

# Contents

## 76TH YEAR OF OPERATIONS

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## THE PROPELLER – UNDER DEVELOPMENT



The propeller is one of the three very important components which, during the 19th Century, made possible the dramatic development towards the efficient shipping and vessels of today. The other two were hulls of metal,

which meant that ships could be made larger, stronger and lighter than if they were made of wood, and the steam turbine, which could convert fuel efficiently into rotary motion. The technology of the propeller has undergone many stages of refinement, and efficiency has been greatly improved. New designs have been added, and have found niches.

The fundamental principle is, however, the same as described in the Nordic Family Book, 1932: "PROPELLER. Ship's propeller, a multiple-thread screw immersed in the water, which through pressure on the surrounding water drives the ship forward. A propeller is right-handed or left-handed. If a right-handed propeller rotates clockwise, it endeavours to move forward and if it rotates

anticlockwise it endeavours to move aft; in the case of a left-handed propeller the opposite situation arises. This characteristic of propellers is utilised in propeller-driven ships to change the direction of motion. The action of the propeller for propulsion in the water is based on the fact that it is a screw. If a screw is rotated one revolution in a stationary nut, it is moved in its longitudinal direction an amount equal to the space between two threads, which is referred to as the pitch.

The water surrounding the propeller, however, moves away from the propeller blades, and the propeller therefore only advances part of the pitch for each revolution. The part which is thus lost for each revolution is known as slippage. It usually amounts to 10-30% of the pitch. The diameter of a propeller is the diameter of a circle describing the tips of the propeller blades. The design of a propeller for a ship at a given speed entails correct adaptation of the characteristic values for the propeller: diameter, pitch, number of blades, area and shape and number of revolutions."

# Key Figures

SWEDISH <sup>1</sup> SHIPS MORTGAGE BANK	2003	2002	2001	2000	1999
Operating income, MSEK	64.2	68.1	58.3	51.5	43.3
Balance sheet total, MSEK	5,639.9	5,849.3	5,417.2	3,944.4	3,469.7
Reserve fund, MSEK	1,075.6	1,011.4	943.3	885.0	833.5
Profit level, per cent	1.1	1.2	1.3	1.4	1.4
Return on equity, per cent	6.3	7.2	6.6	6.2	5.5
Solidity, per cent	19.1	17.3	17.4	22.4	24.0
Capital adequacy ratio, per cent	22.5	20.2	21.2	25.1	29.3
Number of employees	8	9	9	9	9

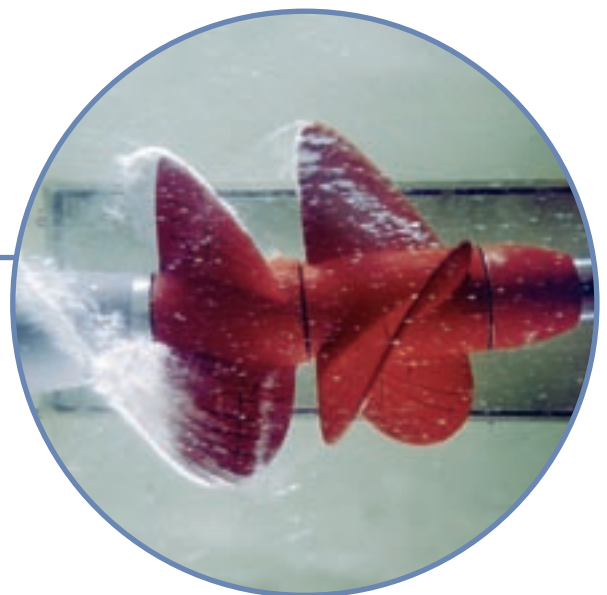
**Pitch** is the distance the propeller screws itself

forward in one revolution in an imagined solid mass.

It is adapted to the shaft speed, the speed of the vessel

and the diameter of the propeller. A large diameter and

low shaft speed result in low pitch and high efficiency.



## DUAL ACTION

Experiments with counter-rotating propellers on a shaft were performed by John Ericsson back in the 1820s. The dual solution results in increased grip in the water without waste on lateral forces. It provides faster acceleration, a higher top speed, lower fuel consumption, better steering characteristics and a lower noise level. It is most commonly used on small and fast craft.

# Swedish Ships' Mortgage Bank

## - PRESENTATION

THE SWEDISH SHIPS' MORTGAGE BANK (the Bank) was established in 1929, with the task of facilitating the financing of Swedish shipowners, and contributing to the rejuvenation of the Swedish merchant fleet.

Today, the Bank can also finance foreign-owned shipping operations if there is a significant Swedish interest or influence. The Bank does business on purely commercial terms, and in competition with other credit institutions.

Operations are governed by the Swedish Ships' Mortgage Bank Act (SFS 1980:1097). The most recent amendment came into force on 1 July 1998 (SFS 1998:310).

### THE BANK IS SUBJECT TO PUBLIC LAW

The Swedish State has provided guarantees for the Bank's operations. These amount to MSEK 350. The Bank's reserve fund (currently MSEK 1,076) and the Swedish State guarantee are to be used to cover any losses.

The Bank's registered office is in Gothenburg. The Board – which consists of 7 Members and 7 Deputy Members – is appointed by the government.

