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skandia:

annual report 2009

A Member of the OLD MUTUAL Group

contents

board of directors' report

The Board of Directors and Chief Executive of Skandia Insurance Company Ltd (publ) ("Skandia"), with registered number 502017-3083, hereby submit their annual report for the financial year 1 January–31 December 2009.

Skandia is a wholly owned subsidiary of Old Mutual plc since 2006, domiciled in London, UK, and in turn owns a number of its own subsidiaries.

business activities

Skandia conducts life assurance business in the area of private and occupational pensions, private healthcare insurance, and group insurance. The company also accepts some reinsurance business from companies that are or have been members of the Skandia group.

organisation

In order to better meet customers' needs for attractive financial products and services, since January 2009 the Skandia group's Nordic operations have been subdivided into four customer- and market-oriented business areas – Corporate Sweden, Private Sweden, Norway and Denmark. As an effect of the formation of this new organisation, on 1 October 2009, Skandia's internal sales force and customer service unit were transferred from Skandia to Skandiabanken.

For some time, Skandia and Skandia Liv have been jointly studying options for Skandia Liv's future. The objective of this investigation has been to study possible alternatives for the best future company form for Skandia Liv. A number of different models have been evaluated with the goal of finding a solution that benefits both the policyholders of Skandia Liv and the owner Skandia. In 2009, the market conditions changed and are currently considered to be uncertain. The Swedish Financial Supervisory Authority's decision to reject Länsförsäkringar Liv's application to demutualise sends signals of a changed view on how processes of this kind should be carried out. In addition, recently the Swedish government announced that it intends once again to look into the future of stock life assurance companies that are run on a mutual basis. No changes in Skandia Liv's company form are currently planned. This means that the joint investigative work has been put on hold until further notice. In the event of changes in the market or legislation, such a study can quickly be resumed.

Restructuring within the group

Since 2006 Skandia has been conducting a restructuring project aimed at refining the former Skandia group's legal structure and adapting it to Old Mutual's operative organisation. As part of this restructuring project, during the first half of 2009 Skandia America Corporation was sold to Skandia Europe and Latin America Holdings Ltd, for a capital gain of SEK 82 million. In addition, in 2009 a number of activities were conducted to transfer Skandia's holdings in the Spanish subsidiary Skandia Link S.A. de Seguros y Reaseguros, the Polish subsidiary Skandia Zycie Towarzystwo Ubespieczen Spolka Akcyjna and the Chinese associated company Skandia-BSAM Life Insurance Company Ltd to companies in the Old Mutual Group. The intention is that these transfers will be completed in 2010.

Outside the scope of the above-described restructuring project, in 2009 Skandia acquired two companies – Skandia Fastighet AB and Fastighetsaktiebolaget Stockholms Badhus, from the Skandia Liv group.

Foreign branches
Skandia has four registered branches outside Sweden:
- Skandia Forsikring, a branch of Försäkringsaktiebolaget Skandia (publ), Denmark
- Försäkringsaktiebolaget Skandia (publ), Finland branch, Finland
- Försäkringsaktiebolaget Skandia Norsk Avdelning av Utenlandsk Foretak (nuf), Norway
- Skandia Insurance Company Ltd, UK

Skandia intends to close its branch in the UK during the first half of 2010 and sell its branch in Norway during the second half of 2010.

significant events

New customer offering
Effective in May 2009, Skandia offers customers the opportunity to purchase occupational pension insurance through a custody account insurance solution.

In autumn 2009, Skandia and Skandia Liv launched a co-ordinated group insurance solution in which insureds covered by disability insurance under Skandia Liv's occupational pensions concept are covered by health insurance with rehabilitation cover, with Skandia as the insurance provider.

Agreement on transfer of insurance portfolio, etc.
On 23 December 2009, Skandia entered into an agreement with Sparebank 1 Skadeforsikring AS on the transfer of the operations conducted by Skandia's branch in Norway, Försäkringsaktiebolaget Skandia Norsk Avdelning av Utenlandsk Foretak (nuf). The transfer covers operating assets and liabilities as well as a portfolio private healthcare insurance and child insurance. The transfer is contingent upon permission from the Financial Supervisory Authority. The regulatory matter is expected to be concluded during the third quarter of 2010.

Cancelled agreement on reinsurance
Through 30 June 2009, all property & casualty insurance business (business in Sweden, Norway and Denmark) was reinsured. Effective 1 July 2009, the agreement for 100% reinsurance in Norway and Denmark has been cancelled. For more information on the financial effects, see the Financial review section below.

Settlement with Skandia Liv
In connection with Skandia's sale in January 2002 of its asset management business to DnB, Skandia Liv signed an asset management agreement with Skandia (which was subsequently transferred to DnB).

In a ruling handed down on 2 October 2008, an arbitration board ruled that the going rate compensation for the Asset Management Agreement is a maximum of ten basis points including value-added tax, and that Skandia – for the time from 1 July 2008 and onwards – is obligated to pay an amount to Skandia Liv that corresponds to asset management fees that exceed ten basis points including VAT. A reserve was established during the 2008 financial year to cover asset management fees for the time after 1 July 2008. On 21 July 2009, an agreement was reached between Skandia and Skandia Liv under which Skandia will pay a fixed sum on a quarterly basis through year-end 2013. The total amount established for payment to Skandia Liv after the settlement was less than the reserve of SEK 124 million that was established in 2008 for this purpose. The difference has been applied to profit in 2009. For further information, see the Financial review section below.

Move to new premises
Skandia's move in March 2010 from its head offices at Sveavägen 44 to Lindhagensgatan 86 marks the end of a nearly 70-year epoch in Swedish insurance. In 1941 the building on Sveavägen was Stockholm's most modern and largest office building. On 8 March 2010 Skandia moved to ultra-modern, suitable offices in the newly built Green Tech Building. The building's design supports our values, our vision and our customer promise.

Disputes
Skandia is and during the year was party to a number of legal disputes pertaining to the sale of American Skandia, among other things. Following is a status report on the most significant of these processes.

American Skandia
In 2002 Skandia sold American Skandia to Prudential Financial, which took over American Skandia in spring 2003. The agreement on the transfer contained representations and warranties that are customary for this type of transaction. The indemnity in respect of this was limited in time and could amount to a maximum of USD 1 billion.

Prudential Financial directed a number of claims against Skandia pertaining to the representations and warranties. These pertained to, among other things, market timing by certain owners of fund units, annuity calculations in certain insurance contracts, and a calculation program for holdings in certain accounts. The demand regarding market timing pertained to an agreement that was ultimately entered into with the US Securities and Exchange Commission (SEC) and the New York Attorney General's office in April 2009. In December 2009, Skandia and Prudential Financial signed an agreement entailing a final settlement also with regards to other demands pertaining to representations and warranties associated with the transfer of American Skandia.

The agreement reached in December 2009 between Skandia and Prudential Financial does not cover the reinsurance contracts between Prudential Annuities and Skandia's subsidiary Dial, as the reinsurer. The contracts are retroceded in their entirety to Skandia. Prudential Annuities has filed claims against Dial with respect to these reinsurance contracts, and the parties have conducted negotiations on a commutation of these contracts. A provision has been made in the 2009 accounts for the costs that could arise in connection with the premature cancellation of the reinsurance contracts. An agreement to conclude this reinsurance business has been made after the balance sheet date. For further information, see the section "Events after the balance sheet date" below.

Tax audit

In December 2007, the Swedish Tax Authority rejected Skandia's tax-loss carryforward of SEK 1,244 million pertaining to provisions for guarantee obligations made in connection with Prudential Financial's acquisition of American Skandia (see above under American Skandia). Skandia has filed an appeal of the Tax Authority's decision with the County Administrative Court (now called Administrative Court). As a result of the settlement reached with Prudential Financial in 2009, these reserves have been dissolved. To the extent that they have not been used to cover the guarantee obligations, the reserves have been taken up for taxation. Skandia's claim with the Administrative Court to deduct the provision thereafter amounts to SEK 709 million. The outcome of this matter will not affect Skandia's result. Skandia has accumulated tax losses that have not been assigned any value on the balance sheet. Should Skandia win a favourable ruling on its appeal, the tax deficits will increase by a corresponding amount.

Other

Apart from the disputes described above, Skandia is party to a number of other disputes of a scope which – in Skandia's opinion – is normal considering the business conducted by the group.

financial review

The past year was characterised by turbulence and uncertainty, but also by a recovery in the financial markets. Despite this uncertainty, both Skandia Link and Skandia Private Healthcare increased their new sales in 2009 compared with previous years. For Skandia Link, the greatest rise was in the Private segment, particularly for the Skandia Depå product.

During the second half of the year, a strong recovery took place in the financial markets around the world. The value of investments for the benefit of life assurance policyholders who bear the investment risk increased to SEK 99,682 million as per December, compared with SEK 70,359 million in December 2008.

Despite the strong recovery during the second half of 2009, there are many indications of continued uncertainty in the financial markets, with fluctuations in equity and exchange rates as a result.

In the proposed distribution of profit for the 2008 financial year, a distribution in kind was proposed of shares in subsidiaries with a combined book value of SEK 1,563 million. For more detailed information, see the proposed distribution of profit in Skandia's 2008 Annual Report, page 7. Skandia's resumed Annual General Meeting (AGM) on 31 August 2009 resolved in favour of a dividend of shares in subsidiaries in accordance with the proposal in the Annual Report, contingent upon receiving the necessary regulatory approvals. The AGM's decision on the dividend was rescinded at an extraordinary general meeting on 30 December 2009, where it was ascertained that the dividend decided at the AGM on 31 August 2009 could not be carried out. Thus there is no longer any dividend decision pending, and the disposable funds in the 2008 Annual Report have been carried forward in their entirety.

Following is a brief commentary on the income statement, balance sheet, cash flow statement and solvency. More detailed information can be found in the notes. The comments are written primarily in terms of deviations.

For further information on Skandia's financial performance, see "Five-year summary" on page 9.

Result for the year

The result for the year was SEK 3,456 million (841).

Technical result

The technical result for property & casualty insurance business after ceded reinsurance was SEK 61 million (0). Until 30 June 2009 all property & casualty business (business in Sweden, Norway and Denmark) was reinsured, whereby the technical result was SEK 0 through that date. The agreement on 100% reinsurance of reinsurance business in Norway and Denmark has been cancelled as from 1 July 2009, which is why a technical result is recorded as per 31 December 2009, which pertains to the last six months of the year for business in Norway and Denmark.

The technical result for life assurance business was SEK 922 million (998).

Premiums written, totalling SEK 839 million (852), consist of premiums attributable to insurance components of investment contracts and fees from customers. The year-on-year change is mainly attributable to lower premiums as a result of contraction in the insurance portfolio.

Among Other technical income, totalling SEK 1,289 million (1,399) for the year, the policyholder tax charge decreased by SEK 171 million, since this was based on fund values at the end of 2008. In addition, the volume-based cost reduction increased by SEK 41 million as an effect of the positive performance of fund values.

Claims incurred, totalling SEK 10 million (-78), consist of claims paid and a change in the provision of claims outstanding. The significant change is attributable to a SEK 6 million drop in claims paid as a result of fewer cases of illness, a dissolution of reserves totalling SEK 59 million, and a decrease in the number of claims, totalling SEK 54 million. In addition, the reinsurers' share of the reserves changed, entailing a cost of SEK 40 million.

No major change took place in the provision for unearned premiums. For 2009 this item amounted to revenue of SEK 2 million. The preceding year showed revenue of SEK 17 million attributable to a premium adjustment and dissolution of the reserve in pace with premium due dates in the insurance portfolio.

Operating expenses, totalling SEK -1,218 million (-1,191), increased overall. Administrative expenses increased by SEK 13 million, while the change in deferred acquisitions costs decreased by SEK 24 million, and acquisition costs increased by SEK 57 million as a result of an increase in new sales.

Non-technical result

Total investment income amounted to SEK 2,443 million (1,734). Revenues consist of dividends from subsidiaries, totalling SEK 1,495 million, of which SEK 1,050 million from Skandia Europe AB, SEK 345 million from Skandia Holding AB, and SEK 100 million from Skandiabanken AB.

The non-technical result also includes net capital gains of SEK 82 million attributable to the sale of participations in the subsidiary Skandia America Corporation. A write-down of shares in subsidiaries resulted in a charge of SEK 87 million against the result.

The item Investment charges, totalling SEK -3 million (-1,290), includes asset management costs of SEK 869 million (-236). The positive amount is attributable to the crediting of SEK 1,183 million in unutilised provisions. These dissolutions are attributable to a settlement with Prudential Financial, in the amount of SEK 786 million, and to pension reserves of SEK 397 million, which were dissolved since anticipated increases in pensionable salaries did not materialise. For further information, see note 13.

Other revenue, totalling SEK 124 million (0), is entirely attributable to the dissolution of a previously made reserve, totalling SEK 124 million. This dissolution stemmed from a settlement with Skandia Liv to cover asset management fees through the end of 2013. For more information, see the section "Settlement with Skandia Liv" above.

Other expenses amounted to SEK -5 million (-1,348) and are entirely attributable to the net change in restructuring reserves, while SEK -1,328 million of the preceding year's expense was attributable to the arbitration ruling on the dispute over asset management fees between Skandia and Skandia Liv.

Tax on profit for the year, totalling SEK 375 million (88), consists partly of a current tax revenue of SEK 8 million and partly of revenue attributable to the further capitalisation of deferred tax, totalling SEK 367 million, which mainly pertains to the acquisition of two companies from the Skandia Liv group. For more information, see note 47.

Other taxes, totalling SEK -461 million (-631), pertain to the policyholder tax, which decreased compared with the preceding period due to a lower fund value at the start of the period.

Balance sheet

Total assets amounted to SEK 122,985 million (96,228).

Shares and participations in group companies, totalling SEK 10,572 million (10,671), decreased by SEK -911 million through sales of subsidiaries and through a net amount of SEK 672 million pertaining to write-downs and reversals of write-downs of shares in subsidiaries. In addition, this item increased by SEK 140 million due to shareholder contributions rendered.

The net amount of loans to group companies, totalling SEK 1,310 million (3,218), decreased as an effect of a decrease in lending to the parent company, Old Mutual, by SEK 1,934 million. At the same time, loan receivables from other group companies increased by SEK 27 million.

The increase in Shares and participations in associated companies, which totalled SEK 270 million (199), is mainly attributable to a capital contribution of SEK 63 million rendered to the associated company Skandia-BSAM Life Insurance Company Ltd in China.

Bonds and other fixed-income securities decreased to SEK 1,732 million (2,455), as matured securities were not reinvested in new securities to the same extent as previously. Instead, due to the changed investment strategy, a larger share of assets are in cash and cash equivalents.

There was no lending to credit institutions as per the balance sheet date, — (SEK 665 million).

Deposits with ceding undertakings totalled SEK 1,248 million (1,390). The decrease is attributable to a decrease in corresponding claims reserves on the liabilities side of the balance sheet.

Investments for the benefit of life assurance policyholders who bear the investment risk amounted to SEK 99,682 million (70,359). The change is mainly attributable to the positive movement in the financial markets and a positive net flow of customer premiums, which also affected technical provisions for life assurance policies where the investment risk is borne by the policyholders, which totalled SEK 101,022 million (71,846).

Other receivables amounted to SEK 634 million (1,272). The decrease is mainly attributable to a lower amount of receivables from group companies.

The item Other deferred tax, totalling SEK 1,189 million (837), increased due to further capitalisation of previous years' loss carryforwards.

Cash and bank balances, totalling SEK 1,596 million (203), consist mainly of short-term investments of surplus liquidity, totalling SEK 1,512 million.

The item Other provisions amounted to SEK 469 million (2,540). The decrease is mainly attributable to dissolution of SEK 953 million related to the settlement with Prudential Financial (for more information, see the section on disputes above). In addition, the reserve that was originally created in connection with the arbitration between Skandia and Skandia Liv surrounding asset management fees, decreased by a total of SEK 407 million, of which SEK 124 million is unutilised and SEK 213 million is now reported as a liability. Also, pension reserves were dissolved in the amount of SEK 397 million.

Other liabilities, totalling SEK 1,999 million (4,974), decreased compared with a year ago. The change is attributable to a lower liability to group companies.

Other accrued expenses and deferred income decreased to SEK 419 million (1,133) in connection with settlement of the dispute on market timing in the final amount of SEK 534 million, which had been reserved in its entirety.

Cash flow

Developments during the year with respect to cash flow are described below.

Cash flow from operating activities was SEK -1,153 million (321). Provisions decreased by SEK 2,066 million, of which a total of USD 111 million pertains to two payments to Prudential Financial. In addition, intra-group liabilities decreased by SEK 2,568 million. The rest of cash flow from operating activities is mainly attributable to profit for the year before tax, totalling SEK 3,542 million.

Cash flow from investing activities amounted to SEK 3,281 million (2,537). Cash flow was favourably affected in the amount of SEK 1,495 million as a result of dividends of SEK 1,050 million from Skandia Europe AB, SEK 345 million from Skandia Holding AB, and SEK 100 million from Skandiabanken AB. In addition, cash flow was favourably affected by the repayment of SEK 1,934 million in loans to Old Mutual plc and a decrease in investments in surplus liquidity of SEK 665 million. Settlement of a shareholder contribution of SEK 839 million had a negative impact on cash flow.

Cash flow from financing activities was SEK -733 million (-2,724) and pertained to the repayment of loans to Skandia Capital AB, totalling SEK 288 million, and the cash settlement of net group contributions, totalling SEK 463 million.

Solvency

Solvency is a measure of an insurance company's ability to meet all of the obligations the company has. Since Skandia mainly provides products with a low level of insurance risk, its solvency margin is low. Skandia's solvency margin was SEK 1,121 million as per December 2009. Solvency capital at the same time was SEK 12,101 million, and the surplus thereby was at a secure level of SEK 10,980 million.

Solvency is also calculated per insurance group. The aim of this calculation is to prevent double gearing, i.e., to ensure that the same capital is not utilised by several companies. The solvency margin for the group excluding Skandia Liv was SEK 1,535 million as per December 2009. Solvency capital at the same time was SEK 11,231 million, whereby the surplus for the group excluding Skandia Liv was SEK 9,696 million. The solvency margin for the group including Skandia Liv, calculated in accordance with the Financial Supervisory Authority's regulations for group-based solvency capital and solvency margin, was SEK 9,529 million. Solvency capital for the corresponding group amounted to SEK 19,225 million at the same time, which results in a surplus of SEK 9,696 million for the group including Skandia Liv.

risks in the business activities

Skandia's business gives rise to various types of risk that can affect the company's results and financial position. Some of these risks are associated with the company's business strategy and are not limited to a specific business segment. Other risks are segment-specific, such as insurance risk. Some risks in the operations are eliminated, others are mitigated, and others are accepted. Regardless of which risk management strategy is used, it is of utmost importance that all risks in the operations are managed and controlled in an effective manner. Skandia has low risk tolerance, especially with respect to financial market risks, and therefore has a business model that is based primarily on insurance where the investment risk is borne by the policyholders. However, Skandia has exposure to financial market risks through the fee structure of its insurance products.

The significant risks in Skandia's business can be broken down in the following categories:

- Strategic and political risks
- Financial market risks (exchange rate risk, interest rate risk and share price risk)
- Insurance risk
- Solvency risk
- Customer behaviour risk
- Operational risk
- HR risk
- Credit risk
- Liquidity risk
- Compliance risk

Risk strategy

Skandia's risk strategy is based on consideration for two stakeholder groups: customers and shareholders. Through measures aimed at safeguarding the interests of Skandia's customers and shareholders, the interests of other stakeholders are also taken into account, such as Skandia's employees. With respect to customer risk, Skandia's goal is to be able to guarantee the obligations it has made towards its customers with a high degree of certainty and to meet reasonable expectations made by customers. Customer risk is managed through technical provisions and by maintaining a sufficient solvency capital, and by maintaining a sound governance structure within the company. Skandia works actively with its customers on informing them and suggesting suitable measures to help customers manage their insurance capital in a reasonable manner. Other risks, in addition to financial market risks, are actively managed with the intention of reducing the expected negative outcome and keeping the unlikely potential outcomes within tolerance. Skandia assumes that its shareholders can independently manage the main financial risks such as market and currency volatility by, for example, hedging or diversification in order to achieve their own desired exposures.

A more detailed discussion of Skandia's risks, how they affect Skandia, and how the risks are managed and controlled, is provided in note 2.

insurance contracts and investment contracts

According to IFRS 4, contracts are to be classified as either insurance contracts or investment contracts. For contracts that contain both an insurance component and a deposit component, and where it is possible to determine the value of the components separately, then there is an opportunity to use unbundling. Skandia issues both insurance and investment contracts. With respect to Skandia's unit linked assurance and traditional life assurance, which is initially classified as an investment contract, it is possible to determine the value of the deposit component separately from the insurance component in a reliable manner. To provide more relevant financial information, Skandia unbundles its unit linked assurance and traditional life assurance contracts and reports the deposit component and insurance component as if they were separate contracts. More detailed information on the handling of insurance contracts and investment contracts is provided in note 1, section 6.

the environment

Skandia's CSR policy stipulates that the company's environmental strategy shall lead to a reduction in the environmental impact of operations through continuous improvement. Skandia has also joined the UN's Global Compact and conforms to the OECD's guidelines for multinational companies and the Carbon Disclosure Project.

