



15 February, 1999

REPORT ON THE 1998 RESULTS

- **The total result*** of the SEB Group increased by 30 per cent, to SEK 6,084 M (pro forma SEK 4,687 M in 1997). The operating result rose by 26 per cent, to SEK 4,801 M (SEK 3,804 M).
- The result included both the provisions of SEK 1.4 billion that were made during the third quarter for possible lending losses in Russia and capital gains of SEK 1.7 billion. 1997, the year of comparison, included restructuring costs of SEK 1.5 billion.
- Return on equity was 16.1 per cent (12.6 per cent pro forma in 1997) and earnings per share (total result after tax) were SEK 8.27 (SEK 6.04).
- Funds under management increased by 25 per cent, to SEK 499 billion.
- Stable earnings were reported for the fourth quarter of 1998, for which the total result amounted to SEK 1,715 M. At the same time, risk-weighted assets decreased by SEK 47 billion during the last quarter, to SEK 309 billion.
- It is proposed to increase the dividend to SEK 3.50 per share (SEK 3.00 per share).
- The sale of Trygg-Hansa's non-life business is being considered.

*) Total result consists of operating result, pension provision and the change in surplus values in life insurance operations (see page 8). Starting with this report, the holdings of investment bonds of the insurance business are reported as current assets instead of fixed assets, i.e. the portfolio is valued at market. Unrealised changes during the year in the surplus value of the investment portfolio of the Bank are no longer included in the total result. The pro forma comparison figures for 1997 and the quarterly figures for 1998 have been changed in accordance with the new accounting principle.

President's comments

In more than one way, 1998 was an intensive year for the SEB Group. It was the first financial year of the new Group after the merger of S-E-Banken and Trygg-Hansa at the end of 1997.

On 1 January, 1999 SEB carried out the world's first currency transaction in the new euro currency. This marked the end of the Bank's long preparation for the euro. The first six months of the year were strong, with economic growth and firm stock markets, after which turmoil in the financial markets of the world and the collapse of the Russian banking system led to a very weak third quarter. During the fourth quarter, however, our result developed positively, which clearly shows that the underlying earning capacity of the Group is good.

As early as in the spring of 1998, the financial unrest in certain fast-growing economies caused us to start to reduce the Group's risk-taking in these countries. Our exposure on emerging markets has been cut down during the year from SEK 47 billion to SEK 18 billion, net. In addition, the bulk of Trygg-Hansa's investments in equities has been hedged since the spring of 1998. The Group is engaged in a programme for continued risk-reduction.

Many units of the Group operate in strongly growing markets and the Group has continued to grow in these during 1998. This is particularly true for those units that operate in the field of savings, pension and asset management, e.g. Asset Management, which acquired ABB Investment Management and increased its market share of the mutual fund market during the year. Also SEB Trygg Liv (life) has grown markedly and more than doubled its total result.

We have also penetrated the Baltic markets by acquiring strategic blocks of shares in three banks: Eesti Ühispank in Estonia, Latvijas Unibanka in Latvia and Vilniaus Bankas in Lithuania.

The rationalisation work that all business areas and central staff functions have been engaged in has started to yield results. Costs have been reduced according to plan, but this work continues. There is further room for improvement. Excluding restructuring costs, investments in the IT-area and the Nordic expansion, our costs have decreased by 9 per cent. We continue to invest in IT in order to improve service, increase earnings and reduce costs.

During 1998, we introduced new ways of rationalising our use of capital. All business areas are now provided with allocated capital, which is based upon the risks assumed by them. This leads to a more efficient use of capital and a better balance between risk and capital used. We have streamlined our activities and released capital resources through the sale of the office properties of the Group and the Industrial & Marine business area.

We are currently considering the sale of the non-life business operations of Trygg-Hansa. Our experience from the combined distribution of non-life insurance and banking services is good. This is an area that we intend to develop further, e.g. as regards various combinations of financing and insurance services.

However, after having investigated various alternatives, we have arrived at the conclusion that we do not need to own the non-life company. Trygg-Hansa's property insurance operations are among the most efficient and profitable ones in the insurance sector. Nevertheless, these operations should be run on an even larger scale in order to be successful in the long run as regards European competition. However, no negotiations are in progress at present.

1998 has been devoted to a great deal of internal work that is not always visible to the outsider. Those growth areas that formed the basis of the merger have now been integrated, i.e. mutual fund,

asset management and the life and pension insurance units. Also the finance companies and telephone banks of the two companies have been amalgamated and are functioning well today. All this will now enable us to devote all our energy to customer-oriented work.

Today, we have a more distinct organisation, strategy and orientation. To an increasing extent, our customers will be able to see and experience the fruits of our efforts. The challenges facing us in 1999 are about increased focus on customers, improved operational efficiency and further rationalisation of our use of capital. In these respects, we still have a long way to go. At the same time, we will continue our investments in growth areas, particularly within our savings-related units.

The SEB Group is a “knowledge company”. Many of our direct services for our clients are of an advisory nature. Leading competence is one of our foremost success factors, not only in the form of expertise on various subjects but also, and increasingly, in terms of leadership and ability to create a good team spirit. At present, 20 per cent of the top managers are women, while the share of female employees is, in total, 55 per cent. To promote the advancement of women we use mentor programmes. We actively encourage women to apply for leading positions. The Group offers assistance at home to facilitate the combining of work and family for all employees with children under the age of eight. We are studying a new form of compensation system, by which part of the salary consists of options in accordance with the system that Parliament adopted in July, 1998. This system will first be applied to the Management Committee. The profit share for employees increased to SEK 292 M (SEK 88 M), which corresponds to approximately SEK 17,000 per employee.

In all, the 1998 result provides a stable basis for continued growth and rationalisation of the SEB Group. Turmoil in the financial environment, increased private savings and the introduction of the euro have intensified competition and put pressure on all the banks of the world. The great process of change that has been carried out within the SEB Group during 1998 is just the beginning. In 1999 as in coming years, there will be great opportunities for growth, both in volumes and results, which generate long-term shareholder value. The way in which our staff has faced challenges during the past year strengthens our faith for the future.

Market position of the Group

Despite increasing competition, the SEB Group managed to defend and to strengthen its leading position in most of its priority markets.

SEB accounts for between 35 and 40 per cent of all foreign exchange trading in Sweden. For several years, it has been ranked number one in Nordic currency trading by the magazine *Euromoney*.

