13.8
Cash and cash equivalents at end of period		**12,153.1**	**10,219.9**

Cash and cash equivalents includes:		**31.12.08**	**31.12.07**
Cash on hand		712.1	751.9
Balances with the central bank	16	5,730.4	4,181.0
Liquid deposits in other credit institutions	17	5,694.8	5,094.7
Trading portfolio	19	15.8	192.3
		12,153.1	**10,219.9**

All cash eqivalents are freely available for use by the Group with maturity of less than 3 months.

The notes on pages 15 - 95 are integral part of these consolidated financial statements.

4. Changes in Consolidated Shareholders' Equity

(millions of EEK)

	Share capital (Note 33)	Share premium	Other reserves (Note 35)	Translation reserve	Retained earnings	Total share-holders' equity
Year beginning 01.01.2007	**665.6**	**1,346.6**	**338.0**	**0.1**	**3,719.9**	**6,070.2**
Net change in available for sale financial	0.0	0.0	-8.4	0.0	-3.8	-12.2
Currency translation differences	0.0	0.0	0.0	-0.9	0.0	-0.9
Total recognised income for the year	**0.0**	**0.0**	**-8.4**	**-0.9**	**-3.8**	**-13.1**
Statutory reserve	0.0	0.0	3.3	0.0	-3.3	0.0
Profit for the year	0.0	0.0	0.0	0.0	2,026.5	2,026.5
Final balance 31.12.2007	**665.6**	**1,346.6**	**332.9**	**-0.8**	**5,739.3**	**8,083.6**

Year beginning 01.01.2008	**665.6**	**1,346.6**	**332.9**	**-0.8**	**5,739.3**	**8,083.6**
Net change in available for sale financial a	0.0	0.0	-16.9	0.0	-2.0	-18.9
Currency translation differences	0.0	0.0	0.0	0.8	0.0	0.8
Total recognised income for the year	**0.0**	**0.0**	**-16.9**	**0.8**	**-2.0**	**-18.1**
Statutory reserve	0.0	0.0	2.9	0.0	-2.9	0.0
Profit for the year	0.0	0.0	0.0	0.0	766.4	766.4
Final balance 31.12.2008	**665.6**	**1,346.6**	**318.9**	**0.0**	**6,500.8**	**8,831.9**

Overview of share capital and ownership of shares is presented in Note 33.

The notes on pages 15 - 95 are integral part of these consolidated financial statements.

Note 1

ACCOUNTING PRINCIPLES

AS SEB Pank (Reg. No. 10004252) is a credit institution registered in Tallinn (Estonia), Tornimäe Street 2, the sole shareholder of which is SEB AB, who is also the ultimate controlling party, registered in Sweden (Note 33).

As at the end of year 2008 SEB Pank Group employed 1 562 people (2007 1 663).

1.1. Basis of preparation

These consolidated financial statements of SEB Pank Group (the Group) are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared under the historical cost convention, except as disclosed in some of the accounting policies below (i.e. financial assets at fair value). Financial statements have been prepared according to accrual principle of accounting.

These consolidated financial statements have been prepared in millions of Estonian kroons.

When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts for the previous period are also reclassified, if not referred differently in specific accounting principle (Note 1.24).

Certain new standards, amendments and interpretations to existing standards have been published by the time of compiling these financial statements that are mandatory for the company's accounting periods beginning after 1 January 2008 or later periods. The overview of these standards and the Group management estimate of the potential impact of applying the new standards and interpretations is given at the end of this section (Note 1.25). Note 1.25 gives also overview of the new IFRS standards, amendements and interpretetions that became effective for the first time for these financial statements and their effect them.

1.2. Critical accounting estimates and judgments

The preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge and judgement of current events and actions, the actual outcome and the results ultimately may significantly differ from those estimates. More detailed overview of the estimates made is provided under accounting principles or disclosures set out below.

Critical estimates and judgement are specifically used in the following areas:

a) Impairment losses on loans and advances (Note 2.2)
b) Fair value of financial assets and liabilities (Note 2.8 and Note 19)
c) Impairment assessment for goodwill (Note 22)

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Recent volatility in global financial markets.

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Impact on customers/ borrowers.

Borrowers of the Group may be affected by the lower liquidity situation and deteriorated general business environment which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has put some industries under special observation has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on collateral (especially real estate).

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Estonia for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets.

Disappearance of an active market for quoted financial instruments**.**

As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for certain financial instrument quoted on capital and money market. Hence fair value as at 31.12.2008 of these instruments has been determined using a valuation technique. The objective of the valuation technique is to establish what the transaction price would have been on the reporting date in an arm's length exchange motivated by normal business considerations. Hence determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads. The valuation technique used by management to determine fair value of fixed income instruments was discounted cach flow analysis (Note 1.6.2, 1.6.3).

It is very complicated for management to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances."

1.3. Consolidation

These consolidated financial statements of the SEB Pank Group comprise of the financial statements of the parent company AS SEB Pank and its subsidiaries as at 31 December 2008. The subsidiaries being consolidated are listed on page 4 (See table 1.1).

In the group's consolidated financial statements, the financial statements of the parent bank and its subsidiaries have been combined on a line-by-line basis. Intra-group balances and intra-group transactions and unrealised gains on transactions between group companies have been eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. All the subsidiaries that are controlled by AS SEB Pank have been consolidated. The accounts of the subsidiaries used for consolidation have been prepared in conformity with the accounting principles of the parent company.

Subsidiaries

Subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly, more than 50% of the voting power of an enterprise or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases to exist.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. According to the purchase method all the identifiable assets and liabilities of the subsidiary acquired are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest, and the excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (Note 1.8). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Revenues and expenses of the subsidiaries acquired within the financial year are consolidated into the Group income statement starting from the date of acquisition to the end of the financial year. Result of operations of subsidiaries disposed of during the year is consolidated into Group income statement from the beginning of the financial year until the date of disposal.

Associates

Associate is an entity over which the Group has significant influence, but which it does not control. Generally, significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights.

Investments in associates are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 1.8). Investments in associates are accounted for under the equity method of accounting. Under this method, the investment in Group financial statements is increased by the share of post-acquisition profit and reduced by the share of loss or distribution of profit received from the associated company and attributable to the Group and any goodwill impairment. The Group's share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Parent company separate financial statements – primary statements
In the parent separate primary financial statements, disclosed to these consolidated financial statements (see Note 40), the investments into the shares of subsidiaries and associated companies are accounted for at cost less any impairment recognized.

1.4. Foreign currency transactions and assets and liabilities denominated in a foreign currency

Functional currency
The financial statements of the Group companies have been prepared using the currency (*functional currency*) which best reflects the company's economic environment. The consolidated financial statements have been presented in Estonian kroons, which is also the functional currency of the parent company.

Foreign currency transactions
Foreign currency transactions have been recorded based on foreign currency exchange rates of the Bank of Estonia (Central Bank) prevailing on the transaction dates. In the case of differences in the transfer of cash (i.e. settlement) and exchange rates prevailing on the transaction date, the exchange rate differences are recorded in the income statement under the line "Net income from foreign exchange" .

Assets and liabilities denominated in foreign currencies
Monetary assets and liabilities and non-monetary assets and liabilities valued at fair value and denominated in foreign currencies have been translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing on the balance sheet date. Gains and losses on translation form monetary assets and liabilities are recorded in the income statement under the line "Net income from foreign exchange". Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss as "Net income from foreign exchange", and other changes in the carrying amount are recognised in fair value reserve in equity. Translation differences on non-monetary items,

such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss on line "Gains less losses from financial assets at fair value through profit or loss". Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency. Income statements and cash flows of foreign entities are translated into Estonian kroons at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions) for the year and their balance sheets are translated at the exchange rates ruling on 31 December, the balance sheet date. Unrealised exchange differences arising from the translation are taken to a separate account in shareholders' equity. When a foreign entity is sold (or part of it is sold), such exchange differences are recognised in the income statement as part of the gain or loss on sale.

1.5. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are cash at hand, available for use deposits due from Central Bank and readily available deposits in other credit institutions and also less than 3-month maturity liquid securities acquired for trading purpose or decided to be recognized at fair value through profit or loss at inception.

1.6. Financial assets

Financial assets are any assets that are cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable or an equity instrument of another enterprise. The Group classifies its financial assets in the following categories:

1.6.1. loans and receivables,

1.6.2. financial assets at fair value through profit or loss,

1.6.3. available for sale financial assets.

Management determines the classification of its investments at initial recognition.

The Group has not classified any financial assets to the Group "held to maturity".

1.6.1. Loans and receivables

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the resulting receivable.

Loans and receivables are recognized in the balance sheet when the cash is paid to the borrower or right to demand payment has arisen and are derecognized only when they are repaid or written-off, regardless of the fact that part of them may be recognized as costs through providing allowances for loans. The loan allowances are presented on the respective balance sheet line at negative value. Loans have been recognized in the balance sheet at amortized cost using the effective interest rate method. Accrued interest on the loans and not yet collected is recorded in the respective balance sheet line. For overdrafts and credit cards, the actual use of the limit by the borrower is stated in the balance sheet. The unused credit limit is recognized as contingent (off-balance sheet) commitment.

Repurchase agreements

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Leasing receivables

Financial lease claims include receivables from financial lease, consumer factoring and installment sale and agreements of payments. A financial lease is a lease transaction where all major risks and rights deriving from the use of the leased assets are transferred from the leasing firm to the lessee. Legal ownership to the property may be transferred to the lessee at the end of the lease period.

The receivables from the financial lease agreements are recognized in net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and financial income. Financial income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Initial service fees collected at issuance are included into the calculation of effective interest rate and lessor's net investment. Lessor's direct expenses, related to the contract, are part of effective interest rate and are booked as decrease of leasing income over the period of leasing contract. Allowances for lease receivables are presented on the respective balance sheet line at negative value.

The lease receivable to the client is recognized in the balance sheet as of the moment of delivering the assets being the object of the agreement to the client. In case of transactions, in which the assets being the object of the agreement having a long delivery term have not yet been delivered to the client, the payments received from the lessees under these agreements are recognized in the balance sheet as prepayments of buyers under "accrued expenses and deferred income". The amounts paid by the leasing firm for the assets under lease agreements not yet delivered are recognized in the balance sheet as prepayments to suppliers under "accrued income and prepaid expenses".

Factoring and warehouse receipt financing receivables

Factoring transactions are considered to be financing transactions where the leasing firm provides the financial resources to its selling partners through transfer of the rights to the receivables from these sales transactions. The leasing firm acquires the right for the receivables payable by the buyer subject to the sales contract.

Factoring is the transfer of receivables. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable (non-recourse factoring) or retains the right to transfer the risks and rewards back to the seller during a pre-specified term (recourse factoring). Transaction is booked as financing in case the leasing company does not own all the rights related to claim. The claim is booked in balance until payment is received or recourse is expired. If contract does not include seller´s guarantee and leasing company acquires control of all rights at the moment of selling the claim, the transactions is booked as acquire of claim in fair value. Later on it is booked in acquisition cost. Derecognition of factoring assets and liabilities follows the regulation in IAS 39 and the assessment is made based on each specific agreement type and status.

Warehouse receipt financing transactions are financing transactions, where the lease firm finances its partners, by granting them a loan against pledged stock reserves.

Factoring and warehouse receipt financing receivables are recorded in the balance sheet at amortised cost, from which the payments of principal claim collected have been deducted. Allowances for factoring receivables are presented on the respective balance sheet line at negative value. The receivable to the client is recognised as of the moment of factoring the purchase-sale agreement, i.e. as of assuming the receivable.

Valuation of loans and receivables

The Group assesses consistently whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For valuation of loans and receivables several risks are prudently considered. AS SEB Pank introduced a customer rating system for evaluating corporate loans, corresponding to the principles used in SEB AB, the parent bank of AS SEB Pank. Valuation of the customer receivables is based on the client’s company’s financial position, situation of the industry, trustworthiness of the borrower, competence of the management of the client, timely fulfillment of contractual obligations and other factors, all of which together help to assess the value of the receivable and the amount of incurred loss in the portfolio of loans. Valuation of loans to private individuals is based on timely fulfillment of contractual obligations, solvency and collateral, age, educational status, length of employment, saving practices and other factors, affecting the credit risk.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For assessment of loan losses, the expected collections from the loan and interest payments over the coming periods are considered, as well as expected collections and anticipated proceeds from the realization of collateral, discounted at the financial asset's original effective interest rate (excluding future credit losses that have not been incurred), which together form a recoverable amount of the loan and help to assess the amount of loss incurred of the loan. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (recoverable amount). For these assessed incurred loan losses, the relevant allowance has been established. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Specific and collective (based on incurred loss estimation on the group basis) allowances are provided for individually assessed loans, and group based allowances for homogenous loan groups.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in "Impairment losses on loans and advances".

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as normal loans.

More detailed overview of the credit risk management principles is given in Note 2 "Risk policy and management" (see page 39).

Interest income on loans is presented on the income statement under "Interest and similar income".

1.6.2. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include:
• financial assets held for trading
• financial assets designated at fair value through profit or loss at inception

Financial assets held for trading
This group of financial assets includes securities acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and derivatives.

Securities acquired or incurred principally for the purpose of selling or repurchasing in the near term
This group includes shares and bonds acquired for trading purpose. Trading securities are initially recognised at fair value excluding transaction costs on the trade date and are subsequently presented in fair value.

The fair value of held for trading securities quoted on an active market are based on current mid prices, because trading portfolio is maintained only to enable client trading and assets and liabilities to have an offsetting market risk.

The shares and debt securities not actively traded on an active market are valued in fair value according to the last quotation from an acknowledged provider with a presumption that there have been regular quotations available for the shares/debt securities and the price volatility has been in normal range for similar instruments. If the price is not available from quotations or there is no sufficient regularity of the quotations or the volatility of the instrument price quotations is outside the normal range, the shares/debt securities are revaluated into fair value based on all available information regarding the issuer to benchmark the financial instrument price against similar instruments available on active market to determine the fair value. For held for trading debt securities, for which the quoted prices from an active market are not available, cash flows are discounted at market interest rates, issuer's risk added. For fund participations (units) NAV bid quotation is used for fair value assessment.

In any case, if the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

The unrealized and realized result of the trading securities is recorded in income statement under "Gains less losses from financial assets at fair value through profit or loss ".

Dividend income from financial assets that are classified as held for trading, is recognised in income statement on line "Gains less losses from financial assets at fair value through profit or loss" when the entity's right to receive payment is established.

Derivatives
Derivatives (forward-, swap- and option transactions) are initially recognised at fair value excluding transaction costs on the trade date and are subsequently presented at fair value. If derivatives are quoted on an active market, market value is used as a fair value. If not, the valuation techniques are used to find the fair value.

These transactions are booked in balance sheet as assets, if their fair value is positive and as liabilities, if the fair value is negative. The fair values of derivative assets and liabilities recorded in balance sheet are not netted. The Group does not apply hedge accounting principles for the accounting of derivative financial instruments.
In valuation of currency derivatives (excl. currency options), future cash flows are discounted using market interest rates. Currency and equity options are revalued to market value, if active market exists. If a reliable market value can not be obtained, the fair value of options is calculated by using the Black-Scholes model.

Currency forward and swap transactions are valued by discounting future cash flows using market interest rate. Respective interest income and the realized profit and unrealized gain/loss from the revaluation of derivatives is recorded in the income statement under "Gains less losses from financial assets at fair value through profit or loss".

Financial assets designated at fair value through profit or loss at inception
In this class of securities are classified securities where the company has upon initial recognition designated the securities to be recorded as at fair value through profit or loss and as a result the changes in the fair value of these securities are consistently recognized in the profit or loss of the reporting period. In the current reporting period this class of securities included the portfolio of investments acquired and held to cover the insurance and investment contracts concluded by the life insurance company belonging to the group. The realized and unrealized result from the revaluation of these securities is recorded in the income statement under “Income from insurance activities”.

Interest income on these instruments are recognised in income statement under “Interest and similar income”. The realized and unrealized result from the revaluation of these securities is recorded in the income statement under “Gains less losses from financial assets at fair value through profit or loss”.

1.6.3. Available-for-sale financial assets

Securities are classified as available-for-sale financial assets, if they do not belong to one of the aforementioned categories: financial assets held for trading or other financial assets designated at fair value through profit or loss. Available-for-sale investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices; or investments with strategic purpose for long-term holding.

Available-for-sale financial assets are recorded at fair value plus transaction costs on their settlement date. Subsequently they are carried at fair value. If the assessment of fair value is not reliable, the securities will be presented at amortized cost (i.e. original acquisition cost less possible write-downs for impairment). The gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity under “revaluation reserve”.

The Group assesses consistently whether there is objective evidence that a financial asset available-for-sale is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. Debt instrument is considered to be impaired when there is a change in expected cash flows to be collected from the instrument. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

When the financial asset is derecognized the cumulative gain previously recognized in equity on that specific instrument is to the extent reversed from equity and the remaining portion is recognized in income statement under "Gains less losses from investment securities".

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity’s right to receive payment is established.

1.7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only, when there is a legally enforceable right to offset and there is an intention to settle on net basis or realize the asset and settle the liability simultaneously.

1.8. Tangible and intangible assets other than goodwill

Land, buildings, IT equipment, office equipment and other assets of long-term use are recognized in the balance sheet as tangible non-current assets. Intangible assets are identifiable, non-monetary assets without physical substance and currently comprise of acquired software.

Tangible non-current assets and intangible assets are initially recognised at acquisition cost, consisting of the purchase price, nonrefundable taxes and other direct costs related to taking the asset into use.

The subseguent expenditure of an item of property, plant and equipment shall be recognised as an asset if these are in accordance with definiton of fixed assets and if it is probable that future economic benefits associated with the item will flow to the entity All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Tangible non-current assets and intangible assets with finite useful lives are subsequently stated at historical cost less depreciation/amortization and any impairment losses. Depreciation/amortization is calculated starting from the month of acquisition until the carrying value reaches the residual value of the asset or if that is considered being insignificant the asset is fully depreciated. For assets having a substantial residual value, only the difference between the acquisition cost and the residual value is depreciated to expense over the useful lifetime of the asset. Assets are depreciated/amortized on straight-line-basis.

Depreciation/amortization calculation is based on useful life of the asset, which serves as basis for forming the depreciation/amortization rates. Buildings are depreciated over 20-50 years, intangible assets with limited lifetime are amortized over 3-5 years, and other non-current tangible assets are depreciated over 3-7 years. Land is not depreciated and intangible assets with indefinite useful life are not amortized. The appropriateness of depreciation/amortization rates, methods and residual values are each reporting date assessed.

Depreciation, amortization and impairment is recorded in the income statement under "Depreciation, amortization and impairment losses of tangible and intangible assets".

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income / expenses in the income statement.

<u>Capitalization of expenses</u>
Reconstruction expenditures of bank offices are capitalized as tangible assets and are subsequently charged to the income statement on a straight-line basis over five years (termless contracts) or over the period of the lease.

<u>Development Costs</u>
Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Advertising expenses and the expenses for launching of new products, services and processes are recognized as an expense as incurred. Expenditures related to trademarks etc., developed by the company itself, are also recorded as expense as incurred.

1.9. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets acquired at the date of acquisition, reflecting the part of the acquisition cost that was paid for the assets that are not separately identifiable for the balance sheet purposes. Goodwill acquired from acquisition of a subsidiary is recorded in balance sheet as an intangible asset on a separate line. Goodwill acquired from acquisition of an associate is included in the cost of an associate in the balance sheet. (Note 1.3.)

Goodwill is recorded in the balance sheet at the date of acquisition. Subsequently goodwill is recorded in its historical cost less any impairment losses recognized. Goodwill arising from business combinations is not depreciated. Goodwill is instead tested annually (or more frequently if events or changes in circumstances indicate that the impairment may have incurred) for impairment by comparing the carrying amount of the goodwill to its recoverable amount. Goodwill is allocated to cash-generating units for the purpose of impairment testing and the recoverable amount is determined by discounting the expected cash flows of the relevant cash generating unit. An impairment loss is recognized for the amount by which the carrying amount of the goodwill exceeds its recoverable amount.
Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1.10. Non-financial assets held for sale

Assets held for sale are tangible or intangible assets, for which the management has commenced active sales activities and the assets are offered for sale at a reasonable price compared to their fair value, and where it is reasonably expected that these assets will be disposed within 12 months.

Assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is expected to be recovered principally through a sale transaction rather than through a continuing use.

Depreciation calculation is terminated for the assets held for sale. Assets held for sale are recorded in balance sheet under “other assets”.

1.11. Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortization and are tested annually for impairment, comparing the carrying value of the asset to its recoverable value. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In such circumstances the recoverable value of the asset is assessed and compared to its carrying value. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.12. Leases – the group is the lessee

Leases of assets where the lessee acquires substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the repayment of a liability and finance charges (interest expense). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period (effective interest rate method). Tangible non-current assets acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.

Operating lease payments are recognised in income statement as expense over the rental period on straight line basis. The Group uses operating lease mainly for renting the buildings / premises. Rental expense is recognized in income statement as “other expenses”.

1.13. Financial liabilities

Customer Deposits
Deposits are recognized in the balance sheet on their settlement date at fair value net of transaction costs and are subsequently measured at amortized cost using effective interest rate method and recorded on line “due to customers”, accrued interests is presented under a respective line in liabilities. Interest expenses are recorded in the income statement under "Interest expenses and similar charges".

Borrowings and issued securities
Borrowings and issued securities are recognized initially at fair value net of transaction costs (the proceeds received, net of transaction costs incurred). Borrowings and issued securities are subsequently stated at amortized cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the instrument using effective interest rate.

The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortization of the transaction costs is presented in the income statement together with the interest expenses. The respective interest expenses are recorded in the income statement under "Interest expenses and similar charges".

In case there is an unused limit for any borrowings, this is presented as contingent asset.

Financial liabilities of an investment contract
The life insurance company issues two types of investment contracts: unit-linked investment contracts and investment contracts with guaranteed interest.

Unit-linked investment contracts are financial liabilities, the fair value of which depends on certain underlying financial asset. The financial liabilities of unit-linked contracts are at their initial recognition classified into group “at fair value through profit or loss”. The company has classified the said liabilities into the group “at fair value through profit or loss”, since this eliminates or reduces significantly the asset and liability mismatch, which would occur, if profit and loss from the given assets and liabilities are calculated based on different principles.

For investment contracts with guaranteed interest, the amortized cost method is used for measurement. The financial liability comprises payments received from contracts and interest credited to the contracts, less administration fees and risk covers accounted for the past period. The annual guaranteed interest rate on these contracts remains between 3% and 4%, depending on the type of contract, time of conclusion and the currency of the specific contract. Depending on the type of contract, the interest rate is guaranteed either until maturity or for 5 years from conclusion of the contract, thereafter it may be adjusted. The financial liability also includes the amounts of bonuses assigned to the policyholders for the previous accounting years and estimated bonuses for reporting year.

1.14. Embedded derivatives

Embedded derivatives are usually separated from the host contract and accounted for in the same way as other derivatives (Note 1.6.2.). Embedded derivatives are not separated, if their economic characteristics and risks are closely related to the economic characteristics and risks of the host contract. However, in some circumstances also not closely related embedded derivatives may be not separated.

Some combined instruments (for example structured bonds), i.e. contracts that contain one or more embedded derivatives, are classified as a financial asset or financial liability at fair value through profit or loss. This choice means that the whole combined instrument is valued at fair value and that changes in fair value are recognized in profit or loss.

Other type of combined instruments (for example index linked deposits) are separated, so that host contract is recognised as deposit and measured at amortised cost using effective interest rate method, and embedded derivatives are recognised and measured at fair value.

1.15. Financial Guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, companies and other bodies on behalf of customers to secure loans, other banking facilities and liabilities to other parties.

Financial guarantees are initially recognised in the financial statements at fair value (contract value) on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are recognized at the outstanding value of guarantee. In the income statement the fee income earned on a guarantee is recognised straight line basis over the life of the guarantee. The amounts disbursed to settle the guarantee obligation are recognized in the balance sheet on the date it becomes evident that the guarantee is to be disbursed.

1.16. Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows.

When it is probable that the provision is expected to realise later than 12 months after the balance sheet date it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial. Expense from provisions and from change in carrying value of provisions is recorded in the income statement for the period.
Liabilities from insurance contracts

Liability from insurance contracts consists of life insurance technical provision, bonus provision and provision for outstanding claims.

Life insurance provision
Life insurance provision in the balance sheet includes liabilities from insurance contracts to the policyholders calculated on basis of actuarial methods, and the unearned premiums' provision arising from transfer of the risk premium to the following accounting periods. The provision is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions. The annual interest rate on these contracts remains between 2.5% and 4%, depending on the type of contract, time of conclusion and the currency of the specific contract. Acquisition costs are not deferred under the life insurance provision. As a result, provisions with negative value are not reported in balance sheet and the profit from the insurance contracts is earned and recognised in the statements over the term of the insurance contract. The life insurance provision includes also the amounts of bonuses assigned to the policyholders for the former contract years.

Bonus provision
Bonus provision for insurance contracts includes amounts, which are based on the decision of management allocated to the insurance contracts in the reporting period and on the account of which the life insurance provisions or financial liabilities will be increased or bonus disbursements made to the clients in the following reporting periods.

Provision for outstanding claims
Provision for outstanding claims equals the amount that covers the estimated costs related to the disbursement or insured amounts and indemnities of insurance contracts, which arose from insured events or cancellation of insurance contracts that the insurer was notified of before the balance sheet date and relating to insured events that occurred before the balance sheet date, but that were the insurer was not notified of by the balance sheet date. Claims, reported before the balance sheet date, are assessed on an individual basis. The provision for claims, which are incurred but not reported, is calculated using a statistical estimate based on prior experience related to a time difference between the date of reporting and the date of incurring the claims.

Liability adequacy test
At each balance sheet date, a liability adequacy test is performed to ensure the adequacy of liabilities net of related deferred acquisition costs arising from insurance contracts. In a liability adequacy test, the current best estimate of future contractual cash flows and

claims handling and administration expenses, as well as expected investment return on assets backing such liabilities, are used,. Any deficiency is recognised in profit or loss by writing off deferred acquisition costs and subsequently establishing a provision for losses arising from the liability adequacy test (provision for unexpired risks). Any deferred acquisition costs written off as a result of this test cannot subsequently be reinstated.

1.17. Classification and accounting principles of life insurance contracts

According to International Financial Reporting Standard IFRS 4, the contracts concluded by the life insurance company with its clients are classified as insurance contracts or investment contracts

For the purpose of IFRS 4, all contracts, which transfer significant insurance risk within the scope of IFRS 4 and under which the company takes a significant insurance risk, agreeing to pay the benefits on the occurrence of insured event are classified as insurance contracts. Such contracts may also transfer financial risk.

As a general rule, an insurance risk is considered to be significant, when the possibility of having to pay benefits on the occurrence of an insured event is at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk

<u>Revenue recognition</u>
Premiums for insurance contracts are recognized as revenue when they are paid by the policyholders. For contracts where insurance risk premiums in a period are intended to cover the claims in that period, those premiums are recognized proportionally over the period of coverage.

Amounts received from and paid to the policyholders of investment contracts are accounted for as deposits received or repaid. Fees charged for managing investment contracts are recognized as revenue. These services are provided equally over the lifetime of a contract.

<u>Recognition of costs</u>
Costs for insurance contracts are recognized as an expense when incurred, with the exception of commissions and other acquisition costs that are directly related to acquisition of new contracts or renewing existing contracts. These are capitalized as deferred acquisition costs (Note 1.18). Insurance claims are recognized as expense when incurred.

Incremental costs directly attributable to securing an investment contract are deferred (Note 1.18.). All other costs of investment contracts, such as non-incremental acquisition costs or maintenance costs, are recognized in the accounting period in which they arise.

1.18. Capitalisation of acquisition costs

Acquisition costs of insurance contracts, which are related to securing new contracts are capitalised as an intangible asset. Only direct acquisition costs, like the performance based salary paid for concluding the contracts and commission fees of contracts are capitalised. Calculation is performed on the contractual basis and only for the insurance contracts, where the payment frequency is more than once a year. Depreciation of deferred acquisition costs is on straight-line basis, within period of two months to one year depending on the type of insurance contract. The depreciation period is shorter than the average life of contracts, since calculation of insurance technical provisions under insurance contracts is based on zillmerizing. Other acquisition costs are recognized as expenses when incurred.

1.19. Revenue recognition

Interest income and expense
Interest income and expense is recognized in income statement for all interest-bearing financial instruments carried at amortized cost using the effective interest rate method. Interest income includes also similar income on interest bearing financial instruments classified at fair value through profit or loss (i.e. traded bonds, etc).

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all significant fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income
Revenue is recognised in the fair value of the consideration received or receivable for the services provided in the ordinary course of the Group's activities. Fees and commissions are generally recognized on an accrual basis when the service has been provided. Credit issuance fees for loans/leases that, are deferred and recognized as an adjustment to the effective interest rate on the credit. Portfolio management and other advisory service fees, as well as wealth management and custody service fees are recognized based on the applicable service contracts, usually on an accrual basis. Asset management fees related to management of investment funds are recognized over the period the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

Other transaction fee income and other income are recognized on accrual basis at the moment of executing the respective transactions.

1.20. Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

1.21. Recognition of day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (ie, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Profits on day one can be recognized when a valuation technique is used whose variables include data from observable markets. In other circumstances the day one profit is deferred over the life of transaction.
The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument´ s fair value can be determined using market observable inputs, or realised through settlement. The financial instrument (separated embedded derivative) is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognized immediately in the income statement without reversal of deferred day one profits and losses.

1.22. Taxation

<u>Corporate income tax</u>
According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the taxation at the rate of 21/79 (until 31.12.2007: 22/78) on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid

<u>Corporate income tax of foreign subsidiaries</u>
Profits earned by foreign subsidiaries, adjusted with temporary and permanent differences between the tax bases of assets and liabilities and their carrying values in the balance sheet, are subject to corporate income tax. The tax rate applicable to JSC SEB Leasing belonging until 30.06.2008 to the SEB Pank Group and registered in Russia is 24% from taxable income.

<u>Deferred income tax</u>
Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. Deferred income tax is determined

using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Main temporary differences arise from different treatment of FX translation gains/losses for accounting and taxation purposes, depreciation of fixed assets and tax losses carried forward. Deferred tax assets are recognized in the balance sheet only if their realization is probable.

1.23. Fiduciary activities

The Group provides asset management services and offers fund management services. The assets owned by third parties, but managed by the Group, and income arising thereon, are excluded from these financial statements, as they are not assets of the Group.

1.24. Changes in the presentation of items of income statement and balance sheet

Some changes were made in the presentation of items of income statement and balance sheet comparing to the annual report 2007.

On the assets side are separately recorded “Financial assets held for trading”, “Financial assets designated at fair value through profit or loss”, “Available-for-sale financial assets”, which were recorded in the one balance sheet line “Securities” in 2007. Derivatives are recorded in the line „Financial assets held for trading”, which were recorded in the balance sheet line „Other assets“ in 2007.
On the liability side are separately recorded “Issued debt securities”, “Financial liabilities designated at fair value through profit or loss”, which were recorded in the one balance sheet line “Issued debt securities” in 2007. Derivatives are recorded on the line “Financial liabilities designated at fair value through profit or loss”, which were recorded in the balance sheet line”Other liabilities” in 2007. Breakdown of the balances was desribed in Notes to the financial statement in 2007.

Assets		adjusted		balances
(millions of EEK)	**31.12.08**	**31.12.07**	change	**31.12.07**
Securities	0.0	0.0	-2,055.1	2,055.1
Financial assets held for trading	399.2	527.1	+527.1	0.0
Financial assets at fair value through profit or loss	1,043.3	1,461.8	+1461.8	0.0
Available-for-sale financial assets	412.4	66.2	+66.2	0.0

Liabilities		adjusted		balances
(millions of EEK)	**31.12.08**	**31.12.07**	change	**31.12.07**
Other liabilities	1,516.2	4,446.1	-324.2	4,770.3
Issued debt securities	106.1	667.5	-37.0	704.5
Financial liabilities at fair value through profit or loss	497.6	361.2	+361.2	0.0

1.25. New International Financial Reporting Standards, amendments to published standards and interpretations by the International Financial Reporting Interpretations Committee.

Standards, amendments to published standards and interpretations mandatory for the Group's accounting periods beginning on or after 1 January 2008.

IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. This interpretation does not have an impact on the Group's financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The Group has not elected to make any of the optional reclassifications during the period; as such, this amendment has no impact on the Group's financial statements

New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted, but which may have significnt impact on the financial statement of the group in future.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group does expect IFRS 8 to have a affect the financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to the standard to have a material effect on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

<u>The Group has not early adopted the following other new standards or interpretations, which will not have significant impact on the group financial statements in the future.</u>

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009; not endorsed by EU). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. The Group does not expect the amended standard to effect on its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. The Group does not expect the amendment to effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009; not endorsed by EU). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008; not endorsed by EU). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. The Group does not expect the interpretation to affect its financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 EU's endorsement: effective for annual periods beginning after 31 December 2008, early adoption permitted).). IFRIC 13 clarifies that when goods or services are sold together with a customer loyalty incentive the consideration received is to be allocated between the components using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008; EU's endorsement: effective for annual periods beginning after 31 December 2008, early adoption permitted) The Interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The Group does not expect the interpretation to affect its financial statements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; not endorsed by EU). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008; not endorsed by EU). The interpretation explains which currency risk exposures are eligible for hedge accounting. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009; not endorsed by EU). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009; not endorsed by EU). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; not endorsed by EU). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; not endorsed by EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

2. Risk policy and management

2.1. Risk policy and structure

In providing its customers with financial solutions and products AS SEB Pank assumes various risks that must be managed. The ability of the organisation to identify, measure and control different risks, while maintaining an adequate capitalisation to meet unforeseen events, is an important input for the profitability of the entire Group. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

AS SEB Pank defines risk as the possibility of a negative deviation from an expected financial outcome. Risk management includes all activities relating to risk-taking, risk mitigation, risk analysis, risk control and follow-up. Independent risk control comprises the identification, measurement, monitoring, stress testing, analysis, reporting and follow-up of risks, separate from the risk-taking functions.

The Group's risk management policies are designed to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Management Board is responsible for establishing the main principles for management, control and co-ordination of all risks of AS SEB Pank and to decide on the limits for the various risks. Subordinated to the Management Board are established different committees with mandates to make decisions depending upon the type of risk. The Assets and Liabilities Committee (ALCO) plays the central role in risk management, approving of risk procedures, dealing with issues relating to the overall risk level and deciding and monitoring of various risk limits.

Risk management and control is always a prioritised area for the Group, continuously under development. During last years, the main development focus of risk management has been related with implementation of Basel II capital adequacy rules: continuous improvement of Internal Rating Based (IRB) credit risk assessment models, improvement of operational risk measurement and management framework. In 2008 AS SEB Pank received approval from the supervisory authorities to apply the internal models - IRB approach for reporting credit risk capital requirement and Advanced Measurement Approach (AMA) for reporting operational risk capital requirement. During 2008 other most important changes and developments were appointing risk managers in the business units to strengthen the risk management and monitoring function close to business so to have the most effect from it and updating New Product Approval Process.

2.2. Credit risk

Assets open to credit risk are receivables from customers, receivables from credit institutions and debt securities and derivatives. Credit risk is a potential loss that may occur in case of improper fulfilment or non-compliance of the client with the contractual obligations as a result of failure of the client's business operations or other factors.

The principles for measuring and taking credit risk are established with the SEB Pank Group credit policy.

The principles of credit policy are the following:
a) lending should be in line with credit policy;
b) lending should be based upon analysis;
c) the basis of all lending activity is credibility;
d) the purpose of the credit should be fully understood;
e) lending must be in proportion to the capacity to repay;
f) borrower should have an identified source of repayment and also a secondary source for repaying the loan;
g) the own (equity) investment of the borrower must be significant in relationship to the loan;
h) lending activity shall take into account any potential adverse effects in the business cycle;
i) lending shall be in line with the bank's profit goals.

Credit risk analysis related to a certain client involves several different activities, like evaluation of the risk of the borrower's background, structure, management and owner, industry and position of the borrower in that industry, economic environment and position of the borrower, analysis and evaluation of the business plan and submitted cash flow prognosis; evaluation of the reputation, reliability and credit history of the client. Deciding on the risk taking is performed collegially by credit committees and by the authorised persons in accordance with the decision-making limits established by the bank's management.

Deciding on the risk taking in debt securities is part of general credit decision making process. Limit for investing into certain issuer's debt securities has to be approved by relevant credit committee or by the authorised persons. Credit risk management in AS SEB Elu- ja Pensionikindlustus is described in chapter 2.2.1. Normally AS SEB Pank is not taking investment positions, including credit risk bearing positions, excluding limited volume of trading portfolio, which is regulated by trading portfolio total limit established by ALCO. As of end 2008 the Group has extraordinary investment position from taking over assets of liquidity fund (see Note 8), which Group is planning to liquidate within reasonable time horizon.

Credit risk measurement

The prime credit risk measure of AS SEB Pank is defined as the maximum potential loss over a certain time horizon at a certain level of confidence. Credit risk is being quantified monthly using the following components Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD) or the aggregate measure Risk Weighted Assets (RWA).

Having estimated PD, EAD and LGD it is possible to calculate expected loss and unexpected loss. Expected loss (EL) can be interpreted as the "normal level" of credit losses and shall be considered as a cost of doing business from a risk point of view. Thus it shall be covered through transaction pricing and risk reserves. Appropriate efforts shall be made to minimise expected losses through ensuring sound internal practices and good internal controls. Unexpected losses (UL) are commonly referred to as the unusual and large credit losses and are not foreseen to be completely absorbed by day to day transaction profits. The primary protections against such losses are sound internal practices, good internal controls, insurance policies and earnings. The last loss-absorbing resource for unexpected losses is the capital of AS SEB Pank.

PD is a measure of probability of default of a given counterparty risk class during the next year, through it's risk classification, pooling or rating. LGD is an estimate, expressed as a fraction of EAD, of the expected amount of loss in case of counterparty default. The LGD estimates used differ among other things on if it is a secured or unsecured exposure, type of collateral and seniority of the exposure. EAD is defined as the expected outstanding liability of the counterparty at the time of default both on- and off-balance sheet exposures. Conceptually EAD consists of two parts, the current exposure and an estimate of potential future exposure. Estimation of potential future drawdowns of available but unused credit commitments are known as credit conversion factors (CCFs). Since the CCF is the only random or uncertain portion of EAD, estimating EAD amounts to estimating these CCFs.

Credit risks are mainly measured on two levels – on portfolio and exposure level.

For verifying the loan portfolio's exposure to credit risk, AS SEB Pank uses a portfolio diversification method. The division of financial obligations is monitored by different client segments, products, clients and industries. The Credit Area performs monthly analysis on the credit risk of loan portfolio and informs the bank's managing bodies of the results. These results are discussed as well as any need for specific attention to or specific analysis for any identified issues.

In respect to individual clients the bank prepares regular (annual, quarterly or if needed more often) analyses on the borrowers' situation as well as their risk level. The analyses are based on annual and quarterly reports, on basis of which the financial situation is evaluated, as well as on credit history and information originating from other sources. Evaluation of the borrowers' reliability is of critical importance.

AS SEB Pank divides loan portfolio into two broad segments:
A) corporate portfolio including loans to legal entities belonging to counterparty group's with credit risk assumed by SEB Pank Group exceeding 4,500,000 Estonian kroons and
B) retail portfolio consisting of small corporates' and private individuals' sub-segments. As of end of 2008 the corporate portfolio amounted to 46% of total loan portfolio (2007: 47%).

Based on the results of the analysis, the corporate clients are divided into sixteen risk classes in accordance with the AS SEB Pank risk classification system. Sixteen risk classes belong to 5 quality classes of businesses.

According to the risk classification system the risk class assignment is not required for companies or a group of companies with credit risk assumed by the Group less than 4,500,000 Estonian kroons, i.e. small corporates. Scoring model is used for evaluation of these borrowers.

The scoring model for small corporates considers financial condition based on last two annual reports and last interim report, credit history with the bank and based on external credit history register, experience of the customer. The analyst evaluates correctness and quality of the information. The risk level of particular industry has a certain level of impact as well. The outcome of the scoring model is credit score, expressing risk level and determining decision-making level. Depending on the score clients are divided into quality classes A, B, C and D, where A is the best and D is the worst score client class. Small corporates amounted to 5% of the total portfolio as of end of 2008 (2007: 6%).