Skandia does not conduct any operations that require a permit or reporting obligation pursuant to the Environmental Code.

employees

Information on the average number of employees, absence due to illness, wages, salaries and remuneration, and the principles and processes for remuneration and benefits of senior executives, are described in note 43.

The Financial Supervisory Authority's general guidelines regarding remuneration policies in insurance undertakings, exchanges, clearing organisations and institutions for the issuance of electronic money (FFFS 2009:7) took effect on 1 January 2010. For employees who can influence the company's risk exposure, parts of these rules and regulations should be applied for remuneration decided on in 2010 but which pertains to the 2009 financial year. In addition, qualitative and quantitative disclosures about remuneration are to be disclosed in connection with the adoption of the annual report.

New rules are being introduced which entail that at least 60% of variable remuneration should be deferred for at least three years for employees who can influence the company's risk exposure. In addition, the company can decide that all or a part of the deferred remuneration should be reduced or rescinded under certain circumstances, such as poor earning performance. Skandia issues a separate report on "Disclosure of information on remuneration" in accordance with FFFS 2009:7, in connection with the publication of its annual report, on www.skandia.se/Om Skandia/Finansiell info.

future outlook

The market in 2010 will continue to be characterised by greater transparency, price pressure from niche players, larger central procurement processes and continued uncertainty in the financial markets.

To be able to meet the market's demands going forward and be even more customer-focused, Skandia has adapted its organisation to the Corporate and Private markets, respectively. This will enable us to more easily ensure that we create the right offerings, develop the right products to meet the customers' needs, and keep what we have promised with respect to the service level of Skandia's offering.

Much focus will be dedicated in the future to developing new offerings that are cost-effective for both customers and our owners. In the corporate market, Skandia today is a leading player in insurance-based savings. The largest competitors consist of other insurance companies, however, niche players have also entered the market in recent years and compete with low fees. In the private market we have seen a greater need for advice that takes the customer's entire financial situation and business into account. This will put great demands on a highly developed distribution strategy that is both effective and quality-assured, and which looks after the customer's total needs. In addition, competition will remain fierce in the development of new types of products and services designed for private customers. The competitors consist primarily of other insurance companies and banks – large as well as small – and niche players.

Looking forward, it is extremely important that Skandia continues to focus its work on the customer, which is the reason why Skandia's new vision is to have the savings market's most satisfied customers. To meet customers' expectations, we will be shifting the perspective of our offering and working according to the customers' needs. We will be innovating need-based offerings that are designed specifically for our various customer groups.

Skandia Lifeline Private Healthcare and Group Insurance is seeing growing interest from companies in finding solutions that give their employees quick access to care and assistance. This will enable employees to return to work more quickly, which in turn will help employers reduce their costs for sick pay and loss of production. During the autumn of 2009 a number of improvements were made to Skandia's disability insurance with rehabilitation services. Skandia is working actively on further developing its offering in an effort to help its client-companies prevent sick leaves and create healthy workplaces. The launch of these services will continue in 2010 with focus on small and medium-sized companies.

events after the balance sheet date

As per the balance sheet date, the item Shares and participations, totalling SEK 167 million, included a holding in Skandia Investment I AB with a fair value of SEK 156 million. This company is run entirely as an underlying investment in the pharmaceutical company Swedish Orphan International Holding AB. Skandia Investment I AB's holding in Swedish Orphan International Holding AB was sold at an amount in excess of Skandia's valuation of the holding as per the balance sheet date on 31 December 2009, by SEK 128 million. In January 2010 Skandia received a dividend of SEK 261 million from Skandia Investment I AB attributable to the sale of Swedish Orphan International Holding AB.

During the first quarter of 2010, Skandia and its subsidiary Dial Försäkringsaktiebolag reached an agreement to end Skandia's reinsurance business with Prudential Financial, effective 31 March 2010. The financial effects of the agreement are included entirely in the technical provisions for this business. For further background information on the agreement, see the "Disputes" section above.

The Board of Directors for Dial Försäkringsaktiebolag and Skandia is planning a merger in 2010 with Dial Försäkringsaktiebolag to be absorbed in Skandia.

Skandia has requested an advance ruling from the Board for Advance Tax Rulings (Skatterättsnämnden) on how discounts from fund companies are to be taxed. On 28 May 2010 the Board for Advance Tax Rulings issued a ruling with the purport that discounts are taxable in accordance with the National Tax Act. Internal analysis and study of the ruling's purport in detail and financial effects are in progress. The ruling will be appealed to Supreme Administrative Court. A ruling by the Supreme Adminsitrative Court can be expected in 2011.

five-year summary

RESULT, SEK million	2009	2008	2007	2006	2005
Premiums earned, net of reinsurance, property & casualty insurance	157	0	0	0	0
Premiums written, net of reinsurance, life assurance	839	852	914	943	755
Investment income in insurance business, net	3	-1	-2	1	-2
Claims incurred, net of reinsurance, property & casualty insurance	-82	0	0	0	0
Claims incurred, net of reinsurance, life assurance	10	-78	-126	-116	-102
Change in other technical provisions, net of reinsurance	2	17	-35	-25	18
Operating expenses	-1,235	-1,191	-1,244	-866	-643
Other technical income and expenses	1,289	1,399	1,447	1,202	946
Technical result, insurance business	**983**	**998**	**954**	**1,139**	**972**
Result for the year	**3,456**	**841**	**968**	**-657**	**-3,688**

FINANCIAL POSITION, SEK million	2009	2008	2007	2006	2005
Investments	15,299	18,736	20,249	23,854	33,260
Investments for the benefit of policyholders who bear the investment risk	99,682	70,359	91,867	86,077	74,039
Reinsurers' share of technical provisions	1,002	1,097	984	969	963
Net asset value					
Shareholders' equity	13,614	10,087	9,721	8,697	8,844
72% of untaxed reserves	—	—	1,506	1,506	1,506
73.7% of untaxed reserves	1,541	1,541	—	—	—
Surplus values in business in force after deferred tax	9,837	7,056	8,940	10,444	8,907
28% of untaxed reserves	—	—	585	585	585
26.3% of untaxed reserves	550	550	—	—	—
Deferred tax assets	-1,189	-837	-565	-462	-448
Subordinated loans	—	—	—	850	850
Net asset value[1]	**24,353**	**18,397**	**20,187**	**21,620**	**20,244**
Solvency capital, parent company	12,101	8,710	9,283	9,159	12,038
Of which, deduction for intangible assets	—	—	—	—	—
Solvency margin, parent company	1,121	893	867	841	977
Solvency capital, group excluding Skandia Liv	11,231	9,136	15,980	12,876	12,793
Of which, deduction for intangible assets	-7	-8	-9	-181	-184
Solvency margin, group excluding Skandia Liv	1,535	1,258	2,332	3,182	3,273
Solvency capital, group including Skandia Liv[2]	19,225	18,699	23,658	21,033	20,680
Of which, deduction for intangible assets	-7	-8	-9	-181	-184
Solvency margin, group including Skandia Liv[2]	9,529	10,504	10,010	11,270	11,570

KEY RATIOS	2009	2008	2007	2006	2005
Result of insurance operations					
Property & casualty insurance					
Claims ratio, gross, %[3]	79	79	65	62	66
Expense ratio, gross, %[4]	28	28	29	30	28
Combined ratio, gross, %[5]	107	107	94	92	94
Life assurance operations					
Management expense ratio, %[6]	1,2	1,2	1,1	0,8	0,7
Result of asset management					
Direct yield, %[7]	9.39	14.6	15.9	5.9	3.6
Total return, %[7]	9.35	11.6	9.1	7.1	3.6
Financial position					
Net asset value ratio, %[8]	7,816	9,863	12,817	13,639	11,299

[1] Net asset value calculated in accordance with the guidelines of the Swedish Financial Supervisory Authority.
[2] Calculated in accordance with the Financial Supervisory Authority's guidelines for group-based solvency capital and solvency margin.
[2] Claims incurred in relation to net premiums earned.
[3] Operating expenses of the insurance operations in relation to net premiums earned, excluding other technical income and charges.
[4] Claims incurred plus operating expenses of the insurance operations, in relation to net premiums earned.
[5] Operating expenses and claims settlement costs in relation to investments and cash at bank and in hand.
[6] Starting in 2007, the direct yield and total return are calculated in accordance with the Swedish Financial Supervisory Authority's regulations and general guidelines on Annual Reports for Insurance Companies, FFFS 2008:26. Previous years are calculated in accordance with there commendation issued by Försäkringsbranschens Redovisningsnämnd (FRN) in a circular memo dated 1/93. In calculating the direct yield and total return, the assets for which the policyholders bear the investment risk are not included, since the purpose of the key ratio is to report the result of the company's own asset management.
[7] Risk-bearing capital in relation to risk-bearing premium.

proposed distribution of profit

The Board of Directors and Chief Executive propose that the profit for the year for Skandia Insurance Company Ltd (publ) be distributed as follows:

Distribution of unrestricted equity in Skandia Insurance Company Ltd	**SEK**
The following amount is available for distribution by the Annual General Meeting	
Profit brought forward from 2008	8,916,901,048
group contribution received	54,630,345
Net profit for the year	3,456,172,620
Share-based payments	13,095,000
Translation differences for the year	2,474,693
	12,443,273,706
The Board of Directors proposes that the amount be distributed as follows:	
to be carried forward	12,443,273,706
	12,443,273,706
If this proposal is adopted, the company's reported equity will consist of	
share capital	1,030,762,688
share premium reserve	139,565,842
profit carried forward	12,443,273,706
	13,613,602,236

income statement

SEK million	Note	2009	2008
TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS			
Premiums earned, net of reinsurance			
Premiums written	3	930	779
Premiums ceded	3	-699	-779
Change in provision for unearned premiums and unexpired risks		-13	-37
Reinsurers' share of change in provision for unearned premiums and unexpired risks		-61	37
		157	**0**
Allocated investment return transferred from the non-technical account	4	**3**	**0**
Claims incurred, net of reinsurance	5		
Claims paid			
Gross		-609	-549
Reinsurers' share		653	549
Change in provision for claims outstanding			
Gross		-119	-39
Reinsurers' share		-7	39
		-82	**0**
Operating expenses	6	**-17**	**0**
Technical result, property & casualty insurance business		**61**	**0**
TECHNICAL ACCOUNT, LIFE ASSURANCE BUSINESS			
Premiums written, net of reinsurance	7		
Premiums written		867	878
Premiums ceded		-28	-26
		839	**852**
Investment income		**0**	**0**
Other technical income, net of reinsurance	8	**1,289**	**1,399**
Claims incurred, net of reinsurance			
Claims paid	9		
Gross		-123	-138
Reinsurers' share		5	5
Change in provision for claims outstanding			
Gross		155	43
Reinsurers' share		-27	12
		10	**-78**
Change in other technical provisions, net of reinsurance			
Provision for unearned premiums and unexpired risks			
Gross		2	17
		2	**17**
Operating expenses	10	**-1,218**	**-1,191**
Investment charges		**0**	**-1**
Technical result, life assurance business		**922**	**998**

SEK million	Note	2009	2008
NON-TECHNICAL ACCOUNT			
Technical result, property & casualty insurance business		**61**	**0**
Technical result, life assurance business		**922**	**998**
Investment income	11	2,452	2,910
Unrealised gains on investments	12	102	174
Investment charges	13	-3	-1,290
Unrealised losses on investments	14	-108	-60
	15	**2,443**	**1,734**
Allocated investment return transferred to the technical account	4	-3	0
Other revenues		124	0
Other expenses		-5	-1,348
Result before taxes		**3,542**	**1,384**
Tax on result for the year	16	375	88
Other taxes	16	-461	-631
		-86	**-543**
Result for the year		**3,456**	**841**

balance sheet

SEK million	Note	2009	2008
ASSETS			
Investments			
Investments in group and associated companies	17		
Shares and participations in group companies		10,572	10,671
Loans to group companies		1,310	3,218
Shares and participations in associated companies		270	199
Other financial investments	18		
Shares and participations		167	119
Bonds and other fixed-income securities		1,732	2,455
Lending to credit institutions		—	665
Derivatives		—	19
Deposits held with ceding undertakings	19	1,248	1,390
		15,299	**18,736**
Investments for the benefit of life assurance policyholders who bear the investment risk			
Assets for conditional bonuses	20	7,137	2,466
Unit linked assets	21	92,545	67,893
		99,682	**70,359**
Reinsurers' share of technical provisions			
Provision for unearned premiums and unexpired risks	30	181	243
Provision for claims outstanding	31	821	854
		1,002	**1,097**
Debtors			
Debtors arising out of direct insurance operations	22	55	44
Debtors arising out of reinsurance operations		23	57
Other debtors	23	634	1,272
Deferred tax, net	24	1,189	837
		1,901	**2,210**
Other assets			
Tangible assets	25	43	33
Cash and bank balances	26	1,596	203
		1,639	**236**
Prepaid expenses and accrued income			
Accrued interest and rent		28	65
Deferred acquisition costs	27	2,900	3,043
Other prepayments and accrued income	28	534	482
		3,462	**3,590**
TOTAL ASSETS		**122,985**	**96,228**

SEK million	Note	2009	2008
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Share capital (1,030,762,688 shares with par value of SEK 1)		1,031	1,031
Share premium reserve		139	139
Profit or loss brought forward		8,988	8,076
Result for the year		3,456	841
		13,614	**10,087**
Untaxed reserves	29	**2,091**	**2,091**
Technical provisions, gross			
Unearned premiums and unexpired risks	30	294	286
Claims outstanding	31	1,380	1,421
		1,674	**1,707**
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross			
Conditional bonuses	32	7,137	2,471
Unit linked obligations	33	93,885	69,375
		101,022	**71,846**
Other provisions			
Pensions and similar obligations	34	234	234
Taxes		180	175
Other provisions	35	469	2,540
		883	**2,949**
Deposits received from reinsurers		**980**	**1,073**
Creditors			
Creditors arising out of direct insurance operations	36	279	267
Creditors arising out of reinsurance operations		11	20
Derivatives	37	0	61
Other creditors	38	1,999	4,974
		2,289	**5,322**
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	27	13	20
Other accruals and deferred income	39	419	1,133
		432	**1,153**
TOTAL EQUITY, PROVISIONS AND LIABILITIES		**122,985**	**96,228**
Memorandum items			
Pledged assets and collateral			
Pledged assets and therewith comparable collateral for own liabilities and for reported commitments for provisions	41	2,212	2,356
Assets covered by policyholders' beneficiary rights	41	101,681	72,867
		103,893	**75,223**
Contingent liabilities	42	416	878

statement of changes in equity

SEK million	Restricted equity Share capital	 Share premium reserve	Unrestricted equity Profit/loss brought forward	 Total equity
Equity at the beginning of 2008	**1,031**	**139**	**8,551**	**9,721**
Translation differences for the year			-15	-15
Group contributions after deducted tax			-463	-463
Share-based payments			3	3
Total changes in net worth recognised directly in equity, excluding transactions with owners	**1,031**	**139**	**8,076**	**9,246**
Result for the year			841	841
Equity at year-end 2008	**1,031**	**139**	**8,917**	**10,087**
Translation differences for the year			3	3
Group contributions after deducted tax			55	55
Share-based payments			13	13
Total changes in net worth recognised directly in equity, excluding transactions with owners	**1,031**	**139**	**8,988**	**10,158**
Result for the year			3,456	3,456
Equity at year-end 2009	**1,031**	**139**	**12,444**	**13,614**

Total number of shares outstanding	**2009**	**2008**
At 1 January	1,030,762,688	1,030,762,688
At 31 December	1,030,762,688	1,030,762,688
All shares have a par value of SEK 1 per share.		

cash flow statement

SEK million	2009	2008
Operating activities		
Result before tax	3,542	1,384
Policyholder tax	-461	-631
Adjustment for dividends from group companies	-1,495	-2,314
Adjustment for non-cash items[1]	185	952
Adjustment for payment to Skandia Liv in accordance with arbitration ruling 2008	—	871
Paid tax	-11	—
Cash flow from operating activities before changes in assets and liabilities	**1,760**	**262**
Cash flow from change in investments/technical provisions, where the risk is borne by the policyholders, net[2]	0	24
Increase of other investments pertaining to operating activities	671	-155
Change in other operating receivables and operating liabilities[3]	-3,584	190
Cash flow from operating activities	**-1,153**	**321**
Investing activities		
Change in investments not used directly in the operations, net	666	901
Dividends from group companies	1,495	2,314
Other[4]	1,120	-678
Cash flow from investing activities	**3,281**	**2,537**
Financing activities		
Loans floated	—	8,728
Amortisation of loans	-288	-11,518
Group contribution preceding year	-463	54
Other	18	12
Cash flow from financing activities	**-733**	**-2,724**
NET CASH FLOW FOR THE YEAR	**1,395**	**134**
Cash and cash equivalents at start of year	**203**	**68**
Exchange rate differences in cash and cash equivalents	**-2**	**1**
Cash and cash equivalents at end of year	**1,596**	**203**

[1] Amortisation and write-downs	9	12
Change in value of investments	2	-115
Unrealised foreign exchange gains/losses	-44	309
Change in deferred acquisition costs	128	165
Change in deferred fee income	-6	-8
Change in technical provisions excluding savings in life and unit linked assurance	69	-72
Share-based payments	17	4
Reversal of write-down of group companies	-759	-220
Loss on sale of group companies	677	329
Write-down of group companies	87	534
Other	5	14
Adjustment for non-cash items	**185**	**952**

[2] Change in technical provisions where the risk is borne by the policyholders, net	29,304	-22,799
Purchases and sales of investments where the risk is borne by the policyholders, net	-29,304	22,823
Cash flow from change in investments/technical provisions where the risk is borne by the policyholders, net	**0**	**24**

[3] The item "Change in other operating receivables and operating liabilities" has been adjusted for group contributions that have been booked, but not received/paid, in the amount of SEK 74 million (-643) including tax on group contributions.

[4] Acquisition of tangible fixed assets	-19	-5
Shareholder contribution to associated companies	-71	-47
Change in loans, group companies	1,856	-532
Acquisitions of group companies	0	—
Sales of group companies	234	561
Repayment of shareholder contribution from group companies	—	314
Shareholder contribution to group companies	-885	-30
Payment to Skandia Liv in accordance with arbitration ruling	—	-871
Other	5	-68
Other	**1,120**	**-678**

performance analysis

PROPERTY & CASUALTY INSURANCE (PER LINE OF INSURANCE)

SEK million	TOTAL	Disability and accident	Direct foreign
Technical result, property & casualty insurance business			
Premiums earned, net of reinsurance	157	0	157
Allocated investment return transferred from the non-technical account	3	0	3
Claims incurred, net of reinsurance	-82	0	-82
Operating expenses	-17	0	-17
Technical result, property & casualty insurance business	**61**	**0**	**61**
Run-off result	**-38**	**0**	**-38**
Technical provisions, gross			
Unearned premiums and unexpired risks	253	181	72
Claims outstanding	910	789	121
Total technical provisions, gross	**1,163**	**970**	**193**
Reinsurers' share of technical provisions			
Unearned premiums and unexpired risks	-181	-181	—
Claims outstanding	-789	-789	—
Total reinsurers' share of technical provisions	**-970**	**-970**	**—**
Notes to the Performance analysis, property & casualty insurance business			
Premiums earned, net of reinsurance			
Premiums written, gross	930	649	281
Premiums ceded	-699	-649	-50
Change in provision for unearned premiums and unexpired risks	-13	-26	13
Reinsurers' share of change in provision for unearned premiums and unexpired risks	-61	26	-87
	157	**0**	**157**
Claims incurred, net of reinsurance			
Claims paid[1]			
Gross	-609	-422	-187
Reinsurers' share	653	422	231
Change in claims outstanding[2]			
Gross	-119	-132	13
Reinsurers' share	-7	132	-139
	-82	**0**	**-82**

[1] Including claims portfolios and claims settlement costs.
[2] Including change in claims settlement reserve.

