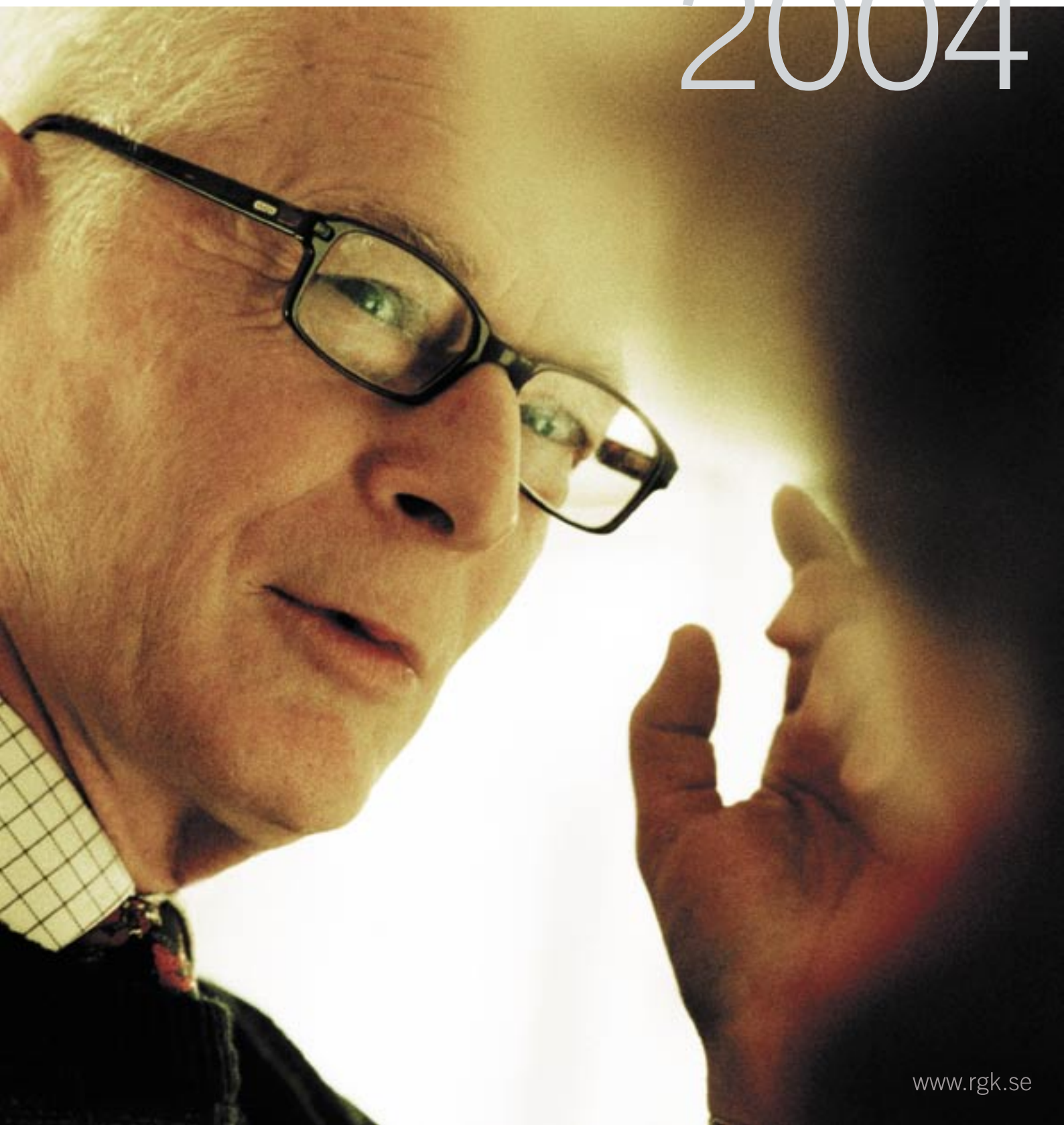


THE SWEDISH NATIONAL DEBT OFFICE  
ANNUAL REPORT 2004

2004



# THE SWEDISH NATIONAL DEBT OFFICE'S VISION

The Swedish National Debt Office aims to be the world's best central government financial manager.

## THE TASKS OF THE DEBT OFFICE

The Debt Office is the central government financial manager. We are an agency reporting to the Ministry of Finance and are responsible for three areas of activities:

### CENTRAL GOVERNMENT DEBT MANAGEMENT

The Debt Office manages and finances the central government debt by borrowing in the Swedish and international interest market. We also borrow directly from households and other small savers, for instance by issuing lottery bonds. Central government debt management is subject to guidelines adopted annually by the government based on our recommendations. The goal is to minimise the long-term cost of the debt while taking into account risks, so that costs do not increase too much if anything unexpected occurs.

### CASH MANAGEMENT DEPARTMENT

The Debt Office provides agencies with loans. The agencies also have to deposit their funds with us. We are also responsible for the state payment system. All incoming and outgoing state payments are thus managed in the systems that the Debt Office is responsible for. The goal is to provide the agencies with good service and to keep down the state's interest expense.

### STATE GUARANTEES AND LOANS

The Debt Office provides state guarantees and loans as decided upon by the Riksdag. The goal is to make the costs of guarantees and loans with credit risks visible and to cover these costs in the long term. We are therefore to make an assessment of the risk in every undertaking and to set a guarantee fee or loan interest rate corresponding to the expected cost for the state.

### EFFICIENT FINANCIAL MANAGEMENT DUE TO CONCENTRATION OF ACTIVITIES

The activities are related in numerous ways. The net of all central government payments is equivalent to the net borrowing requirement. The task of the Debt Office is to cover any deficits in payments by borrowing. Any surpluses will enable the Debt Office to repay the government debt. Net payments control how much we have to borrow and affect whether government debt increases or decreases. State guarantees are a kind of deferred government debt. If a guarantee is indemnified, we have to borrow to meet the commitment or take over the guaranteed loans. In both cases, government debt increases by an amount equivalent to the guarantee indemnified. The state can increase the efficiency of financial management by concentrating these three activities in one agency.



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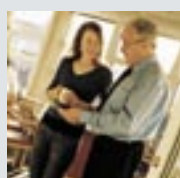
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## 2004 IN BRIEF



- The central government budget showed a deficit of SEK 53.3 billion. This was the second consecutive year with a budget deficit.
- Central government debt increased by SEK 29 billion to SEK 1,257 billion at the end of the year.
- Interest on the government debt was SEK 53 billion.
- The equivalent of SEK 25 billion of foreign currency debt was amortised. The foreign currency debt decreased further due to the increased value of the krona in 2004. The currency portion of the government debt was around 24 per cent at the end of the year, 3 percentage points less than in 2003.
- The proportion of inflation-linked bonds increased from 14 to 15 per cent of government debt.
- The Debt Office issued three new bond loans with maturities of 5, 10 and 17 years.
- The active management of foreign currency debt produced a result of SEK 195 million.
- Loans from private persons and small businesses decreased the costs of government debt by SEK 112 million.
- Lottery bonds were sold for over SEK 9 billion and accounted for the major part of the profit.
- New framework agreements for payment processing came into use.
- New framework agreements for charge and purchase cards have been procured.
- Payments between the Debt Office and the agencies have been simplified and made more efficient.
- Provisions for anticipated losses on the Debt Office's guarantee commitments have been reduced from SEK 3.1 to 2.4 billion.
- The value of the loans with credit risk has been written down by SEK 2 billion due to anticipated losses for three of the loans.

# EFFICIENT FINANCIAL MANAGEMENT

The Swedish National Debt Office manages central government finances and is responsible for the state payment system with a turnover of over SEK 4,000 billion. We are also responsible for managing the central government debt, issuing and following up state guarantees and have overall responsibility for the efficiency of the provision of loans by the state. The task we have been given by the Government is an important one and affects government finances in the short and long-term.

In 2004, we have also improved the state payment system and service to the agencies. Among other things, new framework agreements for payment processing have been introduced at the same time as new agreements have been signed for charge cards and purchase cards, which have led to lower costs for the state. The management of loans and investments by agencies has also been made more efficient by cheaper and better procedures for agency loans and investments being taken into use.

Central government debt increased in the past year by SEK 29 billion and totalled SEK 1,257 billion at the end of the year, equivalent to around 50 per cent of gross domestic product, GDP. Interest payments on government debt totalling almost SEK 53 billion last year have been halved since the end of the 1990s although they are still one of the largest expenditure items in the state budget. Our goal is to minimise costs by financing and managing the debt as efficiently as possible.

The state budget will continue to show a deficit in 2005 and in the following two years. According to the Government's Budget Bill, government debt will increase by over SEK 100 billion up to 2007. Although the debt in relation to GDP is decreasing slightly, this is a disturbing trend bearing in mind the strains on government finances that can be expected in coming decades.

To make government finances more stringent, it is important not to focus one-sidedly on the expenditure ceiling and its design. With a view to improving the ability to meet the demographic challenges of coming years, the current target for public finances should be supplemented by a target for central government financial saving, as Debt Office and ESV, the Swedish National Finance Authority has said earlier.

Reduced government debt decreases per se costs and reduces strains on government

finances. This also leads to better conditions for government debt management, which can further reduce costs.

State guarantee commitments through the Debt Office total almost SEK 71 billion. The model for management of the guarantees introduced in 1998 facilitated a fair accounting and follow-up of risk and financial outcomes. The goal is for the costs of guarantee operations over time to correspond to fees and recovery.

There is no equivalent model for the state's loans with credit risk, totalling over SEK 180 billion. Without an assessment of risks and anticipated losses in these loans, a misleading picture of costs is obtained and thus of the central government financial position.

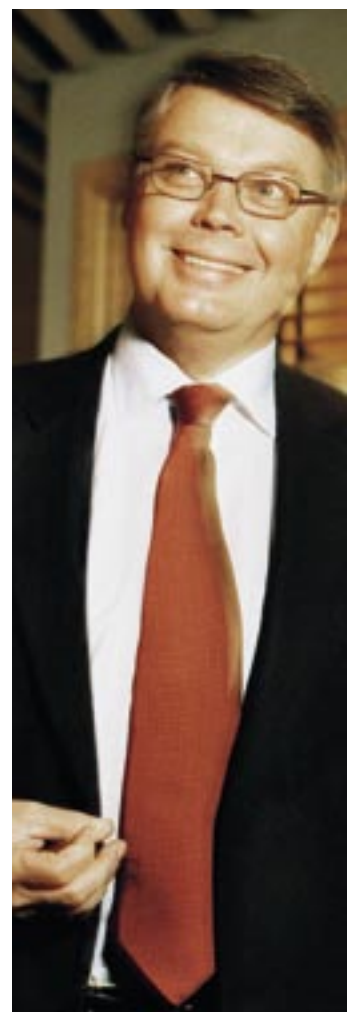
Two years ago, the Debt Office submitted a proposal to the Government that state provisions of loans should be dealt with in principle in accordance with the same rules that apply for state guarantees. This proposal should be implemented as soon as possible to achieve a transparent and correct procedure.

In accordance with the principles underlying our proposal and after points of view from Riksdagen, the Debt Office decided to write down the value of the loans by a credit risk by SEK 2 billion.

My aim is to make the financial management of the Debt Office even more efficient – both in our own activity and in our work of supporting and driving forward other areas of government administration.

Stockholm, February 2005

Bo Lundgren  
Director General



*Reduced government debt decreases per se costs and reduces strains on government finances.*



# SUMMARY PERFORMANCE AND GOAL FULFILMENT

## Summary of the appropriation directions

## Assessment of outcome

### FINANCIAL SYSTEMS AND SUPERVISION

The overarching goals for the Debt Office are:

- to minimise the costs of central government debt while taking account of risks.
- efficient government debt management.

*The overarching goals have been achieved.*

The various interim goals are shown below.

We have submitted an appendix, Documentation for evaluation of central government debt management.

### DEBT MANAGEMENT

To minimise the long-term costs of central government debt taking into account risks and the requirements of monetary policy.

*Goal achieved* • by strategic decisions within the framework of the Government guidelines and change of the structure of the debt.\*

To improve control and evaluation of management of government debt management.

*Goal achieved* • see proposed Guidelines 2005-2007.

To contribute to improving the market for government securities without increasing cost.

*Goal achieved* • by review of market maintenance repos and exchanges of bonds.\*

Borrow directly from private persons to reduce the cost of government debt.

*Goal achieved* • costs have decreased by around SEK 112 million.

### CASH MANAGEMENT

Make loans and investments on market conditions.

*Goal achieved.*

Work for an efficient, payment system, that does not favour any bank.

*Goal achieved* • by new framework agreements.

Endeavour to reduce interest expense.

*Goal achieved* • by new framework agreements and new procedures for intra-state payments.

Offer agencies good service.

*Goal achieved* • by continuous development of services, new framework agreements and information. \*\*

Further develop the state payment system.

*Goal achieved* • new service for currency hedging of foreign payments and proposal on net accounts and more secure internet payments.

\* See also appendix "Documentation for evaluation of central government debt management" (only published in Swedish).

\*\* According to questionnaire survey in 2004 (only published in Swedish).



*The Debt Office's overarching goals are set and evaluated annually by the Government. The Riksdag subsequently evaluates how the Government has controlled the work of the Debt Office.*

## Summary of the appropriation directions

## Assessment of outcome

### GUARANTEES AND LOANS

Carry out guarantee operations efficiently within the framework of the guarantee model.

*Goal achieved* • by risk- and insurance-based fees, active management of receivables and provisions for anticipated losses, which provide long-term cost coverage.

Limit the state's risk and develop and make risk management more efficient.

*Goal achieved* • by newly developed models and procedures for assessment and follow-up of loans.

Carrying out loan operations efficiently.

*Goal partly achieved* • by fees reflecting risk on most loans, although principles and a regulatory framework for the state's external loans are still lacking.

Work for the guarantee and loan operations of other agencies to be performed efficiently.

*Goal achieved* • by increased coordination tasks and advice and support to other agencies.

### RISKS AND VULNERABILITY

Endeavour to have the best market practice in risk management.

*Goal achieved* • for market risks and credit risks.

*Goal partly achieved* • for operational risks by an ISO-adapted working method, although there is no clearly established market practice.

Ensure that handling of financial and administrative risks complies with the requirements and regulations.

*Goal achieved* • see above.

It shall be possible to meet society's basic needs even in periods of severe strains during peacetime.

*Goal partly achieved* • by active collaboration with other agencies and an action plan.

### PERSONNEL AND THE DEVELOPMENT OF EXPERTISE

Work for a long-term, good availability of personnel.

*Goal achieved* • by initiatives to attract, recruit and retain staff.

## COSTS AND FUNDING

Expenditure on the Debt Office's operations in 2004 was SEK 53.0 billion. Interest accounted for SEK 52.6 billion in the state budget. The Debt Office is financed mainly by state budget appropriations but also by fees. The area of operations Guarantees and loans is entirely fee-financed. Guarantee takers pay fees based on the risk the Debt Office assumes by issuing guarantees and non-governmental borrowers pay fees correspondingly. A portion of the fees are paid in to the state budget and a portion is retained to cover the Debt Office's costs.

DEBT OFFICE APPROPRIATIONS 2004, SEK MILLION

Appropriation	Opening appropriation balance	Funds allocated	Expenditure	Expenditure, change from 2003	Balance, 31 December 2004
26 92:1 Interest on central government debt		47,534	-52,596	10,581	-5,062
26 92:3 Commission expenses		140	-121	-31	19
2 2:3 Management expenses, appropriation item*	24	261	-267	14	17
2 2:7 Provision for guarantees		1	-1	0	0
22 36:4 National Rail Administration. Track maintenance and sector tasks		70	-70	70	0
	24	48,007	-53,055	10,634	-5,026

\* Adjusted for 2:3 ap2 costs for Casa Nova.

### INTEREST ON THE CENTRAL GOVERNMENT DEBT

The appropriation Interest on central government debt is to cover interest and currency costs at the Debt Office. The appropriation is not included in the expenditure ceiling and the Debt Office has the right to exceed the appropriation to meet the state's payment commitments. The outcome is SEK 5,062 million higher than the appropriation originally allocated in 2004. The reason for this is that the loan plan has changed during the year. Compared with previous years, the outcome is SEK 10,581 million higher. The explanation is primarily that when introducing three new bond loans, exchanges were made where old bonds were repurchased. Since the old loans were traded at a premium, price losses arose. The current level of market interest rates and the lower coupons of the new loans also led to reduced premiums on issues.

*The current level of market interest rates and the lower coupons of the new loans also led to reduced premiums on issues.*

by around 40 per cent in the futures trade. New agreements with dealers of inflation-linked interest bonds have also led to lower commission.

### MANAGEMENT EXPENSES

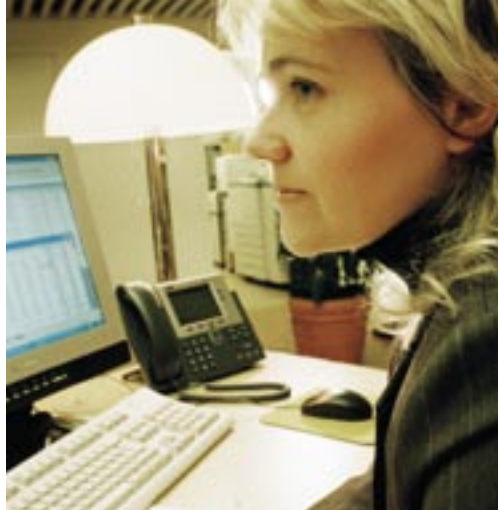
The Debt Office's management expense appropriation is used for all other management, operation and development expenses. The outcome is SEK 14 million higher than in 2003 and this is due partly to new recruitments and few vacancies. The sales expenses have increased due to special initiatives in retail market borrowing in government debt management. An alternative place of operation for all IT operation systems has been built up and commissioned. The duplicated operation is part of our continuity planning and a requirement arising from our participation in the collaboration area for Economic Security (SOEK).

### COMMISSION

The appropriation the Debt Office's commission expenses in connection with borrowing and debt management is used for expenses arising in connection borrowing, selling and management commission. The outcome in 2004 is SEK 19 million lower than the allocated appropriation funds. Placed in relation to the previous year, the outcome is SEK 31 million lower. This is partly due to new agreements which reduced fees







*Deductions from appropriation are made on an expenditure basis, i.e. unrealised profits or losses due to changed exchange rates or interest rate levels in central government debt management do not affect the appropriation accounting.*

The reason for the relatively high appropriation saving, 6.6 per cent of funds allocated is primarily delays due to deficient resources in a number of development projects in the areas of operation Central Government Debt Management and Cash Management.

#### CHANGE IN CAPITAL DURING THE YEAR

Deductions from appropriation are made on an expenditure basis, i.e. unrealised profits or losses due to changed exchange rates or interest rate levels in central government debt management do not affect the appropriation accounting. The same applies to some management costs. These

items are, however, included in the income statements of the areas of operation.

The change in capital for the year for the Debt Office is SEK 4,825 million lower than the previous year. This is due to higher costs, lower unrealised exchange rate gains, and write-downs of the value of three of the Debt Office's loans with credit risk. The krona remains relatively highly valued although it has not appreciated at the same rate as last year. Within the area of operation Guarantees and Loans, the comparison is also affected by the provision for future guarantee losses being decreased in connection with the valuation of the Venantius guarantee being increased in 2003.

STATEMENT OF INCOME PER AREA OF OPERATION, INCOME AND COSTS, IN SEK MILLION

	Central government debt management	Cash management	Guarantees and loans	Debt Office, total	Debt Office, total 2003
Operating income					
Income from appropriations, interest on central government debt 26 92:1 <sup>1</sup>	60,754	-7,108		53,646	41,262
Income from appropriations, commission expenses 26 92:3 <sup>1</sup>	121			121	152
Income from appropriations, management expenses 2 2:3 <sup>1</sup>	229	38		267	263
Income from appropriations for guarantee issuance				71	1
Income from fees	0	0	199	199	293
Other interest income	0	0	48	48	65
<b>Total operating income</b>	<b>61,104</b>	<b>-7,070</b>	<b>246</b>	<b>54,352</b>	<b>42,036</b>
Financial expenses for central government debt management					
Realised net interest, etc.	-55,649	7,109		-48,540	-36,895
Realised currency exchange losses/gains	-5,106	-1		-5,106	-4,366
<b>Total interest on central government debt 26 92:1</b>	<b>-60,754</b>	<b>7,108</b>		<b>-53,646</b>	<b>-41,262</b>
<b>Commissions 26 92:3</b>	<b>-121</b>			<b>-121</b>	<b>-152</b>
<b>Fees to banks etc. 2 2:3</b>	<b>-4</b>			<b>-4</b>	<b>-4</b>
Unrealised net interest etc.	379	98		477	-6,659
Unrealised currency exchange gains (/losses)	9,631	-13		9,617	18,465
<b>Total interest expenses not deducted from appropriations</b>	<b>10,010</b>	<b>84</b>		<b>10,094</b>	<b>11,806</b>
<b>Total financial expenses for central government debt</b>	<b>-50,869</b>	<b>7,192</b>		<b>-43,677</b>	<b>-29,611</b>
Other operating expenses					
Revaluation and provision. Guarantees and loans			-1,152	-1,152	1,948
Total management expenses 2 2:3	-224	-38		-263	-259
Total management expenses not deducted from appropriations	25	0	-27	-74	-33
<b>Total other operating expenses</b>	<b>-200</b>	<b>-38</b>	<b>-1,179</b>	<b>-1,488</b>	<b>1,656</b>
Revenue collection work		0	0	0	-69
<b>Total expenses</b>	<b>-51,069</b>	<b>7,154</b>	<b>-1,179</b>	<b>-45,165</b>	<b>-28,024</b>
<b>Change in capital for the year</b>	<b>10,035</b>	<b>85</b>	<b>-932</b>	<b>9,187</b>	<b>14,012</b>

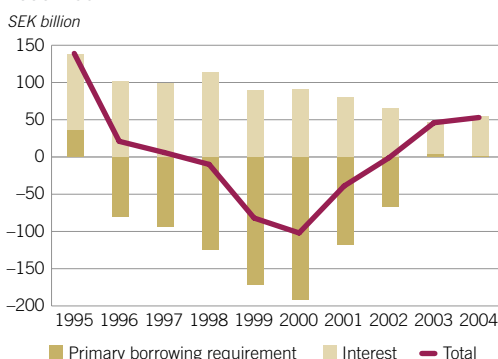
<sup>1</sup> According to the Appropriation Report, the total appropriation charge was SEK 53,055.4 million and according to the income statement net appropriation income was SEK 54,105.3 million, a difference of SEK 1,049.9 million. The difference is explained by appropriation income for deposits for futures reported with state capital.



# GOVERNMENT BORROWING REQUIREMENT AND DEBT

The central government borrowing requirement was SEK 53.3 billion in 2004. This is an increase of SEK 7 billion compared with 2003. The state budget thereby showed a deficit for the second consecutive year of around 2 per cent of GDP.

Diagram 1.1  
CENTRAL GOVERNMENT BORROWING REQUIREMENT  
1995–2004



## BORROWING REQUIREMENT

The primary borrowing requirement (all payments except interest) was SEK 0.7 billion, which is a reduction of SEK 3.4 billion compared with 2003.

On the income side, taxes increased by around SEK 40 billion largely due to increases in the wages bill and consumption. Income from maturing housing bonds decreased, however, by almost SEK 10 billion. Housing bonds were transferred from the AP (pension insurance) funds to the state in 2001 and the last bonds mature in 2005.

On the expenditure side, payments increased to pensioners and families with children, among others. Other areas where expenditure

increased were the EU membership fee, unemployment benefit, railways and area compensation to farmers. The increased area compensation is an effect of the payments for 2003 being moved to 2002.

