

Swedish sea captains

SWEDEN'S FIRST OFFICIAL

educational institution for seamen, the Mates' School in Stockholm, was established on 4 June 1658, following a royal letter of command. For many years it was the only one, but later it was joined by the 'lower navigational institutions' in Visby and Karlshamn. The next royal letter on the subject did not come until 7 April 1841, when special navigation schools were set up in Stockholm, Gothenburg, Gävle, Malmö and Kalmar. Härnösand, Visby, Karlshamn, Västervik and Strömstad were added later.

In 1911 the Swedish Parliament reduced the number of schools to the original five. Engineer training was introduced into the navigation schools at the same time, meeting a need which had long been felt by the maritime industry. The two parts, Navigation and Engineer, were each divided into three classes: sea captain, mate and skipper and first, second and third engineer respectively. Eleven subjects were taught at the schools, including mathematics, physics/mechanics, astronomical and terrestrial navigation, shipbuilding, mechanical engineering and seamanship.

The requirements for admission to a navigation school were an ability to read and write, but also service at sea. A pass in the class below was also required to be allowed to proceed to further

training: a mate's certificate was required for admission to the sea captain's class, a pass as second engineer was needed for a first engineer's class and so on. The tuition lasted for seven to nine months. However, skippers and third engineers made do with three. The navigation schools became naval command schools, were converted to university college level education in 1980 and were whittled down to two locations, Kalmar and Gothenburg. Today an aspiring sea captain combines the usual technology and seamanship with leadership. The tuition extends over four years of study, three in classrooms, on simulators and on exercise ships, and one practical year on commercial vessels. It consists of three principal areas: ship propulsion, shipbuilding and cargo handling and ship and shipping company organisation. The broadened syllabus today, in addition to navigation, seamanship and shipbuilding, also includes radar, machinery and cargo handling, as well as labour law, the law of the sea and economics. A pass in training as a sea captain in Sweden gives entitlement to command all types of ships anywhere in the world. In other words, someone with a sea captain's certificate in his pocket is well suited to any of the professions related to shipping, both at sea and on the shore, at home and abroad.

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77TH YEAR OF OPERATIONS

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Key Figures

SWEDISH SHIPS' MORTGAGE BANK	2004	2003	2002	2001	2000
Operating income, MSEK	63.5	64.2	68.1	58.3	51.5
Balance sheet total, MSEK	7,236.0	5,639.9	5,849.3	5,417.2	3,944.4
Reserve fund, MSEK	1,139.1	1,075.6	1,011.4	943.3	885.0
Profit level, per cent	1.0	1.1	1.2	1.3	1.4
Return on equity, per cent	5.9	6.3	7.2	6.6	6.2
Solidity, per cent	15.7	19.1	17.3	17.4	22.4
Capital adequacy ratio, per cent	18.1	22.5	20.2	21.2	25.1
Number of employees	8	8	9	9	9



The photographer on the Vega

CAPTAIN LOUIS PALANDER, 1842–1920

LOUIS PALANDER WAS born in Karlskrona in October 1842 and became a cadet at the age of 14. Eight years later he became an officer in the Swedish Royal Navy and went on the expeditions of the corvette Gefle to the Mediterranean, Sierra Leone and Liberia.

In 1868 he took part in the Spitzbergen expedition under the command of Baron von Otter, and in 1872 in Nordenskiöld's attempt to reach the North Pole. So it was an experienced seaman and polar explorer whom Nordenskiöld chose to take command of the steamer Vega for the 1878 attempt to find the North-East Passage. Success in this venture led to Louis Palander adding af Vega to his name in 1880.

Palander was responsible for converting the Vega

prior to the expedition, and personally selected the officers and crew. The expedition ship Vega was built in Bremerhaven as a whaler for Arctic waters. She was barque-rigged, had three masts, was 43 metres long and had a 60 horse-power steam engine. With all the equipment the Vega had on board, it was realized that she was barely able to hold the coal needed to cope with the North-East Passage.

A smaller steamer, named the Lena after her first

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 a guarantee for the Bank's operations. This guarantee amounts to MSEK 350. The Bank's reserve fund (currently MSEK 1,139) 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 crew of the Vega



Enantschin



The chieftain Menka



Ankoklovsiak

destination, was therefore built. She accompanied the Vega to the mouth of the River Lena, where she replenished the Vega's coal supplies for the onward journey.