SEB was the largest player on the Stockholm Stock Exchange also in 1998 and was ranked best Nordic securities broker (by *Euromoney*) and best corporate finance team in the Nordic area (by *Affärsvärlden*).

SEB is the largest asset manager in the Nordic area, with SEK 499 billion in funds under management.

At year-end 1998, SEB's total household savings amounted to SEK 344 billion (SEK 300 billion), which corresponded to a market share of 21.3 per cent (21.0 per cent). Its share of mutual fund savings was 23.2 per cent (22.0 per cent) and its share of household bank deposits was 13.2 per cent (13.4 per cent). The Group's share of new sales of life insurance was 19.7 per cent (21.0 per cent).

While total lending, excluding repos, increased by 6.6 per cent, SEB's lending, excluding repos, remained largely unchanged. This meant that its market share dropped to 14.1 per cent (14.6 per cent). In the household market, Group lending increased by 9.6 per cent, mainly due to SEB BoLån's increased volumes, and its market share increased to 11.6 per cent (11.3 per cent).

The market share of Securities Services (custodial services) ranges between 50 and 60 per cent. Also as regards credit and charge cards, the SEB Group's share of the so-called travel and entertainment cards is over 50 per cent.

Result per business area

The best contributions to the result, in absolute figures, were delivered by Retail and Asset Management, while SEB Trygg Liv accounted for the largest percentage result increase.

Retail developed well. Its external income increased, whereas its internal income dropped as a result of altered internal adjustment calculations. A combination of lower costs and declining lending losses improved the total result by 29 per cent, to SEK 2,346 M (SEK 1,813 M), or 39 per cent of the Group's total result. Return on allocated capital, SEK 8,800 M, was 19.2 per cent. *)

At the end of 1998, Retail was divided into two business areas: *Sales & Service*, which reported a total result of SEK 1,324 M, and *Financial Services*, the result of which totalled SEK 996 M. The number of positions within Sales & Service decreased during the year by close to 300, following internal rationalisation, the merger of the two telephone banks Sesam and Trygg-Banken and increased use of the Internet, telephone and automatic machines. During the year the number of Internet clients has more than doubled and, at year-end 1999, stood at 230,000. Nearly one third of all private payments and one fifth of all private share transactions at SEB are carried out via Internet banking.

Within *Financial Services*, SEB Kort (credit and charge cards) and Securities Services showed strong development. At year-end 1998, SEB Kort had 2 million cards outstanding in the Nordic region. Securities Services managed Swedish and foreign securities worth SEK 1,575 M in total at year-end 1998. The two finance companies, FinansSkandic and Trygg Finans, were successfully merged into SEB Finans, which more than doubled its result in 1998.

Trygg-Hansa, the property insurance business area, reported a good trend in sales and its premium income rose by 6 per cent, to SEK 4,248 M, net. Operating and claims settlement costs dropped, whereas the claims costs rose, mainly due to increased car thefts. Taken together, this resulted in a combined ratio of 109.3 per cent (107.4 per cent).

*) Capital allocation to the various business areas of the Group is made in proportion to their respective risk exposure. When calculating each respective business area's profitability the results, after standard tax, have been put in relation to allocated risk capital. Such Group goodwill as is included in the allocated capital of the business areas is also taken into account in the calculation (see page 9).

The total result dropped, to SEK 451 M (SEK 642 M), which is explained by a lower risk-free cost of capital, lower liquidation gains and a higher combined ratio. The rest of actual return, approximately SEK 980 M, has been reported under the item Other, common to the Group.

Trygg-Hansa's return in 1998 was calculated on this business area's allocated capital, SEK 3,500 M, assuming a normal return on the normal portfolio. This gave a return of 9.3 per cent.

If actual return on the investment portfolio is added to the business area, the total result will be SEK 1,431 M and the return 29 per cent.

SEB Asset Management's income rose by 23 per cent as a result of increased net savings and rising stock prices. Costs increased by 33 per cent, mainly due to investments in Finland and Norway. In addition, the number of analysts and fund managers was increased during the year. The total result improved by 11 per cent, to SEK 932 M (SEK 843 M), corresponding to 15 per cent of the total result of the Group. Return on allocated capital including attributable goodwill, in total SEK 3,750 M, was 17.9 per cent.

At year-end, Asset Management's funds under management totalled SEK 499 billion (SEK 402 billion), of which portfolio management accounted for SEK 188 billion, traditional life insurance for SEK 153 billion, mutual funds and unit-linked insurance for SEK 135 billion and the property insurance portfolio for SEK 23 billion. Net deposits amounted to approximately SEK 15 billion, of which SEK 8 billion went to the mutual funds of the Group and SEK 7 billion to portfolio management for account of customers in Sweden, Norway, Finland and Luxembourg.

In the autumn of 1998, ABB Investment Management was acquired. This company, which forms part of SEB as from 1 December 1998, is active in Sweden, Finland, Norway, Poland, Switzerland and the U.S.A. and its managed funds totalled SEK 32 billion at year-end, one fifth of which being within ABB Fonder (mutual funds).

SEB Trygg-Liv's (life) total result more than doubled, to SEK 575 M (SEK 280 M pro forma in 1997). Sales, i.e. new contracts and extra payments under existing insurance contracts, increased by 24 per cent, to SEK 7.3 billion (SEK 5.9 billion). New sales, particularly of unit-linked insurance, were the highest ever. Funds under management totalled SEK 190 billion at year-end 1998.

Profits from insurance operations were affected negatively by a provision in the British company SEB Trygg Life.

Return on allocated capital including attributable goodwill, in total SEK 3,250 M, was 12.7 per cent. The acquisition of Trygg-Hansa's life insurance operations in combination with rapid growth weighed down return short-term.

All life and unit-linked insurance operations within S-E-Banken Försäkring and Trygg-Hansa's life insurance operations have been assembled under a new holding company, SEB Trygg Holding AB.

SEB Merchant Banking's total result dropped to SEK 316 M (SEK 1,600 M) due to provisions for engagements on emerging markets, particularly Russia. During the fourth quarter, SEK 150 M of the general reserve for political risks abroad, previously reported at Group level, was reported for Merchant Banking.

The result before lending losses improved by 22 per cent, to SEK 2,326 M, through a combination of increased income and reduced costs. Customer-related earnings increased by 14 per cent, chiefly

due to a very positive development within foreign exchange trading and to investments in new financial services, e.g within the euro area.

