Skandiabanken Aktiebolag (publ) Annual Report 2016

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Condensed results for the year

Comparison figures for 2015 below include only the Swedish operations, as the Norwegian operation was separated in October 2015.

- Income in 2016 totalled SEK 932 million (772), including SEK 43 million in estimated contingent consideration from the sale of Visa.
- Operating profit for 2016 was SEK 192 million (-292). Operating profit for 2015 included SEK 246 million in impairment of intangible assets.
- Loan losses in 2016 totalled SEK -10 million (-6).
- Lending to the general public increased during the year by SEK 10,125 million to SEK 56,733 million (46,608).
- Total liquidity as per 31 December amounted to SEK 8,243 million (11,075).
- The total capital ratio was 18.9% (21.4%) as per 31 December. The Common Equity Tier 1 capital ratio was 15.0% (16.9%) as per 31 December. According to the Financial Supervisory's oversight and evaluation process, which Skandiabanken was informed about in October, the Common Equity Tier 1 capital ratio shall amount to a minimum of 10.2%.

Skandiabanken including the Norwegian operation 2015.

- Income for 2016 totalled SEK 932 million (1,460).
- Operating profit for 2016 was SEK 192 million (-10).
- Loan losses in 2016 totalled SEK -10 million (-27).

Financial calendar

25 April 2017	*Annual General Meeting*
27 April 2017	*Interim report Jan.–March 2017*
20 July 2017	*Interim report Jan.–June 2017*
24 October 2017	*Interim report Jan.–Sept. 2017*
16 February 2018	*Year-end report 2017*

CEO's message

The bank's performance in 2016 was characterised by favourable earnings development, good growth in home mortgage volume and high customer satisfaction.

The home mortgage portfolio grew by approximately SEK 10.0 billion in 2016 and amounted to SEK 55.5 billion at year-end. Growth was achieved with continued high credit quality, and the loan-to-value (LTV) ratio of the home mortgage portfolio (exposure-weighted) was 54% (52% in 2015) as per the end of December. Relative to other lenders in the Swedish banking market, we have low LTVs and an attractive customer base with respect to age and income levels.

During the year home mortgages remained in the spotlight in the public debate. Discussions have revolved around fears of a mortgage bubble against the background of the housing shortage, low interest rates and high prices. This, in turn, has fuelled the debate on detailed legal requirements for amortisation, loan-to-value ratios and customers' ability to repay. It is a discussion we welcome. To promote continued sound LTVs, in December we introduced a debt-to-income ratio ceiling, among other measures.

In December the Swedish Quality Index (SQI), which measures customer satisfaction, published its index for home mortgages and savings accounts. Skandiabanken was the only bank that earned a higher SQI score for home mortgages, landing in second place with a score of 74.2 (industry average 65.7). In savings we are also proud of the silver medal we earned with a score of 72.5 (industry average 64.3). Here, too, we were the only bank to earn a higher score compared with the previous measurement. I am proud of our strong performance in both home mortgages and savings. In the Swedish Quality Index's major bank customer survey that was presented in early autumn, Skandiabanken landed in fourth place with a score of 70.3 (industry average 62.9). Skandiabanken's score fell relatively little compared with the sector as a whole.

Deposits continued to grow during the year and amounted to SEK 38.0 billion at year-end. With respect to savings in mutual funds, our managed assets grew by SEK 700 million, from SEK 12.1 billion to SEK 12.8 billion.

The number of active customers increased steadily during the year, and we see this as proof that customers appreciate our transparent pricing model. Customers also greatly appreciate the services that we provide outside of the digital channels via our customer service department. In December we launched the service Skandia Ung ("Skandia Young"), which helps children and youths from age 9 to manage their economies together with their parents. Skandia Ung was developed in response to customer requests.

For the full year 2016, profit before appropriations amounted to SEK 192 million, of which the one-time payment related to Visa Inc.'s acquisition of Visa Europe is included in the amount of approximately SEK 43 million. Final settlement of Visa Inc.'s acquisition will be available for presentation during the first half of 2017. Our profit for the year can be compared with the result of SEK -292 million for 2015, of which SEK -246 million pertained to impairment of intangible assets. Operating income grew by SEK 160 million, with net interest income accounting for the biggest increase. Expenses, stripped of the impairment loss on intangible assets in 2015, decreased by SEK 82 million.

Skandiabanken had a good year, and it is gratifying that our customer satisfaction continues to be high in a market where the trend is otherwise moving in the opposite direction. It is a sign of strength that we carry with us into 2017.

Stockholm, March 2017

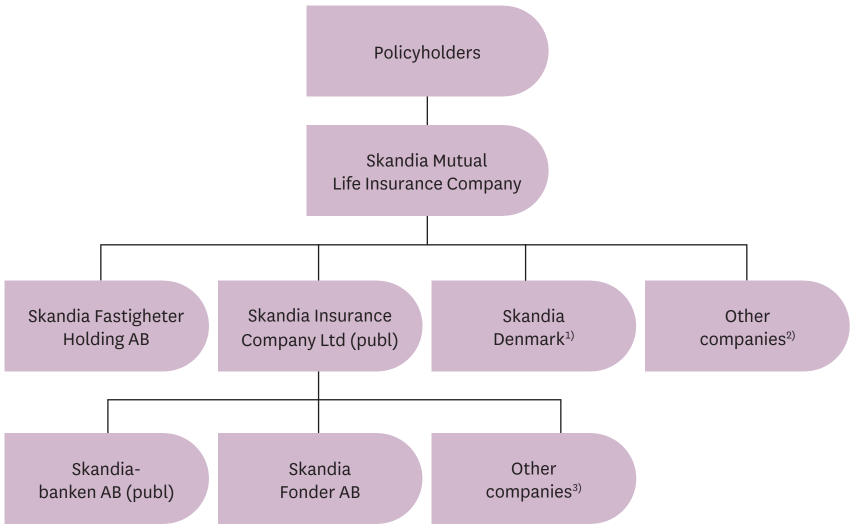
Johanna Cerwall
CEO

Board of Directors’ report

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

Skandiabanken conducts business in Sweden. Business was also conducted in Norway until 5 October 2015.

General illustration of the Skandia group



[1] Includes Skandia Asset Management Fondsmaeglerselskab A/S, Skandia A/S and Skandia Link Livsforsikring A/S.
[2] Includes Skandia Försäljning AB, Skandia Investment Management AB, Skandia Operations Center UAB, Skandikon Operations Center UAB, Skandia Brands AB, Skandikon Administration AB and Skandikon Pensionsadministration AB. In addition, Skandia Mutual Life Insurance Company, together with Skandia Fonder AB, owns shares in Thule Fund SA, SICAV-SIF.
[3] Other companies owned by Skandia Insurance Company Ltd (publ) pertain to Skandia Capital AB and Skandia Informationsteknologi AB.

Financial review
Profit for January–December 2016 compared with January–December 2015 for the Swedish operations
A separation of the Norwegian operation took place in early October 2015. The Norwegian operation has therefore been excluded from the comparison figures below to give a clearer picture of the Swedish operations’ performance.

Profit including the Norwegian operation is presented further down in the Board of Directors’ report.

The positive trend continued throughout the year, and operating profit for the year totalled SEK 192 million (-292). Operating profit includes an estimated SEK 43 million in consideration for the sale of Visa. Profit for 2015 included an impairment loss of SEK 246 million for the new bank platform.

SEK million	2016 Q4	2016 Q3	2015 Q4	2016 Full year	2015 Full year
Net interest income	189	182	144	693	541
Net fee and commission income	38	29	23	118	100
Net financial income	1	0	8	2	-3
Other operating income	23	19	26	119	134
Total operating income	**251**	**230**	**201**	**932**	**772**
Staff costs	-76	-60	-63	-262	-240
Other operating expenses	-140	-104	-404	-468	-818
Total expenses before loan losses	**-216**	**-164**	**-467**	**-730**	**-1,058**
Profit before loan losses	**35**	**66**	**-266**	**202**	**-286**
Loan losses, net	-3	-1	-1	-10	-6
Operating profit	**32**	**65**	**-267**	**192**	**-292**

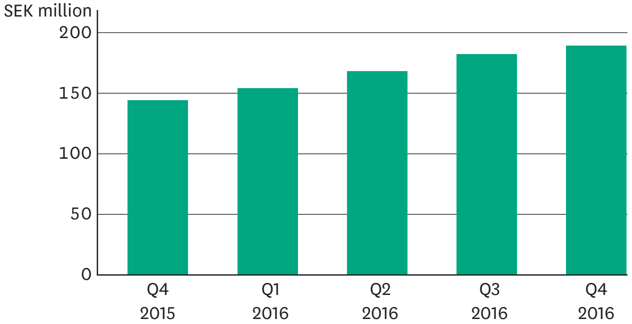
The Bank paid a group contribution of SEK 157 million to the parent company Skandia AB as per 31 December 2016. In January 2017 the Bank received an unconditional shareholder contribution of SEK 122 million as a result of the group contribution rendered; the transaction is tax-neutral. In the preceding year the Bank received a group contribution of SEK 491 million from Skandia Mutual.

Net interest income

Skandiabanken's net interest income increased by SEK 152 million compared with the preceding year, to SEK 693 million (541). The increase was mainly driven by greater lending to the general public, combined with an improved net interest margin. Borrowing costs were favourably affected by the negative market interest rates.

Lending, excluding loans to the Swedish National Debt Office, increased by SEK 9,992 million during the year, to SEK 56,308 million (46,316). The favourable volume growth can be credited to the Bank's attractive offering combined with a transparent home mortgage model. The prevailing level of interest rates is having a positive impact on the Bank's interest expenses despite an increase in deposits from the general public in the Swedish operations by SEK 2,097 million to SEK 38,008 million (35,911).

Net interest income per quarter



Net fee and commission income

Net fee and commission income was slightly better compared with a year ago and amounted to SEK 118 million (100). Payment intermediation fees increased in part as a result of a higher number of customers and in part of higher customer activity. Fee and commission expenses decreased as a result of higher cost effectiveness and lower sales costs.

Net financial income

Net financial income increased during the year to SEK 2 million (-3). The item consists mainly of capital gains from sales of available-for-sale (AFS) financial instruments.

Other operating income

Other operating income amounted to SEK 119 million, compared with SEK 134 million a year ago. Just under SEK 43 million of income for the year pertains to the estimated consideration that the Bank is expected to receive in connection with the closing of Visa Inc.'s acquisition of Visa Europe and distribution of the sales proceeds. Income for the preceding year included SEK 72 million in services sold to the former Norwegian operation.

Other operating income consists mainly of services sold to other Skandia companies.

Operating income

SEK million	2016 Full year	2015 Full year	Change, %
Net interest income	693	541	28%
Net fee and commission income	118	100	18%
Net financial income	2	-3	-167%
Other operating income	119	134	-11%
Total operating income	**932**	**772**	**21%**

Staff costs and other administrative expenses

Costs decreased compared with the preceding year to SEK 730 million (1,058). Compared with 2015, staff costs rose marginally to SEK 262 million (240). The increase is due to a larger number of employees, mainly due to changes within the Skandia group. Functions that were previously outsourced to Skandia Mutual were transferred back to the Bank.

Other administrative expenses decreased by SEK 90 million to SEK 396 million (486). Lower operating expenses for the new bank platform and a decreased need for external consulting services are two factors that contributed to lower costs. In the preceding year the Bank had double licence costs for the bank platform for a large part of the year, which led to temporarily higher costs. Non-recurring costs, mainly related to staff changes, amounted to approximately SEK 12 million and were charged to operations mainly during the fourth quarter.

Expenses in 2015 included an impairment loss of SEK 246 million for the bank platform.

Other operating expenses

Other operating expenses increased by SEK 2 million to SEK 54 million (52) and pertained to market-related costs.

Expenses before loan losses

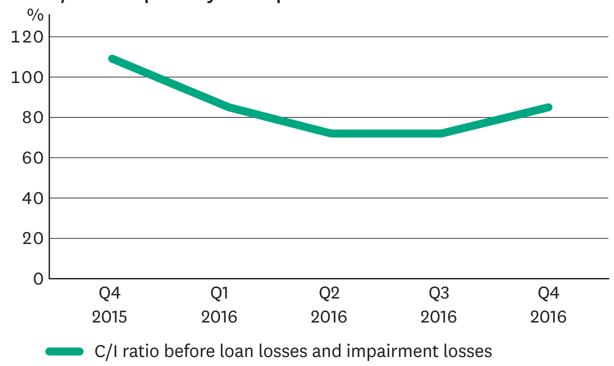
SEK million	2016 Full year	2015 Full year	Change, %
Staff costs	-262	-240	9%
Other administrative expenses	-396	-486	-19%
Depreciation/amortisation	-18	-34	-47%
Impairment losses	—	-246	—
Other operating expenses	-54	-52	4%
Total expenses before loan losses	**-730**	**-1,058**	**-31%**

Net loan losses increased compared with the preceding year to SEK -10 million (-6). Loan losses remain at low levels, and the increase during the year was mainly related to two specific cases.

The loan loss ratio, i.e., loan losses in relation to the opening balance of lending to the general public, increased to 0.02% (0.01%).

Impaired loans, net, decreased compared with a year ago to SEK 11 million (21).

C/I ratio – quarterly development



Loan losses

Loan losses and impaired loans

SEK million	2016 Full year	2015 Full year	Change, %
Loan losses	-10	-6	67%
of which, confirmed loan losses	-10	-22	-55%
of which, paid in towards confirmed loan losses from previous years	0	8	—
of which, provisions	0	-13	—
Loan losses as % of opening balance of lending to the general public	0.02%	0.01%	100%
Lending to the general public[1]	56,733	46,608	22%
Impaired loans, gross	23	33	-30%
Provisions on the balance sheet	12	12	0%
Impaired loans, net	11	21	-48%
Impaired loans, net, as % of lending to the general public	0.02%	0.05%	-60%

[1] Including placement of SEK 425 million (292) with the Swedish National Debt Office.

Tax charge

The tax charge for the year was SEK 2 million (-24), a decrease of SEK 26 million. The effective tax rate for the year was negative due to the non-taxable gain for Visa Inc. The tax charge represents an effective tax rate of -4% (12%).

Comprehensive income

Comprehensive income after tax amounted to SEK 71 million (142) and consists of profit as per the income statement, totalling SEK 37 million (175), plus income and expenses reported in other comprehensive income, totalling SEK 34 million (-33).

Other comprehensive income for the year amounted to SEK 34 million (-33). Other comprehensive income pertains to the year's change in unrealised gains after tax of SEK 34 million (-33). The unrealised gains pertain to holdings of fixed-income securities classified as available-for-sale financial assets.

SEK million	2016 Full year	2015 Full year	Change, %
Profit for the year	**37**	**175**	**-79%**
Other comprehensive income			
Items that have been reclassified or can be reclassified to profit or loss for the year			
Available-for-sale financial assets	44	-43	202%
Taxes attributable to available-for-sale financial assets	-10	10	-200%
Total other comprehensive income after tax	**34**	**-33**	**-203%**
Comprehensive income for the year after tax	**71**	**142**	**-50%**

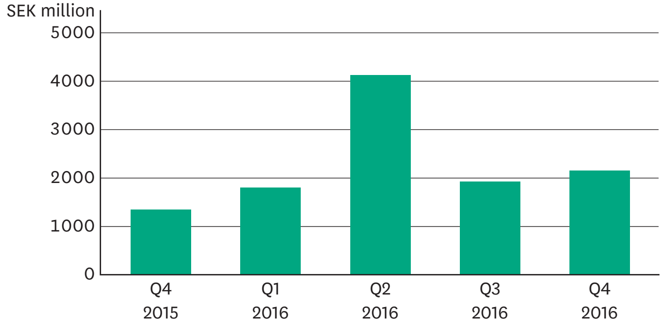
Balance sheet

The balance sheet total increased by SEK 6,453 million during the year, to SEK 65,311 million (58,858). The increase is mainly attributable to greater lending to the general public.

Assets increased as a result of favourable growth in lending to the general public. The corresponding increase in liabilities and equity is mainly explained by a larger volume of issued securities and an increase in deposits from the general public.

Lending to the general public, excluding loans to the Swedish National Debt Office, amounted to SEK 56,308 million (46,316). Volume growth was favourable, rising 22%, or SEK 9,992 million. Growth was strong during the first half of the year, when many customers pushed up their mortgage applications ahead of introduction of the amortisation requirement. In the autumn as well, the rate of growth remained favourable, but was slightly lower and in line with the Bank's expectations. Home mortgages make up the largest item on the balance sheet and totalled SEK 55,542 million (45,542) at year-end.

Growth in lending to the general public, excl. Swedish National Debt Office



Deposit volumes totalled SEK 38,008 million (35,911), an increase of SEK 2,097 million during the year.

The Bank's capital market funding increased during the year to SEK 22,137 million (17,336), which corresponds to 34% (29%) of the balance sheet total.

Liquidity

Skandiabanken's total liquidity amounted to SEK 8,243 million (11,075). Total liquidity consists of deposits with central banks, short-term lending to credit institutions and liquid, fixed-income securities that can be converted to cash on short notice. The decrease compared with the start of the year is due to the fact that the growth in the home mortgage portfolio was partly financed through a reduction in the liquidity buffer. This is in line with plans, as the Bank had a liquidity surplus.

Of total liquidity, SEK 8,043 million (9,803) qualifies as the liquidity buffer in accordance with the Financial Supervisory Authority's regulations regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7). The deposit-to-loan ratio was 68% (78%). The Bank's liquidity coverage ratio (LCR), measured in accordance with the Financial Supervisory Authority's regulation regarding requirements for a liquidity coverage ratio and reporting of liquid assets and cash flows (FFFS 2012:6), was 163% (233%). Further information about the liquidity buffer and liquidity management is provided in the yearly report entitled "1612 Annual information about capital adequacy and risk management", see www.skandia.se, Om oss, Om Skandia, Finansiell information, Skandias bank.

Ratings
In December 2016 the credit rating agency Moody's confirmed Skandiabanken's long-term and short-term credit ratings, A2 with a negative outlook and P-1, respectively.

Managed assets in funds
Managed assets in funds increased by 6% during the year to SEK 12.8 billion at year-end. The increase is mainly due to positive growth in value of customers' existing fund holdings. Customers sold fund units to a higher extent than they bought new units, which resulted in a negative net customer cash flow of SEK 64 million.

Balance sheet items, liquidity and managed assets, 2016 compared with 2015

SEK million	2016 31 Dec.	2015 31 Dec.	Change, %
Balance sheet total	65,311	58,858	11%
Lending to the general public[1]	56,733	46,608	22%
Deposits from the general public	38,008	35,911	6%
External borrowing	22,137	17,336	28%
Liquidity buffer[2]	8,043	9,803	-18%
Total liquidity[3]	8,243	11,075	-26%
Deposit-to-loan ratio[4]	68%	81%	-13%
Managed assets in funds (NAV)[5]	12,805	12,089	6%

[1] Including placements of SEK 425 million (292) with the Swedish National Debt Office.

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

[3] Balances with the Central Bank of Sweden, short-term lending and deposits to/from credit institutions, and fixed-income securities classified as available-for-sale financial assets, excluding assets pledged for borrowing from the Central Bank of Sweden.

[4] Excluding placements of SEK 425 million (292) with the Swedish National Debt Office.

[5] Excluding advised custody account insurance business.

Profit for 2016 compared with 2015, including the former Norwegian operation
Profit is mainly driven by Skandiabanken's net interest income, where home mortgages are by far the largest revenue stream. Operating profit before appropriations and tax amounted to SEK 192 million (-10). The comparison figure for 2015 has changed by SEK -107 million due to a changed accounting policy for translation differences, see note 1. The comparison figure for 2015 includes the former Norwegian operation's operating profit of SEK 389 million for the period 1 January–5 October 2015.

Operating profit for the year includes estimated consideration of SEK 43 million from the sale of Visa. Profit for 2015 included an impairment loss of SEK 246 million for the bank platform.

Compared with 2015, income decreased by SEK 528 million to SEK 932 million (1,460). Income in the former Norwegian operation amounted to SEK 865 million. Expenses decreased compared with the preceding year to SEK 730 million (1,443), of which SEK 455 million pertained to expenses in the Norwegian operation.

Significant events during the year
Johanna Cerwall took office as acting CEO on 26 April, and is now permanent CEO of the Bank as from 10 October.

Capital adequacy
The total capital ratio decreased to 18.9% (21.4%) compared with the level at 31 December 2015, while the Common Equity Tier 1 capital ratio decreased to 15.0% (16.9%) during the same period. The decrease is mainly due to the increase in lending to the general public in 2016.

The risk-weighted exposure amount increased to SEK 22,942 million (19,987). Credit risk exposure increased during the year, mainly owning to higher exposures with collateral in real estate. The risk-weighted exposure amount for operational risk increased as a result of higher operating income compared with the preceding year, while currency risk was unchanged.

In January the Bank received an unconditional shareholder contribution of SEK 122 million from the parent company Skandia AB as a result of the group contribution rendered; the transaction is tax-neutral. The contribution improved the Bank's capital ratio by approximately 0.5 percentage points.

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

Further information about capital adequacy is provided in note 36 of the Annual Report and in a separate Pillar III report entitled "1612 Annual information about capital adequacy and risk management", see www.skandia.se, Om oss, Om Skandia, Finansiell information, Skandias bank, Information om kapitaltäckning & riskhantering, 2016, 1612 Årlig information – kapitaltäckning och riskhantering.

	2016 31 Dec.	2015 31 Dec.
Total capital ratio	18.9%	21.4%
Tier 1 capital ratio[1]	15.0%	16.9%
Common Equity Tier 1 capital ratio[1]	15.0%	16.9%
Capital adequacy requirement, SEK million	1,835	1,599
Total risk-weighted exposure, SEK million	22,942	19,987

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

Risks and risk management

Skandiabanken's total credit exposure, in accordance with the capital adequacy rules, amounted to SEK 66,453 million (59,826), of which 85.4% (77.9%) pertained to home mortgages for private individuals. Lending is conducted in accordance with the rules that took effect in 2010, entailing that customers may borrow a maximum of 85% of a home's value. In addition, as a rule, an amortisation plan is required for the portion of a home mortgage in excess of 50% (75%) of the loan-to-value ratio (LTV) for new lending. If the loan entails an LTV of less than 70%, it may be granted with no amortisation requirement for five years. Skandiabanken has traditionally had a restrictive stance in its lending, entailing low LTV ratios among the Bank's customers and low loan losses. As a result, Skandiabanken expects to maintain good resilience to any declines in property values.

Skandiabanken's credit exposure to investments of total liquidity amounted to SEK 8,243 million (11,075). The Bank's total liquidity is invested in fixed-income securities with good credit quality and market liquidity.

Liquidity risk is expected to continue to be low in view of the forecast surplus of deposits and favourable opportunities for external borrowing in the capital market.

A description of risks and risk management is provided in note 37. Information on capital adequacy and risk management is also provided in the Bank's Pillar III report ("1612 Annual information about capital adequacy and risk management – Pillar III 2016"). See www.skandia.se, Om oss, Om Skandia, Finansiell information, Skandias bank, Information om kapitaltäckning & riskhantering, 2016, 1612 Årlig information – kapitaltäckning och riskhantering.

Disputes

Skandiabanken is party to a number of disputes, the scope of which is to be regarded as normal in view of the business conducted. Most of the disputes pertain to minor amounts and are judged to not have a material impact on the company's financial position. In cases of disputes involving larger amounts, an assessment is performed of the likely economic outcome and the need for a possible provision.