On his expedition to Spitzbergen in 1864, Nordenskiöld had experimented with the new wet-plate photographic technique. Palander too was an enthusiastic amateur photographer. He took some 60 pictures using the wet-plate technique during the Vega's voyage, a complicated procedure

which necessitated an entire travelling laboratory. Excellent results were achieved, with several unique pictures from the long over-winter stay at Pitlekaj.

These tell us about the scientists on the expedition, the crew and the local fauna, but most importantly and most excitingly about the local Chukcher ethnic group.

When Palander took command of the Vega, he was a lieutenant. Later he became both an admiral and a minister of naval affairs.



Comments

BY THE CHAIRMAN AND THE MANAGING DIRECTOR

2004 WAS ONE of the Swedish Ships' Mortgage Bank's best years, although profit was marginally down. Outstanding loans increased by 33 per cent, from MSEK 4,610 to MSEK 6,125. We granted loans amounting to MSEK 2,200 and paid out MSEK 1,882. We did not have any credit losses or doubtful credits. The reserve fund increased to MSEK 1,139. Profit was maintained despite a decline in interest income and a weak dollar, which resulted in lower margins on dollar loans converted to Swedish kronor.

An unchanged number of employees took the greatly increased volume in their stride, with a high level of skill and precision. Productivity is therefore very good and profit per employee is high. The shipbuilding industry is enjoying good times and is investing for the future. We are holding onto our market share of around 18 per cent and are competing by offering a high level of service and good terms. Our solidity and capital adequacy ratio are both satisfactory, and permit substantial continued expansion.

The work of the Board is running smoothly and co-operation with the Managing Director is excellent. The Board has begun an assessment of its own efficiency and has been prompted to add greater depth to its work for the benefit of the Bank.

PEHR G GYLLENHAMMAR
CHAIRMAN

BIRGITTA WICKENBERG KARLSSON
MANAGING DIRECTOR

Market Review



Birgitta Wickenberg
Karlsson next to the
Swedish America
Line's Gripsholm.

2004 WAS NOTABLE for good cargo markets, record order books at the shipyards and high ship values. Many shipping companies and shipyards have, however, been adversely affected by a low dollar exchange rate, and the high price of steel means that several yards will report a loss for 2004. Growing world trade has generally meant a steady increase in demand for maritime transport in

almost all segments. The development of logistics in the industry is also making a contribution. Low warehousing capacity on shore is increasing the role of shipping as "floating warehouses", alongside its traditional transport task. China is obviously instrumental in driving this growth. In 2004, Chinese GDP grew by around nine per cent. Exports and imports both grew by around 35 per cent, and the

value of the country's foreign trade was in excess of 1,000 billion US dollars.

World transport needs are changing rapidly as the economies in the Far East grow. Most of what is shipped from Asia is also relatively immune to economic downturns in the West, as it largely consists of relatively cheap goods which, in addition, are necessary for people's everyday existence. Container shipping is now in a period of rapid growth. Although the volume of deliveries of new ships last year was relatively normal, 175 ships with a total of just under 640,000 TEU, almost 500 ships were ordered with a total cargo capacity of over 1.6 million TEU. Good freight rates due to strong demand have also had an impact on the breaking-up of old vessels, and last year only five container vessels with a total of less than 4,000 TEU were sold to scrapping yards. The fleet of container vessels is very young, with an

average age of just under 12 years.

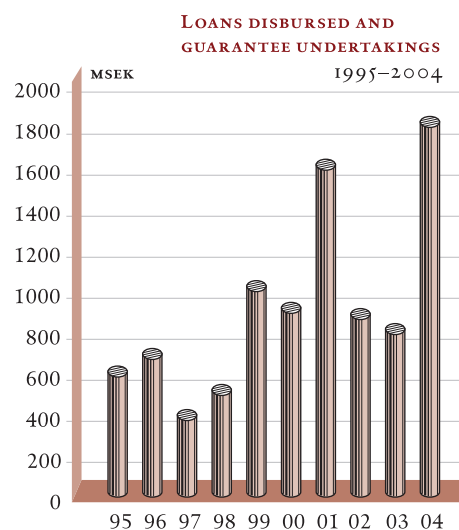
On the dry-cargo side, the maritime transport market grew by five per cent, and growth in the fleet was not sufficient to meet demand, with the result that 2004 was a very good year for this segment. For the largest vessels, Capesize, average daily net revenue was around USD 60,000, almost twice as high as in the previous year. A large number of dry-cargo ships are being built, and orders have been at a high level, particularly for the largest units. Around 200 Capesize ships are on order, which is equivalent to just over 30 per cent of the existing fleet. No ship in this size class (over 80,000 tonnes deadweight) was scrapped last year.