Income from proprietary trading and cash management was slightly lower than in 1997, chiefly due to the reduced difference between long- and short-term interest rates. Return on allocated capital, SEK 10,400 M, was 2.2 per cent.

Enskilda Securities' income for 1998 amounted to SEK 1,330 M, a decrease of about 9 per cent compared with 1997. Good market conditions during the first six months of the year made a large number of corporate finance transactions possible. This, together with increased volumes within equity trading, had a positive impact on Enskilda Securities. However, the turbulence in the financial markets in the autumn of 1998 led to a slackening of the positive trend. Lower volumes, continued pressure on brokerage commissions, trading and certain lending losses also contributed to an operating result of SEK 217 M (SEK 329 M). Costs decreased by 3 per cent, to SEK 1,084 M. Return on allocated capital, SEK 650 M, was 24 per cent.

Enskilda Securities' share of equity trading was over 9 per cent in 1998, which means that it maintained its position as the largest player on the Stockholm Stock Exchange.

As from 1 January, 1999 the business of Enskilda Securities has been incorporated.

Group performance

Income

Net interest earnings decreased marginally, to SEK 6,777 M (SEK 6,830 M), mainly due to the difference between long- and short-term interest rates being smaller on average than during the same period last year. This had a negative impact on the interest-sensitive positions of the Group. Net interest earnings from deposits and lending rose as a result of growing volumes. The cost for the deposit guarantee amounted to SEK 268 M (SEK 249 M).

Net commission income increased by 10 per cent, to SEK 6,619 M (SEK 6,027 M), mainly due to increased securities commissions from equity trading and asset management, but also due to higher credit and charge card commissions.

Net insurance income, i.e. premium income, after deduction for claims incurred excluding claims settlement costs in the non-life insurance operations, plus calculated return, dropped to SEK 1,220 M (SEK 1,534 M). For SEB Trygg-Liv, a provision in the British company SEB Trygg Life led to a decrease in net insurance income to SEK 144 M (SEK 279 M). The result of run-off activities and Industrial & Marine, which was sold on July 1, amounted to SEK 373 M (690). All in all this meant that total net insurance income dropped to SEK 1,737 M (SEK 2,503 M).

Net result of financial transactions decreased by 6 per cent, to SEK 3,467 M (SEK 3,675 M). This was chiefly as a consequence that investment portfolios of the Group not appreciating in value as strongly as in 1997, which was a better year for the stock market.

The negative impact of the stock market decline on Trygg-Hansa's market portfolio during the third quarter was limited through a hedging arrangement that was made in the spring of 1998. This hedge consisted originally of options, but was exchanged for forward positions in November. The main part of Trygg-Hansa's equity portfolio, which was worth close to SEK 7 billion on 31 December, 1998, has been sold. In mid-February, 1999 the remaining holding of approximately SEK 1.5 billion consisted of mutual fund units.

In early 1999, Trygg-Hansa sold its remaining holding of 2.3 per cent of the shares in the Finnish insurance company Sampo. The capital gain of approximately SEK 85 M has been included in the results for previous years as the shares were valued at market.

The result from proprietary trading and cash management declined somewhat, chiefly as a result of the reduced difference between long- and short-term interest rates. In 1998, the proprietary trading of the Group was confined to fewer markets.

A one percentage unit change in the Swedish market rates as at 31 December 1998 would have resulted in an increase/decrease of approximately SEK 1.9 billion in the market value of the Group's total positions in Swedish kronor and foreign currency.

Other income increased to SEK 2,166 M (SEK 1,269 M) as a result of capital gains of SEK 1,655 M. The sale of 44 office premises to Vasakronan led to a capital gain of a little over SEK 1 billion and the sale of the Industrial & Marine business area to the Swiss insurance company Zurich Group resulted in a capital gain of SEK 450 M.

Taken together, Group income amounted to SEK 21,097 M (SEK 20,644 M pro forma in 1997).

Costs

Group *costs* amounted to SEK 14,045 M which, excluding restructuring costs for 1997, meant a drop of 2 per cent compared with 1997. This means that the Group has managed to break the trend in recent years towards rising costs. SEB's administration of the operations and capital of the two mutual life companies has been reported on a net basis up to now. Following the incorporation of the life companies, the accounting method has been changed to gross accounting. This has affected both income and costs, by SEK 645 M, for 1997. Also the quarterly figures for 1998 have been recalculated.

Staff costs totalled SEK 7,447 M (SEK 7,466 M). The number of staff was reduced by 607 in 1998 and the average number of positions during the year was 12,771 (13,015). The profit share amounted to SEK 292 M (SEK 88 M).

IT costs rose by 21 per cent, to SEK 2,930 M. This was partly due to the Group's steady concentration on its Internet Office and other IT-based services and partly to costs pending the new millennium and the EMU, for which all essential investments have now been completed. Data costs will remain at a high level over the next few years due to the ongoing development of Internet services, for example.

In view of the growth of IT costs and the Nordic expansion, this means that the rest of the business has undergone considerable rationalisation, or minus 9 per cent.

By the end of 1998, SEK 1,054 M had been used of the restructuring reserve of SEK 2,255 M, principally distributed among the following units: Retail SEK 251 M, Trygg-Hansa SEK 184 M, SEB Merchant Banking SEK 141 M, IT SEK 184 M and central staff functions SEK 143 M.

Lending losses and doubtful claims

The Group's *lending losses*, including value changes in assets taken over and write-downs of financial fixed assets, totalled SEK 2,251 M (SEK 1,089 M). *Incurred losses*, after recoveries, amounted to SEK 242 M (SEK 83 M), while the *provisions for possible lending losses* including reserve for political risks abroad, increased to SEK 1,995 M (SEK 559 M) after withdrawals.

The provision for the Group's engagements on emerging markets totalled SEK 2.5 billion, of which SEK 1.3 billion was related to Russia. The provision ratio with respect to Russia is thus 82 per cent, taking into account that a minor part of the exposure is valued at market.

In all, the Group's credit exposure on emerging markets at year-end was a little more than SEK 18 billion, gross, compared with SEK 47 billion on 31 December, 1997 (see special section on the credit exposure of the Group on page 12).

Doubtful claims, net, declined by 15 per cent, to SEK 3,577 M (SEK 4,206 M) and the volume of assets taken over increased by 60 per cent, to SEK 1,031 M (SEK 633 M).