Sustainability

For Skandiabanken and the Skandia group corporate social responsibility involves incorporating sustainability into the business activities and conducting work in accordance with the group's values. A company's purpose and its underlying values have grown increasingly important. As a result, the Bank's ability to deal with relevant societal challenges has grown in importance.

Skandiabanken's sustainability work encompasses responsibility in the social, environmental and economic domains. The sustainability strategy is part of the Skandia group's overarching strategy, and sustainability work is based on our six material sustainability aspects:

- Transparency and long-term approach to customer relationships
- Responsible investments
- Social responsibility
- Environmental responsibility
- Long-term employer
- Business ethics

Overarching goals have been set in all areas, which are also integrated into the business planning process. Skandiabanken's business has both direct and indirect environmental impacts, and concern for the environment is a natural part of sustainability work. The Bank does not conduct any operations requiring a permit or notification pursuant to the Environmental Code.

The Skandia group describes its sustainability work every year in a separate sustainability report, which follows the GRI G4 standard for sustainability reporting.

Employees

Skandiabanken's employees in brief

In 2016 Skandiabanken had an average of 325 (306) employees, of whom 56% (57%) were women. The share of women in managerial positions was 42% (39%), and the average age of all employees was 36 (35). Employee turnover was slightly lower than a year ago and was 12.5% (13.0%) at year-end.

New conditions created by price pressure, changed customer behaviours and new rules and regulations are putting demands on our ability to adapt ways of working, competencies and overheads. Our absolute most important resource for meeting these challenges and building tomorrow's Skandia is our employees' commitment and willingness to change. A further challenge is posed by the record-fast digital development, where we must ensure an internal understanding for how this development changes our work duties and work flows. Employees must be given the right conditions to manage a changed customer interface at the same time that, going forward, everyone must take responsibility for improving efficiency in their own work processes.

Variable remuneration and profit-sharing foundation

Except for the Skandianen profit-sharing foundation, all remuneration of Skandiabanken's employees is in the form of fixed salary. For further details about remuneration and benefits, see note 7.

Events after the balance sheet date

An unconditional shareholder contribution of SEK 122 million was received in January 2017 from the parent company Skandia AB.

Rules and regulations

Skandiabanken continues to be affected by extensive regulation in the banking and securities sectors. Following is a description of some of the rules and regulations that took effect in 2016 or that will take effect in 2017 or later.

On 1 February 2016, new laws and regulations took effect that implement Directive 2014/59/EU, establishing a framework for the recovery and resolution of credit institutions and investment firms (the Crisis Management Directive), into Swedish law. In connection with this, a minimum requirement for own funds and eligible liabilities (MREL) was introduced, and the requirements for recovery were made clearer. The MREL requirement will be adopted by the Swedish National Debt Office on an individual basis for each institution in 2017. On 23 February 2017 the Swedish National Debt Office presented a proposal for how the MREL shall be formulated. According to the National Debt Office, the minimum requirement for Skandiabanken amounts to the total capital requirement less a combined buffer requirement until such time that individual requirements are set.

On 1 June 2016 new requirements were introduced for amortisation of home mortgages. The new rules entail that new home mortgages in excess of 70% of the home's value shall be amortised by at least 2% (of the total mortgage) per year and by at least 1% (of the total mortgage) per year when the mortgage amounts to between 50% and 70% of the home's value. Skandiabanken has adapted its operations to the new rules.

As from 27 June 2016 the countercyclical buffer rate of 1.5% that was decided on by the Swedish Financial Supervisory Authority is applied. On 14 March 2016 the Financial Supervisory Authority increased the countercyclical buffer rate to 2%, with effect from 19 March 2017. In its capital planning Skandiabanken is taking into account the adopted and proposed increases in the countercyclical buffer.

Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property (the Mortgage Credit Directive) was published on 4 February 2014. Additions and amendments in Swedish legislation took effect on 1 January 2017. The new rules pertain to, among other things, requirements on marketing and general information about home mortgages as well as requirements for advance information via a special, standardised EU form. Skandiabanken has adapted its operations to the new rules.

Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the Payments Account Directive) was published on 28 August 2014. The directive aims to provide better transparency and comparability of fees charged to consumers on their payment accounts and the payment services provided through such accounts. It also contains rules to facilitate switches of payment accounts between different payment service providers. In addition, the directive stipulates that all consumers who are legal residents of a Member State within the European Union shall have a right to open and use payment accounts with basic features. The directive was planned to be implemented into Swedish law by 1 January 2017 at the latest, but implementation has been delayed, and the new legislation is proposed to take effect on 1 May 2017. Skandiabanken has begun work on adapting its operations to the new rules.

Directive (2015/849/EU) on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the Fourth Money Laundering Directive) was published on 5 June 2015. The directive aims to improve and strengthen the European framework for countering money laundering and financing of terrorism, and is being implemented in Sweden through legislation that will be enacted on 26 June 2017. At the same time, the amendments needed to adapt Swedish law to Regulation (EU) No 2015/847/EU of the European Parliament and of the Council on information accompanying transfers of funds are being made. Additionally, a number of measures are being carried out to enable Sweden to meet the revised recommendations issued by the Financial Actions Task Force (FATF), an inter-governmental body. The new money laundering law will be more extensive and detailed than the currently applicable law and will encumber entities transacting business, such as Skandiabanken, with a number of additional obligations. Among other things, expanded requirements will be introduced to use a risk-based method in operations to identify and mitigate risks for money laundering and financing of terrorism. New rules will also be introduced on simplified and more stringent know-your-customer requirements. A new requirement is that legal entities must provide information about beneficial owners to a central register that authorities and entities transacting business shall have access to. The category of entities transacting business that are covered by the regulation has also been expanded. In addition, extensive rules on oversight and sanctions have been added. Skandiabanken has begun work on adapting its operations to the expanded requirements.

Regulation (EU) No 596/2014 on market abuse (the Market Abuse Regulation) took effect on 3 July 2016. The regulation lays out rules on market abuse, on how issuers are to handle and disclose financial information, on market soundings and on market supervision. In addition to this regulation, Directive 2014/57/EU on criminal sanctions for market abuse (the Market Abuse Directive) was also enacted. The directive complements the Market Abuse Regulation in the aim of ensuring its effective implementation. The regulation's and directive's rules on sanctions and the competent authority's oversight and investigative authority require implementation into Swedish law. The Swedish legislative work has been delayed, and the final legislation takes effect in February 2017. During 2016 Skandiabanken worked on adapting its operations to the new rules.

On 12 June 2014 the new securities rules and regulations at the EU level were published, entailing among other things stricter rules for consumer protection, transparency, reporting and organisational requirements. The new rules are laid out in Directive 2014/65/EU and Regulation (EU) No 600/2014 on markets in financial instruments (referred to as MiFID II and MiFIR, respectively). The rules that implement MiFID II are to be applied starting on 3 January 2018, and MiFIR is to be applied from the same date. Complementary rules are also being drawn up by the European Commission in the form of delegated regulations and directives and by the European Securities and Markets Authority (ESMA) in the form of guidelines. The Swedish legislative work is in progress, and a bill will be presented in spring 2017. The new securities regulations will affect Skandiabanken and its business model. Skandiabanken has begun work on adapting its operations to the new rules.

Directive 2015/2366/EU on payments services (the new Payment Services Directive) was published on 23 December 2015. The directive shall be implemented into Swedish law by not later than 13 January 2018. The directive supersedes the previous payment services directive from 2007, which has been revised in many respects. Among other changes, new payment services have been added, the technical requirements have been updated, and so-called third-party actors are regulated. During 2016 Skandiabanken began work on adapting its operations to the new rules.

Regulation (EU) No 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (the Data Protection Regulation) was published on 4 May 2016 and shall be applied with effect from 25 May 2018. The Data Protection Regulation replaces the current Personal Data Act and will entail new requirements for documentation, follow-up and risk analyses, requirements for incorporating high integrity protection into processes from the start, IT services and systems, increased rights for persons being registered, including the right to file for damages, demands on immediate reporting of breaches of integrity, and stronger sanctions for non-compliance with the regulation. In addition, the regulation offers no exception for unstructured data, which means that it also applies to the processing of personal data in the form of, for example, paper documents and locally stored Excel files. The Swedish government has commissioned a study to come up with a proposal for how Swedish legislation shall be adapted to the new regulation. The study is to report its proposal by 12 May 2017 at the latest. Skandiabanken is included in the project within Skandia that is tasked with carrying out the changes in operations that are required for compliance with the Data Protection Regulation.

At the international level, a review is currently being conducted of the applicable rules for capital requirements and for risk and crisis management. On 23 November 2016 the European Commission published recommendations for changes in the Capital Requirements Regulation, the Capital Adequacy Directive and the Crisis Management Directive aimed at further strengthening stability in the banking sector and increasing transparency and comparability between banks. The recommendations draw from global standards but have been adapted to specific characteristics of the European banking sector. The new rules are expected to take effect in 2019. Through a change in the Capital Requirements Regulation, it has been proposed – among other things – that two new binding requirements be introduced: a minimum 3% leverage ratio and a minimum net stable funding ratio of 100%. In addition it has been proposed that the definition of eligible capital be changed, entailing that Tier 2 capital would be excluded. Skandiabanken expects to meet the forthcoming requirements by a wide margin. The recommendations cover neither credit risk nor operational risk, since a larger revision of these rules is being conducted separately. Skandiabanken is monitoring developments in this area.

In December 2015 the Basel Committee published a revised proposal for a new standardised approach for calculating capital requirements for credit risk. The new proposal is extensive and entails, among other things, a change in the calculation of loan-to-value ratios, additional risk weight intervals for lending secured by residential property, and an increase in the capital requirement for off balance sheet items. Skandiabanken is monitoring developments in this area.

In March 2016 the Basel Committee published a consultative document on a new standardised approach for calculating operational risk, which is proposed to replace all existing methods. The new approach is similar in some ways to the basic indicator approach, however, the calculations are complemented with internal loss data. Skandiabanken is monitoring developments in this area.

IFRS 9 Financial Instruments, which is to be applied for financial years starting on 1 January 2018 or later, introduces new requirements for classification and measurement of financial assets and financial liabilities, and an end to reporting of these. In December 2011 IFRS 7 was amended, entailing expanded disclosure requirements during the period for first-time application of IFRS 9. The change that will have the greatest financial impact pertains to the impairment requirements, which in IFRS 9 are based on an expected credit loss model, in contrast to the current model for incurred credit losses in IAS 39. The new requirements are expected to lead to higher provisions for loan losses during the transition and thereby to a decrease in equity, and will have a negative impact on capital adequacy. Skandiabanken has begun work on adapting its operations to the new rules. Additional information on IFRS 9 is described in note 1.

On 7 November 2016 a government study submitted a proposal for a special tax for companies working in the financial services sector. The proposal was formulated as a special tax of 15 percentage points on payroll costs of companies that sell financial services and insurance services. On 25 February 2017 the government announced that it will not go forward with the proposal, as it was learned that the tax would have unintended consequences for mutual life insurance companies and the fast-growing financial technology industry. The government will instead look at opportunities for a more clear-cut banking tax that would reduce the tax advantage that the banking sector has through the VAT exemption on financial services.

On 25 February 2017 the government announced that it will shortly submit a proposal calling for an increase in fees payable to the Resolution Reserve. If the proposal is implemented it will result in higher costs for Skandiabanken. Skandiabanken is monitoring developments in this area.

Our external business environment and anticipated future development
The banking industry is characterised now to an even greater extent by a business environment that is evolving at an accelerating pace. We see three strong factors which together are driving the transformation of the industry and strengthening each other: new rules and regulations, improved technical conditions, and higher demands from customers for accessibility and transparency. Together these factors are creating better conditions for our customers to plan their personal economies. They are also putting greater demands on the industry to create new opportunities to guide customers in a direction they prefer and requiring that we continuously develop our business model in order to meet our customers’ expectations. The Bank’s transparent home mortgage model is a good example of this.

Naturally, the digitalisation that is currently taking place in society is also affecting the banking industry. Above all, digitalisation is changing the market conditions in the industry through new technical opportunities, and new players and business opportunities that both complement and challenge traditional actors. Continuously greater access to information is leading to changed customer behaviours, as customers adopt expectations and put higher demands on simple solutions and easily accessible service via the digital interface. Customers today expect to be able to buy products and services whenever and wherever without having to mind opening hours or visiting a physical store. The same applies for customers’ personal finances, which they expect to be able to actively manage themselves whether at home at the kitchen table or while on vacation. In cases where customers are seeking personal contact, even this interaction can be handled quite well digitally. New technologies such as chats, social media and meetings by videolink offer opportunities for effective customer interaction. Having digital technology that works fast and simply without disruptions and delays is entirely decisive for customer satisfaction. Expanded digital use also entails higher expectations for digital functionality. With digitalisation comes a host of opportunities. Communicating with our customers digitally offers greater opportunities for customer adaptation, plus it is more cost-effective and better for the environment. Skandiabanken is well equipped for acceleration of digitalisation and the new conditions this is creating. What is of central importance for us is to ensure our competitive strength and ability to deliver in an increasingly digitalised business model. We have therefore, with a starting point in our digital strategy, drawn up an action plan for our continued digitalisation during the next three years. The Bank’s change of banking platform in 2015 was one step in this development.

On 15 February 2017 the Central Bank of Sweden (Riksbanken) announced its decision to leave the repo rate unchanged at 0.50% and to continue buying government bonds during the first half of 2017, as decided in December. According to Riksbanken’s forecast, the repo rate is expected to remain at about the same level, or even be lowered slightly, throughout 2017, after which it may be slowly raised during 2018. In Sweden, the economy continues to strengthen, and inflation is showing an upward trend. Riksbanken believes it is necessary to continue pursuing an expansive monetary policy in order to stabilise inflation at around 2% and to maintain a continued strong business climate. Riksbanken believes that the macroeconomic outlook has improved at the same time that there is major political uncertainty in several areas of the world.

Five-year summary, operations in Sweden, continuing operations

KEY RATIOS

Volume development	2016	2015	2014	2013	2012[1]
Average volume (balance sheet total), SEK million	61,355	55,565	47,222	42,541	38,154
Key ratios, earnings					
Investment margin:					
Net interest income as % of average volume (balance sheet total)	1.13%	0.97%	1.05%	1.17%	1.51%
Return on assets:					
Net profit divided by the balance sheet total	0.06%	0.30%	0.02%	0.23%	0.29%
Return on total capital:					
Operating profit as % of average volume (balance sheet total)	0.31%	-0.52%	0.03%	-0.02%	0.19%
Return on equity:[1]					
Operating profit after actual tax as % of average equity	4.14%	-5.42%	0.27%	-0.41%	2.82%
Cost/income ratio before loan losses and impairment of intangible assets:[2]					
Costs excl. loan losses and impairment of intangible assets in relation to operating income	0.78	1.05	0.98	1.00	0.91

Impaired loans	2016	2015	2014	2013	2012[1]
Provision level for impaired loans:					
Provision for probable loan losses as % of impaired loans before provision	51.4%	35.4%	31.6%	41.4%	42.2%
Share of impaired loans:					
Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.02%	0.05%	0.05%	0.06%	0.10%
Loan loss ratio:					
Loan losses as % of opening balance of lending to the general public, credit institutions (excl. banks), and credit guarantees	0.02%	0.01%	-0.01%	0.03%	0.01%
Other data					
Number of customers, thousands	448	453	452	450	445
Average number of employees	325	306	289	277	272

[1] The capital gain of SEK 94 million from the sale of Skandia Fonder AB has been excluded from the calculation of key ratios for 2012.

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

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

Five-year summary, operations in Sweden, continuing operations

INCOME STATEMENTS AND BALANCE SHEETS FOR 2012–2016, FIVE-YEAR SUMMARY (SEK MILLION)

Income statement	2016	2015	2014	2013	2012[2]
Interest income	763	723	927	1,025	1,258
Interest expense	-70	-182	-430	-525	-681
Net fee and commission income[1]	118	100	99	84	130
Net financial income[1]	2	-3	18	10	25
Other operating income	119	134	65	84	196
Total operating income	**932**	**772**	**679**	**678**	**928**
Staff costs	-262	-240	-220	-205	-207
Other administrative expenses[1]	-396	-486	-399	-429	-538
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	-18	-280	0	0	-1
Other operating expenses	-54	-52	-49	-45	-12
Total expenses before loan losses	**-730**	**-1,058**	**-668**	**-679**	**-758**
Loan losses, net	-10	-6	2	-7	-4
Operating profit	**192**	**-292**	**13**	**-8**	**166**
Group contributions	-157	491	5	147	-31
Profit before taxes	**35**	**199**	**18**	**139**	**135**
Taxes	2	-24	-6	-31	-14
Net profit for the year	**37**	**175**	**12**	**108**	**121**

Balance sheet	2016	2015	2014	2013	2012
Cash and cash balances with central banks	15	21	23	15	15
Eligible treasury bills, etc.	3,640	4,524	2,972	3,171	2,149
Lending to credit institutions	230	315	771	4,257	640
Lending to the general public	56,733	46,608	42,359	31,917	28,973
Fair value of portfolio hedge of interest rate risk	83	117	184	71	132
Bonds and other fixed-income securities	4,162	6,253	4,149	7,106	9,073
Shares and participations	14	10	11	32	27
Intangible assets and property, plant and equipment	143	161	332	97	1
Other assets	291	753	359	514	366
Total assets	**65,311**	**58,762**	**51,160**	**47,180**	**41,376**
Due to credit institutions	61	79	88	56	77
Deposits and borrowing from the general public	38,008	35,911	35,219	35,673	36,545
Issued securities, etc.	22,137	17,336	11,627	7,694	1,244
Other liabilities	562	473	728	565	583
Subordinated liabilities	900	900	900	900	1,200
Total liabilities	**61,668**	**54,699**	**48,562**	**44,888**	**39,649**
Equity	3,643	4,063	2,598	2,292	1,727
Total liabilities and equity	**65,311**	**58,762**	**51,160**	**47,180**	**41,376**

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

[2] Figures for 2012 were recalculated in 2013 due to a changed accounting policy for defined benefit pensions in Norway, see note 1.

Five-year summary

KEY RATIOS

Volume development	2016	2015	2014	2013	2012[1]
Average volume (balance sheet total), SEK million	61,355	116,714	108,518	89,027	80,595
Capital adequacy measures					
Total capital ratio:					
Capital base as % of risk-weighted assets	18.9%	21.4%	14.2%	13.5%	14.6%
Tier 1 capital ratio:					
Tier 1 capital as % of risk-weighted assets	15.0%	16.9%	12.0%	10.9%	10.6%
Key ratios, earnings					
Investment margin:					
Net interest income as % of average volume (balance sheet total)	1.13%	1.10%	1.31%	1.26%	1.39%
Return on assets:					
Net profit divided by the balance sheet total	0.06%	0.78%	0.36%	0.33%	0.36%
Return on total capital:					
Operating profit as % of average volume (balance sheet total)[2]	0.31%	0.08%	0.53%	0.34%	0.52%
Return on equity:[3 5]					
Operating profit after actual tax as % of average equity	4.14%	1.61%	8.74%	6.23%	7.59%
Cost/income ratio before loan losses: [3 4]					
Costs excl. loan losses an impairment of intangible assets and translation difference in SEK in relation to operating income[1]	0.78	0.76	0.65	0.77	0.79

Impaired loans	2016	2015	2014	2013	2012[1]
Provision level for impaired loans:					
Provision for probable loan losses as % of impaired loans before provision	51.4%	35.4%	65.2%	64.2%	53.9%
Share of impaired loans:					
Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.02%	0.05%	0.06%	0.06%	0.13%
Loan loss ratio:					
Loan losses as % of opening balance of lending to the general public, credit institutions (excl. banks), and credit guarantees	0.02%	0.03%	0.05%	0.07%	0.01%
Other data					
Number of customers, thousands	448	453	830	824	808
Average number of employees	325	475	490	457	453
of which, continuing operations	*325*	*306*	*289*	*277*	*272*
of which, divested operations	—	*169*	*201*	*180*	*181*

[1] Figures for 2012 were recalculated in 2013 due to a changed accounting policy for defined benefit pensions in Norway.

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

[3] The capital gain of SEK 94 million from the sale of Skandia Fonder AB has been excluded from the calculation of key ratios for 2012

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

[5] The comparison figures for 2015 have been changed due to a changed accounting policy for translation differences. See note 1.

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

Five-year summary

INCOME STATEMENTS AND BALANCE SHEETS FOR 2012–2016, FIVE-YEAR SUMMARY (SEK MILLION)

Income statement	2016	2015	2014	2013	2012[1]
Interest income	763	2,252	3,186	2,710	2,838
Interest expense	-70	-966	-1,768	-1,592	-1,719
Net fee and commission income[2]	118	233	260	252	327
Net financial income[2] [3]	2	-121	41	29	47
Other operating income	119	62	51	64	168
Total operating income	**932**	**1,460**	**1,770**	**1,463**	**1,661**
Staff costs[3]	-262	-390	-407	-366	-367
Other administrative expenses[2]	-396	-689	-661	-687	-829
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	-18	-281	-2	-3	-6
Other operating expenses	-54	-83	-85	-68	-33
Total expenses before loan losses	**-730**	**-1,443**	**-1,155**	**-1,124**	**-1,235**
Loan losses, net	-10	-27	-41	-41	-7
Operating profit/loss	**192**	**-10**	**574**	**298**	**419**
Group contributions	-157	491	5	147	-31
Profit before taxes	**35**	**481**	**579**	**445**	**388**
Taxes [3]	2	-105	-162	-118	-85
Net profit for the year	**37**	**376**	**417**	**327**	**303**

Balance sheet	2016	2015	2014	2013	2012
Cash and cash balances with central banks	15	21	636	544	424
Eligible treasury bills, etc.	3,640	4,524	8,110	6,207	5,826
Lending to credit institutions	230	411	1,252	1,384	654
Lending to the general public	56,733	46,608	95,558	77,894	60,011
Fair value of portfolio hedge of interest rate risk	83	117	184	71	132
Bonds and other fixed-income securities	4,162	6,253	8,467	11,559	17,025
Shares and participations	14	10	13	64	50
Intangible assets and property, plant and equipment	143	161	335	100	6
Other assets	291	753	552	774	510
Total assets	**65,311**	**58,858**	**115,107**	**98,597**	**84,638**
Due to credit institutions	61	79	100	68	99
Deposits and borrowing from the general public	38,008	35,911	79,518	75,677	77,365
Issued securities, etc.	22,137	17,336	28,007	16,864	1,826
Other liabilities	562	569	1,186	1,041	914
Subordinated liabilities	900	900	900	900	1,200
Total liabilities	**61,668**	**54,795**	**109,711**	**94,550**	**81,404**
Equity	**3,643**	**4,063**	**5,396**	**4,047**	**3,234**
Total liabilities and equity	**65,311**	**58,858**	**115,107**	**98,597**	**84,638**

[1] Figures for 2012 were recalculated in 2013 due to a changed accounting policy for defined benefit pensions in Norway, see note 1.

