Skandiabanken Annual Report 2011

skandia
bank & försäkring

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CEO's message

Forging closer relationships with our customers

2011 was an eventful year in which we delivered a number of highly anticipated innovations for our customers. Together with Skandia and by listening to our customers, we have charted our direction for the future, where our focus will be on offering savings and financial security, and on forging even closer relationships with our customers.

A central pillar in this relationship is our customer service, which continues to be very successful. We started out the year by winning an award for best customer service in the banking sector in Sweden – for the third year in a row – and just after year-end we were awarded the corresponding title also in Norway.

To win our customers' confidence we must also be a reliable partner. For the financial sector as a whole, 2011 was a turbulent year. Given this context, I am very happy that Skandiabanken was issued an A3 credit rating from Moody's on the merits of our stable business model and low level of financial risk.

In early May we encountered a problem of an entirely different character, when our websites, online banking service, phone lines and customer service were knocked out and remained out of service for nearly an entire day. It was the most serious operational disruption in our history. We learned some valuable lessons from this and took actions to ensure that it will not occur again. But we also learned something else – namely, the tremendous customer loyalty that we have succeeded in building up over the years. In the midst of this crisis, when our only direct communication link with our customers was via Facebook, we received more positive support than criticism. We are extremely grateful for the confidence our customers have shown in us, which we will work hard to uphold.

During the year, we were the first bank in Sweden to launch two innovations designed to make life easier for our customers. In the spring, we were the first to integrate our pensions portal, minpension.se, directly with our online bank, so that our customers are now only a couple of clicks away from the market's best pension overview when they log in to do their daily banking. We won a "Guldkant" award for this. And together with Swedbank, we were also the first to offer our customers mobile BankID, making it considerably easier for them to log in to the bank from their mobile phones.

In addition, during the autumn we launched our successful Norwegian stock investment contest "Aktiekampen" also in Sweden. The contest allows consumers to buy and sell stocks with fictitious money but at actual market prices, and compete for the best returns. In this way we hope to contribute to better general knowledge about equity trading.

Our final innovation was a bank account that we are so proud of we call it the "Skandia Account". It gives our loyal insurance customers a silver lining by offering a high interest rate on their savings, and deposits are made exclusively from payments from Skandia insurance products. This was an immediate success and received recognition as "Account of the Year" by the personal savings magazine *Privata Affärer*.

We thereby concluded the year with a clear example of what we will continue to focus on, namely, the cross-fertilisation between Skandia's banking and insurance operations.

Øyvind Thomassen
CEO

P.S. At the end of the year, Skandia's subsidiary Skandia Liv announced its plans to acquire the parent company Skandia from the owner Old Mutual. For Skandiabanken, which is owned by Skandia, the acquisition will not have any direct consequences. Over time, however, it will give us greater opportunities to co-operate within the Skandia group and work together to create great customer offerings.

Operational overview

Group	2011	2010	2009	2008	2007
Deposits and borrowing from the general public, SEK billion[1]	71	63	62	52	51
Number of customers, thousands[3]	803	787	774	752	712
Lending to the general public, SEK billion[1]	53	54	49	44	40
Total assets, SEK billion	77	68	69	58	56
Equity, SEK million	2,806	2,647	2,798	2,495	2,834
Operating profit, SEK million[2]	174	211	230	299	136
Return on equity, %[2]	5.2	5.7	6.5	9.4	7.5
Cost/income ratio before loan losses[2]	0.88	0.89	0.83	0.77	0.87
Capital base, SEK ,million	3,953	3,805	3,720	3,569	3,950
Capital ratio, %[4]	14.3	14.2	13.1	15.0	12.8
Tier 1 capital ratio, %	9.9	9.7	8.9	9.9	8.9

[1] *Balance sheets have not been reclassified for earlier periods. Lending and deposit volumes for 2007 pertain to continuing operations.*

[2] *Comparison figures pertain to earnings metrics for 2011, 2010 and 2006, and have been recalculated in accordance with IFRS with respect to discontinued operations.*

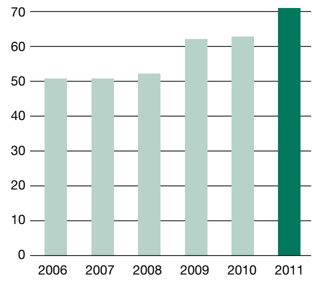
[3] *The number of customers for the years 2007-2011 has been recalculated with respect to discontinued operations.*

[4] *Figures for 2007-2011 pertain to outcome in accordance with previous capital adequacy rules, Basel I.*

In other respects, see key ratios on page 16.

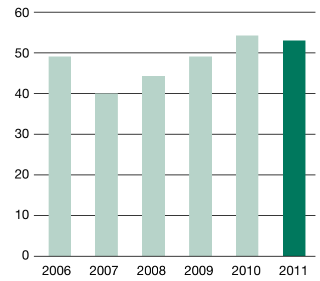
Deposits and borrowings from the general public

SEK billion



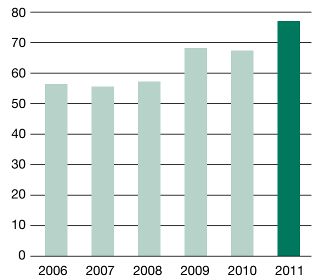
Lending

SEK billion



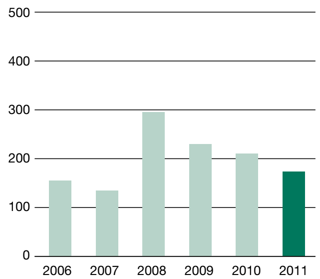
Total assets

SEK billion



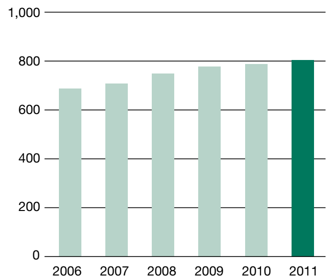
Earnings trend

SEK million



Number of customers

thousands



Board of Directors' report

Financial review 2011

Group operations and structure

Skandiabanken AB (publ), reg. no. 516401-9738 ("Skandiabanken"), domiciled in Stockholm, Sweden, was established on 1 July 1994 and is a wholly owned subsidiary of Skandia Insurance Company Ltd (publ) "Skandia", reg. no. 502017-3083. Old Mutual plc, reg. no. 3591559, domiciled in London, UK, owned 100% of the shares in Skandia until 21 March 2012, when Livförsäkringsaktiebolaget Skandia (publ) ("Skandia Liv") completed its acquisition of Skandia from Old Mutual.

Skandiabanken conducts business in Sweden and Norway. The business is broken down into the operating segments "Sweden banking", "Norway banking" – which is conducted as a branch office in Bergen, Norway – and "Sweden mutual funds". The "Sweden service operations" segment has been sold to Skandia. See below under "Reorganisation and divestment of services segment". In Sweden and Norway, Skandiabanken conducts banking business in the retail market and offers lending to individuals primarily in the form of home mortgage loans, personal loans, lines of credit and credit card credits, custody account lending and deposits. In addition to the lending and deposit operations, the bank offers services for equity trading and fund trading.

Significant events during the year

Group and parent company

Changed ownership structure – Skandia Liv acquires Skandia

At the end of 2011 Skandia Liv announced its plans to acquire Skandia from its owner Old Mutual. The background to the deal mainly concerns efficiency losses. Both companies – Skandia Liv and Skandia – have worked under different conditions. Skandia has generated profits for its owner, Old Mutual, while Skandia Liv has distributed its profits to its customers, i.e., the policyholders. This arrangement has not been sufficiently efficient, as resource-intensive control functions have been necessary to monitor the prohibition against profit distribution between the two Skandia companies.

The deal has been approved by Old Mutual's board and was completed on 21 March 2012, after the necessary permits and approvals were obtained by the financial regulators and competition authorities in the affected countries, and by Old Mutual's shareholders. Following a future reorganisation, Skandia Liv will be a bona fide mutual company, i.e., owned by its policyholders.

For the new Skandia Liv group, this is expected to result in substantial cost and revenue synergies amounting to SEK 850 million per year in a few years' time. For Skandiabanken, the ownership change is not expected to entail any major changes in the near term, however, it does improve the conditions for reaching out to customers with a uniform, strong offering that the bank will be a part of.

The new Skandia Liv group will comprise the Nordic insurance and banking businesses Skandia Link, Skandiabanken and Skandia Lifeline (healthcare insurance). In total, the new group, with operations in Sweden, Norway and Denmark, will have SEK 440 billion in assets under management and more than two million customers.

Voluntary programme

In spring 2011 an adjustment process was carried out in Skandia's Nordic operations. The goal of the process, which was adopted by the boards of the affected companies, was to reduce the Nordic organisation by 300 full-time positions by mid-year 2011. The process was conducted in part through natural attrition and in part through a voluntary departure offer to the employees entailing severance pay and an adjustment programme.

The result of the process was a reduction of the Nordic organisation by approximately 330 full-time positions, of which in Sweden approximately 100 in Skandia and approximately 170 in Skandiabanken, including discontinued operations.

Reorganisation and sale of services segment

In 2009 the advisory business and parts of the product development, business support, marketing and customer service units were transferred to Skandiabanken from Skandia. Skandiabanken performed services for Skandia and Skandia Liv under an outsourcing agreement. The entire advisory business and most of the remaining service operations have now been sold to Skandia and Skandia Försäljning AB. In spring 2011 a process was begun to sell the services segment's operations to Skandia. This sale was completed on 1 January 2012.

The average number of employees of Skandiabanken on 31 December 2011 was 1,001, of whom 523 worked in continuing operations and 478 in discontinued operations.

The sale was made at book value, entailing that no capital gain arose in the income statement. Disclosures are provided in note 34 "Discontinued operations". A group adjustment for pension obligations and actuarial losses was expensed as per 31 December 2011. The transaction had an impact on the calculation of pensions in accordance with IAS 19. Recognised actuarial losses of SEK 35 million in connection with the transaction have been reported against equity. The corresponding amount was received from Skandia in a shareholder contribution in February 2012.

Sale of subsidiary Svenska Lärarfonder AB

The Sweden mutual funds segment previously consisted of the two subsidiaries Skandia Fonder AB and Svenska Lärarfonder AB. On 1 February 2011 the subsidiary Svenska Lärarfonder AB was sold. In view of the fact that the subsidiary's business only accounted for a small part of the bank's total business, no recalculation and adjustment for divested operations have been done. In 2010 the company had assets of SEK 19 million and a profit after tax of SEK 3 million. The average number of employees was two persons. Disclosures regarding the sale of the subsidiary Svenska Lärarfonder AB are provided in note 34 "Discontinued operations".

Changes in management and board

On 1 July 2011 the number of senior executives in the bank's management increased from two persons, the CEO and Administrative Deputy CEO, to a total of nine persons, including the appointment of an additional Deputy CEO. The change is a result of the reorganisation and divestment of the services segment.

On 10 November 2011 Niklas Midby was appointed as the new, independent Chairman of Skandiabanken. As a result of Skandia Liv's acquisition of Skandia from Old Mutual, additional changes have been made in Skandiabanken's board of directors since the start of 2012. These have entailed the departure of all representatives from Old Mutual and the election of five new directors.

Results for the period January–December 2011 compared with the corresponding period a year ago

The divested operations are excluded from result comparisons. For further information on divested operations, see note 34 "Discontinued operations". In view of the fact that the operations of the divested subsidiary Svenska Lärarfonder AB made up a negligible amount of the bank's total operations, no recalculation has been done in the financial statements for this business.

Operating profit before tax for the Skandiabanken group amounted to SEK 174 million (211). Profit included the outcome of Skandiabanken's business in Norway, and due to the strengthening of the Swedish krona, this resulted in a negative impact on profit of SEK 4 million (4).

Profit for the Norwegian banking operation decreased to SEK 127 million (200). The lower outcome is mainly attributable to higher operating expenses, of which SEK 8 million was related to the voluntary programme and SEK 15 million pertained to nonrecurring items.

The results for the Swedish operations are broken down into banking and mutual funds business. Profit for the Swedish banking business amounted to SEK 17 million (-19). Profit was charged with nonrecurring items totalling SEK 55 million, of which SEK 23 million was related to the voluntary programme. Profit for the preceding year included SEK 10 million in positive, nonrecurring items. Profit for the Swedish operations excluding nonrecurring items increased by SEK 101 million, to SEK 72 million (-29). The profit increase is mainly attributable to an improvement in net interest income and lower operating expenses.

Profit for the Swedish mutual fund operations amounted to SEK 30 million (30). An account of the divested services segment is provided in note 34 "Discontinued operations". The costs for conducting these operations were further invoiced in their entirety, excluding costs for pensions calculated in accordance with IAS 19, which in connection with the discontinuation were charged against the Swedish banking segment in the amount of SEK 0 million (-2).

Comments on outcomes for income and expenses, including nonrecurring items, are provided below, see also note 2, "Segment reporting".

Operating income

SEK million	2011 Jan.-Dec.	2010 Jan.-Dec.	Change SEK million	%
Net interest income	1,039	848	191	23%
Net fee and commission income	490	526	-36	-7%
Net financial income	14	55	-41	-73%
Other operating income	131	170	-39	-23%
Total operating income	**1,674**	**1,599**	**75**	**5%**
Other income, nonrecurring items	-7	-14	7	-51%
Total operating income excl. nonrecurring items	**1,667**	**1,585**	**82**	**5%**

Net interest income

Net interest income for the Swedish banking operation increased by SEK 168 million to SEK 536 million (368). Higher interest rates combined with an increase in lending and deposits along with a higher return on the liquidity buffer resulted in improved net interest income. The average volume of lending to the general public increased to SEK 25.9 billion (23.9), and the average volume of deposits from the general public increased to SEK 31.4 billion (29.8).

Net interest income for the Norwegian operation increased by SEK 22 million to SEK 501 million (479), of which SEK -15 million (-10) is attributable to a negative effect from translation to Swedish kronor. The increase in net interest income is attributable to higher lending and deposit volumes. The average balance of lending to the general public increased to SEK 27.5 billion (24.9). The average balance of deposits from the general public increased to SEK 35.8 billion (31.3).

The surplus liquidity that exists in Sweden and Norway is invested in the respective countries and in local currency, where 45% (56%) is attributable to Sweden and 55% (44%) to Norway. Investments are made in fixed-income securities and lending to credit institutions. Compared with the corresponding period a year ago, the return on the liquidity buffer increased. The average balance of surplus liquidity amounted to SEK 18.5 billion (18.2).

Net interest income was charged with fees of SEK 90 million (62) paid to the Swedish State Stability Fund and to the Swedish and Norwegian state deposit guarantee schemes. The increase is attributable to the fact that in 2011 the full fee was payable to the Stability Fund, compared with half of the fee in 2010.

Net fee and commission income

Net fee and commission income decreased by SEK 36 million to SEK 490 million (526). The divestment of the subsidiary Svenska Lärarfonder AB accounted for SEK 18 million of the lower outcome. The remaining decrease is primarily attributable to lower brokerage commissions.

Net fee and commission income for the Swedish banking operation decreased to SEK 140 million (156). Brokerage commissions decreased by SEK 10 million as a result of fewer transactions. The Stockholm Stock Exchange decreased during the year, and customers moved to other savings forms that generated better and more secure returns, including high-yield deposit accounts. In a falling stock market, brokerage commissions are also affected to some degree by the fact that the amounts that customers trade are lower on account of the lower value of their holdings. The remaining decrease pertains mainly to higher commissions paid to Skandia. Income from payment intermediation, which includes card fees, decreased and was offset by lower costs. Income and expenses decreased mainly as a result of higher price pressure.

Net fee and commission income for the Norwegian banking operation decreased to SEK 208 million (215). However, excluding currency effects, net fee and commission income was unchanged.

Brokerage commissions decreased due to fewer transactions and falling stock markets. The lower outcome for equities-based commissions was offset by a higher level of payment intermediation commissions stemming from a larger number of transactions and lower related costs.

Net fee and commission income for the mutual fund operations decreased by SEK 13 million to SEK 142 million (155). The divestment of the subsidiary Svenska Lärarfonder AB accounted for SEK 18 million of the change. Net fee and commission income for the subsidiary Skandia Fonder AB increased by SEK 5 million. The portion of fund assets invested in fixed-income funds increased sharply during the second half of the year in response to the uncertainties in the world's financial markets. This higher share of fixed-income funds is the reason for the slightly lower income compared with a year ago, despite the increase in the volume of managed assets to SEK 57.1 billion (52.3). Commission expenses decreased as a result of a change in distribution compensation and a change in the composition of fund assets between various distribution channels and fund types, i.e., a large increase in fixed-income funds, which led to lower commission expenses.

Net financial income

Net financial income for the Swedish banking operation decreased to SEK -1 million (42). The lower outcome is mainly attributable to unrealised gains/losses pertaining to hedge accounting, few sales of fixed-income securities classified as available-for-sale financial assets, and a lower foreign exchange result. Net financial income for the Norwegian banking operation increased to SEK 15 million (13) and is attributable to a higher foreign exchange result.

Other operating income

Other operating income decreased by SEK 39 million to SEK 131 million (170). Nonrecurring items are included in the outcome in the amount of SEK 10 million for 2011 and SEK 23 million for 2010. Excluding these items, the outcome decreased by SEK 27 million.

Income from group companies outside the Skandiabanken group decreased by SEK 25 million to SEK 111 million (136). Other operating income decreased due to lower income from other Skandia companies for services performed.

Other operating income pertaining to the Swedish banking operation decreased by SEK 34 million to SEK 125 million (159). Excluding nonrecurring items, income decreased to SEK 120 million (137), i.e., a decrease of SEK 17 million. The change is due to lower income from group companies outside the Skandiabanken group. The main sources of nonrecurring income in 2011 pertained mainly to reimbursement for excessive costs charged in 2010 and a change in pension provisions. The main source of nonrecurring income in 2010 pertained to a dividend of SEK 18 million from VISA.

Other operating income in the Norwegian banking operation amounted to SEK 6 million (7). The outcome for 2011 pertains to a dissolution of previously expensed reserves, while the outcome for 2010 pertained to a change in Norwegian pension plans, totalling SEK 4 million.

In view of the large number of nonrecurring items, an account of these is presented in note 6, “Other operating income”.

Expenses before loan losses

SEK million	2011 Jan.-Dec.	2010 Jan.-Dec.	Change SEK million	%
Staff costs	-398	-389	-9	2%
Other administrative expenses	-991	-897	-94	11%
Depreciation	-8	-8	0	0%
Other operating expenses	-69	-52	-17	33%
Total expenses before loan losses	**-1,466**	**-1,346**	**-120**	**9%**
Nonrecurring expenses	73	—	73	—
Total expenses excl. nonrecurring items	**-1,393**	**-1,346**	**-47**	**4%**

Of nonrecurring expenses, totalling SEK 73 million, SEK 31 million pertained to the voluntary programme, of which SEK 16 million is included in Staff costs and SEK 15 million in Other administrative expenses. The remaining SEK 41 million of nonrecurring items is included in Other administrative expenses, for which an account is provided below.

Staff costs

Staff costs for the Swedish banking operation decreased to SEK 225 million (231). Despite higher costs for the voluntary programme, totalling SEK 10 million, total staff costs decreased, partly due to the departure of employees during the first half of 2011. Variable remuneration was essentially unchanged. A group adjustment for pension costs calculated in accordance with IAS 19, totalling SEK 0 million (2), was transferred from the divested services segment to continuing operations. The average number of employees was 324 (328), of whom 13 persons were included in the voluntary programme.

Staff costs in the Norwegian operation increased to SEK 163 million (144). The outcome was favourably affected by translation to Swedish kronor in the amount of SEK 5 million. Variable remuneration increased by SEK 4 million. Nonrecurring costs for the voluntary programme amounted to SEK 6 million and pertained to 13 persons. The remaining increase is mainly attributable to costs for a larger number of employees. The average number of employees was 192 (183) persons, of whom 14 were included in the voluntary programme.

Staff costs for the mutual fund operations decreased to SEK 10 million (14) as a result of a fewer number of employees. Variable remuneration was essentially unchanged. The lower outcome is entirely related to staff costs in the divested subsidiary Svenska Lärarfonder AB. The average number of employees was 7 (10) persons.

Other administrative expenses

Administrative expenses for the Swedish banking operation increased to SEK 509 million (479). The cost increase is partly attributable to higher costs for “Fees and purchased services”, which pertain to IT and project-related costs, other costs pertaining to centralised functions in Skandia, and nonrecurring costs, which amounted to SEK 46 million. Distributed costs pertaining to the voluntary offer from Skandia amounted to SEK 14 million. In addition, the outcome was charged with SEK 10 million for Skandiabanken's share of the Swedish National Debt Office's costs for compensation for CTA Lind & Company Scandinavia AB. In connection with this company's bankruptcy in 2004, the state investor protection scheme was triggered to compensate the investors, and the cost for this was distributed among the banks and securities companies that were part of the investor protection scheme. The bankruptcy proceedings have not been concluded, which means that it remains uncertain if additional costs will be incurred or recovered. In addition, profit has been charged with a nonrecurring expense of SEK 17 million in connection with a renegotiation of a contract for operations, which will lead to lower costs in the years ahead.

In the Norwegian banking operation, expenses increased to SEK 378 million (311). The outcome was favourably affected by SEK 11 million by translation to Swedish kronor. "Fees and purchased services" was the largest single source of the increase, by SEK 44 million, and pertained mainly to higher costs for projects and purchases of services outsourced to the Swedish banking operation and Skandia. IT costs increased by SEK 20 million, of which half pertains to project-related costs and the rest to higher, continuing costs. A nonrecurring expense of SEK 8 million, attributable to retroactive IT costs, was charged against the outcome, which was compensated by lower costs for operations and transactions, and telecom and postage costs.

Expenses for the mutual fund operations amounted to SEK 104 million (111). The lower amount is entirely attributable to the divested subsidiary Svenska Lärarfonder AB.

Other operating expenses

Other operating expenses pertain to advertising and marketing, and amounted to SEK 69 million (52). The increase in marketing outlays is attributable to the Norwegian banking operation,

Loan losses

SEK million (unless indicated otherwise)	2011 Jan.-Dec.	2010 Jan.-Dec.	Change
Loan losses	-34	-42	8
Of which, confirmed loan losses	-27	-27	0
Of which, paid in towards confirmed loan losses from previous years	11	3	8
Of which, provisions	-18	-18	0
Loan losses as % of opening balance of lending to the general public	0.06%	0.09%	-0.03%
Lending to the general public, net (SEK billion)[1]	52.4	53.0	-0.6
Impaired loans, gross	213	166	47
Provisions on the balance sheet	133	116	17
Impaired loans, net	80	50	30
Impaired loans, net, as % of lending to the general public	0.15%	0.09%	0.06%

[1] Excluding loans of SEK 1.0 billion (1.0) to the Swedish National Debt Office.

Loan losses decreased by SEK 8 million to SEK 34 million (42). Loan losses in the Swedish banking operation increased to SEK 11 million (2), while loan losses in the Norwegian banking operation decreased to SEK 23 million (40).

The main explanation for the lower outcome is the recoveries in the Norwegian banking operation for previous years' confirmed loan losses, which increased to SEK 11 million (3). Increased incoming payments towards previous years' confirmed loan losses pertained mainly to lines of credit and card credits and are the result of efficiency improvements in insolvency processes.

Provisions were unchanged at SEK 18 million (18). The need for provisions in the Swedish banking operation was SEK 11 million and mainly pertained to home mortgages. The need for provisions in the Norwegian banking operation decreased by a corresponding amount, mainly attributable to lines of credit and card credits, and was attributable to more efficient processes.

Costs for confirmed loan losses were unchanged at SEK 27 million (27). In the Swedish operations, losses decreased by SEK 2 million, while they increased by an equal amount in the Norwegian operations.

Impaired loans, net, increased to SEK 80 million (50). In the Norwegian operation, impaired loans, net, increased by SEK 8 million to SEK 47 million (39), of which SEK 24 million (21) pertained to home mortgages and the rest to lines of credit. In the Swedish operations, impaired loans, net, increased by SEK 22 million to SEK 33 million (11). The change pertained entirely to home mortgages.

The loan loss ratio, i.e., loan losses in relation to the opening balance of lending to the general public, decreased to 0.06% (0.09%). The loan loss ratio increased to 0.04% (0.01) for the Swedish banking operation and decreased to 0.08% (0.016%) for the Norwegian banking operation.

Tax charge for the year

The tax charge for the year decreased by SEK 28 million to SEK 31 million (59). The change is attributable to a changed application in the calculation of deferred tax on temporary differences for endowment insurance policies. This led to a nonrecurring item of SEK 13 million, which has been booked as a deferred tax asset, with a corresponding effect on the tax charge. The remainder of the change is attributable to a lower taxable profit.

Comprehensive income for the year

SEK million **Statement of comprehensive income**	2011 Jan.-Dec.	2010 Jan.-Dec.	Change
Profit for the year after tax	**143**	**152**	**-9**
Other comprehensive income			
Financial assets available for sale	27	-56	83
Hedging of net investment	0	0	0
Translation difference	1	-72	73
Taxes attributable to change in value of available-for-sale financial assets	-7	15	-22
Total other comprehensive income after tax	**21**	**-113**	**134**
Comprehensive income for the year after tax	**164**	**39**	**125**

Comprehensive income after tax amounted to SEK 164 million (39) and consists of profit as per the income statement, totalling SEK 143 million (152), plus income and expenses reported in the statement of comprehensive income, totalling SEK 21 million (-113). An account of the outcome for the year attributable to the income statement is commented on above.

Other comprehensive income for the year after tax amounted to SEK 21 million (-113). The improvement is attributable to realised gains of SEK 13 million (-38) for fixed-income securities and SEK 6 million (-3) for equities, where the assets are classified as "available-for-sale financial assets". Positive exchange rate differences increased comprehensive income by SEK 1 million (-72) and pertain to exchange rate differences that arise upon conversion of foreign operations' financial statements to the group's reporting currency.

Unrealised changes in the value of fixed-income securities are reported in other comprehensive income, while realised changes in value are reported in the income statement. The positive change in value is mainly attributable to the fact that securities holdings, which in previous valuations resulted in unrealised losses, have been held to maturity and thus no realised gain arose. A further explanation is lower credit spreads in the financial instruments. A change of +/- 0.5 percentage points in the market rate of interest would give rise to an unrealised change in value of SEK 19 million (18), based on the current portfolio on 31 December 2011, which was worth SEK 19.6 billion (12.4).

Balance sheet, liquidity och managed assets

SEK billion	31 Dec. 2011	31 Dec. 2010	Change SEK billion	Change %
Balance sheet total	76.8	68.1	8.7	13%
Lending to the general public[1]	52.4	53.0	-0.6	-1%
Of which, Sweden	25.4	25.7	-0.3	-1%
Of which, Norway	27.0	27.3	-0.3	-1%
Deposits from the general public	71.3	63.0	8.3	13%
Of which, Sweden	33.1	30.8	2.3	7%
Of which, Norway	38.2	32.2	6.0	19%
Total liquidity buffer[2]	23.0	14.9	8.1	54%
Liquidity buffer[3]	19.2	12.1	7.1	59%
Deposit-to-loan ratio	136%	119%	17%	–
Managed assets in funds (NAV)	62.7	64.5	-1.8	-3%

[1] Excluding loans of SEK 1.0 billion (1.0) to the National Swedish Debt Office.

[2] Balances with and lending to the Central Bank of Sweden and Central Bank of Norway, short-term lending and deposits to/from credit institutions and fixed-income securities classified as "available-for-sale financial assets" (AFS). The total liquidity buffer is at the bank's disposal.

[3] In accordance with the Financial Supervisory Authority's rules and regulations on management of liquidity risks (FFFS 2010:7). The liquidity buffer consists of assets at the bank's disposal. These assets remain eligible with the central banks and have not been used as collateral.

The group's total assets increased by SEK 8.7 billion to SEK 76.8 billion (68.1) as a result of higher deposit volume. The balance sheet includes Skandiabanken's operations in Norway. The currency effect of translation to Swedish kronor had only a small impact on total assets, of SEK 0.0 billion (-1.2).

Lending and deposits

Lending in Sweden and Norway decreased slightly to SEK 52.4 billion (53.0), excluding loans of SEK 1.0 billion (1.0) to the Swedish National Debt Office. The virtually unchanged level of lending pertains both to lending in the form of home mortgages and other loans, such as lines of credit and credit card credits.

The increase in deposit volume to SEK 71.3 billion (63.0) is mainly due to higher deposits in high-yield accounts in Norway and in fixed-interest and savings accounts in the Swedish banking operation.

Liquidity, funding and credit ratings

During the year, Skandiabanken continued to strengthen its liquidity. As a result of a greater increase in deposits than in lending, the bank's surplus liquidity, referred to as "Total liquidity buffer" in the table above, strengthened by a further SEK 8.1 billion to SEK 23.0 billion (14.9). Surplus liquidity consists of deposits with central banks, short-term lending to credit institutions and liquid, fixed-income securities which can be liquidated to cash at short notice. In addition to surplus liquidity, the bank has committed credit facilities worth a total of SEK 400 million (400).

Of surplus liquidity, SEK 19.2 billion (12.1) qualifies as the liquidity buffer in accordance with the Financial Supervisory Authority's liquidity rules. In short, the Financial Supervisory Authority's rules require that holdings of fixed-income securities shall also be eligible with the central banks and that only intraday lending to banks may be included. The deposit-to-loan ratio was 136% (119%).

In 2011 Skandiabanken began work on arranging a number of different funding sources (commercial paper, MTN programmes and covered bonds) for the purpose of funding future volume growth and diversifying its current sources of funding. In connection with this work, Skandiabanken was rated by the credit rating agency Moody's. This resulted in long- and short-term credit ratings of A3 and P-2, with a stable outlook.

Detailed information on liquidity risk is provided in note 37.6, "Liquidity risk".

Managed assets in funds

Managed assets in funds decreased by SEK 1.8 billion to SEK 62.7 billion (64.5), of which SEK 5.3 billion is attributable to the divestment of Svenska Lärarfonder AB. Fund assets in the Swedish and Norwegian banking operations decreased by SEK 1.2 billion as a result of the negative trend in the stock markets and customers' choices of other savings alternatives.

Managed funds in Skandia Fonder AB increased by 9.1% to SEK 57.1 billion (52.3), which is attributable to a large inflow to fixed-income funds. This large inflow was driven by the considerable anxiety in the world's financial markets in autumn 2011. Investors have thereby reduced their holdings in higher-risk equity funds and instead placed their money in fixed-income funds. A breakdown of the increase in managed assets by 9.1% shows that 14.5% was related to an increase in net inflows and -5.4% was attributable to changes in the value of funds. The drop in value was related to downward pressure on equity funds as a result of the financial anxiety, which also led to an outflow from equity funds.

Capital base, capital adequacy and dividend

	31 Dec. 2011	31 Dec. 2010	Change
Total capital ratio	14.31%	14.18%	0.13%
Tier 1 capital ratio[1]	9.95%	9.71%	0.24%
Capital adequacy requirement, SEK million	2,210	2,146	3%
Capital adequacy quotient	1.79	1.77	0.02

[1] The bank's tier 1 capital consists of equity less certain items that many not be included in the capital base, such as intangible assets. The bank does not have any tier 1 capital contributions, which entails that its tier 1 capital is equal to its core tier 1 capital.

The total capital ratio increased compared with 2010 to 14.31% (14.18%). The change is mainly due to verification of comprehensive income for the year by the bank's auditors and thus inclusion in the capital base. The capital base was strengthened by SEK 147 million to SEK 3,952 million (3,805), and the capital requirement for risk-weighted assets increased only by SEK 64 million (3%), despite an increase in the exposure for credit risk by SEK 8.7 billion (13%). The year's increased exposure to credit risk has been invested in fixed-income securities with counterparties and holdings with high credit ratings and thereby lower risk weights. The preceding year included a larger share of exposures to the general public, which entailed a larger share of exposures with high risk weights. The Board proposes to the Annual General Meeting that no dividend be paid for the 2011 financial year. See the proposed distribution of profit on page 18.

The outcome pertains to calculation in accordance with the statutory minimum capital requirement, called Pillar I, for credit risk, market risk and operational risk. Skandiabanken uses the standardised approach in calculating credit risk, while the capital requirement for operational risk is calculated using the basic indicator approach. In addition to the statutory minimum capital adequacy requirement, banks are expected to maintain a higher capital base, which is handled under Pillar II, "Capital assessment and risk management". Consideration is given to the total capital requirement for Skandiabanken in the Internal Capital Adequacy Assessment Process (ICAAP). This means that Skandiabanken has additional capital on hand for other material risks than those referred to above. A capital buffer is available above and beyond the capital requirement for identified risks and taking into account continued expansion.

For further information, see note 36, "Information on capital adequacy".

Changed rules 2011

On 31 December 2011 the Financial Supervisory Authority issued new rules entailing, among other things, that deductions are to be made of core tier 1 capital for price adjustments for instruments carried at fair value. Since Skandiabanken already adjusts its capital base via stability filters for instruments classified as available-for-sale financial assets, no adjustment has been necessary.

Events after the balance sheet date – transactions involving equity

In the introduction to the Board of Directors' report an account is provided of organisational changes as per 1 January 2012. These changes entail, among other things, that part of the services segment were sold to Skandia Försäljning AB. This transaction had an impact on the calculation of pensions in accordance with IAS 19. In connection with the transaction, recognised actuarial losses of SEK 35 million have been reported against equity. The corresponding amount was received from the parent company Skandia as a shareholder contribution in February 2012.

Changes in International Financial Reporting Standards in 2013 – transactions involving equity

New reporting rules for pensions in IAS 19, which take effect on 1 January 2013, will entail that the corridor method can no longer be used. Currently the bank applies the corridor method, entailing that actuarial gains and losses are capitalised in the income statement. The change entails that these are to be reported directly against equity through Other comprehensive income. In view of the divestment of parts of the services segment to Skandia, only small actuarial losses remain in Skandiabanken. These will be charged against the capital as a one-time effect.

New capital adequacy rules 2013

In 2013, new rules for capital adequacy, large exposures, liquidity and other risks, will take effect under the Basel III/Capital Requirements Directive IV (CRD IV). The directive as a whole will take effect on 1 January 2013, with transitional rules for separate parts until 2019. The rules are currently under review by the EU and by the pertinent consultation bodies. Due to the short implementation period, a large number of subject areas, including capital, risk-weighted assets, and the Pillar II process, must be addressed in a very short period of time. This is leading to uncertainty about what effects the new rules will entail for Skandiabanken.

Following is a brief account of the parts that are expected to result in changes in Skandiabanken's capital requirement and capital base. During 2013 and 2014 higher capital requirements with respect to tier 1 and core tier 1 capital will gradually be introduced. Skandiabanken's tier 1 capital currently consists of equity less certain items that may not be included in the capital base. The new rules entail that an adjustment shall also be made of the core tier 1 capital for defined benefit pension assets; under the current rules, these are adjusted on the total capital base. Overall this entails that Skandiabanken's core tier 1 capital will be equal to its tier 1 capital. In addition, the new capital rules will entail the introduction of capital buffers. As mentioned, Skandiabanken uses the standardised approach for determining its credit risk. The proposed changes are not expected to have any major impact on Skandiabanken's capital requirement.

It is currently uncertain whether the Swedish government will introduce stricter capital rules for Swedish banks. With reservation for the aforementioned uncertainties, Skandiabanken is of the opinion that it should be able to meet the new requirements without the need for any capital contributions.

For further disclosures, including other anticipated changes in rules and regulations, such as for large exposures and liquidity risk, see a separate report on Skandiabanken's website: www.skandiabanken.se/Om oss/Finansiell info/ 1112 Årlig information - kapitaltäckning och riskhantering.

Complaints and disputes

Skandiabanken is party to a few complaints or legal disputes. In cases where Skandiabanken believes it may be required to pay financial compensation or that it may not receive a disputed repayment, a provision is made based on the specific case at hand. The Swedish Tax Agency has reconsidered Skandiabanken's income taxation for 2009. Its decision has been appealed, and an extension has been granted for payment of the tax. The Tax Agency's decision may result in a higher tax charge of SEK 3.6 million. Skandiabanken has appealed the decision to the Administrative Court and is of the opinion that it is not likely that the Tax Agency's decision will be upheld in its entirety. In addition, there is considerable uncertainty regarding the amount assessed. Consequently, no provision has been made, and the amount is reported as a contingent liability. For other disputes for which no provision has been made or which are reported as contingent liabilities, the level of uncertainty is such that it is not possible to estimate the possible outcome.

Disclosures on risks and uncertainties, and on the anticipated future development

Skandiabanken conducts retail banking business in Sweden and Norway. The economic situation in both countries was favourable in 2011, with good economic growth and falling unemployment, which levelled out during the autumn. Uncertainty exists with respect to the situation in 2012, in view of the sovereign debt crisis in Europe and the effect that it may have on Skandiabanken's operations. Growth in the Swedish and Norwegian economies is expected to be weaker in 2012, and unemployment is expected to rise slightly in both countries, and thereafter fall back again in 2013 and 2014.

