Skandia
Annual Report 2010

A Member of the OLD MUTUAL Group

skandia

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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 2010.

Skandia is since 2006 a wholly owned subsidiary of Old Mutual plc ("Old Mutual"), 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.

Organisation

Restructuring within the group

Skandia has been conducting a restructuring process since 2006 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, in July 2010 an agreement was entered into regarding the sale of the Spanish subsidiary Skandia Link S.A. de Seguros y Reaseguros to another company in the Old Mutual Group. The sale was completed in March 2011. In addition, in 2010 Skandia's holding in the Polish subsidiary Skandia Zycie Towarzystwo Ubezpieczen Spolka Akcyjna was transferred to Skandia Leben Holding GmbH, a subsidiary of Old Mutual, through Skandia's participation in an issue in kind to Skandia Leben Holding GmbH. The shares in Skandia Leben Holding GmbH that Skandia thereby received were distributed to Old Mutual in December 2010.

In September 2010, Dial Försäkringsaktiebolag (publ) ("Dial") was merged with Skandia through the absorption of the wholly owned subsidiary.

In November 2010, the transfer of the operations of Skandia's Norwegian branch, Skandia Norsk Avdelning av Utenlandsk Foretak (nuf) to Sparebank 1 Skadeforsikring AS, was executed.

In November 2010 Skandia and Folksam Fondförsäkringsaktiebolag (publ) entered into an agreement on the transfer of a portfolio of unit linked assurance business in Skandia that is tied to co-operation with a teachers union. The intention is that the agreement will be executed in January 2012. In connection with this agreement, Skandiabanken AB (publ) entered into an agreement with Lärarförsäkringar AB on the transfer of 51% of the shares in Svenska Lärarfonder AB, which manages eligible mutual funds in the aforementioned unit linked portfolio, to Lärarförsäkringar AB. The transfer of the shares in Svenska Lärarfonder AB was executed in January 2011.

Foreign branches

Skandia had three registered branches outside Sweden on the balance sheet date:

- Skandia Forsikring, a branch of Försäkringsaktiebolaget Skandia (publ), Denmark
- Försäkringsaktiebolaget Skandia (publ), Finland branch, Finland
- Försäkringsaktiebolaget Skandia Norsk Avdelning av Utenlandsk Foretak (nurf), Norway

Skandia's previous branch in the UK, Skandia Insurance Company Ltd, was deregistered in 2010. The transfer of the operations of the Norwegian branch, Försäkringsaktiebolaget Skandia Norsk Avdelning av Utenlandsk Foretak (nuf), was executed in November 2010. See also the section "Restructuring within the group" above. Deregistration of the Norwegian branch will be executed in 2011. The Finnish branch was deregistered in February 2011.

New chief executive

On 29 September 2010, Mårten Andersson was appointed as Chief Executive of Skandia and Head of Skandia's Nordic division. In August 2010 the previous chief executive, Bertil Hult, informed Skandia's board and Old Mutual plc that he wanted to leave his position as chief executive of Skandia and head of Skandia's Nordic division.

Significant events

New customer offerings

During the year, Skandia introduced Hälsokedjan ("Health Chain"), a new, comprehensive concept that not only takes care of people during illness, but also helps customers attend to employees' needs before they risk an extended absence due to illness. Health is not only a matter of being ill or not. Today roughly 70% of all extended absences due to illness in Sweden are stress- or pain-related. There is thus a large grey zone of symptoms and emotional states that affect employees' wellbeing and ability to do a good job, long before the onset of an illness that results in an extended absence.

Concluded reinsurance business

On 31 March 2010, Skandia and Skandia's subsidiary Dial concluded their reinsurance business with Prudential Financial. The financial effects of the arrangement were entirely included in the scope of existing technical provisions for this business. For further information, see the section "Disputes" below.

Effective 23 June 2010, the agreement on 100% reinsurance of Swedish property & casualty business has been cancelled.

Advance tax ruling

Skandia has requested an advance tax ruling from the Swedish National Tax Board on how discounts from fund managers are to be taxed. On 28 May 2010 the National Tax Board announced its ruling which stated that such discounts are taxable under the Income Tax Act. This ruling has been appealed to the Supreme Administrative Court, which is expected to announce its ruling in 2011. In Skandia's opinion, it is likely that the initial ruling will be overruled by the Supreme Administrative Court, since it is incompatible with applicable law. Due to the prevailing uncertainty, Skandia has now chosen to change the model it uses to capitalise deferred tax on deficits. For further information, see the section "Financial review" and note 1, Accounting Policies.

Move to new premises

When Skandia moved from Sveavägen 44 to Lindhagensgatan 86 in March 2010, it was the second time since 1855 that Skandia moved its head offices. The new offices are specially designed for Skandia and are built and equipped with state-of-the-art energy efficiency features. The building is classified as a so-called Green Tech Building. By reducing the area of the head offices from 40,000 sq. m. to 30,000 sq. m. and through much more efficient energy use, Skandia will reduce its yearly operating and rental costs. The building's eight floors are named after Skandia's five core values and the company's customer promise: "Open, Simple and Engaged".

Solvency II work and QIS 5

The Solvency II rules take effect on 1 January 2013 and are being adopted within the European Economic Area to increase policyholder protections. Although the rules have not yet been finally formulated, the consultative papers published by the EIOPA (European Insurance and Occupational Pensions Authority) and the dialogue that Skandia is conducting primarily with the Swedish Financial Supervisory Authority as well as the UK Financial Services Authority provide good guidance regarding the changes that Skandia must carry out. The work on getting the organisation ready to adhere to the new solvency requirements is in full swing. The Solvency II project that is being conducted within Skandia is proceeding according to plan and intensified during the past year.

Introduction of an internal model for quantification of risk

Within Skandia, together with Old Mutual, we have chosen to introduce an internal model for risk governance and for calculating the capital that the company needs to remain solvent. Introducing an internal model requires greater resources, but at the same time entails that we can understand and manage our risks better than if a standardised model were to be adopted. Skandia believes that the advantages of introducing an internal model outweigh the costs of developing such a model. Preliminary applications to introduce an internal model for the entire OM Group, including Skandia, and a request to have it approved, have been submitted to both the Swedish Financial Supervisory Authority and the UK Financial Services Authority.

Participation in QIS5

Skandia participated in the Fifth Quantitative Impact Study (QIS5), which was carried out in autumn 2010.

The study illuminated the effects that the proposed solvency rules will have on the participating companies. However, it should be noted that the Solvency II rules have not been finalised, which is why the QIS5 results can only be viewed as an indication of the company's ability to meet the new solvency requirements. An important conclusion of the work with QIS5 is that Skandia's process for computing its capital requirement was satisfactory.

Disputes

Skandia is and during the year was party to a number of legal disputes. 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. In December 2009 Skandia and Prudential Financial signed an agreement entailing a final settlement regarding all demands pertaining to representations and warranties associated with the transfer of American Skandia. However, the agreement did not cover claims under two reinsurance contracts between Prudential Financial and Skandia's subsidiary, Dial as the reinsurer. In March 2010 Skandia, Dial and Prudential Financial signed an agreement to conclude this reinsurance business.

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 filed an appeal of the Tax Authority's decision with the Administrative Court, which ruled in favour of its appeal in October 2010. The Tax Authority has appealed the Administrative Court's ruling to the Administrative Court of Appeal. As a result of the settlement reached with Prudential Financial in 2009, these reserves have been dissolved and, to the extent that they have not been used to cover the guarantee obligations, the reserves have been reversed for taxation. As a result of the Administrative Court's ruling that has now been appealed, the tax deficit has increased by SEK 709 million.

Other

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

Financial review

The full year 2010 was largely characterised by an upswing in the global financial markets, apart from some financial turbulence in a couple of southern European countries during the spring. The upswing was particularly strong during the second half of the year, which showed strong financial performance. The positive trend in the global financial markets was also reflected in an increase in the value of investments for the benefit of policyholders who bear the investment risk. These increased by 14% during the year and had a value of SEK 113,994 million at 31 December 2010.

New sales for Skandia Link and Skandia Private Healthcare Insurance were down slightly for the year compared with very strong new sales in 2009. The decrease in sales of Skandia Link's products is attributable to both private and corporate business. In Private Healthcare Insurance, more customers are choosing simpler types of basic products, entailing that it was mainly sales of more exclusive products that decreased compared with a year ago.

Following is a brief commentary on the result, comprehensive income, 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 the "Five-year summary" on page 9.

Profit for the year

Profit for the year was SEK 643 million (3,456).

Technical result

The technical result for property & casualty insurance business after ceded reinsurance was SEK 24 million (61). Previously, a large share of property & casualty business was reinsured with Dial. In connection with the merger of Dial, this reinsurance was discontinued. See also the section "Restructuring within the group" above.

The technical result for life assurance business was SEK 1,283 million (922).

Premiums written, totalling SEK 158 million (170), consist of premiums attributable to insurance components of investment contracts. The change between the years is mainly attributable to lower premiums in 2010 and contraction in the insurance portfolio.

Income from investment contracts, totalling SEK 830 million (669), consist of fees from customers. The increase is attributable to the positive performance in the market of "Investments for the benefit of life assurance policyholders who bear the investment risk".

Among "Other technical income", totalling SEK 1,558 million (1,289) for the year, the policyholder tax charge increased by SEK 73 million, since this was based on fund values at the end of 2009. In addition, the volume-based cost reduction increased by SEK 156 million as an effect of the positive performance of fund values. The item also includes a positive result of SEK 16 million as a net effect of the discontinued reinsurance business with Dial pertaining to Prudential Financial.

Claims incurred, totalling SEK -71 million (10), consist of claims paid and a change in the provision for claims outstanding. The large change is attributable to a reworking of the models for provisions during the preceding year, which improved the result for 2009 by SEK 84 million.

Non-technical result

Total investment income, net, amounted to SEK -103 million (2,443). The item includes SEK 497 million in dividends from shares and participations in group companies, of which SEK 200 million from Skandiabanken AB, SEK 233 million from Skandia Europe AB, and SEK 64 million from Skandia Link Livforsikring A/S. The dividend received from Skandia Europe AB pertains to a distribution in kind of the company's total shareholding of 9% in Skandia Leben Holding GmbH to a book value of SEK 233 million. Skandia, in turn, thereafter distributed its corresponding holding in Skandia Leben Holding GmbH to Old Mutual. For further information, see the section "Equity" below. In addition, a dividend of SEK 262 million was received from Priveq Investment II AB, which thereafter required recognition of an unrealised change in value of SEK -135 million attributable to the corresponding holding. Further, the result was charged with impairment of shares in group companies, totalling SEK -908 million (-87). The item "Investment charges", includes asset management costs of SEK 41 million (869). The positive amount is attributable to the crediting of SEK 247 million in unutilised provisions. These dissolutions are attributable in part to the settlement with Prudential Financial, in the amount of SEK 108 million, and to pension provisions of SEK 50 million, which were dissolved as part of the divestment of a portfolio of occupational pensions.

Other revenue totalled SEK – million (124). The amount in the preceding year is attributable to a dissolution of reserves stemming from a settlement with Skandia Liv to cover asset management fees through the end of 2013.

Appropriations of SEK 136 million (–) pertain in their entirety to a dissolution of the contingency reserve that was previously reported in Dial. A contingency reserve can only be held by a property & casualty insurance company, and thus the reserve had to be dissolved in connection with the merger that was carried out. For further information, see the section "Restructuring within the group" above.

Tax amounted to SEK -689 million (-86). The item consists mainly of current tax attributable to group contributions, totalling SEK 292 million (19), policyholder tax, totalling SEK -534 million (-461), and change in deferred tax assets, totalling SEK -438 million, net (367). The year's change in deferred tax assets includes a one-time effect of SEK -198 million attributable to a new model for capitalising deferred tax assets. See also note 1, section 19.

Comprehensive income

Comprehensive income, which consists of net profit for the year plus other comprehensive income, consisting of translation differences, amounted to SEK 659 million (3,459).

Balance sheet

Total assets amounted to SEK 134,369 million (122,985).

Shares and participations in group companies, totalling SEK 10,313 million (10, 572), decreased by SEK 259 million, net, mainly as an effect of the merger of Dial. The book value of the holding in Dial in the preceding year was SEK 252 million.

The increase in the item "Shares and participations in associated companies", totalling SEK 314 million (270), is mainly attributable to a capital contribution of SEK 57 million to the associated company Skandia Guodian Insurance Company Ltd in China. The increase was partly offset by impairment of shares and participations in associated companies, totalling SEK -14 million.

Shares and participations, totalling SEK 30 million (167), decreased as a result of unrealised changes in value of SEK -135 million, which were offset by dividend income of SEK 262 million. See also under the section "Non-technical result".

Deposits with ceding undertakings totalled SEK – million (1,248). The difference compared with the preceding year is attributable to the discontinuation of reinsurance business by Skandia and Skandia's subsidiary Dial with Prudential Financial.

Investments for the benefit of life assurance policyholders who bear the investment risk amounted to SEK 113,994 million (99,682). The change is mainly attributable to the positive trend in the financial markets and to a positive net flow of premiums from customers, which also affected technical provisions for life assurance policies where the investment risk is borne by the policyholders, which totalled SEK 114,008 million (101,022).

The reinsurers' share of technical provisions amounted to SEK 27 million (1,002). The decrease is attributable to the discontinuation of reinsurance of property & casualty insurance business.

Other receivables amounted to SEK 839 million

(634). The increase is mainly attributable to fund trading that had not yet been settled as per the balance sheet date.