The term of loans may be up to 15 years. The Bank principally provides long-term loans against the security of Swedish or foreign ships.

Loans must be secured through balances with or guarantees from banks or the State or collateral in ships. The collateral must fall within 70 % of the value of the ship as estimated by the Bank (in special cases 80 %).

Loans are provided in foreign or Swedish currency and with floating or fixed interest rates at the option of the borrower. Interest rates are determined individually.

Operations are financed primarily through promissory note loans. Borrowing is in principle subject to the same terms as lending with regard to currencies and fixed interest terms.

### LOANS TO SMALLER SHIPPING COMPANIES

In certain cases, loans of up to 90 % of the vessel's value can be provided under the terms of a special ordinance. Preference will be given to smaller shipping companies.

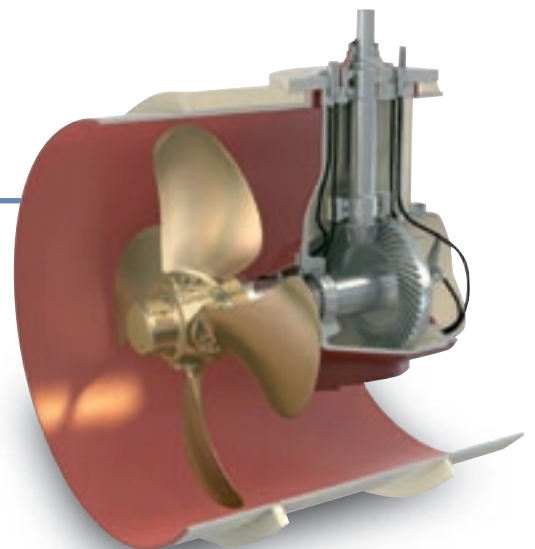
### BOARD FOR SHIPPING SUPPORT

The government has instructed the Board for Shipping Support to administer approved subsidies to Swedish shipping. The Bank's personnel also run the day-to-day operations of the Board for Shipping Support.

**The area** of propeller blades is determined by engine output and the desired speed of the vessel. A large blade area lowers the noise level but takes away compressive forces. A blade area which is too small is not able to fully utilise the capacity of the engine, and is not compensated for by a higher pitch or increased diameter either.

### FOR BERTHING

Tunnel propeller, bow propeller or thruster, the principle is the same. The propeller is located athwartships in a pipe, and the water jet can move the ship both to port and to starboard. It gives the ship very high manoeuvrability when berthing.



# Comments by the Chairman and the Managing Director

THE SWEDISH SHIPS' MORTGAGE BANK had another good year, although profit fell by SEK 4 million, from SEK 68 million to SEK 64 million.

Outstanding loans to shipping companies fell from SEK 4,857 million to SEK 4,029 million. The falling dollar exchange rate was a factor in both cases. In addition, the prevailing interest rate situation meant a lower return on the reserve fund.

Loans granted for disbursement decreased from SEK 1,500 million to SEK 900 million, largely due to deliveries of ordered ships turning out to be irregular. The Bank has, however, increased its market share, and our service and expertise are greatly

valued, according to statements by our customers.

Solidity increased from 17.3 % to 19.1 % and capital adequacy ratio from 20.2 % to 22.5 %. Our position is therefore very strong and permits considerable expansion.

The reserve fund, which in the previous year reached the billion kronor mark for the first time, amounted to SEK 1,076 at the end of the year.

The Bank's personnel are improving themselves, upgrading their skills and becoming more productive. The number of employees has decreased by one, from nine to eight.

In accordance with the Swedish Government's changed guidelines, the

Bank has now withdrawn the bonus system. In its place, the Bank has made a one-off increase in fixed pay of 7 per cent for the employees and 14 per cent for the Managing Director.

The Bank's Board takes all loan decisions on the proposal of the Managing Director.

The Board also establishes all ship values. Credit matters are discussed on a credit committee on which the shipowners are not represented.

The Bank has not had any credit losses or doubtful credits during the past year.

PEHR G GYLLENHAMMAR  
Chairman

BIRGITTA WICKENBERG KARLSSON  
Managing Director

## Market Review



Managing Director,  
BIRGITTA WICKENBERG KARLSSON

2003 was a tumultuous year in many shipping segments. The shipyards were filled, scrap prices shot up and several freight markets were greatly affected by new rules, war, strikes and not least by the astonishing pace of development in China.

The world merchant fleet at the end of 2003 was estimated to consist of about 800 million tonnes deadweight, an increase of about 25 million tonnes deadweight compared with 2002.

In many respects, 2003 was a record year for the shipbuilding industry. More than 170 million tonnes deadweight was on

order at the end of the year, and twice as much tonnage was ordered in 2003 as in the previous year.

The world's shipyards, particularly those in Asia, therefore entered 2004 with well-filled order books. It is now difficult to order ships for delivery earlier than 2008. Much depends on the phasing-out of older single-hulled tankers, but extensive orders for large container vessels have also contributed to the filling of order books. The historically high levels on the freight market for larger bulk tonnage have also been a factor in the increased number of

orders for new ships.

At the turn of the year, orders of tankers amounted to 78 million tonnes deadweight, a rise of almost 20 million tonnes compared with the end of 2002.

