annual report 2006

contents

strong growth in business

Skandia recorded a good year in 2006 – the first year as a subsidiary of Old Mutual. We posted favourable performance on the back of strong sales, net client inflows and greater operating efficiency in several countries. Premiums and deposits improved in both our unit linked and mutual fund businesses, together rising a total of 25% in Swedish kronor. New sales of unit linked assurance rose 20% in Swedish kronor, and mutual fund deposits increased by 29% in Swedish kronor. Funds under management increased by 18% to SEK 668 billion, thanks to net inflows and favourable market growth. The strong volume growth demonstrates our ability to capitalise on the current market trend towards open architecture platforms and high innovation of new products to meet customer preferences and changed legislation.

The result before tax improved to SEK 1,657 million, despite negative one-time items of approximately SEK 700 million. The difference between the result reported here and the result reported for Skandia in Old Mutual's annual report is explained primarily by the difference in Skandia's organisational structure and its strictly legal structure, and by different ways of reporting investment income and the policyholder tax. Moreover, the result for 2006 was affected by a number of one-time items related to Old Mutual's acquisition of Skandia. The reserve strengthening that has been judged to be necessary for Skandia has been included in the opening balance in Old Mutual's accounting. In addition, Old Mutual reports Skandia's result starting with the date of acquisition, i.e., for 11 months in 2006.

2006 was yet another year of significant achievement for our business in UK, where demand for pension products continued to be strong even after April 6th, the date on which significantly simplified rules on tax advantages were put into effect. The launch during the year of several new funds produced by Skandia was very successful.

In our Europe & Latin America division, 2006 was another year in which our businesses were recognised in their local markets as excellent service providers and strong innovators of financial solutions. Significant growth was noted in the French, Polish and Mexican markets.

The result was stable for our Nordic business, while sales volumes of unit linked assurance decreased, partly due to a drop in new sales of "Kapitalpension" products. Sales in 2007 will be continue to be affected by mounting competition and changed conditions regarding tax rules and other legislation in the pensions area. A new organisational structure for Sweden has been put in place, new products are being developed, and IT systems are being further developed in order to better support distribution.

Skandias's mutually operating subsidiary, Skandia Liv, posted a successful year and reasserted its market-leading position in traditional life assurance. In addition, Skandia Liv was selected as one of the alternative choices in the new ITP plan. Skandia Liv's total return on investments was 9.3% (13.8%) for the year, and the bonus rate was raised to 9% in February 2007, which is one of the highest in the industry.

Julian Roberts
Chief Executive

board of directors' report 2006

Skandia acquired by Old Mutual

On 15 February 2006, Old Mutual plc announced that 89.54% of Skandia's shareholders had accepted Old Mutual's public offer, which had been declared unconditional on 26 January 2006. On 22 March 2006, Old Mutual announced that the acceptance level was 98.7% of the total number of shares outstanding. As a result of Old Mutual's acquisition, Skandia's shares were delisted from the Stockholm Stock Exchange on 5 June 2006. During the year, arbitration proceedings were initiated for Old Mutual's purchase of the outstanding minority shares.

On 21 February 2006, Julian Roberts took office as Chief Executive of Skandia, and Jim Sutcliffe was elected as Chairman of the Board.

A great amount of work was dedicated in 2006 to integrating Skandia in the Old Mutual Group and to implementing certain organisational changes in accordance with the plans announced by Old Mutual in connection with its bid for Skandia. For example, the activities of Old Mutual's subsidiary in the UK, Selestia, were integrated with Skandia's UK subsidiary MultiFunds. A process aimed at outsourcing the IT operations has also been initiated in the British operations. At the same time, certain functions previously handled by the Swedish head offices were transferred to Old Mutual's head offices in London.

On 20 December 2006, it was announced that Skandia is selling its Spanish life assurance company, Skandia Vida, to Caisse Nationale de Prévoyance. Skandia Vida conducts traditional life assurance business, which is not a core activity of Skandia's Europe & Latin American division. On the balance sheet, the assets of Skandia Vida have been classified as assets held for sale. The sale, which has now been completed, has had a limited effect on the group's financial position.

Result according to IFRS

The result before tax was SEK 1,657 million (138). The result for the preceding year was charged with a write-down of SEK -1,135 million for Bankhall. The pre-tax result for the year includes certain one-time items, totalling approximately SEK 700 million. An adaptation has been made of technical provisions in the Swedish operations, resulting in a SEK -300 million charge against the result. In addition, a provision of SEK 406 million was made for administrative routines and system improvements in the UK. The provision for legal and other costs associated with Prudential Financial's acquisition of shares in American Skandia was strengthened in the amount of SEK 338 million, which is reported among discontinued operations.

Revenues

Total revenues rose 16% to SEK 19,470 million (16,758). Of this total, fees from customers accounted for SEK 15,020 million (11,992), representing an increase of 25%. A continued net inflow of funds under management, together with growth in the value of funds during the year, has led to an increase in fund-based fees from both unit linked assurance and mutual fund savings products. In addition, higher sales volume contributed to a 10% rise in premium-based fees. Premium-based fees, and in certain countries also fund-based fees, are sometimes charged during the initial years of a contract's term. These fees are deferred and recognised over the life of the respective contracts. The increase in premium-based fees also led to an increase in deferred fee income.

Premiums attributable to risk insurance decreased to SEK 3,091 million (3,154), mainly due to a drop in premium income for risk insurance associated with unit linked assurance contracts. Net investment income decreased slightly to SEK 1,371 million (1,463). This was mainly because interest rate increases have given rise to negative changes in the value of the bond portfolio. Revenues in the banking operation also decreased slightly.

Expenses

Total expenses rose 7% to SEK 17,813 million. Claims incurred in life and risk insurance decreased to SEK -2,515 million (-2,943), partly due to the impact of changed interest rates on life assurance provisions and to claims payments. Commission payments rose 23% to SEK -7,699 million, mainly due to a 20% rise in new sales of unit linked assurance and to a rise in mutual fund deposits. The change in deferred acquisition costs and accrued commission expense was slightly lower than the preceding year's level, at SEK 2,293 million (2,395). Portfolio commissions have increased; these have not been capitalised as deferred acquisition costs.

Administrative expenses rose 11%. Administrative expenses in 2006 were charged with a provision of SEK -406 million in the UK and SEK -517 million for structural costs.

Result for the year after tax

The result for the year was SEK 1,107 million (-765). The result for the preceding year included – in addition to a goodwill write-down of SEK -1,135 million – SEK -645 million pertaining to discontinued operations.

A policyholder tax is charged to policyholders in the form of fees. This is reported in the income statement under "Policyholder tax charge". The group's combined tax charge, including the policyholder tax, decreased to SEK -2,285 million (2,760), mainly due to a decrease in policyholder taxes in the UK.

Balance sheet and shareholders' equity

Total assets increased to SEK 650 billion, compared with SEK 551 billion a year earlier. This was mainly attributable to an increase in unit linked assets, totalling SEK 76 billion. Assets held for sale amounted to SEK 15 billion and pertained to Skandia Vida in Spain.

Shareholders' equity increased to SEK 13 billion, due to profit for the year. Borrowings, including financial reinsurance, decreased from SEK 3.7 billion as per 31 December 2005, to SEK 2.1 billion on 31 December 2006.

Assets in mutual funds, which according to IFRS are to be consolidated, increased from SEK 16 billion to SEK 21 billion. The adjustment against shareholders' equity pertaining to these fund holdings was SEK 0 million (248).

Cash flow

Cash flow from operating activities, excluding changes in deposits and lending in the banking operation, amounted to SEK -0.1 million (0.5). Payment of structural costs had a negative impact on cash flow during the year. This was partially offset by higher fees from customer in pace with growth in funds under management. Payments attributable to American Skandia are not expected to take place until autumn 2007. Cash flow from investing activities was at the same level as a year ago, SEK 1.6 billion (1.6). Of this amount, slightly more than SEK 1 billion was used to pay down the group's debt. New issues pertain to shares issued in connection with exercises in the employee stock option programme. The dividend pertains only to minority shareholders, since Old Mutual refrained from its dividend.

Premiums and deposits

Skandia's total premiums and deposits increased during the year to SEK 158,992 million (127,557), corresponding to an increase of 25% in Swedish kronor. For unit linked assurance, premiums and deposits increased to SEK 108,332 million (88,013), and new sales of unit linked assurance rose 20% to SEK 13,768 million (11,460). Mutual fund deposits increased to SEK 47,595 million (36,847).

Results per business segment

Unit linked assurance

The result before tax was level with a year ago, at SEK 1,844 million (1,894). Revenues, consisting primarily of fees from customers, increased by 15%. At the same time, expenses rose 19%, mainly due to the above-mentioned provisions of SEK -300 million and SEK -406 million, and an increase in commission payments. Excluding the provision of SEK -406 million, administrative expenses rose 8% to SEK -3,551 million, corresponding to 0.8% (0.9%) of averaged managed assets.

Mutual funds

Mutual fund business continued to show earnings improvements. The result before tax was SEK 41 million (8). Revenues – mainly in the form of fund-based fees, rose 41%. Funds under management, which make up the revenue base, rose 18% since 31 December 2005. External commission expenses rose 39% to SEK -1,178 million (-850). Administrative expenses increased as a slower pace, by 28%, to SEK -1,374 million (-1,071). In relation to average funds under management for mutual fund business, administrative expenses amounted to 0.9% (0.9%).

Life assurance

Life assurance premium income was level with the preceding year, at SEK 1,038 million (1,060). Investment income decreased to SEK 299 million (584), mainly due to a drop in the value of bonds associated with higher interest rates during the year. The decrease was offset by a decrease in technical provisions. The result before tax improved to SEK 133 million (3).

Banking

Profit before tax was SEK 215 million (351). The decrease is mainly attributable to a 15% rise in administrative expenses associated with projects (adaptation to Basel II) and higher staff costs. In addition, profit for the preceding year was affected by a few one-time positive items – the largest being a capital gain of SEK 23 million from the sale of the stake in Lärarfonder AB.

Net interest income decreased slightly due to a changed product mix and greater competition in the home mortgage market.

Loan losses totalled SEK -37 million (-21). The share of net doubtful debts in relation to lending volume was 0.08%, compared with 0.07% on 31 December 2005.

Lending amounted to SEK 50.2 billion, an increase of 18% since 31 December 2005. Deposits increased during the same period by SEK 5 billion, to SEK 50.7 billion.

Other businesses

The "Other businesses" segment includes the Private Healthcare & Group business in the Nordic division and Bankhall in the UK. The result before taxes improved to SEK 103 million (-1,227). The improvement is mainly attributable to the fact that the year-earlier result was charged with a goodwill write-down of SEK -1,135 million for Bankhall and costs for restructuring Bankhall. The actions taken have generated results, and profit before tax for Bankhall was SEK 39 million (-149).

Profit for the Private Healthcare & Group Insurance business was SEK 65 million (56).

Joint functions

Joint functions include joint-group expenses, cost for the divisions that are not distributed among the business segments, and the joint-group financial result. The group's management expenses amounted to SEK 698 million (533), and structural costs totalled SEK 517 million (489). The result for joint functions was favourably affected during the year in the amount of SEK 103 million (150), related to the distribution agreement with Skandia Liv.

Parent company

In addition to managing the group's operations, the parent company also conducts insurance business, namely, unit linked assurance, private healthcare insurance and group insurance. In addition, the parent company accepts some reinsurance from group companies.

The income statement, balance sheet and accompanying notes are presented in accordance with Swedish GAAP as set out in the Swedish Annual Accounts Act for Insurance Companies and the instructions of the Swedish Financial Supervisory Authority. This layout differs from the group's presentation, which has been prepared in accordance with IFRS.

The result before tax was SEK -407 million (-4,260). The result for unit linked assurance amounted to SEK 839 million (972), despite a strengthening of technical reserves in the amount of SEK 300 million. Shares in subsidiaries were written down by SEK 2,849 million, which is associated with dividends received from subsidiaries in the amount of SEK 2,599 million.

Total assets increased to SEK 116.7 million (112.5), mainly due to an increase in funds under management. Shareholders' equity decreased slightly, to SEK 8.7 billion (8.8), as a result of the loss reported for the year, which as partly offset by group contributions. Net asset value was SEK 20.6 billion (19.3).

For an overview of the technical result for property & casualty insurance and life assurance business for each of the past five financial years, and the parent company's funding with respect to capital strength at the end of the last five financial years, see the Five-year summary on page 65.

Disputes

Skandia is and during the year was party to a number of legal disputes concerning, among other things, members of the former executive management, the sale of American Skandia, and Skandia Liv. Following is a status report on the most significant of these processes.

Former executive management

In an arbitration process, Skandia made demands for damages from former CEO Lars-Eric Petersson for actions he took during the time he was active in the group. The arbitration ruling, in which Skandia's claims were rejected, was announced in December 2006. As a result of the arbitration ruling, the issue of Lars-Eric Petersson's liability to Skandia has been conclusively settled.

Aside from the arbitration process, Chief Prosecutor Christer van der Kwast brought charges against Lars-Eric Petersson for such actions covered by the arbitration process. In May 2006, the Stockholm District Court found Lars-Eric Petersson guilty of gross breach of trust and issued a sentence of two years in prison. Lars-Eric Petersson has appealed the ruling. Skandia is not a party to this case.

American Skandia

The agreement for Prudential Financial's acquisition of American Skandia contains representations and warranties that are customary for this type of transaction. The indemnity in respect of this is limited in time and can amount to a maximum of USD 1 billion.

In connection with investigations by the US Securities and Exchange Commission (SEC), the New York Attorney General's office and other US regulators, several mutual fund and variable annuity companies in the US have been accused of allowing, among other things, frequent trading, or "market timing", in fund units, which may be harmful to the interests of other investors. American Skandia has also come under focus insomuch as the New York Attorney General's Office has investigated market timing by certain owners of fund units offered by American Skandia within the framework of various variable annuity products.

Skandia has approved American Skandia's offer of USD 95 million to settle the market timing issue with the SEC and the New York Attorney General's office. The settlement fully resolves the market timing issue with these authorities.

The settlement entailed neither an admission nor a denial by American Skandia regarding market timing, but offered to resolve the matter by paying restitution and a civil penalty of USD 95 million in the aggregate. The ultimate financial responsibility for this matter is set forth in Skandia's indemnity obligations in the agreement for the acquisition of shares in American Skandia from Skandia by Prudential Financial. The parties are still waiting for preparation of the final agreement documentation and board approval by the SEC.

American Skandia has been a party to a few class action lawsuits in the US. These are covered within the indemnity described above. The outstanding class action suits pertain to alleged activities involving market timing. American Skandia was one of several parties originally named in these suits, but has not been named as a defendant in subsequent litigation. Skandia's current opinion is that the outcome of these class action suits will not affect the group's financial position to any material extent. It is not possible to rule out any further class action suits related to market timing. It is currently not possible to judge whether such class action suits can affect Skandia to any material extent.

Due to shortcomings in administrative routines in the late 1990s and early 2000s, American Skandia did not annuitise certain annuity contracts at their designated annuitisation dates or contractual default dates. American Skandia brought this shortcoming to the attention of the relevant regulatory authorities. The outcome of this matter is covered by the indemnity described above.

Skandia has made a reserve provision of USD 95 million for settlement of the market timing issue. Additional reserve provisions of USD 124 million have also been made for the guarantees pertaining to American Skandia, of which SEK 43 million was expensed in 2006.

Skandia Liv

Skandia Liv has directed a claim of SEK 3.2 billion (plus interest and following an adjustment made in February 2007) for damages against Skandia for alleged prohibited profit distribution in respect of the asset management agreement that Skandia Liv entered into with Skandia in connection with Skandia's sale in early 2002 of its asset management business to Den norske Bank. Skandia and Skandia Liv have agreed to resolve this dispute through arbitration. No reserve provision has been made.

Skandia received payment from Skandia Liv for the surplus that accrued in the Skandia employees' occupational pension plans during the years 2000–2002. Negotiations are currently being carried out to fully clarify how the right between the companies is to be apportioned regarding any future payment of the surplus.

These negotiations are being conducted within the framework of a broader discussion between the companies aimed at arriving at a consensus in early 2007 on several issues in which the companies have had diverging opinions.

Italy
In connection with Skandia's sale in 1998 of the Italian property & casualty insurance companies Uniass and Multiass, customary seller guarantees were made. The buyer has now brought arbitration proceedings in respect of claims for certain alleged guarantee shortfalls. The claims amount to approximately EUR 22 million. Skandia's current opinion is that the buyer has not shown it likely that guarantee shortfalls exist for an amount other than approximately EUR 5 million. A provision has been made for this amount. No other reserve provision has been made for these claims.

Austria
A consumer organisation in Austria, Verein für Konsumenteninformation ("VKI"), has filed suit against Skandia's subsidiary in Austria, Skandia Leben AG, as well as against several other insurance companies in the Austrian market. The court ruled in 2006 that the general terms and conditions of insurance contracts used by Skandia Leben and the other insurance companies do not contain sufficiently clear stipulations on the calculation of fees and costs. The ruling has been appealed. Skandia and the other insurance companies are aggressively contesting VKI's suit. A ruling is expected in 2007. A provision of approximately EUR 0.2 million has been made.

Germany
In a number of cases, the Federal Court of Justice in Germany (Bundesgerichtshof, BGH) has invalidated certain insurance terms and conditions concerning surrender values of life assurance contracts. The cases at hand concern insurance policies written by the German insurance group Allianz. However, the court's ruling may have a general interpretation for the industry as a whole, entailing that certain minimum levels shall apply to policyholders' advantage in connection with surrenders of the type of contract in question. Skandia's opinion is that only a small portion of the contracts written by Skandia's subsidiary in Germany could be affected by the BGH's ruling. A reserve provision of EUR 2.9 million has been made for this matter.

Value Added Taxes for IT operations
The Swedish Tax Authority has questioned the Skandia group's treatment of Value Added Taxes on services pertaining to the operation of the group's IT environment. Consequently, the Tax Authority has assessed outgoing Value Added Tax to a subsidiary of Skandia Insurance Company Ltd (publ) for a number of financial years, plus an additional tax charge for a number of financial years for such services that the subsidiary performed for other members of the so-called VAT group. Skandia has filed an appeal of the Tax Authority's ruling and a respite from payment of the tax has been received. Further, the National Tax Board stated in an advance ruling pertaining to subsequent financial years that outgoing Value Added Tax shall be charged by the subsidiary on the services that the subsidiary has performed for other members of the so-called VAT group. The advance tax ruling has been upheld by the Supreme Administrative Court with respect to the matter in principle. The process regarding the payment obligation is continuing in the administrative court. The advance tax ruling has been appealed by Skandia. A provision of SEK 151 million has been made.

Other
Apart from the disputes described above, Skandia is party to a number of other disputes, including tax disputes, of a scope which – in Skandia's opinion – is normal considering the business conducted by the group.

Risks

Skandia's activities give rise to several types of risk that can affect the group's results and financial position. Some of these are associated with the company's business strategy and are not limited to a specific business segment. Other risks are segment-specific, such as actuarial risk. These risks can be categorised into four main groups:
- Strategic and political risk
- Market risk
- Operational risk
- Actuarial risk

A description of how these risks affect Skandia and how the company manages them is provided in note 2 to the group accounts.

Embedded value

Embedded value is an alternative method of measure the result of an insurance operation which is based on discounting future cash flows related to existing contracts in force. Embedded value reporting is used internally as the primary method of measure the performance of the business. This method analyses and compares the profitability of new products and the value of existing products. The subsidiaries in the group are also compared as part of the capital allocation process. Embedded value reporting is also used as a way of evaluating and communicating the economic significance of both internal decisions and external events. A more detailed description of embedded value can be found in Skandia's 2005 Annual Report

Solvency

The term solvency has a special meaning in the insurance world. Solvency is a measure of an insurance company's ability to meet all the obligations the company has. There are different ways of measuring this, and different countries use different methods. All insurance companies in the Skandia group report their solvency to their local regulatory authorities in accordance with the rules in the respective countries. The EU Commission has issued a directive on minimum solvency levels, and as a result, the EU member states have similar rules. Some countries have chosen to introduce stricter requirements, but not Sweden. In brief, the part of these rules that affect Sweden entail calculating a solvency margin – based on technical provisions – that may not exceed the company's capital base. In simplified terms, the solvency margin is calculated as 4% of the provisions for which the company bears the investment risk, plus 1% of the provisions where the investment risk is borne by the policyholders, plus 0.3% of positive risk sums. The capital base consists of shareholders' equity, untaxed reserves and subordinated loans, less intangible assets.

In Sweden, in 2002 a requirement for reporting of group-based solvency was introduced, which entails that Skandia must also calculate solvency for the insurance group. The purpose of this calculation is to avoid "double gearing", i.e., to make sure that the same capital is not used by several companies. Since Skandia mainly provides products with a small actuarial risk and few guaranteed-yield products, the solvency margin is low. The solvency margin as per 31 December 2006 was SEK 3,182 million (3,273). Skandia's capital base on that same date was SEK 12,876 million (12,793), and the surplus was thus SEK 9,694 million (9,520). The increase in the capital base is attributable to the addition of the result for the year to the capital base. As a counterbalance to this is a decrease caused by the fact that the parent company, starting in 2006, must reduce its capital base for holdings in subsidiaries that conduct banking business.

Solvency is an area in change, both in Sweden and internationally. In Sweden, the Financial Supervisory Authority adopted a new supervisory tool in 2006, called the traffic light model. This model is an attempt to achieve a more risk-based form of oversight that better measures financial risks than today's solvency calculations. The traffic light model is a stress test of a company's balance sheet which tests the effects of potential changes in the financial parameters that affect the valuation of an insurance company's assets and liabilities, including interest rates, equity prices and exchange rates. The model is based on fair valuation of assets in the balance sheet. This means that all technical provisions are to be based on prudent valuations instead of according to safeguard assumptions as previously. Skandia met the requirements posed by the traffic light model and thereby received a "green light" from the Financial Supervisory Authority. The traffic light model will be complemented with stress tests of actuarial risks in 2007. In Skandia's opinion, the company will also meet these requirements and continue to receive a green light according to the traffic light model.

On the international plane, extensive work is currently under way on the Solvency II project, which is aimed at introducing a more risk-based model for calculating solvency and more proactive oversight within the EU. The starting point is the same as the Basel II rules, with three pillars of oversight:

- Quantitative rules in which two different levels are proposed – a minimum level and a target level for the capital base
- Qualitative oversight tools
- Reporting to the supervisory authorities and external disclosure requirements

Solvency II is a very wide-reaching project, where the new rules are not expected to be adopted into national laws until 2010 at the earliest. Much of the detail work remains before the EU project will be completed and the rules can thereafter be implemented in Swedish law.

proposed distribution of profit

Distribution of the parent company's unrestricted shareholders' equity

SEK million

The following amount is available for distribution by the Annual General Meeting	7,527
The Board of Directors and Chief Executive propose	
that no dividend is paid	
and that the remainder be carried forward	7,527
If this proposal is adopted, the parent company's shareholders' equity will consist of	
Share capital	1,031
Share premium reserve	139
Profit carried forward	7,527
	8,697

The group's unrestricted shareholders' equity, as per the definition in the Swedish Annual Accounts Act for Insurance Companies, amounts to SEK 4,847 million.

In the Board's opinion, all unrestricted equity can be considered to be distributable in consideration of the assessment criteria stipulated in Ch. 12 § 2 last paragraph of the Swedish Insurance Business Act (funding needs, liquidity and financial position in general).

Stockholm, 17 April 2007

Jim Sutcliffe
Chairman

Björn Björnsson
Vice Chairman

Anne Andersson

Norman Broadhurst

Mia Garren

Ingolf Lundin

Michael Newman

Lars Otterbeck

Julian Roberts
Chief Executive, Company Director

Our audit report was submitted on 17 April 2007.

Thomas Thiel
Authorised Public Accountant

Anders Engström
Authorised Public Accountant
Appointed by the Swedish Financial
Supervisory Authority

consolidated income statement

SEK million	Note	2006	2005
REVENUE			
Fee income	4	15,020	11,992
Change in deferred fee income and fee income receivable	5	-1,541	-1,424
Gross premiums earned	6	3,954	3,886
Less: Premiums ceded	6	-863	-732
Net investment income	7	1,371	1,463
Net interest income, banking	8	977	1,055
Share of result of associates		7	3
Other income	9	545	515
Total revenue		**19,470**	**16,758**
EXPENSES			
Gross claims incurred	10	-2,923	-3,556
Less: Claims ceded	10	408	613
Commission expenses	11, 14	-7,699	-6,278
Change in deferred acquisition costs and accrued commission expenses	12, 14	2,293	2,395
Administrative expenses	13, 14	-8,586	-7,723
Other expenses	15	-805	-1,686
Financing costs	16	-501	-385
Total expenses		**-17,813**	**-16,620**
Result before tax		**1,657**	**138**
Policyholder tax charge	17	2,073	2,502
Tax expense	17	-2,285	-2,760
Result for the period from continuing operations		**1,445**	**-120**
Result for the period from discontinued operations	18	-338	-645
Result for the year		**1,107**	**-765**
Attributable to:			
Equity holders of the parent company		1,092	-775
Minority interest		15	10
Earnings per share	19		
Continuing and discontinued operations			
Before dilution		1.06	-0.76
After dilution		1.06	-0.76
Continuing operations			
Before dilution		1.39	-0.13
After dilution		1.39	-0.13
Discontinued operations			
Before dilution		-0.33	-0.63
After dilution		-0.33	-0.63

consolidated balance sheet

SEK million	Note	2006	2005
ASSETS			
Intangible assets			
Goodwill	20	474	483
Other intangible assets	21	267	221
Reinsurers' share of insurance provisions	32	992	1,094
Reinsurers' share of linked investment contracts	33	7,392	217
Deposits held with cedants		2,870	3,671
Deferred acquisition costs	22	20,720	19,326
Deferred tax assets	34	1,368	438
Surplus in defined benefit pension plans	23	702	687
Property and equipment	24	380	515
Investment properties	25	20	25
Loans and advances	26	57,540	51,355
Investments in associates	27	6	84
Other investments	28	11,915	22,933
Investments for the benefit of policyholders	29	499,075	422,770
Assets in consolidated mutual funds		20,723	15,767
Current tax assets		289	436
Other receivables	30	3,910	3,818
Other prepaid expenses and accrued income	31	3,923	4,589
Cash at bank		2,529	2,141
Assets held for sale	48	14,769	—
Total assets		**649,864**	**550,570**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital		1,031	1,025
Other contributed capital		138	30
Reserves		153	517
Profit carried forward, including profit for the year		11,874	10,463
Shareholders' equity attributable to equity holders of parent		**13,196**	**12,035**
Minority interest		98	97
Total shareholders' equity		**13,294**	**12,132**
Liabilities			
Subordinated loans	37	850	850
Insurance provisions, gross	32	5,807	16,654
Liability for linked investment contracts	33	506,416	422,984
Liabilities in consolidated mutual funds		20,723	16,014
Deposits received from reinsurers	37	125	112
Provision for pensions	23	183	255
Deferred tax liability	34	4,792	2,954
Deferred fee income	35	17,038	16,564
Other provisions	36	1,875	1,139
Deposits from the public	37	51,186	45,505
Other interest bearing liabilities	37	1,977	3,259
Current tax liabilities		491	513
Derivative liability	38	188	195
Other payables	39	7,658	8,074
Other accruals and deferred income	40	2,845	3,366
Liabilities held for sale	48	14,416	—
Total shareholders' equity and liabilities		**649,864**	**550,570**
Pledged assets	41	4,994	6,173
Assets covered by policyholders' beneficiary rights	41	88,194	75,919
Pension obligations	42	—	19
Contingent liabilities	42	1,665	837

consolidated statement of changes in shareholders' equity according to IFRS

Account of the group's reported income and expenses	2006	2005
Change in surplus value of owner-occupied property	0	4
Increase/decrease in revaluation reserve	12	0
Actuarial gains and losses from post-employment defined benefit pension plans	25	176
Translation differences for the year	-663	1,151
Foreign exchange gains/losses on loans and forward exchange contracts	379	-963
Tax on result reported directly against shareholders' equity[4]	-106	199
Result for the year	1,107	-765
Change in net worth reported directly against shareholders' equity, excluding transactions with the company's owners	**754**	**-198**
Attributable to:		
Equity holders of the parent company	753	-218
Minority interests	1	20

MSEK	Share capital[1]	Other contributed capital	Reserves[6]	Profit brought forward, incl. profit for the year	Total shareholders' equity attributable to equity holders of the parent	Minority interests	Shareholders' equity
Opening shareholders' equity according to IFRS, 2005	1,024	13	136	11,135	**12,308**	76	12,384
Change in surplus value of owner-occupied properties							
Increase/decrease in revaluation reserve			4		**4**		4
Actuarial gains and losses from post-employment defined benefit pension plans				176	**176**		176
Translation differences for the year			1,141		**1,141**	10	1,151
Foreign exchange gains/losses on loans and forward contracts			-963		**-963**		-963
Tax on items reported against shareholders' equity[4]			199		**199**		199
Change in net worth reported directly against shareholders' equity, excluding transactions with the company's owners		**13**	**517**	**11,311**	**12,865**	**86**	**12,951**
Result for the year				-775	**-775**	10	-765
Share-based payments				9	**9**		9
Purchases and sales of treasury shares held to cover insurance contracts[2]				277	**277**		277
Change in minority in discontinued operation					**0**	4	4
Dividend, SEK 0.35 per share				-359	**-359**		-359
Minority's share in dividends from subsidiaries					**0**	-3	-3
New issue[3]	1	17			**18**		18
Shareholders' equity at year-end 2005	**1,025**	**30**	**517**	**10,463**	**12,035**	**97**	**12,132**
Change in surplus value of owner-occupied properties							
Increase/decrease in revaluation reserve			12		**12**		12
Actuarial gains and losses from post-employment defined benefit pension plans				25	**25**		25
Translation differences for the year			-649		**-649**	-14	-663
Foreign exchange gains/losses on loans and forward contracts			379		**379**		379
Tax on items reported against shareholders' equity[4]			-106		**-106**		-106
Change in net worth reported directly against equity, excluding transactions with the company's owners	**1,025**	**30**	**153**	**10,488**	**11,696**	**83**	**11,779**
Result for the year				1,092	**1,092**	15	1,107
Share-based payments				55	**55**		55
Purchases and sales of treasury shares held to cover insurance contracts[2]				246	**246**		246
Change in minority					**0**	3	3
Dividend, SEK 0.40 per share				-7	**-7**		-7
Minority's share in dividends from subsidiaries[5]					**0**	-3	-3
New issue[3]	6	108			**114**		114
Shareholders' equity at year-end 2006	**1,031**	**138**	**153**	**11,874**	**13,196**	**98**	**13,294**

[1] Number of shares outstanding	2006	2005
As per 1 January	1,025,153,800	1,024,250,395
New issue in associated with employee stock option programme	5,608,888	903,405
As per 31 December	1,030,762,688	1,025,153,800
Of which, treasury shares consolidated in funds, see note 2 below	0	5,204,000

All shares have a quota value of SEK 1.

Notes continued on page 13.

consolidated statement of changes in shareholders' equity according to Swedish GAAP

SEK million	Restricted shareholders' equity: Share capital	Restricted shareholders' equity: Property revaluation reserve	Restricted shareholders' equity: Other restricted reserves [1]	Unrestricted shareholders' equity: Retained earnings	Total shareholders' equity attributable to equity holders of parent	Minority interest	Total shareholders' equity
Opening shareholders' equity according to Swedish GAAP 2005	**1,024**	**87**	**7,564**	**3,633**	**12,308**	**76**	**12,384**
Net income recognised directly in shareholders' equity [2]		15	1,019	-477	557	10	567
Result for the year				-775	-775	10	-765
Share-based payments			2	7	9		9
Sales and purchases of treasury shares held to cover investment contracts [3]				277	277		277
Transfers between restricted and unrestricted shareholders' equity			-3,244	3,244	0		0
Change in minority in discontinued operations						4	4
Dividend, SEK 0.35 per share				-359	-359		-359
Minority's share in dividend from subsidiaries					0	-3	-3
New issue [4]	1		17		18		18
Shareholders' equity at year-end 2005	**1,025**	**102**	**5,358**	**5,550**	**12,035**	**97**	**12,132**
Net income recognised directly in shareholders' equity [2]		-10	-570	241	-339	-14	-353
Result for the year				1,092	1,092	15	1,107
Share-based payments			49	6	55		55
Sales and purchases of treasury shares held to cover investment contracts [3]				246	246		246
Transfers between restricted and unrestricted shareholders' equity		-52	2,333	-2,281	0		0
Change in minority					0	3	3
Dividend, SEK 0.40 per share [5]				-7	-7		-7
Minority's share in dividend from subsidiaries					0	-3	-3
New issue [4]	6		108		114		114
Shareholders' equity at year-end 2006	**1,031**	**40**	**7,278**	**4,847**	**13,196**	**98**	**13,294**

[1] Restricted reserves consist of capital in the respective subsidiaries that may not be distributed, normally due to local solvency rules. In other respects, the group only has a share premium reserve of SEK 139 million (31) in the parent company.

[2] Result reported directly against shareholders' equity. See account of group's income and expenses.

[3] Certain funds in which Skandia has invested for the benefit of policyholders are consolidated. These funds may have invested in Skandia shares. In such case, these are to be eliminated against shareholders' equity. The effect of purchases and sales of shares in Skandia that have taken place during the period, together with the changes in the share price, makes up an explanatory item in the change in shareholders' equity.

[4] New issue associated with employee stock option programme.

[5] Since the principal owner, Old Mutual, waived its entitlement to the share dividend, the dividend was only paid to the other shareholders on the basis of 18,048,412 shares

cont. Notes to Changes in shareholders' equity according to IFRS

[2] Certain funds in which Skandia has benefited for the benefit of policyholders are consolidated. These funds may have invested in Skandia shares. In such case, these are to be eliminated against shareholders' equity. The effect of purchases and sales of shares in Skandia that have taken place during the period, together with the changes in the share price, makes up an explanatory item in the change in shareholders' equity.

[3] New issue associated with employee stock option programme.

[4] The deferred tax, totalling SEK -106 million (199), pertains to hedges of foreign operations.

