

2005 Länsförsäkringar Bank

ANNUAL REPORT



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In brief Länsförsäkringar Bank



Länsförsäkringar Bank operates through 24 independent mutual regional insurance companies that work close to customers in their own markets. This creates a unique local presence and knowledge of the market. The regional insurance companies have a total of 85 advisory offices nationwide in Sweden. Customers can also conduct their banking business via the Internet, by telephone and via Svensk Kassaservice (Swedish Cashier Service), pay for their purchases with credit/debit cards and use ATMs in Sweden and abroad.

The bank directs its services to private individuals and farmers and is today a full-service bank where customers can conduct their banking transactions. The many different service locations give customers substantial freedom to deal with and use the bank on their own terms.

Länsförsäkringar Bank is part of the Länsförsäkringar AB Group, with Länsförsäkringar AB as the Parent Company, which is owned by 24 independent and customer-owned mutual regional insurance companies. The task of the jointly owned Länsförsäkringar AB is to manage and coordinate joint strategic and development work within the Länsförsäkringar Alliance and provide service to the mutual regional insurance companies. Combined, the companies comprise Sweden's only customer-owned and locally based banking and insurance group.

Definitions

Capital adequacy

Closing capital base in relation to the closing risk-weighted amount.

Capital base

The sum of Tier 1 and Tier 2 capital minus items in accordance with Chapter 2, Section 7, Paragraph 3 of the Capital Adequacy and Large Exposures Act.

Cost/income ratio

Total costs in relation to total income. The cost/income ratio is calculated before and after loan losses.

Doubtful receivables

Receivables for which payments are unlikely to be made in accordance with the agreed terms. A receivable is not regarded as doubtful if there is adequate collateral to cover both the principal, interest and any penalties for possible late payments. The net of doubtful receivables is equivalent to doubtful receivables less specific provisions made for individually appraised receivables and provisions for receivables appraised by group.

Fixed-interest period

Agreed period during which the interest rate on an asset or liability is fixed.

Interest margin

The difference between the average interest rate

on all assets and the average interest rate on all liabilities.

Investment margin

Net interest income in relation to average total assets.

Non-performing receivables

Receivables for which interest payments, amortization or overdrafts are more than 60 days past due.

Percentage of doubtful receivables

Doubtful receivables, in relation to total lending to the public.

Provision ratio for doubtful receivables

Provision for probable loan losses in relation to gross doubtful receivables.

Return on equity

Earnings for the period, after appropriations and standard tax, in relation to average shareholders' equity, adjusted for new share issues and dividends.

Return on total capital

Operating income in relation to average total assets.

Risk-weighted amount

Total assets reported in balance sheet and off-balance-sheet commitments, valued in accordance with the Swedish Capital Adequacy and Large Exposures Act. Volumes are weighted taking into account assessed risk so that they are included in the risk-weighted amount by 0%, 20%, 50% or 100%.

Tier 1 capital (Core capital)

Shareholders' equity in the Parent Company including 72% of untaxed reserves, less intangible assets and deferred tax assets, capital contributions and provisions that may be included in the capital base as Tier 1 capital are described in Chapter 2, Section 6 of the Capital Adequacy and Large Exposures Act.

Tier 1 ratio

Tier 1 capital at year-end in relation to the closing risk-weighted amount.

Tier 2 capital (Supplementary capital)

Subordinated loans with an original term of at least five years with a certain reduction if the remaining term is less than five years, plus capital contributions and provisions in accordance with Chapter 2, Section 6 of the Capital Adequacy and Large Exposures Act.

Financial reporting in 2006

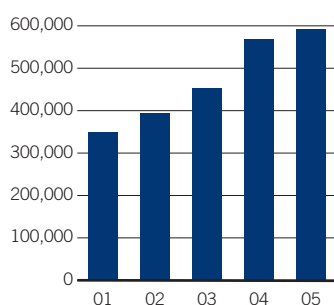
Interim report, January–March	April 25
Interim report, January–June	August 29
Interim report, January–September	October 23

The Annual General Meeting will be held on May 15

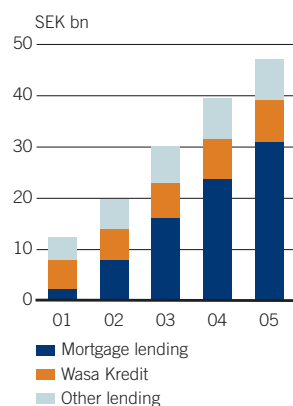
www.lansforsakringar.se/info/

Länsförsäkringar Bank in figures

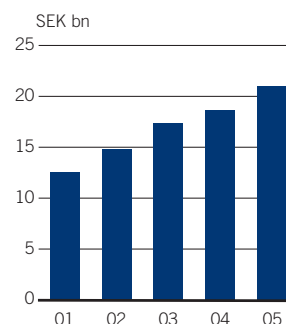
Number of customers



Lending to the public



Deposits from the public



Key figures	2005	2004	2003	2002	2001
Group					
Return on equity, %	4.1	4.3	3.0	1.3	0.1
Return on total capital, %	0.4	0.3	0.2	0.1	0.0
Investment margin, %	1.85	2.18	2.59	3.01	3.08
Interest margin, average, %	1.69	2.02	2.37	2.82	2.86
Cost/income ratio before loan losses	0.84	0.86	0.90	0.99	1.09
Cost/income ratio after loan losses	0.88	0.90	0.94	1.01	1.04
Capital adequacy, %	11.28	11.37	13.00	8.08	9.12
Tier 1 ratio, %	9.02	9.00	9.95	7.45	8.45
Percentage of doubtful receivables, gross, %	0.52	0.63	0.69	0.91	1.66
Percentage of doubtful receivables, net, %	0.05	0.15	0.12	0.18	0.47
Provision ratio for doubtful receivables, %	91.02	76.33	83.14	83.35	86.29

2005 in brief

- Operating income amounted to SEK 203 M (171) before loan losses and SEK 154 M (127) after loan losses.
- Revenues rose by 7% to SEK 1,299 M (1,214) and administration expenses rose by 5% to SEK 1,097 M (1,042).
- Net interest income rose by 5% to SEK 873 M (830).
- Loan losses continued to be low and amounted to SEK 49 M (45).
- The return on equity before tax was 5.7% (5.9).
- Lending to the public increased by 19% to SEK 47 billion (39) and deposits from the public rose by 9% to SEK 21 billion (19).
- Mortgage lending by the subsidiary Länsförsäkringar Hypotek rose by 30% to SEK 31 billion (24).
- In January 2006, Standard & Poor's changed the bank's outlook from "stable" to "positive," confirming the positive development in the banking operations and its strategic importance to the Länsförsäkringar Alliance.
- For the second year in a row, the Swedish Quality Index survey showed that Länsförsäkringar's customers are more satisfied than private customers of other banks. The total number of customers amounted to 593,000 (568,000).
- All funds generated positive returns during the year.
- The number of cards increased by 24% to 107,000 (85,000).



Statement by the President

The foundation is laid for continued growth

Fiscal 2005 was a significant year for our banking operations. The strong growth in recent years means that we are well-equipped for the future. Our business volumes have increased from SEK 24 billion to SEK 122 billion since 2001, and operating income underwent a hundredfold increase during the same period: from SEK 1 M to SEK 154 M.

TODAY, WE HAVE A STRONG position on a market exposed to extremely intense competition, and I am able to note successes in many areas: For the second consecutive year, the Swedish Quality Index survey showed that our customers are more satisfied than private customers of other banks. In 2005, we were also the company with the highest customer satisfaction in the mortgage market among private customers.

Our figures confirm that the long-term strategy we are pursuing is, without doubt, the right one. Lending to the public increased by 19%, deposits by 9% and the card stock grew by 24%. Mortgage lending in our subsidiary Länsförsäkringar Hypotek increased by 30%. Operating income rose by 22% during the year to SEK 154 M before tax. Net interest income amounted to SEK 873 M. Further evidence of our strength is the fact that the capital market continues to afford the bank great confidence and that Standard & Poor's raised the outlook for the bank from "stable" to "positive." Standard & Poor's emphasized the strategic importance of the operations to the entire Länsförsäkringar Alliance and the commitment of the owners. The high level of capital adequacy and the positive trend in the banking transactions of the regional insurance companies were also noted. We now have all the prerequisites in place to create even stronger core business which can benefit the entire Länsförsäkringar Alliance. Our current long-

term rating with Standard & Poor's is A- (positive) and with Moody's is A3 (stable). In the Savings area, we are delivering favorable results to our customers and the development of our fund-of-funds alternatives is, for example, stronger than equivalent funds of the majority of our competitors. Growth in the fund market was very positive during the year and many of our funds increased considerably higher than index. In its report published just after year-end 2005, the independent rating institut Morningstar gave five stars to no less than ten Länsförsäkringar funds.

Today, we are Sweden's sixth largest bank, measured in terms of deposits from households, and are a fully viable alternative to the large banks. We are continuing to challenge, not only with low prices and advantageous terms, but also with a high degree of service and active presence in our customers' daily lives. For us, it is a matter of course that we can be found where our customers are located. At the same time as the large banks are becoming increasingly anonymous and closing a greater number of branches, we prioritize personal meetings with customers. We have opened 50 new bank offices in Sweden in the past five years. And we will open more.

Länsförsäkringar Alliance are Sweden's only customer-owned banking and insurance group. With the development and operation of the bank based on Läns-

försäkringar's existing infrastructure, we have unique local knowledge and solid presence. Our strategic target group is homeowners. The three core businesses, non-life insurance, life assurance and banking mean that today we can offer a simplified, easily understandable and competitive total solutions package.

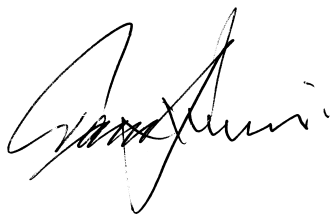
Länsförsäkringar's total customer base is a major asset. In addition, customers have great confidence in our brand, which is Sweden's strongest brand in the non-life insurance market. Of the almost one million insurance customers who are homeowners, 18% currently have one or more banking services, thereby creating the premises for continued growth in the banking business. Knowledge of the bank among existing customers has successively increased to approximately 30%. These figures show that we have made substantial progress and that there is potential in the customer base and brand for additional growth.

But despite the fantastic developments of recent years, we are not resting on our laurels. A major challenge is to improve the use of the breadth of the total offerings of the Länsförsäkringar Alliance to generate more and better business with the Alliance's 2.6 million private customers. The Länsförsäkringar Alliance's strategy was revised in 2005. The implication of this strategy is that we are to further strengthen cooperation

between our three core business areas – non-life insurance, life assurance and banking – to improve the coordination of the overall content of our meetings with customers to an even greater extent. In this manner, we will secure all business opportunities with customers based on their needs.

Banking operations are anchored in solid ground. Business is oriented toward the target groups of private customers and farmers. Financial strength and distinct owners who regard our operations as an area of priority, a favorable earnings trend and knowledge of our own market mean that we have the best prerequisites to consolidate our position on the Swedish bank market. The banking operations will continue to grow. We are making major efforts to create sustainable profitability in our banking operations and to create an even stronger core business that will benefit the entire Länsförsäkringar Alliance.

Stockholm, March 2006



Tomas Johansson
President and CEO



About Länsförsäkringar Bank

A challenger to contend with

Banking operations make up one of Länsförsäkringar's core businesses, together with non-life insurance and life assurance. Länsförsäkringar Alliance are Sweden's only customer-owned and locally based banking and insurance group. Länsförsäkringar Bank is a subsidiary of Länsförsäkringar AB, which in turn is owned by the 24 independent mutual regional insurance companies.

THE MUTUAL REGIONAL insurance companies work close to the customers on their own markets, creating a unique local presence and market awareness. There are a total of 85 advisory offices located throughout Sweden. Customers can also conduct their banking business via the Internet, by telephone and via Svensk Kassaservice (Swedish Cashier Service), pay for their purchases with credit/debit cards and use ATMs in Sweden and abroad.

Challenger

Competition on the Swedish bank market has increased considerably in recent years. Since Länsförsäkringar started providing banking services in 1996, the goal has been to be the number one choice for banking and insurance in the Swedish market. In less than ten years, operations have grown to encompass virtually complete offerings within the areas of savings, lending and payments. The primary target groups are private individuals and farmers. Today, the

bank is a full-service bank for these customer groups. Länsförsäkringar has the most satisfied private bank customers for the second consecutive year and the bank shall be a serious challenger in the Swedish bank market. The strategic market objectives are profitable growth and the most satisfied customers.

Vision

- We are the customer's number one choice within non-life insurance, life assurance and banking services.
- Our financial position enables sustainability, development and value for money.
- We have an excellent reputation in Swedish society.

Business concept

Länsförsäkringar Alliance offers private individuals, companies and farmers value for money services within non-life insurance, life assurance and banking. Guiding principles for operations are customer-

Market strategy

Strategy

Greater commitment to customers and more regular customers through customer orientation

Success factors

- The customer-owned and local concept
- Total approach in customer meetings
- Value for money
- Offers adapted to the lifecycle
- Event-based communication

Strategic market targets

Profitable growth
and
the most satisfied customer

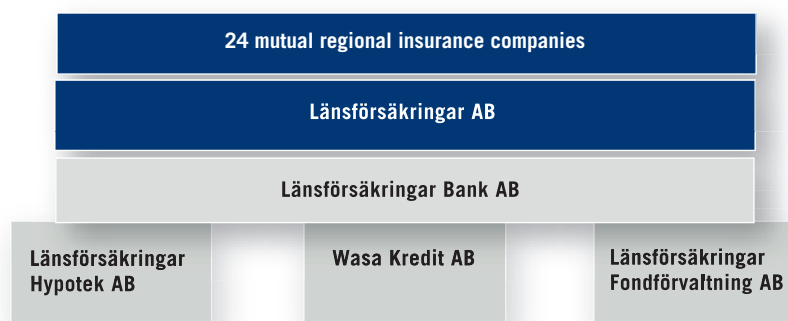
owned, local, available and personal attention.

Länsförsäkringar's task is to offer total solutions based on different combinations of non-life policies, medical and accident policies, life assurance policies, pension-saving plans, fund saving and various banking services. Since the companies are customer-owned, there are no other specific ownership interests to be considered beyond those of the customers. Everything that is developed in the form of products, concepts or system support must be based on customer needs.

The overall objective is even more customer-oriented working methods and approach. Customers shall experience added value and obvious customer benefit when they combine all of their banking and insurance requirements in their mutual regional insurance company. All products and advisory services shall be adapted to the customer's situation and need at that point in time in their lives.

Länsförsäkringar has Sweden's strongest brand within non-life insurance. Länsförsäkringar Alliance has 3.1 million customers and accordingly, there is significant potential in the customer base to generate more bank business with existing customers. The long-term goal is for the majority of Länsförsäkringar's customers to also become bank customers. Customers are offered total solutions that make it attractive to combine all their banking and insur-

Organization



Länsförsäkringar Bank is part of the Länsförsäkringar Alliance. The Alliance comprises 24 independent regional insurance companies and the jointly owned Länsförsäkringar AB. The bank is owned by the Parent Company Länsförsäkringar AB (publ) (556549-7020). Banking is a core operation of the Länsförsäkringar Alliance. The Banking Group comprises the Parent Company Länsförsäkringar Bank AB (publ) (516401-9878) and the wholly owned subsidiaries Länsförsäkringar Hypotek AB (556244-1781), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB (556364-2783).

ance business at Länsförsäkringar. In addition, employees undergo continuous training and development to be able to adopt an all-round approach in their meetings with customers. There are obvious benefits for customers in offering services and products in all areas at a single meeting.

Länsförsäkringar Hypotek AB

Länsförsäkringar Hypotek, the bank's mortgage institution finances private homes, tenant-owned apartments and leisure homes. Since its launch in 2001, Länsförsäkringar Hypotek has shown a very positive development.

Wasa Kredit AB

Wasa Kredit is a finance company conducting leasing and financing operations as well as unsecured lending in the Swedish market. The leasing and financing operations focus primarily on cars, computers and heavy machinery as well as the leisure segment, including campers and boats.

Länsförsäkringar Fondförvaltning AB

Länsförsäkringar Fondförvaltning manages SEK 54 billion (40) in 32 (34) mutual funds with different investment orientations. Länsförsäkringar's mutual funds are available as direct fund saving, as various unit-linked products and through the PPM system.

Economic environment

Strong global growth

From a global perspective, 2004 was a very strong year for the economy – the strongest since 1974 – and 2005 was almost as strong. The US and Asia continued to grow substantially, Japan recovered somewhat and positive signs can also be seen in the EMU area. There are also positive indications that the British economy will gain renewed pace during 2006. Signs of an upward trend in several areas can also be seen in Sweden.

Globalization trend continues

Globalization entails intensified competition, greater productivity and price pressure. Global growth is increasing at the same time as low inflation is contributing to keeping interest rate levels down. Even real interest rates are low, most likely due to relatively high percentage of savings. The surplus of capital in many markets means increased demand for fixed-income securities, forcing interest rates to even lower levels.

This scenario will probably continue, at least in the short term. There are no signs of substantially increased interest rates. In the US, the Federal Reserve increased interest rates by 2 percentage points in 2005 at the same time as long-term interest rates rose by only 30 points. The low long-term interest rate can be explained by the market's expectation that there will be no rise in inflation, not even in the very long-term. The American economy is strong and positive growth is expected to continue in the US. The interest-rate restraints of recent years have, however, begun to yield certain dampening effects on growth. Parallel to

this, consumption continues to be strong due to higher employment levels.

Changes by central banks

In the US, the Federal Reserve increased interest rates in 2005, although it also clearly indicated that a neutral level had been reached and that further rises in interest rates would be limited. Growth is high but there are strong signs that inflation will remain low. This means that the American Federal Reserve has probably finished raising interest rates for the time being.

For the first time in five years, the European Central Bank (ECB) raised interest rates from 2.00 to 2.25% at the end of 2005. In the beginning of 2006, the Central Bank raised another 0.25 percentage points. The Bank of Sweden reduced interest rates in mid-June from 2.00 to 1.50%, yet by the end of the year it had become increasingly clear that a first rise in interest rates would be unavoidable. Bank of Sweden has increased interest twice in 2006 to 2.00 percent.

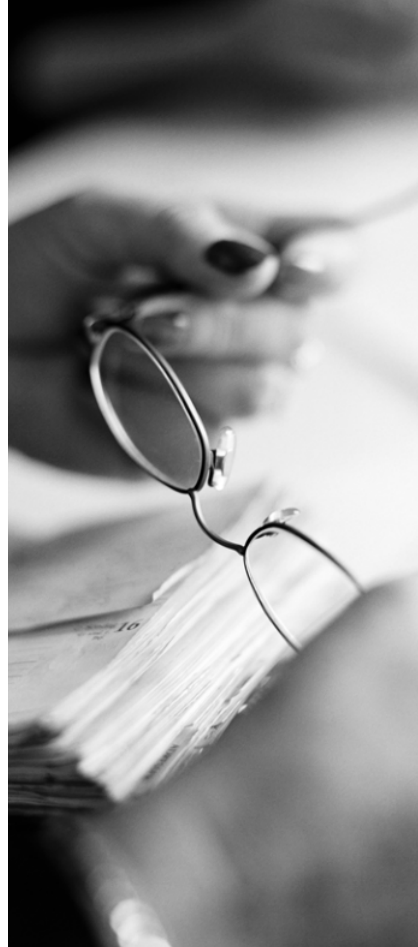
Both the ECB and the Bank of Sweden are therefore almost two years behind the

Federal Reserve in the interest-rate cycle. There are two primary reasons for this:

- 1) Terrorist attacks, war and scandals in the business world led to the Federal Reserve reducing interest rates to extremely low levels as a preventive measure.
- 2) Growth and the increase in employment were considerably stronger in the US than in the EMU area and Sweden.

Stock market growth was very strong in the EMU area. Despite this, GDP growth in Sweden seemed slightly more subdued during the first half of 2005 compared with 2004. However, growth gained pace again during the second half of 2005. The rate of investments and household consumption also rose and contributed to unusually strong level of foreign trade.

There are positive growth prospects in the EMU area and in Sweden in particular. There are strong indications that the central banks will continue to raise interest rates in 2006. Inflation is predicted to be low, which most likely will limit the increases in interest rates, with only minor rises expected.



The long market interest rates in Sweden and in the EMU area fell during most of 2005 to increase later in the autumn. This was a result of the global concern about inflation rates from higher oil prices. The long-term interest rates are turning upward from their lowest listing in 2005. These interest rates will probably turn weakly upward in 2006, entirely in line with greater demand and higher interest rates from the central banks. The long-term market interest rates, which govern the fixed mortgage interest rates, should in all likelihood increase less than floating rates.

Weakening of the krona

The Swedish krona (SEK) weakened considerably in 2005. The main reason for this is that Sweden had a significantly lower interest rate than the rest of the business environment. The weak SEK exchange rate was positive for Swedish export. Swedes with saving in foreign funds saw the value of their investments increase as the currency had a positive effect on the price trend. However, the SEK began to recover somewhat in December and then weakened again at the beginning of 2006. Interest-rate differences will probably continue to govern the currency market in 2006. Higher interest rates in Sweden should result in favorable possibilities for the SEK to recover.

Rising wealth positive for households

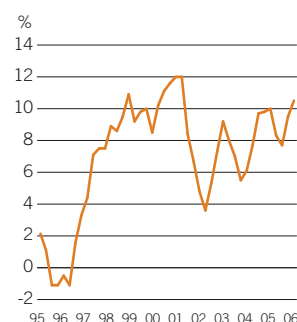
Low interest expenses, despite increased debt, led to greater scope for household

consumption. In addition, private home prices continued to rise, in both 2004 and 2005 prices increased by an average of 10% per year. The stock market increased dramatically during the past year. In other words, the wealth of households has increased, both in real terms and financially.

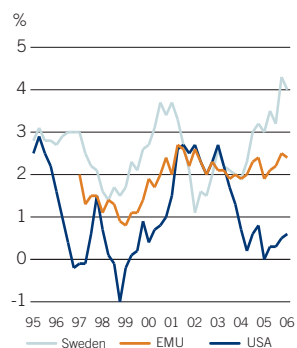
Employment is expected to increase in 2006. Many surveys show that the climate of the labor market has improved. The number of open job positions and is increasing and in certain industries there is talk of a lack of manpower, mainly in the construction sector and certain private service industries in the IT area. The fact that 2006 is also an election year in Sweden also implies an extra stimulation package from the government. Households' disposable incomes are expected to increase and may compensate for the expected rise in interest rates. There was a strong conclusion to 2005 and increases in growth are expected to continue in 2006.