In analysing loans to private individuals the credit scoring and left-to-live model is used. The model considers among other matters credit history, income, age, employment conditions and the value of real estate owned. The output of the model is credit score and lending recommendation derived the score. Based on the score the clients are divided into quality classes A, B, C and D similarly to small corporates. Private individuals amounted to 41% of the total portfolio as of end of 2008 (2007: 41%). The remaining 8 % of portfolio amounted advances to credit institutions (2007: 6%).

Credit risk monitoring and mitigation

Review of the situation and risk level of legal entities is performed on regular basis, depending on the client segment, the risk class assigned previously and any additional information available to the bank at least once a year. During the review the bank assesses the client's financial condition, risk level, regularity of fulfilling existing financial obligations and need for financing. As an important outcome, a risk class is updated for the client with group exposure exceeding 4,5 million kroons, which, depending on the risk class shall be valid for one year (1-10), half a year (11-16). Risk classes 13-16 are regarded as Watch-list and separately reviewed at least on quarterly bases. Due to deteriorated market situation Monthly High Risk meetings are held by Special Credits Management in order to monitor high risk customers. The distribution of risk class assigned portfolio by the quality classes is given in the table below.

Risk class	Business quality class
1	Ordinary Business
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	Restricted Business
12	Special Observation
13	Watch-list
14	
15	
16	Default

Corporate Portfolio by risk classes	% of rated portfolio 31.12.08	31.12.07
Ordinary Business	66.0%	83,7%
Restricted Business	13.7%	8,6%
Special Observation	8.7%	5,3%
Watch-list	7.9%	2,0%
Default	3.7%	0,4%
Total	100.0%	100,0%

The distribution of debt securities portfolios (in market value) by quality classes is given in table below.

Debt Securities Portfolios* by risk classes	**% of portfolios 31.12.2008**
Ordinary Business	85.0%
Restricted Business	4.0%
Special Observation	9.5%
Watch-list	1.5%
Default	0.0%
Total	100.0%

* AS SEB Elu- ja Pensionikindlustus Unit Link portfolio is excluded as the credit risks in this portfolio are transferred to the customers by the agreements.

For regular monitoring of private individuals and small corporates the behavioural scoring models are in use. The models are based on the application scoring models used in loans analysis process. In behavioural scoring there is used a separate quality class E for defaulted clients and an additional class N for small corporates to whom according to the bank's assessment there is not enough information to assign any other class. Part of the information (payment behaviour, financial situation of the small corporate) is updated regularly (monthly, quarterly), partly is used older available information. Behavioural score is calculated monthly for all private individuals and small corporates loans. The distribution of retail portfolio by quality classes is given in the table below.

Score	**Business quality class**
A	Ordinary Business
B	
C	Special Observation
D	
E	Default
N	Insufficient information

Retail portfolio by behavioral scores	**% of scored portfolio 31.12.08**	**31.12.07**
Ordinary Business	78.3%	82,0%
Special Observation	18.3%	15,8%
Default	2.3%	0,9%
Insufficient information	1.1%	1,3%
Total	100.0%	100,0%

Primary responsibility for monitoring the quality of specific client and its loans lies with client executives, who should inform immediately to their department head and if necessary, to the credit area management of occurred problems and accordingly take necessary measures.

Impairment and allowance policies

The internal rating system is primarily used to measure one of the major sources of risk that drives the occurrence of lending losses - the risk that the counterparty will default on its payment obligations, being probability of default. This is distinct from the risk of loss finally arising after all attempts to recover payments from defaulted counterparties.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower (eg equity ratio, operating income or EBITDA margin, debt service coverage etc);
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position.

The Group's policy requires that all exposures above 4,5 million kroons are reviewed individually at least annually (see above). Impaired allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality tresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement and statistical techniques. Currently the Group uses loss identification period of approximately 4 months based on the analyses that the starting point for the loss event to incur will be the day after the last date the loan is served according to plan. So the identification period would typically be for loans with monthly instalment 29 days prior to the 90-days default event.

Credit risk managers in head office and branch credit risk management department perform regular in-depth monitoring of the quality of the loan portfolio. Also the bank's internal audit carries out reviews on valuation of the loan portfolio. During the control for adherence to procedures, availability of required information and documents, regularity of loan servicing (repayments), adequacy of collateral and other factors influencing the risks is verified.

Collateral

In order to diminish credit risk the bank has established a requirement for the borrowers to provide the bank with collateral in the form of registered immovable property, registered movable property and/or personal sureties as security. The group has implemented guidelines on the acceptability of specific classes of collateral on credit risk mitigation. The principles for granting an unsecured loan are stated in the credit policy and this kind of lending is clearly limited and restricted. The balance of unsecured credits is disclosed just below.

The pledged assets have to be insured throughout the loan period in an insurance company accepted by the bank at least for the restoration value. In case of a housing loan also life insurance is required, if the borrower is contributing majority to the family's income. The aforementioned measures help to control and manage the credit risk as they serve as an alternative source for collecting the loan, in case the borrower is not able to repay the loan from primary cash flow.

Loans against collateral
(millions of EEK)

	31.12.08	31.12.07
Mortgage, real property	44,943.0	47,548.9
Securities and deposits	326.6	857.5
Guarantee by state, central bank or municipality	3,576.5	3,126.6
Guarantee by credit institutions	6,019.3	5,426.3
Unsecured loans*	2,985.5	2,656.1
Repos with customers (securities as collateral)	4.6	53.6
Factoring (receivables as collateral)	962.4	1,091.3
Leasing (leased assets as collateral)	10,959.9	12,787.7
Life Insurance receivables	2.8	2.3
Other	6,687.4	3,958.8
Accured interest receivable	271.5	262.6
Allowances	-1,093.9	-345.9
TOTAL**	**75,645.6**	**77,425.8**

* includes credit cards and other unsecured loans
** Includes loans and advances to customers and credit institutions (Notes 17, 18)

Impaired loan
A loan should be classified as impaired if it is probable that the contractual payments will not be fulfilled and the value of the collateral does not cover both principal and accrued interest including penalty fees, i.e. the recoverable amount from expected future cash flows (including from realisation of collateral) discounted using original effective interest rate in case of fixed rate loans and if the loan has floating interest rate then the rate (in case of fixed rate loans and if the loan has floating interest rate then the rate used for the current interest period) used for the current interest period is less than the carrying amount. In these cases all the borrower's loans in the Group shall be considered for impairment, unless there are specific reasons calling for a different evaluation.

Impaired loans are classified to the following two groups:
• Impaired non-performing loan: The loan is past due and the expected cash flow from the collateral does not cover both principal and accrued interest and penalty fees.
• Impaired performing loan: The Bank has determined that the expected cash flow from the collateral does not cover both principal and accrued interest and penalty fee and there has been identified an incurred loss event, but no payments are yet past due.

Provided, during the valuation of the loan it becomes evident that the collection of the loan or part of it is doubtful and the collateral is insufficient for covering the loan amount together with accrued interest and penalties, i.e. a loan loss is to be recognised and allowance will be established for the loan. Specific and collective allowances are established for individually appraised loans and separate allowances used for homogeneous groups of loans appraised on a homogenous group level. The purpose is to calculate and present the value of the loan portfolio as fairly and objectively as possible based on the future discounted cash flow expectation.

In 2008 Special Credit Management Division was established in order to reduce bank´s potential credit losses by handling problem loans and recovering written-off loans by using several specialised methods in doing so: negotiations with clients, rehabilitation, execution, bankruptcy proceedings and to enable getting these specialists involved with these problem loans (or potential problem loans) at the early stage to ensure most valuable outcome.

Allowances for credit losses related to on-balance sheet items are provided either specific, collective or on homogenous group basis. The total impairment provision for loans and advances is 1 093,9 mEEK (2007: 345,9) of which 543,7 (2007: 22,9) represents the allowance for individually impaired loans and the remaining amount of 550,2 (2007: 323,0) represents collective and homogenous groups allowances.

SEB Group Retail Provisioning Model's principles were used to determine homogenous groups' allowances. The calculated incurred loss levels were adjusted by expert opinion. Taking into account extraordinary economical situation and continuing portfolio quality worsening (increase in non-performing loans (NPL)), which is not reflected immediately in the incurred loss level, the allowances were increased additionally taking into account NPL levels for different product groups. Totally at the end of 2008 the homogenous groups' allowances were increased up to around 50% of NPL level. By 10% different level of NPL effect is 82 EEKmio.

Impaired loans and allowances

(millions of EEK)

	31.12.08	31.12.07
Impaired, non-performing loans	830.1	24.8
Impaired, performing loans	179.4	29.7
Non-performing, homogenous	831.3	252.9
Total impaired, non-performing loans (gross)*	**1,840.8**	**307.4**
Specific allowances	-543.7	-22.9
Collective allowances	-138.0	-85.2
Allowances for homogenous groups	-412.2	-237.8
Total allowances	**-1,093.9**	**-345.9**
Allowance ratio (Allowances / Impaired)	59%	113%
Specific allowance ratio (Specific allowances / Impaired)	30%	7%
Ratio of impaired loans (Impaired / Loans to customers and credit institutions)	2.43%	0.40%

* Includes due to credit institutions

Loans and advances to customers and credit institutions
(millions of EEK)

31.12.08	Credit insti-tutions	Loans to Corporates*	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
1) Neither past due nor impaired	**6,019.3**	**24,911.6**	**8,089.7**	**2,773.7**	**22,895.7**	**5,933.2**	**70,623.2**
2) Past due, but not impaired	0.0	2,119.8	529.8	29.9	1,618.0	557.1	4,854.6
fair value of collateral	0.0	3,154.6	621.6	28.4	2,130.6	385.0	6,320.2
3) Individually impaired	0.0	821.1	171.8	0.0	0.6	16.0	1,009.5
fair value of collateral	0.0	420.0	58.7	0.0	0.3	10.3	489.3
4) Accrued interests	7.3	99.3	24.8	14.5	84.4	41.1	271.4
5) Commisions for loans	0.0	-6.6	-1.5	-0.6	-7.6	-2.9	-19.2
Total gross	**6,026.6**	**27,945.2**	**8,814.6**	**2,817.5**	**24,591.1**	**6,544.5**	**76,739.5**
Specific allowances	0.0	-412.4	-124.8	0.0	-0.3	-6.1	-543.6
Collective allowances	0.0	-119.5	-18.5	0.0	0.0	0.0	-138.0
Group allowances (homogene)	0.0	-61.7	-20.3	0.0	-210.9	-119.4	-412.3
Total net of allowances	**6,026.6**	**27,351.6**	**8,651.0**	**2,817.5**	**24,379.9**	**6,419.0**	**75,645.6**

31.12.07	Credit insti-tutions	Loans to Corporates*	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
1) Neither past due nor impaired	**5,426.0**	**27,329.8**	**11,599.0**	**2,326.2**	**22,793.0**	**5,726.7**	**75,200.7**
2) Past due, but not impaired	0.3	795.9	354.6	3.1	765.4	334.6	2,253.9
3) Individually impaired	0.0	25.5	20.5	0.0	2.6	5.9	54.5
fair value of collateral	0.0	29.4	4.9	0.0	2.3	1.5	38.1
4) Accrued interests	10.5	90.8	40.0	11.1	73.0	37.2	262.6
Total gross	**5,436.8**	**28,242.0**	**12,014.1**	**2,340.4**	**23,634.0**	**6,104.4**	**77,771.7**
Specific allowances	0.0	-2.7	-15.5	0.0	-0.2	-4.5	-22.9
Collective allowances	0.0	-85.2	0.0	0.0	0.0	0.0	-85.2
Group allowances (homogene)	0.0	-18.3	-17.2	0.0	-117.7	-84.6	-237.8
Total net of allowances	**5,436.8**	**28,135.8**	**11,981.4**	**2,340.4**	**23,516.1**	**6,015.3**	**77,425.8**

* includes factoring

Quality of loans by classes:

(millions of EEK)

31.12.08	Credit insti-tutions	Loans to Corporates	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Normal loans	6,019.3	26,933.3	8,568.0	2,803.6	24,034.2	6,288.1	74,646.5
Impaired non-performing*	0.0	668.5	146.6	0.0	0.1	14.9	830.1
Impaired performing**	0.0	152.6	25.2	0.0	0.5	1.1	179.4
Homogenous non-performing***	0.0	98.1	51.5	0.0	479.5	202.2	831.3
Accrued interest receivable	7.3	99.3	24.8	14.5	84.4	41.1	271.4
Commisions for loans (deferred)	0.0	-6.6	-1.5	-0.6	-7.6	-2.9	-19.2
	6,026.6	**27,945.2**	**8,814.6**	**2,817.5**	**24,591.1**	**6,544.5**	**76,739.5**
Specific allowances	0.0	-412.4	-124.8	0.0	-0.3	-6.1	-543.6
Collective and group allowances	0.0	-181.2	-38.8	0.0	-210.9	-119.4	-550.3
	6,026.6	**27,351.6**	**8,651.0**	**2,817.5**	**24,379.9**	**6,419.0**	**75,645.6**

31.12.07	Credit insti-tutions	Loans to Corporates	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
Normal loans	5,426.3	28,105.7	11,941.0	2,329.3	23,420.1	5,979.3	77,201.7
Impaired non-performing*	0.0	1.1	18.9	0.0	2.6	2.2	24.8
Impaired performing**	0.0	24.4	1.6	0.0	0.0	3.7	29.7
Homogenous non-performing***	0.0	20.0	12.6	0.0	138.3	82.0	252.9
Accrued interest receivable	10.5	90.8	40.0	11.1	73.0	37.2	262.6
	5,436.8	**28,242.0**	**12,014.1**	**2,340.4**	**23,634.0**	**6,104.4**	**77,771.7**
Specific allowances	0.0	-2.7	-15.5	0.0	-0.2	-4.5	-22.9
Collective and group allowances	0.0	-103.5	-17.2	0.0	-117.7	-84.6	-323.0
	5,436.8	**28,135.8**	**11,981.4**	**2,340.4**	**23,516.1**	**6,015.3**	**77,425.8**

* Impaired non-performing loan: The loan is past due and the expected cash flow from the collateral does not cover both principal and accrued interest and penalty fees.

** Impaired performing loan: The Bank has determined that the expected cash flow from the collateral does not cover both principal and accrued interest and penalty fee and there has been identified an incurred loss event, but no payments are yet past due.

*** Non-performing loans in homogenous groups: loans where impairment is assessed and allowance provided on each homogenous group basis, not individually for each loan (no individually impaired loans identified).

A loan is classified as impaired if it is individually assessed to be impaired, i.e. it is expected that the contractual payments will not be fulfilled and the value of the discounted cash flow to be expected from collateral does not cover both principal and accrued interest and penalty fees.

Past due by maturity period of overdue
(millions of EEK)

31.12.08	Credit insti-tutions	Loans to Corporates	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	Accrued interest receivable	TOTAL
< 30 days	0.0	1,322.5	362.1	31.5	933.0	262.0	13.6	2,924.7
30 < 60 days	0.0	292.6	105.0	0.7	257.8	84.7	9.0	749.8
over 60 days	0.0	1,323.5	232.2	0.0	427.4	226.3	59.1	2,268.5
	0.0	**2,938.6**	**699.3**	**32.2**	**1,618.2**	**573.0**	**81.7**	**5,943.0**

31.12.07	Credit insti-tutions	Loans to Corporates	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	Accrued interest receivable	TOTAL
< 30 days	0.3	479.0	303.7	3.0	540.4	185.4	6.6	1,518.4
30 < 60 days	0.0	109.1	35.9	0.1	105.6	68.8	2.9	322.4
over 60 days	0.0	228.3	33.5	0.0	121.9	81.5	11.0	476.2
	0.3	**816.4**	**373.1**	**3.1**	**767.9**	**335.7**	**20.5**	**2,317.0**

The table indicates the total exposure of the credit where part is overdue as of 31.12.08.

Large exposures	**31.12.08**		**31.12.07**	
	number/ amount	**% from net own funds**	**number/ amount**	**% from net own funds**
Number of customers with large exposures	2	-	2	-
Due from customers with large exposures	2,378.9	21.77	1,894.3	18.41
Due from management board members and related persons	15.7	0.14	18.5	0.18
	2,394.6	**21.91**	**1,912.8**	**18.59**
Own funds included in calculation of capital adequacy (see page 66)	10,929.8		10,288.7	

Large exposures contain due from central bank, credit institutions or customers (loans, interests, securities) and off-balance sheet commitments to central bank, credit institutions or customers, which may turn into claims.

The following is deducted from large exposures:
1) claims and off-balance sheet commitments to credit institutions with a term less than one year;
2) central bank, central government and state guaranteed study loans and claims secured with deposits and securities (credit risk 0%);
3) due from central bank, central government and government authorities, which belong to a group with credit risk considered at 0%;
4) loans to private non-residents, secured with I rank mortgage (credit risk considered at 50%).
Large exposure report does not contain clients, whose concentration of exposure is less than 10%.

Large credit risk exposure is the total exposure of one party or related parties to the group which exceeds 10% of the group's net equity (1 093,0 EEKmio as at 31.12.08.), Note 2.9 on page 65. All instruments where credit risk may arise to the group are taken into consideration. The maximum rate of total large exposures alltogether allowed is 800%. The limit of the total exposure of one party or related parties is 25%. As of 31.12.2008 the group had 2 large risk exposures (2 large risk exposures in 31.12.2007). Total exposure of any group of related parties did not exceed the limit of 25%.

2.2.1. Credit risk in AS SEB Elu- ja Pensionikindlustus

Credit risk is the risk that counterparty to a financial instrument causes monetary loss to the other counterparty due to inability to fulfil its obligations. Credit risk arises from the following counterparties of transaction:

- Credit institutions
- Reinsurers
- Issuers of bonds

To manage credit risk, AS SEB Elu- ja Pensionikindlustus has established a condition to the reinsurance partners upon risk reinsurance that they must have at least rating A by Standard and Poor's. SwissRe, reinsurer of AS SEB Elu- ja Pensionikindlustus, has rating AA- as at 31.12.2008. Credit risk related to debt securities is managed through the investment policy, which sets the weighted average rating and lowest allowed rating for debt securities.

2.3. Market risk

AS SEB Pank defines market risk as the risk of loss or reduction of future net income following changes in interest rates, foreign exchange and equity prices, including price risk in connection with the sale of assets or closing of positions.

Market risk may arise from the bank's activity at the financial markets and it has an impact on the majority of bank products: loans, deposits, securities, credit lines. AS SEB Pank measures the risks using different methods of risk valuation and management pursuant to the type of risk. Important role in risk prevention is diversification of risk assets and limitation for trading positions.

Maximum limits approved by the committees, which are in compliance with the limits set by the Bank of Estonia, form the basis for controlling and monitoring the risk of various instrument portfolios.

For positions related to market risk nominal limits are applied, which are monitored by trading portfolios on daily basis by Risk Control. Any limit breach shall be reported in accordance with the regulations of Market Risk Policy. In addition to the aforementioned, also scenario analysis is applied in market risk management, which is used for valuing the performance of trading positions in case of more extreme fluctuations in market variables.

The overall market risk is measured by using the Value at Risk (VaR) model. VaR is defined as a maximum potential loss that can arise with a certain degree of probability during a certain period of time. For day-to-day risk management, AS SEB Pank has chosen a probability level of 99 percent and a ten-day time horizon. VaR model enables to effectively measure market risks associated with different instruments and the results are homogeneously comparable. Banking book ten-day average VaR in 2008 was EEK 23m (in 2007 EEK 35m). AS SEB Pank's trading risk is relatively small. Equity trading book which was the biggest contributor to AS SEB Pank's trading risk in 2007 (as per end 2007 ten-day VaR was EEK 14m, 2007 average VaR was EEK 15m) was significantly decreased by the end of 2008 (ten-day VaR was EEK 0.2m, 2008 average VaR was EEK 10m). Actual outcomes are monitored regularly to test the validity of assumptions and factors used in VaR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. To withstand the ongoing global financial crisis AS SEB Pank has decreased the trading positions and reduced mismatch in the banking book. Also additional stress testing has been performed to analyse possible worst case scenarios.