Deferred tax, net, amounted to SEK 786 million (1,189). The change includes a one-time effect related to a change in the model for capitalising deferred tax assets, totalling SEK -198 million. See also under the section "Non-technical result".

Deferred acquisition costs, totalling SEK 2,672 million (2,900), decreased compared with a year ago, since the year's capitalisation was less than the amortisation pertaining to previously years' accumulated capitalisation.

Profit carried forward, totalling SEK 12,546 million (8,988) was favourably affected by the fact that the preceding year's profit, totalling SEK 3,456 million, was brought forward in its entirety. In addition, profit carried forward was reduced by a resolution made at an Extraordinary General Meeting on 23 December 2010 to pay a dividend of SEK 403 million to the parent company, Old Mutual. At the same Extraordinary General Meeting, a resolution was also passed to make a distribution in kind to the parent company Old Mutual of 9% of the shares in Skandia Leben GmbH, representing Skandia's entire holding, at a book value of SEK 233 million. However, this distribution in kind of shares in Skandia Leben GmbH has no net effect on equity, since Skandia – in a prior step – received that same asset at the corresponding book value as a dividend from Skandia Europe AB. See also under the section "Non-technical account" above. For more detailed information about changes in equity, see the Statement of Changes in Equity.

The item "Other provisions" amounted to SEK 159 million (469). The decrease is mainly attributable to a dissolution of SEK -165 million related to the settlement with Prudential Financial (see the section "Disputes" above). The change is also attributable to a dissolution of reserves, totalling SEK -53 million, that was made as a step in the divestment of a portfolio of occupational pensions.

Deposits from reinsurers, totalling SEK 15 million (980) decreased as an effect of the discontinued reinsurance of property & casualty insurance business.

Other liabilities, totalling SEK 1,034 million (1,999), decreased compared with a year ago. The change is attributable to a lower liability to group companies.

Cash flow

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

Cash flow from operating activities was SEK 967 million (-1,153), which is mainly attributable to profit for the year.

Cash flow from investing activities was SEK -544 million (3,281). Shareholder contributions totalling SEK 1,038 million were made (to Skandia Aspana AB SEK 627 million, Skandia Balneum AB SEK 260 million, Skandiabanken SEK 93 million and Skandia–Guodian Life Insurance Company Ltd SEK 58 million), and dividends of SEK 526 million were received (Skandiabanken SEK 200 million, Skandia Link Livsforsikring A/S SEK 64 million and Priveq Investment II AB SEK 262 million).

Cash flow from financing activities was SEK -342 million (-733). A dividend of SEK 403 million was paid to Old Mutual, and cash settlement of group contributions from previous years was received, totalling SEK 55 million.

Solvency

Solvency is a measure of an insurance company's ability 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 1,338 million as per December 2010. Solvency capital at the same time was SEK 12,847 million, and the surplus thereby was at a secure level of SEK 11,509 million. Solvency is also calculated per insurance category. The aim of this calculation is to prevent double gearing, i.e., to ensure that that the same capital is not counted for several companies. The solvency margin for the group excluding Skandia Liv was SEK 1,692 million as per December 2010. Solvency capital at the same time was SEK 11,309 million, whereby the surplus for the group excluding Skandia Liv was SEK 9,617 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 9,648 million. Solvency capital for the corresponding group amounted to SEK 19,265 million at the same time, which results in a surplus of SEK 9,617 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 primarily for Skandia's customers, but also for its shareholders. Through measures aimed at safeguarding the interests of 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 by making adequate technical provisions and by maintaining sufficient solvency capital, as well as by maintaining a sound governance structure within the company. Skandia works actively to inform its customers and suggest 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 set tolerance levels.

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 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 Policy for Responsible Business stipulates that, with respect to the environment, Skandia shall work actively to reduce the use of energy and water at all of its workplaces. In addition, Skandia shall help promote its employees' knowledge and awareness about these matters and also take environmental aspects into account in investment decisions.

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 45. The number of employees at Skandia was considerably lower in 2010 than in 2009 as an effect of the new organisational structure that was adopted on 1 October 2009, when Skandia's internal sales force was transferred from Skandia to Skandiabanken AB.

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 2011:2) took effect on 1 March 2011. Skandia issues a separate report on "Disclosure of information on remuneration" in accordance with FFFS 2011:2, in connection with publication of its annual report on www.skandia.se/Om Skandia/Finansiell info.

Future outlook

In 2011 the market will continue to be characterised by greater transparency, price pressure from niche players and larger central procurement processes. To meet the market's demands and be even more customer-focused, Skandia will continue its work on adapting and developing its organisation, products, offerings, distribution channels and service concepts. Thus looking forward, Skandia's vision of having "the savings market's most satisfied customers" will continue to guide the company's activities.

In the private market, there is a rising need for advice that takes the customers' entire financial situation and business into account. Skandia will continue to develop advisory tools that help customers gain better control over their total financial situation and better understand their risk profile. Strong focus is also being put on our "55+" concept, where we help our customers plan their personal finances before, during and after retirement.

In the corporate market, Skandia continues to be a leading player and offers a compelling, comprehensive offering. In terms of personal savings, Skandia Link has once again had the best average return during the past five years.

In addition to the strong savings offering, Skandia has developed Hälsokedjan ("Health Chain"), a holistic concept that helps our customer-companies not only to take care of employees who have become ill, but to help them prevent absences due to illness in the first place and promote employee wellbeing. Hälsokedjan features – in addition to an attractive risk insurance offering of disability, rehabilitation and private healthcare insurance – services in co-operation with partners to cover the entire need of care. Interest is rising from companies in finding solutions that can help their employees obtain care and assistance promptly. In 2010 Hälsokedjan was awarded as "Insurance industry innovation of the year" by the insurance trade journal Risk och Försäkring. Focus in 2011 will be on further development of the Hälsokedjan concept along with a continued focus on small and medium-sized companies.

Events after the balance sheet date

In February 2011, Skandia executed the sale of its shares in Skandia NTS Ltd to another company in the Old Mutual Group. The sale is part of the aforementioned restructuring of the Skandia group (see the section "Restructuring within the group").

In February 2011 the boards of Skandia and its subsidiary Skandia Europe AB decided to proceed with a merger in which Skandia Europe AB is absorbed into Skandia. This absorption is planned to be completed in autumn 2011.

In March 2011 Skandia Europe AB executed the sale of the Spanish subsidiary Skandia Link S.A. de Seguros y Reaseguros to another company in the Old Mutual Group, wich led to an impairment of shares in subsidiaries with an impact of SEK -291 million for Skandia.

In 2011 Skandia will be reorganising and adapting its operations to customers through an improved self-service concept and strengthened customer advisory services. Skandia also intends to streamline its operations and lower costs in 2011 and 2012, and as part of this endeavour, Skandia will be eliminating 300 positions in its Nordic operations.

Five-year summary

RESULT, SEK million	2010	2009	2008	2007	2006
Premiums earned, net of reinsurance, property & casualty insurance	977	157	0	0	0
Premiums written, net of reinsurance, life assurance	158	170	179	197	186
Investment income in insurance business, net	6	3	-1	-2	1
Income from investment contracts	830	669	673	717	757
Claims incurred, net of reinsurance, property & casualty insurance	-683	-82	0	0	0
Claims incurred, net of reinsurance, life assurance	-71	10	-78	-126	-116
Change in other technical provisions, net of reinsurance	9	2	17	-35	-25
Operating expenses	-1,477	-1,235	-1,191	-1,244	-866
Other technical income and expenses	1,558	1,289	1,399	1,447	1,202
Technical result, insurance business	**1,307**	**983**	**998**	**954**	**1,139**
Result for the year	**643**	**3,456**	**841**	**968**	**-657**

FINANCIAL POSITION, SEK million	2010	2009	2008	2007	2006
Investments	13,697	15,299	18,736	20,249	23,854
Investments for the benefit of policyholders who bear the investment risk	113,994	99,682	70,359	91,867	86,077
Reinsurers' share of technical provisions	27	1,002	1,097	984	969
Net asset value					
Shareholders' equity	14,359	13,614	10,087	9,721	8,697
72% of untaxed reserves	—	—	—	1,506	1,506
73.7% of untaxed reserves	1,541	1,541	1,541	—	—
Surplus value of business in force after deferred tax	10,478	9,837	7,056	8,940	10,444
28% of untaxed reserves	—	—	—	585	585
26.3% of untaxed reserves	550	550	550	—	—
Deferred tax assets	-786	-1,189	-837	-565	-462
Subordinated loans	—	—	—	—	850
Net asset value[1)]	**26,142**	**24,353**	**18,397**	**20,187**	**21,620**
Solvency capital, parent company	12,847	12,101	8,710	9,283	9,159
Of which, deduction for intangible assets	—	—	—	—	—
Solvency margin, parent company	1,338	1,121	893	867	841
Solvency capital, group excluding Skandia Liv	11,309	11,231	9,136	15,980	12,876
Of which, deduction for intangible assets	-20	-7	-8	-9	-181
Solvency margin, group excluding Skandia Liv	1,692	1,535	1,258	2,332	3,182
Solvency capital, group including Skandia Liv[2)]	19,265	19,225	18,699	23,658	21,033
Of which, deduction for intangible assets	-20	-7	-8	-9	-181
Solvency margin, group including Skandia Liv[2)]	9,648	9,529	10,504	10,010	11,270

KEY RATIOS	2010	2009	2008	2007	2006
Result of insurance operations					
Property & casualty insurance					
Claims ratio, gross, %[3)]	69	79	79	65	62
Expense ratio, gross, %[4)]	29	28	28	29	30
Combined ratio, gross, %[5)]	98	107	107	94	92
Life assurance operations					
Management expense ratio, %[6)]	1.0	1.2	1.2	1.1	0.8
Result of asset management					
Direct yield, %[7)]	5.41	9.39	14.6	15.9	5.9
Total return, %[7)]	-1.18	9.35	11.6	9.1	7.1
Financial position					
Net asset value ratio, %[8)]	2,755	16,248	et[8)]	et[8)]	et[8)]

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.
3) Claims incurred in relation to net premiums earned.
4) Operating expenses of the insurance operations in relation to net premiums earned, excluding other technical income and charges.
5) Claims incurred plus operating expenses of the insurance operations, in relation to net premiums earned.
6) Operating expenses and claims settlement costs in relation to investments and cash and bank balances.
7) As from 2007, the direct yield and total return are calculated in accordance with the Financial Supervisory Authority's regulations and general guidelines on annual reports of insurance companies (FFFS 2008:26).
In previous years, they were calculated in accordance with a recommendation 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. The negative total return for 2010 is attributable to an unrealised loss from the holding in Privec Investment II AB and to impairment of shares in subsidiaries.
8) Risk-bearing capital in relation to risk-bearing premium. Not applicable, since risk premiums are lacking, since property & casualty insurance business is reinsured in its entirety.

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 2009	12,545,948,620
Net profit for the year	642,599,670
	13,188,548,290
The Board of Directors proposes that the amount be distributed as follows:	
to be distributed to the shareholder SEK 4.4217 per share	4,557,675,310
to be carried forward	8,630,872,980
	13,188,548,290
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	8,630,872,980
	9,801,201,510

The proposed dividend pertains to a dividend of Skandia's entire holding in the wholly owned subsidiary Skandia UK Ltd. The distribution in kind of shares in Skandia UK Ltd is being carried out at book value, which amounts to SEK 4,557,675,310.

Skandia's surplus solvency amounts to SEK 11,509 million before the proposed dividend and SEK 6,951 million after the proposed dividend.

Skandia's financial position does not give rise to other assessment than that Skandia can be expected to meet its obligations in both the short and long term.

The Board is of the opinion that Skandia's equity as reported in the Annual Report is sufficiently large in relation to the scope and risks of the business. The Board is also of the opinion that the group's unrestricted equity is sufficiently large in relation to the scope and risks of the business.

With respect to Skandia's result and position in general, please refer to the following income statement and balance sheet with accompanying notes.

