Skandiabanken Annual Report 2013

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

On 1 January 2014, all of the operations in Skandia Liv were transferred to the newly formed company Livförsäkringsbolaget Skandia, ömsesidigt (Skandia Öms). Skandia Liv was thereafter absorbed by this company through a merger. This annual report describes Skandia Liv as if it were still an operating company.

Skandiabanken Aktiebolag (publ) ("Skandiabanken") is a wholly owned subsidiary of Försäkringsaktiebolaget Skandia (publ) ("Skandia AB"). Skandia Liv is the parent company of the Skandia group ("Skandia").

INTERESTED IN MORE INFORMATION OR IN CONTACTING SKANDIA?

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Skandiabanken Aktiebolag (publ)
Domicile: Stockholm, Sweden
Reg. no. 516401-9738

Contents

Skandia is one of Sweden's largest, independent customer-steered banking and insurance groups.

We have provided financial security to people for more than 150 years and have a strong tradition of pioneering spirit, product development and community involvement.

We create richer lives for people by providing solutions for savings, pensions, financial security and personal finances, and by helping them make wise decisions about their own economies.

We have 2.5 million customers in Sweden, Norway and Denmark, more than SEK 470 billion in managed assets, and 2,500 employees.

Condensed results for the year

- Operating income in 2013 totalled SEK 1,574 million (1,661).
- Operating profit for 2013 was SEK 298 million (419).
- Loan losses in 2013 totalled SEK -41 million (-7).
- Lending during the year increased by SEK 19,493 million to SEK 77,894 million (58,401).
- Surplus liquidity decreased to SEK 19,153 million (25,348).
- By year-end 2013 Skandiabanken had issued commercial paper and bonds worth SEK 16,864 million (1,826).
- The total capital ratio at 31 December 2013 was 13.48% (14.64%).

HIGHLIGHTS 2013

- During the year, Skandiabanken issued covered bonds for the first time, as a step in diversifying the bank's funding.
- The work towards the goal of doubling Skandiabanken's balance sheet got a jump start in 2013, with 33% growth in lending.
- The "Skandia account" – a product developed jointly with the Skandia group's insurance operations – showed favourable growth.
- Skandiabanken proudly accepted awards as "Market challenger of the year 2013" and "Best mobile bank" in Sweden, as well as for being the bank with the best reputation and most satisfied customers in Norway.

CEO's message

2013 was characterised by growth, driven primarily by a sharp rise in home mortgage volumes. We have begun our journey towards being a bank that is twice as large by 2018, and we have made a good jump out of the starting blocks. In Sweden we are growing in line with our ambitious plans, while growth in our Norwegian operations has been far beyond all expectations. Measured in local currency, in one year we grew our lending portfolio by 63% and 17% in Norway and Sweden, respectively (NOK 16,807 million and SEK 4,555 million), and the pace accelerated during the year.

During the autumn we issued our first covered bonds. External borrowing now provides a vital complement to our deposits from the general public, and at year-end we had a total of SEK 16,864 million in market borrowing. Our issues of covered bonds have been well-received, which we see as compelling proof that investors and the capital markets regard us as a stable and well-capitalised bank.

As we have previously communicated, the Skandia group plans to double Skandiabanken's balance sheet in five years' time. Carrying out certain capital strengthening measures is a natural part of this plan, and we have therefore carried out several. As a result, we now have no need for additional capital injections, although this may be reassessed in the event our growth develops beyond expectations or developments in general change.

Despite our rapid growth, I am proud that we have succeeded in maintaining satisfactory growth and delivered one of the highest operating profits since we sold our vehicle financing business in 2005. Moreover, we are making major investments in the changeover of our Swedish core banking system, which weighed down profits in 2013 and into 2014, but will have a positive earnings impact starting in 2015. In the long term, it is mainly through scale economies that we will improve profitability. For natural reasons, it will take some time for us to see the effects of this.

What makes me the proudest about events in 2013 are the very high marks we have received from our customers as evidenced by the distinctions we won during the year, which are based on their input. In Norway, for the twelfth year in a row we won the Norwegian Customer Barometer's ranking of banks, and for the seventh year in a row we were ranked by EPSI as having Norway's most satisfied bank customers. In Sweden, the Swedish Quality Index reported that while customers of most other banks are growing increasingly dissatisfied, our Customer Satisfaction Index score climbed to 75.1, which is better than all of Sweden's major banks and most of the country's niche banks.

In Sweden our strategy will continue to focus on cross-selling and upselling to existing customers of Skandia. We adopted this strategy in 2011 with the launch of the "Skandia account", which pays a very attractive deposit interest rate and is open only for customers receiving insurance disbursements from Skandia. The account continues to grow in popularity, with a total balance that is currently growing at a rate of SEK 110 million per month. In addition, our emerging price model for mortgage loans, which we are currently developing together with our customers, will favour customers who have their savings with and conduct their everyday finances with Skandia. Attracting more home bank customers will be a higher priority for us than previously.

In both Norway and Sweden we plan to challenge the major banks with cheaper home mortgages and a broadened product offering with transparent prices and attractive terms and conditions.

Stockholm, March 2014

Øyvind Thomassen
CEO

Board of Directors' report

ORGANISATION AND OPERATIONS

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

Skandiabanken conducts business in Sweden and Norway. The business is broken down into the operating segments "Sweden banking" and "Norway banking", the latter of which is conducted via a branch in Bergen, Norway.

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

SIGNIFICANT EVENTS DURING THE YEAR

SKANDIA BECOMES MUTUAL COMPANY

Intensive work was conducted in 2013 on the mutualisation of Skandia Liv. The legal and administrative consequences of changing the company's form are extensive. Customer relationships are also affected by the company's mutualisation, since customers – in addition to being customers – are now also owners of the company. This puts other, greater demands on the company's information practices, which in turn has led to an intensified change process internally at Skandia. During the actual mutualisation process, extensive studies were carried out in an effort to ensure that Skandia Liv's operations and assets would be transferred to the newly formed company as cost effectively as possible. As a result of this work, all of Skandia Liv's obligations, rights and registrations in all marketplaces and stock exchanges around the world, and all accounts, were transferred to Skandia Öms through a portfolio transfer, which was immediately followed by a merger. The portfolio transfer was executed on 2 January 2014, with effect from 1 January 2014, and the merger was executed on 2 January 2014.

ISSUES OF COVERED BONDS

In 2013 Skandiabanken completed its bond issuance programme, and during the autumn the bank issued covered bonds in both the Swedish and Norwegian capital markets as a complement to its commercial paper and MTN programmes. At year-end 2013 Skandiabanken had issued commercial paper and bonds worth SEK 16,864 million (1,826).

FINANCIAL REVIEW

Since Skandiabanken sold its subsidiary Skandia Fonder AB at the end of 2012, Skandiabanken is no longer a group.

PROFIT FOR 2013 COMPARED WITH 2012

Skandiabanken's profit is derived mainly from net interest income, where home mortgages are by far the largest source of revenue. Operating profit before tax amounted to SEK 298 million (419) in 2013 and pertains to both the Swedish and Norwegian banking operations. The outcome also includes a currency effect of SEK -15 million from translation from Norwegian to Swedish kronor.

The lower profit in 2013 compared with 2012 is mainly attributable to two non-recurring items – the sale of Skandia Fonder for SEK 94 million and the sale of a loan loss portfolio for SEK 19 million. Net interest income was lower mainly as a result of strong pressure on interest rates in Sweden. Despite continued strong new lending, the higher volume could not fully compensate for the squeezed margins. During the year, the Norwegian operations performed at record levels for new lending – mainly home mortgages – but not at the expense of lower margins, which contributed to a stronger profit compared with a year ago.

OPERATING INCOME

OPERATING INCOME

SEK million	2013 Jan.-Dec.	2012 Jan.-Dec.	Change, %
Net interest income	1,118	1,119	0%
Net fee and commission income	333	327	2%
Net financial income	59	47	26%
Other income	64	168	-62%
Total operating income	**1,574**	**1,661**	**-5%**
Nonrecurring items	—	-96	—
Total operating income excl. nonrecurring items	**1,574**	**1,565**	

NET INTEREST INCOME

Skandiabanken's net interest income decreased slightly, by SEK -1 million, to SEK 1,118 million (1,119). The decrease is attributable to weaker performance for the Swedish operations' net interest margins as a direct result of lower market interest rates in Sweden.

The strong growth in the average balance of lending to the general public was driven mainly by Norway, where Skandiabanken has had a favourable price point in the lending market, without having to narrow its margins. As a result, net interest income in Norway performed strongly during the year. In total, the average balance of lending to the general public increased during the year by SEK 19,493 million to SEK 77,894 million (58,401), with Norway accounting for 77% of this growth.

Deposits from the general public decreased slightly during the year, by SEK -1,688 million, to SEK 75,677 million (77,365). The lower average balance of deposits from the general public was equally attributable to the Swedish and Norwegian operations.

The surplus liquidity that exists in Skandiabanken is invested in local currency in the respective countries. During the year, surplus liquidity decreased by SEK -6,195 million to SEK 19,153 million (25,348). In parallel with the lower volume, downward pressure on market interest rates contributed to a lower return on investments.

NET FEE AND COMMISSION INCOME

Net fee and commission income increased during the year by SEK 6 million to SEK 333 million (327). The improvement was driven by the strong stock market during the year, both with respect to fund commissions and to brokerage fees, as customers tend to maintain a higher level of equity trading activity in a rising stock market.

NET FINANCIAL INCOME

Net financial income increased by SEK 12 million during the year, to SEK 59 million (47). The increase is attributable to greater sales of fixed-income securities prior to maturity, mainly in the Norwegian operation. Net financial income also includes the outcome of hedge accounting, which decreased during the year.

OTHER OPERATING INCOME

Other operating income decreased by SEK 104 million to SEK 64 million (168). Other operating income in 2012 was positively affected by SEK 94 million pertaining to the capital gain that arose in connection with the sale of the fund company. In addition to this, other operating income – consisting mainly of services sold to other Skandia companies – decreased as a result of previous restructuring.

EXPENSES BEFORE LOAN LOSSES

EXPENSES BEFORE LOAN LOSSES

SEK million	2013 Jan.-Dec.	2012 Jan.-Dec.	Change, %
Staff costs	-366	-367	0%
Other administrative expenses	-798	-829	-4%
Depreciation	-3	-6	-50%
Other operating expenses	-68	-33	106%
Total expenses before loan losses	**-1,235**	**-1,235**	**0%**
Nonrecurring expenses	—	19	—
Total expenses excl. nonrecurring items	**-1,235**	**-1,216**	**2%**

Expenses were unchanged compared with the preceding year and amounted to SEK 1,235 million (1,235). Following restructuring measures in earlier years, the cost base has now stabilised.

STAFF COSTS AND OTHER ADMINISTRATIVE EXPENSES

Staff costs were essentially unchanged during the year at SEK 366 million (367), as the organisation has stabilised following restructuring measures in previous years.

Administrative expenses decreased by SEK 31 million to SEK 798 million (829) as a result of lower costs for external services during the year compared with a year earlier.

OTHER OPERATING EXPENSES

Other operating expenses increased by SEK 35 million to SEK 68 million (33) and pertained mainly to marketing costs associated with several campaigns that were conducted during the year with respect to the brand as well as products and services.

LOAN LOSSES

SEK million (unless indicated otherwise)	2013 Jan.-Dec.	2012 Jan.-Dec.	Change
Loan losses	-41	-7	-34
of which, confirmed loan losses	*-38*	*-68*	*30*
of which, paid in towards confirmed loan losses from previous years	*8*	*20*	*-12*
of which, provisions	*-11*	*41*	*-52*
Loan losses as % of opening balance of lending to the general public	0.07%	0.01%	0.06
Lending to the general public[1]	77,894	58,401	19,493
Impaired loans, gross	139	169	-30
Provisions on the balance sheet	92	91	1
Impaired loans, net	47	78	-31
Impaired loans, net, as % of lending to the general public	0.07%	0.13%	-0.13

[1] Excluding loans of SEK 0 million (1,610) to the Swedish National Debt Office.

Net loan losses increased by SEK 34 million to SEK -41 million (-7). The increase is mainly attributable to the Norwegian operation, where loan losses were at a very low level for the full year 2012, when they were favourably affected by the sale of impaired loans. Excluding this nonrecurring affect, a slight rise in loan losses was noted during the year for all products in both countries.

Impaired loans, net, decreased compared with a year ago to SEK 47 million (78). In the Swedish operation, impaired loans, net, decreased by SEK 8 million to SEK 19 million (27). The change pertained primarily to home mortgages. In the Norwegian operation, impaired loans, net, decreased by SEK 16 million to SEK 35 million (51). The change is mainly attributable to home mortgages.

The loan loss ratio, i.e., loan losses in relation to the opening balance of lending to the general public, increased to 0.07% (0.01%). The loan loss ratio increased to 0.03% (0.01%) for the Swedish banking operation and to 0.11% (0.01%) for the Norwegian banking operation.

TAX CHARGE FOR THE YEAR

The tax charge for the year was SEK 118 million (85), an increase of SEK 33 million. The tax charge represents an effective tax rate of 26.5%. In Norway, the tax rate will be changed from 28% to 27% starting in 2014, which affects deferred taxes. Since Skandiabanken has a low level of deferred tax assets in Norway, the tax reduction will have only a marginal impact.

COMPREHENSIVE INCOME FOR THE YEAR

STATEMENT OF COMPREHENSIVE INCOME

	2013 Jan.-Dec.	2012 Jan.-Dec.	Change
Profit for the year	**327**	**303**	**24**
Other comprehensive income			
Items than cannot be reclassified to profit or loss for the year			
Revaluation of defined benefit pensions	6	-1	7
Tax attributable to revaluation of defined benefit pensions	3	0	3
Items that have been reclassified or can be reclassified to profit or loss for the year			
Available-for-sale financial assets	-27	59	-86
Hedge of net investment	0	0	0
Translation difference	-132	14	-146
Tax attributable to translation difference	29	—	—
Taxes attributable to available-for-sale financial assets	7	-14	21
Total other comprehensive income after tax	**-114**	**58**	**-172**
Comprehensive income for the year after tax	**213**	**361**	**-148**

Comprehensive income after tax amounted to SEK 213 million (361) and consists of profit as per the income statement, totalling SEK 327 million (303), plus income and expenses reported in other comprehensive income, which totalled SEK -114 million (58). An account of the outcome for the year attributable to the income statement is commented on above.

Other comprehensive income for the year amounted to SEK -114 million (58). The poorer result is mainly attributable to negative translation differences after tax of SEK 117 million, totalling SEK -103 million (14), and to unrealised gains of SEK -27 million (59) pertaining to holdings of fixed-income securities classified as available-for-sale financial assets. Translation differences pertain to exchange rate differences that arise upon conversion of the Norwegian operation's financial statements to Skandia-banken's reporting currency.

BALANCE SHEET, LIQUIDITY AND MANAGED ASSETS, 2013 COMPARED WITH 2012

SEK million	2013 Jan.-Dec.	2012 Jan.-Dec.	Change, %
Balance sheet total	98 597	84 638	16%
Lending to the general public[1]	77 894	58 401	33%
of which, Sweden	*31 917*	*27 363*	*17%*
of which, Norway	*45 977*	*31 038*	*48%*
Deposits from the general public	75 677	77 365	-2%
of which, Sweden	*35 673*	*36 545*	*-2%*
of which, Norway	*40 004*	*40 820*	*-2%*
Issued securities outstanding	16 864	1 826	824%
of which, Sweden	*7 694*	*1 243*	*519%*
of which, Norway	*9 170*	*583*	*1473%*
Total liquidity buffer[2]	19 153	25 348	-24%
Liquidity buffer[3]	16 034	19 847	-19%
Deposit-to-loan ratio	97%	132%	-27%
Managed assets in funds (NAV)	17 336	13 308	30%

[1] Excluding loans of SEK 0 million (1,610) to the National Swedish Debt Office.

[2] Balances with and lending to the Central Bank of Sweden and Central Bank of Norway, short-term lending and deposits to/from credit institutions, eligible treasury bills and fixed-income securities excluding assets pledged for borrowing from the Central Bank of Sweden.

[3] In accordance with the Financial Supervisory Authority's rules for managing liquidity risk (2010:7).

The balance sheet total increased by SEK 13,959 million to SEK 98,597 million (84,638). The balance sheet includes Skandiabanken's operations in Norway. The currency effect of translation to Swedish kronor decreased total assets by SEK 5,510 million compared with the preceding year.

During the year, SEK 102 million was invested in a banking platform (Core bank), of which SEK 95 million is reported as an intangible non-current asset. The system is expected to be completed in 2014.

Surplus liquidity decreased during the year to SEK 19,153 million (25,348) as per 31 December. This is a direct effect of Skandiabanken's planned acceleration of growth.

LENDING AND DEPOSITS

During the year it was mainly lending against security that generated volume growth, and home mortgages in particular in both Sweden and Norway showed favourable growth in new lending. Growth in home mortgages together with lower volumes of impaired loans is generating a larger share of secured lending. Lending to the general public increased by SEK 19,493 million, to SEK 77,894 million (58,401). The strong growth was mainly driven by the Norwegian operation. During the year, Skandiabanken offered competitive interest rates, where the Norwegian operation offered lower interest rates than the market in general for large parts of the year.

Deposit volumes decreased slightly during the year to SEK 75,677 million (77,365). The lower volumes were equally attributable to lower deposits in Sweden and Norway. In Sweden, the new "Skandia account" account, created specifically for customers receiving insurance disbursements, showed high volume growth as a result of favourable terms.

LIQUIDITY, FUNDING AND CREDIT RATINGS

Skandiabanken's surplus liquidity amounted to SEK 19,153 million (25,348), which corresponds to 25% (33%) of Skandiabanken's total deposits. Surplus liquidity consists of deposits with central banks, short-term lending to credit institutions and liquid, fixed-income securities that can be converted to cash on short notice.

Of surplus liquidity, SEK 16,034 million (19,847) qualifies as the liquidity buffer in accordance with the Financial Supervisory Authority's liquidity rules (FFFS 2010:7). In short, the rules require that securities included in the liquidity buffer are eligible with the central banks and that only intraday lending to banks may be included. The deposit-to-loan ratio was 97% (132%). The decrease in the ratio is attributable to the change in Skandiabanken's funding structure, where the share of capital market funding in relation to total funding has increased.

In 2013 Skandiabanken strengthened its position in the capital markets through the issuance of its first covered bonds in SEK and NOK in September. Transactions were then carried out on regular basis during the autumn, and the bonds were well-received by the markets in both Norway and Sweden. Skandiabanken now has capital market programmes in place in both Sweden and Norway which enable issues of commercial paper, non-covered bonds and covered bonds. As per 31 December 2013 Skandiabanken had SEK 7,694 million (1,244) and NOK 8,662 million (500) in outstanding capital market funding. The increase during the year is in line with Skandiabanken's long-term growth target.

Since 2011 Skandiabanken has had long-term and short-term credit ratings of A3 and P-2, respectively, with a stable outlook from the credit rating agency Moody's. Both the Norwegian and Swedish covered bonds are issued under Skandiabanken's covered bond programme, which is subject to Swedish law. The programme has been assigned the highest credit rating, Aaa, from Moody's.

Further information about the liquidity buffer and handling is provided in the yearly report entitled "1312 Annual information about capital adequacy and risk management", see www.skandiabanken.se/Om oss/Investor Relations.

MANAGED ASSETS IN FUNDS

Managed assets in funds in the banking operations increased during the year by SEK 4,029 million to SEK 17,336 million (13,308) at year-end.

The increase is explained by a positive change in value during the year in customers' fund holdings combined with an improved net inflow particularly in Norway, but also in Sweden. The net inflow includes both purchases and sales of fund units as well as customers' transfers of existing fund holdings to and from Skandiabanken.

CAPITAL ADEQUACY

CAPITAL BASE AND CAPITAL ADEQUACY

	2013 Jan.-Dec.	2012 Jan.-Dec.
Total capital ratio	13.48%	14.64%
Tier 1 capital ratio	10.88%	10.61%
Capital adequacy requirement, SEK million	2,859	2,408
Capital adequacy quotient	1.68	1.83

The total capital ratio decreased to 13.48% (14.64%) compared with the level at 31 December 2012, while the tier 1 capital ratio increased during the same period to 10.88% (10.61%). The strengthening of the tier 1 capital ratio at the same time that the total capital ratio decreased is due to an increase in equity through capital contributions totalling SEK 600 million. At the same time, subordinated loans worth SEK 300 million were repurchased. Tier 1 capital thus accounts for a greater share of the capital base.

