

# 2006 Länsförsäkringar Bank

ANNUAL REPORT



# Länsförsäkringar Bank

## Local dynamism, shared muscles

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**LÄNSFÖRSÄKRINGAR BANK** is a wholly owned subsidiary of Länsförsäkringar AB. Operations are conducted through a Parent Company and the three subsidiaries Länsförsäkringar Hypotek, Wasa Kredit and Länsförsäkringar Fondförvaltning.

### Länsförsäkringar Bank AB

Deposits, borrowing and some lending are conducted within the Parent Company. The card and payment operations are also located here. Most of the administration expenses of the Banking Group are in the Parent Company.

### Länsförsäkringar Hypotek AB

Länsförsäkringar Hypotek, the bank's mortgage institution, finances lending for private homes, tenant-owned apartments and leisure homes.

### Wasa Kredit AB

Wasa Kredit is a finance company that conducts leasing and higher purchase 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 62 billion in 30 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.

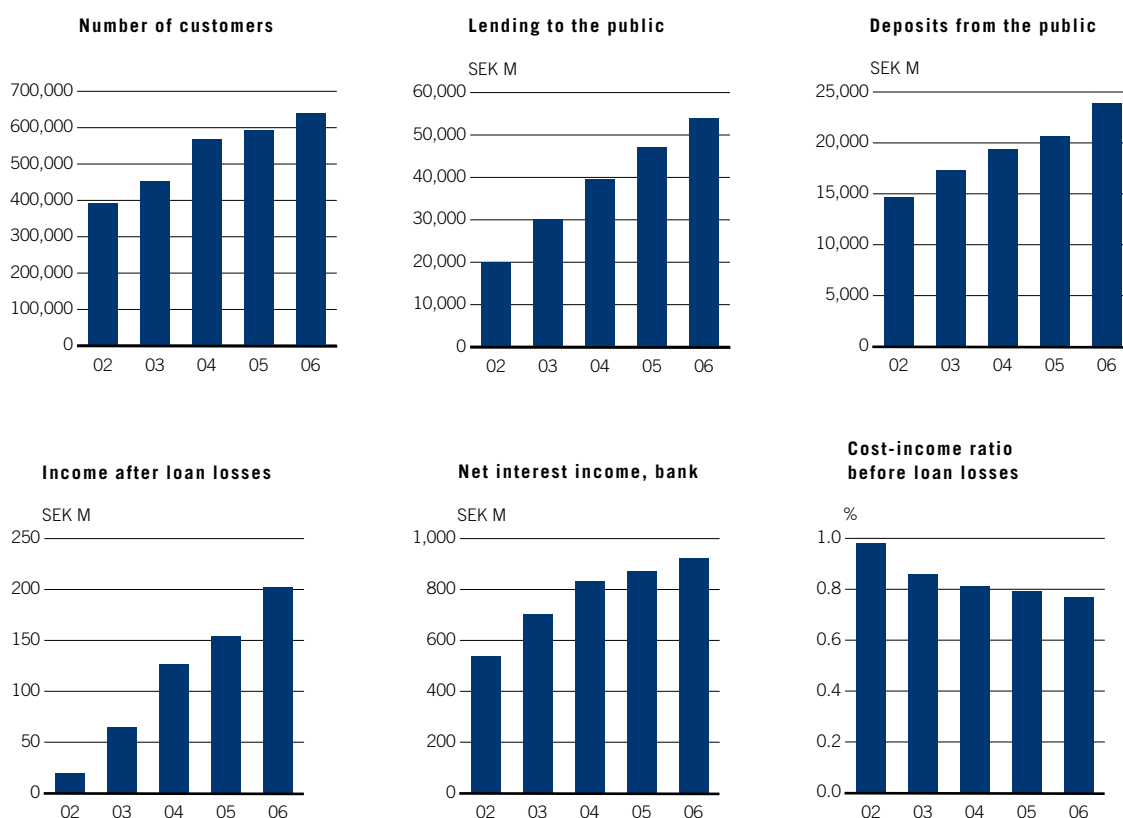


# Länsförsäkringar Bank

## in brief

Länsförsäkringar is a full-service bank with more than 90 offices providing advisory services throughout Sweden. This creates a unique local presence and market knowledge. Customers can also conduct their banking business via the Internet, by telephone and via Svensk Kassaservice (Swedish Cashier Service), pay for their purchases with bank and credit/debit cards, withdraw

cash from the country's ICA supermarkets and use ATMs in Sweden and abroad. The bank directs its services primarily to private individuals and farmers and currently offers a full range of services. The many different service locations give customers substantial freedom to deal with and use the bank on their own terms.



### January

Standard & Poor's upgraded its outlook for the bank from "stable" to "positive."

### February

In a comparison of the prices of different brokers published by the Swedish investment magazine *Privata Affärer*, Länsförsäkringar's brokerage service was named "best" in terms of percentage commission charged.

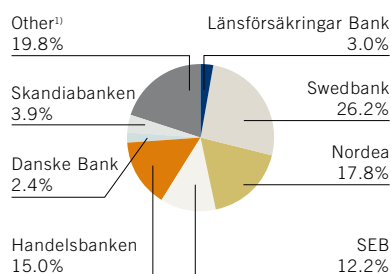
### March

Almost 83% of mortgage customers in Sweden's Norrbotten province prefer variable three-month interest.

### April

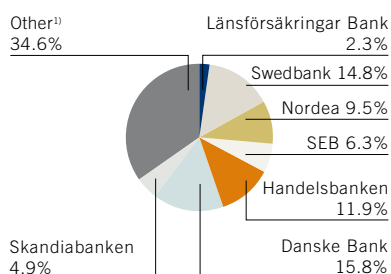
Länsförsäkringar Bank launched third large issue within the Euro Medium Term Note Program (EMTN).

### Market share, deposits from households



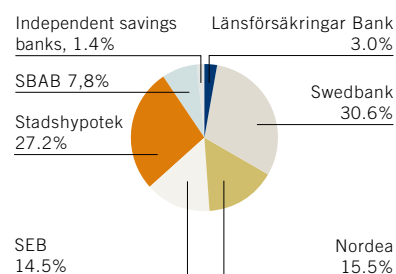
<sup>1)</sup> of which 14.7% refers to independent savings banks

### Market share, lending to households

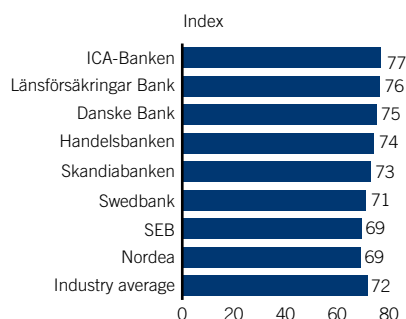


<sup>1)</sup> of which 21.0% refers to independent savings banks

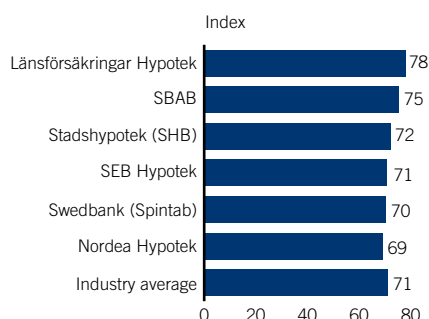
### Market share, mortgage loans, private homes and tenant-owned apartments



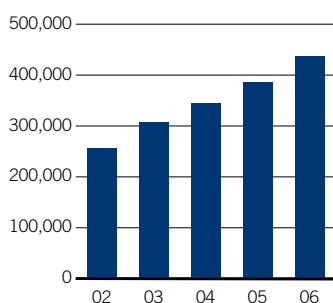
### Customer Satisfaction Index (SKI), banks, retail market



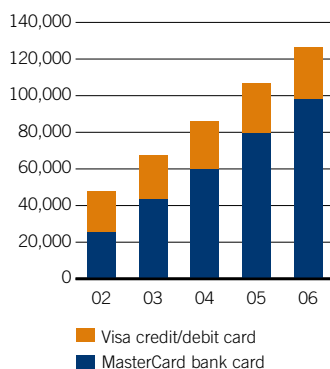
### Customer Satisfaction Index (SKI), mortgage institutions, retail market



### Number of accounts



### Number of cards



### Products

#### Savings

- Personal accounts (salary account)
- Savings accounts
- Fixed-interest accounts
- Internet share trading
- Direct savings in funds
- Savings products for farmers
- Stock index bonds

#### Payments

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

#### Lending

- Mortgages
- Unsecured loans
- Loans to farmers
- Leasing
- Higher purchase
- Overdraft facilities

### May

Launch of "The Insured Family."  
A new type of survivor benefits.

### June

Länsförsäkringar launches a completely new Internet loan application procedure.

### July

At the end of July, 65,000 of Länsförsäkringar's mutual fund customers received the six-month interim report, "Our mutual funds."

### August

Now, when mutual fund customers sell unit-linked shares, they need only wait one day for their cash.

# 2006

## in brief

### Key events

- In October 2006, the Swedish Quality Index (SKI) showed that Länsförsäkringar Bank's private customers are more satisfied than the private customers of many other banks.
- Seven of Länsförsäkringar's mutual funds were upgraded by the Morningstar rating institute, which ranks Länsförsäkringar among the top players in the industry.
- During the autumn, Länsförsäkringar Bank implemented a number of process improvements that use IT to support and enhance the efficiency of customer meetings. With Internet banking, it is now fully possible for customers to manage their everyday banking needs at any time of the day or night.
- On December 18, the Swedish Financial Supervisory Authority (Finansinspektionen) announced its approval of Länsförsäkringar's internal ratings based approach, within the framework of Basel II.
- In January 2006, Standard & Poor's upgraded the bank's outlook from "stable" to "positive."
- On September 27, the subsidiary Länsförsäkringar Hypotek submitted its application to Finansinspektionen regarding permission to issue secured bonds.

### Financial summary

- Operating income before loan losses amounted to SEK 238 M (203) and SEK 201 M (154) after loan losses. Income includes a nonrecurring item of SEK 23 M pertaining to the sale of previously amortized receivables in Wasa Kredit.
- Revenue rose 8% to SEK 1,025 M (953) and administration expenses rose 5% to SEK 787 M (751). The expenses include a nonrecurring item of SEK 13 M pertaining to pension provisions.
- Net interest income rose 6% and amounted to SEK 922 M (873).
- The cost-income ratio declined to 0.77 (0.79).

- Loan losses remained low, amounting to SEK 37 M (49).
- An unconditional shareholder contribution totaling SEK 300 M was received.
- Return on equity after standard tax was 4.6% (4.1).
- Lending to the public increased by 14% to SEK 54 billion (47).
- Deposits from the public increased by 15% to SEK 24 billion (21).
- Mortgage lending by the subsidiary Länsförsäkringar Hypotek rose by 18% to SEK 37 billion (31).
- The number of customers increased by 10% to 640,000.

Key figures	2006	2005	2004	2003	2002
<b>Group</b>					
Return on equity, %	4.61	4.07	4.30	2.98	1.30
Return on total capital	0.35	0.43	0.33	0.24	0.11
Investment margin, %	1.62	1.85	2.18	2.59	3.01
Interest margin, %	1.46	1.69	2.02	2.37	2.82
Cost-income ratio before loan losses	0.77	0.79	0.81	0.86	0.98
Cost-income ratio after loan losses	0.80	0.84	0.86	0.92	1.01
Capital adequacy ratio, %	10.59	11.28	11.37	13.00	8.08
Tier 1 ratio, %	8.61	9.02	9.00	9.95	7.45
Percentage of doubtful receivables, net %	0.07	0.05	0.15	0.12	0.18
Percentage of doubtful receivables, gross %	0.46	0.52	0.63	0.69	0.91
Provision ratio for doubtful receivables, %	84.72	91.02	76.33	83.14	83.35

#### September

The "New account" function in Internet banking had its debut on September 19.

#### October

Länsförsäkringar Bank held its first Capital Market Day on October 9. More than 40 analysts and investors participated in the day's events.

#### November

Länsförsäkringar launched a historic bond on November 24. It was the first time in more than 20 years that a new player entered the Swedish market for liquid mortgage bonds.

#### December

Finansinspektionen approved Länsförsäkringar Bank's calculation of capital adequacy for credit risk in accordance with the Internal Ratings-based Approach (IRB approach).

# Statement by the President

## 2006 – A year of deliveries

Fiscal year 2006 was a successful year for the banking operations.

We continued to grow, in volume, earnings and profitability. We did so amidst steadily increasing competition from Swedish and international competitors and ongoing migration between the banking and insurance industries.

**WE INCREASED OUR** business volume by SEK 18 billion, from SEK 121 billion to SEK 139 billion, and operating income rose by 30% to SEK 201 M. Our lending grew by a full 14% and deposits by 15%, so we have good reason to say that 2006 was a year of deliveries for Länsförsäkringar Bank.

But we did not only deliver strong results. Never before have we delivered so much new support to the most important element in our industry – the meeting with the customer. We successfully implemented about 20 major changes and improvements, involving better processes, system support and Internet applications. This makes it easier for large and small customers to take advantage of our services and grow as we grow – and for those who are not already our customers to become our customers. This is particularly important, given that a fear of complications is often what keeps a customer

from switching to a new bank, even if it is the better alternative.

Technology is not everything, but in this case, we can safely say that we have taken a giant stride forward and that in 2006 we became, to a large extent, an entirely new bank, compared with 2005.

### **Satisfied customers**

For us, deliveries mean more than just satisfied customers and greater opportunities to reach new customers – they also mean more cost-effective processes and, consequently, strengthened competitiveness, which is a precondition of our continued growth. We know our customers are satisfied. In autumn 2006, the Swedish Quality Index showed that Länsförsäkringar has highly satisfied bank customers in the private market. For the third consecutive year, we are at the top of the list as regards key issues such as product quality, service quality and value for money, and our rating is well above the industry average. We are also the bank with the narrowest gap between what customers expect to receive and what they feel they do receive. This is of course very encouraging for all of us working in the banking operations.

We also note that we continue to receive strong confidence from the capital market. During the year, Standard & Poor's upgraded its outlook for the bank from "stable" to "positive." Accordingly, we received a long-term credit rating of A- positive. This is extremely important to us in our borrowing activities. The rating institute stressed our strategic impor-

tance for the entire Länsförsäkringar Alliance, the owners' strong commitment and our favorable performance – factors that have been strengthened during the year.

### **Mutual fund success**

Our mutual funds also obtained a higher rating. During the year, the independent rating institute Morningstar upgraded seven of our funds, so the average rating for all the funds rose from three stars to four.

### **Strong player**

In a difficult market, we stand strong. In slightly less than five years, we have gone from niche bank to full-service bank to being the sixth largest bank in Sweden. It has taken time and energy. During the journey, we have developed a role with clearly defined tasks – to be the engine of growth in the Länsförsäkringar Alliance, the key interface with customers in the private market and the agent that attracts new customers.

We are now a fully viable alternative to the large banks, and we will continue to challenge them in terms of service, prices and conditions. In the contest to customers, the Länsförsäkringar Alliance has unique competitive advantages. The total offering – non-life insurance, life assurance and banking – enables us to meet all the customer's needs, in that we can deliver simplicity and financial security in a single package. Moreover, our organization affords us strong local focus, which leads to a high level of knowledge about local conditions and markets.



2007 will be an exciting year. Provided Finansinspektionen grants us permission, we will begin to issue covered bonds. Our aim is to achieve an AAA rating for this funding program.

However, we took the first step toward covered bonds back in autumn 2006, by issuing a new housing bond in the market. It was successful and enabled us to dramatically reduce our funding costs.

We will begin to implement two new sets of regulations – Basel II, which concerns the calculation of credit risk, and IFRS, the new international financial reporting standard – in our banking operations.

### **New map**

For the Swedish banking industry, we note that the map has been redrawn. All of the four large banks have Sweden, the Nordic countries and the Baltic countries as their spheres of interest, and may well have further international expansion in their sights. There are also national niche players and some foreign players now entering the market, and all of them have the same focus. They are all moving from a product orientation to a customer orientation, and they are all aiming for the simple, straightforward customer meeting and on creating logical products – that is, products the customer can easily understand. Consequently, the Swedish banks are becoming increasingly alike in their products and deliveries.

At the same time, customers' knowledge and demands have increased – they are demanding better conditions and

prices, and greater clarity, in products and services. Households' balance sheets, while still at a reasonable level, are growing. As customers' borrowing increases, so do the values that need to be protected – and that security has to come from us, the market players.

The future lies in the customer meeting, in our communications and in our relationships with our customers. That is where the battle will be fought. The player that can meet the customer in the right manner and in the right place is the one that will be successful. Since it is customers who will decide how the market develops, our infrastructure – our offices and Internet presence – is extremely important. Here, everything is transparent, and all service must be available. The Internet is also the most local channel there is, in that it is right in the customer's living room. It is difficult to be closer to the customer than that. Just one example: when we launched the new account function on our Internet site, 1,000 new accounts were opened in 14 days. Infrastructure can be used to generate local activity and to complement our 90 or more advisory branch offices.


### **Our strategy is firm**

Six years ago, we revised our strategy to meet the challenges we saw. In 2006, this strategy was further sharpened and it is now the foundation for our operations in 2007. We reinforced it with new technology and new processes, but our basic approach remains firm. Our customers

can be found among private banking customers and agricultural customers. Länsförsäkringar's aggregate customer base, combined with its strong, well-known brand, represent solid potential for continuing growth.

In the year and the years ahead, we shall continue to utilize the full range of our offering and make it even more clear. Länsförsäkringar Bank has no plans to become a ranking international player in any area. We belong in Sweden and this is where we are strongest. We are gathering strength around our core areas – in knowledge as well as in physical presence. Our role is that of the safe, straightforward and down-to-earth alternative with excellent service

Stockholm, March 2007



Tomas Johansson  
*President*



# Vision, business concept, goals and strategies

## The logical choice for banking and insurance

### Vision and business concept

Länsförsäkringar aims to be the logical first choice for non-life insurance, life assurance and banking. This is the vision that the entire Länsförsäkringar Alliance collectively strives to realize. In this endeavor, the banking operations play a key role. The business concept for the banking operations is based on offering reasonably priced bank services to private individuals and farmers.

### Market strategies

The market strategy is based on the core values of customer ownership, localness, accessibility, presence and the personal approach. The aim is that customers will see a clear added value in letting the Länsförsäkringar Alliance meet all of their bank and insurance needs.

### Overall aims

- Profitable growth.
- The most satisfied customers.

### Growth

Growth should occur primarily through increased customer involvement. Basically this means that customers in one core business, life assurance for example, purchase products from another core business, mortgages for example, and become

### Strategy

Increased customer involvement and more regular customers through greater customer orientation.

### Success factors

- The customer-owned and the local concept
- Total approach of the customer meeting
- Value for money
- Offerings adapted to the life-cycle
- Event-based communications

### Strategic market objectives

Profitable growth  
and  
The Most Satisfied  
Customers



The Summary Statement details private customers' commitments with Länsförsäkringar.



regular customers. Customer commitment can also be increased by persuading a customer to purchase more products in the same core business.

Growth through increased customer involvement is cost-effective and leads to enhanced profitability. The advantages of regular customers are that they are loyal and that they have lower claims outcomes and higher satisfaction than other customers. Increased customer involvement also

enhances the customer relationship in that it leads to more and more long-term transactions and interaction.

#### **Strategic target groups for the banking operations**

The strategic target groups are selected based on their strong need of products from the entire product portfolio, making them particularly attractive as potential regular customers.

#### **The strategic target groups for the banking operations are**

- Homeowners – private individuals in Sweden who own a private home or tenant-owned apartment, and their families.
- Farmers – all agricultural operations in Sweden.



# Länsförsäkringar Alliance in brief

The Länsförsäkringar Alliance comprises 24 regional, independent and customer-owned insurance companies that cooperate through the jointly owned Länsförsäkringar AB and its subsidiaries.

Länsförsäkringar offers a broad range of insurance, pension solutions, banking services and other financial solutions, for corporate customers and private individuals. The total number of customers exceeds three million and the Länsförsäkringar Alliance has a total of 5,500 employees.

The regional insurance companies are responsible for customers. They manage all sales of the Group's banking and insurance services. The regional insurance companies are located near the customers, so they can more easily provide rapid, relevant and personal service – not just when the customer wants to open a bank account, purchase insurance or invest in mutual funds, but also when an accident or other damage has occurred. The regional insurance companies are mutual – that is,

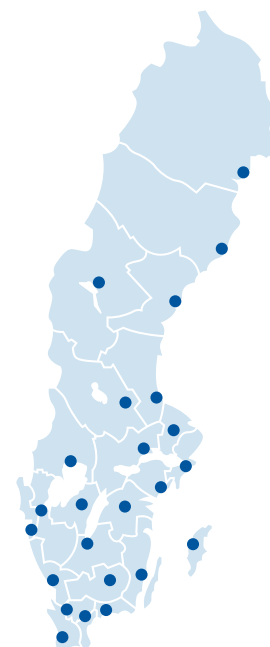
they are owned by their customers, implying that part of the surplus can be returned to the customers in the form of a bonus.

