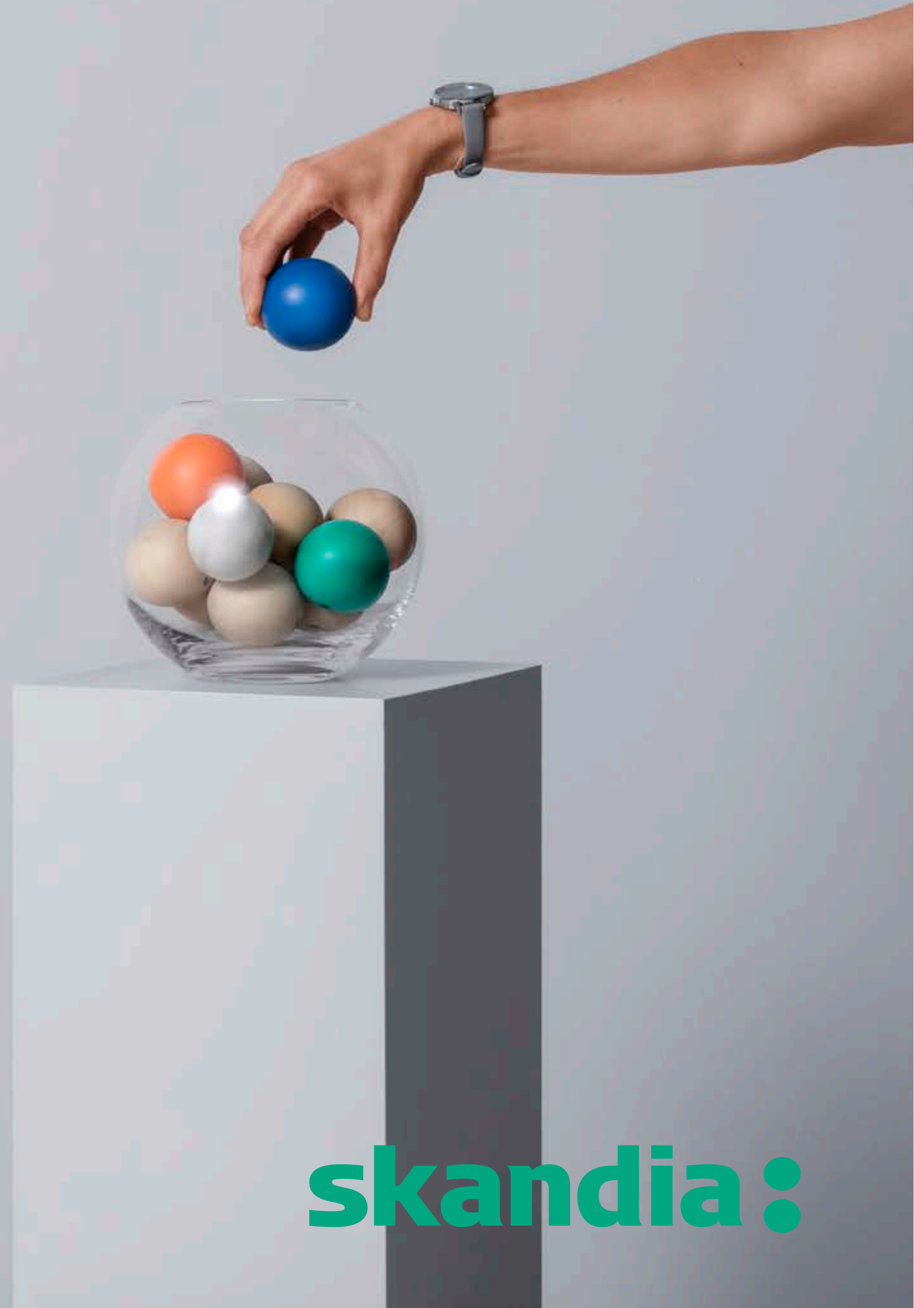
Annual Report
2017



Skandiabanken Aktiebolag (publ)

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Condensed results for the year

Comparison figures pertain to 2016.

- Income in 2017 totalled SEK 985 million (932).
- Operating profit for 2017 was SEK 204 million (192).
- Loan losses in 2017 totalled SEK -10 million (-10).
- Lending to the general public totalled SEK 59,190 million (56,733).
- The total capital ratio was 19.3% (18.9%).
- The Common Equity Tier 1 capital ratio was 15.5% (15.0%).
- Total liquidity was SEK 10,263 million (8,243).

Financial calendar

8 May 2018	*Annual General Meeting*
20 April 2018	*Interim report Jan.–March 2018*
19 July 2018	*Interim report Jan.–June 2018*
18 October 2018	*Interim report Jan.–Sept. 2018*
15 February 2019	*Year-end report 2018*

CEO's message

We are very happy to report that the Bank's favourable performance continued in 2017. The year was distinguished by higher business volumes, high customer satisfaction and strong earnings.

The stock market performed well during the year, and we showed a favourable net inflow in our fund business. Combined savings volume in the form of mutual funds, equities and deposits grew by three billion kronor during the year and totalled SEK 70 billion at year-end. Our home mortgage business also continued to grow, but at a slower pace than in 2016. The lower pace of growth coincided with the recent drop in home prices. The main reason for this drop in prices is assumed to be the rapid growth in inventory of apartments. The stricter amortisation requirements that took effect on 1 March 2018 are also regarded as an additional, possible factor. At the same time, the Swedish economy is in a favourable situation, with high growth numbers and continued strong demand for home mortgages. Indications are therefore high that the decline in the housing market represents a price adjustment and that the market is already in the process of stabilising. We believe that a stabilisation of the home mortgage market will benefit borrowers as well as lenders. Skandiabanken sees good opportunities to grow further in home mortgages as well as in savings based on our attractive and transparent offering.

The year's Swedish Quality Index (SQI) survey shows that we are at the top level in the industry with respect to customer satisfaction. I am happy to note that we also scored third place – well above the industry average – in the home mortgages and savings categories. This confirms that customers appreciate our model of simple products and transparent pricing. I am proud of the confidence that our customers show in us, and in 2018 we will continue to develop our business with the customer in focus.

For the full year 2017 the Bank posted a profit before appropriations of SEK 204 million. This is an increase of 37% compared with 2016, adjusted for items affecting comparability. Positive development in net interest income and higher commission income contributed to the stronger result. Higher investments in regulatory projects and business development contributed to a 5% increase in expenses. The credit quality of our lending remains high, and loan losses are low.

Skandiabanken had a good year, and we've emerged from 2017 in a strong position. At the same time I see a number of factors in our operating environment that are opening up new and exciting opportunities. The digital development is progressing at lightning speed and is creating new expectations among our customers. We look forward to this development with confidence and are well positioned to meet customers' growing demands for accessibility and digital services.

Stockholm, March 2018

Johanna Cerwall
CEO

Board of Directors' report

Organisation

Skandiabanken Aktiebolag (publ), reg. no. 516401-9738 ("Skandiabanken" or "the Bank"), domiciled in Stockholm, Sweden, was established on 1 July 1994 and is a wholly owned subsidiary of Skandia Insurance Company Ltd (publ), corporate identity number 502017-3083 ("Skandia AB"). Skandia Mutual Life Insurance Company ("Skandia Mutual") is the parent company of the Skandia group.

Operations

Skandiabanken's business is conducted in Sweden. Business was also conducted in Norway until 5 October 2015. The Bank offers payment services, securities trading services, deposits, and lending in the form of home mortgages, private loans, account lines of credit and credit card credits, and securities-based credits. Most lending, approximately 97%, consists of home mortgages for private individuals. Skandiabanken's market share of the Swedish home mortgage market is approximately 2%.

Business environment and market

Digitalisation, new market actors, regulatory requirements and a growing focus on sustainability issues are leading to changed customer needs. Skandiabanken is addressing these changes with an efficient and flexible organisation that has the capacity to act.

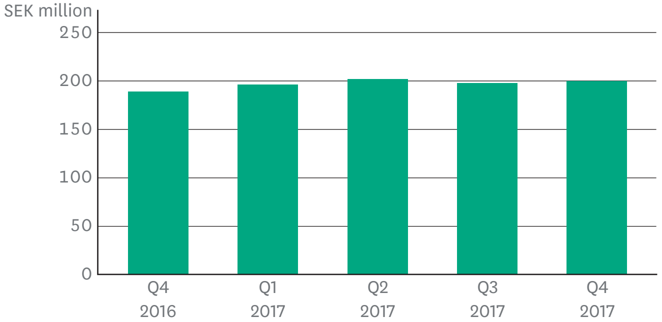
Demand for attractively priced and simple digital services is growing. For businesses, having digital solutions that work quickly and conveniently is an important part of having satisfied customers. Skandiabanken is working continuously to integrate digital solutions in its customer offering, especially in the face of growing price pressure and higher expectations for low fees. Meeting these expectations for functionality and speed is driving Skandiabanken's digitalisation work. One of the Bank's most important projects in 2018 involves implementation of new system support for the lending process. Key effect goals of the new process include improving the customer experience, enhancing internal efficiency and reducing operational risks.

Skandiabanken is affected to some degree also by the trend in the Swedish home mortgage market, which remained in focus in the public debate in 2017. Discussions on the growing level of household debt have resulted in demands to curb this development. Accordingly, in December the Financial Supervisory Authority decided on stricter amortisation requirements for households with high debt-to-income ratios. The stricter amortisation requirement, which took effect on 1 March 2018, entails that new borrowers with home mortgage balances in excess of 4.5 times their gross income must amortise at least 1% of their debt on top of the existing amortisation requirement.

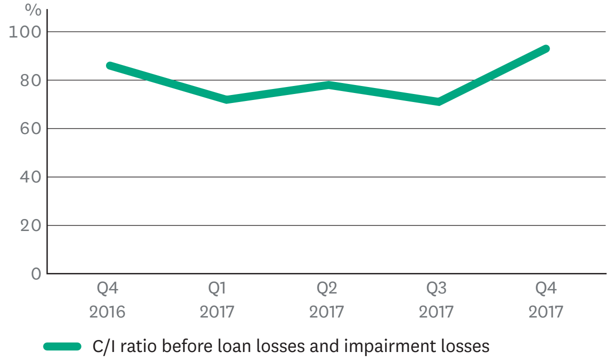
A slight drop in home prices was noted in autumn 2017. The main reason for this drop in prices is assumed to be the rapid growth in the inventory of apartments. The stricter amortisation requirements are also regarded as an additional, possible factor. However, the Swedish economy is in a favourable situation, with high growth numbers and continued strong demand for home mortgages. Indications are therefore high that the decline in the housing market represents a price adjustment and that the market is already in the process of stabilising. Moreover, Skandiabanken takes a long-term perspective to its home mortgage lending, where responsible lending is a central focus. As a result of the Bank's restrictive lending, loan losses and customers' loan-to-value ratios are low. It is expected that any further declines in property values can be managed well. The Bank monitors both its own credit portfolio and developments in the Swedish home mortgage market.

Financial review

Net interest income per quarter



C/I ratio – quarterly development



Profit for January–December 2017 compared with January–December 2016

Operating profit for the year totalled SEK 204 million (192). This represents a 37% increase in earnings adjusted for the preceding year's proceeds of SEK 43 million from the sale of Visa Inc.

In December 2017 the Bank made a group contribution of SEK 206 million (157) to the parent company Skandia AB.

SEK million	2017 Q4	2017 Q3	2016 Q4	2017 Full year	2016 Full year
Net interest income	200	198	189	796	693
Net fee and commission income	36	40	38	149	118
Net financial income	-2	0	1	3	2
Other operating income	9	10	23	37	119
Total operating income	**243**	**248**	**251**	**985**	**932**
Staff costs	-61	-56	-76	-236	-262
Other administrative expenses	-147	-105	-124	-471	-396
Depreciation, amortisation and impairment losses	-4	-5	-4	-18	-18
Other operating expenses	-15	-10	-12	-46	-54
Total expenses before loan losses	**-227**	**-176**	**-216**	**-771**	**-730**
Profit before loan losses	**16**	**72**	**35**	**214**	**202**
Loan losses, net	-1	-2	-3	-10	-10
Operating profit	**15**	**70**	**32**	**204**	**192**

Income

Income increased compared with the preceding year to SEK 985 million (932).

Net interest income increased by SEK 103 million to SEK 796 million (693). The improvement was mainly driven by greater lending to the general public combined with an improved net interest margin. Borrowing costs were favourably affected by the negative market interest rates.

Net fee and commission income improved by SEK 31 million to SEK 149 million (118). The increase in managed assets in funds contributed to higher fund income. Net fee and commission income also grew as a result of lower commission expenses on sales.

Net financial income amounted to SEK 3 million (2) and is attributable to fair value measurement of the hedge accounting applied in the Bank's credit portfolio.

Other operating income amounted to SEK 37 million (119) and was derived mainly from sales of services to other companies in the Skandia group. These decreased as a result of organisational changes. Income in the preceding year included SEK 43 million in estimated proceeds from the sale of Visa Inc.

Operating income

SEK million	2017 Full year	2016 Full year	Change, %
Net interest income	796	693	15%
Net fee and commission income	149	118	26%
Net financial income	3	2	50%
Other operating income	37	119	-69%
Total operating income	**985**	**932**	**6%**

Expenses

Expenses increased compared with a year ago to SEK 771 million (730).

Staff costs amounted to SEK 236 million (262). The decrease is attributable to a lower number of employees and to organisational changes in the Skandia group.

Other administrative expenses amounted to SEK 471 million (396). The increase was according to budget and is explained by higher project and IT costs. The Bank's project costs have been affected by extensive regulatory developments in the banking and securities areas. During the year the Bank worked on implementation of the Fourth Money Laundering Directive, the new Markets in Financial Instruments Directive (MiFID II), and the General Data Protection Regulation (GDPR).

Other operating expenses amounted to SEK 46 million (54). The decrease is attributable to market-related costs.

Expenses before loan losses

SEK million	2017 Full year	2016 Full year	Change, %
Staff costs	-236	-262	-10%
Other administrative expenses	-471	-396	19%
Depreciation/amortisation	-18	-18	0%
Other operating expenses	-46	-54	-15%
Total expenses before loan losses	**-771**	**-730**	**6%**

Loan losses

Net loan losses were unchanged compared with the preceding year, totalling SEK -10 million (-10). Loan losses remain at low levels.

The loan loss ratio, i.e., loan losses in relation to the opening balance of lending to the general public, was 0.02% (0.02%).

Impaired loans, net, decreased compared with a year ago to SEK 5 million (11).

Loan losses and impaired loans

SEK million	2017 Full year	2016 Full year	Change, %
Loan losses	-10	-10	0%
of which, confirmed loan losses	*-12*	*-10*	*20%*
of which, paid in towards confirmed loan losses from previous years	*1*	*0*	—
of which, provisions	*1*	*0*	—
Loan losses as % of opening balance of lending to the general public	0.02%	0.02%	0%
Lending to the general public[1]	59,190	56,733	4%
Impaired loans, gross	16	23	-30%
Provisions on the balance sheet	11	12	-8%
Impaired loans, net	5	11	-55%
Impaired loans, net, as % of lending to the general public	0.01%	0.02%	-50%

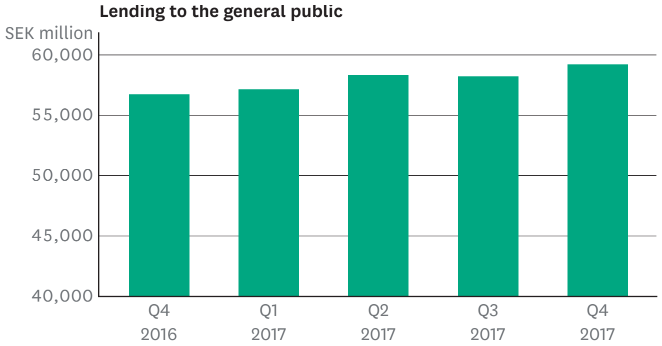
[1] Including placement of SEK 887 million (425) with the Swedish National Debt Office.

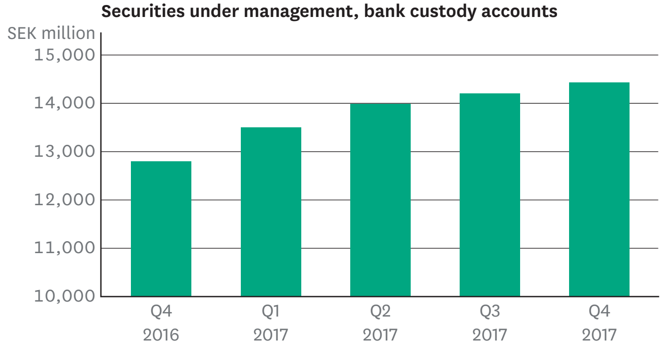
Tax charge

The tax charge for the year was SEK -1 million (2) and is attributable to deferred tax on temporary differences. Skandiabanken's taxable profit was transferred to the parent company Skandia AB through a group contribution. The Bank thereby had no current tax on profit for the year.

Comprehensive income

Comprehensive income after tax amounted to SEK 1 million (71) and consists of profit as per the income statement, totalling SEK -3 million (37), plus income and expenses reported in other comprehensive income, totalling SEK 4 million (34). Other comprehensive income pertains to the year's change in unrealised gains after tax. The unrealised gains pertain mainly to holdings of fixed-income securities classified as available-for-sale financial assets.





Comprehensive income for the year

SEK million	2017 Full year	2016 Full year	Change, %
Profit for the year	**-3**	**37**	**-108%**
Other comprehensive income			
Items that have been reclassified or can be reclassified to profit or loss for the year			
Available-for-sale financial assets	5	44	-89%
Taxes attributable to available-for-sale financial assets	-1	-10	-90%
Total other comprehensive income after tax	**4**	**34**	**-88%**
Comprehensive income for the year after tax	**1**	**71**	**-99%**

Balance sheet

The balance sheet total increased by SEK 4,134 million during the year, to SEK 69,445 million (65,311).

Assets increased as a result of growth in lending to the general public and larger holdings of securities. Lending to the general public, excluding loans to the Swedish National Debt Office, amounted to SEK 58,303 million (56,308). Home mortgages make up the largest item on the balance sheet and totalled SEK 57,627 million (55,542), representing volume growth of 4%. The loan-to-value ratio of the home mortgage portfolio remains low and was 53% (54%) as per 31 December 2017.

The Bank's capital market financing increased by SEK 3,176 million during the year to SEK 25,313 million (22,137), which corresponds to 36% (34%) of the balance sheet total. Deposit volumes totalled SEK 38,800 million (38,008), an increase of SEK 792 million during the year. The deposit-to-loan ratio was 66% (67%).

Managed assets in funds

Managed assets in funds increased by 13% during the year to SEK 14.4 billion (12.8). The increase is mainly due to positive growth in value of customers' existing fund holdings and a net inflow of SEK 425 million (-64).

Capital adequacy

The total capital ratio increased by 0.4 percentage points since the start of the year to 19.3% (18.9%). The Common Equity Tier 1 capital ratio increased to 15.5% (15.0%) during the same period. The strengthening in the Common Equity Tier 1 capital ratio during the year is attributable to a shareholder contribution of SEK 122 million that the Bank received in January 2017. The change is also attributable to the fact that profit for 2016 was included in the capital base pursuant to an AGM resolution in April 2017.

Risk-weighted exposure increased to SEK 23,462 million (22,942) as a result of higher credit risk exposure and operational risk. The increase in credit risk is attributable to the Bank's home mortgage lending. Risk-weighted exposure for operational risk increased as a result of higher operating income.

Capital ratios and risk-weighted exposures as per 31 December pertain to calculations in accordance with the statutory minimum capital requirement (Pillar I) for credit risk, settlement risk, currency risk, operational risk and credit valuation adjustment (CVA) risk. Skandiabanken uses the standardised approach to calculate credit risk. The capital requirement for operational risk is calculated using the basic indicator approach. In addition to the statutory minimum capital adequacy requirement according to Pillar I, the Bank holds capital to meet the applicable buffer requirement. The Bank also holds capital to cover the capital requirement as per the Bank's internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP).

Capital adequacy

	2017 31 Dec.	2016 31 Dec.
Total capital ratio	19.3%	18.9%
Tier 1 capital ratio[1]	15.5%	15.0%
Common Equity Tier 1 capital ratio[1]	15.5%	15.0%
Capital adequacy requirement, SEK million	1,877	1,835
Total risk-weighted exposure, SEK million	23,462	22,942

[1] The Bank's Common Equity Tier 1 capital consists of equity less items that may not be included in the capital base, such as intangible assets and deferred tax assets, which are dependent on future profitability. The Bank does not have any Tier 1 capital contributions, which entails that its Common Equity Tier 1 capital is equal to its Tier 1 capital.

Liquidity

Skandiabanken's total liquidity amounted to SEK 10,263 million (8,243). Total 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.

Of total liquidity, SEK 9,672 million (8,043) qualifies as the liquidity buffer in accordance with the Financial Supervisory Authority's regulations regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7). The deposit-to-loan ratio was 66% (67%). The Bank's liquidity coverage ratio (LCR), measured in accordance with Commission Delegated Regulation (EU) No 2015/61, was 180% (133%).

Ratings

In November 2017 the credit rating agency Moody's confirmed Skandiabanken's long-term and short-term credit ratings, A2 with a stable outlook and P-1, respectively.

Balance sheet items, liquidity and managed assets, 2017 compared with 2016

SEK million	2017 31 Dec.	2016 31 Dec.	Change, %
Balance sheet total	69,445	65,311	6%
Lending to the general public	59,190	56,733	4%
Deposits from the general public	38,800	38,008	2%
Deposit-to-loan ratio[1]	66%	67%	-1%
External borrowing	25,313	22,137	14%
Liquidity buffer[1]	9,672	8,043	20%
Total liquidity	10,263	8,243	25%
Managed assets in funds (NAV)	14,432	12,805	13%

[1] In accordance with the Financial Supervisory Authority's regulations regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7).

Significant events in operations

In January the Bank received an unconditional shareholder contribution of SEK 122 million from the parent company Skandia AB as a result of the group contribution rendered for 2016; the transaction was tax-neutral.

Risks and risk management

Skandiabanken's total credit exposure, in accordance with the capital adequacy rules, amounted to SEK 69,462 million (66,453), of which 83.2% (85.4%) pertained to home mortgages for private individuals. Skandiabanken's new lending is conducted in accordance with the existing rules for mortgage institutions. These entail that customers may borrow a maximum of 85% of a home's value, plus an amortisation requirement for the portion of a home mortgage in excess of 50% of the loan-to-value ratio. (The amortisation requirement is for 1%

annual amortisation for the portion with an LTV in excess of 50% and 2% annual amortisation for the portion with an LTV in excess of 70%, or alternatively, a straight-line amortisation schedule of 10 years for any increases). In addition, Skandiabanken has a credit criterion whereby a customer's gross debt should not exceed five times annual income. Other credit criteria, such as the "amount remaining to live on" calculation, are considered to be in line with industry practice.

Skandiabanken has traditionally had a restrictive stance in its lending, entailing low LTV ratios among the Bank's customers and low loan losses. As a result, Skandiabanken expects to maintain good resilience to any declines in property values. Skandiabanken ensures that the market values in its home mortgage portfolio are current by updating them twice a year, in May and in November, and more frequently if necessary.

Skandiabanken's credit exposure to investments of total liquidity amounted to SEK 10,263 million (8,243). The Bank's total 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.

A description of risks and risk management is provided in note 35. Information on capital adequacy and risk management is also provided in the Bank's Pillar III report ("1712 Årlig information om kapitaltäckning och riskhantering - Pelare 3 2017"). See www.skandiabanken.se under Om oss, Om Skandia, Finansiell information, Skandias bank, Information om kapitaltäckning & riskhantering, 2017, 1712 Årlig information – kapitaltäckning och riskhantering.

Disputes

Skandiabanken is party to a number of disputes pertaining to minor amounts and which are judged to not have a material impact on the Company's financial position. In cases of disputes involving larger amounts, an assessment is performed of the likely economic outcome and the need for a possible provision.

Sustainability

Sustainability has been a well integrated part of Skandia's strategy and business for many years. The Bank works continuously to develop its sustainability reporting processes and initiatives carried out in the area of sustainability.

In reference to Ch. 6 of the Annual Accounts Act for Credit Institutions and Securities Companies, no sustainability report is prepared specifically for Skandiabanken; instead, the corresponding disclosure requirements are included as part of the sustainability report that the parent company Skandia Mutual prepares for the entire group. The sustainability report is available at www.skandia.se/liv. For more information, see note 1.

Employees

In 2017 Skandiabanken had an average of 309 (325) employees. The share of women employees was 52% (56%), and the share of women in managerial positions was 43% (42%). The average age of all employees was 35 (36). Employee turnover was 22.3% (12.5%). The high staff turnover is attributable to organisational changes within the Skandia group, whereby functions in the Bank were transferred to other parts of the group.

Skandiabanken operates in an industry that is undergoing change. By participating in this and acting as a driver of major change processes and monitoring developments in the market, the Bank creates scope for its employees to develop their personal and professional competencies. Employees of the Bank have opportunities to grow in numerous ways, such as by learning from their colleagues in the day-to-day activities, by participating in change projects, and through training, mentoring programmes and participation in networks. The rapidly changing world also puts demands on the Bank's ability to structure its staffing and ensure development capacity. This requires continuous review of competencies, organisational structure and the need for internal and external resources. The employees represent stability and long-termism, while external competence is brought in to meet higher demand or the need for specialists.