2.3.1. Foreign exchange risk

Foreign exchange risk arises both through the bank's foreign exchange trading and because the group's activities are carried out in various currencies. The Group's main objective for taking foreign exchange risk is to facilitate smooth foreign exchange trading for its customers and to manage the flows from customers' deals effectively. Together with the customers' deals related flows the Group manages the structural foreign exchange risk inherent in the structure of the balance sheet and earnings. ALCO has set limits for open foreign currency positions by individual currencies and also on an aggregated level as a sum of long or short positions, depending of which one is higher on absolute terms. Management of open foreign currency positions is the responsibility of the Foreign Exchange department, and analysing and limit follow-up that of the Risk Control department.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date.

Currency position

(millions of EEK)

31.12.08	EEK	EUR	USD	SEK	other currencies	total
ASSETS						
Cash	606.1	62.5	15.1	6.0	22.4	712.1
Loans and advances to credit institutions	9.3	5,424.3	50.6	317.1	225.3	6,026.6
Loans and advances to customers	17,373.6	51,684.7	543.8	1.7	15.2	69,619.0
Securities	479.3	1,196.7	85.3	2.8	100.0	1,864.1
Other assets	6,644.3	166.0	33.0	18.0	13.3	6,874.6
TOTAL ASSETS	**25,112.6**	**58,534.2**	**727.8**	**345.6**	**376.2**	**85,096.4**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to credit institutions	788.4	34,432.7	482.8	0.5	72.0	35,776.4
Deposits	25,128.6	7,637.6	1,838.9	108.0	423.0	35,136.1
Other liabilities	1,811.7	3,346.6	142.2	22.4	29.1	5,352.0
Financial liabilities total	**27,728.7**	**45,416.9**	**2,463.9**	**130.9**	**524.1**	**76,264.5**
Equity	8,834.4	-3.3	-0.3	0.0	1.1	8,831.9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**36,563.1**	**45,413.6**	**2,463.6**	**130.9**	**525.2**	**85,096.4**
Net on-balance sheet position	**-11,450.5**	**13,120.6**	**-1,735.8**	**214.7**	**-149.0**	**0.0**
FX derivative assets	814.7	1,529.7	2,117.1	120.9	681.0	5,263.4
FX derivative liabilities	1,302.2	2,815.9	421.3	332.3	480.5	5,352.2

FX options are weighted with delta. Other FX derivative assets and liabilities include currency related derivatives and are shown here in their contractual nominal value. Net position of every currency at 31.12.2008 was under 1 % level of net equity (net positsion must be calculated without EEK and EUR in Estonia because EEK is pegged to EUR at 15.6466 EEK : 1 EUR).

Currency position

(millions of EEK)

31.12.07	EEK	EUR	USD	SEK	other currencies	total
ASSETS						
Cash	640.1	63.1	10.6	6.8	31.3	751.9
Loans and advances to credit institutions	88.7	4,756.9	19.8	0.5	570.9	5,436.8
Loans and advances to customers	23,174.5	47,270.2	1,531.7	1.7	10.9	71,989.0
Securities	765.0	979.4	127.0	116.8	120.6	2,108.8
Other assets	5,245.3	1,349.1	91.4	140.7	1,042.0	7,868.5
TOTAL ASSETS	**29,913.6**	**54,418.7**	**1,780.5**	**266.5**	**1,775.7**	**88,155.0**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to credit institutions	698.2	33,880.9	778.4	0.6	52.0	35,410.1
Deposits	23,631.2	9,473.0	2,018.6	149.8	760.4	36,033.0
Other liabilities	2,795.2	4,571.9	228.4	183.7	849.1	8,628.3
Financial liabilities total	**27,124.6**	**47,925.8**	**3,025.4**	**334.1**	**1,661.5**	**80,071.4**
Equity	8,052.8	0.0	0.0	0.0	30.8	8,083.6
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**35,177.4**	**47,925.8**	**3,025.4**	**334.1**	**1,692.3**	**88,155.0**
Net on-balance sheet position	**-5,263.8**	**6,492.9**	**-1,244.9**	**-67.6**	**83.4**	**0.0**
FX derivative assets	971.3	1,219.7	1,730.4	300.7	377.1	4,599.2
FX derivative liabilities	1,137.9	2,495.1	435.0	193.3	335.8	4,597.1

FX options are weighted with delta. Other FX derivative assets and liabilities include currency related derivatives and are shown here in their contractual nominal value. Net position of every currency at 31.12.2008 was under 1 % level of net equity (net positsion must be calculated without EEK and EUR in Estonia because EEK is pegged to EUR at 15.6466 EEK : 1 EUR).

The following table presents sensitivities of profit and loss and equity to reasonable possible changes in exchange rates applied at balance sheet date, with all other variables held constant:

	At 31 December 2008		At 31 December 2007	
In thousands of EEK	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
Currencies strengthening by 10% (2007: 5%)				
USD strengthening by 10% (2007: 5%)	-4 031	26	-329	
RUB strenghtening by 10% (2007: 5%)	1 884		5 468	-1 535
SEK strenghtening by 10% (2007: 5%)	330		-1 005	
Other (excluding EUR) strenghtening by 10% (2007: 5%)	3 270	-116	2 812	
TOTAL	**1 454**	**-89**	**6 946**	**-1 535**
Currencies weakening by 10% (2007: 5%)				
USD weakening by 10% (2007: 5%)	4 031	-26	329	
RUB weakening by 10% (2007: 5%)	-1 884		-5 468	1 535
SEK weakening by 10% (2007: 5%)	-330		1 005	
Other (excluding EUR) weakening by 10% (2007: 5%)	-3 270	116	-2 812	
TOTAL	**-1 454**	**89**	**-6 946**	**1 535**

Euro was excluded from the calculation as Estonian kroon exchange rate is pegged against Euro. In 2008 foreign currencies volatilities against Estonian kroon were significantly higher than in 2007. Although higher sensitivity ratio was applied, the impact on profit or loss and equity is in total smaller than in 2007, as the Group's exposures have been decreased. The Group's exposure to currency risk at the balance sheet date is representative of the typical exposure during the year, therefore no additional information about annual average is provided here.

2.3.2. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The Group uses Delta1% methodology for measuring the ALM (assets-liability mismatch) risk, arising from the structure of interest earning assets and interest bearing liabilities. AS SEB Pank defines Delta1% as decrease of potential return due to one-percent change in market rates. In Delta1% calculation it is assumed there is a parallel shift in the yield curve, which means that all interest rates (long- and short-term) will change by 100 b.p. Delta1% method enables to effectively measure the impact of interest rate changes to interest bearing assets and liabilities. Delta1% limit is monitored as a negative or positive net position respectively, depending of which one is higher. Delta1% should be kept within the limit set by ALCO. Daily management of interest rate risk is the responsibility of the Treasury, and analysing that of the Risk Control department.

As per year end, Delta1% was EEK –61m (2007: EEK -88m). 2008 average Delta1% was EEK -58m (2007: EEK -79m). The Group Delta1% has been negative which means that the average duration of interest bearing assets is higher than average duration of interest bearing liabilities and the Group is more exposed to interest rate increase. The biggest contributors to the Delta1% figure are loans from the asset side and deposits and funding from the parent company from the liabilities side which balance the mismatch from loans. Further information on interest rate sensitivity can be found through table below “Interest earning assets and interest bearing liabilities by interest repricing period”.

In addition to Delta 1%measure the group also assesses the interest risk that would realise in net interest income to be different, in case the interest rates on the market were to change by 1%, i.e. showing the effect on net interest income from these financial instruments that bear floating interest or where repricing of fixed interest is within one year and is not under control by the Group (exposed to market risk).

Net interest income (NII) is exposed to external factors such as changes in Euribor, yield curve movements and competitive pressure. The NII risk depends on the overall business profile, especially mismatches between interest-bearing assets and liabilities in terms of volumes and repricing periods. The Group measures the NII risk as the potential change in income, over a pre-defined period, from a standardised shift in the yield curve. As per year-end, the one-year effect of a one per cent “up” scenario was EEK -4m (2007: EEK +5m).

Monitoring and management of the NII risk gives a performance-oriented view and supplements the value-based perspective given by the Delta1% measure described above. Global liquidity crisis has resulted among other things higher interbank lending rates and higher funding costs for AS SEB Pank. To minimise the effect of these changes AS SEB Pank has been keeping assets-liabilities mismatch as low level as possible. Flexibility to assets-liabilities mismatch management is assured by the possibility to adjust funding from parent company.

The table below summarises the Group exposure to interest rate risk. It includes the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity date.

Interest earning assets and interest bearing liabilities by interest fixation period
31.12.08

ASSETS	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	over 5 years	Total	Balance sheet
Due from central bank	5,730.5	0.0	0.0	0.0	0.0	0.0	5,730.5	5,739.4
Due from credit institutions	6,019.3	0.0	0.0	0.0	0.0	0.0	6,019.3	6,026.6
Due from customers	22,070.9	19,706.2	18,453.2	1,197.3	4,578.8	3,364.7	69,371.1	69,619.0
Securities	182.9	126.9	24.8	11.1	90.6	185.2	621.5	747.1
TOTAL ASSETS	**34,003.6**	**19,833.1**	**18,478.0**	**1,208.4**	**4,669.4**	**3,549.9**	**81,742.4**	**82,132.1**
LIABILITIES								
Due to credit institutions	8,775.7	8,383.3	12,786.6	1,415.0	3,917.9	91.2	35,369.7	35,776.4
Due to customers	26,935.4	3,830.8	3,271.2	416.7	403.3	64.4	34,921.8	35,006.2
Lending funds	2.2	3.9	16.3	19.2	40.9	47.1	129.6	129.9
Issued debt securities	0.0	0.0	0.0	115.9	0.0	0.0	115.9	114.3
Subordinated liabilities	0.0	782.3	1,830.7	0.0	0.0	0.0	2,613.0	2,620.9
TOTAL LIABILITIES	**35,713.3**	**13,000.3**	**17,904.8**	**1,966.8**	**4,362.1**	**202.7**	**73,150.0**	**73,647.7**
Total interest repricing gap of on-balance sheet position	**-1,709.7**	**6,832.8**	**573.2**	**-758.4**	**307.3**	**3,347.2**	**8,592.4**	**8,484.4**
Derivative assets	3,279.6	1,857.8	461.7	105.1	201.7	36.8	5,942.7	343.3
Irrevocable and revocable interest related assets	0.0	0.0	0.0	0.0	0.0	286.3	286.3	0.0
Derivative liabilities	3,299.8	1,915.1	471.9	105.1	201.7	36.8	6,030.4	427.6
Irrevocable and revocable interest related liabilities	870.9	1,009.8	3,700.6	120.0	60.1	46.0	5,807.4	0.0
Total interest repricing gap	**-2,600.8**	**5,765.7**	**-3,137.6**	**-878.4**	**247.2**	**3,587.5**	**2,983.6**	**8,400.1**

Table includes only interest earning assets and interest bearing liabilities. Liabilities don't include insurance clients' financial liabilities from investment contracts (Note 27) and provisions from insurance contracts (Note 31) and respective assets to cover the portfolio (total amunt of which being 97,9 million kroons as at 31.12.2008 and 162,3 million kroons as at 31.12.2007), which earn and bear interest, but the interest belongs to the clients. Also the table does not include the liabilities from factoring (Note 27), commissions for loans and discounting of deposits.

31.12.07

ASSETS	< 1 month	1-3 months	3-12 months	1-2 years	2-5 years	over 5 years	Total	Balance sheet
Due from central bank	4,181.0	0.0	0.0	0.0	0.0	0.0	4,181.0	4,192.5
Due from credit institutions	5,392.1	0.0	34.2	0.0	0.0	0.0	5,426.3	5,436.8
Due from customers	26,435.8	19,323.3	19,327.4	1,142.5	3,845.1	1,660.5	71,734.6	71,989.0
Securities	354.1	0.0	0.0	0.0	0.0	0.0	354.1	368.9
TOTAL ASSETS	**36,363.0**	**19,323.3**	**19,361.6**	**1,142.5**	**3,845.1**	**1,660.5**	**81,696.0**	**81,987.2**
LIABILITIES								
Due to credit institutions	7,157.0	9,325.7	13,344.8	860.6	4,334.1	0.0	35,022.2	35,410.1
Due to customers	28,159.4	2,919.4	3,402.0	926.8	307.0	60.9	35,775.5	35,889.0
Lending funds	3.1	6.4	23.9	23.0	52.5	34.9	143.8	144.0
Issued debt securities	0.0	50.8	499.3	0.0	140.1	0.0	690.2	704.5
Subordinated liabilities	0.0	782.3	1,830.7	0.0	0.0	0.0	2,613.0	2,622.3
TOTAL LIABILITIES	**35,319.5**	**13,084.6**	**19,100.7**	**1,810.4**	**4,833.7**	**95.8**	**74,244.7**	**74,769.9**
Total interest repricing gap of on-balance sheet position	**1,043.5**	**6,238.7**	**260.9**	**-667.9**	**-988.6**	**1,564.7**	**7,451.3**	**7,217.3**
Derivative assets	1,767.4	2,237.1	697.8	39.6	56.2	8.1	4,806.2	38.6
Irrevocable and revocable interest related assets	0.0	0.0	0.0	80.7	0.0	391.2	471.9	0.0
Derivative liabilities	1,772.0	2,230.8	697.9	39.6	56.2	8.1	4,804.6	38.1
Irrevocable and revocable interest related liabilities	754.9	1,158.4	5,360.7	282.2	158.9	31.2	7,746.3	0.0
Total interest repricing gap	**284.0**	**5,086.6**	**-5,099.9**	**-869.4**	**-1,147.5**	**1,924.7**	**178.5**	**7,217.8**

2.3.3. Market risk related to life insurance asset-liability matching

The market risk is one of the most important risks for AS SEB Elu- ja Pensionikindlustus. Market risk in a life insurance company derives from the risk of investing the assets under insurance contracts and investment contracts with guaranteed interest. This risk is managed in AS SEB Elu- ja Pensionikindlustus with an investment policy, which establishes investment restrictions of the aforementioned assets between different asset classes, as well as the diversification requirements of assumed positions towards the clients (Note 27). The European Union is working on new insurer capital adequacy requirements under project Solvency II, where the assessment of market risk plays a major part. AS SEB Elu- ja Pensionikindlustus is making efforts to assess its market risk in conformity with the Solvency II project and in line with the practices of other SEB Group life insurance companies.

2.3.4. Equity price risk

Equity price risk arises within market making and trading in equities and related instruments. AS SEB Pank's equity price risk in trading portfolio as described in chapter 2.3 is not significant. Equity trading portfolio amounted to EEK 4m as per end 2008 (EEK 144m as per end 2007).

2.4. Insurance risk

In its business activities, AS SEB Elu- ja Pensionikindlustus concludes contracts which transfer insurance risk from the policyholder to the company. The insurance risk with regard to an individual contract is defined as a probability that an event, set out in the contract will take place (the insured event) and as uncertainty about the amount payable as a result of it. A corresponding individual risk as the main basis of insurance is incidental and therefore unpredictable. With regard to the portfolio of insurance contracts whose income (premium rates) and provisions are calculated on the basis of the theory of probability, the insurance risk lies in the fact that the actual payments of damages and claims prove to be larger than the recognised (calculated) insurance liabilities. Such a situation may appear if the frequency of the insured events or the amount of individual events exceed the expectations and assumptions of the company. The occurrence of insured events is incidental and therefore the amount of damages and claims differs by years from the assumptions created by using statistical techniques. The larger the portfolio of insurance contracts with similar risk, the smaller the estimated difference of the actual result from the statistical calculated assumption. In addition, a larger variety of risks leads to a smaller probability of the occurrence of one-way events and hence also to a smaller risk of the whole portfolio.

AS SEB Elu- ja Pensionikindlustus uses different methods to control and manage insurance risk. The company will use new death rate tables if the tariffs established on the basis of the current death rate tables do not cover sufficiently the insurance risks. The company controls and manages insurance risk also through risk management (underwriting) procedures. The company has also applied the medical examination requirement to the policyholders, if the insured amount of the insurance contract entered into is over 400,000 kroons for those who are older than 45 years and 500,000 kroons for those who are younger than 45 years. In addition to the above, the company has delimited its participation in respect of the maximum loss of an individual case through a reinsurance contract, under which all risks from individual event, which exceed 20,000-1,000,000 kroons (subject to a contract) are covered by the reinsurer. SEB Elu- ja Pensionikindlustus reinsurance partners are reinsurance companies Swiss re and GenRe.

2.5. Concentration of risks

Geographic concentration of assets and liabilities
(millions of EEK)

31.12.08	Cash and balances with central bank	Loans and advances to credit institutions	Loans and advances to customers	Securities	Other assets	Total assets	Due to to credit institutions	Due to customers	Other liabilities	Total liabilities	Contingent liabilities
Sweden	6.1	469.3	34.9	192.6	0.0	702.9	34,740.9	176.0	2,712.2	37,629.1	2,676.5
Estonia	6,280.7	1.2	69,055.6	934.6	1,058.6	77,330.7	285.5	30,965.4	2,552.6	33,803.5	18,194.6
United Kingdom	1.9	4.7	41.9	44.3	0.0	92.8	32.2	1,587.4	0.6	1,620.2	61.8
Russia	2.5	122.8	17.5	50.7	0.0	193.5	29.3	268.1	0.2	297.6	1.8
Germany	64.8	5,344.0	48.4	53.5	0.0	5,510.7	542.1	24.1	0.2	566.4	89.6
United States	15.1	50.3	24.5	18.4	0.3	108.6	5.5	431.0	0.1	436.6	1.5
Canada	0.6	0.3	0.0	0.0	0.1	1.0	0.7	34.7	0.0	35.4	0.0
Japan	0.7	1.7	0.0	2.1	0.1	4.6	0.0	1.9	0.0	1.9	0.0
Finland	0.0	0.5	294.5	131.4	0.0	426.4	4.0	116.6	0.3	120.9	281.3
Latvia	4.1	11.5	0.3	20.6	0.0	36.5	31.3	36.2	0.0	67.5	10.2
Lithuania	2.4	0.8	0.7	18.2	0.2	22.3	16.0	9.8	0.8	26.6	2.8
Luxembourg	0.0	2.0	9.7	145.6	6.2	163.5	2.4	0.2	3.2	5.8	0.0
Netherlands	0.0	0.3	10.0	39.0	0.0	49.3	0.0	5.0	0.0	5.0	0.1
Other Western Europe	6.8	10.6	45.7	161.5	0.1	224.7	23.5	645.2	0.3	669.0	16.4
Other Eastern Europe	2.9	5.3	0.6	28.9	0.2	37.9	60.2	24.8	1.8	86.8	0.0
Other countries	62.9	1.3	34.7	22.7	69.4	191.0	2.8	679.8	209.6	892.2	2.4
TOTAL	**6,451.5**	**6,026.6**	**69,619.0**	**1,864.1**	**1,135.2**	**85,096.4**	**35,776.4**	**35,006.2**	**5,481.9**	**76,264.5**	**21,339.0**

31.12.07	Cash and balances with central bank	Loans and advances to credit institutions	Loans and advances to customers	Securities	Other assets	Total assets	Due to to credit institutions	Due to customers	Other liabilities	Total liabilities	Contingent liabilities
Sweden	6.8	4,828.2	42.5	453.1	4.5	5,335.1	34,677.7	213.9	2,629.3	37,520.9	1,894.2
Estonia	4,832.6	6.0	69,692.4	953.8	3,001.0	78,485.8	325.8	31,390.1	5,534.6	37,250.5	18,052.1
United Kingdom	3.0	80.8	48.5	0.4	0.0	132.7	6.0	1,620.4	1.2	1,627.6	105.5
Russia	9.2	201.6	1,909.2	130.2	382.2	2,632.4	9.9	254.3	302.3	566.5	48.8
Germany	0.0	12.3	77.4	23.7	0.0	113.4	340.1	41.0	0.0	381.1	64.4
United States	10.6	15.8	33.8	23.9	0.4	84.5	1.7	330.7	0.1	332.5	53.8
Canada	0.7	0.3	0.0	0.0	0.0	1.0	0.0	35.3	0.1	35.4	0.1
Japan	0.3	41.5	0.0	0.9	0.0	42.7	0.0	12.6	0.0	12.6	0.0
Finland	0.0	0.5	16.5	8.9	0.1	26.0	4.1	157.6	0.3	162.0	177.8
Latvia	5.0	82.9	39.9	33.0	0.0	160.8	18.0	112.3	0.0	130.3	16.6
Lithuania	2.6	66.9	0.4	25.8	0.0	95.7	15.4	101.3	0.8	117.5	12.0
Luxembourg	0.0	6.2	10.9	174.4	0.0	191.5	2.9	0.6	0.0	3.5	0.1
Netherlands	0.0	0.1	7.6	68.7	0.0	76.4	0.0	3.2	0.0	3.2	0.1
Other Western Europe	6.5	37.4	47.8	125.2	3.8	220.7	7.2	770.0	2.2	779.4	280.7
Other Eastern Europe	3.7	51.9	4.7	66.8	0.1	127.2	0.2	16.2	4.5	20.9	0.1
Other countries	63.4	4.4	57.4	20.0	283.9	429.1	1.1	829.5	296.9	1,127.5	20.4
TOTAL	**4,944.4**	**5,436.8**	**71,989.0**	**2,108.8**	**3,676.0**	**88,155.0**	**35,410.1**	**35,889.0**	**8,772.3**	**80,071.4**	**20,726.7**

Contingent liabilities include here guarantees and pledges, loan commitments, forwards, swaps, options, spots, interest rate based derivatives, revocable transactions, stand by loans, other revocable transactions, options of structured products and are presented in contract amount of contingent liabilities, detailed view in Note 36.