## Länsförsäkringar AB

Länsförsäkringar AB is the link that holds the Länsförsäkringar Alliance together and is its financial hub. It is Länsförsäkringar AB's task to create the conditions for the regional insurance companies to be successful in their respective markets. Länsförsäkringar AB is in charge of the development of the Länsförsäkringar Alliance and controls the joint operations in banking, mutual funds, non-life, life and animal insurance, as well as in run-off.

Länsförsäkringar AB is a group owned by the 24 regional insurance companies. The company leads and coordinates joint strategic activities, IT development and development activities.

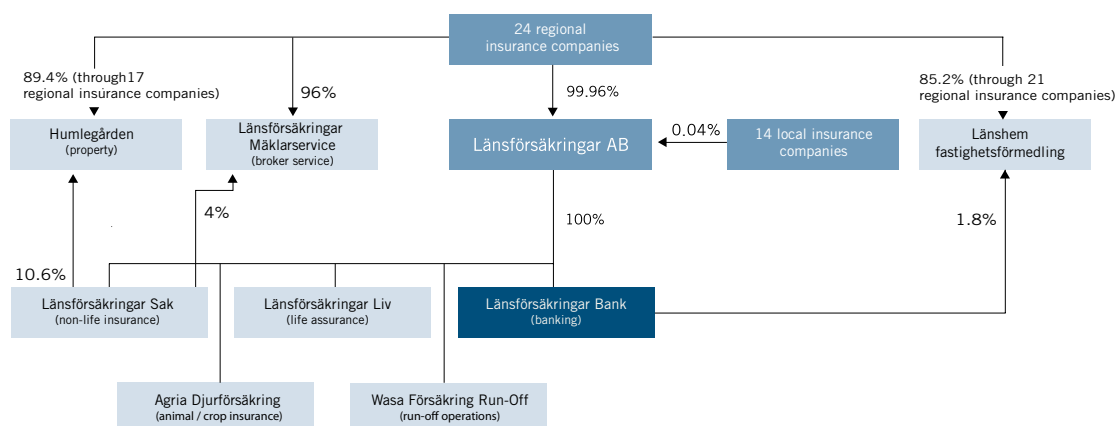
This assignment also includes providing service to the regional insurance companies within a number of areas and ensuring there is a joint reinsurance solution in place for the regional insurance companies.



## The local concept

The company's success is proof of the strength in cooperation among local, independent and customer-owned companies. The basic ideas are the same they were as at the start in 1801, but they have developed and been adapted to current circumstances and are still valid.

Regardless of where the legal commercial responsibility lies, in addition to being local non-life insurance companies, the regional insurance companies also operate as life-assurance companies and banks. In other words, operations are conducted in life assurance, accident insurance, industrial insurance, animal insurance and reinsurance, as well as in banking and mutual funds.



# Economic environment

## Robust global growth ongoing

From a global perspective, the extremely robust trend of the world economy continued in 2006, as in the preceding year, although a slight tapering-off from a high level was discernible in the American economy, which is the engine of the world economy. After some turbulence in the stock markets in May and June, the situation quickly stabilized.



### Asia still in high gear

In Asia, China continued to pull the economy with growth of approximately 10%. The enormous industrial forward thrust is apparently ongoing and there is no sign of weakening demand. On the contrary, the authorities are now trying to dampen the rapid trend somewhat. The weak Japanese economy also showed signs of recovery after many years of problems with deflation and a negative price trend.

### Slight slowdown in the US

The ongoing trend toward globalization, involving increased competition, intense price pressure, high growth and low inflation combined with low real interest rates, was unbroken. Concern for overheating in the American economy has to date proven to be unfounded, and the slowing of the growth rate observed in the second half of 2006 was favorably received by the financial market. The interest-rate cycle in the

US is believed to have peaked and the trend remains favorable, for both business and households.

The level of employment was high, since American industry was operating close to its capacity ceiling, meaning that new investments are now required. The interest-rate hikes implemented to date by the Federal Reserve have also contributed to a certain cooling-off in the American housing market, which could spread to



consumption, thus affecting GDP growth. However, this should in no way be over-dramatized. Another source of concern of a more underlying nature is the basic systemic imbalance resulting from the gigantic savings deficit of the American economy – a problem that, however, is neither new nor unknown.

### Acceleration in the European economy

In 2006, when US interest rates peaked, the European Central Bank (ECB) and the Bank of Sweden moved even closer to American interest rate levels. Europe experienced strong growth and is now about one year behind the US in the business cycle. The trend will probably continue toward higher employment figures and also higher interest rates within the EMU, probably even more so in Sweden, where growth is currently believed to be stronger than in the rest of Europe.

It is generally believed, however, that there will be slight increases in interest rates, while inflation levels remain modest. Inflation has not spread and increased demand has not yet been followed by price increases. This makes it difficult to implement major interest rate increases, although gradual adjustment toward EMU

and US levels is occurring. However, there is built-in risk in the labor-market's wage negotiation process for 2007, since in 2006 there were already signs of high salary demands ahead, which could contribute upward pressure on inflation.

The trend within the EMU was favorable and all indicators point to an ongoing strong trend for the Swedish economy and for the Swedish krona.

### Strong Swedish trend

The year 2006 will go down in history as a year of record growth approaching 5%. There are few factors that might impede Swedish growth in 2007 as well. Expect a few more years of strong growth. Employment is expected to continue to grow in 2007, which in turn will lead to better household incomes. Tax relief measures announced by the new Government after the election will probably also contribute to an even better economy for Swedish households. This differs to a certain extent from the EMU, where several countries have announced VAT increases for the year ahead.

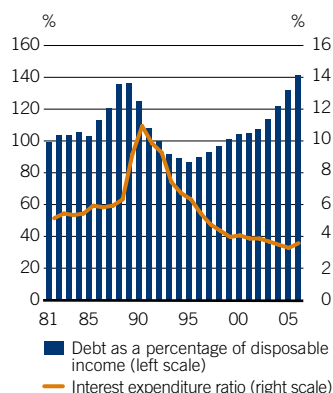
Household debt relative to net worth continued to increase in 2006. While Swedish companies, on the one hand,

have historically low or extremely low levels of debt, continue to improve their balance sheets, and show caution regarding new investments, households on the other hand have utilized their greater financial room for various types of consumption – from house renovation to purchasing capital goods. Since real interest rates are so historically low, Swedish households' total resources have relatively good margins for investment and savings. However, disposable incomes are expected to continue to rise.

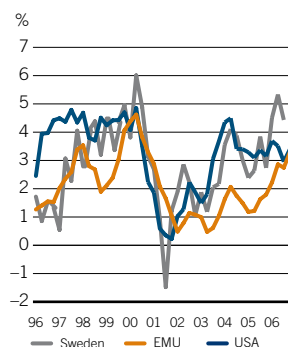
### Stronger krona

After a sharp deterioration in 2005, the Swedish krona made a strong recovery in 2006, compared with both the euro and the US dollar. The currency market has been characterized, above all, by variations in interest rates. Investors have prioritized returns in whatever country has the highest interest rate – a trend that has long favored the dollar. Now that the gap between European and American key interest rates has narrowed, the euro and the krona are favored instead. Swedes who have invested in foreign mutual funds have seen their returns consumed by the relative weakening of the exchange

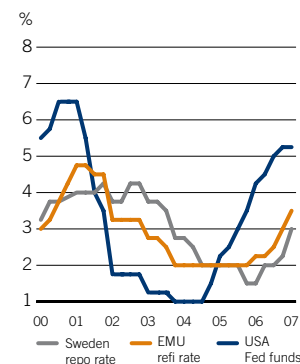
**Household debt and interest expense**



**GDP growth (annual percentage change)**



**Key interest rates**







rate, even though growth in the local currency has been strong.

Since the business climate is currently favorable for acquisitions, the krona may be further strengthened by the recently announced impending sale of state-owned

companies. If these sales are carried out, foreign capital will probably flow into Sweden. For the krona, this would be particularly favorable, since the Government intends to apply the proceeds of a sale to pay down the deficit. The cancellation of

wealth tax also implies that capital will remain in the country to a greater extent, instead of being transferred abroad.

While the krona could appreciate further, the first strengthening occurred in 2006.



# Economic environment

## Banking market

Länsförsäkringar is a full-service bank whose task is to act as a challenger in the Swedish bank market. Länsförsäkringar directs its services primarily to private individuals and farmers. The most important markets are the savings market and the mortgage market.

### Savings market

The net wealth of Swedish households amounted to SEK 6,403 billion in 2006. Länsförsäkringar's market share in the savings market was almost 5%. Growth was strong in the deposit market due to the fact that savings customers reinvested capital from funds to bank accounts. Länsförsäkringar's volumes increased. The market share of household deposits in Sweden amounted to 3%.

The customer trend in secure forms of savings led to an upturn in structured products. The outstanding amount of stock index bonds was SEK 114 billion and to total sales in the Swedish market rose by 42%. In order to meet customer demands, Länsförsäkringar commenced the continuous offering of a competitive range of stock index bonds to customers in September 2006. Sales surpassed expectations.

Fund saving in 2006 compared with the preceding year displayed low interest in long-term fixed-income funds and greater interest in, for example, hedge funds. Interest in short-term fixed-income funds increased while savings in equity funds declined.

Länsförsäkringar has a positive net flow during the year. The market share of the net flow was almost 3.6%. The total market share was 3.9%. The highest returns among Länsförsäkringar's funds

were generated by the Real Estate Fund with 43.2% and the Small Company Fund with 36.2%. The Japan Fund has the lowest return at negative 12.2%.

#### DEPOSITS TO THE PUBLIC

Market share in Sweden, %	2006
Swedbank	26.17
Nordea	17.85
SHB	15.00
SEB	12.24
SkandiaBanken	3.53
Länsförsäkringar	3.03
Danske Bank	2.36
ICA	0.94
IKANO	0.79
Others	18.09

#### SAVINGS

Market share in Sweden, %	2006	2005
Swedbank	14.2	14.2
SEB	13.0	13.0
Handelsbanken	11.0	11.0
Skandia	10.2	10.5
Alecta	10.1	10.2
Nordea	8.3	8.4
AMF	7.3	7.3
Länsförsäkringar	4.7	4.7

### Mortgage lending

The total mortgage market continued to increase during 2006. Mortgage loans increased by SEK 126 billion during the year.

Slightly less than 90% of lending to Swedish households refers to mortgage loans.

The market for mortgage loans for private homes and tenant-owned apartments was characterized by intensified competition and pricing pressure. Since the foundation of its own mortgage-loan operations in 2001, Länsförsäkringar has been an important player who has contributed to today's competitive situation. A consequence of this is the increasing lower prices and a higher degree of product development. All of the large banks have reduced their list prices to better meet competition. Länsförsäkringar increased its volumes by 18% during the year and the market share in the private market in Sweden was 3%. In terms of new sales, the market share was almost 5%.

Despite increasing interest rates during the year, housing prices continued to rise. Prices of private homes increased by an average of 7% and prices for tenant-owned apartments increased by 10%.

However, in line with rising interest rates, an increasing number of players actively marketed different forms of interest-rate caps. The increasingly tough competitive climate also contributed to the many players offering customers different forms of improved conditions and lower prices, including special mortgage pledges and different types of discounts.

#### MORTGAGE LENDING, RETAIL MARKET, PRIVATE HOMES AND TENANT-OWNED APARTMENTS

Market share in Sweden, %	2006
SPINTAB	30.63
Stadshypotek	27.22
Nordea Hypotek	15.47
SEB Bolån	14.51
SBAB	7.85
Länsförsäkringar Hypotek	3.00
Frispar Bolån	1.39



### Continued industry migration

The Swedish banking market is concentrated with four banks controlling almost 80% of the market. Länsförsäkringar is one of the players that is a serious challenger to this quartet and is capturing market shares. The market may appear to be mature but in pace with industry migration between banking and insurance intensifying, the bank map is being redrawn. Tough competition and greater transparency has resulted in customers driving developments in the bank market. All large banks currently have operations in the life-assurance area and many of the large insurance companies have their own banks. Länsförsäkringar was one of the first players to offer a total range of bank and insurance services in 1996. During the year, it became clear that players competing solely on the basis of price suffered difficulties in the market and lost market shares. Players offering a total range of services, either in savings or in bank and insurance services, captured market shares instead.

Another factor affecting changes in the bank market was the fact that bank customers use the Internet in their contact with the bank to a far greater extent. This

new technology is paving the way for challengers and increasing competition in the bank market.

### Swedish households – Most satisfied with the banking industry

The banking industry is the industry with which households are most satisfied of all industries in Sweden, according to statistics from the Swedish Quality Index. Customer satisfaction in the private market continued to improve during the year. The industry average rose from 70.4 to 71.8. Länsförsäkringar received the rating of 76.4 and was again ranked at the very top of the survey.

The Swedish Quality Index surveys and analyses a large number of aspects associated with customer relations to the bank. Image, expectations, product quality, service quality and value for money are surveyed as background factors. Länsförsäkringar is among the top in all categories.





# Customers and customer meetings

## Banking operations the key to the customer meeting

**IT IS IN THE CUSTOMER MEETING** that Länsförsäkringar must distinguish itself from the others. The total offering is the starting point for the customer meeting. The idea is to start with the customer's total requirements and explain the benefits of combining banking and insurance. This means customers receive an overview of their entire purchasing in an annual statement and on the Internet. They also receive offerings in conjunction with their contacts with their regional insurance company, leading them to expand the scope of their involvement.

All customer meetings must be at least equal, from the customer's perspective, to those of the most important competitor in terms of functionality, better in terms of availability and have higher quality than that of the most important competitor.

### Advice

Länsförsäkringar's customers should have contact with the same advisor for their

banking as for their insurance issues. This ensures that Länsförsäkringar uses its unique competitive advantage to satisfy the customer's requirements in banking and insurance.

During the past year, a joint project has been under way within the Länsförsäkringar Alliance, the purpose of which is to make advisors responsible for regular customers represent Länsförsäkringar and the total offering.

### Digital deliveries strengthen customer meetings

Länsförsäkringar Bank must be equally strong in all customer meetings. It is not sufficient to focus solely on the personal meeting. Consequently, in 2006, full Internet sales functionality was implemented. These services enable the customer to borrow money, manage their savings and make payments, round the clock, seven days a week. This entails an effi-

ciency enhancement and increase in availability of up to 100%, in comparison with the previous manual processing of these customers and products.

During the year, the personal bank-meeting was also made more efficient. In an initial estimate, the enhancement of efficiency in the customer meeting at the branch amounts to 50%. In other words, it is considerably simpler to help the customer switch banks. This efficiency-enhancement creates opportunities for wider sales, primarily of borrowing, savings and payment products all during the same meeting. It also frees up time that can be used to reinforce sales efforts.

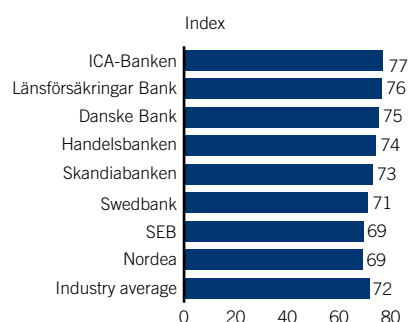
### Swedish masters of customer satisfaction

The results of the Swedish Quality Index for the banking industry were announced on October 2, 2006. The

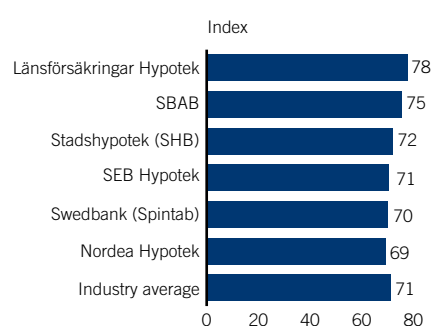
#### Availability

- 24 local bank and insurance companies
- Over 90 advisory branches throughout Sweden
- Bank services provided by Internet and telephone
- The Post Office/Swedish Cashier Service – 500 offices and 2,500 rural letter-carriers nationwide
- Cash withdrawals at 1,400 ICA supermarkets
- All national and international ATMs

#### Customer Satisfaction Index banks, retail



#### Customer Satisfaction Index mortgage institutions, retail



survey measures customers' satisfaction with their banks. Once again, Länsförsäkringar Bank was among the top-ranked contenders. Länsförsäkringar came second, just after ICA-Banken. Satisfaction among Länsförsäkringar's bank customers increased for the third consecutive year and is 4.6 units better than the industry average.

Länsförsäkringar is at the top in all categories, which include image, expectations, product quality, service quality and value for money. Länsförsäkringar is also the bank that has the narrowest gap between what its customers expect and what they feel they receive.

This is the third consecutive year that the Swedish Quality Index has shown that the customers of Länsförsäkringar Bank are more satisfied than the customers of most other banks. In both 2004 and 2005, Länsförsäkringar was at the top of the table for customer satisfaction.

For the second year in a row, the Swedish Quality Index has also shown that Länsförsäkringar's mortgage customers are more satisfied than the customers of other mortgage institutions in the private market. Länsförsäkringar received the total rating of 77.9, which is considerably higher than the average for the industry as a whole, which is 71.1.

### More customers with broader commitments

- In 2006, the percentage of customers involved in all three core areas of business rose by approximately 10%
- 22% of the customers have purchased at least one product in two of Länsförsäkringar's three core areas of business
- 4% of the customers are involved in all three core areas of business
- The percentage of bank customers using Länsförsäkringar's daily banking services rose by over 30%.
- More than 15% of Länsförsäkringar's private customers are bank customers.
- 65% of the bank customers have also made purchases in non-life insurance or life assurance.

### Real-estate brokers an increasingly important distribution channel

#### – Länshem

Buying or selling one's home can be one of the largest transactions in a person's life. The enormous significance of the real estate transaction for people's personal finances also brings a number of other commercial events into the spotlight. These changes in people's personal financial situation include choosing a bank, an insurer for the residential property, and savings and pension solutions. In these

discussions, the real-estate broker often develops a close relationship with the customer at an early stage.

In light of these considerations, during the year Länsförsäkringar Bank decided to become a partner in Länshem Fastighetsförmedling. Länshem is owned by the regional insurance companies, Länsförsäkringar AB and Länsförsäkringar Bank.

In 2006, Länshem's successful concept was launched in Sweden on a broad front. With its 15 offices and 1,200 sales closed, involving homes, leisure homes and tenant-owned apartments, Länshem is one of the leading real-estate brokerages in Skåne. Länshem was started by Länsförsäkringar Skåne. The basic premise was to make the exchange to a new home as secure as possible for both the buyer and the seller, by offering a complete range of financial and insurance products.

The company is expanding through the launch, by some regional insurance companies, of a joint service and development company: Länshem Fastighetsförmedling AB. This company will convey the Länshem concept to the regional insurance companies that have decided to launch local real-estate brokerage operations.

### Average customer of Länsförsäkringar Bank

The average age of a Länsförsäkringar bank customer is 48 – two years older than the average customer of other banks. Länsförsäkringar's average bank customer has a higher income than customers of other banks:

Customer type	Average income, SEK
Länsförsäkringar Bank customer	21,400
Others	17,900

Percentage of university-educated customers is somewhat higher among Länsförsäkringar's bank customers.

Education level	Länsförsäkringar Bank customer	Others
Primary school	24 %	29 %
Secondary school	37 %	39 %
University	39 %	32 %

A larger proportion of the customers of Länsförsäkringar Bank live in a house or a terrace houses, compared with the customers of the other banks. The percentage of customers residing in a rental apartment, however, is lower.

Type of housing	Länsförsäkringar Bank customer	Others
Rental apartment	16 %	29 %
House/terrace houses	59 %	47 %
Tenant-owned apartment	13 %	15 %
Other forms of housing	12 %	9 %

At the same time, the average tax assessment value of houses owned by Länsförsäkringar's bank customers is higher.

Customer type	Average amount, SEK tax assessment value
Länsförsäkringar customer	1,062,000
Others	984,000

# Lending

## Continued strong demand

### Total offering comprising three parts

Länsförsäkringar offers a complete range of services in lending, savings and payments. Together, these parts form the total offering with competitive prices and attractive terms and conditions. From a bank perspective, this total offering is the foundation on which other parts of the offering can be built.

The market was characterized by a price war in the mortgage market. Rises in interest rates by the Bank of Sweden also made their mark on the market. Despite increased uncertainty in the interest-rate market, demand remained strong. Customers took loans primarily for residential properties, although the proportion of consumption credits also increased. Länsförsäkringar's growth was healthy and the market share for lending to private homes and tenant-owned apartments increased to 3.0% during the year.

### Offering

Länsförsäkringar Bank offers mortgage loans for private homes, tenant-owned apartments and leisure homes, overdraft facilities and loans to farmers. Up to 75% of the market value of residential properties is carried by the subsidiary Länsförsäkringar Hypotek and the remainder by the bank. Efficient processing of loans ensures that the bank remains successful and competitive. The work with improving the loan application process continued during the year. In June 2006, a new service was launched that simplifies the loan application process for customers and involves fewer stages before the application is completed. The application is assessed efficiently and swift feedback is provided to customers. A total of 30% of the total number of loan applications are made via the Internet.