Interest payments<sup>1</sup> on the central government debt increased by SEK 10.4 billion to SEK 52.6 billion. This was mainly explained by price losses on buy-backs increasing by around SEK 7 billion and issue premiums decreasing by around SEK 4 billion.

The increase in price losses is a result of the introduction of three new bonds in SEK. The introductions took place through exchanges where old bonds were repurchased and new bonds issued. The repurchases gave rise to price losses since the repurchase loans were traded at a premium. At the same time, new loans were issued with coupons more in parity with market rates. The new loans with lower coupon rates are also the explanation for the premiums on issue decreasing between years.

## FORECASTS OF THE BORROWING REQUIREMENT

The Debt Office has made five forecasts of the borrowing requirement for the whole year 2004.

<sup>1</sup> See also Appropriation Account in the financial report on page 46.

Table 1.1 CENTRAL GOVERNMENT BORROWING REQUIREMENT 2000–2004

	2000	2001	2002	2003	2004
Primary borrowing requirement	-191.9	-120.0	-66.4	4.1	0.7
Of which					
primary balance	-219.7	-144.6	-80.6	-6	-14.2
Debt Office net lending	27.7	24.6	14.2	10.1	15.0
Interest on central government debt etc	90.0	81.3	65.2	42.2	52.6
Of which					
interest for loans in Swedish kronor	73.8	43.5	39.4	21.3	33.9
interest for loans in foreign currency	22.4	25.4	19.0	17.1	13.6
realised foreign currency differences net	-6.2	12.3	6.7	3.9	5.1
Central government borrowing requirement (net)	-101.9	-38.7	-1.2	46.4	53.3





*At the beginning of the period, all forecasters underestimated the borrowing requirement, which led to an overestimation after two major adjustments. In the latter half of 2004, the Swedish National Financial Management Authority (ESV), the Debt Office and the National Institute of Economic Research (KI) adjusted their forecasts downwards. These adjustments partly comply with the changed view of the economic development during the period.*

These are presented in Diagram 1.2 and Table 1.2.

The adjustments of the first forecast of SEK 41 billion in June 2003 to SEK 68 billion in February 2004 are mainly explained by tax revenue being assessed to be less. This was in turn due to the forecasts for the growth of the wages bill being adjusted downwards by almost two percentage points, which corresponded to around SEK 15 billion. These adjustments proved to be well-considered and the differences between the outcome and forecast for tax payments was relatively small during the rest of the year.

The downward adjustments from SEK 68 to 57 billion were mainly explained by central government expenditure being considered to be lower and increased dividend from Vattenfall and TeliaSonera. The outcome between June and September was lower than expected, which can partly be explained by the Government's proposals on expenditure limits. Of the agencies, the Armed Forces had the greatest cuts. Payments to local government also decreased due to an adjustment since they had retained too large a part of the central government grant in 2003 in connection with the introduction of the new guarantee pension.

Table 1.2 FORECASTS OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT FOR THE WHOLE YEAR 2004

Forecast date	June 2003	Oct 2003	Feb 2004	June 2004	Oct 2004
Borrowing requirement, SEK billion	41	56	68	64	57

Compared with previous years, the different forecasts for 2004 have accorded relatively well with the outcome and adjustments between forecast rounds have been fairly small.

## COMPARISONS WITH OTHER FORECASTS

Diagram 1.3 shows the outcome for the borrowing requirement for 2004 and the annual forecasts from the Debt Office, the Ministry of Finance, The Swedish National Financial Management Authority, (ESV) and The National Institute of Economic Research, (KI).

There is a high level of agreement between the scenarios of the different forecasters. At the beginning of the period, they all underestimated the borrowing requirement, which turned into an overestimation after two major adjustments. In the latter half of 2004, ESV, the Debt Office and KI adjusted their forecasts downwards. These adjustments partly comply with the changed view of the economic development during the period.

Diagram 1.2  
ANNUAL FORECASTS BY THE DEBT OFFICE, 2004  
Outcome and forecasts, SEK billion

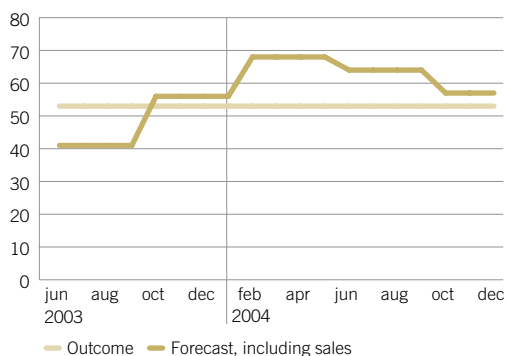
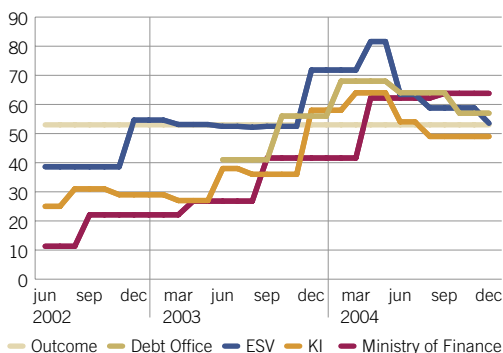


Diagram 1.3  
OUTCOME AND FORECASTS 2004  
SEK billion





*The most important debt disposition is the revaluation of the foreign currency debt to current exchange rates. During 2004, a stronger krona contributed to reducing the debt.*



## CENTRAL GOVERNMENT DEBT

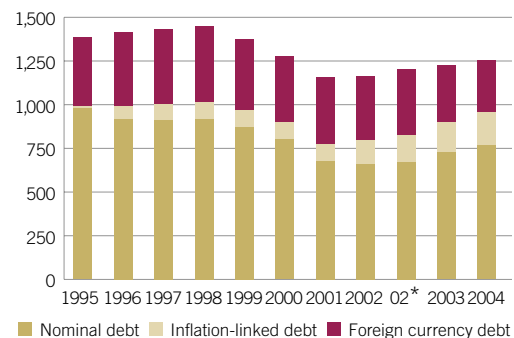
The central government debt was SEK 1,257 billion at the end of 2004. See Diagram 1.4. This is an increase of SEK 29 billion compared with 2003. Measured as a proportion of GDP, the debt was around 50 per cent, which is unchanged compared with 2003.

The net borrowing requirement contributed plus SEK 53.3 billion to the increase in central government debt. At the same time, debt dispositions and changes in short-term investments led to the debt decreasing by SEK 25 billion. The most important debt disposition is revaluation of the foreign currency debt to current foreign exchange rates. During 2004, a stronger krona contributed to reducing the debt.

The central government debt is financed by nominal loans in Swedish kronor, inflation-linked loans in Swedish kronor and loans in foreign currency. The proportion of nominal loans in Swedish currency increased by two percentage points to 61 per cent at the end of 2004. Inflation-linked loans increased by one percentage

Diagram 1.4

DEVELOPMENT OF THE CENTRAL GOVERNMENT DEBT  
SEK billion



\* A new debt measure was introduced on 1 January 2003. To facilitate comparison, both the old and the new debt measure are shown for 2002.

point to 15 per cent of the debt. Loans in foreign currency decreased by three percentage points to 24 per cent. This is partly an effect of the Debt Office amortising SEK 25 billion on loans in foreign currency in 2004 and to a stronger krona decreasing the value of the foreign currency loans.

Table 1.3 STRUCTURE OF THE CENTRAL GOVERNMENT DEBT 2000-2004\*

Instruments, SEK billion	2000	2001	2002	2003	2004	Change 2003-2004
Nominal loans in Swedish kronor						
Government bonds	467.4	357.0	358.3	398.4	436.8	38.4
T-bills	283.6	258.7	249.4	269.1	267.4	-1.7
Overnight loans	0.0	12.5	4.9	0.0	3.2	3.2
Lottery bonds	50.2	44.1	40.9	38.7	38.2	-0.5
National Debt Accounts	2.4	2.3	1.5	1.5	1.4	-0.1
National Debt Savings	7.3	11.4	15.5	17.8	19.5	1.7
Currency forward contracts	7.9	0.0	0.3	0.5	-0.2	-0.7
<b>Total nominal loans in SEK</b>	<b>818.8</b>	<b>686.1</b>	<b>670.9</b>	<b>725.0</b>	<b>766.4</b>	<b>40.4</b>
Inflation-linked loans in SEK						
Government bonds	136.7	115.8	157.2	171.8	189.0	17.2
National Debt Savings	1.1	1.2	1.2	1.1	0.9	-0.2
<b>Total inflation-linked loans in SEK</b>	<b>137.8</b>	<b>117.1</b>	<b>158.3</b>	<b>172.9</b>	<b>189.9</b>	<b>17</b>
Loans in foreign currency	387.0	407.4	375.0	329.9	301.0	-28.9
<b>Central government debt</b>	<b>1,343.5</b>	<b>1,210.6</b>	<b>1,204.2</b>	<b>1,228.8</b>	<b>1,257.3</b>	<b>28.5</b>

\* As from September 2004, currency forward contracts are reported gross. This does not affect the size of the central government debt although it does affect the distribution between Swedish and foreign debt. The comparison figures have been adjusted. Table 1.3 and Note 26 in the Financial report are not comparable in the statement due to repurchase agreements and liquidity bills being reported here under Instruments and overnight loans respectively on separate lines. These instruments are presented in Note 26 as liquidity management instruments.

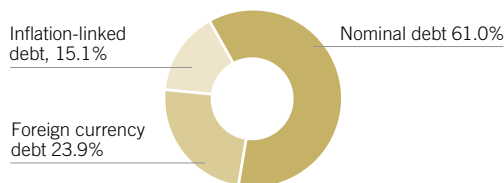


# DEBT MANAGEMENT

The Debt Office manages and finances the central government debt by borrowing in the Swedish and international bond market. We borrow primarily by selling different types of government securities to our dealers through auctions. The Debt Office also borrows directly from households and other small savers, by, for instance, issuing lottery bonds. The goals and result for the retail market are shown in a separate section, see page 19. The central government debt management is controlled by the guidelines adopted annually by the Government based on proposals from the Debt Office. The goal is to minimise the long-term cost for the state while taking into account risk so that costs do not increase excessively if anything unexpected occurs.

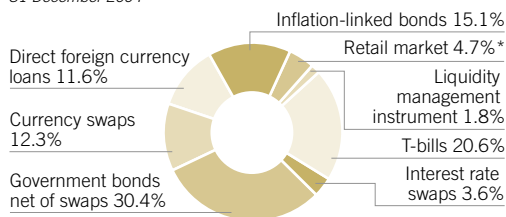
## GOALS AND GUIDELINES

Diagram 2.1  
THE COMPONENTS OF CENTRAL GOVERNMENT DEBT  
31 December 2004



Total central government debt was SEK 1,257 billion.

Diagram 2.2  
CENTRAL GOVERNMENT DEBT INSTRUMENTS  
31 December 2004



\* Nominal debt

According to the appropriation directions, the Debt Office shall

- minimise the cost of central government debt within the framework of the guidelines set by the Government while taking risk into account
- improve the control and evaluation of central government debt management
- contribute to improving the performance of the market for government securities without increasing cost
- borrow directly from private persons to reduce the cost of central government debt.

The management of central government debt is also governed by guidelines adopted by the Government annually on the basis of proposals from the Debt Office. In its guidelines for 2004, the Government decided that SEK 25 ± 15 billion of the foreign currency debt was to be amortised, that the proportion of inflation-linked loans was to increase and the average duration of the nominal krona and foreign currency debt would be 2.7 ± 0.3 years. The decision complied in all essentials with the recommendations made by the Debt Office.

## REPORTING REQUIREMENTS

An overall description of the management of central government debt is given here in the annual report. Complete documentation on the evaluation of the management of central government debt is provided in a separate evaluation appendix. A detailed analysis of the proportion of foreign currency debt of the central government debt was included in the guideline proposal for 2005.

## IMPORTANT EVENTS 2004

- The Debt Office has issued three nominal bonds with maturities of five, ten and seventeen years respectively.
- The proportion of inflation-linked bonds in the central government debt increased from 14 to 15 per cent.
- The liquidity management has been changed by the Debt Office since September using repos (see *glossary*) to a greater extent to finance or invest amounts up to a week.



## OVERALL STRUCTURE OF THE DEBT

On the basis of the Government's guidelines, the Debt Office adopts operational guidelines by decisions of the Debt Office board.

### Duration of the debt still 2.7 years

The board decided in December 2003 that the duration of the nominal debt would be 2.7 years. Accordingly, the possibility of a deviation of  $\pm 0.3$  years specified by the Government was not to be made use of. Although there were reasons to believe that the expected upswing would lead to higher long interest rates, the upswing would have to be very strong for an extension of the duration to be profitable. This was due to our assessment being that the short interest rates would continue to be low. The long interest rates have decreased slightly during the year.

The board also decided that the duration of the nominal krona debt should be 2.9 years and the duration of the foreign currency debt 2.3 years. Together, this would be 2.7 years for the whole of the nominal debt. A slightly higher duration would be required in the krona debt to maintain a liquid market in bonds with longer maturities.

At the board meeting in April 2004, the board decided to increase the duration of the nominal krona debt to 3.0 years and reduce the duration of the foreign currency debt to 2.0 years. The background was that the duration of the nominal krona debt had increased during the spring due to the decrease in the interest-rate level. The risk was therefore great that the duration would exceed the set limits (*see glossary*). To avoid having to make temporary changes in the issue volumes or to carry out expensive derivative transactions, the targets were instead changed for both the krona and foreign currency debt. The target for the total nominal duration, which is most important from the point of view of cost and risk was unchanged at 2.7 years.

### Composition of the debt

#### *Increased inflation-linked debt*

The proportion of inflation-linked debt continued to increase in accordance with the Government's guidelines. The rate of increase has been adopted taking into consideration the demand and cost compared with other types of debt. In 2004, overall demand was good. The Debt Office could



issue inflation-linked bonds for SEK 17.7 billion. The proportion of inflation-linked debt increased from 14 to 15 per cent of the total government debt. See section on inflation-linked deposits on page 15.

#### *Reduced debt in foreign currency*

The Debt Office Board decided in December 2003 that the foreign currency debt was to be amortised at a rate corresponding to SEK 25 billion per year. This rate was maintained during the year. The Debt Office did not then use the permitted deviation of SEK  $\pm 15$  billion. The krona exchange rate had strengthened measured as the trade-weighted foreign currency index TCW (*see glossary*) and was close to an average historical level. Our analysis indicated that there were no strong reasons to believe that the krona would strengthen or weaken greatly. At the end of 2004, the krona exchange rate for the euro was 9.00. The dollar had weakened greatly against the euro and thereby against the krona. The TCW index had due to this strengthened to 122.4. Despite the strengthening the TCW index continued at a level which is a reasonable average valuation of the krona.

Diagram 2.3  
THE CURRENCY DISTRIBUTION  
OF THE TARGET PORTFOLIO  
31 December 2004

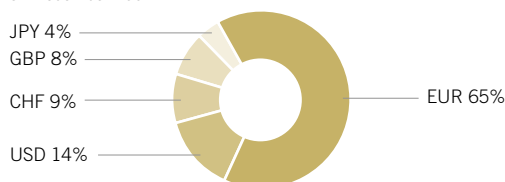
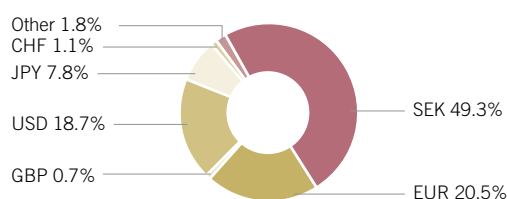


Diagram 2.4  
FUNDING OF THE FOREIGN CURRENCY DEBT



## Management of foreign currency debt

### Composition of foreign currency debt unchanged

The foreign currency debt consists of a number of different currencies. The Government has not taken a position on the distribution but has delegated this decision to the Debt Office. Our board has set a target for the currency distribution, see Diagram 2.3. The intention of the target is to reduce the risk for variations in the value of the currency debt measured in SEK but also to take the cost into consideration. No change of the distribution was made in 2004.

Funding of the foreign currency debt has another structure and maturity than the target. To achieve an exposure in accordance with the target, we carry out derivative transactions in forward foreign exchange contracts, interest futures and interest swaps, (see *glossary*), see Diagram 2.4.

## Overall risk analysis

In the guideline proposal for 2004, the Debt Office presented a new way of measuring risk in the central government debt, Relative Cost at Risk (RCaR). The new measure was intended to describe the risk for discrepancies in relation to expected costs. During the year, the Debt Office has further developed the measure by making assumptions on the debt more realistic. The developed measure will be called Cash flow at Risk in future (CfaR) (see *glossary*). It is based on the cash flows produced by current issue and repurchase

plans, loan and swap maturities, interest turnover, foreign currency risk and other interest risk for derivative transactions and which thereby affect the outcome of central government interest payments. The advantage of the method is that we can now place a cash risk in direct relation to the forecast of the central government interest payments.

The calculation result for December 2004 shows that CfaR totals SEK 8.6 billion for the forecast period November 2004 to December 2005. The interest forecast for the corresponding period is SEK 45.7 billion.

With 95 per cent probability, the conclusion is, given the forecast borrowing requirement and planned funding strategy, that interest payments will not increase by more than SEK 8.6 billion and thus be higher than SEK 54.3 billion for the forecast period due to changes in interest rates, exchange rates and inflation.

The most important contributions to CfaR come from exposure for risk to an increasing Swedish nominal bond interest rate and the risk for a weaker krona. These two factors contribute totally to 92 per cent of the cash risk.

Diagram 2.5  
INTEREST RATE TREND  
Per cent, monthly

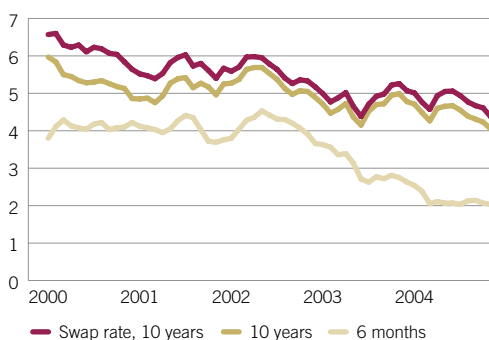
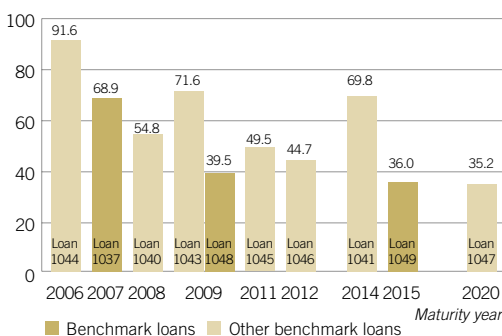


Diagram 2.6  
NOMINAL GOVERNMENT BONDS (BENCHMARK LOANS)  
SEK billion



New bonds in 2004 are loans, 1048, 1049 and 1047.

## FACT PANEL

### The electronic interbank market

The electronic interbank market (EIM) started in 2001. The Debt Office's seven dealers in government bonds continuously quote prices on EIM with a difference of 0.02 per cent between the bid rate and the ask rate in relation to one another in maturities of 2, 5 and 10 years. Trading takes place in an electronic system, Saxess, which OMX is responsible for. Turnover is approximately 10 per cent of the total interbank trade between dealers. The proportion is limited by only three maturities being managed in the system. Interbank trade also takes place through brokers. The conditions for trading in EIM are determined jointly by representatives from the dealers, OMX and the Debt Office.



## FUNDING

The net borrowing requirement due to the deficit in the state budget was SEK 53.3 billion. In addition, there is refinancing of maturing loans in the central government debt. The gross borrowing requirement, which is the total of the net borrowing requirement and maturing loans, was SEK 84 billion. This is financed by borrowing in SEK (nominal bonds, T-bills, and other short-term instruments), inflation-linked bonds and foreign currency.

### Nominal borrowing in SEK

#### *Great interest in Swedish government bonds*

The Debt Office issues nominal government bonds at auctions held every other week. Dealers take part there who in turn have commissions from their customers, for instance, life assurance companies and pension funds. In 2004, the Debt Office issued krona bonds for a gross total of SEK 91 billion.

Table 2.1 ISSUES IN NOMINAL BONDS 2000–2004

	2000	2001	2002	2003	2004
Cover ratio *	3.24	2.91	2.89	3.16	3.17
Average issue interest rate	5.25	4.90	4.94	4.25	4.10

\* The received offer volume in relation to offered issue volume.

The bond rate in 2004 decreased slightly. Investment in Swedish bonds has been very attractive for foreign investors. See diagram 2.5. This has led to Swedish long-term interest rates decreasing more than foreign rates. This means that we borrowed more cheaply than in 2003.

Table 2.2 FUNDING 2004

	2004
Net borrowing requirement	53
Change in cash balance and primary market borrowing <sup>1</sup>	-13
Bond loans maturing and buy-backs <sup>2</sup>	43
Government bonds	21
Bonds in foreign currency	22
<b>Total</b>	<b>84</b>
T-bill borrowing, net <sup>3</sup>	-35
Bond borrowing, gross <sup>4</sup>	119
Bonds in foreign currency	10
Inflation-linked bonds <sup>5</sup>	18
Nominal bonds <sup>6</sup>	91
<b>Funding</b>	<b>84</b>

<sup>1</sup> Change in outstanding deposits, t-bills and repos.

<sup>2</sup> No buy-backs in 2004.

<sup>3</sup> Net of issues (excluding exchanges) and maturities.

<sup>4</sup> Nominal amounts. Premiums and discounts (including inflation compensation) and exchange rate differences in issues included as interest payments in the net borrowing requirement.

<sup>5</sup> Issue volume per auction, average.

<sup>6</sup> Issue volume per auction, average.

Table 2.3 ISSUES OF T-BILLS 2000–2004

	2000	2001	2002	2003	2004
Cover ratio *	2.90	2.22	2.81	2.29	2.18
Issue rate on average	4.23	4.03	4.20	3.04	2.24

\* Incoming offer volume in relation to offered issue volume.

During the greater part of the year, bonds were sold for SEK 4 billion per auction. In November, the volume was reduced to SEK 3.5 billion per auction. This decrease aims at gradually shortening the duration of the nominal krona debt, which in turn is an adjustment to the nominal duration of the central government debt in the most recent guideline decision by the Government being reduced to 2.5 years in 2005.

#### *Three new bonds in 2004*

Bond borrowing mainly takes place in the benchmark loans with two, five and ten year maturities that are traded in the electronic interbank market. The Debt Office aims to achieve good liquidity in all benchmark loans. Our policy is therefore to make new issues in previously issued bond loans.

In January, a 17-year bond was introduced. On 1 January, the loan had a volume of approximately SEK 35 billion and will not be issued as often in the coming years to avoid it becoming too large. A new 5-year bond was introduced in March. In September a new 10-year bond will be introduced.

#### *The T-bill stock increased*

Auctions in T-bills are held every other week. T-bills are normally used to counter seasonal and other temporary variations in the borrowing requirement. The issue volume therefore varies greatly between auctions. In 2004, the issue volume varied between SEK 7.5 and 30 billion. The T-bill stock was SEK 259 billion on 1 January. This is an increase of SEK 14.7 billion compared with 2003. However, the proportion of the central government debt has only increased marginally.