Skandiabanken has no direct exposure to banks or other countries facing a debt crisis, such as Portugal, Italy, Ireland, Greece and Spain, however, economic problems in these countries are having a negative impact on the European banking system and the market as a whole, which in turn also affects countries with healthy economies.

The central banks' interest rates are expected to remain low in 2012. Lower central bank rates could result in higher pressure on margins and thereby have an adverse effect on earnings capacity and above all on net interest income. Even though the central banks' interest rates are expected to fall and margin pressure may rise, competition between banks continues to rise with respect to savings products, both in Sweden and Norway, which could put pressure on net interest income.

Contracting economic growth in the two countries has a negative effect on net fee and commission income. Unstable or falling stock prices could result in a lower level of activity in securities transactions and prompt customers to choose other forms of saving.

Changes in the ownership structure through Skandia Liv's acquisition of Skandiabanken's parent company Skandia from Old Mutual may have an effect on operations going forward. The deal was presented on 15 December 2011 and was completed on 21 March 2012 after the necessary permits and approvals were received by the financial regulators and competition authorities in the affected countries, along with approval from Old Mutual's shareholders. The acquisition is expected to lead to significant cost and revenue synergies. The transaction between Skandia Liv and Old Mutual is expected to have minimal impact on Skandiabanken in the near term. Longer term, the deal will improve Skandiabanken's prospects of reaching out to customers with a uniform, strong offering.

Skandiabanken's total credit exposure amounted to SEK 76.9 billion (68.2), of which 64% (73%) pertained to home mortgages with private individuals. New rules that took effect in 2010 entailing that customers may borrow a maximum of 85% of a home's value have had a dampening effect on the Swedish housing market and will continue to do so. The Norwegian housing market experienced favourable growth during the first half of the year and levelled off thereafter, growing by a total of 22% in 2011 as a whole. Growth in home investments is expected to continue to decline in 2012 and be approximately 4% in 2013/2014. Skandiabanken has traditionally had a restrictive stance toward lending, entailing a low level of borrowing among the bank's customers and low realised loan losses. This means that Skandiabanken is expected to be able to manage any declines in real estate values.

Skandiabanken's credit exposure with respect to investments of surplus liquidity increased to SEK 23.0 billion (14.9). Risk-weighted assets, on the other hand, decreased, entailing that investments have been made in holdings that are expected to lead to lower exposure to credit risk. The change can be credited in part to new rules from the Financial Supervisory Authority and in part to coming regulatory changes regarding requirements on the composition of the liquidity buffer and continuing internal work on development of the bank's risk tolerance for liquidity risk. Liquidity risk is expected to continue to be low in view of the prognosticated surplus of deposits.

New rules for capital adequacy and large exposures, liquidity risk and other risks are currently being drafted to take effect on 1 January 2013. These rules will not be ready until the end of 2012 and cover a large number of regulatory areas, including capital, risk-weighted assets and the Pillar II process. This is a source of uncertainty regarding what effects the new rules will have on Skandiabanken with respect to capital, risk calculations and assessments of the need of resources, and it will entail a major undertaking to implement such an extensive body of rules in a short period of time.

A description of risks and risk management can be found in note 37. Information on capital adequacy and risk management (Pillar III) is provided in a more extensive report (1112 Annual information about capital adequacy and risk management – Pillar III). See www.skandiabanken.se/ Om oss/ Finansiell info.

Events after the balance sheet date

Events that have occurred after the balance sheet date pertain to changes in the organisation, see page 5 under the heading "Reorganisation and divestment of the services segment" and "Changes in management and board".

Disclosures of changed accounting policies

The Swedish Financial Reporting Board (RFR) has rescinded its pronouncement UFR 2 Group contributions and shareholder contributions, and has instead amended RFR 2 Reporting for legal entities, with respect to reporting of group contributions. The new policy entails that the parent company, Skandiabanken, reports group contributions received from subsidiaries as dividends in the income statement on the line "Group contributions received from subsidiaries". Comparison figures for 2010 have been recalculated. This change in policy entails an increase in profit before tax by SEK 30 million (27). The transaction is eliminated in the consolidated financial statements, entailing that no effect arises in the consolidated income statement.

IAS 24 Related party disclosures was amended during the year but has not entailed any significant change for the bank. For further information, see note 1, "Accounting policies".

Parent company

The parent company Skandiabanken conducts banking business in Sweden and Norway. Operations in Norway are conducted as a branch of the Swedish limited liability banking company.

The report that has been provided above for the following items also applies for the parent company:

- Significant events during the year
- Income statement items such as net interest income, net financial income, loan losses, depreciation/amortisation and impairment, and other operating expenses
- Balance sheet items, such as lending, deposits and the liquidity buffer
- Report on new and forthcoming capital adequacy rules
- Complaints and disputes
- Disclosures on risk and uncertainties, and on anticipated future developments
- Events after the balance sheet date
- Disclosures on changed accounting policies

The heading "Reorganisation and divestment of services segment" includes a description of operations that were sold in 2011. Divested operations pertaining to the parent company pertained to parts of the services segment and services performed in the areas of product development, business support, marketing functions and customer service for Skandia and Skandia Liv, as well as the advisory activities. The sale was completed on 1 January 2012. Disclosures of divested operations are provided in note 34 to the consolidated accounts, "Discontinued operations".

In contrast to the consolidated income statement, information about divested operations is not provided on a separate line in the parent company's income statement; instead, the outcome of the divested operations is included on the respective line. The corresponding report of divested operations is provided on the balance sheet, and consequently, these are included line by line in the parent company.

The shareholding in the subsidiary Svenska Lärarfonder AB was sold on 1 February 2012 at book value. See note 13, "Shares and participations in group companies".

What distinguishes the group from the parent company with respect to company structure as per 31 December 2011 is the subsidiary Skandia Fonder AB.

Profit for the period January–December 2011 compared with corresponding period a year ago

Operating profit before tax for the year amounted to SEK 177 million (211). Profit for the Swedish services segment amounted to SEK 0 million (0). Costs for conducting operations have been further invoiced in their entirety.

Operating income

Net fee and commission income amounted to SEK 349 million (372). The lower outcome is mainly attributable to lower commissions from equity transactions.

Starting in 2011, group contributions from subsidiaries are reported in the income statement. Previously, these were reported through equity, except for the tax effect, which was reported in the income statement. Group contributions are now reported on a separate line "Group contributions received from subsidiaries". Comparison figures for 2010 have been recalculated. This change in accounting policy has resulted in an increase in profit before tax of SEK 30 million (27).

Other operating income amounted to SEK 779 million (852), of which SEK 641 million (682) pertained to discontinued operations. For continuing operations, other operating income amounted to SEK 138 million (170). The outcome included SEK 10 million in nonrecurring items for 2011 and SEK 23 million for 2010. Excluding these nonrecurring items, the outcome decreased by SEK 20 million. Other operating income decreased due to lower income from other Skandia companies for performed services.

Expenses before loan losses

Expenses before loan losses amounted to SEK 1,998 million (1,900), of which SEK 641 million (682) pertained to discontinued operations and SEK 1,357 million (1,218) pertained to continuing operations. Staff costs amounted to SEK 869 million (843), of which SEK 481 million (470) pertained to discontinued operations and SEK 388 million (373) to continuing operations. Costs for the voluntary departure programme amounted to SEK 59 million. Other administrative expenses amounted to SEK 1,047 million (995), of which SEK 156 million (208) pertained to discontinued operations and SEK 891 million (787) to continuing operations. Other costs in the continuing operations pertain mainly to "Fees and purchased services", which pertain to IT and project-related costs and other costs pertaining to centralised functions in the parent company Skandia.

Capital base and capital adequacy

The total capital ratio was 14.66% (14.51%), and the tier 1 capital ratio was 10.24% (9.98%). The total capital requirement was SEK 2,182 million (2,120), and the capital adequacy quotient was 1.83 (1.81). The capital base amounted to SEK 3,997 million (3,845). Comprehensive income for the period has been verified by the company's auditors and is thereby included in the capital base.

For further disclosures, see note 23 to the parent company accounts, Capital adequacy analysis.

Five-year summary

For a five-year summary for the parent company, see page 79. In other respects, see the Board of Directors' report for the group above.

Five-year summary, group

KEY RATIOS

Volume development	2011	2010	2009	2008	2007
Lending to the general public, incl. leasing, SEK million[1]	53,393	53,984	48,634	43,835	40,043
Change during the year	-1%	11%	11%	9%	-19%
Total deposits and borrowing from the general public, incl. debt securities, SEK million[1]	71,302	62,969	61,739	51,986	50,544
Change during the year	13%	2%	19%	3%	-1%
Average volume (balance sheet total), SEK million[2]	72,590	67,818	65,380	55,237	53,183
Change during the year	7%	4%	18%	4%	14%

Capital adequacy measures	2011	2010	2009	2008	2007
Total capital ratio: Capital base as % of risk-weighted assets	14.31%	14.18%	13.07%	14.96%	12.85%
Tier 1 capital ratio: Tier 1 capital as % of risk-weighted assets	9.95%	9.71%	8.86%	9.93%	8.95%

Key ratios, earnings	2011	2010	2009	2008	2007
Investment margin: Net interest income as % of average volume (balance sheet total)	1.43%	1.25%	1.24%	1.67%	1.32%
Earnings capacity: Operating profit excl. loan losses as % of average volume (balance sheet total)	0.29%	0.37%	0.45%	0.64%	0.30%
Return on total assets: Operating profit as % of average volume (balance sheet total)	0.24%	0.31%	0.35%	0.54%	0.26%
Return on equity: Operating profit after actual tax as % of average equity	5.18%	5.66%	6.50%	9.44%	7.51%
Cost/income ratio before loan losses: Total costs excl. loan losses in relation to operating income	0.88	0.89	0.83	0.77	0.87
Cost/income ratio after loan losses: Total costs incl. loan losses in relation to operating income	0.90	0.62	0.86	0.80	0.89

Impaired loans	2011	2010	2009	2008	2007
Provision level for impaired loans:[3] Provision for probable loan losses as % of impaired loans before provision	62.3%	70.1%	61.7%	49.5%	75.4%
Share of impaired loans:[3] Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.15%	0.09%	0.14%	0.14%	0.02%
Loan loss ratio: Loan losses as % of opening balance of lending to the general public, credit institutions (excl. bank), and credit guarantees	0.06%	0.09%	0.14%	0.13%	0.04%

Other data	2011	2010	2009	2008	2007
Number of customers, thousands[4]	803	787	774	752	712
Average number of employees	1,001	1,151	481	295	376
Of whom, in continuing operations	523	521	481	279	263
Of whom, in discontinued operations	478	630	—	16	113

[1] Lending to the general public, and deposit and borrowing volumes for the years 2007 and 2008 pertain to continuing operations. Previous years' comparison figures include operations that were divested in 2007 and 2008, incl. leasing.

[2] Average balance volume for the years 2007-2008 has been recalculated to take into account discontinued operations in order to provide meaningful information regarding key ratios for the investment margin, earnings capacity and return on total assets.

[3] Comparison figures for probable loan losses pertain to specific provisions for individually assessed loan receivables and provisions for loan receivables with limited value and similar credit risk that have been assessed collectively.

[4] The number of customers for the 2007 pertains to continuing operations.

INCOME STATEMENTS AND BALANCE SHEETS FOR 2007–2011, FIVE-YEAR SUMMARY, SEK MILLION

Income statement	2011	2010	2009	2008	2007
Interest income	2,554	1,751	1,867	3,276	2,396
Interest expense	-1,515	-903	-1,054	-2,354	-1,696
Net fee and commission income	490	526	541	480	512
Net financial income	14	55	33	24	18
Other income	131	170	305	97	12
Total operating income	**1,674**	**1,599**	**1,692**	**1,523**	**1,242**
Staff costs	-398	-389	-422	-230	-198
Other administrative expenses	-991	-897	-929	-874	-793
Depreciation, amortisation and impairment of tangible and intangible assets	-8	-8	-9	-30	-20
Other operating expenses incl. losses from investments in associates	-69	-52	-40	-34	-72
Total expenses before loan losses	**-1,466**	**-1,346**	**-1,400**	**-1,168**	**-1,083**
Profit before loan losses	**208**	**253**	**292**	**355**	**160**
Loan losses, net	-34	-42	-62	-54	-22
Net gains/losses on disposal of tangible and intangible assets	0	0	0	0	0
Impairment of shares in associates[1]	—	—	—	-2	-1
Net profit for the year from continuing operations before taxes	**174**	**211**	**230**	**299**	**136**
Taxes	-31	-59	-60	-81	-40
Net profit for the year from continuing operations	**143**	**152**	**170**	**218**	**96**
Profit for the year from discontinued operations after tax	—	—	—	995	100
Net profit for the year	**143**	**152**	**170**	**1,213**	**196**
Attributable to:					
Shareholders of Skandiabanken AB	**143**	**151**	**169**	**1,213**	**195**
Non-controlling interests	**—**	**1**	**1**	**1**	**1**

[1] Impairment of shares in associated companies held as financial assets.

Balance sheet	2011	2010	2009	2008	2007
Cash and cash balances with central banks	696	493	1,675	2,230	373
Lending to credit institutions	2,013	372	1,025	2,191	270
Lending to the general public	53,393	53,984	48,634	43,835	40,043
Fair value of portfolio hedge of interest rate risk	68	5	153	205	-71
Financial assets at fair value	34	61	11	80	152
Financial assets available for sale	19,644	12,393	16,602	9,106	—
Assets held for sale	15	—	—	—	12,881
Financial assets held to maturity	—	—	200	200	1,893
Shares and participations in associates	—	—	—	—	2
Intangible and tangible non-current assets	11	20	27	20	68
Other assets	893	773	807	538	559
Total assets	**76,767**	**68,101**	**69,134**	**58,405**	**56,170**
Due to credit institutions	42	52	2,074	1,564	145
Deposits and borrowing from the general public	71,302	62,969	61,739	51,986	50,491
Issued securities, etc.	—	—	—	—	53
Financial liabilities at fair value	83	49	156	213	173
Liabilities related to assets held for sale	112	—	—	—	281
Other liabilities	1,222	1,184	1,167	947	994
Subordinated liabilities	1,200	1,200	1,200	1,200	1,200
Total liabilities	**73,961**	**65,454**	**66,336**	**55,910**	**53,336**
Non-controlling interests	—	6	5	4	4
Equity attributable to shareholders of Skandiabanken AB	2,806	2,641	2,793	2,491	2,830
Total equity	**2,806**	**2,647**	**2,798**	**2,495**	**2,834**
Total liabilities and equity	**76,767**	**68,101**	**69,134**	**58,405**	**56,170**

DISTRIBUTION OF PROFIT
(Amounts in SEK thousand)

The following amount is available for distribution by the Annual General Meeting:	
Fair value reserve	24,816
Retained earnings	2,192,182
Net profit for the year	145,945
Unrestricted equity	2,362,943

The Board of Directors proposes that this amount be distributed as follows:	
Dividend to the shareholders	–
To be carried forward	2,362,943

With respect to Skandiabanken's result of operations and financial position in general, please refer to the following income statements, balance sheets and accompanying comments.

Income statement, group

INCOME STATEMENT

SEK million	Note	2011	2010
Interest income		2,554	1,751
Interest expense		-1,515	-903
Net interest income	3	1,039	848
Fee and commission income		997	1,072
Fee and commission expense		-507	-546
Net fee and commission income	4	490	526
Net financial income	5	14	55
Other operating income	6	131	170
Total operating income		**1,674**	**1,599**
Staff costs	7	-398	-389
Other administrative expenses	8	-991	-897
Depreciation, amortisation and impairment of tangible and intangible assets	9	-8	-8
Other operating expenses	10	-69	-52
Total operating expenses before loan losses		**-1,466**	**-1,346**
Profit before loan losses		**208**	**253**
Net loan losses	11	-34	-42
Net gains/losses on disposal of tangible and intangible assets		0	0
Operating profit		**174**	**211**
Income tax expense	12	-31	-59
Net profit for the year, continuing operations		**143**	**152**
Profit for the year, discontinued operations, after tax	34	0	0
Net profit for the year		**143**	**152**
Attributable to:			
Shareholders of Skandiabanken AB (publ)		**143**	**151**
Non-controlling interests		**–**	**1**

STATEMENT OF COMPREHENSIVE INCOME

SEK million	2011	2010
Net profit for the year	**143**	**152**
Other comprehensive income		
Changes in value of available-for-sale financial assets	27	-56
Hedge of net investment	0	0
Translation difference	1	-72
Taxes attributable to changes in value of available-for-sale financial assets	-7	15
Total other comprehensive income after tax	**21**	**-113**
Total comprehensive income after tax	**164**	**39**
Attributable to:		
Shareholders of Skandiabanken AB (publ)	164	38
Non-controlling interests	–	1

Balance sheet, group

BALANCE SHEET, SEK MILLION

31 December **Assets**	**Note**	**2011**	**2010**
Cash and cash balances with central banks	13	696	493
Lending to credit institutions	14	2,013	372
Lending to the general public	15	53,393	53,984
Fair value of portfolio hedge of interest rate risk	16	68	5
Financial assets at fair value	17	34	61
Financial assets available for sale	18	19,644	12,393
Assets available for sale	34	15	—
Intangible assets	19	3	7
Property, plant and equipment	20	8	13
Current tax assets	21	19	8
Deferred tax assets	21	25	34
Other assets	22	624	566
Prepaid expenses and accrued income	23	225	165
Total assets		**76,767**	**68,101**
Liabilities and equity			
Due to credit institutions	24	42	52
Deposits and borrowing from the general public	25	71,302	62,969
Financial liabilities at fair value	26	83	49
Liabilities attributable to assets held to maturity	34	112	—
Current tax liabilities		43	54
Other liabilities	27	714	599
Accrued expenses and deferred income	28	421	421
Provisions for pensions	29	44	104
Other provisions	30	0	6
Subordinated liabilities	31	1,200	1,200
Total liabilities		**73,961**	**65,454**
Equity			
Non-controlling interests		**–**	**6**
Equity attributable to shareholders of Skandiabanken AB (publ)			
Share capital		400	400
Reserves		2	-19
Retained earnings including profit for the year		2,404	2,260
Total equity attributable to shareholders of Skandiabanken AB (publ)		**2,806**	**2,641**
Total equity		**2,806**	**2,647**
Total liabilities and equity		**76,767**	**68,101**

For information about the group's pledged assets, obligations and contingent liabilities, see note 32.

Statement of changes in equity, group

SEK million	Share capital	Fair value reserve	Translation reserve	Retained earnings incl. profit for the year	Minority interest	Total equity
Opening equity 2010	**400**	**41**	**53**	**2,299**	**5**	**2,798**
Profit for the year				151	1	152
Other comprehensive income	–	-41	-72			-113
Total comprehensive income	**–**	**-41**	**-72**	**151**	**1**	**39**
Contribution from parent company, share-based payment	–	0	–	0	–	0
Group contribution received	–	–	–	14	–	14
Tax on group contribution	–	–	–	-4	–	-4
Dividend	–	–	–	-200	–	-200
Closing equity 2010	**400**	**0**	**-19**	**2,260**	**6**	**2,647**
Opening equity 2011	**400**	**0**	**-19**	**2,260**	**6**	**2,647**
Profit for the year	–	–	–	143	–	143
Other comprehensive income	–	20	1	–	–	21
Total comprehensive income	**–**	**20**	**1**	**143**	**–**	**164**
Divested operations	–	–	–	–	-6	-6
Contribution from parent company, share-based payment	–	0	–	0	–	–
Group contribution received	–	–	–	6	–	6
Group contribution rendered	–	–	–	-6	–	-6
Tax on group contribution	–	–	–	1	–	1
Closing equity 2011	**400**	**20**	**-18**	**2,404**	**–**	**2,806**

For further disclosures, see note 41, “Supplementary disclosures of equity”.

Cash flow statement, group

CASH FLOW STATEMENT

indirect method, SEK million

Operating activities	**Note**	**2011**	**2010**
Operating profit		174	211
of which, interest paid in		*2,496*	*1,781*
of which, interest paid out		*-1,448*	*-918*
Adjustment for non-cash items:			
Unrealised portion of net financial income		*10*	*-7*
Depreciation, amortisation and impairment charges			
- depreciation of property, plant and equipment		4	5
- amortisation and impairment of intangible assets		4	4
Share-based payments		0	0
Net loan losses		45	46
Gains/losses on disposal of tangible and intangible assets		0	0
Income tax paid		-54	-43
Cash flow from operating activities before changes in assets and liabilities of operating activities		**183**	**216**
Decrease (+)/increase (-) in lending to the general public		546	-5,396
Decrease (+)/increase (-) in holdings of fixed-income securities and equities		-7,231	4,167
Decrease (+)/increase (-) in other assets		-120	46
Decrease (-)/increase (+) in amount due to credit institutions		—	-2,000
Decrease (-)/increase (+) in deposits and borrowing from the general public		8,334	1,230
Decrease (-)/increase (+) in other liabilities		129	46
Cash flow from operating activities		**1,841**	**-1,691**
Investing activities			
Purchases of tangible assets		-6	-5
Sales of property, plant and equipment		4	5
Divestment of subsidiary/minority interests	33	-11	—
Purchases of intangible non-current assets		0	-1
Repayment of financial assets held to maturity		—	200
Cash flow from investing activities		**-13**	**199**

Financing activities	**Note**	**2011**	**2010**
Dividend paid		—	-200
Group contribution received		25	—
Cash flow from financing activities		**25**	**-200**
Cash flow for the year		**1,853**	**-1,692**
Cash and cash equivalents at start of the year		**813**	**2,627**
Exchange rate difference in cash and cash equivalents		**1**	**-122**
Cash and cash equivalents at end of the year		**2,667**	**813**

Cash and cash equivalents	**2011**	**2010**
Cash and cash balances with central banks	696	493
Lending to credit institutions	2,013	372
Due to credit institutions	-42	-52
Cash and cash equivalents	**2,667**	**813**

Cash and cash equivalents are defined as cash, clearing and settlement claims liabilities, account balances in other banks and overnight loans with original terms of less than three days.

Unutilised part of granted overdraft facilities	**2011**	**2010**
Unutilised credits available for future operating activities and investing activities	446	446

Notes to the income statement and balance sheet, group

Amounts in SEK million, unless indicated otherwise

NOTE 1. ACCOUNTING AND VALUATION POLICIES

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Significant accounting policies

1. Compliance with laws, rules and regulations, and valuation bases

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the EU.

In preparation of the consolidated financial statements, the following are also applied:
– The Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559)
– The Financial Supervisory Authority's regulations and general guidelines on annual reports of credit institutions and securities companies (FFFS 2008:25)
– Recommendations from the Swedish Financial Reporting Board (RFR), "Complementary accounting rules for groups (RFR 1)

In cases where there are differences between the Financial Supervisory Authority's guidelines and the recommendations issued by RFR, the Financial Supervisory Authority's guidelines are applied.

Valuation bases

Assets and liabilities are reported at historic acquisition cost. Financial assets and liabilities are carried at amortised cost, except for certain financial assets and liabilities that are carried at fair value or where hedge accounting to fair value is used. Financial assets and liabilities that are carried at fair value consist of derivative instruments, financial instruments classified as financial assets or financial liabilities at fair value through profit or loss, or available-for-sale financial assets.

2. Changes in accounting policies, presentation and comparison figures

The accounting policies presented here have been applied consistently for all periods presented, unless indicated otherwise.

New and amended IFRSs for the 2011 financial year

IFRSs endorsed by the European Commission shall be applied. Following is a description of changes in accounting policies that Skandiabanken applies as from 2011. Other IFRS amendments with application as from 2011 have not had any material effect on the accounting.

IAS 24 Related Party Disclosures

A review has been conducted of the definition of related party to simplify and clarify the interpretation of who falls under the category of related party. The amendments entail that the category of related party has been widened to also include senior executives' transactions with controlling interests in other, external companies. The amendment has entailed more detailed information in the note on related parties. The amendments to the standard took effect on 1 January 2011 and have been approved by the EU.

Other changes issued by other normative bodies

Rescinded UFR pronouncement in 2011 financial year

The Swedish Financial Reporting Board (RFR) issues recommendation for companies that apply IFRS. Following is an account of changes in recommendations issued by RFR that affect Skandiabanken's accounting policies.

Rescinded UFR 2 Group contributions and shareholder contributions

RFR has determined that the principles for reporting group contributions have not been compatible with IFRS. The change entails that RFR has rescinded the current pronouncement, UFR 2, and made an adjustment to RFR 2 Reporting for Legal Entities with respect to how group contributions are to be reported. Group contributions made by a subsidiary to a parent company shall be reported by the parent company as a dividend in the income statement. The subsidiary's accounting is not affected; the group contribution is reported in accordance with the current principle directly against equity with the accompanying tax effect. When a parent company makes a group contribution to a subsidiary, the contribution shall be reported as an increase in shares in the subsidiary less the tax effect. However, this applies only if the subsidiary is a non-current asset and not an inventory asset. The subsidi-

Cont. note 1
ary's accounting is not affected – the contribution is to be reported directly against equity with the accompanying tax effect.

The change outlined above does not affect Skandiabanken's consolidated accounting of group contributions to the parent company Skandia Insurance Company Ltd.

New and amended IFRSs for application in the 2012 financial year and later
A number of new or amended standards and interpretations do not take effect until future financial years and have not been applied prospectively in the preparation of these financial statements. To the extent that anticipated effects on the financial statements of application of the following new or amended standards and interpretations are not described below, the new rules are not judged to have any material impact on Skandiabanken's financial statements.

Amendments to IAS 19 Employee Benefits
In June 2011, IASB published a new, revised IAS 19. The most significant amendments entail a discontinuation of the so-called corridor method. Actuarial gains and losses are to be reported in other comprehensive income. The return on plan assets is to be based on the discount rate used for calculating the pension obligation. The difference between the actual and estimated return on plan assets is to be reported in other comprehensive income. The new standard also entails a stricter disclosure requirement. The amendments are to be applied for financial years starting on 1 January 2013 or later, with retrospective application. Early application is permitted. The amendment is expected to be endorsed by the EU during the first quarter of 2012.

At present the amendment is not judged to have any material effect on Skandiabanken during the initial period of application.

Amended IAS 1 Presentation of Financial Statements (presentation of other comprehensive income)
The amendment pertains to how items in other comprehensive income are to be presented. The items are to be grouped into two categories: items that will be reclassified to profit or loss for the year and items that are not to be reclassified. The items that are not reclassified are actuarial gains and losses. The amendment is to be applied for financial years starting on 1 July 2012 or later, with retrospective effect. Early application is allowed. The amendment is expected to be approved by the EU during the first quarter of 2012.

IFRS 13 Fair Value Measurement
IFRS 13 pertains to a new, uniform standard for measuring fair value and improved disclosure requirements. Among other things, the standard entails that fair value is to be based on the price that best reflects the closing quotation. The standard is to be applied prospectively in financial years starting on 1 January 2013 or later. The new standard is not expected to have any material impact on Skandiabanken's profit or financial position. The amendment is expected to be approved by the EU during the third quarter of 2012.

IFRS 10 Consolidated and Separate Financial Statements and IFRS 12 Disclosures of Interests in Other Entities
IFRS 10 Consolidated and Separate Financial Statements supersedes the current IAS 27 Consolidated and Separate Financial Statements and entails changes in the model for determining which entities are to be consolidated. The model entails a single control model for all investments and focuses on the ability of the investor to use its power over the investee to affect the amount of the investor's returns and whether it acts as principal or as an agent of other parties.

IFRS 12 sets forth disclosure requirements for interests in other entities – even for such that are not considered to be consolidated (subsidiaries, associates, joint arrangements and structured entities, including securities funds). The new standards will take effect on 1 January 2013 and are not expected to have any effect on Skandiabanken's consolidated accounting. However, the standards may require more detailed disclosures.

IFRS 9 Financial Instruments
Planned amendments to IAS 39 will take place in three phases, of which the first phase has resulted in the issuance of a new standard by IASB. The other two phases are currently under development.

Phase 1 – IFRS 9 Financial Instruments
The standard is intended to replace the part of IAS 39 that addresses classification and valuation of financial assets. Only two valuation categories will remain: financial assets at fair value and financial assets at amortised cost. Amortised cost is used for instruments held in a business model whose objective is to receive the contractual cash flows, which are made up of capital amounts and interest. Other financial assets are carried at fair value, and the opportunity to use the fair value option in IAS 39 will be kept. Financial assets carried at fair value will show changes in value through profit or loss, except for equity instruments (e.g., shares) that are not held for trading and for which the entity has elected to report value changes in other comprehensive income. The effective date of the standard has been deferred, and the new proposal is 1 January 2015 in order to better harmonise with the implementation of the other two phases according to the description below. Early application will be allowed.

The changes may primarily affect Skandiabanken's election of classification of fixed-income securities (SEK 19.7 billion), which according to the current rules are carried at fair value and for which unrealised gains/losses are reported in other comprehensive income. Skandiabanken has not yet conducted any evaluation of the effects of IFRS 9. Nor has it been able to decide if it will begin applying the new standard prospectively, since IFRS 9 has not yet been approved for application within the EU.

Phase 2 – Amortised cost and impairment
Revisions are in progress following responses received from circulations, and it is believed that the proposed model for impairment testing of financial assets may have consequences for Skandiabanken. The model applied under IAS 39 is based on recognition only of incurred losses in provisions.

Cont. note 1
The new, proposed model takes into account anticipated losses during the term of each loan. The aim of the model is to build up reserves during the entire life of the loan, which will lead to a greater buffer for loan losses and thus greater resilience during times of financial turbulence. Since the proposal is under development, Skandiabanken cannot yet determine what effects it will have on profit and capital adequacy.

Phase 3 – Hedge accounting
Following considerable criticism in the responses from the circulation reviews, phase 3 is under further development. The aim of this phase is to – by changing the current rules – achieve better reporting and illumination of transactions in which hedge accounting is used. A review is also being conducted of methods for portfolio hedges. Since the proposal is under development, Skandiabanken cannot yet determine what effects it will have on profit and capital adequacy.

3. Critical estimations and the most important sources of uncertainty in estimations
In applying significant accounting policies according to IFRS, various estimations have been made, which have significance for Skandiabanken's result of operations and position.

When determining the value of certain assets and liabilities, in accordance with the applicable reporting standard, assumptions and estimations are to be made of various factors that affect the value of the asset or liability as per the balance sheet date. Applying assumptions and estimations in valuations always entails a risk that a change may need to be reported in subsequent periods, when the actual outcome has become known.

Valuation of loan receivables where a need to recognise impairment exists – impaired loans
The value of impaired loans is assessed after estimating future cash flows while taking into account the borrower's ability to pay and estimations of the fair value of any collateral.

The loan receivables that entail the greatest uncertainty in valuations consist of individually assessed loan receivables, which for Skandiabanken consist mainly of home mortgages. During the financial year, SEK 9 million (9) was reversed for individually assessed loan receivables, where there was no longer a need for provisions compared with the same period a year earlier.

For assessments of loan receivables that are measured collectively – primarily bank account lines of credit, credit card credits, personal loans and car instalment loans, valuation is based on historical experience of default, which leads to uncertainty in determining the need for provisions. Moreover, in the Norwegian operations, there is a need for longer processing times due to legal requirements, entailing that there is greater uncertainty about when in time these credits will be realised. Based on existing knowledge about the assumptions in the Norwegian operations, the outcome for the following financial year may entail a significant adjustment of the carrying amount of collectively assessed loan receivables. However, such adjustment entails that, for loans confirmed as loan losses, a dissolution is made for essentially the same amount, which entails that the net effect is not expected to be material.

Actuarial computations of defined benefit pension obligations
Calculation of pension obligations involves numerous estimations and assumptions that company management makes each year for calculation of future cash flows. The assumptions are revised during the year in connection with significant changes. Important estimations are made with respect to the life expectancy of future pension beneficiaries, increases in their future salaries and benefits, along with assumptions regarding personnel turnover. These estimations are based on knowledge about the insurance portfolio and the company's previous experience, as well as with respect to whether the benefit increases are compatible with macroeconomic factors, such as assumptions about future inflation. The reported pension liability is a calculation of the present value of the combined, anticipated future cash flows of pension payments. The present value calculation is performed using an assumed discount rate. The discount rate has a significant impact on the reported liability, and it is very important that the choice of the discount rate, based on relevant market rates of interest, is made in accordance with generally accepted methods.

Experience-based actuarial gains and losses arise when the assumptions deviate from the actual outcome. Accumulated positive deviations arose for plan assets in the amount of SEK 0.7 million (23.6), and for pension obligations the corresponding amount was SEK -2.3 million (6.4). Accumulated effects of changes in actuarial assumptions pertaining to pension obligations amounted to SEK -35.3 million (-14.1). The actuarial loss in 2011 is mainly attributable to lower discount rates of 0.25 percentage points for the Swedish pension plans and 1.5 percentage points for the Norwegian plans. Skandiabanken applies the corridor method, entailing that actuarial gains and losses are reported as income or expense in the income statement at an amount that exceeds the higher of 10% of the pension obligation or plan assets at the end of the preceding reporting period. The excess amount is reported in profit, allocated over the anticipated remaining service period. This means that, in application of the corridor method, the profit effect of the experience-based adjustments and changes in actuarial assumptions is not significant.

4. Principles of consolidation

Consolidation of parent company and subsidiaries
The consolidated financial statements cover the parent company, Skandiabanken, and subsidiaries in which it has a controlling influence. Subsidiaries are reported in accordance with the acquisition method, which entails that acquisitions of subsidiaries are regarded as a transaction through which the group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. Application of the acquisition method entails that the group's equity consists of the parent company's equity and the portion of the subsidiary's equity that is earned after the date of the acquisition. Earnings in acquired or divested operations are included in the consolidated financial statements for the part of the year that the bank had control. By control is meant that Skandiabanken has the right to directly or indirectly govern a company's financial and operative activities for the purpose of obtaining economic benefit from the operations. Acquired, identified assets, liabilities and contingent liabilities are stated at fair value on the date of acquisition.

Cont. note 1

In association with acquisitions, the portion of cost that exceeds the value of identifiable net assets is reported as goodwill. If the cost falls below the fair value of the acquired subsidiary's net assets, the difference is reported directly through profit or loss.

Non-controlling interests

Consolidated profit is attributable to shareholders of Skandiabanken AB (publ) and non-controlling interests, which in the consolidated balance sheet are reported as a separate item under equity. Non-controlling interests consist of the market value of minority shares in net assets for subsidiaries included in the consolidated financial statements at the time of the original acquisition and the minority owners' share of changes in equity after the acquisition.

Group eliminations

All internal transactions between group companies as well as intra-group balances are eliminated in preparation of the consolidated financial statements.

Translation of income statements and balance sheets of foreign operations

The group's reporting currency is Swedish kronor (SEK). The parent company conducts business via a branch in Norway, which entails that the parent company has two functional currencies. By functional currency is meant the currency that is used in the economic environment in which the business is conducted.

Translation of income statements and balance sheets of foreign operations is done from their functional currencies to Swedish kronor. Assets and liabilities are measured at the exchange rate in effect on the balance sheet date. Revenues and expenses are translated at the average exchange rate for the period. The translation differences that arise are reported directly in "Other comprehensive income" as a translation reserve. Upon disposal of an operation, the accumulated translation difference in the income statement is reported with accumulated effects of currency hedges. Goodwill that arises in connection with acquisitions of foreign operations is treated as assets and liabilities in the foreign operation and is translated at the exchange rate in effect on the balance sheet date.

5. Reporting of operating segments

Segment reporting is presented based on the company's internal reporting that is provided to the "chief operating decision maker" (CODM). Segment reporting corresponds to the internal reporting that is continuously made to the group's CEO and which constitutes documentation for decisions on allocation of resources to the segments and follow-up of the segment's result of operations and position.

The criteria for identification of an operating segment is that it engages in business activities and generates revenues and incurs expenses, that the operating results and position are regularly reviewed by the CODM to make decisions about resources to be allocated to the segment and that discrete financial information is available. An operating segment has similar characteristics, such as regarding the nature of products and services, processes, customer categories, distribution, how the services are performed, and the impact of various rules and regulations. Quantitative thresholds exist for when information for an operating segment is to be reported. Separate information is provided for a segment when its operating revenue is 10% or more of the combined revenue of all operating segments, when the reported profit or loss is 10% or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss, or the combined reported loss of all operating segments that did not report a profit, or when the segment's assets are 10% or more of the combined assets of all operating segments.

Skandiabanken reports three segments: "Sweden banking", "Norway banking" and "Sweden mutual funds". Reported revenues in the respective countries and operating segments are derived from the country in which the company has its domicile; no business is conducted across national borders.

In accordance with the reporting to the CODM, interest income and interest expenses are reported net on the line "Net interest income" and fee and commission income and fee and commission expenses are also reported net on the line "Net fee and commission income".

