SKANDIA INSURANCE ACCOUNTING POLICIES

1. Basis of preparation

Up to and including 31 December 2004, Skandia has prepared its primary financial statements in conformity with the Swedish Annual Accounts Act for Insurance companies, the guidelines of the Swedish Financial Supervisory Authority, and to the extent that no conflict has arisen in this context- also in accordance with the recommendations from the Swedish Financial Accounting Standards Council (SFASC).

From 1 January 2005, the consolidated financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Commission. The consolidated financial statements will also be prepared in accordance with the Swedish Annual Accounts Act for Insurance Companies, section 7 and the guidelines of the Swedish Financial Supervisory Authority sections 7 and 8. In addition to this, recommendation RR 30 from SFASC will be applied to the consolidated financial statements.

EC Regulation 1606/2002 requires companies incorporated in a member state with securities admitted to a regulated market to prepare their accounts in accordance with IFRS as adopted by the Commission. The Commission has adopted almost all extant standards. However, in preparing these accounts the directors have made the following assumptions about future adoption:

- Although not yet considered by the Commission, that they will adopt the amendments issued by the IASB in December 2004 to IAS 19, employee benefits, in due course; and
- The Commission adopted a modified version of IAS 39 which differed from that issued by the IASB. The so-called 'carve-out' makes two changes:

  it broadens the range of situations in which hedge accounting is permitted. The directors have not taken advantage of these provisions;

and
it removes the option to fair value financial liabilities in situations not already allowed by the EC's own accounting directives. In the case of Skandia, however, the only liabilities that have been fair valued are those permitted by Swedish law and the Insurance Accounts Directive.

· The IAS has issued a preliminary draft of the new approach of the fair value option during the first quarter 2005. Skandia is monitoring the development of these changes as they are expected to be implemented and endorsed by the EU in the autumn of 2005 with potential effect as from 1 January 2005. In our opinion, the proposal from IASB pertaining to the restricted fair value option in IAS 39 will not change the valuation of Skandia's financial instruments compared with what is presented today.

The accounting policies under IFRS are set out in section 3. The transition to IFRS will be accounted for in accordance with IFRS 1, First-time adoption of International Financial Reporting Standards, with 1 January 2004 as the date of transition. The disclosures required by IFRS 1 concerning the transition from Swedish GAAP to IFRS are given on pages 18-19 (i.e. the reconciliations required by IFRS 1). Main changes in accounting policies as a consequence of the transition from Swedish GAAP to IFRS are described below in section 2.

The explanations and reconciliations in this report relate to the consolidated accounts for Skandia.

Outstanding issues

One issue for the industry as a whole, including Skandia, concerns the reporting of certain fund holdings. A consequence of IAS 27 is that funds controlled by Skandia might need to be consolidated, even though all of the assets belong to the owners of the fund units. Policyholders choose to invest in various funds; in practice this is done in such way that Skandia's unit linked company buys units in the fund chosen by the customer. Skandia can thereby - on behalf of its customers - be classified as the owner of a majority stake in the fund.

Even though Skandia does not have any controlling influence over these investments, Skandia can be forced to consolidate the funds in which its ownership stake exceeds 50%. If this takes place, the fund's holdings of stock in Skandia Insurance Company Ltd can be considered as repurchased equity capital instruments. In such case, these are to be eliminated against shareholders' equity. The market value of these shares amounted to SEK 273 million as per 31 December 2003 and SEK 541 million as per 31 December 2004. Such an adjustment would give rise to a reduction of equity in the accounting, even though there is no economic exposure.

Changes in value on Unit linked funds and the corresponding change in Unit Linked liabilities are offsetted 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 including these changes in value separately on the face of the income statement would detract from users ability to understand the transactions and assess the entity's performance and future cash flows. Skandia believes that that offsetting is the best presentation.

Skandia will monitor industry developments in order to close theses outstanding issues during 2005.

2. Significant changes in Skandia accounting policies

2.1 Transitional arrangements

The rules for first time application of IFRS are set out in IFRS 1 "First time adoption of International Financial Reporting Standards". In general a company is required to determine its accounting principles in accordance with IFRS and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows several optional exemptions to the requirements for retrospective implementation. Skandia will take advantage of the following exemptions:

a) IFRS 3 - Business Combinations
Skandia has chosen not to apply IFRS 3 retrospectively to its past business combinations. Instead the standard will be applied prospectively from 1 January 2004. The consequences of this will be as follows:
- the classification of former business combinations will be maintained;
- there will be no re-measurement of original "fair values" as determined at the time of the business combination; and
- the carrying amount of goodwill in the opening IFRS balance sheet will be equal to the carrying amount under previous GAAP. From the date of transition goodwill will no longer be amortised, but will be tested for impairment at the date of transition.

b) IAS 21 - The effects of changes in foreign exchange rates
Any translation differences on translation of foreign operations that arise from 1 January 2004, the date of transition to IFRS, will be presented as a separate component of equity. Translation differences that arose prior to 1 January 2004 will be set to zero as allowed under IFRS 1.

c) IFRS 2 - Share-based payments
The exemption in IFRS 1 will be applied. Skandia will apply IFRS 2 to all share options granted after 7 November 2002 and which were not vested as per 1 January (the effective date of IFRS 2).

d) IAS 19 - Employee benefits
With effect from 1 January 2004, Skandia will apply the Swedish Financial Accounting Standards Council's new recommendation RR 29, which is based on IAS 19. The key change relates to the recognition on the

balance sheet of a defined benefit asset and liability which represents the difference between the defined benefit obligation and the fair value of plan assets. The calculation of the defined benefit obligation is based on the defined benefit structure as at 31 December 2003. The standard will not be used retrospectively. Instead, the exemption in IAS 19 is applied. This means that all cumulative actuarial gains and losses at the date of transition 1 January 2004 are recognised.

e) IAS 39 - Financial instruments: Recognition and measurement
Certain assets will be designated as "fair value through profit and loss" at the date of transition as allowed by IFRS 1. In addition, IFRS 1 has a number of mandatory exceptions to the requirement for retrospective application. The following exceptions will affect Skandia:

Hedge accounting
Hedging relationships that were designated as hedges under previous GAAP, but which did not qualify for hedge accounting under IAS 39, will be treated in accordance with the requirements of IAS 39 relating to the discontinuance of hedges accounting. The hedge and the underlying items are measured in accordance with these principles for financial instruments.