The short market rates fell during 2004. This enabled the Debt Office to borrow at lower

Diagram 2.7

STOCK OF T-BILLS

SEK billion, 1 January the past five years

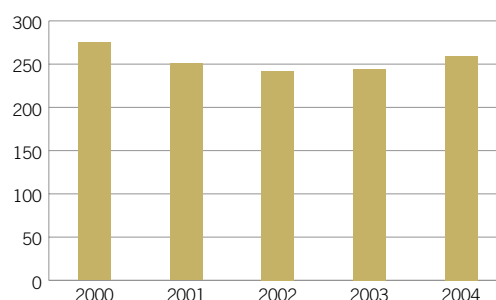
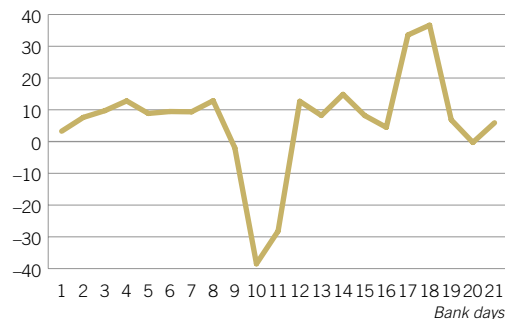




Diagram 2.8  
DAILY BORROWING REQUIREMENT  
DURING A TYPICAL MONTH  
June 2004, SEK billion



The surplus disappears the same day that payment is made for the T-bill which matures during the month. This is as a rule the third Wednesday of the month.

interest rates than in 2003, see Table 2.3 and Diagram 2.5

#### Interest swaps reduced costs

An alternative to borrowing with T-bills is to issue bonds with a long interest rate and by transactions in derivatives (interest swaps), exchange to short interest rates. In 2004, we made interest swaps equivalent to SEK 30 billion. The fact panel on page 16 describes how this form of borrowing with interest swaps works. For the Debt Office, this means a somewhat cheaper form of borrowing in comparison with T-bills. Borrowing with swaps also entails some increase in counterparty risk. However, this is limited by the CSA agreement where we obtain collateral to compensate for increased credit risk.

#### Liquidity management

The need to borrow varies greatly from day to day. The Debt Office makes a loan forecast each day for next three months. Liquidity during a month follows a pattern as a rule with surplus a couple of days in the middle of the month, in connection with tax payments. The Debt Office has a borrowing requirement of approximately 76 per cent of the year's bank days. This is equivalent to 16 bank days a month. The deficit is on average SEK 13 billion per day, although it can be up to SEK 40 billion certain days. The Debt Office uses overnight loans (deposit), repos (*see glossary*) and liquidity bills in liquidity management. The majority of transactions are made by overnight loans. The Debt Office issued short T-bills and liquidity bills totaling SEK 384 million in 2004.

#### Increased use of repos

During long periods with large short-term borrowing requirements, we borrow money by issuing liquidity bills and T-bills with a remaining period of maturity of one or two months. Liquidity bills have maturities between 3 and 21 days. Both taking into consideration the risk and management, the Debt Office prefers to sell liquidity bills and short T-bills instead of overnight loans since they have longer maturities than repos and overnight loans.

For the same reason, the Debt Office went over to using repos to an increasing extent with maturities of up to seven days instead of overnight loans. This slightly reduces the costs of borrowing and reduces credit, refinancing and operational risks. The Debt Office has thereby on average become a somewhat larger player in the repo market. In 2004, the repo stock was approximately SEK 10 billion. Our turnover per day is approximately SEK 3 billion. The Debt Office makes repos for at most SEK 2 billion per government security. We make this limitation so as not to disrupt the market in large loan or investment needs.

#### Increased inflation-linked borrowing

During 2004, inflation-linked bonds were issued for almost SEK 18 billion. Demand has varied greatly. It was good during the spring, but slackened towards the end of the year. The proportion of inflation-linked debt in the central government debt increased from 14 to 15 per cent. The total stock of real bonds was SEK 190 billion at the year-end (*including inflation compensation*).

In 2004, the Debt Office issued inflation-linked bonds at break-even levels (*see glossary*) between 2.0 and 2.6 per cent. The inflation-linked rates on the newly issued bonds were on average 2.4 per cent, which is lower than in previous years.

Table 2.4 AUCTIONS OF REAL BONDS 2000–2004

	2000	2001	2002	2003	2004
Issue volume <sup>1</sup>	2.4	-2.9	2.0	18.2	17.7
Sold volume <sup>2</sup>	6.4	11.4	23.4	18.2	17.7
Cover ratio <sup>3</sup>	4.5	4.8	4.4	3.8	2.3
Average interest <sup>4</sup>	3.93	3.64	3.59	2.83	2.38
BEI <sup>5</sup>	1.51	1.67	1.90	2.09	2.23

<sup>1</sup> Total issued volume in auction activities during the year, net by pure auctions, exchanges and buy-backs.

<sup>2</sup> Total sold volume in auction activities excluding exchanges and buy-backs.

<sup>3</sup> Incoming offer volume in relation to offered issue volume.

<sup>4</sup> Weighted average interest over the year on issues.

<sup>5</sup> Average break-even inflation.



*Sweden has the highest credit rating and our limited borrowing requirement combined with a strong interest in our currency borrowing gave favourable conditions for direct foreign currency borrowing during 2004.*



#### Improved result

The calculation result which the inflation-linked borrowing has accumulated since the start in 1994 increased to SEK 12.5 billion compared

Diagram 2.9  
INFLATION-LINKED GOVERNMENT BONDS  
SEK billion

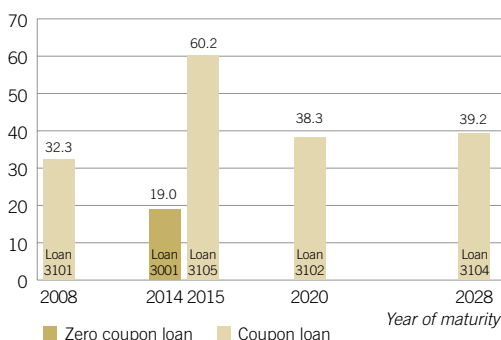


Diagram 2.10  
CALCULATED RESULT FOR BORROWING IN INFLATION-LINKED BONDS ACCUMULATED FOR 1996-2004  
SEK billion

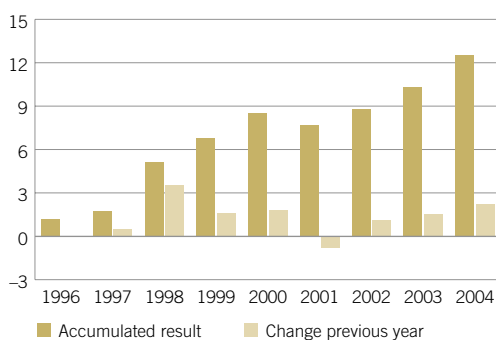
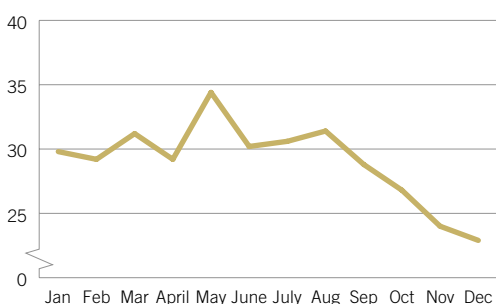


Diagram 2.11  
SWAP SPREAD WITH FIVE-YEAR MATURITIES, 2004  
Base points



with SEK 10.3 billion in 2003. The increase of SEK 2.2 billion is primarily due to inflation being lower than in 2003. The higher the break-even inflation is when the Debt Office issues, the greater is the probability that inflation will be lower during the period to maturity of the bond.

The final result will depend on how inflation develops during the whole period until the respective loan matures.

#### Borrowing in foreign currency

##### Good conditions in foreign currency loans

In 2004, foreign currency loans for SEK 36 billion matured including capital gains. The borrowing requirement is the difference between the maturing foreign currency loans and the amortisations.

#### FACT PANEL

##### Interest swaps in Swedish kronor

Interest swaps are a way of using the state's relative strength as a borrower in long maturities and thus reducing the cost of borrowing. To create short borrowing via the swap market, the Debt Office issues a bond in Swedish kronor. An interest swap is then carried out in Swedish kronor. We obtain a fixed interest rate and pay floating interest (Stibor). The short swap rate we pay is somewhat higher than the t-bill rate. Historically, the difference has been on average 0.17 percentage points (17 interest points). However, this is compensated for by our obtaining a long rate in the swap that is higher than the rate on bond loans (the swap spread). Since the state has a lower credit risk than the swap rate, the swap rate is higher than the corresponding borrowing with bonds and T-bills. The swap spread has on average been 0.30 percentage points during 2004. The gain with this technique is thus 0.13 percentage points if the future relations between interest rates are equal to the historical, see diagram 2.11.

In order to be able to amortise the foreign currency debt in accordance with the Government's target of SEK 25 billion, the Debt Office therefore needs to borrow SEK 11 billion in foreign currency. On 1 January, the foreign currency debt was SEK 301 billion converted into SEK. The proportion of the total debt was 24 per cent.

During 2004, demand for dollar loans was greatest among the world's central banks, primarily in Asia. Sweden has the highest credit rating and our limited borrowing requirement combined with a strong interest in our borrowing in currency gave favourable conditions for direct foreign currency lending during 2004. In 2004, we took up to SEK 10 billion in direct foreign currency loans. The rest has been made by borrowing in SEK which has been swapped for foreign currency.

The borrowing took place in three new loans and increases in outstanding loans. Demand on the secondary market was also very good. One of the loans was a smaller, new currency loan targeted on Japanese private individuals. It was issued in October.

The cost of capital market borrowing was almost 30 interest points under USD Libor. The conditions were slightly better than during 2003, see Diagram 2.10.

## ACTIVE MANAGEMENT OF THE FOREIGN CURRENCY DEBT

The Debt Office also has an active management in foreign currency. By taking positions in the international currency and interest markets, we endeavour to reduce the state's costs for government debt. This means that we deviate from the set target for the structure and duration of the foreign currency debt, e.g. increase the proportion in dollars when we make the assessment that the dollar is going to decrease in value.



Table 2.5 BORROWING IN FOREIGN CURRENCY, VOLUMES 2000–2004

SEK billion	2000	2001	2002	2003	2004
Maturity of public loans and private investments	59.3	28.2	35.4	29.5	-21.6
Maturity, foreign currency swaps	–	9.2	18.1	11.2	-10.9
Realised foreign exchange differences	-6.2	12.3	6.7	5.2	-4.8
Other	-1.6	4.6	-7.4		
<b>Total maturities</b>	<b>51.5</b>	<b>54.3</b>	<b>52.8</b>	<b>45.9</b>	<b>37.3</b>
Public loans and private investments	–	–	33.1	10.6	10.4
SEK/foreign currency swaps	24.4	35.0	21.2	10.6	2.2
T-bills in foreign currency	–	4.2	-3.3	-0.9	0.0
<b>Total borrowing</b>	<b>24.4</b>	<b>39.2</b>	<b>51.0</b>	<b>20.3</b>	<b>12.5</b>
Net borrowing	-27.1	-15.1	-1.8	-25.6	-24.8
Other <sup>1</sup>	–	–	–	0.2	-0.8
<b>Amortisation</b>	<b>-27.1</b>	<b>-15.1</b>	<b>-1.8</b>	<b>-25.4</b>	<b>-25.5</b>

<sup>1</sup> Amortisation on the foreign currency debt in 2004 amounts to SEK 24.8 billion. Net borrowing of SEK -24.8 billion is thus to be adjusted by SEK 0.8 billion for exposure changes from currency exchanges which are not included in the items shown in the table.

Table 2.6 BORROWING COST DIFFERENT CURRENCY LOANS 2000–2004

Interest points under USD Libor	2000	2001	2002	2003	2004
SEK/currency swaps	-66.6	-47.0	-26.6	-28.2	-18.0
Public loans	–	–	-19.8	-26.9	-29.7
Private investments	–	–	–	–	-28.0
T-bills in foreign currency	–	–	–	–	–
<b>Average cost</b>	<b>-66.6</b>	<b>-47.0</b>	<b>-22.5</b>	<b>-27.5</b>	<b>-27.6</b>

Table 2.7 RESULT OF ACTIVE MANAGEMENT, 2000–2004

Result in SEK million	2000	2001	2002	2003	2004
Total management	-584	-103	434	937	195
Debt Office	-604	-78	392	880	164
Of which:					
interest positions	110	83	-78	224	-18
currency positions	-714	-161	470	656	182
External managers	20	-25	42	57	31
<b>Result per cent of managed amount</b>					
Debt Office	-0.16	-0.02	0.11	0.52	0.11
External managers	0.17	-0.12	0.14	0.14	0.09

### External managers

The Debt Office has used external managers since 1992 to further reduce the cost., to obtain valuable knowledge and to obtain a measure of our active management in foreign currency. We can use at least three and at most six external managers. During the year a new manager was used. Each manager works with a fictive portfolio of SEK 6 billion according to the same rules the Debt Office has for its internal management (See Table 2.7). The spread between managers was relatively small.

### Positive result of active management

Management in foreign currency gave a positive



result in 2004. (See Table 2.7). During the period 2000-2004, it has reduced cost for the central government debt by almost SEK 900 billion.

### MARKET SUPPORT REDUCES THE COST

The Debt Office is a big player in the money and bond market in Sweden. Our assignment is to work to improve the market in government securities since this contributes to reducing the state's loan costs. We therefore offer our dealers a number of services that enable trade to function more smoothly. We are also active in discussions on development of the market, for instance, with respect to new trading techniques and systems.

The Debt Office makes market support repos and exchanges in government securities to dealers to avoid a shortage of a particular government security. The Debt Office offers market support repos in all nominal benchmark bonds, T-bills and inflation-linked bonds. On request, we make repos regardless of whether we ourselves need to borrow money at that time or not. Unlike regular repos within the framework of liquidity management (see above), there is no volume limitation.

The volumes are instead limited by dealers having to pay a premium for borrowing government securities from the Debt Office.

The Debt Office also exchanges bonds which have less than a year left to maturity. They are exchanged for T-bills. In this way, investors obtain access to more liquid instruments and a better spread of maturities.

### Simpler pricing

In connection with the development of liquidity management, we have made a review of the conditions for the market support repos. Pricing has been simplified. The premium consists of a deduction of between 15 and 50 interest points in relation to the Riksbank's repo rate, which is the normal funding cost for short borrowing.

### Evaluation of market support

With the aid of an external company, the Debt Office evaluated our work with dealers and investors at the end of 2004. The result will be reported in February 2005.

The Debt Office will present the result in spring 2005.

## GOAL FULFILMENT

During 2004, the Debt Office

- amortised SEK 25 billion of foreign currency debt, i.e. at the level of the median value of the Government guidelines
- increased the inflation-linked portion of the central-government debt from 14 to 15 per cent
- kept the duration of the nominal debt about 2.7 years, i.e. on a level with the median value of the Government guidelines
- the result of the active management of foreign currency was SEK 195 million
- contributed to a well-performing market by market support

There is no measure for determining whether the Debt Office achieved the goal of long-term cost minimisation taking risk into account. However, in our assessment, we made well-considered strategic decisions within the framework of the Government guidelines for central government debt management. The structure of the debt was also changed in the long-term direction that the Government stated, i.e. the currency proportion decreased and the inflation-linked proportion increased. The operational handling has also been taken care of well. The Debt Office achieved good conditions for inflation-linked borrowing and foreign currency loans. The active management in foreign currency and borrowing from the retail market has produced a surplus in 2004 and over the whole evaluation period. To sum up, there are therefore grounds for the assessment that the Debt Office has complied with the objectives in the appropriation directions and the Government's guideline decision.



# RETAIL MARKET BORROWING

Borrowing in the retail market is targeted on private persons, small businesses and organisations. The main part of this borrowing consists of lottery bonds and National Debt Savings. Government securities are also sold on the Internet under the product name "Retail Sales of Government Securities" to private persons and small investors. On 31 December 2004, SEK 60 billion or 4.8 per cent of the Swedish central government debt was borrowed in the retail market.

## GOALS

- Borrowing in the retail market is to give the greatest possible cost saving in relation to the Debt Office's borrowing in the capital market. This applies both to the total borrowing in the retail market, and, to a reasonable extent, the individual loan instruments.

## REPORTING REQUIREMENTS

- The cost saving in borrowing in the retail market is to be analysed and reported, both for the individual loan forms and for total loans, for 2004 and for the period 2000–2004. The position of the Debt Office in the market for savings products is to be clarified.
- A separate report is to be made of cost follow-up and reporting of experiences of Retail Sales of Government Securities in the annual report.

## IMPORTANT EVENTS 2004

The Debt Office successfully sold two new lottery bonds in 2004. We issued lottery bonds for SEK 9.5 billion, which means that the outstanding volume is largely unchanged compared with May 2003. This is a trend reversal since the volume has successively decreased in recent years.

Market surveys show that the number of persons who spontaneously mention the Debt Office as a player in the savings market has increased from 4 to 5 per cent compared with 2003. This is a good result, comparable with some of the niche banks.

The Debt Office has procured a new system support for National Debt Savings which will be installed in 2005. System development has

been a prioritised area in 2004, to enable us to continue with product development in the retail market sphere.

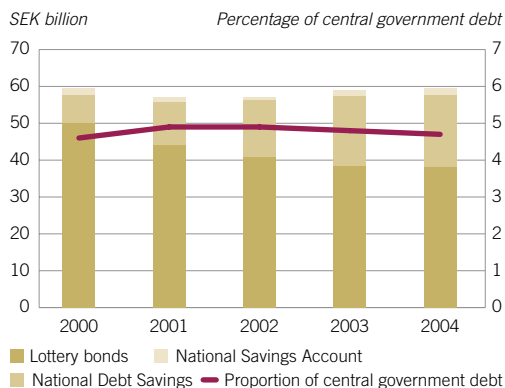
## RETAIL MARKET BORROWING HAS REDUCED COSTS

During 2004, retail market borrowing reduced costs by SEK 112 million in relation to alternative borrowing in the capital market. The total cost

*We issued lottery bonds for SEK 9.5 billion in 2004.*

Diagram 3.1

THE RETAIL MARKET SHARE OF CENTRAL GOVERNMENT DEBT  
SEK billion



The National Savings Account is an old savings form which will be wholly wound up on 31 March 2005.





saving for the period 2000–2004 is SEK 1,277 million.

During the whole period, lottery bonds have accounted for the largest cost saving. This is due to the outstanding volume of lottery bonds being greater and the margin higher than for other savings products. The margin compared with capital market borrowing has, however, reduced as interest rates have fallen. The result was poorer in 2004 compared with previously. One of the explanations is that older loans with high margins have expired and no longer affect the result.

The result for National Debt Savings deteriorated between 2003 and 2004. This deterioration is mainly due to large marketing inputs and increased price losses on early redemption. The income side is calculated in the same way as previously, with a margin of 0.25 to 0.35 per cent during the corresponding maturities in the capital market.

#### Successful sales of lottery bonds

The Debt Office sold two new lottery bonds in 2004 with an issued volume totalling SEK 9.5 billion. At the same time, lottery bonds matured for SEK 10 billion, which means that we sold almost as much as matured. Lottery bonds are a well-established product that attracts customers even when interest rates are low, since the alternative yield for, for instance, bank saving is also low. With lottery bonds, one is guaranteed to get

the invested capital back, at the same time as there is a chance of a high yield through prizes.

In 2004, the Debt Office reduced costs for lottery bonds by negotiating reduced commissions to dealers. This follow-up has also been made clearer by annual follow-up meetings. Dealers are responsible for half of sales while the rest are sold directly by the Debt Office. It is interesting to note that the proportion of lottery bonds sold via Internet is for the first time larger than telephone sales.

Marketing of lottery bonds has been focused for many years on increasing knowledge of the product and of the Debt Office as a brand. Another goal has been to reach new and younger customers. Market surveys have shown that the strategy has been successful. Successful sales during the year are also an indication that there is interest in buying lottery bonds.

Lottery bond customers have become successively younger. The average age of new customers was 51 in the most recent loan and 64 for those who had lottery bonds previously. Altogether, we have approximately 500,000 customers.

#### National Debt Savings are increasing more slowly than before

The outstanding volume of National Debt Savings increased during the year although more slowly than previously. One reason is low interest rates. Another reason is probably that some recovery has taken place in the stock market. In the same way as in previous years, it is saving at floating interest rates in "Utan Tidsgräns" that has increased most.

We see a clear link between advertising campaigns and an increase in the number of new customers and volume deposited in National Debt Savings. When marketing National Debt Savings, a number of factors have been highlighted such as the high interest rates, no fees, security and safety.

Table 3.1 SAVINGS THROUGH BORROWING IN THE RETAIL MARKET COMPARED WITH THE CORRESPONDING MATURITIES IN THE MONEY AND BOND MARKET\*

SEK million	2000	2001	2002	2003	2004
Lottery bonds	271	287	317	240	110
National Savings Account (being phased out)	3	2	–	–	–4
National Debt Savings	5	10	10	20	6
Total savings	279	299	327	260	112

\* As from 2004, the Debt Office uses a new model for calculating results. Previous years have not been converted in accordance with the new method. The values are therefore not wholly comparable between years.

Table 3.2 NATIONAL DEBT SAVINGS, OUTSTANDING VOLUME AND CHANGE DURING THE YEAR

	Outstanding volume, 31 December 2004	Change 2004
Fixed nominal interest rate*	7.5	0.2
Fixed, inflation-linked interest rate	0.9	–0.2
Floating interest rate	11.0	1.4
Floating, Monthly Savings	1.1	0.3
Total National Debt Savings	20.5	1.7
Number National Debt Savings customers	143,600	6,300

\* Also includes SEK 0.3 billion in savings at nominal floating interest rate.





*In the same way as in previous years, it is saving at floating interest rates in the Savings Account that increased most.*

System development has been prioritised during the year. We have procured a new system support for National Debt Savings and entered into an agreement with the supplier EDB. This will be installed in 2005 and commissioned in 2006. A stable system support is a necessary foundation for other product development, for instance a better web and authentication solution for retail market products.

#### **We are a small player in the savings market**

On 31 December 2004, the Debt Office's share of the savings market for interest products was 7.3 per cent. This is largely unchanged compared with the same period last year. We define the interest savings market as to include all interest-bearing savings alternatives, (deposits in bank accounts, retail bonds and interest funds). With this definition, the total interest savings market was SEK 821 billion on 30 September 2004 compared with SEK 786 billion last year.

Marketing and PR are an important means for the Debt Office to retain market shares in the interest saving market. We carry out regular customer and focus group surveys. The surveys show that customers have a high level of confidence in the Debt Office which is viewed as a secure and safe savings alternative.

#### **EXPERIENCES OF RETAIL SALES OF GOVERNMENT SECURITIES**

In January 2004, Retail Sales of Government Securities was expanded with Internet sales of inflation-linked bonds. All auctions of T-bills, nominal bonds and inflation-linked bonds are now open to small investors. The Office received 65 per cent more bids than in 2003. The volume issued increased from SEK 132 million in 2003 to SEK 339 million in 2004.

\* Retail market borrowing by the Debt Office 31.12.2004 as a percentage of the total savings market 30.09.2004.

Diagram 3.2  
NUMBER OF BIDS, GOVERNMENT SECURITIES 2004

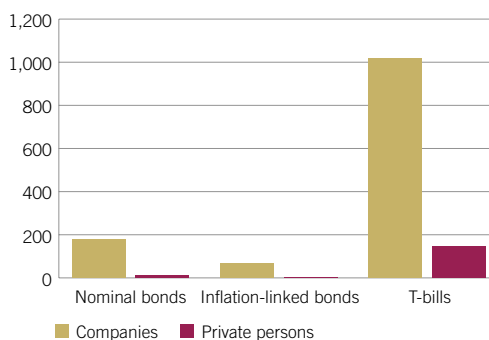


Diagram 3.2 shows that there was considerably more interest in T-bills than in nominal and inflation-linked bonds. T-bills are an attractive investment form for customers who need to invest cash for a short period. Approximately half of the issued volume was sold to companies. At the same time, companies account for only a smaller part of the bids since they make offers for considerably larger amounts than private persons.