In the reporting of the outcome for the segments, the same accounting policies are used as for the financial statements in general. This means that revenues, expenses, assets and liabilities are derived from the branch and subsidiaries, and that no breakdown has been made between them; rather, the reporting follows the legal structure.

6. Non-current assets held for sale and discontinued operations

The significance of a non-current asset, or disposal group, that is classified as held for sale, is that its carrying amount will be recovered mainly through sale and not through use.

Classification

An operation is classified as a discontinued operation when it has been divested or earlier when it meets criteria to be classified as a "Non-current asset held for sale". The criteria for classification as such is that the operation is an independent operating segment or a significant operation within a geographic area or is included in a co-ordinated plan for divesting an independent operating segment or a significant operation that is conducted within a geographic area. Further criteria for classification of "Assets held for sale" are that they are immediately available for sale, a decision has been made on a disposal plan, and the disposal is expected to be completed within one year.

Valuation of assets and liabilities within a disposal group

When operations are divested together in a single transaction, i.e., all assets and liabilities, including pledged assets, obligations and contingent liabilities, this is called a "disposal group". This means that the disposal group is stated at the lower of the carrying amount and fair value, with the exception of deferred tax assets, which are reported in accordance with IAS 12 Income Taxes. Employee benefits are reported in accordance with IAS 19, and "Recognition and measurement of financial instruments" is reported in accordance with IAS 39.

Cont. note 1

Presentation

In the income statement, operating profit for discontinued operations after tax and the result of a disposal after tax are reported as a single amount that is separate from continuing operations. Comparison figures in the income statement for the last reported period are recalculated. Assets and liabilities attributable to the disposal group are reported separately in the balance sheet from other assets and liabilities. Comparison figures in the balance sheet are not recalculated.

7. Transactions in foreign currency

Transactions in foreign currency are initially reported in the respective unit based on the unit's functional currency using the exchange rate in effect on the transaction date. By functional currency is meant the currency in the country or economic environment in which the unit conducts its operations.

Monetary assets and liabilities in foreign currency are recalculated as per the balance sheet date using the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities carried at historic cost are recalculated using the exchange rate in effect on the date of the transaction. Exchange rate differences that arise are included in profit or loss for the period.

Currency movements are reported in operating profit under the heading "Net financial income".

8. Financial instruments – classification and valuation

Financial instruments reported on the balance sheet include, on the assets side, loan receivables, financial assets at fair value, available-for-sale financial assets and financial assets held to maturity. Among liabilities and equity are included trade liabilities, issued securities, loan liabilities and financial liabilities at fair value.

8.1 Trade date vs. settlement date reporting

Spot and derivative transactions in the money, bond, equity and currency markets are recognised and derecognised on the balance sheet as per the trade date; for other financial assets and liabilities, settlement date accounting is used.

The principles for derecognition from the balance sheet of financial assets, for which trade date accounting is not applied, are that they are derecognised when the contractual rights to the cash flows cease to apply or have been transferred to another counterparty. This is normally done when the counterparty has paid consideration for the asset. Derecognition of financial liabilities, for which trade date accounting is not applied, is done when Skandiabanken has repaid the liability.

8.2 Gross and net accounting

Assets and liabilities are reported gross with the exception of cases where there is a legal right and intention to divest these in net amounts. For example, net accounting is done under the heading Lending to or deposits from credit institutions, for divestment via a clearing institution.

8.3 Initial reporting and valuation

When a financial asset or financial liability is reported for the first time, it is stated at fair value. For financial assets or liabilities that do not belong to the category "financial assets or financial liabilities at fair value through profit or loss", transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are included.

8.4 Classification and valuation

Financial instruments are classified and valued after their initial reporting in accordance with points 8.4.1-8.4.8 below. No reclassification between categories has been done during the year.

Financial assets

8.4.1 Loan receivables and trade receivables

Loan receivables are carried at amortised cost using the effective interest method, taking into account deduction for confirmed loan losses and provisions for probable loan losses. Loan receivables are derecognised from the balance sheet when they are prematurely redeemed or when a loan loss has been confirmed. Other receivables than loan receivables and that are not interest-bearing are carried at cost less calculated, non-recoverable amounts.

8.4.2 Financial assets at fair value through profit or loss

Financial assets that are classified as "Financial assets at fair value through profit or loss" are held for trading purposes and are stated at fair value with changes in value reported through profit or loss under "Net financial income". This category includes equities, fund units and derivatives. Interest income on these instruments is reported in "Net interest income".

Measurement at fair value is done using officially quoted prices in an active market, and the fair value is based on the bid rate on the balance sheet date without addition for transaction costs at the time of acquisition. If valuation is not done using officially quoted prices, valuation of financial instruments is done with the help of various valuation techniques. A description of how fair value is determined is provided in section 8.4.9.

Derivatives

Derivative instruments are used to economically eliminate interest rate risk and currency risk, and are intended to be held until maturity.

Valuation is done individually at fair value. Interest rate derivatives are valued by discounting future cash flows using a current interest rate curve along with currency swaps and currency forward contracts at the current forward rate on the balance sheet date. The principle of recognising the unrealised or realised profit or loss depends on whether the derivative is designated as a hedging instrument or not, and if so, which hedge accounting category is applied, see point 8.4.6. Profits and losses from derivatives that are not used as hedge instruments for hedge accounting are reported in the income statement under "Net financial income".

Cont. note 1

8.4.3 Financial assets available-for-sale

Skandiabanken applies this category for fixed-income securities (which primarily correspond to investments of surplus liquidity), which are normally held to maturity, but where there is a possibility if needed to dispose all or part of the holding in advance and for a minor holding of shares. Measurement is done at fair value, with unrealised changes in fair value reported in other comprehensive income. Upon disposal, realised changes in value are reported in the income statement on the line "Net financial income" and are thereby transferred away from other comprehensive income. Interest is reported in the income statement on the line "Interest income", calculated in accordance with the effective interest method. Impairment and any exchange rate movements are reported directly in the income statement on the line "Net financial income".

For disclosure on various methods for determining fair value, see point 8.4.9.

8.4.4 Financial assets held to maturity

Financial assets held to maturity consist of fixed-income securities with fixed or fixable payments and set durations for which the company has an express intention and ability to hold to maturity. Assets in this category are valued at amortised cost less any impairment. By amortised cost is meant the discounted value of future cash flows, determined with help of the effective interest rate used in determining cost. In this context, consideration is given to any surplus or deficit values identified in connection with the acquisition, which are capitalised over the remaining term of the instrument. Payments received plus the change in amortised cost for the year are reported as interest income.

8.4.5 Loan losses and impairment of financial assets

Financial assets classified as "Loan receivables and trade receivables", "Financial assets held-to-maturity" and "Financial assets available-for-sale" are tested for impairment. First, an assessment is made of whether the financial asset is deemed to be impaired according to criteria for determining the need for impairment, and thereafter a determination of the financial asset's value is made.

8.4.5.1 Loan receivables carried at amortised cost

a) Non-performing loans

All receivables in which interest, principal or overdrafts are more than 60 days past due are reported as non-performing loans. In calculating the grace period, the original due date is used as the starting point without taking any respite from payment into account.

b) Non-performing loans that are not judged to be impaired

Non-performing loans that are not determined to be impaired consist of loans for which adequate collateral exists. Reporting of interest is done as for non-performing loans, see below.

c) Impaired loans

An impaired loan is a loan for which it is probable that all amounts will not be received in accordance with the contractual terms. If the nominal amount, interest or overdrafts are not repaid within 60 days, the loan is classified as impaired if there is not adequate collateral to cover both the nominal amount and interest including late charges.

Modified loans exist when the bank has granted a concession due to the borrower's deteriorated financial position or other financial problems. Loans that are subject to modification/renegotiation are not classified as impaired if the borrower, after the modification, is judged to be able to meet the renegotiated contract terms.

Interest income on non-performing loans is reported with the loan's original effective interest rate.

d) Determination of when a need to recognise impairment exists

Skandiabanken determines whether there is objective evidence to recognise impairment, in the following ways:

1) Individually for financial assets that are significant individually
2) Collectively for financial assets that are not significant individually, which are called "homogenous groups of loans with limited value and similar credit risk
3) Collectively for loan losses that have not been individually identified as impaired

Objective evidence exists for categories 1) and 2) in accordance with the definition of impaired loans, i.e., when the loan has not been paid within 60 days and in cases where the loan is judged to be impaired for other reasons, for example, when the value of the collateral has decreased or in the event of insolvency of the borrower.

If there is no objective evidence for a need to recognise impairment in accordance with categories 1) or 2), then the asset is included in category 3), i.e., a group of financial assets with similar credit risk characteristics, and a judgement is made collectively of the need to recognise impairment for the assets. As an indicator of whether objective evidence exists for lower cash flows in this group, Skandiabanken measures the response to payment reminders for this group. Provisions for category 3 are made in such way that the likelihood of the loan becoming a confirmed loss is calculated based on the response to payment reminders and is applied for the group of loans that are >1-60 days past due.

In cases where no need to recognise impairment exists, the loan is classified as "non-performing loans that are not judged to be impaired", and loans for which a need to recognise impairment has been determined are classified as "Impaired loans".

e) Valuation of impaired loans and provisions for loan losses

A provision for credit risks is calculated based on the entire, remaining receivable. Provisions for loan losses are reported in a separate account on the balance sheet and are included as a sub-item under "Lending to the general public", and the corresponding opposite item is reported in the income statement under "Loan losses, net". Reversals/dissolution for probable loan losses, where a need for provisions no longer exists, is done when the judgement has been made that the credit quality has improved, amounts past due have been paid, and there is no longer reason to expect that the contractual terms will not be met.

Cont. note 1

Calculation of provisions for loan losses – individual assessment for financial assets that are significant individually

For impaired loans that are significant individually, impairment is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted to the financial asset's original effective interest rate, i.e., the effective interest rate that was calculated on the initial reporting occasion. This category pertains primarily to mortgage loans secured by real estate. This means that when the recoverable value is taken into account, the market value of the collateral is also assessed.

Calculation of provisions for loan losses – loans that are not individually significant

The need for provisions is calculated in accordance with a standard formula for homogenous groups of loans with limited value and similar credit risk. However, these loans are identified individually. The method is based on previous experience with the size of loan losses for the credits in question and an estimation of probable outcome. A standard provision of 10%-30% is made for credit risks where the receivable is past due more than 60 days, 20%-60% after 90 days, and a maximum of 90% after 180 days.

Calculating provisions for loan losses – collective individual assessment for individually significant loans and loans that are not individually significant

In calculating the need for provisions for loan receivables that cannot be attributable to individual loans, these are grouped according to their credit characteristics, e.g., home mortgages, account lines of credit, credit card credits, personal loans, etc. For the respective categories, a probability is calculated as to the degree to which they will be confirmed. In addition, a calculation is made of the average loss based on historical experience, where consideration is also given to the change in payment status.

f) Write-off and recovery of confirmed loan losses

Losses in which a bankruptcy trustee has provided an estimation of distributions in a bankruptcy proceeding, a proposal for composition has been accepted, or a concession has been made for a receivable in some other way, are reported as write-offs of confirmed loan losses for the year. Amounts written off reduce the principal of the loan receivable and are reported against the write-off of confirmed loan losses in the income statement taking into account previous provisions. Concessions of amounts in connection with a restructuring are always reported as confirmed.

8.4.5.2 Impairment of financial assets available-for-sale

A determination is made of whether there is objective evidence that anticipated cash flows will decrease and thereby lead to a need to recognise impairment. Objective evidence of a need to recognise impairment can include a downgrade in credit rating from a credit rating agency, Skandiabanken obtaining knowledge about a potential, future insolvency of a counterparty, or difficulties arising in the market to divest the asset. An indication of the latter can be a sharp increase in credit spreads that is not of a temporary character.

Unrealised gains or losses for available-for-sale financial assets are reported in other comprehensive income. When an impairment loss is recognised for these assets, a transfer is made from other comprehensive income to the income statement, where it is reported on the line "Net financial income". The amount transferred to the income statement corresponds to the difference between the acquisition cost and the fair value of the instrument, less previous impairment losses.

A reversal of an impairment loss as a result of an increase in fair value is not made for equity instruments. However, for fixed-income securities, a reversal of impairment is made through profit or loss in cases where the fair value has increased.

8.4.6 Hedge accounting

Hedged items

At Skandiabanken, hedged items consist both of individual assets and liabilities and portfolios of assets and liabilities. Hedges are made at fair value for lending at fixed interest rates and for net investments in foreign operations (the Norwegian branch).

Effectiveness of hedges

In order to be able to apply hedge accounting, the hedge must have a high degree of effectiveness. A hedge is considered to be effective if, upon its inception and during the entire term, it can be expected that changes in fair value of the hedged item will be essentially neutralised by changes in the fair value of the hedge instrument. The outcome shall be within the interval of 80%-125%. In subsequently determining the effectiveness of a hedge, Skandiabanken measures hedge instruments at fair value and compares the change of this value with the change in the fair value of the hedged item while taking into account the hedged risk. Measurement of the effectiveness is done on a cumulative basis. If the hedge condition does not meet the requirements, hedge accounting is concluded and the unrealised value of the derivative is reported through profit or loss as previously, while the hedged item is now instead carried at amortised cost.

Derivatives that constitute hedge instruments are classified in two categories, depending on the purpose of the hedge:

Portfolio hedge at fair value

Portfolio hedges at fair value are used for exposures to interest rate risk attributable to lending at fixed interest rates.

Changes in the fair value of the hedged item are reported in the balance sheet on a separate line, "Fair value of portfolio hedge of interest rate risk". Changes in the fair value of derivatives used as hedge instruments are reported on the balance sheet under "Financial assets at fair value" or "Financial liabilities at fair value", depending on the outcome. In the income statement, the outcomes for the hedged item and the hedge instrument are reported separately under the item "Net financial income". The aim of hedge accounting is that changes in fair value of the hedged item and the hedge instrument essentially offset each other, if the hedge is effective.

Cont. note 1

Hedges of net investments in foreign operations
The effective portion of a hedge is reported in “Other comprehensive income”, and the ineffective portion is reported in the income statement. Upon disposal of the operation, the portion that was previously effective is reported in the income statement. Currency swaps are held to hedge currency risks on the balance sheet attributable to net investments in foreign operations.

Financial liabilities

8.4.7 Financial liabilities where changes in fair value are reported through profit or loss
Financial liabilities classified as “Fair value through profit or loss” are held for trading purposes. Reporting is done at fair value, with changes in value reported in the income statement under “Net financial income”. Derivative liabilities are reported under this category.

8.4.8 Other financial liabilities

Interest-bearing liabilities
Deposits and other interest-bearing liabilities are reported at amortised cost. Interest expenses for the period pertain to interest calculated in accordance with the effective interest method.

Other liabilities
Trade accounts receivable and other noninterest-bearing liabilities are reported at their nominal value.

8.4.9 Methods for determining fair value
The methods for determining fair value adhere to a hierarchy entailing that market information is used as far as possible, and company-specific information as little as possible. For disclosure purposes in note 38, fair value is then broken down into the following levels for Skandiabanken:

Level 1: Skandiabanken uses primarily prices quoted in an active market, where such are available. By active market is meant that quoted prices are readily and regularly available on a stock exchange, or from a trader, broker or other company that provides price information. Quoted prices shall represent actual and regularly recurring transactions. The fair value of a financial asset is based on the bid price on the balance sheet date without adjustment for or inclusion of transaction costs at the time of acquisition. For Skandiabanken, these items consist of fixed-income securities and equities.

Level 2: If, for a certain instrument, quoted prices from an active market are not available, then Skandiabanken uses a valuation technique that relies on market information as far as possible and company-specific information as little as possible. Input data in the valuation models that are used consist of other prices than the quoted prices that are included in Level 1 and that are observable either directly, such as through prices, or indirectly, such as stemming from prices. Fixed-income securities that are carried at fair value based on prices obtained from traders, broker or other companies that provide price information and where Skandiabanken cannot show that trading in fact takes place on a regular basis since no official quotations exist, are categorised in Level 2. When using valuation techniques, external data is used to discount cash flows, e.g., prices stated by a third party or prices for similar financial instruments. The discount rate is based on market rates of interest taking credit risk and liquidity risk into account. For all financial instruments, with the exception of equities and currency swaps, fair value is calculated through discounting of future cash flows. Currency swaps are valued at current forward prices. Unlisted equities consist of holdings in industry-tied companies, such as BGC Holding, Swift and Bankernas ID-tjänst and are not intended to be sold; valuations are done based on the respective individual agreements. No profit/loss effect arises upon initial reporting of financial instruments carried at fair value.

9. Property, plant and equipment
Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and costs directly attributable to the asset to put it in place and in condition to be utilised in accordance with the purpose of its acquisition. Depreciation is reported in the income statement on a linear basis over the anticipated useful life. Anticipated useful life has been estimated to be three years for IT equipment and five years for other equipment. Applied useful lives, residual values and depreciation methods are reconsidered yearly.

The profit or loss that arises upon disposal or retirement of an asset is calculated as the difference between the sales revenue and the asset’s carrying amount, and is reported in the income statement.

10. Intangible assets

Other intangible assets
Skandiabanken has “Other intangible assets” with finite useful lives, which are reported at cost less accumulated amortisation and impairment losses. These assets consist of nonrecurring infrastructural charges and acquired IT systems and software that are judged to have significant value for the operations in coming years.

Intangible assets are reported on the balance sheet only if all conditions have been fulfilled:
– The asset is identifiable
– The asset will likely generate future economic benefit
– The bank has control over the asset in the form of legal rights

Anticipated useful life varies between three and five years. Fees that pertain to maintenance and/or development of existing systems are reported as an expense in the income statement.

Cont. note 1

11. Impairment of intangible assets and property, plant and equipment

The carrying amount of the group's assets is reviewed at every balance sheet date to determine if there is any indication of a decline in value. If such indication exists, the asset's recoverable amount is calculated, which is the higher of asset's net sales value and value in use. In determining value in use, the anticipated future cash flows are discounted to present value using a discount rate before tax which reflects that current market rate of interest and the risk attributable to the asset. An impairment charge is recognised when the carrying amount of the asset or its cash generating unit exceeds the recoverable value. Impairment charges are expensed in the income statement.

In cases where it has been determined that the need to recognise impairment no longer exists, the impairment charge is reversed.

12. Provisions for pensions

Note 29, "Provisions for pensions", reports on the net pension obligation in accordance with IAS 19 Employee Benefits. Detailed disclosures on net pension obligations are also provided in note 7, "Staff costs". Skandiabanken has defined benefit pension plans in Sweden and Norway, entailing that employees are guaranteed a certain level of post-employment pension benefits that are based on their final salary. Skandiabanken therefore has an obligation to current and former employees that is to be reported on the balance sheet. By net pension obligation is meant the present value of defined benefit pension obligations, adjusted for unreported, revocable past service costs less the fair value of plan assets in the pension plan. By revocable is meant that the pension is conditional upon future employment.

Effects on the pension obligation's present value of changed actuarial assumptions and the difference between the actual return on plan assets and the anticipated return on these, make up actuarial gains and losses. Actuarial gains and losses are reported as revenue or expense in the income statement in the amount that exceeds the higher of 10% of the pension obligation and the plan assets at the end of the preceding reporting period. The share of actuarial gains and losses that is outside of this corridor is allocated to profit based on the anticipated average remaining service period.

In Sweden, defined benefit pension plans consist mainly of pension benefits provided under the collective agreement for the occupational pension insurance plan for salaried employees in the insurance industry (the FTP plan), and to a certain degree of supplementary retirement benefits for senior executives. The pension plans consist mainly of retirement pension, disability pension and family pension. The corresponding situation exists in Norway – the pension plans are provided under collective pension agreements and have the corresponding scope as the Swedish plans.

The company's outstanding obligation and cost for defined benefit pension plans shall be calculated yearly with the help of actuarial methods based on the company's long-term assumptions regarding the discount rate, return on plan assets, rate of salary growth and inflation. In this context, the final obligation that the company is considered to have to the employees upon retirement is taken into account. The outstanding pension obligation and pension cost are established using the Projected Unit Credit Method. Briefly, this method entails a linear distribution of the pension cost over the employees' anticipated service period.

Skandiabanken's defined benefit pension plans are funded through payment of insurance premiums (fees) – in Sweden primarily to Skandia Liv and in Norway to Nordea. The funding that Skandiabanken has done through the years and which still remains after payment of pension benefits, constitutes plan assets. These decrease the value of the defined benefit pension obligation. Plan assets are measured at fair value.

Actuarial assumptions are established yearly in connection with the balance sheet date. Due to a lack of corporate bonds of sufficiently high quality, the interest rate on mortgage bonds is used in Sweden and government bonds in Norway to determine the discount rate for the pension obligation. The anticipated return on the plan assets is based on a portfolio allocation and an assumed return on various types of securities. For fixed-income securities, the market rate of 10-year government bonds (risk-free interest rate) is used, and for other assets, such as equities and real estate, the risk-free rate is used with the addition of a risk premium of 3.0%. In the assumption for the return on plan assets, consideration has been given to payment of the so-called policyholder tax in Sweden. Other financial obligations, such as assumptions about inflation and future salary growth, are based on Skandia's long-term expectations on the balance sheet date for the time period during which the obligations are expected to be settled.

Pension obligations also include a defined contribution liability pertaining to the right to early retirement for employees with high-earner solutions (employees earning more than 10 times the Base Amount). According to an agreement, employees born in 1955 or earlier have the right to early retirement at 62 years of age, compared with 65 for other employees. This right for the employee leads to an obligation for Skandiabanken. It is not possible to attribute the obligation with full certainty to the respective individuals; however, an assumption can be made based on historical experience of how large a share of the employees who have the right to early retirement, are expected to use this benefit. In addition, when calculating the obligation, an assumption is made of future changes regarding how large a share of the employees will conclude their employment before the benefit can be utilised.

The early retirement pensions are not covered by insurance, which was previously the case (the FTP plan). Calculation of the pension obligation is based on an assumption that 50% (50%) of the number of employees with the right to early retirement will remain in service and choose to utilise the opportunity to take early retirement. The provision for the pension obligation is reported for this group with an estimated median salary that is multiplied by 65% (65%), which pertains to the entitled salary for a period of 3 (3) years.

For further information about reporting of pensions in the income statement, see below under "Pension costs".

Cont. note 1

13. Other provisions

Provisions are reported on the balance sheet when an obligation has arisen as a result of events that have occurred and the amount can be calculated reliably and it is probable that the obligation will be settled. A provision for restructuring is reported when a detailed and formal restructuring plan has been adopted and the restructuring has either been started or been publicly announced. No provision is made for future operating expenses.

14. Recognition of revenues and expenses

Revenues consist of the fair value of payments that have been received or are required for services that have been provided in the ordinary business activities, net after VAT and after elimination of intra-group revenues.

Interest income and interest expenses

For reporting of interest income and interest expenses, see above under “Financial instruments”, points 8.4.1 – 8.4.5. For financial instruments that are not measured at fair value through profit or loss, interest income and interest expenses are reported using the effective interest method. The effective interest method entails that all transaction costs and fee revenues that are included in effective interest are allocated over the financial instrument’s anticipated term. Interest attributable to hedge instruments that hedge interest rate risk and exchange rate risk is reported in net interest income. Differences in interest upon early redemption of lending and deposits at fixed interest rates are also reported in net interest income.

Fee and commission income and fee and commission expenses

Payment intermediation fees consist of transaction-based fees, which are reported when the transaction is performed. Allocation is made to the period that the revenue and expense pertain to.

Arrangement fees for creating or acquiring a financial asset that are not classified as measured at “fair value through profit or loss” are deferred and reported as an adjustment of the effective interest. These fees are thus not reported commission income, but as interest income.

Securities commissions received, which pertain mainly to brokerage fees, compensation for sales of securities and asset management fees, as well as commissions on lending and deposits, are reported as revenue when the service has been rendered and provided to the customer. Other commission income consists of fees received for distribution of insurance. The revenue is reported in part on the day the insurance was sold as well as on a periodic basis over the term of the insurance.

Net financial income

Realised and unrealised changes in value attributable to financial transactions classified as held for trading and hedge accounting are reported under this item. Capital gains or losses arising from the sale of financial assets available-for-sale are reported under this heading.

The items pertain to dividends received, which are reported when the Annual General Meeting has decided on the dividend, and changes in the value of shareholdings, fixed-income securities and interest-related derivatives, changes in value pertaining to hedge accounting, and exchange rate movements.

Staff costs

Short-term remuneration of employees consists of fixed and variable salaries and associated social security charges and payroll tax as well as other short-term staff costs. By short-term remuneration is meant that the amount is payable within twelve months after the expiration of the period in which the employee has performed the services.

Remuneration of employees who have been given notice of termination leads to an obligation at the date of notice. This obligation is reported as a liability on the balance sheet and as an expense under the item “Staff costs”. Agreed-upon remuneration in connection with notice of termination can entail that the employee receives a number of months’ salary without any work obligation. Such remuneration is reported immediately as an expense.

Pension costs

In the income statement, the cost of defined benefit pension plans, reported in accordance with IAS 19 Employee Benefits, consists of the sum of current service costs and past service costs, interest on the obligation, and the anticipated return on plan assets.

Payroll tax has been taken into account in adjustments for defined benefit pension plans in the income statement and balance sheet, in accordance with pronouncement UFR 4 from the Swedish Financial Reporting Board (RFR), “Reporting of special employers’ payroll tax and policyholder tax”. Employees in the group who are not covered by defined benefit pension agreements are instead covered by defined contribution pension plans. Defined contribution pension plans entail that the company’s pension cost consists of a percentage of the employees’ salary in every reporting period that the employee performed services for the company.

15. Taxes

Income taxes consist of current and deferred tax. Current tax is reported for the year’s taxable profit and is calculated individually for each company in accordance with the tax rules in the respective countries. The group’s current tax liability is calculated in accordance with the tax rates that have been decided on or have in practice been decided on. Current tax also includes adjustments of current tax attributable to previous periods.

Deferred tax assets and tax liabilities pertain to tax attributable to taxable, temporary differences, which refers to the difference between an asset’s or liability’s carrying amount and its taxable residual value on the accounting date. Deferred tax is reported in accordance with the so-called balance sheet method. Deferred tax liabilities are reported for all taxable temporary differences, and deferred tax assets are reported when it is likely that the amounts can be used to offset taxable surpluses.

Cont. note 1

Temporary differences that are not taken into account in calculations of deferred tax pertain to the difference that has arisen in connection with initial recognition of goodwill, and of assets and liabilities that are not acquisitions of operations and which at the date of the transaction did not affect the reported or taxable profit. In addition, nor are temporary differences taken into account which are attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is tested on every accounting occasion and is reduced to the extent that it is no longer likely that sufficient taxable surpluses will be available to be used entirely or partly against the deferred tax asset. Valuation of deferred tax is based on how the carrying amount of assets or liabilities is expected to be realised or settled. Deferred tax is calculated using the tax rates and tax rules that have been decided on or have in practice been decided on at the balance sheet date.

Current and deferred tax are reported in the income statement, in other comprehensive income, or directly in equity, depending on how the underlying transaction is reported.

Offsetting of current tax assets and tax liabilities, and for deferred tax assets and tax liabilities, is done when a legal right to offsetting exists.

16. Share-based payments

Employees of subsidiaries of Old Mutual plc receive share-based payments through long-term incentive programmes. Skandiabanken is a sub-group of Skandia Insurance Company Ltd (publ), which in turn is a subsidiary of Old Mutual plc, which is the issuer of the programme. Share-based payments consist of shares and options that give holders the right to purchase shares in Old Mutual plc at a predetermined price.

In accordance with IFRS 2, Skandiabanken reports, in its capacity as a subsidiary, contributions from the parent company pertaining to share-based payments to employees. Such contributions are reported as an increase in equity (see "Changes in equity"), and the corresponding item has been charged against the income statement as a deductible staff cost. This means that equity increases by an amount corresponding to the tax effect of the transaction.

The amount reported in the income statement under staff costs and as an increase in equity corresponds to the market value that applied on the grant date, pertaining to the number of shares/options that were granted to employees, allocated on a linear basis over the vesting period. By vesting period is meant the period during which the employee must be employed in the Old Mutual Group in order for their options to become vested. In cases where shares and options have not been vested due to the fact that the employment conditions have not been met, then the carrying amount will be adjusted to take this into account.

The provision for social security costs is made in the balance sheet and is allocated over the vesting period as an expense reported in the income statement under the item Staff costs.

17. Group as lessee – operating leases

Leasing fees paid under operating leases are reported in the income statement on a linear basis over the term of the leasing period. For Skandiabanken, this item pertains to rents of premises.

18. Other pledged assets, obligations and contingent liabilities

Other pledged assets

Other pledged assets pertain to pledged assets for other items than for own liabilities reported on the balance sheet. Bonds pledged with the Central Bank of Sweden and the Central Bank of Norway are reported as other pledged assets. The pledged value pertains to the book value of the bonds. Security is pledged for intra-day limits and pertaining to payment on the next day. Central bank accounts are used for all clearing sales between the banks, and security is required from the first krona for any negative balances in the respective accounts. In cases where a payment obligation is not fulfilled, the Central Bank of Sweden and the Central Bank of Norway have the opportunity to immediately seize pledged securities.

Commitments

Commitments are reported for interest rate swap and currency swap contracts that have been entered into, which are reported at their nominal amounts. Other commitments consist of granted but unutilised credits, such as mortgage loans, lines of credit, credit card credits and granted custody account credits that are reported at their nominal, granted amount less any amortised cost on the utilised loan amounts.

Contingent liabilities

Contingent liabilities include commitments that stem from events that have occurred but which do not meet the requirements to be reported as liabilities or provisions, since it is not likely that an outflow will be required or the commitment cannot be calculated with sufficient reliability. In cases where a need exists to utilise guarantee commitments, either a provision or liability is reported on the balance sheet, and a cost is reported in the income statement.

19. Cash flow statement

Cash flow from operating activities represents what is Skandiabanken's main line of business, i.e., lending and deposits, and investments in fixed-income securities classified as "Financial assets available-for-sale". Skandiabanken's investments that are held to maturity are attributed to the investing activities. Cash and cash equivalents pertain to cash, clearing receivables and clearing liabilities, account balances in other banks, and overnight loans with an original term of less than three days.

20. Group contributions and shareholder contributions

Group contributions and shareholder contributions are reported in accordance with RFR 2. Group contributions provided by Skandiabanken to the parent company Skandia are reported directly against equity while taking the tax effect into account. Group contributions received by Skandiabanken from the parent company Skandia are reported directly against equity while taking the tax effect into account.

2. REPORTING OF OPERATING SEGMENTS

INCOME STATEMENTS	Sweden Banking		Norway Banking		Eliminations, Banking		Total Banking		Sweden Funds		Eliminations, other		Total, group	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Amounts in SEK million	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**	**Jan.-Dec.**
Net interest income	536	368	501	479	—	—	1,037	847	2	1	—	—	1,039	848
Net fee and commission income	140	156	208	215	—	—	348	371	142	155	—	—	490	526
Net financial income	-1	42	15	13	—	—	14	55	—	0	—	—	14	55
Other operating income	149	167	6	7	-20	-4	135	170	—	4	-4	-4	131	170
Operating income	**824**	**733**	**730**	**714**	**-20**	**-4**	**1,534**	**1,443**	**144**	**160**	**-4**	**-4**	**1,674**	**1,599**
Staff costs	-225	-231	-163	-144		—	-388	-375	-10	-14		—	-398	-389
Other administrative expenses	-533	-479	-378	-311	20	4	-891	-786	-104	-115	4	4	-991	-897
Depreciation and impairment of property, plant and equipment	-1	-1	-3	-3	—	—	-4	-4	—	0	—	—	-4	-4
Amortisation of intangible assets	—	—	-4	-4	—	—	-4	-4	—	—	—	—	-4	-4
Other operating expenses	-37	-39	-32	-12	—	—	-69	-51	—	-1	—	—	-69	-52
Expenses before loan losses	**-796**	**-750**	**-580**	**-474**	**20**	**4**	**-1,356**	**-1,220**	**-114**	**-130**	**4**	**4**	**-1,466**	**-1,346**
Net loan losses	-11	-2	-23	-40	—	—	-34	-42	—	—			-34	-42
Gains/losses on disposals of tangible and intangible assets	0	0	0	0	—	—	0	0	—	0	—	—	0	0
Net profit for the year	**17**	**-19**	**127**	**200**	**—**	**—**	**144**	**181**	**30**	**30**	**—**	**—**	**174**	**211**
Income tax expense	18	6	-41	-57	—	—	-23	-51	-8	-8	—	—	-31	-59
Net profit for the year, continuing operations	**35**	**-13**	**86**	**143**	**—**	**—**	**121**	**130**	**22**	**22**	**—**	**—**	**143**	**152**
Net profit for the year, discontinued operations	—	—	—	—	—	—	—	—	—	—	—	—	0	0
Net profit for the year	**35**	**-13**	**86**	**143**	**—**	**—**	**121**	**130**	**22**	**22**	**—**	**—**	**143**	**152**
External income														
Internal income[1]	716	659	727	709	—	—	1,443	1,368	144	155	—	—	1,587	1,523
Internal expenses[1]	83	71	5	5	—	—	88	76	—	—	—	—	88	76
	-5	-5	-41	-25	—	—	-46	-30	-42	-46	—	—	-88	-76
COMPREHENSIVE INCOME														
Net profit for the year	**35**	**-13**	**86**	**143**	**—**	**—**	**121**	**130**	**22**	**22**	**—**	**—**	**143**	**152**
Other comprehensive income														
Reserve for available-for-sale financial assets	18	-54	9	-2	—	—	27	-56	—	—	—	—	27	-56
Hedge of net investment	0	0	0	—	—	—	0	0	—	—	—	—	0	0
Translation difference	1	-72	0	—	—	—	1	-72	—	—	—	—	1	-72
Taxes attributable to comprehensive income	-5	15	-2	—	—	—	-7	15	—	—	—	—	-7	15
Total other comprehensive income after tax	**14**	**-111**	**7**	**-2**	**—**	**—**	**21**	**-113**	**—**	**—**	**—**	**—**	**21**	**-113**
Comprehensive income for the year after tax	**49**	**-124**	**93**	**141**	**—**	**—**	**142**	**17**	**22**	**22**	**—**	**—**	**164**	**39**

Footnote to segment reporting table

[1] Internal income and expense are included in the lines "Operating income" and "Other administrative expenses".

Cont. note 2

BALANCE SHEETS	Sweden Banking		Norway Banking		Eliminations, Banking		Total Banking		Sweden Funds		Eliminations, other		Total, group	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Amounts in SEK million	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.
Assets														
Lending to the general public	26,409	26,694	26,984	27,290	—	—	53,393	53,984	—	—	—	—	53,393	53,984
Deferred tax assets	13	21	12	13	—	—	25	34	—	—	—	—	25	34
Other assets	10,140	7,378	13,640	7,114	-543	-542	23,237	13,950	150	170	-38	-37	23,349	14,083
Total assets	**36,562**	**34,093**	**40,636**	**34,417**	**-543**	**-542**	**76,655**	**67,968**	**150**	**170**	**-38**	**-37**	**76,767**	**68,101**
Liabilities														
Deposits and borrowing from the general public	33,138	30,753	38,164	32,216	—	—	71,302	62,969	—	—	—	—	71,302	62,969
Other liabilities	1,952	1,922	1,175	1,021	-543	-542	2,584	2,401	113	121	-38	-37	2,659	2,485
Total liabilities	**35,090**	**32,675**	**39,339**	**33,237**	**-543**	**-542**	**73,886**	**65,370**	**113**	**121**	**-38**	**-37**	**73,961**	**65,454**
Equity	**1,472**	**1,418**	**1,297**	**1,180**	**—**	**—**	**2,769**	**2,598**	**37**	**49**	**—**	**—**	**2,806**	**2,647**
Total liabilities and equity	**36,562**	**34,093**	**40,636**	**34,417**	**-543**	**-542**	**76,655**	**67,968**	**150**	**170**	**-38**	**-37**	**76,767**	**68,101**

Cont. note 2

KEY RATIOS

Amounts in SEK million	Sweden Banking 2011 Jan.-Dec.	Sweden Banking 2010 Jan.-Dec.	Norway Banking 2011 Jan.-Dec.	Norway Banking 2010 Jan.-Dec.	Eliminations, Banking 2011 Jan.-Dec.	Eliminations, Banking 2010 Jan.-Dec.	Total Banking 2011 Jan.-Dec.	Total Banking 2010 Jan.-Dec.	Sweden Funds 2011 Jan.-Dec.	Sweden Funds 2010 Jan.-Dec.	Eliminations, other 2011 Jan.-Dec.	Eliminations, other 2010 Jan.-Dec.	Total, group 2011 Jan.-Dec.	Total, group 2010 Jan.-Dec.
Investment margin, %[1]	1.54	1.05	1.31	1.44	—	—	1.43	1.25	1.31	—	—	—	1.43	1.25
C/I ratio after loan losses[2]	0.98	1.03	0.83	0.72	1.00	1.00	0.91	0.87	0.79	0.81	—	—	0.90	0.87
Loan loss ratio, %[3]	0.04	0.01	0.08	0.16	—	—	0.06	0.09	—	—	—	—	0.06	0.09
Average balance	34,871	34,979	38,169	33,317	-538	-585	72,502	67,711	153	182	-65	-75	72,590	67,818
Number of customers, thousands	443	436	360	351	—	—	803	787	—	—	—	—	803	787
Average number of employees, continuing operations	324	328	192	183	—	—	516	511	7	10	—	—	523	521
Average number of employees, discontinued operations													478	630

Footnotes to segment reporting table

[1] Net interest income as % of average volume (balance sheet total).