It is notable that the number of orders for smaller tankers, less than 10,000 tonnes deadweight, increased for the fourth year in a row. The order book for container ships over 3,000 TEU has doubled since 2000 to 26 million tonnes deadweight in 2003. Of these, around half are to be delivered from 2006 on.

South Korea, Japan and China have the fullest order books. Europe holds a total of 16 per cent of orders. The largest order book in Europe is held by Germany, followed by Poland, Italy and Croatia.

Although the situation is generally good for the shipbuilding industry, the regional differences are striking. It is the shipyards in Asia that are operating at full capacity. The situation in Europe gives cause for concern. The Norwegian shipyards have almost empty order books and Finnish yards are reliant on the cruise lines starting to place orders again. In Spain, the re-organised state-owned Izar group is making heavy losses, necessitating financial assistance.

The shipbuilding industry is, however,

important for the EU with nearly 9,000 enterprises and more than 300,000 employees. In October 2003, the European Commission therefore presented the report Leadership 2015, in which, together with an expert group, it formulated around thirty recommendations for the EU shipbuilding industry. It is stated in the report that the strength of European shipyards is in the design of sophisticated vessels, and there is a desire to move away from traditional production assistance and make a commitment to development assistance instead. Europe's shipyards are to invest in the development of safer and more environmentally sound ships and exploit the potential in the growing short sea shipping. The report also contains recommendations for improving financing options. It is felt that the shipbuilding industry needs to be consolidated and that there need to be incentives to close down operations which are not efficient.

The war in Iraq affected many shipping segments. Ro-ro and container vessels were chartered in for military transport. Cruise shipping to some extent moved away from the Mediterranean to the north, with record numbers of cruise ships docking in many Northern European ports. The tanker markets were also affected by longer transport routes due to the strikes and disturbances in Venezuela.

On the dry-cargo market, the year ended with freight levels not seen since the days of Marshall Aid after the Second World War. The increase was driven by developments in Asia and particularly in China, where there has been a sharp rise in demand for dry-cargo tonnage. Overall, sea-borne bulk transport increased by around five per cent. Development for iron ore was dramatic, with an estimated ten per cent increase in 2003 and with a further sharp increase expected this year.

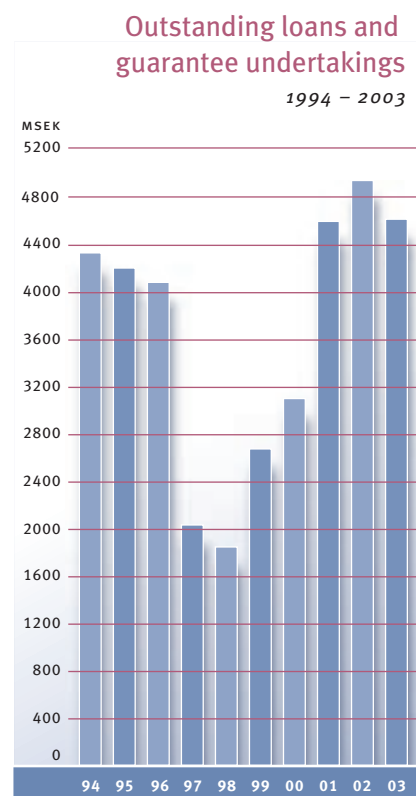
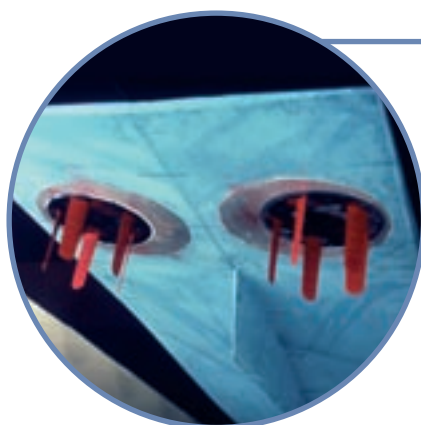
Daily net revenue for the largest bulk vessels reached average figures of around USD 100,000 at the end of 2003, almost ten times higher than the average net revenue two years previously. Most of the evidence suggests that the good times are lasting during 2004. Demand is increasing more than the available tonnage.

The market for the small dry-bulk tonnage in our region also improved during the second half of the year, after a dip in the middle of the year. The average daily net revenue for dry-cargo ships of 2,000-3,000 tonnes deadweight was around USD 2,500 at the end of the year. The average daily net revenue for 6,000-7,000 dwt vessels was just over USD 4,000.

2003 was a very good year for large tankers. The price of oil was relatively high, with an average of around USD 28 a barrel on an annual basis for the OPEC basket. The Worldscale index for modern VLCCs on the Arabian Gulf to Northern Europe trade was 82 on an annual basis, compared with 43 in 2002.

In Northern Europe, the market for product tankers has been greatly affected by political factors and changes of rules. 2003 began with a strong market due to the cold weather. There followed a more quiet period, but at the end of the year the market picked up again. The ban on transporting crude oil in single-hulled ships came into force on 21 October. This caused demand for quality tonnage to increase, a very favourable development for Swedish tanker shipping companies which, after making substantial investments, have ultra-modern fleets. Russia stepped up oil exports via Baltic Sea ports at the same time.