Customers have been more hesitant to make longer investments in nominal bonds and inflation-linked bonds. One explanation is that they do not want to tie up their savings for a longer period when interest rates are relatively low. Another is that a lot of customers make short-term investments regardless of the interest-rate situation.

Marketing of government securities was focused on a narrower target group than in 2003. Advertisements were only published in the business press with the focus on small companies and organisations.

#### **Costs**

The cost of government securities was SEK 7 million in 2004. Marketing and system development are the greatest individual items. The majority of the costs are fixed, which means that the



*We consider that it is mainly by reaching out more to companies and organisations that sales of government securities can increase. One way of achieving this is by targeted information and marketing.*



marginal cost per bid on increased sales is low. Government securities are issued without an interest rate margin in relation to the capital market and are therefore not covered by the requirement that retail market borrowing is to be cheaper than other borrowing.

With a large central government debt to finance, it is valuable to spread borrowing to different groups of investors. Direct sales of government securities enable private persons and small investors to gain access to the government securities market without intermediaries and high transaction costs. A broader distribution network and more efficient sales channels can eventually contribute to a better functioning market for government securities. If Retail Sales of Government Securities is to contribute to a more efficient market, sales volume must increase, however.

The Debt Office considers that a deeper evaluation of this product should be made when it has existed for five years.

#### **The potential to increase sales**

In 2004, the Debt Office evaluated government securities. This evaluation is intended to produce an action plan for how Retail Sales of Government Securities can be handled in the coming year. The evaluation is based on analyses of sales and

customer statistics. The Debt Office has also carried out market surveys in the form of questionnaires and interviews with customers.

We consider that it is mainly by reaching out more to companies and organisations that sales of government securities can increase. One way of achieving this is by targeted information and marketing. Small companies and organisations have been neglected to some extent in the savings market. They often end up in the gap between savings forms for private persons and investment alternatives for large institutional investors. Another conclusion is that it is in particular T-bills that customers demand, and that it is there that there is the greatest potential to increase sales.

To summarise, the resources invested in Retail Sales of Government Securities should be focused on the instruments and customer groups where there is the greatest potential for increased sales. Nominal and inflation-linked bonds should, however, remain within the framework of Retail Sales of Government Securities. There may be increased interest in longer maturities if interest rates increase. Inflation-linked bonds are moreover a relatively unknown and complicated savings product, which it can take a long time to establish in a broader sphere of customers.

#### **GOAL FULFILMENT**

The goal for borrowing has been met. Lottery bonds and National Debt Savings generated a cost saving of SEK 112 million in relation to alternative borrowing in the capital market. The cost saving for the five-year period 2000-2004 is SEK 1,277 million.



# CASH MANAGEMENT

The Debt Office provides loans to and accepts deposits from central government agencies, public enterprises and certain government companies. This takes place on market conditions. The Debt Office is also responsible for the central government payment system. This is to make possible efficient and secure payments and provide good service to the agencies and contribute to good state cash management. The deposits and debt management of the Debt Office are based on the deficits and surpluses in agency payments through this system.

GOALS	
	<p>The Debt Office shall:</p> <ul style="list-style-type: none"> <li>• set market conditions for loans and investments to government agencies and some companies; the conditions are to be based on the cost of borrowing in the capital market.</li> <li>• work for the state payment system to make possible efficient payments, to maintain a high level of security, to be adapted to the central government accounting system, to meet the state's need for information, and to be neutral in terms of competition; no bank is to be favoured above any other.</li> <li>• to work for reduced interest expenses in the state.</li> <li>• to offer the agencies good service.</li> <li>• to further develop the central government payment system.</li> </ul> <p>REPORTING REQUIREMENTS</p> <p>The Debt Office is to report:</p> <ul style="list-style-type: none"> <li>• the principles for setting interest rates.</li> <li>• the improvements achieved in qualitative and, if possible, quantitative terms.</li> <li>• the customers' view of the quality of operations and service.</li> <li>• major steps in development work and more important proposals for structural measures and an analysis of the effects of measures.</li> </ul>

## IMPORTANT EVENTS IN 2004

- New framework agreements on payment processing have started to be used.
- New framework agreements for charge cards and purchase cards have been procured.
- New routines have been commissioned for intra-state payments between the Debt Office and the agencies.

## DEPOSITS AND LOANS INCREASED IN 2004

Loans to agencies, public enterprises and certain government-owned companies increased by 7.8 per cent. In the same period, deposits increased by 7.7 per cent. Table 4.1 shows how deposits and loans are distributed to agencies, public enterprises and limited companies and to certain individual customers.

## THE VOLUME OF PAYMENTS INCREASED IN 2004

Six banks process government payments: Swedbank, Nordea, SEB, Den Danske Bank, Svenska Handelsbanken, and Riksbanken. Of these, the state has a framework agreement for payment processing for central government agencies with Swedbank, Nordea and SEB. The other banks are used by agencies, which need banking services which are not included in the framework agreements. Table 4.2 shows the volume of payments by framework agreement banks and other banks.

During 2004, the volume of payments increased by 2 per cent. It is especially payments via the framework agreement banks that have increased. This includes payments of pensions and grants by the National Social Insurance Agency, payments of student support by the Swedish

*The banks have framework agreements on payment processing for government agencies.*



Table 4.1 LOANS AND DEPOSITS, SEK MILLION

	LOANS			DEPOSITS		
	Position 31.12.2004	Change 2004 %		Position 31.12.2004	Change 2004 %	
<i>Public enterprises</i>						
Civil Aviation Administration	5,778	-1,435		0	0	
Swedish Maritime Administration	0	0		615	-7	
Statens Järnvägar	1,443	1,443		3,278	1,723	
Svenska Kraftnät	559	-106		0	0	
Total public enterprises	7,780	-98	-1.2	3,893	1,716	91.0
<i>Limited companies</i>						
A-Train AB	1,000	0		0	0	
Botnia AB	4,880	2,015		0	0	
Jernhusen, SwedCarrier, Green Cargo	1,112	-138		0	0	
Saab	194	44		0	0	
Svedab	3,530	170		0	0	
Svenska Spel AB	0	0		1,550	-150	
Total limited companies	10,716	2,090	22.8	1,550	-150	-7.8
<i>Agencies</i>						
National Rail Administration	12,676	1,773		752	-472	
National Board of Student Aid	129,922	8,418		-26 <sup>4</sup>	29	
Defence Materiel Administration	16,138	1,414		-3,675 <sup>4</sup>	92	
National Fortifications Administration	5,564	415		1,087	149	
Broadcasting Operations	1,018	309		452	218	
Premium Pension Authority	1,697	-40		27,184 <sup>3</sup>	-721	
National Property Board	7,248	1,300		260	31	
National Road Administration	7,576	1,431		3,159	959	
Other agencies	28,322 <sup>1</sup>	-535		49,841 <sup>2</sup>	4,169	
Total limited agencies	210,160	14,485	7.4	79,034	4,455	5.9
Sum total	228,656	16,477	7.8	84,477	6,021	7.7

<sup>1</sup> Loan by the agencies to fixed assets is included at SEK 16.5 billion.

<sup>2</sup> The agencies' net interest account is included at SEK 25.1 billion.

<sup>3</sup> Premium pension funds from the National Social Insurance Agency

<sup>4</sup> Agencies have an interest account with a credit limit.

Table 4.2 PAYMENT VOLUMES, SEK BILLION

	Payment volumes 2003			Payment volumes 2004		
	Total	Change from 2002 %		Total	Change from 2003 %	
Inward payments	2,023	-70	-3	2,074	51	3
<i>Of which:</i>						
Framework agreement banks	1,765	-89	-5	1,804	39	2
Other banks	258	18	7	270	12	5
Disbursements	2,025	-62	-3	2,070	45	2
<i>Of which:</i>						
Framework agreement banks	1,424	-75	-5	1,728	304	21
Other banks	601	13	2	342	-259	-43
Total	4,048	-133	-3	4,144	96	2
<i>Of which:</i>						
Framework agreement banks	3,189	-164	-5	3,532	343	11
Other banks	859	31	4	612	-247	-29

Table 4.3 EXTERNAL AND INTERNAL CENTRAL GOVERNMENT PAYMENTS, SEK BILLION

	2002 *	2003	2004
External payments	2,785	2,851	2,982
Intra-state payments	1,396	1,197	1,162
All payments	4,181	4,048	4,144

\* Figures for 2002 have been corrected for inaccuracies detected during the year.  
The figures therefore differ slightly from the information provided by the Debt Office in the 2002 annual report.

National Board of Student Aid and payments of agricultural support by the Swedish Board of Agriculture. As a consequence of this, there has been a great decrease in payments outside the framework agreement.

Framework agreement banks and the Debt Office are now responsible for 85 per cent of the payment volume. The Debt Office has also processed 11 per cent to/from other banks than framework agreement banks.

The external payments have increased and intra-state payments decreased slightly, see Table 4.3.

## COSTS FOR PAYMENT PROCESSING

### Costs for float no longer occur

As from 1 January 2004, the banks are paid for their services by invoiceable transaction charges instead of by interest on float. The state accordingly no longer has any costs for float in the payment system.



*A survey shows that the agencies are very satisfied with the services and products of the Debt Office.*

### Greatly reduced overnight balance

Despite there no longer being a float, agencies still have overnight balances in their bank accounts, although only to a very small extent, see Table 4.4 which shows two similar months before and after 1 January 2004. The balances that now arise are mainly due to payments being made so late that there is not time to complete them during the day.

As a step in removing payment through float, interest compensation is paid for the balances that remain during the night. In 2004, the framework agreement banks together paid SEK 21 million in interest compensation to the Debt Office.

### The average cost of a central government payment is SEK 1.47.

The total cost for payment processing now depends on

- the number of accounts agencies have at the banks
- the number of central government payments the banks process
- the payment service used by the agency.

Table 4.5 shows a calculation of the average cost in 2004 of a government payment and how it varies according to the bank used.

The fact that the average cost varies greatly between banks is partly due to the price of the payment processing, and how the agencies use the banks' services. Nordea with postal giro is used by many agencies as a "full-service bank"; they use only this bank and its services despite certain services being more expensive than at other banks.

Certain – in particular large agencies – have instead opted to choose more freely among the banks' services and in this way make use of the fact that the banks have profiled themselves on different types of payment services. The National Social Insurance Agency, the National Board of Student Aid and the Tax Agency have done this, for instance. These agencies have

thereby reduced their costs compared with if they had chosen one bank and its payment services.

### Payment cost per agency varies

Some ten large agencies account for over 90 per cent of the number of payments and an almost as large part of the costs of payment processing, see Table 4.6.

The National Social Insurance Agency, the Tax Agency and the National Road Administration order most payments. Payments relate to payment of pensions, allowances and taxes and in-payment of taxes and charges.

Agencies with a lot of employees, for instance, the Armed Forces, the Police, the National

Table 4.4 TOTAL OVERNIGHT BALANCES, SEK BILLION

	October 2003	October 2004
Total balances during the month	88.2	9.2
Maximum remaining balance overnight	38.5	0.9

Table 4.5 COST OF A CENTRAL GOVERNMENT PAYMENT

Framework agreement bank	Number of payments		Cost		Average cost, SEK
	Million	% SEK, million	%	%	
Nordea (incl. Postgirot)	59.2	49.4	126.6	71.8	2.14
Swedbank	38.8	32.4	30.8	17.5	0.80
SEB	21.8	18.2	19.0	10.8	0.87
Total 2004	119.8		176.4		1.47

Table 4.6 COST PER AGENCY FOR A PAYMENT

Agency	Number of payments		Cost		Average cost, SEK
	Million	% SEK, million	%	%	
National Social Insurance Agency	58.2	48.6	64.2	36.4	1.10
Tax Agency	18.3	15.3	44.4	25.2	2.42
National Road Administration	13.6	11.3	19.0	10.8	1.40
Swedish National Board of Student Aid	9.5	7.9	9.1	5.2	0.97
National Government Employee Pensions Board	4.7	3.9	7.9	4.5	1.70
Armed Forces	2.0	1.7	4.0	2.3	1.96
Police	1.5	1.3	3.7	2.1	2.45
National Prison and Probation Administration	0.5	0.4	1.1	0.6	2.46
Lund University	0.4	0.3	1.1	0.6	2.63
National Labour Market Agency	1.0	0.8	1.0	0.6	1.02
Other agencies	10.1	8.5	20.8	11.8	2.05
Total 2004	119.8		176.4		1.47



Prison and Probation Administration and Lund University – have high average costs per payment due to payments of wages and sending-out of wage specifications at SEK 4.90 being a large part of payment processing for these agencies.

#### **Giro cheques especially expensive**

The four most cost-driving bank services – giro cheques, National Social Insurance Agency payments to accounts, the OCR payment service and wage specification – account for 70 per cent of the costs of central government payments, see Table 4.7.

#### **SETTING INTEREST RATES UNCHANGED**

The principles for setting interest rates on deposit and loan accounts are unchanged from previous years.

The Debt Office sets market terms on loans and investments based on the borrowing cost in the capital market. This means that loans and investments are market valued both when newly arranged and in the case of early redemption. The market valuation is based on prices on the second-hand market for T-bills and nominal government bonds.

#### **IMPROVEMENTS ACHIEVED**

##### **New agreements for payment processing**

The transition to new framework agreements from 1 January 2004 has taken place without any greater problems for most agencies.

The biggest single change is that the banks now invoice each agency directly for their services. The payment which the banks previously received through float did not affect the individual agency. The new form of payment has, among other things, led to a reduction in the number of government bank accounts of approximately

1,000 to around 4,200 accounts. Certain agencies also have decided to use other payment services than previously to reduce costs. The Debt Office is continuously attempting to get more agencies to do this. However, in certain cases, agencies first have to adapt their internal systems.

Financially, it can be noted in 2004 that:

- the average cost of a central government payment is SEK 1.47
- the average cost of a payment varies between the banks from SEK 0.80 to SEK 2.14
- the use of giro cheques and despatch of wage specifications leads to high payment costs
- the total government payment to payment processors is SEK 176 million
- some ten agencies account for 90 per cent of this payment.

##### **Improved follow-up of government payments**

The business system, SITS, which the agencies can use to monitor costs for their payments has been further developed during the year. The agencies can now obtain detailed information about bank services used, the number of transactions, payment flows, charges and costs. The cost calculations and other analyses can be made with the aid of a specially developed analytical tool in SITS.

The Debt Office sends outcome information each month to the most payment-intensive agencies and to the Government Offices.

##### **New agreement on charge cards - now also with purchase cards and travel account**

On 30 September, the new government framework agreement for charge cards and purchase cards was signed. Among the new aspects was that these agreements also now include purchase cards and the travel account joint invoicing service.

By using purchase cards agencies can reduce the number of incoming invoices, follow-up and control are improved and cash accounts can be scrapped. In time, the agency can move over to a wholly electronic purchasing process.

##### **Cheaper intra-state payments to and from the Debt Office**

In 2004, a new model for transfers between the accounts of the Debt Office and the agencies has been introduced. The new model automates the

Table 4.7 COST OF DIFFERENT PAYMENT SERVICES

Bank service	No. of payments		Cost		Average cost,
	Million	%	SEK million	%	SEK
Giro cheque	4.2	3.5	47.3	26.8	11.26
National Social Insurance Agency account payments	54.1	45.2	40.9	23.2	0.76
Wage payments including wage specifications	6.5	5.4	17.3	9.8	4.90
OCR payment service	18.6	15.5	16.1	9.1	0.86
Other services	36.4	30.4	54.8	31.1	1.50
<b>Total 2004</b>	<b>119.8</b>		<b>176.4</b>		<b>1.47</b>

processing of loans, investments, and appropriations. To date some 70 agencies have notified their interest and instructed us to make such transfers. The model brings savings since intra-state transactions no longer need to be made as payments via the banks.

The model is being developed at present to enable the agencies to make transfers themselves through a web service between their accounts with us. The business system SIBSYS will then more resemble a web banking system. Work on introducing a security solution for this service has been initiated. It will be completed in 2005.

#### QUALITY AND SERVICE STILL GOOD

The Debt Office carries out an annual customer survey on the view the agencies have of the quality and service of the different services and products provided by the Debt Office. The answers have been weighed together into a total index – a “satisfied customer index”. This totalled 81 (of a maximum of 100) which is a good result.

#### Information and communication

Information, communication and contact activity is important not only to provide the service to agencies that these require. It also provides an opportunity to actively communicate knowledge and experience to influence and stimulate agencies to improve the efficiency of their financial operations. During the year, the Debt Office has therefore, for instance, arranged a number of seminars, the annually recurrent Finance Day and participated in the “National Financial Management Authority (ESV) day” with stands and presentations. The journal *Internbanksnytt* is also used regularly for this purpose including information, changes and ongoing development activities in the field of operations.

#### International assignments

The Debt Office’s knowledge and experience is in demand also by others than the directly affected agencies/customers. We have been asked to in-

form about our activities on a number of occasions nationally and internationally. During the year, for instance, a co-operation agreement was signed with ESV on a project where we will inform staff at the Swedish International Development Cooperation Agency (SIDA) about payment systems, risk management, and liquidity management on location in a number of developing countries.

#### DEVELOPMENT AND PROPOSED MEASURES

##### The service for currency hedging has been developed

The Debt Office has developed the service for currency hedging of foreign payments. The Debt Office does not only take over and handle the agencies’ currency risks but also provides the foreign currency on the due date of the forward contract.

##### Proposals to introduce net accounts in the payment system

The Debt Office has prepared a proposal to enable use of net accounts in government payment activity and that coverage/emptying of agency accounts is to take place with net amounts. A substantial part of the government’s special payment processing requirements has thereby been removed. This facilitates and leads to reduced costs. However, it is not proposed that the requirement for the bank to provide gross information on payments be changed. Some 20 reference agencies have consistently been positive to the proposal.

##### A new way of approving Internet payments

In order to achieve a high level of security in the payment system, services used to send payment information via the Internet are to be approved by the Debt Office. In 2004, we have compiled the requirements the services are required to meet for use. A supplier shall in future be able to check the service himself. The result of the checks are to be reported in a declaration to us. If the requirements are met, we will approve the service.

#### GOAL FULFILMENT

The Debt Office has fulfilled the goal for the Cash Management area of activity in 2004. This has taken place by a number of activities aiming at efficient and cheap state payments and a good government cash balance.





# GUARANTEES AND LOANS

The Debt Office is to issue and manage state guarantee commitments and provide loans with credit risk as mandated by the Riksdag. Guarantee activities are financed by risk-based fees either from guarantee takers or by state subsidies. Viewed over a longer period, the goal is for guarantee indemnification and administration costs to be covered by fees. Guarantee activities are thereby wholly fee-financed unlike our other activities.\*

## GOALS

- The Debt Office shall pursue its guarantee and credit operations efficiently. The management of the state's risk-taking shall continue to be developed and made more efficient.
- By assessing and valuing financial risks, setting charges and conditions, monitoring and collecting claims and other processing, the Debt Office shall ensure that the state's risk in connection with guarantees is limited, that the state's rights are secured and that follow-up and accounting take place.
- Guarantees are to be managed within the framework of the guarantee model. Pricing is to take place on insurance principles. The risk is to be limited and costs for guarantee operations are to correspond to income in the long-term (including appropriation funds).
- The Debt Office is to endeavour to ensure that the guarantee and credit operations of other agencies is pursued efficiently.

## REPORTING REQUIREMENTS

The Debt Office is to report:

- The financial outcome of guarantee operations and an analysis of factors affecting this outcome. The Debt Office shall also present certain information on guarantee operations, see note 57.
- Outstanding loans where a credit risk fee has been charged. In connection with the annual accounts, the Debt Office has submitted a special report on frameworks, outstanding undertakings and loans, etc.

*We have introduced new valuation models and more detailed principles for pricing guarantee conditions and risk follow-up.*

## IMPORTANT EVENTS IN 2004

The size of the anticipated losses in the guarantee portfolio decreased by 27 per cent, mainly due to a more positive development of traffic over the Öresund bridge, the risk buffer that the Nordic Investment Bank introduced and a continued phasing-out of credit guarantees for the housing finance company Venantius.

The value of the credit portfolio is being written down by 19 per cent due to anticipated losses for three of the loans. These credit risks are not dealt with since there are no funds set aside to cover losses when they arise. This again brings to the fore the need for a clearer regulatory framework for the state's external provision of loans.

We have introduced new valuation models and more detailed principles for pricing, guarantee conditions and risk follow-up. During the year, co-ordination has also taken place with the other guarantee and credit agencies.



\* The income statement is reported in Note 1 in the financial section.

## COST COVERAGE IN GUARANTEE OPERATIONS

### Provisions – a measure of the risk in our guarantee commitments

As a measure of the risk in the guarantee undertakings, the Debt Office makes provisions for anticipated losses. These provisions are to be compared with assets on the interest accounts that make up the guarantee reserve. It is this comparison that is intended with the concept cost coverage.

Our ordinary guarantee portfolio<sup>1</sup> of SEK 64 billion consists mainly of a few large items. The Öresund Bridge accounts for approximately 43 per cent of the entire guaranteed amount. From a risk perspective, the portfolio is even more concentrated since the provisions for the Öresund Bridge are more than three-fourths of the total provisions for anticipated losses.

The provisions total SEK 2.4 billion, a reduction of SEK 0.7 billion since 31 December 2003. The present guarantee reserve, i.e. the fees and subsidies that have already been paid in, is SEK 1.6 billion. If you add on the current value of the future fees and subsidies expected to be received (SEK 1.6 billion), the guarantee reserve's assets are SEK 3.2 billion.

Over a long period of time, these assets are to be equally large as the realised losses/costs, i.e. the activity is to break even. The fact that assets today exceed the provisions is due to the guarantee fund not being depleted in recent years by any large indemnifications. Only a handful of minor agricultural and rural guarantees have had to be indemnified.

The balance in the separate guarantee funds for Venantius is SEK 543 million, which exceeds the current provision of SEK 50 million by a broad margin. When the guarantees to Venantius in future are wholly phased out, it will be possible to finally settle this separate reserve.

### The risks in the Öresund Bridge project and new agreements

During autumn 2004, the Debt Office has again evaluated the Öresund Bridge project because

traffic volume and road traffic charges increased more than expected. The new calculations enable us to reduce the provision for anticipated loss from SEK 2.6 to 1.9 billion. However, this does not change the subsidised guarantee fee for the Öresund Bridge consortium, ÖSK. The fees paid to date are only just over a quarter of the provision requirement for the anticipated loss. The guarantee fee is therefore fixed until the end of 2008, when it is to be reviewed.

The calculations are based on a certain order for repayments between the guarantee loan and the Debt Office's loans to Svenska-Danska Broförbindelsen AB, Svedab.

The tripartite agreement between ÖSK and the two guarantors, Denmark's Nationalbank and the Debt Office have been rewritten to clarify certain principle questions of roles, mandate and division of responsibility.

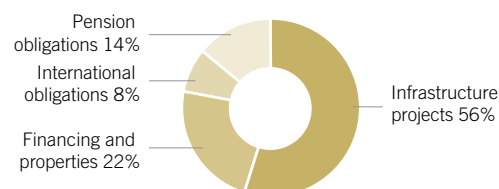
*Our ordinary  
guarantee port-  
folio of SEK 64  
billion consists  
mainly of a few  
large items.*

### New reserve fund reduces the risk in the NIB guarantees

The Nordic countries<sup>2</sup> guarantee the Nordic Investment Bank's (NIB) project investment loans. NIB created a reserve fund during the year, which is to bear the bank's credit losses up to at present EUR 190 million. First thereafter can the state guarantee be invoked, which means that the Debt Office's risk decreases. As a subsidy to NIB, the state has already paid a guarantee fee which has now become too high in relation to the risk in the continued commitment.