[2] Costs incl. loan losses in relation to operating income.

[3] Loan losses at % of opening balance of lending to the general public.

Reporting of operating segments

Skandiabanken conducts banking business in the retail market in Sweden and Norway and offers lending to individuals in the form of home mortgages, private loans, account lines of credit and credit card credits, custody account lending, and deposits. In addition to the lending and deposit operations, services related to mutual funds and equities trading are offered.

Internal revenues for the “Sweden banking” segment pertain to interest attributable to lending to Skandiabanken’s Norway branch, i.e., the “Norway banking” segment. Interest primarily pertains to internal subordinated loans issued in connection with allocations of capital. Internal lending, deposits and borrowing are priced according to specific interest rates with a going rate interest rate markup. The segment also includes internal fee and commission income pertaining to going-rate distribution compensation from Skandia Fonder AB, i.e., the “Sweden mutual funds” segment (figures for 2010 also include Svenska Lärarfonder). In other respects, minor payments are made between the segments for internally performed services, which are priced on a cost-price basis.

The services segment, which was sold during the year, conducted advisory operations and provided services to Skandia and Skandia Liv. Under an agreement with Skandia, Skandia bore the financial risk of this business. Skandiabanken invoiced Skandia on a cost-price basis for the business. As from 1 January 2012, the advisory business was sold to Skandia Försäljnings AB. Other insourced units from the parent company Skandia are customer service, product development, business support and market functions. Further invoicing is done to Skandia and Skandia Liv after the banking business has been charged with the utilised portion of the unit’s costs. Effective 1 July 2011, parts of this business were sold back to Skandia, and the remaining parts of these functions are now part of the Swedish banking segment. The services segment has thereby been fully divested as per 31 December 2011.

In the mutual funds segment, the subsidiary Svenska Lärarfonder was sold on 1 February 2011. No capital gain is included in 2011 profit, and the figures for 2010 have not been recalculated.

For further information on discontinued operations, see note 34.

Information on major customers

By major customers is meant customers that generate revenue that accounts for 10% or more of the company’s total amount under “Total operating income”. For Skandiabanken, this pertains to revenue from group companies outside the Skandiabanken group, primarily Skandia and Skandia Liv. In total, this amounts to 32% (36%) of total operating income, including the divested operations. For further information, see note 40 “Related party disclosures”.

3. NET INTEREST INCOME

	2011			2010		
Interest income	Average balance	Interest	Average interest rate	Average balance	Interest	Average interest rate
Lending to credit institutions	3,392	58	1.70%	2,502	25	1.02%
Lending to the general public[1]	53,492	2,049	3.83%	48,856	1,408	2.88%
Fixed-income securities	14,914	444	2.98%	15,660	306	1.95%
- Financial assets available for sale	*14,914*	*444*	*2.98%*	*15,645*	*306*	*3.28%*
- Financial assets held to maturity	—	—	—	*15*	*0*	*0.53%*
Other	792	0	0.05%	800	0	0.01%
Total	**72,590**	**2,552[2]**	**3.51%**	**67,818**	**1,739[2]**	**2.56%**
Interest expenses						
Due to credit institutions	56	2	2.62%	1,651	7	0.44%
Deposits and borrowing from the general public	67,237	1,460	2.17%	61,087	859	1.41%
Subordinated liabilities	1,200	43	3.57%	1,200	23	1.96%
Other	4,097	8	0.21%	3,880	2	0.05%
Total	**72,590**	**1,513[2]**	**2.08%**	**67,818**	**891[2]**	**1.31%**
Net interest income	**72,590**	**1,039**	**1.43%**	**67,818**	**848**	**1.25%**

The average balance pertains to daily averages for the investments and financing sources that generate interest income and interest expenses. However, the item “Other” also includes assets and liabilities that do not carry any interest, and equity.

Interest income from financial instruments that are not measured at fair value through profit or loss amounts to SEK 2,602 million (1,870). Interest expenses from financial instruments that are not measured at fair value through profit or loss amount to SEK 1,515 million (903).

[1] Interest on impaired loans amounted to SEK 3 million (4).

[2] The deviation in the sum of interest income and interest expense compared with the income statement amounts to SEK 2 million (12) and pertains to the interest expenses attributable to hedge instruments. In the note, this is transferred to interest income to provide a more accurate picture while taking into account the purpose of the hedges.

4. NET FEE AND COMMISSION INCOME

	2011	2010
Payment intermediation fees	292	303
Commissions on lending	1	1
Commissions on deposits	1	1
Commissions on securities	700	762
Other commissions	3	5
Total fee and commission income	**997**	**1,072**
Payment intermediation fees	-50	-63
Commissions on securities	-451	-478
Other commissions	-6	-5
Total	**-507**	**-546**
Net fee and commission income	**490**	**526**

Commissions derived from financial assets and liabilities that are not measured at fair value and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 294 million (305) for fee and commission income and SEK 51 million (66) for fee and commission expenses.

Commissions derived from asset management operations that involve holdings or investments in assets for the benefit of customers and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 701 million (764) for fee and commission income and SEK 452 million (478) for fee and commission expenses.

5. NET FINANCIAL INCOME

	2011	2010
Financial assets at fair value classified as held for trading	**0**	**-3**
- Shares, dividends	*0*	*—*
- Shares and participations and other equity instruments, change in value	*0*	*-3*
- Interest-bearing derivatives, change in value	*—*	*—*
Financial assets available for sale	**2**	**23**
- Fixed-income securities[3]	*2*	*23*
Hedge accounting[4]	**-11**	**8**
- Change in value of hedged item	*63*	*-147*
- Change in value of hedged instruments	*-74*	*155*
Exchange rate movements	**23**	**27**
Total	**14**	**55**

Total net result for "Financial assets available for sale"[1]	**2011**	**2010**
Unrealised gain/loss reported in "Other comprehensive income"[2]		
Reclassification from "Other comprehensive income" to net profit for the year for realised gains/losses	-2	-23
Unrealised changes in value	29	-33
Total profit in "Other comprehensive income"	**27**	**-56**
Realised gains/losses reported in income statement [3]		
Reclassification from "Other comprehensive income" to net profit for the year for realised gains/losses	2	23
Realised gain/loss directly in income statement	0	0
Total realised gain/loss in income statement	**2**	**23**
Total	**29**	**-33**

[1] Total result for "Financial assets available for sale" is divided into:

[2] Profit in "Other comprehensive income" consists of a) reclassification of unrealised changes in value on disposal from the fair value reserve via "Other comprehensive income" to the "Income statement" and b) unrealised changes in value of remaining holdings at the balance sheet date.

[3] Realised gains and or losses reported in the "Income statement" consist of a) realised gains or losses on holdings acquired in previous financial years and which have been reclassified on disposal from the fair value reserve via "Other comprehensive income" to "Income statement" and b) realised gains or losses on holdings that have been acquired and disposed of during the current financial year.

Realised gains and/or losses reported in the "Income statement" consist of a) reclassification of unrealised changes in value on disposal from the fair value reserve via "Other comprehensive income" to the "Income statement" and b) realised gains on holdings acquired and disposed of during the current financial year.

[4] Pertains to the outcome of hedge accounting of fair value of portfolio hedge of interest rate risk.

6. OTHER OPERATING INCOME

	2011	2010
Revenues from group companies outside the Skandiabanken group	111	136
Dividend received from VISA	—	18
Dissolution of variable remuneration attributable to previous years	9	3
Dissolution of pension reserve	—	4
Other income	11	9
Total	**131**	**170**

7. STAFF COSTS

	2011	2010
Salaries and remuneration	-265	-244
Defined benefit pensions, incl. payroll tax	-6	-24
Defined contribution pensions, incl. payroll tax	-32	-19
Social security charges	-65	- 65
Variable salaries[1]	-19	-18
Other staff costs	-11	-19
Total staff costs	**-398**	**-389**

[1] By variable salaries is meant remuneration that is not set in advance and which is payable when certain predetermined, set targets have been achieved. Commission-based salaries are not included.

Remuneration of the CEO and other senior executives consists of a base salary, variable remuneration, pension and other benefits. By senior executives is meant the nine persons including the CEO who at some time during the year made up the management team of Skandiabanken, which at year-end comprised nine persons. This definition is used consistently in this annual report, unless specifically stated otherwise.

Variable remuneration

In 2011 a variable remuneration programme was in place for senior executive and key persons. For these persons, the bonus opportunity amounts to a maximum of 60% of their base salary. For other employees in Sweden, variable remuneration can amount to a maximum amount corresponding to 120% of one-half of the Price Base Amount for 2011 (the Price Base Amount in 2011 was SEK 42,800). A provision for any such remuneration payable is made to an employee foundation, Skandianen. The provision to Skandianen is decided by the remuneration committee of Skandia's board and the remuneration committee of Skandiabanken's board and is based on the profit achieved for the Skandia Nordic division compared with budget. The provision to Skandianen amounted to SEK 18,725 (10,600) per employee, plus payroll taxes. The employee can only be covered by one of the variable remuneration models described above.

Skandiabanken's employees in Norway are covered by variable salary components. For senior executives and local management, variable remuneration is based on goal achievement for Skandiabanken and for Skandia's Nordic division. For team leaders, the variable remuneration is based on individual targets and the achievement of goals for the Norwegian operations. The provision for variable salary components is determined by the bank's management. For other employees, variable remuneration is paid in respect of the achievement of goals for the Norwegian operations. The provision amounted to SEK 28,792 (29,818) per employee, plus payroll taxes. All agreements have a cap that limits the maximum possible remuneration.

The requirements for disclosure of information on remuneration are stipulated in the amendment (FFFS 2011:3) to the Financial Supervisory Authority's "Regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management" (FFFS 2007:5). Disclosures are provided on Skandiabanken's website: www.Skandiabanken.se/Om oss/Finansiell info.

Salaries and remuneration 2011	**Senior executives[1]**				
	Base salary and remuneration	Variable salary	**Total**	Other employees	**Total**
Sweden	-6	-1	-7	-144	-151
Norway	-7	-2	-9	-118	-127
Total, parent company	**-13**	**-3**	**-16**	**-262**	**-278**
Subsidiaries, Sweden	-2	0	-2	-4	-6
Total, group	**-15**	**-3**	**-18**	**-266**	**-284**

Salaries and remuneration 2010	**Senior executives[1]**				
	Base salary and remuneration	Variable salary	**Total**	Other employees	**Total**
Sweden	-5	-1	-6	-137	-143
Norway	-3	-2	-5	-106	-111
Total, parent company	**-8**	**-3**	**-11**	**-243**	**-254**
Subsidiaries, Sweden	-3	0	-3	-5	-8
Total, group	**-11**	**-3**	**-14**	**-248**	**-262**

[1] **Disclosures on the number of senior executives**	**2011**	**2010**
Current and former board members and deputy board members. Employee representatives are not included	22	23
Current and former CEOs and deputy CEOs	4	5
Other senior executives who were members of company management on the balance sheet date	6	—

Personnel loans

Skandiabanken offers personnel loans to employees of Skandiabanken and subsidiaries as well as to other group companies outside the Skandiabanken group. Regardless of which company the employee works for or whether the employee is classified as a related party or not, the same terms are applied for everyone. Personnel loans are granted for amounts of up to a maximum of 35 times the Base Amount, or SEK 1.5 million. The employee is taxed for the benefit of the loan on a continuing basis, based on the government lending rate set by the Swedish Tax Agency plus one percentage point. Skandiabanken pays social security charges on this interest rate subsidy for the persons employed by Skandiabanken.

For loans in amounts higher than 35 times the Base Amount, market rates of interest are used. Customary credit checks are made for all loans.

Cont. note 7

Remuneration of board members and members of Skandiabanken's management

Principles and applied drafting and decision-making process for determining remuneration and benefits for board members and members of Skandiabanken's management

Fees paid to the Chairman of the Board and board members are revised yearly, and the decision on such is made by the Annual General Meeting. No directors' fees are paid to board members or deputy board members who are employed by the Old Mutual Group. This means that fees are only paid to the external board members Niklas Midby, Magnus Beer and Lars Otterbeck. Fees have not been paid in excess of the normal directors' fee or for work on Skandiabanken's committees. Nor have fees been paid to board member or members of Skandiabanken's management for other work than that included in ordinary salaries and fees.

In February 2011 the Board decided to establish a remuneration committee (RemCo). Since establishment of the remuneration committee, decisions on remuneration of the CEO are made by Skandiabanken's remuneration committee after approval by Skandia's remuneration committee. Decisions on remuneration of other members of Skandiabanken's management are made by the CEO after approval by the remuneration committee in accordance with the so-called grandfather principle. Remuneration consists of a fixed component and a variable component, plus customary benefits. For decisions on long-term incentive programmes, see below. Decisions on remuneration of other employees of Skandiabanken are also made in accordance with the grandfather principle. Calculation of the variable component is based on the drafting of detailed, individual target contracts. The outcome is based on the employee's performance, the profit-centre's performance, Skandia's total performance and, in certain cases, the total performance of Skandia's Nordic division.

Long-term incentive programmes

A long-term incentive programme is in place for the CEO, Øyvind Thomassen. Decisions on participants in Old Mutual's incentive programmes are made by the Old Mutual plc Management RemCom (MRC).

Board members, CEO, and other members of Skandiabanken's management

Disclosures pertain to current and former board members and deputy board members, current and former CEOs and deputy CEOs, and other members of Skandiabanken's management

2011 SEK thousand	Base salary and fees	Variable salary[5]	Benefits and other remuneration	Pension cost[1]	**Total costs**	**Pension obligations**
Board members						
Niklas Midby, Chairman	100	–	–	–	**100**	**–**
Lars Otterbeck, director	250	–	–	–	**250**	**–**
Magnus Beer, director	200	–	–	–	**200**	**–**
Other board members[2]	–	–	–	–	**–**	**–**
Total board members	550	–	–	–	**550**	**–**
Øyvind Thomassen, CEO[4]	2,819	599	1,845	347	**5,610**	**130**
Jonas Holmberg, Deputy CEO	1,159	145	48	458	**1,810**	**–**
Bengt-Olof Nilsson Lalér, Administrative Deputy CEO	1,869	235	214	457	**2,775**	**1,016**
Other senior executives[3]	6,849	1,388	1,245	1,459	**10,941**	**637**
Total members of Skandiabanken's management	**12,696**	**2,367**	**3,352**	**2,721**	**21,136**	**1,783**
Total board members and members of Skandiabanken's management	**13 246**	**2,367**	**3,352**	**2,721**	**21,686**	**1,783**

[1] Pertains to pension costs paid during the year.
[2] Board members – 5 regular and 1 deputy. Includes 2 employee representatives.
[3] Other senior executives include six persons, of whom one is employed by and receives remuneration from Skandia Insurance Company Ltd.
[4] Benefits and other remuneration also include settlement of pensions, corresponding to SEK 881 thousand.
[5] Variable remuneration for 2011 pertains to amounts paid out.

Cont. note 7

2010 SEK thousand	Base salary and fees	Variable salary[1,5]	Benefits and other remunera-tion	Pension cost[1]	Total costs	Pension obligations
Board members						
Mårten Andersson, Chairman	–	–	–	–	**–**	**–**
Magnus Beer, former Chairman[3]	275	–	–	–	**275**	**–**
Other board members[4]	–	–	–	–	**–**	**–**
Other former board members (4 persons)[3]	–	–	–	–	**–**	**–**
Total board members	**275**	**–**	**–**	**–**	**275**	**–**
Øyvind Thomassen, CEO	3,094	2,172	5	177	**5,448**	**2,637**
Fredrik Sauter, former CEO	2,452	1,117	516	645	**4,730**	**–**
Bengt-Olof Nilsson Lalér, Deputy CEO	1,757	0	63	507	**2,327**	**485**
Total members of Skandia-banken's management	**7,303**	**3,289**	**584**	**1,329**	**12,505**	**3,122**
Total board members and members of Skandia-banken's management	**7,578**	**3,289**	**584**	**1,329**	**12,780**	**3,122**

[1] Variable salary also includes settlement of pensions. For further information, see below under Øyvind Thomassen, CEO.

[2] Pertains to pension costs paid out during the year.

[3] Former board member or member of Skandiabanken's management who are no longer in such positions as per 31 December.

[4] Board members – 6 regular and 1 deputy. Includes 3 employee representatives. All are employees of the Old Mutual Group.

[5] Variable remuneration for 2010 pertains to expensed amounts.

Chairman of the Board

During the period 1 January–10 November 2011, Mårten Andersson, CEO and head of Skandia's Nordic division, was Chairman of the Board. At an extraordinary general meeting on 10 November 2011, Niklas Midby was elected as Chairman. Mårten Andersson was re-elected as a board member.

Other board members

At the Annual General Meeting on 21 June 2011, the following persons were re-elected as board members: Andrew Birrell, Paul Hanratty and Rafael Galdón, from Old Mutual plc, the parent company of Skandiabanken's parent company Skandia Insurance Company Ltd (publ), and Magnus Beer and Lars Otterbeck (Vice Chairman of the parent company Skandia).

Rafael Galdón resigned from the Board on 6 December 2011. At an extraordinary general meeting on 22 December 2011, Lars Otterbeck and Andrew Birrell resigned as board members, and Philip Broadley, from Old Mutual plc, was elected as a new board member. Anne Andersson and Yvonne Andersson remain as regular board members.

The number of board members including one deputy and excluding the Chairman amounted to 7 (8) persons, of whom 2 (3) are employee representatives. Directors' fees totalling SEK 550 thousand (275) were paid. No pension premiums have been paid for board members.

CEO

Øyvind Thomassen

The CEO's remuneration consists of a fixed component and a variable component plus customary benefits. Variable salary can amount to a maximum of 60% of the fixed base salary, of which 1/3 is coupled to shares and 2/3 to cash. The variable salary component is based on profit and individual targets. The variable component is pensionable.

Benefits and other remuneration pertain mainly to insurance. This amount, totalling SEK 1,845 thousand, includes settlement of pensions totalling SEK 881 thousand (1,047).

Incentive programmes

The CEO participates in incentive programmes offered by Old Mutual plc. Grants and settlement were made in 2011. For further information, see below under "Long-term incentive programmes".

Pensions

Pension costs pertain to defined benefit plans and are secured through insurance. The year's defined benefit pension cost in relation to pensionable remuneration was 9% (16%). Premiums have been set at a level of what would have applied for a level of benefits corresponding to 66% (66%) of pensionable salary. Pension obligations calculated in accordance with IAS 19 Employee Benefits amounted to SEK 130 thousand (2,637). The contracted retirement age is 65.

Terms of notice

In the event Skandiabanken serves notice, salary is payable during the notice period in the amount of 6 months' salary. Severance pay amounts to 12 months' salary.

Administrative Deputy CEO

Bengt-Olof Nilsson Lalér

Remuneration of Administrative Deputy CEO Bengt-Olof Nilsson Lalér consists of a fixed component plus customary benefits. Benefits and other remuneration consist primarily of a company car and private healthcare insurance.

Incentive programme

Variable salary can amount to a maximum of 40% of fixed, annual salary.

Cont. note 7

Pensions

Pension costs are both defined benefit and defined contribution and are secured through insurance. Bengt-Olof Nilsson Lalér has benefits in accordance with the FTP plan, department 2 (occupational pension plan for the insurance industry). The plan is primarily a defined benefit solution with a maximum benefit of 65% (65%) of pensionable salary. On pensionable salary levels higher than the plan's ceiling of 30 times the Income Base Amount, a defined contribution premium of 37% (37%) is paid. Variable salary higher than the plan's ceiling is not included in the pensionable base. These provisions for amounts higher than the plan's ceiling are made to a so-called direct pension solution, whereby the pension is promised by the employer and then secured through an endowment insurance policy.

The year's defined contribution pension cost in relation to pensionable remuneration was 3% (5%). The year's defined benefit pension cost in relation to pensionable remuneration was 24% (25%). Pension obligations calculated in accordance with IAS 19 Employee Benefits totalled SEK 1,016 thousand (485). The retirement age is 65 years, which is the same as for others in the FTP plan.

Terms of notice

In the event Skandiabanken serves notice, salary is payable during the notice period in the amount of 6 months' salary. Severance pay amounts to 6 months' salary.

Deputy CEO

Jonas Holmberg

Remuneration of Deputy CEO Jonas Holmberg consists of a fixed component plus customary benefits. Benefits and other remuneration consist primarily of a company car and private healthcare insurance.

Incentive programme

Variable salary can amount to a maximum of 40% of fixed, annual salary.

Pensions

Pension costs are both defined benefit and defined contribution and are secured through insurance. Jonas Holmberg has benefits in accordance with the FTP plan, department 2 (occupational pension plan for the insurance industry). The plan is primarily a defined benefit solution with a maximum benefit of 65% (65%) of pensionable salary. Jonas Holmberg has chosen so-called Alternative FTP for his salary amounts between 7.5 and 30 times the Income Base Amount, entailing that premiums calculated within this interval are reported as a defined contribution pension.

The year's defined contribution pension cost in relation to pensionable remuneration was 38%. The year's defined benefit pension cost in relation to pensionable remuneration was 0%. Pension obligations calculated in accordance with IAS 19 Employee Benefits totalled SEK 0 (0). The retirement age is 65 years, which is the same as for others in the FTP plan.

Terms of notice

In the event Skandiabanken serves notice, salary is payable during the notice period in the amount of 6 months' salary. No severance pay is offered.

Long-term incentive programmes

Long-term incentive programmes are in place for the CEO and are issued by Old Mutual plc. Old Mutual plc owns 100% of the shares in Skandia. Skandiabanken is a wholly owned subsidiary of Skandia.

Old Mutual has four programmes in which the CEO participates:

- Options granted prior to 2009 under the "Share Option and Deferred Delivery Plan"
- Shares granted prior to 2009 under the "Restricted Share Plan"
- Options granted in 2009 and later under the "Old Mutual plc Share Reward Plan – Share Options"
- Shares granted in 2009 and later under the "Old Mutual plc Share Reward Plan – Restricted Shares"

The CEO was granted shares in 2011.

The term of the options is six years. The options can be exercised, at the earliest, three years after they have been granted. In accordance with international practice, the options and shares were granted without cost to the individual employee. In order for the employee to be able to benefit from the value of granted options and shares, he must remain in service for at least three years. Options are personal and are not transferrable for the employee.

Skandiabanken has not taken out any hedges for the programmes. Costs and provisions for social security costs are reported as they arise in connection with the exercise of the options and acquisition of shares. Skandiabanken has not had any management costs for the option programmes. In all, the incentive programme resulted in a cost of SEK 0.1 million (0.2) in 2011, excluding social security charges.

Cont. note 7

	2011		2010	
Number of options in Old Mutual, senior executives	Options	Average exercise price (GBP)	Options	Average exercise price (GBP)
Outstanding options, 1 January	**101**	**1.22**	**127**	**1.31**
Granted shares	—	—	62	1.21
Forfeited options	-62	1.23	-61	1.22
Exercised options	—	—	-27	1.63
Expired options	—	—	—	—
Outstanding options, 31 December	**39**	**1.22**	**101**	**1.22**
Of which, exercisable	—	—	—	—

Outstanding options as per 31 December 2011 have an exercise price of GBP 1.22 (2010: GBP 1.21 to GBP 1.63) and an average remaining term of 1.4 years (2010: 2.4 years).

Number of shares in Old Mutual, senior executives	**2011**	**2010**
Opening balance: Outstanding shares 1 January	**33**	**110**
Granted shares	33	12
Forfeited shares	-13	-5
Redeemed shares	-12	-77
Expired shares	—	-7
Closing balance: Outstanding shares 31 December	**41**	**33**
Of which, redeemable	—	—

Estimated value, SEK per share	**Exchange rate, SEK/GBP**	**Shares**	**Options**
2011	10.41	15.07	—
2010	11.14	13.56	5.79

The average fair value of shares granted during the year was GBP 1.45. The estimated value of the shares is based on the closing price on the London Stock Exchange on the respective valuation dates.
The value of the options has been calculated using the Black & Scholes option pricing model.

The following parameters have been used in the calculation:	**2011[3]**	**2010**
Anticipated volatility[1]	—	55.7%
Redemption price, GBP	—	1.21
Share price, GBP	—	1.22
Anticipated dividend	—	2.1%
Risk-free interest rate	—	2.8%
Calculated remaining term, years[2]	—	5.0

[1] This forecast is based on actual volatility during the year preceding the measurement date.
[2] The anticipated remaining term is based on the average length of time similar option grants have remained outstanding in previous programmes and the type of employees to whom awards have been granted in these programmes.
[3] No new grants of options were made in 2011.

For further information on the incentive programmes, see Old Mutual's Annual Report and website: www.oldmutual.com.

Gender breakdown	2011		2010	
	Women	Men	Women	Men
Group, management team	11%	89%	0%	100%
Board of directors, bank	37%	63%	25%	75%

Loans to key persons in executive positions SEK thousand	**2011**	**2010**
Board members and deputy board members of Skandiabanken	31	59
CEO and Deputy CEO of Skandiabanken	48	34
Other key persons in executive positions with Skandiabanken	12,849	—
Board members and deputy board members in the Old Mutual Group[1]	4,392	11,182
CEOs and deputy CEOs in the Old Mutual Group[1]	4,670	2,826
Other key persons in executive positions in the Old Mutual Group[1]	15,399	10,303
Board members and deputy board members in the Skandia Liv group	2,801	113
CEOs and Deputy CEOs in the Skandia Liv group	3,875	4,193
Other key persons in executive positions in the Skandia Liv group	13,011	11,041

[1] Loans to key persons in the Old Mutual Group pertain to borrowers in the Swedish Skandia group.

All loans pertain to loans with adequate security or guarantees except for other loans of SEK 290 thousand and SEK 936 thousand (900) in unsecured loans on a granted amount of SEK 4,279 thousand (1,700).

The terms of the loans are consistent with those that are normally used for lending to the general public or other group employees.

Skandiabanken or group companies have not pledged security or entered into contingent liabilities for the benefit of the reported key persons in executive positions.

Data provided pertains to loans granted to persons who on 31 December 2011 were key persons in executive positions.

Cont. note 7

Disclosures of pensions

Pension costs	2011	2010
Current service cost	17	16
Interest expense	15	16
Anticipated return on plan assets	-14	-12
Depreciation costs (+) from previous years	—	4
Depreciation of actuarial gains (-) and losses (+)	6	7
Past service cost	12	—
Effects of reductions and settlements	-3	3
Pension costs, defined benefit plans	**33**	**34**
Pension costs, defined contribution plans	79	71
Payroll tax on pension costs	25	23
Pension costs transferred to discontinued operations	-78	-69
Payroll tax transferred to discontinued operations	-21	-16
Total pension costs[1]	**38**	**43**

Reporting of pensions on balance sheet	2011	2010
Defined benefit pension plans reported among provisions for pensions and similar obligations	39	68
Provision for payroll tax	12	15
Provision for pensions and similar obligations	**51**	**83**

Reconciliation of defined benefit pension plans on balance sheet	2011	2010	2009	2008	2007
Fully or partly funded plans					
Present value of defined benefit obligations	445	411	392	253	197
Fair value of plan assets	-328	-299	-262	-150	-162
Present value of obligation less plan assets	**117**	**112**	**130**	**103**	**35**
Unreported actuarial gains (+) and losses (-)	-77	-44	-66	-31	37
Reported defined benefit liability (+) or asset (-)	**40**	**68**	**64**	**72**	**72**

Present value of defined benefit obligations	2011	2010
Opening balance	411	392
Current service cost	17	17
Interest expense	15	16
Benefits paid[2]	-26	-21
Effects of reductions	-3	3
Past service cost	12	—
Transfer of obligations from Skandia to Skandiabanken	-19	—
Actuarial gains (-) and losses (+)	38	8
Other (exchange rate difference in opening balance)	0	-4
Closing balance	**445**	**411**

Plan assets	2011	2010
Opening balance	299	262
Anticipated return on plan assets	14	12
Premiums paid by employer	41	25
Benefits paid from plan assets	-26	-21
Actuarial gains (+) and losses (-)	0	24
Other (exchange rate difference in opening balance)	0	-3
Closing balance	**328**	**299**

Return on plan assets	2011	2010
Anticipated return on plan assets	14	12
Actuarial gains (+) and losses (-)	0	24
Actual return	**14**	**36**

Actuarial gains (+) and losses (-)	2011	2010
Opening balance	-44	-67
Depreciation	6	7
Actuarial gains (+) and losses (-): obligations	-37	-7
Actuarial gains (+) and losses (-): plan assets	0	24
Transfer of actuarial gains and losses from Skandia to Skandiabanken	1	—
Effects of reductions and settlements	0	—
Other	-3	-1
Closing balance	**-77**	**-44**

Actuarial gains and losses, experience-based adjustments	2011	2010	2009	2008	2007
Experience-based adjustments					
Defined benefit obligations	-2	6	-21	5	5
Plan assets	-1	24	9	-25	3
Effect of actuarial assumptions					
Defined benefit obligations	-35	-14	37	-47	27
Plan assets	0	0	0	-3	—
Total actuarial gains and losses	**-38**	**16**	**25**	**-70**	**35**

Plan assets, breakdown	2011	2010
Fixed-income securities	145	125
Real estate	39	34
Equities and similar financial instruments	122	117
Other assets	22	23
Total plan assets	**328**	**299**

Cont. note 7

Actuarial computation assumptions[3]	2011 Sweden	2011 Norway	2010 Sweden	2010 Norway
Discount rate, %	3.50	2.50	3.75	4.00
Anticipated long-term return on plan assets after policyholder tax 0.50% (0.50%)	3.00	3.50	4.50	4.75
Estimated future salary growth, %[4]	3.00/4.75	3.50	3.25/4.75	3.50
Estimated future inflation, %	2.00	2.25	2.00	2.25

[1] Total pension costs are reported in the income statement on the line for "Staff costs", broken down into defined benefit and defined contribution pensions.

[2] Benefits paid for the 2012 financial year are expected to amount to approximately SEK 11 million (20).

[3] Weighted median values for the respective plans.

[4] For senior executives, the anticipated rate of salary growth is 4.75%.

Average number of employees during the year	2011 Employees	2011 Of whom, women	2010 Employees	2010 Of whom, women
Parent company, Sweden	802	50%	958	54%
Parent company, Norway	192	56%	183	59%
Total parent company	**994**	**51%**	**1,141**	**54%**
Subsidiaries, Sweden	7	51%	10	74%
Total, group	**1,001**	**51%**	**1,151**	**54%**

The figures above include 580 employees in discontinued operations.

8. OTHER ADMINISTRATIVE EXPENSES

	2011	2010
Cost of premises	-38	-58
IT costs	-148	-127
Fees and purchased services	-558	-484
Telephone and postage costs	-35	-41
Office expenses	-5	-6
Operating and transaction costs	-163	-157
Other administrative expenses	-44	-24
Total other administrative expenses	**-991**	**-897**

Contracted rents

In its capacity as lessee, Skandiabanken has entered into a number of lease agreements, which are broken down below based on their expiration dates.

Breakdown 2011	<1 year	1-5 years	> 5 years	Total
Rents for premises	12	52	73	137

Breakdown 2010	<1 year	1-5 years	> 5 years	Total
Rents for premises	12	53	78	143

Audit costs	2011	2010
Audit assignment		
- KPMG	-2	-2
Total audit assignment	**-2**	**-2**
Other assignments – KPMG		
Auditing activities in addition to the audit assignment	-1	-1
Total costs for other assignments	**-1**	**-1**

By audit assignment is meant review of the annual report, bookkeeping, the Board's and CEO's administration, other duties that are incumbent on the company's auditors to perform, and consulting or other services that result from observations from such review or execution of such other duties.

9. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

	2011	2010
Property, plant and equipment		
Depreciation		
- Equipment	-4	-4
Intangible assets		
Amortisation		
- other intangible non-current assets	-4	-4
Total	**-8**	**-8**

10. OTHER OPERATING EXPENSES

	2011	2010
Advertising and marketing	-69	-52
Total	**-69**	**-52**

11. LOAN LOSSES, NET

	2011	2010
Specific provision for individually assessed loan receivables		
The year's write-off of actual loan losses	-1	-2
Reversal of provisions for probable loan losses in previous financial years which are reported as actual loan losses in the year's accounts	0	1
The year's provision for probable loan losses	-18	-6
Paid in from actual loan losses in previous years	0	0
Reversal of provisions for probable loan losses which are no longer necessary	9	9
Net expense for the year for individually assessed loan receivables	-10	2
Collectively assessed for groups of individually assessed loan receivables		
The year's change in provision for individually assessed loan receivables	0	0
The year's change in provision for collectively assessed loan receivables	0	0
Collectively assessed homogeneous groups of loan receivables with limited value and similar credit risk[1]		
The year's write-off of actual loan losses	-26	-25
Paid in from actual loan losses in previous years	11	3
Provision/dissolution for collectively assessed homogenous groups of loan receivables	-9	-22
Net expense for the year for collectively assessed homogeneous groups of loan receivables	-24	-44
Net loan losses for the year	**-34**	**-42**

Write-offs and reversals of provisions linked to loan receivables to the general public		
The year's write-off of actual loan losses	-27	-27
The year's reversal of previously written off receivables	0	1

[1] Collectively assessed receivables pertain to homogenous groups of receivables with limited value and similar credit risk. Collectively assessment has been done for unsecured loans and bank lines of credit/credit card credits.

A standard provision of 10%-30% is made for credit risks when a loan is past due more than 60 days, 20%-60% after 90 days, and finally 90% after 180 days. Provisions for credit risks are calculated on the entire outstanding receivable.

12. INCOME TAX EXPENSE

The following components are included in the tax expense for the group	**2011**	**2010**
Current tax		
- Tax on profit for the year	-47	-52
- Tax on previous years' profits	3	-1
Deferred tax[1]	13	-6
Total tax expense	**-31**	**-59**

Correlation between income tax expense and reported profit before tax	**2011**	**2010**
Reported profit before tax	174	211
Tax according to applicable Swedish tax rate of 26.3%	-46	-55
Tax effect of tax exempt income	2	7
Tax effect of non-deductible expenses	-2	-10
Tax effect of changed application of deferred tax on temporary differences for endowment insurance policies	12	—
Tax effect of differences in taxation between countries	0	—
Current tax pertaining to previous years	3	-1
Total tax expense	**-31**	**-59**
Average effective tax rate	18.1 %	27.9 %

[1] Deferred tax broken down by type of temporary differences	**2011**	**2010**
Tax effect attributable to temporary differences in financial instruments	3	-3
Tax effect attributable to temporary differences in tangible and intangible assets	0	-0
Tax effect attributable to temporary differences in pensions	8	-2
Tax effect attributable to temporary differences in provisions	2	-1
Total deferred tax	**13**	**-6**

13. CASH AND CASH BALANCES WITH CENTRAL BANKS

	2011	2010
Swedish notes and coins	1	7
Central Bank of Sweden, payable on demand	10	3
Foreign central banks, payable on demand	685	483
Total	**696**	**493**

14. LENDING TO CREDIT INSTITUTIONS

Outstanding loans broken down by counterparty	2011	2010
Foreign central banks	1,670	—
Swedish credit institutions	283	305
Foreign credit institutions	60	67
Total	**2,013**	**372**

Outstanding loans broken down by remaining maturity		
Payable on demand	2,013	372
Total	**2,013**	**372**
Average remaining maturity (years)	0.0	0.0

15. LENDING TO THE GENERAL PUBLIC

	2011	2010
Lending to the general public	53,526	54,100
Provision for impaired loans	-133	-116
Total	**53,393**	**53,984**

a) Lending broken down by remaining maturity	2011	2010
Payable on demand	1	1,001
Maximum 3 months	17,034	17,201
Longer than 3 months but max 1 year	3,932	3,512
Longer than 1 year but max 5 years	9,935	9,464
Longer than 5 years	22,491	22,806
Total	**53,393**	**53,984**
Average remaining maturity (years)	10.2	10.5

b) Impaired loans and provisions	2011	2010
Impaired loans, gross	**213**	**166**
Specific provisions for individually assessed loan receivables	-36	-27
Provision for collectively assessed homogenous groups of loan receivables with limited value	-95	-87
Collective provision for individually assessed loan receivables	-2	-2
Total provisions for impaired loans	-133	-116
Impaired loans, net	**80**	**50**

Non-performing loans that are not judged to be impaired amounted to SEK 55 million (35). Non-performing loans that are not judged to be impaired refers to loans for which adequate collateral exists.

c) Loan receivables broken down by geographic region	2011	2010
Loans receivables at amortised cost (before provision for loan losses)	**53,526**	**54,101**
Sweden	*26,428*	*26,706*
Norway	*27,098*	*27,395*
Specific provisions for individually assessed loan receivables	**36**	**27**
Sweden	*13*	*7*
Norway	*23*	*20*
Collective provisions for individually assessed loan receivables	**2**	**2**
Sweden	—	*1*
Norway	*2*	*1*
Provisions for collectively assessed homogenous groups of loan receivables	**95**	**88**
Sweden	*6*	*5*
Norway	*89*	*83*
Total provisions	**133**	**117**
Sweden	*19*	*13*
Norway	*114*	*104*
Loan receivables at amortised cost (after provision for loan losses)	**53,393**	**53,984**
Sweden	*26,409*	*26,694*
Norway	*26,984*	*27,290*

Impaired loans broken down by geographic region	2011	2010
Impaired loans (after provision for probable loan losses)	**80**	**50**
Sweden	*33*	*11*
Norway	*47*	*39*

Cont. note 15

d) Reconciliation of provisions for loan losses	2011	2010
Provisions, opening balance	**116**	**108**
Specific provisions		
Opening balance	**27**	**33**
Confirmed loan losses	0	-2
Provisions	19	6
Reversals	-9	-8
Changes reported in the income statement	**10**	**-4**
Translation difference	0	-1
Reclassifications	0	-1
Closing balance	**37**	**27**
Collective provisions		
Opening balance	**90**	**75**
Net change in provisions reported in the income statement	9	22
Translation difference	0	-6
Reclassifications	-3	-2
Closing balance	**96**	**89**
Provisions, closing balance	**133**	**116**

16. FAIR VALUE OF PORTFOLIO HEDGE OF INTEREST RATE RISK

	2011	2010
Book value, opening balance	5	153
Change in value of hedged item	63	-148
Carrying amount, closing balance	**68**	**5**

The fair value of portfolio hedge of interest rate risk pertains to the change in value of the hedged asset. For Skandiabanken, this pertains to interest rate risk attributable to lending at fixed interest rates. For further information, see note 5 “Net financial income” and note 26 “Financial liabilities at fair value”.