2004 was also a good year for the tanker companies, although profits for many of them were adversely affected by the low dollar exchange rate. Growing Russian oil exports and low stock-holding are having a great impact on tanker shipping. The end of the year was notable for sharp rises in freight rates in all segments. At the turn of the year there were around 1,000 tankers on order at the world's shipyards, equivalent to nearly a third of the existing fleet. At the same time it is tankers that are dominating the scrap market, as a result of the regulations which require single-hulled vessels to be phased out. Around 1,000 of the tankers in the world merchant fleet are ice strengthened, and there are another 250 on order. Of these, 150 are being built to ice class 1A or 1A Super. The increasing demand for tonnage to carry Russian oil has meant that ever larger tankers are ice strengthened. EU enlargement has meant increasing trade and traffic in the Baltic Sea. Smaller bulk tonnage also had a good year in waters close to Sweden, with a sharp upturn in the last few months of the year. Daily net revenue for 3,000—4,000 tonners was between EUR 3,000 and 5,500 during the year. Equivalent figures

for larger coastal tonnage were EUR 4,500 to 7,500. The world's shipyards have very full order books. There was intense activity in the market last year. The total value of world orders exceeded 4,000 vessels before the turn of the year, and total deadweight is in excess of 220 million tonnes. Tankers and dry-cargo vessels account for around 70 per cent of the total order book, measured in deadweight.

The shipyards in Asia have full order books for three to four years ahead, and at the turn of the year there was already an order for a bulk-cargo vessel for delivery in 2010. The highest rate of growth of all is in orders for gas tankers. The European shipyards are contending with disadvantages relating to costs and productivity, and here the picture is more varied. More than 90 per cent of world orders are at shipyards in Asia. Japan is the world's largest shipbuilding nation in terms of the number of vessels (1,080) but also in deadweight (80 million tonnes). However, in terms of compensated gross tonnage, South Korea is larger. China is the world's third largest shipbuilding nation, and Chinese shipyards had 760 vessels on order at the turn of the year. In Europe, Croatia is the largest shipbuilding country, followed by Germany, Poland, the Netherlands and Turkey. The shipbuilding market in 2004 was notable for sharply increased prices due to the high level of demand and sharp increases in steel prices. Prices in most ship segments rose by more than 30 per cent during the year compared with the previous year. In comparison with the price level at the turn of the century, the difference in some cases is more than 75 per cent. Prices can be expected to continue to rise, and many shipyards which are reporting losses for 2004 due to rising costs will probably be able to reverse this within the next few years.

The Swedish order book also grew



last year, and at the turn of the year there were more than 50 confirmed orders from Swedish shipping companies. Most of the orders relate to tankers, but ships on order also include car carriers, ro-ro vessels and ropax vessels. At the turn of the year Stena group had 16 vessels on order, Broström 6 vessels and Wallenius Lines 6 vessels. The most important shipbuilding partner for Sweden is China, which has 17 ships on order, followed by Croatia with 14. This means that Swedish shipowners at the turn of the year accounted for almost 20 per cent of orders at Croatian yards in terms of the number of ships and almost a quarter in deadweight.

The Swedish merchant fleet consisted of just over 400 vessels with total deadweight of 7.0 million tonnes at the turn of the year. A total of 22 vessels with 0.9 million tonnes deadweight were delivered from shipyards to Swedish shipping companies last year. The trend observed in 2003 continued for the merchant fleet sailing under the Swedish flag. Older and smaller vessels are being sold abroad and replaced by newly built larger units. This means that the fleet is undergoing a necessary rejuvenation. The merchant fleet sailing under the Swedish flag amounted to around 240 vessels with 2.0 million tonnes deadweight at the turn of the year.

BIRGITTA WICKENBERG KARLSSON
MANAGING DIRECTOR

Summary

OF INCOME STATEMENTS AND BALANCE SHEETS

INCOME STATEMENT, SEK THOUSANDS	2004	2003	2002	2001	2000
Net interest income	75,054	76,265	80,037	71,901	59,958
Other operating income	—	—	—	—	3,968
General administrative costs	-8,761	-8,588	-7,920	-7,972	-6,753
Guarantee fund fee paid to the state	-2,625	-3,237	-3,850	-5,330	-5,330
Inventory depreciation	-29	-47	-53	-142	-216
Other operating expenses	-166	-205	-135	-137	-136
Surplus for the year	63,473	64,188	68,079	58,320	51,491