Diagram 5.1

GUARANTEES OF SEK 71 BILLION, 31 December 2004



*There is in addition guarantee capital to international financing institutions of SEK 75 billion issued by the Ministry of Finance and the Ministry for Foreign Affairs and a guarantee commitment by the public enterprises of SEK 0.5 billion.*

Table 5.1 UNDERTAKINGS, PROVISIONS AND ASSETS FOR THE TWO  
GUARANTEE RESERVES, 31 DECEMBER 2004, SEK MILLION

	Guarantee undertakings	Provisions for future guarantee losses	Guarantee fees paid	Future still unpaid guarantee fees
The general guarantee reserve	64,107	2,421	1,629	1,579
Guarantee reserve for Venantius	6,515	50	543	0

<sup>1</sup> Excluding the undertaking for SEK 6.5 billion for Venantius which has its own guarantee reserve, and guarantee capital of SEK 75 billion to international financing institutions, for which the Riksdag has decided upon a separate solution from the guarantee model.

<sup>2</sup> The three Baltic states are also members of NIB from 2005.



*New and more efficient routines for follow-up of risks in guarantee and credit activities provide a better overview of the total risks.*

The Debt Office normally does not make any repayments of premiums paid but since the guarantee structure is changed, in such a way that the state's risk is decreased, we have decided to make a part repayment. Since the fee has been paid by the state, the repayment is made to a government income revenue heading. The provision for guarantee losses thus decreases by SEK 73 million to SEK 216 million.

#### **Reduced risk for Venantius guarantees**

Venantius has wound up parts of its loan portfolio and sold its property holdings and the net debt is accordingly smaller. It is therefore less probable that the credit guarantees of SEK 6.5 billion will have to be met. The provision of SEK 300 million from 31 December 2003 has therefore been reduced to SEK 50 million.

### **FINANCIAL RESPONSIBLE HANDLING OF GUARANTEES**

#### **New and changed guarantees**

During the year, the Debt Office has issued a new credit guarantee for Fonden för den mindre skeppsfarten (The Fund for Small Shipping), 19 new guarantees for loan transactions entered into by ÖSK and 29 credit guarantees to Ministry for Foreign Affairs employees in conjunction with re-posting. These undertakings have been managed in accordance with the guarantee model.

A capital coverage guarantee issued by Banverket, the National Rail Administration and the National Road Administration for Svedab has been exempted from the guarantee model by government decision. The Debt Office is accordingly no longer responsible for the guarantee.

#### **Guarantees should be loans at the Debt Office**

The Debt Office has proposed to the Government that the two government-owned companies Stockholmleders and Göteborgs Trafikleders state-guaranteed loans should be replaced by the National Road Administration borrowing directly

from us. The proposal would entail an estimated reduction of the total interest expense in the range of SEK 150 million for these road projects.

#### **New models for risk assessment and new procedures for risk monitoring**

During the year, the models used for risk assessment and pricing have been reviewed, simulation models for some specific commitments produced and a more general tool box developed for risk assessment and pricing. One of the tools is an internal rating model for quantitative assessment of the risk in different companies and projects. Furthermore, a document that deals with a number of policy issues around, inter alia, pricing and guarantee conditions has been produced.

New and more efficient procedures for follow-up of risks in guarantee and credit activities provide a better overview of the total risks.

#### **Continued recovery of claims**

Work on claims for indemnified guarantees has continued and new agreements have been entered into. Since the guarantee model was introduced in 1998, SEK 39 million has been recovered, of which SEK 8 million in 2004. The remaining receivables total SEK 329 million. The possibilities of recovery are, however, small due to poor or no collateral and many of the debtors have a poor ability to pay.

### **LOANS WITH CREDIT RISK**

#### **Need for a new credit model**

The Debt Office has previously recommended that similar principles as those currently applicable to guarantee management are also introduced for management of loans. This means that risk reflecting fees shall also be paid for loans with a credit risk. In this way, the state's total undertakings with a credit risk are to be valued and accounted for and thus handled in a financially responsible way.

One of the principles we recommend is that fees reflecting risk shall also be charged on loans

with a credit risk. In recent years, the Debt Office has charged fees for the credit risk for a number of loans in our portfolio of external credits, although we do not charge any fee of this kind for the older loans. The credit risk fees that are taken out, (SEK 6 million in 2004) are transferred to the central government budget because there is no credit model with a provision for future credit losses. Should a credit loss arise today, there are no appropriations to cover the loss. An exception is the Svedab loan.

A consequence of the absence of a credit model is that decisions can be made on expenditures in the form of subsidised credits without the cost having to be financed at the same time. This will mean that the state risks building up large concealed deficits in its external provision of loans.

#### Large write-down requirement for future credit losses

The Debt Office has loans with a credit risk of SEK 10.7 billion. We have previously reported loans at nominal amounts. In order to comply with the requirements that the current regulatory framework makes, the loans are instead reported as from 2004 at their estimated actual value. This applies mainly to infrastructure objects. Three of the loans need to be written down due to expected credit losses. The total need for provisions exceeds SEK 2 billion, of which the Svedab loan accounts for SEK 1.9 billion.

The two other write-downs of SEK 100 million and 10 million respectively concern two loans each of SEK 1 billion. This concerns a conditional loan to the private company A-Train AB, which operates the Arlanda line and a subordinate loan in relation to other credit providers to the state-owned property company Jernhusen AB.

#### The loan to Svedab is being written down

The Swedish land connections to the Öresund Bridge have been built by Svedab and financed

by loans at the Debt Office. The loan is not amortised but interest is added on, and is at present around SEK 3.5 billion.

Svedab has no activities of its own that generate income but repayment of the loan is dependent on the Öresund Bridge consortium's (ÖSK) future income. The same factors therefore affect the credit risk in the Svedab loan as the risk in the guarantees to ÖSK. Therefore the same calculation method has been used to assess the risks both in the Svedab loan and in the guarantee loan.

A central assumption that affects the valuation result is the order in which the loan is to be repaid. The Debt Office must make an assumption since this has not been agreed between ÖSK and Svedab. Our calculations are based on the Svedab loan starting to be repaid first when the state-guaranteed loan has been redeemed. This is the same assumption on which the calculation of a guarantee fee has been based which is subsidised by state budget appropriations.

On these assumptions, the risk for credit losses in the Svedab loan is very large according to our calculations. The expected repayment is around SEK 1.6 million. This means that the loan needs to be written down by SEK 1.9 billion.

The assumption on which the calculations are based does not necessarily have to be the most credible, although the calculation provides a fair picture of the state's total risk. Should the Svedab loan start to be repaid earlier than or in parallel with the guarantee loan, the risk in the loan decreases, but the risk in the guarantee loan then increases and thus the need for additional guarantee subsidies.

The Debt Office's possible losses on the loan are secured through the previously mentioned capital coverage guarantee and appropriations at



Table 5.2 LOANS WITH CREDIT RISK, 31.12.2004, SEK MILLION

Borrower	Loan framework	Outstanding loan	Write-down for anticipated credit losses
A-Train AB	1,000	1,000	-100
Svedab	3,488 + interest	3,530	-1,900
Botniabanan AB	15,000	4,880	
SJ AB	2,000		
Jernhusen AB	2,000	1,000	-10
Green Cargo AB	300		
Euromaint AB	425		
Swedcarrier AB	425	112	
Saab AB	350	194	
Total		10,716	-2,010



*The need for a new credit model does not only apply to the Debt Office but all agencies which have the right to issue external credits.*

the National Road Administration and the National Rail Administration. However, there are no funds set aside on these appropriations for credit losses which mean that the state as a whole is exposed to a future credit risk. The Debt Office will therefore report the state's need to write-down the loan. This also shows that a state credit model is needed since it would then be clear who is responsible for a loan.

#### **GUARANTEE AND CREDIT MANAGEMENT AT OTHER AGENCIES**

##### **Regulation of the state's external credits**

The need for a new credit model does not only apply to the Debt Office but all agencies which have the right to issue external credits. Our work in recent years to point out the absence of a regulatory framework, the consequences of this and the proposed regulatory frameworks which we have presented, are part of our efforts to work for an efficient state guarantee and credit management.

##### **Common reporting of costs and risk for state credits**

The Debt Office was mandated by the Government in March 2004 to co-ordinate work with the other guarantee agencies to bring about a common reporting of costs and risk for state guarantees. This work is in process and a report will be submitted at the latest by 15 March 2005.

In the appropriation directions for 2005, the Government, based on proposals from the Debt Office, has mandated us to coordinate work with CSN, the National Board of Student Aid, NUTEK, the Business Development Agency, Sida, the International Development Cooperation

Agency, Energimyndigheten, the Energy Agency and ESV, the National Financial Management Authority to achieve a common reporting of costs and risks for state credits. A report is to be made on this commission at the latest by 15 March 2006. Moreover, we are to provide a basis to the Annual Report for the state in 2004 on state credits in the same way as applies today for state guarantees.

##### **Advice and support to other agencies**

The Debt Office provides continuous advice and support to the agencies providing loans and proposes when required changes with a view to achieving a more sounder loan stock.

#### **FACT PANEL**

##### **Proposed new credit model:**

- State provision of loans to be regulated in the Budget Act. The distinction between loans and grants to be established.
- A credit ordinance with approximately the same content as the Guarantee Ordinance should be introduced.
- The number of agencies providing loans should be limited.
- These agencies are to evaluate and set prices on credit risks in lending within their respective area of responsibility.
- The risk reflecting fees are charged and reported on an account to cover future credit losses. If the Riksdag decides that the fee should be subsidised, funds are provided on the state budget.
- The risk in the credits already provided should be valued and priced to make it possible to manage these credits too in the new system.

#### **GOAL FULFILMENT**

The goals for the guarantee activity have been met.  
The goal of efficient credit management is partially met. We have charged fees that reflect the risk for most loans in recent years although there are still lacking principles and a regulatory framework for the state's external provision of loans.



# RISKS AND VULNERABILITY

The Debt Office deals with large risks in management of central government debt. The overall risks are controlled by decisions by the Government, for instance, the annual guideline decision on central government debt management. However, other risks also arise in the Debt Office's ongoing operations. In accordance with the appropriation directions, we describe here how we manage financial and operational risks in the activity and the vulnerability for various kinds of disturbances.

## IMPORTANT EVENTS IN 2004

The Risk Management Department at the Debt Office has been reorganised and is now also responsible for information security. This provides an overall co-ordination of all risks. Information security work has been adapted to an ISO standard. During the year, we have also started to work with

a structured risk management process which will include all risks dealt with at the Debt Office. Market practice is in the process of changing, in particular with respect to the view of operational risks, in connection with new regulatory frameworks coming into effect.

## RISK MANAGEMENT

### GOALS

In addition to what is stated in the Government guidelines, the Debt Office

- endeavours to achieve the best market practice in risk management
- ensures that management of financial and administrative risks complies with the relevant demands placed on legislation for financial companies and in the regulations and general guidelines of Finansinspektionen.

### REPORTING REQUIREMENTS

The Debt Office is to report on the extent of compliance with goals. If a goal is not achieved, the reasons are to be analysed and planned measures for goal compliance described.

### Financial risks

The financial risks consist of market risks and of credit risks.

### Market risks in active management

The permitted level of risk in active foreign currency management is set in terms of Value at Risk (VaR) with supplementary foreign exchange and interest limits. VaR is a risk measure which forecasts possible loss level with a given probability during a definite period. In the active management, VaR may at most amount to SEK 220 million with 95 per cent probability during a day. The VaR limit is intended to limit the total risk level. The supplementary limits are to limit exposures to a given size and currency.

A major evaluation of VaR as controlling limit was carried out during the year. The interest limit proved to be altogether restrictive in relation to the total risk level. The limitation thus reduced the opportunity to achieve the set goal on





*To reduce the credit risk, the Debt Office has, among other things, made agreements on securities.*

the interest market. To achieve a better balance between the supplementary limits and VaR the interest limit was therefore increased by fifty per cent. The currency and VaR limits remained unchanged.

VaR will, given this change, limit the total risk to a higher extent. We have altogether very positive experiences after two years' application of the measure. The model provides a good understanding of the total market risks of the active management and of the collaboration between required return and risk.

#### **Credit risks**

The credit risk is the risk that the Debt Office's counterparty cannot meet its commitments. In the derivative operations, the credit risk arises when the market values of the swaps, forward contracts and options we have entered into develops in a positive direction. We then have a claim on our counterparties. Credit risks also arise in liquidity management when surplus funds are invested in the short-term at banks or in other securities than government securities.

To control the credit risks, the Debt Office has introduced limits for exposure, counterparty

rating and times to maturity on transactions. We have also reached agreement with the majority of derivative counterparties on providing collateral for the risk that we take in relation to them.

#### **Operational risks**

A re-organisation was carried out on 1 March 2004 to co-ordinate the work with all risks managed by the Debt Office, according to which all security work was integrated within the framework of the Debt Office's risk management.

In 2004, we have adapted information security work to the ISO standard 177 99. A proposed information security policy structured in accordance with this standard was completed in December. Guidelines and instructions will be produced in 2005.

Market practice in the field of operational risks is to work continuously in a structured way to identify, evaluate, manage and monitor risk. In the autumn, we have also carried out an overview risk analysis for the operational departments which will serve as the basis for the continued risk work. We intend to produce an annual recurrent procedure covering all steps in the risk management process.

#### GOAL FULFILMENT

The goals of the appropriation directions have been complied with for financial risks (market risks and credit risks). As last year, it has been partly fulfilled for operational risks. The reason is that it is difficult to identify any clearly established market practice and our internal working process is still not sufficiently structured. To achieve the objective, we have initiated an ISO adapted work method for information security during the year and started an annual procedure for risk management which will be further developed during 2005. Moreover, we carefully monitor the change in market practice for operational risks that is now taking place.



*Work in the sphere of collaboration is to reinforce our ability to carry out our assignments in severe situations.*

## SEVERE STRAINS AND THE CIVIL DEFENCE

GOALS	
<p><b>Survey and analysis of vulnerability</b></p> <p>The Debt Office takes part in the area of collaboration for Economic Security (SOES) which the Swedish Emergency Management Agency set up. Work in the sphere of collaboration is to reinforce our ability to carry out our assignments in severe situations.</p>	<p>The objective for the activity Severe strains and the Civil Defence is to make it possible to maintain the basis needs of society even in periods of severe peacetime strain.</p> <p><b>REPORTING REQUIREMENTS</b></p> <p>The Debt Office is to make a report on if, and, if so, to what extent, dependence on electricity, telecommunications and socially important IT systems is a restriction to be able to maintain an acceptable capacity at times of severe peacetime strain and in periods of increased alert. The agency is also to report whether attacks with NBC weapons is such a restriction.</p> <p><b>Activities in 2004</b></p> <ul style="list-style-type: none"> <li>• Surveying of information security in collaboration with National Defence Radio Establishment. The survey led to a number of proposed measures being taken care of in an action plan.</li> <li>• The exchange of knowledge between the Debt Office and a number of other agencies. This activity has contributed to adapting security work to work in the state as a whole.</li> <li>• The risk and vulnerability analysis based on the guidelines of the Emergency Management Agency. A report was made there on dependence on electricity, telecommunications, and socially important IT systems and on key personnel.</li> </ul>
GOAL FULFILMENT	
	<p>The goal has been partly fulfilled. The Debt Office works actively in the field of collaboration. Our representatives have driven forward the main work of producing SOES action plan for the period 2005–2008. An action plan has been produced for the measures we are to take in 2005.</p>



# PERSONNEL AND THE DEVELOPMENT OF EXPERTISE

## GOALS

The Debt Office is to work for a long-term good provision of personnel with the appropriate expertise for the activity.

### REPORTING REQUIREMENTS

The Debt Office is to report:

- the extent to which the goals for the provision of expertise have been met in 2004
- the measures taken
- the goals that apply for the provision of expertise in 2005 and 2006–2007 respectively.

The report shall in the first place focus on the age structure, gender distribution, mobility of the staff and the agency's work to promote ethnic and cultural diversity. The report is to be made for groups of employees within the three categories of expertise, managerial, core and support expertise if appropriate. The goals for the provision of expertise are to have a clear connection to the agency's objectives for the activity, existing supply of expertise and assessment of labour market situation. The goals are to be concrete and able to follow up.

*The Debt Office must be a good employer able to attract, recruit, develop and retain staff.*

### IMPORTANT EVENTS IN 2004

In 2004, the staff interview has been further developed as a tool for the dialogue between managers and staff. The evaluations have shown that it is an appreciated aid for growth and development in the organisation. As an additional component of the goal and valuation work, the executive management have taken part in an extensive management development programme. We have also started a series of diversity seminars.



### GOOD PERSONNEL PROVISION OF UTMOST IMPORTANCE

Expert and knowledgeable staff is the most important prerequisite for efficient operations. The Debt Office must therefore be a good employer able to attract, recruit, develop and retain staff.

#### A long-term recruitment strategy

The recruitment situation remained very good in 2004 although competition will increase when the labour market improves. The demographic development can also be expected to lead to increased competition for staff.

The Debt Office therefore is in the process of developing a long-term strategy for recruitment. This will also take into account the gender and age distribution, diversity, etc.



### Develop and retain by development of careers and expertise

Our ambition is that the Debt Office's staff should be at such a level of expertise and attractive that they are in demand by our competitors although they are so satisfied with their work that they choose to stay. To achieve this, there are to be opportunities for career and development with us both for managers and specialists.

In 2004, the Debt Office invested SEK 17,000 per employee in advanced development of expertise (see Table 6.1). Training consisted predominantly of financial economics and IT. We also arranged a writing course to make simplify language and make it clearer and a course in using the voice in a better way with less strain.

### DEVELOPMENT OF STAFF INTERVIEWS

The collaboration at the workplace is to be characterised by openness, respect and equality. We have therefore continued the goal and valuation work that we started in 2003. The staff interview has been a given a central place in the relationship between manager and staff member. The expertise and feeling of responsibility of each individual staff member is to be made use of and he or she is to experience that there is an opportunity to contribute to develop the Debt Office into a stimulating place of work.

Both parties – managers and staff – are to be made actively responsible for the discussion. All employees have therefore been invited to seminars. The purpose of these was to increase awareness of the shared responsibility for the quality of the staff interviews.

The staff interviews have been evaluated. The experiences have been consistently very positive.

### GOOD MANAGEMENT

As part of the goal and valuation work, all departmental managers have participated in a development programme with the focus on good

*In 2004, the Debt Office invested SEK 17,000 per employee in advanced development of expertise. Training consisted predominantly of financial economics and IT.*

management, the individual as manager and boss and management philosophy and practical management.

Management development will continue in 2005 and also include group managers.

### MORE WOMEN THAN MEN AT THE DEBT OFFICE

The Debt Office had a staff of 144 at the beginning of 2005. 60 per cent of the staff are women and 40 per cent men. 57 per cent of the women and 43 per cent of the men were in executive posts. 68 per cent of staff were university graduates.

### INCREASED PERIOD OF EMPLOYMENT

The average period of employment in 2004 is 9.7 years and the average age 43.5. The corresponding figures for 2003 were 9.1 and 42.4 years. The age distribution is shown in Table 6.2.

### SLIGHT INCREASE IN STAFF MOBILITY

Ten persons left the Debt Office during the year. Seven were newly recruited, of which three were managers and four desk officers/specialists (see Table 6.3 and 6.4). The staff turnover was seven per cent, which is two per cent higher than in 2003.

Table 6.1 TRAINING COSTS 2004, SEK

	Women	Men	Total cost
Language	32,640	4,500	37,140
IT	278,400	302,153	580,553
Economy/finance/auditing	123,886	335,623	459,509
Law	80,163	6,233	86,396
Human Resources	129,175	29,000	158,175
Other	98,035	47,511	145,546
Total	742,298	725,020	1,467,319

Table 6.2 AGE DISTRIBUTION, 2004

	Younger than 30 years	30–49 years	50 years and older
Number	8	89	48





*The Debt Office's environmental work focuses on travel, reuse, paper consumption, energy, equipment and requirements on suppliers to submit a written environment plan.*

Table 6.3 NUMBER OF EMPLOYEES WHO STARTED THEIR EMPLOYMENT, 2000-2004

Personnel group	2000	2001	2002	2003	2004	Total
Managers	–	1	2	2	3	8
Executives/specialists	20	26	12	9	4	71
Assistants/equiv support staff	–	1	4	–	–	5
Total	20	28	18	11	7	84

Table 6.4 NUMBER OF EMPLOYEES WHO LEFT THEIR EMPLOYMENT 2000–2004

Personnel group	2000	2001	2002	2003	2004	Total
Managers	1	1	1	2	1	6
Executives/specialists	20	15	11	2	7	55
Assistants/equiv support staff	5	3	4	3	2	17
Total	26	19	16	7	10	78

Table 6.5 SICK LEAVE

Personnel group	% <sup>1</sup>
Women	5.9
Men	0.6
Employees under the age of 30	0.8
Employees aged 30-49	2.2
Employees aged 50 or older	7.1
Total of all employees	3.8 <sup>2</sup>

<sup>1</sup> The period of absence due to illness/total ordinary time for respective group.

<sup>2</sup> Long-term sick leave of 60 days or more accounted for 75 per cent of the total sick leave.



## WORKING ENVIRONMENT AND KEEPING FIT

The investment in keeping fit and health issues continued in 2004 by a keep-fit hour during working hours and contributions to keep-fit costs. All employees have also undergone health checks during the year. The total absence due to illness at the Debt Office was 3.8 per cent (Table 6.5). The short-term absence was low. The proportion of long-term ill, i.e. those who have been absent 60 days or more, is 75 per cent of the total absence due to illness. All long-term ill are women aged 50 or over. Active rehabilitation was carried out during the year.

## CONTINUED INVESTMENT IN INCREASED DIVERSITY

The Debt Office has initiated active diversity work by seminars in diversity studies with the focus on ethnic discrimination. The seminars will continue in 2005.

## EXTERNAL ENVIRONMENT WORK

The Debt Office's environmental work focuses on travel, reuse, paper consumption, energy, equipment and requirements on suppliers to submit a written environment plan.

## GOAL FULFILMENT

The Debt Office has complied with the goal for provision of expertise for 2004. The planned development of expertise has been carried out. A special focus has been the diversity and equality issues focused on all staff. We have had many applicants for our vacant posts and been able to recruit competent staff. The recruitment situation is also good for 2005. The objectives for the development of expertise in 2005 and 2006–2007 will be worked out when the individual development interviews have been completed and when the survey now taking place of the development of expertise has been completed. The goals will be ready in the first quarter of 2005.

# FINANCIAL REPORT

The Annual Report has been prepared in accordance with the Ordinance on Annual Accounts and Budget Data (SFS 2000:605). The central government debt is reported in accordance with the principles in the Debt Office's report to the Government (Fi2002/2930). This was decided by the Government in the Debt Office's appropriation directions for the 2003 fiscal year. The financial statements consist of the income statement, the balance sheet, appropriation report, funds statement and notes.



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The Income Statement reports all of the Debt Office's expenses and income in summary form. The Balance Sheet reports the Debt Office's assets, liabilities and the agency capital in summary form. The Appropriation Report includes the Debt Office's report in relation to the expenditure appropriations and revenue titles of the state budget. The Funds Statement shows how the activity has been financed and changes in the liquid position of the Debt Office.

*Exceptions from the financial administrative rules*  
Guarantee operations are excepted from the rules in section 23 of the Capital Provision Ordinance (1996:1188) with respect to the procedural provisions in the event of more than 10 per cent's accumulated surplus in the turnover of the fee-

based activities. Guarantee operations and the Cash Management Department are not subject to section 7 of the Fees Ordinance (1992:191) on the obligation to consult on fees.