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

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

Distribution of profit

(Amounts in SEK)

Distribution of Skandiabanken's unrestricted equity	**2016 SEK**
Total fair value reserve	16,440,099
Retained earnings	3,107,742,253
Net profit for the year	37,221,130
Unrestricted equity	**3,161,403,482**
The Board of Directors proposes that this amount be distributed as follows:	
To be carried forward	3,161,403,482
	3,161,403,482
If this proposal is approved, the company's reported equity will consist of:	
Share capital	400,000,000
Statutory reserve	81,399,910
Total fair value reserve	16,440,099
Retained earnings	3,144,963,383
	3,642,803,392

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

Income statement

SEK million	Note	2016	2015
Interest income	3	763	2,252
Interest expense	3	-70	-966
Fee and commission income	4	248	451
Fee and commission expense	4	-130	-218
Net financial income[1]	5	2	-121
Other operating income	6	119	62
Total operating income		**932**	**1,460**
General administrative expenses			
Staff costs	7	-262	-390
Other administrative expenses	8	-396	-689
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	9	-18	-281
Other operating expenses	10	-54	-83
Total expenses before loan losses		**-730**	**-1,443**
Profit before loan losses		**202**	**17**
Net loan losses	11	-10	-27
Operating profit		**192**	**-10**
Appropriations, group contributions		-157	491
Profit before tax		**35**	**481**
Income tax expense[1]	12	2	-105
Net profit for the year		**37**	**376**

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

Statement of comprehensive income

SEK million	2016	2015
Net profit for the year	**37**	**376**
Other comprehensive income		
Items that cannot be reclassified to profit or loss for the year		
Revaluation of defined benefit pensions[1]	—	-1
Tax attributable to revaluation of defined benefit pensions[1]	—	0
Items that have been reclassified or can be reclassified to profit or loss for the year		
Available-for-sale financial assets	44	-59
Tax attributable to available-for-sale financial assets	-10	14
Hedge of net investment	—	0
Total other comprehensive income after tax	**34**	**-46**
Total comprehensive income after tax	**71**	**330**

[1] Pertains to exchange rate differences that arise from translation of the Norwegian operation's financial statements to the company's reporting currency.

Balance sheet

31 December, SEK million

Assets	**Note**	**2016**	**2015**
Cash and cash balances with central banks	13	15	21
Eligible treasury bills, etc.	14	3,640	4,524
Lending to credit institutions	15	230	411
Lending to the general public	16	56,733	46,608
Fair value of portfolio hedge of interest rate risk	17	83	117
Bonds and other fixed-income securities	18	4,162	6,253
Shares and participations, etc.	19	14	10
Intangible assets	20	142	159
Property, plant and equipment	21	1	2
Current tax assets	22	11	16
Deferred tax assets	22	10	18
Other assets	23	189	685
Prepaid expenses and accrued income	24	81	34
Total assets		**65,311**	**58,858**

Liabilities and provisions	**Note**	**2016**	**2015**
Due to credit institutions	25	61	79
Deposits and borrowing from the general public	26	38,008	35,911
Issued securities, etc.	27	22,137	17,336
Current tax liabilities	28	0	96
Other liabilities	29	472	350
Accrued expenses and deferred income	30	78	110
Provisions for pensions	31	12	13
Subordinated liabilities	32	900	900
Total liabilities and provisions		**61,668**	**54,795**
Share capital		400	400
Other reserves			
- Statutory reserve		81	81
- Total fair value reserve		17	-17
Retained earnings[1]		3,108	3,223
Profit for the year[1]		37	376
Total equity	42	**3,643**	**4,063**
Total liabilities, provisions and equity		**65,311**	**58,858**

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

Statement of changes in equity

	Restricted equity		Unrestricted equity					
			Total fair value reserve[1]					
SEK million	**Share capital**	**Statutory reserve**	Fair value reserve	Translation reserve	**Total**	**Defined benefit pension plans**	**Retained earnings**	**Total equity**
Opening equity 2015	**400**	**81**	**29**	**-150**	**-121**	**4**	**5,032**	**5,396**
Adjustment for changed accounting policy for translation differences[3]	—	—	—	150	150	—	-150	—
Adjusted opening equity 2015	**400**	**81**	**29**	**0**	**29**	**4**	**4,882**	**5,396**
Profit for the year	—	—	—	—	—	—	376	376
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-2	—	-2	—	—	-2
Unrealised change in value before tax, fair value reserve	—	—	-57	—	-57	—	—	-57
Tax attributable to fair value reserve	—	—	14	—	14	—	—	14
Revaluation of defined benefit pensions[2]	—	—	—	—	—	-1	—	-1
Tax attributable to revaluation of defined benefit pensions[2]	—	—	—	—	—	0	—	0
Change in hedge of net investment in foreign currency	—	—	—	0	0	—	—	0
Comprehensive income for the year	—	—	**-45**	**0**	**-45**	**-1**	**376**	**330**
Shareholder contribution received	—	—	—	—	—	—	1,667	1,667
Demerger result, Norwegian operation[3]	—	—	-1	—	-1	-3	-3,326	-3,330
Closing equity 2015	**400**	**81**	**-17**	**—**	**-17**	**—**	**3,599**	**4,063**
Opening equity 2016	**400**	**81**	**-17**	**—**	**-17**	**—**	**3,599**	**4,063**
Profit for the year	—	—	—	—	—	—	37	37
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-2	—	-2	—	—	-2
Unrealised change in value before tax, fair value reserve	—	—	46	—	46	—	—	46
Tax attributable to fair value reserve	—	—	-10	—	-10	—	—	-10
Comprehensive income for the year	—	—	**34**	**—**	**34**	**—**	**37**	**71**
Dividend	—	—	—	—	—	—	-491	-491
Closing equity 2016	**400**	**81**	**17**	**—**	**17**	**—**	**3,145**	**3,643**

[1] The total fair value reserve includes unrealised gains/losses attributable to available-for-sale financial assets.
[2] Pertains to locally reported Norwegian pension plans.
[3] The comparison figure for 2015 has been changed due to a changed accounting policy for translation differences. See note 1.

Cash flow statement

CASH FLOW STATEMENT (indirect method), SEK million

Operating activities	2016	2015
Operating profit	35	588
of which, interest paid in	*758*	*2,360*
of which, interest paid out	*-83*	*-953*
Adjustment for non-cash items:		
Unrealised portion of net financial income:	—	1
Depreciation, amortisation and impairment charges		
- depreciation of property, plant and equipment	18	35
- amortisation and impairment of intangible assets	—	246
Loan losses	10	35
Group contributions from/to parent company	157	-491
Provisions for defined benefit pension plans	—	1
Income tax paid	-98	-155
Cash flow from operating activities before changes in assets and liabilities in operating activities	**122**	**260**
Decrease (+)/increase (-) in lending to the general public	-10,134	-9,055
Decrease (+)/increase (-) in holdings of fixed-income securities and equities	3,018	-1,015
Decrease (-)/increase (+) in deposits and borrowing from the general public	2,097	3,885
Decrease (-)/increase (+) in issued securities	4,801	2,685
Change in other assets and other liabilities	-81	-87
Cash flow from operating activities	**-177**	**-3,327**

Investing activities	2016	2015
Purchases of property, plant and equipment	—	-3
Sales of property, plant and equipment	1	—
Purchases of intangible assets	—	-107
Separation of Norwegian operation	—	320
Cash flow from investing activities	**1**	**210**

Financing activities[2]	2016	2015
Shareholder contribution	—	1,667
Cash-settled group contribution preceding year (paid/received)	491	5
Dividend paid[1]	-491	—
Cash flow from financing activities	**0**	**1,672**
Cash flow for the year	**-176**	**-1,445**
Of which, Norwegian banking operation	*-99*	*-996*
Cash and cash equivalents at start of year	**353**	**1,788**
Exchange rate difference in cash and cash equivalents	**7**	**10**
Cash flow for the year	**-176**	**-1,445**
Cash and cash equivalents at end of year	**184**	**353**

Cash and cash equivalents	2016	2015
Cash and cash balances with central banks	15	21
Lending to credit institutions	230	411
Due to credit institutions	-61	-79
Cash and cash equivalents	**184**	**353**
Of which, Norwegian banking operation	*0*	*96*

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

[1] A dividend of SEK 491 million was paid to the parent company Skandia Insurance Company Ltd (publ) during the second quarter of 2016. Payment of the group contribution for 2015 from Skandia Mutual in a corresponding amount was also settled during the second quarter of 2016. No dividend was paid in 2015.

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

Notes

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

Notes index

1. Significant accounting and valuation policies

Contents

1. General information

This annual report for Skandiabanken Aktiebolag (publ), corporate identity number 516401-9738, pertains to the period 1 January–31 December 2016. Skandiabanken's registered office is in Stockholm, Sweden. The address of the head offices is Lindhagensgatan 86, Stockholm. The annual report was approved for publication by the Board of Directors on 24 March 2017. The income statement and balance sheet are subject to adoption by the Annual General Meeting, which is scheduled to be held on 25 April 2017.

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

2. Basis of preparation

The annual report for 2016 has been prepared in conformity with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (Lagen (1995:1559) om årsredovisning i kreditinstitut och värdepappersbolag) and the Swedish Financial Supervisory Authority's regulations and general guidelines on an¬nual reports of credit institutions and securities companies (FFFS 2008:25). Skandiabanken also applies recommendation RFR 2 Accounting for Legal Entities, issued by the Swedish Financial Reporting Board (RFR). In accordance with these regulations and general guidelines, Skandiabanken applies so-called legally limited IFRS. This means that all International Financial Reporting Standards (IFRSs) endorsed by the EU as well as accompanying interpretations issued by the IFRS Interpretations Committee (IFRIC) are applied as far as possible within the framework of Swedish legislation and taking into account the connection between reporting and taxation.

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

3. Changed accounting policies

New and amended IFRSs for the 2016 financial year

IFRSs endorsed by the European Commission shall be applied. A few amendments have been made that took effect in 2016. The Swedish Financial Reporting Board (RFR) has made changes in its accounting recommendation for legal entities (RFR 2), with application starting on 1 January 2016. This has entailed that Skandiabanken reports exchange rate differences for the remaining parts of the Norwegian branch in the income statement instead of in other comprehensive income. Changes have also been made in the Annual Accounts Act for Credit Institutions and Securities Companies as a result of the EU's new reporting directives. Among other things, memorandum items have been removed from the balance sheet's layout, with the corresponding information now provided in a note. In equity, a new reserve has been created for internal development work, the development reserve. This entails that capitalisation of internally developed intangible assets is restricted in the development reserve until they are completely amortised.

Company management is of the opinion that other new and amended standards and interpretations from 2016 have not had any material effect on Skandiabanken's financial statements.

New and amended IFRSs for financial years starting in 2017 or later

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, introduces new requirements for classification and measurement of financial assets and liabilities as well as the discontinued recognition of these. IFRS 9 is to be applied for financial years starting on 1 January 2018 or later. In December 2011, IFRS 7 was amended, entailing expanded disclosure requirements in the period that IFRS 9 is first applied. The main principles in IFRS 9 are described below.

According to IFRS 9, all reported financial assets covered by IAS 39 Financial Instruments: Recognition and Measurement are to continue to be measured either at amortised cost or at fair value. Classification is based on the business model and contractual terms of the instrument. Financial assets that are held in a business model whose objective is solely to receive contractual cash flows are to be measured at amortised cost. Instruments may only have contractual cash flows in the form of principle amounts due and interest on principle amounts that are payable on specific dates. If the business model's purpose is to earn the contractual cash flows as per the above, but also to sell the instruments, the change in value is reported in other comprehensive income. In other business models, changes in value are reported in the income statement. An option exists to measure all instruments with the value adjustment in the income statement if this reduces the accounting mismatch. The effect of IFRS 9 on classification and measurement of

Cont. Note 1 – Significant accounting and valuation policies

financial liabilities is mainly related to changes in fair value stemming from changes in credit risk for a financial liability. According to IFRS 9, for financial liabilities classified at fair value through profit or loss, the amount of the change in fair value that is due to a change in credit risk for the liability shall be recognised in other comprehensive income. This applies under the condition that recognition of the effects of the change in the liability's credit risk in other comprehensive income does not give rise to or increase a mismatch in the reporting of profit. Changes in fair value that are due to the liability's credit risk will not be reclassified to profit or loss in the following period. Under the current provisions of IAS 39, the entire amount of the change in fair value is recognised in the income statement.

IFRS 9 also includes new policies for recognising impairment. All financial assets measured at amortised cost or with the change in value in other comprehensive income are to be tested for impairment. The new policies entail that the Bank is to calculate provisions for loan losses based on expected loan losses rather than on confirmed loan losses. Assets for which there is a need to recognise impairment are broken down into three steps, depending on the degree of credit impairment. Step 1 includes assets for which no increase in credit risk has occurred since the first reporting occasion. Step 2 includes assets for which a significant increase in credit risk has occurred since the first reporting occasion. Step 3 includes assets which individually have been measured as impaired assets. This means that in Step 1, a year's expected loss is recognised already on the first reporting occasion. In the event of a significant increase in credit risk, Steps and 3, the impairment amount shall correspond to the loan losses that are expected to arise during the loan's remaining terms. In connection the calculation of these provisions, forward-looking factors shall be taken into account. In addition, provisions shall be based on a probability-weighted outcome, in contrast with the current, most expected outcome. The policies for hedge accounting in IFRS 9 have also been amended and create greater opportunities to couple hedge activities with the actual risk management. The retrospective calculations of the effectiveness of hedges are replaced by more qualitative assessments. Company management is of the opinion that application of IFRS 9 will affect reported amounts, especially the impairment testing of the bank's lending portfolios. A detailed analysis of the effects of application of this impairment testing has not yet been completed, and these can therefore not yet be quantified.

IFRS 15 Revenue from Contracts with Customers

This standard shall be applied for financial years starting on 1 January 2018 or later. The intention is that the standard will replace existing standards and pronouncements about revenue recognition. A cohesive model for revenue recognition is proposed regardless of sector and type of transaction. This will take place in a five-step model which, in short, entails that an entity is to recognise revenue in pace with performance of obligations under contracts. For each customer contract, an entity shall identify performance obligations for each product or service and thereafter set a transaction price that is to be allocated to the respective performance obligations. Revenue shall thereafter be recognised when the entity satisfies the performance obligation. IFRS 15 also entails greater disclosure requirements. The standard is assessed to have a limited effect on Skandiabanken.

Applied accounting policies

As a result of the separation of the Norwegian operation on 5 October 2015, Skandiabanken's branch in Norway is included only in the comparison figures up until the separation date. Significant accounting policies pertaining to the Norwegian branch which deviate from the Swedish accounting policies are described in a separate section, Accounting policies for the Norwegian branch.

4. Important sources of uncertainty in estimations and critical assessments

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

- Provisions for impaired loans
- Intangible assets
- Financial instruments at fair value

Provisions for impaired loans

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

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

For assessments of loan receivables that are measured collectively – primarily bank account lines of credit, credit card credits, personal loans and car instalment loans – valuation is based on historical experience of default, which leads to uncertainty in determining the need for provisions.

Intangible assets

In 2015 Skandiabanken concluded an extensive implementation of a new banking system. The system was put in operation in spring 2015 and is expected to generate future financial benefit. In view of this, the associated development costs have been recognised as an intangible asset with an amortisation schedule of 10 years. Each year, or whenever there is an indication of a decline in value, impairment testing is conducted to calculate the investment's recoverable amount. This is done by calculating the investment's value in use based on a cash flow model for the smallest cash generating unit that the new bank system supports. The Bank's five-year business plan is used as a basis for calculating value in use, since the system is used for the entire Bank's operations. Company management's assumptions for future volumes, cost-savings, tied-up capital, the discount rate used (11.15% compared with 10.69% in the preceding year) and continued growth in the years immediately ahead are of great significance. Growth continues to be generated by home mortgages and savings. Growth in the years immediately after the plan period has been set at low levels, and thereafter the model uses a straight projection of the balance sheet and income statement. The discount rate is determined in accordance with market principles. An analysis was performed of the business plan adopted by the Board of Directors for the coming five-year period, which showed that there is no need to recognise impairment of the intangible asset.

Financial instruments at fair value

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

Cont. Note 1 – Significant accounting and valuation policies

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

The criteria for identification of an operating segment is that it conducts business activities that generate revenues and incur expenses, that the results and position are regularly reviewed by the CODM as a basis for decisions, and that discrete financial information is available. An operating segment has similar characteristics, such as regarding the nature of products and services, processes, customer categories, distribution, how the services are performed, and the impact of various rules and regulations. Quantitative thresholds exist for when information for an operating segment is to be reported. Separate information is provided for a segment when

- its operating revenue accounts for 10% or more of the combined revenue of all operating segments,
- its reported profit or loss is 10% or more of the absolute amount of the total profit of all operating segments that did not report a loss, or
- the total loss for a segment that did not report a profit or the segment's assets amounts to 10% or more of the combined assets of all operating segments.

Skandiabanken had two segments up until 5 October 2015, Sweden banking and Norway banking, and thereafter only Sweden. Reported revenues in the respective countries and operating segments are derived from the country in which the company has its domicile; no business is conducted across national borders.

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

In reporting the outcome for the segments, the same accounting policies are used as for the financial statements in general.

6. Transactions in foreign currency
Transactions in foreign currency are initially reported in the respective unit based on the unit's functional currency using the exchange rate in effect on the transaction date. By functional currency is meant the currency in the country in which Skandiabanken conducts business – Sweden.

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

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

Recalculation of the branch's income statement and balance sheet
Skandiabanken's reporting currency is Swedish kronor (SEK).

Income statements and balance sheets of foreign operations are recalculated from the operation's functional currency to Swedish kronor. Assets and liabilities were valued at the exchange rate in effect on the balance sheet date. Revenues and expenses are recalculated at the average exchange rate during the period. Translation differences that arise are reported in the income statement.

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

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

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

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

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

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

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

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

Cont. Note 1 – Significant accounting and valuation policies

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

Derivatives

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

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

Available-for-sale financial assets

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

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

Loan losses and impairment of financial assets

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

Loan receivables carried at amortised cost

a) Non-performing loans

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

b) Impaired loans

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

c) Non-performing loans that are not considered to be impaired

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

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

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

d) Determination of when a need to recognise impairment exists

Skandiabanken determines whether there is objective evidence of impairment in the following ways:

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

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

If there is no objective evidence of impairment in accordance with categories 1) or 2), then the asset is included in category 3). This category refers to groups of financial assets with similar credit risk characteristics, and a judgement is made collectively of the need to recognise impairment for the respective categories of assets. As an indicator of whether objective evidence exists of lower cash flows in a category, Skandiabanken measures the response to payment reminders for this category. Provisions for this type are made in such way that the probability of the loan becoming a confirmed loss is calculated based on the response to payment reminders and is applied for the category of loans that are 1-60 days past due. Another indicator consists of changes in the risk classification for a category in which the assets are included in an internal risk classification system. Any impairment is in such case based on the estimated, expected loss for the loans that have not already been individually assessed.

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

e) Valuation of impaired loans and provisions for loan losses

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

Cont. Note 1 – Significant accounting and valuation policies

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

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

Calculating provisions for loan losses – collective assessment for individually significant loans and loans that are not individually significant
When calculating the need for provisions for loan receivables that cannot be attributable to individual loans, these are grouped according to their credit characteristics, e.g., home mortgages, account lines of credit, credit card credits, personal loans, etc. For the respective categories, a probability is calculated of the degree to which they will be confirmed. The calculation is based either on changes in the payment status or changes in the risk class.

f) Write-off and recovery of confirmed loan losses
Losses in which a bankruptcy trustee has provided an estimation of distributions in a bankruptcy proceeding, a proposal for composition has been accepted, or a concession has been made for a receivable in some other way – after recovering the value of any collateral and where it has been determined that no recovery can be achieved – are reported as write-offs of confirmed loan losses for the year. Amounts written off reduce the principal of the loan and are reported against the write-off of confirmed loan losses in the income statement taking into account previous provisions. Concessions of amounts in connection with a modification are always reported as confirmed.

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

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

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

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

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

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

Financial liabilities
Financial liabilities where changes in fair value are reported through profit or loss
Financial liabilities classified as "Fair value through profit or loss" are held for trading. Reporting is done at fair value, with changes in value reported through profit or loss under "Net financial income". Derivative liabilities are reported under this category.

Other financial liabilities
Interest-bearing liabilities
Deposits, issued securities and other interest-bearing liabilities are reported at amortised cost. Interest expenses for the period pertain to interest calculated in accordance with the effective interest method.

Cont. Note 1 – Significant accounting and valuation policies

Other liabilities
Trade payables and other noninterest-bearing liabilities are reported at their nominal value.

Methods for determining fair value
The methods for determining the fair value of financial instruments adhere to a hierarchy entailing that market information is used as far as possible and company-specific information as little as possible. For disclosure purposes, fair value is then broken down into the following levels for Skandiabanken:
Level 1: Valuation of quoted prices in an active market
Level 2: Calculated values that are based on observable market quotations for similar instruments
Level 3: Calculated values that are based on assumptions and estimations, and on observable market quotations where such suitable quotations are available. No assets or liabilities are valued at Level 3

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

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

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

9. Intangible assets
Other intangible assets
Skandiabanken has other intangible assets with finite useful lives, which are reported at cost less accumulated amortisation and impairment losses. These assets consist of customer contracts taken over, and acquired and/or proprietary IT systems and software that are judged to have significant value for the operations in coming years.

Intangible assets are reported on the balance sheet only if all conditions have been fulfilled:
– The asset is identifiable
– The asset will likely generate future economic benefit
– Skandiabanken has control over the asset in the form of legal rights

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

10. Impairment of intangible assets and property, plant and equipment
The carrying amount of Skandiabanken's assets is reviewed at every balance sheet date or whenever there are indications of a decline in value to determine if a decline in value has taken place. If such indication exists, the asset's recoverable amount is calculated, which is the higher of the asset's net sales value and value in use. When determining value in use, the anticipated future cash flows are discounted to present value using a discount rate before tax which reflects the current market rate of interest and the risk attributable to the asset. An impairment loss is recognised when the carrying amount of the asset or its cash generating unit exceeds the recoverable value. Impairment losses are expensed in the income statement.

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

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

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

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

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

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

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

Cont. Note 1 – Significant accounting and valuation policies

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

Securities commissions received, which mainly pertain to brokerage fees, compensation for sales of securities and asset management fees, as well as commissions on lending and deposits, are reported as revenue when the service has been rendered and provided to the customer. Other fee and commission income consists of compensation received for distribution of insurance and compensation associated with the SAS/Eurobonus loyalty programme that is further invoiced in the Skandia group. Other fee and commission expenses consist of costs for points rewarded under the SAS/Eurobonus loyalty programme. The expense is recognised in pace with the fee and commission income that generates the points. The agreement with SAS/Eurobonus has been cancelled, with the cooperation continuing through 31 March 2017.

Net financial income

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

The items pertain to changes in the value of shareholdings, fixed-income securities and interest-related derivatives, changes in value pertaining to hedge accounting, and exchange rate movements.

Staff and pension costs

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

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

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

14. Taxes

Income taxes consist of current and deferred tax. Current tax is reported for the year’s taxable profit. Skandiabanken’s current tax liability is calculated using the tax rates that have been decided on or have in practice been decided on. Current tax also includes adjustments of current tax attributable to previous periods.

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

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

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

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

15. Pledged assets, obligations and contingent liabilities

Pledged assets for own liabilities

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

Other pledged assets

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

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

Contingent liabilities

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

Commitments

Commitments consist of granted but unutilised credits, such as mortgage loans, lines of credit, credit card credits and granted custody account credits that are reported at their nominal, granted amount less any amortised cost on the utilised loan amounts.

Cont. Note 1 – Significant accounting and valuation policies

16. Cash flow statement
Cash flow from operating activities pertains to Skandiabanken's main line of business, i.e., lending and deposits, and investments in fixed-income securities. Cash and cash equivalents pertain to cash, clearing receivables and clearing liabilities, account balances in other banks, and overnight loans with an original term of less than three days.

17. Group contributions and shareholder contributions
Group contributions are reported in accordance with RFR 2 Accounting for Legal Entities – Alternative Rule. Group contributions received and rendered by Skandiabanken are reported as appropriations. Shareholder contributions received are reported in equity.

