

Contents

78TH YEAR OF OPERATIONS

KEY FIGURES	2
FACTS ABOUT THE BANK'S OPERATIONS	2
COMMENTS BY THE CHAIRMAN AND THE MANAGING DIRECTOR	3
PRESENTATION.....	4–5
MARKET REVIEW	6–7
SUMMARY OF INCOME STATEMENTS AND BALANCE SHEETS	8
ADMINISTRATION REPORT	9
INCOME STATEMENT	10
BALANCE SHEET	11
CAPITAL ADEQUACY RATIO	12
CASH FLOW ANALYSIS	12
NOTES	13–16
ACCOUNTING AND VALUATION PRINCIPLES	17
AUDITORS' REPORT	18
CORPORATE GOVERNANCE REPORT	18–20

Shipping has the wind in its sails. Increased globalisation is leading to increased trade. Increased trade leads to increased shipping. Shipping is the world's most international business sector, ships are registered, companies are set up and crews are recruited anywhere in the world.

Today, the total quantity of goods carried across the oceans during the course of one year is heading for 7,000 million tonnes. Around 90 per cent consists of raw materials such as oil, timber and coal, while the remainder consists of finished products carried for example on container ships in a network of transport lines or on special-purpose vessels, as in the case of cars.

Increased globalisation reduces distances, people often say. What they usually mean is time and culture. But there are also physical distances, and the further it is between the producer and the consumer, the better for shipping.

The EU in recent years has been putting greater effort into increasing the Union's maritime transport, both between the member states and with the outside world. The number of registered ships in the EU has increased, mostly due to the accession of Cyprus and Malta. Around 25 per cent of the world merchant fleet at present is registered in an EU country. To strengthen the national shipping industries, despite high costs, the EU is working on a number of guidelines as well as research and development programmes.

In addition to financial incentives, this work is driven by environmental concerns. Congestion in the skies is increasing, roads and motorways have reached gridlock, and emissions and noise are constantly on the rise. Noise in particular is a factor which is the focus of growing attention. Conveying goods by ship is effective from several points of view. Energy consumption per kilogram of goods and per kilometre is low, as are carriage costs and environmental impact.

The positive spiral can continue – in silence.

2005



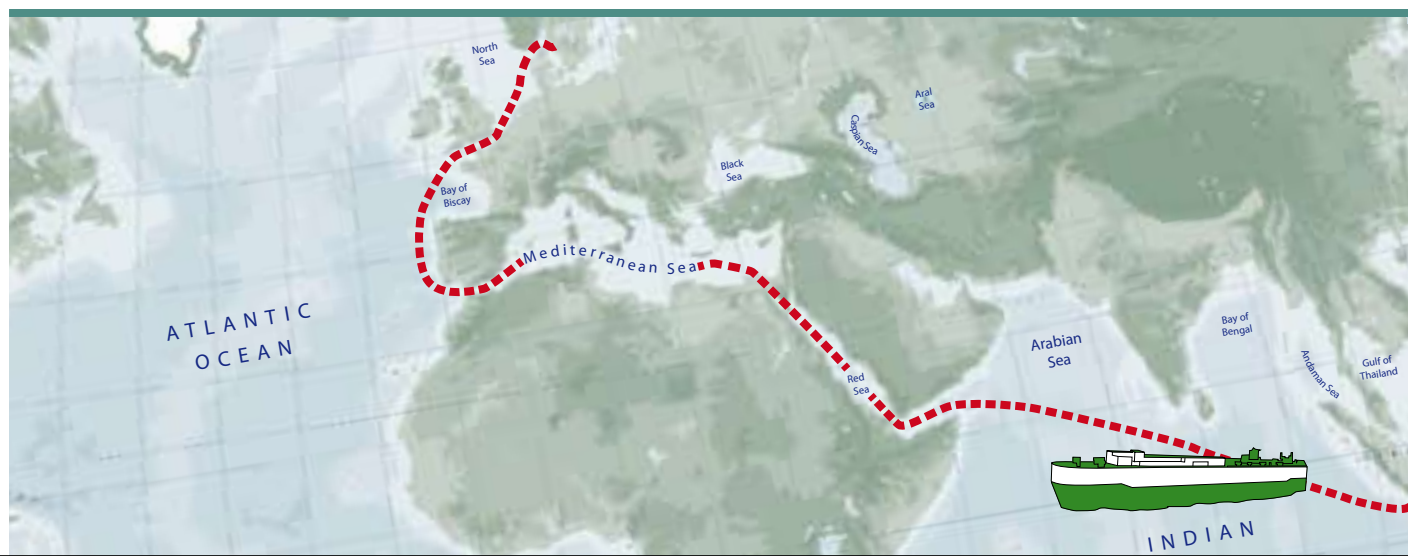
Key Figures

SWEDISH SHIPS' MORTGAGE BANK	2005	2004	2003	2002	2001
Surplus for the year, MSEK	55.9	63.5	64.2	68.1	58.3
Balance sheet total, MSEK	6,653.6	7,236.0	5,639.9	5,849.3	5,417.2
Reserve fund, MSEK	1,195.0	1,139.1	1,075.6	1,011.4	943.3
Return on average balance sheet total, per cent	0.8	1.0	1.1	1.2	1.3
Return on equity, per cent	4.9	5.9	6.3	7.2	6.6
Solidity, per cent	18.0	15.7	19.1	17.3	17.4
Capital adequacy ratio, per cent	21.1	18.1	22.5	20.2	21.2
Number of employees	8	8	8	9	9

Facts about the Bank's operations

THE BANK'S OPERATIONS ARE GOVERNED BY THE SWEDISH SHIPS' MORTGAGE BANK ACT (SFS 1980:1097).

- The Bank can finance Swedish shipping companies and foreign shipping companies with a significant Swedish interest or influence.
- The maximum loan term is 15 years.
- The loan must be paid off in full when the ship reaches the age of 20 years (unless there are special circumstances).
- Loans are to be secured by collateral in ships (or balances in or guarantee from a bank or the Swedish State).
- Loans may be granted for up to 70 per cent of the value the Bank estimates the vessel to have (in special cases 80 per cent).
- Interest rates are determined individually.
- Loans may in some cases be granted for up to 90 per cent of the value of the ship according to a special ordinance. Preference is to be given to smaller shipping companies.
- Lending takes place in foreign or Swedish currency at a floating or fixed interest rate.



Comments by the Chairman and the Managing Director

The Swedish Ships' Mortgage Bank's operating profit was one of the best to date, SEK 65 million.

A non-recurring provision of SEK 9.3 million was charged against this figure, leaving a net profit of SEK 56 (63) million.

The Bank did not have any credit losses, non-performing credits or doubtful credits.

The loan portfolio produced a higher return than in the previous year, SEK 36.3 million compared with SEK 30.2 million. A stronger dollar gave us an increased interest margin when converted to SEK. Our average volume of loans was also higher. On the other hand, our investment portfolio produced a return of SEK 40.4 million, which was SEK 4.4 million lower than in the previous year. Interest rates have steadily fallen, and the Bank is not permitted to invest in any

other types of assets than bonds.