Surplus value in life insurance operations

The costs that an insurance company incurs with respect to an insurance contract arise chiefly when the insurance contract is written, whereas income is generated continuously during the life of the contract. This means that actual costs will exceed income in years of rapidly growing insurance portfolios, which has a negative impact on the operating result. At the same time, this means an increase in the surplus value. This change is reported as a special result item, after the operating Result.

The surplus value in life insurance operations is equal to the present value of expected future gains from existing insurance contracts. This value is calculated as a present value computation, combined with accepted actuarial methods for the handling of future random events. The concept of embedded value is the sum total of this surplus value plus the life company's equity.

According to prevailing rules, surplus values in life insurance operations must not be included among distributable funds, since they consist of future gains. On the other hand, they form a natural basis for the calculation of earnings per share.

Pension provision

Operating costs are continuously charged with both general pension fund contributions actually paid and with standard pension costs in accordance with the supplementary pension plan of the Bank. These pension costs are restored in the total result of the Group, because the Bank has the right to compensate itself for this type of costs from the Bank's pension funds, which are independent from the Bank. This right applies as long as the assets of the pension funds exceed estimated pension commitments.

For 1998, this pension provision amounted to SEK 531 M (SEK 440 M). The total assets of the pension funds were SEK 19 billion, while their commitments totalled SEK 6 billion. Thus, the surplus value was SEK 13 billion.

Tax costs

Taxes relating to the total result amounted to SEK 1,211 M (SEK 1,138 M), which equals a weighted tax rate of 20 per cent. Tax costs consist of SEK 527 M in taxes paid, SEK 923 M in deferred taxes and an estimated tax of SEK 211 M, relating to changes in surplus values in life insurance operations. In all, this corresponds to a tax rate of 27 per cent. The actual lower tax cost was due to a tax reversal of SEK 450 M, which had been charged to the result in previous years.

Result

The total result, thus comprising operating result, changes in surplus values in life insurance operations and pension provision, amounted to SEK 6,084 M (SEK 4,687 M) before tax and to SEK 4,867 M (SEK 3,552 M) after tax. The operating result accounted for SEK 4,801 M (SEK 3,804 M) before tax.

Earnings per share and return on equity

The calculation of earning per share, including/excluding changes in surplus values in life insurance operations, appears in the following table:

	Result, incl. changes in surplus values		Result, excl. changes in surplus values	
	1998	1997	1998	1997
Operating result	4,801	3,804	4,801	3,804
Pension provision	531	440	531	440
Change in surplus values in life insurance operations	<u>752</u>	<u>443</u>		
Total result	6,084	4,687	-	-
Taxes and minority interests	<u>-1,217</u>	<u>-1,135</u>	<u>-1,006</u>	<u>-1,011</u>
Result after tax	4,867	3,552	4,326	3,233
Earnings per share (588,246,062 shares)	8.27	6.04	7.35	5.50
Return on equity	16.1	12.6	14.8	11.6

Total assets and shareholders' equity

The total assets of the Group increased by 3 per cent, to SEK 690 billion, mainly due to increased lending volumes, including repos. Shareholders' equity increased by 9 per cent, to SEK 30.4 billion. Including surplus values in life insurance operations, shareholders' equity increased to SEK 31.5 billion.

Return of business areas and allocated capital

In order to make the best possible use of the capital base of the Group and to appraise the profitability of the various business areas with greater precision, SEB has introduced a control model, based upon Capital at Risk.

Allocated capital of the business areas comprises Capital at Risk and such part of goodwill as is attributable to corporate acquisitions and is matched by a need for shareholders' equity.

Capital at Risk is the appraisal of the risk for unexpected losses in those positions which the business operations of the Group imply at each given point in time and is based upon statistical probability calculations for various types of risk (risks on counterparties, market risks, etc.). The capital that has been allocated to the various business areas of the Group has been calculated in proportion to their respective risk exposure. When calculating the return of the business areas, their results, after standard tax, have been put in relation to allocated capital.

Capital at Risk

SEK, bn

Counterparty risk	Business areas stand-alone	21
	- Diversification	<u>-2</u> 19
Market risk	Business areas stand-alone	7
	- Diversification	<u>-2</u> 5
Insurance risk	Business areas stand alone	5

	- Diversification	- 1	4
Operational and residual risk	Business areas stand-alone	18	
	- Diversification	<u>-11</u>	7
	<u>Diversification between various types of risk</u>		<u>-11</u>
Capital at Risk			24
Allocated part of Goodwill		<u>6</u>	
Allocated capital			30

Capital base and capital adequacy

At year-end, the capital base of the financial group of undertakings (which does not include insurance companies) was SEK 33.6 billion (SEK 29.1 billion), of which SEK 25.1 billion (SEK 24.9 billion) was core capital. In relation to risk-weighted assets of SEK 3109billion (SEK 303 billion), the total capital ratio was 10.9 per cent (9.6 per cent) and the core capital ratio 8.1 per cent (8.2 per cent). The objective is that the core capital ratio shall not be inferior to 7 per cent in the long term.

Investments in the Nordic area and the Baltic states

Expansion in the neighbouring Nordic countries continued, with investments within Asset Management, SEB Trygg Liv and the credit and charge card operations within Retail.

At the end of 1998, SEB entered into a co-operation agreement with three of the leading banks in the Baltic region – Eesti Ühispank in Estonia, Latvijas Unibanka in Latvia and Vilniaus Bankas in Lithuania. By year-end, the Bank also became a part-owner of these three banks by acquiring between 32 and 36 per cent of the shares, a total investment of a little over SEK 1.2 billion. The purpose is to provide and to develop products and services for both private individuals and companies in the Baltic market. These acquisitions did not have any impact on SEB's 1998 result. After year-end 1998, SEB has increased its ownership in Latvijas Unibanka to 40.9 per cent, after conversion.

Preparations for the millennium

The work on making systems and routines safe and secure prior to the new millennium proceeded according to plan and most of the necessary adaptations were ready by the end of 1998. This work has been examined by independent external expertise and also by the internal and external auditors of the Group. During 1999, the preparations will continue, e.g. in the form of both complementary testing together with external co-operation partners and action plans.

