Skandia Liv
Annual Report 2011

A Member of the OLD MUTUAL Group

skandia
bank & försäkring

Contents

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SE-106 55 Stockholm

Livförsäkringsaktiebolaget Skandia (publ)
Reg. no.: 502019-6365

Year at a glance

Total return 3.2%

Skandia Liv's total return was 3.2% (9.4%).

Managed assets SEK 297 billion

Managed assets amounted to SEK 297 billion (296).

Solvency 146%

Skandia Liv's solvency level at year-end 2011 was 146% (174%).

Collective funding ratio 104%

Skandia Liv's collective funding ratio at year-end was 104% (108%).

Bonus rate 4%

The bonus rate applies since 1 October 2011.

Skandia Liv – customer-owned and stronger than ever

It is truly a pleasure to be able to end the year by confirming that Skandia Liv – through the acquisition of Skandia AB – is now a genuinely customer-owned company. We have not only written a new chapter in the history of Swedish business; we are also creating an independent alternative to the major banks!

For many years, Skandia Liv has been a so-called hybrid life assurance company, with Skandia as the shareholder, which in turn has been owned by Old Mutual. Skandia Liv has always had a prohibition against profit distribution – i.e., profits from the business have accrued to Skandia Liv's customers and not the shareholder. This means that the two companies have worked side-by-side, but under different conditions. Although this arrangement has worked, it has not always been the most optimal. During the year, the independent members of Skandia Liv's board recognised an opportunity that would benefit all parties: the conditions existed to create an integrated Skandia. Through this, we have obtained a single focus: through savings and insurance, to benefit our own customers, who will gain access to better products that offer more value for money. We have now publicly announced the deal, and in March 2012 we expect to complete it.

Now begins a major and important endeavour. I believe that there is scope for a genuine alternative to the established major banks, and that challenger is Skandia. I will therefore be charting out the strategy for the new, integrated company, which will put customer benefit first. Being a bona fide mutual company – i.e., policyholder-owned – feels modern not least against the background of the development of the Internet and social media. We will do everything to put our customers in the driver's seat – both with regard to how our business is managed and the choice of products that we develop.

I also want to reflect a bit on 2011 in general. The situation continues to be turbulent in the world's financial markets, and we are not immune by any means. Among other things, during the year we had to adjust the bonus rate. But despite the sharp fluctuations, we are in good shape – really good, in fact. During the autumn, the highly important metric of solvency came under focus in the media's reporting – a discussion that we welcome. As we close the books on 2011 we do so with a solvency level of 146%. This means that for every 100 kronor we have guaranteed to our customers, we have another 46 kronor in assets left over.

This strong financial position can be credited to our strategy to spread our risks and put our eggs in many baskets. As a case in point, in a year where the Stockholm Stock Exchange lost more than 16% in value, we delivered a total return of 3.2%. We owe this in part to our investments in so-called alternative assets, such as real estate and unlisted companies, which have provided balance to our portfolio. If the year's turbulence can be said to have contributed in any way, it was to underscore how various investment strategies affect customers' capital. In short, the wheat has been separated from the chaff. We have also received a fine endorsement from our customers, who have helped us grow our market shares for both new business and written premiums.

Parallel with this, we are continuing our fight for fairer competition in the Swedish pensions market. In 2011 we dedicated considerable energy to the handling of pensions for Sweden's municipalities. In our opinion, the pension liability in Sweden's municipalities, totalling SEK 216 billion, is not being seriously considered, and over time this could become a national problem. One effect of this latent liability is that the market forces for the handling of this pension liability are not working effectively. To address this issue, during the year we published a report that has received considerable attention in the media and from politicians.

In closing, I would like to note that the news about the new, policyholder-owned Skandia has received a positive reception in the market – both from Skandia's customers and the public in general. I promise to administer this trust well, and I invite you all to a new chapter in Skandia's history!

Sincerely,

Bengt-Åke Fagerman
CEO, Skandia Liv

Board of Directors

Gunnar Palme
Chairman of the Board since May 2010 and independent director on Skandia Liv's board since 2008.
Other external directorships:[1] Axema AB, Bergene Holm AS and Bystad Holding AB.
Born: 1954

Mårten Andersson
Non-independent director on Skandia Liv's board October 2010–January 2012. Chief Executive of Skandia Liv's parent company.
Other external directorships:[1] None.
Born: 1971

Jens Erik Christensen
Independent director on Skandia Liv's board since May 2010.
Other external directorships:[1] SAS AB.
Born: 1950

Gunnar Holmgren
Independent director on Skandia Liv's board since 2002.
Other external directorships:[1] None.
Born: 1957

Monica Lindstedt
Independent director on Skandia Liv's board since 2006.
Other external directorships:[1] Hemfrid i Sverige, Uniflex, Telge Energi. Senior Vice Chairman of the Swedish Federation of Business Owners.
Born: 1953

Lars Otterbeck
Non-independent director on Skandia Liv's board since 2007.
Director of Old Mutual plc.
Other external directorships:[1] Hakon Invest AB and Roslagens Nyföretagarcentrum.
Born: 1942

Leif Victorin
Independent director on Skandia Liv's board since 2008.
Other external directorships:[1] Atlas Copco Reinsurance and the ProSkandia policyholder association.
Born: 1940

Dahn Eriksson
Non-independent director on Skandia Liv's board since 2007.
Employee representative.
Other external directorships:[1] None.
Born: 1962

Jane Olofsson
Non-independent director on Skandia Liv's board since May 2010.
Employee representative.
Other external directorships:[1] None.
Born: 1982

Alternate directors

Marek Rydén
Non-independent alternate director on Skandia Liv's board since May 2010.
Other external directorships:[1] None.
Born: 1969

Leif Nordqvist
Non-independent alternative director on Skandia Liv's board since May 2011.
Employee representative.
Other external directorships:[1] None.
Born: 1958

Linda Lundin
Non-independent director on Skandia Liv's board since May 2011.
Employee representative.
Other external directorships:[1] None.
Born: 1977

[1] By other external directorships is meant such companies that are not part of the Old Mutual or Skandia groups.

Management

Bengt-Åke Fagerman
Chief Executive Officer
Born: 1954
Skandia Liv employee since 2002.
Skandia employee since 1978.

Mathias Andersson
Acting Chief Financial Officer
Born: 1968
Skandia Liv employee since 2010.

Anna-Carin Söderblom Agius
Head of Business Unit
Born: 1967
Skandia Liv employee since 2007.

Lars Bergendal
General Counsel and Company Secretary
Born: 1953
Skandia Liv employee since 2003.
Skandia employee since 2001.

Håkan Ljung
Chief Actuary and Head of Risk Governance and Risk Control
Born: 1967
Skandia Liv employee since 2006.

Annie Sebelius
Head of Corporate Communications
Born: 1971
Skandia employee since 2009.
The Head of Corporate Communications assignment is performed by Skandia on behalf of Skandia Liv.

Hans Sterte
Head of Asset Management
Born: 1961
Skandia Liv employee since 2007.

Ingrid Roslund Winje
Head of Human Resources
Born: 1954
Skanda Liv employee 2000–2008. Skandia employee since 2008.
Since 2008 the Head of Human Resources assignment has been performed by Skandia on behalf of Skandia Liv.

Board of Directors' report 2011

Introduction

The Board of Directors and President of Livförsäkringsaktiebolaget Skandia (publ), ("Skandia Liv"), registered number 502019-6365, hereby submit their Annual Report for 2011, the company's 139th year in operation.

Organisation

Skandia Liv is a wholly owned subsidiary of Skandia Insurance Company Ltd ("Skandia"). Since 2006 Skandia has been a member of Old Mutual plc ("Old Mutual"), an international financial services group active in life assurance, banking and asset management. Old Mutual was established in 1845 and has its head offices in London. Operationally, Skandia Liv is part of Skandia's Nordic division, which comprises all operations in Sweden, Denmark and Norway. Several businesses and functions are conducted jointly within the entire Skandia group.

Group structure, Skandia Liv

The Skandia Liv group consists – in addition to the parent company Livförsäkringsaktiebolaget Skandia (publ) – of Skandia Liv Fastigheter AB, which owns Diligentia AB with several property-owning companies, Skandikon Pensionsadministration AB, Skandikon Administration AB, Life Equity Sweden KB (in liquidation), Skandia Livsforsikring A/S, Skandia Livsforsikring A A/S, Skandia Asset Management A/S and Skandia A/S (Denmark). Berlac AB has been liquidated. All of the subsidiaries may distribute profits to their owners.

Operations

Skandia Liv's business mission is to offer value-for-money products with a guarantee that are easy to understand and give our customers financial security for retirement, illness and death.

Our offerings are based on a combination of savings, insurance, advice and administration. The entire profit or loss that arises in the company's business accrues to our policyholders. We do not pay any shareholder dividends – in other words, Skandia Liv is run entirely on a mutual basis. When you take out a pension or endowment insurance policy with Skandia Liv, you are choosing so-called traditional life management, which entails that we handle the asset management for you. Our policyholders are guaranteed a certain level of benefits when their insurance policies reach maturity, and it is this guarantee that sets traditional life management apart from many other savings forms. Prior to commencing payment of benefits, we recalculate the policyholder's insurance capital to a disbursement amount and compare it with the guaranteed amount. If the disbursement amount is higher, the policyholder receives that amount, but if the amount is lower, then the policyholder receives the guaranteed amount.

Our financial strength gives us a greater opportunity to generate higher returns than many other companies. We can invest more capital at a higher risk, without risking what we have promised. This means that, in addition to a guarantee, our customers have very good prospects for a higher return.

Important events during the year

Restructuring

During the spring, Skandia decided to reorganise and adapt its operations to the customers' needs, and thereby improve Skandia's self-service concept and strengthen its customer advisory services. This also entailed efficiency improvements and cost-cutting. An offer was made to all employees – also of Skandia Liv – to leave the company with severance pay and participate in an adjustment programme.

Continued growth of municipal business

During the year, Skandia Liv won procurement bids for insurance and administration for 14 municipalities. Thus in the course of two years we have increased our base of municipal customers from two to 24. Our hopes are to continue growing at a similar pace in the years immediately ahead.

KAP-KL procurement

Skandia Liv refrained from submitting a bid for the KAP-KL contract area, which regulates municipal employee pensions, due to unreasonable terms. Because of these terms, we believe that over time it will be impossible for municipal employees to obtain products of sufficiently high quality.

Bonus rate

On 1 July 2011 the bonus rate was reduced from 6% to 5%. On 1 October the bonus rate was cut further, to 4%.

Skandia Liv still default insurer

A new procurement process for occupational pensions for insurance industry employees (the FTP plan) was conducted in 2011. Skandia Liv won this process and thus continues to be the default insurance company for the country's insurance industry employees for the next four years.

FTP selection centre
During the year, it was announced that Skandia Liv's subsidiary Skandikon will take the place of Fora as the FTP selection centre, effective 1 January 2012.

Report on municipal pension liabilities
During the summer Skandia published its report "Pay now – prepare for tomorrow's welfare". Briefly, the report argues that Sweden's municipalities have a major pension liability to deal with and was a topic of debate in Almedal Week, an important annual political forum in Sweden.

Sale of part of Skandia Asset Management A/S
During the year, Skandia Liv sold 20% of its holding in Skandia Asset Management A/S to Skandia AB. Following the sale, the company is equally owned by both Skandia Liv and Skandia AB.

Solvency II

Adaptation to Solvency II, the new solvency regime within the EU, continued during the year. The aim of Solvency II is to strengthen policyholder protections. The overall guidelines of the solvency rules have been set through a framework directive that was adopted in spring 2009. Work is continuing in the EU on drawing up more detailed requirements. This has proved to be more time-consuming than expected. Indications are growing stronger that the new regulatory regime will take effect in Swedish legislation on 1 January 2013, although companies will probably not be required to apply the new rules until 1 January 2014. This would entail postponement of application of the new Solvency II rules by about a year compared with previous plans.

High level of ambition
In early 2010 Skandia Liv started a sweeping implementation project for adaptation to the new solvency rules. Good risk governance is a vital success factor for an insurance company. The advantage for a company like Skandia Liv is that risk governance has been a central part of operations for a long time. Skandia Liv's aspiration is to continue to be a leading company in the area of risk governance, and therefore its ambitions go considerably beyond the minimum requirements posed by Solvency II. Accordingly, we are developing our own model for calculating solvency risk, which gives us a better ability to understand and govern the risks in the business. At the same time, developing an own model entails that the requirements for precision and reliability in the model are high. The Swedish Financial Supervisory Authority will therefore be reviewing the model to ensure that the requirements are met.

On track
During the year, adaptation to Solvency II and development of the company's internal model proceeded according to plan. In 2011 as well, the work with Solvency II required a great deal of resources and will continue to do so ahead of the implementation of the regime. During the year, the Financial Supervisory Authority began a preliminary review of the internal model that Skandia Liv is developing. Participation in this preliminary review is voluntary for the insurance companies. Skandia Liv believes that it is beneficial to participate in order to have ample time to ensure that its model will meet the strict requirements that are being made. Following the preliminary review, the companies that intend to use their own, internal models will be required to submit a formal application, which will be reviewed by the Financial Supervisory Authority.

Skandia Liv acquires Skandia AB

At the end of the year Skandia Liv announced its plans to acquire the parent company, Skandia AB, from its owner Old Mutual. Provided that the acquisition goes through, the hybrid structure that Skandia Liv has lived under for a long time will be dissolved. Following a future restructuring, the company will become a bona fide mutual company, i.e., owned by its policyholders. This means that Skandia Liv's ties to Old Mutual, through the parent company Skandia AB, will cease. Skandia Liv will now have a single focus: through savings and insurance to benefit its own customers.

The background to the deal mainly concerns efficiency losses. Both companies – Skandia Liv and Skandia AB – have worked side-by-side, but according to different conditions. Skandia AB has generated profits for its owner, Old Mutual, while Skandia Liv has distributed its profits to its customers, i.e., the policyholders. This arrangement has worked, but it has not been sufficiently efficient, as resource-intensive control functions have been necessary to monitor the prohibition against profit distribution between the two Skandia companies.

From a historical perspective there are several examples of attempts by the two companies to remedy this situation. Among other things, a study was conducted of the possibility of demutualising Skandia Liv, but this project was suspended in February 2010. In autumn 2011 an opportunity arose in the market for Skandia Liv to acquire Skandia AB, and at the initiative of the independent members of Skandia Liv's board, intensive work was begun. A great effort was made to obtain a correct valuation of the company, and several advisers who are independent of each other were hired to ensure that any deal would be conducted at market terms. Throughout the entire process, the policyholder representative on Skandia Liv's board supported the acquisition, on the premise that it would be favourable for the company's customers.

The deal was presented on 15 December. The purchase price of SEK 22.5 billion was paid in cash and was financed through the sale of investment assets. The deal was very well received by the media, customers and employees.

The deal has been approved by Old Mutual's board and is expected to be completed at the end of the first quarter of 2012, after the necessary permits and approvals have been obtained by the financial regulators and competition authorities in the affected countries, and by Old Mutual's shareholders.

The acquisition has several advantages, including substantial cost and revenue synergies worth an estimated SEK 850 million per year in a few years' time. From the customers' perspective, there will be greater opportunities to offer better products that offer even more value for money. In addition, a favourable return is expected from this investment – higher than the average for the portfolio as a whole.

Skandia AB will initially account for approximately 8% of Skandia Liv's total assets of approximately SEK 290 billion. Skandia Liv's solvency and debt coverage ratio today exceed the Financial Supervisory Authority's requirements by a healthy margin. The transaction is well-balanced in terms of risk and will result in only marginal changes in these key ratios. Skandia Liv will continue to be a well capitalised and strong company.

For a company to acquire its parent is a complex process. During the restructuring of the business to mutual principles, which is expected to take up to a year and a half, Skandia Liv will be owned by a newly formed foundation whose purpose will be to promote the interests of Skandia Liv's policyholders during the restructuring process. The following persons have been nominated to serve on the board of the foundation: Bo Eklöf (Chairman), Leif Victorin and Kajsa Lindståhl. Policyholders will have greater influence in the new company; the forms for this will be studied, but it will resemble a general assembly.

The acquisition includes the Nordic insurance and banking businesses Skandia Link, Skandiabanken and Skandia Lifeline (healthcare insurance). In total, the group's operations in Sweden, Norway and Denmark have SEK 440 billion in assets under management and more than two million customers. Through the acquisition of Skandia AB, one of Sweden's largest banking and insurance companies will be formed – a customer-owned, independent alternative to the established major banks.

Events after the balance sheet date

See note 40.

Result for the year

Result for the year 2011

The Skandia Liv group's result for 2011 was SEK -25,432 million (22,682) after tax. The corresponding result for Skandia Liv Sweden was SEK -25,583 million (22,561). The technical result (before tax) for Skandia Liv Sweden was SEK -23,676 million (25,014).

The technical result is derived primarily from three result sources: the investment result, the risk result and the administrative result. The investment result consists of the difference between the actual investment return and the interest rate that is used to calculate technical provisions. The risk result is the difference between the underlying assumptions on life expectancy and mortality and the actual outcome. The administrative result shows the difference between fees charged to insurance policies and the company's actual operating expenses. Normally the investment result makes up the largest component of the total result, and for the 2011 financial year, the investment result was SEK -24,403 million (23,668). Risk business generated a result of SEK 547 million (959), and administration SEK 180 million (387). The result (profit or loss) is applied to the funding reserve, which makes up Skandia Liv's accumulated surplus funds. For insurance with a savings element, surpluses are allocated to policyholders primarily through the bonus rate, while for pure risk insurance, allocation of surpluses is done by discounting premiums, for example. Following are comments on the various result items that make up the technical result.

The following section pertains to Skandia Liv Sweden unless indicated otherwise. Skandia Liv Sweden consists of the parent company (Livförsäkringsaktiebolaget Skandia (publ)), Skandia Liv Fastigheter AB and Diligentia AB with several property-owning subsidiaries, Life Equity Sweden KB (in liquidation), Skandikon Pensionsadministration AB, and Skandikon Administration AB.

Premiums written

Skandia Liv's premiums written, net of reinsurance, amounted to SEK 13,264 million (11,808) in 2011. Premiums written increased mainly with respect to single premiums for savings products and incoming transfers of capital. The increase is attributable to both the private and business segments. Instalment premiums were unchanged compared with a year ago. Premiums written for risk products decreased during the year, mainly due to premium reductions for sickness/disability products. Due to lower claims paid in recent years for sickness and disability insurance, premiums could be lowered for some sickness/disability products in general as well as for certain segments that are showing a lower number of sickness and disability claims.

Investment income

Investment income amounted to SEK 8,880 million (25,021). Investment income is made up of realised as well as unrealised returns and consists of the net amount of income and expenses. Expenses include asset management charges of SEK 176 million (201), which pertain to Skandia Liv's own asset management organisation as well as fees to external asset managers.

Total return %

Skandia Liv's total return for 2011 was 3.2% (9.4%). The goal of Skandia Liv's asset management is to generate a high, stable return in relation to inflation and the company's obligations to the policyholders. For returns on the portfolio's various asset classes, see the total return table below.

Investments

At year-end 2011 Skandia Liv had assets under management valued at SEK 296,912 million (296,441). The long-term asset allocation is decisive for future returns. Skandia Liv has been working for several years to create a better balance in its strategic asset allocation. The aim is to achieve a better spread of risk and in such way to lower the risk in the portfolio while also enhancing returns over time. The aim has been to reduce reliance on equities in Sweden, Europe and North America, and to add complementary risk assets to the portfolio that have a deviating return profile. This work continued in 2011. Skandia Liv has adopted a currency strategy in which foreign assets are not automatically hedged to increase the spread of risk. In Skandia Liv's view, the Swedish krona is regarded as having a normalised value compared with most foreign currencies. During the year, the share of equities in the portfolio was decreased slightly in favour of fixed-income investments and investments in unlisted companies. The asset portfolio slightly decreased the average level of interest rate risk compared with at year-end 2010.

Change in other technical provisions

During the year, other technical provisions were in need of strengthening. The change generated a negative result effect of SEK -32,396 million (728), of which SEK -78 million (-49) is attributable to a change in conditional bonuses (gross). The value of life assurance provisions is affected to a high degree by the discount rate used to calculate the value of future guaranteed benefits. A low discount rate leads to a high present value of guaranteed future benefits, while a high discount rate leads to a low present value. A change in the discount rate by 0.10 percentage points for all maturities would entail a change in life assurance provisions by approximately SEK 2,300 million.

Life assurance classified as occupational pensions business

Life assurance provisions for occupational pensions business accounted for approximately 61% (62%) of total life assurance provisions. Provisions classified as occupational pensions business are discounted using market rates of interest. Market interest rates fell in 2011, which entailed a strengthening of provisions and a result effect of SEK -18,349 million (1,354). Other changes, mainly attributable to net cash flow of premiums and disbursements, and net interest expenses, affected the result by SEK -1,050 million (-1,525). The total change in other life assurance provisions for occupational pensions business had a result effect of SEK -19,399 million (-172) as per 31 December 2011.

Other life assurance

Provisions for other life assurance are also discounted using market rates of interest. To continue maintaining a certain measure of safeguard assumptions, these interest rates are different than the ones used for occupational pensions. Falling market interest rates necessitated a strengthening of these provisions, with a subsequent result effect of SEK -13,483 million (14). Other changes, which are mainly attributable to the net cash flow of premiums and disbursements, and net interest expenses, affected the result by SEK 564 million (934). The total change in other life assurance provisions for other life assurance had a result effect of SEK -12,919 million (949) as per 31 December 2011.

Total return, Skandia Liv Sweden

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
-11.7%	9.1%	8.8%	13.7%	9.1%	4.4%	-13.4%	16.4%	9.4%	3.2%

Managed assets (SEK million), Skandia Liv Sweden

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
220,812	235,104	249,608	276,065	293,026	302,537	253,104	280,945	296,441	296,912

Total return table	Market value (SEK million)		Allocation (%)		Total return (%)	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Nominal bonds	110,308	76,999	37.7	26.1	8.2	2.8
Swedish inflation-linked bonds	6,111	23,056	2.1	7.8	11.3	5.0
Swedish equities	23,973	38,344	8.2	13.0	-15.9	26.6
Foreign equities	59,000	71,670	20.2	24.3	-9.2	7.2
Real estate	30,155	30,347	10.3	10.3	12.6	12.6
Private equity	18,229	13,956	6.2	4.7	11.5	5.4
Alternative strategies	20,712	22,732	7.1	7.7	-2.0	11.3
Other	24,184	18,033	8.2	6.1	n/a	n/a
Total	**292,672**	**295,137**	**100.0**	**100.0**	**3.2**	**9.4**

This table has been prepared in accordance with the Swedish Insurance Federation's recommendation for annual reporting of total returns ("Total return table"). The total in the table differs from the amount of managed assets reported on the balance sheet due to the fact that some assets on the balance sheet are not included in the total return table. A reconciliation of the return based on the total return table against the financial statements is presented in note 42.

Claims incurred
The sum of the items Claims paid and Change in provision for claims outstanding amounted to SEK 11,810 million (11,365).

Claims paid
Claims paid increased to SEK 12,308 million (12,043), of which claims settlement costs amounted to SEK 31 million (38). The increase in claims paid is mainly attributable to more insureds reaching retirement age. Although mobility in the market has increased, in 2011 transfers of capital to other insurance companies decreased to SEK 833 million (987). This can be credited to insight in the market that traditional life assurance is a favourable alternative during a year that was characterised by uncertainty in the financial markets.

In addition to benefits that are guaranteed to policyholders, bonuses are also paid out, which are a share in surpluses that have been earned during the insurance period. Bonuses paid out in 2011 amounted to SEK 6,598 million (6,489). Distributions of surpluses are not reported in the income statement, but as a decrease in the funding reserve on the balance sheet.

Change in provision for claims outstanding
The change in the provision for claims outstanding decreased claims paid by SEK 498 million (678), whereby a change in market interest rates necessitated reserve strengthening, with a result effect of SEK -248 million (-30). As in 2010, the number of active disability and waiver-of-premium claims continued to fall in 2011, which entailed that earlier provisions of SEK 756 million (708) could be dissolved.

Operating expenses
Operating expenses amounted to SEK 1,508 million (1,474). Operating expenses can be broken down into administrative expenses and acquisition costs. The former category pertains to costs for existing policies and the latter for handling in connection with new business, such as commissions.

Administrative expenses amounted to SEK 1,196 million (1,095). A large share of the increase is due to higher operating expenses associated with restructuring costs; see Significant events during the year on page 6 and in note 8 on page 37.

Acquisition costs are capitalised to a great extent on the balance sheet as deferred acquisition costs and are thereafter allocated over a ten-year period. This is done to achieve a better balance between revenues and expenses during the term of insurance contracts.

Acquisition costs charged against the result for 2011 amounted to SEK 313 million (380), a decrease of SEK 67 million. Acquisition costs consist mainly of sales costs, such as commissions on new sales and the change in deferred acquisition costs. Sales costs increased by SEK 16 million compared with the preceding year. The increase is mainly attributable to a higher level of new sales. The change in deferred acquisition costs, i.e., the allocation of sales costs over the terms of insurance contracts, decreased by SEK 66 million compared with the preceding year.

The operating expense ratio, which shows the relationship between operating expenses and premiums written, decreased to 11.4% (12.5%). The decrease is attributable to a higher level of premiums written. The management expense ratio, which shows the relation between operating expenses and average managed assets during the year, was 0.52% (0.52%).

Funding and solvency

Collective funding ratio
Skandia Liv's collective funding ratio was 104% (108%) as per 31 December 2011. For insurance with a savings element, the collective funding ratio shows the value of the underlying assets in relation to the value of the guaranteed commitments and surpluses that are preliminarily allocated among the insurance contracts. By adjusting the bonus rate, which indicates the level of surpluses to be allocated among the policyholders, Skandia Liv strives to keep the collective funding ratio within an interval of 95%–115%. How this adjustment is achieved is regulated by the company's funding policy, which is described on Skandia Liv's website, skandia.se/liv.

Solvency
Solvency is a measure of the value of assets in relation to the guaranteed commitments to the policyholders. Skandia Liv's solvency was 146% (174%) as per 31 December 2011. The solvency ratio shows how large the company's solvency capital is in relation to the minimum margin permissible under the Swedish Insurance Business Act (the solvency margin). The solvency ratio was 10 (17), which means that the company's solvency capital is 10 times greater than the statutory minimum requirement.

Risks and risk management

Managing risk is a natural part of Skandia Liv's business. Skandia Liv manages several different types of risk, such as
- solvency risk,
- profitability risk, including financial risks,
- strategic risk, and
- operational risk.