Developments in China have also affected the market for the scrapping of ships. The demand for scrap is strong, and the times are good on most freight markets. This has led to a sharp rise in scrap prices. At the end of 2003, scrapyards were paying up to USD 300 per tonne light displacement for tankers.



The modernisation of the Swedish merchant fleet is continuing, partly due to shipping-policy decisions which are reducing Swedish manning costs to competitive levels. Larger chemical/product tankers are being delivered in particular, while older and smaller ships are sold abroad. At the turn of the year there were around 45 confirmed orders from Swedish shipping companies. Nearly 90 per cent of the orders relate to tankers. The Swedish merchant fleet consisted of around 220 ships of 2.1 million tonnes deadweight at the end of 2003. In addition, there is significant tonnage sailing under foreign flags or controlled by Swedish shipping companies.

## STEERING WITHOUT A RUDDER

The Voith-Schneider design consists of vertical blades, mounted in a ring below the body of the ship. The blades have high efficiency and provide direct and high propulsive force in any chosen direction. This system is most common on tugs.



# Summary

## OF INCOME STATEMENTS AND BALANCE SHEETS

	2003	2002	2001	2000	1999
<b>INCOME STATEMENT, SEK THOUSANDS</b>					
Net interest income	76,265	80,037	71,901	59,958	55,940
Other operating income	–	–	–	3,968	–
General administrative costs	–8,588	–7,920	–7,972	–6,753	–6,922
Guarantee fund fee paid to the state	–3,237	–3,850	–5,330	–5,330	–5,330
Inventory depreciation	–47	–53	–142	–216	–214
Other operating expenses	–205	–135	–137	–136	–136
Surplus for the year	64,188	68,079	58,320	51,491	43,338
<b>BALANCE SHEET, SEK THOUSANDS</b>					
<b>Assets</b>					
Liquid assets	5,897	2,857	3,747	3,450	2,486
Interest-bearing securities:					
short-term investments	479,911	205,817	169,578	208,979	312,945
long-term investments	501,931	700,336	650,791	542,978	382,332
Lending to shipping companies	4,609,445	4,895,887	4,539,655	3,123,799	2,709,542
Other assets	42,689	44,382	53,431	65,212	62,422
	5,639,873	5,849,279	5,417,202	3,944,418	3,469,727
<b>Liabilities and equity</b>					
Promissory note loans	4,550,253	4,821,559	4,450,592	3,025,146	2,606,894
Other liabilities	14,028	16,316	23,285	34,267	29,318
Reserve fund	1,075,592	1,011,404	943,325	885,005	833,515
	5,639,873	5,849,279	5,417,202	3,944,418	3,469,727



Blade shape is of relatively secondary significance.

*Backswept blades are often quieter than round or straight blades.*

### BUBBLES CAUSING DAMAGE

When water pressure decreases, small vacuum bubbles may arise on the surface of the propeller blades. When the pressure increases, the bubble is forcibly compressed, and can damage the blades. This undesirable phenomenon is known as cavitation and can arise when the surface of the blades is too small in relation to the engine output, in the event of incorrect pitch or if damage occurs to the edges of the propeller blades.

# Administration Report

THE BOARD OF DIRECTORS OF THE SWEDISH SHIPS' MORTGAGE BANK  
HEREBY SUBMITS ITS REPORT ON ITS ADMINISTRATION DURING 2003

During the year, the Bank disbursed loans amounting to SEK 885 million (preceding year SEK 976 million). Total outstanding loan receivable at the year-end amounted to SEK 4,029 million (SEK 4,857 million) at current exchange rates. Outstanding loans to shipping companies at current exchange rates have decreased partly as a result of the USD exchange rate having fallen from SEK 8.83 at 31.12.2002 to SEK 7.28 at 31.12.2003 and partly as a result of prepayments of loans.

Loans granted by the Board, but not yet disbursed, amounted to approximately SEK 900 million (SEK 1,500 million) at the end of the year. The loans will be disbursed during 2004 and 2005 when the vessels for which the loans have been granted are delivered.

The Bank's operations have generated a surplus of SEK 64 million (SEK 68 million). Profit in relation to the average balance sheet total amounted to 1.1 per cent (1.2). No credit losses have occurred. The Bank does not have any doubtful credits or credits with interest remission at the balance sheet date.

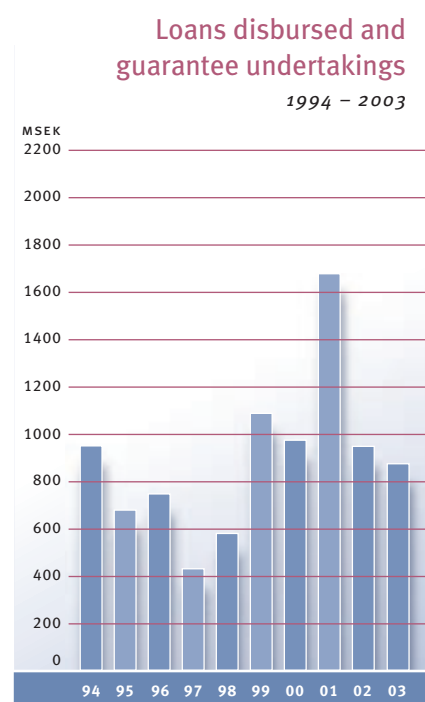
Return on equity was 6.3 per cent (7.2) and the Bank's solidity was 19.1 per cent (17.3). Capital adequacy ratio was 22.5 per cent (20.2).