Except for the Skandianen profit-sharing foundation, all remuneration of Skandiabanken's employees is in the form of fixed salary. For further details about remuneration and benefits, see note 6.

Events after the balance sheet date

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

Rules and regulations

Skandiabanken continues to be affected by extensive regulation in the banking and securities sectors. Following is a description of some of the rules and regulations that took effect in 2017 or that will take effect in 2018 or later.

A new financial reporting standard, IFRS 9 Financial Instruments, is to be applied for Skandiabanken's financial year that begins on 1 January 2018. IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement of financial assets and financial liabilities, and any related impairment of these. The effect is expected to be SEK -7 million and is reported as a change of opening equity. For more information, see note 1.

Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the Payments Account Directive) was published on 28 August 2014. The directive aims to provide better transparency and comparability of fees charged to consumers on their payment accounts and the payment services provided through such accounts. The directive was planned to be implemented into Swedish law by 1 January 2017 at the latest, but implementation has been delayed, and the new legislation did not take effect until 1 June 2017. Skandiabanken has adapted its operations to the new rules.

On 1 August 2017 the Money Laundering and Financing of Terrorism (Prevention) Act *(Lagen (2017:630) om åtgärder mot penningtvätt och finansiering av terrorism)* and the Financial Supervisory Authority's regulations and general guidelines regarding measures against money laundering and terrorist financing (FFFS 2017:11) took effect. The Money Laundering and Financing of Terrorism (Prevention) Act is based on the Fourth Money Laundering Directive that was published on 5 June 2015. The directive aims to improve and strengthen the European framework for preventing the money laundering and financing of terrorism. During 2017 Skandiabanken worked intensively on adapting its operations to the new rules.

On 25 October 2017 the Financial Supervisory Authority decided not to change the countercyclical buffer value for Sweden. The value of 2% that has applied since 19 March 2017 will thus continue to apply. In its capital planning Skandiabanken takes into account the adopted and proposed increases in the countercyclical buffer requirement. In December 2017 the Swedish National Debt Office adopted plans for how Swedish banks are to be managed in the event of a crisis and decided that ten banks, including Skandiabanken, shall always be subject to a minimum requirement for own funds and eligible liabilities (MREL). The MREL requirement is institution-specific, and for Skandiabanken it amounts to 6.8% of the Bank's total liabilities and capital base. The requirement applies as from 1 January 2018 and will be revised yearly. Skandiabanken meets its MREL requirement with a good margin.

In December 2017, Swedish parliament decided to raise the fee payable to the Resolution Reserve through an amendment to the Resolution Act *(Lagen (2015:1016) om resolution)*. The Resolution Reserve can be used for an institution that has been put in resolution, such as to provide temporary funding or, under extraordinary circumstances, to contribute to the institution's recapitalisation. The raised resolution fee entails higher costs for Skandiabanken.

On 12 June 2014 the new securities rules and regulations at the EU level were published, entailing among other things stricter rules for consumer protection, transparency, reporting and organisational requirements. The new rules are laid out in Directive 2014/65/EU and Regulation (EU) No 600/2014 on markets in financial instruments (referred to as MiFID II and MiFIR, respectively). The rules that implement MiFID II are applied starting on 3 January 2018, and MiFIR is applied from the same date. Skandiabanken worked intensively in 2017 on adapting its operations to the new rules.

On 1 March 2018, new rules on amortisation of home mortgages were implemented though amendment of the Financial Supervisory Authority's regulations regarding amortisation of loans collateralised by residential property (FFFS 2016:16). The new requirements entail that new borrowers with home mortgages that exceed 4.5 times their gross annual income must amortise at least 1% of their debt on top of the already applicable amortisation requirement. Skandiabanken is working to adapt its operations to the new rules.

Directive 2015/2366/EU on payment services (the new Payment Services Directive) was published on 23 December 2015. The directive was to be implemented into Swedish law by not later than 13 January 2018, however, its implementation has been delayed until 1 May 2018. The directive supersedes the previous payment services directive from 2007, which has been revised in many respects. Skandiabanken is working to adapt its operations to the new rules.

Regulation (EU) No 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the General Data Protection Regulation – GDPR) was published on 4 May 2016 and is to be applied with effect from 25 May 2018. Skandiabanken is participating in a project within Skandia that has been commissioned to drive the changes in operations required to comply with the new GDPR at the EU and national levels. Skandiabanken is working to adapt its operations to the new rules.

At the international level, a review is currently being conducted of the applicable rules for capital requirements and for risk and crisis management. On 23 November 2016 the European Commission published recommendations for changes in the Capital Requirements Regulation, the Capital Adequacy Directive and the Crisis Management Directive (jointly referred to as the banking reform package), aimed at further strengthening stability in the banking sector and increasing transparency and comparability between banks. Skandiabanken expects to meet the forthcoming requirements by a wide margin. The European Parliament and European Council are expected to decide on the banking reform package during the second half of 2018. Skandiabanken is monitoring developments in this area.

Starting 1 January 2018 the requirements for the liquidity coverage ratio (LCR) in accordance with Commission Delegated Regulation (EU) No 2015/61 were fully phased in, entailing a binding regulation for an LCR of 100%. The EBA's maturity ladder is also expected to be introduced during the first half of 2018.

Following several years of work, in December 2017 the Basel Committee agreed on completion of changes to the Basel III standards for capital adequacy, also referred to as Basel IV. The Basel standards must be implemented into EU law before they can constitute a foundation for new decisions on capital requirements for Swedish banks. It is still not fully clear when these revisions can be introduced in the EU and in what way this will take place. Skandiabanken is monitoring developments in this area.

Five-year summary, operations in Sweden

KEY RATIOS

Volume development	2017	2016	2015	2014	2013
Average volume (balance sheet total), SEK million	69,578	61,355	55,565	47,222	42,541
Key ratios, earnings					
Investment margin:					
Net interest income as % of average volume (balance sheet total)	1.14%	1.13%	0.97%	1.05%	1.17%
Return on assets:					
Net profit divided by the balance sheet total	0.00%	0.06%	0.30%	0.02%	0.23%
Return on total capital:					
Operating profit as % of average volume (balance sheet total)	0.29%	0.31%	-0.52%	0.03%	-0.02%
Return on equity:					
Operating profit after actual tax as % of average equity	4.24%	4.14%	-5.42%	0.27%	-0.41%
Cost/income ratio before loan losses and impairment of intangible assets:[1]					
Costs excl. loan losses and impairment of intangible assets in relation to operating income	0.78	0.78	1.05	0.98	1.00

Impaired loans	2017	2016	2015	2014	2013
Provision level for impaired loans:					
Provision for probable loan losses as % of impaired loans before provision	70.1%	51.4%	35.4%	31.6%	41.4%
Share of impaired loans:					
Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.01%	0.02%	0.05%	0.05%	0.06%
Loan loss ratio:					
Loan losses as % of opening balance of lending to the general public, credit institutions (excl. banks), and credit guarantees	0.02%	0.02%	0.01%	-0.01%	0.03%
Other data					
Number of customers, thousands[2]	404	448	453	452	450
Average number of employees	309	325	306	289	277

[1] The comparison figure for 2013 has been changed due to a recalculation of provisions in 2014.

[2] In autumn 2017 the Bank closed a large number of inactive accounts and accounts with zero balances.

For further information about and for calculations of Alternative Performance Measures, see www.skandia.se, Om oss, Om Skandia, Finansiell information, Skandias bank.

Five-year summary, operations in Sweden

INCOME STATEMENTS AND BALANCE SHEETS, FIVE-YEAR SUMMARY (SEK MILLION)

Income statement	2017	2016	2015	2014	2013
Interest income	867	763	723	927	1,025
Interest expense	-71	-70	-182	-430	-525
Net fee and commission income[1]	149	118	100	99	84
Net financial income[1]	3	2	-3	18	10
Other operating income	37	119	134	65	84
Total operating income	**985**	**932**	**772**	**679**	**678**
Staff costs	-236	-262	-240	-220	-205
Other administrative expenses[1]	-471	-396	-486	-399	-429
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	-18	-18	-280	0	0
Other operating expenses	-46	-54	-52	-49	-45
Total expenses before loan losses	**-771**	**-730**	**-1,058**	**-668**	**-679**
Loan losses, net	-10	-10	-6	2	-7
Operating profit	**204**	**192**	**-292**	**13**	**-8**
Group contributions	-206	-157	491	5	147
Profit before taxes	**-2**	**35**	**199**	**18**	**139**
Taxes	-1	2	-24	-6	-31
Net profit for the year	**-3**	**37**	**175**	**12**	**108**

Balance sheet	2017	2016	2015	2014	2013
Cash and cash balances with central banks	16	15	21	23	15
Eligible treasury bills, etc.	4,718	3,640	4,524	2,972	3,171
Lending to credit institutions	417	230	315	771	4,257
Lending to the general public	59,190	56,733	46,608	42,359	31,917
Fair value of portfolio hedge of interest rate risk	25	83	117	184	71
Bonds and other fixed-income securities	4,643	4,162	6,253	4,149	7,106
Shares and participations	11	14	10	11	32
Intangible assets and property, plant and equipment	125	143	161	332	97
Other assets	300	291	753	359	514
Total assets	**69,445**	**65,311**	**58,762**	**51,160**	**47,180**
Due to credit institutions	58	61	79	88	56
Deposits and borrowing from the general public	38,800	38,008	35,911	35,219	35,673
Issued securities, etc.	25,313	22,137	17,336	11,627	7,694
Other liabilities	608	562	473	728	565
Subordinated liabilities	900	900	900	900	900
Total liabilities	**65,679**	**61,668**	**54,699**	**48,562**	**44,888**
Equity	3,766	3,643	4,063	2,598	2,292
Total liabilities and equity	**69,445**	**65,311**	**58,762**	**51,160**	**47,180**

[1] The comparison figure for 2013 has been changed due to a recalculation of provisions in 2014.

Five-year summary

Skandiabanken's business is conducted in Sweden. Business was also conducted in Norway until 5 October 2015.

KEY RATIOS

Volume development	**2017**	**2016**	**2015**	**2014**	**2013**
Average volume (balance sheet total), SEK million	69,578	61,355	116,714	108,518	89,027
Capital adequacy measures					
Total capital ratio:					
Capital base as % of risk-weighted assets	19.3%	18.9%	21.4%	14.2%	13.5%
Common Equity Tier 1 capital ratio:					
Common Equity Tier 1 capital as % of risk-weighted exposure amount	15.5%	15.0%	16.9%	12.0%	10.9%
Key ratios, earnings					
Investment margin:					
Net interest income as % of average volume (balance sheet total)	1.14%	1.13%	1.10%	1.31%	1.26%
Return on assets:					
Net profit divided by the balance sheet total	0.00%	0.06%	0.78%	0.36%	0.33%
Return on total capital:[1]					
Operating profit as % of average volume (balance sheet total)	0.29%	0.31%	0.08%	0.53%	0.34%
Return on equity:[3]					
Operating profit after actual tax as % of average equity	4.24%	4.14%	1.61%	8.74%	6.23%
Cost/income ratio before loan losses: [2, 3]					
Costs excl. loan losses and impairment of intangible assets and translation difference in equity in relation to operating income	0.78	0.78	0.76	0.65	0.77

Impaired loans	**2017**	**2016**	**2015**	**2014**	**2013**
Provision level for impaired loans:					
Provision for probable loan losses as % of impaired loans before provision	70.1%	51.4%	35.4%	65.2%	64.2%
Share of impaired loans:					
Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.01%	0.02%	0.05%	0.06%	0.06%
Loan loss ratio:					
Loan losses as % of opening balance of lending to the general public, credit institutions (excl. banks), and credit guarantees	0.02%	0.02%	0.03%	0.05%	0.07%
Other data					
Number of customers, thousands[4]	404	448	453	830	824
Average number of employees	309	325	475	490	457
of which, continuing operations	*309*	*325*	*306*	*289*	*277*
of which, divested operations	—	—	*169*	*201*	*180*

[1] The key ratio for 2015 has been adjusted.

[2] The comparison figure for 2013 has been changed due to a recalculation of provisions in 2014.

[3] The comparison figure for 2015 has been changed due to a changed accounting policy for translation differences. See note 1 in 2015 Annual Report.

[4] In autumn 2017 the Bank closed a large number of inactive accounts and accounts with zero balances.

For further information about and for calculations of Alternative Performance Measures, see www.skandia.se, Om oss, Om Skandia, Finansiell information, Skandias bank.

Five-year summary

Skandiabanken's business is conducted in Sweden. Business was also conducted in Norway until 5 October 2015.

INCOME STATEMENTS AND BALANCE SHEETS, FIVE-YEAR SUMMARY (SEK MILLION)

Income statement	2017	2016	2015	2014	2013
Interest income	867	763	2,252	3,186	2,710
Interest expense	-71	-70	-966	-1,768	-1,592
Net fee and commission income[1]	149	118	233	260	252
Net financial income[1, 2]	3	2	-121	41	29
Other operating income	37	119	62	51	64
Total operating income	**985**	**932**	**1,460**	**1,770**	**1,463**
Staff costs	-236	-262	-390	-407	-366
Other administrative expenses[1]	-471	-396	-689	-661	-687
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	-18	-18	-281	-2	-3
Other operating expenses	-46	-54	-83	-85	-68
Total expenses before loan losses	**-771**	**-730**	**-1,443**	**-1,155**	**-1,124**
Loan losses, net	-10	-10	-27	-41	-41
Operating profit	**204**	**192**	**-10**	**574**	**298**
Group contributions	-206	-157	491	5	147
Profit before taxes	**-2**	**35**	**481**	**579**	**445**
Taxes[2]	-1	2	-105	-162	-118
Net profit for the year	**-3**	**37**	**376**	**417**	**327**

Balance sheet	2017	2016	2015	2014	2013
Cash and cash balances with central banks	16	15	21	636	544
Eligible treasury bills, etc.	4,718	3,640	4,524	8,110	6,207
Lending to credit institutions	417	230	411	1,252	1,384
Lending to the general public	59,190	56,733	46,608	95,558	77,894
Fair value of portfolio hedge of interest rate risk	25	83	117	184	71
Bonds and other fixed-income securities	4,643	4,162	6,253	8,467	11,559
Shares and participations	11	14	10	13	64
Intangible assets and property, plant and equipment	125	143	161	335	100
Other assets	300	291	753	552	774
Total assets	**69,445**	**65,311**	**58,858**	**115,107**	**98,597**
Due to credit institutions	58	61	79	100	68
Deposits and borrowing from the general public	38,800	38,008	35,911	79,518	75,677
Issued securities, etc.	25,313	22,137	17,336	28,007	16,864
Other liabilities	608	562	569	1,186	1,041
Subordinated liabilities	900	900	900	900	900
Total liabilities	**65,679**	**61,668**	**54,795**	**109,711**	**94,550**
Equity	**3,766**	**3,643**	**4,063**	**5,396**	**4,047**
Total liabilities and equity	**69,445**	**65,311**	**58,858**	**115,107**	**98,597**

[1] The comparison figure for 2013 has been changed due to a recalculation of provisions in 2014.

[2] The comparison figure for 2015 has been changed due to a changed accounting policy for translation differences. See note 1 in 2015 Annual Report.

Distribution of profit

(Amounts in SEK)

Distribution of Skandiabanken’s unrestricted equity	**2017 SEK**
Total fair value reserve	21,395,810
Retained earnings	3,266,963,382
Net profit for the year	-3,306,639
Unrestricted equity	**3,285,052,553**
The Board of Directors proposes that this amount be distributed as follows:	
To be carried forward	3,285,052,553
	3,285,052,553
If this proposal is approved, the Company’s reported equity will consist of:	
Share capital	400,000,000
Statutory reserve	81,399,910
Total fair value reserve	21,395,810
Retained earnings	3,263,656,743
	3,766,452,463

In accordance with Ch. 6 § 2 second point of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board is of the opinion is that the Company’s equity is sufficiently large in relation to the scope and risks of the business.

Income statement

SEK million	Note	2017	2016
Interest income	2	867	763
Interest expense	2	-71	-70
Fee and commission income	3	254	248
Fee and commission expense	3	-105	-130
Net financial income	4	3	2
Other operating income	5	37	119
Total operating income		**985**	**932**
General administrative expenses			
Staff costs	6	-236	-262
Other administrative expenses	7	-471	-396
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	8	-18	-18
Other operating expenses	9	-46	-54
Total expenses before loan losses		**-771**	**-730**
Profit before loan losses		**214**	**202**
Net loan losses	10	-10	-10
Operating profit		**204**	**192**
Appropriations, group contributions		-206	-157
Profit before tax		**-2**	**35**
Income tax expense	11	-1	2
Net profit for the year		**-3**	**37**
Attributable to			
The shareholders of Skandiabanken Aktiebolag (publ)		**-3**	**37**

Statement of comprehensive income

SEK million	2017	2016
Net profit for the year	**-3**	**37**
Other comprehensive income		
Items that have been reclassified or can be reclassified to profit or loss for the year		
Available-for-sale financial assets	5	44
Tax attributable to available-for-sale financial assets	-1	-10
Total other comprehensive income after tax	**4**	**34**
Total comprehensive income after tax	**1**	**71**
Attributable to		
The shareholders of Skandiabanken Aktiebolag (publ)	**1**	**71**

Balance sheet

31 December, SEK million

Assets	**Note**	**2017**	**2016**
Cash and cash balances with central banks	12	16	15
Eligible treasury bills, etc.	13	4,718	3,640
Lending to credit institutions	14	417	230
Lending to the general public	15	59,190	56,733
Fair value of portfolio hedge of interest rate risk	16	25	83
Bonds and other fixed-income securities	17	4,643	4,162
Shares and participations, etc.	18	11	14
Intangible assets	19	124	142
Property, plant and equipment	20	1	1
Current tax assets	21	13	11
Deferred tax assets	21	7	10
Other assets	22	180	189
Prepaid expenses and accrued income	23	100	81
Total assets		**69,445**	**65,311**

Liabilities and provisions	**Note**	**2017**	**2016**
Due to credit institutions	24	58	61
Deposits and borrowing from the general public	25	38,800	38,008
Issued securities, etc.	26	25,313	22,137
Current tax liabilities	27	—	0
Other liabilities	28	525	472
Accrued expenses and deferred income	29	72	78
Provisions for pensions	30	11	12
Subordinated liabilities	31	900	900
Total liabilities and provisions		**65,679**	**61,668**
Share capital		400	400
Other reserves			
- Statutory reserve		81	81
- Total fair value reserve		21	17
Retained earnings		3,267	3,108
Profit for the year		-3	37
Total equity	41	**3,766**	**3,643**
Total liabilities, provisions and equity		**69,445**	**65,311**

Statement of changes in equity

	Restricted equity		Unrestricted equity		
			Total fair value reserve		
SEK million	Share capital	Statutory reserve	Fair value reserve[1]	Retained earnings	Total equity
Opening equity 2016	**400**	**81**	**-17**	**3,599**	**4,063**
Profit for the year	—	—	—	37	37
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-2	—	-2
Unrealised change in value before tax, fair value reserve	—	—	46	—	46
Tax attributable to fair value reserve	—	—	-10	—	-10
Comprehensive income for the year	—	—	**34**	**37**	**71**
Dividend	—	—	—	-491	-491
Closing equity 2016	**400**	**81**	**17**	**3,145**	**3,643**
Opening equity 2017	**400**	**81**	**17**	**3,145**	**3,643**
Profit for the year	—	—	—	-3	-3
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-5	—	-5
Unrealised change in value before tax, fair value reserve	—	—	10	—	10
Tax attributable to fair value reserve	—	—	-1	—	-1
Comprehensive income for the year	—	—	**4**	**-3**	**1**
Shareholder contribution received	—	—	—	122	122
Closing equity 2017	**400**	**81**	**21**	**3,264**	**3,766**

[1] The total fair value reserve includes unrealised gains/losses attributable to available-for-sale financial assets.

Cash flow statement

CASH FLOW STATEMENT (indirect method), SEK million

Operating activities	**2017**	**2016**
Operating profit	-2	35
of which, interest paid in	*856*	*758*
of which, interest paid out	*-73*	*-83*
Adjustment for non-cash items:		
Change in value of investments	-3	0
Depreciation, amortisation and impairment charges		
- depreciation of property, plant and equipment	18	18
Loan losses	11	10
Group contributions from/to parent company	206	157
Income tax paid	-2	-98
Cash flow from operating activities before changes in assets and liabilities in operating activities	**228**	**122**
Decrease (+)/increase (-) in lending to the general public	-2,469	-10,134
Decrease (+)/increase (-) in holdings of fixed-income securities and equities	-1,546	3,018
Decrease (-)/increase (+) in deposits and borrowing from the general public	792	2,097
Decrease (-)/increase (+) in issued securities	3,176	4,801
Change in other assets and other liabilities	45	-81
Cash flow from operating activities	**226**	**-177**
Investing activities		
Purchases of property, plant and equipment	0	—
Sales of property, plant and equipment	0	1
Cash flow from investing activities	**0**	**1**

Financing activities[2]	**2017**	**2016**
Shareholder contribution	122	—
Cash-settled group contribution preceding year (paid/received)	-157	491
Dividend paid[1]	—	-491
Cash flow from financing activities	**-35**	**0**
Cash flow for the year	**191**	**-176**
Cash and cash equivalents at start of year	**184**	**353**
Exchange rate difference in cash and cash equivalents	**0**	**7**
Cash flow for the year	**191**	**-176**
Cash and cash equivalents at end of year	**375**	**184**
Cash and cash equivalents		
Cash and cash balances with central banks	16	15
Lending to credit institutions	417	230
Due to credit institutions	-58	-61
Cash and cash equivalents	**375**	**184**

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

[1] A dividend of SEK 491 million was paid to the parent company Skandia Insurance Company Ltd (publ) during the second quarter of 2016. Payment of the group contribution for 2015 from Skandia Mutual in a corresponding amount was also settled during the second quarter of 2016.

[2] Group contributions rendered and received are classified as financing activities.

Reconciliation of liabilities arising from financing activities

			Non-cash changes		
	Opening balance 2017	**Cash flows**	**Change in amortised cost**	**Change of hedge instruments**	**Closing balance 2017**
Due to credit institutions	61	-3	—	—	58
Issued securities, etc.	22,137	3,150	29	-3	25,313
Total liabilities arising from financing activities	**22,198**	**3,147**	**29**	**-3**	**25,371**

Notes

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

Notes index

1. Significant accounting and valuation policies

Contents

1. General information

This annual report for Skandiabanken Aktiebolag (publ), corporate identity number 516401-9738, pertains to the period 1 January–31 December 2017. Skandiabanken's registered office is in Stockholm, Sweden. The address of the head offices is Lindhagensgatan 86, Stockholm. The annual report was approved for publication by the Board of Directors on 22 March 2018. The income statement and balance sheet are subject to adoption by the Annual General Meeting, which is scheduled to be held on 8 May 2018.

Skandia Mutual Life Insurance Company, corporate identity number 516406-0948 and with registered office in Stockholm, prepares consolidated financial statements for the entire Skandia group, which includes Skandiabanken.

2. Basis of preparation

The annual report for 2017 has been prepared in conformity with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies *(Lagen (1995:1559) om årsredovisning i kreditinstitut och värdepappersbolag)* and the Swedish 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 accordance with these regulations and general guidelines, Skandiabanken applies so-called legally limited IFRS. 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 as far as possible within the framework of Swedish legislation and taking into account the connection between reporting and taxation.

Skandiabanken's functional currency is Swedish kronor (SEK), and Skandiabanken's 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 2017

A few changes have been made that take effect in 2017. Among other things, amendments have been made to the Annual Accounts Act for Credit Institutions and Securities Companies in response to the EU's directive on non-financial information for large companies and groups. A sustainability report shall be prepared in the administration report or as a separate report. The sustainability report shall include the disclosures about sustainability issues that are needed to gain an understanding of the Company's development, position and result, and consequences of operations, including disclosures relating to the environment, social conditions, employees, respect for human rights and anti-corruption. The report shall state:

1. the Company's business model,
2. the policy the Company adheres to with respect to these issues, including the review procedures carried out,
3. the result of the policy,
4. the significant risks associated with the issues and that are coupled to the Company's operations, including – where relevant – the Company's business undertakings, products or services that likely have negative consequences,
5. how the Company manages risks, and
6. central performance measures that are relevant for the operations.

The report shall also, where suitable, include references to and additional explanations for the amounts reported in the annual report. If special guidelines have been applied in preparation of the report, the report shall specify what these guidelines are.

In reference to Ch. 6 of the Annual Accounts Act for Credit Institutions and Securities Companies, no sustainability report is prepared specifically for Skandiabanken; instead, the corresponding disclosure requirements are included as part of the sustainability report that the parent company Skandia Mutual prepares for the entire group. The sustainability report is available at www.skandia.se/liv. Skandia Mutual's registered office and headquarters are in Stockholm, and its corporate identity number is 516406-0948.

Company management is of the opinion that other new and amended standards and interpretations from 2017 have not had any material effect on Skandiabanken's financial statements.

New and amended IFRSs for financial years starting in 2018 or 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 judged to not have any material effect on Skandiabanken's financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, introduces new requirements for classification and measurement of financial assets and liabilities as well as the discontinued recognition of these. In addition, the standard lays out rules for recognition of impairment and hedge accounting. IFRS 9 is to be applied for financial years starting on 1 January 2018 or later. Upon initial application of IFRS 9, expanded disclosures about the transition will need to be provided. The main principles in IFRS 9 are described below.