These risks and our way of managing, measuring and following them up are described in note 2, Risks and risk management.

The environment

Skandia Liv does not conduct any operations that require a permit or reporting obligation pursuant to the Environmental Code. However, our own guidelines as laid out in the Skandia Corporate Responsibility Policy stipulate that Skandia Liv shall work actively to reduce any adverse direct or indirect environmental impact of its operations. To limit direct environmental impact, Skandia Liv strives to limit its use of non-renewable resources. This is mainly achieved by conserving energy, restricting the use of materials, and preventing the leaching of waste and emissions from the properties that we use and own. Skandia Liv also has an indirect environmental impact through the companies that it has shareholdings in. Skandia Liv's ownership policy stipulates that the boards of these companies shall maintain a responsible approach to ethical issues and work actively on ethics and environmental matters.

In Skandia Liv's subsidiary Diligentia, in 2011 decisions were made on two environmental classification systems that Diligentia will be working with in existing properties as well as in new construction, remodelling and expansion work. A project aimed at drafting "green" lease contracts was started during the year in co-operation with other members of the Swedish Property Federation, and at Diligentia this work is being conducted under the umbrella of a larger initiative to develop a "green" offering for the company's tenants. In addition, Diligentia's new electricity supply contract, under which all of the company's buildings are supplied with low CO_2 electricity from hydro power, took effect during the year.

Social responsibility

Socially Responsible Investments

Skandia takes its ownership responsibility – through Socially Responsible Investments and other strategic owner matters – with utmost seriousness. Skandia Liv today has a well-working process for detecting signs of inappropriate behaviour in ethical matters. At the industry level, together with 14 other institutions we are a co-founder of "Sustainable Value Creation", a project in which the 100 largest companies on the Nasdaq OMX exchange have been requested to respond to a survey about their work with the environment, labour law, corruption and other issues. The aim is to jointly focus on matters that contribute to best practice through the exchange of experience and methods among listed companies.

Ideas for Life

Skandia Liv believes it is only natural to be actively involved in community development. Ideas for Life is an undertaking that was started in 1987 to take a long-term approach to preventive work with children and youths. Through Ideas for Life we work with non-profit organisations, schools, associations and municipalities. All Skandia employees have the opportunity to use a part of their working time to serve as a volunteer for an Ideas for Life activity. Examples include chaperoning city streets at night, helping students with homework, or projects involving parents, teachers or sport leaders.

Our people

Skandia Liv is a company that builds long-term relationships with its customers as well as employees. Employee commitment, competence and performance are decisive for the company's success.

Employees

In 2011 the average number of employees in the parent company Skandia Liv was 247 (256), of whom 46% were women (47%). The share of women in management positions was 41% (46%), and the average age of all employees was 45 (44). Employee turnover increased compared with a year ago and was 9.6% at year-end (6.7%).

Livianen

Livianen is Skandia Liv's foundation for variable remuneration based on the model of a profit-sharing foundation. Its purpose is to stimulate motivation and participation among the company's employees by offering a financial incentive when the company performs in accordance with three set targets. In 2011 the maximum award per employee from the foundation, if all three targets were met, was 62.5% of the Price Base Amount, or SEK 26,750.

Remuneration and benefits for key senior executives

Skandia Liv offers variable remuneration as a tool in setting salary levels for managers. The level of remuneration has a cap ranging between 10% and 50% of the employee's base salary, depending on the position. The 50% level applies only for certain employees in Skandia Liv's asset management organisation. For details on salaries and remuneration, see note 37.

Health promotion at Skandia Liv

Skandia Liv offers its employees access to advice and assistance on health matters. In addition, all employees are offered Skandia's private healthcare insurance. Skandia Liv also supports employee wellness activities by providing wellness grants and subsidised activities.

Skandia Liv's subsidiaries in 2011

Swedish subsidiaries

Diligentia

Skandia Liv Fastigheter AB is a subsidiary of Skandia Liv and the parent company of Diligentia AB, where Skandia Liv's real estate holdings are concentrated. Diligentia's business concept is to engage in long-term ownership, and in the development and management of offices, shopping centres and residential properties. At year-end the real estate holdings were estimated to be worth SEK 30,480 million (30,347). Investments in existing properties amounted to SEK 1,354 million (1,378). During the year, no properties were acquired (3) and 16 were sold (15).

Skandikon

Skandikon posted a result of SEK -1 million (9) for 2011. The year was characterised by major investments, totalling approximately SEK 16 million, in order to be able to handle new agreements entered into during the year. In addition, Skandikon worked on developing processes for ISO certification and identifying the company's risks associated with new business. The core business – agreements with long terms – has satisfactory profitability. The company's management has determined that public sector business, which Skandikon conducts together with Skandia Liv, has now also reached an acceptable level.

Other Swedish subsidiaries

Life Equity Sweden KB (in liquidation) and Berlac AB did not conduct any operations in 2011. Berlac AB was liquidated during the year.

Foreign subsidiaries

Skandia Liv's foreign subsidiaries are Skandia Livsforsikring A/S, Skandia Livsforsikring A A/S, Skandia Asset Management A/S and Skandia A/S – all in Denmark.

Denmark

Skandia Liv's operations in Denmark comprise two separate insurance concepts. Skandia Livsforsikring A A/S handles private pensions and is closed for new business. Skandia Livsforsikring A/S handles "Bonuspension" business, which is designed for the occupational pensions market. Written premiums for both companies amounted to SEK 1,893 million (2,118), operating expenses totalled SEK 190 million (236), and the result for the year was SEK -220 million (111). Total assets amounted to SEK 15,775 million (16,081), of which life assurance provisions amounted to SEK 14,357 million (14,326). In 2011, 20% of Skandia Liv's holding in Skandia Asset Management A/S was sold to Skandia. The company is thereafter equally owned by Skandia Liv and Skandia. The sale resulted in a capital loss of SEK 18 million. The loss is attributable to the fact that accrued profits in the company at the time of the sale had not been generated through management of Skandia Liv's assets, but stemmed from management of Skandia's assets.

Anticipated future outlook

Legislation

The work with the EU's Solvency II directive continued during the year. At the EU level this work has mainly involved the development of more detailed requirements as a complement to the framework directive that was adopted in autumn 2009. At the national level in Sweden, the so-called Solvency II study (SOU 2011:68) issued recommendations for how the framework directive's stipulations should be implemented in Swedish legislation. The entire Solvency II regime is expected to take effect on 1 January 2014. At Skandia Liv, adaptation to the new regulations has continued.

The Solvency II study's findings include recommendations for a new, alternative regulation of companies that conduct occupational pensions business. The formulation of the legal rules for the proposed solvency regime could lead to skewed competition between companies that offer occupational pensions in the Swedish market.

During the year, a new Insurance Business Act (2010:2043) took effect. The new Act includes a language and editorial modernisation of the operating rules for stock insurance companies and an adaptation to legislation related to the right of association. For stock insurance companies, the adaptation entails that they are subject to the rules that apply for stock companies in general, except for deviations that are justified by the nature of the stock insurance company. For Skandia Liv, which is a stock insurance company, the new Insurance Business Act mainly entailed only a need for limited amendments to the Articles of Association.

Starting on 1 January 2012, Skandia's banking customers can use a new savings form called the Investment Savings Account ("Investeringssparkonto"). In connection with this, taxation of endowment insurance plans has been modified and made stricter.

The International Accounting Standards Board (IASB) is working on drawing up new International Financial Reporting Standards for insurance companies, called IFRS phase 2. The rules are expected to take effect in a few years.

Corporate governance report

Skandia Liv's corporate governance is described in a separate report (Corporate Governance Report 2011), which is posted on Skandia Liv's website: skandia.se/liv.

Five-year overview, Skandia Liv group

	2011	2010	2009	2008	2007
Result, SEK million					
Premiums written, net of reinsurance	15,084	13,862	12,566	14,819	15,952
Investment income, net	9,468	26,201	42,151	-40,937	12,519
Claims incurred, net of reinsurance	-13,968	-12,235	-12,024	-11,215	-11,003
Bonuses	89	279	272	-6	-60
Life assurance technical result	-23,602	25,138	63,526	-78,548	27,555
Result for the year	**-25,432**	**22,682**	**61,304**	**-79,003**	**24,552**
Financial position, SEK million					
Investments	321,718	311,113	300,013	271,388	309,557
Technical provisions, net of reinsurance	215,067	183,292	184,614	207,919	166,516
Net asset value, SEK million					
Reported equity	92,606	124,756	109,015	54,764	140,916
Deferred taxes	3,025	2,880	2,275	1,811	3,633
Total net asset value	**95,631**	**127,636**	**111,290**	**56,575**	**144,549**
Collective funding capital[1]	11,861	21,127	11,443	-21,464	20,160
Solvency capital[2]	88,253	123,066	108,505	55,017	137,841
Required solvency margin[2]	8,663	7,424	7,494	8,517	6,907
Group capital base according to the risk-based aggregation and risk-based deduction method[3]	87,681	122,376	107,839	54,421	137,217
- less intangible items totalling	34	43	59	82	73
Required group solvency margin according to the risk-based aggregation and risk-based deduction method	9,222	7,956	7,994	9,010	7,275
Key ratios, %[1]					
Management expense ratio	0.52	0.52	0.62	0.64	0.61
Management expense ratio including asset management charges	0.58	0.59	0.72	0.74	0.73
Direct yield[4]	3.2	3.1	3.6	3.6	3.5
Total return[4]	3.2	9.4	16.4	-13.4	4.4
Collective funding ratio[5]	104	108	104	91	107
Solvency	146	174	164	128	190
Solvency ratio[2][3]	10	17	14	6	20
Acquisition cost ratio	2.4	3.2	4.1	3.3	3.7
Operating expense ratio	11.4	12.5	14.6	13.6	12.4

[1] Figures pertain to Skandia Liv Sweden.
[2] Figures pertain to the parent company.
[3] Key ratios have been updated due to new accounting policy, see note 41.
[4] See note 42.
[5] According to the retrospective method.

The Skandia Liv group applies IFRS in full.

Proposed distribution of profit

The Board of Directors and Chief Executive propose that the result for the year for the parent company, Livförsäkringsaktiebolaget Skandia (publ), totalling SEK -26,524 million, be applied to the funding reserve for the respective lines of insurance as follows:

Funding reserve, SEK million	**2011**
Defined benefit insurance	-641
Defined contribution traditional life assurance	-15,045
Employment-related disability insurance and waiver-of-premium insurance	1,116
Individual traditional life assurance	-12,771
Non-cancellable disability and accident insurance and waiver-of-premium insurance	78
Group life and occupational group life assurance	320
Cancellable disability and accident insurance	404
Reinsurance accepted	15
Total	**-26,524**

The prepared annual report entails payment of a group contribution of SEK 1,497 million to Diligentia AB and SEK 1,600 million to Skandia AB.

Stockholm, 17 February 2012

Gunnar Palme
Chairman of the Board

Jens Erik Christensen

Gunnar Holmgren

Monica Lindstedt

Lars Otterbeck

Leif Victorin

Dahn Eriksson

Jane Olofsson

Bengt-Åke Fagerman
CEO

Our audit report was submitted on 17 February 2012

Svante Forsberg
Authorised Public Accountant

Thomas Thiel
Authorised Public Accountant

Contents, accounts

Performance analysis for the parent company

SEK million	Total	Direct insurance in Sweden							
		Occupational pension insurance			Other life assurance				
	Total	Defined benefit insurance[1]	Defined contribution traditional life assurance	Employment-related disability and waiver of premium insurance	Individual traditional life assurance	Non-cancellable disability and accident insurance and waiver of premium insurance	Group life and occupational group life assurance	Cancellable disability and accident insurance	Reinsurance accepted
Premiums written, net of reinsurance	13,264	213	7,903	800	3,575	325	310	120	18
Investment income	18,770	324	10,734	384	6,680	461	99	84	4
Unrealised gains on investments	5,739	99	3,282	117	2,043	141	30	26	1
Other technical income	3	0	2	0	1	0	0	0	0
Claims incurred, net of reinsurance	-11,810	-180	-6,067	-279	-4,960	-419	163	-61	-7
Change in other technical provisions, net of reinsurance	-32,396	-747	-18,733	1	-12,926	1	6	2	0
Bonuses	89	0	-136	0	252	0	-27	0	0
Operating expenses	-1,552	-14	-821	-133	-398	-85	-65	-31	-5
Investment charges	-785	-14	-449	-15	-280	-19	-4	-4	0
Unrealised losses on investments	-17,503	-300	-10,038	-357	-6,207	-428	-92	-78	-3
Other technical charges	-35	-1	-16	-1	-16	-1	0	0	0
Technical result, life assurance business	**-26,216**	**-620**	**-14,339**	**517**	**-12,236**	**-24**	**420**	**58**	**8**
Result before appropriations and tax	**-26,216**	**-620**	**-14,339**	**517**	**-12,236**	**-24**	**420**	**58**	**8**
Appropriations	1,606	0	0	987	0	107	22	477	13
Pre-tax result	**-24,610**	**-620**	**-14,339**	**1,504**	**-12,236**	**83**	**442**	**535**	**21**
Taxes	-2,079	-21	-706	-447	-535	-82	-131	-151	-6
Deferred taxes	165	0	0	59	0	77	9	20	0
Profit for the year	**-26,524**	**-641**	**-15,045**	**1,116**	**-12,771**	**78**	**320**	**404**	**15**
Technical provisions, gross									
Life assurance provision	194,807	3,775	116,295	28	74,444	137	118	10	0
Provision for claims outstanding	6,220	0	13	2,876	47	2,538	41	689	16
Total	**201,027**	**3,775**	**116,308**	**2,904**	**74,491**	**2,675**	**159**	**699**	**16**
Technical provisions for life assurance policies where the investment risk is borne by the policyholders									
Conditional bonuses	254	–	254	–	0	–	–	–	–
Total	**254**	**–**	**254**	**–**	**0**	**–**	**–**	**–**	**–**
Reinsurers' share of technical provisions									
Life assurance provision	–	–	–	–	–	–	–	–	–
Provision for claims outstanding	–	–	–	–	–	–	–	–	–
Total, reinsurers' share of technical provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL BONUS FUNDS BEFORE RESULT FOR THE YEAR[2]	**114,736**	**1,949**	**61,448**	**3,205**	**42,346**	**4,101**	**940**	**695**	**52**

[1] Of which, pertaining to the line of business "Collectively contracted occupational pension plans for employees of the Skandia group, etc."

Life assurance provision	3,761
Funding reserve, after result for the year	1,305

[2] A line of business which, despite utilisation of its share of accumulated surplus funds, cannot cover its own deficit, is allowed to borrow funds (subordinated loans) from other lines of business. For these loans the line pays interest that is equivalent to the total return.

Notes on the parent company performance analysis

	Total	Defined benefit insurance	Defined contribution traditional life assurance	Employment-related disability and waiver of premium insurance	Individual traditional life assurance	Non-cancellable disability and accident insurance and waiver of premium insurance	Group life and occupational group life assurance	Cancellable disability and accident insurance	Reinsurance accepted
Premiums written, net of reinsurance									
Premiums written, gross	13,280	212	7,904	804	3,583	328	311	120	18
Premiums ceded	-16	0	-1	-4	-7	-3	-1	0	0
Claims incurred, net of reinsurance									
Claims paid									
a) Gross	-12,308	-180	-6,065	-445	-4,963	-372	-212	-69	-2
b) Reinsurers' share	0	0	0	0	0	0	0	0	0
Change in Provision for claims outstanding									
a) Gross	498	0	-2	166	3	-47	375	8	-5
b) Reinsurers' share	0	–	–	0	0	0	0	0	0

Income statement

SEK million	Note	Group 2011	Group 2010	Skandia Liv Sweden 2011	Skandia Liv Sweden 2010	Parent company 2011	Parent company 2010
TECHNICAL ACCOUNT, LIFE ASSURANCE BUSINESS							
Premiums written, net of reinsurance							
Premium written, gross	(3)	15,155	13,932	13,280	11,831	13,280	11,831
Premiums ceded		-71	-70	-16	-23	-16	-23
		15,084	**13,862**	**13,264**	**11,808**	**13,264**	**11,808**
Investment income	(4)	**21,013**	**23,934**	**21,117**	**23,856**	**18,770**	**21,473**
Unrealised gains on investments	(5)	**7,654**	**11,717**	**7,055**	**10,751**	**5,739**	**9,815**
Other technical income	(12)	**69**	**119**	**3**	**18**	**3**	**18**
Claims incurred, net of reinsurance							
Claims paid							
Gross	(6)	-14,462	-12,971	-12,308	-12,046	-12,308	-12,046
Reinsurers' share		0	51	0	3	0	3
Change in Provision for claims outstanding							
Gross		498	681	498	678	498	678
Reinsurers' share		-4	4	0	0	0	0
		-13,968	**-12,235**	**-11,810**	**-11,365**	**-11,810**	**-11,365**
Change in other technical provisions, net of reinsurance							
Life assurance provision							
Gross		-32,355	-1,282	-32,318	777	-32,318	777
Reinsurers' share		43	-1	—	0	—	—
Technical provisions for life assurance policies where the investment risk is borne by the policyholders							
Conditional bonuses	(28)						
Gross		-78	-49	-78	-49	-78	-49
Reinsurers' share		—	—	—	—	—	—
		-32,390	**-1,332**	**-32,396**	**728**	**-32,396**	**728**
Bonuses	(7)	**89**	**279**	**89**	**279**	**89**	**279**
Operating expenses	(8)	**-1,680**	**-1,708**	**-1,508**	**-1,474**	**-1,552**	**-1,527**
Investment charges	(9)	**-1,475**	**-7,647**	**-1,786**	**-7,339**	**-785**	**-6,424**
Unrealised losses on investments	(10)	**-17,724**	**-1,803**	**-17,506**	**-2,247**	**-17,503**	**-2,247**
Other technical charges	(12)	**-274**	**-48**	**-198**	**-1**	**-35**	**-1**
Technical result, life assurance business		**-23,602**	**25,138**	**-23,676**	**25,014**	**-26,216**	**22,557**
NON-TECHNICAL ACCOUNT							
Technical result, life assurance business		-23,602	25,138	-23,676	25,014	-26,216	22,557
Result, other operating units	(13)	**-25**	**-16**	**-25**	**-16**	**—**	**—**
Investment income, own pension liability	(39)	**-7**	**-12**	**—**	**—**	**—**	**—**
Result before appropriations and tax		**-23,634**	**25,110**	**-23,701**	**24,998**	**-26,216**	**22,557**
Appropriations		—	—	—	—	1,606	-409
Pre-tax result		**-23,634**	**25,110**	**-23,701**	**24,998**	**-24,610**	**22,148**
Policyholder tax and withholding tax	(14)	**-1,273**	**-1,522**	**-1,273**	**-1,522**	**-1,273**	**-1,522**
Taxes	(14)	**-525**	**-906**	**-609**	**-915**	**-641**	**-421**
Profit for the year		**-25,432**	**22,682**	**-25,583**	**22,561**	**-26,524**	**20,205**
Attributable to:							
- the policyholders		-25,448	22,618	-25,599	22,514	-26,524	20,205
- minority interests		16	64	16	47	—	—

Comprehensive income, Skandia Liv

SEK million	Note	Group 2011	Group 2010	Skandia Liv Sweden 2011	Skandia Liv Sweden 2010	Parent company 2011	Parent company 2010
Profit for the year, according to income statement above		**-25,432**	**22,682**	**-25,583**	**22,561**	**-26,524**	**20,205**
OTHER COMPREHENSIVE INCOME							
Currency translation effect on holdings in foreign subsidiaries		0	-163	0	-2	—	—
Utilisation of funding reserve		-6 687	-6,769	-6 687	-6,769	-6 687	-6,769
Comprehensive income for the year		**-32,119**	**15,750**	**-32,270**	**15,790**	**-33,211**	**13,436**
Comprehensive income for the year attributable to							
- the policyholders		-32,135	15,688	-32,286	15,743	-33,211	13,436
- minority interests		16	62	16	47	—	—

Explanations to the income statement

Premiums written, net of reinsurance, consist of the sum of premiums paid in to the company in 2011 less premiums for ceded reinsurance. The item also includes prepaid premiums with due dates in 2012 for insurance contracts in force.

Investment income includes share dividends, rental income from real estate management, interest on bonds and other fixed-income securities, net capital gains and net foreign exchange gains.

The company's investments are measured at fair value. The difference between fair value and cost is called surplus value. **Unrealised gains and losses on investments** show the year's change in surplus value, excluding currency effects.

Claims incurred include payments to policyholders, operating expenses that arise in connection with payment and handling of claims, and the change in the provision for claims outstanding. This change stems from estimates of future payments for claims that have already been incurred.

The item **change in other technical provisions** consists of the change in the life assurance provision and changes in conditional bonuses. The change in the life assurance provision shows how much the value of the policyholders' future, guaranteed benefits has increased or decreased during the year. Conditional bonuses change in an amount equivalent to the net value of assigned surpluses that have not yet been used for premium payments and utilised surpluses.

Bonuses, i.e., accumulated surpluses, are normally paid out at the end of the insurance period as a supplement to the contracted insurance benefits. Payment of bonuses reduces the retained profits included in the funding reserve and thus does not affect profit for the year. In some cases, bonuses are paid to the policyholder by being used toward premium payments, in which case they have a profit impact. This item is specified in note 7.

Operating expenses include costs for a life assurance company's sales, business development and administration. The item also includes reinsurers' commissions and profit participations as well as changes in deferred acquisition costs.

Investment charges include asset management charges, costs for real estate management, interest expenses, net foreign exchange losses and net capital losses.

The **policyholder tax** paid by life assurance companies is a certain percentage of the tax base, which is a standardised return that is calculated by multiplying the market value of assets at the beginning of the year – less financial liabilities – by the average government lending rate the year before the financial year. For pension insurance in 2011 a tax rate of 15% was applied on the standardised return, while for endowment insurance a tax rate of 30% was used for nine-tenths of the taxable base, which in practice entails a tax rate of 27%.

The policyholder tax is not charged on group life assurance or disability and accident insurance, since these operations are subject to income tax.

The **profit for the year** is transferred to/deducted from the funding reserve.

Balance sheet

	Note	Group		Skandia Liv Sweden		Parent company	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
ASSETS							
Intangible assets	(15)	**267**	**256**	**213**	**193**	–	–
Investments							
Land and buildings[1)]	(16)	30,480	30,347	30,480	30,347	–	–
Investments in group companies	(17)	27	–	1,436	1,788	26,073	27 440
Other financial investments							
Shares and participations	(18)	95,260	120,545	91,508	114,400	91,508	114,400
Bonds and other fixed-income securities	(19)	176,665	145,313	166,885	137,224	166,885	137,224
Alternative investments	(20)	8,231	9,680	7,718	9,197	7,718	9,197
Loans guaranteed by mortgages		8	13	8	13	8	13
Derivatives	(21)	2,798	2,700	2,572	2,589	2,572	2,589
Repurchase transactions		8,249	2,515	8,249	2,515	8,249	2,515
		321,718	**311,113**	**308,856**	**298,073**	**303,013**	**293,378**
Reinsurers' share of technical provisions							
Life assurance provision		137	95	–	–	–	–
Provision for claims outstanding		11	14	–	–	–	–
		148	**109**	–	–	–	–
Debtors							
Debtors arising out of direct insurance operations		3	4	–	0	–	0
Debtors arising out of reinsurance operations		2	14	1	2	1	2
Other debtors	(23)	6,054	1,984	5,982	1,939	5,670	1,623
		6,059	**2,002**	**5,983**	**1,941**	**5,671**	**1,625**
Current tax asset	(29)	**628**	**258**	**628**	**258**	**622**	**258**
Deferred tax asset	(29)	**449**	**733**	**230**	**569**	–	–
Other assets							
Tangible assets		15	13	12	9	3	3
Cash at bank and in hand		8,595	9,117	7,598	8,256	7,483	8,165
		8,610	**9,130**	**7,610**	**8,265**	**7,486**	**8,168**
Prepayments and accrued income							
Accrued interest and rent		3,375	2,309	3,363	2,311	3,363	2,310
Deferred acquisition costs	(8)	813	893	813	893	813	893
Other prepayments and accrued income		121	129	107	115	172	3
		4,309	**3,331**	**4,283**	**3,319**	**4,348**	**3,206**
Total assets		**342,188**	**326,932**	**327,803**	**312,618**	**321,140**	**306,635**

Explanations to the balance sheet

Assets The assets side of the balance sheet of a life assurance company contains mainly investments. Skandia Liv's asset management is described on pages 8-9.

Equity, provisions and liabilities The largest items on the liabilities side are the technical provisions and funding reserve in equity.

The **funding reserve** is the company's aggregate surplus over the years. The surplus may only be paid out to policyholders in the form of bonuses, or it may be used to cover losses.

Technical provisions are broken down into the life assurance provision and the provision for claims outstanding.

The **life assurance provision** consists of the discounted value of future benefits that are guaranteed to the policyholders, after deducting the discounted value of future, contracted premium payments. The discounted value is calculated with due consideration for the anticipated outcome of insurance contracts, such as mortality and anticipated life expectancy, and the so-called base rate.

The **Provision for claims outstanding** is an estimate of future payments for claims that have already incurred. It also includes provisions to cover operating expenses in connection with future payment of claims that have already been incurred.

Conditional bonuses show the surplus reserves that stem from certain occupational pension contracts for defined benefit pension plans. These surpluses can only be used to pay premiums for policies belonging to the above-mentioned contracts.