LIFE ASSURANCE (PER LINE OF INSURANCE)

SEK million	TOTAL	Occupational pension insurance[1]				Other life assurance				Life reassurance accepted
		Life assurance	Unit linked assurance	Waiver of premium insurance	Total	Life assurance	Unit linked assurance	Waiver of premium insurance	Total	
Technical result, life assurance business										
Premiums written, net of reinsurance	**839**	0	418	122	540	51	239	8	298	1
Investment income	**0**	—	—	—	—	—	—	—	—	0
Other technical income, net of reinsurance	**1,289**	0	814	0	814	142	333	0	475	—
Claims incurred, net of reinsurance	**10**	0	-38	55	17	-1	-12	7	-6	-1
Change in other technical provisions, net of reinsurance	**2**	—	—	-1	-1	—	—	3	3	0
Operating expenses	**-1,218**	-1	-581	11	-571	-175	-452	0	-627	-20
Investment charges	**0**	—	0	0	0	—	0	0	0	0
Technical result, life assurance business	**922**	**-1**	**613**	**187**	**799**	**17**	**108**	**18**	**143**	**-20**
Run-off result	**109**	**—**	**—**	**100**	**100**	**—**	**—**	**9**	**9**	**—**
Technical provisions, gross										
Unearned premiums and unexpired risks	**41**	—	—	21	21	—	—	20	20	—
Claims outstanding	**470**	—	0	414	414	—	0	56	56	—
Technical provisions, gross	**511**	**—**	**0**	**435**	**435**	**—**	**0**	**76**	**76**	**0**
Technical provision for life assurance policies where the risk is borne by the policyholders, gross										
Conditional bonuses	**7,137**	33	—	—	33	7 104	—	—	7 104	—
Unit linked obligations	**93,885**	—	66,335	—	66,335	—	26,249	—	26,249	1,301
Technical provision for life assurance policies where the risk is borne by the policyholders, gross	**101,022**	**33**	**66,335**	**—**	**66,368**	**7,104**	**26,249**	**—**	**33,353**	**1,301**
Reinsurers' share of technical provisions										
Claims outstanding	**-32**	—	—	-32	-32	—	—	0	0	—

[1] Occupational pension insurance is defined in accordance with the definition provided by the Swedish Financial Supervisory Authority.

Notes to the Performance analysis, life assurance business

SEK million	TOTAL	Occ. Life assurance	Occ. Unit linked assurance	Occ. Waiver of premium insurance	Occ. Total	Other Life assurance	Other Unit linked assurance	Other Waiver of premium insurance	Other Total	Life reassurance accepted
Premiums written, net of reinsurance										
Premiums written, gross	**867**	0	418	150	568	51	239	8	298	1
Premiums ceded	**-28**	—	0	-28	-28	—	0	0	0	—
	839	0	418	122	540	51	239	8	298	1
Claims incurred, net of reinsurance										
Claims paid										
Gross	**-112**	—	-34	-63	-97	0	-5	-9	-14	-1
Reinsurers' share	**5**	—	—	5	5	—	—	0	0	—
Claims settlement costs	**-11**	0	-4	1	-3	-1	-7	0	-8	—
Change in claims outstanding										—
Gross	**155**	—	0	138	138	—	0	17	17	—
Reinsurers' share	**-27**	—	—	-26	-26	—	—	-1	-1	—
	10	—	-38	55	17	-1	-12	7	-6	-1

notes (SEK million)

Note 1 Significant accounting policies

1. General information
The Annual Report of Skandia Insurance Company Ltd (publ) pertains to the period 1 January–31 December 2009. Skandia is domiciled in Stockholm, Sweden, with head offices in Stockholm and registered number 502017-3083. Skandia was established in 1855 and was listed on the Stockholm Stock Exchange between 1863 and 2006. As from 2006, Skandia is a subsidiary of Old Mutual plc, domiciled in London, UK.

The Annual Report for the 2009 financial year has been approved by the Board of Directors and Chief Executive for publication on 28 April 2010 and will be presented at the Annual General Meeting on 18 June 2010.

2. Basis of preparation
The Annual Report has been prepared in conformity with the Swedish Annual Accounts Act for Insurance Companies and Swedish Financial Supervisory Authority regulations and general guidelines on annual reports of insurance companies (FFFS 2008:26), as well as Swedish Financial Reporting Board (RFR) recommendation RFR 2.2 "Accounting for legal entities". In accordance with these regulations and general guidelines, Skandia applies so-called legally limited IFRS. By legally limited IFRS is meant application of IFRS and accompanying interpretations that have been adopted by the European Commission, along with the deviations prescribed by FFFS 2008:26 and RFR 2.2. This entails that all EU-endorsed IFRSs and interpretations are to be applied as far as possible within the framework of Swedish legislation and taking into account the connection between accounting and taxation.

In reference to Ch. 7 of the Swedish Annual Accounts Act for Insurance Companies, no consolidated financial statements are prepared for Skandia. Skandia is a subsidiary of Old Mutual plc and is included in the consolidated financial statements prepared by Old Mutual. The Annual Report of Old Mutual plc is available at www.oldmutual.com and can be ordered from Old Mutual, 2 Lambeth Hill, London EC4V 4GG, UK.

The financial statements are presented in Swedish kronor (SEK), rounded off to the nearest million (unless otherwise indicated). They are based on historical cost, except for the following assets and liabilities, which are stated at fair value: financial derivative instruments, investments held for trading, and financial assets and liabilities pertaining to unit linked assurance and traditional life assurance.

The accounting policies stated below have been applied for all periods presented in this annual report.

3. Critical assessments and important sources of uncertainty in estimations
In application of significant accounting policies in accordance with IFRS, various assessments have been made that are of importance for Skandia's result of operations and financial position. In valuations of these assets and liabilities, according to the applicable accounting standards, assumptions and estimations are made regarding factors that affect the value of assets or liabilities on the balance sheet date. Applying assumptions and estimations in valuations always entails a risk that changes may need to be reported in subsequent periods, when the actual outcome has become known.

The most important assumptions and sources of uncertainty in estimations for Skandia are as follows:

The accounting policy that has the most significant impact on the reported amounts in the financial statements is the unbundling of contracts into insurance components and deposit components, which is described in section 6. Skandia has chosen to apply this unbundling method because of the increased transparency it results in. It clarifies how Skandia's revenues and expenses arise, and it treats all unit linked and traditional life assurance contracts in a uniform manner.

Changes in the value of investments held to cover obligations for unit linked assurance contracts and traditional life assurance reported as investment contracts, and the corresponding change in insurance obligations, are reported net in the income statement when the substance of the transaction is that changes in value are entirely attributed to the policyholders. See more information below in section 8, Unit linked investment contracts.

In the reporting of investment contracts (see section 6.2), both deferred fee income (DFI) and deferred acquisition costs (DAC) are reported on a linear basis over the anticipated term of the contracts.

The most important assumptions about the future, as well as sources of uncertainty, that could affect the reported amounts of assets and liabilities, are related to the technical provisions that are described in note 31 and the other provisions that are described in note 35 and in the Disputes section in the Board of Directors' Report.

The item Deferred tax includes loss carryforwards that can be used to reduce subsequent years' taxable surpluses. The loss carryforwards are assigned such a value that they correspond to the company's estimated future taxable surpluses in the coming three years based on forecast earnings. See more information below in section 19, Taxes.

Share-based payments are reported in accordance with IFRS 2. There is uncertainty in the calculations of the fair value of granted shares and options. See more information in note 43.

The reporting standard IAS 37 treats provisions for onerous contracts. Since the standard provides scope for interpretation regarding the timing of the provision for onerous contracts, in the year-end accounts as per 31 December 2009 Skandia has chosen to apply the standard interpretation, which recommends that a provision for onerous contracts related to rental properties is not made until a definitive vacancy, which did not take place in 2009. The interpretation used is in line with the parent company Old Mutual's accounting policies.

4. Changed accounting policies
4.1 Changed accounting policies caused by new or amended reporting standards issued by IASB for the 2009 financial year
Following is a description of the changed accounting policies that Skandia applies as from 1 January 2009. Other amendments to IFRSs with application as from 2009 have not had any material effect on the accounting.

Disclosure of financial instruments
Amendments in IFRS 7 Financial Instruments: Disclosures, with application from 1 January 2009 affect Skandia's financial reporting as from the 2009 Annual Report. The amendments primarily entail new disclosure requirements about financial instruments carried at fair value on the balance sheet. Instruments are broken down into three levels, depending on the quality of input data in the valuations. The breakdown into levels determines how and which disclosures are to be provided about the instruments, where level 3 – with the lowest input data – is covered by more disclosure requirements that the other levels. These disclosure requirements have mainly affected note 18. In addition, the amendments in IFRS 7 entail a few changes in disclosures about liquidity risk. According to the transitional stipulations in IFRS 7, during the first year of application, comparison information does not need to be made for the disclosures required by the amendments.

New standard for reporting business combinations
New IFRS 3 Business Combinations: This standard is prospectively applied by the Old Mutual Group already for the 2009 financial year. The main changes compared with the previous standard pertain to transaction costs, which upon acquisition shall be expensed and not be included in the cost of the acquisition, that minority interests may be measured at fair value, rules for acquisitions carried out in steps, and reporting of acquired, deferred tax assets. The changes have not entailed any material impact for Skandia.

Revised standard for consolidated accounting and separate financial statements
Amendments in IAS 27 Consolidated and Separate Financial Statements: This standard is prospectively applied by the Old Mutual Group already for the 2009 financial year. The main changes in the existing standard pertain to the rules on reporting of changes in minority interests, which do not result in the parent company losing its controlling influence; in such cases, the change in value shall be reported directly against equity and be distributed among the company's owners. In cases where the parent company looses its controlling influence, the remaining minority share is measured at fair value. Skandia does not present any consolidated accounting itself, but refers to Old Mutual's consolidated annual report, see section 2 above.

4.2 New IFRSs and interpretations that have not yet begun to be applied
A number of new or amended standards and interpretation pronouncements will not take effect until the coming financial year and have not been applied prospectively in the preparation of these financial statements. New features or amendments that will be applicable as from the 2010 financial year and forward will not be prospectively applied. To the extent that anticipated effects on the financial statements of the application of the following new or amended standards and interpretation statements are not described below, the company has not yet made any assessment of their effects.

Presentation of financial statements
Amendments in IAS 1 entail that revenues and expenses that were previously reported directly in equity shall instead be reported in other comprehensive income, which the company presents directly after the income statement. The change is obligatory starting in 2010 for all financial companies that apply the Financial Supervisory Authority's guidelines. The changes will affect the layout and presentation of Skandia's financial statements starting in 2010.

Review of IAS 39 Financial Instruments
Planned amendments in IAS 39 are being made in three steps, of which the first step has resulted in a new standard from IASB. The other two steps are currently under development.

Step 1 Classification and valuation
The standard is intended to replace the part of IAS 39 that deals with financial assets. The aim is to simplify the accounting. Only two valuation categories will remain: financial assets at fair value and amortised cost. For assets measured at fair value, there will still be an opportunity to allocate changes in value "through profit or loss" and "in comprehensive income". On 12 November 2009, IASB published IFRS 9 Financial Instruments, which takes effect on 1 January 2013. The European Commission will make a decision on an application date in 2010. The standard will be complemented with financial liabilities in 2010.

Step 2 Amortised cost and impairment
Drafting and circulation work is in progress regarding the proposed model for testing of impairment of financial assets.

Step 3 Hedge accounting
Drafting and circulation work is expected to be initiated by IASB during the first half of 2010.

5. Foreign currencies
Transactions in foreign currency are recalculated to the functional currency at the exchange rate in effect on the transaction date. Skandia's functional currency is Swedish kronor. As an approximation of the exchange rate in effect on the date of transaction, ordinarily the average exchange rate for the period is used. Foreign currency–denominated assets and liabilities are translated to SEK at financial year-end rates of exchange. Non-monetary items denominated in a foreign currency that are measured in terms of historical cost are translated using the exchange rate in effect on the date of the transaction, and non-monetary items in foreign currency that are measured at fair value are translated using the exchange rate in effect at the date when the fair value was determined.

Exchange rate differences are reported in the income statement as foreign exchange gains and losses, respectively.

Assets and liabilities in independent foreign branches are translated to SEK at financial year-end rates of exchange, while the income statements are translated at the average rate of exchange for the period. Translation differences that arise do not affect profit/loss, but are instead recognised directly in equity.

6. Insurance and investment contracts – classification and unbundling
According to IFRS 4, contracts are to be classified as either insurance or investment contracts. Contracts that contain a significant insurance risk are classified as insurance contracts and are reported in accordance with IFRS 4. Contracts that do not transfer significant insurance risk from the policyholder to the company are classified as investment contracts and are reported as financial instruments in accordance with IAS 39. For contracts that contain both an insurance component and a deposit component, and where it is possible to determine the value of the components separately, according to IFRS 4 the company is permitted to use unbundling, which entails that the contract is broken down into an insurance component and a deposit component in the accounting.

Skandia issues both insurance contracts and investment contracts.

Insurance contracts are contracts under which Skandia accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract, as they do not transfer significant insurance risk from the policyholder to the company.

With respect to Skandia's unit linked and traditional life assurance, which in step 1 are classified as an investment contract, it is possible to determine the value of the deposit component separately from the insurance component in a reliable manner. To provide more relevant financial information, Skandia unbundles its unit linked assurance contracts and reports the deposit component and insurance component as if they were separate contracts. The insurance component of unit linked assurance is classified as an insurance contract and is handled according 6.1 below. The deposit component, which includes the financial instrument and the related service process, is treated according to the principles that apply for investment contracts, see 6.2 below. For the unbundled contracts, the fees and costs arising from the contract are split between the insurance and deposit components. Front-end fees and acquisition costs are split according to the expected future profitability within the components.

6.1 Insurance contracts

Insurance contracts include healthcare insurance contracts and the unbundled insurance component of unit linked contracts and traditional life assurance contracts.

(a) Measurement

Skandia makes a provision for anticipated future claims that have been incurred but not yet paid. As a rule, such provisions are made in accordance with the principles for reserve provisions and calculation of guarantees set forth in the Skandia Group Corporate Manual, which is approved by the Board of Skandia. For long-term obligations, such as provisions for disability insurance business, the liability is discounted using a market interest rate, but taking into account regulatory guidelines and other rules on how discounting may be done. Such provision is reported in the balance sheet as “Claims outstanding”.

For contracts where insurance risk premiums in a period are intended to cover the claims in that period, the portion of premiums received that relates to unexpired risks on the balance sheet date is reported as an unearned premium liability. Such contracts include, for example, unit linked contracts and certain life assurance contracts. This provision is reported in the balance sheet as “Unearned premiums and unexpired risks”.

(b) Liability adequacy test

At each reporting date, Skandia carries out a liability adequacy test of its insurance contract liabilities to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. In performing these tests, current best estimates of future contractual cash flows as well as claims handling and administration expenses are used. These cash flows are discounted and compared to the carrying amount of the provision. Any deficiency is immediately charged to income.

(c) Recognition of revenue

Premiums for insurance contracts are recognised as revenue when they become payable by the contract holder. For contracts where insurance risk premiums in a period are intended to cover the claims in that period, those premiums are recognised as revenue proportionally over the period of coverage.

(d) Recognition of costs

Costs for insurance contracts are recognised as an expense when incurred, with the exception of commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts. These are capitalised as deferred acquisition costs. The principles for deferring acquisition costs of insurance contracts are the same as the principles for deferring acquisition costs of investment contracts, see section 6.2 (c).

The change in provisions for insurance contracts is reported under expenses in the income statement. Claims paid are recorded as an expense upon payment.

(e) Reinsurance

Contracts entered into by Skandia with reinsurers, under which the company is compensated for losses on contracts issued by the company and that meet the classification requirements for insurance contracts in section 6, are classified as ceded reinsurance. Contracts that do not meet these requirements are classified as financial assets and liabilities. Accepted reinsurance is treated similarly to other contracts (see section 6) and is reported according to that classification.

For ceded reinsurance, the benefits to which the group is entitled under its reinsurance contracts are reported as the “reinsurers' share of technical provisions” and “deposits held with cedants”. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

Skandia tests its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that a reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

The impairment loss is also calculated using the same method used for these financial assets. These processes are described in section 10.

6.2 Investment contracts

Investment contracts include the deposit component of unit linked and traditional life assurance contracts.

(a) Measurement

Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets. They are designated at inception as financial instruments at fair value through profit or loss.

Valuation techniques are used to establish the fair value at inception and each reporting date. The company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined using current values, which reflect the fair value of the financial assets contained within the securities linked to the financial liability.

The initial and subsequent measurement amount of the financial liability is its fair value. However, if the liability is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender.

If, for a certain portfolio, the expected future revenue is lower than the expected future variable costs, a provision for onerous contracts must to be established for this portfolio.

Investment contracts are reported on the liabilities side under the headings “Conditional bonuses” and “Unit linked obligations”.

(b) Recognition of revenue

Amounts received from and paid to investment contract holders are accounted for in the balance sheet as deposits received or repaid, and are not included in premiums and claims in the income statement.

Fees charged for managing investment contracts are recognised as revenue in line with the provision of the investment management services to the contract holders by Skandia. The revenue is recognised in the income statement as premiums and among other technical income, respectively. These services are provided equally over the lifetime of a contract. Front-end fee income, such as the unallocated part of premiums, is therefore deferred through a deferred fee income (DFI) item. In practice, this entails a linear amortisation over the anticipated lifetime of the contracts. Amortisation is calculated for groups of contracts, but it is done in such a way that it reflects the pattern that a contract-for-contract method would have resulted in. The amortisation takes into account the fact that contracts are prematurely redeemed or cancelled upon death using a persistency factor. For a portfolio of contracts, amortisation is thus done according to a slightly exponential curve, with higher amounts early in the lifetime of the contracts and lower amounts toward the end of lifetime of the contracts, when fewer contracts remain in the respective portfolios.

(c) Recognition of costs

Incremental costs directly attributable to securing a new investment contract are deferred. In Skandia's case, these costs are mainly incremental acquisition costs paid to sales personnel, brokers and others. Deferred acquisition costs are amortised as Skandia recognises the related revenue, which means that they follow the pattern of the service provision. Just like with deferred fee income, deferred acquisition costs are amortised according to a persistency factor. The asset is tested for impairment every accounting period to ensure that the economic future benefits expected to arise from the contracts exceed its face amount.

All other costs, such as non-incremental acquisition costs or maintenance costs, are recognised in the accounting period in which they arise.

7. Subsidiaries, associates and jointly controlled entities

Subsidiaries are companies that are subject to the controlling interest of Skandia. Controlling interest entails, directly or indirectly, a right to determine a company's financial and operating strategies in order to receive economic benefit. When determining whether a controlling interest exists, consideration is given to potential shares with voting rights that can immediately be exercised or converted.

Associates are entities in which Skandia has significant influence, but not control, over the financial and operating strategies – usually a holding between 20% and 50% of the number of votes.

Joint ventures are entities in which Skandia exercises a joint controlling interest established by a contractual agreement.

Shares in these categories of company are stated at cost. The carrying amount is reviewed on each balance sheet date to determine if there is any indication of impairment. If such an indication exists, the asset's recoverable value is established. An impairment charge is made when the carrying amount of the asset or cash-generating unit exceeds the recoverable value. The impairment charge is recognised in the income statement.

8. Unit linked investment contracts

(a) Investments held to cover liabilities for unit linked and traditional life assurance contracts

These assets consist of investments for the benefit of life assurance policyholders who bear the investment risk and are reported on a separate line in the balance sheet ("Unit linked assets" and "Assets for conditional bonuses", respectively). Investments for the benefit of policyholders who bear the investment risk are stated at fair value in accordance with the requirements of the Annual Accounts Act for Insurance Companies, Ch. 4 § 2 pt. 12. The securities are classified as "fair value through profit or loss" and are stated at fair value, with any resulting gain or loss recognised in the income statement.

Changes in the value of unit linked funds and traditional life assurance and the corresponding change in insurance liabilities are reported net in the income statement. The substance of the transaction is that the changes in value belong solely to the policyholders. Therefore, Skandia believes that net accounting makes it easier for policyholders and other interested parties to understand the transactions and assess the entity's performance and future cash flows. Insurance assets are valued at the latest bid price.

(b) Liabilities for linked investment contracts

Policyholder deposits are invested in securities chosen by the policyholder, and the undertaking to the policyholders is reported as a liability. The size of the liability correlates directly to the value development of the securities and the amount of premiums paid in and benefits paid out. The liabilities are accounted for under the fair value option as "fair value through profit or loss".

9. Other financial instruments

Other financial instruments reported in the balance sheet include, on the assets side, trade accounts receivable, equities, loan receivables, fixed-income securities and derivatives. Among liabilities and equity are trade accounts payable, loan liabilities and derivatives.

Non-derivative financial instruments are initially carried at cost, corresponding to the instrument's fair value plus transaction costs for all financial instruments, except for those that belong to the category financial assets at fair value through profit or loss, which are stated at fair value excluding transaction costs. A financial instrument is classified upon initial accounting based on the purpose that the instrument was acquired for. Derivative instruments are carried initially and on a continuing basis at fair value.

Financial instruments are measured on a continuing basis according to the type of asset or liability in question (see below). Realised gains and losses are calculated as the difference between the book value and the sales price. Purchases and sales of securities and currencies are recognised on the transaction date, i.e., on the day the transaction was carried out. The counterparty's receivable/liability is reported net between the transaction date and the settlement date under the items "Other debtors" or "Other creditors" if clearing is done through a clearing organisation. If this is not the case, the payment is reported gross under the items "Other debtors" or "Other creditors". Valuation of the respective asset classes is described below. Assets are valued at bid price and liabilities at offer price.