Risk-weighted exposures increased by SEK 5,625 million to SEK 35,734 million (30,109). Of the increase, SEK 5,972 million pertained to credit risk exposures. The change is mainly attributable to an increase in credit exposures with collateral in real estate and, to a lesser degree, to unsecured retail lending. Risk-weighted exposures to currency risk increased by SEK 3 million to SEK 207 million (204). The capital adequacy requirement for operational risk decreased by SEK 28 million to SEK 263 million (291). The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the 2013 financial year. See the proposed distribution of profit on page 15.

The outcome as per 31 December pertains to calculation in accordance with the statutory minimum capital requirement (Pillar I) for credit risk, market risk and operational risk. Skandiabanken uses the standardised approach in calculating credit risk, while the capital requirement for operational risk is calculated using the basic indicator approach. In addition to the statutory minimum capital adequacy requirement, requirements may be made for a higher capital base, which is handled under Pillar II, "Capital adequacy assessment and risk management". Consideration is given to the total capital requirement for Skandiabanken in the Internal Capital Adequacy Assessment Process (ICAAP). This means that Skandiabanken takes other material risks into account than those referred to above, i.e., credit risks, market risks and operational risks. A capital buffer is available above and beyond the capital requirement for identified risks and taking into account continued expansion.

The Financial Supervisory Authority's review of Skandiabanken's application to use an internal risk classification method was begun in mid-2013, and approval is expected during 2014. Parallel with the review process, the bank has continued to expand its use of the internal models in various areas, including risk-adjusted pricing and capital governance.

Further information about capital adequacy is provided in note 36 and in the yearly report entitled "1312 Annual information about capital adequacy and risk management", see www.skandiabanken.se/Om oss/Investor Relations.

RISKS AND RISK MANAGEMENT

Skandiabanken's total credit exposure, in accordance with the capital adequacy rules, amounted to SEK 98,669 million (84,678), of which 74.3% (64.8%) 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 75% of the loan-to-value ratio for new lending. Skandiabanken has traditionally had a restrictive stance toward lending, entailing low loan-to-value ratios among the bank's customers and low loan losses. As a result, the bank expects to maintain good resilience to any declines in real estate values.

Skandiabanken's credit exposure to investments of surplus liquidity decreased to SEK 19,153 million (25,348). The bank's surplus liquidity is invested in fixed-income securities with good credit quality and market liquidity. Liquidity risk is expected to continue to be low in view of the forecast surplus of deposits and favourable opportunities for external borrowing in the capital market. Skandiabanken is well capitalised with respect to both internal and external requirements.

A description of risks and risk management is provided in note 37. Information on capital adequacy and risk management (Pillar III) is provided in a more extensive yearly report (1312 Annual information about capital adequacy and risk management – Pillar III). See www.skandiabanken.se/Om oss/Investor Relations.

DISPUTES

Skandiabanken is party to a few disputes, the scope of which is to be regarded as normal in view of the business conducted. Most of the disputes are over 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

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

Skandia's work with corporate social responsibility is reported on yearly in our sustainability report, which includes a description of the group's completed work and ambitions going forward along with relevant key data. Skandia's sustainability reporting follows the GRI standard for sustainability reporting, with the aim of describing Skandia's work in a transparent manner and with a focus on matters of significance for Skandia's customers and other stakeholders.

THE ENVIRONMENT

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

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

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

By employing technical solutions and improved internal processes, Skandia can also contribute to better customer service while also helping the environment. In 2013 Skandia performed a risk analysis of existing suppliers from a sustainability perspective, in which it asked questions about areas such as human rights, corruption, care for the environment and equal opportunity. A supplier code of conduct was drawn up during the year, based on Skandia's own policies and generally accepted international norms and guidelines.

EMPLOYEES

SKANDIABANKEN'S EMPLOYEES IN BRIEF

In 2013 Skandiabanken had an average of 457 (453) employees, of whom 55% (54%) were women. The share of women in managerial positions was 40% (35%), and the average age of all employees was 37 (36). Employee turnover was unchanged compared with a year earlier and was 12% (12%) at year-end.

CULTURE

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

In recent years, Skandia as a whole has been successful in its work on establishing a shared base of values, which has resulted in the adoption of five core values: Customer first, Value creation, Responsibility, Innovation, and Success together. These values are discussed and followed up on a regular basis at various levels in the company, such as through team contracts that concretely lay out expected behaviours.

VARIABLE REMUNERATION AND PROFIT-SHARING FOUNDATION

In 2013 Skandiabanken discontinued paying variable remuneration to employees except for commissions to the group's financial advisers. Skandia has a profit-sharing foundation, called Skandianen. For further details about remuneration and benefits, see note 7.

EVENTS AFTER THE BALANCE SHEET DATE

On 2 January 2014 the perpetual debentures to Skandia AB were redeemed. On the same day, new perpetual debentures were raised with Skandia Liv with the corresponding terms as the ones that were redeemed.

On 31 January 2014, an additional capital contribution of SEK 256 million was paid out from Skandia AB.

On 1 January 2014, the entire operations of the parent company, Skandia Liv, were transferred to Livförsäkringsbolaget Skandia, ömsesidigt (Skandia Öms) through a portfolio transfer which was followed by an immediate merger of Skandia Liv into Skandia Öms. Skandia Öms is a mutual life assurance company that is owned directly by the policyholders.

RULES AND REGULATIONS

Skandiabanken continues to be affected to a high degree by the extensive drafting of regulations in the banking and securities sectors. The most important impact in 2014 was made by the new capital adequacy rules and new guidelines issued by the Swedish Financial Supervisory Authority.

The EU's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV), which contain new rules for capital adequacy, liquidity and corporate governance, were approved in June 2013 and took force on 1 January 2014. The implementation of CRD IV, which includes new capital buffers, among other things, also requires implementation into Swedish law, which is expected to take place in 2014. The new EU rules are essentially in line with the previously published Basel III regulations, which represent an international standard of regulations for capital adequacy and liquidity. During the year, Skandiabanken conducted a project aimed at ensuring implementation of the new rules. As per 31 December 2013, Skandiabanken met both the internal and external capital requirements posed by the new standards by a good margin.

In addition to this, the Financial Supervisory Authority circulated a proposed set of new guidelines and general advice with respect to governance, risk management and control, management of operational risks and IT systems, information security and deposit systems.

The guidelines on governance, risk management and control (FFFS 2014:1) will take effect on 1 April 2014, in accordance with a decision made on 17 February 2014. The two other guidelines are proposed to take effect on 1 May 2014. For some time now, Skandiabanken has been working on adapting its operations to the guidelines. This has affected primarily internal structures for internal control, the responsibilities and work of the independent risk function, and the bank's IT system.

ANTICIPATED FUTURE DEVELOPMENT

The global economy is gradually recovering following several years of stagnation, although the recovery following the global financial crisis has been more sluggish than in a normal economic cycle. However, rising optimism can be seen in forward-looking industrial indicators in most regions, and growth is expected to gain momentum in 2014, led primarily by the USA.

Improved demand in Skandiabanken's external operating environment is expected to benefit open economies such as Sweden and Norway. At the same time, the prospects for strong domestic demand are favourable above all in Sweden, as low interest rates and a slightly more expansive finance policy are expected to provide fuel to household economies in 2014. Our overall view is that GDP growth in Sweden will gain momentum in 2014. This should also be seen in continued demand for household credits.

In Norway, GDP growth is also expected to rise slightly in 2014. Household debt continues to rise also in Norway, while there are signs that the housing market is entering a calmer phase. Home prices have turned downward, which poses a risk for future development.

Although we believe that the global economy will pick up momentum in 2014, global inflation is expected to be relatively dampened. This is prompting the central banks to continue keeping their key lending rates at very low levels. We believe that the Central Bank of Sweden and the Central Bank of Norway will keep interest rates unchanged in 2014. As a result, home mortgage rates are expected to stay at low levels. Over time, however, an economic recovery will lead to rising home mortgage rates.

As previously communicated, the goal is to double the bank's total assets by 2018, driven by an increase in lending. Growth is important for building up profitability and taking advantage of the economies of scale that exist in the lending business.

For the equity markets, 2013 was a strong year. Low interest rates and an improved economic outlook were likely contributors to a greater risk appetite among savers and to a greater inflow. There is still potential for a favourable trend in the stock market, however, there is also a risk for disappointments and large variations in the stock market's performance if the expectations regarding the economy and profits are not met.

Five-year summary

KEY RATIOS

Volume development	2013	2012 [1]	2011	2010	2009
Lending to the general public, incl. leasing, SEK million	77,894	60,011	53,393	53,985	48,634
Change during the year	33%	12%	-1%	11%	11%
Total deposits and borrowing from the general public, incl. issued securities, SEK million	92,541	79,191	71,302	62,969	61,739
Change during the year	12%	11%	13%	2%	19%
Average volume (balance sheet total), SEK million	89,027	80,595	72,457	67,711	65,257
Change during the year	10%	11%	7%	4%	18%

Capital adequacy measures	2013	2012	2011	2010	2009
Total capital ratio:					
Capital base as % of risk-weighted assets	13.48%	14.64%	14.66%	14.51%	13.29%
Tier 1 capital ratio:					
Tier 1 capital as % of risk-weighted assets	10.88%	10.61%	10.24%	9.98%	9.05%

Key ratios, earnings	2013	2012	2011	2010	2009
Investment margin:					
Net interest income as % of average volume (balance sheet total)	1.26%	1.39%	1.43%	1.25%	1.24%
Earnings capacity:					
Operating profit excl. loan losses as % of average volume (balance sheet total)	0.38%	0.53%	0.29%	0.33%	0.40%
Return on total assets:					
Operating profit as % of average volume (balance sheet total)	0.34%	0.52%	0.24%	0.27%	0.31%
Return on equity:[2]					
Operating profit after actual tax as % of average equity	6.23%	7.59%	5.25%	4.87%	5.61%
Cost/income ratio before loan losses:[2]					
Total costs excl. loan losses in relation to operating income	0.78	0.79	0.90	0.89	0.83
Cost/income ratio after loan losses:[2]					
Total costs incl. loan losses in relation to operating income	0.81	0.79	0.92	0.91	0.87

Impaired loans	2013	2012	2011	2010	2009
Provision level for impaired loans:					
Provision for probable loan losses as % of impaired loans before provision	64.2%	53.9%	62.3%	70.1%	61.7%
Share of impaired loans:					
Impaired loans, net, as % of total lending to the general public and credit institutions (excl. banks)	0.06%	0.13%	0.15%	0.09%	0.14%
Loan loss ratio:					
Loan losses as % of opening balance of lending to the general public, credit institutions (excl. banks), and credit guarantees	0.07%	0.01%	0.06%	0.09%	0.14%

Other data	2013	2012	2011	2010	2009
Number of customers, thousands	824	808	803	787	774
Average number of employees	457	453	993	1141	470
Of whom, in continuing operations	457	453	515	1141	470
Of whom, in discontinued operations	–	–	478	–	–

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

[2] 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.

INCOME STATEMENTS AND BALANCE SHEETS FOR 2009–2013, FIVE-YEAR SUMMARY (SEK MILLION)

INCOME STATEMENT	2013	2012[2]	2011	2010	2009
Interest income	2,710	2,838	2,552	1,750	1,866
Interest expense	-1,592	-1,719	-1,515	-903	-1,054
Net fee and commission income	333	327	349	372	374
Net financial income	59	47	14	55	33
Other operating income	64	168	779	852	305
Total operating income	**1,574**	**1,661**	**2,179**	**2,126**	**1,524**
Staff costs	-366	-367	-869	-843	-397
Other administrative expenses	-798	-829	-1,047	-995	-816
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	-3	-6	-9	-9	-9
Other operating expenses	-68	-33	-73	-53	-39
Total expenses before loan losses	**-1,235**	**-1,235**	**-1,998**	**-1,900**	**-1,261**
Loan losses, net	-41	-7	-34	-42	-62
Operating profit	**298**	**419**	**147**	**184**	**201**
Appropriations, net[1]	147	-31	24	40	—
Profit before taxes	**445**	**388**	**171**	**224**	**201**
Taxes	-118	-85	-30	-62	-51
Net profit for the year	**327**	**303**	**141**	**162**	**150**

BALANCE SHEET	2013	2012[2]	2011	2010	2009
Cash and cash balances with central banks	544	424	696	493	1,676
Eligible treasury bills, etc.	6,207	5,826	2,441	—	—
Lending to credit institutions	1,384	654	1,916	263	846
Lending to the general public	77,894	60,011	53,393	53,985	48,634
Fair value of portfolio hedge of interest rate risk	71	132	68	5	153
Bonds and other fixed-income securities	11,559	17,025	17,177	12,376	16,787
Shares and participations	64	50	79	72	68
Intangible assets and property, plant and equipment	100	6	15	20	27
Other assets	774	510	905	788	789
Total assets	**98,597**	**84,638**	**76,690**	**68,002**	**68,980**
Due to credit institutions	68	99	43	52	2,074
Deposits and borrowing from the general public	75,677	77,365	71,302	62,969	61,739
Issued securities, etc.	16,864	1,826	—	—	—
Other liabilities	1,041	914	1,301	1,105	1,139
Subordinated liabilities	900	1,200	1,200	1,200	1,200
Total liabilities	**94,550**	**81,404**	**73,846**	**65,326**	**66,152**
Total equity	**4,047**	**3,234**	**2,844**	**2,676**	**2,828**
Total liabilities and equity	**98,597**	**84,638**	**76,690**	**68,002**	**68,980**

[1] Pertains to group contributions for the years 2010-2012. Figure for 2009 has not been recalculated due to a changed accounting policy for group contributions.

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

Distribution of profit

(AMOUNTS IN SEK)

The following amount is available for distribution by the Annual General Meeting:	**SEK**
Total fair value reserve	-68,278,557
Retained earnings	3,306,136,853
Net profit for the year	327,318,927
Unrestricted equity	**3,565,177,223**

The Board of Directors proposes that this amount be distributed as follows:	
Dividend to the shareholders	–
To be carried forward	3,565,177,223

With respect to Ch. 6 § 2 p. 2 of the Annual Accounts Act for Credit Institutions and Securities Companies, the Board is of the opinion that the company's equity is sufficiently large in relation to the scope and risk of operations.

Income statement

SEK million	Note	2013	2012 [1]
Interest income	3	2,710	2,838
Interest expense	3	-1,592	-1,719
Dividends received		0	0
Fee and commission income	4	415	406
Fee and commission expense	4	-82	-79
Net financial income	5	59	47
Other operating income	6	64	168
Total operating income		**1,574**	**1,661**
General administrative expenses			
Staff costs	7	-366	-367
Other administrative expenses	8	-798	-829
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets	9	-3	-6
Other operating expenses	10	-68	-33
Total expenses before loan losses		**-1,235**	**-1,235**
Profit before loan losses		**339**	**426**
Net loan losses	11	-41	-7
Operating profit		**298**	**419**
Appropriations, group contributions		147	-31
Profit before tax		**445**	**388**
Income tax expense	12	-118	-85
Net profit for the year		**327**	**303**

Statement of comprehensive income

SEK million	2013	2012 [1]
Net profit for the year	**327**	**303**
Other comprehensive income		
Items that cannot be reclassified to profit or loss for the year		
Revaluation of defined benefit pensions[2]	6	-1
Tax attributable to revaluation of defined benefit pensions[2]	3	0
Items that have been reclassified or can be reclassified to profit or loss for the year		
Available-for-sale financial assets	-27	59
Hedge of net investment	0	0
Translation difference[3]	-132	14
Tax attributable to translation difference	29	—
Tax attributable to available-for-sale financial assets	7	-14
Total other comprehensive income after tax	**-114**	**58**
Total comprehensive income after tax	**213**	**361**

[1] Figures for 2012 have been recalculated due to a changed accounting policy for defined benefit pensions in Norway, see note 1.
[2] Pertains to locally reported Norwegian pension plans.
[3] 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	2013	2012 [1]
Cash and cash balances with central banks	13	544	424
Eligible treasury bills, etc.	14	6,207	5,826
Lending to credit institutions	15	1,384	654
Lending to the general public	16	77,894	60,011
Fair value of portfolio hedge of interest rate risk	17	71	132
Bonds and other fixed-income securities	18	11,559	17,025
Shares and participations, etc.	19	64	50
Intangible non-current assets	20	95	0
Property, plant and equipment	21	5	6
Current tax assets	22	24	18
Deferred tax assets	22	17	6
Other assets	23	574	333
Prepaid expenses and accrued income	24	159	153
Total assets		**98,597**	**84,638**

Liabilities and provisions	Note	2013	2012 [1]
Due to credit institutions	25	68	99
Deposits and borrowing from the general public	26	75,677	77,365
Issued securities, etc.	27	16,864	1,826
Current tax liabilities	28	85	72
Other liabilities	29	593	502
Accrued expenses and deferred income	30	307	284
Provisions for pensions	31	56	56
Subordinated liabilities	32	900	1,200
Total liabilities and provisions		**94,550**	**81,404**
Share capital		400	400
Other reserves			
- Statutory reserve		81	81
- Total fair value reserve		-68	84
Retained earnings		3,307	2,366
Profit for the year		327	303
Total equity		**4,047**	**3,234**
Total liabilities, provisions and equity		**98,597**	**84,638**

Memorandum items		2013	2012
Pledged assets for own liabilities	34	20,377	—
Other pledged assets	34	5,385	5,284
Contingent liabilities	34	—	4
Commitments	34	22,892	20,083

[1] Figures for 2012 have been recalculated due to a changed accounting policy for defined benefit pensions in Norway, 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 2012	400	81	20	5	25	—	2,338	2,844
Adjustment for changed accounting policy for defined benefit pensions[2]	—	—	—	—	—	—	-34	-34
Tax attributable to changed accounting policy for defined benefit pensions[2]	—	—	—	—	—	—	5	5
Adjusted opening equity 2012	400	81	20	5	25	—	2,309	2,815
Profit for the year							303	303
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-13	—	-13	—	—	-13
Unrealised change in value before tax, fair value reserve	—	—	72	—	72	—	—	72
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
Change in translation difference	—	—	—	14	14	—	—	14
Comprehensive income for the year	—	—	45	14	59	-1	303	361
Contribution from parent company, share-based payment	—	—	—	—	—	—	0	0
Shareholder contribution received	—	—	—	—	—	—	58	58
Closing equity, 2012	400	81	65	19	84	-1	2,670	3,234
Opening equity 2013	400	81	65	19	84	-1	2,670	3,234
Profit for the year	—	—	—	—	—	—	327	327
Reclassification upon disposal to income statement before tax for fair value reserve	—	—	-31	—	-31	—	—	-31
Unrealised change in value before tax, fair value reserve	—	—	4	—	4	—	—	4
Tax attributable to fair value reserve	—	—	7	—	7	—	—	7
Revaluation of defined benefit pensions[2]	—	—	—	—	—	6	—	6
Tax attributable to revaluation of defined benefit pensions[2]	—	—	—	—	—	3	—	3
Change in hedge of net investment in foreign currency	—	—	—	0	0	—	—	0
Change in translation difference	—	—	—	-132	-132	—	—	-132
Tax on change in translation difference	—	—	—	—	—	—	29	29
Comprehensive income for the year	—	—	-20	-132	-152	9	356	213
Shareholder contribution received	—	—	—	—	—	—	600	600
Closing equity, 2013	400	81	45	-113	-68	8	3,626	4,047

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

[2] Pertains to locally reported Norwegian pension plans.

Cash flow statement

CASH FLOW STATEMENT (indirect method), SEK MILLION

Operating activities	2013	2012
Operating profit[1]	445	386
of which, interest paid in	*2,696*	*2,839*
of which, interest paid out	*-1,572*	*-1,717*
Adjustment for non-cash items:		
Unrealised portion of net financial income:	1	-4
Depreciation, amortisation and impairment charges		
- depreciation of property, plant and equipment	3	3
- amortisation and impairment of intangible assets	0	3
Loan losses	50	27
Divestment of subsidiary	—	-93
Group contribution from/to parent company	-147	31
Provisions for defined benefit pension plans	1	—
Income tax paid	-105	-43
Cash flow from operating activities before changes in the assets and liabilities of operating activities	**248**	**310**
Decrease (+)/increase (-) in lending to the general public	-21,628	-6,646
Decrease (+)/increase (-) in holdings of fixed-income securities and equities	4,195	-3,203
Decrease (+)/increase (-) in other assets	130	312
Decrease (-)/increase (+) in deposits and borrowing from the general public	2,203	6,063
Decrease (-)/increase (+) in issued securities	15,500	1,826
Decrease (-)/increase (+) in other liabilities	135	-467
Cash flow from operating activities	**783**	**-1,805**
Investing activities		
Divestment of subsidiary	—	135
Purchases of property, plant and equipment	-3	-2
Sales of property, plant and equipment	0	6
Purchases of intangible non-current assets	-95	—
Cash flow from investing activities	**-98**	**139**

Financing activities[3]	2013	2012
Shareholder contribution	600	41
Repayment of subordinated loans	-300	—
Cash-settled group contribution preceding year (paid/received)	-31	24
Dividend paid[2]	—	—
Cash flow from financing activities	**269**	**65**
Cash flow for the year	**954**	**-1,601**
Cash and cash equivalents at start of year	979	2,569
Exchange rate difference in cash and cash equivalents	-73	11
Cash and cash equivalents at end of year	1,860	979

Cash and cash equivalents	2013	2012
Cash and cash balances with central banks	544	424
Lending to credit institutions	1,384	654
Due to credit institutions	-68	-99
Cash and cash equivalents	**1,860**	**979**

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] Profit before tax for 2012 has been adjusted for group contributions.

