Skandiabanken
Annual information on capital adequacy and risk management - Pillar III 2011

skandia
bank & försäkring

Contents

1. INFORMATION ON CAPITAL ADEQUACY

This report includes information about capital adequacy, risks and risk management. Information is to be provided yearly in accordance with the Financial Supervisory Authority's regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5), called Pillar III. Full disclosure is provided yearly in conjunction with publication of the Annual Report on Skandiabanken's website. Periodic information is provided on Skandiabanken's website as per 31 March, 30 June, 30 September and 31 December.

1.1 Information in accordance with Pillar III and applied rules and regulations

Swedish law and the Swedish Financial Supervisory Authority's regulations on capital adequacy and major exposures are based on the EU's Capital Requirements Directive (CRD), which is built upon three pillars:

The third pillar regulates the disclosures that are to be provided with respect to:

• The first pillar, which addresses minimum capital requirement
Calculations of the minimum capital requirement are performed in accordance with the Capital Adequacy and Large Exposures Act (2006:1371*)* and the Financial Supervisory Authority's regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1). Specific disclosures are provided for:

Capital base and capital requirement

Credit risk, counterparty risk and operational risk

• The second pillar, which addresses the bank's risks, risk management and total capital requirement
Calculations of internal capital requirement are performed to ensure that a sufficient level of capital is kept for all material risks related to Skandiabanken's business, above and beyond the statutory minimum capital requirement according to Pillar I. The Internal Capital Adequacy Assessment Process, or ICAAP, includes strategies, methods and processes for Skandiabanken's capital allocation. The stipulations of the EU directive have been incorporated in the Banking and Finance Business Act (2004:297*)*. The Financial Supervisory Authority reviews and evaluates risk management and ensures that sufficient capital is held for the material risks that Skandiabanken is exposed to. Specific disclosures are provided in this report for:

Interest rate risk and share price risk for positions not included in the trading book

Liquidity risk

Goals and guidelines for risk management for the respective risk categories in accordance with the second pillar. Disclosures are provided about the strategy and methods for risk management and the risk management organisation. Disclosures are also provided for the scope and presentation of the risk reporting and risk measurement system as well as guidelines for risk hedging and risk reduction, and strategies and methods for evaluating the effectiveness of these.

• Other disclosure requirements according to the third pillar

The company and the financial company group

Dates for when information is provided and when it is available

Remuneration systems. The requirements for publication of information about remuneration have been transferred through the amended statute FFFS 2011:3 to the regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5). Disclosures are provided on Skandiabanken's website, www.Skandiabanken.se/Om oss/Finansiell info/1112 Information om ersättningar.

Changes in the capital adequacy rules and regulations 2011

On 31 December 2011 the Financial Supervisory Authority introduced new rules which entail, among other things, that deductions shall be made from tier 1 capital for price adjustments measured at fair value. Since Skandiabanken already adjusts its capital base via stability filters for instruments classified at "available-for-sale financial assets", no adjustment has been necessary.

Events after the balance sheet date, 31 December 2011 – transactions involving equity

Skandiabanken has divested parts of the services segment to Skandia Försäljning AB. The transaction has had an effect on calculation of pensions in accordance with IAS 19. In connection with the transaction, recognised actuarial losses have been reported against equity in the amount of SEK 35 million. A corresponding amount was received by the parent company Skandia as a shareholder contribution in February 2012.

Amended IFRSs 2013 – transactions involving equity

Effective 1 January 2013, new reporting rules for pensions in accordance with IAS 19 will entail that the corridor method can no longer be used. Currently the bank applies the corridor method, entailing that actuarial gains and losses are capitalised in the income statement. The change entails that these are to be reported directly against equity through "Other comprehensive income". In view of the divestment of parts of the services segment to Skandia, only small actuarial losses remain in Skandiabanken. These will be charged against equity as a one-time effect.

Forthcoming capital adequacy and liquidity rules

In 2013, new rules for capital adequacy, large exposures, liquidity and other risks, will take effect under the Basel III Capital Requirements Directive IV (CRD IV). The directive as a whole will take effect on 1 January 2013, with transitional rules for separate parts until 2019. The rules are currently under review by the EU and by the pertinent consultation bodies. Due to the short implementation period, a large number of subject areas, including capital, risk-weighted assets, and the Pillar II process, must be addressed in a very short period of time. This is leading to uncertainty about what effects the new rules will entail for Skandiabanken.

Capital adequacy

Following is a brief account of the parts that are expected to result in changes in Skandiabanken's capital requirement and capital base. Requirements for higher core capital and tier 1 capital will be increasing gradually in 2013 and 2014. Skandiabanken's tier 1 capital currently consists of equity less certain items that may not be included in the capital base. The new rules entail that an adjustment shall also be made of the core capital for defined benefit pension assets; under the current rules, these are adjusted on the total capital base. Overall this entails that Skandiabanken's core capital will be equal to its tier 1 capital. In addition, the new capital rules will entail the introduction of capital buffers. As mentioned, Skandiabanken uses the standardised approach for determining its credit risk. The proposed changes are not expected to have any major impact on Skandiabanken's capital requirement.

It is currently uncertain whether the Swedish government will introduce stricter capital rules for Swedish banks. With reservation for the aforementioned uncertainties, Skandiabanken believes that it should be able to meet the new requirements without the need for any capital contributions.

Liquidity

New rules have been proposed regarding quantitative liquidity metrics. One of the requirements is intended to show a short-term Liquidity Coverage Ratio, where highly liquid assets are measured in relation to stressed outflows and inflows of cash. The other requirement pertains to a long-term funding metric, called the Net Stable Funding Ratio (NSFR) and shows the balance between non-current assets and funding.

1.2 Information on the parent company and the financial company group

Skandiabanken Aktiebolag (publ) (reg. no. 516401-9738), with domicile in Stockholm, Sweden, was established on 1 July 1994 and is a wholly owned subsidiary of Skandia Insurance Company Ltd (publ) (”Skandia” – reg. no. 502017-3083). Old Mutual plc (reg. no. 3591559), with domicile in London, UK, owned 100% of the shares in Skandia until 21 March 2012, when Livförsäkringsaktiebolaget Skandia (publ) ”Skandia Liv” completed its acquisition of Skandia from Old Mutual.

Skandiabanken's business

Skandiabanken conducts business in Sweden and Norway. Operations are broken down into the operating segments Sweden banking, Norway banking (which is conducted via a branch located in Bergen, Norway), and Sweden mutual funds. The Sweden services segment has been sold to Skandia. In Sweden and Norway, Skandiabanken conducts banking business in the retail market and offers lending to individuals primarily in the form of home mortgages, personal loans, lines of credit and credit card credits, custody account lending and deposits. In addition to the lending and deposit activities, the bank offers services for trading in equities and mutual funds.

Restructuring and divestment of the services segment

In 2009 the advisory business and parts of the product development, business support, marketing and customer service units were transferred to Skandiabanken from Skandia. Skandiabanken performed services for Skandia and Skandia Liv under an outsourcing agreement. The entire advisory business and most of the remaining service operations have been sold to Skandia and Skandia Försäljning AB. In spring 2011 a process was begun to sell the services segment's operations to Skandia. This sale was completed on 1 January 2012. The average number of employees of Skandiabanken on 31 December 2011 was 1,001, of whom 523 worked in continuing operations and 478 in operations that have now been discontinued.

The sale was made at book value, entailing that no capital gain arose in the income statement. A group adjustment for pension obligations and actuarial losses was expensed as per 31 December 2011. The transaction affected the calculation of pensions in accordance with IAS 19. Recognised actuarial losses of SEK 35 million in connection with the transaction have been reported against equity. The corresponding amount was received from Skandia in a shareholder contribution in February 2012.

Sale of subsidiary Svenska Lärarfonder AB

The Sweden mutual funds segment previously consisted of the two subsidiaries Skandia Fonder AB and Svenska Lärarfonder AB. On 1 February 2011 the subsidiary Svenska Lärarfonder AB was sold. The subsidiary's business only accounted for a small part of the bank's total business. In 2010 the company had assets of SEK 19 million and a profit after tax of SEK 3 million. The average number of employees was two persons.

Consolidation in accordance with capital adequacy rules

In accordance with the capital adequacy rules, all subsidiaries are consolidated fully in accordance with the acquisition method. Consolidation of wholly owned subsidiaries in the financial statements is done in accordance with IAS 27 Consolidated and Separate Financial Statements, and subsidiaries are reported in accordance with the acquisition method. This method entails that acquisitions of subsidiaries are regarded as a transaction whereby the group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. Application of the acquisition method entails that the group's equity consists of the parent company's equity and the part of the subsidiaries' equity that was earned after the acquisition date.

Table 1: Consolidation of the financial company group in accordance with the capital adequacy rules

SEK million

31 December 2011

Subsidiary	Registered number	Domicile/country	Share of ownership	Quota value[1]	Book value	Method of consolidation
Skandia Fonder AB	556317-2310	Stockholm, Sweden	100%	100	42	Acquisition method

31 December 2010

Subsidiary	Registered number	Domicile/country	Share of owner-ship	Quota value[1]	Book value	Method of consolidation
Skandia Fonder AB	556317-2310	Stockholm, Sweden	100%	100	41	Acquisition method
Svenska Lärarfonder AB	556328-2358	Stockholm, Sweden	51%	150	3	Acquisition method

[1] Quota value pertains to the share capital divided by the number of shares, expressed in Swedish kronor.

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

Transfers of funds from the capital base may be made in accordance with the Banking and Finance Business Act, the Companies Act and the Financial Supervisory Authority's instructions. The Swedish subsidiary Skandia Fonder AB is under the supervision of the Swedish Financial Supervisory Authority and maintains a capital base in accordance with Swedish rules and regulations. Liabilities between the units are settled on a regular basis, and transfers of capital between the units are normally conducted in connection with year-end.

2. MINIMUM CAPITAL REQUIREMENT – PILLAR I

The outcome pertains to calculation in accordance with the statutory minimum capital requirement for credit risk, market risk and operational risk, called Pillar I. Skandiabanken applies the standardised approach in calculating credit risk, which entails the use of 15 exposure classes with several different risk weightings in the respective classes. The capital requirement for currency risks covers all items on and off the balance sheet at current fair value and translated to Swedish kronor at the exchange rate in effect on the balance sheet date. Eight per cent of the total net position in foreign currency is calculated to make up the capital requirement. The capital requirement for operational risks is calculated using the basic indicator approach, which entails that the capital requirement consists of 15% of average operating income for the last three financial years. Skandiabanken has received permission from the Financial Supervisory Authority to calculate the capital requirement for its trading book in accordance with the rules for credit risk.