Income statement

SEK million	Note	2010	2009
TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS			
Premiums earned, net of reinsurance			
Premiums written	3	977	930
Premiums ceded	3	0	-699
Change in provision for unearned premiums and unexpired risks		0	-13
Reinsurers' share of change in provision for unearned premiums and unexpired risks		—	-61
		977	**157**
Allocated investment return transferred from the non-technical account	4	**8**	**3**
Claims incurred, net of reinsurance	5		
Claims paid			
Gross		-627	-609
Reinsurers' share		0	653
Change in provision for claims outstanding			
Gross		-49	-119
Reinsurers' share		-7	-7
		-683	**-82**
Operating expenses	6	**-278**	**-17**
Technical result, property & casualty insurance business		**24**	**61**
TECHNICAL ACCOUNT, LIFE ASSURANCE BUSINESS			
Premiums written, net of reinsurance	7		
Premiums written		180	198
Premiums ceded		-22	-28
		158	**170**
Investment income		**—**	**0**
Income from investment agreements		**830**	**669**
Other technical income, net of reinsurance	8	**1,558**	**1,289**
Claims incurred, net of reinsurance			
Claims paid	9		
Gross		-130	-123
Reinsurers' share		4	5
Change in provision for claims outstanding			
Gross		62	155
Reinsurers' share		-7	-27
		-71	**10**
Change in other technical provisions, net of reinsurance			
Provision for unearned premiums and unexpired risks			
Gross		9	2
		9	**2**
Operating expenses	10	**-1,199**	**-1,218**
Investment charges		**-2**	**0**
Technical result, life assurance business		**1,283**	**922**

SEK million	Note	2010	2009
NON-TECHNICAL ACCOUNT			
Technical result, property & casualty insurance business		**24**	**61**
Technical result, life assurance business		**1,283**	**922**
Investment income	11	4,774	2,452
Unrealised gains on investments	12	—	102
Investment charges	13	-4,727	-3
Unrealised losses on investments	14	-150	-108
	15	**-103**	**2,443**
Allocated investment return transferred to the technical account	4	-8	-3
Other revenues		—	124
Other expenses		—	-5
Profit before appropriations and tax		**1,196**	**3,542**
Appropriations	16	136	—
Profit before taxes		**1,332**	**3,542**
Taxes	**17**	**-689**	**-86**
Net profit for the year		**643**	**3,456**

Statement of comprehensive income

SEK million	Note	2010	2009
Net profit for the year		**643**	**3,456**
Other comprehensive income			
Translation differences for the year	30	16	3
Comprehensive income for the year		**659**	**3,459**

Balance sheet

SEK million	Note	2010	2009
ASSETS			
Investments			
Investments in group and associated companies	18		
Shares and participations in group companies		10,313	10,572
Loans to group companies		1,295	1,310
Shares and participations in associated companies		314	270
Other financial investments	19		
Shares and participations		30	167
Bonds and other fixed-income securities		1,745	1,732
Derivatives		0	—
Deposits held with ceding undertakings	20	—	1,248
		13,697	**15,299**
Investments for the benefit of life assurance policyholders who bear the investment risk			
Assets for conditional bonuses	21	10,116	7,137
Unit linked assets	22	103,878	92,545
		113,994	**99,682**
Reinsurers' share of technical provisions			
Provision for unearned premiums and unexpired risks	32	—	181
Provision for claims outstanding	33	27	821
		27	**1,002**
Debtors			
Debtors arising out of direct insurance operations	23	23	55
Debtors arising out of reinsurance operations		2	23
Other debtors	24	839	634
Deferred tax, net	25	786	1,189
		1,650	**1,901**
Other assets			
Tangible assets	26	86	43
Cash and bank balances	27	1,669	1,596
		1,755	**1,639**
Prepaid expenses and accrued income			
Accrued interest and rent		34	28
Deferred acquisition costs	28	2,672	2,900
Other prepayments and accrued income	29	540	534
		3,246	**3,462**
TOTAL ASSETS		**134,369**	**122,985**

SEK million	Note	2010	2009
EQUITY, PROVISIONS AND LIABILITIES			
Equity	30, 51		
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		12,546	8,988
Net profit for the year		643	3,456
		14,359	**13,614**
Untaxed reserves	31	**2,091**	**2,091**
Technical provisions, gross			
Unearned premiums and unexpired risks	32	261	294
Claims outstanding	33	1,333	1,380
		1,594	**1,674**
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross			
Conditional bonuses	34	10,116	7,137
Unit linked obligations	35	103,892	93,885
		114,008	**101,022**
Other provisions			
Pensions and similar obligations	36	236	234
Taxes		65	180
Other provisions	37	159	469
		460	**883**
Deposits received from reinsurers		**15**	**980**
Creditors			
Creditors arising out of direct insurance operations	38	334	279
Creditors arising out of reinsurance operations		2	11
Derivatives	39	1	0
Other creditors	40	1,034	1,999
		1,371	**2,289**
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	28	—	13
Other accruals and deferred income	41	471	419
		471	**432**
TOTAL EQUITY, PROVISIONS AND LIABILITIES		**134,369**	**122,985**
Memorandum items			
Pledged assets and security			
Pledged assets and therewith comparable security for own liabilities and for reported commitments for provisions	43	973	2,212
Assets covered by policyholders' beneficiary rights	43	115,767	101,681
		116,740	**103,893**
Contingent liabilities	44	52	416
Obligations		Inga	Inga

Statement of changes in equity

SEK million	Note	Restricted equity Share capital	Share premium reserve	Unrestricted equity Profit brought forward	Total equity
Equity at the beginning of 2009		**1,031**	**139**	**8,917**	**10,087**
Net profit for the year				3,456	3,456
Other comprehensive income for the year				3	3
Comprehensive income for the year				**3,459**	**3,459**
Group contributions before deducted tax				74	74
Tax on group contributions				-19	-19
Share-based payments				13	13
Equity at year-end 2009		**1,031**	**139**	**12,444**	**13,614**
Net profit for the year				643	643
Other comprehensive income for the year	30			16	16
Comprehensive income for the year				**659**	**659**
Group contributions before deducted tax				1,112	1,112
Tax on group contributions				-293	-293
Share-based payments				3	3
Dividends				-636	-636
Merger result	51			-100	-100
Equity at year-end 2010		**1,031**	**139**	**13,189**	**14,359**

Total number of shares outstanding	2010	2009
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	2010	2009
Operating activities		
Profit before tax	1,332	3,542
Adjustment for dividends from group companies	-497	-1,495
Adjustment for dividend from investments not used in operations	-262	0
Adjustment for non-cash items[1]	1,065	185
Policyholder tax	-534	-461
Paid tax	-9	-11
Cash flow from operating activities before changes in assets and liabilities	**1,095**	**1,760**
Cash flow from change in investments/technical provisions, where the risk is borne by the policyholders, net[2]	-78	0
Change in other investments used in operations	2	671
Change in other operating receivables and operating liabilities[3]	-52	-3,584
Cash flow from operating activities	**967**	**-1,153**
Investing activities		
Change in investments not used in operations	14	666
Dividends from group companies	264	1,495
Dividend from investments not used in operations	262	0
Other[4]	-1,084	1,120
Cash flow from investing activities	**-544**	**3,281**
Financing activities		
Amortisation of loans	—	-288
Group contribution in preceding year	55	-463
Dividend	-403	—
Other	6	18
Cash flow from financing activities	**-342**	**-733**
NET CASH FLOW FOR THE YEAR	**81**	**1,395**
Cash and cash equivalents at start of year	**1,596**	**203**
Exchange rate differences in cash and cash equivalents	**-8**	**-2**
Cash and cash equivalents at end of year	**1,669**	**1,596**

	2010	2009
[1] Result from sale of group companies	3,853	677
Reversal of impairment, group companies	-3,853	-759
Impairment, group companies	893	87
Change in deferred acquisition costs	214	128
Change in value of investments	124	2
Depreciation and impairment charges	18	9
Change in deferred fee income	-5	-6
Change in technical provisions excluding savings in life and unit linked assurance	-9	69
Share-based payments	-4	17
Unrealised foreign exchange gains/losses	-30	-44
Change in untaxed reserves	-136	—
Other	—	5
Adjustment for non-cash items	**1,065**	**185**

	2010	2009
[2] Change in technical provisions where the investment risk is borne by the policyholders, net	3,478	29,304
Purchases and sales of investments where the risk is borne by the policyholders, net	-3,556	-29,304
Cash flow from change in investments/technical provisions where the risk is borne by the policyholders, net	**-78**	**0**

[3] The item "Change in other operating receivables and operating liabilities" has been adjusted for group contributions not received/paid out as per the balance sheet date, in the amount of SEK 1,112 million (74) including tax on group contributions.

	2010	2009
[4] Shareholder contributions to group companies	-980	-885
Shareholder contributions to associated companies	-58	-71
Sales of subsidiaries	—	234
Change in loans, group companies	16	1,856
Acquisition of property, plant and equipment	-62	-19
Other	—	5
Other	**-1,084**	**1,120**

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	977	733	244
Allocated investment return transferred from the non-technical account	8	6	2
Claims incurred, net of reinsurance	-683	-549	-134
Operating expenses	-278	-180	-98
Technical result, property & casualty insurance business	**24**	**10**	**14**
Run-off result	**17**	**-3**	**20**
Technical provisions, gross			
Unearned premiums and unexpired risks	229	182	47
Claims outstanding	926	856	70
Total technical provisions, gross	**1,155**	**1,038**	**117**
Reinsurers' share of technical provisions			
Unearned premiums and unexpired risks	—	—	—
Claims outstanding	2	2	0
Total reinsurers' share of technical provisions	**2**	**2**	**0**

Notes to the Performance analysis, property & casualty insurance business

Premiums earned, net of reinsurance			
Premiums written, gross	977	733	244
Premiums ceded	0	0	0
Change in provision for unearned premiums and unexpired risks	0	0	0
	977	**733**	**244**
Claims incurred, net of reinsurance			
Claims paid[1]			
Gross	-627	-474	-153
Reinsurers' share	0	0	0
Change in claims outstanding[2]			
Gross	-49	-68	19
Reinsurers' share	-7	-7	0
	-683	**-549**	**-134**

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

LIFE ASSURANCE (PER LINE OF INSURANCE)

SEK million	TOTAL	Occupational pension insurance[1)] Life assurance	Occupational pension insurance[1)] Unit linked assurance	Occupational pension insurance[1)] Waiver of premium insurance	Occupational pension insurance[1)] Total	Other life assurance Life assurance	Other life assurance Unit linked assurance	Other life assurance Waiver of premium insurance	Other life assurance Total	Life reassurance accepted
Technical result, life assurance business										
Premiums written, net of reinsurance	**158**	0	32	105	137	1	10	7	18	3
Investment income	**830**	0	481	0	481	94	255	0	349	—
Other technical income, net of reinsurance	**1,558**	1	983	0	984	155	403	—	558	16
Claims incurred, net of reinsurance	**-71**	0	-45	-6	-51	-4	-15	0	-19	-1
Change in other technical provisions, net of reinsurance	**9**	—	—	5	5	—	—	4	4	—
Operating expenses	**-1,199**	-3	-689	7	-685	-203	-298	0	-501	-13
Investment charges	**-2**	—	0	-2	-2	—	0	0	0	—
Technical result, life assurance business	**1,283**	**-2**	**762**	**109**	**869**	**43**	**355**	**11**	**409**	**5**
Run-off result	**78**	**—**	**—**	**72**	**72**	**—**	**—**	**6**	**6**	**—**
Technical provisions, gross										
Unearned premiums and unexpired risks	**32**	—	—	16	16	—	—	16	16	—
Claims outstanding	**407**	—	0	359	359	—	0	48	48	—
Technical provisions, gross	**439**	**—**	**0**	**375**	**375**	**—**	**0**	**64**	**64**	**—**
Technical provision for life assurance policies where the risk is borne by the policyholders, gross										
Conditional bonuses	**10,116**	77	—	—	77	10,039	—	—	10,039	—
Unit linked obligations	**103,892**	—	75,926	—	75,926	—	27,966	—	27,966	—
Technical provision for life assurance policies where the risk is borne by the policyholders, gross	**114,008**	**77**	**75,926**	**—**	**76,003**	**10,039**	**27,966**	**—**	**38,005**	**—**
Reinsurers' share of technical provisions										
Claims outstanding	**25**	**—**	**—**	**24**	**24**	**—**	**—**	**1**	**1**	**—**

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

	TOTAL	Occupational Life assurance	Occupational Unit linked assurance	Occupational Waiver of premium insurance	Occupational 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	180	0	32	127	159	1	10	7	18	3
Premiums ceded	-22	—	0	-22	-22	—	0	0	0	—
	158	**0**	**32**	**105**	**137**	**1**	**10**	**7**	**18**	**3**
Claims incurred, net of reinsurance										
Claims paid										
Gross	-107	—	-39	-54	-93	0	-6	-7	-13	-1
Reinsurers' share	4	—	—	4	4	—	—	0	0	—
Claims settlement costs	-23	—	-6	-4	-10	-3	-10	0	-13	—
Change in claims outstanding										—
Gross	62	—	0	54	54	—	0	8	8	—
Reinsurers' share	-7	—	—	-7	-7	—	—	0	0	—
	-71	**—**	**-45**	**-7**	**-52**	**-3**	**-16**	**1**	**-18**	**-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 2010. 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 2010 financial year was approved for publication by the Board of Directors and Chief Executive on 24 May 2011 and will be subject to adoption by the Annual General Meeting on 20 June 2011.

2. Basis of preparation

The Annual Report has been prepared in conformity with the Swedish Annual Accounts Act for Insurance Companies and the Swedish Financial Supervisory Authority's regulations and general guidelines on annual reports of insurance companies (FFFS 2008:26), the amended guidelines in FFFS 2009:12, and Swedish Financial Reporting Board (RFR) recommendation RFR 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, FFFS 2009:12 and RFR 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.

The reporting structure is changed in the 2010 Annual Report, since RFR 2 "Accounting for legal entities" stipulates that the Revised IAS 1 Presentation of Financial Statements shall also be applied for legal entities, with a few exceptions. An effect of this compared with Skandia's reporting in previous annual reports, is that a statement of comprehensive income has been added following the income statement. Another effect is that the statement of changes in equity has been changed in such way that the income and expenses that were previously reported directly in equity are now reported as other comprehensive income in the statement of comprehensive income.

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 certain 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 assessments 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 assurance 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 33 and the other provisions that are described in note 37 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 deferred tax liability pertaining to Skandia's untaxed reserve and deferred tax liability pertaining to net assets in the consolidated accounting, which in the future will generate taxable earnings for Skandia. 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 45.

4. Changed accounting policies

4.1 Changed accounting policies caused by new or amended reporting standards issued by IASB for the 2010 financial year

Following is a description of the changed accounting policies that Skandia applies as from 1 January 2010. Other amendments to IFRSs with application as from 2010 have not had any material effect on the accounting.