The funds invested are principally equivalent to our reserve fund, which amounted to SEK 1,195 (1,139) million. The balance sheet is strong, with a capital adequacy ratio of 21.1 (18.1) per cent and solidity of 18.0 (15.7) per cent. There is therefore good scope for expansion.

The Bank's market share is unchanged at around 20 per cent. It is through close client contacts, good service and competitive terms that we can expand. With an unchanged workforce of eight employees, we achieve high productivity. Continued upgrading of skills enables our employees to handle increasing volumes of business.

Competence development is an important element in the Bank's development. This also applies to the Board, which

regularly undergoes training and annually assesses its own efficiency, as well as the ability of the Chairman to direct the work of the Board. The Board shows great commitment.

Birgitta Wickenberg Karlsson retired from her position of Managing Director on 30 September after nine years in the position. Birgitta has been efficient, accurate and thorough and has directed the Bank's operations with a great deal of integrity.

The Board appointed Lars Johansson, who has been a highly competent member of staff for nine years, as the new Managing Director.

The Swedish Ships' Mortgage Bank has good opportunities for further development, with rejuvenation and continuity.

Pehr G Gyllenhammar
Chairman

Lars Johanson
Managing Director



Car transportation – a growing market



In 2005 around 64 million vehicles were sold around the world. More than 10 million were shipped on ocean-going vessels. Of this figure, the Port of Gothenburg loaded and discharged 330,000. That means more than 900 cars a day, 40 cars an hour, around the clock, 365 days a year.

United European Car Carriers account for the greater part of short-distance car transportation. Among ocean-going lines, Wallenius Wilhelmsen Logistics is a large player along with the Japanese NYK Line.

Wallenius Lines see a market for car carriers growing by perhaps five per cent a year, and have ordered eight new ships. The largest ones will measure 228 metres and will be able to carry 8,000 cars each when they are delivered from 2007 on. A single call could therefore take 2.5 per cent of the annual volume of cars in the Port of Gothenburg, which put great demands on the logistics of receiving ports. Competition is increasing, and is intensifying the battle between Europe's major ports.

Swedish Ships' Mortgage Bank

PRESENTATION

The Bank was established in 1929 as Sweden's only shipping bank. The Bank was not provided with any capital and had to finance its operations through loans against a Swedish State guarantee. In the original ordinance no aim to generate profit was stated, and has not been required since. On the other hand, the Bank's Boards of Directors have always asserted – and stipulated – that operations should always generate a profit in order to create a healthy and effective business.

Despite war and the depression of the 1930s, the Bank has never had a year of loss. This is due to the fact the Bank previously only has been allowed to lend up to 50% of the value of a ship, and also that the risk assessment by the Board of Directors and management has been of good quality since our lending became substantially freer. Today we are able to lend up to 70% of the value of a vessel and in certain cases – for smaller shipping companies – up to 90% of vessel value.

Today the Bank has equity of more than SEK 1 billion. This reserve fund has been built up from profits, which are not, however, distributed to the owner – the Swedish State.

The Bank initially met its capital requirements through bond loans. The loans had terms of up to 15 years and were

repaid through 'drawing of bonds' under the control of the public notary. Lending was made subject to corresponding terms. The capital market was later liberalised, and today the Bank borrows funds from banks and other credit institutions and can permit flexible repayment terms and loan periods.

From the start and through to the 1970s, the Bank was only entitled to grant loans in Swedish kronor to Swedish shipping companies. Today, the Bank lends funds in major foreign currencies, depending on the client's wishes. We borrow in the same currency and therefore never face a currency risk. We can also finance foreign shipping companies if they have a significant Swedish interest. The Swedish Government and Swedish Parliament have always shown an understanding of the need to adapt the Bank's operations to new conditions and a changed competitive situation.

The reserve fund secures lending terms

The capital in the reserve fund can also be lent. However, the reserve fund in particular plays a very important role in the Bank's solidity and capital adequacy ratio. We still have a Swedish State guarantee, the cost of which has diminished, since the Bank is well capitalised. The reserve fund plays another important role. The Bank's

clients – the shipping companies – have a joint and several limited liability if a capital injection is required. Such a need has never arisen, as the Bank has never been in crisis, but this liability does exist. Finally it is the return on the reserve fund that accounts for the greater part of the Bank's profit. The Bank is consequently able to provide the best possible lending terms for its clients.

In 1981 Skeppsfartens Sekundärlånekassa was merged with the Swedish Ships' Mortgage Bank in order to simplify the structure. Sekundärlånekassan was authorised to lend up to 70% of the value of a ship. This right now passed on to the Swedish Ships' Mortgage Bank.

The Board of Directors bears full responsibility for granting credit and for security. This responsibility is fairly unique. The composition of the Board of Directors is adapted to this responsibility, as it consists partly of representatives of the Swedish shipping industry and partly of independent members and government employees. They are all appointed by the Swedish Government, but the shipping industry makes recommendations for persons they consider to be suitable.

Continuity and stability

From its beginnings in 1929 through to 1976, the Bank's chairmen were county



governors, namely Oscar von Sydow, Malte Jacobsson and Per Nyström. In 1976 the position of Chairman was filled by Pehr G Gyllenhammar, who had been the Managing Director from 1970–1976.

Over the same period we have only had five managing directors. Lars Johanson is the sixth since 1929 and took over from his predecessor in the autumn of 2005. Continuity has also been a characteristic feature of the Bank's operations.

The Bank has been exempted from the 1994 legislation on limiting major exposures as the concentration on shipping operations is significant and each individual loan object accounts for large amounts.

Shipping has been subject to highly variable economic conditions. The Second World War also caused considerable strain in this respect. After the war, Sweden had a shortage of tonnage which largely persisted until the 1970s. The shortage was then replaced by a surplus and the industry entered a difficult phase. When conditions improved, we suffered from a shortage of capital. This was entirely remedied when the capital market was deregulated in 1985. Both shipping companies and ships were later sold off and the Bank's loan stock were reduced to SEK 1.8 billion.

Continuous expansion took place from the start of the 1990s, and today the loan

portfolio amounts to around SEK 5.5 billion.

Increased expertise and efficiency

The Bank runs an exceptionally efficient operation. Eight people are responsible for the whole operation and the number of personnel has not increased despite substantial expansion of the business. Productivity has been steadily increased by investing in the increasing skills of our employees and providing them with all the modern aids required to cope with a growing business. Profit per employee today is around SEK 7 million, which must be regarded as a good result.

As the Bank's profitability has increased, it has been possible to improve our lending terms to our clients. Our goal is to be the market leader with regard to long-term financing and to couple this with first-class service and great understanding of our clients' needs. Our competitiveness is thus very good, and we are now undertaking active marketing to increase our market share. At present it stands at around 20%.

Our principal competitors are the commercial banks, and at times we are also their clients as they often supply us with capital. We generally provide the best financing terms, but the banks also provide other services and can at times claim as a competitive advantage that they can meet all a client's needs ('one-stop shopping').