	Note	Group		Skandia Liv Sweden		Parent company	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
EQUITY, PROVISIONS AND LIABILITIES							
Equity							
Share capital (3,000 shares with a share quota value of SEK 200)		1	1	1	1	1	1
Funding reserve		117,886	101,955	118,475	102,651	114,736	101,218
Profit for the year		-25,448	22,618	-25,599	22,514	-26,524	20,205
Minority interests		151	118	151	111	—	—
Profit for the year		16	64	16	47	—	—
		92,606	**124,756**	**93,044**	**125,324**	**88,213**	**121,424**
Tax allocation reserve	(25)	**—**	**—**	**—**	**—**	**40**	**1,645**
Technical provisions							
Life assurance provision	(26)	208,959	176,646	194,807	162,489	194,807	162,489
Provision for claims outstanding	(27)	6,256	6,755	6,220	6,720	6,220	6,720
		215,215	**183,401**	**201,027**	**169,209**	**201,027**	**169,209**
Technical provisions for life assurance policies where the investment risk is borne by the policyholders							
Conditional bonuses	(28)	**254**	**224**	**254**	**224**	**254**	**224**
Other provisions							
Provisions for pensions	(39)	266	259	—	—	—	—
Provision for current tax	(29)	9	52	1	2	0	—
Provision for deferred tax	(29)	3,474	3,613	3,451	3,579	103	268
Other provisions	(30)	180	202	163	202	19	23
		3,929	**4,126**	**3,615**	**3,783**	**122**	**291**
Deposits from reinsurers							
Creditors							
Creditors arising out of direct insurance operations	(31)	953	902	921	859	921	859
Creditors arising out of reinsurance operations		22	16	9	9	9	9
Derivatives	(32)	1,816	859	1,650	782	1,650	782
Repurchase transactions		20,886	8,357	20,886	8,357	20,886	8,357
Other creditors	(33)	5,515	3,461	5,412	3,247	7,660	3,630
		29,192	**13,595**	**28,878**	**13,254**	**31,126**	**13,637**
Accruals and deferred income		**992**	**830**	**985**	**824**	**358**	**205**
Total equity, provisions and liabilities		**342,188**	**326,932**	**327,803**	**312,618**	**321,140**	**306,635**
MEMORANDUM ITEMS							
Pledges and comparable collateral for own liabilities and for reported commitments for provisions	(34)	18 217	11,269	18 215	11,266	18 215	11,211
Assets for which policyholders have beneficiary rights	(34)	259,615	237,452	259 600	222,588	259 600	222,588
Contingent liabilities	(35)	26	201	26	—	—	—
Obligations	(35)	21 341	17 985	21 341	17,985	21 341	17,985

Equity

SEK million	Share capital	Funding reserve	Profit for the year	Equity attribut-able to the policy-holders	Non-controlling interests	Total equity
	Group					
2011						
Opening balance	**1**	**101,955**	**22,618**	**124,574**	**182**	**124,756**
Distribution of profit 2010	—	22,618	-22,618	0	—	**0**
Sale of Skandia Asset Management A/S	—	—	—	—	-24	**-24**
Group contribution to Skandia Insurance Company Ltd[1]	—	-1,179	—	-1,179	—	**-1,179**
Shareholder contribution from Skandia Insurance Company Ltd[1]	—	1,179	—	1,179	—	**1,179**
Payment to minority owners	—	—	—	—	-7	**-7**
Comprehensive income for the year	—	-6,687	-25,448	-32,135	16	**-32,119**
Closing balance	**1**	**117,886**	**-25,448**	**92,439**	**167**	**92,606**
2010						
Opening balance according to 2010 Annual Report	**1**	**47,597**	**61,288**	**108,886**	**129**	**109,015**
Distribution of profit 2009	—	61,288	61,288	0	—	0
Payment to minority owners	—	—	—	—	-9	-9
Profit for the year	—	—	22,618	22,618	64	22,682
Currency translation effect of holdings in foreign subsidiaries	—	-161	—	-161	-2	-163
Utilisation of funding reserve	—	-6,769	—	-6,769	—	-6,769
Comprehensive income for the year	—	-6,930	22,618	15,688	62	15,750
Closing balance	**1**	**101,955**	**22,618**	**124,574**	**182**	**124,756**

SEK million	Share capital	Funding reserve	Profit for the year	Parent company total
	Parent company			
2011				
Opening balance	**1**	**99,930**	**20,205**	**120,136**
Adjustment due to new accounting policy[2]	—	1,288	—	1,288
Distribution of profit 2010	—	20,205	-20,205	0
Group contribution to Skandia Insurance Company Ltd[1]	—	-1,179	—	-1,179
Shareholder contribution from Skandia Insurance Company Ltd[1]	—	1,179	—	1,179
Comprehensive income for the year	—	-6,687	-26,524	-33,211
Closing balance	**1**	**114,736**	**-26,524**	**88,213**
2010				
Opening balance according to 2010 Annual Report	**1**	**46,764**	**59,935**	**106,700**
Distribution of profit 2009	—	59,935	-59,935	0
Result for the year	—	—	20,205	20,205
Utilisation of funding reserve	—	-6,769	—	-6,769
Comprehensive income for the year	—	-6,769	20,205	13,436
Closing balance	**1**	**99,930**	**20,205**	**120,136**

[1] Skandia Liv has paid a group contribution of SEK 1,600 million to Skandia Insurance Company Ltd, reported net above after deducting the tax effect of SEK 421 million. In connection with this group contribution, Skandia Liv received a group contribution of SEK 1,179 million from Skandia Insurance Company Ltd. Skandia Liv's funding reserve and financial position after tax have thus not changed as a result of the group contribution.

[2] New accounting policies entail that group contributions to subsidiaries are not to be reported as a transaction in equity, but as a change in the value of shares and participations in receiving companies. The adjustment pertains to a group contribution of SEK 1,790 million in 2006, which net after the tax effect amounted to SEK 1,288 million. The group contributions were made to two companies in Skandia Liv's real estate group.

Cash flow statement

SEK million	Note	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Operating activities					
Profit before tax		-23,634	25,110	-24,610	22,148
Adjustment for non-cash items, etc.	1)	32,217	-16,893	33,353	-14,896
Paid tax		-1,636	-2,232	-1,636	-2,210
Cash flow from operating activities before changes in assets and liabilities		**6,947**	**5,985**	**7,107**	**5,042**
Paid out from funding reserve		-6,687	-6,769	-6,687	-6,769
Change in investments, net	2)	2,241	5,104	1,529	4,725
Change in provisions for other risks and charges		-1	0	-1	-1
Change in other operating receivables		-5,266	-859	-5,259	-902
Change in other operating liabilities		2,083	1,873	2,423	2,772
Cash flow from operating activities		**-683**	**5,334**	**-888**	**4,867**
Investing activities					
Investments in intangible and tangible assets		-12	-25	0	-2
Cash flow from investing activities		**-12**	**-25**	**0**	**-2**
Repayment of loans		-23	-2	—	—
Dividend		-7	-9	—	—
Cash flow from financing activities		**-30**	**-11**	**0**	**0**
CASH FLOW FOR THE YEAR		**-725**	**5,298**	**-888**	**4,865**
Change in cash and cash equivalents					
Cash and cash equivalents at start of year		**9,117**	**4,291**	**8,165**	**3,711**
Cash flow for the year		**-725**	**5,298**	**-888**	**4,865**
Exchange rate differences in cash and cash equivalents		**203**	**-472**	**206**	**-411**
Cash and cash equivalents at year-end		**8,595**	**9,117**	**7,483**	**8,165**

Cash and cash equivalents consist of liquid bank holdings.

Notes to the cash flow statement

SEK million	Group 2011	Group 2010	Parent company 2011	Parent company 2010
1) Depreciation	4	22	1	1
Impairment charges	—	—	351	157
Change in value of investments	9,534	-10,552	11,762	-7,569
Exchange rate differences	-1,410	5,960	-1,435	5,911
Capital gains/losses	-7,969	-13,035	-7,648	-12,502
Provisions	31,891	620	31,896	-1,419
Untaxed reserve	—	—	-1,606	409
Other	167	92	32	116
	32,217	**-16,893**	**33,353**	**-14,896**
2) Change in investments, net				
Land and buildings	2,084	-658	—	—
Investments in group companies	—	—	2,018	-661
Investments in shares and participations	11,657	13,295	9,851	14,307
Investments in bonds and other fixed-income securities	-19,512	-7,688	-18,396	-8,335
Investments in loans guaranteed by mortgages	4	10	4	10
Investments in derivatives	1,046	2,310	1,250	2,311
Other financial investments	6,962	-2,165	6,802	-2,907
Change in investments, net	**2,241**	**5,104**	**1,529**	**4,725**
Disclosure of interest paid and received				
Interest paid during the year	424	110	420	104
Interest received during the year	5,669	5,212	5,548	6,073

Notes

All amounts are stated in **SEK million**, unless specified otherwise.

1. Significant accounting policies and valuation principles

This annual report for Livförsäkringsaktiebolaget Skandia, registered number 502019-6365, pertains to the period 1 January–31 December 2011. Skandia Liv's registered office is in Stockholm. The address of the head offices is Lindhagensgatan 86, Stockholm. The Annual Report was approved by the Board of Directors for publication on 17 February 2012. The income statement and balance sheet will be taken up for adoption by the Annual General Meeting, which is planned to be held on 30 June 2012 or earlier.

Basis of preparation

The 2011 Annual Report has been prepared in accordance with the Annual Accounts Act for Insurance Companies and the Swedish Financial Supervisory Authority's rules and regulations, FFFS 2008:26, 2009:12 and 2011:28. Skandia Liv also applies Swedish Financial Reporting Board recommendations RFR 1, "Complementary Accounting Norms for Groups", and RFR 2 "Reporting for Legal Entities".

Since 2010 Skandia Liv applies IFRS in full in the consolidated accounting. This entails application of all International Financial Reporting Standards (IFRS) endorsed by the EU, along with accompanying pronouncements from the IFRS Interpretations Committee (IFRIC).

The parent company applies the so-called legally limited IFRS. This entails application of all International Financial Reporting Standards, subject to the additions and limitations posed by Swedish law. The differences that this entails for the parent company are described in the pertinent sections below.

The parent company's functional currency is Swedish kronor (SEK), and the financial statements for both the parent company and the group are presented in Swedish kronor, rounded off to the nearest million. The accounting policies described below have been used for all periods presented in the financial statements.

Changes in accounting policies for the parent company

The amendments to RFR 2 Reporting for Legal Entities that have taken effect and apply for the 2011 financial year entail that group contributions from the parent company to subsidiaries are no longer reported against equity. Instead, they are reported as an increase in the carrying amount of the participations in the receiving subsidiary.

A group contribution that the parent company receives from a subsidiary is reported in accordance with the same principles as ordinary dividends from subsidiaries and is booked as financial income in the item Investment income. The amendment of RFR 2 with respect to group contributions has entailed an adjustment of the parent company's equity and investments in subsidiary shares. Other amendments to RFR 2 have not had any material effect on the parent company's financial statements.

Changes in accounting policies in the group

New and amended reporting standards from IASB for the 2011 financial year

• IAS 24 Related Party Disclosures

A revision has been made of the definition of related party to simplify and clarify the interpretation of who falls under the category of related party. This has not entailed any difference in the parties that Skandia Liv identifies as related parties.

• IAS 32 Financial Instruments: Presentation

The amendment pertains to the classification of subscription rights in foreign currency – either as an equity instrument or as a financial liability. The change has no effect on Skandia Liv.

New and amended reporting standards from IASB for the 2012 financial year and later

• IFRS 9 Financial Instruments

Planned amendments to IAS 39 will take place in three steps, of which the first step has resulted in a new standard from IASB – IFRS 9 Financial Instruments, which takes effect on 1 January 2015. The EU Commission has not yet approved the standard. The other two steps are currently under development.

• Step 1 Classification and valuation

The standard is intended to supersede part of IAS 39. The aim is to simplify the reporting. Only two valuation categories will remain: financial assets and liabilities at fair value and financial assets and liabilities at amortised cost. For assets and liabilities carried at fair value, there will still be the possibility to distribute changes in value "through profit or loss" and in "comprehensive income". The changes also pertain mainly to the company's own credit risk in valuations of financial liabilities. Step 1 is not expected to have any material effect on Skandia Liv.

• Step 2 Amortised cost and impairment

A new proposal will be published during the second quarter of 2012. The proposed model for impairment testing of financial assets is not expected to have any significant consequences for Skandia Liv. The model that is applied according to IAS 39 is based on taking incurred losses into account in provisions. The new, proposed model is based on anticipated losses during the term of each loan. The aim of the model is to build up reserves during the entire term of a loan, which will lead to larger reserves for loan losses in order to increase resilience during times of financial uncertainty.

• Step 3 Hedge accounting

The completed standard is planned to be published during the second quarter of 2012. A proposal for amendments that address so-called macro-hedges will be published during the first quarter of 2013. Since Skandia Liv does not use hedge accounting, it is judged to not have any consequences for Skandia Liv.

In May 2011 the IASB published a package of five standards pertaining to consolidated reporting, joint arrangements, associates and disclosures. These included three new standards – IFRS 10, IFRS 11, IFRS 12 – and amendments to the existing standards IAS 27 and IAS 28.

• IFRS 10 Consolidated and Separate Financial Statements

The standard supersedes parts of IAS 27 and focuses on when and how an investor is to prepare consolidated financial statements. The aim of IFRS 10 is that there should only be one basic precondition for consolidation of all companies, regardless of the nature of the investee. This basic precondition is control. The definition of control encompasses the following three elements:

a) power over the investee,

b) exposure, or rights, to variable returns from the investor's involvement with the investee, and

c) the ability of the investor to use its power over the investee to affect the amount of the investor's returns. IFRS 10 provides detailed guidance on how a company is to apply the principle of control in a number of different situations, including agency relationships and holdings of potential voting rights.

• IFRS 11 Joint Arrangements

This standard supersedes IAS 31 Interests in Joint Ventures. It classifies joint arrangements either as joint operations or as joint ventures. What is decisive for the classification as a joint operation or a joint venture is the parties' contractual rights and obligations arising from the arrangement. According to IFRS 11, the equity method shall be used for participations in joint ventures. It is thus no longer permissible to use the proportionate method for joint ventures.

• IFRS 12 Disclosure of Interests in Other Entities

This standard is to be applied by companies with interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 sets objectives for disclosures and specifies the minimum disclosures that a company must make to achieve these objectives. A company shall provide information that helps the users of its financial statements evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements.

Company management is of the opinion that application of these five standards will not have a material effect on the reported amounts in the financial statements.

• IFRS 13 Fair Value Measurement

This standard establishes a set of rules for measuring fair value, where such is required by other standards. The standard is applicable for fair valuation of both financial and non-financial items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price"). IFRS 13 requires several quantitative and qualitative disclosures of fair value measurements. Company management is of the opinion that application of IFRS 13 could impact the reported amounts in the financial statements and entails more extensive disclosures than previously. A detailed analysis of the effects of application of IFRS 13 has not yet been performed, and the effects therefore cannot be quantified.

• IAS 1 Presentation of Financial Statements

The amendments to IAS 1 require further disclosures in other comprehensive income so that items in other comprehensive income are grouped in two categories: a) items that will not be reapplied to profit or loss, and b) items that will be reapplied to profit or loss if certain criteria are met. The amendments to IAS 1 are judged to affect only the presentation and disclosures in the financial statements.

• IAS 19 Employee Benefits

The amendments to IAS 19 entail a change in the reporting of defined benefit pension plans and termination benefits. The most significant change pertains to the reporting of defined benefit obligations and plan assets. The changes require that actuarial gains and losses are reported immediately in other comprehensive income, which entails discontinuation of the corridor method. Company management is of the opinion that application of the amendments to IAS 19 could affect the reported amounts in the financial statements and entails more detailed disclosures than previously. Company management has not yet performed a detailed analysis of the effects of application of the amendments to IAS 19 and therefore cannot yet quantify the effects. When the group begins to apply the amendments to IAS 19, it will stop applying UFR 4 "Reporting of special employer's payroll tax and policyholder tax", which has been withdrawn by the Swedish Financial Reporting Board. Instead, the group will report the special employer's payroll tax and policyholder tax in accordance with the rules in IAS 19, which entail that the actuarial assumptions that are to be made when calculating defined benefit pension plans shall also include taxes charged on pension benefits. These changes may also affect the reported amounts in the financial statements. Company management has therefore not performed a detailed analysis of the effects of application of the amendment and therefore cannot yet quantify the effects.

Other new and amended IFRSs and interpretations are not judged to have any effect on Skandia Liv.

Basis of consolidation

The consolidated financial statements include the parent company and subsidiaries in which the parent company has a controlling influence ("control"). Control entails the right to design the financial and operating strategies in order to obtain economic benefit. In determining this, consideration is given to whether the parent company directly or indirectly owns more than half of the votes for all shares/participations. The consolidated financial statements have been prepared in accordance with the purchase method. Subsidiaries' identifiable assets and liabilities are stated at their fair value as per the date of acquisition. If the cost upon acquisition is greater than the fair value of the net assets, the difference is reported as goodwill. If the cost is lower, the difference is booked against profit. Profit/loss from operations that were acquired or sold during the year is taken up in the consolidated accounting from the date of acquisition until the day on which control ceased. Associated companies are consolidated in accordance with the equity method. Associated companies are companies in which Skandia Liv has a significant but not controlling influence, ordinarily through holdings of between 20% and 49% of the votes. The asset management activities include investments in which Skandia Liv has more than 20% of the votes, but not control. These holdings are reported as other shareholdings under the heading "Shares and participations". For accounting purposes, joint ventures are companies in which the group, through co-operation agreements with one or more parties, has joint control over the operational and business management. Skandia Liv and Skandia Insurance Company Ltd each own 50% of Skandia A/S, which is an administrative company for the entire Danish operation in which all of the employees are employed. Skandia A/S is reported in the Skandia Liv group as a joint venture, i.e., Skandia Liv's share of the company's assets, liabilities, revenues and expenses is included item for item. Skandia Asset Management A/S sells asset management services to the various Skandia companies in Denmark. This company is also 50%-owned each by Skandia Insurance Company Ltd and Skandia Liv. The company is consolidated in accordance with the equity method, which entails that Skandia Liv's profit includes its share in Skandia's profit. All intra-group transactions, balance sheet items, revenues and expenses are eliminated upon consolidation.

Foreign currencies

Transactions in foreign currency are recalculated, when included in the accounts, to SEK at the exchange rate in effect on the transaction date. As an approximation of the exchange rate in effect on the date of transaction, the average exchange rate for the period is used. Monetary assets and liabilities in foreign currency are translated to SEK at the rates of exchange in effect on the balance sheet date. Exchange rate differences that thereby arise are recognised through profit or loss as net foreign exchange gains/losses. Translation of the balance sheets of the group's foreign subsidiaries, including goodwill and other consolidated surplus and deficit values, is done from their functional currencies to Swedish kronor at the rates of exchange in effect on the balance sheet date. Income statements are translated at the average exchange rate for the period. Translation differences that arise as a result of translation of equity at a different exchange rate at the end of the year than at the start, and of translation of profit for the year in the balance sheet at a different rate than the average rate, are recorded directly in the item "Comprehensive income". Shares in group companies are valued at the exchange rate in effect at the time of investment.

Critical estimations and assessments for accounting purposes

In preparing the accounts, management must rely on certain estimations and assessments in certain cases. These are based on previous experience and assumptions that are considered to be fair and reasonable. These estimations and assessments affect reported values in both the balance sheet and income statement as well as off balance sheet obligations. The most important assumptions regarding the future and sources of uncertainty that can affect the reported amounts of assets and liabilities are related to:

- investment properties
- unlisted securities
- holdings in funds
- investment contracts and insurance contracts
- technical provisions
- pensions
- disputes
- intangible assets

Investment properties

Numerous assumptions and estimations are used to calculate the cash flows used to assess the value of real estate. These include such parameters as the trend in rents and overheads, inflation, the required rate of direct return and allocated interest. A change in any of these parameters due to changes in vacancy rates, market conditions or similar affects the calculated cash flows and thus the value of the properties. See note 16, Investment properties.

Unlisted securities

In valuations of financial instruments that lack a listed price in a well functioning market, generally accepted valuation models must be used. These are based on assumptions – such as regarding comparability – as well as on estimations and market parameters. Since there is no single assumption that affects the valuation of all unlisted holdings, a change in an assumption would have a very limited effect on profit and the balance sheet.

Fund holdings

In determining if a large fund holding is to be classified as an associated company or subsidiary, and thereby be consolidated in the group, the opportunity to exercise control is judged. In Skandia Liv's view, we do not have control. Thus, such holdings are reported as a fund holding and not as an associated company. The difference in the consolidated balance sheet and profit if we had made another determination of control and thus consolidated these holdings would be very small.

Investment contracts vs. insurance contracts

To determine what is to be regarded as an investment contract vs. an insurance contract, the company must take a position with respect to what constitutes a material risk. See below under the heading Insurance contracts and investment contracts.

Technical provisions

Valuations of technical provisions include numerous estimations and assumptions. Assumptions are made with respect to mortality, morbidity and fees, among other things. The mortality assumptions that are used are based on an industry-wide survey, but are adapted to Skandia Liv based on the company's experience. Fee assumptions entail an estimation of future costs and future growth in assets and maturities. These assumptions are based on the company's experience. For a sensitivity analysis, see also note 2, Risks. The assumptions, in turn, also affect the determination of any need to recognise impairment of deferred acquisition costs on the balance sheet.

Pensions

In calculating Skandia Liv's pension liability at the group level in accordance with IAS 19, assumptions are made primarily with respect to salary development, inflation and the discount rate, but also to service period and mortality. The absolute most important factor is the discount rate, which is based on mortgage bond rates with durations corresponding to the pension liability. Other assumptions are based on the anticipated long-term development.

Disputes

Skandia Liv is party to a number of disputes within the course of its normal business activities. Most pertain to small amounts and are judged to not have a material impact on the company's financial position. In cases where they involve a major amount, an estimation is made of the likely economic outcome and the need for any provisions.

Intangible assets

The amortisation schedule that is used for deferred acquisition costs for internally developed or purchased systems is based on assumptions of estimated useful life. When determining if there is any need to recognise impairment, the asset's recoverable amount is estimated. This is done with the help of various assumptions and estimations regarding, for example, changes in the market and operating expenses.

Investments

Investments consist of land and buildings, investments in group companies, and financial instruments. These are stated, with the exception of investments in group companies and small portfolios of loans, at their quoted or estimated fair value. Purchases and sales of securities, derivatives and currencies are recognised or derecognised, respectively, on the balance sheet as per the transaction date, i.e., on the day the transaction was carried out. The counterparty's receivable or liability is reported gross between the transaction date and the settlement date under the items "Other debtors" or "Other creditors". If clearing is done through a clearing organisation, the item is reported net. Purchases and sales of land and buildings are reported on the balance sheet on the day possession is taken/relinquished. A financial asset is derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset cease or if the company transfers in all essential respects all of the risks and benefits associated with ownership of the asset. Financial liabilities are derecognised from the balance sheet when they cease, i.e., when the obligation ceases, is extinguished or expires. Financial assets and liabilities are reported net on the balance sheet when there is a legal right to regulate transactions and there is an intention to make a net payment or sell the asset and make payment for the liability at the same time.

Land and buildings
All of Skandia Liv's real estate is accounted for in accordance with IAS 40 Investment Properties. All real estate is classified as investment property, since it is held to generate rents or growth in value, or a combination of both. Real estate is carried at fair value through profit or loss. Fair value is determined by external appraisals. The appraisal firms use a cash flow–based model complemented by a local price analysis in order to compare with similar properties that have been sold during a relevant comparison period. Appraisals are normally performed yearly and cover all properties. In connection with the quarterly book-closings, a model portfolio corresponding to approximately 15% of the real estate holdings is appraised, and the change in value per property segment is applied to the entire portfolio. See also note 16. Additional costs are added to the carrying amount only if it is likely that the future economic benefit that is associated with the asset will accrue to the company and if the cost can be calculated in a reliable manner. All other additional costs are reported as costs in the period in which they are incurred.

Investments in group companies
Shares in group companies are carried at cost. If the fair value on the balance sheet date is judged to be below the cost, then impairment is recognised for the shares in the income statement. If the value is judged to rise again, the impairment loss is reversed in the income statement.

Financial instruments – classification
In accordance with IAS 39 Financial Instruments: Recognition and Measurement, Skandia Liv has classified its financial instruments in four categories:
- Financial assets at fair value through profit or loss. This category includes all financial instruments on the asset side, except for a small portfolio of loans.
- Financial liabilities at fair value through profit or loss. This includes derivatives with negative values and repurchase transactions.

For most of the assets, Skandia Liv has initially chosen this classification, since the asset management is evaluated on the basis of fair value. By definition, derivatives are classified in the sub-category "held for trading", since Skandia Liv has not identified any derivatives as hedge instruments.
- Loan receivables and trade accounts receivable. This category includes, among other things, loans, cash and securities settlement claims, which are stated at amortised cost.
- Financial liabilities stated at amortised cost. These include other financial liabilities, such as securities settlement liabilities and trade accounts payable.

Financial instruments – valuation
In valuations, every holding is classified according to one of three valuation levels:
- Level 1 – valuation at listed prices in an active market.
- Level 2 – estimated value based on observable market quotations.
- Level 3 – estimated value based on assumptions and estimations as well as on observable market data, where such is available.

By listed prices in an active market, Skandia Liv means that listed prices are easily accessible on a stock exchange or from a broker or similar, and these prices represent actual and regularly occurring transactions on commercial terms. If no active market exists, various valuation techniques are used that are based on observable market quotations as far as possible.

- Listed equities

Equities are stated at the time of acquisition at the purchase price less transaction cost, which is expensed directly. They are thereafter stated at fair value. Fair value is defined as the realisable value on the balance sheet date. For shares listed on an authorised stock exchange or an active marketplace, realisable value refers to the most recent bid price or, if such is lacking, the most recent quoted closing price as per the balance sheet date. If the market is inactive or a quoted price is lacking, various valuation techniques are used. These are based as far as possible on observable prices, however, other estimations and assumptions are also used.

- Unlisted equities

Holdings of unlisted equities are via private equity funds. Valuations are conducted by the respective asset managers. Valuations of the underlying portfolio companies are based on a systematic comparison of market-listed peer companies or at a value based on a current third-party transaction. In certain cases, valuations are based on discounted cash flows or methods that are based on non-observable data. Valuations are performed in accordance with industry practice.

- Bonds and other fixed-income securities

Fixed-income securities are stated at the time of acquisition as the purchase price less transaction cost, which is expensed directly. Bonds and fixed-income securities are stated at fair value based on the most recently quoted bid price or, where such a price is lacking, at the most recently quoted closing price. In cases where the security is not listed, it is stated at a price that is based on similar, listed securities and/or with the help of generally recognised valuation models, which entails that the cash flows are discounted using the relevant market interest rate.

- Alternative investments

Alternative investments consist of investments in funds with a focus on commodities and infrastructure, in loan portfolios, and in hedge funds.
- Holdings in commodity funds and hedge funds consist mostly of listed securities and derivatives, and adhere to generally recognised valuation principles for listed holdings.
- Infrastructure funds are valued in the same way as unlisted equities.

• Loan portfolios mainly include listed bank loans to large and medium-sized American and European companies. Valuation of underlying assets is mainly done on the basis of observable market prices.