#### *Rounding-off statistical information*

All figures are rounded off in the annual report according to the customary principle. Sub-totals in tables and formats have not been adjusted to make the total sums match. There can therefore be discrepancies in the total sums when totalling rounded-off sub-totals in tables and formats.

#### *Cut-off date*

The cut-off date, i.e. the date when the current accounts for 2004 were closed was 10 January 2005.



### **Change in accounting principles for central government debt**

As from September 2004, forward contracts in government debt have been reported gross which has affected the distribution between Swedish kronor and foreign currency. However, this does not affect the total size of the debt, the change is of an entirely accounting nature. Comparison figures for 2003 have been adjusted for government debt.

## **ACCOUNTING AND VALUATION PRINCIPLES**

### **Accounting and expenditure-based principles**

The Debt Office applies accounting-based reporting in the income statement. Appropriation accounting takes place in accordance with expenditure-based principles. Since settlement against appropriations takes place on an expenditure basis, there is an accrual effect, which affects the change in capital for the year. A description of the consequences of the different principles for the accounts is presented under the heading Clarification of certain relations in connection with accounting.

### **Loan instruments**

All instruments are valued and reported at their nominal final value. The instruments are reported at the amount to be paid on the due date. Instruments in foreign currency are valued at the exchange rates on closing date.

### **Issue premiums and discounts**

The difference between the liquid amount and the nominal amount on issue consists partly of a premium or discount. If the market interest rate is higher than the coupon rate according to the loan conditions, the loan is issued at a discount, i.e. the lender pays a lower amount than the nominal amount of the bond. And vice versa if the market interest rate is lower than the coupon rate.

The premiums and discounts are entered in the accounts and settled against the appropriation interest on the central government debt in accordance with the expenditure principle. According to the accounting principle, the premiums and discounts are balanced (as a cut-off item) and taken up as revenue or expensed in the income statement, distributed over the time to maturity of the loan.

### **Interest on issue**

Normally, interest payment is also included in the liquid amount. This refers to the period from the most recent interest payment to the time of issue. The interest is taken up as income and settled against the appropriation interest on the central government debt in accordance with the expenditure principle.

### **Realised foreign currency gains and losses**

The difference between liquid amounts and reported liability in repo transactions or when buying back bonds is reported as a realised foreign currency gain or loss.

### **Repurchase agreements (repos)**

The Debt Office carries out transactions with repurchase agreements (repos) in issued loans. Repo transactions carried out in loans issued by the Debt Office increase/decrease current loans under the central government debt. Repo transactions carried out in loans issued by other borrowers are reported as short-term investments and are not included in the central government debt.

### **Buy back of bonds**

The Debt Office buys back bonds in outstanding loans. Buy-backs of bonds belonging to loans issued by the Debt Office are treated as early amortisation and therefore reduce current loans under the central government debt.

Lottery bonds bought back are reported, however, as fixed assets until redemption takes place.

### **Overnight loans**

The Debt Office borrows in the overnight loan market to handle short-term changes in the borrowing requirement. Overnight loans are reported under the central government debt.

### **Valuation of receivables and liabilities in foreign currency, etc.**

Receivables and liabilities in foreign currency are valued at the exchange rates on closing date. See also unrealised exchange rate changes below.

### **Unrealised exchange rate changes**

Reported unrealised exchange rate changes refer to the difference between book acquisition

value for the liability (in foreign currency) which is reported in Swedish kronor and the valuation made at current exchange rates. The unrealised exchange rate change is included in the central government debt. The change in the valuation of the foreign exchange debt is reported in the Income Statement.

#### **Realised exchange rate changes**

When a liability or receivable in foreign currency falls due for payment, the difference is reported between the book acquisition value for the liability (in Swedish kronor) and the payment as a realised exchange rate change in the Income Statement.

#### **Tangible fixed assets**

Fixed assets are recorded at acquisition value and depreciated on a linear basis at 3, 5 or 10 years based on their economic lifetime. The total acquisition value of the investment is also to exceed SEK 10,000 to be reported as a fixed asset.

#### **Intangible fixed assets**

Development costs which are of substantial value for the Debt Office's operations in future years are reported as intangible fixed assets. During the year, costs in two major projects have been reported as intangible fixed assets.

#### **Valuation of other receivables and liabilities**

Other receivables and liabilities i.e. other asset and liability items than those described above are reported at their acquisition value. Receivables are taken up at the amount expected to be received.

#### **Funds Statement**

The Funds Statement complies with the format pursuant to the Annual Accounts and Budget Data Ordinance adapted to the operations of the Debt Office. In the Funds Statement for the Debt Office, certain flows are reported in accordance with what is known as the indirect method, which means that the cash flow is produced by all income and expenses according to the Income Statement being corrected for changes of receivables and liabilities. Certain actual payments are reported according to the direct method, for instance, interest on central government debt. The

Funds Statement can therefore not be directly reconciled with the items in the Income Statement and changes in the balance items.

#### **Trade date accounting**

The Debt Office applies trade date accounting. This means that transactions affect the reported government debt on the trade date, i.e. when a contract has been entered into and not when payment takes place.

#### **Internal receivables and liabilities**

Receivables and liabilities in relation to the Cash Management Department at the Debt Office, which manages the interest-bearing accounts and loans for fixed assets of all agencies (including the Debt Office), have not been eliminated. This principle has been applied since 1999 and means that information on the Debt Office's own interest-bearing accounts and loans to fixed assets is transparent in the annual report (see Notes 15, 22 and 27).

### **CLARIFICATIONS OF CERTAIN RELATIONS IN THE ACCOUNTS**

#### **Two accounting principles – cost-based and expenditure-based**

The accounting principle that expenditure and income are settled against appropriations means that accruals on a cost accounting basis, such as unrealised exchange rate differences, accrued interest expense etc. are not settled against appropriations. See Costs and funding in the Income Statement.

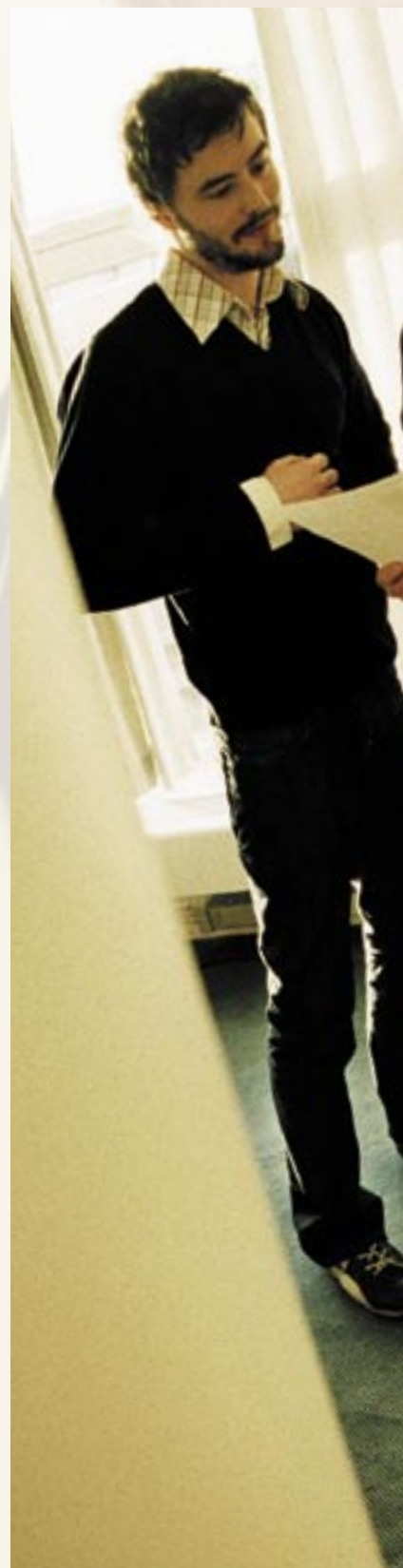
#### **Cash accounting principle**

There is also a third principle which is central for the Debt Office namely the cash principle. The borrowing requirement is produced in accordance with cash-based principles. The outcome of the appropriation Interest on the central government debt therefore differs between the presentations of appropriation accounting and the borrowing requirement.

# INCOME STATEMENT (NOTE 1)

SEK thousand	Note	31.12.2004	31.12.2003
<b>Operating income</b>			
Income from appropriations		54,033,906	41,676,593
Income from appropriations for guarantee subsidies		71,400	1,400
Income from guarantee issuance and loan fees		198,520	293,225
Income from fees and other compensation	2	47	25
Interest income, interest-bearing account etc.		48,336	64,853
<b>Total operating income</b>		<b>54,352,208</b>	<b>42,036,096</b>
<b>Operating expenses</b>			
<b>Financial expenses for central government debt management</b>			
Interest expense	3	-78,989,411	-82,981,717
Interest income	3	35,746,049	39,739,599
Issue premiums/discounts	4	8,653,877	3,432,498
Realised price changes	5	-13,480,016	-3,810,903
Realised exchange rate changes	6	-5,106,432	-4,366,264
Unrealised exchange rate changes	6	9,617,207	18,465,431
Expired bonds, coupons and prizes reported as income		6,742	13,033
Commission fees/fees for bonds		0	14
Commission to banks, etc.	7	-125,034	-156,111
<b>Total</b>		<b>-43,677,017</b>	<b>-29,664,421</b>
<b>Other operating expenses</b>			
Employee expenses	8	-85,899	-88,383
Costs of premises		-15,991	-16,569
Revaluation of loans with credit risk		-2,010,000	0
Reappraisals of guarantee claims		362	9,272
Repayment of subsidised guarantee fees		-73,074	0
Provisions for future guarantee losses	9	930,800	1,939,700
Expenses for indemnification of guarantee subsidy		-71,400	-1,400
Other operating expenses	10	-157,207	-127,840
Interest expense		-306	-329
Depreciation	13	-5,474	-5,227
<b>Total</b>		<b>-1,488,189</b>	<b>1,709,224</b>
<b>Total operating expenses</b>		<b>-45,165,207</b>	<b>-27,955,197</b>
<b>Revenue collection work</b>			
Income from fees etc. and other income not at the disposal of agencies		15,942	-51,829
Income from revenue collection		3,750,000	3,300,244
Funds paid to the state budget from revenue collection work		-3,765,624	-3,316,974
<b>Total revenue collection work</b>		<b>318</b>	<b>-68,559</b>
<b>Change in capital for the period</b>	<b>11</b>	<b>9,187,320</b>	<b>14,012,340</b>

Comparison figures for the items income from appropriations, income from appropriations for guarantee subsidies and income from fees etc. not at the disposal of agencies have been adjusted. Other adjustments will be commented on in a note.





# BALANCE SHEET

SEK thousand	Note	31.12.2004	31.12.2003
<b>ASSETS</b>			
<b>Intangible fixed assets</b>		<b>5,791</b>	<b>1,265</b>
Capitalised development work expenditures	12	5,791	1,265
<b>Tangible fixed assets</b>		<b>20,539</b>	<b>13,918</b>
Machinery, equipment, fixtures etc	13	20,539	13,918
<b>Financial fixed assets</b>		<b>229,301,493</b>	<b>218,631,855</b>
Other long-term holdings of securities	14	2,654,888	6,369,121
Long-term receivables from other agencies	15	217,812,555	203,523,009
Other long-term receivables	16	8,834,050	8,739,726
<b>Receivables</b>		<b>3,760,782</b>	<b>6,062,775</b>
Accounts receivable	17	4,354	111,714
Receivables from other agencies	18	1,780,951	1,726,913
Other receivables	19	1,975,477	4,224,149
<b>Cut-off items</b>		<b>22,589,881</b>	<b>25,807,870</b>
Prepaid expenses	20	12,175,235	15,114,908
Miscellaneous accrued income	21	10,414,646	10,692,961
<b>Settlement with the government</b>		<b>1,110,924,103</b>	<b>1,066,338,419</b>
Settlement with the government	22	1,110,924,103	1,066,338,419
<b>Short-term investments</b>		<b>0</b>	<b>7,469,000</b>
Securities and participations		0	7,469,000
<b>Cash and bank</b>		<b>2,243,719</b>	<b>2,098,404</b>
Cash and bank	23	2,243,719	2,098,404
<b>TOTAL ASSETS</b>		<b>1,368,846,307</b>	<b>1,326,423,506</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Agency capital</b>		<b>-47,134,652</b>	<b>-55,272,080</b>
State capital	24	2,718,557	3,768,449
Change in capital brought forward	25	-59,040,529	-73,052,869
Change in capital according to income statement	11	9,187,320	14,012,340
<b>Allocations</b>		<b>2,471,000</b>	<b>3,401,800</b>
Provision for future guarantee losses	9	2,471,000	3,401,800
<b>Central government debt</b>	<b>26</b>	<b>1,257,335,335</b>	<b>1,228,835,218</b>
Borrowing in Swedish kronor		956,339,790	897,915,100
Borrowing in foreign currencies		300,995,545	330,920,118
<b>Liabilities etc</b>		<b>106,517,738</b>	<b>94,000,402</b>
Liabilities to other agencies	27	83,174,673	76,792,518
Trade creditors		26,576	23,252
Other liabilities	28	23,316,488	17,184,632
<b>Cut-off items</b>		<b>49,656,887</b>	<b>55,458,166</b>
Accrued expenses	29	25,950,903	30,801,226
Other deferred income	30	23,705,984	24,656,939
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>1,368,846,307</b>	<b>1,326,423,506</b>
<b>Contingent liabilities</b>			
Guarantee commitments without provisions for future guarantee losses	31	76,883,984	85,230,416
Debt instruments	32	5,856,213	7,381,787
Registered savings and lottery bonds	33	1,400	1,478





# FUNDS STATEMENT

The Funds Statement shows how operations have been funded and changes in the Debt Office's liquid position.

SEK thousand	2004	2003
<b>Operations</b>		
<b>Expenses</b>		
Interest on central government debt, etc.	-114,144,724	-113,405,510
Administration expenses	-456,180	-430,674
Redemption of guarantees	-969	-2,463
Guarantee subsidies	-71,400	-1,400
EU fees	-26,054,600	-24,347,715
	<b>-140,727,875</b>	<b>-138,187,762</b>
<b>Funding by income and fees</b>		
Interest on central government debt, etc	61,465,043	76,081,941
Recovered guarantees	7,700	7,438
Fees and interest income, Guarantee and loans	246,278	356,884
Other income	625	1,218
EU fees from agencies	26,876,308	18,463,997
	<b>88,595,954</b>	<b>94,911,477</b>
<b>Funding from state budget</b>		
Appropriation funds received for operations	54,100,604	41,672,480
Funds transferred to income headings from operations		-68,560
Increase (+)/decrease (-) in state capital	-1,049,892	719,334
	<b>53,050,712</b>	<b>42,323,254</b>
<b>Funding by debt allocations</b>		
Increase (+)/decrease (-) in current receivables	1,256,777	-1,290,189
Increase (+)/decrease (-) in current liabilities	4,919,545	-796,691
	<b>6,176,322</b>	<b>-2,086,880</b>
<b>Cash flow from operations</b>	<b>7,095,113</b>	<b>-3,039,911</b>
<b>Investing activities</b>		
<b>Investments in</b>		
- tangible fixed assets	-12,095	-10,185
- intangible fixed assets	-4,526	-1,265
	<b>-16,621</b>	<b>-11,450</b>
<b>Funding</b>		
Loans from the Debt Office	579	7,757
- amortisations	-4,702	-5,513
Appropriations received for amortisations	4,702	5,513
	<b>579</b>	<b>7,757</b>
<b>Cash flow to investing activities</b>	<b>-16,042</b>	<b>-3,692</b>



continued from previous page

SEK thousand	2004	2003
<b>Loan operations</b>		
Coverage of deficits in Government cheque account	-36,237,655	-27,901,854
Reduction (+) of interest account balances	29,169,057	25,387,243
<b>Deposits and loans</b>		
Reduction (-) of deposits	5,941,268	4,338,790
Increase (+) of loans	-16,393,871	-16,672,799
	-10,452,603	-12,334,009
<b>Funding by borrowing</b>		
Increase (+)/decrease (-) of deposits		
- government bond loans	55,586,829	54,760,488
- T-bills	-1,770,469	19,718,496
- overnight loans	3,192,000	-4,926,000
- lottery bonds	-500,000	-2,200,000
- National Savings Account	-40,462	-17,205
- National Debt Savings	1,645,051	2,169,796
<b>Borrowing in Swedish kronor</b>	<b>58,112,949</b>	<b>69,505,575</b>
<b>Borrowing in foreign currency</b>	<b>-29,612,833</b>	<b>-44,898,250</b>
<b>Funding through debt dispositions</b>		
Increase (-)/decrease (+) of		
- bonds bought back	73,883	546,662
- housing bonds	3,640,350	12,706,814
- overnight loans and investments	7,469,000	-7,469,000
Increase (+)/decrease (-) of		
- debt management instruments	13,498	-2,057
- other current liabilities	-429,445	2,252,440
	10,767,285	8,034,859
<b>Effect of exchange rate changes</b>	<b>9,658,837</b>	<b>17,711,683</b>
<b>Cash flow from loan operations</b>	<b>31,405,038</b>	<b>35,505,247</b>
<b>Revenue collection work</b>		
Income from fees etc. and other income which is not at the disposal of the agency	15,942	16,731
Revenue received	3,750,000	3,300,244
Change in current receivables and liabilities	-317	-2
Revenue collection in-payments	-3,765,624	-3,316,974
<b>Cash flow from revenue collection work</b>	<b>0</b>	<b>0</b>
<b>Change in liquid assets</b>	<b>38,484,109</b>	<b>32,461,643</b>
<b>Specification liquid assets</b>		
<b>Liquid assets on 1 January</b>	<b>33,511,622</b>	<b>1,049,978</b>
Increase (+)/decrease (-) of		
- cash and postal giro	-19,433	-265,780
- interest account balance	156,674	204,129
- bank balances	8,073	-72,840
Increase (+)/decrease (-) of		
- receivable to state	38,338,794	32,596,135
<b>Change in liquid funds</b>	<b>38,484,109</b>	<b>32,461,643</b>
<b>Liquid funds on 31 December</b>	<b>71 995,731</b>	<b>33,511,622</b>



# APPROPRIATION ACCOUNT

The Appropriation Account contains an account and specification of the outcome of the income titles and appropriations on the state budget that the Debt Office has had at its disposal during the fiscal year.

## Accounting against the state budget income titles (SEK thousand)

Income title	Designation	Outcome, 31 Dec. 2004
2124	Surplus from the Debt Office's guarantee operations paid in	6,354
2153	Surplus from AB Svenska Spel paid in	3,676,926
2557	Fees at Cash Management Department at Debt Office	9,270
2811 12	Repayment of guarantee fees from Nordic Investment Bank	73,074
<b>Total</b>		<b>3,765,624</b>

## Accounting against the state budget appropriations (SEK thousand)

Appropriation		Opening transfer amount	Appropriation for the year according to appropriation directions	Redisposed appropriation amounts	Total disposable amount	Expenditure	Balance 31 Dec. 2004
26 92:1	Interest on central government debt <sup>1</sup>		47,534,000		47,534,000	-52,596,424	-5,062,424
26 92:3	Commission charges in connection with borrowing and debt management <sup>1</sup>		140,000		140,000	-120,743	19,257
2 2:3	Debt Office:						
	Administration expenses, appropriation item 1	23,720	261,336	-18,210	266,846	-266,846	0
	appropriation item 2	-1,006		1,006	0	0	0
	appropriation item 3, at the disposal of the Government			17,204	17,204	0	17,204
<b>Guarantee operations</b>							
2 2:5	Inputs in international financing institutions, item 2						
2 2:6	Provisions for guarantee operations, appropriation item 2		1,400		1,400	-1,400	0
22 36:4	National Rail Administration: Track maintenance and sector tasks, item 6		70,000		70,000	-70,000	0
<b>Total</b>		<b>22,715</b>	<b>48,006,736</b>	<b>0</b>	<b>48,029,450</b>	<b>-53,055,414</b>	<b>-5,025,963</b>

<sup>1</sup> The Debt Office has the right to exceed the appropriation. The appropriation is not subject to the expenditure ceiling. Any unused funds may not be carried forward to the following fiscal year.

According to the appropriation account, the total appropriation charge is SEK 53,055.4 million. According to the income statement, net income from appropriations is SEK 54,105.3 million, a difference of SEK 1,049.09 million. The difference is explained by appropriation income for deposits for futures being reported against state capital. See also Note 24 State capital.

Credit risk fees with deduction for administrative expenses are paid to income title 2124 Surpluses from the Debt Office's guarantee operations paid in and are included in the Debt Office's income statement in the section on collection.

## Interest on central government debt (appropriation 26 92:1)

	31.12.2004
Central government debt management, interest on loans in Swedish kronor	-40,688,459
Central government debt management, interest on loans in foreign currency	-11,515,487
Cash Management Department, interest on deposits and loans	6,993,154
<b>Total</b>	<b>-45,210,792</b>
Central government debt management, issue premiums/discounts	10,144,182
Exchange rate fluctuations	-5,106,432
Price changes	-13,480,016
Central government debt management, deposits	1,049,892
Central government debt management, prescribed bonds and coupons	6,742
<b>Total</b>	<b>-7,385,632</b>
<b>Total interest etc. settled against appropriation</b>	<b>-52,596,424</b>



# NOTES

(SEK THOUSAND)

## NOTE 1 ■ INCOME STATEMENT PER BRANCH OF OPERATIONS

	Borrowing and central governm. debt management	Analysis of central governm. debtmanagement	Cash Management Department	Guarantees	Loans	Debt Office
<b>Operating income</b>						
Income from appropriations	61,090,668	13,112	-7,069,874			54,033,906
Income from appropriations for guarantee subsidies <sup>1</sup>	0					71,400
Income from fees from guarantees and loans <sup>2</sup>	0	0	0	196,070	2,450	198,520
Income from fees and other payments	29	5	12	1		47
Interest income interest-bearing account	424	29	125	47,746	11	48,336
<b>Total operating income</b>	<b>61,091,121</b>	<b>13,146</b>	<b>-7,069,737</b>	<b>243,817</b>	<b>2,461</b>	<b>54,352,208</b>
<b>Operating expenses</b>						
<b>Financial expenses for management of government debt</b>						
Interest expense	-77,378,910		-1,610,501			-78,989,411
Interest income	27,044,638		8,701,412			35,746,049
Issue premiums/discounts	8,653,877		0			8,653,877
Realised price losses	-13,595,596		115,580			-13,480,016
Realised foreign currency fluctuations	-5,105,670		-762			-5,106,432
Unrealised foreign currency fluctuations	9,630,705		-13,498			9,617,207
Prescribed bonds, coupons and profits taken up as income	6,742		0			6,742
Commissions to banks, etc.	-125,034		0			-125,034
<b>Total</b>	<b>-50,869,248</b>	<b>0</b>	<b>7,192,231</b>	<b>0</b>	<b>0</b>	<b>-43,677,017</b>
<b>Other operating expenses</b>						
Personnel costs	-48,238	-7,419	-16,295	-12,682	-1,266	-85,899
Costs of premises	-8,687	-1,275	-3,145	-2,622	-262	-15,991
Revaluation of loans with credit risk	0	0	0	0	-2,010,000	-2,010,000
Reappraisals of guarantee claims	0	0	0	362		362
Repayment of subsidised guarantee fees				-73,074		-73,074
Provision for future guarantee losses	0	0	0	930,800		930,800
Costs for payment of guarantee subsidies <sup>1</sup>	0	0	0	0	0	-71,400
Other operating expense	-125,989	-4,370	-17,398	-8,592	-858	-157,207
Interest expenses	-196	-8	-57	-42	-4	-306
Depreciation	-3,586	-73	-1,026	-718	-72	-5,474
<b>Total</b>	<b>-186,695</b>	<b>-13,146</b>	<b>-37,919</b>	<b>833,432</b>	<b>-2,012,462</b>	<b>-1,488,189</b>
<b>Total operating expenses</b>	<b>-51,055,943</b>	<b>-13,146</b>	<b>7,154,312</b>	<b>833,432</b>	<b>-2,012,462</b>	<b>-45,165,207</b>
<b>Collection work</b>						
Income from fees etc. which are not at the disposal of the agency			9,204		6,738	15,942
Income from collection	3,750,000		0			3,750,000
Funds supplied to the state budget from collection work	-3,750,000		-9,270		-6,354	-3,765,624
<b>Total collection work</b>	<b>0</b>	<b>0</b>	<b>-66</b>		<b>384</b>	<b>318</b>
<b>Change in capital for the year</b>	<b>10,035,178</b>	<b>0</b>	<b>84,509</b>	<b>1,077,249</b>	<b>-2,009,617</b>	<b>9,187,320</b>

<sup>1</sup> Refers to guarantee subsidies from appropriations that the Debt Office has at its disposal. The amount can be found as income from appropriation, and as expense for payment, the agency's result is not affected. The subsidy is paid to the guarantee reserve (guarantee interest account) and is reported in guarantee operations as income from fees from guarantees and loans, with an effect on the result.