Accounting estimates
Accounting estimates recognised under IFRS that were made under previous GAAP are not adjusted except for changes in accounting policies or if there is objective evidence of an error.

2.2 Insurance and Investment contracts

The main changes in Skandia's financial statements result from the consequences of application of IFRS 4, "Insurance contracts" to unit linked insurance (or savings) contracts. The most significant changes are set out below and relate to the unbundling of unit linked savings contracts into insurance contract components and investment components, where the latter comprise a financial instrument and an investment management service contract. The full set of accounting policies for insurance and investment contracts can be found in section 3.

a) Classification of contracts and unbundling

An insurer should classify all its contracts individually as either insurance contracts or investment contracts in accordance with IFRS 4. Contracts with insignificant transfer of insurance risk from the policyholder to the company are classified as investment contracts and should be accounted for as financial instruments under IAS 39 "Financial Instruments: Recognition and measurement" and IAS 18 "Revenue". Contracts that contain significant insurance risk are classified as insurance contracts.

The insurer has the option to unbundle certain contracts, if those contracts contain both insurance components and investment components, and the investment component can be measured independently from the insurance component. For its unit linked contracts, Skandia will apply this approach. The unbundled components are separately classified and accounted for as insurance contracts and investment contracts.

Under Swedish GAAP, all contracts are accounted for as insurance contracts, following the definition of an insurance contract under Swedish GAAP, and no unbundling is done.

b) Insurance contracts

Insurance contracts comprise the unbundled insurance component in unit linked contracts, health & protection business, reinsurance business and traditional life business with or without discretionary participating features. In accordance with IFRS 4, current Swedish GAAP accounting will be used, with a few exceptions. These exceptions include:
- Excessively prudent provisions will be released, which will reduce the technical provisions.

- For traditional life contracts, the liability will be discounted using market interest rates. Under previous GAAP, the discount rate was established by the local regulator.

Incremental costs directly attributable to securing the insurance contracts will be capitalised as a deferred acquisition cost asset (DAC) and will be amortised as an expense over the life of the contract. The same DAC methodology is used for the insurance contracts and for the investment contracts. More detail has been provided in section d) on DAC and DFI.

Any embedded derivative that forms part of an insurance contract and is itself an insurance contract will not be separated from the host contract and will thus not be separately valued.

c) Investment contracts

As noted above, investment contracts are accounted for under IAS 39 and IAS 18. The accounting for these unbundled unit linked contracts is as follows:

On inception of such contracts, amounts received from and payable to the holders of the contracts are accounted for as deposits received under investments for the benefit of policyholders and as balances payable in respect of liability for linked investment contracts, and are not included in premiums and claims in the income statement. Upon disposal, amounts paid are accounted for as decrease of unit link liabilities in the balance sheet.

Embedded derivatives in investment contracts will be separated and measured at fair value.

The pattern of recognising front-end fee income will differ to previous GAAP. Fees charged for managing investment contracts will be recognised as revenue as the investment management services are provided, following the explicit guidance in IAS 18. Front-end fees will be deferred through the creation of a new balance sheet item called Deferred Fee Income (DFI) and this will be released to income as the services are provided. This means that fees and charges that are taken initially and in addition to regular fund charges are deferred.

Incremental costs directly attributable to securing contracts will be recognised as an asset, Deferred Acquisition Costs (DAC). The DAC exists under current GAAP, but only for insurance contracts and has a broader definition in terms of costs that can be deferred. In contrast to current GAAP, the definition of DAC under IFRS, excludes non-incremental acquisition costs.

Under IFRS, the asset is amortised as an expense as the services are provided. Skandia generally assumes equal service provision over the lifetime of the contract and as such, the DFI and the DAC will be amortised linearly over the expected life of the contract. The previous practice followed by Skandia was to limit the DAC amortisation period to maximum 10 years. The IFRS conversion will lead to an increase in DAC due to the longer amortisation period.

There will also be a change in the accounting for mutual funds. The accounting should be consistent with the method for the savings part of the unit linked contracts, which means a raising of the DFI and DAC on these contracts.

In cases where it is clear that for a certain portfolio of investment contracts, the expected future revenue is lower than the expected variable future costs of meeting the obligations under the contract, a provision for onerous contracts will be established as required by IAS 37 "Provisions, contingent liabilities and contingent assets".

2.3 Investments at fair value

a) Fair value of bonds
Under previous GAAP, bonds were valued at amortised cost. Under IFRS, most bonds will be valued at fair value, leading to an increase in equity upon conversion. Skandia has chosen to classify some bonds in the banking business as "Held to maturity" and these will be valued at amortised cost.

b) Fair value of derivatives
In some cases, Skandia will not fulfil the requirements for hedge accounting under IFRS. The derivatives previously accounted for under hedge accounting will be valued at fair value and hedge accounting will be discontinued as required under IAS 39.

2.4 Goodwill

Under IFRS, goodwill will no longer be amortised. Instead the goodwill will be tested for impairment annually. This change in policy has no impact on opening equity as the goodwill in the opening balance sheet is fixed at the amount recognised under previous GAAP, subject to a mandatory impairment test on first-time adoption.

2.5 Share based payments

Skandia has issued stock option programmes to employees at four different times during 2000-2003. In accordance with IFRS 2 "Share based payments", only programmes issued after November 7, 2002 have to be accounted for in accordance with IFRS. Skandia issued one program in February 2003, which is the only program to be accounted under IFRS 2.