• Derivatives
Derivatives are stated at fair value at the time of acquisition, which corresponds to the cost. Thereafter, all derivatives are stated at fair value. If the value of a derivative is positive, it is carried on the balance sheet as a receivable, and if the value is negative, it is carried as a liability. Derivatives that are traded on an exchange are valued at quoted prices. OTC derivatives are valued at prices in the contracted, listed index or using generally accepted valuation models, which entails that cash flows are discounted using the relevant market interest rate. Derivative transactions are conducted within the framework of current risk mandates and are used to reduce the financial risk and/or to improve the efficiency of asset management.

• Repurchase transactions (repos) and securities lending
In a genuine repurchase transaction – a sale of a fixed-income security with an agreement to repurchase it at a predetermined price – the asset continues to be reported on the balance sheet, and the payment is reported as a liability on the balance sheet. The sold security is reported as a pledged asset. In the case of a reverse repurchase transaction – the purchase of a fixed-income security with an agreement to resell it at a predetermined price – the security is not carried on the balance sheet. Instead, the payment made is reported under the item Other financial instruments. The result for both transactions is reported as interest in the item Investment income/Investment charges. In the case of securities lending, fixed-income securities or shares are lent out against consideration. Securities out on loan continue to be reported as an asset. Security is pledged by the borrower in the form of other securities, and these are stated at fair value under pledged assets together with the fair value of the securities out on loan. Consideration for the transaction is reported as interest in the item Investment income.

Realised and unrealised changes in value of investments
Changes in value, both realised and unrealised, are recognised through profit or loss and are included in profit for the year in the items Investment income or Investment charges and Unrealised gains or losses on investments, respectively. By realised gain or loss is meant the difference in payments received from sales and the cost. Upon the sale of the asset in question, any previously booked, unrealised changes in value are re-entered in the income statement under unrealised gains or losses, respectively. Unrealised gains or losses consist of the difference between the cost and fair value. Unrealised foreign exchange gains/losses are not included in the unrealised result, but are reported net as foreign exchange gains/losses under the item Investment income or Investment charges, respectively.

Investment income
The item Investment income pertains to returns on investments and covers rental income from land and buildings, dividends from shares and participations (including dividends from shares in group and associated companies), interest income, foreign exchange gains (net), reversed impairment charges and capital gains per type of investment (net).

Investment charges
The item Investment charges includes costs for investments. The item includes operating expenses for land and buildings, interest expenses, foreign exchange losses (net), impairment charges, capital losses per type of investment (net) and asset management charges including costs for own personnel, premises, etc., that can be attributed to the asset management.

Unrealised gains on investments and Unrealised losses on investments
These items include unrealised changes in value of investments stated at fair value. The result is reported net for the various types of investments.

Insurance contracts and investment contracts
Skandia Liv issues insurance contracts and investment contracts. Insurance contracts are contracts under which Skandia Liv accepts significant insurance risk from the policyholder by agreeing to indemnify the policyholder or other beneficiary on the occurrence of a defined event that is covered by the insurance. Contracts that cannot be defined as insurance contracts, because they do not transfer significant insurance risk from the policyholder to the company, are classified as investment contracts. By insignificant risk is meant that the indemnification paid out on the occurrence of an insured future event does not exceed the indemnification paid out if the event does not occur, by more than 5%. A change in the risk by +/- 2 percentage points would not change the classification of any contracts.

All of Skandia Liv's investment contracts include a discretionary participation feature. This means that the policyholder can receive, as a supplement to guaranteed benefits, additional benefits in the form of bonuses. As a result, Skandia Liv reports investment contracts also in accordance with IFRS 4 Insurance Contracts. Embedded derivatives that make up a part of insurance contracts, and which in themselves constitute an insurance contract, are not unbundled from the main contract. Thus no separate valuation is made of the embedded derivative.

Preliminarily allocated, non-guaranteed surpluses, discretionary portion
Most of Skandia Liv's contracts include a discretionary participation feature. This means that a preliminarily calculated surplus is applied to every policy. This preliminarily allocated surplus is not guaranteed and thus can decrease. The surplus is used as risk capital to ensure that Skandia Liv can meet its guaranteed obligations. Accumulated surpluses are therefore not carried as a liability, but as a funding reserve, which is part of the company's equity.

Premiums
The cash principle is used for premium payments. The cash principle entails that paid-in premiums are recognised when they are received, regardless of which period they pertain to. Prepaid premiums are included where valid contracts exist. Premiums are reported as revenue in profit for the year, but at the same time are included as an increase in the calculation of technical provisions.

Claims incurred
Guaranteed benefits from investment contracts and insurance contracts are reported as an expense in the income statement at the same time that the technical provisions in the balance sheet decrease. Any additional compensation in the form of allocated surpluses is taken directly from the funding reserve and thus does not have any impact on profit for the year. Claims incurred also include changes in the Provision for claims outstanding.

Operating expenses

Costs for investment contracts and insurance contracts are recognised as expenses when they are incurred, with the exception of commissions related to new contracts and renewals of existing contracts. These are capitalised as deferred acquisition costs. The principles for deferring acquisition costs for insurance contracts are the same as for the principles for deferring acquisition costs for investment contracts. Claims settlement costs, i.e., costs for continued handling of contracts in disbursement, are reported under Claims paid.

Deferred acquisition costs

Acquisition costs that have a clear connection with the purchase of insurance contracts and investment contracts are capitalised as Deferred acquisition costs on the balance sheet. Acquisition costs that are capitalised consist mainly of Skandia Liv's variable costs that are related to new sales. Acquisition costs are amortised over a period of ten years. The amortisation schedule reflects the fees charged to the insurance policies to cover these costs. Consideration has been given to surrenders, among other things. If the fair value of the asset after amortisation is judged to be less than the book value, the asset is assessed with an impairment charge. Impairment is recognised through profit or loss.

Valuation of technical provisions

• Life assurance provision

Life assurance provisions correspond to the discounted value of benefits guaranteed to policyholders by insurance contracts in force, after deducting the discounted value of future, contracted premium payments. Life assurance provisions are calculated using generally accepted actuarial principles. This entails that the provisions are discounted to present value and that the calculations are based on assumptions on interest rates, mortality, taxes and operating expenses, among other things. Life assurance provisions and claims outstanding pertaining to occupational pensions are valued in accordance with the EU's Occupational Pensions Directive, which entails that prudent, realistic assumptions are to be used. For other life assurance, safeguard assumptions are used, i.e., assumptions that have a built-in safety margin. The assumption regarding the discount rate has the greatest impact in the valuation. The choice of discount rate is prescribed in Financial Supervisory Authority guideline FFFS 2011:22. This guideline stipulates that market interest rates (interest rate curves) shall be used, which means that the choice of interest rate depends on the policies' cash flow profile, i.e., when in time incoming and outgoing payments from the insurance are anticipated. A deduction for the policyholder tax and general overheads has been made from the interest rate assumption for both occupational pensions and other pensions business. Since 2009, the mortality assumptions used in the valuation are based on Skandia Liv's own assumptions. These are based on an analysis of Skandia Liv's own insurance portfolio.

• Liability adequacy test

At each reporting date, Skandia Liv performs a liability adequacy test of its technical provisions to ensure that the carrying amount of its provisions is sufficient in view of anticipated future cash flows. The carrying amount of a provision is the value of the provision less all related intangible assets or deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows as well as administration expenses and taxes are used. These cash flows are discounted and compared with the carrying amount of the provision. Any deficit is immediately recognised through profit or loss.

In the consolidated financial statements, the life assurance provisions for the Danish operations have been calculated in accordance with Danish rules. These rules prescribe more realistic assumptions than the Swedish rules.

• Provision for claims outstanding

Four separate provisions are made within the provision for claims outstanding: the provision for disability annuities, confirmed claims, incurred but not reported claims, and a claims handling reserve.

- The provision for disability annuities corresponds to the discounted value of the company's obligations to insureds upon the occurrence of an accident or illness.
- The provision for confirmed claims is a provision for claims that have been reported and approved, but not yet paid out.
- The provision for incurred but not reported claims is based on Skandia Liv's experience with the respective lines of insurance.
- The claims handling reserve consists of a valuation of future costs for handling ongoing disability annuities, regardless of whether they are known or unknown at the accounting date.

Claims incurred for confirmed claims where the payment has fallen due but the beneficiary cannot be located are expensed. This item is reported under "Other creditors" on the balance sheet.

Intangible assets

Intangible assets in the group are stated at cost less accumulated amortisation according to plan. They consist mainly of acquired or proprietary software that is judged to have economic value during the coming years. All internally developed intangible assets pertaining to proprietary software are reported only if all of the following conditions have been met:

- There is an identifiable asset.
- It is probable that the asset that has been developed will generate future, economic benefit.
- The cost of the asset can be calculated in a reliable manner.

The amortisation period is based on anticipated useful life. If there are indications that the value of the asset is lower than its book value, the asset's recoverable amount is determined. If this value is judged to be less than the book value, the asset is stated at the lower value. Impairment is recognised through profit or loss. If the recoverable value that is determined in a subsequent valuation has increased, the impairment charge is reversed through profit or loss. Any fees for acquisition or development that are reported as an asset in accordance with the above are reported as operating expenses in the parent company's income statement in the year in which they arose.

Other provisions

Other provisions are reported on the balance sheet when Skandia Liv has an obligation – legal or constructive – due to an event that has occurred and when it is likely that some form of financial compensation will be paid to settle the obligation and the amount can be reliably estimated. If the point in time for the financial compensation is known and exceeds one year, then the amount is discounted.

Leasing

Whether a lease is classified as a finance lease or not depends on the substance of the transaction rather than the contract form. A lease is classified as a finance lease if it substantially transfers all of the risks and rewards incidental to ownership of the asset. All other leasing is classified as an operating lease. Skandia Liv has a finance lease that is reported together with the company's investment properties. Skandia Liv's operating leases consist primarily of rents. The lease payment is reported broken down into rental revenue and amortisation of the leasing claim.

Pensions

Parent company:

The parent company has both defined contribution and defined benefit pension plans.

For these, the parent company pays premiums that are reported as an operating expense. Defined benefit pensions are in compliance with the Pension Obligations Vesting Act *(Tryggandelagen)*. Provisions for pension obligations for Skandia Liv's own employees are calculated in the same way and are reported together with the company's other obligations for issued life assurance contracts in the item Technical provisions.

Group:

For defined benefit plans for Skandia Liv's own employees, the cost of the pension obligation and pension cost is determined using the Projected Unit Credit Method, and actuarial computations are performed annually. The pension liability is reported on the balance sheet. Briefly, this method entails a more linear allocation of costs between the time for joining the plan and retirement age. See also note 39. Defined contribution pension plans are reported in the same way as in the parent company.

Untaxed reserves

In the various companies, these consist mainly of provisions to the tax allocation reserve, which is used to defer taxable profits to a later date and thereby be able to offset them against future deficits. On the consolidated balance sheet, subsidiaries' and the parent company's untaxed reserves are broken down into deferred tax and equity.

Tax

Policyholder tax

In Sweden, life assurance companies pay a so-called policyholder tax *(avkastningsskatt)*. This is not a tax on profits but is based on the estimated return on the net assets attributable to Skandia Liv's savings products. This cost is calculated every year and is reported as a tax expense.

Income tax

For a small portion of Skandia Liv's products – risk products, such as disability insurance – and for Skandia Liv's subsidiaries, income tax is payable on the profit. Income tax consists of current tax and deferred tax and is recognised through profit or loss. Current tax is calculated individually for each company in the group. The company income tax rate in Sweden is 26.3% of taxable profit for the year.

Deferred taxes

The provision for deferred taxes pertains to temporary differences between reported profit and taxable profit. These include, for example, unrealised gains/losses on investments, tax depreciation of real estate and other untaxed reserves, such as the tax allocation reserve. Deferred tax assets are reported only if it is likely that these will entail lower tax payments in the near future. Deferred tax liabilities and assets are not discounted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax effect is also recognised in equity. Tax on profit/loss items that is reported in Comprehensive income is also reported in the same item.

Result, subsidiaries

Subsidiaries that do not conduct insurance business and which are not held as part of asset management are reported under Result, other operating units.

Group contributions and shareholder contributions in legal entities

Shareholder contributions are recognised directly in equity of the receiver and are capitalised in shares and participations of the rendering party. Group contributions from Skandia Liv to its subsidiaries are capitalised in shares and participations in net amounts after tax. Group contributions received are reported in the parent company's profit in the item Investment income. In subsidiaries they are reported in Other comprehensive income or directly against equity, depending on the counterparty. Group contributions from Skandia Liv to Skandia are reported in equity in the net amount after tax.

Cash flow statement

The cash flow statement is prepared using the indirect method and is broken down into operating activities, investing activities and financing activities. Since cash flow in the insurance operations strongly affects cash flow from the investment operations, both are reported under operating activities. Investing activities and financing activities are virtually nonexistent.

2 Risks and risk management

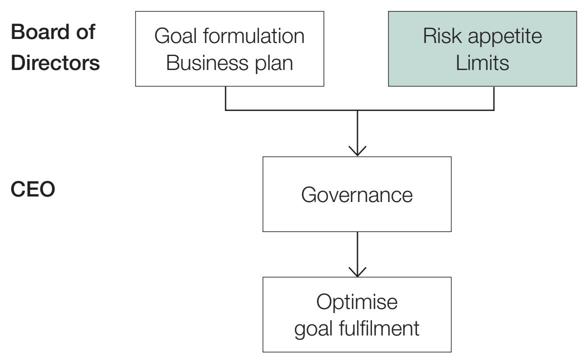
Skandia Liv's operations are based on active risk-taking. The company's operations give rise to a broad spectrum of risks that affect its result of operations and financial position. Through controlled and professional risk-taking, Skandia Liv creates value for the policyholders in the form of insurance protection and a favourable, sustained return on their savings. This risk-taking can give rise to losses from time to time for individual lines of insurance and investments in the investment portfolio. In addition, events can trigger unanticipated losses resulting from such occurrences as a fire or failure in a computer system. Although this is fully natural, by managing and controlling all risks in the business in an effective manner, losses and the effects of such occurrences can be kept to a minimum.

Skandia Liv conducts long-term work on creating favourable growth in the value of its policyholders' capital by taking risks that are anticipated to generate a high return over the long term and avoiding or limiting other risk-taking. This work on profitability risks is central to the company's strategy for value creation – the goal is to achieve the best possible growth in the value of the policyholders' capital with a reasonable measure of risk. From the customers' perspective, the company's work on profitability risks is conducted primarily to ensure that the growth in the value of their capital is as good as possible. The time perspective is long, and the goal is to generate a favourable return with a reasonable measure of risk over the entire insurance period.

The risk that Skandia Liv will not be able to fulfil its guaranteed obligations to the policyholders – solvency risk – is also of central importance for the company and is the risk that the supervisory authority primarily monitors. The work with solvency risk is conducted to ensure that the fundamental security provided by the guarantees in Skandia Liv's products is not jeopardised. Since the guaranteed obligations must always be met, the time perspective is both short and long.

Principles for risk capital and risk governance

Skandia Liv's board has ultimate responsibility for the company's risk level and assessment of the need for risk capital. The Board sets guidelines for the CEO regarding risk governance, risk management, risk control, reporting and so on by issuing policies and guidelines. The Board establishes the company's attitude to risk by determining the company's risk appetite, i.e., the upper limits for which risks and how much risk the company may expose itself to. For example, the Board expresses the company's appetite for investment risk via the Solvency Risk Policy. In this context it is important to note that active risk-taking is necessary to be able to provide the policyholders a favourable return. In other words, the art is in taking well-considered risks that are expected to generate a favourable return and avoiding risks that can be expected to generate low returns or jeopardise the company's operations. Once the Board has established the risk appetite, the operations break down the limits and optimise value creation within the framework of the risk appetite. In this way, the risk appetite serves as the Board's tool for governing the company's risk and return profile.



Risk governance and control organisation

Based on the Board's overarching governance documents, the CEO issues more detailed guidelines and instructions for the operative management and control of Skandia Liv's risks. Overall risk management and control are conducted under the CEO's direction by the management team. The Risk Governance and Risk Control unit has been delegated overall responsibility by the CEO for governing and following up all risks. The unit draws up principles, methods and tools for governing and monitoring, and drafts recommendations for policies and guidelines on behalf of the Board and CEO. The head of the Risk Governance and Risk Control unit, the Chief Risk Officer (CRO), normally conducts background work on overarching risk governance and control matters, and plans for further development in the area of risk management. The head of the business unit and the head of asset management are responsible for the day-to-day management of business risks within the framework of the policies and rules that have been set by the Board and CEO. The Compliance Officer is responsible for overseeing regulatory compliance. The company's risk management is adapted to the nature of the underlying risks and is broken down into operational risks, insurance risks and financial risks.

Operational risks arise in all of Skandia Liv's business activities, and responsibility for continuously managing these risks is an integrated part of the management responsibility for the respective units. Every unit has a risk controller who co-ordinates the risk work and reports on the risks. The Risk Governance and Risk Control unit has overall responsibility for the methods and tools used in the operations to identify, assess and manage operational risks. The unit is also responsible for co-ordinating the follow-up and reporting of risks and incidents to the company's management and board.

The financial risks on the asset side – investment risks – are managed at the overall level by the Board's committee for investment risks – the Investment Committee – and the head of Skandia Liv's asset management unit. The Investment Committee makes decisions on the overall asset allocation within the parameters set by the Board and continuously evaluates the result and risk position of the asset management. In addition, the Investment Committee has special responsibility for analysing the effect of asset allocation on solvency risk and collective funding.

The head of asset management is delegated operational responsibility by the CEO for risks on the asset side via the CEO's instruction for delegation of responsibility and reporting in Skandia Liv, the policy for governance and control of solvency risk, and Skandia Liv's investment guidelines. The head of asset management is responsible for management of financial risks and for following up, evaluating and risk control of Skandia Liv's asset management. The asset management unit has a risk control function that continuously measures and follows up financial risks and performs controls to ensure that risk-taking is within the set limits. The results of this control are also reported to the company's compliance function on a regular basis. The Risk Governance and Risk Control unit performs independent measurements of solvency risk and calculates the risk scope of the company's asset management.

Insurance risks and financial risks on the liabilities side are regulated by the company's actuarial guidelines, which are set by the Board of Directors. These specify overall guidelines for all written insurance. Based on these guidelines, the chief actuary formulates principles for premium calculation and the setting of fees, as well as for technical provisions. The chief actuary proposes central parameters that the CEO decides on. These principles and accompanying central parameters steer how Skandia Liv's long-term risk-taking and solvency position are affected, e.g., whether the guaranteed yield has particularly great importance for the solvency contribution of new premiums. By law the chief actuary also has specific responsibility for Skandia Liv's actuarial computations and studies, and has both the opportunity and obligation to inform the Board whenever the need arises. In addition to the actuarial guidelines, demands are put on risk management in connection with product development in the product development policy.

The Insurance Committee is a body tasked with ensuring that Skandia Liv's obligations are consistent with reasonable risk-taking, good profitability and a fair distribution of fees and surpluses among the various insurance collectives. The committee has the decision-making right on such matters as premium calculation, pricing, product development, terms and conditions, and risk-taking on the liabilities side.

The ALM Committee is a forum that ensures that the asset allocation is adapted to the company's products and insurance obligations. The committee's work is currently focused on ALM modelling related to Solvency II.

The Risk Committee co-ordinates and monitors the management of operational risks. It addresses both methods development and analysis as well as reporting.

A Book-Closing Committee has been established to ensure an effective book-closing process and financial reporting.

Principles for measuring risk and capital adequacy in Skandia Liv

Naturally, it is important to manage all individual risks in the company, but in the end it is still the total risk level that is decisive. Moreover, the total level of risk can be seen in different ways – in part as solvency risk and in part as profitability risk.

In order for Skandia Liv to be able to gain an idea of the total risk level, individual risks need to be identified, measured and aggregated in a suitable manner. Skandia Liv has therefore established principles for how risks are identified, measured and aggregated.

Identification of individual risks

To facilitate risk identification and measurement, various risk categories are used. Skandia Liv currently works with the following, main categories of risk: insurance risk, financial risk and operational risk. Each of these main categories has a number of sub-categories.

Risk measurement – general

Since different types of risk have different character, risk measurement is standardised to make risks comparable and meaningful to aggregate. At Skandia Liv, risk is commonly measured using Value at Risk methods. Value at Risk measures risk on the basis of a set time horizon and confidence level. The time horizon indicates the period of time that measurement of losses pertains to, and the confidence level indicates the probability that the losses are not greater than those measured.

At Skandia Liv, a time horizon of one year and a confidence level of 99.5% are used.

An advantage of this type of measurement is that it can be interpreted as a measure of how much capital is needed to balance, or absorb, losses given a certain degree of probability. Risk measured in this way is therefore equivalent with risk capital requirement.

Aggregation of risks

To determine the total capital requirement, it is generally not possible to merely sum up the capital requirement for individual risks, since this would entail an assumption that the risks coincide and arise simultaneously. In reality, as a rule not all losses are incurred on one and the same occasion; this means that a given amount of capital can be used to cover several risks at the same time, which is often referred to as diversification. The total capital requirement for all risks is therefore lower than the sum of the individual risks. The difference between the total capital requirement and the sum of the individual risks is called the diversification effect.

Even though Skandia Liv works actively with risk management, there is always a risk that the aggregate losses can be greater than the company's risk capital. Skandia Liv's principles for risk management entail that the probability of a loss being greater than the risk capital requirement is 0.5% in a given year. This can also be expressed as such that losses of this magnitude can occur once in 200 years (one year divided by 0.5%). In other words, if the company has more risk capital than the risk capital requirement, the probability that the company will not be able to meet its obligations during a given year is less than 0.5%.

Solvency risk and capital requirement

Solvency risk is the risk that the company cannot meet its guaranteed obligations to the policyholders. Skandia Liv's board has determined that solvency risk may be a maximum of 0.5%, which is also the level of risk applied by the Financial Supervisory Authority to determine capital requirement in its "traffic light system". This level is thus also decisive for determining how the capital requirement is to be calculated for all individual risk factors. The level of solvency risk is set in the solvency risk policy that the Board decides on. This also states that solvency risk is steered by adapting the risk mandate for the asset management with the starting point from the value of assets and obligations, and the capital requirement for insurance risks and operational risks. How much risk is utilised is determined by the capital requirement for financial risks, both on the assets and liabilities sides. If the utilisation of risk were to exceed the risk mandate, the asset management would have to change the composition on the assets side so that the financial risks would be reduced to the requisite degree.

The Financial Supervisory Authority's traffic light system

The aim of the Financial Supervisory Authority's traffic light system is to measure the capital adequacy of insurance companies. The system is based on a set grouping of risk factors, and for each of these, a capital requirement is computed based on measurements of risk exposure and sensitivity, which should correspond to an event that occurs at most once in 200 years. The risk factors cover most forms of financial risk and insurance risk, where the latter is a collective name for risks associated directly or indirectly to insurance contracts.

Since the traffic light system is based on the presumption that many of the risks are assumed to be independent of each other, whereby the combined capital requirement is considerably less than the sum of the individual capital requirements, the system encourages a diversification of assets. However, at the same time, the fact is taken into account that the Swedish capital market is highly integrated with the world at large, which is why the diversification effect between Swedish and foreign securities is considerably lower than between other asset classes.

Skandia Liv's internal model

Skandia Liv has developed its own model for internal risk governance of solvency risk and calculation of its capital requirement. This model is essentially based on the same risk factors as the traffic light system, but it has been complemented in several respects.

The internal model uses stricter assumptions regarding the covariance between various risk factors so that the diversification effects are smaller than in the traffic light system, and the internal capital requirement is thereby higher.

Skandia Liv's internal model also encompasses a simple model for calculating the capital requirement for operational risk. This model is based on internal analyses that have been calibrated according to the risk levels and correlations reported for banks within the framework of Basel II. Added to this, Skandia Liv applies a stricter valuation of obligations, since the obligations in the internal model include a market valuation margin in accordance with the principles that are expected to be applied in the new European Solvency II regime.

The result from the internal model is reported on a regular basis to management and the Board of Skandia Liv, but is not disclosed publicly in detail. What is reported are calculations according to the traffic light system and an "adjustment for internal model", which constitutes an aggregate measure of the differences between the capital requirement according to the internal model and the capital requirement according to the traffic light system.

Solvency risk in the parent company

Solvency risk is the risk that the company cannot meet its guaranteed obligations.

It is calculated by subtracting the aggregate capital requirement for insurance risks, financial risks and operational risks from the net value of assets and liabilities. If this results in a surplus, or positive figure, the solvency risk is less than 0.5%, which is the level used to calculate the capital requirement. If, however, this results in a negative figure, or deficit, the risk is greater than 0.5%. The table below shows that the surplus according to Skandia Liv's internal model amounted to approximately SEK 32 billion (49) at year-end 2011, which means that the solvency risk was less than 0.5%. Skandia Liv's solvency risk policy provides an opportunity to temporarily deviate from the prescribed risk level. A plan has been drawn up for how a possible capital deficit according to the internal model should be handled. Since the internal model includes an "adjustment for internal model" of SEK 27 billion (27), the surplus according to the Financial Supervisory Authority's traffic light system was SEK 59 billion (76) at year-end 2011.

Capital requirement and solvency risk, SEK million

	2011	2010	Change 1 year
Assets	325,573	309,064	16,509
Technical provisions	-184,587	-160,151	-24,436
Other liabilities	-31,757	-14,089	-17,668
Equity	**109,229**	**134,824**	**-25,595**
Capital requirement, financial risks	-49,555	-57,959	8,404
Capital requirement, insurance risks	-4,646	-3,534	-1,112
Diversification effect	4,429	3,426	1,003
Adjustment for internal model	-27,409	-27,324	-85
Surplus	**32,048**	**49,433**	**-17,385**

Profitability risk

Naturally, it is not adequate to govern risks only from a solvency perspective. It is also necessary to ensure that the acceptance of risk in both the insurance operations and asset management provides a reasonable return, that is, satisfactory profitability. Governance and monitoring of risks from a profitability perspective are done at the overall company level as well as at the operational level for the two core businesses – the insurance (or product) operations, and asset management. The latter is described in more detail further below.

Overall governance consists of principles and rules for the following, among other things:

- Product design
- Pricing of products in general, and of risks in particular
- Parameters for asset management, which take into account the risks in the company's obligations and the customers' expectations of future returns

These principles are regulated in various policies that are decided on by the Board. Documentation for the principles is drawn up with the help of stochastic company simulation models that make it possible to formulate the principles in a consistent manner and ensure that they remain valid under most conceivable conditions.