17. FINANCIAL ASSETS AT FAIR VALUE

Shares[1]	2011	2010
Listed shares	0	0
Unlisted shares	11	11
Total	**11**	**11**

Derivative instruments	2011	2010
Interest rate derivatives		
Interest rate swaps	10	49
Foreign exchange derivatives		
Currency swaps	13	1
Total	**23**	**50**
Total financial assets at fair value	**34**	**61**

[1] Held for trading.

For further information on derivatives, see note 26.

18. FINANCIAL ASSETS AVAILABLE FOR SALE

Fixed-income securities	2011	2010
Issued by public entities	2,923	397
Issued by other borrowers	16,695	11,978
Total	**19,618**	**12,375**

Issuers	2011	2010
Swedish municipalities[1]	2,441	–
Swedish credit institutions	7,670	5,528
Other Swedish issuers	201	200
Foreign municipalities	482	397
Foreign credit institutions	8,794	5,989
Other foreign issuers	30	261
Total	**19,618**	**12,375**

Remaining maturity	2011	2010
Maximum 1 year	6,721	6,599
Longer than 1 year but max 5 years	12,897	5,776
Total	**19,618**	**12,375**
Average remaining maturity, (years)	1.5	2.1
Average remaining fixed interest term, (years)	0.3	0.3
of which, listed securities	19,618	12,375
of which, pledged as security for the benefit of the Central Bank of Sweden	2,045	1,885
of which, pledged as security for the benefit of the Central Bank of Norway	3,685	4,531

[1] **Of which, treasury bills and other eligible bills**		
Swedish municipalities	2,441	–
Total	**2,441**	**–**
Nominal value	2,435	–

Shares	2011	2010
Listed shares	26	18
Total	**26**	**18**

Total financial assets available for sale	**19,644**	**12,393**

19. INTANGIBLE ASSETS

Other intangible assets	2011				2010			
Cost	Acquired IT system under development	Acquired IT system	Other intangible assets	**Total**	Acquired IT system under development	Acquired IT system	Other intangible assets	**Total**
Cost at start of year	1	41	37	79	—	44	40	84
Exchange rate differences	—	0	—	0	—	-3	-3	-6
Reclassification	-1	1	—	—	—	—	—	—
Acquisitions during the year	—	1	—	1	1	0	—	1
Cost at year-end	**—**	**43**	**37**	**80**	**1**	**41**	**37**	**79**
Accumulated amortisation and impairment								
Accumulated amortisation at start of year	—	-35	-37	-72	—	-34	-39	-73
Exchange rate differences	—	-1	—	-1	—	3	2	5
Current year's amortisation	—	-4	—	-4	—	-4	0	-4
Accumulated amortisation and impairment at year-end	**—**	**-40**	**-37**	**-77**	**—**	**-35**	**-37**	**-72**
Net carrying amount	**—**	**3**	**—**	**3**	**1**	**6**	**0**	**7**

Anticipated useful life varies between 3 and 5 years for acquired IT systems. With respect to "Other intangible assets", which refers to infrastructural charges attributable to the Norwegian banking operation, the estimated useful life is 5 years.

20. PROPERTY, PLANT AND EQUIPMENT

Cost	**2011**	**2010**
Cost at start of year	34	61
Exchange rate differences	0	-1
Acquisitions during the year	6	5
Assets held for sale	-5	—
Sales during the year[1]	-7	-31
Cost at year-end	**28**	**34**

Accumulated depreciation	**2011**	**2010**
Accumulated depreciation at start of year	-21	-45
Exchange rate differences	0	1
Current year's depreciation	-4	-4
Assets classified as held for sale/Current year's depreciation for discontinued operations	1	-1
Accumulated depreciation on current year's sales[1]	4	28
Accumulated depreciation at year-end	**-20**	**-21**
Net carrying amount	**8**	**13**

[1] Including disposals.

21. CURRENT AND DEFERRED TAX ASSETS

	2011	2010
Current tax assets	19	8
Deferred tax assets[1]	25	34
Total tax assets	**44**	**42**

[1] Deferred tax assets broken down by type of temporary difference	2011	2010
Deferred tax assets attributable to financial assets	1	0
Deferred tax liabilities attributable to financial assets	0	-2
Deferred tax assets attributable to tangible and intangible assets	1	1
Deferred tax assets attributable to pensions	24	22
Deferred tax assets attributable to provisions	3	3
Total deferred tax assets with changes reported in the income statement	**29**	**24**
Deferred taxes reported in "Other comprehensive income"		
Deferred tax liabilities attributable to unrealised gains on available-for-sale financial assets	-8	0
Deferred tax assets attributable to pensions	4	10
Total deferred tax assets with changes reported in "Other comprehensive income"	**-4**	**10**
Total deferred tax assets	**25**	**34**

In cases where there is a difference between assets' and liabilities' reported and tax values, a temporary difference exists, which is reported as deferred tax.

22. OTHER ASSETS

	2011	2010
Securities settlement claims	570	461
Trade receivables	19	15
Other	39	93
Provision for probable loan losses	-4	-3
Total other assets	**624**	**566**

23. PREPAID EXPENSES AND ACCRUED INCOME

	2011	2010
Accrued interest	116	58
Other accrued income	32	44
Accrued management fees	52	55
Prepaid expenses	25	8
Total	**225**	**165**

24. DUE TO CREDIT INSTITUTIONS

Outstanding amounts broken down by counterparty, net book value	2011	2010
Swedish credit institutions	26	47
Foreign credit institutions	16	5
Total	**42**	**52**

Outstanding amounts broken down by remaining maturity, net book value	2011	2010
Payable on demand	42	52
Total	**42**	**52**
Average remaining maturity, (years)	0.0	0.0

25. DEPOSITS AND BORROWING FROM THE GENERAL PUBLIC

Deposits broken down by remaining maturity, book value	2011	2010
Payable on demand	66,247	60,070
Maximum 3 months	2,765	2,170
Longer than 3 months but max 1 year	1,822	397
Longer than 1 year but max 5 years	468	332
Total	**71,302**	**62,969**
Average remaining maturity (years)	0.0	0.0

No borrowing existed as per the balance sheet date.

26. FINANCIAL LIABILITIES AT FAIR VALUE AND DISCLOSURES OF DERIVATIVE INSTRUMENTS

Breakdown of derivative instruments by type of hedge relationship

	2011			2010		
	Assets at fair value	Liabilities at fair value	Nominal amount	Assets at fair value	Liabilities at fair value	Nominal amount
Derivatives held for trading						
Foreign exchange derivatives						
Swaps	—	0	23	0	—	35
Forward agreements	—	—	6	—	—	—
Derivatives held for fair value hedges						
Interest rate derivatives						
Swaps	10	83	8,870	49	49	6,810
Derivatives for hedges of net investments in foreign operations						
Foreign exchange derivatives						
Swaps	13	—	679	1	—	664
Total derivatives broken down by assets and liabilities						
Interest rate derivatives	10	83	8,870	49	49	6,810
Foreign exchange derivatives	13	0	708	1	—	699

Interest rate swaps are held for hedge accounting of fair value of portfolio hedge of interest rate risk for the purpose of hedging interest rate risks associated with lending at fixed interest rates.

Of the group's lending, 82% (87%) is at variable interest rates that are adapted to movements in market interest rates within three months. The remaining credits have interest rates that are fixed for set periods. The group's funding is handled in all essential respects through deposits at variable interest rates, however, some funding is also conducted through deposits and borrowing at fixed interest rates and through equity.

Currency swaps are held primarily for the purpose of hedging foreign exchange risks on the balance sheet attributable to net investments in foreign operations.

For disclosures of durations of interest rate derivatives, see the table showing terms of fixed interest in note 37 b1. "Interest rate risk and net interest risk" and all foreign exchange derivatives have durations with maturity within three months.

27. OTHER LIABILITIES

	2011	2010
Securities settlement liabilities	497	454
Trade accounts payable	54	26
Other	163	119
Total other liabilities	**714**	**599**

28. ACCRUED EXPENSES AND DEFERRED INCOME

	2011	2010
Accrued interest	165	82
Accrued staff costs	145	150
Accrued fund commissions	40	43
Accrued expenses for outsourced operations	66	60
Other accrued expenses	5	86
Deferred income	0	0
Total	**421**	**421**

29. PROVISIONS FOR PENSIONS

	Pension plans incl. payroll tax[1]
Opening balance 2010	**117**
Exchange rate differences	-2
Amount utilised during the year	-3
Amount reversed during the year	-8
Closing balance 2010	**104**
Exchange rate differences	0
Current year's provision	7
Amount utilised during the year	-35
Amount reversed during the year	—
Closing balance 2011[2]	**76**

[1] Defined benefit pension plans amounted to SEK 39 million (68), and pension obligations for employees with high-earner solutions amounted to SEK 20 million (24). Payroll tax on defined benefit pension plans amounted to SEK 12 million (15), and payroll tax for reporting of pension obligations in connection with early retirement of employees with high-earner solutions amounted to SEK 5 million (6).

[2] Provisions for pensions include SEK 32 million pertaining to discontinued operations.

For further information on reporting of defined benefit pension plans, see note 7, "Staff costs".

30. OTHER PROVISIONS

	Restructuring reserves
Opening balance 2010	**12**
Exchange rate differences	—
Provisions during the year	1
Amount utilised during the year	-2
Amount reversed during the year	-5
Closing balance 2010	**6**
Exchange rate differences	—
Provisions during the year	—
Amount utilised during the year	-5
Amount reversed during the year	-1
Closing balance 2011	**—**

31. SUBORDINATED LIABILITIES

	2011	2010
Dated subordinated loans	300	300
Perpetual subordinated loans	900	900
Total	**1,200**	**1,200**

Nominal amount	Interest terms	Due date
200.0	3 mth Stibor +1.00%	10/18/2018
100.0	3 mth Stibor +1.00%	16/12/2019
900.0	3 mth Stibor +1.25%	Perpetual

The interest due date is quarterly for all loans.

OTHER DISCLOSURES

32. OTHER PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

Other pledged assets	2011	2010
Bonds pledged with the Central Bank of Sweden and the Central Bank of Norway[1]	5,730	6,415
Cash[2]	47	19
Total	**5,777**	**6,434**

Other pledged assets pertain to assets pledged for other items than for own liabilities reported on the balance sheet.

[1] The pledged value pertains to the bonds' book value. Security is pledged for intra-day limits and pertaining to next-day settlement. The accounts with the central banks are used for all clearing settlement between the banks, and security is required from the start for any negative balances that arise in the respective accounts. In the event the payment obligation is not met, the Central Bank of Sweden and the Central Bank of Norway have the opportunity to immediately use pledged securities.

[2] Cash is pledged as security to SEB for Skandiabanken's undertakings on the stock exchange, i.e., exchanges of equities with liquid assets. In the event Skandiabanken should fail to meet its obligations on the stock exchange, EMCF, which is a Central Clearing Party, will exercise a margin call from SEB for Skandiabanken's cash as per the above. Cash has also been pledged as security for rents of premises.

Contingent liabilities	2011	2010
Other	44	40
Total	**44**	**40**

The Swedish Tax Agency has reconsidered Skandiabanken's income taxation for 2009. The decision has been appealed, and a respite for payment of the tax has been received. The Tax Agency's decision may entail a higher tax charge of SEK 4 million. Skandiabanken has appealed the decision to the Administrative Court and is of the opinion that it is not likely that the Tax Agency's decision will be upheld in its entirety. In addition, there is considerable uncertainty regarding the amount. Consequently, no provision has been made, and the amount is reported as a contingent liability.

The parent company has pension obligations totalling SEK 41 million (40) that are not carried on the balance sheet, which are covered by the value of company-owned endowment insurance policies.

Commitments	2011	2010
Interest rate swaps	8,870	6,810
Currency swaps	688	698
Currency forward agreements	6	—
Unutilised part of granted overdraft facilities	6,510	5,841
Granted undrawn credits	9,972	13,845
Total	**26,046**	**27,194**

All commitments have been reported in nominal amounts.

33. CASH FLOW FROM DIVESTMENT OF SUBSIDIARIES

Divested assets and liabilities	2011	2010
Due to credit institutions	17	—
Property, plant and equipment	0	—
Other assets	3	—
Total assets	**20**	**—**
Non-controlling interests	6	—
Other liabilities	8	—
Total liabilities	**14**	**—**
Sales price	6	—
Less: cash and cash equivalents in subsidiaries	-17	—
Effect of cash and cash equivalents on group	**-11**	**—**

Disclosures regarding divestment of Svenska Lärarfonder

The subsidiary Svenska Lärarfonder was sold on 31 January 2011.
Consideration amounted to SEK 6,335 thousand. The purchase price is classified in the cash flow statement under investing activities and is specified after deducting for divested cash and cash equivalents.

34. DISCONTINUED OPERATIONS

	Services segment	
Income statement	**2011**	**2010**
Net interest income	0	0
Net fee and commission income	—	—
Net financial income	—	—
Other operating income	641	682
Total operating income	**641**	**682**
Staff costs	-481	-470
Other administrative expenses	-156	-208
Depreciation of property, plant and equipment	-1	-1
Other operating expenses	-3	-3
Total expenses before loan losses	**-641**	**-682**
Profit before loan losses, net	**—**	**—**
Income tax expense	—	—
Profit, discontinued operations	**—**	**—**

Balance sheet, 31 December 2011

Assets	Services segment
Property, plant and equipment	4
Other assets	10
Prepaid expenses and accrued income	1
Financial assets available for sale	**15**
Liabilities and provisions	
Other liabilities	1
Accrued expenses and deferred income	78
Provisions	33
Total liabilities and provisions	**112**

Discontinued operations

As part of the restructuring that was initiated at the end of 2010 within the Skandia group – large parts of which were carried out during the first half of 2011 – the services segment in Skandiabanken was gradually phased out through the sale of parts of the business to Skandia during the year and through the subsequent sale to Skandia Försäljnings AB and a shift of activities to the Swedish banking segment.

Parts of the services segment that pertained to customer service units primarily in Sundsvall and Gothenburg were sold to the parent company Skandia Insurance Company Ltd on 1 July 2011. The divestment had no profit effect for Skandiabanken, in accordance with a previous agreement between Skandia and Skandiabanken. The divestment was made at book value. The greater part of the services segment that pertained to advisory services (Advise) was sold as per 1 January 2012 to Skandia Försäljnings AB. This divestment will not have any effect on Skandiabanken's profit. The divestment was carried out at book value. The remaining customer service, market communication and business development units have been transferred to the Swedish banking segment as per 1 July 2011. The tables above show only figures for the parts of the services segment that were sold in 2011 to Skandia or which will be sold as per 1 January 2012 to Skandia Försäljnings AB.

The divested operations had only a marginal impact on cash flow in 2011.

Divested operation

On 31 January 2011, the subsidiary Svenska Lärarfonder AB was sold at the group residual value. Skandiabanken's ownership was 51%. At the time of the divestment, the company had total assets of SEK 20 million and equity of SEK 12 million, of which SEK 6 million was a minority interest. Svenska Lärarfonder AB's results for January have not been included in the consolidated income statement. The consolidated income statement for 2010 has not been recalculated with respect to the divested subsidiary. Profit before tax for 2010 was SEK 4 million.

35. COMPLAINTS AND DISPUTES

Skandiabanken is party to a few complaints and legal disputes. In cases where Skandiabanken believes that these may result in payment of financial compensation or where it is believed that a disputed repayment may not be received, a provision has been made after reviewing each individual matter.

The Swedish Tax Agency has reconsidered Skandiabanken's income taxation for 2009, which may entail a higher tax charge of SEK 3.6 million. Skandiabanken has appealed the decision to the Administrative Court and is of the opinion that it is not likely that the Tax Agency's decision will be upheld in its entirety. Consequently, no provision has been made, and the amount is reported as a contingent liability. A respite for payment of the tax has been received.

For other disputes that have not been expensed or taken up as a contingent liability, the level of uncertainty is so high that it is not possible to estimate their possible outcome.

36. INFORMATION ON CAPITAL ADEQUACY

Minimum capital requirement – Pillar I

Capital adequacy analysis	31/12/2011	31/12/2010
Capital adequacy measures		
Total capital ratio[1]	14.31%	14.18%
Tier 1 capital ratio[2]	9.95%	9.71%
Capital adequacy quotient[3]	1.79	1.77

Capital base[4]	31/12/2011	31/12/2010
Equity according to most recent year-end book closing, 31 December	2,806	2,641
Proposed dividend	—	—
Minority interests	—	6
Tier 1 capital, gross[4.1]	**2,806**	**2,647**
Less: intangible assets	-3	-7
Less: deferred tax assets	-34	-33
Unrealised loss for available-for-sale financial assets, fixed-income securities	-20	-2
Tier 1 capital, net[4.2]	**2,749**	**2,605**
Unrealised gains on available-for-sale financial assets, equities	4	—
Perpetual subordinated debt[4.3]	900	900
Dated subordinated debt[4.4]	300	300
Total tier 2 capital	**1,204**	**1,200**
Capital base	**3,953**	**3,805**
Risk-weighted exposures/basis for calculating capital requirement[5]		
Credit risk according to standardised approach	23,585	23,223
Currency risk	134	156
Operational risk according to basic indicator approach	3,911	3,451
Total risk-weighted exposures	**27,630**	**26,830**
Capital requirement[6]		
Credit risk according to standardised approach	1,887	1,858
Currency risk	10	12
Operational risk according to basic indicator approach	313	276
Total minimum capital requirement	**2,210**	**2,146**

Start capital, SEK 44.7 million[7]

The bank's tier 1 capital consists of equity less certain items that may not be included in the capital base, such as intangible assets. The bank does not have any tier 1 capital contributions, which means that the tier 1 capital is the same as the tier 1 core capital.

For a description of quantitative concepts, see "Description of quantitative information".

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Exposures for credit risks per exposure class

	31/12/2011			31/12/2010		
	Exposures[8]	Risk-weighted assets[5]	Capital requirements[6]	Exposures[8]	Risk-weighted assets[5]	Capital requirements[6]
1 Exposures to governments and central banks	4,331	—	—	2,726	197	16
2 Exposures to local governments and comparable associations an authorities	3,165	97	8	399	80	6
3 Exposures to administrative bodies, non-commercial undertakings and religious communities	—	—	—	—	—	—
4 Exposures to multilateral development banks	—	—	—	—	—	—
5 Exposures to international organisations	—	—	—	—	—	—
6 Exposure to institutions	5,937	1,172	94	5,361	1,056	84
7 Exposure to corporates	919	758	61	901	690	55
8 Retail exposures	3,242	2,431	195	3,162	2,371	190
9 Exposures secured on residential property	49,177	17,919	1,433	49,821	18,059	1,445
10 Past due items[8]	26	26	2	23	23	2
11 High risk items	—	—	—	—	—	—
12 Exposures in form of covered bonds	9,881	988	79	5,627	563	45
13 Securitisation positions	—	—	—	—	—	—
14 Exposure to funds	53	53	4	59	59	5
15 Other items	145	141	11	138	125	10
Total credit risks	**76,876**	**23,585**	**1,887**	**68,217**	**23,223**	**1,858**

For a description of quantitative concepts, see “Description of quantitative information”.

Applied rules and regulations

The calculation of capital requirements is carried out in accordance with the Capital Adequacy and Large Exposures Act (2006:1371) and the Financial Supervisory Authority’s regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1). The results are derived from calculations in accordance with statutory minimum capital requirement, referred to as Pillar I, for credit risk, market risk and operational risk.

Information shall be provided at least once a year in accordance with the Financial Supervisory Authority’s regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5), referred to as Pillar III. Disclosures in this note are presented in accordance with Ch. 3 §§ 1-2 and Ch. 4. More detailed disclosures in accordance with these guidelines are presented in the document “1112 Yearly information of capital adequacy and risk management”, which is available at www.skandiabanken.se/ Om oss/ Finansiell info.

Skandiabanken applies the standardised approach in calculating credit risk. This means that there are 15 exposure classes along with a number of different risk weights within each of them. The capital requirement for currency risks comprises all balance sheet items and off balance sheet items stated at current market value and recalculated to Swedish kronor using the exchange rate in effect on the balance sheet date. Eight per cent of the total net position in foreign currency is estimated to make up the capital requirement. The capital requirement for operational risk is calculated according to the basic indicator approach, which entails a capital requirement equal to 15% of average operating income for the three most recent financial years. Skandiabanken has received permission from the Financial Supervisory Authority to calculate capital requirement for the trading account in accordance with rules applied for credit risk.

Information on the financial company grouping

Disclosures in this note pertain to the financial company grouping. In accordance with the capital adequacy rules, all subsidiaries are consolidated in accordance with the purchase method. On 1 February 2011 the minority owned (51%) subsidiary Svenska Lärarfonder was sold. The book value of the shares was SEK 3.1 million. Disclosures for the parent company are provided in note 13.

Transfers of funds from the capital base and settlement of liabilities between the parent company and subsidiaries

Funds from the capital base may be transferred pursuant to the Banking and Financing Business Act, the Companies Act, and the Financial Supervisory Authority’s regulations and general guidelines. The Swedish subsidiaries Skandia Fonder AB and Svenska Lärarfonder AB are under the supervision of the Financial Supervisory Authority and maintain their capital bases in accordance with applicable Swedish rules and regulations. In the Norwegian branch, transfers of capital are regulated by the Norwegian Financial Supervisory Authority’s regulations and general guidelines. Liabilities between the entities are settled on a continuous basis, and transfers of capital are normally conducted at year-end.

Strategy, methods and processes for capital allocation

Skandiabanken’s strategy is to always have a total capital ratio of higher than 10.5% including the need for internal capital. According to the statutory minimal capital requirement, the capital base in relation to risk-weighted exposures shall amount to a minimum of 8%. For choice of method, see “Minimum capital requirement” above. In addition to the statutory minimum capital requirement, banks are expected to maintain a higher capital base, which is treated under Pillar II, Capital adequacy and risk management. Skandiabanken’s total capital requirement is taken into account in the internal capital adequacy assessment process (ICAAP). This means that Skandiabanken holds additional capital (referred to above as internal capital) for other significant risks than those referred to above, i.e., credit risks, currency risks and operational risks. The ICAAP also takes Skandiabanken’s future business plans into account. A buffer of capital is kept available above and beyond the capital requirement for identified risks and with continued expansion taken into account. The EU directive’s stipulations have been incorporated in the Banking and Financing Business Act (2004:297). The Financial Supervisory Authority oversees and evaluates the bank’s risk management to ensure that sufficient capital is retained for the significant risks that Skandiabanken is exposed to.

For disclosures on risk management goals and guidelines, see note 37, “Risks and risk management – financial instruments and other risks”.

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Description of quantitative information

1 Total capital ratio
The capital base in relation to the risk-weighted amount of exposures shall amount to at least 8%.

2 Tier I capital ratio
Tier I capital in relation to the risk-weighted amount of exposures shall amount to at least 4%.

3 Capital adequacy quotient
By capital adequacy quotient is meant the capital base in relation to the total minimum capital requirement.

4 The capital base is broken down into Tier 1 capital and Tier 2 capital. In addition, tier 1 and tier 2 capital are reduced by any negative net result of actuarial gains and losses. Tier 1 capital shall amount to at least 50% of the sum of tier 1 and tier 2 capital. Tier 2 capital refers to perpetual and dated subordinated debt. Dated subordinated debt may not exceed 50% of tier 1 capital.

4.1 Tier 1 capital, gross, refers to equity according to the balance sheet as per 31 December including minority interests and the Board's proposed distribution of profits, which is reported in equity.

4.2 Tier 1 capital, net, refers to tier 1 capital, gross, less unrealised losses for shares classified as available-for-sale financial assets. Unrealised gains are included in tier 2 capital. Unrealised gains and losses pertaining to fixed-income securities classified as available-for-sale financial assets are excluded and not included in the capital base. Other deductions pertain to intangible assets and deferred tax assets.

4.3 Perpetual subordinated debt
According to the terms of agreement, the interest rate is determined in relation to the interest base, Stibor +1,25%. The loan has subordinated terms of payment and runs with no collateral pledged. Repayment of the debt is only possible in case the issuer is declared bankrupt or has entered into liquidation, or, after gaining permission from the Financial Supervisory Authority.

4.4 Dated subordinated debt
According to the terms of agreement, the interest rate is determined in relation to the interest base, Stibor +1.00%. The loan has subordinated terms of payment and runs with no collateral pledged.
The due date is 10 December 2018 for loans amounting to SEK 200 million and 16 December 2016 for loans amounting to SEK 100 million. In cases where the remaining term is less than five years, the amount that may be included in the capital base shall correspond to a maximum of 20% of the notional value for each remaining year. Repayment of the debt is only possible in case the issuer is declared bankrupt or has entered into liquidation, or, after gaining permission from the Financial Supervisory Authority.

5 By risk-weighted exposures is meant the assessed value of an exposure. By exposure is meant items on and off the balance sheet. Exposures within the group are included, excluding shareholdings in subsidiaries and cases where the counterparty is under the supervision of the Financial Supervisory Authority.
According to the regulations, the concept of risk-weighted exposures does not apply for foreign exchange rate risk and operational risk; instead, the capital requirement for these risks is determined explicitly. To illustrate the calculation of capital requirement, these risks have been converted to risk-weighted exposures.

6 The capital requirement refers to 8% of risk-weighted exposures.

7 In accordance with the Banking and Financing Business Act (2004:297), a banking stock corporation shall have an initial capital of at least EUR 5 million at the time it received its charter.

8 By exposure is meant exposures on the balance sheet after provisions for loan losses and off-balance sheet obligations.

9 Past due items refer to, in accordance with the Financial Supervisory Authority's regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1), loans that are more than 90 days past due. This means that, compared to definitions applied in the consolidated financial statements and accompanying notes, impaired loans are included in past due items in the table above. Non-performing loans that are more than 60 days past due are also stated as past due items in other notes.

37. RISKS AND RISK MANAGEMENT – FINANCIAL INSTRUMENTS AND OTHER RISKS

37.1 Goals and policy

All business is exposed to risks, and the goal and policy of Skandiabanken is to limit the effect of these risks on earnings. Skandiabanken has low risk tolerance, and all volume growth is conducted under controlled and cognisant risk-taking. The risk management practices are designed to maintain balance between risk and the return to the shareholders. This is achieved, for example, by using various financial instruments to reduce financial risk and actively managing risks through monitoring, continuous follow-up and control.

37.2 Risk organisation and governance

Board of Directors

Skandiabanken's board of directors is responsible for the overall governance and control of all risks in the bank's business, including financial and business risks as well as non-financial risks. This is achieved through the bank's internal rules, among other things. The Board's risk and audit committees are responsible for reviewing risk management and compliance within the bank, in accordance with the more detailed instructions issued by the Board of Directors. The CEO has an overarching view of risks and compliance, and is responsible for ensuring that risks are identified, managed and reported, and where necessary, for providing support to the operations for risk management. The CEO is also responsible for co-ordinating all risk reporting and compliance monitoring.

Special committees under the Board

The Board's risk and ICAAP committee, which is tasked with reviewing management's recommendations regarding risk, particularly with respect to the structure and implementation of Skandiabanken's Enterprise Risk Management (ERM) framework, which encompasses the quality and effectiveness of internal controls, risk appetite limits, risk profile and capital management. Thus all risk categories in the committee's area of responsibility are covered. What is specific for Skandiabanken's risk committee is that it also reviews and monitors the bank's internal capital adequacy assessment process (ICAAP). By ERM is meant the risk governance framework implemented for the bank, see point 37.3, "Delegation of risk responsibility – the three lines of defence".

The Board's **credit committee**, which is tasked with developing and improving the effectiveness of credit management and for making decisions on large credits. Together with the Asset & Liability Committee (ALCO) and Skandiabanken's Credit Committee (see below), the committee is also responsible for oversight and monitoring of credit risk.

Skandiabanken has had a **remuneration committee** since 2011. This committee is a permanent board committee tasked with conducting drafting work on issues regarding remuneration of employees of Skandiabanken. The remuneration committee is responsible for conducting an independent assessment of Skandiabanken's remuneration instructions and remuneration system. In addition, Skandiabanken's board has delegated certain duties to the remuneration committee, such as deciding on measures for following up the application of the remuneration instructions.

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The Board's audit committee, which is tasked with reviewing Skandiabanken's principles, policies and routines for financial reporting and for evaluating the extent to which the figures in the financial reporting meet the requirements of applicable rules and regulations. The committee is also responsible for supporting the Board in its responsibility to ensure the integrity of the financial reporting and for reviewing the independence and effectiveness of the bank's internal and external audit functions.

Operations

The risks in Skandiabanken's business shall be continuously identified, managed and reported to the heads of the respective product and process areas. The methodology used by Skandiabanken to identify and evaluate its risks is based on a risk self-assessment model, among other things. Internal Audit's annual audit plan is based on identified risks in the business activities.

Skandiabanken's investments as well as its market and liquidity risks are managed and monitored by Skandia's Treasury function, in accordance with an outsourcing agreement between Skandiabanken and Skandia, and in accordance with instructions issued by the bank's board of directors. Treasury has its own risk control unit, which is responsible for the daily monitoring and control of risks.

Special committees in the operations

Three committees work under the bank's management: the Asset and Liability Committee (ALCO); the Executive Risk, Internal Audit and Compliance Committee (SKERCC); and the Credit Committee.

ALCO reviews risks, risk management and the monthly risk reporting. In addition, the committee recommends the level of risk limits for the Board to decide on as well as methods for risk measurement and the allocation of internal capital among the businesses. ALCO is composed of the following members: the CEO, the Administrative Deputy CEO, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), and the Head of Risk Management and Analysis.

The **Executive Risk, Internal Audit and Compliance Committee (SKERCC)** monitors risk management, risk control and compliance. The committee supports the CEO and the Board's risk and ICAAP committee in understanding the exposure and management of all risk categories and compliance issues within Skandiabanken. SKERCC is composed of the following members: the Chief Risk Officer (CRO), the Chief Compliance Officer (CCO), the Head of Internal Audit and the Head of Governance. The committee also includes risk category owners, including the Administrative Deputy CEO, the Chief Financial Officer (CFO), the Head of Operations Sweden, and the Head of Strategy and Change.

The **Credit Committee** makes decisions on credit issues, performs credit analyses, and addresses credit-related compliance issues and decision-making criteria for lending. The Credit Committee is composed of the CEO, the Administrative Deputy CEO, the Head of Credits, the Head of Operations Norway, and the Head of Products and Process Bank.

ALCO and SKERCC meet 4-12 times a year, and the Credit Committee meets monthly.

Function for managing risk and compliance in the business activities

The unit for managing risk and compliance in the bank works closely with the various business units and is part of the first line of defence. The function for risk management follows up and supports responsible persons in the line organisation with risk assessments – both with respect to individual transactions as well as for the operations as a whole – and is also responsible for the handling and reporting of incidents and events. Compliance follows up the bank's management of compliance risks by supporting responsible persons in the line organisation in handling and complying with external and internal rules and regulations. The unit reports to the bank's management as well as to the functions for independent risk and compliance control.

Risk Management and Analysis unit

The Risk Management and Analysis (RMA) unit is tasked with developing and maintaining the bank's risk measurement models. The unit is thus responsible for ensuring that risks are measured in a suitable manner and that the bank's management receives regular reports and analyses on the current risk situation.

Functions for managing risk and compliance in activities outsourced under outsourcing agreements

The Treasury, Security, Legal, HR and IT units, and a large part of the Finance department, are handled by the parent company Skandia under an outsourcing agreement between Skandiabanken and Skandia as well as in accordance with instructions issued by Skandiabanken's board of directors. The parent company's risk control unit is responsible for the continuing follow-up of risk in the outsourced units.

Independent Risk and Compliance Control – outsourcing agreement with the parent company Skandia

The CRO, the Independent Risk Control unit, the CCO and the Compliance Control unit are responsible – each individually – for producing and providing the Board, management and affected parts of the operations comprehensive, all-encompassing and factual information and analyses of the bank's risks and compliance, and for exercising control and challenging the operations with respect to the risk scenario that is reported to the CEO and the Board.

The Independent Risk Control function has a designated Chief Risk Officer (CRO) for Skandiabanken, who reports directly to Skandiabanken's board and CEO. Similarly, the Independent Compliance Control unit has a designated Chief Compliance Officer (CCO) for Skandiabanken, who reports directly to Skandiabanken's board and CEO.

Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process analyses all of the risks that the bank is or could be exposed to. Stress tests and scenario analyses are based on the conditions prevailing during a recession. This aggregate risk assessment then forms the base for the capital planning. This entails that the bank retains capital for the risks that the bank is believed to be exposed to, how risks are managed, and in view of the risk organisation described above.

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37.3 Delegation of risk responsibility – three lines of defence

Risk responsibility at Skandiabanken

Skandiabanken's risk management is based on three lines of defence and is the starting point for the bank's model for risk management, risk control and compliance. The model focuses on the division of responsibility for risk and compliance within the bank. It also distinguishes between the functions that own and manage risks and compliance (the first line), the functions that monitor and independently control risks and compliance (the second line), and the functions for independent review that provide independent assurance (the third line). Following is an overview of the duties and responsibilities of the respective lines of defence.

	Board of Directors		
	Executive		Non-executive
	First line of defence	*Second line of defence*	*Third line of defence*
What it covers	• Risk management (identify/ manage, measure/follow up and report risks) • Risk management strategy • Determine risk appetite and set limits (in consultation with the second line) • Maintain an awareness of risks and complaints in the business • Compliant and risk-aware operating practices • Tone at the top and clearly exhibited responsibility for risk and compliance	• Clear and well communicated risk policies • Implement effective models/ systems • Training • Reporting of aggregate risk scenario • Validate • Feedback • Co-ordinate risk strategy	• Independent testing/validation of the effectiveness of risk management processes and activities
Responsibility	The business head or person who, according to internal/external rules, job description or work duties, owns and manages the risk, such as: • CEO • All management levels • All employees	The person who, according to internal/external rules, job description or work duties, is responsible for controlling risk, such as: • CEO • Control functions, such as Risk and Compliance	• Internal Audit • External Audit • Board sub-committees for audit and risk

First line of defence

As the first line of defence, the Board sets the bank's risk tolerance, approves the strategy for managing risk and is responsible for the bank's system of internal control. It is in the first line of defence that the risk owners for the various risk categories exist. Skandiabanken's CEO, supported by the Executive Management Team, has overall responsibility for the management of risks facing the bank. Management and staff have the primary responsibility for managing risk and compliance, i.e., they are responsible for taking a risk inventory and for regularly reporting and managing risks and violations of internal or external rules and regulations, and for writing and implementing policy documents, instructions and/or guidelines adapted to the business unit.