The Swedish economy developed highly favorably in 2005. Investments, private consumption and net exports contributed to solid GDP growth. Several different factors stimulated the economy in 2005. The stock exchange grew considerably and prices of private homes climbed upward. Interest rates fell and the SEK weakened. Stimulation of interest rates is expected to be somewhat lower in 2006, although this will be offset by an expansive finance policy, higher employment and a general increase in income.

Housing prices, annual change



Inflation, annual change



Key interest rates



MARKET OVERVIEW

Finance companies in Sweden account for quite a significant portion of the country's GDP. The three largest groups of companies on the finance market are banks, mortgage institutions and insurance companies. The finance sector has undergone rapid growth during the past ten years. Many companies have expanded their operations and several new actors have entered the market.

Banking and insurance

The industry migration of banking and insurance has been apparent for a long time. The first wave came at the beginning of the 90s when banks began selling life assurance and pension insurance. The second wave came a few years later when a number of insurance companies introduced banking operations.

In 2005, the third wave began when both Nordea and Föreningssparbanken presented their plans to enter the non-life insurance market and Skandia launched 'Insurance and Bank' linked to its logo.

Increasingly, the major players are beginning to resemble financial supermarkets.

Intensified competition and change barriers

The major banks in Sweden have been challenged by numerous players over the years. Some of the banks that have established themselves as telephone and Internet banks have won over customer confidence and captured market shares. There were further additions in the number of new players when other companies that were not traditional banks were permitted to begin offering deposit services, and at a relatively high deposit rate.

The range of services offered is very similar and the most prominent competitive tools are prices and terms. The record profits reported by the major banks also made many express their demands for reduced fees. The customer is the winner. Despite this price war, the tendency to change banks is low. Only 3% changed bank in 2005 while 7% chose to supplement with an additional bank, even though the people who changed banks appear to be considerably more pleased with their new bank.

New distribution channels

Banking services are distributed in many new ways today. These new distribution channels have contributed positively to the development of new services and, by establishing new banks, have intensified competition on the bank market. Bank customers use the Internet and telephone to an increasing greater extent to manage their household finances.

The Swedish banks are global leaders of offering banking services on the Internet. The number of Swedes using the Internet as their main form of contact with their bank is, according to new surveys, between 40

and 45%. A well-functioning Internet bank is a fundamental prerequisite for succeeding on today's Swedish bank market. It has also been observed that bank customers who begin using the Internet become more active and conduct more banking business.

New meeting places take over

The percentage of Swedes paying their bills via the Internet jumped from 9% in 1999 to 53% in 2005. Giro forms, checks and cashier payments have been replaced by different forms of electronic payments over the past decade. The use of cards increased from 55 million transactions at the beginning of the 90s to slightly more than 880 million transactions in 2004. The percentage of people making payments by sending giro payment forms has simultaneously decreased from nearly 70% in 2001 to around 40% in 2005. The use of checks has practically ceased.

The network of ATMs is well-developed in Sweden but the disconcertingly high number of cash-in-transit robberies during the past year illustrated the vulnerability in society when the cash supply is impeded.

Facts about the Swedish bank market

SEK M	2005	2004
Total deposits and lending	1,546,000	1,383,000
of which deposits and lending, households	584,000	537,000
Total lending	1,678,000	1,404,000
of which lending, households	345,000	307,000
Mortgage loans	1,529,000	1,395,000
of which mortgage loans, private homes and tenant-owned apartments	1,073,000	918,000
Other players	123	127

Source: Swedish Bankers' Association, Finansmonitor and Statistics Sweden.



Elisabeth Hedmark,
private economist,
answers five questions

1. Many people predicted that interest rates will rise in 2006. How do you think such a rise will affect customers' private finances?

A rise in interest rates will have both a negative and a positive effect on household finances. When rates rise, interest on bank accounts also increases and for households with loans at floating rates it means higher interest expenses.

2. Is it true that many customers are stuck in a "loan trap"?

Households do not generally have large loans compared with their income. But a rise in interest rates will clearly be felt in individual households that have taken large loans. To prepare for how large the interest expenses can be, it is an idea to calculate how much a couple-percentage point rise will effect finances and make the necessary adjustments.

3. Do you really need to save for a pension?

It is even more important to save for a pension today than it was before. Everyone born in 1954 and after is entirely covered by the new pension system introduced in 1999. Income from your entire life forms the basis of your pension and many uncertain factors mean that no one can know in advance how large their pension will be. It is now everyone's responsibility to choose the investment of their occupational pension and premium pension funds.

It is often good to seek advice from an adviser about how to make choices for your premium pension and occupational pension and which private savings is best suited for you.

4. How do you ensure that you have as much money as possible in your wallet next year?

The best way to ensure that you have enough money left over is to check where your money goes and examine every expense. A household budget is a good help. Money can often be saved by comparing costs and terms for mortgages and insurance policies. To get the best return on your savings, it is important to look at these items at least once each year and make transfers if necessary.

5. What amount of buffer do you think each individual household should have?

The buffer amount is specific to each household. A larger family living in its own property would require a larger buffer and a smaller family in an apartment would require less. However, a readily available savings of one to two monthly salaries for unexpected expenses in, for example, a savings account or a short-term fixed-income fund would provide security.



Customers and customer meetings

Most satisfied bank customers for the second consecutive year

LÄNSFÖRSÄKRINGAR offers total solutions within banking and insurance for private customers and farmers. Our goal is one contact person and one customer meeting for all business.

Quality and service are assured through continuous investments in systems, products, channels and skilled personnel.

Private individuals

The foundation of the Länsförsäkringar Alliance's success is based on its local concept. Business and decisions shall take place as close to customers as possible. During its ten-year history, banking operations have grown substantially and transformed from a niche bank to a full-service bank for private customers and farmers. The success factor is the same as it was at

the beginning of the insurance operations in 1801. It is based on local knowledge and is anchored in personal contact and not to grow faster than being able to provide the best service to all customers. This choice was confirmed once again when Länsförsäkringar Bank had, for the second consecutive year, Sweden's most satisfied bank customers according to the Swedish Quality Index survey conducted by the Stockholm School of Economics. The Swedish Quality Index is based on 8,000 customer interviews and measures various factors (image, expectations, product quality, service quality, value for money, satisfaction and loyalty) which are then combined to provide an overall score. Länsförsäkringar was awarded 76 which is the highest rating of all of the banks and considerably higher than the average of 70 for other Swedish banks.

have chosen to take out their first-lien mortgage with the bank increased by 20% during the year. Of Länsförsäkringar's one million customers who are homeowners, 18% have to date chosen to become bank customers.

"Länsförsäkringar can meet all customers' needs."

Despite the rapid inflow of new bank customers in recent years, there still remains great potential for growth. Homeowners are one of the banks most important target groups, particularly considering the surveys indicating that mortgages are often the decisive factor for selecting a bank. However, the key to a long-term relationship is by being able to handle a customer's household financing with the help of personal contact and a well-functioning digital interfaces. Customers with more business with the banks are generally more satisfied and loyal than those with one or two products. Increased growth and profitability is created first and foremost by conducting more, and better, business with existing customers. The goal is to that customers shall experience Länsförsäkringar as an active, long-term, and knowledgeable financial partner that both understands and can meet varying needs for bank and insurance services that arise during different periods of life.

Private customers in brief

- 17% have their mortgage loans with Länsförsäkringar
- 18% of the homeowners are also bank customers
- 78% of customers use the Internet for their household financing
- 84% have some form of savings

"Sweden's most satisfied bank customers for the second consecutive year."

Länsförsäkringar has 2.5 million insurance customers and nearly 600,000 bank customers. The rate of growth is high, especially among insurance customers who also become bank customers. The number of private home insurance customers who

Products



Savings

- Personal accounts
- Savings account
- Fixed-interest accounts (3 months, 1, 2 and 5 years)
- Internet share trading
- Direct savings in funds
- Savings products for agriculture
- Stock index bonds

Lending

- Mortgage loans
- Private loans
- Loans to farmers
- Leasing
- Installment plans

Payments

- Visa debit/credit card
- MasterCard bank card
- Foreign payments
- Electronic invoices
- Private giro
- Bank giro
- Autogiro
- Clearing
- Bank ID

The marketing strategy of the Länsförsäkringar Alliance is based on the combination of profitable growth and the most satisfied customers. Länsförsäkringar can also meet customers' entire needs in Savings, Lending, Payments and Protection simultaneously; a unique competitive edge. In 2005 focus was placed on working methods and an approach whereby the customers' needs, interests and priorities are always placed in the center. A necessary step is, for example, that all customers are to be assigned a contact person/adviser for their entire requirements in the Alliance, regardless of whether the customer has bank or insurance business. This illustrates the advantage of combining all bank and insurance business with the mutual regional insurance company.

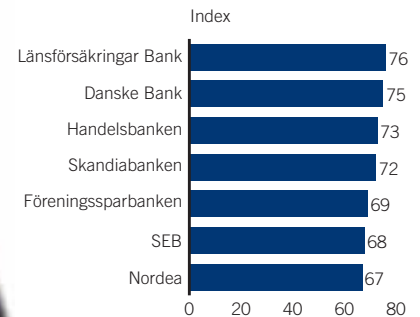
Länsförsäkringar's vision is to be the "number one choice within banking and insurance."

Knowledge among our own customers of the bank could still be improved. Customers' great confidence in the brand, which they associate with security, honesty and competence, is an excellent foundation.

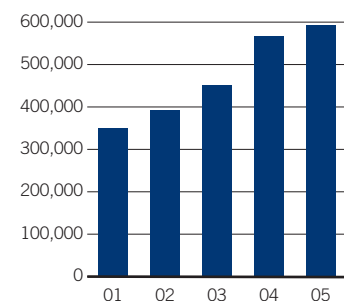
"Customers regard Länsförsäkringar as a company that is on their side."

In pace with this work to gain greater approval from customers, more people are choosing Länsförsäkringar as the bank for their household finances. Customers are generally extremely satisfied with the

Swedish Quality Index (SQI)



Number of customers



bank's terms and services. Growth is high. During 2005, the number of customers rose 5% and continuous investments are being made to fulfill customer needs and expectations. A number of new products and services were launched during the year, including a three-month fixed-interest account, the relaunch of stock index bonds and interest-bearing securities trading. Another new service this year is the extension of all loans taking place locally by using new and effective procedures.

In 2005, competition for customers intensified on the Swedish bank market and the difference in prices for mortgage loans with various players, for example, reduced markedly. Länsförsäkringar secured 5% of new sales on the mortgage loan market during the year and mortgage lending increased by 30%. The stiff competition clearly shows the importance of added value that creates customer satisfaction, and that banks can offer a long-term financial partnership instead of being an anonymous supplier of loans, accounts and services. By continuing to focus on these points, the future stability of transactions can be secured.

Länsförsäkringar's concept is based on being where the customers are. The drive on local presence continued in 2005 and a 20% expansion in advisory offices throughout Sweden are planned in the coming years.



Meeting places

Länsförsäkringar Alliance has a total of 85 advisory offices located throughout Sweden. Customers can also conduct their banking business via the Internet, by telephone and via Svensk Kassaservice (Swedish Cashier Service) either at one of 700 offices or with one of Sweden's 2,500 rural mail carriers, pay for their purchases with credit/debit cards and use ATMs in Sweden and abroad.

Internet

Swedish banks are global leaders in offering banking services on the Internet. A clear shift in the types of services offered has been observed in recent years. Today, the Internet is not just a communications channel, it is also a clear and powerful sales channel and an important customer meeting point.

The Länsförsäkringar Alliance has therefore developed and invested in the Internet channel throughout the year, resulting in a number of new functions and services. The possibilities for customers themselves to perform banking errands and purchase services via the Internet have increased considerably.

In accordance with our market strategy, the customers logging on to the Internet in the future will be met by one Länsförsäkringar. A customer will need only to log in once and then be able to see all of his/her bank and insurance commitment. Even if the customer moves between bank and insurance, the customer will not need to provide additional identification. It shall be easy and convenient to use the Länsförsäkringar website.

Work to ensure a high level of availability and performance of our Internet service is continuously under way. It is a decisive factor to be able to offer a well-functioning service in which customers can manage their household finances and see all of their bank and insurance commitment.

A customer survey about Länsförsäkringar's Internet bank was conducted in the spring of 2005.



The result was that 93% of customers gave a positive overall rating. The number of visitors to the Internet bank increased by 53%, the number of transfers increased by 55% and the number of transactions increased by an average of approximately 40%. A total of 78% of household finance customers used the service during the year. The number of customers connecting to the Internet bank increased by 10% and amounted to 317,000. Customers connected to the Internet bank generally have a broader range of products than other customers.

The number of loan applications via the Internet rose markedly during the year.



Next year customers will also receive the results of their loan application directly via the Internet.

Another project prioritized during the year was our customer dialog, meaning greater possibilities of customer identification on our website. Support for secure customer communication and customer dialog with identified customers on the Internet has been developed.

The number of Bank ID users increased substantially during the year. Since 2004 the number of users has increased by 175% and the greatest increase was noted in conjunction with filing income tax returns.

Summary Statement

More and more of Länsförsäkringars insurance customers are realizing the advantages of having their banking business with Länsförsäkringar. A new feature, which is widely appreciated, is the Summary Statement, sent to customers by mail twice per year. This Summary Statement details the customer's total bank, life

and non-life insurance commitments. At the same time, advice in insurance, saving, pension and loans is provided. This advice is personal and is based on the specific situation of each customer. Customers can continuously also follow their banking and insurance commitments on the "Bank via Internet."

Agriculture

Länsförsäkringar Alliance continues to be the market leader in the agriculture sector. 178,000 farmers and forest-owners have chosen Länsförsäkringar as their partner in order to safeguard property and production by taking out an agricultural insurance policy.

The high market share within non-life insurance also creates favorable conditions for strong growth in other submarkets. Länsförsäkringar offers simple, secure and well-priced solutions for farmers' total financial and insurance needs.

Changes in agriculture

Pressure on profitability in agriculture's traditional product lines and uncertainty concerning future conditions experienced in recent years have restrained the willingness to invest in Swedish agricultural companies. In 2005, the negative trend was broken and farmers who decided to continue to develop their businesses are making investments. At the same time, the willingness to invest in new product lines such as energy production is increasing. Developments are moving toward a more distinct differentiation between residential and production farms. Modern production farms are developing to a great extent and businesses that do not wish to follow these developments are discontinuing their operations. During the year, efforts such as the Federation of Swedish Farmers' (LRF) resource stations were conducted, at which successful ventures in agriculture and the possibilities of "green business" were shown to inspire courage and future confidence.



Name: Gösta and Lisbeth Paulsson
Live: Outside Laholm
Occupation: Run Edenberga Gård AB with 15 full-time employees

"Important partner for farming companies"

In 1987, Gösta began realizing his dream of becoming self-employed and leased a slaughter pig farm. In the 20 years that have since passed, he has continued to build his company. Together with his wife Lisbeth and his son Håkan, he now runs Edenberga Gård AB, with operations on three farms outside Laholm.

The company has 15 full-time employees. The production includes 1,000 sows which breed 25,000 slaughter pigs per year. Crop husbandry for food takes place on 330 hectares of land. The company is today Sweden's largest producer of piglets.

"For a company to grow quickly, it is necessary to have good contacts."

In 2000, Gösta changed banks and transferred to Länsförsäkringar Halland, which had been conducting banking operations since 1996.

"As I have been an insurance customer with the company for many years, it felt natural to begin using their banking services too."

"I received the financing I required to be able to expand the company. We meet at least twice per year and go through the company's finances."

"Länsförsäkringar Halland is an important and strong partner for the development of my company."

Large inflow of customers

Although a large number of persons in Sweden own agricultural properties, only a few derive their main income from agricultural operations. The largest such group is forest-owners, followed by farm-owners who combine farming with forestry. The bank's agricultural customers increased by 126% and number 40,700, of whom 9,200 are active in farming and 31,500 are customers with a connection to agriculture. The proportion of Länsförsäkringar's agricultural customers who are also bank customers rose to 22% during 2005.

Complete offering in agriculture

Länsförsäkringar's cooperation with Landshypotek is continuing to develop. At several locations in Sweden, Landshypotek has chosen to localize with regional insurance companies. Combined, they offer a complete solution, the Agricultural Package.

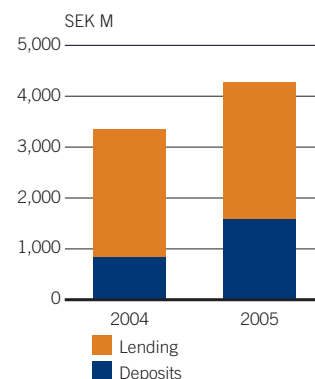
The Agricultural Package comprises a number of products and services that could be needed by a modern agricultural or forestry company. The farmer can choose the entire package or parts of it.

Among other features, the Agricultural Package includes a business account with a credit facility, an investment account with one of the market's highest interest rates, bank cards and debit/credit cards, a forestry and forest damage account, lease guarantees and totally cost-free services via telephone and Internet. Customers are also offered favorable loan terms and seasonal lines of credit – such as EU credit – as well as first-lien mortgage loans through Landshypotek.

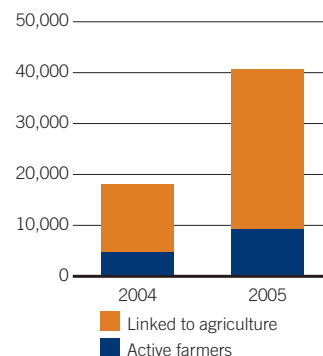
Employees with sound knowledge of the industry

The Länsförsäkringar Alliance has about 1,100 bank and insurance advisors that have undergone certification training, all with a high level of competence in financing and insurance based on farmers' needs. Customers communicate with the bank via all the usual channels – Internet, telephone and personal customer meetings – and can make cash withdrawals from 2,700 ATMs in Sweden and abroad. Cash transactions can also be made via Svensk Kassaservice and the rural mail carriers.

Business volume, agriculture



Number of agricultural customers



Swedish agriculture in figures

- Sweden has 3,240,000 hectares of arable land.
- Between 2004 and 2005, the area under cultivation increased by 56,100 hectares and pasture area increased by 14,000 hectares.
- During the same period, grain-growing decreased by 9% at the same time as the grazing land and green fodder growth increased by 11%.
- Sweden has 575,000 cows used for milk production or raising calves.
- There are 460,000 sheep, 1.8 million pigs, and about 5 million laying hens in Sweden.
- During the period from January to November 2005, the slaughter of cattle decreased by 3.8% and the slaughter of pigs by more than 6%.
- Between 1951 and 2003, the number of people employed in agriculture decreased from 869,000 to 168,000, more than 80%.
- In 2003, the number of farming companies was 67,888, a decrease of 12% since 2000. The specification of this figure is 38% livestock companies, 30% crop husbandry companies, 22% small companies and 9% with mixed production.
- The 38% classified as livestock companies account for 57% of the total estimated work requirements in agriculture.

Source: Swedish Board of Agriculture.

Employees

Entrepreneurship is key to success

Competent and dedicated employees are a prerequisite for enabling the banking operations to realize its objectives. The business environment and competition are changing increasingly rapidly and higher demands are imposed on meeting these developments. Requirements for employees to have the right premises, correct attitude, the correct knowledge and right opportunities to develop are rising in pace with increases in business volumes and the number of customers.

Entrepreneurship

Of Länsförsäkringar Alliance's 5,500 employees, some 800 work within banking operations. A key to success is that all employees have a good sense of entrepreneurship. This means that each individual should be able to see the operations from the customer's viewpoint, understand the effect of the brand on profitability, have an insight into how added value for the customer creates growth and have an understanding of how by being results-oriented, cost-conscious and working efficiently, they can contribute to a profitable business.

Leaders with total approach

The desire and ability of our employees to cooperate in the core operations of banking and insurance are necessary for long-term success. This total approach must be integrated in our daily work with a consistent focus on customer benefits and profitability. Achieving this requires distinct and motivated managers who understand the business from an overall perspective at the

same time as having the ability to create relationships with employees and customers. In 2005, extensive activities were conducted to ensure that the highest goals for entrepreneurship were being realized and given an even clearer link to the business plan. A leadership program based on an in-depth analysis of the business world, competition and the requirements for a leader of tomorrow resulted in a number of specific measures and training sessions. Focus has been directed toward clear leadership responsibilities and on managers' ability to create commitment and involvement. The leadership program will continue in 2006.

Skills development and business planning

In 2005, a further developed model for enhancing skills was launched. The model is based on individual action plans for both general and business-critical skills. The process includes career-development interviews and individual goal contracts that are

reviewed on several occasions during the year. The individual goals arise from the career-development interviews and are based on the unit's earnings targets and action plans within the business plan. The competency platform developed in 2004 has been reviewed and a new diploma training program has been drawn up based on this work in order to further enhance the knowledge and credibility of our advisers and to ensure a high level of quality in each customer meeting. This diploma training program has aroused great interest in the bank and life assurance operations, resulting in a number of employees completing the program during the year.

Stricter requirements from Basel II

The new capital adequacy requirements based on risk assessments per loan place greater demands on each individual processor. In autumn 2005, the bank's employees participated in a Basel II training course to ensure that they had the level of expertise necessary when the new regulations are implemented.

Diversity

Diversity is one of the most important issues to the Länsförsäkringar Alliance. The operations shall reflect today's society and it is important that customers experience a sense of recognition and that the bank has the ability to adapt its offering and products to markets with different needs and values.

Diversity issues are afforded broad scope in our internal activities and when recruiting new employees. The starting point is to view the differences in each employee as an asset and create a workplace that provides scope to grow from employees' and the company's conditions. Seminars and workshops on diversity were held for employees in 2005, which raised understanding in these issues.