Strategic risks

In contrast to insurance risks, financial risks and operational risks, strategic risks are measured only from a profitability perspective. Strategic risks arise in connection with situations involving choice and major changes that affect the company over the long term. Oftentimes, strategic risks can only be managed through a proper analysis and good planning prior to implementation of changes in the operations. As a result, strategic risks are often managed as a part of the company's strategic and business planning work. Strategic risks are measured in connection with production of the company's business plan, which the Board then decides on.

Risks and risk management – insurance risks

Skandia Liv conducts both occupational pensions and life assurance business as well as pure risk insurance business in the form of disability and accident insurance.

The risks in the insurance operations consist of unanticipated changes in the following factors, among others:

- Biometric and demographic factors, such as mortality and morbidity, affect the size of the obligations.
- Customer-related factors, such as surrenders and various changes in contracts, which affect the obligations. Surrenders (repurchases, transfers and non-payment of premiums) can give rise to losses in cases where the company has incurred costs for a policyholder, for which the company has not yet received any compensation. To this can also be added the general uncertainty in future business volume.
- Market factors contribute to uncertainty about future volumes, such as due to changes in the economic climate in general and changed policies.
- Operating expense factors, including long-term cost levels as well as more temporary variations.

Taken together, the above-mentioned risks are referred to as insurance risks.

The size of the various insurance risks is shown in the table below.

In addition to the risk factors above are also the following risk factors:

- Operational risk factors, which give rise to operational risks
- Financial factors – mainly the level of interest rates for various durations. This is because the obligations span a long period of time, and the value of these depends on the level of interest rates. See also under the section "Financial risks"

Added to these is so-called model risk, which is a collective term for all risks that are associated with systematic, erroneous assumptions for estimating anticipated and unanticipated values. The anticipated values ("best estimates") determine the size of the obligations. This model risk is therefore sometimes referred to as reserve-setting risk.

Risk management

Owing to the size of Skandia Liv's collective body of policyholders and Skandia Liv's broad range of products, concentration risks within the insurance risks are generally of lesser significance. This means that, as a rule, the impact of an event on individual policyholders is manageable, even if the commitment is large on a proportional scale in Sweden. This is because the company has a very large portfolio of insurance contracts, where the risks cancel each other out to a great extent (they are pooled); this is also reflected in the fact that a relatively small amount of capital is required to cover mortality risks (unanticipated), which is shown in the table below. Moreover, the largest individual exposures in both death insurance and disability insurance are reinsured.

However, since Skandia Liv's business is mainly conducted in Sweden, its insurance risks are concentrated geographically. This means, for example, that a sudden and considerable increase in life expectancy or a higher level of morbidity (illness) in the Swedish population as a whole are difficult risks for Skandia Liv to manage. Consequently, the risk for an increase in life expectancy is given special attention in e.g., product development and risk measurement, in order to avoid surprises and to discover potential problems well in advance. A higher level of illness could occur suddenly, for example as a result of political decisions surrounding rules for sick leave. This risk is managed by actively monitoring developments in the healthcare sector and actively adapting products to new conditions. An epidemic could lead to both a higher rate of mortality and illness and is the risk that Skandia Liv can manage only through smart product design. Catastrophic risks, such as regarding a major airplane or train wreck, are another form of concentration risk. Skandia Liv manages catastrophic risk through reinsurance.

Naturally, the size of risks in the insurance operations is dependent on how the products are designed with respect to insurance terms and conditions, including guarantee obligations. Once they have been formulated, the risks are steered by customer demand for various products, which actually can only be affected through pricing, i.e., through premium and fee levels. Thus pricing is a vital instrument for managing risks. The company applies pricing that is based on the principle that all products shall bear their own risk costs, which are calculated based on the capital that is required to cover risks that cannot be hedged.

Risk exposure, risk and risk capital

The risk capital requirement is calculated in accordance with the principles set by the Financial Supervisory Authority in its traffic light system. Risks are expressed in terms of risk capital requirement for each risk factor. In somewhat simplified terms, the capital requirement can be said to consist of the product between the current risk exposure and a sensitivity factor that reflects the size of a hypothetical change in the underlying exposure. The size of this change is set as such that it makes up the largest conceivable negative change; it can only be worse with a 0.5% probability. The capital thus expresses the largest conceivable loss during highly adverse conditions.

The table below shows the current risk exposures, sensitivity factors and capital requirement for the non-financial risk factors that are included in the Financial Supervisory Authority's traffic light system. Internally, Skandia Liv includes additional risk factors that are not reported separately, but are instead indicated together with other internal adjustments in a single item (see "adjustment for internal model" under the section "Solvency risk" above).

The diversification effect expresses the relationship whereby the risks are assumed to be not entirely correlated, i.e., it is assumed that there is no full covariance. This effect is also calculated in accordance with the Financial Supervisory Authority's traffic light system. A more detailed description of this as well as sensitivity factors can be found on the Financial Supervisory Authority's website: fi.se.

Insurance risks, SEK million

	Risk exposure			Capital requirement		
Risk factor	**2011**	**2010**	**Sensitivity factor**	**2011**	**2010**	**Change 1 year**
Mortality risk	178,318	153,608	2.58 standard deviation of the cost for mortality outcome and change in one-year mortality probability of +/- 20%	3,517	2,354	1,163
Disability and accident risk	5,717	6,139	Changes in a number of applied assumptions in the run-off function, which gives rises to higher costs for the company	2,422	2,269	153
Surrender risk	149,506	141,513	20% of any deficits in insurance that can be transferred and repurchased 20% of deferred acquisition costs 0.15% of the insurance capital for insurance that can be transferred and repurchased	399	404	-5
Operating expense risk	924	893	Annual fixed costs +10%	92	89	3
Total capital requirement				**6,430**	**5,116**	**1,314**
Diversification effect				-1,784	-1,582	-202
Net capital requirement				**4,646**	**3,534**	**1,112**

Risks and risk management – financial risks

The asset management operations involve primarily financial risks in the form of investment risks. Investment risks are broken down into the following risk factors:

- Market risks, including equity, real estate and commodity price risks, currency and interest rate risks, and hedge fund risks
- Credit risks, including counterparty risks
- Liquidity risks

Skandia Liv's assets are invested in various types of instruments, in various currencies, and with a broad geographic distribution. As a result, the concentration risks are minimal (see tables below and at the bottom of page 9).

It is also necessary to take into account the financial risks associated with the company's insurance obligations, mainly interest rate risks, which have their origin in the guaranteed commitments that are made under insurance contracts. These obligations consist both of payments to customers and future operating expenses and taxes. Interest rate risk is reported below under investment risks. As a rule, the level of exposure of these risks takes a long time to change, since it changes in pace with old insurance contracts leaving the portfolio and new insurance contracts being added to the portfolio.

Risk management

Investment risks are managed from the standpoint of the goal to maximise the return over the long term, given:

- a framework that reflects the risks in the company's obligations and the risk that the customers' return expectations cannot be met;
- a risk mandate that limits the maximum risk that the asset management may take at any given time in view of the size of the available risk capital.

These principles are laid out in the company's investment guidelines, which are adopted by the Board of Directors. The Board also decides on the framework that governs the scope for the operative asset management. The risk mandate is also decided on indirectly by the Board, in that it sets the company's solvency risk level, which determines the size of the capital requirement for financial risks as well as other risks.

To achieve the target return and good spread of risk, it is necessary to have a well diversified investment portfolio that also provides reasonable matching of interest rate risks in Skandia Liv's obligations. Skandia Liv's asset portfolio thus contains a large share of fixed-income investments as well as a number of other asset classes, such as equities, real estate, commodities, etc. The equities portfolio, in turn, is broken down into different countries and sectors, which provides further risk diversification.

The size of the financial risks associated with insurance obligations is dependent on how the products are designed, such as regarding terms and conditions, and including any guarantee obligations. Risk management in this regard therefore consists of drawing up internal rules and regulations that ensure good product design and that the parameters that steer product qualities are updated. Central product parameters steer how Skandia Liv's long-term risk-taking and solvency position are affected, such as whether the guaranteed yield has particularly high significance for the solvency contribution from new premiums.

Financial risks, SEK million

	Risk exposure			Capital requirement		
Risk factor	**2011**	**2010**	**Sensitivity factor**	**2011**	**2010**	**Change 1 year**
Interest rate risk assumptions	184,587	160,151	Parallel shift in interest rate curve: Nominal SEK +/- 30% of 10-year risk-free interest rate Real SEK +/- 30% of longest risk-free interest rate Nominal euro +/- 25% of 10-year risk-free interest rate Other foreign +/- 30% of 10-year risk-free interest rate	11,529	18,243	-6,714
Interest rate risk, assets	168,155	146,238		-4,479	-8,903	4,424
Diversification effect				354	1,397	-1,043
Interest rate risk, net				**7,404**	**10,737**	**-3,333**
Share price risk	110,693	131,269	Swedish equities -40% Foreign equities -37%	46,644	55,496	-8,852
Real estate price risk	30,480	30,347	-35%	10,668	10,621	47
Credit risk	114,407	81,615	Calculated as the change in value of fixed-income investments given a change in the interest rate spread between the asset and risk-free interest. Increase in spread by max. 100%: 25 basis points	10,462	7,165	3,297
Currency risk	14,173	3,339	+/-10%	1,417	334	1,083
Total capital requirement				**76,595**	**84,353**	**-7,758**
Diversification effect				-27,040	-26,394	-646
Net capital requirement				**49,555**	**57,959**	**-8,404**

Ten largest Swedish shareholdings

		SEK million
1	Hennes & Mauritz	2,289
2	TeliaSonera	1,664
3	Nordea Bank	1,582
4	Investor	1,295
5	Ericsson	1,246
6	Atlas Copco	1,167
7	Volvo	1,153
8	Swedbank	1,070
9	Scania	615
10	SKF	611
		12,691

Ten largest foreign shareholdings

		SEK million
1	AstraZeneca	887
2	Exxon	553
3	Apple	504
4	ABB	435
5	Nestle	382
6	BP	314
7	IBM	312
8	Chevron	311
9	BHP Billiton	282
10	Novartis	282
		4,262

Currency distribution, total	**% (rounded off)**
SEK	74.3%
USD	19.1%
JPY	0.0%
EUR	2.6%
GBP	1.5%
Other	2.5%
	100.0%

Risk exposure, risk and risk capital

The capital requirement for the financial risks is also calculated based on the Financial Supervisory Authority's traffic light system in the manner described above. Risk exposures, sensitivity factors and capital requirement for all risk factors, as well as the diversification effect between them, are shown in the table on page 34.

It is worth noting that in its internal models, Skandia Liv uses other, stricter assumptions on the correlations. This is reflected in the "adjustment for internal model" that is shown under the Solvency risk section above.

As the table shows, share price risk is the single largest single risk factor for Skandia Liv. It should be noted that the share price risk for foreign equities includes the currency risk in these assets, since share prices tend to adapt to exchange rate movements over a slightly longer time perspective. The situation whereby the traffic light system does not include commodity risk as a separate risk factor makes it necessary to treat these risks as share price risks. For the same reason, hedge fund risks are calculated based on the underlying values of the funds, mainly equities. It is also worth noting that the diversification effect, i.e., the benefit of spreading assets among various asset classes, is relatively large. The table shows that the financial risks have decreased overall due to lower interest rate risk and share price risk. This is the result of increased debt management with respect to interest and a reallocation from equities to fixed-income investments.

Liquidity risk

A life assurance company has very long-term obligations. As shown in the table below, roughly 70% of Skandia Liv's obligations have a duration in excess of five years. According to Skandia Liv's investment policy, a sufficient scope of liquidity reserves shall be available on demand. A minimum of 10% of investments are to be in short-term fixed-income investments or government bonds.

In addition, the investments shall have a satisfactory level of liquidity and include at least 50% liquid securities.

Life assurance provisions broken down into various maturities

Total	Within 1 year	1-5 years	5-15 years	More than 15 years
194,807	6.6%	23.2%	36.6%	33.6%

Credit risk

Exposure is mainly to counterparties and issuers with high credit ratings, and the aggregate credit risk shall be low. Credit risk may only pertain to issuers and counterparties in the OECD countries. Credit ratings are used to determine the degree of creditworthiness of issuers and counterparties.

Risk exposure, SEK million

	Fixed-income securities	Currency derivatives	Interest rate derivatives	Commodity derivatives
AAA	150,501			
AA	7,148	331	-26	-128
A	6,357	373	453	-77
BBB	1,566			-128
BB or lower	161			
	165,733	**703**	**427**	**-333**

Risks and risk management – operational risks

Operational risk is defined as the risk of loss resulting from defects in the operative activities. The reason for the loss can be internal (defective processes or system support, errors, non-compliance with laws and internal rules and regulations, internal fraud, etc.) or external (events in the external operating environment, such as external fraud, disasters, etc.).

Operational risks can in principle only be managed through preventive and loss-reduction measures. To ensure that risks are managed effectively, a suitable division of responsibilities and a uniform analysis methodology are needed. The division of responsibilities, and principles and instructions for analysing, managing and reporting operational risks and incidents are laid out in numerous guidelines, which are decided on by the CEO.

Operational risks exist in all of Skandia Liv's activities, and responsibility for continuously identifying and managing these risks is an integral part of management responsibility. In addition to continuous risk management, each year every department conducts a self assessment of the operational risks associated with its activities. This assessment aims to identify operational risks and quantify the losses that could arise. This work results in action plans, whose implementation is subject to continuous oversight.

As support for its risk management, Skandia Liv has a system for reporting and following up incidents. All incidents are followed up, and actions are taken to prevent a recurrence. Continuity and crisis management plans are in place to deal with serious disruptions in business-critical processes.

The Risk Governance and Risk Control unit has overarching responsibility for the methods and tools that are used to identify, assess and manage operational risks. The unit is also responsible for co-ordinating and reporting risks and incidents to management and the Board of Directors.

Solvency risk – Denmark

All of the previously reported figures pertain to the parent company. It is not possible to report the risks in the Danish subsidiary, Skandia Liv A/S, in the exact same format as for the parent company Skandia Liv, since the Danish solvency rules have a different format. Following is a simplified summary.

Capital requirement and solvency risk, Skandia Liv A/S and Skandia Liv A A/S

	2011	2010	Change 1 year
Assets[1]	15 744	15 958	-168
Technical provisions	-14 357	-14 326	-72
Other liabilities	-311	-334	22
Equity + debt capital	1 076	1 298	-218
Solvency capital	862	1 093	-228
Combined capital requirement	-559	-497	-60
Surplus	303	596	-288

[1] According to Danish accounting policies.

As the table shows, the "surplus capital" is considerably lower than in the parent company, also in relative terms. This reflects the fact that the company distributes its profits, and thus there is no reason to keep capital on hand other than what is required for operations.

3 Premiums written

Group	Individual 2011	Individual 2010	Group 2011	Group 2010	Total 2011	Total 2010
Periodic premiums in the form of paid-in premiums	4,960	5,334	4,361	4,179	9,321	9,513
Single premiums in the form of paid-in premiums	3,992	3,394	209	182	4,201	3,576
Premiums written in the form of assigned bonuses	0	0	27	27	27	27
Premiums written pertaining to policies transferred to Skandia Liv	939	303	113	57	1,052	360
Portfolio premiums, received	317	217	248	247	565	464
Reinsurance accepted	18	22	—	—	18	22
Premium tax	—	—	-29	-30	-29	-30
	10,226	**9,270**	**4,929**	**4,662**	**15,155**	**13,932**

Of premiums written, SEK 1,893 million (2,228) pertains to contracts written in Denmark and the remaining SEK 13,262 million (11,814) to contracts written in Sweden.

Of total premiums written, SEK 13,340 million (12,304) pertains to contracts carrying entitlement to bonuses.

Of premiums written for incoming transferred capital, SEK 814 million (282) pertains to transferred, guaranteed capital and SEK 238 million (78) to transferred bonus funds.

Parent company	Individual 2011	Individual 2010	Group 2011	Group 2010	Total 2011	Total 2010
Periodic premiums in the form of paid-in premiums	3,085	3,233	4,361	4,179	7,446	7,412
Single premiums in the form of paid-in premiums	3,992	3,394	209	182	4,201	3,576
Premiums written in the form of assigned bonuses	0	0	27	27	27	27
Premiums written pertaining to policies transferred to Skandia Liv	939	303	113	57	1,052	360
Portfolio premiums, received	317	217	248	247	565	464
Reinsurance accepted	18	22	—	—	18	22
Premium tax	—	—	-29	-30	-29	-30
	8,351	**7,169**	**4,929**	**4,662**	**13,280**	**11,831**

Premiums written pertain in their entirety to contracts written in Sweden.

Of total premiums written, SEK 11,447 million (9,916) pertains to contracts carrying entitlement to bonuses.

Of premiums written for incoming transferred capital, SEK 814 million (282) pertains to transferred, guaranteed capital and SEK 238 million (78) to transferred bonus funds.

4 Investment income

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Rental income from land and buildings	2,197	2,252	—	—
Dividends from shares and participations				
Group companies	—	—	28	149
Other shares and participations	3,048	2,633	2,998	2,585
Alternative investments	364	372	363	370
Interest income, etc.				
Bonds and other fixed-income securities	5,127	4,834	5,023	4,831
Other financial investments	252	126	252	93
Loans guaranteed by mortgages[1]	1	2	1	2
Amounts receivable from group companies[1]	—	—	945	918
Other financial assets[1]	122	41	74	21
Foreign exchange gains, net[2]	**1,414**	**—**	**1,436**	**—**
Capital gains, net				
Land and buildings	1,077	1,300	—	—
Shares and participations	1,170	8,759	1,509	8,869
Bonds and other fixed-income securities	6,113	1,416	6,013	1,436
Loans guaranteed by mortgages	—	2	—	2
Alternative investments	128	2,197	128	2,197
	21,013	**23,934**	**18,770**	**21,473**

[1] Interest income on financial assets that are not carried at fair value.

[2] Foreign exchange gains and losses arise, since Skandia Liv has substantial foreign assets.

5 Unrealised gains on investments

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Land and buildings	1,315	767	—	—
Shares and participations	—	10,318	—	9,195
Bonds and other fixed-income securities	6,339	—	5,739	—
Alternative investments	—	632	—	620
	7,654	**11,717**	**5,739**	**9,815**

6 Claims paid, gross

	Group		Parent company	
	2011	2010	2011	2010
Claims paid	-11,347	-11,000	-10,938	-10,557
Surrenders and repurchases	-2,247	-953	-507	-473
Policies transferred to other companies[1]	-835	-991	-835	-991
Claims settlement costs[2]	-33	-27	-28	-25
	-14,462	**-12,971**	**-12,308**	**-12,046**

[1] Of policies transferred to other companies, SEK -482 million (-609) pertains to transferred, guaranteed capital and SEK -353 million (-382) to transferred bonus funds.
[2] Pertains to operating expenses for claims settlement, totalling SEK -31 million (-38) for the parent company and SEK -36 million (-40) for the group, and the change in the claims handling reserve, totalling SEK 3 million (13).

7 Bonuses and discounts

	Group		Parent company	
	2011	2010	2011	2010
Bonuses paid out during the year	-6,598	-6,489	-6,598	-6,489
Utilisation of funding reserve[1]	6,687	6,768	6,687	6,768
	89	**279**	**89**	**279**

[1] Of the utilised funding reserve, SEK 356 million (386) pertains to bonus funds transferred to other companies.

8 Operating expenses

	Group		Parent company	
	2011	2010	2011	2010
Acquisition costs[1]	-316	-367	-228	-225
Change in deferred acquisition costs, direct insurance	-80	-146	-80	-146
Administrative expenses[2]	-1,279	-1,186	-1,239	-1,147
Reinsurers' commissions and profit participations	-5	-9	-5	-9
Total operating expenses in the insurance operations	**-1,680**	**-1,708**	**-1,552**	**-1,527**
Management fees, investments	-181	-238	-176	-196
Claims settlement costs	-36	-40	-31	-38
Cost for other operating units	-25	-16	—	—
	-1,922	**-2,002**	**-1,759**	**-1,761**
Total operating expense categorised by type of cost				
Payroll costs	-387	-421	-305	-297
Cost of premises	-41	-58	-25	-43
Depreciation	-16	-18	-1	-1
Provision for restructuring	-46	2	-46	2
Other	-1,432	-1,507	-1,382	-1,422
	-1,922	**-2,002**	**-1,759**	**-1,761**

[1] Of which, direct insurance commissions for the group SEK -240 million (-264) and SEK -193 million (-177) for the parent company.
[2] Administrative expenses for the group include fees paid to auditing firms, as shown in the table below.

	Group		Parent company	
Change in deferred acquisition costs	2011	2010	2011	2010
Opening balance	**893**	**1,039**	**893**	**1,039**
Capitalisation of new acquisition costs	190	177	190	177
Amortisation of previous years' acquisition costs	-270	-319	-270	-319
Impairment of acquisition costs	0	-4	0	-4
Change in deferred acquisition costs	-80	-146	-80	-146
Closing balance	**813**	**893**	**813**	**893**

	Group		Parent company	
Fees paid to auditing firms	2011	2010	2011	2010
Auditing fees				
Deloitte	6.1	6.1	4.1	4.4
KPMG	1.5	2.6	0.5	0.7
Total auditing fees	**7.6**	**8.7**	**4.6**	**5.1**
Auditing fees in addition to the audit assignment				
Deloitte	0.0	0.1	0.0	0.1
KPMG	0.0	0.0	0.0	0.0
Total auditing fees in addition to the audit assignment	**0.0**	**0.1**	**0.0**	**0.1**
Tax consulting				
Deloitte	0.0	0.2	0.0	0.1
KPMG	0.1	0.3	0.0	0.3
Total tax consulting	**0.1**	**0.5**	**0.0**	**0.4**
Other services				
Deloitte	8.3	1.2	7.3	0.4
KPMG	0.7	0.0	0.0	0.0
Total other services	**9.0**	**1.2**	**7.3**	**0.4**
Total fees paid to auditing firms	**16.7**	**10.5**	**11.9**	**6.0**

9 Investment charges

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Operating expenses from land and buildings	**-994**	**-1,016**	—	—
Asset management charges	**-181**	**-238**	**-176**	**-198**
Interest expenses				
Interest expenses, financial instruments	-139	-66	-150	-66
Other interest expenses, etc.[1]	-18	-3	-6	0
Other financial expenses	**-143**	**-297**	**-102**	**-92**
Foreign exchange loss, net[2]	—	**-6,027**	—	**-5,911**
Impairment of subsidiary shares	—	—	**-351**	**-157**
Capital loss, net				
Loans secured by mortgages	0	—	0	—
	-1,475	**-7,647**	**-785**	**-6,424**

[1] Interest expenses on financial liabilities that are not carried at fair value.
[2] Foreign exchange gains and losses arise, since Skandia Liv has substantial foreign assets.

10 Unrealised losses on investments

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Shares and participations	-16,510	—	-16,334	—
Bonds and other fixed-income securities	—	-1,803	—	-2,247
Alternative investments	-1,214	—	-1,169	—
	-17,724	**-1,803**	**-17,503**	**-2,247**

11 Net result per investment category, and other financial assets and liabilities

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Investment properties	3,595	3,302	—	—
Financial assets and liabilities at fair value through profit or loss				
- equities	-10,825	14,952	-8,861	13,867
- fixed-income securities	13,688	2,041	13,256	1,601
- alternative investments	-832	2,224	-789	2,209
Financial assets and liabilities held for trading				
- derivatives	3,887	4,639	1,898	4,604
Loan receivables	249	104	901	966
Other financial liabilities	-113	-823	-8	-432
	9,649	**26,439**	**6,397**	**22,815**

The net result includes realised and unrealised changes in value as well as interest, dividends and foreign exchange gains/losses.

12 Other technical income and expenses

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Joint occupational pensions concept[1]	—	1	—	1
Other income	69	71	3	17
Estimated costs in connection with the acquisition of Skandia Insurance Company Ltd[2]	-162	—	—	—
Other expenses	-112	-1	-35	-1
	-205	**71**	**-32**	**17**

[1] Return of commissions due to surrenders in the previously applicable joint occupational pensions concept.
[2] In the parent company, these costs are capitalised as part of the acquisition value.

13 Result for other operating units

	2011 Result	2011 Group adjustments	2011 Result in group	2010 Result	2010 Group adjustments	2010 Result in group
Skandikon Pensionsadministration AB	-2	-24	-26	7	-25	-18
Skandikon Administration AB	1	—	1	2	0	2
	-1	**-24**	**-25**	**9**	**-25**	**-16**

14 Taxes

	Group		Parent company	
	2011	2010	2011	2010
Current tax charge	**-1,653**	**-1,847**	**-2,079**	**-1,841**
Deferred tax	**-145**	**-581**	**165**	**-102**
	-1,798	**-2,428**	**-1,914**	**-1,943**
Current tax charge				
Policyholder tax	-1,273	-1,366	-1,273	-1,366
Withholding tax	-164	-157	-164	-156
Income tax	-434	-347	-845	-323
Adjustment of tax pertaining to previous tax years	218	23	203	4
	-1,653	**-1,847**	**-2,079**	**-1,841**
Deferred tax pertaining to				
Unrealised gains/losses on investments	165	-102	165	-102
Tax-loss carryforward	-189	163	—	—
Participations in partnerships (HB) and limited partnerships (KB)	0	0	—	—
Intangible assets	2	3	—	—
Difference between book and tax values of real estate	-557	-532	—	—
Provisions	0	2	—	—
Estimated pension liability	11	-115	—	—
Untaxed reserves	423	0	—	—
	-145	**-581**	**165**	**-102**
Tax regarding income tax				
Current tax	-380	-325	-806	-319
Deferred tax	-145	-581	165	-102
	-525	**-906**	**-641**	**-421**
Reconciliation of effective tax rate regarding income tax				
Result before tax	-23,984	25,110	-24,609	22,557
Less: result of operations subject to policyholder tax	-27,194	-20,575	-27,194	-20,575
Total result for operations subject to income tax	**3,210**	**4,535**	**2,585**	**1,982**
Tax according to applicable tax rate	26.3%	26.3%	26.3%	26.3%
Tax effect of non-deductible/tax-exempt items	-7.6%	0.1%	0.5%	0.0%
Tax effect from previous years	-2.2%	-1.3%	-2.2%	-0.2%
Tax effect of other tax rates	0.1%	0.0%	—	—
Tax effect of exercised loss carryforward	0.0%	0.3%	—	—
Tax effect pertaining to temporary differences	-0.2%	-5.3%	0.2%	-4.8%
	16.4%	**20.0%**	**24.8%**	**21.2%**

The parent company's estimated, actual income tax for 2011 is SEK 31 million. The difference between that and the reported current tax of SEK 845 million on the result of the year is attributable to the payment of group contributions of SEK 3,097 million – SEK 1,600 million to Skandia and SEK 1,497 million to Diligentia AB. The tax effect of the group contributions is a reduction of the tax charge by SEK 814 million.