18. Discontinued operations
Reporting of discontinued operations is not done in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, as consideration is given to the requirements on presentation format in the Annual Accounts Act for Credit Institutions and Securities Companies. Corresponding information is instead provided in a note.

19. Accounting policies for Norwegian branch
Following are the significant accounting policies for the Norwegian branch that deviate from the Swedish accounting policies and which affected the financial statements only up until 5 October 2015.

Important sources of uncertainty in estimations and critical assessments
Calculation of Norwegian pension obligations is done in accordance with Norwegian rules and involves a number of assumptions that company management sets for calculating future cash flows. Important estimations are made with respect to the pension beneficiaries' life expectancy, increases in their future salaries and benefits, and assumptions about staff turnover. A present value calculation is made using an assumed discount rate based on relevant market interest rates of the combined, anticipated future cash flow of pension payments. The discount rate has a significant impact on the reported liability. For 2015 the discount rate was 2.0%.

Provision and cost for pension obligations
Pension obligations in the Norwegian operation are reported in accordance with local rules in Norway, where defined benefit obligations are carried on the balance sheet. For the pension obligation, the service cost and net interest on the defined benefit pension liability are recognised as a cost in the income statement, and effects of remeasurements are recognised in other comprehensive income. The pension liability was reported as a provision on the balance sheet. The cost for the defined benefit pension plans pertains to the sum of service costs in the current and earlier periods and net interest on the defined benefit liability.

Taxes
The income tax rate applied for the Norwegian branch is in accordance with Norwegian rules.

Pledged assets
Pledged assets for the Norwegian covered bond programme are reported here. Pledged assets consist of home mortgages and possibly additional security in the form of other financial instruments. A separate grouping of pledged assets has been established for Norwegian home mortgage loans with collateral in Norway. The bonds are issued in accordance with Swedish laws for covered bonds (they are included in the same programme as the Swedish bonds). The value of the respective groupings of pledged assets must amount to the outstanding bond liability at any given time. The bondholders have preferential rights, backed by the grouping of pledged assets, to the funds that would be collected from these home mortgage assets in the event of a bankruptcy.

Hedge accounting
Previously, net investments in foreign operations were hedged (applied only for the part of the net investments in the Norwegian branch through 5 October 2015).

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

Financial effect pertaining to comparison figures for 2015 as a result of changed accounting policy for translation differences

Income statement and Other comprehensive income

SEK million	2015 full year Before reclassification	Reclassification	After reclassification
Income statement			
Net interest income	1,286	—	1,286
Net fee and commission income	233	—	233
Net financial items	-14	-107	-121
Other operating income	62	—	62
Total operating income	**1,567**	**-107**	**1,460**
Staff costs	-390	—	-390
Other administrative expenses	-1,053	—	-1,053
Total expenses before loan losses	**-1,443**	**—**	**-1,443**
Profit before loans losses	124	-107	17
Net loan losses	-27	—	-27
Operating profit	**97**	**-107**	**-10**
Appropriations, group contributions	491	—	491
Profit before tax	**588**	**-107**	**481**
Tax on profit for the period	-129	24	-105
Net profit for the period	**459**	**-83**	**376**
Other comprehensive income			
Items that cannot be reclassified to profit or loss for the year			
Revaluation of defined benefit pensions	-1	—	-1
Tax attributable to revaluation of defined benefit pensions	0	—	0
Items that have been reclassified or can be reclassified to profit or loss for the year			
Available-for-sale financial assets	-59	—	-59
Tax attributable to available-for-sale financial assets	14	—	14
Hedge of net investment	0	—	0
Translation difference	-107	107	—
Tax attributable to translation difference	24	-24	—
Total other comprehensive income after tax	**-129**	**83**	**-46**
Total comprehensive income after tax	**330**	**—**	**330**

Equity

SEK million	31/12/2015 Before reclassification	Reclassification	After reclassification
Share capital	400	—	400
Other reserves			
- Statutory reserve	81	—	81
- Total fair value reserve	-17	—	-17
Retained earnings	3,140	83	3,223
Profit for the period	459	-83	376
Total equity	**4,063**	**—**	**4,063**

2. Reporting of operating segments

SEK million	Sweden Banking		Norway Banking		Eliminations and recalculations, Banking		Total Banking	
Income statements	**2016**	**2015**	**2016**	**2015**	**2016**	**2015[1]**	**2016**	**2015**
Net interest income	693	541	0	745	—	—	693	1,286
Net fee and commission income[3]	118	100	—	133	—	—	118	233
Net financial income[1]	2	-3	—	-13	—	-105	2	-121
Other operating income	119	134	—	0	—	-72	119	62
Operating income	**932**	**772**	**0**	**865**	**—**	**-177**	**932**	**1,460**
Staff costs	-262	-240	—	-150	—	—	-262	-390
Other administrative expenses	-396	-486	0	-273	—	70	-396	-689
Depreciation/amortisation of property, plant and equipment, and intangible assets[2]	-18	-34	—	-1	—	—	-18	-35
Impairment of intangible assets	—	-246	—	—	—	—	—	-246
Other operating expenses	-54	-52	—	-31	—	—	-54	-83
Expenses before loan losses	**-730**	**-1,058**	**0**	**-455**	**—**	**70**	**-730**	**-1,443**
Net loan losses	-10	-6	—	-21	—	—	-10	-27
Operating profit	**192**	**-292**	**0**	**389**	**—**	**-107**	**192**	**-10**
Appropriations, group contributions	-157	491	—	—	—	—	-157	491
Profit before tax	**35**	**199**	**0**	**389**	**0**	**-107**	**35**	**481**
Income tax expense[1]	2	-24	0	-105	—	24	2	-105
Profit for the year	**37**	**175**	**0**	**284**	**0**	**-83**	**37**	**376**
External income	932	614	0	862	—	-107	932	1,369
Internal income[3]	—	86	—	5	—	—	—	91
Internal expenses[3]	—	-7	—	-84	—	—	—	-91

[1] Comparison figures for 2015 have been adjusted due to a changed accounting policy for translation differences. See note 1.
[2] No impairment losses have been recognised for property, plant and equipment.
[3] Internal income and expenses are included in the lines “Net interest income”, “Fee and commission income”, “Net financial items”, “Staff costs”, and "Other administrative expenses”.

Cont. note 2. Reporting of operating segments

SEK million	Sweden Banking		Norway Banking		Eliminations and recalculations, Banking		Total Banking	
Income statements	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
COMPREHENSIVE INCOME								
Net profit for the year	**37**	**175**	**0**	**284**	**—**	**-83**	**37**	**376**
Other comprehensive income								
Items that cannot be reclassified to profit or loss for the year								
Revaluation of defined benefit pensions	—	—	—	-1	—	—	—	-1
Taxes attributable to revaluation of defined benefit pensions	—	—	—	0	—	—	—	0
Items that have been or can be reclassified to profit or loss for the year								
Change in value of available-for-sale financial assets	44	-43	—	-16	—	—	44	-59
Tax attributable to changes in value of available-for-sale financial assets	-10	10	—	4	—	—	-10	14
Total	**34**	**-33**	**0**	**-13**	—	—	**34**	**-46**
Comprehensive income for the year after tax	**71**	**142**	**0**	**271**	—	**-83**	**71**	**330**

	Sweden Banking		Norway Banking		Eliminations and recalculations, Banking		Total Banking	
SEK billion	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Balance sheets	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**	**31 Dec.**
Assets								
Lending to the general public[1]	56.7	46.6	—	—	—	—	56.7	46.6
Other assets	8.6	12.2	—	0.1	—	—	8.6	12.3
Total assets	**65.3**	**58.8**	**—**	**0.1**	—	**—**	**65.3**	**58.9**
Liabilities								
Deposits and borrowing from the general public	38.0	35.9	—	—	—	—	38.0	35.9
Issued securities	22.1	17.3	—	—	—	—	22.1	17.3
Other liabilities	1.6	1.5	—	0.1	—	—	1.6	1.6
Total liabilities	**61.7**	**54.7**	**—**	**0.1**	—	**—**	**61.7**	**54.8**
Equity	**3.6**	**4.1**	**—**	**0.0**	—	—	**3.6**	**4.1**
Total liabilities and equity	**65.3**	**58.8**	**—**	**0.1**	—	**—**	**65.3**	**58.9**

[1] Including placements of SEK 0.4 billion (0.3) with the Swedish National Debt Office.

Cont. note 2. Reporting of operating segments

Key ratios	Sweden Banking 2016 31 Dec.	Sweden Banking 2015 31 Dec.	Norway Banking 2016 31 Dec.	Norway Banking 2015 31 Dec.	Eliminations and recalculations, Banking 2016 31 Dec.	Eliminations and recalculations, Banking 2015 31 Dec.	Total Banking 2016 31 Dec.	Total Banking 2015 31 Dec.
Investment margin, % [1]	1.13	0.97	—	1.63	—	—	1.13	1.31
C/I ratio before loan losses and impairment of intangible assets[2]	0.78	1.05	—	0.53	1.00	1.00	0.78	0.76
Loan loss ratio, %[3]	0.02	0.01	—	0.05	—	—	0.02	0.05
Number of customers, thousands	448	453	—	—	—	—	448	453
Average number of employees[4]	325	306	—	169	—	—	325	475

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

[2] Costs incl. loan losses and impairment of intangible assets in relation to operating income.

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

[4] Calculated for the period up until the separation of the Norwegian operation for the full year 2015.

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

Reporting of operating segments
Skandiabanken in Sweden and Norway (in Norway until 5 October 2015) conducts banking business in the retail market and offers lending to individuals primarily in the form of home mortgages, personal loans, account lines of credit and credit card credits, custody account lending, and deposits. In addition to the lending and deposit operations, the Bank offers services for equity trading, mutual funds and discretionary asset management.

Internal revenue for the Sweden segment pertains to interest attributable to lending to Skandiabanken's Norwegian branch, i.e., the "Norway banking" segment in 2015. Interest pertains primarily to internal subordinated loans issued in connection with allocations of capital. Internal lending, deposits and borrowing are priced according to specific interest rates with a going rate interest rate mark-up. In other respects, minor payments are made between the segments for internally performed services, which are priced on a cost-price basis.

Information on major customers
By major customers is meant customers that generate revenue that accounts for 10% or more of the company's total revenue under "Total operating income". Invoicing to companies in the Skandia group does not exceed the 10% threshold. For further information, see note 41 – Related party disclosures.

Government subsidies
Skandiabanken did not receive any government subsidies for the 2015 or 2016 financial years.

3. Net interest income

	2016		2015	
	Interest	Average interest rate	Interest	Average interest rate
Lending to credit institutions	-3	-0.41%	8	0.26%
Lending to the general public[1]	769	1.49%	2,117	2.22%
Fixed-income securities	-3	-0.05%	121	0.69%
Other	0	0.04%	4	0.63%
Total interest income[2]	**763**	**1.24%**	**2,250**	**1.93%**
Due to credit institutions	0	-0.50%	-22	2.61%
Deposits and borrowing from the general public	-82	0.22%	-709	0.94%
Issued securities	19	-0.10%	-220	0.75%
Subordinated liabilities	-7	0.80%	-11	1.19%
Other	0	0.00%	-2	0.02%
Total interest expense[2]	**-70**	**0.11%**	**-964**	**0.83%**
Total[2]	**693**	**1.13%**	**1,286**	**1.10%**
Of which, Norwegian operation	*0*	—	*745*	*1.22%*

Interest income from financial instruments that are not measured at fair value through profit or loss amounts to SEK 862 million (2,390). Interest expenses from financial instruments that are not measured at fair value through profit or loss amount to SEK 69 million (987).

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

[2] The deviation in total interest income and expense compared with the income statement amounts to SEK 2 million in 2015 and pertained to interest expenses attributable to hedge instruments, which in the note are transferred to interest income to provide a more accurate picture while taking into account the purpose of the hedges.

4. Net fee and commission income

	2016	2015
Payment intermediation fees	93	244
Commissions on lending	1	1
Commissions on deposits	2	2
Commissions on securities	131	188
Other commissions	21	16
Total fee and commission income	**248**	**451**
Payment intermediation fees	-53	-113
Commissions on securities	-37	-48
Other commissions	-40	-57
Total fee and commission expenses	**-130**	**-218**
Net fee and commission income	**118**	**233**
Of which, Norwegian operation	—	*133*

Commissions derived from financial assets and liabilities that are not measured at fair value and that are not included in the determination of interest in accordance with the effective interest rate method amount to SEK 96 million (247) for fee and commission income and SEK 53 million (113) for fee and commission expenses.

Commissions derived from asset management operations that involve custody or investments of assets for the benefit of customers and that are not included in the determination of interest in accordance with the effective interest rate method amount to SEK 131 million (188) for fee and commission income and SEK 37 million (48) for fee and commission expenses.

5. Net financial income

	2016	2015
Financial assets at fair value classified as held for trading	**0**	**0**
- Shares and participations and other equity instruments, change in value, etc.	0	0
- Interest-bearing derivatives, change in value	0	0
Available-for-sale financial assets	**2**	**0**
- Fixed-income securities, capital gains, etc.	2	0
Repurchases of issued securities	**0**	**-11**
Hedge accounting1	**-1**	**-1**
- Change in value of hedged item	-34	-66
- Change in value of hedged instruments	33	65
Exchange rate movements2	**1**	**-109**
Total	**2**	**-121**
Of which, Norwegian operation	*—*	*-13*

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

[2] The comparison figures for 2015 have been adjusted due to a changed accounting policy for translation differences. See note 1.

Total net result for available-for-sale financial assets[1]	**2016**	**2015**
Unrealised gain/loss recognised in other comprehensive income[2]		
Reclassification of realised gains/losses from other comprehensive income to net profit for the year	-2	-2
Unrealised changes in value	46	-57
Total profit in other comprehensive income	**44**	**-59**
Realised gains/losses recognised in profit or loss[3]		
Reclassification of realised gains/losses from other comprehensive income to net profit for the year	2	2
Gain/loss realised directly in profit or loss	0	-13
Total realised gain/loss in profit or loss	**2**	**-11**
Total	**46**	**-70**
Of which, Norwegian operation	*—*	*8*

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

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

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

6. Other operating income

	2016	2015
Revenues from group companies within the Skandiabanken group[1]	59	59
Consideration from sale of Visa Inc.	43	—
Other income	17	3
Total	**119**	**62**
Of which, Norwegian operation	*—*	*0*

[1] For detailed information, see note 41, Related party disclosures.

7. Staff costs

	2016	2015
Salaries and remuneration	-160	-245
Defined benefit pensions	-6	-15
Defined contribution pensions	-23	-22
Payroll tax	-8	-8
Social security costs	-53	-68
Variable remuneration[1]	-1	-18
Other staff costs	-11	-14
Total	**-262**	**-390**
Of which, Norwegian operation	—	*-150*

[1] By variable remuneration is meant the Skandianen profit-sharing foundation for employees in Sweden and a similar profit-sharing system in Norway in 2015.

Average number	**2016**					**2015**				
of employees	**Women**		**Men**		**Total**	**Women**		**Men**		**Total**
Sweden	181	56%	144	44%	325	173	57%	133	43%	306
Norway	—	—	—	—	—	94	56%	75	44%	169
Total	**181**	**56%**	**144**	**44%**	**325**	**267**	**55%**	**208**	**45%**	**475**

Gender breakdown	**2016**					**2015**				
as per 31 December	**Women**		**Men**		**Total**	**Women**		**Men**		**Total**
Board of Directors	4	50%	4	50%	8	5	45%	6	55%	11
CEO and other members of executive management	5	83%	1	17%	6	4	57%	3	43%	7

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

[1] Took office on 26 April 2016. Data pertains to period as CEO.
[2] Risk-takers as per the definition below.

2015 **SEK thousand Sweden**	**Base salary/ directors' fees**	**Variable remune-ration**	**Other be-nefits and remune-ration**	**Pension cost**	**Total**
Niklas Midby, Chairman of the Board	904	—	—	—	904
Peter Rydell, director	181	—	—	—	181
Björn Fernström, director	232	—	—	—	232
Christer Löfdahl, director	351	—	—	—	351
Niklas Johansson, director	37	—	—	—	37
Øyvind Thomassen, CEO	3,583	—	84	1,164	4,831
Bengt-Olof Lalér, Deputy CEO	2,215	17	72	959	3,263
Other senior executives (6 persons)	8,229	85	2,679	2,726	13,719
Other employees who can impact the company's risk profile (11 persons)[1]	8,326	188	308	2,351	11,173
Other employees (287 persons)	118,431	5,843	10,013	18,530	152,817
Total	**142,489**	**6,133**	**13,156**	**25,730**	**187,508**

Cont. note 7. Staff costs

2015 SEK thousand Norway	Base salary/ directors' fees	Variable remune-ration	Other be-nefits and remune-ration	Pension cost	Total
Other senior executives (1 person)	1,747	188	242	203	2,380
Other employees who can influ-ence the company's risk profile (21 persons)[1]	12,319	1,394	2,884	1,754	18,351
Other employees (147 persons)	82,325	10,058	2,335	9,677	104,395
Total	**96,391**	**11,640**	**5,461**	**11,634**	**125,126**

Total					
Niklas Midby, Chairman of the Board	904	—	—	—	904
Peter Rydell, director	181	—	—	—	181
Björn Fernström, director	232	—	—	—	232
Christer Löfdahl, director	351	—	—	—	351
Niklas Johansson, director	37	—	—	—	37
Øyvind Thomassen, CEO	3,583	—	84	1,164	4,831
Bengt-Olof Lalér, Deputy CEO	2,215	17	72	959	3,263
Other senior executives (7 persons)	9,976	273	2,921	2,929	16,099
Other employees who can impact the company's risk profile (32 persons)[1]	20,645	1,582	3,192	4,105	29,524
Other employees (434 persons)	200,756	15,901	12,348	28,207	257,212
Total	**238,880**	**17,773**	**18,617**	**37,364**	**312,634**

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

For 2016 the Bank changed its policy regarding directors' fees and shows expensed fees instead of fees approved by the AGM; directors' fees for 2015 have been recalculated.

Remuneration policy
The remuneration policy adopted by Skandiabanken's board of directors stipulates, among other things, that employee remuneration shall be structured to take into account the importance that operations are cost-effective and competitive. The remuneration system shall encourage long-term value creation for Skandiabanken with a well balanced risk horizon. Remuneration of employees of Skandiabanken shall be business-led, individually based and differentiated, and shall be based on:
- The employee's performance, experience and competence. Consideration shall also be given to the employee's commitment, ability to cooperate, and development of own other others' competence
- The market, i.e., what other companies pay for similar positions and work duties in what can be regarded as the employee's potential job market
- The degree of difficulty and responsibility of the position

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

Risk analysis
Before a decision is made on significant changes to the remuneration system, an analysis is performed of how the system affects the risks that Skandiabanken is exposed to and how these risks are managed. Skandiabanken's Chief Risk Officer (CRO) has specific responsibility for this assessment. During the year, no significant changes were made in the remuneration system.

The risk analysis, which serves as the basis for Skandiabanken's remuneration policy, is to include a description of the structure and content of remuneration programmes for Skandiabanken's employees, how Skandiabanken's remuneration policy is to be applied, and an analysis of the process for identifying employees who can impact the company's risk profile.

The following parts of the remuneration system are key components of the risk analysis:
- Skandiabanken's remuneration committee, which is a permanent board committee tasked with conducting drafting work on benefits for Skandiabanken employees. Through this, the Board is considered able to make conscious, active decisions on remuneration matters.
- Except for Skandianen for employees in Sweden and previously a similar profit-sharing system in Norway, all remuneration of Skandiabanken's employees is in the form of fixed salary.
- Clear processes for approval of salary adjustments, including the so-called four-eyes principle, entailing that approval must be obtained from the manager's manager.

Cont. note 7. Staff costs

Drafting and decision-making process

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

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

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

Remuneration components

Remuneration consists of one or more of the following components:

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

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

Salaries and fees

Fees are payable to the Chairman of the Board and other board members in accordance with a decision by the Annual General Meeting. No fees are payable to board members who are employees of Skandia. No employee received remuneration in excess of EUR 1 million during the financial year.

Skandianen

Skandianen is a profit-sharing foundation from which employees in Sweden can receive remuneration, except for those who are members of Skandia's executive management. Skandiabanken's CEO is a member of Skandia's executive management. An annual provision is made for employees to Skandianen based on Skandia's financial result, corresponding to a maximum of 125% of one-half of the Price Base Amount. For 2016 the maximum allocation can amount to SEK 27,700 per employee. The profit share is not available to employees until five years after the year in which it was awarded. For employees in Norway, payment could amount to a maximum of one and a half month's salary for 2015.

Change in liability for variable remuneration

SEK thousand	Executive management	Other employees who can impact the company's risk profile	Other employees	Total	Of which, deferred remuneration
Opening balance, 1 January 2015	**3,195**	**3,333**	**19,443**	**25,971**	**4,445**
Exchange rate difference	-146	-260	-1,232	-1,638	
Estimated provision for earned variable remuneration in 2016	324	1,674	16,503	18,501	
Payment of remuneration earned in previous years[1]	-2,634	-2,824	-15,287	-20,745	
Separation of Norwegian operation	-363	-1,832	-9,716	-11,911	
Adjustment of remuneration from previous years	698	264	-2,849	-1,887	
Closing balance, 31 December 2015	**1,074**	**355**	**6,862**	**8,291**	**949**
Estimated provision for earned variable remuneration in 2016	83	125	4,903	5,111	
Payment of remuneration earned in previous years[1]	-1,021	-94	-3,279	-4,394	-949
Adjustment of remuneration from previous years	-53	-261	-3,583	-3,897	
Closing balance, 31 December 2016	**83**	**125**	**4,903**	**5,111**	—

[1] Payment of deferred variable remuneration and provision to the Skandianen profit-sharing foundation and similar profit-sharing system in Norway for 2015.

Cont. note 7. Staff costs

Occupational pensions for CEOs

Skandiabanken's current CEO has retirement benefits in accordance with the FTP plan, department 1 (occupational pension plan for insurance industry employees). The pension plan is a defined contribution solution. For fixed annual salary amounts above 30 times the Income Base Amount, a premium of 7% is paid on top of contributions paid under the FTP plan. The year's pension cost in relation to pensionable remuneration was 27% (32%).

Skandiabanken's departing CEO has retirement benefits in accordance with the FTP plan, department 1 (occupational pension plan for insurance industry employees). The pension plan is a defined contribution solution. For fixed annual salary amounts above 30 times the Income Base Amount, a premium of 7% is paid on top of contributions paid under the FTP plan. The year's pension cost in relation to pensionable remuneration was 39% (32%).

Occupational pensions for other senior executives

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

In Norway the pension plans for other senior executives were defined benefit solutions. The retirement age was 67. For defined benefit pension plans, the maximum benefit was 66% of pensionable salary.

For other senior executives, the year's defined contribution pension cost in relation to pensionable remuneration was 32% (21%). The year's defined benefit pension cost in relation to pensionable remuneration was 0% (1%).