Under previous GAAP, stock options were not expensed. Instead there were extensive disclosure requirements covering all effects of the stock options. In accordance with the requirements of IFRS 2, stock options will be expensed. The expense is calculated as the market value of the options at issue date. The expense will be recognised over the vesting period. The vesting period is the period that the employees have to remain in the service of Skandia in order to be allowed to exercise the options. The expense will be adjusted for the actual number of outstanding options.

IFRS 2 has no effect on opening equity since the expense is only an adjustment between net income and restricted equity.

CONSOLIDATED INCOME STATEMENT

SEK million	2004 12 mos.	2004 9 mos.	2004 6 mos.	2004 3 mos.
REVENUE				
Fee income	10 588	7 557	5 049	2 718
Change in deferred fee income (DFI) and fee income receivable (FIR)	-869	-603	-422	-234
Net premiums earned	2 987	2 053	1 353	649
Net investment income	1 424	998	631	489
Net interest income, banking	1 021	754	497	227
Other income	829	611	409	157

Total revenue	15 980	11 370	7 517	4 006
EXPENSES				
Net claims incurred	-3 139	-1 958	-1 198	-722
Commission expenses	-5 708	-3 855	-2 526	-1 215
Change in deferred acquisition cost (DAC) and accrued commission expense (ACE)	2 416	1 532	999	485
Administrative expenses	-7 493	-5 173	-3 476	-1 601
Other expenses	-1 457	-277	-172	-91
Interest expenses	-373	-273	-167	-91
Total expenses	-15 754	-10 004	-6 540	-3 235
Policyholder tax	-1 002	-505	-432	-424
Share of profit/(loss) of associates	-4	-4	-2	-2
Profit before shareholder tax and after policyholder tax	-780	857	543	345
Total tax				

expense	-859	-594	-518	-392
Less policyholder tax	1 002	505	432	424
Profit/(loss) for the period from continuing operations	-637	768	457	377
Profit/(loss) for the period from discontinued operations	834	834	833	834
Profit/(loss) for the period	197	1 602	1 290	1 211
Attributable to:				
Equity holders of the parent	249	1 617	1 305	1 219
Minority interest	-52	-15	-15	-8
Earnings per share:				
Continuing and discontinued operations				
Basic	0,19	1,56	1,26	1,18
Diluted	0,19	1,56	1,25	1,18

Continuing operations				
Basic	-0,62	0,75	0,45	0,37
Diluted	-0,62	0,75	0,44	0,37

Comments to the Income Statement

Fee income mainly consists of fees charged in the Unit-link, Mutual fund and Banking businesses. It also includes fees charged to cover policyholder tax. Deferral of these fees is presented on a separate line in the income statement. Net premiums earned include the risk part of the unbundled unit linked contracts, premiums in the traditional life business in Spain and premiums earned in the health business.

Investment income includes realized and unrealized gains on investments, for investments backing shareholder funds and policyholder funds in the traditional life business. Changes in value on Unit linked funds are not included in the income statement. The net interest income in the Bank is shown on a separate line.

Claims incurred include claims paid and surrenders in the risk part of the unit linked contracts, in the life business and in the health business. It also includes changes in claims reserves and insurance provisions for these businesses.

Commission expenses include external up-front and trail commissions. Deferral of these costs is presented on a separate line.

Administrative expenses for all business segments include personnel expenses, depreciation and other administrative expenses like EDP and premises. The amount for December 2004 includes restructuring charges MSEK 308. Other expenses for December 2004 include MSEK 1 072 impairment of goodwill in Bankhall.

For reasons of transparency, policyholder tax is shown on a separate line in the income statement, but also included in the total tax expense according to IFRS.

CONSOLIDATED INCOME STATEMENT

SEK million	Note	2004 Q4	2004 Q3	2004 Q2	2004 Q1
REVENUE					
Fee income	1	3 031	2 508	2 331	2 718
Change in deferred fee income (DFI) and fee income receivable (FIR)	2	-266	-181	-188	-234
Net premiums earned		934	700	704	649
Net investment income		426	367	142	489
Net interest income, banking		267	257	270	227
Other income		218	202	252	157
Total revenue		4 610	3 853	3 511	4 006
EXPENSES					
Net claims					

incurred		-1 181	-760	-476	-722
Commission expenses		-1 853	-1 329	-1 311	-1 215
Change in deferred acquisition cost (DAC) and accrued commission expense (ACE)	3	884	533	514	485
Administrative expenses	4	-2 320	-1 697	-1 875	-1 601
Other expenses		-1 180	-105	-81	-91
Interest expenses	5	-100	-106	-76	-91
Total expenses		-5 750	-3 464	-3 305	-3 235
Policyholder tax		-497	-73	-8	-424
Share of profit/(loss) of associates		0	-2	0	-2
Profit before shareholder tax and after policyholder tax		-1 637	314	198	345
Total tax expense		-265	-76	-126	-392
Less policyholder tax		497	73	8	424
Profit/(loss)					

for the period from continuing operations	-1 405	311	80	377
Profit/(loss) for the period from discontinued operations	0	1	-1	834
Profit/(loss) for the period	-1 405	312	79	1 211
Attributable to:				
Equity holders of the parent	-1 368	312	86	1 219
Minority interest	-37	0	-7	-8
Earnings per share:				
Continuing and discontinued operations				
Basic	-1,37	0,30	0,08	1,18
Diluted	-1,37	0,30	0,08	1,18
Continuing operations				
Basic	-1,37	0,30	0,08	0,37
Diluted	-1,37	0,30	0,08	0,37

NOTES TO THE INCOME STATEMENT
SEK million

Note 1 Fee income	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2004 12 mos.
Premium based	1 002	942	920	873	3 737
Fund based	1 153	1 167	1 143	997	4 460
Fixed	108	97	91	92	388
Surrender charges	46	43	41	31	161
Other fees, incl fees for policyholder tax	722	259	136	725	1 842
Total	3 031	2 508	2 331	2 718	10 588