[2] No dividend was paid to the parent company Försäkringsaktiebolaget Skandia (publ) in 2013 or 2012.

[3] 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), registered number 516401-9738, pertains to the period 1 January–31 December 2013. Skandiabanken's registered office is in Stockholm, Sweden. The address of the head offices is Lindhagengatan 86, Stockholm. The annual report was approved for publication by the Board of Directors on 10 March 2014. The income statement and balance sheet are subject to adoption by the Annual General Meeting, which is scheduled to be held on 21 May 2014.

Livförsäkringsaktiebolaget Skandia (publ), registered number 502019-6365 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 2013 has been prepared in conformity with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the Swedish Financial Supervisory Authority's regulations and general guidelines (2008:25) on annual reports of credit institutions and securities companies. 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 IFRS'S FOR THE 2013 FINANCIAL YEAR

IFRSs endorsed by the European Commission shall be applied. A few amendments have been made that took effect in 2013. These have not had any material effect on the accounting.

IAS 1 – Presentation of Financial Statements

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

IFRS 13 – Fair Value Measurement

The new standard establishes rules for measuring fair value, where required by other IFRSs. The standard is applicable for fair valuation of both financial and non-financial items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). IFRS 13 requires several quantitative and qualitative disclosures for fair value measurement. The standard is to be applied as from 1 January 2013. The new standard has not had any effects on the current measurement of fair value for the assets that are currently carried on the balance sheet at fair value (applies mainly to available-for-sale financial assets).

IFRS 7 – Financial Instruments: Disclosures

Amendments in IFRS 7 require further disclosures about offsetting of financial instruments. These are presented in note 39.

OTHER CHANGES

REMUNERATION OF EMPLOYEES WITH RESPECT TO DEFINED BENEFIT PENSIONS IN NORWAY

The local rules in Norway for the reporting of defined benefit pension plans have changed as a result of the amended IAS 19 – Employee Benefits. The most significant change pertains to the reporting of defined benefit pension obligations and plan assets, and entails that a discontinuation of the corridor method. Actuarial gains and losses are to be recognised in other comprehensive income. The amendments are to be applied for financial years starting on 1 January 2013 or later, with retrospective application. The effect of the change is a decrease in retained earnings as per 1 January 2012, taking deferred tax into account.

NEW AND AMENDED IFRS'S FOR FINANCIAL YEARS STARTING IN 2014 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 impact on Skandiabanken's financial statements

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments introduces new requirements for classification and valuation of financial assets as well as derecognition. The amendment to IFRS 9 issued in December 2011 entails that IFRS 9 is to be applied for financial years that begin on 1 January 2015 or later. The standard has not yet been endorsed by the EU, however. In December 2011, IFRS 7 was amended, entailing expanded disclosure requirements in the period that IFRS 9 was first applied.

The main requirements in IFRS 9 are described below:

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

New amendments to IFRS 9 are expected during the first half of 2014. Discussions are currently being held to introduce an additional measurement category entailing that an entity may continue recognising changes in value in other comprehensive income. This category is called financial assets at fair value through other comprehensive income and may be used in a business model whose objective entails both receiving contractual cash flows but also the ability to sell when needed. The amendments may primarily affect Skandiabanken's choice of classifica-

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

tion regarding fixed-income securities (SEK 17,766 million), which according to current rules are measured at fair value and for which unrealised gains or losses are recognised in other comprehensive income. Company management has not yet made any evaluation of which classification category will be applicable for Skandiabanken and thus of any possible effects on the accounting.

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

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

Company management is of the opinion that other new and amended standards and interpretations will not have any material effect on Skandiabanken's financial statements in the period during which they are applied for the first time.

4. IMPORTANT SOURCES OF UNCERTAINTY IN ESTIMATIONS AND CRITICAL ASSESSMENTS

When preparing the financial statements, company management must in certain case use estimations and assessments. These are based on previous experience and assumptions that are considered to be fair and reasonable. The estimations and assessments affect reported amounts in both the balance sheet and 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
- Pensions in Norway
- Intangible non-current assets

PROVISIONS FOR IMPAIRED LOANS

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

The loan receivables that entail the greatest uncertainty in valuations – per individual undertaking – consist of individually assessed loan receivables, which for Skandiabanken consist mainly of home mortgages. During the financial year, SEK 10 million (8) was reversed for individually assessed loan receivables, where there was no longer a need for provisions compared with the same period a year ago.

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

PENSIONS IN NORWAY

Calculation of pension obligations for the bank's Norwegian pension liabilities in accordance with Norwegian rules involves numerous assumptions that are set by company management each year for calculations of future cash flows. The assumptions are revised during the year in connection with significant changes. Important estimations are made with respect to the life expectancy of persons entitled to pensions and future increases in their salaries and benefits, in addition to assumptions about staff turnover. These estimations are based on knowledge about the insurance portfolio and the company's previous experience, while increases in benefits are in line with macroeconomic factors such as assumptions about future inflation. The reported pension liability is a calculation of the present value of the combined, anticipated future cash flow for pension payments. The present value calculation is made using an assumed discount rate of 3.3%. The discount rate has a significant impact on the reported liability, and it is of utmost importance that generally accepted methods are used when setting the discount rate based on relevant market interest rates.

INTANGIBLE NON-CURRENT ASSETS

During the year, Skandiabanken started an extensive project aimed at implementing a new banking system. The system is expected to be put in operation in autumn 2014 and is expected will generate future financial benefit. In view of this, the associated development costs have been recognised as an intangible non-current asset. Each year, or whenever there is an indication of a decline in value, impairment testing will be 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. As a basis for calculating value in use, company management assesses the assumptions on future cost savings generated by the new system.

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

- its operating revenue 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 amount to 10% or more of the combined assets of all operating segments.

Skandiabanken has two segments: Sweden banking and Norway banking. Reported revenues in the respective countries and operating segments are derived from the country in which the company has its domicile; no business is conducted across national borders.

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

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

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 and Norway.

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

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

RECALCULATION OF THE BRANCH'S INCOME STATEMENT AND BALANCE SHEET

Skandiabanken's reporting currency is Swedish kronor (SEK). Skandiabanken conducts operations through a branch in Norway, entailing that the company has two functional currencies.

The income statement and balance sheet of the foreign operation is recalculated from its functional currency to

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

Swedish kronor. Assets and liabilities are 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. The translation differences that arise are reported in other comprehensive income as a translation reserve. Upon divestment of an operation, the accumulated translation difference is recognised in profit or loss with accumulated effects of currency hedges.

7. FINANCIAL INSTRUMENTS – CLASSIFICATION AND VALUATION
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. Among liabilities and equity are included trade payables, issued securities, loan liabilities and financial liabilities at fair value.

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

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

GROSS AND NET ACCOUNTING
Assets and liabilities are reported gross 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 has been done during the year.

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

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

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

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

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

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

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

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

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

c) Impaired loans
An impaired loan is a non-performing loan for which there is inadequate collateral to cover both the principal and interest including late charges.

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

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

d) Determination of when a need to recognise impairment exists
Skandiabanken determines whether there is objective evidence to recognise impairment, in the following ways:
1) Individually for financial assets that are significant individually
2) Collectively for financial assets that are not significant individually, which are called “homogenous groups of loans with limited value and similar credit risk”
3) On a portfolio valuation basis for loan losses that have not been individually identified as impaired

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

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

If there is no objective evidence for a need to recognise impairment in accordance with categories 1) or 2), then the asset is included in category 3). 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 assets. As an indicator of whether objective evidence exists for lower cash flows in this group, Skandiabanken measures the response to payment reminders for this group. Provisions for this type are made in such way that the likelihood of the loan becoming a confirmed loss is calculated based on the response to payment reminders and is applied for the group of loans that are 1-60 days past due. Another indicator consists of changes in the risk classification for a group in which the assets are included in an internal risk classification system. Any impairment is in such case based on the estimated, anticipated 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 credit risks is calculated based on the entire, remaining receivable. Provisions for loan losses are reported in a separate provision account on the balance sheet and are included as a sub-item under “Lending to the general public”, and the corresponding opposite item is reported in the income statement under “Loan losses, net”. Reversals/dissolutions for probable loan losses, where a need for provisions no longer exists, are made when it has been determined that the credit quality has improved, amounts past due have been settled, and there is no longer reason to expect that the contractual terms will not be met.

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

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

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 individual 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 based either on changes in the payment status or change 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 done for equity instruments. However, for fixed-income securities, a reversal of impairment is done through profit or loss in cases where the fair value has increased.

HEDGE ACCOUNTING

Hedged items

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

Effectiveness of hedges

In order to be able to apply hedge accounting, the hedge must have a high degree of effectiveness. A hedge is considered to be effective if, upon its inception and during the entire term, it can be expected that changes in fair value of the hedged item will be essentially neutralised by changes in the fair value of the hedge instrument. The outcome 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.

Derivatives that constitute hedge instruments are classified in two categories, depending on the purpose of the hedge:

Portfolio hedge at fair value

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

Hedges of net investments in foreign operations

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 LIABILITIES

FINANCIAL LIABILITIES WHERE CHANGES IN FAIR VALUE ARE REPORTED THROUGH PROFIT OR LOSS

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

OTHER FINANCIAL LIABILITIES

Interest-bearing liabilities

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

OTHER LIABILITIES

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

METHODS FOR DETERMINING FAIR VALUE

The methods for determining fair value adhere to a hierarchy entailing that market information is used as far as possible, and company-specific information as little as possible. For disclosure purposes, fair value is then broken down into the following levels for Skandiabanken:
Level 1: 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 has been estimated to be three years for IT equipment and five years for other equipment. Applied useful lives, residual values and depreciation methods are reconsidered yearly.

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

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 nonrecurring infrastructural charges and acquired IT systems and software that are judged to have significant value for the operations in coming years.

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

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

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

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

The carrying amount of Skandiabanken's assets is reviewed at every balance sheet date to determine if there is any indication of a decline in value. If such indication exists, the asset's recoverable amount is calculated, which is the higher of asset's net sales value and value in use. 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 the 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 which consist of both defined contribution and defined benefit pension plans, which are reported as an expense in the income statement for the period the costs 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 ("Tryggandelagen") and the Financial Supervisory Authority's regulations for employees' pension obligations in Sweden. Pension obligations in the Norwegian branch are reported in accordance with local, Norwegian rules, where defined benefit obligations are carried on the balance sheet. For the bank's Norwegian obligation, the employees' service cost and the net interest on the defined benefit pension liability are reported as an expense in the income statement, and effects of revaluations are reported in other comprehensive income. The pension liability is reported as a provision on the balance sheet.

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 exchange rate risk is reported in net interest income. Differences in interest upon early redemption of lending and deposits at fixed interest rates are also reported in net interest income.

FEE AND COMMISSION INCOME AND FEE AND COMMISSION EXPENSES

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

Arrangement fees 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 commission income or expense, but as interest income or interest expense.

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

CONT. NOTE 1. SIGNIFICANT ACCOUNTING AND VALUATION POLICIES

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

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

STAFF COSTS
Short-term remuneration of employees consists of fixed and variable salaries and associated social security 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 reported immediately as an expense.

PENSION COSTS
In the income statement, pensions costs consist of pension premiums for defined contribution and defined benefit pension plans. In addition to these are the cost for the Norwegian defined benefit pension plans in accordance with local Norwegian rules, consisting of the sum of current service cost and past service cost, and net interest on the defined benefit liability.

14. TAXES
Income taxes consist of current and deferred tax. Current tax is reported for the year's taxable profit and is calculated individually for Sweden and the Norwegian branch in accordance with the tax rules in the respective countries. 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 accounting 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.

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

The carrying amount of deferred tax assets is tested on every accounting occasion and is reduced to the extent that it is no longer likely that sufficient taxable surpluses will be available to be used entirely or partly against the deferred tax asset. Valuation of deferred tax is based on how the carrying amount of assets or liabilities is expected to be realised or settled. Deferred tax is calculated using the tax rates and 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. OPERATING LEASES
Leasing fees paid under operating leases are reported in the income statement on a linear basis over the term of the leasing period. For Skandiabanken, this item pertains to rents of premises.

16. 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.

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

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

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

CONTINGENT LIABILITIES
Contingent liabilities include 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.

17. CASH FLOW STATEMENT
Cash flow from operating activities indicates Skandiabanken's main line of business, i.e., lending and deposits, and investments in fixed-income securities.

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.

18. GROUP CONTRIBUTIONS AND SHAREHOLDER CONTRIBUTIONS
Group contributions are reported in accordance with RFR 2 Accounting for Legal Entities – Alternative Rule. Group contributions received and rendered by Skandiabanken are reported as appropriations. Shareholder contributions received are reported in equity.

2. REPORTING OF OPERATING SEGMENTS

SEK million	Sweden Banking		Norway Banking		Eliminations and recalculations, Banking		Total Banking	
Income statements	**2013**	**2012**	**2013**	**2012[4]**	**2013**	**2012**	**2013**	**2012[4]**
Net interest income	500	577	618	542	—	—	1,118	1,119
Net fee and commission income	127	130	206	197	—	—	333	327
Net financial income	22	25	37	22	—	—	59	47
Other operating income[3]	84	196	3	0	-23	-28	64	168
Operating income	**733**	**928**	**864**	**761**	**-23**	**-28**	**1,574**	**1,661**
Staff costs	-205	-208	-164	-159	3	—	-366	-367
Other administrative expenses	-484	-516	-334	-341	20	28	-798	-829
Depreciation of property, plant and equipment[1]	0	-1	-3	-2	—	—	-3	-3
Amortisation of intangible assets	—	—	0	-3	—	—	0	-3
Other operating expenses	-45	-12	-23	-21	—	—	-68	-33
Expenses before loan losses	**-734**	**-737**	**-524**	**-526**	**23**	**28**	**-1,235**	**-1,235**
Net loan losses	-7	-4	-34	-3	—	—	-41	-7
Operating profit	**-8**	**187**	**306**	**232**	**0**	**0**	**298**	**419**
Appropriations, group contributions	147	-31	—	—	—	—	147	-31
Profit before tax	**139**	**156**	**306**	**232**	**0**	**0**	**445**	**388**
Income tax expense	-31	-14	-87	-71	—	—	-118	-85
Profit for the year	**108**	**142**	**219**	**161**	**0**	**0**	**327**	**303**
External income	663	853	853	757	—	—	1,516	1,610
Internal income[2]	50	47	8	4	—	—	58	51
Internal expenses[2]	-8	-4	-50	-47	—	—	-58	-51
COMPREHENSIVE INCOME								
Net profit for the year	**108**	**142**	**219**	**161**	**0**	**0**	**327**	**303**
Other comprehensive income								
Items that cannot be reclassified to profit or loss for the year								
Revaluation of defined benefit pensions	—	—	6	-1	—	—	6	-1
Taxes attributable to revaluation of defined benefit pensions	—	—	3	0	—	—	3	0
Items that have or can be reclassified to profit or loss for the year								
Change in value of available-for-sale financial assets	-9	29	-18	30	—	—	-27	59
Hedge of net investment	0	0	—	—	—	—	0	0
Translation difference[5]	—	—	—	—	-132	14	-132	14
Tax attributable to translation difference[5]	—	—	—	—	29	—	29	—
Tax attributable to changes in value of available-for-sale financial assets	2	-6	5	-8	—	—	7	-14
Total	**-7**	**23**	**-4**	**21**	**-103**	**14**	**-114**	**58**
Comprehensive income for the year after tax	**101**	**165**	**215**	**182**	**-103**	**14**	**213**	**361**

Footnotes to segment reporting table

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

[2] Internal income and expenses are included in the lines "Operating income", "Staff costs" and "Other administrative expenses".

[3] Of which, gain of SEK 94 million on the sale of the subsidiary Skandia Fonder AB in 2012.

[4] Figures for 2012 have been recalculated due to changed accounting policy for defined benefit pensions in Norway, see note 1.

[5] Translation difference pertaining to the Norwegian branch has been reported in the column "Eliminations and recalculations, Banking" in order to provide a clearer picture of the segment's governance. As a result, the segment note for this differs from how it was reported in the Financial Statement Bulletin.

CONT. NOTE 2. REPORTING OF OPERATING SEGMENTS

SEK billion	Sweden Banking		Norway Banking		Eliminations and recalculations, Banking		Total Banking	
	2013	2012	2013	2012[5]	2013	2012	2013	2012[5]
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]	31.9	29.0	46.0	31.0	—	—	77.9	60.0
Other assets	15.3	12.3	8.4	12.7	-3.0	-0.5	20.7	24.5
Total assets	**47.2**	**41.3**	**54.4**	**43.7**	**-3.0**	**-0.5**	**98.6**	**84.5**
Liabilities								
Deposits and borrowing from the general public	35.7	36.6	40.0	40.8	—	—	75.7	77.4
Issued securities	7.7	1.2	9.2	0.6	—	—	16.9	1.8
Other liabilities	1.5	1.8	3.5	0.9	-3.0	-0.5	2.0	2.2
Total liabilities	**44.9**	**39.6**	**52.7**	**42.3**	**-3.0**	**-0.5**	**94.6**	**81.4**
Equity	**2.3**	**1.8**	**1.7**	**1.4**	**—**	**—**	**4**	**3.2**
Total liabilities and equity	**47.2**	**41.4**	**54.4**	**43.7**	**-3.0**	**-0.5**	**98.6**	**84.6**

[1] Swedish banking operations, including loans to the Swedish National Debt Office of SEK 0 billion (1.6).

Key ratios								
Investment margin, %[1]	1.17	1.51	1.36	1.26	—	—	1.26	1.39
C/I ratio after loan losses[2,4]	1.00	0.88	0.61	0.69	1.0	1.0	0.78	0.79
Loan loss ratio, %[3]	0.03	0.01	0.11	0.01	—	—	0.07	0.01
Number of customers, thousands	450	445	374	363	—	—	824	808
Average number of employees	277	272	180	181	—	—	457	453

Footnotes to segment reporting table

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

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

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

[4] The capital gain of SEK 94 million from the sale of Skandia Fonder AB has been excluded from the calculation of the C/I ratio for 2012.

[5] Figures for 2012 have been recalculated due to changed accounting policy for defined benefit pensions in Norway, see note 1.

Reporting of operating segments

Skandiabanken conducts banking business in the retail market in Sweden and Norway 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 equities trading and mutual funds.

Internal revenues for the “Sweden banking” segment pertain to interest attributable to lending to Skandiabanken’s Norwegian branch, i.e., the “Norway banking” segment. Interest primarily pertains to internal subordinated loans issued in connection with allocations of capital. Internal lending, deposits and borrowing are priced according to specific interest rates with a going rate interest rate mark-up. 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”. For Skandiabanken, previously this pertained to revenue from group companies outside the Skandiabanken group – primarily Skandia AB and Skandia Liv. Invoicing to other companies in the Skandia group does not exceed the 10% threshold. For further information, see note 41, “Related party disclosures”.

3. NET INTEREST INCOME

	2013		2012	
	Interest	Average interest rate	Interest	Average interest rate
Lending to credit institutions	24	1.04%	30	1.09%
Lending to the general public[1]	2,327	3.58%	2,227	4.00%
Fixed-income securities	351	1.91%	580	2.66%
Other	0	0%	0	0%
Total interest income[2]	**2,702**	**3.07%**	**2,837**	**3.52%**
Due to credit institutions	2	1.28%	2	2.44%
Deposits and borrowing from the general public	1,417	1.94%	1,641	2.22%
Issued securities	122	1.86%	21	2.47%
Subordinated liabilities	28	2.48%	41	3.40%
Other	15	0.26%	13	0.29%
Total interest expense[2]	**1,584**	**2.13%**	**1,718**	**2.13%**
Total[2]	**1,118**	**1.81%**	**1,119**	**1.39%**

Interest income from financial instruments that are not measured at fair value through profit or loss amounts to SEK 2,791 million (2,866). Interest expenses from financial instruments that are not measured at fair value through profit or loss amount to SEK 1,592 million (1,720).

[1] Interest on impaired loans amounted to SEK 2 million (4).