BALANCE SHEET, SEK THOUSANDS

ASSETS					
Liquid assets	4,805	5,897	2,857	3,747	3,450
Interest-bearing securities					
short-term investments	213,978	479,911	205,817	169,578	208,979
long-term investments	843,283	501,931	700,336	650,791	542,978
Lending to shipping companies	6,124,830	4,609,445	4,895,887	4,539,655	3,123,799
Other assets	49,068	42,689	44,382	53,431	65,212
	7,235,964	5,639,873	5,849,279	5,417,202	3,944,418
LIABILITIES AND EQUITY					
Promissory note loans	6,078,147	4,550,253	4,821,559	4,450,592	3,025,146
Other liabilities	18,752	14,028	16,316	23,285	34,267
Reserve fund	1,139,065	1,075,592	1,011,404	943,325	885,005
	7,235,964	5,639,873	5,849,279	5,417,202	3,944,418



A veteran of coastal voyages

CAPTAIN JOHANNES OLSSON-BOLVIG, 1830–1902

JOHANNES OLSSON-BOLVIG was born in 1830 at Korsnäs, Tjörnö. While still a boy, he started serving on his father's yacht which plied the coast between Gothenburg and Strömstad.

During constant voyages, under the command of his father, he came to know the coast better than most people. He later became a helmsman on the paddleship *Strömstad* and then also on the coastal steamer *Eugenia*. When its successor the *Albert Ehrensward* entered service, Bolvig was on the bridge.

But it is from his long period on the steamer the *Oscar Dickson* that Bolvig is best known, always

visible and always at his post. The ship was steered with a firm hand. Captain Bolvig served dutifully in all weathers for several decades, from the time when the vessel was delivered up to Christmas 1901, when he left his post because of ill health. Age took its toll, and in May 1902 his long voyage through life came to an end.

On a familiar photograph of Captain Bolvig we

Administration Report

THE BOARD OF DIRECTORS OF THE SWEDISH SHIPS' MORTGAGE BANK
HEREBY SUBMITS ITS REPORT ON ITS ADMINISTRATION DURING 2004.

DURING THE YEAR, the Bank disbursed loans amounting to SEK 1,882 million (preceding year SEK 885 million). Total outstanding loan receivable at the year-end amounted to SEK 5,281 million (SEK 4,029 million) at current exchange rates.

Loans granted by the Board, but not yet disbursed, amounted to approximately SEK 600 million (SEK 900 million) at the end of the year. The loans will be disbursed during 2005–2007 when the vessels for which the loans have been granted are delivered.

The Bank's operations have generated a surplus of SEK 63 million (SEK 64 million). The low interest rates prevailing in the capital market have meant a low rate of return on the securities portfolio. The falling exchange rate of the US dollar has also had an adverse impact on net interest income.

Profit in relation to the average balance sheet total amounted to 1.0 per cent (1.1). 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 5.9 per cent (6.3) and the Bank's solidity was 15.7 per cent (19.1). Capital adequacy ratio was 18.1 per cent (22.5). Growth in operations has meant that solidity and capital adequacy ratio have fallen. However, the balance sheet remains strong and permits expansion.

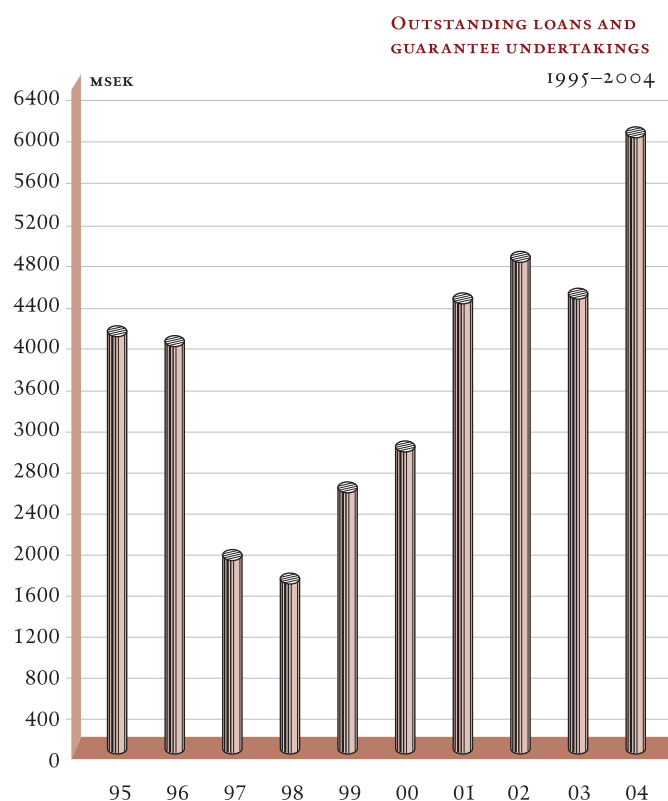
The surplus for the year of SEK 63 million was allocated to the reserve fund, which subsequently amounts to SEK 1,139 million.

