Skandiabanken Annual Report 2012

Skandia is a leading Nordic provider of financial security and long-term savings solutions. The group has 2.2 million customers in Sweden, Norway and Denmark, more than SEK 440 billion in assets under management, and slightly more than 2,300 employees.

Skandia includes the parent company, Livförsäkringsaktiebolaget Skandia (publ) ("Skandia Liv"), Försäkringsaktiebolaget Skandia (publ) ("Skandia AB"), Skandia Fonder AB and Skandiabanken Aktiebolag (publ) ("Skandiabanken"), with a branch in Norway. In addition to these operations, Skandia also includes a Danish operation and Skandia Liv Fastigheter AB, which owns Diligentia AB along with several property-owning subsidiaries.

INTERESTED IN MORE INFORMATION OR IN CONTACTING SKANDIA?

- visit skandia.se or call:
  Skandia customer service 0771-55 55 00
- you can also write to us:
  Skandia
  SE-106 55 Stockholm

Skandiabanken Aktiebolag (publ)
Reg. no. 516401-9738

Contents

Condensed results for the year

- Operating income in 2012 totalled SEK 1,567 million (1,535).
- Operating profit for 2012 was SEK 325 million (145).
- Loan losses in 2012 totalled SEK -7 million (-34).
- Lending during the year increased by SEK 5,988 million to SEK 58,401 million (52,413).
- Surplus liquidity strengthened further to SEK 25,348 million (22,963).
- In 2012 Skandiabanken issued commercial paper and bonds worth SEK 1,826 million.
- The total capital ratio at 31 December 2012 was 14.22% (14.31%).

HIGHLIGHTS 2012

- On 21 March, Skandia Liv's acquisition of Skandia AB with subsidiaries was completed. The acquisition included the Nordic insurance and banking operations. The acquisition has opened up new opportunities to create value for the Skandia group's customers.
- During the year, Skandiabanken carried out its first issues of commercial paper and bonds in both Sweden and Norway, and filed an application with the Financial Supervisory Authority to issue covered bonds.
- An application for an internal risk classification model in the capital requirement calculation was filed with the Financial Supervisory Authority.
- New products were launched during the year, including the "Skandia account", which noted particularly strong growth.
- Skandiabanken proudly accepted awards as "Online Bank of the Year 2012" and "Innovation of the Year" for the so-called Smartbank in Sweden, as well as for best reputation, best customer service and the most satisfied customers in Norway.
- At year-end 2012 Skandia Fonder was sold to Skandia AB.

CEO's message

2012 was a turbulent year, with falling interest rates and great uncertainty in the financial markets. In this environment, Skandiabanken's sound business model delivered results and we advanced our positions for the future. We improved our earnings and our volumes, we passed several milestones in our work for more effective capital supply, and we won a number of accolades, including one for a new service that automatically analyses our customers' personal economies for them.

STRONGER EARNINGS AND LOW LOAN LOSSES

The improved earnings for the year can be credited mainly to higher volumes, but also to slightly better margins. Customers have appreciated our simple and transparent price model for home mortgages, which generated higher volumes. We have also begun to seriously take advantage of opportunities for cross-selling and added sales that the Skandia group's two million customers give us, especially through the new "Skandia account". While serving as a conduit for payment of customers' retirement benefits, the accounts provide a predictable and growing inflow of deposits, as they consist largely of monthly pension payments that previously were deposited with other banks.

Costs during the year included several major investments, above all in a group-wide Skandia brand initiative and the first stage of the implementation of a new bank platform. This platform will continue to burden earnings from 2015 to 2019, however, over time it is expected to lower our annual operating expenses while enhancing our flexibility.

Our sound business model continues to generate very low loan losses, and since 2011 we have long-term and short-term credit ratings of A3 and P-2, respectively, with a stable outlook from the credit rating agency Moody's.

MORE EFFECTIVE SUPPLY OF CAPITAL

In spring 2012 we carried out our first issue of commercial paper, quickly followed by an MTN issue. Our ambition is to be able to issue covered bonds during the second half of 2013 and thereby broaden our capital supply base, which currently consists almost exclusively of retail deposits. While our base of depositors is stable, access to the capital market will give us greater flexibility and another leg to stand on.

Parallel with this work, an internal risk classification system has been adopted, which better reflects the bank's capital requirement and enables risk-based pricing. During the year, we filed an application with the Financial Supervisory Authority for approval to base our capital requirement on these models, and we anticipate approval in 2013. Transition to the internal model is being conducted gradually. Once fully adopted, the model will significantly reduce the bank's capital requirement.

SMART TOOLS AND AWARD-WINNING DIGITAL SERVICES

In April 2012 we launched a free-of-charge service that we call Sweden's first smart bank ("Min økonomi" in Norway), which on behalf of our customers automatically analyses how they spend their money and thereby helps them gain an overview and plan their personal economy. This service is a way of offering our customers added value by promoting loyalty and motivating them to choose us as their home bank while also encouraging long-term savings, such as by coupling savings targets in the service to savings products. Customers enthusiastically embraced the service, and in Sweden it was awarded as innovation of the year in *Privata Affärer's* Bank of the Year competition.

In Norway we won accolades for having the country's most satisfied banking customers from both Norsk Kundebarometer and the European Performance Satisfaction Index, while we were voted as the strongest brand in banking and finance from the Reputation Institute and as having the best bank customer service from the organisation SeeYou. We were also named as Sweden's best online bank by the research firm Simulo and as Sweden's best mobile bank – first by an expert panel and later by a reader survey in *Mobil* magazine.

FAVOURABLE FUTURE OUTLOOK

There are no indications in the external operating environment that suggest that the socioeconomic turbulence is nearing an end, and we are seeing increasingly stringent regulation in the banking sector, with increasingly tougher capital requirements. However, Skandiabanken is better equipped to deal with these challenges. In the near term, price pressure is great, and we have extensive investments that will adversely affect our costs. But with growing volumes, satisfied customers, a favourable capital situation and a strong owner, we have good opportunities to strengthen our positions.

Board of Directors' report

ORGANISATION AND OPERATIONS

Skandiabanken Aktiebolag (publ), reg. no. 516401-9738 ("Skandiabanken"), domiciled in Stockholm, Sweden, was established on 1 July 1994 and is a wholly owned subsidiary of Försäkringsaktiebolaget Skandia (publ), reg. no. 502017-3083 ("Skandia AB").

Old Mutual plc, reg. no. 3591559, domiciled in London, UK, owned 100% of the shares in Skandia AB until 21 March 2012, when Livförsäkringsaktiebolaget Skandia (publ) ("Skandia Liv") completed its acquisition of Skandia from Old Mutual.

Skandiabanken conducts business in Sweden and Norway. The business is broken down into the operating segments "Sweden banking" and "Norway banking", the latter of which is conducted via a branch in Bergen, Norway. In 2012 the Mutual Funds segment was sold to Skandia AB, see below under "Sale of Skandia Fonder".

Skandiabanken conducts banking business in the Swedish and Norwegian retail markets and offers lending to individuals primarily in the form of home mortgages, personal loans, lines of credit and credit card credits, custody account lending and deposits. In addition to the lending and deposit activities, the bank offers services for equity trading and fund trading.

SIGNIFICANT EVENTS DURING THE YEAR

SKANDIA LIV ACQUIRES SKANDIA AB

On 15 December 2011 Skandia AB's subsidiary Skandia Liv announced its intention to acquire the parent company Skandia AB from Old Mutual. The acquisition was completed on 21 March 2012 through the acquisition by the newly formed Thule Foundation of Skandia Liv from Skandia AB. Thereafter, Skandia Liv acquired Skandia AB from Old Mutual. The acquisition included the Nordic insurance and banking operations.

The deal was carried out against the background of an ambition to achieve efficiency gains and synergies. By acquiring Skandia AB, Skandia as a whole can achieve substantial synergies through considerably better development of the companies, lower costs, and ultimately a better return. Both companies, Skandia Liv and Skandia AB, worked side by side in the old structure, but under different conditions. Skandia AB generated profits for its owner, Old Mutual, while Skandia Liv distributed its profits to its customers, i.e., the policyholders.

This arrangement was not sufficiently efficient, as resource-intensive control functions were necessary to monitor the prohibition against profit distribution between the two companies.

SALE OF SKANDIA FONDER

In 2012 Skandia Fonder AB was sold to Skandia AB. The sale was carried out on 1 November 2012 for a value of SEK 135 million.

FINANCIAL REVIEW

The comments in the financial review pertain to both the group and parent company. Items related to Skandia Fonder AB have been moved to a separate line, as the fund company's profit until the date of sale is reported on the line "Result of divested operation after tax".

PROFIT FOR 2012 COMPARED WITH 2011

Skandiabanken's profit is derived mainly from net interest income. Operating profit before tax amounted to SEK 325 million (145). Profit also included the outcome from Skandiabanken's operation in Norway, of which SEK 1 million is attributable to a positive effect of translation to Swedish kronor.

The earnings improvement in the Swedish operations was mainly driven by high margins during the first half of the year along with high business volumes. Lower market interest rates gave rise to adjustments of both lending and deposit interest rates during the autumn of 2012. The Norwegian operation is driven by the same components, but with continued favourable earnings throughout 2012.

Operating profit was charged with nonrecurring items totalling SEK -17 million, which are mainly related to restructuring. Operating profit also included the recovery of loan losses in the Norwegian operation, totalling SEK 14 million. Profit for the year was also affected by the sale of Skandia Fonder AB to Skandia AB, for a capital gain of SEK 93 million.

OPERATING INCOME

OPERATING INCOME

SEK million	2012	2011	Change, %
Net interest income	1,119	1,037	8%
Net fee and commission income	327	349	-6%
Net financial income	47	14	222%
Other operating income	74	135	-45%
Total operating income	**1,567**	**1,535**	**2%**
Nonrecurring items	-2	-7	-71%
Total operating income	**1,565**	**1,528**	

NET INTEREST INCOME

Skandiabanken increased its net interest income by SEK 82 million to SEK 1,119 million (1,037). The increase is mainly attributable to higher business volumes in the retail market and higher interest rates during the first half of the year. The operations in Sweden and Norway contributed essentially equally to the increase in net interest income.

The average balance of lending to the general public increased during the year to SEK 55,667 million (53,492). The volume increase was mainly driven by volume growth in Norway, where volume at year-end had risen to SEK 31,038 million (26,984), of which SEK 376 million is attributable to a positive effect of translation to Swedish kronor. The average balance of deposits from the general public increased to SEK 74,045 million (67,237). The increased volume of deposits is partly attributable to a lower risk appetite among customers, as there was major uncertainty surrounding how stock markets around the world would react to the euro crisis.

The surplus liquidity that exists in Sweden and Norway is invested in local currency in the respective countries. Investments are made in fixed-income securities and lending to credit institutions. The volume of surplus liquidity increased during the year, to SEK 25,348 million (22,963). The return on surplus liquidity came under pressure during the year, above all as a result of lower key interest rates; however, investors' interest in finding safe investments also contributed to the lower return.

Net interest income was changed with fees of SEK 100 million (90) paid to the Swedish State Stability Fund and to the Swedish and Norwegian state deposit guarantee schemes. The increase is attributable to higher business volumes.

NET FEE AND COMMISSION INCOME

Net fee and commission income decreased to SEK 327 million (349), mainly owing to securities transactions. The general trend in the market of a lower interest in equity trading also affects Skandiabanken, as lower trading volumes have a negative impact on brokerage fees. At the same time, fund commissions are negatively affected by the volatile market, as customers search for safer alternatives in deposit accounts. Fees from payment intermediation, which includes card fees, stayed at the same level as in 2011.

Currency effects attributable to the Norwegian operation increased net fee and commission income by SEK 1 million.

Increased fee and commission expenses to Skandia AB during the year also had a negative impact on net fee and commission income.

NET FINANCIAL INCOME

Net financial income increased by SEK 32 million during the year, to SEK 47 million (14), of which net financial income in the Swedish operations increased by SEK 26 million to SEK 25 million (-1).

The higher outcome is mainly attributable to hedge accounting and the sale of fixed-income securities prior to maturity, entailing that the income is reported in net financial income instead of in net interest income.

OTHER OPERATING INCOME

Other operating income decreased by SEK 61 million to SEK 74 million (135). Other operating income was mainly affected by lower income from other Skandia companies for services performed as a result of restructuring.

In addition, operating income was positively affected by SEK 93 million pertaining to the capital gain that arose in connection with the sale of the fund company. The capital gain is reported on the line "Result of discontinued operation after tax" in the group, while in the parent company it is included on the line "Other operating income".

EXPENSES BEFORE LOAN LOSSES

EXPENSES BEFORE LOAN LOSSES

SEK million	2012	2011	Change, %
Staff costs	-368	-388	-5%
Other administrative expenses	-829	-891	-7%
Depreciation	-6	-8	-23%
Other operating expenses	-33	-69	-52%
Total expenses before loan losses	**-1,236**	**-1,356**	**-9%**
Nonrecurring expenses	19	73	74%
Total expenses excl. nonrecurring items	**-1,217**	**-1,283**	**-5%**

Expenses were lower than the preceding year and amounted to SEK 1,236 million (1,356). The lower level is mainly attributable to Sweden in association with the transfer of operations from Skandiabanken to other companies in the Skandia group.

Expenses were affected by nonrecurring restructuring costs of SEK -19 million associated with Skandia Liv's acquisition of Skandia AB.

STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES

Staff costs decreased by SEK 20 million to SEK 368 million (388), mainly attributable to restructuring and the previous voluntary programme.

Administrative expenses decreased to SEK 829 million (891). The lower level is attributable to restructuring, as operations were moved out of the bank to other companies in the Skandia group.

OTHER OPERATING EXPENSES

Other operating expenses decreased by SEK 36 million to SEK 33 million (69) and pertained mainly to marketing costs. As a result of reorganisation of the Skandia group's marketing department during the year, costs were lower and instead affected other administrative expenses.

LOAN LOSSES

SEK million (unless indicated otherwise)	2012	2011	Change
Loan losses	-7	-34	27
of which, confirmed loan losses	*-68*	*-27*	*-41*
of which, paid in towards confirmed loan losses from previous years	*20*	*11*	*9*
of which, provisions	*41*	*-18*	*59*
Loan losses as % of opening balance of lending to the general public	0.01%	0.06%	0.05%
Lending to the general public, net (SEK million)[1]	58,401	52,413	5,988
Impaired loans, gross	169	213	-44
Provisions on the balance sheet	91	133	-42
Impaired loans, net	78	80	-2
Impaired loans, net, as % of lending to the general public	0.13%	0.15%	0.02%

[1] Excluding loans of SEK 1,610 million (980) to the Swedish National Debt Office.

Net loan losses decreased by SEK 27 million to SEK -7 million (-34). The lower outcome is mainly attributable to the sale of impaired loans in the Norwegian operation, which had a favourable impact on the outcome, along with a lower need for provisions for home mortgages, account lines of credit and card credits. In the Swedish operation, the outcome was favourably affected by a lower need for provisions for home mortgages.

Impaired loans, net, decreased compared with a year ago to SEK 78 million (80). In the Swedish operation, impaired loans, net, decreased by SEK 6 million to SEK 27 million (33). The change pertained primarily to home mortgages. In the Norwegian operation, impaired loans, net, increased by SEK 4 million to SEK 51 million (47). The change is attributable to home mortgages, by SEK 5 million, and vehicle loans, by SEK 2 million, while account lines of credit and card credits decreased by SEK 3 million.

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

TAX CHARGE FOR THE YEAR

The tax charge for the year was SEK 85 million (23), an increase of SEK 62 million. The tax charge corresponds to an effective tax rate of 22.0%. The reason for the lower effective tax is the change in temporary differences, which is attributable to the sale of the Services segment, at which time pension provisions were dissolved. The sale of Skandia Fonder resulted in a large, tax-exempt revenue, which reduced the taxable profit. The tax rate in Sweden was changed from 26.3% to 22% at the start of 2013, which affects deferred tax assets. Since Skandiabanken has a relatively low level of deferred tax assets, they are marginally affected by the tax reduction.

COMPREHENSIVE INCOME FOR THE YEAR

STATEMENT OF COMPREHENSIVE INCOME

	2012	2011	Change
Profit for the year after tax	**307**	**138**	**169**
Other comprehensive income			
Financial assets available for sale	59	27	34
Hedging of net investment	0	0	0
Translation difference	14	1	13
Taxes attributable to other comprehensive income	-14	-7	-7
Total other comprehensive income after tax	**59**	**21**	**38**
Comprehensive income for the year after tax	**366**	**159**	**207**

Comprehensive income after tax amounted to SEK 366 million (159) and consists of profit as per the income statement, totalling SEK 307 million (138), plus income and expenses reported in the statement of other comprehensive income, totalling SEK 59 million (21). An account of the outcome for the year attributable to the income statement is commented on above.

Other comprehensive income for the year amounted to SEK 59 million (21). The improvement is mainly attributable to realised gains of SEK 59 million (27) from holdings of fixed-income securities classified as available-for-sale financial assets, and to positive translation differences of SEK 14 million (1). Translation differences pertain to exchange rate differences that arise upon conversion of the Norwegian operation's financial statements to the group's reporting currency.

BALANCE SHEET, LIQUIDITY AND MANAGED ASSETS, 2012 COMPARED WITH 2011

SEK million	2012	2011	Change, %
Balance sheet total	84,657	76,767	10%
Lending to the general public[1]	58,401	52,413	11%
of which, Sweden	*27,363*	*25,428*	*8%*
of which, Norway	*31,038*	*26,984*	*15%*
Deposits from the general public	77,365	71,302	9%
of which, Sweden	*36,545*	*33,138*	*10%*
of which, Norway	*40,820*	*38,164*	*7%*
Total liquidity buffer[2]	25,348	22,963	10%
Liquidity buffer[3]	19,847	19,208	3%
Deposit-to-loan ratio	132%	136%	-3%
Managed assets in funds[4] (NAV)	13,308	11,623	15%

[1] Excluding loans of SEK 1,610 million (980) to the National Swedish Debt Office.

[2] Balances with and lending to the Central Bank of Sweden and Central Bank of Norway, short-term lending and deposits to/from credit institutions and fixed-income securities classified as available-for-sale financial assets. The total liquidity buffer is managed by the Treasury unit.

[3] In accordance with the Swedish Bankers' Association's definition for liquidity reporting.

[4] Comparative figure has been recalculated as a result of the sale of Skandia Fonder AB to Skandia AB in 2012.

The balance sheet total increased by SEK 7,890 million to SEK 84,657 million (76,767). The balance sheet includes Skandiabanken's operations in Norway. The currency effect of translation to Swedish kronor increased total assets by SEK 531 million.

LENDING AND DEPOSITS

During the year it was mainly lending against security that generated volume growth. In both Sweden and Norway, the volume of home mortgages to individuals is growing. Growth in home mortgages together with lower volumes of impaired loans is generating a larger share of secured lending. Lending to the general public increased slightly to SEK 58,401 million (52,413). During the year, Skandiabanken offered competitive interest rates and on several occasions showed the lowest home mortgage rates on price comparison lists in Sweden.

Deposit volumes increased during the year to SEK 77,365 million (71,302). The increased volumes were attributable relatively equally to deposits in Sweden and Norway. In Sweden, the new "Skandiakontot" – an account created specifically for insurance disbursements – showed high volume growth as a result of favourable terms.

LIQUIDITY, FUNDING AND CREDIT RATINGS

During the year, surplus liquidity was further strengthened by SEK 2,385 million to SEK 25,348 million (22,963). Surplus liquidity consists of deposits with central banks, short-term lending to credit institutions and liquid, fixed-income securities that can be converted to cash on short notice. In addition to surplus liquidity, the bank has committed credit facilities worth a total of SEK 400 million (400).

Of surplus liquidity, SEK 19,847 million (19,208) qualifies as the liquidity buffer in accordance with the Financial Supervisory Authority's liquidity rules. In short, the Financial Supervisory Authority's rules require that holdings of fixed-income securities are also be eligible with the central banks and that only intraday lending to banks may be included. The deposit-to-loan ratio was 132% (136%).

In 2012 Skandiabanken continued its work on diversifying its funding sources through the issuance of both commercial paper and bonds in the Swedish and Norwegian markets. As per 31 December 2012 Skandiabanken had a total of SEK 1,244 million (0) and NOK 500 million (0) in outstanding commercial paper and bonds.

Since 2011 Skandiabanken has had long-term credit ratings of A3 and P-2 with a stable outlook from the credit rating agency Moody's.

Further information about the liquidity buffer and handling is provided in the quarterly report entitled "1212 Periodic information on capital adequacy", see www.skandiabanken.se/Om oss/Finansiell info.

MANAGED ASSETS IN FUNDS

Managed assets in the banking operations increased during the year by SEK 1,685 million to SEK 13,308 million (11,623) at year-end. Managed volumes in Skandia Fonder AB are not included in these figures, since the company was divested during the year.

The increase is explained by a positive change in value combined with an improved net inflow in Norway. Although customers invested less capital in funds during the year, the net inflow nevertheless increased as customers sold fund units for lower amounts and transferred in fund assets from other institutions.

CAPITAL BASE AND CAPITAL ADEQUACY

	31 Dec. 2012	31 Dec. 2011
Total capital ratio	14.22%	14.31%
Tier 1 capital ratio[1]	10.22%	9.95%
Capital adequacy requirement, SEK million	2,430	2,210
Capital adequacy quotient	1.78	1.79

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

The total capital ratio decreased to 14.22% (14.31%) compared with at 31 December 2011, while the tier 1 capital ratio increased during the same period to 10.22% (9.95%). The strengthening of the tier 1 capital ratio at the same time as a decrease in the total capital ratio is due to an increase in equity at the same time that the bank's subordinated loans were unchanged relative to 31 December 2011. Tier 1 capital thus accounts for a greater share of the capital base.

Risk-weighted exposures increased by SEK 2,739 million to SEK 30,369 million (27,630). Of the increase, SEK 2,678 million pertained to credit risk exposures. The change is mainly attributable to an increase in credit risk exposures with collateral in real estate and, to a lesser degree, to unsecured retail lending. Risk-weighted exposures to currency risk increased by SEK 70 million to SEK 204 million (134). The capital adequacy requirement for operational risk decreased by SEK 1 million to SEK 312 million (313). The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the 2012 financial year. See the proposed distribution of profit on page 14.

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

RISKS AND RISK MANAGEMENT

Skandiabanken's total credit exposure, in accordance with the capital adequacy rules, amounted to SEK 84,700 million (76,876), of which 64.8% (64.0%) pertained to home mortgages for private individuals. Lending is conducted in accordance with the rules that took effect in 2010 entailing that customers may borrow a maximum of 85% of a home's value. In addition, as a rule, amortisation is required for the portion of a home mortgage in excess of 75% of the loan-to-value ratio for new lending. Skandiabanken has traditionally had a restrictive stance toward lending, entailing low loan-to-value ratios among the bank's customers and low loan losses. As a result, the bank expects to maintain good resilience to any declines in real estate values.

Skandiabanken's credit exposure to investments of surplus liquidity increased to SEK 25,513 million (23,283). The bank's surplus liquidity is invested in fixed-income securities with good credit quality and market liquidity. Liquidity risk is expected to continue to be low in view of the forecast surplus of deposits and favourable opportunities for external borrowing in the capital market.

New rules for capital adequacy and large exposures, liquidity risk and other risks are currently being drafted, with an uncertain implementation date. These rules are expected to be ready in 2013 and will cover a large number of regulatory areas, including capital base, risk-weighted assets, liquidity and the Pillar II process. This is leading to uncertainty regarding what effects the new rules may have on Skandiabanken, with respect to both the areas of concern and the bank's assessment of its need for resources for implementation, since the rules will need to be implemented in a short period of time (see further under the section "Rules and regulations"). Skandiabanken is actively monitoring developments surrounding the forthcoming regulations.

A description of risks and risk management is provided in note 37. Information on capital adequacy and risk management (Pillar III) is provided in a more extensive yearly report (1212 Yearly information on capital adequacy and risk management – Pillar III). See www.skandiabanken.se/Om oss/Finansiell info.

DISPUTES

The Swedish Tax Agency has reassessed Skandiabanken's income taxation for 2009. Its decision has been appealed, and an extension has been granted for payment of the tax. The Tax Agency's decision may result in an increased tax charge of SEK 3.6 million. In January 2012 Skandiabanken appealed the case to the Administrative Court. A ruling is expected in 2013. Skandiabanken is of the opinion that it is not likely that the Tax Agency's decision will be upheld in its entirety. In addition, there is considerable uncertainty regarding the amount assessed. Consequently, no provision has been made, and the amount is reported as a contingent liability.

THE ENVIRONMENT

Respect for the environment is a natural aspect of Skandia's community involvement. Internal guidelines stipulate that Skandia shall work actively to reduce any direct and indirect adverse environmental impact. Skandia does this by:

- minimising the use of resources and by reusing and recycling material,
- taking environmental considerations into account when purchasing products and services,
- promoting environmental awareness internally, and
- taking the environment into account in the company's own products and processes.

By employing technical solutions and improved internal processes, Skandia can also contribute to better customer service while also helping the environment. In 2012 Skandia was the first banking and insurance company to offer customers the ability to sign health declarations electronically.

Skandiabanken does not conduct any operations requiring a permit or notification pursuant to the Environmental Code.

SOCIAL RESPONSIBILITY

Skandia has been providing financial security to people for more than 150 years. As a banking and insurance company we have strong ties with society at large, with extensive long-term obligations to individuals, companies and public sector entities. Working in this realm in a manner that we can vouch for puts high demands on us. We must keep our promises and earn our customers' trust and our place in society. For us, it is a matter of creating a richer life for people who aspire for more, and as most people know, a rich life is about much more than just finances. It is by and large also a matter of health, human relations and the opportunity to grow and develop in a good society.

Community involvement has long been very important for us. We dedicate considerable energy to corporate social responsibility and on contributing to the communities that we work in. Most of this work is conducted behind the scenes. At the same time, we realise that part of our responsibility entails being clear about what we do and what challenges we still face. We published our first Corporate Responsibility (CR) report in spring 2012, which was a step towards becoming more open and clear about our work with responsibility issues. This work continued during the year, and the CR report includes a description of the year's activities and relevant key ratios. For further information, see Skandia's 2012 Annual Report and the published Corporate Responsibility Report for 2012 (in Swedish).

OUR EMPLOYEES

SKANDIABANKEN'S PEOPLE

In 2012 Skandiabanken had an average of 453 (523) employees, of whom 54% (51%) were women. The share of women in managerial positions was 35% (30%), and the average age of all employees was 36 (38). Employee turnover increased compared with a year earlier and was 12% (15%) at year-end.

COMMITTED EMPLOYEES

Skandia is a company that is built upon long-term relationships with customers and employees alike. In the same way that we are dedicated to creating a richer life for our customers, we are convinced that we as a company – together with our leaders and employees – can create conditions for a richer work life. Naturally, a richer work life can mean many things. At Skandia we prioritise competence development, involvement through performance and development dialogues, further development of our company culture, healthy employees, and work/life balance. A further dimension is an opportunity that we at Skandia have long offered our employees – to spend a certain part of their work time on community service as a Skandia ambassador within the framework of Ideas for Life.

VARIABLE REMUNERATION AND PROFIT-SHARING FOUNDATION

In 2012 Skandiabanken offered a variable remuneration programme for a very limited group of leaders and employees. Skandia also has a profit-sharing foundation. Members of Skandia's management are not entitled to any variable remuneration or outcome from the profit-sharing foundation. For further details about salaries and remuneration, see note 7.

EVENTS AFTER THE BALANCE SHEET DATE

After year-end 2012 Skandiabanken will no longer be a group, as Skandiabanken no longer owns any subsidiaries following the divestment of Skandia Fonder AB. As a result, consolidated accounting will no longer be applied.

ANTICIPATED FUTURE DEVELOPMENT

The debt crisis in Europe and high level of political uncertainty continue to hamper the global economy in 2013, and a recovery is not expected until the second half of the year. Sweden – and to some extent Norway – has also seen an economic slowdown, with a decline in industrial activity and weak job market as a result. This translates to a poorer growth outlook for the Nordic region in the coming year. Steps have been taken in the right direction to deal with the European debt crisis, which has reduced the acute risk of one or more countries exiting the euro cooperation. However, major challenges remain with respect to solving the structural problems, and a worsening of the crisis cannot be ruled out entirely.

Against the background of the weak economy, central banks in our working environment continue to adhere to a very relaxed monetary policy. In Sweden and Norway as well, key interest rates are expected to remain at low levels in 2013. In Sweden, the reduced repo rate and falling interbank rates have contributed to lower home mortgage rates. In particular, home mortgage rates with long fixed-interest terms have fallen to historically low levels. Continued low market rates are helping keep home mortgage rates at low levels, which is putting pressure on interest margins. In time, however, the economy is expected to recover, and thus home mortgage rates will begin to climb again.

The stock markets have potential for favourable performance, as companies are in a good financial position with large cash holdings and low debt. However, there is a risk that the fragile economic situation and continued great political uncertainty – mainly surrounding developments in Europe – will cause continued great fluctuations in the stock market. The great variation in the stock market's performance has made personal investors more cautious. Growing numbers are holding a larger portion of their assets in liquid funds, which has an adverse effect on net commissions.

RULES AND REGULATIONS

INTERNAL GOVERNANCE AND CONTROL

The Financial Supervisory Authority intends to issue new guidelines on internal governance and control for credit institutions, which are expected to take effect in April 2013. The guidelines will supersede the general guidelines on governance and control of financial companies (FFFS 2005:1). The new guidelines are based on the EBA's Guidelines on Internal Governance (GL44) and Guidelines on Outsourcing as well as on instructions issued by the Basel Committee and the European Commission. For Skandiabanken, the new requirements will require a review of internal structures and organisation in order to ensure that the work of its control functions is in compliance with the updated directives.

NEW CAPITAL ADEQUACY RULES BASED ON BASEL III

Negotiations are currently being held in the EU on the new regulatory framework for banks and credit market companies, consisting of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRDIV). The implementation date is expected to be in the latter half of 2013. The new rules entail, among other things, requirements for higher-quality assets and new buffers, more detailed liquidity requirements, and introduction of a new measure – leverage ratio – as a complement to capital adequacy based on risk-weighted assets. The new regulatory framework will require amendments to or a rescinding of Swedish law governing capital adequacy and related guidelines from the Financial Supervisory Authority. At the same time, the Financial Supervisory Authority will decide on new guidelines for handling the national options that are provided by the regulatory framework and a timetable for implementing the directive. As proposed, for example, the higher capital adequacy requirements and liquidity requirements will be implemented at a faster pace in Sweden compared with the directive. In 2013 the Financial Supervisory Authority intends to introduce a risk weight floor of 15% for Swedish residential mortgages for calculations of capital requirement using internal models. The Financial Supervisory Authority's risk weight floor does not affect Skandiabanken's current capital adequacy calculation, which has been conducted using the standardised approach, but will affect Skandiabanken in a changeover to calculation based on its internal model. The new capital requirements are not expected to result in any need for a capital injection to Skandiabanken's operations. The new rules will mainly entail expanded reporting to the Financial Supervisory Authority along with introduction of a new reporting standard (Corep) for capital adequacy in 2013.