The surplus for the year of SEK 64 million was allocated to the reserve fund, which subsequently amounts to SEK 1,076 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 7.0 (8.0) 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.



Too steep an angle *of inclination in relation*

*to the profile of the hull may result in powerful vibrations, particularly if the propeller has few blades. The angle of inclination of the shaft should never exceed 13°.*

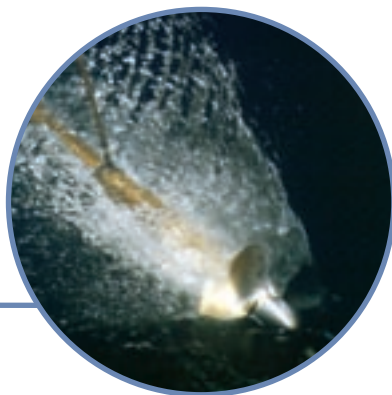


## FINS SOLVED PROBLEM

The two five-bladed propellers on the "Queen Elizabeth 2" were damaged by cavitation next to the hub. Model experiments yielded the same results, but also provided a solution to the problem. Using fins mounted ahead of the propellers, the water flows were straightened. The blade-root cavitation disappeared. Vortex cavitation arose instead, but proved less harmful.

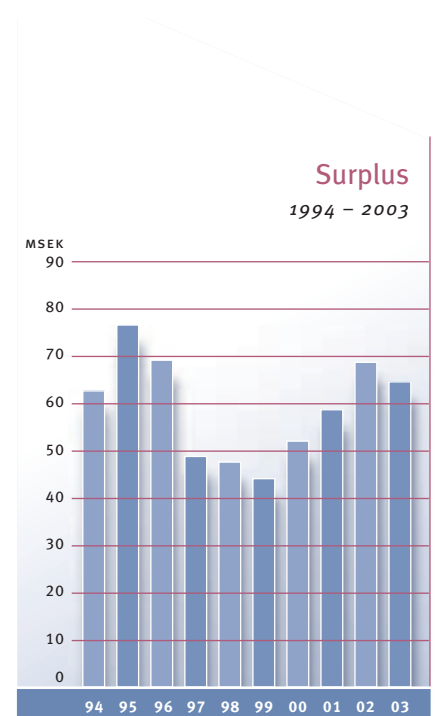
# Income Statement

SEK		2003	2002
<b>Interest income</b>			
Lending to shipping companies:			
Interest		117,881,485	200,131,010
Compensation for funding costs		1,747,657	2,219,169
Short-term investments:			
Swedish financial institutions		151,194	146,280
Interests-bearing securities		19,661,247	9,827,275
Long-term investments:			
Interest-bearing securities		28,176,066	36,220,097
Other interest income		19,967	525,255
<b>Interest costs</b>	(note 1)	-91,372,703	-169,032,339
<b>Net interest income</b>	(note 2)	76,264,913	80,036,747
General administrative costs	(note 3)	-8,587,741	-7,919,782
Guarantee fund fee paid to the state		-3,237,500	-3,850,000
Inventory depreciation		-47,194	-53,091
Other operating expenses		-204,798	-135,000
<b>Surplus allocated to reserve fund</b>		<b>64,187,680</b>	<b>68,078,874</b>



## HALF ABOVE

Surface-cutting propellers result in high top speed, good fuel economy at cruising speed, less water resistance and smaller draught, but also vibrations. The solution necessitates the drive line being vertically adjustable and the propeller hub always has to be just above the water line. Often used in racing, when the propeller is made of steel, optimised for maximum speed.





# Balance Sheet

SEK		2003-12-31	2002-12-31
<b>ASSETS</b>			
Cash		10,000	10,000
Lending to credit institutions	(note 4)	5,887,316	2,846,912
Bonds and other interest-bearing securities:	(note 5)		
short-term investments		479,910,938	205,816,616
long-term investments		501,930,831	700,336,524
Lending to shipping companies	(note 6)	4,609,444,600	4,895,886,642
Tangible assets	(note 7)	20,572	54,483
Other receivables	(note 8)	–	1,719,990
Accrued interest income		41,575,115	41,198,287
Prepaid expenses and other accrued income		1,093,926	1,409,101
<b>Total assets</b>		<b>5,639,873,298</b>	<b>5,849,278,555</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Liabilities to credit institutions	(note 9)	4,550,252,897	4,821,558,570
Other liabilities		–	3,059
Accrued interest expenses		12,443,342	14,989,489
Deferred income and other accrued expenses		1,585,258	1,323,316
<b>Equity</b>			
Reserve fund, whereof surplus for the year MSEK 64,2 (68,1)		1,075,591,801	1,011,404,121
<b>Total liabilities and equity</b>		<b>5,639,873,298</b>	<b>5,849,278,555</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 27 FEBRUARY 2004