<sup>2</sup> Of which 156,262 refers to subsidised fees from the state budget. In 2004, 141,400 has been paid in, the rest has been paid in in previous years but relates to 2004.

## NOTE 2 ■ INCOME FROM FEES AND OTHER PAYMENTS

	2004	2003
Sales income, prize lists	11	12
Fees for prize searches	15	13
Fees for copying	6	0
Other management fees	15	0
<b>Total</b>	<b>47</b>	<b>25</b>

Income from fees pursuant to section 4 of the Fees Ordinance totalled SEK 41,000. Fees for copying pursuant to section 15 of the Fees Ordinance totalled SEK 6,000.

The items sales of prize lists and Fees for prize searches relate to central government debt management, retail market borrowing.





NOTE 3 ■ INTEREST EXPENSE AND INTEREST INCOME

	2004	2003
<b>Realised interest expense/income</b>		
<b>Central government debt management, Institutional borrowing</b>		
Interest expense in Swedish kronor	-53,299,068	-50,968,259
Interest income in Swedish kronor	14,124,201	14,579,329
	<b>-39,174,868</b>	<b>-36,388,930</b>
Interest expense in foreign currency	-24,790,506	-33,323,202
Interest income in foreign currency	13,374,778	17,175,570
	<b>-11,415,728</b>	<b>-16,147,632</b>
<b>Central government debt management, retail market borrowing</b>		
Interest expense in Swedish kronor	-1,634,899	-1,888,824
Interest income in Swedish kronor	21,552	43,448
	<b>-1,613,347</b>	<b>-1,845,376</b>
<b>Cash Management Department</b>		
Interest expense in Swedish kronor	-10,249	-8,291
Interest expense in Swedish kronor, intra-state	-1,490,531	-1,768,935
Interest income in Swedish kronor	374,878	454,070
Interest income in Swedish kronor, intra-state	8 119 052	8,154,688
	<b>6,993,150</b>	<b>6,831,532</b>
<b>Realised interest expense/income (92:1)</b>	<b>-45,210,792</b>	<b>-47,550,406</b>
<b>Unrealised interest expense/income</b>		
<b>Central government debt management, Institutional borrowing</b>		
Interest expense in Swedish kronor	822,069	588,024
Interest income in Swedish kronor	286,513	365,419
	<b>1,108,582</b>	<b>953,443</b>
Interest expense in foreign currency	1,466,963	4,625,650
Interest income in foreign currency	-761,007	-1,180,460
	<b>705,956</b>	<b>3,445,191</b>
<b>Central government debt management, retail market borrowing</b>		
Interest expense in Swedish kronor	56,531	-139,590
Interest income in Swedish kronor	-1,400	-3,282
	<b>55,132</b>	<b>-142,872</b>
<b>Cash Management Department</b>		
Interest expense in Swedish kronor, intra-state	28,738	-98,291
Interest income in Swedish kronor	37,595	1,480
Interest income in Swedish kronor, intra-state	31,421	149,337
	<b>97,754</b>	<b>52,526</b>
Interest expense in foreign currency	-138,459	0
Interest income in foreign currency	138,466	0
	<b>7</b>	<b>0</b>
<b>Unrealised interest expense/income</b>	<b>1,967,431</b>	<b>4,308,288</b>
<b>Total interest expense</b>	<b>-78,989,411</b>	<b>-82,981,717</b>
<b>Total interest income</b>	<b>35,746,049</b>	<b>39,739,599</b>
<b>Total interest expense/income</b>	<b>-43,243,361</b>	<b>-43,242,118</b>

Comparison figures have been adjusted. The accruals of lottery bonds have been moved to Note 10 Other operating expenses under selling expenses, retail market borrowing.

NOTE 4 ■ ISSUE PREMIUMS/DISCOUNTS

	2004	2003
<b>Realised premiums/discounts</b>		
<b>Central government debt management, Institutional borrowing</b>		
Premiums in Swedish kronor	10,398,815	14,571,915
Discounts in Swedish kronor	-226,198	-77,464
	<b>10,172,617</b>	<b>14,494,450</b>
Premiums in foreign currency	57,181	37,122
Discounts in foreign currency	-85,616	-78,539
	<b>-28,435</b>	<b>-41,417</b>
<b>Total realised premiums/discounts (92:1)</b>	<b>10,144,182</b>	<b>14,453,034</b>
<b>Unrealised premiums/discounts</b>		
<b>Central government debt management Institutional borrowing</b>		
Premiums in Swedish kronor	868,343	-8,691,445
Discounts in Swedish kronor	-2,348,901	-2,343,430
	<b>-1,480,558</b>	<b>-11,034,875</b>
Premiums in foreign currency	26,275	111,985
Discounts in foreign currency	-38,456	-96,704
	<b>-12,181</b>	<b>15,281</b>
<b>Central government debt management Retail market borrowing</b>		
Premiums in Swedish kronor	2,434	406
Discounts in Swedish kronor	0	-1,348
	<b>2,434</b>	<b>-942</b>
<b>Total unrealised premiums/discounts</b>	<b>-1,490,305</b>	<b>-11,020,536</b>
<b>Total issue premiums/discounts</b>	<b>8,653,877</b>	<b>3,432,498</b>

Premiums and discounts that arise at the time of issue are balanced in the balance sheet and accrued in the income statement over the time to maturity of the loan.

NOTE 5 ■ REALISED PRICE CHANGES

	2004	2003
<b>Central government debt management Institutional borrowing</b>		
Realised price profits in Swedish kronor	52	4
Realised price losses in Swedish kronor	-10,408,957	-3,727,838
	<b>-10,408,905</b>	<b>-3,727,834</b>
Realised price profits in foreign currency	3,344,884	5,518,447
Realised price losses in foreign currency	-6,525,440	-5,619,493
	<b>-3,180,557</b>	<b>-101,046</b>
<b>Central government debt management Retail market borrowing</b>		
Realised price profits in Swedish kronor	596	885
Realised price losses in Swedish kronor	-6,730	-6,605
	<b>-6,134</b>	<b>-5,719</b>
<b>Cash Management Department</b>		
Realised price profits in Swedish kronor, intrastate	115,886	24,418
	<b>115,886</b>	<b>24,418</b>
Realised price losses in foreign currency, intrastate	-306	-722
	<b>-306</b>	<b>-722</b>
<b>Realised price changes (92:1)</b>	<b>-13,480,016</b>	<b>-3,810,903</b>

NOTE 6 ■ EXCHANGE RATE FLUCTUATIONS

	2004	2003
<b>Realised exchange rate fluctuations</b>		
<b>Central government debt management, Institutional borrowing</b>		
Realised foreign currency gains in foreign loans	616,969	255,151
Realised foreign currency losses in foreign loans	-381,186	-2,967,344
	<b>235,783</b>	<b>-2,712,193</b>
Realised foreign currency gains in debt management instruments	9,229,101	15,180,298
Realised foreign currency losses in debt management instruments	-14,570,555	-16,832,115
	<b>-5,341,454</b>	<b>-1,651,817</b>
<b>Cash Management Department</b>		
Realised foreign currency losses in foreign loans	-762	-2,257
Realised foreign currency gains in debt management instruments	0	3
	<b>-762</b>	<b>-2,254</b>
<b>Realised exchange rate fluctuations (92:1)</b>	<b>-5,106,432</b>	<b>-4,366,264</b>
<b>Unrealised exchange rate fluctuations</b>		
<b>Central government debt management, Institutional borrowing</b>		
Unrealised exchange rate fluctuations in foreign loans	4,488,282	14,848,384
	<b>4,488,282</b>	<b>14,848,384</b>
Unrealised exchange rate fluctuations in debt instruments	5,142,423	3,614,990
	<b>5,142,423</b>	<b>3,614,990</b>
<b>Cash Management Department</b>		
Unrealised exchange rate fluctuations in debt instruments	-13,498	2,057
<b>Unrealised exchange rate fluctuations</b>	<b>9,617,207</b>	<b>18,465,431</b>
<b>Total exchange rate fluctuations</b>	<b>4,510,775</b>	<b>14,099,167</b>

The unrealised exchange rate changes have arisen on revaluation of the Debt Office's liabilities and receivables in foreign currency. In addition to the central government debt and debt management instruments (primarily forward contracts and swaps), these are receivables and liabilities, such as foreign currency accounts and investment of funds according to CSA agreements (Credit Support Annex), which have been revalued.

The following table describes the distribution of the total unrealised exchange rate fluctuations on the central government debt and other items. Central government debt accounted for SEK 9,442.1 million of the change in foreign currency valuation for the year of SEK 9,617.2 million.

SEK million	Opening balance	Closing balance	Income statement
Central government debt (Note 26)	5,920.5	15,362.6	9,442.1
Other items <sup>1</sup>	-2,627.7	-2,452.6	175.1
<b>Total</b>	<b>3,292.8</b>	<b>12,910.0</b>	<b>9,617.2</b>

<sup>1</sup> The foreign currency account (Note 23), CSA agreements and options, premiums (Notes 19 and 28), deposits, futures (Note 19).

NOTE 7 ■ COMMISSIONS TO BANKS, ETC.

	2004	2003
<b>Central government debt management, Institutional borrowing</b>		
Sales commissions	-49,440	-46,591
Broker commissions	-14,167	-26,013
Management commissions	-13,063	-11,041
Redemption commissions	1,852	-10,529
<b>Total (92:3)</b>	<b>-74,818</b>	<b>-94,173</b>
Fee for overnight limit in ERIX	-1,390	-1,385
Fee for overnight limit in PG/Nordea	-2,900	-2,900
<b>Total (2:3)</b>	<b>-4,290</b>	<b>-4,285</b>
<b>Central government debt management</b>		
Retail market borrowing	-39,045	-46,079
Sales commissions	-498	-1,007
Profit payment commissions	-5,133	-9,816
Redemption commissions	-1,250	-750
<b>Total (92:3)</b>	<b>-45,926</b>	<b>-57,652</b>
<b>Total</b>	<b>-125,034</b>	<b>-156,111</b>

NOTE 8 ■ EMPLOYEE EXPENSES

	2004	2003
Wages, fees and social security contributions	-81,505	-83,216
Training	-2,048	-1,973
Other employee expenses	-2,346	-3,194
<b>Total</b>	<b>-85,899</b>	<b>-88,383</b>

The wage costs totalled SEK 53.4 million in 2004 (SEK 51.0 million in 2003).

NOTE 9 ■ PROVISION FOR FUTURE GUARANTEE LOSSES

	31.12.2004	31.12.2003
<b>Opening balance</b>	<b>3,401,800</b>	<b>5,341,500</b>
Provision in the period for future guarantee losses	-930,800	-1,939,700
- of which provision for guarantees excluding Venantius	-680,800	99,000
- of which provision for Venantius	-250,000	-2,038,700
<b>Closing balance</b>	<b>2,471,000</b>	<b>3,401,800</b>
- of which guarantees, excluding Venantius	2,421,000	3,101,800
- of which Venantius	50,000	300,000

The provisions are based on the risk assessment made when setting premiums for guarantees for the new guarantee model and more recent adjustments of this risk assessment.



continuation Note 9

The size at year-end of the undertakings for which provisions have been made for anticipated guaranteed losses is shown below.

	31.12.2004	31.12.2003
<b>Guarantees which are included in the ordinary guarantee fund</b>		
Infrastructure projects		
- Öresund Link <sup>1</sup>	27,851,013	30,564,280
- Stockholmsleder	8,011,000	7,242,000
- Göteborgs Trafikleder	3,414,000	2,661,000
Funding and properties		
- SBAB	8,000,000	9,000,000
- Other	1,255,000	1,267,340
Pension commitments <sup>2</sup>		
- FPG	5,892,021	6,818,962
- Posten	3,505,386	3,861,510
- Other	483,008	246,128
International projects		
- Nordiska investeringsbanken	5,380,347	6,438,886
- Other	178,074	192,968
Other undertakings <sup>3</sup>	137,267	202,885
<b>Total</b>	<b>64,107,116</b>	<b>68,495,959</b>
<b>Guarantees for Venantius (a particular guarantee fund) <sup>4</sup></b>	<b>6,515,289</b>	<b>9,885,033</b>
<b>Total</b>	<b>70,622,405</b>	<b>78,380,992</b>

<sup>1</sup> Joint commitment with the Danish state. The commitment is based on the nominal value of the liabilities with a supplement for the amount that Öresundsbro Konsortiet (ÖSK) can be liable to pay for swaps entered into. This differs from ÖSK's accounts, which show the market value of liabilities and swaps.

<sup>2</sup> The measure refers to 31 December 2003 and 31 December 2002 respectively.

<sup>3</sup> The other commitments include agricultural, rural area and fishery guarantees and loan guarantees to employees at the Ministry for Foreign Affairs at SEK 123,567,000 and SEK 167,035,000 respectively. The figures refer to the dates 30 June 2004 and 30 June 2003

<sup>4</sup> The commitment for 2003 refers to 30 November 2003.

NOTE 10 ■ OTHER OPERATING EXPENSES

	2004	2003
Payments to banks, etc.	-31,645	-43,671
Advertising, information and PR	-60,957	-53,922
Selling expenses, retail market borrowing	-10,798	-11,218
Purchase of short-term equipment	-37,613	-33,064
Maintenance, service and repairs	-84	-478
Services purchased	-27,072	-24,592
Travel costs	-1,539	-1,654
Post and telecommunications	-6,337	-7,201
Administration expenses	-5,155	-5,228
Accrual of costs for lottery bonds	23,992	53,191
Other financial expenses	0	-2
<b>Total</b>	<b>-157,207</b>	<b>-127,840</b>

Comparison figures have been adjusted. Accruals of selling expenses for lottery bonds have been moved from Note 3, Interest expense/income.

NOTE 11 ■ CHANGE IN CAPITAL FOR THE YEAR

	31.12.2004	31.12.2003
Premiums, deficits, guarantees	1,075,849	2,209,525
Premiums, deficits, loans	-2,008,217	-
Other change in capital	10,119,687	11,802,816
<b>Total</b>	<b>9,187,320</b>	<b>14,012,340</b>

The change in capital shows how the agency capital has changed during the year. For central government agencies, the change in capital is not a measure of whether an activity is performing well or not. Expenditure and income provide through the appropriations a corresponding income from the appropriation or a reduction of income from the appropriation, i.e. the net in the income statement will be zero. However, the appropriations are not settled for accruals, for instance, accrued interest expense or unrealised exchange rate fluctuations.

Change in capital for the year consists of accrual items in our appropriation-financed activity and surpluses and deficits in our fee-financed guarantee and loan operations.

NOTE 12 ■ CAPITALISED EXPENDITURE FOR DEVELOPMENT WORK

	31.12.2004	31.12.2003
Opening balance intangible fixed assets	1,265	0
Work in process (new acquisition during the year)	4,526	1,265
<b>Total closing balance</b>	<b>5,791</b>	<b>1,265</b>

Projects which are defined as a fixed asset on completion are capitalised continuously and entered as work in process.

NOTE 13 ■ MACHINERY, EQUIPMENT, INSTALLATIONS, ETC.

	31.12.2004	31.12.2003
Machinery and equipment, acquisition value, opening balance	58,043	47,858
Acquisition in the year	956	7,480
Work in process (new acquisition in the year)	11,139	2,705
Depreciation for previous years, accumulated	-44,125	-38,898
Depreciation for the year	-5,474	-5,227
<b>Total, closing balance</b>	<b>20,539</b>	<b>13,918</b>

NOTE 14 ■ OTHER LONG-TERM HOLDINGS OF SECURITIES

	31.12.2004	31.12.2003
Housing bonds	1,817,750	5,458,100
Lottery bonds purchased	837,138	911,021
<b>Total</b>	<b>2,654,888</b>	<b>6,369,121</b>

Holdings of housing bonds derive from the transfer from the AP funds in 2001. Housing bonds redeemed during the year total SEK 3.6 billion.

Bought back lottery bonds are reported as fixed assets until redemption has taken place and therefore do not reduce current loans under the central government debt.

SEK 130 million of the change of bought back lottery loans is rounding-off items for lottery loans sold during the year.

NOTE 15 ■ LONG-TERM RECEIVABLES FROM OTHER AGENCIES

INTRASTATE	31.12.2004	31.12.2003
<b>Current loans</b>		
Defence Materiel Administration	11,169,158	11,801,072
National Rail Administration	3,129,096	2,672,975
National Property Board	1,607,878	607,878
Broadcasting Operations <sup>1</sup>	1,017,638	808,676
National Road Administration	955,812	1,211,903
Other	1,561,174	1,521,052
	<b>19,440,756</b>	<b>18,623,556</b>
<b>Operating capital with fixed term</b>		
National Road Administration	524,000	666,000
National Fortifications Administration	2,422,000	1,262,000
Other	0	200,000
	<b>2,946,000</b>	<b>2 128,000</b>
<b>Investment loans</b>		
National Rail Administration	9,547,000	8,230,000
National Road Administration	6,095,700	4,266,700
National Property Board	5,640,000	5,340,000
Civil Aviation Administration	5,582,000	6,817,000
Defence Materiel Administration	4,850,000	3,140,000
National Fortifications Administration	3,142,000	3,887,000
Other	1,333,882	1,181,546
	<b>36,190,582</b>	<b>32,862,246</b>
<b>Interest-bearing account with loan (management expenses)</b>	<b>4,754,485</b>	<b>4,675,210</b>
<b>Interest-bearing account with loan (other)</b>	<b>6,735,252</b>	<b>7,489,563</b>
<b>Government loans taken over</b>		
<b>Lending with inflation-linked interest</b>	<b>1,300,560</b>	<b>0</b>
<b>Swedish National Board of Student Aid</b>	<b>129,921,437</b>	<b>121,503,363</b>
<b>Loans for fixed assets for management purposes</b>	<b>16,523,484</b>	<b>16,241,071</b>
<b>Total</b>	<b>217,812,555</b>	<b>203,523,009</b>

<sup>1</sup> Comparison figures have been adjusted. The loan was reported in 2003 as a non-governmental receivable from Radiotjänst i Kiruna AB (RIKAB). The loan was reported this year as an intra-state receivable on the Broadcasting Operations and is administered by RIKAB on behalf of the state.

The Debt Office has the right to lend to investments in fixed assets for management purposes. The Debt Office's own loans to investments in fixed assets, SEK 7,081,000 are included in the item Loans to fixed assets for management purposes.

NOTE 16 ■ OTHER LONG-TERM RECEIVABLES

Non-state	31.12.2004	31.12.2003
<b>Variable loans</b>		
AP fund	126,975	112,757
	<b>126,975</b>	<b>112,757</b>
<b>Continuous loans</b>		
Saab AB <sup>1</sup>	194,070	150,519
Swedcarrier AB <sup>1</sup>	112,000	0
Euromaint AB <sup>1</sup>	0	250,000
	<b>306,070</b>	<b>400,519</b>
<b>Operating capital with fixed term</b>		
Botniabanan AB <sup>1</sup>	1,455,000	1,325,000
Jernhusen AB <sup>1</sup>	0	1,000,000
	<b>1,455,000</b>	<b>2,325,000</b>
<b>Investment loans</b>		
Svensk-Danska Broförbindelsen AB <sup>1</sup>	3,530,000	3,360,000
Botniabanan AB <sup>1</sup>	3,425,000	1,540,000
A-Train AB <sup>1</sup>	1,000,000	1,000,000
Jernhusen AB <sup>1</sup>	1,000,000	0
	<b>8,955,000</b>	<b>5,900,000</b>
<b>Loans to fixed assets</b>		
AP Fund	1,006	1,450
	<b>1,006</b>	<b>1,450</b>
<b>Revaluation <sup>2</sup></b>	<b>-2,010,000</b>	<b>0</b>
<b>Total</b>	<b>8,834,050</b>	<b>8,739,726</b>

The comparison figures have been adjusted, see note 15.

<sup>1</sup> Loans with a credit risk in the area of Guarantee Operations

<sup>2</sup> Svenska-Danska Broförbindelsen AB (Svedab) has built the Swedish land connections to the Öresund Bridge. Svedab is dependant on the future earnings of the Öresundsbro Konsortiet (ÖSK) to be able to repay the loan at the Debt Office. The Debt Office's risk assessment of the loan has led to a write-down of SEK 1,900 million (see also the Guarantee and Loans section in the income statement).

Jernhusen is a property company (formerly the property division of the public enterprise Statens Järnvägar/Swedish State Railways) which is owned by the state holding company Swedcarrier AB. The Debt Office makes the assessment that the credit risk fee set by the Government, 0.75% of the loan framework utilised, is lower than the risk that the commitment entails for the state. The risk assessment of the loan by the Debt Office shows that the expected value of repayments totals approximately SEK 990 million. There is therefore a write-down of SEK 10 million.

A-Train AB which has built and operates Arlandabanan (the Arlanda line) is owned by an infrastructure fund managed by the international investment bank Macquarie Bank. The state is entitled to a dividend if certain criteria are met. The calculations of the Debt Office show that the portion of the dividend received by the Debt Office averages approximately SEK 900 million. This entails a write-down of the loan of SEK 100 million.

NOTE 17 ■ ACCOUNTS RECEIVABLE

	31.12.2004	31.12.2003
Invoiced interest and expenditure in the Cash Management Department	2,618	102,664
Other accounts receivable	1,737	9,049
<b>Total</b>	<b>4,354</b>	<b>111,714</b>

The change is mainly due to payment of invoiced interest and fees in December 2003 only being paid in January 2004. The major part of invoices sent at the end of 2004 were also paid in 2004.



#### NOTE 18 ■ RECEIVABLES FROM OTHER AGENCIES

	31.12.2004	31.12.2003
Invoiced interest and fees at the Cash Management Department	1,591,755	1,629,262
Value-added tax	9,788	6,895
Accounts receivable at government agencies	10,737	14,356
Other intra-state receivables	168,670	76,400
<b>Total</b>	<b>1,780,951</b>	<b>1,726,913</b>

Comparison figures have been adjusted for government receivables, included in the item appropriation accounts in 2003, Note 19.