MIFID II

Negotiations are also being conducted in the EU on the new Markets in Financial Instruments Directive II (MiFiD II), which will introduce new rules for how securities trading is conducted and what must be reported. It appears that the timetable for implementation will be delayed, and the new regulations are not expected to take effect until 1 January 2015 at the earliest.

Five-year summary

KEY RATIOS

Volume development	2012	2011	2010	2009	2008
Lending to the general public, SEK million[1]	60,011	53,393	53,984	48,634	43,835
Change during the year	12%	-1%	11%	11%	9%
Total deposits and borrowing from the general public, incl. issued securities, SEK million[1]	79,191	71,302	62,969	61,739	51,986
Change during the year	11%	13%	2%	19%	3%
Average volume (balance sheet total), SEK million[2]	80,715	72,590	67,818	65,380	55,237
Change during the year	11%	7%	4%	18%	4%

Capital adequacy measures	2012	2011	2010	2009	2008
Total capital ratio:					
Capital base as % of risk-weighted assets	14.22%	14.31%	14.18%	13.07%	14.96%
Tier 1 capital ratio:					
Tier 1 capital as % of risk-weighted assets	10.22%	9.95%	9.71%	8.86%	9.93%

Key ratios, earnings	2012	2011	2010	2009	2008
Investment margin:					
Net interest income as % of average volume (balance sheet total)	1.39%	1.43%	1.25%	1.24%	1.67%
Earnings capacity:					
Operating profit excl. loan losses as % of average volume (balance sheet total)	0.41%	0.25%	0.33%	0.39%	0.57%
Return on total assets:					
Operating profit as % of average volume (balance sheet total)	0.40%	0.20%	0.20%	0.22%	0.34%
Return on equity:					
Operating profit after actual tax as % of average equity	7.73%	4.38%	4.95%	5.41%	7.46%
Cost/income ratio before loan losses:					
Total costs excl. loan losses in relation to operating income	0.79	0.88	0.84	0.84	0.77
Cost/income ratio after loan losses:					
Total costs incl. loan losses in relation to operating income	0.79	0.91	0.87	0.88	0.81

Impaired loans	2012	2011	2010	2009	2008
Provision level for impaired loans:					
Provision for probable loan losses as % of impaired loans before provision	53.9%	62.30%	70.10%	61.70%	49.50%
Share of impaired loans:					
Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.13%	0.15%	0.09%	0.14%	0.14%
Loan loss ratio:					
Loan losses as % of opening balance of lending to the general public, credit institutions (excl. banks), and credit guarantees	0.01%	0.06%	0.09%	0.14%	0.13%

Other data	2012	2011	2010	2009	2008
Number of customers, thousands	808	803	787	774	752
Average number of employees	466	1,001	1,151	481	295
Of whom, in continuing operations	*453*	*516*	*513*	*473*	*271*
Of whom, in discontinued operations	*13*	*485*	*638*	*8*	*24*

[1] Lending to the general public, and deposit and borrowing volumes for 2008 pertain to continuing operations.

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

INCOME STATEMENTS AND BALANCE SHEETS FOR 2008–2012, FIVE-YEAR SUMMARY, SEK MILLION

INCOME STATEMENT[1]	2012	2011	2010	2009	2008
Interest income	2,838	2,552	1,750	1,866	3,269
Interest expense	-1,719	-1,515	-903	-1,054	-2,352
Net fee and commission income	327	349	389	389	346
Net financial income	47	14	55	33	24
Other operating income	74	135	170	305	90
Total operating income	**1,567**	**1,535**	**1,461**	**1,539**	**1,377**
Staff costs	-368	-388	-378	-413	-214
Other administrative expenses	-829	-891	-796	-821	-781
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	-6	-8	-8	-12	-34
Other operating expenses incl. losses from investments in associates	-33	-69	-52	-40	-34
Total expenses before loan losses	**-1,236**	**-1,356**	**-1,234**	**-1,286**	**-1,063**
Profit before loan losses	**331**	**179**	**227**	**253**	**314**
Loan losses, net	-7	-34	-42	-62	-54
Net gains/losses on disposal of property, plant and equipment, and intangible assets	1	0	0	0	0
Impairment of shares in associates[2]	—	—	—	—	-2
Net profit for the year from continuing operations before taxes	**325**	**145**	**185**	**191**	**258**
Appropriations, net[3]	-31	-6			
Profit before taxes	**294**	**139**	**185**	**191**	**258**
Taxes	-85	-23	-52	-49	-70
Net profit for the year from continuing operations	**209**	**116**	**133**	**142**	**188**
Profit for the year from discontinued operations after tax	98	22	19	28	1,025
Net profit for the year	**307**	**138**	**152**	**170**	**1,213**
Attributable to:					
Shareholders of Skandiabanken AB	**307**	**143**	**151**	**169**	**1,212**
Non-controlling interests	**—**	**—**	**1**	**1**	**1**

[1] Figures for the years 2008–2011 have been recalculated due to the divestment of Skandia Fonder AB.

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

[3] Figures for the years 2010–2012 pertain to group contributions. Figures for 2008 and 2009 have not been recalculated in view of a changed accounting policy for group contributions.

BALANCE SHEET	2012	2011	2010	2009	2008
Cash and cash balances with central banks	424	696	493	1,675	2,230
Lending to credit institutions	654	2,013	372	1,025	2,191
Lending to the general public	60,011	53,393	53,984	48,634	43,835
Fair value of portfolio hedge of interest rate risk	132	68	5	153	205
Financial assets at fair value	25	34	61	11	80
Financial assets available for sale	22,889	19,644	12,393	16,602	9,106
Assets held for sale	—	15	—	—	—
Financial assets held to maturity	—	—	—	200	200
Intangible assets and property, plant and equipment	6	11	20	27	20
Other assets	516	893	773	807	538
Total assets	**84,657**	**76,767**	**68,101**	**69,134**	**58,405**
Due to credit institutions	99	42	52	2,074	1,564
Deposits and borrowing from the general public	77,365	71,302	62,969	61,739	51,986
Issued securities, etc.	1,826	—	—	—	—
Financial liabilities at fair value	134	83	49	156	213
Liabilities related to assets held for sale	—	112	—	—	—
Other liabilities	838	1,222	1,184	1,167	947
Subordinated liabilities	1,200	1,200	1,200	1,200	1,200
Total liabilities	**81,462**	**73,961**	**65,454**	**66,336**	**55,910**
Non-controlling interests	—	—	6	5	4
Equity attributable to shareholders of Skandiabanken AB	3,195	2,806	2,641	2,793	2,491
Total equity	**3,195**	**2,806**	**2,647**	**2,798**	**2,495**
Total liabilities and equity	**84,657**	**76,767**	**68,101**	**69,134**	**58,405**

Distribution of profit

(AMOUNTS IN SEK)

The following amount is available for distribution by the Annual General Meeting:	**SEK**
Fund for fair value	83,785,703
Retained earnings	2,396,368,162
Net profit for the year	301,476,920
Unrestricted equity	**2,781,630,785**
The Board of Directors proposes that this amount be distributed as follows:	
Dividend to the shareholders	–
To be carried forward	2,781,630,785

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

Income statement, group

SEK million	Note	2012	2011
Interest income		2,838	2,552
Interest expense		-1,719	-1,515
Net interest income	3	**1,119**	**1,037**
Fee and commission income		406	427
Fee and commission expense		-79	-78
Net fee and commission income	4	**327**	**349**
Net financial income	5	47	14
Other operating income	6	74	135
Total operating income		**1,567**	**1,535**
Staff costs	7	-368	-388
Other administrative expenses	8	-829	-891
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	9	-6	-8
Other operating expenses	10	-33	-69
Total expenses before loan losses		**-1,236**	**-1,356**
Profit before loan losses		**331**	**179**
Net loan losses	11	-7	-34
Net gains/losses on disposal of property, plant and equipment, and intangible assets		1	0
Operating profit		**325**	**145**
Appropriations, group contributions		-31	-6
Profit before tax		**294**	**139**
Income tax expense	12	-85	-23
Net profit for the year, continuing operations		**209**	**116**
Net profit for the year, discontinued operations, after tax	34	**98**	**22**
Net profit for the year		**307**	**138**
Attributable to:			
Shareholders of Skandiabanken AB (publ)		307	138

Statement of comprehensive income, group

SEK million	2012	2011
Net profit for the year	**307**	**138**
Other comprehensive income		
Changes in value of available-for-sale financial assets	59	27
Hedge of net investment	0	0
Translation difference	14	1
Taxes attributable to changes in value of available-for-sale financial assets	-14	-7
Total other comprehensive income after tax	**59**	**21**
Total comprehensive income after tax	**366**	**159**
Attributable to:		
Shareholders of Skandiabanken AB (publ)	366	159

Balance sheet, group

31 December, SEK million			
Assets	**Note**	**2012**	**2011**
Cash and cash balances with central banks	13	424	696
Lending to credit institutions	14	654	2,013
Lending to the general public	15	60,011	53,393
Fair value of portfolio hedge of interest rate risk	16	132	68
Financial assets at fair value	17	25	34
Financial assets available for sale	18	22,889	19,644
Assets held for sale	34	—	15
Intangible assets	19	0	3
Property, plant and equipment	20	6	8
Current tax assets	21	18	19
Deferred tax assets	21	25	25
Other assets	22	320	624
Prepaid expenses and accrued income	23	153	225
Total assets		**84,657**	**76,767**
Liabilities and equity			
Due to credit institutions	24	99	42
Deposits and borrowing from the general public	25	77,365	71,302
Issued securities, etc.	26	1,826	—
Financial liabilities at fair value	27	134	83
Liabilities attributable to assets held for sale	34	—	112
Current tax liabilities		72	43
Other liabilities	28	368	714
Accrued expenses and deferred income	29	284	421
Provisions for pensions	30	114	44
Subordinated liabilities	31	1,200	1,200
Total liabilities		**81,462**	**73,961**
Equity			
Equity attributable to shareholders of Skandiabanken AB (publ)			
Share capital		400	400
Reserves		61	2
Retained earnings including profit for the year		2,734	2,404
Total equity attributable to shareholders of Skandiabanken AB (publ)		3,195	2,806
Total equity		**3,195**	**2,806**
Total liabilities and equity		**84,657**	**76,767**

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

Statement of changes in equity, group

SEK million	Share capital	Fair value reserve[1]	Translation reserve[2]	Retained earnings	Non-controlling interests	Total
Opening equity 2011	**400**	**0**	**-19**	**2,260**	**6**	**2,647**
Profit for the year	—	—	—	138	—	138
Other comprehensive income	—	20	1	—	—	21
Total comprehensive income	—	20	1	138	—	159
Contribution from parent company, share-based payment	—	—	—	0	—	0
Shareholder contribution received	—	—	—	6	—	6
Divested operation[3]	—	—	—	—	-6	-6
Closing equity 2011	**400**	**20**	**-18**	**2,404**	**—**	**2,806**
Opening equity 2012	**400**	**20**	**-18**	**2,404**	**—**	**2,806**
Profit for the year	—	—	—	307	—	307
Other comprehensive income	—	45	14	—	—	59
Total comprehensive income	—	45	14	307	—	366
Contribution from parent company, share-based payment	—	—	—	0	—	0
Shareholder contribution received	—	—	—	58	—	58
Adjustment of defined benefit pension plans, divested operation	—	—	—	-35	—	-35
Closing equity 2012	**400**	**65**	**-4**	**2,734**	**—**	**3,195**

[1] The fair value reserve includes unrealised changes in value of available-for-sale financial assets. Skandiabanken applies this category for fixed-income securities and for shareholdings. Upon disposal, unrealised changes in value are reclassified in the income statement

[2] By translation reserve is meant exchange rate differences that arise upon translation of foreign operations' financial statements to the group's reporting currency as well as exchange rate differences pertaining to hedges of net investments in foreign currency. Upon disposal, the changes in value are reclassified in the income statement.

[3] Pertains to the subsidiary Svenska Lärarfonder AB.

Cash flow statement, group

CASH FLOW STATEMENT (indirect method), SEK million			
Operating activities	Note	**2012**	**2011**
Operating profit[1]		342	174
of which, interest paid in		*2,841*	*2,496*
of which, interest paid out		*-1,717*	*-1,448*
Adjustment for non-cash items:			
Unrealised portion of net financial income		-4	10
Depreciation, amortisation and impairment charges			
- depreciation of property, plant and equipment		3	4
- amortisation and impairment of intangible assets		3	4
Share-based payments		0	0
Net loan losses		27	45
Gains/losses on disposal of property, plant and equipment, and intangible assets		0	0
Income tax paid		-43	-54
Cash flow from operating activities before changes in assets and liabilities of operating activities		**328**	**183**
Decrease (+)/increase (-) in lending to the general public		-6 646	546
Decrease (+)/increase (-) in holdings of fixed-income securities and equities		-3,202	-7,231
Decrease (+)/increase (-) in other assets		371	-95
Decrease (-)/increase (+) in deposits and borrowing from the general public		7,889	8,334
Decrease (-)/increase (+) in other liabilities		-524	129
Cash flow from operating activities		**-1,784**	**1,866**
Investing activities			
Purchases of tangible assets		0	-6
Sales of property, plant and equipment		-2	4
Divestment of subsidiary/minority interests	33	46	-11
Purchases of intangible non-current assets		0	0
Cash flow from investing activities		**44**	**-13**

Financing activities	2012	2011
Shareholder contribution	41	–
Cash flow from financing activities	**41**	**0**
Cash flow for the year	**-1,699**	**1,853**
Cash and cash equivalents at start of year	**2,667**	**813**
Exchange rate difference in cash and cash equivalents	**11**	**1**
Cash and cash equivalents at end of year	**979**	**2,667**

Cash and cash equivalents	2012	2011
Cash and cash balances with central banks	424	696
Lending to credit institutions	654	2 013
Due to credit institutions	-99	-42
Cash and cash equivalents	**979**	**2 667**

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

Unutilised part of granted overdraft facilities	2012	2011
Unutilised credits available for future operating activities and investing activities	447	446

[1] Including operating profit for discontinued operation. See note 33 for information on cash flow from discontinued operation.

Notes

All amounts in **SEK million**, unless indicated otherwise.

Notes index, group

1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

CONTENTS

1. GENERAL INFORMATION

This annual report and the consolidated financial statements for Skandiabanken AB (publ), registered number 516401-9738, pertains to the period 1 January–31 December 2012. Skandiabanken's registered office is in Stockholm, Sweden. The address of the head offices is Lindhagensgatan 86, Stockholm. The annual report and consolidated financial statements were approved for publication by the Board of Directors on 22 March 2013. The income statement and balance sheet are subject to adoption by the Annual General Meeting, which will be held by 30 June 2013 at the latest.

2. BASIS OF PREPARATION

The annual report for 2012 has been prepared in conformity with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the Swedish Financial Supervisory Authority's regulations and general guidelines on annual reports of credit institutions and securities companies. Skandiabanken also applies recommendations RFR 1 Complementary Accounting Rules for Groups, and RFR 2 Accounting for Legal Entities, issued by the Swedish Financial Reporting Board (RFR). Skandiabanken applies so-called full IFRS in its consolidated accounting. This means that all International Financial Reporting Standards (IFRSs) endorsed by the EU as well as accompanying interpretations issued by the IFRS Interpretations Committee (IFRIC) are applied.

The group's functional currency is Swedish kronor (SEK), and the consolidated financial statements are presented in Swedish kronor, rounded off to the nearest million. The accounting policies presented below have been applied consistently for all periods presented in the financial statements, unless indicated otherwise.

3. CHANGED ACCOUNTING POLICIES

NEW AND AMENDED IFRS'S FOR THE 2012 FINANCIAL YEAR

IFRSs endorsed by the European Commission shall be applied. A few amendments have been made that take effect in 2012. These have not had any material effect on the accounting.

OTHER CHANGES ISSUED BY OTHER NORMATIVE BODIES

AMENDMENTS TO RFR 2 – ACCOUNTING FOR LEGAL ENTITIES

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

ALTERNATIVE RULE FOR REPORTING OF GROUP CONTRIBUTIONS

RFR has added an alternative rule for reporting of group contributions as a complement to the main rule that was adopted in 2011. The alternative rule entails that group contributions are to be reported as an appropriation in the income statements of both the rendering and receiving entities. The policy may be applied prospectively already in the 2012 financial year, and the chosen policy shall be used consistently by all group companies. Skandiabanken has decided to apply the alternative rule. The amended policy entails that comparative data for the years 2011 and 2010 have been recalculated. Figures for other years in the five-year summary have not been recalculated, since it is not believed that this will provide a better picture of the group's result and position. In the consolidated financial statements, the amendment entails that group contributions rendered to and received by Skandia AB are reported in accordance with the new policy. The amendment affects profit for the year in 2011 and 2010 by SEK 4 million and SEK 0 million, respectively. The amendment does not affect the amount of total equity for the two financial years.

NEW AND AMENDED IFRS'S FOR APPLICATION IN THE 2013 FINANCIAL YEAR AND LATER

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

IAS 1 – Presentation of Financial Statements

The amendments pertain to how items in other comprehensive income are to be presented. The items are to be grouped into two categories: items that will be reclassified to profit or loss for the year and items that will not be reclassified. Items that will be reclassified include translation differences, for example. Items that will not be reclassified include actuarial gains and losses, for example. The amendments apply as from 1 January 2013.

IAS 19 – Employee Benefits

The amendments to IAS 19 pertain to the reporting of defined benefit pension plans and termination of benefits. The most significant change pertains to the reporting of defined benefit pension obligations and plan assets, and entails that a discontinuation of the corridor method. Actuarial gains and losses are to be recognised in other comprehensive income. The expected return on plan assets is to be based on the discount rate used for calculating the pension obligation. The difference between the actual and estimated return on plan assets is to be recognised in other comprehensive income. The new standard also entails a stricter disclosure requirement. The amendments are to be applied for financial years starting on 1 January 2013 or later, with retrospective application.

Skandiabanken will cease to be a group in 2013 and will thus report pension expenses in accordance with the Pension Obligations Vesting Act (Tryggandelagen) in Sweden and in accordance with local rules in Norway.

IFRS 13 – Fair Value Measurement

The new standard establishes rules for measuring fair value, where required by other IFRSs. 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 (exit price). IFRS 13 requires several quantitative and qualitative disclosures for fair value measurement. The standard is to be applied as from 1 January 2013. In the opinion of company management, the new standard will not have any effects on the current measurement of fair value for the assets that are currently carried on the balance sheet at fair value (applies mainly to available-for-sale financial assets).

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments, issued in november 2009, introduces new requirements for classification and valuation of financial assets. In October 2010 IFRS 9 was amended to include a requirement for classification and valuation of financial liabilities and derecognition. The amendment to IFRS 9 issued in December 2011 entails that IFRS 9 is to be applied for financial years that begin on 1 January 2015 or later. In December 2011, IFRS 7 was amended, entailing expanded disclosure requirements in the period that IFRS 9 was first applied. The main requirements in IFRS 9 are described below:

- IFRS 9 requires that in the future, all reported financial assets covered by IAS 39 Financial Instruments: Recognition and Measurement shall be measured either at amortised cost or at fair value. Financial assets that are held in a business model whose objective is to receive the contractual cash flows, and instruments that only have contractual cash flows in the form of principal and interest on outstanding principal, shall be measured at amortised cost at the end of the reporting period. All other financial assets shall be measured at fair value at the end of the reporting period.
- The most significant impact of IFRS 9 with respect to classification and valuation of financial liabilities is related to changes in fair value that are due to changes in credit risk for a financial liability (identified at fair value through profit or loss). According to IFRS 9, for financial liabilities classified at fair value through profit or loss, the amount of the change in fair value that is due to a change in credit risk for the liability shall be recognised in other comprehensive income. This applies under the condition that recognition of the effects of the change in the liability's credit risk in other comprehensive income does not give rise to or increase a mismatch in the reporting of profit. Changes in fair value that are due to the liability's credit risk will not be reclassified to the income statement in the following period. Previously, under IAS 39, the entire amount of the change in fair value of a financial liability classified at fair value through profit or loss was recognised in the income statement.

New amendments to IFRS 9 are expected during the first half of 2013. Discussions are currently being held to introduce an additional measurement category entailing that an entity may continue recognising changes in value in other comprehensive income. This category is called financial assets at fair value through other comprehensive income and may be used in a business model whose objective entails both receiving contractual cash flows but also the ability to sell when needed. The amendments may primarily affect Skandiabanken's choice of classification regarding fixed-income securities (SEK 22,851 million), which according to current rules are measured at fair value and for which unrealised gains or losses are recognised in other comprehensive income. Company management has not yet made any evaluation of which classification category will be applicable for Skandiabanken and thus of any possible effects on the accounting.

Proposals will also be made for complementary rules regarding the model for impairment which above all will affect Skandiabanken's provisions for lending. The aim of the impairment model is to build up reserves during the entire life of the loan, which will lead to a greater buffer for loan losses and thus greater resilience during times of financial turbulence. The new proposal will also be applicable for financial assets measured at fair value through other comprehensive income. Company management has not yet evaluated the consequences of this for valuation of Skandiabanken's financial assets. However, the proposal should entail higher provisions for loan losses, although it remains unclear how large the effect of this will be on profit and capital adequacy.

During the spring, IFRS 9 will also be complemented with a standard for general hedge accounting, and a proposal for portfolio hedges will be published. The hedge accounting proposal mainly affects Skandiabanken's portfolio hedges of interest rate risk.

4. MOST IMPORTANT SOURCES OF UNCERTAINTY IN ESTIMATIONS AND CRITICAL ASSESSMENTS

When preparing the financial statements, company management must in certain case use estimations and assessments. These are based on previous experience and assumptions that are considered to be fair and reasonable. The estimations and assessments affect reported amounts in both the balance sheet and financial statement as well as assumptions off the balance sheet. The most important assumptions about the future and sources of uncertainty that may affect reported amounts of assets and liabilities are related to:

- Provisions for impaired loans
- Pensions

PROVISIONS FOR IMPAIRED LOANS

The value of impaired loans is assessed after estimating future cash flows while taking into account the borrower's ability to pay and estimations of the fair value of any collateral.

The loan receivables that entail the greatest uncertainty in valuations consist of individually assessed loan receivables, which for Skandiabanken consist mainly of home mortgages. During the financial year, SEK 8 million (9) was reversed for individually assessed loan receivables, where there was no longer a need for provisions compared with the same period a year ago.

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

PENSIONS

In calculations of Skandia's pension liability at the group level in accordance with IAS 19, assumptions are made regarding mainly salary development, inflation, returns and the discount rate, but also employees' service period and mortality. The absolute most important factor is the discount rate, which is based on mortgage bonds with a duration corresponding to the pension liability. Other assumptions are based on the anticipated long-term development. See also note 7.

5. PRINCIPLES OF CONSOLIDATION

CONSOLIDATION OF PARENT COMPANY AND SUBSIDIARIES

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

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

NON-CONTROLLING INTERESTS

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

GROUP ELIMINATIONS

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

TRANSLATION OF INCOME STATEMENTS AND BALANCE SHEETS OF FOREIGN OPERATIONS

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

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

6. SEGMENT REPORTING

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

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

Skandiabanken has two segments remaining following the sale of Skandia Fonder in November 2012: "Sweden banking" and "Norway banking". Reported revenues in the respective countries and operating segments are derived from the country in which the company has its domicile; no business is conducted across national borders.

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

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

7. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

CLASSIFICATION

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

VALUATION OF ASSETS AND LIABILITIES WITHIN A DISPOSAL GROUP

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

PRESENTATION

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

8. TRANSACTIONS IN FOREIGN CURRENCY

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

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

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

9. FINANCIAL INSTRUMENTS – CLASSIFICATION AND VALUATION

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

TRADE DATE VS. SETTLEMENT DATE REPORTING

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

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

GROSS AND NET ACCOUNTING

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

INITIAL REPORTING AND VALUATION

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

CLASSIFICATION AND VALUATION

Financial instruments are classified and valued after their initial reporting under financial assets and financial liabilities in accordance with the description below. No reclassification between categories has been done during the year.

FINANCIAL ASSETS

LOAN RECEIVABLES AND TRADE RECEIVABLES

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

DERIVATIVES

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

For disclosure of various methods for determining fair value, see the section “Methods for determining fair value” below.

FINANCIAL ASSETS HELD TO MATURITY

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

LOAN LOSSES AND IMPAIRMENT OF FINANCIAL ASSETS

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

LOAN RECEIVABLES CARRIED AT AMORTISED COST

a) Non-performing loans

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

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

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

c) Impaired loans

An impaired loan is a loan for which it is probable that all amounts will not be received in accordance with the contractual terms. If the principal, interest or overdrafts are not repaid within 60 days, the loan is classified as impaired if there is not adequate collateral to cover both the principal and interest including late charges. Modified loans exist when the bank has granted a concession due to the borrower’s deteriorated financial position or other financial problems. Loans that are subject to modification/renegotiation are not classified as impaired if the borrower, after the modification, is judged to be able to meet the renegotiated contract terms.

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

d) Determination of when a need to recognise impairment exists

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

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

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

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

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

e) Valuation of impaired loans and provisions for loan losses

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

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

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

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

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

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

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

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

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

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

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

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

Derivatives that constitute hedge instruments are classified in two categories, depending on the purpose of the hedge:
Portfolio hedge at fair value
Portfolio hedges at fair value are used for exposures to interest rate risk attributable to lending at fixed interest rates. Changes in the fair value of the hedged item are reported on a separate line on the balance sheet, “Fair value of portfolio hedge of interest rate risk”. Changes in the fair value of derivatives used as hedge instruments are reported on the balance sheet under “Financial assets at fair value” or ”Financial liabilities at fair value”, depending on the outcome. In the income statement, the outcomes for the hedged item and the hedge instrument are reported separately under the item “Net financial income”. The aim of hedge accounting is that changes in fair value of the hedged item and the hedge instrument essentially offset each other, if the hedge is effective.

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

FINANCIAL LIABILITIES
FINANCIAL LIABILITIES WHERE CHANGES IN FAIR VALUE ARE REPORTED THROUGH PROFIT OR LOSS
Financial liabilities classified as “Fair value through profit or loss” are held for trading purposes. Reporting is done at fair value, with changes in value reported in the income statement under “Net financial income”. Derivative liabilities are reported under this category.

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

OTHER LIABILITIES
Trade accounts payable and other noninterest-bearing liabilities are reported at their nominal value.

METHODS FOR DETERMINING FAIR VALUE
The methods for determining fair value adhere to a hierarchy entailing that market information is used as far as possible, and company-specific information as little as possible. For disclosure purposes, fair value is then broken down into the following levels for Skandiabanken:

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

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

10. PROPERTY, PLANT AND EQUIPMENT

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

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

11. INTANGIBLE ASSETS

OTHER INTANGIBLE ASSETS

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

Intangible assets are reported on the balance sheet only if all conditions have been fulfilled:

– The asset is identifiable
– The asset will likely generate future economic benefit
– The bank has control over the asset in the form of legal rights

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

12. IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

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

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

13. PROVISIONS FOR PENSIONS

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

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

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

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

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

Actuarial assumptions are established yearly in connection with the balance sheet date. Due to a lack of corporate bonds of sufficiently high quality, the interest rate on mortgage bonds is used in Sweden and government bonds in Norway to determine the discount rate for the pension obligation. The expected return on the plan assets is based on a portfolio allocation and an assumed return on various types of securities. For fixed-income securities, the market rate of 10-year government bonds (risk-free interest rate) is used, and for other assets, such as equities and real estate, the risk-free rate is used with the addition of a risk premium of 3.0%. In the assumption for the return on plan assets, consideration has been given to payment of the so-called policyholder tax in Sweden. Other financial obligations, such as assumptions about inflation and future salary growth, are based on Skandia's long-term expectations on the balance sheet date for the time period during which the obligations are expected to be settled. Pension obligations also include a liability pertaining to the right to early retirement for employees with high-earner solutions (employees earning more than 10 times the Base Amount). According to an agreement, employees born in 1955 or earlier have the right to early retirement at 62 years of age, compared with 65 for other employees.

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

14. OTHER PROVISIONS

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

15. RECOGNITION OF REVENUES AND EXPENSES

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

INTEREST INCOME AND INTEREST EXPENSES

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

FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

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

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

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

17. SHARE-BASED PAYMENTS
According to IFRS 2, share-based payments are to be expensed. The cost is calculated as the market value of the shares and options on the grant date. The fair value that is determined at the grant date for equity-related, share-based payments, is expensed on a linear basis over the vesting period, based on the company’s estimation of the shares that are ultimately vested. The vesting period is the period during which the employees must remain employed by Skandiabanken in order for their shares/options to become vested. Share-based payments are reported as a change in equity and staff costs in the income statement. Social security costs are also allocated over the vesting period in accordance with a pronouncement by the Swedish Financial Reporting Board, UFR 7 “IFRS and social security costs for listed companies”. The share-based remuneration programmes that have existed for Skandiabanken were part of the group-wide remuneration programmes with the former owner Old Mutual. In connection with Skandia Liv’s acquisition of Skandia AB on 21 March 2012, these programmes have been concluded, and existing options and shares (except for those from the 2010 vesting year) have been transferred to the employees. For further information, see note 7, Staff costs.

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

19. OTHER PLEDGED ASSETS, OBLIGATIONS AND CONTINGENT LIABILITIES
OTHER PLEDGED ASSETS
Other pledged assets pertain to pledged assets for other items than for own liabilities reported on the balance sheet.

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

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

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

20. CASH FLOW STATEMENT
Cash flow from operating activities indicates Skandiabanken’s main line of business, i.e., lending and deposits, and investments in fixed-income securities classified as available-for-sale financial assets.

Skandiabanken’s investments that are held to maturity are attributed to the investing activities. Cash and cash equivalents pertain to cash, clearing receivables and clearing liabilities, account balances in other banks, and overnight loans with an original term of less than three days.

21. GROUP CONTRIBUTIONS AND SHAREHOLDER CONTRIBUTIONS
Group contributions are reported in accordance with RFR 2 Accounting for Legal Entities – Alternative Rule. Group contributions received and rendered by Skandiabanken are reported as appropriations. Shareholder contributions received are reported in equity, and shareholder contributions rendered are reported as an increase in the cost of shares in subsidiaries.