### Growth and loan quality

Total lending rose by 14% and amounted to SEK 54 billion. The market share of lending to households remained unchanged at 2.3%. Mortgage lending increased from SEK 31 billion to SEK 37 billion and the market share rose from 2.9% to 3.0%. The number of customers increased to 90,500.

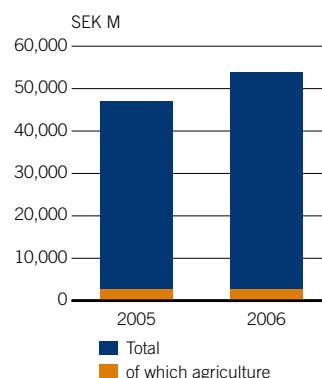
Loan quality remained high in 2006. Loans losses were low and amounted to SEK 39 M. High loan quality is based on a careful risk assessment of each loan application. Two thirds of lending to private individuals refers to mortgage loans. Unsecured lending to private individuals accounted for 6% of lending. A total of 5% of the loan stock comprised loans to farmers. In terms of the total number of loans, almost 90% are less than SEK 500,000. The loan stock has a very broad geographical spread.

### Products

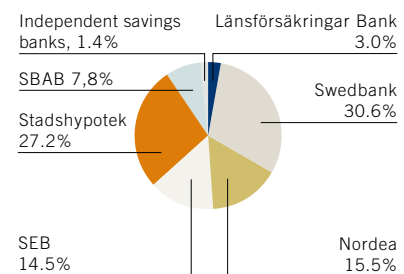
#### Lending

- Mortgage loans
- Unsecured loans
- Overdraft facilities
- Loans to farmers
- Leasing
- Higher purchase

Lending per segment

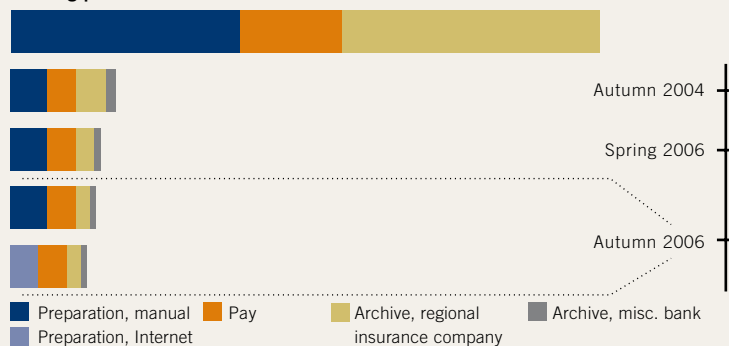


Market share of mortgage loans, private homes and tenant-owned apartments



## Loan process

### Starting point



### The following time gains were generated in 2006

- Preparation, minus 25% .
- Archiving, minus 22%.
- Entire process, minus 16% and since 2002, minus 87%.

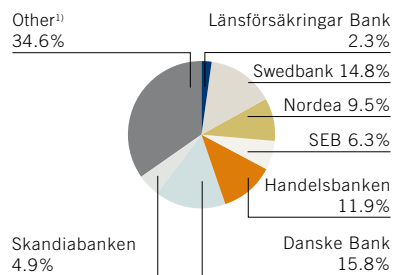
### Fixed-interest periods in the loan stock at different points in time, %.

	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06
Variable	45	37	66	54	52
1 year	8	9	7	2	3
2 years	15	22	9	8	11
> 2 years	32	32	18	36	34

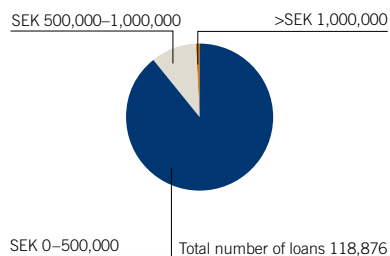
### Fixed-interest periods during the year, %.

	Mar 06	Jun 06	Sep 06	Dec 06
Variable	69	69	65	52
1 year	2	2	2	3
2 years	8	8	8	11
3 years	8	8	8	11
4 years	2	2	2	4
5 years	9	8	12	15
> 5 years	3	2	2	5

### Market share, bank lending to households



### Lending specified by amount Bank, December 31, 2006



### Lending

- Total lending increased by 14% to SEK 54 billion.
- Mortgage lending increased from SEK 31 billion to SEK 37 billion.
- The market share of lending to private homes and tenant-owned apartments rose to 3%.
- Two third of lending to private individuals pertains to mortgage loans.

<sup>1)</sup> of which 21.0% refers to independent savings banks



## Savings

# Substantial volume increase

Despite low interest rates and high lending, it is clear that savings, both in the long term and short term, are becoming increasingly important to Swedish consumers. Länsförsäkring's volumes continued to increase during the year. Deposits rose by 15% to SEK 24 billion.

### Länsförsäkringar's offering

The offering focuses on the short and medium-term perspective, that is to say fixed-income, equity and fund savings. These areas can then be supplemented with long-term pension savings.

The product offering comprises deposit products such as savings accounts, personal accounts and fixed-interest accounts with different terms, share trading and securities deposits. A number of stock index bonds were also launched in the autumn. 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.

### Rising volumes

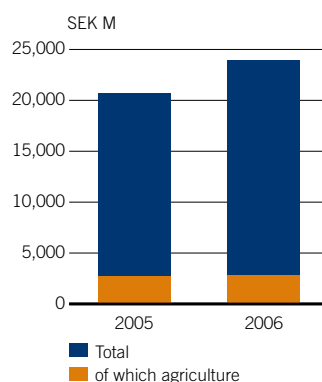
Growth in volumes remained favorable in 2006. Deposits increased by 15% to SEK 24 billion and the market share, measured in deposits from households, amounted to 3.0%. The number of accounts contin-

### Products

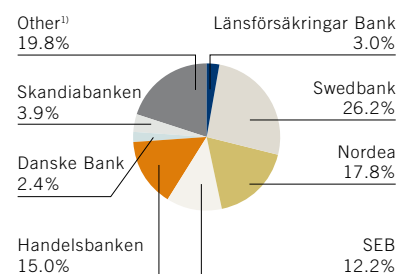
#### Savings

- Personal account (Salary account)
- Savings account
- Fixed-interest account
- Internet share trading
- Direct savings in funds
- Savings products for agriculture
- Stock index bonds

### Deposits per segment



### Market share, deposits from households



<sup>1)</sup> of which 14.7% refers to independent savings banks

ued to increase and it is clear that more and more customers are choosing Länsförsäkringar Bank as their main bank.

### New stock index bonds

Since September 2006, Länsförsäkringar has been able to continuously offer stock index bonds to its customers. The stock index bonds were launched under the Länsförsäkringar brand and are sold through the 24 regional insurance companies. Three share issues, with varying targets, were implemented during the year.

### Internet provides greater access

In 2006, Internet services were further developed to increase access and purchase functionality. Today, customers themselves can open savings accounts and salary accounts with accompanying card via the Internet. Länsförsäkringar will continuously enhance services and options offered by its Internet bank; an example of a welcomed service is share trading via the Internet. The number of share deposits increased by 50% to 9,700.

The main priorities for 2007 are to additionally enhance the possibility of self-services via the Internet and

meet customers' ever rigorous demanding through offering high-quality advisory services and a well-developed range of products.

### Mutual funds

Fiscal 2006 was a positive year for Swedish fund savers.

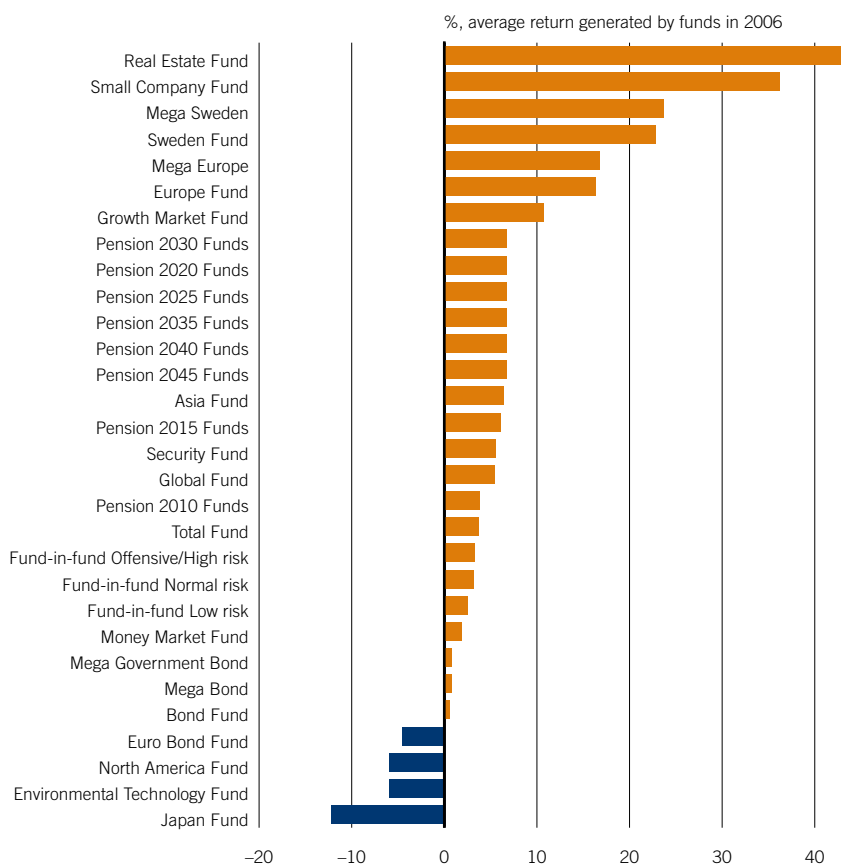
The net flow to funds during 2006 amounted to SEK 86 billion for the total market in Sweden, which is a slight increase compared with 2005. Net flow into Länsförsäkringar's funds during 2006 amounted to SEK 3 billion and assets under management to SEK 62 billion at year-end, corresponding to a market share of approximately 4%. Accordingly, Länsförsäkringar Bank is one of the largest companies in the Swedish fund market.

The Brain Fund was discontinued during the year. Carnegie also became a new asset manager of Länsförsäkringar's Sweden Fund.

### Higher Morningstar rating

During the year, Morningstar upgraded the ratings of seven Länsförsäkringar funds, with an average rating increase from three to four stars. The funds that were upgraded were as follows Pension 2020, Pension 2025 and Pension 2033, that were upgraded from four to five stars, while Pension 2010 and the Total Fund were upgraded from three to four stars. The Europe Fund was upgraded from two to three stars, while Fund-in-fund Low Risk was upgraded from one to two stars. As a result, Länsförsäkringar has a top ranking among the market's largest players.

Yield from Länsförsäkringar's fund offering



### Savings

- Deposits from the public increased by 15% to SEK 24 billion.
- The market share measured in deposits from households amounted to 3.0%.
- A total of 3,500 securities deposits were opened during the year.
- During the year, Morningstar upgraded seven Länsförsäkringar funds, with an average rating increase from three to four stars.

# Payments

## Percentage of Internet payments continues to grow

Giro forms, checks and cashier payments have been replaced by different forms of electronic payments over the past decade. For Länsförsäkringar, 2006 signaled a continued increase in the percentage of Internet payments. Of the total number of payments, 76% are made via the Internet. The use of cards has increased at the same time as the number of withdrawals from ATMs has fallen.

### Offering

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. Customers are often extremely loyal to the main bank with which they are satisfied. Therefore, Länsförsäkringar offers an attractive range of payment services.

### Efficient cost structure

Länsförsäkringar's cost structure for payments is highly favorable. This is due to a high level of card use, a large percentage of electronic payments and an efficient cost situation via partners and ATMs.

### Lower costs and improved customer offering with new card supplier

In October, Länsförsäkringar Bank entered into a new agreement for services for card handling and collating card transactions.

This agreement enhances cost efficiency and the flexibility of the bank's card process. The new platform also makes it simpler to develop new customer offerings, which creates greater flexibility for continued product development.

The agreement, which comes into effect in 2007, will also contribute to greater protection for customers by EMV increasing the security of the card. EMV is a standard for chip cards.

### Cash withdrawals in ICA supermarkets

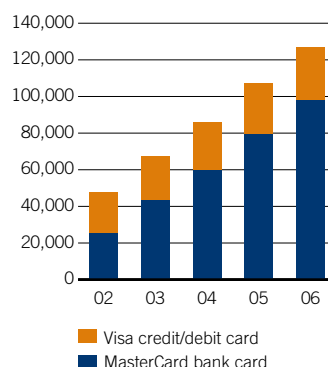
Since June 2006, Länsförsäkringar's bankcard customers have been able to make cash withdrawals in ICA's 1,400 supermarkets throughout the country. This was the result of a partnership that was signed on April 3. Based on this partnership, bankcard customers can withdraw a maximum of SEK 2,000 on one single transaction without making any purchases at the ICA store. Withdrawals are free of charge for customers.

### Products

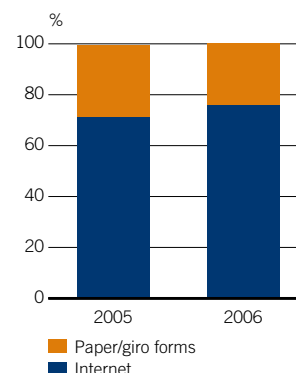
#### Payments

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

Number of cards specified by Visa credit/debit card and MasterCard bank card



Percentage of electronically transmitted and paper-based payments





The agreement with Svensk Kassaservice (Swedish Cashier Service) was renewed during the year to offer customers the possibility of making deposits and withdrawals and paying bills in cash. Customers can also withdraw cash from all ATMs in Sweden.

### Growing payment business

The trend in 2006 remained positive. An increasing number of customers selected Länsförsäkringar Bank as their main bank. Länsförsäkringar has a total of 127,000 card customers who make an average of 11 purchases per month. The number of cards rose by 19% in 2006. The percentage of electronic payments increased from 71% to 76%. An area that experienced substantial growth during the year was foreign payments, with the total number of such payments increasing by almost 60%. In Länsförsäkringar Bank's total flow of payment transactions, foreign payments increased by 35%.



Henrik Larsson, Mats Wester and Felix Herngren in one of the autumn's commercials.

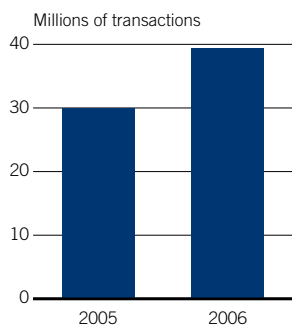
### Changed structure of payment market

The structure of the payment market is undergoing extensive changes. A common European structure – the Single European Payment Area (SEPA) – is emerging which allows consumers to conveniently use their bank card in all countries in Europe. In the medium term, SEPA will further simplify the use of bank cards and create a borderless payment market in

Europe. In light of the structural changes, Länsförsäkringar's ambition is to offer the customer greater convenience, cross-border services and security in using their cards.

Focus in 2007 will primarily be directed toward increasing the percentage of electronic payments and contributing to increases in the number of cards and the use of cards for different purposes.

### Number of payment transactions



New card design from spring 2007.

### Payments

- Länsförsäkringar has a total of 127,000 card customers who make an average of 11 purchases per month.
- The percentage of payments is made via the Internet is 76%.
- The total number of payment transactions rose from 29 million to 39 million.
- The number foreign payments amounted to almost 15,000 compared with 9,500 in 2005

# Risk management and risk control

## Risks and risk management in the banking operations

Risks arising in the banking operations can be categorized as credit risks, financial risks and operational risks. These risks occur in conjunction with the different products and services offered by the bank and affect the operations to various extents. The most significant aspect of risk management is that risks are taken consciously, that risk are managed actively and that risks are continuously weighed against the products and operations in which they arise. Resulting from this, standpoints can be taken on the types of risk and risk levels that are acceptable based on an established risk profile, but also take into account profitability in the company.

### Guidelines

The overall guidelines and strategy surrounding risk-taking are that volumes shall not grow and profitability shall not increase at the cost of taking a higher number and more far-reaching risks. This approach imposes demands on the operations to continuously identify, measure, monitor and report risks to an extent that is always in proportion to the size of the operations, product development and growth.

### 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.

Lending in 2006 was characterized by continued growth, primarily to households and residential properties. This type of lending represented the very largest volume in the Banking Group and historically has involved minor loan losses.

Given the fact that Länsförsäkringar's mortgage customers continue to have a low level of loan to value, it can be deemed that the operations can continue to be considered to be low risks, since no risk accumulation has taken place, despite substantial growth. In addition, the customer base has a good and balanced distribution throughout Sweden.

#### Lending specified by credit amount, Bank

SEK 000s	Dec. 31, 2006
0–500	106,016
>500–1,000	12,000
>1,000–2,500	825
>2,500–5,000	29
>5,000	6
<b>Total number of loans</b>	<b>118,876</b>

#### Lending specified by credit amount. Mortgage loans, number of customers (households)

SEK 000s	Dec. 31, 2006
0–500	26,388
501–1,000	17,636
1,001–2,500	10,355
2,501–5,000	590
>5,000	20
<b>Total number of loans</b>	<b>54,989</b>

As of February 1, 2007, Länsförsäkringar Bank will calculate its capital adequacy for credit risks in accordance with the Internal Ratings-based Approach (IRB approach). Finansinspektionen approved Länsförsäkringar Bank's method on December 18, 2006.

The approved risk classification models has led to improvements in and enhancing the efficiency of reviews of the total credit risk. The new model provides transparency in the credit portfolios and the customer base in a manner allowing a more precise assessment of risk levels, the areas in which risks arise and trends that should be monitored. This promotes clear risk reporting and ensures that the risk profile is at the determined level.

The new credit risk models are subject to continuous extensive validation and developments in order to ensure the continued reliability, accuracy and stability of the models over time.

#### SPECIFICATION OF LOAN STOCK, DECEMBER 31, 2006

SEK M	Mortgage loans	Apart-ment buildings	Agri-culture	Commer-cial	Unse-cured	Other	Higher pur-chase	Leasing	Total
Länsförsäkringar Hypotek	36,306	253				26			36,585
Länsförsäkringar Bank	4,324		2,819	18	2,000	142			9,303
Wasa Kredit					1,379		3,485	3,293	8,157
<b>Total</b>	<b>40,630</b>	<b>253</b>	<b>2,819</b>	<b>18</b>	<b>3,379</b>	<b>168</b>	<b>3,485</b>	<b>3,293</b>	<b>54,045</b>

### Financial risk

Financial risk control primarily includes measuring and reporting interest-rate risks and liquidity risks. Interest-rate risk is managed within determined limits and cost-effectively.

In the first instance, interest-rate risk shall be reduced through corresponding borrowing. In the second instance, this risk is to be reduced using interest-rate derivatives. The interest-rate risk is defined as the change in the market value of assets, liabilities and derivatives in conjunction with a parallel shift in the return curve by 100 points. The risk mandate determined by the Board is low.

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. The mandate for the management of liquidity risks also has a low risk profile.

### 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 purpose of operational risk activities is to minimize the consequences of a risk event. The

company continuously identifies, assesses, reports and reviews operational risks.

During the year, the Board of Directors adopted the tolerance level of operational risk that can be accepted by the operations. The established tolerance level for operational risk shall also have a low risk profile. In addition, new methods were developed and introduced for self-assessments and analyses of operational risks arising in the operations.

Operational risk can be found in all areas of the operations. Accordingly, risk control activities contribute to establishing awareness of operational risks in order to limit the risk where it arises.

Finansinspektionen approved Länsförsäkringar Bank's method for its operational risk activities in June 2006.

### Internal capital adequacy assessment

The new capital adequacy regulations came into force on February 1, 2007. The bank focused in 2006 on developing and systematizing an internal capital adequacy assessment process (ICAAP). This involves a process that is based on assessing and compiling a complete and overall profile of the risks in the entire operations. This applies to both measurable risks and those that cannot be measured. The process shall also include an understanding on existing risk levels, how such risks are to be

managed, the effects associated with these risks and the costs of managing such risks. The overall assessment serves as the basis for capital planning.

Furthermore, it is important that the ICAAP process is well integrated and can be applied by the entire business operations. It should be possible for operational targets and return measurements to be related to the risk and the internal capital planning. Based on a profitability calculation, the bank's ICAAP process will improve the company's ability to attract the types of customers permitted by the risk profiles and business strategy. It will also be possible for the bank to set prices based on this knowledge.

In accordance with the applicable transition regulations, the adaptation of the capital requirements to the new set of regulations will take place over a three-year period. After this period of transition, the Group's risk-weighted assets will substantially decrease. The rate at which capital will be released depends on the company's total risk exposure, consideration of the credit rating and Finansinspektionen's assessments. The Banking Group's capital-adequacy targets will be continuously assessed within the framework of the ICAAP process. The company shall endeavor to retain an adequate level of capital, relative to comparable banks.