Dividend policy

It is the objective of the Board of Directors to declare a dividend that corresponds to between 30 and 50 per cent of earnings per share, calculated on the basis of the total result after tax.. The size of the dividend is determined by the financial position and growth opportunities of the Group. The Group strives to achieve long-term growth on the basis of a capital base for the financial group of undertakings that must not, in the long term, be inferior to a core capital ratio of 7 per cent.

Dividend

The Board of Directors proposes a dividend of SEK 3.50 per Series A and Series C share (SEK 3.00), corresponding to 42 per cent of earnings per share according to SEB's definition. The total dividend amounts to SEK 2,059 M (SEK 1,765 M).

Lars H Thunell
President and Group Chief Executive

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The Annual Report will be distributed in early April 1999. At the same time, it will also be available on the Internet (www.sebank.se).

The Annual General Meeting will be held at 4.30 p.m. on 29 April 1999 at Stockholmsmässan, Älvsjö near Stockholm.

The Interim Report for the first quarter of 1999 will be published on 29 April, 1999. (Internet address: www.sebank.se). The following two Interim Reports will be published on 17 August and 25 October, 1999, respectively.

For further information, please contact:

Gunilla Wikman, Head of Group Communications, Telephone +46-8-763 81 25

Lotta Treschow, Head of Investor Relations, Telephone +46-8-763 95 59.

Credit Exposure of the SEB Group

SEB's claims on counterparties, e.g. on companies, banks, public institutions and private individuals, consist mainly of loans but also of such contingent liabilities and commitments as letters of credit, guarantees, securities loans and credit commitments as well as derivatives and currency contracts. The exposure is measured both in nominal terms (e.g. loans, leasing, L/Cs and guarantees) and through estimated market values plus an increase for potential exposure (derivatives and currency contracts).

Credit exposure by industry sector (before provision for possible lending losses)

	1998	%	1997	%
Companies and banks				
Banks	92,072	18.0	104,965	20.6
Finance & insurance	36,201	7.1	40,620	8.0
Property management	60,846	11.9	59,182	11.6
Wholesale & retailing, hotels and restaurants	30,815	6.0	31,719	6.2
Transportation	21,309	4.2	20,266	4.0
Other service sectors	19,720	3.9	21,409	4.2
Construction	5,929	1.2	7,517	1.5
Manufacturing	73,818	14.5	67,714	13.3
Other	34,911	6.8	34,339	6.7
	375,621	74	387,731	76
Public administration				
Municipalities, County Councils	13,125	2.6	10,828	2.1
Municipality-owned companies	30,805	6.0	26,470	5.2
	43,930	9	37,298	7
Households				
Housing loans (first-mortgage loans)	57,678	11.3	52,792	10.4
Other loans	33,182	6.5	31,145	6.1
	90,860	18	83,937	16
Total, excluding repos	510,411		508,966	
Repos¹				
Credit institutions	41,323		52,223	
General public	27,946		20,831	
	69,269		73,054	
Total including repos	579,680		582,020	

¹ Repo (repurchase agreement) refers to a transaction in which one party sells a marketable security at call, while at the same time entering into a forward agreement to repurchase the same security.

The principles for distribution by sector/product were changed in 1998, which also has an impact on the material of comparison from 1997.

SEB's credit portfolio on and off the balance sheet decreased by SEK 2.3 billion in 1998. Adjusted for repos, however, the portfolio increased by SEK 1.4 billion.

While exposure on *banks, finance and insurance companies* decreased, it showed an increase as regards the *manufacturing and transportation sectors*. Of the total exposure on the manufacturing industry, the engineering industry accounted for a little over 50 per cent, the pulp and paper industry for about 15 per cent and the chemical-technical industry for 12 per cent.

The bulk of the exposure on the *transportation sector* is related to shipping, which has increased in recent years, mainly due to the opening of a branch in Oslo. The shipping portfolio, which totalled SEK 18 billion at year-end, is well diversified within various segments and principally secured with liens on ships, guarantees or cash funds.

Lending volumes within the *household sector* increased by 8.2 per cent, to a total of SEK 91 billion. Almost two thirds of this consist of housing loans, which also accounted for the largest increase.

Exposure by geographical distribution

SEB has a long tradition as partner of the largest, internationally active Nordic companies and institutions. To serve these customers in the best way possible, the Group has chosen to follow them out into the world and to build up business relations with a large number of foreign banks.

However, most of SEB's total exposure is Nordic-related and a great part of the remaining credit risk refers to subsidiaries of the Nordic corporate customers abroad. By the end of 1998, exposure on emerging markets accounted for approximately 4 per cent of the total credit portfolio.

Sharp reduction of exposure on emerging markets

In early 1998, SEB decided to cut down its exposure on emerging markets (incl. Hong Kong) and a reduction of close to 60 per cent, to a little more than SEK 18 billion, net, was carried out during the year through loan expiry, restrictions on certain product areas and countries and through the sale of loans.

SEB total exposure on emerging markets, gross

	Com- panies	Banks	Of which, OECD banks ⁷	States	Total
Asia¹	5,103	3,646	728	395	9,144
<i>Hong,Kong</i>	<i>2,436</i>	<i>1,280</i>	<i>619</i>	<i>0</i>	<i>3,716</i>
<i>China</i>	<i>787</i>	<i>733</i>	<i>0</i>	<i>0</i>	<i>1,520</i>
<i>"Tiger",countries²</i>	<i>1,823</i>	<i>1,197</i>	<i>95</i>	<i>31</i>	<i>3,051</i>
Latin America³	2,342	2,451	1,461	740	5,533
<i>Brazil⁴</i>	<i>1,758</i>	<i>911</i>	<i>427</i>	<i>0</i>	<i>2,669</i>
East- and Central Europe⁵	634	1,631	21	498	2,763
<i>Russia</i>	<i>492</i>	<i>1,050</i>	<i>0</i>	<i>139</i>	<i>1,681</i>
Africa and Middle East⁶	204	2,806	38	363	3,373
<i>Turkey</i>	<i>16</i>	<i>777</i>	<i>0</i>	<i>304</i>	<i>1,097</i>
Total	8,283	10,534	2,248	1,996	20,813