(a) Loan receivables and trade accounts receivable

Loans used as investments are stated at amortised cost less a deduction for possible impairment. Each receivable is valued individually. Loans are initially recorded at cost including transaction costs and are recognised at the settlement date. The initial value at the settlement date represents the fair value of the loan.

Interest received on loans and changes in amortised cost are accounted for as interest income. Interest income is allocated to the period to which it pertains in accordance with the effective interest method. Loans are derecognised from the balance sheet when they are pre-paid or redeemed.

Trade receivables are reported in the amount in which they are expected to be received after deducting for bad debts, which are assessed individually. The anticipated duration of trade receivables is short, which is why the value is reported at nominal amount without discounting. Impairment of trade receivables is reported among operating expenses.

Cash and bank balances consist of cash balances and call deposits. The item also includes funds that constitute part of transactions between policyholders and fund companies. Cash and cash equivalents include cash and bank balances and bank lines of credit.

(b) Financial assets held for trading

Investments held for trading are stated at fair value, with resulting gains or losses recognised in the income statement. By fair value is meant the realisable value on the accounting date without deducting estimated sales costs. For stocks and bonds listed on an authorised stock exchange or marketplace, the realisable value normally refers to the bid/offer price on the accounting date. All changes in value are recognised in the income statement.

Unlisted equities are stated at fair value based on the International Private Equity and Venture Capital Valuation Guidelines, which have been formulated by EVCA, among others, where the market value is the value that an asset could be sold for in a transaction between two independent parties, with full information and with the willingness to complete the transaction in an arm's length transaction. For unlisted shares where the fair value cannot be determined with reliability, the shares are valued at cost.

All derivatives are stated at fair value. Derivatives are valued individually. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see below). Gains and losses on derivatives not classified as hedges are recognised in the income statement.

The fair value of currency options is calculated using the Black & Scholes model, while the fair value of interest derivatives is calculated by discounting future cash flows. Fair value of FX-forwards is obtained from official market quotes.

(c) Other financial liabilities

Interest-bearing liabilities are stated at amortised cost. Interest expenses are allocated to the period to which they belong.

Borrowing costs are expensed in the income statement in the period they pertain to. Skandia does not capitalise borrowing costs as a part of the asset's acquisition cost.

Trade accounts payable and other current liabilities with short durations are stated at nominal amount without discounting.

10. Impairment of assets

The carrying amount of Skandia's assets is reviewed at each balance sheet date to determine if there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated, which is the greater of the net sales price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time-adjusted monetary values and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there is both evidence that the need to recognise impairment no longer exists and a change has been made in the assumptions that served as the basis for calculating the impaired amount. The reversal increases the asset's carrying amount. The carrying amount may not exceed the carrying amount after depreciation, if the impairment loss had never been recognised.

Assets excluded from this principle include financial assets that are carried at fair value through profit or loss (see section 9 above) and deferred tax assets (see section 19).

11. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and costs directly attributable to the asset for putting it in place and the condition to be used in accordance with the purpose of the purchase. Depreciation is reported in the income statement on a straight-line basis over the estimated useful lives of the items. The estimated useful life is considered to be three years for IT equipment, five years for other equipment, and twenty years for improvement costs for another party's real estate. Applied useful lives, residual values and depreciation methods are re-evaluated yearly.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

12. Equity

Restricted equity consists of share capital and the share premium reserve. Other equity is classified as unrestricted equity.

13. Group contributions

The Swedish tax code permits group contributions to be rendered and received by Swedish corporations, subject to special restrictions, with the contribution becoming taxable for the recipient and tax-deductible for the rendering entity. In accordance with pronouncement UFR 2 issued by the Swedish Financial Reporting Board (RFR), group contributions are reported according to their economic significance. This entails that group contributions rendered and received in order to minimise the group's total tax are reported directly against profit brought forward after deducting for their current tax effect.

14. Appropriations and untaxed reserves

The tax code in Sweden allows companies to reduce their taxable income through appropriations to untaxed reserves. In accordance with Swedish practice, changes in these reserves are reported in the income statement of individual companies under the heading "Appropriations". The accumulated total of these appropriations is reported in the balance sheet under the heading "Untaxed reserves", of which 26.3% can be considered to be a deferred tax liability and 73.7% as restricted equity. The deferred tax liability can be described as a noninterest-bearing liability with an unspecified maturity.

Where applicable, untaxed reserves are offset against tax-loss carryforwards or become subject to taxation when they are dissolved. In evaluating the company's financial strength, the total value of untaxed reserves can be regarded as risk capital, since losses generally can be covered through reversals of these untaxed reserves, without payment of taxes.

15. Technical provisions

The rules of the Skandia Group Policy for Technical Provisions have been adhered to in calculations of all technical provisions.

Provisions for waiver of premium insurance are calculated using a discount rate that has been set according to market principles. The Financial Supervisory Authority's guidelines on choice of interest rate (FFFS 2008:23) have also been taken into account to calculate life assurance provisions and certain other technical provisions. The assumptions used in the calculation, except for the interest rate and an inflation assumption regarding insured benefits, are an estimate for recoveries among disability claimants on the basis of previous experience from this business. The calculation is in conformity with standard formulas and Swedish practice.

Technical provisions for group accident and private healthcare insurance have been calculated using triangulation methods combined with average claims techniques – methods that have been accepted practice in property & casualty insurance for a long time and are recommended by actuarial associations in general in both Europe and the USA. These reserves are not discounted due to the short average duration of claims payments.

The uncertainties that exist in the estimations are handled in a prudent manner in accordance with generally accepted accounting practice. An example of this prudence principle is that an incompletely reported claim is taken up at its maximum value in the calculation.

IBNR provisions are made for claims that have been incurred but not reported. Based on experience, it can be warranted to assume that certain claims are reported with a time delay. The IBNR calculation is performed using several different variants of the chain ladder method, involving the number of reported claims, benefits paid out to date, etc. The calculation variants are compared and compiled to arrive at a joint estimation of number of claims, after which the reserve is determined under the assumption that the unreported claims have the same average cost as those that have been reported.

Technical provisions for unearned premiums can be of the following three types:

- "Genuine" unearned premium
  In cases where risk premiums are paid to the insurance company long before their due date, an allocation of premiums should be done, i.e., a provision is made for the excess amount and is dissolved in the period in which the premiums are due. Since the company's business consists mostly of monthly premiums, no provision has been made for the 2009 accounts. Checks are performed on a regular basis to ensure that the need for this type of provision is immaterial.
- So-called active reserves
  Waiver of premium insurance is written at an equalised premium. A calculation is made of the need for periodic premiums, and a provision for the future is made of any excess amount of paid-in premiums. In the same way, the provision is dissolved for insureds whose premium requirement exceeds the charged, equalised premium. In this manner, the earned premium will consist of a risk premium that is charged according to an age-differentiated rate. This calculation technique is in accordance with Swedish practice.
- Provision for unexpired risks
  For insurance contracts with insufficient risk premium compared with the premium need, a technical provision is made for unexpired risks – a so-called deficiency supplement. This provision is dissolved in pace with premiums as they fall due.

16. Other provisions

Provisions are reported in the balance sheet when the group has an obligation (legal or constructive) due to an event that has occurred and when it is likely that an outflow of resources will be required to meet the obligation and that amount can be estimated in a reliable manner.

17. Revenue recognition

Skandia's accounting policies for revenues and expenses from insurance contracts are reported in section 6.1. The corresponding report for investment contracts can be found in section 6.2.

Revenue consists of the fair value of consideration received or receivables for services provided in the ordinary course of business. Revenue is recognised as follows:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount. For instruments measured at fair value, the difference between the (theoretical) amortised cost and that actual fair value is reported as an unrealised change in value. Dividend income from investments is recognised when the shareholder's rights to receive payments have been established.

For more information about investment income, see section 18 below.

18. Investment income

Revenues and expenses from investments associated with property & casualty insurance business are reported in the income statement under the non-technical account. From the result of the investment operations, investment income in property & casualty insurance business is transferred over from the non-technical account to the technical account based on the average technical provisions after deducting outstanding net receivables in the insurance operations. The interest rates follow the return on medium-term government bonds with consideration given to the insurance operations' cash flows over time.

In traditional life assurance, investment income is reported in the income statement under the technical account of life assurance business. For unit linked assurance business, investment income is reported for such investments where the life assurance policyholders bear the investment risk under the technical account of life assurance business, while investment income for own account is reported in the non-technical account. See section 8, Unit linked investment contracts, for more information about net reporting in the income statement of changes in the value of unit linked assurance and traditional life assurance, and the corresponding change in insurance obligations.

19. Taxes

(a) Current tax

Current tax is the tax that is to be paid or received in the current year, based on the tax rates that apply as per the balance sheet date. Current tax also includes the tax on group contributions and adjustments of current tax pertaining to previous periods. Current tax is based on a tax rate of 26.3% for the 2009 financial year.

(b) Deferred tax

Deferred taxes are calculated according to the balance sheet method, based on temporary differences between reported and tax values of assets and liabilities. Loss carryforwards that can be used to reduce taxable profits in future years are only assigned such value that corresponds to the company's anticipated future taxable profits in the coming three years.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax for the 2009 financial year has been calculated using a tax rate of 26.3%. Deferred tax liabilities and receivables are not discounted.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to shareholders' equity, in which case the deferred tax is also recognised in equity.

(c) Policyholder tax

Policyholder tax is not a tax on Skandia's profit, but rather, is paid by the company on the behalf of its policyholders. In Sweden, life assurance companies pay a policyholder tax that is based on a standard calculation of the return on the net assets managed for the benefit of policyholders. The expense is classified as a tax expense. The corresponding income received when debiting the policyholders is reported in the income statement in the item "Other technical income". There is a direct connection between the tax paid and the cost charged to the policyholders.

20. Pensions

Skandia applies the rules of the Pension Obligations Vesting Act *(Tryggandelagen)* and the Financial Supervisory Authority's guidelines for reporting of pensions. Compliance with the Pension Obligations Vesting Act is a prerequisite for obtaining the right to make tax deductions for premiums. Consequently, legal entities are not required to comply with the rules of IAS 19 pertaining to defined benefit pension plans. For further information on pensions, see note 44, "Pension disclosures".

21. Share-based payments

According to IFRS 2, share-based payments are to be expensed. The expense is calculated as the market value of the shares and options at the grant date. The fair value determined at the grant date of equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on Old Mutual's estimate of shares that will eventually vest. The vesting period is the period that the employees must remain in service at Skandia in order for their options to vest. Social security costs are also allocated over the vesting period, in accordance with pronouncement UFR 7 issued by Swedish Financial Reporting Board (RFR): "IFRS 2 and social security costs for listed companies". For further disclosures on share-based payments, see note 43, Average number of employees, salaries and remuneration, section VI.

22. Leasing

In its capacity as a lessee, Skandia only has operating lease contracts and no finance leases. The charge to income under an operating lease is the rental expense for the accounting period, recognised on a straight-line basis over the term of the relevant lease.

23. Cash flow statement

IAS 7 Cash Flow Statements is applied with the adaptations that are necessary in view of Skandia's business. In preparation of the cash flow statement, in cash flow from operating activities, net accounting has been done of changes in technical provisions, assumptions on unit linked assurance contracts and similar investments. Net accounting provides a better picture of the cash flows accruing to Skandia.

Investments are an integral part of the business, as a large part of inflows in the insurance operations must be invested in accordance with the operating rules.

The change of investments in the group that are not used directly in the operations is reported under "Cash flow from investing activities".

Cash and cash equivalents include bank balances less bank overdrafts, which are reported in the balance sheet as loans. Cash and cash equivalents also include amounts that make up part of transactions between policyholders and fund companies. Short-term investments are included in cash and cash equivalents.

Note 2 Risk analysis

Introduction

Skandia's activities give rise to a wide range of risks that have the potential to affect the group's operating result and financial position. Skandia's unit linked assurance and healthcare insurance business include risk aspects in the form of insurance risk, among other things. In addition to these are operational risk – risks attributable to people, processes and systems. Certain risks in the operations are eliminated, others are limited, and certain risks are accepted. Regardless of which strategy that applies in the management of risks, it is of utmost importance that all risks in the operations are effectively managed and controlled.

Skandia has a low tolerance for risk, particularly financial market risk, and therefore has a business model that is mainly based on insurance in which the policyholder bears the investment risk. However, Skandia has exposure to finance market risk through the fee structure of the insurance policies. As a result of events in the external environment, such as when issuers go bankrupt or when the media focuses on the financial market in a negative light, players in the savings market become more observant of financial market risks – especially liquidity and credit risks – including Skandia.

The following description of risks is presented in accordance with IFRS 7 and IFRS 4.

Risk strategy

Skandia's risk strategy is based on consideration for two stakeholder groups: customers and shareholders. Through measures aimed at safeguarding the interests of Skandia's customers and shareholders, the interests of other stakeholders are also taken into account, such as Skandia's employees.

With respect to customer risk, Skandia's goal is to be able to guarantee the obligations it has made towards its customers with a high degree of certainty and to meet reasonable expectations made by customers. Customer risk is managed through technical provisions and by maintaining sufficient solvency capital, and by maintaining a sound governance structure within the company. Skandia works actively with its customers on informing them and suggesting suitable measures to help customers manage their insurance capital in a reasonable manner.

Other risks, in addition to financial market risks, are actively managed with the intention of reducing the expected negative outcome and keeping the unlikely potential outcomes within tolerance. Skandia assumes that its shareholders can independently manage the main financial risks such as market and currency volatility by, for example, hedging or diversification in order to achieve their own desired exposures.

Organisation of Skandia's internal control

Skandia's board of directors is responsible for the overall governance and control of all risks in Skandia – business risks as well as operational risks. This is done through principles and policies, among other things. The Audit Committee, which is a committee within Skandia's board, is responsible for reviewing risk management and compliance within Skandia based on the detailed Instructions for the Audit Committee adopted by the Board.

Skandia's Chief Executive has a composite view of Skandia's risks and is responsible for ensuring that the risks in Skandia are reported, managed and escalated, as well as – where necessary – providing risk management support to the operations. Skandia's Chief Executive shall also co-ordinate all risk reporting done within Skandia as well as compliance. Skandia's Chief Executive has delegated the execution of these duties to the head of the Skandia Nordic Independent Risk & Compliance Control (IRCC) unit. This unit consists of a Compliance function, a Risk function and the Chief Actuary, i.e., all control units gathered in order to work according to the same process and ensure independence vis-à-vis the operative activities. IRCC's responsibility includes analysing risks and compliance and – where necessary – challenging the operative management's assessments and reporting on risks in the division to the Chief Executive and the Board of Directors. In addition, within Skandia's Finance unit is a business control unit that is responsible for quantitatively evaluating the risks that arise in the operations (including calculations of economic capital and risk measurement). A risk committee is tasked with monitoring and analysing risks in the operations. Skandia's Chief Actuary is responsible for controlling insurance risks.

Skandia's Internal Audit function is directly subordinate to the Board and is organisationally separated from Skandia's operations. It is responsible for performing independent audit and oversight of both the operative units and internal control (the risk control and compliance functions). External Audit is appointed by the Annual General Meeting and must meet certain authorisation requirements. External Audit performs an external, independent audit.

Risk responsibility at Skandia

Skandia uses Old Mutual's decentralised Enterprise Risk Management methodology for managing and controlling risks. According to this methodology, formal governance structures are complemented by a risk governance model based on three lines of defence.

This model distinguishes between the functions that own and manage risks and compliance (the first line), the functions that oversee risks and compliance (the second line), and the functions for independent review that provide independent assurance (the third line). Skandia applies Old Mutual's risk model, as illustrated in the chart below:

	Executive		**Non-executive**
	First line	*Second line*	*Third line*
What it covers	• Strategy • Tone at the top • Code of conduct/risk tolerance • Risk prediction and avoidance • Risk management and reporting • Compliant and risk-aware operating practices • Performance management	• Clear and well communicated risk policies • Effective control and monitoring systems • Independent risk and compliance oversight, control and challenge • Assist with advisory support	• Independent assurance and oversight
Responsibility	The business head or person who, according to internal/external rules, job description or work duties, owns and manages the risk, such as: • Skandia's board of directors • Skandia's Chief Executive • 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: • Skandia's Chief Executive • Control functions, such as Risk, Compliance and the Chief Actuary	• Internal Audit • External Audit • Board sub-committees for audit and risk

- As the first line of defence, the Board sets the company's risk tolerance, approves the strategy for managing risk and is responsible for the company's system of internal control. It is in the first line of defence that the risk owners for the various risk categories exist. Skandia's Chief Executive, supported by the Executive Management Team, has overall responsibility for the management of risks facing the company. Management and staff have the primary responsibil-

ity for managing risk and compliance, i.e., they are responsible for taking a risk inventory (including compliance risks), for regularly reporting and managing risks and violations of internal or external rules, and for writing and implementing policy documents, instructions and/or guidelines adapted to the business unit.
- The second line of defence is the part of operations that performs independent control of risks and compliance as well as for 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 functions in the third line of defence shall provide independent, objective assurance to the Board of the effectiveness of the company's risk management, risk control and compliance. This is handled by Skandia's Internal Audit unit, by the Board's Audit Committee, and by the external auditors.

In early 2009 all units belonging to the second line of defence were centralised in the aim of further developing and streamlining the work with risk management, risk control and compliance by establishing joint processes throughout the company. However, the most important purpose was to shore up independence with respect to the first line of defence (the operative activities). As a starting point for this work, under direction of Skandia's Chief Executive, a framework was created for risk and compliance work within Skandia that was also adopted by the Board in early 2009. The aim of this framework is to clarify roles, responsibilities and reporting requirements. Various committees exist within Skandia in which the various risk categories are discussed. These include, among others, the Skandia Asset & Liability Committee (all financial risks), the Skandia Risk & Compliance Committee (all risk categories including reporting from the Skandia Asset & Liability Committee), and the Skandia Audit Committee (a committee within Skandia's board).

Skandia's risk tolerance

Skandia's risk tolerance, i.e., how much risk Skandia is willing to accept, and is set out in the Skandia Corporate Manual. Risks or events falling outside the agreed levels are to be identified and reported. Remedial action regarding these risks and events is subject to the Executive Management's and Audit Committee oversight. In 2009 Skandia's board, management and certain key persons underwent training in the three steps regarding Risk Appetite. Risk Appetite is an internal framework within Old Mutual, which expresses quantitative limits for the company's risk tolerance with respect to volatility of the operating result and cash flows, among other things. During the same period, work was begun on establishing and describing Skandia's local risk appetite, where the respective product companies were given responsibility for calculating and validating the quantitative metrics, and for establishing risk appetite as a key management metric in the Executive Management.

Risk measurement

Sensitivity analysis – Skandia calculates aggregate sensitivities on a quarterly basis. These analyses evaluate the impact of changes in assumptions on the value of in-force business and the present value of new business. They also show the sensitivity of surplus value to key parameters regarding risks related to financial markets, insurance and customer behaviours, which are an integral part of Skandia's business.

Economic Capital – Skandia measures customer risk using an Economic Capital calculation that uses the following key concepts:
- Required Economic Capital: the amount required to secure promises made to customers with the desired high degree of certainty.
- Actual Economic Capital: the amount available to secure promises made to customers – which in principle corresponds to the value of the company's existing business.

Skandia assesses the adequacy of its available economic capital biannually by carrying out an analysis of its main risk exposures and resulting required Economic Capital levels according to a standard set by Old Mutual.

Significant risks in Skandia's business

At present Skandia conducts unit linked assurance business including a custody account insurance solution (depåförsäkring) and supplementary insurance, such as waiver of premium insurance, and some property & casualty insurance (private healthcare and accident insurance). Skandia also has risks associated with advisory activities. In addition, Skandia conducts support services associated with insurance and advisory activities. Skandia also provides such support services to other companies in the Skandia group. Skandia's activities give rise to a wide range of risks that have the potential to affect the company's operating result and financial position. Some of these are a natural consequence of the company's business strategy and are not limited to a specific business segment. Other risks, such as insurance risks, are segment-specific.

The most significant risks in Skandia's business are described below. This categorisation groups together risks that are analysed similarly and for which similar types of mitigation can be applied within Skandia.

Strategic and political risks

Strategic risk is the risk that Skandia's strategy is insufficient for maintaining Skandia's position in the market or inappropriate for the operating environment or the available resources. Strategic and political risks commonly include market conduct and misselling risks, changes in tax codes and other legislation, loss of rating and reputation, and similar other risks.

Strategic risk is coupled to the group's strategy, and this risk is therefore primarily a group risk for the Old Mutual Group. However, this risk shall also be acknowledged and managed at the company and business unit levels. Strategic risk is addressed through regular reconsideration of the strategy and through processes for reviewing, following up and assessing the objectives and risks of Skandia's strategy. While some mitigating actions are possible, often this risk cannot be avoided and is an integral part of doing business.

Financial markets risk

Financial markets risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, thereby affecting Skandia's results. The term embodies both the potential for loss and the potential for gain.