Fee income, business segment 12 mos. 2004	Unit linked assurance	Mutual funds	Life assurance	Bank-ing	Joint functions	Elimi-nations	Total
Premium based	3 407	328	2				3 737
Fund based	2 930	1 198	52	156	284	-160	4 460
Fixed	388	0					388
Surrender charges	161						161
Other fees,							

incl fees for policyholder tax	1 463		0	379			1 842
Total	8 349	1 526	54	535	284	-160	10 588

Note 2

Change in deferred fee income (DFI) and fee income receivable (FIR)	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2004 12 mos.
Capitalisation of deferred fee income	-1450	-907	-897	-840	-4 094
Amortisation of deferred fee income	593	618	639	566	2 416
Change in fee income receivable	591	108	70	40	809
Total	-266	-181	-188	-234	-869

Note 3

Change in deferred acquisition costs (DAC) and accrued commission expenses (ACE)	2004 Q4	2004 Q3	2004 Q2	2004 Q1	2004 12 mos.

Capitalisation of deferred acquisition costs	1674	1115	1100	1031	4 920
Amortisation of deferred acquisition costs	-602	-577	-582	-558	-2 319
Change in accrued commission expenses	-188	-5	-4	12	-185
Total	884	533	514	485	2 416

Note 4	2004	2004	2004	2004	2004
Administrative expenses	Q4	Q3	Q2	Q1	12 mos.
Personnel expenses	-1 032	-903	-934	-906	-3 775
Other administrative expenses	-1 261	-825	-971	-719	-3 776
Depreciation	-137	-56	-54	-63	-310
Expense recharges	110	87	84	87	368
Total	-2 320	-1 697	-1 875	-1 601	-7 493

Note 5	2004	2004	2004	2004	2004
Interest expenses	Q4	Q3	Q2	Q1	12 mos.
Subordinated loans	-18	-17	-17	-17	-69
Bonds	-13	-14	-18	-22	-67
Other					

borrowings	-5	-5	-2	-6	-18
Financial reinsurance	-14	-35	-7	-7	-63
Interest expenses for financing	-50	-71	-44	-52	-217
Other financial costs	-50	-35	-32	-39	-156
Total	-100	-106	-76	-91	-373

SEGMENT INFORMATION

Profit before shareholder tax and after policyholder tax, business segment	2004	2004	2004	2004	2004
SEK million	Q4	Q3	Q2	Q1	12 mos.
Unit linked assurance	127	450	263	442	1 282
Mutual funds	-36	-7	-56	-29	-128
Life assurance	-21	-40	15	30	-16
Banking	15	103	178	30	326
Other businesses	-1 433	266	-1	5	-1 163
Joint functions	-289	-458	-201	-133	-1 081
Total	-1 637	314	198	345	-780

Profit before shareholder tax and after policyholder tax, geographical segment	2004	2004	2004	2004	2004
SEK million	Q4	Q3	Q2	Q1	12 mos.
UK, Asia Pacific & Offshore	-952	278	56	299	-319
Europe & Latin America	-180	-12	9	35	-148
Nordic	-113	215	260	135	497
Group functions 1)	-392	-167	-127	-124	-810
Total	-1 637	314	198	345	-780

1) Of which:					
Joint-group management expenses	-157	-162	-123	-164	-606
Structural costs	25	-23	-29	-27	-54
Restructuring costs	-188	1	-3	0	-190
Special employer's payroll tax	-48	0	0	0	-48
Other	-24	17	28	67	88
Total	-392	-167	-127	-124	-810

Profit before shareholder tax and after policyholder tax, geographical segment	Unit linked assurance	Mutual funds	Life assurance	Banking	Other business	Joint functions	Total
segment	2004	2004	2004	2004	2004	2004	2004
SEK million	12 mos.	12 mos.	12 mos.	12 mos.	12 mos.	12 mos.	12 mos.
UK, Asia Pacific & Offshore	904	-93			-1 130		-319
Europe & Latin America	-26	-102	-18		-1	-1	-148
Nordic	385	67	2	330	-40	-247	497
Group functions	19			-4	8	-833	-810
Total	1 282	-128	-16	326	-1 163	-1 081	-780

CONSOLIDATED BALANCE SHEET

SEK billion	2004	2004	2004	2004	2003
	31	30	30	31	31

ASSETS	Note	Dec.	Sep.	Jun.	Mar.	Dec.
Intangible assets						
Goodwill		1,6	2,8	2,9	2,9	2,6
Other intangible assets		0,2	0,2	0,3	0,2	0,3
Reinsurers share of insurance provisions		0,7	0,6	0,5	0,5	0,8
Deposits held with cedants	2	3,5	3,7	4,0	4,2	4,1
Deferred acquisition costs	1	16,3	15,5	15,4	15,1	14,3
Deferred tax asset		0,8	0,8	0,6	0,6	0,8
Retirement benefit asset		0,5	0,5	0,5	0,4	0,5
Property and equipment		0,5	0,5	0,5	0,5	0,5
Investment properties	2	0,0	0,0	0,0	0,0	0,0
Loans and advances	2	45,5	43,2	45,8	39,4	39,0
Investments in associates	2	0,1	0,1	0,1	0,1	0,1
Other investments	2	21,4	24,1	22,5	27,8	27,1
Investments for the benefit of policyholders		295,5	280,9	276,8	270,7	250,7
Current tax asset		0,4	0,5	0,5	0,7	0,4
Other receivables		3,7	3,7	3,7	4,3	3,3
Other prepayments and accrued income		4,9	4,7	4,5	4,5	4,2
Cash and cash equivalents		2,0	1,9	1,9	2,6	2,5
Assets		397,6	383,7	380,5	374,5	351,2
EQUITY AND LIABILITIES						
Equity attributable to equity holders of parent		12,8	14,3	14,1	14,4	12,8
Minority interest		0,1	0,1	0,1	0,1	0,1
Equity		12,9	14,4	14,2	14,5	12,9
Liabilities						
Subordinated loans	3	0,8	0,8	0,8	0,8	0,8
Insurance provisions		15,5	14,8	14,8	15,3	15,3