Existing deficits have been stated at a value at which it is expected they can be utilised in the years immediately ahead. The opportunity to utilise deficits has been estimated based on management's estimations of the future profit potential. The parent company has no deficits that can be utilised. Non-valued deficits for the group amount to SEK 6 million (6). The tax effect of non-valued deficits amounts to SEK 2 million (2).

15 Other intangible assets

	2011			2010		
Group	Acquired	Internally developed	Total	Acquired	Internally developed	Total
Software						
Cost at start of year	90	296	386	84	267	351
Investments during the year	5	25	30	17	36	53
Elimination of intangible assets[1]	-6	-1	-7	—	—	—
Translation difference	5	0	5	-11	-7	-18
Accumulated cost	**94**	**320**	**414**	**90**	**296**	**386**
Amortisation at start of year	-41	-78	-119	-39	-71	-110
Amortisation for the year	-9	-9	-18	-8	-10	-18
Elimination of intangible assets[1]	0	0	0	—	—	—
Translation difference	0	0	0	6	3	9
Accumulated amortisation	**-50**	**-87**	**-137**	**-41**	**-78**	**-119**
Impairment at start of year	-9	-1	-10	-9	—	-9
Impairment charges for the year	—	—	—	-2	-1	-3
Elimination of intangible assets[1]	—	—	—	—	—	—
Translation difference	0	0	0	1	—	1
Accumulated impairment	**-9**	**-1**	**-10**	**-10**	**-1**	**-11**
Remaining software	**35**	**232**	**267**	**39**	**217**	**256**

The useful life for software is estimated at between three and ten years, based on estimated economic life.
The group uses a linear amortisation schedule, entailing a fixed, annual amortisation amount over the estimated useful life.
Amortisation is reported in the item Operating expenses.
The assets are expected to be extinguished after more than 12 months.
[1] Skandia Asset Management A/S is consolidated using the equity method, entailing the elimination of assets from the group.

16 Investment properties

Group	2011	2010
Fair value		
Opening balance, investment properties	30,347	27,776
Acquisitions during the year	15	1,491
Investments in existing properties	1,354	1,378
Sales revenue, sold properties	-3,628	-2,361
Realised change in value	1,076	1,300
Unrealised change in value	1,316	766
Other	—	-3
Closing balance, fair value[1)]	**30,480**	**30,347**
Residual value in Sweden for tax purposes	18,207	20,193

No contracts were signed in 2011 for possession in 2012.

In 2011, 16 properties were sold for a value of SEK 3,628 million.

In 2011, 99.5% (100%) of investment properties generated rental income.

[1)] The group has a finance lease that is included in the fair value of the group's investment properties, in the amount of SEK 33 million (34).

Fair value of investment properties

The group carries investment properties at fair value, i.e., the market value that has been determined for the properties as a result of an external appraisal. The market value of all properties at year-end is determined individually based on valuation principles issued by the Swedish Real Estate Index (SFI).

Diligentia uses several appraisal firms in which all appraisers are certified by the ASPECT association.

The properties are reallocated among the appraisers in order to increase the reliability of the assessed fair market values over time. All property appraisals are the result of the appraisal firms' assessments at a given point in time and include a certain measure of uncertainty. This amounts to an estimated +/- 5%–10% per property.

Valuation principles

In their valuations, the appraisal firms have used two different appraisal methods – a one-year net capitalisation method and a cash flow method.

The two methods should arrive at similar results, since both are based on local price comparisons. In the event the methods lead to different results, then the cash flow method shall apply.

The best proof of fair value consists of the current prices of comparable properties in an active market. In Skandia Liv's case, fair value as been estimated via a cash flow analysis for most of the properties. This method entails that anticipated future payment flows and residual values are discounted to fair value.

Valuation assumptions	2011	2010
Calculation period, primarily	5 or 10 years	5 years
Annual inflation, primarily	2%	2%
Allocated interest	5.3%-16.8%	4.5%-16.6%
Weighted allocated interest	7.4%	7.5%
Required direct yield requirement	3.2%-14.5%	2.5%-14.3%
Weighted direct yield requirement for determining residual value	5.3%	5.5%
Operating and maintenance expenses	SEK 511/sq.m	SEK 489/sq.m
Average long-term vacancy		
Commercial	3.5%	3.6%
Residential	0.9%	0.6%

Sensitivity analysis regarding the market valuation of properties

The market value of properties is sensitive to the assumptions used in the calculations. By varying a number of parameters, the sensitivity of the appraisals can be determined.

Sensitivity analysis	Change	Change in value
Rental income	+/- 1%	SEK +414 /-414 m
Direct return requirement	+/- 1%-pt	SEK +7,083 /-4,834 m

Sensitivity analysis, profit	Change	Yearly profit effect
Economic occupancy rate	+/- 1%-pt	SEK +/- 22 m
Rental income	+/- 1%	SEK +/- 20 m
Property costs	+/- 1%	SEK +/- 9 m
Change in value of investment properties	+/- 1%	SEK +/- 305 m

17 Investments in group companies

Shares and participations in subsidiaries[1]	Registered number	Registered office	Equity	Of which, profit	Equity share, %	Book value 2011	Book value 2010
Skandia Liv Fastigheter AB[2]	556140-2826	Stockholm	12,596	2,253	100	8,002	6 898[5]
Skandia Livsforsikring A/S[3]		Copenhagen	653	-119	100	981	1,185
Skandia Livsforsikring A A/S[3]		Copenhagen	266	-102	100	296	443
Skandia Asset Management A/S[4]		Copenhagen	27	18	50	2	2
Skandia A/S		Copenhagen	4	0	50	1	1
Life Equity Sweden KB (in liquidation)	969687-4156	Stockholm	—	0	100	—	19
Berlac AB – liquidated in 2011	556400-9115	Stockholm	—	0	100	—	101
Skandikon Pensionsadministration AB	556217-8300	Stockholm	32	-2	100	28	28
Skandikon Administration AB	556023-4782	Malmö	7	0	100	7	7
						9,317	**8,684**
Loans to group companies							
Skandia Liv Fastigheter AB						16,600	18,600
Skandia Livsforsikring A/S[5]						84	84
Skandia Livsforsikring A A/S[5]						72	72
Total in parent company						**26,073**	**27,440**

[1] All companies are unlisted.
[2] Data for equity and profit are consolidated figures for the company including subsidiaries.
[3] In addition to equity, this includes the value of the existing portfolio of insurance business.
[4] The loans have terms without any set maturity date.
[5] Change in value due to new accounting policy, see note 41.

	2011	2010
Cost, opening balance	**9,527**	**8,517**
Capital contributions during the year	—	61
Group contributions	1 103	1 288
Liquidation[1]	-512	-339
Closing balance, cost	**10,118**	**9,527**
Impairment, opening balance	**-843**	**-936**
Impairment charges for the year	-351	-157
Reversal of impairment	—	—
Liquidation[1]	393	250
Impairment, closing balance	-801	-843
Total shares and participations in group companies	**9,317**	**8 684**

[1] Pertains to Berlac AB and Life Equity Sweden KB, which is currently in liquidation.

18 Shares and participations

	2011		2010	
	Cost	Fair value	Cost	Fair value
Group				
Swedish companies	21,031	25,789	25,249	39,467
Foreign companies	71,787	69,471	76,187	81,078
	92,818	**95,260**	**101,436**	**120,545**
Listed equities		77,031		106,881
Unlisted equities		18,229		13,664
		95,260		**120,545**
Parent company				
Swedish companies	21,031	25,789	25,249	39,466
Foreign companies	70,972	65,719	73,342	74,934
	92,003	**91,508**	**98,591**	**114,400**
Listed equities		73,279		100,736
Unlisted equities		18,229		13,664
		91,508		**114,400**

All can but will not be sold within 12 months.

19 Bonds and other fixed-income securities

	2011		2010	
	Amortised cost	Fair value	Amortised cost	Fair value
Group				
Securities issued by:				
The Swedish government	33,578	38,777	46,600	48,630
Swedish mortgage institutions	101,600	103,262	63,709	63,171
Other Swedish issuers	12,844	13,100	5,956	6,139
Foreign governments	6,590	6,795	10,242	10,170
Other foreign issuers	12,266	14,731	15,631	17,203
	166,878	**176,665**	**142,138**	**145,313**
Listed securities		163,246		143,758
Unlisted securities		13,419		1,555
		176,665		**145,313**
Parent company				
Securities issued by:				
The Swedish government	33,578	38,777	46,600	48,630
Swedish mortgage institutions	101,600	103,262	63,709	63,171
Other Swedish issuers	12,844	13,100	5,956	6,139
Foreign governments	5,282	5,398	10,242	10,170
Other foreign issuers	6,273	6,348	9,036	9,114
	159,577	**166,885**	**135,543**	**137,224**
Listed securities		153,466		135,669
Unlisted securities		13,419		1,555
		166,885		**137,224**

The carrying amount exceeds/is below the nominal value by SEK 15,232 million (14,257) and SEK 810 million (1,249) for the group, respectively, and by SEK 14,892 million (10,333) and SEK 805 million (1,249), respectively, for the parent company.

All fixed-income securities have fixed durations.

All can but will not be sold within 12 months.

20 Alternative investments

	2011		2010	
	Amortised cost	Fair value	Amortised cost	Fair value
Group				
Swedish hedge funds	99	200	1,099	1,275
Foreign hedge funds	526	492	472	458
Commodities	1,468	1,499	1,135	1,213
Infrastructure	1,737	1,769	1,389	1,376
Loan portfolio, fund	3,908	4,271	4,746	5,357
	7,738	**8,231**	**8,842**	**9,680**
Parent company				
Swedish hedge funds	99	200	1,099	1,275
Foreign hedge funds	75	60	93	83
Commodities	1,373	1,418	1,040	1,105
Infrastructure	1,737	1,769	1,389	1,376
Loan portfolio, fund	3,908	4,271	4,746	5,357
	7,192	**7,718**	**8,368**	**9,197**

All holdings are unlisted.

All can but will not be sold within 12 months.

21 Derivative instruments with positive values or a value of zero

	2011					2010				
Fair value	Equities	Currency	Fixed income	Commodities	Total	Equities	Currency	Fixed income	Commodities	Total
Group										
Derivative instruments taken up on the balance sheet										
Options with positive values[1]	49	—	46	—	95	105	—	350	—	455
Forward contracts with positive values	0	190	1,474	—	1,664	—	131	1	—	132
Swaps with positive values	34	853	148	4	1,039	344	504	568	697	2,113
	83	**1,043**	**1,668**	**4**	**2,798**	**449**	**635**	**919**	**697**	**2,700**
Parent company										
Derivative instruments taken up on the balance sheet										
Options with positive values[1]	0	—	21	—	21	1	—	350	—	351
Forward contracts with positive values	0	186	1,474	—	1,660	—	124	1	—	125
Swaps with positive values	34	853	—	4	891	344	504	568	697	2,113
	34	**1,039**	**1,495**	**4**	**2,572**	**345**	**628**	**919**	**697**	**2,589**

[1] The cost of the options was SEK 661 million (107) for the group and SEK 473 million (5) for the parent company.

In the parent company, all expire within 12 months except for SEK 1,495 million, while in the group all expire within 12 months, except for SEK 1,717 million.

22 Categories of financial assets and liabilities and their fair values

GROUP 2011

Financial assets	Financial assets at fair value through profit or loss: Assets determined to belong to category	Financial assets at fair value through profit or loss: Held for trading	Loan receivables	Carrying amount, total	Fair value	Cost
Shares and participations	95,260	–	–	95,260	95,260	92,818
Bonds and other fixed-income securities	176,665	–	–	176,665	176,665	166,878
Alternative investments	8,231	–	–	8,231	8,231	7,738
Loans	–	–	8	8	8	8
Derivatives	–	2,798	–	2,798	2,798	661
Cash and securities settlement claims	–	–	13,490	13,490	13,490	13,490
Other financial receivables	8,249	–	1,161	9,410	9,410	9,410
Accrued interest and rental income	–	–	3,375	3,375	3,375	3,375
Total	**288,405**	**2,798**	**18,034**	**309,237**	**309,237**	**294,378**

Financial liabilities	Financial liabilities at fair value through profit or loss: Liabilities determined to belong to category	Financial liabilities at fair value through profit or loss: Held for trading	Other financial liabilities	Carrying amount, total	Fair value
Derivatives	–	1,816	–	1,816	1,816
Other financial liabilities	20,886	–	5,515	26,401	–
Accrued expenses and deferred income	–	–	926	926	926
Total	**20,886**	**1,816**	**6,441**	**29,143**	**2,742**

PARENT COMPANY 2011

Financial assets	Financial assets at fair value through profit or loss: Assets determined to belong to category	Financial assets at fair value through profit or loss: Held for trading	Loan receivables	Carrying amount, total	Fair value	Cost
Shares and participations	91,508	–	–	91,508	91,508	92,003
Bonds and other fixed-income securities	166,885	–	–	166,885	166,885	159,577
Alternative investments	7,718	–	–	7,718	7,718	7,192
Loans	–	–	8	8	8	8
Derivatives	–	2,572	–	2,572	2,572	473
Cash and securities settlement claims	–	–	12,378	12,378	12,378	12,378
Other financial receivables	8,249	–	776	9,025	9,025	9,025
Accrued interest and rental income	–	–	3,363	3,363	3,363	3,363
Total	**274,360**	**2,572**	**16,525**	**293,457**	**293,457**	**284,019**

Financial liabilities	Financial liabilities at fair value through profit or loss: Liabilities determined to belong to category	Financial liabilities at fair value through profit or loss: Held for trading	Other financial liabilities	Carrying amount, total	Fair value
Derivatives	–	1,650	–	1,650	1,650
Other financial liabilities	20,886	–	7,660	28,546	28,546
Accrued expenses and deferred income	–	–	322	322	322
Total	**20,886**	**1,650**	**7,982**	**30,518**	**30,518**

Loan receivables and Other financial liabilities are short-term in character, and thus the carrying amount is that same as fair value. For example, they may consist of securities settlement claims/liabilities, cash security received or paid, and receivables and liabilities which will be settled against companies in the Skandia or Skandia Liv groups within one month.

GROUP 2010

Financial assets	Financial assets at fair value through profit or loss					
	Assets determined to belong to category	Held for trading	Loan receivables	Carrying amount, total	Fair value	Cost
Shares and participations	120,545	—	—	120,545	120,545	101,436
Bonds and other fixed-income securities	145,313	—	—	145,313	145,313	142,138
Alternative investments	9,680	—	—	9,680	9,680	8,842
Loans	—	—	13	13	13	14
Derivatives	—	2,700	—	2,700	2,700	107
Cash and securities settlement claims	—	—	10,419	10,419	10,419	10,419
Other financial receivables	2,515	—	681	3,196	3,196	3,196
Accrued interest and rental income	—	—	2,309	2,309	2,309	2,309
Total	**278,053**	**2,700**	**13,422**	**294,175**	**294,175**	**268,461**

Financial liabilities	Financial liabilities at fair value through profit or loss				
	Liabilities determined to belong to category	Held for trading	Other financial liabilities	Carrying amount, total	Fair value
Derivatives	—	859	—	859	859
Other financial liabilities	8,357	—	3,461	11,818	11,818
Accrued expenses and deferred income	—	—	665	665	665
Total	**8,357**	**859**	**4,126**	**13,342**	**13,342**

PARENT COMPANY 2010

Financial assets	Financial assets at fair value through profit or loss					
	Assets determined to belong to category	Held for trading	Loan receivables	Carrying amount, total	Fair value	Cost
Shares and participations	114,400	—	—	114,400	114,400	98,591
Bonds and other fixed-income securities	137,224	—	—	137,224	137,224	135,543
Alternative investments	9,197	—	—	9,197	9,197	8,368
Loans	—	—	13	13	13	14
Derivatives	—	2,589	—	2,589	2,589	5
Cash and securities settlement claims	—	—	9,467	9,467	9,467	9,467
Other financial receivables	2,515	—	321	2,836	2,836	2,836
Accrued interest and rental income	—	—	2,310	2,310	2,310	2,310
Total	**263,336**	**2,589**	**12,111**	**278,036**	**278,036**	**257,134**

Financial liabilities	Financial liabilities at fair value through profit or loss				
	Liabilities determined to belong to category	Held for trading	Other financial liabilities	Carrying amount, total	Fair value
Derivatives	—	782	—	782	782
Other financial liabilities	8,357	—	3,630	11,987	11,987
Accrued expenses and deferred income	—	—	125	125	125
Total	**8,357**	**782**	**3,755**	**12,894**	**12,894**

Determination of fair value through published price quotations or valuation techniques

	Instruments with published price quotations in an active market	Valuation techniques based on observable market data	Valuation techniques based on non-observable market data
Group 2011	**Level 1**	**Level 2**	**Level 3**
Assets			
Financial assets at fair value through profit or loss			
- Shares and participations	73,279	3,752	18,229
- Bonds and other fixed-income securities	158,911	17,754	—
- Alternative investments	—	5,161	3,070
- Repurchase transactions	8,249	—	—
Held for trading			
- Derivatives	2,513	285	—
Total	**242,952**	**26,952**	**21,299**
Liabilities			
Held for trading			
- Derivatives	1,278	538	—
Financial liabilities at fair value through profit or loss			
- Repurchase transactions	20,886	—	—
Total	**22,164**	**538**	**—**

Special disclosures for financial instruments in level 3

	Held for trading	Financial assets at fair value through profit or loss				
Assets	**Derivatives**	**Shares and participations**	**Bonds and other fixed-income securities**	**Alternative investments**	**Other financial assets**	**Total**
Opening balance	—	**13,664**	—	**2,327**	—	**15,991**
Profit/loss in income statement	—	337	—	49	—	386
Purchases	—	5,309	—	925	—	6,234
Sales	—	-2,071	—	-293	—	-2,364
Exchange rate movements	—	195	—	32	—	227
Change in value	—	795	—	30	—	825
Closing balance	**—**	**18,229**	**—**	**3,070**	**—**	**21,299**
Share of profit/loss that pertains to assets held on the balance sheet date		395		49		444

Determination of fair value through published price quotations or valuation techniques

	Instruments with published price quotations in an active market	Valuation techniques based on observable market data	Valuation techniques based on non-observable market data
Parent company 2011	**Level 1**	**Level 2**	**Level 3**
Assets			
Financial assets at fair value through profit or loss			
- Shares and participations	73,279	—	18,229
- Bonds and other fixed-income securities	153,466	13,419	—
- Alternative investments	—	4,648	3,070
- Repurchase transactions	8,249	—	—
Held for trading			
- Derivatives	2,513	59	—
Total	**237,507**	**18,126**	**21,299**
Liabilities			
Held for trading			
- Derivatives	1,278	372	—
Financial liabilities at fair value through profit or loss			
- Repurchase transactions	20,886	—	—
Total	**22,164**	**372**	**—**

Special disclosures for financial instruments in level 3

	Held for trading	Financial assets at fair value through profit or loss				
Assets	**Derivatives**	**Shares and participations**	**Bonds and other fixed-income securities**	**Alternative investments**	**Other financial assets**	**Total**
Opening balance	—	**13,664**	—	**2,327**	—	**15,991**
Profit/loss in income statement	—	337	—	49	—	386
Purchases	—	5,309	—	925	—	6,234
Sales	—	-2,071	—	-293	—	-2,364
Exchange rate movements	—	195	—	32	—	227
Change in value	—	795	—	30	—	825
Closing balance	**—**	**18,229**	**—**	**3,070**	**—**	**21,299**
Share of profit/loss that pertains to assets held on the balance sheet date		395		49		444

Determination of fair value through published price quotations or valuation techniques

	Instruments with published price quotations in an active market	Valuation techniques based on observable market data	Valuation techniques based on non-observable market data
Group 2010	**Level 1**	**Level 2**	**Level 3**
Assets			
Financial assets at fair value through profit or loss			
- Shares and participations	100,736	6,145	13,664
- Bonds and other fixed-income securities	135,744	9,569	—
- Alternative investments	—	7,353	2,327
- Repurchase transactions	2,515	—	—
Held for trading			
- Derivatives	629	2,071	—
Total	**239,624**	**25,138**	**15,991**
Liabilities			
Held for trading			
- Derivatives	296	563	—
Financial liabilities at fair value through profit or loss			
- Repurchase transactions	8,357	—	—
Total	**8,653**	**563**	**—**

Special disclosures for financial instruments in level 3

	Held for trading	Financial assets at fair value through profit or loss				
Assets	**Derivatives**	**Shares and participations**	**Bonds and other fixed-income securities**	**Alternative investments**	**Other financial assets**	**Total**
Opening balance	—	**8,617**	—	**1,513**	—	**10,130**
Profit/loss in income statement	—	-534	—	-8	—	-542
Purchases	—	6,395	—	1,103	—	7,498
Sales	—	-630	—	-199	—	-829
Exchange rate movements	—	-1,203	—	-192	—	-1,395
Change in value	—	994	—	110	—	1,104
Movements in to level 3	—	25	—	—	—	25
Closing balance	**—**	**13,664**	**—**	**2,327**	**—**	**15,991**
Share of profit/loss that pertains to assets held on the balance sheet date		-504		-8		-512

Determination of fair value through published price quotations or valuation techniques

Parent company 2010	Instruments with published price quotations in an active market Level 1	Valuation techniques based on observable market data Level 2	Valuation techniques based on non-observable market data Level 3
Assets			
Financial assets at fair value through profit or loss			
- Shares and participations	100,736	—	13,664
- Bonds and other fixed-income securities	135,669	1,555	—
- Alternative investments	—	6,870	2,327
- Repurchase transactions	2,515	—	—
Held for trading			
- Derivatives	629	1,960	—
Total	**239,549**	**10,385**	**15,991**
Liabilities			
Held for trading			
- Derivatives	296	486	—
Financial liabilities at fair value through profit or loss			
- Repurchase transactions	8,357	—	—
Total	**8,653**	**486**	**—**

Special disclosures for financial instruments in level 3

	Held for trading	Financial assets at fair value through profit or loss				
Assets	**Derivatives**	**Shares and participations**	**Bonds and other fixed-income securities**	**Alternative investments**	**Other financial assets**	**Total**
Opening balance	—	**8,617**	—	**1,513**	—	**10,130**
Profit/loss in income statement	—	-534	—	-8	—	-542
Purchases	—	6,395	—	1,103	—	7,498
Sales	—	-630	—	-199	—	-829
Exchange rate movements	—	-1,203	—	-192	—	-1,395
Change in value	—	994	—	110	—	1,104
Movements in to level 3	—	25	—	—	—	25
Closing balance	**—**	**13,664**	**—**	**2,327**	**—**	**15,991**
Share of profit/loss that pertains to assets held on the balance sheet date		-504		-8		-512

Other disclosures

Skandia Liv uses several different valuation techniques for holdings classified in level 3. It is not possible to find any common, specific factor in the valuations which, if they were to change, would result in a significant change in the result. Consequently, Skandia Liv has not performed any sensitivity analysis. For information on valuation techniques, see note 1, Significant accounting policies.

23 Other debtors

	Group		Parent company	
	2011	**2010**	**2011**	**2010**
Unliquidated sales of investment assets	4 895	1,302	4 895	1,302
Receivables from group companies	—	—	8	5
Receivables from other Skandia companies	110	168	110	162
Cash security paid pertaining to derivative transactions	621	125	621	125
Other	428	389	36	29
	6,054	**1,984**	**5,670**	**1,623**

24 Distribution of 2010 profit

Distribution of profit as per the 2010 balance sheet by the 2011 Annual General Meeting:	
Reported profit for 2010	20,205
Transferred to the funding reserve for the following lines of insurance	**20,205**
Defined benefit insurance	329
Defined contribution traditional life assurance	10,127
Employment-related disability insurance and waiver of premium insurance	599
Individual traditional life assurance	8,619
Non-cancellable disability and accident insurance and waiver of premium insurance	355
Group life and occupational group life assurance	49
Cancellable disability and accident insurance	118
Reinsurance accepted	9
	20,205

In Skandia Liv, profit for the year is transferred to the funding reserve, which is part of equity. The funding reserve is the company's risk capital and is used to cover losses if necessary. However, normally it is used to provide the policyholders with the additional bonuses generated by successful asset management. Upon payment, bonuses are deducted directly from the funding reserve and thus do not affect the income statement.

25 Untaxed reserves

Parent company	2011	2010
Opening balance	**1,645**	**1,236**
Provision for the year	40	409
Change in previous years' provisions	-1,645	—
Closing balance	**40**	**1,645**

Untaxed reserves consist of the tax allocation reserve.

26 Life assurance provision

	Group		Parent company	
Gross provision	**2011**	**2010**	**2011**	**2010**
Closing balance before reinsurance	**208,959**	**176,646**	**194,807**	**162,489**
Reinsurers' share	-137	-94	—	—
Closing balance after reinsurance	208,991	176,552	194,807	162,489
Net opening provision	**176,646**	**177,282**	**162,489**	**163,266**
Currency effect on opening balance	-41	-1,792	—	—
Premiums	13,070	11,813	11,208	9,836
Payments	-12,839	-11,105	-10,711	-10,241
Risk result	-13	-24	-25	-25
Apportioned interest, gross	6,685	6,563	6,714	6,592
Fee charge	-1,662	-1,648	-1,602	-1,578
Policyholder tax	-1,183	-1,223	-1,183	-1,223
Effect of changed market interest rates	31,996	-645	31,908	-1,368
Assigned bonuses	295	208	0	21
Effect of difference in guaranteed rate and discount rate	-1,058	-1,138	-1,058	-1,138
Effect of surrenders	-1,968	-514	-1,968	-514
Premium reserve, risk products	-4	-69	-4	-69
Other changes	-965	-1,062	-961	-1,070
Net closing provision	**208,959**	**176,646**	**194,807**	**162,489**

Approximately SEK 13 billion is expected to be dissolved within 12 months.

Parent company:
Provisions are calculated in accordance with generally accepted actuarial principles. This means that the provisions have been discounted to present value and that the calculations are based on assumptions on interest rates, mortality, taxes and operating expenses, among other things. Life assurance provisions pertaining to occupational pensions are valued in accordance with the prudency principle, i.e,. realistic assumptions are to be used. For Other life assurance (insurance not classified as occupational pensions business), safeguard assumptions are used, i.e., assumptions that each have a built-in safety margin.