In 2011 Skandiabanken met the minimum requirement for its capital base.

2.1 Comments on the outcome for capital adequacy at 31 December 2011 compared with 31 December 2010

The capital ratio increased compared with at 31 December 2010 to 14.31% (14.18%). The change is mainly due to the fact that comprehensive income for the period was verified by the company's auditors and was thereby included in the capital base. The capital base strengthened by SEK 147 million, and the capital requirement for risk-weighted assets increased by only SEK 64 million (3%), despite the increased exposure to credit risk by SEK 8.7 billion (13%).

Risk-weighted exposures amounted to SEK 27,630 million (26,830). The change pertained mainly to increased exposure to credit risks during the second half of 2011. By risk-weighted exposures in meant the assessed value of an exposure to credit risk, currency risk and operational risk. By exposure is meant items on and off the balance sheet. According to the regulations, the definition of risk-weighted exposures does not apply for currency risk and operational risk; instead, the capital requirement for these risks is determined explicitly. To illustrate the calculation the capital requirement, these risks have been converted to risk-weighted exposures.

Risk-weighted exposures for credit risk increased by SEK 362 million. Lower lending to the retail market and home mortgages by SEK 564 million resulted in a decrease in risk-weighted assets by SEK 80 million. Exposures pertaining to the liquidity buffer increased by SEK 10.1 billion and entailed an increase in risk-weighted assets by SEK 154 million. Other risk-weighted credit exposures increased by SEK 289 million. The last-mentioned item includes fund settlement receivables and derivatives, among other things. The capital requirement for currency risk decreased by SEK 2 million, and the capital requirement for operational risk increased by SEK 37 million. The minority-owned subsidiary Svenska Lärarfonder was sold on 1 February 2011. The impact of this sale on risk-weighted assets and minority interests was SEK 6 million each.

Table 2: Capital adequacy analysis

SEK million

Capital adequacy measures	31/12/2011	31/12/2010
Capital ratio [1]	14,31%	14,18%
Tier 1 capital ratio [2]	9,95%	9,71%
Capital adequacy quotient [3]	1,79	1,77
Capital base [4]		
Equity according to balance sheet at 31 December	2,806	2,641
Proposed dividend	-	-
Minority interest	-	6
Tier 1 capital, gross [4.1]	**2,806**	**2,647**
Less: intangible assets	-3	-7
Less: deferred tax assets	-35	-33
Adjustment for available-for-sale financial assets	-20	-2
Tier 1 capital, net	**2,748**	**2,605**
Unrealised gain from available-for-sale financial assets, equities	4	-
Perpetual subordinated debt [4.2]	900	900
Fixed-term subordinated debt [4.3]	300	300
Total tier 2 capital	**1,204**	**1,200**
Capital base	**3,952**	**3,805**
Risk-weighted exposures/basis for calculating capital requirement [5]		
Credit risk according to standardised approach	23,585	23,223
Currency risk	134	156
Operational risk according to basic indicator approach	3,911	3,451
Total risk-weighted exposures	**27,630**	**26,830**
Capital requirement [6]		
Credit risk according to standardised approach	1,887	1,858
Currency risk	10	12
Operational risk according to basic indicator approach	313	276
Total minimum capital requirement	**2,210**	**2,146**

Initial capital SEK 45 million [7]

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

For a description of quantitative concepts, see the footnotes under point 2.3.

2.2 Disclosures of credit risk – Pillar I

Disclosures are provided with respect to:

2.2.1 Method for calculating risk-weighted exposures to credit risk using the standardised approach

2.2.2 Credit risk protection – collateral that reduces the capital requirement

2.2.3 Exposures broken down by exposure class

2.2.4 Exposures with and without external credit rating

2.2.5 Geographic spread of exposures and exposure broken down by type of counterparty

2.2.6 Corporate exposures broken down by industry sector

2.2.7 Breakdown of exposures by remaining duration

2.2.8 Counterparty risk pertaining to derivative contracts

2.2.9 Past-due loans and loans for which there is a need to recognise impairment

2.2.1 Method for calculating risk-weighted exposures to credit risk using the standardised approach

In accordance with Pillar I, exposures to credit risk include the following items less provisions for impaired loans
• Items on the balance sheet carried at net book value
• Items off the balance sheet carried at their notional value multiplied by an applicable conversion factor
• Counterparty risk in derivative contracts

The following exposures receive 0% in risk weight regardless of which exposure class they belong to
• Exposures deducted from the capital base
• Exposures pertaining to shareholdings in subsidiaries and other items that may be included in the issuing institution's capital base

Other exposures to group companies than shareholdings in subsidiaries receive a risk weight of 0% under the following circumstances
• The counterparty is an institution or financial holding company that is domiciled in Sweden and fully consolidated in the financial company group
• The counterparty has corresponding processes for risk assessment, risk measurement and control as the institution
• There are no prevailing or anticipated material or legal hindrances to the counterparty's ability to quickly transfer funds from the capital base or regulate liabilities to the institution.

For Skandiabanken, this means that exposures to the subsidiary Skandia Fonder AB receive a risk weight of 0%.

Calculation of risk-weighted amount for credit risk
Fifteen exposure classes are used in application of the standardised approach. The respective exposure classes can, within each class, have several different risk weights, which are set by the Financial Supervisory Authority. To determine which risk weight an exposure shall be assigned, an external credit rating is used. The Financial Supervisory Authority approves the credit rating agencies whose credit ratings may be used and specifies a number of credit quality steps and which credit ratings belong to the respective intervals.

Skandiabanken uses external ratings from Standard & Poor's, Moody's and Fitch. In cases where the counterparty has received two external credit ratings, the credit rating that leads to the highest risk weight is used. If an exposure has received more than two external credit ratings, the two credit ratings that provide the lowest risk weight shall be used. If these two differ, the one that provides the higher risk weight shall be used. When exposures pertain to a specific issue programme that has been assigned a credit rating, this credit rating shall be used. Table 4 includes disclosures aggregated per exposure class, and table 5 includes disclosures about ratings broken down into the respective exposure classes.

2.2.2 Credit risk protection – collateral that reduces the capital requirement

Under certain circumstances, the capital requirement can be reduced when the bank receives collateral for the credit exposure. According to the rules, when applying the standardised approach, credit risk protection may be included if the form of collateral is acceptable and the bank meets certain handling requirements. The rules for collateral are broken down into guarantees, credit derivatives and financial collateral. The collateral that the bank uses to reduce the capital requirement pertains to guarantees, and a summary is provided below for these.

Skandiabanken adheres to the following guidelines for guarantees that reduce the capital requirement. In order for the form to be acceptable, the requirement is made that the issuer is considered to be qualified. Qualified issuers are those that can be ascribed to exposure classes 1-6, i.e., governments, local governments and institutions, see table 4. Corporates may be qualified when they have an external credit rating that corresponds to credit quality step 2, i.e., A+ to A-, or better. In order for the form to be acceptable also requires that the protection is direct – it must be clear which exposures are covered, and the contract must be binding in the pertinent jurisdictions. It must not be possible to make changes to the protection; nor may it be possible to revoke the protection. The guarantee amount must cover the entire exposure amount; otherwise, the rules for securitisation take effect. It must be possible to make demands on the issuer for settlement without the bank having to turn to the debtor. The handling requirements for these guarantees entail that the bank has issued guidelines in connection with its overall strategy for risk management and specifically with respect to guidelines for exposures attributable to the liquidity buffer. Follow-up of credit risk that has a qualifying guarantee is done both gross and net. This means that credit risk and concentrations of credit risk are assessed for the exposure before and after taking into account the credit risk protection. Skandiabanken has no netting agreements that could reduce its credit risk.

The effect on the capital requirement of guarantees that may be included is that the debtor's risk weight is exchanged for the guarantor's risk weight in calculating the risk-weighted exposure amount. In cases where there is a mismatch in the duration between the guaranteed exposure and the guarantee, the guarantee is not included if the original duration is less than one year or if the remaining duration is less than three months. In addition, guarantees longer than five years are not included. For other guarantees where there is a mismatch in the duration, the guarantee's value is reduced by a factor that corresponds to the guarantee's remaining duration less 0.25 divided by the guaranteed exposure's remaining duration less 0.25.

Table 3: Collateral that reduces the capital requirement

SEK million

31/12/2011

Collateral that reduces the capital requirement	Exposures [8]		Average	Risk-weighted assets [5]		Capital requirement [6]		Reduction
	Inflow	Outflow	Risk weight	Inflow	Outflow	Inflow	Outflow	Capital requirement
Exposures to governments and central banks	931	-	0%	-	-	-	-	-
- of which, the Danish government	931	-	0%	-	-	-	-	-
Exposures to local governments and comparable associations and authorities	232	-	0%	-	-	-	-	-
Exposures to institutions	-	-1,132	20%	-	-227	-	-18	-
Exposures to corporates	,-	-31	20%	-	-6	-	-1	-
Total	**1,163**	**-1,163**		-	**-233**	-	**-19**	**-19**

31/12/2010

Collateral that reduces the capital requirement	Exposures [8]		Average	Risk-weighted assets [5]		Capital requirement [6]		Reduction
	Inflow	Outflow	Risk weight	Inflow	Outflow	Inflow	Outflow	
Exposures to governments and central banks	1,203	-	16%	198	-	16	-	-
- of which, the Danish government	808	-	0%	-	-	-	-	-
- of which, the Irish government	395	-	50%	198	-	16	-	-
Exposures to institutions	-	-1,022	51%	-	-520	-	-42	-
Exposures to corporates	,-	-181	20%	-	-36	-	-3	-
Total	**1,203**	**-1,203**		**198**	**-556**	**16**	**-45**	**-29**

By inflow is meant an inflow to a counterparty that has issued a guarantee, and by outflow is meant the exposure that is protected by the guarantee. Skandiabanken has received guarantees from governments and local governments for fixed-income securities attributable to the liquidity buffer. Table 5 below shows a breakdown of inflows and outflows pertaining to credit risk protection per exposure class and per credit quality step. For a description of quantitative concepts, see the footnotes under point 2.3.