Pension cost in relation to pensionable salary

	2016		2015	
	Defined contribution	**Defined benefit**	**Defined contribution**	**Defined benefit**
CEO	27%	—	32%	—
Deputy CEO, 0 persons (1)	—	—	9%	36%
Other senior executives, 5 persons (7)	32%	—	21%	1%

Terms of notice and severance pay

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

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

Severance pay

	2016				2015			
SEK thousand	**Executive management**	**Other employees who can impact the company's risk profile**	**Other employees**	**Total**	**Executive management**	**Other employees who can impact the company's risk profile**	**Other employees**	**Total**
Expensed amounts for severance pay								
Severance pay	—	—	2,020	**2,020**	2,411	—	1,040	**3,451**
Number of persons	—	—	4	**4**	2	—	6	**8**
Amount paid out during the year								
Severance pay	—	—	3,307	**3,307**	—	—	1,423	**1,423**
Pledged amounts:								
Severance pay	1,550	—	**—**	**1,550**	2,784	—	**—**	**2,784**
Number of persons covered by such pledge	1	—	**—**	**1**	2	—	**—**	**2**
Maximum individually pledged amount	1,550	—	**—**	**1,550**	1,719	—	**—**	**1,719**

Cont. note 7. Staff costs

Loans

Skandiabanken offers employer loans to employees of Skandiabanken as well as of other Skandia group companies in Sweden. Employer loans are granted for amounts of up to a maximum of 35 times the Price Base Amount, or approximately SEK 1.5 million. The employee is taxed for the benefit of the loan on a continuing basis, based on the government lending rate set by the Swedish Tax Agency on 30 November in the year before the tax year, plus one percentage point, less the contracted interest rate. Skandiabanken pays social security costs on this interest rate subsidy for the persons employed by Skandiabanken.

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

Loans to persons in executive positions[1]

SEK thousand	2016	2015
Board members and deputy board members in the Skandia group	7,171	1,664
CEOs and deputy CEOs in the Skandia group	3,459	7,972
Other senior executives in the Skandia group	63,980	63,516
of whom, board members and deputy board members of Skandiabanken	1,476	—
of whom, the CEO and deputy CEOs of Skandiabanken	*1,500*	*30*
of whom, other senior executives of Skandiabanken	*3,057*	*4,232*

[1] Loans granted have been made by Skandiabanken. All loans pertain to loans with adequate collateral or guarantees, except for other loans of SEK 2 thousand (6) and unsecured loans totalling SEK 619 thousand (586), of a granted amount of SEK 1,950 thousand (1,955).
The terms of the loans correspond to what is normally applied for lending to the general public or to other group employees.
Skandiabanken or the group companies have not pledged collateral or entered into any contingent liabilities for the benefit of the persons reported.

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

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

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

Lock-in of variable remuneration for certain employees and risk-adjusted payment

Skandiabanken has employees who were previously entitled to variable remuneration. For these employees, whom Skandiabanken has identified as risk-takers, the agreed-upon terms at the time of the decision on the variable remuneration was that payment of 60% of the variable remuneration would be deferred for three years.

Before the deferred amount is paid out, the amount is to be risk-adjusted, i.e., the profit that the remuneration is based on must be validated and evaluated. This means that the variable remuneration may be reduced if it is subsequently learned that the employee, profit centre or Skandiabanken did not meet the set performance criteria. A provision is made on the balance sheet for the deferred portion of the risk-takers' variable remuneration. The reserved amount changes during the lock-in period to the same extent that the value of Skandia Mutual's financial assets change.

Skandiabanken's board of directors has the right to unilaterally decide that the right to payment of the deferred remuneration shall be voided in the event of such extraordinary circumstances that entail that the company's financial stability is jeopardised or that the performance criteria were not rightfully met. After payment in 2016, all deferred variable remuneration has been settled.

8. Other administrative expenses

	2016	2015
Cost of premises	-34	-48
IT costs	-25	-108
Fees and purchased services	-272	-411
Telecom and postage expenses	-6	-17
Office expenses	-1	-2
Operating and transaction expenses	-53	-90
Other administrative expenses	-5	-13
Total	**-396**	**-689**
Of which, Norwegian operation	*0*	*-273*

The amounts above include SEK -288 million (-362) for outsourced services, see note 41.

Contracted rents
Skandiabanken has no leases for premises.

Auditing expenses	**2016**	**2015**
Audit assignment		
- Deloitte	-2	-3
Total audit assignment	**-2**	**-3**
Other assignments		
Auditing activities in addition to audit assignment – Deloitte	0	—
Other services – Deloitte	-6	-1
Total expenses for other assignments	**-6**	**-1**

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

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

	2016	2015
Property, plant and equipment		
Depreciation		
- Equipment	0	-2
Intangible assets		
Amortisation		
- Intangible assets	-18	-33
Impairment losses		
- Intangible assets[1]	—	-246
Total	**-18**	**-281**
Of which, Norwegian operation	*—*	*-1*

[1] Pertains to partial impairment loss for banking platform.

10. Other operating expenses

	2016	2015
Advertising and marketing	-54	-83
Total	**-54**	**-83**
Of which, Norwegian operation	*—*	*-31*

11. Loan losses, net

	2016	2015
Specific provision for individually assessed loan receivables		
The year's write-off of confirmed loan losses	-3	-2
Reversal of provisions for probable loan losses in previous financial years which are reported as confirmed loan losses in the year's accounts	0	2
The year's provision for probable loan losses	-2	-8
Paid in from confirmed loan losses in previous years	0	1
Reversal of provisions for probable loan losses which are no longer necessary	1	4
Net expense for the year for individually assessed loan receivables	**-4**	**-3**
Portfolio provisions for loans individually assessed loans as not being impaired		
The year's change in provision for individually assessed loan receivables	0	0
The year's change in provision for collectively assessed homogenous groups of loan receivables	0	0
The year's change in portfolio provisions for loans individually assessed as not being impaired	**0**	**0**
Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk		
The year's write-off of confirmed loan losses	-7	-20
Paid in from confirmed loan losses in previous years	0	7
Provision/dissolution for collectively assessed homogenous groups of loan receivables	1	-11
Net expense for the year for collectively assessed homogeneous groups of loan receivables	**-6**	**-24**
Net loan losses for the year	**-10**	**-27**
Of which, Norwegian operation	*—*	*-21*

12. Income tax expense

The following components are included in the tax expense:	2016	2015
Current tax		
- Tax on profit for the year[1]	0	-105
- Tax on previous years' profits	0	0
Deferred tax[2]	2	0
Total	**2**	**-105**
Of which, Norwegian operation	*0*	*-105*
Correlation between income tax expense and reported profit before tax		
Reported profit after appropriations but before tax	35	481
Tax according to applicable tax rate of 22.0%	-8	-105
Tax effect of non-deductible expenses/tax-exempt income	9	-1
Tax effect of differences in taxation between countries	—	-15
Current tax pertaining to previous years	1	16
Total	**2**	**-105**
Average effective tax rate	-4.3%	22.0%

[1] Comparison figures for 2015 have been adjusted due to a changed accounting policy for translation differences. See note 1.

[2] Deferred tax broken down by type of temporary difference:		
Tax effect attributable to temporary differences in financial instruments	1	0
Tax effect attributable to other temporary differences in pensions	1	0
Total	**2**	**0**
Of which, Norwegian operation	*—*	*0*

13. Cash and cash balances with central banks

	2016	2015
Central Bank of Sweden, payable on demand	15	21
Total	**15**	**21**
Of which, Norwegian operation	*—*	*—*

14. Eligible treasury bills, etc.

Outstanding loans broken down by counterparty, net book value	2016	2015
Swedish government	—	300
Swedish municipalities	3,640	4,224
Total	**3,640**	**4,524**
Nominal value	3,624	4,527
Of which, Norwegian operation	—	—
Average remaining maturity, years	1.7	2.1
Average remaining term of fixed interest, years	0.2	0.2

15. Lending to credit institutions

Outstanding loans broken down by counterparty, net book value	2016	2015
Swedish credit institutions	124	251
Foreign credit institutions	106	160
Total	**230**	**411**
Of which, Norwegian operation	*0*	*96*
Outstanding loans broken down by remaining maturity, net book value		
Payable on demand	230	411
Total	**230**	**411**
Average remaining maturity, years	0.0	0.0

16. Lending to the general public

	2016	2015
Amortised cost[1]	56,745	46,620
Provision for impaired loans	-12	-12
Total	**56,733**	**46,608**
Of which, Norwegian operation	—	—

a) Lending broken down by remaining maturity

Payable on demand	—	—
Maximum 3 months	45,657	35,577
Longer than 3 months but max 1 year	2,429	2,956
Longer than 1 year but max 5 years	6,246	5,635
Longer than 5 years	2,401	2,440
Total	**56,733**	**46,608**
Average remaining maturity, years	1.3	1.5

b) Impaired loans and provisions

Impaired loans, gross	**23**	**33**
Specific provisions for individually assessed loan receivables	-2	-1
Provision for collectively assessed homogenous groups of loan receivables with limited value	-8	-9
Collective provisions for individually assessed loan receivables	-2	-2
Total provisions for impaired loans	**-12**	**-12**
Total impaired loans, net	**11**	**21**

Non-performing loans that are not judged to be impaired amounted to SEK 30 million (21). Non-performing loans that are not judged to be impaired refers to loans for which adequate collateral exists.

Cont. note 16. Lending to the general public

c) Loan receivables	2016	2015
Loan receivables at amortised cost (before provision for loan losses)[1]	56,745	46,620
Specific provisions for individually assessed loan receivables	2	1
Collective provisions for individually assessed loan receivables	2	2
Provisions for collectively assessed homogenous groups of loan receivables	8	9
Total provisions	**12**	**12**
Loan receivables at amortised cost (after provision for loan losses)[1]	**56,733**	**46,608**
Impaired loans (after provision for probable loan losses)	**11**	**21**

[1] Including placements of SEK 425 million (292) with the Swedish National Debt Office.

d) Reconciliation of provisions for loan losses	2016	2015
Opening balance, provisions	**12**	**114**
Specific provisions		
Opening balance	**1**	**25**
Confirmed loan losses during the year	0	-1
Provisions	2	9
Reversals	-1	-5
Changes recognised in the income statement	**1**	**3**
Translation difference	—	-2
Separation of Norwegian operation	—	-24
Reclassifications	0	-1
Closing balance	**2**	**1**
Collective provisions		
Opening balance	**11**	**89**
Net change in provisions recognised in the income statement	-1	10
Translation difference	—	-5
Separation of Norwegian operation	—	-82
Reclassifications	0	-1
Closing balance	**10**	**11**
Provisions, closing balance	**12**	**12**

17. Fair value of portfolio hedge of interest rate risk

	2016	2015
Opening balance	117	184
Change in value of hedged item	-34	-67
Closing balance	**83**	**117**
Of which, Norwegian operation	—	—

The fair value of portfolio hedge of interest rate risk pertains to the change in value of the hedged asset. For Skandiabanken, this pertains to interest rate risk attributable to lending at fixed interest rates. For further information, see note 5, Net financial income, and note 38, Disclosures of derivative instruments.

18. Bonds and other fixed-income securities

Available-for-sale financial assets	**2016**	**2015**
Issued by public entities	—	580
Issued by other borrowers	4,162	5,673
Total	**4,162**	**6,253**
Of which, Norwegian operation	—	—

Issuers		
Swedish municipalities	—	580
Swedish credit institutions	2,466	4,058
Other Swedish issuers	—	50
Foreign credit institutions	1,696	1,565
Total	**4,162**	**6,253**

Remaining maturity		
Maximum 1 year	775	2,072
Longer than 1 year but max 5 years	3,387	4,181
Total	**4,162**	**6,253**

Average remaining maturity, years	2.1	1.9
Average remaining fixed interest term, years	0.2	0.2
of which, listed securities	*3,962*	*5,227*
of which, unlisted securities	*200*	*1,026*
Pledged as security for the benefit of the Central Bank of Sweden	2,693	3,414

19. Shares and participations, etc.

Financial assets at fair value	**2016**	**2015**
Unlisted shares and participations	4	0
Total	**4**	**0**

The holding is classified as held for trading.

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

Total	**14**	**10**
Of which, Norwegian operation	—	—

20. Intangible assets

Other intangible assets	2016				2015			
Cost	**Proprietary IT systems**	**Acquired IT systems**	**Other intangible assets**	**Total**	**Proprietary IT systems**	**Acquired IT systems**	**Other intangible assets**	**Total**
Opening cost	434	—	5	439	326	39	39	404
Exchange rate differences	—	—	—	—	—	-2	-2	-4
Reclassification	—	—	—	—	—	—	—	—
Separation of Norwegian operation	—	—	—	—	—	-37	-32	-69
Acquisitions during the year	—	—	—	—	107	—	—	107
Closing cost	**434**	—	**5**	**439**	**433**	**—**	**5**	**438**
Accumulated amortisation and impairment								
Opening accumulated amortisation	-278	—	-1	-279	—	-39	-34	-73
Exchange rate differences	—	—	—	0	—	2	2	4
Separation of Norwegian operation	—	—	—	0	—	37	32	69
Current year's amortisation	-17	—	-1	-18	-32	—	-1	-33
Current year's impairment[1]	—	—	—	—	-246	—	—	-246
Closing accumulated amortisation and impairment	**-295**	—	**-2**	**-297**	**-278**	**—**	**-1**	**-279**
Net carrying amount	**139**	—	**3**	**142**	**155**	**—**	**4**	**159**
Of which, Norwegian operation	—	—	—	—	—	—	—	—

[1] Pertains to partial impairment of banking platform.

Anticipated useful life is 5 years for acquired IT systems and 10 years for proprietary IT systems. With respect to “Other intangible assets”, which refers to infrastructural charges attributable to the Norwegian banking operation and assets in the form of customer agreements taken over by the Swedish operation, the estimated useful life is 5 years.

21. Property, plant and equipment

Cost	2016	2015
Opening cost	3	18
Exchange rate differences	—	-1
Acquisitions during the year	—	3
Separation of Norwegian operation	—	-13
Sales during the year[1]	-2	-4
Closing cost	**1**	**3**
Accumulated depreciation		
Opening accumulated depreciation	-1	-14
Exchange rate differences	—	1
Current year's depreciation	0	-2
Separation of Norwegian operation	—	10
Accumulated depreciation on current year's sales[1]	1	4
Closing accumulated depreciation	**0**	**-1**
Net carrying amount	**1**	**2**
Of which, Norwegian operation	—	—

[1] Including disposals.

22. Current and deferred tax assets

	2016	2015
Current tax assets	11	16
Deferred tax assets, net[1]	10	18
Total	**21**	**34**
Of which, Norwegian operation	—	—
[1] Deferred tax assets, net, with changes recognised in profit or loss, broken down by type of temporary difference		
Deferred tax liabilities attributable to financial instruments	1	0
Deferred tax assets attributable to pensions	11	11
Deferred tax assets attributable to provisions	3	2
Total	**15**	**13**
Deferred taxes, net, recognised in other comprehensive income, broken down by type of temporary difference		
Deferred tax liabilities attributable to unrealised gains/losses on available-for-sale financial assets	-5	5
Total	**-5**	**5**
Total	**10**	**18**
Of which, Norwegian operation	—	—

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

23. Other assets

	2016	2015
Securities settlement claims	134	193
Derivative instruments[1]	12	10
Trade receivables	9	8
Other[2]	35	475
Provision for probable loan losses	-1	-1
Total	**189**	**685**
Of which, Norwegian operation	—	—

[1] For further information about derivative instruments, see note 38.

[2] For 2015, including receivable from Skandia Mutual pertaining to group contribution.

24. Prepaid expenses and accrued income

	2016	2015
Accrued interest	16	12
Provision for loan losses, interest	0	0
Other accrued income	62	18
Prepaid expenses	3	4
Total	**81**	**34**
Of which, Norwegian operation	—	—

25. Due to credit institutions

Outstanding amounts broken down by counterparty, net book value	**2016**	**2015**
Swedish credit institutions	61	79
Foreign credit institutions	—	—
Total	**61**	**79**
Of which, Norwegian operation, after elimination	—	—

Outstanding amounts broken down by remaining maturity, net book value		
Payable on demand	61	79
Total	**61**	**79**
Average remaining maturity, years	0.0	0.0

26. Deposits and borrowing from the general public

Deposits broken down by remaining term, book value	**2016**	**2015**
Payable on demand	37,537	34,185
Maximum 3 months	108	1,101
Longer than 3 months but max 1 year	179	435
Longer than 1 year but max 5 years	184	190
Total	**38,008**	**35,911**
Of which, Norwegian operation	—	—
Average remaining maturity, years	0.0	0.0

No borrowing existed as per the balance sheet date.

27. Issued securities, etc.

	2016	2015
Commercial paper	1,390	2,040
Bond issues	3,202	3,052
Covered bonds	17,545	12,244
Total	**22,137**	**17,336**
Of which, Norwegian operation	—	—
Remaining maturity max 1 year	5,039	3,580
Remaining maturity longer than 1 year	17,098	13,756

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

Skandiabanken issues and repurchases own-issued debt instruments as part of the funding of its operations.

Following is an account of such activities during the period January-December:

Issued during the year	10,930	13,090
Repurchased	-1,550	-3,652
Matured	-4,620	-6,629
Separation of Norwegian operation	—	-12,640
Change in value of hedge instrument	-3	—
Change in amortised cost	44	—
Translation difference	—	-840
Change for the year	**4,801**	**-10,671**

28. Current tax liabilities

	2016	2015
Current tax liabilities	0	96
Total	**0**	**96**
Of which, Norwegian operation	*0*	*96*

29. Other liabilities

	2016	2015
Securities settlement liabilities	85	129
Derivative instruments[1]	97	126
Trade payables	21	13
Other[2]	269	82
Total	**472**	**350**
Of which, Norwegian operation	—	—

[1] For further information about derivative instruments, see note 38.
[2] For 2016, includes liability to Skandia AB related to group contribution of SEK 157 million.

30. Accrued expenses and deferred income

	2016	2015
Accrued interest	33	65
Accrued staff costs	32	28
Other accrued expenses	13	17
Deferred income	0	0
Total	**78**	**110**
Of which, Norwegian operation	*0*	—

31. Provisions for pensions

Pension plans incl. payroll tax:	2016	2015
Opening balance	**13**	**59**
Exchange rate differences	—	-4
Current year's provision	0	1
Amount utilised during the year	—	-1
Amount reversed during the year	-1	1
Revaluation of pension obligation[1]	—	1
Separation of Norwegian operation	—	-44
Closing balance	**12**	**13**
Of which, Norwegian operation	—	—

Defined benefit pension plans amounted to SEK 1 million (2), of which SEK 1 million (2) pertained to early retirement pension obligations. Payroll tax on defined benefit pension plans amounted to SEK 5 million (5), of which SEK 0 million (0) pertains to early retirement pensions. Payroll tax on defined contribution pension plans amounted to SEK 6 million (6). No part of this pertained to early retirement pensions.

[1] Pertains to the Norwegian pension plan.

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

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

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

32. Subordinated liabilities

	2016	2015
Perpetual subordinated loans[1]	900	900
Total	**900**	**900**
Of which, Norwegian operation	—	—

2016

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

2015

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

The interest due date is quarterly.

OTHER DISCLOSURES

33. Disclosures of income broken down by geographic area

	Sweden		Norway		Translation difference, equity[1]		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Interest income	763	709	0	1,543	—	—	763	2,252
Fee and commission income	248	238	—	213	—	—	248	451
Net financial items	2	-3	—	-11	—	-107	2	-121
Other operating income	119	62	—	0	—	—	119	62
Total	**1,132**	**1,006**	**0**	**1,745**	**—**	**-107**	**1,132**	**2,644**

[1] Comparison figures for 2015 have been adjusted due to a changed accounting policy for translation differences. See note 1.

34. Pledged assets, contingent liabilities and commitments

Assets pledged and therewith comparable collateral pledged for own liabilities	**2016**	**2015**
Assets pledged for covered bonds – home mortgages[1]	22,504	16,815
Total	**22,504**	**16,815**
Of which, Norwegian operation	—	—

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

Other pledged assets and comparable collateral	**2016**	**2015**
Bonds pledged with the Central Bank of Sweden[1]	2,693	3,414
Cash[2]	153	200
Endowment insurance policies pledged as security for pension obligations[3]	47	47
Total	**2,893**	**3,661**
Of which, Norwegian operation	—	—

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

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

[2] Cash is pledged as security to SEB for Skandiabanken's undertakings on the stock exchange, i.e., exchanges of equities for liquid assets. In the event Skandiabanken should fail to meet its obligations on the stock exchange, EMCF, which is a Central Clearing Party, will exercise a margin call from SEB for Skandiabanken's cash as per the above. Cash is pledged as security to Danske bank, Swedbank and Nordea Bank Finland Plc for Skandiabanken's interest rate swaps.

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

Commitments	**2016**	**2015**
Unutilised part of granted overdraft facilities	1,905	1,934
Granted but not paid-out credits	15,219	12,124
Total	**17,124**	**14,058**
Of which, Norwegian operation	—	—

All commitments are stated in nominal amounts.

35. Complaints and disputes

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

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

36. Information on capital adequacy

Common Equity Tier 1 capital: Instruments and reserves	2016	2015
Equity instruments and accompanying share premium reserves	400	400
Undistributed earnings	3,172	3,333
Accumulated other comprehensive income	34	-129
Net profit for the year after deducting foreseeable costs and dividends that have been verified by persons with an impartial position	0	-32
Common Equity Tier 1 capital before regulatory adjustments	**3,606**	**3,572**
Additional value adjustments	-7	-12
Intangible assets	-142	-159
Deferred tax assets arising as a result of temporary differences	-10	-18
Losses for current year	-10	—
Total regulatory adjustments of Common Equity Tier 1 capital	**-169**	**-189**
Common Equity Tier 1 capital[1]	**3,437**	**3,383**
Tier 1 capital contribution: instruments	**—**	**—**
Tier 1 capital[2]	**3,437**	**3,383**
Tier 2 capital: instruments and provisions		
Equity instruments and accompanying share premium reserves	900	900
Tier 2 capital before regulatory adjustments	**900**	**900**
Total regulatory adjustments of Tier 2 capital	**—**	**—**
Tier 2 capital[3]	**900**	**900**
Total capital	**4,337**	**4,283**
Total risk-weighted exposure[4]	**22,942**	**19,987**

Capital ratios and buffers	2016	2015
Common Equity Tier 1 capital[5]	15.0%	16.9%
Tier 1 capital[6]	15.0%	16.9%
Total capital[7]	18.9%	21.4%
Institution-specific buffer requirement (Common Equity Tier 1 capital requirement according to Pillar I and buffer requirement) as a percentage of risk-weighted exposure[8]	8.5%	8.0%
Of which: capital conservation buffer requirement	*2.5%*	*2.5%*
Of which: countercyclical buffer requirement	*1.5%*	*1.0%*
Available Common Equity Tier 1 capital to be used as buffer, as a percentage of risk-weighted exposure[9]	9.0%	10.9%

Amounts below threshold value		
Direct holdings of equity in units in the financial sector in which the institution does not have any material investment	10	10

Risk-weighted exposure		
Credit risk	21,491	18,633
Settlement risk	0	0
Currency risk	20	24
CVA risk	13	17
Operational risk	1,418	1,313
Total risk-weighted exposure	**22,942**	**19,987**

Capital base requirement[10]		
Credit risk	1,719	1,491
Settlement risk	0	0
Currency risk	2	2
CVA risk	1	1
Operational risk	113	105
Total minimum capital base requirement	**1,835**	**1,599**
Leverage ratio[11]	**5.1%**	**5.5%**

Cont. note 36. Information on capital adequacy

Specification of capital base requirement for credit risks

31 December		2016		2015	
Exposure classes		**Risk-weighted exposure**	**Capital base require-ment[10]**	**Risk-weighted exposure**	**Capital base require-ment[10]**
1	Exposures to governments and central banks	0	0	0	0
2	Exposures to regional governments or local authorities	0	0	0	0
3	Exposures to public sector entities	—	—	—	—
4	Exposures to multilateral development banks	—	—	—	—
5	Exposures to international organisations	—	—	—	—
6	Exposure to institutions	152	12	282	23
	of which, counterparty risk	*16*	*1*	*13*	*1*
7	Exposure to corporates	151	12	597	48
	of which, counterparty risk	*0*	*0*	*0*	*0*
8	Retail exposures	535	43	534	43
9	Exposures secured by mortgages on immovable property	20,040	1,603	16,443	1,315
	of which, residential properties	*20,040*	*1,603*	*16,443*	*1,315*
	of which, commercial properties	—	—	—	—
10	Exposures in default	50	4	48	4
11	Exposures associated with particularly high risk	—	—	—	—
12	Exposures in the form of covered bonds	396	32	528	42
13	Securitisation positions	—	—	—	—
14	Exposure to institutions and corporates with short-term credit ratings	—	—	—	—
15	Exposures in the form of collective investment undertakings (CIUs)	49	4	49	4
16	Equity exposures	10	1	10	1
17	Other items	108	8	142	11
	Total	**21,491**	**1,719**	**18,633**	**1,491**
	Of which, Norwegian operation	—	—	—	—

Definitions and concepts

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

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

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

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

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

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

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

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

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

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

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

Cont. note 36. Information on capital adequacy

Table of the most important parts of equity instruments

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

n.a. – Not applicable.