In valuations, the assumption on the discount rate has the greatest impact. The choice of discount rate is prescribed by the Financial Supervisory Authority in FFFS 2011:22. This regulation prescribes that market interest rates (interest rate curves) are to be used, which entails that the choice of interest rate depends on the cash flow profile of the lines of insurance, i.e., when in time incoming and outgoing payments from the insurance are expected.

A deduction has been made from the interest rate assumption pertaining to both Occupational pensions and Other insurance for policyholder tax and general overheads, totalling approximately 1%–2%.

Skandia Liv uses mortality assumptions that are specific to Skandia. The method used to determine these bases is grounded in an industry-wide mortality survey that was published in spring 2007.

27 Provision for claims outstanding

Dissolution analysis	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Opening balance	**6,755**	**7,454**	**6,720**	**7,411**
Currency effect on opening balance	0	-5	—	—
Cost for claims incurred during current year	790	691	795	698
Paid/transferred to insurance liabilities or other current liabilities	-845	-931	-845	-931
Run-off result	-33	-463	-16	-440
Effect of changed market interest rates	249	30	249	30
Other changes	-660	-21	-683	-48
Closing balance	**6,256**	**6,755**	**6,220**	**6,720**

Approximately SEK 1 billion is expected to be dissolved within 12 months.

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Provision for confirmed claims	105	113	105	113
Claims handling reserve	165	167	165	167
Provision for unconfirmed claims	1,363	1,124	1,327	1,089
Provision for disability annuities	4,623	5,351	4,623	5,351
	6,256	**6,755**	**6,220**	**6,720**

Parent company:
Claims outstanding that pertain to occupational pensions are valued in accordance with the prudency principal, i.e., realistic assumptions are to be used. For Other life assurance (insurance not classified as occupational pension insurance), safeguard assumptions are used, i.e., assumptions that each have a built-in safety margin.

In valuations, the assumption on the discount rate has the greatest impact. The choice of discount rate is prescribed by the Financial Supervisory Authority in FFFS 2011:22. This regulation prescribes that market interest rates (interest rate curves) are to be used, which entails that the choice of interest rate depends on the cash flow profile of the lines of insurance, i.e., when in time incoming and outgoing payments from the insurance are expected.

For Other insurance with indexed disability annuities, a real interest rate assumption of 0.00% has been used, while for contracts classified as occupational pension insurance, an assumption of 0.90% has been used. For disability annuities in which benefits are set at a fixed amount, the discounted value has been calculated using a nominal interest rate of 1.26% for insurance other than occupational pension insurance and 2.18% for insurance classified as occupational pension insurance. The provision for disability annuities has been calculated based on run-off assumptions that are based on the company's own experience. The provision also includes a provision for future operating expenses for handling ongoing disability annuities (the claims handling reserve). The decrease in the claims handling reserve, amounting to SEK 2.7 million, is reported in the income statement under Claims paid. For calculations of reserves for disability annuities, assumptions on reactivation of disabled claimants are also needed. The assumptions used are also based on the company's own experience.

28 Conditional bonuses

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Opening balance	**224**	**204**	**224**	**204**
Utilised conditional bonuses[1)]	-48	-29	-48	-29
Change in conditional bonuses	78	49	78	49
Closing balance	**254**	**224**	**254**	**224**

[1)] Utilised, conditional bonuses may only be used to pay new premiums. The amount is thus transferred directly to premiums written.

Changes in the market do not directly affect conditional bonuses. The impact is indirect through the company's distribution of the surplus through the bonus rate.

As a result of this, no sensitivity analysis is provided, since it is difficult to interpret and the effect is smoothened out over several years.

29 Provision for taxes

	Group 2011	Group 2010	Parent company 2011	Parent company 2010
Policyholder tax	—	—	—	—
Income tax asset/liability	-622	27	-622	-258
Payroll tax liability	3	25	0	0
	-619	**52**	**-622**	**-258**

Preliminarily paid-in tax pertains primarily to the policyholder tax and secondarily to income tax.

PROVISION FOR DEFERRED TAX

	2011 Tax asset	2011 Tax liability	2010 Tax asset	2010 Tax liability
Group				
Deferred tax attributable to:				
Intangible assets	21	—	19	0
- Land and buildings	105	3,313	201	2,852
- Shares and participations	—	-7	—	219
- Alternative investments	—	7	—	12
- Bonds and other fixed-income securities	—	106	—	23
- Derivatives	—	-3	—	14
- Untaxed reserves	—	13	—	436
- Tax-loss carryforwards	198	—	387	—
- Shares in partnerships and limited partnerships	123	—	124	—
- Provisions	2	22	2	24
- Pension liability	—	23	—	33
	449	**3,474**	**733**	**3,613**

All changes are included in profit for the year.

(Note 29 continues on the next page)

Note 29 cont., Provision for deferred tax

	2011		2010	
	Tax asset	Tax liability	Tax asset	Tax liability
Parent company				
Deferred tax attributable to:				
- Shares and participations	—	-7	—	219
- Alternative investments	—	7	—	12
- Bonds and other fixed-income securities	—	106	—	23
- Derivatives	—	-3	—	14
	—	**103**	**—**	**268**

All changes are included in profit for the year.

30 Other provisions

	Group		Parent company	
	2011	2010	2011	2010
Deferred registration of title costs	130	166	—	—
Tax liability stemming from tax dispute	22	27	10	14
Other provisions	28	9	9	9
	180	**202**	**19**	**23**

Of provisions, SEK 26 million will be discontinued for the group and SEK 9 million for the parent company within 12 months.

31 Creditors arising out of direct insurance operations

	Group		Parent company	
	2011	2010	2011	2010
Liabilities to policyholders	953	902	921	859
	953	**902**	**921**	**859**

The liabilities pertain mainly to preliminary tax withheld from paid-out benefits, totalling SEK 463 million (466), and late payment of premiums, which have not yet been invested in the insurance, totalling SEK 129 million (398). The liability will be settled within 12 months.

32 Derivative instruments with negative values

	2011					2010				
Fair value	Equities	Currency	Fixed income	Commodities	Total	Equities	Currency	Fixed income	Commodities	Total
Group										
Derivative instruments reported in the balance sheet										
Options with negative values	80	—	—	—	80	32	—	—	—	32
Forward contracts with negative values	0	254	867	—	1,121	—	108	20	—	128
Swaps with negative values	149	240	3	223	615	46	213	429	11	699
Total	**229**	**494**	**870**	**223**	**1,816**	**78**	**321**	**449**	**11**	**859**
Parent company										
Derivative instruments reported in the balance sheet										
Options with negative values	—	—	—	—	—	—	—	—	—	—
Forward contracts with negative values	0	171	867	—	1,038	—	63	20	—	83
Swaps with negative values	149	240	—	223	612	46	213	429	11	699
Total	**149**	**411**	**867**	**223**	**1,650**	**46**	**276**	**449**	**11**	**782**

In the parent company and group, all of the above except for SEK 867 million and SEK 950 million, respectively, expire within 12 months.

33 Other creditors

	Group		Parent company	
	2011	2010	2011	2010
Unliquidated purchases of investments	3,358	1,207	3,358	1,207
Liabilities to group companies	—	—	1,497	102
Liabilities to other Skandia companies	522	133	502	130
Cash security received pertaining to derivative transactions	1,088	1,490	1,088	1,490
Other	547	631	1,215	701
	5,515	**3,461**	**7,660**	**3,630**

34 Pledged assets

	Group		Parent company	
	2011	2010	2011	2010
Margin security for derivative contracts	5,580	5,372	5,578	5,369
Securities pertaining to repurchase transactions	12,637	5,842	12,637	5,842
Property mortgages pledged for loans, etc., nominal value	—	55	—	—
	18,217	**11,269**	**18,215**	**11,211**
Assets for which policyholders have beneficiary rights [1) 2)]	259,615	237,452	259,600	222,588

1) Creditors arising out of direct insurance operations.
2) Assets as per 31 December 2011 consist of SEK 147,863 million in fixed-income securities, SEK 105,568 million in equities, and SEK 20,769 million in real estate.

These assets may be utilised to secure the policyholders' guaranteed benefits in the event of an insolvency situation.

35 Contingent liabilities and obligations

	Group		Parent company	
	2011	2010	2011	2010
Contingent liabilities	26	201	—	—
Committed private equity investments	21 341	17 985	21,341	17,985
	21,367	**18,186**	**21,341**	**17,985**

36 Leasing

In its capacity as a lessee, the group has entered into a number of operating leases, which pertain to the lease of premises for some of the group's subsidiaries. Total leasing costs for the year were SEK 11 million (11). The maturities for the combined amount of future, minimum lease payments pertaining to non-cancellable operating leases as per 31 December, are listed below:

	Group		Parent company	
	2011	2010	2011	2010
Operating leases				
within one year	7	7	—	—
later than one year but within five years	30	31	—	—
later than five years	23	24	—	—
Total lease payments	**60**	**62**	**—**	**—**

As a result of the joint organisation in Sweden, Skandia Liv's leases have been renegotiated and are now part of the agreement that regulates costs between Skandia Liv and Skandia. This agreement has a term of one year, and the cost varies along with Skandia Liv's use of space. See note 38.

In its capacity as a lessor, the group has entered into a number of operating leases. The contracts pertain to leases for residential properties and other premises. The maturities for the combined amount of future, minimum lease payments pertaining to non-cancellable operating leases as per 31 December, are listed below:

	Group		Parent company	
	2011	2010	2011	2010
Operating leases				
within one year	576	628	—	—
later than one year but within five years	1,257	1,109	—	—
later than five years	251	292	—	—
Total lease payments	**2,084**	**2,029**	**—**	**—**

The variable part of leases, which is included in result for the period, amounts to SEK 56 million (48).

37 Average number of employees; wages, salaries and remuneration

Average number of employees	2011 Women		Men		Total	2010 Women		Men		Total
Parent company in Sweden	114	46%	133	54%	247	121	47%	135	53%	256
Subsidiaries in Sweden	79	49%	82	51%	161	93	52%	85	48%	178
Total, Sweden	**193**	**47%**	**215**	**53%**	**408**	**214**	**49%**	**220**	**51%**	**434**
Subsidiaries in Denmark	55	61%	35	39%	90	59	63%	35	37%	94
Total, foreign subsidiaries	**55**	**61%**	**35**	**39%**	**90**	**59**	**63%**	**35**	**37%**	**94**
Total, group[1]	**248**	**50%**	**250**	**50%**	**498**	**273**	**52%**	**255**	**48%**	**528**

Gender breakdown of executive management as per 31 December	2011 Women		Men		Total	2010 Women		Men		Total
Parent company, Sweden										
Board of Directors	2	22%	7	78%	9	1	13%	7	87%	8
CEO and other members of executive management	1	14%	6	86%	7	2	29%	5	71%	7
Subsidiaries										
Board of Directors	6	20%	24	80%	30	8	32%	17	68%	25
CEO and other members of the companies' management	5	29%	12	71%	17	7	33%	14	67%	21
Total, group										
Board of Directors	**8**	**21%**	**31**	**79%**	**39**	**9**	**27%**	**24**	**73%**	**33**
CEO and other members of the companies' management	**6**	**25%**	**18**	**75%**	**24**	**9**	**32%**	**19**	**68%**	**28**

[1] All employees are office staff.

Wages, salaries and other benefits during the year, SEK thousand

2011	Base salary/ Directors' fees	Variable remunera-tion	Other benefits and remu-neration	Pension cost	Social security charges	Total
Parent company						
Gunnar Palme, Chairman of the Board	904	–	–	–	284	1,188
Gunnar Holmgren, director	460	–	–	–	145	605
Monica Lindstedt, director	208	–	–	–	52	260
Leif Victorin, director	350	–	–	–	36	386
Jens Erik Christensen, director	250	–	–	–	79	329
Lars Otterbeck, director	300	–	–	–	20	320
Bengt-Åke Fagerman, CEO[1]	4,350	941	115	3,053	2,439	10,898
Other senior executives[2] (6 persons)[1]	10,721	2,640	597	4,223	5,410	23,591
Other employees who affect the company's risk level (14 persons)[1][3]	14,937	2,306	2,116	5,317	7,373	32,049
Other employees[3]	124,633	7,659	13,411	37,393	56,786	239,882
Total, parent company in Sweden	**157,113**	**13,546**	**16,239**	**49,986**	**72,624**	**309,508**
Subsidiaries						
Chairmen	672	–	–	–	0	672
CEOs	5,923	809	123	1,136	2,059	10,050
Other senior executives (13 persons)[2]	12,345	1,161	227	669	3,979	18,381
Other employees who affect the company's risk level	–	–	–	–	–	–
Other employees	128,864	7,452	3,095	19,852	36,942	196,205
Total, subsidiaries	**147,804**	**9,422**	**3,445**	**21,657**	**42,980**	**225,308**
Total, group						
Chairmen	1,576	–	–	–	284	1,860
Board members	1,568	–	–	–	332	1,900
CEOs	10,273	1,750	238	4,189	4,498	20,948
Other senior executives[2]	23,066	3,801	824	4,892	9,389	41,972
Other employees who affect the company's risk level	14,937	2,306	2,116	5,317	7,373	32,049
Other employees	253,497	15,111	16,506	57,245	93,728	436,087
Total, group	**304,917**	**22,968**	**19,684**	**71,643**	**115,604**	**534,816**

[1] Risk-takers according to definition below.
[2] By other senior executives in the parent company is meant the six persons who, together with the CEO, make up Skandia Liv's management team. In the group, it also includes the persons who, in addition to the CEO of each company, make up the respective company's management teams.
[3] Remuneration in connection with the voluntary offer is reported in other benefits and remuneration. It amounted to SEK 1,487 thousand for the category "other risk-takers" and SEK 6,515 thousand for other employees.

Specification of variable remuneration in the parent company 2011, SEK thousand

	CEO[1]	Other senior executives (6 persons)[1]	Other employees who influence the company's risk level	Other employees	Total
Additional or reversed remuneration pertaining to 2010	54	-55	-525	-1,413	-1,939
Other remuneration paid out (e.g., bonuses)	—	257	—	726	983
Estimated provision for 2011	887	2,438	2,831	8,346	14,502
Total amount applied to profit in 2011	**941**	**2,640**	**2,306**	**7,659**	**13,546**
Estimated provision for variable remuneration for 2010	772	2,425	2,431	10,086	15,714
Variable remuneration paid out in 2011 for 2010 (247 persons)	-330	-948	-805	-8,673	-10,756
Variable remuneration withheld in 2011 pertaining to 2010[1]	-496	-1,422	-1,101	0	-3,019
Total additional or reversed provisions pertaining to 2010	**-54**	**55**	**525**	**1,413**	**1,939**

[1] No remuneration has been withheld for 2009 or earlier years.
No pledges for guaranteed variable remuneration are in effect for Skandia Liv or its subsidiaries.

Percentage breakdown of variable remuneration paid out in 2011

Cash variable remuneration	65%
Share-based payment	0%
Other	35%

Pension cost in relation to pensionable salary

Parent company	Defined contribution	Defined benefit
CEO	24%	39%
Other senior executives (6 persons)	21%	11%

Wages, salaries and other benefits during the year, SEK thousand

2010	Base salary/ Directors' fees	Variable remunera-tion	Other benefits and remu-neration	Pension cost	Social security charges	Total
Parent company						
Gunnar Palme, Chairman of the Board	642	—	—	—	202	844
Bo Eklöf, former Chairman of the Board[1]	479	—	—	—	49	528
Gunnar Holmgren, director	396	—	—	—	124	520
Monica Lindstedt, director	250	—	—	—	79	329
Leif Victorin, director	286	—	—	—	29	315
Jens Erik Christensen, director	142	—	—	—	45	187
Lars Otterbeck, director	273	—	—	—	28	301
Dag Andresen, former director	119	—	—	—	37	156
Elisabet Annell, former director[2]	146	—	—	—	46	192
Sverker Lundqvist, former director[3]	292	—	—	—	92	384
Bengt-Åke Fagerman, CEO[4]	4,223	3,742[5]	120	2,929	3,251	14,265
Other senior executives[6] (6 persons)[4]	11,337	7,441[5]	688	4,336	7,168	30,970
Other employees who affect the company's risk level (14 persons)[4]	13,069	1,873	623	4,577	6,001	26,143
Other employees	124,085	12,389[5]	3,917	34,797	55,157	230,345
Total, parent company in Sweden	**155,739**	**25,445**	**5,348**	**46,639**	**72,307**	**305,478**

No severance pay was expensed or paid out in 2010.

[1] Chairman of the Board through 18 May.
[2] Director through 18 May.
[3] Director through 18 May.
[4] Risk-takers according to definition below.
[5] Includes cash paid out as special remuneration – project for new structure. See specification below.
[6] By other senior executives in the parent company is meant the six persons who, together with the CEO, make up Skandia Liv's management team. In the group, it also includes the persons who, in addition to the CEO of each company, make up the respective company's management teams.

	Base salary/ Directors' fees	Variable remuneration	Other benefits and remuneration	Pension cost	Social security charges	Total
Subsidiaries						
Chairmen	596	—	—	—	28	624
CEOs	7,672	400	270	1,595	2,292	12,230
Other senior executives (17 persons)[1]	15,264	1,129	413	2,113	4,932	23,851
Other employees who affect the company's risk level	—	—	—	—	—	—
Other employees	135,500	6,507	3,707	23,485	37,862	207,062
Total, subsidiaries	**159,033**	**8,036**	**4,390**	**27,193**	**45,114**	**243,766**
Total, group						
Chairmen	1,717	—	—	—	279	1,995
Board members	1,904	—	—	—	480	2,384
CEOs	11,895	4,142	390	4,524	5,543	26,494
Other senior executives (23 persons)[1]	26,601	8,570	1,101	6,449	12,100	54,821
Other employees who affect the company's risk level (14 persons)[2]	13,069	1,873	623	4,577	6,001	26,143
Other employees	259,585	18,896	7,624	52,282	93,019	437,406
Total, group	**314,772**	**33,481**	**9,738**	**73,832**	**117,421**	**549,244**

[1] By other senior executives is meant the six persons who, together with the CEO, make up Skandia Liv's management team. In the group, it also includes the persons who, in addition to the CEO of each company, make up the respective company's management teams.
[2] Risk-takers according to definition below.

Specification of variable remuneration in the parent company, SEK thousand

	CEO[1]	Other senior executives (6 persons)[1]	Other employees who affect the company's risk level	Other employees	Total
Reversed remuneration pertaining to 2009	0	-367	-651	-999	-2,017
Other variable remuneration paid out (e.g., bonuses)	0	118	93	2,132	2,343
Cash payment for special remuneration – project for new structure (6 persons)	2,970	5,265	—	1,170	9,405
Estimated provision for 2010	772	2,425	2,431	10,086	15,714
Total amount applied to profit in 2010	**3,742**	**7,441**	**1,873**	**12,389**	**25,445**
Estimated provision for variable remuneration for 2009	891	3,112	3,910	11,277	19,190
Variable remuneration paid out in 2010 for 2009 (242 persons)	-891	-2,745	-3,259	-10,278	-17,173
Variable remuneration withheld in 2010 pertaining to 2009[1]	—	—	—	—	—
Total reversed amount pertaining to 2009	**0**	**367**	**651**	**999**	**2,017**

[1] No remuneration was withheld for 2009 or earlier years.
No pledges for guaranteed variable remuneration are in effect for Skandia Liv or its subsidiaries.

Percentage breakdown of variable remuneration paid out in 2010

Cash variable remuneration	78%
Share-based payment	0%
Other	22%

Pension cost in relation to pensionable salary

Parent company	Defined contribution	Defined benefit
CEO	28%	44%
Other senior executives (6 persons)	23%	11%

Principles for the parent company, Skandia Liv

Remuneration policy:
The Board of Directors adopts the company's remuneration policy, whereby it also takes into account the general remuneration policy for Skandia. Skandia Liv's remuneration policy stipulates, among other things, that remuneration of employees of Skandia Liv and its subsidiaries shall be structured so as to take into account the importance that the operations are cost-effective and competitive. To safeguard the policyholders' best interests, the benefits system shall encourage long-term value creation in the company with a well balanced risk horizon. Performance-based remuneration shall be based on the performance of the individual employees as well as on the profit centre's and company's total performance. If an employee's remuneration includes a variable component, there shall be a balance between the fixed and variable portion. The variable portion shall have a cap on how much may be payable if all targets are exceeded. Skandia Liv's remuneration policy shall be reviewed yearly, so that it develops in pace with changes in the company's environment.

Each year the Compliance Officer shall independently review whether the company's remuneration is consistent with the remuneration policy and report the result of this review to the Board of Directors. This report shall normally be presented in conjunction with the Compliance Officer's annual report to the Board.

Risk analysis:
Before a decision is made on the remuneration system or on significant changes in the system, an analysis is performed of how the system affects the risks that Skandia Liv is exposed to and how these risks are managed. The company's Chief Risk Officer (CRO) has specific responsibility for this assessment.

The risk analysis covers the structure and content of remuneration programmes for Skandia Liv's employees, how Skandia Liv's remuneration policy is to be applied, and how Skandia Liv defines which employees could have an influence over the company's risk level. The analysis also includes a description of risk management and control systems in Skandia Liv. The focal point of the analysis is on variable remuneration.

The completed risk analysis – along with the assumption that the risk management and control system is adhered to – shows in summary that Skandia Liv's remuneration policy and programmes support effective risk management in the company and do not encourage excessive risk-taking. The following parts of the remuneration system are key components that have affected the result of this analysis:
• The formation of a remuneration committee, which is a permanent board committee tasked with conducting preparatory work on employee benefits within Skandia Liv and its subsidiaries. This committee enables the Board to make well-considered and active decisions on remuneration matters. The process also ensures transparency in the setting of remuneration for the CEO and the CEO's management team.
• Most remuneration paid to Skandia Liv's employees is in the form of fixed remuneration.
• Variable remuneration is based on predetermined performance criteria which are largely coupled to unit and company-wide targets as well as to individual financial and non-financial criteria.
• Clear processes for approval of objectives and key performance indicators (the so-called grandfather principle).
• Rules that support long-term, balanced risk-taking, which is achieved through – among other things – evaluation periods spanning several years and the requirement that 60% of variable remuneration rewards are deferred for at least three years.

Drafting and decision-making process:
Skandia Liv has a remuneration committee consisting of three board members, of whom two are independent in relation to the company and the shareholder. The committee's members are Gunnar Palme (chair), Mårten Andersson and Gunnar Holmgren. The CEO and head of HR are co-opted members of the Remuneration Committee to the extent requested by the committee.

The Remuneration Committee is tasked with conducting drafting work for the Board's guidelines for remuneration and benefits of employees of the company, including its subsidiaries. In addition, the committee draws up the terms of employment for the CEO. In accordance with the so-called grandfather principle,[1] the Remuneration Committee shall also approve the Chief Executive's decisions on salary and benefits for members of the company's management team, with the exception of variable remuneration, which is set by the Board. Further information about Skandia Liv's remuneration committee is provided in the Corporate Governance Report, which is posted on Skandia Liv's website: skandia.se/liv.

Remuneration components:
Employee remuneration is made up of one or more of the following components:
• Salary and fees
• Variable remuneration
• Pension
• Other benefits, such as company car and private healthcare insurance

Skandia Liv's pension plans consist primarily of pension benefits provided under the collective agreement for the insurance industry (FTP), and in certain cases supplementary pension benefits for senior executives. The pension plans comprise primarily retirement pension, disability pension and family pension.

[1] The grandfather principle entails that approval must be obtained by a manager's manager.

Salaries and fees:
The Chairman of the Board and the directors are paid a fee in accordance with a decision made by the Annual General Meeting. No fees are paid to directors who are employees of the Skandia group. Remuneration for the CEO and other senior executives consists of a fixed base salary and possible variable remuneration.

Variable remuneration:
In 2011 Skandia Liv used four different models for variable remuneration. Each employee can only be covered by one of these models, which pertains to remuneration for:
- the CEO and other members of the executive management team,
- other senior executives and key persons,
- senior executives and employees of Skandia Liv Asset Management, and
- other employees.

For the CEO and other members of the executive management team, except for the Head of Asset Management, variable remuneration can amount to a maximum of 30% of base salary. Of this 30%, 12 percentage points are coupled to the three Livianen targets (see fact box), and 18 percentage points are coupled to individual targets set by the CEO. The individual targets for the CEO are set by the Board of Directors.

For other senior executives and key persons, the opportunity for variable remuneration amounts to a maximum of 10% or 20% of base salary. Of these amounts, 2 and 4 percentage points, respectively, are coupled to the Livianen targets. The other 8 and 16 percentage points, respectively, are individual and tied to the respective persons' specific areas of responsibility.

For senior executives of Skandia Liv Asset Management, the opportunity for variable remuneration amounts to a maximum of 50% of base salary, and for other employees in the asset management unit, the opportunity for variable remuneration amounts to 10%–40% of base salary. For all of these persons, one of the Livianen targets accounts for a maximum of one-third of the variable remuneration. Any other variable remuneration is based on individual targets with a direct coupling to the respective persons' areas of responsibility.

For other employees, variable remuneration corresponding to a maximum of 125% of one-half of the Price Base Amount can be payable. A provision for this amount is allocated to a profit-sharing foundation, Livianen. For 2011 this provision can amount to a maximum of SEK 26,750 per employee. See the fact box on Livianen.

Employees who work with operational oversight, such as the Chief Risk Officer (CRO), the Operational Risk Supervisor (ORS), chief actuaries, the Compliance Officer, colleagues of these executives and middle-office employees in the compliance function of Skandia Liv's asset management unit and internal audit shall, regardless of what is stated above, have targets that are independent of the performance of the areas that they oversee.

Pensions:
Upon turning 60 years of age, the CEO can request a defined benefit pension for salary amounts equivalent of up to 52 times the Income Base Amount. His ordinary retirement age is 65. On salary amounts in excess of 52 times the Income Base Amount, the pension is a defined contribution solution with an annual premium of 35% on said salary amounts. The CEO's variable salary is not included in his pensionable salary.

Other senior executives of the parent company have defined benefit pension obligations which, upon completion of service to the contracted retirement age (which varies from 60–65 years of age), pay a lifetime pension corresponding to 60%–70% of base salary. In addition, one of these executives has a defined contribution pension corresponding to 17% of base salary.

Severance pay:
In the event the company serves notice, the CEO is entitled to salary during the notice period, which is 12 months. In addition, the CEO is entitled to severance pay equivalent to 12 months' salary (base salary), which in 2011 corresponded to SEK 4,350 thousand. This is the only commitment for severance pay by Skandia Liv. Severance pay will be deducted from any other income. In the event the CEO gives notice, the notice period is 6 months.