2.2.3 Breakdown of exposures per exposure class

Table 4: Exposures and average exposure amounts during the year

SEK million

31 December 2011

Class	Specification of exposures for credit risks	Exposures [8]	Risk-weighted assets [5]	Capital require-ment [6]	Average exposure amount [10]
1	Exposures to governments and central banks	4,331	-	-	4,089
2	Exposures to local governments and comparable associations and authorities	3,165	97	8	1,690
3	Exposures to administrative bodies, non-commercial undertakings and religious communities	-	-	-	-
4	Exposures to multilateral development banks	-	-	-	-
5	Exposures to international organisations	-	-	-	-
6	Exposures to institutions	5,937	1,172	94	5,681
7	Exposures to corporates	919	758	61	1,219
8	Retail exposures	3,242	2,431	195	3,267
9	Exposures secured by real estate	49,177	17,919	1,433	50,013
10	Non-performing loans [9]	26	26	2	26
11	High-risk items	-	-	-	-
12	Exposures in the form of covered bonds	9,881	988	79	6,659
13	Positions in securitisations	-	-	-	-
14	Exposures to CIUs	53	53	4	57
15	Other items	145	141	11	138
	Total credit risks	**76,876**	**23,585**	**1,887**	**72,839**

31 December 2010

Class	Specification of exposures for credit risks	Exposures [8]	Risk-weighted assets [5]	Capital require-ment [6]	Average exposure amount [10]
1	Exposures to governments and central banks	2,726	197	16	2,860
2	Exposures to local governments and comparable associations and authorities	399	80	6	731
3	Exposures to administrative bodies, non-commercial undertakings and religious communities	-	-	-	0
4	Exposures to multilateral development banks	-	-	-	-
5	Exposures to international organisations	-	-	-	-
6	Exposures to institutions	5,361	1,056	84	7,671
7	Exposures to corporates	901	690	55	2,457
8	Retail exposures	3,162	2,371	190	3,044
9	Exposures secured by real estate	49,821	18,059	1,445	46,535
10	Non-performing loans [9]	23	23	2	22
11	High-risk items	-	-	-	-
12	Exposures in the form of covered bonds	5,627	563	45	5,704
13	Positions in securitisations	-	-	-	-
14	Exposures to CIUs	59	59	5	57
15	Other items	138	125	10	140
	Total credit risks	**68,217**	**23,223**	**1,858**	**69,221**

For a description of quantitative concepts, see the footnotes under point 2.3.

2.2.4 Exposures with and without external credit ratings

For those classes where exposures exist, information are provides on exposure amounts, before and after credit risk, for each credit quality step.

Table 5: Classification of exposures with and without external credit ratings

Class 1. Exposures to governments and central banks

Exposures to governments and central banks that have been assigned a credit rating receive a risk weight in accordance with the Financial Supervisory Authority's ranking in six separate credit quality steps. Skandiabanken's exposures pertain to the Swedish and Norwegian central banks. Exposures also exist to governments that have issued guarantees.

SEK million		31 December 2011			31 December 2010		
Credit rating/classification	Credit quality step	Risk weight	Exposure	Risk-weighted amount	Risk weight	Exposure	Risk-weighted amount
AAA to AA-	1	0%	3,399	-	0%	1,523	-
Total		**0%**	**3,399**	-	**0%**	**1,523**	-
Exposures covered by credit risk protection							
AAA to AA-	1	0%	931	-	0%	808	-
BBB+ to BBB-	3	-	-	-	50%	395	198
Total inflow credit risk protection		**0%**	**931**	-	**16%**	**1,203**	**198**
Exposures after inflow		**0%**	**4,331**	-	**7%**	**2,726**	**198**

Class 2. Exposures to local governments and comparable associations and authorities

Exposures to Swedish municipalities receive the same risk weight as exposures to the Swedish government. Exposures to local governments in foreign countries in the EEA receive, if the exposure there is treated as an exposure to that country's government, the same risk weight as an exposure to the government. Skandiabanken's branch in Norway has exposures to Norwegian municipalities and receives, in accordance with Norwegian rules, a 20% risk weight. See credit quality step 2 in the table below.

SEK million		31 December 2011			31 December 2010		
Credit rating/classification	Credit quality step	Risk weight	Exposure	Risk-weighted amount	Risk weight	Exposure	Risk-weighted amount
AAA to AA-	1	0%	2,449	-	-	-	-
AAA to AA-	2	20%	484	97	20%	399	80
Total		**3%**	**2,933**	**97**	**20%**	**399**	**80**
Exposures covered by credit risk protection							
AAA to AA-	1	0%	232	-	-	-	-
Total inflow credit risk protection		**0%**	**232**	-	-	-	-
Exposures after inflow		**3%**	**3,165**	**97**	**20%**	**399**	**80**

Class 6. Exposures to institutions

Exposures to institutions receive a risk weight in accordance with the Financial Supervisory Authority's ranking in six separate credit quality steps. The risk weight is based on the home country's credit quality steps. This means, for example, that Swedish securities are assigned a credit rating that corresponds to the Swedish government's credit rating, which is AAA, and are placed in credit quality step 1.

SEK million		31 December 2011			31 December 2010		
Credit rating/classification	Credit quality step	Risk weight	Exposure	Risk-weighted amount	Risk weight	Exposure	Risk-weighted amount
AAA to AA-	1	20%	6,989	1,398	20%	5,907	1,181
BBB+ to BBB-	3	100%	-	-	100%	395	395
Intra-group exposures [1]	-	0%	80	-	0%	81	-
Total		**20%**	**6,989**	**1,398**	**25%**	**6,383**	**1,576**
Exposures covered by credit risk protection							
AAA to AA-	1	20%	-1,132	-227	20%	-627	-125
BBB+ to BBB-	3	100%	-	-	100%	-395	-395
Total outflow credit risk protection		**20%**	**-1,132**	**-227**	**51%**	**-1,022**	**-520**
Exposures after inflow		**20%**	**5,937**	**1,171**	**20%**	**5,361**	**1,056**

[1] See point 2.2.1 Method for calculating credit risk.

Class 7. Corporate exposures

Exposures to corporates that have been assigned a credit rating receive a risk weight in accordance with the Financial Supervisory Authority's ranking in six separate credit quality steps. Exposures without a credit rating receive a risk weight of 100%.

SEK million		31 December 2011			31 December 2010		
Credit rating/classification	Credit quality step	Risk weight	Exposure	Risk-weighted amount	Risk weight	Exposure	Risk-weighted amount
AAA to AA-	1	20%	232	46	20%	381	75
A+ to A-	2	50%	-	-	50%	79	40
BBB+ till BBB-	3	100%	-	-	100%	-	-
No rating	6	100%	718	718	100%	611	611
Intra-group exposures [1]	-	0%	-	-	0%	11	-
Total		**67%**	**950**	**764**	**67%**	**1 082**	**726**
Exposures covered by credit risk protection							
AAA to AA-	1	20%	-31	-6	20%	-181	-36
Total outflow credit risk protection		**20%**	**-31**	**-6**	**20%**	**-181**	**-36**
Exposures after inflow		**77%**	**919**	**758**	**77%**	**901**	**690**

[1] See point 2.2.1 Method for calculating credit risk.

Class 8. Retail exposures

Retail exposures pertain primarily to exposures to individuals for lines of credit and credit card credits, personal loans, instalment loans and custody account credits and receive a risk weight of 75%. In order for a retail exposure to be classified in this exposure class, the total exposure can amount to a maximum of EUR 600,000. In addition, a large number of exposures shall exist with similar characteristics in order to lower the credit risk.

Class 9. Exposures secured by real estate
Skandiabanken's exposures that are secured by real estate pertain to residential properties and tenant-owner associations. These exposures receive a risk weight of 35% for the portion of the exposure that corresponds to the value of the property; the excess exposure receives a risk weight of 75%. The average risk weight for Skandiabanken is 36% (36%).

Class 10. Non-performing loans
Non-performing loans refers to, in accordance with the Financial Supervisory Authority's directions, a loan that is more than 90 days past due. This means that compared with the definitions used in the consolidated accounts in general along with accompanying notes, impaired loans are also included in the definition of "non-performing loans". Non-performing loans, without security, receive a risk weight of 150% if a value adjustment (provision) has been made by less than 20% of the non-performing loan before the value adjustment. In cases where the value adjustment is 20% or higher, a risk weight of 100% is received. Non-performing loans secured by residential property or a tenant-owner association receive a risk weight of 100% if the value adjustment has been made by less than 20% of the non-performing loan before value adjustment. In cases where the value adjustment is 20% or higher, a risk weight of 50% is received.

Class 12. Exposures to covered bonds
Covered bonds are assigned to their own exposure class. The risk weight that is assigned to the exposure is based on the home country's credit rating, with the following relations:

Risk weight for institution in view of the home country's credit rating	Risk weight of covered bond
20%	10%
50%	20%
100%	50%
150%	100%

SEK million			31 December 2011		31 December 2010		
Credit rating/classification	Credit quality step	Risk weight	Exposure	Risk-weighted amount	Risk weight	Exposure	Risk-weighted amount
AAA to AA-	1	10%	9,881	988	10%	5,628	563
Total		**10%**	**9,881**	**988**	**10%**	**5,628**	**563**

Class 14. Exposures to CIUs
Exposures to CIUs receive a risk weight of 100%.

Class 15. Other items
Skandiabanken's exposures to "Other items" are broken down into exposures that receive a risk weight of 100% and pertain to e.g., tangible assets and shareholdings. Cash as well as intangible assets for which deduction is made from the capital base receive a risk weight of 0%. The average risk weight for Skandiabanken is 97% (90%).

2.2.5 Geographic spread of exposures and exposure broken down by type of counterparty

Table 6: Geographic spread of exposures

SEK million

31 December 2011

Specification of exposures for credit risks	Sweden	Norway	Denmark	Nether-lands	Finland	-	Exposures [8]
Exposures to governments and central banks	1,035	2,397	899	-	-	-	4,331
Exposures to local governments and comparable associations and authorities	1,501	1,434	-	-	230	-	3,165
Exposures to institutions	1,947	3,522	288	180	-	-	5,937
Exposures to corporates	485	404	30	-	-	-	919
Retail exposures	710	2,532	-	-	-	-	3,242
Exposures secured by real estate	24,708	24,469	-	-	-	-	49,177
Non-performing loans [9]	2	24	-	-	-	-	26
Exposures in the form of covered bond	4,602	5,279					9,881
Exposures to CIUs	53	-	-	-	-	-	53
Other items	121	24	-	-	-	-	145
Total credit risks	**35,164**	**40,085**	**1,217**	**180**	**230**		**76,876**

31 December 2010

Specification of exposures for credit risks	Sweden	Norway	Denmark	Nether-lands	Ireland	USA	Exposures [8]
Exposures to governments and central banks	1,210	496	626	-	394	-	2,726
Exposures to local governments and comparable associations and authorities	-	399	-	-	-	-	399
Exposures to institutions	1,188	3,717	-	180	-	276	5,361
Exposures to corporates	338	383	180	-	-	-	901
Retail exposures	736	2,426	-	-	-	-	3,162
Exposures secured by real estate	24,964	24,857	-	-	-	-	49,821
Non-performing loans [9]	2	20	-	-	-	-	22
Exposures in the form of covered bond	3,809	1,818					5,627
Exposures to CIUs	60	-	-	-	-	-	60
Other items	114	24	-	-	-	-	138
Total credit risks	**32,421**	**34,140**	**806**	**180**	**394**	**276**	**68,217**

Disclosures are to be provided of the breakdown of exposures by type of class of exposure. For several of the exposure classes, the type of counterparty is specified, such as governments, local governments and corporates. Skandiabanken's retail lending pertains to loans to individuals. Exposures secured by real estate pertain mostly to home mortgages. Exposures in the form of covered bonds pertain to counterparties that are credit institutions. Disclosures of corporate exposures per industry are shown in table 7. For a description of quantitative concepts, see the notes under point 2.3.