Financial markets risk includes three main types of risk:
- exchange rate risk, which reflects changes in foreign currency exchange rates
- interest rate risk, which reflects changes in market interest rates
- share price risk, which reflects changes in the market value of shares and other equity instruments (such as mutual funds)

Skandia's future revenues consist largely of fees on assets under management and are therefore affected by the development of these values. For example, the value of funds and custody accounts are affected by interest rate movements as well as the trend in the stock market, and thus Skandia's future cash flows are exposed to both interest rate risk and share price risk. These cash flows are part of the distributable profits that form the basis for the calculation of embedded value.[1] Skandia does not hedge cash flow risks arising from the volatility of customers' holdings or the volatility that arises from fluctuations in exchange rates.

Skandia is exposed to market risks associated with purchases and sales of fund units that are made in connection with policyholders' trading in unit linked insurance. The exchange rate risk that arises from this is hedged. Interest rate and share price risks are limited.

Market risks exist in the form of options embedded in unit linked contracts, but to a small extent. Due to the nature of Skandia's business, these risks are not substantial to shareholders. Risk management in the form of controls is exercised with respect to these risks.

Insurance risks

Pure insurance risks are related to factors such as accidents, mortality, longevity and morbidity, transferred from policyholders to the company. These risks can arise for various reasons, from natural statistical variations and misestimates, to political or socioeconomic factors that could not be foreseen.

The risks for the company consist of a development that is different than what the company assumed in its calculations, either due to the fact that individually incurred claims are more costly than anticipated, or through a higher number of incurred claims than anticipated. This is managed through regular follow-up of claims experience and, where necessary, reconsideration of applied assumptions when setting premiums and calculating provisions for incurred claims. For example, morbidity risks – including insurance risk for private healthcare insurance – are partly dependent on the economy, i.e., factors in the external environment, such as the Swedish social insurance office's practices, have an impact on claims experience. The trend in mortality in society and in insured portfolios is also studied on a continuing basis.

Insurance contracts are written so as to allow future changes in applicable assumptions, even if the change may lead to changes in premiums.

Skandia has a restrictive stance to insurance risks, and a set of rules aimed at limiting the group's net insurance risk. Both morbidity risks and mortality risks are reinsured when the risk in a single contract exceeds the limit stated in the rules (net retention). The new risk insurance business that is written today consists primarily of waiver of premium risks, i.e., disability risks. Contracts are written for individual customers in connection with occupational pensions business in Sweden. Adverse selection risk associated with the writing of contracts containing insurance risk is low, since the risk element cannot be chosen without corresponding savings.

In exceptional cases Skandia also provides reinsurance for a few contracts to companies that are or have been part of the Skandia group.

The table below shows the extent to which Skandia has covered its insurance risks through reinsurance.

RISK REINSURANCE

Insurance obligations	2009	2008
Total exposure	1,674	1,707
Reinsured exposure	-1,002	-1,097
Non-reinsured exposure	672	610

Skandia's private healthcare insurance and group accident insurance business was previously entirely reinsured. Starting with the second half of 2009, only the Swedish business is reinsured, and the private healthcare business in the Danish and Norwegian branches is now reported for own account in the table.

When a death has occurred, as a rule the insurance case is finally settled within one or a couple of months after the death. For waiver of premium claims, which are settled with periodic payment of benefits during the entire time that of the disability, the uncertainty is initially greater with respect to the exact size of the claim. Provisions are based on experience-based assumptions, and a new, individual calculation for each claim is made monthly. After approximately two years' time, it is easy to predict a claim's remaining total claim cost.

For private healthcare insurance, the average period of benefits payment is short. However, for accident insurance, it can take a long time before the scope of the injury is completely known. In both cases, the provisions are based on previous years' payment patterns as well as known changes in insurance products, insured portfolios and external events.

The assumptions are managed through a duration-matched bond portfolio and are reviewed by a special Skandia Asset & Liability Committee, which among other things continuously monitors changes in the development pattern for the insurance obligations. The duration of claims is shown in the table below.

DURATION

	< 1 yr	1-5 yrs	>5 yrs	Total
Claims reserves, private healthcare	84 %	16 %	0 %	100 %
Claims reserves, group accident	26 %	52 %	22 %	100 %
Claims reserves, waiver of premium insurance	16 %	49 %	35 %	100 %

Management of credit risk, market risk and liquidity risk in connection with insurance risk follows the descriptions under these headings.

Solvency risk

Solvency risk is the risk of the company not being able to meet its obligations to the policyholders. Skandia manages solvency risk by maintaining low risk tolerance, i.e., by having a business model that is primarily based on Skandia offering long-term savings through insurance in which the policyholders bear the investment risk, by taking solvency costs into account in economic calculations, by performing regular solvency measurements, and by developing a risk-based view of its business activities. Skandia and Old Mutual are closely studying the progress of Solvency II, i.e., the work on determining what solvency rules will look like in Europe in a couple of years. Skandia and Old Mutual are working on fulfilling the Solvency II regime through a project called iCRaFT (Integrated Capital Risk and Financial Transformation).

[1] Embedded value is the sum of shareholders' equity in unit linked and traditional life assurance and the surplus values of insurance in force.

Risks arising from unforeseen customer behaviour

Customer behaviour risk is the risk that customers surrender or transfer their insurance contracts, or cease premium payments for their contracts with Skandia in a volume that has not been expected. In general, customer actions such as surrenders, prepayments or premium cessation can give rise to liquidity problems and the loss of future revenues or interest. The risk for insufficient liquidity is explained in the section on liquidity risk below.

Customer behaviour risk is primarily managed through conscious product design. In addition, activities are undertaken to persuade customers to continue their contracts with Skandia.

Many insurance contracts with a savings element can be surrendered in full or in part before maturity for a cash surrender value. There seems to be some covariance in the risk for surrenders with developments in the financial markets and labour markets. This risk for loss of future revenues is managed according to local market conditions. For example, for unit linked assurance, Skandia charges a surrender fee to customers and/or distributors who cancel contracts early.

The sensitivity of the present value of future, anticipated cash flows to changes in customer behaviour in unit linked assurance and custody account insurance business is shown in the Sensitivity analysis section below.

Operational risks

Operational risks arise from external events and from the failure of people, processes and systems. Most areas can be affected, including management, handling of complaints, standards of service for policyholders, brand management and marketing, product pricing, solvency, capital and liquidity management, improper handling of confidential information, containment of costs, risks not addressed and managed, accounting systems and controls (including their documentation), management of major internal changes, the use of information technology in the day-to-day businesses, information technology infrastructure and security, internal and external fraud, physical security and others.

Skandia manages operational risks through various forms of preventive measures and security arrangements as well as through preparedness planning aimed at handling situations that may arise as effectively as possible. Operational risks shall be identified on a yearly basis and measured through risk and control self assessment. In addition, Skandia has a system for capturing “hits and near misses”, which also indicates loss data, chiefly for operational risks, in order to learn from experience and thereby avoid similar events in the future.

The impact of operational risks is usually recognised through expenses. The sensitivity of the present value of future, anticipated cash flows to changes in expense levels is shown in the Sensitivity analysis section below.

HR risks

HR risk is the risk of the company not having the human capital needed to maintain its business. This can include the risk of the company not being able to attract and retain competent people for maintaining its business. In addition, there may be a risk of the company culture not being in agreement with the company’s objectives or of the incentive structure failing to motivate the employees. The respective departmental managers are responsible for taking care of their employees in the best manner possible. However, it is Skandia’s HR department which, together with management, creates the conditions for this through methods, tools and an overriding HR strategy that is coupled to the company’s overall objectives.

Credit risk

Credit risk (counterparty risk) is the risk of a counterparty being unable to pay amounts in full when due or, alternatively, not paying Skandia on the agreed-upon date, thereby causing the company a loss. Skandia is exposed to credit risk in connection with reinsurance, among other things. The main form of credit risk management is the assessment of the counterparty’s ability to fulfil its obligations. Credit risk is managed in general through guidelines with clearly set limits.

For its investments in bonds and derivatives, Skandia has adopted a conservative investment strategy that is limited in concentration and credit rating. Similarly, wherever possible, Skandia only uses reinsurers with at least a single A long-term credit rating from Standard & Poor’s or its equivalent. Skandia has credit exposure to intermediaries. These risks are also well diversified with local limits on maximum individual exposures.

The focus on counterparty risks has grown stronger in the financial climate that has prevailed in recent years.

Skandia is exposed to the following credit risks:

CREDIT RISK EXPOSURES[1) 2) 3)]

	2009	2008
Loans to companies		
Other	1,310	3,218
Loans to credit institutions		
Bank	–	665
Bonds		
Government bonds, credit rating AAA	1,732	2,455
Derivatives		
Counterparties with AA credit rating	–	–
Counterparties with single-A credit rating	–	19
Reinsurers		
Reinsurers with single-A credit rating	1,003	1,129
Reinsurers with undetermined credit rating	22	25
Banks		
Counterparties with AA credit rating	36	15
Counterparties with single-A credit rating	1,560	186
Counterparties with undetermined credit rating	–	2
Total	**5,663**	**7,714**

1) Credit exposure is indicated as the book value after provision for bad debts.

2) There are no pledged assets.

3) In connection with the year-end book-closing, a customary control is performed of receivables past due. As per 31 December 2009, receivables past due did not amount to material levels.

Liquidity risk

Liquidity risk is the risk that Skandia will encounter difficulty in meeting obligations associated with financial liabilities when they are due. Skandia is exposed to liquidity risk in several areas, including:

- funding unexpectedly large volumes of new business,
- in unit linked assurance in connection with fund switches, and
- derivatives.

Skandia manages liquidity risk by assigning each business area to draw up liquidity strategies for the daily management of liquidity in the business, by setting – where applicable – and continuously monitoring liquidity limits, and by drawing up continuity plans for liquidity risks. For known, large liquidity risks, systems shall be in place for regular calculation of worst-case scenarios.

The risks in the insurance operations are managed on a day-to-day basis by Skandia’s Treasury unit through forecasting and maintaining back-up credit facilities, which put Skandia in a better position to handle unforeseen liquidity flows. The credit facilities are summarised in the following table, which refers to the Standard & Poor's credit rating system:

AVAILABLE CREDIT OPPORTUNITIES

Lender's credit rating	2009	2008
AA	1,000	1,000
A	2,000	2,000

For derivatives, a certain level of liquidity risk arises due to cash flow effects in relation to roll-overs. Again, this is managed by Treasury in the manner described above.

The following table shows a maturity structure of Skandia's financial liabilities that are subject to liquidity risk. The table is based on contractual maturity dates.

MATURITY ANALYSIS

CONTRACTUAL RESET DATES FOR FINANCIAL AND INSURANCE LIABILITIES EXPOSED TO LIQUIDITY RISK 2009

	<1 yr	1-5 yrs	>5 yrs	Total
Derivatives	0	–	–	**0**
Provisions for life assurance policies where the investment risk is borne by the policyholders	50,286	9,368	41,368	**101,022**
Technical provisions	658	562	454	**1,674**
Creditors arising out of direct insurance operations	279	–	–	**279**
Creditors arising out of reinsurance operations	11	–	–	**11**
Other creditors	1,999	–	–	**1,999**
Total	**53,233**	**9,930**	**41,822**	**104,985**

Assets that cover the above liabilities are included on the asset side of the balance sheet. In addition, the company has unutilised lines of credit. See also note 26.

Investments to cover technical provisions have the following maturities in 2009

	<1 yr	1-5 yrs	>5 yrs	Total
Market value including accrued interest	747	761	341	1,849

MATURITY ANALYSIS

CONTRACTUAL RESET DATES FOR FINANCIAL AND INSURANCE LIABILITIES EXPOSED TO LIQUIDITY RISK 2008

	<1 yr	1-5 yrs	>5 yrs	Total
Derivatives	61	–	–	**61**
Provisions for life assurance policies where the investment risk is borne by the policyholders	30,454	7,560	33,832	**71,846**
Technical provisions	593	558	556	**1,707**
Creditors arising out of direct insurance operations	267	–	–	**267**
Creditors arising out of reinsurance operations	20	–	–	**20**
Other loans	288	–	–	**288**
Other creditors	4,686	–	–	**4,686**
Total	**36,369**	**8,118**	**34,388**	**78,875**

Assets that cover the above liabilities are included on the asset side of the balance sheet. In addition, the company has unutilised lines of credit. See also note 26.

Investments to cover technical provisions have the following maturities in 2008

	<1 yr	1-5 yrs	>5 yrs	Total
Market value including accrued interest	543	813	812	2,168

Compliance risks

Compliance risk is the risk of Skandia not complying with laws, regulations and internal rules that govern how Skandia's business is to be conducted, which can lead to various types of sanctions or financial loss. Management of this risk is conducted within the individual units at Skandia and is followed up on a regular basis by the Independent Risk Control and Compliance function.

Sensitivity analysis

Skandia adheres to the Market Consistent Embedded Value (MCEV) calculation principles and result monitoring prescribed by Old Mutual. Embedded value reporting is used internally as the principal method for measuring the performance of the business. MCEV is also the base for the sensitivity tests that are performed of the unit linked assurance and custody account insurance business.

MCEV consists of expenses and revenues that have already been recognised in the form of adjusted equity (the Adjusted Net Worth or "ANW") and of the discounted expected future cash flows (the value of business in force or "VBIF"). For a more detailed description of MCEV, please refer to the CFO Forum document entitled *Market Consistent Embedded Value (MCEV) Principles* © and associated *Basis for Conclusions*, which is available at www.cfoforum.nl.

The anticipated flows in VBIF are based on – among other things – assumptions with respect to future fees, fund management and other costs, commissions paid to distributors, mortality and surrender rates of contracts. The return on policyholders' investments, inflation and discount rates are based on the applicable risk-free market interest rate.

MCEV consists of the sum of reported equity for unit linked and life assurance, and the surplus value of business in force (VBIF). VBIF represents the present value of expected future cash flows from in-force contracts that cannot be included in reported equity.

New business is defined as new contracts sold during the reporting period. The value of new business ("VNB") includes the value of expected future premiums and renewals and expected future contractual alterations to the extent that they can reasonably be predicted. VNB also includes recurring single premiums and changes to existing contracts where these are not variations already anticipated in VBIF.

The results of sensitivity tests pertaining to both VBIF and the VNB are shown below. The sensitivity tests for the financial assumptions sequentially test the effect of an increase first in the risk discount rate, and thereafter in the return on equities, bonds and inflation.

- **Tests A and B.** These show the effect of a 1 percentage point increase (A) and decrease (B) in the opening economic assumptions, compared with that used for the VBIF, ANW and VNB calculations. The increase and decrease, respectively, include assumptions for inflation and the discount rate.
- **Tests C and D.** These tests show the effect of a one-time rise (C) and a one-time decline (D) in the equity markets as per 31 December 2009. Most of the effect arises through the change in the level of fund-based fees in the future. The tests do not include any corresponding fall or rise in the bond market. The tests are not relevant for VNB, which is why only the effect on MCEV is shown.
- **Test E.** This test shows the effect of a surrender ratio being 10% lower than assumed, i.e., an assumption of 10% per year is changed to 9% per year in this test.
- **Test F.** This test shows the effect of a 10% decrease in internal maintenance expenses. If the continuing, future maintenance expense is assumed to be 50 per year for a product (and increasing with inflation), Test F entails that the cost will be assumed to be 45. External commission costs are fixed in advance and are thus not included in this test.
- **Tests G and H.** These tests show the effect of a decrease in the assumptions for the mortality rate by 5%. Test G shows the effect of lower assumptions for insurance policies with a positive risk sum, and Test H shows the effect of a corresponding decrease in the assumptions for insurance policies with a negative risk sum.
- **Test I.** This test shows the effect of a 10% increase in acquisition costs and thus only affects VNB.
- **Test J.** The economic capital that forms the basis for the cost of non-hedgeable risks in MCEV has been calculated with a 99.5% confidence interval over a one-year time horizon. In this test, the cost of non-hedgeable risks has increased through a change in the confidence level to 99.93%.
- **Test K.** This test shows diversification effects between hedgeable and non-hedgeable risks in the risk capital requirement.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

SEK 000s	MCEV	% change	VNB	% change	ANW (Req. cap.)	% change	ANW (Free surplus)	% change
Starting assumption	**12,796,919**		**1,011,860**		**993 656**		**861 307**	
A: 1% increase in economic assumptions	-286,824	-2.2%	-15,148	-1.5%				
B: 1% decrease in economic assumptions	307,526	2.4%	16,977	1.7%				
C: 10% increase in assets	900,648	7.0%	46,563	4.6%	-3	-0.000%	-3	-0.000%
D: 10% decrease in assets	-899,474	-7.0%	-46,558	-4.6%	3	0.000%	3	0.000%
E: 10% decrease in surrender assumptions	399,257	3.1%	79,693	7.9%				
F: 10% decrease in internal maintenance expenses	397,514	3.1%	18,690	1.8%				
G: 5% decrease in mortality assumptions for positive risk sum	8,319	0.1%	983	0.1%				
H: 5% decrease in mortality assumptions for negative risk sum	-10,944	-0.1%	-330	0.0%				
I: 10% increase in acquisition costs	—	—	-15,582	-1.5%				
J: Capital requirement with risk capital requirement based on a 99.93% confidence interval	-165,054	-1.3%	-7,065	-0.7%				
K: Capital requirement including diversification effects between hedgeable and non-hedgeable risks	138,240	1.1%	5,918	0.6%				

The sensitivity analysis for property & casualty insurance is conducted by stressing claims payments and reserves by 10%. The effect of this stress is measured in terms of operating result before tax.

Starting point

SEK 000s	Private Healthcare Denmark	Private Healthcare Norway
Premiums earned, net	137,496	19,762
Net financial items	-13,283	466
Total claim cost	-73,429	-8,424
Acquisition costs	-12,056	-306
Operating expenses	-12,925	-7,209
Operating result	**25,804**	**4,289**

Increase in the year's reserves by 10%

SEK 000s	Private Healthcare Denmark	Private Healthcare Norway
Premiums earned, net	137,496	19,762
Net financial items	-13,283	466
Total claim cost	-80,771	-9,267
Acquisition costs	-12,056	-306
Operating expenses	-12,925	-7,209
Operating result	**18,461**	**3,447**

Capital requirement

The focus, control and mandate of asset management are governed by Skandia's investment policy, which is a section of the Skandia Group Corporate Manual (where all of the group's policies are compiled). Monitoring of debt coverage, outcomes and risks is handled by a special Skandia Asset & Liability Committee. Follow-up, including sensitivity analyses, is conducted and reported on a quarterly basis. On the whole, the investment strategy is characterised by Skandia's general low risk appetite and risk tolerance, which is why the assets are invested conservatively and taking into account the anticipated future cash flows of technical provisions.

The Financial Supervisory Authority's oversight of insurance companies includes a quarterly reporting requirement for minimum solvency requirement and solvency capital. The calculation model for the solvency requirement for both unit linked and custody account insurance obligations is simple – the requirement is 1% of assets under management. An additional requirement is made for products that include insurance risk, depending on the risk content and type of insurance risk. However, in terms of amount, products containing insurance risk constitute a small portion of Skandia's insurance portfolio.

The solvency requirement according to the table is low compared with available capital. Alternative calculations are performed to reflect future requirements in a new Solvency II regime, among other things in the form of the Financial Supervisory Authority's traffic light system.

SOLVENCY CAPITAL AND SOLVENCY REQUIREMENT

	2009	2008
Solvency capital	12,101	8,710
Solvency requirement	1,121	893
Surplus	**10,980**	**7,817**

NOTES ON THE TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS

Note 3 Premiums written

	2009	2008
Direct insurance in Sweden	649	540
Direct insurance in other EEA countries	281	239
Premiums for ceded reinsurance with group companies	-699	-779
Paid-in and recognised premiums	**231**	**0**

Note 4 Allocated investment return transferred from the non-technical account

In the property & casualty insurance operations, the allocated investment return is transferred from the non-technical to the technical account based on average technical provisions less outstanding net receivables in the insurance operations. The interest rates mainly follow the yield of medium-term government bonds with consideration given to the insurance operations' cash flow over time.

For 2009 an interest rate of 3% has been used for allocated interest. In 2008 the entire insurance risk was reinsured, and therefore, no investment return was transferred from the non-technical account.

	2009	2008
Allocated investment return transferred from the non-technical account	3	0

Note 5 Claims incurred

	2009			2008		
	Gross	Ceded[1]	Net	Gross	Ceded[1]	Net
Claims paid	-594	653	59	-536	549	13
Change in provision for incurred and reported claims	-94	-27	-121	-9	9	0
Change in provision for incurred but not reported (IBNR) claims	-25	20	-5	-30	30	0
Operating expenses for claims settlement	-15	—	-15	-13	—	-13
Total	**-728**	**646**	**-82**	**-588**	**588**	**0**

[1] Pertains to reinsurance with group companies.

Of claims incurred, SEK -38 million (0) consists of net run-off result.