[5] Since the principal owner, Old Mutual, waived its entitlement to the share dividend, the dividend was only paid to the other shareholders on the basis of 18,048,412 shares

[6] Reserves

SEK million	Translation reserve	Revaluation reserve	Total reserves
Opening balance, reserves 2005	**49**	**87**	**136**
Change during the year	1,141	4	1,145
Hedge	-963	—	-963
Tax on hedge	199	—	199
Reserves at year-end 2005	**426**	**91**	**517**
Change during the year	-649	12	-637
Hedge	379		379
Tax on hedge	-106		-106
Reserves at year-end 2006	**50**	**103**	**153**

consolidated cash flow statement

SEK million	2006	2005
Operating activities		
Result for the year before tax	1,657	138
Policyholder tax charge	2,073	2,502
Policyholder tax	-1,831	-2,378
Adjustment for non-cash items [1]	-48	2,096
Paid tax	-403	-93
Cash flow from operating activities before changes in assets and liabilities	**1,448**	**2,265**
Cash flow from change in investments/technical provisions, where the investment risk is borne by the policyholders, net [2]	751	-1,389
Cash flow from change in investments/technical provisions, life assurance, net [3]	990	231
Increase of other investments pertaining to operating activities	-3,501	-2,109
Change in other operating receivables and operating liabilities	180	1,551
Cash flow from operating activities before changes in deposits from/lending to the public and investments, Banking	**-132**	**549**
Change in deposits from/lending to the public and investments, Banking	-352	-701
Cash flow from operating activities	**-484**	**-152**
Investing activities		
Decrease of investments not used directly in the operations, net	1,845	1,772
Other [4]	-293	-216
Cash flow from investing activities	**1,552**	**1,556**
Financing activities		
Change in borrowings [5]	-729	-1,082
New issue	114	18
Dividend	-10	-362
Cash flow from financing activities	**-625**	**-1,426**
NET CASH FLOW FOR THE YEAR	**443**	**-22**
Liquid assets at start of year	**2,120**	**1,995**
Exchange rate differences in liquid assets	**-115**	**147**
Liquid assets at end of year [7]	**2,448**	**2,120**

[1] Amortisation and write-downs	210	1,410
Change in value of investments	374	-244
Unrealised foreign exchange rate gains/losses	-102	0
Change in deferred acquisition costs	-1,974	-2,094
Change in deferred fee income	987	982
Change in fee income receivable	554	441
Change in accrued commission expenses	-319	-301
Change in technical provisions excluding savings in life and unit linked assurance	-529	333
Change in deferred policyholder tax	794	1,666
Other	-43	-97
Adjustment for non-cash items	**-48**	**2,096**

[2] Increase of technical provisions where the investment risk is borne by the policyholders, net	90,972	108,853
Purchases and sales of investments where the investment risk is borne by the policyholders, net	-90,221	-110,242
Cash flow from change in investments/technical provisions where the investment risk is borne by the policyholders, net	**751**	**-1,389**

[3] Decrease of technical provisions, life assurance, net	-27	-11
Purchases and sales of investments, life assurance, net	1,017	242
Cash flow from change in investments/technical provisions, life assurance, net	**990**	**231**

[4] Acquisition of tangible fixed assets	-118	-103
Acquisition of intangible assets	-144	-129
Acquisitions of associated companies, etc.	-6	–
Divestment of businesses [6]*)	-25	16
Other	**-293**	**-216**

*) The item Divestment of businesses includes cash flow from operations defined as discontinued operations and cash flow from other businesses. Information on cash flow in discontinued business is disclosed in note 18.

[5] Change in borrowings*)	-1,043	-623
Realised foreign exchange gains/losses, hedging of foreign net assets	314	-459
Change in borrowings	**-729**	**-1,082**

*) The group's financing includes financial reinsurance.

[6] Value of assets and liabilities pertaining to divested group companies amounted to:		
Purchase price received, including internal loans repaid by purchaser	–	63
Impact of sold operations on the group's liquid assets*)	**–**	**63**

*) Impact from sold operations on the group's liquid assets pertains to receipt of a supplementary purchase payment for SAM and the divestment of 49% of the shares in Svenska Lärarfonder AB in 2005.

[7] Liquid assets		
Cash at bank	2,529	2,141
Bank overdrafts*)	-81	-21
Liquid assets at end of year	**2,448**	**2,120**

*) Bank overdrafts are disclosed in the item "Interest bearing liabilities", see note 37.

notes (SEK million)

Note 1 Accounting policies

1. General information

Skandia Insurance Company Ltd is a company domiciled in Stockholm, Sweden. Skandia was established in 1855. On 3 February 2006, Old Mutual acquired 72% of the shares in Skandia. As per 31 December 2006, Old Mutual owned 99% of the shares in Skandia. Skandia is thereby a subsidiary of Old Mutual and is included on the basis of 11 months in the consolidated financial statements prepared by Old Mutual for the 2006 financial year. Old Mutual is domiciled in London, UK. Its annual report is available at www.oldmutual.com and can be ordered by writing to Old Mutual, 2 Lambeth Hill, London EC4V 4GG, UK. Skandia's shares were delisted from the Stockholm Stock Exchange on 5 June 2006.

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Skandia has opted to apply the not yet obligatory standard IFRS 7 Financial Instruments: Disclosure instead of IAS 32 Financial Instruments: Disclosure and Presentation. The consolidated financial statements have also been prepared in conformity with the Swedish Annual Accounts Act for Insurance Companies, Chapter 7, and the guidelines of the Swedish Financial Supervisory Authority as set out in FFFS 2005:34, Section 7. Further, recommendation no. 30:06 of the Swedish Financial Accounting Standards Council, "Complementary reporting rules for groups", has been followed.

The financial statements are presented in Swedish kronor, rounded to the nearest million (see also section 8 below on foreign currencies). In the consolidated accounts are assets and liabilities valued at acquisition value, with exception of financial assets and liabilities. The following assets and liabilities are stated at fair value: derivative financial instruments, properties, investments held for trading, and financial assets and liabilities in the unit linked business. Other financial assets and liabilities are valued at amortised cost.

Except for the period 2002-2003 in the five-year overview, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. Important estimations and assessments for accounting purposes

The accounting policy that has the most significant impact on the reported amounts in the financial reports is the unbundling of contracts into insurance components and investment components, which is described in section 23. Skandia has chosen to apply this unbundling method because of the increased transparency it results in. It clarifies how Skandia's revenues and expenses arise, and it treats all unit linked contracts in a uniform manner.

The most important assumptions about the future and sources of uncertainty that can affect the reported amounts of assets and liabilities are related to the technical provisions that are described in note 32 and the other provisions that are described in note 36 and in the Disputes section in the Board of Directors' Report.

4. Basis of consolidation

The consolidated financial statements include the companies or other entities in which Skandia has a controlling interest. By controlling interest is meant when Skandia has the right, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements do not include the wholly owned company Livförsäkringsaktiebolaget Skandia (Skandia Liv) and its subsidiaries. Skandia Liv's business is run on a mutual basis, and its result is returned in full to the policyholders of Skandia Liv. Skandia cannot exercise control over Skandia Liv due to restrictions in Swedish legislation, which means that Skandia does not have the scope of control described in IAS 27 to control Skandia Liv's financial and operative activities. Consequently, Skandia Liv is not consolidated. Shares in subsidiaries that are not consolidated are measured in accordance with IAS 39. The shares in Skandia Liv do not have a quoted price in an active market, and the fair value can not be reliably measured; therefore, the holding in Skandia Liv is measured at cost.

Mutual funds administered by Skandia and in which Skandia on behalf of policyholders owns more than 50% are consolidated, since Skandia is considered to have a controlling interest over such funds. The assets held to cover obligations of unit linked contracts and the actual obligations for unit linked contracts are reported on separate lines as an asset or liability, respectively, according to section 13 below. The assets and liabilities added to these as a result of full consolidation of these mutual funds are reported on additional separate lines instead of being reported together with other assets and liabilities, since these assets and liabilities belong to the holders of fund units, even though they are consolidated in accordance with IAS 27.

The consolidated accounts have been prepared in accordance with the purchase accounting method. On acquisition, the assets and liabilities and any contingent liabilities of a subsidiary are measured at the fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. In cases where the identifiable net assets acquired exceed their cost, the difference is reported directly in the income statement. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the equity attributable to equity holders of the parent.

The results of operations conducted by subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or from the date on which the parent company ceased to have a controlling interest. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group. All intra-group transactions, balance sheet items, income and expenses are eliminated on consolidation.

The financial statements of Skandia and its subsidiaries are prepared as per the same reporting date. Subsidiaries that are insurance companies or banking/investment companies are subject to local regulatory capital requirements. Equity that cannot be distributed to the parent according to local solvency or capital restrictions is reported as restricted shareholders' equity in the consolidated balance sheet.

In the financial statements, untaxed reserves in legal entities are eliminated, and a breakdown is made into shareholders' equity and deferred tax liability.

5. Associates and jointly controlled entities

Associates are those entities in which Skandia has significant influence, but not control, over the financial and operating strategies. The consolidated financial statements include Skandia's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. In cases where the group's share of losses exceeds the reported value of its interest in an associate, the group's carrying amount is reduced to zero, and recognition of further losses is discontinued except in cases where the group has incurred legal or constructive obligations or made payments on behalf of an associate to cover these additional losses.

Joint ventures are entities in which Skandia exercises a joint controlling interest established by a contractual agreement. The consolidated financial statements include the group's proportionate share of the entities' assets, liabilities, revenues and expenses with items of a similar nature on a line by line basis, from the date the joint controlling interest commences until the date such control ceases.

6. Discontinued operations

Assets are classified as Assets held for sale when the carrying amount will be recovered through a sale rather than through continuing use. This typically happens when:

a) Skandia signs an agreement to sell the component, or
b) the Board decides and makes public a plan to wind up the business of the component and to sell the assets of the component.

Assets held for sale are carried at the lower of their carrying amount and their fair value after deducting for sales costs.

Independent lines of business and significant businesses that are conducted in a geographic area and classified as Assets held for sale are reported under the heading "Result from discontinued operations" in the income statement and thus do not affect any other items in the income statement.

7. Segment reporting

A business segment is a business engaged in providing products and services that are subject to risks and returns that are distinguished from those of other business segments. A geographic segment engages in providing products and services within a particular economic environment that are subject to risks and returns that are distinguished from those that exist in other economic environments.

The group's system of internal reporting provides information on business segments and geographic segments. The risks and returns of the group are affected both by the products and services that are offered in the market, as well as by the various countries in which the group conducts business. However, it has been assessed by management that the risks and returns of the group are affected predominantly by differences in the products and services offered. Accordingly, the primary reporting format is business segments and the secondary reporting format is geographic segments. Any transactions between segments are recorded at market prices that would apply to arm's length transactions between independent parties.

8. Foreign currencies

Transactions in foreign currency are recalculated, when included in the accounts, to the functional currency at the exchange rate in effect on the transaction date. As an approximation of the exchange rate in effect on the date of transaction, ordinarily the average exchange rate for the period is used.

Foreign currency–denominated monetary assets and liabilities are translated to SEK at financial year-end rates of exchange. Non-monetary items denominated in a foreign currency that are measured in terms of historical cost are translated using the exchange rate in effect on the date of the transaction, and non-monetary items in foreign currency that are measured at fair value are translated using the exchange rate in effect at the date when the fair value was determined.

On consolidation, the assets and liabilities of the group's foreign operations are translated to SEK at financial year-end rates of exchange, while the income statements are translated at the average rate of exchange for the period unless exchange rates fluctuate significantly. Translation differences that arise do not affect profit/loss, and are instead recorded directly to shareholders' equity in group companies, as well as the result of forward exchange contracts that hedge these investments. Long-term internal balances between the parent company and foreign subsidiaries are in some cases treated as an expansion or reduction of net investments in foreign currencies, i.e., in the consolidated balance sheet, foreign exchange differences on these items are reported as a separate component of shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Foreign exchange rate differences that arise are reported net in the income statement as foreign exchange gains/losses. Upon the sale of a subsidiary, accumulated exchange rate differences are recycled in the income statement, net after accumulated effects of currency hedges.

Any translation differences that have arisen since 1 January 2004, the date of transition to IFRS, are presented as a separate component of shareholders' equity. In accordance with IFRS 1, translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component.

9. Property and equipment

Buildings and land owned by Skandia and used for administrative purposes are stated at their revalued amounts, which is the fair value at the date of revaluation. Fair value is based on current prices in an active market for similar properties in the same location and condition. The valuation is performed by an independent appraiser. All increases in value as a result of a revaluation are credited directly to shareholders' equity under the heading of "Change in surplus value of owner-occupied properties". Any decreases below cost are recognised in the income statement.

Items of equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is reported in the income statement on a straight-line basis over the estimated useful lives of the items. The estimated useful life varies between 3 to 5 years for fixtures and equipment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in the income statement.

10. Investment properties

Investment properties are investment assets held to earn rental income and/or for capital appreciation. They are stated at fair value at the balance sheet date. Fair value is based on current prices in an active market for similar properties in the same location and condition. The valuation is performed by an independent appraiser. Any gain or loss arising from a change in fair value is recognised in the income statement.

11. Goodwill

Goodwill arising on consolidation consists of the excess of the cost of the acquisition over Skandia's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and is tested for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 January 2004 has been retained at the previous Skandia accounting policies amount, subject to the condition that subsequent impairment testing does not indicate any need to recognise impairment.

12. Other intangible assets

In the consolidated financial statements, other intangible assets are reported at their cost less accumulated amortisation and impairment losses. These assets consist primarily of proprietary and purchased software which is judged to have significant value for the operations in the coming years. Any internally generated intangible asset arising from the group's proprietary software is recognised only if all of the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

The amortisation schedule is based on estimated useful life, which for software as a rule varies from 3 to 5 years. Expenses related to the maintenance and/or development of existing systems are reported as an expense in the income statement.

13. Unit linked investment contracts

a) Investments held to cover liabilities for linked investment contracts

These assets consist of policyholders' investments in unit linked funds and are reported on a separate line in the balance sheet. Investments for the benefit of policyholders who bear the investment risk are stated at fair value. The funds are classified using the fair value option with any resultant gain or loss recognised in the income statement.

Changes in the value of unit linked funds and the corresponding change in unit linked liabilities are offset on the face of the income statement. The substance of the transaction is that the changes in value belong solely to the policyholders. Therefore, Skandia believes that net accounting makes it easier for policyholders and other interested parties to understand the transactions and assess the entity's performance and future cash flows. Unit linked funds are valued at latest bid price.

b) Liabilities for linked investment contracts

Policyholder deposits are invested in funds chosen by the policyholder, and a liability to the policyholders is shown as a liability. The size of the liability correlates directly to the value development of the funds and the amount of premiums paid in and benefits paid out. The liabilities are accounted for under the fair value option as fair value through profit and loss.

14. Other financial instruments

Financial instruments are valued according to the type of asset or liability in question (see below). Realised gains and losses are calculated as the difference between the book value and the sales price. Purchases and sales of securities and currencies are recognised on the transaction date, i.e., on the day the transaction was carried out. The counterparty's receivable/liability is reported net between the transaction date and the settlement date under the items "Other debtors" or "Other creditors" if clearing is done through a clearing organisation. If this is not the case, the payment is reported gross under the items "Other debtors" or "Other creditors". Valuation of the respective asset classes is described below. Assets are valued at bid price and liabilities at offer price.

(a) Loan receivables and trade accounts receivable

Loans used as investments in insurance companies are stated at amortised cost less a deduction for possible impairment. Each receivable is valued individually. Loans are initially recorded at cost including transaction costs and are recognised at settlement date. The initial value at the settlement date represents the fair value of the loan.

Loans in the banking operation are measured at amortised cost using the effective interest rate method with deductions for provisions and write-offs. For other loans, the effective interest rate method is not used, but since the loans have short maturities, the difference is negligible. "Loans and receivables" also include finance leases. Received interest on loans and changes in amortised cost are accounted for as interest income. Interest income is allocated to the period to which it pertains in accordance with the effective interest rate method. Loans are derecognised from the balance sheet when they are pre-paid or redeemed or accounted for as a realised loan loss. See section 15 for the principles surrounding the impairment of loans.

Trade receivables are reported in the amount in which they are expected to be received after deducting for bad debts, which are assessed individually. The anticipated duration of trade receivables is short, which is why the value is reported at nominal amount without discounting. Impairment on trade receivables are reported as expenses.

(b) Held-to-maturity investments

Investments classified as held-to-maturity are stated at amortised cost less impairment. In an amortised cost measurement, the difference between cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Changes in amortised cost are reported as interest income.

(c) Financial assets held for trading

Investments held for trading are stated at fair value, with resultant gains or losses recognised in the income statement. Fair value is defined as the realisable value on the accounting date without deducting estimated sales costs. For shares and bonds listed on an authorised stock exchange or marketplace, the realisable value normally refers to the bid/offer price on the accounting date. All changes in value are reported in the income statement.

Unlisted equities are stated at fair value in accordance with the valuation principles used by industry organisations in Europe and the USA (EVCA). For unlisted shares where the fair value can not be determined with reliability, the shares are valued at cost.

(d) Derivatives

All derivatives are stated at fair value. Derivatives are valued individually. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see below). Gains and losses on derivatives not classified as hedges are recognised in the income statement. The fair value of currency options is calculated using the Black & Scholes model, while the fair value of interest derivatives is calculated by discounting future cash flows. Fair value for FX-forwards are obtained from official market quotes.

(e) Hedge accounting

Skandia designates certain derivatives as either:

i) hedges of the fair value of recognised assets and liabilities or of a firm commitment (fair value hedge);

ii) hedges of highly probable forecast transactions (cash flow hedges); or

iii) hedges of net investments in foreign operations.

The group also acquires or sells financial instruments in order to reduce economic exposure, even though they do not meet the requirements for hedge accounting. These instruments are in such case accounted for as financial instruments in accordance with the policies for financial assets and liabilities held for trading.

At the inception of a transaction, Skandia documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Skandia also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative instruments used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This category includes fair value hedge accounting for a portfolio hedge of interest rate risk in banking operations for management of interest rate risk of assets and liabilities (macro hedging). Hedging of interest rate risks in the group's borrowings is also reported in this category. Hedging instruments consist primarily of interest rate swaps.

ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in shareholders' equity. The gain or loss relating to any ineffective portion is recognised directly in the income statement. Amounts accumulated in shareholders' equity are recycled to the income statement in the periods in which the hedged items affect the profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

iii) Hedge of net investments in foreign operations

See section 8 on foreign currencies.

(f) Cash at bank

Cash at bank comprise cash balances and call deposits. Cash at bank also include amounts that make up part of transactions between policyholders and fund companies. Liquid assets include cash at bank and bank overdrafts, which is disclosed in the item "Interest bearing liabilities".

(g) Interest-bearing liabilities

Interest-bearing liabilities are carried at amortised cost. Interest expenses are allocated to the period to which they pertain. Interest-bearing bank loans and overdrafts are initially recorded at the proceeds received, net of direct issue costs. Interest-bearing deposits are reported on a continuing basis as amortised cost, and in accordance with the effective interest method, the difference between the cost and redemption value is capitalised in the income statement over the term of the deposits.

Lending costs are expensed in the income statement for the period to which they pertain. Skandia does not capitalise lending costs as a part of the assets' acquisition cost.

(h) Other payables

Trade accounts payable and other short-term liabilities and are stated at their nominal value, without discounting.

(i) Treasury shares

Skandia consolidates certain mutual funds, as explained in section 4. The shares these funds own in Skandia are considered as treasury shares. Treasury shares are to be eliminated against shareholders' equity. This means that the value of the shares in Skandia reduces the shareholders' equity in Skandia. The formal number of shares in Skandia is also reduced by the number of shares these funds own in Skandia.

15. Impairment of assets

The carrying amounts of Skandia's tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time-adjusted monetary values and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(a) Deferred acquisition costs (DAC)

For impairment test of deferred acquisition cost assets, see sections 24 and 25.

(b) Loans and receivables

An impaired loan is a claim where there is a probability that all amounts not will be received according to the contractual terms. If principal, interest or overdrafts are not settled within 60 days the loans are classified as impaired unless there is sufficient collateral to cover both the principal and interest including penalties for late payment.

When a loan is classified as impaired, accounting for accrued interest will be discontinued and earlier accrued interest is reversed. For impaired loans measured at estimated future cash flows, changes in recovery value are reported as interest income.

Impaired loans are valued at the estimated recoverable amount, based on one of the following methods:

- The fair value of collateral. The method is applied when it is probable that the collateral will be realised,
- Market value for loans without collateral,
- Discounted value of estimated future cash flow.

The method used is the one that will best represent the recoverable amount. The valuation is also based on the borrower's ability to pay an amount according to the contractual terms, which entails taking into account the borrower's payment record, financial condition, the probability that the borrower will obtain support from financial guarantors, and the borrower's credit rating.

The size of the provision represents the difference between remaining claims with regard to potential collateral and the estimated recoverable amount. Provisions are based on occurred events and circumstances which are known on the balance sheet date.

Provisions for loan losses for each individual credit are determined by the following principles:

- A specific provision for individually assessed loans: Valuation is made of the realisable value of the collateral, and a provision for loan losses is made for the difference between the remaining value of a claim that is not covered by the value of collateral.
- Assessment of homogenous clusters of loans with low value and similar credit risk: This category refers to instalment- and finance leases, loans to individuals and revolving credit facilities to individuals. A standardised method is used for accounting for this category of provisions. The method is based on earlier experiences for size of loan losses for this category of loans. Provisions are made at 10%-30% for claims that are unsettled for more than 60 days, 20%-60% after 90 days, and finally at 90% after 180 days.
- Evaluation is made for individually assessed loans if there is need for any aggregate provisions.

Reversal of provisions for probable loan losses, that are no longer are required, are made when an assessment has been done that demonstrates that the credit quality has improved and there is no longer reason to expect that the contractual terms not will be fulfilled.

Accounting for realised loan losses is done when all parts of a claim are not recoverable or the claim has been forgiven. Any realised loan loss reduces the principal of the loan and is reported as a loan loss in the income statement and with regard to previous provisions. The principal and accrued interest from previous years are accounted for as loan losses, and interest and fees related to the year in question are reversed to the respective income statement item.

The policy for accounting for recoveries of loan losses is that interest and fees related to loan losses in the year in question are reversed to the respective income item, while any loss on principal related to the actual year is reported as a loan loss and interest for the year in question, and recoveries of fees and principal related to previous years are reported as recoveries of previous years' realised loan losses.

16. Shareholders' equity

According to the Swedish Annual Accounts Act for Insurance Companies, insurance companies must continue to break down their shareholders' equity into restricted and unrestricted equity. Restricted equity consists of the share capital, the share premium reserve and such equity that the respective subsidiaries cannot distribute to their parent. These restrictions consist normally of local solvency rules which require the companies to have a certain amount of shareholders' equity in relation to the risks accepted by the company. Other shareholders' equity is classified as unrestricted equity.

17. Taxation

(a) Current taxes

Taxes are calculated individually for each company in accordance with the tax rules in the respective countries. Current taxes also include non-deductible withholding taxes on dividend income. The company income tax rate in Sweden is 28% of taxable income for the year.

(b) Deferred taxes

Deferred taxes are calculated according to the balance sheet method, based on temporary differences between reported and tax values of assets and liabilities. Temporary differences pertain primarily to untaxed reserves in Sweden and tax-loss carryforwards that can be offset against later years' taxable profit. In addition, temporary differences pertain mainly to adjustments of the accounts of subsidiaries to IFRS, where the setting up of DAC and DFI make up the largest items.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not be reversed in the foreseeable future. Tax-loss carryforwards are only assigned a value to the extent that they correspond to deferred tax liabilities in the respective companies or to an extent corresponding to the companies' anticipated future earnings capacity. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax liabilities and receivables are not discounted.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to shareholders' equity, in which case the deferred tax is also dealt with in equity.

(c) Policyholder tax

Policyholder tax is not a company income tax, but rather, is payable by the group on the behalf of its policyholders. In Sweden, life assurance companies pay a policyholder tax, which is based on a standard calculation of the yield on the net assets managed for the benefit of policyholders. The calculation bases differ from country to country. However, the concept is the same and the tax is paid by the group companies on behalf of their policyholders. The expense is classified as a tax expense. The corresponding income received when debiting the policyholders is reported on a separate line in the income statement, "Policyholder tax charge". In Sweden there is a direct connection between the tax paid and the cost charged to the policyholders. In other countries, a time delay can occur between the tax charge and income from the policyholders.

18. Employee benefits

The group's employees have pension benefits that have been secured through insurance solutions. These consist of defined contribution pension plans and, for employees in Sweden and Norway, primarily of defined benefit pension plans. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out yearly. Actuarial gains and losses are recognised in full in the period in which they occur, but not in the income statement. Instead, they are recognised directly in shareholders' equity and are presented in the statement of changes in shareholders' equity. However, special payroll tax on these amounts is reported in the income statement.

The defined benefit pension obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets.

For defined benefit pension plans in which the value of the plan assets exceeds the current obligation, the surplus amount is accounted for as an asset under the item "Surplus in funded defined benefit pension plans".

19. Share-based payment

Skandia issued stock option programmes to employees on four different occasions between 2000 and 2003. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were not vested as of 1 January 2005. Skandia issued a programme in February 2003, which is the only programme to be accounted under IFRS 2.

According to IFRS 2, stock options are to be expensed. The expense is calculated as the market value of the options at grant date. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. The vesting period is the period that the employees have to remain in service at Skandia in order for their options to vest. Social security costs are also allocated over the vesting period, in accordance with pronouncement URA 46 issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council: "IFRS 2 and social security costs". The provision for social security costs is reassessed on each reporting occasion to ensure that the provision is based on the options' market value.

20. Other provisions

Provisions are reported in the balance sheet when the group has an obligation (legal or informal) due to an event that has occurred and when it is likely that an outflow of resources will be required to meet the obligation and that amount can be estimated in a reliable manner.

21. Leasing

Whether a lease is a finance lease or not depends on the substance of the transaction rather than the form of the contract. A lease is classified as a finance lease if it substantially transfers all the risks and rewards incident to ownership. All other leases are classified as operating leases.

In its capacity as a lessee, the group only has operating lease contracts and no finance leases. The charge to income under an operating lease is the rental expense for the accounting period, recognised on a straight-line basis over the term of the relevant lease.

In its capacity as a lessor, through SkandiaBanken the group has entered into a number of finance leases. The contracts pertain primarily to leases for vehicles and similar. Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic return on the group's net investment outstanding in respect of the leases. The lease is reported as a receivable, and lease payments are reported as interest income.

22. Revenue recognition

Revenue comprises the fair value of consideration received or receivables for services provided in the ordinary course of business, net of value-added tax, after eliminating revenue within the group. Revenue is recognised as follows:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount. Dividend income from investments is recognised when the shareholder's rights to receive payments have been established.

The group's accounting policy with respect to revenues and expenses arising from insurance contracts is set out in section 23. The corresponding report with respect to investment contracts is presented in section 24.

Commissions from bank and finance company operations are accounted for on an accrual basis as services are provided. Origination fees for creation or acquisition of a financial asset other than one classified as at "fair value through profit and loss" are deferred and recognised as an adjustment to the effective interest rate. Origination fees received on issuing financial liabilities measured at amortised cost are included in the carrying value of the financial liability and are recognised as an adjustment to the effective interest rate.

23. Insurance and investment contracts – classification and unbundling

Skandia issues insurance contracts and investment contracts. Insurance contracts are contracts under which Skandia accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract, as they do not transfer significant insurance risk from the policyholder to the company.

Many of the contracts that Skandia issues contain an insurance component and an investment component, irrespective of the significance of insurance risk in the contracts. For the unit linked contracts that Skandia issues, it is possible to measure the investment component separately from the insurance component with reliability. In order to achieve more relevant financial information, Skandia accounts for the investment components and the insurance components of these contracts as if they were separate contracts. Such a split is called unbundling. This is permitted under IFRS if the investment component can be measured separately. The insurance component is classified as an insurance contract and is handled according to the relevant principles, see section 24. The investment component, which entails the financial instrument and the related service process, is treated according to the principles applying to investment contracts, see section 25. For an unbundled contract, the fees and costs arising from the contract will be split between the components. Front-end fees and acquisition costs are split according to the expected future profitability within the components.

For the contracts where unbundling can not be performed reliably, mainly contracts in traditional life business, Skandia performs the assessment of insurance risk on the complete contract.

24. Insurance contracts

Insurance contracts comprise the unbundled insurance component of unit linked contracts and most of the traditional life and health insurance contracts.

(a) Measurement

For anticipated future claims that have been incurred but not yet paid, Skandia establishes a provision for outstanding claims. The group does not discount these liabilities, with the exception of provisions for property and casualty annuities and provisions for disability business.

For long-term traditional life contracts, a liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability equals the sum of the expected discounted value of the benefit payments and the future administration expenses, less any outstanding future contractual premium payments.

For contracts where insurance risk premiums in a period are intended to cover the claims in that period, the portion of premiums received that relates to unexpired risks on the balance sheet date is reported as an unearned premium liability. Such contracts include, for example, unit linked contracts and certain life assurance contracts.

(b) Liability adequacy test

At each reporting date, Skandia carries out a liability adequacy test on its insurance contract liabilities to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. The carrying amount of a liability is the value of the liability less any related intangible asset or asset for deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows as well as claims handling and administration expenses are used. These cash flows are discounted and compared to the carrying amount of the liability. Any deficiency is immediately charged to income.

(c) Recognition of revenue

Premiums for insurance contracts are recognised as revenue when they become payable by the contract holder. For contracts where insurance risk premiums in a period are intended to cover the claims in that period, those premiums are recognised as revenue proportionally over the period of coverage.

(d) Recognition of costs

Costs for insurance contracts are recognised as an expense when incurred, with the exception of commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts. These are capitalised as deferred acquisition costs. The principles for deferring acquisition costs of insurance contracts are the same as the principals for deferring acquisition costs of investment contracts, see section 25 (c).

The change in provisions for insurance contracts is reported under expenses in the income statement. Claims paid are recorded as an expense upon payment.

(e) Derivatives embedded in insurance contracts

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Skandia does not separately measure embedded derivatives that meet the definition of an insurance contract, or options to surrender insurance contracts for a fixed amount or an amount based on a fixed amount and an interest rate. All other embedded derivatives are separated and measured at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are measured at fair value through profit and loss (see section 14 (d).

(f) Reinsurance

Contracts entered into by Skandia with reinsurers, under which the group is compensated for losses on contracts issued by the group and that meet the classification requirements for insurance contracts in section 23, are classified as ceded reinsurance. Contracts that do not meet these requirements are classified as financial assets and liabilities. Accepted reinsurance is treated similarly to other contracts (see section 23) and are reported according to that classification.

For ceded reinsurance, the benefits to which the group is entitled under its reinsurance contracts are reported as the reinsurers' share of technical provisions and deposits held with cedents. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

Skandia assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in section 15.

25. Investment contracts

The investment contracts that Skandia issues comprise the unbundled investment components of unit linked contracts, and mutual fund contracts.

(a) Measurement

Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets. They are designated at inception as financial liabilities at fair value through the income statement.

Valuation techniques are used to establish the fair value at inception and each reporting date. The group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the funds linked to the financial liability, multiplied by the number of units attributed to the contract holder on the balance sheet date.

The initial and subsequent measurement amount of the financial liability is its fair value. However, if the liability is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender.

If, for a certain portfolio, the expected future revenue is lower than the expected future variable costs, a provision for onerous contracts must to be established for this portfolio.

(b) Recognition of revenue

Amounts received from and paid to investment contract holders are accounted for in the balance sheet as deposits received or repaid, and are not included in premiums and claims in the income statement.

Fees charged for managing investment contracts are recognised as revenue in line with the provision of the investment management services to the contract holders by Skandia. These services are provided equally over the lifetime of a contract. Front-end fee income, such as the unallocated part of premiums, is therefore deferred through a deferred fee income (DFI) item. In practice, this entails a linear amortisation over the anticipated lifetime of the contracts. Amortisation is calculated for groups of contracts, but it is done in such a way that it reflects the pattern that a contract-for-contract method would have resulted in. The amortisation takes into account the fact that contracts are prematurely redeemed or cancelled upon death using a persistency factor. For a portfolio of contracts, amortisation this thus done according to a slightly exponential curve, with higher amounts early in the lifetime of the contracts and lower amounts toward the end of lifetime of the contracts, when fewer contracts remain in the respective portfolios.

(c) Recognition of costs
Incremental costs directly attributable to securing an investment contract are deferred. In Skandia's case, these costs are mainly incremental acquisition costs paid to sales personnel, brokers and others. Deferred acquisition costs are amortised as Skandia recognises the related revenue, which means following the pattern of service provision. Just like with deferred fee income, deferred acquisition costs are amortised according to a persistency factor. The asset is tested for impairment every accounting period, ensuring that the economic future benefits expected to arise from the contracts exceed its face amount. All other costs, such as non-incremental acquisition costs or maintenance costs, are recognised in the accounting period in which they arise.

(d) Derivatives embedded in investment contracts
Derivatives embedded in an investment contract are separated and measured at fair value. This is done if they are not closely related and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and if the hybrid instrument is not measured at fair value.

26. Contracts with discretionary participation features
A number of insurance and investment contracts contain a discretionary participation feature. This feature entitles the contract holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual payments;
- whose amount or timing is contractually at the discretion of Skandia; and
- that are contractually based on:
  - (i) the performance of a specified pool of contracts or a specified type of contract; or
  - (ii) realised and/or unrealised investment returns on a specified pool of assets held by Skandia.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which Skandia may exercise its discretion as to the quantum and timing of their payment to contract holders.

Contracts with discretionary participation features are written within the traditional life segment in Skandia Vida, Spain. These contracts are accounted for using the same principles as established for insurance contracts, see section 24. Their guaranteed element and the discretionary participation feature are accounted for as a liability.

27. Cash flow statement
IAS 7 “Cash Flow Statements” is applied with the adaptations that are necessary in view of Skandia's business. Cash flow from operating activities is broken down into “Cash flow from operating activities before changes in lending/deposits to and from the public and investments in banking operations” and “Change in lending/deposits to and from the public and investments in banking operations”. In preparation of the cash flow statement, in cash flow from operating activities, net accounting has been done of changes in technical provisions, assumptions on unit linked assurance contracts and similar investments. Net accounting provides a better picture of the cash flows accruing to Skandia. Investments in investment assets are an integral part of the business, as a large part of inflows in both the insurance and banking operations must be invested in accordance with the operating rules.

The change of investments in the group which are not used directly in the operations is reported under “Cash flow from investing activities”.

Liquid assets include the group's bank balances less bank overdrafts, which are reported in the balance sheet as loans. Liquid assets also include amounts that make up part of transactions between policyholders and fund companies. Short-term investments are not included in cash at bank, but are reported among investments.

Note 2 Risk analysis

The risk disclosures below follow IFRS 7 and IFRS 4. Skandia exercises the option to adopt IFRS 7 prior to its effective date, 1 January 2007.

Risk strategy

One of Skandia's goals is to secure promises made to customers with a high degree of certainty. Skandia has a low tolerance for risk, particularly financial market risk, and therefore has a predominantly unit linked business model; unit linked assurance and mutual fund customers have a high degree of security of obligation fulfilment because contracts normally make no promises about fund investment performance. Other risks are actively managed with the intention of reducing the expected negative outcome and keeping the unlikely potential outcomes within tolerance.

Skandia assumes that shareholders can independently manage the main financial risks such as market and currency volatility by, for example, hedging or diversification in order to achieve their own desired exposures. Thus any protection of profits will be carried out only to maximise shareholder value, including reducing the risk of financial distress.