# Funding and rating

## New funding forms secure growth

The company's growth ambitions impose new and tougher demands on the bank's Finance function. Operations were further developed during the year through new strategies and a new form of funding.

### Funding operations

The funding operations have developed and changed in recent years. The background to this is that the previous surplus from deposits has been converted into a deficit and the bank's needs for other funding alternatives have increased accordingly. However, deposits will remain an important portion of total financing. In order to ensure a continued positive trend, a new strategic plan for funding was prepared during the year. The first steps for realizing this plan have already been successfully implemented. The purpose of the plan is to ensure capital requirements in both the short and long term at a price in line with competitors' best prices.

A central part of the plan is issuing liquid covered bonds in the Swedish market. A comprehensive project was initiated during the year in order to conduct this.

The purpose is to carry out the development work required for commencing the issue of covered bonds and to be able to conduct high-quality covered bond operations. This work is progressing according to plan. The introduction of covered bonds creates conditions for building up a highly diversified investor base by offering investment options with high ratings and high liquidity.

### Funding during the year

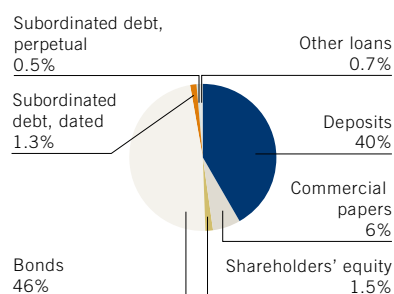
Demand for interest bearing securities remained favorable. The trend with declining credit spreads benefited the bank's funding. Long-term gross funding during the year totaled a nominal amount of SEK 10.8 billion (10.4), of which 35% was borrowed in the international market through an ETMN transaction of EUR 400 M. This transaction was well received by investors across Europe.

The outstanding short-term liabilities under the bank's commercial paper program amounted to SEK 3.6 billion at year-end. A Euro commercial paper program was also established during the year to further expand the short-term funding options. The program has not been utilized to date.

### LFBO 501 – Historic mortgage bond

The first step in the new strategic plan for the funding operations was taken in the autumn when the bank launched its first housing bond. This was the first time in 20 years that a new player entered the Swedish market for liquid mortgage bonds. The bond which is sold "on tap" have a maturity of approximately five years and the outstanding volume at year-end was SEK 5.5 billion. The bond is the single largest loan issued by the bank and the reception from investors has been highly positive, which is reflected in the high demand for the bond. Similar to previously issued long-term liabilities in the bank, the bond is encompassed by the exchange offer that will be directed toward investors from

Sources of funding at December 31, 2006



SEK M	
Deposits	23,942
Bonds	27,920
Commercial papers	3,604
Other loans	437
Subordinated debt	1,050
dated	760
perpetual	290
Shareholders' equity	3,172

the subsidiary Länsförsäkringar Hypotek. This, combined with the favorable level of liquidity in the bonds, entailed that the price is close to the prices received by the largest issuers who have already transferred to issuing covered bonds.

Liquidity is supported by the structure of the bond enabling the possibility to issue continuously over the term of the loan. There are full-scale market marker commitments from Swedbank, Danske Bank, Danske Consensus and Nordea. In addition, Länsförsäkringar provides a repo facility and has developed an issue technique adapted to the liquid mortgage bond market. The bond is the first in a series of benchmark loans that will be issued to provide a complete benchmark curve over time. The new mortgage bonds signify Länsförsäkringar's clear focus on the Swedish market. Confidence from investors is particularly important to Länsförsäkringar Bank and by channeling funding requirements to the Swedish market in the first instance, the bank intends to ensure a high level of liquidity in outstanding bonds.

### Covered bonds

On September 27, Länsförsäkringar Bank's subsidiary, Länsförsäkringar Hypotek submitted an application to Finansinspektionen for permission to issue covered

bonds in accordance with the Swedish Act on Issuance of Covered Bonds (2003:1223). Provided the company is granted permission by Finansinspektionen, issuance of covered bonds will begin not earlier than the end of the second quarter or during the third quarter of 2007. The company's funding will there after be in covered bonds. The objective is to achieve a Triple A rating for its covered borrowings, which is the same rating that some larger competitors have attained.

Länsförsäkringar Hypotek will offer holders of bonds issued under Länsförsäkringar Bank's MTN program and EMTN program and bonds issued under the basic prospectus pertaining to bond loans to exchange their holdings for equivalent bonds in Länsförsäkringar Hypotek. The exchange offer does not include securities issued under Länsförsäkringar Bank's commercial paper program.

Länsförsäkringar Hypotek will set up a benchmark program for ongoing issuance of covered bonds, MTN program and EMTN program. Länsförsäkringar Hypotek will use the same issuance technique for covered bonds as that which applies to other major mortgage institutes in the Swedish market and that were established through the bank during the autumn. The exchange offer will take place without any premium being paid.

### Financial risk management

The bank's starting point is that the financial-risk portion of total risk managed the bank shall be small. This means that financial risks shall be managed in such a manner that the potential risk is very limited at all times.

Liquidity risk is managed throughout careful planning and reviews of the future liquidity requirements of the operations. Liquidity requirements are safeguarded through holdings in high-quality and high liquidity interest-bearing investment assets that correspond to forecasted liquidity requirements.

The bank covers interest-rate risks arising in the operations by matching interest rate profile between assets and liabilities and, where necessary, also with derivatives.

Currency risks arising in conjunction with conducting international funding are always covered by corresponding hedging, meaning that no currency risk exists in the operations.

Counterparty risks arising in conjunction with implementing liquid investments and derivatives transactions are limited by conducting such transactions with only highly creditworthy counterparties.

All market risks are managed within the mandates for each type of risk.

### FUNDING

Program	Limit	Utilized, Dec. 31, 2006
Domestic commercial papers	SEK 15 billion	SEK 3.6 billion
ECP (Euro Commercial Paper Program)	EUR 1.5 billion	EUR 0 billion
MTN (Medium Term Note)	SEK 15 billion	SEK 8.5 billion
EMTN (Euro Medium Term Note)	EUR 2 billion	EUR 1.5 billion
LF BO 501 Mortgage bond	Unlimited	SEK 5.5 billion





## Rating

Standard & Poor's and Moody's continuously monitor Länsförsäkringar Bank and its operations and make ongoing updates to their opinion of the bank's credit rating. As for all banks, the rating agencies assessments are very important to funding operations for Länsförsäkringar Bank.

In January 2006, Standard & Poor's changed its outlook for Länsförsäkringar Bank from "stable" to "positive." Consequently, the rating for long-term borrowing was A- (positive) and the rating for short-term borrowing, A-2, was confirmed.

On February 19, 2007, Standard & Poor's raised Länsförsäkringar Bank's credit rating from A- to A. Accordingly, the rating for long-term borrowing is A (stable). The rating for short-term borrowing was raised from A-2 to A-1.

Standard & Poor's referred to the strategic significance of the banking operations for the entire Länsförsäkringar Alliance and to the involvement of the owner. They also referred to the high capital adequacy and continued positive improvements in the performance of the banking operations. Despite intensified competition with pressed margins, Länsförsäkringar continues to increase its share of the Swedish retail market while simultaneously improving underlying profitability.

On February 26, 2007, Moody's upgraded Länsförsäkringar Bank's credit rating from A3 (stable) to A2 (stable).

The rating for short-term borrowing was raised from P-2 to P-1 and the Bank Financial Strength Rating was raised by C- to C.

### RATING SCALE:

#### Long-term funding

Moody's	Standard & Poor's
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-

#### Short-term funding

Moody's	Standard & Poor's
Prime-1	A-1+, A-1
Prime-2	A-2
Prime-3	A-3

Company	Institute	Long-term credit rating	Short-term credit rating
Länsförsäkringar Bank	Standard & Poor's	A/stable	A-1
Länsförsäkringar Bank	Moody's	A2/stable	P-1

# Sustainability

## Consistent environmental work

Active environmental work is continuously ongoing in the banking operations. The environmental coordination of all processes in the operations follows a rotating schedule, year after year. Consequently, environmental measures have an impact on the entire organization and each section focuses on its own particular area of activity.

Improvement areas focused on in 2006 included several Internet-based services where customers can choose not to receive paper notices. This will result in major environmental gains, as customers increasingly select their products and services from the Internet. It will also mean fewer trips to the offices of the regional insurance companies.

The bank is also active in providing information to customers about the advantages of membership in “Säker Gård” (Secure Farm). Säker Gård is an environmental and security concept that provides rebates to customers if their farm meets a certain set of environmental and security standards.

Direct environmental impact results from business trips that create carbon dioxide emissions and paper consumption. To reduce the emissions, various electronic conferencing solutions are used, train travel is prioritized and only environmentally friendly cars are approved as company cars.

To reduce paper consumption, the bank works continuously with digital solutions and effective printing and copying solutions.

Länsförsäkringar Bank is certified in accordance with ISO 14001:2004, which is an environmental management system. This ensures that environmental work is conducted in a systematic and efficient manner.



## Environmental policy in brief

### Länsförsäkringar Bank shall

- practice environmental consideration in its decisions and actions to reduce its environmental impact and prevent environmental contamination in its operations, by pursuing continuous improvement,
- comply with legislation and cooperate with public authorities and organizations to ensure that its environmental work is designed to harmonize with society's environmental agenda,
- increase our environmental expertise and influence customers and suppliers through our commitment to environmental issues.

### By the following means

- continuously developing its environmental profile and providing environmentally sensitive service to the regional insurance companies and to customers,
- conducting, on commission from the regional insurance companies, profitable operations with minimal environmental impact in non-life insurance, life assurance and banking.

### For the following reason

- to contribute to the sustainable development of our society and to ensure that it is perceived as a credible alternative as regards environmental work in banking and insurance.



# Employees

## Continuity inspires commitment and promotes involvement

Employees' expertise and commitment are essential preconditions of the bank's achievement of its ambitious goals. The competition is increasingly intense, and to cope with this trend the bank must meet high standards. As the volume of business and the number of customers grow, it becomes increasingly important to ensure that employees are equipped with the necessary tools and that they have the right attitude, adequate expertise and suitable opportunities for development. Enthusiastic employees promote growth, profitability and efficiency.

### Staffing

Successful recruitment work is key to finding the most qualified and motivated employees from among both internal and external applicants. The aim is to attract, develop and retain employees with drive, to ensure that the long-term goals of the operations will be met.

### Skills development

Skills development supports business operations. Development of employees' skills must reflect the company's goals and the operations' requirements, both short-term and long-term. A consistent focus on skills development increases competitiveness: resources are used in the proper manner and employees are able to cope with change. This creates a favorable environment for skills development. Learning occurs in the interaction between the employee's requirements and preferences, creating an environment that develops and stimulates employees and provides an opportunity for them to take on new challenges and positions within the Länsförsäkringar Alliance.

### Salaries, benefits and other remunerations

In the banking operations, salaries and other remunerations are kept at market level to attract and retain the necessary expertise. Strong performance should be rewarded. Accordingly, it is our aim that over and above a fixed monthly salary all employees will receive variable compensation based on the company's earnings and the individual's performance.

### Work environment and health

Work in this area is based on promoting health in relation to the physical status of the individual employee, and systematically preventing hazards in the work environment. All employees are entitled to a workplace with tasks that provide stimulation, inspire enthusiasm and support their own development.

Work environment and health issues fall under management responsibility and are an essential precondition of strong results. They must be a natural part of the daily routine of all employees.

### Active health promotion

Having satisfied employees strengthens the picture of the company as an attractive employer and is also a key factor in profitability. The entire Länsförsäkringar Alliance has strategically focused on promoting workplace health for several years. Health promotion is integrated with the organization and business planning through specific goals and action plans. It is based on a health network that serves as a support to employees and managers.

Health and work environment surveys are conducted regularly, facilitating rapid intervention where necessary. Areas requiring attention are identified and resources can be applied at an early stage. Employees undergo regular health and work profile surveys. Employees are then placed in an at-risk group or a healthy group based on their personal health profile. Individual action programs are developed for the employees considered to fall into the at-risk group and followed up on an ongoing basis.

### Diversity

In the banking operations and other sectors of the Länsförsäkringar Alliance, differences are viewed as an asset. The aim is to create a workplace that gives the employee room to grow according to his or her own potential and that of the company. Diversity promotion implies that everyone has the same conditions, regardless of ethnic background, creed, sexual orientation, functional disability, gender or age. All employees also have a personal

responsibility to actively distance themselves from offensive behavior.

## Leadership

Leaders are role models who represent Länsförsäkringar through their enthusiastic and visible leadership. This presupposes an ongoing commitment to their own personal development and to developing their leadership skills. Leadership should be characterized by an ability and a desire to develop the members of their staff, through consideration, respect, empathy and acceptance of differences. The aim is to achieve a style of leadership that creates a healthy balance between the organization and the individual.

Leadership should promote joint creation of the conditions that allow everyone to participate actively in the operations and contribute to the development of the Länsförsäkringar Alliance.

## The employee's role

The employees represent Länsförsäkringar in all interactions. Everything is geared toward created customer benefit and contributing to the success of the Alliance. Room to accommodate every employee's development and assumption of responsibility is established through participation and commitment, clearly defined rights and obligations, goals and follow-up of goals.

## Employee commitment

Every year, Länsförsäkringar Bank conducts an employee survey – the “Employee Commitment Index” (ECI), which is completed by all employees. The survey has been carried out each year since 1999, and covers such areas as influence over work assignments, work requirements, skills, operational development, information structure and solidarity in the workplace.

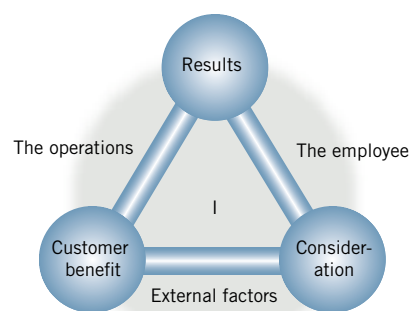
As many as eight of every ten employees of Länsförsäkringar Bank feel committed and motivated about their duties. In addition, they report a strong sense that the company is an attractive employer and pleasant workplace.

The overall result for the bank and its subsidiaries was 76.8. That is a small increase over the result for comparable questions in 2005. The average result for service-producing companies in the private sector in Sweden is 73.0.

In 2006 as well, all subsidiaries, units and processes achieved a favorable rating.

In 2006, again, the highest ratings were given for sense of camaraderie and influence over one's work. Areas in need of improvement include internal cooperation with other units within Länsförsäkringar AB.

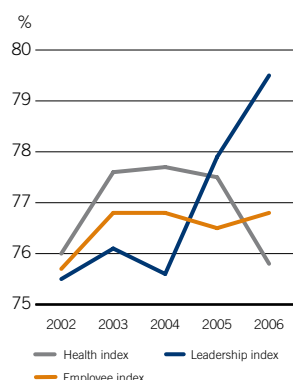
The goal for 2006 was an ECI of 75, plus or minus 3.0 units. This goal was achieved



### AVERAGE NUMBER OF EMPLOYEES

	Group		Parent Company	
	2006	2005	2006	2005
Men	155	140	40	39
Women	138	145	54	64
<b>Total number of employees</b>	<b>293</b>	<b>285</b>	<b>94</b>	<b>103</b>

### Employee index



### ABSENCE DUE TO ILLNESS, %

	Group		Parent Company	
	2006	2005	2006	2005
Total absence due to illness of total working hours	3.1	3.9	3.5	4.9
Total absence due to illness of total working hours, men	1.2	2.4	0.9	3.5
Total absence due to illness of total working hours, women	5.0	5.2	5.2	5.8
Absence for employees aged 29 or below	1.4	2.7	0.7	3.9
Absence for employees aged 30–49	2.8	3.6	2.0	3.2
Absence for employees aged 50 or above	5.2	5.4	7.4	8.5
Percentage of absence pertaining to absence for a period of 60 or more consecutive days	45.7	55.5	52.0	67.6

# Board of Directors' Report

The Board of Directors of Länsförsäkringar Bank AB (publ) hereby submits the Annual Report for 2006, the company's eleventh 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 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 (publ) (556244-1781), Wasa Kredit AB (556311-9204) and Länsförsäkringar Fondförvaltning AB (publ) (556364-2783). All companies are domiciled in Stockholm.

### 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 AB in the form of leasing and installment plans.

Länsförsäkringar Bank works through 24 independent regional insurance companies who are responsible for providing service, distribution and sales of the bank's products. The bank's customers can receive financial advice and services from any of the regional insurance companies' more than 90 offices that conduct banking operations. The bank offices are located at, or adjacent to, the regional insurance offices. The 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 Banking Group amounted to 640,000.

### Total assets

The Group's total assets increased by 21% in 2006 to SEK 62,456 M.

Lending to the public rose by 14%, or SEK 6,790 M, to SEK 53,884 M (47,094). All lending was conducted in SEK. Lending accounts for 86% of total assets.

Interest-bearing securities (bonds in the banking operations) rose during the year by 116% to SEK 5,630 M (2,603).

Deposits from the public rose by 15%, or SEK 3,203 M, to SEK 23,942 M (20,739).

Borrowing and securities issued increased by 26%, or SEK 6,713 M, to SEK 32,359 M (25,646).

Investments, Group, SEK M	Dec. 31, 2006	Dec. 31, 2005	Change in %
Interest-bearing securities	5,630	2,603	+ 116.3
Lending to the public <sup>1)</sup>	53,884	47,094	+ 14.4
Credit institutions	2,113	1,297	+ 63.0
Other	829	668	+ 24.1
<b>Total investments</b>	<b>62,456</b>	<b>51,661</b>	<b>+ 20.9</b>

<sup>1)</sup> Including leasing

Financing, Group, SEK M	Dec. 31, 2006	Dec. 31, 2005	Change in %
Deposits from the public	23,942	20,739	+ 15.4
Credit institutions	351	308	+ 13.7
Borrowing and issued securities	32,359	25,646	+ 26.2
Other	1,576	1,067	+ 47.7
Subordinated loans	1,050	1,050	± 0.0
Shareholders' equity	3,178	2,851	+ 11.5
<b>Total liabilities and shareholders' equity</b>	<b>62,456</b>	<b>51,661</b>	<b>+ 20.9</b>

### 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, 2006	%	Dec. 31, 2005	%
Mortgage loans	40,679	75	34,645	73
Higher purchase	3,485	7	3,386	7
Unsecured	3,379	6	3,171	7
Leasing	3,293	6	3,040	6
Agriculture	2,819	5	2,668	6
Apartment buildings	253	1	206	0
Other	186	0	182	0
Lending to the public, gross	54,094	100	47,318	100
Provisions	-210		-225	
<b>Lending to the public, net</b>	<b>53,884</b>		<b>47,094</b>	

## Capital adequacy

The bank's target capital adequacy ratio is 10.5%, and the target Tier 1 ratio is 8.5%. Both measures have permitted ranges of deviation of  $\pm 0.5$  percentage points.

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

At year-end 2006, the Group's capital adequacy ratio was 10.6% (11.3) and the Tier 1 ratio was 8.6% (9.0).

## Earnings and profitability

Consolidated operating income amounted to SEK 201 M (154). Profit after tax amounted to SEK 141 M (109), corresponding to a return on average shareholders' equity after standard tax of 4.6% (4.1).

## Revenues

Net interest income rose by 6% and amounted to SEK 922 M (873). The increase is attributable to higher lending volumes to the public. Net interest income was charged with SEK 9 M (10) for mandatory government deposit insurance. The Group's investment margin, that is, net interest income as a percentage of average total assets, amounted to 1.62% (1.85). Net commission income rose to negative SEK 12 M (neg: 70). Other operating revenue amounted to SEK 116 M (150). Revenues rose by a total of 8% to SEK 1,025 M (953).

## Expenses

Operating expenses rose by 5%, or SEK 36 M, to SEK 787 M (751). The increase is largely related to the growth in lending and deposit volumes, which triggered an increase in selling expenses. The cost-income ratio – costs in relation to income – was 0.77 (0.79) before loan losses and 0.80 (0.84) 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 37 M (49). The item includes a gain of SEK 23 M attributable to the sale of receivables previously written off in Wasa Kredit.

## Transition to IFRS

As of 2007, Länsförsäkringar Bank will prepare its consolidated accounts in accordance with International Financial Reporting Standards (IFRS). The introduction of IFRS entails that comparative figures for 2006 have been restated (see the restated income statement and balance sheet in conjunction with transition to IFRS below).

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 consequence analysis was performed in 2006.

If the bank does not apply hedge accounting, significant classes of revenues will arise when reporting derivatives instruments at fair value in the balance sheet and changes in fair value in the income statement. Based on the report from the consequence analysis, a hedge accounting model and systems solution for the model were developed in 2006. The model encompasses loan receivables and funding at fixed interest rates in which the interest-rate risk is hedged on the basis of derivatives instruments.

Other identified differences between the current accounting principles and IFRS that impact the income statement and balance sheet have been documented.

## Financial instruments

Financial instruments covered by IAS 39 will be valued at either fair value or accrued acquisition value depending on the classification of the instrument.