For other senior executives, in the event the company serves notice, they are entitled to salary during the notice period, which is 6 or 12 months. In the event a senior executive gives notice, a notice period of 3–6 months applies.

Loans:
Loans totalling SEK 16,886 thousand (15,234) have been made to the CEO and other senior executives.

The loans in question have been issued by Skandiabanken and consist mostly of home mortgages secured by real estate deeds. The loans carry the applicable interest rate for employees, which was 1% in 2011. The maximum amount for the employee loan benefit is 35 times the Price Base Amount. Any loan amounts higher than this carry a market rate of interest. Loans totalling SEK 4,367 thousand (2,480) have been granted to board members. Loans to board members carry market rates of interest.

Variable remuneration for risk-takers:
Skandia Liv applies the Financial Supervisory Authority's general guidelines regarding remuneration policies in insurance undertakings, exchanges, clearing organisations and institutions for the issuance of electronic money (FFFS 2009:7). As a result of this, a certain portion of earned variable remuneration for 2010 and later, for certain executives referred to as risk-takers, is deferred.

Risk-takers:
Based on a risk analysis, Skandia Liv has identified a number of positions that could exercise a significant influence over the company's risk level (so-called risk-takers). The risk-takers category also includes the employees tasked with controlling risk-taking.

The following persons belong to the risk-taker category:
1. The CEO
2. The Business Head
3. The Head of Skandia Liv's asset management
4. Other members of Skandia Liv's management team
5. The head of the risk insurance department (reports to the Business Head)
6. The head of the savings insurance department (reports to the Business Head)
7. The head of the department for public sector business (reports to the Business Head)
8. Members of the asset management unit's investment committee and the head of Middle Office in the asset management unit
9. Employees in control bodies, such as Internal Audit and Compliance

Continued work with risk analysis may give rise to changed assessments, entailing the removal or addition of persons to the risk-taker category. No changes took place in 2011.

Lock-in of variable remuneration for risk-takers:
For the approximately 15 employees who have or could have a significant influence over Skandia Liv's risk level, payment of 60% of any variable remuneration is deferred for at least three years. In addition, for such employees the Board has the right to unilaterally decide that the right to payment of the deferred remuneration shall be nullified in the event of extraordinary circumstances that entail that the company's financial stability is jeopardised or that the result criteria were not properly met.

Risk-adjusted payment:
A provision is made on the balance sheet for the portion of the risk-takers' variable remuneration that has been deferred. The reserved amount changes during the lock-in period to the same degree that the value of Skandia Liv's financial assets change.

Livianen is a foundation similar to a profit-sharing foundation. The aim is to promote motivation and participation among employees by offering an opportunity for financial incentives when set targets are met.

Rewards from Livianen are payable if one or more of the following targets are met:
- Each year, Skandia Liv's total return is among the top 3 among a group of defined competitors
- Skandia Liv's written premiums exceed the set budget
- Operating expenses do not exceed budget

The variable remuneration can amount to a maximum of 125% of one-half of the Price Base Amount, and can be payable in full or in part. Rewards are allocated to an employee foundation, Livianen, and are not available until the fifth year after they have been rewarded.

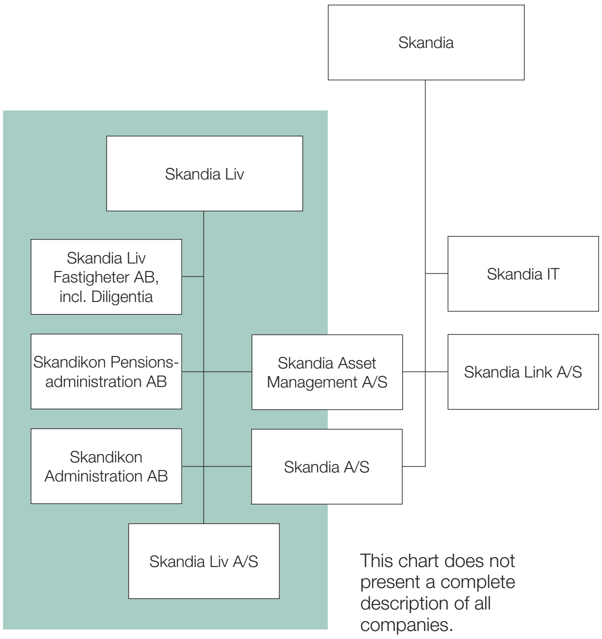
38 Related party disclosures

Related parties

Skandia Liv is a wholly owned subsidiary of Skandia. Skandia Liv's business is conducted on a mutual basis. This means that all value in Skandia Liv is to be returned to the policyholders. No profit distribution may take place to the shareholder. Skandia Liv is therefore not consolidated in the accounts of the Skandia group.

Related parties are defined as all companies in the Old Mutual Group, in which the Skandia group and Skandia Liv group are included as subsidiary groups. Added to these are board members and senior executives of Skandia Liv as well as their close relatives. Following is a description of the companies in the Skandia group with which Skandia Liv has significant relations.

Overall description of the Skandia and Skandia Liv groups



This chart does not present a complete description of all companies.

Process

The Board of Skandia Liv has adopted guidelines for transactions and other relations between Skandia Liv and Skandia. These entail, among other things, that agreements of a financial nature between Skandia Liv and Skandia must be specially reviewed to ensure that they are in compliance with the prohibition against profit distribution, and valuations must be tested in a thorough and impartial manner. Clear documentation shall be prepared for agreements and valuations in which it is clear who is commercially responsible for the transaction. All agreements shall be specified and reported yearly to the Board of Skandia Liv. Skandia Liv's Audit and Risk Committee has special oversight responsibility for ensuring adherence to the guidelines adopted by the Board for transactions and other relations between Skandia Liv and Skandia. Transactions of material significance and a nonrecurring nature shall be decided on by Skandia Liv's board. In connection with the sale of significant assets in which a market quotation is lacking, a valuation shall be performed by external appraisers. Such valuation shall be documented. With respect to transactions of an ongoing nature, an established process is in place. Skandia Liv and Skandia have an outsourcing agreement in place with regulates on an overall level the assignments that Skandia Liv has contracted Skandia to perform. The outsourcing agreement also specifies how the outsourced assignment is to be governed and planned. An outsourcing agreement also exists with Skandiabanken, which is largely consistent with and refers to the agreement with Skandia. The outsourcing agreements include numerous specifications that describe in detail the service content, level and execution of the respective assignments. Unit heads are responsible for the assignments related to their own respective units. The unit heads can delegate their responsibility to a specially designated agreement head, who would then have the financial responsibility as well as responsibility for governance and follow-up of the assignment in question. The finance unit is responsible for the structure and handling of the outsourcing agreement and therewith associated specifications and the process for following up these. Consultation groups have been set up for the respective assignments, and quarterly consultation meetings are held between the parties regarding the level of service, how errors are to be handled, compensation levels, follow-up and other questions. 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, such as insurance distribution or Diligentia's leasing of premises. In other respects, the cost-price method is used.

In connection with business planning, a budget is prepared which includes the total cost per assignment, broken down into separate costs and shared costs, along with an allocation formula that reflects degree of use based on ABC methodology. The budgets for the respective assignments are primarily negotiated by representatives from both parties in the consultation group, in so-called buy and sell meetings. These budgets are ultimately reviewed and decided on by Skandia Liv's board. Compensation is based on the actual outcome. Departures from an approved budget must be presented to and approved by the consultation groups, and a review of the allocation formulas is performed on a quarterly basis in the aim of changing these if material changes have taken place. Any major deviations shall be approved by Skandia Liv's CEO and, in certain cases, by the Board of Directors.

Transactions

1) The entire Old Mutual Group has joint liability insurance. Skandia Liv pays its share of this cover.

Between the Skandia Liv group and companies consolidated in the Skandia group

In 2011 Skandia Liv made a group contribution of SEK 1,600 million to Skandia, which thereby decreased Skandia Liv's taxable earnings. At the same time, Skandia Liv received a shareholder contribution of SEK 1,179 million from Skandia. The transactions together entails a net liability of SEK 421 million.

2) In 2004 Skandia Liv and Skandia entered into an agreement in principle and master 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, administration of group insurance products, and diverse staff and service functions. With respect to distribution, Skandia receives going-rate compensation for performed services, but at the same time is responsible to reimburse Skandia Liv in the event of a surrender of the sold policies. The compensation that is payable for other areas covered by this point is based on cost-price, broken down into degree of actual use.

   Compensation for sales via Skandia's own sales channel was renegotiated during the year. Commissions are at the same level as for external insurance brokers. In addition, Skandia Liv now pays a fixed amount per salesperson for clients' special risks and outlays for their own respective sales channels.
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) Skandia Liv A/S hedges its currency positions through forward contracts with Skandia Treasury at the prices that apply in the currency market.
5) Skandia IT provides IT services for the entire Skandia group. Compensation is paid according to the cost-price principle, with costs allocated based on use of the various IT services.
6) An agreement exists between Skandia and Skandia Liv which describes the group-wide functions that Skandia provides for Skandia's entire Skandia Nordic division. This covers, among others, the Head of the Nordic division, communication, overall risk control and the Chief Operating Officer.
7) Since September 2009, Skandia pays a fixed amount of SEK 13.9 million per quarter as reimbursement for the compensation that Skandia Liv paid to DnBNOR in connection with the renegotiated asset management agreement. The reimbursement payments will continue through 2013. The discounted receivable amounts to SEK 96 million.
8) 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.
9) Within the Hälsokedjan disability insurance concept, Skandia Liv also offers rehabilitation services, which are purchased from Skandia's Lifeline unit. Skandia Liv pays market compensation for this. In 2011 the level of compensation was adjusted for previous years by a total amount of SEK 63.3 million, entailing that the figure for 2011 is reported as revenue.
10) Skandia rents office premises at various locations around Sweden from Skandia Liv and pays market rents for these.
11) Skandiabanken provides loans to employees of Skandia Liv. These loans are made at so-called personnel interest rates, and Skandia Liv compensates the bank for the difference between the personnel interest rate and the market interest rate. Skandiabanken also administers a small portfolio of loans for Skandia Liv, for which Skandia Liv pays market compensation. Skandia Liv has purchased private healthcare and rehabilitation insurance for its employees from Skandia. The premiums are in line with the going rate in the market.
12) 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, each year reinsures part of its risk in the open market.

    The Skandia group employs a system of automatic settlement of payments that are made on a daily or monthly basis. As per 31 December 2011, Skandia Liv's net liability to Skandia amounted to a total of SEK 185 million (net liability of 131).

Between companies in the Skandia Liv group
In 2011 Skandia Liv made a group contribution of SEK 1,497 million to Diligentia AB.

13) Skandia Liv Fastigheter AB has loans from Skandia Liv amounting to a total of SEK 16,600 million (18,600) as per 31 December 2011. Market rates of interest are paid, which are based on statements on the going rate in the market that have been solicited, via third-parties, from major credit institutions.
14) Skandikon Pensionsadministration AB performs administrative services regarding occupational pensions for employees of the Skandia group. Going-rate compensation is paid, which is based on the same model used for the company's external customers.
15) All Swedish subsidiaries in the Skandia Liv group are included in a joint group-account structure and receive or pay market interest from/to Skandia Liv for their share of holdings in the account.
16) Skandia Liv A/S has loans from Skandia Liv amounting to a total of SEK 156 million (156) as per 31 December 2011. A market interest rate is paid.

Between Skandia Liv and its board of directors and executive management

17) Remuneration to the board and senior executives of Skandia Liv is shown in note 37. Relatives of these persons, and companies outside of the Skandia and Old Mutual groups in which Skandia Liv's board members and senior executives have board assignments, are also regarded as related parties. No transactions are conducted with these persons or companies other than normal customer transactions made according to commercial terms.

Transactions by order of significance

Character	Receiving company	Rendering company	Remuneration, SEK million	Reference
Liability insurance	Skandia/Old Mutual	Skandia Liv	1	1)
Between the Skandia Liv group and companies consolidated in the Skandia group.				
Distribution support, market communication, customer service centre, group insurance, staffs and business development	Skandia	Skandia Liv	504	2)
Retrocessions	Skandia	Skandia Liv	503	2)
Occupational pensions for Skandia employees	Skandia Liv	Skandia	175	3)
Forward exchange contracts, net	Skandia	Skandia Liv	74	4)
IT operation and service	Skandia	Skandia Liv	72	5)
Group-wide functions	Skandia	Skandia Liv	59	6)
Reimbursement pertaining to new asset management agreement	Skandia Liv	Skandia	53	7)
Joint occupational pensions concept	Skandia Liv	Skandia	29	8)
Compensation for Lifeline Rehab	Skandia Liv	Skandia	26	9)
Rents for office premises	Skandia Liv	Skandia	13	10)
Employee benefits	Skandia	Skandia Liv	9	11)
Reinsurance contracts (net)	Skandia Liv	Skandia	6	12)
Between companies in the Skandia Liv group				
Interest on long-term loans	Skandia Liv	Diligentia AB and others	952	13)
Pension administration	Skandikon Pensions-administration AB	Skandia Liv	24	14)
Interest on group account, net	Skandia Liv	Skandia Liv subsidiaries	15	15)
Interest on long-term loans	Skandia Liv	Skandia Liv A A/S and Skandia Liv A/S	7	16)

Denmark
In Denmark, both of Skandia Liv's subsidiaries, Skandia Liv A/S and Skandia Liv A A/S co-operate with Skandia Link A/S through the companies Skandia A/S and Skandia Asset Management A/S.

Skandia A/S is 50%-owned by Skandia Liv and 50% by Skandia, and is operated as a joint venture. The aim is to co-ordinate all administrative resources, which provides opportunities for cost synergies. Skandia A/S's costs are invoiced to the respective companies according to use. In 2011 Skandia A/S's costs amounted to SEK 237 million (242). Of this amount, SEK 99 million (104) was invoiced to Skandia Liv's companies in Denmark and SEK 92 million (88) to Skandia Link A/S.

Skandia Asset Management A/S provides asset management services to Skandia and Skandia Liv's subsidiaries in Denmark in return for a going-rate fee that is based on the level of managed assets. In early 2011 Skandia Liv sold 20% of its holding in the company to Skandia. The company is thereafter 50%-owned each by Skandia and Skandia Liv and is operated as a joint venture. In 2011, compensation amounted to SEK 18 million (21) from Skandia Liv A A/S and Skandia Liv A/S, and SEK 44 million (37) from Skandia Link A/S. During the year, a dividend was paid to the owners. Skandia Liv's dividend amounted to the equivalent of SEK 28 million.

39 Provision for pensions

Group according to IAS 19	2011	2010
Pension costs		
Costs pertaining to current service cost	9	8
Interest expense	10	12
Anticipated return on plan assets	0	-1
Redemption of defined benefit pension obligations	—	2
Amortisation: actuarial gains (-) and losses (+)	-2	1
Pension costs for defined benefit plans	**17**	**22**
Pension costs for defined contribution plans	63	67
Total pension costs	**80**	**89**

Reconciliation of defined benefit pension plans on the balance sheet		
Present value of fully or partly funded defined benefit obligations	0	0
Fair value of plan assets	0	0
Unreported actuarial gains (+) and losses (-)	0	0
Present value of obligation less plan assets	**0**	**0**
Present value of fully unfunded plans	282	265
Unreported actuarial gains (+) and losses (-)	-17	-6
Reported defined benefit liability (+) or asset (-)	**265**	**259**

Specification of change in reported defined benefit pension liability		
Opening balance	**259**	**228**
Net cost reported in income statement	17	22
Effect of elimination of assets in Diligentia's pension foundation	—	24
Paid benefits	-11	-15
Closing balance	**265**	**259**

Present value of defined benefit obligations		
Opening balance	**265**	**316**
Costs pertaining to current service cost	9	8
Interest expenses	10	12
Redemption of defined benefit pension obligations	—	-20
Paid benefits	-11	-15
Actuarial gains (-)/losses (+)	9	-36
Closing balance	**282**	**265**

Plan assets[1]		
Opening balance	**0**	**48**
Anticipated return on plan assets	—	1
Effect of loss of assets in pension foundation	—	-24
Redemption of defined benefit pension obligations	—	-25
Closing balance	**—**	**0**

Return on plan assets		
Anticipated return on plan assets	—	1
Actual return	**—**	**1**

Actuarial gains (+)/losses (-)		
Opening balance	**-6**	**-40**
Amortisation	-2	1
Redemption of defined benefit pension obligations	—	-3
Actuarial gains (+)/losses (-): obligations	-9	36
Closing balance	**-17**	**-6**

Actuarial calculation assumptions[2]	2011	2010
Discount rate	3.50%	3.75%
Anticipated long-term return on plan assets[3]	—	2.75%
Estimated future rate of salary growth[4]	3.00%/4.50%	3.25%/4.75%
Estimated future inflation	2.00%	2.00%

Of total pension costs, the cost for previous periods and the current period, totalling SEK 72 million (54), is accounted for as an operating expense. The remaining costs, SEK 8 million (14), are reported as net investment charges in the non-technical account.

1) Skandia Liv no longer has any plan assets that fulfil the requirements to be reported as a pension liability.
2) The assumptions are provided as a balanced median value for the respective pension plans.
3) After policyholder tax.
4) For senior executives, the rate of salary growth is estimated to be 4.50%.

The pension costs for defined benefit pensions in accordance with the Pension Obligations Vesting Act *(Tryggandelagen)* for 2012 are estimated to be SEK 18 million.

The Skandia Liv group has two types of pension plans: defined contribution and defined benefit. Defined benefit pension plans entail that employees are guaranteed a certain level of post-retirement benefits based on their final salary. Consequently, Skandia Liv has an obligation to current and former employees that must be reported on the balance sheet. The defined benefit pension plans exist only in Sweden and consist primarily of pension benefits provided through collective agreements with respect to the FTP plan (occupational pension insurance for salaried employees in the insurance industry), and to some extent of supplemental pension benefits for senior executives. They also include Diligentia's pension foundation. The pension plans provide primarily retirement pension, disability pension and family pension cover. In the parent company and subsidiaries, the cost of the pension plans is reported as the operating expense that arises when the invoiced premiums are paid. At the group level, however, a calculation is performed which better shows the final obligation that the company is estimated to have to employees when they retire. The company's outstanding obligations and costs for defined benefit pension plans are to be calculated on a yearly basis using actuarial methods that are based on the company's long-term assumptions on the discount rate, return on plan assets, rate of salary growth, service period and inflation. The outstanding pension obligation and pension cost are determined using the Projected Unit Credit Method. Briefly, this method entails a more linear cost allocation between the time the employees begin earning their pension credits and their retirement age. Skandia Liv has no assets that can be directly unbundled from its defined benefit occupational pension plans. The pension liability reported on the balance sheet corresponds to the gross pension obligation.

The actuarial assumptions are set annually in connection with the book closing. The discount rate is determined in reference to mortgage bonds with a duration of just over eight years. Since the duration of the obligations is considerably longer, the interest is extrapolated to meet the longer duration. Other financial assumptions are based on Skandia's long-term anticipations on the balance sheet date for the period during which the obligations are intended to be settled.

Effects on the present value of pension obligations caused by changed actuarial assumptions constitute actuarial gains and losses. The same applies for changes in the value of the defined benefit pension obligation that deviates from the long-term assumptions. Actuarial gains and losses are not reported in the income statement immediately when they are incurred. Since these exceeded a corridor of 10% of the larger of pension obligation or the market value of the plan assets at the end of the preceding reporting period (the corridor limit value), the excess amount is reported through profit or loss over the time period during which the obligation is intended to be settled. This is applied separately for each plan. Provisions for pensions by Skandia Liv correspond to the present value of the obligations as per the accounting date, and unrecognised actuarial gains or losses. In the consolidated income statement, Skandia Liv's cost for defined benefit pension plans consists of the sum of the current and past service cost, interest on the obligation, and the amortisation of actuarial gains and losses exceeding the corridor limit value. The service cost for current and previous periods is accounted for as an operating expense. Other items are reported as Investment income, own pension liability, in the non-technical account. In accordance with IAS 19, payroll tax has also been taken into account in calculations of defined benefit pension plans on the balance sheet and in the income statement.

Employees of the group who are not covered by defined benefit pension contracts are instead included in defined contribution pension plans. In defined contribution pension plans, the company's pension cost is recognised as a percentage share of the employees' salary in each accounting period in which the employees performed services for the company. Reporting of defined contribution pension plans entails that premiums are expensed in pace with the earnings of the benefits.

40 Events after the balance sheet date

There are no post-balance events to be reported.

41 Effects of changed accounting policy

A changed accounting policy in RFR 2 pertaining to the handling of group contributions rendered from the parent company to subsidiaries entails a retroactive impact on the balance sheet and in a couple of the parent company's key ratios. The items Investments in group companies and Equity are affected. The group is not affected, since these items are eliminated. The change pertains to a group contribution paid to two companies in Skandia Liv's real estate group in 2006.

Effects on balance sheet, 31/12/2010

	Group			Parent company		
	Before adjustment	Adjustment Group contribution	After adjustment	Before adjustment	Adjustment Group contribution	After adjustment
Investments in group companies	–	–	–	26,152	1,288	27,440
Total assets	**326,932**	**–**	**326,932**	**305,347**	**1,288**	**306,635**
Funding reserve	101,955	–	101,955	99,930	1,288	101,218
Total equity, liabilities and provisions	**326,932**	**–**	**326,932**	**305,347**	**1,288**	**306,635**

42 Reconciliation of return in total return table with financial statements

	2011	2010	2009	2008	2007
Income statement items					
Investment income					
Rents from land and buildings (group)[1]	2,197	2,252	2,226	2,135	2,153
Dividends from shares and participations					
Other shares and participations (parent company)[1]	2,998	2,585	2,172	3,314	3,864
Alternative investments[1]	363	370	57	7	—
Interest income, etc.					
Bonds and other fixed-income securities (parent company)[1]	5,023	4,831	5,226	5,421	5,854
Alternative investments	—	—	814	—	—
Foreign exchange gain, net (parent company)	1,436	—	—	13,199	—
Other interest income[1]	326	115	—	—	—
Capital gains, net					
Land and buildings (group)	1,077	—	1,289	1,440	842
Other shares and participations (parent company)	1,509	8,868	—	—	9,741
Bonds and other fixed-income securities (parent company)	6,013	1,437	2,928	—	—
Alternative investments	128	2,197	1,264	—	—
Unrealised gains on investments					
Land and buildings (group)	1,315	767	—	—	3,138
Shares and participations (parent company)	—	9,195	32,313	—	—
Bonds and other fixed-income securities (parent company)	5,740	—	—	5,255	—
Alternative investments	—	619	2,138	—	—
Investment charges					
Operating expense for land and buildings (group)[1]	-993	-1,016	-1,004	-1,083	-1,147
Other financial expenses (parent company)[1]	-155	-66	-86	-121	-115
Foreign exchange losses, net (parent company)	—	-5,911	-3,517	0	-1,938
Other interest expenses[1]	-102	-91	-103	—	—
Capital losses, net					
Bonds and other fixed-income securities (parent company)	—	—	—	-43	-793
Shares and participations (parent company)	—	—	-2,372	-9,601	—
Alternative investments	—	—	—	-4,209	—
Unrealised losses on investments					
Land and buildings (group)	—	—	-499	-3,748	—
Shares and participations (parent company)	-16,334	—	—	-51,233	-7,532
Bonds and other fixed-income securities (parent company)	—	-2,247	-2,111	—	-964
Alternative investments	-1,169	—	—	-937	—
Total investment income	**9,372**	**23,905**	**40,735**	**-40,204**	**13,103**
Adjustments					
Updated market values	3	309	44	228	335
Exchange rate differences	141	-284	153	291	-20
Bid-close according to IFRS	328	349	86	185	210
Other adjustments	-281	-28	-825	-227	-1 202
Investment income according to total return table[2]	**9,563**	**24,251**	**40,193**	**-39,727**	**12,426**

[1] Direct yield is calculated by taking the items above in relation to an average of net investment assets during the year.
[2] The total return is based on the investment income above in relation to daily weighted net investment assets. This is in agreement with industry practice.

	2011	2010	2009	2008	2007
Balance sheet items					
Investments					
Land and buildings	30,155	30,347	27,776	27,523	31,465
Shares and participations	91,508	114,400	113,868	83,622	129,193
Bonds and other fixed-income securities	166,885	137,224	131,827	137,830	136,836
Alternative investments	7,718	9,196	9,432	7,206	—
Derivatives	1,333	2,099	1,749	2,046	1,131
Other financial assets	8,249	2,515	479	—	—
Debtors					
Unliquidated sales of investments[1)]	4,895	1,302	362	346	735
Accrued interest income	3,363	2,310	2,253	2,151	2,093
Other receivables	648	270	102	91	19
Creditors					
Derivatives	-411	-280	-270	-3,801	-585
Unliquidated purchases of investments[2)]	-3,358	-1,207	-390	-139	-285
Repurchase transactions	-20,886	-8,357	-9,254	-7,972	-165
Accrued interest expenses	-18	-14	-14	-55	-468
Other liabilities	-1,342	-1,728	-1,107	-204	—
Other assets					
Cash at bank and in hand[3)]	3,958	6,698	2,644	4,234	934
Total market value	**292,697**	**294,775**	**279,457**	**252,878**	**300,903**
Adjustments					
Bid-close according to IFRS	328	349	87	185	210
Exchange rate differences	141	-284	153	291	-20
Updated market values	3	309	44	228	335
Difference in settlement days	-72	—	59	—	—
Livianen + GarantiPension Plus	-426	—	-172	—	—
Other adjustments	1	-12	-41	-61	-334
Market value according to total return table	**292,672**	**295,137**	**279,587**	**253,521**	**301,094**

1) See note 23, Other debtors.
2) See note 33, Other creditors.
3) Bank accounts + deposits.

Auditors' report

To the Annual General Meeting of Livförsäkringsaktiebolaget Skandia (publ) Reg. no. 502019-6563

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Livförsäkringsaktiebolaget Skandia AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 6–61.

Responsibilities of the board of directors and the CEO for the annual accounts and consolidated accounts

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

Auditor's responsibility

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

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

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

Opinions

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

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

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the board of directors and the CEO of Livförsäkringsaktiebolaget Skandia AB (publ) for the year 2011.

Responsibilities of the board of directors and the CEO

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

Auditor's responsibility

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

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

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

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

Opinions

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

Stockholm, 17 February 2012

Svante Forsberg
Authorised Public Accountant

Thomas Thiel
Authorised Public Accountant

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