Liability for linked investment contracts		296,8	282,8	279,2	273,5	253,2
Deposits received from reinsurers		0,1	0,1	0,1	0,1	0,1
Retirement benefit obligation		0,3	0,2	0,2	0,2	0,3
Deferred tax liability		1,7	1,4	1,0	0,9	1,2
Deferred fee income	4	14,7	14,0	14,1	13,9	13,0
Other provisions		1,3	1,2	1,5	1,5	1,8
Deposits and borrowings from the public		40,5	41,0	41,5	39,1	37,9
Other interest bearing liabilities	3	3,9	4,1	4,1	4,1	4,8
Current tax liabilities		0,4	0,5	0,5	0,5	0,2
Derivative liability		0,3	0,4	0,4	1,0	1,0
Other payables		5,8	5,7	5,9	6,9	6,4
Other accruals and deferred income		2,6	2,3	2,2	2,2	2,3
Equity and liabilities		397,6	383,7	380,5	374,5	351,2

NOTES TO THE BALANCE SHEET

SEK billion

Note 1	2004	2004	2004	2004
Deferred acquisition costs (DAC)	31 Dec.	30 Sep.	30 Jun.	31 Mar.
Opening balance	14,3	14,3	14,3	14,3
Capitalisation of acquisition costs	4,9	3,2	2,1	1,0
Amortisation of deferred acquisition				

costs	-2,3	-1,7	-1,1	-0,6
Deferred acquisition costs in divested companies	-0,5	-0,5	-0,5	-0,5
Exchange differences	-0,1	0,2	0,6	0,9
Closing balances	16,3	15,5	15,4	15,1
Of which Unit linked assurance	15,7	14,9	14,8	14,5
Of which Mutual funds	0,6	0,6	0,6	0,6

Note 2	2004	2004	2004	2004
Investments	31 Dec.	30 Sep.	30 Jun.	31 Mar.
Unit linked assurance	11,1	10,7	11,1	11,8
Mutual funds	0,3	0,2	0,2	0,2
Life assurance	11,2	11,1	11,3	11,8
Banking	44,5	44,9	44,9	42,6
Other business and joint functions	3,4	4,2	4,9	5,1
Total	70,5	71,1	72,4	71,5

Note 3
Subordinated
loans and

other interest bearing liabilities	2004 31 Dec.	2004 30 Sep.	2004 30 Jun.	2004 31 Mar.
Subordinated loans	0,8	0,8	0,8	0,8
Bonds, non-banking	2,2	2,5	2,5	2,8
Financial reinsurance	1,0	1,0	1,0	1,1
Financing	4,0	4,3	4,3	4,7
Bonds in bank	0,0	0,0	0,0	0,0
Other financial liabilities	0,7	0,6	0,6	0,2
Total	4,7	4,9	4,9	4,9

Note 4 Deferred fee income (DFI)	2004 31 Dec.	2004 30 Sep.	2004 30 Jun.	2004 31 Mar.
Opening balance	13,0	13,0	13,0	13,0
Capitalisation of fees	4,2	2,6	1,7	0,8
Amortisation of deferred fees	-2,4	-1,8	-1,2	-0,6
Exchange differences	-0,1	0,2	0,6	0,7
Closing balances	14,7	14,0	14,1	13,9

Of which Unit

linked assurance	14,1	13,4	13,4	13,2
Of which Mutual funds	0,6	0,6	0,7	0,7

RECONCILIATION OF EQUITY FROM SWEDISH GAAP TO IFRS

SEK million	2004 31 Dec.	2004 30 Sep.	2004 30 June	2004 31 Mar.	2003 31 Dec.
Restatement of deferred acquisition costs	6 560	6 280	6 139	6 026	5 911
Restatement of accrued commission expenses	-1 052	-869	-873	-868	-880
Deferral of fee income	-14 701	-13 842	-13 555	-13 296	-13 022
Restatement of fee income receivable	3 821	3 237	3 140	3 076	3 044
Change in insurance provisions due to more realistic assumptions	695	741	792	751	681
Restatement of investments to fair value	500	388	340	481	382
Goodwill amortisation discontinued	12	131	88	44	-
Surplus in defined-benefit pension					

plans	-30	-	-	-	315
Cashflow hedge accounting	58	58	-	-	-
Fair value hedge accounting	11	-	-	-	-
Other adjustments	17	14	1	8	6
Total changes before tax	-4 109	-3 862	-3 928	- 3 778	-3 563
Tax effect of the above	927	1 097	1 090	1 089	1 010
Adjustment to equity	-3 182	-2 765	-2 838	-2 689	-2 553
Shareholders'equity under Swedish GAAP	15 958	17 099	17 041	17 222	15 381
Minority interest under Swedish GAAP	73	88	97	111	122
Total equity under Swedish GAAP	16 031	17 187	17 138	17 333	15 503
Adjustment to equity	-3 182	-2 765	-2 838	-2 689	-2 553
Translation differences	39	-42	-131	-170	-
Total equity under IFRS	12 888	14 380	14 169	14 474	12 950

RECONCILIATION OF PROFIT/ (LOSS) FROM SWEDISH GAAP TO IFRS

	2004	2004	2004	2004

SEK million	12 mos.	9 mos.	6 mos.	3 mos.
Restatement of deferred acquisition costs	649	369	227	115
Restatement of accrued commission expenses	-172	11	7	12
Deferral of fee income	-1 679	-820	-533	-274
Restatement of fee income receivable	776	193	96	31
Change in insurance provisions due to more realistic assumptions	13	60	111	70
Restatement of investments to fair value	118	6	-42	99
Goodwill amortisation discontinued	12	131	88	44
Expensing of share based payments	-8	-7	-5	-2
Fair value hedge accounting	11	-	-	-
Policyholder tax	-361	-98	-41	-46
Other adjustments	0	-5	-7	3
Total changes before tax	-641	-160	-99	52