2. REPORTING OF OPERATING SEGMENTS

	Sweden Banking		Norway Banking		Eliminations, Banking		Total Banking		Sweden Mutual Funds		Eliminations, other		Total, group	
SEK million	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Income statements	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.	Jan.-Dec.
Net interest income	577	536	542	501	—	—	1,119	1,037	—	—	—	—	1,119	1,037
Net fee and commission income	130	140	197	209	—	—	327	349	—	—	—	—	327	349
Net financial income	25	-1	22	15	—	—	47	14	—	—	—	—	47	14
Other operating income	102	149	0	6	-28	-20	74	135	—	—	—	—	74	135
Operating income	**834**	**824**	**761**	**731**	**-28**	**-20**	**1,567**	**1,535**	—	—	—	—	**1,567**	**1,535**
Staff costs	-207	-225	-161	-163	—	—	-368	-388	—	—	—	—	-368	-388
Other administrative expenses	-516	-533	-341	-378	28	20	-829	-891	—	—	—	—	-829	-891
Depreciation of tangible assets[1]	-1	-1	-2	-3	—	—	-3	-4	—	—	—	—	-3	-4
Amortisation of intangible assets	—	—	-3	-4	—	—	-3	-4	—	—	—	—	-3	-4
Other operating expenses	-12	-37	-21	-32	—	—	-33	-69	—	—	—	—	-33	-69
Expenses before loan losses	**-736**	**-796**	**-528**	**-580**	**28**	**20**	**-1,236**	**-1,356**	—	—	—	—	**-1,236**	**-1,356**
Net loan losses	-4	-11	-3	-23	—	—	-7	-34	—	—	—	—	-7	-34
Gains/losses on disposals of tangible and intangible assets	1	0	0	0	—	—	1	0	—	—	—	—	1	0
Operating profit	**95**	**17**	**230**	**128**	—	—	**325**	**145**	—	—	—	—	**325**	**145**
Appropriations, group contributions	-31	-6	—	—			-31	-6	—	—	—	—	-31	-6
Profit before tax	**64**	**11**	**230**	**128**	—	—	**294**	**139**	—	—	—	—	**294**	**139**
Income tax expense	-14	18	-71	-41	—	—	-85	-23	—	—	—	—	-85	-23
Profit for the year, continuing operations	**50**	**29**	**159**	**87**	—	—	**209**	**116**	—	—	—	—	**209**	**116**
Profit for the year, discontinued operations	81	—	—	—	—	—	81	0	17	22	—	—	98	22
Net profit for the year	**131**	**29**	**159**	**87**	—	—	**290**	**116**	**17**	**22**	—	—	**307**	**138**
External income	728	716	757	727	—	—	1,485	1,443	—	—	—	—	1,485	1,443
Internal income[2]	77	83	4	5	—	—	81	88	—	—	—	—	81	88
Internal expenses[2]	-4	-5	-47	-41	—	—	-51	-46	—	—	—	—	-51	-46
COMPREHENSIVE INCOME														
Net profit for the year	**131**	**29**	**159**	**87**	—	—	**290**	**116**	**17**	**22**	—	—	**307**	**138**
Other comprehensive income														
Change in value of available-for-sale financial assets	29	18	30	9	—	—	59	27	—	—	—	—	59	27
Hedge of net investment	0	0	0	0	—	—	0	0	—	—	—	—	0	0
Translation difference	14	1	0	0	—	—	14	1	—	—	—	—	14	1
Taxes attributable to changes in value of AFS financial assets	-6	-5	-8	-2	—	—	-14	-7	—	—	—	—	-14	-7
Total	**37**	**14**	**22**	**7**	—	—	**59**	**21**	—	—	—	—	**59**	**21**
Comprehensive income for the period after tax	**168**	**43**	**181**	**94**	—	—	**349**	**137**	**17**	**22**	—	—	**366**	**159**

Footnotes to segment reporting table

[1] No impairment losses have been recognised for tangible assets.

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

CONT. NOTE 2. REPORTING OF OPERATING SEGMENTS

SEK billion	Sweden Banking [1]		Norway Banking		Eliminations, Banking		Total Banking		Sweden Mutual Funds		Eliminations, other		Total, group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Balance sheets	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.
Assets														
Lending to the general public	29.0	26.4	31.0	27.0	—	—	60.0	53.4	—	—	—	—	60.0	53.4
Other assets	12.4	10.1	12.8	13.6	-0.5	-0.5	24.7	23.2	—	0.2	—	—	24.7	23.4
Total assets	**41.4**	**36.5**	**43.8**	**40.6**	**-0.5**	**-0.5**	**84.7**	**76.6**	**—**	**0.2**	**—**	**—**	**84.7**	**76.8**
Liabilities														
Deposits and borrowing from the general public	36.6	33.1	40.8	38.2	—	—	77.4	71.3	—	—	—	—	77.4	71.3
Other liabilities	3.1	2	1.5	1.2	-0.5	-0.5	4.1	2.7	—	0.1	—	-0.1	4.1	2.7
Total liabilities	**39.7**	**35.1**	**42.3**	**39.4**	**-0.5**	**-0.5**	**81.5**	**74.0**	**—**	**0.1**	**—**	**-0.1**	**81.5**	**74.0**
Equity	1.7	1.5	1.5	1.3	—	—	3.2	2.8	—	—	—	—	3.2	2.8
Total liabilities and equity	**41.4**	**36.6**	**43.8**	**40.7**	**-0.5**	**-0.5**	**84.7**	**76.8**	**—**	**0.1**	**—**	**-0.1**	**84.7**	**76.8**

[1] Swedish banking operations, including loans to the Swedish National Debt Office of SEK 1.6 billion (1.0).

CONT. NOTE 2. REPORTING OF OPERATING SEGMENTS

	Sweden Banking		Norway Banking		Eliminations, Banking		Total Banking		Sweden Mutual Funds		Eliminations, other		Total, group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Key ratios	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.
Investment margin, %[1]	1.51	1.54	1.26	1.31	—	—	1.39	1.43	—	1.31	—	—	1.39	1.43
C/I ratio after loan losses[2]	0.89	0.98	0.70	0.83	1.0	1.0	0.79	0.91	—	0.79	—	1	0.79	0.91
Loan loss ratio, %[3]	0.01	0.04	0.01	0.08	—	—	0.01	0.06	—	—	—	—	0.01	0.06
Average balance	38.2	34.9	43.1	38.1	-0.6	-0.5	80.7	72.5	—	0.2	—	-0.1	80.7	72.6
Number of customers, thousands	445	443	363	360	—	—	808	803	—	—	—	—	808	803
Average number of employees[4]	272	324	181	192	—	—	453	516	—	—	—	—	453	516

Footnotes to segment reporting table

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

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

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

[4] Pertains to average number after adjustment for discontinued operation.

Reporting of operating segments

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

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

In the mutual funds segment, the subsidiary Skandia Fonder AB was sold on 1 November 2012, and Svenska Lärarfonder was sold on 1 February 2011. No capital gain is included in 2012 profit, and the figures for 2011 have been recalculated.

For further information on discontinued operations, see note 34.

Information on major customers

By major customers is meant customers that generate revenue that accounts for 10% or more of the company’s total revenue under “Total operating income”. For Skandiabanken, previously this pertained to revenue from group companies outside the Skandiabanken group – primarily Skandia AB and Skandia Liv. Following the discontinuation of the services segment, invoicing to other companies in the Skandia group has become considerably lower, which is why the 10% limit has not been exceeded. In the preceding year, this share amounted to 32% of total operating income, including the divested operation. For further information, see note 40 “Related party disclosures”.

3. NET INTEREST INCOME

	2012			2011		
	Average balance	Interest	Average interest rate	Average balance	Interest	Average interest rate
Lending to credit institutions	2,755	30	1.09%	3,250	56	1.71%
Lending to the general public[1]	55,667	2,227	4.00%	53,492	2,049	3.83%
Fixed-income securities	21,758	580	2.66%	14,914	444	2.98%
of which, available-for-sale financial assets	*21,758*	*580*	*2.66%*	*14,914*	*444*	*2.98%*
Other	535	0	0%	801	1	0.05%
Total interest income[2]	**80,715**	**2,837**	**3.52%**	**72,457**	**2,550**	**3.51%**
Due to credit institutions	96	2	2.44%	56	2	2.62%
Deposits and borrowing from the general public	74,045	1,641	2.22%	67,237	1,460	2.17%
Issued securities	876	21	2.47%	—	—	—
Subordinated liabilities	1,200	41	3.40%	1,200	43	3.57%
Other	4,498	13	0.29%	3,964	8	0.21%
Total interest expense[2]	**80,715**	**1,718**	**2.13%**	**72,457**	**1,513**	**2.08%**
Total[2]		**1,119**	**1.39%**		**1,037**	**1.43%**

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

Interest income from financial instruments that are not measured at fair value through profit or loss amounts to SEK 2,866 million (2,602). Interest expenses from financial instruments that are not measured at fair value through profit or loss amount to SEK 1,720 million (1,515).

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

[2] The deviation in total interest income and expense compared with the income statement amounts to SEK 1 million (2) and pertains to the interest expenses attributable to hedge instruments, which in the note are transferred to interest income to provide a more accurate picture while taking into account the purpose of the hedges.

4. NET FEE AND COMMISSION INCOME

	2012	2011
Payment intermediation fees	281	292
Commissions on lending	1	1
Commissions on deposits	1	1
Commissions on securities	121	130
Other commissions	2	3
Total fee and commission income	**406**	**427**
Payment intermediation fees	-54	-50
Commissions on securities	-20	-22
Other commissions	-5	-6
Total fee and commission expenses	**-79**	**-78**
Net fee and commission income	**327**	**349**

Commissions derived from financial assets and liabilities that are not measured at fair value and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 282 million (294) for fee and commission income and SEK 55 million (51) for fee and commission expenses.

Commissions derived from asset management operations that involve holdings or investments in assets for the benefit of customers and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 122 million (132) for fee and commission income and SEK 21 million (24) for fee and commission expenses.

5. NET FINANCIAL INCOME

	2012	2011
Financial assets at fair value classified as held for trading	0	0
- Shares and participations and other equity instruments, change in value	0	0
- Interest-bearing derivatives, change in value	0	0
Financial assets available for sale	13	2
- Fixed-income securities, change in value	13	2
Hedge accounting [4]	5	-11
- Change in value of hedged item	64	63
- Change in value of hedged instruments	-59	-74
Exchange rate movements	29	23
Total	47	14

Total net result for available-for-sale financial assets[1]	2012	2011
Unrealised gain/loss recognised in other comprehensive income [2]		
Reclassification of realised gains/losses from other comprehensive income to net profit for the year	-13	-2
Unrealised changes in value	72	29
Total profit in other comprehensive income	59	27
Realised gains/losses reported in income statement [3]		
Reclassification of realised gains/losses from other comprehensive income to net profit for the year	13	2
Gain/loss realised directly in income statement	0	0
Total realised gain/loss in income statement	13	2
Total	72	29

[1] Total result for available-for-sale financial assets is divided into:

[2] Other comprehensive income, consisting of a) reclassification of unrealised changes in value on disposal from the fair value reserve via other comprehensive income to profit or loss and b) unrealised changes in value of remaining holdings on the balance sheet date.

[3] Realised gains and/or losses recognised in profit or loss consist of a) realised gains or losses on holdings acquired in previous financial years and which have been reclassified upon disposal from the fair value reserve via other comprehensive income to profit or loss and b) realised gains or losses on holdings that have been acquired and disposed of during the current financial year.

Realised gains and/or losses recognised in profit or loss consist of a) reclassification of unrealised changes in value upon disposal from the fair value reserve via other comprehensive income to profit or loss and b) realised gains on holdings acquired and disposed of during the current financial year.

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

6. OTHER OPERATING INCOME

	2012	2011
Revenues from group companies outside the Skandiabanken group	71	111
Dissolution of variable remuneration attributable to previous years	–	9
Other income	3	15
Total	**74**	**135**

7. STAFF COSTS

	2012	2011[1]
Salaries and remuneration	-229	-259
Defined benefit pensions, incl. payroll tax	-23	-6
Defined contribution pensions, incl. payroll tax	-24	-31
Social security charges	-56	-63
Variable remuneration[2]	-14	-18
Other staff costs	-22	-11
Total	**-368**	**-388**

[1] Adjusted for divested operation.

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

	2012					2011[2]				
Average number of employees	**Women**		**Men**		**Total**	**Women**		**Men**		**Total**
Sweden	145	53%	127	47%	272	398	50%	404	50%	802
Norway	100	55%	81	45%	181	107	56%	85	44%	192
Total, parent company	**245**	**54%**	**208**	**46%**	**453**	**505**	**51%**	**489**	**49%**	**994**
Subsidiaries in Sweden[1]	5	40%	8	60%	13	4	51%	3	49%	7
Total, group	**250**	**54%**	**216**	**46%**	**466**	**509**	**51%**	**492**	**49%**	**1,001**

[1] Pertains to discontinued operation for all employees.

[2] Average number of employees in 2011 includes 580 employees in discontinued operations.

	2012					2011				
Gender breakdown as per 31 December	**Women**		**Men**		**Total**	**Women**		**Men**		**Total**
Board of Directors	6	55%	5	45%	11	3	37%	5	89%	8
CEO and other members of executive management[1]	2	25%	6	75%	8	1	11%	8	63%	9

[1] Includes one person who is employed by and receives his remuneration from another group company.

CONT. NOTE 7. STAFF COSTS

2012 SEK thousand Sweden	Base salary/ directors' fees	Variable remunera-tion	Other benefits and remu-neration	Pension cost	Total
Niklas Midby, Chairman of the Board	600	—	—	—	600
Magnus Beer, director	200	—	—	—	200
Jonas Holmberg, Deputy CEO	1,980	660	68	953	3,661
Bengt-Olof Nilsson Lalér, Deputy CEO	1,968	656	62	710	3,396
Other senior executives (2 persons)[1]	1,977	228	135	619	2,959
Other employees who influence the company's level of risk (6 persons)[2]	3,711	247	141	1,001	5,100
Other employees in the banking operations (262 persons)	106,390	5,997	9,399	18,608	140,394
Total, Sweden	**116,826**	**7,788**	**9,805**	**21,891**	**156,310**
Norway					
Øyvind Thomassen, CEO[3]	3,783	—	1,161	243	5,187
Other senior executives (3 persons)[1]	5,029	998	349	333	6,709
Other employees who influence the company's level of risk (12 persons)[2]	9,865	942	1,033	1,036	12,876
Other employees in the banking operations (165 persons)	87,154	4,759	3,528	15,800	111,241
Total, Norway	**105,831**	**6,699**	**6,071**	**17,412**	**136,013**
Total					
Chairman of the Board	600	—	—	—	600
Board members	200	—	—	—	200
CEO	3,783	—	1,161	243	5,187
Deputy CEOs	3,948	1,316	130	1,663	7,057
Other senior executives (6 persons)[1]	7,006	1,226	484	952	9,668
Other employees who influence the company's level of risk (18 persons)[2]	13,576	1,189	1,174	2,037	17,976
Other employees in the banking operations (427 persons)	193,544	10,756	12,927	34,408	251,635
Total	**222,657**	**14,487**	**15,876**	**39,303**	**292,323**

[1] In addition to the number of other senior executives, the executive management includes two persons who are employed by and receive their remuneration from other group companies.

[2] Risk-takers as per the definition below.

[3] Other benefits and other remuneration also includes settlement of pensions corresponding to SEK 1,154 thousand.

2011 SEK thousand Sweden	Base salary/ directors' fees	Variable remunera-tion	Other benefits and remu-neration	Pension cost	Total
Niklas Midby, Chairman of the Board	100	—	—	—	100
Lars Otterbeck, director	250	—	—	—	250
Magnus Beer, director	200	—	—	—	200
Jonas Holmberg, Deputy CEO	1,159	145	48	458	1,810
Bengt-Olof Nilsson Lalér, Deputy CEO	1,869	235	214	457	2,775
Other senior executives (2 persons)[1]	2,909	461	223	1,159	4,752
Other employees who influence the company's level of risk (8 persons)[2]	4,879	181	271	1,408	6,739
Other employees in the banking operations (311 persons)	132,337	6,741	7,456	17,257	163,791
Total, Sweden	**143,703**	**7,763**	**8,212**	**20,739**	**180,417**
Norway					
Øyvind Thomassen, CEO[3]	2,819	599	1,845	347	5,610
Other senior executives (3 persons)	3,940	927	1,022	300	6,189
Other employees who influence the company's level of risk (12 persons)[2]	8,714	359	76	926	10,075
Other employees in the banking operations (176 persons)	99,809	8,980	705	10,946	120,440
Total, Norway	**115,282**	**10,865**	**3,648**	**12,519**	**142,314**
Total					
Chairman of the Board	100	—	—	—	100
Board members	450	—	—	—	450
CEO	2,819	599	1,845	347	5,610
Deputy CEOs	3,028	380	262	915	4,585
Other senior executives (6 persons)[1]	6,849	1,388	1,245	1,459	10,941
Other employees who influence the company's level of risk (20 persons)[2]	13,593	540	347	2,334	16,814
Other employees (965 persons)	232,146	15,721	8,161	28,203	284,231
Total	**258,985**	**18,628**	**11,860**	**33,258**	**322,731**

[1] The category "Other senior executives" includes one person who is employed by and receives his remuneration from Skandia AB.

[2] Risk-takers as per the definition below.

[3] Other benefits and other remuneration also includes settlement of pensions corresponding to SEK 881 thousand.

CONT. NOTE 7. STAFF COSTS

Remuneration policy

The remuneration policy adopted by Skandiabanken's board of directors stipulates, among other things, that remuneration of employees shall be structured to take into account the importance that operations are cost-effective and competitive. The remuneration system shall encourage long-term value creation for Skandiabanken with a well-balanced risk horizon. The criteria used for decisions on variable remuneration shall include an assessment of whether earnings are sustainable also in an economic downturn. Remuneration of employees of Skandiabanken shall be business-led, individual, and differentiated, and shall be based on:

- the market, i.e., what other banks pay for similar work duties in what can be regarded as the employee's potential job market,
- the degree of difficulty and responsibility of the position, and
- the employee's competence, experience and performance.

Skandiabanken's remuneration policy shall be reviewed yearly to ensure that it evolves in pace with changes in the company's environment. Each year, Skandia's Internal Audit function shall perform an independent review of whether Skandiabanken's remuneration is aligned with the remuneration policy and report the results of this review to the Board of Directors. This report shall normally be presented in connection with the adoption of the annual report.

Risk analysis

Before a decision is made on the remuneration system or significant changes to it, an analysis is conducted of how the system affects the risks that Skandiabanken is exposed to and how these risks are managed. Skandiabanken's Chief Risk Officer has specific responsibility for this assessment.

The risk analysis includes a description of the structure and content of remuneration programmes for Skandiabanken's employees, how Skandiabanken's remuneration policy is to be applied, and an analysis of the process for identifying employees who could influence the company's level of risk. This analysis also includes a description of Skandiabanken's system for risk governance and risk management. The focal point of the analysis is on variable remuneration.

The completed risk analysis, together with the assumption that the risk management and control system are being complied with, shows in summary that Skandiabanken's remuneration policy and remuneration system support effective risk management in the company and do not encourage elevated risk-taking. The following parts of the remuneration system are important components that have affected the result of the analysis:

- A remuneration committee in Skandia Liv, which is a permanent board committee tasked with conducting preparatory drafting work on benefits for employees of Skandia Liv and its subsidiaries, and the introduction of a specially appointed member for remuneration matters in the subsidiaries. Through this, the Board is considered to be able to make conscious, active decisions on remuneration matters. The process also ensures transparency in the design of remuneration for the CEO and his management team and for the subsidiaries.
- Most remuneration of Skandiabanken's employees is in the form of fixed salary.
- Variable remuneration is based on predefined performance criteria that are coupled to unit- and company-wide criteria as well as to individual financial and non-financial criteria.
- Clear processes for approval of goals and indicators, including the so-called grandfather principle, entailing that approval must be obtained from the manager's manager.
- Rules that support long-term and balanced risk-taking, which is achieved through – among other things – several-year evaluation periods and a principle whereby 60% of earned, variable remuneration is withheld for at least three years for employees in the employee categories who can influence Skandiabanken's level of risk.

Drafting and decision-making process

Skandiabanken has specially appointed a board member, Bengt-Åke Fagerman, to conduct drafting work for important matters regarding remuneration of employees of Skandiabanken and to also conduct drafting work for decisions on measures to follow up the application of Skandiabanken's remuneration policy. In addition, the specially appointed board member has been tasked with conducting an independent assessment of Skandiabanken's remuneration policy and remuneration system.

The specially appointed board member has been tasked with conducting drafting work for the Board's decisions on remuneration and other terms of employment for the President and CEO, the Deputy CEOs and, where applicable, others on Skandiabanken's management team who report directly to the Board or the CEO. The Board's decision on remuneration of the CEO must be approved by Skandia Liv's remuneration committee before such decision can be executed.

Decisions on remuneration of – where applicable – employees who have overall responsibility for any of Skandiabanken's control functions (functions for risk governance and risk control, compliance, and internal audit or similar) are to be made by the Board of Directors.

Decisions on remuneration of other employees of Skandiabanken are to be made in accordance with the so-called grandfather principle that is applied within Skandia.

Components of remuneration

Remuneration consists of one or more of the following components:

- Base salary, i.e., fixed salary that is paid out monthly
- Annual, variable performance-based remuneration. Such remuneration is based on the profit achieved in relation to expectation
- Skandianen, which is a profit-sharing foundation. For employees in Sweden who are not entitled to variable remuneration in accordance with the above, a yearly allocation is made to Skandianen based on Skandia's financial result. For employees in Norway who are not entitled to variable remuneration in accordance with the above, remuneration corresponding to a fixed, maximum amount may be payable
- Other benefits, e.g., company car, private healthcare insurance, subsidised interest-rates and fitness subsidy
- Pension plans in Sweden consist mainly of retirement benefits under the collective agreement in the insurance industry (FTP), and in certain cases additional retirement benefits for top management executives. Pension plans for employees in Norway are either defined benefit or defined contribution solutions

Salaries and fees

Fees are payable to the Chairman of the Board and other board members, in accordance with a decision by the Annual General Meeting. No fees are payable to board members who are employees of Skandia. The CEO's remuneration consists of a fixed base salary, while the remuneration for the deputy CEOs and other senior executives consists of a fixed, base salary and variable remuneration.

Variable remuneration and Skandianen

The CEO is not entitled to variable remuneration. For other employees, Skandiabanken applies a programme of variable remuneration that is based on both the employee's performance and the total performance of the profit centre and the company. Qualitative criteria are also taken into account. The variable remuneration programme is based on the preparation of detailed, individual performance contracts. The assessment of performance that is used as the basis for calculating variable remuneration is mainly based on risk-adjusted profit metrics.

If the total remuneration includes a variable component, a suitable balance shall exist between fixed salary and the variable remuneration. With respect to variable remuneration, a cap is in place which determines how large the remuneration may be if all goals are achieved. The cap is set in advance. Variable remuneration may be set at zero.

For the deputy CEOs, other senior executives and key persons included in the aforementioned programme, the possibility for variable remuneration consists of a maximum of 20% of the executive's fixed base salary.

For employees in Sweden who are not entitled to variable remuneration in accordance with the programme described above, remuneration corresponding to a maximum of 125% of one-half of the Price Base Amount may be payable through an allocation to the Skandianen profit-sharing foundation. This remuneration can be put at the employee's disposal in the fifth year after the year in which it was earned, at the earliest. For 2012 the maximum allocation can amount to SEK 27,500 per employee. For employees in Norway who are not entitled to variable remuneration in accordance with the programme described above, remuneration equivalent to NOK 25,000 may be payable for 2012.

Employees of Skandiabanken as well as of outsourced control functions in Skandia who work with review of the operations are not entitled to variable remuneration.

CONT. NOTE 7. STAFF COSTS

Share-based payments

The share-based remuneration programmes that have existed in Skandiabanken were a part of the group-wide remuneration programmes offered by Old Mutual, Skandia AB's previous owner. In connection with Skandia Liv's acquisition of Skandia AB on 21 March 2012, these programmes have been concluded, and any earned options and shares (except for the 2010 earnings year) were transferred to the employees.

The last grant of shares was made in 2011 for the 2010 earnings year. A total of 32,558 shares were granted. This holding remains due to the rules on deferral of remuneration stipulated by the Financial Supervisory Authority's rules FFFS 2011:1. This means that the grants have been deferred for three years, until 2014. Old Mutual's share price at the end of December 2012 was GBP 1.78, corresponding to SEK 18.76.

During the year, 7,754 shares and 38,768 options were transferred to the employees. The cost in 2012 amounted to SEK 123 thousand (142).

Skandiabanken has no additional costs for remuneration programmes apart from social security costs. Social security costs are judged to amount to a level that does not have a material financial impact on Skandiabanken's profit.

Change in liability for variable remuneration
SEK thousand

	Executive management	Other employees who influence the company's level of risk	Other employees	Total	Of which, deferred remuneration
Opening balance, 1 January 2011	**2,151**	**1,757**	**22,442**	**26,350**	**—**
Exchange rate difference	-45	-38	-318	-401	
Estimated provision for earned variable remuneration in 2011	3,201	1,088	17,569	21,858	
Payment of remuneration earned in previous years[1]	-1,301	-619	-19,690	-21,610	
Adjustment of remuneration from previous years	-842	-557	-1,985	-3,384	
Closing balance, 31 December 2011	**3,164**	**1,631**	**18,018**	**22,813**	**1,307**
Exchange rate difference	121	-110	446	457	
Estimated provision for earned variable remuneration in 2012	1,619	1,129	12,659	15,407	
Payment of remuneration earned in previous years[1]	-1,649	-689	-9,436	-11,774	
Adjustment of remuneration from previous years[2]	1,060	113	-8,392	-7,219	
Closing balance, 31 December 2012	**4,315**	**2,074**	**13,295**	**19,684**	**4,167**

[1] Payment of variable remuneration and provision to the Skandianen profit-sharing foundation.

[2] Amount includes dissolution of previously expensed remuneration of SEK 6,221 thousand pertaining to discontinued operation in 2011.

Percentage allocation of variable remuneration

	2012	2011
Cash variable remuneration	48%	15%
Share-based payment	1%	1%
Other[1]	51%	84%
	100%	**100%**

[1] Pertains to the Skandianen profit-sharing foundation.

Pensions

Pension costs for the CEO are defined-benefit and are vested through insurance. The year's defined benefit pension cost in relation to pensionable remuneration was 6% (9%). Premiums have been at a level that would have applied for a level of benefits corresponding to 66% of pensionable salary. Pension obligations calculated in accordance with IAS 19 Employee Benefits amounted to SEK 4,385 thousand (130). The contracted retirement age is 65.

Pension costs for the two deputy CEOs are both defined benefit and defined contribution solutions and are vested through insurance. Both deputy CEOs have benefits in accordance with the FTP plan, department 2 (occupational pension plan for the insurance industry). This plan is mainly a defined benefit solution with a maximum benefit level of 65% of pensionable salary. The retirement age is 65, as for others in the FTP plan.

For one deputy CEO, in addition to the FTP plan, a premium is paid that corresponds to 37% of the pensionable salary amount above the plan's ceiling of 30 times the Income Base Amount. Variable salary higher than the FTP plan's ceiling is not included in the pensionable base. These provisions are made to a so-called direct pension solution, whereby the pension is promised by the employer and then secured through an endowment insurance policy.

The year's defined contribution pension cost in relation to pensionable remuneration was 25% (21%) for both deputy CEOs. The year's defined benefit pension cost in relation to pensionable remuneration was 17% (12%). Pension obligations calculated in accordance with IAS 19 Employee Benefits totalled SEK 7,633 thousand (1,016).

Pension plans for other senior executives in Sweden consist of pension benefits under the collective agreement for employees in the insurance industry (FTP). The retirement age is 65. The pension plans consist primarily of retirement pension, disability pension and family pension.

The pension plans for other senior executives in Norway are defined benefit and defined contribution solutions. The retirement age is 67. For defined benefit pensions, the maximum benefit is 66% of pensionable salary.

For other senior executives, the year's defined contribution pension cost in relation to pensionable remuneration was 9% (10%). The year's defined benefit pension cost in relation to pensionable remuneration was 2% (2%). Pension obligations calculated in accordance with IAS 19 Employee Benefits amounted to SEK 2,052 thousand (637).

Pension cost in relation to pensionable salary
SEK thousand

	2012		2011	
	Defined contribution	Defined benefit	Defined contribution	Defined benefit
President and CEO	—	21%	—	9%
Deputy CEO	25%	17%	21%	12%
Other senior executives, 5 (6) persons[1]	12%	3%	10%	2%

[1] In addition to the indicated number of other senior executives are two persons who are also members of the executive management and who are employed by and receive their remuneration from other group companies.

Terms of notice and severance pay

In the event Skandiabanken serves notice, the CEO is entitled to salary during the notice period, which is six months. In addition, the CEO is entitled to severance pay corresponding to 12 months' salary.

For the deputy CEOs, in the event Skandiabanken serves notice, the executives are entitled to salary during the notice period, which is six months. One deputy CEO is entitled to severance pay corresponding to six months' salary.

Other senior executives have notice periods in accordance with applicable collective agreements and are not entitled to severance pay.

CONT. NOTE 7. STAFF COSTS

Severance pay and guaranteed benefits[1]
SEK thousand

	2012				2011			
	Executive management	Other employees who influence the company's level of risk	Other employees	Total	Executive management	Other employees who influence the company's level of risk	Other employees	Total
Expensed amounts for severance pay								
Severance pay[2]	–	–	3,211	3,211	–	–	37,776	37,776
Number of persons	–	–	3	3	–	–	74	74
Amount paid out during the year								
Severance pay[2]	–	–	4,854	4,854	–	–	37,776	37,776
Severance pay pledged during the year in connection with new hires	–	–	–	–	–	–	–	–
Pledged amounts:								
Severance pay	4,726	–	–[3]	4,726	3,643	–	–[3]	3,643
Number of persons covered by such pledge	2	–	1	3	2	–	1	3
Maximum individually pledged amount	3,789	–	–[3]	3,789	2,803	–	–[3]	2,803

[1] There are no guaranteed benefits.

[2] Severance pay in 2012 is attributable to changes in the Swedish and Norwegian banking operations in connection with Skandia's reorganisation.
Severance pay in 2011 is attributable to the change process carried out by Skandia in spring 2011. The process was carried out through natural attrition as well as a voluntary offer to employees who accepted severance pay and participation in the change programme. Severance pay for this amounted to SEK 31 million and pertained to 58 persons.

[3] So as not to reveal individual employees' personal financial situations, no quantitative information regarding amount is provided.

Loans
Skandiabanken offers personnel loans to employees of Skandiabanken as well as of other group companies in Skandia. Regardless of which company the employee works for or whether the employee is classified as a related party or not, the same terms are applied for everyone. Personnel loans are granted for amounts of up to a maximum of 35 times the Price Base Amount, or SEK 1.5 million. The employee is taxed for the benefit of the loan on a continuing basis, based on the government lending rate set by the Swedish Tax Agency on 30 November in the year before the tax year, plus one percentage point. Skandiabanken pays social security charges on this interest rate subsidy for the persons employed by Skandiabanken.

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

Loans to persons in executive positions[1]
SEK thousand

	2012	2011
Board members and deputy board members in the Old Mutual Group	–	4,392
CEO and deputy CEOs of the Old Mutual Group	–	4,670
Other senior executives in the Old Mutual Group	–	15,399
Board members and deputy board members in the Skandia group[2]	14,538	2,801
CEOs in the Skandia group[2]	8,404	3,875
Other senior executives in the Skandia group[2]	43,735	13,011
Board members and deputy board members of Skandiabanken	–	31
CEO and deputy CEOs of Skandiabanken	55	48
Other senior executives of Skandiabanken	6,545	12,849

[1] Loans granted have been made by Skandiabanken. All loans pertain to loans with adequate collateral or guarantees, except for other unsecured loans of SEK 229 thousand (290) and SEK 472 thousand (936), of a granted amount of SEK 2,152 thousand (4,279). The terms of the loans are in agreement with what is normally applied for lending to the general public or to other group employees. Skandiabanken or the group companies have not pledged collateral or entered into any contingent liabilities for the benefit of the persons reported.