[2] The deviation in total interest income and expense compared with the income statement amounts to SEK 8 million (1) and pertains to the interest expenses attributable to hedge instruments, which in the note are transferred to interest income to provide a more accurate picture while taking into account the purpose of the hedges.

4. NET FEE AND COMMISSION INCOME

	2013	2012
Payment intermediation fees	280	281
Commissions on lending	1	1
Commissions on deposits	1	1
Commissions on securities	131	121
Other commissions	2	2
Total fee and commission income	**415**	**406**
Payment intermediation fees	-52	-54
Commissions on securities	-16	-20
Other commissions	-14	-5
Total fee and commission expenses	**-82**	**-79**
Net fee and commission income	**333**	**327**

Commissions derived from financial assets and liabilities that are not measured at fair value and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 281 million (282) for fee and commission income and SEK 51 million (55) for fee and commission expenses.

Commissions derived from asset management operations that involve holdings or investments in assets for the benefit of customers and that are not included in the determination of interest in accordance with the effective interest rate method amounts to SEK 132 million (122) for fee and commission income and SEK 16 million (21) for fee and commission expenses.

5. NET FINANCIAL INCOME

	2013	2012
Financial assets at fair value classified as held for trading	**0**	**0**
- Share dividends	0	0
- Shares and participations and other equity instruments, change in value	0	0
- Interest-bearing derivatives, change in value	0	0
Available-for-sale financial assets	**31**	**13**
- Fixed-income securities, change in value	31	13
Hedge accounting[4]	0	5
- Change in value of hedged item	-61	64
- Change in value of hedged instruments	61	-59
Exchange rate movements	**28**	**29**
Total	**59**	**47**

Total net result for available-for-sale financial assets[1]	**2013**	**2012**
Unrealised gain/loss recognised in other comprehensive income[2]		
Reclassification of realised gains/losses from other comprehensive income to net profit for the year	-31	-13
Unrealised changes in value	4	72
Total profit in other comprehensive income	**-27**	**59**
Realised gains/losses reported in income statement[3]		
Reclassification of realised gains/losses from other comprehensive income to net profit for the year	31	13
Gain/loss realised directly in income statement	1	0
Total realised gain/loss in income statement	**32**	**13**
Total	**5**	**72**

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

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

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

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

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

6. OTHER OPERATING INCOME

	2013	2012
Revenues from group companies within the Skandiabanken group[1]	61	71
Capital gain on sale of subsidiary	–	94
Other income	3	3
Total	**64**	**168**

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

7. STAFF COSTS

	2013	2012
Salaries and remuneration	-235	-229
Defined benefit pensions	-17	-18
Defined contribution pensions	-24	-20
Payroll tax	-8	-9
Social security costs	-57	-55
Variable remuneration[1]	-10	-14
Other staff costs	-15	-22
Total	**-366**	**-367**

[1] By variable remuneration in 2013 is meant the Skandianen profit-sharing foundation and similar profit-sharing systems in Norway, and a dissolution of an excessively high provision from 2012.

	2013					**2012**				
Average number of employees	**Women**		**Men**		**Total**	**Women**		**Men**		**Total**
Sweden	151	54%	127	46%	278	145	53%	127	47%	272
Norway	99	56%	80	44%	179	100	55%	81	45%	181
Total	**250**	**55%**	**207**	**45%**	**457**	**245**	**54%**	**208**	**46%**	**453**

Gender breakdown	**2013**					**2012**				
as per 31 December	**Women**		**Men**		**Total**	**Women**		**Men**		**Total**
Board of Directors	6	46%	7	54%	13	6	55%	5	45%	11
CEO and other members of executive management	1	20%	4	80%	5	2	25%	6	75%	8

CONT. NOTE 7. STAFF COSTS

2013 SEK thousand Total	Base salary/ directors' fees	Variable remu-neration[2]	Other benefits and remu-neration	Pension costs	Total
Niklas Midby, Chairman of the Board	600	–	–	–	600
Magnus Beer, director	350	–	–	–	350
Peter Rydell, director	21	–	–	–	21
Björn Fernström, director	22	–	–	–	22
Øyvind Thomassen, CEO	5,198	–	127	446	5,771
Jonas Holmberg, Deputy CEO	2,230	38	85	1,066	3,419
Bengt-Olof Nilsson Lalér, Deputy CEO	2,202	36	71	749	3,058
Other senior executives (2 persons)	4,103	418	255	876	5,652
Other employees who influence the company's level of risk (25 persons)[1]	24,579	2,695	1,030	5,471	33,775
Other employees in the banking operations (427 persons)	191,788	7,330	13,558	31,962	244,638
Total, Skandiabanken	**231,093**	**10,517**	**15,126**	**40,570**	**297,306**
of which, Sweden	*119,461*	*4,050*	*10,253*	*24,892*	*158,656*
of which, Norway	*111,632*	*6,467*	*4,873*	*15,678*	*138,650*

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

[2] By variable remuneration in 2013 is meant the Skandianen profit-sharing foundation and similar profit-sharing systems in Norway, and a dissolution of an excessively high provision from 2012.

2012 SEK thousand Total	Base salary/ directors' fees	Variable remu-neration	Other benefits and remu-neration	Pension costs	Total
Niklas Midby, Chairman of the Board	600	–	–	–	600
Magnus Beer, director	200	–	–	–	200
Øyvind Thomassen, CEO[3]	3,783	0	1,161	243	5,187
Jonas Holmberg, Deputy CEO	1,980	660	68	953	3,661
Bengt-Olof Nilsson Lalér, Deputy CEO	1,968	656	62	710	3,396
Other senior executives (5 persons)[1]	7,006	1,226	484	952	9,668
Other employees who influence the company's level of risk (18 persons)[2]	13,576	1,189	1,174	2,037	17,976
Other employees in the banking operations (427 persons)	193,544	10,756	12,927	35,318	252,545
Total, Skandiabanken	**222,657**	**14,487**	**15,876**	**40,213**	**293,233**
of which, Sweden	*116,826*	*7,788*	*9,805*	*22,801*	*157,220*
of which, Norway	*105,831*	*6,699*	*6,071*	*17,412*	*136,013*

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

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

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

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

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

Risk analysis

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

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

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

- A remuneration committee in Skandia Liv, which is a permanent board committee tasked with conducting preparatory drafting work on benefits for employees of Skandia Liv and its subsidiaries, and the introduction of a specially appointed member for remuneration matters in the subsidiaries. Through this, the Board is considered to be able to make conscious, active decisions on remuneration matters. The process also ensures transparency in the design of remuneration for the CEO and his management team and for the subsidiaries.
- 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.

Drafting and decision-making process

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

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

CONT. NOTE 7. STAFF COSTS

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

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

Components of remuneration

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. For employees in Sweden, except for the CEO, a yearly allocation is made to Skandianen based on Skandia's financial result. For employees in Norway, remuneration corresponding to a maximum of one month's salary may be payable for 2013
- Pension plans in Sweden consist mainly of retirement benefits under the collective agreement in the insurance industry (FTP), and in certain cases additional retirement benefits for senior executives. Pension plans for employees in Norway are either defined benefit or defined contribution solutions
- Other benefits, e.g., company car, private healthcare insurance, subsidised interest rates and fitness subsidy

No employee of Skandiabanken is entitled to individual, 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. The CEO's remuneration consists of a fixed base salary, while the remuneration for the deputy CEOs and other senior executives consists of a fixed, base salary and payment from Skandianen as described below.

As a result of Skandiabanken's decision to move from Norway to Sweden in 2013, he is entitled, for a limited time, to a taxable housing subsidy of SEK 93,000, gross, per month.

Skandianen

For all employees in Sweden, except for the CEO, remuneration corresponding to a maximum of 125% of one-half of the Price Base Amount may be payable through an allocation to the Skandianen profit-sharing foundation. This remuneration is not at the employee's disposal until the fifth year after the year in which it was earned, at the earliest. For 2013 the maximum allocation can amount to SEK 27,800 per employee. For employees in Norway, payment can amount to a maximum of one month's salary for 2013.

Share-based payments

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

The last grant of shares was made in 2011 for the 2010 earnings year. A total of 32,558 shares were granted. This holding remains due to the rules on deferral of remuneration stipulated by the Financial Supervisory Authority's regulations on remuneration systems in credit institutions, securities companies and fund companies that have permits for discretionary portfolio management (FFFS 2011:1). This means that the grants have been deferred for three years, until 2014. Old Mutual's share price on 31 December 2013 was GBP 1.89, corresponding to SEK 19.27. Skandiabanken has no additional costs for the remuneration programmes apart from social security costs. Social security costs are judged to amount to a level that does not have a material financial impact on Skandiabanken's profit.

Change in liability for variable remuneration

SEK thousand	Executive management	Other employees who influence the company's level of risk	Other employees	Total	Of which, deferred remuneration
Opening balance, 1 January 2012	**3,264**	**1,507**	**18,076**	**22,847**	**1,307**
Exchange rate difference	21	14	388	423	
Estimated provision for earned variable remuneration in 2012	1,619	1,129	12,659	15,407	
Payment of remuneration earned in previous years	-1,649	-689	-9,436	-11,774	
Adjustment of remuneration from previous years	1,060	113	-8,392	-7,219	
Closing balance, 31 December 2012	**4,315**	**2,074**	**13,295**	**19,684**	**4,167**
Exchange rate difference	-173	-132	-786	-1,091	
Estimated provision for earned variable remuneration in 2013	232	1,396	13,571	15,199	
Payment of remuneration earned in previous years[1]	-462	-1,949	-5,474	-7,885	
Adjustment of remuneration from previous years	252	1,222	-6,474	-5,000	
Closing balance, 31 December 2013	**4,164**	**2,611**	**14,132**	**20,907**	**4,786**

[1] Payment of variable remuneration in 2013 and provision to the Skandianen profit-sharing foundation and similar profit-sharing system in Norway.

Percentage allocation of variable remuneration

	2013	2012
Cash variable remuneration[1]	-4%	48%
Share-based payment	–	1%
Other[2]	104%	51%
	100%	**100%**

[1] Pertains to the dissolution of an excessively high provision from 2012.

[2] Pertains to the Skandianed profit-sharing foundation and similar profit-sharing system in Norway.

CONT. NOTE 7. STAFF COSTS

Occupational pensions for the CEO and deputy CEOs

Skandiabanken's 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. When the CEO was employed in Norway, his pension plan was a defined benefit solution, but his has now been concluded. The retirement age for the pension plan is 65. In addition to pension provided under the FTP plan, for pensionable salary amounts higher than 30 times the Income Base Amount, a premium provision of 7% is paid. The year's pension cost in relation to pensionable remuneration is 18%.

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

For one of the deputy CEOs, in addition to the FTP plan, a premium is paid that corresponds to 37% of the pensionable salary amount above the plan's ceiling of 30 times the Income Base Amount.

The year's defined contribution pension cost in relation to pensionable remuneration was 25% (25%) for both deputy CEOs. The year's defined benefit pension cost in relation to pensionable remuneration was 15% (17%).

Occupational pensions for other senior executives

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

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

For other senior executives, the year's defined contribution pension cost in relation to pensionable remuneration was 20% (12%). The year's defined benefit pension cost in relation to pensionable remuneration was 8% (3%).

Pension cost in relation to pensionable salary

	2013		2012	
	Defined contribution	Defined benefit	Defined contribution	Defined benefit
CEO	11%	7%	–	21%
Deputy CEOs	25%	15%	25%	17%
Other senior executives, 2 (5) persons	20%	8%	12%	3%

Terms of notice and severance pay

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

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

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

Severance pay and guaranteed benefits[1]

	2013				2012			
SEK thousand	Executive management	Other employees who influence the company's level of risk	Other employees	Total	Executive management	Other employees who influence the company's level of risk	Other employees	Total
Expensed amounts for severance pay								
Severance pay[2]	–	–	2,403	2,403	–	–	3,211	3,211
Number of persons	–	–	3	3	–	–	3	3
Amount paid out during the year								
Severance pay[2]	–	–	2,403	2,403	–	–	4,854	4,854
Severance pay pledged during the year in connection with new hires								
Pledged amounts:								
Severance pay	2,755	–	–	2,755	4,726	–	–[3]	4,726
Number of persons covered by such pledge	2	–	–	2	2	–	1	3
Maximum individually pledged amount	1,700	–	–	1,700	3,789	–	–[3]	3,789

[1] There are no guaranteed benefits.

[2] Severance pay in 2012 is attributable to changes in the Swedish and Norwegian banking operations in connection with Skandia's reorganisation.

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

CONT. NOTE 7. STAFF COSTS

Loans

Skandiabanken offers personnel loans to employees of Skandiabanken as well as of other group companies in Skandia. Regardless of which company the employee works for or whether the employee is classified as a related party or not, the same terms are applied for everyone. Personnel loans are granted for amounts of up to a maximum of 35 times the Price Base Amount, or SEK 1.5 million. The employee is taxed for the benefit of the loan on a continuing basis, based on the government lending rate set by the Swedish Tax Agency on 30 November in the year before the tax year, plus one percentage point, 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	2013	2012
Board members and deputy board members in the Skandia group	17,103	14,538
CEOs and deputy CEOs in the Skandia group	9,291	8,404
Other senior executives in the Skandia group	45,758	43,735
of whom, board members and deputy board members of Skandiabanken	*5,901*	*7,042*
of whom, the CEO and deputy CEOs of Skandiabanken	*788*	*55*
of whom, other senior executives of Skandiabanken	*3,333*	*6,545*

[1] Loans granted have been made by Skandiabanken. All loans pertain to loans with adequate collateral or guarantees, except for other unsecured loans of SEK 340 thousand (229) and SEK 590 thousand (472), of a granted amount of SEK 2,422 thousand (2,152).

The terms of the loans are in agreement with what is normally applied for lending to the general public or to other group employees. Skandiabanken or the group companies have not pledged collateral or entered into any contingent liabilities for the benefit of the persons reported.

Employees who can influence Skandiabanken's level of risk

Based on the risk analysis referred to above, Skandiabanken has identified the employees who could have a significant influence on Skandiabanken's level of risk and are thus covered by special stipulations on risk adjustment ("Specially Regulated Staff"). Specially Regulated Staff include the following categories:

- executive management
- employees in senior strategic functions
- employees responsible for control functions
- risk-takers

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

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

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

Skandiabanken has employees who were previously entitled to variable remuneration that will be paid out in future years. For these employees, which 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 secured 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 required 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 Liv'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.

8. OTHER ADMINISTRATIVE EXPENSES

	2013	2012
Cost of premises	-48	-52
IT costs	-127	-129
Fees and purchased services	-433	-460
Telecom and postage costs	-27	-28
Office expenses	-3	-2
Operating and transaction costs	-138	-135
Other administrative expenses	-22	-23
Total	**-798**	**-829**

The amounts above include SEK -387 million (394) for outsourced services, see note 41.

Contracted rents

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

Breakdown 2013	**<1 year**	**1-5 years**	**> 5 years**	**Total**
Rents for premises	11	44	59	114

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

Audit costs	**2013**	**2012**
Audit assignment		
- Deloitte	-2	-2
Total audit assignment	**-2**	**-2**
Other assignments		
Auditing activities in addition to the audit assignment – Deloitte	0	0
Other services – KPMG	—	-1
Other services – Deloitte	-1	-4
Total costs for other assignments	**-1**	**-5**

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

	2013	2012
Property, plant and equipment		
Depreciation		
- Equipment	-3	-3
Intangible assets		
Amortisation		
- other intangible non-current assets	0	-3
Total	**-3**	**-6**

10. OTHER OPERATING EXPENSES

	2013	2012
Advertising and marketing	-68	-33
Total	**-68**	**-33**

11. LOAN LOSSES, NET

	2013	2012
Specific provision for individually assessed loan receivables		
The year's write-off of confirmed loan losses	-10	-15
Reversal of provisions for probable loan losses in previous financial years which are reported as confirmed loan losses in the year's accounts	11	15
The year's provision for probable loan losses	-15	-9
Paid in from confirmed loan losses in previous years	0	1
Reversal of provisions for probable loan losses which are no longer necessary	10	8
Net expense for the year for individually assessed loan receivables	**-4**	**0**
Portfolio provisions for loans individually assessed as not being impaired		
The year's change in provision for individually assessed loan receivables	-5	0
The year's change in provisions 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	**-5**	**0**
Collectively assessed homogenous groups of loan receivables with limited value and similar credit risk		
The year's write-off of confirmed loan losses	-28	-53
Paid in from confirmed loan losses in previous years	8	19
Provision/dissolution for collectively assessed homogenous groups of loan receivables	-12	27
Net expense for the year for collectively assessed homogeneous groups of loan receivables	**-32**	**-7**
Net loan losses for the year	**-41**	**-7**

12. INCOME TAX EXPENSE

The following components are included in the tax expense:	2013	2012
Current tax		
- Tax on profit for the year	-118	-72
- Tax on previous years' profits	-2	0
Deferred tax[1]	2	-13
Total	**-118**	**-85**

Correlation between income tax expense and reported profit before tax	2013	2012
Reported profit after appropriations but before tax	445	388
Tax according to applicable Swedish tax rate of 22.0% (26.3%)	-98	-102
Tax effect of tax-exempt income	1	25
Tax effect of non-deductible expenses	-1	-1
Effect of change in tax rate to 22% in Sweden	—	-2
Tax effect of differences in taxation between countries	-18	-5
Current tax pertaining to previous years	-2	0
Total	**-118**	**-85**
Average effective tax rate	26.5%	22.0%

[1] Deferred tax broken down by type of temporary difference		
Tax effect attributable to temporary differences in financial instruments	0	-1
Tax effect attributable to temporary differences in pensions	2	-10
Tax effect attributable to temporary differences in provisions	0	-2
Total	**2**	**-13**

13. CASH AND CASH BALANCES WITH CENTRAL BANKS

	2013	2012
Swedish notes and coins	0	4
Central Bank of Sweden, payable on demand	15	11
Foreign central banks, payable on demand	529	409
Total	**544**	**424**

14. ELIGIBLE TREASURY BILLS, ETC.

Outstanding loans broken down by counterparty, net book value	2013	2012
Swedish municipalities	4,432	3,107
Foreign governments	—	697
Foreign municipalities	1,775	2,022
Total	**6,207**	**5,826**
Nominal value	6,200	5,817
Average remaining maturity, years	1.8	1.6
Average remaining term of fixed interest, years	0.2	0.7

15. LENDING TO CREDIT INSTITUTIONS

Outstanding loans broken down by counterparty, net book value	2013	2012
Central Bank of Sweden	843	—
Swedish credit institutions	403	104
Foreign credit institutions	138	550
Total	**1,384**	**654**

Outstanding loans broken down by remaining maturity, net book value	2013	2012
Payable on demand	1,384	654
Total	**1,384**	**654**
Average remaining maturity, years	0.0	0.0

16. LENDING TO THE GENERAL PUBLIC

	2013	2012
Amortised cost[1]	77,986	60,102
Provision for impaired loans	-92	-91
Total	**77,894**	**60,011**

a) Lending broken down by remaining maturity	**2013**	**2012**
Payable on demand	19	1
Maximum 3 months	19,825	17,178
Longer than 3 months but max 1 year	8,263	4,955
Longer than 1 year but max 5 years	11,732	11,920
Longer than 5 years	38,055	25,957
Total	**77,894**	**60,011**
Average remaining maturity, years	12.1	10.6

b) Impaired loans and provisions	**2013**	**2012**
Impaired loans, gross	139	169
Specific provisions for individually assessed loan receivables	-17	-22
Provision for collectively assessed homogenous groups of loan receivables with limited value	-68	-66
Collective provisions for individually assessed loan receivables	-7	-3
Total provisions for impaired loans	-92	-91
Total impaired loans, net	**47**	**78**

Non-performing loans that are not judged to be impaired amounted to SEK 54 million (64). Non-performing loans that are not judged to be impaired refers to loans for which adequate collateral exists.

c) Loan receivables broken down by geographic region	**2013**	**2012**
Loan receivables at amortised cost (before provision for loan losses)[1]	**77,986**	**60,102**
Sweden[1]	31,929	28,993
Norway	46,057	31,109
Specific provisions for individually assessed loan receivables	**17**	**22**
Sweden	6	13
Norway	11	9
Collective provisions for individually assessed loan receivables	**7**	**3**
Sweden	1	1
Norway	6	2
Provisions for collectively assessed homogenous groups of loan receivables	**68**	**66**
Sweden	5	6
Norway	63	60
Total provisions	**92**	**91**
Sweden	12	20
Norway	80	71

	2013	2012
Loan receivables at amortised cost (after provision for loan losses)[1]	**77,894**	**60,011**
Sweden[1]	31,917	28,973
Norway	45,977	31,038
Impaired loans broken down by geographic region		
Impaired loans (after provision for probable loan losses)	**47**	**78**
Sweden	17	27
Norway	30	51

[1] Including loans of SEK 0 million (1,610) to the Swedish National Debt Office.

d) Reconciliation of provisions for loan losses	**2013**	**2012**
Opening balance, provisions	**91**	**133**
Specific provisions		
Opening balance	**22**	**36**
Confirmed loan losses during the year	-11	0
Provisions	15	9
Reversals	-10	-23
Changes recognised in the income statement	**-6**	**-14**
Translation difference	-1	0
Reclassifications	2	0
Closing balance	**17**	**22**
Collective provisions		
Opening balance	**69**	**97**
Net change in provisions recognised in the income statement	13	-26
Translation difference	-7	1
Reclassifications	—	-3
Closing balance	**75**	**69**
Provisions, closing balance	**92**	**91**

17. FAIR VALUE OF PORTFOLIO HEDGE OF INTEREST RATE RISK

	2013	2012
Opening balance	132	68
Change in value of hedged item	-61	64
Closing balance	**71**	**132**

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, “Disclosure of derivative instruments”.