Second line of defence

The second line of defence is the part of operations that performs independent control of risks and compliance as well as oversight of the first line of defence. The second line of defence is responsible for ensuring that routines, methods and tools for management and control of risks and compliance are on hand. The second line of defence also performs supporting duties when needed, such as training, workshops, information and advice. However, the second line of defence may never perform services or conduct business that it oversees itself.

The work of the second line of defence is regulated by a framework for risk management and compliance within the bank that has been adopted by the CEO, which clarifies roles, responsibilities and reporting requirements for these units. The aim of the framework is to continuously further develop and streamline the work on risk management, risk control and compliance through joint processes throughout the bank, and to shore up independence from the operative activities, which are the first line of defence. Various committees exist within Skandiabanken in which the various risk categories are discussed. These include, among others, the Asset & Liability Committee (ALCO), the Executive Risk, Internal Audit and Compliance Committee (SKERCC) and the Credit Committee.

Third line of defence

The functions in the third line of defence shall provide independent, objective assurance to the Board of the effectiveness of the bank's risk management, risk control and compliance. This is handled by Skandiabanken's Internal Audit unit, by the Board's audit committee, and by the external auditors.

Risk management in the parent company Skandia

Skandiabanken's risk management is affected by the risk management framework established for the entire Skandia group.

37.4 Credit risk and credit quality

Credit risk pertains to the risk that individuals, companies, financial institutions or other parties will be unable to meet their obligations and that any collateral will be insufficient to cover the bank's receivable.

Governance of credit risk

Overall responsibility for Skandiabanken's credit risk rests with the CEO. Changes in policies and limits are revised at least once a year by the bank's Credit Committee, which decides on lending matters, addresses credit-related regulatory matters and decision-making criteria for lending, and serves as the first line of defence. All risk appetite limits and policy changes are decided by the Board of Directors. The CEO has delegated responsibility for credit risk to the Head of Credits at Skandi-

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abanken. Overall governance of credit risk is also monitored by the Board's credit committee and risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Policy for managing and measuring credit risk

Management of credit risk depends on whether the credit risk stems from lending to the general public in the form of retail exposures or from investments of surplus liquidity.

The bank's lending to the general public consists of retail exposures to private individuals, primarily in the form of home mortgages secured by real estate or tenant-owner rights, instalment loans, personal loans, lines of credit, credit card credits and custody account lending. Loan receivables such as personal loans, lines of credit and credit card credits consist primarily of a large number of homogeneous loans with limited amounts and a large spread of risk. Risk is managed by assessing all loan applications based on an evaluation of the applicant's ability to pay, his/her financial situation, and the value of the collateral pledged. Risk is further managed by taking into account the borrower's total business with the bank, including obligations of any co-signers. The assessment is for the most part handled through an automated system based on a credit scoring computer program. Skandiabanken's management of credit risks for retail exposures is intended to reduce loan losses, and the objective is that loan receivables will consist – as far as possible – of a large number of credits with low and diversified risk. The following table shows the low level of credit risk for lending to the general public. The credit risk amounted to SEK 53 billion (54) before taking market-valued collateral into account and SEK 3 billion (3) after taking collateral into account.

Skandiabanken's deposits are greater than its lending, and the surplus generates surplus liquidity, which is invested in short-term lending and fixed-income securities with counterparties consisting of governments, institutions and companies. Risk is managed by assessing the exposures based on an evaluation of the counterparty's ability to pay, financial situation, and the value of the collateral pledged. In contrast to retail exposures, assessment of the creditworthiness of counterparties is always done through a manual process. When determining credit limits, the counterparty's total business with the bank is considered, including related counterparties. The holdings have good credit quality, and the credit ratings for the holdings are shown in the following table. Apart from the fact that the holdings consist of securities with good credit quality and that guarantees of SEK 1 billion (1) have been received from governments with triple A ratings, covered bonds accounted for 33% (45%) of total portfolio assets. Covered bonds entail that the exposures are secured through some form of lien, which reduces the credit risk. The secured bonds that Skandiabanken has are secured by mortgage deeds for residential properties. A large share of the surplus liquidity constitutes the bank's liquidity reserve. For further information, see below under point 37.6, “Liquidity risk”.

Concentration risks pertain to risks attributable to financial instruments with similar characteristics and which may be affected in a similar way by changes in the external environment. Skandiabanken monitors concentrations from various perspectives, such as geographic distribution per country and within each country, and large exposures to individual customers and groups of customers that are related to each other. The breakdown of total credit risk exposure by key financial instruments amounted to 64% (73%) for mortgage loans for private individuals (primarily in major metropolitan areas), exposures to credit institutions 17% (13%), other retail credits 11% (10%), government and municipal exposures 7% (3%), and exposures to corporates regarding investments 1% (1%). See the following table for credit risks. A breakdown of credit exposure for loan receivables in the retail market by geographic area was 51% (51%) in Norway and 49% (49%) in Sweden. See note 15, Lending to the general public.

Counterparty risk is included in credit risk and pertains to the risks associated with changes in the market value of derivatives, repurchase transactions and securities loans, of which risks associated with interest and currency derivatives are applicable for the bank. The positive market value plus an amount for possible risk changes constitutes the bank's potential, total exposure to counterparty risk in the event of a bankruptcy. When calculating counterparty risk for capital adequacy purposes, the market valuation method is used, and an amount for possible risk changes is added. By possible risk changes is meant an amount that will represent the possibility that the positive market value will rise during the term. The amount for possible risk change is calculated by multiplying the contract's nominal amount by a risk factor. The risk factor is dependent on the term and type of derivative instrument.

The method for setting credit limits for derivatives reflects the applicable internal processes for lending. The method is based on the corresponding calculation that is done for capital adequacy purposes. The reason why the amount for possible risk changes is included in the credit process is that the fair value of derivative can increase quickly in connection with changes in interest rates and exchange rates. No netting agreements have been entered into, and no collateral has been pledged to reduce the counterparty risk. The total counterparty exposure amounted to SEK 53 million (79), of which SEK 23 million (51) is reported on the balance sheet and SEK 30 million (28) off the balance sheet. Disclosures of credit risks are provided in the following table.

Cont. note 37

Credit exposure, gross and net

	2011			2010		
	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral
Lending to the general public						
- Real estate	3	3	—	3	3	—
- Other	14	14	—	16	16	—
Corporates	**17**	**17**	**—**	**19**	**19**	**—**
- Vehicle financing	1,027	1,348	—	917	1,212	—
- Houses, vacation homes and apartments	41,643	134,918	472	42,442	123,094	—
- Tenant-owner apartments	7,492	16,742	23	7,363	17,121	—
- Other	2,234	294	1,940	2,243	88	2,154
Private individuals	**52,396**	**153,302**	**2,435**	**52,965**	**141,515**	**2,154**
Public sector/Swedish National Debt Office	**980**	**—**	**980**	**1,000**	**—**	**1,000**
Total lending to the general public	**53,393**	**153,319**	**3,415**	**53,984**	**141,534**	**3,154**
Lending to credit institutions[2]						
- AAA	1,670	—	1,670	—	—	—
Governments	**1,670**	**—**	**1,670**	**—**	**—**	**—**
- AA	41	—	41	164	—	164
- A	277	—	277	180	—	180
- No rating	25	—	25	28	—	28
Institutions	**343**	**—**	**343**	**372**	**—**	**372**
Total lending to credit institutions[1,2]	**2,013**		**2,013**	**372**	**—**	**372**
Fixed-income securities						
- AAA	1,948	1,159	789	806	806	806
- AA	1,300	—	1,300	—	—	—
- BBB	—	—	—	394	394	394
- No rating	834	—	834	397	—	397
Governments and municipalities	**4,082**	**1,159**	**2,923**	**1,597**	**1,200**	**1,597**
- AAA	8,108	—	8,108	4,246	—	4,246
- AA	2,146	—	2,146	4,489	—	4,489
- A	3,279	—	3,279	290	—	290
- BBB	382	—	382	333	—	333
- No rating	1,421	—	1,421	1,140	—	1,140
Institutions	**15,336**	**—**	**15,336**	**10,498**	**—**	**10,498**
- AAA	—	—	—	—	—	—
- AA	200	—	200	200	—	200
- No rating	—	—	—	80	—	80
Corporates	**200**	**—**	**200**	**280**	**—**	**280**
Total fixed-income securities[1,3]	**19,618**	**1,159**	**18,459**	**12,375**	**1,200**	**12,375**
Derivatives						
- No rating	23	—	23	51	—	51
Total derivatives, corporates[1]	**23**	**—**	**23**	**51**	**—**	**51**
Total on balance sheet	**75,047**	**154,478**	**23,910**	**66,782**	**142,734**	**15,952**
Derivatives, possible change in risk	30	—	30	28		28
Unutilised part of granted overdraft facilities	6,510	—	6,510	5,841	—	5,841
Other credit commitments	9,971	—	9,971	13,845	—	13,845
Total off balance sheet	**16,511**	**—**	**16,511**	**19,714**	**—**	**19,714**
Total	**91,558**	**154,478**	**40,421**	**86,496**	**142,734**	**35,666**

By credit exposure is meant receivables and other investments, including loans, securities, derivatives and off-balance sheet loan commitments. Shares and tangible and intangible assets are not included.

[1] Ratings from Standard and Poor's, Moody's and Fitch. Exposures are grouped in the table above according to the credit ratings of the respective securities. Where such are lacking, the counterparties' credit ratings are used, and in cases where the exposure is guaranteed, the credit rating of the party that issued the guarantee is used. A few exposures to institutions and corporates are backed by government or municipal guarantees; these are included in the latter category.

[2] Lending to credit institutions comprises receivables from central banks and credit institutions with set maturities. Deposits with central banks that can be accessed at any time are included in cash and cash balances with central banks.

[3] Fixed-income securities are classified as available-for-sale financial assets.

Cont. note 37

Breakdown of collateral for lending to the general public

Collateral is used to reduce credit risk. To reduce credit risk and concentration risk related to loan receivables, the bank has collateral in the form of mortgage deeds or tenant-owner rights for mortgage loans, while in the Norwegian operations, mortgage deeds are also held for instalment loans. For custody account lending, collateral is held in the form of stocks. Information on the value of the collateral is provided in the table “Breakdown of collateral for lending to the general public”. External market valuations of the collateral have been obtained for mortgage deeds for mortgage lending in the Norwegian operation. For the Swedish operation and for mortgage lending, market valuations have been obtained externally as well as through an internal valuation model. Surety bonds are presented in their nominal amounts. See the table below for a breakdown of the various categories of collateral.

2011	Mortgage deeds	Surety	Other collateral	Total value of collateral	Value of collateral for non-performing loans	Value of collateral for impaired loans
- Real estate	3	—	—	3	—	—
- Other	—	—	14	14	0	—
Total corporates	**3**	**—**	**14**	**17**	**0**	**—**
- Vehicle financing	1,347	—	—	1,347	—	—
- Houses, vacation homes and apartments	134,897	—	21	134,918	1,254	54
- Tenant-owner apartments	—	—	16,742	16,742	220	—
- Other	24	46	225	295	2	—
Total, private individuals	**136,268**	**46**	**16,988**	**153,302**	**1,476**	**54**
Total collateral	**136,271**	**46**	**17,002**	**153,319**	**1,476**	**54**
2010						
- Real estate	3	—	—	3	—	—
- Other	—	—	16	16	0	—
Total corporates	**3**	**—**	**16**	**19**	**0**	**—**
- Vehicle financing	1,212	—	—	1,212	—	—
- Houses, vacation homes and apartments	123,073	—	21	123,094	1,156	28
- Tenant-owner apartments	—	0	17,120	17,121	209	—
- Other	22	45	22	88	3	—
Total, private individuals	**124,307**	**45**	**17,163**	**141,515**	**1,368**	**28**
Total collateral	**124,310**	**45**	**17,179**	**141,534**	**1,368**	**28**

Collateral received for fixed-income securities – liquidity buffer

Credit risk protection exists in the form of guarantees received for certain credit exposures attributable to the liquidity buffer. Guarantees received have been issued by governments or municipalities in the EEA countries that have credit quality steps corresponding to AAA. The protection is direct and it is clearly evident from the guarantees which exposures are covered. The contracts are binding in the pertinent jurisdictions. Changes cannot be made in the protection, and the protections are irrevocable. The guarantee amount shall cover the entire exposure amount. The handling requirements for these guarantees entail that the bank has set guidelines associated with the overall strategy for risk management and specifically with respect to guidelines for exposures attributable to the liquidity buffer. Follow-up of credit risks that have guarantees included is done gross and net. This entails that credit risk and concentrations of credit risk are assessed for the exposure before and after including the credit risk protection.

	2011		2010	
	Inflow	Outflow	Inflow	Outflow
Exposures to governments and central banks	931	—	1,203	—
- of which, Danish government	*931*	—	*808*	—
- of which, Irish government		—	*395*	—
Exposures to municipalities	232	—	—	—
Exposures to institutions	—	-1,132	—	-1,022
Exposures to corporates	—	-31	—	-181
Total	**1,163**	**-1,163**	**1,203**	**-1,203**

The difference in the value of collateral, SEK 4 thousand (3), compared with the credit risk table pertains to accrued interest. By inflow is meant counterparties that have issued guarantees, i.e., government and municipal guarantees with a credit quality corresponding to AAA. By outflow is meant counterparties to the exposures that have been guaranteed.

Credit quality

Lending to the general public amounted to SEK 53 billion (54), excluding loans to the Swedish National Debt Office. The level of loan losses, i.e., loan losses in relation to total lending to the general public, was 0.06% (0.9%). Impaired loans, net, i.e., impaired loans after deducting provisions for probable loan losses, amounted to 0.15% (0.09%) of lending. Non-performing loans for which full collateral exists are presented and grouped according to maturity in the following table. For a more detailed description of non-performing loans and impaired loans, see note 1, Accounting policies. Disclosures of lending and provisions broken down into Sweden and Norway are provided in note 15, Lending to the general public.

For disclosures of credit quality relating to lending to credit institutions and fixed-income securities, see the description of the liquidity buffer below under point 37.5.4, Liquidity risk. Exposures to credit risk broken down into various risk classes are shown in note 36, Information on capital adequacy, c) Minimum capital requirement.

Cont. note 37

Non-performing loans[1]

31 December 2011	60 days or less	>60 days <90 days	>90 days <180 days	>180 days <360 days	>360 days	Total
Corporates						
- Other	0	–	–	–	–	0
Corporates	**0**	**–**	**–**	**–**	**–**	**0**
Private individuals						
- Vehicle financing	47	–	–	–	–	47
- Houses, vacation homes and apartments	1,207	17	13	15	2	1,254
- Tenant-owner apartments	213	1	4	2	0	220
- Other	74	1	0	0	0	75
Private individuals	**1,541**	**19**	**17**	**17**	**2**	**1,596**
Total lending to the general public	**1,541**	**19**	**17**	**17**	**2**	**1,596**
31 December 2010						
Corporates						
- Other	0	–	–	–	–	0
Corporates	**0**	**–**	**–**	**–**	**–**	**0**
Private individuals						
- Vehicle financing	31	–	–	–	–	31
- Houses, vacation homes and apartments	1,127	5	12	9	2	1,155
- Tenant-owner apartments	203	3	3	0	0	209
- Other	52	0	0	0	0	52
Private individuals	**1,413**	**8**	**15**	**9**	**2**	**1,447**
Total lending to the general public	**1,413**	**8**	**15**	**9**	**2**	**1,447**

[1] Pertains to non-performing loans for which full collateral exists and which consequently are not impaired loans.

Osäkra fordringar

	Impaired loans before provisions		Provisions	
	2011	**2010**	**2011**	**2010**
Private individuals				
- Vehicle financing	5	2	3	2
- Houses, vacation homes and apartments	91	55	35	26
- Other	117	109	95	89
Private individuals	**213**	**166**	**133**	**117**
Lending to the general public	**213**	**166**	**133**	**117**

Modified loans

Modified loans exist when the bank has granted a concession due to the borrower's deteriorated financial situation or when the borrower encounters other financial problems. Skandiabanken does not have any modified loans as per 31 December 2010 and 31 December 2011.

Utilisation of collateral

Skandiabanken has not utilised any collateral obtained that meets the criteria to be reported as an asset on the balance sheet as per 31 December 2010 and 31 December 2011.

37.5 Market risk

Market risk pertains to the risk that the fair value of a financial instrument or future cash flow from a financial instrument will be affected by changes in market prices.

Skandiabanken is exposed to market risks in the form of interest rate risks, currency risks, and other price risks.

37.5.1 Interest rate risk and net interest risk

Interest rate risk arises when the fixed-interest periods for assets, liabilities and derivative instruments do not coincide, and the fair value or future cash flows are affected by changes in market interest rates

Governance of interest rate risk

Overall responsibility for Skandiabanken's interest rate risk lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with ALCO, which is responsible for conducting monthly oversight of interest rate risk and serves as the first line of defence. In addition, ALCO recommends the level of risk limits to the Board for decision as well as risk measurement methods.

The CEO has delegated responsibility for interest rate risk to the CFO of Skandiabanken. The CFO, in turn, has delegated the management of interest rate risk to Skandia's central Treasury department, in accordance with a separate agreement with the parent company Skandia. Overall governance of interest rate risk is also monitored by the Board's risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Policy for managing and measuring interest rate risk

Skandiabanken's low sensitivity to interest rate risk is aligned with the objective that the income statement should reflect actual banking activities as far as possible and be affected only to a limited extent by external factors, such as temporary fluctuations in market interest rates.

Most of Skandiabanken's deposits and lending after risk coverage is short-term, which means that the interest rates can be adjusted if the situation in the money markets so requires. The interest rate

Cont. note 37

risk that arises from home mortgage loans at fixed rates of interest is reduced through interest rate swaps. Interest rate risk associated with investments in fixed-income securities is reduced by maintaining a higher level of deposits at fixed interest rates.

The effects that any changes in market interest rates have on a bank's earnings are determined by the periods of fixed interest for the bank's assets and liabilities. The longer the period of fixed interest, the greater the chance that the market interest rates will change before the end of the fixed period of interest and the longer a change in interest rates has time to bear an impact on the income statement before compensation can be received. Different periods of fixed interest have therefore been assigned different risk weights in the table below, based on the estimated sensitivity in the value of assets and liabilities to interest rate changes. Periods of fixed interest ranging from one to three months have been assigned a weight of 0.16%, and the longer the period of fixed interest, the higher the risk weight assigned to the volume. The calculation pertains to interest rate risk for all positions outside of the trading account and is done separately for the respective currencies. Translation is done at the exchange rate in effect on the balance sheet date, and a net summation is done thereafter to the total interest rate risk.

The calculation represents a standardised approximation of fixed-interest assets and liabilities, and disclosures are presented for non-interest bearing assets, liabilities and equity. The interest rate risk is low since the overwhelming majority of the group's balance sheet can be interest rate–adjusted, has been hedged through swap contracts, or is covered by financial hedges. An immediate and permanent change in market interest rates by 1 percentage point would result in a theoretical change in the valuation of the balance sheet by approximately SEK 8 million (10), net, for the group, see the tables below.

Hedging strategy for interest rate risks

Currently the guiding principle for Skandiabanken is to hedge lending in Sweden at fixed interest rates using interest rate swaps. This hedging is done using the 2-month Stibor rate as the adjustable rate, which provides sufficient protection for the fixed interest periods that are usually referred to as the "general level of interest rates". This hedging is done monthly unless the volume differs from the normal. During the current month an unhedged balance accumulates, but it is not large enough to warrant a change in the hedging period.

Interest rate risk attributable to holdings of fixed-income securities is reduced by offsetting interest rate risk through deposits at fixed rates of interest – also referred to as economic hedges.

Risk management strategy for hedge accounting

Skandiabanken's risk management strategy for hedge accounting is based on a monthly adjustment of the nominal value of the hedge instruments (derivatives) to reflect the interest risk exposure in the hedged item (lending at fixed interest rates). The hedging strategy includes a monthly assessment of the effectiveness of the hedge and an evaluation of the outcome of the hedge. The hedged item pertains to the interest rate risk associated with mortgage loans at fixed rates of interest. The effectiveness of the hedge is estimated and measured monthly by dividing the portfolio into interest rate adjustment periods. For further information on hedge accounting, see note 1, Accounting policies, Financial instruments", item (e) "Hedge accounting".

Cont. note 37

Interest rate risk – Interest rate fixing periods for assets and liabilities

31 December 2011 **Assets**	**0-1 month**	**1-3 mos**	**3-6 mos**	**6-12 mos**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**5-7 yrs**	**Non-interest**	**Total**
Interest-bearing assets											
Cash	691	—	—	—	—	—	—	—	—	—	691
Treasury bills and other eligible bills	150	2,291	—	—	—	—	—	—	—	—	2,441
Lending to credit institutions	1,948	40	—	—	—	—	—	—	—	—	1,988
Lending to the general public	8,378	37,621	822	1,396	3,309	600	1,058	207	1	—	53,392
Financial assets at fair value	—	—	3	6	22	15	27	5	—	—	78
Financial assets available for sale	4,601	12,450	126	—	—	—	—	—	—	—	17,177
Total interest-bearing assets	**15,768**	**52,402**	**951**	**1,402**	**3,331**	**615**	**1,085**	**212**	**1**	**—**	**75,767**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	1,000	1,000
Total assets	**15,768**	**52,404**	**951**	**1,402**	**3,331**	**615**	**1,085**	**212**	**1**	**1,000**	**76,767**
Interest-bearing liabilities											
Deposits and borrowing from the general public	28,981	39,957	1,354	476	159	114	68	127	—	—	71,236
Financial liabilities at fair value	—	1	3	5	20	17	34	3	—	—	83
Subordinated liabilities	—	1,200	—	—	—	—	—	—	—	—	1,200
Total interest-bearing liabilities	**28,981**	**41,158**	**1,357**	**481**	**179**	**131**	**102**	**130**	**—**	**—**	**72,519**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	4,248	4,248
Total liabilities and equity	**28,981**	**41,158**	**1,357**	**481**	**179**	**131**	**102**	**130**	**—**	**4,248**	**76,767**
Interest rate swaps											
Short positions	4,285	4,585	—	—	—	—	—	—	—	—	8,870
Long positions	450	1,740	650	1,480	2,655	610	1,210	75	—	—	8,870
Difference, assets and liabilities	**-9,378**	**14,091**	**-1,056**	**-559**	**497**	**-126**	**-229**	**7**	**1**	**-3,248**	**—**
Risk weight %	0.040	0.160	0.360	0.715	1.385	2.245	3.070	3.855	5.075	0.00	—
Risk-weighted net exposures 2011	**-3.75**	**22.54**	**-3.80**	**-4.00**	**6.87**	**-2.84**	**-7.01**	**0.29**	**0.05**	**—**	**8.35**
Cumulative interest rate sensitivity	-9,378	4,713	3,657	3,098	3,595	3,469	3,240	3,247	3,248	—	—

Cont. note 37

31 December 2010 Assets	0-1 month	1-3 mos	3-6 mos	6-12 mos	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-7 yrs	Non-interest	Total
Interest-bearing assets											
Cash	483	—	—	—	—	—	—	—	—	—	483
Lending to credit institutions	335	1	—	—	—	—	—	—	—	—	336
Lending to the general public	8,786	38,728	656	1,504	2,094	1,030	115	1,070	1	—	53,984
Financial assets at fair value	-2	-4	-5	-7	31	30	4	8	—	—	55
Financial assets available for sale	3,982	8,393	—	—	—	—	—	—	—	—	12,375
Total interest-bearing assets	**13,584**	**47,118**	**651**	**1,497**	**2,125**	**1,060**	**119**	**1,078**	**1**	**—**	**67,233**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	868	868
Total assets	**13,584**	**47,118**	**651**	**1,497**	**2,125**	**1,060**	**119**	**1,078**	**1**	**868**	**68,101**
Interest-bearing liabilities											
Liabilities to credit institutions	—	—	—	—	—	—	—	—	—	—	—
Deposits and borrowing from the general public	28,311	33,837	222	189	131	78	69	52	1	—	62,890
Financial liabilities at fair value	1	7	4	8	28	0	0	1	—	—	49
Subordinated liabilities	—	1,200	—	—	—	—	—	—	—	—	1,200
Total interest-bearing liabilities	**28,312**	**35,044**	**226**	**197**	**159**	**78**	**69**	**53**	**1**	**—**	**64,139**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	3,962	3,962
Total liabilities and equity	**28,312**	**35,044**	**226**	**197**	**159**	**78**	**69**	**53**	**1**	**3,962**	**68,101**
Interest rate swaps											
Short positions	3,230	3,580	—	—	—	—	—	—	—	—	6,810
Long positions	200	370	595	1,250	2,130	1,025	120	1,120	—	—	6,810
Difference, assets and liabilities	**-11,698**	**15,284**	**-170**	**50**	**-164**	**-43**	**-71**	**-94**	**—**	**-3,094**	**—**
Risk weight, %	0.040	0.160	0.360	0.715	1.385	2.245	3.070	3.855	—	0.00	—
Risk-weighted net exposures 2011	**-4.68**	**24.45**	**-0.61**	**0.36**	**-2.27**	**-0.97**	**-2.15**	**-3.66**	**—**	**—**	**10.47**
Cumulative interest rate sensitivity	-11,698	3,586	3,416	3,466	3,302	3,259	3,188	3,094	—	—	—

The Swedish Financial Supervisory Authority prescribes that a calculation shall be made to determine what impact a 2 percentage point change in the general level of interest rates would have on the economic value, by which is meant the present value of future cash flows. In cases where the economic value decreases by more than 20% in relation to the capital base, the institution is required to submit an action plan to the Swedish FSA on how it intends to reduce the risk. As per 31 December 2011 the interest rate risk, based on a 2 percentage point change, amounted to SEK 17 million (21). In relation to the capital base, which amounted to SEK 3,953 million (3,805), this is 0.42% (0.52%).

Net interest income risk

Net interest income risk is a measure defining the sensitivity of net interest income based on changes in market interest rates during the next twelve months. The calculation consists of interest-bearing assets and liabilities which are about to mature or are to be interest-adjusted within a year. An immediate and permanent change in the market interest rate by 1 percentage point is estimated to have an effect on net interest income by SEK 20 million (14).

Both measures/models described above for calculation of interest rate sensitivity, i.e., interest rate risk and net interest income risk, indicate an estimation of the effect a one percentage point change in market interest rates would have on the balance sheet or net interest income. However, there is a threshold for how low deposit interest rates can fall, since they can never be negative.

Cont. note 37

37.5.2 Currency risk

Currency risk arises through a mismatch of assets and liabilities in foreign currencies and when the fair value or cash flows are affected by changes in exchange rates.

Governance of currency risk

Overall responsibility for Skandiabanken's currency risk lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with ALCO, which is responsible for conducting monthly oversight of interest rate risk and serves as the first line of defence. In addition, ALCO recommends the level of risk limits to the Board for decision as well as risk measurement methods.

The CEO has delegated responsibility for currency risk to the CFO of Skandiabanken. The CFO, in turn, has delegated management of interest rate risk to Skandia's central Treasury department, in accordance with a separate agreement with the parent company Skandia. Overall governance of currency risk is also monitored by the Board's risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Policy for managing and measuring currency risk

Skandiabanken is exposed to currency risk primarily through deposits and lending to its branches. Skandiabanken's policy is to hedge all items pertaining to deposits and lending between the Swedish operations of the parent company and the Norwegian branch by using currency swaps.

Currency risk exposure also arises when trading for customers in mutual funds and equities in the international foreign exchange markets. The Swedish banking operation handles trading for Norwegian customers in mutual funds and equities as well as other customer activities involving bank transactions, which also entails exchange rate exposure in the Swedish operations. In addition, exposure arises from other customer activities involving bank transactions. Exposures are hedged using currency forwards to reduce currency risk.

Earnings of foreign operations are not hedged by Skandiabanken. The liability for these currency positions lies with Old Mutual plc.

Currency risk is calculated for all exposures in foreign currencies pertaining to assets, liabilities and off-balance sheet items. The positions are measured at fair value and are translated to SEK using the exchange rate in effect on the balance sheet date. The continuing result for the year attributable to foreign operations is taken into account in position calculations regarding currency risk. This entails that net exposure to currency risk on 31 December amounted to SEK 134 million (156). A change in value of the Swedish krona by 5 percentage points would affect equity by SEK 7 million (8). Most of the currency risk arises from exposure in Norwegian kronor and pertains to the branch's profit for the year. This means that the corresponding sensitivity analysis for calculation of the effect on the income statement results in a corresponding outcome, i.e., SEK 7 million (8).

Positive translation differences increased profit by SEK 1 million (-72) and pertain to exchange rate differences that arise when translating the financial statements of foreign operations to the group's reporting currency.

Assets and liabilities distributed among important currencies

	2011				2010			
Assets	SEK	NOK	Other curren-cies	Total	SEK	NOK	Other curren-cies	Total
Cash and cash balances with central banks	6	685	5	696	7	483	3	493
Lending to credit institutions	281	1,714	18	2,013	304	59	9	372
Lending to the general public	26,409	26,984		53,393	26,694	27,290	—	53,984
Fair value changes of hedged items in a portfolio hedge	68	—	—	68	5	—	—	5
Financial assets at fair value	34	—	—	34	61	0	—	61
Financial assets available for sale	8,933	10,685	26	19,644	6,176	6,199	18	12,393
Financial assets held to maturity	15	—	—	15	0	—	—	0
Other assets	327	547	30	904	382	382	29	793
Total assets	**36,073**	**40,615**	**79**	**76,767**	**33,629**	**34,413**	**59**	**68,101**
Liabilities to credit institutions	35	7		42	47	5	—	52
Deposits and borrowing from the general public	33,096	38,164	42	71,302	30,727	32,216	26	62,969
Financial liabilities at fair value	83	—	—	83	49	—	—	49
Liabilities attributable to assets held to maturity	112	—	—	112	—	—	—	—
Other liabilities including equity	3,441	1,778	9	5,228	3,493	1,511	27	5,031
Total liabilities and equity	**36,767**	**39,949**	**51**	**76,767**	**34,316**	**33,732**	**53**	**68,101**
Net exposure per currency	**-694**	**666**	**28**	**—**	**-687**	**681**	**6**	**—**

37.5.3 Other price risks

Other price risks refer to the risk that the fair value of a financial instrument or future cash flows from a financial instrument will be affected by changes in market prices.

Other price risks than those pertaining to exchange rate movements, which are described above under point 37.5.2, "Currency risk", and which affect the fair value of financial instruments, pertain to share price risk, risk for positions in mutual funds, credit spreads and interest. Depending on the classification of the financial instrument, changes in fair value are reported in the income statement or, alternatively, in other comprehensive income.

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The bank has a marginal trading account of SEK 1 million (1) in stocks and mutual funds, which gives a very limited price risk, with changes in value stated through profit or loss. Other shareholdings for which changes in value are reported through profit or loss amounted to SEK 9 million (9). Taken together, profit was affected by SEK 0 million (-3) regarding shareholdings and mutual funds stated at fair value through profit or loss.

Shareholdings classified as “Available-for-sale financial assets” amounted to SEK 26 million (18). Unrealised changes in value amounted to SEK 8 million (-4) and are reported in “Other comprehensive income”. Capital gains/losses are reported in the income statement. No divestments were made during the year.

Holdings of fixed-income securities are classified as “Available-for-sale financial assets” and are thus stated at fair value. These holdings amounted to SEK 19.6 billion (12.4). Unrealised changes in value are reported in “Other comprehensive income” and amounted to SEK 19 billion (-52). The positive change in value is mainly attributable to that fact that securities holdings, which in previous valuations resulted in unrealised losses, have been held to maturity and thus no realised gain arose. A further explanation is lower credit spreads in the financial instruments. Realised changes in value amounted to SEK 2 million (23) and are reported in the income statement. A change in market interest rates by +/- 0.5 percentage point would, as an estimate, result in an unrealised change in value of SEK 19 million (8) in the current portfolio as per 31 December 2011.

37.6 Liquidity risk

Liquidity risk is the risk of not being able to meet payment obligations on the due date without a substantially elevated cost of obtaining means of payment. The risk also entails that available liquid assets will be insufficient to meet changed market conditions, liabilities, funding of asset purchases, or an increase in customers’ demands for cash. This includes the possibility of disruptions in the market which cause normally liquid assets to become illiquid, and the risk that counterparties will withdraw or now roll over funding arrangements.

Governance of liquidity risk

Overall responsibility for Skandiabanken’s liquidity and funding lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with the Asset and Liability Committee (ALCO), which is responsible for monthly oversight of liquidity and financing risk, and serves as the first line of defence. All risk appetite limits and policy changes are decided by the Board of Directors. The CEO has delegated responsibility for liquidity risk to the CFO of Skandiabanken. The CFO, in turn, has delegated the management of liquidity risk to Skandia’s central Treasury department, in accordance with a separate agreement with the parent company Skandia. Overall governance of liquidity risk is also monitored by the risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Management of liquidity risk

Liquidity management for the Swedish and Norwegian operations is co-ordinated, but the liquidity portfolios are separated. Liquidity in the Norwegian branch is invested in Norwegian kronor (NOK), while liquidity in Sweden is invested in Swedish kronor (SEK). When needed, liquidity can be moved from a country with a surplus to a country with a deficit, without any legal restrictions. Liquidity risk management includes daily stress testing, projections of liquidity requirements, management of surplus liquidity and preparedness plans. Liquidity preparedness plans include outlining the division of responsibilities and instructions for handling a potential outlow of liquidity.

Measuring liquidity risk

The Treasury department measures both short-term and long-term liquidity risk for each currency and on a total basis. Short-term liquidity is managed in the interbank market through continuous monitoring of known, future inflows and outflows combined with a forecast of anticipated flows based on experience and customer behaviours. To ensure that Skandiabanken is not overly dependent on short-term funding, Treasury operates within limits for maximum aggregated daily market funding.

To ensure funding preparedness in situations in which Skandiabanken is in an urgent need of liquidity, Skandiabanken has surplus liquidity, which includes a liquidity buffer. Limits are set by the Board of Directors for the minimum amount of surplus liquidity and the minimum size of the liquidity buffer. The liquidity buffer consists of available funds that Treasury disposes over and which are eligible as collateral with the Swedish and Norwegian central banks. This ensures that Skandiabanken has the opportunity to convert assets to cash at short notice. As per 31 December 2011, the liquidity buffer before the central banks’ haircuts amounted to SEK 19.2 billion (12.1), which corresponded to 84% (82%) of the bank’s total surplus liquidity. In addition to the liquidity buffer, Skandiabanken can use a line of credit granted by the parent company Skandia.

Total surplus liquidity amounted to SEK 23.0 billion (14.9), of which SEK 5.6 billion (3.0) was pledged as security with the Swedish and Norwegian central banks for intraday cash flows. The remaining maturities of surplus liquidity were broken down into 44% (50%) maturing within one year and 56% (50%) maturing within one to three years. Securities in surplus liquidity consist of covered bonds, bonds and commercial paper with good credit quality. Of the holdings, 51% (41%) are rated AAA, 19% (38%) are rated AA, 17% (2%) are rated A, 2% (6%) are rated BBB, and 11% (13%) have no external credit rating. The credit ratings are from Standard & Poor’s, Moody’s and Fitch.

Liquidity stress tests are performed on a daily basis to ensure that the level of liquid assets is sufficient to resist a stressed scenario. Stress testing is defined as the impact on the survival horizon under a set of exceptional but plausible idiosyncratic and market-wide stress events, i.e., the number of days that the bank is expected to be able to cover a stressed outflow of liquidity with the help of liquidity-supporting actions. By stress events is meant assumptions regarding e.g., exceptionally large outflows of deposits and an increased degree of utilisation of granted but not utilised credit

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commitments, and by market-wide stress events is meant disruptions in the currency and capital markets. The stress tests cover both stressed contractual and stressed behavioural cash flows for items both on and off the balance sheet.

Skandiabanken's long-term structural liquidity position is measured and handled on a monthly basis through various metrics. At 31 December 2011 the deposit-to-loan ratio was 136% (119%), and since Skandiabanken is mainly funded by retail deposits – a funding source that is contractually short but is considered to be behaviourally long – Skandiabanken has a strong structural liquidity position.