2.2.6 Corporate exposures broken down by industry

Table 7: Corporate exposures broken down by industry

SEK million

Specification of corporate exposures for credit risks	31 Dec. 2010	31 Dec. 2010
Finance and insurance	637	568
Legal, financial, science and technology	200	200
Other service sectors	81	133
Total	**919**	**901**

Corporate exposures pertain primarily to securities settlement claims, totalling SEK 570 million (461) and investments in fixed-income securities, SEK 200 million (281). Skandiabanken applies, as far as possible, the industry sector classification provided by Statistics Sweden (SCB) regarding Swedish exposures, and the corresponding information is obtained for exposures attributable to the Norwegian operations.

2.2.7 Breakdown of exposures by remaining duration

Table 8: Breakdown of exposures by remaining duration, per exposure class

SEK million

31/12/2011

Specification of exposures for credit risks	0-1 mos	1-3 mos	3-6 mos	6-12 mos	1-5 yrs	> 5 yrs	Exposures [8]
Exposures to governments and central banks	3,399	-	-	31	901	-	4,331
Exposures to local governments and comparable associations and authorities	23	365	-	197	2,580	-	3,165
Exposures to institutions	1,779	936	232	1,484	1,506		5,937
Exposures to corporates	719	-	100	-	100	-	919
Retail exposures	504	57	84	161	824	1,612	3,242
Exposures secured by real estate	9,868	6,118	1,095	2,113	9,146	20,837	49,177
Non-performing loans [9]	-	-	17	4	5	-	26
Exposures in the form of covered bonds	-	301	861	1,019	7,700	-	9,881
Exposures to CIUs	53	-	-	-	-	-	53
Other items	145	-	-	-	-	-	145
Total credit risks	**16,490**	**7,777**	**2,389**	**5,009**	**22,762**	**22,449**	**76,876**

31/12/2010

Specification of exposures for credit risks	0-1 mos	1-3 mos	3-6 mos	6-12 mos	1-5 yrs	> 5 yrs	Exposures [8]
Exposures to governments and central banks	1,523	896	181	-	127	-	2,726
Exposures to local governments and comparable associations and authorities	240	29	73	58	-	-	399
Exposures to institutions	668	1,183	710	460	2,341	-	5,361
Exposures to corporates	701	-,	-	-	201	-	901
Retail exposures	473	12	18	40	750	1,869	3,162
Exposures secured by real estate	10,585	6,624	940	2,106	8,861	20,705	49,821
Non-performing loans [9]	23	-	-	-	-	-	23
Exposures in the form of covered bonds	-	1,320	151	832	3,325	-	5,628
Exposures to CIUs	60	-	-	-	-	-	60
Other items	138	-	-	-	-	-	138
Total credit risks	**14,409**	**10,063**	**2,071**	**3,496**	**15,604**	**22,575**	**68,217**

Exposures are broken down in accordance with their contracted remaining durations. For contracts with terms that are bound for specific periods, the remaining duration is until the next contractual reset date. For a description of quantitative concepts, see the footnotes under point 2.3.

2.2.8 Counterparty risk in derivative contracts

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

Skandiabanken applies the market valuation method, in accordance with the standardised approach, to calculate exposure amounts for credit risk in derivative contracts. The positive market value plus the amount for possible change in risk constitutes the bank's potential total exposure to counterparty risk in the event of a bankruptcy. By possible change is risk is meant an amount that expresses the possibility that the positive market value will rise during the term. The amount for possible change in risk is calculated by multiplying the contract's nominal amount by a risk factor. The risk factor is dependent on the duration and type of derivative instrument.

No legally binding netting agreements have been entered into. This means that no netting gains exist, and no security is held that reduces the credit exposure.

Table 9: Counterparty risk in derivative contracts

SEK million

31/12/2011

Exposure class	Positive market value, gross	Possible change in risk exposure amount	Total exposure amount [8]	Risk-weighted exposures [5]	Capital requirement [6]
Corporate exposures	23	30	**53**	53	4

31/12/2010

Exposure class	Positive market value, gross	Possible change in risk exposure amount	Total exposure amount [8]	Risk-weighted exposures [5]	Capital requirement [6]
Corporate exposures	51	29	**79**	54	4

In calculations of internal capital according to Pillar II, calculation of the exposure amount is based on the same method as reported above and which is included in the statutory calculation of minimum capital requirement for credit risks.

The method of setting credit limits for derivatives is done using the same internal processes as for lending. The method is based on the corresponding calculation that is done for capital adequacy purposes. The reason why the amount for possible risk changes is included in the credit process is that the fair value of derivatives can increase quickly due to changes in interest rates and exchange rates.

For a description of quantitative concepts, see the footnotes under point 2.3.

2.2.9 Information on past-due loans and loans where there is a need to recognise impairment

Definitions
According to the Financial Supervisory Authority's regulations and general guidelines concerning disclosure of information on capital adequacy and risk management (FFFS 2007:5), called Pillar III, concepts and terminology shall correspond to the regulations as far as possible. This means that terms and concepts may differ from those used in the financial statements even though they are the same in substance. In certain cases, even the substance of concepts and terms can be different. In certain cases, the substance of the concepts and terms can also be different.

Methods for determining impairment and other adjustments of value
Skandiabanken determines whether there is objective evidence to recognise impairment individually for financial assets that are individually significant or, in a group for financial assets that are not individually significant, which are referred to as "homogenous groups of loans with limited value and similar credit risk". Objective evidence exists in accordance with the definition of impaired loans, i.e., that the loan has not been repaid within 60 days and, for loans where payments have not been made before 60 days, in cases where the loans is judged to be impaired for other reasons, e.g., that the value of the security has decreased or insolvency of the counterparty.

If there is no objective evidence to recognise impairment of an individually assessed financial asset, then the asset is included in a group of financial assets with similar credit risk characteristics, and a collective assessment is made of the need to recognise impairment for the assets. In cases where no need for impairment is judged to exist, the loan is classified as a "non-performing loan that is not judged to be impaired", and loans where a need to recognise impairment exists are classified as "impaired loans".

Table 10: Exposures for which there is a need to recognise impairment and past-due exposures

SEK million

31/12/2011	Exposures for which there is a need to recognise impairment [1]			Past-due exposures [2]		
	Sweden	Norway	Total	Sweden	Norway	Total
Retail exposures	9	112	121	-	1	1
Exposures secured by real estate	44	48	92	10	44	54
Total	**53**	**160**	**213**	**10**	**45**	**55**

31/12/2010	Exposures for which there is a need to recognise impairment [1]			Past-due exposures [2]		
	Sweden	Norway	Total	Sweden	Norway	Total
Retail exposures	9	102	111	-	-	-
Exposures secured by real estate	15	40	55	12	23	35
Total	**24**	**142**	**166**	**12**	**23**	**35**

[1] Exposures for which there is a need to recognise impairment
The definition corresponds to "impaired loans" in the financial statements. It entails that an impaired loan is a receivable where it is likely that all amounts will not be received in accordance with their contractual terms. If the principal, interest or overdraft charges are not paid within 60 days, the loan is classified as impaired if there is insufficient collateral to cover both the principal and the interest including late charges.

[2] Past-due exposures
The definition corresponds to "non-performing loans" in the financial statements. It entails that loans that are past due, but which are not judged to be impaired and for which adequate collateral exists, are reported as non-performing loans.

Table 11: Impairment and adjustments of value in the balance sheet and income statement

31/12/2011	Impairment and adjustments of value in the balance sheet [3]			Impairment and adjustments of value in the income statement [4]		
	Sweden	Norway	Total	Sweden	Norway	Total
Retail exposures	7	91	98	7	28	35
Exposures secured by real estate	13	22	35	7	3	10
Total	**20**	**113**	**133**	**14**	**31**	**45**

31/12/2010	Impairment and adjustments of value in the balance sheet [3]			Impairment and adjustments of value in the income statement [4]		
	Sweden	Norway	Total	Sweden	Norway	Total
Retail exposures	5	85	90	7	41	48
Exposures secured by real estate	7	19	26	-1	0	-1
Total	**12**	**104**	**116**	**6**	**41**	**47**

[3] Impairment and adjustments of value in the balance sheet
These definitions correspond to ”provisions for loan losses” in the financial statements and pertain to provisions for impaired loans in the balance sheet as per the balance sheet date.

[4] Impairment and adjustments of value for the year
These amounts correspond to disclosures of loan losses in the income statement excluding amounts paid in for previous years' loan losses.

Exposures secured by real estate pertain to home mortgages granted to individuals.

Table 12: Report on changes in impairment and adjustments of value

SEK million

Reconciliation of reserves in balance sheet	31/12/2011	31/12/2010
Opening balance	**116**	**108**
Specific reserves		
Opening balance	**27**	**33**
Confirmed loan losses	0	-2
Provisions	19	6
Reversals	-9	-9
Changes reported in income statement	**10**	**-4**
Translation difference	0	-1
Reclassifications	0	-1
Closing balance, specific reserves	**37**	**27**
Group reserves		
Opening balance	**90**	**75**
Net change in reserves reported in income statement	9	22
Translation difference	0	-6
Reclassifications	-3	-2
Closing balance, group reserves	**96**	**90**
Closing balance, reserves	**133**	**116**

2.3 Description quantitative information in point 2 "Minimum capital requirement – Pillar I"

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

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

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

[4] The capital base is allocated between primary (Tier 1) capital and supplementary (Tier 2) capital. Tier 1 capital shall amount to at least 50% of the sum of tier 1 and tier 2 capital. Tier 2 capital refers to perpetual and dated subordinated debt. Fixed-term subordinated debt may not exceed 50% of tier 1 capital

[4.1]Tier 1 capital, gross, refers to equity as per the balance sheet at 31 December including minority shareholdings and the appropriation of profits proposed by the Board, which is reported in equity.