18. BONDS AND OTHER FIXED-INCOME SECURITIES

Available-for-sale financial assets	**2013**	**2012**
Issued by public entities	270	1,635
Issued by other borrowers	11,289	15,390
Total	**11,559**	**17,025**

Issuers		
Swedish municipalities	270	1,051
Swedish credit institutions	4,783	8,095
Other Swedish issuers	—	100
Foreign municipalities	—	584
Foreign credit institutions	6,135	6,893
Other foreign issuers	371	302
Total	**11,559**	**17,025**

Remaining maturity		
Maximum 1 year	4,511	5,364
Longer than 1 year but max 5 years	7,048	11,661
Total	**11,559**	**17,025**

Total holdings of available-for-sale financial assets and financial assets held to maturity, broken down by issuer	**2013**	**2012**
Issued by public entities	270	1,635
Issued by other borrowers	11,289	15,390
Total	**11,559**	**17,025**

Average remaining maturity, years	1.7	1.5
Average remaining fixed interest term, years	0.1	0.1
of which, listed securities	*10,560*	—
of which, unlisted securities	*999*	*17,025*
of which, pledged as security for the benefit of the Central Bank of Sweden	2,599	2,854
of which, pledged as security for the benefit of the Central Bank of Norway	2,676	2,354

19. SHARES AND PARTICIPATIONS, ETC.

Financial assets at fair value	**2013**	**2012**
Listed shares and participations	0	0
Unlisted shares and participations	10	12
Total	**10**	**12**

The holding is classified as held for trading.

Available-for-sale financial assets		
Listed shares	54	38
Total	**54**	**38**

Total	**64**	**50**

20. INTANGIBLE ASSETS

OTHER INTANGIBLE ASSETS	2013				2012			
Cost	Acquired IT systems under development	Acquired IT systems	Other intangible assets	Total	Acquired IT systems under development	Acquired IT systems	Other intangible assets	Total
Opening cost	—	43	38	81	—	43	37	80
Exchange rate differences	—	-4	-3	-7	—	0	1	1
Acquisitions during the year	95	—	—	95	—	—	—	—
Closing cost	**95**	**39**	**35**	**169**	**—**	**43**	**38**	**81**
Accumulated amortisation and impairment								
Opening accumulated amortisation	—	-43	-38	-81	—	-40	-37	-77
Exchange rate differences	—	4	3	7	—	—	-1	-1
Current year’s amortisation	—	—	0	0	—	-3	—	-3
Closing accumulated amortisation and impairment	**0**	**-39**	**-35**	**-74**	**—**	**-43**	**-38**	**-81**
Net carrying amount	**95**	**0**	**0**	**95**	**—**	**0**	**0**	**0**

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

21. PROPERTY, PLANT AND EQUIPMENT

Cost	2013	2012
Opening cost	27	32
Exchange rate differences	-2	1
Acquisitions during the year	3	2
Sales during the year[1]	-5	-8
Closing cost	**23**	**27**
Accumulated depreciation	**2013**	**2012**
Opening accumulated depreciation	-21	-20
Exchange rate differences	2	—
Current year’s depreciation	-3	-3
Accumulated depreciation on current year’s sales[1]	4	2
Closing accumulated depreciation	**-18**	**-21**
Net carrying amount	**5**	**6**

[1] Including disposals.

22. CURRENT AND DEFERRED TAX ASSETS

	2013	2012
Current tax assets	24	18
Deferred tax assets, net[1]	17	6
Total	**41**	**24**

[1] **Deferred tax assets, net, with changes recognised in profit or loss, broken down by type of temporary difference**	**2013**	**2012**
Deferred tax assets attributable to financial instruments	–	0
Deferred tax assets attributable to intangible and tangible assets	1	–
Deferred tax assets attributable to pensions	21	20
Deferred tax assets attributable to provisions	2	2
Total	**24**	**22**
Deferred taxes, net, recognised in other comprehensive income, broken down by type of temporary difference		
Deferred tax liabilities attributable to unrealised gains on available-for-sale financial assets	-14	-21
Deferred tax assets attributable to pensions	7	5
Total	**-7**	**-16**
Total	**17**	**6**

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

23. OTHER ASSETS

	2013	2012
Securities settlement claims	399	266
Derivative instruments[1]	74	13
Trade receivables	28	20
Other	76	36
Provision for probable loan losses	-3	-2
Total	**574**	**333**

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

24. PREPAID EXPENSES AND ACCRUED INCOME

	2013	2012
Accrued interest	123	102
Provision for loan losses, interest	-1	–
Other accrued income	19	23
Prepaid expenses	18	28
Total	**159**	**153**

25. DUE TO CREDIT INSTITUTIONS

Outstanding amounts broken down by counterparty, net book value	**2013**	**2012**
Swedish credit institutions	54	70
Foreign credit institutions	14	29
Total	**68**	**99**

Outstanding amounts broken down by remaining maturity, net book value	**2013**	**2012**
Payable on demand	68	99
Total	**68**	**99**
Average remaining maturity, years	0.0	0.0

26. DEPOSITS AND BORROWING FROM THE GENERAL PUBLIC

Deposits broken down by remaining term, book value	**2013**	**2012**
Payable on demand	71,977	72,835
Maximum 3 months	2,387	3,331
Longer than 3 months but max 1 year	940	822
Longer than 1 year but max 5 years	373	377
Total	**75,677**	**77,365**
Average remaining maturity, years	0.0	0.0

No borrowing existed as per the balance sheet date.

27. ISSUED SECURITIES, ETC.

	2013	2012
Commercial paper	4,568	743
Bond issues	3,729	1,083
Covered bonds	8,567	–
Total	**16,864**	**1,826**
Remaining maturity max 1 year	5,279	1,593
Remaining maturity longer than 1 year	11,585	233

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	19,034	2,633
Repurchased	152	–
Matured	3,784	800

28. CURRENT TAX LIABILITIES

	2013	2012
Current tax liabilities	85	72
Total	**85**	**72**

29. OTHER LIABILITIES

	2013	2012
Securities settlement liabilities	354	214
Derivative instruments[1]	79	134
Trade accounts payable	40	45
Other	120	109
Total	**593**	**502**

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

30. ACCRUED EXPENSES AND DEFERRED INCOME

	2013	2012
Accrued interest	212	157
Accrued staff costs	59	63
Accrued expenses for services purchased from Skandia AB	–	34
Other accrued expenses	35	30
Deferred income	1	0
Total	**307**	**284**

31. PROVISIONS FOR PENSIONS

Pension plans incl. payroll tax:	2013	2012
Opening balance	**56**	**49**
Adjustment for changed accounting policy for defined benefit pensions[1]	–	34
Adjusted opening balance	**56**	**83**
Exchange rate differences	-5	0
Current year's provision	1	5
Amount utilised during the year	-1	–
Revaluation of pension obligation[2]	-5	–
Reclassification[3]	10	–
Amount reversed during the year	–	-32
Closing balance	**56**	**56**

Defined benefit pension plans amounted to SEK 40 million (15), of which SEK 4 million (5) pertained to pension obligations for early retirement pensions. These figures included payroll tax of SEK 15 million (7) and SEK 1 million (1), respectively. Payroll tax for defined contribution pension plans is included in the amount of SEK 1 million (1). No amount pertained to early retirement pensions.

[1] Pertains to locally reported Norwegian pension plans.

[2] Pertains to the Norwegian pension plan.

[3] Reclassification from other liabilities to pension provisions pertains to payroll tax for endowment insurance policies.

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

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

Skandiabanken's pension plans are funded through payment of insurance premiums – in Sweden primarily to Skandia Liv 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, compared with 65 for other employees. The pension obligation that has been secured through company-owned endowment insurance policies is not carried on the balance sheet. The value of these pension obligations corresponds to the insurance capital in the endowment insurance policies, and in line with the reporting of the pension obligations secured through endowment insurance policies, the pension obligations 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 corresponds to the insurance capital in 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. In addition to this, the cost for the Norwegian defined benefit pension plans is also reported, in accordance with local Norwegian rules, and pertains to the sum of past and the current year's service cost, and net interest on the defined benefit liability. Effects of revaluations are reported in other comprehensive income and pertain to the Norwegian obligation.

32. SUBORDINATED LIABILITIES

	2013	2012
Dated subordinated loans	–	300
Perpetual subordinated loans[1]	900	900
Total	**900**	**1,200**

2013

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

2012

Nominal amount	Interest terms	Due date
200	3 mth Stibor +1.00%	10/12/2018
100	3 mth Stibor +1.00%	16/12/2019
900	3 mth Stibor +1.25%	Perpetual

[1] As per 2 January 2014, the perpetual subordinated loans from Skandia AB have been repaid, and new perpetual subordinated loans with corresponding terms were provided by Skandia Liv.

The interest due date is quarterly for all loans.

OTHER DISCLOSURES

33. DISCLOSURES OF INCOME BROKEN DOWN BY GEOGRAPHIC AREA

	Sweden		Norway		Total	
	2013	2012	2013	2012	2013	2012
Interest income	995	1,239	1,715	1,599	2,710	2,838
Dividends received	0	0	0	0	0	0
Fee and commission income	157	145	258	261	415	406
Net financial items	22	25	37	22	59	47
Other operating income	64	168	0	0	64	168
Total	**1,238**	**1,577**	**2,010**	**1,882**	**3,248**	**3,459**

34. PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

Assets pledged for own liabilities	2013	2012
Assets pledged for covered bonds – mortgage loans	20,377	–
Total	**20,377**	**–**

Other pledged assets	2013	2012
Bonds pledged with the Central Bank of Sweden and the Central Bank of Norway[1]	5,276	5,208
Cash[2]	68	35
Endowment insurance policies pledged as security for pension obligations[3]	41	41
Total	**5,385**	**5,284**

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 and the Central Bank of Norway have the opportunity to immediately use pledged securities.

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

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

Contingent liabilities	2013	2012
Pension obligations[1]	–	–
Other	–	4
Total	**–**	**4**

In accordance with a ruling by the Administrative Court of Appeal in Stockholm, Skandiabanken's income taxation for 2009 was raised. The effect of the Administrative Court of Appeal's ruling has been eliminated, as Skandiabanken has utilised the opportunity to make additional group contributions to its parent company. The matter has thereby been concluded without financial effects, and thus no contingent liability remains.

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

Commitments	2013	2012
Unutilised part of granted overdraft facilities	7,037	7,026
Granted undrawn credits	15,855	13,057
Total	**22,892**	**20,083**

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 matter.

In accordance with a ruling by the Administrative Court of Appeal in Stockholm, Skandiabanken's income taxation for 2009 was raised. The effect of the Administrative Court of Appeal's ruling has been eliminated, as Skandiabanken has utilised the opportunity to make additional group contributions to its parent company. The matter has thereby been concluded without financial effects, and thus no contingent liability remains.

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

36. INFORMATION ON CAPITAL ADEQUACY

Minimum capital requirement – Pillar I

Capital adequacy analysis	31/12/2013	31/12/2012[1]
Capital adequacy measures		
Total capital ratio[1]	13.48%	14.64%
Tier 1 capital ratio[2]	10.88%	10.61%
Capital adequacy quotient[3]	1.68	1.83
Capital base[4]		
Equity according to most recent year-end book closing, 31 December	4,047	3,263
Proposed dividend	—	—
Tier 1 capital, gross[4.1]	**4,047**	**3,263**
Less: intangible assets	-95	0
Less: deferred tax assets	-17	-3
Less: price adjustments	-1	—
Unrealised loss for available-for-sale financial assets, fixed-income securities	-45	-65
Tier 1 capital, net[4.2]	**3,889**	**3,195**
Unrealised gains on available-for-sale financial assets, equities	26	13
Perpetual subordinated debt[4.3]	900	900
Dated subordinated debt[4.4]	—	300
Total tier 2 capital	**926**	**1,213**
Capital base	**4,815**	**4,408**
Risk-weighted exposures/basis for calculating capital requirement[5]		
Credit risk according to standardised approach	32,235	26,263
Currency risk	207	204
Operational risk according to basic indicator approach	3,292	3,642
Total risk-weighted exposures	**35,734**	**30,109**

Capital requirement[6]	31/12/2013	31/12/2012[1]
Credit risk according to standardised approach	2,579	2,101
Currency risk	17	16
Operational risk according to basic indicator approach	263	291
Total minimum capital requirement	**2,859**	**2,408**
Initial capital, SEK 44.7 million[7]		

[1] Equity in 2012 has not been recalculated on account of the changed accounting policy for Norwegian defined benefit pension plans.

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

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

Exposures for credit risks per exposure class

		31/12/2013			31/12/2012		
	Exposure classes	Exposures[8]	Risk-weighted assets[5]	Capital requirement[6]	Exposures[8]	Risk-weighted assets[5]	Capital requirement[6]
1	Exposures to governments and central banks	1,729	0	0	3,380	—	—
2	Exposures to local governments and comparable associations an authorities	6,666	355	28	6,898	523	42
3	Exposures to administrative bodies, non-commercial undertakings and religious communities	302	—	—	304	—	—
4	Exposures to multilateral development banks	70	—	—	—	—	—
5	Exposures to international organisations	—	—	—	—	—	—
6	Exposure to institutions	2,367	473	38	5,155	1,031	83
7	Exposure to corporates	1 031	1 031	82	531	451	36
8	Retail exposures	3,723	2,791	224	3,506	2,629	210
9	Exposures secured on residential property	73,332	26,359	2,109	54,872	20,402	1,632
10	Past due items[8]	127	87	7	26	26	2
11	High risk items	—	—	—	—	—	—
12	Exposures in form of covered bonds	8,986	899	72	9,779	978	78
13	Securitisation positions	—	—	—	—	—	—
14	Exposure to funds	63	63	5	1	1	0
15	Other items	273	177	14	226	222	18
	Total	**98,669**	**32,235**	**2,579**	**84,678**	**26,263**	**2,101**

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

CONT. NOTE 36. INFORMATION ON CAPITAL ADEQUACY

Applied rules and regulations

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

Information is to be provided at least once a year in accordance with the Financial Supervisory Authority's regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5), referred to as Pillar III. Disclosures in this note are presented in accordance with Ch. 3 §§ 1-2 and Ch. 4. More detailed disclosures in accordance with these guidelines are presented in the document "1312 Annual information on capital adequacy and risk management", including comments on the outcome and disclosures of regulatory changes, which is available at www.skandiabanken.se/Om oss/Investor Relations.

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

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

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

Strategy, methods and processes for capital allocation

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

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

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

Description of quantitative information

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

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

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

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

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

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

4.3 Perpetual subordinated debt
According to the terms of agreement, the interest rate is determined in relation to the interest base, Stibor +1,25%. The loan has subordinated terms of payment and runs with no collateral pledged. Repayment of the debt is only possible in case the issuer is declared bankrupt or has entered into liquidation, or alternatively, after gaining permission from the Financial Supervisory Authority.

4.4 Dated subordinated debt
According to the terms of agreement, the interest rate is determined in relation to the interest base, Stibor +1,00%. The loan has subordinated terms of payment and runs with no collateral pledged.
The dated subordinated loans were repaid in 2013.

5 By risk-weighted exposures is meant the assessed value of an exposure. By exposure is meant items on and off the balance sheet. Exposures within the group are included, excluding shareholdings in subsidiaries and cases where the counterparty is under the supervision of the Financial Supervisory Authority.
According to the regulations, the concept of risk-weighted exposures does not apply for foreign exchange rate risk and operational risk; instead, the capital requirement for these risks is determined explicitly. To illustrate the calculation of capital requirement, these risks have been converted to risk-weighted exposures.

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

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

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

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

10 By core capital is meant Tier 1 capital (equity).

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

37.1 GOALS AND POLICY

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

37.2 RISK ORGANISATION AND GOVERNANCE

BOARD OF DIRECTORS

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

The Board's Risk and ICAAP Committee

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

The Board's Audit Committee

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

CEO and the CEO's committees

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

ALCO

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

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

Credit Committee

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

The Credit Committee consists of the following members: the CEO, the Head of Credits, the Head of Products and Processes in Norway, the Head of the Banking business area in Sweden, the Head of the Securities business area and the Financial Manager for Norway.

REGULATORY, SUPPORT AND CONTROL UNIT

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

RISK, MODELLING AND ANALYSIS UNIT

The Risk, Modelling and Analysis unit is tasked with developing and maintaining Skandiabanken's risk measurement models. The unit is thus responsible for ensuring that risks are measured in a suitable manner and that Skandiabanken's management receives reports and analyses on the current risk situation on a regular basis. The unit reports to Skandiabanken's Deputy CEO.

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

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

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

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

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

OPERATIONS

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

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

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)
The Internal Capital Adequacy Assessment Process analyses all of 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, aside from spread risk in the investment portfolio, which is a sub-component of liquidity risk. Above this, Skandiabanken does not believe that liquidity risk can be managed by reserving additional capital. This 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

RISK AND CONTROL RESPONSIBILITY AT SKANDIABANKEN
Skandiabanken's risk management is based on three lines of defence, which are the foundation for Skandiabanken's model for risk management, risk control and compliance. The model is based on a division of responsibility for risk and compliance within Skandiabanken. Following is an overview of the duties and responsibilities of the respective lines of defence.

INTERNAL CONTROL
Skandiabanken's operations are to be distinguished by good internal control.
The 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.

Business responsibility – first line of defence
The operational business units make up the first line of defence, entailing that the business units themselves are responsible for governance of the operations and control of the risks that exist therein. In other words, the operational business units have full responsibility for business control and the risks that arise in their own operations.
The operational business units' 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 overarching risk governance and independent monitoring of 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.
The functions in the second line of defence in Skandiabanken are largely centralised and organisationally placed in Skandia Liv. The aim of this centralisation is to ensure independence/impartiality in the second line of defence vis-à-vis the first line of defence (the operational business units), to enable work in an effective, joint process, and to provide favourable conditions for competence- and information-sharing within the second line of defence. In certain cases, however, the advantages of a decentralised placement may be so great that a deviation from the structure described above is warranted.
The functions in Skandiabanken's second line of defence shall consist of financial, compliance and risk control functions. The company's board of directors or, where suitable, the CEO, adopts policies and instructions that regulate the areas of responsibility, work duties and reporting routines for these functions/roles.

Skandiabanken's functions in the third line of defence
The third line of defence comprises the functions that are responsible for conducting independent evaluation of the work performed in the first and second lines of defence. Where suitable, this evaluation can be focused primarily on the controls performed by the second line of defence. Internal Audit and the external auditors in the following audit functions, make up the third line of defence.
The audit functions are functionally independent and serve in an oversight and to some extent advisory role, and are 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 or responsibility, work duties and reporting routines.

37.4 CREDIT RISK AND CREDIT QUALITY

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

GOVERNANCE OF CREDIT RISK
Ultimate responsibility for Skandiabanken's credit risk rests with the CEO. The CEO has delegated responsibility for credit risk with respect to lending to the general public to the Administrative Deputy CEO. Responsibility for credit risk with respect to surplus liquidity and large exposures has been delegated by the CEO to the CFO.
The CRO has overarching responsibility for governance and control of credit risk. ALCO is responsible for monitoring Skandiabanken' risk and capital situation. Recommendations for changes to policies and limits are made at least once a year to the Board's Risk and ICAAP Committee after review by Skandiabanken' ALCO and 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 ICAAP Committee is responsible for reviewing and approving strategies and guidelines for Skandiabanken's management of credit risk at least once a year.