Liquidity buffer in accordance with the Financial Supervisory Authority's guidelines[1]

		31 December 2011				31 December 2010			
	SEK million	SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
1	Cash and balances with, and lending to central banks and governments	986	2,354	5	3,345	1,000	483	3	1,486
2	Lending to other banks, intra-day loans	–	–	–	–	107	–	–	107
3	Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	898	30	–	928	1,200	–	–	1,200
4	Securities issued or guaranteed by municipalities or other public sector entities	1,495	1,176	–	2,671	–	304	–	304
5	Covered bonds issued by other banks or institutions	4,589	5,033	–	9,622	3,801	1,858	–	5,659
6	Covered bonds issued by own bank or related unit	–	–	–	–	–	–	–	–
7	Securities issued by non-financial corporates	–	–	–	–	–	–	–	–
8	Securities issued by financial corporates, excl. covered bonds	–	2,642	–	2,642	290	3,099	–	3,389
9	All other securities	–	–	–	–	–	–	–	–
	Total liquidity buffer	**7,968**	**11,235**	**5**	**19,208**	**6,398**	**5,744**	**3**	**12,145**

[1] The liquidity buffer is presented according to the Swedish Bankers' Association's presentation format. The liquidity buffer consists of assets at the disposal of the Treasury function. The assets are eligible as collateral with the Swedish and Norwegian central banks and are not claimed as collateral. The holdings are carried at current market value and receive a risk weight of 0-20% in accordance with the capital adequacy rules and the standardised approach for credit risk.

Remaining contractual maturity, financial liabilities

SEK million 31 December 2011	**0-1 month**	**1-3 mos**	**3-12 mos**	**1-5 years**	**≥5 years**	**Perpetual**	**Total**
Due to credit institutions	42	–	–	–	–	–	42
Deposits and borrowing from the general public	71,302	–	–	–	–	–	71,302
Derivative instruments	0	49	38	65	–	–	152
Issued securities	–	–	–	–	–	–	–
Other liabilities	1,134	–	–	–	–	–	1,134
Subordinated liabilities	–	–	–	–	382	900	1,282
Equity	–	–	–	–	–	2,806	2,806
Total on balance sheet	**72,478**	**49**	**38**	**65**	**382**	**3,706**	**76,718**
Unutilised part of granted overdraft facilities	6,510	–	–	–	–	–	6,510
Other credit commitments	9,972	–	–	–	–	–	9,972
Total off-balance items	**16,482**	**–**	**–**	**–**	**–**	**–**	**16,482**
Total	**88,960**	**49**	**38**	**65**	**382**	**3,706**	**93,200**

SEK million 31 December 2010	**0-1 month**	**1-3 mos**	**3-12 mos**	**1-5 years**	**≥5 years**	**Perpetual**	**Total**
Due to credit institutions	52	–	–	–	–	–	52
Deposits and borrowing from the general public	62,969	–	–	–	–	–	62,969
Derivative instruments	0	4	88	125	–	–	216
Issued securities	–	–	–	–	–	–	–
Other liabilities	1,021	–	–	–	–	–	1,021
Subordinated liabilities	–	–	–	–	372	900	1,272
Equity	–	–	–	–	–	2,647	2,647
Total on balance sheet	**64,042**	**4**	**88**	**125**	**372**	**3,547**	**68,177**
Unutilised part of granted overdraft facilities	5,841	–	–	–	–	–	5,841
Other credit commitments	13,845	–	–	–	–	–	13,845
Total off-balance items	**19,686**	**–**	**–**	**–**	**–**	**–**	**19,686**
Total	**83,728**	**4**	**88**	**125**	**372**	**3,547**	**87,863**

Deposits where the customer has the option to choose when repayment shall take place (including fixed-term deposits) are classified in the interval of 0-1 month. However, the actual distribution of deposits extends over a considerably longer period of time. Unutilised credit commitments are attributed to the interval in which the credit can be utilised by the borrower. The amounts in the table above pertain to contractual, non-discounted cash flows, which means that the sum for the respective lines does not match the items on the balance sheet, since these are based on discounted cash flows.

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37.7 Operational risk

Operational risk is defined as the risk of loss due to inappropriate or failed internal processes, human error, defective systems or external events. The definition includes legal risks but excludes reputation risks and strategic risks.

Governance of operational risk

Overall responsibility for Skandiabanken's operational risk lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with the Executive Risk, Internal Audit and Compliance Committee (SKERCC), which is responsible for oversight of operational risk. All risk appetite limits and policy changes are decided by the Board of Directors.

Overall governance of operational risk is also monitored by SKERCC. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO) and Independent Risk Control, which are the second line of defence. Independent Risk Control also co-ordinates the work with operational risks, and the respective managers are responsible for ensuring that their respective business areas adhere to the group's policy for managing operational risk. Internal Audit conducts independent reviews and makes up the third line of defence.

Policy for managing and measuring operational risk

The goal is for customers, employees, the public and other stakeholders to perceive Skandiabanken as a secure bank, where the customers' assets and information about customers are well protected. The goal also includes ensuring a high level of access to Skandiabanken's services and information, and that the bank is a safe workplace. Skandiabanken works actively on increasing awareness about operational risks in the workplace to avoid or reduce unforeseen losses.

Instructions, guidelines, preparedness plans and rules describe preventive and loss limiting measures. Instructions are issued by the Board of Directors, while guidelines and rules are set by the CEO. Threats and risks that could affect the bank are continuously analysed. Skandiabanken's management of operational risks entails that tools are provided for the identification, evaluation and reporting of risks and incidents.

A Risk Assessment Process routine for self-assessment is applied as a part of the risk management process. The scope of the self-assessment includes all types of risks for the business units and other functional units. The assessment is performed annually, with quarterly updates for the main risks. The bank works with risk indicators that indicate the status of the various risks, and limits are set for these indicators.

All incidents that have occurred or have been close to occurring and which are covered by the Basel II regulations are reported in an incident reporting system. The system is open and is to be used by all employees. Amounts measuring SEK 50 thousand or more are always to be regarded as an incident. Incidents are analysed by Independent Risk Control to ensure that appropriate measures are taken. Special attention is given to incidents that risk exceeding limits and those that amount to at least SEK 50 thousand. It is then the risk owner's responsibility to follow up the incident and take appropriate actions and report the status to Independent Risk Control.

37.8 Business risk, reputation risk and strategic risk

Business risk is the risk that earnings will deteriorate mainly as a result of changes in volumes, interest rate margins or other price changes associated with lending and deposits and the investment portfolio, as well as poorer level of net commission income, and that earnings will not be sufficient to cover costs. Business risk also includes reputation risk, which is the risk of harm to the bank's reputation caused by factors such as harmful rumours about Skandiabanken or Skandia, or about problems in operations, major projects, etc. Losses attributable to reputation can impact market shares and profitability.

By strategic risk at Skandiabanken is meant the long-term risk associated with erroneous or bad business decisions, unsuitable or improper execution of decisions, or a lack of responsiveness to changes in society, regulatory systems or the industry.

Governance of business risk, reputation risk and strategic risk

Overall responsibility for Skandiabanken's business risk, reputation risk and strategic risk lies with the CEO. All risk appetite limits and changes in policies are decided by the Board of Directors. All matters with a potentially negative impact on Skandiabanken's reputation and handled by Independent Risk Control via the bank's management and board, as well as with the parent company Skandia.

Policy for managing and measuring business risk, reputation risk and strategic risk

Business risk and reputation risk

Business risk is managed by diversifying revenues, such as net interest income and net commission income (since both would most likely not fall simultaneously), by maintaining stability of revenue generation, and cost control.

Measurement of business risk excludes changes attributable to loan losses as well as other risks, such as market risks and operational risks, which are covered by the assessments described in points 38.4-38.7 above. Skandiabanken includes reputation risk in business risk even though it cannot be specifically quantified and isolated as an isolated risk. When measuring business risk, consideration is given to the historic trend in net interest income/expense, net commission income and general overheads, and thus previous effects of reputation risks are included in the outcome.

The size of a business risk is affected by variations attributable to net interest income/expense and net commission income. Some costs change in pace with revenues based on volumes and transactions, while others can be considered to be variable without being volume- or transaction-dependent, while yet others are regarded as fixed costs. The breakdown between variable and fixed costs affects management's ability to influence potential losses of revenue in the near term.

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Processes exist for managing potential reputation risk and for ensuring that the risk is managed at the appropriate level within the organisation. The bank's reputation in the market is monitored on a continuous basis.

Strategic risk

Strategic risk is managed by ensuring that processes for governance and control are in place for pursuing strategic objectives and related business plans. The bank has well-developed methods for ensuring well-grounded decisions, and the risk can thereby be reduced to low levels.

37.9 Remuneration risk

Remuneration risk pertains to all forms of employee remuneration. The risk is associated with the design of the remuneration system to the extent that it does not promote effective risk management and encourages excessive risk-taking, which could have adverse effects on earnings and capital.

Governance of remuneration risk

Skandiabanken's board of directors decides on the bank's remuneration instructions. Skandiabanken has a remuneration committee since 2011. The committee is a permanent board committee that is tasked with drafting important matters concerning remuneration of Skandiabanken's employees. The remuneration committee is responsible for performing an independent assessment of Skandiabanken's remuneration instructions and remuneration system. In addition, Skandiabanken's board has delegated certain duties to the remuneration committee, including decisions on measures to be followed up and application of the remuneration instructions.

Decisions on remuneration of the CEO must also be approved by Skandia's remuneration committee. In accordance with the so-called grandfather principle, the remuneration committee is responsible for approving the CEO's decisions on remuneration of other members of Skandiabanken's management as well as others who report directly to the Board or CEO. Decisions on remuneration of other Skandiabanken executives are also made in accordance with the grandfather principle. The remuneration committee is to report to Skandiabanken's board on decisions made by the committee. Decisions on participants in share-based incentive programmes have been made by Old Mutual. In connection with Skandia Liv's acquisition of Skandia with subsidiaries in 2012, a review will be conducted of variable remuneration.

Policy for managing and measuring remuneration risk

To manage remuneration risk, Skandiabanken has a set of remuneration instructions that apply for all employees and are reviewed yearly. Skandiabanken's risk analysis of the remuneration system includes a description of risk management and control systems at Skandiabanken – mainly risk categories, including reputation risk, remuneration systems, risk tolerance and risk analysis based on the remuneration instructions, the remuneration system, and the process of identifying employees who in the course of their duties exercise or could exercise a significant influence on Skandiabanken's risk level ("Risk-takers"). As from 1 March 2011 these are referred to as "specially regulated staff". The main focus of this analysis is on variable remuneration.

In view of the information provided in the remuneration instructions, together with the assumption that the risk management and control system is being adhered to, at present it is believed that no risks exist with respect to the remuneration system.

Further disclosures in accordance with the Swedish Financial Supervisory Authority's "regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management" (2011:3) are provided on Skandiabanken's website: www.skandiabanken.se/Om oss/ Finansiell info/1112 Information om ersättningar.

38. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

a) Classification and measurement of financial assets and liabilities

31 December 2011

Assets	Measured at fair value through profit or loss, held for trading[1]	Hedge accounting[1]	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets[1]	Financial assets at amortised cost	Non-financial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	–	–	–	696	–	–	–	**696**	**696**
Lending to credit institutions	–	–	–	2,013	–	–	–	**2,013**	**2,013**
Lending to the general public	–	–	–	53,393	–	–	–	**53,393**	**53,366**
Fair value of portfolio hedge of interest rate risk	–	68	–	–	–	–	–	**68**	**68**
Financial assets at fair value								**34**	**34**
- Shares and participations	11	–	–	–	–	–	–	11	11
- Derivative instruments	13	10	–	–	–	–	–	23	23
Financial assets available for sale								**19,644**	**19,644**
- Fixed-income securities	–	–	–	–	19,618	–	–	19,618	19,618
- Equities	–	–	–	–	26	–	–	26	26
Assets held for sale	–	–	–	–	–	–	15	**15**	**15**
Intangible assets	–	–	–	–	–	–	3	**3**	**3**
Property, plant and equipment	–	–	–	–	–	–	8	**8**	**8**
Current tax assets	–	–	–	–	–	–	19	**19**	**19**
Deferred tax liabilities	–	–	–	–	–	–	25	**25**	**25**
Other assets	–	–	–	624	–	–	–	**624**	**624**
Prepaid expenses and accrued income	–	–	–	225	–	–	–	**225**	**225**
Total financial liabilities	**24**	**78**	**–**	**56,951**	**19,644**	**–**	**70**	**76,767**	**76,740**

Liabilities	Measured at fair value through profit or loss, held for trading[1]	Hedge accounting[1]	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets[1]	Financial assets at amortised cost	Non-financial assets and liabilities	Book value	Fair value
Due to credit institutions	–	–	–	–	–	42	–	**42**	**42**
Deposits and borrowing from the general public	–	–	–	–	–	71,302	–	**71,302**	**71,302**
Financial liabilities at fair value								**83**	**83**
- Derivative instruments	–	83	–	–	–	–	–	83	83
Liabilities attributable to assets held for sale	–	–	–	–	–	80	32	**112**	**112**
Current tax liabilities	–	–	–	–	–	–	43	**43**	**43**
Other liabilities	–	–	–	–	–	714	–	**714**	**714**
Accrued expenses and deferred income	–	–	–	–	–	421	–	**421**	**421**
Provisions	–	–	–	–	–	–	44	**44**	**44**
Subordinated liabilities	–	–	–	–	–	1,200	–	**1,200**	**1,200**
Total financial liabilities	**–**	**83**	**–**	**–**	**–**	**73,759**	**119**	**73,961**	**73,961**

Cont. note 38

31 December 2010

Assets	Measured at fair value through profit or loss, held for trading[1]	Hedge accounting[1]	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets[1]	Financial assets at amortised cost	Non-financial assets and liabilities	**Book value**	**Fair value**
Cash and cash balances with central banks	—	—	—	493	—	—	—	**493**	**493**
Lending to credit institutions	—	—	—	372	—	—	—	**372**	**372**
Lending to the general public	—	—	—	53,984	—	—	—	**53,984**	**53,981**
Fair value of portfolio hedge of interest rate risk	—	5	—	—	—	—	—	**5**	**5**
Financial assets at fair value								**61**	**61**
- Shares and participations	10	—	—	—	—	—	—	10	10
- Derivative instruments	2	49	—	—	—	—	—	51	51
Financial assets available for sale								**12,393**	**12,393**
- Fixed-income securities	—	—	—	—	12,375	—	—	12,375	12,375
- Equities	—	—	—	—	18	—	—	18	18
Intangible assets	—	—	—	—	—	—	7	**7**	**7**
Property, plant and equipment	—	—	—	—	—	—	13	**13**	**13**
Current tax assets	—	—	—	—	—	—	8	**8**	**8**
Deferred tax liabilities	—	—	—	—	—	—	34	**34**	**34**
Other assets	—	—	—	566	—	—	—	**566**	**566**
Prepaid expenses and accrued income	—	—	—	165	—	—	—	**165**	**165**
Total financial assets	**12**	**54**	**—**	**55,580**	**12,393**	**—**	**62**	**68,101**	**68,099**

Liabilities									
Due to credit institutions	—	—	—	—	—	52	—	**52**	**52**
Deposits and borrowing from the general public	—	—	—	—	—	62,969	—	**62,969**	**62,969**
Financial liabilities at fair value							—	**49**	**49**
- Derivative instruments	—	49	—	—	—	—	—	49	49
Current tax liabilities	—	—	—	—	—	—	54	**54**	**54**
Other liabilities	—	—	—	—	—	599	—	**599**	**599**
Accrued expenses and deferred income	—	—	—	—	—	421	—	**421**	**421**
Provisions	—	—	—	—	—	—	110	**110**	**110**
Subordinated liabilities	—	—	—	—	—	1,200	—	**1,200**	**1,200**
Total financial liabilities	**—**	**49**	**—**	**—**	**—**	**65,241**	**164**	**65,454**	**65,454**

Cont. note 38

Financial instruments where the book value is considered to be equal to fair value

Book value is considered to be equal with fair value for the following items: payment instruments, lending to the general public at variable interest rates or at interest rates that are fixed up to three months, deposits from the general public, other current receivables and liabilities with variable interest, such as lending to credit institutions and deposits from credit institutions, and other noninterest-bearing current receivables and liabilities. With respect to deposits at fixed rates of interest, fair value is considered to be equal to book value, taking into consideration that no discounting effect exists, since funds held are payable upon demand.

Determining the fair value of lending at fixed interest rates with book value at amortised cost

Lending at fixed interest rates pertains to loans with terms of fixed interest ranging from 1 to 5 years and is booked at amortised cost. In calculating fair value for these loans, the market rate of interest used is Skandiabanken's new-lending rate for corresponding fixed interest periods for discounting future interest income.

b) Financial assets and liabilities at fair value

	2011			2010		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets at fair value through profit or loss, held for trading						
Shares and participations	0	11	11	0	11	11
Derivative instruments	—	23	23	—	50	50
Total	**0**	**34**	**34**	**0**	**61**	**61**
Financial assets available for sale						
Fixed-income securities	2,441	17,177	19,618	—	12,375	12,375
Shares and participations	5	21	26	3	15	18
Total	**2,446**	**17,198**	**19,644**	**3**	**12,390**	**12,393**
Total financial assets at fair value	**2,446**	**17,232**	**19,678**	**3**	**12,451**	**12,454**
Financial liabilities at fair value through profit or loss, held for trading						
Derivative instruments	—	83	83	—	49	49
Total financial liabilities at fair value	**—**	**83**	**83**	**—**	**49**	**49**

Disclosures pertain to financial instruments measured at fair value broken down into the respective classes of financial instruments according to a fair value hierarchy. For a description of the various levels, see Accounting policies, 8.4.9.

39. GROUP OPERATIONS AND STRUCTURE

Skandiabanken Aktiebolag (publ), reg. no. 516401-9738, domiciled in Stockholm, Sweden, was established on 1 July 1994 and is a wholly owned subsidiary of Skandia Insurance Company Ltd (publ) "Skandia", reg. no. 502017-3083. Old Mutual plc, reg. no. 3591559, domiciled in London, UK, owned 100% (100%) of the shares in Skandia as per 31/12/2011. As from 21 March 2012, Skandia's new owner is Livförsäkringsaktiebolag Skandia ("Skandia Liv"), which in turn is owned by the Thule Foundation. For disclosures on the foreign parent company's financial statements, see www.oldmutual.com/ir/ or call the OM Investor Relations team on +44 (0)20 7002 7367, or send an e-mail to omg-ir@omg.co.uk. Skandiabanken conducts business in Sweden and through a branch in Norway. Operations are broken down into four segments: Banking Sweden, Banking Norway, Mutual Funds and Services (divested in its entirety as per 1 January 2012). Skandiabanken has subsidiaries in Sweden. On 1 February 2011 the subsidiary Svenska Lärarfonder AB was sold at group residual value. Skandiabanken's ownership was 51%. All companies are included in the company grouping for which the capital adequacy analysis is provided in note 36.

31 December 2011

Subsidiary	Registered number	Domicile/country	Ownership	Share quota value[1]
Skandia Fonder AB	556317-2310	Stockholm, Sverige	100%	100

31 December 2010

Subsidiary	Registered number	Domicile/country	Ownership	Share quota value[1]
Skandia Fonder AB	556317-2310	Stockholm, Sverige	100%	100
Svenska Lärarfonder AB	556328-2358	Stockholm, Sverige	51%	150

[1] By share quota value is meant the share capital divided by the number of shares, expressed in SEK.

40. RELATED PARTY DISCLOSURES

Disclosures regarding related parties pertain to dealings and transactions with the parent company Skandia and its parent company Old Mutual plc, as well as with other group companies outside of the Skandiabanken group, including Skandia Liv. Disclosures are also provided on dealings and transactions with subsidiaries in the Skandiabanken group, which are reported in accordance with the acquisition method and are eliminated in the Skandiabanken group. Related parties to the group also include board members and senior executives of Skandiabanken, the Skandia group, and external companies in which senior executives have control. A list of the parent company and subsidiaries is provided in note 39, "Group operations and structure". Disclosures about remuneration of senior executives are provided in note 7, "Staff costs".

The disclosures provided in the tables below include discontinued operations. For disclosures about dealings and transactions pertaining to continuing operations, see the footnotes to the tables.

a) Income and expenses generated by transactions with related parties

	2011				2010			
Operating income	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv
Net interest income	-20	-53	—	-6	-7	-142	—	0
Net fee and commission income	-450	1	38	1	-415	—	42	0
Net financial income	—	-73	—	—	—	156	—	—
Other operating income[1]	624	0	4	127	624	0	4	187
Total operating income	**154**	**-125**	**42**	**122**	**202**	**14**	**46**	**187**
Operating expenses								
Other administrative expenses	-390	-86	—	-77	-403	-96	—	-64
Other operating expenses	—	—	—	—	—	—	—	—
Total operating expenses	**-390**	**-86**	**—**	**-77**	**-403**	**-96**	**—**	**-64**

[1] The amount includes SEK 682 million pertaining to discontinued operations.

b) Receivables and liabilities with related parties

	2011				2010			
Assets	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv
Lending to the general public	2	—	—	—	1	—	—	—
Derivative instruments	—	23	—	—	—	51	—	—
Other assets	33	0	38	8	92	0	37	—
Total	**35**	**23**	**38**	**8**	**93**	**51**	**37**	**—**
Liabilities								
Deposits and borrowing from the general public	1,366	—	—	2	931	—	—	1,022
Derivatives	—	83	—	—	—	49	—	—
Other liabilities	114	130	—	—	95	78	—	0
Subordinated liabilities	1,200	—	—	—	1,200	—	—	—
Total	**2,680**	**213**	**—**	**2**	**2,226**	**127**	**—**	**1,022**

Cont. note 40

Parent company Skandia and Skandia Liv

Lending, deposits and investments

Skandiabanken invoices interest differential compensation to other group companies for loans to employees of those companies. The compensation corresponds to the difference between the market interest rate and the interest rate offered to the employee. The interest income pertains primarily to the interest differential compensation in connection with Skandiabanken's provision of favourable personnel loans to employees of Skandia and Skandia Liv.

Interest expense pertains primarily to interest on subordinated debentures, which are priced according to a specific interest rate with market interest rate mark-up.

Interest expense also pertains to Skandiabanken's payment of interest on custody account deposits plus interest differential compensation to the parent company for custody account deposits pertaining to so-called custody account insurance, which is a service offered by the parent company Skandia. Customers can invest in various securities within a custody account, of which part can be placed in custody deposit accounts with Skandiabanken. Interest on the deposited funds pertains to the interest accruing to the parent company's customers within their custody account insurance. The difference between the customer's interest rate and the internally set interest rate, which is to correspond to a market rate of interest, is paid as interest differential compensation to the parent company.

Lending, deposits and borrowing are priced according to specific interest rates with a going-rate interest mark-up. Significant transactions during the year pertain to deposits of SEK 1 billion from Skandia Liv, which were terminated during the first quarter of 2011. Skandiabanken has a credit facility of SEK 400 million from the parent company.

Securities – equity trading and mutual fund trading

Skandiabanken and its subsidiary Skandia Fonder pay commissions to Skandia for market-rate distribution compensation. In addition to this distribution compensation, fixed commissions are paid for advisory business. Commissions received for Skandia's custody insurance service are passed on in their entirety to the parent company Skandia. Skandiabanken charges Skandia an administrative fee, which is reported under "Other operating income".

Other income for services performed

Other operating income consists of fees for services performed for customer service and marketing functions, which are priced according to degree of use and cost-price.

Administrative expenses

Skandiabanken and its subsidiaries are charged by the parent company for costs for rents of premises, Skandia's joint functions, centrally conducted projects and for costs for units outsourced by the banks, such as treasury, IT, finance department, and so on. The transactions are priced according to degree of use and cost-price.

Other services – discontinued operations

Other operating income pertains to compensation for insourced personnel engaged in advisory activities. Skandiabanken has an agreement with Skandia under which the financial risk of the business lies not with Skandiabanken, but with the parent company, and Skandiabanken invoices the parent company on a cost-price basis for this business, i.e., the business generates no profit or loss for Skandiabanken.

Other operating income also includes compensation for other insourced units from Skandia and pertains to parts of the operations that have been divested in the areas of customer service, product development, business support and market functions. Skandiabanken invoices Skandia and Skandia Liv after the Swedish banking operation has been charged with its share of the respective units' costs.

Other group companies – sister companies

Exposures to interest rate risk and exchange rate risk are hedged using derivative instruments. Costs for the instruments are reported as interest expense and net financial income/expense. Derivative transactions are handled through the sister company Skandia Capital AB and are priced at market rates.

Other transactions pertain primarily to IT costs as well as to other purchased services. Pricing is done according to degree of use on a cost-price basis.

Subsidiaries of Skandiabanken

Skandiabanken receives market-rate distribution compensation regarding mutual funds from Skandia Fonder AB. Deposits and lending are priced according to specific interest rates with a going-rate interest rate mark-up.

Old Mutual plc

In spring 2010 Skandiabanken contracted a SEK 400 million credit facility with Old Mutual plc with market pricing of interest and facility fees. The contract was issued in SEK and was terminated in November 2011.

Other external companies

During the year, borrowed funds in the amount of SEK 152 million were received from Seven Days Finans AB. The CEO of the company is a director on Skandiabanken AB's board.

SUPPLEMENTARY DISCLOSURES

41. EQUITY

Change broken down into restricted and unrestricted equity

	Restricted equity		Unrestricted equity					
	Share capital	Statutory reserve	Fair value reserve	Translation reserve	Fair value reserve	Retained earnings	**Non-controlling interests**	**Total equity**
Opening equity 2010	**400**	**81**	**41**	**53**	**94**	**2,218**	**5**	**2,798**
Net profit for the year						151	1	152
Reclassification upon divestment to income statement before tax			-23		-23			-23
Unrealised change in value before tax, fair value reserve			-33		-33			-33
Deferred tax, fair value reserve			15		15			15
Change in hedge of net investment in foreign currency				0	0			0
Change in translation difference				-72	-72			-72
Total other comprehensive income			-41	-72	-113			-113
Comprehensive income for the year			**-41**	**-72**	**-113**	**151**	**1**	**39**
Group contribution received						14		14
Tax on group contributions						-4		-4
Contribution from parent company, share-based payment						0		0
Dividend						-200		-200
Closing equity 2010	**400**	**81**	**0**	**-19**	**-19**	**2,179**	**6**	**2,647**
Opening equity 2011	**400**	**81**	**0**	**-19**	**-19**	**2,179**	**6**	**2,647**
Net profit for the year						143		143
Reclassification upon divestment to income statement before tax			-2		-2			-2
Unrealised change in value before tax, fair value reserve			29		29			29
Deferred tax, fair value reserve			-7		-7			-7
Change in hedge of net investment in foreign currency				0	0			0
Change in translation difference				1	1			1
Total other comprehensive income			20	1	21			21
Comprehensive income for the year			**20**	**1**	**21**			**21**
Divested operation							-6	-6
Shareholder contribution received						6		6
Group contribution rendered						-6		-6
Tax on group contribution						1		1
Contribution from parent company, share-based payment						0		0
Closing equity 2011	**400**	**81**	**20**	**-18**	**2**	**2,323**	**—**	**2,806**

Cont. note 41

Share capital

The total number of fully paid shares was 4 million (4) with a share quota value of SEK 100. By share quota value is meant the share capital divided by the number of shares outstanding. Holdings of common shares are entitled to the dividend set by the Annual General Meeting, and their shareholding entitles them to voting rights at general shareholder meetings of one vote per share.

Retained earnings

Retained earnings include shareholder contributions from the parent company Skandia, which corresponds to the group contribution rendered by the parent company Skandiabanken. The aim of group contributions received and rendered in Skandiabanken is to minimise tax in the Skandiabanken group.

Dividend

A dividend of SEK 200 million was paid to the parent company Skandia in 2010. A decision on the dividend was made by the Annual General Meeting on 2 June 2010 in the amount of SEK 50 per share and is reported against retained earnings. No dividend was paid in 2011. The decision was made by the Annual General Meeting on 21 June 2011.

Fair value reserve

Fair value reserve

The fair value reserve includes unrealised changes in the value of available-for-sale financial assets. Skandiabanken uses this category for fixed-income securities and for shareholdings. Upon divestment, unrealised changes in value are reclassified in the income statement. Disclosures regarding reclassifications are made in note 5, “Net financial income”.

Translation reserve

Translation reserve pertains to exchange rate differences arising from translation of foreign operations’ financial statements to the group’s reporting currency and exchange rate differences pertaining to hedges of net investments in foreign currency. Upon divestment, unrealised changes in value are reclassified in the income statement.

42. EVENTS AFTER THE BALANCE SHEET DATE

Skandia Liv acquires Skandia Insurance Company Ltd

The deal between Skandia Liv and Old Mutual was completed on 21 March 2012. On 22 March 2012 an extraordinary general meeting was held, and new directors were elected to Skandiabanken’s board. For further information, see the section “Significant events during the year” in the Board of Directors’ report.

Change in operations during 2012 financial year

As per 1 January 2012, the advisory activities within the services segment have been sold to Skandia Försäljnings AB, a subsidiary of Skandia. The operation was sold at book value. For further information, see note 34, “Discontinued operations”.

Five-year summary, parent company

KEY RATIOS FOR 2007–2011, FIVE-YEAR SUMMARY

	2011	2010	2009	2008	2007
Lending to the general public, incl. leasing	53,393	53,985	48,634	43,835	46,450
Change during the year	-1%	11%	11%	-6%	6%
Total deposits and borrowing from the general public, incl. debt securities	71,302	62,969	61,739	51,986	50,684
Change during the year	13%	2%	19%	3%	-1%
Total capital ratio	14.66%	14.51%	13.29%	15.17%	14.44%
Tier 1 capital ratio	10.24%	9.98%	9.05%	10.17%	9.85%
Earnings capacity	0.29%	0.33%	0.40%	0.59%	0.66%
Return on equity:[1]	5.25%	4.87%	5.61%	8.65%	9.08%
Cost/income ratio before loan losses	0.90	0.89	0.83	0.78	0.82
Loan loss ratio	0.06%	0.09%	0.14%	0.11%	0.07%
Average number of employees	993	1,141	471	279	371
Of whom, in continuing operations	515	1,141	471	266	275
Of whom, in discontinued operations	478	—	—	13	96

[1] Figures for 2007-2008 are calculated according to standard tax instead of actual tax.

INCOME STATEMENTS FOR 2007–2011, FIVE-YEAR SUMMARY (SEK MILLION)

Income statement	2011	2010	2009	2008	2007
Interest income	2,552	1,750	1,866	3,295	2,703
Interest expense	-1,515	-903	-1,054	-2,354	-1,835
Group contribution from subsidiaries	30	27			
Net fee and commission income	349	372	374	341	411
Net financial income	14	55	33	25	30
Other operating income	779	852	305	1,262	254
Total operating income	**2,209**	**2,153**	**1,524**	**2,569**	**1,563**
Staff costs	-869	-843	-397	-218	-263
Other administrative expenses	-1,047	-995	-816	-798	-813
Depreciation, amortisation and impairment of tangible and intangible assets	-9	-9	-9	-30	-28
Other operating expenses	-73	-53	-39	-33	-81
Total expenses before loan losses	**-1,998**	**-1,900**	**-1,261**	**-1,079**	**-1,185**
Loan losses, net	-34	-42	-62	-53	-30
Impairment of financial assets	—	—	—	-4	-1
Operating profit	**177**	**211**	**201**	**1,433**	**347**
Appropriations, net	—	—	—	655	-32
Taxes	-31	-59	-51	-256	-101
Net profit for the year	**146**	**152**	**150**	**1,832**	**214**

BALANCE SHEETS FOR 2007–2011, FIVE-YEAR SUMMARY (SEK MILLION)

Balance sheet	2011	2010	2009	2008	2007
Cash and cash balances with central banks	696	493	1,676	2,230	373
Treasury bills and other eligible bills	2,441	—	—	—	—
Lending to credit institutions	1,916	263	846	2,032	5,725
Lending to the general public	53,393	53,985	48,634	43,835	44,472
Fair value of portfolio hedge of interest rate risk	68	5	153	205	-71
Bonds and other fixed-income securities	17,177	12,376	16,787	9,306	1,893
Shares and participations	79	72	68	57	439
Intangible and tangible non-current assets	15	20	27	19	2,050
Other assets	905	788	789	581	829
Total assets	**76,690**	**68,002**	**68,980**	**58,265**	**55,710**
Due to credit institutions	43	52	2,074	1,564	145
Deposits and borrowing from the general public	71,302	62,969	61,739	51,986	50,631
Issued securities	—	—	—	—	53
Other liabilities	1,301	1,105	1,139	969	847
Subordinated liabilities	1,200	1,200	1,200	1,200	1,200
Total liabilities	**73,846**	**65,326**	**66,152**	**55,719**	**52,876**
Untaxed reserves	—	—	—	—	656
Equity	2,844	2,676	2,828	2,546	2,178
Total liabilities and equity	**76,690**	**68,002**	**68,980**	**58,265**	**55,710**

Income statement and balance sheet, parent company

INCOME STATEMENT, SEK MILLION

	Note	2011	2010
Interest income	2	2,552	1,750
Interest expense	2	-1,515	-903
Dividends received		—	—
Group contribution from subsidiaries		30	27
Fee and commission income	3	427	478
Fee and commission expense	3	-78	-106
Net financial income		14	55
Other operating income	4	779	852
Total operating income		**2,209**	**2,153**
General administrative expenses			
Staff costs	5	-869	-843
Other administrative expenses	6	-1,047	-995
Depreciation, amortisation and impairment of tangible and intangible assets	14	-9	-9
Other operating expenses	7	-73	-53
Total operating expenses before loan losses		**-1,998**	**-1,900**
Profit before loan losses		**211**	**253**
Net loan losses		-34	-42
Operating profit		**177**	**211**
Tax on profit for the year	8	-31	-59
Net profit for the year		**146**	**152**

STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
Profit for the year	**146**	**152**
Other comprehensive income		
Changes in value of available-for-sale financial assets	27	-56
Hedge of net investment	0	0
Translation difference	1	-73
Taxes attributable to changes in value of available-for-sale financial assets	-7	15
Total other comprehensive income after tax	**21**	**-114**
Total comprehensive income after tax	**167**	**38**

BALANCE SHEET, SEK MILLION

31 December

Assets	Note	2011	2010
Cash and cash balances with central banks		696	493
Treasury bills and other eligible bills	9	2,441	—
Lending to credit institutions	10	1,916	263
Lending to the general public		53,393	53,985
Fair value of portfolio hedge of interest rate risk		68	5
Bonds and other fixed-income securities	11	17,177	12,376
Shares and participations, etc.	12	37	28
Shares and participations in group companies	13	42	44
Intangible assets		3	7
Tangible assets	14	12	13
Current tax assets	15	19	7
Deferred tax assets	15	28	22
Other assets	16	677	642
Prepaid expenses and accrued income	17	181	117
Total assets		**76,690**	**68,002**
Liabilities, provisions and equity		**2011**	**2010**
Due to credit institutions		43	52
Deposits and borrowing from the general public		71,302	62,969
Current tax liabilities		43	54
Other liabilities	18	797	643
Accrued expenses and deferred income	19	412	343
Provisions for pensions	20	49	59
Other provisions	21	—	6
Subordinated liabilities		1,200	1,200
Total liabilities and provisions		**73,846**	**65,326**
Share capital		400	400
Other reserves			
- Statutory reserve		81	81
- Fair value reserve		25	4
Retained earnings		2,192	2,039
Net profit for the year		146	152
Total equity		**2,844**	**2,676**
Total liabilities, provisions and equity		**76,690**	**68,002**
Memorandum items			
Pledged assets for own liabilities			—
Other pledged assets		5,777	6,435
Contingent liabilities		4	—
Commitments		26,046	27,194

Statement of changes in equity, parent company

SEK million	Restricted equity		Unrestricted equity				
	Share capital	Statutory reserve	Fair value reserve	Translation reserve	Fair value reserve	Retained earnings incl. profit for the year	**Total**
Opening equity 2010	**400**	**81**	**42**	**76**	**118**	**2,229**	**2,828**
Profit for the year						152	152
Reclassification upon disposal to income statement before tax for fair value reserve			-22		-22		-22
Unrealised change in value before tax, fair value reserve			-34		-34		-34
Deferred tax, fair value reserve			15		15		15
Change in hedge of net investment in foreign currency				0	0		0
Change in translation differences				-73	-73		-73
Total other comprehensive income			-41	-73	-114		-114
Total comprehensive income			**-41**	**-73**	**-114**	**152**	**38**
Group contribution received						13	13
Tax on group contribution						-3	-3
Contribution from parent company, share-based payment						0	0
Dividend						-200	-200
Closing equity 2010	**400**	**81**	**1**	**3**	**4**	**2,191**	**2,676**
Opening equity 2011	**400**	**81**	**1**	**3**	**4**	**2,191**	**2,676**
Profit for the year						146	146
Reclassification upon disposal to income statement before tax for fair value reserve			-1		-1		-1
Unrealised change in value before tax, fair value reserve			27		27		27
Deferred tax, fair value reserve			-7		-7		-7
Change in hedge of net investment in foreign currency			0		0		0
Change in translation differences				2	2		2
Total other comprehensive income			19	2	21	146	167
Total comprehensive income			**19**	**2**	**21**	**146**	**167**
Group contribution received						-6	-6
Tax on group contribution						1	1
Shareholder contribution received						6	6
Contribution from parent company, share-based payment						0	0
Closing equity 2011	**400**	**81**	**20**	**5**	**25**	**2,338**	**2,844**

For disclosures of equity, see note 26 “Supplementary disclosures of equity”.