All derivatives instruments are reported at fair value. Lending and other financial liabilities are reported at accrued acquisition value with exceptions for the portion to which hedge accounting is applied.

## 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 effectiveness affect the income statement.

## Interest income from doubtful receivables

Interest income on doubtful receivables will be reported based on the effective interest-rate method, calculated by applying the effective interest rate, while the value of the loan in conjunction with impairment 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 the net result of financial items at fair value when payment is made.

### Allocation of fees

Certain fees charged to customers in conjunction with credit issuing will be reported as interest income instead of commission revenues. Fees charged in conjunction with borrowing (classified as transaction costs) will be reported as interest expenses over the term of the issued security. Today, such fees are reported as commission expense.

### Effects

Operating income for Länsförsäkringar Bank amounted to SEK 201 M in accordance with the principles applied in 2006, compared with estimated income of SEK 198 M in accordance with IFRS.

As a result of the transition to IFRS, shareholders' equity will increase by SEK 12 M, which is primarily attributable to the change in accounting principle regarding compensation for interest-rate differences.

Based on the above, the Tier 1 ratio and the capital adequacy ratio are not expected to be materially affected by the transition to IFRS.

### RESTATED CONSOLIDATED INCOME STATEMENT 2006 IN CONJUNCTION WITH TRANSITION TO IFRS

SEK M	Income statement according to annual report	Restatement	Income statement restated in accordance with IFRS
Net interest income	922	5	927
Net commission income	-12	-21	-33
Net income from financial items at fair value	1	13	14
Other revenues	115		115
<b>Total revenues</b>	<b>1,025</b>	<b>-2</b>	<b>1,023</b>
Personnel costs	-39		-39
Other expenses	-718		-718
<b>Total general administration expenses</b>	<b>-756</b>		<b>-756</b>
Depreciation/amortization and impairment of tangible and intangible assets	-31		-31
<b>Total expenses</b>	<b>-787</b>		<b>-787</b>
<b>Income before loan losses</b>	<b>238</b>	<b>-2</b>	<b>236</b>
Loan losses	-37	-1	-38
<b>Operating income</b>	<b>201</b>	<b>-3</b>	<b>198</b>
Taxes	-60	1	-59
<b>Net profit for the year</b>	<b>141</b>	<b>-2</b>	<b>139</b>

### RESTATED CONSOLIDATED BALANCE SHEET DECEMBER 31, 2006 IN CONJUNCTION WITH TRANSITION TO IFRS

SEK M	Balance sheet according to annual report	Restatement	Balance sheet restated in accordance with IFRS
<b>Assets</b>			
Lending to credit institutions	2,113		2,113
Lending to the public	53,884	-101	53,782
Shares and participations	9		9
Bonds and other Interest-bearing securities	5,630	-22	5,607
Derivatives		168	168
Other assets	820	37,	857
<b>Total assets</b>	<b>62,456</b>	<b>82</b>	<b>62,538</b>
<b>Liabilities, provisions and shareholders' equity</b>			
Liabilities to credit institutions	351		351
Deposits and borrowing from the public	24,379		24,379
Issued securities	31,922	-332	31,589
Derivatives		426	426
Other liabilities and provisions	1,583	-24	1,558
Subordinated debt	1,050		1,050
Shareholders' equity	3,172	12	3,184
<b>Total liabilities, provisions and shareholders' equity</b>	<b>62,456</b>	<b>82</b>	<b>62,538</b>

## Risks and riskcontrol

### Riskcontrol

Riskcontrol is separate and independent from the business activities. Accordingly, the unit is operated without being controlled by any function or person that participates in the daily business processes that generate risk. Riskcontrol reports directly to the bank's President.

Riskcontrol has the responsibility for identifying, measuring, monitoring and reporting credit risks, financial risks and operational risks. The risk and control organization is completed with a Compliance function and Internal Audit.

### 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.

Loans are granted after a thorough and automated credit appraisal. During the year, this work method received additional support from the models, systems and processes implemented as a result of the adaptation to the new capital adequacy rules. The information generated by these models is highly beneficial to reviews of the total credit risk. The 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.

### Financial risk

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

Interest-rate risk is to be managed cost-effectively within set limits. This risk 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.

A new finance system was implemented in 2005 which in 2006 contributed to significantly improved and more efficient control of financial risks. Work with implementing VaR (Value at Risk) in the risk measurement was also initiated in 2005 and was pursued further during the year.

### 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 purpose of the operational risk activities is to minimize the consequences of a triggered risk event. The work on identify, assessing, reporting and reviewing operational risks takes place continuously.

During the year, the Board of Directors adopted the tolerance level of operational risk that can be accepted by the operations. In addition, new methods for self assessments for the analysis of operational risk arising in the operations were developed and introduced.

### The Basel Committee's proposals regarding new capital adequacy regulations

As of February 1, 2007, Länsförsäkringar Bank calculates its capital adequacy for credit risks in accordance with the Internal Ratings-based Approach (IRB approach). Finansinspektionen approved Länsförsäkringar Bank's method on December 18, 2006. Finansinspektionen formally granted approval on February 23, 2007.

The main purpose of these regulations is to achieve improved transparency and risk management in the companies, and thereby enhance stability in the financial system.

Based on the new regulations, the possibility of attracting suitable customers under the business and loan strategy will improve and will allow prices to be set based on this knowledge. This also creates equal funding and margin conditions compared with competitors. At the same time, the bank obtains an improved and more sophisticated understanding of its risks in relation to returns.

The risk models and measuring approaches are important components in each loan preparation process as well as analysis of total credit risks. Accordingly, in 2006 credit processors utilized the risk classification system that categorizes customers and loans into different groups. At the same time, customers were also given an overall risk measurement.

All loans to private customers have already been risk classified. In conjunction with the introduction of the risk-classification model for the agriculture portfolio, 98% of Länsförsäkringar Bank's and Länsförsäkringar Hypotek's total lending will be included in IRB-approach reporting by 2010.

In addition, the internal capital adequacy assessment process (ICAAP) will, together with the Internal Ratings-based Approach (IRB approach), further develop the possibilities of utilizing profitability calculations, pricing and control of risk and capital in 2007.

### Environment

Active environmental work is continuously ongoing in the banking operations. The environmental coordination of all processes in the operations follows a rotating schedule, year after year.

Consequently, environmental measures have an impact on the entire organization and each section focuses on its own particular area of activity.

Areas focused on in 2006 included several digital deliveries where customers can choose not to receive paper notices. This will result in major environmental gains, as customers increasingly select different services and products from the Internet.

The banking operations are also active in the information provided to customers on the advantages of joining “Säker Gård” (Secure Farm) which is a partnership between LRF and Länsförsäkringar. Säker Gård is an environmental and safety concept that involves the customer going through a Säker Gård checklist and taking action to rectify any weaknesses that emerge, performing a functional environmental inspection and preparing an action plan.

Direct environmental impact results from business trips that create carbon dioxide emissions and paper consumption. To reduce the emissions, various electronic conferencing solutions are used, train travel is prioritized and only environmentally friendly cars are approved as company cars.

To reduce paper consumption, the bank works continuously with digital solutions and effective printing and copying solutions.

Länsförsäkringar Bank has ISO 14001:2004 certification.

## Employees

Employees’ expertise and commitment are essential preconditions of the bank’s achievement of its ambitious goals. The competition is increasingly intense, and to cope with this trend the bank must meet high standards. As the volume of business and the number of customers grow, it becomes increasingly important to ensure that employees are equipped with the necessary tools and that they have the right attitude, adequate expertise and suitable opportunities for development. Enthusiastic employees promote growth, profitability and efficiency.

Successful recruitment work is key to finding the most qualified and motivated employees from among both internal and external applicants. The aim is to attract, develop and retain employees with drive, to ensure that the long-term goals of the operations will be met.

Skills development supports business operations. Development of employees’ skills must reflect the company’s goals and the operations’ requirements, both short-term and long-term.

Activities in the areas of work environment and healthcare are based on promoting health in relation to the physical status of the individual employee, and systematically preventing hazards in the work environment. All employees are entitled to a workplace with tasks that provide stimulation, inspire enthusiasm and support their own development.

In the banking operations and other sectors of the Länsförsäkringar Alliance, differences are viewed as an asset. The aim is to create a workplace that gives the employee room to grow according to his or her own potential and that of the company. Diversity promotion implies that everyone has the same conditions, regardless of ethnic background, creed, sexual orientation, functional disability, gender or age. All employees also have a personal responsibility to actively distance themselves from offensive behavior.

Every year, Länsförsäkringar Bank conducts an employee survey – the “Employee Commitment Index” (ECI), which is completed by all employees. The survey has been carried out each year since 1999, and covers such areas as influence over work assignments, work requirements, skills, operational development, information structure and solidarity in the workplace. The ECI value has increased each year since the first survey was introduced.

## PARENT COMPANY

### Strategic cooperation

The cooperation initiated with Landshypotek on January 1, 1998 has continued and expanded. This partnership 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, cooperation was initiated with Svensk Kassaservice (Swedish Cashier Service), allowing the bank’s customers to make cash deposits and withdrawals at approximately 500 Svensk Kassaservice offices and its partners, and with some 2,300 rural mail carriers.

A share trading service via the Internet was developed in cooperation with OM 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 the beginning of 2004, the bank’s customers were able to order an electronic Bank ID.

Since June 2006, bankcard customers have been able to withdraw cash at 1,400 ICA supermarkets throughout Sweden. This was the result of a partnership that was signed on April 3. Based on the agreement, bankcard customers can withdraw a maximum of 2,000 in one transaction without making a purchase.

### Earnings

The Parent Company’s operating loss amounted to SEK 35 M (loss: 43). Losses after tax amounted to SEK 26 M (loss: 32). Group contributions paid by the subsidiaries Länsförsäkringar Hypotek AB and Wasa Kredit AB amounted to SEK 32 M and SEK 24 M respectively. The Group contributions are reported directly against shareholders’ equity.



Operating revenue amounted to SEK 332 M (296), while expenses, excluding loan losses, amounted to SEK 352 M (343). Loan losses for the year totaled a amount of SEK 14 M (profit).

### 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 2006.

	Change	Effect on operating income (SEK 000s)
Net interest income	+/- 1 %	+/-3,842
Investment margin	+/- 0,1 percentage point	+/-56,837
Average change in personnel	+/- 1 person	+/-916
Salary adjustments	+/- 1 %	+/-909
Other general administration expenses	+/- 1 %	+/-3,069

An adjustment in the interest rate of one percentage point on all durations affects the market value of interest-bearing securities by approximately SEK 15 M (12) as per the balance sheet date.

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

Profit brought forward	1,980,701,567
Shareholders' contribution received	300,000,000
Group contribution received	56,332,800
Net loss for the year	-26,345,547
<b>Total</b>	<b>2,310,688,820</b>

The Board of Directors proposes that SEK 2,310,688,820 be carried forward. The Group's unappropriated earnings amount to SEK 2,158,815,000.

## SUBSIDIARIES

### Länsförsäkringar Hypotek AB

Mortgage lending in the bank's mortgage institution increased by 18% to SEK 37 billion, an increase of SEK 6 billion. A total of 86% of lending pertains to private homes, 13% to tenant-owned apartments and the 1% to leisure homes and other. First-lien mortgages are carried by Länsförsäkringar Hypotek and second-lien mortgages by the Parent Company.

The market share in lending for private homes and tenant-owned apartments increased to 3.0% (2.9). The number of mortgage customers increased by 9% to 90,400 as at December 31, 2006. Operating income amounted to SEK 45 M (23).

(SEK M)	2006	2005
Total assets	36,856	31,419
Lending volume	36,550	30,964
Operating income	45	23
Return on shareholders' equity, %	1.8	1.1

### Wasa Kredit AB

Wasa Kredit's operating income before appropriations and tax amounted to SEK 115 M (110). The lending volume totaled SEK 8 billion (8). With regard to lending, 40% pertains to car financing, 17% to unsecured loans, 43% to machinery financing and the remainder to supplier financing and leisure.

(SEK M)	2006	2005
Total assets	8,435	8,161
Lending volume	8,070	7,743
Operating income	115	110
Return on shareholders' equity, %	14.7	15.2

### Länsförsäkringar Fondförvaltning AB

Länsförsäkringar Fondförvaltning manages SEK 62 billion (54) in 30 (32) 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 NV.

Länsförsäkringar's equity funds performed well. The Real Estate Fund and Small Company Fund and generated the highest returns of 43.2% and 36.2% respectively during the year. The market share of net inflow amounted to 3.6%.

Operating income amounted to SEK 76 M (64). The improvement is primarily the result of an increased volume of assets under management. A 39% portion of the increase is due to net sales, 61% to value growth. Länsförsäkringar is Sweden's fifth largest fund company with a market share of 3.9% (4.1).

(SEK M)	2006	2005
Total assets	219	202
Assets under management	61,652	53,906
Net inflow	3,024	2,945
Operating income	76	64
Return on shareholders' equity, %	68.7	68.3

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.



## Income statement

SEK 000s	Note	Group		Parent Company	
		2006	2005	2006	2005
Interest income	2	2,572,768	2,105,806	1,593,625	1,273,335
Interest expenses	3	-1,650,944	-1,232,365	-1,209,381	-918,198
<b>Net interest income</b>		<b>921,824</b>	<b>873,441</b>	<b>384,244</b>	<b>355,137</b>
Dividends received	4	3,395	3,422	87	39
Commission revenue	5	797,284	683,086	117,889	99,466
Commission expense	6	-809,499	-752,883	-329,172	-330,268
Net income from financial transactions	7	1,087	10,335	-	4,830
Other operating revenue	8	111,220	135,886	158,520	167,138
<b>Total operating revenue</b>		<b>1,025,311</b>	<b>953,287</b>	<b>331,568</b>	<b>296,342</b>
General administration expenses	9	-711,193	-663,525	-315,895	-298,934
Depreciation/amortization and impairment of tangible and intangible fixed assets	10	-30,879	-33,378	-20,527	-22,270
Other operating expenses	11	-45,096	-53,832	-15,718	-21,669
<b>Total expenses before loan losses</b>		<b>-787,168</b>	<b>-750,735</b>	<b>-352,140</b>	<b>-342,873</b>
<b>Income before loan losses</b>		<b>238,143</b>	<b>202,552</b>	<b>-20,572</b>	<b>-46,531</b>
Loan losses, net	12	-37,198	-48,545	-14,035	3,686
<b>Total operating income</b>		<b>200,945</b>	<b>154,007</b>	<b>-34,607</b>	<b>-42,845</b>
Tax on net profit for the year	13	-60,179	-44,672	8,261	11,242
<b>Net profit for the year</b>		<b>140,766</b>	<b>109,335</b>	<b>-26,346</b>	<b>-31,603</b>
Earnings per share, SEK (number of shares: 9,548,708)		14.74	11.45	-2.76	-3.31

## Balance sheet

LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY, SEK 000S	Note	Group		Parent Company	
		Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Cash and central bank account balances		72,631	75,617	72,631	75,617
Lending to credit institutions	14	2,113,474	1,296,701	43,293,302	36,875,545
Lending to the public	15	53,883,648	47,093,528	9,264,185	8,386,951
Shares and participations	16	9,489	7,469	9,489	7,469
Shares and participations in Group companies	17	–	–	2,646,400	2,444,400
Bonds and other interest-bearing securities	18	5,629,650	2,602,795	5,629,650	2,602,795
Intangible assets	19	143,619	101,367	123,173	86,843
Tangible assets	20	7,610	12,153	165	1,230
Other assets	21	310,255	283,260	46,191	73,693
Prepaid expenses and accrued income	22	285,583	188,282	386,092	241,861
<b>TOTAL ASSETS</b>		<b>62,455,959</b>	<b>51,661,172</b>	<b>61,471,278</b>	<b>50,796,404</b>
<b>Liabilities, provisions and shareholders' equity</b>					
Liabilities to credit institutions	23	350,818	308,430	526,417	769,341
Deposits and borrowing from the public	24	24,379,388	21,534,743	24,035,387	20,772,309
Issued securities	25	31,921,509	24,849,788	31,921,509	24,849,788
Other liabilities	26	486,125	295,058	171,619	131,095
Accrued expenses and deferred income	27	1,067,085	752,501	475,052	265,584
Provisions	28	29,309	19,719	7,355	4,335
Subordinated debt	29	1,050,000	1,050,000	1,050,000	1,050,000
<b>Shareholders' equity</b>					
Share capital (9,548,708 shares at a par value of SEK 100 each)	30	954,871	954,871	954,871	954,871
Restricted reserves		58,039	58,039	18,380	18,380
Profit brought forward		2,018,049	1,728,688	2,337,034	2,012,304
Net profit for the year		140,766	109,335	–26,346	–31,603
<b>Total shareholders' equity</b>		<b>3,171,725</b>	<b>2,850,933</b>	<b>3,283,939</b>	<b>2,953,952</b>
<b>TOTAL LIABILITIES, PROVISIONS AND SHAREHOLDERS' EQUITY</b>		<b>62,455,959</b>	<b>51,661,172</b>	<b>61,471,278</b>	<b>50,796,404</b>
<b>Memorandum items</b>					
Pledged assets	31	605,000	500,000	605,000	500,000
Contingent liabilities		93,421	55,547	67,141	55,547
Commitments		35,797,767	23,752,871	22,897,001	20,681,544
<b>Other Notes</b>					
Fixed-interest periods	32				
Information on fair value	33				
Capital adequacy analysis	34				
Information on related parties	35				

## Cash-flow statement

SEK 000s	Group		Parent Company	
	2006	2005	2006	2005
<b>Liquid funds, January 1</b>	<b>1,063,888</b>	<b>1,528,172</b>	<b>389,384</b>	<b>1,193,335</b>
<b>Operating activities</b>				
Operating income	200,945	154,007	-34,607	-42,845
<i>Adjustments for items not included in cash flow</i>				
Booked, non-charged tax	-60,179	-44,672	8,261	11,242
Depreciation/amortization charged against earnings	30,879	33,378	20,527	22,270
	<b>171,645</b>	<b>142,713</b>	<b>-5,819</b>	<b>-9,333</b>
Increase in lending to the public	-6,790,120	-7,667,070	-877,234	-381,230
Increase in deposits and borrowing from the public	2,844,645	1,486,963	3,263,078	1,662,881
Increase in lending to subsidiaries	-	-	-5,495,515	-7,238,563
Change in other assets	-124,296	91,690	-116,729	37,750
Change in other liabilities	515,241	-58,896	253,012	-34,766
<b>Cash flow from operating activities</b>	<b>-3,382,885</b>	<b>-6,004,600</b>	<b>-2,979,207</b>	<b>-5,963,261</b>
<b>Investing activities</b>				
Change in fixed assets	-3,095,443	-1,452,670	-3,082,647	-1,444,316
Increase in shares in subsidiaries	-	-	-202,000	-533,000
Increase in shares and participations	-2,020	-2,235	-2,020	-2,235
<b>Cash flow from investing activities</b>	<b>-3,097,463</b>	<b>-1,454,905</b>	<b>-3,286,667</b>	<b>-1,979,551</b>
<b>Financing activities</b>				
Increase in subordinated loans	-	-	-	-
Shareholders' contribution received	300,000	300,000	300,000	300,000
New share issue	-	-	-	-
Group contribution paid	-119,974	-	-	-
Group contribution received	-	-	56,333	143,640
Change in securities issued	7,071,721	6,695,221	7,071,721	6,695,221
<b>Cash flow from financing activities</b>	<b>7,251,747</b>	<b>6,995,221</b>	<b>7,428,054</b>	<b>7,138,861</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>771,399</b>	<b>-464,284</b>	<b>1,162,180</b>	<b>-803,951</b>
<b>Liquid funds, December 31</b>	<b>1,835,287</b>	<b>1,063,888</b>	<b>1,551,564</b>	<b>389,384</b>
<b>Liquid funds include:</b>				
Cash and central bank account balances	72,631	75,617	72,631	75,617
Other lending to/deposits in credit institutions <sup>1)</sup>	2,113,474	1,296,701	2,005,350	1,083,108
Liabilities to credit institutions	-350,818	-308,430	-526,417	-769,341
	<b>1,835,287</b>	<b>1,063,888</b>	<b>1,551,564</b>	<b>389,384</b>
Interest received amounted to	2,478,161	2,176,073	1,448,327	1,262,594
Interest paid amounted to	1,398,398	1,261,407	1,008,634	875,933
Gross investments during the year	73,315	48,039	60,450	39,666

<sup>1)</sup> Excluding subsidiaries



## Change in shareholders' equity

Group	Share capital	Restricted reserves	Non-restricted reserves	Net profit for the year	Total
<b>Opening balance, January 1, 2005</b>	<b>954,871</b>	<b>51,631</b>	<b>1,249,092</b>	<b>186,004</b>	<b>2,441,598</b>
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
<b>Closing balance December 31, 2005</b>	<b>954,871</b>	<b>58,039</b>	<b>1,728,688</b>	<b>109,335</b>	<b>2,850,933</b>
According to decision of AGM			109,335	-109,335	0
Unconditional shareholders' contribution received from Parent Company			300,000		300,000
Group contribution paid			-166,630		-166,630
Tax effect of Group contribution paid			46,656		46,656
Net profit for the year				140,766	140,766
<b>Closing balance, December 31, 2006</b>	<b>954,871</b>	<b>58,039</b>	<b>2,018,049</b>	<b>140,766</b>	<b>3,171,725</b>

Parent Company	Share capital	Statutory reserve	Share premium reserve	Profit brought forward	Net profit for the year	Total
<b>Opening balance, January 1, 2005</b>	<b>954,871</b>	<b>2,371</b>	<b>9,701</b>	<b>1,511,891</b>	<b>63,081</b>	<b>2,541,915</b>
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
<b>Closing balance, December 31, 2005</b>	<b>954,871</b>	<b>18,380</b>	<b>0</b>	<b>2,012,304</b>	<b>-31,603</b>	<b>2,953,952</b>
According to decision of AGM				-31,603	31,603	0
Unconditional shareholders' contribution received				300,000		300,000
Group contribution received				78,240		78,240
Tax effect of Group contribution received				-21,907		-21,907
Net profit for the year					-26,346	-26,346
<b>Closing balance, December 31, 2006</b>	<b>954,871</b>	<b>18,380</b>	<b>0</b>	<b>2,337,034</b>	<b>-26,346</b>	<b>3,283,939</b>

# Supplementary disclosure

## 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 cases, 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 16 of FFFS 2005: 33 were applied when this Annual Report was prepared.