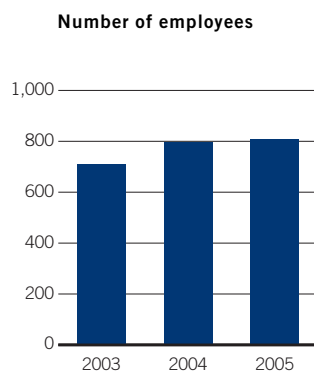
Satisfied employees

Each year, an employee survey, designated Satisfied Employee Index (SEI), is conducted, which is completed by all employees in the Bank. The survey has been carried out each year since 1999, and covers areas such as influence over work assignments, work requirements, skills, operational development, information structure and solidarity in the workplace. The SEI value has increased each year since the first survey was introduced, and was at 76.8 in 2005. An index above 70 is regarded as highly favorable. A high SEI value is important for being considered an attractive employer and our ability to attract academic expertise that will be required in the future.

Active health program

The health and well-being of employees strengthens the view of an attractive employer and is also important for profitability. For several years, the entire Länsförsäkringar Alliance has engaged in strate-

gic programs to enhance health in the workplace. Health-related activities have been integrated in the organization by including specific targets and action plans in the business plan. The health program is implemented through a network of persons who assist employees and managers. Health and work environment checks are carried out regularly and the model facilitates rapid remedial measures. Requirements are identified and resources can be allocated at an early stage. Employees undergo regular health and work profile examinations and are then placed in a risk or fitness group based on their health profile. Individual action programs are implemented and continuously followed up for employees considered to be in the risk group. In 2005, nearly half of the employees who were considered to be in the risk group in 2004, and who participated in remedial action, took the step back to the healthy group.



Employee statistics

All the statistics below pertain to the banking activities within the 24 regional insurance companies and the Banking Group.

No. of employees	Annual employees,	
	Dec. 31, 2005	Dec. 31, 2005
Länsförsäkringar's banking operations	807	708.1
Women	449	
Men	358	

Average age, years	2005
Total	41.0
Women	41.5
Men	40.4

Age interval, number	2005
0–30 years	147
31–40 years	269
41–50 years	221
51–60 years	153
61–	17

Management statistics

Managers with personnel responsibility, number	2005
Women	26
Men	66

Average age, years	2005
Women (managers)	47.8
Men (managers)	45.6



Savings

Bull market contributes to increased savings

Total savings by Swedes increased by 29% during the year. Due mainly to the stock market upturn and the increased value of housing properties.

Despite the low interest rates, it is clear that savings, both in the long-term and short-term, are becoming increasingly important to Swedish consumers.

THE SAVINGS STOCK of Swedish households amounted to approximately SEK 7,439 billion in 2005. Some 59% of the savings stock SEK 4,336 billion, is unrelated to housing.¹⁾ Despite the increase in savings volumes, the after-effects of sharp downturn in the stock market between 2000 and 2002 are still being felt on the saving market. It is clear that customers continue to prioritize savings and are ideally looking for products that combine good growth possibilities with limited risk of loss.

Traditional bank deposits are a popular form of savings and account for approximately 8 percent of private customers' total savings.¹⁾ The positive stock market trend has, however, led to an increase in interest in mutual funds and share investments. The majority of today's customers regard these investments as the most advantageous in the long-term.

¹⁾ Source: the savings barometer from Statistics Sweden

Increased market shares

The Länsförsäkringar Alliance is currently Sweden's eighth largest player within the savings sector and Sweden's sixth largest player in deposits from households. The volume trend was favorable during 2005 and deposits increased by 9% to SEK 21 billion. Market share, measured in deposits from households, rose from 3.0 to 3.1%. The number of accounts also increased substantially and it is clear that more and more customers are choosing Länsförsäkringar as their main bank. An average of (net) 2,000 new personal accounts, 1,300 savings accounts and 170 securities deposit accounts were opened per month in 2005.

Complete product offering

The product offering comprises deposit products such as savings accounts, personal accounts and fixed-interest accounts with terms of three months, one year, two years or five years, Internet share trading and

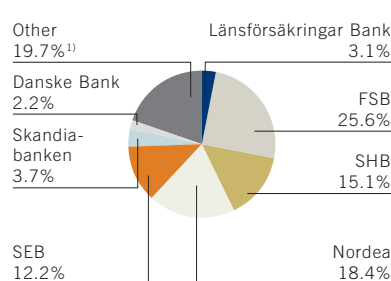
securities deposits, as well as structured products in the form of stock index bonds – World, China & Japan and Europe. Customers in the agricultural sector also have access to saving products such as a business account, an investment account, a forestry account, and a forest damage account, of which the two latter accounts are also available as fixed-interest accounts.

In 2005, a decision was made to enhance the efficiency of procedures for simplifying the process for customers wanting to change banks, opening new accounts and expanding savings in another manner. Investments that further developed the user-friendliness of the Internet bank and Internet share trading is just one example of a service that is being used more and more. The number of deposit accounts increased by 47% in 2005 to 6,400 and approximately 27,000 transactions were carried out. Another highly appreciated function is our securities service is the possibility to

Deposit trend by customer segment

SEK M	2005	2004	Change, %
Private	16,621	15,340	8%
Commercial	2,527	2,943	-14%
Agricultural	1,591	826	93%
Total	20,739	19,109	9%

Market shares, deposits from households



¹⁾ Of which, 13.7% relates to independent savings banks.

acquire and trade in interest-bearing instruments via the Internet. The two stock index bonds – China & Japan and World – launched in 2004 increased in 2005 by 29% and 10%, respectively. During the year, a third stock index bond – Europe – and a fixed-interest account with a three-month term were launched. The bank is also a retailer of the Swedish National Debt Office's lottery bonds.

Increased deposits from agriculture

Deposits from customers in the agricultural sector increased in 2005 by SEK 765 M, or 93%. Many forest-owners were hit hard by Hurricane Gudrun at the beginning of 2005. To meet needs, the bank offered a "storm package," a package of products combining effective claims adjustment with advisory services and attractive investment conditions, and which clearly demonstrated the

added value of having all of one's bank and insurance business with the same supplier.

The primary priorities for 2006 are to further expand the possibilities for customers to make payments themselves via the Internet, simplifying the process of switching banks and to increase savings by offering more attractive saving products and services.

Mutual funds

The net flow to funds during 2005 amounted to SEK 83 billion for the total market in Sweden, compared with SEK 56 billion in 2004. There was an extremely positive trend during the year and it is clear that the public is beginning to regain confidence in funds as a long-term form of savings.

Net flow into Länsförsäkringar's funds during 2005 amounted to approximately SEK 3 billion and market share is now 4.1%. SEK 2.4 billion of the net flow was from PPM saving and Länsförsäkringar unit-linked life assurance.

Länsförsäkringar Fondförvaltning's assets under management amounted to SEK 54 billion at year-end. Länsförsäkringar Fondförvaltning is thus maintaining its position as Sweden's fifth largest fund company. At the same time, Länsförsäkringar funds generated positive returns during 2005. All of the equity funds generated returns of more than 20% and the Small Company Fund and Growth Market Fund both increased by over 62%.

Swedish fund savers experienced a very positive year in 2005. Interest was particularly high in products combining the possibility of diversified ownership and favorable returns with a low level of personal commitment. Swedish savings in fund-of-funds displayed a very positive trend and had a greater increase in value during the year than equivalent products with other employers. Fund-of-funds Offensive/High risk increased by 39.7% and was also voted Sweden's best fund-of-funds in 2005 by Swedish financial daily Dagens Industri. Fund-of-funds Normal risk increased by 29.8% during the year and Fund-of-funds Low risk increased by 20.1%.

In 2006, the fund-of-funds will have even greater possibilities to generate high levels of return. Asset managers can also choose between funds in the range of products from ABN Amro, Alfred Berg and Banco.

Ten funds with Morningstar's highest rating

Ten of Länsförsäkringar's funds have now been awarded five stars from the independent international rating institute Morningstar, meaning that one of three funds has a maximum rating. With the most recent rating at year-end, Morningstar upgraded six of Länsförsäkringar's Pension funds from four to five stars.



Swedes have secure savings

LänsSpar is a survey of Swedes' saving patterns today and their savings plans for the future. The survey addresses the attitude of Swedes to their future savings in the country as a whole and in each individual county. Länsförsäkringar presented LänsSpar for the first time in August 2000, and this is the tenth version of the survey. A total of 7,800 private individuals aged 16-69 were interviewed on the telephone.

Forms of savings

Secure forms of saving such as bank accounts, funds and private pension savings

the most popular forms of savings among Swedes, although at-risk savings are gaining ground after the strong trend on the stock market during the year. Today, more people (a total of 15%) wish to increase their savings in shares and equity funds compared with last year (11%). Men save in equity funds to a greater extent than women. Half of Swedes save in private pension insurance, with women dominating this form of saving.

Bank accounts are the absolute most popular forms of savings. Around seven of ten Swedes save in bank accounts. How-

ever, savings in bank accounts decreased somewhat for the first time since the very first survey was conducted in the summer of 2000. A total of 69% of Swedes saved in bank accounts in autumn 2005, compared with 72% in the preceding year.

Every second Swede saves in a private pension or endowment insurance and 64% of those interviewed save in funds.

Future

In a five-year perspective, Swedes place the greatest confidence in funds and shares, which received 34% and 25% of interest,



respectively. A total of 11% believe that bank accounts are the best savings form even in the long-term. Less popular alternatives in the long term are fixed-income funds. In the forthcoming six-month period, the forms of savings that Swedes ideally wish to use to increase their savings, according to LänsSpar, are bank accounts, shares, equity funds and private pension insurance.



Mats Wester,
fund expert,
answers 5 questions

1. What was the trend in savings activities in 2005?

Interest in fixed-income savings and various guarantee solutions has continued to be high and this is probably a result of the very sharp downturn in the stock market in 2000-2003. At the same time, there were a number of indications for increased interest in high-risk investments such as Russia, China and India.

2. Can you see any clear savings trends?

In the next 5-10 years, more people will discover that our new pension system actually delivers lower pensions than we would have received if we had been able to afford to keep our old system. Therefore, I believe that more people will build their own pension savings.

3. Are today's savers more susceptible to risk than in the past?

The willingness to take risk always increases when share prices increase greatly and for a long period of time and decrease when the stock market is not performing as well. That is why most people buy high and sell low. We now have three excellent years for the stock market behind us and there is an upturn in people's willingness to take risks with their savings.

4. On which type of savings should the focus be?

The most important point is not what type of savings you chose but that you build your own savings in both the short and long term. When choosing savings forms, it is important that you chose an alternative that is suited to your savings period and interests. If you are interested in funds and shares, you should first choose a broad type of fund, for example global or generation funds, so that you avoid worrying.

5. Are there any interesting savings forms in Europe on which Sweden should focus?

No, I do not think so. Sweden has a relatively well-developed savings market and I find it difficult to see that we would require additional savings alternatives. For most people it is probably best to focus less on the choice of alternative and more on safeguarding one's needs for financial security.

Payments

Strong growth in card business

A well-functioning network of payment services is the core of the relationship between customers and the bank. Customers usually regard the bank at which they have their household financing as their main bank, regardless of whether loans or savings are with other players. There is also a direct link between customer satisfaction and the number of household financing services regularly used by a customer, and customers are often extremely loyal to the main bank with which they are satisfied. Consequently, the “payments” business process is a prioritized area in the banking operations.



Positive trend

The trend in 2005 was very positive. A higher number of customers selected Länsförsäkringar as their main bank and 24,200 personal accounts were opened. A total of 27,000 new customers joined and regularly used the Internet for their banking business and the percentage of electronic payments for private giros now amounts to 72%. The number of bills received by e-invoice rose by 23% and the percentage of Bank ID users, a free-of-charge identification service, for example, for securing cash transactions or contact with the authorities on the Internet, doubled.

Increase in bank cards

A market drive to direct greater focus on the bank's bank and credit/debit cards (Visa and MasterCard) was conducted during the year and at the same time as active use of cards was encouraged. The response was substantial and the card stock grew by 24% to 107,000 cards. A clear increase (approximately 16%) was also noted in the number of transactions per card. A new feature during the year was that it is now possible for customers to receive card invoices via the Internet and not only sent in paper format.

The cards have Länsförsäkringar's logo, meaning that they are an important bearer of the bank's message in its brand.

More Payments

The total number of payment transactions amounted to 29 million (22) in 2005, representing a 33% increase compared with the preceding year.

Cash handling

Despite the marked increase in both the use of cards and the percentage of electronic payments, customers still demand the possibility to deposit and withdraw cash over the counter. Länsförsäkringar has 53 (49) of its own ATMs.

The cooperation agreement with Svensk Kassaservice (Swedish Cashier Service) ensures that the bank's customers have access to approximately 700 offices and 2,500 rural mail carriers throughout Sweden even in 2006. The bank's customers also have access to Sweden's 2,700 ATMs. In 2006, focus will be on continuing to increase the percentage of electronic payments and increasing the number of cash and use of cards.

Development priorities are to continue the improvement of processes and to review the processing of card products.



Name: Senada Jusufovic
Lives: Hisingen in Gothenburg
Occupation: Production planner at Ericsson Microwave Systems

“Senada (left) with her bank adviser Jill Johansson”

“Satisfied customers are the best advertisement”

In the autumn of 2005, Jill Johansson changed jobs. She left her post at one of the largest banks in Gothenburg and started working at Länsförsäkringar Göteborg och Bohuslän.

“I did not want to change my bank contact just because Jill moved. So I asked her to continue managing my bank affairs.”

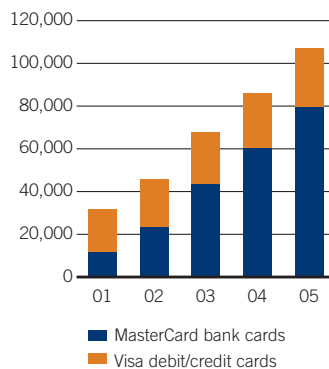
Senada previously had private home insurance with Länsförsäkringar, but it was new to her that Länsförsäkringar also had banking operations. She has now

transferred her car insurance, salary account, pension insurance, fund savings and a share deposit. She thinks it is practical to have banking and insurance services with the same supplier. But the most important thing for Senada is to have only one contact person.

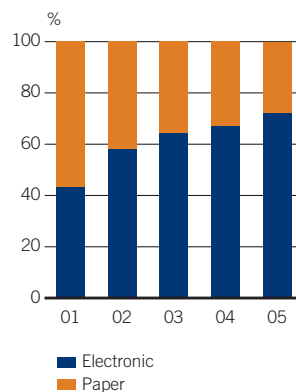
Senada comes from Bosnia in the former Yugoslavia. When she told her work colleagues at Ericsson that she had become a bank customer at Länsförsäkringar, many people raised their brows.

“They joked and said ‘Senada thinks that you can borrow money from an insurance company.’ They suggested that as an immigrant I had gotten things backward. But when I told them about the interest rates and discounts at Länsförsäkringar they became interested. Now, some of them have contacted Jill to transfer their bank loans and insurances. No one wants to miss out on a good offer.”

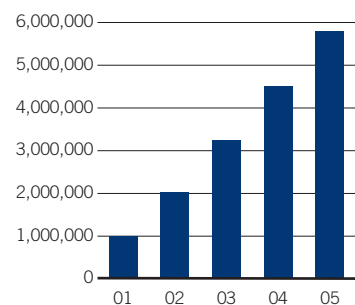
Number of cards



Proportion of electronically transmitted and paper-based payments



Number of payment transactions (private giro)





Lending

Increased growth despite stiff competition and price pressure

There was intense activity in the lending market during 2005, a major contributory factor being the continued low interest-rate level. Customers took loans primarily for residential properties but even the proportion of consumption credit is steadily increasing.

DESPITE THE SPECULATION of rises in rates during the year, interest rates continued to fall and at the middle of the year the floating rate was at the lowest level for several decades. As a direct consequence of low interest rates, competition and activities on the lending market further intensified and increased pressure on prices, primarily from commercial banks, resulted in even lower interest-rate margins. Despite these trends, growth was satisfactory and during the year the market share for mortgage loans increased by 16% to 2.9%. Also, according to the Swedish Quality Index (SKI), 83,000 mortgage customers are the most satisfied customers in Sweden. Länsförsäkringar was awarded the rating of 79.6 compared with the average of 72.5 for all mortgage institutes in Sweden.

Länsförsäkringar offers mortgage loans for private homes, tenant-owned apart-

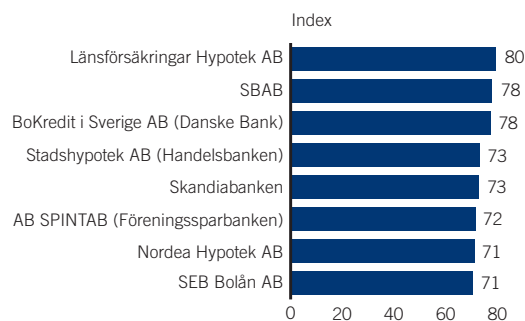
ments and leisure homes, private loans, overdraft facilities and loans to farmers. Personal advice is offered at Länsförsäkringar's bank offices, and covers customers' total bank and insurance needs. Customers can also apply for a mortgage via the Internet. The number of loans received via the Internet has increased by 39% since 2004. Mortgage loans to private individuals accounts for 73% of lending. First-lien mortgages are carried by the bank's own subsidiary, Länsförsäkringar Hypotek, and second-lien mortgages by the bank. Unsecured loans to private individuals accounted for 7% of lending and farmers represented 6% of the loan stock.

Mortgage lending increased by 30%, or SEK 7 billion, to SEK 31 billion during the year. The number of mortgage customers increased by 19% to 83,000.

Loan quality continues to be extremely positive and is followed up annually with detailed analyses of portfolios. High loan quality is based on a careful risk assessment of each loan application.

Efficient processing of loans is decisive for remaining competitive and successful. Customer demands are becoming greater and more multifaceted. As a result, we continuously conduct work to enhance benefits to customers and the quality of services. A project was conducted during the year to

Swedish Quality Index (SQI)





Name: Maria Nilsson
Lives: Fredhäll in Stockholm
Occupation: Nurse, training to become a midwife

Name: Christian Inngul
Lives: Fredhäll in Stockholm
Occupation: Orthopedist at Stockholm Söder Hospital

Maria Nilsson and Christian Inngul borrowed money from Länsförsäkringar Stockholm when they bought their first home together.

“Länsförsäkringar really cares about its customers”

In June 2005, Christian Inngul and Maria Nilsson bought their first apartment together, a two-room apartment, 54 square meters in size, in the Fredhäll area of Stockholm.

Christian explains:

“We bought this apartment without having finalized the arrangements for a mortgage loan. We contacted the banks and fell for Länsförsäkringar Stockholm, which offered us the best interest rate. It was because we decided to be regular customers of the company. Apart from our mortgage loan, we also took out

home insurance and I also transferred my salary account from my former bank.”

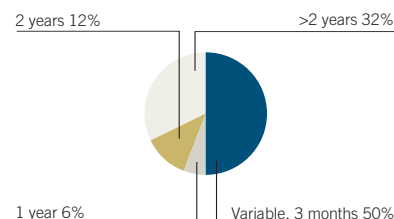
“We chose Länsförsäkringar because we were so well received. They really care about their private customers.”

“When we submitted our mortgage loan application via the Internet, we were contacted the same day by the credit processor. When we discussed our loan, we had just seen the Länsförsäkringar television commercial with Henrik Larsson. I was surprised by the likable and unusual tones in the commercial. It definitely contributed to our positive opinion of Länsförsäkringar.”

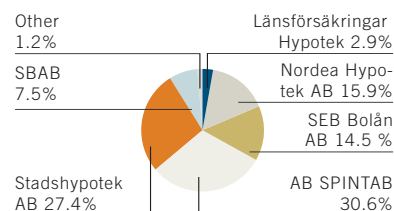
heighten the efficiency of processing and each case can now be followed in real time throughout the entire process. This results in shorter lead times and improves service for customers. Another new feature is the automated routine that simplifies loan

administration. A brand new application procedure for loans was produced during the year in the Internet Bank. This new service to be launched in 2006 simplifies the application process for customers and involves fewer stages before the application

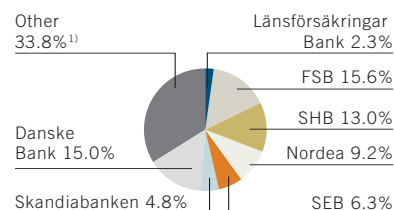
Fixed-interest term for entire loan portfolio



Market shares, mortgage institutions retail mortgage lending



Market shares, lending to households



¹⁾ of which 20,0 percent pertains independent savings banks.

Loan portfolio

SEK billion	Bank	Hypotek	Wasa Kredit
Mortgages <75%		30.8	
Mortgages >75%	3.8		
Installment plan			3.4
Unsecured	1.8		1.4
Leasing			3.0
Agriculture	2.7		
Apartment buildings		0.2	
Other	0.1	0.1	
Total	8.4	31.1	7.8

is completed. The application is then assessed automatically to ensure an effective loan-granting process and swift feedback to customers. Another new feature for this year is that all extensions of loans will take place locally with the help of data pens and new, more efficient routines.

The aim of Länsförsäkringar's marketing strategy is to be the number one choice for all customers needs in banking and insurance. Being a long-term financial partner entails significant requirements on both advice and services, in particular in the area of loans. The bank has consciously chosen to focus on offering customers an advantageous alternative for their entire personal finances instead of trying to sell as many loans as possible by competing only with low prices. This leads to a somewhat slower pace of growth but also to a closer relationship with customers and greater customer loyalty.

It is clear that Swedish consumers are experiencing a certain degree of uncertainty toward the future. In particular, this can be seen in the choice of fixed-interest periods, which varied during the year. The percentage of three-month interest amounted to 66% in December 2004. During the first half of 2005, this percentages steadily decreased by 12% despite continued reductions in the three-month interest rate. However, in the autumn customers again opted primarily (62%) for variable interest rates and at the end of the year the trend returned to lower fixed-interest peri-

ods with only 54% of customers choosing floating interest rates.

In 2006, Länsförsäkringar will continue developments for simplifying loan processing, product offering and services in line with customers' needs. The development of the Internet bank will also continue to be prioritized. In addition, focus will be placed on the further development of Internet loans and more flexible options for combining the degree of borrowing and fixed-interest periods of loans, credit facilities and the alignment and further development of Basel II.

Basel II

The Board of Directors of Länsförsäkringar Bank applied for permission to calculate capital adequacy for credit risks in accordance with the Internal Ratings-based Approach (the IRB approach) for household borrowings from January 1, 2007. This choice of method involves operations being reviewed and approved by Finansinspektionen (the Swedish Financial Supervisory Authority), which in turn places great demands on credit risk management. The bank has conducted work in project form since February 2004. In accordance with the guidelines of the Finansinspektionen, a request for review of the IRB approach was submitted in July 2005.