Cash flow statement, parent company

CASH FLOW STATEMENT, SEK MILLION

Indirect method

Operating activities	**2011**	**2010**
Operating profit	177	211
of which, interest paid in	2,494	1,781
of which, interest paid out	-1,448	-917
Adjustment for non-cash items		
Unrealised portion of net financial income	10	-7
Depreciation of equipment	5	4
Depreciation, amortisation and impairment of intangible assets	4	4
Share-based payments	0	0
Loan losses	45	46
Gains/losses on disposal of tangible and intangible assets	0	0
Divestment of subsidiary	-3	—
Group contribution from subsidiaries	-30	-27
Income tax paid	-54	-42
Cash flow from operating activities before changes in the assets and liabilities of operating activities	**154**	**189**
Decrease (+)/increase (-) in lending to the general public	546	-5,396
Decrease (+)/increase (-) in holdings of fixed-income securities and equities	-7,231	4,167
Decrease (+)/increase (-) in other assets	-177	136
Decrease (-)/increase (+) in amount due to credit institutions	—	-2,000
Decrease (-)/increase (+) in deposits and borrowing from the general public and debt securities	8,334	1,230
Decrease (-)/increase (+) in other liabilities	210	-14
Cash flow from operating activities	**1,836**	**-1,688**
Investing activities		
Purchase of shares in subsidiaries/shareholder contribution	—	0
Divestment of subsidiary	6	—
Purchases of tangible assets	-6	-4
Sales of property, plant and equipment	2	5
Purchases of intangible assets	—	-1
Expiration/redemption of financial investments held to maturity	—	200
Cash flow from investing activities	**2**	**200**

Financing activities	**2011**	**2010**
Group contribution received	26	—
Dividend paid	—	-200
Cash flow from financing activities	**26**	**-200**
Cash flow for the year	**1,864**	**-1,688**
Cash and cash equivalents at start of the year	**704**	**2,448**
Exchange rate difference in cash and cash equivalents	**1**	**-56**
Cash and cash equivalents at end of the year	**2,569**	**704**

Cash and cash equivalents		
Cash and cash balances with central banks	696	493
Lending to credit institutions	1,916	263
Due to credit institutions	-43	-52
Cash and cash equivalents	**2,569**	**704**

Cash and cash equivalents are defined as cash, clearing and settlement claims liabilities, account balances in other banks and overnight loans with original terms of less than three days.

Notes to the income statement and balance sheet, parent company

Amounts in SEK million, unless indicated otherwise

1. ACCOUNTING AND VALUATION POLICIES

Significant accounting policies

1. Compliance with laws, rules and regulations

The annual report is prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and applied within the scope of Swedish legislation and the Financial Supervisory Authority's regulations and general guidelines, which coincide with:

- The Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559)
- The Financial Supervisory Authority's regulations and general guidelines on annual reports of credit institutions and securities companies (FFFS 2008:25)
- Recommendations from the Swedish Financial Reporting Board (RFR), "Accounting for legal entities" (RFR 2)

In cases where there are differences between the Financial Supervisory Authority's guidelines and the recommendations issued by RFR, the Financial Supervisory Authority's guidelines are applied.

The accounting policies applied are called legally limited IFRS, which entails that International Financial Reporting Standards (IFRSs) are applied with exceptions in accordance with Swedish legislation. The accounting policies that differ significantly from the accounting policies applied by the group are presented below. For a complete presentation of the accounting policies applied by the group, see note 2 to the group's accounts.

The accounting policies have been applied consistently for all periods presented, unless indicated otherwise.

2. Principal differences compared to the consolidated financial statements

IAS 1 Presentation of Financial Statements

The formats for presentation of the income statement and balance sheet have been prepared in conformity with the Annual Accounts Act for Credit Institutions and Securities Companies and the guidelines issued by the Swedish Financial Supervisory Authority.

Skandiabanken has adapted the balance sheet in certain respects to the format of the consolidated financial statements.

- "Other assets" are broken down into three sub-items: current tax assets, deferred tax assets and other assets.
- A corresponding breakdown is made for liabilities, where "Other liabilities" and "Current tax liabilities" are reported separately. In addition, "Deferred tax liabilities" are reported separately from "Provisions".

The following differences exist between the parent company and consolidated income statements

- Dividends received are reported in the parent company on a separate line. In the consolidated income statement, they are included in the item "Net financial income".
- The profit or loss that arises upon the sale of tangible assets and intangible non-current assets is included on the line "Other operating income" in the parent company. In the consolidated income statement, this item is included on a separate line after "Loan losses".

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 addresses, among other things, how to present discontinued operations in the income statement and the balance sheet, respectively. In the parent company's financial statements, disclosures regarding discontinued operations are presented only in notes.

IAS 27 Consolidated and Separate Financial Statements

Shares in subsidiaries are accounted for according to the cost method. Dividends received are recognised as income in the income statement. If impairment of participation rights is judged to be permanent, an impairment charge is recognised.

IFRS 8 Operating segments

Segment information is not required for the parent company; instead disclosures about net sales are provided, broken down by geographic areas.

Cont. note 1

IAS 19 Employee Benefits and IAS 37 Provisions

Provisions for pension obligations and pension costs

Skandiabanken's pension plans are secured by insurance solutions that consist of defined contribution and defined benefit plans, which are recognised as an expense in the income statement for the period the cost pertains to.

By defined benefit pension is meant that the employee is guaranteed a certain level of pension upon retirement, based on his or her final salary. However, in accordance with IAS 19, the rules on reporting defined benefit pension plans are not used in the parent company's accounting. The reason for this is that application of the rules in the Pension Obligations Vesting Act (Tryggandelagen) is a prerequisite for the right to tax deductions. The principal differences compared to the rules in IAS 19 concern the determination of the discount rate, the calculation of defined pension obligation being based on current salary level without consideration of future salary increases, and all actuarial gains or losses being recognised in profit or loss as they occur.

Employees in the parent company who are not covered by defined benefit pension agreements are instead covered by defined contribution pension plans. Defined contribution pension plans entail that the company's pension cost consists of a percentage of the employees' salary in every reporting period that the employee performed services for the company.

For further information on the content of defined benefit and defined contribution pension plans, see the group's accounting policies, point 12 "Provisions for pensions".

Group contributions

Reporting of group contributions is done in accordance with changed principles drawn up by the Swedish Financial Reporting Board (RFR), which rescinded its pronouncement UFR 2 Group contributions and shareholder contributions, and in its place amended RFR 2 Reporting for Legal Entities. The new principle entails that Skandiabanken reports group contributions received from subsidiaries in the income statement on the line "Group contributions from subsidiaries". Group contributions rendered to subsidiaries are reported on the balance sheet as "Shares in subsidiaries", net after deducting for the tax effect. Group contributions received and rendered from/to the parent company Skandia Insurance Company Ltd are reported directly against equity while taking the tax effect into account. The change entails that comparison figures for 2010 have been recalculated in accordance with IAS 8. This change in accounting policy entails an increase in profit before tax by SEK 30 million (27).

Notes to the income statement and balance sheet

Notes to the parent company's income statement and balance sheet correspond to the following notes provided in the consolidated financial statements.

Parent company note	Group note
REPORTING OF OPERATING SEGMENTS	2
NET FINANCIAL INCOME	5
NET LOAN LOSSES	11
CASH AND CASH BALANCES WITH CENTRAL BANKS	13
LENDING TO THE GENERAL PUBLIC	15
FAIR VALUE OF PORTFOLIO HEDGE OF INTEREST RATE RISK	16
INTANGIBLE ASSETS	19
DUE TO CREDIT INSTITUTIONS	24
DEPOSITS AND BORROWING FROM THE GENERAL PUBLIC	25
SUBORDINATED LIABILITIES	31
OTHER PLEDGED ASSETS, OBLIGATIONS AND CONTINGENT LIABILITIES	32
DISCONTINUED OPERATIONS	34
COMPLAINTS AND DISPUTES	35
RISKS AND RISK MANAGEMENT – FINANCIAL INSTRUMENTS AND OTHER RISK	37
EVENTS AFTER THE BALANCE SHEET DATE	42

2. NET INTEREST INCOME

Interest income	2011 Average balance	2011 Interest	2011 Average interest rate	2010 Average balance	2010 Interest	2010 Average interest rate
Lending to credit institutions	3,250	56	1.71%	2,378	25	1.05%
Lending to the general public[1]	53,492	2,049	3.83%	48,856	1,407	2.88%
Fixed-income securities,	14,914	444	2.98%	15,660	306	1.95%
- Financial assets available for sale	*14,914*	*444*	*1.92%*	*15,645*	*306*	*1.96%*
- Financial assets held to maturity	—	—	—	*15*	*0*	*0.53%*
Other	801	1	0.05%	817	0	0.01%
Total	**72,457**	**2,550[2]**	**3.52%**	**67,711**	**1,738[2]**	**2.57%**
Interest expenses						
Due to credit institutions	11	4	32.70%	1,651	19	1.16%
Deposits and borrowing from the general public	67,237	1,457	2.17%	61,087	847	1.39%
Subordinated liabilities	1,200	43	3.57%	1,200	23	1.96%
Other	4,009	9	0.21%	3,773	2	0.05%
Total	**72,457**	**1,513[2]**	**2.09%**	**67,711**	**891[2]**	**1.32%**
Net interest income	**72,457**	**1,037**	**2.09%**	**67,711**	**847**	**1.25%**

The average balance pertains to daily averages for the investments and financing sources that generate interest income and interest expenses, respectively. However, the item “Other” also includes assets and liabilities that do not carry any interest, and equity.

Interest income from financial instruments that are not measured at fair value through profit or loss amounts to SEK 2,600 million (1,869). Interest expenses from financial instruments that are not measured at fair value through profit or loss amount to SEK 1,515 million (903).

[1] Interest on impaired loans amounted to SEK 3 million (4).
[2] The deviation in the sum of interest income and interest expense compared with the income statement amounts to SEK 2 million (12) and pertains to the interest expenses attributable to hedge instruments. In the note, this is transferred to interest income to provide a more accurate picture of the purpose of the hedges.

3. NET FEE AND COMMISSION INCOME

	2011	2010
Payment intermediation fees	292	303
Commissions on lending	1	1
Commissions on deposits	1	1
Commissions on securities	130	168
Other commissions	3	5
Total	**427**	**478**
Payment intermediation fees	-50	-63
Commissions on securities	-22	-38
Other commissions	-6	-5
Total	**-78**	**-106**
Net fee and commission income	**349**	**372**

Commissions derived from financial assets and liabilities that are not measured at fair value and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 294 million (305) for commission income and SEK 51 million (66) for commission expenses.

Commissions derived from asset management operations that involve holdings of investments for the benefit of customers and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 132 million (170) for commission income and SEK 24 million (39) for commission expenses.

4. OTHER OPERATING INCOME

	2011	2010
Revenues from group companies outside the Skandiabanken group[1]	750	808
Dividend received from VISA[2]	—	18
Dissolution of provision related to variable salaries for previous years	9	7
Other	20	19
Total	**779**	**852**

[1] For detailed information, see note 25, “Related party disclosures”.
[2] On 19 January 2010 a decision was made by the VISA Sweden association regarding a dividend of cash and shares. Skandiabanken Sweden received a dividend of SEK 9 million in cash and SEK 9 million in shares. The global VISA organisation has been restructured, and VISA Inc., USA, was listed on the stock market in 2008. In connection with this, VISA Europe Ltd received cash and shares in VISA Inc. VISA Europe Ltd has distributed this cash and the shares to its shareholders, including the VISA Sweden association.

5. STAFF COSTS

	2011	2010
Salaries and remuneration	-530	-509
Pension cost	-111	-102
Payroll tax	-28	-24
Social security charges	-146	-150
Variable salaries[1]	-27	-26
Other staff costs	-27	-32
Total	**-869**	**-843**

[1] For disclosures on variable salaries, see note 7 to the group accounts, "Staff costs".

Salaries and remuneration 2011	**Senior executives[1]**				
	Base salary and remu-neration	Variable salary	**Total**	Other employees	**Total**
Sweden	-6	-1	**-7**	-424	**-431**
Norway	-7	-2	**-9**	-117	**-126**
Total	**-13**	**-3**	**-16**	**-541**	**-557**

Salaries and remuneration 2010	**Senior executives[1]**				
	Base salary and remu-neration	Variable salary	**Total**	Other employees	**Total**
Sweden	-5	-1	**-6**	-418	**-424**
Norway	-3	-2	**-5**	-106	**-111**
Total	**-8**	**-3**	**-11**	**-524**	**-535**

[1] Disclosures regarding the number of senior executives	**2011**	**2010**
Current and former board members and deputy board members. Employee representatives are not included	13	10
Current and former CEOs and deputy CEOs	3	3
Other senior executives who were members of company management on the balance sheet date	6	–

For disclosures regarding gender breakdown and remuneration of senior executives, see note 7 to the group accounts, "Staff costs".

	2011		**2010**	
Average number of employees during the year	Employees	Of whom, women	Employees	Of whom, women
Sweden	802	50%	958	53%
Norway	192	56%	183	59%
Total	**994**	**51%**	**1,141**	**54%**

6. OTHER ADMINISTRATIVE EXPENSES

	2011	2010
Cost of premises	-67	-104
IT costs	-180	-169
Consulting and other external services	-543	-475
Telephone and postage costs	-37	-45
Office expenses	-5	-10
Operating and transaction costs	-162	-157
Other administrative expenses	-53	-35
Total	**-1,047**	**-995**

Auditing fees	**2011**	**2010**
Audit assignment		
- KPMG	-2	-2
Total	**-2**	**-2**
Other assignments – KPMG		
Auditing activities in addition to the audit assignment	-1	0
Total	**-1**	**0**

By auditing assignments is meant review of the consolidated financial statements, annual report, bookkeeping and the Board's and CEO's administration, other duties that are incumbent on the company's auditors to perform, and consulting or other assistance that results from observations from such review or execution of such other duties.

7. OTHER OPERATING EXPENSES

	2011	2010
Advertising and marketing	-73	-53
Total	**-73**	**-53**

8. INCOME TAX EXPENSE

The following components are included in income tax expense:	2011	2010
Current tax		
- Tax on profit for the year	-47	-52
- Tax on previous years' profits	3	-1
Deferred tax[1]	13	-6
Total	**-31**	**-59**

Correlation between income tax expense and reported profit before tax	2011	2010
Reported profit before tax	177	211
Tax at applicable tax rate of 26.3%	-46	-55
Tax effect of non-taxable income	2	7
Tax effect of non-deductible expenses	-2	-10
Tax effect of tax differences between countries	0	0
Tax effect of application of deferred tax on temporary differences for endowment insurance policies	12	—
Current tax pertaining to previous years	3	-1
Total	**-31**	**-59**
Average effective tax rate	17.8%	27.9%

[1] Deferred tax broken down by type of temporary difference		
Tax effect attributable to temporary differences in financial instruments	3	-3
Tax effect attributable to temporary differences in tangible and intangible assets	0	0
Tax effect attributable to temporary differences in pensions	8	-2
Tax effect attributable to temporary differences in provisions	2	-1
Total deferred tax	**13**	**-6**

9. TREASURY BILLS AND OTHER ELIGIBLE BILLS

Outstanding receivables broken down by counterparty, net book value	2011	2010
Swedish government	—	—
Swedish municipalities	2,441	—
Total	**2,441**	**—**
Nominal value	2,435	—
Average remaining maturity, years	2.3	—
Average remaining fixed interest term	0.1	—

10. LENDING TO CREDIT INSTITUTIONS

Outstanding loans broken down by counterparty, net book value	2011	2010
Foreign central banks	1,670	-
Swedish credit institutions	186	196
Foreign credit institutions	60	67
Total	**1,916**	**263**

Outstanding receivables broken down by remaining maturity, net book value	2011	2010
Payable on demand	1,916	263
Total	**1,916**	**263**
Average remaining maturity (years)	0.0	0.0

11. BONDS AND OTHER FIXED-INCOME SECURITIES

Financial assets available for sale	2011	2010
Issued by public entities	483	397
Issued by other borrowers	16,694	11,979
Total	**17,177**	**12,376**

Issuers		
Swedish credit institutions	7,670	5,528
Other Swedish issuers	201	200
Foreign municipalities	482	397
Foreign credit institutions	8,794	5,990
Other foreign issuers	30	261
Total	**17,177**	**12,376**

Remaining maturity		
Max 1 year	6,621	6,599
Longer than 1 year but max 5 years	10,556	5,777
Total	**17,177**	**12,376**

Total holdings of available-for-sale financial assets held to maturity, broken down by issuer	2011	2010
Issued by public entities	483	397
Issued by other borrowers	16,694	11,979
Total	**17,177**	**12,376**
Average remaining maturity, (years)	1.4	2.1
Average remaining fixed interest term, (years)	0.1	0.3
of which, listed securities	—	—
of which, unlisted securities	17,177	12,376
of which, pledged as security for the benefit of Central Bank of Sweden	2,045	1,885
of which, pledged as security for the benefit of Central Bank of Norway	3,685	4,531

12. SHARES AND PARTICIPATIONS

Financial assets at fair value	2011	2010
Listed shares and participations	0	0
Unlisted shares and participations	11	10
Total	**11**	**10**

The total amount is classified as held for trading.

Financial assets available for sale	2011	2010
Listed shares	26	18
Total	**26**	**18**
Total shares and participations	**37**	**28**

13. SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Swedish subsidiaries	2011	2010
Cost, opening balance	44	44
Sale of Svenska Lärarfonder[2]	-3	—
Current year's shareholder contribution	1	0
Cost, closing balance	**42**	**44**

	Share quota value[1]		No. shares		Share of capital		Equity		Book value	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Skandia Fonder AB (556317-2310) Stockholm	100	100	100,000	100,000	100%	100%	37	37	42	41
Svenska Lärar-fonder AB (556328-2358) Stockholm	—	150	—	5,100	—	51%	—	12	—	3
							37	**49**	**42**	**44**

[1] The share quota value is defined as share capital divided by the number of shares. The amount is presented in Swedish kronor (SEK).

[2] During the year, Skandiabanken sold its interest in Svenska Lärarfonder for SEK 6.3 million.

For further information, see note 34 to the group accounts "Discontinued operations".

14. TANGIBLE ASSETS

	Equipment	
Cost	**2011**	**2010**
Opening cost	32	57
Exchange rate differences	0	-1
Acquisitions during the year	5	4
Sales during the year[1]	-5	-28
Closing cost	**32**	**32**
Accumulated planned depreciation		
Opening accumulated depreciation	-19	-41
Exchange rate differences	0	1
Depreciation during the year	-4	-5
Accumulated depreciation pertaining to assets sold during the year[1]	3	26
Accumulated depreciation at year-end	**-20**	**-19**
Net carrying amount	**12**	**13**

[1] Including disposals.

15. CURRENT AND DEFERRED TAX ASSETS

	2011	2010
Current tax assets	19	7
Deferred tax assets	28	22
Total	**47**	**29**

Deferred tax assets broken down by type of temporary difference	**2011**	**2010**
Deferred tax assets attributable to financial instruments	1	0
Deferred tax liabilities attributable to financial instruments	0	-2
Deferred tax assets attributable to tangible and intangible assets	1	1
Deferred tax assets attributable to pensions	29	20
Deferred tax assets attributable to provisions	5	3
Total deferred tax assets with changes reported through profit or loss	**36**	**22**
Deferred taxes reported in Other comprehensive income		
Deferred tax assets attributable to unrealised losses on available-for-sale financial assets	-8	0
Total deferred tax assets with changes reported in Other comprehensive income	**-8**	**0**
Total deferred tax assets	**28**	**22**

16. OTHER ASSETS

	2011	2010
Securities settlement claims	570	461
Derivative instruments[1]	23	50
Receivables	19	15
Other	69	119
Reserve for probable loan losses	-4	-3
Total	**677**	**642**

[1] For further information on derivative instruments, see note 26 to the group accounts.

17. PREPAID EXPENSES AND ACCRUED INCOME

	2011	2010
Accrued interest	115	58
Other accrued income	40	50
Prepaid expenses	26	9
Total	**181**	**117**

18. OTHER LIABILITIES

	2011	2010
Securities settlement liabilities	497	454
Derivative instruments	83	49
Accounts payable	53	24
Other	164	116
Total	**797**	**643**

19. ACCRUED EXPENSES AND DEFERRED INCOME

	2011	2010
Accrued interest	165	82
Accrued staff costs	143	148
Accrued costs for services purchased from Skandia	46	41
Other accrued expenses	58	72
Deferred income	0	0
Total	**412**	**343**

20. PROVISIONS FOR PENSIONS

	2011	2010
Pension plans, incl. special employer's payroll tax:		
Opening balance	**59**	**73**
Exchange rate differences	0	-1
Current year's provision	8	—
Amount utilised during the year	-18	-5
Amount reversed during the year		-8
Closing balance	**49**	**59**

Defined benefit pension plans amounted to SEK 16 million (23), of which SEK 10 million (16) pertains to pension obligations for early retirement pensions. Defined contribution pension obligations for early retirement pensions for employees with high-earner solutions (employees earning more than 10 times the Base Amount) amounted to SEK 20 million (24). Special employer's payroll tax on defined benefit pension plans and pension obligations pertaining to early retirement pensions for employees with high-earner solutions are included and amount to SEK 5 million (6) and SEK 5 million (6).

21. OTHER PROVISIONS

	2011	2010
Restructuring:		
Opening balance	**6**	**12**
Provisions during the year	—	1
Amount utilised during the year	-5	-2
Amount reversed during the year	-1	-5
Closing balance	**0**	**6**

OTHER DISCLOSURES

22. REVENUES BROKEN DOWN BY GEOGRAPHIC AREA

	Sweden		Norway		Total	
	2011	2010	2011	2010	2011	2010
Interest income	1,099	544	1,453	1,206	2,552	1,750
Group contribution from subsidiaries	30	27	—	—	30	27
Fee and commission income	154	196	273	282	427	478
Net financial income/expense	-1	41	15	14	14	55
Other operating income	773	846	6	6	779	852
Total	**2,055**	**1,654**	**1,747**	**1,508**	**3,802**	**3,162**

23. CAPITAL ADEQUACY ANALYSIS

Applied rules and regulations

The calculation of capital requirement is conducted in accordance with the Capital Adequacy and Large Exposures Act (2006:1371) and the Financial Supervisory Authority's regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1). The results are derived from calculations in accordance with the statutory minimum capital requirement, referred to as Pillar I, for credit risk, market risk and operational risk. For disclosures regarding applied methods and a description of quantitative information regarding footnotes, see note 36 to the group accounts, "Information on capital adequacy".

Capital adequacy analysis	**31/12/2011**	**31/12/2010**
Capital adequacy measures		
Total capital ratio	14.66%	14.51%
Tier 1 capital ratio	10.24%	9.98%
Capital adequacy quotient	1.83	1.81
Capital base		
Total equity according to most recent yearly book-closing, 31 December	2,844	2,676
Proposed dividend	—	—
Tier 1 capital, gross	**2,844**	**2,676**
Less: intangible assets	-3	-7
Less: deferred tax assets	-28	-22
Unrealised loss on available-for-sale financial assets, fixed-income securities	-20	-2
Tier 1 capital, net	**2,793**	**2,645**
Unrealised gains on available-for-sale financial assets, shares	4	—
Perpetual subordinated debt	900	900
Dated subordinated debt	300	300
Total tier 2 capital	**1,204**	**1,200**
Capital base	**3,997**	**3,845**
Risk-weighted exposures/basis for calculating capital requirement		
Credit risk according to standardised approach	23,513	23,141
Currency risk	134	156
Operational risk according to basic indicator approach	3,622	3,198
Total risk-weighted exposures	**27,269**	**26,495**
Capital requirement		
Credit risk according to standardised approach	1,881	1,851
Currency risk	11	13
Operational risk according to basic indicator approach	290	256
Total minimum capital requirement	**2,182**	**2,120**

Cont. note 23

Capital requirement for credit risks	31/12/2011 Exposures	Risk-weighted assets	Capital requirement	31/12/2010 Exposures	Risk-weighted assets	Capital requirement
Exposures to governments and central banks	4,324	—	—	2,718	198	16
Exposures to local governments and comparable associations an authorities	3,165	97	8	399	80	6
Exposures to administrative bodies, non-commercial undertakings and religious communities	—	—	—	—	—	—
Exposures to multilateral development banks	—	—	—	—	—	—
Exposures to international organisations	—	—	—	—	—	—
Exposure to institutions	5,840	1,152	92	5,252	1,034	83
Exposure to corporates	919	758	61	900	689	55
Retail exposures	3,242	2,431	195	3,162	2,371	190
Exposures secured on residential property	49,177	17,919	1,433	49,821	18,059	1,444
Past due items	26	26	2	23	22	2
High-risk items	—	—	—	—	—	—
Exposures in form of covered bonds	9,881	988	79	5,627	563	45
Securitisation positions	—	—	—	—	—	—
Exposure to funds	1	1	0	1	1	0
Other items	145	141	11	138	124	10
Total credit risks	**76,720**	**23,513**	**1,881**	**68,041**	**23,141**	**1,851**

24. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Classification and measurement of financial assets and liabilities

31 December 2011

Assets	At fair value through profit and loss held for trading	Hedge accounting	Financial assets held to maturity	Loans and receivables	Available-for-sale financial assets	Financial assets at amortised cost	Non-financial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	696	—	—	—	**696**	**696**
Treasury bills and other eligible bills	—	—	—	—	2,441	—	—	**2,441**	**2,441**
Lending to credit institutions	—	—	—	1,916	—	—	—	**1,916**	**1,916**
Lending to the general public	—	—	—	53,393	—	—	—	**53,393**	**53,366**
Fair value of portfolio hedge of interest rate risk	—	68	—	—	—	—	—	**68**	**68**
Bonds and other fixed-income securities	—	—	—	—	17,177	—	—	**17,177**	**17,177**
Shares and participations	11	—	—	—	26	—	—	**37**	**37**
Shares and participations in group companies[1]	—	—	—	—	42	—	—	**42**	**42**
Intangible assets	—	—	—	—	—	—	3	**3**	**3**
Property, plant and equipment	—	—	—	—	—	—	12	**12**	**12**
Current tax assets	—	—	—	—	—	—	19	**19**	**19**
Deferred tax assets	—	—	—	—	—	—	28	**28**	**28**
Other assets	13	10	—	654	—	—	—	**677**	**677**
Prepaid expenses and accrued income	—	—	—	181	—	—	—	**181**	**181**
Total financial assets	**24**	**78**	**—**	**56,840**	**19,686**	**—**	**62**	**76,690**	**76,663**
Liabilities									
Due to credit institutions	—	—	—	—	—	43	—	**43**	**43**
Deposit and borrowing from the general public	—	—	—	—	—	71,302	—	**71,302**	**71,302**
Issued securities	—	—	—	—	—	—	—	**—**	**—**
Current tax assets	—	—	—	—	—	—	43	**43**	**43**
Other liabilities	—	83	—	—	—	714	—	**797**	**797**
Accrued expenses and deferred income	—	—	—	—	—	412	—	**412**	**412**
Provisions for pensions	—	—	—	—	—	—	49	**49**	**49**
Subordinated liabilities	—	—	—	—	—	1,200	—	**1,200**	**1,200**
Total financial liabilities	**—**	**83**	**—**	**—**	**—**	**73,671**	**92**	**73,846**	**73,846**

Cont. note 24

31 December 2010

Assets	At fair value through profit and loss held for trading	Hedge accounting	Financial assets held to maturity	Loans and receivables	Available-for-sale financial assets	Financial assets at amortised cost	Non-financial assets and liabilities	**Book value**	**Fair value**
Cash and cash balances with central banks	—	—	—	493	—	—	—	**493**	**493**
Lending to credit institutions	—	—	—	263	—	—	—	**263**	**263**
Lending to the general public	—	—	—	53,985	—	—	—	**53,985**	**53,982**
Fair value of portfolio hedge of interest rate risk	—	5	—	—	—	—	—	**5**	**5**
Bonds and other fixed-income securities	—	—	—	—	12,376	—	—	**12,376**	**12,376**
Shares and participations	10	—	—	—	18	—	—	**28**	**28**
Shares and participations in group companies[1]	—	—	—	—	44	—	—	**44**	**44**
Intangible assets	—	—	—	—	—	—	7	**7**	**7**
Property, plant and equipment	—	—	—	—	—	—	13	**13**	**13**
Current tax assets	—	—	—		—	—	7	**7**	**7**
Deferred tax assets	—	—	—	—	—	—	22	**22**	**22**
Other assets	1	49	—	592	—	—	—	**642**	**642**
Prepaid expenses and accrued income	—	—	—	117	—	—	—	**117**	**117**
Total financial assets	**11**	**54**	**—**	**55,450**	**12,438**	**—**	**49**	**68,002**	**67,999**
Liabilities									
Due to credit institutions	—	—	—	—	—	52	—	**52**	**52**
Deposits and borrowing from the general public	—	—	—	—	—	62,969	—	**62,969**	**62,969**
Current tax assets	—	—	—	—	—	—	54	**54**	**54**
Other liabilities	—	49	—	—	—	594	—	**643**	**643**
Accrued expenses and deferred income	—	—	—	—	—	343	—	**343**	**343**
Provisions for pensions	—	—	—	—	—	—	59	**59**	**59**
Other provisions	—	—	—	—	—	—	6	**6**	**6**
Subordinated liabilities	—	—	—	—	—	1,200	—	**1,200**	**1,200**
Total financial liabilities	**—**	**49**	**—**	**—**	**—**	**65,158**	**119**	**65,326**	**65,326**

[1] Shares in subsidiaries are reported at cost and are eliminated in their entirety in the consolidated accounting.

25. RELATED PARTY DISCLOSURES

Revenues and expenses generated by transactions with related parties:

	2011				2010			
Operating income	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv
Net interest income	-20	-53		-6	-7	-142	—	0
Net fee and commission income	-63	1	38	1	-20	—	42	0
Net financial income	—	-73	—	—	—	155	—	—
Other income	624	0	4	127	621	—	4	187
Total income	**541**	**-125**	**42**	**122**	**594**	**13**	**46**	**187**
Operating expenses								
General administrative expenses	-376	-85	—	-76	-386	-95	—	-63
Other expenses	—	—	—	—	—	—	—	—
Total expenses	**-376**	**-85**	**—**	**-76**	**-386**	**-95**	**—**	**-63**

Receivables and liabilities with related parties:

	2011				2010			
	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv	Parent company Skandia Insurance Co. Ltd	Other group companies	Subsidiaries	Skandia Liv
Assets								
Lending to the general public	2	—	—	—	1	—	—	—
Other assets	33	23	38	8	92	51	37	—
Total	**35**	**23**	**38**	**8**	**93**	**51**	**37**	**—**
Liabilities								
Deposits and borrowing from the general public	1,366	—	—	2	931	—	—	1,021
Other liabilities	77	213	—	—	57	126	—	1
Subordinated liabilities	1,200	—	—	—	1,200	—	—	—
Total	**2,643**	**213**	**—**	**2**	**2,188**	**126**	**—**	**1,022**

For disclosures of transactions, see note 40 to the group accounts.

26. SUPPLEMENTARY DISCLOSURES, EQUITY

Share capital

The total number of fully paid shares was 4 million (4) with a share quota value of SEK 100. By share quota value is meant the share capital divided by the number of shares outstanding. Holdings of common shares are entitled to the dividend set by the Annual General Meeting, and their shareholding entitles them to voting rights at general shareholder meetings of one vote per share.

Retained earnings

Retained earnings include shareholder contributions from the parent company Skandia, which corresponds to the group contribution rendered by the parent company Skandiabanken. The aim of group contributions received and rendered in Skandiabanken is to minimise tax in the Skandiabanken group.

Dividend

A dividend SEK 200 million was paid to the parent company Skandia in 2010. A decision on the dividend was made by the Annual General Meeting on 2 June 2010 in the amount of SEK 50 per share and is reported against retained earnings.

No dividend was paid in 2011. The decision was made by the Annual General Meeting on 21 June 2011.

Fair value reserve

Fair value reserve

The fair value reserve includes unrealised changes in the value of available-for-sale financial assets. Skandiabanken uses this category for fixed-income securities and for shareholdings. Upon divestment, unrealised changes in value are reclassified in the income statement. Disclosures regarding reclassifications are made in note 5 to the group accounts, “Net financial income”.

Translation reserve

Translation reserve pertains to exchange rate differences arising from translation of foreign operations’ financial statements to the group’s reporting currency and exchange rate differences pertaining to hedges of net investments in foreign currency. Upon divestment, unrealised changes in value are reclassified in the income statement.

Signatures

The Board of Directors and CEO certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards referred to in European Parliament and Council of Europe Regulation (EC) No. 1606/2002 of 19 July 2002, on application of International Financial Reporting Standards. The Annual Report and the consolidated financial statements provide a fair review of the parent company's and group's financial position and results of operations.

The statutory administration report for the parent company and the group provides a true and fair view of the parent company's and group's operations, financial position and results of operations and describe material risks and uncertainties facing the parent company and the companies included in the group.

Stockholm, 25 April 2012

The Board approves the financial statements as per the above date, and final adoption will be done at the Annual General Meeting on 26 April 2012.

Niklas Midby
Chairman of the Board

Anne Andersson

Yvonne Andersson

Magnus Beer

Ann-Charlotte Stjerna

Anna-Carin Söderblom Agius

Bengt-Åke Fagerman

Marek Rydén

Lars-Göran Orrevall

Øyvind Thomassen
CEO

Our audit report was submitted on 25 April 2012

KPMG AB

Thomas Thiel
Authorised Public Accountant

Auditors' report

To the Annual General Meeting of Skandiabanken Aktiebolag (publ), reg. no. 516401-9738

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated acounts of Skandiabanken Aktiebolag (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 1–99.

Responsibilities of the board of directors and the CEO for the annual accounts and consolidated accounts
The board of directors and the CEO are responsible for the preparation and fair presentation of these annual accounts in accordance with Annual Accounts Act for Credit Insitutions and Securities Companies and for the preparation and fair presentation of consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control as the board of directors and the CEO determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors and the CEO, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Annual Accounts Act for Financial Institutions and Securities Companies, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Financial Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the board of directors and the CEO of Skandiabanken Aktiebolag (publ) for the year 2011.

Responsibilities of the board of directors and the CEO
The board of directors is responsible for the proposal for appropriations of the company's profit or loss, and the board of directors and the CEO are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the board of directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the board of directors or the CEO is liable to the company. We also examined whether any member of the board of directors or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act for Financial Institutions and Securities Companies or the Articles of Association.

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

Opinions
We recommend to the annual meeting of shareholders that the profit be handled in accordance with the proposal in the statutory administration report and that the members of the board of directors and the CEO be discharged from liability for the financial year.

Stockholm, 25 April 2012

KPMG AB

Thomas Thiel
Authorised Public Accountant

Definitions and terms

EARNINGS MEASURES

Investment margin
Net interest income as % of average balance sheet total.

Earnings capacity
Operating profit excluding loan losses as % of average balance sheet total.

Return on total assets
Operating profit as % of average balance sheet total.

Return on equity
Operating profit after actual tax % of average equity. By average equity is meant the average of the opening balance and the balance for the year's four quarters.

Cost/income (C/I) ratio
Total operating expenses as % of operating income.

IMPAIRED LOANS AND LOAN LOSSES

Impaired loans
By impaired loan is meant a loan for which full payment is not likely to be made in accordance with contract terms. If the nominal amount, interest or overdrafts are not paid within 60 days the loan will be classified as impaired even if adequate collateral that covers both nominal amount and interest, including late fees, exist.

Non-performing loans
By non-performing loans is meant loans that are not judged to be impaired and for which adequate collateral exists.

Provision level for impaired loans
Provisions for probable loan losses in relation to impaired loans before provisions for probable loan losses.
Provisions for probable loan losses refer to specific provisions for individually assessed impaired loans as well as to collectively assessed impaired loans with a limited value and a similar credit risk.

Share of impaired loans
Total impaired loans, less provisions for probable loan losses in relation to lending to the general public. Reserves for probable loan losses refer to specific reserves for individually assessed impaired loans as well as to collectively assess impaired loans with a limited value and a similar credit risk.

Loan loss ratio
Loan losses as % of the year's opening balance of lending to the general public.

CAPITAL ADEQUACY MEASURES

Definitions and terms are presented in the note 36 to the group accounts "Information about capital adequacy".

OTHER TERMS

Lending to the general public
All lending that is not lending to credit institutions

Average number of employees
Number of employees recalculated to full-time units and as an annual average.

For other terms and definitions, see note 1 "Accounting policies"

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