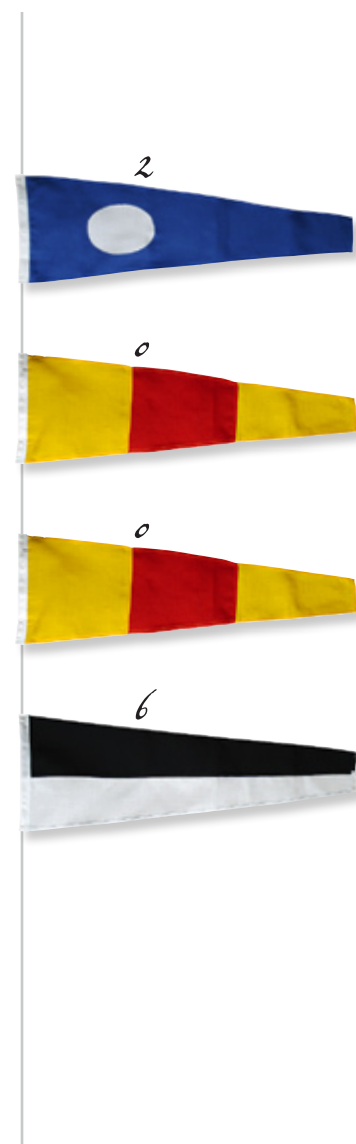


# Contents

79th year of operations

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



## Communication with Tradition

THE FIRST CODE SYSTEMS for flag signalling were developed in France, but it was in Britain that the technique was refined and the foundation was laid for the signal system which still applies today. 1857 saw the first appearance of the book which became the world standard for signalling in shipping: the British Board of Trade published the International Code of Signals, which brought together all the signalling codes in current use. This book was preceded by several less fully developed books of the same type. It has since been updated, revised, translated and published several times. But the name and meaning remain unchanged. The International Code of Signals contains all the signal flags and their meanings, as well as other types of signalling methods, such as Morse

code and radio telegraphy. The Swedish edition of the International Code of Signals was first published in 1872 under the name of Kommersiella Signal-Coden.

Signal flags are used one by one to spell out words or give specific meanings, or in different combinations which produce whole sentences.

In the early 20th century the development of radio telegraphy meant that the need for flags declined. Despite technology now offering advanced communication which is considerably more effective and reliable, signal flags can still be seen hoisted. On the following pages we present a collection of the international signal flags and some of the different meanings.

# Key Figures

SWEDISH SHIPS' MORTGAGE BANK	2006	2005	2004	2003	2002
Surplus for the year, MSEK	60.4	55.9	63.5	64.2	68.1
Balance sheet total, MSEK	7,097.8	6,653.6	7,236.0	5,639.9	5,849.3
Reserve fund, MSEK	1,255.4	1,195.0	1,139.1	1,075.6	1,011.4
Return on average balance sheet total, per cent	0.9	0.8	1.0	1.1	1.2
Return on equity, per cent	5.1	4.9	5.9	6.3	7.2
Solidity, per cent	17.7	18.0	15.7	19.1	17.3
Capital adequacy ratio, per cent	20.1	21.1	18.1	22.5	20.2
Number of employees	8	8	8	8	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 Bank's surplus for 2006 was SEK 60 million. This represents a fall in operating profit of SEK 5 million in comparison with 2005, which after charging of a non-recurring provision of just over SEK 9 million produced a net surplus of SEK 56 million.

A positive feature was that lending was as high as SEK 1,790 million (419), which has only been surpassed in 1991 and 2004. Our preliminary assumption is that we have increased our market shares.

We are still in a cycle of low long-term interest rates and therefore had a return on capital which on the reserve fund was SEK 5 million lower than in 2005.

Despite our higher volume of lending, net interest income was lower due to the falling US dollar. Our net interest income increased in dollar terms, but fell in Swedish kronor.

We have handled a growing operation with an unchanged number of employees, eight. Continued development of skills has resulted in increased productivity. Costs fell by SEK 800 thousand in absolute terms.

The key to the Bank's competitiveness and sustainable profit is high efficiency and maintaining tight cost control.

During the year the Board made a detailed assessment of its work in order to improve efficiency and also received training in ship

valuation and financing. Our strategy was discussed in depth, as were the Bank's long-term goals.

We did not have any credit losses and do not have any non-performing or doubtful credits.

The capital adequacy ratio was 20.1% (21.1), and solidity was 17.7% (18.0).