Presentation of financial statements

In the IASB's annual improvement project that was published in May 2010, the requirements changed in IAS 1 Presentation of Financial Statements regarding the layout of the statement of changes in equity. Skandia has opted to apply these changes prospectively with effect from the 2010 Annual Report and 2010 financial year. The changes entail that the reconciliation in the statement of changes in equity of the year's change in every component of equity does not need to specify every item in other comprehensive income. As permitted by this amendment, Skandia has opted to provide these detailed disclosures in note 30 instead. In accordance with the formulations in the Revised IAS 1, the statement of changes in equity in comprehensive income for the year has been broken down with a separate specification of profit for the year and other comprehensive income for the year. This presentation is used for the current year and for the comparison year.

Amendments to IFRS 2 Share-based Payment

The amendments entail primarily a clarification of the application area for and classification of payments that are settled in cash or other assets (such as equity instruments in another group company) by another company than the company that receives the services or products. The amendments clarify that such cash-settled intra-group payments are within the application area of IFRS 2 and how the settling and receiving companies, respectively, are to classify the payment – as equity- or cash-settled. The amendment does not give rise to any change in Skandia's accounting and is in agreement with the previous interpretation of IFRS 2.

4.2 New IFRSs and interpretations that have not yet taken effect

A number of new or amended standards and interpretations do not take effect until future financial years and have not been applied prospectively in these financial statements. New standards or amendments to standards that are applicable as from the 2011 financial year and forward are not planned to be applied prospectively. To the extent that anticipated effects on the financial statements of the changes in the following new or amended standards and interpretations are not described below, the new rules are judged to not have any material impact on Skandia's financial statements.

Revision of IAS 39 Financial Instruments

IFRS 9 Financial Instruments is intended to supersede IAS 39 Financial Instruments: Recognition and Measurement by 2013 at the latest. The IASB has presented the first of at least three parts which together will make up IFRS 9. The first part addresses classification and measurement of financial assets and liabilities. The categories of financial assets that today are specified in IAS 39 will be replaced by two categories, where measurement is done at fair value or at amortised cost. Amortised cost is used for instruments that are held in a business model whose goal is to receive the contractual cash flows that are to constitute payments of principal amounts and interest on principal balances at a specified date. Other financial assets are carried at fair value, and the possibility of using the fair value option as in IAS 39 is kept. Changes in fair value are to be reported through profit or loss, except for changes in the value of equity instruments that are not held for trading and for which an initial choice is made to report changes in value in other comprehensive income. In 2010 the standard was complemented with financial liabilities. The change compared with IAS 39 today pertains primarily to own credit risk in measurement of financial liabilities. Changes in the value of derivatives in hedge accounting are not affected by this part of IFRS 9, but are instead reported until further notice in accordance with IAS 39. The EU Commission has not yet made any decision on the date of adoption.

IAS 24 Related Party Disclosures

A revision has been made of the definition of related party in order to simplify the interpretation of who falls under the concept of related party.

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, while 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 exchange rate in effect on the balance sheet date, while the income statements are translated at the average rate of exchange for the period. Translation differences do not affect profit/loss, but are instead recognised in other comprehensive income as a translation reserve.

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, 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 to 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 in an equitable manner between 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 adopted by Skandia's board of directors and set forth in the Skandia Group Corporate Manual. 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, the insurance component in 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 new contracts and renewals of 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.

(f) 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 following the same method used for 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 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 influence of Skandia. Controlling influence 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 influence 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 influence 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 on the balance sheet include, on the assets side, trade accounts receivable, equities, loan receivables, fixed-income securities and derivatives. Among liabilities and shareholders' 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 through profit or loss. 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 through profit or loss.

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 through profit or loss.

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 through profit or loss.

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 through profit or loss.

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 regulations on choice of interest rate for calculating life assurance provisions (FFFS 2008:23) and certain other technical provisions have also been taken into account. 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 chain ladder 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, only a small provision has been made in the 2010 accounts, which pertains to property & casualty insurance business. Checks are performed on a regular basis to ensure that the need for this type of provision is immaterial.
- "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 on 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 outstanding principal 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 2010 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. The model for deferring tax on taxable deficits was changed in 2010, however, the change does not represent a changed accounting policy. Loss carryforwards that can be used to reduce taxable profits in future years are assigned such a value that the total deferred tax asset on the balance sheet corresponds to the deferred tax liability for Skandia's untaxed reserve and the deferred tax liability for net assets in the consolidated accounts, which in the future will give rise to taxable income for Skandia.

Deferred tax is calculated using 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 2010 financial year has been calculated using a tax rate of 26.3%. Deferred tax liabilities and deferred tax assets are not discounted.

Deferred tax is charged or credited in the income statement, except in cases where it relates to items charged or credited directly to shareholders' equity or reported in other comprehensive income, in which case the tax effect is also recognised directly in equity or in other comprehensive income.

(c) Policyholder tax

With certain exceptions, insurance operations are not subject to income tax; instead, they are taxed by means of a so-called policyholder tax. The policyholder tax 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. Compensation for this expense is deducted from the assets that are managed for the benefit of the respective policyholders and 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's pension benefits are secured through defined contribution and defined benefit pension solutions, which are reported as an expense in the income statement for the period in which the cost was incurred.

(a) Defined contribution pension plans

Defined contribution pension plans are plans in which the company's obligation is limited to the fees that the company has undertaken to pay. In such case, the level of the employee's pension depends on the fees (contributions) paid by the company and the investment return generated by those contributions. Consequently, it is the employee who bears the actuarial risk and investment risk. The company's commitments pertaining to fees to defined contribution plans are charged as an expense against profit for the year in which they were paid.

(b) Defined benefit pension plans

By defined benefit pension is meant that the employee is guaranteed a set post-retirement pension that is based on his or her final salary. However, the rules for reporting defined benefit pension plans under IAS 19 Employee Benefits do not apply for Skandia as a legal entity. This is because application of the rules of the Pension Obligations Vesting Act (Tryggandelagen) is a prerequisite for having the right to make tax deductions for premiums. Skandia reports defined benefit pensions in accordance with the rules of the Pension Obligations Vesting Act and RFR 2, where it set forth that the rules in IAS 19 with respect to defined benefit pension plans do not need to be applied by legal entities. For further information on pensions, see note 46, "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 45, "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. Business combinations

Business combinations are reported in accordance with Swedish Accounting Standards Board General Recommendation BFNAR 1999:1, Mergers of wholly owned stock corporations. For the acquiring company, a merger of a wholly owned subsidiary entails that an indirect ownership of the subsidiary's assets and liabilities is replaced by direct ownership. On the balance sheet, the shares in the subsidiary are replaced by the assets that they previously represented. Such an exchange normally affects the equity of the acquirer. The effect that a business combination has on the acquirer's equity – apart from those on the acquiree's earnings during its final financial year – is called the merger result and is reported in equity.

24. 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 overdraft facilities, which are reported on 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 with a short duration from the point of acquisition – normally three months or less – 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 risks – 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 financial 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 rules, regulations and instructions, among other things. The Risk and Audit Committees, which are committees within Skandia's board, are responsible for reviewing the risk management and regulatory compliance within Skandia based on instructions adopted by the Board.

Skandia's Chief Executive has an overall view of Skandia's risks and the company's compliance, and is responsible for ensuring that the risks in Skandia are identified, managed and reported, as well as – where necessary – providing risk management support to the operations. Skandia's Chief Executive shall also co-ordinate all risk reporting 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 an Actuarial Control function, 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 to the Chief Executive and the Board of Directors.

Skandia's Internal Audit function is directly subordinate to the Board and its Audit Committee and is organisationally separated from Skandia's operations. It is responsible for performing independent audits of both the operative units and internal control (the risk control and compliance functions). Evaluating internal control is an important part of the independent audit. The external audit function 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 model for managing and controlling risks. According to this methodology, formal structures for good governance are complemented by a model for good governance of risks and compliance that is 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, audit 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 • 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: • 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 responsibility 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 regulations, 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.

The work of the second line of defence is regulated by a framework for risk and compliance within Skandia that has been adopted by the Board, which clarifies roles, responsibilities and reporting requirements for these units. The aim of the framework is to continuously further develop and streamline the work on risk management, risk control and compliance through joint processes throughout the company, and to shore up independence from the operative activities, which are the first line of defence. 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 Risk 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, is defined by principles laid out in the Skandia's Internal Rules. Risks or events that exceed the agreed levels are to be identified and reported. Remedial action regarding these risks and events is subjected to the Executive Management's and risk groups' oversight. Skandia adheres to the internal Risk Appetite framework defined by Old Mutual, which expresses quantitative limits for the company's risk tolerance with respect to changes in the operating result and cash flows, among other things.

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 minimum amount required to cover Skandia's risks with the desired high degree of certainty.
- Available capital: the amount of capital available to cover Skandia's risks.

Significant risks in Skandia's business

At present Skandia conducts unit linked assurance business including a custody account–based insurance (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 risk calculation methods can be applied within Skandia, where suitable.

Strategic and political risks

Strategic risk is the risk that Skandia's strategy is insufficient for maintaining Skandia's position in the market or unsuitable for the operating environment or the available resources. Political risks commonly include such risks as those related to changes in tax rules and other legislation, and similar other risks.

Strategic risk is coupled to the group's strategy, and this risk is therefore primarily a risk for the Old Mutual Group as the owner of Skandia. However, this risk shall also be acknowledged and managed at the company and business unit levels. This is done 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 market risks

Financial market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as result of changes in market prices, thereby affecting Skandia's result. Apart from these changes affecting profit for the year, they also affect future results (excluding future new business), which affects the calculation of Skandia's embedded value[1)]. The term embodies both the risk for loss and the potential for gain.

Financial market risk includes the following 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 prices of shares and other equity instruments (such as mutual funds); and
- credit risk.

Skandia's direct exposure to these risks is limited, since the company invests its equity mainly in a well-diversified bond portfolio. In addition, Skandia is indirectly exposed to financial market risk, as revenues consist largely of fees on customers' assets under management, which are affected by changes in the value of those assets. 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 result is exposed to both interest rate risk and share price risk. Skandia does not hedge these risks that are related to changes in the value of customers' investments or risks that arise from the effect that changes in exchange rates have on these.

Skandia is also exposed to market risks associated with purchases and sales of fund units or other financial instruments that are made in connection with policyholders' trading in unit linked insurance. The exchange rate risk that arises from this is hedged.

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 of minor significance for the shareholders. Risk management in the form of controls is exercised with respect to these risks.

[1)] Embedded value is the sum of equity adjusted for deferred acquisition costs and similar balance sheet items in unit linked and traditional life assurance and the surplus values of insurance in force.

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

The risks for the company consist of a future outcome 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, can 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). (However, reinsurance of property & casualty insurance business ended with the discontinuation of Dial.) 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.

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

RISK REINSURANCE

Insurance obligations	2010	2009
Total exposure	1,594	1,674
Reinsured exposure	-27	-1,002
Non-reinsured exposure	1,567	672

Since mid-2010, Skandia's private healthcare insurance and group accident insurance business are no longer reinsured. It should be noted that the Norwegian branch was sold at the end of 2010. Skandia has opted to accept this risk and manage it on a continuing basis, since Skandia believes that the risk-adjusted return without reinsurance exceeds the risk-adjusted return with reinsurance.

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 through the entire duration 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' duration of disability, it is easy to predict a claim's remaining total claim cost.

For private healthcare insurance, the average period of benefit payments 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 obligations are managed through a duration-matched bond portfolio and are reviewed by Skandia's 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 Sweden	55%	44%	1%	100%
Claims reserves, private healthcare Denmark	79%	21%	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 a generally 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 monitoring the progress of Solvency II, i.e., the work on determining what solvency rules will look like in the EEA upon the effective date of 1 January 2013. Skandia and Old Mutual are working on adhering to the Solvency II regime through a joint-group project called iCRaFT (Integrated Capital Risk and Financial Transformation).

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 (see the section on liquidity risks) and the loss of future revenues or interest.

Customer behaviour risk is primarily managed through conscious product design and by providing continuous services throughout the duration of contracts.

Many insurance contracts with a savings element can be surrendered in full or in part before maturity for a cash surrender value. For Skandia's unit linked assurance business, this risk is reduced by the charging of a surrender fee to customers and/or distributors who cancel contracts prematurely.

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 below under "Sensitivity analysis".

Operational risks
Operational risk is the risk of loss resulting from unsuitable or failed processes, human error, defective systems or external events.

Skandia manages operational risks through various forms of preventive measures and security arrangements as well as through preparedness planning aimed at handling situations that could have a negative impact on Skandia as effectively as possible. Operational risks in the business are identified on a quarterly basis and are measured through self assessment. In addition, Skandia has a system for capturing "hits and near misses", which also indicates potential loss data, chiefly for operational risks. The aim of this system is to learn from experience and thereby avoid similar events in the future, as well as to find areas where increased control may be necessary.

The impact of operational risks usually usually arises in the form of costs or damage to the company's reputation.

HR risks
HR risk is the risk of the company not having the human capital needed to maintain and drive its business forward. This can include the risk of the company not being able to attract and retain competent employees. In addition, there may be a risk of the company culture not being aligned with the company's objectives or of the incentive structure failing to motivate the employees. Skandia's respective departmental managers are responsible for taking care of their employees in the best manner possible, even though it is Skandia's HR department which, together with management, creates the conditions for this by devising essential 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, which is no longer material. The main form of credit risk management is the assessment of the counterparty's ability to fulfil its obligations. Credit risk is managed and regulated 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 that are judged to have a good long-term credit rating – at least a single A credit rating from Standard & Poor's or its equivalent. Skandia also has credit exposure to intermediaries. These risks are 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)]

	2010	2009
Loans to companies		
Other	1,295	1,310
Loans to credit institutions		
Bank	–	–
Bonds		
Government bonds, credit rating AAA	1,745	1,732
Derivatives		
Counterparties with AA credit rating	0	–
Counterparties with single-A credit rating	0	–
Reinsurers		
Reinsurers with single-A credit rating	17	1,003
Reinsurers with undetermined credit rating	11	22
Banks		
Counterparties with AA credit rating	30	36
Counterparties with single-A credit rating	1,635	1,560
Counterparties with undetermined credit rating	4	–
Total	**4,737**	**5,663**

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 2010, receivables past due did not amount to material levels.