POLICY FOR MANAGING AND MEASURING CREDIT RISK
Management of credit risk depends on whether the credit risk stems from lending to the general public in the form of retail exposures or from investments of surplus liquidity.
Skandiabanken's lending to the general public consists of retail exposures to private individuals, primarily in the form of home mortgages secured by real estate or tenant-owner rights, instalment loans, personal loans, lines of credit, credit card credits and custody account lending. Loan receivables such as personal loans, lines of credit and credit card credits consist primarily of a large number of homogeneous loans with limited amounts and a large spread of risk.
Risk is managed by assessing all credit applications based on an evaluation of the credit applicant's ability to pay, 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 of 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 spread of risk. Table 1, "Credit risk exposure, gross and net", shows the low level of credit risk for lending to the general public. Excluding lending to the Swedish National Debt Office, the credit exposure amounted to SEK 78 billion (58) before taking market-valued collateral into account and to SEK 3 billion (3) after taking collateral into account.
Skandiabanken holds surplus liquidity, which is invested in short-term lending and fixed-income securities with counterparties consisting of governments, municipalities, institutions and companies. Risk is managed by assessing the exposures based on an evaluation of the counterparty's ability to pay, financial situation, and the value of the collateral pledged. In contrast to retail exposures, assessment of the creditworthiness of counterparties is always done through a manual routine. All limits must be approved by the Board's Risk and ICAAP Committee. The holdings have good credit quality, and the credit ratings for the holdings are shown in the following table. Guarantees of SEK 0 billion (1) have been received from governments with triple A credit ratings, and

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

covered bonds accounted for 50% (43%) of total holdings of fixed-income securities. Covered bonds entail that the exposures are secured through some form of lien, which reduces the credit risk. Skandiabanken's holdings are secured by mortgage deeds for residential properties. The surplus liquidity constitutes 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 environment. Skandiabanken monitors concentrations from various perspectives, such as geographic distribution per country and within each country, and large exposures to individual customers and groups of customers that are related to each other. The breakdown of total credit risk exposure by key financial instruments amounted to 74% (65%) for mortgage loans for private individuals (primarily in major metropolitan areas), exposures to credit institutions 9% (14%) (of which 8% (9%) pertained to covered bonds), other retail credits 9% (10%), government and municipal exposures 6% (10%), and exposures to corporates regarding investments 0% (1%). See the following table for credit risks. The breakdown of credit exposure for loan receivables in the retail market by geographic area was 59% (53%) in Norway and 41% (47%) in Sweden. See note 16, "Lending to the general public".

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

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

The method for setting credit limits for derivatives reflects the applicable internal processes for lending. The method is based on the corresponding calculation that is done for capital adequacy assessment purposes. The reason why the amount for possible risk changes is included in the credit process is that the fair value of a derivative can increase quickly in connection with changes in interest rates and exchange rates. Netting agreements in the form of ISDA agreements have been entered into with external derivative partners. No netting agreements have been entered into with intra-group derivative counterparties. Collateral may be accepted 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 146 million (55), of which SEK 74 million (13) is reported on the balance sheet as a positive market value and SEK 72 million (42) off the balance sheet. Disclosures of credit risks are provided in the following table.

TABLE 1 – CREDIT EXPOSURE, GROSS AND NET

	2013			2012		
	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	41	41	—	3	3	—
Corporates	**43**	**43**	**—**	**5**	**5**	**—**
- Houses and vacation homes	1,499	1,967	—	1,247	1,637	—
- Tenant-owner apartments	52,999	147,574	802	39,091	124,583	817
- Other real estate	20,300	42,289	16	15,216	34,462	23
- Other	788	1,445	—	528	1,162	—
Private individuals	2,265	121	2,144	2,314	318	1,997
Privatpersoner	**77,851**	**193,396**	**2,962**	**58,396**	**162,162**	**2,837**
Public sector/ Swedish National Debt Office	**—**	**—**	**—**	**1,610**	**—**	**1,610**
Total lending to the general public	**77,894**	**193,439**	**2,962**	**60,011**	**162,167**	**4,447**
Lending to credit institutions[2]						
- AAA	843	—	843	—	—	—
Governments	**843**	**—**	**843**	**—**	**—**	**—**
- AA	—	—	—	—	—	—
- A	445	—	445	628	—	628
- No rating	96	—	96	26	—	26
Institutions	**541**	**—**	**541**	**654**	**—**	**654**
Total lending to credit institutions[1 2]	**1,384**	**—**	**1,384**	**654**	**—**	**654**
Fixed-income securities						
- AAA[3]	2,408	481	1,927	4,133	746	3,387
- AA	2,655	—	2,655	1,468	—	1,468
- No rating	1,895	—	1,895	2,908	—	2,908
Governments and municipalities	**6,958**	**481**	**6,477**	**8,509**	**746**	**7,763**
- AAA	8,965	—	8,965	8,067	—	8,067
- AA	—	—	—	1,657	—	1,657
- A	1,422	—	1,422	3,317	—	3,317
- BBB	50	—	50	177	—	177
- No rating	—	—	—	1,024	—	1,024
Institutions	**10,437**	**—**	**10,437**	**14,242**	**—**	**14,242**
- AAA	—	—	—	—	—	—
- AA	371	—	371	100	—	100
Corporates	**371**	**—**	**371**	**100**	**—**	**100**
Total fixed-income securities[1 4]	**17,766**	**481**	**17,285**	**22,851**	**746**	**22,105**

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

	2013			2012		
	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	1	—	1	—	—	—
- No rating	73	—	73	13	—	13
Total derivatives, corporates[1]	**74**	**—**	**74**	**13**	**—**	**13**
Total on balance sheet	**97,118**	**193,920**	**21,705**	**83,529**	**162,913**	**27,219**
Derivatives, possible change in risk	72	—	72	42	—	42
Unutilised part of granted overdraft facilities	7,037	—	7,037	7,026	—	7,026
Credits granted but not paid out	15,855	—	15,855	13,057	—	13,057
Total off balance sheet	**22,964**	**—**	**22,964**	**20,125**	**—**	**20,125**
Total	**120,082**	**193,920**	**44,669**	**103,654**	**162,913**	**47,344**

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

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

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

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

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

BREAKDOWN OF COLLATERAL FOR LENDING TO THE GENERAL PUBLIC

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

TABLE 2 – BREAKDOWN OF COLLATERAL FOR LENDING TO THE GENERAL PUBLIC

2013	Mortgage deeds	Surety	Other collateral	Total value of collateral	Value of collateral for non-performing loans	Value of collateral for impaired loans
- Real estate	2	—	—	2	—	—
- Other	—	—	41	41	0	—
Total corporates	**2**	**—**	**41**	**43**	**0**	**—**
- Vehicle financing	1,967	—	—	1,967	59	3
- Houses and vacation homes	147,573	—	1	147,574	1,621	10
- Tenant-owner apartments	20,019	—	23,271	43,290	612	2
- Other real estate	1,444	—	—	1,444	—	—
- Other	16	47	58	121	1	—
Total, private individuals	**171,019**	**47**	**23,330**	**194,396**	**2,293**	**15**
Total collateral	**171,021**	**47**	**23,371**	**194,439**	**2,293**	**15**

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

COLLATERAL RECEIVED FOR FIXED-INCOME SECURITIES – LIQUIDITY BUFFER

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

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

TABLE 3 – COLLATERAL RECEIVED

	2013		2012	
	Inflow	Outflow	Inflow	Outflow
Exposures to governments and central banks	302	—	631	—
- of which, German government	302	—	—	—
- of which, Danish government	—	—	631	—
Exposures to municipalities	181	—	117	—
Exposures to institutions	—	-483	—	-748
Exposures to corporates	—	—	—	—
Total	**181**	**-483**	**748**	**-748**

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

CREDIT QUALITY

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

Lending to the general public amounted to SEK 78 billion (58), excluding loans to the Swedish National Debt Office. For mortgage loans, totalling SEK 73 billion (54), 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 the probability of default it takes such factors into account as payment history, the number of co-signers, and funds held in deposit. On the basis of the models' outcome, non-defaulted exposures are designated into one of seven risk classes, where risk class 1 constitutes the lowest risk and risk class 7 the highest risk. Defaulted credits are designated a special risk class for defaulted credits. The share of loss at default is based mainly on the loan-to-value ratio, i.e., the value of the collateral in relation to the size of the loan.

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

LENDING TO THE GENERAL PUBLIC BEFORE PROVISIONS – MORTGAGE LOANS

TABLE 4 – LENDING TO THE GENERAL PUBLIC

	2013				2012			
Risk class	Sweden	Norway	Total	Share	Sweden	Norway	Total	Share
1	11,219	23,304	34,523	0.47	10,816	18,253	29,069	0.54
2	16,061	9,793	25,854	0.35	12,474	5,168	17,642	0.33
3	1,603	1,843	3,446	0.05	1,149	1,174	2,323	0.04
4	1,781	6,246	8,027	0.11	1,672	2,317	3,989	0.07
5	225	481	706	0.01	242	282	524	0.01
6	144	354	498	0.01	147	336	483	0.01
7	2	0	2	0.00	0	4	4	0.00
Default	27	68	95	0.00	44	82	126	0.00
Total	**31,062**	**42,089**	**73,151**	**1.00**	**26,544**	**27,616**	**54,160**	**1.00**

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

NON-PERFORMING LOANS AND IMPAIRED LOANS

The level of loan losses, i.e., loan losses in relation to total lending to the general public, was 0.07% (0.1%). Impaired loans, net, i.e., impaired loans after deducting provisions for probable loan losses, amounted to 0.06% (0.13%) of lending. Non-performing loans for which full collateral exists are presented and grouped according to maturity in the following table. For a more detailed description of non-performing loans and impaired loans, see note 1, "Accounting policies". Disclosures of lending and provisions broken down into Sweden and Norway are provided in note 16, "Lending to the general public".

TABLE 5 – NON-PERFORMING LOANS[1]

31 December 2013	60 days or less	>60 days <90 days	>90 days <180 days	>180 days <360 days	>360 days	Total
Corporates						
- Other	0	—	—	—	—	0
Corporates	**0**	**—**	**—**	**—**	**—**	**—**
Private individuals						
- Vehicle financing	59	—	—	—	—	59
- Houses and vacation homes	1,575	9	4	8	24	1,620
- Tenant-owner apartments	598	4	9	0	0	611
- Other real estate	—	—	—	—	—	—
- Other	79	—	—	—	—	79
Private individuals	**2,311**	**13**	**13**	**8**	**24**	**2,369**
Total lending to the general public	**2,311**	**13**	**13**	**8**	**24**	**2,369**
31 December 2012						
Corporates						
- Other	0	—	—	—	—	0
Corporates	**0**	**—**	**—**	**—**	**—**	**—**
Private individuals						
- Vehicle financing	65	—	—	—	—	65
- Houses and vacation homes	1 419	16	9	10	16	1 470
- Tenant-owner apartments	504	4	1	0	7	516
- Other real estate	—	—	—	—	—	0
- Other	74	0	0	0	0	74
Private individuals	**2,062**	**20**	**10**	**10**	**23**	**2,125**
Total lending to the general public	**2,062**	**20**	**10**	**10**	**23**	**2,125**

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

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

TABLE 6 – IMPAIRED LOANS

	Impaired loans before provisions		Provisions	
	2013	2012	2013	2012
Private individuals				
- Vehicle financing	9	6	6	3
- Houses and vacation homes	45	65	18	16
- Tenant-owner apartments	2	5	1	1
- Other real estate	—	5	0	5
- Other	83	87	67	66
Private individuals	**139**	**168**	**92**	**91**
Lending to the general public	**139**	**168**	**92**	**91**

MODIFIED LOANS
Modified loans exist when the bank has granted a concession due to the borrower's worsened financial situation or when the borrower encounters other financial difficulties. The carrying amount was SEK 2 million (1) before modification and SEK 0 million (0) after.

UTILISATION OF COLLATERAL
Skandiabanken has not utilised any collateral obtained that meets the criteria to be reported as an asset on the balance sheet as per 31 December 2013 and 31 December 2012.

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

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

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

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

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

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

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

The calculation represents a standardised approximation of fixed-interest assets and liabilities, and disclosures are presented for noninterest-bearing assets, liabilities and equity. The interest rate risk is low since the overwhelming majority of the group's balance sheet can be interest rate–adjusted, has been hedged through swap contracts, or is managed by financial hedges. An immediate and permanent change in market interest rates by 1 percentage point would result in a theoretical revaluation of the balance sheet by approximately SEK 19 million (6), net, for the group, see the tables below.

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

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

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

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

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

TABLE 7 – INTEREST RATE RISK – INTEREST RATE FIXING PERIODS FOR ASSETS AND LIABILITIES
31 December 2013

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	529	—	—	—	—	—	—	—	—	—	529
Eligible treasury bills	1 344	4,589	274	—	—	—	—	—	—	—	6,207
Lending to credit institutions	1,309	—	—	—	—	—	—	—	—	—	1,309
Lending to the general public	8,582	58,393	1,426	2,128	3,904	1517	543	1401	—	—	77,894
Bonds and other fixed-income securities	5,161	6,238	160	—	—	—	—	—	—	—	11,559
Total interest-bearing assets	**16,925**	**69,220**	**1,860**	**2,128**	**3,904**	**1,517**	**543**	**1,401**	**0**	**0**	**97,498**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	1,099	1,099
Total assets	**16,925**	**69,220**	**1,860**	**2,128**	**3,904**	**1,517**	**543**	**1,401**	**0**	**1,099**	**98,597**
Interest-bearing liabilities											
Deposits and borrowing from the general public	32,932	41,398	433	507	141	163	34	35	—	—	75,643
Issued securities, etc.	10,393	5,656	399	416	—	—	—	—	—	—	16,864
Subordinated liabilities	—	900	—	—	—	—	—	—	—	—	900
Total interest-bearing liabilities	**43,325**	**47,954**	**832**	**923**	**141**	**163**	**34**	**35**	**0**	**0**	**93,407**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	5,190	5,190
Total liabilities and equity	**43,325**	**47,954**	**832**	**923**	**141**	**163**	**34**	**35**	**0**	**5,190**	**98,597**
Interest rate swaps											
Short positions	4,940	7,365	—	—	—	—	—	—	—	—	12,305
Long positions	90	2,010	970	1,610	4,155	1 525	505	1 440	—	—	12,305
Difference, assets and liabilities	**-21,550**	**26,621**	**58**	**-405**	**-392**	**-3,771**	**4**	**-74**	**0**	**-4,091**	**0**
Risk weights, %	0.001	0.003	0.007	0.014	0.028	0.045	0.061	0.077	0.102	0.000	—
Risk-weighted net exposures 2013	**-17,24**	**85,19**	**0,42**	**-5,79**	**-10,88**	**-7,69**	**0,25**	**-5,67**	**0,00**	**—**	**38,60**
Cumulative interest rate sensitivity	-21,550	5,071	5,129	4,724	4,332	4,160	4,164	4,091	4,091	—	—

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

31 December 2012

Assets	0-1 month	1-3 mos	3-6 mos	6-12 mos	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-7 yrs	Non-interest	Total
Interest-bearing assets											
Cash	416	—	—	—	—	—	—	—	—	—	416
Eligible treasury bills	906	4,594	326	—	—	—	—	—	—	—	5,826
Lending to credit institutions	628	—	—	—	—	—	—	—	—	—	628
Lending to the general public	9,067	41,293	615	2,007	4,143	2 157	197	532	—	—	60,011
Available-for-sale financial assets	7,026	9,999	—	—	—	—	—	—	—	—	17,025
Total interest-bearing assets	**18,043**	**55,886**	**941**	**2,007**	**4,143**	**2,157**	**197**	**532**	**—**	**—**	**83,906**
Noninterest-bearing assets	—	—	—	—	—	—	—	—	—	732	732
Total assets	**18,043**	**55,886**	**941**	**2,007**	**4,143**	**2,157**	**197**	**532**	**—**	**732**	**84,638**
Interest-bearing liabilities											
Deposits and borrowing from the general public	33,004	43,101	310	512	135	75	140	27	—	—	77,304
Financial liabilities at fair value	283	1 049	199	295	—	—	—	—	—	—	1,826
Subordinated liabilities	—	1,200	—	—	—	—	—	—	—	—	1,200
Total interest-bearing liabilities	**33,287**	**45,350**	**509**	**807**	**135**	**75**	**140**	**27**	**—**	**—**	**80,330**
Noninterest-bearing liabilities and equity	—	—	—	—	—	—	—	—	—	4,308	4,308
Total liabilities and equity	**33,287**	**45,350**	**509**	**807**	**135**	**75**	**140**	**27**	**—**	**4,308**	**84,638**
Interest rate swaps											
Short positions	4,905	5,850	—	—	—	—	—	—	—	—	10,755
Long positions	110	1,100	415	2,090	4,180	2 180	175	505	—	—	10,755
Difference, assets and liabilities	**-10,449**	**15,286**	**17**	**-890**	**-172**	**-98**	**-118**	**0**	**—**	**-3,576**	**0**
Risk weights, %	0.040	0.160	0.360	0.715	1.385	2.245	3.070	3.855	5.075	0.000	—
Risk-weighted net exposures 2012	**-4,18**	**24,46**	**0,06**	**-6,36**	**-2,38**	**-2,2**	**-3,62**	**0,00**	**—**	**—**	**5,80**
Cumulative interest rate sensitivity	-10,450	4,836	4,853	3,963	3,791	3,693	3,575	3,575	3,575	—	—

The Financial Supervisory Authority prescribes that a calculation shall be made to determine what impact a 2 percentage point change in the general level of interest rates would have on the economic value, by which is meant the present value of future cash flows. In cases where the economic value decreases by more than 20% in relation to the capital base, the institution is required to submit an action plan to the Financial Supervisory Authority on how it intends to reduce the risk. As per 31 December 2013 the interest rate risk, based on a 2 percentage point change, amounted to SEK 39 million (12). In relation to the capital base, which amounted to SEK 4,805 million (4,408), this is 0.81% (0.27%).

NET INTEREST INCOME RISK

Net interest income risk is a measure defining the sensitivity of net interest income to changes in market interest rates during the next twelve months. The calculation consists of interest-bearing assets and liabilities that are about to mature or are to be interest-adjusted within a year. An immediate and permanent change in the market interest rate by 1 percentage point is estimated to have an effect on net interest income by SEK 15 million (25).

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

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

37.5.2 CURRENCY RISK

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

GOVERNANCE OF CURRENCY RISK

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

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

POLICY FOR MANAGING AND MEASURING CURRENCY RISK

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

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

Earnings of foreign operations are not hedged by Skandiabanken.

Currency risk is calculated for all exposures in foreign currencies pertaining to assets, liabilities and off-balance sheet obligations. The positions are measured at fair value and are translated to SEK at the exchange rate in effect on the balance sheet date. The continuing result for the year attributable to foreign operations is taken into account in position calculations regarding currency risk. This entails that net exposure to currency risk on 31 December amounted to SEK 207 million (204). A change in value of the Swedish krona by 5 percentage points would affect equity by SEK 8 million (9). Most of the currency risk arises from exposure in Norwegian kronor and pertains to the branch's profit for the year. This means that the corresponding sensitivity analysis for calculation of the effect on the income statement results in a corresponding outcome, i.e., SEK 10 million (10).

Negative translation differences decreased comprehensive income for the year by SEK -103 million (14) after tax and pertain to exchange rate differences that arise when translating the financial statements of foreign operations to Skandiabanken's reporting currency.

TABLE 8 – ASSETS AND LIABILITIES DISTRIBUTED AMONG IMPORTANT CURRENCIES

	2013				2012			
Assets	SEK	NOK	Other curren-cies	Total	SEK	NOK	Other curren-cies	Total
Cash and cash balances with central banks	—	529	15	544	10	409	5	424
Eligible treasury bills, etc.	3,171	3,036	—	6,207	2,149	3,677	—	5,826
Lending to credit institutions	1,254	115	15	1,384	104	532	18	654
Lending to the general public	31,916	45,978	—	77,894	28,973	31,038	—	60,011
Fair value of portfolio hedge of interest rate risk	71	—	—	71	132	—	—	132
Bonds and other fixed-income securities	7,107	4,452	—	11,559	9,072	7,953	—	17,025
Other assets	528	278	132	938	288	181	97	566
Total assets	**44,047**	**54,388**	**162**	**98,597**	**40,728**	**43,790**	**120**	**84,638**

	2013				2012			
Liabilities and equity	SEK	NOK	Other curren-cies	Total	SEK	NOK	Other curren-cies	Total
Liabilities to credit institutions	56	12	0	68	77	21	1	99
Deposits and borrowing from the general public	35,636	40,004	37	75,677	36,501	40,820	44	77,365
Issued securities	7,694	9,170	—	16,864	1,243	583	—	1,826
Other liabilities including equity	2,909	2,150	29	5,088	2,263	1,884	1	4,148
Subordinated liabilities	900	—	—	900	1,200	—	—	1,200
Total liabilities and equity	**47,195**	**51,336**	**66**	**98,597**	**41,284**	**43,308**	**46**	**84,638**
Net exposure per currency	-3,148	3,052	96	0	-556	482	74	0

37.5.3 OTHER PRICE RISKS

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

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

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

Shareholdings classified as available-for-sale financial assets amounted to SEK 54 million (38). Unrealised changes in value amounted to SEK 17 million (12) and are recognised in other comprehensive income. Capital gains/losses are recognised in the income statement. No divestments were made during the year.