The balance sheet is strong, and the Swedish Ships' Mortgage Bank has more than SEK 9 billion in further lending capacity.

We look forward to the future with confidence.

Pehr G Gyllenhammar  
Chairman

Lars Johanson  
Managing Director

## Watch out, slow down

IF THERE IS a risk of a ship's activities causing an obstruction or making it difficult for other ships to pass, it is usual for the vessel causing an obstruction to make use of signal flags to communicate this. For example when seabeds are being dredged in fairways or following accidents, "You should proceed at slow speed when passing me". This is shown by hoisting the crossed flag R followed by the striped Y.



A  
I have a diver down; keep well clear at slow speed.



B  
I am taking in, or discharging, or carrying dangerous goods.



PP  
Keep well clear of me.

# 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 1.2 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 6.0 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 7.5 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.

*A necessity*

THERE ARE SIGNALS *which every sea captain learns but hopefully never needs to use: the distress calls.*

*The flags N (chequered) over C (striped) mean that the vessel requires immediate assistance, while S followed by O and the first substitute, which is used to repeat the letter S, form the familiar SOS. The distress call is as follows when telegraphed by Morse code: ...---..., the letters were chosen because they are easy to identify and simple to send.*



SOS  
*International distress call.*



GW  
*Man overboard. Please take action to pick him up (position to be indicated if necessary).*

# Market Review

2006 was generally a good year for shipping and shipbuilding. Many shipping companies have been making a substantial profit for a number of years, and this is one of the reasons why the world's shipyards secured newbuilding contracts worth a total of almost 140 million tonnes deadweight in 2006. This is a record figure and in addition almost twice as much as the yards delivered in the previous year.

Business is good for the shipyard industry in all parts of the world. In Europe, most yards have full order books through to the end of 2010 and in many cases beyond, according to the Community of European Shipyards Associations (CESA).

Newbuilding prices are continuing to rise, but perhaps not to the extent that might have been expected in view of the very high level of demand. Prices rose most for tankers and bulk vessels, by around 10 per cent. Prices for other types of vessel were quite stable over the year. Prices for container vessels at the turn of the year were actually lower than at the end of 2005.

The huge inflow of orders has not led to any major extension in the time taken from placing an order to delivery, which at present is just over three years. In aggregate terms, this means that the yards have succeeded in increasing capacity, partly by expansion and partly through improvements in efficiency. In the future this means that the shipyard industry will be dependent on record order levels if the slipways are to continue to be full and if prices are not to fall.

Ample funds among the players in the market, in conjunction with high newbuilding prices, also meant that second-hand prices, particularly for modern tonnage, remained at very high levels.

## TANKERS

The price of crude oil was greatly affected by OPEC cuts and the increasing political focus on energy issues. The price peaked at USD 77 a barrel during the autumn, and then fell by around USD 20, followed by a slight rise at the end of the year. According to energy analysts there is a speculation premium of USD 15-20 in the price of oil due to political interest.

The year began strongly for crude-oil tonnage, after which there was a decline during the spring. Cargo rates rose sharply during the third quarter, followed by a drop during the fourth quarter. In November rates were down to a level which had not been seen for four years for VLCC tonnage. The reason for the development during the second half of the year was that stocks were replenished ahead of the hurricane season and in anticipation of a cold winter. As the hurricane season

proved considerably less severe than expected and freezing conditions failed to materialise in many places which are normally cold, stocks became too large and demand for crude-oil transport fell sharply.

Product tanker tonnage also felt the effects of the changes in demand during the second half of the year. In particular, there were wide fluctuations in cargo rates for larger tonnage. Following extensive closures of refineries for maintenance, which led to increased consumption of oil products from storage, demand for transport increased at the end of the year, with consequent rises in rates. Market conditions for the smallest tanker tonnage of all have changed relatively dramatically since new rules were introduced for the transporting of vegetable oils and biofuels. The new regulations have led to increased demand for tonnage which fulfils the requirements, while production capacity for biofuels is being greatly expanded, resulting in increased demand for transport. Chemical trades also enjoyed a good year in 2006, with stable cargo rates.

New crude-oil tankers totalling 53.5 million tonnes deadweight were ordered during the year, an increase of 17.3 million tonnes deadweight in comparison with 2005. Contract prizes rose by around 12 per cent. In 2006 yards received orders for product tankers totalling 14.1 million tonnes deadweight, another record figure. Both newbuilding prices and second-hand prices for modern tonnage have risen by 5-15 per cent. New orders for chemical tankers fell from a record high of 5.6 million tonnes deadweight in 2005 to 2.8 million tonnes deadweight in 2006.