Liquidity risk
Liquidity risk is the risk that Skandia will encounter difficulty meeting obligations associated with financial liabilities when they are due. Skandia is exposed to liquidity risk in several areas, including:
• in unit linked assurance in connection with fund switches, and
• funding unexpectedly large volumes of new business.

Skandia manages liquidity risk by 1) assigning each business area to draw up liquidity strategies for the daily management of liquidity in the business, 2) setting and continuously monitoring liquidity limits, and 3) drawing up continuity plans for liquidity crises. For known, large liquidity risks, systems are in place for regular calculation of worst-case scenarios. Skandia's Asset & Liability Committee continuously monitors liquidity and liquidity risks.

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	2010	2009
AA	1,500	1,000
A	2,000	2,000

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 2010

	<1 yr	1-5 yrs	>5 yrs	Total
Derivatives	1	–	–	**1**
Provisions for life assurance policies where the investment risk is borne by the policyholders	57,642	10,738	45,628	**114,008**
Technical provisions	661	646	287	**1,594**
Creditors arising out of direct insurance operations	334	–	–	**334**
Creditors arising out of reinsurance operations	2	–	–	**2**
Other creditors	490	–	–	**490**
Total	**59,130**	**11,384**	**45,915**	**116,429**

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 2010

	<1 yr	1-5 yrs	>5 yrs	Total
Market value including accrued interest	470	1,051	252	1,773

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 loans	1,999	–	–	**1,999**
Other creditors	4,686	–	–	**4,686**
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

Compliance risks
Compliance risk is the risk of Skandia not complying with laws, regulations, guidelines, internal rules and generally accepted practice and standards regarding business that is subject to permits. Poor compliance can lead to elevated operational risks, risks for legal sanctions, sanctions imposed by oversight bodies, financial loss or damage to Skandia's reputation. 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

Starting in 2008, 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.

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's 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 assumptions with respect to, among other things, surrender rates of contracts, fees, fund management and other costs, commissions paid to distributors and mortality statistics. 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 is not 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 non-agreed 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, includes 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 2010. 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.
- **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 SEK 50 per year for a product (and increasing with inflation), Test F entails that the cost will be assumed to be SEK 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.
- **Test L.** This test shows the effect of VNB when changes are made in the closing economic assumptions.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

SEK 000s	MCEV	% change	VNB	% change	ANW (Req. cap.)	% change	ANW (Free surplus)	% change
Starting assumption	**13,355,855**		**769,605**		**1,131,403**		**1,773,798**	
A: 1% increase in economic assumptions	-243,812	-1.8%	-7,536	-1.0%				
B: 1% decrease in economic assumptions	268,630	2.0%	8,928	1.2%				
C: 10% increase in assets	1,060,630	7.9%	37,446	4.9%	-1,569	-0.139%	-2,460	-0.139%
D: 10% decrease in assets	-1,059,587	-7.9%	-37,442	-4.9%	1,372	0.121%	2,151	0.121%
E: 10% decrease in surrender assumptions	342,880	2.6%	60,400	7.8%				
F: 10% decrease in internal maintenance expenses	408,493	3.1%	15,027	2.0%				
G: 5% decrease in mortality assumptions for positive risk sum	17,116	0.1%	1,412	0.2%				
H: 5% decrease in mortality assumptions for negative risk sum	-22,172	-0.2%	-499	-0.1%				
I: 10% increase in acquisition costs	—	—	-9,705	-1.3%				
J: Capital requirement with risk capital requirement based on a 99.93% confidence interval	-165,775	-1.2%	-7,738	-1.0%				
K: Capital requirement including diversification effects between hedgeable and non-hedgeable risks	175,198	1.3%	8,134	1.1%				
L: VNB with closing economic assumptions	—	—	-4,000	-0.5%				

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.

SENSITIVITY TO CHANGES IN ASSUMPTIONS, PROPERTY & CASUALTY INSURANCE

SEK 000s	Group Sweden	Private Healthcare Sweden	Private Healthcare Denmark	Private Healthcare Norway
Starting point				
Premiums earned, net	175 601	557 070	216 421	27 735
Net financial items	5 946	5 647	-20 688	-1 331
Total claim cost	-129 428	-402 708	-114 792	-19 179
Acquisition costs	-4 906	-37 442	-26 561	-493
Operating expenses	-29 493	-114 349	-53 908	-27 138
Operating result	**17 718**	**8 218**	**472**	**-20 407**
Increase in the year's reserves by 10%				
Premiums earned, net	175 601	557 070	216 421	27 735
Net financial items	6 246	5 947	-20 688	-1 331
Total claim cost	-147 257	-437 032	-147 899	-21 918
Acquisition costs	-4 906	-37 442	-26 561	-493
Operating expenses	-29 493	-114 349	-53 908	-27 138
Operating result	**190**	**-25 806**	**-32 635**	**-23 145**

Capital requirement

The focus, control and mandate of asset management are governed by Skandia's investment policy. Monitoring of debt coverage, outcomes and risks is handled by Skandia's Asset & Liability Committee. Follow-up, including sensitivity analyses, is conducted and reported on a regular 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 requirement for quarterly reporting of solvency requirement and solvency capital. The calculation model for the solvency requirement for both unit linked and custody account insurance obligations under the current rules 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.

SOLVENCY CAPITAL AND SOLVENCY REQUIREMENT

	2010	2009
Solvency capital	12,847	12,101
Solvency requirement	1,338	1,121
Surplus	**11,509**	**10,980**

Skandia calculates and monitors its external capital requirement and internal capital metrics. External capital requirement includes reported equity, the solvency requirement according to the Financial Supervisory Authority's rules, and the Financial Supervisory Authority's Traffic Light model. The internal capital metrics are calculated in part using a deterministic model that is compared with the company's solvency capital, and in part using an economic valuation which takes into account anticipated future cash flows, which are put in relation to the need for economic risk capital.

Disclosures on distributable amount

Based on the scope and nature of operations, Skandia is of the opinion that SEK 4,500 million currently cannot be considered to be distributable in view of the stipulations of Ch. 4 § 1 of the Insurance Business Act (Försäkringsrörelselagen 2011:2043) and Ch. 17 § 3 of the Companies Act (Aktiebolagslagen 2005:551). In Skandia's view, this amount allows the company to maintain a satisfactory equity ratio and level of liquidity in view of the conditions of the business in the near and long term. In arriving at this opinion, Skandia has used internal calculations to take into account the risks that the business currently gives rise to, the company's and the group's funding needs, the quality of the solvency capital and the need for a margin for the statutory solvency requirement and the Financial Supervisory Authority's Traffic Light model.

NOTES ON THE TECHNICAL ACCOUNT PROPERTY & CASUALTY INSURANCE BUSINESS

Note 3 Premiums written

	2010	2009
Direct insurance in Sweden	733	649
Direct insurance in other EEA countries	244	281
Premiums for ceded reinsurance	0	-699
Paid-in and recognised premiums	**977**	**231**

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 flows over time.

For 2010 an interest rate of 2.11% has been used, while in 2009 a rate of 3.00% was used.

	2010	2009
Allocated investment return transferred from the non-technical account	8	3

Note 5 Claims incurred

	2010			2009		
	Gross	Ceded	Net	Gross	Ceded[1]	Net
Claims paid	-611	0	-611	-594	653	59
Claim portfolios	0	—	0	—	—	—
Change in provision for incurred and reported claims	-34	-4	-38	-94	-27	-121
Change in provision for incurred but not reported (IBNR) claims	-15	-3	-18	-25	20	-5
Operating expenses for claims settlement	-16	—	-16	-15	—	-15
Total	**-676**	**-7**	**-683**	**-728**	**646**	**-82**

[1] Pertains to reinsurance with group companies.

Of claims incurred, SEK 17 million (13) consists of the net run-off result.

Note 6 Operating expenses

	2010	2009
Internal acquisition costs	-56	-52
External acquisition costs[1]	-36	-30
Change in deferred acquisition costs, gross	-3	4
Administrative expenses	-183	-173
Reinsurance commissions and profit participations	—	227
Change in deferred acquisition costs, ceded reinsurance	—	7
Total	**-278**	**-17**

[1] Pertains to commissions for direct insurance.

For a breakdown of total operating expenses, see note 47.

NOTES ON THE TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS

Note 7 Premiums written

	2010			2009		
	Gross	Ceded	Net	Gross	Ceded	Net
Periodic premiums[1]	180	-22	158	198	-28	170

[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

	2010	2009
Volume-based cost reduction	949	793
Policyholder tax	532	459
Other	77	37
Total	**1,558**	**1,289**

Note 9 Claims paid

	2010			2009		
	Gross	Ceded	Net	Gross	Ceded	Net
Death	-46	—	-46	-40	—	-40
Disability	-61	4	-57	-72	5	-67
Claims settlement costs	-23	—	-23	-11	—	-11
Claims paid	**-130**	**4**	**-126**	**-123**	**5**	**-118**

Note 10 Operating expenses

	2010	2009
Internal acquisition costs	-371	-405
External acquisition costs	-379	-441
Change in deferred acquisition costs, gross	-206	-134
Administrative expenses	-253	-258
Reinsurance commissions and profit participations	10	20
Total	**-1,199**	**-1,218**

For a breakdown of total operating expenses, see note 47.

NOTES ON THE NON-TECHNICAL ACCOUNT

Note 11 Investment income

	2010	2009
Dividends from shares and participations		
Shares and participations in group companies	497	1495
Other shares and participations	262	1
Interest income, etc.		
Bonds and other fixed-income securities	40	58
Group companies	30	28
Other interest income	15	44
Foreign exchange gains, net	*43*	*15*
Reversed impairment charges		
Shares and participations in group companies	3,853	759
Capital gains, net		
Bonds and other fixed-income securities	34	52
Total	**4,774**	**2,452**

Note 12 Unrealised gains on investments

	2010	2009
Shares and participations	—	102

Note 13 Investment charges

	2010	2009
Asset management charges	*41*	*869*
Interest expenses, etc.		
Group companies	-1	-49
Other interest expenses	-1	-10
Depreciation and impairment charges		
Write-down of shares in group companies	-908	-87
Capital losses, net		
Shares and participations in group companies	-3,853	-677
Other shares and participations	-5	-49
Total	**-4,727**	**-3**

Note 14 Unrealised losses on investments

	2010	2009
Shares and participations	-135	—
Fixed-income securities	-15	-108
Total	**-150**	**-108**

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

	Assets/liabilities at fair value through profit or loss[1]		Loan receivables and trade receivables		Other assets/ liabilities not measured at fair value		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Capital gains/losses								
Asset management charges	0	—	—	—	41	869	41	869
Dividends on shares and participations	262	1	—	—	497	1,495	759	1,496
Interest income	45	68	40	62	0	0	85	130
Interest expenses	-1	-5	-1	0	0	-54	-2	-59
Foreign exchange gains	85	16	—	—	83	48	168	64
Foreign exchange losses	-1	-49	—	0	-124	0	-125	-49
Reversed impairment of shares in group companies	—	—	—	—	3,853	759	3,853	759
Impairment of shares in group companies	—	—	—	—	-908	-87	-908	-87
Capital gains/losses on equities	-5	-49	—	—	-3,853	-677	-3,858	-726
Capital gains/losses on fixed-income securities	34	52	—	—	—	—	34	52
Capital gains/losses on investments for the benefit of life assurance policyholders who bear the investment risk	4,899	1,821	—	—	—	—	4,899	1,821
Of which, transferred to customers as Technical provisions for life assurance	-4,899	-1,821	—	—	—	—	-4,899	-1,821
	419	**34**	**39**	**62**	**-411**	**2,353**	**47**	**2,449**
Unrealised gains/losses								
Shares and participations	-135	102	—	—	—	—	-135	102
Fixed-income securities	-15	-108	—	—	—	—	-15	-108
Unrealised capital gains/losses on investments for the benefit of life assurance policyholders who bear the investment risk	5,856	20,468	—	—	—	—	5,856	20,468
Of which, transferred to customers as Technical provisions for life assurance	-5,856	-20,468	—	—	—	—	-5,856	-20,468
	-150	**-6**	**—**	**—**	**—**	**—**	**-150**	**-6**
Investment income	**269**	**28**	**39**	**62**	**-411**	**2,353**	**-103**	**2,443**

[1] Pertains to securities held for trading.