Remuneration to the regional insurance companies is now reported as commission expense instead of as general administration expenses as previously reported. The changed accounting principle is also applied to comparative figures. In all other respects, the accounting principles remain unchanged compared with the 2005 Annual Report.

### Consolidated accounts

The consolidated accounts were prepared in accordance with Recommendation RR 1:00 Consolidated Financial Statements 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 were reported in the consolidated accounts by applying the purchase method. In the 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 included in the purchase analysis made when the consolidated accounts were prepared. 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 liabilities and restricted shareholders' equity. Changes in the deferred tax liabilities due to changes in untaxed reserves are reported as deferred tax in the consolidated income statement.

### Group contribution and shareholders' contribution

Group contributions and shareholders' contributions 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 shareholders' 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 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 is 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 under the item "Interest income."

Unrealized and realized gains and losses on financial instruments are reported under the item "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 amortization, 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 under the item "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 carrying amount 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 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 any 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 carrying amounts 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	
	2006	2005	2006	2005
Interest income, lending to credit institutions	363,380	261,214	1,114,993	883,055
Interest income, lending to the public	2,131,199	1,807,723	400,485	353,458
Interest income, interest-bearing securities	75,371	34,887	75,371	34,887
Other interest income	2,818	1,982	2,776	1,935
<b>Total interest income</b>	<b>2,572,768</b>	<b>2,105,806</b>	<b>1,593,625</b>	<b>1,273,335</b>
Average rate of interest on lending to the public during the year	4.2%	4.0%	4.5%	4.3%

### NOTE 3 INTEREST EXPENSES

	Group		Parent Company	
	2006	2005	2006	2005
Interest expenses, liabilities to credit institutions	451,658	361,019	41,757	93,983
Interest expenses, deposits and borrowing from the public	411,005	301,635	379,411	254,576
Interest expenses, subordinated debt	39,243	34,432	39,243	34,432
Interest expenses, interest-bearing securities	738,899	525,734	738,899	525,734
Other interest expenses, including government deposit insurance	10,139	9,545	10,071	9,473
<b>Total interest expenses</b>	<b>1,650,944</b>	<b>1,232,365</b>	<b>1,209,381</b>	<b>918,198</b>
Average rate of interest on deposits from the public for the year	1.7%	1.2%	1.7%	1.2%

### NOTE 4 DIVIDENDS RECEIVED

	Group		Parent Company	
	2006	2005	2006	2005
Dividends received in shares	3,395	3,422	87	39

### NOTE 5 COMMISSION REVENUE

	Group		Parent Company	
	2006	2005	2006	2005
Payment commission	85,383	72,737	85,383	72,737
Lending commission	84,345	85,974	15,206	18,311
Deposit commission	6,436	2,735	6,436	2,735
Securities commission	619,791	509,731	9,535	4,032
Other commission	1,329	11,909	1,329	1,651
<b>Total commission revenue</b>	<b>797,284</b>	<b>683,086</b>	<b>117,889</b>	<b>99,466</b>

### NOTE 6 COMMISSION EXPENSE

	Group		Parent Company	
	2006	2005	2006	2005
Payment commission	94,242	90,126	94,242	90,126
Securities commission	6,250	4,334	6,250	4,334
Remuneration to regional insurance companies	362,001	369,843	223,034	230,313
Other commission	347,006	288,580	5,646	5,495
<b>Total commission expense</b>	<b>809,499</b>	<b>752,883</b>	<b>329,172</b>	<b>330,268</b>

Commission expense includes remuneration to regional insurance companies for their work with Länsförsäkringar Bank's, Länsförsäkringar Hypotek's and Länsförsäkringar Fondförvaltning's customer-related issues in the geographical area of operations of each regional insurance company. This solution creating a unique local presence and market awareness. From the customer's perspective, the regional insurance companies serve as local banks. The assignment, associated issues and remuneration are regulated in partnership agreements signed by the parties.

Remuneration pertaining to the bank is primarily calculated as the difference between an established internal interest rate and customer interest rate calculated on each company's deposits and lending volumes under management. A percentage remuneration based on the market value and the fund's management fee is paid for fund volumes under management.

**NOTE 7 NET INCOME FROM FINANCIAL TRANSACTIONS**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Capital gains/losses</b>				
Interest-rate related instrument	1,087	10,335	–	4,830
	<b>1,087</b>	<b>10,335</b>	<b>–</b>	<b>4,830</b>

**NOTE 8 OTHER OPERATING REVENUE**

	Group		Parent Company	
	2006	2005	2006	2005
Other revenues	111,220	135,886	158,520	167,138

**NOTE 9 GENERAL ADMINISTRATION EXPENSES**

	Group		Parent Company	
	2006	2005	2006	2005
Personnel costs	273,234	244,082	98,576	94,668
Costs for premises	26,567	29,156	10,143	10,964
IT costs	129,058	123,950	104,348	98,191
Consultant costs	30,269	14,588	19,752	7,654
Other administration expenses	252,065	251,749	83,076	87,457
<b>Total administration expenses</b>	<b>711,193</b>	<b>663,525</b>	<b>315,895</b>	<b>298,934</b>

**Audit fees**

	Group		Parent Company	
	2006	2005	2006	2005
KPMG Bohlins				
– Audit	1,529	1,497	613	662
– Other assignments	960	1 045	813	925
SET Revisionsbyrå AB				
– Audit	144	223	78	78
– Other assignments	–	–	–	–

**Personnel and salaries**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Average number of employees</b>				
Men	155	140	40	39
Women	138	145	54	64
<b>Total number of employees</b>	<b>293</b>	<b>285</b>	<b>94</b>	<b>103</b>

**Salaries, remuneration and social security contributions**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Employees</b>				
Salaries and remuneration	145,880	133,905	50,169	49,346
<i>of which variable salary</i>	<i>7,448</i>	<i>12,119</i>	<i>1,370</i>	<i>3,403</i>
Social security contributions	108,411	85,296	42,246	32,063
<i>of which pension costs</i>	<i>48,299</i>	<i>30,385</i>	<i>20,788</i>	<i>11,914</i>
<b>Board of Directors, President and Executive Vice President</b>				
Salaries and remuneration	4,840	5,302	4,840	5,302
<i>of which salaries to the President and Executive Vice President</i>	<i>3,757</i>	<i>4,808</i>	<i>3,757</i>	<i>4,808</i>
<i>of which variable salary to President and Executive Vice President</i>	<i>730</i>	<i>653</i>	<i>730</i>	<i>653</i>
Social security contributions	3,759	4,036	3,759	4,036
<i>of which pension costs</i>	<i>1,748</i>	<i>1,878</i>	<i>1,748</i>	<i>1,878</i>
<b>Total salaries, remuneration and social security contributions</b>				
Salaries and remuneration	150,720	139,207	55,009	54,648
<i>of which variable salary</i>	<i>8,178</i>	<i>12,772</i>	<i>2,100</i>	<i>4,056</i>
Social security contributions	112,170	89,332	46,005	36,099
<i>of which pension costs</i>	<i>50,047</i>	<i>32,263</i>	<i>22,536</i>	<i>13,792</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 Commitment Index, the leadership index and other individual goals. Variable salary may amount to a maximum of one monthly salary.

An incentive system has been in place since 2005 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	
	2006	2005	2006	2005
Total absence due to illness of total working hours	3.1	3.9	3.5	4.9
Total absence due to illness of total working hours, men	1.2	2.4	0.9	3.5
Total absence due to illness of total working hours, women	5.0	5.2	5.2	5.8
Absence for employees aged 29 or below	1.4	2.7	0.7	3.9
Absence for employees aged 30–49	2.8	3.6	2.0	3.2
Absence for employees aged 50 or above	5.2	5.4	7.4	8.5
Percentage of absence pertaining to absence for a period of 60 or more consecutive days	45.7	55.5	52.0	67.6

**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 31.7 M in the Group and SEK 14.1 M in the Parent Company.

## NOTE 9 GENERAL ADMINISTRATION EXPENSES, CONT.

### 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 nine persons who, together with the President, comprise the Senior Management Team.

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

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 remuneration	Other benefits	Pension costs	Total	Pension costs as a percentage of pensionable salary
<b>2006</b>						
President	2,448	570	61	1,486	4,565	56%
Chairman of the Board	–	–	–	–	–	–
Directors	1,083	–	–	–	1,083	–
Other senior executives (9 people)	10,017	1,823	493	3,812	16,145	30%
<b>Total 2006</b>	<b>13,548</b>	<b>2,393</b>	<b>554</b>	<b>5,298</b>	<b>21,793</b>	
<b>2005</b>						
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%
<b>Total 2005</b>	<b>10,615</b>	<b>1,647</b>	<b>484</b>	<b>4,400</b>	<b>17,146</b>	

### Variable salary

Variable salary includes calculated bonuses for the 2006 financial year. See below for information on how the bonuses were calculated. Other benefits pertain to company car 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 Commitment 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 a defined-contribution plan. 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. The pension premium for the Executive Vice President shall amount to 14% of pensionable salary. 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 resigns of his own accord. If termination of employment is issued by the company, the period of notice is 12 months and the President and shall also be entitled to severance pay corresponding to 12 months' salary. A mutual period of notice of six months applies to the Executive Vice President. If termination of employment is issued by the company, the Executive Vice President shall also be entitled to severance pay corresponding to 18 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	
	2006	2005	2006	2005	2006	2005
<b>Directors</b>	<b>13,799</b>	<b>25,412</b>	<b>4,466</b>	<b>16,848</b>	<b>49,542</b>	<b>78,009</b>
Of which loans from Bank	7,316	18,145	3,343	14,890	20,595	32,152
Of which loans from Hypotek	6,452	7,267	1,123	1,958	28,734	45,857
Of which loans from Wasa Kredit	31	–	–	–	213	–

### President and Executive Vice Presidents

<b>President and Executive Vice Presidents</b>	<b>1,973</b>	<b>687</b>	<b>1,400</b>	<b>–</b>	<b>8,107</b>	<b>11,048</b>
Of which loans from Bank	1,973	687	1,400	–	3,864	3,044
Of which loans from Hypotek	–	–	–	–	4,061	8,004
Of which loans from Wasa Kredit	–	–	–	–	182	–

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 Swedish 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	
	2006	2005	2006	2005
<b>Number of women among senior executives, %</b>				
Directors	22	40	33	40
Other senior executives	25	11	30	14

## NOTE 10 DEPRECIATION/AMORTIZATION AND IMPAIRMENT OF TANGIBLE AND INTANGIBLE FIXED ASSETS

	Group		Parent Company	
	2006	2005	2006	2005
Depreciation of tangible assets	7,254	8,723	1,257	1,970
Amortization of intangible fixed assets	23,625	23,626	19,270	19,271
Impairment of intangible fixed assets	–	1,029	–	1,029
<b>Total depreciation/amortization/impairment</b>	<b>30,879</b>	<b>33,378</b>	<b>20,527</b>	<b>22,270</b>

## NOTE 11 OTHER OPERATING EXPENSES

	Group		Parent Company	
	2006	2005	2006	2005
Marketing	45,096	53,832	15,718	21,669
<b>Other operating expenses</b>	<b>45,096</b>	<b>53,832</b>	<b>15,718</b>	<b>21,669</b>



**NOTE 12 LOAN LOSSES NET**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Specific provisions for individually appraised loan receivables</b>				
Write-off of confirmed loan losses during the year	44,427	29,267	6,082	3,041
Reversed provisions for probable loan losses reported in the year-end accounts as confirmed losses	-4,923	-3,115	-694	-1,739
Provision for probable loan losses during the year	2,393	23,376	371	973
Payment received for prior confirmed loan losses	-28,858	-25,352	-2,049	-10,921
Reversed provisions no longer required for probable loan losses	-5,038	-3,468	-2,023	-1,957
<b>Net expense for the year for individually appraised receivables</b>	<b>8,001</b>	<b>20,708</b>	<b>1,687</b>	<b>-10,603</b>
<b>Group-wise provisions for individually appraised receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Homogenous groups, appraised by group, of loan receivables of limited value and similar credit risk</b>				
Write-off of confirmed loan losses during the year	30,396	16,949	7,032	6,940
Payment received for previously confirmed loan losses	-11,456	-2,518	-211	-8
Allocation/dissolution of provisions for loan losses	11,768	16,887	7,038	3,466
<b>Net expense for the year for receivables appraised by group</b>	<b>30,708</b>	<b>31,318</b>	<b>13,859</b>	<b>10,398</b>
<b>Net expense for the year for fulfillment of guarantees</b>	<b>-1,511</b>	<b>-3,481</b>	<b>-1,511</b>	<b>-3,481</b>
<b>Net expense for the year for loan losses</b>	<b>37,198</b>	<b>48,545</b>	<b>14,035</b>	<b>-3,686</b>

All figures pertain to receivables due from the public.

**NOTE 13 TAX ON NET PROFIT FOR THE YEAR**

	Group		Parent Company	
	2006	2005	2006	2005
Current tax	46,654	168	-21,907	-55,692
Deferred tax	13,525	44,504	13,646	44,450
<b>Total tax on net profit for the year</b>	<b>60,179</b>	<b>44,672</b>	<b>-8,261</b>	<b>-11,242</b>

**Reconciliation of tax expense for the year**

	Group		Parent Company	
	2006	2005	2006	2005
Reported pretax profit	200,945	154,007	-34,607	-44,318
Corporate income tax, 28 %	56,265	43,122	-9,690	-11,997
Non-deductible costs	6,842	2,321	3,434	603
Non-taxable revenues	-1,615	-969	-686	-16
Increase in loss carryforwards without capitalizing deferred tax	6	12	-	-
Capitalization of loss carryforwards	560	-	560	-
Tax pertaining to prior years	-1,879	186	-1,879	168
Utilization of non-capitalized loss carryforwards	-	-	-	-
<b>Reported tax expense</b>	<b>60,179</b>	<b>44,672</b>	<b>-8,261</b>	<b>-11,242</b>
Applicable tax rate	28%	28%	28%	28%
Effective tax rate	30%	29%	-24%	-25%

**Tax items charged against shareholders' equity**

	Group		Parent Company	
	2006	2005	2006	2005
Current tax in received/paid				
Group contribution	-46,656	-	21,907	55,860
	<b>-46,656</b>	<b>-</b>	<b>21,907</b>	<b>55,860</b>

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

**NOTE 14 LENDING TO CREDIT INSTITUTIONS**

	Group		Parent Company	
	2006	2005	2006	2005
Lending to subsidiaries	-	-	41,287,952	35,792,437
Deposit, Swedish banks	1,986,000	1,067,000	1,986,000	1,067,000
Other lending to credit institutions	127,474	229,701	19,350	16,108
	<b>2,113,474</b>	<b>1,296,701</b>	<b>43,293,302</b>	<b>36,875,545</b>

**Information on maturity:**

	Group		Parent Company	
	2006	2005	2006	2005
Payable on demand	108,124	213,593	-	-
Remaining maturity, maximum 3 months	2,005,350	1,083,108	5,837,182	4,170,232
Remaining maturity, 3 months to one year	-	-	15,712,849	14,610,209
Remaining maturity, 1-5 years	-	-	21,115,657	17,467,490
Remaining maturity, more than 5 years	-	-	627,614	627,614
	<b>2,113,474</b>	<b>1,296,701</b>	<b>43,293,302</b>	<b>36,875,545</b>
Average remaining maturity	0.1 yrs	0.1 yrs	1.7 yrs	1.8 yrs

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

**NOTE 15 LENDING TO THE PUBLIC**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Loan receivables, gross</b>				
Public sector	144,889	133,952	–	–
Commercial sector	4,429,884	4,114,259	456,733	453,529
Household sector	49,511,495	43,061,907	8,891,700	8,013,701
Other	7,771	8,109	4,747	3,385
	<b>54,094,039</b>	<b>47,318,227</b>	<b>9,353,180</b>	<b>8,470,615</b>
<i>Provisions for individually reserved loan receivables</i>				
Commercial sector	–24,678	–36,988	–295	–246
Household sector	–38,306	–56,945	–10,053	–12,449
	<b>–62,984</b>	<b>–93,933</b>	<b>–10,348</b>	<b>–12,695</b>
<i>Provisions for group-wise reserved loan receivables</i>				
Commercial sector	–19,516	–16,714	–2,363	–2,408
Household sector	–127,891	–114,052	–76,284	–68,561
	<b>–147,407</b>	<b>–130,766</b>	<b>–78,647</b>	<b>–70,969</b>
<b>Total provisions</b>	<b>–210,391</b>	<b>–224,699</b>	<b>–88,995</b>	<b>–83,664</b>
<b>Loan receivables, net</b>				
Public sector	144,889	133,952	–	–
Commercial sector	4,385,690	4,060,557	454,075	450,875
Household sector	49,345,298	42,890,910	8,805,363	7,932,691
Other	7,771	8,109	4,747	3,385
	<b>53,883,648</b>	<b>47,093,528</b>	<b>9,264,185</b>	<b>8,386,951</b>
<i>Doubtful loan receivables</i>				
Commercial sector	55,898	74,738	2,837	2,674
Household sector	192,451	187,136	87,074	82,120
	<b>248,349</b>	<b>261,874</b>	<b>89,911</b>	<b>84,794</b>
<i>Non-performing loan receivables included in doubtful loan receivables</i>				
Commercial sector	42,647	46,122	474	266
Household sector	109,225	116,503	52,413	55,110
	<b>151,872</b>	<b>162,625</b>	<b>52,887</b>	<b>55,376</b>

	Group		Parent Company	
	2006	2005	2006	2005
<b>Breakdown by collateral</b>				
Private homes	35,187,563	30,014,581	3,514,164	3,127,879
Tenant-owned apartments	5,194,409	4,405,821	545,305	505,653
Apartment buildings	232,941	182,624	51,880	51,448
Agricultural/farm properties	1,744,227	1,577,006	1,744,227	1,577,006
Commercial properties	73,090	75,365	807	836
Industrial properties	9,632	10,067	935	79
Other guarantees	7,231	7,946	7,231	7,946
Other collateral	7,677,620	7,077,628	885,317	622,702
Unsecured credit	3,967,326	3,967,189	2,603,314	2,577,066
	<b>54,094,039</b>	<b>47,318,227</b>	<b>9,353,180</b>	<b>8,470,615</b>

**Information on maturity:**

Payable on demand	–	2,166	–	–
Remaining maturity, maximum 3 months	19,306,924	15,882,355	252,981	216,620
Remaining maturity, 3 months to one year	2,920,202	3,426,332	993,984	1,014,176
Remaining maturity, 1–5 years	21,598,640	18,757,085	900,476	859,787
Remaining maturity, more than 5 years	10,057,882	9,025,590	7,116,744	6,296,368
	<b>53,883,648</b>	<b>47,093,528</b>	<b>9,264,185</b>	<b>8,386,951</b>
Average remaining maturity	20.4 yrs	18.9 yrs	24.2 yrs	22.7 yrs

The loan receivables all relate geographically to Sweden.

For the Parent Company, actual maturity has been reported, although Chapter 2, Section 19 of the Swedish 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 3.3 billion (3.0) of the Group's lending to the public. Leasing assets are classified as financial leasing. Car leasing comprises 39% (39) of total leasing. For information on fixed-interest periods, see Note 32.

**NOTE 16 SHARES AND PARTICIPATIONS**

	Group		Parent Company	
	2006	2005	2006	2005
Other shares and participations	9,109	7,089	9,109	7,089
Tenant-owned apartments	380	380	380	380
<b>Total shares and participations</b>	<b>9,489</b>	<b>7,469</b>	<b>9,489</b>	<b>7,469</b>

All shares are unlisted.