In 1990, the Swedish Government and Parliament conducted an inquiry into the possibility of turning the mortgage institutions into limited companies and privatising them. The Bank came within the remit of this inquiry. This also led to the other institutions becoming limited companies and being taken over by banks. The Bank's Board of Directors was favourably disposed towards the purpose of the inquiry, but advised against following same route with the Swedish Ships' Mortgage Bank. The reasons were quite simple. Firstly profitability did not allow any future shareholders to obtain a satisfactory return on their capital.

Good conditions, healthy profit

In addition, the Bank had been established to assist the Swedish shipping industry. The clients therefore had a joint and several payment liability, which our lenders were well aware of. If the Bank was turned into a limited company, all its loan agreements would therefore need to be renegotiated, with unpredictable results. In addition, the Bank had not been established with a pure profit target and over the years had sought a unique balance between good lending terms and a healthy operating profit. The Bank's opinion was respected, and our status remained unchanged.



Oil transport – a growing market



Of global crude oil supplies, the United States and Europe (excluding Russia) are estimated to have less than ten per cent. Two-thirds of reserves are located in the Middle East. With the world's current pattern of consumption, crude-oil transports hold a very strategic position. Total world oil production in 2004 amounted to 3,850 million tonnes. Transportation of this oil from the producing countries to recipient countries and their refineries takes place for the most part by ship, almost half on ocean-going ships.

Stena Bulk operates in excess of 60 vessels, the two

largest of which, Stena Vision and Victory, are 312,000 dwt each. In January 2006, Stena Bulk took delivery of the Stena Arctica. She is 117,000 dwt and is the largest ship in the world with the highest ice class, 1A Super.

The Broström Group in Gothenburg operates in the size category below larger ocean-going tankers with about 60 vessels of between 5,000 and 50,000 dwt. These ships often specialise in petroleum products, chemicals etc. On Donsö in Gothenburg's southern archipelago there are ten or so shipping companies with around 35 vessels of this type.

Market Review

The year 2005 proved a good year for shipping, although the heights of the previous year were not reached in most markets. The engine was once again China, which during the year advanced to become the world's sixth-largest economy. The shipyards had full order books and were able to start earning money by raising prices.

China is continuing to drive the development of trade and shipping. In 2005, according to preliminary figures, the Chinese economy grew by 9.3 per cent, and the OECD forecasts roughly the same level of increase in GDP in 2006 and 2007. The Chinese trade surplus is increasing very rapidly, so rapidly that both the EU and the United States have made a stand, among other things by imposing import quotas for textiles. In the first eleven months of last year, China had a trade surplus of USD 90.8 billion, three times as much as in 2004.

Liner shipping was notable last year for substantial consolidation. Three major deals were initiated: A.P. Møller-Mærsk's take-over of P&O Nedlloyd, Hapag-Lloyd's take-over of CP Ships and finally the French deal in which Delmas was sold to CMA-CGM. Charter rates continued to rise during the first six months, reaching historically high levels, before falling by over 30 per cent. The rapid expansion of the container fleet, both in terms of number of ships and ship sizes, is continuing. Based on the current order book, it is estimated that capacity will increase by more than 50 per cent between now and 2009.

Short-distance liner shipping in nearby waters has come under pressure from high bunker prices. The average price of heavy fuel oil last year was USD 236 per tonne in Rotterdam, compared with USD 155 the previous year, which can itself be regarded as a high price level. When it comes to ferries, several companies recorded a reduction in passenger numbers, while cargo volumes increased. Surplus capacity in the central Baltic led to a continued price war, which may be one of the reasons why Silja Line's owners decided to sell the shipping company.

Most tanker companies look back on 2005 with satisfaction, although it was not as good a year as 2004 for most of them. The Russian market continued to grow, and Russia is now the world's second-largest oil producer. The ice-strengthened tanker fleet is growing

strongly and will continue to do for the next few years. Last year the rate of growth was over 24 per cent in terms of deadweight and more than 70 per cent with regard to tonnage built for ice class 1 A or 1 A Super. However, the number of orders last year fell sharply in comparison with the number placed in 2003 and 2004. Based on the expected increase in demand for maritime transport from terminals in ice-bound waters, it is reasonable to assume that there is a large element of speculation in the orders.

For larger bulk tonnage 2005 was a significantly worse year than 2004, although it was not disastrous. Initially demand was strong and rates were consequently high. Around the end of the first half of the year, rates fell sharply before staging a recovery. Overall, the market was highly volatile in 2005 for this tonnage (handymax upwards). In aggregate terms, the outcome for 2005 was above average. For smaller tonnage in the Baltic and North Sea regions 2005 was not quite as volatile as 2004, with a sharp upturn in earnings being experienced during the second half of the year, an upturn which was more or less cancelled out during the last weeks of the year. Average daily net earnings for a dry cargo ship of around 6,500 tonnes deadweight fluctuated between EUR 3,600 and EUR 5,300 in 2005, while a dry cargo ship of 3,500 tonnes deadweight had to settle for EUR 3,300 at the start of the year and EUR 2,500 at the end of the year.

At the end of 2005 there were around 4,600 ships of a total of 225 million tonnes deadweight on order at the world's shipyards, an increase of over 500 ships and nearly seven million tonnes deadweight compared with the year before. At the same time nearly 1,400 ships of



Lars Johanson took up the position of Managing Director of the Swedish Ships' Mortgage Bank on 1 October 2005.

around 70 million tonnes deadweight were delivered, also a substantial increase in comparison with the previous year. New orders fell by nearly 30 per cent in 2005 in terms of deadweight. However, measured in terms of the number of orders the decrease is substantially smaller, indicating that more smaller-size vessels were ordered in 2005 than in 2004. Factors behind the reduction include full order books at the yards and high prices. These rose sharply in 2004 and continued to rise in 2005, albeit to a lesser extent. A price indication for a VLCC of 300,000 tonnes deadweight at the end of last year was USD 120 million, USD 10 million more than in 2004 and almost twice the price level in 2002. The price of a ro-ro vessel of around 2,500 lanemetres has increased by almost 50 per cent since 2002 (price indication today: USD 48 million).

Last year more than USD 76.3 billion was invested in new ships, according to Clarksons. Total investments for the last three years amount to USD 207 billion, which is approximately the same as was invested during the ten previously years.

The European shipbuilding industry in just a few years has gone from being an industry in acute crisis to having problems attracting sufficient skilled staff. Orders received in Europe increased by 5.6 per cent last year, the greatest increase in any of the world's regions. By comparison, the number of orders in China increased by 4.1 per cent, while orders in South Korea fell by 13 per cent and in Japan by as much as 59.7 per cent. The timing was good for European yards. The Asian yards filled their order books when there was downward pressure on prices and were additionally forced to cope with rising steel prices. European yards were able to win orders at substantially better prices last year.