According to IFRS 9, all reported financial assets are to be measured either at amortised cost or at fair value. Classification is based on the business model and contractual terms of the instrument. Financial assets that are held in a business model whose objective is solely to receive

Cont. Note 1 – Significant accounting and valuation policies

contractual cash flows are to be measured at amortised cost. Instruments may only have contractual cash flows in the form of principal amounts due and interest on principal amounts that are payable on specific dates. This business model will be applied for Skandiabanken's lending portfolio. If the business model's purpose is to both earn contractual cash flows as per above as well as to sell instruments, then the financial assets are to be measured at fair value, where changes in fair value are recognised in other comprehensive income. This business model will be applied for the Bank's fixed income securities (the liquidity portfolio). This means that Skandiabanken will continue to report and measure its financial assets in the same way as today and that no accounting effects will arise in the transition. In other business models, changes in value are also measured at fair value, but are recognised at fair value through profit or loss. For business models where the instruments are measured at amortised cost or with changes in fair value recognised in other comprehensive income, there is an option to measure all instruments at fair value, with changes in value recognised through profit or loss (the fair value option). This option is only permitted under the condition that its application entails that the Company significantly reduces inconsistencies in measurement or recognition (accounting mismatches) that would otherwise arise in connection with measurement of assets or liabilities, or recognition of gains and losses related to them, on different grounds.

The effect of IFRS 9 on classification and measurement of financial liabilities is mainly related to changes in fair value stemming from changes in credit risk for a financial liability. 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 profit or loss in the following period. Under the current provisions of IAS 39, the entire change in fair value is recognised through profit or loss.

IFRS 9 also includes new policies for recognising impairment. All financial assets measured at amortised cost or with the change in value in other comprehensive income are to be tested for impairment. The new policies entail that the Bank calculates provisions for loan losses based on expected loan losses rather than on confirmed loan losses. Assets for which there is a need to recognise impairment are broken down into three steps, depending on the degree of credit impairment. Step 1 includes assets for which no increase in credit risk has occurred since the first reporting occasion. Step 2 includes assets for which a significant increase in credit risk has occurred since the first reporting occasion. A significant increase in credit risk exists when, for example, impairment has taken place in a risk class measured as a group of risk classes compared with the original risk class. Step 3 includes assets which individually have been measured as impaired assets. This means that in Step 1, a year's expected loss is recognised already on the first reporting occasion. In the event of a significant increase in credit risk, step 2 and 3, the impairment amount shall correspond to the loan losses that are expected to arise during the loan's remaining term. In connection the calculation of these provisions, forward-looking factors shall be taken into account. In addition, provisions shall be based on a probability-weighted outcome, in contrast with the current, most expected outcome. Skandiabanken bases its estimation of expected loan losses on future macro forecasts and scenarios, where the Bank receives its base scenario from Skandia Mutual. In addition to the base scenario, the Bank has additional scenarios that are more positive or negative than the base scenario, and an estimation is made of the probability of either scenario occurring. This entails that the estimated provisions may fluctuate more over time.

The policies for hedge accounting in IFRS 9 have also been amended and create greater opportunities to couple hedge activities with the actual risk management. The retrospective calculations of the effectiveness of hedges are replaced by more qualitative assessments. The opportunity exists to continue applying IAS 39 for hedge accounting even after IFRS 9 has come into force, pursuant to IFRS 9 point 7.2.21. Skandiabanken will use this option.

Company management is of the opinion that application of IFRS 9 will affect reported amounts with respect to impairment testing of the Bank's lending portfolios. This effect is expected to be SEK -7 million and is reported as a change in opening equity. The change is mainly attributable account lines of credit, credit card credits and personal loans. The standard will be applied prospectively, whereby comparison figures will not be recalculated. The new standard will not have any significant impact on capital adequacy for the first application period. Skandiabanken does not intend to use the transitional rules[1] for capital adequacy with respect to the effect that arises upon transition to IFRS 9; this is because the transitional effect amounts to a relatively insignificant sum.

IFRS 15 Revenue from Contracts with Customers

This standard is to be applied for financial years starting on 1 January 2018 or later. The standard is not applicable for financial instruments and leases. The intention is that a single standard will replace existing standards and pronouncements about revenue recognition. A cohesive model for revenue recognition is proposed regardless of sector and type of transaction. This will take place in a five-step model which, in short, entails that an entity is to recognise revenue in pace with performance of obligations under contracts. For each customer contract, an entity shall identify performance obligations for each product or service and thereafter set a transaction price that is to be allocated to the respective performance obligations. Revenue shall thereafter be recognised when the entity satisfies the performance obligation. IFRS 15 also entails expanded disclosure requirements. The standard is assessed to not have any financial effects upon transition.

4. Important sources of uncertainty in estimations and critical assessments

When preparing the financial statements, company management must in certain cases rely on 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 on both the balance sheet and in the income 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
- Intangible assets
- Financial instruments at fair value

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 repay and estimations of the fair value of any collateral.

The loan receivables that entail the greatest uncertainty in valuations – per individual undertaking – consist of individually assessed loan receivables, which for Skandiabanken consist mainly of home mortgage loans. During the financial year, SEK 0 million (1) was reversed for individually assessed loan receivables, where there was no longer a need for provisions compared with the same period a year ago.

[1] Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

Cont. Note 1 – Significant accounting and valuation policies

For assessments of loan receivables that are measured collectively – primarily 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.

Intangible assets

In 2015 Skandiabanken concluded an extensive implementation of a new banking system. The system was put in operation in spring 2015 and is expected to generate future financial benefit. In view of this, the associated development costs have been recognised as an intangible asset with an amortisation schedule of 10 years. Each year, or whenever there is an indication of a decline in value, impairment testing is conducted to calculate the investment's recoverable amount. This is done by calculating the investment's value in use based on a cash flow model for the smallest cash generating unit that the new banking system supports. The Bank's five-year business plan is used as a basis for calculating value in use, since the system is used for the entire Bank's operations. Company management's assumptions for future volumes, cost-savings, tied-up capital, the discount rate used (11.18% compared with 11.15% in the preceding year) and continued growth in the years immediately ahead are of great significance. Growth continues to be generated by home mortgages and savings. Growth in the years immediately after the plan period has been set at low levels, and thereafter the model uses a straight projection of the balance sheet and income statement. The discount rate is determined in accordance with market principles. An analysis was performed of the business plan adopted by the Board of Directors for the coming five-year period, which showed that there is no need to recognise impairment of the intangible asset.

Financial instruments at fair value

There is some uncertainty in the valuation of financial instruments, as their valuation is affected by the prevailing market conditions and level of interest rates, which can change quickly.

5. Segment reporting

Skandiabanken had two segments up until 5 October 2015, Sweden banking and Norway banking, and thereafter only Sweden; no segment reporting is done any more.

6. 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 in which Skandiabanken conducts business – Sweden.

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.

Exchange rate movements are reported in operating profit under the heading Net financial income.

7. Financial instruments – classification and measurement

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

Trade date vs. settlement date recognition

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 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 measured 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 measurement

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

Financial assets

Loan receivables and trade receivables

Loan receivables are measured 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 measured at cost less calculated, non-recoverable amounts.

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 and are measured 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 based on 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 measurement is not based on officially quoted prices, measurement 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.

Cont. Note 1 – Significant accounting and valuation policies

Derivatives

Derivative instruments are used to economically eliminate interest rate risk and currency risk, and are intended to be held until maturity. Issued securities that are dissolved after the dissolution period that is standard practice in the market are also reported as derivatives.

Measurement is done individually at fair value. Interest rate derivatives are measured 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, primarily for investments of total 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 for a small 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.

Loan losses and impairment of financial assets

Financial assets classified as "Loan receivables and trade receivables" 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 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) Impaired loans

An impaired loan is a non-performing loan that is more than 60 days past due, for which there is inadequate collateral to cover both the principal and interest including late charges.

c) Non-performing loans that are not considered 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.

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

Interest income on impaired loans is reported at the loan's original effective interest rate.

d) Determination of when a need to recognise impairment exists

Skandiabanken determines whether there is objective evidence of 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) On a portfolio valuation basis 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 of impairment in accordance with categories 1) or 2), then the asset is included in category 3). This category refers to groups of financial assets with similar credit risk characteristics, and a judgement is made collectively of the need to recognise impairment for the respective categories of assets. As an indicator of whether objective evidence exists of lower cash flows in a category, Skandiabanken measures the response to payment reminders for this category. Provisions for this type are made in such way that the probability of the loan becoming a confirmed loss is calculated based on the response to payment reminders and is applied for the category of loans that are 1-60 days past due. Another indicator consists of changes in the risk classification for a category in which the assets are included in an internal risk classification system. Any impairment is in such case based on the estimated, expected loss for the loans that have not already been individually assessed.

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 loan losses is calculated based on the entire, remaining receivable. Provisions for loan losses are reported in a separate provision 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/dissolutions for probable loan losses, where a need for provisions no longer exists, are made when it has been determined that the credit quality has improved, amounts past due have been settled, 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.

Cont. Note 1 – Significant accounting and valuation policies

Calculation of provisions for loan losses – loans that are not individually significant
The need for provisions is calculated in accordance with a standard formula for homogenous groups of loans with limited value and similar credit risk. However, these loans are identified individually. The method is based on previous experience with the size of loan losses for the credits in question and an estimation of probable outcome. A standard provision of 10%-30% is made for credit risks where the receivable is past due more than 60 days, 20%-60% after 90 days, and a maximum of 90% after 180 days.

Calculating provisions for loan losses – collective assessment for individually significant loans and loans that are not individually significant
When 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 of the degree to which they will be confirmed. The calculation is based either on changes in the payment status or changes in the risk class.

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 – after recovering the value of any collateral and where it has been determined that no recovery can be achieved – are reported as write-offs of confirmed loan losses for the year. Amounts written off reduce the principal of the loan 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 cost and the fair value of the instrument, less previous impairment losses.

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

Hedge accounting
Hedged items
At Skandiabanken, hedged items consist both of individual assets and liabilities and portfolios of assets and liabilities. Currently hedges are made at fair value for lending at fixed interest rates (portfolio hedge at fair value) and borrowing at fixed interest rates.

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 is to 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.

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 (interest rate swaps) 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.

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. Reporting is done at fair value, with changes in value reported through profit or loss under "Net financial income". Derivative liabilities are reported under this category.

Other financial liabilities
Interest-bearing liabilities
Deposits, issued securities 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 liabilitiesTrade payables and other noninterest-bearing liabilities are reported at their nominal value.

Methods for determining fair value
The methods for determining the fair value of financial instruments 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: Valuation of quoted prices in an active market
Level 2: Calculated values that are based on observable market quotations for similar instruments
Level 3: Calculated values that are based on assumptions and estimations, and on observable market quotations where such suitable quotations are available. No assets or liabilities are valued at Level 3

Cont. Note 1 – Significant accounting and valuation policies

By quoted prices in an active market, Skandiabanken means that quoted prices are easily available on an exchange, from a broker or similar, and these prices represent actual and regularly recurring transactions conducted on an arm's length basis. If no active market exists, various valuation techniques are used which are based on observable market quotations as far as possible.

8. Property, plant and equipment

Property, plant and equipment is reported 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 for equipment has been estimated to be five years. 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.

9. 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 customer contracts taken over, and acquired and/or proprietary IT systems and software that are judged to have significant value for the operations in coming years. Capitalisation of internally developed intangible assets is transferred to restricted equity until they are entirely amortised.

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
- Skandiabanken has control over the asset in the form of legal rights

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

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

The carrying amount of Skandiabanken's assets is reviewed at every balance sheet date or whenever there are indications of a decline in value to determine if a decline in value has taken place. If such indication exists, the asset's recoverable amount is calculated, which is the higher of the asset's net sales value and value in use. When 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 loss is recognised when the carrying amount of the asset or its cash generating unit exceeds the recoverable value. Impairment losses are expensed in the income statement.

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

11. Provisions for pensions

Skandiabanken's pension benefits are secured through insurance solutions consisting of both defined contribution and defined benefit pension plans, which are reported as a cost in the income statement for the period the cost pertains to. Defined contribution pension plans are classified as plans in which the Company's obligation is limited to the contributions the Company has undertaken to pay. In such case, the size of the employee's pension is based on the contributions paid in by the Company and the investment return generated on the contributions. By defined benefit pension is meant that the employee is guaranteed a set post-retirement pension that is based on his or her final salary.

Skandiabanken applies the rules of the Pension Obligations Vesting Act *(Lagen (1967:531) om tryggande av pensionsutfästelser m.m.)* and the Swedish Financial Accounting Board (RFR) for employee pension obligations. This entails that the rules in IAS 19 regarding defined contribution pension plans do not need to be applied by legal entities, and instead, the so-called simplification rule can be applied instead. For Skandiabanken's employees this entails that defined benefit plans are reported as defined contribution plans.

12. 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.

13. 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.

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

Securities commissions received, which mainly pertain 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 fee and commission income consists of compensation received for distribution of insurance and compensation associated with the SAS/Eurobonus loyalty programme. Other fee and commission expenses consist of costs for points rewarded under the SAS/Eurobonus loyalty programme. The expense is recognised in pace with the fee and commission income that generates the points. The agreement with SAS/Eurobonus has been cancelled, but the cooperation continued through 31 March 2017.

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 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 and pension costs

Short-term remuneration of employees consists of fixed and variable salaries and associated social security costs 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 remuneration in connection with a notice of termination can entail that the employee receives a number of months' salary without any work obligation. Such remuneration is immediately expensed.

Pension costs consist of pension premiums for defined contribution and defined benefit pension plans.

14. Taxes

Income taxes consist of current and deferred tax. Current tax is reported for the year's taxable profit. Skandiabanken's current tax liability is calculated using 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 balance sheet date. Deferred tax is reported in accordance with the so-called balance sheet method. Deferred tax liabilities and tax assets 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.

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. Measurement 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 according to the 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.

15. Pledged assets, obligations and contingent liabilities

Pledged assets for own liabilities

Pledged assets for the covered bond programme are reported here. A pledged asset consists of a home mortgage and possibly additional security in the form of other financial instruments. Under Skandiabanken's covered bond programme, a separate grouping of pledged assets has been established, which serves as collateral for the SEK-denominated bonds backed only by Swedish home mortgages with collateral in Sweden. The bonds are issued in accordance with Swedish laws for covered bonds. The value of the grouping of pledged assets must amount to the outstanding bond liability at any given time. The bondholders have preferential rights, backed by the grouping of pledged assets, to the funds that would be collected from these home mortgage assets in the event of a bankruptcy.

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 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 has the opportunity to immediately utilise pledged securities. Pledged assets also include cash security pledged for derivative trading under ISDA Master Agreements.

Contingent liabilities

Contingent liabilities include obligations 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 obligation 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.

Commitments

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.

16. Cash flow statement

Cash flow from operating activities pertains to Skandiabanken's main lines of business, i.e., lending and deposits, and investments in fixed-income securities. 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.

17. 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.

2. Net interest income

	2017		2016	
	Interest	Average interest rate	Interest	Average interest rate
Lending to credit institutions[1]	-4	-0.45%	-3	-0.41%
Lending to the general public[2]	883	1.53%	769	1.49%
Fixed-income securities	-12	-0.12%	-3	-0.05%
Other	0	0.00%	0	0.04%
Total interest income[2]	**867**	**1.25%**	**763**	**1.24%**
Due to credit institutions	0	-0.50%	0	-0.50%
Deposits and borrowing from the general public	-85	0.23%	-82	0.22%
Issued securities[3]	25	-0.10%	19	-0.10%
Subordinated liabilities	-7	0.76%	-7	0.80%
Other	-4	0.08%	0	0.00%
Total interest expense	**-71**	**0.10%**	**-70**	**0.11%**
Total	**796**	**1.14%**	**693**	**1.13%**

Interest income from financial instruments that are not measured at fair value through profit or loss amounted to SEK 948 million (862). Interest expenses from financial instruments that are not measured at fair value through profit or loss amounted to SEK 71 million (69).

[1] Negative value due to prevailing 3 month Stibor and repo rates.

[2] Interest income on impaired loans amounted to SEK 0 million (0).

[3] Positive due to amortised cost of issued securities.

3. Net fee and commission income

	2017	2016
Payment intermediation fees	94	93
Commissions on lending	1	1
Commissions on deposits	2	2
Commissions on securities	148	131
Other commissions	9	21
Total fee and commission income	**254**	**248**
Payment intermediation fees	-58	-53
Commissions on securities	-38	-37
Other commissions	-9	-40
Total fee and commission expenses	**-105**	**-130**
Net fee and commission income	**149**	**118**

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 amounted to SEK 97 million (96) for fee and commission income and SEK 58 million (53) for fee and commission expenses.

Commissions derived from asset management operations that involve custody or investments of assets for the benefit of customers and that are not included in the determination of interest in accordance with the effective interest rate method amounted to SEK 148 million (131) for fee and commission income and SEK 38 million (37) for fee and commission expenses.

4. Net financial income

	2017	2016
Available-for-sale financial assets	**5**	**2**
- Fixed-income securities, capital gains, etc.	5	2
Repurchases of issued securities	**-5**	**0**
Hedge accounting[1]	**3**	**-1**
- Change in value of hedged item	-58	-34
- Change in value of hedge instruments	61	33
Exchange rate movements	**0**	**1**
Total	**3**	**2**

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

Total net result for available-for-sale financial assets		
Unrealised gains/losses recognised in other comprehensive income[1]		
Reclassification of realised gains and/or losses from other comprehensive income to net profit for the year	-5	-2
Unrealised changes in value	10	46
Total profit in other comprehensive income	**5**	**44**
Realised gains/losses recognised in profit or loss[2]		
Reclassification of realised gains and/or losses from other comprehensive income to net profit for the year	5	2
Gain/loss realised directly in profit or loss	-5	0
Total realised gain/loss in profit or loss	**0**	**2**
Total	**5**	**46**

[1] 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.

[2] 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.

5. Other operating income

	2017	2016
Revenues from group companies within the Skandiabanken group[1]	36	59
Consideration from sale of Visa Inc.	—	43
Other income	1	17
Total	**37**	**119**

[1] For detailed information, see note 39, Related party disclosures.

6. Staff costs

	2017	2016
Salaries and remuneration	-143	-160
Defined benefit pensions	-3	-6
Defined contribution pensions	-20	-23
Payroll tax	-6	-8
Social security costs	-49	-53
Variable remuneration[1]	-6	-1
Other staff costs	-9	-11
Total	**-236**	**-262**

[1] The variable remuneration consists of the profit-sharing foundation Skandianen. In 2016 a provision of SEK 5,111 thousand was made to Skandianen, of which SEK 4,508 thousand was paid out to the foundation in 2017. For 2017 a provision of SEK 6,951 thousand has been made. Members of the executive management receive no profit share from the foundation.

Average number	2017					2016				
of employees	Women		Men		Total	Women		Men		Total
Sweden	162	52%	147	48%	309	181	56%	144	44%	325
Total	**162**	**52%**	**147**	**48%**	**309**	**181**	**56%**	**144**	**44%**	**325**

Gender breakdown	2017					2016				
as per 31 December	Women		Men		Total	Women		Men		Total
Board of Directors	5	56%	4	44%	9	4	50%	4	50%	8
CEO and other members of executive management	4	57%	3	43%	7	5	83%	1	17%	6

2017 SEK thousand Sweden	Base salary/ directors' fees[2]	Variable remuneration	Other benefits and remuneration	Pension cost	Total
Niklas Johansson, Chairman of the Board	900	—	—	—	900
Per Anders Fasth, director	550	—	—	—	550
Björn Fernström, director	13	—	—	—	13
Bengt-Åke Fagerman, former director	90	—	—	—	90
Johanna Cerwall, CEO	3,221	—	38	972	4,231
Other senior executives (6 persons)	6,554	116	134	1,982	8,786
Other employees who can impact the company's risk profile (5 persons)[1]	5,371	97	122	1,564	7,154
Other employees (297 persons)	123,760	6,136	8,538	18,414	156,848
Total	**140,459**	**6,349**	**8,832**	**22,932**	**178,572**

[1] Risk-takers as per the definition in the section "Employees who can impact Skandiabanken's risk profile".

[2] During the year one employee received an employment-related bonus ("gratifikation") of SEK 150 thousand (0).

Cont. note 6. Staff costs

2016 SEK thousand Sweden	Base salary/ directors' fees	Variable remunera-tion	Other benefits and remu-neration	Pension cost	Total
Niklas Johansson, Chairman of the Board	739	—	—	—	739
Niklas Midby, former Chairman of the Board	271	—	—	—	271
Bengt-Åke Fagerman, director	119	—	—	—	119
Hans Jacobsson, former director	330	—	—	—	330
Christer Löfdahl, former director	209	—	—	—	209
Øyvind Thomassen, former CEO	1,180	—	28	657	1,865
Johanna Cervall, CEO[1]	2,036	—	22	500	2,558
Other senior executives (5 persons)	6,781	17	205	2,105	9,108
Other employees who can impact the company's risk profile (9 persons)[2]	9,693	30	330	3,883	13,936
Other employees (311 persons)	135,705	1,166	10,411	22,325	169,607
Total	**157,063**	**1,213**	**10,996**	**29,470**	**198,742**

[1] Took office as CEO on 26 April 2016. Data pertains to her period as CEO.

[2] Risk-takers as per the definition in the section "Employees who can impact Skandiabanken's risk profile".

Remuneration policy

The remuneration policy adopted by Skandiabanken's board of directors stipulates, among other things, that employee remuneration 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. Remuneration of employees of Skandiabanken shall be business-led, individually based and differentiated, and shall be based on:

- The employee's performance, experience and competence. Consideration shall also be given to the employee's commitment, ability to cooperate, and development of own and others' competence.
- The market, i.e., what other companies pay for similar positions and work duties in what can be regarded as the employee's potential job market.
- The degree of difficulty and responsibility of the position.

Skandiabanken's remuneration policy shall be reviewed yearly to ensure that it evolves in pace with changes in the Company's environment.

Risk analysis

Before a decision is made on significant changes to the remuneration system, an analysis is performed of how the system affects the risks that Skandiabanken is exposed to and how these risks are managed. A risk analysis shall be performed at least yearly. Such an assessment shall be conducted by the Skandia group's HR function with suitable support from the Chief Risk Officer. The assessment shall always include a special analysis of conflicts of interest and how they should be managed.

The risk analysis, which serves as the basis for Skandiabanken's remuneration policy, is to include 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 can impact the company's risk profile.

The following parts of the remuneration system are key components of the risk analysis:

- Skandiabanken's remuneration committee, which is a permanent board committee tasked with conducting drafting work on benefits for Skandiabanken employees. Through this, the Board is considered able to make conscious, active decisions on remuneration matters.
- Except for Skandianen for employees in Sweden and previously a similar profit-sharing system in Norway, all remuneration of Skandiabanken's employees is in the form of fixed salary.
- Clear processes for approval of salary adjustments, including the so-called four-eyes principle, entailing that approval must be obtained from the manager's manager or by a designated third-party role within HR.

Cont. note 6. Staff costs

Drafting and decision-making process

Skandiabanken has a remuneration committee, which is a permanent board committee consisting of two board members. At year-end the committee's members were Frans Lindelöw and Niklas Johansson. The CEO and head of salaries and benefits at Skandia are co-opted to the committee to the extent requested by the committee. The Remuneration Committee held four meetings during the year.

The Remuneration Committee is tasked with conducting drafting work for important matters regarding remuneration of employees of Skandiabanken. This includes, among other things, conducting drafting work for the Board's decisions on remuneration and other terms of employment for the CEO, other members of management and, where applicable, other employees who report directly to the Board or the CEO. The Board's decision on remuneration of the CEO must be approved by Skandia Mutual's remuneration committee before such decision can be executed. Decisions on remuneration of other employees of Skandiabanken are to be made in accordance with the so-called four eyes principle that is applied within the Skandia group.

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

Remuneration components

Remuneration consists of one or more of the following components:

- Monthly salary, i.e., fixed salary that is paid out monthly
- Skandianen, which is a profit-sharing foundation
- Pension plans in Skandiabanken consist mainly of retirement benefits under the collective agreement in the insurance industry (FTP), and in certain cases additional retirement benefits for senior executives. Pension plans for employees in Norway were either defined benefit or defined contribution solutions. One-time payments, such as bonuses ("gratifikationer"), and time-restricted salary supplements
- Other benefits, e.g., company car, private healthcare insurance, subsidised interest rates and fitness subsidy

Except for Skandianen, no employee of Skandiabanken is entitled to variable remuneration.

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. No employee received remuneration in excess of EUR 1 million during the financial year.

Skandianen

Skandianen is a profit-sharing foundation from which employees in Sweden can receive remuneration, except for those who are members of Skandia's executive management. Skandiabanken's CEO is a member of Skandia's executive management. An annual provision is made for employees to Skandianen based on Skandia's financial result, corresponding to a maximum of 125% of one-half of the Price Base Amount. For 2017 the maximum allocation can amount to SEK 28,000 per employee. The profit share is not available to employees until five years after the year in which it was awarded.

Occupational pensions for CEOs

Skandiabanken's current CEO has retirement benefits in accordance with the FTP plan, department 1 (occupational pension plan for insurance industry employees). The pension plan is a defined contribution solution. For fixed annual salary amounts above 30 times the Income Base Amount, a premium of 7% is paid on top of contributions paid under the FTP plan. The year's pension cost in relation to pensionable remuneration was 30% (27%).

Occupational pensions for other senior executives

Pension plans for other senior executives consist of pension benefits under the collective agreement for employees in the insurance industry (FTP). As for other executives, the retirement age is 65.