## DRY CARGO

2006 also ended as a relatively strong year for the larger dry cargo vessels, although not with the average daily net earnings levels seen in

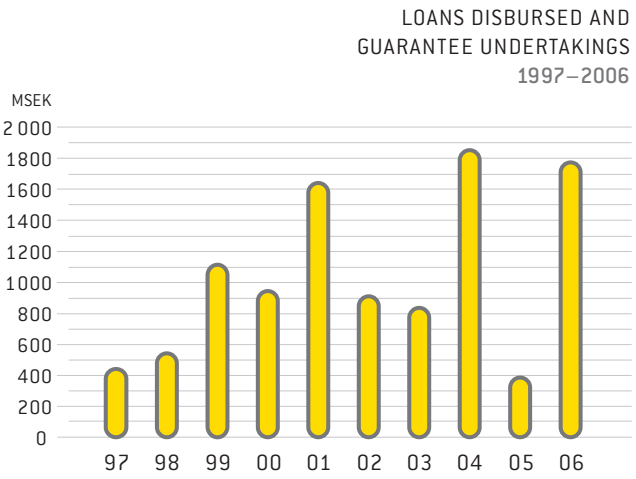


Lars Johanson, Managing Director  
of the Swedish Ships' Mortgage Bank.

2004 and 2005. A significant contributory factor is the transformation of China in recent years from a net importer of steel to one of the world's largest exporters. Steel imports fell by eight million tonnes in comparison with 2005. However, exports rose at the same time by 24 million tonnes.

For smaller dry cargo tonnage on northern European routes, the year ended with daily net earnings levels roughly in line with the previous year or slightly lower, following a dip in the summer. Around Christmas, 6,000-7,000 tonners could count on average daily net earnings of just under EUR 4,000, while the smallest ones, 1,000-1,500 tonnes deadweight, had to settle with average daily net earnings of EUR 1,500. The late winter also meant that all tonnage could continue to look for cargo to carry throughout the Baltic Sea, including St Petersburg, without any ice restrictions.

Vessels totalling 34.8 million tonnes were ordered in the large segments – Handysize, Handymax, Panamax and Capesize – in 2006, equivalent to 9.5 per cent of the existing fleet. A sharp decline in second-hand values for modern tonnage at the start of the year was followed by increases of 25-60 per cent to record levels.



## OTHER MARKETS

The hottest market of all in 2006 was offshore. Rates rose by an average of 50 per cent in comparison with 2005, and revenue for anchor handlers reached almost unimaginably high levels at the end of the year, when the oil companies were paying more than USD 100,000 a day. Despite a relatively sharp increase in the fleet, capacity utilisation exceeded 90 per cent. In 2006, orders were placed for 185 anchor handlers and 111 supply vessels, compared with 81 and 58 respectively in 2005. Second-hand prizes rose, for modern tonnage by up to a third.

Falling time charter rates and shorter charter periods were characteristic of the market for container vessels in 2006. The fleet is growing rapidly, but not as rapidly as might have been expected from previous data. This suggests that there is a significant number of orders which have actually been options and have not been declared. At the same time, the continued buoyant economic conditions led to increased demand for trans-Atlantic traders and in the feeder markets, particularly in the Baltic Sea region.

Demand for ro-ro transport in Northern European is increasingly steadily, and during the year new ro-ro/passenger ferries and ro-pax vessels were ordered and several were delivered. However, demand for newbuilds slackened off at the end of the year.

The cruise sector is growing sharply. According to figures from the European Cruise Council, 33 cruise ships were on order at European yards at the end of the year, with a value of EUR 18.6 billion.

## THE SWEDISH MERCHANT FLEET

At the end of the year the Swedish merchant fleet consisted of just over 400 vessels, of which around 240 were sailing under the Swedish flag. Deadweight totalled around 7.5 million tonnes, of which around 35 per cent is accounted for by the Swedish-flagged fleet. The average age of the fleet is falling, and the modernisation of the Swedish-flagged merchant fleet is taking place mainly by larger newly built ships replacing smaller and older ones which are sold abroad. One consequence is that the Swedish-flagged merchant fleet is relatively constant in number, while the aggregate deadweight is increasing.