Risk management governance

Following Old Mutual plc's acquisition of the Company in 2006, Skandia adopted Old Mutual plc's risk management methodology, which takes a decentralised approach to managing risk. Skandia's approach to risk management is defined in its Risk Control Framework.

In Old Mutual's Enterprise Risk Management methodology, formal governance structures are complemented by a risk governance model based on 'three lines of defence'. This model distinguishes between the functions owning and managing risks, the functions overseeing risks and the functions providing independent assurance.

	Executive		Non-Executive
	First Line	*Second Line*	*Third Line*
What it covers	• Strategy • Tone at the top • Code of conduct/risk tolerance • Risk prediction and avoidance • Risk management and reporting • Compliant and risk-aware operating practices • Performance management	• Clear and wellcommunicated risk policies • Effective control and monitoring systems • Risk oversight and challenge	• Independent assurance and oversight
Responsibility	• Skandia Board of Directors • Group CEO • Executive Management • Management • All Employees	• Line 2 (a) – Management control i.e. CEO, EMB and each level of management • Line 2 (b) – CFO, CRO, Risk, legal, HR and other specialist functions	• Internal Audit • External Audit • Board sub-committees especially Audit and Risk

- As the first line of defence, the Board sets the Group's risk tolerance, approves the strategy for managing risk and is responsible for the Group's system of internal control. The Group Chief Executive, supported by Executive Management, has overall responsibility for the management of risks facing the Group and is supported in the management of these risks by the Chief Executive Officers of the divisions. Management and staff within each division have the primary responsibility for managing risk. They are required to take responsibility for the identification, assessment, management, monitoring and reporting of enterprise risks arising within their respective areas.
- The second line of defence is firstly comprised of the Group Chief Executive supported by Executive Management and the divisional management when performing risk monitoring and oversight. Secondly it comprises divisional Chief Risk Officers ("CROs"), supported by their respective Compliance and Risk functions, and other specialist in-house functions who provide technical support and advice to operating management to assist them with the identification, assessment, management, monitoring and reporting of risks. In addition, divisional Risk Committees were established in late 2006 to act as the focal point for practical, effective and transparent review of risk management in the division.
- The third line of defence is designed to provide independent objective assurance on the effectiveness of the management of enterprise risks across the Group. This is provided to the Board through the Old Mutual plc Group Internal Audit function, the external auditors and the Skandia Audit Committee, supported by divisional audit committees.

Risk tolerance

Risk tolerance defines how much risk the Group is willing to take and is set out in the Skandia Corporate Manual. Any risks or events falling outside the agreed levels are identified for immediate remedial action and subjected to executive management and Audit Committee oversight.

Some components of the Group's detailed definition of risk tolerance are dependent on the completion of Old Mutual's Economic Capital project, which is scheduled for 2007.

Group risk principles

Skandia's risk principles are set out in its Corporate Manual. A project to update these principles, and to align them with Old Mutual plc's risk principles, will be completed during the first half of 2007. Detailed policies to meet local environmental and business requirements will then be redeveloped to align with the updated principles.

Risk Identification and monitoring

The business plan is prepared annually for each division, during which the strategy and related objectives are identified. Risks to achieving these objectives are identified and assessed before the final plans are reviewed and approved.

Every part of the business is required to complete an annual self-assessment of operational risk. This is achieved by reviewing the processes and activities undertaken by the unit, and identifying potential risks associated with these processes. Each risk is graded according to impact and likelihood, with and without controls, and in some divisions an assessment is made of the effectiveness of controls.

Net risks that are outside tolerance are assigned owners with action plans and are reassessed, updated and monitored at least quarterly. Net risks are escalated according to significance, ultimately to the Old Mutual plc Audit and Risk Committee.

Failures in operational controls are recorded as Hits or Near Misses in local loss logs and are escalated according to significance. By recording and analysing the cause of these failures, management are able to identify areas of weakness and implement additional controls to mitigate risk. Fraud and Anti-Money Laundering events are also recorded and analysed.

The Divisional CROs are responsible for ensuring that risks are appropriately reported, managed and escalated, and for rigorously challenging risk management where appropriate.

Although Skandia follows a divisional model, certain risks relate to the Skandia Group as a whole; these are the responsibility of the Group CEO.

As part of the Old Mutual Board's annual review process, a follow-up of the effects of internal control is carried out in accordance with the guidelines set out in the British Combined Code.

The managers of the business divisions and staff functions summarise the business and operational risks and deficiencies within their respective areas of responsibility in Letters of Representation. These specifically state if there may be any risks or deficiencies that could affect the group based on a going concern perspective.

After due review and consideration, the Board believes that Skandia maintains an effective system of internal control for the purpose of ensuring that risks will be identified and managed to mitigate potential negative impacts to the business. However, this does not provide absolute assurance that risks will not materialise in the future.

Risk Measurement

Skandia calculates aggregate sensitivities on a quarterly basis. These evaluate the impact of changes in assumptions on the value of in-force business and the present value of new business. These tests show the sensitivity of value to the key financial market parameters, insurance and customer behaviour risks which are an integral part of Skandia's business.

Economic capital

Skandia measures customer risk using an Economic Capital calculation which uses the following key concepts:

- Required Economic Capital: the amount required to secure promises made to customers with the desired high degree of certainty.
- Actual Economic Capital: the amount available to secure promises made to customers – basically the economic value of the company.

Skandia assesses the adequacy of its available economic capital annually by carrying out an analysis of its main risk exposures and resulting required capital levels according to a standard set by Old Mutual plc. The results show that Economic Capital is not a constraint for Skandia.

Risk exposure and management

Skandia's activities give rise to a wide range of risks that have the potential to affect the group's results and financial position. Some of these are a natural consequence of the company's business strategy and are not limited to a specific business segment. Other risks are segment-specific, such as insurance risk, for example.

Risks are categorised and managed within Skandia as set out below. For the purpose of this report, this categorisation pulls together risks that are analysed similarly and for which similar types of mitigation can be applied within Skandia.

Strategic and political risk

Strategic risk is the risk that Skandia's strategy is inappropriate for the operating environment or the available resources. Strategic and political risks commonly include market conduct and mis-selling risks, changes in tax codes and other legislation, loss of rating and reputation, and similar other risks.

These risks are addressed through regular reconsideration of the execution of Skandia's strategy, both at group level and by each division and business unit. While some mitigating actions are possible, often these risks cannot be avoided and are an integral part of doing business.

Financial markets risk

Financial markets risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, thereby affecting Skandia's results. The term embodies both the potential for loss and the potential for gain. Financial markets risk includes three main types of risk:

- Exchange rate risk, which reflects changes in foreign currency exchange rates,
- Interest rate risk, which reflects changes in market interest rates, and
- Equity risk, which reflects changes in the market value of share and other equity instruments.

Exchange rate risk is associated with the group's investments in foreign subsidiaries and the foreign currency holdings of the group's businesses, including the indirect currency exposure that emanates from policyholders' fund selections.

The group has little exposure to the volatility of equity markets from direct investment in equities. However, the cash flow risk pertaining to investments in equities for the benefit of policyholders is more substantial.

Skandia's future revenues consist largely of fees on assets under management. These fees, which are based on fund values, are affected by the development of these fund values. The value of fixed income funds is affected by interest rate movements, and so there is interest rate risk in Skandia's future cash flows. The value of equity funds is affected by the stock market's performance, and so there is share price risk in the future cash flows. These cash flows are part of the distributable profits that form the basis for the calculation of embedded value.

Small volumes of financial market risks are also present in options and guarantees embedded in unit linked business. Due to the nature of Skandia's business, these risks are not substantial to shareholders. Thus, they are not managed actively.

Sensitivity of the embedded value and value of new business to changes in interest rates and equity markets is shown in the Sensitivities section below.

Management of financial markets risk

Exchange rate risk is structural in nature and arises because shareholders' equity in foreign subsidiaries is denominated in local currency, while the group's accounting is in Swedish kronor. Exchange rate risk is structural in nature and arises on account of the fact that equity in foreign subsidiaries is measured in local currency, while the consolidated accounts are prepared in Swedish kronor. Until mid-year, this foreign exchange risk was fully or partly hedged in Skandia at the group level. In the latter half of the year, this foreign exchange risk was managed by Skandia's parent company, Old Mutual. Foreign exchange exposure is described in a table on page 30.

Any open currency positions within local entities' balance sheets are ordinarily hedged through the purchase and sale of currency through forward exchange contracts with the group's internal bank.

Consistent with the risk strategy, Skandia does not hedge the risk to cash flows arising from the volatility of the underlying customer funds, including volatility that arises from exchange rate movements.

Share price risks are addressed in the investment policy, which provides a very limited opportunity for business units to invest their own capital in equities or in units in equity funds.

In some areas Skandia is exposed to market risks, arising from various forms of guarantees. Typically, the policyholder is guaranteed a certain return regardless of the asset return achieved during the term of the policy. These risks are closely monitored and mitigated by applying asset liability management (ALM) techniques, ensuring that the proceeds from the assets are sufficient to meet the obligations. To a large extent, such mitigation is achieved by structuring the assets so that the guaranteed pay-offs match the benefits related to these contracts.

Interest rate risks are addressed in the group's finance policy, among other places. This risk is controlled by limitations on business units' freedom to accept interest rate risks.

SkandiaBanken's low sensitivity to interest rate risk is in line with the objective that the income statement should reflect the underlying banking business to the greatest possible extent and have a limited possibility to be impacted 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 interest rates are changed to reflect the situation in the money market. The interest rate risk that arises from mismatching of fixed rates of interest is reduced through interest rate swap agreements.

INTEREST RATE RESET DATES FOR ASSETS AND LIABILITIES IN SKANDIABANKEN

Assets	**0-3 mos**	**3-12 mos**	**1-5 yrs**	**> 5 yrs**	**Undis-tributed**	**Total**
Cash and deposits with central banks	48	–	–	–	–	48
Eligible treasury bills, etc.	1,385	–	–	–	–	1,385
Lending to credit institutions	664	–	–	–	–	664
Lending to general public	14,638	4,791	15,533	14,417	–	49,379
Financial assets at fair value	472	4	84	39	–	599
Financial assets held to maturity	1,975	902	888	–	–	3,765
Goodwill and other intangible assets	–	–	–	–	257	257
Property, plant and equipment	–	–	–	–	12	12
Other assets	629	–	9	–	–	638
Total assets	**19,811**	**5,697**	**16,514**	**14,456**	**269**	**56,747**
Liabilities and shareholders' equity						
Liabilities to credit institutions	461	–	–	–	–	461
Deposits and borrowings from the general public	51,129	–	–	–	–	51,129
Bonds issued	–	–	51	–	–	51
Derivatives	–	–	55	7	–	62
Other liabilities	910	–	–	–	–	910
Provisions	–	2	–	321	–	323
Subordinated debt	–	–	–	1,200	–	1,200
Shareholders' equity	–	–	–	–	2,611	2,611
Total liabilities and shareholders' equity	**52,500**	**2**	**106**	**1,528**	**2,611**	**56,747**

Insurance risk

Insurance risk is risk related to factors such as mortality, disability and longevity, transferred from the contract holders to the entity. It can arise for various reasons, from natural statistical fluctuations and misestimation, to political or socioeconomic factors that could not be foreseen.

Although Skandia actively writes life assurance contracts that provide various forms of risk cover, its exposure to mortality risk is limited. Skandia charges premiums for these risks, which cover at least the expected average claims arising from these risks, but due to their random nature, the resulting claims in a reporting period may be higher than the premium paid for these risks, resulting in a loss. The future average claims are estimated based on investigations into Skandia's and industry historic claims experience as well as views about future developments.

Since most of the insured risks are independent from each other and the portfolio of insured risks is substantial and geographically spread, the relative variability of the expected outcome is small. Apart from the statistical variation, future trends, which can change the frequency of claims, are not foreseeable and could result in future losses. In particular, there is a significant (but unquantifiable) threat from an influenza pandemic.

Skandia manages mortality risks through its underwriting policy and external reinsurance arrangements, where its policy is to retain certain types of insurance risk within specified maximum single event loss limits. The following table shows the extent to which Skandia has covered its mortality risk by external reinsurance.

LEVELS OF EXTERNAL RISK REINSURANCE AT 31 DECEMBER 2006

Description	**Insurance liabilities**
Exposure total	5,807
Exposure reinsured	-880
Exposure not reinsured	4,927

The group has no substantial exposure to longevity risk or guaranteed annuity options.

Concentrations of mortality risk or longevity risk can arise locally, but do not share any common characteristics throughout the group. Even in those regions where Skandia's presence is strong, these exposures are geographically diversified. The risk for simultaneous, unfavourable events that could have an impact on the entire group is therefore considered to be minimal (absent an influenza pandemic).

In some markets, Skandia has an exposure to disability risk through the sale of disability, waiver of premium or other health cover. This risk is geographically spread and reinsured similarly to mortality risk.

Sensitivity of the embedded value and value of new business to changes in mortality is shown in the Sensitivities section below.

Customer behaviour risk

Customer behaviour risk is the risk that customers surrender, transfer, prepay or cease premium payments for their contracts with Skandia in a volume that has not been expected. In general, transfer, surrender, prepayment or premium cessation can give rise to liquidity problems and the loss of future profits or interest. The risk for insufficient liquidity is explained in the section on liquidity risk below.

Management of customer behaviour risk is primarily effected through contract design. In addition, activities are undertaken at the time to persuade customers to continue their contracts with Skandia.

Most insurance, mutual funds and bank savings contracts can be surrendered before maturity for a cash surrender value. This risk for loss of future profits is managed according to local market conditions, including the use of a surrender fee (for unit linked business) that is charged to contract holders and/or distributors who cancel contracts early.

In respect of fixed-rate loan and leasing prepayments in its banking operations, Skandia has the ability to charge additional prepayment fees to cover for the loss of future interest earnings from the contracts, and encourage borrowers to stay with the company.

Concentrations of customer behaviour risk are, similarly to mortality and liquidity risk, geographically diversified. To some extent it appears that surrender risk is correlated to developments in financial markets or employment markets.

Sensitivity of embedded value and value of new business to changes in customer behaviour is shown in the Sensitivities section below.

Operational risks

Operational risks arise from failure of people, processes and systems, and from external events in many areas including management, handling of complaints, standards of service for policyholders, brand management and marketing, product pricing, solvency, capital and liquidity management, improper handling of confidential information, containment of costs, risks not addressed and managed, accounting systems and controls (including their documentation), management of major internal changes, the use of information technology in the day-to-day businesses, information technology infrastructure and security, internal and external fraud, physical security and others.

The annual risk assessment is the primary tool used to identify and quantify the most critical risks and the effectiveness of existing controls. Action plans to manage any significant remaining net risks are then developed and reviewed on a regular basis. The Risk Control framework also includes the requirement to capture "hits and near misses", chiefly for operational risks, in order to learn from experience and make sure that such events are assessed across the group.

A discussion of the current disputes is given in the Group Overview.

The impact of operational risks is usually recognised through expenses. The sensitivity of the embedded value and value of new business to changes in expense levels is shown in the Sensitivities section below.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due, thereby causing Skandia a loss. Key areas where the group is exposed to credit risk are:

- Loans or irrevocable loan commitments issued to intermediaries,
- Financial investments in bonds,
- Reinsurance claims,
- Commercial bank transactions relating to customer payments and claims,
- Other day-to-day transactions with commercial banks, for example relating to salaries or bills, and
- Deposits with commercial banks.

To manage its credit risk exposure, Skandia maintains and follows up policies with clearly defined limits. The main form of credit risk management is the assessment of the counterparty's ability to fulfil its commitment. In addition, where Skandia grants loans to customers or intermediaries, operating units evaluate regularly the market value of collateral pledged against loans issued and the risks inherent in such collateral. In particular, the relationship between default and the market value of collateral is investigated to assess the level of protection.

SkandiaBanken's credit exposures are well diversified over its Nordic customer base with around one-third in vehicle loans and two-thirds in mortgage loans.

For its investments in bonds and derivatives, Skandia has implemented a conservative investment strategy that is limited in concentration and credit rating. Similarly, wherever possible, Skandia only uses reinsurers with at least an AA rating from Standard & Poor's or its equivalent. In some markets, there are credit exposures to intermediaries. These are also well diversified with local limits on maximum individual exposures.

The Skandia group is exposed to the following credit risks in its shareholder asset portfolio:

CREDIT RISK EXPOSURE, GROSS AND NET

	Gross credit risk exposure[1]	Value of collateral	Net credit risk exposure	Non-performing loans[2] 90 days or less	>90 days <180 days	>180 days <360 days	>360 days	Impaired loans Gross claims	Provisions	Collateral taken over
Loans to companies										
- Vehicle financing	4,873	4,594	279	208				33	11	20
- Insurance premiums	37	37	0							—
- Real estate	2	2	0							—
- Other	135	1	134							—
Loans to individuals										
- Vehicle financing	8,825	9,810	0	570				19	7	26
- Insurance premiums	26	26	0							—
- Real estate	30,788	98,062	0	681		6	2	1	3	2
- Tenant-ownership	3,285	8,695	0	92	2		2			—
- Insurance contract holders	733	331	401							—
- Other	1,405	198	1,207	100				23	16	1
Public sector										
- Vehicle financing	63	53	10							—
Lending to the public	**50,172**	**121,809**	**2,032**	**1,651**	**2**	**6**	**4**	**76**	**37**	**49**
Credit institutions with rating										
- AAA			0							
- AA	1,039		1,039							
- A	5,467		5,467							—
- BBB or lower	4		4							
- without rating	1,004		1,004							—
Lending to credit institutions	**7,514**	**0**	**7,514**	**0**	**0**	**0**	**0**	**0**	**0**	**—**
Government bonds with rating										
- AAA	5,756		5,756							—
- AA	0		0							—
- A or lower	331		331							—
Bonds with other issuers with rating										
- AAA	53		53							—
- AA	1,416		1,416							—
- A	1,511		1,511							—
- BBB or lower	510		510							—
- without rating	1,733		1,733							—
Bonds and other fixed-income securities	**11,310**	**0**	**11,310**	**0**	**0**	**0**	**0**	**0**	**0**	**—**
Derivatives with counterparties with rating										
- AAA	4		4							—
- AA	127		127							—
- A	78		78							—
- BBB or lower	10		10							
- without rating	46		46							
Derivatives	**265**	**0**	**265**	**0**	**0**	**0**	**0**	**0**	**0**	**—**
Reinsurers with rating										
- AAA	12	0	12							—
- AA	650	3	647							—
- A	366		366							—
- BBB or lower	5		5							—
- without rating	1		1							—
Claims on reinsurers	**1,034**	**4**	**1,030**	**0**	**0**	**0**	**0**	**0**	**0**	**—**
Cash and bank with rating										
- AAA	17		17							—
- AA	1,729		1,729							—
- A	509		509							—
- BBB or lower	80		80							—
- without rating	170		170							—
Cash at bank	**2,506**	**0**	**2,506**	**0**	**0**	**0**	**0**	**0**	**0**	**—**
Total balance sheet exposure	**72,801**	**121,813**	**24,657**	**1,651**	**2**	**6**	**4**	**76**	**37**	**49**
Guarantees	**29**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**—**

[1] The gross credit risk exposure is shown at carrying amount, which is the book value net of impairment losses.
[2] Assets past due but not impaired.

In this table, the rating system of Standard & Poor's is used.

SkandiaBanken considers a loan or overdraft to be impaired when appropriate repayments have not been made for 60 days and where any collateral has a lower value than the amounts due. Collateral for most loans is a physical asset (such as a vehicle) or a charge over a physical asset. The market value of collateral is reassessed annually.

COLLATERAL FOR LENDING TO PUBLIC

	Mort-gages deeds	Guaran-tees	Reten-tion of title/ Leasing	Other colla-teral	Total value of colla-teral	Value of colla-teral for non-perfor-ming loans	Value of col-lateral for bad debts
Loans to companies							
- Vehicle financing		134	4,460		4,594	15	23
- Insurance premiums				37	37		
- Real estate				19	19		
- Other				336	336		
Loans to individuals							
- Vehicle financing	5,694	13	4,103		9,810	2	14
- Insurance premiums				26	26		
- Real estate	98,002	10		33	98,045	433	
- Tenant-ownership	265	2		8,428	8,695	95	
- Other	34			164	198		
Public sector							
- Vehicle financing			53		53		
Lending to the public	**103,995**	**159**	**8,616**	**9,043**	**121,813**	**545**	**37**

An area with significant indirect credit exposure is credit facilities. Here, Skandia has established credit lines with commercial banks, upon which it can draw at all times if so required. These facilities provide one of the main vehicles for performing short-term liquidity management. Further information can be found in the section on liquidity risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting commitments associated with financial liabilities when they are called. Skandia is exposed to liquidity risk in several areas:

- loans and borrowings that the company has taken,
- funding unexpectedly large volumes of new business,
- derivatives,
- liabilities within the traditional life business, and
- within the unit linked, mutual fund, traditional life and banking businesses, when contract holders decide to withdraw their savings to a greater extent than expected.

Liquidity risk in these areas is not managed on a holistic basis within Skandia group, but is managed within the business area where the risk arises. However, in general, the group

- expects some of its liabilities to be paid later than the earliest date on which the Skandia group can be required to pay (as is the case for insurance savings surrenders and customer bank deposits),
- expects some of its undrawn loan commitments not to be drawn upon,
- holds financial assets for which there is a liquid market and that are readily sellable to meet liquidity needs, and
- has established credit lines with other financial institutions that it can access to meet liquidity needs.

Liquidity risk on loans taken and borrowings issued by the Skandia group reflects the necessity to have sufficient liquidity in place at the maturity dates of the loans and borrowings. Similarly, writing new unit linked and traditional business typically gives rise to a need for funding to pay commissions to intermediaries and internal acquisition costs and such demands can exceed the cash flow generated by the inforce business. These risks are managed through financial projections based on the group's consolidated business plan, monthly reporting of new business and expenses and, on a day to day basis, by Treasury through forecasting and maintaining back-up facilities where shortfalls are expected. The main facilities expose Skandia to credit risk and are summarised in the following table, which refers to the rating system of Standard & Poor's:

CREDIT FACILITY LEVELS AT 31 DECEMBER 2006

Counterparties' rating	Volume
AAA	
AA	0
A	2,650
BBB or lower	
Unrated	
Total	**2,650**

Within SkandiaBanken, the bank's treasury department is responsible for liquidity planning and financing through daily forecasts of expected cash flows allowing for average customer behaviour. Short-term liquidity management is facilitated through inter-bank arrangements. However, there is currently some over-liquidity that is invested in the bond market, where the vast majority of the securities mature within one year.

For derivatives, liquidity risk arises due to cash flow effects in relation to roll-overs. Again, this is managed by Treasury using liquidity forecasting and back-up facilities when necessary.

For the unit linked and mutual fund business, customer behaviour such as surrenders and withdrawals can give rise to liquidity risk. While most of Skandia's contracts can be surrendered, the surrender value is not normally guaranteed and the surrender payout is only usually made once the underlying funds have been sold for cash.

The following table shows a term structure of financial liabilities of the Skandia group that are subject to liquidity risk. The table is based on contractual maturity dates. It excludes term structures from financial liabilities taken by banking operations, which are described below.

MATURITY ANALYSIS FOR FINANCIAL AND INSURANCE LIABILITIES EXPOSED TO LIQUIDITY RISK

	< 1 yr	1-5 yrs	>5 yrs	Total
Financing				
Subordinated loans	850	0		850
Bond issued, non banking	300	625		925
Bank overdrafts	87			87
Financial reinsurance	99	117		216
Derivative liability	86	29	12	127
Liability for linked investment contracts	415,475	11,195	79,746	506,416
Insurance provisions	2,730	425	2,652	5,807
Total	**419,627**	**12,391**	**82,410**	**514,428**

For Skandia's banking business, liquidity risk arises if contract holders decide to withdraw their bank savings to an extent larger than assumed, without having sufficient excess liquidity to match these requests. The liquidity risk is mostly expressed through long-term loan investments with a term exceeding one year, and reduced by all long-term refinancing and capital allocated to loan volumes. As excess liquidity exists in the banking segment, the liquidity risk is low and the ability to deal with variations in loan cash flows is good. Excess liquidity is invested in government promissory notes with short maturities, which are highly liquid.

MATURITY ANALYSIS FOR BANKING BUSINESS

Remaining maturity, assets and liabilities	0-3 mos	3-12 mos	1-5 yrs	> 5 yrs	Undis-tributed	Total
Assets						
Cash and deposits with central banks	48	–	–	–	–	48
Eligible treasury bills, etc.	1,385	–	–	–	–	1,385
Lending to credit institutions	664	–	–	–	–	664
Lending to general public	14,638	4,791	15,533	14,417	–	49,379
Financial assets at fair value	472	4	84	39	–	599
Financial assets held to maturity	1,975	902	888	–	–	3,765
Goodwill and other intangible assets	–	–	–	–	257	257
Property, plant and equipment	–	–	–	–	12	12
Other assets	629	–	9	–	–	638
Total assets	**19,811**	**5,697**	**16,514**	**14,456**	**269**	**56,747**
Liabilities and shareholders' equity						
Liabilities to credit institutions	461	–	–	–	–	461
Deposits and borrowings from the general public	51,129	–	–	–	–	51,129
Bonds issued	–	–	51	–	–	51
Derivatives	–	–	55	7	–	62
Other liabilities	910	–	–	–	–	910
Provisions	–	2	–	321	–	323
Subordinated debt	–	–	–	1,200	–	1,200
Shareholders' equity	–	–	–	–	2,611	2,611
Total liabilities and shareholders' equity	**52,500**	**2**	**106**	**1,528**	**2,611**	**56,747**

Due to over-liquidity, liquidity risk is not considered to be material for SkandiaBanken.

Skandia Liv

The group's Swedish traditional life company, Skandia Liv, writes individual and group savings and protection business primarily in the Swedish market. Although it is a subsidiary of the Skandia group, it may not pass profits, either directly or indirectly, to the parent. Its brand is not generally distinguished from the brand of the parent company. Therefore, any reputational risk arising in Skandia Liv may be expected to carry over to the reputation of Skandia's unit linked and healthcare insurance operations in the Swedish market.

Sensitivities

Embedded value reporting is used internally as the principal method for measuring the performance of the business. Embedded value is also the base for the sensitivity tests that are performed. For a more detailed description of the Embedded value method, please refer to Skandia's annual report 2005.

Embedded value consists of expenses and revenues that have already been recognised in the form of reported shareholders' equity (the Adjusted Net Worth or "ANW") and of the discounted expected future cash flows (the value of business in force or "VBIF").

The anticipated flows in VBIF are based on – among other things – assumptions with respect to the surrender rates of contracts, fees, fund management and other costs, commissions to be paid to distributors, mortality, the return on policyholders' investments, inflation and the discount rate.

Embedded value represents the sum of reported shareholders' equity in unit linked and life assurance and surplus value of business in force (VBIF). VBIF represents the present value of anticipated future cash flows attributable to contracts in force that are not already anticipated in GAAP equity.

New business is defined as that arising from the sale of new contracts during the reporting period. The Value of New Business ("VNB") includes the value of expected renewals and future premiums on those new contracts and expected future contractual alterations to those new contracts to the extent that they can reasonably be predicted. New business includes recurring single premiums and changes to existing contracts where these are not variations already anticipated in VBIF.

The results of sensitivity tests pertaining to both VBIF and the VNB are shown below. The sensitivity tests for the financial assumptions sequentially test the effect of an increase first in the risk discount rate, and thereafter in the return on equities, bonds and inflation.

- **Test A.** This shows the effect of an increase in the discount rate by 1 percentage point, compared with that used for the VBIF and VNB calculations.
- **Test B.** This test shows the effect of a 1 percentage point increase in the assumed rate of equity returns (the portion of policyholders' underlying fund holdings consisting of equities), compared with the return used for calculating VBIF and VNB. This assumption is used in projecting future fund growth in order to derive the level of future expected distributable cash flows. Assumed future bond returns are not affected by this test.
- **Test C.** This test shows the effect of a 1 percentage point increase in the yield on bonds (the portion of policyholders' underlying fund holdings consisting of bonds), compared with the yield used for calculating VBIF and VNB. This assumption is used in projecting future fund growth in order to derive the level of future expected distributable cash flows.
- **Test D.** This test shows the effect of a 1 percentage point increase in expense inflation. It should be noted that external commissions are typically fixed, for example as a proportion of premiums, and are therefore not subject to changes in expense inflation. This test does not anticipate an increase in premium indexation

The following sensitivity tests are independent from each other and from tests A–D:

- **Tests E and F.** These tests show the effect of a one-time decline (E) and one-time rise (F) in equity markets as per 31 December 2006. This effect arises mainly through the level of fund fees obtained in the future. The tests do not include any corresponding fall or rise in the bond market. The tests are not relevant for VNB, and thus only the effect on VBIF is shown.
- **Tests G.** This test shows the effect of a 10% increase in internal maintenance expenses. If the continuing future maintenance expense is assumed to be 50 per year for a product (and increasing with inflation), Test G entails that the cost will be assumed to be 55. As mentioned above, external commissions are fixed and thus not included in this test.

- **Test H** shows the effect of the surrender ratio being 10% higher than assumed, i.e., an assumption of 10% per year is changed to 11% per year in this test.
- **Test I** shows the effect of a 5 basis point per annum increase in fund retrocessions.
- **Test J** shows the total effect on the VNB of moving from the year-end 2005 assumption set discussed above to the year-end 2006 assumptions.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

SEK million	Value of business in force (VBIF)	Present value of new business for the year (VNB), unit linked and traditional life
A. Discount rate	-2,271	-365
B. Equity return	1,241	143
C. Bond return	393	38
D. Expense inflation	-390	-42
E. One-time effect of a 1% decrease in stock markets	-158	—
F. One-time effect of a 1% increase in stock markets	157	—
G. 10% increase in internal administration costs	-670	-110
H. 10% increase in surrender rates	-1,103	-238
I. Increase of 5 bps in retrocessions	1,509	203
J. Effect on VNB at point of sale of using assumptions at year-end	—	17

Sensitivity to currency movements can be found in the table below.

NET EXPOSURE IN SUBSIDIARIES' SHAREHOLDERS' EQUITY

SEK million	Exposure	Change	Change in share-holders' equity
GBP	5,334	10%	533
EUR	1,903	10%	190
Other currencies	1,030	10%	103
Total net exposure	**8,267**	**10%**	**826**

Note 3 Segment reporting

The group's risks and results are affected primarily by differences in the products and services offered. Consequently, business segments consitute the primary format of reporting and geographic segments secondary.

Primary segments

Unit linked assurance
This segment includes insurance products for long-term savings. Policyholders choose from a selection of mutual funds offered by Skandia for investment of the savings portion of their premiums. The policyholder bears the risk of how funds' value performs, and all returns accrue to the fund and thus to the policyholder. Contracts often have long durations. The policyholder usually has an opportunity to make premature withdrawals from the fund balance, sometimes in exchange for a certain fee.

Normally, an initial negative cash flow arises for these products, since Skandia pays sales commissions to brokers and other administrative expenses. A positive cash flow thereafter arises from the various fees that are charged to cover acquisition costs, running management expenses and profit margin.

The insurance element in the product includes a certain level of death benefit protection, usually expressed as a percentage of the funds' value. This segment also includes the supplemental insurance elements for sickness/disability and waiver of premium, which are sold in connection with unit linked assurance.

Mutual funds
This segment includes products that are similar to unit linked assurance, i.e., products in which customers choose which mutual funds they want to invest in and where the customer bears the investment risk. However, these products do not include any insurance element. In some markets there are tax advantages for the customer, which gives these savings a long-term nature. For other products, the contract can be terminated on short notice without any penalty fees. This segment also includes discretionary management on behalf of institutional clients.

Cash flow for mutual fund savings products is not as negative upon sale as for unit linked assurance products. Revenues are normally based on the value of the underlying funds.

Traditional life assurance
Traditional life assurance includes insurance savings in which Skandia guarantees policyholders a certain, minimum return. The customers cannot choose any investment options; instead, the investments are managed by Skandia. The products also include an extra death benefit. The segment's products often have a long contracted duration, with extra fees charged in connection with early withdrawals. The segment also includes certain small volumes of annuity products.

Banking
The group's banking business is conducted by SkandiaBanken. SkandiaBanken offers online banking primarily for private persons. Operations consist primarily of lending (vehicle financing and home mortgages), savings deposit and transaction accounts, payment services and securities trading.

Other businesses
The "Other businesses" segment includes Bankhall and the Private Healthcare & Group insurance operations conducted in the Nordic division. Bankhall offers administrative support to independent financial advisers (IFAs) in the UK. Private Healthcare & Group insurance is a business segment that offers group disability insurance and private healthcare insurance.

Joint functions
Joint functions includes joint-group expenses, costs for the divisions that have not been allocated to the respective business segments, and the joint-group financial result.

Secondary segments

UK, Asia Pacific & Offshore
The UK, Asia Pacific & Offshore division includes Skandia's operations in the UK, Royal Skandia (Isle of Man), Ireland, Switzerland (part of the Europe & Latin America division as of 1/1/2006), Liechtenstein (part of the Europe & Latin America division as of 1/1/2006), Australia and China. The unit linked assurance operations in Norway and Finland are conducted as branches of Skandia UK. The offshore businesses in the Isle of Man and Switzerland are targeted at international investors and expatriates. This entails that some of these customers live in countries that are otherwise included in other geographic segments.

Europe & Latin America
The Europe & Latin America division includes Skandia's operations in Spain, Italy, Germany, Austria, France, Portugal, Poland, Mexico, Colombia and Chile, and the Global Funds unit. Starting on 1 January 2006, Switzerland and Liechtenstein are also part of this division.

Nordic
The Nordic division includes Skandia's businesses in Sweden and Denmark, and SkandiaBanken's operations in Sweden, Norway and Denmark.

Group functions
Group functions include joint-group expenses, the joint-group financial result and undistributed results from the business segments.