Securities include here Financial assets held for trading, Financial assets designated at fair value through profit or loss, Available-for-sale financial assets, Investments in associates.

Concentration of financial assets and liabilities by economic sector

(millions of EEK)

31.12.08

Economic sector	In balance sheet: Cash and loans to central bank, credit institutions and customers	In balance sheet: Securities	Contingent liabilities
Finance	12,496.2	260.5	4,979.5
Real estate	11,502.3	597.1	2,578.1
Industry	5,628.6	48.3	1,570.9
Trading	5,123.6	138.6	2,824.3
Transport	3,860.1	35.8	1,378.8
Energy, gas and steam plants	2,353.6	0.0	1,375.9
Agriculture, fishing, forestry	2,043.7	4.4	102.9
Government and state defence	1,769.2	3.7	381.1
Construction	1,389.0	47.4	1,816.3
Hotels, restaurants	1,208.8	6.4	194.5
Health services, social work	935.1	12.1	110.0
Administration and assistance	840.7	34.9	206.3
Art, showbusiness, leisure	580.7	40.5	322.8
Professional, science and technical work	351.2	0.0	87.6
Water supply, canalization, waste management	339.5	0.0	90.2
Information and telecommunication	315.0	41.4	106.2
Education	286.6	0.0	252.5
Mining	58.4	11.6	4.6
Exterritorial organisations	0.1	2.3	0.5
Other government & social services	973.1	192.9	63.8
Individuals	31,135.5	2.8	2,892.2
Derivatives	0.0	383.4	0.0
Allowances	-1,093.9	-	-
TOTAL	**82,097.1**	**1,864.1**	**21,339.0**

31.12.07

Economic sector	In balance sheet: Cash and loans to central bank, credit institutions and customers	In balance sheet: Securities	Contingent liabilities
Finance	10,387.7	1,113.5	4,794.5
Trading	7,216.5	61.6	2,762.5
Industry	6,819.0	99.2	1,799.1
Transport	4,292.5	73.6	1,772.0
Real estate development	2,277.2	127.4	155.8
Agriculture, hunting, forestry	1,962.8	0.7	177.4
Energy, gas and water plants	1,834.6	26.6	950.9
Government, soc.insurance	1,643.4	108.8	377.0
Hotels, restaurants	1,639.0	0.0	95.0
Construction	1,460.5	43.6	1,775.3
Health services, social work	774.4	6.4	180.3
Education	94.5	0.0	21.4
Mining	68.0	1.3	5.0
Fishing	31.3	0.0	1.3
Exterritorial organisations	0.1	0.0	0.5
Other business services	11,155.8	32.4	2,539.4
Other government & social services	1,320.4	63.6	243.8
Individuals	29,738.4	15.3	3,075.5
Derivatives	0.0	334.8	0.0
Allowances	-345.9	-	-
TOTAL	**82,370.2**	**2,108.8**	**20,726.7**

Contingent liabilities include here guarantees and pledges, loan commitments, forwards, swaps, options, spots, interest rate based derivatives, revocable transactions, stand by loans, other revocable transactions, options of structured products and are presented in contract amount of contingent liabilities, detailed view in Note 36.

Securities include here Financial assets held for trading, Financial assets designated at fair value through profit or loss, Available-for-sale financial assets, Investments in associates.

The maximum exposure for on and off balance sheet items, subject to credit risk, without taking account of collateral held or other credit enhancements, as of 31.12.2008 was 103,9 bio EEK and as of 31.12. 2007 was 102,7 bio EEK.

2.6. Liquidity risk

Liquidity risk is defined as the risk of a loss or substantially higher costs than calculated due to the AS SEB Pank being forced to make business changes or borrow at unfavourable rates in order to meet its payment commitments on time.

The bank's liquidity risk is regulated and managed on basis of the mandatory reserve of the Bank of Estonia and internal liquidity limits determined by ALCO. Liquidity risk is measured as cumulative cash flows arising from the assets and liabilities of the bank in various time bands. Liquidity management is based on special models reflecting cash flow behaviour in the case of different scenarios including crisis scenario.

The Group's liquidity management process, as carried out within the Group and monitored by Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets to fulfil mandatory reserve requirement;
- Monitoring liquidity gaps against internal limits; and
- Managing the concentration and profile of debt maturities.

Long-term liquidity of the bank is planned and control over liquidity risk management is executed by ALCO. Central and daily management of the bank's liquidity is the responsibility of the Treasury, and analysing that of the Risk Control department.

In current economical situation additional assurance for AS SEB Pank to manage long-term liquidity gives belonging to the international banking group. Liquidity is managed in co-operation with SEB Group Treasury. Through the parent company AS SEB Pank has better access to the international money markets than on individual basis.

Next table presents the cash flows payable by the Group under financial liabilities by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity risk (by remaining maturity)
(millions of EEK)

31.12.08	Demand and less 1 month	1-3 months	3-12 months	1-2 years	2-5 years.	over 5 years	Total	Carrying value in balance sheet
Due to credit institutions	3,714.1	485.3	5,544.9	6,496.1	21,886.6	284.2	38,411.2	35,369.7
Due to customers	26,988.8	3,908.4	3,437.0	446.2	471.4	132.5	35,384.3	34,981.5
Issued debt securities	0.0	0.0	5.5	124.6	0.0	0.0	130.1	115.9
Subordinated loans	0.0	7.7	89.9	83.9	273.4	2,879.1	3,334.0	2,613.0
Other liabilities	870.5	625.1	2.3	0.0	0.0	0.0	1,497.9	1,497.9
Loans related off-balance sheet commitments*	1,043.5	669.6	3,516.4	120.0	10.1	96.1	5,455.7	0.0
Gross settled								
Derivatives inflow	-3,279.6	-1,857.8	-461.7	-105.1	-201.8	-36.7	-5,942.7	-343.3
Derivatives outflow	3,299.8	1,915.1	471.9	105.1	201.8	36.7	6,030.4	427.6
Net settled								
Derivatives	0.1	0.0	1.9	30.8	5.8	0.0	38.6	38.6
	32,637.2	**5,753.4**	**12,608.1**	**7,301.6**	**22,647.3**	**3,391.9**	**84,339.5**	**74,700.9**

31.12.07	Demand and less 1 month	1-3 months	3-12 months	1-2 years	2-5 years.	over 5 years	Total	Carrying value in balance sheet
Due to credit institutions	1,002.9	1,147.9	1,762.6	7,678.9	28,012.9	61.7	39,666.9	35,410.1
Due to customers	28,214.2	2,974.3	3,555.8	1,014.5	399.1	106.4	36,264.3	36,033.0
Issued debt securities	0.0	52.9	523.5	0.0	133.7	0.0	710.1	704.5
Subordinated loans	0.0	11.1	122.1	121.5	342.6	2,982.4	3,579.7	2,622.3
Other liabilities	3,264.5	1,087.9	46.8	19.2	27.9	0.0	4,446.3	4,446.2
Loans related off-balance sheet commitments*	777.2	1,060.6	5,018.3	293.5	158.9	31.2	7,339.7	0.0
Gross settled								
Derivatives inflow	-1,767.4	-2,237.2	-697.8	-39.6	-56.2	-8.1	-4,806.3	-38.6
Derivatives outflow	1,772.0	2,230.8	697.9	39.6	56.2	8.1	4,804.6	38.1
Net settled								
Derivatives	24.8	14.8	121.0	93.0	32.5	0.0	286.1	286.1
	33,288.2	**6,343.1**	**11,150.2**	**9,220.6**	**29,107.6**	**3,181.7**	**92,291.4**	**79,501.7**

* credit related off-balance sheet commitments are unused credit limits on balace sheet day

Assets available to meet these liabilities include cash, central bank balances, highly liquid bonds held for reserve purposes, loans and advances to banks and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Group would also be able to meet unexpected net cash outflows by selling securities. Balance sheet date spot rate is used for assets / liabilities in foreign currencies.

2.7. Operational risk

Operational risk is the risk of loss due to external events (natural disasters, external crime, etc) or internal factors (e.g. breakdown of IT systems, mistakes, fraud, non-compliance with external and internal rules, other deficiencies in internal controls).

AS SEB Pank has established Operational Risk Committee (ORC) – top level advisory group to group's management on operational risk issues. Operational Risk Committee is a body guiding and co-ordinating the operational risk management in all units, including dealing with security issues, evaluation of technological risks and quality management, acting within the authority granted by the AS SEB Pank Management Board. Operational Risk Policy states minimum standards for operational risk management.

AS SEB Pank has developed several techniques to identify, analyse, report and mitigate operational risk:

- Reporting of operational risk events (losses, near misses and extraordinary gains) with automated routing of issues to responsible managers.
- Regular monitoring of Key Risk Indicators. Key indicators serve as early warning signals about changes in risk level and business efficiency. Fluctuations of indicators and reasons of such fluctuations are discussed at monthly ORC meetings.
- Regular process of operational risk self-assessments (ORSA).
- Follow-up compliance with New Product Approval Process requirements to minimize operational risk in product development.
- Business continuity planning - establishing business continuity plans for most critical business processes, recovery plans for IT and insuring physical security in crisis situations.

AS SEB Pank uses an IT-based infrastructure for management of operational risk, security and compliance, the system is in use all over SEB Group. The system enables all staff to register risk-related issues and management at all levels to assess, monitor and mitigate risks and to compile prompt and timely reports. This facilitates management of risk exposures and minimises the severity of incidents in progress. The system also provides input to SEB group's model for calculating the capital requirement under the Advanced Measurement Approaches. This model, which is used also for economic capital, is based on internal data and on operational losses of a considerable size that have actually occurred in the global financial sector. The quality of the risk management of the units, based upon their self-assessment, is taken into account. Effective operational risk management results in a lower allocation of capital.

Insurance agreements concluded by SEB AB apply to AS SEB Pank and cover the following:

- crime insurance,
- professional indemnity,
- directors and officers liability,
- damage caused to a third party resulting from the activity of the bank.

2.8. Fair value of financial assets and liabilities
(millions of EEK)

	31.12.08		31.12.07	
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Cash	712.1	712.1	751.9	751.9
Balances with central bank	5,739.4	5,739.4	4,192.5	4,192.5
Loans and advances to credit institutions	6,026.6	6,026.6	5,436.8	5,436.8
Loans and advances to customers	69,619.0	64,922.6	71,989.0	71,847.8
Financial assets held for trading	399.2	399.2	527.1	527.1
Financial assets at fair value through profit or loss	1,043.3	1,043.3	1,461.8	1,461.8
Available-for-sale financial assets	412.4	412.4	66.2	66.2
Other assets	218.7	218.7	2,258.3	2,258.3
TOTAL ASSETS	**84,170.7**	**79,474.3**	**86,683.6**	**86,542.4**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to credit institutions	35,776.4	35,651.3	35,410.1	35,305.9
Due to customers	35,006.2	34,968.1	35,889.0	35,857.9
Lending funds	129.9	129.9	144.0	144.0
Other liabilities	1,516.2	1,510.9	4,446.1	4,446.1
Issued debt securities	106.1	101.5	667.5	667.5
Financial liabilities at fair value through profit or loss	497.6	499.7	361.2	361.2
Subordinated loans	2,620.9	2,433.9	2,622.3	2,622.3
Total Liabilities	**75,653.3**	**75,295.5**	**79,540.2**	**79,404.9**

AS SEB Pank assesses fair value of those financial assets and liabilities which are not presented on the Group's balance sheet at their fair value.

When calculation fair values for floating interest rate loans and for fixed-interest rate lending, future interest income is discounted based on the market interest curve, which has been adjusted for applicable margins of new lending. As of balance sheet date fair value of loans and advances to customers was 6.75% lower than the book value. As of 31.12.2007 fair value was calculated for fixed-interest lending and that was 0.20% lower than the book value.

Correspondingly also fixed-interest rate deposits, floating interest rate and fixed-interest rate balances due to credit institutions and other financial liabilities are discounted based on the market interest curve adjusted for relevant margins.

Balances due to credit institutions (35,776.4 million EEK as at 31.12.2008) include credit lines borrowed from the parent bank SEB AB (32,764.1 million EEK as at 31.12.2008). As of balance sheet date fair value of balances due to credit institutions was 0.35% (2007: 0.29%) lower than the book value.
As of balance sheet date fair value of due to customers was 0.11% (2007: 0.09%) lower than the book value.

As of balance sheet date fair value of other financial liabilities was 0.35% (2007: 0%) lower than the book value. For insurance clients' financial liability there has been performed a liability adequacy test (see Note 1.16 for results).

2.9. Capital management

The Group's Capital Policy defines how capital management should support the business goals. Shareholders' return requirement shall be balanced against the capital requirements of the regulators and the equity necessary to conduct the business of the Group.

ALCO and the Chief Financial Officer are responsible for the process linked to overall business planning, to assess capital requirements in relation to the Group's risk profile, and to propose a strategy for maintaining the desired capital levels. Together with continuous monitoring, and reporting of the capital adequacy to the Management Board, this ensures that the relationships between shareholders' equity and regulatory based requirements are managed in such a way that the Group does not jeopardise the profitability of the business and the financial strength of the Group.

Capital ratios are the main communication vehicle for capital strength. Following the SEB Group Capital Policy the parent company shall promptly arrange for additional capital if SEB Pank requires capital injections to meet the decided level. The Group analyses the capital effects of Basel II by regularly assessing RWA levels under the new framework and by continuously observing national regulatory developments. The quality of the Group's credit portfolio and the internal risk management culture translate into substantial RWA reductions – though limited by supervisory floors during the first years of the regime. However, this cannot be equated with a similar capital release, due to the framework's increased business cycle sensitivity, supervisory evaluation and rating agency considerations.

Good risk management notwithstanding, the Group must keep capital buffers against unexpected losses. The regulatory capital requirements serve as one measure of the necessary capital buffer to meet these risks. Requiring a more precise and risk-sensitive measure for internal capital assessment and performance evaluation, SEB group uses an economic capital framework. The Group's performance evaluation shall be based on the Return on Business Equity („RoBE“) methodology.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital: net-owners' equity must be over 5 million euros (78,2 EEKmio), and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above minimum of 10%.

According to Insurance Activities Act, The minimum share capital of an insurance undertaking shall be at 3 million euros (46,9 EEKmio) if the insurance undertaking has the right to engage in life insurance (AS SEB Elu- ja Pensionikindlustus).

According to Investment Funds Act, the share capital of a management company shall be equivalent to at least 3 million euros (46,9 EEKmio), if the management company manages a mandatory pension fund (AS SEB Varahaldus).

According to Securities Market Act, the share capital of an investment firm shall be equivalent to at least 125 thousand euros (1,96 EEKmio), if the firm is providing services of securities portfolio management and is organising the issuance of securities or public offers (AS SEB Enskilda).

Capital adequacy

(millions of EEK)	Basel II* rules	Basel I rules
CAPITAL BASE	**31.12.08**	**31.12.07**
Paid-in share capital	665.6	665.6
Premium	1,346.6	1,346.6
General banking reserves	304.9	321.5
Retained earnings / loss	5,571.0	5,739.3
Unrealised profit for previous periods on shares of subsidiaries and associated companies (negative)	-3.7	-
Unrealised FX differences	0.0	-0.8
Intangibles	-390.5	-392.9
Audited profit for the period (group without life insurance)	856.8	
Total primary own funds	8,350.7	7,679.3
Subordinated debt (Note 32)	2,613.0	2,613.0
Available for sale financial instruments	-2.5	-
Unrealised part of profit on shares of subsidiaries and associated companies	1.7	-
Allowances and adjustments exceeding expected loss	0.5	
Total supplementary own funds	2,612.7	2,613.0
Majority holding in other credit and financial institutions	3.6	3.6
Majority holding in insurers	30.0	-
Total deductions	33.6	3.6
Total third level own funds	-	-
Own funds included in calculation of capital adequacy	10,929.8	10,288.7

CAPITAL REQUIREMENTS	Basel II* rules 31.12.08	Basel I rules 31.12.07
Central government and central banks with standardised approach	22.4	
Municipalities and regions with standardised approach	90.2	
State agencies, non-profit institutions and associations with standardised approach	2.0	
Retail claims with standardised approach	289.2	
Overdue claims with standardised approach	3.9	
Shares of investment funds with standardised approach	5.4	
Other assets with standardised approach	91.3	
Credit institutions, investment firms and municipalities with IRB	20.4	
Other companies with IRB	2,816.1	
Retail claims with IRB	715.5	
Total capital requirements for covering the credit risk and counterparty credit risk (in Basel I risk weighted assets)	4,056.4	76,562.3
Capital requirement for covering interest position risk	19.2	
Capital requirement for covering equity position risk	0.6	
Total capital requirements for covering the FX risk, commodity risk and position	19.8	46.0
AMA of operational risk	145.8	
Capital requirements total	4,222.0	
Transition period floor of own funds if using IRB	6,510.8	
Capital requirements for calculating capital adequacy	6,510.8	76,608.3

*Basel II calculations are made for Group without AS SEB Elu- ja Pensionikindlustus (life insurance), holding in insurer is deducted. Basel I calculations are made for Group with AS SEB Elu- ja Pensionikindlustus, holding in subsidiary is eliminated in group consolidation.

CAPITAL RATIOS	Basel II* rules 31.12.08	Basel I rules 31.12.07
Capital adequacy (%)	16.79	13.20
Tier 1 Capital Ratio (%)	12.80	9.85
Tier 2 Capital Ratio (%)	3.99	3.35

MEMBERS OF CONSOLIDATION GROUP, INCLUDED TO CAPITAL ADEQUACY CALCULATION	MEMBERS OF CONSOLIDATION GROUP, NOT INCLUDED TO CAPITAL ADEQUACY CALCULATION
AS SEB Pank	AS SEB Elu- ja Pensionikindlustus
AS SEB Liising Group	
AS SEB Varahaldus	
AS Bangalo	
AS SEB Enskilda	
OÜ Strongler	

In Estonia the Basel II capital adequacy rules are in effect from January 1, 2007. Basel II is new capital adequacy framework which aims to converge regulative capital to the actual capital need of the bank according to its risk profile. Capital requirements for credit risk are reflecting the actual risk better than the previous rules, capital requirements for operational risk are introduced and the risk management and internal capital assessment of banks are subject to stricter scrutiny by the supervisors. In period 01.01.2008 - 30.06.2008 SEB Pank Group used standard method for calculation of credit risk and market risk and base method for calculating operational risk. From July 1, 2008, after respective permissions were granted by the supervisors, SEB Pank Group started to use the internal ratings based approach for reporting of credit risk and advanced approach for reporting of operational risk under Basel II.

2.10. Internal control system

Internal control system is a management tool that covers the activities of the entire banking Group and forms an integral part of the internal processes in the bank and in the Group. The responsibility for the establishment and operation of internal control system lies with the Management Board; the need for and the scope of controls is determined by the extent and nature of the risks involved.