The IRB approach provides the opportunity to strategically and operationally manage credit risks, and greater possibilities to control the lending operations

according to the actual risk in the loan portfolio. Credit issuing is one of the Bank Group's primary operations and credit risk is the single largest risk to which the bank is exposed. It is therefore important to have a common view of credit risk and a strong credit culture. A central factor for a strong credit culture is that a firmly established and communicated credit risk strategy exists and that there are clear policies for guiding employees. Strategies and policies shall provide support in balancing the quality and quantity of the loan portfolio against achieving the desired risk-adjusted return requirements, at the same time as the company is able to meet customer demands, evaluate new business opportunities and fulfill the external requirements imposed on our operations.

The risk ratings system is utilized in each credit decision and is an integrated part of the bank's credit processing. All employees in the bank participated in training courses on both the risk classification system and Basel II.

The bank has processed household borrowings in a well-developed and well-integrated IT system for many years. This system guarantees that all credits are processed in an efficient and standardized manner. A new IT support has been developed for the Basel II regulations. This support system is completely integrated in the existing credit system. Significant resources are also being allocated to the adaptation of other IT systems.

Funding and rating

Greater diversification through geographical spread

The Finance function has undergone a substantial development since 2003. Until 2002 the banking operations had a deposit surplus, meaning that there were no funding requirements in the capital market.

THE BANK STRIVES to ensure access to various refinancing programs that attract different geographical markets and different investor groups. In the programs that have been established, the bank intends to be continuously active, under the condition that the correct market conditions are in place. The expansion in the number of programs is therefore always considered against the bank's assessed ability to be active during the course of the programs.

The diversification of sources of refinancing is, and will be, important to the bank's continued refinancing activities. Furthermore, the banks endeavors, in the

first instance, to match interest-rate risks in lending with bonds or commercial papers with corresponding fixed-interest periods to those for lending, and in the second instance to use derivatives. The portfolio is also built up in order that refinancing risks are maintained at a low level.

The aim of reducing refinancing risks combined with the bank's continued relatively large number of deposits has meant that the proportion of short-term funding through commercial papers is relatively low in relation to the total portfolio.

Currency risk is always immediately hedged when loans are raised.



The bank will continue to build up a diversified liability portfolio with low refinancing risk.

Funding program

A domestic commercial paper program was established in 2002 and now has a limit of SEK 15 billion.

A domestic MTN program was started in 2002. The limit for this program was raised to SEK 20 billion in 2005. The program is listed on the Stockholm Stock Exchange and permits issues in EUR and SEK. The new prospectus directives will be applied in 2006. This program has therefore been reworked in accordance with these directives and from January 2, 2006, the bank will be able to issue bonds under the reworked prospectus.

A Euro Medium Term Note (EMTN) program was established in 2004. The program was reworked in accordance with the new prospectus directive during 2005 and the limited was raised to EUR 2 billion.

The market conditions for both Swedish domestic and international issues were extremely favorable during the year. The bank continuously noted reduced credit spreads, which was satisfactory. Relative to other similar issues, the spread reduced further and we continue to expect the disappearance of potential remaining differences, which is a probable development.

Credit risks decreased substantially between 2003 and 2005. The impact of this reduced refinancing cost will be successively noted, beginning 2006.

In February, a EUR 500 M bond was issued under the EMTN program. It was originally intended that the emission would encompass EUR 400 M but very quickly

became substantially oversubscribed, allowing a larger issue at an attractive price. This issue was highly diversified both geographically and in terms of investor groups. The banking operations will continue to strive to have a significant percentage of the liability portfolio financed on the European market.

Covered bonds

The Swedish legislation on the terms for issuing covered bonds was clarified during the year. Nordea Hypotek, Stadshypotek, SBAB and SEB Bolån have, to date, applied to the Finansinspektionen to be granted the possibility to issue covered bonds and Nordea Hypotek and Stadshypotek have been granted permission to issue such bonds.

Investigation activities in covered bonds are underway at the bank. The investigation will show the conditions under which issues can be executed and the implications for the operations in the form of improved funding costs. The bank's position in this matter will be communicated to the market during the second quarter of 2006.

The use of covered bonds as a financing option may be a natural step given the dramatic growth and the very high quality of the assets in the operations.

Rating

In January 2006 Standard & Poor's changed the banking operations outlook from "stable" to "positive" for its long-term rating. The short-term credit rating of A-2 was confirmed.

Standard & Poor's cited the increased strategic significance of the banking operations to the entire Länsförsäkringar Alliance and the commitments of the owners. The high level of capital adequacy and a positive trend in the mutual regional insurance companies' banking business were also noted. The bank's long-term rating from Moody's is A3 (stable) and the short-term credit rating is P-2.

Interest-rate trend

The year began with a fundamentally neutral expectation of the interest-rate trend. After receiving preliminary GDP figures for the first quarter, the Bank of Sweden opted instead to reduce the repo rate and interest rates continued to fall practically across the board.

The bank decided during the establishment phase of the liability portfolio to take extremely limited interest-rate risks on the basic premise that, in general, it would only take risks against the background of a very clear trend in market rates.

This premise was strictly followed throughout 2005.

Rating agency	Short-term rating	Long-term rating
Standard & Poor's	A-2	A- (Positive)
Moody's	P-2	A3 (Stable)

Board of Directors' report

The Board of Directors of Länsförsäkringar Bank AB (publ) hereby submits the Annual Report for 2005, the company's tenth financial year.

GROUP

Ownership and Group structure

Länsförsäkringar Bank AB (publ) is part of the Länsförsäkringar AB Group, with Länsförsäkringar AB as the Parent Company, which is owned by 24 independent and customer-owned mutual regional insurance companies. The regional insurance companies offer customer products via their three core businesses: Banking, Non-life insurance and Life assurance. Länsförsäkringar Bank AB is 100%-owned by Länsförsäkringar AB (publ) (556549-7020).

The Banking Group comprises the Parent Company Länsförsäkringar Bank AB (publ) (516401-9878) and the wholly owned subsidiaries Länsförsäkringar Hypotek AB (556244-1781), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB (publ) (556364-2783).

Operations

The Group offers private individuals and farmers payment services, savings and lending products. It also carries out lending activities through its subsidiary Wasa Kredit in the form of leasing and installment plans.

Länsförsäkringar Bank works through 24 independent mutual regional insurance companies who are responsible for providing service, distribution and sales of the banks products. Customers of the bank can receive financial advice and services from any of the mutual regional insurance companies' 85 offices that conduct banking operations. The bank offices are located at, or adjacent to, the mutual regional insurance offices. The mutual regional insurance companies are reimbursed for sales, administration and customer care through a reimbursement system based on volumes managed.

The total number of customers in the Group amounted to 593,000. The number of customers with the Internet service, which has been available for slightly more than five years, has risen by about 10% during 2005, or more than 29,000 customers, to 317,000.

Total assets

The Group's total assets increased by 20% in 2005 to SEK 51,661 M.

Lending to the public rose by 19%, or SEK 7,668 M, to SEK 47,094 M (39,426). All lending was conducted in SEK. Lending accounts for 92% of total assets.

Interest-bearing securities (bonds in the banking operations) rose during the year by 117% to SEK 2,603 M (1,198).

Deposits from the public rose by 9%, or SEK 1,630 M, to SEK 20,739 M (19,109).

Borrowing and securities issued increased by 34%, or SEK 6,553 M, to SEK 25,646 M (19,093).

Investments, Group, SEK M	Dec. 31, 2005	Dec. 31, 2004	Change in %
Interest-bearing securities	2,603	1,198	+117.3
Lending to the public ¹⁾	47,094	39,426	+19.4
Credit institutions	1,297	1,577	-17.8
Other	668	815	-18.0
Total investments	51,661	43,016	+20.1

¹⁾ Including leasing

Financing, Group, SEK M	Dec. 31, 2005	Dec. 31, 2004	Change in %
Deposits from the public	20,739	19,109	+8.5
Credit institutions	308	705	-56.3
Borrowing and issued securities	25,646	19,093	+34.3
Other	1,067	616	+73.2
Subordinated loans	1,050	1,050	±0
Shareholders' equity	2,851	2,442	+16.7
Total liabilities and shareholders' equity	51,661	43,016	+20.1

Lending portfolio

The table below shows lending broken down by segment. The trend during the year shows a clear increase in the percentage of mortgage loans.

SEK M	Dec. 31, 2005	%	Dec. 31, 2004	%
Mortgages	34,645	73	27,262	69
Installment plans	3,386	7	3,346	8
Unsecured loans	3,171	7	3,266	8
Leasing	3,040	6	2,764	7
Agriculture	2,688	6	2,526	6
Apartment buildings	206	0	233	1
Other	182	0	219	1
Lending to the public, gross	47,318	100	39,616	100
Provisions	-225		-190	
Lending to the public, net	47,094		39,426	

Capital adequacy

The target capital adequacy ratio is 10.5%, and the target Tier 1 ratio is 8.5%. Both measures have permitted ranges of deviation of +/-0.5 percentage points.

During the year, the bank received a shareholders' contribution of SEK 300 M from the Parent Company, Länsförsäkringar AB.

At year-end 2005, the capital adequacy ratio was 11.28% (11.37) and the Tier 1 ratio was 9.02% (9.00).

Earnings and profitability

Consolidated operating income amounted to SEK 154 M (127).

Profit after tax amounted to SEK 109 M (186), corresponding to a return on average shareholders' equity of 4.1% (4.3). Revenues rose by 7% and expenses by 5%.

Revenues

Net interest income rose by 5% and amounted to SEK 873 M (830).

The increase is attributable to higher lending volumes to the public.

A sum of SEK 9 M (8) for mandatory government deposit insurance was charged against net interest income. The investment margin, that is, net interest income as a percentage of average total assets, amounted to 1.85% (2.18). Net commission revenues rose to SEK 276 M (214). Other operating revenues amounted to SEK 150 M (170).

Expenses

Operating expenses rose by 5%, or SEK 55 M, to SEK 1,097 M (1,042). The increase is largely related to the growth in lending and deposit volumes, which triggered an increase in the cost of sales. The cost/income ratio was 0.84 (0.86) before loan losses and 0.88 (0.90) after loan losses.

Loan losses

Depending on the product, provisions were mostly made after group-wise appraisal and only to a limited extent after individual review. The Group's net loan losses amounted to SEK 49 M (45). The major portion of loan losses is attributable to segments with high margins in Wasa Kredit. This factor is included in the calculation for the product segment.

Transition to international accounting standards, IFRS

Effective 2007, the bank will prepare its consolidated accounts in accordance with international accounting standards, IFRS (International Financial Reporting Standards). The introduction of this new framework of regulations means that comparative figures for 2006 and the opening balance sheet for 2006 will be restated.

The bank's preparation for the transition to IFRS started in 2003 and continued in 2004 with a mapping of the areas that would have the greatest impact on the bank's accounting. The transition to the new accounting standards primarily affects the bank's reporting of financial instruments in accordance with IAS 39. Therefore, a con-

sequence analysis of hedge accounting was performed in 2005. If the bank applies hedge accounting or the fair value option, significant classes of revenues will arise when reporting derivative instruments at fair value in the income statement. Based on the report from the consequence analysis, a hedge accounting model has been developed the bank's accounting systems have been supplemented and adapted. In other respects, certain other differences and effect between the current accounting principles and IFRS have been identified.

Financial instruments

Financial instruments covered by IAS 39 will be classified and valued at either fair value or accrued acquisition value. Lending is reported at accrued acquisition value with exceptions for the portion in which hedge accounting is applied. All derivative instruments are reported at fair value while other financial liabilities are valued at accrued acquisition value.

Hedge accounting

In accordance with IAS 39, all derivatives shall be reported at fair value. Hedge accounting at fair value entails that both the hedge instruments and the hedged item are valued at fair value and that changes in fair values are reported directly in the income statement.

The effectiveness of the hedge relationship is measured and valued in such a manner that weaknesses in the effectiveness affect the income statement.

Fair value option

On November 15, 2005, the EU Commission adopted the revised version of IAS 39 that includes the fair value option. For the bank, this provides the opportunity to value both lending corresponding to funding and the associated derivatives at fair value. The bank has not to date made a final decision regarding hedge accounting or applying the fair value option for financial hedging of interest-rate risk. The focus of the bank's work has, however, been on a solution within the framework of hedge accounting.

Provisions for loan losses

General provisions for loan losses are not permitted in accordance with IAS 39. However, IAS 39 does allow group-wise provisions for a homogenous group of loan receivables in addition to individual provisions.

Estimated interest income on doubtful receivables is reported as interest income calculated by applying the effective interest rate, while the value of the loan in conjunction with reporting an impairment loss is calculated based on the present value of the future cash flow.

Compensation for interest-rate differences

The compensation paid by customers in conjunction with the premature redemption of fixed-term lending was previously reported as interest income allocated over the remaining term of the original loan. This compensation will be recognized in income in its entirety as net result of financial items at fair value when payment is made. The opening IFRS balance sheet SK 26.3 M will be reported against shareholders' equity referring to the remainder of allocations not yet reported as income in the banks accounts for 2005.

Allocation of fees

Fees charged to customer in conjunction with credit-granting are not deemed to have any material effect on net interest income.

Fees charged in conjunction with borrowing (transaction costs) will be reported as interest expenses over the term of the issued security. Today, such fees are reported as commission expenses.

Effects

Both the income statement and the balance sheet would have been effected if the EU-approved reporting standards, IFRS, had been applied to the bank's accounts for 2004. In the consequence analysis performed in 2005 for values for 2004, operating profits, with the application of hedge accounting and taking other effects into consideration, would have been approximately SEK 10-15 M higher than reported profits of SEK 127 M. The major portion of the difference is attributable to compensation for interest-rate differences.

Total assets are primarily affected by the requirement for derivative instruments to be valued at fair value and reported in the balance sheet and not as off-balance-sheet items as previously.

PARENT COMPANY

Strategic cooperation

The cooperation initiated with Landshypotek on January 1, 1998 has continued and expanded. This involves the bank acting as an intermediary for Landshypotek's first-lien mortgages, while Landshypotek acts as an intermediary for the bank's second-lien mortgages for farmers.

During the summer of 2002, a strategic cooperation was initiated with Svensk Kassaservice (Swedish Cashier Service), allowing the bank's customers to make cash deposits and withdrawals at approximately 700 offices and with some 2,500 rural mail carriers.

A share trading service via the Internet was developed in cooperation with OMX AB. This service began operating in November 2002.

In 2003, the Parent Company acquired 10% of the shares in Finansiell ID Teknik BID AB.

From January 2004, the bank's customers were able to order an electronic Bank ID.

Earnings

The Parent Company posted an operating loss of SEK 43 M (loss: 44). Losses after tax amounted to SEK 32 M (profit: 63). Group contributions paid by the subsidiaries Länsförsäkringar Hypotek AB, Wasa Kredit AB and Länsförsäkringar Fondförvaltning AB amounted to SEK 22.7 M, SEK 112.8 M and SEK 64.0 M, respectively. The Group contributions are reported directly against shareholders' equity.

Operating revenues amounted to SEK 527 M (523), while expenses, excluding loan losses, amounted to SEK 573 M (559). Loan losses for the year totaled a positive amount of SEK 4 M (loss: 8).

RISK MANAGEMENT AND RISK CONTROL

Operating within the banking sector and offering financial products and services involves taking a calculated risk. This risk linked with these products and services is taken consciously and shall be reflected in, and covered by, the competitive prices offered and that customers are willing to pay. Profitability within Länsförsäkringar Bank Group depends, therefore, on the level of success in identifying, measuring, predicting and managing the actual risk generated by our business activities. For this reason, the concept of risk has been made an area of priority for the bank.

When the bank advances its positions, characterized by such features as an expansive product mix and growth targets, it is important to simultaneously have high ambitions to develop and enhance the effectiveness of risk management and risk control. In practical terms, this ambition has manifested itself in the bank establishing an independent risk control unit, Risk Control, in 2005.

Risk Control

Risk Control is separate from the business activities and is therefore operated without being controlled by any function or person that participates in the daily business processes that generate risk. Risk Control is directly subordinate to the President of the bank and has the possibility, and duty, to report directly to the Board of Directors. Risk Control has the responsibility for identifying, measuring, checking and reporting credit risks, financial risks and operational risks.

In addition being a necessary requirement imposed by frameworks of regulations, there are several well-founded internal reasons for establishing a function that has the principle responsibility for identifying, measuring, managing and reporting risks. The risk and control organization become complete with the compliance

function and the internal audit function. Ultimately, this is matter of having an organization, which is able to communicate the true risk profile of the company to the bank's Board and management in the best possible manner. Profitability in an operation is achieved by taking risks but under the condition that there is a balance between taking risk, risk management and risk control. Consequently, profitability is directly dependant on the expertise and ability possessed by the bank to identify and measure potential risks in each transaction, as well as at portfolio level. Based on this risk analysis and adopted policies, instructions and business strategic objectives, a total appraisal of the risk profile with optimal profitability can be made.

To assist it in this respect, Risk Control has new methods and tools from the introduction of Basel II, particular since the bank has chosen to apply advance methods for measuring and managing risks.

Credit risk

Credit risk is defined as the risk of incurring losses as a result of a counter-party not being able to fulfill its obligations toward the bank and any pledged collateral not covering the bank's claim.

The bank's credit risk covers receivables mainly from private individuals and farmers. Loans are granted after a thorough and automated credit appraisal that from 2006 is also supported by the models, systems and processes implemented as a result of the adaptation to the new capital adequacy rules applicable to banks from 2007.

Risk Control will also benefit from the information generated by the models in its review of total credit risks. These models make it possible to achieve a more risk-sensitive analysis of levels and trends in the bank's lending portfolio, the products or the parts of the bank that have relatively large risks and the development of the risk profile of all of the bank's customers.

Such an analysis is possible by classifying each customer, that is, the model is based on a number of risk-driving factors, which then rank the customer according to the probability that the customer will default. Similarly, the model produces a measurement of the amount of any possible loss in the case of future default and a measurement of the amount of the remaining exposure in the case of future default.

The model and its measuring methods are therefore an important component in each credit preparation process and when following up the total credit risk in the bank. In addition, the quantification of risk established by the models forms the basis of an assessment of future expected losses (which effect pricing and provisions, among other items), and an assessment of the statutory capital requirements for covering future unexpected losses.

Consequently, these factors impose great demands on the quality of the models their ability to measure and predict the actual risk of each borrower. Risk Control is responsible for continuously validating the reliability, accuracy and stability of the models over time. The validation includes ensuring that the models, systems and processes comply with the guidelines and requirements set out in the framework of rules. However, as part of follow-ups it is important at the same time to ensure that the same models, systems and processes continue to be streamlined with the bank's working methodology, meaning that the new tools at our disposal are an asset to the company and can be optimally utilized in the operations and decisions made in the business processes.

Financial risk

Financial risk control for the bank primarily includes measuring and reporting interest-rate risks and liquidity risks.

Interest-rate risks refer to both net-interest-income risks, which is the risk that a change in interest rates will affect net interest income for interest-bearing assets, liabilities and derivatives, and interest-rate price risk, which is the risk that a change in interest rates will affect the market value of assets, liabilities and derivatives. Interest-rate risk is to be managed cost-effectively within set limits and shall, in the first instance, be reduced through corresponding borrowing. In the second instance, interest-rate risk is to be reduced using interest-rate derivatives.

Liquidity risk is the risk of the bank being unable to meet its payment obligations due to a shortage of liquid funds or only being able to meet its commitments by borrowing liquid funds at a considerably higher cost.

In 2005 a new finance system was installed enabling significantly improved and effective control of financial risks.

Work with implementing VaR (Value at Risk) in the risk measurement was also initiated.

Operational risk

Operational risk is defined as the risk of losses arising due to inappropriate or unsuccessful processes, human error, incorrect systems or external events. This definition also includes legal risks.

The overall purpose of the bank's operational risk activities is to minimize the consequences of a triggered risk event. The operations continuously identifies, assesses, reports and reviews operational risks. The bank's Board of Directors will adopt the tolerance level of operational risk that can be accepted by the operations.

The bank has developed and implemented methods for self assessments for the analysis of operational risk applied within the Group. New products and services are analyzed as they are devel-

oped in order to achieve effective solutions for limiting or monitoring operational risk. Incident management includes ongoing reporting, compilations and controls of negative effects that have occurred, with the intention of providing the operations with a clear indication of heightened risk areas. Results from risk analyses, analyses of incidents and indicators provide basis for decision-making regarding the bank's requirements for risk-reducing measures.

Operational risk can be found in all areas of the Banking Group's operations. Accordingly, the Risk Control activities focus on establishing awareness of the operational risk in order to limit the risk where it arises.

Total risk and capital assessment

The Banking Group is well aware that there are other risks to monitor besides credit, financial and operating risks. These "other risks" found in the banking and financing sector are not generally well-defined, primarily due to the fact that it is more difficult to measure the risk in purely monetary terms. One of the reasons for the bank currently having a capital level above the statutory minimum level (for capital adequacy of 8%) is that the extra capital is to cover unforeseen losses that can be attributed to risks that are not included in regulative capital adequacy.

The bank's goal in 2006 is to complete the process development, which in a more structured and sophisticated manner shall identify, manage and report on all risks encountered by the bank in its business operations. This is an additional step in the implementation of Basel II and Pillar II in particular. The main principle of the Basel Committee is that each bank shall have a total view of all of its risks and also an understanding and strategy for managing and controlling these risks. The total risk assessment shall then form the basis of the overall and long-term capital targets that the bank's Board is to have.

The bank has a positive view of the concept on which the proposal is based since the underlying thought is conceptually in line with the bank's opinion of how risk and capital processes are to be managed.

BASEL II

The Basel Committee published proposals for new internationally standardized capital adequacy regulations, the Basel II regulations, in June 2004. These regulations are to be implemented in the EU to be applied from year-end 2006. The new regulations make it possible for the banks to either choose to apply the standardized approach, similar to current regulations, or to utilize the internal risk valuation for calculating capital requirements. To do this, the bank is required to prove the reliability and integrity of its internal

risk valuation to the Finansinspektionen. The bank has decided to implement the advanced internal ratings-based method known as the IRB approach and will apply the Basel II regulations to over 90% of its credit portfolios in its credit management from year-end 2005.