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

[4.3]Fixed-term subordinated debt
According to the terms of agreement, the rate of interest is determined in relation to the interest base, Stibor +1.00%. The loans have subordinated terms of payment and run with no collateral pledged.

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

Repayment of subordinated debt is only possible in cases where the issuer is declared bankrupt or has entered into liquidation, or, after having obtained permission from the Financial Supervisory Authority.

[5] By risk-weighted exposures is meant the assessed value of an exposure. By exposure is meant items on and off the balance sheet. Intra-group exposures are included, except for shares in subsidiaries and counterparties that are under supervision of the Financial Supervisory Authority

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

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

[7]Pursuant to the Banking and Finance Business Act (*Lagen (2004:297) om Bank- och finansieringsrörelse*), a bank stock corporation is required to have initial capital amounting to EUR 5 million at the time it receives its charter.

[8]By exposure is meant exposures on the balance sheet after deduction for loan losses and off-balance sheet undertakings, which are recalculated using a conversion factor which shall illuminate the risk in the undertaking.

[9]Non-performing loans refer to, in accordance with the Financial Supervisory Authority's regulations and general guideline regarding capital adequacy and large exposures (FFFS 2007:1), loans that are more than 90 days past due. This entails that, compared to applied definitions in the consolidated financial statements and disclosures, impaired loans are included in the concept of non-performing loans in the table above. Moreover, loans more than 60 days past due are stated as non-performing loans in other notes.

[10]The average exposure amount is based on monthly calculations recalculated to full-year figures.

3. STRATEGY, METHODS AND PROCESSES FOR CAPITAL ALLOCATION – PILLAR II

Skandiabanken's strategy is to always have a total capital ratio of higher than 10.5% including internal capital requirement. According to the statutory minimal capital requirement, the capital base in relation to the risk-weighted amount of exposure shall be no less than 8%. For choice of method, see "Minimum capital requirement" above. In addition to the statutory minimum capital requirement, banks are expected to maintain a higher capital base, which is treated under Pillar II, "Qualitative requirements and supervision". The total capital requirement in Skandiabanken is taken into consideration in the Internal Capital Adequacy Assessment Process (ICAAP). This entails that Skandiabanken holds additional capital for other significant risks in addition to above-mentioned risks, i.e., credit risks, currency risks and operational risks. The ICAAP also takes into account Skandiabanken's future business plans. A capital buffer is held in addition to the capital requirement for identified risks and with continued expansion taken into account.

The choice of method for calculating internal capital requirement is based on internal models for calculating the capital requirement for credit risk, interest rate risk and business risk. The correlation has been given the value 1 between the different risk types, which entails a restrictive assumption that a worse-case scenario would occur simultaneously and with no mutual impact on the risks. Based on the Internal Capital Adequacy Assessment Process, on every calculation occasion Skandiabanken has an updated plan for how to maintain the decided level of capitalisation. The plan shall be forward-looking and cover at least three years from the date of preparation.

Each year, in connection with the business planning process, the capital requirement is calculated based on budgets and forecasts that are prepared for a period of three years. The capital requirement is based on the statutory capital requirement for the operation's risks. During the business planning process a dialogue is held between Skandiabanken and its owner about the capital ratio and the allocation of the capital base between tier 1 and tier 2 capital. The process also involves allocation of the capital base between countries and their respective business segments. Assessed capital requirement is discussed with representatives from the owner, whereupon the capital requirement for Skandiabanken is approved by the Board of Directors of Skandia. A business plan that is approved by the owner is adopted by Skandiabanken's board of directors.

For disclosures regarding objectives and guidelines for risk management, see below under point 2 "Risks and risk management".

4. RISKS AND RISK MANAGEMENT

Financial information in this section is based on Skandiabanken's financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) and the Financial Supervisory Authority's regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5), called Pillar III.

4.1 Goals, organisation and governance

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

Board of Directors
Skandiabanken's board of directors is responsible for the overall governance and control of all risks in the bank's business, including commercial risks as well as business risks. This is achieved through the bank's internal rules, among other things. The Board's risk and audit committees are responsible for reviewing risk management and compliance within the bank, in accordance with the more detailed instructions issued by the Board of Directors. The CEO has an overarching view of risks and compliance, and is responsible for ensuring that risks are identified, managed and reported, and where necessary, for providing support to the operations for risk management. The CEO is also responsible for co-ordinating all risk reporting and following up compliance.

Special committees under the Board

The Board's **risk and ICAAP committee**, which is tasked with reviewing management's recommendations regarding risk, particularly with respect to the structure and implementation of Skandiabanken's Enterprise Risk Management (ERM) framework, which encompasses the quality and effectiveness of internal controls, risk appetite limits, risk profile and capital management. Thus all risk categories in the committee's area of responsibility are covered. What is specific for Skandiabanken's risk committee is that it also reviews and monitors the bank's internal capital adequacy assessment process (ICAAP). By ERM is meant the risk governance framework implemented for the bank, see page 22, "Delegation of risk responsibility – the three lines of defence".

The Board's **credit committee**, which is tasked with developing and improving the effectiveness of credit management and for making decisions on large credits. Together with the Asset & Liability Committee (ALCO) and Skandiabanken's Credit Committee (see below), the committee is also responsible for oversight and monitoring of credit risk.

Skandiabanken has had a **remuneration committee** since 2011. This committee is a permanent board committee tasked with conducting drafting work on issues regarding remuneration of employees of Skandiabanken. The remuneration committee is responsible for conducting an independent assessment of Skandiabanken's remuneration instructions and remuneration system. In addition, Skandiabanken's board has delegated certain duties to the remuneration committee, such as deciding on measures for following up the application of the remuneration instructions.

The Board's **audit committee**, which is tasked with reviewing Skandiabanken's principles, policies and routines for financial reporting and for evaluating the extent to which the figures in the financial reporting meet the requirements of applicable rules and regulations. The committee is also responsible for supporting the Board in its responsibility to ensure the integrity of the financial reporting and for reviewing the independence and effectiveness of the bank's internal and external audit functions.

Operations
The risks in Skandiabanken's business shall be continuously identified, managed and reported to the heads of the respective product and process areas. The methodology used by Skandiabanken to identify and evaluate its risks is based on a risk self-assessment model, among other things. Internal Audit's annual audit plan is based on identified risks in the business activities.

Skandiabanken's investments as well as its market and liquidity risks are managed and monitored by Skandia's Treasury function, in accordance with an outsourcing agreement between Skandiabanken and Skandia, and in accordance with instructions issued by the bank's board of directors. Treasury has its own risk control unit, which is responsible for the daily monitoring and control of risks.

Special committees in the operations
Three committees work under the bank's management: the Asset and Liability Committee (ALCO); the Executive Risk, Internal Audit and Compliance Committee (SKERCC); and the Credit Committee.

ALCO reviews risks, risk management and the monthly risk reporting. In addition, the committee recommends the level of risk limits for the Board to decide on as well as methods for risk measurement and the allocation of internal capital among the businesses. ALCO is composed of the following members: the CEO, the Administrative Deputy CEO, the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), and the Head of Risk Management and Analysis.

The **Executive Risk, Internal Audit and Compliance Committee (SKERCC)** monitors risk management, risk control and compliance. The committee supports the CEO and the Board's risk and ICAAP committee in understanding the exposure and management of all risk categories and compliance issues within Skandiabanken. SKERCC is composed of the following members: the Chief Risk Officer (CRO), the Chief Compliance Officer (CCO), the Head of Internal Audit and the Head of Governance. The committee also includes risk category owners, including the Administrative Deputy CEO, the Chief Financial Officer (CFO), the Head of Operations Sweden, and the Head of Strategy and Change.

The **Credit Committee** makes decisions on credit issues, performs credit analyses, and addresses credit-related compliance issues and decision-making criteria for lending. The Credit Committee is composed of the CEO, the Administrative Deputy CEO, the Head of Credits, the Head of Operations Norway, and the Head of Products and Process Bank.

ALCO and SKERCC meet 4-12 times a year, and the Credit Committee meets monthly.

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

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

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

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

Delegation of risk responsibility – three lines of defence

Risk responsibility at Skandiabanken

Skandiabanken's risk management is based on three lines of defence and is the starting point for the bank's model for risk management, risk control and compliance. The model focuses on the division of responsibility for risk and compliance within the bank. It also distinguishes between the functions that own and manage risks and compliance (the first line), the functions that monitor and independently control risks and compliance (the second line), and the functions for independent review that provide independent assurance (the third line). Following is an overview of the duties and responsibilities of the respective lines of defence.

	Board of Directors		
	Executive		Non-executive
	First line of defence	Second line of defence	Third line of defence
What it covers	• Risk management (identify/manage, measure/follow up and report risks) • Risk management strategy • Determine risk appetite and set limits (in consultation with the second line) • Maintain an awareness of risks and complaints in the business • Compliant and risk-aware operating practices • Tone at the top and clearly exhibited responsibility for risk and compliance	• Clear and well communicated risk policies • Implement effective models/systems • Training • Reporting of aggregate risk scenario • Validate • Feedback • Co-ordinate risk strategy	• Independent testing/validation of the effectiveness of risk management processes and activities
Responsibility	The business head or person who, according to internal/external rules, job description or work duties, owns and manages the risk, such as: • CEO • All management levels • All employees	The person who, according to internal/external rules, job description or work duties, is responsible for controlling risk, such as: • CEO • Control functions, such as Risk and Compliance	• Internal Audit • External Audit • Board sub-committees for audit and risk

First line of defence

As the first line of defence, the Board sets the bank's risk tolerance, approves the strategy for managing risk and is responsible for the bank's system of internal control. It is in the first line of defence that the risk owners for the various risk categories exist. Skandiabanken's CEO, supported by the Executive Management Team, has overall responsibility for the management of risks facing the bank. Management and staff have the primary responsibility for managing risk and compliance, i.e., they are responsible for taking a risk inventory and for regularly reporting and managing risks and violations of internal or external rules and regulations, and for writing and implementing policy documents, instructions and/or guidelines adapted to the business unit.

Second line of defence

The second line of defence is the part of operations that performs independent control of risks and compliance as well as oversight of the first line of defence. The second line of defence is responsible for ensuring that routines, methods and tools for management and control of risks and compliance are on hand. The second line of defence also performs supporting duties when needed, such as training, workshops, information and advice. However, the second line of defence may never perform services or conduct business that it oversees itself.