The bank's Supervisory Board carries out supervision of the activities of the bank and the entire Group by establishing the general risk management principles.

To achieve the approved business goals, the Management Board of the bank establishes in accordance with the statutory requirements the necessary sub-plans, incl. competence and scope of liability as well as the internal rules that regulate activities, the accounting rules and the procedure for preparing and submitting operating reports.

The Risk Control department co-ordinates the monitoring of the risks involved, and the reporting of the sufficiency of risk capital to the respective management bodies.

The Internal Audit department and SEB group Audit Committee are responsible for monitoring of the existence and functioning of efficient internal control system.

The SEB group Audit Committee co-ordinates the (internal) audit work in accordance with the group's business objectives and overall risk assessment.

2.11. Compliance function

Compliance function in SEB Pank Group is global and independent from the business organisation. Its tasks are to mitigate compliance risks, ensure compliance quality, drive and promote compliance issues. Compliance supports the business and management by securing that the business in SEB Pank Group is carried out in compliance with regulatory requirements. In matters of common interest, Compliance co-operates with the Legal, Internal Audit, Risk Control and Security functions.

The areas of responsibility for the Compliance function relate to areas of customer protection, market conduct, prevention of money laundering and terrorist financing, regulatory systems and controls. The SEB Pank Group's instruction for the handling of conflicts of interests, ethics policy, market abuse instruction, instruction on measures to prevent money laundering, Code of Business Conduct are of special importance.

Notes 3 - 40 to Financial Statements of AS SEB Pank Group

(millions of EEK)

3. Interest and similar income

	2008	2007
Loans	4,021.7	3,189.1
Leasing	769.2	725.7
Deposits with other banks	189.5	149.0
Fixed income securities	13.0	93.7
	4,993.4	**4,157.5**

4. Interest expenses and similar charges

	2008	2007
Credit institutions	-1,714.9	-1,430.3
Time and other saving deposits	-680.3	-518.5
Demand deposits	-543.3	-470.6
Subordinated debts	-147.2	-114.3
Issued bonds	-28.5	-16.5
Loan funds	-5.6	-5.5
Other	-0.3	-0.1
	-3,120.1	**-2,555.8**

5. Fee and commission income

	2008	2007
Credit and payment cards	376.4	376.9
Securities market services	199.3	239.1
Credit contracts*	139.8	216.0
Transaction fees	131.2	121.7
Non-life insurance brokerage fees	46.9	43.9
Income from leasing agreements (full service)	45.3	53.1
Corporate Finance fees	35.9	112.6
Other	25.8	23.0
Income from electronic channels	16.8	15.1
Other settlement fees	14.2	10.7
Cash handling fees	13.6	16.2
	1,045.2	**1,228.3**

* Credit contracts include loan, leasing, letter of credit and guarantee contracts signed with customers, which are short-term and do not constitute interest income, but are of administrative nature for arrangement reorganisation of credits.

6. Fee and commission expense

	2008	2007
Credit and payment cards	-169.5	-192.1
Securities market	-39.2	-43.0
Expenses to leasing agreements (full service)	-35.0	-43.5
Cash collecting fees	-27.1	-25.5
Transaction fees	-18.6	-18.0
Expenses of electronic channels	-12.0	-12.2
Corporate Finance fees	-1.1	-44.9
Other	-15.3	-14.0
	-317.8	**-393.2**

7. Net income from foreign exchange

	2008	2007
Gain/loss from transactions	-144.0	182.6
Currency translation differences	278.0	-20.8
	134.0	**161.8**

8. Gains less losses from financial assets at fair value through profit or loss

	2008	2007
Gain/loss from trading securities	**-43.9**	**-23.7**
Gain/loss from shares	-50.0	-25.2
Gained from fixed income securities	6.1	1.5
Gain/loss from financial assets at fair value	**7.0**	**0.0**
Gained from fixed income securities	7.0	0.0
Derivatives	**-161.4**	**71.4**
Equity derivatives*	-168.9	31.0
Currency derivatives	-5.5	28.1
Interest derivatives	13.0	12.3
	-198.3	**47.7**

* AS SEB Pank has guaranteed 100% principal amount protection for Liquidity Fund´s investors. The guarantee is financial derivative, which exercised when fund's NAV droped below 100% and realised in losses amount of 174,2 EEKmio. Exercising the derivative means purchasing all the assets (excluding assets, which are classified as cash in the meaning of current annual accounts) from Liquidity Fund (Note 19) and remunerating the loss to investors from NAV drop below 100%. The group had no further similar financial derivatives as of 31.12.2008.

Respective assets are disclosed in Notes 19 and 36.

9. Income from insurance activities

	2008	2007
Net insurance premium revenue	189.8	180.2
Fair value losses (unrealized)	-124.3	-20.3
Fee income from investment contracts	21.4	17.8
Dividends received	2.0	1.2
Interest income	19.9	14.1
Realized losses (gains) on investments	-1.8	30.9
Other operating income	0.7	3.5
Total income	**107.7**	**227.4**
Net insurance claims and disbursements	-152.3	-153.2
Total expenses	**-152.3**	**-153.2**
Total net income from insurance activities	**-44.6**	**74.2**

10. Other income

	2008	2007
Gains on sales of tangible assets and assets held for sale*	0.0	512.6
Rental income**	1.3	13.9
Penalties	4.2	3.7
Other income	7.9	19.1
	13.4	**549.3**

* The divestment of properties, owned by SEB Pank Group, explained in Note 20.

** Rental income in 2008 was earned from properties held for sale and partial rent-out of buildings in our own use.

11. Personnel expenses

	2008	2007
Personnel expenses	-485.1	-492.8
Social security expenses	-162.1	-163.0
Other personnel expenses (hiring, training)	-30.4	-34.6
	-677.6	**-690.4**

12. Other expenses

	2008	2007
Penalties	-2.3	-1.0
Premises cost (rental and utilities)*	-135.2	-74.7
Advertizing and marketing	-69.4	-71.2
IT related expenses	-68.1	-65.7
Other administrative cost	-60.6	-71.2
Consulting	-17.5	-13.3
Information services	-12.6	-9.3
Legal services	-11.1	-3.4
Deferred acquisition costs	-1.3	-0.3
Other operating expenses	-33.9	-40.3
	-412.0	**-350.4**

* Increased in 2008 in connection with the sales of properties that were used as premises until the end of 2007 (Note 1).

Development costs

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Advertising expenses and the launch of new products, services and processes are expensed as incurred. Expenditures related to trademarks, etc., to be developed inside the company are also expensed at the moment of their occurence (Note 1, page 26).

In 2008 AS SEB Pank had expenses for the developing IT systems and electronic products in total amount of 44,0 million kroons (43,4 million kroons in 2007).

13. Impairment losses on loans and advances

2008	Credit insti-tutions	Loans to Corporates	Leases to Corporates	Housing loans	Other loans to Private individuals	Seized assets	TOTAL
Allowances for loans and advances to customers	**0.0**	**-483.0**	**-140.3**	**-93.2**	**-37.3**	**0.0**	**-753.8**
new loan allowances (Note 18)	0.0	-612.6	-142.8	-128.9	-77.7	0.0	-962.0
recoveries from write-offs	0.0	3.0	2.0	0.0	3.2	0.0	8.2
reversals of allowances (Note 18)	0.0	126.6	0.5	35.7	37.2	0.0	200.0
Assets held for sale (Note 23)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-7.2**	**-7.2**
reappraisal	0.0	0.0	0.0	0.0	0.0	-9.1	-9.1
realized gains	0.0	0.0	0.0	0.0	0.0	1.9	1.9
	0.0	**-483.0**	**-140.3**	**-93.2**	**-37.3**	**-7.2**	**-761.0**

2007	Credit insti-tutions	Loans to Corporates	Leases to Corporates	Housing loans	Other loans to Private individuals	Seized assets	TOTAL
Allowances for loans and advances to customers	**2.6**	**-85.5**	**-12.7**	**-44.3**	**-31.4**	**0.0**	**-171.3**
new loan allowances (Note 18)	0.0	-105.0	-22.5	-44.3	-35.6	0.0	-207.4
recoveries from write-offs	0.0	14.4	0.3	0.0	3.2	0.0	17.9
reversals of allowances (Note 18)	2.6	5.1	9.5	0.0	1.0	0.0	18.2
Assets held for sale (Note 23)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**18.9**	**18.9**
reappraisal	0.0	0.0	0.0	0.0	0.0	-3.1	-3.1
realized gains*	0.0	0.0	0.0	0.0	0.0	22.0	22.0
	2.6	**-85.5**	**-12.7**	**-44.3**	**-31.4**	**18.9**	**-152.4**

* Realised gain 22 MEEK from the sale of real estate seized to secure the right of claim

14. Income tax

	2008	2007
Current income tax	-1.8	-11.1
Deferred tax expense (Note 28)	-1.8	-4.3
	-3.6	**-15.4**
	-3.6	-15.4

The Group activities include activities in Estonia and Russia.

According to Estonian Income tax law profits earned by the Group are not subject to income tax. The Group's activities in Russia are subject to Russian Income tax.

The income tax rate in Russia is 24% of the taxable income. All deferred income tax expense is related to SEB Leasing. Following is the reconcilation of the net income before tax earned in Russia to the effective tax expense:

	2008	2007
Profit before tax in Russia	25.5	35.6
Income tax per tax rate applicable in Russia (24%)	6.1	8.5
Tax on expenses not deductible for tax purposes*	-2.5	6.9
Income tax expense	3.6	15.4

* SEB Leasing´s differences between Russian Satutory accounting, IFRS an Tax accounting

15. Segment analysis

Profit by business segments

2008	Merchant Banking	Retail Banking	Treasury and other	Elimina-tions	Group
Net interest income	**29.2**	**1,257.3**	**574.1**	**12.7**	**1,873.3**
incl. internal	-110.5	-565.7	663.5		
incl. external	139.7	1,823.0	-89.4		
Net income from fees and commissions	**134.7**	**536.0**	**66.3**	**-9.6**	**727.4**
incl. internal	-73.8	135.3	-51.9		
incl. external	208.5	400.7	118.2		
Net financial income *	**-103.1**	**43.5**	**-3.2**	**-1.5**	**-64.3**
incl. internal	61.6	-60.1	-0.1		
incl. external	-164.7	103.6	-3.1		
Income from insurance activities	**0.0**	**0.0**	**-34.7**	**-9.9**	**-44.6**
incl. internal	0.0	0.0	9.9		
incl. external	0.0	0.0	-44.6		
Other income	**1.0**	**146.2**	**217.4**	**-170.8**	**193.8**
incl. internal	0.0	8.4	162.3		
incl. external	1.0	137.8	55.1		
Total income	**61.8**	**1,983.0**	**819.9**	**-179.1**	**2,685.6**
incl. internal	-122.7	-482.1	783.7		
incl. external	184.5	2,465.1	36.2		
Other expenses	**-120.3**	**-900.3**	**-248.1**	**179.1**	**-1,089.6**
incl. internal	42.9	-357.6	135.6		
incl. external	-163.2	-542.7	-383.7		
Depreciation, amortization and impairment of tangible and intangible assets	**-2.6**	**-31.9**	**-30.5**		**-65.0**
Total expenses	**-122.9**	**-932.2**	**-278.6**	**179.1**	**-1,154.6**
incl. internal	42.9	-357.6	135.6		
incl. external	-165.8	-574.6	-414.2		
Impairment losses on loans and advances	**-4.0**	**-757.0**	**0.0**		**-761.0**
incl. internal	137.9	-137.9	0.0		
incl. external	-141.9	-619.1	0.0		
Profit before tax	**-65.1**	**293.8**	**541.3**		**770.0**
incl. internal	58.1	-977.6	919.3		
incl. external	-123.2	1,271.4	-378.0		
Income tax	**0.0**	**0.0**	**-3.6**		**-3.6**
Net profit	**-65.1**	**293.8**	**537.7**		**766.4**

* Net financial income = Net income from foreign exchange + Gains less losses from trading and financial assets at fair value through profit or loss at inception

The Business segments are presented according to IAS 14. No comparative information is presented, because until 31.12.2007 the Group operated as one segment in internal management structure and for both internal and external reporting purposes. Since 1.1.2008, the Group was restructured to manage Retail Banking, Merchant Banking, Treasury, Life Insurance/Wealth Management, and other internal functions as separate units for management/business structure and internal reporting purposes. Since September 2008, when the bonds of AS SEB Pank became listed in Tallinn Stock Exchange (Note 29), the Group started to report segment information also externally. So effectively the old basis of segment reporting is presented in primary financial statements for 2008 and 2007.

For 2008 segment reporting on new basis includes the following segments - Retail Banking, Merchant Banking, Treasury and Other. The different divisions assist different groups of customers. The customer's demands decide the type of products that are offered. Merchant Banking offers wholesale and investment banking services to large corporations and institutions. Retail Banking offers products mainly to retail customers (private customers and small corporates). Treasury function mainly includes financing obtained from the parent company or other sources and further provided to other segments by internal financing. Other, being below the reportable segment threshold, includes Wealth Managment, which performs asset management and Life Insurance, which offers life and pension insurance.

The internal transfer pricing objective in the SEB Group is to measure net interest income, to transfer interest risk and to manage liquidity. The internal price is set according to the market price, which is price paid at the interbank market for a specific interst and liquidity term. The business units do not pay or receive any margins on funds transferred to and fom the Tresury unit. Transactions between Business segments are conducted at arm's length. All activity of AS SEB Pank Group take place in Estonia, therefore geographical segment is not presented.

Segment assets and liabilities	Merchant Banking	Retail Banking	Treasury and other*	Elimina-tions	Group
Total assets	851.8	77,107.0	40,633.7	-33,496.1	85,096.4
Total liabilities	-770.5	-69,169.3	-39,820.8	33,496.1	-76,264.5
Equity	-81.3	-7,937.7	-812.9	0.0	-8,831.9

* Treasury and other includes internal assets and liabilities to other segments.

16. Balances with central bank

	31.12.08	**31.12.07**
Balances with the central bank	5,739.4	4,192.5
Mandatory reserve fulfillment, monitored on basis of december average	10,142.1	9,092.6
Mandatory reserve requirement, monitored on basis of december average	9,507.3	8,970.1
Mandatory reserve overbalance, monitored on basis of december average	634.8	122.5

Estonian commercial banks are obliged to maintain mandatory reserves on their clearing accounts with the Central Bank, calculated on 15% of the mandatory reserve basis.

Mandatory reserve on the correspondent account of the Bank of Estonia is monitored on basis of monthly average. Since 01.07.2001 the reserve may be filled with external financial assets in the amount of 50% from the monthly average mandatory reserve requirement. As at December 2008 the reserve requirement was filled by balances with central bank and external financial assets.

Mandatory reserve deposits are available for use by the Group's day-to-day business. Mandatory reserve earns interest at 2%. In 2008 the Group earned interest in amount of 159,9 EEKmio (2007 123,8 EEKmio).

17. Loans and advances to credit institutions

	31.12.08	**31.12.07**
Reverse repos*	5,334.6	4,684.7
Demand deposits*	360.2	409.2
Time deposits	324.5	331.6
Other*	0.0	0.8
Accrued interest receivable	7.3	10.5
	6,026.6	**5,436.8**
* Cash equivalents	5,694.8	5,094.7
Due from credit institutions, registered in EU	5,847.6	5,133.7
Due from credit institutions, registered in Estonia	1.2	6.0
Due from credit institutions, registered in other countries	177.8	297.1
	6,026.6	**5,436.8**

18. Loans and advances to customers

	31.12.08	31.12.07
Loans to Corporates	27,351.6	28,136.0
Leases to Corporates	8,651.0	11,981.2
Public sector	2,817.5	2,340.4
Housing loans	24,379.9	23,516.1
Other loans to Private individuals	6,419.0	6,015.3
	69,619.0	**71,989.0**
Due from customers, registered in EU	472.7	278.4
Due from customers, registered in Estonia	69,055.6	69,692.4
Due from customers, registered in other countries	90.7	2,018.2
	69,619.0	**71,989.0**

Loan portfolio by economic sector presented in note 2 "Risk policy and management", on page 60.
Due from customers by currency is presented in note 2, on page 52-53.
Due from customers by maturity is presented in note 2, on page 62 and interest restatement see pages 56-57.
Past due is presented in note 2, on page 49.
Geographic concentration of assets and liabilities is presented in note 2, on page 59.

Gross and net investments on finance leases

	31.12.08	31.12.07
Gross investment	**12,397.2**	**14,673.4**
up to 1 year	3,960.3	4,369.8
1 - 5 years	7,825.7	9,422.1
over 5 years	611.2	881.5
Unearned future finance income on finance leases (-)	**-1,433.9**	-1,885.8
Net investment in finance leases*	**10,963.3**	12,787.7
up to 1 year	3,445.0	3,696.7
1 - 5 years	7,018.9	8,361.9
over 5 years	499.4	729.1

* Net investment in finance leases are presented in Note 17 on rows: Public sector, Housing loans, Other loans to Private individuals.

	31.12.08	31.12.07
Net investment in finance leases by interest rates	**10,963.3**	12,787.7
<= 5 %	2,152.5	1,293.7
5-10 %	8,790.6	11,411.7
10-15 %	19.8	82.3
>15 %	0.4	0.0

	31.12.08	31.12.07
Net investment in finance leases by base currencies	**10,963.3**	12,787.7
EEK	137.2	143.7
EEK related to EUR	4,625.9	7,278.6
USD	274.1	585.5
EUR	5,926.1	4,779.9

Allowances for impaired debt*

2008	Credit institutions	Loans to Corporates	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
At the beginning of period (January, 1)	0.0	106.1	32.8	0.0	117.9	89.1	345.9
Loan allowances (Note 13)	0.0	612.6	142.8	0.0	128.9	77.7	962.0
Reversals of allowances (Note 13)	0.0	-126.6	-0.5	0.0	-35.7	-37.2	-200.0
Loans and advances written off	0.0	-5.8	-9.3	0.0	0.0	-1.7	-16.8
Exchange rate adjustments	0.0	2.4	0.4	0.0	0.0	0.0	2.8
At the end of period (December, 31)	**0.0**	**588.7**	**166.2**	**0.0**	**211.1**	**127.9**	**1,093.9**
Recoveries from write-offs	0.0	-3.0	-2.0	0.0	0.0	-3.2	-8.2

2007	Credit institutions	Loans to Corporates	Leases to Corporates	Public sector	Housing loans	Other loans to Private individuals	TOTAL
At the beginning of period (January, 1)	3.6	27.3	73.4	0.0	73.8	57.5	235.6
Loan allowances (Note 13)	0.0	105.0	22.5	0.0	44.3	35.6	207.4
Reversals of allowances (Note 13)	-2.6	-5.1	-9.5	0.0	0.0	-1.0	-18.2
Loans and advances written off	0.0	-22.2	-51.8	0.0	0.0	-1.0	-75.0
Exchange rate adjustments	0.0	-0.1	-3.8	0.0	0.0	0.0	-3.9
At the end of period (December, 31)	**1.0**	**104.9**	**30.8**	**0.0**	**118.1**	**91.1**	**345.9**
Recoveries from write-offs	0.0	-14.4	-0.3	0.0	0.0	-3.2	-17.9

* allowances include both allowances for loans to credit institutions and for loans and advances to customers

19. Financial investments

	31.12.08	31.12.07
Financial assets held for trading	**15.8**	**192.3**
Shares and fund participations	3.9	144.1
incl. listed	3.9	144.1
Debt securities and other fixed income securities	11.9	48.2
incl. listed	11.9	30.2
Derivatives (Notes 36, 1.24)	**383.4**	**334.8**
Financial assets at fair value through profit or loss at inception	**1,043.3**	**1,461.8**
Shares and fund participations	551.0	978.0
incl. listed	93.5	328.5
Debt securities and other fixed income securities	492.3	483.8
incl. valuated based on discounted cash flow method *	63.0	-
incl. listed	369.3	316.2
Available for sale financial assets	**412.4**	**66.2**
Shares and fund participations**	71.7	66.2
incl. listed	1.0	1.5
Debt securities and other fixed income securities	340.7	0.0
incl. valuated based on discounted cash flow method *	257.6	-
incl. listed	0.2	0.0
Total	**1,854.9**	**2,055.1**

Securities of entities, registered in EU	824.2	963.5
Securities of entities, registered in Estonia	925.4	900.1
Securities of entities, registered in other countries	105.3	191.5
	1,854.9	**2,055.1**

Generally financial investments are revalued in fair value based on active market quotations.