Cont. note 36. Information on capital adequacy

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

Disclosures in this note are provided in accordance with the Capital Requirements Regulation and regulations that supplement the Capital Requirements Regulation, the Financial Supervisory Authority's regulations and general guidelines regarding annual reports of credit institutions and securities firms (FFFS 2008:25), and the Financial Supervisory Authority's regulations on regulatory requirements and capital buffers. Detailed information about these rules and regulations is provided in a separate Pillar III report, which is published on 24 March 2017, see www.skandia.se, Om oss, Om Skandia, Finansiell information, Skandias bank, Information om kapitaltäckning & riskhantering, 2016, 1612 Årlig information - kapitaltäckning och riskhantering.

Skandiabanken applies the standardised approach in calculating the capital base requirement for credit risk, which entails that 17 exposure classes are used along with a number of different risk weights within each class. Credit risk is calculated for all asset items on and off the balance sheet that are not deducted from the capital base. The capital base requirement for currency risks comprises all balance sheet items and off balance sheet items stated at current market value and recalculated to Swedish kronor using the exchange rate in effect on the balance sheet date. The capital base requirement for CVA risk is calculated using the standardised approach and pertains to positions in OTC derivatives. The capital base requirement for operational risk is calculated using the basic indicator approach, which entails a capital base requirement equal to 15% of average operating income for the three most recent financial years. The capital base requirement for market risks in the trading account is calculated in accordance with the rules for credit risk. The combined buffer requirement is 4% of the risk-weighted exposure and consists of a capital conservation buffer of 2.5% and a countercyclical buffer of 1.5%.

The Bank's internally assessed capital requirement as per 31 December 2016 is SEK 556 million, which is calculated with the support of Economic Capital models (EC models). The internally assessed capital requirement cannot be compared with the capital requirement that is published quarterly by the Financial Supervisory Authority.

The Bank's leverage ratio is 5.1%. The leverage ratio is a non-risk-weighted exposure measure of Tier 1 capital in relation to total assets.

The year's surplus as per 31 December 2016 in not included in the capital base, since Skandiabanken has not applied for permission to include its surplus for the year prior to an AGM resolution. In accordance with Regulation (EU) 183/2014, a deduction has been made from the Common Equity Tier 1 capital corresponding to the year's credit risk adjustments. The deduction amounts to SEK 10 million.

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

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

The Financial Supervisory Authority oversees and evaluates the Bank's risk management to ensure that sufficient capital is retained for the significant risks that Skandiabanken is exposed to. For disclosures on risk management goals and guidelines, see note 37, Risks and risk management – financial instruments and other risks.

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

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

37.2 Internal governance and control

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

The Board's Risk and Audit Committee
The Board's Risk and Audit Committee is tasked with reviewing – on behalf of the Board – management's recommendations regarding risk management and risk control, particularly with respect to the structure and implementation of Skandiabanken's risk framework, the quality and effectiveness of internal control, risk appetite limits, risk profiles and the capital planning process, as well as the result of the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP). The committee is also tasked with assisting the Board in fulfilling its responsibility to continuously assess Skandiabanken's financial situation and ensure that the company's organisation is structured in such a way that the bookkeeping, treasury management and the company's financial conditions in general are controlled in a secure manner. The committee is to decide on such matters that the Board has delegated to the committee.

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

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

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

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

The Credit Committee consists of the Head of Credits, the CEO, the CFO, the Chief Operating Officer (COO), and the Head of Front Office. The committee is to hold at least four meetings a year.

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

Compliance function
The Compliance function is responsible for identifying, assessing, controlling and reporting risks for sanctions, significant financial losses or harm to the Bank's reputation as a result of defective compliance pertaining to operations subject to permits and licences (compliance risks). The function is also responsible for providing advice and support on compliance issues.

Since November 2016 the Compliance function operates within Skandiabanken after having been delegated to Skandia Mutual under an outsourcing agreement. The function includes a Chief Compliance Officer (CCO), who reports on the status of Skandiabanken's compliance to the Bank's CEO and board of directors.

Cont. note 37. Risks and risk management – financial instruments and other risks

Internal Audit

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

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

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

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

Internal control

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

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

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

Business responsibility – first line of defence

The operational business units make up the first line of defence, entailing that the business units themselves are responsible for governance of the operations and control of the risks that exist therein. In other words, the operating business units have full responsibility for business control and the risks that arise in their own operations.

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

Skandiabanken's functions in the second line of defence

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

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

Skandiabanken's functions in the third line of defence

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

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

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

37.4 Credit risk and credit quality

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

Governance of credit risk

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

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

Cont. note 37. Risks and risk management – financial instruments and other risks

Managing and measuring credit risk

Management of credit risk depends on whether the credit risk stems from lending to the general public in the form of retail exposures or from other exposures, mainly investments of liquidity.

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

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

Skandiabanken's management of credit risks for retail exposures is designed to reduce loan losses, and the objective is that loan receivables will consist – as far as possible – of a large number of credits with low risk and a wide diversification of risk. Table 1, "Credit risk exposure, gross and net", shows the low level of credit risk for lending to the general public. Excluding loans to the Swedish National Debt Office, the credit exposure amounted to SEK 56 billion (46) before taking market-valued collateral into account and to SEK 1 billion (1) after taking collateral into account. The credit quality of financial assets that have neither fallen due for payment nor need to be written down is considered to be good, and loan losses remain low.

Skandiabanken holds surplus liquidity, which is invested in short-term lending and fixed-income securities with counterparties consisting of governments, municipalities, institutions and companies. In addition, Skandiabanken has exposures to derivative counterparties. Credit risk is managed by assessing the exposures based on an evaluation of the counterparty's ability to repay, financial situation, and the value of any collateral pledged. In contrast to retail exposures, assessment of the creditworthiness of counterparties is always done through a manual routine. The Board of Directors has delegated these assessments to the Asset & Liability Committee (ALCO). Holdings of fixed-income securities constitute Skandiabanken's liquidity buffer. For further information, see below under point 37.6, 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 business environment. Skandiabanken monitors concentrations from various perspectives, such as geographic distribution per country and within each country, and large exposures to individual customers and entities, and groups of customers and entities that are related to each other. The breakdown of total credit risk exposure, including off-balance obligations carried at their nominal amount, amounted to 86% (79%) for mortgage loans for private individuals (primarily in major metropolitan areas), 5% (8%) for exposures to credit institutions (of which 90% (88%) pertained to covered bonds), 3% (4%) for other retail credits, 5% (7%) for government and municipal exposures, and 0% (0%) for exposures to corporates regarding investments. See the following table for credit risks.

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

When calculating counterparty risk for capital adequacy assessment purposes, the market valuation method is used – without taking netting into account – where an amount is added to the market value to reflect any potential change in future credit exposure during the term of the derivative in question. ISDA Master Agreements have been entered into with all derivative counterparties. All ISDA Master Agreements also have associated CSA Agreements that regulate the pledging of collateral to reduce counterparty risk. For further information about financial assets and liabilities that are offset or subject to netting agreements, see note 39. The total counterparty exposure amounted to SEK 49 million (38), of which SEK 12 million (10) consists of a positive market value and SEK 37 million (28) of potential future credit exposure. Disclosures of credit risks are provided in the following table on credit risks.

Table 1 – Credit exposure, gross and net

	2016			**2015**		
	Credit risk exposure after provisions	**Value of collateral**	**Credit risk exposure after deductions for collateral**	**Credit risk exposure after provisions**	**Value of collateral**	**Credit risk exposure after deductions for collateral**
Lending to the general public						
- Real estate	2	2	—	2	2	—
- Other	4	6	—	5	7	—
Corporates	**6**	**8**	**—**	**7**	**9**	**—**
- Houses and vacation homes	32,109	87,389	71	27,817	76,431	37
- Tenant-owner apartments	23,374	50,523	2	17,659	41,060	2
- Other real estate	54	142	—	62	195	—
- Other	765	121	645	771	132	640
Private individuals	**56,302**	**138,175**	**718**	**46,309**	**117,818**	**679**
Public sector						
Swedish National Debt Office	425	—	425	292	—	292
Public sector	**425**	**—**	**425**	**292**	**—**	**292**
Total lending to the general public	**56,733**	**138,183**	**1,143**	**46,608**	**117,827**	**971**
Of which, Norwegian operation	—	—	—	—	—	—

Cont. note 37. Risks and risk management – financial instruments and other risks

	2016			2015		
	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral
Lending to credit institutions²						
- AAA	—	—	—	100	—	100
- AA	76	—	76	0	—	0
- A	149	—	149	306	—	306
- No rating	5	—	5	5	—	5
Institutions	**230**	**—**	**230**	**411**	**—**	**411**
Total lending to credit institutions¹ ²	**230**	**—**	**230**	**411**	**—**	**411**
Of which, Norwegian operation	—	—	—	*96*	—	*96*
Fixed-income securities³						
- AAA	750	—	750	1,827	—	1,827
- AA+	2,890	—	2,890	3,277	—	3,277
Governments and municipalities	**3,640**	**—**	**3,640**	**5,104**	**—**	**5,104**
- AAA	3,193	—	3,193	5,328	—	5,328
- AA	769	—	769	—	—	—
- BBB	200	—	200	295	—	295
Institutions	**4,162**	**—**	**4,162**	**5,623**	**—**	**5,623**
- AAA	—	—	—	—	—	—
- AA	—	—	—	50	—	50
Corporates	**0**	**0**	**0**	**50**	**0**	**50**
Total fixed-income securities¹ ³	**7,802**	**0**	**7,802**	**10,777**	**0**	**10,777**
Of which, Norwegian operation	—	—	—	—	—	—

	2016			2015		
	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral	Credit risk exposure after provisions	Value of collateral	Credit risk exposure after deductions for collateral
Derivatives						
-AAA - AA-	7	—	7	6	—	6
A+ till A-	5	—	5	4	—	4
Total derivatives, institutions¹	**12**	**—**	**12**	**10**	**—**	**10**
Total derivatives	**12**	**—**	**12**	**10**	**—**	**10**
Of which, Norwegian operation	—	—	—	—	—	—
Total on balance sheet	**64,777**	**138,183**	**9,187**	**57,806**	**117,827**	**12,169**
Of which, Norwegian operation	—	—	—	—	—	—
Derivatives, possible change in credit exposure	37	—	37	28	—	28
Unutilised part of granted overdraft facilities	1,905	—	1,905	1,934	—	1,934
Loans granted but not paid out	15,219	—	15,219	12,124	—	12,124
[JOE] Totalt utanför balansräkningen	**17,161**	—	**17,161**	**14,086**	—	**14,086**
Of which, Norwegian operation	—	—	—	—	—	—
Total	**81,938**	**138,183**	**26,348**	**71,892**	**117,827**	**26,255**
Of which, Norwegian operation	—	—	—	—	—	—

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

¹ Credit ratings from Standard and Poor's, Moody's and Fitch. Exposures are grouped in the table above according to the credit ratings of the respective securities. Where such are lacking, the counterparties' credit ratings are used, and in cases where the exposure is guaranteed, the credit rating of the party that issued the guarantee is used. A few exposures to institutions are guaranteed by governments and municipalities; these have been classified in the Governments and municipalities category of the party issuing the guarantee. If three credit ratings are available for an exposure or counterparty, the two best are chosen; if these differ, the lower of the two is chosen. If two credit ratings are available, the lower one is chosen.

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

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

Cont. note 37. Risks and risk management – financial instruments and other risks

Breakdown of collateral for lending to the general public

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

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

2016	Mortgage deeds[1]	Surety	Other collateral	Total value of collateral	Value of collateral for non-performing loans	Value of collateral for impaired loans[2]
- Real estate	2	—	—	2	—	—
- Other	—	—	6	6	—	—
Total corporates	**2**	**—**	**6**	**8**	**—**	**—**
- Houses and vacation homes	87,388	—	1	87,389	930	1
- Tenant-owner apartments	—	—	50,523	50,523	827	—
- Other real estate	142	—	—	142	—	—
- Other	12	34	75	121	12	2
Total, private individuals	**87,542**	**34**	**50,599**	**138,175**	**1,769**	**3**
Total collateral	**87,544**	**34**	**50,605**	**138,183**	**1,769**	**3**
Of which, Norwegian operation	—	—	—	—	—	—
2015						
- Real estate	2	—	—	2	—	—
- Other	—	—	7	7	—	—
Total corporates	**2**	**—**	**7**	**9**	**—**	**—**
- Houses and vacation homes	76,430	—	1	76,431	787	1
- Tenant-owner apartments	—	—	41,060	41,060	535	—
- Other real estate	195	—	—	195	—	—
- Other	12	45	75	132	9	—
Total, private individuals	**76,637**	**45**	**41,136**	**117,818**	**1,331**	**1**
Total collateral	**76,639**	**45**	**41,143**	**117,827**	**1,331**	**1**
Of which, Norwegian operation	—	—	—	—	—	—

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

[2] Values for 2015 have been adjusted.

Credit quality

Information about credit quality is provided with a breakdown into lending to the general public and other exposures.

Lending to the general public amounted to SEK 56 billion (46), excluding loans to the Swedish National Debt Office. For home mortgage loans, totalling SEK 55 billion (45), Skandiabanken uses a risk classification system to show the credit quality.

The risk classification system consists of a number of systems, process and methods that are used to quantify credit risk. For retail exposures, estimations are made of the probability of default (PD), loss given default (LGD) and exposure at default (EAD). This classification is based on statistical models, and to estimate PD it takes such factors into account as payment history, the number of co-signers, and funds held in deposit. On the basis of the models' outcome, non-defaulted exposures are designated into one of nine risk classes, where risk class 1 constitutes the lowest risk and risk class 9 the highest risk. Defaulted credits are designated a special risk class for defaulted credits. LGD is based mainly on the loan-to-value ratio, i.e., the value of the collateral in relation to the loan's amount.

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

	2016		2015	
Risk class	**Total**	**Share**	**Total**	**Share**
1	13,652	0.25	11,411	0.25
2	17,314	0.31	14,231	0.31
3	14,568	0.27	11,875	0.26
4	4,116	0.08	3,338	0.08
5	2,745	0.05	2,268	0.05
6	1,289	0.02	1,037	0.02
7	1,301	0.02	911	0.02
8	218	0.00	204	0.01
9	232	0.00	155	0.00
Default	43	0.00	41	0.00
Total	**55,478**	**1.00**	**45,471**	**1.00**
Of which, Norwegian operation	—	—	—	—

In February 2015 Skandiabanken further developed its risk class scale from seven to nine risk classes, excluding default.

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

Non-performing loans and impaired loans

The level of loan losses, i.e., loan losses in relation to total lending to the general public, was 0.02% (0.03%). Impaired loans, net, i.e., impaired loans after deducting provisions for probable loan losses, amounted to 0.02% (0.05%) of lending. Non-performing loans for which full collateral exists are presented and grouped according to maturity in the following table. For a more

Cont. note 37. Risks and risk management – financial instruments and other risks

detailed description of non-performing loans and impaired loans, see note 1, Accounting policies. Disclosures of lending and provisions are provided in note 16, Lending to the general public.

Table 4 – Non-performing loans

31 December 2016	30 days or less	>30 days <60 days	>60 days <90 days	>90 days <180 days	>180 days <360 days	>360 days	Total
Private individuals							
- Houses and vacation homes[1]	799	114	6	5	0	0	924
- Tenant-owner apartments[1]	727	75	5	7	6	1	821
- Other	6	6	—	—	—	—	12
Private individuals	**1,532**	**195**	**11**	**12**	**6**	**1**	**1,757**
Total lending to the general public	**1,532**	**195**	**11**	**12**	**6**	**1**	**1,757**
Of which, Norwegian operation	—	—	—	—	—	—	—
31 December 2015							
Private individuals							
- Houses and vacation homes[1]	719	49	7	9	—	2	786
- Tenant-owner apartments[1]	492	41	2	—	1	—	536
- Other	7	2	—	—	—	—	9
Private individuals	**1,218**	**92**	**9**	**9**	**1**	**2**	**1,331**
Total lending to the general public	**1,218**	**92**	**9**	**9**	**1**	**2**	**1,331**
Of which, Norwegian operation	—	—	—	—	—	—	—

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

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

Table 5 – Impaired loans

	Impaired loans before provisions		Provisions	
	2016	**2015**	**2016**	**2015**
Private individuals				
- Houses and vacation homes	13	21	3	2
- Tenant-owner apartments	—	—	1	0
- Other	10	12	8	10
Private individuals	**23**	**33**	**12**	**12**
Lending to the general public	**23**	**33**	**12**	**12**
Of which, Norwegian operation	—	—	—	—

Concessions

Loan receivables that have been granted concessions during the past two years amounted to 0.26% (0.23%) of lending to the general public. The definition of concessions corresponds to Regulation (EU) No 680/2014 laying down technical standards with regard to supervisory reporting of institutions according to the Capital Requirements Regulation. Accumulated provisions for loan receivables that have been granted a concession amounted to SEK 6 million (3) as per December 2016.

Utilisation of collateral

Skandiabanken has not utilised any collateral obtained that meets the criteria to be reported as an asset on the balance sheet as per 31 December 2016 and 31 December 2015.

37.5 Market risk

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

37.5.1 Interest rate risk

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

Governance of interest rate risk

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

Cont. note 37. Risks and risk management – financial instruments and other risks

Management and measurement of interest rate risk

Skandiabanken has the objective that the income statement should reflect the actual banking activities as far as possible and be affected only to a limited extent by external factors, such as temporary fluctuations in market interest rates, and as a main principle hedges lending and borrowing at fixed interest rates with interest rate swaps and matching of borrowing and lending. Most assets on Skandiabanken's balance sheet, after risk coverage, are therefore short-term. The table below shows interest-bearing assets, liabilities and derivatives on the balance sheet.

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

31 December 2016 **Assets**	**0-1 month**	**1-3 mos**	**3-6 mos**	**6-12 mos**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**5-7 yrs**	**Non-interest**	**Total**
Interest-bearing assets											
Cash	15	—	—	—	—	—	—	—	—	—	15
Eligible treasury bills	169	3,471	—	—	—	—	—	—	—	—	3,640
Lending to credit institutions	230	—	—	—	—	—	—	—	—	—	230
Lending to the general public	16,908	31,970	567	1,320	3,297	1,426	763	482	—	—	56,733
Bonds and other fixed-income securities	552	3,610	—	—	—	—	—	—	—	—	4,162
Total interest-bearing assets	**17,874**	**39,051**	**567**	**1,320**	**3,297**	**1,426**	**763**	**482**	**—**	**—**	**64,780**
Non interest-bearing assets	—	—	—	—	—	—	—	—	—	531	531
Total assets	**17,874**	**39,051**	**567**	**1,320**	**3,297**	**1,426**	**763**	**482**	**—**	**531**	**65,311**
Of which, Norwegian operation	—	—	—	—	—	—	—	—	—	—	—
Interest-bearing liabilities											
Deposits and borrowing from the general public	37,562	62	70	109	91	55	18	21	—	—	37,988
Issued securities, etc.	7,735	13,401	200	—	500	—	—	300	—	—	22,136
Subordinated liabilities	—	900	—	—	—	—	—	—	—	—	900
Total interest-bearing liabilities	**45,297**	**14,363**	**270**	**109**	**591**	**55**	**18**	**321**	**—**	**—**	**61,024**
Non interest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	4,287	4,287
Total liabilities and equity	**45,297**	**14,363**	**270**	**109**	**591**	**55**	**18**	**321**	**—**	**4,287**	**65,311**
Of which, Norwegian operation	—	—	—	—	—	—	—	—	—	—	—
Interest rate swaps											
Long positions	2,180	6,535	—	—	500	—	—	300	—	—	9,515
Short positions	70	1,330	475	980	3,690	1,480	960	530	—	—	9,515
Difference, assets and liabilities	**-25,313**	**29,893**	**-178**	**231**	**-484**	**-109**	**-215**	**-69**	**—**	**-3,756**	**—**
Of which, Norwegian operation	—	—	—	—	—	—	—	—	—	—	—

Cont. note 37. Risks and risk management – financial instruments and other risks

31 December 2015

Assets	0-1 month	1-3 mos	3-6 mos	6-12 mos	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-7 yrs	Non-interest	Total
Interest-bearing assets											
Cash	21	—	—	—	—	—	—	—	—	—	21
Eligible treasury bills	611	3,913	—	—	—	—	—	—	—	—	4,524
Lending to credit institutions	411	—	—	—	—	—	—	—	—	—	411
Lending to the general public	14,123	24,794	818	1,554	1,383	2,971	189	776	—	—	46,608
Bonds and other fixed-income securities	1,633	4,620	—	—	—	—	—	—	—	—	6,253
Total interest-bearing assets	**16,799**	**33,327**	**818**	**1,554**	**1,383**	**2,971**	**189**	**776**	**—**	**—**	**57,817**
Non interest-bearing assets	—	—	—	—	—	—	—	—	—	1,041	1,041
Total assets	**16,799**	**33,327**	**818**	**1,554**	**1,383**	**2,971**	**189**	**776**	**—**	**1,041**	**58,858**
Of which, Norwegian operation	*96*	—	—	—	—	—	—	—	—	—	*96*
Interest-bearing liabilities											
Deposits and borrowing from the general public	34,537	727	278	158	90	47	37	15	—	—	35,889
Issued securities, etc.	6,112	9,731	640	350	—	503	—	—	—	—	17,336
Subordinated liabilities	—	900	—	—	—	—	—	—	—	—	900
Total interest-bearing liabilities	**40,649**	**11,358**	**918**	**508**	**90**	**550**	**37**	**15**	**—**	**—**	**54,125**
Non interest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	4,733	4,733
Total liabilities and equity	**40,649**	**11,358**	**918**	**508**	**90**	**550**	**37**	**15**	**—**	**4,733**	**58,858**
Of which, Norwegian operation	—	—	—	—	—	—	—	—	—	*96*	*96*
Interest rate swaps											
Long positions	2,490	6,270	—	—	—	500	—	—	—	—	9,260
Short positions	10	1,965	100	2,000	1,355	2,790	280	760	—	—	9,260
Difference, assets and liabilities	**-21,370**	**26,274**	**-200**	**-954**	**-62**	**131**	**-128**	**1**	**—**	**-3,692**	**—**
Of which, Norwegian operation	*96*	—	—	—	—	—	—	—	—	*-96*	—

Cont. note 37. Risks and risk management – financial instruments and other risks

Skandiabanken's risk policy quantifies interest rate risk as the effect of a parallel shift in the interest rate curve caused by a 2 percentage point increase. As per 31 December 2016 such a parallel shift would have resulted in a theoretical revaluation of the balance sheet by SEK 96 million (106), net, in negative earnings effect.