In addition to Länsförsäkringar Bank, the Banking Group also includes the subsidiaries Länsförsäkringar Hypotek and Wasa Kredit. The joint project was conducted with the ambition of adapting the various solutions to the actual operations as far as possible.

For the bank, the transition to Basel II IRB approach entails reduced risk-weighted assets and thereby lower legal requirements on shareholders' equity. The following indirect advantages are equally as important:

- Control of the Banking Group's actual risks
- Improved information for governance and pricing
- Enhanced efficiency in credit processes

Project

During the year, the bank's Basel project conducted extensive activities to adapt the organization, processes and systems to the IRB requirements in Basel II. Furthermore, work was initiated with the adaptation of the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with Pillar II of Basel II. Preparations are also being made to implement the remaining Basel II portfolios.

During the year, Basel II was anchored in the Group through various forums and all affected organizations underwent training in Basel II in the autumn. The training program primarily addressed how the new regulations effect day-to-day credit management. It has also been clarified that the bank's fundamental view of credit management will continue to apply after the introduction of the new framework of rules. Employees' knowledge of and contact with customers is equally as important as in the past.

Sensitivity analysis

The analysis in the table below describes the statistical effects of various changes for each item based on the structure of the income statement and balance sheet in 2005.

	Change	Effect on operating income (SEK 000s)
Net interest income	+/- 1%	+/- 3,551
Investment margin	+/- 1 percentage point	+/- 46,094
Change in personnel	+/- 1 person	+/- 881
Salary adjustments	+/- 1%	+/- 907
Other general administration expenses	+/- 1%	+/- 4,365

An adjustment in the interest rate of one percentage point on all durations affects the market value of assets, liabilities and derivatives by approximately SEK 11 M (–4) as per the balance sheet date for the Banking Group.

Proposed distribution of the Parent Company's unappropriated earnings (SEK)

Profit brought forward	1,568,664,536
Shareholders' contribution received	300,000,000
Group contribution received	143,640,000
Net loss for the year	–31,602,969
	1,980,701,567

The Board of Directors proposes that SEK 1,980,701,567 be carried forward.

The Group's unappropriated earnings amount to SEK 1,838,023,000. No transfer to restricted reserves is proposed.

SUBSIDIARIES

Länsförsäkringar Hypotek AB

Mortgage lending in the bank's mortgage institution increased during the year by 30%, or SEK 7 billion, to SEK 31 billion. About 85% of lending pertains to private homes, 12% to tenant-owned apartments and the remaining 3% to leisure homes and other. First-lien mortgages are carried by Länsförsäkringar Hypotek and second-lien mortgages by the Parent Company.

Market share in terms of loans for private homes and tenant-owned apartments has risen by 16 percentage points since 2004 and is currently at 2.9% (2.5). The number of mortgage customers increased by 19% and amounted to 83,000 at December 31, 2005. Operating income amounted to SEK 23 M (23). The change is due to intensified competition.

(SEK M)	2005	2004
Total assets	31,419	23,843
Lending volume	30,964	23,746
Operating income	23	27
Return on equity, %	1.1	2.0

Wasa Kredit AB

Wasa Kredit's operating income before appropriations and tax amounted to SEK 110 M (98) and the lending volume totaled SEK 8 billion (8). With regard to lending, 43% pertains to car financing, 18% to unsecured loans, 16% to machinery financing and the remainder to supplier financing and leisure.

(SEK M)	2005	2004
Total assets	8,161	8,116
Lending volume	7,743	7,674
Operating income	110	98
Return on equity, %	16.5	16.7

Länsförsäkringar Fondförvaltning AB

Länsförsäkringar Fondförvaltning manages SEK 54 billion (40) in 32 (34) mutual funds with different investment orientations. Länsförsäkringar's mutual funds are available as direct fund saving, as various unit-linked products and through the PPM system.

The vast majority of Länsförsäkringar Fondförvaltning's funds are managed by Alfred Berg Kapitalförvaltning and its parent company, ABN AMRO Bank. In 2005, the management of the Europe Fund, Mega Europe Fund and Asia Fund, was transferred to Goldman Sachs Asset Management International AB.

Länsförsäkringar's equity funds generated positive returns of between 22 and 62% during the year. The Small Company Fund and Growth Market Fund generated the highest return of 62.4% each during the year. The market share of net inflow amounted to 3.4%.

Operating income amounted to SEK 64 M (46). The improvement is primarily the result of an increased volume of assets under management. A 79% portion of the increase is due to net sales, 21% to value growth. Länsförsäkringar is Sweden's fifth largest fund company with a market share of 4.1% (4.0).

(SEK M)	2005	2004
Total assets	202	126
Assets under management	53,906	40,114
Net inflow	2,945	3,934
Operating income	64	46
Return on equity, %	68.3	102.0

For more information on the Group and the bank's reported earnings, financial position, average number of employees and capital adequacy, refer to the following income statement, balance sheet, cash-flow statement, supplementary disclosures and capital adequacy analysis.

All figures in the Annual Report are reported in SEK 000s unless specified otherwise.



Key figures	2005	2004	2003	2002	2001
Group					
Return on equity, %	4.1	4.3	3.0	1.3	0.1
Return on total capital, %	0.4	0.3	0.2	0.1	0.0
Investment margin, %	1.85	2.18	2.59	3.01	3.08
Interest margin, average, %	1.69	2.02	2.37	2.82	2.86
Cost/income ratio before loan losses	0.84	0.86	0.90	0.99	1.09
Cost/income ratio after loan losses	0.88	0.90	0.94	1.01	1.04
Capital adequacy, %	11.28	11.37	13.00	8.08	9.12
Tier 1 ratio, %	9.02	9.00	9.95	7.45	8.45
Percentage of doubtful receivables, gross %	0.52	0.63	0.69	0.91	1.66
Percentage of doubtful receivables, net %	0.05	0.15	0.12	0.18	0.47
Provision ratio for doubtful receivables, %	91.02	76.33	83.14	83.35	86.29
Parent Company					
Return on equity, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on total capital, %	Neg.	Neg.	Neg.	Neg.	Neg.
Investment margin, %	0.77	1.01	1.33	1.77	1.82
Interest margin, average, %	0.65	0.86	1.15	1.58	1.60
Cost/income ratio before loan losses	1.09	1.07	1.12	1.19	1.37
Cost/income ratio after loan losses	1.08	1.08	1.14	1.22	1.30
Capital adequacy, %	48.96	45.64	45.23	24.30	22.49
Tier 1 ratio, %	39.43	36.45	34.62	22.40	20.82
Percentage of doubtful receivables, gross %	0.19	0.23	0.27	0.45	0.68
Percentage of doubtful receivables, net %	0.00	0.00	0.15	0.08	0.17
Provision ratio for doubtful receivables, %	98.67	98.47	100.00	83.33	74.98

Income statement

SEK 000s		Group		Parent Company	
		2005	2004	2005	2004
Interest income	Note 2	2,105,806	2,051,056	1,273,335	1,284,119
Interest expense	Note 3	-1,232,365	-1,221,319	-918,198	-915,693
Net interest income		873,441	829,737	355,137	368,426
Dividends received	Note 4	3,422	3,140	39	87
Commission revenues	Note 5	683,086	556,238	99,466	91,404
Commission expense	Note 6	-406,682	-342,519	-99,955	-99,530
Net income from financial transactions	Note 7	10,335	14,811	4,830	14,811
Other operating revenues	Note 8	135,886	152,245	167,138	147,939
Total operating revenues		1,299,488	1,213,652	526,655	523,137
General administration expenses	Note 9	-1,009,726	-976,005	-529,247	-525,054
Depreciation and write-downs of tangible and amortization and impairment of intangible fixed assets	Note 10	-33,378	-37,074	-22,270	-25,325
Other operating expenses	Note 11	-53,832	-29,153	-21,669	-9,060
Total expenses before loan losses		-1,096,936	-1,042,232	-573,186	-559,439
Income before loan losses		202,552	171,420	-46,531	-36,302
Loan losses, net	Note 12	-48,545	-44,787	3,686	-8,016
Total operating income		154,007	126,633	-42,845	-44,318
Tax on income for the year	Note 13	-44,672	59,371	11,242	107,399
NET PROFIT/LOSS FOR THE YEAR		109,335	186,004	-31,603	63,081
Earnings per share, SEK (no. of shares: 9,548,708)		11.45	19.48	-3.31	6.61

Balance sheet

SEK 000s		Group		Parent Company	
		Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Assets					
Cash and central bank account balances		75,617	146,399	75,617	72,253
Lending to credit institutions	Note 14	1,296,701	1,577,252	36,875,545	29,923,518
Lending to the public	Note 15	47,093,528	39,426,458	8 386,951	8,005,721
Shares and participations	Note 16	7,469	5,234	7,469	5,234
Shares and participations in Group companies	Note 17	–	–	2,444,400	1,911,400
Bonds and other interest-bearing securities	Note 18	2,602,795	1,197,721	2,602,795	1,197,721
Intangible fixed assets	Note 19	101,367	82,005	86,843	67,680
Tangible assets	Note 20	12,153	17,297	1,230	3,421
Other assets	Note 21	283,260	307,363	73,693	111,253
Prepaid expenses and accrued income	Note 22	188,282	255,869	241,861	242,051
TOTAL ASSETS		51,661,172	43,015,598	50,796,404	41,540,252
Liabilities, provisions and shareholders' equity					
Liabilities to credit institutions	Note 23	308,430	195,479	769,341	248,562
Deposits and borrowing from the public	Note 24	21,534,743	20,047,780	20,772,309	19,109,428
Securities issued	Note 25	24,849,788	18,154,567	24,849,788	18,154,567
Other liabilities	Note 26	295,058	375,765	131,095	198,651
Accrued expenses and prepaid income	Note 27	752,501	728,603	265,584	230,707
Provisions	Note 28	19,719	21,806	4,335	6,422
Subordinated debt	Note 29	1,050,000	1,050,000	1,050,000	1,050,000
Shareholders' equity					
Share capital (9,548,708 shares, par value of SEK 100 each)	Note 30	954,871	954,871	954,871	954,871
Restricted reserves	Note 30	58,039	51,631	18,380	12,072
Profit brought forward	Note 30	1,728,688	1,249,092	2,012,304	1,511,891
Net profit/loss for the year	Note 30	109,335	186,004	–31,603	63,081
Total shareholders' equity		2,850,933	2,441,598	2,953,952	2,541,915
LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY		51,661,172	43,015,598	50,796,404	41,540,252
Memorandum items	Note 31				
Pledged assets		500,000	500,000	500,000	500,000
Contingent liabilities		55,547	61,843	55,547	59,724
Commitments		23,752,871	19,650,637	20,681,544	18,911,550
Other notes					
Fixed-interest periods	Note 32				
Information on fair value	Note 33				
Capital adequacy analysis	Note 34				
Disclosure on related parties	Note 35				

Cash-flow statement

SEK 000s	Group		Parent Company	
	2005	2004	2005	2004
Liquid funds, January 1	1,528,172	-318,156	1,193,335	-452,903
Operating activities				
Operating income	154,007	126,633	-42,845	-44,318
<i>Adjustment for items not included in cash flow</i>				
Booked non-chargeable tax	-44,672	59,371	11,242	107,399
Depreciation/amortization charged against earnings	33,378	37,074	22,270	25,325
	142,713	223,078	-9,333	88,406
Increase in lending to the public	-7,667,070	-9,382,734	-381,230	-956,428
Increase in deposits and borrowing from the public	1,486,963	1,532,001	1,662,881	1,735,058
Increase in lending to subsidiaries	-	-	-7,238,563	-7,987,643
Change in other assets	91,690	-228,715	37,750	-221,730
Change in other liabilities	-58,896	339,035	-34,766	38,692
Cash flow from operating activities	-6,004,600	-7,517,335	-5,963,261	-7,303,645
Investing activities				
Change in fixed assets	-1,452,670	12,290	-1 444,316	34,415
Increase in shares in subsidiaries	-	-	-533,000	-659,500
Increase in shares and participations	-2,235	-1,401	-2,235	-1,401
Acquisition of Länsförsäkringar Fondförvaltning AB	-	-91,352	-	-
Change in assets in insurance operations	-	21	-	-
Change in liabilities in insurance operations	-	-5,400	-	-
Cash flow from investing activities	-1,454,905	-85,842	-1 979,551	-626,486
Financing activities				
Shareholders' contribution received	300,000	300,000	300,000	300,000
New share issue	-	115,000	-	115,000
Group contribution received	-	-	143,640	126,864
Change in securities issued	6,695,221	9,034,505	6,695,221	9,034,505
Cash flow from financing activities	6,995,221	9,449,505	7,138,861	9,576,369
CASH FLOW FOR THE YEAR	-464,284	1,846,328	-803,951	1,646,238
Liquid funds at December 31	1,063,888	1,528,172	389,384	1,193,335
Liquid funds include:				
Cash and central bank account balances	75,617	146,399	75,617	72,253
Other lending to/deposits in credit institutions ¹⁾	1,296,701	1,577,252	1,083,108	1,369,644
Liabilities to credit institutions	-308,430	-195,479	-769,341	-248,562
	1,063,888	1,528,172	389,384	1,193,335
Interest received amounted to	2,176,073	1,961,782	1,262,594	1,127,016
Interest paid amounted to	1,261,407	1,048,785	875,933	841,010
Gross investments during the year	48,039	15,652	39,666	12,186

¹⁾ Excluding subsidiaries

Change in shareholders' equity

Group	Share capital	Restricted reserves	Non-restricted reserves	Net profit for the year	Total
Opening balance, January 1, 2004	839,871	55,051	990,715	46,310	1,931,947
According to decision of AGM			46,310	-46,310	0
Transfer between non-restricted and restricted equity		-3,420	3,420		0
New share issue, Länsförsäkringar Bank AB	115,000				115,000
Inter-Group acquisition of subsidiaries			-91,353		-91,353
Unconditional shareholders' contribution received from Parent Company			300,000		300,000
Net profit for the year				186,004	186,004
Closing balance, December 31, 2004	954,871	51,631	1,249,092	186,004	2,441,598
According to decision of AGM		6,408	179,596	-186,004	0
Unconditional shareholders' contribution received from Parent Company			300,000		300,000
Net profit for the year				109,335	109,335
Closing balance, December 31, 2005	954,871	58,039	1,728,688	109,335	2,850,933

Parent Company	Share capital	Statutory reserve	Share premium reserve	Profit brought forward	Net profit for the year	Total
Opening balance, January 1, 2004	839,871	2,371	9,701	1,132,682	-47,654	1,936,971
According to decision of AGM				-47,654	47,654	0
New share issue	115,000					115,000
Unconditional shareholders' contribution received				300,000		300,000
Group contribution received				176,200		176,200
Tax effect of Group contribution received				-49,337		-49,337
Net profit for the year					63,081	63,081
Closing balance, December 31, 2004	954,871	2,371	9,701	1,511,891	63,081	2,541,915
According to decision of AGM		6,308		56,773	-63,081	0
Transfer of share premium reserve		9,701	-9,701			0
Unconditional shareholders' contribution received				300,000		300,000
Group contribution received				199,500		199,500
Tax effect of Group contribution received				-55,860		-55,860
Net profit for the year					-31,603	-31,603
Closing balance, December 31, 2005	954,871	18,380	0	2,012,304	-31,603	2,953,952

Supplementary disclosures

NOTE 1 ACCOUNTING PRINCIPLES

This Annual Report was prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (SFS: 1995:1559) and the regulations of Finansinspektionen (FFFS), the recommendations of the Swedish Financial Accounting Standards Council (RR) and the interpretations issued by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force.

The application of FFFS may, in certain case, entail a deviation from the Swedish Financial Accounting Standards Council's recommendations and interpretations. These deviations have not affected the Annual Report to any significant extent.

FFFS 2002:22 and Chapter 5, Section 30 of FFFS 2004: 20 were applied when this Annual Report was prepared.

Consolidated accounts

The consolidated accounts were prepared in accordance with Recommendation RR 1:00 issued by the Swedish Financial Accounting Standards Council, and include the Parent Company Länsförsäkringar Bank AB and those companies in which the bank, directly or indirectly, holds more than 50% of the voting rights of the shares. These companies, with the exception of WASA Garanti AB (acquired in 1999), were taken up in the consolidated accounts by applying the purchase method. WASA Garanti was consolidated in accordance with the simplified method for insurance companies, as stipulated in Chapter 7, Section 3 of FFFS 2002:22 issued by Finansinspektionen. In financial statements for the merger between Länsförsäkringar Bank and Wasa Bank on November 1, 1998, Länsförsäkringar Bank AB (acquiring company) used the fair values of the assets and liabilities that were noted in the purchase analysis made when establishing the consolidated accounts. Changes in values that arose thereafter are reported as shares in subsidiaries, deferred tax and goodwill.

Untaxed reserves

Untaxed reserves are divided into deferred tax liability and restricted equity. Changes in the deferred tax liability due to changes in untaxed reserves are reported as deferred tax in the consolidated income statement.

Group contribution and shareholders' contribution

Group contribution and shareholders' contribution are reported in accordance with the statements issued in 1998 by the Swedish Financial Accounting Standards Council's Emerging Issues Task Force, which means that Group contributions and shareholders' contributions are charged directly against non-restricted equity.

Fixed assets and current assets

Fixed assets are classified as those assets intended to be permanent until maturity, or held for long-term use in the operations. Other assets are defined as current assets.

The basic valuation principle is that acquisition value is applied to fixed assets and fair value to current assets, even when this exceeds the acquisition value.

Intangible fixed assets

Development costs are reported as an asset in the balance sheet if the product or process has technical and commercial use and the bank has sufficient resources to complete the development of the product/process and thereafter utilize the intangible assets. The carrying value includes direct costs for salaries and indirect costs that can reasonably and consistently be attributed to the asset. Other development costs are reported in the income statement as an expense when they arise. Development costs reported in the balance sheet are carried at acquisition value less accumulated amortization and impairment.

Tangible fixed assets

Tangible fixed assets are reported as assets in the balance sheet when it is probable that, based on available information, the future economic benefits associated with the holding of the asset has accrued to the company and the acquisition value of the asset can be calculated in a reliable manner.

Depreciation principles of tangible fixed assets

Depreciation according to plan be based on original acquisition values less calculated residual value. Depreciation takes place on a straight-line basis over the estimated useful life of the asset.

Reporting of business transactions

Business transactions on the money, bond and equity markets are reported in the balance sheet as per the trading day, that is, at the time when the significant risks and rights have transpired between the parties. Deposits and lending transactions are reported as per the settlement date.

Financial instruments

The bank's portfolio of bonds and other interest-bearing securities intended to be held until maturity are classified as fixed assets and carried at accrued acquisition value.

Bonds that are not meant for long-term holding are classified as current assets and carried at fair value.

The fair value of the financial instrument on the balance sheet date corresponds to the most recent price paid.

The acquisition value of the instrument is defined as the accrued acquisition value, which means that any premium or discount on the price at the time of acquisition is distributed (according to the effective interest-rate method) over the instrument's remaining maturity.

Payments received and adjustments in the financial instrument's accrued acquisition value during the period are reported as "interest income."

Unrealized and realized gains and losses on financial instruments are reported as "net income from financial transactions."

Hedge accounting

The bank uses interest-rate swaps to protect certain loan receivables with established payment flows from interest-rate risks. Hedged and protected positions have been identified individually and show a high correlation during changes in value, which means that unrealized gains and losses on hedged positions are offset by unrealized losses and gains on protected positions.

The bank applies hedge accounting with acquisition valuation, which means that the hedged and protected positions are reported in the income statement and balance sheet without taking into account unrealized changes in value.

Lending

Loan receivables are initially reported in the balance sheet at their acquisition value, that is, in the amount lent to the borrower. Thereafter, loan receivables are reported continuously at their acquisition value after deductions for write-offs and specific and group-wise provisions for loan losses.

All loan receivables in the bank are classified as fixed assets and are reported at the highest value expected to be received.

Lending is reported in the balance sheet after deductions for confirmed and probable loan losses. Confirmed loan losses during the year and allocations to provisions for probable loan losses, less recoveries and reversals on previous confirmed and probable loan losses, are reported as "loan losses, net".

Confirmed loan losses are those losses whose amount is regarded as finally established through acceptance of a composition proposal or through other claim remissions. Non-performing receivables are loans for which interest payments, amortization or overdrafts are more than 60 days past due. A doubtful receivable is a non-performing receivable or a receivable for which payments are unlikely to be made in accordance with the terms of the claim, and for which the value of the collateral is not adequate to cover both the principal and accrued interest rates, including penalties for possible late payments.

As a provision for probable loan losses, the receivable is reported at an amount corresponding to the difference between its reported value and the amount that the bank expects to recover.

The bank applies either an individual or a group-wise valuation of credits when deciding on a provision for probable loan losses. The group-wise valuation is used for homogenous groups of loan receivables with similar credit risk. A standard provision is made, based on an assessment of a potential loss trend in the future. Group-wise provisions of individually appraised loan receivables have not been deemed necessary.

Recovered funds for doubtful receivables on which provisions have been made are, in the first instance, settled against the principal and in the second, against the interest rate. Interest rates on doubtful receivables are reported according to the cash principle, which means they are not reported as income until payment has been received.

Depreciation/amortization

Intangible assets are amortized according to plan as specified below:

Other intangible assets	3–5 years
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Tangible assets are depreciated according to plan as specified below:

Office equipment	5 years
Improvements to leased premises	5–7 years
Cars	5 years
Computer equipment	3–5 years

Impairment

The bank conducts impairments tests at each accounting period end to assess whether there is an impairment on assets in accordance with RR 17. An impairment loss is recognized when an asset's carrying value exceeds the calculated recoverable amount.

Leasing

The Group's leasing operations mainly comprise financial leasing. In reporting financial leasing transactions, the leasing item is reported as lending to the lessee. Leasing revenues is reported as "interest income."

Income tax

Deferred tax shall be reported for all temporary differences between the reported and tax values of assets and liabilities. The tax value of unutilized loss carryforwards is capitalized only to the extent that it is likely these will entail lower tax payments in the near future.