For other senior executives, the year's defined contribution pension cost in relation to pensionable remuneration was 29% (32%). The year's defined benefit pension cost in relation to pensionable remuneration was 0% (0%).

Pension cost in relation to pensionable salary

	2017		2016	
	Defined contribution	**Defined benefit**	**Defined contribution**	**Defined benefit**
CEO	30%	—	27%	—
Other senior executives, 6 persons (5)	29%	—	32%	—

Cont. note 6. Staff costs

Terms of notice and severance pay

In the event Skandiabanken serves notice, the current CEO is entitled to salary during the notice period, which is six months. In addition, the 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.

Severance pay

	2017				2016			
SEK thousand	Executive management	Other employees who can impact the company's risk profile	Other employees[1]	Total	Executive management	Other employees who can impact the company's risk profile	Other employees[1]	Total
Expensed amounts for severance pay								
Severance pay	—	—	1,902	**1,902**	—	—	2,020	**2,020**
Number of persons	—	—	6	**6**	—	—	4	**4**
Amount paid out during the year								
Severance pay	—	—	2,685	**2,685**	—	—	3,307	**3,307**
Pledged amounts:								
Severance pay	1,550	—	—	**1,550**	1,550	—	—	**1,550**
Number of persons covered by such pledge	1	—	—	**1**	1	—	—	**1**
Maximum individually pledged amount	1,550	—	—	**1,550**	1,550	—	—	**1,550**

[1] The highest individual amount granted during the year was SEK 340 thousand (1,065).

Loans

Skandiabanken offers employer loans to employees of Skandiabanken as well as of other Skandia group companies in Sweden. Employer loans are granted for amounts of up to a maximum of 35 times the Price Base Amount, or approximately 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, less the contracted interest rate. Skandiabanken pays social security costs on this interest rate subsidy for the persons employed by Skandiabanken.

For loans 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	2017	2016
Board members and deputy board members in the Skandia group	4,322	7,171
CEOs and deputy CEOs in the Skandia group	7,340	3,459
Other senior executives in the Skandia group	47,789	63,980
of whom, board members and deputy board members of Skandiabanken	—	1,476
of whom, the CEO of Skandiabanken	*1,500*	*1,500*
of whom, other senior executives of Skandiabanken	*7,730*	*3,057*

[1] Loans granted have been made by Skandiabanken. All loans pertain to loans with adequate collateral or guarantees, except for other loans of SEK 0 thousand (2) and unsecured loans totalling SEK 367 thousand (619), of a granted amount of SEK 1,420 thousand (1,950).

The terms of the loans correspond to what is normally applied for lending to the general public or to other group employees.

Neither Skandiabanken nor group companies have pledged collateral or entered into any contingent liabilities for the benefit of the persons reported.

Employees who can have a material impact on Skandiabanken's risk profile

Skandiabanken has identified the employees who can have a material impact on Skandiabanken's risk profile. Determination of which employees are considered to have a material impact on the Bank's risk profile is based the qualitative and quantitative criteria stipulated in Commission Delegated Regulation (EU) No 604/2014 with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

Employees identified to have a material impact on the Bank's risk profile are evaluated on a continuous basis by Skandiabanken and may thus, in view of the impact they have on Skandiabanken's risk profile, change from time to time.

7. Other administrative expenses

	2017	2016
Cost of premises	-38	-34
IT costs	-26	-25
Fees and purchased services	-324	-272
Telecom and postage expenses	-5	-6
Office expenses	-1	-1
Operating and transaction expenses	-65	-53
Other administrative expenses	-12	-5
Total	**-471**	**-396**

The amounts above include SEK -322 million (-288) for outsourced services, see note 39.

Contracted rents
Skandiabanken has no leases for premises.

Auditing expenses		
Audit assignment		
- Deloitte	-2	-2
Total audit assignment	**-2**	**-2**
Other assignments		
Auditing activities in addition to audit assignment – Deloitte	0	0
Other services – Deloitte[1]	-11	-6
Total expenses for other assignments	**-11**	**-6**

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] Other services pertains mainly to project-related costs in connection with the Bank's anti-money laundering project. These have been approved by the Bank's risk and audit committee.

8. Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets

	2017	2016
Property, plant and equipment		
Depreciation		
- Equipment	0	0
Intangible assets		
Amortisation		
- Intangible assets	-18	-18
Total	**-18**	**-18**

9. Other operating expenses

	2017	2016
Marketing-related costs[1]	-46	-54
Total	**-46**	**-54**

[1] Marketing-related costs pertain mainly to market communication, business support and brand strategy.

10. Loan losses, net

	2017	2016
Specific provision for individually assessed loan receivables		
The year's write-off of confirmed loan losses	-2	-3
Reversal of provisions for probable loan losses in previous financial years which are reported as confirmed loan losses in the year's accounts	0	0
The year's provision for probable loan losses	0	-2
Paid in from confirmed loan losses in previous years	0	0
Reversal of provisions for probable loan losses which are no longer necessary	0	1
Net expense for the year for individually assessed loan receivables	**-2**	**-4**
Portfolio provisions for loans individually assessed loans as not being impaired		
The year's change in provision for individually assessed loan receivables	-3	0
The year's change in provision for collectively assessed homogenous groups of loan receivables	0	0
The year's change in portfolio provisions for loans individually assessed as not being impaired	**-3**	**0**
Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk		
The year's write-off of confirmed loan losses	-10	-7
Paid in from confirmed loan losses in previous years	1	0
Provision/dissolution for collectively assessed homogenous groups of loan receivables	4	1
Net expense for the year for collectively assessed homogeneous groups of loan receivables	**-5**	**-6**
Net loan losses for the year	**-10**	**-10**

11. Income tax expense

The following components are included in the tax expense:	**2017**	**2016**
Current tax		
- Tax on profit for the year	0	0
- Tax on previous years' profits	0	0
Deferred tax[1]	-1	2
Total	**-1**	**2**

Correlation between income tax expense and reported profit before tax		
Reported profit after appropriations but before tax	-2	35
Tax according to applicable tax rate of 22.0%	0	-8
Tax effect of non-deductible expenses/tax-exempt income	-1	9
Current tax pertaining to previous years	0	1
Total	**-1**	**2**

Skandiabanken's taxable profit has been transferred to the parent company Skandia AB via a group contribution. The Company thus has no current tax on profit for the year. The effective tax rate is thus -80% (-4%).

[1] Deferred tax broken down by type of temporary difference:		
Tax effect attributable to temporary differences in financial instruments	0	1
Tax effect attributable to temporary differences in pensions and provisions	-1	1
Total	**-1**	**2**

12. Cash and cash balances with central banks

	2017	**2016**
Central Bank of Sweden, payable on demand	16	15
Total	**16**	**15**

13. Eligible treasury bills, etc.

Outstanding loans broken down by counterparty, net book value	2017	2016
Swedish municipalities	4,718	3,640
Total	**4,718**	**3,640**
Nominal value	4,673	3,624
Average remaining maturity, years	1.6	1.7
Average remaining term of fixed interest, years	0.1	0.2

14. Lending to credit institutions

Outstanding loans broken down by counterparty, net book value	2017	2016
Swedish credit institutions	374	124
Foreign credit institutions	43	106
Total	**417**	**230**
Outstanding loans broken down by remaining maturity, net book value		
Payable on demand	417	230
Total	**417**	**230**
Average remaining maturity, years	0.0	0.0

15. Lending to the general public

	2017	2016
Amortised cost[1]	59,201	56,745
Provision for impaired loans	-11	-12
Total	**59,190**	**56,733**
a) Lending broken down by remaining maturity		
Payable on demand	—	—
Maximum 3 months	46,940	45,657
Longer than 3 months but max 1 year	3,529	2,429
Longer than 1 year but max 5 years	6,423	6,246
Longer than 5 years	2,298	2,401
Total	**59,190**	**56,733**
Average remaining maturity, years	1.3	1.3
b) Impaired loans and provisions		
Impaired loans, gross	**16**	**23**
Specific provisions for individually assessed loan receivables	-2	-2
Provision for collectively assessed homogenous groups of loan receivables with limited value	-4	-8
Collective provisions for individually assessed loan receivables	-5	-2
Total provisions for impaired loans	**-11**	**-12**
Total impaired loans, net	**5**	**11**

Non-performing loans that are not judged to be impaired amounted to SEK 34 million (30). Non-performing loans that are not judged to be impaired refers to loans for which adequate collateral exists.

[1] Including placements of SEK 887 million (425) with the Swedish National Debt Office.

Cont. note 15. Lending to the general public

c) Loan receivables	2017	2016
Loan receivables at amortised cost (before provision for loan losses)[1]	59,201	57,745
Specific provisions for individually assessed loan receivables	2	2
Collective provisions for individually assessed loan receivables	5	2
Provisions for collectively assessed homogenous groups of loan receivables	4	8
Total provisions	**11**	**12**
Loan receivables at amortised cost (after provision for loan losses)[1]	59,190	56,733
Impaired loans (after provision for probable loan losses)	5	11

[1] Including placements of SEK 887 million (425) with the Swedish National Debt Office.

d) Reconciliation of provisions for loan losses		
Opening balance, provisions	**12**	**12**
Specific provisions		
Opening balance	**2**	**1**
Confirmed loan losses during the year	0	0
Provisions	0	2
Reversals	0	-1
Changes recognised in the income statement	**0**	**1**
Reclassifications	0	0
Closing balance	**2**	**2**
Collective provisions		
Opening balance	**10**	**11**
Net change in provisions recognised in the income statement	-1	-1
Reclassifications	—	0
Closing balance	**9**	**10**
Provisions, closing balance	**11**	**12**

16. Fair value of portfolio hedge of interest rate risk

	2017	2016
Opening balance	83	117
Change in value of hedged item	-58	-34
Closing balance	**25**	**83**

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 4, Net financial income, and note 36, Disclosures of derivative instruments.

17. Bonds and other fixed-income securities

Available-for-sale financial assets	**2017**	**2016**
Issued by public entities	50	—
Issued by other borrowers	4,593	4,162
Total	**4,643**	**4,162**

Issuers		
Swedish municipalities	50	—
Swedish credit institutions	3,212	2,466
Other Swedish issuers	341	—
Foreign credit institutions	940	1,696
Other foreign issuers	100	—
Total	**4,643**	**4,162**

Remaining maturity		
Maximum 1 year	1,622	775
Longer than 1 year but max 5 years	3,021	3,387
Total	**4,643**	**4,162**

Average remaining maturity, years	1.9	2.1
Average remaining fixed interest term, years	0.1	0.2
of which, listed securities	*4,643*	*3,962*
of which, unlisted securities	—	*200*
Pledged as security for the benefit of the Central Bank of Sweden	2,290	2,693

18. Shares and participations, etc.

Financial assets at fair value	**2017**	**2016**
Listed shares and participations	1	—
Unlisted shares and participations	0	4
Total	**1**	**4**

The holding is classified as held for trading.

Available-for-sale financial assets		
Unlisted shares and participations	10	10
Total	**10**	**10**
Total	**11**	**14**

19. Intangible assets

Other intangible assets

Cost	2017 Proprietary IT systems	2017 Other intangible assets	2017 Total	2016 Proprietary IT systems	2016 Other intangible assets	2016 Total
Opening cost	434	5	439	434	5	439
Reclassification	—	—	0	—	—	0
Acquisitions during the year	—	—	0	—	—	0
Closing cost	**434**	**5**	**439**	**434**	**5**	**439**
Accumulated amortisation and impairment						
Opening accumulated amortisation and impairment[1]	-295	-2	-297	-278	-1	-279
Current year's amortisation	-17	-1	-18	-17	-1	-18
Closing accumulated amortisation and impairment	**-312**	**-3**	**-315**	**-295**	**-2**	**-297**
Net carrying amount	**122**	**2**	**124**	**139**	**3**	**142**

[1] In 2015 a partial impairment loss of SEK 246 million was recognised for the banking platform.

Anticipated useful life is 5 years for acquired IT systems and 10 years for proprietary IT systems. With respect to "Other intangible assets", which refers to customer agreements taken over by the Swedish operation, the estimated useful life is 5 years.

20. Property, plant and equipment

Cost	2017	2016
Opening cost	1	3
Acquisitions during the year	0	—
Sales during the year	0	-2
Closing cost	**1**	**1**
Accumulated depreciation		
Opening accumulated depreciation	0	-1
Current year's depreciation	0	0
Accumulated depreciation on current year's sales	0	1
Closing accumulated depreciation	**0**	**0**
Net carrying amount	**1**	**1**

21. Current and deferred tax assets

	2017	2016
Current tax assets	13	11
Deferred tax assets, net[1]	7	10
Total	**20**	**21**
[1] Deferred tax assets, net, with changes recognised in profit or loss, broken down by type of temporary difference		
Deferred tax assets attributable to financial instruments	0	1
Deferred tax assets attributable to pensions	11	11
Deferred tax assets attributable to provisions	2	3
Total	**13**	**15**
Deferred taxes, net, recognised in other comprehensive income, broken down by type of temporary difference		
Deferred tax liabilities attributable to unrealised gains/losses on available-for-sale financial assets	-6	-5
Total	**-6**	**-5**
Total	**7**	**10**

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

22. Other assets

	2017	2016
Securities settlement claims	155	134
Derivative instruments[1]	13	12
Trade receivable	6	9
Other	11	35
Provision for probable loan losses	-5	-1
Total	**180**	**189**

[1] For further information about derivative instruments, see note 36.

23. Prepaid expenses and accrued income

	2017	2016
Accrued interest	28	16
Provision for loan losses, interest	0	0
Other accrued income	65	62
Prepaid expenses	7	3
Total	**100**	**81**

24. Due to credit institutions

Outstanding amounts broken down by counterparty, net book value	**2017**	**2016**
Swedish credit institutions	58	61
Total	**58**	**61**

Outstanding amounts broken down by remaining maturity, net book value		
Payable on demand	58	61
Total	**58**	**61**

Average remaining maturity, years	0.0	0.0

25. Deposits and borrowing from the general public

Deposits broken down by remaining term, book value	**2017**	**2016**
Payable on demand	38,500	37,537
Maximum 3 months	60	108
Longer than 3 months but max 1 year	110	179
Longer than 1 year but max 5 years	130	184
Total	**38,800**	**38,008**

Average remaining maturity, years	0.0	0.0

No borrowing existed as per the balance sheet date.

26. Issued securities, etc.

	2017	2016
Commercial paper[1]	555	1,390
Bond issues	5,059	3,202
Covered bonds	19,699	17,545
Total	**25,313**	**22,137**

Remaining maturity max 1 year	5,811	5,039
Remaining maturity longer than 1 year	19,502	17,098

[1] Discounting instruments are reported inclusive of accrued interest as per the balance sheet date.

Skandiabanken issues and repurchases own-issued debt instruments as part of the funding of its operations. Following is an account of such activities during the year:

Issued during the year	12,400	10,930
Repurchased	-3,312	-1,550
Matured	-5,938	-4,620
Change in amortised cost	29	44
Change in value of hedge instrument	-3	-3
Change for the year	**3,176**	**4,801**

27. Current tax liabilities

	2017	2016
Current tax liabilities	—	0
Total	**0**	**0**

28. Other liabilities

	2017	2016
Securities settlement liabilities	96	85
Derivative instruments[1]	41	97
Trade payables	28	21
Other[2]	360	269
Total	**525**	**472**

[1] For further information about derivative instruments, see note 36.

[2] Includes liability to Skandia AB related to group contribution of SEK 206 million (157).

29. Accrued expenses and deferred income

	2017	2016
Accrued interest	38	33
Accrued staff costs	24	32
Other accrued expenses	10	13
Total	**72**	**78**

30. Provisions for pensions

Pension plans incl. payroll tax:	2017	2016
Opening balance	**12**	**13**
Current year's provision	0	0
Amount utilised during the year	-1	—
Amount reversed during the year	0	-1
Closing balance	**11**	**12**

Defined benefit pension plans amounted to SEK 0 million (1), of which SEK 0 million (1) pertained to early retirement pension obligations. Payroll tax on defined benefit pension plans amounted to SEK 6 million (5), of which SEK 0 million (0) pertains to early retirement pensions. Payroll tax on defined contribution pension plans amounted to SEK 5 million (6). No part of this pertained to early retirement pensions.

For further information on reporting of defined benefit pension plans, see note 6, Staff costs.

Skandiabanken has secured its employees' pension plans. The pension plans consist mainly of retirement benefits under the FTP plan (collective agreement for occupational pensions for salaried employees in the insurance industry), and in certain cases additional retirement benefits for senior executives. The pension plans consist mainly of retirement pensions, disability pensions and family pensions.

Skandiabanken's pension plans are funded through payment of insurance premiums – in Sweden primarily to Skandia Mutual. The pension obligation also includes a defined benefit liability pertaining to certain employees' right to early retirement. Under the applicable collective agreement, employees in this category have the right to early retirement at 62 years of age.

The pension obligations that have been secured through company-owned endowment insurance policies are not carried as a liability on the balance sheet. The value of these pension obligations corresponds to the cash surrender value of the endowment insurance policies. As a consequence of reporting the pension obligations pledged through endowment insurance policies, the endowment insurance policies are not reported as an asset on the balance sheet. The endowment insurance policies are pledged to the benefit of the persons entitled to the pensions and are thus reported as pledged assets. The value of the pledged assets, SEK 47 million (47), corresponds to the cash surrender value of the endowment insurance policies. For contributions to the endowment insurance policies, the premiums are reported as a pension cost. A provision is made on the balance sheet for payroll tax on pension obligations secured through company-owned endowment insurance policies. In the income statement, the costs consist of pension premiums for defined contribution and defined benefit pension plans along with the associated payroll tax.

31. Subordinated liabilities

	2017	2016
Perpetual subordinated loans	900	900
Total	**900**	**900**

2017

Nominal amount	Interest terms	Due date
900	3 mth Stibor +1.25%	Perpetual

2016

Nominal amount	Interest terms	Due date
900	3 mth Stibor +1.25%	Perpetual

The perpetual subordinated loans are provided by Skandia Mutual. The interest due date is quarterly.

OTHER DISCLOSURES

32. Pledged assets, contingent liabilities and commitments

Assets pledged and therewith comparable collateral pledged for own liabilities	2017	2016
Assets pledged for covered bonds – home mortgages[1]	25,135	22,504
Total	**25,135**	**22,504**

[1] Pledged assets consist of home mortgages and any additional collateral in the form of other financial instruments. The value of the respective forms of collateral shall at any given time amount to a minimum of the outstanding bond liability. See note 1, Significant accounting and valuation policies, for further information.

Other pledged assets and comparable collateral		
Bonds pledged with the Central Bank of Sweden[1]	2,290	2,693
Cash[2]	132	153
Endowment insurance policies pledged as security for pension obligations[3]	47	47
Total	**2,469**	**2,893**

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' carrying amount. 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 has 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 for 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 is pledged as security to SEB for Skandiabanken's interest rate swaps.

[3] Skandiabanken has pension obligations totalling SEK 47 million (47) that are not carried on the balance sheet, which are covered by the value of the company-owned endowment insurance policies.

Commitments		
Unutilised part of granted overdraft facilities	1,842	1,905
Granted but not paid-out credits	11,342	15,219
Total	**13,184**	**17,124**

All obligations are stated in nominal amounts.

33. 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 case.

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.

34. Information on capital adequacy

Common Equity Tier 1 capital: Instruments and reserves	2017	2016
Equity instruments and accompanying share premium reserves	400	400
Undistributed earnings	3,365	3,172
Accumulated other comprehensive income	4	34
Net profit for the year after deducting foreseeable costs and dividends that have been verified by persons in an impartial position	-3	0
Common Equity Tier 1 capital before regulatory adjustments	**3,766**	**3,606**
Additional value adjustments	-9	-7
Intangible assets	-124	-142
Deferred tax assets arising as a result of temporary differences	-7	-10
Losses for current year	—	-10
Total regulatory adjustments of Common Equity Tier 1 capital	**-140**	**-169**
Common Equity Tier 1 capital[1]	**3,626**	**3,437**
Tier 1 capital contribution: instruments	**—**	**—**
Tier 1 capital[2]	**3,626**	**3,437**
Tier 2 capital: instruments and provisions		
Equity instruments and accompanying share premium reserves	900	900
Tier 2 capital before regulatory adjustments	**900**	**900**
Total regulatory adjustments of Tier 2 capital	**—**	**—**
Tier 2 capital[3]	**900**	**900**
Total capital	**4,526**	**4,337**
Total risk-weighted exposure[4]	**23,462**	**22,942**

Capital ratios and buffers	2017	2016
Common Equity Tier 1 capital[5]	15.5%	15.0%
Tier 1 capital[6]	15.5%	15.0%
Total capital[7]	19.3%	18.9%
Institution-specific buffer requirement (Common Equity Tier 1 capital requirement according to Pillar I and buffer requirement) as a percentage of risk-weighted exposure[8]	9.0%	8.5%
Of which: capital conservation buffer requirement	*2.5%*	*2.5%*
Of which: countercyclical buffer requirement	*2.0%*	*1.5%*
Available Common Equity Tier 1 capital to be used as buffer, as a percentage of risk-weighted exposure[9]	9.5%	9.0%
Amounts below threshold value		
Direct holdings of equity in units in the financial sector in which the institution does not have any material investment	10	10
Risk-weighted exposure		
Credit risk	21,842	21,491
Settlement risk	0	0
Currency risk	5	20
CVA risk	1	13
Operational risk	1,614	1,418
Total risk-weighted exposure	**23,462**	**22,942**
Capital base requirement[10]		
Credit risk	1,747	1,719
Settlement risk	0	0
Currency risk	1	2
CVA risk	0	1
Operational risk	129	113
Total minimum capital base requirement	**1,877**	**1,835**
Leverage ratio[11]	**5.1%**	**5.1%**

Cont. note 34. Information on capital adequacy

Specification of capital base requirement for credit risks

31 December		2017		2016	
Exponeringsklasser		**Risk-weighted exposure**	**Capital base requirement[10]**	**Risk-weighted exposure**	**Capital base requirement[10]**
1	Exposures to governments and central banks	0	0	0	0
2	Exposures to regional governments or local authorities	0	0	0	0
4	Exposures to multilateral development banks	0	0	—	—
6	Exposure to institutions	130	10	152	12
	of which, counterparty risk	*14*	*1*	*16*	*1*
7	Exposure to corporates	351	28	151	12
	of which, counterparty risk	*0*	*0*	*0*	*0*
8	Retail exposures	463	37	535	43
9	Exposures secured by mortgages on immovable property	20,399	1,632	20,040	1,603
	of which, residential properties	*20,399*	*1,632*	*20,040*	*1,603*
	of which, commercial properties	—	—	—	—
10	Exposures in default	36	3	50	4
12	Exposures in the form of covered bonds	396	32	396	32
15	Exposures in the form of collective investment undertakings (CIUs)	0	0	49	4
16	Equity exposures	11	1	10	1
17	Other items	56	4	108	8
	Total	**21,842**	**1,747**	**21,491**	**1,719**

Definitions and concepts

1 Common Equity Tier 1 capital consists of equity less items that may not be included in the capital base, such as intangible assets, deferred tax assets and value adjustments. Value adjustments are deducted in accordance with the simplified approach for financial instruments measured at fair value, which is regulated in Commission Delegated Regulation (EU) No 2016/101 on prudent valuation standards. Profit for the period or year is included in cases where external auditors have verified the profit and permission has been granted by the Financial Supervisory Authority. Deduction is made for foreseeable charges and any dividends in accordance with Commission Delegated Regulation (EU) 241/2014. The loss for the period is always included in Common Equity Tier 1 capital. If the interim result is positive but is not included in the capital base, deduction is made for Common Equity Tier 1 capital for specific credit risk adjustments during the period, in accordance with Commission Delegated Regulation (EU) 183/204. This deduction is shown on the line “Losses for current year”.

2 Tier 1 capital consists of Common Equity Tier 1 capital and other Tier 1 capital. Skandiabanken does not have any Tier 1 capital supplements, which entails that Common Equity Tier 1 capital is equal to Tier 1 capital.

3 Tier 2 capital consists of perpetual subordinated debt. Repayment of the subordinated loan can only be made if Skandiabanken declares bankruptcy or goes into liquidation, or with the consent of the Financial Supervisory Authority.

4 By total risk-weighted exposure is meant the sum of exposures to credit risk, settlement risk, currency risk, credit value adjustment (CVA) risk and operational risk that has been measured and risk-weighted in accordance with capital adequacy rules. By exposures is meant asset items on the balance sheet and off balance sheet obligations. The value of exposures for off-balance obligations corresponds to 0%-100% of the nominal amount, depending on the risk in the obligation.

5 The Common Equity Tier 1 capital ratio is the ratio between Common Equity Tier 1 capital and the risk-weighted exposure, expressed as a percentage. The statutory, minimum level according to the Capital Requirements Regulation (Pillar I) is 4.5% before the buffer requirement.

6 The Tier 1 capital ratio is the ratio between Tier 1 capital and the risk-weighted exposure, expressed as a percentage. The statutory minimum level according to the Capital Requirements Regulation (Pillar I) is 6%.

7 The total capital ratio is the ratio between total capital and the risk-weighted exposure, expressed as a percentage. The statutory minimum level according to the Capital Requirements Regulation (Pillar I) is 8%.

8 Institution-specific buffer requirement pertains to the sum of the Common Equity Tier I capital requirement according to the Capital Requirements Regulation, plus applicable buffer requirements. Specified as a percentage of risk-weighted exposure.