* Yield curves for discounted cash flow method were determined based on market interest rates for respective currency and credit spreads for respective issuer. Estonian kroon yield curve for longer maturities was constructed using Estonian Government Credit Default Swap spread. To capture each bond issuer credit risk, SEB internal credit rating (risk class) was used as bases for credit spread.

** Includes participations in pension funds managed by SEB Varahaldus in the total value of 53,6 mio EEK, ownership of which is required (1-2% of the specific managed fund) according to the Investment Fund's Act.

Movements of financial investments

	Financial assets held for trading	Derivatives (Notes 36, 1.24)	Financial assets at fair value through profit or loss at inception	Available for sale financial assets	Total
At the beginning of period (01.01.07)	**90.0**	**17.4**	**3,612.5**	**74.6**	**3,794.5**
Acquisitions	24,792.6	0.0	1,470.0	4.2	26,266.8
Disposals and redemptions	-24,682.0	0.0	-3,766.6	-34.8	-28,483.4
Changes of value	-8.3	296.1	159.6	23.1	470.5
Changes of currency rate	0.0	21.3	-13.7	-1.0	6.6
Accured interests	0.0	0.0	0.0	0.1	0.1
At the end of period (31.12.07)	**192.3**	**334.8**	**1,461.8**	**66.2**	**2,055.1**
At the beginning of period (01.01.08)	**192.3**	**334.8**	**1,461.8**	**66.2**	**2,055.1**
Acquisitions	25,671.4	0.0	1,749.2	595.1 *	28,015.7
Disposals and redemptions	-25,851.3	0.0	-1,722.8	-248.8	-27,822.9
Changes of value	3.4	-256.0	-441.9	-0.5	-695.0
Changes of currency rate	0.0	304.6	-3.0	0.4	302.0
Accured interests	0.0	0.0	0.0	0.0	0.0
At the end of period (31.12.08)	**15.8**	**383.4**	**1,043.3**	**412.4**	**1,854.9**

Financial investments available for sale with ownership in shares over 10%, presented on the balance sheet line "Securities" under "Available for sale financial assets" are: Kaarsar OÜ, Silverlaw OÜ, OÜ Croneland, OÜ Munga Maja, AS Tallinna Börs, total value of which was 3,7 million kroons as at 31.12.2008 (31.12.2007 also 3,7). The aforementioned companies are located in Estonia.

* Fixed income securities taken over by the bank from the Liquidity Fund in the amount 590,1 EEKmio (Note 8) and further redemptions/disposals of these investments. Group's intention is to dispose of these investments in due course and not to hold an availble-for-sale financial asset portfolio beyond legal requirements set for asset management subsidiary regarding its managed fund participations (Note 19).

20. Other assets

	31.12.08	31.12.07
Payments in transit*	218.7	2,258.2
Assets held for sale	57.6	21.1
incl. Real estate	1.6	1.6
Cars	46.5	17.8
Other assets from leasing activities	9.5	1.7
Accured revenue and prepaid expenses**	319.0	703.9
Prepaid taxes**	13.5	143.0
Allowances for losses from other recievables	-10.7	-6.0
	598.1	**3,120.2**

* Decrease in sercurities clearing in 2008 by approx 2 000 million EEK is from the fact that in 2007 the balance included 1 690 million EEK of client's payments in transit with future value date in connection with extraordinary increased volume of payments transferred outside Estonia over the year end. The balance of 31.12.2007 does not represent an average payments-in-transit balance.

** In 2007 these balances included prepaid expenses of leasing companies: EEKmio 270 payment for goods and services, EEKmio 260 payments of leasing suppliers, EEKmio 100 prepaid VAT. In 2008 JSC SEB Leasing has been disposed off (Note 21) and does not belong to the SEB Pank Group any further, which is also the main reson for the significant decrease in these balances.

	31.12.08	31.12.07
Assets held for sale at the beginning of the year	**21.1**	**506.4**
According to management decision classified as held for sale	0.0	22.0
Acquired during the year	74.2	38.9
Disposed of during the year	-37.7	-546.2
Assets held for sale at the end of the year	**57.6**	**21.1**

Disposals of assets held for sale	**31.12.08**	**31.12.07**
Sales value	37.7	1,049.5
Carrying value	-37.7	-546.2
Gain/loss on disposal (Note 1)	0.0	503.3

Assets held for sale include assets taken over by the Group from leasing / loans contracts, where clients failed to pay or returned the assets after the lease term. The Group has disposed these assets on secondary markets through intermediaries.

21. Investments in associates

Movements of investments in associates

	At the beginning of period	Acqui-sitions	Disposals and redemp-tions	Profit from equity method	At the end of period
2008	**53.7**	0.0	-46.1	1.6	**9.2**
2007	**42.9**	0.0	0.0	10.8	**53.7**

Associated companies

	Nominal value (EEK)	Assets	Liabili-ties	Total revenues	AS SEB Pank in calculated profit/-loss	Balance value	Owner-ship (%)
2008							
SEB IT Partner Estonia OÜ	17500	10.6	2.2	19.0	0.4	2.9	35.00%
AS Sertifitseerimiskeskus	100000	23.9	5.6	22.1	-1.6	4.6	25.00%
Pankade Kaardikeskuse AS	0	0.0	0.0	0.0	2.1	0.0	0.00%
OÜ TietoEnator Support	20000	9.4	3.2	20.9	0.7	1.7	20.00%
Total		43.9	11.0	62.0	1.6	9.2	
2007							
SEB IT Partner Estonia OÜ	17500	10.8	3.5	28.9	0.8	2.6	35.00%
AS Sertifitseerimiskeskus	100000	29.2	4.6	17.7	-2.0	6.1	25.00%
Pankade Kaardikeskuse AS	1000	110.3	4.2	59.6	11.4	44.0	41.52%
OÜ TietoEnator Support	20000	5.6	2.7	18.4	0.6	1.0	20.00%
Total		155.9	15.0	124.6	10.8	53.7	

Share of the Group from the net assets of associates equals to the carrying value of the investment in the Group financial statements, except for investment in OÜ TietoEnator Support, where the goodwill in amount of 0,4 EEKmio is included in the carrying value of investment.

Acquisitions and disposals of associated companies and subsidiaries

Acquisitions

No aquisitions in 2008.

In 2007, SEB Pank established SEB Enskilda with 100% holding. Acquisition cost 11,5 EEKmio.

Disposals

In January 2008 HF Liisingu AS was liquidated, respective entry was made by Estonian Commercial Register on 31.01.2008. In June 2008 was sold ownership in Pankade Kaardikeskus AS (card centre). In June 2008 also was sold JSC SEB Leasing (Russian entity), which was moved in SEB Group to direct ownership by SEB AB, see Note 23. Percentage of JSC SEB Leasing assets was 2,6% from SEB Pank group assets. Sales revenue of Pankade Kaardikeskus AS was 138,9 EEK mio and profit 98,9 EEKmio (carrying value at time of disposal 40 EEKmio). Sales revenue of JSC SEB Leasing was 101,2 EEK mio and profit 49,6 EEKmio. Profit from investment portfolio was 0,3 EEKmio. As a result a total gain of 148,8 EEKmio was recognised as "gains less losses from investment securities" in PNL for 2008. Gain of 15.2 EEKmio in 2007 resulted from investment portfolio.

In December 2007, SEB Pank sold its 100%-holding in AS Tornimägi. Acquisition cost 132,9 EEKmio, see Note 23.

22. Intangible assets

	Goodwill	Other	Total
At the beginning of period (01.01.07)			
Cost	379.1	76.5	455.6
Accumulated amortisation	0.0	-68.5	-68.5
Carrying value	**379.1**	**8.0**	**387.1**
Opening carrying value	**379.1**	**8.0**	**387.1**
Additions	0.0	11.8	11.8
Amortisation charge	0.0	-6.0	-6.0
Closing carrying value	**379.1**	**13.8**	**392.9**
At end of period (31.12.07)			
Cost	379.1	79.8	458.9
Accumulated amortisation	0.0	-66.0	-66.0
Carrying value	**379.1**	**13.8**	**392.9**
At the beginning of period (01.01.08)			
Cost	379.1	79.8	458.9
Accumulated amortisation	-	-66.0	-66.0
Carrying value	**379.1**	**13.8**	**392.9**
Opening carrying value	**379.1**	**13.8**	**392.9**
Additions	0.0	3.4	3.4
Amortisation charge	0.0	-5.8	-5.8
Closing carrying value	**379.1**	**11.4**	**390.5**
At end of period (31.12.08)			
Cost	379.1	83.0	462.1
Accumulated amortisation	0.0	-71.6	-71.6
Carrying value	**379.1**	**11.4**	**390.5**

Goodwill

Goodwill was aquired in connection with the Tallinna Pank group acquisition (in 1998), 379 EEKmio, generates cash flows in Retail Banking and Merchant Banking segments. The goodwill has been allocated to these units for impairment testing. The carrying amount of goodwill for Retail Banking is 379 EEKmio.

Goodwill is revised annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2008 (also in 2007).

The impairment test has been based on their value in use with forecasted cash flows for a period of five years plus residiual value. The cash flows are determined based on historical performance and market trends for key assumptions such as growth. The growth rates used after five years is 4% which principally are the expected long-term inflation rate adjusted for industry specific expectations. The discount rate used is 12,3 per cent. The assumptions here specified are for impairment test purposes only. A sensitivity analysis was conducted, where the discount rate and growth rate, respectively, were changed with one percentage point. The growth rate change did not result in calculated recoverable amounts below the carrying amounts for the above mentioned goodwill. The discount rate increase resulted in calculated recoverable amounts to be 19 EEKmio below the carrying amounts for the above mentioned goodwill, which would lead to impairment loss of 19 EEKmio.

23. Property plant and equipment

	Land	Buildings	Other tangible assets	Total
At the beginning of period (01.01.07)				
Cost	0.5	39.4	471.0	510.9
Accumulated depreciation	0.0	-32.8	-333.6	-366.4
Carrying value	**0.5**	**6.6**	**137.4**	**144.5**
Opening carrying value	**0.5**	**6.6**	**137.4**	**144.5**
Additions	0.0	10.3	82.0	92.3
Disposals (carrying value)*	0.0	-0.3	-4.6	-4.9
Depreciation charge	0.0	-2.3	-52.5	-54.8
Reclassification	0.0	0.0	-9.3	-9.3
Closing carrying value	**0.5**	**14.3**	**153.0**	**167.8**
Disposal from selling AS Tornimägi (subsidiary), (Note 21)				
Cost			-9.8	-9.8
Accumulated depreciation			4.2	4.2
Carrying value			**-5.6**	**-5.6**
At end of period (31.12.07)				
Cost	0.5	34.1	503.9	538.5
Accumulated depreciation	0.0	-19.8	-356.5	-376.3
Carrying value	**0.5**	**14.3**	**147.4**	**162.2**

* Sales revenue 0,6 EEK mio, sales profit 0,1 EEK mio, writing off 4,3 EEK mio

	Land	Buildings	Other tangible assets	Total
At the beginning of period (01.01.08)				
Cost	0.5	34.1	503.9	538.5
Accumulated depreciation	0.0	-19.8	-356.5	-376.3
Carrying value	**0.5**	**14.3**	**147.4**	**162.2**
Opening carrying value	**0.5**	**14.3**	**147.4**	**162.2**
Additions	0.0	15.0	33.3	48.3
Disposals (carrying value)*	0.0	0.0	-3.3	-3.3
Depreciation charge	0.0	-5.1	-53.8	-58.9
Reclassification	0.0	14.0	-14.0	0.0
Closing carrying value	**0.5**	**38.2**	**109.6**	**148.3**
Disposal from selling JSC SEB Leasing (subsidiary), (Note 21)				
Cost			-2.0	-2.0
Accumulated depreciation			0.3	0.3
Carrying value			**-1.7**	**-1.7**
At end of period (31.12.08)				
Cost	0.5	62.3	458.3	521.1
Accumulated depreciation	0.0	-24.1	-350.4	-374.5
Carrying value	**0.5**	**38.2**	**107.9**	**146.6**

* Sales revenue 0,2 EEK mio, sales profit 0,0 EEK mio, writing off 3,1 EEK mio

24. Due to credit institutions

	31.12.08	31.12.07
Demand deposits	1,816.3	554.7
Time deposits and loans (remaining maturity up to 1 year)	33,524.8	34,431.7
Time deposits and loans (remaining maturity more than 1 year)	28.7	35.8
Accrued interest payable to credit institutions	406.6	387.9
	35,776.4	**35,410.1**

	31.12.08	31.12.07
Due to credit institutions, registered in EU	35,415.3	35,069.7
Due to credit institutions, registered in Estonia	285.5	325.8
Due to credit institutions, registered in other countries	75.6	14.6
	35,776.4	**35,410.1**

35.1 billion kroons as at 31.12.2008 and 34.7 billion kroons as at 31.12.2007 are due from group to parent bank SEB.

In 2008 resources from KFW Bankengruppe credit line were disbursed in the total amount of 18.3 million EUR (loan agreement concluded on 26 November 2007), supplementary EU grants were gained in the amount of 0.4 million EUR. In 2007 the bank took credit lines from KFW Bankengruppe 25 million EUR with maturity 15.09.2017.

25. Due to customers

	31.12.08	31.12.07
Demand deposits	18,686.1	22,110.5
Time deposits and other saving deposits, insurance	14,703.1	11,712.8
Investment deposits (index-linked)	1,462.6	1,952.2
Accrued interest payable to customers	154.4	113.5
	35,006.2	**35,889.0**
Non residents	4,170.6	4,607.5
Residents	30,835.6	31,281.5
	35,006.2	**35,889.0**
Due to customers by type of customer		
Due to corporate customers	21,173.4	23,202.2
Due to individuals	13,832.8	12,686.8
	35,006.2	**35,889.0**
Due to customers, registered in EU	2,552.5	2,840.0
Due to customers, registered in Estonia	30,965.4	31,390.1
Due to customers, registered in other countries	1,488.3	1,658.9
	35,006.2	**35,889.0**

See by remaining maturity in note 2, page 62 and interest restatement maturity page 56-57.
See by currency in note 2, page 52.

Customer assets under management of the group

As of 31.12.2008 the customer securities portfolios under management of the Group amounted to 1942,9 million kroons (including 720,7 million in portfolio of AS SEB Elu- ja Pensionikindlustus). The total volume of aforementioned portfolios as of 31.12.2007 was 2794,9 million kroons (including 640,9 million in portfolio of AS SEB Elu- ja Pensionikindlustus). Commission fee is received from management of these portfolios and no credit or market risk is born by the Group.

As at 31.12.2008 the group's Asset Management Company belonging to the Group (AS SEB Varahaldus) managed 12 investment and pension funds (i.e. 8 open-end investment funds, 2 mandatory pension funds and 2 voluntary pension fund) with average total volume of 4,5 billion kroons. As at 31.12.2007 the Asset Management Company belonging to the Group managed 11 investment and pension funds (i.e. 7 open-end investment funds, 2 mandatory pension funds and 2 voluntary pension fund) with average total volume of 6,9 billion kroons. Investment management service is also performed to the SEB (parent Group) funds (4 funds) 5,2 billion kroons, as at 2007 18,1 billion kroons.

26. Lending funds

Resources from Maaelu Edendamise Sihtasutus (rural life development foundation) credit line were disbursed with the intended purpose to finance small and medium enterprises operating in rural areas.Under mentioned credit line investments have to be made outside Tallinn, Tartu, Narva, Kohtla-Järve and Pärnu (major towns in Estonia).

27. Other liabilities

	31.12.08	**31.12.07**
Insurance financial liabilities from investment contracts with insurance clients	615.0	966.9
Payments in transit*	534.5	2,711.8
Factoring balances	86.9	74.5
Other prepaid income**	98.5	397.0
Prepayments from leasing customers	50.2	80.0
Other accrued costs**	57.7	156.0
Accrued interest payable	18.2	15.3
Tax debts	54.6	42.0
Other financial liabilities	0.6	2.6
	1,516.2	**4,446.1**

* Decrease in sercurities clearing in 2008 by approx 2 000 million EEK is from the fact that in 2007 the balance included 1 690 million EEK client's payments in transit with future value date in connection with extraordinary increased volume of payments transferred outside Estonia over the year end. The balance of 31.12.2007 does not represent an average payments-in-transit balance.

** In 2007 these balances included prepaid income of leasing companies: EEKmio 230 amounts owed for goods and services and EEKmio 79 prepayments for lease objects. In 2008 JSC SEB Leasing has been disposed off (Note 21) and does not belong to the SEB Pank Group any further, which is also the main reson for the significant decrease in these balances.

Movement of financial liabilities from investment contracts with insurance clients

	31.12.08	31.12.07
Financial liabilities from investment contracts – at fair value through profit or loss		
Balance at the beginning of the period	**849.0**	**559.0**
Payments collected	205.0	345.0
Service fees	-13.2	-11.7
Provisions and disbursements	-205.6	-76.6
Change in fair value, interest and bonuses	-333.6	33.3
Balance at the end of the period	**501.6**	**849.0**

Financial liabilities from investment contracts – at amortised cost		
Balance at the beginning of the period	**117.9**	**96.5**
Premiums collected	28.7	30.7
Service fees	-8.3	-9.2
Provisions and disbursements	-27.6	-5.7
Change in fair value, interest and bonuses	2.7	5.6
Balance at the end of the period	**113.4**	**117.9**
Total	**615.0**	**966.9**

28. Deferred income tax liabilities

	31.12.08	31.12.07
Deferred tax assets in subsidiary JSC SEB Leasing		
At the beginning of period	**0.7**	**2.7**
Deferred tax expenses / income (Note 14)	-0.7	-2.0
At end of period	**0.0**	**0.7**
Deferred tax liabilities in subsidiary JSC SEB Leasing		
At the beginning of period	**4.2**	**1.9**
Accelerated tax depreciation (Note 14)	-4.2	2.3
At end of period	**0.0**	**4.2**

29. Issued debt securities

Buyer / Registry holder	Amount in issued currency (mio)	Amount in EEKmio	Interest rate	Maturity date
		31.12.08		
Issued bonds by AS SEB Pank				
Estonian Central Register of Securities*	103.1 EEK	103.1	5.30%	14.06.10
Accrued interest payable		3.0		
		106.1		

* Issued bonds by AS SEB Pank are quoted in Tallinn Stock Exchange list of Securities since September, 12 2008.

Buyer / Registry holder	Amount in issued currency (mio)	Amount in EEKmio	Interest rate	Maturity date
		31.12.07		
Issued bonds by AS SEB Pank				
Estonian Central Register of Securities	50.7 EEK	50.8	4.09%	14.02.08
Estonian Central Register of Securities	23.9 EEK	23.9	4.65%	16.06.08
Estonian Central Register of Securities	103.1 EEK	103.1	5.30%	14.06.10
Estonian Central Register of Securities	190.6 EEK	190.7	4.65%	16.06.08
Estonian Central Register of Securities	47.2 EEK	47.2	4.68%	16.06.08
Estonian Central Register of Securities	237.5 EEK	237.5	5.00%	01.10.08
Accrued interest payable		14.3		
		667.5		

30. Financial liabilities at fair value through profit or loss

	31.12.08	31.12.07
Structured bonds*	8.2	37.0
Derivatives (Note 36)	489.4	324.2
	497.6	**361.2**

* Nominal amount of structured bonds as of 31.12.2008 was 20,7 EEKmio and as of 31.12.2007 30,6 EEKmio. Further decrease is from change in fair value.