Lars Johanson  
Managing Director



# Summary

of income statements and balance sheets

INCOME STATEMENT, SEK THOUSANDS	2006	2005	2004	2003	2002
Net interest income	71,070	76,684	75,054	76,265	80,037
General administrative costs	-8,070	-18,226	-8,761	-8,588	-7,920
Guarantee fund fee paid to the state	-2,100	-2,363	-2,625	-3,237	-3,850
Inventory depreciation	-157	-31	-29	-47	-53
Other operating expenses	-344	-166	-166	-205	-135
Surplus for the year	60,399	55,898	63,473	64,188	68,079

BALANCE SHEET, SEK THOUSANDS	2006	2005	2004	2003	2002
Assets					
Liquid assets	7,969	5,295	4,805	5,897	2,857
Interest-bearing securities:					
short-term investments	486,914	226,326	213,978	479,911	205,817
long-term investments	514,254	900,782	843,283	501,931	700,336
Lending to shipping companies	6,028,700	5,459,703	6,124,830	4,609,445	4,895,887
Other assets	59,978	61,506	49,068	42,689	44,382
	7,097,815	6,653,612	7,235,964	5,639,873	5,849,279
Liabilities and equity					
Promissory note loans	5,801,360	5,420,513	6,078,147	4,550,253	4,821,559
Other liabilities	41,093	38,136	18,752	14,028	16,316
Reserve fund	1,255,362	1,194,963	1,139,065	1,075,592	1,011,404
	7,097,815	6,653,612	7,235,964	5,639,873	5,849,279

# Administration Report

The Board of Directors of the Swedish Ships' Mortgage Bank hereby submits its report on its administration during 2006.

The Bank disbursed loans during the year totalling SEK 1,790 million (previous year SEK 419 million). Loans amounting to SEK 803 million were prepaid during the same period. The total amount of outstanding loans receivable at the end of the year at current exchange rates was SEK 5,668 million (SEK 5,403 million).

Loans granted by the Board, but not yet disbursed amounted to approximately SEK 800 (700) million at the end of the year. The loans will be disbursed during 2007–2008 when the vessels for which the loans have been granted are delivered.

The Bank's operations produced a surplus of SEK 60 million (SEK 56 million) The low interest rates prevailing in the capital market have meant a lower rate of return on the securities portfolio. In addition, the falling USD exchange rate has had a negative impact on net interest income. Non-recurring costs of salary and pension commitments had an impact on profit in 2005.

Return on average balance sheet total amounted to 0.9 (0.8) 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 5.1 (4.9) per cent and the Bank's solidity was 17.7 (18.0) per cent. Capital adequacy ratio was 20.1 (21.1) per cent.

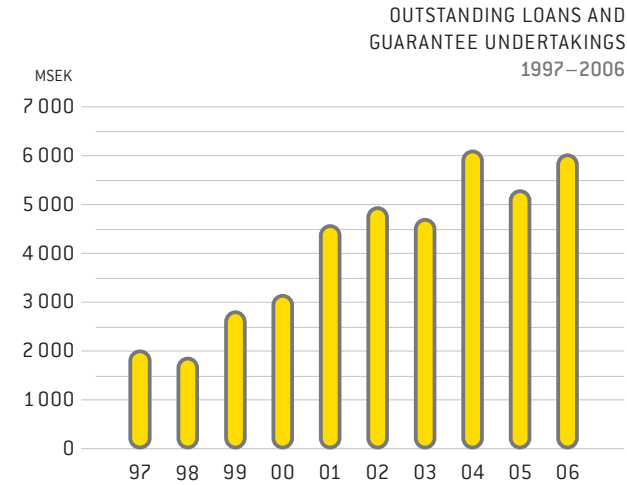
The surplus for the year of SEK 60 million was allocated to the reserve fund, which subsequently amounts to SEK 1,255 million.

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 personnel of the Bank consisted of the Managing Director and 7 (7) employees. 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.

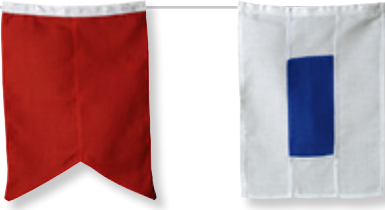


## Calling a doctor

THERE IS A WHOLE section in the International Code of Signals devoted to explanations of different medical conditions, and answers on how the patient is to be treated. If a doctor is needed, the two-tongued A is signalled over N. The flags M, P and F are hoisted to show that the patient's condition is improving. On the other hand, if the flags M, P and Q are hoisted, this means that the treatment has been ineffective. M, P and R mean that the patient has died.