Shareholders' tax effects on the above	213	100	32	36
Total adjustments to Profit/ (loss)	-428	-60	-67	88

Profit/ (loss) attributed to shareholders under Swedish GAAP	674	1 695	1 384	1 137
Profit/ (loss) attributed to the minority under Swedish GAAP	-49	-33	-27	-14
Profit/ (loss) under Swedish GAAP	625	1 662	1 357	1 123
Total adjustments to Profit/ (loss)	-428	-60	-67	88
Profit/ (loss) under IFRS	197	1 602	1 290	1 211

IFRS ADJUSTMENTS PER BUSINESS SEGMENT

SEK million 12 mos. 2004	Unit linked assurance	Other segments	Total
Pre-tax result according to			

Swedish GAAP	1 830	-1 969	-139
Restatement of deferred acquisition costs	613	36	649
Restatement of accrued commission expenses	-172	0	-172
Deferral of fee income	-1 639	-40	-1 679
Restatement of fee income receivable	777	-1	776
Change in insurance provisions due to more realistic assumptions	219	-206	13
Restatement of investments to fair value	36	82	118
Policyholder tax	-361	0	-361
Other IFRS adjustments and reclassifications	-21	36	15
Total changes before tax	-548	-93	-641
Profit before shareholder tax and after policyholder tax according to IFRS	1 282	-2 062	-780

COMMENTS ON CHANGES DUE TO IFRS ON PROFIT AND LOSS ACCOUNT
Format according to Swedish GAAP

SEK million	Group excluding discontinued operations 2004 12 mos.	Comments on changes due to IFRS
Technical result, property & casualty insurance business	-30	No separation in the P&L for Life and Non-Life. Information available in segment reporting.
Technical account, life assurance business		
Premiums written, net of reinsurance	68 157	Deposits removed from P&L. Fees shown on separate line. Only risk premiums classified as premiums.
Investment income, including unrealised changes in value	23 399	Changes in value on unit linked funds removed from P&L, but disclosed in the notes to the balance sheet.
Claims incurred, net of		Repayments of deposits removed. Only claims relating to insurance risks classified as

reinsurance	-26 667	claims.
Change in other technical provisions where the investment risk is borne by the life assurance policyholders	-59 216	Changes in value on unit linked liabilities removed from P&L. Withdrawals of savings removed from P&L.
Operating expenses	-6 077	
Other technical provisions	2 185	
Technical result, life assurance business	1 781	
Non-technical account		
Investment income, including unrealised changes in value	314	
Financing costs	-110	
Mutual funds	-167	Split into fees and expenses
Other operations	155	Split into appropriate income and expenses
Amortisation and write-down of goodwill	-1 092	Amortisation not done under IFRS
Structural costs	-54	
Joint-group management expenses	-582	Administrative expenses shown in one line, but breakdown on segments available
Restructuring costs	-308	
Special employer's payroll tax	-46	

Pre-tax result	-139	
Current and deferred tax	-70	Including policyholder tax
Minority interests in result for the period	49	Minority is not deducted from net result, but net result is allocated between shareholders and the minority.
Result for the period	-160	

TRANSITION TO IFRS - BALANCE SHEET 31 DECEMBER 2004

Swedish GAAP SEK billion Assets	Swedish GAAP	Revaluations	Banking line by line	Reclassifications	IFRS	IFRS Assets
Intangible assets	1,6	0,0	0,2	0,0	1,8	Intangible assets
Reinsurers' share of technical provisions	0,9			-0,2	0,7	Reinsurers share of insurance provisions
				3,5	3,5	Deposits held with cedants
Deferred acquisition costs	9,7	6,6		0,0	16,3	Deferred acquisition costs
						Deferred tax

				0,8	0,8	asset
				0,5	0,5	Retirement benefit asset
				0,5	0,5	Property and equipment
				0,0	0,0	Investment properties
				45,5	45,5	Loans and advances
				0,1	0,1	Investments in associates
Investments	27,8	0,6	42,7	-49,7	21,4	Other investments
Investments, unit linked assurance	294,2			1,3	295,5	Investments for the benefit of policyholders
				0,4	0,4	Current tax asset
Assets in bank operations and finance companies	44,8	0,1	-44,9		0,0	
Debtors	4,5	4,2	0,2	-5,2	3,7	Other receivables
Tangible assets	0,3		0,1	-0,4	0,0	
Other assets	0,3	0,0	1,5	-1,8	0,0	
Other prepayments and accrued income	0,5	0,1	0,2	4,1	4,9	Other prepayments and accrued income
Cash at bank and in hand	2,0		0,0		2,0	Cash and cash equivalents
Assets	386,6	11,6	0,0	-0,6	397,6	Assets

Shareholders' equity, provisions and liabilities						Equity and liabilities
Shareholders' equity	16,0	-3,2		0,0	12,8	Equity attributable to equity holders of parent
Minority interests	0,1	0,0		0,0	0,1	Minority interest
					12,9	Total equity
Subordinated loans	0,8				0,8	Subordinated loans
Technical provisions	22,2	-0,7		-6,0	15,5	Insurance provisions
Provisions, unit linked assurance	292,1			4,7	296,8	Liability for linked investment contracts
Deposits from reinsurers	1,1			-1,0	0,1	Deposits received from reinsurers
				0,3	0,3	Retirement benefit obligation
Liabilities in bank operations and finance companies	41,5	0,1	-41,6		0,0	
Deferred tax liability	2,2	-0,5		0,0	1,7	Deferred tax liability
				14,7	14,7	Deferred fee income

Other provisions	1,9	0,0	0,1	-0,7	1,3	Other provisions
				40,5	40,5	Deposits and borrowings from the public
Borrowings	2,1	0,0	41,0	-39,2	3,9	Other interest bearing liabilities
				0,4	0,4	Current tax liabilities
				0,3	0,3	Derivative liability
Other creditors	5,3	0,1	0,3	0,1	5,8	Other payables
Reinsurers' share of deferred acquisition costs	0,0	0,0		0,0	0,0	
Other accruals and deferred income	1,3	15,8	0,2	-14,7	2,6	Other accruals and deferred income
Shareholders' equity, provisions and liabilities	386,6	11,6	0,0	-0,6	397,6	Equity and liabilities

3. Overview of significant Skandia accounting policies

3.1. General information

Skandia Insurance Company Ltd is a company domiciled in Sweden. Skandia was established in 1855 and has been listed on the Stockholm Stock Exchange since 1863.