[2] Pertains to the Skandia Liv group in 2011.

Employees who can influence Skandiabanken's level of risk
Based on the risk analysis above, Skandiabanken has identified the employees who could have a significant influence on Skandiabanken's level of risk and are thus covered by special stipulations on risk adjustment ("Specially Regulated Staff"). Specially Regulated Staff include the following categories:
- executive management
- employees in senior strategic functions
- employees responsible for control functions
- risk-takers

By risk-takers is meant employees who belong to a personnel category which, in the course of their work, could exercise significant influence over Skandiabanken's level of risk – normally employees who can enter into agreements or accept positions on behalf of Skandiabanken or in some other way influence Skandiabanken's risks.

The employees identified to be in the category of Specially Regulated Staff are evaluated on a continuous basis by Skandiabanken and may thus, in view of the influence they could have on Skandiabanken's level of risk, change from time to time.

Lock-in of variable remuneration for Specially Regulated Staff and risk-adjusted payment
For Specially Regulated Staff, payment of 60% of any variable remuneration shall be deferred for at least three years. Before the deferred amount is paid out, the amount is risk-adjusted, i.e., the profit that the remuneration is based on shall be secured and evaluated. This means that the variable remuneration may be reduced if it is subsequently learned that the employee, profit centre or Skandia did not meet the required performance criteria. A provision for the portion of the risk-takers' variable remuneration that is deferred is made on the balance sheet. The reserved amount changes during the lock-in period to the same extent that the value of Skandia Liv's financial assets change.

The Board of Directors has the right to unilaterally decide that the right to payment of the deferred remuneration shall be voided in the event of such extraordinary circumstances that entail that Skandiabanken's financial stability is jeopardised or that the performance criteria were not rightfully met.

8. OTHER ADMINISTRATIVE EXPENSES

	2012	2011
Cost of premises	-52	-38
IT costs	-129	-145
Fees and purchased services	-460	-463
Telephone and postage costs	-28	-35
Office expenses	-2	-4
Operating and transaction costs	-135	-162
Other administrative expenses	-23	-44
Total	**-829**	**-891**

Contracted rents

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

Breakdown 2012	<1 year	1-5 years	> 5 years	Total
Rents for premises	12	49	63	124

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

Audit costs	2012	2011
Audit assignment		
- KPMG	—	-2
- Deloitte	-2	—
Total audit assignment	**-2**	**-2**
Other assignments		
Auditing activities in addition to the audit assignment – KPMG	—	-1
Auditing activities in addition to the audit assignment – Deloitte	0	—
Other services – KPMG	-1	—
Other services – Deloitte[1]	-4	—
Total costs for other assignments	**-5**	**-1**

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

[1] Of which SEK 3 million pertains to time before being elected as auditor.

9. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

	2012	2011
Property, plant and equipment		
Depreciation		
- Equipment	-3	-4
Intangible assets		
Amortisation		
- other intangible non-current assets	-3	-4
Total	**-6**	**-8**

10. OTHER OPERATING EXPENSES

	2012	2011
Advertising and marketing	-33	-69
Total	**-33**	**-69**

11. LOAN LOSSES, NET

	2012	2011
Specific provision for individually assessed loan receivables		
The year's write-off of confirmed loan losses	-15	-1
Reversal of provisions for probable loan losses in previous financial years which are reported as confirmed loan losses in the year's accounts	15	0
The year's provision for probable loan losses	-9	-18
Paid in from confirmed loan losses in previous years	1	0
Reversal of provisions for probable loan losses which are no longer necessary	8	9
Net expense for the year for individually assessed loan receivables	**0**	**-10**
Collectively assessed provision for homogeneous groups of loan receivables	**0**	**0**
Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk		
The year's write-off of confirmed loan losses	-53	-26
Paid in from confirmed loan losses in previous years	19	11
Provision/dissolution for collectively assessed homogenous groups of loan receivables	27	-9
Net expense for the year for collectively assessed homogeneous groups of loan receivables	**-7**	**-24**
Net loan losses for the year	**-7**	**-34**

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

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

12. INCOME TAX EXPENSE

The following components are included in the tax expense for the group	2012	2011
Current tax		
- Tax on profit for the year	-72	-39
- Tax on previous years' profits	0	3
Deferred tax[1]	-13	13
Total	**-85**	**-23**

Correlation between income tax expense and reported profit before tax	2012	2011
Reported profit after appropriations but before tax[2]	387	139
Tax according to applicable Swedish tax rate of 26.3%	-102	-37
Tax effect of tax exempt income	25	1
Tax effect of non-deductible expenses	-1	-2
Tax effect of changed application of deferred tax on temporary differences for endowment insurance policies	—	12
Effect of change in tax rate to 22%	-2	—
Tax effect of differences in taxation between countries	-5	0
Current tax pertaining to previous years	0	3
Total	**-85**	**-23**
Average effective tax rate	22.0%	16.0%

[1] Deferred tax broken down by type of temporary difference	2012	2011
Tax effect attributable to temporary differences in financial instruments	-1	3
Tax effect attributable to temporary differences in pensions	-10	8
Tax effect attributable to temporary differences in provisions	-2	2
Total	**-13**	**13**

[2] Including discontinued operation.

13. CASH AND CASH BALANCES WITH CENTRAL BANKS

	2012	2011
Swedish notes and coins	4	1
Central Bank of Sweden, payable on demand	11	10
Foreign central banks, payable on demand	409	685
Total	**424**	**696**

14. LENDING TO CREDIT INSTITUTIONS

Outstanding loans broken down by counterparty	2012	2011
Foreign central banks	—	1,670
Swedish credit institutions	104	283
Foreign credit institutions	550	60
Total	**654**	**2,013**
Outstanding loans broken down by remaining maturity		
Payable on demand	654	2,013
Total	**654**	**2,013**
Average remaining maturity (years)	0	0

15. LENDING TO THE GENERAL PUBLIC

	2012	2011
Amortised cost[1]	60,102	53,526
Provision for impaired loans	-91	-133
Total	**60,011**	**53,393**

a) Lending broken down by remaining maturity	2012	2011
Payable on demand	1	1
Maximum 3 months	17,178	17,034
Longer than 3 months but max 1 year	4,955	3,932
Longer than 1 year but max 5 years	11,920	9,935
Longer than 5 years	25,957	22,491
Total	**60,011**	**53,393**
Average remaining maturity (years)	10.6	10.2

b) Impaired loans and provisions	2012	2011
Impaired loans, gross	**169**	**213**
Specific provisions for individually assessed loan receivables	-22	-36
Provision for collectively assessed homogenous groups of loan receivables with limited value	-66	-95
Collective provisions for individually assessed loan receivables	-3	-2
Total provisions for impaired loans	-91	-133
Total impaired loans, net	78	80

Non-performing loans that are not judged to be impaired amounted to SEK 64 million (55). Non-performing loans that are not judged to be impaired refers to loans for which adequate collateral exists.

c) Loan receivables broken down by geographic region	2012	2011
Loan receivables at amortised cost (before provision for loan losses)[1]	**60,102**	**53,526**
Sweden[1]	28,993	26,428
Norway	31,109	27,098
Specific provisions for individually assessed loan receivables	**22**	**36**
Sweden	13	13
Norway	9	23
Collective provisions for individually assessed loan receivables	**3**	**2**
Sweden	1	—
Norway	2	2
Provisions for collectively assessed homogenous groups of loan receivables	**66**	**95**
Sweden	6	6
Norway	60	89
Total provisions	**91**	**133**
Sweden	20	19
Norway	71	114

	2012	2011
Loan receivables at amortised cost (after provision for loan losses)[1]	**60,011**	**53,393**
Sweden[1]	28,973	26,409
Norway	31,038	26,984
Impaired loans broken down by geographic region		
Impaired loans (after provision for probable loan losses)	**78**	**80**
Sweden	27	33
Norway	51	47

[1] Including loans of SEK 1,610 million (980) to the Swedish National Debt Office.

d) Reconciliation of provisions for loan losses	2012	2011
Opening balance, provisions	133	116
Specific provisions		
Opening balance	**36**	**26**
Confirmed loan losses during the year	0	0
Provisions	9	19
Reversals	-23	-9
Changes recognised in the income statement	**-14**	**10**
Translation difference	0	0
Reclassifications	0	0
Closing balance	**22**	**36**
Collective provisions		
Opening balance	**97**	**90**
Net change in provisions recognised in the income statement	-26	9
Translation difference	1	0
Reclassifications	-3	-2
Closing balance	**69**	**97**
Provisions, closing balance	**91**	**133**

16. FAIR VALUE OF PORTFOLIO HEDGE OF INTEREST RATE RISK

	2012	2011
Opening balance	68	5
Change in value of hedged item	64	63
Closing balance	**132**	**68**

The fair value of portfolio hedge of interest rate risk pertains to the change in value of the hedged asset. For Skandiabanken, this pertains to interest rate risk attributable to lending at fixed interest rates. For further information, see note 5 “Net financial income” and note 27 “Financial liabilities at fair value and disclosures of derivative instruments”.

17. FINANCIAL ASSETS AT FAIR VALUE

Shares[1]	2012	2011
Listed shares	0	0
Unlisted shares	12	11
Total	12	11

Derivative instruments	2012	2011
Interest rate derivatives		
Interest rate swaps	1	10
Foreign exchange derivatives		
Currency swaps	12	13
Total	13	23

Total	25	34

[1] Held for trading.

For further information on derivatives, see note 27.

18. FINANCIAL ASSETS AVAILABLE FOR SALE

Fixed-income securities	2012	2011
Issued by public entities	7,461	2,923
Issued by other borrowers	15,390	16,695
Total	22,851	19,618

Issuers	2012	2011
Swedish municipalities[1]	4,158	2,441
Swedish credit institutions	8,095	7,670
Other Swedish issuers	100	201
Foreign governments[1]	697	–
Foreign municipalities[1]	2,606	482
Foreign credit institutions	6,893	8,794
Other foreign issuers	302	30
Total	22,851	19,618

Remaining maturity	2012	2011
Maximum 1 year	7,950	6,721
Longer than 1 year but max 5 years	14,901	12,897
Total	22,851	19,618

Average remaining maturity, (years)	1.5	1.5
Average remaining fixed interest term, (years)	0.3	0.3
of which, unlisted securities	*22,154*	*19,618*
of which, pledged as security for the benefit of the Central Bank of Sweden	*2,854*	*2,045*
of which, pledged as security for the benefit of the Central Bank of Norway	*2,354*	*3,685*

[1] Of which, treasury bills and other eligible bills		
Swedish municipalities	3,107	2,441
Foreign governments	697	–
Foreign municipalities	2,022	–
Total	5,826	2,441
Nominal value	5,817	2,435

Shares	2012	2011
Listed shares	38	26
Total	38	26

Total	22,889	19,644

19. INTANGIBLE ASSETS

Other intangible assets	2012			2011			
Cost	Acquired IT systems	Other intangible assets	Total	Acquired IT systems under development	Acquired IT systems	Other intangible assets	Total
Cost at start of year	43	37	80	1	41	37	79
Exchange rate differences	—	1	1	—	0	—	0
Reclassification	—	—	0	-1	1	—	—
Acquisitions during the year	—	—	0	—	1	—	1
Cost at year-end	**43**	**38**	**81**	**—**	**43**	**37**	**80**
Accumulated amortisation and impairment							
Accumulated amortisation at start of year	-40	-37	-77	—	-35	-37	-72
Exchange rate differences	—	-1	-1	—	-1	—	-1
Current year's amortisation	-3		-3	—	-4	—	-4
Accumulated amortisation and impairment at year-end	-43	-38	-81	—	-40	-37	-77
Net carrying amount	**0**	**0**	**0**	**—**	**3**	**0**	**3**

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

20. PROPERTY, PLANT AND EQUIPMENT

Cost	**2012**	**2011**
Cost at start of year	28	34
Exchange rate differences	—	0
Acquisitions during the year	2	6
Assets held for sale	—	-5
Sales during the year[1]	-3	-7
Cost at year-end	**27**	**28**

Accumulated depreciation	**2012**	**2011**
Opening accumulated depreciation	-20	-21
Exchange rate differences	—	0
Current year's depreciation	-3	-4
Assets classified as held for sale/Current year's depreciation for discontinued operations	—	1
Accumulated depreciation on current year's sales[1]	2	4
Closing accumulated depreciation	-21	-20
Net carrying amount	**6**	**8**

[1] Including disposals.

21. CURRENT AND DEFERRED TAX ASSETS

	2012	2011
Current tax assets	18	19
Deferred tax assets, net[1]	25	25
Total	**43**	**44**

[1] **Deferred tax assets, net, with changes recognised in profit or loss, broken down by type of temporary difference**	**2012**	**2011**
Deferred tax assets attributable to financial instruments	0	1
Deferred tax liabilities attributable to financial instruments	0	0
Deferred tax assets attributable to intangible and tangible assets	1	1
Deferred tax assets attributable to pensions	21	24
Deferred tax assets attributable to provisions	2	3
Total	**24**	**29**
Deferred taxes, net, recognised in other comprehensive income		
Deferred tax liabilities attributable to unrealised gains on available-for-sale financial assets	-22	-8
Deferred tax assets attributable to pensions	23	4
Total	**1**	**-4**
Total	**25**	**25**

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

22. OTHER ASSETS

	2012	2011
Securities settlement claims	266	570
Trade receivables	20	19
Other	36	39
Provision for probable loan losses	-2	-4
Total	**320**	**624**

23. PREPAID EXPENSES AND ACCRUED INCOME

	2012	2011
Accrued interest	102	116
Other accrued income	23	32
Accrued management fees	—	52
Prepaid expenses	28	25
Total	**153**	**225**

24. DUE TO CREDIT INSTITUTIONS

Outstanding amounts broken down by counterparty, net book value	**2012**	**2011**
Swedish credit institutions	70	26
Foreign credit institutions	29	16
Total	**99**	**42**

Outstanding amounts broken down by remaining maturity, net book value	**2012**	**2011**
Payable on demand	99	42
Total	**99**	**42**
Average remaining maturity, (years)	0,0	0,0

25. DEPOSITS AND BORROWING FROM THE GENERAL PUBLIC

Deposits broken down by remaining term, book value	**2012**	**2011**
Payable on demand	72,835	66,247
Maximum 3 months	3,331	2,765
Longer than 3 months but max 1 year	822	1,822
Longer than 1 year but max 5 years	377	468
Total	**77,365**	**71,302**
Average remaining maturity (years)	0.0	0.0

No borrowing existed as per the balance sheet date.

26. ISSUED SECURITIES, ETC.

	2012	2011
Commercial paper	743	—
Bond issues	1,083	—
Total	**1,826**	**—**
Remaining maturity max 1 year	1,593	—
Remaining maturity longer than 1 year	233	—

Covered bonds in the group amount to SEK 0 million.
Discounting instruments are reported inclusive of accrued interest as per the balance sheet date.

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

Breakdown of derivative instruments by type of hedge relationship

	2012			2011		
Derivatives held for trading	Assets at fair value	Liabilities at fair value	Nominal amount	Assets at fair value	Liabilities at fair value	Nominal amount
Foreign exchange derivatives						
Swaps	–	0	28	–	0	23
Forward agreements	–	–	16	–	–	6
Derivatives held for fair value hedges						
Interest rate derivatives						
Swaps	1	134	10,755	10	83	8,870
Derivatives for hedges of net investments in foreign operations						
Foreign exchange derivatives						
Swaps	12	0	683	13	–	679
Total derivatives broken down by assets and liabilities						
Interest rate derivatives	**1**	**134**	**10,755**	**10**	**83**	**8,870**
Foreign exchange derivatives	**12**	**0**	**727**	**13**	**0**	**708**

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

Of the group's lending, 84% (82%) is at variable interest rates that are adjusted to movements in market interest rates within three months. The remaining credits have interest rates that are fixed for set periods. The group's funding is handled in all essential respects through deposits at variable interest rates, however, some funding is also conducted through deposits and borrowing at fixed interest rates and through equity.

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

For disclosures of durations of interest rate derivatives, see the table showing terms of fixed interest in note 37.5.1 "Interest rate risk and net interest risk". All foreign exchange derivatives have durations with maturity within three months.

28. OTHER LIABILITIES

	2012	2011
Securities settlement liabilities	214	497
Trade accounts payable	45	54
Other	109	163
Total	**368**	**714**

29. ACCRUED EXPENSES AND DEFERRED INCOME

	2012	2011
Accrued interest	157	165
Accrued staff costs	63	145
Accrued fund commissions	—	40
Accrued expenses for outsourced operations	34	66
Other accrued expenses	30	5
Total	**284**	**421**

30. PROVISIONS FOR PENSIONS

	Pension plans incl. payroll tax[1]
Opening balance 2011	**104**
Exchange rate differences	0
Current year's provision	7
Amount utilised during the year	-35
Amount reversed during the year	—
Closing balance 2011	**76**
Exchange rate differences	0
Current year's provision	63
Amount utilised during the year	—
Amount reversed during the year	-25
Closing balance 2012	**114**

[1] Defined benefit pension plans amounted to SEK 90 million (39), and pension obligations for employees with high-earner solutions amounted to SEK 2 million (20). Payroll tax on defined benefit pension plans amounted to SEK 24 million (12), and payroll tax for reporting of pension obligations in connection with early retirement of employees with high-earner solutions amounted to SEK 1 million (5).

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

31. SUBORDINATED LIABILITIES

	2012	2011
Dated subordinated loans	300	300
Perpetual subordinated loans	900	900
Total	**1,200**	**1,200**

Nominal amount	Interest terms	Due date
200	3 mth Stibor +1,00%	10/18/2018
100	3 mth Stibor +1,00%	16/12/2019
900	3 mth Stibor +1,25%	Perpetual

The interest due date is quarterly for all loans.

OTHER DISCLOSURES

32. OTHER PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

Other pledged assets	2012	2011
Bonds pledged with the Central Bank of Sweden and the Central Bank of Norway[1]	5,208	5,730
Cash[2]	35	47
Endowment insurance policies pledged as security for pension obligations[3]	41	41
Total	**5,284**	**5,818**

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

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

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

[3] See below with respect to contingent liabilities for pension obligations.

Contingent liabilities	2012	2011
Pension obligations[1]	—	—
Other	4	4
Total	**4**	**4**

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

[1] Skandiabanken has pension obligations totalling SEK 41 million (41) that are not carried on the balance sheet, which are covered by the value of company-owned endowment insurance policies. See "Other pledged assets" above.

Commitments	2012	2011
Unutilised part of granted overdraft facilities	7,026	6,510
Granted undrawn credits	13,057	9,971
Total	**20,083**	**16,481**

All commitments are stated in nominal amounts.

33. CASH FLOW FROM DIVESTMENT OF SUBSIDIARIES

	Skandia Fonder AB	Svenska Lärarfonder AB
Divested assets and liabilities	**2012**	**2011**
Lending to credit institutions	89	17
Property, plant and equipment	0	0
Other assets	53	3
Total assets	**142**	**20**
Non-controlling interests	—	6
Other liabilities	88	8
Total liabilities	**88**	**14**
Sales price	135	6
Less: cash and cash equivalents in the subsidiary	-89	-17
Effect of cash and cash equivalents on group	**46**	**-11**

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

Disclosures regarding divestment of Skandia Fonder AB
The subsidiary Skandia Fonder AB was sold on 1 November 2012.
Consideration amounted to SEK 135,000 thousand. The purchase price is classified in the cash flow statement under investing activities and is specified after deducting for divested cash and cash equivalents.

34. DISCONTINUED OPERATIONS

Income statement	Mutual fund operations		Services segment		Total discontinued operations	
	2012	2011	2012	2011	2012	2011
Net interest income	1	2	—	0	1	2
Net fee and commission income	120	142	—	—	120	142
Net financial income	0	—	—	—	0	—
Other operating income	—	—	—	641	—	641
Total operating income	**121**	**144**	**—**	**641**	121	**785**
Staff costs	-15	-10	—	-481	-15	-491
Other administrative expenses	-83	-104	—	-156	-83	-260
Depreciation of tangible assets	0	—	—	-1	0	-1
Other operating expenses	0	—	—	-3	0	-3
Total expenses before loan losses	**-98**	**-114**	**—**	**-641**	-98	**-755**
Profit before loan losses, net	**23**	**30**	**—**	**0**	23	**30**
Income tax expense	-6	-8	—	—	-6	-8
Profit, discontinued operations	**17**	**22**	**—**	**—**	17	**22**
Gain on sale before tax	81	—	—	—	81	—
Taxes	—	—	—	—	—	—
Gain on sale of discontinued operations	**81**	**—**	**—**	**—**	81	**—**
Profit for the year from discontinued operations	**98**	**22**	**—**	**0**	98	**22**

Balance sheet, 31 December 2011	Mutual fund operations	Services segment
Assets		
Property, plant and equipment	—	4
Other assets	—	10
Prepaid expenses and accrued income	—	1
Financial assets available for sale	**—**	**15**
Liabilities and provisions		
Other liabilities	—	1
Accrued expenses and deferred income	—	78
Provisions	—	33
Total liabilities and provisions	**—**	**112**

Discontinued operations
The restructuring that was initiated at the end of 2010 within the Skandia group was concluded on 1 January 2012 with the sale of the Services segment in Skandiabanken to Skandia Försäljning AB. The Services segment has thereby been fully discontinued.

Parts of the Services segment that pertained to customer service units primarily in Sundsvall and Gothenburg were sold to the parent company Försäkringsaktiebolaget Skandia on 1 July 2011. The divestment had no profit effect for Skandiabanken, in accordance with a previous agreement between Skandia and Skandiabanken. The divestment was made at book value. The greater part of the Services segment that pertained to advisory services (Advise) was sold as per 1 January 2012 to Skandia Försäljning AB. This divestment did not have any effect on Skandiabanken's profit. The divestment was carried out at book value. The remaining customer service, market communication and business development units were transferred to the Swedish banking segment as per 1 July 2011.

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

Divested operations
On 31 January 2011, the subsidiary Svenska Lärarfonder AB was sold at the group residual value. Skandiabanken's ownership was 51%. At the time of the divestment, the company had total assets of SEK 20 million and equity of SEK 12 million, of which SEK 6 million was a minority interest. Svenska Lärarfonder AB's earnings for January were not included in the consolidated income statement. On 1 November 2012, the subsidiary Skandia Fonder AB was sold to Skandia AB.

35. COMPLAINTS AND DISPUTES

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

The Swedish Tax Agency has reassessed Skandiabanken's income taxation for 2009. The decision has been appealed, and a respite for payment of the tax has been received. The Tax Agency's decision may entail a higher tax charge of SEK 3.6 million. In January 2012 Skandiabanken appealed the decision to the Administrative Court of Appeal, and a ruling is expected in 2013. Skandiabanken is of the opinion that it is not likely that the Tax Agency's decision will be upheld in its entirety. In addition, there is considerable uncertainty regarding the amount. Consequently, no provision has been made, and the amount is reported as a contingent liability.

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

36. INFORMATION ON CAPITAL ADEQUACY

Minimum capital requirement – Pillar I

Capital adequacy analysis	31/12/2012	31/12/2011
Capital adequacy measures		
Total capital ratio[1]	14.22%	14.31%
Tier 1 capital ratio[2]	10.22%	9.95%
Capital adequacy quotient[3]	1.78	1.79
Capital base[4]		
Equity according to most recent year-end book closing, 31 December	3,195	2,806
Proposed dividend	—	—
Tier 1 capital, gross[4.1]	**3,195**	**2,806**
Less: intangible assets	0	-3
Less: deferred tax assets	-25	-34
Unrealised loss for available-for-sale financial assets, fixed-income securities	-65	-20
Tier 1 capital, net[4.2]	**3,105**	**2,749**
Unrealised gains on available-for-sale financial assets, equities	13	4
Perpetual subordinated debt[4.3]	900	900
Dated subordinated debt[4.4]	300	300
Total tier 2 capital	**1,213**	**1,204**
Capital base	**4,318**	**3,953**
Risk-weighted exposures/basis for calculating capital requirement[5]		
Credit risk according to standardised approach	26,263	23,585
Currency risk	204	134
Operational risk according to basic indicator approach	3,902	3,911
Total risk-weighted exposures	**30,369**	**27,630**
Capital requirement[6]		
Credit risk according to standardised approach	2,101	1,887
Currency risk	17	10
Operational risk according to basic indicator approach	312	313
Total minimum capital requirement	**2,430**	**2,210**
Initial capital, SEK 44.7 million[7]		

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

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

Exposures for credit risks per exposure class

		31/12/2012			31/12/2011		
		Expo-sures	Risk-weighted assets	Capital require-ment	Expo-sures	Risk-weighted assets	Capital require-ment
Footnotes		8	5	6	8	5	6
1	Exposures to governments and central banks	3,402	—	—	4,331	—	—
2	Exposures to local governments and comparable associations an authorities	6,898	523	42	3,165	97	8
3	Exposures to administrative bodies, non-commercial undertakings and religious communities	304	—	—	—	—	—
4	Exposures to multilateral development banks	—	—	—	—	—	—
5	Exposures to international organisa-tions	—	—	—	—	—	—
6	Exposure to institutions	5,155	1,031	83	5,937	1,172	94
7	Exposure to corporates	531	451	36	919	758	61
8	Retail exposures	3,506	2,629	210	3,242	2,431	195
9	Exposures secured on residential property	54,872	20,402	1,632	49,177	17,919	1,433
10	Past due items[9]	26	26	2	26	26	2
11	High risk items	—	—	—	—	—	—
12	Exposures in form of covered bonds	9,779	978	78	9,881	988	79
13	Securitisation positions	—	—	—	—	—	—
14	Exposure to funds	1	1	0	53	53	4
15	Other items	226	222	18	145	141	11
	Total	**84,700**	**26,263**	**2,101**	**76,876**	**23,585**	**1,887**

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

Applied rules and regulations

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

Information shall be provided at least once a year in accordance with the Financial Supervisory Authority's regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5), referred to as Pillar III. Disclosures in this note are presented in accordance with Ch. 3 §§ 1-2 and Ch. 4. More detailed disclosures in accordance with these guidelines are presented in the document "1212 Yearly information on capital adequacy and risk management", including comments on the outcome and disclosures of regulatory changes, which is available at www.skandiabanken.se/Om oss/Finansiell info.

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

CONT. NOTE 36. INFORMATION ON CAPITAL ADEQUACY

Information on the financial company grouping

Disclosures in this note pertain to the financial company grouping. In accordance with the capital adequacy rules, all subsidiaries are consolidated in accordance with the purchase method. On 1 February 2011 the minority owned (51%) subsidiary Svenska Lärarfonder was sold. The book value of the shares was SEK 3.1 million. On 1 November 2012 the subsidiary Skandia Fonder AB was sold to Skandia AB, entailing that Skandiabanken is no longer a group, but consists of a parent company and a branch in Norway. Disclosures for the parent company are provided in note 11.

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

Funds from the capital base may be transferred pursuant to the Banking and Financing Business Act, the Companies Act, and the Financial Supervisory Authority's regulations and general guidelines. In the Norwegian branch, transfers of capital are regulated by the Norwegian Financial Supervisory Authority's regulations and general guidelines. Liabilities between the entities are settled on a continuous basis, and transfers of capital are normally conducted at year-end.

Strategy, methods and processes for capital allocation

Skandiabanken's strategy is to always have a total capital ratio of higher than 10.5% including the need for internal capital.

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

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

Description of quantitative information

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

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

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

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

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

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

4.3 Perpetual subordinated debt
According to the terms of agreement, the interest rate is determined in relation to the interest base, Stibor +1.25%. The loan has subordinated terms of payment and runs with no collateral pledged. Repayment of the debt is only possible in case the issuer is declared bankrupt or has entered into liquidation, or alternatively, after gaining permission from the Financial Supervisory Authority.

4.4 Dated subordinated debt
According to the terms of agreement, the interest rate is determined in relation to the interest base, Stibor +1.00%. The loan has subordinated terms of payment and runs with no collateral pledged.

The due date is 10 December 2018 for loans amounting to SEK 200 million and 16 December 2019 for loans amounting to SEK 100 million. In cases where the remaining term is less than five years, the amount that may be included in the capital base shall correspond to a maximum of 20% of the notional value for each remaining year.

Repayment of the debt is only possible in case the issuer is declared bankrupt or has entered into liquidation, or alternatively, after gaining permission from the Financial Supervisory Authority.

5 By risk-weighted exposures is meant the assessed value of an exposure. By exposure is meant items on and off the balance sheet. Exposures within the group are included, excluding shareholdings in subsidiaries and cases where the counterparty is under the supervision of the Financial Supervisory Authority.

According to the regulations, the concept of risk-weighted exposures does not apply for foreign exchange rate risk and operational risk; instead, the capital requirement for these risks is determined explicitly. To illustrate the calculation of capital requirement, these risks have been converted to risk-weighted exposures.

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

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

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

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

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

37.1 GOALS AND POLICY

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

37.2 RISK ORGANISATION AND GOVERNANCE

BOARD OF DIRECTORS

Skandiabanken's board of directors has ultimate responsibility for the bank's level of risk and determination of its capital requirement. The Board stipulates guidelines for the CEO with respect to risk governance and risk management, risk control, reporting and more by issuing policies and instructions. The Board is thus the ultimate owner of the bank's risk management system and is responsible for ensuring that the bank has good internal control. A large part of the Board's work is conducted in the various board committees, which are established in order to – within specifically defined parameters – examine certain areas, such as financial reporting, risk management, risk control and internal capital adequacy, etc., and for conducting preparatory work in these areas ahead of board meetings.

The Board's Risk and ICAAP Committee

The Board's Risk and ICAAP Committee is tasked with reviewing – on behalf of the Board – management's recommendations regarding risk management and risk control, particularly with respect to the structure and implementation of Skandiabanken's risk framework, the quality and effectiveness of internal control, risk appetite limits, risk profiles and the capital planning process, as well as the result of the internal capital adequacy assessment process (ICAAP). The committee is tasked with deciding on such matters that the Board has delegated to the committee.

The Board's Audit Committee

The Audit Committee is tasked with assisting the Board in fulfilling its responsibility to continuously assess Skandiabanken's financial situation and ensure that the company's organisation is structured in such a way that the bookkeeping, treasury management and the company's financial conditions in general are controlled in a secure manner.

CEO

Skandiabanken's CEO has overarching operational responsibility for governance, management and control of the bank's risks and reports to the Board of Directors. The CEO is responsible for conveying and implementing the Board's views on risk management and risk control, and for ensuring that a well-working system of internal control is implemented within the organisation. Based on the Board's overarching governance documents, the CEO issues more detailed instructions for the operative governance, management and control of the bank's risks. In addition, through the organisation the CEO delegates parts of his operational responsibility for risk management to the Chief Risk Officer (CRO) and unit managers. Overall risk management and control is conducted by the bank's management under the CEO's direction.