Primary segments

INCOME STATEMENT

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
INCOME																
External fee income	9,734	8,253	3,924	2,771	50	54	443	378	—	—	869	536	—	—	15,020	11,992
Internal fee income	635	413	-654	-447	2	—	51	41	—	—	234	244	-268	-251	0	0
Change in deferred fee income and fee income receivable	-1,356	-1,350	-185	-74	—	—	—	—	—	—	—	—	—	—	-1,541	-1,424
Net premiums earned	1,428	1,533	—	0	1,024	1,042	—	—	639	579	0	0	—	—	3,091	3,154
Net external investment income	479	662	83	102	287	584	-192	83	20	39	694	-7	0	0	1,371	1,463
Internal investment income	59	46	3	10	12	0	219	-52	15	9	1,265	543	-1,573	-556	0	0
Net interest income, banking	—	—	—	—	—	—	977	1,055	—	—	—	—	—	—	977	1,055
Other income	18	13	12	6	19	5	22	42	336	414	145	38	—	—	552	518
Total revenue	**10,997**	**9,570**	**3,183**	**2,368**	**1,394**	**1,685**	**1,520**	**1,547**	**1,010**	**1,041**	**3,207**	**1,354**	**-1,841**	**-807**	**19,470**	**16,758**
Of which, internal income	694	459	-651	-437	14	0	270	-11	15	9	1,499	787	-1,841	-807	0	0
EXPENSES																
Net claims incurred	-899	-981	—	0	-1,253	-1,592	—	—	-363	-370	—	—	—	—	-2,515	-2,943
External commission expenses	-6,006	-5,304	-1,178	-850	-31	-43	-83	-76	-12	-5	-389	0	—	—	-7,699	-6,278
Internal commission expenses	-234	-213	0	-9	—	—	-2	—	-44	-30	5	2	275	250	0	0
Change in deferred acquisition costs and accrued commission expenses	2,144	2,325	152	69	—	—	—	—	-3	1	—	—	—	—	2,293	2,395
Administrative expenses [1]	-3,957	-3,301	-1,374	-1,071	23	-41	-1,130	-985	-448	-711	-1,694	-1,619	-6	5	-8,586	-7,723
Other expenses [1]	-29	-38	-728	-488	0	-4	-39	-21	-9	-1,135	0	—	—	—	-805	-1,686
External financing costs	-68	-92	-3	-1	0	-2	—	—	-7	-9	-423	-281	—	—	-501	-385
Internal financing costs	-104	-72	-11	-10	—	—	-51	-114	-21	-9	-1,385	-347	1,572	552	0	0
Total expenses	**-9,153**	**-7,676**	**-3,142**	**-2,360**	**-1,261**	**-1,682**	**-1,305**	**-1,196**	**-907**	**-2,268**	**-3,886**	**-2,245**	**1,841**	**807**	**-17,813**	**-16,620**
Of which, internal expenses	-338	-285	-11	-19	0	0	-53	-114	-65	-39	-1,380	-345	1,847	802	0	0
Result before tax	**1,844**	**1,894**	**41**	**8**	**133**	**3**	**215**	**351**	**103**	**-1,227**	**-679**	**-891**	**0**	**0**	**1,657**	**138**
Policyholder tax charge	2,073	2,502	—	—	—	—	—	—	—	—	—	—	—	—	2,073	2,502
Taxes	-2,229	-2,892	-27	-44	-37	2	-63	-130	-77	86	148	219	—	0	-2,285	-2,760
Result for the period from continuing operations	**1,688**	**1,504**	**14**	**-35**	**96**	**5**	**152**	**221**	**26**	**-1,141**	**-531**	**-673**	**0**	**0**	**1,445**	**-119**
Result for the period from discontinued operations	0	-681	—	—	—	—	—	—	—	—	-338	36	—	—	-338	-645
Result for the year	**1,688**	**823**	**14**	**-35**	**96**	**5**	**152**	**221**	**26**	**-1,141**	**-869**	**-637**	**0**	**0**	**1,107**	**-764**
[1] of which, impairment losses	-2	-7	—	-2	—	-2	0	—	—	-1,135	0	—	—	—	-2	-1,146

Primary segments

BALANCE SHEET	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Assets																
Intangible assets																
Goodwill	0	0	—	—	—	—	209	217	265	342	—	—	—	—	474	559
Other intangible assets	120	89	9	6	0	5	48	21	90	24	—	—	—	—	267	145
Reinsurers' share of insurance provisions	992	1,089	—	—	—	5	—	—	—	—	—	—	—	—	992	1,094
Reinsurers' share of life assurance policies where the investment risk is borne by the policyholders	7,392	217	—	—	—	—	—	—	—	—	—	—	—	—	7,392	217
Deposits held with cedents	2,870	3,671	—	—	—	—	—	—	—	—	—	—	—	—	2,870	3,671
Deferred acquisition costs	19,917	18,643	792	670	—	—	—	—	11	13	—	—	—	—	20,720	19,326
Deferred tax assets	491	359	22	6	—	43	26	0	1	0	828	-59	—	—	1,368	349
Retirement benefit assets	—	—	—	—	—	—	—	0	—	—	702	687	—	—	702	687
Property and equipment	210	219	45	49	47	151	12	12	5	27	61	57	—	—	380	515
Investment properties	17	21	—	—	3	4	—	—	—	—	—	—	—	—	20	25
Loans and advances	7,881	4,311	168	157	348	5,010	50,229	42,433	76	53	22,778	9,328	-23,940	-9,937	57,540	51,355
Investments in associates	—	—	—	—	0	90	4	—	0	-6	2	0	—	—	6	84
Other investments	4,364	4,950	196	203	787	6,737	5,398	7,778	896	887	307	2,438	-33	-60	11,915	22,933
Investments for the benefit of policyholders	499,075	422,770	—	—	—	—	—	—	—	—	—	—	—	—	499,075	422,770
Assets in consolidated mutual funds	—	—	20,723	16,015	—	—	—	—	—	—	—	—	—	-248	20,723	15,767
Current tax assets	172	47	13	14	1	12	39	1	56	128	8	234	—	—	289	436
Other receivables	2,733	2,088	1,106	807	106	318	405	331	990	887	3,568	327	-4,998	-940	3,910	3,818
Other prepayments and accrued income	3,518	4,074	124	106	9	135	165	151	42	32	476	213	-411	-122	3,923	4,589
Cash at bank	1,667	2,707	589	460	98	118	21	-456	422	352	2,832	-1,040	-3,100	0	2,529	2,141
Assets held for sale	4,441	—	4	—	10,324	—	—	—	—	—	—	—	—	—	14,769	—
Total assets	**555,860**	**465,255**	**23,791**	**18,493**	**11,723**	**12,628**	**56,556**	**50,488**	**2,854**	**2,739**	**31,562**	**12,185**	**-32,482**	**-11,307**	**649,864**	**550,481**
Shareholders' equity and liabilities																
Share capital	-303	-458	681	670	442	460	389	390	15	113	-193	-150	—	—	1,031	1,025
Revaluation reserve	-2	-9	6	6	44	105	—	0	0	0	-8	—	—	—	40	102
Other restricted reserves	5,520	5,104	155	207	43	-11	575	533	2,169	1,630	-1,184	-2,105	—	—	7,278	5,358
Unrestricted equity	4,425	4,935	-262	-351	246	-35	1,607	1,473	-3,675	-3,217	2,523	2,991	-17	-246	4,847	5,550
Equity attributable to equity holders of parent	**9,640**	**9,572**	**580**	**532**	**775**	**519**	**2,571**	**2,396**	**-1,491**	**-1,474**	**1,138**	**736**	**-17**	**-246**	**13,196**	**12,035**
Minority interest	2	1	52	54	44	22	—	—	0	0	—	20	—	—	98	97
Total shareholders' equity	**9,642**	**9,573**	**632**	**586**	**819**	**541**	**2,571**	**2,396**	**-1,491**	**-1,474**	**1,138**	**756**	**-17**	**-246**	**13,294**	**12,132**
Liabilities																
Subordinated loans	—	—	121	123	—	—	1,200	1,200	—	—	850	850	-1,321	-1,323	850	850
Insurance provisions, gross	3,974	3,959	—	—	909	11,774	—	—	924	921	—	—	—	—	5,807	16,654
Liability for linked investment contracts	506,416	422,984	—	—	—	—	—	—	—	—	—	—	—	—	506,416	422,984
Liabilities in consolidated mutual funds	—	—	20,723	16,014	—	—	—	—	—	—	—	—	—	—	20,723	16,014
Deposits received from reinsurers	125	112	—	—	—	—	—	—	—	—	—	—	—	—	125	112
Retirement benefit obligation	8	8	—	—	—	—	81	75	—	—	94	172	—	—	183	255
Deferred tax liability	3,591	2,645	56	7	—	0	219	166	41	-17	885	64	—	—	4,792	2,865
Deferred fee income	16,125	15,805	913	759	—	—	—	—	—	—	—	—	—	—	17,038	16,564
Other provisions	579	181	19	18	0	4	23	28	30	28	1,224	880	—	—	1,875	1,139
Deposits and borrowings from the public	1,924	1,815	27	4	—	—	50,691	45,505	3,039	2,762	17,967	7,520	-22,462	-12,101	51,186	45,505
Other interest bearing liabilities	937	754	47	36	8	2	955	325	80	189	4,091	2,240	-4,141	-287	1,977	3,259
Current tax liabilities	438	111	15	11	1	1	37	23	—	8	0	359	—	—	491	513
Derivative liability	41	70	—	0	—	0	62	63	—	0	101	122	-16	-60	188	195
Other payables	6,662	5,940	1,003	771	11	300	440	481	142	194	3,514	-2,449	-4,114	2,837	7,658	8,074
Other accruals and deferred income	984	1,298	206	164	2	6	277	226	89	128	1,698	1,671	-411	-127	2,845	3,366
Liabilities held for sale	4,414	—	29	—	9,973	—	—	—	—	—	—	—	—	—	14,416	—
Total shareholders' equity and liabilities	**555,860**	**465,255**	**23,791**	**18,493**	**11,723**	**12,628**	**56,556**	**50,488**	**2,854**	**2,739**	**31,562**	**12,185**	**-32,482**	**-11,307**	**649,864**	**550,481**

Primary segments

NON-CASH EXPENSES

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Amortisation of intangible assets	-48	-108	-4	-7	0	-2	-7	-7	-29	-16	0	—	—	—	-88	-140
Amortisation of tangible assets	-68	-72	-7	-7	-2	-3	-7	-7	-7	-20	-29	-27	—	—	-120	-136
Write-down of goodwill	0	—	—	—	—	—	0	—	—	-1,135	0	—	—	—	0	-1,135
Other non-cash expenses	-519	-112	-19	-18	—	—	-3	-31	-3	-61	-509	-446	—	—	-1,053	-668
Non-cash expenses	**-635**	**-292**	**-30**	**-32**	**-2**	**-5**	**-17**	**-45**	**-39**	**-1,232**	**-538**	**-473**	**0**	**0**	**-1,261**	**-2,079**
Investments in tangible and intangible assets	150	170	10	10	4	2	44	18	24	12	29	20	—	—	261	232

For information on amortisation on deferred acquisition costs, deferred fee income, accrued commission expenses and fee income receivable, see notes 12 and 14.

Secondary Segments

INCOME STATEMENT

	Nordic		UK, Asia Pacific & Offshore		Europe & Latin America		Group functions and eliminations		Group	
INCOME	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External fee income	2,504	2,210	7,237	6,106	4,517	3,625	762	51	15,020	11,992
Internal fee income	134	66	2	22	-125	-55	-11	-33	0	0
Change in deferred fee income and fee income receivable	9	13	-462	-348	-1,064	-1,089	-24	—	-1,541	-1,424
Net premiums earned	895	857	1,009	1,191	1,187	1,106	—	0	3,091	3,154
Net external investment income	-102	175	311	521	454	763	708	4	1,371	1,463
Internal investment income	262	3	3	5	28	11	-293	-19	0	0
Net interest income, banking	977	1,055	—	—	—	—	—	—	977	1,055
Other income	165	140	340	328	44	20	3	30	552	518
Total income	**4,844**	**4,519**	**8,440**	**7,825**	**5,041**	**4,381**	**1,145**	**33**	**19,470**	**16,758**
Of which, internal income	396	69	5	27	-97	-44	-304	-52	0	0
EXPENSES										
Net claims incurred	-864	-542	-358	-770	-1,290	-1,625	-3	-6	-2,515	-2,943
External commission expenses	-352	-272	-4,378	-4,068	-2,412	-1,918	-557	-20	-7,699	-6,278
Internal commission expenses	5	2	-9	-12	-8	—	12	10	0	0
Change in deferred acquisition costs and accrued commission expenses	-13	8	1,416	1,468	867	919	23	—	2,293	2,395
Administrative expenses [1]	-2,661	-2,296	-3,351	-3,197	-1,501	-1,232	-1,073	-998	-8,586	-7,723
Other expenses [1]	-39	-21	-625	-1,557	-140	-108	-1	0	-805	-1,686
External financing costs	-11	-17	-33	169	-35	-46	-422	-491	-501	-385
Internal financing costs	-75	-137	-58	-248	-22	-27	155	412	0	0
Total expenses	**-4,010**	**-3,275**	**-7,396**	**-8,215**	**-4,541**	**-4,037**	**-1,866**	**-1,093**	**-17,813**	**-16,620**
Of which, internal expenses	-70	-135	-67	-260	-30	-27	167	422	0	0
Result before tax	**834**	**1,244**	**1,044**	**-390**	**500**	**344**	**-721**	**-1,060**	**1,657**	**138**
Policyholder tax charge	412	417	1,661	2,085	—	—	—	—	2,073	2,502
Taxes	-558	-722	-1,573	-2,120	-272	-189	118	271	-2,285	-2,760
Result for the period from continuing operations	**688**	**939**	**1,132**	**-425**	**228**	**155**	**-603**	**-789**	**1,445**	**-120**
Result for the period from discontinued operations	—	—	0	—	0	—	-338	-645	-338	-645
Result for the year	**688**	**939**	**1,132**	**-425**	**228**	**155**	**-941**	**-1,434**	**1,107**	**-765**
[1] Of which, impairment losses	0	—	-2	-1,142	0	-4	—	—	-2	-1,146

Secondary Segments

BALANCE SHEET

Assets	Nordic 2006	Nordic 2005	UK, Asia Pacific & Offshore 2006	UK, Asia Pacific & Offshore 2005	Europe & Latin America 2006	Europe & Latin America 2005	Group functions and eliminations 2006	Group functions and eliminations 2005	Group 2006	Group 2005
Intangible assets										
Goodwill	209	217	265	342	0	0	—	—	474	559
Other intangible assets	72	41	139	62	51	42	5	—	267	145
Reinsurers' share of insurance provisions	101	99	856	990	34	5	1	0	992	1,094
Reinsurers' share of life assurance policies where the investment risk is borne by the policyholders	—	—	7,392	217	—	—	—	—	7,392	217
Deposits held with cedents	—	—	0	0	0	0	2,870	3,671	2,870	3,671
Deferred acquisition costs	691	753	12,446	12,249	7,479	6,324	104	—	20,720	19,326
Deferred tax assets	81	20	6	5	390	377	891	36	1,368	438
Retirement benefit asset	—	0	—	—	—	—	702	687	702	687
Property and equipment	49	48	134	159	161	277	36	31	380	515
Investment properties	—	1	—	—	20	24	—	—	20	25
Loans and advances	50,301	42,579	6,630	4,126	1,350	5,255	-741	-605	57,540	51,355
Investments in associates	4	—	0	-6	0	90	2	0	6	84
Other investments	7,564	9,725	2,466	3,255	1,586	7,576	299	2,377	11,915	22,933
Investments for the benefit of policyholders	90,101	77,272	343,826	299,151	64,869	46,347	279	—	499,075	422,770
Assets in consolidated mutual funds	—	8,280	—	2,020	—	5,715	20,723	-248	20,723	15,767
Current tax assets	40	10	169	128	73	72	7	226	289	436
Other receivables	745	686	2,475	2,080	1,417	1,542	-727	-490	3,910	3,818
Other prepayments and accrued income	642	525	734	772	2,508	3,191	39	101	3,923	4,589
Cash at bank	1,269	1,682	755	1,050	751	861	-246	-1,452	2,529	2,141
Assets held for sale	—	—	—	—	14,769	—	—	—	14,769	—
Total assets	**151,869**	**141,938**	**378,293**	**326,600**	**95,458**	**77,698**	**24,244**	**4,334**	**649,864**	**550,570**
Shareholders' equity and liabilities										
Share capital	411	417	516	1,109	93	-82	11	-419	1,031	1,025
Revaluation reserve	—	0	0	—	48	86	-8	16	40	102
Other restricted reserves	684	639	7,295	5,722	755	1,099	-1,456	-2,102	7,278	5,358
Unrestricted equity	2,944	3,711	-2,295	-1,873	2,031	807	2,167	2,905	4,847	5,550
Equity attributable to equity holders of parent	**4,039**	**4,767**	**5,516**	**4,958**	**2,927**	**1,910**	**714**	**400**	**13,196**	**12,035**
Minority interest	4	4	0	0	94	72	—	21	98	97
Total shareholders' equity	**4,043**	**4,771**	**5,516**	**4,958**	**3,021**	**1,982**	**714**	**421**	**13,294**	**12,132**
Liabilities										
Subordinated loans	1,200	1,200	—	—	—	—	-350	-350	850	850
Insurance provisions, gross	2,157	1,825	2,481	2,998	1,166	11,831	3	0	5,807	16,654
Liability for linked investment contracts	90,157	77,274	348,296	295,783	64,816	46,256	3,147	3,671	506,416	422,984
Liabilities in consolidated mutual funds	—	8,280	—	2,019	—	5,715	20,723	—	20,723	16,014
Deposits received from reinsurers	93	91	—	21	32	0	0	0	125	112
Retirement benefit obligation	81	75	—	—	8	8	94	172	183	255
Deferred tax liability	223	181	3,055	2,546	268	98	1,246	129	4,792	2,954
Deferred fee income	122	123	8,661	8,812	8,151	7,629	104	—	17,038	16,564
Other provisions	109	55	525	222	81	9	1,160	853	1,875	1,139
Deposits and borrowings from the public	50,699	45,538	3,719	3,577	483	770	-3,715	-4,380	51,186	45,505
Other interest bearing liabilities	1,080	447	251	340	383	519	263	1,953	1,977	3,259
Current tax liabilities	65	95	327	14	85	45	14	359	491	513
Derivative liability	62	63	10	29	31	41	85	62	188	195
Other payables	1,089	1,374	5,346	5,107	1,541	1,603	-318	-10	7,658	8,074
Other accruals and deferred income	689	546	106	174	976	1,192	1,074	1,454	2,845	3,366
Liabilities held for sale	—	—	—	—	14,416	—	—	—	14,416	—
Total shareholders' equity and liabilities	**151,869**	**141,938**	**378,293**	**326,600**	**95,458**	**77,698**	**24,244**	**4,334**	**649,864**	**550,570**
Investments in tangible assets	76	33	117	86	48	104	20	9	261	232

Note 4 Fee income

	Unit linked assurance 2006	Unit linked assurance 2005	Mutual funds 2006	Mutual funds 2005	Life assurance 2006	Life assurance 2005	Banking 2006	Banking 2005	Joint functions 2006	Joint functions 2005	Eliminations 2006	Eliminations 2005	Group 2006	Group 2005
Premium based fees	4,627	4,293	621	481	—	—	—	—	10	—	—	—	5,258	4,774
Fund based fees	4,389	3,211	3,301	2,289	50	54	—	—	859	536	—	—	8,599	6,090
Fixed fees	465	464	1	0	—	—	—	—	—	—	—	—	466	464
Surrender charges	265	288	1	1	—	—	—	—	—	—	—	—	266	289
Other fees	-12	-3	—	—	—	0	443	378	—	—	—	—	431	375
Internal fees	635	413	-654	-447	2	—	51	41	234	244	-268	-251	0	0
Fee income	**10,369**	**8,666**	**3,270**	**2,324**	**52**	**54**	**494**	**419**	**1,103**	**780**	**-268**	**-251**	**15,020**	**11,992**

Note 5 Change in deferred fee income and fee income receivable

	Unit linked assurance 2006	Unit linked assurance 2005	Mutual funds 2006	Mutual funds 2005	Group 2006	Group 2005
Capitalisation of deferred fee income	-3,247	-3,254	-524	-381	-3,771	-3,635
Amortisation of deferred fee income	2,442	2,342	342	311	2,784	2,653
Change in deferred fee income	**-805**	**-912**	**-182**	**-70**	**-987**	**-982**
Capitalisation of fee income receivable	1,349	1,472	3	2	1,352	1,474
Amortisation of fee income receivable	-1,900	-1,910	-6	-6	-1,906	-1,916
Change in deferred fee income receivable	**-551**	**-438**	**-3**	**-4**	**-554**	**-442**
Change in deferred fee income and fee income receivable	**-1,356**	**-1,350**	**-185**	**-74**	**-1,541**	**-1,424**

Note 6 Premiums earned

	Unit linked assurance		Life assurance		Other businesses		Group	
	2006	2005	2006	2005	2006	2005	2006	2005
Gross								
Single premium	34	93	446	369	649	588	1,129	1,050
Regular premium	2,275	2,141	592	693	—	—	2,867	2,834
Premiums written	**2,309**	**2,234**	**1,038**	**1,062**	**649**	**588**	**3,996**	**3,884**
Change in provision for unearned premiums	-32	11	0	0	-10	-9	-42	2
Premiums earned, gross	**2,277**	**2,245**	**1,038**	**1,062**	**639**	**579**	**3,954**	**3,886**
Ceded								
Single premium	-33	-37	—	—	—	0	-33	-37
Regular premium	-816	-675	-14	-20	—	—	-830	-695
Premiums written	**-849**	**-712**	**-14**	**-20**	**0**	**0**	**-863**	**-732**
Change in provision for unearned premiums	0	—	—	—	—	—	0	0
Premiums earned, ceded	**-849**	**-712**	**-14**	**-20**	**0**	**0**	**-863**	**-732**
Premiums earned, net	**1,428**	**1,533**	**1,024**	**1,042**	**639**	**579**	**3,091**	**3,154**

Note 7 Net investment income

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Realised result																
Dividends	30	26	0	0	9	4	0	1	—	—	84	46	—	—	123	77
Interest income [1]	633	588	103	85	440	537	17	46	48	42	1,777	362	-1,573	-550	1,445	1,110
Foreign exchange gains [2]	-1	0	4	0	5	0	—	—	0	0	219	0	91	0	318	0
Foreign exchange losses, net [2]	—	0	—	1	—	5	—	—	—	0	—	-502	—	-1	0	-497
Capital gain/loss shares, net [2]	21	21	3	10	0	—	-1	1	—	—	-167	-20	—	—	-144	12
Capital gain/loss bonds, net [2]	-20	-11	-20	6	0	33	0	0	—	—	-21	-1	—	—	-61	27
Realised investment income	**663**	**624**	**90**	**102**	**454**	**579**	**16**	**48**	**48**	**42**	**1,892**	**-115**	**-1,482**	**-551**	**1,681**	**729**
Unrealised result																
Unrealised gain/loss shares, net	31	-6	-1	1	18	24	7	0	—	—	92	132	—	—	147	151
Unrealised gain/loss bonds, net	-137	96	0	8	-173	-19	2	10	-14	9	61	41	—	—	-261	145
Unrealised gain/loss fair value hedges	—	—	—	—	—	—	-7	-42	—	—	12	3	—	—	5	-39
Unrealised foreign exchange gains	0	11	0	1	—	0	0	15	0	-1	0	439	0	-5	0	460
Unrealised foreign exchange losses	12	—	-3	—	—	—	9	—	-1	—	-138	—	-91	—	-212	0
Impairments	-31	-17	—	—	—	—	—	—	2	-2	0	0	—	—	-29	-19
Unrealised investment income	**-125**	**84**	**-4**	**10**	**-155**	**5**	**11**	**-17**	**-13**	**6**	**27**	**615**	**-91**	**-5**	**-350**	**698**
Result from defined benefit pension plans [3]																
Return on plan assets defined benefit pension plans	—	—	—	—	—	—	—	—	—	—	150	155	—	—	150	155
Interest expense on defined benefit pension obligations	—	—	—	—	—	—	—	—	—	—	-110	-119	—	—	-110	-119
Net investment income	**538**	**708**	**86**	**112**	**299**	**584**	**27**	**31**	**35**	**48**	**1,959**	**536**	**-1,573**	**-556**	**1,371**	**1,463**
[1] Of which, pertaining to assets not stated at fair value:	365	317	78	80	192	212	17	46	23	16	1,741	322	-1,573	-551	843	442

[2] Pertains to investments held for trading.

[3] For further information on defined benefit pension plans, see note 23.

Note 8 Net interest income, banking

	2006	2005
Interest income from the public	1,819	1,516
Interest income from credit institutions	27	15
Interest income on bonds	173	198
Total interest income [1]	**2,019**	**1,729**
Interest expense to the public	-1,034	-665
Interest expense to credit institutions	-6	-7
Interest expense on bonds and subordinated loans issued	-2	-2
Total interest expense [2]	**-1,042**	**-674**
Net interest income, banking	**977**	**1,055**
[1] Of which, pertaining to assets not measured at market value	1,968	1,675
[2] Of which, pertaining to liabilities not measured at market value	-1,042	-674

Note 9 Other income

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Rent from investment properties	4	5	0	0	0	0	—	—	—	—	—	—	4	5
Change in value of investment properties	—	0	—	—	-1	—	—	—	—	—	—	-9	-1	-9
Realised gains on investment properties	1	—	0	0	20	0	—	—	—	—	—	11	21	11
Other income	13	8	12	6	0	2	22	42	329	414	145	36	521	508
Other income	**18**	**13**	**12**	**6**	**19**	**2**	**22**	**42**	**329**	**414**	**145**	**38**	**545**	**515**

Note 10 Claims incurred

	Unit linked assurance		Life assurance		Other businesses		Group	
	2006	2005	2006	2005	2006	2005	2006	2005
Gross								
Claims paid [1]	-1,285	-871	-1,892	-1,831	-380	-369	-3,557	-3,071
Change in provision for claims	-56	32	21	12	-67	-87	-102	-43
Change in insurance provisions [2]	57	-746	610	218	69	86	736	-442
Claims incurred, gross	**-1,284**	**-1,585**	**-1,261**	**-1,601**	**-378**	**-370**	**-2,923**	**-3,556**
Ceded								
Claims paid [3]	470	480	2	11	15	—	487	491
Change in provision for claims	45	-71	6	-1	—	—	51	-72
Change in insurance provisions	-130	195	0	-1	—	—	-130	194
Claims incurred, ceded	**385**	**604**	**8**	**9**	**15**	**—**	**408**	**613**
Claims incurred, net	**-899**	**-981**	**-1,253**	**-1,592**	**-363**	**-370**	**-2,515**	**-2,943**
[1] Claims paid, gross								
Surrenders	-446	-14	-1,169	-916	—	—	-1,615	-930
Mortality	-388	-427	-30	-42	—	—	-418	-469
Longevity	-45	-63	-689	-869	—	—	-734	-932
Disability	-406	-367	-4	-4	-380	-369	-790	-740
Claims paid, gross	**-1,285**	**-871**	**-1,892**	**-1,831**	**-380**	**-369**	**-3,557**	**-3,071**

[2] Additional information is provided in note 32, Insurance provisions.

[3] Claims paid, ceded								
Surrenders	0	0	—	—	—	—	0	0
Mortality	212	171	2	11	—	—	214	182
Longevity	11	6	—	—	—	—	11	6
Disability	247	303	—	—	15	—	262	303
Claims paid, ceded	**470**	**480**	**2**	**11**	**15**	**—**	**487**	**491**

Note 11 Commission expenses

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Initial commission	-4,778	-4,473	-1,177	-846	-31	-43	-83	-76	-12	-5	-389	—	—	—	-6,470	-5,443
Renewal commission	-1,235	-851	-1	-4	—	—	—	—	—	—	—	—	—	—	-1,236	-855
Reinsurance commissions and profit participations	7	20	—	—	—	—	—	—	—	—	—	—	—	—	7	20
Internal commission	-234	-213	0	-9	—	—	-2	—	-44	-30	5	2	275	250	0	0
Commission expenses	**-6,240**	**-5,517**	**-1,178**	**-859**	**-31**	**-43**	**-85**	**-76**	**-56**	**-35**	**-384**	**2**	**275**	**250**	**-7,699**	**-6,278**

Note 12 Change in deferred acquisition costs and accrued commission expenses

	Unit linked assurance		Mutual funds		Other businesses		Group	
	2006	2005	2006	2005	2006	2005	2006	2005
Capitalisation of prepaid acquisition costs	4,392	4,386	458	344	-3	1	4,847	4,731
Amortisation of prepaid acquisition costs	-2,567	-2,346	-306	-275	—	—	-2,873	-2,621
Impairment of prepaid acquisition costs	—	-16	—	0	—	—	0	-16
Change in deferred acquisition costs	**1,825**	**2,024**	**152**	**69**	**-3**	**1**	**1,974**	**2,094**
Capitalisation of accrued commission expense	-189	-277	—	—	—	—	-189	-277
Amortisation of accrued commission expense	508	578	0	—	—	—	508	578
Change in accrued commission expense	**319**	**301**	**0**	**0**	**0**	**0**	**319**	**301**
Change in deferred acquisition costs and accrued commission expenses	**2,144**	**2,325**	**152**	**69**	**-3**	**1**	**2,293**	**2,395**

Note 13 Administrative expenses

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Salaries [1]	-1,770	-1,487	-206	-183	-42	-37	-205	-178	-168	-222	-913	-775	—	—	-3,304	-2,882
Social security costs	-243	-233	-20	-24	-8	-9	-43	-42	-19	-31	-304	-307	—	—	-637	-646
Pension costs [2]	-92	-100	-7	-6	0	0	-39	-24	-8	-9	-217	-160	—	—	-363	-299
Other personnel	-260	-244	-46	-46	-3	-3	-27	-19	-95	-97	32	170	—	—	-399	-239
Rent	-191	-185	-13	-14	-1	2	-23	-34	-24	-37	-217	-203	—	—	-469	-471
IT costs	-215	-222	-27	-26	-6	-6	-301	-302	12	-47	-199	-368	—	—	-736	-971
Services bought [3]	-399	-166	-232	-206	-4	-3	-184	-126	-30	-36	-323	-605	—	—	-1,172	-1,142
Depreciation of tangible assets	-68	-72	-7	-7	-2	-3	-7	-7	-7	-20	-29	-27	—	—	-120	-136
Amortisation of intangible assets	-48	-108	-4	-7	0	-2	-7	-7	-29	-16	0	—	—	—	-88	-140
Provision for restructuring	-9	-25	—	—	—	—	—	—	0	—	20	27	—	—	11	2
Other administrative expenses	-1,273	-854	-127	-109	52	-14	-132	-127	-139	-235	-429	-228	—	4	-2,048	-1,563
Expense recharges	611	395	-685	-443	37	34	-162	-119	59	39	885	857	-6	1	739	764
Administrative expenses [4]	**-3,957**	**-3,301**	**-1,374**	**-1,071**	**23**	**-41**	**-1,130**	**-985**	**-448**	**-711**	**-1,694**	**-1,619**	**-6**	**5**	**-8,586**	**-7,723**

1) Salary expenses include expenses for the stock option program with SEK 6 million (26). For further information , see note 44.
2) For further information on pension costs relating to defined benefit plans, see note 23.

3) **Audit and consulting fees**	**2006**	**2005**
Audit assignment, Deloitte	-13	-43
Other consulting fees, Deloitte	-16	-25
Audit assignment, Ernst & Young	-2	-2
Other consulting fees, Ernst & Young	-16	-7
Audit assignment, KPMG	-24	-1
Other consulting fees, KPMG	-3	-24
Audit assignment, SET	-2	-1
Other consulting fees, SET	0	-2
Audit assignment, others	0	0
Total	**-76**	**-105**

4) Administrative expenses include leasing expenses of SEK 361 million (435). For further information, see note 43.

Note 14 Expenses by function

Split of expenses in notes 11, 12 and 13 on different types of functions

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Internal acquisition costs	-2,281	-2,015	-409	-402	-11	-16	—	—	-79	-62	—	—	—	—	-2,780	-2,495
External acquisition costs	-5,693	-5,023	-1,179	-850	-31	-43	-83	-76	-12	-5	-389	0	—	—	-7,387	-5,997
Change in deferred acquisition costs	1,825	2,024	152	69	—	—	—	—	-2	1	—	—	—	—	1,975	2,094
Reinsurance commissions and profit participations	7	20	—	—	—	—	—	—	—	—	—	—	—	—	7	20
Expenses for contract administration	-1,833	-1,278	-2	-1	35	-24	—	—	-134	-123	—	—	—	—	-1,934	-1,426
Overhead expenses	-77	-221	-928	-677	0	-1	-1,131	-978	-279	-556	-598	-837	—	4	-3,013	-3,266
Income netted against expenses	—	—	-35	—	—	—	-1	-7	—	—	-1,093	-780	269	251	-860	-536
Total expenses	**-8,052**	**-6,493**	**-2,401**	**-1,861**	**-7**	**-84**	**-1,215**	**-1,061**	**-506**	**-745**	**-2,080**	**-1,617**	**269**	**255**	**-13,992**	**-11,606**

Note 15 Other expenses

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Expenses arising from investment properties	0	0	—	—	0	0	—	—	—	—	—	—	—	—	0	0
Credit losses	-11	-12	0	-1	—	1	-37	-21	-1	0	—	—	—	—	-49	-33
Goodwill impairment [1]	0	—	—	—	—	—	0	—	—	-1,135	0	—	—	—	0	-1,135
Other expenses	-18	-26	-728	-487	0	-5	-2	—	-8	—	—	—	—	—	-756	-518
Other expenses	**-29**	**-38**	**-728**	**-488**	**0**	**-4**	**-39**	**-21**	**-9**	**-1,135**	**0**	**0**	**0**	**0**	**-805**	**-1,686**

1) Goodwill impairment is described in note 20.

Note 16 Financing costs

	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Eliminations		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Subordinated loans	0	—	—	—	—	—	-44	-39	—	—	-69	-69	44	39	-69	-69
Bonds issued	—	—	—	—	—	—	—	—	229	0	-290	-54	—	—	-61	-54
Banks	0	0	0	0	—	—	—	—	0	0	—	—	—	—	0	0
Public	-147	-117	-14	-11	0	-2	-7	-75	-257	-18	-1,449	-506	1,528	514	-346	-215
Reinsurance deposits	-25	-47	—	—	—	—	—	—	—	—	—	—	—	—	-25	-47
Financing costs	**-172**	**-164**	**-14**	**-11**	**0**	**-2**	**-51**	**-114**	**-28**	**-18**	**-1,808**	**-629**	**1,572**	**553**	**-501**	**-385**
Of which, pertaining to liabilities not stated at fair value	-172	-164	-14	-11	0	-2	-51	-114	-28	-18	-1,808	-629	1,572	553	-501	-385

Note 17 Tax expense

	Including policyholder tax		Excluding policyholder tax	
	2006	2005	2006	2005
Current tax pertaining to current year	-325	-128	-325	-128
Current tax pertaining to previous years	-66	55	-66	55
Deferred taxes	-50	-289	-50	-289
Tax on result for the year	**-441**	**-362**	**-441**	**-362**
Policyholder tax	-1,831	-2,378	—	—
Other taxes	-13	-20	-13	-20
Taxes	**-2,285**	**-2,760**	**-454**	**-382**
Difference between group's tax cost and tax cost based on applicable Swedish tax rate:				
Pre-tax result	1,656	138	1,656	138
Policyholder tax charge	2,073	2,502	—	—
Tax based on applicable tax rate, 28%	**-1,044**	**-739**	**-464**	**-39**
Difference in tax rates of foreign subsidiaries	62	-80	96	-38
Tax pertaining to previous years	-117	198	-117	198
Losses for which deferred tax assets have not been recorded	-101	-142	-101	-142
Non-deductible costs	-109	-513	-109	-513
Non-taxable revenues	254	172	254	172
Tax effect on policyholder tax charge	614	742	—	—
Policyholder tax	-1,831	-2,378	—	—
Other taxes	-13	-20	-13	-20
Reported tax charge	**-2,285**	**-2,760**	**-454**	**-382**

Note 18 Discontinued operations

American Skandia
American Skandia was a subsidiary of Skandia engaged primarily in the sale of variable annuities in the US market. On 20 December 2002 Skandia reached an agreement with the US-based financial services and life assurance company Prudential Financial regarding Prudential Financial's acquisition of shares in American Skandia. The acquisition was completed during 2003. The agreement between Skandia and Prudential Financial contains representations and warranties that are customary for this type of transaction.