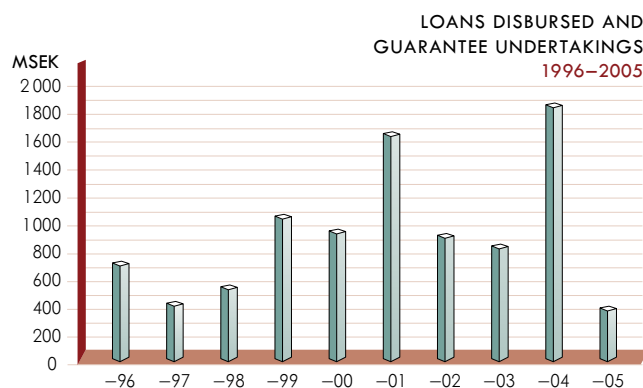
The world merchant fleet according to Clarksons increased by around 62 million tonnes last year. Based on current order books and expected scrapping, we can expect the world merchant fleet to increase by 60 million tonnes deadweight this year and 52 million tonnes deadweight in 2007. This can be compared with growth of 46 million tonnes in 2004 and 24 million tonnes in 2003.

There has been a dramatic decrease in breaking-up of older tonnage in the last three years. Last year 162 vessels with a total deadweight of 5.5 million tonnes were scrapped, nearly a halving of the breaking-up in 2004, which in turn was only around a third of the tonnage sold for scrap in 2003, when 27.2 million tonnes deadweight were sent to the breaking-up yards. In 2005 it was again

predominantly tankers that were sold for scrap. Scrap prices also fell, by an average of 15 per cent.

The second-hand market was slightly calmer in 2005 than in 2004. A total of 1,280 ships were sold on the international second-hand market, compared with more than 1,670 the previous year. The number of sales of bulk vessels over 10,000 tonnes deadweight decreased by nearly 150.

Prices for tankers generally rose but those for bulk vessels generally fell. Second-hand prices for container vessels also fell. At the turn of the year the price indication for a five-year-old product tanker of 45,000 tonnes deadweight



was USD 47 million. In 2004 the equivalent indication was USD 39 million and one year previously USD 26 million. A container vessel of 1,700 TEU which cost USD 28 million at the end of 2004 cost USD 24.5 million twelve months later.

The Swedish-controlled merchant fleet at the turn of the year consisted of just over 400 vessels, of which around 240 were registered under Swedish flag. Out of a total of around 7.5 million tonnes deadweight, around 2.4 tonnes was registered under Swedish flag. At the turn of the year, Swedish shipping companies had just over 50 vessels on order. During the first decade of the 21st century, order books have been dominated by tankers, and most orders were also for tankers at the end of 2005, but this dominance has been substantially reduced. The order book at the turn of the year also included 13 ro-ro vessels, of which ten were car carriers, four ro-pax ships, three bulk vessels and one high-speed ferry.

Lars Johanson
Managing Director

Summary

OF INCOME STATEMENTS AND BALANCE SHEETS

INCOME STATEMENT, SEK THOUSANDS	2005	2004	2003	2002	2001
Net interest income	76,684	75,054	76,265	80,037	71,901
General administrative costs	-18,226	-8,761	-8,588	-7,920	-7,972
Guarantee fund fee paid to the state	-2,363	-2,625	-3,237	-3,850	-5,330
Inventory depreciation	-31	-29	-47	-53	-142
Other operating expenses	-166	-166	-205	-135	-137
Surplus for the year	55,898	63,473	64,188	68,079	58,320

BALANCE SHEET, SEK THOUSANDS	2005	2004	2003	2002	2001
Assets					
Liquid assets	5,295	4,805	5,897	2,857	3,747
Interest-bearing securities:					
short-term investments	226,326	213,978	479,911	205,817	169,578
long-term investments	900,782	843,283	501,931	700,336	650,791
Lending to shipping companies	5,459,703	6,124,830	4,609,445	4,895,887	4,539,655
Other assets	61,506	49,068	42,689	44,382	53,431
	6,653,612	7,235,964	5,639,873	5,849,279	5,417,202
Liabilities and equity					
Promissory note loans	5,420,513	6,078,147	4,550,253	4,821,559	4,450,592
Other liabilities	38,136	18,752	14,028	16,316	23,285
Reserve fund	1,194,963	1,139,065	1,075,592	1,011,404	943,325
	6,653,612	7,235,964	5,639,873	5,849,279	5,417,202



Administration Report

THE BOARD OF DIRECTORS OF THE SWEDISH SHIPS' MORTGAGE BANK
HEREBY SUBMITS ITS REPORT ON ITS ADMINISTRATION DURING 2005.

During the year, the Bank disbursed loans amounting to SEK 419 million (preceding year SEK 1,882 million). During the same period loans amounting to SEK 638 million were prepaid, partly due to sales of vessels. The total amount of outstanding loan receivables at the end of the year at historical exchange rates was SEK 5,460 (6,125) million and at current exchange rates SEK 5,403 (5,281) million. The principal reason why loan receivables at current exchange rates increased in 2005 is the rising USD exchange rate. Interest income and costs relating to the loan portfolio increased sharply in 2005 due to the rising USD interest rate.

Loans granted by the Board, but not yet disbursed amounted to approximately SEK 700 (600) million at the end of the year. The loans will be disbursed during 2006–2007 when the vessels for which the loans have been granted are delivered.

The Bank's operations have generated a surplus of SEK 56 (63) million. The low interest rates prevailing in the capital market have meant a low rate of return on the securities portfolio. Non-recurring costs of salary and pension commitments have had an impact of SEK 9 million on profit.

Return on average balance sheet total amounted to 0.8 (1.0) per cent. No credit losses have occurred. As of the balance sheet date, the Bank does not have any non-performing credits or doubtful credits, or credits with interest remission.

Return on equity was 4.9 (5.9) per cent and the Bank's solidity was 18.0 (15.7) per cent. Capital adequacy ratio was 21.1 (18.1) per cent.

The surplus for the year of SEK 56 million was allocated to the reserve fund, which subsequently amounts to SEK 1,195 million.

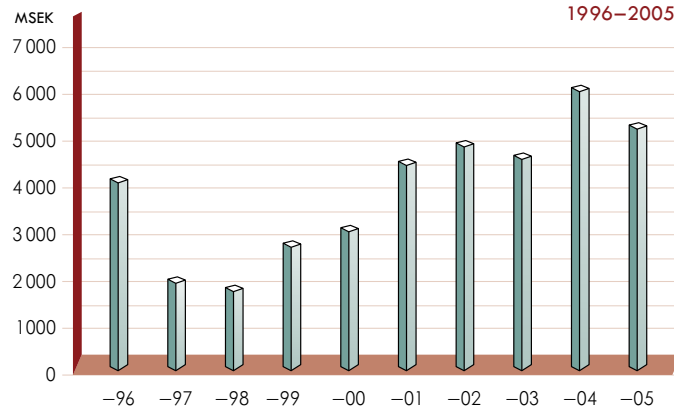
On 20 December 1994, the Swedish Parliament passed a new Act concerning capital adequacy ratios and major risk exposures of credit institutions and investment companies. Under this Act, the Bank is exempt from the provisions relating to the limitation of major exposures, but remains subject to the provisions on capital adequacy ratios. The Board naturally follows an internal policy relating to major risk exposures. Besides the Board ensures that the Bank's loan portfolio is well distributed between different types of ships.

The Bank's Managing Director Birgitta Wickenberg Karlsson retired on 30 September 2005. Lars Johanson was appointed Managing Director with effect from 1 October 2005.