9 Common Equity Tier 1 capital available as a buffer refers to Common Equity Tier 1 capital after deduction for the capital used to meet the capital base requirement according to Pillar I. Specified as a percentage of risk-weighted exposure.

10 The capital base requirement pertains to the Pillar I requirement, which is 8% of the risk-weighted exposure.

11 The leverage ratio is a non-risk-weighted measure that specifies the ratio between Tier 1 capital and total assets, including off balance sheet items.

Cont. note 34. Information on capital adequacy

Table of the most important parts of equity instruments

Line	Information	Common Equity Tier 1 capital	Tier 2 capital
1	Issuer	Skandiabanken Aktiebolag (publ)	Skandiabanken Aktiebolag (publ)
3	Governing law(s) for instruments	Swedish law	Swedish law
	Legal treatment		
4	Transitional rules according to Capital Requirements Regulation	Common Equity Tier 1 capital	Tier 2 capital
5	Stipulations in Capital Requirements Regulation after transitional period	Common Equity Tier 1 capital	Tier 2 capital
6	Acceptable at individual/group (sub-group) level/individual and group (sub-group) level	Individual	Individual
7	Type of instrument (types to be specified by each jurisdiction)	Common Equity Tier 1 capital according to Regulation (EU) No 575/2013 Article 28	Tier 2 capital according to Regulation (EU) No 575/2013 Article 63
8	Amounts reported in statutory capital (currency in environments, according to most recent reporting date)	SEK 400,000,000	SEK 900,000,000
9	Instrument's nominal amount	SEK 400,000,000	SEK 900,000,000
9a	Issue price	n.a.	100%
9b	Redemption price	n.a.	100%
10	Reporting classification	Equity	Debt – amortised cost
11	Original issue date	9 June 1994	2 January 2014
12	Perpetual or time-specific	Perpetual	Perpetual
13	Original due date	No due date	No due date
14	Issuer's redemption right covered by requirement for advance permission from regulatory authority	No	Yes
15	Discretionary redemption date, conditional redemption date and redemption amount	n.a.	2 January 2019
16	Subsequent redemption date, where applicable	n.a.	Yearly on 30 March, 30 June, 30 September, 31 December after 2 January 2019
	Coupons/dividends		
17	Fixed or floating interest/coupon	n.a.	Floating
18	Coupon interest and any accompanying index	n.a.	STIBOR + 125 bps
19	Existence of dividend prohibition	No	No
20a	Entirely discretionary, partly discretionary, or obligatory (regarding point in time)	Entirely discretionary	Partly discretionary
20b	Entirely discretionary, partly discretionary, or obligatory (regarding amount)	Entirely discretionary	Partly discretionary
21	Existence of step-up or other incentive for redemption	n.a.	No
22	Non-accumulative or non-convertible	Non-accumulative	Non-accumulative
23	Convertible or non-convertible	Non-convertible	Convertible
24	If convertible, conversion trigger(s)	n.a.	To avoid liquidation, Skandiabanken has the right to utilise all or parts of the loan's principal including accrued interest, by converting the sum of a conditional shareholder contribution
25	If convertible, fully or partly	n.a.	Fully or partly
27	If convertible, obligatory or voluntary conversion	n.a.	At the issuer's discretion
30	Write-down components	No	No
35	Position in prioritisation hierarchy for liquidation (specify type of instrument that is directly higher in ranking)	Tier 2 capital (because Other Tier 1 capital is zero)	Prioritised debt
36	Parts from transitional period that do not meet requirements	No	No

n.a. – Not applicable.

Cont. note 34. Information on capital adequacy

Applied rules and regulations

Calculation of the capital base and capital base requirements is carried out in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation), and regulations that supplement the Capital Requirements Regulation, the Act on Capital Buffers *(Lagen (2014:966) om kapitalbuffertar)*, and the Financial Supervisory Authority's regulations and general guidelines on regulatory requirements and capital buffers (FFFS 2014:12). The outcome pertains to calculations in accordance with the statutory minimum requirement for capital, referred to as Pillar I, for credit risk, settlement risk, market risk, operational risk and credit valuation adjustment (CVA) risk, and the capital requirement in accordance with the combined buffer requirement.

Disclosures in this note are provided in accordance with the Capital Requirements Regulation and regulations that supplement the Capital Requirements Regulation, the Financial Supervisory Authority's regulations and general guidelines regarding annual reports of credit institutions and securities firms (FFFS 2008:25), and the Financial Supervisory Authority's regulations on regulatory requirements and capital buffers. Detailed information about these rules and regulations is provided in a separate Pillar III report, see www.skandiabanken.se, Om oss, Om Skandia, Finansiell information, Skandias bank, Information om kapitaltäckning & riskhantering, 2017, 1712 Årlig information - kapitaltäckning och riskhantering.

Skandiabanken applies the standardised approach in calculating the capital base requirement for credit risk, which entails that 17 exposure classes are used along with a number of different risk weights within each class. Credit risk is calculated for all asset items on and off the balance sheet that are not deducted from the capital base. The capital base requirement for currency risks comprises all balance sheet items and off balance sheet items measured at current market value and recalculated to Swedish kronor using the exchange rate in effect on the balance sheet date. The capital base requirement for CVA risk is calculated using the standardised approach and pertains to positions in OTC derivatives that are not cleared by a qualified central counterparty. The capital base requirement for operational risk is calculated using the basic indicator approach, which entails a capital base requirement equal to 15% of average operating income for the three most recent financial years. The capital base requirement the trading account is calculated in accordance with the rules for credit risk. The combined buffer requirement is 4.5% of the risk-weighted exposure and consists of a capital conservation buffer of 2.5% and a countercyclical buffer of 2.0%.

The Bank's internally assessed capital requirement as per 31 December 2017 is SEK 593 million, which is calculated with the support of Economic Capital models (EC models). The internally assessed capital requirement cannot be compared with the capital requirement that is published quarterly by the Financial Supervisory Authority.

The leverage ratio is calculated as a complementary measure of capital, in accordance with the Capital Requirements Regulation. The leverage ratio is a non-risk-weighted exposure measure of Tier 1 capital in relation to total assets and off-balance sheet obligations, recalculated using a conversion factor.

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

Transfers of funds from the capital base, such as in the form of a dividend, may be made in accordance with the Capital Requirements Regulation, the Banking and Financing Business Act (*Lagen (2004:297) om bank- och finansieringsrörelse*), the Companies Act (*Aktiebolagslagen (2005:551)*), the Act on Capital Buffers and the Financial Supervisory Authority's regulations and general guidelines.

Strategy, methods and processes for capital allocation

The minimum capital requirement set out in the Capital Requirements Regulation (Pillar I) is 8%. On top of this minimum requirement, the Bank holds capital to meet the combined buffer requirement as well as the total capital requirement that results from the Bank's internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP), which is performed under Pillar II. The ICAAP aims to illuminate risks that could possibly be underestimated when calculating the capital base requirement according to Pillar I and to identify other significant risks than those regulated by the Capital Requirements Regulation and which are reported on above. The ICAAP is based on Skandiabanken's business plan, current and forthcoming regulatory requirements, and various scenario analyses.

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 35, Risks and risk management – financial instruments and other risks.

35. Risks and risk management – financial instruments and other risks

35.1 Goals and policy
All business is exposed to risks, and Skandiabanken's goal and policy 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 shareholder. This is achieved, for example, by using various financial instruments to reduce financial risk and by actively managing risks through supervision, continuous monitoring and control.

35.2 Internal governance and control

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

The Board's Risk and Audit Committee
The Board's Risk and Audit 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) and internal liquidity adequacy assessment process (ILAAP). The committee is also 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. The committee decides on such matters that the Board has delegated to the committee.

CEO and the CEO's committees
Skandiabanken's CEO has overarching operational responsibility for governance, management and control of Skandiabanken'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 Skandiabanken's risks. In addition, through the organisation the CEO has delegated parts of her operational responsibility for risk management to the Company's unit managers. Overall risk management and control is conducted under the CEO's direction.

ALCO
The Asset & Liability Committee (ALCO) is a decision-making body that supports the CEO and Chief Financial Officer (CFO) on asset and liquidity issues. The ALCO has a composition of members that enables discussions aimed at optimising risk management and ensuring that proactive and effective actions are taken. The committee addresses issues surrounding the Bank's capital structure and strategies that affect assets, liquidity and financial stability. The ALCO is to discuss and manage the Bank's portfolio composition and key ratios related to risks, and is to use governance tools that enable portfolio optimisation based on requirements for risk-adjusted returns and the effective use of capital. The ALCO is composed of the CEO, the CFO, the Head of Treasury and the Chief Risk Officer (CRO). The committee is to hold at least eight meetings per year.

Risk Committee
The Risk Committee is a drafting body tasked with assisting the CEO and CRO by providing compiled information about the Bank's current and future risks. The Risk Committee is responsible for monitoring and challenging the Bank's aggregate risk profile in relation to the set risk appetite and limits, monitoring the Bank's risk management system and its suitability, and challenging the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP). The Risk Committee is to continuously conduct drafting work ahead of the Risk and Audit Committee's decisions on changes in the Bank's risk strategy, risk framework, and risk appetite and limits. The Risk Committee is composed of the CEO, the CRO, the CFO, the Head of Treasury and the Head of Credits. The committee is to hold at least four meetings per year.

Credit Committee
The Credit Committee is responsible for monitoring Skandiabanken's current and future credit risk situation, defining which rules are to apply for lending, and for approving 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 approved limits. Continuous monitoring and reporting of credit risks are reported back to the ALCO on a recurring basis for discussions. The Credit Committee is composed of the Head of Credits, the CEO, the CFO, the Head of Customers and Administration, the Head of Customer Lending and the Head of Front Office. The committee is to hold at least four meetings a year.

Risk Control function
The Risk Control function is responsible for control, compilation, analysis and reporting of all of Skandiabanken's risks. The Risk Control function's responsibility covers – among other areas – credit risk, counterparty risk, market risk, liquidity risk, operational risk, business risk and strategic risk. The Risk Control function is also tasked with monitoring and challenging Skandiabanken's risk management and risk reporting by validating that they are performed in a correct and suitable manner. Skandiabanken's CRO is responsible for the Risk Control function. The CRO reports to Skandiabanken's CEO and board of directors.

Compliance function
The Compliance function is responsible for identifying, assessing, controlling and reporting risks

Cont. note 35. Risks and risk management – financial instruments and other risks

for noncompliance pertaining to the operations subject to permits and licences, which would lead to sanctions, significant financial losses or harm to the Bank's reputation. The function provides advice and support on compliance issues to the Board of Directors, management and relevant persons in the operations. The function's monitoring work is conducted according to a risk-based yearly plan that has been decided on by the Board of Directors. The function is directly subordinate to and reports on a regular basis to the CEO. The function provides quarterly, written reports on Skandiabanken's compliance to the CEO and Board of Directors, and attends the board meetings where these reports are addressed.

The function includes a Chief Compliance Officer (CCO), who is responsible for the function's duties and for all compliance reporting.

Internal Audit

Internal Audit is an independent audit function with the main purpose of reviewing and evaluating internal control at Skandiabanken. Internal Audit's review processes are conducted in accordance with an audit plan that is prepared each year by the Risk and Audit Committee, and approved by the Board of Directors. Internal Audit reports directly to the Board of Directors. The unit is centrally placed in Skandia Mutual.

Internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP)

The internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) analyse all significant risks that Skandiabanken is or may be exposed to, based on established business, funding and operational plans. Stress tests and scenario analyses are based on a number of macro- and micro-scenarios in an effort to analyse the effect of unfavourable conditions on the Bank's capital and liquidity requirements. This aggregate risk assessment then forms the base for the capital planning. This entails that Skandiabanken retains capital for the significant risks for which capital is judged to constitute a vital risk-absorbing element. The single largest risk for which capital is not reserved is liquidity risk, since the Bank is of the opinion that this risk cannot be managed by reserving additional capital. Liquidity risk is managed through established, proactive processes for monitoring and escalating, controls and funding plans, and by policies and limits set by the Board of Directors.

35.3 Delegation of risk and control responsibility – three lines of defence

Internal control

Skandiabanken's operations are to be distinguished by good internal control. Skandiabanken's internal control is built upon an operations-adapted application of the three lines of defence principle. The three lines of defence make up the general foundation for the Bank's risk management, risk control and compliance. The three lines of defence principle aims to clarify the division of responsibility for risk and compliance in Skandiabanken and distinguishes 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 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.

Following is an overview of the duties and responsibilities in the respective lines of defence.

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 operating business units have full responsibility for business control and the risks that arise in their own operations.

The operating business units' responsibility lies primarily in taking a risk inventory (including risks attributable to noncompliance), reporting and managing risks and violations of internal or external rules and regulations, evaluating and measuring these risks, and implementing policy documents for the business unit and continuously ensuring compliance with external and internal rules and regulations.

Skandiabanken's functions in the second line of defence

The second line of defence is responsible for independently monitoring risks and compliance, and for performing an overall analysis and reporting of Skandiabanken's risks. The second line of defence maintains principles and frameworks for the risk management performed by the first line of defence and validates the first line's methods and models for risk measurement and control. The second line of defence is also responsible for challenging the first line's work. The organisation and governance of operations and of persons in the second line of defence may not be structured in such a way that it jeopardises or risks jeopardising its requirements for independence/impartiality.

Skandiabanken's second line of defence consists of the Risk Control function and the Compliance function. The Company's board of directors adopts policies that regulate these functions'/roles' areas of responsibility, work duties and reporting routines in more detail.

Skandiabanken's function in the third line of defence

The third line of defence is the part of operations that is responsible for conducting independent evaluation (review) of the work performed in the first and second lines of defence. Internal Audit makes up the third line of defence.

The Internal Audit function is functionally independent and serves in an oversight and to some extent advisory role, and is responsible for evaluating and thereby improving Skandiabanken's operations. The Internal Audit function is directly subordinate to Skandiabanken's board of directors and is organisationally entirely segregated from Skandiabanken's other operations.

Skandiabanken's board of directors adopts a policy for the Internal Audit function, which among other things specifies its areas of responsibility, work duties and reporting routines.

35.4 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 Skandiabanken's receivable.

Governance of credit risk

Ultimate responsibility for Skandiabanken's credit risk rests with the Board of Directors, while the CEO is responsible for continuing administration. The CEO has delegated responsibility for credit risk associated with lending to the general public to the Head of Credits. Responsibility for credit risk with respect to total liquidity and large exposures has been delegated by the CEO to the CFO.

The CRO has overarching responsibility for control of credit risk. The Risk Committee is responsible for monitoring Skandiabanken's risks. Recommendations for changes to policies and limits

Cont. note 35. Risks and risk management – financial instruments and other risks

are made at least once a year to the Board's Risk and Audit Committee after review by Skandiabanken's Risk Committee, the ALCO and the Credit Committee. The Credit Committee decides on specific credit matters and addresses credit-related regulatory matters and decision-making criteria for lending. The Board's Risk and Audit Committee is responsible for reviewing and approving strategies, models and guidelines for Skandiabanken's management of credit risk at least once a year.

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 other exposures, mainly investments of liquidity.

Skandiabanken's lending to the general public consists of retail exposures to private individuals, primarily in the form of home mortgage loans secured by real estate or tenant-owner rights, personal loans, account lines of credit, credit card credits and custody account lending.

Risk is managed by reviewing all credit applications based on an evaluation of the credit applicant's ability to repay, 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 business with any co-signers. The assessment is for the most part handled through a credit approval system based on a credit scoring 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 diversification of risk. Table 1, "Credit risk exposure, gross and net", shows the low level of credit risk for lending to the general public. Excluding loans to the Swedish National Debt Office, the credit exposure amounted to SEK 58 billion (56) before taking market-valued collateral into account and to SEK 1 billion (1) after taking collateral into account. The credit quality of financial assets that have neither fallen due for payment nor need to be written down is considered to be good, and loan losses remain low.

Skandiabanken holds surplus liquidity, which is invested in short-term lending and fixed-income securities with counterparties consisting of governments, municipalities, institutions and companies. In addition, Skandiabanken has exposures to derivative counterparties. Credit risk is managed by assessing the exposures based on an evaluation of the counterparty's ability to repay, financial situation, and the value of any collateral pledged. In contrast to retail exposures, assessment of the creditworthiness of counterparties is always done through a manual routine. The Board of Directors has delegated these assessments to the Asset & Liability Committee (ALCO). Holdings of fixed-income securities constitute Skandiabanken's liquidity buffer. For further information, see below under point 35.6, Liquidity risk.

Credit-related concentration risks arise in connection with individual exposures or groups of exposures, whose risk for default shows a significant degree of covariation. 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. Skandiabanken's credit strategy is that the portfolio of home mortgage loans shall be concentrated to larger cities in Sweden with well-working housing markets, that is, growth areas with a permanent demand for housing, and no lending shall be granted for speculative purposes. Skandiabanken monitors and reports on concentration risk on a regular basis. The breakdown of total credit risk exposure, including off-balance obligations carried at their nominal amount, amounted to 84% (86%) for mortgage loans for private individuals (primarily in major metropolitan areas), 6% (5%) for exposures to credit institutions (of which 87% (90%) pertained to covered bonds), 3% (3%) for other retail credits, 7% (5%) for government and municipal exposures, and 1% (0%) for exposures to corporates regarding investments. See the following table for credit risks.

Counterparty risk arises out of the credit risk in Skandiabanken's transactions in interest rate and foreign exchange derivatives. Counterparty risks are measured and limited in accordance with applicable internal processes.

When calculating counterparty risk for capital adequacy assessment purposes, the market valuation method is used – without taking netting into account – where an amount is added to the market value to reflect any potential change in future credit exposure during the term of the derivative in question. ISDA Master Agreements have been entered into with all derivative counterparties. All ISDA Master Agreements also have associated CSA Agreements that regulate the pledging of collateral to reduce counterparty risk. For further information about financial assets and liabilities that are offset or subject to netting agreements, see note 37. The counterparty exposure amounted to SEK 58 million (49), of which SEK 13 million (12) consists of a positive market value and SEK 44 million (37) of potential future credit exposure. Disclosures of credit risks are provided in the following table on credit risks.

Table 1 – Credit risk exposure, gross and net

	2017			2016		
	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	—	2	2	—
- Other	2	3	—	4	6	—
Corporates	**4**	**5**	**—**	**6**	**8**	**—**
- Houses and vacation homes	32,677	91,388	84	32,109	87,389	71
- Tenant-owner apartments	24,873	53,597	1	23,374	50,523	2
- Other real estate	70	129	—	54	142	—
- Other	679	111	569	765	121	645
Private individuals	**58,299**	**145,225**	**654**	**56,302**	**138,175**	**718**
Public sector						
Swedish National Debt Office	887	—	887	425	—	425
Public sector	**887**	**—**	**887**	**425**	**—**	**425**
Total lending to the general public	**59,190**	**145,230**	**1,541**	**56,733**	**138,183**	**1,143**

Cont. note 35. Risks and risk management – financial instruments and other risks

	2017			2016		
	Credit risk expo-sure after provisions	Value of collateral	Credit risk expo-sure after deduc-tions for collateral	Credit risk expo-sure after provisions	Value of collateral	Credit risk expo-sure after deduc-tions for collateral
Lending to credit institutions[2]						
- AA	0	0	0	76	—	76
- A	412	—	412	149	—	149
- No rating	5	—	5	5	—	5
Institutions	**417**	**0**	**417**	**230**	**—**	**230**
Total lending to credit institutions[1, 2]	**417**	**0**	**417**	**230**	**—**	**230**
Fixed-income securities[3]						
- AAA	2,453	—	2,453	750	—	750
- AA+	2,265	—	2,265	2,890	—	2,890
- No rating	50	—	50	—	—	—
Governments and municipalities	**4,768**	**—**	**4,768**	**3,640**	**—**	**3,640**
- AAA	3,727	—	3,727	3,193	—	3,193
- AA	325	—	325	769	—	769
- BBB	100	—	100	200	—	200
Institutions	**4,152**	**—**	**4,152**	**4,162**	**—**	**4,162**
- AA	100	—	100	—	—	—
- A	341	—	341	—	—	—
Corporates	**441**	**—**	**441**	**—**	**—**	**—**
Total fixed-income securities[1, 3]	**9,361**	**—**	**9,361**	**7,802**	**—**	**7,802**

	2017			2016		
	Credit risk expo-sure after provisions	Value of collateral	Credit risk expo-sure after deduc-tions for collateral	Credit risk expo-sure after provisions	Value of collateral	Credit risk expo-sure after deduc-tions for collateral
Derivatives						
-AAA - AA-	13	—	13	7	—	7
A+ till A-	—	—	—	5	—	5
Total derivatives, institutions[1]	**13**	**—**	**13**	**12**	**—**	**12**
Total derivatives	**13**	**—**	**13**	**12**	**—**	**12**
Total on balance sheet	**68,981**	**145,230**	**11,332**	**64,777**	**138,183**	**9,187**
Derivatives, possible change in credit risk exposure	44	—	44	37	—	37
Unutilised part of granted overdraft facilities	1,842	—	1,842	1,905	—	1,905
Loans granted but not paid out	11,342	—	11,342	15,219	—	15,219
Total, off balance sheet	**13,228**	**—**	**13,228**	**17,161**	**—**	**17,161**
Total	**82,209**	**145,230**	**24,560**	**81,938**	**138,183**	**26,348**

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

[1] Credit 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 are guaranteed by governments and municipalities; these have been classified in the Governme-nts and municipalities category of the party issuing the guarantee. 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.

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

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

Cont. note 35. Risks and risk management – financial instruments and other risks

Breakdown of collateral for lending to the general public

To reduce credit risk and concentration risk related to loan receivables, Skandiabanken has collateral for mortgage loans in the form of mortgage deeds or tenant-owner rights. For custody account lending, collateral is held in the form of equities. Information on the value of collateral is provided the table "Breakdown of collateral for lending to the general public". External market valuations of collateral have been obtained for home mortgage lending. Surety bonds are stated in their nominal amounts. See the table below for a breakdown of the various categories of collateral.

Table 2 – Breakdown of collateral for lending to the general public

2017	Mortgage deeds[1]	Surety	Other collateral	Total value of collateral	Value of collateral for non-performing loans	Value of collateral for impaired loans
Corporates						
- Real estate	2	—	—	2	—	—
- Other	—	—	3	3	—	—
Total corporates	**2**	**—**	**3**	**5**	**—**	**—**
- Houses and vacation homes	91,387	—	1	91,388	972	1
- Tenant-owner apartments	—	—	53,597	53,597	925	—
- Other real estate	129	—	—	129	—	—
- Other	11	28	72	111	8	1
Total, private individuals	**91,527**	**28**	**53,670**	**145,225**	**1,905**	**2**
Total collateral	**91,529**	**28**	**53,673**	**145,230**	**1,905**	**2**
2016						
Corporates						
- Real estate	2	—	—	2	—	—
- Other	—	—	6	6	—	—
Total corporates	**2**	**—**	**6**	**8**	**—**	**—**
- Houses and vacation homes	87,388	—	1	87,389	930	1
- Tenant-owner apartments	—	—	50,523	50,523	827	—
- Other real estate	142	—	—	142	—	—
- Other	12	34	75	121	12	2
Total, private individuals	**87,542**	**34**	**50,599**	**138,175**	**1,769**	**3**
Total collateral	**87,544**	**34**	**50,605**	**138,183**	**1,769**	**3**

[1] Houses, vacation homes and other real estate are stated at market value.

Credit quality

Information about credit quality is provided with a breakdown into lending to the general public and other exposures. Credit quality for lending to the general public in the form of, for example, loan-to-value ratios, risk for default, and "left-to-live-on" calculations, was constant during the year, even though a cooling of the housing market was noted in late autumn 2017.

Lending to the general public amounted to SEK 58 billion (56), excluding loans to the Swedish National Debt Office. For home mortgage loans, totalling SEK 58 billion (55), Skandiabanken 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 secured by collateral in real estate, 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 PD 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 nine risk classes, where risk class 1 constitutes the lowest risk and risk class 9 the highest risk. Defaulted credits are designated a special risk class for defaulted credits. LGD is based mainly on the loan-to-value ratio, i.e., the value of the collateral in relation to the loan's amount.

Table 3 – Lending to the general public before provisions – home mortgage loans

	2017		2016	
Risk class	**Total**	**Share**	**Total**	**Share**
1	14,093	0.25	13,652	0.25
2	13,285	0.23	17,314	0.31
3	12,637	0.22	14,568	0.27
4	6,940	0.12	4,116	0.08
5	5,334	0.10	2,745	0.05
6	3,653	0.06	1,289	0.02
7	1,258	0.02	1,301	0.02
8	126	0.00	218	0.00
9	196	0.00	232	0.00
Default	34	0.00	43	0.00
Total	**57,556**	**1.00**	**55,478**	**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 Skandiabanken's liquidity buffer under point 35.6 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 0.02% (0.02%). Impaired loans, net, i.e., impaired loans after deducting provisions for probable loan losses, amounted to 0.01% (0.02%) 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, Significant accounting and valuation policies. Disclosures of lending and provisions are provided in note 15, Lending to the general public.