The CEO's committees

The CEO has established three committees with different areas of responsibility regarding governance and control of the risks associated with Skandiabanken's operations: the Asset and Liability Committee (ALCO), the Credit Committee, and the Price and Interest Committees in Sweden and Norway.

ALCO

ALCO is tasked with monitoring the bank's current and future risk and capital situation. The committee has a composition of members that enables discussions aimed at optimising risk management and ensuring that proactive and effective actions are taken. The committee thus deals with future risk and capital strategies as well as liquidity issues, the bank's capital structure, and all risk that affect the bank's capital/liquidity/financial stability.

ALCO reviews the monthly risk report. In addition, the committee recommends the level of risk limits to the Board for decision as well as methods for risk measurement and allocation of internal capital among the operations. ALCO consists of the following members: the CEO, the Administrative Deputy CEO, the Chief Financial Officer (CFO), the Head of Treasury, the Head of Risk Management and Analysis, and the Chief Risk Officer. The committee is to conduct at least ten meetings per year.

Credit Committee

The Credit Committee is responsible for monitoring the bank's current and future credit risk situation, defining which rules are to apply for lending, and for granting major and/or complex loans. The committee has a composition of expertise and experience that enables discussions on the quality of the aggregate credit portfolio and on which lending decisions should be made so as to maintain loan losses within an approved level. Continuous monitoring and reporting of credit risks are reported on a recurring basis to ALCO for discussions.

The Credit Committee consists of the following members: the CEO, the Administrative Deputy CEO, the Head of Credits, the Head of Products and Processes in Norway, and the Head of the Banking business area in Sweden.

FUNCTION FOR MANAGING RISK AND COMPLIANCE IN THE BUSINESS ACTIVITIES

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

RISK MANAGEMENT AND ANALYSIS UNIT

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

FUNCTIONS FOR MANAGING RISK AND COMPLIANCE IN ACTIVITIES OUTSOURCED UNDER OUTSOURCING AGREEMENTS

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

INDEPENDENT RISK CONTROL AND COMPLIANCE – OUTSOURCING AGREEMENT WITH THE SKANDIA LIV

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

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

OPERATIONS

The risks in Skandiabanken's business shall be continuously identified, managed, controlled and reported to persons responsible in the line organisation for the respective business, product and process areas. The methodology used by the bank to identify and evaluate its risks is based on a risk self-assessment model. Internal Audit's annual audit plan is based on identified risks in the business activities.

Skandiabanken's investments as well as its market and liquidity risks are managed and monitored by Skandia's Treasury function, in accordance with an outsourcing agreement between Skandiabanken and Skandia Liv, as

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

well as in accordance with instructions issued by the bank's board of directors. Treasury has its own risk control unit, which is responsible for the daily monitoring and control of risks.

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

37.3 DELEGATION OF RISK AND CONTROL RESPONSIBILITY – THREE LINES OF DEFENCE

RISK AND CONTROL RESPONSIBILITY AT SKANDIABANKEN
Skandiabanken's risk management is based on three lines of defence, which are the foundation for the bank's model for risk management, risk control and compliance. The model is based on a division of responsibility for risk and compliance within the bank. It also distinguishes between the functions that own and manage risks and compliance (the first line), the functions that monitor and independently control risks and compliance (the second line), and the functions for independent review and oversight (the third line). Following is an overview of the duties and responsibilities of the respective lines of defence.

INTERNAL CONTROL
Skandiabanken's operations are to be distinguished by good internal control. The bank's internal control is built upon business-adapted application of the three lines of defence principle. The three lines of defence make up the bank's foundation for risk management, risk control and compliance.

The three lines of defence principle aims to clarify the division of responsibility for risk and compliance in the bank and distinguishes between

- the first line, which governs and controls the business (along with its risks and requirements for compliance),
- the functions of the second line of defence, which monitor and control business governance and control of risks and compliance in the first line of defence, and
- the functions of the third line of defence, which evaluate the company's overall management of risk and compliance.

Business responsibility – first line of defence
The operational business units make up the first line of defence, entailing that the business units themselves are responsible for governance of the operations and control of the risks that exist therein. In other words, the operational business units have full responsibility for business control and the risks that arise in their own operations. The operational business units are responsible for taking a risk inventory (including risks attributable to noncompliance), for reporting and managing risks and violations of internal or external rules and regulations, for evaluating and measuring these risks, and for implementing policy documents for the business unit and continuously ensuring compliance with external and internal rules and regulations.

The bank's functions in the second line of defence
The second line of defence is the part of operations that performs independent monitoring (control) of the business management and of risks and compliance in the first line of defence. The second line of defence also performs supporting duties in the bank, such as training, workshops, information and advice. However, persons in the second line of defence may never perform services or conduct business that they are responsible for monitoring themselves. Nor may the organisation and governance of the operations, and persons in the second line of defence, be structured in such a way that the requirements for independence/impartiality are put at risk.

The functions in the second line of defence in the Skandia group are largely centralised and organisationally placed in Skandia Liv. The aim of this centralisation is to ensure independence/impartiality in the second line of defence vis-à-vis the first line of defence (the operational business units), to enable work in an effective, joint process, and to provide favourable conditions for competence- and information-sharing within the second line of defence. In certain cases, however, the advantages of a decentralised placement may be so great that a deviation from the structure described above is warranted.

The functions in the bank's second line of defence shall consist of financial, compliance and risk control functions. The company's board of directors or, where suitable, the CEO, adopts policies and instructions that regulate the areas of responsibility, work duties and reporting routines for these functions/roles.

The bank's functions in the third line of defence
The third line of defence comprises the functions that are responsible for conducting independent evaluation of the work performed in the first and second lines of defence. Where suitable, this evaluation can be focused primarily on the controls performed by the second line of defence. Internal Audit makes up the third line of defence.

Internal Audit consists of functionally independent review and to some extent advisory functions that are responsible for evaluating and thereby improving the bank's operations. The Internal Audit function is directly subordinate to the bank's board of directors and is organisationally entirely separated from the bank's other operations.

The bank's board of directors adopts a policy for the Internal Audit function, which specifies its areas or responsibility, work duties and reporting routines.

37.4 CREDIT RISK AND CREDIT QUALITY

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

GOVERNANCE OF CREDIT RISK
Ultimate responsibility for Skandiabanken's credit risk rests with the CEO. The CEO has delegated responsibility for credit risk with respect to lending to the general public to the Administrative Deputy CEO. Responsibility for credit risk with respect to surplus liquidity and large exposures has been delegated by the CEO to the CFO.

The CRO has overarching responsibility for governance and control of credit risk. ALCO is responsible for monitoring the bank's risk and capital situation. Recommendations for changes to policies and limits are made at least once a year to the Board's Risk and ICAAP Committee after review by the bank's ALCO and Credit Committee. The bank's Credit Committee decides on specific credit matters, and addresses credit-related regulatory matters and decision-making criteria for lending. The Board's Risk and ICAAP Committee is responsible for reviewing and approving strategies and guidelines for the bank's management of credit risk at least once a year.

POLICY FOR MANAGING AND MEASURING CREDIT RISK
Management of credit risk depends on whether the credit risk stems from lending to the general public in the form of retail exposures or from investments of surplus liquidity.

The bank's lending to the general public consists of retail exposures to private individuals, primarily in the form of home mortgages secured by real estate or tenant-owner rights, instalment loans, personal loans, lines of credit, credit card credits and custody account lending. Loan receivables such as personal loans, lines of credit and credit card credits consist primarily of a large number of homogeneous loans with limited amounts and a large spread of risk.

Risk is managed by assessing all credit applications based on an evaluation of the credit applicant's ability to pay, his/her financial situation, and the value of the collateral pledged. Risk is further managed by taking into account the borrower's total business with the bank, including obligations of any co-signers. The assessment is for the most part handled through an automated system based on a credit scoring computer program.

Skandiabanken's management of credit risks for retail exposures is designed to reduce loan losses, and the objective is that loan receivables will consist – as far as possible – of a large number of credits with low risk and a wide spread of risk. The following table shows the low level of credit risk for lending to the general public. Excluding lending to the Swedish National Debt Office, the credit exposure amounted to SEK 58 billion (52) before taking market-valued collateral into account and to SEK 3 billion (2) after taking collateral into account.

Skandiabanken's deposits are greater than its lending, and the surplus generates surplus liquidity, which is invested in short-term lending and fixed-income securities with counterparties consisting of governments, institutions and companies. Risk is managed by assessing the exposures based on an evaluation of the counterparty's ability to pay, financial situation, and the value of the collateral pledged. In contrast to retail exposures, assessment of the creditworthiness of counterparties is always done through a manual process. When determining credit limits, the counterparty's total business with the bank is considered, including related counterparties. All limits must be approved by the Board's Risk and ICAAP Committee. The holdings have good credit quality, and the credit ratings for the holdings are shown in the following table. Guarantees of SEK 1 billion (1) have been received from governments with triple A credit ratings, and covered bonds accounted for 43% (33%) of total portfolio assets. Covered bonds entail that the exposures are secured through some form of lien, which reduces the credit risk. The secured bonds that Skandiabanken has are secured by mortgage deeds for residential properties. The surplus liquidity constitutes the bank's liquidity buffer. For further information, see below under point 37.6, "Liquidity risk".

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

Concentration risks pertain to risks attributable to financial instruments with similar characteristics and which may be affected in a similar way by changes in the external environment. Skandiabanken monitors concentrations from various perspectives, such as geographic distribution per country and within each country, and large exposures to individual customers and groups of customers that are related to each other. The breakdown of total credit risk exposure by key financial instruments amounted to 65% (64%) for mortgage loans for private individuals (primarily in major metropolitan areas), exposures to credit institutions 14% (17%) (of which 9% (17%) pertained to covered bonds), other retail credits 10% (11%), government and municipal exposures 10% (7%), and exposures to corporates regarding investments 1% (1%). See the following table for credit risks. The breakdown of credit exposure for loan receivables in the retail market by geographic area was 53% (51%) in Norway and 47% (49%) in Sweden. See note 15, "Lending to the general public".

Counterparty risk is included in credit risk and pertains to the risks associated with changes in the market value of derivatives, repurchase transactions and securities loans, of which risks associated with interest and currency derivatives are applicable for the bank.

The positive market value plus an amount for possible risk changes constitutes the bank's potential, total exposure to counterparty risk in the event of a bankruptcy. When calculating counterparty risk for capital adequacy assessment purposes, the market valuation method is used, and an amount for possible risk changes is added. By possible risk changes is meant an amount that will represent the possibility that the positive market value will rise during the term. The amount for possible risk change is calculated by multiplying the contract's nominal amount by a risk factor. The risk factor is dependent on the term and type of derivative instrument.

The method for setting credit limits for derivatives reflects the applicable internal processes for lending. The method is based on the corresponding calculation that is done for capital adequacy assessment purposes. The reason why the amount for possible risk changes is included in the credit process is that the fair value of a derivative can increase quickly in connection with changes in interest rates and exchange rates. No netting agreements have been entered into, and no collateral has been pledged to reduce the counterparty risk. The total counterparty exposure amounted to SEK 55 million (53), of which SEK 13 million (23) is reported on the balance sheet as a positive market value and SEK 42 million (30) off the balance sheet. Disclosures of credit risks are provided in the following table.

TABLE 1

Credit exposure, gross and net

	2012			2011		
	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral
Lending to the general public						
- Real estate	2	2	—	3	3	—
- Other	3	3	—	14	14	—
Corporates	**5**	**5**	**0**	**17**	**17**	**0**
- Vehicle financing	1,247	1,637	—	1,027	1,348	—
- Houses and vacation homes	39,091	124,583	817	34,941	118,898	472
- Tenant-owner apartments	15,216	34,462	23	14,194	32,762	23
- Other real estate	528	1,162	—	n.a.	n.a.	n.a.
- Other	2,314	318	1,997	2,234	294	1,940
Private individuals	**58,396**	**162,162**	**2,837**	**52,396**	**153,302**	**2,435**
Public sector/ Swedish National Debt Office	**1,610**	**—**	**1,610**	**980**	**—**	**980**
Total lending to the general public	**60,011**	**162,167**	**4,447**	**53,393**	**153,319**	**3,415**

	2012			2011		
	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral
Lending to credit institutions[2]						
- AAA	—	—	—	1,670	—	1,670
Governments	**—**	**—**	**—**	**1,670**	**—**	**1,670**
- AA	—	—	—	41	—	41
- A	628	—	628	277	—	277
- No rating	26	—	26	25	—	25
Institutions	**654**	**0**	**654**	**343**	**0**	**343**
Total lending to credit institutions[1 2]	**654**	**0**	**654**	**2,013**	**0**	**2,013**
Fixed-income securities						
- AAA[3]	4,133	746	3,387	1,948	1,159	789
- AA	1,468	—	1,468	1,300	—	1,300
- No rating	2,908	—	2,908	834	—	834
Governments and municipalities	**8,509**	**746**	**7,763**	**4,082**	**1,159**	**2,923**
- AAA	8,067	—	8,067	8,108	—	8,108
- AA	1,657	—	1,657	2,146	—	2,146
- A	3,317	—	3,317	3,279	—	3,279
- BBB	177	—	177	382	—	382
- No rating	1,024	—	1,024	1,421	—	1,421
Institutions	**14,242**	**0**	**14,242**	**15,336**	**0**	**15,336**
- AAA	—	—	—	—	—	—
- AA	100	—	100	200	—	200
Corporates	**100**	**0**	**100**	**200**	**0**	**200**
Total fixed-income securities[1 4]	**22,851**	**746**	**22,105**	**19,618**	**1,159**	**18,459**

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

	2012			2011		
	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral
Derivatives						
- No rating	13	—	13	23	—	23
Total derivatives, corporates[1]	**13**	**0**	**13**	**23**	**0**	**23**
Total on balance sheet	**83,529**	**162,913**	**27,219**	**75,047**	**154,478**	**23,910**
Derivatives, possible change in risk	42	—	42	30	—	30
Unutilised part of granted overdraft facilities	7,026	—	7,026	6,510	—	6,510
Credits granted but not paid out	13,057	—	13,057	9,971	—	9,971
Total off balance sheet	**20,125**	**0**	**20,125**	**16,511**	**0**	**16,511**
Total	**103,654**	**162,913**	**47,344**	**91,558**	**154,478**	**40,421**

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

[1] Ratings from Standard and Poor's, Moody's and Fitch. Exposures are grouped in the table above according to the credit ratings of the respective securities. Where such are lacking, the counterparties' credit ratings are used, and in cases where the exposure is guaranteed, the credit rating of the party that issued the guarantee is used. A few exposures to institutions and corporates are backed by government or municipal guarantees; these are included in the category "Governments and municipalities". If three credit ratings are available for an exposure or counterparty, the two best are chosen; if these differ, the lower of the two is chosen. If two credit ratings are available, the lower one is chosen. Short-term credit ratings may be used for exposures that are shorter than 13 months.

[2] Lending to credit institutions comprises receivables from central banks and credit institutions with set maturities.

[3] Includes exposures of SEK 302 million to administrative bodies. From a credit risk perspective, these are handled as exposures to governments.

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

BREAKDOWN OF COLLATERAL FOR LENDING TO THE GENERAL PUBLIC

Collateral is used to reduce credit risk. To reduce credit risk and concentration risk related to loan receivables, the bank has collateral in the form of mortgage deeds or tenant-owner rights for mortgage loans, while in the Norwegian operations, mortgage deeds are also held for instalment loans. For custody account lending, collateral is held in the form of stocks. Information on the value of collateral is provided in Table 2. External market valuations of collateral have been obtained for mortgage deeds for mortgage lending. Surety bonds are presented in their nominal amounts. See Table 2 for a breakdown of the various categories of collateral.

TABLE 2

2012	Mortgage deeds	Surety	Other collateral	Total value of collateral	Value of collateral for non-performing loans	Value of collateral for impaired loans
- Real estate	2	—	—	2	—	—
- Other	—	—	3	3	0	—
Total corporates	**2**	**0**	**3**	**5**	**0**	**0**
- Vehicle financing	1,637	—	—	1,637	65	4
- Houses and vacation homes	124,583	—	1	124,584	1,470	50
- Tenant-owner apartments	15,738	—	18,724	34,462	518	4
- Other real estate	1,162	—	—	1,162	—	—
- Other	18	47	252	317	1	—
Total, private individuals	**143,138**	**47**	**18,977**	**162,162**	**2,054**	**58**
Total collateral	**143,140**	**47**	**18,980**	**162,167**	**2,054**	**58**

2011	Mortgage deeds	Surety	Other collateral	Total value of collateral	Value of collateral for non-performing loans	Value of collateral for impaired loans
- Real estate	3	—	—	3	—	—
- Other	—	—	14	14	0	—
Total corporates	**3**	**0**	**14**	**17**	**0**	**0**
- Vehicle financing	1,347	—	—	1,347	—	—
- Houses and vacation homes	118,877	—	21	118,898	1,254	54
- Tenant-owner apartments	16,020	—	16,742	32,762	220	—
- Other real estate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Other	24	46	225	295	2	—
Total, private individuals	**136,268**	**46**	**16,988**	**153,302**	**1,476**	**54**
Total collateral	**136,271**	**46**	**17,002**	**153,319**	**1,476**	**54**

COLLATERAL RECEIVED FOR FIXED-INCOME SECURITIES – LIQUIDITY BUFFER

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

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

TABLE 3

	2012 Inflow	2012 Outflow	2011 Inflow	2011 Outflow
Exposures to governments and central banks	631	—	931	—
- of which, Danish government	*631*	—	*931*	—
Exposures to municipalities	117	—	232	—
Exposures to institutions	—	-748	—	-1,132
Exposures to corporates	—	—	—	-31
Total	**748**	**-748**	**1,163**	**-1,163**

The difference in the value of collateral, SEK 2 thousand (4), compared with the credit risk table pertains to accrued interest. By inflow is meant counterparties that have issued guarantees, i.e., government and municipal guarantees with a credit quality corresponding to AAA. By outflow is meant counterparties to the exposures that have been guaranteed.

CREDIT QUALITY
Information about credit quality is provided with a breakdown into lending to the general public and the liquidity buffer.

Lending to the general public amounted to SEK 58 billion (52), excluding loans to the Swedish National Debt Office. For mortgage loans, totalling SEK 54 billion (49), the bank uses a risk classification system to show the credit quality.

The risk classification system consists of a number of systems, process and methods that are used to quantify credit risk. For retail exposures, estimations are made of the probability of default (PD), loss given default (LGD) and exposure at default (EAD). This classification is based on statistical models, and to estimate the probability of default it takes such factors into account as payment history, the number of co-signers, and funds held in deposit. On the basis of the models' outcome, non-defaulted exposures are designated into one of seven risk classes, where risk class 1 constitutes the lowest risk and risk class 7 the highest risk. Defaulted credits are designated a special risk class for defaulted credits. The share of loss at default is based mainly on the loan-to-value ratio, i.e., the value of the collateral in relation to the size of the loan.

Skandiabanken's risk classification system is under development and currently covers retail exposures with collateral in real estate, which is the single largest type of exposure in Sweden and Norway. The risk classification system will be expanded in the future to also cover retail exposures.

LENDING TO THE GENERAL PUBLIC BEFORE PROVISIONS – MORTGAGE LOANS

TABLE 4 (SEK thousand)

	2012				2011			
Risk class	Sweden	Norway	Total	Share	Sweden	Norway	Total	Share
1	10,816	18,253	29,069	0.54	10,438	16,619	27,057	0.55
2	12,474	5,168	17,642	0.33	11,516	4,241	15,757	0.32
3	1,149	1,174	2,323	0.04	968	977	1,945	0.04
4	1,672	2,317	3,989	0.07	1,361	1,823	3,184	0.07
5	242	282	524	0.01	232	268	500	0.01
6	147	336	483	0.01	135	304	439	0.01
7	0	4	4	0	1	3	4	0
Default	44	82	126	0	52	66	118	0
Total	**26,544**	**27,616**	**54,160**	**1.00**	**24,703**	**24,301**	**49,004**	**1.00**

For disclosures of credit quality pertaining to lending to credit institutions and fixed-income securities, see Table 1 and exposures pertaining to lending to the credit institutions and fixed-income securities, and the description of the bank's liquidity buffer under point 37.6 below, "Liquidity risk".

NON-PERFORMING LOANS AND IMPAIRED LOANS
The level of loan losses, i.e., loan losses in relation to total lending to the general public, was 0.01% (0.6%). Impaired loans, net, i.e., impaired loans after deducting provisions for probable loan losses, amounted to 0.13% (0.15%) of lending. Non-performing loans for which full collateral exists are presented and grouped according to maturity in the following table. For a more detailed description of non-performing loans and impaired loans, see note 1, "Accounting policies". Disclosures of lending and provisions broken down into Sweden and Norway are provided in note 15, "Lending to the general public".

TABLE 5
Non-performing loans[1]

31 December 2012	60 days or less	>60 days <90 days	>90 days <180 days	>180 days <360 days	>360 days	Total
Corporates						
- Other	0	—	—	—	—	0
Corporates	**0**	**0**	**0**	**0**	**0**	**0**
Private individuals						
- Vehicle financing	65	—	—	—	—	65
- Houses and vacation homes	1,419	16	9	10	16	1,470
- Tenant-owner apartments	504	4	1	0	7	516
- Other real estate	—	—	—	—	—	0
- Other	74	0	0	0	0	74
Private individuals	**2,062**	**20**	**10**	**10**	**23**	**2,125**
Total lending to the general public	**2,062**	**20**	**10**	**10**	**23**	**2,125**
31 December 2011						
Corporates						
- Other	0	—	—	—	—	0
Corporates	**0**	**0**	**0**	**0**	**0**	**0**
Private individuals						
- Vehicle financing	47	—	—	—	—	47
- Houses and vacation homes	1,207	12	11	13	2	1,245
- Tenant-owner apartments	213	6	6	4	0	229
- Other real estate	—	—	—	—	—	0
- Other	74	1	0	0	0	75
Private individuals	**1,541**	**19**	**17**	**17**	**2**	**1,596**
Total lending to the general public	**1,541**	**19**	**17**	**17**	**2**	**1,596**

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

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

TABLE 6

	Impaired loans before provisions		Provisions	
Impaired loans	**2012**	**2011**	**2012**	**2011**
Private individuals				
- Vehicle financing	6	5	3	3
- Houses and vacation homes	65	82	16	31
- Tenant-owner apartments	5	9	1	4
- Other real estate	5	—	5	—
- Other	87	117	66	95
Private individuals	**168**	**213**	**91**	**133**
Lending to the general public	**168**	**213**	**91**	**133**

MODIFIED LOANS
Modified loans exist when the bank has granted a concession due to the borrower's worsened financial situation or when the borrower encounters other financial difficulties. The carrying amount was SEK 1 million (0) before modification and SEK 0 million (0) after.

UTILISATION OF COLLATERAL
Skandiabanken has not utilised any collateral obtained that meets the criteria to be reported as an asset on the balance sheet as per 31 December 2012 and 31 December 2011.

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

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

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

GOVERNANCE OF INTEREST RATE RISK
Ultimate responsibility for Skandiabanken's interest rate risk lies with the CEO. The CEO has delegated the responsibility for interest rate risk to the CFO of Skandiabanken. The CFO, in turn, has delegated management of interest rate risk to Skandia's central Treasury department, in accordance with a separate agreement with the group parent company, Skandia Liv.

The CRO has overarching responsibility for governance and control of interest rate risk. ALCO is responsible for monitoring the bank's risk and capital situation. Recommendations for changes in policies and limits are made at least once a year to the Board's Risk and ICAAP Committee, after consideration by the bank's ALCO. The Board's Risk and ICAAP Committee is responsible for reviewing and approving strategies and guidelines for the bank's management of interest rate risk at least once a year.

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

Most of Skandiabanken's deposits and lending after risk coverage is short-term, which means that the interest rates can be adjusted if the situation in the money markets so requires. The interest rate risk that arises from home mortgage loans at fixed rates of interest is reduced through interest rate swaps. Interest rate risk associated with investments in fixed-income securities is reduced by maintaining a higher level of deposits at fixed interest rates and through securities issued by the bank.

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

The calculation represents a standardised approximation of fixed-interest assets and liabilities, and disclosures are presented for noninterest-bearing assets, liabilities and equity. The interest rate risk is low since the overwhelming majority of the group's balance sheet can be interest rate–adjusted, has been hedged through swap contracts, or is managed by financial hedges. An immediate and permanent change in market interest rates by 1 percentage point would result in a theoretical revaluation of the balance sheet by approximately SEK 6 million (8), net, for the group, see the tables below.

HEDGING STRATEGY FOR INTEREST RATE RISKS
Currently the guiding principle for Skandiabanken is to hedge lending in Sweden at fixed interest rates using interest rate swaps. This hedging is done using the 3-month Stibor rate as the adjustable rate, which provides sufficient protection for the fixed interest periods that are usually referred to as the "general level of interest rates". This hedging is done monthly unless the volume differs from the normal. During the current month an unhedged balance accumulates, but it is not large enough to warrant a change in the hedging period.

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

RISK MANAGEMENT STRATEGY FOR HEDGE ACCOUNTING
Skandiabanken's risk management strategy for hedge accounting is based on a monthly adjustment of the nominal value of the hedge instruments (derivatives) to reflect the interest risk exposure in the hedged item (lending at fixed interest rates).

The hedging strategy includes a monthly assessment of the effectiveness of the hedge and an evaluation of the outcome of the hedge. The hedged item pertains to the interest rate risk associated with mortgage loans at fixed rates of interest. The effectiveness of the hedge is estimated and measured monthly by dividing the portfolio into interest rate adjustment periods. For further information on hedge accounting, see note 1, Accounting policies, "Financial instruments", point 9, "Hedge accounting".

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

INTEREST RATE RISK – INTEREST RATE FIXING PERIODS FOR ASSETS AND LIABILITIES
31 December 2012

Assets	0-1 month	1-3 mos	3-6 mos	6-12 mos	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-7 yrs	Non-interest	Total
Interest-bearing assets											
Cash	416	—	—	—	—	—	—	—	—	—	416
Treasury bills and other eligible bills	906	4,594	326	—	—	—	—	—	—	—	5,826
Lending to credit institutions	628	—	—	—	—	—	—	—	—	—	628
Lending to the general public	9,067	41,293	615	2,007	4,143	2,157	197	532	—	—	60,011
Financial assets available for sale	7,026	9,999	—	—	—	—	—	—	—	—	17,025
Total interest-bearing assets	**18,043**	**55,886**	**941**	**2,007**	**4,143**	**2,157**	**197**	**532**	**0**	**0**	**83,906**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	751	751
Total assets	**18,043**	**55,886**	**941**	**2,007**	**4,143**	**2,157**	**197**	**532**	**0**	**751**	**84,657**
Interest-bearing liabilities											
Deposits and borrowing from the general public	33,004	43,101	310	512	135	75	140	27	—	—	77,304
Financial liabilities at fair value	283	1049	199	295	—	—	—	—	—	—	1,826
Subordinated liabilities	—	1,200	—	—	—	—	—	—	—	—	1,200
Total interest-bearing liabilities	**33,287**	**45,350**	**509**	**807**	**135**	**75**	**140**	**27**	**0**	**0**	**80,330**
Non interest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	4,327	4,327
Total liabilities and equity	**33,287**	**45,350**	**509**	**807**	**135**	**75**	**140**	**27**	**0**	**4,327**	**84,657**
Interest rate swaps											
Short positions	4,905	5,850	—	—	—	—	—	—	—	—	10,755
Long positions	110	1,100	415	2,090	4,180	2,180	175	505	—	—	10,755
Difference, assets and liabilities	**-10,449**	**15,286**	**17**	**-890**	**-172**	**-98**	**-118**	**0**	**0**	**-3,576**	**0**
Risk weight %	0.040	0.160	0.360	0.715	1.385	2.245	3.070	3.855	5.075	0.000	—
Risk-weighted net exposures 2012	**-4.18**	**24.46**	**0.06**	**-6.36**	**-2.38**	**-2.2**	**-3.62**	**0.00**	**—**	**—**	**5.80**
Cumulative interest rate sensitivity	-10,450	4,836	4,853	3,963	3,791	3,693	3,575	3,575	3,575	—	—

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

31 December 2011

Assets	0-1 month	1-3 mos	3-6 mos	6-12 mos	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-7 yrs	Non-interest	Total
Interest-bearing assets											
Cash	691	—	—	—	—	—	—	—	—	—	691
Treasury bills and other eligible bills	150	2,291	—	—	—	—	—	—	—	—	2441
Lending to credit institutions	1,948	40	—	—	—	—	—	—	—	—	1,988
Lending to the general public	8,378	37,621	822	1,396	3,309	600	1,058	207	1	—	53,392
Financial assets at fair value	—	—	3	6	22	15	27	5	—	—	78
Financial assets available for sale	4,601	12,450	126	—	—	—	—	—	—	—	17,177
Total interest-bearing assets	**15,768**	**52,402**	**951**	**1,402**	**3,331**	**615**	**1,085**	**212**	**1**	**0**	**75,767**
Non interest-bearing assets	—	—	—	—	—	—	—	—	—	1,000	1,000
Total assets	**15,768**	**52,402**	**951**	**1,402**	**3,331**	**615**	**1,085**	**212**	**1**	**1,000**	**76,767**
Interest-bearing liabilities											
Deposits and borrowing from the general public	28,981	39,957	1,354	476	159	114	68	127	—	—	71,236
Financial liabilities at fair value	—	1	3	5	20	17	34	3	—	—	83
Subordinated liabilities	—	1,200	—	—	—	—	—	—	—	—	1,200
Total interest-bearing liabilities	**28,981**	**41,158**	**1,357**	**481**	**179**	**131**	**102**	**130**	**0**	**0**	**72,519**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	4,248	4,248
Total liabilities and equity	**28,981**	**41,158**	**1,357**	**481**	**179**	**131**	**102**	**130**	**0**	**4,248**	**76,767**
Interest rate swaps											
Short positions	4,285	4,585	—	—	—	—	—	—	—	—	8,870
Long positions	450	1,740	650	1,480	2,655	610	1,210	75	—	—	8,870
Difference, assets and liabilities	**-9,378**	**14,089**	**-1,056**	**-559**	**497**	**-126**	**-227**	**7**	**1**	**-3,248**	**0**
Risk weight, %	0.040	0.160	0.360	0.715	1.385	2.245	3.07	3.855	5.075	0	—
Risk-weighted net exposures 2011	**-3.75**	**22.54**	**-3.8**	**-3.4**	**6.87**	**-2.84**	**-7.01**	**0.29**	**0.05**	**—**	**8.35**
Cumulative interest rate sensitivity	-9,378	4,713	3,657	3,098	3,595	3,469	3,240	3,247	3,248	—	—

The Financial Supervisory Authority prescribes that a calculation shall be made to determine what impact a 2 percentage point change in the general level of interest rates would have on the economic value, by which is meant the present value of future cash flows. In cases where the economic value decreases by more than 20% in relation to the capital base, the institution is required to submit an action plan to the Financial Supervisory Authority on how it intends to reduce the risk. As per 31 December 2012 the interest rate risk, based on a 2 percentage point change, amounted to SEK 12 million (17). In relation to the capital base, which amounted to SEK 4,318 million (3,953), this is 0.27% (0.42%).