Pehr G Gyllenhammar

Anna-Lisa Engström  
Åsa Kastman Heuman  
Torsten Engwall

Christer Berggren  
Folke Patriksson  
Tomas Abrahamsson  
/ Birgitta Wickenberg Karlsson

# Capital Adequacy Ratio

CAPITAL BASE, SEK THOUSANDS		2003-12-31
Primary capital	= Reserve fund	1,075,592
Total capital base		1,075,592
CAPITAL REQUIREMENT, SEK THOUSANDS		Weighted average %
Group A		0
Group B		20
Group D		100
Total weighted risk capital		4,771,589

$$\text{Capital adequacy ratio in \%} = \frac{\text{Total capital base} \times 100}{\text{Total weighted risk capital}} = 22,54 \%$$

# Cash Flow Analysis

DAY-TO-DAY OPERATIONS	2003	2002
Interest received and compensation for funding costs	122,480,187	209,504,221
Interest payments received on interest-bearing securities	44,886,971	43,518,605
Interest paid	-93,918,850	-176,066,823
	73,448,308	76,956,003
Administrative expenses paid	-9,842,361	-6,761,991
Cash flow from day-to-day operations	63,605,947	70,194,012
INCREASE/DECREASE IN ASSETS AND LIABILITIES OF DAY-TO-DAY OPERATIONS		
Increase/Decrease in lending to shipping companies	286,442,042	-356,231,744
Increase/Decrease in borrowing	-271,305,673	370,966,353
Investments in interest-bearing securities	-75,688,629	-85,784,365
	-60,552,260	-71,049,756
INVESTMENT OPERATIONS		
Investments in inventory	-13,283	-35,146
	-13,283	-35,146
Cash flow for the year	3,040,404	-890,890
Liquid assets at the start of the period	2,856,912	3,747,802
Liquid assets at the end of the period	5,897,316	2,856,912

Liquid assets consist of cash and loans to credit institutions.

# Notes

<b>NOTE 1</b>	<b>INTEREST COSTS</b>	<b>2003</b>	<b>2002</b>
	Liabilities to credit institutions	91,372,703	157,990,322
	Other borrowing	—	11,042,017
		<u>91,372,703</u>	<u>169,032,339</u>
<b>NOTE 2</b>	<b>NET INTEREST INCOME</b>		
	Average interest during the year for		
	– lending to shipping companies	2,52	4,13
	– promissory note loans	1,95	3,51
<b>NOTE 3</b>	<b>REPAYMENT OF SPP FUNDS</b>		
	<b>2003</b>		<b>2002</b>
	Of the remaining allocated company-related funds of SEK 1,743,812, a total of SEK 1,743,812 was received during the year.		Of the remaining allocated company-related funds of SEK 3,256,975, a total of SEK 1,513,163 was received during the year. It is estimated that the remaining sum of SEK 1,743,812 will be received during 2003.
	<b>General administrative costs</b>	<b>2003</b>	<b>2002</b>
	Personnel costs:		
	Fees and salaries to the Board and Managing Director including:	1,798,081	1,718,491
	Chairman of the Board 100,000		
	Deputy Chairman of the Board 40,000		
	Managing Director 1,319,748		
	Whereof bonus 190,744		
	Salaries to other employees	2,052,979	2,464,524
	Allocation to bonus scheme	406,789	389,607
	Pension costs in excess of the general pension plan	—	—
	Other pension costs	961,895	721,361
	Social contributions	1,421,162	1,529,318
	Other personnel costs	426,614	502,101
	Rent and other costs for premises	1,127,842	886,977
	Other administrative costs	2,105,998	1,757,788
		<u>10,301,360</u>	<u>9,970,167</u>
	Administrative compensation	<u>-1,713,619</u>	<u>-2,050,385</u>
		<u>8,587,741</u>	<u>7,919,782</u>
	Bonus paid		
	Managing Director	190,744	180,400
	Others	216,045	215,207
		<u>406,789</u>	<u>395,607</u>
	The position of Managing Director of the Bank is subject to a mutual period of notice of 2 years. The Managing Director is entitled to draw a pension, equivalent to 70% of salary, on retirement at 62 years of age.		
	<b>Audit fee</b>		
	KPMG AB	82,190	80,745
	Other auditors appointed by the government	40,000	37,500
		<u>122,190</u>	<u>118,245</u>

# Notes

<b>NOTE 4</b>	<b>LENDING TO CREDIT INSTITUTIONS</b>	<b>2003-12-31</b>	<b>2002-12-31</b>
	Payable on demand	5,887,316	2,846,912

<b>NOTE 5</b>	<b>BONDS AND OTHER INTEREST-BEARING SECURITIES</b>	<b>PURCHASE VALUE</b>	<b>MARKET VALUE</b>	<b>NOMINAL VALUE</b>
	Short-term investments			
	Mortgage institutions	477,364,848	486,111,903	480,300,000
	Accumulated amount in value adjustment account	2,546,090		
	Book value	479,910,938		
	Long-term investments ( <i>bonds</i> )			
	Mortgage institutions	225,756,840	228,530,870	220,000,000
	The Swedish State	279,779,987	279,200,728	268,900,000
		505,536,827	507,731,598	488,900,000
	Accumulated amount in value adjustment account	-3,605,996		
	Book value	501,930,831		