The personnel of the Bank consisted of the Managing Director and 7.0 (7.0) employees. On the instructions of the government, the Bank's personnel also handle the day-to-day operations of the Board for Shipping Support.

The result of the Bank's operations during the year and its position at year-end are shown in the following Income Statement and Balance Sheet.

OUTSTANDING LOANS AND
GUARANTEE UNDERTAKINGS
1996–2005



Forest products by ship - a growing market

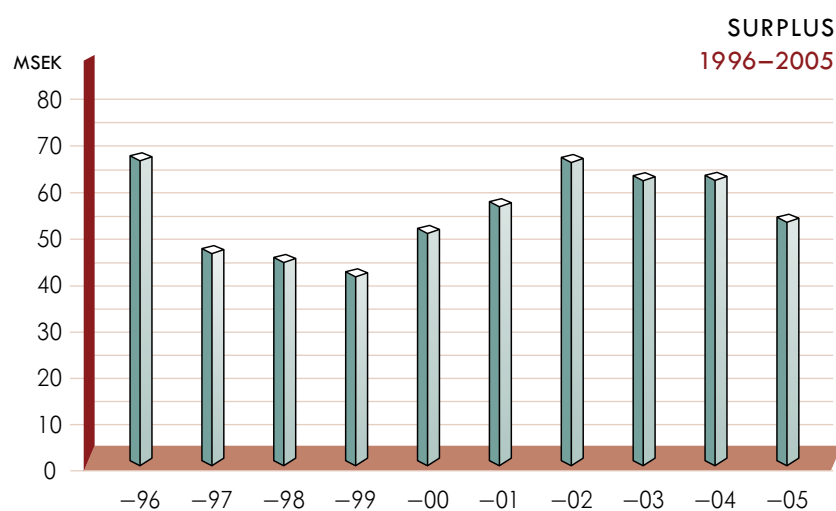


Of all forest products exported from Sweden, around 70 per cent go by ship, mostly under long contracts in liner traffic. The picture is similar internationally. Total world trade in forest products amounts to nearly 400 million tonnes, two-thirds of which goes by sea. Raw materials and semi-finished products account for approximately 75 per cent of the total volume, while paper and board account for 60 per cent by value. In 2003 around 3.3 billion cubic metres of forest were felled around the world, of which half was burnt. The

Swedish forest industry calculates that the storm known as Gudrun brought down more than 75 million cubic metres of timber. This represents roughly 4 per cent of the portion of world timber production not used for fuel. Total world production of sawn timber products in 2003 amounted to over 400 million cubic metres of which 75 per cent was softwood. 25 per cent of the total volume of sawn timber products was exported. Swedish exports of sawn timber products in 2003 amounted to just over 11 million cubic metres. This puts Sweden in second place as a world exporter, after Canada.

Income Statement

SEK		2005	2004
INTEREST INCOME			
Lending to shipping companies:			
interest		208,664,272	125,742,047
Short-term investments:			
swedish financial institutions		116,758	76,468
interests-bearing securities		11,620,262	18,440,198
Long-term investments:			
interest-bearing securities		28,688,799	26,319,801
INTEREST COSTS	(note 1)	-172,406,182	-95,524,256
NET INTEREST INCOME	(note 2)	76,683,909	75,054,258
General administrative costs	(note 3)	-18,226,532	-8,761,182
Guarantee fund fee paid to the state		-2,362,500	-2,625,000
Inventory depreciation		-30,569	-28,545
Other operating expenses		-166,250	-166,250
Surplus allocated to reserve fund		55,898,058	63,473,281



Balance Sheet

SEK		31.12.2005	31.12.2004
ASSETS			
Cash		10,000	10,000
Lending to credit institutions	(note 4)	5,285,366	4,794,809
Bonds and other interest-bearing securities:	(note 5)		
short-term investments		226,326,026	213,977,932
long-term investments		900,782,272	843,283,297
Lending to shipping companies	(note 6)	5,459,702,752	6,124,830,197
Tangible assets	(note 7)	39,881	29,233
Accrued interest income		58,623,497	48,314,055
Prepaid expenses and other accrued income		2,842,118	724,016
Total assets		6,653,611,912	7,235,963,539
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	(note 8)	5,420,513,396	6,078,147,438
Accrued interest expenses		27,415,573	17,507,403
Deferred income and other accrued expenses		3,713,313	1,243,616
Other provisions	(note 9)	7,006,490	—
Equity			
Reserve fund, whereof surplus for the year MSEK 55.9 (63.5)		1,194,963,140	1,139,065,082
Total liabilities and equity		6,653,611,912	7,235,963,539
GUARANTEE FUND			
Swedish State guarantee		350,000,000	350,000,000
COLLATERAL PLEDGED			
		None	None
CONTINGENT LIABILITIES			
		None	None

Gothenburg 27 February 2006

Pehr G Gyllenhammar

Anna-Lisa Engström	Christer Berggren
Håkan Larsson	Agneta Rodosi
Torsten Engwall	Tomas Abrahamsson
	/Lars Johanson

Capital Adequacy Ratio

CAPITAL BASE, SEK THOUSANDS		31.12.2005
Primary capital	= Reserve fund	1,194,963
Total capital base		1,194,963
Capital Requirement, SEK Thousands	Weighted average	Weighted risk capital
Group A	0%	0
Group B	20%	168,713
Group D	100%	5,492,519
Total weighted risk capital		5,661,232

$$\text{Capital adequacy ratio in \%} = \frac{\text{Total capital base} \times 100}{\text{Total weighted risk capital}} = 21.11\%$$

Cash Flow Analysis

DAY-TO-DAY OPERATIONS	2005	2004
Interest received and compensation for funding costs	198,040,993	120,746,732
Interest payments received on interest-bearing securities	40,739,656	43,492,967
Interest paid	-162,498,012	-90,460,195
	76,282,637	73,779,504
Administrative expenses paid	-13,397,197	-11,924,289
Cash flow from day-to-day operations	62,885,440	61,855,215
Increase/Decrease in assets and liabilities of day-to-day operations		
Increase/Decrease in lending to shipping companies	665,127,445	-1,515,385,597
Increase/Decrease in borrowing	-657,634,042	1,527,894,541
Investments in interest-bearing securities	-69,847,069	-75,419,460
	-62,353,666	-62,910,516
Investment operations		
Investments in inventory	-41,217	-37,206
	-41,217	-37,206
Cash flow for the year	490,557	-1,092,507
Liquid assets at the start of the period	4,804,809	5,897,316
Liquid assets at the end of the period	5,295,366	4,804,809

Liquid assets consist of cash and loans to credit institutions.