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

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



can see two medals which he wears proudly on his chest. He received one of these from King Oscar. As a passenger, the king had attached himself to Bolvig. The security Bolvig provided, without doubt coupled with a sense of duty, was rewarded with a silver medal. He was also rewarded with another medal by the company Ångbåts AB Bohuslänska Kusten, for "long and loyal service".

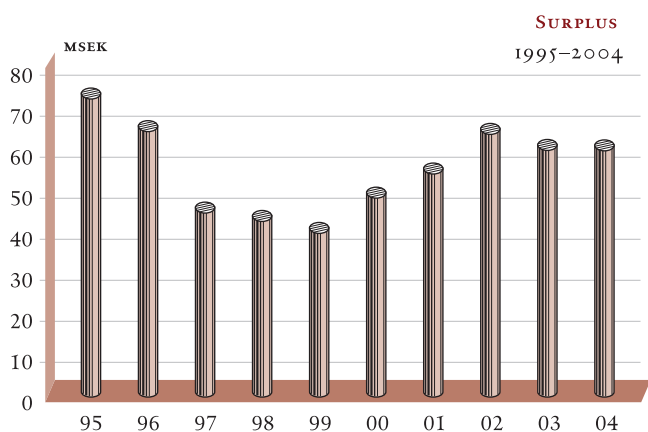
The S/S Oscar Dickson was built at Lindholmen Mekaniska Verkstad in 1876, with a length of 43 metres and a beam of 6.5 metres. The vessel collided with the S/S Alpha in the Oslofjord in 1927. After being salvaged, repaired and re-named the Oslo, she re-entered service.

The Oscar Dickson made her last voyage in 1956. She went to Germany to be broken up.



Income Statement

SEK	2004	2003
INTEREST INCOME		
Lending to shipping companies:		
Interest	125,742,047	117,881,485
Compensation for funding costs	—	1,747,657
Short-term investments:		
Swedish financial institutions	76,468	151,194
Interests-bearing securities	18,440,198	19,661,247
Long-term investments:		
Interest-bearing securities	26,319,801	28,176,066
Other interest income	—	19,967
INTEREST COSTS (note 1)	-95,524,256	-91,372,703
NET INTEREST INCOME (note 2)	75,054,258	76,264,913
General administrative costs (note 3)	-8,761,182	-8,587,741
Guarantee fund fee paid to the state	-2,625,000	-3,237,500
Inventory depreciation	-28,545	-47,194
Other operating expenses	-166,250	-204,798
Surplus allocated to reserve fund	63,473,281	64,187,680



Balance Sheet

SEK		2004-12-31	2003-12-31
ASSETS			
Cash		10,000	10,000
Lending to credit institutions	(note 4)	4,794,809	5,887,316
Bonds and other interest-bearing securities:	(note 5)		
short-term investments		213,977,932	479,910,938
long-term investments		843,283,297	501,930,831
Lending to shipping companies	(note 6)	6,124,830,197	4,609,444,600
Tangible assets	(note 7)	29,233	20,572
Accrued interest income		48,314,055	41,575,115
Prepaid expenses and other accrued income		724,016	1,093,926
Total assets		7,235,963,539	5,639 873,298
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	(note 8)	6,078,147,438	4,550,252,897
Accrued interest expenses		17,507,403	12,443,342
Deferred income and other accrued expenses		1,243,616	1,585,258
Equity			
Reserve fund, whereof surplus for the year MSEK 63.5 (64.2)		1,139,065,082	1,075,591,801
Total liabilities and equity		7,235,963,539	5,639,873,298
GUARANTEE FUND			
Swedish State guarantee		350,000,000	350,000,000
COLLATERAL PLEDGED			
		None	None
CONTINGENT LIABILITIES			
		None	None

GOTHENBURG 25 FEBRUARY 2005

PEHR G GYLLENHAMMAR

ANNA-LISA ENGSTRÖM	TOMAS ABRAHAMSSON
CHRISTER BERGGREN	TORSTEN ENGWALL
HÅKAN LARSSON	AGNETA RODOSI
	/ BIRGITTA WICKENBERG KARLSSON