NET INTEREST INCOME RISK

Net interest income risk is a measure defining the sensitivity of net interest income to changes in market interest rates during the next twelve months. The calculation consists of interest-bearing assets and liabilities that are about to mature or are to be interest-adjusted within a year. An immediate and permanent change in the market interest rate by 1 percentage point is estimated to have an effect on net interest income by SEK 25 million (20).

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

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

37.5.2 CURRENCY RISK

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

GOVERNANCE OF CURRENCY RISK

Ultimate responsibility for Skandiabanken's currency risk lies with the CEO. The CEO has delegated the responsibility for currency risk to the CFO of Skandiabanken. The CFO, in turn, has delegated management of currency risk to Skandia's central Treasury department in accordance with a separate agreement with the group parent company, Skandia Liv.

The CRO has overarching responsibility for governance and control of currency risk. ALCO is responsible for monitoring the bank's risk and capital situation. Recommendations for changes in policies and limits are made at least once a year to the Board's Risk and ICAAP Committee in consultation with ALCO. The Board's Risk and ICAAP Committee is responsible for reviewing and approving strategies and guidelines for the bank's management of currency risk at least once a year.

POLICY FOR MANAGING AND MEASURING CURRENCY RISK

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

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

Earnings of foreign operations are not hedged by Skandiabanken. The responsibility for these currency positions lies with Skandia Liv.

Currency risk is calculated for all exposures in foreign currencies pertaining to assets, liabilities and off-balance sheet items. The positions are measured at fair value and are translated to SEK using the exchange rate in effect on the balance sheet date. The continuing result for the year attributable to foreign operations is taken into account in position calculations regarding currency risk. This entails that net exposure to currency risk on 31 December amounted to SEK 204 million (134). A change in value of the Swedish krona by 5 percentage points would affect equity by SEK 9 million (7). Most of the currency risk arises from exposure in Norwegian kronor and pertains to the branch's profit for the year. This means that the corresponding sensitivity analysis for calculation of the effect on the income statement results in a corresponding outcome, i.e., SEK 10 million (7).

Positive translation differences increased profit by SEK 14 million (1) and pertain to exchange rate differences that arise when translating the financial statements of foreign operations to the group's reporting currency.

ASSETS AND LIABILITIES DISTRIBUTED AMONG IMPORTANT CURRENCIES

	2012				2011			
Assets	SEK	NOK	Other curren-cies	Total	SEK	NOK	Other curren-cies	Total
Cash and cash balances with central banks	10	409	5	424	6	685	5	696
Lending to credit institutions	104	532	18	654	281	1,714	18	2,013
Lending to the general public	28,973	31,038	—	60,011	26,409	26,984	—	53,393
Fair value changes of hedged items in a portfolio hedge	132	—	—	132	68	—	—	68
Financial assets at fair value	25	—	—	25	34	—	—	34
Financial assets available for sale	11,236	11,615	38	22,889	8,933	10,685	26	19,644
Financial assets held for trading	—	—	—	0	15			15
Other assets	265	198	59	522	327	547	30	904
Total assets	**40,745**	**43,792**	**120**	**84,657**	**36,073**	**40,615**	**79**	**76,767**

	2012				2011			
Total assets	SEK	NOK	Other curren-cies	Total	SEK	NOK	Other curren-cies	Total
Liabilities and equity	77	21	1	99	35	7		42
Liabilities to credit institutions	36,501	40,820	44	77,365	33,096	38,164	42	71,302
Deposits and borrowing from the general public	1,243	583	—	1,826	—	—	—	0
Financial liabilities at fair value	134	0	—	134	83	—	—	83
Liabilities attributable to assets held for trading	—	—	—	0	112	—	—	112
Other liabilities including equity	3,347	1,885	1	5,233	3,441	1,778	9	5,228
Total liabilities and equity	**41,302**	**43,309**	**46**	**84,657**	**36,767**	**39,949**	**51**	**76,767**
Net exposure per currency	-557	483	74	0	-694	666	28	0

37.5.3 OTHER PRICE RISKS

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

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

The bank has a marginal trading account of SEK 2 million (1) in stocks and mutual funds, which gives a very limited price risk, with changes in value recognised in profit or loss. Other shareholdings for which changes in value are reported through profit or loss amounted to SEK 10 million (9). Taken together, profit was affected by SEK 0 million (-1) regarding shareholdings and mutual funds measured at fair value through profit or loss.

Shareholdings classified as "available-for-sale financial assets" amounted to SEK 38 million (26). Unrealised changes in value amounted to SEK 12 million (8) and are recognised in other comprehensive income. Capital gains/losses are recognised in the income statement. No divestments were made during the year.

Holdings of fixed-income securities are classified as "available-for-sale financial assets" and are measured at fair value. These holdings amounted to SEK 22.9 billion (19.6). Unrealised changes in value are recognised in "other comprehensive income" and amounted to SEK 47 billion (19). The positive change in value is mainly attributable to lower credit spreads on holdings as per 31 December 2011 and 2012, respectively. At the same time, securities holdings generally have short period of fixed interest (see section 37.5.1 on interest rate risk), which is why the falling interest rates noted during the year had a marginal impact on market values. Realised changes in value amounted to SEK 13 million (2) and are reported in the income statement.

A change in market interest rates by +/- 0.5 percentage point would, as an estimate, result in an unrealised change in value of SEK 15 million (19) in the current portfolio as per 31 December 2012. Broken down into Swedish and Norwegian securities portfolios, the effect of the change in the market interest rate amounted to SEK 7 million (11) and SEK 9 million (8), respectively.

A corresponding sensitivity analysis has been performed for changes in credit spreads. Spread risk is defined as how a change in all securities-specific credit spreads by a basis point corresponding to 0.01 percentage points would affect the market value of securities holdings. Spread risk is measured at 1.5 basis point of the holdings, which corresponds to SEK 3 million, broken down into 1.6 basis points in Sweden and 1.4 basis points in Norway.

37.6 LIQUIDITY RISK

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

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

GOVERNANCE OF LIQUIDITY RISK

Ultimate responsibility for Skandiabanken's liquidity risk lies with the CEO. The CEO has delegated the responsibility for liquidity risk to the CFO of Skandiabanken. The CFO, in turn, has delegated management of liquidity risk to Skandia's central Treasury department in accordance with a separate agreement with the group parent company, Skandia Liv.

The CRO has overarching responsibility for governance and control of currency risk. ALCO is responsible for monitoring the bank's risk and capital situation. Recommendations for changes in policies and limits are made at least once a year to the Board's Risk and ICAAP Committee, after consideration by the bank's ALCO. The Board's Risk and ICAAP Committee is responsible for reviewing and approving strategies and guidelines for the bank's management of liquidity risk at least once a year.

MANAGEMENT OF LIQUIDITY RISK

The Treasury department is responsibility for daily liquidity management for the Swedish and Norwegian operations. Liquidity in the Norwegian branch is financed by and invested in Norwegian kronor (NOK), while liquidity in the Swedish operations is financed and is invested in Swedish kronor (SEK). When needed, liquidity can be moved from one country to another without any legal restrictions. The Treasury department is responsible for carrying out such transactions, which are to be hedged with currency derivatives.

Liquidity management includes daily stress tests, forecasting of liquidity and funding needs, management of surplus liquidity, liquidity preparedness plans and an annual internal liquidity adequacy assessment (ILAA), which is similar to an internal capital adequacy assessment process (ICAAP), but addresses liquidity risk and entails continuous and thorough assessment of all components that together make up/or support Skandiabanken's liquidity management framework.

MEASURING LIQUIDITY RISK

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

To ensure funding preparedness in situations in which Skandiabanken is in an urgent need of liquidity, Skandiabanken maintains a liquidity buffer. Limits are set by the Board of Directors for the minimum size of the liquidity buffer. The liquidity buffer consists of available funds that Treasury disposes over and which are eligible as collateral with the Swedish and Norwegian central banks. This ensures that Skandiabanken has the opportunity to convert assets to cash at short notice. As per 31 December 2012, the liquidity buffer before the central banks' haircuts amounted to SEK 19.8 billion (19.2), which corresponded to 78% (84%) of Skandiabanken's total surplus liquidity. In addition to the liquidity buffer, Skandiabanken can use a line of credit granted by the parent company Skandia.

Total surplus liquidity amounted to SEK 25.3 billion (23.0), of which SEK 5.2 billion (5.7) was pledged as security with the Swedish and Norwegian central banks for intraday cash flows. The remaining maturities of surplus liquidity were broken down into 41% (44%) maturing within one year and 59% (56%) maturing within five years. Securities in surplus liquidity consist of high-quality covered bonds, bonds and commercial paper. Of the holdings, 53% (51%) are rated AAA, 14% (19%) are rated AA, 15% (17%) are rated A, 1% (2%) are rated BBB, and 17% (11%) have no external credit rating. The credit ratings are from Standard & Poor's, Moody's and Fitch.

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

Skandiabanken's long-term structural liquidity position is measured and managed on a monthly basis through various metrics. At 31 December 2012 the deposit-to-loan ratio was 132% (136%), and since Skandiabanken is mainly funded by retail deposits – a funding source that is contractually short but is considered to be behaviourally long – Skandiabanken has a strong structural liquidity position.

LIQUIDITY BUFFER IN ACCORDANCE WITH THE FINANCIAL SUPERVISORY AUTHORITY'S GUIDELINES[1]

		31 December 2012				31 December 2011			
	SEK million	SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
1	Cash and balances with and lending to central banks and governments	1,616	876	5	2,497	986	2,354	5	3,345
2	Lending to other banks, intra-day loans	–	–	–	0	–	–	–	0
3	Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	805	697	–	1,502	898	30	–	928
4	Securities issued or guaranteed by municipalities or other public sector entities	2,149	4,031	–	6,180	1,495	1,176	–	2,671
5	Covered bonds issued by other banks or institutions	4,657	4,563	–	9,220	4,589	5,033	–	9,622
6	Covered bonds issued by own bank or related unit	–	–	–	0	–	–	–	0
7	Securities issued by non-financial corporates	–	–	–	0	–	–	–	0
8	Securities issued by financial corporates, excl. covered bonds	448	–	–	448	–	2,642	–	2,642
9	All other securities	–	–	–	–	–	–	–	0
	Total liquidity buffer	**9,675**	**10,167**	**5**	**19,847**	**7,968**	**11,235**	**5**	**19,208**

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

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

REMAINING CONTRACTUAL MATURITY, FINANCIAL LIABILITIES

SEK million 31 December 2012	0-1 months	1-3 months	3-12 months	1-5 years	≥5 years	Per-petual	Total
Due to credit institutions	99	–	–	–	–	–	99
Deposits and borrowing from the general public	77,365	–	–	–	–	–	77,365
Derivative instruments	-6	58	47	109	–	–	208
Issued securities	50	549	994	233	–	–	1,826
Other liabilities	652	–	–	–	–	–	652
Subordinated liabilities	–	–	–	–	345	900	1,245
Equity	–	–	–	–		3,195	3,195
Total on balance sheet	**78,160**	**607**	**1,041**	**342**	**345**	**4,095**	**84,590**
Unutilised part of granted overdraft facilities	7,026	–	–	–	–	–	7,026
Other credit commitments	13,057	–	–	–	–	–	13,057
Total off-balance items	**20,083**	–	–	–	–	–	**20,083**
Total	**98,243**	**607**	**1,041**	**342**	**345**	**4,095**	**104,673**

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

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

37.7 OPERATIONAL RISK

Operational risk is defined as the risk of loss due to inappropriate or failed internal processes, inadequate controls, noncompliance with internal and external guidelines, human error, defective systems, system disruptions or external events. The definition includes legal risks but excludes reputation risks and strategic risks. Legal risks include, but are not limited to, the risk for fines, sanctions or damages as a result of regulatory actions and private settlements.

GOVERNANCE OF OPERATIONAL RISK

Ultimate responsibility for Skandiabanken's operational risk lies with the CEO. The CEO has delegated overall responsibility for liquidity risk to the Administrative Deputy CEO of Skandiabanken. However, the respective departmental managers have operational responsibility for managing the operational risks associated with the operations.

The CRO has overarching responsibility for governance and control of operational risk. ALCO is responsible for monitoring the bank's risk and capital situation. Recommendations for changes in policies and limits are made at least once a year to the Board's Risk and ICAAP Committee, after consideration by the bank's ALCO. The Board's Risk and ICAAP Committee is responsible for reviewing and approving strategies and guidelines for the bank's management of liquidity risk at least once a year.

POLICY FOR MANAGING AND MEASURING OPERATIONAL RISK

Operational risks can essentially only be managed through preventive and loss reduction measures. Skandiabanken manages operational risks through various types of preventive measures and security arrangements as well as through continuity planning aimed at dealing with any negative situations that arise for the bank as effectively as possible. Effects of operational risks commonly manifest themselves in the form of costs or reputational losses.

The goal is to live up to the high demands on reliability, security, efficiency, quality and trust that the Board, executive management, customers, investors, employees and other internal and external stakeholders put on Skandiabanken and its products, services and information. Watchwords in Skandiabanken's operations are safety, high accessibility, security and high-quality service. Skandiabanken works actively with raising awareness about operational risks in the operations in an effort to avoid or reduce unanticipated losses.

Instructions, guidelines, preparedness plans and rules describe preventive and loss limiting measures. Instructions are issued by the Board of Directors, while guidelines and rules are set by the CEO. Threats and risks that could affect the bank are continuously analysed.

Skandiabanken's management of operational risks entails that tools are provided for the identification, evaluation and reporting of risks and incidents. Aside from policies, instructions, routines and job descriptions, Skandiabanken has an extensive process for managing and governing operational risks, called the Risk Assessment Process, which is based on self assessment of identified risks. The Risk Assessment Process covers all types of risk for the entire operation and is conducted on a continuous basis throughout the year. The assessment is performed annually, with quarterly updates and follow-up of significant risks.

All incidents that have occurred or have been close to occurring and which are covered by the Basel II regulations are reported in an incident reporting system. The system is open and is to be used by all employees. It is the risk owner's responsibility to follow up a reported incident and take appropriate actions to reduce or minimise the risk and report the status to Independent Risk Control.

37.8 BUSINESS RISK, REPUTATION RISK AND STRATEGIC RISK

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

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

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

GOVERNANCE OF BUSINESS RISK, REPUTATION RISK AND STRATEGIC RISK

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

POLICY FOR MANAGING AND MEASURING BUSINESS RISK, REPUTATION RISK AND STRATEGIC RISK

Business risk and reputation risk

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

Measurement of business risk excludes changes attributable to loan losses as well as other risks, such as market risks and operational risks, which are covered by the assessments described in points 37.4-37.9. Skandiabanken includes reputation risk in business risk even though it cannot be specifically quantified and isolated as an isolated risk. When measuring business risk, consideration is given to the historic trend in net interest income/expense, net commission income and general overheads, and thus previous effects of reputation risks are included in the outcome.

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

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

Strategic risk

Strategic risks arise in connection with situations involving decisions and major changes (internal or external), such as erroneous or bad business decisions that affect the group in the long term. Strategic risks are managed on a overarching level for the entire Skandia Liv group.

Strategic risks can often only be managed through good analysis and good planning ahead of decisions and implementation of changes in operations. Consequently, strategic risks are often managed as part of Skandiabanken's strategic and business planning process. Even though certain risk mitigation measures can be taken, it is often difficult to entirely avoid strategic risks, which are an integral part of all business activities.

37.9 REMUNERATION RISK

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

GOVERNANCE OF REMUNERATION RISK

Skandiabanken has a specially appointed board member who is responsible for drafting important matters concerning remuneration of Skandiabanken's employees and for following up application of Skandiabanken's remuneration policy. The specially appointed board member conducts an independent assessment of Skandiabanken's remuneration policy and remuneration system. Skandiabanken's board of directors has delegated certain duties to the director in accordance with the instructions for the specially appointed board member concerning remuneration matters in Skandiabanken Aktiebolag (publ).

The Board of Directors has adopted an overarching remuneration policy, which shall promote sound and effective risk management and counteract excessive risk-taking at Skandiabanken. Decisions on remuneration of employees who have overarching responsibility for any of Skandiabanken's control functions (functions for risk governance, risk control, compliance, and internal audit or similar) are to be made by the Board of Directors. Board decisions on remuneration of the CEO must also be approved by Skandia Liv's remuneration committee.

POLICY FOR MANAGING AND MEASURING REMUNERATION RISK

To manage remuneration risk, Skandiabanken has a set of remuneration instructions that apply for all employees and are reviewed yearly.

A change has been made to Skandiabanken's remuneration structure compared with the preceding year. Starting in 2013, performance-based variable remuneration will no longer be payable for senior executives and key persons. Instead, this category of employees will be covered by the same variable remuneration programmes that apply for all employees. For employees in Sweden, an allocation may be made to the Skandianen profit-sharing foundation in a maximum amount equivalent to 125% of half the Price Base Amount (Price Base Amount in 2013 = SEK 44,500). For employees of the Norwegian branch operations, variable remuneration may be payable in a maximum amount of NOK 25,000. A further change is that the CEO is no longer included in the share-based incentive programme, which expired in connection with Skandia Liv's acquisition of Skandia from the former owner Old Mutual plc.

Skandiabanken's risk analysis of the remuneration system covers a description of risk management and control systems at Skandiabanken – mainly risk categories, including reputation risk with respect to remuneration systems, risk tolerance and the remuneration instructions, and the process of identifying "specially regulated staff", who are defined as employees who influence Skandiabanken's level of risk.

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

Further disclosures in accordance with the Financial Supervisory Authority's "regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management" (2007:5) are provided on Skandiabanken's website: www.skandiabanken.se/Om oss/Finansiell info/1212 Information om ersättningar.

38. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

A) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

31 DECEMBER 2012

Assets	Measured at fair value through profit or loss, held for trading	Hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Nonfinancial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	424	—	—	—	424	424
Lending to credit institutions	—	—	—	654	—	—	—	654	654
Lending to the general public	—	—	—	60,011	—	—	—	60,011	60,183
Fair value of portfolio hedge of interest rate risk	—	132	—	—	—	—	—	132	132
Financial assets at fair value								25	25
- Shares and participations	12	—	—	—	—	—	—	12	12
- Derivative instruments	12	1	—	—	—	—	—	13	13
Financial assets available for sale								22,889	22,889
- Fixed-income securities	—	—	—	—	22,851	—	—	22,851	22,851
- Equities	—	—	—	—	38	—	—	38	38
Intangible assets	—	—	—	—	—	—	0	0	0
Property, plant and equipment	—	—	—	—	—	—	6	6	6
Current tax assets	—	—	—	—	—	—	18	18	18
Deferred tax liabilities	—	—	—	—	—	—	25	25	25
Other assets	—	—	—	320	—	—	—	320	320
Prepaid expenses and accrued income	—	—	—	153	—	—	—	153	153
Total	**24**	**133**	**—**	**61,562**	**22,889**	**—**	**49**	**84,657**	**84,829**
Liabilities									
Due to credit institutions	—	—	—	—	—	99	—	99	99
Deposits and borrowing from the general public	—	—	—	—	—	77,365	—	77,365	77,365
Issued securities	—	—	—	—	—	1,826	—	1,826	1,826
Financial liabilities at fair value								134	134
- Derivative instruments	—	134	—	—	—	—	—	134	134
Liabilities attributable to assets held for sale	—	—	—	—	—	—	—	—	—
Current tax liabilities	—	—	—	—	—	—	72	72	72
Other liabilities	—	—	—	—	—	368	—	368	368
Accrued expenses and deferred income	—	—	—	—	—	284	—	284	284
Provisions	—	—	—	—	—	—	114	114	114
Subordinated liabilities	—	—	—	—	—	1,200	—	1,200	1,200
Total	**—**	**134**	**—**	**—**	**—**	**81,142**	**186**	**81,462**	**81,462**

CONT. NOTE 38. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

31 DECEMBER 2011 Assets	Measured at fair value through profit or loss, held for trading	Hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Nonfinancial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	696	—	—	—	696	696
Lending to credit institutions	—	—	—	2,013	—	—	—	2,013	2,013
Lending to the general public	—	—	—	53,393	—	—	—	53,393	53,366
Fair value of portfolio hedge of interest rate risk	—	68	—	—	—	—	—	68	68
Financial assets at fair value								34	34
- Shares and participations	11	—	—	—	—	—	—	11	11
- Derivative instruments	13	10	—	—	—	—	—	23	23
Financial assets available for sale								19,644	19,644
- Fixed-income securities	—	—	—	—	19,618	—	—	19,618	19,618
- Equities	—	—	—	—	26	—	—	26	26
Assets held for sale	—	—	—	—	—	—	15	15	15
Intangible assets	—	—	—	—	—	—	3	3	3
Property, plant and equipment	—	—	—	—	—	—	8	8	8
Current tax assets	—	—	—	—	—	—	19	19	19
Deferred tax liabilities	—	—	—	—	—	—	25	25	25
Other assets	—	—	—	624	—	—	—	624	624
Prepaid expenses and accrued income	—	—	—	225	—	—	—	225	225
Total	**24**	**78**	**—**	**56,951**	**19,644**	**—**	**70**	**76,767**	**76,740**
Liabilities									
Due to credit institutions	—	—	—	—	—	42	—	42	42
Deposits and borrowing from the general public	—	—	—	—	—	71,302	—	71,302	71,302
Financial liabilities at fair value								83	83
- Derivative instruments	—	83	—	—	—	—	—	83	83
Liabilities attributable to assets held for sale	—	—	—	—	—	80	32	112	112
Current tax liabilities	—	—	—	—	—	—	43	43	43
Other liabilities	—	—	—	—	—	714	—	714	714
Accrued expenses and deferred income	—	—	—	—	—	421	—	421	421
Provisions	—	—	—	—	—	—	44	44	44
Subordinated liabilities	—	—	—	—	—	1,200	—	1,200	1,200
Total	**—**	**83**	**—**	**—**	**—**	**73,759**	**119**	**73 961**	**73 961**

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

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

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

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

CONT. NOTE 38. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

B) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

	2012			2011		
	Instruments with published price quotations in an active market Level 1	Valuation techniques based on observable market data Level 2	Total	Instruments with published price quotations in an active market Level 1	Valuation techniques based on observable market data Level 2	Total
Assets						
Financial assets at fair value through profit or loss						
Held for trading						
Shares and participations	0	12	12	0	11	11
Derivative instruments	–	13	13	–	23	23
Financial assets available for sale						
Fixed-income securities	697	22,154	22,851	2,441	17,177	19,618
Shares and participations	7	31	38	5	21	26
Total	**704**	**22,210**	**22,914**	**2 446**	**17,232**	**19,678**
Liabilities						
Held for trading						
Derivative instruments	–	134	134	–	83	83
Total	**–**	**134**	**134**	**–**	**83**	**83**

Disclosures pertain to financial instruments measured at fair value broken down into the respective classes of financial instruments according to a fair value hierarchy. No reclassifications were made during the year. No assets or liabilities valued at Level 3. For a description of the various levels, see note 1, "Accounting policies, financial instruments".

39. GROUP OPERATIONS AND STRUCTURE

Skandiabanken Aktiebolag (publ), reg. no. 516401-9738, domiciled in Stockholm, Sweden, was established on 1 July 1994 and is a wholly owned subsidiary of Försäkringsaktiebolaget Skandia (publ) ("Skandia AB"), reg. no. 502017-3083. Old Mutual plc, reg. no. 3591559, domiciled in London, UK, owned 100% (100%) of the shares in Skandia AB as per 31 December 2011. As from 21 March 2012, Skandia AB's new owner is Livförsäkringsaktiebolaget Skandia ("Skandia Liv"), which in turn is owned by the Thule Foundation. Skandiabanken conducts business in Sweden and through a branch in Norway. Operations were broken down into four segments: Banking Sweden, Banking Norway, Mutual Funds and Services (divested in its entirety as per 1 January 2012). The subsidiary Skandia Fonder AB was sold on 1 November 2012 to Försäkringsaktiebolaget Skandia.

31 DECEMBER 2012

Subsidiary	Registered number	Domicile/country	Ownership	Share quota value[1]
–	–	–	–	–

31 DECEMBER 2011

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

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

40. RELATED PARTY DISCLOSURES

Disclosures regarding related parties pertain to dealings and transactions with Skandia Liv, Skandia AB and other group companies outside of Skandiabanken. Related parties to the group also include board members and senior executives of Skandiabanken, the Skandia group, and external companies in which senior executives have control. A list of the parent company and subsidiaries is provided in note 39. Disclosures about remuneration of senior executives are provided in note 7, "Staff costs".

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

A) INCOME AND EXPENSES GENERATED BY TRANSACTIONS WITH RELATED PARTIES

	2012				2011			
Operating income	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries[2]	Skandia Liv	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries[2]	Skandia Liv
Net interest income	-8	-50	—	0	-20	-53		-6
Net fee and commission income	0	1	29	0	-450	1	38	1
Net financial income	—	-59	—	—	—	-73	—	—
Other operating income[1]	47	3	0	20	624	0	4	127
Total operating income	**39**	**-105**	**29**	**20**	**154**	**-125**	**42**	**122**
Operating expenses								
Other administrative expenses	-303	-69	—	-22	-390	-86	—	-77
Other operating expenses	—	—	—	—	—	—	—	—
Total operating expenses	**-303**	**-69**	**—**	**-22**	**-390**	**-86**	**—**	**-77**
Profit for the year for discontinued operation, after tax	**-317**	**-1**	**—**	**—**	**—**	**—**	**—**	**—**

[1] Includes SEK 682 million pertaining to discontinued operations in 2011.

[2] Transactions with Skandia Fonder AB are reported here for the period January–October 2012, when the company was a subsidiary. The rest of the months are reported as other group companies.

B) RECEIVABLES AND LIABILITIES – RELATED PARTIES

	2012				2011			
Assets	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries	Skandia Liv	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries	Skandia Liv
Lending to the general public	0	—	—	—	2	—	—	—
Derivative instruments	—	13	—	—	—	23	—	—
Other assets	6	9	—	—	33	0	38	8
Total	**6**	**22**	**0**	**—**	**35**	**23**	**38**	**8**
Liabilities								
Deposits and borrowing from the general public	2,280	—	—	4	1,366	—	—	2
Derivatives	—	134	—	—	—	83	—	—
Other liabilities	44	121	—	-2	114	130	—	—
Subordinated liabilities	1,200	—	—	—	1,200	—	—	—
Total	**3,524**	**255**	**—**	**2**	**2,680**	**213**	**—**	**2**

CONT. NOTE 40. RELATED PARTY DISCLOSURES

Parent company Skandia AB and Skandia Liv

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

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

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

Lending, deposits and borrowing are priced according to specific interest rates with a going-rate interest mark-up. Skandiabanken has a credit facility of SEK 400 million from the parent company Skandia AB.

Securities – equity trading and mutual fund trading
Skandiabanken pays commissions to Skandia AB for going-rate distribution compensation. In addition to this distribution compensation, fixed commissions are paid for advisory business. Commissions received for Skandia AB's custody account insurance service are passed on in their entirety to the parent company Skandia AB. Skandiabanken charges Skandia AB an administrative fee, which is reported under "Other operating income".

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

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

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

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

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

Other external companies
During the year, borrowed funds in the amount of SEK 150 million were received from Seven Days Finans AB. The CEO of the company is a director on Skandiabanken AB's board.

41. EQUITY

Change broken down into restricted and unrestricted equity	Restricted equity		Unrestricted equity					
	Share capital	Statutory reserve	Fair value reserve	Translation reserve	Total fair value reserve	Retained earnings	Non-controlling interests	Total equity
Opening equity 2011	400	81	0	-19	-19	2,179	6	2,647
Net profit for the year	–	–	–	–	0	138	–	138
Reclassification upon divestment to income statement before tax	–	–	-2	–	-2	–	–	-2
Unrealised change in value before tax, fair value reserve	–	–	29	–	29	–	–	29
Deferred tax, fair value reserve	–	–	-7	–	-7	–	–	-7
Change in hedge of net investment in foreign currency	–	–	–	–	0	–	–	0
Change in translation difference	–	–	–	1	1	–	–	1
Total other comprehensive income	–	–	20	1	21	–	–	21
Comprehensive income for the year	–	–	20	1	21	138	–	159
Divested operation	–	–	–	–	–	–	-6	-6
Shareholder contribution received	–	–	–	–	–	6	–	6
Contribution from parent company, share-based payment	–	–	–	–	–	0	–	0
Closing equity 2011	400	81	20	-18	2	2,323	–	2,806
Opening equity 2012	400	81	20	-18	2	2,323	–	2,806
Net profit for the year	–	–	–	–	0	307	–	307
Reclassification upon divestment to income statement before tax	–	–	-13	–	-13	–	–	-13
Unrealised change in value before tax, fair value reserve	–	–	72	–	72	–	–	72
Deferred tax, fair value reserve	–	–	-14	–	-14	–	–	-14
Change in hedge of net investment in foreign currency	–	–	–	0	0	–	–	0
Change in translation difference	–	–	–	14	14	–	–	14
Total other comprehensive income	–	–	45	14	59	–	–	59
Comprehensive income for the year	–	–	45	14	59	307	–	366
Dividend	–	–	–	–	–	-35	–	-35
Shareholder contribution received	–	–	–	–	–	58	–	58
Contribution from parent company, share-based payment	–	–	–	–	–	0	–	0
Closing equity 2012	400	81	65	-4	61	2,653	–	3,195

CONT. NOTE 41. EQUITY

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

Retained earnings
Retained earnings include shareholder contributions from the parent company Skandia AB, which corresponds to the group contribution rendered by Skandiabanken. The transaction is aimed at maintaining the level of capital in Skandiabanken. The aim of group contributions received and rendered in Skandiabanken is to minimise tax in the Skandia group as a whole.

Dividend
No dividend was paid in 2011 or 2012. The decisions on the dividend were made by the Annual General Meeting on 26 June 2012 and 30 June 2013 at the latest, respectively.

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

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

42. EVENTS AFTER THE BALANCE SHEET DATE

No significant events have taken place after the balance sheet date.

Five-year summary

KEY RATIOS

	2012	2011	2010	2009	2008
Lending to the general public	60,011	53,393	53,985	48,634	43,835
Change during the year	12%	-1%	11%	11%	-6%
Total deposits and borrowing from the general public, incl. debt securities	79,191	71,302	62,969	61,739	51,986
Change during the year	11%	13%	2%	19%	3%
Total capital ratio	14.64%	14.66%	14.51%	13.29%	15.17%
Tier 1 capital ratio	10.61%	10.24%	9.98%	9.05%	10.17%
Earnings capacity:	0.53%	0.29%	0.33%	0.40%	0.59%
Return on equity[1 2]	7.54%	4.44%	4.87%	5.61%	8.65%
Cost/income ratio before loan losses[2]	0.79	0.92	0.89	0.83	0.78
Loan loss ratio	0.01%	0.06%	0.09%	0.14%	0.11%
Average number of employees	453	994	1,141	471	279
Of whom, in continuing operations	*453*	*515*	*1,141*	*471*	*266*
Of whom, in discontinued operations	—	*478*	—	—	*13*

[1] Figures for 2008 are calculated according to standardised tax instead of actual tax.
[2] The capital gain on the sale of Skandia Fonder AB has been excluded from the calculation of the earnings measurements for 2012.