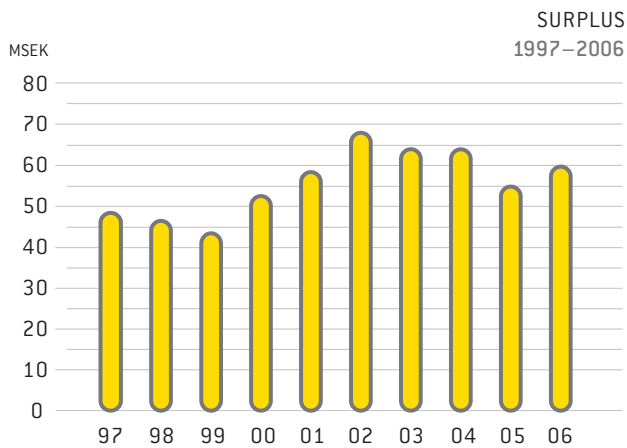
MAA  
I request urgent medical advice.



BS  
You should send a helicopter/boat with stretcher.

# Income Statement

SEK		2006	2005
<b>INTEREST INCOME</b>			
Lending to shipping companies:			
interest		247,883,301	208,664,272
Short-term investments:			
swedish financial institutions		177,072	116,758
interest-bearing securities		8,336,488	11,620,262
Long-term investments:			
interest-bearing securities		26,958,037	28,688,799
<b>INTEREST COSTS</b>	(note 1)	-212,285,051	-172,406,182
<b>NET INTEREST INCOME</b>	(note 2)	<b>71,069,847</b>	<b>76,683,909</b>
General administrative costs	(note 3)	-8,069,284	-18,226,532
Guarantee fund fee paid to the state		-2,100,000	-2,362,500
Inventory depreciation		-157,473	-30,569
Other operating expenses		-344,198	-166,250
Surplus allocated to reserve fund		<b>60,398,892</b>	<b>55,898,058</b>



# Balance Sheet

SEK		31.12.2006	31.12.2005
<b>ASSETS</b>			
Cash		10,000	10,000
Lending to credit institutions	(note 4)	7,958,585	5,285,366
Bonds and other interest-bearing securities:	(note 5)		
short-term investments		486,914,268	226,326,026
long-term investments		514,254,316	900,782,272
Lending to shipping companies	(note 6)	6,028,700,465	5,459,702,752
Tangible assets	(note 7)	276,405	39,881
Accrued interest income		56,653,670	58,623,497
Prepaid expenses and other accrued income		3,047,347	2,842,118
<b>Total assets</b>		<b>7,097,815,056</b>	<b>6,653,611,912</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities to credit institutions	(note 8)	5,801,359,794	5,420,513,396
Accrued interest expenses		31,164,949	27,415,573
Deferred income and other accrued expenses		3,197,347	3,713,313
Other provisions	(note 9)	6,730,934	7,006,490
<b>Equity</b>			
Reserve fund, whereof surplus for the year MSEK 60.4 (55.9)		1,255,362,032	1,194,963,140
<b>Total liabilities and equity</b>		<b>7,097,815,056</b>	<b>6,653,611,912</b>
<b>GUARANTEE FUND</b>			
Swedish State guarantee		350,000,000	350,000,000
<b>COLLATERAL PLEDGED</b>			
		none	none
<b>CONTINGENT LIABILITIES</b>			
		none	none

Gothenburg 28 februari 2007  
Pehr G Gyllenhammar  
Anna-Lisa Engström    Patrik Jönsson  
Håkan Larsson        Agneta Rodosi  
Torsten Engwall      Tomas Abrahamsson  
                             /Lars Johanson

# Capital Adequacy Ratio

CAPITAL BASE, SEK THOUSANDS		31.12.2006
Primary capital	= Reserve fund	1,255,362
Total capital base		1,255,362
Capital Requirement, SEK Thousands	Weighted average	Weighted risk capital
Group A	0 %	0
Group B	20 %	184,391
Group D	100 %	6,064,964
Total weighted risk capital		6,249,355

Capital adequacy ratio in % =

Total capital base x 100

Total weighted risk capital

= 20.09 %

# Cash Flow Analysis

DAY-TO-DAY OPERATIONS	2006	2005
Interest received and compensation for funding costs	244,434,419	198,040,993
Interest payments received on interest-bearing securities	40,890,306	40,739,656
Interest paid	−208,535,675	−162,498,012
	76,789,050	76,282,637
Administrative expenses paid	−11,510,233	−13 397,197
Cash flow from day-to-day operations	65,278,817	62,885,440
Increase/Decrease in assets and liabilities of day-to-day operations		
Lending to shipping companies	−568,997,713	665,127,445
Borrowing	380,846,398	−657,634,042
Investments in interest-bearing securities	125,939,714	−69,847,069
	−62,211,601	−62,353,666
Investment operations		
Investments in inventory	−393,997	−41,217
	−393,997	−41,217
Cash flow for the year	2,673,219	490,557
Liquid assets at the start of the period	5,295,366	4,804,809
Liquid assets at the end of the period	7,968,585	5,295,366

Liquid assets consist of cash and loans to credit institutions.