Capital Adequacy Ratio

CAPITAL BASE, SEK THOUSANDS

2004-12-31

Primary capital	= Reserve fund	1,139,065
Total capital base		1,139,065

CAPITAL REQUIREMENT, SEK THOUSANDS	Weighted average %	Weighted risk capital
Group A	0	0
Group B	20	153,949
Group D	100	6,147,023
Total weighted risk capital		6,300,972

$$\text{Capital adequacy ratio in \%} = \frac{\text{Total capital base} \times 100}{\text{Total weighted risk capital}} = 18.08\%$$

Cash Flow Analysis

DAY-TO-DAY OPERATIONS

2004

2003

Interest received and compensation for funding costs	120,746,732	122,480,187
Interest payments received on interest-bearing securities	43,492,967	44,886,971
Interest paid	-90,460,195	-93,918,850
	73,779,504	73,448,308
Administrative expenses paid	-11,924,289	-9,842,361
Cash flow from day-to-day operations	61,855,215	63,605,947

INCREASE/DECREASE IN ASSETS AND LIABILITIES OF DAY-TO-DAY OPERATIONS

Increase/Decrease in lending to shipping companies	-1,515,385,597	286,442,042
Increase/Decrease in borrowing	1,527,894,541	-271,305,673
Investments in interest-bearing securities	-75,419,460	-75,688,629
	-62,910,516	-60,552,260

INVESTMENT OPERATIONS

Investments in inventory	-37,206	-13,283
	-37,206	-13,283
Cash flow for the year	-1,092,507	3,040,404
Liquid assets at the start of the period	5,897,316	2,856,912
Liquid assets at the end of the period	4,804,809	5,897,316

Liquid assets consist of cash and loans to credit institutions.

Notes

NOTE 1 INTEREST COSTS

2004

2003

Liabilities to credit institutions	95,524,256	91,372,703
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NOTE 2 NET INTEREST INCOME

Average interest during the year for

– lending to shipping companies	2.36	2.52
– promissory note loans	1.81	1.95

NOTE 3 GENERAL ADMINISTRATIVE COSTS

Personnel costs:

Fees and salaries to the Board and Managing Director	1,994,408	1,798,081
including:		
Chairman of the Board	100,000	
Deputy Chairman of the Board	40,000	
Managing Director	1,514,408	
Whereof bonus	203,896	
Salaries to other employees	2,307,816	2,052,979
Allocation to bonus scheme	2,466	406,789
Pension costs in excess of the general pension plan	—	—
Other pension costs	1,155,924	961,895
Social contributions	1,435,236	1,421,162
Other personnel costs	490,989	426,614
Rent and other costs for premises	1,156,930	1,127,842
Other administrative costs	2,028,949	2,105,998
	10,572,718	10,301,360
Administrative compensation	–1,811,536	–1,713,619
	8,761,182	8,587,741
Bonus paid:		
Managing Director	203,896	190,744
Others	168,570	216,045
	372,466	406,789

2003

Of the remaining allocated company-related funds of sek 1,743,812, a total of sek 1,743,812 was received during the year.

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.

AUDIT FEE

KPMG AB	86,424	82,190
Other auditors appointed by the government	40,000	40,000
	126,424	122,190

Notes

NOTE 4 LENDING TO CREDIT INSTITUTIONS	2004-12-31	2003-12-31
Payable on demand	4,794,809	5,887,316

NOTE 5 BONDS AND OTHER INTEREST-BEARING SECURITIES

	Purchase value	Market value	Nominal value
Short-term investments			
Mortgage institutions	218,407,960	217,207,060	213,000,000
Accumulated amount in value adjustment account	-4,430,028		
Book value	213,977,932		
Long-term investments (bonds)			
Mortgage institutions	535,997,655	545,530,449	514,500,000
The Swedish State	314,294,927	315,838,862	299,900,000
	850,292,582	861,369,311	814,400,000
Accumulated amount in value adjustment account	-7,009,285		
Book value	843,283,297		
	2004-12-31		2003-12-31
Remaining duration			
Maximum three months	0		0
Longer than three months but maximum one year	213,977,932		479,910,938
Longer than one year but maximum five years	843,283,297		501,930,831
Remaining fixed interest term			
Maximum three months	0		0
Longer than three months but maximum one year	213,977,932		479,910,938
Longer than one year but maximum five years	843,283,297		501,930,831

Average remaining duration 2.2 (1.4 years). Average effective interest rate as percentage of purchase value 3.99 % (4.77 %).