INCOME STATEMENTS AND BALANCE SHEETS FOR 2008–2012, FIVE-YEAR SUMMARY (SEK MILLION)

Income statement	**2012**	**2011**	**2010**	**2009**	**2008**
Interest income	2,838	2,552	1,750	1,866	3,295
Interest expense	-1,719	-1,515	-903	-1,054	-2,354
Net fee and commission income	327	349	372	374	341
Net financial income	47	14	55	33	25
Other operating income	168	779	852	305	1,262
Total operating income	**1,661**	**2,179**	**2,126**	**1,524**	**2,569**
Staff costs	-369	-869	-843	-397	-218
Other administrative expenses	-829	-1,047	-995	-816	-798
Depreciation, amortisation and impairment of tangible and intangible assets	-6	-9	-9	-9	-30
Other operating expenses	-33	-73	-53	-39	-33
Total expenses before loan losses	**-1,237**	**-1,998**	**-1,900**	**-1,261**	**-1,079**
Loan losses, net	-7	-34	-42	-62	-53
Impairment of financial assets	—	—	—	—	-4
Operating profit	**417**	**147**	**184**	**201**	**1,433**
Appropriations, net[1]	-31	24	40	—	655
Profit before tax	**386**	**171**	**224**	**201**	**2,088**
Taxes	-85	-30	-62	-51	-256
Net profit for the year	**301**	**141**	**162**	**150**	**1,832**

Balance sheet	**2012**	**2011**	**2010**	**2009**	**2008**
Cash and cash balances with central banks	424	696	493	1,676	2,230
Treasury bills and other eligible bills	5,826	2,441	—	—	—
Lending to credit institutions	654	1,916	263	846	2,032
Lending to the general public	60,011	53,393	53,985	48,634	43,835
Fair value of portfolio hedge of interest rate risk	132	68	5	153	205
Bonds and other fixed-income securities	17,025	17,177	12,376	16,787	9,306
Shares and participations	50	79	72	68	57
Intangible and tangible non-current assets	6	15	20	27	19
Other assets	507	905	788	789	581
Total assets	**84,635**	**76,690**	**68,002**	**68,980**	**58,265**
Due to credit institutions	**99**	**43**	**52**	**2,074**	**1,564**
Deposits and borrowing from the general public	77,365	71,302	62,969	61,739	51,986
Issued securities	1,826	—	—	—	—
Other liabilities	882	1,301	1,105	1,139	969
Subordinated liabilities	1,200	1,200	1,200	1,200	1,200
Total liabilities	**81,372**	**73,846**	**65,326**	**66,152**	**55,719**
Untaxed reserves	—	—	—	—	—
Equity	**3,263**	**2,844**	**2,676**	**2,828**	**2,546**
Total liabilities and equity	**84,635**	**76,690**	**68,002**	**68,980**	**58,265**

[1] Pertains to group contributions for the years 2010-2012. Figures for the years 2008 and 2009 have not been recalculated in view of a changed accounting policy for group contributions.

Income statements, parent company

INCOME STATEMENT

SEK million	Note	2012	2011
Interest income		2,838	2,552
Interest expense		-1,719	-1,515
Fee and commission income		406	427
Fee and commission expense		-79	-78
Net financial income		47	14
Other operating income	2	168	779
Total operating income		**1,661**	**2,179**
General administrative expenses			
Staff costs	3	-369	-869
Other administrative expenses	4	-829	-1,047
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	12	-6	-9
Other operating expenses	5	-33	-73
Total expenses before loan losses		**-1,237**	**-1,998**
Profit before loan losses		**424**	**181**
Net loan losses		-7	-34
Operating profit		**417**	**147**
Appropriations, group contributions		-31	24
Profit before tax		**386**	**171**
Tax	6	-85	-30
Net profit for the year		**301**	**141**

STATEMENT OF COMPREHENSIVE INCOME

SEK million	2012	2011
Profit for the year	**301**	**141**
Other comprehensive income		
Financial assets available for sale	59	27
Hedge of net investment	0	0
Translation difference	14	1
Taxes attributable to other comprehensive income	-14	-7
Total other comprehensive income after tax	**59**	**21**
Total comprehensive income after tax	**360**	**162**

Balance sheet, parent company

BALANCE SHEET

31 December, SEK million

Assets	Note	2012	2011
Cash and cash balances with central banks		424	696
Treasury bills and other eligible bills	7	5,826	2,441
Lending to credit institutions	8	654	1,916
Lending to the general public		60,011	53,393
Fair value of portfolio hedge of interest rate risk		132	68
Bonds and other fixed-income securities	9	17,025	17,177
Shares and participations, etc.	10	50	37
Shares and participations in group companies	11	—	42
Intangible assets		0	3
Tangible assets	12	6	12
Current tax assets	13	18	19
Deferred tax assets	13	3	28
Other assets	14	333	677
Prepaid expenses and accrued income	15	153	181
Total assets		**84,635**	**76,690**

Liabilities	Note	2012	2011
Due to credit institutions		99	43
Deposits and borrowing from the general public		77,365	71,302
Issued securities		1,826	—
Current tax liabilities	16	72	43
Other liabilities	17	502	797
Accrued expenses and deferred income	18	284	412
Deferred tax liabilities	16	2	—
Provisions for pensions	19	22	49
Subordinated liabilities		1,200	1,200
Total liabilities and provisions		**81,372**	**73,846**
Share capital		400	400
Other reserves			
- Statutory reserve		81	81
- Fair value reserve		84	25
Retained earnings		2,397	2,197
Net profit for the year		301	141
Total equity		**3,263**	**2,844**
Total liabilities, provisions and equity		**84,635**	**76,690**

MEMORANDUM ITEMS, PARENT COMPANY

SEK million	2012	2011
Pledged assets for own liabilities	—	—
Other pledged assets	5,284	5,818
Contingent liabilities	4	4
Commitments	20,083	16,481

Statement of changes in equity, parent company

SEK MILLION	Restricted equity		Unrestricted equity				
	Share capital	Statutory reserve	Fair value reserve	Translation reserve	Total fair value reserve[1]	Retained earnings incl. profit for the year	Total
Opening equity 2011	400	81	1	3	4	2,191	2,676
Profit for the year	—	—	—	—	—	141	141
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-1	—	-1	—	-1
Unrealised change in value before tax, fair value reserve	—	—	27	—	27	—	27
Deferred tax, fair value reserve	—	—	-7	—	-7	—	-7
Change in hedge of net investment in foreign currency	—	—	—	0	0	—	0
Change in translation differences	—	—	—	2	2	—	2
Total comprehensive income	—	—	19	2	21	141	162
Contribution from parent company, share-based payment	—	—	—	—	—	0	0
Shareholder contribution received	—	—	—	—	—	6	6
Closing equity 2011	400	81	20	5	25	2,338	2,844
Opening equity 2012	400	81	20	5	25	2,338	2,844
Profit for the year	—	—	—	—	—	301	301
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-13	—	-13	—	-13
Unrealised change in value before tax, fair value reserve	—	—	72	—	72	—	72
Deferred tax, fair value reserve	—	—	-14	—	-14	—	-14
Change in hedge of net investment in foreign currency	—	—	—	0	—	—	0
Change in translation differences	—	—	—	14	14	—	14
Total comprehensive income	—	—	45	14	59	301	360
Contribution from parent company, share-based payment	—	—	—	—	—	0	0
Shareholder contribution received	—	—	—	—	—	58	58
Closing equity 2012	400	81	65	19	84	2,698	3,263

[1] The total fair value reserve consists of unrealised gains/losses attributable to available-for-sale financial assets, hedge of net investment and translation difference.

Cash flow statement, parent company

CASH FLOW STATEMENT (Indirect method), SEK million

Operating activities	**2012**	**2011**
Operating profit	417	147
of which, interest paid in	*2,839*	*2,494*
of which, interest paid out	*-1,717*	*-1,448*
Adjustment for non-cash items:		
Unrealised portion of net financial income	-4	10
Depreciation, amortisation and impairment		
- depreciation of property, plant and equipment	3	5
- amortisation and impairment of intangible assets	3	4
Share-based payments	0	0
Loan losses	27	45
Divestment of subsidiary	-93	-3
Group contribution from subsidiaries/parent company	—	-30
Income tax paid	-43	-54
Cash flow from operating activities before changes in the assets and liabilities of operating activities	**310**	**124**
Decrease (+)/increase (-) in lending to the general public	-6,646	546
Decrease (+)/increase (-) in holdings of fixed-income securities and equities	-3,203	-7,231
Decrease (+)/increase (-) in other assets	336	-121
Decrease (-)/increase (+) in borrowing from the general public	7,889	8,334
Decrease (-)/increase (+) in other liabilities	-467	210
Cash flow from operating activities	**-1,781**	**1,862**
Investing activities		
Divestment of subsidiary	135	6
Purchases of property, plant and equipment	6	-6
Sales of property, plant and equipment	-2	2
Cash flow from investing activities	**139**	**2**

Financing activities		**2011**
Shareholder contribution		—
Cash flow from financing activities	**41**	—
Cash flow for the year	**-1,601**	**1,864**
Cash and cash equivalents at start of the year	**2,569**	**704**
Exchange rate difference in cash and cash equivalents	**11**	**1**
Cash and cash equivalents at end of the year	**979**	**2,569**

Cash and cash equivalents	**2012**	**2011**
Cash and cash balances with central banks	424	696
Lending to credit institutions	654	1,916
Due to credit institutions	-99	-43
Cash and cash equivalents	**979**	**2,569**

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

Notes, parent company

All amounts in **SEK million**, unless indicated otherwise

Notes index, parent company

IN MANY RESPECTS, THE NOTES TO THE PARENT COMPANY'S INCOME STATEMENT AND BALANCE SHEET CORRESPOND TO THE GROUP'S NOTES. THE FOLLOWING PAGES INCLUDE ONLY THOSE NOTES THAT DEVIATE FROM THE GROUP'S NOTES.

1 SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

1. BASIS OF PREPARATION

The 2012 Annual Report is prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and the Financial Supervisory Authority's regulations and general guidelines on annual reports of credit institutions and securities companies (FFFS 2008:25). Skandiabanken also applies recommendation RFR 2, "Accounting for legal entities", issued by the Swedish Financial Reporting Board (RFR).

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

The accounting policies applied are called legally limited IFRS, which entails that International Financial Reporting Standards (IFRSs) are applied with exceptions in accordance with Swedish legislation. The accounting policies that differ significantly from the accounting policies applied by the group are presented below. For a complete presentation of the accounting policies applied by the group, see note 1 to the group's accounts.

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

2. PRINCIPAL DIFFERENCES COMPARED WITH THE CONSOLIDATED FINANCIAL STATEMENTS

IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

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

IFRS 5 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

IFRS 5 addresses, among other things, the issue of how to present discontinued operations in the income statement and the balance sheet.

In the parent company's financial statements, disclosures regarding discontinued operations are presented only in notes.

IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

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

IFRS 8 OPERATING SEGMENTS

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

IAS 19 EMPLOYEE BENEFITS AND IAS 37 PROVISIONS

Provisions for pension obligations and pension costs

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

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

For further information on the content of defined benefit and defined contribution pension plans, see the group's accounting policies, point 13 "Provisions for pensions".

GROUP CONTRIBUTIONS

Skandiabanken has chosen to prospectively take advantage of the opportunity to report group contributions in accordance with the so-called Alternative Rule in RFR 2 Reporting for Legal Entities. Group contributions are reported as an appropriation in the income statements of both the rendering and receiving parties. The comparative figures for 2010 and 2011 have been recalculated according to the new policy. The change affects profit for the year before tax in 2011 and 2010 by SEK 4 million and SEK 10 million, respectively. The change does not affect equity for the two financial years.

2. OTHER OPERATING INCOME

	2012	2011
Revenues from group companies outside the Skandiabanken group[1]	71	750
Capital gain from sale of operation	94	—
Dissolution of variable remuneration attributable to previous years	—	9
Other income	3	20
Total	**168**	**779**

[1] For detailed information, see note 23, "Related party disclosures".

3. STAFF COSTS

	2012	2011
Salaries and remuneration	-229	-530
Cost for pension premiums	-40	-111
Payroll tax	-9	-28
Social security charges	-55	-146
Variable remuneration[1]	-14	-27
Other staff costs	-22	-27
Total	**-369**	**-869**

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

Average number of employees	2012 Women		2012 Men		2012 Total	2011 Women		2011 Men		2011 Total
Sweden	145	53%	127	47%	272	398	50%	404	50%	802
Norway	100	55%	81	45%	181	107	56%	85	44%	192
Total, parent company	**245**	**54%**	**208**	**46%**	**453**	**505**	**51%**	**489**	**49%**	**994**

2012 SEK thousand Sweden	Base salary/ directors' fees	Variable salary	Other benefits and fees	Pension cost	Total
Niklas Midby, Chairman of the Board	600	—	—	—	600
Magnus Beer, director	200	—	—	—	200
Jonas Holmberg, Deputy CEO	1,980	660	68	953	3,661
Bengt-Olof Nilsson Lalér, Deputy CEO	1,968	656	62	710	3,396
Other senior executives (2 persons)[1]	1,977	228	135	619	2,959
Other employees who influence the company's level of risk (6 persons)[2]	3,711	247	141	1,001	5,100
Other employees in the banking operations (262 persons)	106,390	5,997	9,399	19,518	141,304
Total, Sweden	**116,826**	**7,788**	**9,805**	**22,801**	**157,220**
Norway					
Øyvind Thomassen, CEO[3]	3,783	—	1,161	243	5,187
Other senior executives (3 persons)	5,029	998	349	333	6,709
Other employees who influence the company's level of risk (12 persons)[2]	9,865	942	1,033	1,036	12,876
Other employees in the banking operations (15 persons)	87,154	4,759	3,528	15,800	111,241
Total, Norway	**105,831**	**6,699**	**6,071**	**17,412**	**136,013**
Total					
Chairman of the Board	600	—	—	—	600
Board members	200	—	—	—	200
CEOs	3,783	—	1,161	243	5,187
Deputy CEOs	3,948	1,316	130	1,663	7,057
Other senior executives (5 persons)[1]	7,006	1,226	484	952	9,668
Other employees who influence the company's level of risk (18 persons)[2]	13,576	1,189	1,174	2,037	17,976
Other employees in the banking operations (427 persons)	193,544	10,756	12,927	35,318	252,545
Total	**222,657**	**14,487**	**15,876**	**40,213**	**293,233**

[1] In addition to the number of other senior executives, the executive management includes two persons who are employed by and receive their remuneration from other group companies.

[2] Risk-takers as per definition. See note 7 to the group accounts, "Staff costs".

[3] Benefits and other remuneration also include settlement of pensions corresponding to SEK 1,154 thousand.

CONT. NOTE 3. STAFF COSTS

2012 SEK thousand Sweden	Base salary/ directors' fees	Variable salary	Other benefits and fees	Pension cost	Total
Niklas Midby, Chairman of the Board	100	—	—	—	100
Lars Otterbeck, director	250	—	—	—	250
Magnus Beer, director	200	—	—	—	200
Jonas Holmberg, Deputy CEO	1,159	145	48	458	1,810
Bengt-Olof Nilsson Lalér, Deputy CEO	1,869	235	214	457	2,775
Other senior executives (3 persons)[1]	2,909	461	223	1,159	4,752
Other employees who influence the company's level of risk (8 persons)[2]	4,879	181	271	1,408	6,739
Other employees in the banking operations (311 persons)	132,337	6,741	7,456	17,257	163,791
Other employees in the service operations (478 persons)	270,989	8,493	13,169	78,215	370,866
Total, Sweden	**414,692**	**16,256**	**21,381**	**98,954**	**551,283**
Norway					
Øyvind Thomassen, CEO[3]	2,819	599	1,845	347	5,610
Other senior executives (3 persons)	3,940	927	1,022	300	6, 189
Other employees who influence the company's level of risk (12 persons)[2]	8,714	359	76	926	10,075
Other employees in the banking operations (176 persons)	99,809	8,980	705	10,946	120,440
Total, Norway	**115,282**	**10,865**	**3,648**	**12,519**	**142,314**
Total					
Chairman of the Board	100	—	—	—	100
Board members	450	—	—	—	450
CEO	2,819	599	1,845	347	5,610
Deputy CEOs	3,028	380	262	915	4,585
Other senior executives (6 persons)[1]	6,849	1,388	1,245	1,459	10,941
Other employees who influence the company's level of risk (20 persons)[2]	13,593	540	347	2,334	16,814
Other employees (965 persons)	503,135	24,214	21,330	106,418	655,097
Total	**529,974**	**27,121**	**25,029**	**111,473**	**693,597**

[1] The category "Other senior executives" includes one person who is employed by and receives his remuneration from Försäkrings AB Skandia.

[2] Risk-takers as per definition. See note 7 to the group accounts, "Staff costs".

[3] Benefits and other remuneration also includes settlement of pensions corresponding to SEK 881 thousand.

4. OTHER ADMINISTRATIVE EXPENSES

	2012	2011
Cost of premises	-52	-67
IT costs	-129	-180
Fees and purchased services	-460	-543
Telephone and postage costs	-28	-37
Office expenses	-2	-5
Operating and transaction costs	-135	-162
Other administrative expenses	-23	-53
Total	**-829**	**-1,047**

Auditing fees	**2012**	**2011**
Audit assignment		
- KPMG	—	-2
- Deloitte	-2	—
Total	**-2**	**-2**
Other assignments		
Auditing activities in addition to the audit assignment, KPMG	—	-1
Auditing activities in addition to the audit assignment, Deloitte	0	—
Other services, KPMG	-1	—
Other services, Deloitte	-4	—
Total costs for other assignments	**-5**	**-1**

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

5. OTHER OPERATING EXPENSES

	2012	2011
Advertising and marketing	-33	-73
Total	**-33**	**-73**

6. INCOME TAX EXPENSE

The following components are included in income tax expense:	2012	2011
Current tax		
- Tax on profit for the year	-72	-46
- Tax on previous years' profits	0	3
Deferred tax[1]	-13	13
Total	**-85**	**-30**

Correlation between income tax expense and reported profit before tax	2012	2011
Reported profit after appropriations but before tax	386	171
Tax at applicable tax rate of 26.3%	-102	-45
Tax effect of tax-exempt income	25	2
Tax effect of non-deductible expenses	-1	-2
Tax effect of changed application of deferred tax on temporary differences for endowment insurance policies	0	12
Effect of change in tax rate to 22%	-2	—
Tax effect of tax differences between countries	-5	0
Current tax pertaining to previous years	0	3
Total	**-85**	**-30**

Average effective tax rate	22.0%	17.8%

[1] Deferred tax broken down by type of temporary difference	2012	2011
Tax effect attributable to temporary differences in financial instruments	-1	3
Tax effect attributable to temporary differences in tangible and intangible assets	0	0
Tax effect attributable to temporary differences in pensions	-10	8
Tax effect attributable to temporary differences in provisions	-2	2
Total	**-13**	**13**

7. TREASURY BILLS AND OTHER ELIGIBLE BILLS

Outstanding receivables broken down by counterparty, net book value	2012	2011
Swedish government	—	—
Swedish municipalities	3,107	2,441
Foreign governments	697	—
Foreign municipalities	2,022	—
Total	**5,826**	**2,441**
Nominal value	5,817	2,435

Average remaining maturity, years	1.6	2.3
Average remaining fixed interest term	0.7	0.1

8. LENDING TO CREDIT INSTITUTIONS

Outstanding loans broken down by counterparty, net book value	2012	2011
Foreign central banks	—	1,670
Swedish credit institutions	104	186
Foreign credit institutions	550	60
Total	**654**	**1,916**

Outstanding receivables broken down by remaining maturity, net book value	2012	2011
Payable on demand	654	1,916
Total	**654**	**1,916**

Average remaining maturity (years)	0.0	0.0

9. BONDS AND OTHER FIXED-INCOME SECURITIES

Financial assets available for sale	2012	2011
Issued by public entities	1,635	483
Issued by other borrowers	15,390	16,694
Total	**17,025**	**17,177**

Issuers		
Swedish municipalities	1,051	—
Swedish credit institutions	8,095	7,670
Other Swedish issuers	100	201
Foreign municipalities	584	482
Foreign credit institutions	6,893	8,794
Other foreign issuers	302	30
Total	**17,025**	**17,177**

Remaining maturity		
Max 1 year	5,364	6,621
Longer than 1 year but max 5 years	11,661	10,556
Total	**17,025**	**17,177**

CONT. NOTE 9. BONDS AND OTHER FIXED-INCOME SECURITIES

Total holdings of available-for-sale financial assets and financial assets held to maturity, broken down by issuer	2012	2011
Issued by public entities	1,635	483
Issued by other borrowers	15,390	16,694
Total	**17,025**	**17,177**
Average remaining maturity, (years)	1.5	1.4
Average remaining fixed interest term, (years)	0.1	0.1
of which, listed securities	*—*	*—*
of which, unlisted securities	*17,025*	*17,177*
of which, pledged as security for the benefit of Central Bank of Sweden	2,854	2,045
of which, pledged as security for the benefit of Central Bank of Norway	2,354	3,685

10. SHARES AND PARTICIPATIONS

Financial assets at fair value	2012	2011
Listed shares and participations	0	0
Unlisted shares and participations	12	11
Total	**12**	**11**
The holding is classified as held for trading.		
Financial assets available for sale		
Listed shares	38	26
Total	**38**	**26**
Total	**50**	**37**

11. SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Swedish subsidiaries	2012	2011
Cost, opening balance	42	44
Sale of Svenska Lärarfonder [2]	—	-3
Sale of Skandia Fonder AB [3]	-42	—
Current year's shareholder contribution	—	1
Cost, closing balance	**0**	**42**

	Share quota value [1]		Number of shares		Share of capital		Equity		Book value	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Skandia Fonder AB (556317-2310) Stockholm	—	100	—	100,000	—	100%	—	37	—	42
							—	**37**	**—**	**42**

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

[2] In 2011 Skandiabanken sold its interest in Svenska Lärarfonder for SEK 6.3 million.

[3] During the year, all of the shares in Skandia Fonder AB were sold for SEK 135 million.

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

12. TANGIBLE ASSETS

Cost	2012 Equipment	2011 Equipment
Cost at start of year	32	32
Exchange rate differences	1	0
Acquisitions during the year	2	5
Sales during the year [1]	-8	-5
Cost at year-end	**27**	**32**
Accumulated planned depreciation		
Accumulated depreciation at start of year	-20	-19
Exchange rate differences	-3	0
Depreciation during the year	0	-4
Accumulated depreciation pertaining to assets sold during the year[1]	2	3
Accumulated depreciation at year-end	**-21**	**-20**
Net carrying amount	**6**	**12**

[1] Including disposals.

13. CURRENT AND DEFERRED TAX ASSETS

	2012	2011
Current tax assets	18	19
Deferred tax assets, net[1]	3	28
Total	**21**	**47**

[1] **Deferred tax assets, net, with changes recognised in profit or loss, broken down by type of temporary difference**	**2012**	**2011**
Deferred tax assets attributable to financial instruments	0	1
Deferred tax liabilities attributable to financial instruments	–	0
Deferred tax assets attributable to tangible and intangible assets	–	1
Deferred tax assets attributable to pensions	10	29
Deferred tax assets attributable to provisions	2	5
Total	**12**	**36**
Deferred tax liabilities reported in other comprehensive income		
Deferred tax assets attributable to unrealised gains on available-for-sale financial assets	-9	-8
Total	**-9**	**-8**
Total	3	28

14. OTHER ASSETS

	2012	2011
Securities settlement claims	266	570
Derivative instruments[1]	13	23
Trade receivables	20	19
Other	36	69
Provision for probable loan losses	-2	-4
Total	**333**	**677**

[1] For further information on derivative instruments, see note 27 to the group accounts.

15. PREPAID EXPENSES AND ACCRUED INCOME

	2012	2011
Accrued interest	102	115
Other accrued income	23	40
Prepaid expenses	28	26
Total	**153**	**181**

16. CURRENT AND DEFERRED TAX LIABILITIES

	2012	2011
Current tax liabilities	72	43
Deferred tax liabilities[1]	2	–
Total	**74**	**43**

[1] **Deferred tax liabilities, net, with changes recognised in profit or loss, broken down by type of temporary difference**	**2012**	**2011**
Deferred tax assets attributable to financial instruments	0	–
Deferred tax assets attributable to pensions	-10	–
Total	**-10**	–
Deferred tax assets recognised in other comprehensive income		
Deferred tax assets attributable to unrealised losses on available-for-sale financial assets	12	–
Total	**12**	–
Total	2	–

[1] Deferred tax liabilities pertain to the Norwegian branch and are reported net in the group.

17. OTHER LIABILITIES

	2012	2011
Securities settlement liabilities	214	497
Derivative instruments	134	83
Trade accounts payable	45	53
Other	109	164
Total	**502**	**797**

18. ACCRUED EXPENSES AND DEFERRED INCOME

	2012	2011
Accrued interest	157	165
Accrued staff costs	63	143
Accrued costs for services purchased from Skandia AB	34	46
Other accrued expenses	30	58
Total	**284**	**412**

19. PROVISIONS FOR PENSIONS

	2012	2011
Pension plans, incl. special employer's payroll tax:		
Opening balance	49	59
Exchange rate differences	0	0
Current year's provision	5	8
Amount utilised during the year	—	-18
Amount reversed during the year	-32	—
Closing balance	22	49

Defined benefit pension plans amounted to SEK 15 million (16), of which SEK 5 million (10) pertains to pension obligations for early retirement pensions. Special employer's payroll tax on defined benefit pension plans are included in the amount of SEK 7 million (8), of which SEK 1 million (2) pertains to pension obligations for early retirement pensions. As from 2012, no provisions have been made for defined contribution pension plans.

OTHER DISCLOSURES

20. REVENUES BROKEN DOWN BY GEOGRAPHIC AREA

	Sweden		Norway			Total
	2012	2011	2012	2011	2012	2011
Interest income	1,239	1,099	1,599	1,453	2,838	2,552
Fee and commission income	145	154	261	273	406	427
Net financial income/expense	25	-1	22	15	47	14
Other operating income	168	773	0	6	168	779
Total	1,577	2,025	1,882	1,747	3,459	3,772

21. CAPITAL ADEQUACY ANALYSIS

Applied rules and regulations

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

Capital adequacy analysis	**31/12/2012**	**31/12/2011**
Capital adequacy measures		
Total capital ratio	14.64%	14.66%
Tier 1 capital ratio	10.61%	10.24%
Capital adequacy quotient	1.83	1.83
Capital base		
Total equity according to most recent yearly book-closing, 31 December	3,263	2,844
Proposed dividend	—	—
Tier 1 capital, gross	3,263	2,844
Less: intangible assets	0	-3
Less: deferred tax assets	-3	-28
Unrealised loss on available-for-sale financial assets, fixed-income securities	-65	-20
Tier 1 capital, net	3,195	2,793
Unrealised gains on available-for-sale financial assets, shares	13	4
Perpetual subordinated debt	900	900
Dated subordinated debt	300	300
Total tier 2 capital	1,213	1,204
Capital base	4,408	3,997

Risk-weighted exposures/basis for calculating capital requirement	**31/12/2012**	**31/12/2011**
Credit risk according to standardised approach	26,263	23,513
Currency risk	204	134
Operational risk according to basic indicator approach	3,642	3,622
Total risk-weighted exposures	30,109	27,269
Capital requirement		
Credit risk according to standardised approach	2,101	1,881
Currency risk	16	11
Operational risk according to basic indicator approach	291	290
Total minimum capital requirement	2,408	2,182

CONT. NOTE 21. CAPITAL ADEQUACY ANALYSIS

	31/12/2012			31/12/2011		
Exposures to credit risks per exposure class	Exposures	Risk-weighted assets	Capital requirement	Exposures	Risk-weighted assets	Capital requirement
Exposures to governments and central banks	3,380	—	—	4,324	—	—
Exposures to local governments and comparable associations and authorities	6,898	523	42	3,165	97	8
Exposures to administrative bodies, non-commercial undertakings and religious communities	304	—	—	—	—	—
Exposures to multilateral development banks	—	—	—	—	—	—
Exposures to international organisations	—	—	—	—	—	—
Exposure to institutions	5,155	1,031	83	5,840	1,152	92
Exposure to corporates	531	451	36	919	758	61
Retail exposures	3,506	2,629	210	3,242	2,431	195
Exposures secured in residential property	54,872	20,402	1,632	49,177	17,919	1,433
Past due items	26	26	2	26	26	2
High-risk items	—	—	—	—	—	—
Exposures in the form of covered bonds	9,779	978	78	9,881	988	79
Securitisation positions	—	—	—	—	—	—
Exposure to funds	1	1	0	1	1	0
Other items	226	222	18	145	141	11
Total	**84,678**	**26,263**	**2,101**	**76,720**	**23,513**	**1,881**

22. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Classification and measurement of financial assets and liabilities

31 DECEMBER 2012

Assets	At fair value through profit or loss held for trading	Hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Non-financial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	424	—	—	—	424	424
Treasury bills and other eligible bills	—	—	—	—	5,826	—	—	5,826	5,826
Lending to credit institutions	—	—	—	654	—	—	—	654	654
Lending to the general public	—	—	—	60,011	—	—	—	60,011	60,183
Fair value of portfolio hedge of interest rate risk	—	132	—	—	—	—	—	132	132
Bonds and other fixed-income securities	—	—	—	—	17,025	—	—	17,025	17,025
Shares and participations	12	—	—	—	38	—	—	50	50
Shares and participations in group companies[1]	—	—	—	—	—	—	—	—	—
Intangible assets	—	—	—	—	—	—	0	0	0
Property, plant and equipment	—	—	—	—	—	—	6	6	6
Current tax assets	—	—	—	—	—	—	18	18	18
Deferred tax assets	—	—	—	—	—	—	3	3	3
Other assets	12	1	—	320	—	—	—	333	333
Prepaid expenses and accrued income	—	—	—	153	—	—	—	153	153
Total assets	**24**	**133**	**—**	**61,562**	**22,889**	**—**	**27**	**84,635**	**84,807**
Liabilities									
Due to credit institutions	—	—	—	—	—	99	—	99	99
Deposits and borrowing from the general public	—	—	—	—	—	77,365	—	77,365	77,365
Issued securities	—	—	—	—	—	1,826	—	1,826	1,826
Current tax liabilities	—	—	—	—	—	—	72	72	72
Other liabilities	—	134	—	—	—	368	—	502	502
Accrued expenses and deferred income	—	—	—	—	—	284	—	284	284
Deferred tax liabilities	—	—	—	—	—	—	2	2	2
Provisions for pensions	—	—	—	—	—	—	22	22	22
Subordinated liabilities	—	—	—	—	—	1,200	—	1,200	1,200
Total liabilities	**—**	**134**	**—**	**—**	**—**	**81,142**	**96**	**81,372**	**81,372**

CONT. NOTE 22. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

31 DECEMBER 2011 Assets	At fair value through profit or loss held for trading	Hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Non-financial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	696	—	—	—	696	696
Treasury bills and other eligible bills	—	—	—		2,441	—	—	2,441	2,441
Lending to credit institutions	—	—	—	1,916	—	—	—	1,916	1,916
Lending to the general public	—	—	—	53,393	—	—	—	53,393	53,366
Fair value of portfolio hedge of interest rate risk	—	68	—	—	—	—	—	68	68
Bonds and other fixed-income securities	—	—	—	—	17,177	—	—	17,177	17,177
Shares and participations	11	—	—	—	26	—	—	37	37
Shares and participations in group companies[1]	—	—	—	—	42	—	—	42	42
Intangible assets	—	—	—	—	—	—	3	3	3
Property, plant and equipment	—	—	—	—	—	—	12	12	12
Current tax assets	—	—	—	—	—	—	19	19	19
Deferred tax assets	—	—	—	—	—	—	28	28	28
Other assets	13	10	—	654	—	—	—	677	677
Prepaid expenses and accrued income	—	—	—	181	—	—	—	181	181
Total assets	**24**	**78**	—	**56,840**	**19,686**	—	**62**	**76,690**	**76,663**
Liabilities									
Due to credit institutions	—	—	—	—	—	43	—	43	43
Deposits and borrowing from the general public	—	—	—	—	—	71,302	—	71,302	71,302
Issued securities	—	—	—	—	—	—	—	—	—
Current tax liabilities	—	—	—	—	—	—	43	43	43
Other liabilities	—	83	—	—	—	714	—	797	797
Accrued expenses and deferred income	—	—	—	—	—	412	—	412	412
Provisions for pensions	—	—	—	—	—	—	49	49	49
Subordinated liabilities	—	—	—	—	—	1,200	—	1,200	1,200
Total liabilities	—	**83**	—	—	—	**73,671**	**92**	**73,846**	**73,846**

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

23. RELATED PARTY DISCLOSURES

REVENUES AND EXPENSES GENERATED BY TRANSACTIONS WITH RELATED PARTIES:

	2012				2011			
Operating income	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries	Skandia Liv	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries	Skandia Liv
Net interest income	-8	-49	—	0	-20	-53	—	-6
Net fee and commission income	0	0	29	0	-63	1	38	1
Net financial income	—	-59	—	—	—	-73	—	—
Other operating income	47	3	0	20	624	0	4	127
Total income	**39**	**-105**	**29**	**20**	**541**	**-125**	**42**	**122**
Operating expenses								
General administrative expenses	-303	-69	—	-22	-376	-85	—	-76
Other operating expenses	—	—	—	—	—	—	—	—
Total expenses	**-303**	**-69**	**—**	**-22**	**-376**	**-85**	**—**	**-76**

RECEIVABLES AND LIABILITIES WITH RELATED PARTIES:

	2012				2011			
Assets	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries	Skandia Liv	Parent company Försäkrings AB Skandia	Other group companies	Subsidiaries	Skandia Liv
Lending to the general public	0	—	—	—	2	—	—	—
Other assets	6	21	—	0	33	23	38	8
Total	**6**	**21**	**—**	**0**	**35**	**23**	**38**	**8**
Liabilities								
Deposits and borrowing from the general public	2,280	—	—	4	1,366	—	—	2
Other liabilities	44	255		-2	77	213	—	—
Subordinated liabilities	1,200	—	—	—	1,200	—	—	—
Total	**3,524**	**255**	**—**	**2**	**2,643**	**213**	**—**	**2**

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

24. SUPPLEMENTARY DISCLOSURES – EQUITY

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

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

Dividend
No dividend was paid to the parent company Skandia AB in 2011 or 2012. The decisions on the dividend were made by the Annual General Meeting on 26 April 2012 and 30 June 2013 at the latest, respectively.