3.2. Significant accounting policies

3.2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Commission.

The disclosures required by IFRS 1 concerning transition from Swedish GAAP to IFRS are given in the section on IFRS transition.

3.2.2 Basis of preparation

The financial statements are presented in Swedish kronor, rounded to the nearest million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value; derivative financial instruments, properties, investments held for trading, financial assets and liabilities in the unit linked business.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of transition to IFRS.

3.2.3 Basis of consolidation

The consolidated financial statements incorporate those entities controlled by Skandia. Control exists when Skandia has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated accounts do not include the wholly owned company Livförsäkringsaktiebolaget Skandia (Skandia Liv) and its group companies. Skandia Liv's operation is run on pure mutual basis and the result is returned in full to the policyholders of Skandia Liv. Skandia cannot exercise control over Skandia Liv due to restrictions in the Swedish legislation which means that Skandia has no control of the board of directors. Consequently, Skandia Liv is not consolidated. Interest in subsidiaries that are not consolidated should be measured according to IAS 39. The holding in Skandia Liv does not have a quoted price in an active market and the fair value can not be reliably measured, therefore the holding is measured at cost.

The consolidated accounts have been prepared in accordance with the purchase accounting method. On acquisition, the assets and liabilities and 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. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to profit and loss in the period of acquisition. 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 interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. 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, balances, income and expenses are eliminated on consolidation.

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

3.2.4 Associates and jointly controlled entities

Associates are those entities in which Skandia has significant influence, but not control, over the financial and operating policies. The 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. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the entities' assets, liabilities, revenue and expense with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

3.2.5 Segments

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different 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 different from segments operating in other business 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 arms lengths transactions between independent parties.

3.2.6 Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Foreign currency denominated monetary assets and liabilities of the individual companies within the group are translated to SEK at financial year-end rates of exchange. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the assets and liabilities of the Group's foreign operations are translated to Swedish Kronor (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 the result, and are instead recorded directly to shareholders' equity investments in group companies, as well as the result of forward exchange contracts which hedge these investments. Such exchange differences are recognised as income or as expenses in the period in which the operation is disposed of. 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 financial statements, exchange differences on these items are taken to a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as SEK denominated assets and liabilities.

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 reversed in the income statement, net after accumulated effects of currency hedges.

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

3.2.7 Property and equipment

Buildings and land owned by Skandia and used for administrative purposes is stated at their revalued amounts, being the fair value at the date of revaluation. Consequently, these buildings and land are not depreciated. Fair value is based on current prices in an active market for similar properties in the same location and condition. The valuation is performed yearly by an independent valuer. Any increase as a result of a revaluation is credited directly to equity under the heading of revaluation reserve. Any decrease below cost is recognised in the profit and loss.

Items of equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the items. The estimated useful lives vary 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 income.

3.2.8 Investment property

Investment property is property held to earn rental income and/or for capital appreciation, mostly backing contracts with the policyholder. It is 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 yearly by an independent valuer. Any gain or loss arising from a change in fair value is recognised in the income statement.

3.2.9 Goodwill

Goodwill arising on consolidation represents 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 reviewed for impairment at least annually. Any impairment is recognised immediately in profit and loss 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 Swedish GAAP amount, subject to being tested for impairment.

3.2.10 Other intangible assets

In the consolidated accounts, other intangible assets are reported at their cost less accumulated amortization and impairment losses. These assets consist primarily of internally developed 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 Groups developed 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 amortization schedule is based on estimated useful life, which for software as a rule varies from 3 to 5 years. For investments in purchased software or development of systems and when the item of expenditure refers to maintenance and/or development of existing systems, the expenditure is expensed in the income statement.

3.2.11 Linked investment contracts

a) Investments for the benefit of policyholders

These assets consist of policyholders' investments in Unit link funds and are reported on a separate line in the balance sheet. Investments for the benefit of life assurance 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 value on 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 including these changes in value separately on the face of the income statement would detract from users ability to understand the transactions and assess the entity's performance and future cash flows. The changes in value are disclosed in the notes to the funds. Unit linked funds are valued at 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 provision. The size of the provision 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.

3.2.12 Other financial instruments

Financial instruments are reported in their original currencies and are valued depending on the type of asset or liability in question (see below). Realized gains and losses consist of the difference between the cost 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 receivables" or "Other payables" if clearing is done through a clearing organization. If this is not the case, the payment is reported gross under the items "Other receivables" or "Other payables" Valuation of the respective asset classes is described below. Assets are valued at bid price and liabilities at offer price.

(a) Loans and advances

Loans used as investments in the insurance companies are stated at cost less a deduction for possible impairment. Each asset is valued individually. Loans are initially recorded at cost including transaction costs and are recognized 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. "Loans and receivables" also include finance leases. Received interest on loans and changes in amortised cost is accounted for as Interest on loans. Interest income is allocated to the period to which it pertains in accordance with the effective interest rate method. Loans are derecognised from balance sheet when they are pre-paid or redeemed or accounted for as a realised loan loss. Please see section 3.2.13 for the principles surrounding the impairment of loans.

Trade receivables do not carry any interest and are carried at their nominal value less appropriate allowances for estimated irrecoverable amounts.