Note 16 Appropriations

	2010	2009
Dissolution of contingency reserve that was previously reported in the absorbed subsidiary Dial Försäkringsaktiebolag (publ)	136	—

Note 17 Taxes

	2010	2009
Current tax expense		
Income tax	285	8
Adjustment of tax attributable to previous years	-2	—
Policyholder tax	-534	-461
	-251	**-453**
Deferred tax attributable to		
Unrealised capital gains/losses on investments	4	39
Pensions	3	-79
Other temporary differences	-64	-164
Loss carryforward	-381	571
	-438	**367**
Tax expense	**-689**	**-86**
Reconciliation of effective tax		
Profit before tax	1,332	3,542
Tax according to applicable tax rate, 26.3%	-350	-932
Non-deductible expenses	-43	-274
Non-deductible income	132	874
Utilisation of previous years' loss carryforward	340	22
Change in loss carryforward for which deferred tax has not been taken into account	-365	564
Tax attributable to previous years	-2	—
Tax attributable to operations subject to policyholder tax	-394	-340
Other	-7	—
Reported tax expense	**-689**	**-86**

NOTES ON THE BALANCE SHEET

Note 18 Investments in group and associated companies

	Cost[1]		Fair value		Carrying amount	
	2010	2009	2010	2009	2010	2009
Shares and participations in group companies[2]	10,313	10,572	27,491	16,766	10,313	10,572
Loans to group companies	1,295	1,310	1,295	1,310	1,295	1,310
Shares and participations in associated companies[3]	314	270	314	270	314	270
Total	**11,922**	**12,152**	**29,100**	**18,346**	**11,922**	**12,152**

[1] Valuation based on cost, i.e., after requisite impairment charges.

[2] Shares and participations in group companies

	Reg. no.	Domicile	No. of shares	Share of capital, %	Share of equity	Share of result	Carrying amount **2010**	Carrying amount **2009**
Denmark								
Skandia Link Livsforsikring A/S		Copenhagen	7,469	100	266	31	407	407
Norway								
Skandia Informasjonsteknologi AS		Oslo	1,000	100	19	0	15	15
Sweden								
Dial försäkringsaktiebolag (publ)	516401-8300	Stockholm	—	—	—	—	—	252
Livförsäkringsaktiebolaget Skandia (publ)	502019-6365	Stockholm	3,000	100	120,136	20,205	0	0
Skandiabanken AB (publ)	516401-9738	Stockholm	4,000,000	100	1,624	-11	3,503	3,503
Skandia Aspana AB	556605-2113	Stockholm	1,000	100	0	-180	0	0
Skandia Balneum AB	556537-2256	Stockholm	1,000	100	0	- 74	0	0
Skandia Capital AB (publ)	556306-3881	Stockholm	5,000	100	101	7	100	100
Skandia Europe AB	556598-0322	Stockholm	1,000	100	1,002	184	1,563	1,563
Skandia Holding AB	556000-1033	Stockholm	3,639,552	100	114	0	114	114
Skandia Informationsteknologi AB	556023-5797	Stockholm	10,000	100	5	2	4	5
Skandia Investment Advisory Services AB	556555-6965	Stockholm	1,697,000	100	5	0	5	11
Skandia Netline AB	556567-0154	Stockholm	1,000	100	40	1	33	33
Skandia Telemarketing AB	556606-6832	Stockholm	1,000	100	10	0	10	10
UK								
Skandia UK Ltd		Southampton	376,870,000	100	19,133	0	4,558	4,558
Skandia NTS Ltd		Southampton	500,001	100	1	0	1	1
Total							**10,313**	**10,572**

Cont. Note 18 Investments in group and associated companies

Changes of shares in group companies

	2010	2009
Accumulated cost		
Opening balance	14,592	15,363
Purchases	—	0
Sales	—	-911
Shareholder contribution	887	140
Merger	-4,105	—
Closing balance, 31 December	**11,374**	**14,592**
Accumulated impairment charges		
Opening balance	-4,020	-4,692
Sales	—	759
Impairment charges	-894	-87
Reversal of impairment charges during the year in connection with merger	3,853	—
Closing balance on 31 December	**-1,061**	**-4,020**
Carrying amount on 31 December	**10,313**	**10,572**

3) **Shares and participations in associated companies**

	Reg. no.	Domicile	No. of shares	Share of capital, %	Carrying amount 2010	Carrying amount 2009
Skandia-Guodian Life Insurance Company Ltd		Beijing	e.t.	50	312	259
Skandia A/S		Copenhagen	250	50	1	0
Skandia Asset Management Fondmaeglarselskab A/S		Copenhagen	750,000	30	1	9
Sophiahemmet Rehab Center AB	556248-6323	Stockholm	750	50	0	2
Total					**314**	**270**

Condensed information for associated companies	Revenues	Result	Assets	Liabilities	Equity	Share, %
Skandia-Guodian Life Insurance Company Ltd	818	-57	2,019	1,906	113	50
Skandia A/S	110	0	29	26	3	50
Skandia Asset Management Fondmaeglarselskab A/S	29	17	30	6	24	30
Sophiahemmet Rehab Center AB	16	-2	2	2	0	50

Note 19 Categories of financial assets and liabilities, and their fair values

	Financial assets at fair value through profit or loss					
Financial assets 2010	**Assets determined to belong to category**	**Held for trading**	**Loan receivables**	**Carrying amount**	**Fair value**	**Cost**
Shares and participations	—	30	—	30	30	64
Bonds and other fixed-income securities	—	1,745	—	1,745	1,745	1,722
Derivatives[1]	—	0	—	0	0	—
Assets for conditional bonuses	10,116	—	—	10,116	10,116	9,358
Unit linked assets	103,878	—	—	103,878	103,878	92,126
Debtors arising out of direct insurance operations	—	—	3	3	3	3
Other debtors	—	—	839	839	839	839
Cash and bank balances	—	—	1669	1,669	1,669	1,669
Accrued income	—	—	428	428	428	428
Total	**113,994**	**1,775**	**2,939**	**118,708**	**118,708**	**106,209**

1) Pertains to currency forward contracts with a nominal value of SEK 4 million.

	Level affiliation of financial assets at fair value through profit or loss 2010		
Financial assets 2010	**Level 1**	**Level 2**	**Level 3**
Shares and participations	—	—	30[2]
Bonds and other fixed-income securities	1,745	—	—
Derivatives	—	0	—
Assets for conditional bonuses	10,116	—	—
Unit linked assets	103,878	—	—
Total	**115,739**	**0**	**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.

2) Change in Level 3	2010
Opening balance	**167**
Divestment	-2
Unrealised change in value[3]	-135
Closing balance	**30**

No sensitivity analysis has been prepared, since Skandia ended part of its involvement in February 2011, while the remainder is in liquidation.

3) The unrealised change in value was recognised through a dividend received of SEK 262 million, see note 15.

	Financial liabilities at fair value through profit or loss				
Financial liabilities 2010	**Liabilities determined to belong to category**	**Held for trading**	**Other financial liabilities**	**Carrying amount**	**Fair value**
Conditional bonuses	10,116	—	—	10,116	10,116
Unit linked obligations	103,892	—	—	103,892	103,892
Creditors arising out of direct insurance operations	—	—	283	283	283
Derivatives[4]	—	1	—	1	1
Other creditors	—	—	1,034	1,034	1,034
Accrued expenses	—	—	459	459	459
Total	**114,008**	**1**	**1,776**	**115,785**	**115,785**

4) Pertains to currency forward contracts with a nominal value of SEK 98 million.

	Level affiliation of financial liabilities at fair value through profit or loss 2010		
Financial liabilities 2010	**Level 1**	**Level 2**	**Level 3**
Conditional bonuses	10,116	—	—
Unit linked obligations	103,892	—	—
Derivatives	—	1	—
Total	**114,008**	**1**	**—**

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 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
Derivatives[1]	—	—	—	—	—	—
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**

1) Pertains to currency forward contracts with a nominal value of SEK 33 million.

	Level affiliation of financial assets at fair value through profit or loss 2009		
Financial assets 2009	**Level 1**	**Level 2**	**Level 3**
Shares and participations	—	—	167
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.

Cont. Note 19 Categories of financial assets and liabilities, and their fair values

Financial liabilities 2009	Financial liabilities stated at fair value through profit or loss: 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**

Financial liabilities 2009	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.

Note 20 Deposits with ceding undertakings

	2010	2009
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

Note 21 Assets for conditional bonuses

	2010	2009
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.	10,116	7,137

Note 22 Unit linked assets

	2010	2009
Equity-based funds	79,490	69,019
Fixed income funds	24,388	23,526
Total	**103,878**	**92,545**

Note 23 Debtors arising out of direct insurance operations

	2010	2009
Amounts receivable from policyholders	20	54
Amounts receivable from insurance brokers	3	1
Total	**23**	**55**

Note 24 Other debtors

	2010	2009
Amounts receivable from group companies	193	317
Amounts receivable from companies in the Skandia Liv group	165	53
Other debtors	481	264
Total	**839**	**634**

Note 25 Deferred tax, net

	Deferred tax assets 2010	Deferred tax assets 2009	Deferred tax liabilities 2010	Deferred tax liabilities 2009	Net 2010	Net 2009
Deferred tax liability/tax asset pertaining to:						
Investments	—	—	-9	-13	-9	- 13
Endowment insurance policies pledged as security for pension obligations	256	253	—	—	256	253
Pensions and similar obligations	62	62	—	—	62	62
Other provisions	17	82	—	—	17	82
Other accrued expenses	35	34	—	—	35	34
Loss carryforward	1,064	1,291	—	—	1,064	1,291
Less: items that do no meet requirements for asset accounting[1]	-639	-520	—	—	-639	-520
Total deferred tax assets, net	**795**	**1,202**	**-9**	**-13**	**786**	**1,189**

[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 taxable profits.

The loss carryforwards can be offset against future profits indefinitely and amount to SEK 4,046 million (4,909). Unreported deferred tax liabilities pertaining to untaxed reserves amount to SEK 550 million (550).

Note 26 Tangible assets

Machinery and equipment	Cost	Accumulated depreciation	Carrying amount
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 1 January 2010	**65**	**-37**	**28**
Purchases	63	—	63
Reclassification	10	—	10
Sales	-8	7	-1
Depreciation for the year	—	-18	-18
Exchange rate difference	-1	0	-1
As per 31 December 2010	**129**	**-48**	**81**
Improvement costs for another party's property			
As per 1 January 2009	**—**	**—**	**—**
Purchases	15	—	15
As per 1 January 2010	**15**	**—**	**15**
Purchases	0	—	0
Reclassification	-10	—	-10
Depreciation for the year	—	0	0
As per 31 December 2010	**5**	**0**	**5**
Total book value of tangible assets at 31 December 2010	**134**	**-48**	**86**

Note 27 Cash and bank balances

	2010	2009
Granted credits as per balance sheet date	3,500	3000
Of which, utilised as per balance sheet date	0	0

Note 28 Deferred acquisition costs

	2010 Gross	2010 Ceded	2010 Net	2009 Gross	2009 Ceded	2009 Net
Property & casualty insurance						
Capitalisation of acquisition costs during the year	19	—	19	24	-13	11
	19	**—**	**19**	**24**	**-13**	**11**
Life assurance						
Accumulated capitalisation of acquisition costs	4,709	—	4,709	4,719	—	4,719
Accumulated amortisation of deferred acquisition costs	-2,056	—	-2,056	-1,843	—	-1,843
	2,653	**—**	**2,653**	**2,876**	**—**	**2,876**
Total	2,672	—	2,672	2,900	- 13	2,887

Note 29 Other prepayments and accrued income

	2010	2009
Prepayments in the Skandia Liv group	110	63
Other prepayments	36	63
Accrued income from group companies	152	178
Other accrued income	242	230
Total	**540**	**534**

Note 30 Other comprehensive income

	Translation reserve
Opening carrying amount at 1 January 2010	**-15**
Translation differences for the year	16
Closing carrying amount at 31 December 2010	**1**

For specification of changes in equity, see the statement of changes in equity.

Note 31 Untaxed reserves

	2010	2009
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 by the National Tax Act. No new provisions can be made to the equalisation reserve after 1990.	2,091	2,091

Note 32 Provision for unearned premiums and unexpired risks

	2010			2009		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance	229	—	229	253	-181	72
Life assurance	32	—	32	41	—	41
Total	**261**	**—**	**261**	**294**	**-181**	**113**

Note 33 Provision for claims outstanding

	2010			2009		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance						
Opening balance Incurred and reported claims	761	-644	117	671	-671	0
Opening balance Incurred but not reported claims (IBNR)	149	-145	4	124	-124	0
Opening balance	910	-789	121	795	-795	0
Other changes	-1	0	-1	161	-54	107
Run-off result	17	787	804	-46	60	14
Closing balance	926	-2	924	910	-789	121
Closing balance Incurred and reported claims	764	-1	763	761	-644	117
Closing balance Incurred but not reported claims (IBNR)	162	-1	161	149	-145	4
Life assurance						
Opening balance Incurred and reported claims	404	-23	381	535	-24	511
Opening balance Incurred but not reported claims (IBNR)	66	-9	57	91	-35	56
Opening balance	470	-32	438	626	-59	567
Cost for claims reported during the year	36	-2	34	86	-14	72
Paid out	-65	3	-62	-79	5	-74
Change in cost of claims reported in previous years	-12	1	-11	-59	3	-56
Other changes	-22	5	-17	-104	33	-71
Closing balance	407	-25	382	470	-32	438
Closing balance Incurred and reported claims[1]	343	-18	325	404	-23	381
Closing balance Incurred but not reported claims (IBNR)	64	-7	57	66	-9	57
Total	**1,333**	**-27**	**1,306**	**1,380**	**-821**	**559**

[1] The amount is discounted. The undiscounted amount was SEK 413 million (488).