Note 6 Operating expenses

	2009	2008
Internal acquisition costs	-52	-44
External acquisition costs[1]	-30	-19
Change in deferred acquisition costs, gross	4	5
Administrative expenses	-173	-145
Reinsurance commissions and profit participations	227	208
Change in deferred acquisition costs, ceded reinsurance	7	-5
Total	**-17**	**0**

[1] Pertains to commissions for direct insurance.

For breakdown of total operating expenses, see note 45.

NOTES ON THE TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS

Note 7 Premiums written

	2009			2008		
	Gross	Ceded	Net	Gross	Ceded	Net
Periodic premiums[1]	198	-28	170	204	-26	178
Fees	669	—	669	674	—	674
Total	**867**	**-28**	**839**	**878**	**-26**	**852**

[1] Pertains to premiums for the insurance element of life assurance business where the investment risk is borne by the life assurance policyholders. All insurance contracts have been written in Sweden.

Note 8 Other technical income

	2009	2008
Volume-based cost reduction	793	752
Policyholder tax	459	630
Other	37	17
Total	**1,289**	**1,399**

Note 9 Claims paid

	2009			2008		
	Gross	Ceded	Net	Gross	Ceded	Net
Death	-40	—	-40	-45	—	-45
Disability	-72	5	-67	-78	5	-73
Claims settlement costs	-11	—	-11	-15	—	-15
Claims paid	**-123**	**5**	**-118**	**-138**	**5**	**-133**

Note 10 Operating expenses

	2009	2008
Internal acquisition costs	-405	-383
External acquisition costs	-441	-406
Change in deferred acquisition costs, gross	-134	-158
Administrative expenses	-258	-245
Reinsurance commissions and profit participations	20	1
Total	**-1,218**	**-1,191**

For breakdown of total operating expenses, see note 45.

NOTES ON THE NON-TECHNICAL ACCOUNT

Note 11 Investment income

	2009	2008
Dividends from shares and participations		
Shares and participations in group companies	1,495	2,314
Other shares and participations	1	59
Interest income, etc.		
Bonds and other fixed-income securities	58	82
Group companies	28	190
Other interest income	44	20
Foreign exchange gains, net	15	25
Reversed write-downs		
Shares and participations in group companies	759	220
Capital gains, net		
Bonds and other fixed-income securities	52	—
Total	**2,452**	**2,910**

Note 12 Unrealised gains on investments

	2009	2008
Shares and participations	102	—
Fixed-income securities	—	174
Total	**102**	**174**

Note 13 Investment charges

	2009	2008
Asset management charges	869	-236
Interest expenses, etc.		
Group companies	-49	-167
Other interest expenses	-10	-19
Foreign exchange losses, net	—	—
Depreciation and write-downs		
Write-down of shares in group companies	-87	-534
Capital losses, net		
Shares and participations in group companies	-677	-334
Other shares and participations	-49	—
Total	**-3**	**-1,290**

Note 14 Unrealised losses on investments

	2009	2008
Shares and participations	—	-60
Fixed-income securities	-108	—
Total	**-108**	**-60**

Note 15 Investment income, net, per category of financial instrument

	Asset/liability stated at fair value through profit or loss[1]		Loan receivables and trade receivables		Other asset/ liability not stated at fair value		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Capital gains/losses								
Asset management charges	—	—	—	—	869	-236	869	-236
Dividends on shares and participations	1	59	—	—	1,495	2,314	1,496	2,373
Interest income	68	87	62	204	0	1	130	292
Interest expenses	-5	-19	0	—	-54	-167	-59	-186
Foreign exchange gains	16	51	—	0	48	359	64	410
Foreign exchange losses	-49	0	0	0	0	-385	-49	-385
Reversed write-downs on shares in group companies	—	—	—	—	759	220	759	220
Write-down of shares in group companies	—	—	—	—	-87	-534	-87	-534
Capital gains/losses on equities	-49	0	—	—	-677	-334	-726	-334
Capital gains/losses on fixed-income securities	52	0	—	—	—	—	52	0
Capital gains/losses on investments for Investments for the benefit of life assurance policyholders who bear the investment risk	1,821	-2,932	—	—	—	—	1,821	-2,932
Of which, transferred to customers as Technical provisions for life assurance	-1,821	2,932	—	—	—	—	-1,821	2,932
	34	**178**	**62**	**204**	**2,353**	**1,238**	**2,449**	**1,620**
Unrealised gains/losses								
Equities	102	-60	—	—	—	—	102	-60
Fixed-income securities	-108	174	—	—	—	—	-108	174
Unrealised capital gains/losses on investments for Investments for the benefit of life assurance policyholders who bear the investment risk	20,468	-24,667	—	—	—	—	20,468	-24,667
Of which, transferred to customers as Technical provisions for life assurance	-20,468	24,667	—	—	—	—	-20,468	24,667
	-6	**114**	**—**	**—**	**—**	**—**	**-6**	**114**
Investment income	**28**	**292**	**62**	**204**	**2,353**	**1,238**	**2,443**	**1,734**

[1] Pertains to securities held for trading.

Note 16 Taxes

	2009	2008
Current tax pertaining to current year	8	-187
Current tax pertaining to previous years	—	6
Deferred tax	367	269
Tax on result for the year	**375**	**88**
Policyholder tax	-461	-631
Tax charge	**-86**	**-543**
Difference between company's tax charge and tax charge based on applicable Swedish tax rate:		
Pre-tax result	3,083	754
Less: Policyholder tax charge	459	630
Pre-tax result based on income taxation	**3,542**	**1,384**
Tax based on applicable tax rate, 26,3%	-932	-388
Tax pertaining to previous years	—	6
Losses for which deferred tax asset has not been taken into account	586	-304
Non-deductible costs	-274	-252
Non-taxable revenues	874	850
Tax effect of policyholder tax charged	121	176
Policyholder tax	-461	-631
Reported tax charge	**-86**	**-543**

NOTES ON THE BALANCE SHEET

Note 17 Investments in group and associated companies

	Cost[1]		Fair value		Carrying amount	
	2009	2008	2009	2008	2009	2008
Shares and participations in group companies[2]	10,572	10,671	16,766	28,194	10,572	10,671
Loans to group companies	1,310	3,218	1,310	3,218	1,310	3,218
Shares and participations in associated companies[3]	270	199	270	199	270	199
Total	**12,152**	**14,088**	**18,346**	**31,611**	**12,152**	**14,088**

[1] Valuation based on cost, i.e., after requisite write-downs.

[2] Shares and participations in group companies

	Reg. no.	Domicile	No. of shares	Share of capital, %	Share of equity	Share of result	Carrying amount 2009	Carrying amount 2008
Denmark								
Skandia Link Livsforsikring A/S		Copenhagen	7,469	100	229	-7	407	407
Norway								
Skandia Informasjonsteknologi AS		Oslo	1,000	100	20	0	15	15
Poland								
Skandia Zycie Towarzystwo Ubezpieczen Spolka Akcyjna		Warsaw	—	—	—	—	—	0
Sweden								
Dial Försäkringsaktiebolag (publ)	516401-8300	Stockholm	100,000	100	152	-19	252	252
Fastighetsaktiebolaget Stockholms Badhus	556537-2256	Stockholm	1,000	100	23	0	0	—
Livförsäkringsaktiebolaget Skandia (publ)	502019-6365	Stockholm	3,000	100	106,700	59,935	0	0
Skandiabanken AB (publ)	516401-9738	Stockholm	4,000,000	100	1,845	7	3,503	3,367
Skandia Capital AB (publ)	556306-3881	Stockholm	5,000	100	101	-10	100	100
Skandia Europe AB	556598-0322	Stockholm	1,000	100	1,157	86	1,563	1,563
Skandia Fastighet AB	556605-2113	Stockholm	1,000	100	56	0	0	—
Skandia Holding AB	556000-1033	Stockholm	3,639,552	100	114	1	114	200
Skandia Informationsteknologi AB	556023-5797	Stockholm	10,000	100	6	1	5	5
Skandia Investment Advisory Services AB	556555-6965	Stockholm	1,697,000	100	6	-1	11	7
Skandia Netline AB	556567-0154	Stockholm	1,000	100	40	0	33	33
Skandia Telemarketing AB	556606-6832	Stockholm	1,000	100	10	0	10	10
UK								
Skandia UK Ltd		Southampton	376,870,000	100	21,214	2	4,558	4,558
Skandia NTS Ltd		Southampton	500,001	100	1	-1	1	2
USA								
Skandia America Corporation		New York	—	—	—	—	—	152
Total							**10,572**	**10,671**

Cont. Note 17 Investments in group and associated companies

Changes of shares in group companies

	2009	2008
Accumulated cost		
Opening balance	15,363	15,698
Purchases	0	–
Sales	-911	-890
Shareholder contributions	140	869
Repayment of shareholder contribution		-314
Closing balance, 31 December	**14,592**	**15,363**
Accumulated write-downs		
Opening balance	-4,692	-4,378
Sales	759	220
Write-downs	-87	-534
Closing balance, 31 December	**-4,020**	**-4,692**
Carrying amount on 31 December	**10,572**	**10,671**

3) Shares and participations in associated companies

	Reg. no.	Domicile	No. of shares	Share of capital, %	Carrying amount 2009	Carrying amount 2008
Skandia-BSAM Life Insurance Company Ltd		Beijing	e.t.	50	259	195
Sophiahemmet Rehab Center AB	556248-6323	Stockholm	750	50	2	0
Skandia A/S		Copenhagen	250	50	0	1
Skandia Asset Management Fondmaeglarselskab A/S		Copenhagen	750,000	30	9	3
Total					**270**	**199**

Condensed information for associated companies	Revenues	Result	Assets	Liabilities	Equity	Share, %
Skandia-BSAM Life Insurance Company Ltd	0	-29	123	4	119	50
Sophiahemmet Rehab Center AB	18	-4	5	4	1	50
Skandia A/S	0	0	35	31	4	50
Skandia Asset Management Fondmaeglarselskab A/S	13	6	12	4	8	30

Note 18 Categories of financial assets and liabilities, and their fair values

	Financial assets stated at fair value through profit or loss					
Financial assets 2009	**Assets determined to belong to category**	**Held for trading**	**Loan receivables**	**Carrying amount**	**Fair value**	**Cost**
Shares and participations	–	167	–	167	167	66
Bonds and other fixed-income securities	–	1,732	–	1,732	1,732	1,693
Deposits with ceding undertakings	1,248	–	–	1,248	1,248	1,248
Assets for conditional bonuses	7,137	–	–	7,137	7,137	6,658
Unit linked assets	92,545	–	–	92,545	92,545	86,371
Debtors arising out of direct insurance operations	–	–	1	1	1	1
Other debtors	–	–	634	634	634	634
Cash and bank balances	–	–	1596	1,596	1,596	1,596
Accrued income	–	–	436	436	436	436
Total	**100,930**	**1,899**	**2,667**	**105,496**	**105,496**	**98,703**

	Level affiliation of financial assets at fair value through profit or loss 2009		
	Level 1	**Level 2**	**Level 3**
Shares and participations	–	–	167[1)]
Bonds and other fixed-income securities	1,732	–	–
Deposits with ceding undertakings	1,248	–	–
Assets for conditional bonuses	7,137	–	–
Unit linked assets	92,545	–	–
Total	**102,662**	**–**	**167**

Level 1: according to prices quoted in an active market for the same instruments.
Level 2: based on directly or indirectly observable market data that is not included in level 1.
Level 3: based on input data that is not observable in the market.

1) Most of the holding, approx. 93%, was divested with a capital gain during the first quarter of 2010, and therefore no sensitivity analysis is reported. See also under "Events after the balance sheet date".

	Financial liabilities stated at fair value through profit or loss				
Financial liabilities 2009	**Liabilities determined to belong to category**	**Held for trading**	**Other financial liabilities**	**Carrying amount**	**Fair value**
Conditional bonuses	7,137	–	–	7,137	7,137
Unit linked obligations	93,885	–	–	93,885	93,885
Creditors arising out of direct insurance operations	–	–	232	232	232
Derivatives	–	0	–	0	0
Other creditors	–	–	1,999	1,999	1,999
Accrued expenses	–	–	384	384	384
Total	**101,022**	**0**	**2,615**	**103,637**	**103,637**

	Level affiliation of financial liabilities at fair value through profit or loss 2009		
	Level 1	**Level 2**	**Level 3**
Conditional bonuses	7,137	–	–
Unit linked obligations	93,885	–	–
Derivatives	–	0	–
Total	**101,022**	**0**	**–**

Level 1: according to prices quoted in an active market for the same instruments.
Level 2: based on directly or indirectly observable market data that is not included in level 1.
Level 3: based on input data that is not observable in the market.

	Financial assets stated at fair value through profit or loss					
Financial assets 2008	**Assets determined to belong to category**	**Held for trading**	**Loan receivables**	**Carrying amount**	**Fair value**	**Cost**
Shares and participations	–	119	–	119	119	84
Bonds and other fixed-income securities	–	2,455	–	2,455	2,455	2,308
Lending to credit institutions	–	–	665	665	665	665
Derivatives[1)]	–	19	–	19	19	–
Deposits with ceding undertakings	1,390	–	–	1,390	1,390	1,390
Assets for conditional bonuses	2,466	–	–	2,466	2,466	2,684
Unit linked assets	67,893	–	–	67,893	67,893	81,211
Debtors arising out of direct insurance operations	–	–	1	1	1	1
Other debtors	–	–	1,272	1,272	1,272	1,272
Cash and bank balances	–	–	203	203	203	203
Accrued income	–	–	403	403	403	403
Total	**71,749**	**2,593**	**2,544**	**76,886**	**76,886**	**90,221**

1) Pertains to currency derivatives with a nominal value of SEK 262 million.

	Financial liabilities stated at fair value through profit or loss				
Financial liabilities 2008	**Liabilities determined to belong to category**	**Held for trading**	**Other financial liabilities**	**Carrying amount**	**Fair value**
Conditional bonuses	2,471	–	–	2,471	2,471
Unit linked obligations	69,375	–	–	69,375	69,375
Creditors arising out of direct insurance operations	–	–	235	235	235
Derivatives	–	61	–	61	61
Other creditors	–	–	4,974	4,974	4,974
Accrued expenses	–	–	1,100	1,100	1,100
Total	**71,846**	**61**	**6,309**	**78,216**	**78,216**

Note 19 Deposits with ceding undertakings

	2009	2008
Pertains to reinsurance of unit linked obligations. The deposits consist of Skandia's share of unit linked assets in group companies that have ceded reinsurance.	1,248	1,390

Note 20 Assets for conditional bonuses

	2009	2008
Pertains to custody account–based insurance *(depåförsäkring)*, in which the terms and conditions are equivalent to unit linked assurance. The life assurance policyholders bear the direct investment risk for these assets.	7,137	2,466

Note 21 Unit linked assets

	2009	2008
Equity-based funds	69,019	47,054
Fixed income funds	23,526	20,839
Total	**92,545**	**67,893**

Note 22 Debtors arising out of direct insurance operations

	2009	2008
Amounts receivable from policyholders	54	43
Amounts receivable from insurance brokers	1	1
Total	**55**	**44**

Note 23 Other debtors

	2009	2008
Amounts receivable from group companies	317	1,048
Amounts receivable from companies in the Skandia Liv group	53	73
Other debtors	264	151
Total	**634**	**1,272**

Note 24 Deferred tax, net

	2009	2008
Deferred tax liability, gross, pertaining to:		
Investments	13	47
Deferred tax assets, gross, pertaining to:		
Tax-loss carryforwards or other future tax deductions	1,291	1,342
Pensions and similar obligations	62	62
Other provisions	82	349
Other accrued expenses	34	19
Endowment insurance policies pledged as security for pension obligations	253	254
Less: items that do no meet requirements for asset accounting[1]	-520	-1,142
Deferred tax assets	**1,202**	**884**
Total deferred tax assets, net	**1,189**	**837**

[1] Pertains primarily to tax assets on loss carryforwards in cases where it has been judged to be less likely that they can be deducted from future taxation in the next three years.

Tax loss deductions can be offset against future profits indefinitely and amount to SEK 4,909 million (5,103). Unreported deferred tax liabilities pertaining to untaxed reserves amount to SEK 550 million (550).

Note 25 Tangible assets

Machinery and equipment	Cost	Accumulated depreciation	Carrying amount
As per 1 January 2008	**86**	**-45**	**41**
Purchases	7	—	7
Sales	-11	9	-2
Depreciation for the year	—	-13	-13
Exchange rate difference	0	0	0
As per 1 January 2009	**82**	**-49**	**33**
Purchases	11	—	11
Sales	-28	21	-7
Depreciation for the year	—	-9	-9
Exchange rate difference	0	0	0
As per 31 December 2009	**65**	**-37**	**28**
Improvement costs for another party's real estate[1]			
As per 1 January 2009	**—**	**—**	**—**
Purchases	15	—	15
As per 31 December 2009	**15**	**—**	**15**

[1] Depreciation will begin of improvement costs for another party's real estate when the asset is put in use in 2010.

Total book value of tangible assets at 31 December 2009	**80**	**-37**	**43**

Note 26 Cash and bank balances

	2009	2008
Granted credits as per balance sheet date	3,000	3,000
Of which, utilised as per balance sheet date	0	0

Note 27 Deferred acquisition costs

	2009			2008		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance						
Capitalisation of acquisition costs during the year	24	-13	11	20	-20	0
	24	**-13**	**11**	**20**	**-20**	**0**
Life assurance						
Accumulated capitalisation of acquisition costs	4,719	—	4,719	4,503	—	4,503
Amortisation of deferred acquisition costs during the year	-1,843	—	-1,843	-1,480	—	-1,480
	2,876	**—**	**2,876**	**3,023**	**—**	**3,023**
Total	**2,900**	**-13**	**2,887**	**3,043**	**-20**	**3,023**

Note 28 Other prepayments and accrued income

	2009	2008
Prepayments in the Skandia Liv group	63	77
Other prepayments	63	68
Accrued income from group companies	178	168
Other accrued income	230	169
Total	**534**	**482**

Note 29 Untaxed reserves

	2009	2008
Untaxed reserves consist of an equalisation reserve. The aim of the equalisation reserve is to smoothen out changes in the result of the insurance operations over time. Reversals are regulated in accordance with transitional stipulations made by the National Tax Act. No new provisions can be made to the equalisation reserve after 1990.	2,091	2,091

Note 30 Provision for unearned premiums and unexpired risks

	2009			2008		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance	253	-181	72	243	-243	0
Life assurance	41	—	41	43	—	43
Total	**294**	**-181**	**113**	**286**	**-243**	**43**

Note 31 Provision for claims outstanding

	2009			2008		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance						
Incurred and reported claims	701	-644	57	614	-671	-57
Incurred but not reported claims (IBNR)	149	-145	4	124	-124	0
Provision for claims settlement costs	60	—	60	57	—	57
	910	**-789**	**121**	**795**	**-795**	**0**
Life assurance						
Notified claims[1]	404	-23	381	535	-24	511
Unnotified claims	66	-9	57	91	-35	56
	470	**-32**	**438**	**626**	**-59**	**567**
Total	**1,380**	**-821**	**559**	**1,421**	**-854**	**567**

[1] The amount is discounted. The undiscounted amount was SEK 488 million (603).

Note 32 Conditional bonuses

	2009	2008
Opening balance	**2,471**	**103**
Deposits	4,206	2,732
Decrease due to surrenders	-290	-84
Decrease due to mortality	-17	-2
Changes in fund values		
Unrealised change in value	696	-243
Realised gain	237	38
Realised loss	-92	-54
Charges	-74	-19
Closing balance	**7,137**	**2,471**

Note 33 Unit linked obligations

	2009	2008
Opening balance	**69,375**	**94,264**
Deposits	8,593	8,032
Decrease due to surrenders	-1,750	-2,253
Decrease due to maturity	-1,745	-2,023
Decrease due to mortality	-143	-114
Change in fund values		
Unrealised change in value	19,772	-24,424
Realised gain	4,977	2,480
Realised loss	-3,301	-5,396
Charges	-1,766	-1,470
Exchange rate difference	-127	279
Closing balance	**93,885**	**69,375**

Note 34 Provisions for pensions and similar obligations

	2009	2008
Pertains to the provision for special employers' payroll tax to be paid upon future disbursements of previously expensed pensions. See also note 44, Pension disclosures.	234	234

Note 35 Other provisions

	2009	2008
Opening balance	**2,540**	**1,850**
New provisions	198	926
Utilisation of reserves	-614	-224
Reversal of provisions from previous years	-1,506	-185
Transfer to Skandiabanken	-45	—
Exchange rate difference	-104	173
Closing balance[1)]	**469**	**2,540**

1) Of which:	
Provision for restructuring	
Opening balance	80
New provisions	18
Utilisation of reserves	-63
Reversal of provisions from previous years	-12
Closing balance	**23**
Provision for cost of sold subsidiaries	
Opening balance	10
Reversal of provisions from previous years	-10
Closing balance	**0**
Provision for guarantees for divested businesses	
Opening balance	1,164
Exchange rate difference	-104
Utilisation of reserves	-310
Reversal of provisions from previous years	-643
Closing balance	**107**
Other provisions[2)]	
Opening balance	1,286
New provisions	179
Utilisation of reserves	-240
Reversal of provisions from previous years	-841
Transfer to Skandiabanken	-45
Closing balance	**339**

2) For additional information on other provisions, see the Board of Directors' Report.