31. Provisions

	Life insurance provision	Provision of unsettled claims	Bonus provision	Technical provisions total
Life insurance provisions as at 01.01.07	**405.2**	**3.4**	**6.3**	**414.9**
Added to the life insurance provisions	6.3	0.0	-6.3	0.0
Calculated during the period under review	102.7	-0.2	8.8	111.3
Total life insurance provisions of insurance as at 31.12.07	**514.2**	**3.2**	**8.8**	**526.2**
Other provisions (legal claims)	-	-	-	0.8
Total provisions 31.12.07	-	-	-	**527.0**
Life insurance provisions as at 01.01.08	**514.2**	**3.2**	**8.8**	**526.2**
Added to the insurance technical provisions	8.8	0.0	-8.8	0.0
Calculated during the period under review	84.3	0.7	0.0	85.0
Total life insurance provisions of insurance as at 31.12.08	**607.3**	**3.9**	**0.0**	**611.2**
Other provisions (legal claims)	-	-	-	16.9
Total provisions 31.12.08	-	-	-	**628.1**

	Carrying	Future expected undiscounted cash flows by years				
31.12.08	amount	0-5 years	5-10 years	10-15 years	15-20 years	>20 years
Life insurance provisions	611.2	-250.3	148.6	349.9	333.5	725.6

	Carrying	Future expected undiscounted cash flows by years				
31.12.07	amount	0-5 years	5-10 years	10-15 years	15-20 years	>20 years
Life insurance provisions	527	-345	110.5	329.9	344.3	705.1

32. Subordinated loans

				31.12.08
Issuer	**Amount in issued currency (mio)**	**Amount in EEKmio**	**Interest rate at balance sheet date**	**Maturity date**
SEB AB	17.0 EUR	266.0	3.95 %	21.12.16
SEB AB	50.0 EUR	782.3	3.88 %	23.09.15
SEB AB	50.0 EUR	782.4	4.77 %	26.05.16
SEB AB	50.0 EUR	782.3	4.71 %	29.05.17
Accrued interest payable		7.9		
		2,620.9		

				31.12.07
Issuer	**Amount in issued currency (mio)**	**Amount in EEKmio**	**Interest rate at balance sheet date**	**Maturity date**
SEB AB	17.0 EUR	266.0	5.57 %	21.12.16
SEB AB	50.0 EUR	782.3	5.59 %	23.09.15
SEB AB	50.0 EUR	782.4	5.40 %	26.05.16
SEB AB	50.0 EUR	782.3	5.44 %	29.05.17
Accrued interest payable		9.3		
		2,622.3		

Subordinated debt may be considered as hybrid instrument, which means that due to their partial capital nature may be included under the bank's own funds in case certain requirements are met. In calculation of capital adequacy, loans with the remaining maturity over 5 years meeting certain requirements are included in own funds. Regarding loans with maturity less than 5 years, a 20% straightline depreciation is applied in each following year, thus the loan is not considered own funds when the maturity period is less than one year.

Subordinated debt is issued at a variable interest rate and the interest restatemant is sheduled within 12 monthly from the balance sheet date (see Note 2 page 56-57). Interest is restated for 6 months period in advance. Subordinated debt is repayable only on maturity.

33. Shareholders

	Country	Number of shares	% from total number
Shareholders of AS SEB Pank at 31.12.2008:			
Skandinaviska Enskilda Banken (SEB)	Sweden	66,562,381	100.00
Shareholders of AS SEB Pank at 31.12.2007:			
Skandinaviska Enskilda Banken (SEB)	Sweden	66,562,381	100.00

Nominal value of shares: 10 EEK

Maximum number of shares in articles of association: 240,000,000

All issued shares are paid for.

SEB AB is the ultimate parent of AS SEB Pank. SEB AB (incorporated in Sweden) does not have a controlling parent company.

See capital adequacy calculation on page 66.

Share information	**31.12.08**	**31.12.07**
Number of shares of AS SEB Pank at end of period	66,562,381	66,562,381
Average number of shares, adjusted with issues	66,562,381	66,562,381
Net profit, EEKmio	766.4	2,026.5
Earnings per share (EEK per share)	11.51	30.45
Diluted earnings per share (EEK per share)	11.51	30.45

As the bank did not have potentially issued common stock in 2008 and 2007, the ordinary earnings per share equals the diluted earnings per share.

34. Dividend policy

AS SEB Pank is 100%-owned by SEB AB. In working out the strategy for equity management, profit distribution and formation of reserves the bank is following the common approach of future risks and performance strategy of the SEB Group. The Group has not paid any dividend since aquisition by SEB AB.

35. Other reserves

	31.12.08	31.12.07
General banking reserve	298.5	298.5
Statutory reserve	25.9	23.0
Revaluation reserve of Available-for-sale financial assets	-5.5	11.4
	318.9	**332.9**

Movements of Other reserves

	General banking reserve	Revaluation reserve of Available-for-sale financial assets	Statutory reserve	Total other reserves
Balance at the beginning of the period (01.01.07)	**298.5**	**19.8**	**19.7**	**338.0**
Transfer from the retained profits	-	-	3.3	3.3
Net gain/loss from the change in fair value	-	-8.4	-	-8.4
Balance at the end of the period (31.12.07)	**298.5**	**11.4**	**23.0**	**332.9**
Transfer from the retained profits	-	-	2.8	2.8
Net gain/loss from the change in fair value	-	-16.8	-	-16.8
Balance at the end of the period (31.12.08)	**298.5**	**-5.4**	**25.8**	**318.9**

According to the Income Tax Act valid until 2000 the credit institutions were able to form a tax exempt general banking reserve up to 5% of the loan portfolio to cover potential losses. Allocations to this reserve could be deducted from the taxable income.

According to the Commercial Code at least 5% of the net income has to be transferred into the statutory reserve capital every year, until the reserve capital comprises 10% of the share capital. The statutory reserve capital may be used for covering losses.

AS SEB Pank profit for the year 1994 - 1997 has been allocated to that general banking reserve (except for 6.2 million kroons from the 1995-year profit). The reserve amounts to 298.5 million kroons, including also the bank's statutory reserve capital according to the Commercial Code. In 1998 - 2007 the bank made no allocations to the reserves. In 2001 - 2007 the subsidiaries of AS SEB Pank made allocations to the statutory reserves from their undistributed profits in the amount of 25.9 million kroons.

36. Contingent assets and liabilities and commitments

(millions of EEK)

31.12.08	Contract amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
1. Irrevocable transactions	**926.6**	**10,088.9**	**0.0**	**0.0**
1.1. Guarantees and pledges	640.3	4,280.5	0.0	0.0
incl. financial guarantees	*625.9*	*1,624.9*	*0.0*	*0.0*
1.2. Loan commitments	286.3	5,807.4	0.0	0.0
1.3. Other off-balance sheet commitments	0.0	1.0	0.0	0.0
2. Derivatives	**11,258.3**	**11,250.1**	**383.4**	**489.4**
2.1. Currency related derivatives	5,422.0	5,509.7	68.1	152.4
2.2. Interest related derivatives	4,215.6	4,223.3	275.2	275.2
2.3. Equity related derivatives*	1,620.7	1,517.1	40.1	61.8
	12,184.9	**21,339.0**	**383.4**	**489.4**

31.12.07	Contract amount		Fair value	
	Assets	Liabilities	Assets	Liabilities
1. Irrevocable transactions	**745.8**	**11,655.2**	**0.0**	**0.0**
1.1. Guarantees and pledges	273.9	3,908.8	0.0	0.0
incl. financial guarantees	*234.7*	*1,362.9*	*0.0*	*0.0*
1.2. Loan commitments	471.9	7,736.2	0.0	0.0
1.3. Other off-balance sheet commitments	0.0	10.2	0.0	0.0
2. Derivatives	**9,079.7**	**9,071.5**	**334.8**	**324.2**
2.1. Currency related derivatives	4,614.1	4,612.5	38.6	38.1
2.2. Interest related derivatives	2,927.9	2,927.6	0.0	0.0
2.3. Equity related derivatives*	1,537.7	1,531.4	296.2	286.1
	9,825.5	**20,726.7**	**334.8**	**324.2**

* Derivative transactions are executed to cover the client's position and the derivative risks are not taken to own portfolio. All risks arising from these transactions are fully mitigated with parent company. The equity option prices are calculated using for all input data (e.g. underlying prices or volumes) either independently sourced input (e.g. the underlying prices) or an independent price verification is performed on the next day to compare the values to independently sourced market data (e.g. for volumes), see Note 19.

Potential income tax on distribution of dividends

The retained earnings of the Group as at 31 December 2008 were 6 500,8 (31 December 2007: 5 739,4) million kroons. Distribution of retained earnings as dividends to the owners is subject to the income tax at the rate of 21/79 since 1 January 2008 on the amount paid out as net dividends. Therefore, from the retained earnings available at the balance sheet date it is possible to pay out to the shareholders as dividends 5 135,6 million kroons and the corresponding income tax would amount to 1 365,2 million kroons. As of 31 December 2007 it would have been possible to pay out dividends the amount of 4 534,1 million kroons, and the corresponding income tax would have amounted to 1 205,3 million kroons.

As at 31 December 2008 (and 31 December 2007) 100% shares of AS SEB Pank are owned by SEB AB, who makes the decisions about profit distribution. SEB AB has decided not to pay out dividends from the net profit of AS SEB Pank for the reporting period.

Potential liabilities arising from tax inspection

In 2008 the tax authority did not conduct tax audit in the AS SEB Pank and subsidiaries.

The tax authorities may at any time inspect the books and records of the company within 6 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties.

The AS SEB Pank management is not aware of any circumstances which may give rise to a potential material liability in this respect.

37. Events after end of the financial year

No such material events have occurred after the end of the financial year in AS SEB Pank, that would affect the conditions of the assets and commitments as at the balance sheet date 31.12.2008.

38. Related parties

(millions of EEK)	31.12.08	31.12.07
Loans and advances to members of management board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons.	15.3	16.9
Contingent liabilities to members of management board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons (credit lines and commitments to extend credit).	-0.4	-1.6
Deposits of members of management board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons.	-6.5	-8.1
Loans and advances to parent company	581.6	5,169.2
Due to parent company	-37,741.7	-37,328.4
incl. subordinated liabilities	-2,613.0	-2,613.0
Contingent assets and commitments to parent company	652.2	2,183.1
Contingent liabilities and commitments to parent company	0.0	-1,850.1
Loans and advances to enterprises of parent company's consolidation group	5,376.9	162.1
Due to enterprises of parent company's consolidation group	-68.9	-28.8
Contingent assets and commitments to enterprises of parent company's consolidation group	152.4	17.9
Contingent liabilities and commitments to enterprises of parent company's consolidation group	-2.2	-16.4
Interest income from parent company	173.7	88.6
Interest expence to parent company	-1,787.6	-1,500.3
Commission income from parent company	2.4	27.0
Commission expences to parent company	-1.5	-3.4
Interest income from enterprises of parent company's consolidation group	11.0	2.4
Interest expence to enterprises of parent company's consolidation group	-2.1	-2.2
Commission income from enterprises of parent company's consolidation group	1.4	23.8
Commission expences to enterprises of parent company's consolidation group	-0.4	-18.7

Interest rates of the loans given to related parties do not differ materially from interest rates of the loans to customers. Transactions with related parties have been based on market terms.

Related parties are:
- parent company
- subsidiaries of parent company;
- associates of parent company;
- associates of the Group;
- members of management board of credit institution and internal audit manager, also their confidants and commercial undertakings, controlled jointly or severally by the mentioned persons.

	2008	2007
Salaries and other benefits to the management in AS SEB Pank		
Members of management board	14.3	13.1
- salaries	12.6	8.1
- termination benefits to the management leaving the group	0.0	4.0
- other benefits to the key management	1.7	1.0
Salaries and other benefits to the management in subsidiaries of AS SEB Pank		
Members of management board	24.5	11.8
- salaries	22.2	11.8
- termination benefits to the management leaving the group	2.3	0.0

Members of supervisory boards in AS SEB Pank and in his subsidiaries have no salaries or other benefits in 2008 and 2007.

Compensations to key management personnel

Key management personnel is paid a compensation amounting up to 12-month remuneration if they are not re-elected as management board members or if the management board member refuses to accept the position offered under employment contract in AS SEB Pank or a company belonging to the same consolidation group with AS SEB Pank.

The members of AS SEB Pank's Management Board and members of the Management Team have 20 000 employee stock options and an initial allotment of 55 954 perfomance shares of SEB AB as of 31.12.2008. The closing price of SEB AB A-share as of 30.12.2008 was 60.75 SEK.

39. Legal disputes

There are no outstanding legal disputes from which AS SEB Pank Group could suffer major losses.

40. Primary statements of parent company as a separate entity

In accordance with the Estonian Accounting Act information on the separate primary financial statements of a consolidated entity shall be disclosed in the notes to the financial statements.

1. Income Statement, Bank

(millions of EEK)

	2008	2007
Interest and similar income	*4,173.1*	*3,403.7*
Interest expenses and similar charges	*-2,629.0*	*-2,117.8*
Net Interest Income	1,544.1	1,285.9
Fee and commission income	*809.3*	*900.3*
Fee and commission expense	*-258.4*	*-282.1*
Net fee and commission income	550.9	618.2
Net income from foreign exchange	137.6	154.8
Gains less losses from financial assets at fair value through profit or loss	-200.7	48.5
Income from dividends	29.9	0.6
Gains less losses from investment securities	240.4	5.9
Other income	45.7	634.3
Personnel expenses	-561.6	-568.0
Other expenses	-365.7	-321.5
Depreciation, amortization and impairment of tangible and intangible assets	-53.3	-51.7
Profit before impairment losses on loans and advances	**1,367.3**	**1,807.0**
Impairment losses on loans and advances	-636.0	-154.5
Profit before income tax	**731.3**	**1,652.5**
Net profit	**731.3**	**1,652.5**
Attributable to the sole equity holder	731.3	1,652.5
Earnings per share (EEK per share)	11.0	24.8
Diluted earnings per share (EEK per share)	11.0	24.8

2. Balance Sheet, Bank

(millions of EEK)	31.12.08	31.12.07
ASSETS		
Cash	712.1	751.9
Balances with central bank	5,739.4	4,192.6
Loans and advances to credit institutions	6,026.0	5,430.9
Loans and advances to customers	57,967.7	58,590.0
Financial assets held for trading	400.7	528.8
Available-for-sale financial assets	358.8	6.8
Other assets	311.4	2,346.4
Investments in subsidiaries and associates	196.5	202.4
Intangible assets	390.5	392.9
Property plant and equipment	114.2	124.5
TOTAL ASSETS	**72,217.3**	**72,567.2**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Due to credit institutions	24,403.7	23,031.9
Due to customers	36,863.8	36,736.9
Lending funds	64.0	46.9
Other liabilities	691.6	2,890.6
Issued debt securities	106.1	667.5
Financial liabilities at fair value through profit or loss	510.4	363.6
Provisions	16.9	0.8
Subordinated loans	2,620.9	2,622.3
Total Liabilities	**65,277.4**	**66,360.5**
Share capital	665.6	665.6
Share premium	1,346.6	1,346.6
Other reserves	300.4	298.5
Retained earnings	4,627.3	3,896.0
Total shareholders' equity	**6,939.9**	**6,206.7**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**72,217.3**	**72,567.2**

3. Cash Flow Statement, Bank

(millions of EEK)

	2008	2007
I. Cash flows from operating activities		
Interest received	3,929.7	3,174.2
Interest paid	-2,157.3	-1,701.5
Dividends received	29.9	0.7
Fee and commission received	809.3	900.3
Net trading income and other operating income	-184.7	527.3
Personnel expenses and other operating expenses	-1,022.2	-861.9
Revaluation adjustments	-12.1	-6.4
Cash flows from operating profits before changes in the operating assets and liabilities	**1,392.6**	**2,032.7**
Changes in operating assets:		
Loans and advances to credit institutions	2,041.8	-1,948.1
Loans and advances to customers	10.3	-9,426.3
Other assets	181.4	-132.7
Changes of operating liabilities:		
Due to credit institutions	-763.9	7,401.1
Due to customers	75.4	3,284.5
Lending funds	16.9	7.6
Other liabilities	-309.2	165.2
Cash flow from operating activities	**2,645.3**	**1,384.0**
II. Cash flows from investing activities		
Purchase of investment portfolio securities	-600.4	-9,177.6
Proceeds from sale of investment portfolio securities	489.1	9,188.0
Purchase of subsidaries	0.0	-11.5
Proceeds from sale and liquidation of subsidaries	1.9	132.9
Proceeds from sale and liquidation of associates	4.0	0.0
Purchase of tangible and intangible assets	-41.8	-67.3
Proceeds from sale of tangible and intangible assets	1.2	2.7
Cash flow from (used in) investing activities	**-146.0**	**67.2**
III. Cash flows from financing activities		
Proceeds from debt securities (issuing)	250.1	615.6
Repurchasing and redemption of debt securities	-810.0	-234.7
Proceeds from subordinated loans	0.0	782.3
Cash flow from financing activities	**-559.9**	**1,163.2**
Net increase in cash and cash equivalents	**1,939.4**	**2,614.4**
Cash and cash equivalents at beginning of period	**10,214.1**	**7,598.7**
Effect of exchange rate changes on cash and cash equivalents	-0.4	1.0
Cash and cash equivalents at end of period	**12,153.1**	**10,214.1**

Cash and cash equivalents includes:	**31.12.08**	**31.12.07**
Cash on hand	712.1	751.9
Balances with the central bank	5,730.4	4,181.0
Liquid deposits in other credit institutions	5,694.8	5,088.9
Trading portfolio	15.8	192.3
	12,153.1	**10,214.1**

All cash eqivalents are freely available for use by the Group with maturity of less than 3 months.

4. Changes in Shareholders' Equity, Bank

(millions of EEK)

	Share capital (Note 33)	Share premium	Other reserves (Note 35)	Retained earnings	Total share-holders' equity
Year beginning 01.01.2006	**665.6**	**1,346.6**	**304.9**	**2,243.5**	**4,560.6**
Net change in available for sale financial assets	0.0	0.0	-6.4	0.0	-6.4
Total recognised income for the year	**0.0**	**0.0**	**-6.4**	**0.0**	**-6.4**
Profit for the year	0.0	0.0	0.0	1,652.5	1,652.5
Final balance 31.12.2006	**665.6**	**1,346.6**	**298.5**	**3,896.0**	**6,206.7**
Book value of holdings under control or significant influence					-202.4
Value of holdings under control or significant influence, calculated by equity method					2,077.8
Adjusted unconsolidated equity as at 31.12.2007	**665.6**	**1,346.6**	**298.5**	**3,896.0**	**8,082.1**

Year beginning 01.01.2007	**665.6**	**1,346.6**	**298.5**	**3,896.0**	**6,206.7**
Net change in available for sale financial assets	0.0	0.0	1.9	0.0	1.9
Total recognised income for the year	**0.0**	**0.0**	**1.9**	**0.0**	**1.9**
Profit for the year	0.0	0.0	0.0	731.3	731.3
Final balance 31.12.2007	**665.6**	**1,346.6**	**300.4**	**4,627.3**	**6,939.9**
Book value of holdings under control or significant influence					-212.4
Value of holdings under control or significant influence, calculated by equity method					2,104.4
Adjusted unconsolidated equity as at 31.12.2008	**665.6**	**1,346.6**	**300.4**	**4,627.3**	**8,831.9**

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS SEB Pank

We have audited the accompanying consolidated financial statements of AS SEB Pank and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tiit Raimla
AS PricewaterhouseCoopers

11 March 2009

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

AS SEB PANK
Located at Tornimäe 2, Tallinn
MANAGEMENT BOARD RESOLUTION No 32

In Tallinn March 10th, 2009

1. To make a proposal to the sole shareholder not to distribute the profit of the financial year 2008 in the amount of 731,275,624 EEK (seven hundred and thirty-one million, two hundred and seventy-five thousand, six hundred and twenty-four Estonian kroons) /46,737,031 EUR (forty-six million, seven hundred and thirty-seven thousand, thirty-one euros)/.

2. To submit the present resolution to the Supervisory Board of AS SEB Pank for review.

Ahti Asmann
Chairman of the Management Board

Distribution: Management Board members, Legal Division, Financial Reporting Department

Signatures of Supervisory Board to annual report

The Management Board has prepared the management report and the annual accounts of AS SEB Pank for the financial year ended 31 December 2008.

The Supervisory Board of AS SEB Pank has reviewed the Annual Report 2008, prepared by the Management Board, consisting of the management report, the annual accounts, the Management Board's proposal for profit distribution and the independent auditors' report, and has approved the annual report for presentation to the sole shareholder.

The annual report has been signed by all members of the Supervisory Board :

"27" märts	2009		Bo Magnusson
"27" märts	2009		Anders Arozin
"27" märts	2009		Ainārs Ozols
"27" March	2009		Audrius Žiugžda
"27" march	2009		Ulf Pettersson