The work of the second line of defence is regulated by a framework for risk management and compliance within the bank that has been adopted by the CEO, which clarifies roles, responsibilities and reporting requirements for these units. The aim of the framework is to continuously further develop and streamline the work on risk management, risk control and compliance through joint processes throughout the bank, and to shore up independence from the operative activities, which are the first line of defence. Various committees exist within Skandiabanken in which the various risk categories are discussed. These include, among others, the Asset & Liability Committee (ALCO), the Executive Risk, Internal Audit and Compliance Committee (SKERCC) and the Credit Committee.

Third line of defence
The functions in the third line of defence shall provide independent, objective assurance to the Board of the effectiveness of the bank's risk management, risk control and compliance. This is handled by Skandiabanken's Internal Audit unit, by the Board's audit committee, and by the external auditors.

Risk management in the parent company Skandia
Skandiabanken's risk management is affected by the risk management framework established for the entire Skandia group.

4.2 Follow-up and reporting

Purpose and principles of disclosures
Skandiabanken's financial information policies aim to illustrate Skandiabanken's business transparently, reliably and informatively for shareholders, the general public, investors, auditors and regulatory authorities. Strategies, results of operations and position, capital structure, risk exposure and risk management are illuminated in such a manner that the recipients receive relevant information about Skandiabanken's business. Information shall be consistent and comparable insomuch as disclosures for a reporting period shall be comparable within and between periods. The ambition is that disclosures shall be presented in an easy-to-read manner as far as possible and with an emphasis on relevance for the reader in regard of Skandiabanken's business.

Where and when information is provided
All reports are published on Skandiabanken's website: Skandiabanken.se/Om oss/Finansiell info.

Yearly reports
Skandiabanken publishes an annual report and consolidated financial statements annually. The reports include a capital adequacy analysis.

A report is published yearly on the disclosure of information on capital adequacy and risk management for the financial company group. Publication of information includes an illumination of strategies, systems and goals for risk management and risk exposure. The report is published yearly, not later than in connection with publication of the annual report on Skandiabanken's website.

A report is published yearly on disclosure of information on employee remuneration. The report is published yearly, not later than in connection with publication of the annual report on Skandiabanken's website.

Interim reports
An interim report is prepared for the first half of the calendar year. The interim report includes quantitative disclosures as well as information about material changes that have taken place in the capital base or capital requirement for various risks.

Quarterly reports
Periodic information on capital adequacy and liquidity risks is provided on Skandiabanken's website for the periods ended 31 March, 30 June, 30 September and 31 December.

Financial reporting to the Board of Directors and bank management
The Board of Directors and bank management receive, at their respective meetings, reports on the bank's result of operations and position, capital adequacy, and risk reporting complemented with important key ratios, including comparisons with reporting since the last meeting.

4.3 Credit risk

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

Governance of credit risk
Overall responsibility for Skandiabanken's credit risk rests with the CEO. Changes in policies and limits are revised at least once a year by the bank's Credit Committee, which decides on lending matters, addresses credit-related regulatory matters and decision-making criteria for lending, and serves as the first line of defence. All risk appetite limits and policy changes are decided by the Board of Directors. The CEO has delegated responsibility for credit risk to the Head of Credits at Skandiabanken. Overall governance of credit risk is also monitored by the Board's credit committee and risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Policy for managing and measuring credit risk
Management of credit risk depends on whether the credit risk stems from lending to the general public in the form of retail exposures or from investments of surplus liquidity.

Credit policy – lending to the general public
The bank's lending to the general public consists of retail exposures to private individuals, primarily in the form of home mortgages secured by real estate or tenant-owner rights, instalment loans, personal loans, lines of credit, credit card credits and custody account lending. Loan receivables such as personal loans, lines of credit and credit card credits consist primarily of a large number of homogeneous loans with limited amounts and a large spread of risk. Risk is managed by assessing all credit proposals based on an evaluation of the credit applicant's ability to pay, his/her financial situation, and the value of the collateral pledged. Risk is further managed by taking into account the borrower's total business with the bank, including obligations of any co-signers. The assessment is for the most part handled through an automated system based on a credit scoring computer program. Skandiabanken's management of credit risks for retail exposures is intended to reduce loan losses, and the objective is that loan receivables will consist – as far as possible – of a large number of credits with low risk and a wide spread of risk.

Investments in fixed-income securities and loans to banks, etc. – surplus liquidity
Skandiabanken's deposits are greater than its lending, and the surplus generates surplus liquidity, which is invested in short-term lending and fixed-income securities with counterparties consisting of governments, institutions and companies. Risk is managed by assessing the exposures based on an evaluation of the counterparty's ability to pay, financial situation, and the value of the collateral pledged. In contrast to retail exposures, assessment of the creditworthiness of counterparties is always done through a manual process. When determining credit limits, the counterparty's total business with the bank is considered, including related counterparties. A large share of the surplus liquidity constitutes the bank's liquidity buffer. For further information, see below under point 4.6 "Liquidity risk".

Concentration risks pertain to risks attributable to financial instruments with similar characteristics and which may be affected in a similar way by changes in the external environment. Skandiabanken monitors concentrations from various perspectives, such as geographic distribution per country and within each country, and large exposures to individual customers and groups of customers that are related to each other. The breakdown of total credit risk exposure by key financial instruments amounted to 64% (73%) for mortgage loans for private individuals (primarily in major metropolitan areas), exposures to credit institutions 17% (13%), other retail credits 11% (10%), government and municipal exposures 7% (3%), and exposures to corporates regarding investments 1% (1%). A breakdown of credit exposure for loan receivables in the retail market by geographic area was 51% (51%) in Norway and 49% (49%) in Sweden.

Counterparty risk is included in credit risk and pertains to the risks associated with changes in the market value of derivatives, repurchase transactions and securities loans, of which risks associated with interest and currency derivatives are applicable for the bank. The positive market value plus an amount for possible risk changes constitutes the bank's potential, total exposure to counterparty risk in the event of a bankruptcy. When calculating counterparty risk for capital adequacy purposes, the market valuation method is used, and an amount for possible risk changes is added. By possible risk changes is meant an amount that will represent the possibility that the positive market value will rise during the term. The amount for possible risk change is calculated by multiplying the contract's nominal amount by a risk factor. The risk factor is dependent on the term and type of derivative instrument.
The method for setting credit limits for derivatives reflects the applicable internal processes for lending. The method is based on the corresponding calculation that is done for capital adequacy purposes. The reason why the amount for possible risk changes is included in the credit process is that the fair value of derivative can increase quickly in connection with changes in interest rates and exchange rates. No netting agreements have been entered into, and no collateral has been pledged to reduce the counterparty risk.

Collateral and guarantees

Breakdown of collateral for lending to the general public
Collateral is used to reduce credit risk. To reduce credit risk and concentration risk related to loan receivables, the bank has collateral in the form of mortgage deeds or tenant-owner rights for mortgage loans, while in the Norwegian operations, mortgage deeds are also held for instalment loans. For custody account lending, collateral is held in the form of stocks. External market valuations of the collateral have been obtained for mortgage deeds for mortgage lending in the Norwegian operation. For the Swedish operation and for mortgage lending, market valuations have been obtained externally as well as through an internal valuation model. Surety bonds are presented in their nominal amounts.

Collateral received for fixed-income securities – liquidity buffer
Credit risk protection exists in the form of guarantees received for certain credit exposures attributable to the liquidity buffer. Guarantees received have been issued by governments or municipalities in the EEA countries that have credit quality steps corresponding to AAA. The protection is direct and it is clearly evident from the guarantees which exposures are covered. The contracts are binding in the pertinent jurisdictions. Changes cannot be made in the protection, and the protections are irrevocable. The guarantee amount shall cover the entire exposure amount. The handling requirements for these guarantees entail that the bank has set guidelines associated with the overall strategy for risk management and specifically with respect to guidelines for exposures attributable to the liquidity buffer. Follow-up of credit risks that have guarantees included is done gross and net. This entails that credit risk and concentrations of credit risk are assessed for the exposure before and after including the credit risk protection. Detailed financial disclosures on credit risks and a breakdown of collateral for loan receivables are provided in Skandiabanken's group annual report, note 37.4 "Credit risk and credit quality".

4.4 Market risk

Market risk pertains to the risk that the fair value of a financial instrument or future cash flow from a financial instrument will be affected by changes in market prices. Skandiabanken is exposed to market risks in the form of interest rate risks, currency risks, and other price risks.

4.4.1 Interest rate risk

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

Governance of interest rate risk
Overall responsibility for Skandiabanken's interest rate risk lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with ALCO, which is responsible for conducting monthly oversight of interest rate risk and serves as the first line of defence. In addition, ALCO recommends the level of risk limits to the Board for decision as well as risk measurement methods.

The CEO has delegated responsibility for interest rate risk to the CFO of Skandiabanken. The CFO, in turn, has delegated the management of interest rate risk to Skandia's central Treasury department, in accordance with a separate agreement with the parent company Skandia. Overall governance of interest rate risk is also monitored by the Board's risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Policy for managing and measuring interest rate risk
Skandiabanken's low sensitivity to interest rate risk is aligned with the objective that the income statement should reflect actual banking activities as far as possible and be affected only to a limited extent by external factors, such as temporary fluctuations in market interest rates.

Most of Skandiabanken's deposits and lending after risk coverage is short-term, which means that the interest rates can be adjusted if the situation in the money markets so requires. The interest rate risk that arises from home mortgage loans at fixed rates of interest is reduced through interest rate swaps. Interest rate risk associated with investments in fixed-income securities is reduced by maintaining a higher level of deposits at fixed interest rates. The effects that any changes in market interest rates have on a bank's earnings are determined by the periods of fixed interest for the bank's assets and liabilities. The longer the period of fixed interest, the greater the chance that the market interest rates will change before the end of the fixed period of interest and the longer a change in interest rates has time to bear an impact on the income statement before compensation can be received. Different periods of fixed interest have therefore been assigned different risk weights, based on the estimated sensitivity in the value of assets and liabilities to interest rate changes. Periods of fixed interest ranging from one to three months have been assigned a weight of 0.16%, and the longer the period of fixed interest, the higher the risk weight assigned to the volume. The calculation pertains to interest rate risk for all positions outside of the trading account and is done separately for the respective currencies. Translation is done at the exchange rate in effect on the balance sheet date, and a net summation is done thereafter to the total interest rate risk.