Note 36 Creditors arising out of direct insurance operations

	2009	2008
Policyholders	243	236
Insurance brokers	36	31
Total	**279**	**267**

Note 37 Derivatives

	Cost		Fair value		Carrying amount	
	2009	2008	2009	2008	2009	2008
Currency forward contracts	—	—	0	61	0	61

Note 38 Other creditors

	2009	2008
Amounts payable to group companies	1,350	4,589
Amounts payable to companies in the Skandia Liv group	206	32
Other creditors	443	353
Total	**1,999**	**4,974**

The estimated fair value of long-term liabilities to group companies was SEK 0 million (288). The market value of other interest-bearing liabilities is estimated as the book value, due to the short term of the liabilities.

Note 39 Other accruals and deferred income

	2009	2008
Accrued interest expense	6	10
Other accruals	413	1,121
Deferred income	0	2
Total	**419**	**1,133**

Note 40 Anticipated recovery dates for assets and liabilities

	Max. 1 yr	Longer than 1 yr	Total
Assets			
Shares and participations in group companies	—	10,572	10,572
Loans to group companies	10	1,300	1,310
Share and participations in associates	259	11	270
Shares and participations	167	—	167
Bonds and other fixed-income securities	656	1,076	1,732
Deposits with ceding undertakings	1,248	—	1,248
Investments for the benefit of policyholders who bear the investment risk	7,677	92,005	99,682
Reinsurers' share of technical provisions	974	28	1,002
Debtors arising out of direct insurance operations	55	—	55
Debtors arising out of reinsurance operations	23	—	23
Other debtors	634	—	634
Deferred tax, net	—	1,189	1,189
Tangible assets	—	43	43
Cash and bank balances	1,596	—	1,596
Deferred expenses and accrued income	586	2,876	3,462
Total assets	**13,626**	**109,359**	**122,985**
Liabilities			
Technical provisions, gross	658	1,016	1,674
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross	8,431	92,591	101,022
Other provisions	157	726	883
Deposits from reinsurers	980	—	980
Creditors arising out of direct insurance operations	279	—	279
Creditors arising out of reinsurance operations	11	—	11
Derivatives	0	—	0
Other creditors	1,999	—	1,999
Accrued expenses and deferred income	432	—	432
Total liabilities	**12,947**	**94,333**	**107,280**

Note 41 Pledged assets and security

	2009	2008
Pledged assets and therewith comparable security		
Deposits with ceding undertakings	1 248	1 390
Endowment insurance policies pledged as security for pension obligations[1)]	964	966
Assets covered by policyholders' beneficiary rights[2)]	101 681	72 867
Total	**103 893**	**75 223**

1) See also note 44.

2) Corresponds to provisions in the balance sheet, totalling SEK 101,372 million (72,085). In the event of insolvency, the policyholders have preferential rights to the registered assets. During the course of the business, the company has the right to transfer assets in and out of the register as long as all insurance obligations are covered in accordance with the Insurance Business Act.

Note 42 Contingent liabilities

	2009	2008
Pension obligations[1)]	0	0
Sureties and guarantees[2)]	416	878
Total	**416**	**878**

1) In the parent company, there are pension obligations that have not been included in the balance sheet, amounting to SEK 964 million (966), which are covered by the value of company-owned endowment insurance policies and SEK 1 million (1) which are covered by assets in the Skandia Group Pension Foundation (see also note 44).

2) Of which, on behalf of group companies	319	773

Skandia is – in relation to third parties – still bound to certain guarantee commitments stemming from property & casualty insurance operations which were transferred to the If Group in 1999. Through agreements between the companies concerned in the If Group on the one side and the Skandia group on the other, the If Group guarantees that the Skandia group will be indemnified for any possible claims made by third parties with respect to such guarantee commitments.

With respect to disputes, refer to the Disputes section in the Board of Directors' Report.

OTHER NOTES

Note 43 Average number of employees, salaries and remuneration

I. AVERAGE NUMBER OF EMPLOYEES AND AGENTS	Men	Women	2009 Total	2008 Total
Office staff per country				
Sweden	483	741	1,224	1,201
Denmark	3	2	5	13
Norway	5	12	17	13
UK	11	15	26	38
Agents employed in Sweden	152	49	201	231
Total	**654**	**819**	**1,473**	**1,496**

II. GENDER BREAKDOWN, SENIOR EXECUTIVES

Information on the gender breakdown among company directors and other executives pertains to the conditions on 31 December 2009.

	Men	Women
Board members, including employee representatives	75%	25%
Chief Executive and other members of executive management	69%	31%

III. WAGES, SALARIES AND REMUNERATION[1]

	2009	2008
Senior executives[2]	36	45
Office staff in Sweden	545	546
Office staff outside Sweden	55	65
Agents	97	162
Wages, salaries and remuneration	**733**	**818**
Pensions and other social security charges for employees in Sweden	479	504
Of which, pension costs	258	239

1) During the year, SEK 22 million (43) was allocated to Skandianen, Skandia's long-term profit-sharing foundation (including payroll tax), which covers Swedish employees who do not have a variable salary component in their remuneration package.

2) Pertains to 10 (12) persons.

IV. LOANS TO SENIOR EXECUTIVES

SEK thousand	2009	2008
Senior executives in Sweden, including employee representatives on Skandia's board	14,703	13,882

Drawn lines of credit amount to SEK 30 thousand (146), with a credit limit of SEK 172 thousand (352). The terms of the loans are comparable with those normally applied in lending to the general public. However, more favourable interest rates are offered to all group employees working in Sweden. Neither Skandiabanken nor other group companies have pledged security or undertaken contingent liabilities on behalf of the executives reported here. The loans granted to senior executives in Sweden are issued by Skandiabanken.

V. INFORMATION ON SENIOR EXECUTIVES' REMUNERATION AND BENEFITS

Principles

Fees are paid to the Chairman of the Board and directors in accordance with a decision by the Annual General Meeting and where applicable for work on subsidiary boards. The fees decided by the AGM pertain to the period up until the next AGM. If changes are made in this group of individuals during the mandate period, the amount of fees will be adjusted accordingly. No fees are paid to board members who are employees of Skandia or any of its subsidiaries. During the year, Skandia's senior executives consisted of persons who were employed by Skandia, Skandia Liv (the Chief Executive) and Skandiabanken (the Chief Executive).

Remuneration for the Chief Executive and other senior executives consists of base salary, variable remuneration, other benefits and pension. By senior executives is meant the 15 persons who, together with the Chief Executive, at any time during the year were members of the Skandia Nordic Management Team, which at year-end consisted of 13 individuals. This definition applies throughout this annual report unless specifically stated otherwise.

Variable remuneration

In 2009 a programme was in place for variable remuneration of senior executives and key persons. For the management of Skandia's Nordic division and a number of key executives ("the Key Group"), an incentive programme is in place which includes both a long-term and short-term component. For members of the Key Group, the bonus opportunity amounts to a maximum of 60% of base salary, while for the Chief Executive, Bertil Hult, the bonus opportunity is a maximum of 80% of base salary. For other senior executives and key persons, the bonus opportunity amounts to a maximum of 40%, 20% or 10% of base salary. For individual employees in the fund management operations, a variable remuneration model is used which can provide a bonus of up to a maximum of 50% of base salary.

For other employees, variable remuneration can amount to a maximum of 120% of one-half of the Price Base Amount for 2009 (the Price Base Amount for 2009 was SEK 42,800). Any such remuneration is paid through an allocation to Skandianen, an employee foundation. Employees can only be covered by one of the above-described models for variable remuneration.

Senior executives

For senior executives of Skandia, the variable remuneration has a cap based on a percentage of the respective individuals' base salary, whereby the target level is generally equivalent to half the maximum amount. Of earned variable remuneration, two-thirds is payable in cash. The remaining one-third is paid in the form of Restricted Shares and Employee Stock Options based on Old Mutual plc shares. These programmes are described under section VI, "Share-based payments".

In addition, a few employees have been given the opportunity to invest up to 25% of their net cash incentive in Old Mutual plc shares in return for a matching restricted share award, on a gross for net basis, under the Old Mutual Restricted Share Plan.

For senior executives, Skandia's overall remuneration policy is used, whereby the total remuneration shall be in line with the going rate in the market based on local conditions. Variable remuneration is based on the outcome in relation to individually set targets.

Information on remuneration and benefits for the Chief Executive in 2009

Bertil Hult's remuneration for the time he served as Chief Executive of Skandia in 2009 is reported in the table below.

Pensions

Bertil Hult has pension benefits according to the FTP plan's department 2 (the occupational pension plan for the insurance industry). This plan is mainly a defined benefit solution with a maximum benefit of 65% of pensionable salary. The retirement age according to the FTP plan is 65. For pensionable salary amounts above the plan's ceiling of 30 times the Income Base Amount, a defined contribution premium of 37% is paid. Variable salary amounts above the plan's ceiling are not included in the pensionable salary base. The year's defined contribution pension cost in relation to pensionable remuneration is 22%. The year's defined benefit pension cost in relation to pensionable remuneration is 13%.

For other senior executives in Sweden, the retirement age varies from 60 to 65 years. This group of employees is covered by defined contribution as well as defined benefit pension commitments. The premiums are set at a level that would apply for a level of benefits corresponding to 70% of pensionable salary. For senior executives in other countries, terms are applied in accordance with the going rate in the market in the respective countries. All pension commitments are vested.

Severance pay

Bertil Hult is entitled to salary during the notice period, which is 12 months, in the event the company serves notice. Other senior executives are entitled, in the event the company serves notice, to salary during the notice period, plus severance pay. Normally, termination salary and severance pay together do not amount to more than 24 months' salary.

Drafting and decision-making process

According to the Board's instructions, the Remuneration Committee is responsible for assisting the Board in drafting recommendations on the principles of remuneration for senior executives. Decisions on the Chief Executive's compensation are made by the Old Mutual plc Remuneration Committee.

Remuneration and benefits

The amounts pertain to the time during which the following persons were senior executives

Directors' fees paid by Skandia

SEK thousand	2009 Fee	2009 Committee work
Lars Henrik Otterbeck, Chairman of the Board	1,000	250
Julian Roberts, director[1]	125	21
Bob Head, director[2]	125	21
Magnus Beer, director	300	–
Indra Åsander, director	300	–
Total	**1,850**	**292**

1) Director through 30 June.

2) Director through 30 June.

SEK thousand	2008 Fee	2008 Committee work
Lars Henrik Otterbeck, Chairman of the Board	1,000	250
Michael Newman, Director	275	46
Magnus Beer, Director	300	50
Indra Åsander, Director	300	–
Total	**1,875**	**346**

Other remuneration and benefits for senior executives employed by Skandia in 2009

SEK thousand	Average number of persons	Base salary	Variable remuneration	Share-based payment[4]	Other remuneration and benefits	Pension contributions	Total
Chief Executive							
Bertil Hult	1	3,625	1,617	1,880	53	1,193	8,368
Management, excl. Chief Executive	9	15,760	7,583	5,093	1,537	5,973	35,946

Other remuneration and benefits for senior executives employed by Skandia in 2008

SEK thousand	Average number of persons	Base salary	Variable remuneration	Share-based payment[4]	Other remuneration and benefits	Pension contributions	Total
Chief Executives							
Julian Roberts[2]	1	7,060	2,622	4,670	2,245	226	16,823
Bertil Hult[3]	1	738	300	177	13	315	1,543
Management, excl. Chief Executive[1, 2]	10	14,578	6,358	978	5,074[1]	6,547	33,535

1) The amount of SEK 5,074 thousand includes a SEK 4,401 thousand in severance pay.

2) Chief Executive through 13 September 2008.

3) Chief Executive from 14 September 2008.

4) Share-based payments to Julian Roberts are not charged to Skandia. For further information, see the Old Mutual plc 2008 Annual Report. See also www.oldmutual.com.

Cont. Note 43, Average number of employees, salaries and remuneration

Other remuneration and benefits for senior executives who were not employees of Skandia in 2009

SEK thousand	Average number of persons	Base salary	Variable remu-nera-tion	Share-based pay-ment	Other remu-neration and benefits	Pension contri-butions	Total
Other senior executives	4	11,802	2,796	1,161	375	4,149	20,283

Other remuneration and benefits for senior executives who were not employees of Skandia in 2008

SEK thousand	Average number of persons	Base salary	Variable remu-nera-tion	Share-based pay-ment	Other remu-neration and benefits	Pension contri-butions	Total
Other senior executives	4	10,882	2,709	897	296	4,295	19,079

VI. SHARE-BASED PAYMENT

Some 20 key employees of Skandia are covered by a share-based incentive programme. Skandia's parent company, Old Mutual, has two programmes in which these employees participate:

- The UK Restricted Share plan consists of shares in Old Mutual plc.
- The UK Share Option Plan consists of options which give their holders the right to buy shares in Old Mutual plc at a predetermined exercise price.

The employees covered by the programmes were granted shares and options in April 2009. The options give their holders the right to buy shares in Old Mutual plc at a predetermined price. The options have an exercise price of GBP 0.5410.

The grants were made on the basis of a combination of individual targets and result-based outcome for 2008.

The term of the options is six years. The options can be exercised three years after their grant at the earliest.

In accordance with international practice, options and shares are granted without cost to the individual employees. In order for employees to be able to benefit from the value of granted options and shares, they must remain in service for at least three years. Options are personal and are not transferrable for employees.

The company has not taken out any hedges for the programmes, but has set aside a reserve for future social insurance costs in connection with exercise of the options and shares. The company has not had any management costs for the option programmes. In all, the incentive programme resulted in a cost of SEK 17 million (4) in 2009.

Number of options and shares in Old Mutual plc, senior executives

Thousands	Shares granted in April 2009	Options granted in April 2009	Shares granted in April 2008	Options granted in April 2008	Shares granted in March 2007[1)]	Options granted in March 2007[1)]	Shares granted in Sept. 2006
Outstanding options/ shares at 1/1/2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Granted options/shares	–	–	–	–	–	–	125
Exercised options/ shares	–	–	–	–	–	–	–
Forfeited options/ shares	–	–	–	–	–	–	–
Outstanding options/ shares at 1/1/2007	**–**	**–**	**–**	**–**	**–**	**–**	**125**
Granted options/shares	–	–	–	–	173	235	–
Exercised options/ shares[2)]	–	–	–	–	-13	–	–
Forfeited options/ shares	–	–	–	–	–	-22	–
Outstanding options/ shares at 1/1/2008	**–**	**–**	**–**	**–**	**160**	**213**	**125**
Granted options/shares	–	–	133	484	–	–	–
Exercised options/ shares	–	–	–	–	–	–	–
Forfeited options/ shares	–	–	–	–	-4	-47	–
Outstanding options/ shares at 1/1/2009	**–**	**–**	**133**	**484**	**156**	**166**	**125**
Granted options/shares	314	1,324	–	–	–	–	–
Exercised options/ shares[4)]	–	–	–	–	–	–	-88
Forfeited options/ shares	–	–	–	–	–	–	–
Outstanding options/ shares at 31/12/2009	**314**	**1,324**	**133**	**484**	**156**	**166**	**37[5)]**

During the year, shares granted in 2006 were vested.

No options were fully exercised as per 31 December 2009.

Number of options and shares in Old Mutual plc, total

Thousands	Shares granted in April 2009	Options granted in April 2009	Shares granted in April 2008	Options granted in April 2008	Shares granted in March 2007[1)]	Options granted in March 2007[1)]	Shares granted in Sept. 2006
Outstanding options/ shares at 1/1/2006	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Granted options/shares	–	–	–	–	–	–	426
Exercised options/ shares	–	–	–	–	–	–	–
Forfeited options/ shares	–	–	–	–	–	–	–
Outstanding options/ shares at 1/1/2007	**–**	**–**	**–**	**–**	**–**	**–**	**426**
Granted options/shares	–	–	–	–	255	480	–
Exercised options/ shares[2)]	–	–	–	–	-13	–	-69
Forfeited options/ shares	–	–	–	–	–	-37	-126
Outstanding options/ shares at 1/1/2008	**–**	**–**	**–**	**–**	**242**	**443**	**231**
Granted options/shares	–	–	244	815	–	–	–
Exercised options/ shares[3)]	–	–	–	–	-8	–	-44
Forfeited options/ shares	–	–	-15	-26	-20	-73	–
Outstanding options/ shares at 1/1/2009	**–**	**–**	**229**	**789**	**214**	**370**	**187**
Granted options/shares	543	2,407	–	–	–	–	–
Exercised options/ shares[4)]	–	–	–	–	-4	–	-150
Forfeited options/ shares	–	-184	-28	-94	-7	-78	–
Outstanding options/ shares at 31/12/2009	**543**	**2,223**	**201**	**695**	**203**	**292**	**37[5)]**

1) Including a few shares and options granted in August 2007.

2) The weighted average share price for the exercised options was GBP 1.47 per share.

3) The share price for the exercised options was GBP 0.55 per share and pertains to employees who were entitled to exercise their options before the vesting date in connection with their departure from Skandia.

4) The share price for the exercised options was GBP 0.99 per share.

5) Shares granted to a senior executive in 2006 are fully vested, but not settled.

During the year, shares granted in 2006 were vested.

No options were fully exercised as per 31 December 2009.

For further information about the incentive programmes, see the Old Mutual plc Annual Report and website: www.oldmutual.com.

Calculated value

SEK per share/option	Shares	Options
30/9/2006	22.90	e.m.
31/12/2006	22.20	e.m.
31/3/2007	22.60	5.40
3/4/2008	14.60	2.60
8/4/2009	6.90	3.30

The calculated value of the shares through 31 March 2007 is based on the closing price on the Stockholm Stock Exchange on the respective valuation dates.
The value as per 3 April 2008 consists of the latest price paid on the London Stock Exchange.

The value of the options has been calculated using the Black & Scholes option pricing model.

The following parameters have been used in the calculation:	8/4/09	3/4/08	31/3/07
Anticipated volatility[1)]	53.0%	29.3%	31.0%
Exercise price, GBP	0.54	1.23	1.63
Share price, GBP	0.58	1.24	1.63
Exchange rate, GBP	11.82376	11.79146	13.76051
Anticipated dividend	0.0%	5.6%	3.7%
Risk-free interest rate	2.7%	4.1%	4.6%
Calculated remaining term, years[2)]	5.0	5.0	5.0

1) This forecast is based on actual volatility during the quarter preceding the measurement date.

2) The expected life assumption is based on the average length of time similar grants have remained outstanding in the past and the type of employees to which awards have been granted.

Cont. Note 43, Average number of employees, salaries and remuneration

VII. SICKNESS-RELATED ABSENCE

	2009	2008
Total, sickness-related absence	**3,43%**	**3,48%**
— Long-term sickness-related absence (>60 days)	0,96%	1,50%
— Sickness-related absence, men	2,61%	2,51%
— Sickness-related absence, women	4,10%	4,28%
— Employees -29 years	2,78%	2,93%
— Employees 30-49 years	2,54%	2,83%
— Employees 50 years –	4,69%	5,44%

Data above pertains only to employees in Sweden and is expressed as a percentage of the employees' total working time.

Note 44 Pension disclosures

Skandia adheres to the rules of the Pension Obligations Vesting Act *(Lagen (1967:531) om tryggande av pensionsutfästelse)* and the Swedish Financial Supervisory Authority's guidelines for reporting pensions. Application of the Pension Obligations Vesting Act is a prerequisite for the right to tax deductions. The rules of IAS 19 pertaining to defined benefit pension plans are therefore not used by Skandia; instead, disclosures are provided in relevant areas with respect to IAS 19. Skandia's pension plans consist primarily of pension benefits provided under the collectively bargained occupational pension plan for salaried employees in the insurance industry (FTP) and to some extent by additional pension benefits for senior executives. The pension plans consists primarily of retirement pension, disability pension and family pension. In January 2008 the FTP plan was split into two departments. Department 1 (FTP1) is a defined contribution solution, which entails that the premium is set at a percentage of the employee's pensionable salary. Department 2 (FTP2) is a defined benefit solution, which entails that the employee is guaranteed a set level of post-retirement pension benefits that are based on the employee's final salary. Normally the employee's age determines which department is to be used. Salaried employees with a pensionable salary in excess of 10 times the Income Base Amount have the right to a pension solution pertaining to salary amounts ranging between 7.5 and 10 times the Income Base Amount (called Alternative FTP). Alternative FTP, as well as supplementary retirement pension (FTPK), is classified as a defined contribution pension plan. Skandia's pension plans are secured through payment of insurance premiums primarily to Skandia Liv and Försäkringsbranschens pensionskassa (FPK). Certain defined benefit pension obligations are also secured in the Skandia Group Pension Foundation. Pension obligations secured in the pension foundation are not reported on Skandia's balance sheet. Pension obligations that are secured through company-owned endowment insurance policies are not reported on the balance sheet. The value of these pension obligations corresponds to the insurance capital in the respective endowment policies. The insurance capital is based on actuarial guidelines and calculation bases of the insurers and consists of the market value of the share of the insurer's investments that accrue to the policy, excluding unallocated surpluses. As a result of the reporting of the pension obligations secured through the endowment insurance policies, the value of company-owned endowment insurance policies is not reported as an asset on the balance sheet.