Notes

1. Includes Hong Kong, China, the "Tiger" countries, India, Pakistan, Taiwan and Macau
2. Includes the Philippines, Malaysia, Thailand, Korea and Indonesia
3. Includes, Brazil, Argentina, Mexico and Peru
4. Previous holding of so-called Brady bonds has been sold
5. Includes Russia, Greece, Israel, Estonia, Latvia, Lithuania, Poland, the Czech Republic Slovakia, Rumania, Hungary, Slovenia, Croatia, Kazakhstan and the Ukraine
6. Includes Turkey, Iran, Saudi Arabia, Egypt, South Africa, Ethiopia and Algeria
7. OECD member countries, excluding Greece, Korea, Mexico, Poland, the Czech Republic, Turkey and Hungary

Russia

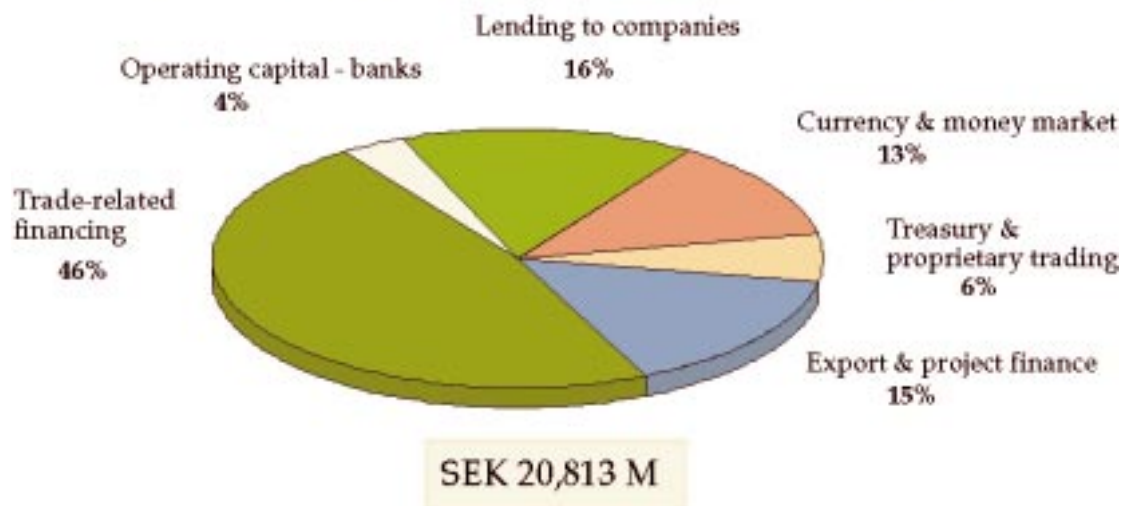
The exposure on Russia was cut down to a little over SEK 1.6 billion in 1998, while the exposure in terms of forward currency transactions has been redeemed or hedged. Russian counterparties made repayments of approximately SEK 570 M during the second half of the year. At year-end, the provision ratio was 82 per cent, taking into account that a minor part of the exposure is valued at market..

Brazil and other Latin American countries

All SEB's exposure in Brazil is trade-related. Two thirds refer to subsidiaries of Nordic companies and the rest to Brazilian banks, of which a little more than half consists of subsidiaries or branches of OECD-banks. SEB has no exposure on locally-owned companies.

Of the remaining exposure on Latin America, Argentina, Mexico and Peru account for the major part, or approximately SEK 800 M each. Of the total exposure of approximately SEK 2.4 billion on these countries, a little less than SEK 600 M refers to so-called Brady Bonds (government risk), about SEK 800 M to subsidiaries and branches of OECD-banks, about SEK 400 M to other banks and about SEK 250 M to subsidiaries of Nordic companies.

Emerging Markets Total exposure by product, gross



Profit and Loss Account of the SEB Group

(SEK M)

	1998 *	Pro forma 1997 *	Change per cent
<i>Interest receivable</i>	31,540	29,035	9
<i>Interest payable</i>	-24,763	-22,205	12
Net interest earnings	6,777	6,830	-1
Dividends received	331	340	-3
<i>Commission receivable</i>	8,019	7,215	11
<i>Commission payable</i>	-1,400	-1,188	18
Net commission income ¹⁾	6,619	6,027	10
Net insurance income ²⁾	1,737	2,503	-31
Net result of financial transactions ³⁾	3,467	3,675	-6
Other operating income	2,166	1,269	71
Total income	21,097	20,644	2
General administrative expenses			
Staff costs	7,447	7,466	
Other administrative expenses	4,158	4,229	-2
Depreciation and write-downs of tangible and Intangible fixed assets	1,080	1,089	-1
Other operating costs	1,360	1,495	-9
Restructuring costs		1,472	-100
Total costs	14,045	15,751	-11
Result before lending losses	7,052	4,893	44
Lending losses, net ⁴⁾	2,237	642	248
Change in value of assets taken over	10	38	-74
Write-down of financial fixed assets ⁰	4	409	-99
Operating result	4,801	3,804	26
Pension provision	531	440	21
Tax on result for the period	-1,000	-1,014	-1
Minority interests	-6	3	-300
Result for the year	4,326	3,233	34
Operating result as per above	4,801	3,804	26
Change in surplus values in life insurance operations	752	443	70
Pension provision	531	440	21
Total result	6,084	4,687	30
Tax and minority interests	-1,006	-1,011	
Tax on change in surplus values	-211	-124	-70
Total result after tax	4,867	3,552	37

*) In 1998, the way of reporting agreements with traditional life insurance companies was changed to the effect that income and costs are shown gross instead of net, as previously. 1997 has been recalculated accordingly as well as the 1998 quarterly figures.