The calculation represents a standardised approximation of fixed-interest assets and liabilities, and disclosures are presented for non-interest bearing assets, liabilities and equity. The interest rate risk is low since the overwhelming majority of the group's balance sheet can be interest rate-adjusted, has been hedged through swap contracts, or is covered by financial hedges. An immediate and permanent change in market interest rates by 1 percentage point would result in a theoretical change in the valuation of the balance sheet by approximately SEK 8 million (10), net, for the group.

The Swedish Financial Supervisory Authority prescribes that a calculation shall be made to determine what impact a 2 percentage point change in the general level of interest rates would have on the economic value, by which is meant the present value of future cash flows. In cases where the economic value decreases by more than 20% in relation to the capital base, the institution is required to submit an action plan to the Financial Supervisory Authority on how it intends to reduce the risk. As per 31 December 2011 the interest rate risk, based on a 2 percentage point change, amounted to SEK 17 million (21). In relation to the capital base, which was SEK 3,953 million (3,805), this amounts to 0.42% (0.52%). Exposure to interest rate risk is attributed in its entirety to "other activities" in accordance with the rules for calculating capital requirement. Detailed financial disclosures about interest rate risks are provided in Skandiabanken's consolidated financial statements, note 37.5.1, "Interest rate risk".

4.4.1.1 Hedging strategy for interest rate risks

Currently the guiding principle for Skandiabanken is to hedge lending in Sweden at fixed interest rates using interest rate swaps. This hedging is done using the 2-month Stibor rate as the adjustable rate, which provides sufficient protection for the fixed interest periods that are usually referred to as the "general level of interest rates". This hedging is done monthly unless the volume differs from the normal. During the current month an unhedged balance accumulates, but it is not large enough to warrant a change in the hedging period. Interest rate risk attributable to holdings of fixed-income securities is reduced by offsetting interest rate risk through deposits at fixed rates of interest – also referred to as economic hedges.

Risk management strategy for hedge accounting

Skandiabanken's risk management strategy for hedge accounting is based on a monthly adjustment of the nominal value of the hedge instruments (derivatives) to reflect the interest risk exposure in the hedged item (lending at fixed interest rates). The hedging strategy includes a monthly assessment of the effectiveness of the hedge and an evaluation of the outcome of the hedge. The hedged item pertains to the interest rate risk associated with mortgage loans at fixed rates of interest. The effectiveness of the hedge is estimated and measured monthly by dividing the portfolio into interest rate adjustment periods.

4.4.2 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

Overall responsibility for Skandiabanken's currency risk lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with ALCO, which is responsible for conducting monthly oversight of interest rate risk and serves as the first line of defence. In addition, ALCO recommends the level of risk limits to the Board for decision as well as risk measurement methods.

The CEO has delegated responsibility for currency risk to the CFO of Skandiabanken. The CFO, in turn, has delegated management of interest rate risk to Skandia's central Treasury department, in accordance with a separate agreement with the parent company Skandia. Overall governance of currency risk is also monitored by the Board's risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Policy for managing and measuring currency risk

Skandiabanken is exposed to currency risk primarily through deposits and lending to its branches. Skandiabanken's policy is to hedge all items pertaining to deposits and lending between the Swedish operations of the parent company and the Norwegian branch by using currency swaps. Currency risk exposure also arises when trading for customers in mutual funds and equities in the international foreign exchange markets. The Swedish banking operation handles trading for Norwegian customers in mutual funds and equities as well as other customer activities involving bank transactions, which also entails exchange rate exposure in the Swedish operations. In addition, exposure arises from other customer activities involving bank transactions. Exposures are hedged using currency forwards to reduce currency risk. Earnings of foreign operations are not hedged by Skandiabanken. The liability for these currency positions previously rested with Old Mutual plc.

Currency risk is calculated for all exposures in foreign currencies pertaining to assets, liabilities and off-balance sheet items. The positions are measured at fair value and are translated to SEK using the exchange rate in effect on the balance sheet date. The continuing result for the year attributable to foreign operations is taken into account in position calculations regarding currency risk. This entails that net exposure to currency risk on 31 December amounted to SEK 134 million (156). A change in value of the Swedish krona by 5 percentage points would affect equity by SEK 7 million (8). Most of the currency risk arises from exposure in Norwegian kronor and pertains to the branch's profit for the year. This means that the corresponding sensitivity analysis for calculation of the effect on the income statement results in a corresponding outcome, i.e., SEK 7 million (8). Detailed financial disclosures on currency risk, broken down by currency, are provided in Skandiabanken's consolidated accounts, note 37.5.2 "Currency risk".

4.4.3 Other price risks

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

Other price risks than those pertaining to exchange rate movements, which are described above under point 4.4.2, "Currency risk", and which affect the fair value of financial instruments, pertain to share price risk, risk for positions in CIUs, and credit spreads. Depending on the classification of the financial instrument, changes in fair value are reported in the income statement or, alternatively, in other comprehensive income.

Equities and mutual funds – trading book

The holding is classified as "Financial assets at fair value" and is stated at official listing prices. Fair value is the normal bid price on the balance sheet date without addition for transaction costs incurred upon acquisition. Changes in value are reported through profit or loss. Skandiabanken has a marginal trading account of SEK 1 million (1) in stocks and mutual funds, which gives a very limited price risk, with changes in value stated through profit or loss. In view of this limited holding, Skandiabanken has received permission to calculate its capital requirement in accordance with the rules for "Other activities" instead of applying the rules for calculating capital requirement for trading books.

Other shareholdings

Other shareholdings for which changes in value are reported through profit or loss amounted to SEK 9.3 million (9.4). These holdings are classified as "Financial assets at fair value" and consist of unlisted shares in industry-related companies, such as BGC Holding, Swift and Bankernas ID-tjänst, and are not intended to be sold. Valuation is based on the respective individual agreements.

Shareholdings classified as "Available-for-sale financial assets" amounted to SEK 26 million (18). Unrealised changes in value are reported in "Other comprehensive income". Upon their sale, realised changes in value are reported in the income statement on the line "Net financial income/expense" and are thereby removed from "Other comprehensive income". Impairment charges and any exchange rate changes are reported directly in the income statement on the line "Net financial income/expense". Fair value is normally the bid price on the balance sheet date excluding transaction costs at the time of acquisition.

Table 13: Equities risk for positions attributed to "Other activities" for calculation of capital requirement

SEK million

31/12/2011	Fair value [1]	Unrealised profit/loss [2]	Realised profit/loss [2]
Trading book, equities – "Financial assets at fair value "	0	0	0
Other shareholdings – "Financial assets at fair value "	9	0	-
Other shareholdings – "Available-for-sale financial assets"	26	8	-
Total	**36**	**8**	**0**

31/12/2010	Fair value [1]	Unrealised profit/loss [2]	Realised profit/loss [2]
Trading book, equities – "Financial assets at fair value "	0	0	-1
Other shareholdings – "Financial assets at fair value "	9	0	-
Other shareholdings – "Available-for-sale financial assets"	18	-3	-
Total	**27**	**-3**	**-1**

[1] Fair value is equal to book value.

[2] Unrealised and realised profits/losses are included in tier 1 capital for shares classified as "Financial assets at fair value". Unrealised losses attributable to shares classified as "Available-for-sale financial assets" are deducted from tier 1 capital. Unrealised gains may be included in tier 2 capital.

Fixed-income securities

Holdings of fixed-income securities are classified as "Available-for-sale financial assets" and are thereby stated at fair value. These unrealised changes in value are reported in "Other comprehensive income", and realised changes in value and any impairment are reported through profit or loss. The holding amounted to SEK 19.6 billion (12.4) on 31 December. The intention is that the holding will be held to maturity, which entails that if no sale is made before the maturity date, no change in value will arise in the income statement. Unrealised gains and losses are not included in the capital base.

4.6 Liquidity risk and funding

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

Governance of liquidity risk

Overall responsibility for Skandiabanken's liquidity and funding lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with the Asset and Liability Committee (ALCO), which is responsible for monthly oversight of liquidity and financing risk, and serves as the first line of defence. All risk appetite limits and policy changes are decided by the Board of Directors. The CEO has delegated responsibility for liquidity risk to the CFO of Skandiabanken. The CFO, in turn, has delegated the management of liquidity risk to Skandia's central Treasury department, in accordance with a separate agreement with the parent company Skandia. Overall governance of liquidity risk is also monitored by the risk and ICAAP committee. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO), while Internal Audit performs independent reviews.

Management of liquidity risk

Liquidity management for the Swedish and Norwegian operations is co-ordinated, but the liquidity portfolios are segregated. Liquidity in the Norwegian branch is invested in Norwegian kronor (NOK), while liquidity in Sweden is invested in Swedish kronor (SEK). When needed, liquidity can be moved from a country with a surplus to a country with a deficit, without any legal restrictions. Liquidity risk management includes daily stress testing, projections of liquidity requirements, management of surplus liquidity and preparedness plans. Liquidity preparedness plans include outlining the division of responsibilities and instructions for handling a potential outflow of liquidity.

Measuring liquidity risk

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

To ensure funding preparedness in situations in which Skandiabanken is in an urgent need of liquidity, Skandiabanken has surplus liquidity (see table 17), which includes a liquidity buffer in accordance with the Financial Supervisory Authority's stricter definition, see table 15. The difference between the total surplus liquidity and the liquidity buffer according to the Financial Supervisory Authority's definition pertains to lending to credit institutions with durations longer than one business day and liquid, fixed-income securities that are not eligible with central banks, see table 16.

Limits are set by the Board of Directors for the minimum amount of surplus liquidity and the minimum size of the liquidity buffer. The liquidity buffer consists of available funds that Treasury disposes over and which are eligible as collateral with the Swedish and Norwegian central banks. This ensures that Skandiabanken has the opportunity to convert assets to cash at short notice. As per 31 December 2011, the liquidity buffer before the central banks' haircuts amounted to SEK 19.2 billion (12.1), which corresponded to 84% (82%) of the bank's total surplus liquidity. In addition to the liquidity buffer, Skandiabanken can use a line of credit granted by the parent company Skandia.

Total surplus liquidity amounted to SEK 23.0 billion (14.9), of which SEK 5.6 billion (3.0) was pledged as security with the Swedish and Norwegian central banks for intraday cash flows. The remaining maturities of surplus liquidity were broken down into 44% (50%) maturing within one year and 56% (50%) maturing within one to three years. Securities in surplus liquidity consist of covered bonds, bonds and commercial paper with good credit quality. Of the holdings, 51% (41%) are rated AAA, 19% (38%) are rated AA, 17% (2%) are rated A, 2% (6%) are rated BBB, and 11% (13%) have no external credit rating. The credit ratings are from Standard & Poor's, Moody's and Fitch.