The endowment insurance policies are pledged for the benefit of the pension beneficiary and are thus reported as pledged assets. The value of the pledged assets corresponds to the insurance capital in the endowment insurance policies. For endowment insurance contributions, the premiums are reported as a pension cost. Future premiums for endowment insurance policies may be affected by salary increases, returns on pension funds and allocations of surpluses. In the income statement, the Skandia's pension cost consists of the sum of pension premiums, contributions to endowment insurance policies, and payroll tax. The cost is reported as an administrative expense, see note 45. A provision has been made for payroll tax in the balance sheet for pension obligations secured through company-owned endowment insurance policies.

INFORMATION ON OBLIGATIONS SECURED THROUGH FOUNDATIONS

	2009	2008
Specification of assets and liabilities pertaining to pensions vested under own management		
Present value of obligations pertaining to funded pension plans	-2	-2
Fair value of assets in pension foundation at end of period	66	58
Surplus in pension foundation (+)	**64**	**56**
Unreported surplus in pension foundation	-64	-56
Net liability in balance sheet	**0**	**0**
Specification of change in surplus in pension foundation		
Net liability at start of year pertaining to pension obligations	**0**	**0**
Carrying amount in income statement of costs for pensions vested under own management	0	0
Provision to pension foundation	0	0
Pension payments	0	0
Compensation from pension foundation	0	0
Net liability at year-end pertaining to pension obligations	**0**	**0**
Specification of pension costs and revenues during the period		
Pensions vested under own management		
Cost for earning of pensions	0	0
Difference between compensation from pension foundation and paid-out pensions	0	0
Interest expense	0	0
Actual return on specially detachable assets	-6	13
Cost for pension vested under own management	**-6**	**13**
Pensions through insurance		
Insurance premiums	-197	-205
Pension cost for the year	-203	-192
Increase in surplus in specially detachable assets	6	-13
Reported net cost pertaining to pensions, excluding taxes	**-197**	**-205**

Fair value of assets in foundation, broken down by main categories		
Equities	42	24
Fixed-income investments	20	26
Cash and bank balances	-1	3
Other assets	5	5
Total assets	**66**	**58**

The following actuarial assumptions have been used to calculate the pension liability:
Discount rate 4.0% (3.5%)
Inflation 2.0% (2.0%)

For 2010, payments for defined benefit pension plans are expected to be level with the payments made in 2009.

Note 45 Administrative expenses

	2009	2008
Wages, salaries and remuneration	-711	-818
Social security charges	-220	-264
Pension costs (including special payroll tax)	-258	-239
Other payroll costs	319	135
Payroll costs	**-870**	**-1,186**
Cost of premises	-208	-206
Depreciation	-9	-12
Provision for restructuring costs	-18	-66
Reversal of provisons to restructuring reserve from previous years	12	—
Other[1]	142	-41
Administrative expenses	**-951**	**-1,511**
Administrative expenses are broken down in the income statement as follows:		
Investment income (included in note 13)	876	-236
Provision for restructuring costs	-6	-66
Claims incurred in the technical result of property & casualty insurance business (included in note 5)	-15	-13
Claims incurred in the technical result of life assurance business (included in note 9)	-11	-15
Operating expenses in the technical result of property & casualty insurance business (included in note 6)	-227	-189
Operating expenses in the technical result of life assurance business (included in note 10)	-1,568	-992
Total distributed administrative expenses	**-951**	**-1,511**

[2] Auditing and other assignments are broken down as follows:		
Audit assignment, KPMG AB	-8	-9
Other assignments, KPMG AB	-4	-6
Audit assignment, SET Revision	—	0
Total	**-12**	**-15**

By audit assignments is meant review of the annual report and bookkeeping as well as of the Board's and CEO's management, other duties that are incumbent on the company's auditor to perform, and advice or other assistance that results from observations from such review or execution of such other duties. Everything else consists of other assignments.

Note 46 Leasing

In its capacity as a lessee, Skandia has entered into a number of operating leases. Minimum lease payments pertaining to non-cancellable operating leases as per 31 December 2009 mature as follows:

Operating leases	**Amount**
2010	-270
2011	-61
2012	-100
2013	-99
2014	-98
2015 och senare	-526
Total leasing expense	**-1 154**

Leasing expenses for the year amounted to SEK 209 million (204).

Note 47 Related party disclosures

Related parties

Related parties are defined as all companies in the Old Mutual Group. Added to these are board members and senior executives of Skandia, and their close relatives.

Associated companies and joint ventures are also defined as related parties.

Skandia Liv is a wholly owned subsidiary of Skandia. However, Skandia Liv's business is conducted on a mutual basis. This means that the profit or loss that is generated from Skandia Liv's operations is to be passed on to the policyholders. No profit distribution may take place to the shareholder. All companies in the Skandia Liv group are defined as related parties.

Remuneration of the Board and senior executives of Skandia is disclosed in note 43. In other respects, no transactions have been made with these persons or close relatives of these persons other than normal customer transactions conducted at market terms.

Skandia's goal is that every legal entity shall show an accurate result. Toward this end, Skandia uses the arm's length principle and the OECD guidelines for internal pricing.

Following is a description of the significant relations that Skandia has with companies in the Skandia Liv group, subsidiaries and other companies in the Old Mutual Group.

TRANSACTIONS BETWEEN SKANDIA AND THE SKANDIA LIV GROUP

Process

Skandia has adopted a set of owner instructions for the boards of Skandia and Skandia Liv, and has set guidelines for transactions and other relations between Skandia and Skandia Liv. These entail, among other things, that all agreements between Skandia and Skandia Liv must be transparent. In addition, agreements of an economic nature between Skandia and Skandia Liv shall be specially considered to ensure that they are compatible with the prohibition against profit distribution, and valuations must be tested in a thorough and impartial manner. Clear documentation shall be prepared for every agreement and valuation in which it is stated who is commercially responsible for the transaction. Transactions of material significance and of a nonrecurring nature shall be decided on by the respective boards. In connection with the sale of material assets in which a market quotation is lacking, a valuation shall be performed by an external appraiser. Such valuation shall be documented.

With respect to the outsourcing of assignments between Skandia and Skandia Liv, an established process is in place. Skandia and Skandia Liv have an outsourcing agreement which specifies on an overall level the assignments that Skandia Liv has outsourced to Skandia to perform. The outsourcing agreement also specifies how governance and planning of the outsourced operation are to take place. The outsourcing agreement includes numerous specifications which describe in detail the service content, level and execution of the respective assignments. For each assignment, an agreement head is appointed who is responsible for governance and follow-up. Under the terms of the outsourcing agreement, consultation groups shall be in place for the respective assignments, and the parties shall consult with each other regarding the level of service, how errors are to be handled, compensation levels, follow-up and other matters.

In connection with business planning, a budget shall be prepared which includes the total cost per assignment, broken down into separate costs and joint costs, along with allocation formulas that reflect degree of use. The budgets for the respective assignments shall be initially negotiated by representatives of both parties in the consultation group. These budgets shall be reviewed by and ultimately set by the respective companies' boards. Compensation is based on the actual outcome. Departures from the adopted budget must be presented to and taken into consideration by the consultation groups, and a review of the allocation formulas shall be performed on a quarterly basis in the aim of changing these if material changes have taken place. In late 2009 an ABC model was introduced as a cost allocation model.

Pricing

The pricing methods used are market price or cost-price. Market price is used in cases where it is possible to make comparisons with similar services in the market. In other respects, the cost-price method is used. When cost-price is used, a consultation group decides on the scope and allocation of costs. In connection with business planning, a budget is produced which includes the total cost per assignment, broken down into separate costs and joint costs, along with an allocation formula that reflects degree of use. Compensation is paid based on the actual outcome. Departures from the budget must be presented to and approved by the consultation groups, and a review of the allocation formulas shall be performed on a quarterly basis in the aim of changing these if material changes have taken place.

Investments

Skandia Liv's property-owning group has sold the companies Fastighets AB Stockholms Badhus and Skandia Fastighet AB to Skandia. The acquired companies have had tax deferments attributable to capital gains that arose in connection with previous sales of participations in partnerships. According to new tax rules, the capital gains must be taken up for taxation during the 2011 tax year. Due to this tax liability, the purchase price has fallen below the net assets in the company. External parties have participated in the sales process, which ensured a purchase price that was in line with the going-rate in the market. In addition, a Fairness Opinion was obtained.

Transactions by order of significance

Character	Receiving company	Compensation, SEK m 2009	Reference	Compensation, SEK m 2008
Distribution support, market communication, customer service centres, group insurance and staffs, and business development	Skandia	473	1)	602
Distribution compensation	Skandia	438	1)	546
Occupational pensions to Skandia employees	Skandia Liv	-183	2)	-155
Rents of office premises	Skandia Liv	-179	3)	-173
Joint occupational pensions concept	Skandia Liv	-37	4)	-60
Reinsurance contracts (net)	Skandia Liv	-11	5)	-17
Accounting systems & Treasury	Skandia	15	6)	4
IT-operations and service	Skandia	4	7)	8
Liability insurance	Skandia	2	8)	5
Compensation for new asset management agreement	Skandia Liv	N/A	9)	–
Compensation for old asset management agreement	Skandia Liv	N/A	9)	-871[1)]

[1)] See under the character "Arbitration" in the 2008 Annual Report.

Transactions, based on income statement

1) In 2004 Skandia and Skandia Liv entered into an agreement in principle and framework agreement on co-operation in Sweden by co-ordinating market-related functions and certain staff functions in order to increase efficiencies within the companies. The co-ordinated services involve distribution and distribution support, customer service, market communication, business development in both the corporate and private areas, administration of group insurance products, and diverse staff and service functions. With respect to distribution, Skandia receives going-rate compensation for performed services, but at the same time is responsible to reimburse Skandia Liv in the event of a cancellation of the sold policies. Compensation for sales via Skandia's own sales channels is based on the level of commissions to external insurance brokers plus the client's special risks and outlays for its own sales channel. The compensation that is payable for other areas covered by this point is based on cost-price, broken down into degree of actual use.
2) Skandia Liv provides occupational pensions for the employees of the Skandia group. These pension benefits are based on agreements made in the Swedish labour market, and the premiums are thus in line with the going rate in the market.
3) Skandia rents office premises at various locations throughout Sweden from Skandia Liv and pays market rents for these.
4) Through the Skandia Link unit, Skandia Liv and Skandia have a joint occupational pensions concept. Skandia Liv handles the administration and receives compensation for administrative services based on cost-price. Skandia and Skandia Liv fully accept their own share of the risks.
5) Skandia reinsures a significant share of its disability insurance risks in the Swedish operations with Skandia Liv. In this way, co-ordination gains are obtained in risk assessment, etc. Skandia pays a going-rate premium for the reinsurance, which has been secured in such way that Skandia Liv, in turn, reinsures part of its risk in the open market.
6) Skandia provides joint functions for accounting systems, treasury and certain legal functions for the Skandia group. The compensation that Skandia Liv pays to Skandia is based on cost-price and is allocated according to actual degree of use.
7) Skandia Forsikring, a branch of Försäkringsaktiebolaget Skandia (publ), Denmark (Skandia A/S), provides IT services to Skandia A/S. Compensation is based on cost-price and is allocated based on use of the various IT services.
8) The entire Old Mutual Group has joint liability insurance. Skandia Liv pays its share of this cover to Skandia. Its share has been verified by an external party.
9) As described in the section "Settlement with Skandia Liv" in the Board of Directors' Report, the terms of compensation to Skandia Liv related to the arbitration ruling from 2008 have changed. Skandia Liv signed a new asset management agreement with DnB NOR in 2009, and as a result, the compensation ordered by the arbitration ruling in 2008 pertaining to the dispute with Skandia Liv over the asset management agreement with DnB NOR has been changed. As from September 2009, Skandia pays a fixed sum of SEK 13.9 million per quarter to Skandia Liv; this will continue through 2013. The compensation that Skandia was ordered to pay under the arbitration ruling to Skandia Liv for time in the past has been paid and is fixed. No cost is reported for this in this year's annual report, since a reserve was created for this in 2008.

The Skandia group has automatic cash settlement of intra-group dealings that are not invoiced. Cash settlement is done daily or monthly.

Skandia had a net liability of SEK 93 million to Skandia Liv as per 31 December 2009 (2008: net receivable of SEK 114 million).

TRANSACTIONS BETWEEN SKANDIA AND ITS SUBSIDIARIES

Pricing

The pricing methods used are market price or cost-price. Market price is used in cases where it is possible to make comparisons with similar services in the market. In other respects, the cost-price method is used.

Investments

Skandia owns shares in subsidiaries and made shareholder contributions during the year to certain subsidiaries. Information on the book value of subsidiaries and the size of the shareholder contributions is provided in note 17. During the year Skandia received dividends of SEK 1,495 million (2,314) from subsidiaries. Certain Swedish subsidiaries have also rendered or received group contributions.

Transactions by order of significance

Character	Receiving company	Compensation, SEK m 2009	Reference	Compensation, SEK m 2008
Distribution compensation from fund companies	Skandia	481	1)	481
Administrative services	Skandia	154	2)	425
IT operations, net	Subsidiaries	-153	3)	-224
Ceded reinsurance	Skandia	86	4)	45
Administrative services	Subsidiaries	-58	5)	-13
Rents of office premises	Skandia	35	6)	30
Cash management and financing	Subsidiaries	-20	7)	23
Accepted reinsurance	Subsidiaries	-9	8)	-32

Transactions, based on income statement

1) Skandia receives compensation from fund companies, based on sold volume. The compensation is in line with the going rate in the market.
2) Skandia performs certain administrative services under assignment from subsidiaries in the areas of legal affairs, HR, marketing & communication, internal audit, treasury administration, and administration of premises. The compensation paid in these areas is based on cost-price according to actual use.
3) IT activities are conducted by several Skandia subsidiaries, which is why Skandia both invoices IT services to subsidiaries and receives invoices from some subsidiaries for IT services. The main services provided by Skandia are operation and development of joint accounting and cash management systems. The services that Skandia buys pertain to operation and service of PCs and networks, as well as insurance systems for unit linked assurance. The compensation paid for these services is based on cost-price.
4) Skandia reinsures the disability risks that arise in the Health and Private Healthcare product area via the subsidiary Dial Försäkringsaktiebolag. Skandia has a net receivable of SEK 7 million (27). Contracts with Dial Försäkringsaktiebolag are based on market prices.

Cont. Note 47 Related party disclosures

5) Following the reorganisation (see the section "Organisation" in the Board of Directors' Report), Skandia purchases administrative services from Skandiabanken in the Private business area in the form of customer administration, advisory services, business development and marketing. The compensation paid for these services is based on cost-price and is based on the actual degree of use.
6) Skandia rents office premises from Skandia Liv. Parts of these premises are sublet to subsidiaries, which pay market rents for these.
7) Skandia co-operates with subsidiaries in cash management and financing. Skandia's Swedish subsidiaries (with the exception of Skandiabanken and Skandia Liv) are included in Skandia's group account and receive or pay interest to Skandia for their share of the account balance. Skandia also conducts partial financing via Skandia Capital AB. For all transactions, Skandia pays or receives a price in accordance with the going rate in the market.
8) The subsidiary Dial Försäkringsaktiebolag reinsures 100% of its mortality risks with Skandia. The contract with Dial Försäkringsaktiebolag is based on market prices.

Skandia has a net receivable of SEK 599 million (920) from subsidiaries. Of this net receivable, SEK 0 million (288) pertains to loans from subsidiaries and SEK 1,235 million (1,208) pertains to loans to subsidiaries.

TRANSACTIONS BETWEEN SKANDIA AND OTHER COMPANIES IN THE OLD MUTUAL GROUP

Pricing

The pricing method used is market price.

One of the subsidiaries of the Old Mutual Group reinsures its mortality risks with Skandia.

Transactions by order of significance

Character	Receiving company	Compensation, SEK m 2009	Reference	Compensation, SEK m 2008
Administrative services	SICL	44	1)	137
Interest income	SICL	21	2)	8
Liability insurance	OM	-8	3)	-17
Rents of office premises	OM	-5	4)	-7
Personnel	SICL	1	5)	26
IT projects	SICL	–	6)	12

Transactions based on income statement

1) Skandia performs administrative services under assignment from Old Mutual. The compensation paid for these services is based on market prices.
2) Skandia receives interest from loans to Old Mutual.
3) Old Mutual pays for joint liability insurance for the entire Old Mutual Group, including Skandia. During the year Skandia paid SEK 8 million (17) for its share of this insurance cover, of which a certain portion was subsequently invoiced onward to Skandia Liv. See also "Transactions between Skandia and the Skandia Liv group" above.
4) Old Mutual rents out premises to Skandia in the UK, which is invoiced to Skandia's UK branch.
5) Skandia both buys and sells personnel-related services from/to Old Mutual. The table above shows the net sum of these transactions.
6) In 2008 Skandia and Old Mutual conducted a joint project aimed and streamlining tools used in the finance and accounting department.

Skandia has a net receivable of SEK 107 million (2,163) from Old Mutual. Of this net receivable, SEK 75 million (2,009) pertains to loans, SEK 24 million (107) to trade accounts receivable, SEK 7 million (45) to accrued income, and SEK 1 million (2) to accrued interest.

Note 48 Result per class of insurance, property & casualty insurance

	2009	2008
Accident and illness		
Premiums written, gross	930	779
Premiums earned, gross	917	742
Claims incurred, gross	-728	-589
Operating expenses, gross	-252	-203
Result of ceded reinsurance	121	50
Technical result before investment income	**58**	**0**

Note 49 Events after the balance sheet date

As per the balance sheet date, the item Shares and participations, totalling SEK 167 million, included a holding in Skandia Investment I AB with a fair value of SEK 156 million. This company is run entirely as an underlying investment in the pharmaceutical company Swedish Orphan International Holding AB. Skandia Investment I AB's holding in Swedish Orphan International Holding AB was sold at an amount in excess of Skandia's valuation of the holding as per the balance sheet date on 31 December 2009, by SEK 128 million. In January 2010 Skandia received a dividend of SEK 261 million from Skandia Investment I AB attributable to the sale of Swedish Orphan International Holding AB.

During the first quarter of 2010, Skandia and its subsidiary Dial Försäkringsaktiebolag reached an agreement to end Skandia's reinsurance business with Prudential Financial, effective 31 March 2010. The financial effects of the agreement are included entirely in the technical provisions for this business. For further background information on the agreement, see the "Disputes" section in the Board of Directors' Report.

The Board of Directors for Dial Försäkringsaktiebolag and Skandia is planning a merger in 2010 with Dial Försäkringsaktiebolag to be absorbed in Skandia.

Skandia has requested an advance ruling from the Board for Advance Tax Rulings (Skatterättsnämnden) on how discounts from fund companies are to be taxed. On 28 May 2010 the Board for Advance Tax Rulings issued a ruling with the purport that discounts are taxable in accordance with the National Tax Act. Internal analysis and study of the ruling's purport in detail and financial effects are in progress. The ruling will be appealed to Supreme Administrative Court. A ruling by the Supreme Adminsitrative Court can be expected in 2011.

signatures

Stockholm, 10 June 2010

Lars Otterbeck Chairman of the Board	**Anne Andersson**	**Mårten Andersson**
Magnus Beer	**Andrew Birrell**	**Paul Hanratty**
Bertil Hult Chief Executive	**Ingolf Lundin**	**Gert-Ove Zettergren**
Indra Åsander		

Our audit report was submitted on 10 June 2010.

KPMG AB

Thomas Thiel
Authorised Public Accountant

auditors' report

To the Annual General Meeting of the shareholders of Skandia Insurance Company Ltd (publ)
Corporate identity number 502017-3083

We have audited the annual accounts, the accounting records and the administration of the Board of Directors and the Chief Executive of Skandia Insurance Company Ltd (publ) for the financial year 2009. The Board of Directors and the Chief Executive are responsible for the accounting records and the administration of the company as well as for the application of the Annual Accounts Act for Insurance Companies when preparing the annual accounts. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and their application by the Board of Directors and the Chief Executive and significant estimates made by the Board of Directors and the Chief Executive when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the Chief Executive. We also examined whether any board member or the Chief Executive has, in any other way, acted in contravention of the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

We recommend to the Annual General Meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the statutory administration report, and that the members of the board of directors and the Chief Executive be discharged from liability for the financial year.

Stockholm, 10 June 2010

KPMG AB

Thomas Thiel
Authorised Public Accountant

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