A pioneer of liner traffic

CAPTAIN WILHELM ROGATIUS BENJAMIN LUNDGREN, 1856–1914

WILHELM ROGATIUS BENJAMIN

Lundgren was born on 24 May 1856 in the parish of Söderåkra in the county of Kalmar. He enrolled on his first ship at the age of thirteen. After five

hard and instructive years at sea, mainly on English vessels, under both sail and steam, he returned to dry land to take examinations at the Gothenburg navigation school, first as a mate and then as captain, commanding officer of a steamer.

However, he had already set his sights on another profession — that of a shipowner. In 1888, Lundgren invested in the newly established shipping

company AB Concordia, and himself took command of the company's first ship. In 1900 he took another step. Together with G.D. Kennedy, he formed Rederi AB Nike. The company's first vessel was a 20-year-old Italian steamer, which was re-named the S/S Nike.

However, Lundgren had more ambitious plans, a regular steamer line operating between Sweden

Notes

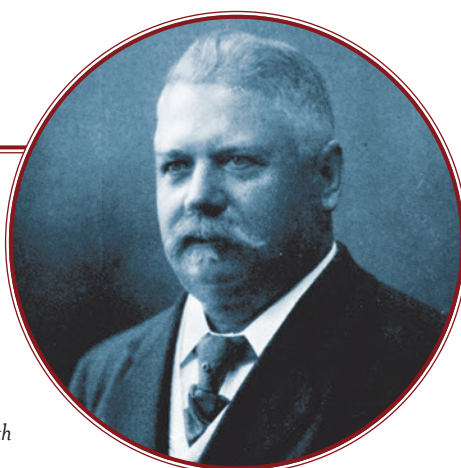
NOTE 6 LENDING TO SHIPPING COMPANIES	2004-12-31	2003-12-31
Loans in SEK	1,062,291,136	78,632,869
Loans in foreign currency	4,833,127,541	4,359,303,608
Loans to smaller shipping companies in accordance with SFS 1988:103	229,411,520	171,508,123
	6,124,830,197	4,609,444,600
Lending to shipping companies includes non-settled but non-doubtful receivables. This item relates to repayment respite granted.	21,824,400	23,503,200
Remaining duration		
Maximum three months	6,747,625	4,382,700
Longer than three months but maximum one year	5,023,666	—
Longer than one year but maximum five years	96,621,335	109,087,024
Longer than five years	6,016,437,571	4,495,974,876
Average remaining duration 11.5 years (11.8 years).		
Remaining fixed interest term		
Maximum three months	3,159,858,766	1,737,024,391
Longer than three months but maximum one year	2,611,719,935	2,745,077,168
Longer than one year but maximum five years	353,251,496	127,343,041
Longer than five years	—	—

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 2004 was msek 54.5 (msek 106.8). According to a decision made by the government on June 23, 2004 the Swedish Ships' Mortgage Bank, transferred 55 msek from the Smaller Shipping Companies' Fund to the Swedish State. On the account of the State, the Swedish National Debt Office has issued a guarantee on the equivalent amount.

and southern Africa. In 1903 he ordered two vessels of 5,500 dwt each in England, the first one for Rederi AB Nike and the second for a newly established company with a registered office in Gothenburg, Rederi AB Transatlantic. The new liner route to southern Africa became Sweden's first liner service outside Europe.

But his great dream was a direct Swedish steamer

line sailing to the United States. Captain Lundgren worked hard to complete the line and it took until 1915 for regular passenger traffic to start. Unfortunately Captain Lundgren did not live to see the day. He died in 1914. But it is to Captain Lundgren that Sweden owes its place in North Atlantic liner traffic.



Notes

NOTE 7 TANGIBLE ASSETS

Equipment

Acquisition value brought forward	1,290,516	
Acquisition value for the year	37,206	
Total acquisition value		1,327,722
Accumulated depreciation brought forward	1,269,944	
Depreciation for the year	28,545	
Total accumulated depreciation		-1,298,489
Book value		29,233

Equipment acquired prior to 31 December 1996 has been written off in full. Equipment acquired as of 1 January 1997 has been activated with a depreciation period of 3 years.