NOTE 2 INTEREST INCOME

	Group		Parent Company	
	2005	2004	2005	2004
Interest income, lending to credit institutions	261,214	340,325	883,055	884,256
Interest income, lending to the public	1,807,723	1,668,878	353,458	358,018
Interest income, interest-bearing securities	34,887	39,838	34,887	39,838
Other interest income	1,982	2,015	1,935	2,007
Total interest income	2,105,806	2,051,056	1,273,335	1,284,119
Average rate of interest on lending to the public	4.0%	4.7%	4.3%	4.8%

NOTE 3 INTEREST EXPENSE

	Group		Parent Company	
	2005	2004	2005	2004
Interest expense, liabilities to credit institutions	361,019	402,240	93,983	150,588
Interest expense, deposits and lending from the public	301,635	356,443	254,576	302,469
Interest expense, subordinated debt	34,432	47,406	34,432	47,406
Interest expense, interest-bearing securities	525,734	407,492	525,734	407,492
Other interest expense, including government deposit insurance	9,545	7,738	9,473	7,738
Total interest expense	1,232,365	1,221,319	918,198	915,693
Average rate of interest on deposits from the public	1.2%	1.5%	1.2%	1.5%

NOTE 4 DIVIDENDS RECEIVED

	Group		Parent Company	
	2005	2004	2005	2004
Dividends received on shares	3,422	3,140	39	87

NOTE 5 COMMISSION REVENUES

	Group		Parent Company	
	2005	2004	2005	2004
Payment commission	72,737	67,383	72,737	67,383
Lending commission	85,974	79,056	18,311	14,006
Deposit commission	2,735	2,484	2,735	2,484
Securities commission	509,731	397,510	4,032	3,384
Other commission	11,909	9,805	1,651	4,147
Total commission revenues	683,086	556,238	99,466	91,404

NOTE 6 COMMISSION EXPENSE

	Group		Parent Company	
	2005	2004	2005	2004
Payment commission	90,126	83,205	90,126	83,205
Securities commission	4,334	3,184	4,334	3,184
Other commission	312,222	256,130	5,495	13,141
Total commission expense	406,682	342,519	99,955	99,530

NOTE 7 NET INCOME FROM FINANCIAL TRANSACTIONS

	Group		Parent Company	
	2005	2004	2005	2004
Capital gain/loss				
Interest-rate related instruments	10,335	14,811	4,830	14,811
	10,335	14,811	4,830	14,811

NOTE 8 OTHER OPERATING REVENUES

	Group		Parent Company	
	2005	2004	2005	2004
Other revenues	135,886	152,245	167,138	147,939

NOTE 9 GENERAL ADMINISTRATION EXPENSES

	Group		Parent Company	
	2005	2004	2005	2004
Personnel costs	244,082	236,633	94,668	94,329
Costs for premises	29,156	24,569	10,964	10,700
IT costs	123,950	93,911	98,191	71,055
Consultant costs	14,588	56,724	7,654	42,392
Other administration expenses	597,950	564,168	317,770	306,578
Total administration expenses	1,009,726	976,005	529,247	525,054

Auditing fees

	Group		Parent Company	
	2005	2004	2005	2004
KPMG Bohlins				
– Audit	1,497	1,399	662	549
– Other assignments	1,045	701	925	565
SET Revisionsbyrå AB				
– Audit	223	236	78	80
– Other assignments	–	–	–	–

NOTE 9 cont.**Personnel and salaries****The average number of employees**

	Group		Parent Company	
	2005	2004	2005	2004
Men	140	126	39	35
Women	145	149	64	64
Total number of employees	285	275	103	99

Salaries, remuneration and social security expenses

	Group		Parent Company	
	2005	2004	2005	2004
Salaried employees				
Salaries and remuneration	133,905	120,029	49,346	44,593
<i>of which variable salary</i>	<i>12,119</i>	<i>6,386</i>	<i>3,403</i>	<i>1,620</i>
Social security contributions	85,296	84,136	32,063	32,361
<i>of which pension costs</i>	<i>30,385</i>	<i>33,456</i>	<i>11,914</i>	<i>13,196</i>

Board of Directors, President and Executive Vice President

Salaries and remuneration	5,302	5,479	5,302	5,479
<i>of which salary to the President and Executive Vice President</i>	<i>4,808</i>	<i>4,981</i>	<i>4,808</i>	<i>4,981</i>
<i>of which variable salary to the President and Executive Vice President</i>	<i>653</i>	<i>288</i>	<i>653</i>	<i>288</i>
Social security contributions	4,036	3,252	4,036	3,252
<i>of which pension costs</i>	<i>1,878</i>	<i>1,752</i>	<i>1,878</i>	<i>1,752</i>

Total salaries and remuneration

Salaries and remuneration	139,207	125,508	54,648	50,072
<i>of which variable salary</i>	<i>12,772</i>	<i>6,674</i>	<i>4,056</i>	<i>1,908</i>
Social security contributions	89,332	87,388	36,099	35,613
<i>of which pension costs</i>	<i>32,263</i>	<i>35,208</i>	<i>13,792</i>	<i>14,948</i>

Variable salary

Variable salary is paid to managers with whom a bonus agreement has been reached. Remuneration is based on attained targets in accordance with the business plan, the employee satisfaction index, the leadership index and other individual goals. Variable salary may amount to a maximum of one monthly salary.

In 2005, an incentive system was introduced for all employees not included in other bonus agreements. A condition for this remuneration being paid is that the owners' requirements for the return on shareholders' equity in the Group are fulfilled. The maximum that may be paid to employees if the conditions are met is determined by the Board of Directors in December each year. One third of the determined amount will be paid to all employees regardless of individual performance. The outcome of two thirds of the determined amount is based on the degree of fulfillment of the individual goals in the goal contract.

Absence due to illness, %

	Group		Parent Company	
	2005	2004	2005	2004
Total absence due to illness of total working hours	3.9%	3.9%	4.9%	4.5%
Total absence due to illness of total working hours, men	2.4%	2.4%	3.5%	3.6%
Total absence due to illness of total working hours, women	5.2%	5.1%	5.8%	5.0%
Absence for employees aged 29 or below	2.7%	2.4%	3.9%	3.0%
Absence for employees aged 30-49	3.6%	4.0%	3.2%	3.7%
Absence for employees aged 50 or above	5.4%	4.4%	8.5%	6.0%
Percentage of absence for absence for a period of 60 or more consecutive days	55.5%	59.9%	67.6%	68.8%

Pension plans

Commitments for old-age pensions and family pensions for salaried employees are insured on the basis of insurance with the Insurance Industry's Pension Fund (FPK). Fees for pension insurance with FPK for the year amount to SEK 28.8 M in the Group and SEK 12.5 M in the Parent Company.

Remuneration to senior executives

Directors' fees are payable in accordance with the decision of the Annual General Meeting. No fee is payable to employee representatives.

Remuneration to the President and other senior executives comprises basic salary, variable salary, other benefits and pension costs. Senior executives are the six persons who, together with the President, make up the Senior Management Team.

Variable salary for the President and other senior executives is maximized to two monthly salaries.

Pension benefits and other benefits for the President and other senior executives are included in the total remuneration.

Remuneration and other benefits during the year, SEK 000s

Group	Basic salary	Variable salary	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary
2005						
President	2,106	340	64	1,307	3,817	56%
Chairman of the Board	–	–	–	–	–	–
Directors	494	–	–	–	494	–
Other senior executives (8 people)	8,015	1,307	420	3,093	12,835	26%
Total for 2005	10,615	1,647	484	4,400	17,146	

2004						
President	1,883	288	65	1,112	3,348	54%
Chairman of the Board	–	–	–	–	–	–
Directors	497	–	–	–	497	–
Other senior executives (8 people)	8,322	1,412	445	3,548	13,727	31%
Total for 2004	10,702	1,700	510	4,660	17,572	

Parent Company	Basic salary	Variable salary	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary
2005						
President	2,106	340	64	1,307	3,817	56%
Chairman of the Board	–	–	–	–	–	–
Directors	494	–	–	–	494	–
Other senior executives (6 people)	4,860	745	237	1,418	7,260	25%
Total for 2005	7,460	1,085	301	2,725	11,571	

2004						
President	1,883	288	65	1,112	3,348	54%
Chairman of the Board	–	–	–	–	–	–
Directors	497	–	–	–	497	–
Other senior executives (7 people)	5,799	912	267	2,039	9,017	31%
Total for 2004	8,179	1,200	332	3,151	12,862	

NOTE 9 cont.**Variable salary**

Variable salary includes calculated bonuses for the 2005 financial year. See below for information on how the bonuses were calculated. Other benefits pertain to company car, lunch and interest-rate benefits. Pension costs refer to the cost that has affected net profit for the year.

For the President and other senior executives, variable salary is based on attained targets in accordance with the business plan, the employee satisfaction index, the leadership index and other individual goals.

Pensions

The age of retirement for the President is 60. His pension between the age of 60 and 65 is defined-contribution. The pension premium shall amount to 17% of pensionable salary up to 20 basic amounts, 42% of salary between 20 and 30 basic amounts, and 67% of salary over 30 basic amounts. Pension from the age of 65 will be subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO) and the Swedish Union of Insurance Employees (FTF).

The retirement age for other senior executives is 65. The pension will be subject to the terms of the pension agreements between the Swedish Insurance Employers' Association (FAO) and the Swedish Union of Insurance Employees (FTF).

Severance pay

A period of notice of six months shall apply if the President or Executive Vice President resigns of their own accord. If termination of employment is issued by the company, the period of notice is twelve months and the President and Executive Vice President shall also be entitled to severance pay corresponding to 12 months' salary. For other senior executives, the bank applies the terms stipulated in the central agreements between the labor market parties.

Preparation and decision-making process applied to the issue of remuneration to senior management

Remuneration to the President is determined by the Chairman of the Board and is thereafter confirmed in the Board of Directors. Remuneration to other senior executives is determined by the President.

Loans to senior executives

	Banking Group		Parent Company		Länsförsäkringar AB Group	
	2005	2004	2005	2004	2005	2004
Directors	25,412	13,667	16,848	4,644	78,009	51,310
Of which, loans from Bank	18,145	5,779	14,890	3,084	32,152	19,853
Of which, loans from Hypotek	7,267	7,888	1,958	1,560	45,857	31,398
Of which, loans from Wasa Kredit	–	–	–	–	–	59
President and Executive Vice Presidents	687	310	–	–	11,048	6,374
Of which, loans from Bank	687	310	–	–	3,044	2,565
Of which, loans from Hypotek	–	–	–	–	8,004	3,809
Of which, loans from Wasa Kredit	–	–	–	–	–	–

Loans granted comprise personnel loans and other loans. Personnel loans carry loan terms comparable to what applies to other employees in the Group. The interest rate for employees is the repo rate less 0.5 percentage points, but can never be lower than 0.5 percentage points. The interest benefit is calculated in accordance with the National Tax Board's rules and is included in other benefits as above. The terms and conditions of other loans are market-based.

The Group has not pledged assets, other collateral or assumed any liability undertaking for the benefit of any senior executive.

	Group		Parent Company	
	2005	2004	2005	2004
Number of women among senior executives, %				
Board members	40	40	40	40
Other senior executives	11	11	14	11

NOTE 10 DEPRECIATION AND WRITE-DOWNS OF TANGIBLE AND AMORTIZATION AND IMPAIRMENT OF INTANGIBLE FIXED ASSETS

	Group		Parent Company	
	2005	2004	2005	2004
Depreciation of tangible assets	8,723	10,846	1,970	3,453
Amortization of intangible fixed assets	23,626	26,228	19,271	21,872
Impairment of intangible fixed assets	1,029	–	1,029	–
Total depreciation/amortization/impairment	33,378	37,074	22,270	25,325

NOTE 11 OTHER OPERATING EXPENSES

	Group		Parent Company	
	2005	2004	2005	2004
Marketing	53,832	29,153	21,669	9,060
Other operating expenses	53,832	29,153	21,669	9,060

NOTE 12 LOAN LOSSES, NET

	Group		Parent Company	
	2005	2004	2005	2004
Specific provision for individually appraised loan receivables				
Write-off of confirmed loan losses during the year	29,267	22,211	3,041	1,163
Reversed provisions for probable loan losses reported in the year-end accounts as confirmed losses	–3,115	–635	–1,739	–635
Provision for probable loan losses during the year	23,376	7,676	973	1,541
Payment received for prior confirmed loan losses	–25,352	–11,733	–10,921	–644
Reversed provisions no longer required for probable loan losses	–3,468	–4,904	–1,957	–2,933
Net expense for the year for individually appraised receivables	20,708	12,615	–10,603	–1,508
Group-wise provisions for individually appraised receivables	–	–	–	–
Homogenous groups, appraised by group, of loan receivables of limited value and similar credit risk				
Write-off of confirmed loan losses during the year	16,949	23,830	6,940	5,765
Payment received for previously confirmed loan losses	–2,518	–4,169	–8	–2
Allocation/dissolution of provisions for loan losses	16,887	16,214	3,466	7,464
Net expense for the year for receivables appraised by group	31,318	35,875	10,398	13,227
Net expense for the year for fulfillment of guarantees	–3,481	–3,703	–3,481	–3,703
Net expense for the year for loan losses	48,545	44,787	–3,686	8,016

All figures pertain to receivables due from the public.

NOTE 13 TAX ON INCOME FOR THE YEAR

	Group		Parent Company	
	2005	2004	2005	2004
Current tax	168	10	-55,692	-49,335
Deferred	44,504	-59,381	44,450	-58,064
Total tax on income for the year	44,672	-59,371	-11,242	-107,399
Reconciliation of tax expense for the year				
	Group		Parent Company	
	2005	2004	2005	2004
Reported pretax profit	154,007	126,633	-42,845	-44,318
Corporate income tax 28%	43,122	35,458	-11,997	-12,409
Non-deductible costs	2,321	3,203	603	1,607
Non-taxable revenues	-969	-888	-16	-28
Increase in loss carryforwards without capitalizing deferred tax	12	16	-	-
Capitalization of loss carryforwards	-	-98,448	-	-98,448
Tax pertaining to prior years 1	186	1,288	168	1,879
Utilization of non-capitalized loss carryforwards	-	-	-	-
Reported tax expense	44,672	-59,371	-11,242	-107,399
Applicable tax rate	28%	28%	28%	28%
Effective tax rate	29%	-47%	-26%	-242%
Tax items charged against shareholders' equity				
Current tax in received/paid Group contribution	-	-	55,860	49,336
	-	-	55,860	49,336

The Parent Company and the Group have no temporary differences with tax effects in Group or associated companies.

NOTE 14 LENDING TO CREDIT INSTITUTIONS

	Group		Parent Company	
	2005	2004	2005	2004
Lending to subsidiaries	-	-	35,792,437	28,553,874
Deposits, Swedish banks	1,067,000	1,348,000	1,067,000	1,348,000
Other lending to credit institutions	229,701	229,252	16,108	21,644
	1,296,701	1,577,252	36,875,545	29,923,518
Information on maturity:				
Payable on demand	213,593	207,607	-	-
Remaining maturity, maximum 3 months	1,083,108	1,369,645	4,170,232	12,392,844
Remaining maturity, 3 months to one year	-	-	14,610,209	9,373,960
Remaining maturity, 1-5 years	-	-	17,467,490	7,683,100
Remaining maturity, more than 5 years	-	-	627,614	473,614
	1,296,701	1,577,252	36,875,545	29,923,518
Average remaining maturity	0.1 yr	0.1 yr	1.8 yr	1.0 yr

For information on fixed-interest periods, please see Note 32.

NOTE 15 LENDING TO THE PUBLIC

	Group		Parent Company	
	2005	2004	2005	2004
Loan receivables, gross				
Public sector	133,952	108,682	-	-
Commercial sector	4,114,259	3 912,000	453,529	433,531
Household sector	43,061,907	35 587,228	8,013,701	7,650,583
Other	8,109	8,309	3,385	3,479
	47,318,227	39,616,219	8,470,615	8,087,593
Provisions for individually reserved loan receivables				
Commercial sector	-36,988	-25,563	-246	-247
Household sector	-56,945	-39,028	-12,449	-15,171
	-93,933	-64,591	-12,695	-15,418
Provisions for group-wise reserved loan receivables				
Commercial sector	-16,714	-16,813	-2,408	-2,188
Household sector	-114,052	-108,357	-68,561	-64,266
	-130,766	-125,170	-70,969	-66,454
Total provisions	-224,699	-189,761	-83,664	-81,872
Loan receivables, net				
Public sector	133,952	108,682	-	-
Commercial sector	4,060,557	3,869,624	450,875	431,096
Household sector	42,890,910	35,439,843	7,932,691	7,571,146
Other	8,109	8,309	3,385	3,479
	47,093,528	39,426,458	8,386,951	8,005,721
Doubtful loan receivables				
Commercial sector	74,738	68,178	2,674	2,618
Household sector	172,128	164,184	82,120	80,527
	246,866	232,362	84,794	83,145
Non-performing loan receivables included among doubtful loan receivables				
Commercial sector	46,122	28,745	266	430
Household sector	116,503	94,194	55,110	49,011
	162,625	122,939	55,376	49,441

NOTE 15 cont.

	Group		Parent Company	
	2005	2004	2005	2004
Breakdown by collateral				
Single-family homes	30,014,581	23,543,637	3,127,879	2,901,677
Tenant-owned apartments	4,405,821	3,482,981	505,653	589,109
Apartment buildings	182,624	225,264	51,448	69,505
Agricultural/farm properties	1,577,006	1,452,319	1,577,006	1,452,319
Commercial properties	75,365	77,169	836	17
Industrial properties	10,067	17,666	79	3,384
Other guarantees	7,946	10,006	7,946	10,006
Other collateral	7,077,628	6,661,366	622,702	566,731
Unsecured credit	3,967,189	4,145,811	2,577,066	2,494,845
	47,318,227	39,616,219	8,470,615	8,087,593
Information on maturity:				
Payable on demand	2,166	2,311	–	–
Remaining maturity, maximum 3 months	15,882,355	7,460,939	216,620	224,087
Remaining maturity, 3 months to one year	3,426,332	9,263,963	1,014,176	985,277
Remaining maturity, 1–5 years	18,757,085	14,018,196	859,787	838,085
Remaining maturity, more than 5 years	9,025,590	8,681,049	6,296,368	5,958,272
	47,093,528	39,426,458	8,386,951	8,005,721
Average remaining maturity	18.9 years	18.3 years	22.7 years	22.0 years

NOTE 17 SHARES AND PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2005			2004		
	No. of shares	Nominal value	Book value	No. of shares	Nominal value	Book value
Wasa Kredit AB	875,000	87,500	537,772	875,000	87,500	487,772
Länsförsäkringar Hypotek AB	70,335	70,335	1,758,628	70,335	70,335	1,230,628
WASA Garanti Försäkrings AB i likvidation	–	–	–	650,000	65,000	78,000
Länsförsäkringar Fondförvaltning AB	15,000	1,500	148,000	15,000	1,500	115,000
Total shares and participations in Group companies		2,444,400				1,911,400

The bank has a total of three wholly-owned subsidiaries with registered offices in Stockholm.

All shares are unlisted. Of the asset item, 2,296,400 (1,718,400) pertains to holdings in credit institutions.

Shareholders' equity in Wasa Kredit (556311-9204) at December 31, 2005 amounted to SEK 491 M and profit for the year was SEK 79 M.

Shareholders' equity in Länsförsäkringar Hypotek (556244-1781) at December 31, 2005 amounted to SEK 1,752 M and profit for the year was SEK 16 M.

The liquidation of WASA Garanti Försäkrings AB (516401-7831) was completed on December 31, 2005.

The subsidiary Länsförsäkringar Fondförvaltning AB (556364-2783) was acquired on January 1, 2004. The company's shareholders' equity at December 31, 2005 amounted to SEK 59 M and profit for the year was SEK 46 M.

The loan receivables all relate geographically to Sweden.

For the Parent Company, actual maturity has been reported, although Chapter 2, Section 19 of the Banking Business Act is applicable, in principle, to all lending, which means that termination may occur within one year.

Leasing assets in the subsidiary Wasa Kredit AB comprise SEK 3.0 billion (2.7) of the Group's lending to the public.

Leasing assets are classified as financial leasing. Car leasing comprises 39% (41) of total leasing.

For information on fixed-interest periods, please see Note 32.

NOTE 16 SHARES AND PARTICIPATIONS

	Group		Parent Company	
	2005	2004	2005	2004
Other shares and participations	7,089	4,854	7,089	4,854
Tenant-owned apartments	380	380	380	380
Total shares and participations	7,469	5,234	7,469	5,234

All shares are unlisted.

NOTE 18 BONDS AND OTHER INTEREST-BEARING SECURITIES

(Group and Parent Company)	2005				2004			
	Nominal value	Accrued acquisition value	Fair value	Book value	Nominal value	Accrued acquisition value	Fair value	Book value
Issued by other borrowers								
Mortgage institutions	2,600,000	2,602,795	2,598,704	2,602,795	1,200,000	1,197,721	1,205,303	1,197,721
Total bonds and other interest-bearing securities	2,600,000	2,602,795	2,598,704	2,602,795	1,200,000	1,197,721	1,205,303	1,197,721
Of which, listed								
Difference between book and nominal value:								
Higher/lower book value				2,795				-2,279
				2,795				-2,279
Information on maturity:								
Maximum 1 year				1,995,009				1,197,721
1–5 years				–				–
More than 5 years				607,786				
				2,602,795				1,197,721
Average remaining maturity				1.2 yrs				0.1 yrs

For information on fixed-interest periods, please see Note 32.

The item is appraised as a fixed asset since the intention is to retain the securities until they mature.

NOTE 19 INTANGIBLE FIXED ASSETS

	Group		Parent Company	
	2005	2004	2005	2004
Goodwill				
Opening acquisition value	2,683	2,683	2,683	2,683
Impairment	-2,683	–	-2,683	–
Closing acquisition value	0	2,683	0	2,683
Opening accumulated impairment	-1,654	-1,386	-1,654	-1,386
Impairment for the year	–	-268	–	-268
Impairment	1,654	–	1,654	–
Closing accumulated impairment	0	-1,654	0	-1,654
Closing residual value according to plan	0	1,029	0	1,029
Other intangible assets				
Opening acquisition value	224,092	212,195	202,314	190,417
Purchases	44,015	11,897	39,462	11,897
Closing accumulated acquisition value	268,107	224,092	241,776	202,314
Opening accumulated amortization	-143,116	-117,156	-135,663	-114,059
Amortization for the year	-23,624	-25,960	-19,270	-21,604
Closing accumulated amortization	-166,740	-143,116	-154,933	-135,663
Closing residual value according to plan	101,367	80,976	86,843	66,651
Total intangible assets	101,367	82,005	86,843	67,680

The goodwill item pertains to the acquisition of Wasa Banken AB (publ) in 1998. This item is no longer deemed to have a financial value.