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

Skandiabanken's long-term structural liquidity position is measured and handled on a monthly basis through various metrics. At 31 December 2011 the deposit-to-loan ratio was 136% (119%), and since Skandiabanken is mainly funded by retail deposits – a funding source that is contractually short but is considered to be behaviourally long – Skandiabanken has a strong structural liquidity position.

Table 14: Deposit-to-loan ratio

%	31/12/2011	31/12/2010
Deposit-to-loan ratio, retail market incl. home mortgages	136	119

Table 15: Liquidity buffer in accordance with the Financial Supervisory Authority's guidelines

SEK million

		31/12/2011				31/12/2010			
		SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
1	Cash and balances with, and lending to central banks and governments	986	2,354	5	3,345	1,000	483	3	1,486
2	Lending to other banks, intraday loans	-	-	-	-	107	-	-	107
3	Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	898	30	-	928	1,200	-	-	1,200
4	Securities issued or guaranteed by municipalities or other public sector entities	1,495	1,176	-	2,671	-	304	-	304
5	Covered bonds issued by other banks or institutions	4,589	5,033	-	9,622	3,801	1,858	-	5,659
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	-	2,642	-	2,642	290	3,099	-	3,389
9	All other securities	-	-	-	-	-	-	-	-
	Total liquidity buffer in accordance with the Financial Supervisory Authority's definition [1]	**7,968**	**11,235**	**5**	**19,208**	**6,398**	**5,744**	**3**	**12,145**

[1] The liquidity buffer is presented in accordance with 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 adequacy rules and the standardised approach for credit risk.

Table 16: Other liquidity buffer

SEK million

		31/12/2011				31/12/2010			
		SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
1	Cash and balances with, and lending to central banks and governments	-	-	-	-	-	-	-	-
2	Lending to other banks, intraday loans	-	-	-	-	-	-	-	-
3	Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	-	-	-	-	-	-	-	-
4	Securities issued or guaranteed by municipalities or other public sector entities	-	483	-	483	-	152	-	152
5	Covered bonds issued by other banks or institutions		230	-	230	-	225	-	225
6	Covered bonds issued by own bank or related unit	-	-	-	-	-	-	-	-
7	Securities issued by non-financial corporates	200	-	-	200	200	93	-	293
8	Securities issued by financial corporates, excl. covered bonds	1,740	1,102	-	2,842	679	1,403	-	2,082
9	All other securities	-	-	-	-				
	Total other liquidity buffer [2]	**1,940**	**1,815**	**-**	**3,755**	**879**	**1,873**	**-**	**2,752**

[2] The other liquidity buffer is at the disposal of the Treasury function and pertains to fixed-income securities that are not eligible as collateral with central banks and which thus do not meet the Financial Supervisory Authority's requirements for assets that qualify to be included in the liquidity buffer. The holdings are carried at current fair value and receive a risk weight of 0-20% in accordance with the capital adequacy rules and the standardised approach for credit risk.

Table 17: Total liquidity buffer

SEK million

		31/12/2011				31/12/2010			
		SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
1	Cash and balances with, and lending to central banks and governments	986	2,354	5	3,345	1,000	483	3	1,486
2	Lending to other banks, intraday loans	-	-	-	-	107	-	-	107
3	Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	898	30	-	928	1,200	-	-	1,200
4	Securities issued or guaranteed by municipalities or other public sector entities	1,495	1,659	-	3,154	-	456	-	456
5	Covered bonds issued by other banks or institutions	4,589	5,263	-	9,852	3,801	2,083	-	5,884
6	Covered bonds issued by own bank or related unit	-	-	-	-	-	-	-	-
7	Securities issued by non-financial corporates	200	-	-	200	200	93	-	293
8	Securities issued by financial corporates, excl. covered bonds	1,740	3,744	-	5,484	968	4,503	-	5,471
9	All other securities	-	-	-	-				
	Total liquidity buffer	**9,908**	**13,050**	**5**	**22,963**	**7,276**	**7,618**	**3**	**14,897**
	Of which, eligible (pledgeable) assets	7,968	11,235	5	19,208	6,398	5,744	3	12,145
	Of which, pledged assets	2,036	3,545	-	5,581	1,645	1,313	-	2,958

Credit facilities	SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
Own credit facilities granted	400	-	-	400	400	-	-	400

Detailed financial disclosures on the contractual maturity analysis for financial liabilities and undertakings for granted but unutilised credits are provided in Skandiabanken's consolidated financial statements, note 37.6, "Liquidity and funding".

4.7 Operational risk

Operational risk is defined as the risk of loss due to inappropriate or failed internal processes, human error, defective systems or external events. The definition includes legal risks but excludes reputation risks and strategic risks.

Governance of operational risk
Overall responsibility for Skandiabanken's operational risk lies with the CEO. Recommendations for changes in policies and limits are made at least once a year in consultation with the Executive Risk, Internal Audit and Compliance Committee (SKERCC), which is responsible for oversight of operational risk. All risk appetite limits and policy changes are decided by the Board of Directors.

Overall governance of operational risk is also monitored by SKERCC. Assurance regarding adherence to the overarching risk appetite limits is provided by the Chief Risk Officer (CRO) and Independent Risk Control, which are the second line of defence. Independent Risk Control also co-ordinates the work with operational risks, and the respective managers are responsible for ensuring that their respective business areas adhere to the group's policy for managing operational risk. Internal Audit conducts independent reviews and makes up the third line of defence.

Policy for managing and measuring operational risk
The goal is for customers, employees, the public and other stakeholders to perceive Skandiabanken as a secure bank, where the customers' assets and information about customers are well protected. The goal also includes ensuring a high level of access to Skandiabanken's services and information, and that the bank is a safe workplace. Skandiabanken works actively on increasing awareness about operational risks in the workplace to avoid or reduce unforeseen losses.

Instructions, guidelines, preparedness plans and rules describe preventive and loss limiting measures. Instructions are issued by the Board of Directors, while guidelines and rules are set by the CEO. Threats and risks that could affect the bank are continuously analysed. Skandiabanken's management of operational risks entails that tools are provided for the identification, evaluation and reporting of risks and incidents.

A Risk Assessment Process routine for self-assessment is applied as a part of the risk management process. The scope of the self-assessment includes all types of risks for the business units and other functional units. The assessment is performed annually, with quarterly updates for the main risks. The bank works with risk indicators that indicate the status of the various risks, and limits are set for these indicators.

All incidents that have occurred or have been close to occurring and which are covered by the Basel II regulations are reported in an incident reporting system. The system is open and is to be used by all employees. Amounts measuring SEK 50 thousand or more are always to be regarded as an incident. Incidents are analysed by Independent Risk Control to ensure that appropriate measures are taken. Special attention is given to incidents that risk exceeding limits and those that amount to at least SEK 50 thousand. It is then the risk owner's responsibility to follow up the incident and take appropriate actions and report the status to Independent Risk Control.

4.8 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 and deposits and the investment portfolio, as well as a poorer level of net commission income, and that earnings will not be sufficient to cover costs. Business risk also includes reputation risk, which is the risk of harm to the bank's reputation caused by factors such as harmful rumours about Skandiabanken or Skandia, or about problems in operations, major projects, etc. Losses attributable to reputation can impact market shares and profitability.

By strategic risk at Skandiabanken is meant the long-term risk associated with erroneous or bad business decisions, unsuitable 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 CEO. All risk appetite limits and changes in policies are decided by the Board of Directors. All matters with a potentially negative impact on Skandiabanken's reputation and handled by Independent Risk Control via the bank's management and board, as well as with the parent company Skandia.

Policy for managing and measuring business risk, reputation risk and strategic risk

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

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

The size of a business risk is affected by variations attributable to net interest income/expense and net commission income. Some costs change in pace with revenues based on volumes and transactions, while others can be considered to be variable without being volume- or transaction-dependent, while yet others are regarded as fixed costs. The breakdown between variable and fixed costs affects management's ability to influence potential losses of revenue in the near term. Processes exist for managing potential reputation risk and for ensuring that the risk is managed at the appropriate level within the organisation. The bank's reputation in the market is monitored on a continuous basis.

Strategic risk
Strategic risk is managed by ensuring that processes for governance and control are in place for pursuing strategic objectives and related business plans. The bank has well-developed methods for ensuring well-grounded decisions, and the risk can thereby be reduced to low levels.

4.9 Remuneration risk

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

Governance of remuneration risk
Skandiabanken's board of directors decides on the bank's remuneration instructions. Skandiabanken has a remuneration committee starting in 2011. The committee is a permanent board committee that is tasked with drafting important matters concerning remuneration of Skandiabanken's employees. The remuneration committee is responsible for performing an independent assessment of Skandiabanken's remuneration instructions and remuneration system. In addition, Skandiabanken's board has delegated certain duties to the remuneration committee, including decisions on measures to be followed up and application of the remuneration instructions.

Decisions on remuneration of the CEO must also be approved by Skandia's remuneration committee. In accordance with the so-called grandfather principle, the remuneration committee is responsible for approving the CEO's decisions on remuneration of other members of Skandiabanken's management as well as others who report directly to the Board or CEO. Decisions on remuneration of other Skandiabanken executives are also made in accordance with the grandfather principle. The remuneration committee is to report to Skandiabanken's board on decisions made by the committee. Decisions on participants in share-based incentive programmes have been made by Old Mutual. In connection with Skandia Liv's acquisition of Skandia with subsidiaries in 2012, a review will be conducted of variable remuneration.

Policy for managing and measuring remuneration risk
To manage remuneration risk, Skandiabanken has a set of remuneration instructions that apply for all employees and are reviewed yearly. Skandiabanken's risk analysis of the remuneration system includes a description of risk management and control systems at Skandiabanken – mainly risk categories, including reputation risk, remuneration systems, risk tolerance and risk analysis based on the remuneration instructions, the remuneration system, and the process of identifying employees who in the course of their duties exercise or could exercise a significant influence on Skandiabanken's risk level ("Risk-takers"). As from 1 March 2011 these are referred to as "specially regulated staff". The main focus of this analysis is on variable remuneration.

In view of the information provided in the remuneration instructions, together with the assumption that the risk management and control system is being adhered to, at present it is believed that no risks exist with respect to the remuneration system.
Further disclosures in accordance with the Swedish Financial Supervisory Authority's "regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management" (2011:3) are provided on Skandiabanken's website: www.skandiabanken.se/Om oss/ Finansiell info/1112 Information om ersättningar.

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