Skandia Asset Management (SAM)
On 8 January 2002 it was announced that Skandia would be selling its asset management business, Skandia Asset Management, to Den Norske Bank. The sale was completed during the second quarter of 2002. In 2005 a supplementary purchase price of SEK 36 million was received for the sale of Skandia Asset Management, pertaining to the management assignment provided by SkandiaBanken Fonder. This figure is reported under discontinued operations.

	American Skandia		SAM		Total	
INCOME STATEMENT	2006	2005	2006	2005	2006	2005
Gain on disposal of subsidiary	—	—	—	36	—	36
Total revenue	**—**	**—**	**—**	**36**	**—**	**36**
Administrative expenses	-20	-196	—	—	-20	-196
Settlement expenses	-318	-673	—	—	-318	-673
Total expenses	**-338**	**-869**	**—**	**—**	**-338**	**-869**
Result before tax	**-338**	**-869**	**—**	**36**	**-338**	**-833**
Taxes	—	188	—	—	—	188
Result for the period for discontinued operations	**-338**	**-681**	**—**	**36**	**-338**	**-645**
CASH FLOWS						
Cash flow from operating activities	—	—	—	—	—	—
Cash flow from investing activities	-25	-47	—	36	-25	-11
Cash flow from financing activities	—	—	—	—	—	—
Net cash flow	**-25**	**-47**	**—**	**36**	**-25**	**-11**

Note 19 Earnings per share

	2006	2005
Earnings attributable to equity holders of parent	**1,092**	**-775**
of which, discontinued operations	**-338**	**-645**
Number of shares		
Average number of ordinary shares for purposes of basic earnings per share, thousands	1,029,641	1,024,722
Effect of dilutive potential ordinary shares:		
Stock options issued 2003, thousands [1]	0	5,897
Average number of ordinary shares for purposes of diluted earnings per share, thousands	1,029,641	1,030,619

[1] Information on stock options is disclosed in note 44.
All outstanding stock option programmes expired in 2006.
The stock option programmes for 2000, 2001 and 2002 have no dilutive effect, in accordance with IAS 33.

	2006	2005
Earnings per share		
Continuing and discontinued operations		
Before dilution	1.06	-0.76
After dilution	1.06	-0.76
Continuing operations		
Before dilution	1.39	-0.13
After dilution	1.39	-0.13
Discontinued operations		
Before dilution	-0.33	-0.63
After dilution	-0.33	-0.63

Note 20 Goodwill

	Cost	Accumulated impairment losses	Book value
At 1 January 2005	**3,125**	**-1,512**	**1,613**
Recognised on acquisition of subsidiary	—	—	—
Derecognised on disposal of subsidiary	—	—	—
Adjustment of aquisition balance [2]	107	-183	-76
Exchange differences	204	-123	81
Impairment losses for the year [3]	—	-1,135	-1,135
At 1 January 2006	**3,436**	**-2,953**	**483**
Recognised on acquisition of subsidiary	0	—	0
Derecognised on disposal of subsidiary	—	—	—
Exchange differences	-74	65	-9
Impairment losses for the year [3]	—	0	0
At 31 December 2006 [1]	**3,362**	**-2,888**	**474**

[1] Of booked value of goodwill, SEK 266 million (266) pertains to Bankhall and SEK 208 million (217) pertains to SkandiaBanken Denmark.
[2] Adjustment of goodwill in Bankhall due to reversal of provision for restructuring.
[3] Goodwill in Bankhall has been written down with SEK 0 million (1,135).

Note 21 Other intangible assets

	Cost	Accumulated amortisation and impairment losses	Book value
At 1 January 2005	**439**	**-275**	**164**
Addition of assets	129	—	129
Divested assets	-10	—	-10
Exchange differences	103	-25	78
Amortisation charge for the year	—	-129	-129
Impairment losses for the year	—	-11	-11
At 1 January 2006	**661**	**-440**	**221**
Addition of assets	144	—	144
Divested assets	-75	75	0
Exchange differences	-26	17	-9
Amortisation charge for the year	—	-87	-87
Impairment losses for the year	—	-2	-2
At 31 December 2006	**704**	**-437**	**267**

Other intangible assets consist primarily of capitalised software and system development costs.

Note 22 Deferred acquisition costs

	2006	2005
Opening balance	**19,326**	**16,301**
Capitalisation of deferred acquisition costs	4,848	4,729
Amortisation of deferred acquisition costs	-2,873	-2,627
Impairment of deferred acquisition costs	—	-16
Exchange differences	-581	939
Closing balance	**20,720**	**19,326**
Of which, unit linked assurance	19,917	18,643
Of which, mutual funds	792	670
Of which, other businesses	11	13

Note 23 Surplus in defined benefit pension plans

In the consolidated financial statements, Skandia applies IAS 19 Employee Benefits (amendments December 2004) for reporting of defined benefit pension plans. Skandia has some defined benefit pension plans in Sweden and Norway under which employees are guaranteed a certain level of retirement benefits based on their salary upon retirement. Consequently, Skandia has an obligation to current and former employees which must be reported in the balance sheet.

The defined benefit pension plans in Sweden consist primarily of pension benefits provided through collective agreements with respect to the FTP plan (occupational pension insurance for salaried employees in the insurance industry), and to some extent of supplemental pension benefits for senior executives. The pension plans provide primarily old-age pension, disability pension and family pension cover. Norway accounts for only about 1% of the group's total obligation for defined benefit pension plans, and thus it is not reported separately in the compilations below. There are also a few individual defined benefit pension plans in Spain, Germany and Mexico, as well as post-employment benefits for employees in Italy of a defined benefit character; however, the effect of these plans on the group's result and position is immaterial, and thus these plans are reported according to local rules.

The group's outstanding obligations and costs for defined benefit pension plans are to be calculated on a yearly basis using actuarial methods that are based on the company's long-term assumptions on the discount rate, return on plan assets, rate of salary growth and inflation. In this context, the final obligation the company has toward the employees when they retire is taken into account. The outstanding pension obligation and pension cost are determined using the Projected Unit Credit Method. In brief, this method entails a linear cost allocation over each employee's term in service.

Skandia's defined benefit pension plans are funded through the payment of insurance premiums (contributions) – in Sweden with Skandia Liv and to some degree with FPK ("The Insurance Industry Pension Fund"). Certain defined benefit pension obligations in Sweden are also funded through the Skandia Pension Foundation. The contributions that Skandia has made over the years and the assets held by these organisations after disbursement of pension benefits are classified as plan assets. According to IAS 19, these are to decrease the value of the defined benefit pension obligation to the extent they do not pertain to assets held by an insurer that is a related party of the reporting entity. Skandia Liv is a related company that is run on a mutual basis (see note 45, "Related party transactions"). In view of Skandia Liv's autonomous position with respect to Skandia Insurance Company Ltd (publ.), the plan assets held by Skandia Liv are reported as a deduction from defined benefit pension obligations. Plan assets are carried at fair value and include shares in Skandia Insurance Company Ltd (publ.) with a market value of SEK 0 million (2) as per the accounting date.

The actuarial assumptions are determined annually as per the accounting date. In the absence of markets in Sweden and Norway for high-grade corporate bonds with maturities that correspond to the time period during which obligations are intended to be settled, the discount rate is based on the 10-year government bond yield as per the accounting date. Assumptions on the return on plan assets are made taking into account the allocation among fixed-income securities and other assets, such as equities and real estate. For fixed-income securities, the 10-year government bond yield (risk-free interest rate) is used, and for other assets the risk-free rate is used plus a risk premium of 3%. The assumed rate of return on plan assets in Sweden takes into account the policyholder tax that is payable in Sweden. Other financial assumptions are based on Skandia's long-term anticipations on the accounting date for the period over which the obligations are intended to be settled.

Effect on the present value of pension obligations caused by changed discount rate compared to the actuarial assumption or the difference between the actual and anticipated return on plan assets and the anticipated return on these constitute actuarial gains and losses. According to an alternative option in IAS 19, all of these actuarial gains and losses are reported immediately in the period in which they arise outside the income statement directly against equity.

Provisions for pensions by Skandia correspond to the present value of the obligations as per the accounting date, after deducting the fair value of plan assets, unrecognised actuarial gains or losses, and unrecognised, unvested service costs pertaining to previous periods. For defined benefit pension plans in which the value of plan assets exceeds the current obligation, the surplus amount is accounted for as an asset under the item "Surplus in defined benefit pension plans". This is done under the condition that Skandia has the ability to receive economic benefit from this surplus in the form of future reductions in contributions or repayment from the plans.

In the income statement, Skandia's cost for defined benefit pension plans consists of the sum of the current and past service cost, the anticipated return on the plan assets, and interest on the defined benefit obligation. The current and past service cost is accounted for as an administrative expense. In note 14, "Expenses by function", pension costs are broken down by various functions. Other items are reported as investment income/interest expenses. In the event the net amount of interest on the obligation and the anticipated return on plan assets of a pension plan is positive, this amount is reported as investment income. If the net is negative, the amount is reported as an interest expense.

Payroll tax has been taken into account in adjustments for defined benefit pension plans in the balance sheet and income statement in accordance with statement URA 43 (Reporting of special employer's payroll tax and policyholder tax) issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council (SFASC). Payroll tax on actuarial gains and losses is reported in the income statement in accordance with the draft statement published by the SFASC Emerging Issues Task Force.

Employees of the group who are not covered by defined benefit pension agreements are instead included in defined contribution pension plans. In defined contribution pension plans, the company's pension cost is recognised as a percentage share of the employees' salary in each accounting period in which the employees worked for the company.

Pension costs	2006	2005
Current service cost	-72	-65
Interest cost	-150	-164
Expected return on plan assets	190	195
Past service cost recognised	—	22
Pension costs, defined benefit plans	**-32**	**-12**
Pension costs, defined contribution plans	-243	-247
Payroll tax on on pension contributions	-48	-9
Total pension costs	**-323**	**-268**
Reversal of interest cost and expected return on plan assets reported as investment income	-41	-36
Reversal of interest cost and expected return on plan assets reported as interest expenses	1	5
Total pension costs reported as administrative expenses	**-363**	**-299**

	2006	2005
Defined benefit pension plans accounted for as surplus value for pension plans	**702**	**687**
Defined benefit plans accounted for as provision for pensions	-175	-247
Provisions for pensions according to local rules	-8	-8
Provisions for pensions	**-183**	**-255**

Reconciliation of defined benefit pension plans	2006	2005
Funded or partially funded plans		
Fair value of plan assets	4,630	4,528
Present value of defined benefit obligation	-4,103	-4,088
Recognised defined benefit asset (+)/ liability (-) according to IAS 19	**527**	**440**

Specification of change in reported defined benefit asset (+) / liability (-)	2006	2005
Opening balance	**440**	**246**
Net cost reported in the income statement	-32	-12
Reclassification from restructuring reserves	—	-44
Premiums paid by Skandia towards defined benefit plans (contributions) [1]	62	66
Compensation from pension foundation	-25	—
Defined benefit pensions paid directly by Skandia	20	10
Actuarial gains (+) and losses (-)	57	176
Exchange differences	5	-2
Closing balance	**527**	**440**

[1] For 2007, paid contributions to defined benefit plans are expected to be in line with 2006.

Plan assets	2006	2005
Opening balance	**4,528**	**4,158**
Expected return on plan assets	190	195
Premiums paid by Skandia towards defined benefit plans (contributions) [1]	37	66
Benefits paid from plan assets	-196	-205
Actuarial gains (+) and losses (-)	73	312
Exchange differences	-2	2
Closing balance	**4,630**	**4,528**

[1] For 2007, paid contributions to defined benefit plans are expected to be in line with 2006.

Present value of defined benefit obligations	2006	2005
Opening balance	**4,088**	**3,912**
Current service cost	72	65
Interest cost	150	164
Past service cost recognised	—	-22
Reclassification from restructuring reserves	—	44
Benefits paid from plan assets	-196	-205
Defined benefit pensions paid directly by Skandia	-23	-10
Actuarial gains (-) and losses (+)	16	136
Exchange differences	-4	4
Closing balance	**4,103**	**4,088**

Return on plan assets	2006	2005
Expected return on plan assets	190	195
Actuarial gains (+)/losses(-)	73	312
Actual return on plan assets	**263**	**507**

Actuarial gains (+)/losses (-)	2006	2005
Opening balance	**140**	**-35**
Actuarial gains (+)/losses (-) plan assets	73	312
Actuarial gains (+)/losses (-), defined benefit obligations	-16	-136
Exchange differences	-1	-1
Closing balance	**196**	**140**

Actuarial gains (+) and losses (-)	2006	2005
Experience-based adjustment pertaining to		
- Defined benefit obligations	-150	131
- Plan assets	79	319
Effect of changed actuarial assumptions		
- Defined benefit obligations	127	-274
Total actuarial gains (+)/losses (-)	**56**	**176**

Plan assets, allocation	2006	2005
Fixed income instruments	2,163	2,137
Equities	1,907	1,848
Real estate	495	455
Other assets	65	88
Total plan assets	4,630	4,528

Actuarial calculation assumptions [1]	2006	2005
Discount rate	3.75%	3.75%
Expected rate of return on plan assets [2]	4.75%	4.25%
Expected rate of salary increases	3.25%	3.25%
Expected rate of price inflation	**2.00%**	**2.00%**

[1] Assumptions are provided as a balanced median value for the respective pension plan.
[2] After policyholder tax of 0.50% (0.50%).

Note 24 Property and equipment

Land and buildings	Cost	Revaluation	Book value
At 1 January 2005	**74**	**87**	**161**
Additions	—	—	—
Disposals	—	—	—
Change in fair value	—	4	4
Exchange differences	6	11	17
At 1 January 2006	**80**	**102**	**182**
Additions	—	—	—
Disposals	-59	-50	-109
Change in fair value	—	12	12
Exchange differences	-5	-8	-13
At 31 December 2006	**16**	**56**	**72**

Equipment	Cost	Accumulated amortisation	Book value
At 1 January 2005	**1,039**	**-684**	**355**
Additions	103	—	103
Disposals	-161	141	-20
Amortisation charge for the year	—	-135	-135
Write-downs for the year	—	—	—
Exchange differences	54	-24	30
At 1 January 2006	**1,035**	**-702**	**333**
Additions	118	—	118
Disposals	-104	86	-18
Amortisation charge for the year	—	-120	-120
Write-downs for the year	—	0	0
Exchange differences	-31	26	-5
At 31 December 2006	**1,018**	**-710**	**308**

Total property and equipment at:	
31 December 2006	380
31 December 2005	515

Note 25 Investment properties

	Cost	Revaluation	Book value
At 1 January 2005	**16**	**26**	**42**
Additions	—	—	—
Disposals	-4	-16	-20
Change in fair value	—	7	7
Exchange differences	1	-5	-4
At 1 January 2006	**13**	**12**	**25**
Additions	—	—	—
Disposals	—	—	—
Change in fair value	—	0	0
Exchange differences	-2	-3	-5
At 31 December 2006	**11**	**9**	**20**

Note 26 Loans and advances

	2006	2005
Lending to the public, banking	49,249	41,343
Lending to the public, other industries	751	646
Lending to credit institutions	7,540	9,366
Loans and advances	**57,540**	**51,355**
Of which, fair value revaluation due to hedge accounting	-34	49
Estimated fair value	57,807	51,374

For lending at fixed interest rates which is not reported at fair value, but where an estimation has been made that a presumed fair value exists, the fair value is determined by discounting the future cash flows to current market rates of interest.

Currencies		
DKK	5,739	4,245
EUR	728	4,823
GBP	6,633	4,129
NOK	23,067	18,819
SEK	21,299	19,305
USD	—	5
Other	74	29
Total	**57,540**	**51,355**

For information on leasing, see note 43.
For information on interest rate risks and credit risks, see note 2.

Note 27 Investments in associates

	Book value 2006	Book value 2005
At 1 January	**84**	**84**
Additions	5	—
Reclassification[1]	-87	—
Share of result associates	-1	-5
Exchange differences	5	5
At 31 December	**6**	**84**
Aggregated amounts relating to associates:		
Total assets	21	6,484
Total liabilities	12	6,219
Total shareholders' equity	8	265
Revenue	24	2,322
Result for the year	-5	13
Share of contingent liabilities of associates	3	5

[1] Reclassification of the Spanish operation to Assets held for sale, see also note 48.

Note 28 Other investments

	Cost 2006	Cost 2005	Fair value 2006	Fair value 2005	Book value 2006	Book value 2005
Shares and participations, fair value through P&L[1]	696	669	733	667	733	667
Equity derivatives	63	46	55	39	55	39
Equity related investments	**759**	**715**	**788**	**706**	**788**	**706**
Bonds and other fixed-income securities, held to maturity [2]	3,415	6,962	3,415	6,962	3,415	6,962
Bonds and other fixed-income securities, fair value through P&L [2]	7,536	13,868	7,546	14,401	7,546	14,401
Interest rate derivatives	—	501	46	609	46	609
Interest rate related investments	**10,951**	**21,331**	**11,007**	**21,972**	**11,007**	**21,972**
Currency derivatives	114	21	120	255	120	255
Other investments	**11,824**	**22,067**	**11,915**	**22,933**	**11,915**	**22,933**

[1] All investments have been classified as trading.

[2] Bonds and other fixed-income securities, book value, by currency

	2006	2005
CHF	117	135
COP	693	944
DKK	1,943	1,930
EUR	425	5,816
GBP	2,042	2,926
SEK	5,484	9,527
USD	248	71
Other	9	14
Total	**10,961**	**21,363**

Note 29 Investments for the benefit of policyholders

	2006	2005
Equity-based funds	335,052	271,710
Interest rate-based funds	164,023	151,060
Investments for the benefit of policyholders	**499,075**	**422,770**

Note 30 Other receivables

	2006	2005
Amounts receivable from policyholders	71	275
Amounts receivable from insurance brokers	851	948
Amounts receivable from insurance companies	80	87
Provision for bad debts	-34	-40
Debtors arising out of direct insurance operations	**968**	**1,270**
Debtors arising out of reinsurance operations	41	13
Own securities settlement claims	220	167
Securities settlement claims on behalf of customers	456	502
Other debtors	2,224	1,867
Other receivables	**3,910**	**3,818**

Note 31 Other prepaid expenses and accrued income

	2006	2005
Prepaid expenses	246	162
Accrued interest and rent	259	400
Fee income receivable	2,985	3,655
Other accrued income	433	372
Other prepaid expenses and accrued income	**3,923**	**4,589**

Note 32 Insurance provisions

	2006	2005
Insurance provision, gross	5,807	16,654
Insurance provision, ceded	-992	-1,094
Insurance provision, net	**4,815**	**15,560**
Insurance provision, gross		
Actuarial provisions	4,195	15,132
Provision for reported but not settled claims	1,319	1,265
Provision for unearned premiums	293	257
Insurance provision, gross	**5,807**	**16,654**
Insurance provision, ceded		
Actuarial provisions	766	914
Provision for reported but not settled claims	225	179
Provision for unearned premiums	1	1
Insurance provision, ceded	**992**	**1,094**
Actuarial provisions, gross		
At 1 January	**15,132**	**14,017**
Change in provisions	-736	443
Reclassification to liabilities held for sale	-9,649	—
Exchange differences	-552	672
At 31 December	**4,195**	**15,132**
Provision for reported but not settled claims, gross		
At 1 January	**1,265**	**1,204**
Change in provision	102	43
Reclassification to liabilities held for sale	-36	—
Exchange differences	-12	18
At 31 December	**1,319**	**1,265**

Technical provisions

The technical provisions pertain primarily to the guaranteed products that Skandia sells in Spain, and to pure disability and death-benefit cover that Skandia sells in the UK and Sweden. A small portion pertains to death-benefit risk in unit linked assurance products that are sold in most countries in which Skandia works. A geographic breakdown of net provisions is shown below:

	2006	2005
UK	1,624	1,939
Sweden	1,899	1,602
Colombia	870	852
Spain	—	10,877
Other countries	422	290
Total	**4,815**	**15,560**

A more detailed description of the Swedish provisions is provided in notes 33 and 34 to the parent company accounts.

Skandia has reached an agreement to sell its life assurance operation in Spain and has thus classified the technical provisions for this business as "Liabilities classified as held for sale." For further information, see Note 48, Assets and liabilities held for sale.

Note 33 Liability for linked investment contracts

	2006	2005
Liability for linked investment contracts, gross	506,416	422,984
Reinsurers' share of linked investment contracts	-7,392	-217
Liability for linked investment contracts, net	**499,024**	**422,767**
Net liability at 1 January	**422,767**	**296,833**
Increase due to new sales	100,401	86,618
Decrease due to surrenders	-42,905	-33,839
Decrease due to maturity	-3,676	-2,306
Decrease due to mortality	-1,454	-1,090
Reclassification to liabilities held for sale	-4,396	—
Transfers to/from technical provisions	-406	-30
Change in value (unit price)	50,421	69,752
Charges	-11,513	-10,204
Exchange differences	-10,215	17,033
Net liability at 31 December	**499,024**	**422,767**

Liabilities for linked investment contracts are measured at fair value.

Note 34 Deferred tax

	Including policyholder tax		Excluding policyholder tax	
	2006	2005	2006	2005
Deferred tax liability, gross				
Deferred tax liability pertaining to untaxed reserves [1]	808	945	808	945
Investments	30	400	30	400
Deferred acquisition costs and deferred fee income	5,174	5,332	5,174	5,332
Deferred policyholder tax	2,923	2,290	—	—
Other	-460	935	-460	935
Deferred tax liability, gross	**8,475**	**9,902**	**5,552**	**7,612**
Deferred tax asset, gross				
Deferred acquisition costs and deferred fee income	4,209	3,852	4,209	3,852
Other assets/liabilities	402	2,627	402	2,627
Tax-loss carryforward or other future tax deductions	2,399	2,766	2,399	2,766
Less: valuation reserve	-1,959	-1,859	-1,959	-1,859
Deferred tax asset, gross	**5,051**	**7,386**	**5,051**	**7,386**
Total deferred tax liability, net	**3,424**	**2,516**	**501**	**226**
Deferred tax liability as per balance sheet	4,792	2,954	1,869	664
Deferred tax asset as per balance sheet	1,368	438	1,368	438
Total deferred tax liability, net	**3,424**	**2,516**	**501**	**226**

Deferred tax assets and liabilities are reported net per taxable entity.
The valuation reserve pertains primarily to tax assets on tax-loss carryforwards.

Tax-loss carryforwards expire in the following years:	2006	2005
2006	—	76
2007	91	111
2008	294	315
2009	45	88
2010	50	56
2011	47	—
2012 and later	399	497
Unlimited	7,727	8,800
Total	**8,653**	**9,943**

[1] **Untaxed reserves consist of:**		
Equalisation reserve	2,091	2,091
Contingency reserve	177	727
Excess depreciation	623	557
Total	**2,891**	**3,375**

The equalisation reserve is described in note 23 of the parent company. The contingency reserve represents collective, voluntary strengthening of the company´s technical provisions. Provisions can be made based on premiums and technical provisions in accordance with the guidelines of the Financial Supervisory Authority and Swedish tax laws. Release of this reserve is restricted. The reserve may be moved between different Swedish insurance companies in the group without regulatory approval.

Excess depreciation pertains to accumulated depreciation above plan on tangible assets and leasing assets in SkandiaBanken.

The Swedish life assurance business is subject to a Swedish yield tax ultimately borne by policyholders ("the policyholder tax") and not to corporate income tax, in accordance with Swedish tax legislation and present practice of the Swedish tax authorities. Investment income on shareholders' equity, the result of waiver of premium business and revenue from external services are subject to the Swedish standard corporate income tax rate of 28%.

Note 35 Deferred fee income

	2006	2005
Opening balance	**16,564**	**14,748**
Capitalisation of deferred fee income	3,770	3,626
Amortisation of deferred fee income	-2,784	-2,650
Exchange differences	-512	840
Closing balance	**17,038**	**16,564**
Of which, unit linked assurance	16,125	15,805
Of which, mutual funds	913	759

Note 36 Other provisions

	Provision for restructuring	Other provisions	Total provisions
Balance at 1 January 2005	**391**	**919**	**1,310**
New additions	—	258	258
Utilisation of reserves	-203	-175	-378
Unused amounts reversed	-2	-106	-108
Reclassification [1]	-54	10	-44
Exchange differences	4	97	101
Balance at 1 January 2006	**136**	**1,003**	**1,139**
New additions	—	1,079	1,079
Utilisation of reserves	-51	-178	-229
Unused amounts reversed	-11	-5	-16
Exchange differences	-1	-97	-98
Balance at 31 December 2006	**73**	**1,802**	**1,875**

[1] Reclassification of defined benefit pension obligation including payroll tax on pension contributions. For information on defined benefit pension plans, see note 23.

Provision for restructuring

The Swedish operations were restructured in 2004. This entailed, among other things, a concentration of customer centres to three locations. In connection with this restructuring, a reserve provision of SEK 315 million was made. Most of this reserve has already been dissolved, and the remainder is expected to be dissolved in 2007.

In connection with previous restructuring in the UK, a restructuring reserve was set up for unused premises and subletting of premises at a lower price than what Skandia pays. This reserve is being dissolved over the term of the rental contracts, and is expected to be entirely dissolved by 2015.

Other provisions

In connection with Prudential Financial's acquisition of American Skandia, Skandia issued guarantees of a type that are common for this type of transaction. Due to shortcomings in administrative routines, for a number of years in the late 1990s and early 2000s, American Skandia did not annuitise certain annuity contracts at their designated annuitisation dates or contractual default dates. American Skandia brought this shortcoming to the attention of the relevant regulatory authorities. The outcome of this matter is covered by the indemnity described above. In connection with Prudential Financial's acquisition of American Skandia, a provision was made for the estimated outcome of this shortcoming. Currently talks are being held by Skandia and Prudential Financial with the authorities on how and to what extent the affected customers should be indemnified. Although it is currently not possible to estimate the final cost for Skandia, the provision for these guarantees was strengthened during the year. It cannot be ruled out that this amount will exceed the amount reserved. In Skandia's opinion a final outcome will probably be determined in 2007. In 2006, a provision was also made for other claims that Prudential Financial may make on account of the guarantees provided above. In all, the provisions for American Skandia amount to SEK 850 million. In addition, SEK 650 million is reported among Other payables in note 39, pertaining to American Skandia.

A provision of SEK 406 million was made for administrative routines and system improvements in the UK.

A provision of SEK 165 million (209) has been set up for special employers' payroll tax relating to endowment insurance paid by Skandia, where the special employers' payroll tax is paid in the future when the endowment is paid to the employee. The provision also includes special employers' payroll tax relating to the difference between pension cost calculated according to IAS 19 and the actual pension cost in the legal entities.

Note 37 Interest-bearing liabilities

	2006	2005
Subordinated loans [1]	850	850
Bonds, non-banking	931	2,270
Bank overdrafts	81	21
Financial reinsurance	217	549
Financing	**2,079**	**3,690**
Funding, banking	149	49
Deposits from the public [3]	51,186	45,505
Deposits received from reinsurers	125	112
Other financial liabilities	599	370
Total interest-bearing liabilities [2]	**54,138**	**49,726**
Of which, falls due within one year. See also note 2, Risk disclosures	53,115	46,687

[1] Pertains to SEK 150 + 700 million issued in 2002, which falls due in 2007. In accordance with applicable rules, the subordinated loans in Skandia Insurance Company Ltd are included in the group's capital base.
[2] Committed, unutilised credit facilities amounted to SEK 2.7 billion (4.6) as per the balance sheet date.
[3] The amount includes loans of SEK 496 million (0) from Old Mutual.

All interest bearing liabilities are measured at amortised cost.

Estimated market values

Subordinated loans	898	893
Bonds, non-banking	933	2,304
Funding, banking	98	51

The market value of other interest bearing liabilities is approximately equal to book value, as the maturities are short.

Bonds, non-banking		
Opening balance	2,270	2,127
New debt issued	16	462
Repurchase and maturities	-1,278	-390
Exchange differences	-77	71
Closing balances	**931**	**2,270**

Note 38 Derivative liabilities

	Cost		Fair value		Book value	
	2006	2005	2006	2005	2006	2005
Equity derivatives	54	36	54	36	54	36
Interest rate derivatives [1]	—	—	19	70	19	70
Currency derivatives	70	14	74	21	74	21
Derivatives embedded in other contracts	3	—	41	68	41	68
Total	**127**	**50**	**188**	**195**	**188**	**195**

[1] The fair value of hedged derivatives was SEK 0.2 million (9).

Note 39 Other payables

	2006	2005
Amounts payable from policyholders	3,632	3,712
Amounts payable from insurance brokers	336	283
Amounts payable from insurance companies	10	6
Creditors arising out of direct insurance operations	**3,978**	**4,001**
Creditors arising out of reinsurance operations	130	138
Own securities settlement liabilities	202	389
Securities settlement liabilities on behalf of customers	697	682
Other creditors	2,651	2,864
Total	**7,658**	**8,074**

Note 40 Other accruals and deferred income

	2006	2005
Accrued interest expenses	144	178
Accrued commission expenses	455	795
Accrued other expenses	1,865	2,006
Deferred income	381	387
Other accruals and deferred income	**2,845**	**3,366**

Note 41 Pledged assets

	2006	2005
Pledged assets and therewith comparable security		
Other financial investments	955	1,392
Deposits with ceding undertakings	2,869	3,671
Endowment insurance policies pledged as security for pension obligations [1]	1,170	1,110
Total	**4,994**	**6,173**
Assets covered by policyholders' beneficiary rights [2]	88,194	75,919
Total pledged assets	**93,188**	**82,092**

[1] See also note 47 to the parent company accounts.
[2] Corresponds to provisions in the balance sheet, totalling SEK 87,970 million 75,670).

Note 42 Contingent liabilities

	2006	2005
Pension obligations [1]	—	19
Sureties and guarantees	1,665	837
Total contingent liabilities	**1,665**	**856**

[1] In the consolidated accounts, there are defined contribution pension obligations amounting to SEK 614 million (594) in the parent company that have not been included in the balance sheet and which are covered by the value of company-owned endowment insurance policies (see also note 47 to the parent company accounts).

Skandia and certain companies in the group are – in relation to third parties – still bound to certain guarantee commitments stemming from property & casualty insurance operations which were transferred to the If Group in 1999. Through agreements between the companies concerned in the If Group on the one side and the Skandia Group on the other, the If Group guarantees that the Skandia Group will be indemnified for any possible claims made by third parties with respect to such guarantee commitments.

With respect to disputes, see the "Disputes" section in the Board of Directors' Report.

Note 43 Leasing

In its capacity as a lessee, Skandia has entered into a number of operating leases. Minimum lease payments pertaining to non-cancellable operating leases as per 31 December 2006 mature as follows:

Operating leases	Amount
2007	-343
2008	-328
2009	-324
2010	-312
2011	-194
2012 and later	-672
Total leasing expense	**-2,173**

Leasing expenses for the year amounted to SEK 361 million (435).

In its capacity as a lessor, Skandia has entered into a number of finance leases. The contracts pertain primarily to leases on equipment such as cars and computers with peripheral equipment. Reconciliation of the gross investment in non-cancellable leasing contracts and the present value of receivable pertaining to future leasing charges is shown below:

	2006	2005
Gross investment in finance leases	4,362	3,838
Less: unearned financial income	-378	-272
Net investment in finance leases	**3,984**	**3,566**
Non-guaranteed residual values accruing to the lessor (discounted)	—	—
Present value of receivable pertaining to future, minimum leasing payments	**3,984**	**3,566**

Gross investment: The sum of the remaining minimum leasing payments at any given time which, under finance/capital leases, fall due to the lessor, plus any non-guaranteed residual values.
Minimum leasing payments: Payments which are to be made on a regular basis and any residual values guaranteed by the lessee.
Unearned financial income: The difference between the gross investment and the present value of the gross investment. The gross investment has the following maturity structure as per the closing date:

	Gross investment	Present value of receivable pertaining to future leasing payments
Within 1 year	1,726	1,582
Later than 1 year, but within 5 years	2,635	2,401
Later than 5 years	1	1

Note 44 Average number of employees, salaries and remuneration

I. AVERAGE NUMBER OF EMPLOYEES

	2006		2005	
	No. employees	Of whom, women	No. employees	Of whom, women
Parent company				
Sweden [1]	1,467	55%	1,003	50%
Outside Sweden	46	63%	45	67%
Total, parent company	**1,513**	**56%**	**1,048**	**50%**
Subsidiaries				
Sweden [1]	432	53%	726	38%
Outside Sweden				
Australia	142	47%	139	46%
Colombia	355	54%	294	53%
Denmark	161	52%	139	55%
France	50	51%	39	48%
Italy	73	49%	64	50%
Isle of Man	376	56%	364	56%
China	89	45%	80	48%
Mexico	295	32%	141	40%
Norway	151	54%	116	47%
Poland	87	59%	75	59%
Switzerland	110	46%	105	45%
Spain	98	53%	111	50%
UK	1,951	53%	1,870	50%
Germany	287	48%	262	52%
Austria	107	56%	106	52%
Other countries[2]	148	54%	142	56%
Total, subsidiaries	**4,912**	**51%**	**4,773**	**49%**
Group total	**6,425**	**52%**	**5,821**	**49%**
Of whom, employees in Sweden	1,899	55%	1,729	45%

[1] The change is explained by the merger of the subsidiary Skandia Rådgivning with the parent company in 2006.

[2] Chile, Hong Kong, Ireland, Liechtenstein, Portugal, USA and Finland.

II. SALARIES AND OTHER REMUNERATION

	2006		2005	
SEK million	Wages, salaries and other remuneration	Social security costs (of which, pension costs)	Wages, salaries and other remuneration	Social security costs (of which, pension costs)
Parent company	-946	-498	-505	-366
of which, pension cost [1]		-218		-167
Subsidiaries	-2,358	-462	-2,377	-548
of which, pension cost		-105		-102
Group total [2]	**-3,304**	**-960**	**-2,882**	**-914**
of which, pension cost [3]		-323		-268

[1] The parent company's pension costs for members of the executive management amounted to SEK 15 million (11), of which SEK 3 million (4) pertains to defined benefit pension plans and SEK 12 million (7) to defined contribution pension plans.
[2] Of which, SEK 962 million (853) pertains to salary and compensation to employees in Sweden.
[3] The group's pension costs for members of the executive management amounted to SEK 21 million (12), of which SEK 5 million (4) pertains to defined benefit pension plans and SEK 16 million (8) defined contribution plans.