# Notes

NOTE 1 INTEREST COSTS	2006	2005
Liabilities to credit institutions	212,285,051	172,406,182
NOTE 2 NET INTEREST INCOME		
Average interest during the year for		
lending to shipping companies	4.30	3.57
promissory note loans	3.77	2.97
NOTE 3 GENERAL ADMINISTRATIVE COSTS		
Personnel costs:		
Fees and salaries to the Board and Managing Director	1,362,359	2,021,655
including:		
Chairman of the Board	107,000	
Deputy Chairman of the Board	42,500	
Managing Director	853,359	
Provision for salary and pension costs for former Managing Director	—	9,346,000
Salaries to other employees	2,326,787	2,458,414
Pension costs	1,275,471	909,451
Social contributions	1,243,356	1,498,722
Other personnel costs	450,334	632,639
Rent and other costs for premises	1,138,859	1,163,351
Other administrative costs	2,106,815	1,886,857
	9,903,981	19,917,089
Administrative compensation	−1,834,697	−1,690,557
	8,069,284	18,226,532
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 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 the age 55, to a sum equivalent to 12 months' salary.		
Audit fee		
Lindebergs Grant Thornton/KPMG AB	96,462	91,653
Other auditors appointed by the Government	42,000	41,000
	138,462	132,653

Notes

NOTE 4 LENDING TO CREDIT INSTITUTIONS	31.12.2006	31.12.2005
Payable on demand	7,958,585	5,285,366

NOTE 5 BONDS AND OTHER INTEREST-BEARING SECURITIES

	Purchase value	Market value	Nominal value
Short-term investments			
Swedish credit institutions	107,000,000	107,000,000	107,000,000
Mortgage institutions	306,420,794	293,942,071	290,500,000
The Swedish State	96,313,395	85,791,240	83,500,000
	509,734,189	486,733,311	481,000,000
Accumulated amount in value adjustment account	– 22,819,921		
Book value	486,914,268		
Long-term investments (bonds)			
Mortgage institutions	510,210,725	491,014,595	480,500,000
The Swedish State	19,829,880	18,658,620	18,000,000
	530,040,605	509,673,215	498,500,000
Accumulated amount in value adjustment account	– 15,786,289		
Book value	514,254,316		

	31.12.2006	31.12.2005
Remaining duration		
Maximum three months	107,000,000	22,122,081
Longer than three months but maximum one year	379,914,268	204,203,945
Longer than one year but maximum five years	514,254,316	900,782,272
Remaining fixed interest term		
Maximum three months	107,000,000	22,122,081
Longer than three months but maximum one year	379,914,268	204,203,945
Longer than one year but maximum five years	514,254,316	900,782,272

Average remaining duration 1.1 years (1.8 years). Average effective interest rate as percentage of purchase value 3.29 % (3.37 %).

An international language

There are 40 internationally used signal flags, consisting of 26 alphabet flags and 10 flags for the numerals 0-9. In addition to these there is an answering pennant and three different substitutes for repetition of letters. The colours used are blue, black, yellow, white and red.

For jubilees, commemoration days etc., the ship is festooned with all the flags, from stem to stern. This is known as rainbow dressing or dressing the ship. The flags do not have any specific meaning and are only used for decoration.