Cont. note 35. Risks and risk management – financial instruments and other risks

Table 4 – Non-performing loans[1]

31 December 2017	30 days or less	>30 days <60 days	>60 days <90 days	>90 days <180 days	>180 days <360 days	>360 days	Total
Private individuals							
- Houses and vacation homes	905	52	4	6	5	0	972
- Tenant-owner apartments	857	49	6	9	1	3	925
- Other real estate	0	0	0	0	0	0	0
- Other	7	1	0	0	0	0	8
Private individuals	**1,769**	**102**	**10**	**15**	**6**	**3**	**1,905**
Total lending to the general public	**1,769**	**102**	**10**	**15**	**6**	**3**	**1,905**
31 December 2016							
Private individuals							
- Houses and vacation homes	799	114	6	5	0	0	924
- Tenant-owner apartments	727	75	5	7	6	1	821
- Other	6	6	—	—	—	—	12
Private individuals	**1,532**	**195**	**11**	**12**	**6**	**1**	**1,757**
Total lending to the general public	**1,532**	**195**	**11**	**12**	**6**	**1**	**1,757**

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

Most non-performing loans in the interval 30 days or less have been settled in their entirety within 10 days after their due date.

Table 5 – Impaired loans

	Impaired loans before provisions		Provisions	
	2017	**2016**	**2017**	**2016**
Private individuals				
- Houses and vacation homes	10	13	3	3
- Tenant-owner apartments	—	—	3	1
- Other	6	10	5	8
Private individuals	**16**	**23**	**11**	**12**
Lending to the general public	**16**	**23**	**11**	**12**

Concessions

Loan receivables that have been granted concessions during the past two years amounted to 0.51% (0.26%) of lending to the general public. The definition of concessions corresponds to Regulation (EU) No 680/214 laying down technical standards with regard to supervisory reporting of institutions according to the Capital Requirements Regulation. Accumulated provisions for loan receivables that have been granted a concession amounted to SEK 4 million (6) as per December 2017.

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 2017.

35.5 Market risk

Market risk pertains to the risk that Skandiabanken's value or earnings will be negatively impacted by changes in interest rates, exchange rates or share prices. Skandiabanken has a low market risk appetite and is exposed to market risks primarily in the form of interest rate risk. Skandiabanken has a limited trading account to enable equity and fund trading, and currency risk and price risk exist only to a limited extent.

35.5.1 Interest rate risk

Interest rate risk arises in connection with a mismatch of fixed-interest periods for assets, liabilities and derivative instruments, and the fair value or future cash flows are subsequently affected by changes in market interest rates.

Governance of interest rate risk

Ultimate responsibility for Skandiabanken's interest rate risk lies with the Board of Directors, while the CEO is responsible for continuing administration. The CEO has delegated responsibility for interest rate risk to the CFO of Skandiabanken.

Skandiabanken's CRO is responsible for independent risk control of interest rate risks, which includes analysis and control as well as model validation.

Cont. note 35. Risks and risk management – financial instruments and other risks

Management and measurement of interest rate risk

Skandiabanken has 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. The main principle is to hedge lending and borrowing at fixed interest rates with interest rate swaps and matching of borrowing and lending. Most assets on Skandiabanken's balance sheet, after risk coverage, are therefore short-term. The table below shows interest-bearing assets, liabilities and derivatives on the balance sheet.

Table 6 – Interest rate risk – interest rate fixing periods for assets and liabilities

31 December 2017

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	7-10 yrs	Non-interest	Total
Interest-bearing assets												
Cash	16	—	—	—	—	—	—	—	—	—	—	16
Eligible treasury bills	1,830	2,888	—	—	—	—	—	—	—	—	—	4,718
Lending to credit institutions	417	—	—	—	—	—	—	—	—	—	—	417
Lending to the general public	17,508	32,484	1,291	1,734	2,173	2,754	493	753	—	—	—	59,190
Bonds and other fixed-income securities	1,250	3,151	202	—	—	—	—	40	—	—	—	4,643
Total interest-bearing assets	**21,021**	**38,523**	**1,493**	**1,734**	**2,173**	**2,754**	**493**	**793**	**—**	**—**	**—**	**68,984**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	—	461	461
Total assets	**21,021**	**38,523**	**1,493**	**1,734**	**2,173**	**2,754**	**493**	**793**	**—**	**—**	**461**	**69,445**
Interest-bearing liabilities												
Deposits and borrowing from the general public	38,502	38	30	80	71	23	23	13	—	—	—	38,780
Issued securities, etc.	5,332	17,434	—	—	800	900	300	300	—	250	—	25,316
Subordinated liabilities	—	900	—	—	—	—	—	—	—	—	—	900
Total interest-bearing liabilities	**43,834**	**18,372**	**30**	**80**	**871**	**923**	**323**	**313**	**—**	**250**	**—**	**64,996**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	—	4,449	4,449
Total liabilities and equity	**43,834**	**18,372**	**30**	**80**	**871**	**923**	**323**	**313**	**—**	**250**	**4,449**	**69,445**
Interest rate swaps												
Long positions	2,770	7,820	—	—	500	900	300	300	—	250	—	12,840
Short positions	400	3,400	1,260	1,760	2,150	2,580	530	760	—	—	—	12,840
Difference, assets and liabilities	**-20,443**	**24,571**	**203**	**-106**	**-348**	**151**	**-60**	**20**	**—**	**—**	**-3,988**	**—**

Cont. note 35. Risks and risk management – financial instruments and other risks

31 December 2016

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	7-10 yrs	Non-interest	Total
Interest-bearing assets												
Cash	15	—	—	—	—	—	—	—	—	—	—	15
Eligible treasury bills	169	3,471	—	—	—	—	—	—	—	—	—	3,640
Lending to credit institutions	230	—	—	—	—	—	—	—	—	—	—	230
Lending to the general public	16,908	31,970	567	1,320	3,297	1,426	763	482	—	—	—	56,733
Bonds and other fixed-income securities	552	3,610	—	—	—	—	—	—	—	—	—	4,162
Total interest-bearing assets	**17,874**	**39,051**	**567**	**1,320**	**3,297**	**1,426**	**763**	**482**	**—**	**—**	**—**	**64,780**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	—	531	531
Total assets	**17,874**	**39,051**	**567**	**1,320**	**3,297**	**1,426**	**763**	**482**	**—**	**—**	**531**	**65,311**
Interest-bearing liabilities												
Deposits and borrowing from the general public	37,562	62	70	109	91	55	18	21	—	—	—	37,988
Issued securities, etc.	7,735	13,401	200	—	500	—	—	300	—	—	—	22,136
Subordinated liabilities	—	900	—	—	—	—	—	—	—	—	—	900
Total interest-bearing liabilities	**45,297**	**14,363**	**270**	**109**	**591**	**55**	**18**	**321**	**—**	**—**	**—**	**61,024**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	—	4,287	4,287
Total liabilities and equity	**45,297**	**14,363**	**270**	**109**	**591**	**55**	**18**	**321**	**—**	**—**	**4,287**	**65,311**
Interest rate swaps												
Long positions	2,180	6,535	—	—	500	—	—	300	—	—	—	9,515
Short positions	70	1,330	475	980	3,690	1,480	960	530	—	—	—	9,515
Difference, assets and liabilities	**-25,313**	**29,893**	**-178**	**231**	**-484**	**-109**	**-215**	**-69**	**—**	**—**	**-3,756**	**—**

Cont. note 35. Risks and risk management – financial instruments and other risks

Skandiabanken's risk policy quantifies interest rate risk as the effect of a parallel shift in the interest rate curve caused by a 2 percentage point increase. As per 31 December 2017 such a parallel shift would have resulted in a theoretical revaluation of the balance sheet by SEK 112 million (96), net, in negative earnings effect.

In addition, Skandiabanken quantifies interest rate risk using a complementary model that is based on a confidence-based combined scenario that results in a dramatic change in the level, slope and shape of the interest-rate curve. As per 31 December 2017 the outcome of this model is a negative earnings effect of SEK 100 million (135).

Sensitivity analysis of net interest income

Interest rate risk is estimated also as an effect on net interest income over a 12-month period of a one percentage point increase in the interest rate curve. The calculation is based on a static balance sheet and estimates the effect for all assets and liabilities that have an interest rate reset within 12 months. Deposit accounts without set terms are assumed to have 0% elasticity to market interest rates as long as the repo rate is negative, thereafter 100% elasticity. As per 31 December 2017, an increase in the interest rate by one percentage point is estimated to result in an increase in net interest income by SEK 194 million (185). The comparison figure for the preceding year has been changed, as deposits were assumed to be fully affected by an interest rate increase as per the reporting date.

35.5.2 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 Board of Directors, while the CEO is responsible for continuing administration. The CEO has delegated responsibility for currency risk to the CFO of Skandiabanken.

Skandiabanken's CRO is responsible for independent risk control of currency risk, which includes analysis and control, and model validation.

Management and measurement of currency risk

Skandiabanken has as its objective that the income statement should not be affected by currency movements. Currency risks that arise in connection with trading for the benefit of customers, i.e., fund and equity trading in international markets, and currency exposures that arise via customer activities, such as banking transactions, are hedged with currency forward contracts and currency swaps.

Currency risk is calculated for all exposures in foreign currencies pertaining to assets, liabilities and off-balance sheet obligations. The positions are measured at current market value and are translated to SEK at the exchange rate in effect on the balance sheet date. Currency risk is calculated as a possible change in exchange rates by 5% applied to the net exposure in foreign currencies. Currency risk as per 31 December 2017 was SEK 0 million (1).

Table 7 – Assets and liabilities distributed among important currencies

	2017				2016			
Assets	**SEK**	**EUR**	**Other currencies**	**Total**	**SEK**	**EUR**	**Other currencies**	**Total**
Cash and cash balances with central banks	—	16	—	16	—	15	—	15
Eligible treasury bills, etc.	4,718	—	—	4,718	3,640	—	—	3,640
Lending to credit institutions	392	16	9	417	195	35	0	230
Lending to the general public	59,190	—	—	59,190	56,733	—	—	56,733
Fair value of portfolio hedge of interest rate risk	25	—	—	25	83	—	—	83
Bonds and other fixed-income securities	4,643	—	—	4,643	4,162	—	—	4,162
Other assets	418	6	12	436	433	5	10	448
Total assets	**69,386**	**38**	**21**	**69,445**	**65,246**	**55**	**10**	**65,311**
Liabilities and equity								
Liabilities to credit institutions	58	—	—	58	61	—	—	61
Deposits and borrowing from the general public	38,773	27	—	38,800	37,978	30	—	38,008
Issued securities	25,313	—	—	25,313	22,137	—	—	22,137
Other liabilities including equity	4,353	2	19	4,374	4,197	2	6	4,205
Subordinated liabilities	900	—	—	900	900	—	—	900
Total liabilities and equity	**69,397**	**29**	**19**	**69,445**	**65,273**	**32**	**6**	**65,311**

Cont. note 35. Risks and risk management – financial instruments and other risks

35.6 Liquidity risk

Liquidity risk is the risk of not being able to meet payment obligations on the due date without incurring a significant cost for obtaining liquid assets or not even being able to obtain liquid assets. Liquidity risk is broken down into refinancing risk and market liquidity risk. Refinancing 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. Market liquidity risk pertains to the risk of not being able to realise positions at anticipated market prices in cases where the market is not sufficiently liquid or is not effective due to disruptions.

Governance of liquidity risk

Ultimate responsibility for Skandiabanken's liquidity risk lies with the Board of Directors. The CEO is responsible for continuing administration, which includes liquidity management.

The CEO has delegated responsibility for liquidity risk to Skandiabanken's CFO.

With respect to liquidity management, Skandiabanken's CRO is responsible for liquidity risk control, which includes analysis, control, reporting and model validation.

Management of liquidity risk

Treasury is responsible for the daily liquidity management in operations. Liquidity is funded and invested in Swedish kronor (SEK).

Management of intraday liquidity involves monitoring the Bank's payments and ensuring that the requisite volume-pledged collateral is available with the Central Bank of Sweden in the aim of ensuring that the Bank meets its obligations in the Swedish payments system.

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 an analysis of customer behaviours. To ensure that Skandiabanken is not overly dependent on short-term funding, Treasury operates within limits for the maximum daily borrowing need. To ensure that Skandiabanken is not overly dependent on a few deposit customers, Treasury works within limits set by the Board of Directors for deposit concentration. Concentration is measured in terms of deposits from individual customers and deposits from the ten largest customers.

Liquidity management and monitoring includes daily stress tests, measurement and forecasting of liquidity and funding needs, investment and borrowing of liquidity, liquidity preparedness plans and an annual scenario analysis within the framework of the annual internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP). The ICAAP and ILAAP entail a thorough evaluation of all components that together make up and/or support the Bank's liquidity management framework.

Liquidity buffer

To ensure preparedness in situations in which Skandiabanken is in an urgent need of liquidity, Skandiabanken maintains a liquidity buffer. The liquidity buffer consists of available funds that are at Treasury's disposal and that are acceptable as collateral by the Central Bank of Sweden. This ensures that Skandiabanken is able to convert assets to cash at short notice. As per 31 December 2017 the liquidity buffer amounted to SEK 9.7 billion (8.0), which corresponded to 94% (98%) of Skandiabanken's total liquidity.

Treasury also disposes over other liquidity that does not meet the requirement to qualify as part of the liquidity buffer, but which can also be used to ensure the Bank's ability to pay. However, these securities are expected to require longer time to sell and/or can be sold at a higher cost compared with the assets in the liquidity buffer.

Total liquidity amounted to SEK 10.3 billion (8.2) at year-end. Securities making up total liquidity, apart from balances with and lending to central banks and governments of SEK 2.5 billion (0.4), consist of covered bonds, bonds and commercial paper, and have very good credit quality. Of the securities holdings, 66% (51%) were rated AAA, 29% (47%) were rated AA, 4% (0%) were rated A, 0% (3%) were rated BBB and 1% (0%) had no external long-term credit rating. Exposures without long-term credit ratings consist exclusively of Swedish municipalities. The credit ratings are based on ratings published by Standard & Poor's, Moody's and Fitch.

Measurement of liquidity risk

In addition to monitoring liquidity risk on an intraday basis, it is also measured from short-term and long-term perspectives. Treasury daily measures the liquidity buffer's capacity to meet the need for liquidity in a stressed scenario during the next 30 days using the standard regulatory metric liquidity coverage ratio (LCR). The LCR defined in accordance with Commission Delegated Regulation (EU) No 2015/61 was 180% (127%) as per 31 December 2017.

Skandiabanken's long-term/structural liquidity risk is measured and managed on a monthly basis via various metrics. Treasury measures the accumulated funding gap over a one-year horizon, which is calculated as the difference between maturing assets and liabilities, and off-balance sheet items. The funding gap is to be based on contractual maturities where applicable, and in other cases anticipated maturities. The measure highlights the potential gap in the Bank's funding profile. As per 31 December 2017 the Bank had a liquidity surplus of SEK 8.5 billion (5.9) on a one-year horizon, which corresponds to an accumulated net cash flow in excess of 24 months.

This measure is complemented by the net stable funding ratio (NSFR), which is a standard regulatory metric for structural liquidity risk that measures a bank's capacity to match long-term illiquid lending with long-term borrowing. As per 31 December 2017 the Bank had an NSFR, defined in accordance with the Basel Committee's definition, of 1.28 (1.26), which indicates a funding profile that amply meets the long-term lending.

Stress tests

Stress tests are performed on a daily basis to ensure that the level of the liquidity buffer is sufficient to resist a stressed scenario. The stress test defines how long the liquidity buffer would last under exceptional company-specific as well as market-related stress events, i.e., the number of days that Skandiabanken is expected to be able to cover a stressed outflow of liquidity based on its existing liquidity buffer. By company-specific stress events is meant assumptions for e.g., large outflows of deposits and an increased degree of utilisation of granted but not utilised credit promises. By market-related stress events is meant disruptions in the capital markets that would affect the ability to obtain funding and increased demands to pledge security for the Bank's derivative exposures. The test covers both stressed contractual and stressed anticipated flows for items both on and off the balance sheet. The stress tests are performed both by Treasury and the Risk Control function. As per 31 December 2017 Skandiabanken's survival horizon was 75 days (62).

Cont. note 35. Risks and risk management – financial instruments and other risks

Table 8 – Liquidity buffer[1]

	31 December 2017			31 December 2016		
	SEK	**EUR**	**Total**	**SEK**	**EUR**	**Total**
1 Cash and balances with and lending to central banks and governments	887	16	903	426	15	441
2 Lending to other banks, intraday loans	—	—	—	—	—	—
3 Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,690	—	1,690	—	—	—
4 Securities issued or guaranteed by municipalities or other public sector entities	3,118	—	3,118	3,640	—	3,640
5 Covered bonds issued by other banks or institutions	3,961	—	3,961	3,962	—	3,962
6 Covered bonds issued by own bank or related unit	—	—	—	—	—	—
7 Securities issued by non-financial corporates		—	—		—	—
8 Securities issued by financial corporates, excl. covered bonds	—	—	—	—	—	—
9 All other securities	—	—	—	—	—	—
Total liquidity buffer	**9,656**	**16**	**9,672**	**8,028**	**15**	**8,043**

[1] The liquidity buffer is managed in accordance with the Financial Supervisory Authority's regulations regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7). In the table above, 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 central banks and are not claimed as collateral. The holdings are carried at current market value and receive a risk weight of 0%-20% in accordance with the Capital Requirements Regulation.

Table 9 – Contracted non-discounted cash flows

	2017					
	Payable upon demand	**Remaining maturity <3 mos**	**Remaining maturity >3 mos but <1 yr**	**Remaining maturity >1 year but <5 yrs**	**Remaining maturity >5 yrs**	**Total**
Financial assets						
Eligible treasury bills, etc.	—	4,452	222	—	—	4,674
Lending to credit institutions	428	5	—	—	—	433
Lending to the general public	—	47,639	3,228	6,553	2,295	59,715
Bonds and other fixed-income securities	—	3,881	681	41	—	4,603
Total	**428**	**55,977**	**4,131**	**6,594**	**2,295**	**69,425**
Financial liabilities						
Due to credit institutions	—	58	—	—	—	58
Deposits and borrowing from the general public	38,500	75	112	134	—	38,821
Issued securities, etc.	—	19,352	3,310	2,344	—	25,006
Other liabilities	—	567	—	—	—	567
Subordinated loans	—	902	—	—	—	902
Total	**38,500**	**20,954**	**3,422**	**2,478**	—	**65,354**
Derivative instruments						
Cash inflow	—	11	17	51	25	104
Cash outflow	—	30	24	23	—	77
Net	**—**	**-19**	**-7**	**28**	**25**	**27**
Unutilised part of granted overdraft facilities	1,842	—	—	—	—	1,842
Granted but not utilised credits	11,342	—	—	—	—	11,342
Total off-balance items	**13,184**	**—**	**—**	**—**	**—**	**13,184**

Cont. note 35. Risks and risk management – financial instruments and other risks

	2016					
SEK million	Payable upon demand	Remaining maturity <3 mos	Remaining maturity >3 mos but <1 yr	Remaining maturity >1 year but <5 yrs	Remaining maturity >5 yrs	Total
Financial assets						
Eligible treasury bills, etc.	—	3,625	—	—	—	3,625
Lending to credit institutions	240	5	—	—	—	245
Lending to the general public	—	46,391	2,099	6,360	2,388	57,238
Bonds and other fixed-income securities	—	4,143	—	—	—	4,143
Total	**240**	**54,164**	**2,099**	**6,360**	**2,388**	**65,251**
Financial liabilities						
Due to credit institutions	—	61	—	—	—	61
Deposits and borrowing from the general public	37,537	132	180	190	—	38,039
Issued securities, etc.	—	21,046	202	807	—	22,055
Other liabilities	—	465	—	—	—	465
Subordinated loans	—	901	—	—	—	901
Total	**37,537**	**22,605**	**382**	**997**	**—**	**61,521**
Derivative instruments						
Cash inflow	—	3,336	12,029	18,478	—	33,843
Cash outflow	—	21,595	38,810	47,824	—	108,229
Net	**—**	**-18,259**	**-38,810**	**-29,346**	**—**	**-74,386**
Unutilised part of granted overdraft facilities	1,905	—	—	—	—	1,905
Granted but not utilised credits	15,219	—	—	—	—	15,219
Total off-balance items	**17,124**	**—**	**—**	**—**	**—**	**17,124**

35.7 Operational risk

Operational risk is defined as the risk of loss due to inappropriate or failed processes, human error, defective systems or external events. The definition also includes legal risk, i.e., the risk that agreements or other legal contracts cannot be executed in accordance with their stipulated conditions, or that legal processes will be initiated which could adversely affect the Bank's operations, and compliance risk, i.e., the risk for noncompliance with external and internal rules and regulations.

Governance of operational risk

Ultimate responsibility for Skandiabanken's operational risk lies with the Board of Directors, while the CEO is responsible for continuing administration. Since the respective unit managers have an operational responsibility in parity with their management responsibility, the responsibility for risks is in practice delegated to the unit managers.

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

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 may arise for Skandiabanken 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.

The Bank's internal rules, including preparedness plans, describe preventive and loss limiting measures. Policies are set by the Board of Directors, while instructions are set by the CEO. Threats and risks that could affect Skandiabanken are analysed on a continuous basis. In its management of operational risk, Skandiabanken provides tools for identifying, assessing and reporting risks and incidents.

Aside from policies, instructions, routines and job descriptions, Skandiabanken uses an extensive self assessment process for operational risks. This self assessment aims to identify operational risks and quantify any losses that may be incurred. This work results in action plans whose implementation is subject to continuous monitoring. The assessment is performed annually, with quarterly updates and follow-up.

As support for risk management, Skandiabanken has a system for reporting and monitoring incidents. All incidents – realised as well unrealised – are reported in the system. All incidents are followed up, and actions are taken to prevent the incident from occurring again.

Cont. note 35. Risks and risk management – financial instruments and other risks

35.8 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 a lower level of net fee and 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 Skandiabanken's reputation caused by factors such as harmful rumours about Skandiabanken or Skandia in general, or by problems discovered in operations, major projects, etc. Losses attributable to reputation can have a significant impact on 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.

Governance of business risk, reputation risk and strategic risk

Overall responsibility for Skandiabanken's business risk, reputation risk and strategic risk lies with the Board of Directors, while the CEO is responsible for continuing administration. 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 addressed by the Risk Control function and are reported to Skandiabanken's management and board as well as to the CRO of Skandia AB and the CRO of Skandia Mutual.

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, stability of revenue generation, and cost control.

Measurement of business risk excludes changes attributable to loan losses as well as other risks, such as market risks and operational risks, which are covered by the assessments described in points 35.4-35.7. Skandiabanken includes reputation risk and strategic risk in business risk even though they cannot be specifically measured and isolated as individual risks. When measuring business risk, consideration is given to the historic trend in net interest income/expense, net fee and commission income, and general overheads, and thus previous effects of reputation risks are included in the outcome.

The scope of business risk is affected by variations attributable to net interest income/expense and net fee and 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 management level within the organisation. Skandiabanken'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 Skandiabanken in the long term.

Strategic risks can often only be managed through good analysis and 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.

35.9 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

The Board of Directors has adopted an overarching remuneration policy, which aims to 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 (the functions for risk control, compliance, 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 Mutual's remuneration committee.

The Board has a remuneration committee tasked with conducting drafting work on important matters concerning remuneration of Skandiabanken's employees and for deciding on measures for monitoring the application of Skandiabanken's remuneration policy.

Management and measurement of remuneration risk

As part of its efforts to manage remuneration risk, Skandiabanken has a remuneration policy for all employees that is revised yearly.

No employees of Skandiabanken are entitled to any form of variable remuneration.

For all employees, except for the CEO, an allocation may be made to the Skandianen profit-sharing foundation in a maximum amount equivalent to 125% of half the Price Base Amount. The profit share is not available to employees until five years after the year in which it was awarded. For 2017 the maximum allocation can amount to SEK 28,000 per employee.

Before a decision is made on the remuneration systems or on changes to the remuneration system, an analysis must first be performed of how the system affects the risks that Skandiabanken is exposed to and how these risks are managed. A risk analysis shall be performed at least yearly. Such as assessment shall be conducted by the Skandia group's HR function with suitable support from the Head of Risk Management. The assessment shall always include a special analysis of any conflicts of interest and how they should be addressed.

The risk analysis, which serves as the basis for Skandiabanken's remuneration policy, is to include 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 can impact the company's risk profile.

The following parts of the remuneration system are key components of the risk analysis:

- Skandiabanken's remuneration committee, which is a permanent board committee tasked with conducting drafting work on benefits for Skandiabanken employees. Through this, the Board is considered able to make conscious, active decisions on remuneration matters.
- Except for Skandianen, all remuneration of Skandiabanken's employees is in the form of fixed salary.
- Clear processes for approval of salary adjustments, including the so-called four-eyes principle, entailing that approval must be obtained from the manager's manager or by a designated third-party role within HR.

Cont. note 35. Risks and risk management – financial instruments and other risks

35.10 Settlement risk

Settlement risk arises when transactions in fixed-income securities, equities, derivatives and foreign currency are not executed on the agreed-upon delivery date, entailing a risk that a counterparty will not complete the transaction.

Management and measurement of settlement risk

For equity transactions, the risk for Skandiabanken of transactions not being settled as per agreement is minimised by arranging settlement mainly through central counterparties. This means that the settlement risk is taken over by the central counterparty. Skandiabanken's custodian handles the Bank's settlement of fixed-income securities transactions in accordance with the DvP (Delivery vs. Payment) principle, as per agreement. Skandiabanken's currency transactions are conducted via Skandia Capital, which is an internal group company. To minimise settlement risk, Skandia Capital uses Continuous Linked Settlement (CLS). Via CLS, all payments are settled according to the payment-for-payment principle.

Settlement risk is measured as the price difference between the agreed-upon price and the current market value. A risk arises if the price difference entails a loss for Skandiabanken.

Settlement risk for Skandiabanken is considered to be immaterial.