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

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

Corporate governance report

THE COMPANY

Skandiabanken is part of the Skandia group ("Skandia"), in which Livförsäkringsaktiebolaget Skandia ("Skandia Liv") is the parent company. Skandia Liv, in turn, is owned by the Thule Foundation since March 2012, when Skandia Liv acquired Skandia AB from Old Mutual plc. Governance of Skandiabanken is conducted through general shareholder's meetings, the Board of Directors and the CEO in accordance with the Companies Act, the Banking and Financing Business Act, and the Financial Supervisory Authority's guidelines. In addition to these external rules and regulations, governance is based on the Articles of Association and internal policies and instructions that regulate Skandiabanken's operations. Skandiabanken adheres to the Swedish Corporate Governance Code ("the Code") and has prepared its corporate governance report in accordance with the Code and the Annual Accounts Act.

THE CODE

The aim of the Code's rules is to develop corporate governance and promote trust in business and industry. The basic principle is to apply the Code through the "comply or explain" principle, entailing that deviations from the Code are permissible, but must be explained. The Code is designed primarily for listed companies, and although Skandiabanken is not a stock market company, the Board has chosen to nevertheless apply the Code. The rules that the Board has chosen to deviate from and the explanations for these are described below.

DEVIATIONS FROM THE CODE

CODE RULE 1 – SHAREHOLDERS' MEETING

Skandiabanken does not adhere to the Code's rules on shareholders' meetings, since the company has only one owner.

CODE RULE 2 – APPOINTMENT AND REMUNERATION OF THE BOARD AND STATUTORY AUDITOR

Skandiabanken has no nominating committee, since the company has only one owner. This means that the company deviates from all stipulations pertaining to the nomination process. Preparatory work for nomination of the auditor is conducted by Skandiabanken's audit committee.

CODE RULE 4.5 – COMPOSITION OF THE BOARD OF DIRECTORS

Skandiabanken does not adhere to the Code's rule that at least two board members must be independent in relation to the company and its executive management as well as to the company's major shareholders. This deviation is justified by the fact that Skandiabanken is a wholly owned subsidiary of Skandia.

CODE RULE 7.6 – BOARD PROCEDURES

Review of interim financial reports – Skandiabanken's auditors do not review the company's half-year interim report. This deviation from the Code is done in view of the fact that the company is not a stock market company.

CODE RULE 9.1 – REMUNERATION OF THE BOARD AND EXECUTIVE MANAGEMENT

Skandiabanken applies the Financial Supervisory Authority's guidelines covering remuneration policies of credit institutions, etc., and is not covered by this point.

GOVERNANCE DOCUMENTS

Skandia Liv obtained possession of the shares in Skandia AB in March 2012 and thereby became the indirect owner of Skandiabanken. Since the separation from Old Mutual plc, work has been under way to create a new, uniform structure for corporate governance at Skandia. Based on Skandia Liv's articles of association, the Thule Foundation has drawn up a set of owner instructions and specially stipulated reporting procedures for Skandia Liv and its subsidiaries. Skandia Liv has drawn up instructions for subsidiaries in the group, which prescribe that Skandia group companies are to conduct their business with good risk management and good standards in general. As a result of Skandia Liv's acquisition of Skandia AB, the group's internal rules are being revised. In addition, Skandiabanken's board of directors has adopted new rules of procedure, including a mandate for the CEO and instructions for the board committees. These documents have been adapted to the new group structure.

The aforementioned rules, including the mandates for members of Skandia's executive management, which includes Skandiabanken's CEO, as well as group-wide policies and instructions aimed at incorporating and complying with external rules and internal governance documents, are part of Skandia's Operating Model (SOM). Its purpose is to combine good governance and control with opportunities for effective and flexible administration of Skandia's operations. The SOM sets the framework for corporate governance and is to be adopted by all Skandia companies in order to achieve a uniform system of corporate governance. Among other things, it requires Skandiabanken to escalate certain business events to Skandia AB or Skandia Liv for decision and includes monetary limits for decision-making authority and guidelines for board work including committees and various forums.

GENERAL SHAREHOLDER'S MEETING

General shareholder's meetings are Skandiabanken's highest decision-making body. At the Annual General Meeting, the income statement and balance sheet are adopted, and the company's auditors and board members are appointed (except for the employee representatives). Directors' fees and auditors' fees are also decided on. The decision-making right at general meetings lies with Skandia AB and ultimately with Skandia Liv, which owns all of the shares in Skandia AB.

Three extraordinary general meetings were held by Skandiabanken in 2012 as a result of changes in the Board's composition. The Board currently consists of the following members: Niklas Midby (Chairman) and directors Magnus Beer, Bengt-Åke Fagerman, Lars-Göran Orrevall, Marek Rydén, Ann-Charlotte Stjerna and Anna-Carin Söderblom Agius. The Board also includes the employee representatives (appointed by the unions) Anne Andersson and Johanna Rolin Moreno. The extraordinary general meeting appointed Deloitte AB as the company's auditor, with Patrick Honeth as chief auditor.

BOARD OF DIRECTORS

According to the Banking and Financing Business Act, the Board of Directors is responsible for the company's organisation and administration. It decides on Skandiabanken's strategic direction, appoints the CEO and establishes guidelines and instructions. The Board is responsible for ensuring that suitable internal rules are in place for risk management and control, and in connection with the development of the business strategy, it has performed a risk analysis. The Board's duties also include ensuring satisfactory control over the bookkeeping and treasury management. It continuously monitors Skandiabanken's operations and financial result. Assisting the Board in this monitoring is the company's internal audit function, which is independent in relation to the operations. Issues concerning remuneration of senior executives of Skandiabanken are prepared by a specially designated board member. The Board's decision-making authority is restricted by the general meeting's sole right to decide on certain matters as well as its opportunity to decide on other matters that are not expressly defined as belonging to the Board's or CEO's area of expertise.

According to the Banking and Financing Business Act, most of the board members of a banking stock corporation may not be employees of the bank or of companies that belong to a group in which the bank is the parent company. Additionally, the Code stipulates that at least two of the board members who are independent in relation to the company and executive management shall also be independent in relation to the company's major shareholders. According to Skandiabanken's articles of association, the Board shall consist of a minimum of four and a maximum of twelve directors elected by a general shareholder's meeting, with a maximum of five deputies. Skandiabanken's board currently has nine regular directors, none of whom are employees of Skandiabanken. Two of the board members, including the Chairman, are not Skandia employees, while the others are Skandia employees. Seven of the board members, including the Chairman, were elected by a general shareholder's meeting. The Board includes two members who have been appointed by the employee unions, in accordance with law. Special statutory rules apply with respect to directors' disqualification. The CEO of Skandiabanken is co-opted to board meetings.

DIVISION OF DUTIES WITHIN THE BOARD

Skandiabanken's board of directors has two committees whose instructions correspond to those of the corresponding committees in Skandia Liv, after adaptation to the bank's operations. The committees' areas of responsibility cover all of Skandiabanken's operations, and the main duties are described under the headings below. In addition, the Board has appointed a board member with responsibility for drafting decisions on significant remuneration issues and for monitoring application of the remuneration policy.

The committees serve in a preparatory, drafting role and do not make decisions other than in cases where the Board has delegated the decision-making authority to the committee. For all of the committees, the Board is to appoint at least three of its members to serve on the respective committees. Special rules exist regarding who is to serve as committee chair as well as requirements for the board members' independence in relation to the company and the owner. In addition to the appointed board members, executives of Skandiabanken are co-opted to the committees and are to participate in committee meetings to the extent requested.

AUDIT COMMITTEE

The Audit Committee is tasked with supporting the Board's work by conducting preparatory drafting of matters related to bookkeeping, accounting, financial control and monitoring of Skandiabanken. The committee is responsible for ensuring good internal control – mainly with respect to financial reporting – and thereby a structure that is highly compatible with the Financial Supervisory Authority's general guidelines on governance and control of financial companies. Issues pertaining to planning and follow-up of the work of the company's internal audit function and of the external auditors' assignment and review, as well as co-ordination of these for the purpose of increasing their effectiveness, are drafted by the committee for decision by the Board. In addition, the committee conducts drafting work on issues pertaining to money laundering, fraud and improprieties in the operations. All three members of the committee are employees in the Skandia group. The CEO, CFO, CRO, other senior executives of the company, the head of internal audit and representatives of the external auditors are co-opted to the committee.

RISK AND ICAAP COMMITTEE

The Risk and ICAAP Committee is tasked with reviewing, on behalf of the Board, management's recommendations regarding risk management and risk control, particularly with respect to the structure and implementation of Skandiabanken's Enterprise Risk Management (ERM) framework, the quality and effectiveness of internal controls, risk appetite limits, risk profile, compliance and capital planning process, and the result of the bank's internal capital adequacy assessment process (ICAAP). The committee strives for satisfactory application within the organisation of the Financial Supervisory Authority's general guidelines on governance and control of financial companies. With respect to decision-making, the committee is to decide on such matters delegated to it by the Board. The committee has four members. The CEO, CFO, CRO, CCO, other senior executives of the company and the head of internal audit are co-opted to the committee.

THE BOARD'S WORK IN 2012

Skandiabanken's board held a total of 15 meetings in 2012. Apart from the CEO's report, the financial report, and the risk and compliance reporting that are presented at all regular board meetings, the agenda focused on strategic processes. Among these, the most important decisions involved the filing of the bank's internal risk classification application, the sale of Skandia Fonder AB to Skandia AB, and the possibility to allow external deposits. In addition to operational matters in Skandiabanken, the Board monitored the change work in Skandia, especially those areas in which the bank was specifically affected through the separation from Old Mutual plc and integration of the group's operations. Apart from these major matters, the Board also addressed continuing items of business, decided on policies and adopted the business plan.

OVERVIEW OF BOARD MEMBERS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2012

Board members		Board	Audit Committee	Risk and ICAAP Committee
Niklas Midby		15		
Anne Andersson		14		
Mårten Andersson	resigned 26/4 at AGM	4		
Yvonne Andersson	resigned in connection with AGM	7		
Magnus Beer		14		6
Philip Broadley	resigned 26/4 at AGM	4		
Bengt-Åke Fagerman	elected 10/1 at extraordinary general meeting	12	2	5
Paul Hanratty	resigned 26/4 at AGM	4		
Lars-Göran Orrevall	elected 8/3 at extraordinary general meeting	11		4
Johanna Rolin Monero	newly elected 2012	11		
Marek Rydén	elected 23/3 at extraordinary general meeting	9	3	5
Ann-Charlotte Stjerna	elected 23/3 at extraordinary general meeting	10		
Anna-Carin Söderblom Agius	elected 23/3 at extraordinary general meeting	10	3	
Deputy board members				
Marianne Helvik	newly elected 2012	1		
Ebba Birgitta Holmström	newly elected 2012	2		
Silvei Vannebo		1		

THE CHAIRMAN'S ROLE

The Chairman leads the work of the Board and maintains continuous contact with the CEO and representatives of the owner. In his contacts with the CEO, the aim is to serve as a discussion partner and monitor Skandiabanken's ongoing development and matters of a strategic nature. The Chairman is responsible for ensuring that the Board's work is well organised and conducted in an effective manner. This entails, among other things, that the Board is regularly updated on Skandiabanken's operations and receives appropriate training and adequate decision-making documentation in order to be able to work effectively. The Chairman is responsible for controlling that the Board's decisions are executed and takes the initiative for the Board's annual evaluation of its work.

THE CEO'S ROLE

The CEO is responsible for Skandiabanken's day-to-day administration in accordance with the guidelines and instructions issued by the Board. A revised instruction that stipulates the division of responsibility between the Board and CEO, and regulates the CEO's mandate, was adopted at the board meeting on 26 August 2012. The CEO is responsible for ensuring that the Board's strategic direction and that other decisions concerning Skandiabanken are implemented and complied with in the operations, and that the bank's risk management, internal control, governance, IT systems, organisation and processes are satisfactory, particularly with respect to risks. For support in the exercise of the operational management of Skandiabanken, the CEO has appointed a management team, which is presented on page 88. The CEO is a member of Skandia's executive management and of the joint-group committees and forums that the CEO of Skandia Liv has established for the purpose of achieving "One Skandia" following the acquisition of Skandia AB.

SKANDIABANKEN'S BOARD OF DIRECTORS

Niklas Midby
Chairman of the Board and independent member of Skandiabanken's board since 2011.

Born 1959, M.Sc. Econ., Stockholm School of Economics.

Partner of Consiglio Capital AB. Former Executive Vice President of OM-Gruppen (Nasdaq OMX), active in foreign investment banks and strategic consultant at BCG. Other assignments include directorships with O2 Vind AB, Resscapital AB (Chairman), Biovelop International AB (Chairman), and others.

Magnus Beer
Non-independent member of Skandiabanken's board since 2007.

Born 1952, LLB, Uppsala University.

CEO of Sevenday Finans AB. Former Head of Nordic operations for Citigroup Konsumenttjänster and Associates First Capital Corp., former CEO of GE Capital Bank Norden and former employee of SEB and Trygg-Hansa. Former directorships with CitiFinancial Europe plc, GE Capital Bank AB, GE Capital Finance AS and GE Capital Bank SA, Poland. Director of Skandia AB.

Bengt-Åke Fagerman
Non-independent member of Skandiabanken's board since 2012.

Born 1954, M.Sc. Econ., Stockholm University, MIL management education and Skandia's internal insurance training.

Skandia employee since 1978. Executive positions in the Skandia group since 1989, including Sweden organisation, companies in Skandia Liv, Market Support and SMS. Appointed Executive Vice President of Skandia Liv in 2002 and CEO in 2005. Head of the Skandia group since acquisition in 2012. Director of Skandia AB, Vice Chairman of Svensk försäkring and member of the Swedish Insurance Industry Employer Association (FAO).

Lars-Göran Orrevall
Independent member of Skandiabanken's board since 2012.

Born 1962, M.Sc. Econ., Stockholm School of Economics.

Employee in the Skandia group since 2005. Head of Investment Strategy for Skandia Liv Kapitalförvaltning. Former CEO of E. Öhman J:or Kapitalförvaltning, former Executive Vice President of SPP Kapitalförvaltning and former Chief Investment Officer at SEB Kapitalförvaltning AB and director of the Swedish Society of Financial Analysts (SFF).

Director of Brandkontoret and the Skandia group's Danish companies.

Marek Rydén
Non-independent member of Skandiabanken's board since 2012.

Born 1969, studies in economics and technical physics at Uppsala University.

Skandia employee since 1996. CFO of Skandia's Nordic division since 2009, former Head of Skandia Link, former Head of Business Control. Served as actuary and controller in Germany and Latin America. Serves as board member for several companies in the Skandia group.

Ann-Charlotte Stjerna
Non-independent member of Skandiabanken's board since 2012.

Born 1972, M.Pol.Sc., University of Gothenburg.

Skandia employee since 1999. CEO of Skandia AB since 2012. Former CRO of Skandia's Nordic divisions, former Head of Business Analysis for Skandia Link, previously worked as controller and in various group functions.

Anna-Carin Söderblom Agius
Non-independent member of Skandiabanken's board since 2012.

Born 1967, M.Sc. Econ., Uppsala University.

Skandia employee since 2007. COO, acting Product Manager for the Skandia group since 2012. Former Business Manager and CFO of Skandia Liv. Former CEO of Aktieinvest FK AB, former Administrative Manager at Öhman Asset Management and former auditor at Ernst & Young. Chairman of Skandia AB.

Anne Andersson
Independent member (employee representative) of Skandiabanken's board since 2004.

Employee representative on Skandia Liv's board since 2012. Former employee representative on Skandia AB's board, from 2004 to 2012.

Born 1956, Degree in International Economics, Linköping University.

Skandia employee since 1986. Current duties include work with personal data issues in the Legal Affairs department. Chairperson of the Swedish Confederation of Professional Associations, Skandia chapter.

Johanna Rolin Moreno
Independent member (employee representative) of Skandiabanken's board since 2011.

Born 1975. Skandia employee since 1999. Head Occupational Safety Ombudsman at Skandia since 2012. Chairperson for Skandia FTF (union for employees in the insurance and finance industries) Klubb Väster association since 2012 and member of Skandia's FTF association since 2010. Active in FTF as elected representative since 2008.

DEPUTY BOARD MEMBERS

Marianne Helvik
Deputy member (employee representative) of Skandiabanken's board since 2012.
Born 1982. Employee of Skandiabanken Norway since 2008. Active in the Financial Sector Union of Sweden as an elected representative since 2008.

Birgitta Holmström
Deputy member (employee representative) of Skandiabanken's board since 2012.
Born 1966. Skandia employee since 2001. Active in FTF as elected representative for Skandia since 2008.

COMPANY SECRETARY

Lisa Lindholm
Born 1976, Company Lawyer, Skandia. Company Secretary since 2012.

CHIEF EXECUTIVE OFFICER

Øyvind Thomassen
Born 1962, M.Sc. Econ., Norwegian School of Economics, Bergen.
Skandia employee since 1999, initially as Head of Skandiabanken Norway and subsequently as CEO of Skandiabanken, since 2010. Former CEO of Vesta Finans AS. Previous directorships for companies in Old Mutual Skandia Retail Europe. Øyvind Thomassen has no part ownership in companies with which Skandiabanken has significant business dealings.

SKANDIABANKEN'S EXECUTIVE MANAGEMENT

Øyvind Thomassen
CEO, Skandiabanken
Born: 1962
Skandia employee since 1999

Bengt-Olof Nilsson Lalér
Deputy CEO
Born: 1957
Skandia employee since 2009

Jonas Holmberg
Deputy CEO
Born: 1959
Skandia employee since 2009

Jonas Collet
Press Manager
Born: 1981
Skandia employee since 2011

Pia Tell Svensson
CFO
Born: 1970
Skandia employee since 2012

REMUNERATION OF BOARD MEMBERS AND EXECUTIVE MANAGEMENT

Remuneration of board members in 2012 is shown in note 7. The Board has decided that no variable remuneration shall be paid to the CEO of Skandiabanken.

INTERNAL CONTROL

Skandiabanken's internal control is built upon a business-adapted application of the three lines of defence principle, unless otherwise indicated. This makes up the foundation for the operations' risk management, risk control and compliance. In addition, the three lines of defence principle aims to clarify the division of responsibility for risk and compliance, and draws a distinction between

- the first line of defence, which governs and controls the business (along with its risks and requirements for compliance),
- the functions of the second line of defence, which monitor and control business governance and control of risks and compliance of the first line of defence, and
- the functions of the third line of defence, which evaluate Skandia's overall management of risk and compliance.

INTERNAL AUDIT

Skandiabanken's internal audit function is directly subordinate to the Board's audit committee and is organisationally separated from the operations. Internal Audit's work is risk-based and is performed in accordance with the yearly audit plan that is approved by the Audit Committee. This work involves examining and evaluating the effectiveness of internal governance and control, including the risk management and compliance functions. The unit co-ordinates its activities with Skandiabanken's external auditors and other internal control functions in order to avoid redundant efforts. The head of Internal Audit reports directly to Skandiabanken's audit committee, submits periodic reports to the Board of Directors, and continuously informs the CEO of Skandiabanken.

EXTERNAL AUDITORS

At the 2012 Annual General Meeting, the auditing firm Deloitte was appointed as auditor of Skandiabanken until the end of the 2013 Annual General Meeting, with Authorised Public Accountant Patrick Honeth as chief auditor. Patrick Honeth is also the auditor for Bluestep, EnterCard, Swedbank Hypotek and Skandia Fonder AB. In 2012 Deloitte performed auditing and auditing-related services for Skandiabanken. The external auditors work in a highly co-ordinated manner with Skandiabanken's Internal Audit function. Auditors' fees are shown in note 8.

INTERNAL CONTROL AND RISK MANAGEMENT REGARDING THE FINANCIAL REPORTING FOR 2012

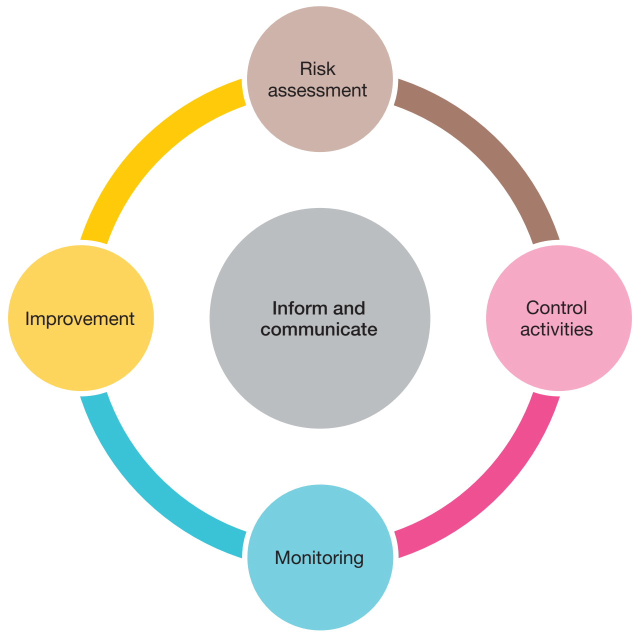
Skandiabanken's work with internal control and risk management regarding the financial reporting is based on the framework established by the Committee of Sponsoring Organizations (COSO). This framework is based on five internal control components: Control Environment, Risk Analysis, Control Activities, Information & Communication, and Monitoring.

CONTROL ENVIRONMENT

The foundation for internal control over financial reporting consists of controls of the operative organisation. These are performed to ensure that the right expertise exists in key positions and that the organisation has the right delegation of responsibilities and authority between the Board's committees and the CEO's committees. The control environment also consists of the values and the corporate culture that the Board, CEO and management communicate and adhere to in their efforts to create a suitable and effective operation. This has been documented and communicated in governance documents such as internal policies and instructions, including instructions for the authorisation of payments, accounting and reporting instructions, and guidelines and routine descriptions. Skandia's corporate governance manual includes all group-wide policies and instructions, which ensures their accessibility to employees.

RISK ASSESSMENT AND CONTROL ACTIVITIES

Each year an assessment is conducted of risks related to the financial reporting. Risk assessment aims to identify significant risks from the balance sheet and income statement perspectives as well as the complexity of processes. Based on this risk assessment, the company's processes, risks and control activities are identified and documented. The control activities include company-wide business controls and general IT controls. These controls aim to prevent and discover errors and defects. Follow-up of the effectiveness of the control activities is conducted continuously through self assessments and testing.



INFORMATION & COMMUNICATION

Skandiabanken has established information and communication channels that are aimed at promoting completeness and accuracy in the financial reporting. Policies, guidelines, manuals and the financial manual are all communicated on the company's intranet.

MONITORING

Skandiabanken continuously monitors compliance with policies and instructions. The design and effectiveness of the control structure are also monitored.

Skandiabanken's financial situation and effectiveness are addressed by the Audit Committee and the Risk and ICAAP Committee and put to the Board for decision. The Board receives quarterly financial reports and is informed about relevant key ratios.

Skandia's Internal Audit function reviews the bank's internal control over financial reporting based on the risk analysis and audit plan established by the Audit Committee. The company monitors the internal and/or external auditors' proposed actions for improvement to ensure that they are carried out.

Signatures

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

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

STOCKHOLM, 22 MARCH 2013

The Board approves the Annual Report as per the above date, and final adoption will be done at the Annual General Meeting, which will be held not later than 30 June 2013.

Niklas Midby
CHAIRMAN OF THE BOARD

Anne Andersson

Johanna Rolin Moreno

Magnus Beer

Ann-Charlotte Stjerna

Anna-Carin Söderblom Agius

Bengt-Åke Fagerman

Marek Rydén

Lars-Göran Orrevall

Øyvind Thomassen
CEO

OUR AUDIT REPORT WAS SUBMITTED ON 22 MARCH 2013

Deloitte AB

Patrick Honeth
AUTHORISED PUBLIC ACCOUNTANT

Auditors' report

TO THE ANNUAL GENERAL MEETING OF SKANDIABANKEN AKTIEBOLAG (PUBL), REG. NO. 516401-9738

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Skandiabanken Aktiebolag (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 1–83 and page 91.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CEO FOR THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of its financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Financial Institutions and Securities Companies. Our opinions do not cover the corporate governance report on pages 84–90. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the board of directors and the CEO of Skandiabanken Aktiebolag (publ) for the year 2012.

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 Banking and Financing Business Act, and for preparing the corporate governance report on pages 84–90 in accordance with the Annual Accounts Act.

AUDITOR'S RESPONSIBILITY

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

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

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

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

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the Group we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

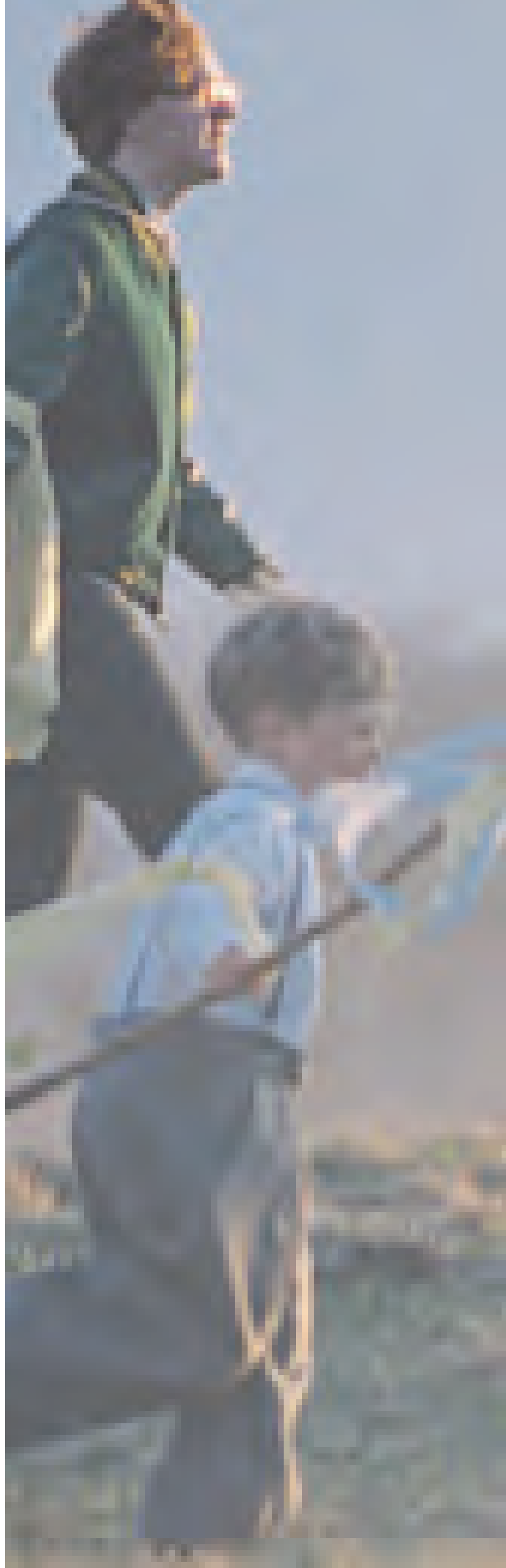
OPINIONS

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

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

STOCKHOLM, 22 MARCH 2013
Deloitte AB

Patrick Honeth
AUTHORISED PUBLIC ACCOUNTANT



skandia

bank & försäkring