Notes

NOTE 1 INTEREST COSTS

	2005	2004
Liabilities to credit institutions	172,406,182	95,524,256

NOTE 2 NET INTEREST INCOME

Average interest during the year for		
lending to shipping companies	3.57	2.36
promissory note loans	2.97	1.81

NOTE 3 GENERAL ADMINISTRATIVE COSTS

Personnel costs:		
Fees and salaries to the Board and Managing Director	2,021,655	1,994,408
including:		
Chairman of the Board	102,500	
Deputy Chairman of the Board	41,000	
Former Managing Director	1,330,155	
Managing Director	199,500	
Provision for salary and pension costs for former Managing Director	9,346,000	—
Salaries to other employees	2,458,414	2,307,816
Allocation to bonus scheme	—	2,466
Other pension costs	909,451	1,155,924
Social contributions	1,498,722	1,435,236
Other personnel costs	632,639	490,989
Rent and other costs for premises	1,163,351	1,156,930
Other administrative costs	1,886,857	2,028,949
	19,917,089	10,572,718
Administrative compensation	–1,690,557	–1,811,536
	18,226,532	8,761,182
Bonus paid:		
Managing Director	—	203,896
Others	—	168,570
	—	372,466

A general pension and an FTP supplementary pension plan apply to all employees, including the Managing Director. In the event of termination, the Bank must observe a period of notice of 12 months and the Managing Director a period of notice of 6 months. In the event of termination by the Bank, the Managing Director, if over the age of 50, is entitled to severance pay equivalent to 6 months' salary, and if over the age 55, to a sum equivalent to 12 months' salary.

Audit fee		
KPMG AB	91,653	86,424
Other auditors appointed by the Government	41,000	40,000
	132,653	126,424

Notes

NOTE 4 LENDING TO CREDIT INSTITUTIONS

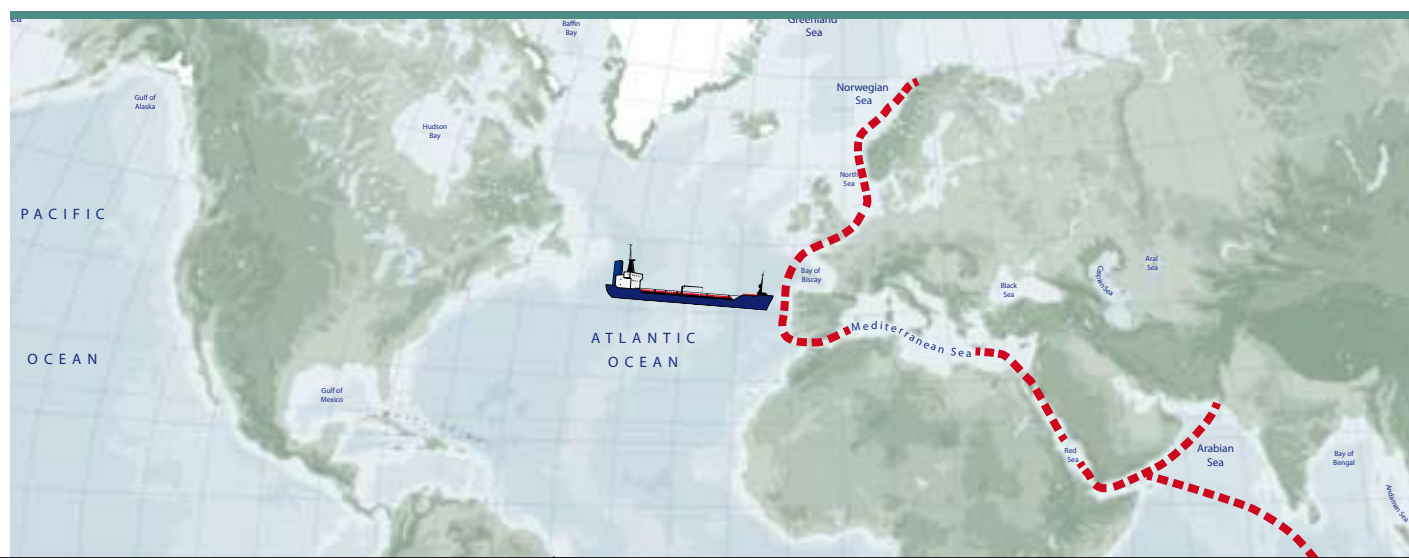
	31.12.2005	31.12.2004
Payable on demand	5,285,366	4,794,809

NOTE 5 BONDS AND OTHER INTEREST-BEARING SECURITIES

	Purchase value	Market value	Nominal value
Short-term investments			
Mortgage institutions	29,130,596	28,035,398	27,800,000
The Swedish State	198,151,652	199,344,384	198,400,000
	227,282,248	227,379,782	226,200,000
Accumulated amount in value adjustment account	-956,222		
Book value	226,326,026		
Long-term investments (bonds)			
Mortgage institutions	804,825,094	798,548,070	759,500,000
The Swedish State	116,143,275	110,076,640	101,500,000
	920,968,369	908,624,710	861,000,000
Accumulated amount in value adjustment account	-20,186,097		
Book value	900,782,272		

	31.12.2005	31.12.2004
Remaining duration		
Maximum three months	22,122,081	0
Longer than three months but maximum one year	204,203,945	213,977,932
Longer than one year but maximum five years	900,782,272	843,283,297
Remaining fixed interest term		
Maximum three months	22,122,081	0
Longer than three months but maximum one year	204,203,945	213,977,932
Longer than one year but maximum five years	900,782,272	843,283,297

Average remaining duration 1.8 years (2.2 years). Average effective interest rate as percentage of purchase value 3.37% (3.99%).



Notes

NOTE 6 LENDING TO SHIPPING COMPANIES

	31.12.2005	31.12.2004
Loans in SEK	979,029,403	1,062,291,136
Loans in foreign currency	4,269,007,773	4,833,127,541
Loans to smaller shipping companies in accordance with SFS 1988:103	211,665,576	229,411,520
	5,459,702,752	6,124,830,197
Lending to shipping companies includes non-settled but non-doubtful receivables. This item relates to repayment respite granted.	—	21,824,400
Remaining duration		
Maximum three months	—	6,747,625
Longer than three months but maximum one year	9,026,440	5,023,666
Longer than one year but maximum five years	132,882,646	96,621,335
Longer than five years	5,317,793,666	6,016,437,571
Average remaining duration 10.7 years (11.5 years).		
Remaining fixed interest term		
Maximum three months	2,804,906,426	3,159,858,766
Longer than three months but maximum one year	1,806,613,883	2,611,719,935
Longer than one year but maximum five years	848,182,443	353,251,496
Longer than five years	—	—

A special fund which under a government decision in 1987 is administered by the Bank may be used to cover losses in new lending to smaller shipping companies. The fund's capital balance at 31 December 2005 amounted to SEK 56.1 million (SEK 54.5 million). In addition, the Swedish Government has pledged a guarantee of SEK 55 million to cover losses.

Iron ore by ship – a growing market



In 2004, 4,440 million tonnes of dry bulk cargo were shipped across the world's oceans. Of these, the three largest types of goods, coal, iron ore and grain, accounted for just over a third. Iron ore, a classical Swedish speciality, is showing a steep upward curve, and seaborne transport of iron ore in 2004 amounted to around 560 million tonnes. Half of the world's total iron-ore production is transported by sea. The largest exporters are Australia and Brazil, together making up nearly 70 per cent. China is a large and growing importer, with 208 million tonnes in 2004. Shipping of iron ore is a fairly regulated market, and iron ore can therefore be carried on large ships, mostly larger than 120,000 tonnes with a

small proportion on vessels of less than 50,000 tonnes. The Swedish company LKAB in 2005 produced just over 23 million tonnes of iron ore, almost 15 million tonnes of which was shipped on 226 vessels sailing from Narvik in Norway. This means 65,000 tonnes per sailing. The port in Narvik can handle ships of up to 300,000 tonnes and between now and 2008 is to be reconstructed at a cost of one billion Swedish kronor. Storage capacity in particular is to be increased. Twelve storage silos are being blasted out of the rock, and will be 60 metres deep with a diameter of 40 metres. Following reconstruction, Narvik will be able to swallow the increase in production LKAB is planning, from the present-day 23 to 30 million tonnes in 2008.