In addition, Skandiabanken quantifies interest rate risk using a complementary model that is based on a confidence-based combined scenario that results in a dramatic change in the level, slope and shape of the interest-rate curve. As per 31 December 2016 the outcome of this model is a negative earnings effect of SEK 135 million (110).

Sensitivity analysis of net interest income

Interest rate risk is estimated also as an effect on net interest income over a 12-month period of a one percentage point increase in the interest rate curve. The calculation is based on a static balance sheet and estimates the effect for all assets and liabilities that have an interest rate reset with 12 months. Deposit accounts without set terms are assumed to have 0% elasticity to market interest rates as long as the repo rate is negative, thereafter 100% elasticity. As per 31 December 2016, an increase in the interest rate by one percentage point is estimated to result in an increase in net interest income by SEK 185 million (120). The comparison figure for the preceding year has been changed, as deposits were assumed to be fully affected by an interest rate increase as per the reporting date.

37.5.2 Currency risk

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

Governance of currency risk

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

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

Management and measurement of currency risk

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

Currency risk is calculated for all exposures in foreign currencies pertaining to assets, liabilities and off-balance sheet obligations. The positions are measured at current market value and are translated to SEK at the exchange rate in effect on the balance sheet date. Currency risk is calculated as a possible change in exchange rates by 5% applied to the net exposure in foreign currencies. Currency risk as per 31 December 2016 was SEK 1 million (1).

Table 7 – Assets and liabilities distributed among important currencies

	2016					2015				
Assets	**SEK**	**NOK**	**EUR**	**Other curren-cies**	**Total**	**SEK**	**NOK**	**EUR**	**Other curren-cies**	**Total**
Cash and cash balances with central banks		—	15	—	15	6	—	15	—	21
Eligible treasury bills, etc.	3,640	—	—	—	3,640	4,524	—	—	—	4,524
Lending to credit institutions	195	0	35	0	230	276	96	39	0	411
Lending to the general public	56,733	—	—	—	56,733	46,608	—	—	—	46,608
Fair value of portfolio hedge of interest rate risk	83	—	—	—	83	117	—	—	—	117
Bonds and other fixed-income securities	4,162	—	—	—	4,162	6,253	—	—	—	6,253
Other assets	433	0	5	10	448	915	1	2	6	924
Total assets	**65,246**	**0**	**55**	**10**	**65,311**	**58,699**	**97**	**56**	**6**	**58,858**
Of which, Norwegian operation	—	—	—	—	—	—	*96*	—	—	*96*
Liabilities and equity										
Liabilities to credit institutions	61	—	—	—	61	79	—	—	—	79
Deposits and borrowing from the general public	37,978	—	30	—	38,008	35,880	—	31	—	35,911
Issued securities	22,137	—	—	—	22,137	17,336	—	—	—	17,336
Other liabilities including equity	4,197	0	2	6	4,205	4,531	96	2	3	4,632
Subordinated liabilities	900	—	—	—	900	900	—	—	—	900
Total liabilities and equity	**65,273**	**0**	**32**	**6**	**65,311**	**58,726**	**96**	**33**	**3**	**58,858**
Of which, Norwegian operation	—	—	—	—	—	—	*96*	—	—	*96*

Cont. note 37. Risks and risk management – financial instruments and other risks

37.6 Liquidity risk

The definition of liquidity risk is broken down into refinancing risk and market liquidity risk. Refinancing risk is the risk of not being able to meet payment obligations on the due date without a substantially elevated cost of obtaining means of payment. Market liquidity risk pertains to the risk of not being able to realise positions at anticipated market prices in cases where the market is not sufficiently liquid or is not effective due to disruptions.

Governance of liquidity risk

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

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

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

Management of liquidity risk

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

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

Short-term liquidity is managed in the interbank market through continuous monitoring of known, future inflows and outflows combined with a forecast of anticipated flows based on an analysis of customer behaviours. The ensure that Skandiabanken is not overly dependent on short-term funding, Treasury operates within limits for the maximum daily borrowing need. To ensure that Skandiabanken is not overly dependent on a few deposit customers, Treasury works within limits set by the Board of Directors for deposit concentration. Concentration is measured in terms of deposits from individual customers and deposits from the ten largest customers.

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

Liquidity buffer

To ensure preparedness in situations in which Skandiabanken is in an urgent need of liquidity, Skandiabanken maintains a liquidity buffer. The liquidity buffer consists of available funds that are at Treasury's disposal and that are acceptable as collateral by the Central Bank of Sweden. This ensures that Skandiabanken is able to convert assets to cash at short notice. As per 31 December 2016 the liquidity buffer amounted to SEK 8.0 billion (9.8), which corresponded to 98% (89%) of Skandiabanken's total liquidity.

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

Total liquidity amounted to SEK 8.2 billion (11.1) at year-end. Securities making up total liquidity, apart from balances with and lending to central banks and governments of SEK 0.4 billion, consist of covered bonds, bonds and commercial paper, and have good credit quality. Of the securities holdings, 51% (59%) were rated AAA, 47% (35%) were rated AA, 3% (3%) were rated BBB, and 0% (3%) had no external long-term credit rating. Exposures without long-term credit ratings consist exclusively of Swedish municipalities. The credit ratings are based on ratings published by Standard & Poor's, Moody's and Fitch.

Measurement of liquidity risk

In addition to monitoring liquidity risk on an intraday basis, it is also measured from short-term and long-term perspectives. Treasury daily measures the liquidity buffer's capacity to meet the need for liquidity in a stressed scenario during the next 30 days using the standard regulatory metric liquidity coverage ratio (LCR). The LCR defined in accordance with FFFS 2012:6 was 163% (233%) as per 31 December 2016, while the LCR measured in accordance with Commission Delegated Regulation (EU) No 2015/61 was 127% (152%) as per 31 December.

Skandiabanken's long-term/structural liquidity risk is measured and managed on a monthly basis via various metrics. Treasury measures the accumulated funding gap over a one-year horizon, which is calculated as the difference between maturing assets and liabilities, and off-balance sheet items, and is to be based on contractual maturities where applicable, and in other cases anticipated maturities. The measure highlights the potential gap in the Bank's funding profile. As per 31 December the Bank had a liquidity surplus of SEK 5.9 billion (8.3) on a one-year horizon, which corresponds to an accumulated net cash flow in excess of 18 months.

This measure is complemented by a standard regulatory metric for structural liquidity risk, the net stable funding ratio (NSFR), which measures a bank's capacity to match long-term illiquid lending with long-term borrowing. As per 31 December the Bank had an NSF ratio, defined in accordance with the Basel Committee's definition, of 1.26 (1.36), which indicates a funding profile that amply meets the long-term lending.

Stress tests

Stress tests are performed on a daily basis to ensure that the level of the liquidity buffer is sufficient to resist a stressed scenario. The stress test defines how long the liquidity buffer would last under exceptional company-specific as well as market-wide stress events, i.e., the number of days that Skandiabanken is expected to be able to cover a stressed outflow of liquidity based on its existing liquidity buffer. By company-specific stress events is meant assumptions for e.g., exceptionally large outflows of deposits and an increased degree of utilisation of granted but not utilised credit promises. By market-related stress events is meant disruptions in the capital markets that would affect the ability to obtain funding and increased demands to pledge security for the Bank's derivative exposures. The test covers both stressed contractual and stressed anticipated flows for items both on and off the balance sheet. As per 31 December Skandiabanken's survival horizon was 62 days (115).

Cont. note 37. Risks and risk management – financial instruments and other risks

Table 8 – Liquidity buffer[1]

	31 December 2016			31 December 2015		
	SEK	EUR	Total	SEK	EUR	Total
1 Cash and balances with and lending to central banks and governments	426	15	441	298	15	313
2 Lending to other banks, intraday loans	—	—	—	—	—	—
3 Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	—	—	—	300	—	300
4 Securities issued or guaranteed by municipalities or other public sector entities	3,640	—	3,640	4,223	—	4,223
5 Covered bonds issued by other banks or institutions	3,962	—	3,962	4,982	—	4,982
6 Covered bonds issued by own bank or related unit	—	—	—	—	—	—
7 Securities issued by non-financial corporates	—	—	—	—	—	—
8 Securities issued by financial corporates, excl. covered bonds	—	—	—	—	—	—
9 All other securities	—	—	—	—	—	—
Total liquidity buffer	**8,028**	**15**	**8,043**	**9,803**	**15**	**9,818**
Of which, Norwegian operation	—	—	—	—	—	—

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

Table 9 – Contracted non-discounted cash flows

	2016					
	Payable upon demand	Remaining maturity <3 mos	Remaining maturity >3 mos but <1 yr	Remaining maturity >1 year but >5 yrs	Remaining maturity >5 yrs	Total
Financial assets						
Eligible treasury bills, etc.	—	3,625	—	—	—	3,625
Lending to credit institutions	240	5	—	—	—	245
Lending to the general public	—	46,391	2,099	6,360	2,388	57,238
Bonds and other fixed-income securities	—	4,143	—	—	—	4,143
Total	**240**	**54,164**	**2,099**	**6,360**	**2,388**	**65,251**
Of which, Norwegian operation	—	—	—	—	—	—
Financial liabilities						
Due to credit institutions	—	61	—	—	—	61
Deposits and borrowing from the general public	37,537	132	180	190	—	38,039
Issued securities, etc.	—	21,046	202	807	—	22,055
Other liabilities	—	465	—	—	—	465
Subordinated loans	—	901	—	—	—	901
Total	**37,537**	**22,605**	**382**	**997**	—	**61,521**
Of which, Norwegian operation	—	*96*	—	—	—	*96*
Derivative instruments						
Cash inflow	—	3,336	12,029	18,478	—	33,843
Cash outflow	—	21,595	38,810	47,824	—	108,229
Net	—	**-18,259**	**-38,810**	**-29,346**	**—**	**-74,386**
Of which, Norwegian operation	—	—	—	—	—	—
Unutilised part of granted overdraft facilities	1,905	—	—	—	—	1,905
Granted but not utilised credits	15,219	—	—	—	—	15,219
Total off-balance items	**17,124**	**—**	**—**	**—**	**—**	**17,124**
Of which, Norwegian operation	—	—	—	—	—	—

Cont. note 37. Risks and risk management – financial instruments and other risks

2015	Payable upon demand	Remaining maturity <3 mos	Remaining maturity >3 mos but <1 yr	Remaining maturity >1 year but >5 yrs	Remaining maturity >5 yrs	Total
Financial assets						
Eligible treasury bills, etc.	—	4,400	77	—	—	4,477
Lending to credit institutions	426	5	—	—	—	431
Lending to the general public	—	36,520	2,583	5,772	2,500	47,375
Bonds and other fixed-income securities	—	5,282	1,025	—	—	6,307
Total	**426**	**46,207**	**3,685**	**5,772**	**2,500**	**58,590**
Of which, Norwegian operation	*96*	—	—	—	—	*96*
Financial liabilities						
Due to credit institutions	—	79	—	—	—	79
Deposits and borrowing from the general public	34,185	1,470	438	198	—	36,291
Issued securities, etc.	—	15,797	990	504	—	17,291
Other liabilities	—	443	—	—	—	443
Subordinated loans	—	902	—	—	—	902
Total	**34,185**	**18,691**	**1,428**	**702**	**—**	**55,006**
Of which, Norwegian operation	—	*96*	—	—	—	*96*
Derivative instruments						
Cash inflow	—	2,495	—	4,200	—	6,695
Cash outflow	—	20,981	69,972	93,611	—	184,564
Net	**—**	**-18,486**	**-69,972**	**-89,411**	**—**	**-177,869**
Of which, Norwegian operation	—	—	—	—	—	—
Unutilised part of granted overdraft facilities	1,934	—	—	—	—	1,934
Granted but not utilised credits	12,124	—	—	—	—	12,124
Total off-balance items	**14,058**	**—**	**—**	**—**	**—**	**14,058**
Of which, Norwegian operation	—	—	—	—	—	—

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

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

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

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

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

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

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

Cont. note 37. Risks and risk management – financial instruments and other risks

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

37.8 Business risk, reputation risk and strategic risk

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

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

Governance of business risk, reputation risk and strategic risk

Overall responsibility for Skandiabanken's business risk, reputation risk and strategic risk lies with the Board of Directors, while the CEO is responsible for continuing administration. All risk appetite limits and changes in policies are decided by the Board of Directors. All matters with a potentially negative impact on Skandiabanken's reputation are addressed by the Risk Control function and are reported to Skandiabanken's management and board as well as to the CRO of Skandia AB and the CRO of Skandia Mutual.

Managing and measuring business risk, reputation risk and strategic risk

Business risk and reputation risk

Business risk is managed by ensuring a diversification of revenues, stability of revenue generation, and cost control.

Measurement of business risk excludes changes attributable to loan losses as well as other risks, such as market risks and operational risks, which are covered by the assessments described in points 37.4-37.7. Skandiabanken includes reputation risk and strategic risk in business risk even though they cannot be specifically measured and isolated as individual risks. When measuring business risk, consideration is given to the historic trend in net interest income/expense, net fee and commission income, and general overheads, and thus previous effects of reputation risks are included in the outcome.

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

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

Strategic risk

Strategic risks arise in connection with situations involving decisions and major changes (internal or external), such as erroneous or bad business decisions that affect Skandiabanken in the long term.

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

37.9 Remuneration risk

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

Governance of remuneration risk

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

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

Management and measurement of remuneration risk

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

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

For all employees, except for the CEO, an allocation may be made to the Skandianen profit-sharing foundation in a maximum amount equivalent to 125% of half the Price Base Amount. The profit share is not available to employees until five years after the year in which it was awarded. For 2016 the maximum allocation can amount to SEK 27,700 per employee.

Before a decision is made on significant changes to the remuneration system, an analysis is performed of how the system affects the risks that Skandiabanken is exposed to and how these risks are managed. Skandiabanken's CRO has specific responsibility for this assessment. During the year, no significant changes were made in the remuneration system.

Cont. note 37. Risks and risk management – financial instruments and other risks

The risk analysis, which serves as the basis for Skandiabanken's remuneration policy, is to include a description of the structure and content of remuneration programmes for Skandiabanken's employees, how Skandiabanken's remuneration policy is to be applied, and an analysis of the process for identifying employees who can impact the company's risk profile.

The following parts of the remuneration system are key components of the risk analysis:
- Skandiabanken's remuneration committee, which is a permanent board committee tasked with conducting drafting work on benefits for Skandiabanken employees. Through this, the Board is considered able to make conscious, active decisions on remuneration matters.
- Except for Skandianen, all remuneration of Skandiabanken's employees is in the form of fixed salary.
- Clear processes for approval of salary adjustments, including the so-called four-eyes principle, entailing that approval must be obtained from the manager's manager.

37.10 Settlement risk

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

Management and measurement of settlement risk

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

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

Settlement risk for Skandiabanken is considered to be immaterial.

38. Disclosures of derivative instruments

Breakdown of derivative instruments by type of hedge relationship

	2016			2015		
Derivatives held for trading	**Assets at fair value**	**Liabilities at fair value**	**Nominal amount belopp**	**Assets at fair value**	**Liabilities at fair value**	**Nominal amount belopp**
Foreign exchange derivatives						
Swaps	—	0	9	0	—	4
Derivatives held for fair value hedges						
Interest rate derivatives						
Swaps	12	97	9,515	10	126	9,260
Total derivatives broken down by assets and liabilities						
Interest rate derivatives	12	97	9,515	10	126	9,260
Foreign exchange derivatives	0	0	9	0	0	4
Total	**12**	**97**	**9,524**	**10**	**126**	**9,264**

Skandiabanken Norway has not had derivatives on its balance sheet.

Interest rate swaps are held to hedge interest rate risks associated with lending to the general public at fixed interest rates. Of the Bank's lending, 85% (82%) is at variable interest rates that are adjusted to movements in market interest rates within three months. The remaining credits have interest rates that are fixed for set periods of up to 5 years. The Bank's funding is handled in all essential respects through deposits and borrowing at variable interest rates, however, some funding is also conducted through deposits and borrowing at fixed interest rates and through equity.

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

For disclosures on terms of interest rate derivatives, see table 6 in note 37, Interest rate fixing periods. Interest rate risk, net interest income risk and all foreign exchange derivatives have terms with maturity in three months.

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

	Financial assets and liabilities that are offset or subject to netting agreements							
				Related agreements				
2016	**Gross amount**	**Offset**	**Net amount on balance sheet**	**Master netting agreement**	**Collateral received/ pledged**	**Net amount**	**Assets and liabilities that are not subject to netting agreements**	**Total on balance sheet**
Derivatives	12	—	12	-12	—	0	—	12
Assets	**12**	**—**	**12**	**-12**	**—**	**0**	**—**	**12**
Derivatives	97	—	97	-12	-85	0	—	97
Liabilities	**97**	**—**	**97**	**-12**	**-85**	**0**	**—**	**97**
2015								
Derivatives	10	—	10	-10	—	0	—	10
Assets	**10**	**—**	**10**	**-10**	**—**	**0**	**—**	**10**
Derivatives	126	—	126	-10	-113	3	—	126
Liabilities	**126**	**—**	**126**	**-10**	**-113**	**3**	**—**	**126**

Skandiabanken Norway has not had derivatives on its balance sheet

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

40. Classification and measurement of financial assets and liabilities

a) Classification and measurement of financial assets and liabilities

31 December 2016 Assets	Measured at fair value through profit or loss, held for trading	Derivatives in hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Nonfinancial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	15	—	—	—	**15**	**15**
Eligible treasury bills, etc.	—	—	—	—	3,640	—	—	**3,640**	**3,640**
Lending to credit institutions	—	—	—	230	—	—	—	**230**	**230**
Lending to the general public	—	—	—	56,733	—	—	—	**56,733**	**56,797**
Fair value of portfolio hedge of interest rate risk	—	83	—	—	—	—	—	**83**	**83**
Bonds and other fixed-income securities	—	—	—	—	4,162	—	—	**4,162**	**4,162**
Shares and participations	4	—	—	—	10	—	—	**14**	**14**
Intangible assets	—	—	—	—	—	—	142	**142**	**142**
Property, plant and equipment	—	—	—	—	—	—	1	**1**	**1**
Current tax assets	—	—	—	—	—	—	11	**11**	**11**
Deferred tax liabilities	—	—	—	—	—	—	10	**10**	**10**
Other assets	—	12	—	177	—	—	0	**189**	**189**
Prepaid expenses and accrued income	—	—	—	79	—	—	2	**81**	**81**
Total assets	**4**	**95**	—	**57,234**	**7,812**	—	**166**	**65,311**	**65,375**
Of which, Norwegian operation	—	—	—	—	—	—	—	—	—
Liabilities									
Due to credit institutions	—	—	—	—	—	61	—	**61**	**61**
Deposits and borrowing from the general public	—	—	—	—	—	38,008	—	**38,008**	**38,008**
Issued securities, etc.	—	—	—	—	—	22,137	—	**22,137**	**22,749**
Current tax liabilities	—	—	—	—	—	—	0	**0**	**0**
Other liabilities	0	97	—	—	—	340	35	**472**	**472**
Accrued expenses and deferred income	—	—	—	—	—	78	—	**78**	**78**
Provisions for pensions	—	—	—	—	—	—	12	**12**	**12**
Subordinated liabilities	—	—	—	—	—	900	—	**900**	**900**
Total liabilities	**0**	**97**	**—**	**—**	**—**	**61,524**	**47**	**61,668**	**62,280**
Of which, Norwegian operation	—	—	—	—	—	—	—	—	—

Cont. note 40. Classification and measurement of financial assets and liabilities

31 December 2015 Assets	Measured at fair value through profit or loss, held for trading	Derivatives in hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Nonfinancial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	21	—	—	—	**21**	**21**
Eligible treasury bills, etc.	—	—	—	—	4,524	—	—	**4,524**	**4,524**
Lending to credit institutions	—	—	—	411	—	—	—	**411**	**411**
Lending to the general public	—	—	—	46,608	—	—	—	**46,608**	**46,704**
Fair value of portfolio hedge of interest rate risk	—	117	—	—	—	—	—	**117**	**117**
Bonds and other fixed-income securities	—	—	—	—	6,253	—	—	**6,253**	**6,253**
Shares and participations	0	—	—	—	10	—	—	**10**	**10**
Intangible assets	—	—	—	—	—	—	159	**159**	**159**
Property, plant and equipment	—	—	—	—	—	—	2	**2**	**2**
Current tax assets	—	—	—	—	—	—	16	**16**	**16**
Deferred tax liabilities	—	—	—	—	—	—	18	**18**	**18**
Other assets[1]	—	10	—	674	—	—	1	**685**	**685**
Prepaid expenses and accrued income[1]	—	—	—	30	—	—	4	**34**	**34**
Total assets	**0**	**127**	—	**47,744**	**10,787**	—	**200**	**58,858**	**58,954**
Of which, Norwegian operation	—	—	—	*96*	—	—	—	*96*	*96*
Liabilities									
Due to credit institutions	—	—	—	—	—	79	—	**79**	**79**
Deposits and borrowing from the general public	—	—	—	—	—	35,911	—	**35,911**	**35,911**
Issued securities, etc.	—	—	—	—	—	17,336	—	**17,336**	**17,262**
Current tax liabilities	—	—	—	—	—	—	96	**96**	**96**
Other liabilities[1]	0	126	—	—	—	178	46	**350**	**350**
Accrued expenses and deferred income[1]	—	—	—	—	—	110	—	**110**	**110**
Provisions for pensions	—	—	—	—	—	—	13	**13**	**13**
Subordinated liabilities	—	—	—	—	—	900	—	**900**	**900**
Total liabilities	**0**	**126**	**—**	**—**	**—**	**54,514**	**155**	**54,795**	**54,721**
Of which, Norwegian operation	—	—	—	—	—	—	*96*	*96*	*96*

[1] The classification for 2015 has been adjusted between categories.

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

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

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

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

Cont. note 40. Classification and measurement of financial assets and liabilities

b) Financial assets and liabilities at fair value

	2016			2015		
	Instruments with published price quotations in an active market	**Valuation techniques based on observable market data**		**Instruments with published price quotations in an active market**	**Valuation techniques based on observable market data**	
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets						
Financial assets at fair value through profit or loss						
Held for trading						
Shares and participations	0	4	4	0	0	0
Hedge accounting						
Derivative instruments	—	12	12	—	10	10
Available-for-sale financial assets						
Eligible treasury bills, etc.	—	3,640	3,640	—	4,524	4,524
Bonds and other fixed-income securities	2,605	1 557	4 162	1 458	4 795	6 253
Total	**2,605**	**5,213**	**7,818**	**1,458**	**9,329**	**10,787**
Of which, Norwegian operation	—	—	—	—	—	—
Liabilities						
Held for trading						
Other	1	—	1	1	—	1
Hedge accounting						
Derivative instruments	—	97	97	—	126	126
Total	**1**	**97**	**98**	**1**	**126**	**127**
Of which, Norwegian operation	—	—	—	—	—	—

Disclosures pertain to financial instruments measured at fair value, broken down into the respective classes of financial instruments in accordance with the fair value hierarchy. For a description of the various levels, see the Accounting policies, point 7.

All financial assets and liabilities measured at fair value are classified in a fair value hierarchy that reflects observable prices or other inputs in the valuation techniques that are used. Prior to each quarter, an assessment is made as to whether the valuations pertain to quoted prices that represent actual and regularly recurring transactions or not. Transfers between levels in the hierarchy may take place when there are indications that the market conditions, such as liquidity, have changed. During the year, eight holdings totalling SEK 1,160 million were transferred from Level 2 to Level 1, as the liquidity of the securities was judged to have improved, and one holding of SEK 75 million was transferred from Level 1 to Level 2 due to changed pricing. The transferred values pertain to the fair value at the end of the respective periods.