Note 34 Conditional bonuses

	2010	2009
Opening balance	**7,137**	**2,471**
Deposits	3,454	4,206
Decrease due to surrenders	-930	-290
Decrease due to mortality	-53	-17
Changes in fund values		
Unrealised change in value	279	696
Realised gain	508	237
Realised loss	-127	-92
Charges	-152	-74
Closing balance	**10,116**	**7,137**

Note 35 Unit linked obligations

	2010	2009
Opening balance	**93,885**	**69,375**
Deposits	8,127	8,593
Decrease due to surrenders	-2,622	-1,750
Decrease due to maturity	-2,629	-1,745
Decrease due to mortality	-164	-143
Changes in fund values		
Unrealised change in value	5,577	19,772
Realised gain	5,787	4,977
Realised loss	-1,269	-3,301
Charges	-1,499	-1,766
Portfolio transfers[1]	-1,310	—
Exchange rate difference	9	-127
Closing balance	**103,892**	**93,885**

[1] After conclusion of reinsurance business with Prudential Financial.

Note 36 Provisions for pensions and similar obligations

	2010	2009
Pertains to the provision for special employers' payroll tax to be paid upon future disbursements of previously expensed pensions. See also note 46, Pension disclosures.	236	234

Note 37 Other provisions

	2010	2009
Opening balance	**469**	**2,540**
New provisions	—	198
Utilisation of reserves	-64	-614
Reversal of provisions from previous years	-247	-1,506
Transfer to Skandiabanken	0	-45
Exchange rate difference	1	-104
Closing balance[1]	**159**	**469**

[1] Of which:

Provision for restructuring	
Opening balance	23
Utilisation of reserves	-20
Closing balance	**3**
Provision for guarantees for divested operations	
Opening balance	107
Reversal of provisions from previous years	-108
Exchange rate difference	1
Closing balance	**—**
Other provisions[2]	
Opening balance	339
Utilisation of reserves	-44
Reversal of provisions from previous years	-139
Closing balance	**156**

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

Note 38 Creditors arising out of direct insurance operations

	2010	2009
Policyholders	294	243
Insurance brokers	40	36
Total	**334**	**279**

Note 39 Derivatives

	Cost		Fair value		Carrying amount	
	2010	2009	2010	2009	2010	2009
Currency forward contracts	—	—	1	0	1	0

Note 40 Other creditors

	2010	2009
Amounts payable to group companies	348	1,350
Amounts payable to companies in the Skandia Liv group	196	206
Other creditors	490	443
Total	**1,034**	**1,999**

Note 41 Other accruals and deferred income

	2010	2009
Accrued interest expense	0	6
Other accruals	471	413
Deferred income	0	0
Total	**471**	**419**

Note 42 Anticipated recovery dates for assets and liabilities

2010	Max. 1 yr	Longer than 1 yr	Total
Assets			
Shares and participations in group companies	6,160	4,153	10,313
Loans to group companies	75	1,220	1,295
Share and participations in associates	312	2	314
Shares and participations	30	–	30
Bonds and other fixed-income securities	461	1,284	1,745
Derivatives	0	–	0
Investments for the benefit of policyholders who bear the investment risk	8,069	105,925	113,994
Reinsurers' share of technical provisions	3	24	27
Debtors arising out of direct insurance operations	23	–	23
Debtors arising out of reinsurance operations	2	–	2
Other debtors	839	–	839
Deferred tax, net	–	786	786
Tangible assets	–	86	86
Cash and bank balances	1,669	–	1,669
Deferred expenses and accrued income	574	2,672	3,246
Total assets	**18,217**	**116,152**	**134,369**
Liabilities			
Technical provisions, gross	661	933	1,594
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross	8,069	105,939	114,008
Other provisions	95	365	460
Deposits from reinsurers	15	–	15
Creditors arising out of direct insurance operations	334	–	334
Creditors arising out of reinsurance operations	2	–	2
Derivatives	1	–	1
Other creditors	927	107	1,034
Accrued expenses and deferred income	432	39	471
Total liabilities	**10,536**	**107,383**	**117,919**

2009	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
Lending to credit institutions	–	–	–
Derivatives	–	–	–
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 43 Pledged assets and security

	2010	2009
Pledged assets and therewith comparable security		
Deposits with ceding undertakings	–	1,248
Endowment insurance policies pledged as security for pension obligations[1]	973	964
Assets covered by policyholders' beneficiary rights[2]	115,767	101,681
Total	**116,740**	**103,893**

[1] See also note 46.

[2] Corresponds to provisions on the balance sheet, totalling SEK 115,591 million (101,372). 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 44 Contingent liabilities

	2010	2009
Sureties and guarantees[1]	52	416
Pension obligations[2]	0	0
Total	**52**	**416**
[1] Of which, on behalf of group companies	41	319

[2] In the parent company, there are pension obligations that have not been included on the balance sheet, amounting to SEK 973 million (964), 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 46).

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.

Note 45 Average number of employees, salaries and remuneration

I. AVERAGE NUMBER OF EMPLOYEES AND AGENTS	Men	Women	2010 Total	2009 Total
Office staff per country				
Sweden	342	438	780	1,224
Denmark	1	0	1	5
Norway	5	11	16	17
UK	0	0	0	26
Agents employed in Sweden	4	0	4	201
Total	**352**	**449**	**801**	**1,473**

II. GENDER BREAKDOWN, SENIOR EXECUTIVES

Information on the gender breakdown among company directors and other executives pertains to the conditions on 31 December 2010.

	Men	Women
Board members, including employee representatives	87%	13%
Chief Executive and other members of executive management	83%	17%

III. WAGES, SALARIES AND REMUNERATION[1]

	2010	2009
Senior executives[2]	-38	-36
Office staff in Sweden	-369	-545
Office staff outside Sweden	-10	-55
Agents[3]	–	-97
Wages, salaries and remuneration	**-417**	**-733**
Pensions and other social security charges for employees in Sweden	-313	-479
Of which, pension costs	-171	-258

[1] During the year, SEK 7 million (22) was allocated to Skandianen, Skandia's long-term profit-sharing foundation, which covers Swedish employees who do not have a variable salary component in their remuneration package.

[2] Pertains to 12 persons.

[3] Of previous years' provisions, SEK 8,732 thousand was used during the period.

Cont. Note 45 Average number of employees, salaries and remuneration

IV. LOANS TO SENIOR EXECUTIVES

SEK thousand	2010	2009
Senior executives in Sweden, including employee representatives on Skandia's board	12,785	14,703

Drawn lines of credit amount to SEK 101 thousand (30), with a credit limit of SEK 317 thousand (172). 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 17 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 12 individuals. This definition applies throughout this annual report unless specifically stated otherwise.

Variable remuneration

In 2010 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 former Chief Executive, Bertil Hult, and the current Chief Executive, Mårten Andersson, the variable salary can amount to a maximum of 100% of base salary. Effective 2011, Mårten Andersson has, in addition to this, a long-term variable salary portion amounting to a maximum of 50% of his 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 2010 (the Price Base Amount for 2010 was SEK 42,400). 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. In accordance with the Swedish Financial Supervisory Authority's guidelines (FFFS 2011:2), 60% of variable remuneration is to be withheld for three years. Of this 60%, half is payable in Old Mutual Restricted Shares. These programmes are described under section VI, "Share-based payments". The other half is withheld. The remainder (40%) is payable in cash.

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 2010

Bertil Hult's and Mårten Andersson's remuneration for the time they served as Chief Executive of Skandia in 2010 is reported in the table below.

Pensions

Bertil Hult and Mårten Andersson have 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 premium of 37% is paid. Variable salary amounts above the plan's ceiling are not included in the pensionable salary base. For Bertil Hult, the year's defined contribution pension cost in relation to pensionable remuneration is 24%. The year's defined benefit pension cost in relation to pensionable remuneration is 13%. For Mårten Andersson, the year's defined contribution pension cost in relation to pensionable remuneration is 16%. The year's defined benefit pension cost in relation to pensionable remuneration is 1%.

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. Mårten Andersson is entitled to salary during the notice period, which is 12 months in the event the company serves notice, and to severance pay equivalent to 6 months' salary.

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 Skandia's Remuneration Committee.

Remuneration and benefits

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

Directors' fees paid by Skandia

SEK thousand	2010 Fee	2010 Committee work
Lars Henrik Otterbeck, Vice-Chairman of the Board[1]	-1,000	-250
Magnus Beer, director	-300	-50
Indra Åsander, director[2]	-150	—
Total	**-1,450**	**-300**

[1] Chairman of the Board through 17 June and Vice-Chairman of the Board from 18 June.

[2] Director through 18 June.

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.

Other remuneration and benefits for senior executives employed by Skandia in 2010

SEK thousand	Average number of persons	Base salary	Variable remuneration	Share-based payment	Other remuneration and benefits	Pension contributions	Total
Chief Executives							
Bertil Hult[1]	1	-7,039	-1,612	-738	-1,236	-2,236	-12,861
Mårten Andersson[2]	1	-818	-825	—	-21	-131	-1,795
Management, excl. Chief Executives[3]	8	-18,161	-4,987	-436	-4,714	-6,059	-34,357

[1] Chief Executive through 28 September 2010. During the year, the company made a provision for termination salary for the former Chief Executive. In total this amount, including pension and social security costs, was SEK 4,941 thousand, of which salary and pension during the notice period was SEK 3,797 thousand.

[2] Chief Executive as from 29 September 2010.

[3] During the year, the company made a provision for termination salary for two persons. In total this amount, including pension and social security costs, was SEK 6,914 thousand, of which salary and pension during the notice period and severance pay was SEK 5,984 thousand.

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 who were not employees of Skandia in 2010

SEK thousand	Average number of persons	Base salary	Variable remuneration	Share-based payment	Other remuneration and benefits	Pension contributions	Total
Other senior executives	3	-9,628	-3,968	-118	-3,170	-3,756	-20,640

Of the amount SEK 3,170 thousand, SEK 2,970 thousand pertains to special compensation to a person for contribution to project work.

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

SEK thousand	Average number of persons	Base salary	Variable remuneration	Share-based payment	Other remuneration and benefits	Pension contributions	Total
Other senior executives	4	-11,802	-2,796	-1,161	-375	-4,149	-20,282

Cont. Note 45 Average number of employees, salaries and remuneration

VI. SHARE-BASED PAYMENTS

Some 20 employees of Skandia are covered by share-based incentive programmes, which are based on share or options in Skandia's parent company, Old Mutual. There are currently four programmes that Skandia employees participate in:

- Options granted before 2009 in accordance with the Share Option and Deferred Delivery Plan
- Shares granted in 2009 in accordance with the Restricted Share Plan
- Options granted in 2009 and later in accordance with the Old Mutual plc Share Reward Plan – Share Options
- Shares granted in 2009 and later in accordance with the Old Mutual plc Share Reward Plan – Restricted Shares.

The Share Option and Deferred Delivery Plan includes performance criteria (EPS) that must be fulfilled before the options can be payable.

The employees covered by the programmes were granted shares and options in 2010. The options give their holders the right in the future to buy shares in Old Mutual plc at a predetermined price. The options have an exercise price of GBP 1,218. The grants were made on the basis of a combination of individual targets and performance-based outcome for 2009.

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

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. The 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 1 million (-13) in 2010.

The tables below show the current number of outstanding shares and options for senior executives who are active today as well as for former senior executives who still have the opportunity to exercise their options.

Number of options in Old Mutual plc, senior executives

	2010		2009	
	Options	Average exercise price (GBP)	Options	Average exercise price (GBP)
Outstanding options at start of period	**2,203,537**	**0.81**	**642,519**	**1.36**
Granted shares	287,575	1.21	1,561,018	0.58
Forfeited options	-259,348	1.06	—	
Exercised options	-299,265	0.58	—	
Expired options	-103,130	1.63	—	
Outstanding options	**1,829,369**	**0.83**	**2,203,537**	**0.81**
Of which, exercisable	17,029	1.24	—	—

Outstanding options as per 31 December 2010 have an exercise price in the interval of GBP 0.58 to GBP 1.63 (2009: GBP 0.58 to GBP 1.63) and an average remaining term of 0.7 years (2009: 1.8 years).

The weighted average share price upon exercise of options during the year was GBP 1.24.

Number of shares in Old Mutual plc, senior executives

	2010	2009
Outstanding shares at start of period	**531,742**	**352,065**
Granted shares	57,519	336,588
Forfeited shares	—	-55,167
Exercised shares	-210,802	-101,744
Expired shares	—	—
Outstanding shares	**378,459**	**531,742**
of which, exercisable	—	—

Number of options in Old Mutual plc, Skandia

	2010		2009	
	Options	Average exercise price (GBP)	Options	Average exercise price (GBP)
Outstanding options at start of period	**4,323,354**	**0.86**	**1,241,304**	**1.37**
Granted options	391,199	1.22	3,082,050	0.58
Forfeited options	-683,041	1.29	—	—
Exercised options	-349,956	0.58	—	—
Expired options	-246,075	1.18	—	—
Outstanding options at end of period	**3,435,481**	**0.81**	**4,323,354**	**0.86**
of which, exercisable	17,029	1.24	—	—

Outstanding options as per 31 December 2010 have an exercise price in the interval of GBP 0.58 to GBP 1.63 (2009: GBP 0.58 to GBP 1.63) and an average remaining term of 0.9 years (2009: 2.0 years).

The weighted average share price upon exercise of options during the year was GBP 1.24.

Number of shares in Old Mutual plc, Skandia

	2010	2009
Outstanding shares at start of period	**1,012,808**	**453,578**
Granted shares	78,246	822,328
Forfeited shares	-85,027	-55,167
Exercised shares	-298,718	-207,931
Expired shares	-15,148	0
Outstanding shares at end of period	**692,161**	**1,012,808**
of which, exercisable	—	—

Calculated value

SEK per share/option	**Exchange rate**	**Shares**	**Options**
2010	11.14	13.56	5.79
2009	11.82	6.40	2.36

The average fair value of granted shares was GBP 1.22 (2009: GBP 0.54). The calculated value of the shares 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:	**2010**	**2009**
Anticipated volatility[1]	55.70%	53.2%
Exercise price, GBP	1.21	0.58
Share price, GBP	1.22	0.54
Anticipated dividend	2.1%	0.0%
Risk-free interest rate	2.8%	2.7%
Calculated remaining term, years[2]	5.0	5.0

[1] This forecast is based on actual volatility during the year 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 whom awards have been granted.