	<b>2003-12-31</b>	<b>2002-12-31</b>
Remaining duration		
Maximum three months	0	29,351,821
Longer than three months but maximum one year	479,910,938	176,464,795
Longer than one year but maximum five years	501,930,831	700,336,524
Remaining fixed interest term		
Maximum three months	0	29,351,821
Longer than three months but maximum one year	479,910,938	176,464,795
Longer than one year but maximum five years	501,930,831	700,336,524

*Average remaining duration 1.4 years (1.6 years).*

*Average effective interest rate as percentage of purchase value 4.77 % (5.31 %).*

**Total symmetry** *between blade, pitch, radius and surface is very important. Greater manufacturing tolerances can be accepted on slow-rotating propellers than on high-speed propellers.*

## WITHOUT A HUB

The tips of the propeller blades are fixed on a narrow ring which rotates in a recess in the surrounding tunnel wall. The propeller therefore lacks a hub, and the need for a driving shaft is thus eliminated. The pitch of the propeller blades is adjustable. An advantage with this type of propeller is that it can be driven from outside and is thus also suitable for use as a pump in pipes.



# Notes

<b>NOTE 6</b>	<b>LENDING TO SHIPPING COMPANIES</b>	<b>2003-12-31</b>	<b>2002-12-31</b>
	Loans in SEK	78,632,869	97,859,601
	Loans in foreign currency	4,359,303,608	4,615,495,945
	Interest-subsidised lending	—	83,525,345
	Loans to smaller shipping companies in accordance with SFS 1988:103	171,508,123	99,005,751
		<u>4,609,444,600</u>	<u>4,895,886,642</u>
	Lending to shipping companies includes non-settled but non-doubtful receivables. This item relates to repayment respite granted.	<u>23,503,200</u>	—
	Remaining duration		
	Maximum three months	4,382,700	1,500,000
	Longer than three months but maximum one year	—	94,004,726
	Longer than one year but maximum five years	109,087,024	174,982,541
	Longer than five years	4,495,974,876	4,625,399,375
	<i>Average remaining duration 11.8 years (11.8 years).</i>		
	Remaining fixed interest term		
	Maximum three months	1,737,024,391	2,334,629,116
	Longer than three months but maximum one year	2,745,077,168	2,455,486,094
	Longer than one year but maximum five years	127,343,041	105,771,432
	Longer than five years	—	—
	<i>Under ordinances SFS 1980:561 and SFS 1981:413, an interest subsidy system was introduced for Swedish buyers of ships from Swedish yards. This system has now been terminated, but interest subsidies on remaining loans ended 2003.</i>		
	<i>A special fund, administered by the Bank (by Government decree of 1987) may be used to cover losses in connection with new loans to smaller shipping companies. The capital balance of the fund on 31 December 2003 was MSEK 106.8 (MSEK 102.9).</i>		
<b>NOTE 7</b>	<b>TANGIBLE ASSETS</b>		
	Equipment		
	Acquisition value brought forward	1,277,233	
	Acquisition value for the year	13,283	
		<u>1,290,516</u>	
	Total acquisition value		<u>1,290,516</u>
	Accumulated depreciation brought forward	1,222,750	
	Depreciation for the year	47,194	
		<u>1,269,944</u>	
	Total accumulated depreciation		<u>-1,269,944</u>
	Book value		<u>20,572</u>
	<i>Equipment acquired prior to 31 December 1996 has been written off in full.</i>		
	<i>Equipment acquired as of 1 January 1997 has been activated with a depreciation period of 3 years.</i>		
<b>NOTE 8</b>	<b>OTHER RECEIVABLES</b>	<b>2003-12-31</b>	<b>2002-12-31</b>
	Relating to SPP funds, of which current portion:	—	1,719,990
	long-term portion:	—	—
		<u>—</u>	<u>1,719,990</u>

# Notes

<b>NOTE 9</b>	<b>LIABILITIES TO CREDIT INSTITUTIONS</b>	<b>2003-12-31</b>	<b>2002-12-31</b>
	Swedish banks	3,735,793,567	3,781,185,497
	Swedish financial companies	814,459,330	1,040,373,073
		<u>4,550,252,897</u>	<u>4,821,558,570</u>
	Remaining duration		
	Maximum three months	4382,700	—
	Longer than three months but maximum one year	—	89,096,188
	Longer than one year but maximum five years	92,540,776	158,662,495
	Longer than five years	4,453,329,421	4,573,799,887
	<i>Average remaining duration 11.8 years (11.8 years).</i>		
	Remaining fixed interest term		
	Maximum three months	1,717,068,831	2,313,989,095
	Longer than three months but maximum one year	2,705,841,025	2,406,798,043
	Longer than one year but maximum five years	127,343,041	100,771,432
	Longer than five years	—	—

## 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.

**Rake** means that the blade is not perpendicular to the shaft. The blade is generally given a rake, angle of inclination, so that it comes clear from the stern frame.

### WATER BOOSTS SPEED

Water jet is an alternative where high speed is important. The impeller, or rotor, is located in a pipe through which the water passes. The rotor may have a large number of blades, resulting in a large blade area and less cavitation. The system does not have any parts below the hull and provides very good manoeuvrability.