36. Disclosures of derivative instruments

Breakdown of derivative instruments by type of hedge relationship

	2017			2016		
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	0	5	—	0	9
Derivatives held for fair value hedges						
Interest rate derivatives						
Swaps	13	41	12,840	12	97	9,515
Total derivatives broken down by assets and liabilities						
Interest rate derivatives	13	41	12,840	12	97	9,515
Foreign exchange derivatives	0	0	5	0	0	9
Total	**13**	**41**	**12,845**	**12**	**97**	**9,524**

Interest rate swaps are held to hedge interest rate risks associated with lending to the general public at fixed interest rates. Of the Bank's lending, 83% (85%) 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 of up to 5 years. The Bank's funding is handled in all essential respects through deposits and borrowing at variable interest rates, however, some funding is also conducted through deposits and borrowing at fixed interest rates and through equity.

Foreign exchange derivatives are held primarily as a hedge against currency risks on the balance sheet associated with fund trading.

For disclosures on terms of interest rate derivatives, see table 6 in note 35, Interest rate fixing periods. Interest rate risk, net interest income risk and all foreign exchange derivatives have terms with maturity in three months.

37. Financial assets and liabilities that are offset or subject to netting agreements

	Financial assets and liabilities that are offset or subject to netting agreements							
				Related agreements				
2017	Gross amount	Offset	Net amount on balance sheet	Master netting agreement	Collateral received/ pledged	Net amount	Assets and liabilities that are not subject to netting agreements	Total on balance sheet
Derivatives	13	—	13	-12	—	1	—	13
Assets	**13**	**—**	**13**	**-12**	**—**	**1**	**—**	**13**
Derivatives	41	—	41	-12	-26	3	—	41
Liabilities	**41**	**—**	**41**	**-12**	**-26**	**3**	**—**	**41**
2016								
Derivatives	12	—	12	-12	—	0	—	12
Assets	**12**	**—**	**12**	**-12**	**—**	**0**	**—**	**12**
Derivatives	97	—	97	-12	-85	0	—	97
Liabilities	**97**	**—**	**97**	**-12**	**-85**	**0**	**—**	**97**

The table shows reported financial assets and liabilities that are presented net on the balance sheet or that have potential rights associated with legally binding master netting agreements or similar agreements, such as ISDA Master Agreements, along with related collateral. The net amount shows the exposure under normal business conditions both in the event of a suspension in payments or insolvency. Financial assets and liabilities are reported net on the balance sheet when Skandiabanken has a legal right to report transactions net, under normal business conditions and in the event of an insolvency, and there is an intention to make a net payment or realise the asset and make payment for the liability at the same time. Financial assets and liabilities that are subject to legally binding master netting agreements or similar agreements that are not presented net on the balance sheet are arrangements than ordinarily come into force in the event of an insolvency or suspension of payments, but not under normal business conditions or arrangements in which Skandiabanken does not have the divest the instruments simultaneously. The Bank has not received or pledged collateral that can be used without the default of the counterparty.

38. Classification and measurement of financial assets and liabilities

a) Classification and measurement of financial assets and liabilities

31 December 2017 Assets	Measured at fair value through profit or loss, held for trading	Derivatives in hedge accounting	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	—	—	16	—	—	—	**16**	**16**
Eligible treasury bills, etc.	—	—	—	4,718	—	—	**4,718**	**4,718**
Lending to credit institutions	—	—	417	—	—	—	**417**	**417**
Lending to the general public	—	—	59,190	—	—	—	**59,190**	**59,219**
Fair value of portfolio hedge of interest rate risk	—	25	—	—	—	—	**25**	**25**
Bonds and other fixed-income securities	—	—	—	4,643	—	—	**4,643**	**4,643**
Shares and participations	1	—	—	10	—	—	**11**	**11**
Intangible assets	—	—	—	—	—	124	**124**	**124**
Property, plant and equipment	—	—	—	—	—	1	**1**	**1**
Current tax assets	—	—	—	—	—	13	**13**	**13**
Deferred tax liabilities	—	—	—	—	—	7	**7**	**7**
Other assets	—	13	161	—	—	6	**180**	**180**
Prepaid expenses and accrued income	—	—	93	—	—	7	**100**	**100**
Total assets	**1**	**38**	**59,877**	**9,371**	—	**158**	**69,445**	**69,474**

Liabilities								
Due to credit institutions	—	—	—	—	58	—	**58**	**58**
Deposits and borrowing from the general public	—	—	—	—	38,800	—	**38,800**	**38,800**
Issued securities, etc.	—	—	—	—	25,313	—	**25,313**	**25 442**
Other liabilities	3	41	—	—	446	35	**525**	**525**
Accrued expenses and deferred income	—	—	—	—	72	—	**72**	**72**
Provisions for pensions	—	—	—	—	—	11	**11**	**11**
Subordinated liabilities	—	—	—	—	900	—	**900**	**900**
Total liabilities	**3**	**41**	**—**	**—**	**65,589**	**46**	**65,679**	**65,808**

Cont. note 38. Classification and measurement of financial assets and liabilities

31 December 2016 **Assets**	**Measured at fair value through profit or loss, held for trading**	**Derivatives in hedge accounting**	**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	—	—	15	—	—	—	**15**	**15**
Eligible treasury bills, etc.	—	—	—	3,640	—	—	**3,640**	**3,640**
Lending to credit institutions	—	—	230	—	—	—	**230**	**230**
Lending to the general public	—	—	56,733	—	—	—	**56,733**	**56,797**
Fair value of portfolio hedge of interest rate risk	—	83	—	—	—	—	**83**	**83**
Bonds and other fixed-income securities	—	—	—	4,162	—	—	**4,162**	**4,162**
Shares and participations	4	—	—	10	—	—	**14**	**14**
Intangible assets	—	—	—	—	—	142	**142**	**142**
Property, plant and equipment	—	—	—	—	—	1	**1**	**1**
Current tax assets	—	—	—	—	—	11	**11**	**11**
Deferred tax assets	—	—	—	—	—	10	**10**	**10**
Other assets	—	12	177	—	—	0	**189**	**189**
Prepaid expenses and accrued income	—	—	79	—	—	2	**81**	**81**
Total assets	**4**	**95**	**57,234**	**7,812**	—	**166**	**65,311**	**65,375**
Liabilities								
Due to credit institutions	—	—	—	—	61	—	**61**	**61**
Deposits and borrowing from the general public	—	—	—	—	38,008	—	**38,008**	**38,008**
Issued securities, etc.	—	—	—	—	22,137	—	**22,137**	**22,749**
Current tax liabilities	—	—	—	—	—	0	**0**	**0**
Other liabilities	1	97	—	—	340	34	**472**	**472**
Accrued expenses and deferred income	—	—	—	—	78	—	**78**	**78**
Provisions for pensions	—	—	—	—	—	12	**12**	**12**
Subordinated liabilities	—	—	—	—	900	—	**900**	**900**
Total liabilities	**1**	**97**	**—**	**—**	**61,524**	**46**	**61,668**	**62,280**

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 for 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, issued securities, 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

Lending at fixed interest rates pertains to loans with terms of fixed interest ranging from 1 to 5 years and is carried 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

	2017			2016		
	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	1	0	1	0	4	4
Hedge accounting						
Derivative instruments	—	13	13	—	12	12
Available-for-sale financial assets						
Eligible treasury bills, etc.	—	4,718	4,718	—	3,640	3,640
Bonds and other fixed-income securities	3,093	1,550	4,643	2,605	1,557	4,162
Total	**3,094**	**6,281**	**9,375**	**2,605**	**5,213**	**7,818**
Liabilities						
Held for trading						
Other	3	—	3	1	—	1
Hedge accounting						
Derivative instruments	—	41	41	—	97	97
Total	**3**	**41**	**44**	**1**	**97**	**98**

All financial assets and liabilities measured at fair value are classified in a fair value hierarchy that reflects observable prices or other inputs in the valuation techniques that are used. Prior to each quarter, an assessment is made as to whether the valuations pertain to quoted prices that represent actual and regularly recurring transactions or not. Transfers between levels in the hierarchy may take place when there are indications that the market conditions, such as liquidity, have changed. Due to an increase in the number of parties that provide price information, two securities worth SEK 518 million were transferred from Level 2 to Level 1 during the year.

Level 1 pertains to quoted prices that are readily available to numerous parties that provide price information and that represent actual and frequent transactions. These include treasuries and other fixed-income securities that are actively traded. In Level 2, valuation models are used that are based on observable market quotations and instruments that are measured at quoted prices, but where the market is considered to be less active. This level includes, among other things, fixed-income securities and interest rate and foreign exchange derivatives. No assets or liabilities qualify for measurement in Level 3. The market quotations that are used for valuations in Level 1 and Level 2 consist of average daily closing buy or sell prices obtained from external sources. As part of the valuation process, a validation is performed of used prices. Should the market undergo a dramatic change – as a whole or with respect to certain assets or issuers – further reviews would be performed to ensure a correct valuation.

For a description of the various levels, see note 1, Significant accounting and valuation policies, point 7.

39. Related party disclosures

Disclosures about related parties pertain to dealings and transactions with companies in the Skandia group. Related parties to the group also include board members and senior executives of Skandiabanken, the Skandia group, and external companies in which senior executives have control. Except for companies within Skandia, no transactions are conducted other than normal customer transactions at an arm's length basis with these persons and companies. Transactions are conducted with companies within Skandia based on market price, where indicated below. Otherwise, the transactions are conducted on a cost price basis.

Disclosures about remuneration of senior executives are provided in note 6, Staff costs.

	2017		2016	
Operating income	**Skandia AB**	**Other group companies**	**Skandia AB**	**Other group companies**
Net interest income	0	45	1	45
Net fee and commission income	6	58	6	46
Net financial items	—	0	—	0
Other operating income	25	11	35	24
Total income	**31**	**114**	**42**	**115**
Operating expenses				
Other administrative expenses	—	-322	—	-288
Other operating expenses	0	-46	0	-54
Total expenses	**0**	**-368**	**0**	**-342**
Assets				
Lending to the general public	—	—	—	—
Derivative instruments	—	0	—	—
Other assets	1	—	4	—
Total assets	**1**	**0**	**4**	**—**
Liabilities				
Deposits and borrowing from the general public	2,829	0	2,666	0
Derivative instruments	—	—	—	0
Other liabilities	287	27	23	180
Subordinated liabilities	—	900	—	900
Total liabilities	**3,116**	**927**	**2,689**	**1,080**

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. Interest income pertains primarily to the above-mentioned interest differential compensation that arises in connection with Skandiabanken's provision of favourable loans to Skandia employees.

Interest expense pertains primarily to interest on subordinated loans from Skandia Mutual, 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 Skandia AB for custody account deposits pertaining to so-called custody account insurance, which is a service offered by Skandia AB. Customers can invest in various securities within a single 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 Skandia AB'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 Skandia AB.

Lending, deposits and borrowing are priced according to specific interest rates with a going-rate interest mark-up.

Securities – equity trading and mutual fund trading

In addition to distribution compensation, fixed commissions are paid to Skandia Mutual for advisory business. Commissions received for Skandia AB's custody account insurance service are passed on in their entirety to Skandia AB. Skandiabanken charges Skandia AB an administrative fee, which is reported under "Other operating income".

Other operating income for services performed

Other operating income consists of fees paid to companies in the Skandia group for services performed for customer service and marketing functions, which are priced according to degree of use and cost price.

Other administrative expenses

Other administrative expenses pertain mainly to purchased services, IT costs, costs for premises and costs for occupational pensions underwritten by Skandia Mutual.

Skandiabanken has outsourced a number of functions and services. IT operations and management, card services and payment intermediation services have been outsourced to external vendors. Certain other IT operations and management have been outsourced to Skandia Mutual along with certain bookkeeping and accounting, complaints-handling, handling of reimbursements, and ensuring compliance with respect to the processing of personal data. In addition, the Bank has outsourced its Internal Audit function to Skandia Mutual. Skandia's operations in Lithuania also perform administrative services for the Bank.

Other group companies

Exposures to interest rate risk and currency 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 group company Skandia Capital AB, among others.

Cont. note 39. Related party disclosures

Skandiabanken receives going-rate distribution compensation regarding mutual funds from Skandia Fonder AB.

Skandia Mutual provides occupational pensions to employees of Skandia. These pension benefits are based on agreements in the Swedish labour market, and premiums are paid by the respective companies in the group. In total, Skandiabanken has paid SEK 27 million (27) in premiums to Skandia Mutual.

Payments from other group companies associated with costs for the SAS EuroBonus card loyalty programme are reported under "Net fee and commission income". SAS EuroBonus points are generated by a customer's total business with Skandia, and the costs are allocated thereafter. The partnership with SAS EuroBonus was introduced in 2014, and payments from group companies amounted to approximately SEK 8 million (21) in 2017. The agreement with SAS Eurobonus ended on 31 March 2017 and had a limited effect on net fee and commission income in 2017.

Capital contributions and group contributions

During the first quarter Skandiabanken settled a group contribution of SEK 157 million that was made in December 2016 to the parent company Skandia AB. A group contribution of SEK 206 million was paid to Skandia AB in December 2017.

In 2017 Skandiabanken received an unconditional capital contribution of SEK 122 million from the parent company Skandia AB.

40. Supplementary disclosures pertaining to 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. Holders 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.

Dividend

No dividend was paid to the parent company Skandia AB in 2017, pursuant to a resolution by the Annual General Meeting on 25 April 2017. A dividend of SEK 491 million was paid to the parent company Skandia AB in 2016. The dividend was approved by the Annual General Meeting on 22 April 2016.

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 provided in note 4 Net financial income.

41. Distribution of profit

Distribution of Skandiabanken's unrestricted equity	SEK 2017
Total fair value reserve	21,395,810
Retained earnings	3,266,963,382
Net profit for the year	-3,306,639
Unrestricted equity	**3,285,052,553**

The Board of Directors proposes that this amount be distributed as follows:	
To be carried forward	3,285,052,553
	3,285,052,553

If this proposal is approved, the Company's reported equity will consist of:	
Share capital	400,000,000
Statutory reserve	81,399,910
Total fair value reserve	21,395,810
Retained earnings	3,263,656,743
	3,766,452,463

42. Events after the balance sheet date

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

Corporate governance report

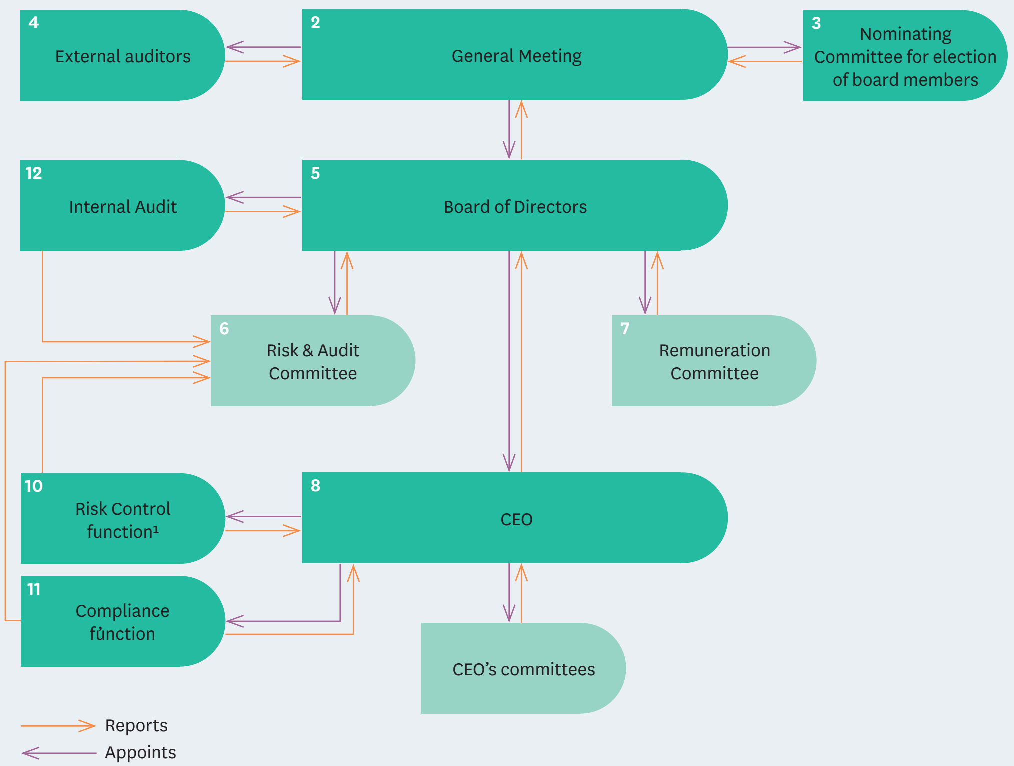
The Company
Skandiabanken Aktiebolag (publ) ("Skandiabanken" or "the Company") is owned by Skandia Insurance Company Ltd (publ) ("Skandia AB"), which in turn is owned by Skandia Mutual Life Insurance Company ("Skandia Mutual"). Skandia Mutual was established on 28 June 2013, and on 1 January 2014 it acquired the operations that were conducted up until that date by Skandia AB. In connection with the acquisition, Skandia Mutual became the parent company of a group of companies that conducts financial services business. The Skandia group provides insurance, banking and fund products in Sweden and Denmark. Skandia is owned by its customers.

Skandia's corporate governance in general – governance for value creation
Corporate governance concerns how companies are to be run to so as to safeguard primarily the owners' interests, but also the interests of customers and employees. The overarching objective is to increase value for the owners and in this way meet the requirements that the owners have on their invested capital. The central external and internal governance instruments for Skandiabanken are the Banking and Financing Business Act, the Companies Act, the Financial Supervisory Authority's regulations and general guidelines, the Swedish Corporate Governance Code ("the Code"), the owner's instructions adopted by the Annual General Meeting, the Articles of Association, the Board's Rules of Procedure, instructions for the Board's committees, the CEO's instructions, and other policies and instructions. Skandiabanken's board of directors is responsible for the Company's organisation and the administration of its affairs. The CEO is responsible for ensuring that the continuing administration of the Company is conducted in accordance with the Board's guidelines and instructions. The Chairman of the Board sets the agenda for board meetings in dialogue with the CEO and is responsible for producing information and decision-making documentation for board meetings. In addition, the CEO makes sure that the board members receive information about Skandiabanken's development to be able to make well-informed decisions.

1. Owner
Skandiabanken is owned by Skandia Insurance Company Ltd (publ) ("Skandia AB"), which is turn is owned by Skandia Mutual Life Insurance Company ("Skandia Mutual").

2. General meetings
General meetings are Skandiabanken's highest decision-making body. At general meetings, the shareholders make decisions in accordance with the rules in the Swedish Companies Act and the Company's Articles of Association. At the Annual

Overall description of corporate governance at Skandiabanken



¹ The CRO is appointed by the Board of Directors.

General Meeting, the income statement and balance sheet are adopted, and the Company's auditors and board members are appointed. Three (3) general meetings were held in 2017.

Governance documents adopted by the general meeting

The general meeting adopts the Company's Articles of Association. According to the Articles of Association, the object of Skandiabanken's business is to conduct banking operations. In addition, the Company may conduct financial operations and operations with a natural connection with these operations. Further, the Company may conduct retirement savings business and insurance intermediation.

The general meeting shall decide on an owner instruction that lays out the values and overarching principles that are to guide the Company's operations. The owner instruction shall be designed in such a manner that the Board's responsibility for operations is not encumbered by detailed stipulations from the general meeting. The instruction shall also be a dynamic document that evolves over time. This means that the owner instruction, including any amendments, shall be adopted yearly at the Annual General Meeting. The owner instruction stipulates that the Board's primary duty is to safeguard Skandiabanken's protective interest, i.e., to ensure that the Company is in compliance with requirements laid out in the internal and external rules and regulations that apply for the Company. In the performance of its duties, the Board shall therefore particularly challenge management and the owner on matters regarding corporate governance and regulatory issues, whereby the Board shall take the Company's and owner's interests into account, as expressed in the business plan and strategy, among other things. In addition, the Board shall adopt a strategy and business plan for the Company that is aligned with the overall strategy and business plan of the Skandia group.

The general meeting shall also decide on an instruction for the Company's nominating committee. This instruction stipulates the Nominating Committee's composition and duties.

3. Nominating Committee for Board of Directors

The Nominating Committee for the Board of Directors recommends candidates for election to the Board. The Nominating Committee works according to the basic principle that the Board as a whole shall have good insight into and the ability to live up to the requirements on company governance and risk management that exist for the board of a credit institution. The Board's composition shall have a good breadth of expertise, experience and backgrounds. The Nominating Committee also focuses on ensuring that the Board's committees are adequately staffed. The Nominating Committee for the Board of Directors consists of Niklas Johansson (Chairman of the Board) and Frans Lindelöw (director of Skandiabanken and group CEO of Skandia). Frans Lindelöw has been appointed by the Company's owner, Skandia Mutual.

4. External auditors

At the Annual General Meeting on 25 April 2017, the accounting firm Deloitte AB, with Authorised Public Accountant Patrick Honeth as Auditor-in-Charge, was appointed as Skandiabanken's auditor for a term through the end of the 2018 AGM. Patrick Honeth is also the auditor for Bluestep Bank, SBAB Bank, Sparbanken Rekarne, and Swedbank. In 2017 Deloitte AB performed auditing and audit-related services for Skandiabanken as well as other consulting services.

The external auditors' work is coordinated with Skandiabanken's Internal Audit unit.

5. Board of Directors

At the end of 2017 the Board of Directors was made up of Niklas Johansson (Chairman), Per Anders Fasth, Björn Fernström, Frans Lindelöw, Pia Marions and Ann-Charlotte Stjerna. In addition, the Board also includes the employee representatives Erika Hagwall and Ingrid Laurén-Heumann. Niklas Johansson, Per Anders Fasth and Björn Fernström are independent 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 the Company's strategic direction, which is to be aligned with Skandia's overarching strategy, appoints the CEO and adopts policies. The Board is responsible for ensuring that suitable internal rules are in place for risk management and risk 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 accounting and treasury management. The Board continuously monitors Skandiabanken's operations and financial performance.

In addition, the Board addresses and decides on matters concerning remuneration of senior executives of Skandiabanken. The Board's decision-making authority is restricted by the general meeting's exclusive right to decide on certain matters and its opportunity to decide on other matters that are not explicitly part of the Board's or CEO's area of expertise. Special legal rules also apply with respect to disqualification/conflicts of interest.

The Board evaluates its work yearly in the aim of developing its work methods and effectiveness. The past year's evaluation was discussed at the board meeting held on 18 December 2017.

The Board's handling of the Swedish Corporate Governance Code

Like Skandia Mutual, Skandiabanken has opted to adhere to the Swedish Corporate Governance Code ("the Code"). The aim of the Code's rules is to develop corporate governance and promote trust in business and industry. The basic idea is to apply the Code according to its "comply or explain" principle, i.e., that departures from the Code are permissible, but must be explained. The rules that the Board has chosen to depart from in the application of the Code as well as the explanations are provided below.

Governance documents adopted by the Board

The Board has adopted Rules of Procedure, including mandates for the CEO and instructions for board committees. The Company conducts its operations in accordance with the manual for governance of subsidiaries that has been adopted by Skandia Mutual and which aims to combine good governance and control with opportunities for effective and flexible administration of operations in the Skandia group. The manual sets parameters for corporate governance and has been adopted by all companies in the Skandia group.

The Board's work in 2017

Skandiabanken's board held 13 meetings in 2017, of which seven (7) were held per capsulam. Apart from the CEO's reports and financial reports, among other things, the agenda was dominated by strategic projects. Aside from these major matters, the Board also addressed continuing items of business, decided on policies, and adopted the Bank's business plan. In addition, the Board analysed and addressed the extensive new rules and regulations affecting the Company's operations.

The Chairman's role

The Chairman leads the work of the Board and maintains continuous contact with the CEO. In his contacts with the CEO, the Chairman is to serve as a discussion partner and monitor the Company's ongoing development and matters of a strategic nature. The Chairman is responsible for ensuring that the Board's work is well organised and is 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

Overview of board members' attendance at board and committee meetings in 2017

Board members	Board meetings (13)	Risk and Audit Committee (12)	Remuneration Committee (4)
Niklas Johansson	13	12	4
Per Anders Fasth[1]	13	12	Not a member
Björn Fernström[2]	2	0	Not a member
Frans Lindelöw	12	Not a member	4
Bengt-Åke Fagerman[3]	4	Not a member	Not a member
Pia Marions[4]	8	9	Not a member
Ann-Charlotte Stjerna	13	12	Not a member
Erika Hagwall	13	Not a member	Not a member
Ingrid Laurén-Heumann	13	Not a member	Not a member

The total number of meetings held in 2017 is indicated in parentheses.

[1] Per Anders Fasth joined the Board on 3 January 2017 and is chair of the Risk and Audit Committee.

[2] Björn Fernström joined the Board on 14 December 2017.

[3] Bengt-Åke Fagerman left the Board on 26 April 2017.

[4] Pia Marions joined the Board on 26 April 2017.