NOTE 8 LIABILITIES TO CREDIT INSTITUTIONS	2004-12-31	2003-12-31
Swedish banks	4,355,160,679	3,735,793,567
Swedish financial companies	1,722,986,759	814,459,330
	6,078,147,438	4,550,252,897
Remaining duration		
Maximum three months	6,057,625	4,382,700
Longer than three months but maximum one year	5,023,643	—
Longer than one year but maximum five years	77,988,521	92,540,776
Longer than five years	5,989,077,649	4,453,329,421
Average remaining duration 11.5 years (11.8 years).		
Remaining fixed interest term		
Maximum three months	3,120,508,741	1,717,068,831
Longer than three months but maximum one year	2,604,387,201	2,705,841,025
Longer than one year but maximum five years	353,251,496	127,343,041
Longer than five years	—	—



Treacherous coral reef CAPTAIN JOHAN MEIJER

CAPTAIN JOHAN MEIJER, from Råå, commander of the barque *Diana of Helsingborg*, set sail

on 12 July 1886 with a cargo of sawn timber from Port Gamble on the west coast of North America for Sydney on the east coast of Australia.

30 days and 3,600 sea miles later, at two o'clock at night the *Diana*, sailing at a speed of nine knots, struck an underwater reef off the coral Starbuck Island. There was a shuddering impact,

and the ship was left lying on her side on the reef, with the sea pounding over her and the bank of sharp coral. A mate was successfully put ashore, and eventually a rope was also attached.

The remaining eleven people on board were able to reach shore along this rope. But they were not alone in using the rope. Captain Meijer writes:

"On board the *Diana* there were huge numbers of rats ... one of the sailors ... has been down on the shore in the twilight and saw a remarkable sight, as the rope was covered with rats walking

ashore and they were not afraid even when he went quite close to them. The following night they visited us in our little tent and disturbed our night's rest by biting our feet and making a din."

On October 12th, eight of the twelve men leave the island in a couple of dinghies from the *Diana* to which makeshift repairs had been made.

Twelve days later they were relieved to reach the inhabited island of Manihikim, where they receive help transporting the four remaining men on the schooner *Buster*.

Accounting and Valuation Principles

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

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

shown as interest. Accrual accounting is applied during the remaining term.

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

Loans in foreign currencies to shipping companies have been valued at the historical exchange rate, in view of the fact that the equivalent borrowing in the same currency has likewise been valued at the historical exchange rate. Thus, there is no currency risk involved. Accrued interest income and interest expenses have been

valued at current exchange rate.

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

Lending to shipping companies are made against security of mortgage deeds over ships within 70% or, in special cases, 80% 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.

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 2004. 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. 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 ac-

counts. 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 Reports 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, 28 FEBRUARY 2005

FREDRIK AHLÉN

LENA MÖLLERSTRÖM NORDING
AUTHORISED PUBLIC ACCOUNTANT

AUDITORS APPOINTED BY THE GOVERNMENT

Board of Directors

MEMBERS

CHAIRMAN
PEHR G GYLLENHAMMAR
M.D.HC, D.TECH.HC,
D.ECON.HC, LONDON

TOMAS ABRAHAMSSON
DEPUTY CHAIRMAN,
SEKO, STOCKHOLM

TORSTEN ENGWALL
CHIEF EXECUTIVE OFFICER
REDERI AB NORDSHIP, GÄVLE

AGNETA RODOSI
TREASURER,
AKADEMISKA HUS AB, GOTHENBURG

DEPUTY CHAIRMAN
ANNA-LISA ENGSTRÖM
MANAGING DIRECTOR,
DAG ENGSTRÖM REDERI AB, LYSEKIL

CHRISTER BERGGREN
DEPUTY DIRECTOR, MINISTRY OF INDUSTRY,
EMPLOYMENT AND COMMUNICATIONS,
STOCKHOLM

HÅKAN LARSSON
PRESIDENT AND CEO,
B&N NORDSJÖFRAKT AB, SKÄRHAMN

DEPUTY MEMBERS

TURE AXELSSON
SHIPOWNER,
CHARTERFRAKT AB, SKÄRHAMN

LARS HÖGLUND
SHIPOWNER,
FURETANK REDERI AB, DONSÖ

ULLA LAX-NORDSTRÖM
CHAIRMAN OF THE TRADE
UNION COMMITTEE, SEKO-DEPARTMENT
SEAMEN'S UNION, GOTHENBURG

INGER LUNDIN
FIRST FINANCIAL OFFICER
CITY OF GOTHENBURG, GOTHENBURG

PETRA HEDENGRAN
LEGAL ATTORNEY, ADVOKATFIRMAN
LINDAHL KB, STOCKHOLM

GEIR JANSEN
AREA DIRECTOR SCANDINAVIA,
STENA LINE SCANDINAVIA AB,
GOTHENBURG

ANDERS LINDSTRÖM
DIRECTOR GENERAL,
NATIONAL MEDIATION OFFICE, STOCKHOLM

MANAGING DIRECTOR

BIRGITTA WICKENBERG KARLSSON