**NOTE 17 SHARES AND PARTICIPATIONS IN GROUP COMPANIES**

(Parent Company)	2006			2005		
	Number of shares	Nominal value	Book value	Number of shares	Nominal value	Book value
Wasa Kredit AB	875,000	87,500	537,772	875,000	87,500	537,772
Länsförsäkringar Hypotek AB	70,335	70,335	1,958,628	70,335	70,335	1,758,628
Länsförsäkringar Fondförvaltning AB	15,000	1,500	150,000	15,000	1,500	148,000
<b>Total shares and participations in Group companies</b>		<b>2,646,400</b>			<b>2,444,400</b>	

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

All shares are unlisted. Of the asset item, SEK 2,496,400,000 (2,296,400,000) pertains to holdings in credit institutions.

Shareholders' equity in Wasa Kredit (556311-9204) at December 31, 2006 amounted to SEK 483 M and net profit for the year was SEK 81 M.

Shareholders' equity in Länsförsäkringar Hypotek (556244-1781) at December 31, 2006 amounted to SEK 1,952 M and net profit for the year was SEK 32 M.

The subsidiary Länsförsäkringar Fondförvaltning AB (556364-2783) was acquired on January 1, 2004. The company's shareholders' equity at December 31, 2006 amounted to SEK 60 M and net profit for the year was SEK 54 M.

**NOTE 18 BONDS AND OTHER INTEREST-BEARING SECURITIES**

(Group and Parent Company)	2006				2005			
	Nominal value	Accrued acquisition value	Fair value	Book value	Nominal value	Accrued acquisition value	Fair value	Book value
<b>Issued by other borrowers</b>								
Mortgage institutions	5,077,000	5,130,867	5,108,150	5,130,867	2,600,000	2,602,795	2,598,704	2,602,795
Other financial companies	500,000	498,783	498,736	498,783	–	–	–	–
<b>Total bonds and other interest-bearing securities</b>	<b>5,577,000</b>	<b>5,629,650</b>	<b>5,606,886</b>	<b>5,629,650</b>	<b>2,600,000</b>	<b>2,602,795</b>	<b>2,598,704</b>	<b>2,602,795</b>
Of which, listed								
<b>Differences between book and nominal value:</b>								
Higher/lower book value				52,650				2,795
				<b>52,650</b>				<b>2,795</b>
<b>Information on maturity:</b>								
Maximum 1 year				3,962,395				1,995,009
1–5 years				1,667,255				–
More than 5 years				–				607,786
				<b>5,629,650</b>				<b>2,602,795</b>
Average remaining maturity				1.0 year				1.2 years

For information on fixed-interest periods, 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 ASSETS**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Goodwill</b>				
Opening acquisition value	–	2,683	–	2,683
Impairment	–	–2,683	–	–2,683
<b>Closing acquisition value</b>	<b>–</b>	<b>0</b>	<b>0</b>	<b>0</b>
Opening accumulated impairment	–	–1,654	–	–1,654
Impairment for the year	–	–	–	–
Impairment	–	1,654	–	1,654
<b>Closing accumulated impairment</b>	<b>–</b>	<b>0</b>	<b>0</b>	<b>0</b>
Closing residual value according to plan	0	0	0	0
<b>Other intangible assets</b>				
Opening acquisition value	268,107	224,092	241,776	202,314
Purchases	65,876	44,015	55,599	39,462
<b>Closing accumulated acquisition value</b>	<b>333,983</b>	<b>268,107</b>	<b>297,375</b>	<b>241,776</b>
Opening amortization	–166,740	–143,116	–154,933	–135,663
Amortization for the year	–23,624	–23,624	–19,269	–19,270
<b>Closing accumulated amortization</b>	<b>–190,364</b>	<b>–166,740</b>	<b>–174,202</b>	<b>–154,933</b>
<b>Closing residual value according to plan</b>	<b>143,619</b>	<b>101,367</b>	<b>123,173</b>	<b>86,843</b>
<b>Total intangible assets</b>	<b>143,619</b>	<b>101,367</b>	<b>123,173</b>	<b>86,843</b>

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 92,914,000 (42,573,000) in the Parent Company and SEK 107,744,000 (47,126,000).

**NOTE 20 TANGIBLE ASSETS**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Equipment</b>				
Opening acquisition value	74,861	71,592	23,671	23,892
Purchases	2,764	3,820	193	–
Sales/scraping	–708	–551	–	–221
<b>Closing acquisition value</b>	<b>76,917</b>	<b>74,861</b>	<b>23,864</b>	<b>23,671</b>
Opening depreciation	–62,708	–54,295	–22,441	–20,471
Sales/scraping	656	310	–	–
Depreciation for the year	–7,255	–8,723	–1,258	–1,970
<b>Closing accumulated depreciation</b>	<b>–69,307</b>	<b>–62,708</b>	<b>–23,699</b>	<b>–22,441</b>
<b>Closing residual value according to plan</b>	<b>7,610</b>	<b>12,153</b>	<b>165</b>	<b>1,230</b>
<b>Tangible assets</b>	<b>7,610</b>	<b>12,153</b>	<b>165</b>	<b>1,230</b>

**NOTE 21 OTHER ASSETS**

	Group		Parent Company	
	2006	2005	2006	2005
Accounts receivable	274,128	211,419	9,623	18,287
Deferred tax assets	172	13,694	13	13,659
Other assets	35,955	58,147	36,555	41,747
<b>Total other assets</b>	<b>310,255</b>	<b>283,260</b>	<b>46,191</b>	<b>73,693</b>

**NOTE 22 PREPAID EXPENSES AND ACCRUED INCOME**

	Group		Parent Company	
	2006	2005	2006	2005
Accrued interest income	57,004	43,155	338,484	174,098
Accrued interest swap	116,515	35,757	1,830	20,918
Other accrued income	67,363	64,431	11,603	12,641
Prepaid expenses	44,701	44,939	34,175	34,204
<b>Total prepaid expenses and accrued income</b>	<b>285,583</b>	<b>188,282</b>	<b>386,092</b>	<b>241,861</b>

**NOTE 23 LIABILITIES TO CREDIT INSTITUTIONS**

	Group		Parent Company	
	2006	2005	2006	2005
Other Swedish credit institutions	350,818	308,430	526,417	769,341
<b>Total liabilities to credit institutions</b>	<b>350,818</b>	<b>308,430</b>	<b>526,417</b>	<b>769,341</b>
<b>Information on maturity:</b>				
Payable on demand	350,818	308,430	526,417	769,341
Average remaining maturity	0 yr	0 yr	0 yr	0 yr

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

**NOTE 24 DEPOSITS AND BORROWING FROM THE PUBLIC**

	Group		Parent Company	
	2006	2005	2006	2005
Borrowing from the public	437,281	795,802	–	–
Deposits from insurance companies	1,702,322	1,270,002	1,702,322	1,270,002
Deposits from households	20,481,405	17,918,832	20,481,405	17,918,832
Deposits from other Swedish public	1,758,380	1,550,107	1,851,660	1,583,475
<b>Total deposits from the public</b>	<b>24,379,388</b>	<b>21,534,743</b>	<b>24,035,387</b>	<b>20,772,309</b>
<b>Information on maturity:</b>				
Payable on demand	23,942,107	20,738,941	24,035,387	20,772,309
Remaining maturity, maximum 3 months	–	–	–	–
Remaining maturity, 3 months to one year	437,281	355,351	–	–
Remaining maturity, 1–5 years	–	440,451	–	–
	<b>24,379,388</b>	<b>21,534,743</b>	<b>24,035,387</b>	<b>20,772,309</b>
Average remaining maturity	0 yr	0 yr	0 yr	0 yr

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

**NOTE 25 ISSUED SECURITIES**

	Group		Parent Company	
	2006	2005	2006	2005
Certificate of deposits	3,603,625	1,816,844	3,603,625	1,816,844
Bond loans	27,919,744	22,632,340	27,919,744	22,632,340
Cashiers' checks issued	398,140	400,604	398,140	400,604
<b>Total securities issued, etc.</b>	<b>31,921,509</b>	<b>24,849,788</b>	<b>31,921,509</b>	<b>24,849,788</b>

**Information on maturity**

Remaining maturity, maximum 1 year	10,894,781	7,219,564	10,894,781	7,219,564
Remaining maturity, 1–5 years	20,628,585	17,229,620	20,628,585	17,229,620
Remaining maturity, 5–10 years	398,143	400,604	398,143	400,604
	<b>31,921,509</b>	<b>24,849,788</b>	<b>31,921,509</b>	<b>24,849,788</b>
Average remaining maturity	2,0 yrs	2,1 yrs	2,0 yrs	2,1 yrs

**NOTE 26 OTHER LIABILITIES**

	Group		Parent Company	
	2006	2005	2006	2005
Accounts payable	72,855	92,187	42,271	31,708
Preliminary tax, customers	79,695	55,603	79,695	55,603
Other liabilities	333,575	147,268	49,653	43,784
<b>Total other liabilities</b>	<b>486,125</b>	<b>295,058</b>	<b>171,619</b>	<b>131,095</b>

**NOTE 27 ACCRUED EXPENSES AND DEFERRED INCOME**

	Group		Parent Company	
	2006	2005	2006	2005
Accrued vacation pay	10,141	9,184	3,814	3,490
Accrued social security contributions	11,561	9,448	4,632	3,275
Accrued interest expenses	360,192	161,012	352,855	144,575
Accrued interest swap	186,568	133,202	12,681	20,213
Other accrued expenses	244,810	224,208	101,031	93,983
Prepaid rent	235,371	215,399	–	–
Other prepaid income	18,442	48	39	48
<b>Total accrued expenses and deferred income</b>	<b>1,067,085</b>	<b>752,501</b>	<b>475,052</b>	<b>265,584</b>

**NOTE 28 PROVISIONS**

	Group		Parent Company	
	2006	2005	2006	2005
Deferred	15,384	15,384	–	–
Provisions for guarantees	3,413	4,335	3,413	4,335
Provisions for early retirement in accordance with the pension agreement	10,512	–	3,942	–
	<b>29,309</b>	<b>19,719</b>	<b>7,355</b>	<b>4,335</b>

In accordance with the pension agreement for the insurance industry for 2006, persons born in 1955 or earlier may voluntarily retire at the age of 62. The provision is actuarially calculated in accordance with the actuarial guidelines and calculation basis applied to individually issued life assurance. The starting point of these calculations is a compilation of age and annual pension calculated as an average per age group. A probability assessment has been performed and indicates that 20% will take advantage of the early retirement scheme.

**NOTE 29 SUBORDINATED DEBT**

	Group		Parent Company	
	2006	2005	2006	2005
Subordinated loans	1,050,000	1,050,000	1,050,000	1,050,000
	<b>1,050,000</b>	<b>1,050,000</b>	<b>1,050,000</b>	<b>1,050,000</b>

**Specification of subordinated loans from Länsförsäkringar AB**

	Book value	Coupon rate of interest
Subordinated loans 2002/2012 LFAB	180,000	variable
Subordinated loans 2003/2013 LFAB	580,000	variable
Subordinated loans perpetual LFAB <sup>1)</sup>	290,000	variable
	<b>1,050,000</b>	

<sup>1)</sup> The terms of the loan are such that the loan qualifies as a Tier 1 capital contribution in accordance with the requirements of 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	
	2006	2005	2006	2005
<b>Restricted shareholders' equity</b>				
Share capital	954,871	954,871	954,871	954,871
Statutory reserve	18,480	18,480	18,380	18,380
Share premium reserve	–	–	–	–
Other funds	39,559	39,559	–	–
	<b>1,012,910</b>	<b>1,012,910</b>	<b>973,251</b>	<b>973,251</b>
<b>Non-restricted shareholders' equity</b>				
Profit brought forward	2,018,049	1,728,688	2,337,034	2,012,304
Net profit for the year	140,766	109,335	–26,346	–31,603
	<b>2,158,815</b>	<b>1,838,023</b>	<b>2,310,688</b>	<b>1,980,701</b>
<b>Total shareholders' equity</b>	<b>3,171,725</b>	<b>2,850,933</b>	<b>3,283,939</b>	<b>2,953,952</b>

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 38.

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

Profit brought forward	1,980,701,567
Shareholders' contribution received	300,000,000
Group contribution received, net	56,332,800
Net loss for the year	–26,345,547
	<b>2,310,688,820</b>

The Board of Directors proposes: to be carried forward	2,310,688,820
	<b>2,310,688,820</b>

**NOTE 31 MEMORANDUM ITEMS**

	Group		Parent Company	
	2006	2005	2006	2005
<b>Pledged assets / collateral</b>				
Pledged securities in the Bank of Sweden	600,000	495,000	600,000	495,000
Pledged securities in VPC (Swedish Securities Register Center)	5,000	5,000	5,000	5,000
	<b>605,000</b>	<b>500,000</b>	<b>605,000</b>	<b>500,000</b>

**Contingent liabilities**

Guarantees	47,211	51,385	47,211	51,385
Early retirement at age of 62 in accordance with pension agreement, 80%	42,048	–	15,768	–
Other contingent liabilities	4,162	4,162	4,162	4,162
	<b>93,421</b>	<b>55,547</b>	<b>67,141</b>	<b>55,547</b>

**Commitments**

Granted but undisbursed loans	396,942	402,233	112,499	116,229
Granted but unutilized overdraft facilities	1,163,035	902,148	6,886,712	6,736,825
Exchange rate-related contracts	14,297,790	11,428,490	14,297,790	11,428,490
Interest rate-related contracts <sup>1)</sup>	19,940,000	11,020,000	1,600,000	2,400,000
	<b>35,797,767</b>	<b>23,752,871</b>	<b>22,897,001</b>	<b>20,681,544</b>

<sup>1)</sup> 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 SEK 85,585,000 (236,222,000) in the Group and by SEK 42,864,000 (21,978,000) in the Parent Company. Unrealized losses on these derivatives that have been deferred due to hedge accounting amount to a gain of SEK 32,8361,000 (loss: 108,358,000) in the Group and to a loss of SEK 37,990,000 (gain: 3,209,000) 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	2,113,474						2,113,474	
Lending to the public	37,812,806	1,371,370	2,163,774	7,228,978	4,167,317	1,139,403	53,883,648	0.8 yrs
Bonds and other interest-bearing securities	3,962,395			1,061,137	606,118		5,629,650	1.0 yrs
Other assets	829,187						829,187	
<b>Total assets</b>	<b>44,717,862</b>	<b>1,371,370</b>	<b>2,163,774</b>	<b>8,290,115</b>	<b>4,773,435</b>	<b>1,139,403</b>	<b>62,455,959</b>	
Liabilities to credit institutions	350,818						350,818	
Deposits from the public	23,100,116	160,321	636,908	389,204	92,839		24,379,388	0.1 yrs
Issued securities, etc.	22,896,678		2,202,386	349,988	6,472,457		31,921,509	1.1 yrs
Subordinated debt	1,050,000						1,050,000	0.2 yrs
Other liabilities and provisions	1,582,519						1,582,519	
Shareholders' equity	3,171,725						3,171,725	
<b>Total liabilities and shareholders' equity</b>	<b>52,151,856</b>	<b>160,321</b>	<b>2,839,294</b>	<b>739,192</b>	<b>6,565,296</b>	<b>–</b>	<b>62,455,959</b>	
Derivatives, nominal amount, net	8,940,000	–450,000	–1,375,000	–7,890,000	1,870,000	–1,095,000	0	
<b>Net including derivatives</b>	<b>1,506,006</b>	<b>761,049</b>	<b>–2,050,520</b>	<b>–339,077</b>	<b>78,139</b>	<b>44,403</b>	<b>0</b>	

**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	33,788,178	–	2,195,484	710,182	6,599,459		43,293,303	0.7 yrs
Lending to the public	9,264,185						9,264,185	
Bonds and other interest-bearing securities	3,962,395			1,061,137	606,118		5,629,650	1.0 yrs
Other assets	3,284,140						3,284,140	
<b>Total assets</b>	<b>50,298,898</b>	<b>–</b>	<b>2,195,484</b>	<b>1,771,319</b>	<b>7,205,577</b>	<b>–</b>	<b>61,471,278</b>	
Liabilities to credit institutions	526,417						526,417	
Deposits from the public	23,193,396	160,321	199,627	389,204	92,839		24,035,387	0.1 yrs
Issued securities, etc.	22,896,678		2,202,386	349,988	6,472,457		31,921,509	1.1 yrs
Subordinated debt	1,050,000						1,050,000	0.2 yrs
Other liabilities and provisions	654,026						654,026	
Shareholders' equity	3,283,939						3,283,939	
<b>Total liabilities and shareholders' equity</b>	<b>51,604,456</b>	<b>160,321</b>	<b>2,402,013</b>	<b>739,192</b>	<b>6,565,296</b>	<b>–</b>	<b>61,471,278</b>	
Derivatives, nominal amount, net	1,600,000	–	–	–1,000,000	–600,000	–	0	
<b>Net including derivatives</b>	<b>294,442</b>	<b>–160,321</b>	<b>–206,529</b>	<b>32,127</b>	<b>40,281</b>	<b>0</b>	<b>0</b>	



**NOTE 33 INFORMATION ON FAIR VALUE**

Group	Current assets		Fixed assets	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Cash and central bank account balances	72,631	72,631		
Lending to credit institutions			2,113,474	2,113,474
Lending to the public			53,883,648	54,050,447
Shares and participations			9,489	9,489
Bonds and other interest-bearing assets			5,629,650	5,606,886
Intangible assets			143,619	143,619
Tangible fixed assets			7,610	7,610
Other assets	310,255	310,255		
Prepaid expenses and accrued income	285,583	285,583		
<b>Total assets</b>	<b>668,469</b>	<b>668,469</b>	<b>61,787,490</b>	<b>61,931,525</b>
<b>Liabilities</b>				
Liabilities to credit institutions			350,818	350,818
Deposits and borrowing from the public			24,379,388	24,424,389
Issued securities, etc.			31,921,509	31,874,323
Other liabilities			486,125	486,125
Accrued expenses and deferred income			1,067,085	1,067,085
Provisions			29,309	29,309
Subordinated debt			1,050,000	1,050,000
<b>Total liabilities</b>			<b>59,284,234</b>	<b>59,282,049</b>
<b>Positions not shown in the balance sheet</b>				
Negative values			425,954	
Positive values			168,330	

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 deposits 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	Current assets		Fixed assets	
	Book value	Fair value	Book value	Fair value
<b>Assets</b>				
Cash and central bank account balances	72,631	72,631		
Lending to credit institutions			43,293,302	43,276,991
Lending to the public			9,264,185	9,264,185
Shares and participations			9,489	9,489
Shares and participations in Group companies			2,646,400	2,646,400
Bonds and other interest-bearing assets			5,629,650	5,606,886
Intangible assets			123,173	123,173
Tangible fixed assets			165	165
Other assets	46,191	46,191		
Prepaid expenses and accrued income	386,092	386,092		
<b>Total assets</b>	<b>504,914</b>	<b>504,914</b>	<b>60,966,364</b>	<b>60,927,289</b>
<b>Liabilities</b>				
Liabilities to credit institutions			526,417	526,417
Deposits and borrowing from the public			24,035,387	23,982,056
Issued securities, etc.			31,921,509	31,874,323
Other liabilities			171,619	171,619
Accrued expenses and deferred income			475,052	475,052
Provisions			7,355	7,355
Subordinated debt			1,050,000	1,050,000
<b>Total liabilities</b>			<b>58,187,339</b>	<b>58,086,822</b>
<b>Positions not shown in the balance sheet</b>				
Negative values			352,848	
Positive values			24,368	

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 deposits 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, 2006****Group**

Total capital base	4,077,934
of which Tier 1 capital	3,317,934

**Capital requirement for credit risk (SEK 000s)**

Risk class		Balance sheet items	Off-balance sheet items	Risk-weighted amount
Group A	0%	365,414	–	0
Group B	20%	7,872,476	804,177	1,735,331
Group C	50%	35,248,690	83,109	17,665,900
Group D	100%	18,969,379	143,386	19,112,765
		<b>62,455,959</b>	<b>1,030,672</b>	<b>38,513,995</b>
<b>Total risk-weighted amount for credit risk</b>				<b>38,513,995</b>

Capital adequacy ratio, %	10.59
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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	4,210,753
of which Tier 1 capital	3,450,753

**Capital requirement for credit risk (SEK 000s)**

Risk class		Balance sheet items	Off-balance sheet items	Risk-weighted amount
Group A	0%	44,451,908	–	0
Group B	20%	7,651,285	566,941	1,643,645
Group C	50%	3,419,386	37,075	1,728,231
Group D	100%	5,948,699	47,199	5,995,898
		<b>61,471,278</b>	<b>651,215</b>	<b>9,367,773</b>
<b>Total risk-weighted amount for credit risk</b>				<b>9,367,773</b>

Capital adequacy ratio, %	44.95
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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 regional insurance companies with subsidiaries.

From 2006, the local insurance companies that hold shares in Länsförsäkringar AB are considered to be legal entities related to the Alliance.