	1998	Pro forma 1997	Change per cent
<i>1) Net commission income</i>			
Payment commissions	1,585	1,499	6
Securities commissions	3,654	3,236	13
Other commissions	1,380	1,292	7
	6,619	6,027	10
<i>2) Net insurance income: Premium income and calculated investment return after deduction for claims paid exclusive of claims settlement costs</i>			
<i>3) Net result of financial transactions</i>			
Shares/participations	1,872	2,874	-35
Interest-bearing securities	637	330	93
Other financial instruments	455	338	35
Realised result	2,964	3,542	-16
Shares/participations	-566	132	-529
Interest-bearing securities	89	-827	-111
Other financial instruments	3	-134	-102
Unrealised value changes	-474	-829	-43
Exchange rate fluctuations	984	1,117	-12
Redemption of bonds, SEB BoLån	-7	-155	
Total	3,467	3,675	-6
Of which, Trygg-Hansa	1,665	2,149	-23
<i>4) Lending losses, net</i>			
Individually appraised receivables:			
Reported write-down, incurred losses	926	891	4
Reversal of previous provisions for possible losses, Reported as incurred losses in current period's accounts	-544	-506	8
Reported provision for possible losses	904	536	69
Recovered from losses incurred in previous years	-185	-358	-48
Reversal of previous provisions for possible losses	-227	-196	16
Reported net cost for individually appraised Receivables	874	367	138
Receivables appraised by category:			
Reported write-down, incurred losses	98	112	-13
Reported provision for possible losses	33	34	-3
Recovered from losses incurred in previous years	-52	-56	-7
Withdrawal from provision for lending losses	-49	-73	-33
Reported net cost for receivables appraised by Category	30	17	76
Allocation to/withdrawal from reserve for political Risks abroad	1,343	225	497
Contingent liabilities	-10	33	-130
Net cost, lending losses	2,237	642	248

SEB Group - some key figures

	1998	1997
Return incl. change in surplus values, %	16.1	12.6
Return on equity, %	14.8	11.6
Earnings per share (Total result after tax)	8.27	6.04
Reported earnings per share for the period, SEK ¹⁾	7.35	5.50
Income/cost ratio, before lending losses	1.50	1.31
Income/cost ratio, after lending losses	1.29	1.26
Lending loss level, ²⁾ %	0.65	0.25
Provision ratio for doubtful claims, %	52.0	47.6
Level of doubtful claims, %	1.09	1.28
Total capital ratio, %	10.85	9.61
Core capital ratio, %	8.12	8.22
Claims ratio, net, %	90.5	82.4
Expense ratio, net, %%	21.6	24.9
Combined ratio, net	112.1	107.3

1) Profit for the year as a percentage of average equity

2) Lending losses as a percentage of opening balance for lending, excluding banks, credit guarantees and assets taken over.

Balance Sheet of the S EB Group (abbreviated)

SEK M

31 December, 1998

	1998	1997	Change per cent
Lending to credit institutions	91,040	88,450	3
Lending to the general public	324,539	325,992	
Interest-bearing securities	131,182	88,028	49
<i>Financial fixed assets</i>	14,564	12,149	20
<i>Financial current assets</i>	95,779	65,037	47
<i>Investment assets ¹⁾</i>	20,839	10,842	92
Shares and participations	47,334	40,638	16
<i>Investment assets</i>	6,421	8,475	-24
<i>For account of policyholders</i>	37,454	28,371	32
<i>Other assets</i>	3,459	3,792	-9
Other assets ¹⁾	95,562	125,978	-24
Total assets	689,657	669,086	3
Liabilities to credit institutions	153,824	142,998	8
Deposits and funding from the general public	187,901	182,371	3
Securities issued, etc.	133,052	112,805	18
Technical provisions	12,433	13,236	-6
Provisions for account of policyholders	37,378	28,275	32
Other liabilities and provisions	110,625	139,927	-21
Subordinated liabilities	24,010	21,507	12
Shareholders' equity	30,434	27,967	9
Total liabilities and shareholders equity	689,657	669,086	3

1) Trygg-Hansas investment portfolio has been valued at market as per 31 December 1998. (1997 has been changed accordingly)

Derivatives contracts

31 December, 1998, SEK M

	Interest-related		Currency-related		Equity-related		Total	
	Book value	Market value	Book value	Market Value	Book Value	Market value	Book Value	Market value
<i>Contracts on the asset side</i>	25,493	25,493	26,375	29,267	50	50	51,918	54,810
<i>Contracts on the liabilities side</i>	24,186	24,186	26,837	30,501	321	321	51,344	55,008

On 31 December 1998 the notional value of the Group's derivatives contracts amounted to SEK 4,412 billion (SEK 4,815 billion) The book value of derivatives instruments forming part of trading operations is identical with the market value. Those deviations between actual and book values which are reported in the above table are matched by opposite deviations between market and book values in that part of the Group's operations which is the object of hedge accounting.

Problem loans and assets taken over for the protection of claims

(SEK M)

	31 December 1998	31 December 1997
Doubtful claims	7,454	8,033
Provision for possible lending losses	-3,877	-3,827
Doubtful claims, net	3,577	4,206
Claims subject to interest reduction	1,195	1,756
Total volume of problem loans	4,772	5,962
<u>Level of doubtful claims</u>		
Doubtful claims (net) in relation to lending		
And leasing (net) at end of period, <i>per cent</i>	1.09	1.28
<u>Provision ratio for doubtful claims</u>		
Provision for possible lending losses in		
Relation to doubtful claims (gross) <i>per cent</i>	52.0	47.6
<u>Pledges taken over</u>		
Buildings and land	160	104
Shares and participations	871	529
Total volume of pledges taken over	1,031	633

The soft loans of the Group are included among claims subject to interest reduction.

The shortfall in income due to interest deferments was SEK 74 M (SEK 205 M), while unpaid interest on non-performing loans amounted to SEK 327 M (SEK 366 M), together an improvement of 30 per cent compared with 1997.

On 31 December 1998, the Group had SEK 257 M (SEK 279 M) in non-performing loans on which interest income was reported. These loans are not included among the problem loans, since the corresponding collateral covers both interest and principal.

The special reserve for off-balance-sheet items increased by SEK 19 M and totalled SEK 210 M at year-end 1998.

After an allocation of SEK 1,343 M, net, the reserve for political risk abroad totalled SEK 1,864 M.

Result per business area

(SEK M)

	Retail		Trygg-Hansa *)		SEB Asset Management	
	1998	1997	1998	1997	1998	1997
	Income	7,912	8,003	1,650	1,959	2,267
Costs	-5,344	-5,869	-1,199	-1,317	-1,335	-1,003
Lending losses	-222	-321				
Operating result	2,346	1,813	451¹⁾	642¹⁾	932	843
Change in surplus values						
Total result	2,346	1,813	451	642	932	843
Allocated capital	8,800	-	3,500 ²⁾	-	3,750	-
Return (%)	19.2	-	9,3	-	17.9	-

	SEB Trygg Life		SEB Merchant Banking		Enskilda Securities	
	1998	1997	1998	1997	1998	1997
	Income	894	908	5,082	4,859	1,330
Costs	-1,071	-1,071	-2,756	-2,953	-1,084	-1,117
Lending losses			-2,010	-306	-29	-
Operating result	-177	-163	316	1,600	217	329
Change in surplus values	752	443				
Total result	575	280	316	1,600	217	329
Allocated capital	3,250	-	10,400	-	650	-
Return (%)	12,7	-	2,2	-	24.0	-

	Other ³⁾		Group	
	1998	1997	1998	1997
	Income	1,962	1,623	21,097
Costs	-1,256	-2,421	-14,045	-15,751
Lending losses	10	-4,62	-2,251	-1,089
Operating result	716	-1,260	4,801	3,804
Change in surplus values			752	443
Pension provision	531	440	531	440
Total result	1,247	-820	6,084	4,687
Allocated capital		-		-
Return (%)		-		-

1) Pertains to operating result from insurance operations.