Holdings of fixed-income securities are classified as available-for-sale financial assets and are measured at fair value. These holdings amounted to SEK 17.8 billion (22.9). Unrealised changes in value are recognised in other comprehensive income and amounted to SEK -44 billion (47). The negative change in value is mainly attributable to the fact that holdings with positive changes at the start of 2013 were sold during the year and are included as a positive item in realised changes in value (see below). The changes in market interest rates that were noted during the year, entailing rising long-term rates primarily in Sweden, had a marginal impact on securities holdings, as they generally have shorter periods of fixed interest. See 37.5.1, "Interest rate risk". Realised changes in value amounted to SEK 32 million (13) and are recognised in profit or loss.

A change in market interest rates by +/- 0.5 percentage point would, as an estimate, result in an unrealised change in value of SEK 11 million (15) in the current portfolio as per 31 December 2013. Broken down into Swedish and Norwegian securities portfolios, the effect of the change in the market interest rate amounted to SEK 6 million (7) and SEK 5 million (9), respectively.

A corresponding sensitivity analysis has been performed for changes in credit spreads. Spread risk is defined as how a change in all securities-specific credit spreads would affect the market value of securities holdings. An increase in all credit spreads by one basis point (0.01 percentage points) would decrease the value of Skandiabanken's fixed-income securities by SEK 3 million, corresponding to 1.7 basis points of the value of the total holding.

37.6 LIQUIDITY RISK

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

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

GOVERNANCE OF LIQUIDITY RISK

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

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

MANAGEMENT OF LIQUIDITY RISK

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

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

MEASURING LIQUIDITY RISK

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

As a control for ensuring that Skandiabanken is not overly dependent on a few deposit customers, the Treasury department 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 10 largest customers.

To ensure funding preparedness in situations in which Skandiabanken is in an urgent need of liquidity, Skandiabanken maintains a liquidity buffer. Limits are set by the Board of Directors for the minimum size of the liquidity buffer. The liquidity buffer consists of available funds that Treasury disposes over and which are eligible as collateral with the Swedish and Norwegian central banks. This ensures that Skandiabanken is able to convert assets to cash at short notice. As per 31 December 2013, the liquidity buffer before the central banks' haircuts amounted to SEK 16.0 billion (19.8), which corresponded to 84% (78%) of Skandiabanken's total surplus liquidity.

Total surplus liquidity amounted to SEK 19.2 billion (25.3), of which SEK 5.3 billion (5.2) was pledged as security with the Swedish and Norwegian central banks for intraday cash flows. The remaining maturities of surplus liquidity were broken down into 45% (41%) maturing within one year and 55% (59%) maturing within five years. Securities in surplus liquidity consist of high-quality covered bonds, bonds and commercial paper. Of the holdings, 55% (53%) are rated AAA, 17% (14%) are rated AA, 7% (15%) are rated A, 0% (1%) are rated BBB, and 13% (17%) have no external credit rating. The credit ratings are from Standard & Poor's, Moody's and Fitch.

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

Skandiabanken's long-term structural liquidity position is measured and managed on a monthly basis through various metrics. At 31 December 2013 the deposit-to-loan ratio was 97% (132%), and since Skandiabanken is mainly funded by retail deposits – a funding source that is contractually short but is considered to be behaviourally long – Skandiabanken has a strong structural liquidity position.

TABLE 9 – LIQUIDITY BUFFER IN ACCORDANCE WITH THE FINANCIAL SUPERVISORY AUTHORITY'S GUIDELINES[1]

		31 December 2013				31 December 2012			
	SEK million	SEK	NOK	EUR	Total	SEK	NOK	EUR	Total
1	Cash and balances with and lending to central banks and governments	843	529	15	1,387	1616	876	5	2,497
2	Lending to other banks, intraday loans	–	–	–	–	–	–	–	–
3	Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	672	–	–	672	805	697	–	1,502
4	Securities issued or guaranteed by municipalities or other public sector entities	2,583	3,142	–	5,725	2,149	4,031	–	6,180
5	Covered bonds issued by other banks or institutions	4,191	4,059	–	8,250	4,657	4,563	–	9,220
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	–	–	–	–	448	–	–	448
9	All other securities	–	–	–	–	–	–	–	–
	Total liquidity buffer	**8,289**	**7,730**	**15**	**16,034**	**9,675**	**10,167**	**5**	**19,847**

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

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

TABLE 10 – REMAINING CONTRACTUAL MATURITY, FINANCIAL LIABILITIES

SEK million 31 December 2013	0-1 months	1-3 months	3-12 months	1-5 years	≥5 years	Per-petual	Total
Due to credit institutions	68						68
Deposits and borrowing from the general public	75,677	—	—	—	—	—	75,677
Derivative instruments	-7	54	66	89		—	202
Issued securities	—	1 847	3 432	9 998	1 587	—	16,864
Other liabilities	962	—	—	—	—	—	962
Subordinated liabilities	—	—	—	—	—	900	900
Equity	—	—	—	—	—	4,047	4,047
Total on balance sheet	**76,700**	**1,901**	**3,498**	**10,087**	**1,587**	**4,947**	**98,720**
Unutilised part of granted overdraft facilities	7,037	—	—	—	—	—	7,037
Other credit commitments	15,855	—	—	—	—	—	15,855
Total off-balance items	**22,892**	**—**	**—**	**—**	**—**	**—**	**22,892**
Total	**99,592**	**1,901**	**3,498**	**10,087**	**1,587**	**4,947**	**121,612**

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

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

37.7 OPERATIONAL RISK

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

GOVERNANCE OF OPERATIONAL RISK

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

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

POLICY FOR MANAGING AND MEASURING OPERATIONAL RISK

Operational risks can essentially only be managed through preventive and loss reduction measures. Skandiabanken manages operational risks through various types of preventive measures and security arrangements as well as through continuity planning aimed at dealing with any negative situations that arise for 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.

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

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

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

37.8 BUSINESS RISK, REPUTATION RISK AND STRATEGIC RISK

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

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

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

GOVERNANCE OF BUSINESS RISK, REPUTATION RISK AND STRATEGIC RISK

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

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

Business risk and reputation risk

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

Measurement of business risk excludes changes attributable to loan losses as well as other risks, such as market risks and operational risks, which are covered by the assessments described in points 37.4-37.7. Skandiabanken includes reputation risk and strategic risk in business risk even though they cannot be specifically quantified 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 size of a 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 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 are managed on a overarching level for the entire Skandia group.

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

37.9 REMUNERATION RISK

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

GOVERNANCE OF REMUNERATION RISK

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

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

POLICY FOR MANAGING AND MEASURING REMUNERATION RISK

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

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

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

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

Further disclosures in accordance with the Financial Supervisory Authority's "regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management" (2007:5) are provided on Skandiabanken's website: www.skandiabanken.se/Om oss/Investor Relations/1312 Information om ersättningar.

38. DISCLOSURES OF DERIVATIVE INSTRUMENTS

Breakdown of derivative instruments by type of hedge relationship

	2013			2012		
Derivatives held for trading	**Assets at fair value**	**Liabilities at fair value**	**Nominal amount**	**Assets at fair value**	**Liabilities at fair value**	**Nominal amount**
Foreign exchange derivatives						
Swaps	0	0	19	0	0	28
Forward agreements	0	0	3	0	0	16
Derivatives held for fair value hedges						
Interest rate derivatives						
Swaps	8	79	12,305	1	134	10,755
Derivatives for hedges of net investments in foreign operations						
Foreign exchange derivatives						
Swaps	66	0	3,365	12	0	683
Total derivatives broken down by assets and liabilities						
Interest rate derivatives	8	79	12,305	1	134	10,755
Foreign exchange derivatives	66	0	3,387	12	0	727
Total	**74**	**79**	**15,692**	**13**	**134**	**11,482**

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

Of Skandiabanken's lending, 88% (84%) 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. Skandiabanken's funding is handled in all essential respects through deposits at variable interest rates, however, some funding is also conducted through deposits and borrowing at fixed interest rates and through equity.

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

For disclosures of durations of interest rate derivatives, see the table showing terms of fixed interest in note 37.b.1 "Interest rate risk and net interest risk". All foreign exchange derivatives have durations with maturity within 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				
31 December 2013	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	1	–	1	-1	–	0	73	74
Assets	**1**	**–**	**1**	**-1**	**–**	**0**	**73**	**74**
Derivatives	17	–	17	-1	-16	0	62	79
Liabilities	**17**	**–**	**17**	**-1**	**-16**	**0**	**62**	**79**
31 December 2012								
Derivatives	–	–	–	–	–	–	13	–
Assets	**–**	**–**	**–**	**–**	**–**	**–**	**13**	**–**
Derivatives	–	–	–	–	–	–	134	–
Liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**134**	**–**

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 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.

40. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

A) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

31 December 2013 Assets	Measured at fair value through profit or loss, held for trading	Hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Nonfinancial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	—	—	—	544	—	—	—	544	544
Eligible treasury bills, etc.	—	—	—	—	6,207	—	—	6,207	6,207
Lending to credit institutions	—	—	—	1,384	—	—	—	1,384	1,384
Lending to the general public	—	—	—	77,894	—	—	—	77,894	77,989
Fair value of portfolio hedge of interest rate risk	—	71	—	—	—	—	—	71	71
Bonds and other fixed-income securities	—	—	—	—	11,559	—	—	11,559	11,559
Shares and participations	10	—	—	—	54	—	—	64	64
Intangible assets	—	—	—	—	—	—	95	95	95
Property, plant and equipment	—	—	—	—	—	—	5	5	5
Current tax assets	—	—	—	—	—	—	24	24	24
Deferred tax liabilities	—	—	—	—	—	—	17	17	17
Other assets	0	74	—	500	—	—	—	574	574
Prepaid expenses and accrued income	—	—	—	159	—	—	—	159	159
Total assets	**10**	**145**	—	**80,481**	**17,820**	—	**141**	**98,597**	**98,692**
Liabilities									
Due to credit institutions	—	—	—	—	—	68	—	68	68
Deposits and borrowing from the general public	—	—	—	—	—	75,677	—	75,677	75,677
Issued securities	—	—	—	—	—	16,864	—	16,864	16,864
Current tax liabilities	—	—	—	—	—	—	85	85	85
Other liabilities	0	80	—	—	—	513	—	593	593
Accrued expenses and deferred income	—	—	—	—	—	307	—	307	307
Provisions for pensions	—	—	—	—	—	—	56	56	56
Subordinated liabilities	—	—	—	—	—	900	—	900	900
Total liabilities	**0**	**80**	—	—	—	**94,329**	**141**	**94,550**	**94,550**

CONT. NOTE 40. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

31 December 2012 Assets	Measured at fair value through profit or loss, held for trading	Hedge accounting	Financial assets held to maturity	Loans and trade receivables	Available-for-sale financial assets	Financial assets at amortised cost	Nonfinancial assets and liabilities	Book value	Fair value
Cash and cash balances with central banks	–	–	–	424	–	–	–	424	424
Eligible treasury bills, etc.	–	–	–	–	5,826	–	–	5,826	5,826
Lending to credit institutions	–	–	–	654	–	–	–	654	654
Lending to the general public	–	–	–	60,011	–	–	–	60,011	60,183
Fair value of portfolio hedge of interest rate risk	–	132	–	–	–	–	–	132	132
Bonds and other fixed-income securities	–	–	–	–	17,025	–	–	17,025	17,025
Shares and participations	12	–	–	–	38	–	–	50	50
Intangible assets	–	–	–	–	–	–	0	0	0
Property, plant and equipment	–	–	–	–	–	–	6	6	6
Current tax assets	–	–	–	–	–	–	18	18	18
Deferred tax liabilities	–	–	–	–	–	–	6	6	6
Other assets	12	1	–	320	–	–	–	333	333
Prepaid expenses and accrued income	–	–	–	153	–	–	–	153	153
Total assets	**24**	**133**	–	**61,562**	**22,889**	–	**30**	**84,638**	**84,810**
Liabilities									
Due to credit institutions	–	–	–	–	–	99	–	99	99
Deposits and borrowing from the general public	–	–	–	–	–	77,365	–	77,365	77,365
Issued securities	–	–	–	–	–	1,826	–	1,826	1,826
Current tax liabilities	–	–	–	–	–	–	72	72	72
Other liabilities	–	134	–	–	–	368	–	502	502
Accrued expenses and deferred income	–	–	–	–	–	284	–	284	284
Deferred tax liabilities	–	–	–	–	–	–	0	0	0
Provisions for pensions	–	–	–	–	–	–	56	56	56
Subordinated liabilities	–	–	–	–	–	1,200	–	1,200	1,200
Total liabilities	–	**134**	–	–	–	**81,142**	**128**	**81,404**	**81,404**

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

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

CONT. NOTE 40. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

B) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

	2013			2012		
	Instruments with published price quotations in an active market Level 1	Valuation techniques based on observable market data Level 2	Total	Instruments with published price quotations in an active market Level 1	Valuation techniques based on observable market data Level 2	Total
Assets						
Financial assets at fair value through profit or loss						
Held for trading						
Shares and participations	0	10	10	0	12	12
Derivative instruments	–	74	74	–	13	13
Available-for-sale financial assets						
Eligible treasury bills, etc.	–	6,207	6,207	–	5,826	5,826
Bonds and other fixed-income securities	2,004	9,555	11,559	697	16,328	17,025
Shares and participations	31	23	54	7	31	38
Total	**2,035**	**15,869**	**17,904**	**704**	**22,210**	**22,914**
Liabilities						
Held for trading						
Other	1		1	0	–	0
Derivative instruments	–	79	79	–	134	134
Total	**1**	**79**	**80**	**0**	**134**	**134**

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. Transfers between levels in the hierarchy may take place when there are indications that the market conditions have changed, such as liquidity.

Level 1 pertains to quoted prices that are readily available to numerous parties that provide price information and that represent actual and regularly recurring transactions. These include treasuries and other fixed-income securities that are actively traded. Level 2 pertains to valuation models that are based on observable market quotations. These include fixed-income securities and interest rate and foreign exchange derivatives.

The market quotations that are used for valuations in Level 1 and Level 2 include 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.

No reclassifications were made during the year. No assets or liabilities valued at Level 3.

41. RELATED PARTY DISCLOSURES

Disclosures regarding related parties pertain to dealings and transactions with Skandia AB and other group companies within 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.

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

	2013		2012	
Operating income	**Skandia AB**	**Other group companies**	**Skandia AB**	**Other group companies**
Net interest income	-43	-48	-8	-49
Net fee and commission income	—	27	—	29
Net financial income	—	77	—	-59
Other operating income	46	14	47	23
Total operating income	**3**	**70**	**39**	**-56**
Operating expenses				
Other administrative expenses	-1	-386	-303	-91
Other operating expenses	—	-45	—	—
Total operating expenses	**-1**	**-431**	**-303**	**-91**

	2013		2012	
Assets	**Skandia AB**	**Other group companies**	**Skandia AB**	**Other group companies**
Lending to the general public	—	—	0	—
Derivative instruments	—	73	—	13
Other assets	58	12	6	8
Total assets	**58**	**85**	**6**	**21**
Liabilities				
Deposits and borrowing from the general public	2,437	—	2,280	4
Derivative instruments	—	63	—	134
Other liabilities	0	142	44	119
Subordinated liabilities	900	—	1,200	—
Total liabilities	**3,337**	**205**	**3,524**	**257**

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 personnel loans to Skandia employees.

Interest expense pertains primarily to interest on subordinated loans from Skandia AB, 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. Through 15 November 2013 Skandiabanken had a credit facility of SEK 400 million from Skandia AB.

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

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

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

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

Other external companies
Skandiabanken has borrowed funds of SEK 202 million on hand from Seven Days Finans AB. The CEO of this company was a director on Skandiabanken's board through 31 December 2013.

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. Holdings of common shares are entitled to the dividend set by the Annual General Meeting, and their shareholding entitles them to voting rights of one vote per share at the Annual General Meeting.

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

Dividend
No dividend was paid to the parent company Skandia AB in 2012 or 2013, in accordance with decisions made by the Annual General Meeting on 16 April 2012 and 20 June 2013, respectively.

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

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

Defined benefit pension plans
This item includes revaluations of the pension obligation and associated deferred tax reported in accordance with local rules in Norway.

43. EVENTS AFTER THE BALANCE SHEET DATE

On 2 January 2014, the perpetual subordinated loans from Skandia AB were redeemed. On the same day, new perpetual subordinated loans were raised from Skandia Liv with corresponding terms of the redeemed ones, see note 32.

On 31 January 2014 an additional capital contribution of SEK 256 million was paid by Skandia AB.

CRR/CRD IV, a new capital adequacy regime and a new directive for credit institutions and securities companies, took effect on 1 January 2014. However, Swedish legislation on these matters will not be enacted until mid-year 2014 at the earliest. Thus both the current and future directives will apply. During the year, Skandiabanken worked with a Basel III project focusing on ensuring implementation. As per 31 December 2013 Skandiabanken met the capital requirements according to both Basel II and Basel III.

On 1 January 2014, with effect between the two companies, the entire operations of Livförsäkringsaktiebolaget Skandia (publ) (Skandia Liv) were transferred to Livförsäkringsbolaget Skandia, ömsesidigt through a portfolio transfer, which also took effect vis-à-vis the policyholders on 2 January 2014. This was followed the same day by the merger of Skandia Liv into Skandia Öms. Skandia Liv has thereby been converted to a bona fide mutual insurance company that is owned directly by the policyholders.

On 1 January 2014 Magnus Beer left Skandiabanken’s board.

Corporate governance report

THE COMPANY

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

THE CODE

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

DEVIATIONS FROM THE CODE

CODE RULE 1 – SHAREHOLDERS' MEETING

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

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

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

CODE RULE 7.3 – COMPOSITION OF THE AUDIT COMMITTEE

Skandiabanken does not adhere to the Code's rule that a majority of the audit committee's members must be independent in relation to the company and its executive management, and that a minimum of one of the members who are independent in relation to the company and its executive management must also be independent in relation to the company's major owners. This deviation is explained by the fact that Skandiabanken is a wholly owned subsidiary of Skandia.

CODE RULE 9.1 – REMUNERATION OF THE BOARD AND EXECUTIVE MANAGEMENT

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

GOVERNANCE DOCUMENTS

Based on Skandia Liv's articles of association, the Thule Foundation has drawn up a set of owner instructions and specially stipulated reporting procedures for Skandia Liv and its subsidiaries. Skandia Liv has drawn up instructions for subsidiaries in the group (the corporate governance manual), which prescribe that Skandia companies are to conduct their business with good risk management and good standards in general. At a General Meeting of Skandiabanken on 9 December 2013, a set of owner instructions was adopted. Skandiabanken's board of directors has adopted rules of procedure, including a mandate for the CEO and instructions for the board committees. These documents have been adapted to the group structure.

The aforementioned corporate governance manual aims to combine good governance and control with opportunities for effective and flexible administration of Skandia's operations. The corporate governance manual sets the framework for corporate governance and is to be adopted by all Skandia companies in order to achieve a uniform system of corporate governance. Among other things, it requires Skandiabanken to escalate certain business events to the board of Skandia AB or Skandia Liv for decision and includes monetary limits for decision-making authority and guidelines for board work including committees and various forums.

GENERAL MEETINGS

General meetings are Skandiabanken's highest decision-making body. At the Annual General Meeting, the income statement and balance sheet are adopted, and the company's auditors and board members are appointed (except for the employee representatives). Decisions are also made on directors' fees and auditors' fees, as well as whether to discharge the Board and CEO from liability. The decision-making right at general meetings lies with Skandia AB and ultimately with Skandia Liv, which owns all of the shares in Skandia AB. Three general meetings were held by Skandiabanken in 2013. The Board of Directors has the following composition: Niklas Midby (Chairman) and directors Bengt-Åke Fagerman, Björn Fernström, Lars-Göran Orrevall, Peter Rydell, Marek Rydén, Ann-Charlotte Stjerna and Anna-Carin Söderblom Agius. The Board also includes the employee representatives (appointed by the unions) Anne Andersson and Johanna Rolin Moreno. The general meeting appointed Deloitte AB as the company's auditor, with Patrick Honeth as chief auditor.