Capitalized development costs for which amortization has yet to commence was SEK 42,573,000 (11,897,000) in the Parent Company and SEK 47,126,000 (11,897,000).

NOTE 20 TANGIBLE ASSETS

	Group		Parent Company	
	2005	2004	2005	2004
Equipment				
Opening acquisition value	71,592	72,391	23,892	27,114
Purchases	3,820	3,976	–	510
Sales/scraping	-551	-4,775	-221	-3,732
Closing acquisition value	74,861	71,592	23,671	23,892
Opening depreciation	-54,295	-46,804	-20,471	-19,352
Sales/scraping	310	3,355	–	2,334
Depreciation for the year	-8,723	-10,846	-1,970	-3,453
Closing accumulated depreciation	-62,708	-54,295	-22,441	-20,471
Closing residual value according to plan	12,153	17,297	1,230	3,421
Total tangible assets	12,153	17,297	1,230	3,421

NOTE 21 OTHER ASSETS

	Group		Parent Company	
	2005	2004	2005	2004
Accounts receivable	211,419	199,078	18,287	6,181
Deferred tax assets	13,694	58,200	13,659	58,110
Other assets	58,147	50,085	41,747	46,962
Total other assets	283,260	307,363	73,693	111,253

NOTE 22 PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	2005	2004	2005	2004
Accrued interest income	43,155	33,832	174,098	96,841
Accrued interest swap	35,757	115,347	20,918	87,434
Other accrued income	64,431	60,621	12,641	47,392
Prepaid expenses	44,939	46,069	34,204	10,384
Total prepaid expenses and accrued income	188,282	255,869	241,861	242,051

NOTE 23 LIABILITIES TO CREDIT INSTITUTIONS

	Group		Parent Company	
	2005	2004	2005	2004
Bank of Sweden	–	–	–	–
Other Swedish credit institutions	308,430	195,479	769,341	248,562
Total liabilities to credit institutions	308,430	195,479	769,341	248,562

Information on maturity:

Payable on demand	308,430	195,479	769,341	248,562
Average remaining maturity	0 yr	0 yr	0 yr	0 yr

For information on fixed-interest periods, please see Note 32.

NOTE 24 DEPOSITS AND BORROWING FROM THE PUBLIC

	Group		Parent Company	
	2005	2004	2005	2004
Borrowing from the public	795,802	938,352	–	–
Deposits from insurance companies	1,270,002	1,611,615	1,270,002	1,611,615
Deposits from households	17,918,832	15,512,735	17,918,832	15,512,735
Deposits from other Swedish public	1,550,107	1,985,078	1,583,475	1,985,078
Total deposits from the public	21,534,743	20,047,780	20,772,309	19,109,428

Information on maturity:

Payable on demand	20,738,941	19,109,428	20,772,309	19,109,428
Remaining maturity, maximum 3 months	–	–	–	–
Remaining maturity, 3 months to one year	355,351	140,613	–	–
Remaining maturity, 1–5 years	440,451	797,739	–	–
Remaining maturity, more than 5 years	–	–	–	–
	21,534,743	20,047,780	20,772,309	19,109,428
Average remaining maturity	0 yr	0.1 yr	0 yr	0 yr

For information on fixed-interest periods, please see Note 32.

NOTE 25 SECURITIES ISSUED

	Group		Parent Company	
	2005	2004	2005	2004
Certificate of deposits	1,816,844	3,089,190	1,816,844	3,089,190
Bond loans	22,632,340	14,672,466	22,632,340	14,672,466
Cashiers' checks issued	400,604	392,911	400,604	392,911
Total securities issued, etc.	24,849,788	18,154,567	24,849,788	18,154,567

Information on maturity:

Remaining maturity, maximum 1 year	7,219,564	5,460,837	7,219,564	5,460,837
Remaining maturity, 1–5 years	17,229,620	12,300,819	17,229,620	12,300,819
Remaining maturity, 5–10 years	400,604	392,911	400,604	392,911
Remaining maturity, more than 10 years	–	–	–	–
	24,849,788	18,154,567	24,849,788	18,154,567

Remaining maturity	2.1 yrs	1.8 yrs	2.1 yrs	1.8 yrs
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NOTE 26 OTHER LIABILITIES

	Group		Parent Company	
	2005	2004	2005	2004
Accounts payable	92,187	54,799	31,708	27,516
Preliminary tax, customers	55,603	67,970	55,603	67,970
Other liabilities	147,268	252,996	43,784	103,165
Total other liabilities	295,058	375,765	131,095	198,651

NOTE 27 ACCRUED EXPENSES AND PREPAID INCOME

	Group		Parent Company	
	2005	2004	2005	2004
Accrued vacation pay	9,184	9,418	3,490	3,688
Accrued social security expenses	9,448	12,521	3,275	2,742
Accrued interest expense	161,012	129,318	144,575	110,669
Accrued interest swap	133,202	193,938	20,213	11,854
Other accrued expenses	224,208	185,851	93,983	101,693
Prepaid rent	215,399	197,496	–	–
Other prepaid income	48	61	48	61
Total accrued expenses and prepaid income	752,501	728,603	265,584	230,707

NOTE 28 PROVISIONS

	Group		Parent Company	
	2005	2004	2005	2004
Deferred tax	15,384	15,384	–	–
Provisions for guarantees	4,335	6,422	4,335	6,422
	19,719	21,806	4,335	6,422

NOTE 29 SUBORDINATED DEBT

	Group		Parent Company	
	2005	2004	2005	2004
Subordinated loans	1,050,000	1,050,000	1,050,000	1,050,000
	1,050,000	1,050,000	1,050,000	1,050,000

Specification of subordinated loans from Länsförsäkringar AB

	Book amount	Coupon rate of interest
Subordinated loan, 2002/2012 Länsförsäkringar AB	180,000	variable
Subordinated loan, 2003/2013 Länsförsäkringar AB	580,000	variable
Subordinated loan, perpetual Länsförsäkringar AB ¹⁾	290,000	variable
	1,050,000	

¹⁾ The terms of the loan are such that the loan qualifies as a Tier 1 capital contribution in accordance with the requirements of the Finansinspektionen.

The subordinated loans are subordinate to the bank's other liabilities, which means that they are liable for payment only once the other creditors have been repaid.

NOTE 30 SHAREHOLDERS' EQUITY

	Group		Parent Company	
	2005	2004	2005	2004
Restricted equity				
Share capital	954,871	954,871	954,871	954,871
Statutory reserve	18,480	2,371	18,380	2,371
Share premium reserve	–	9,701	–	9,701
Other reserves	39,559	39,559	–	–
	1,012,910	1,006,502	973,251	966,943
Non-restricted equity				
Profit brought forward	1,728,688	1,249,092	2,012,304	1,511,891
Net profit/loss for the year	109,335	186,004	–31,603	63,081
	1,838,023	1,435,096	1,980,701	1,574,972
Total shareholders' equity	2,850,933	2,441,598	2,953,952	2,541,915

A specification of the change in shareholders' equity compared with the balance sheet for the preceding year, as required by Chapter 5, Section 14 of the Swedish Annual Accounts Act, is provided on page 17.

[Upplysningskravet enligt ÅRL 5 kap 14§ avseende specificering av förändring av eget kapital jämfört med föregående års balansräkning framgår av sidan 40.]

Proposed distribution of the Parent Company's unappropriated earnings (SEK)

Profit brought forward	1,568,664,536
Shareholders' contribution received	300,000,000
Group contribution received	143,640,000
Net profit for the year	–31,602,969
	1,980,701,567

The Board of Directors proposes:

Transfer to statutory reserve	–
Carried forward to next year	1,980,701,567
	1,980,701,567

NOTE 31 MEMORANDUM ITEMS

	Group		Parent Company	
	2005	2004	2005	2004
Pledged assets/collateral				
Pledged securities in the Bank of Sweden	495,000	495,000	495,000	495,000
Pledged securities in VPC (Swedish Securities Register Center)	5,000	5 000	5,000	5,000
	500 000	500 000	500,000	500,000

Contingent liabilities

Guarantees	51,385	57,681	51,385	55,562
Other contingent liabilities	4,162	4,162	4,162	4,162
	55,547	61,843	55,547	59,724

Commitments

Granted but undisbursed loans	402,233	419,870	116,229	129,843
Granted but unutilized overdraft facilities	902,148	715,417	6,736,825	8,666,357
Exchange rate-related contracts	11,428,490	5,465,350	11,428,490	5,465,350
Interest rate-related contracts ¹⁾	11,020,000	13,050,000	2,400,000	4,650,000
	23,752,871	19,650,637	20,681,544	18,911,550

¹⁾ The counterparties involved in the interest swap agreements have high credit worthiness. A rise in the market rate of one percentage point on all maturities will affect the market value of the interest swap agreements entered into as per the balance sheet date by 236,222 (125,731) in the Group and by 21,978 (68,681) in the Parent Company. Unrealized losses on these derivatives that have been deferred due to hedge accounting amount to loss: 108,358 (loss: 140,623) in the Group and to a gain of 3,209 (gain: 63,364) in the Parent Company as per the balance sheet date.

NOTE 32 FIXED-INTEREST PERIODS
Group

Fixed-interest periods	<3 months	3–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total	Average remaining fixed-interest period
Lending to credit institutions	1,296,701						1,296,701	
Lending to the public	32,994,294	1,379,588	2,000,993	6,256,505	3,604,370	857,778	47,093,528	1.6 yrs
Bonds and other interest-bearing securities	1,497,444	497,565			607,786		2,602,795	1.2 yrs
Other assets	668,148						668,148	
Total assets	36,456,587	1,877,153	2,000,993	6,256,505	4,212,156	857,778	51,661,172	
Liabilities to credit institutions	308,430						308,430	
Deposits from the public	20,232,265	25,201	509,466	576,589	191,222		21,534,743	0.1 yrs
Securities issued, etc.	18,205,185	1,848,681	1,564,674	2,327,441	903,807		24,849,788	0.5 yrs
Subordinated debt	1,050,000						1,050,000	0.2 yrs
Other liabilities and provisions	1,067,278						1,067,278	
Shareholders' equity	2,850,933						2,850,933	
Total liabilities and shareholders' equity	43,714,091	1,873,882	2,074,140	2,904,030	1,095,029	–	51,661,172	
Derivatives, nominal amount, net	9,520,000	–1,400,000	–600,000	–3,540,000	–3,280,000	–700,000	0	
Net, including derivatives	2,262,496	–1,396,729	–673,147	–187,525	–162,873	157,778	0	

The bank (Parent Company)

Fixed-interest periods	<3 months	3–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total	Average remaining fixed-interest period
Lending to credit institutions	31,023,423	818,331	1,564,673	2,504,531	964,587		36,875,545	0.3 yrs
Lending to the public	8,386,951						8,386,951	
Bonds and other interest-bearing securities	1,497,444	497,565			607,786		2,602,795	1.2 yrs
Other assets	2,931,113						2,931,113	
Total assets	43,838,931	1,315,896	1,564,673	2,504,531	1,572,373	0	50,796,404	
Liabilities to credit institutions	719,341						719,341	
Deposits from the public	20,265,632	25,201	154,115	136,138	191,222		20,772,308	0.1 yrs
Securities issued, etc.	18,205,185	1,848,681	1,564,674	2,327,441	903,807		24,849,788	0.5 yrs
Subordinated debt	1,050,000						1,050,000	0.2 yrs
Other liabilities and provisions	451,015						451,015	
Shareholders' equity	2,953,952						2,953,952	
Total liabilities and shareholders' equity	43,645,125	1,873,882	1,718,789	2,463,579	1,095,029	0	50,796,404	
Derivatives, nominal amount, net	600,000	0	0	0	–600,000	0	0	
Net, including derivatives	793,806	–557,986	–154,116	40,952	–122,656	0	0	

NOTE 33 INFORMATION ON FAIR VALUE

Group	Fixed assets		Current assets	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and central bank account balances	75,617	75,617		
Lending to credit institutions			1,296,701	1,296,701
Lending to the public			47,093,528	47,548,069
Shares and participations			7,469	7,469
Bonds and other interest-bearing assets			2,602,795	2,598,704
Intangible fixed assets			101,367	101,367
Tangible fixed assets			12,153	12,153
Other assets	283,260	283,260		
Prepaid expenses and accrued income	188,282	188,282		
Total assets	547,159	547,159	51,114,013	51,564,463
Liabilities				
Liabilities to credit institutions			308,430	308,430
Deposits and borrowing from the public			21,534,743	21,576,282
Securities issued, etc.			24,849,788	24,947,404
Other liabilities			295,058	295,058
Accrued expenses and prepaid income			752,501	752,501
Provisions			19,719	19,719
Subordinated debt			1,050,000	1,050,000
Total liabilities			48,810,239	48,949,394
Positions not shown in the balance sheet				
Negative values			158,429	
Positive values			350,468	

The items where the book value is not the same as the fair value pertain to assets and liabilities with fixed-interest terms. For lending and borrowing with no fixed interest, the fair value is the same as the book value.

In calculating fair values for fixed lending and borrowing, future agreed cash flows were discounted during the fixed-interest period.

Securities were valued at the current market price.

Parent Company	Fixed assets		Current assets	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and central bank account balances	75,617	75,617		
Lending to credit institutions			36,875,545	36,875,545
Lending to the public			8,386,951	8,386,951
Shares and participations			7,469	7,469
Shares and participations in Group companies			2,444,400	2,444,400
Bonds and other interest-bearing assets			2,602,795	2,598,704
Intangible fixed assets			86,843	86,843
Tangible fixed assets			1,230	1,230
Other assets	73,693	73,693		
Prepaid expenses and accrued income	241,861	241,861		
Total assets	391,171	391,171	50,405,233	50,401,142
Liabilities				
Liabilities to credit institutions			769,341	769,341
Deposits and borrowing from the public			20,772,309	20,756,925
Securities issued, etc.			24,849,788	24,947,404
Other liabilities			131,095	131,095
Accrued expenses and prepaid income			265,584	265,584
Provisions			4,335	4,335
Subordinated debt			1,050,000	1,050,000
Total liabilities			47,842,452	47,924,684
Positions not shown in the balance sheet				
Negative values			20,015	
Positive values			323,621	

The items where the book value is not the same as the fair value pertain to assets and liabilities with fixed-interest terms. For lending and borrowing with no fixed interest, the fair value is the same as the book value.

In calculating fair values for fixed lending and borrowing, future agreed cash flows were discounted during the fixed-interest period.

Securities were valued at the current market price.

NOTE 34 CAPITAL ADEQUACY ANALYSIS, DECEMBER 31, 2005

	Group
Total capital base	3,785,872
of which Tier 1 capital	3,025,872

Capital requirement for credit risk (SEK 000s)

Risk class		Balance sheet items	Off-balance-sheet items	Risk-weighted amount
Group A	0%	327,927	1,725	0
Group B	20%	3,944,789	957,581	980,474
Group C	50%	30,022,605	77,619	15,050,112
Group D	100%	17,365,851	152,172	17,518,023
		51,661,172	1,189,097	33,548,609
Total risk-weighted amount for credit risk				33,548,609

Capital adequacy ratio, % 11.28

Group A – Cash on hand or receivable to or guaranteed by state/central bank within the EU or Swedish municipality.

Group B – Receivable to or guaranteed by banks/credit institutions or municipalities within the EU.

Group C – Claim on collateral for mortgaging residential property or site leasehold.

Group D – Other assets.

Parent Company

Total capital base	3,903,450
of which Tier 1 capital	3,143,450

Capital requirement for credit risk (SEK 000s)

Risk class		Balance sheet items	Off-balance-sheet items	Risk-weighted amount
Group A	0%	38,582,533	–	0
Group B	20%	3,717,613	884,606	920,443
Group C	50%	3,025,922	36,779	1,531,350
Group D	100%	5,470,336	50,010	5,520,346
		50,796,404	971,395	7,972,139
Total risk-weighted amount for credit risk				7,972,139

Capital adequacy ratio, % 48.96

Group A – Cash on hand or receivable to or guaranteed by state/central bank within the EU or Swedish municipality. Receivables within the financial company group.

Group B – Receivable to or guaranteed by banks/credit institutions or municipalities within the EU.

Group C – Claim on collateral for mortgaging residential property or site leasehold.

Group D – Other assets.

NOTE 35 DISCLOSURE REGARDING RELATED PARTIES, PRICING AND AGREEMENTS**Related parties**

Related legal entities include the Länsförsäkringar AB Group's and the Länsförsäkringar Liv group's companies, all associated companies, Länsförsäkringar Mäklarservice AB and the 24 mutual regional insurance companies with subsidiaries.

Pricing

Negotiated prices are applied within the Länsförsäkringar Alliance, both for services performed on behalf of the mutual regional insurance companies and the service offerings provided within the Länsförsäkringar AB Alliance.

The price of internal transactions is negotiated in service committees. These committees are to ensure good communication between the group-wide units and the service centers and their customers. The committees' duties also include discussing and negotiating the content and price of inter-company transactions. After the parties in a service committee have reached an agreement, each manager produces a budget and price list for the forthcoming year which is later approved by Group management.

Agreements

Significant agreements for the Parent Company are primarily out-sourcing agreements with the 24 mutual regional insurance companies and agreements with Länsförsäkringar Stockholm for the Telephone Bank.

NOTE 35 cont.

Transactions

	Receivables		Liabilities		Revenues		Expenses	
	2005	2004	2005	2004	2005	2004	2005	2004
Parent Company								
Companies within the Banking Group	35,959,552	28,644,433	513,186	54,443	847,160	770,664	52,506	40,206
Other companies within the Länsförsäkringar AB Group	9,972	11,658	1,475,499	1,816,621	2,171	847	151,930	143,101
Mutual regional insurance companies	72,943	87,669	1,313,103	1,415,659	116,149	103,651	259,530	265,292
Other related parties					41	104		
Group								
Other companies within the Länsförsäkringar AB Group	28,170	18,925	1,477,697	1,817,854	3,918	25,995	178,157	165,411
Mutual regional insurance companies	72,943	87,669	1,348,345	1,443,693	116,149	103,651	399,947	370,230
Other related parties	193	27	830,509	976,559	440	3,839	80,402	100,639

Stockholm, March 30, 2006

Tommy Persson
Chairman

Hans Benndorf

Mats Ericsson

Leif Johanson

Ann-Cathrin Bengtson

Lena Wahlgren

Tomas Johansson
President

Ingrid Ericson
Employee representative

Sven-Erik Martinell
Employee representative

Katarina Timåker
Employee representative

Our audit report was submitted on March 30, 2006

Johan Bäckström
Authorized Public Accountant

Lars-Ola Andersson
Authorized Public Accountant
Auditor appointed by Finansinspektionen

Audit report

To the General Meeting of shareholders in Länsförsäkringar Bank AB (publ)

Corporate reg. no. 516401-9878

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Länsförsäkringar Bank AB (publ) for the 2005 financial year. These accounts and the administration of the company and the application of the Annual Accounts Act for Credit Institutions and Securities Companies when preparing the annual accounts and the consolidated accounts are the responsibility of the Board of Directors and the President. 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 signifi-

cant 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 Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and thereby give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting 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 administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, March 30, 2006

Johan Bäckström

Authorized Public Accountant

Lars-Ola Andersson

Authorized Public Accountant

Auditor appointed by Finansinspektionen

Five-year summary

Income statement (SEK M)	Group					Parent Company				
	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
Interest income	2,105.8	2,051.0	1,593.7	1,143.2	848.0	1,273.3	1,284.1	1,021.6	824.2	621.0
Interest expense	-1,232.4	-1,221.3	-893.0	-605.4	-423.7	-918.2	-915.7	-685.3	-534.6	-387.5
Net interest income	873.4	829.7	700.7	537.8	424.3	355.1	368.4	336.3	289.6	233.5
Net commission income	276.5	213.7	28.2	27.6	47.9	-0.4	-8.0	-3.1	-2.4	8.2
Dividends received	3.4	3.2	2.4	0.0	-	0.0	0.0	0.1	28.4	-
Net income from financial transactions	10.3	14.8	-0.4	-0.2	6.2	4.8	14.8	-0.4	-0.2	6.2
Other operating revenues	135.9	152.2	91.3	84.1	58.0	167.1	147.9	123.4	74.0	46.0
Total operating revenues	1,299.5	1,213.6	822.2	649.3	536.4	526.6	523.1	456.3	389.4	293.9
General administration expenses	-1,063.5	-1,005.1	-678.7	-594.7	-543.1	-550.9	-534.1	-461.3	-413.7	-369.5
Depreciation/amortization	-33.4	-37.1	-57.7	-46.3	-38.2	-22.3	-25.3	-49.8	-47.4	-35.4
Total expenses before loan losses	-1,096.9	-1,042.2	-736.4	-641.0	-581.3	-573.2	-559.4	-511.1	-461.1	-404.9
Income before loan losses	202.6	171.4	85.8	8.3	-44.9	-46.6	-36.3	-54.8	-71.7	-111.0
Loan losses, net	-48.6	-44.8	-38.9	-13.2	24.6	3.7	-8.0	-11.1	-12.0	21.2
Income from banking operations	154.0	126.6	46.9	-4.9	-20.3	-42.9	-44.3	-65.9	-83.7	-89.8
Income from insurance operations	-	-	18.0	24.4	21.7	-	-	-	-	-
Operating loss	154.0	126.6	64.9	19.5	1.4	-42.9	-44.3	-65.9	-83.7	-89.8
Deferred tax	-	-	-	-	-	55.7	49.3	-0.4	0.4	-
Tax on income for the year	-44.7	59.4	-18.6	0.4	-	-44.4	58.1	18.6	32.3	22.9
Net profit/loss for the year	109.3	186.0	46.3	19.9	1.4	-31.6	63.1	-47.7	-51.0	-66.9

Balance sheet (SEK M)

Cash and central bank account balances	75.6	146.4	75.1	68.8	25.1	75.6	72.2	75.1	68.8	25.1
Lending to credit institutions	1,296.7	1,577.2	602.1	1,408.0	1,152.9	36,875.5	29,923.5	21,076.0	13,081.4	7,563.3
Lending to the public	47,093.5	39,426.5	30,043.7	19,861.3	12,452.8	8,387.0	8,005.7	7,049.3	5,818.5	4,494.6
Shares and participations	7.5	5.2	3.8	0.5	0.5	2,451.9	1,916.6	1,255.7	807.4	614.7
Bonds and other interest-bearing securities	2,602.8	1,197.7	1,243.1	499.2	1 414.7	2,602.8	1,197.7	1,243.1	499.2	1 414.7
Assets in insurance operations	-	-	0.0	12.2	36.4	-	-	-	-	-
Intangible assets	101.4	82.0	77.7	108.5	90.6	86.8	67.7	77.7	108.5	90.6
Tangible assets	12.2	17.3	25.6	29.8	13.2	1.2	3.4	7.8	10.7	9.7
Other assets	283.2	307.4	237.6	235.5	243.1	73.7	111.3	76.8	74.1	87.6
Prepaid expenses and accrued income	188.3	255.9	97.0	77.9	94.2	241.9	242.1	54.8	50.8	67.0
Total assets	51,661.2	43,015.6	32,405.7	22,301.7	15,523.5	50,796.4	41,540.2	30,916.3	20,519.4	14,367.3
Liabilities to credit institutions	308.4	195.5	995.5	162.2	217.1	769.3	248.6	1,037.7	247.5	223.9
Deposits and borrowing from the public	21,534.8	20,047.8	18,515.7	16,482.5	13,292.5	20,772.3	19,109.4	17,374.4	14,936.2	12,449.1
Securities issued	24,849.8	18,154.6	9,120.1	3,705.5	417.5	24,849.9	18,154.6	9,120.1	3,705.5	417.5
Liabilities in insurance operations	-	-	5.4	5.4	14.8	-	-	-	-	-
Other liabilities	295.1	375.7	307.5	234.3	227.6	131.1	198.6	262.9	173.9	149.8
Accrued expenses and prepaid income	752.5	728.6	458.6	308.1	250.3	265.5	230.7	129.9	69.5	52.2
Provisions	19.7	21.8	21.0	18.0	17.9	4.3	6.4	4.3	-	-
Subordinated debt	1,050.0	1,050.0	1,050.0	180.0	80.0	1,050.0	1,050.0	1,050.0	180.0	80.0
Shareholders' equity	2,850.9	2,441.6	1,931.9	1,205.7	1,005.8	2,954.0	2,541.9	1,937.0	1,206.8	994.8
Total liabilities, provisions and shareholders' equity	51,661.2	43,015.6	32,405.7	22,301.7	15,523.5	50,796.4	41,540.2	30,916.3	20,519.4	14,367.3

Corporate Governance Report

Länsförsäkringar Bank is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 24 customer-owned mutual regional insurance companies and 14 local insurance companies.