Notes

NOTE 7 TANGIBLE ASSETS

Equipment	
Acquisition value brought forward	1,327,722
Acquisition value for the year	41,217
Total acquisition value	1,368,939
Accumulated depreciation brought forward	1,298,489
Depreciation for the year	30,569
Total accumulated depreciation	-1,329,058
Book value	39,881

Equipment acquired prior to 31.12.1996 has been written off in full.

Equipment acquired as of 01.01.1997 has been activated with a depreciation period of 3 years.

NOTE 8 LIABILITIES TO CREDIT INSTITUTIONS	31.12.2005	31.12.2004
Swedish banks	3,867,312,194	4,355,160,679
Swedish financial companies	1,553,201,202	1,722,986,759
	5,420,513,396	6,078,147,438
Remaining duration		
Maximum three months	—	6,057,625
Longer than three months but maximum one year	7,026,443	5,023,643
Longer than one year but maximum five years	121,343,304	77,988,521
Longer than five years	5,292,143,649	5,989,077,649
Average remaining duration 10.7 years (11.5 years).		
Remaining fixed interest term		
Maximum three months	2,795,866,426	3,120,508,741
Longer than three months but maximum one year	1,776,464,527	2,604,387,201
Longer than one year but maximum five years	848,182,443	353,251,496
Longer than five years	—	—

NOTE 9 OTHER PROVISIONS

The entire amount relates to a provision for pension expenses for the former Managing Director	7,006,490	—
of which the long-term portion is	6,086,469	—

Accounting and Valuation Principles

This annual report has been prepared in accordance with the Swedish Act concerning Annual Reports for Credit Institutions and Investment Companies (1995:1559). The directions of the Swedish Financial Supervisory Authority have been observed.

The short-term investments referred to under interest-bearing securities have, in all essentials, been valued at the lower of cost or market value, as per balance sheet date. Interest-bearing securities that refer to long-term investments have been valued at cost value, with appropriate premium and discount adjustments shown as interest. Accrual accounting is applied during the remaining term.

The valuation of outstanding loans, from the point of view of the credit risk, has been made in accordance with the Financial Supervisory Authority's directions.

Loans in foreign currencies to shipping companies have been valued at the historical exchange rate, in view of the fact that the equivalent borrowing in the same

currency has likewise been valued at the historical exchange rate. Thus, there is no currency risk involved. Accrued interest income and interest expenses have been valued at current exchange rate.

The interest risk is limited, due to the fact that the interest terms for the Bank's long-term borrowing correspond to investments in outstanding loans.

Lending to shipping companies are made against security of mortgage deeds over ships within 70 per cent or, in special cases, 80 per cent of the value of the ships as estimated by the Board. Mortgage deeds may not be accepted as security for ships which are more than 20 years old, unless there are special reasons for doing so. The market values of ships are continuously reviewed by the Board.

Under an EU Regulation, all companies which have issued securities listed on a regulated market in the EU must apply International Accounting Standards (IAS) in their consolidated financial statements with effect from 2005. The Swedish Ships' Mortgage Bank is not subject to these rules, but according to the recommendations of

the Swedish Financial Supervisory Authority has to adapt its financial statements with effect from 2007 to the "statutory application" of IAS/IFRS (International Financial Reporting Standards). The Bank will conduct a detailed impact assessment in 2006.

The Bank has only identified one area which is affected by the new rules to any significant degree. The Bank has to classify its financial instruments, and depending on whether the Bank chooses to value them at historical value or market value the equity may increase by an estimated amount of SEK 5–10 million.

Until now the Banks' financial instruments have been held until they mature. Unless this policy changes, the Bank is to continue to value its financial instruments at historical value by applying the effective interest method.

Auditors' Report

We have examined the annual report, the accounts and the administration of the Swedish Ships' Mortgage Bank by the Board of Directors and Managing Director for the year 2005. The Board and Managing Director are responsible for the records of accounts and administration and for the Annual Accounts Act being applied in drawing up the annual report. Our responsibility lies in commenting on the annual report and administration, on the basis of our audit.

Our examination was carried out in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the annual report does not contain material statement. An audit

entails the scrutiny of a selected number of supporting documents for the amounts and other information contained in the accounts. An audit also entails checking the accounting principles and the application of same by the Board and the Managing Director, as well as analysing and assessing the information in the annual report, as a whole. It shall also entail an assessment of the important estimations done by the Board and the Managing Director in the annual report. We have scrutinised the important decisions, actions and conditions of the Bank in order to assess whether any member of the Board or the Managing Director has a liability towards the Bank. We have also scrutinized whether any member of the Board or the Managing Director has in any other way acted contrary to the

Law (1980:1097) pertaining to the Swedish Ships' Mortgage Bank and the Annual Accounts Act. We consider that our audit gives us reasonable grounds for the following statement.

The Annual Report has been prepared in accordance with the Annual Accounts Act, and therefore provides a fair picture of the Bank's financial results and position in accordance with good auditing practice in Sweden. The Administration Report is consistent with the other parts of the Annual Report.

We therefore recommend that the Income Statement and Balance Sheet be adopted and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Gothenburg, 10 March 2006

Fredrik Ahlén

Lena Möllerström Nording

Authorised public accountant

Corporate Governance Report

BOARD RULES OF PROCEDURE

Under the terms of the Swedish Ships' Mortgage Bank Act (1980:1097), the Bank is administered by its Board.

The work of the Board is performed in accordance with the Act, policies issued by the owner and the rules of procedure devised and adopted annually at the meeting of the Board held during the spring. The rules of procedure also govern the distribution of work between the Board, the Chairman of the Board and the Managing Director.

The Board has made a detailed study of

the Swedish Code of Corporate Governance and fulfils the requirements of the Code more than adequately.

The effectiveness of the individual directors and the Board and how they work are assessed annually. A special assessment is made of the effectiveness of the Chairman of the Board on the same occasion. An evaluation of the work of the Chairman and the Board was commenced before the Code became applicable. The work of the Board follows requirements laid down in the Code.

With reference to the statement of 15.12.2005 from the Swedish Corporate

Governance Board, the Board's report on internal control for 2005 has been limited to describing in the corporate governance report how internal control is organised.