(b) Held to maturity financial assets

Investments classified as held to maturity and are stated at amortized cost less impairment. Interest bearing securities refer to bonds and certificates. In an amortized cost measurement, the difference between cost and redemption value is amortized 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 at fair value through income

Investments designated at fair value through profit or loss at inception (fair value option in IAS 39) are stated at fair value, with any resultant gain or loss recognised in the income statement. Fair value is defined as the realizable value on the accounting date after deducting estimated sales costs. For shares 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. 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.

(e) Hedge accounting

The Group 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. These instruments are accounted for as financial instruments in according to these accounting principles.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group 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).

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 equity.

The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts accumulated in 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 3.2.6 on foreign currencies.

(f) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Cash and cash equivalents also include money that will be invested in funds for the benefit of the policyholder.

(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 recorded at the proceeds received, net of direct issue costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Lending costs are charged against the result for the period to which they pertain. Skandia does not capitalize lending costs as a part of the assets' acquisition cost.

(h) Other payables

Trade payables and other short-term liabilities are not interest bearing and are stated at their nominal value.

(i) Treasury shares

Treasury shares are eliminated against shareholder's equity

3.2.13 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 that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(a) DAC asset

Impairment test of deferred acquisition cost asset, see section 3.2.21.

(b) Loans and receivables

An impaired loan is a claim where there is probability that all amounts not will be received according to the contractual terms. If principal, interest or overdrafts are not settled in less than 60 days the loans are classified as impaired unless there is sufficient collateral to cover both principal and interest inclusive fees for late payment.
A loan is classified as non-performing when interest, principal or overdrafts are not settled in less than 60 days.
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.

Provisions

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 realized.
- 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. This valuation is based on the borrowers' payment record, financial condition, the probability that the borrowers get support from financially guarantors and the borrowers' credit rating.

The size of 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 at balance sheet day.

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

Specific provision for individually assessed loans: Valuation is made of the realisable value of the collateral and provision for credit losses is made for the difference between remaining value of claim which 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 standardized method is used for accounting for this category of provisions. The method is based on earlier experiences for size of credit losses for this category of loans. Provisions are made with 10-30 percent for unsettled claim more than 60 days, 20-60 percent after 90 days and after that it end on 90 percent after 180 days.

Evaluation is made for individually assessed loans if there is need for any aggregate provisions. Reversal of provisions for probable loan loss, that 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.

Realised loan losses

Accounting for realised loan losses is made when assessment had been done that all parts of a claim is not recoverable or the claim have been forgiven.

The realised loan loss reduces the principal amount of the loan and is charged against credit losses in income statement and with regard to previous provisions. Principal and accrued interest from previous year are accounted for as credit losses and interest and fees related to actual year are reversed to the respective income statement item.

Recoveries of realised loan losses

The principle for accounting for recoveries of loan losses is that interest and fees related to actual year losses are reversed to the respective income item, any loss on principal related to actual year is charged against credit losses and interest for the current year, and recovery of fees and principal related to previous years is charged against recoveries of previous years realised loan losses.

3.2.14 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 was 28% of taxable income for the year. In the parent company the policyholder tax is included in the tax cost for the period.

(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 losses carry forward. In addition, temporary differences pertain mainly to adjustments of the accounts of subsidiaries to IFRS and the setting up of DAC and DFI. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect either accounting nor taxable profit, or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Tax-loss carry forwards 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 are not discounted.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to 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 their 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 between countries. However, the concept is the same and the tax is paid by the group companies on behalf of their policyholders.

3.2.15 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 schemes are charged as an expense as they fall due.

For defined benefit schemes, 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. They are recognised outside profit and loss and presented in the statement of changes in equity.

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

3.2.16 Share-based payments

Skandia has issued equity-settled stock option programmes to employees at four different times 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 program in February 2003, which is the only program to be accounted under IFRS 2.

According to IFRS 2, stock options should 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.

3.2.17 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 commitment and that amount can be estimated in a reliable manner. Provisions for restructuring costs are recognised when the group has a detailed formal plan for the restructuring that has been communicated to affected parties.

3.2.18 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 transfers substantially 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 on equipment such as cars. 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.

3.2.19 Revenue recognition

Revenue comprises the fair value of consideration received or receivable 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 accounting policy in relation to the revenue arising from insurance and investment contracts is set out within the contract specific accounting policies in sections 3.2.20 and 3.2.21.

Fee income from bank and finance company operations is 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 initial carrying value of financial liability and are recognised as an adjustment to the effective interest rate.

3.2.20 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. It is permitted under IFRS if the investment component can be measured separately. The insurance component is classified as an insurance contract, and handled according to the relevant principles, see 3.2.21. The investment component, which entails the financial instrument and the related service process, is treated according to the principles applying to investment contracts, see 3.2.22. For an unbundled contract, the fees and costs arising from the contract will be split between the components. Front ended 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 the traditional life business, Skandia perform the assessment of insurance risk on the complete contract.

3.2.21 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, deducted by 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 at the balance sheet date is reported as an unearned premium liability. Such contracts are for example unit linked contracts or certain protection 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 claim 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 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 similar to the principals for deferring acquisition costs of investment contracts, see section 3.2.22 (c).

Claims are recorded as an expense when incurred.

(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 fair valued through income (see section 3.12).

(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 3.2.20, 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 3.2.20.

Ceded reinsurance: The benefits to which the group is entitled under its reinsurance contracts are held as reinsurers share of technical provisions and deposits held with cedants. 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 recognizes that 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 3.2.13.

3.2.22 Investment contracts

The investment contracts that Skandia issues comprise the unbundled investment components of unit linked contracts, and the 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 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 at 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 has to be established for this portfolio.

(b) Recognition of revenue

Amounts received from and paid to investment contract holders are accounted for 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 item.

(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 the entity recognises the related revenue, which means following the pattern of service provision. 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 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 the hybrid instrument is not measured at fair value.

3.2.23 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 3.2.21. Their guaranteed element and the discretionary participation feature are accounted for as a liability.