III. EXPENSED WAGES, SALARIES AND OTHER REMUNERATION

	2006[1]	2005
Parent company		
Sweden [2]	891	470
Outside Sweden	55	35
Total, parent company	**946**	**505**
Subsidiaries		
Sweden [2]	71	383
Outside Sweden		
Australia	73	65
Colombia	43	36
Denmark	90	79
France	34	21
Italy	43	38
Isle of Man	109	95
China	11	7
Mexico	29	27
Norway	84	66
Poland	28	21
Switzerland	71	68
Spain	62	55
UK	1,278	1,092
Germany	166	166
Austria	71	57
Other countries	94	101
Total, subsidiaries	**2,358**	**2,377**
Group total	**3,304**	**2,882**
Of whom, employees in Sweden	962	853

[1] During the year, SEK 37 million (19) was allocated to Skandianen, Skandia's long-term employee profit-sharing foundation, which covers employees who do not have a variable salary component in their compensation package.

[2] The change is explained by the merger of the subsidiary Skandia Rådgivning with the parent company in 2006.

IV. LOANS TO SENIOR EXECUTIVES

Loans, SEK thousands	2006	2005
Senior executives in Sweden, including employee representatives on Skandia's board	3,492	3,559

Drawn lines of credit amount to SEK 0 thousand (0), with a credit limit SEK 100 thousand (100). The terms of the loans are comparable with those normally applied in lending to the general public. However, more favourable interest rates are offered to all group employees working in Sweden. Neither SkandiaBanken nor other group companies have pledged security or undertaken contingent liabilities on behalf of the executives reported here. The loans granted to senior executives in Sweden are issued by SkandiaBanken. Information on the loans has been disclosed categorically in consultation with the Swedish Financial Supervisory Authority, due to bank confidentiality rules.

V. INFORMATION ON SENIOR EXECUTIVES' COMPENSATION AND BENEFITS

Principles

Fees are paid to the Chairman of the Board and directors in accordance with a decision by the Annual General Meeting and where applicable for work on subsidiary boards. The fees decided by the AGM pertain to the period up until the next AGM. If changes are made in this group of individuals during the mandate period, the amount of fees will be adjusted accordingly. No fees are paid to board members who are employees of the Skandia group. Fees paid for board work to the Chairman of the Board, Jim Sutcliffe, are paid to Old Mutual plc and are not passed on to him personally.

During the year, Skandia's executive management consisted of persons who were employed directly by Skandia and by persons who were primarily employed by the parent company, Old Mutual plc, but who, according to a special agreement, spent their working time in the Skandia group (three persons, including the Chief Executive). In cases where employment was outside Skandia, the costs have been charged against Skandia's result. Compensation for the Chief Executive and other senior executives consists of base salary, variable compensation, other benefits and pension. By senior executives is meant the 13 persons who, together with the Chief Executive, at any time during the year were members of the Executive Management Board, which at year-end consisted of seven individuals, of whom six were foreign citizens. This definition applies throughout this annual report unless specifically stated otherwise.

Senior executives who have been employed by Skandia

For senior executives of Skandia, the variable compensation is maximised according to a percentage of the respective individuals' base salary, whereby the target level is generally equivalent to half the maximum amount. Of earned variable compensation, two-thirds is payable in cash. The remaining one-third is paid in the form of Restricted Shares and Share Options based on Old Mutual plc shares. In addition, certain Swedish employees have been given the opportunity to invest up to 25% of their net cash incentive in Old Mutual plc shares in return for a matching restricted share award, on a gross for net basis, under the Old Mutual Restricted Share Plan. The matching award will vest, in three years time, subject to: (1) the successful achievement of an Old Mutual IFRS EPS-based performance target; (2) the continued employment of the employee; and (3) the holding of the shares purchased using the chosen element of the net cash incentive for the whole of the three year vesting period. For senior executives, Skandia's overall compensation policy is used, whereby the total compensation shall be in line with the going rate in the market based on local conditions. Variable compensation is based on the outcome in relation to individually set targets.

Senior executives who have been employed by Old Mutual plc

For senior executives who were employed by Old Mutual plc, please refer to the Old Mutual plc 2006 Annual Report or www.oldmutual.com.

Compensation and other benefits paid during the year

Amounts pertain to the time during which the respective persons were senior executives.

Directors' fees paid for by the parent company

SEK thousands	Fees	Committee work	Other compensation
Directors' fees	2,967	650	367
Of which:			
Lennart Jeansson 1)	167		33
Jim Sutcliffe 2)	833	42	33
Björn Björnsson	600	50	300

1) In his capacity as Chairman until 22 February
2) In his capacity as Chairman as from 22 February.

Other compensation and benefits

SEK thousands	Average number of persons	Base salary	Variable compensation	Share-based payment 5	Other compensation and benefits	Pension contributions	Total
CEO							
Lars-Eric Petersson 3)	1				2,824	13,307	16,131
Hans-Erik Andersson (through 21 February)	1	5,839 1)	1,500		559 2)	1,922	9,820
Julian Roberts (as from 22 February)	1	5,502	6,014 4)		2,553	228	14,297
EMB excl. CEO 6)	7	20,514	17,138	17,880	7,847 6)	9,940	73,319 7)

1) Base salary also includes salary during the term of notice.
2) Includes SEK 500,000 in severance pay.
3) Payment in accordance with the ruling of the Arbitration Board.
4) The bonus was expensed in 2006 and paid out in March 2007.
5) Regarding share-related payments to the CEO and certain members of the Executive Management Board who are employees of Old Mutual, see the Old Mutual plc 2006 Annual Report. See also www.oldmutual.com.
6) Includes a total SEK 6,483 thousand in severance pay.
7) Of which, paid out in Sweden: SEK 47,508 thousand. Paid outside Sweden: SEK 25,810 thousand.

Information on Julian Roberts' compensation and benefits for 2006

Julian Roberts' compensation as Skandia's Chief Executive is shown in the table above. Other components, such as share-related payments, term of notice and severance pay, are described in the Old Mutual plc 2006 Annual Report. See also www.oldmutual.com.

Financial instruments

In September, six senior executives were awarded share grants in Old Mutual. The shares are managed in a foundation and will be transferred after three years to the employees if they are still employed by Skandia. In 2006, two persons left their positions with Skandia and thus the right to the granted shares. The four remaining persons were granted a combined total of 264,000 shares. The combined value of these shares was SEK 6 million as per 31 December 2006.

Several senior executives who are formally employees of Old Mutual have, through their employment with that company, received compensation in the form of shares and options. This compensation has not been charged against Skandia's result. The financial instruments held by the Chief Executive, Julian Roberts, that are coupled to Old Mutual's shares, are described in the Old Mutual plc 2006 Annual Report, page 68.

Pensions

Julian Roberts is a member of the Old Mutual Staff Pension Fund, a defined contribution pension scheme. The terms of this pension scheme are described in the Old Mutual plc 2006 Annual Report. See also www.oldmutual.com.

For other senior executives in Sweden, the retirement age varies from 57 to 65 years. This group of employees is covered by defined contribution as well as defined benefit pension commitments. The premiums are set at a level that would apply for a level of benefits corresponding to 40%-70% of pensionable salary. For senior executives in other countries, terms are applied in accordance with the going rate in the market in the respective countries. All pension commitments are vested.

Severance pay

For information on the terms of severance pay for Julian Roberts, see the Old Mutual plc 2006 Annual Report. See also www.oldmutual.com.

Other senior executives are entitled, in the event the company serves notice, to salary during the notice period, plus severance pay. Normally, termination salary and severance pay together do not amount to more than 24 months' salary. However, variations may exist under individual agreements, depending on when in time these were contracted. In other countries, termination salary and severance pay are payable in accordance with local practice and individual agreements.

Drafting and decision-making process

According to the Board's instructions, the Compensation Committee is responsible for assisting the Board in drafting recommendations on the principles of compensation for the CEO and other members of the Executive Management Board. Decisions on the CEO's compensation are made by the Old Mutual plc Remuneration Committee.

VI. GENDER BREAKDOWN, SENIOR EXECUTIVES

Information on the gender breakdown among company directors and other executives pertains to the conditions on 31 December 2006.

	Women	Men
Board members, including employee representatives	22%	78%
CEO and other EMB members	14%	86%

VII. SHARE-RELATED COMPENSATION

Compensation related to Skandia shares

Skandia's Annual General Meeting approved employee stock option programmes for the years 2000–2002 and 2003. These option programmes mainly pertained to employee stock options, which gave the holders the right to buy Skandia shares at a pre-determined exercise price. In certain countries (China, Switzerland and the USA), for legal or tax reasons, employees were instead offered synthetic employee stock options (phantom options). Synthetic employee stock options do not give the employee the right to purchase shares, but only the right to cash settlement based on the difference between the market price of Skandia's shares upon exercise and the subscription price of the synthetic employee stock options. It should be noted that the exercise of synthetic employee stock options was also financed through the new subscription of Skandia shares.

Stock options in programme A were granted in equal number to essentially all employees. This programme included approximately 5,000 employees. Stock options in programme B for 2000–2002 were granted to approximately 400 key employees. The option grants were decided on by the Board's Compensation Committee. Most of the original options in programme B were granted to employees residing in the UK and the USA. No options were granted to outside directors of the company. In connection with Prudential Financial's acquisition of American Skandia, the stock options granted to employees of American Skandia were forfeited. The number of originally granted options and options currently outstanding is shown in the tables below.

Stock options in programme B for 2003 were granted to approximately 170 key employees. No grants were made in 2004–2006 due to the lack of an employee stock option programme. However, exercise of previously granted employee stock options did take place in accordance with applicable plan rules.

Old Mutual acquired a majority of the shares in Skandia on 26 January 2006. This triggered a clause entailing the maturity of all options not later than six months after this date. During the year, 5,608,888 (903,405) options were exercised to subscribe for shares, entailing an increase in equity by SEK 114,029 thousand.

The options did not give their holders entitlement to dividends or the right to participate or vote at Skandia's general meetings.

The exercise price for the 2000–2002 programme corresponded to the average price of Skandia's shares the week before each year's grant. For the 2003 programme the exercise price corresponded to the average price of Skandia's shares the week before the grant plus a hurdle of 10%, i.e., the market price on the date of grant plus 10%.

The term of the options was three years and three months for programme A and seven years for programme B. Options in programme A could be exercised, at the earliest, one year after they had been granted, and options in programme B could be exercised, at the earliest, three years after they had been granted. In accordance with international practice, the stock options were granted without cost to the individual employees. The options were personal and could not be transferred to a third party by the employee.

The company did not conduct any rehedging for the stock option programmes, other than to set aside a reserve consisting of a certain portion of the warrants to cover social security costs arising in connection with the exercise of options. Nor did the company incur any other costs for the stock option programmes in 2006, aside from limited administrative fees.

Compensation related to Old Mutual shares

In September 2006, 1,277,114 shares in Old Mutual were granted to 30 employees of the Skandia group. The shares are managed in a foundation and will be transferred after three years to the employees if they are still employed by the Skandia group.

Information on stock options granted during the respective years

	2000 A	2000 B	2001 A	2001 B	2002 A	2002 B	2003 A	2003 B
Exercise price, SEK	233.95	233.95	123.15	123.15	52.60	52.60	20.33	20.33
Granted	15 May 2000	15 May 2000	21 Feb 2001	21 Feb 2001	20 Feb 2002	20 Feb 2002	19 Feb 2003	19 Feb 2003
Possible to exercise from	15 May 2001	15 May 2003	21 Feb 2002	21 Feb 2004	20 Feb 2003	20 Feb 2005	19 Feb 2004	19 Feb 2006[1]
Original expiration date[1]	31 Aug 2003	31 May 2007	31 May 2004	28 Feb 2008	31 May 2005	28 Feb 2009	31 May 2006	28 Feb 2010
New expiration date [1]	31 Aug 2003	26 July 2006	31 May 2004	26 July 2006	31 May 2005	26 July 2006	31 May 2006	26 July 2006
Number of options granted to employees	1,962,750	11,042,400	1,767,450	12,016,000	1,674,300	10,847,000	1,707,300	4,242,500
Of which, synthetic employee stock options	223,800	801,000	257,400	1,286,500	249,300	3,797,500	91,500	305,500
Value upon issuance, SEK million [2]	116	678	49	351	21	145	6	17
Remaining options, 31/12/2006	0	0	0	0	0	0	0	0
Remaining options, 31/12/2005	0	3,182,600	0	4,086,500	0	4,747,500	538,300	3,508,000

[1] Old Mutual acquired a majority of Skandia's shares on 26 January 2006. This means that all options can be used to subscribe for Skandia shares as from that date. It also means that all options expire in 6 months from this date at the latest.

[2] The value has been calculated using the Black & Scholes option pricing model. Volatility has been estimated at the following values for the respective years' programmes:

2000 55%
2001 50%
2002 55%
2003 50%

Since the options are not tradable and can only be exercised on certain occasions, the value of the options has been reduced by shortening their exercise period in the calculation. The calculated expiration date has been estimated to be one year after the date on which the options can first be exercised. This means that options in programme A have an estimated term of 2 years and options in programme B 4 years. The total value upon issuance has thereafter been reduced by the number of options expected to expire before the options are exercised. This reduction factor amounts to 10% per year, which corresponded to the company's staff turnover.

Stock options reserved for social security costs

	2006	2005
Programme 2000	0	866,667
Programme 2001	0	866,667
Programme 2002	0	866,667
Programme 2003	0	7,062,520

Number of options, including options reserved for social security costs

	2006	2005
At start of year	**25,725,421**	**28,248,309**
Reactivated options	—	643,900
Exercised options	-5,608,888	-903,405
Expired options	-20,116,533	-1,449,583[1]
Forfeited options	0	-813,800
At year-end	**0**	**25,725,421**

[)] Pertains mainly to programme A for 2002.

Shares in Old Mutual

	2006
At start of year	**0**
Exercised options	1,277,114
Forfeited options	-260,575
At year-end	**1,016,539**

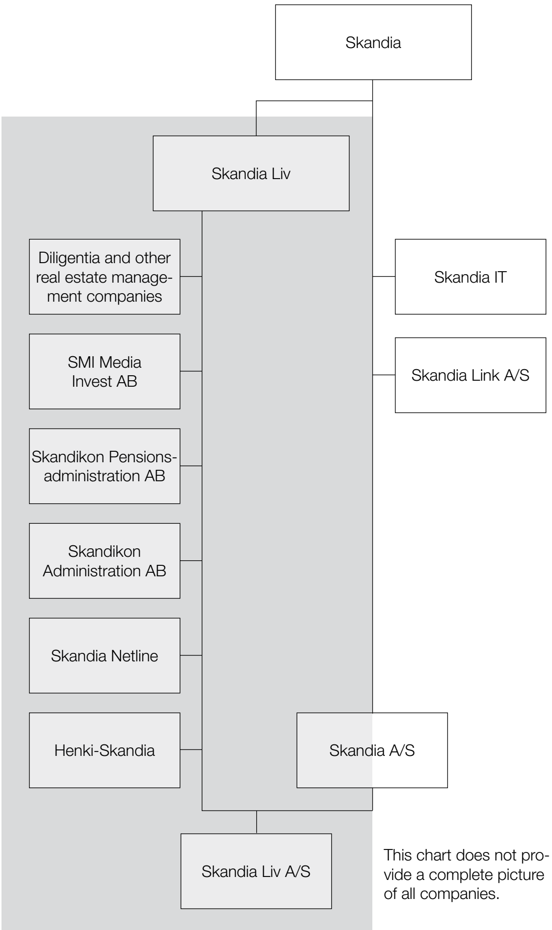
Note 45 Related party disclosures

Related parties

Related parties to the Skandia group is defined as all companies in the Skandia Liv group as well as Skandia joint ventures and associated companies. Skandia's parent company, Old Mutual, and its other subsidiaries, are defined as related companies. Board members and senior executives of Skandia as well as their close relatives are also defined as related parties.

Skandia Liv is a wholly owned subsidiary of Skandia. However, Skandia Liv's business is conducted on a mutual basis. This means that the profit or loss that is generated from Skandia Liv's operations is to be passed on to the policyholders. No profit distribution may take place to the shareholder. Skandia Liv is therefore not consolidated in the accounts of the Skandia group. Following is a description of the Skandia Liv companies with which the Skandia group has significant relations.

Overall description of Skandia and the Skandia Liv group



This chart does not provide a complete picture of all companies.

Process

Skandia and Skandia Liv has adopted guidelines for transactions and other relations between companies. These entail, among other things, that agreements of an economic nature between Skandia Liv and Skandia must be specially reviewed to ensure that they are compatible with the prohibition against profit distribution, and valuations must be tested in a thorough and impartial manner.

Clear documentation shall be prepared for agreements and valuations in which it is clear who is commercially responsible for the transaction. All agreements shall be specified and be reported yearly for the board of Skandia Liv. Skandia Liv's audit committee has special responsibility for reviewing the application of the guidelines adopted by Skandia Liv for transactions and other relations between Skandia Liv and Skandia.

Transactions of a nonrecurring nature shall be decided on by the respective boards, and in connection with the sale of material assets in which a market quotation is lacking, a valuation shall be performed by an external appraiser. Such valuation shall be documented.

With respect to transactions of an ongoing nature, an established process is in place. For each respective assignment, business heads are appointed who are responsible for control and follow-up. Assignment agreements and specifications shall be produced for each assignment, specifying the assignment and the details of its execution, control and planning of the assignment, business heads, decision-making and work processes, payment methods, routines for handling errors, and reporting and follow-up. Consultation groups are set up for the respective assignments, and the parties consult with each other regarding the level of service, how errors are to be handled, compensation levels, follow-up and other questions. In addition, Skandia Liv has its own contracts group comprising all responsible agreement owners. The purpose of this group is to ensure compliance with the guidelines and processes.

The pricing methods used are market price or cost-price. Market price is used in cases where it is possible to make comparisons with similar services in the market, such as insurance distribution or Diligentia's leasing of premises. In other respects, the cost-price method is used. When cost-price is used, the consultation group decides on the scope and allocation of costs. In connection with business planning, a budget is produced which includes the total costs per assignment, broken down into separate costs and joint costs, along with an allocation formula that reflects degree of use. Compensation is paid based on the actual outcome. Departures from the budget must be presented to and approved by the consultation groups, and a review of the allocation formulas shall be performed on a quarterly basis in the aim of changing these if significant changes have taken place.

Transactions between the Skandia group and the Skandia Liv group

1) In 2004 Skandia and Skandia Liv entered into an agreement in principle and framework agreement on co-operation covering market-related functions and certain staff functions in order to increase efficiencies between the companies. The co-ordinated services involve distribution and distribution support, customer service, market communication, administration of group insurance products, and diverse staff and service functions. With respect to distribution, Skandia receives going-rate compensation for performed services, but at the same time is responsible to repay Skandia Liv in the event of a surrender of the sold policies. Compensation for sales via Skandia's own sales channels is based on the level of commissions to external insurance brokers plus the client's special risks and outlays for its own sales channel. The compensation that is payable for other areas covered by this point is based on cost-price, broken down into degree of actual use.
2) Through the Skandia Unit Linked Assurance unit, Skandia Liv and Skandia have a joint occupational pensions concept. Skandia Liv handles the administration and pays all distribution costs. Skandia Liv receives compensation for the part that pertains to fund management. Compensation is based on premium volume and fund values in the aim of covering acquisition- and administrative costs over time. The compensation from Skandia is paid over the term of the insurance contracts. Skandia thus has an obligation to continuously pay compensation for contracts that have already been sold at the same time that Skandia Liv has undertaken to provide the administrative services required for administration of the insurance contracts.
3) Skandia rents office premises at various locations around Sweden from Skandia Liv and pays market rents for these.
4) Skandia Liv provides occupational pensions for the employees of the Skandia group. These pension benefits are based on agreements made in the Swedish labour market, and the premiums are thus in line with the going rate in the market.
5) Skandia IT provides IT services for the entire Skandia group. Compensation is made according to the cost-price principle, with costs allocated based on use of the various IT services.
6) Skandia Liv's subsidiaries Skandia Liv A/S and Henki-Skandia hedge their currency positions through forward exchange contracts with Skandia Treasury at the prices that apply in the foreign exchange market.
7) Skandia provides joint functions for accounting systems, treasury and certain legal functions for the Skandia group. The compensation that Skandia Liv pays to Skandia is based on cost-price and is allocated according to actual degree of use.
8) Skandia Liv receives a discount for investments in Skandia Euro Guaranteed Funds. The compensation was in line with the going-rate in the market. This investment ceased in 2006.
9) Skandia Liv performs certain administrative services for Skandia in IT, payments and legal functions. Compensation is based on the cost-price principle based on debited time.
10) Skandia Liv's subsidiary Skandia Netline provides an IT tool for administration of employee benefits via gross salary deductions. The price charged to Skandia is no different than for other customers and is thereby in line with the going-rate in the market.
11) Skandia and Skandia Liv have the opportunity to invest their surplus liquidity with each other, which is advantageous for both parties. Market interest rates are charged for these transactions. In 2006, a maximum of SEK 1,200 million was invested overnight on 30 occasions. At year-end there was no short-term lending or borrowing.

The Skandia group employs a system of automatic settlement of payments that are not invoiced. Settlement of payments is made on a daily or monthly basis. As per 31 December 2006, Skandia Liv's net liability to Skandia amounted to SEK 328 million. In addition, Skandia Liv has a liability to Skandia amounting to SEK 169 million pertaining to retrocessions that have not yet been paid out. Skandia has no corresponding receivable from Skandia Liv for retrocessions, since Skandia applies other accounting principles. This also affects the reported retrocessions, which deviate somewhat compared with those reported by Skandia Liv.

Skandia and Skandia Liv have diverging opinions on the compensation that is paid for certain services that Skandia provides to Skandia Liv under the framework agreement described in point 1 above. As a result, Skandia has a claim on Skandia Liv of SEK 17 million, while Skandia Liv does not have any corresponding liability.

The following table presents transactions in order of significance.

Character	Receiving company	Rendering company	Compensation, SEK m	Reference
Distribution compensation (retrocessions)	Skandia	Skandia Liv	950	1)
Distribution support, market communication, customer service centres, group insurance and staffs	Skandia	Skandia Liv	595	1)
Joint occupational pensions concept	Skandia Liv	Skandia	252	2)
Rents of office premises	Skandia Liv	Skandia	187	3)
Occupational pensions to Skandia employees	Skandia Liv	Skandia	183	4)
IT operation and service	Skandia IT	Skandia Liv	97	5)
Forward exchange contracts, net	Skandia Liv A/S Henki Skandia	Skandia	78	6)
Accounting systems, treasury and legal affairs	Skandia	Skandia Liv	27	7)
Other	Skandia Liv	Skandia	11	8) 9) 10) 11)

Transactions between the Skandia group and its associated companies and joint ventures

Skandia owns 34% of Estalvida, an insurance company in Spain. Skandia manages parts of Estalvida's portfolio. The technical reserves that Skandia manages amount to approximately EUR 590 million. Skandia receives going-rate compensation, based on managed assets.

In Denmark, Skandia Liv's subsidiary Skandia Link A/S co-operates with Skandia Link A/S through the jointly owned company Skandia A/S. The company is 50%-owned by Skandia Liv, and 50% by Skandia, and is operated as a joint venture. The purpose is to co-ordinate all administrative resources, providing opportunities for cost synergies. Costs of Skandia A/S are invoiced to the respective companies according to use. In 2006 Skandia A/S's costs amounted to SEK 151 million (92). Of this amount, SEK 114 million was invoiced to Skandia Liv A/S and SEK 37 million to Skandia Link A/S.

Transactions between the Skandia group and Old Mutual
Several persons who work for Skandia are employees of Old Mutual and receive salary and other remuneration from Old Mutual. These costs are invoiced to Skandia on a regular basis and are expensed by the company. In 2006, SEK 26 million was expensed for these services.

Old Mutual has paid for external consulting services that have been performed on behalf of Skandia. These costs have also been forwarded from Old Mutual to Skandia. A total expense charge of SEK 50 million has been taken by Skandia for such services.

Skandia has invested surplus funds with Old Mutual and received SEK 11 million in interest income.

Old Mutual pays for joint liability insurance cover for the entire Old Mutual Group, including Skandia. Skandia paid SEK 3 million for its part of the insurance.

Transactions between Skandia and its board and management
Compensation to members of the Board of Directors and senior executives of Skandia is discussed in Note 44. In other respects, no transactions are made between these individuals or their closely related parties beyond ordinary customer transactions.

Note 46 Investments

Book value	Unit linked assurance		Mutual funds		Life assurance		Banking		Other businesses		Joint functions		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Investment properties	17	21	—	—	3	4	—	—	—	—	—	—	20	25
Land and buildings	7	8	28	28	37	146	—	—	—	—	—	—	72	182
Lending to the public	734	596	1	1	—	—	49,249	41,343	—	46	16	3	50,000	41,989
Lending to credit institutions	6,693	3,588	63	143	—	4,785	630	740	—	—	154	110	7,540	9,366
Shares and participations	509	243	26	35	0	87	15	17	—	—	183	285	733	667
Bonds and other fixed-income securities	3,838	4,706	166	168	776	6,070	5,285	7,726	896	887	—	1,806	10,961	21,363
Equity- and interest rate derivatives, assets	—	0	—	—	—	579	54	36	—	0	47	33	101	648
Own securities settlement claims	—	—	—	—	—	—	220	166	—	—	—	1	220	167
Accrued interest and rent	87	83	—	—	—	132	—	—	16	15	14	23	117	253
Cash and cash equivalents	1,253	2,707	589	460	98	118	-417	-456	421	352	585	-1,040	2,529	2,141
Own securities settlement liabilities	-11	-14	—	—	—	-144	-191	-231	—	—	—	0	-202	-389
Equity- and interest rate derivatives, liabilities	—	—	—	—	—	—	-61	-46	—	0	-12	-60	-73	-106
Investments	**13,127**	**11,938**	**873**	**835**	**914**	**11,777**	**54,784**	**49,295**	**1,333**	**1,300**	**987**	**1,161**	**72,018**	**76,306**

Note 47 Group companies

Share of capital in group companies

(The share of capital is 100%, unless stated otherwise)	Domicile
Australia	
Australian Skandia Ltd	Sydney
Austria	
Skandia Austria Holding AG	Vienna
Skandia Information Technologies GmbH	Vienna
Skandia Invest Service GmbH	Vienna
Skandia Leben AG, Lebensversicherungs-Aktiengesellschaft	Vienna
Chile	
Skandia Chile S.A. Corredora de Bolsa S.A. (99.99%)	Santiago
Skandia Chile S.A. (99.99%)	Santiago
China	
Skandia BSAM Life Insurance Company Ltd (50% joint venture Skandia – Beijing State-Owned Asset Management Co., Ltd “BSAM”)	Beijing
Colombia	
Skandia Global Investments S.A. (99.98%)	Bogota
Skandia Pensiones y Cesantias S.A. (60.15%)	Bogota
Skandia Consulting Services S.A. (99.9%)	Bogota
Skandia Holding de Colombia S.A. (99.98%)	Bogota
Skandia Seguros de Vida S.A. (99.98%)	Bogota
Fiduciaria Skandia S.A. (99.97%)	Bogota
Skandia Valores S.A Comisionista de Bolsa (99.99%)	Bogota
Denmark	
A/S Nevi Danmark	Copenhagen
A/S Nevi Finans	Copenhagen
Skandia A/S (50% – 50%-owned by Skandia Liv)	Copenhagen
SkandiaLink Livsforsikring A/S	Copenhagen
Germany	
Observice Rating GmbH (in liquidation)	Berlin
Skandia Pension Consulting GmbH	Berlin
Skandia Leben Holding GmbH	Berlin
Skandia Lebensversicherung AG	Berlin
Skandia Portfolio Management GmbH	Berlin
Skandia Versicherung Management & Service GmbH	Berlin
Hong Kong	
Skandia Asia Pacific Ltd	Hong Kong
Skandia Global Funds, (Asia Pacific) Ltd (99.99%)	Hong Kong
Ireland	
Skandia Fund Management Ireland Ltd	Dublin
Skandia Life Ireland Ltd	Dublin
SGF Marketing Ltd	Dublin
Italy	
Skandia Vita S.p.A.	Milan
Liechtenstein	
Skandia Leben (FL) AG	Liechtenstein
Luxembourg	
Skandia Reassurance S.A. (in liquidation)	Luxembourg
Mexico	
Skandia Asistencia Profesional S.A. de C.V.	Mexico City
Skandia S.A. de C.V.	Mexico City
Skandia Servicios Mexico S.A. de C.V.	Mexico City
Skandia Vida S.A. de C.V.	Mexico City
Skandia Operadora de Fondos S.A. de C.V. Sociedad Operadora de Sociedades de Inversión	Mexico City
Netherlands	
Skandia Financial Holding BV	Amsterdam
Norway	
Skandia Informasjonsteknologi AS	Oslo
SkandiaBanken Bilfinans AS	Bergen
SkandiaBanken Bilfinans Holding AS	Bergen
Poland	
International Insurance Consulting Services Polska Sp. z o.o.	Warsaw
Skandia Zycie Towarzystwo Uberzpieczen S.A.	Warsaw
Spain	
SkandiaLink de Seguros y Reaseguros S.A.	Madrid
Skandia Vida S.A. de Seguros y Reaseguros	Madrid
Skandia Servicios Tecnicos y Contables A.I.E	Madrid
Skandia Multigestión A.V.S.A. (96.6%)	Madrid
Switzerland	
Skandia Leben AG	Zurich
Skandia Service AG	Zurich

Share of capital in group companies (cont.)

(The share of capital is 100%, unless stated otherwise)	**Domicile**
Sweden	
Svenska Lärarfonder AB (51%)	Stockholm
DIAL Försäkrings AB	Stockholm
TORMAC AB	Stockholm
Skandia Capital AB (publ)	Stockholm
Skandia Investments Advisory Services AB	Stockholm
Skandia Europe AB	Stockholm
Skandia Fonder AB	Stockholm
Skandia Global Investments AB	Stockholm
Skandia Holding AB	Stockholm
Skandia Informationsteknologi AB	Stockholm
Skandia 1 Investment AB (56%)	Stockholm
Livförsäkringsaktiebolaget Skandia (publ)	Stockholm
KFI Spa Management AB	Stockholm
Skandia Telemarketing AB	Stockholm
SkandiaBanken AB (publ)	Stockholm
SkandiaLink Multifond AB (in liquidation)	Stockholm
Schnil HB	Stockholm
Sturebadet AB	Stockholm
Sturebadet Grand AB	Stockholm
Sturebadet Haga AB	Stockholm
Sofiahemmet Rehab Center AB (50%)	Stockholm
Roisbois AB	Stockholm
UK	
Heimdal Hotels Ltd	London
Professional Life Assurance Company Ltd	Southampton
Royal Skandia Life Assurance Ltd	Isle of Man
Royal Skandia Business Services	Isle of Man
Royal Skandia Holdings (IOM) Ltd	Isle of Man
Royal Skandia Trust Company	Isle of Man
Skandia UK Ltd	Isle of Man
Skandia Financial Services Ltd	Southampton
Skandia House (College Hill) Ltd (in liquidation)	London
Skandia Insurance (UK Contact Office) Ltd	London
Skandia Life Assurance (Holdings) Ltd	Southampton
Skandia Life Assurance Company Ltd	Southampton
Skandia Life Business Services Ltd	Southampton
Skandia Life Holding Company Ltd	Southampton
Skandia Life (Pensions Trustee) Ltd (99.99%)	Southampton
Skandia Life Management Ltd	Southampton
Skandia Investment Management Ltd	Southampton
Skandia MultiFUNDS Ltd	Southampton
Kelgo Ltd	Southampton
Frobfisher Financial Management Ltd	Southampton
Citadel Life Company Ltd	Southampton
Skandia Financial Services Ltd	Southampton
Gridegreat Ltd	Southampton
Skandia New Markets Ltd	London
Skandia Property (UK) Ltd	London
IFA Services Holdings Company Ltd (94.2%)	Southampton
IFA Holding Company Ltd	Southampton
IFAengine Ltd (94%)	Cheshire
Bankhall Investment Management Ltd	Cheshire
Bankhall Financial Management Ltd (46%)	Cheshire
Bankhall Investment Associates Ltd	Cheshire
Bankhall Partnership Ltd	Cheshire
Buycabin Ltd	Cheshire
Portfolio Member Services Holdings Ltd	Cheshire
IFA Portfolio Services Ltd	Cheshire
Bankhall Asset Finance Ltd	Cheshire
Point One Ltd (81%)	Cheshire
Professional Support Group Ltd	Cheshire
Investment Strategies (UK) Ltd	Cheshire
Resource Initiatives Ltd	Cheshire
Bankhall Caledonian Ltd	Cheshire
Portfolio Member Services Ltd	Cheshire
Bankhall Mortgages Ltd	Cheshire
USA	
Skandia America Corporation	Shelton
Skandia Securities Americas, Inc.	Shelton

Note 48 Assets and liabilities held for sale

BALANCE SHEET	2006	2005
Assets classified as held for sale		
Investments for the benefit of policyholders	4,430	–
Loans and advances	4,309	–
Other investments	5,204	–
Other receivables	826	–
	14,769	**–**
Liabilities classified as held for sale		
Insurance provisions, gross	9,687	–
Liability for linked investment contracts	4,396	–
Other liabilities	333	–
	14,416	**–**

Skandia Vida

An agreement was signed on 20 December 2006 to sell Skandia Vida, the group's Spanish life assurance business. The decision to sell this business is a result of the strategic orientation determined for the Europe & Latin America division in connection with Old Mutual's acquisition of Skandia in February 2006. The sale was subject to the approval of the Spanish regulators, which was granted in April 2007.

Net proceeds of sale are estimated to be approximately SEK 352 million. The net tangible assets and intangible assets of the business at the end of the 2006 financial year totalled SEK 352 million. No gain or loss is anticipated in 2007 for the sale of Skandia Vida.

five-year summary, group

Premiums and deposits, like the income statement, show discontinued operations on separate lines. The balance sheet includes discontinued operations. The 2002-2003 financial years are reported in accordance with Swedish GAAP and the guidelines of the Swedish Financial Supervisory Authority. The 2004-2006 financial years are reported in accordance with IFRS. Banking and finance company operations are consolidated line by line in 2004-2006, while for 2002-2003 they are consolidated on a separate line.