THE BOARD

The Swedish Government annually appoints members and deputy members to the Bank's Board. The following persons are members and deputy members of the Board of the Bank from 1 July 2005 to 30 June 2006:

MEMBERS

- Pehr G Gyllenhammar, Chairman.
M.d.hc, D.tech.hc, D.econ.hc.
Elected to the Board in 1976.
Other directorships: Chairman of the Board of Investment AB Kinnevik, Majid Al Futtaim Group and Reuters Founders Share Company Ltd. Deputy Chairman of NM Rothschild. Director of Lagardere (SCA).
- Anna-Lisa Engström, Deputy Chairman.
Managing director, Dag Engström Rederi AB
Elected to the Board in 1995.
Other directorships: Director of Dag Engström Rederi AB, Engström Shipping AB, Dona Rederi AB, Swedish Shipowners' Association, Federation of Shipping Employers and Svensk Sjöfartsservice. Deputy Member of the Board of Romira Rederi AB. Member of the boards of Länsförsäkringar Göteborg och Bohuslän.
- Tomas Abrahamsson
Deputy Chairman, SEKO. Elected to the Board 2002.
Other directorships: Member of the European Maritime Safety Agency (EMSA), the European Transport Workers' Federation (ETF), the Nordic Transport Workers' Federation (NTF), the Executive Board of the Union of Service and Communication Employees (SEKO), the Unemployment Fund for Service and Communication Employees, HB Lastberget, the Shipping Training Institute Foundation, the Olof Palme Centre and the Maritime Forum. Substitute member of the Board of the Swedish Trade Union Confederation.
- Christer Berggren
Deputy Director, Ministry of Industry, Employment and Communications. Elected to the Board in 1988.
Other directorships: Member of the Board of AB Göta Kanalbolag, Zenit Shipping AB, IRECO Holding AB, LKAB and SP Sveriges Provnings- och Forskningsinstitut AB.
- Torsten Engwall
Director, Rederi AB Nordship. Elected to the Board 2003.
Other directorships: Chairman of the Board of Winn Hotels AB. Deputy Chairman of the Chamber of Commerce of Central Sweden and Gävle Sjöfart/Stuveri AB. Member of the Regional Board of Handelsbanken Southern Norrland, Swedish Shipowners' Association, Federation of Shipping Employers, TEAM LINES Sverige AB, Stockholm Chartering AB and STOC Shipping Invest AB.
- Håkan Larsson
President and CEO, Rederi AB Transatlantic. Elected to the Board in 2004.
Other directorships: Chairman of the Federation of Shipping Employers. Member of the Board of Rederi AB Transatlantic, Bure Equity AB, Ernströmgruppen AB, Wallenius Lines AB and Swedish Shipowners' Association.
- Agneta Rodosi
Treasurer, Akademiska Hus AB. Elected to the Board in 1998.
Other directorships: Member of the Board of First Swedish National Pension Fund.

DEPUTY MEMBERS

- Ture Axelsson
Shipowner, Charterfrakt AB. Elected to the Board in 2000.
Other directorships: Member of the Board of Charterfrakt Baltic Carrier AB, AB Kungsvik and Bohusassuransen Sjöförsäkringsförening Ömsesidig.
 - Petra Hedengran
Legal Attorney, Advokatfirman Lindahl KB. Elected to the Board in 2004. Other directorships: Member of the Board of SEK Securities AB and Allmänna Änke- och Pupillkassan i Sverige.
 - Lars Höglund
Shipowner, Furetank Rederi AB. Elected to the Board in 2002.
Other directorships: Chairman of the Board of Furetank Rederi AB. Member of the Board of Swedish Shipowners' Association, Federation of Shipping Employers, The Swedish Club and Nautical Society.
 - Geir Jansen
Area Director Scandinavia, Stena Line Scandinavia AB.
Elected to the Board in 2004.
Other directorships: Chairman of the Board of Gemaja ApS. Member of the Board of 11 Design A/S, K/S Difko 44, Swedish Shipowners' Association, Shipping Employers' Federation and West Sweden Chamber of Commerce and Industry.
 - Ulla Lax-Nordström
Chairman of the Trade Union Committee, SEKO Department Seamen's Union, Gothenburg. Elected to the Board in 2004.
 - Inger Lundin
First Financial Officer, City of Gothenburg.
Elected to the Board in 2002.
 - Jan-Olof Selén
Director General, Swedish Maritime Administration.
Elected to the Board in 2005.
Other directorships: Chairman of Board for Shipping Support.
- None of the above members or deputy members or persons or legal entities related to them hold shares or financial instruments in the Bank with reference to the Bank's form of organisation. All of the members and deputy members appointed by the Swedish Government are to be regarded as independent of the company and the company management.

MEETINGS

The Board holds four scheduled meetings per year. The Board additionally meets by correspondence at the initiative of the Chairman, individual members or in the event of client needs.

In 2005 the Board met on four occasions. The Board has granted one loan privately.

The attendance record of the members of the Bank's Board at scheduled meetings in 2005 was as follows:

Pehr G Gyllenhammar 100%
Anna-Lisa Engström 100%
Tomas Abrahamsson 50%
Christer Berggren 100%
Torsten Engwall 100%
Håkan Larsson 100%
Agneta Rodosi 100%

The attendance record of the deputy members was as follows:

Ture Axelsson 100%
Petra Hedengran 75%
Lars Höglund 50%
Geir Jansen 50%
Ulla Lax-Nordström 50%
Inger Lundin 75%
Jan-Olof Selén 100%

BOARD COMMITTEES

The Board has increased the scope of its work by the participation of elected Board members in committees set up by the Board. The meetings of the committees are minuted.

CREDIT COMMITTEE

For the approval of proposals by the Managing Director on terms of financing in each individual lending case, the Board

has appointed a credit committee which comprises the Chairman and two of the appointed members of the Board together with the Managing Director (convenor). Shipowners' representatives do not attend meetings of the Credit Committee for competition-related reasons and to avoid conflicts of interest. The Credit Committee is to be appointed annually.

The members of the Credit Committee are:

- Pehr G Gyllenhammar
- Christer Berggren
- Agneta Rodosi

The Credit Committee met five times privately in 2005.

REMUNERATION COMMITTEE

The Board has appointed a remuneration committee. The Remuneration Committee is to determine salaries and other terms of employment for the employees on the proposal of the Managing Director and the salary and other terms of employment of the Managing Director. The Committee comprises the Chairman and three of the appointed members of the Board, together with the Managing Director as the person reporting. The Remuneration Committee is to be appointed annually. The work of the Remuneration Committee is reported back to the Board.

The members of the Remuneration Committee are:

- Pehr G Gyllenhammar
- Anna-Lisa Engström
- Christer Berggren
- Torsten Engwall

The Remuneration Committee held two minuted meetings in 2005.

BOARD FEES

The Swedish Government determines the fees payable to the Chairman of the Board, Members and Deputy Members of the Board which are to be applied in the Bank.

The fees applied with effect from 1 July 2005 are payable as follows:

- Chairman of the Board SEK 105,000 per annum
- Member of the Board SEK 42,000 per annum
- Deputy Member of the Board SEK 21,000 per annum

INTERNAL CONTROL

The Bank is a small organisation, in which each employee has good control of operations. The Managing Director has good control of operating activities and all decisions are taken at a high level. An authorisation manual exists and is complied with.

AUDITORS

The Swedish Government annually appoints auditors and deputy auditors. The Bank's auditors annually attend at least one Board meeting.



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