Level 1 pertains to quoted prices that are readily available to numerous parties that provide price information and that represent actual and frequent transactions. These include treasuries and other fixed-income securities that are actively traded. Level 2 consists almost exclusively of holdings measured at quoted prices, but where the market is considered to be less active. In other respects, Level 2 includes interest rate and foreign exchange derivatives that are not traded on any exchange. For these holdings, valuation models are used that are based on observable market quotations of interest rates or exchange rates. No assets or liabilities are valued at Level 3. The market quotations that are used for valuations in Level 1 and Level 2 consist of average daily closing buy or sell prices obtained from external sources. As part of the valuation process, a validation is performed of used prices. Should the market undergo a dramatic change – as a whole or with respect to certain assets or issuers – further reviews would be performed to ensure a correct valuation.

41. Related party disclosures

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

Disclosures about remuneration of senior executives are provided in note 7, Staff costs.

	2016		2015	
Operating income	**Skandia AB**	**Other group companies**	**Skandia AB**	**Other group companies**
Net interest income	1	45	0	-18
Net fee and commission income	6	46	5	27
Net financial items	—	0	0	94
Other operating income	35	24	37	22
Total income	**42**	**115**	**42**	**125**
Operating expenses				
Other administrative expenses	—	-288	—	-362
Other operating expenses	0	-54	—	-52
Total expenses	**0**	**-342**	**—**	**-414**

	2016		2015	
Assets	**Skandia AB**	**Other group companies**	**Skandia AB**	**Other group companies**
Lending to the general public	—	—	—	—
Derivative instruments	—	—	—	0
Other assets	4	—	2	473
Total assets	**4**	**—**	**2**	**473**
Liabilities				
Deposits and borrowing from the general public	2,666	0	2,372	9
Derivative instruments	—	0	—	0
Other liabilities	23	180	39	-4
Subordinated liabilities	—	900	—	900
Total liabilities	**2,689**	**1,080**	**2,411**	905

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

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

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

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

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

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

Following the separation of the Norwegian operation, the Bank provided treasury, finance and securities services to Skandiabanken ASA. These services were regulated at market terms in a service agreement that expired on 30 November 2016. Skandiabanken ASA was included in the Skandia group as an associated company as per 31 December 2015. In spring 2016, 25% of the original shares were sold to the private equity company Altor. Skandia will continue to own a small portion of the shares as a financial investment in order to be able to earn future returns without being the largest owner of the company.

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

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

Cont. note 41. Related party disclosures

Other group companies

Exposures to interest rate risk and currency risk are hedged using derivative instruments. Costs for the instruments are reported as interest expense and net financial income/expense. Derivative transactions are handled through the group company Skandia Capital AB, among others.

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

Skandia Mutual provides occupational pensions to employees of Skandia. These pension benefits are based on agreements in the Swedish labour market, and premiums are paid by the respective companies in the group. In total, Skandiabanken has paid SEK 27 million (26) in premiums to Skandia Mutual.

Payments from other group companies associated with costs for the SAS EuroBonus card loyalty programme are reported under “Net fee and commission income”. SAS EuroBonus points are generated by a customer’s total business with Skandia, and the costs are allocated thereafter. The partnership with SAS EuroBonus was introduced in 2014, and payments from group companies amounted to approximately SEK 21 million (14) in 2016. The agreement with SAS Eurobonus has been cancelled, with the cooperation continuing through 31 March 2017.

Capital contributions and group contributions

During the second quarter Skandiabanken settled a group contribution of SEK 491 million from Skandia Mutual. A dividend for the corresponding amount was paid to the parent company Skandia AB. A group contribution of SEK 157 million was paid to the parent company Skandia AB in December.

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

42. Supplementary disclosures pertaining to equity

Share capital

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

Retained earnings

Retained earnings include shareholder contributions from the parent company Skandia AB.

Dividend

A dividend of SEK 491 million was paid to the parent company Skandia AB in 2016. The dividend was approved by the Annual General Meeting on 22 April 2016. No dividend was paid to the parent company Skandia AB in 2015, in accordance with a decision made by the Annual General Meeting on 24 April 2014 2015.

Total fair value reserve

Fair value reserve

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

43. Distribution of profit

Distribution of Skandiabanken’s unrestricted equity	**SEK 2016**
Total fair value reserve	16,440,099
Retained earnings	3,107,742,253
Net profit for the year	37,221,130
Unrestricted equity	**3,161,403,482**

The Board of Directors proposes that this amount be distributed as follows:	
To be carried forward	3,161,403,482
	3,161,403,482

If this proposal is approved, the company’s reported equity will consist of:	
Share capital	400,000,000
Statutory reserve	81,399,910
Total fair value reserve	16,440,099
Retained earnings	3,144,963,383
	3,642,803,392

44. Events after the balance sheet date

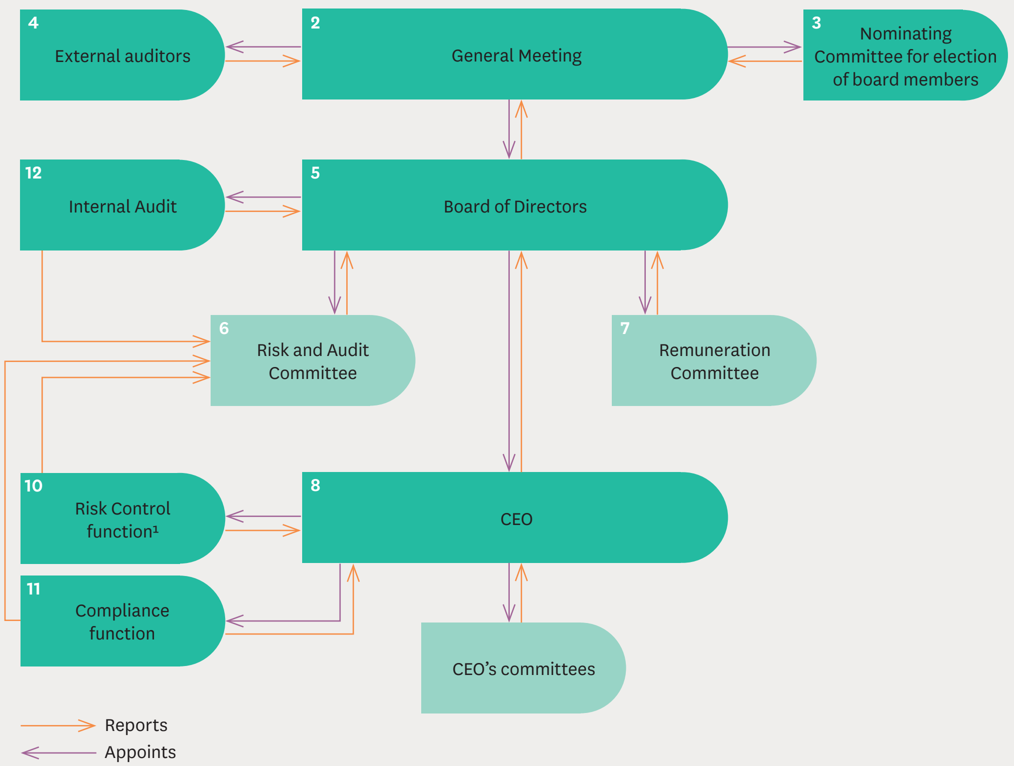
In January 2017 the Bank received an unconditional shareholder contribution of SEK 122 million from the parent company Skandia AB.

Corporate governance report

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

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

Overall description of corporate governance at Skandiabanken



[1] The CRO is appointed by the Board of Directors.

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

2. General meetings
General meetings are Skandiabanken's highest decision-making body. At general meetings, the shareholders make decisions in accordance with the rules in the Swedish Companies Act and the Company's Articles of Association. At the Annual General Meeting, the income statement and balance sheet are adopted, and the Company's auditors and board members are appointed. One (1) general meeting was held in 2016.

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

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

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

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

4. External auditors
At the 2016 Annual General Meeting, the accounting firm Deloitte AB, with Authorised Public Accountant Patrick Honeth as Auditor-in-Charge, was appointed as Skandiabanken's auditor for a term through the end of the 2017 AGM. Patrick Honeth is also the auditor for Amfa Bank, Bluestep, EnterCard, SBAB Bank, Sparbanken Rekarne, Swedbank Hypotek and Skandia Fonder AB. In 2016 Deloitte AB performed auditing and audit-related services for Skandiabanken as well as other consulting services.

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

5. Board of Directors
At the end of 2016 the Board of Directors was made up of Niklas Johansson (Chairman), Frans Lindelöw, Ann-Charlotte Stjerna and Bengt-Åke Fagerman. In addition, the Board also includes the employee representatives Johanna Rolin Moreno and Erika Hagwall.

On 3 January 2017 a General Meeting resolved to elect Per Anders Fasth as a regular external director on the Board.

According to the Banking and Financing Business Act (2004:297), the Board of Directors is responsible for the company's organisation and administration. It decides on the Company's strategic direction, which is to be aligned with Skandia's overarching strategy, appoints the CEO and adopts policies. The Board is responsible for ensuring that suitable internal rules are in place for risk management and risk control, and in connection with the development of the business strategy, it has performed a risk analysis. The Board's duties also include ensuring satisfactory control over the accounting and treasury management. The Board continuously monitors Skandiabanken's operations and financial performance.

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

The Board evaluates its work yearly in the aim of developing its work methods and effectiveness. The past year's evaluation was discussed at the board meeting held on 15 December 2016.

The Board's handling of the owner instructions

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

Governance documents adopted by the Board

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

The Board's work in 2016

Skandiabanken's board held 17 meetings in 2016, of which nine (9) were held by circulation. Apart from the CEO's reports and financial reports, among other things, the agenda was dominated by strategic projects. Aside from these major matters, the Board also addressed continuing items of business, decided on policies, and adopted the Bank's business plan. In addition, the Board analysed and addressed the extensive new rules and regulations affecting the Company's operations.

The Chairman's role

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

Division of duties within the Board

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

Overview of board members' attendance at board and committee meetings in 2016

Board members	Board meetings (17)	Risk and Audit Committee (11)	Remuneration Committee (6)
Niklas Midby[1]	5	3	2
Frans Lindelöw	16	2	6
Niklas Johansson[2]	17	11	4
Christer Löfdahl[1]	5	3	Not a member
Johanna Rolin Moreno[3]	8	Not a member	Not a member
Erika Hagwall	16	Not a member	Not a member
Bengt-Åke Fagerman	16	Not a member	Not a member
Marek Rydén[4]	12	7	Not a member
Ann-Charlotte Stjerna[5]	17	8	Not a member
Hans Jacobson[6]	9	6	Not a member
Ingrid Laurén-Heumann[3]	9	Not a member	Not a member

The total number of meetings held in 2016 is indicated in parentheses.

[1] Niklas Midby and Christer Löfdahl both left the Board on 22 April 2016.

[2] Niklas Johansson was elected as Chairman of the Board on 22 April 2016, at which time he also replaced Niklas Midby on the Remuneration Committee.

[3] Ingrid Laurén-Heumann is a deputy board member and took Johanna Rolin Moreno's place.

[4] Marek Rydén left the Board on 18 October 2016.

[5] Ann-Charlotte Stjerna is a member of the Risk and Audit Committee as from its meeting on 23 May 2016.

[6] Hans Jacobson joined the Board on 22 April 2016 and left the Board on 24 November 2016.

Departures from the rules of the Swedish Corporate Governance Code

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

Regular members of Skandiabanken's board of directors

Niklas Johansson
Independent member of Skandiabanken's board since 2015. Born 1961. B.Sc. Social Sciences, Linköping University.

Former CEO of Carnegie Investment Bank AB, and previously served in management roles for the Swedish Ministry of Finance, Evli bank, Skandia and Crédit Agricole.

Bengt-Åke Fagerman
Non-independent member of Skandiabanken's board since 2012. Born 1954. M.Sc. Econ., Stockholm University.

Former employee of Skandia 1978-2016, including as CEO from 2012 to 2015. Director of the Confederation of Swedish Enterprise, Insurance Sweden, the Swedish Insurance Industry Employer Association (FAO), Bliwa Livförsäkring, Erika Försäkringsaktiebolag and Wassum Värdepappersinstitut.

Frans Lindelöw
Non-independent member of Skandiabanken's board since 2015. Born 1962. B.Sc. Econ., Stockholm University. Skandia employee since 2015. Group CEO of Skandia since 2015.

Former CEO of Carnegie Investment Bank AB, and previously served in management roles for Nordea and HSBC Bank, among others. Director of Insurance Sweden.

Ann-Charlotte Stjerna
Non-independent member of Skandiabanken's board since 2012. Born 1972. M. Pol. Sc., University of Gothenburg. Skandia employee since 1999. CEO of Skandia AB since 2012. Holds several board assignments for companies in the Skandia group.

Former CRO of Skandia's Nordic division, Head of Business Analysis for Skandia Link, and controller in group functions.

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

Johanna Rolin Moreno
Non-independent member (employee representative) of Skandiabanken's board since 2011. Born 1975. Skandia employee since 1999. Has worked full time as elected employee representative since 2008. Head Occupational Safety Ombudsman at Skandia since 2012. Chairperson for Skandia FTF (union for employees in the insurance and finance industries) Klubb Väster association since 2012 and member of Skandia's FTF association since 2010.

Deputy members of Skandiabanken's board of directors

Dahn Eriksson
Deputy member (employee representative) of kandiabanken's board since 2016. Born 1962. M.Sc. Econ., Uppsala University. Skandia employee since 2001. Currently serving as Controller at Skandia Finance. Member of the Swedish Confederation of Professional Associations (SACO), Skandia chapter since 2007. Employee representative on Skandia Mutual's board since 2007.

Ingrid Laurén Heumann
Deputy member (employee representative) of Skandiabanken's board since 2015. Born 1964. Skandiabanken employee since 1995. Currently employed in clearing and finance administration at the Bank. Coordinating work environment ombudsman for Stockholm, Linköping and Mälardalen. Elected employee representative of FTF (union for employees in the insurance and finance industries) since 2011. Member of Skandia FTF Klubb Öster association since 2014 and member of Skandia's FTF association since 2015.

6. Risk and Audit Committee

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

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

The Risk and Audit Committee held eleven (11) meetings during the year, of which one (1) by circulation. The Risk and Audit Committee's members are Niklas Johansson, Frans Lindelöw and Ann-Charlotte Stjerna.

On 3 January 2017 Frans Lindelöw was replaced by a new board member, Per Anders Fasth, as a member of the Risk and Audit Committee. Thereafter the committee consists of three board members, of whom two are independent and have accounting or auditing experience.

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

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

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

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

In addition to the overarching principles for Skandiabanken's corporate governance, which are laid out in Skandiabanken's owner instructions that have been adopted by a general meeting of Skandiabanken and in the Board's Rules of Procedure, the CEO has decided on more detailed rules for the governance and organisational structure. These rules stipulate how the CEO has delegated her decision-making authority to employees who report directly to her.

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

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

Skandiabanken's management
Johanna Cerwall
CEO of Skandiabanken since 2016 and acting COO of Skandiabanken. Born 1962, M.Sc. Econ., Stockholm School of Economics. Skandia employee since 2015. Former area manager and Head of Credits at Swedbank.

Director of Bankgirocentralen BGC Aktiebolag and BGC Holding AB. The CEO has no ownership interests in companies with which Skandiabanken has significant business dealings.

Lisbeth Alainentalo
Chief Risk Officer (CRO), born 1970, Skandia employee since 2015.

Elisabeth Erikson
Head of Business Development, born 1974, Skandia employee since 1996.

Lennart Erlandson
Chief Financial Officer (CFO), born 1966, Skandia employee since 2015.

Carina Heinlo
Chief Compliance Officer (CCO), born 1961, Skandia employee since 2016.

Lisa Lindholm
General Counsel, born 1976, Skandia employee since 2011.

Executives co-opted to Skandiabanken's management

Cecilia Bernström
HR Business Partner, born 1975, Skandia employee since 2009.

Ouisem Samoud
Head of Treasury, born 1978, Skandia employee since 2001.

9. Internal control – general and Financial Internal Control

A credit institution is to have a system of internal control comprising a function for risk control, a function for compliance, and a function for internal audit.

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

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

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

Internal control over financial reporting

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

The framework for this work is regulated in Skandiabanken's policy for financial accounting and reporting, which has been adopted by the Board of Directors. FIC encompasses more than 400 unique controls, with approximately 150 control owners and approximately 40 process owners. Self assessment, monitoring and supervision of controls are done in a group-wide Governance Risk & Control (GRC) system.

Skandia's CFO serves as the ultimate client and decision-maker for the FIC framework. Assisting the CFO is a steering committee made up of the CFOs of the respective subsidiaries, the Head of Finance Operations, the Head of IT Security, and the Head of Risk and Compliance. Skandiabanken's CFO is responsible for the Bank's FIC framework and serves as client for the Bank. The current effectiveness of the framework, any current deficiencies, action plans and the result of yearly activities are reported on a continuous basis to the FIC steering committee. See below. The respective CFOs then report onwards to their respective companies' risk and audit committees.

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

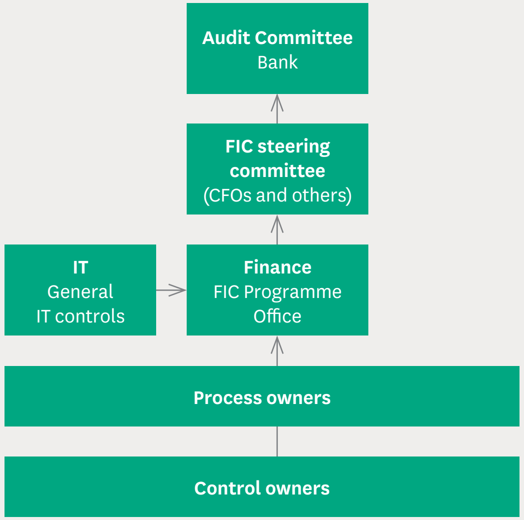
Risk Assessment
Risk assessment is conducted both quantitatively – from an income statement and balance sheet perspective – and qualitatively, to identify processes with high inherent risk. Ultimately the Risk and Audit Committee is responsible for ensuring that the FIC framework manages the most significant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

then risk-evaluated as low, medium or high, which then steers the degree of follow-up.

Control Activities

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

- Company-wide controls: Controls that capture compliance with the Board's and management's directives for the entire operation. These are controls related to the Company's control environment, which sets the framework for other control components.



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

They include, for example, controls of updated and adopted policies, instructions and guidelines, regularly recurring decision-making forums, and management's supervision and delegation.

- Financial controls: These comprise FIC controls in support and business processes that manage risks with a direct or indirect impact on the quality of the financial accounting and reporting. The controls are formulated to address the inherent risk in the respective materially significant account and/or financial report, to ensure that the relevant accounting claims are taken into account. Financial controls also encompass End User Computing (EUC) controls, i.e., controls of PC-based applications that are administered in the operations. EUC applications can include spreadsheets, user-controlled databases, and other user-controlled applications. EUC controls in the FIC framework encompass EUC controls of critical data coupled to the financial reporting.
- General IT controls: These comprise controls coupled to system authorisations, access protection and controls in connection with system development. General IT controls encompass the systems, applications and databases that the IT department is responsible for and which generate and process data that is considered to be critical for Skandiabanken's financial accounting and reporting.

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

Information & Communication

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

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

Monitoring

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

10. Risk control function

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

11. Compliance function

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

12. Internal Audit

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

Signatures

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

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

Stockholm, 24 March 2017

The Board of Directors approves the Annual Report as per the above date, and final adoption will be done at the Annual General Meeting on 25 April 2017.

Niklas Johansson
Chairman of the Board

Bengt-Åke Fagerman

Per Anders Fasth

Erika Hagwall

Frans Lindelöw

Ingrid Laurén Heumann
(deputy taking the place of Johanna Rolin Moreno)

Ann-Charlotte Stjerna

Johanna Cervall
CEO

Our audit report was submitted on 24 March 2017.

Deloitte AB

Patrick Honeth
Authorised Public Accountant

Auditor's report

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

Report on the annual accounts

Opinions

We have audited the annual accounts of Skandiabanken Aktiebolag (publ) ("Skandiabanken") for the year 2016. The annual accounts of the company are included on pages 4-78 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the company.

Basis for Opinions

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

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

Key Audit Matters

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

Judgments and estimates with respect to valuation of loan receivables

Credit provision is a significant area with large impact on Skandiabanken's financial result and position, and is highly based on estimates and assessments by the bank's management.

Assessments of credit provisions includes when in time and what amount that are underlying provisions. Example of various assumptions and judgments includes the financial condition of the counterparty, expected future cash flow, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of credit provisions. Furthermore, the associated disclosures regarding credit provision are dependent on high quality data.

At December 31, 2016, gross loans to the public amounted to SEK 56 733 million, with loan loss provisions of SEK 12 million.
Given the significance of loans to the public (representing 87% of total assets) as well as the impact from the inherent uncertainty and subjectivity involved in assessing loan loss provisions, we consider this to be a key audit matter for our audit.
Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of credit risk in note 37.

Our audit procedures included, but were not limited to:

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

Application of hedge accounting

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

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

At December 31, 2016, effects of hedge accounting in Net result of financial items measured at fair value amounted to SEK 34 million, and in Other comprehensive income of SEK -1 million.

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

Refer to accounting principles regarding critical judgments and estimates in note 1 in the financial statement and related disclosures of market risk in note 37.

Our audit procedures included, but were not limited to:

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

IT-systems that support complete and accurate financial reporting
Skandiabanken is dependent on their IT-systems to (1) serve customers, (2) support their business processes, (3) ensure complete and accurate processing of financial transactions and (4) support the overall internal control framework. Many of Skandiabanken internal controls over financial reporting are depending upon automated application controls and completeness and integrity of reports generated by the IT-systems. A number of the financial systems are critical to the bank's financial reporting which are provided by SDC according to current outsourcing agreements.

To evaluate and assess the quality of the delivered services and to ensure sufficient requirements on the outsourcing supplier, Skandiabanken receives a third-party certificate each year.

Skandiabanken categorises their key IT-risk and control domains relating to financial reporting in the following sections:
- Modifications to the IT-environment
- Operations and monitoring of the IT-environment
- Information security

Modifications to the IT-environment
Inappropriate modifications to the IT-environment may result in systems that do not function as expected and result in unreliable data processing with impact on financial reporting. Hence Skandiabanken has implemented processes and controls to support that changes to the IT-environment are appropriately implemented and function consistently with management's intentions.
Our audit procedures included, but were not limited to:
- We assessed management principles and processes for modifications to the IT-environment.
- We assessed management monitoring of modifications.
- We evaluated segregations of duties.

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

Our audit procedures included, but were not limited to:
- We evaluated the appropriateness of IT-System job scheduling and alarm configuration capabilities.
- We evaluated the process for monitoring IT-System.

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

Our audit procedures included, but were not limited to:
- We evaluated the process for identity and access management, including access granting, change and removal.
- We evaluated the appropriateness of processes and tools to ensure availability of data as per user requests and business requirements, including data back-up and restore procedures.
- We evaluated the appropriateness of controls for security governance to protect systems and data from unauthorised use, including logging of security events and procedures to identify known vulnerabilities.

Other information than the annual accounts
This document also contains other information than the annual accounts and is found on pages 2-3, 79-86. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the annual accounts , whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors of Skandiabanken for the year 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

Auditor's Responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm, Mars 24, 2017

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