	Swedish GAAP		IFRS		
SEK million	**2002**	**2003**	**2004**	**2005**	**2006**
PREMIUMS AND DEPOSITS					
Unit linked assurance	47,801	52,816	66,863	88,013	108,332
Life assurance	1,638	1,050	1,184	1,060	1,038
Mutual funds	19,304	21,015	28,780	36,847	47,595
Other	453	484	1,204	1,637	2,027
Premiums and deposits, excluding discontinued operations	**69,196**	**75,365**	**98,031**	**127,557**	**158,992**
Premiums and deposits, discontinued operations	50,101	13,462	—	—	—
Total premiums and deposits	**119,297**	**88,827**	**98,031**	**127,557**	**158,992**
INCOME STATEMENT					
Premiums earned, net of reinsurance, property & casualty insurance	434	470	—	—	—
Premiums written, net of reinsurance, life assurance	49,406	53,521	—	—	—
Investment income in insurance business	-43,578	34,652	—	—	—
Claims incurred, net of reinsurance, property & casualty insurance	-309	-333	—	—	—
Claims incurred, net of reinsurance, life assurance	-22,999	-20,471	—	—	—
Change in technical provisions, net of reinsurance	22,891	-62,249	—	—	—
Operating expenses	-5,136	-5,657	—	—	—
Other technical income and expenses	902	877	—	—	—
Technical result, insurance business	**1,611**	**810**	**—**	**—**	**—**
Non-technical investment result	285	1,738	—	—	—
Mutual fund savings products	-284	-236	—	—	—
Bank and finance company operations	45	157	—	—	—
Other businesses	1	-73	—	—	—
Capital gain on sale of subsidiary	2,016	0	—	—	—
Other expenses	-1,265	-1,416	—	—	—
Fee income	—	—	9,121	11,992	15,020
Change in deferred fee income and fee income receivable	—	—	-903	-1,424	-1,541
Net premiums earned	—	—	3,039	3,154	3,091
Net investment income	—	—	1,422	1,463	1,371
Net interest income, banking	—	—	1,017	1,055	977
Share of profit/loss of associates	—	—	-3	3	7
Other income	—	—	726	515	545
Total revenue	**—**	**—**	**14,419**	**16,758**	**19,470**
Net claims incurred	—	—	-3,138	-2,943	-2,515
Commission expenses	—	—	-5,648	-6,278	-7,699
Change in deferred acquisition costs and accrued commission expenses	—	—	2,416	2,395	2,293
Administrative expenses	—	—	-7,410	-7,723	-8,586
Other expenses	—	—	-1,453	-1,686	-805
Financing costs	—	—	-373	-385	-501
Total expenses	**—**	**—**	**-15,606**	**-16,620**	**-17,813**
Result before tax	**2,409**	**980**	**-1,187**	**138**	**1,657**
Policyholder tax charge [1)]	—	—	1,409	2,502	2,073
Taxes [2)]	605	298	-859	-2,760	-2,285
Result from continuing operations	**3,014**	**1,278**	**-637**	**-120**	**1,445**
Result from discontinued operations	-7,336	-68	834	-645	-338
Result for the year	**-4,322**	**1,210**	**197**	**-765**	**1,107**
Attributable to:					
Equity holders of the parent company	-4,298	1,246	250	-775	1,092
Minority interest	-24	-36	-53	10	15

[1)] Included in premiums written for 2002-2003.

[2)] Includes policyholder tax for 2004-2006. For 2002-2003 policyholder tax is deducted from “Investment income in insurance business”.

BALANCE SHEET

The 2002-2003 financial years are reported in accordance with Swedish GAAP and the guidelines of the Swedish Financial Supervisory Authority.
The 2004-2006 financial years are reported in accordance with IFRS.

	Swedish GAAP		IFRS		
SEK million	**2002**	**2003**	**2004**	**2005**	**2006**
Assets					
Intangible assets					
Goodwill	2,789	2,404	1,613	483	474
Other intangible assets	325	241	164	221	267
Reinsurers' share of insurance provisions	10,387	644	901	1,094	992
Reinsurers' share of linked investment contracts	—	—	0	217	7,392
Deposits held with cedents	0	4,054	3,483	3,671	2,870
Deferred acquisition costs	11,734	8,409	16,301	19,326	20,720
Deferred tax assets	468	446	1,017	438	1,368
Surplus in defined benefit pension plans	—	—	508	687	702
Property and equipment	661	342	516	515	380
Investment properties	233	184	42	25	20
Loans and advances	6,287	8,523	45,463	51,355	57,540
Investments in associates	1	4	84	84	6
Other investments	24,829	18,885	21,424	22,933	11,915
Investments for the benefit of policyholders	384,474	248,151	295,473	422,770	499,075
Assets in consolidated mutual funds	—	—	10,055	15,767	20,723
Assets in bank and finance companies	39,439	41,772	—	—	—
Current tax assets	744	395	436	436	289
Other receivables	2,412	3,078	3,474	3,818	3,910
Other prepaid expenses and accrued income	775	886	4,896	4,589	3,923
Cash at bank	4,527	2,169	1,995	2,141	2,529
Assets held for sale	—	—	—	—	14,769
Total assets	**490,085**	**340,587**	**407,845**	**550,570**	**649,864**
Shareholders' equity and liabilities					
Equity attributable to equity holders of parent	15,238	15,381	12,308	12,035	13,196
Minority interest	105	122	76	97	98
Subordinated loans	1,058	849	849	850	850
Insurance provisions, gross	20,893	22,878	15,474	16,654	5,807
Liability for linked investment contracts	376,561	246,679	296,833	422,984	506,416
Liabilities in consolidated mutual funds	—	—	10,560	16,014	20,723
Liabilities in bank and finance companies	36,696	38,957	—	—	—
Deposits received from reinsurers	12,001	1,261	102	112	125
Provision for pensions	72	231	268	255	183
Deferred tax liability	2,468	1,886	1,922	2,954	4,792
Deferred fee income	—	—	14,748	16,564	17,038
Other provisions	6,880	1,495	1,310	1,139	1,875
Deposits from the public	—	—	40,500	45,505	51,186
Other interest bearing liabilities	8,546	3,145	3,886	3,259	1,977
Current tax liabilities	201	91	388	513	491
Derivative liability	319	621	303	195	188
Other payables	6,092	5,768	5,757	8,074	7,658
Other accruals and deferred income	2,955	1,223	2,561	3,366	2,845
Liabilities held for sale	—	—	—	—	14,416
Total shareholders´ equity and liabilities	**490,085**	**340,587**	**407,845**	**550,570**	**649,864**

NET ASSET VALUE

	2002	2003	2004	2005	2006
Shareholders' equity	15,343	15,503	12,384	12,132	13,294
Less: minority interest	-105	-122	-76	-97	-98
Treasury shares held to cover investment contracts	—	—	504	247	0
Surplus values in other financial investments	684	521	—	—	—
Less: surplus values pertaining to life assurance	-559	-445	—	—	—
Surplus values in business in force after deferred tax	9,670	13,576	17,339	23,514	23,802
Net asset value	**25,033**	**29,033**	**30,151**	**35,796**	**36,998**
Deferred tax liability	2,468	1,891	1,922	2,954	4,792
Deferred tax asset	-468	-446	-1,017	-438	-1,368
Subordinated loans	1,058	849	849	850	850
Net asset value according to Swedish Financial Supervisory Authority definition	**28,091**	**31,327**	**31,905**	**39,162**	**41,272**

KEY RATIOS [1)]

The 2002-2003 financial years are reported in accordance with Swedish GAAP and the guidelines of the Swedish Financial Supervisory Authority.
The 2004-2006 financial years are reported in accordance with IFRS.

	Swedish GAAP		IFRS		
	2002	2003	2004	2005	2006
Key ratios, Swedish GAAP/IFRS					
Return on equity, % [2)]	17	9	-4	-1	11
Return on capital employed, % [3)]	10	6	-3	0	10
Key ratios, property & casualty insurance					
Insurance margin, % [4)]	-4.2	-4.8	-5.5	11.0	7.5
Claims ratio, gross, % [5)]	71	71	78	66	62
Expense ratio, gross, % [6)]	38	41	33	31	31
Combined ratio, gross, % [7)]	109	112	111	97	93
Claims ratio, net, % [8)]	71	71	78	66	59
Expense ratio, net, % [9)]	38	41	33	31	33
Combined ratio, net, % [10)]	109	112	111	97	93
Key ratios, asset management					
Direct yield, % [11) 13)]	1.6	1.8	1.7	4.1	4.2
Total return, % [12) 13)]	-0.9	9.7	2.7	4.4	3.8
Other					
Number of employees, average	6,922	5,936	5,549	5,821	6,425
Net asset value ratio, %	2,087	2,646	1,020	1,162	1,224
Equity ratio, %	17	17	13	11	11
Debt-equity ratio, %	43	24	21	18	3
Capital base [14)]	22,351	18,815	20,505	12,793	12,876
of which, deduction for intangible assets	-107	-102	-201	-184	-181
Solvency margin	4,779	3,066	3,540	3,273	3,182

Definitions

1) Key ratios for 2002-2003 have been calculated based on accounting in accordance with Swedish GAAP, as set out in the Annual Accounts Act for Insurance Companies. For 2004-2006 the key ratios are based on IFRS.

2) Result for the year attributable to equity holders of the parent company, excluding the result for the year from discontinued operations, in relation to average shareholders' equity, excluding minority interests during the period.

3) Result for the period excluding the result from discontinued operations and interest expenses after standard tax (30%) for borrowings, subordinated loans and financial reinsurance, in relation to average capital employed during the period.

4) Technical result, property & casualty insurance, in relation to net premiums earned.

5) Claims incurred in relation to gross premiums earned.

6) Operating expenses of the insurance operations in relation to gross premiums earned, excluding other technical income and charges.

7) Claims incurred plus operating expenses of the insurance operations, in relation to gross premiums earned.

8) Claims incurred in relation to net premiums earned.

9) Operating expenses of the insurance operations in relation to net premiums earned, excluding other technical income and charges.

10) Claims incurred plus operating expenses of the insurance operations, in relation to net premiums earned.

11) Direct investment income (before deducting management costs) as a percentage of a weighted average of the fair value of investments.

12) The sum of the direct yield (before deducting management costs) and realised and unrealised changes in value, as a percentage of a weighted average of the fair value of investments.

13) In calculating the direct yield and total return, the assets for which the policyholders bear the investment risk are not included, since the purpose of the key ratio is to report the result of the company's own asset management.

14) For the years 2002-2004, the capital base is calculated in accordance with Swedish GAAP. For 2005 and 2006, the capital base is calculated in accordance with IFRS.

income statement

SEK million	Not	2006	2005
TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS			
Premiums earned, net of reinsurance			
Premiums written, gross	2	649	589
Premiums ceded	2	-649	-589
Change in provision for unearned premiums and unexpired risks		-10	-9
Reinsurers' share of change in provision for unearned premiums and unexpired risks		10	9
		0	**0**
Allocated investment return transferred from the non-technical account	3	**0**	**0**
Claims incurred, net of reinsurance			
Claims paid			
Gross	4	-395	-381
Reinsurers' share	4	395	381
Change in provision for claims outstanding			
Gross		2	-1
Reinsurers' share		-2	1
	5	**0**	**0**
Operating expenses	6	0	0
Technical result, property & casualty insurance business		**0**	**0**
TECHNICAL ACCOUNT, LIFE ASSURANCE BUSINESS			
Premiums written, net of reinsurance			
Premiums written, gross	7	217	208
Premiums ceded	7	-31	-37
		186	**171**
Investment income		3	—
Other technical income		1,954	1,523
Claims incurred, net of reinsurance			
Claims paid			
Gross	8	-152	-130
Reinsurers' share	8	5	6
Change in provision for claims outstanding			
Gross		28	15
Reinsurers' share		3	7
		-116	**-102**
Change in other technical provisions, net of reinsurance			
Provision for unearned premiums and unexpired risks			
Gross	9	-25	18
Life assurance provision			
Gross	9	-300	—
Operating expenses	10	-861	-636
Investment charges	11	-2	-2
Technical result, life assurance business		**839**	**972**
NON-TECHNICAL ACCOUNT			
Technical result, property & casualty insurance business		**0**	**0**
Technical result, life assurance business		**839**	**972**
Investment result			
Investment income	12	3,192	1,710
Unrealised gains on investments	13	92	145
Investment charges	14	-4,546	-7,135
Unrealised losses on investments	15	-48	0
		-1,310	**-5,280**
Allocated investment return transferred to the technical account	3	0	0
Other revenues		64	48
Other expenses			0
Result before taxes		**-407**	**-4,260**
Tax on result for the year	16	166	991
Other taxes	16	-416	-419
Result for the year		**-657**	**-3,688**

balance sheet

SEK million	Not	2006	2005
ASSETS			
Investments			
Investments in group and associated companies	17	14,560	16,652
Other financial investments	18	2,450	3,823
Deposits held with cedants	19	6,844	12,785
		23,854	**33,260**
Investments for the benefit of life assurance policyholders who bear the investment risk	20	**86,077**	**74,039**
Reinsurers' share of insurance provisions			
Provision for unearned premiums and unexpired risks		174	166
Provision for claims outstanding	21	795	797
	22	**969**	**963**
Debtors			
Debtors arising out of direct insurance operations	23	24	11
Debtors arising out of reinsurance operations	24	29	15
Other debtors	25	3,362	1,189
Deferred tax assets	26	462	448
		3,877	**1,663**
Other assets			
Tangible assets	27	42	33
Cash at bank		273	913
		315	**946**
Prepaid expenses and accrued income			
Accrued interest and rent		74	76
Deferred acquisition costs	28	1,066	1,243
Other prepayments and accrued income	29	465	349
		1,605	**1,668**
TOTAL ASSETS		**116,697**	**112,539**
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Shareholders' equity			
Share capital		1,031	1,025
Share premium reserve		139	31
Profit brought forward		8,184	11,476
Result for the year		-657	-3,688
		8,697	**8,844**
Untaxed reserves	30	**2,091**	**2,091**
Subordinated liabilities	31	**850**	**850**
Technical provisions, gross			
Provision for unearned premiums and unexpired risks	32	199	166
Life assurance provision	33	300	—
Provision for claims outstanding	34	1,445	1,478
		1,944	**1,644**
Provisions for life assurance policies where the investment risk is borne by the policyholders	35	**92,980**	**86,891**
Other provisions			
Provisions for pensions and similar obligations	36	284	271
Provision for taxes	37	0	361
Other provisions	38	1,037	692
		1,321	**1,324**
Deposits received from reinsurers		**970**	**965**
Creditors			
Creditors arising out of direct insurance operations	39	279	393
Creditors arising out of reinsurance operations		43	49
Derivatives	40	22	0
Other creditors	41	6,157	7,243
		6,501	**7,685**
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs		11	13
Other accruals and deferred income	42	1,332	2,232
		1,343	**2,245**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**116,697**	**112,539**
Pledged assets and therewith comparable collateral for own liabilities and for reported commitments for provisions	43	8,014	13,908
Assets covered by policyholders beneficiary rights	43	88,194	75,919
Contingent liabilities	44	1,069	2,302

statement of changes in shareholders' equity

SEK million	Restricted shareholders' equity: Share capital [1]	Restricted shareholders' equity: Share premium reserve	Unrestricted shareholders' equity: Retained earnings	Total share-holders' equity
Shareholders' equity at the beginning of 2005	**1,024**	**14**	**3,855**	**4,893**
Result for the year			-3,688	**-3,688**
Group contributions after deducted tax			7,980	**7,980**
Dividend, SEK 0.35 per share			-359	**-359**
New issue [2]	1	17		**18**
Shareholders' equity at the end of 2005	**1,025**	**31**	**7,788**	**8,844**
Result for the year			-657	**-657**
Group contributions after deducted tax			360	**360**
Dividend, SEK 0.40 per share [3]			-7	**-7**
New issue [2]	6	108		**114**
Merger result [4]			39	**39**
Translation differences for the year			4	**4**
Shareholders' equity at the end of 2006	**1,031**	**139**	**7,527**	**8,697**

[1] **Total number of shares outstanding**

	2006	2005
At 1 January	1,025,153,800	1,024,250,395
New issue associated with employee stock option programme	5,608,888	903,405
At 31 December	1,030,762,688	1,025,153,800

All shares have a par value of SEK 1 per share.

[2] New issue associated with employee stock option programme.

[3] Since the principal owner, Old Mutual, waived its entitlement to the dividend, dividends were paid out only to the other shareholders, corresponding to 18,048,412 shares.

[4] The merger result is attributable to Skandia Rådgivning Aktiebolag, reg. no. 556628-6612.

Condensed balance sheet	
Non-current assets	18
Receivables	255
Total assets	**273**
Restricted shareholders' equity	5
Unrestricted shareholders' equity	96
Liabilities	172
Total shareholders' equity and liabilities	**273**

Net sales amounted to SEK 384 million and the operating result to SEK 36 million.
Merger date: 1 September 2006

cash flow statement

SEK million	2006	2005
Operating activities		
Result for the year before tax according to Swedish GAAP	-407	-4,260
Policyholder tax	-416	-419
Adjustment for dividends from group companies	-2,599	-1,519
Adjustment for non-cash items [1]	3,079	5,335
Paid tax	13	-4
Cash flow from operating activities before changes in assets and liabilities	**-330**	**-867**
Cash flow from change in investments/technical provisions, where the investment risk is borne by the policyholders, net [2]	-8	29
Increase of other investments pertaining to operating activities, net	-290	-181
Change in other operating receivables and operating liabilities [3]	-2,356	555
Cash flow from operating activities	**-2,984**	**-464**
Investing activities		
Decrease of investments not used directly in the operations, net	1,583	1,484
Dividends from group companies	2,599	1,519
Other [4]	-804	-743
Cash flow from investing activities	**3,378**	**2,260**
Financing activities		
Change in borrowings [5]	-1,133	-639
New issue	114	18
Dividend	-7	-359
Cash flow from financing activities	**-1,026**	**-980**
NET CASH FLOW FOR THE YEAR	**-632**	**816**
Liquid assets at start of year	**913**	**89**
Exchange rate differences in liquid assets	**-8**	**8**
Liquid assets at end of year	**273**	**913**

[1] Amortisation and write-downs	18	11
Result from sale of fixed assets to group companies	—	-22
Change in value of investments	-52	1,131
Unrealised foreign exchange gains/losses	-407	808
Change in deferred acquisition costs	148	3
Change in deferred fee income	-12	-14
Change in accrued commission expenses	-58	-18
Change in technical provisions excluding savings in life and unit linked assurance	294	-40
Provisions for discontinued operation	338	—
Write-down of group companies	2,848	3,485
Merger result	-39	—
Other	1	-9
Adjustment for non-cash items	**3,079**	**5,335**
[2] Increase of technical provisions where the investment risk is borne by the policyholders, net	11,566	20,268
Purchases and sales of investments where the investment risk is borne by the policyholders, net	-11,574	-20,239
Cash flow from change in investments/technical provisions where the investment risk is borne by the policyholders, net	**-8**	**29**

[3] The item "Change in other operating receivables and operating liabilities" has been adjusted for group contributions that have been booked, but not received, in the amount of SEK 500 million (11,084) including tax on group contributions.

[4] Acquisition of tangible fixed assets	-12	-14
Result from sale of fixed assets to group companies	—	22
Acquisition of associated companies	—	-18
Change in loans, group companies	-255	-137
Liquidation of group companies	1,000	9
Acquisitions of group companies	-1,104	—
Contribution to group companies	-433	-605
Other	**-804**	**-743**
[5] Change in borrowings	-1,447	-180
Realised foreign exchange gains/losses, hedging of foreign net assets	314	-459
Change in borrowings	**-1,133**	**-639**

performance analysis

PROPERTY & CASUALTY INSURANCE (PER LINE OF INSURANCE)

SEK million	TOTAL	Sickness and accident	Direct abroad
Technical result, property & casualty insurance business			
Premiums earned, net of reinsurance	0	-147	147
Allocated investment return transferred from the non-technical account	0	0	0
Claims incurred, net of reinsurance	0	112	-112
Operating expenses	0	56	-56
Technical result, property & casualty insurance business	**0**	**21**	**-21**
Run-off result	**0**	**0**	**0**
Technical provisions, gross			
Unearned premiums and unexpired risks	174	137	37
Claims outstanding	750	681	69
Total technical provisions, gross	**924**	**818**	**106**
Reinsurers' share of technical provisions			
Unearned premiums and unexpired risks	174	174	—
Claims outstanding	750	750	—
Total reinsurers' share of technical provisions	**924**	**924**	**—**

Notes to the Performance analysis, property & casualty insurance business			
Premiums earned, net of reinsurance			
Premiums written, gross	649	497	152
Premiums ceded	-649	-649	—
Change in provision for unearned premiums and unexpired risks	-10	-5	-5
Reinsurers' share of change in provision for unearned premiums and unexpired risks	10	10	—
	0	**-147**	**147**
Claims incurred, net of reinsurance			
Claims paid [1]			
— Gross	-395	-310	-85
— Reinsurers' share	395	395	—
Change in claims outstanding [2]			
— Gross	2	29	-27
— Reinsurers' share	-2	-2	—
	0	**112**	**-112**

[1] Including claims portfolios and claims settlement costs.
[2] Including change in claims settlement reserve.

LIFE ASSURANCE (PER LINE OF INSURANCE)

SEK million	TOTAL	Occupational pension insurance: Unit linked assurance	Occupational pension insurance: Waiver of premium	Occupational pension insurance: Total	Other life assurance: Life assurance	Other life assurance: Unit linked assurance	Other life assurance: Waiver of premium	Other life assurance: Total	Life reassurance accepted	Unbundling
Technical result, life assurance business										
Premiums written, net of reinsurance	**186**	5,229	137	5,366	1	3,837	10	3,848	244	-9,272
Investment income	**3**	—	—	—	—	—	—	—	329	-326
Increase in value of investment assets where the investment risk is borne by the policyholders	**0**	5,672	—	5,672	25	3,532	—	3,557	—	-9,229
Other technical income, net of reinsurance	**1,954**	-8,890	7	-8,883	6	-2,530	0	-2,524	464	12,897
Claims incurred, net of reinsurance	**-116**	-896	-51	-947	-30	-4,148	-3	-4,181	-908	5,920
Change in other technical provisions, net of reinsurance	**-325**	-300	-25	-325	—	—	—	—	—	—
Operating expenses	**-861**	-493	-1	-494	0	-309	0	-309	-68	10
Investment charges	**-2**	0	-2	-2	—	0	0	0	—	—
Technical result, life assurance business	**839**	**322**	**65**	**387**	**2**	**382**	**7**	**391**	**61**	**0**
Run-off result	**64**	**—**	**56**	**56**	**—**	**—**	**8**	**8**	**—**	**—**
Technical provisions, gross										
Provision for unearned premiums and unexpired risks	**25**	—	25	25	—	—	—	—	—	—
Life assurance provision	**300**	300	—	300	—	—	—	—	6,767	-6,767
Claims outstanding	**695**	0	614	614	—	0	81	81	—	—
Technical provisions, gross	**1,020**	**300**	**639**	**939**	**—**	**0**	**81**	**81**	**6,767**	**-6,767**
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross										
Conditional bonuses	**110**	0	—	0	110	0	—	110	—	—
Unit linked obligations	**92,870**	56,477	—	56,477	—	29,545	—	29,545	81	6,767
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross	**92,980**	**56,477**	**—**	**56,477**	**110**	**29,545**	**—**	**29,655**	**81**	**6,767**
Reinsurers' share of technical provisions										
Claims outstanding	**45**	—	45	45	—	—	0	0	—	—

Notes to the Performance analysis, life assurance business

SEK million	TOTAL	Occupational pension insurance: Unit linked assurance	Occupational pension insurance: Waiver of premium	Occupational pension insurance: Total	Other life assurance: Life assurance	Other life assurance: Unit linked assurance	Other life assurance: Waiver of premium	Other life assurance: Total	Life reassurance accepted	Unbundling
Premiums written, net of reinsurance										
Premiums written, gross	**217**	5,229	168	5,397	1	3,837	10	3,848	244	-9,272
Premiums ceded	**-31**	0	-31	-31	—	0	0	0	—	—
	186	**5,229**	**137**	**5,366**	**1**	**3,837**	**10**	**3,848**	**244**	**-9,272**
Claims incurred, net of reinsurance										
Claims paid										
- Gross	**-134**	-893	-78	-971	-30	-4,136	-9	-4,175	-908	5,920
- Reinsurers' share	**5**	—	5	5	—	—	0	0	—	—
- Claims settlement costs	**-18**	-3	-3	-6	0	-12	0	-12	—	—
Change in claims outstanding										
- Gross	**28**	—	22	22	—	—	6	6	—	—
- Reinsurers' share	**3**	—	3	3	—	—	0	0	—	—
	-116	**-896**	**-51**	**-947**	**-30**	**-4,148**	**-3**	**-4,181**	**-908**	**5,920**

notes (SEK million)

Note 1 Accounting policies for the parent company

Note 1 of the consolidated financial statements describes the group's accounting policies. The parent company, Skandia, adheres to these principles where appropriate for legal entities, with the following exception and additions.

1. Basis of preparation

The Annual Report has been prepared in conformity with the Swedish Annual Accounts Act for Insurance Companies and Swedish Financial Supervisory Authority guidelines FFFS 2005:34. In accordance with these guidelines, Skandia applies so-called "legally limited" IFRS in the parent company's accounts. By legally limited IFRS is meant application of IFRS and accompanying interpretations that have been adopted by the European Commission, along with the deviations prescribed by the Financial Supervisory Authority. These deviations entail, among other things, application of IFRS 7 Financial Instruments: Disclosure (which is not yet obligatory) and Swedish Financial Accounting Standards Council recommendation no. 32:05, "Accounting for legal entities".

The financial reports are presented in Swedish kronor, rounded off to the nearest million. They are based on historical cost, except for the following assets and liabilities, which are stated at fair value: financial derivative instruments, real estate, investments held for trading, and financial assets and liabilities pertaining to unit linked assurance.

The accounting policies stated below have been applied for all periods presented in this annual report.

2. Shares in subsidiaries, associated companies and jointly controlled companies

Shares in these companies are stated at cost. The reported value is reviewed on each balance sheet date to determine if there is any indication of a decline in value. If such an indication exists, the asset's recoverable value is determined. A write-down is made when the asset's or its cash-generating unit's reported value exceeds the recoverable value. Write-downs are expensed in the income statement.

In contrast to the handling in the consolidated financial statements, hedge accounting is not applied for financial hedges in the company pertaining to shares in foreign subsidiaries.

3. Segment reporting

Segment reporting by the parent company does not match the segments reported by the group, but consists of the performance analysis which is required by the Swedish Annual Accounts Act for Insurance Companies. The Performance Analysis is presented on pp. 56-57.

4. Foreign currency

Transactions in foreign currency are recalculated to the exchange rate in effect on the transaction date. Nonmonetary items in a foreign currency that have been stated at historical cost are recalculated using the exchange rate in effect on the transaction date, while nonmonetary items in foreign currency that are stated at fair value are recalculated using the exchange rate in effect on the day on which the fair value was determined. Foreign exchange differences are reported in the income statement as Foreign exchange gains/losses.

5. Pensions

The parent company applies the rules of the Pension Obligations Vesting Act ("Tryggandelagen") and the Financial Supervisory Authority's guidelines for reporting of pensions. Compliance with Tryggandelagen is a prerequisite for obtaining the right to make tax deductions for premiums. Consequently, legal entities are not required to comply with the rules of IAS 19 pertaining to defined benefit pension plans.

6. Appropriations and untaxed reserves

The tax code in Sweden allows companies to reduce their taxable income through appropriations to untaxed reserves. In accordance with Swedish practice, changes in these reserves are reported in the income statement of individual companies under the heading "Appropriations". The accumulated total of these appropriations is reported in the balance sheet under the heading "Untaxed reserves", of which 28% can be considered to be a deferred tax liability and 72% as restricted shareholders' equity. The deferred tax liability can be described as a noninterest-bearing liability with an unspecified maturity.

Where applicable, untaxed reserves are offset against tax-loss carryforwards or become subject to taxation when they are dissolved. In evaluating the company's financial strength, the total value of untaxed reserves can be regarded as risk capital, since losses generally can be covered through reversals of these untaxed reserves, without payment of taxes.

The Swedish tax code permits group contributions to be rendered and received by Swedish corporations, subject to special restrictions, with the contribution becoming taxable for the recipient and tax-deductible for the rendering entity. In accordance with pronouncements made by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, group contributions are reported according to their economic significance.

NOTES ON THE TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS

Note 2 Premiums written

	2006			2005		
	Gross	Ceded[2]	Net	Gross	Ceded[2]	Net
Paid-in and recognised premiums [1]	**649**	**-649**	**0**	**589**	**-589**	**0**
[1] Of which, direct property & casualty contracts written in:						
Sweden	497			461		
Other EEA countries	152			128		
	649			**589**		

[2] Pertains in its entirety to reinsurance with group companies.

Note 3 Allocated investment return transferred from the non-technical account

In the property & casualty insurance operations, the allocated investment return is transferred from the non-technical to the technical account based on average technical provisions less outstanding net receivables in the insurance operations. The interest rates mainly follow the yield of medium-term government bonds with consideration given to the insurance operations' cash flow over time. The entire insurance risk has been reinsured, and no investment income was transferred to the non-technical account in 2005 or 2006.

Note 4 Claims paid

	2006			2005		
	Gross	Ceded[1]	Net	Gross	Ceded[1]	Net
Claims paid	-380	395	15	-370	381	11
Claims portfolios	0	0	0	—	—	—
Operating expenses, claims settlement	-15	—	-15	-11	—	-11
Claims paid	**-395**	**395**	**0**	**-381**	**381**	**0**

[1] Pertains in its entirety to reinsurance with group companies.

Note 5 Run-off result

The net run-off result accounted for SEK 0 million (0) of claims incurred.

Note 6 Operating expenses

	2006	2005
Internal acquisition costs	-49	-38
External acquisition costs [1]	3	-4
Change in deferred acquisition costs, gross	-2	1
Administrative expenses	-144	-121
Reinsurance commissions and profit participations	190	163
Change in deferred acquisition costs, ceded reinsurance	2	-1
Operating expenses	**0**	**0**

[1] Pertains to direct insurance.

For breakdown of total operating expenses, see note 48.

NOTES ON THE TECHNICAL ACCOUNT, LIFE ASSURANCE BUSINESS

Note 7 Premiums written, net of reinsurance

	2006			2005		
	Gross	Ceded	Net	Gross	Ceded	Net
Periodic premiums	217	-31	186	208	-37	171
Paid-in and recognised premiums[1]	**217**	**-31**	**186**	**208**	**-37**	**171**

[1] Pertains to premiums for the insurance component of life assurance business where the investment risk is borne by the life assurance policyholders. All insurance contracts have been written in Sweden.

Note 8 Claims paid, net of reinsurance

	2006			2005		
	Gross	Ceded	Net	Gross	Ceded	Net
Death	-46	—	-46	-34	—	-34
Disability	-87	5	-82	-76	6	-70
Claims settlement costs	-19	—	-19	-20	—	-20
Claims paid	**-152**	**5**	**-147**	**-130**	**6**	**-124**

Note 9 Change in other technical provisions

Pertains to provisions for guarantees for unit linked assurance contracts. See also description in Board of Directors' Report.

Note 10 Operating expenses

	2006	2005
Internal acquisition costs	-352	-316
External acquisition costs	-200	-157
Change in accrued commissions, gross	58	18
Change in deferred acquisition costs, gross	-136	12
Administrative expenses	-231	-193
Operating expenses	**-861**	**-636**

For breakdown of total operating expenses, see note 48.

Note 11 Investment charges

Pertains to interest on deposits.

NOTES ON THE NON-TECHNICAL ACCOUNT

Note 12 Investment income

	2006	2005
Dividends from shares and participations		
Shares in group companies	2,599	1,519
Other shares and participations	84	46
Interest income, etc.		
Bonds and other fixed-income securities	101	100
Group companies	84	25
Other interest income	27	13
Foreign exchange gains, net	269	—
Reversed write-downs		
Bonds and other fixed-income securities	—	7
Capital gains, net		
Shares and participations	28	—
Investment income	**3,192**	**1,710**

Note 13 Unrealised gains on investment assets, net

	2006	2005
Shares and participations	92	139
Fixed-income securities	—	6
Unrealised gains on investment assets, net	**92**	**145**

Note 14 Investment charges

	2006	2005
Asset management charges	-1,292	-971
Interest expense, etc.		
Group companies	-280	-442
Other interest expenses	-104	-212
Foreign exchange losses, net	—	-742
Write-downs		
Write-down of shares in group companies	-2,849	-3,485
Capital losses, net		
Shares and participations	—	-1,278
Fixed-income securities	-21	-5
Investment charges	**-4,546**	**-7,135**

Note 15 Unrealised losses on investments, net

	2006	2005
Fixed-income securities	-48	—
Unrealised losses on investments, net	**-48**	**—**

Note 16 Taxes

	2006	2005
Current tax pertaining to current year [1]	152	3,102
Current tax pertaining to previous years	—	-2
Deferred tax	14	-2,109
Tax on result for the year	**166**	**991**
Policyholder tax	-416	-419
Taxes	**-250**	**572**

	2006	2005
Difference between parent company's tax charge and tax charge based on applicable Swedish tax rate		
Pre-tax result	-819	-4,677
Less: Policyholder tax	412	417
Pre-tax result based on income taxation	**-407**	**-4,260**
Tax based on applicable tax rate, 28%	**114**	**1,193**
Tax pertaining to previous years	18	24
Losses for which deferred tax asset has not been taken into account	-127	130
Non-deductible costs	-849	-1,029
Non-taxable revenues	895	556
Tax effect of policyholder tax charged	115	117
Policyholder tax	-416	-419
Reported tax charge	**-250**	**572**

[1] Pertains mainly to tax on group contributions.

NOTES ON THE BALANCE SHEET

Note 17 Investments in group companies and associated companies

	Cost [1]		Fair value		Book value	
	2006	2005	2006	2005	2006	2005
Shares and participations in group companies[2]	13,910	16,258	30,545	32,063	13,910	16,258
Lending to group companies	534	278	534	278	534	278
Shares and participations in associated companies[3]	116	116	116	116	116	116
Investments in group companies and associated companies	**14,560**	**16,652**	**31,195**	**32,457**	**14,560**	**16,652**

[1] Valuation based on cost, i.e., after requisite write-downs.