BOARD OF DIRECTORS

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

According to the Banking and Financing Business Act, most of the board members of a banking stock corporation may not be employees of the bank or of companies that belong to a group in which the bank is the parent company. Additionally, the Code stipulates that at least two of the board members who are independent in relation to the company and executive management shall also be independent in relation to the company's major shareholders. According to Skandiabanken's articles of association, the Board shall consist of a minimum of four and a maximum of twelve directors elected by a general meeting, with a maximum of five deputies. As per 31 December 2013, Skandiabanken's board consisted of 11 regular directors, none of whom are employees of Skandiabanken. Four of the board members, including the Chairman, are not Skandia employees, while the others are Skandia employees. Three of the board members are independent. Nine of the board members, including the Chairman, were elected by a general meeting. The Board includes two members who have been appointed by the employee unions, in accordance with law. Special statutory rules apply with respect to directors' disqualification. The CEO of Skandiabanken is co-opted to board meetings.

DIVISION OF DUTIES WITHIN THE BOARD

Skandiabanken's board of directors has two committees whose instructions correspond to those of the corresponding committees in Skandia Liv, after adaptation to the bank's operations. The committees' areas of responsibility cover all of Skandiabanken's operations, and the main duties are described under the headings below. In addition, the Board has appointed a board member with responsibility for conducting preparatory drafting work for decisions on significant remuneration issues and for monitoring application of the remuneration policy. The committees serve in a preparatory, drafting role and do not make decisions other than in cases where the Board has delegated the decision-making authority to the committee. For all of the committees, the Board is to appoint at least three of its members to serve on the respective committees. In addition to the appointed board members, executives of Skandiabanken are co-opted to the committees and are to participate in committee meetings to the extent requested.

AUDIT COMMITTEE

The Audit Committee is tasked with supporting the Board's work by conducting preparatory drafting of matters related to bookkeeping, accounting, financial control and monitoring of Skandiabanken. The committee is responsible for ensuring good internal control – mainly with respect to financial reporting – and thereby a structure that is highly compatible with the Financial Supervisory Authority's general guidelines on governance and control of financial companies. In addition, the committee conducts drafting work on issues pertaining to money laundering, fraud and improprieties in the operations. The committee has five members, of whom three are employees of Skandia and two are not Skandia employees and are independent. The CEO, CFO, CRO, other senior executives of the company, the head of internal audit and representatives of the external auditors are co-opted to the committee.

RISK AND ICAAP COMMITTEE

The Risk and ICAAP Committee is tasked with reviewing, on behalf of the Board, management's recommendations regarding risk management and risk control, particularly with respect to the 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). The committee strives for satisfactory application of the Financial Supervisory Authority's general guidelines on governance and control of financial companies. With respect to decision-making, the committee is to decide on such matters delegated to it by the Board. The committee has four members. The CEO, CFO, CRO, CCO, other senior executives of the company and the head of internal audit are co-opted to the committee.

THE BOARD'S WORK IN 2013

Skandiabanken's board held a total of seven meetings in 2013. Apart from the CEO's report and the financial report, among other things, the agenda focused on strategic processes. Among these, the most important decisions involved the IT platform and creating opportunities for external funding. In addition to operational matters in Skandiabanken, the Board monitored the change work in Skandia. Apart from these major matters, the Board also addressed continuing items of business, decided on policies and adopted the business plan.

In addition, the Board analysed and addressed the extensive, forthcoming new rules and regulations governing Skandiabanken's operations.

OVERVIEW OF BOARD MEMBERS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2013

Board members		Board	Audit Committee	Risk and ICAAP Committee
Niklas Midby		7		
Anne Andersson		5		
Magnus Beer		7		5
Bengt-Åke Fagerman		6	2	5
Lars-Göran Orrevall		7		6
Johanna Rolin Monero		7		
Marek Rydén		6	3	5
Ann-Charlotte Stjerna		7		
Anna-Carin Söderblom Agius		7	3	
Björn Fernström	elected after the year's last board meeting			
Peter Rydell	elected after the year's last board meeting			

THE CHAIRMAN'S ROLE

The Chairman leads the work of the Board and maintains continuous contact with the CEO and the owner representatives. In his contacts with the CEO, the Chairman's duty is to serve as a discussion partner and monitor Skandiabanken's ongoing development and matters of a strategic nature. The Chairman is responsible for ensuring that the Board's work is well organised and 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 controlling that the Board's decisions are executed and takes the initiative for the Board's annual evaluation of its work.

THE CEO'S ROLE

The CEO is responsible for Skandiabanken's day-to-day administration in accordance with the guidelines and instructions issued by the Board. The Board has adopted instructions that stipulate the division of responsibility between the Board and CEO, and regulates the CEO's mandate. The CEO is responsible for ensuring that the Board's strategic direction and that other decisions concerning Skandiabanken are implemented and complied with in the operations, and that the bank's risk management, internal control, governance, IT systems, organisation and processes are satisfactory, particularly with respect to risks. For support in the exercise of the operational management of Skandiabanken, the CEO has appointed a management team, which is presented on the next page. The CEO is a member of Skandia's executive management and of the relevant joint-group committees and forums that the CEO of Skandia Liv has established.

SKANDIABANKEN'S BOARD OF DIRECTORS

Niklas Midby
Chairman and independent member of Skandiabanken's board since 2011. Born 1959, M.Sc. Econ., Stockholm School of Economics. Partner of Consiglio Capital AB. Former Executive Vice President of OM-Gruppen (Nasdaq OMX), active in foreign investment banks and strategic consultant at BCG. Other assignments include directorships with O2 Vind AB, Resscapital AB (Chairman) and others.

Magnus Beer
Non-independent member of Skandiabanken's board since 2007, through 31 December 2013. Born 1952, LLB, Uppsala University. CEO of Sevenday Finans AB. Former Head of Nordic operations for Citigroup Konsumenttjänster and Associates First Capital Corp., former CEO of GE Capital Bank Norden and former employee of SEB and Trygg-Hansa. Former directorships with CitiFinancial Europe plc, GE Capital Bank AB, GE Capital Finance AS and GE Capital Bank SA, Poland.

Bengt-Åke Fagerman
Non-independent member of Skandiabanken's board since 2012. Born 1954, M.Sc. Econ., Stockholm University, MIL management education and Skandia's internal insurance training. Skandia employee since 1978. Executive positions in the Skandia group since 1989 in the Sweden organisation, companies in Skandia Liv, Market Support and SMS, among others. Appointed Executive Vice President of Skandia Liv in 2002 and CEO in 2005. Head of the Skandia group since acquisition in 2012. Chairman of Insurance Sweden and member of the Swedish Insurance Industry Employer Association (FAO).

Björn Fernström
Independent member of Skandiabanken's board since 2013. Born 1950, M.Sc. Econ., Stockholm University. Runs own consulting business. Formerly Authorised Public Accountant at Ernst & Young. Board member of Skandia Investment Management AB, DE Fund Capital and Case Asset Management AB, among others. Independent member of Skandiabanken's board, elected in December 2013.

Lars-Göran Orrevall
Non-independent member of Skandiabanken's board since 2012. Born 1962, M.Sc. Econ., Stockholm School of Economics. Skandia group employee since 2005, CEO of Skandia Investment Management AB. Formerly CEO of E. Öhman J:or Kapitalförvaltning, Executive Vice President of SPP Kapitalförvaltning, Chief Investment Officer at SEB Kapitalförvaltning AB and board member of the Swedish Society of Financial Analysts (SFF). Board member of Brandkontoret.

Peter Rydell
Independent member of Skandiabanken's board since 2013. Born 1948, LL.B. Senior Advisor at Öhman Wealth Management. Formerly Executive Vice President and regional director at Swedbank western Sweden, CEO of Robur. Independent member of Skandiabanken's board elected in December 2013.

Marek Rydén
Non-independent member of Skandiabanken's board since 2012. Born 1969, studies in economics and technical physics at Uppsala University. Skandia employee since 1996. CFO of Skandia's Nordic division since 2009, former Head of Skandia Link, former Head of Business Control. Served as actuary and controller in Germany and Latin America. Holds several internal board assignments for companies in the Skandia group.

Ann-Charlotte Stjerna
Non-independent member of Skandiabanken's board since 2012. Born 1972, M. Pol.Sc., University of Gothenburg. Skandia employee since 1999. CEO of Skandia AB since 2012. Former CRO of Skandia's Nordic division, former Head of Business Analysis for Skandia Link, previously worked as controller and in various group functions.

Anna-Carin Söderblom Agius
Non-independent member of Skandiabanken's board since 2012. Born 1967, M.Sc. Econ., Uppsala University. Skandia employee since 2007. COO, acting Product Manager for the Skandia group since 2012. Former Business Manager and CFO of Skandia Liv. Former CEO of Aktieinvest FK AB, former Administrative Manager at Öhman Asset Management and former auditor at Ernst & Young. Chairman of the Board of Skandia AB.

Anne Andersson
Non-independent member (employee representative) of Skandiabanken's board since 2004. Employee representative on Skandia Liv's board since 2012. Former employee representative on Skandia AB's board, from 2004 to 2012. Born 1956, Degree in International Economics, Linköping University. Skandia employee since 1986. Current duties include work with personal data issues in the Legal Affairs department. Chairperson of the Swedish Confederation of Professional Associations, Skandia chapter.

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

DEPUTY BOARD MEMBERS

Silveli Vannebo
Deputy member (employee representative) of Skandiabanken's board since 2012. Born 1964. Employee of Skandiabanken Norway since 2008. Active in the Finance Sector Union of Norway as an elected representative since 2008.

Birgitta Holmström
Deputy member (employee representative) of Skandiabanken's board since 2012. Born 1966. Skandia employee since 2001. Active in FTF (Swedish union of insurance and finance employee) as elected representative for Skandia since 2002/2003.

COMPANY SECRETARY

Lisa Lindholm
Born 1976, Company Lawyer, Skandia. Company Secretary since 2012.

CHIEF EXECUTIVE OFFICER

Øyvind Thomassen
Born 1962, M.Sc. Econ., Norwegian School of Economics, Bergen. Skandia employee since 1988, initially as Head of Skandiabanken Norway and subsequently as CEO of Skandiabanken, since 2010. Former CEO of Vesta Finans AS. Previous directorships for companies in Old Mutual Skandia Retail Europe. Øyvind Thomassen has no part ownership in companies with which Skandiabanken has significant business dealings.

SKANDIABANKEN'S EXECUTIVE MANAGEMENT

Øyvind Thomassen
CEO, Skandiabanken. Born 1962. Skandia employee since 1988.

Bengt-Olof Lalér
Deputy CEO. Born 1957. Skandia employee since 2009.

Jonas Holmberg
Deputy CEO. Born 1959. Skandia employee since 2009.

Pia Tell Svensson
CFO. Born 1970. Skandia employee since 2012.

REMUNERATION OF BOARD MEMBERS AND EXECUTIVE MANAGEMENT

Remuneration of board members and members of the Executive Management in 2013 is shown in note 7. The Board has decided that no variable remuneration shall be paid to the CEO of Skandiabanken.

INTERNAL CONTROL

Skandiabanken's internal control is built upon a business-adapted application of the three lines of defence principle, unless otherwise indicated. These make up the foundation for the operations' risk management, risk control and compliance. In addition, the three lines of defence principle aims to clarify the division of responsibility for risk and compliance, and draws a distinction between

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

INTERNAL AUDIT

Skandiabanken's internal audit function is directly subordinate to the Board's audit committee and is organisationally separated from the operations. Internal Audit's work is risk-based and is performed in accordance with the yearly audit plan that is approved by the Audit Committee. This work involves examining and evaluating the effectiveness of internal governance and control, including the risk management and compliance functions. The unit co-ordinates its activities with Skandiabanken's external auditors and other internal control functions in order to avoid redundant efforts. The head of Internal Audit reports directly to Skandiabanken's audit committee, submits periodic reports to the Board of Directors, and continuously informs the CEO of Skandiabanken.

EXTERNAL AUDITORS

At the 2013 Annual General Meeting, the auditing firm Deloitte was appointed as auditor of Skandiabanken until the end of the 2014 Annual General Meeting, with Authorised Public Accountant Patrick Honeth as chief auditor. Patrick Honeth is also the auditor for Bluestep, EnterCard, Swedbank Hypotek and Skandia Fonder AB. In 2013 Deloitte performed auditing and audit-related services for Skandiabanken. The external auditors co-ordinate their work with Skandiabanken's Internal Audit function. Auditors' fees are shown in note 8. The external auditors report to the Audit Committee, the Board of Directors and the general meeting.

RISK AND INTERNAL CONTROL OVER FINANCIAL REPORTING 2013

Skandiabanken's work with risk and internal control over financial reporting is based on the framework established by the Committee of Sponsoring Organizations (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. The framework is based on five internal control components: Control Environment, Risk Analysis, Control Activities, Information & Communication, and Monitoring.

CONTROL ENVIRONMENT

The control environment is the foundation for internal control, since its encompasses the culture that the Board and management communicate and strive for. The control environment consists of Skandia's ethical values and integrity, competency, management philosophy, organisational structure, responsibility and authorisations, policies and instructions, and guidelines. Skandia's work with internal control over financial reporting is conducted in a programme called Financial Internal Control (FIC). The framework of this work is regulated by the a policy for financial accounting and reporting that has been adopted by the Board of Directors.

The FIC Programme Office works in the first line of defence and continuously reports on the current level of effectiveness of the control framework to the FIC steering committee and the Audit Committee. The FIC steering committee is made up of the CFOs of Skandia, Skandia AB and Skandiabanken, the head of group accounting, and the head of IT risk and compliance. Skandia's CFO serves ultimately as the client and decision-maker for matters pertaining to FIC. The FIC Programme Office works on a continuous basis, together with the operations, on improving internal control in the processes that are coupled to the financial reporting and on clarifying the responsibilities and authorities, and on increasing risk and control awareness among the employees with duties in these processes.

RISK ASSESSMENT

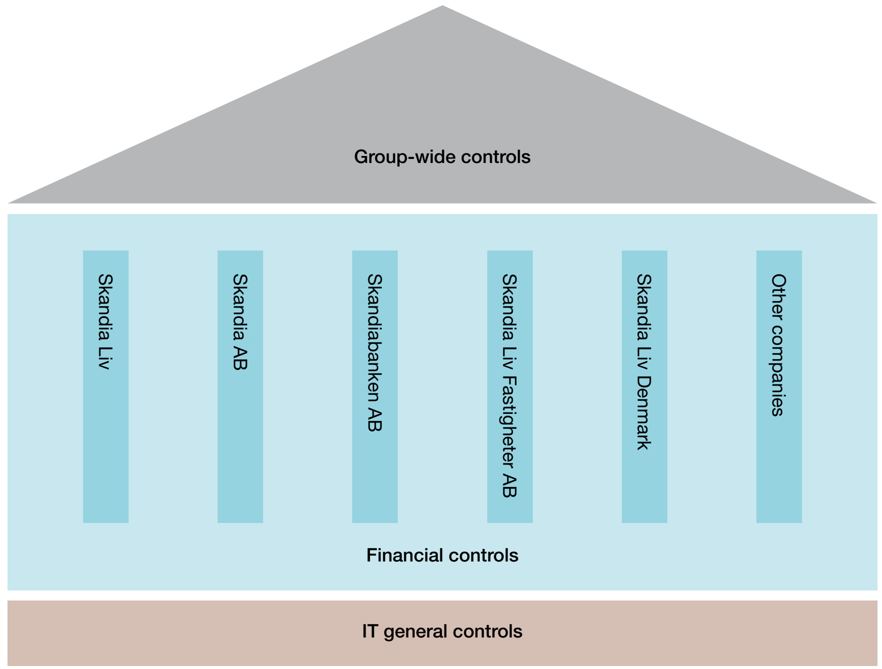
Risk assessment is conducted both quantitatively – from an income statement and balance sheet perspective – and qualitatively, to identify processes with high inherent risk. A delineation is also performed to identify which units, types of financial reports and IT systems are significant for Skandia. A process owner is designated for every process, who is responsible for ensuring that material risks in the process are identified and sufficiently managed through effective control activities, to ensure that the financial reporting provides a true and fair picture on every reporting occasion. Every process and control activity is risk-evaluated as low, medium or high, when 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 most parts of the organisation. Skandia has three control categories: Company-wide controls, Financial controls and IT general controls.

- **Group-wide controls:** Controls that capture compliance with the Board's and management's directives for the entire operation. These are controls related to the company's control environment, which sets the framework for other control components. They include, for example, controls of group-wide policies, instructions and guidelines, decision-making forums, roles and responsibilities, and management's supervision and delegation.
- **Financial controls:** These comprise 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 material account and/or financial report, to ensure that the relevant accounting claims are taken into account. Financial controls also encompass End User Computing (EUC), i.e., controls of personal computer–based applications that are administered in the operations. EUC applications can include spreadsheets (MS Excel), user-controlled databases (e.g., MS Access), and other user-controlled applications.
- **IT general controls:** These comprise controls coupled to system authorisations, access protection and controls in connection with system development. IT general controls also encompass the systems, applications and databases that the IT department is responsible for and which generate/process data that is considered to be critical for the 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). The evaluation is performed in an IT system for internal control.



INFORMATION & COMMUNICATION

Policies, instructions and guidelines are especially important for correct accounting, reporting and information practices, and also define the control activities that are to be performed. All policies, instructions and guidelines are updated on a continuous basis and are communicated to the relevant business functions by e-mail or in meetings. This is conducted within the respective functions with the support and under the co-ordination of Compliance. All policies, instructions and guidelines that affect several operations and/or functions are posted on Skandia's intranet.

The FIC Programme Office distributes information about the current effectiveness and ongoing activities via the intranet and at process owner meetings. A description of the FIC framework and its administrative organisation is provided in the policy for financial accounting and reporting, which is adopted by the CEO. In addition, meetings are held on a regular basis with Internal Audit, external audit, and the risk department in order to share information.

MONITORING

FIC continuous monitors the results of the control owners' self assessments. Deficiencies are documented in a deficiency log along with action plans. FIC works on a continuous basis – together with control owners and process owners – to remedy deficiencies and improve internal control within the respective processes. Every year, independent testing is conducted of controls with the highest risk, with respect to their design and operational effectiveness. Testing can be performed by external audit, the FIC Programme Office, and Internal Audit. The FIC Programme Office is responsible for co-ordinating the independent testing.

The FIC Programme Office also regularly performs process reviews together with the control owners and process owners in order to evaluate risks and ensure that the control activities are effectively designed to meet the identified risks. These reviews are a way of raising risk and control awareness among the process and control owners. It is also a way of reviewing and evaluating controls that are not part of the independent testing.

The results of evaluations, independent testing and the process reviews are communicated on a regular basis to the FIC steering committee and Audit Committee.

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, 10 MARCH 2014

The Board approves the Annual Report as per the above date, and final adoption will be done at the Annual General Meeting on 21 May 2014.

Niklas Midby
CHAIRMAN OF THE BOARD

Anne Andersson

Johanna Rolin Moreno

Björn Fernström

Ann-Charlotte Stjerna

Anna-Carin Söderblom Agius

Bengt-Åke Fagerman

Marek Rydén

Lars-Göran Orrevall

Peter Rydell

Øyvind Thomassen
CEO

OUR AUDIT REPORT WAS SUBMITTED ON 10 MARCH 2014

Deloitte AB

Patrick Honeth
AUTHORISED PUBLIC ACCOUNTANT

Auditors' report

TO THE ANNUAL GENERAL MEETING OF SKANDIABANKEN AKTIEBOLAG (PUBL), REG. NO. 516401-9738

REPORT ON THE ANNUAL ACCOUNTS

We have audited the annual accounts of Skandiabanken Aktiebolag (publ) for the year 2013. The annual accounts of the company are included in the printed version of this document on pages 1–63 and page 71.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CEO FOR THE ANNUAL ACCOUNTS

The board of directors and the CEO are responsible for the preparation and fair presentation of these annual accounts in accordance with Annual Accounts Act for Credit Institutions and Securities Companies, and for such internal control that the board of directors and the CEO determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINIONS

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies and present fairly, in all material respects, the financial position of Skandiabanken Aktiebolag (publ) as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Financial Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 64–70. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopts the income statement and balance sheet.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the board of directors and the CEO of Skandiabanken Aktiebolag (publ) for the year 2013. We have also performed a statutory review of the corporate governance statement.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE CEO

The board of directors is responsible for the proposal for appropriations of the company's profit or loss, and the board of directors and the CEO are responsible for administration under the Companies Act and the Banking and Financing Business Act, and for preparing the corporate governance statement on pages 64–70 in accordance with the Annual Accounts Act..

AUDITOR'S RESPONSIBILITY

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

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

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

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

Furthermore, we have read the corporate governance statement, and based on that reading and our knowledge of the company we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

OPINIONS

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

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts.

STOCKHOLM, 10 MARCH 2014
Deloitte AB

Patrick Honeth
AUTHORISED PUBLIC ACCOUNTANT