Notes

NOTE 6 LENDING TO SHIPPING COMPANIES	31.12.2006	31.12.2005
Loans in SEK	1,470,051,670	979,029,403
Loans in foreign currency	4,318,959,964	4,269,007,773
Loans to smaller shipping companies in accordance with SFS 1988:103	239,688,831	211,665,576
	6,028,700,465	5,459,702,752

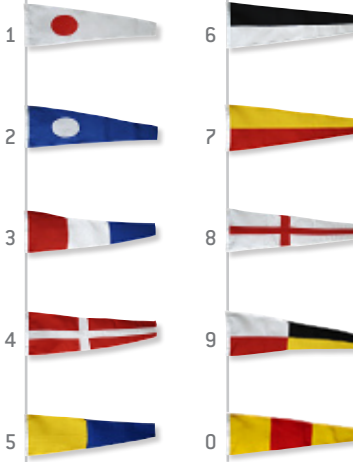
Remaining duration		
Maximum three months	—	—
Longer than three months but maximum one year	—	9,026,440
Longer than one year but maximum five years	100,581,670	132,882,646
Longer than five years	5,928,118,795	5,317,793,666
Average remaining duration 10.4 years (10.7 years).		
Remaining fixed interest term		
Maximum three months	3,200,146,188	2,804,906,426
Longer than three months but maximum one year	1,869,865,349	1,806,613,883
Longer than one year but maximum five years	958,688,928	848,182,443
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 2006 amounted to SEK 57.6 million (SEK 56.1 million). In addition, the Swedish Government has pledged a guarantee of SEK 55 million to cover losses.

ALPHABET FLAGS



NUMERAL PENNANTS



SUBSTITUTES



CODE ANSWERING PENNANT





Notes

NOTE 7 TANGIBLE ASSETS

Inventories	
Acquisition value brought forward	1,368,939
Acquisition value for the year	393,997
Total acquisition value	1,762,936
Accumulated depreciation brought foward	– 1,329,058
Depreciation for the year	– 157,473
Total accumulated depreciation	– 1,486,531
Book value	276,405

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	31.12.2006	31.12.2005
Swedish banks	3,931,423,899	3,867,312,194
Swedish financial companies	1,869,935,895	1,553,201,202
	5,801,359,794	5,420,513,396
Remaining duration		
Maximum three months	—	—
Longer than three months but maximum one year	—	7,026,443
Longer than one year but maximum five years	54,915,000	121,343,304
Longer than five years	5,746,444,794	5,292,143,649
Average remaining duration 10.5 years (10.7 years).		
Remaining fixed interest term		
Maximum three months	3,018,472,188	2,795,866,426
Longer than three months but maximum one year	1,869,865,349	1,776,464,527
Longer than one year but maximum five years	913,022,257	848,182,443
Longer than five years	—	—

NOTE 9 OTHER PROVISIONS

The entire amount relates to a provision for pension expenses	6,730,934	7,006,490
of which the long-term portion is	5,774,679	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. Valuation at current exchange rates will be made with effect from 2007 as an adaptation to IAS/IFRS. Accrued interest income and interest expenses have been valued at current exchange rate. The Bank's net interest income largely consists of net interest income from lending in foreign currencies. Changes in exchange rates affect the level of net interest income.

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 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 decrease 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.

In harbour

IT IS ALSO important for ships to be able to communicate with the world around them when they are in harbour. The red and white H means that there is a pilot on board. If the blue and white P, sometimes known as the Blue Peter, is hoisted in harbour, this means "all persons should report on board as the vessel is about to proceed to sea".



# 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 2006. 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, 9 March 2007  
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 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 Swedish Code of Corporate Governance became applicable.

## 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 2006 to 30 June 2007:

## 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.

• **Anna-Lisa Engström, Deputy Chairman**  
Managing Director, Dag Engström Rederi AB  
Elected to the Board in 1995  
Other directorships: Member of the Board of Dag Engström Rederi AB, Engström Shipping AB and Dona Rederi AB. Deputy Member of the Board of Romira Rederi AB. Delegate member of the board of Länsförsäkringar Göteborg och Bohuslän.

• **Tomas Abrahamsson**  
Deputy Chairman, SEKO  
Elected to the Board in 2002  
Other directorships: Member of the Board of European Maritime Safety Agency (EMSA), European Transport Workers’ Federation (ETF), Nordic Transport Workers’ Federation (NTF), Executive Board of the Union of Service and Communication Employees (SEKO), Unemployment Fund for Service and Communication Employees, HB Lastberget, Shipping Training Institute Foundation and Maritime Forum. Substitute member of the Board of Swedish Trade Union Confederation.

## 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.

• **Karin Barth**  
Deputy Chairman of Trade Union Committee SEKO Department Seamen’s Union  
Elected to the Board in 2006  
Other directorships: First substitute member of SEKO Seamen’s Union Departmental Board

• **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 and 11 Design A/S. Member of the Board of K/S Difko 44, Swedish Shipowners’ Association, Shipping Employers’ Federation and West Sweden Chamber of Commerce and Industry. Retired from the Board on 1 January 2007.