[2] Shares and participations in group companies:

	Reg. no.	Domicile	No. of shares	Share, %	Currency	Par value	Book value 2006	Book value 2005
Australia								
Australian Skandia Ltd		Sydney	72,300,927	100	MAUD	72	389	373
Chile								
Skandia Chile S.A. [1]		Santiago	38,162,962	99.99	MCLP	5	78	56
Skandia Chile S.A. Corredora de Bolsa [2]		Santiago	1	0.01	MCLP	0	0	0
Colombia								
Skandia Holding de Colombia S.A. [3]		Bogotá	2,271	5.09	MCOP	227	2	2
Denmark								
A/S Nevi Danmark		Copenhagen	2,097,000	100	MDKK	2,097	8	2,481
Germany								
Observice Rating GmbH		Berlin	1	100	MEUR	0	0	–
Skandia Leben Holding Gmbh		Berlin	50	100	MEUR	0	1,452	1,512
Hong Kong								
Skandia Asia Pacific Ltd		Hong Kong	–	–	MHKD	–	–	0
Skandia Global Funds (Asia Pacific) Ltd		Hong Kong	5,000,005	100	MHKD	5	4	11
Ireland								
SGF Marketing Ltd		Dublin	10,000,000	100	MEUR	10	5	5
Skandia Fund Management (Ireland) Ltd		Dublin	350,000	100	MEUR	0	24	24
Mexico								
Skandia Vida S.A. de C.V.		Mexico City	39,981	100	MMXN	214	102	85
Skandia Servicios Mexico S.A. de C.V.		Mexico City	45,145	100	MMXN	0	10	10
Skandia Operadora de Fondos S.A de C.V. Sociedad Operadora de Sociedades de Inversión [4]		Mexico City	36,174		MMXN	38	60	40
Norway								
Skandia Informasjonsteknologi A/S		Oslo	1,000	100	MNOK	12	15	15
Poland								
Skandia Zycie Towarzystwo Ubezpieczen Spolka Akcyjna [5]		Warsaw	460	1	MPLN	0	0	0
Spain								
Skandia Servicios Financieros S.A. [6]		Madrid	–	–	MEUR	–	–	0
Sweden								
Dial Försäkring AB	516401-8300	Stockholm	100,000	100	MSEK	10	765	765
Global Responsibility International (Europe) AB	556579-1802	Stockholm	–	–	MSEK	–	–	0
Livförsäkringsaktiebolaget Skandia (publ)	502019-6365	Stockholm	3,000	100	MSEK	1	0	0
Schnil HB [7]	969711-6201	Stockholm	70	70	MSEK	0	4	1
Skandia Capital AB (publ)	556306-3881	Stockholm	5,000	100	MSEK	0	100	100
Skandia Europe AB	556598-0322	Stockholm	1,000	100	MSEK	0	1,563	1,291
Skandia Global Investments AB	556589-5694	Stockholm	1,000	100	MSEK	0	1,866	1,866
Skandia Holding AB	556000-1033	Stockholm	3,639,552	100	MSEK	91	200	–
Skandia Informationsteknologi AB	556023-5797	Stockholm	10,000	100	MSEK	0	40	6
Skandia Investment Advisory Services AB	556555-6965	Stockholm	1,697,000	100	MSEK	5	7	–
Skandia Roibois AB	556712-3392	Stockholm	1,000	100	MSEK	0	0	–
Skandia Rådgivning AB	556628-6612	Stockholm	–	–	MSEK	–	–	35
SkandiaBanken AB (publ)	516401-9738	Stockholm	4,000,000	100	MSEK	400	2,478	2,428
SkandiaLink Multifond AB	556132-9284	Stockholm	80,000	100	MSEK	8	18	18
Skandia Telemarketing AB	556606-6832	Stockholm	1,000	100	MSEK	0	10	–
Sturebadet AB	556302-8421	Stockholm	10,000	100	MSEK	2	4	–
TORMAC AB	556567-0154	Stockholm	1,000	100	MSEK	0	5	–
UK								
Skandia UK Ltd		London	500,000,000	100	MGBP	282	4,558	4,558
Skandia NTS Ltd		London	5,000,000	100	MGBP	0	22	22
USA								
Skandia America Corporation		New York	100	100	MUSD	0	121	–
Skandia US Holding, LLC		New York	–	–	MUSD	–	–	554
Shares in group companies							**13,910**	**16,258**

[1] Skandia Holding de Colombia S.A. has 1 share.
[2] Skandia Chile S.A. holds the other 99.99%.
[3] Skandia Holding AB holds the other 94.91%.
[4] Skandia Servicios Mexico S.A. de C.V. has 1 share.
[5] Skandia Europe holds the other 99%.
[6] Skandia Vida S.A. de Seguros y Reaseguros holds the other 95%.
[7] Skandia Informasjonsteknologi AS holds the other 30%.

Changes of shares in group companies

	2006	2005
Opening balance	**16,258**	**19,144**
Additions		
Purchases	1,104	9
Contributions	433	605
Deductions		
Sales/liquidations	-1,036	-15
Write-downs	-2,849	-3,485
Closing balance	**13,910**	**16,258**

The consolidated accounts do not include the wholly owned company Livförsäkringsaktiebolaget Skandia (Skandia Liv) and its group companies. Skandia Liv's business is conducted on a mutual basis, and its entire result is returned to Skandia Liv's policyholders. Following are some key ratios for Skandia Liv:

	2006	2005
Premiums written	15,004	15,157
Result before tax	25,084	19,834
Total return	24,379	33,627
Managed assets	293,125	275,950
Solvency %	112	109
Average number of employees	335	279

[3] Shares and participations in associated companies:

	Reg. no.	Domicile	No. of shares	Share, %	Currency	Par value	Book value 2006	Book value 2005
Skandia-BSAM Life Insurance Corporation Ltd		Beijing	n/a	50	MCNY	120	115	115
Sophiahemmet Rehab Center	556248-6323	Stockholm	750	50	MSEK	0	1	1
Skandia A/S		Copenhagen	1	50	MDKK	0	0	0
Shares in associated companies							**116**	**116**

Combined amounts for associated companies	**2006**	**2005**
Total assets	727	291
Total liabilities	631	131
Total equity	96	160
Revenues	72	39
Net result for the year	-49	-32

Note 18 Other financial investments

	Cost [1]		Fair value		Book value	
	2006	2005	2006	2005	2006	2005
Shares and participations	84	152	178	279	178	279
Bonds and other fixed-income securities	2,066	3,316	2,069	3,366	2,069	3,366
Other loans	0	1	0	1	0	1
Lending to credit institutions	150	–	150	–	150	–
Derivatives[1]	53	3	53	177	53	177
Other financial investments	**2,353**	**3,472**	**2,450**	**3,823**	**2,450**	**3,823**

[1] Pertains to currency derivatives with a nominal value of SEK 52 million. The derivatives mature within one month.

Note 19 Deposits with ceding undertakings

Pertains to reinsurance of unit linked assurance obligations. The deposits consist of Skandia's share of unit linked assets in group companies that have ceded reinsurance.

Note 20 Unit linked assets

	2006	2005
Equity-based funds	74,219	64,983
Interest rate-based funds	11,858	9,056
Unit linked assets	**86,077**	**74,039**

Note 21 Reinsurers' share of provision for claims outstanding

	2006	2005
Property & casualty insurance		
Incurred and reported claims	432	367
Incurred but not reported claims (IBNR)	318	388
	750	**755**
Life assurance		
Notified claims	29	26
Incurred but not reported claims (IBNR)	16	16
	45	**42**
Reinsurers' share of provision for claims outstanding	**795**	**797**

Note 22 Reinsurers' share of technical provisions

	2006	2005
Opening balance	**963**	**967**
Change in provision	6	-4
Closing balance	**969**	**963**

Note 23 Debtors arising out of direct insurance operations

	2006	2005
Amounts receivable from policyholders	17	6
Amounts receivable from insurance companies	7	5
Debtors arising out of direct insurance operations	**24**	**11**

Note 24 Debtors arising out of reinsurance operations

	2006	2005
Amounts receivable from group companies	29	15
Debtors arising out of reinsurance operations	**29**	**15**

Note 25 Other debtors

	2006	2005
Other debtors [1]	358	332
Amounts receivable from group companies	2,939	833
Tax asset	65	24
Other debtors	**3,362**	**1,189**
[1] Of which, receivable from companies in the Skandia Liv group	178	195

Note 26 Deferred tax assets, net

	2006	2005
Deferred tax liability, gross, pertaining to:		
Investments	10	46
Deferred tax assets, gross, pertaining to:		
Investments	—	7
Tax-loss carryforwards or other future tax deductions	1,185	1,085
Other	478	425
Less items that do no meet requirements for asset accounting [1]	-1,191	-1,023
Deferred tax assets	**472**	**494**
Total deferred tax assets, net	**462**	**448**

[1] Pertains primarily to tax assets on loss carryforwards in cases where it has been judged to be less likely that they can be deducted from future taxation in the years immediately ahead.

Tax loss deductions can be offset against future profits indefinitely and amount to SEK 4,234 million (3,874).

Unreported deferred tax liabilities pertaining to untaxed reserves amount to SEK 585 million (585).

Note 27 Tangible assets

Machinery and equipment	Cost	Accumulated depreciation	Book value
As per 1 January 2005	**76**	**-45**	**31**
Purchases	14	—	14
Sales	-16	14	-2
Depreciation for the year	—	-11	-11
Exchange difference	1	0	1
As per 1 January 2006	**75**	**-42**	**33**
Purchases	20	—	20
Sales	0	7	7
Depreciation for the year	—	-18	-18
Exchange difference	0	0	0
As per 31 December 2006	**95**	**-53**	**42**

Note 28 Deferred acquisition costs

	2006	2005
Opening balance	**1,243**	**1,040**
Capitalisation of acquisition costs during the year	31	413
Amortisation of deferred acquisition costs during the year	-208	-210
Closing balance [1]	**1,066**	**1,243**
[1] Of which:		
Amortisation period less than two years, property & casualty insurance	11	14
Amortisation period longer than two years, life and unit linked assurance (investment contracts)	1,055	1,229

Note 29 Other prepayments and accrued income

	2006	2005
Accrued income	356	279
Prepayments [1]	109	70
Other prepayments and accrued income	**465**	**349**
[1] Of which, payables to companies in the Skandia Liv group	84	19

Note 30 Untaxed reserves

Untaxed reserves consist of an equalisation reserve.
The aim of the equalisation reserve is to smoothen out changes in the result of the insurance operations over time. Reversals are regulated in accordance with transitional stipulations made by the National Tax Act.
No new provisions can be made to the equalisation reserve after 1990.

Note 31 Subordinated liabilities

	2006	2005
Fixed-term [1]	850	850

[1] Pertains to SEK 150 million and SEK 700 million issued in 2002, which fall due for payment in 2017, but will be preliminarily redeemed in 2007. In accordance with applicable rules, the subordinated loans in Skandia Insurance Company Ltd are included in the group's capital base. The estimated fair value of subordinated loans amounted to SEK 898 million (893)

Note 32 Provision for unearned premiums and unexpired risks

	2006	2005
Property & casualty insurance	174	166
Life assurance	25	—
Provision for unearned premiums and unexpired risks	**199**	**166**

Note 33 Life assurance provisions

	2006	2005
Provision	300	—

Pertains to guarantees made for a portfolio of occupational pension contracts. A new technical provision of SEK 300 million has been made in the accounts as per 31 December 2006.

Note 34 Provision for claims outstanding

	2006	2005
Property & casualty insurance		
Incurred and reported claims	382	324
Incurred but not reported claims (IBNR)	318	388
Provision for claims settlement costs	50	43
	750	**755**
Life assurance		
Notified claims [1]	628	666
Unnotified claims	67	57
	695	**723**
Provision for claims outstanding	**1,445**	**1,478**

[1] The amount is discounted. The undiscounted amount was SEK 723 million.

The technical provisions for waiver of premium insurance are calculated using a discount rate that has been set according to market principles. The Financial Supervisory Authority's guidelines FFFS 2003:9 on the maximum interest rate to be used for calculating life assurance provisions and certain other technical provisions have also been taken into account. The assumptions used in the calculation, except for the interest rate and an inflation assumption, are an estimate for recoveries among disabled, estimated in 2003 on the basis of previous experience from this business. The calculation is in conformity with standard formulas and Swedish practice.

The technical provisions for group accident and private healthcare insurance have been calculated using triangulation methods combined with average claims techniques – methods that have been accepted practice in property & casualty insurance for a long time and are recommended by actuarial associations in general in both Europe and the US. These reserves are not discounted due to the short average duration of claims payments.

The uncertainties that exist in the estimations are handled in a prudent manner in accordance with generally accepted accounting practice. An example of this prudence principle is that an incompletely reported claim is taken up at its maximum value in the calculation.

Reserves referred to as actuarial reserves correspond to the IBNR (incurred but not reported) claims reserve; however, based on experience, it can be warranted to assume that certain claims are reported with a time delay. The IBNR calculation is performed using several different variants of the chain ladder method, involving the number of reported claims, benefits paid out to date, etc. The calculation variants are compared and compiled to arrive at a joint estimation of number of claims, after which the reserve is determined under the assumption that the unreported claims have the same average cost as those that have been reported.

The change in this reserve in 2006 is due to a change in the basis for calculating the reserve. The principles and method behind the calculation are the same as in previous years. However, the period of time that makes up the basis for the calculation has been stretched out to correspond to the anticipated average duration of the claims payments.

Note 35 Provisions for life assurance policies where the investment risk is borne by the policyholders

	2006	2005
Opening balance	**86,891**	**53,834**
Portfolio transfer	-4,547	12,789
Deposits	9,313	10,531
Decrease due to surrenders	-4,028	-4,598
Decrease due to maturity	-1,877	-1,350
Decrease due to mortality	-160	-130
Change in fund values (unit price)	9,700	16,998
Charges	-1,382	-1,183
Exchange difference	-930	0
Closing balance	**92,980**	**86,891**

Note 36 Provision for pensions and similar obligations

Pertains to the provision for special employers' payroll tax to be paid upon future disbursements of previously expensed pensions. See also note 47, Pension disclosures.

Note 37 Provision for taxes

	2006	2005
Policyholder tax	0	361

Note 38 Other provisions

	2006	2005
Opening balance	**692**	**277**
New additions	469	626
Utilisation of reserves	-15	-183
Unused amounts reversed	-18	-33
Exchange differences	-91	5
Closing balance[1]	**1,037**	**692**
[1] Of which:		
Provision for restructuring	10	43
Provision for cost for sold subsidiaries	870	649
Other provisions	157	—

For additional information on other provisions, see note 36 in the group accounts and the Board of Directors' Report.

Note 39 Creditors arising out of direct insurance operations

	2006	2005
Policyholders	245	373
Insurance brokers	34	20
Creditors arising out of direct insurance operations	**279**	**393**

Note 40 Derivatives

	Cost		Fair value		Book value	
	2006	2005	2006	2005	2006	2005
Currency derivatives	22	0	22	0	22	0
Derivatives	**22**	**0**	**22**	**0**	**22**	**0**

Note 41 Other creditors

	2006	2005
Other payables [1]	310	423
Amounts payable to group companies	5,847	6,820
Other creditors	**6,157**	**7,243**
[1] Of which, amounts payable to companies in the Skandia Liv group	40	1

The estimated fair value of long-term liabilities to group companies was SEK 4,073 million (5,611). The market value of other interest-bearing liabilities is estimated as the book value, due to the short term of the liabilities. Contracted, unutilised credit facilities amounted to SEK 0.6 billion (0.6) on the balance sheet date.

Note 42 Other accruals and deferred income

	2006	2005
Accrued interest expense	85	845
Other accruals	1,246	1,386
Deferred income	1	1
Other accruals and deferred income	**1,332**	**2,232**

Note 43 Pledged assets

	2006	2005
Pledged assets and therewith comparable security		
Other financial assets	0	13
Deposits with ceding undertakings	6,844	12,785
Endowment insurance policies pledged as security for pension obligations[1]	1,170	1,110
Assets covered by policyholders' beneficiary rights [2]	88,194	75,919
Pledged assets	**96,208**	**89,827**

[1] See also note 47.

[2] Corresponds to provisions in the balance sheet, totalling SEK 87,970 million (75,670).

Note 44 Contingent liabilities

	2006	2005
Pension obligations [2]	0	19
Sureties and guarantees [1]	1,069	2,283
Contingent liabilities	**1,069**	**2,302**
[1] Of which, on behalf of group companies	989	2,190

[2] In the parent company, there are pension obligations that have not been included in the balance sheet, amounting to SEK 1,170 million (1,110), which are covered by the value of company-owned endowment insurance policies and SEK 2 million (3) which are covered by assets in the Skandia Group Pension Foundation (see also note 47).

Skandia is – in relation to third parties – still bound to certain guarantee commitments stemming from property & casualty insurance operations which were transferred to the If Group in 1999. Through agreements between the companies concerned in the If Group on the one side and the Skandia Group on the other, the If Group guarantees that the Skandia Group will be indemnified for any possible claims made by third parties with respect to such guarantee commitments. With respect to disputes, refer to the Disputes section in the Board of Directors' Report.

Note 45 Leasing

In its capacity as a lessee, Skandia has entered into a number of operating leases. Minimum lease payments pertaining to non-cancellable operating leases as per 31 December 2006 mature as follows:

Operating leases	Amount
2007	-129
2008	-124
2009	-117
2010	-113
2011	-3
2012 and later	-1
Total leasing expense	**-487**

Leasing expenses for the year amounted to SEK 119 million (153).

Note 46 Average number of employees, salaries and remuneration[1)]

I. Average number of employees and agents	Men	Women	2006 Total	2005 Total
Operations in Sweden, office staff	466	770	1,236	1,003
Operations in Sweden, agents	187	44	231	—
Outside Sweden, office staff	17	29	46	45
	670	**843**	**1,513**	**1,048**

II. Wages, salaries and remuneration[2)]	2006	2005
Senior executives	48	76
Office staff	718	429
Agents	180	—
Wages, salaries and remuneration	**946**	**505**
Of whom, outside Sweden, office staff[3)]	55	35
Pension and other social security charges for employees in Sweden	498	366
Of which, pension costs	218	167

1) For further information about senior executives, see note 44 to the group accounts. The change is explained by the merger of the subsidiary Skandia Rådgivning with the parent company in 2006.

2) During the year SEK 39 million was allocated to Skandianen, Skandia's long-term profit-sharing foundation, which covers Swedish employee who do not have a variable salary component in their compensation package.

3) Four countries in total.

III. Sickness-related absence	2006	2005
Total, sickness-related absence	**4.30%**	**3.53%**
- Long-term sickness-related absence (>60 days)	2.46%	1.39%
- Sickness-related absence, men	3.30%	1.69%
- Sickness-related absence, women	5.08%	4.59%
- Employees –29 years	2.80%	3.60%
- Employees 30–49 years	3.90%	3.47%
- Employees 50 years –	6.11%	3.65%

Data pertain only to employees in Sweden and are indicated as a percentage of employees' combined regular working hours.

Note 47 Pension disclosures

In its consolidated financial statements, Skandia applies IAS 19 Employee Benefits with respect to the reporting of defined benefit pension plans, see note 23 to the group accounts. The parent company applies the rules of the Pension Obligations Vesting Act ("Tryggandelagen") and the Financial Supervisory Authority's guidelines for the reporting of pensions. Application of the Pension Obligations Vesting Act is a prerequisite for having the right to tax deductions for this business. Consequently, the rules of IAS 19 pertaining to defined benefit pension plans are not applied in the parent company. Instead, disclosures are provided in relevant respects regarding the stipulations in IAS 19.

The pension plans in the parent company consist primarily of pension benefits provided under the collectively bargained FTP plan (occupational pension plan for salaried employees in the insurance industry) and to some extent of supplementary pension benefits for senior executives. The pension plans include primarily retirement pension, disability pension and family pension benefits. The FTP plan is a defined benefit plan, entailing that the employees are guaranteed a certain level of pension benefits upon retirement which are based on their salary upon retirement. Salaried employees with a pensionable salary that is higher than 10 times the Income Base Amount are entitled to choose another pension solution for salary amounts between 7.5 and 30 times the Income Base Amount (so-called alternative FTP). Alternative FTP, like the FTPK complementary retirement pension plan, is classified as a defined contribution pension plan. Defined contribution pension plans entail that the company's pension cost is based on a certain percentage of the employee's salary.

Skandia's pension plans are vested through payment of insurance premiums primarily to Skandia Liv, and to some extent to the Insurance Industry Pension Fund (FPK). Some defined benefit pension obligations are also vested through the Skandia Group Pension Foundation. Pension obligations vested through the pension foundation are not shown on the parent company's balance sheet.

Pension obligations that have been vested through company-owned endowment insurance policies are not reported on the balance sheet. The value of these pension obligations corresponds to the account balances of the endowment insurance policies. The account balances are based on actuarial guidelines and computation bases used by the insurers and consist of the market value of the portion of the insurers' investment assets attributable to the respective policies, excluding non-allocated surpluses. As a consequence of reporting of the pension obligations vested through endowment insurance policies, the value of the company-owned endowment insurance policies is not reported as an asset in the balance sheet.

Endowment insurance policies are pledged for the benefit of the beneficiaries and are therefore carried as pledged assets by the parent company and group. The value of the pledged assets correspond to the account balances of the endowment insurance policies.

Premiums paid toward endowment insurance policies are reported as a pension cost. Future premiums paid toward endowment insurance policies may be affected by salary increases, returns on plan assets and allocations of surpluses. For most beneficiaries, the benefits are paid out from the endowment insurance policies directly to the beneficiaries without going through the parent company. Where applicable, benefits from the endowment insurance policies are paid to the beneficiaries via the parent company.

In the income statement, the parent company's pension cost consists of the sum of pension premiums, contributions toward endowment insurance policies, paid-out direct pensions pertaining to pension obligations vested in the Skandia Group Pension Foundation ("pensions vested under own management"), and payroll tax. This cost is reported as an administrative expense, see note 48.

A provision for payroll tax has been made in the balance sheet for pension obligations that have been vested through company-owned endowment insurance policies. The assets in the Skandia Group's Pension Foundation include shares in Skandia Insurance Company Ltd (publ) at a market value of SEK 0 million (2) on the balance sheet date.

Note 48 Administrative expenses

	2006	2005
Wages, salaries and remuneration	-946	-505
Social security charges	-280	-199
Pension costs (including special payroll tax)	-243	-167
Compensation from pension foundation	25	—
Other payroll costs[1)]	-145	-49
Payroll costs	**-1,589**	**-920**
Cost of premises	-246	-211
Depreciation	-18	-11
Reversal of provision for restructuring costs from previous years	18	25
Other[2)]	-255	-526
Administrative expenses	**-2,090**	**-1,643**
Administrative expenses are broken down in the profit and loss account as follows:		
Investment income (included in note 15)	-1,298	-969
Claims incurred (included in note 4)	-34	-31
Reversal of provision for restructuring costs from previous years	18	25
Operating expenses in the technical result, property & casualty insurance business (included in note 6)	-193	-158
Operating expenses in the technical result, life assurance business (included in note 10)	-583	-510
Total distributed administrative expenses	**-2,090**	**-1,643**

1) Of which, expensed provisions/payments for profit-sharing systems for employees of other group companies	88	14
2) Auditing and other assignments are broken down as follows:		
Audit assignment, Deloitte	-2	-16
Other assignments, Deloitte	-8	-20
Audit assignment, Ernst & Young	0	0
Other assignments, Ernst & Young	-11	0
Audit assignment, KPMG	-11	0
Other assignments, KPMG	-2	0
Audit assignment, SET Revision	-2	-1
Other assignments, other	-5	-2
Total	**-41**	**-39**

Note 49 Related party disclosures

Related parties

Skandia Insurance Company Ltd (Skandia) is the parent company of the Skandia group. All companies in the Skandia group are defined as related parties, including associated companies and joint ventures.

Livförsäkringsaktiebolaget Skandia (Skandia Liv) is a wholly owned subsidiary of Skandia that is not consolidated. Disclosures on related party transactions between Skandia and the Skandia Liv group are described in note 45 to the group accounts.

Transactions with Skandia's associated companies and joint ventures are disclosed in note 45 to the group accounts, as are transactions with Skandia's parent company, Old Mutual and its other subsidiaries.

The Board and management of Skandia are also defined as related parties. Remuneration and loans to these individuals are disclosed in note 44 to the group accounts. Related parties to the Board and management have no relations with Skandia other than ordinary customer transactions.

Following is a description of the significant relations that Skandia has with companies in the Skandia group in general.

Pricing

The pricing methods used are market price or cost-price. Market price is used in cases where it is possible to make comparisons with similar services in the market. In other respects, the cost-price method is used. When cost-price is use, the consultation group decides on the scope and allocation of costs. In connection with business planning, a budget is produced which includes the total costs per assignment, broken down into separate costs and joint costs, along with an allocation formula that reflects degree of use. Compensation is paid based on the actual outcome. Departures from the budget must be presented to and approved by the consultation groups, and a review of the allocation formulas shall be performed on a quarterly basis in the aim of changing these if significant changes have taken place.

Investments

Skandia owns shares in subsidiaries, and during the year it paid capital contributions to certain subsidiaries. Information on the book value of subsidiaries and the amount of capital contributions is shown in note 17. Skandia has received dividends from group companies amounting to SEK 2,599 million (1,519). Certain Swedish subsidiaries have also rendered or received group contributions.

Transactions

1) Retrocessions from fund companies
Skandia receives compensation (retrocessions) from fund companies, based on sold volume. The compensation is in line with the going rate in the market.

2) Cash management and financing
Co-operation is conducted within the group in cash management and financing, which is co-ordinated by the subsidiary Skandia Capital. The Swedish subsidiaries (with the exception of SkandiaBanken) are included in Skandia's group account, and receive and pay interest to Skandia for their share of the balance. Skandia also conducts its own financing through Skandia Capital. Skandia hedges currency risk in foreign investments primarily using currency derivatives. These are hedged with Skandia Capital. These hedges were concluded in 2006. Market interest or prices are paid or received for all transactions. Skandia has a net liability of SEK 2,235 million to its subsidiaries. Of the net liability SEK 3,522 million pertains to borrowings from subsidiaries.

3) IT operations
The Skandia group conducts IT operations in numerous companies, of which Skandia is one. These companies invoice each other internally, which is why Skandia both invoices IT services to subsidiaries and receives invoices itself from certain subsidiaries. The services primarily provided by Skandia involve the operation and development of group-wide accounting and cash management systems. The services that Skandia buys pertain to the operation and service of PCs and networks, but also insurance systems for unit linked assurance. The compensation paid for these services is based on cost-price.

4) Reinsurance ceded
Skandia reinsures the morbidity risk that arises in association with Health and Healthcare products with the subsidiary Dial. Skandia has a net liability of SEK 45 million (76) to Dial. The contracts with Dial are based on market prices.

5) Reinsurance accepted
Several foreign subsidiaries reinsure their mortality risks with Skandia. These policies were transferred from Dial to Skandia on 31/12/2005 through a portfolio transfer. Skandia has a net receivable of SEK 67 million (93) from subsidiaries. The contracts with subsidiaries are based on market prices.

6) Administrative services
Skandia performs administrative services on behalf of its subsidiaries in the following areas:
- Legal affairs
- HR
- Marketing and communication
- Internal audit
- Treasury administration
- Administration of premises

The compensation paid for services in these areas is based on cost-price, broken down according to degree of actual use.

7) Premises
As described in note 45 to the group accounts, Skandia rents premises from Skandia Liv. Parts of these premises are sublet to subsidiaries, which pay market rents for these.

8) Distribution agreement with Skandia Liv
Skandia receives, in accordance with a distribution agreement with Skandia Liv, compensation from Skandia Liv for the sales that Skandia handles for the benefit of Skandia Liv. The parts of the compensation that pertain to distribution through SkandiaBanken and Skandia Rådgivning are passed on to those companies. On 1 September 2006, Skandia Rådgivning was merged with Skandia. Thus, starting on this date, retrocessions are not passed on to Skandia Rådgivning. Subsidiaries receive going-rate compensation for performed services, but at the same time, they are responsible for repayment in the event of a surrender of the sold policies.

The following table shows the major profit and loss items.

Nature of transaction	Compensation	Pricing method	Reference
Retrocessions from fund companies	509	Market price	1)
Cash management and financing	-225	Market price	2)
IT operations, net	-199	Cost-price	3)
Ceded reinsurance, net	-89	Market price	4)
Accepted reinsurance, net	72	Market price	5)
Administrative services	49	Cost-price	6)
Rent of office premises	34	Market price	7)
Retrocesssions from Skandia Liv	14	Market price	8)

Note 50 Risks

The risks that affect Skandia and how the company manages them are described in note 2 to the group accounts.

RISK REINSURANCE

Insurance obligations	2006	2005
Total exposure	1,944	1,644
Reinsured exposure	-969	-963
Non-reinsured exposure	975	681

CREDIT RISK EXPOSURE[1)]

	2006	2005
Loans to companies		
Other	534	278
Loans to credit institutions		
Banks	150	—
Bonds		
Government bonds, credit rating AAA	2,069	3,366
Derivatives		
Counterparties with credit rating AA	35	94
Counterparties with credit rating A	17	83
Reinsurers		
Reinsurers with credit rating A	45	42
Reinsurers without assigned credit rating	953	936
Banks		
Counterparties with credit rating AA	6	15
Counterparties with credit rating A	—	266
TOTAL	**3,809**	**5,080**

1) Credit exposure is indicated as the book value less doubtful debts.

AVAILABLE CREDIT

Credit issuer's credit rating	2006	2005
AA	—	398
A	650	250
Total	**650**	**648**

MATURITY ANALYSIS FOR FINANCIAL AND INSURANCE LIABILITIES EXPOSED TO LIQUIDITY RISK

	< 1 yr	1-5 yrs	> 5 yrs	Total
Subordinated loans	850	—	—	850
Derivatives	3	19	—	22
Liability for linked investment contracts	41,299	7,549	44,132	92,980
Insurance provisions	105	360	1,479	1,944
Total	**42,257**	**7,928**	**45,611**	**95,796**

five-year summary, parent company

SEK million	2002	2003	2004	2005	2006
INCOME STATEMENT					
Premiums earned, net of reinsurance, property & casualty insurance	3	0	0	0	0
Premiums written, net of reinsurance, life assurance	436	8,535	245	171	186
Investment income in insurance business	-1,055	-2	-3	-2	1
Claims incurred, net of reinsurance, property & casualty insurance	0	0	0	0	0
Claims incurred, net of reinsurance, life assurance	-1,516	-2,375	-255	-102	-116
Change in technical provisions, net of reinsurance	0	0	0	18	-325
Operating expenses	-96	-405	-549	-636	-861
Other technical income and expenses	2,206	-5,246	1,295	1,523	1,954
Technical result, insurance business	**-22**	**507**	**733**	**972**	**839**
Non-technical investment result	-6,206	393	-1,220	-5,280	-1,310
Other income	0	0	0	48	64
Other expenses	-293	-430	-306	0	0
Result before tax and appropriations	**-6,521**	**470**	**-793**	**-4,260**	**-407**
Appropriations	—	—	19	—	—
Result before tax	**-6,521**	**470**	**-774**	**-4,260**	**-407**
Taxes	1,723	185	-36	572	-250
Result for the year	**-4,798**	**655**	**-810**	**-3,688**	**-657**

BALANCE SHEET					
Assets					
Intangible assets					
Goodwill	40	20	—	—	—
Investments in group and associated companies	20,890	20,427	19,373	16,652	14,560
Other financial investments	5,896	7,819	5,144	3,823	2,450
Deposits held with cedents	—	—	—	12,785	6,844
Investments for the benefit of policyholders	35,580	46,188	53,800	74,039	86,077
Reinsurers' share of insurance provisions	859	877	967	963	969
Other assets and receivables	3,713	4,254	3,682	2,609	4,192
Other prepayments and accrued income	932	1,272	1,412	1,668	1,605
Total assets	**67,910**	**80,857**	**84,378**	**112,539**	**116,697**
Shareholders' equity, provisions and liabilities					
Shareholders' equity [1)]	5,414	4,991	4,893	8,844	8,697
Untaxed reserves	2,109	2,109	2,091	2,091	2,091
Subordinated loans	1,058	849	849	850	850
Insurance provisions, gross	1,408	1,523	1,665	1,644	1,944
Liability for linked investment contracts	35,607	46,152	53,834	86,891	92,980
Other payables	21,400	24,127	19,779	9,974	8,792
Other accruals and deferred income	914	1,106	1,267	2,245	1,343
Total shareholders' equity, provisions and liabilities	**67,910**	**80,857**	**84,378**	**112,539**	**116,697**

[1)] Includes surplus values on interest-bearing securities, which were not included in equity 2002-2003 according to 2004 annual report.

NET ASSET VALUE					
Shareholders' equity	5,414	4,991	4,893	8,844	8,697
72% of untaxed reserves	1,518	1,518	1,506	1,506	1,506
Surplus values in business in force after deferred tax	3,942	6,660	6,770	8,907	10,444
Net asset value	**10,874**	**13,169**	**13,169**	**19,257**	**20,647**
Deferred tax liability	—	—	—	—	—
28% of untaxed reserves	591	591	585	585	585
Deferred tax asset	-1,893	-2,514	-2,558	-448	-462
Subordinated loans	1,058	849	849	850	850
Net asset value according to SFSA definition	**10,630**	**12,095**	**12,045**	**20,244**	**21,620**

KEY RATIOS

	2002	2003	2004	2005	2006
Financial position					
Net asset value ratio, % [1]	n/a	7,231	5,972	11,299	13,639
Capital base	8,473	7,647	7,651	12,038	9,159
of which, deduction for intangible assets	40	20	—	—	—
Solvency margin	445	552	604	977	841
Property & casualty insurance					
Claims ratio, gross, % [2]	71	71	78	66	62
Expense ratio, gross, % [3]	43	42	30	28	30
Combined ratio, gross, % [4]	114	113	108	94	92
Life assurance					
Management expense ratio, % [5]	0.2	0.6	0.7	0.7	0.8
Asset management					
Direct yield, % [6]	0.5	1.3	1.6	3.6	5.9
Total return, % [6]	-10.1	29.6	4.1	3.6	7.1

1) Risk-bearing capital in relation to risk-bearing premium.
2) Claims incurred in relation to gross premiums earned.
3) Operating expenses of the insurance operations in relation to gross premiums earned, excluding other technical income and charges.
4) Claims incurred plus operating expenses of the insurance operations, in relation to gross premiums earned.
5) Operating expenses and claims settlement costs in relation to investments and cash at bank and in hand.
6) In calculating the direct yield and total return, the assets for which the policyholders bear the investment risk are not included, since the purpose of the key ratio is to report the result of the company's own asset management.

auditors' report

To the general meeting of the shareholders of Skandia Insurance Company Ltd (publ)
Corporate identity number 502017-3083

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of Skandia Insurance Company Ltd (publ) for the financial year 2006. The company's annual accounts are presented in the printed version of this document on pages 3-66. The board of directors and the president are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act for Insurance Companies when preparing the annual accounts and the application of international financial reporting standards (IFRSs) as adopted by the EU and the Annual Accounts Act for Insurance Companies when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the president and significant estimates made by the board of directors and the president when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the president. We also examined whether any board member or the president has, in any other way, acted in contravention of the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards (IFRSs) as adopted by the EU and the Annual Accounts Act for Insurance Companies and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the president be discharged from liability for the financial year.

Stockholm, 17 April 2007

Thomas Thiel
Authorised Public Accountant

Anders Engström
Authorised Public Accountant
Appointed by the Swedish
Financial Supervisory Authority

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