It is Länsförsäkringar's intention to follow the Swedish Code of Corporate Governance (referred to below as the Code) in the applicable parts, with consideration of the fact that the bank is not a stock market company. Adaptations to the Code are intended to take place successively during 2006. The major deviations from the provision of the Code and explanations for such deviations are presented below.

- Notice and holding of a Annual General Meeting. Deviation from the provisions of the Code with respect to the fact that the company is not a stock market company and has only one shareholder.
- Composition of the Board of Directors. Deviation from the provisions of the Code that at least two Board members shall be independent in relation to the bank's largest shareholders. Our intention is to increase the number of independent directors at the 2006 Annual General Meeting.
- The mandate period for Board members is, as a general rule, two years. Deviation from the provisions of the Code of a maximum mandate period of one year due to the supremacy of the Annual General Meeting to dismiss and appoint a member irrespective of mandate period. A mandate period that is longer than one year contributes to ensuring continuity and establishing competence within the Board.

- It is intended that the Board of Directors' Internal Control Report will be included in the Annual Report as from the 2006 financial year. In 2006, procedures and documentation pertaining to the internal control will be supplemented as the basis of the auditors' examination of the Board's report.
- A special section of the bank's website on corporate governance is intended to be established during 2006.

General Meeting

Länsförsäkringar Bank is a wholly owned subsidiary of Länsförsäkringar AB. The shareholder exercises its voting rights at the Annual General Meeting. Decisions are made at the Annual General Meeting pertaining to: the Annual Report, the election of members of the Board and auditors, remunerations to Board members and auditors and other important matter to be addressed in accordance with laws or the Articles of Association. The proposal for remuneration to Board members presented at the Annual General Meeting is specified by Chairman, Deputy Chairman and other directors, and includes remuneration for extra Board meetings and committee work, unless remuneration for such meetings and work is determined separately. In accordance with the Code, it is proposed that the 2006 Annual General Meeting approve the principles for remuneration and other terms of employments for company management.

Nomination process

The Annual General Meeting of Länsförsäkringar AB appoints a Nomination Committee, which is charged with the duty of, in consultation with the CEO of Länsförsäkringar AB, presenting proposals for members of the Board of Directors and auditors of Länsförsäkringar Bank and other subsidiaries, and fees to these mem-

bers and auditors, in addition to submitting proposals to Länsförsäkringar AB. The Nomination Committee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. Since the 2005 Annual General Meeting, the Nomination Committee comprised Axel von Stockenström (Chairman) (Länsförsäkringar Södermanland), Lars Karbin (Deputy Chairman) (Länsförsäkringar Norrbotten), Bengt Wolfram (Länsförsäkringar Gothenburg and Bohuslän), Rutger Arnesson (Länsförsäkringar Västerbotten) and Anders Stigers (Dalarnas Försäkringsbolag).

External auditors

In accordance with the Articles of Association, Länsförsäkringar Bank shall have 1-3 auditors with 1-3 deputy auditors. Auditors are appointed for a mandate period of four years. At the 2004 Annual General Meeting, Johan Bäckström, KPMG Bohlins AB, was appointed auditor and Stefan Holmström, KPMG Bohlins AB, was appointed deputy auditor. Finansinspektionen appointed Lars-Ola Andersson, SET Revisionsbyrå AB, as auditor.

Board of Directors

In accordance with the Articles of Association, the Board of Directors of Länsförsäkringar Bank shall comprise 6-9 Board members, with 0-6 deputies. Board members are elected for a maximum mandate period of two years. In addition, members and deputies appointed by trade unions are also members of the Board. The bank has no time limit for the length of time for which a member may sit on the Board or an upper age limit.

The Board currently comprises ten members and one deputy. Seven of the members were elected by the Annual General Meeting and three members and one deputy member were appointed by the trade

unions. The Chairman of the Board of the Parent Company, Länsförsäkringar AB, is the President. The President is a member of the Board. The other five members are Board members and/or Presidents of the mutual regional insurance companies. The Chairman and Vice Chairman of the Board were appointed by the Annual General Meeting. The mandate periods and more detailed presentations of the Board members are presented on pages 58–59.

At the statutory Board meeting following election, held after the 2005 Annual General Meeting, the Board adopted a formal work plan. At the same time, the Presiding Officers were elected. At its meeting in December 2005, the Board established an Audit Committee and a Remuneration Committee. Certain amendments to the Board's formal work plan were made at the meeting held in February 2006. The formal work plan includes regulations on the duties and responsibilities of the Board and its Chairman, the number of Board meetings, procedures for financial report and reporting on the operations as well as procedures for Board meetings, notice of meetings, presentation of material, delegation of work duties within the Board and disqualification. The Board adopted a directive for the President. Furthermore, the Board adopted a larger number of policies, instructions and guidelines for the operations.

During the year, the Board regularly reviewed the earnings and sales trends, the financial position and risk profile in relation to the budget and business plan. The Board conducts annual strategic seminars and evaluations of its own work. The Board also annually assesses the work of the President and his terms of employment. The Board meets the company's auditors at least one per year (see also Audit Committee below).

Chairman

According to the formal work plan, the Chairman shall lead the Board's work and ensure that the Board fulfills its duties. The Chairman shall also ensure that the Board meets as required, that the Board is provided with the opportunity to participate in

meetings or receive satisfactory information and documentation for decision-making, and applies an appropriate working methodology. On the basis of ongoing contact with the President, the Chairman shall keep informed of significant events and developments within the bank even between Board meetings, and shall support the President in his/her work.

Internal audit

The Board appointed an internal audit function independent from the operating activities, with the primary task of ensuring that the scope and direction of the operations agrees with the guidelines issued by the Board and that the operations are being conducted toward the targets established by the Board. The internal audit function is also to examine and assess the organization of the bank, its procedures, governance and control of the operations. The Board has adopted a separate instruction for the internal audit function.

Divisions of Board duties

The Board established its Presiding Officers, an Audit Committee and a Remuneration Committee. The duties of the Committees are determined by the Board in specific instructions. None of the Committee has a general mandate to make decisions. Each Committee is to regularly report its work to the Board.

Presiding Officers of the Board

The duties of the Presiding Officers are to plan the Board meetings and prepare issues of a general nature prior to Board meetings. Until the Board meeting following election in 2006, the Presiding Officers comprises Tommy Persson, Mats Ericsson, Tomas Johansson and the bank's Executive Vice President, Anders Borgcrantz.

Audit Committee

The Audit Committee is responsible for preparing the Board's work with quality assurance of the bank's internal control of financial reporting, compliance with regulations, other internal control issues and for matters referred by the Board to its Com-

mittees. The Audit Committee comprises three Board members. All members, including the Chairman are independent in relation to the company and management. The internal and external auditors, along with the President and CFO usually participate in the Committee's meetings. Until the Board meeting following election in 2006, the Audit Committee comprises Mats Ericsson (Chairman), Leif Johansson and Tommy Persson. The Audit Committee was established in December 2005 and therefore began its work in 2006.

Remuneration Committee

The Remuneration Committee shall prepare issues on remuneration and other terms of employment for the President and the principles for remuneration and other terms of employment for company management. Until the Board meeting following election in 2006, the Remuneration Committee comprises Tommy Persson and Mats Ericsson. The Remuneration Committee was established in December 2005 and therefore began its work in 2006.

Meetings and attendance

The table below shows the number of meeting held since the 2005 Annual General Meeting until February 2006, and the attendance by each Board member:

Board of Directors	
Total number of meetings	5
Ann-Cathrin Bengtson	5
Hans Benndorf	5
Ingrid Ericson	2
Mats Ericsson	5
Leif Johansson	4
Tomas Johansson	5
Sven-Erik Martinell	5
Tommy Persson	5
Gerd Silander (deputy)	0
Katarina Timåker	5
Lena Wahlgren	5

This Corporate Governance Report is unaudited.

Board of Directors and Auditors



Tommy Persson



Tomas Johansson



From left: Sven-Erik Martinell, Mats Ericsson, Katarina Timåker

Board of Directors

Tommy Persson, born 1948

Chairman

President and CEO, Länsförsäkringar AB
Board member since 2000

Other Board appointments: Board Chairman of EurAPCo A.G., Swedish Insurance Federation and the Swedish Insurance Employers' Association (FAO). Board member of Länsförsäkringar AB, Kaupthing Búnadarbanki hf., Eureko B.V., Confederation of Swedish Enterprise and Stockholm Chamber of Commerce.

Mats Ericsson, born 1954

Deputy Chairman

President, Länsförsäkringar Halland

Deputy Chairman since 2005 and former Board member since 2003

Other Board assignments: Board Chairman of Halland Fire Protection Association. Board member of Länsförsäkringar Halland, Länsförsäkringar Hypotek AB, Wasa Kredit AB and Movement Vårdbolag AB. Deputy Board member of Swedish Insurance Employers' Association (FAO).

Tomas Johansson, born 1950

President and CEO, Länsförsäkringar Bank AB
Board member since 2003

Other Board appointments: Board Chairman of Länsförsäkringar Fondförvaltning AB, Wasa Kredit AB and Länsförsäkringar Hypotek AB. Board member of Swedish Bankers' Association.

Ann-Cathrin Bengtson, born 1962

President, Aros Congress Center Holding AB
Board member since 2003

Other Board appointments: Board Chairman of ALMI Företagspartner Västmanland AB. Board member of ATG Häst-klinikerna AB, Länsförsäkringar Bergslagen and Aros Congress Center Holding AB. Deputy board member of Etablering Västerås AB.

Hans Benndorf, born 1954

President, Länsförsäkringar Stockholm
Board member since 2005

Other Board appointments: Board Chairman of Insurance Industry's Pension Fund (FPK). Board member of Länsförsäkringar Stockholm and Länsförsäkringar Mäklarservice.

Leif Johanson, born 1952

President, Länsförsäkringar Västernorrland
Board member since 2004

Other Board appointments: Board Chairman of Västernorrland Fund. Board member of Länsförsäkringar Västernorrland and Norrvidden Fastigheter AB.

Lena Wahlgren, born 1948

CFO Natumin Pharma AB

Board member since 2001

Other Board appointments: Deputy Board Chairman. Länsförsäkringar Jönköping. Board member of Länsförsäkringar Fondförvaltning AB.



Ingrid Ericson



Hans Benndorf



Leif Johanson



From left: Lena Wahlgren, Ann-Cathrin Bengtson

Appointed by the employees

Ingrid Ericson, born 1958

Confederation of Professional Associations (SACO)

Board member since 2004

Other Board appointments: Board members of Länsförsäkringar AB's local SACO Board.

Katarina Timåker, born 1967

Union of Insurance Employees (FTF)

Board member since 2001

Other Board appointments: None.

Sven-Erik Martinell, born 1943

Länsförsäkringar Alliance Employee Association (LFP)

Board member since 1996

Other Board appointments: Board Chairman of LFP and Deputy Chairman of FTF. Board member of Länsförsäkringar AB, Unemployment Fund for the Finance and Insurance Industry and MMS AB.

Regular Auditor

Johan Bäckström

Authorized Public Accountant

KPMG Bohlins AB

Auditor appointed by Finansinspektionen

Lars-Ola Andersson

Authorized Public Accountant

SET Revisionsbyrå AB

Executive Management



From left: Anders Borgcrantz, Mattias Nordin, Tomas Johansson



From left: Johan Nyman, Bengt Jerning, Bengt Clemedtson



Anders Hagensgård

Executive Management

Tomas Johansson, born 1950

President and CEO

Employed since 2000

Anders Borgcrantz, born 1961

Executive Vice President, Representative for the President and Chief Administrative Officer. President, Länsförsäkringar Hypotek AB

Employed since 2003

Bengt Clemedtson, born 1964

Head of Marketing and Business Development

Employed since 2006

(The head of this unit in 2005 was Mona Hagelberg Borg)

Anders Hagensgård, born 1968

Head of Information Department

Employed since 2005

Bengt Jerning, born 1953

Head of Lending

Credit Manager, Länsförsäkringar Bank AB

Employed since 1991

Mattias Nordin, born 1967

Head of Accounting and Business Control

Employed since 2005

Johan Nyman, born 1969

Head of Savings and Payments

Employed since 2001

ADDRESSES

Blekinge Länsförsäkringsbolag

P.O. Box 24
SE-374 21 Karlshamn
Visit: Kyrkogatan 21
Tph: +46 (0)454-30 23 00
Fax: +46 (0)454-105 60
email: info@blekinge.lansforsakringar.se

Dalarnas Försäkringsbolag

P.O. Box 3
SE-791 21 Falun
Visit: Slaggatan 9
Tph: +46 (0)23-930 00
Fax: +46 (0)23-284 87
email: info@dalarnas.se

Länsförsäkringar Älvsborg

P.O. Box 1107
SE-462 28 Vänersborg
Visit: Vallgatan 21
Tph: +46 (0)521-27 30 00
Fax: +46 (0)521-27 32 27
email: info@alvsborg.lansforsakringar.se

Länsförsäkringar Gävleborg

P.O. Box 206
SE-801 03 Gävle
Visit: Slottstorget 3
Tph: +46 (0)26-14 75 00
Fax: +46 (0)26-14 75 19
email: info@gavleborg.lansforsakringar.se

Länsförsäkringar Göinge

P.O. Box 54
SE-281 21 Hässleholm
Visit: Andra Avenyen 14
Tph: +46 (0)451-489 00
Fax: +46 (0)451-156 93
email: info@goinge.lansforsakringar.se

Länsförsäkringar Göteborg och Bohuslän

SE-404 84 Göteborg
Visit: Lilla Bommen 8
Tph: +46 (0)31-63 80 00
Fax: +46 (0)31-63 80 05
email: info@gbg.lansforsakringar.se

Länsförsäkringar Halland

P.O. Box 518
301 80 Halmstad
Visit: Strandgatan 10
Tph: +46 (0)35-15 10 00
Fax: +46 (0)35-10 36 10
email: info@halland.lansforsakringar.se

Länsförsäkringar Jämtland

P.O. Box 367
SE-831 25 Östersund
Visit: Prästgatan 48
Tph: +46 (0)63-19 33 00
Fax: +46 (0)63-10 24 70
email: info@jamtland.lansforsakringar.se

Länsförsäkringar Jönköping

P.O. Box 623
SE-551 18 Jönköping
Visit: Barnarpsgatan 22
Tph: +46 (0)36-19 90 00
Fax: +46 (0)36-19 92 40
email: info@jonkoping.lansforsakringar.se

Länsförsäkringar Kalmar län

P.O. Box 748
SE-391 27 Kalmar
Visit: Smålandsgatan 1
Tph: +46 (0)20-66 11 00
Fax: +46 (0)480-286 50
email: info@kalmar.lansforsakringar.se

Länsförsäkring Kronoberg

P.O. Box 1503
SE-351 15 Växjö
Visit: Kronobergsgatan 10
Tph: +46 (0)470-72 00 00
Fax: +46 (0)470-72 00 01
email: info@kronoberg.lansforsakringar.se

Länsförsäkringar Norrbotten

P.O. Box 937
SE-971 28 Luleå
Visit: Kungsgatan 13
Tph: +46 (0)920-24 25 00
Fax: +46 (0)920 - 22 01 66
email: info@lfn.nu

Länsförsäkringar Skaraborg

P.O. Box 600
SE-541 29 Skövde
Visit: Rådhusgatan 8
Tph: +46 (0)500-77 70 00
Fax: +46 (0)500-77 70 30
email: info@skaraborg.lansforsakringar.se

Länsförsäkringar Stockholm

SE-173 82 Stockholm
Visit: Hemvärnsgatan 9, Solna
Tph: +46 (0)8-562 830 00
Fax: +46 (0)8-562 833 36
email: info@sth.lansforsakringar.se

Länsförsäkringar Södermanland

P.O. Box 147
SE-611 24 Nyköping
Visit: V Storgatan 4
Tph: +46 (0)155-48 40 00
Fax: +46 (0)155-48 41 03
email: info@sodermanland.lansforsakringar.se

Länsförsäkringar Uppsala

P.O. Box 2147
SE-750 02 Uppsala
Visit: Svartbäcksgatan 44
Tph: +46 (0)18-68 55 00
Fax: +46 (0)18-68 55 80
email: info@upsala.lansforsakringar.se

Länsförsäkringar Värmland

P.O. Box 367
SE-651 09 Karlstad
Visit: Köpmannagatan 2 A
Tph 054-775 15 00
Fax: +46 (0)54-775 16 50
email: info@varmland.lansforsakringar.se

Länsförsäkringar Kristianstad

P.O. Box 133
SE-291 22 Kristianstad
Visit: V Storgatan 49
Tph: +46 (0)44-19 62 00
Fax: +46 (0)44-12 06 35
email: info@krstad.lansforsakringar.se

Länsförsäkringar Västerbotten

P.O. Box 153
SE-901 04 Umeå
Visit: Nygatan 19
Tph: +46 (0)90-10 90 00
Fax: +46 (0)90-10 92 29
email: info@vasterbotten.lansforsakringar.se

Länsförsäkringar Västernorrland

P.O. Box 164
SE-871 24 Härnösand
Visit: Stora Torget 3
Tph: +46 (0)611-253 00
Fax: +46 (0)611-22518
email: info@vasternorrland.lansforsakringar.se

Länsförsäkringar Bergslagen

P.O. Box 1046
SE-721 26 Västerås
Visit: Stora Gatan 41
Tph: +46 (0)21-19 01 00
Fax: +46 (0)21-19 01 37
email: info@bergslagen.lansforsakringar.se

Östgöta Brandstodsbolag

P.O. Box 400
SE-581 04 Linköping
Visit: Platensgatan 11
Tph: +46 (0)13-29 00 00
Fax: +46 (0)13-29 06 25
email: info@ostgota.lansforsakringar.se

Länsförsäkringar Gotland

P.O. Box 1224
SE-621 23 Visby
Visit: Österväg 17
Tph: +46 (0)498-28 18 50
Fax: +46 (0)498-24 76 48
email: info@gotland.lansforsakringar.se

Länsförsäkringar Skåne

P.O. Box 742
SE-251 07 Helsingborg
Visit: Södergatan 15
Tph: +46 (0)42-24 90 00
Fax: +46 (0)42-24 94 70
email: info@skane.lansforsakringar.se

JOINT COMPANIES

Länsförsäkringar AB

SE-106 50 Stockholm
Visit: Tegeluddsvägen 11-13
Tph: +46 (0)8-588 400 00
Fax: +46 (0)8-670 48 23
email: info@lansforsakringar.se

Länsförsäkringar Liv

SE-106 50 Stockholm
Visit: Tegeluddsvägen 21
Tph: +46 (0)8-588 400 00
Fax: +46 (0)8-588 408 51
email: info@lansforsakringar.se

Länsförsäkringar Sak

SE-106 50 Stockholm
Visit: Tegeluddsvägen 11-13
Tph: +46 (0)8-588 400 00
Fax: +46 (0)8-588 418 10
email: info@lansforsakringar.se

Länsförsäkringar Bank

SE-106 50 Stockholm
Visit: Tegeluddsvägen 11-13
Tph: +46 (0)8-588 416 00
Fax: +46 (0)8-670 48 37
email: info@lansforsakringar.se

Agria Djurförsäkring

P.O. Box 70306
SE-107 23 Stockholm
Visit: Tegeluddsvägen 11-13
Tph: +46 (0)8-588 421 00
Fax: +46 (0)8-588 421 80
email: info@agria.se

Humlegården Fastigheter AB

P.O. Box 5182
SE-102 44 Stockholm
Visit: Birger Jarlsgatan 25
Tph: +46 (0)8-678 92 00
Fax: +46 (0)8-678 92 99
email: info@humlegarden.se

Länsförsäkringar Mäklarservice

P.O. Box 65
SE-171 74 Solna
Visit: Hemvärnsgatan 9
Tph: +46 (0)8-588 490 00
Fax: +46 (0)8-588 491 90