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

VII. SICKNESS-RELATED ABSENCE

	2010	2009
Total, sickness-related absence	**3.02%**	**3.43%**
— Long-term sickness-related absence (>60 days)	0.86%	0.96%
— Sickness-related absence, men	2.30%	2.61%
— Sickness-related absence, women	3.58%	4.10%
— Employees –29 years	2.35%	2.78%
— Employees 30–49 years	2.76%	2.54%
— Employees 50 years –	4.26%	4.69%

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

Note 46 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 supplementary pension benefits for senior executives. The pension plans consists primarily of retirement pension, disability pension and family pension. The FTP plan has been split into two departments since 2008. 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 date of birth determines which department is to be used. Salaried employees covered by FTP2 who have a pensionable salary in excess of 10 times the Income Base Amount have the right to apply another pension solution for salary amounts ranging between 7.5 and 30 times the Income Base Amount (called Alternative FTP). Alternative FTP, as well as the 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 to 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 fair 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, 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 47. A provision has been made for payroll tax on the balance sheet for pension obligations secured through company-owned endowment insurance policies.

Cont. Note 46 Pension disclosures

INFORMATION ON OBLIGATIONS SECURED THROUGH FOUNDATIONS

	2010	2009
Specification of assets and liabilities pertaining to pensions under own management		
Present value of obligations pertaining to funded pension plans	-1	-2
Fair value of assets in pension foundation at end of period	67	66
Surplus in pension foundation (+)	**66**	**64**
Unreported surplus in pension foundation	-66	-64
Net liability on 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 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 under own management		
Cost for vesting of pensions	0	0
Difference between compensation from pension foundation and paid-out pensions	0	0
Interest expense	0	0
Actual return on specially detached assets	-3	-6
Cost for pensions under own management	**-3**	**-6**
Pensions secured through insurance		
Insurance premiums	-115	-197
Pension cost for the year	-118	-203
Increase in surplus in specially detached assets	3	6
Reported net cost pertaining to pensions, excluding taxes	**-115**	**-197**

Fair value of assets in foundation, broken down by main categories		
Equities	40	42
Fixed-income investments	22	20
Cash and bank balances	0	-1
Other assets	5	5
Total assets	**67**	**66**

The following actuarial assumptions have been used to calculate the pension liability:
Discount rate 3.75% (4.0%)
Inflation 2.0% (2.0%)

For 2011, payments for defined benefit pension plans are expected to be level with the payments made in 2010.

Note 47 Administrative expenses

	2010	2009
Wages, salaries and remuneration	-417	-711
Social security charges	-142	-220
Pension costs (including special employer's payroll tax)	-171	-258
Other payroll costs	3	319
Payroll costs	**-727**	**-870**
Cost of premises	-234	-208
Depreciation	-18	-9
Provision for restructuring costs	—	-18
Reversal of provisions to restructuring reserve from previous years	3	12
Other[1]	-234	142
Administrative expenses	**-1,210**	**-951**
Administrative expenses are broken down in the income statement as follows:		
Investment income (included in note 13)	47	876
Provision/reversal of restructuring costs	3	-6
Claims incurred in the technical result of property & casualty insurance business (included in note 5)	-16	-15
Claims incurred in the technical result of life assurance business (included in note 9)	-23	-11
Operating expenses in the technical result of property & casualty insurance business (included in note 6)	-239	-227
Operating expenses in the technical result of life assurance business (included in note 10)	-982	-1,568
Total distributed administrative expenses	**-1,210**	**-951**

[2] Auditing and other assignments are broken down as follows:

The AGM-elected auditor is KPMG AB		
Audit assignment	-6	-8
Audit activities in addition to the audit assignment	-1	-4
Tax consulting	—	0

By audit assignment is meant the auditor's work with the statutory audit, and by auditing activities is meant various types of quality assurance services. Other services consist of activities that are not included in the audit assignment, auditing activities or tax consulting.

Note 48 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 2010 mature as follows:

Operating leases	Amount
2011	-60
2012	-99
2013	-101
2014	-103
2015	-105
2016 and later	-554
Total leasing expense	**-1,022**

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

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 and later	-526
Total leasing expense	**-1,154**

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

Note 49 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 45. 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 and pricing

Skandia has adopted a set of owner instructions for Skandia Liv. Skandia Liv's board has adopted 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, an established process is in place. Skandia and Skandia Liv have an outsourcing agreement which specifies at a general 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, 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. 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 and approved in consultation. A review of the allocation formulas shall be performed on a regular basis in the aim of changing these if material changes have taken place. In the event of major deviations, these must be approved by Skandia Liv's Chief Executive and in certain cases the Board of Directors.

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.

Cont. Note 49 Related party disclosures

Transactions by order of significance

Character	Receiving company	Compensation, SEK m 2010	Reference	Compensation, SEK m 2009
Distribution compensation	Skandia	468	1)	438
Distribution support, market communication, customer service centres, group insurance, staffs, and business development	Skandia	366	1)	473
Rents of office premises	Skandia Liv	-179	2)	-179
Occupational pensions for Skandia employees	Skandia Liv	-95	3)	-170
Joint occupational pensions concept	Skandia Liv	-38	4)	-37
Accounting systems & Treasury	Skandia	16	5)	15
Reinsurance	Skandia Liv	-13	6)	-11
Subsidised interest rates	Skandia	5	7)	4
Liability insurance	Skandia	1	8)	2
Healthcare insurance	Skandia	1	9)	1
IT operations and service	Skandia	0	10)	4
Compensation for new asset management agreement	Skandia Liv	ET	11)	ET

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. 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 rents office premises at various locations throughout Sweden from Skandia Liv and pays market rents for these.
3) 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.
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 provides joint functions for accounting systems and treasury. The compensation that Skandia Liv pays to Skandia is based on cost-price and is allocated according to actual degree of use.
6) 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.
7) Employees of Skandia Liv have the opportunity to take out personal loans from Skandiabanken AB. In step one of this process, Skandiabanken charges Skandia for the difference between the market rate of interest and the interest rate offered to employees, even for employee loans that are taken out by employees of Skandia Liv. Skandia then passes on this cost to Skandia Liv.
8) The entire Old Mutual Group has joint liability insurance. Skandia Liv pays its share of this cover, which has been verified by an external party.
9) Skandia Liv has purchased private healthcare insurance and rehabilitation insurance for its employees from Skandia. The premiums are in line with the going rate in the market.
10) Skandia Forsikring, Skandia's branch in Denmark, provided IT services to Skandia A/S. Compensation was based on cost-price and was allocated according to Skandia Liv A/S's use of the various IT services.
11) As described in the section "Settlement with Skandia Liv" in the Board of Directors' Report of the 2009 Annual Report, the terms of compensation to Skandia Liv related to the arbitration ruling from 2008 were renegotiated and changed in 2009. As from September 2009, Skandia pays a fixed sum of SEK 13.9 million per quarter to Skandia Liv; this will continue through 2013. No compensation above and beyond this amount will be payable. No cost is reported for this in this year's annual report, since a provision was made for this in 2008.

The Skandia group has automatic cash settlement of intra-group dealings. Cash settlement is done daily or monthly. Skandia had a net receivable of SEK 83 million from Skandia Liv as per 31 December 2010 (2009: liability of SEK 93 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 18. During the year Skandia received dividends of SEK 497million (1,495) from subsidiaries, which are shown in note 11. Certain Swedish subsidiaries have also rendered or received group contributions.

Transactions by order of significance

Character	Receiving company	Compensation, SEK m 2010	Reference	Compensation, SEK m 2009
Distribution compensation from fund companies	Skandia	548	1)	481
Administrative services	Subsidiaries	-349	2)	-58
IT operations, net	Subsidiaries	-111	3)	-153
Rents of office premises	Skandia	76	4)	35
Administrative services	Skandia	51	5)	154
Cash management and financing	Skandia/ Subsidiaries	35	6)	-20
Subsidised interest rates	Subsidiaries	-19	7)	-23
Healthcare insurance	Skandia	3	8)	2
Subsidised interest rates	Skandia	1	7)	1
Accepted reinsurance	Skandia	-	9)	86

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) Following reorganisation within the group on 1 October 2009, 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.
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 services provided by Skandia consist primarily of 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 rents office premises from Skandia Liv. Parts of these premises are sublet to subsidiaries, which pay market rents for these.
5) Skandia performs 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.
6) 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.
7) Employees of Skandia Liv have the opportunity to take out personal loans from Skandiabanken AB. In step one of this process, Skandiabanken charges Skandia for the difference between the interest rate offered to employees and the market rate of interest for all employee loans taken out by employees of Skandia, Skandia Liv and other subsidiaries (Skandia Fonder AB, Svenska Lärarfonder AB and Skandia Informationsteknologi AB). However, Skandia's result is only charged with the interest expense (the difference between the market rate of interest and the interest rate offered to employees) attributable to employee loans taken out by its own employees, since the interest expense attributable to employees of other legal entities is passed on to the legal entities in which the respective employees are employed. See also point 7 in the section "Transactions between Skandia and the Skandia Liv group".
8) Skandiabanken has purchased private healthcare insurance and rehabilitation insurance for its employees from Skandia. The premiums are in line with the going rate in the market.
9) Reinsurance of disability risks arising in the Health and Private Healthcare product area has been discontinued.

Skandia has a net receivable of SEK 1,240 million (599) from subsidiaries. Of this net receivable, SEK 1,220 million (1,235) pertains to loans to subsidiaries.

Cont. Note 49 Related party disclosures

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. Skandia's UK branch, Skandia Insurance Company Ltd, was deregistered in 2010. For further information, see the section "Foreign branches" in the Board of Directors' Report.

Transactions by order of significance

Character	Receiving company	Compensation, SEK m 2010	Reference	Compensation, SEK m 2009
Administrative services	OM	-23	1)	44
Accepted reinsurance	OM	-9	2)	-9
Personnel	Skandia	8	3)	1
Interest income	Skandia	6	4)	21
Liability insurance	OM	-5	5)	-8
Rents of office premises	OM	0	6)	-5

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 has a reinsurance contract with the group company Skandia Lebensversicherung AG pertaining to unit linked assurance. The contract is based on market prices.
3) Skandia both purchases and sells personnel services from/to Old Mutual. The table above shows the net result of these transactions.
4) Skandia receives interest on loans to Old Mutual.
5) Old Mutual pays for joint liability insurance for the entire Old Mutual Group, including Skandia. During the year Skandia paid SEK 5 million (8) 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.
6) Old Mutual rented out premises to Skandia in the UK, which was invoiced to Skandia's UK branch, Skandia Insurance Company Ltd.

Skandia has a net receivable of SEK 67 million (107) from Old Mutual. Of this net receivable, SEK 75 million (75) pertains to loans, SEK – million (24) to trade accounts receivable, SEK 8 million (0) to trade accounts payable, SEK 1 million (1) to accrued interest, and SEK 1 million to accrued payable (2009: receivable of 7).

Note 50 Result per class of insurance, property & casualty insurance

	2010	2009
Accident and illness		
Premiums written, gross	977	930
Premiums earned, gross	977	917
Claims incurred, gross	-676	-728
Operating expenses, gross	-278	-252
Result of ceded reinsurance	-7	121
Technical result before investment income	**16**	**58**

Note 51 Merger result

The merger result, SEK -100 million, is attributable to the absorption of the wholly owned subsidiary Dial Försäkringsaktiebolag (publ), reg. no. 516401-8300.
Date of merger: 30 September 2010
Premiums written amounted to SEK 302 million.
Profit before appropriations and tax amounted to SEK 12 million.

Consolidated balance sheet

Receivable from group companies	265
Total assets	**265**
Restricted equity	85
Unrestricted equity	179
Liabilities to group companies	1
Total equity and liabilities	**265**

Note 52 Events after the balance sheet date

In February 2011, Skandia executed the sale of its shares in Skandia NTS Ltd to another company in the Old Mutual Group. The sale is part of the aforementioned restructuring of the Skandia group (see the section "Restructuring within the group").

Also in February 2011, the boards of Skandia and its subsidiary Skandia Europe AB decided to proceed with a merger in which Skandia Europe AB is absorbed into Skandia.

The absorption is planned to be completed in autumn 2011.

In March 2011 Skandia Europe AB executed the sale of the Spanish subsidiary Skandia Link S.A. de Seguros y Reaseguros to another company in the Old Mutual Group, wich led to an impairment of shares in subsidiaries with an impact of SEK -291 million for Skandia.

In 2011 Skandia will be reorganising and adapting its operations to customers in an effort to improve Skandia's self-service concept and strengthen customer advisory services. Skandia also intends to streamline its operations and lower costs in 2011 and 2012, and as part of this endeavour, Skandia will be eliminating 300 positions in its Nordic operations.

Signatures

Stockholm, 24 May 2011

Paul Hanratty
Chairman of the Board

Anne Andersson

Mårten Andersson
Chief Executive

Magnus Beer

Andrew Birrell

Rafael Galdón

Lars Nordin

Lars Otterbeck

Gert-Ove Zettergren

Our audit report was submitted on 20 June 2011

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 2010. 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, 20 June 2011

KPMG AB

Thomas Thiel
Authorised Public Accountant

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