Related key persons are Board members, senior executives and close family members to these individuals.

**Pricing**

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

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 regional insurance companies and agreements with Länsförsäkringar Stockholm for the Telephone Bank.

**NOTE 35 DISCLOSURE REGARDING RELATED PARTIES, PRICING AND AGREEMENTS, CONT.**

Transactions	Receivables		Liabilities		Revenues		Expenses	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Parent Company</b>								
Companies within the Banking Group	41,606,546	35,959,552	270,669	513,186	1,131,378	847,160	11,641	52,506
Other companies in the Länsförsäkringar AB Group	10,938	9,972	1,587,705	1,475,499	1,187	2,171	164,598	151,930
Regional insurance companies	67,636	72,943	1,576,424	1,313,103	91,612	116,149	253,681	259,530
Other related parties	–	–	–	–	1,861	104	–	–
<b>Group</b>								
Other companies in the Länsförsäkringar AB Group	18,198	28,170	1,755,811	1,477,697	1,187	3,918	195,717	178,157
Regional insurance companies	67,649	72,943	1,609,150	1,348,345	91,770	116,149	393,988	399,947
Other related parties	–	193	462,646	830,509	2,084	440	232,482	80,402

For information regarding remuneration to related key individuals such as members of the Board of Directors and senior executives, refer to Note 9 General administration expenses. In all other respects, no transactions took place between these individuals and their related parties apart from normal customer transactions.

Stockholm, March 13, 2007

Tommy Persson  
*Chairman*

Hans Benndorf

Mats Ericsson

Leif Johanson

Christer Villard

Lena Wahlgren

Tomas Johansson  
*President*

Ingrid Ericson  
*Employee representative*

Katarina Timåker  
*Employee representative*

Our audit report was submitted on March 15, 2007

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 Registration Number 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 2006 financial year. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 28–57. 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 significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the 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 15, 2007

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				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Interest income	2,572.8	2,105.8	2,051.0	1,593.7	1,143.2	1,593.6	1,273.3	1,284.1	1,021.6	824.2
Interest expenses	-1,650.9	-1,232.4	-1,221.3	-893.0	-605.4	-1,209.4	-918.2	-915.7	-685.3	-534.6
<b>Net interest income</b>	<b>921.9</b>	<b>873.4</b>	<b>829.7</b>	<b>700.7</b>	<b>537.8</b>	<b>384.2</b>	<b>355.1</b>	<b>368.4</b>	<b>336.3</b>	<b>289.6</b>
Net commission income	-12.2	-69.7	-111.3	-189.8	-140.4	-211.3	-230.7	-244.0	-193.1	-161.4
Dividends received	3.4	3.4	3.2	2.4	0.0	0.0	0.0	0.0	0.1	28.4
Net income from financial transactions	1.1	10.3	14.8	-0.4	-0.2	-	4.8	14.8	-0.4	-0.2
Other operating revenue	111.2	135.9	152.2	91.3	84.1	158.6	167.1	147.9	123.4	74.0
<b>Total operating revenue</b>	<b>1,025.4</b>	<b>953.3</b>	<b>888.6</b>	<b>604.2</b>	<b>481.3</b>	<b>331.5</b>	<b>296.3</b>	<b>287.1</b>	<b>266.3</b>	<b>230.4</b>
General administration expenses	-756.3	-717.3	-680.1	-460.7	-426.7	-336.3	-320.6	-298.1	-271.3	-254.7
Depreciation/amortization	-30.9	-33.4	-37.1	-57.7	-46.3	-15.8	-22.3	-25.3	-49.8	-47.4
<b>Total expenses before loan losses</b>	<b>-787.2</b>	<b>-750.7</b>	<b>-717.2</b>	<b>-518.4</b>	<b>-473.0</b>	<b>-352.1</b>	<b>-342.9</b>	<b>-323.4</b>	<b>-321.1</b>	<b>-302.1</b>
<b>Income before loan losses</b>	<b>238.2</b>	<b>202.6</b>	<b>171.4</b>	<b>85.8</b>	<b>8.3</b>	<b>-20.6</b>	<b>-46.6</b>	<b>-36.3</b>	<b>-54.8</b>	<b>-71.7</b>
Loan losses, net	-37.2	-48.6	-44.8	-38.9	-13.2	-14.0	3.7	-8.0	-11.1	-12.0
<b>Income from banking operations/Operating income</b>	<b>201.0</b>	<b>154.0</b>	<b>126.6</b>	<b>46.9</b>	<b>-4.9</b>	<b>-34.6</b>	<b>-42.9</b>	<b>-44.3</b>	<b>-65.9</b>	<b>-83.7</b>
Income from insurance operations	-	-	-	18.0	24.4	-	-	-	-	-
Deferred tax	-	-	-	-	-	21.9	55.7	49.3	-0.4	0.4
Tax on net profit for the year	-60.2	-44.7	59.4	-18.6	0.4	-13.6	-44.4	58.1	18.6	32.3
<b>Net profit/loss for the year</b>	<b>140.8</b>	<b>109.3</b>	<b>186.0</b>	<b>46.3</b>	<b>19.9</b>	<b>-26.3</b>	<b>-31.6</b>	<b>63.1</b>	<b>-47.7</b>	<b>-51.0</b>
Balance sheet (SEK M)	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002
Cash and central bank account balances	72.6	75.6	146.4	75.1	68.8	72.6	75.6	72.2	75.1	68.8
Lending to credit institutions	2,113.5	1,296.7	1,577.2	602.1	1,408.0	43,293.3	36,875.5	29,923.5	21,076.0	13,081.4
Lending to the public	53,883.6	47,093.5	39,426.5	30,043.7	19,861.3	9,264.2	8,387.0	8,005.7	7,049.3	5,818.5
Shares and participations	9.5	7.5	5.2	3.8	0.5	2,655.9	2,451.9	1,916.6	1,255.7	807.4
Bonds and other interest-bearing securities	5,629.7	2,602.8	1,197.7	1,243.1	499.2	5,629.6	2,602.8	1,197.7	1,243.1	499.2
Assets in insurance operations	-	-	-	0.0	12.2	-	-	-	-	-
Intangible assets	143.6	101.4	82.0	77.7	108.5	123.2	86.8	67.7	77.7	108.5
Tangible assets	7.6	12.2	17.3	25.6	29.8	0.2	1.2	3.4	7.8	10.7
Other assets	310.3	283.2	307.4	237.6	235.5	46.2	73.7	111.3	76.8	74.1
Prepaid expenses and accrued income	285.6	188.3	255.9	97.0	77.9	386.1	241.9	242.1	54.8	50.8
<b>Total assets</b>	<b>62,456.0</b>	<b>51,661.2</b>	<b>43,015.6</b>	<b>32,405.7</b>	<b>22,301.7</b>	<b>61,471.3</b>	<b>50,796.4</b>	<b>41,540.2</b>	<b>30,916.3</b>	<b>20,519.4</b>
Liabilities to credit institutions	350.9	308.4	195.5	995.5	162.2	526.4	769.3	248.6	1,037.7	247.5
Deposits and borrowing from the public	24,379.4	21,534.8	20,047.8	18,515.7	16,482.5	24,035.4	20,772.3	19,109.4	17,374.4	14,936.2
Issued securities	31,921.5	24,849.8	18,154.6	9,120.1	3,705.5	31,921.5	24,849.9	18,154.6	9,120.1	3,705.5
Liabilities in insurance operations	-	-	-	5.4	5.4	-	-	-	-	-
Other liabilities	486.1	295.1	375.7	307.5	234.3	171.6	131.1	198.6	262.9	173.9
Accrued expenses and deferred income	1,067.1	752.5	728.6	458.6	308.1	475.1	265.5	230.7	129.9	69.5
Provisions	29.3	19.7	21.8	21.0	18.0	7.4	4.3	6.4	4.3	-
Subordinated debt	1,050.0	1,050.0	1,050.0	1,050.0	180.0	1,050.0	1,050.0	1,050.0	1,050.0	180.0
Shareholders' equity	3,171.7	2,850.9	2,441.6	1,931.9	1,205.7	3,283.9	2,954.0	2,541.9	1,937.0	1,206.8
<b>Total liabilities, provisions and shareholders' equity</b>	<b>62,456.0</b>	<b>51,661.2</b>	<b>43,015.6</b>	<b>32,405.7</b>	<b>22,301.7</b>	<b>61,471.3</b>	<b>50,796.4</b>	<b>41,540.2</b>	<b>30,916.3</b>	<b>20,519.4</b>

## Key figures

Group	2006	2005	2004	2003	2002
Return on equity, %	4.61	4.07	4.30	2.98	1.30
Return on total capital, %	0.35	0.43	0.33	0.24	0.11
Investment margin, %	1.62	1.85	2.18	2.59	3.01
Interest margin, average, %	1.46	1.69	2.02	2.37	2.82
Cost-income ratio before loan losses	0.77	0.79	0.81	0.86	0.98
Cost-income ratio after loan losses	0.80	0.84	0.86	0.92	1.01
Capital adequacy, %	10.59	11.28	11.37	13.00	8.08
Tier 1 ratio, %	8.61	9.02	9.00	9.95	7.45
Percentage of doubtful receivables, gross %	0.07	0.05	0.15	0.12	0.18
Percentage of doubtful receivables, net %	0.46	0.52	0.63	0.69	0.91
Provision ratio for doubtful receivables, %	84.72	91.02	76.33	83.14	83.35

### Parent Company

Return on equity, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on total capital, %	Neg.	Neg.	Neg.	Neg.	Neg.
Investment margin, %	0.68	0.77	1.01	1.33	1.77
Interest margin, average, %	0.55	0.65	0.86	1.15	1.58
Cost-income ratio before loan losses	1.06	1.09	1.07	1.12	1.19
Cost-income ratio after loan losses	1.10	1.08	1.08	1.14	1.22
Capital adequacy, %	44.95	48.96	45.64	45.23	24.30
Tier 1 ratio, %	36.84	39.43	36.45	34.62	22.40
Percentage of doubtful receivables, gross %	0.00	0.00	0.00	0.15	0.08
Percentage of doubtful receivables, net %	0.17	0.19	0.23	0.27	0.45
Provision ratio for doubtful receivables, %	98.98	98.67	98.47	100.00	83.33



# Corporate Governance Report

## Länsförsäkringar Bank

Länsförsäkringar Bank is a wholly owned subsidiary of Länsförsäkringar AB, which in turn is owned by 24 customer-owned 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 over the next few years, beginning 2006. The major deviations from the provision of the Code and explanations for such deviations are presented below.

- Notice and holding of an 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.
- Progress toward increasing the number of independent directors was begun 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.
- The Board of Directors' Internal Control Report will be included in the Annual Report as from the 2006 financial year.
- A special section of the bank's website on corporate governance is intended to be established during 2007.

This Corporate Governance Report, including the report of the Board of Directors concerning internal control, is unaudited.

### 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 matters 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 the 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 2007 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 presenting, in consultation with the CEO of Länsförsäkringar AB, proposals for members of the Board of Directors and auditors of Länsförsäkringar Bank and other subsidiaries, and fees to these members and auditors, in addition to submitting proposals to Länsförsäkringar AB. The Nomination Com-

mittee follows an instruction adopted by the Annual General Meeting of Länsförsäkringar AB. Since the 2006 Annual General Meeting, the Nomination Committee has comprised Axel von Stockenström (Chairman) (Länsförsäkringar Södermanland), Lars Karbin (Deputy Chairman) (Länsförsäkringar Norrbotten), Ingemar Larsson (Länsförsäkringar Gothenburg and Bohuslän), Karin Starrin (Länsförsäkringar Halland) and Anders Stigers (Dalarnas Försäkringsbolag).

### External auditors

In accordance with the Articles of Association, Länsförsäkringar Bank shall have 1–3 auditors with 0–3 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. The auditors are presented in more detail in the Annual Report.

### 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 nine members and two deputies. Seven of the members were elected by the Annual General Meeting and two members and two deputy members were appointed by the trade unions.

In autumn 2006, Board member Ebba Lindsö was appointed to the Governing Council of the Central Bank and was thus prevented from remaining on the bank's Board of Directors. 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 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 in the Annual Report.

At the statutory Board meeting following election, held after the 2006 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 reports 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 once 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 agree 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.

### Distribution 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 Committees 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 2007, 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 finan-

cial reporting, risk management and risk control, compliance with regulations, other internal control issues and for matters referred by the Board to its Committees. 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 bank's President and CFO, usually participate in the Committee's meetings. Until the Board meeting following election in 2007, the Audit Committee comprises Mats Ericsson (Chairman), Leif Johansson and Tommy Persson. The Audit Committee was established in December 2005. As from the Annual General Meeting in 2006 to the end of February 2007, the Audit Committee held four meetings.

### 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 2007, the Remuneration Committee comprises Tommy Persson and Mats Ericsson. The Remuneration Committee was established in December 2005.

### Meetings and attendance

The table below shows the number of meetings held since the 2006 Annual General Meeting until February 2007, and the attendance by each Board member:

Board of Directors	Audit Committee
<b>Total number of meetings</b>	<b>7</b>
Hans Benndorf	7
Ingrid Ericson	7
Mats Ericsson	7
Håkan Haraldsson	7
Leif Johansson	6
Tomas Johansson	7
Ebba Lindsö <sup>1)</sup>	3
Tommy Persson	7
Katarina Timåker	7
Gerd Silander	0
Christer Villard	7
Lena Wahlgren	7

<sup>1)</sup> Ebba Lindsö resigned from the bank's Board of Directors in autumn 2006.

## **Internal control relating to financial reporting**

This report on internal control relating to financial reporting in 2006 was prepared in accordance with the Code and in accordance with the Code guidelines of October 17, 2005, that were developed by committees from the Confederation of Swedish Enterprise and FAR. The report is unaudited.

The Banking Group's internal control and risk management processes are designed to provide reasonable assurance of the reliability of the financial reporting and that it has been prepared in accordance with legal requirements, Swedish GAAP and any other regulations applicable to the operations.

The Banking Group applies a risk assessment and risk management procedure to ensure that risks to which each company is exposed are managed within the framework established by the Board.

The internal control and risk management process involves five main activities: risk assessment, control activities, information and communications, and monitoring.

## **Control environment**

The foundation of internal control relating to financial reporting is the control environment, consisting of the organization, decision-making procedures and allocation of authorities and responsibilities among the various bodies that the Board of Directors and the President have established for the company. These provisions are documented and communicated in guidance documents in the form of internal policies, guidelines and instructions. Examples of such guidance documents include reporting instructions, payment authorization instructions and internal control instructions.

The Board of Directors has appointed an Audit Committee to prepare for the work of the Board of Directors by quality-assuring the financial reporting. Moreover, as further preparation for the financial reporting, the Board of Directors has also instituted an internal audit function to support the Board of Directors in ensuring that the company's operations are conducted in accordance with the decisions of the Board of Directors.

The Board of Directors of the Parent Company is in charge of the Banking Group's guidelines for the control and direction of the operations. This responsibility includes the preparation of an efficient system for risk management and internal control of financial reporting. The Board shall also ensure that the company's organization is ordered so that bookkeeping, management of assets, financial control and the company's financial circumstances otherwise are controlled in a secure manner.

Within the shared areas of the Länsförsäkringar AB Group, there is a desire to coordinate routines and find common modes of action by establishing fundamental Group-wide rules. These basic rules are described in our guidance documents – that is, policies, guidelines and instructions. The Group-wide guidance documents must be approved on an annual basis and incorporated in each subsidiary, for which process the President is in charge. Examples of such guidance documents are Group instructions, reporting instructions, guidelines for handling ethical issues, authorization instructions and the security policy.

## **Risk assessment**

Risk assessment includes identifying and analyzing the source of risks affecting internal control relating to financial reporting. These risks are analyzed at the company level and the Group level.

## **Control activities**

Risks in financial reporting are controlled through carefully prepared financial statements, standardized routines with built-in control functions and the evaluation of ongoing improvements. The financial information is analyzed and reviewed at various organizational levels before being presented publicly.

Efforts are ongoing to eliminate and reduce identified significant risks affecting internal control relating to financial reporting. This includes the development and improvement of control activities, and efforts to ensure that employees have the appropriate expertise.

## **Information and communications**

Internal guidance documents are subject to review and reassessment at least once a year. All guidance documents, shared policies and guidelines are published internally. Every manager must ensure compliance with the regulations within his/her area of responsibility, and that the guidance documents are communicated to affected staff.

## **Monitoring**

An independent review function – Internal Audit – has been established to assist the Board of Directors in following up the operation's compliance with decisions made by the Board of Directors. Through review and reporting, the Internal Audit shall form an opinion as to whether the operations are conducted in an efficient manner, if reporting to the Board provides a true and fair view of the operations, and whether the operations are conducted in accordance with applicable internal and external regulations. The Internal Audit function reports to the Board of Directors.

The Compliance function's task is to regularly identify, assess, monitor and report on compliance risks – that is, the risk of sanctions in accordance with laws or ordinances, and the risk of financial loss. Reporting is addressed to the CEO and to the Board of Directors of the company involved.

# Board of Directors



**Tommy Persson**, born 1948  
*Chairman*  
Other Board appointments:  
Deputy Chairman of Swedish Insurance Federation. Board member of EurAPCo A.G., Länsförsäkringar AB, Kaupthing Búnadarbanki hf., Eureko B.V. and Stockholm Chamber of Commerce.



**Mats Ericsson**, born 1954  
*Deputy Chairman*  
Other Board appointments:  
Board Chairman of Halland Fire Protection Association. Board member of Länsförsäkringar Halland, Länsförsäkringar Hypotek AB, Wasa Kredit AB, Movement Vård AB and Rehab AB. Deputy Board member of Swedish Insurance Employers' Association (FAO).



**Hans Benndorf**, born 1954  
*Member of the Board*  
Other Board appointments:  
Board Chairman of Insurance Industry's Pension Fund (FPK). Board member of Länsförsäkringar Mäklarservice AB.



**Leif Johanson**, born 1952  
*Member of the Board*  
Other Board appointments:  
Board member of Västernorrlandsfonden AB, Länsförsäkringar Västernorrland and Norrvidden Fastigheter AB



**Tomas Johansson**, born 1950  
*Member of the Board*  
Other Board appointments:  
Board Chairman of Länsförsäkringar Fondförvaltning AB, Wasa Kredit AB and Länsförsäkringar Hypotek AB. Board member of Länshem Fastighetsförmedling AB and Swedish Bankers' Association.



**Lena Wahlgren**, born 1948  
*Member of the Board*  
Other Board appointments:  
Deputy Board Chairman, Länsförsäkringar Jönköping. Board member of Länsförsäkringar Fondförvaltning AB.



**Christer Villard**, born 1949  
*Member of the Board*  
Other Board appointments:  
Board Chairman of Lennart Wallenstam Byggnads AB and Segulah III. Board member of Länsförsäkringar Stockholm (Deputy Chairman as of March 20, 2007), Kaupthing Bank Sverige AB, Kaupthing Bank Norge AS and the Friends of the Drottningholm Theatre.



**Johan Ugglä**, born 1959  
*Secretary to the Board*  
Legal Counsel, Länsförsäkringar AB.

## Appointed by the employees

**Ingrid Ericson**, born 1958  
*Board member*, Confederation of Professional Associations (SACO)  
Other Board appointments:  
Board member of Länsförsäkringar AB's local SACO Board.

**Katarina Timåker**, born 1967  
*Board member*, Union of Insurance Employees (FTF)  
Other Board appointments: None.

**Håkan Haraldsson**, born 1948  
Other Board appointments: Deputy Board member, Länsförsäkringar Alliance Employee Association  
Board member of Östgöta Brandstodsbolag, Länsförsäkringar AB and Länsförsäkringar Fondförvaltning AB.

**Gerd Silander**, born 1958  
*Deputy Board member*, Union of Insurance Employees (FTF)  
Other Board appointments: Board member of Länsförsäkringar Fondförvaltning AB.

# 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*  
Employed since 2003



**Bengt Clemedtson**, born 1964  
*Head of Marketing and  
Business Development*  
Employed since 2006



**Gunilla Forsmark Karlsson**, born 1958  
*Executive Vice President, Chief  
Operations Officer, Private Segment*  
Employed since 2006



**Anders Hagensgård**, born 1968  
*Head of Information Department*  
Employed since 2005



**Bengt Jerning**, born 1953  
*Head of Lending*  
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

## Regular Auditors

**Johan Bäckström**  
Authorized Public Accountant  
KPMG Bohlins AB

## Auditor appointed by Finansinspektionen (Swedish Financial Supervisory Authority)

**Lars-Ola Andersson**  
Authorized Public Accountant  
SET Revisionsbyrå AB



# Definitions

## Capital adequacy ratio

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, third paragraph 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 shareholders' 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 information in 2007 – Länsförsäkringar Bank:

Interim report, January–March .....	April 24
Interim report, January–June .....	August 21
Interim report, January–September .....	October 23

The Annual General Meeting will be held on May 21

[www.lansforsakringar.se/info/reports](http://www.lansforsakringar.se/info/reports)



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