Departures from the rules of the Swedish Corporate Governance Code

Rule	Section	Comment
1.1-1.5	Shareholders' meetings	Skandiabanken does not follow the Code's rules on shareholders' meetings. The reason is that the Company has only one owner.
2.3-2.4	Nomination committee	Skandiabanken does not follow the Code's rules on the number of members on the Nominating Committee and that board members may not constitute a majority of the Nominating Committee's members. The reason is that the Company has only one owner.
2.6	Nomination committee	Skandiabanken does not follow the Code's rules on public announcement of the Nominating Committee's recommendations for board of directors. The reason is that the Company has only one owner.
4.4	The Board's size and duties	Skandiabanken does not follow the Code's rules that a majority of the directors elected by a shareholders' meeting shall be independent in relation to the Company and company management. The reason is that the Company has only one owner.
7.6	The Board's procedures	Skandiabanken does not follow the Code's rules that the Board shall ensure that the Company's six- or nine-month report is reviewed by the statutory auditor.
9.1-9.8	Remuneration of executive management	Skandiabanken does not follow the Code's rules on this point and instead applies the Financial Supervisory Authority's regulations regarding remuneration structures in credit institutions (FFFS 2011:1).

order to be able to work effectively. The Chairman is responsible for ensuring that the Board's decisions are executed and takes the initiative for the Board's annual evaluation of its work.

Division of duties within the Board

The Board of Directors has two committees whose main duties are described in the section below. The committees serve in a drafting role and do not make decisions other than in cases where the Board has delegated the decision-making authority to the committee. The committees' duties are set by the Board in special instructions. Special rules apply with regard to chairmanship of the committees as well as to directors' independence in relation to the Company.

Regular members of Skandiabanken's board of directors

Niklas Johansson (Chairman)

Independent member of Skandiabanken's board since 2015. Born 1961. B.Sc. Social Sciences, Linköping University. Former CEO of Carnegie Investment Bank AB, and previously served in management roles for the Swedish Ministry of Finance, Evli bank, Skandia and Crédit Agricole. Chairman of the state-owned venture capital company Saminvest AB and of the property company AIF-förvaltaren Areim AB. Director of the Apoteket Pension Foundation.

Per Anders Fasth

Independent member of Skandiabanken's board since 2017. Born 1960. M.Sc. Econ., Stockholm School of Economics. Former CEO of SBAB Bank, and previously served in management roles for Skandinaviska Enskilda Banken. Chairman of the debt collection company Sileo Kapital AB. Director of the payments institution Clear-on AB and the Greek credit institution Piraeus Bank S.A.

Björn Fernström

Independent member of Skandiabanken's board since 2017. Born 1950. M.Sc. Econ., Stockholm University. Former Authorised Public Accountant at Ernst & Young, serving as qualified auditor for Nordnet Bank, the OMX marketplace, the insurance company AMF Pension, the securities company ABN AMRO Asset Management, and Öhman group. Director of the securities company Skandia Investment Management Aktiebolag, A3 Allmänna IT- och Telekomaktie-bolaget (publ), Aktiebolaget för Varubelåning and Pantauktioner Sverige AB.

Frans Lindelöw

Non-independent member of Skandiabanken's board since 2015. Born 1962. B.Sc. Econ., Stockholm University. Skandia employee since 2015. Group CEO of Skandia since 2015. Former CEO of Carnegie Investment Bank AB, and previously served in management roles for Nordea and HSBC Bank, among others. Director of Försäkringsbranschens Arbetsgivareorganisations Service Aktiebolag and SFS (Svensk Försäkring Service AB).

Pia Marions

Non-independent member of Skandiabanken's board since 2017. Born 1963. B.Sc. Econ., Stockholm University. Skandia employee since 2017. CFO of Skandia group since 2017. Former CFO of Folksam, Carnegie Investment Bank and Skandia Mutual, and previously served in management roles for RBS, Länsförsäkringar Liv and the Swedish Financial Supervisory Authority.

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 division, Head of Business Analysis for Skandia Link, and controller in group functions.

Erika Hagwall

Non-independent member (employee representative) of Skandiabanken's board since 2015. Born 1971. Skandia employee since 2008. Currently employed in the Bank's Middle Office, securities operations. Member of the Swedish Confederation of Professional Associations (Saco), Skandia chapter, since 2015.

Ingrid Laurén Heumann

Non-independent member (employee representative) of Skandiabanken's board since 2015. Born 1964. Skandiabanken employee since 1995. Currently employed in clearing and finance administration at the Bank. Chair of Skandia's FTF (union for employees in the insurance and finance industries) Öster chapter since 2017. Member of FTF's Skandia association since 2015.

Deputy members of Skandiabanken's board of directors

Anja Nordenson

Non-independent deputy member (employee representative) of Skandiabanken's board since 2017. Born 1958. M.Sc. Econ., University of Gothenburg. Skandia employee since 1997. Currently employed in the Bank's Back Office, securities operations. Member of the Swedish Confederation of Professional Associations (Saco), Skandia chapter, since 2017.

Tobias Öhman

Non-independent deputy member (employee representative) of Skandiabanken's board since 2017. Born 1980. Skandia employee since 2007. Currently employed as loan officer in the Bank. Member of nominating committee of Skandia's FTF (union for employees in the insurance and finance industries) Öster chapter and of the Skandia's FTF association.

6. Risk and Audit Committee

The Risk and Audit Committee is a permanent board committee tasked with supporting the Board's work by conducting drafting work on matters ahead of board meetings related to risk management and internal control as well as bookkeeping, accounting, financial control and monitoring of Skandiabanken. The committee is thereby responsible for monitoring risk management and risk control, particularly with respect to the quality and effectiveness of internal controls, risk appetite limits, risk profile, compliance and capital planning process, and also the result of the Bank's internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP). In addition, the committee is responsible for overseeing the Company's financial reporting and the effectiveness of the Company's internal control and internal audit. Finally, the committee is tasked with keeping itself informed about the audit of the annual report and with supervising the impartiality of the external auditor.

The Risk and Audit Committee is composed five board members, of whom three are independent and have accounting and auditing expertise. The CEO, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the Chief Compliance Officer (CCO), other senior executives of the Company, the Head of Internal Audit, and representatives of the AGM-elected auditors shall participate on the committee to the extent it determines.

The Risk and Audit Committee held twelve (12) meetings during the year, of which four (4) were held per capsulam. The Risk and Audit Committee's members are Per Anders Fasth (chair), Niklas Johansson, Björn Fernström, Ann-Charlotte Stjerna and Pia Marions.

7. Remuneration Committee

The Remuneration Committee conducts drafting work on remuneration issues concerning senior executives of Skandiabanken, among other things. The committee's duties include drafting and recommending remuneration principles for the CEO as well as the CEO's recommendations for remuneration of executives and others who report directly to Skandiabanken's board.

The Remuneration Committee is appointed by the Board and shall consist of at least two board members. The Board also appoints the committee chair. The CEO and Head of HR are to be co-opted to the committee to the extent requested by the committee. In addition, the CRO shall be co-opted with respect to the evaluation and follow-up of the remuneration policy's impact on the risks that Skandiabanken is exposed to and its management of these. The Remuneration Committee held four (4) meetings during the year, of which four (4) were held per capsulam. Its members are Niklas Johansson (chair) and Frans Lindelöw.

8. CEO and bank management

The CEO is responsible for the Company's continuing administration in accordance with the guidelines and instructions issued by the Board. The CEO is the executive with ultimate responsibility for ensuring that the Board's strategic direction and that other decisions are implemented and adhered to in the product and business areas, and that risk management, governance, IT systems, the organisation and processes are satisfactory. The CEO represents Skandiabanken externally on various matters, and the CEO's work is evaluated on a regular basis by the Board of Directors. The CEO is a member of Skandia's executive management and of the relevant joint-group committees and forums established by the CEO of Skandia Mutual.

The CEO can delegate her decision-making authority to subordinate employees, both within the framework of her decision-making mandate for the continuing operations and with respect to the decision-making authority that the CEO has been entrusted with by the Board on top of this mandate. A subordinate employee may, in turn, delegate the decision-making authority that has been delegated to him or her. Even though such authority may have been delegated, responsibility for a delegated decision or task rests with the person who has delegated the decision-making authority or task, insomuch as no other stipulations apply under compelling law. This means that it is incumbent upon the senior employee to follow up the execution of the delegated responsibility and to question or overrule a decision where warranted.

In addition to the overarching principles for Skandiabanken's corporate governance, which are laid out in Skandiabanken's owner instructions and in the Board's

Rules of Procedure, the CEO has decided on more detailed rules for the governance and organisational structure. These rules stipulate how the CEO has delegated her decision-making authority to employees who report directly to her.

The CEO has appointed a bank management team, and the division of responsibilities within this team is regulated in the mandates for the respective executives. The CEO leads the work of the Bank's management and makes decisions after consulting with the members of the bank management. The CEO has not delegated any decision-making authority to the members of the bank management, and thus it is ultimately the CEO who decides on matters addressed by the bank management. Apart from the CEO, the bank management includes the Head of Products, the Head of Customers and Administration, the CFO, the General Counsel, the CRO and the CCO. The bank management meets on a regular basis and addresses matters pertaining to corporate governance, reporting and strategy, among other things. In addition, the bank management conducts drafting work on matters that require a decision by the Board of Directors pursuant to the Board's Rules of Procedures, and assists the CEO on executing decisions made by the Board.

The CEO has established a number of committees to deal with specific areas pertaining to the Bank. Examples of such committees established by the CEO are the Credit Committee, the Price and Interest Committee, the Risk Committee and the Regulatory Forum.

Skandiabanken's management

Johanna Cerwall
CEO of Skandiabanken since 2016. Born 1962, M.Sc. Econ., Stockholm School of Economics. Skandia employee since 2015. Former area manager and Head of Credits at Swedbank. Director of Bankgirocentralen BGC Aktiebolag and BGC Holding AB. The CEO has no ownership interests in companies with which Skandiabanken has significant business dealings.

Kristina Tånneryd
Head of Products since 2017. Born 1971. Former Head of payments, accounts and liquidity management at Swedbank, head of process efficiency at Swedbank, and Chief Operating Officer of Alfred Berg Kapitalförvaltning.

Jimmy Ulvhag
Head of Customers and Administration since 2017. Born 1967. Skandia employee since 2010. Former Marketing Manager at CitiBank, ACE insurance company and AIG insurance company, and previous management roles in Skandiabanken.

Christofer Zetterquist
Chief Financial Officer (CFO) since 2017. Born 1976. M.Sc. Eng., KTH Royal Institute of Technology, M.Sc. Econ., Stockholm University. Former Head of Treasury at Carnegie Investment Bank and consultant at Accenture.

Lisa Lindholm
General Counsel since 2015. Born 1976. Skandia employee since 2011. LLB, Stockholm University, M.Sc. Econ., Stockholm School of Economics. Former attorney and lawyer for Mannheimer och Swartling and company lawyer for Skandia.

Lisbeth Alainentalo
Chief Risk Officer (CRO) of Skandiabanken since 2015. Born 1970. M.Sc. Mathematical Statistics and M.Sc. Molecular Biology/Neurophysiology. Former Head of credit risk modelling at Swedbank and credit risk analyst at PwC and at Skandinaviska Enskilda Banken.

Stian Frøiland
Chief Compliance Officer (CCO) of Skandiabanken since 2017. Born 1983. Skandia employee since 2005. Master of Laws, University of Bergen. Former Head of Risk Control at Skandiabanken and Head of Compliance for Skandiabanken's Norway branch.

9. Internal control – general and Financial Internal Control
A credit institution is to have a system of internal control comprising a function for risk control, a function for compliance, and a function for internal audit.

Skandiabanken's internal control is built upon a business-adapted application of the three lines of defence principle. These make up the general foundation for the operations' risk management, risk control and compliance. The three lines of defence principle aims to clarify the division of responsibilities for risk and compliance within Skandiabanken:

- The business activities as such make up the first line of defence. It includes employees who best know the customers and the specific market, and can thereby govern and control their business along with its risks and requirements for compliance. The first line of defence handles, among other things, Financial Internal Control, which is described in more detail below. The framework for this work is regulated by the instructions laid out by the CEO for financial accounting and reporting.
- The functions of the second line of defence (risk and compliance) monitor and control business governance and the control of risks and compliance of the first line of defence.
- The function of the third line of defence (internal audit) evaluates Skandiabanken's overall management of risk and compliance as well as internal governance and control.

The risk control, compliance and internal audit functions are described in more detail under sections 10-12.

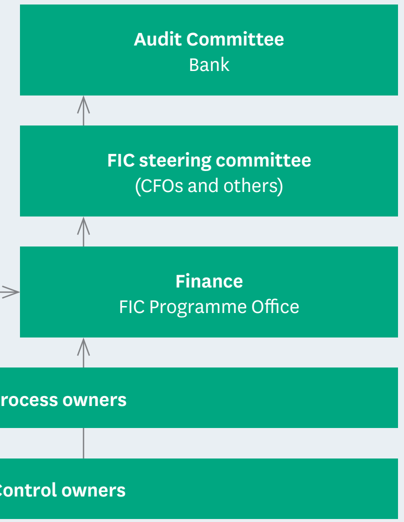
Internal control over financial reporting
Skandiabanken's work with risk and internal control over financial reporting is based on the framework applied by Skandia and which has been established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The framework has been formulated to ensure that financial reporting and accounting are correct and reliable in all essential respects, and that they are performed in accordance with applicable laws and regulations, accounting standards and other requirements. This framework is referred to as Financial Internal Control (FIC) within Skandia and is based on five components of internal control: Control Environment, Risk Analysis, Control Activities, Information & Communication, and Monitoring.

The framework for this work is regulated in Skandiabanken's policy for financial accounting and reporting, which has been adopted by the Board of Directors. FIC encompasses some 140 controls within Skandiabanken. Self assessment, monitoring and supervision of controls are done in a group-wide Governance Risk & Control (GRC) system.

Skandiabanken's CFO is responsible for the Bank's FIC framework and serves as client for the Bank. Skandiabanken's CFO is a member of the FIC steering committee, where Skandia's CFO serves as the ultimate client and decision-maker for the FIC framework. Reports are submitted on a regular basis to the FIC steering committee on the current effectiveness of the framework, any current deficiencies, action plans and the result of yearly activities. See below. Skandiabanken's CFO then reports onwards to the Risk and Audit Committee.

Control Environment
The control environment is the foundation for internal control, since it encompasses the culture that the Board and management communicate and that individual employees strive for. The control environment consists of Skandiabanken's ethical values and integrity, competence, management philosophy, organisational structure, responsibility and authorisations, policies and instructions, and guidelines. It also builds upon individual employees' risk and control awareness and their ability to maintain satisfactory internal control in their daily work. The Board has adopted a number of policies, and the CEO has issued a number of instructions, to maintain good internal control over financial reporting.

Governance model
The figure illustrates Skandia's governance model for the work with financial internal control.



Risk Assessment

Risk assessment is conducted both quantitatively – from an income statement and balance sheet perspective – and qualitatively, to identify processes with high inherent risk. Ultimately the Risk and Audit Committee is responsible for ensuring that the FIC framework manages the most significant risks for errors in the financial reporting. A delineation is performed to identify which units, types of financial reports and IT systems are significant for Skandiabanken. A process owner is designated for every process, who is responsible for ensuring that material risks in the process are identified and satisfactorily managed through effective control activities.

Control Activities

Control activities, which aim to prevent, discover and remedy errors and deviations, exist at all levels and in all parts of the organisation. There are three control categories within the FIC framework: company-wide controls, financial controls and general IT controls.

- Company-wide controls: Controls that capture compliance with the Board's and management's directives for the entire operation. These are controls related to the Company's control environment, which sets the framework for other control components. They include, for example, controls of updated and adopted policies, instructions and guidelines, regularly recurring decision-making forums, and management's supervision and delegation.
- Financial controls: These comprise FIC controls in support and business processes that manage risks with a direct or indirect impact on the quality of the financial accounting and reporting. The controls are formulated to address the inherent risk in the respective materially significant account and/or financial report, to ensure that the relevant accounting claims are taken into account. Financial controls also encompass End User Computing (EUC) controls, i.e., controls of PC-based applications that are administered in the operations. EUC applications can include spreadsheets, user-controlled databases, and other user-controlled applications. EUC controls in the FIC framework encompass EUC controls of critical data coupled to the financial reporting.
- General IT controls: These comprise controls coupled to system authorisations, access protection and controls in connection with system development. General IT controls encompass the systems, applications and databases that the IT department is responsible for and which generate and process data that is considered to be critical for Skandiabanken's financial accounting and reporting.

Every control has a designated control owner who performs the control on a regular basis and documents it. The control owner evaluates the continuing structure of the control, i.e., its ability to address risk (design), and implementation of the control (operational effectiveness).

Information & Communication

Every day decisions are made based on information that is obtained from internal and external sources, and information is a given and natural part of all components in the framework. Effective internal communication is important for ensuring correct financial reporting. Deficiencies in the framework and incurred incidents serve as a natural source for improvement of controls, which are communicated on a regular basis to process heads and steering committees. Risks, incidents, deficiencies and controls are addressed together in the group-wide GRC system to enable a composite picture of risks in the financial reporting.

Policies, guidelines and manuals coupled to the financial reporting are published internally on the Company's intranet. Financial information is provided externally on a regular basis through annual reports, interim reports and press releases.

Monitoring

The Risk and Audit Committee monitors the effectiveness of the framework and any current deficiencies half-yearly, and ensures that actions are taken. In high-risk processes, independent testing is conducted yearly of the design and operational effectiveness of controls with the highest risk. Testing can be performed by external audit or Internal Audit. The yearly testing is regarded as a quality assurance of the control-owners' own self assessments. The results of this work are presented to the FIC steering committee and to the Risk and Audit Committee.

10. Risk control function

Skandiabanken has an independent unit for risk governance and risk control. The department handles the Company's risk management system, consisting of the strategies, processes and reporting routines that are needed to ensure that Skandiabanken can continuously identify, assess, monitor, manage and report risks. In this context the department draws up guidelines, methods and tools for the operations' risk management, and follows up the operations' risk management and control. The CRO is responsible to the CEO for overall governance and control of Skandiabanken's risks. The CRO is also responsible for presenting an independent, factual and aggregated picture of Skandiabanken's risks to the CEO, bank management, and the Board of Directors.

11. Compliance function

The Compliance function is responsible for reporting to the Board and CEO on matters concerning compliance with the Banking and Financing Business Act, among other laws and regulations. In the addition, the function shall advise the Company's board and CEO on the prevention of inadequate compliance, assess the consequences of changes in rules and regulations that are applicable for the Company, and identify and assess risks for noncompliance. The CCO shall provide an independent, factual and aggregated picture of Skandiabanken's compliance risk to the CEO, bank management and the Board of Directors.

12. Internal Audit

Assisting the Board in monitoring activities is Internal Audit, which is independent in relation to operations. Skandiabanken's Internal Audit function is directly subordinate to the Board's Risk and Audit Committee and is organisationally separated from the operations. Internal Audit's work is risk-based and is conducted in accordance with an audit plan that stretches over several years and is set by the Board of Directors. Internal Audit's work involves reviewing and evaluating the system of internal governance and control along with its effectiveness, including the risk management and compliance functions. Internal Audit coordinates its activities with Skandiabanken's external auditors and other internal control functions in order maintain a high level of efficiency in the control functions' work. The Head of Internal Audit reports directly to the Board of Directors, submits periodic reports to the Board, and keeps the CEO informed on a regular basis. Reports to the Board and CEO cover the results of reviews as well as recommendations arising out of reviews. To optimise the effectiveness of internal audit activities in the Skandia group, the function is organisationally placed in Skandia Mutual.

Signatures

The Board of Directors and CEO certify that the Annual Report has been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and generally accepted accounting principles in Sweden. The Annual Report provides a true and fair view of Skandiabanken's financial position and results of operations.

The statutory administration report provides a true and fair view of Skandiabanken's operations, financial position and results of operations, and describes material risks and uncertainties facing Skandiabanken.

Stockholm, 22 March 2018

The Board of Directors approves the Annual Report as per the above date, and final adoption will be done at the Annual General Meeting on 8 May 2018.

Niklas Johansson
Chairman of the Board

Per Anders Fasth

Björn Fernström
(elected at extraordinary general meeting on 14 December 2017)

Erika Hagwall

Ingrid Laurén Heumann

Frans Lindelöw

Pia Marions

Ann-Charlotte Stjerna

Johanna Cervall
CEO

Our audit report was submitted on 22 March 2018.

Deloitte AB

Patrick Honeth
Authorised Public Accountant

Auditor’s Report

To the general meeting of the shareholders of Skandiabanken Aktiebolag (publ) corporate identity number 516401-9738

Report on the annual accounts

Opinions

We have audited the annual accounts of Skandiabanken Aktiebolag (publ) for the financial year 2017 The annual accounts of the company are included on pages 4-70 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of Skandiabanken Aktiebolag (publ) as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopt the income statement and balance sheet.

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the company’s audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of Skandiabanken Aktiebolag (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Judgments and estimates with respect to valuation of loan receivables

Credit provision is a significant area with large impact on Skandiabanken Aktiebolag (publ) financial result and position, and is highly based on estimates and assessments by the bank’s management. Assessments of credit provisions includes when in time and what amount that are underlying provisions. Example of various assumptions and judgments includes the financial condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of credit provisions. Furthermore, the associated disclosures regarding credit provision are dependent on high quality data.

At December 31, 2017, gross loans to the public amounted to SEK 59 190 million, with loan loss provisions of SEK 11 million.

Given the significance of loans to the public (representing 85% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of credit risk in note 35.

Our audit procedures included, but were not limited to:

- We assessed key controls over the approval, recording and monitoring of loans and receivables, and evaluating the methodologies, inputs and assumptions used in determining and calculating the loan loss provisions.
- For provisions calculated on an individual basis we examined a selection of individual loan exposure in detail, and evaluated management assessment of the recoverable amount. We tested the assumptions underlying the impairment, including forecast of future cash flows, valuation of underlying collateral and estimates of recovery on default. We examined a selection of loans that have been identified by management as potentially impaired.
- We examined the sufficiency of the underlying models, assumptions and data used to measure loan loss provisions for portfolios of loans with similar credit characteristics. Likewise, we have examined the models, assumptions and data used for the collective impairment for incurred but not identified loss events.
- Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provision to assess compliance with disclosure requirements included in IFRS.

Application of hedge accounting

Several criteria’s in IAS 39 has to be fulfilled to be able to qualify for hedge accounting, including documentation of the characteristics and purpose of the hedge and regular testing performed on the effectiveness of the hedge. Given the complexity of the regulation for hedge accounting, this is an area with higher risks for banks.

Skandiabanken Aktiebolag (publ) has chosen to use hedge accounting for hedging of interest and currency risk and applies hedging of fair value.

At December 31, 2017, effects of hedge accounting in Net result of financial items measured at fair value amounted to SEK -58 million. Net effect from hedge accounting amounts to SEK 61 million.

Given the complexity in the regulation for hedge accounting and the subjectivity involved in the judgements made, we consider this to be a key audit matter for our audit.

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of market risk in note 35.

Our audit procedures included, but were not limited to:

- We assessed key controls over the documentation and overview of hedge relations and their initial and on-going effectiveness.
- We evaluated the hedge documentation and relations to assess if the hedges were appropriately designed in accordance with IFRS.
- We evaluated management's assessment of the effectiveness of the hedges, and assessment and accounting for ineffectiveness in hedges.
- Finally, we assessed the completeness and accuracy of the disclosures relating to hedge accounting to assess compliance with disclosure requirements included in IFRS.

IT-systems that support complete and accurate financial reporting

Skandiabanken Aktiebolag (publ) is dependent on their IT-systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of Skandiabanken Aktiebolag (publ) internal controls over financial reporting are depending upon automated application controls and completeness and integrity of reports generated by the IT-systems.

Skandiabanken Aktiebolag (publ) categorises their key IT-risk and control domains relating to financial reporting in the following sections:

- Modifications to the IT-environment
- Operations and monitoring of the IT-environment
- Information security

Modifications to the IT-environment

Inappropriate modifications to the IT-environment may result in systems that do not function as expected and result in unreliable data processing with impact on financial reporting. Hence Skandiabanken Aktiebolag (publ) has implemented processes and controls to support that changes to the IT-environment are appropriately implemented and function consistently with management's intentions.

Our audit procedures included, but were not limited to:

- We assessed management principles and processes for modifications to the IT-environment.
- We assessed management monitoring of modifications.
- We evaluated segregations of duties.

Operations and monitoring of the IT-environment

Inappropriate operation and monitoring of the IT- environment may result in the inability to prevent or detect incorrect data processing. Hence Skandiabanken Aktiebolag (publ) has implemented processes and controls to support that IT-environment is monitored continuously and that incorrect data processing is identified and corrected.

Our audit procedures included, but were not limited to:

- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the process for monitoring IT-System.

Information security

If physical and logical security tools and controls are not implemented and configured appropriately, key control activities may be ineffective, desired segregation of duties may not be maintained, and information may be modified inappropriately, become unavailable or disclosed inappropriately. This is of particular importance considering the current cyber threat level. Hence Skandiabanken Aktiebolag (publ) has implemented processes and controls to support that information is safeguarded through access controls and that known vulnerabilities are managed timely.

Our audit procedures included, but were not limited to:

- We evaluated the process for identity and access management, including access granting, change and removal.
- We evaluated the appropriateness of processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures.
- We evaluated the appropriateness of controls for security governance to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.

Other information than the annual accounts

This document also contains other information than the annual accounts and is found on pages 2-3 and 71-79. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or have no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor´s report".

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Skandiabanken Aktiebolag (publ) for the financial year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the loss to be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements, which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor´s report.

Deloitte AB, was appointed auditor of Skandiabanken Aktiebolag by the general meeting of the shareholders on the April 25, 2017 and has been the company's auditor since June 25, 2012.

Stockholm March 22, 2018
Deloitte AB

Patrick Honeth
Authorised public accountant

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SE-106 55 Stockholm

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