2) Refers to shareholders' funds.

3) Refers to income/costs that cannot be attributed to separate business areas. Under the item Other, the following is included: return on capital that is not attributable to business areas, interest on purchase money, depreciation on goodwill in connection with acquisition of Trygg-Hansa, capital gain on properties and central costs.

*) This information refers to the Trygg-Hansa business area and does not take into account the actual return on the investment portfolio of the non-life company. If actual return on actual shareholders' funds is taken into account, the total result amounted to SEK 1,431 M while return on allocated capital was 29 per cent.

Information relating to 1997 is pro forma. It has been changed accordingly

SEB Group performance on a quarterly basis, (SEK M)

	1998:4	1998:3	1998:2	1998:1	1997:4
<i>Interest receivable</i>	7,938	7,740	7,925	7,937	7,486
<i>Interest payable</i>	-6,182	-6,094	-6,264	-6,223	-6,073
Net interest earnings	1,756	1,646	1,661	1,714	1,413
Dividends received	23	6	278	24	20
<u>Commission receivable</u>	2,077	1,962	2,057	1,923	1,917
<i>Commission payable</i>	-412	-302	-363	-323	-391
Net commission income	1,665	1,660	1,694	1,600	1,526
Net insurance income	259	444	533	501	601
Net result of financial transactions	1,158	-819	1,190	1,938	206
Other operating income	217	507	1,147	295	596
Total income	5,078	3,444	6,503	6,072	4,362
General administrative expenses					
Staff costs	1,903	1,691	1,906	1,947	1,955
Other administrative expenses	1,082	1,033	1,109	934	1,334
Depreciation and write-downs of tangible and intangible fixed assets	261	267	271	281	336
Other operating costs	425	301	327	307	490
Restructuring costs					1,472
Total costs	3,671	3,292	3,613	3,469	5,587
Result before lending losses	1,407	152	2,890	2,603	-1,225
Lending losses, net	246	1,487	385	119	417
Change in value of assets taken over	-5	17	-9	7	2
Write-down of financial fixed assets	4				409
Operating result	1,162	-1,352	2,514	2,477	-2,053
Pension provision	196	113	112	110	126
Tax on result for the period	204	345	-734	-815	544
Minority interests	1	-3	-5	1	3
Result for the period	1,563	-897	1,887	1,773	-1,380
Operating result as per above	1,162	-1,352	2,514	2,477	-2,053
Change in surplus values in life insurance operations	357	-9	140	264	3
Pension provision	196	113	112	110	126
Total result	1,715	-1,248	2,766	2,851	-1,924

Profit and Loss Account, Parent Company

(SEK M)

	1998	1997	Change Per,cent
<i>Interest receivable</i>	24,839	21,618	15
<i>Leasing income</i>	64	57	12
<i>Interest payable</i>	-20,010	-15,843	26
Net interest earnings ¹⁾			
Dividends received	4,828	3,773	28
<i>Commission receivable</i>	5,909	5,561	6
<i>Commission payable</i>	-1,062	-982	8
Net commission income ³⁾	4,847	4,579	6
Net result of financial transactions ³⁾	1,752	1,469	19
Other operating income	363	189	92
Total income	16,683	15,842	5
General administrative expenses			
Staff costs	5,488	5,208	5
Other administrative expenses	3,524	2,850	24
Depreciation and write-downs of tangible and intangible fixed assets ¹⁾	201	289	-30
Other operating costs	1,212	815	49
Restructuring costs		1,018	
Total costs	10,425	10,180	2
Result before lending losses	6,258	5,662	11
Lending losses, net ⁴⁾	2,109	438	
Change in value of assets taken over	23	101	-77
Write-downs of financial fixed assets	3,330	3,558	
Operating result	796	1,565	-49
Pension provision	531	440	21
Other appropriations *	-1,144	-526	117
Tax on result for the period *	818	-827	-199
Result for the year	1,001	652	54

1) *Net interest earnings*

Interest receivable	24,839	21,618	15
Leasing income	64	57	12
Interest payable	-	-15,843	26
	20,010		
Leasing depreciation	-51	-49	4
	4,842	5,783	-16

* Group contributions reported directly against equity

	1998	1997	Change per cent
<i>2) Net commission income</i>			
Payment commissions	1,163	1,103	5
Securities commissions	2,545	2,485	2
Other commissions	1,139	991	15
	4,847	4,579	6
<i>3) Net result of financial transactions</i>			
Shares/participations	201	282	-29
Interest-bearing securities	114	321	-64
Other financial instruments	573	339	69
Realised result	888	942	-6
Shares/participations	-36	121	-130
Interest-bearing securities	-183	-498	-63
Other financial instruments	188	-120	-257
Unrealised value changes	-31	-497	-94
Exchange rate fluctuations	895	1,024	-13
Total	1,752	1,469	19
<i>4) Lending losses net</i>			
Individually appraised receivables:			
Reported write-down, incurred losses	767	650	18
Reversal of previous provisions for possible losses reported as incurred losses in current period's accounts	-435	-344	26
Reported provision for possible losses	694	432	61
Recovered from losses incurred in previous years	-141	-331	-57
Reversal of previous provisions for possible losses	-198	-150	32
Reported net cost for individually appraised receivables	687	257	167
Receivables appraised by category:			
Reported write-down, incurred losses	47	51	-8
Reported provision for possible losses	20	18	11
Recovered from losses incurred in previous years	-35	-45	-22
Withdrawal from provision for lending losses	-23	-30	-23
Reported net cost for receivables appraised by category	9	-6	
Political risks abroad	1,423	145	
Contingent liabilities	-10	42	-124
Net cost	2,109	438	