• **Torsten Engwall**  
Chairman, Rederi AB Nordship, Consul  
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 Tankers AB.

• **Patrik Jönsson**  
Senior Investment Manager, Ministry of Industry, Employment and Communications  
Elected to the Board in 2006  
Other directorships: Member of the Board of AB Göta Kanalbolag.

• **Håkan Larsson**  
President and CEO, Rederi AB Transatlantic.  
Elected to the Board in 2004.  
Other directorships: Chairman of the Federation of Shipping Employers and Nimbus Boats Holding AB. Member of the Board of Rederi AB Transatlantic, Bure Equity AB, Ernströmgruppen AB, Wallenius Lines AB, Swedish Shipowners’ Association and Chalmers Tekniska Högskola AB.

• **Agneta Rodosi**  
Treasurer, Akademiska Hus AB  
Elected to the Board in 1998

• **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.

## INDEPENDENCE OF THE MEMBERS OF THE BOARD

The Swedish State makes an exception in its ownership policy in relation to the Swedish Code of Corporate Governance, so that the independence of the members of the Board in relation to the State as major shareholder is not reported. This guideline in the Code is principally aimed at protecting minority shareholders. There is therefore no reason to report this form of independence in wholly state-owned companies.

Regarding the dependence of a Board member in relation to the company, several different reasons are stated in the State’s ownership policy as to when such dependence may exist. The reasons below are considered to be applicable to the Swedish Ships’ Mortgage Bank.

A Board member is not considered to be independent in relation to the company and the company management if the member, either himself or herself or by being a member of senior management or the Board or by being a major shareholder in another company, has business connections or other extensive financial dealings with the company.

Nor is a Board member considered to be independent in relation to the company if this person has been a member of the Board of the company for more than twelve years.

The Board members Tomas Abrahamsson, Torsten Engwall, Patrik Jönsson and Agneta Rodosi, as well as the deputy members Karin Barth, Petra Hedergran, Inger Lundin and Jan-Olof Selén, are independent in relation to the company.

## MEETINGS

The Board met on four occasions in 2006. The Board additionally meets by correspondence at the initiative of the Chairman, individual members or in the event of client needs. The Board took nine loan decisions privately.

### The attendance record of the members of the Bank's Board at scheduled meetings in 2006 was as follows:

Pehr G Gyllenhammar	100%	
Anna-Lisa Engström	75%	
Tomas Abrahamsson	100%	
Torsten Engwall	50%	
Patrik Jönsson	100%	of two meetings.
Håkan Larsson	75%	
Agneta Rodosi	100%	

### The attendance record of the deputy members was as follows:

Ture Axelsson	100%	
Karin Barth	100%	of two meetings.
Petra Hedengran	50%	
Lars Höglund	75%	
Geir Jansen	100%	
Inger Lundin	50%	
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 can also be used as the Board's preparatory body for certain other matters, in order to ensure more effective preparation of major and more complex matters. In 2006 the Bank's investment instructions were reviewed by in the Credit Committee.

The Credit Committee is to be appointed annually.

### The members of the Credit Committee are:

- Pehr G Gyllenhammar
- Patrik Jönsson
- Agneta Rodosi

The Credit Committee met fourteen times privately in 2006.

### 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
- Torsten Engwall
- Patrik Jönsson

The Remuneration Committee held one minuted meeting in 2006.

## 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 2006 are payable as follows:

- Chairman of the Board SEK 109,000 per annum
- Member of the Board SEK 43,000 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.

Responsibility for the election of auditors for state-owned companies rests with the owner. The practical work concerned with procurement is dealt with by the appropriate Board committee, in the case of the Swedish Ships' Mortgage Bank the Credit Committee. The representatives of the Swedish Government Offices follow all the steps in the procurement process from procurement criteria to selection and evaluation. The final decision on auditors for the Bank is taken by the Swedish Government every year.



UW1

WHEN SIGNAL FLAGS are hoisted on ships they go from stem to stern. When looking at the flags in this annual report you should read them from left to right to establish the correct meaning. UW1: Thank you very much for your cooperation. I wish you a pleasant voyage.

Production and graphic design: Larsson Communications and Radiator, Gothenburg. Paper of cover: Keaykolour Fusilier 300 g. Inside pages: Lessebo Bok 150 g. Typografi: Conduit, Sabon och Voluta Script.

Printing and repro: Risbergs Information och Media AB. Special thanks are due to, Flagfabriken National AB, Mikael Ekeblad and Sven-Göran Palm.