# 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 2003. The Board and Managing Director are responsible for the record of accounts. Our responsibility lies in commenting on the annual report and accounts, on the basis of our audit.

Our examination was carried out in accordance with generally accepted auditing standards. This means that we have planned and carried out the audit in order to ensure, as much as is reasonable, that the annual report does not contain any essential errors. 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.

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, or has in any other way acted contrary to the Law on Annual Reports or the regulations governing the operations of the Bank that are included in the Law pertaining to the Swedish Ships' Mortgage Bank. We consider that our audit gives us reasonable grounds for the following statement.

The Annual Report has been prepared in accordance with the Law on Annual Reports, and we therefore recommend that

the Income Statement and Balance Sheet be adopted.

The Board of Directors and the Managing Director have not taken any action or been guilty of negligence, which, in our opinion, could lead to financial liability towards the Bank.

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

GOTHENBURG, 1 MARCH 2004

Christopher Onajin

Lena Möllerström

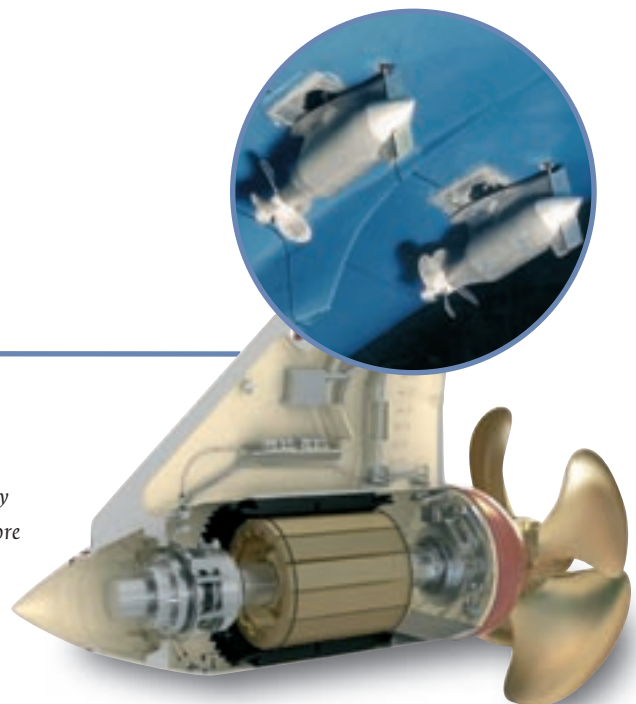
AUTHORISED PUBLIC ACCOUNTANT

AUDITORS APPOINTED BY THE GOVERNMENT

**Singing** *propellers can arise when the propeller blade is unevenly loaded during rotation. The outer edge is bent backwards at increased pressure, springs back at falling pressure and may consequently oscillate. And start to sing.*

## NO ENGINE ROOM

Pod is a design where the engine is located below the hull. This offers many benefits: increased cargo space, lower centre of gravity and greater opportunity to design an optimum hull shape. The water flow towards the propellers is more homogeneous, resulting in less cavitation, vibration and noise, as well as higher speed. The system is often used on cruise-ships, where electric power consumption is high.



# Board of Directors

## MEMBERS

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### CHAIRMAN

PEHR G GYLLENHAMMAR  
M.D.HC, D.TECH.HC, D.ECON.HC,  
London

CHRISTER BERGGREN  
Deputy Director, Ministry of Industry,  
Employment and Communications,  
Stockholm

ÅSA KASTMAN HEUMAN  
Director-General for Administrative and  
Legal Affairs, Ministry of Industry,  
Employment and Communications,  
Stockholm

TORSTEN ENGWALL  
Chief Executive Officer, Rederi AB  
Nordship, Gävle

### DEPUTY CHAIRMAN

ANNA-LISA ENGSTRÖM  
Managing Director,  
Dag Engström Rederi AB, Lysekil

TOMAS ABRAHAMSSON  
Deputy Chairman,  
SEKO, Stockholm

FOLKE PATRIKSSON  
Chairman,  
B&N Nordsjöfrakt AB, Skärhamn

## DEPUTY MEMBERS

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TURE AXELSSON  
Shipowner,  
Charterfrakt AB, Skärhamn

SIV AXELSSON  
Member of the Board  
SEKO-Department Seamens' Union,  
Helsingborg

LARS HÖGLUND  
Shipowner,  
Furetank Rederi AB, Donsö

ANDERS LINDSTRÖM  
Director General,  
National Mediation Office, Stockholm

INGER LUNDIN  
First Financial Officer,  
City of Gothenburg, Gothenburg

AGNETA RODOSI  
Treasurer,  
Statliga Akademiska Hus AB, Gothenburg

BO SEVERED  
Former Managing Director,  
Stena Line AB, Gothenburg

## MANAGING DIRECTOR

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BIRGITTA WICKENBERG KARLSSON



Production and graphic design: Larsson Communications and Radiator, Gothenburg.

Paper of cover: Confetti 250 g. Paper of inside pages: Lessebo Bok natural white 150 g. Printing and repro: Optimera Grafiska.  
Special thanks are due to Anders Pettersson, Rolls-Royce Commercial Marine and Li Fredrikson, Björn Allenström, SSPA Sweden AB.