#### NOTE 19 ■ OTHER RECEIVABLES

	31.12.2004	31.12.2003
Lottery bond prizes	954	1,341
Lottery bonds	12,331	13,566
Deposits for trade with futures	1,100,396	2,108,658
Settlement accounts	0	1
Recourse receivables for indemnified guarantees	22,660	29,030
Bought call and put options	251,208	236,935
Receivable CSA Agreement	588,639	811,310
Settlement accounts transaction day accounting	-710	1,023,308
<b>Total</b>	<b>1,975,477</b>	<b>4,224,149</b>

Comparison figures have been adjusted, see Note 18.

The gross amount of the recourse receivables at the end of 2005 is SEK 329 million and has been value-adjusted by SEK 306 million.

##### Deposits for trading with futures

Daily settlement of profit or loss takes place due to a signed futures contract. This means that the holder of a futures contract pays or receives a variation collateral requirement each day and thus also a deposit.

##### Bought call and put options

Refers to contracts between two parties where we purchase an option on an underlying good, value or currency. We have an entitlement to purchase/sell the underlying good of/to our counterparty if we wish to do so and thus also a deposit.

##### Receivable CSA agreement

Refers to collateral paid in the form of cash in connection with the market value of the derivative instrument changing.

##### Settlement account, transaction day accounting

Before a transaction has become liquid, the liquidity amount is increased in the settlement account.

continuation Note 19

#### Option and futures contracts

	31.12.2004	
	<b>Acquisition value</b>	<b>Market value</b>
Bought currency options	-163,639	-162,710
Issued currency options	144,247	143,858
<b>Total</b>	<b>-19,392</b>	<b>-18,852</b>
	<b>Acquisition value</b>	<b>Market value</b>
Bought swap options	-91,009	-88,499
Issued swap options	122,363	115,313
<b>Total</b>	<b>31,354</b>	<b>26,814</b>
<b>Total options</b>	<b>11,963</b>	<b>7,962</b>
Total market value, futures contract		4,569,448
<b>Total market options and futures contract</b>		<b>4,577,410</b>

Paid premiums for options are reported under Note 28 Other liabilities (options issued).

Futures contracts are not reported in the balance sheet.

##### Issued options

Refers to contracts between two parties where we sell an option on an underlying good, currency or interest. We have an obligation to purchase/sell the underlying good if our opposite party so wishes or before a pre-determined date.

##### Swap option and currency option

In a currency option, the underlying product is the currency while in a swap option, the underlying product is interest.

##### Futures contract

The instrument is like a forward contract without delivery. We buy or sell the good at a predetermined price and quantity. A daily settlement of profit or loss takes place as a result of the contract entered into.

#### NOTE 20 ■ PREPAID EXPENSES

	31.12.2004	31.12.2003
Prepaid expenses	5,721	0
Prepaid expenses, lottery loans	122,528	98,536
Prepaid discounts, borrowing in Swedish kronor	4,266,003	6,614,904
Prepaid discounts, borrowing in foreign currency	430,012	502,228
Discounts, adjustment, new debt measure in Swedish kronor	7,350,971	7,899,240
<b>Total</b>	<b>12,175,235</b>	<b>15,114,908</b>

##### Prepaid expenses, lottery loans

Costs for issues in lottery loans. Costs are accrued over the period to maturity of the loan.

##### Prepaid discounts

Discounts arise when we issue bonds and the market value is lower than the nominal value. The difference is recorded as a discount and accrued over the period to maturity of the loan.

##### Prepaid premiums

Premiums arise when we issue bonds and the market value is higher than the nominal value. The difference is recorded as a premium price and accrued over the period to maturity of the loan.

##### Discounts, adjustment new debt measure

Refers to zero coupon in the central government debt. The discount is the difference between the acquisition value and the nominal amount (interest compensation), which is to be paid on maturity. It is accrued over the period to maturity of the loan.



NOTE 21 ■ OTHER ACCRUED INCOME

	31.12.2004	31.12.2003
Interest income, debt management instruments	9,516,379	9,862,236
Interest income, currency accounts	3	372
Interest income, CSA	617	190
Interest income, Cash Management Department	891,483	822,467
Interest income, bond buy-backs in Swedish kronor	2,628	4,028
Accrued expenses, Cash Management Department	2,286	2,352
Accrued expenses, Guarantees and Loans	1,250	1,317
<b>Total</b>	<b>10,414,646</b>	<b>10,692,961</b>

**Interest income, debt management instruments and bond buy-backs**

Refer to interest income associated with central government debt, which has been earned during the year but not yet paid in.

**Interest income, CSA**

Refers to interest income on CSA agreements, collateral on derivative instrument, which have been earned during the year but not yet paid in.

**Interest income, Cash Management Department**

Refers to interest income on deposits and loans in the Cash Management Department, which have been earned during the year but paid in first during 2005.

NOTE 22 ■ SETTLEMENT WITH THE GOVERNMENT

	31.12.2004	31.12.2003
<b>Settlement with Government –opening balance</b>	<b>1,066,338,419</b>	<b>1,025,343,955</b>
<b>Settled against state budget income titles</b>		
2124 Surplus from the Debt Office's guarantee operations paid in	-6,354	-68,560
2153 Surplus from AB Svenska Spel paid in	-3,676,926	-3,300,244
2557 Fees at Cash Management Department at Debt Office	-9,270	-16,730
2811 12 Repayment of guarantee fees from Nordic Investment Bank	-73,074	0
	<b>-3,765,624</b>	<b>-3,385,534</b>
<b>Settled against state budget appropriations</b>		
26 92:1 Interest on central government debt	52,596,424	42,015,254
26 92:3 Commission charges	120,743	151,812
2 2:3 Management costs	266,846	263,275
2 2:6 Provision for guarantee operations, Dom shvetsii	1,400	1,400
22 36:4 National Rail Administration, Track maintenance	70,000	0
	<b>53,055,414</b>	<b>42,431,741</b>
<b>Settlement against government cheque account</b>		
Withdrawals	-859,186,364	-761,565,292
Deposits	886,106,433	796,228,169
Payment authority	-159,833,659	-152,123,337
Interest-bearing account with credit facility, general account	-14,764,523	13,131,025
Nordea	-16,727,340	-40,999,511
SEB	2,322,806	2,481,242
Debt Office	5,647,328	0
Swedbank	-8,365,606	34
EU payments	821,708	-5,883,718
	<b>-163,979,216</b>	<b>-148,731,388</b>
<b>Single-occasion direct settlements with Government</b>		
Housing bonds	-338,131	-1,021,263
	<b>-338,131</b>	<b>-1,021,263</b>
<b>Inward and outward payments of appropriations</b>		
Appropriation funds on appropriation frame	161,089,054	153,360,888
Appropriation funds on appropriation frame, Debt Office	-261,336	-220,049
Funds from interest account assigned to income title	-1,288,611	-1,476,837
Funds from interest account, assigned to income title, Debt Office	73,074	0
Opening value of interest account	1,061	36,906
	<b>159,613,242</b>	<b>151,700,908</b>
<b>Settlement with Government – closing balance</b>	<b>1,110,924,103</b>	<b>1,066,338,419</b>

Settlement with the Government reflects the link between the agency and the state budget. The item consists on the one side of settlement against appropriation and income titles and on the other side net payments on the Government cheque account. The total flows through the state budget are shown in the Debt Office's Balance Sheet and, accordingly, Settlement with the Government does not only contain our own payments and settlements of appropriations/income titles and EU payments but the payment flows of all agencies which have affected the Government's cheque account.



#### NOTE 23 ■ CASH AND BANK

	31.12.2004	31.12.2003
Currency account Nordea	1,396	-5,238
Cheque account at Riksbank euro	225	534
Currency account Euroclear	901	815
Currency account Cedel	68	22
Bank giro accounts	39,147	-3
Interest-bearing account, administrative operations	30,964	41,662
Interest-bearing account, guarantees	1,629,105	1,473,914
Interest-bearing account, guarantees, Venantius	543,127	530,945
Other bank accounts at Nordea	-1,373	55,347
Bank accounts at Handelsbanken	159	406
<b>Total</b>	<b>2,243,719</b>	<b>2,098,404</b>

Fees for guarantees are invested as a guarantee reserve on an interest-bearing account at the Debt Office. A special guarantee reserve has been set up for loan guarantees for Venantius.

#### NOTE 24 ■ STATE CAPITAL

	31.12.2004	31.12.2003
Deposits for trading with futures	2,718,557	3,768,449
<b>Total</b>	<b>2,718,557</b>	<b>3,768,449</b>

State capital is the capital which is financed by appropriations. When the agency reports an expenditure, an income from appropriation is also normally reported in the income statement. When a deposit (for marginal securities for trading with futures) is provided, the income from the appropriation is reported as state capital in the Balance Sheet instead of the Income Statement. State capital corresponds to the value of the deposit (see Note 19), which is financed by appropriations. When the marginal security is realised, expenditure is also reported in the income statement and the state capital is reduced by a corresponding amount.

#### NOTE 25 ■ CHANGE IN CAPITAL CARRIED FORWARD

	31.12.2004
<b>Amount at beginning of year, 01.01.2004</b>	<b>-73,052,869</b>
Change in capital for the year 2003	14,012,340
<b>Amount at end of year 31.12.2004</b>	<b>-59,040,529</b>

#### NOTE 26 ■ CENTRAL GOVERNMENT DEBT

	31.12.2004	31.12.2003
<b>Nominal loans in Swedish kronor</b>		
Government bond loans	426,109,525	394,944,970
T-bills	259,215,140	244,500,114
Nominal retail market loans	59,212,338	57,951,405
Liquidity management instruments	22,077,585	28,778,732
Currency forward contracts	-182,502	-494,242
<b>Total nominal loans in Swedish kronor</b>	<b>766,432,087</b>	<b>725,680,979</b>
<b>Inflation-linked loans in Swedish kronor</b>		
Government bond loans	188,990,610	171,160,685
National Debt Savings	917,093	1,073,436
<b>Total inflation-linked loans in Swedish kronor</b>	<b>189,907,703</b>	<b>172,234,121</b>
<b>Total loans in Swedish kronor</b>	<b>956,339,790</b>	<b>897,915,100</b>
<b>Loans in foreign currency</b>		
Loans in foreign currency	316,189,134	336,346,367
Currency forward contracts	182,502	494,242
Unrealised exchange rate differences	-15,376,091	-5,920,491
<b>Total loans in foreign currency</b>	<b>300,995,545</b>	<b>330,920,118</b>
<b>Central government debt</b>	<b>1,257,335,335</b>	<b>1,228,835,218</b>

Comparison figures for currency forward contracts have been changed. The adjustment means that loans in foreign currency decreased by SEK 494 million and that loans in Swedish kronor increased by the equivalent amount.

Instruments in the central government debt have been regrouped. However, there are no additional new instruments that affect the size of central government debt.

Currency forward contracts are reported gross, which affects the dimensions between Swedish and foreign debt. Previously these were net on the foreign side.

Repurchase agreements have previously been reported under the respective instrument, nominal government bonds, T-bills and inflation-linked government bonds. They are now reported under the heading liquidity management instruments. These also include liquidity bills and overnight loans. See also Table 1.3 where the central government debt is reported as it appeared prior to the regrouping.

## NOTE 27 ■ LIABILITIES TO OTHER AGENCIES

	31.12.2004	31.12.2003
Export Credit Board	1,394,365	0
Battery Fund	657,097	611,210
Defence Materiel Administration	644,635	1,062,756
Deposit Guarantee Board	653	1,784
<b>Floating credits</b>	<b>2,696,750</b>	<b>1,675,750</b>
<b>Current credits</b>	<b>1,067,178</b>	<b>621,365</b>
<b>Interest-bearing account with credit facility (management costs)</b>	<b>26,937,358</b>	<b>23,426,071</b>
<b>Interest-bearing account with credit facility (other)</b>	<b>4,074,508</b>	<b>3,665,422</b>
Premium Pension Authority	27,184,155	27,902,683
Tax Agency	5,950,000	4,800,000
Sida	1,694,564	1,590,145
Nuclear Waste Fund	1,288,182	1,978,160
Public enterprise		
Statens Järnvägar	312,866	156,023
Other	1,045,082	2,164,942
<b>Spot funds</b>	<b>37,474,849</b>	<b>38 591 952</b>
Export Credits Guarantee Board	3,700,000	4,400,000
Defence Materiel Administration	2,980,000	2,950,000
Public enterprise		
Statens Järnvägar	2,562,708	0
Sida	252,300	386,400
<b>Restricted funds &gt; 1 year</b>	<b>9 495,008</b>	<b>7,736,400</b>
<b>Short-term investment &lt; 1 year, fixed interest rate</b>	<b>410,000</b>	<b>0</b>
<b>Restricted funds &lt; 1 year, interest-bearing account funds</b>	<b>649,490</b>	<b>638,901</b>
<b>Spot funds, other accounts</b>	<b>96,288</b>	<b>120,117</b>
<b>Total deposits</b>	<b>82,901,428</b>	<b>76,475,979</b>
<b>Interest due on deposits</b>	<b>94,992</b>	<b>155,547</b>
VAT	1	0
Employers' social security contributions	2,078	2,120
<b>Tax liability</b>	<b>2,079</b>	<b>2,120</b>
<b>Accounts payable to government agencies</b>	<b>422</b>	<b>40</b>
<b>Loans for fixed assets</b>	<b>7,081</b>	<b>11,204</b>
<b>Other liabilities</b>	<b>168,670</b>	<b>147,627</b>
<b>Total</b>	<b>83,174,673</b>	<b>76,792,518</b>

Comparison figures have been adjusted. Preliminary tax for staff and part of Current credits has been moved to Note 28 Other liabilities.

The Debt Office's own loans in fixed assets totalled SEK 7,081,000. New borrowing took place at the Debt Office for SEK 579,000, of which SEK 4,702,000 has been amortised.

## NOTE 28 ■ OTHER LIABILITIES

	31.12.2004	31.12.2003
Matured bonds	1,126,325	1,544,804
Matured prizes	5,428	23,892
Redeemed VPC lottery bonds and prizes	38	0
Interest due	0	5,954
<b>Matured bonds and prizes, interest</b>	<b>1,131,791</b>	<b>1,574,650</b>
Staff preliminary tax	1,597	1,569
Preliminary tax, National Debt Savings	63,617	75,078
<b>Tax liability</b>	<b>65,214</b>	<b>76,647</b>
<b>Options issued</b>	<b>259,171</b>	<b>282,752</b>
Liabilities for staff	1	1
Liability CSA agreement	17,429,559	11,171,347
Forward interest contract, Cash Management Department	13,498	0
EU charges	2,839,533	2,017,825
Investigation accounts including returned funds	-80	-497
Settlement accounts	1,760	1,682
<b>Diverse liabilities</b>	<b>20,284,269</b>	<b>13,190,357</b>
Radio tjänst i Kiruna	0	334,666
<b>Current credits</b>	<b>0</b>	<b>334,666</b>
<b>Spot funds</b>	<b>1,576,044</b>	<b>1,725,560</b>
<b>Total</b>	<b>23,316,488</b>	<b>17,184,632</b>

Comparison figures have been adjusted. Tax liabilities and part of Current credits have been moved from Note 27 Liabilities to other agencies.

### Bonds and prizes matured, and interest due

Relates to bonds, prizes and interest on bonds that have matured but which we cannot pay to the customer because of lack of information.

### Options issued

Relates to contracts between two parties where we sell an option on an underlying good, currency or interest. We have an obligation to purchase/sell the underlying good if our opposite party so wishes on or before a set date.

### Forward foreign exchange contract, Cash Management Department

Refers to currency hedging on behalf of other agencies. Also available commented in the Income Statement on the Cash Management Department.

### Spot funds

Refers to liquid fund in deposits and loans at the Cash Management Department.

All of the year's payments to the EU Commission are reported below in the summary.

SEK 2,839,533,000 are funds for the EU fee which has been credited to the EU Commission account at the Riksbank although not yet paid from the Government cheque account.

Opening balance of funds entered as a liability	2,017,825
<b>EU fees for the year</b>	
Agriculture fees	140,005
Customs fees (including penalty interest)	2,661,771
Sugar fees	70,390
VAT-based fees	3,419,690
GNI based income	18,950,493
United Kingdom fee	273,617
Provision for guarantees, etc.	47,105
Deposit from EU Commission to cover deficit	-24,741,363
Change in account at the Riksbank	821,708
Closing balance at the Riksbank	2,839,533



#### NOTE 29 ■ ACCRUED EXPENSES

	31.12.2004	31.12.2003
Interest expense, borrowing in Swedish kronor	18,237,632	21,741,916
Interest expense, borrowing in foreign currency	3,635,808	4,397,361
Interest expense, Cash Management Department	171,987	200,725
Interest expense, debt management instruments	3,894,360	4,449,770
Accrued holiday pay compensation	11,116	11,456
<b>Total</b>	<b>25,950,903</b>	<b>30,801,226</b>

##### Interest expense, borrowing and interest expense, debt management instruments

Refers to interest expense associated with central government debt which has been expensed but still not yet paid out.

##### Interest expense, Cash Management Department

Refers to interest expense which has been expensed but still not paid out.

##### Accrued holiday pay compensation

Refers to holiday compensation to Debt Office staff which has been earned this year but which will be paid out during 2005.

#### NOTE 30 ■ OTHER DEFERRED INCOME

	31.12.2004	31.12.2003
Prepaid expenses for guarantees issued	23,784	29,065
Prepaid subsidy fees guarantee	60,715	75,577
Prepaid premiums, borrowing in Swedish kronor	23,226,957	24,095,300
Prepaid premiums, borrowing in foreign currency	386,497	446,532
Prepaid discounts, repurchased premiums	8,032	10,466
<b>Total</b>	<b>23,705,984</b>	<b>24,656,939</b>

##### Prepaid fees, Guarantees

Fees for guarantees issued which we have invoiced in 2004 but which relate to 2005 and which are to be recorded as income first then.

##### Prepaid premiums

Premiums arise when we issue bonds and the market value is higher than the nominal value. The difference is recorded as a premium and accrued during the time to maturity of the loan.

##### Prepaid discounts, repurchased premiums

The discount arose when we repurchased premium bonds at a value that was below the nominal value. The discount is accrued during the period to maturity of the loan.

#### NOTE 31 ■ GUARANTEE COMMITMENTS

The commitments where the Riksdag has decided on special arrangements (guarantee capital for international financial institutions and the capital coverage guarantee for Arlandabanan Projekt AB) are reported as contingent liabilities as memorandum items. No provision has been made for future guarantee losses.

These commitments are reported below together with guarantees issued by public enterprises, and guarantees issued by other agencies not based on government decisions. Provisions have not been made for future guarantee losses for these commitments either.

#### continuation Note 31

	31.12.2004	31.12.2003
<b>Guarantees to international financing institutions (special guarantee reserve)</b>		
- Guarantee capital issued by Ministry of Finance	68,785,190	77,290,424
- Guarantee capital issued by Ministry for Foreign Affairs <sup>1</sup>	6,428,834	6,164,510
	<b>75,214,024</b>	<b>83,454,934</b>
<b>Other guarantees</b>		
- Capital coverage guarantee for A-banan Projekt AB issued by National Rail Administration and Civil Aviation Administration <sup>2</sup>	–	–
- Guarantees issued by public enterprises	469,960	575,482
- Guarantees issued by other agencies not based on government decisions	1,200,000	1,200,000
	<b>1,669,960</b>	<b>1,775,482</b>
<b>Total guarantee commitments</b>	<b>76,883,984</b>	<b>85,230,416</b>

<sup>1</sup> Information partly from 31.12.2003 and 30.06.2004.

<sup>2</sup> No values have been calculated for the capital coverage guarantee for A-banan Projekt AB.

#### NOTE 32 ■ DEBT CERTIFICATE

	31.12.2004	31.12.2003
African Development Bank	1,699,981	1,710,617
Asian Development Bank		
- Fund Account	241,299	261,746
Common Fund	8,364	10,320
Inter-American Development Bank	28,500	42,949
International Bank for Reconstruction and Development -IBRD-GEF	845,470	977,330
International Development Association - IDA	2,932,141	4,168,662
International Fund for Agricultural Development - IFAD	92,953	201,906
Multilateral Investment Guarantee Agency - MIGA	7,505	8,257
<b>Total</b>	<b>5,856,213</b>	<b>7,381,787</b>

On behalf of the Government, the Debt Office issues debt certificates for payments from appropriations to capital increase in international financing institutions. The debt certificates are kept at the Riksbank from where the institutions concerned can withdraw the appropriated amounts. The table shows the appropriated amounts that have still not been paid from the debt certificate.

#### NOTE 33 ■ REGISTERED SAVINGS AND LOTTERY BONDS

	31.12.2004	31.12.2003
Registered lottery bonds	1,214	1,274
Registered savings bonds	186	204
<b>Registered saving and lottery bonds</b>	<b>1,400</b>	<b>1,478</b>

INFORMATION ON GUARANTEE OPERATIONS, SEK MILLION <sup>1</sup>

	Year	Guarantees which are part of the ordinary guarantee reserve	Guarantees for Venantius (special guarantee reserve)	Guarantee capital for international financing institutions (special guarantee reserve)	Total
1. Total commitments <sup>2</sup>	2000	105,775	21,923	73,534	201,744
	2001	143,305	16,023	79,419	238,789
	2002	69,834	13,640	73,949	157,788
	2003	68,496	9,885	83,455	163,616
	2004	64,107	6,515	75,214	147,506
2. Guarantee reserve in relation to provision for future guarantee losses <sup>3</sup>	2000	–	–	–	–
	2001	–	–	–	–
	2002	0.41	0.22	0	0.33
	2003	0.48	1.77	0	0.59
	2004	0.67	10.86	0	0.88
3. Expenses due to indemnification	2000	9.9	0	0	9.9
	2001	6.7	0	0	6.7
	2002	3.1	0	0	3.1
	2003	2.5	0	0	2.5
	2004	1.0	0	0	1.0
4. Guarantee fees	2000	71.6	1.6	0	73.2
	2001	132.0	0	0	132.0
	2002	104.2	0	0	104.2
	2003	45.6	0	0	45.6
	2004	33.5	0	0	33.5
5. Appropriation funds corresponding to subsidised fees	2000	–	–	–	–
	2001	516.4	500.0	–	1,016.4
	2002	108.3	0	–	108.3
	2003	201.4	0	–	201.4
	2004	141.4	0	–	141.4
6. Recovered amounts	2000	4.0	–	–	4.0
	2001	9.4	–	–	9.4
	2002	9.4	–	–	9.4
	2003	7.4	–	–	7.4
	2004	7.7	–	–	7.7
7. Administrative expenses	2000				16.7
	2001				29.6
	2002				31.3
	2003				27.5
	2004				26.9
8. Balance on guarantee reserves	2000	487.1	–	–	487.1
	2001	1,039.9	500.1	–	1,540.0
	2002	1,232.6	514.8	0	1,747.4
	2003	1,473.9	530.9	0	2,004.8
	2004	1,629.1	543.1	0	2,172.2

<sup>1</sup> This format complies with the appropriation direction template. The measures are distributed to the guarantee reserves created in connection with valuation of older guarantees in accordance with the new guarantee model on 1 January 2002.

<sup>2</sup> The total amounts also include certain guarantees issued by the public enterprises and guarantees issued by other agencies not based on government decision. These guarantees are outside the guarantee reserves.

<sup>3</sup> The ratio between guarantee reserves and provisions for future guarantee losses.





## SUMMARY OF IMPORTANT TASKS

	2000	2001	2002	2003	2004
<b>Loan frame at Debt Office</b>					
- loan frame granted	7,500	7,500	10,000	20,000	27,000
- loan frame utilised	7,895	6,840	8,960	11,204	7,081
<b>Overdraft facilities at the Debt Office</b>					
- overdraft facilities granted	7,500	7,500	25,000	25,000	25,000
- maximum overdraft used during the year	–	–	–	–	–
<b>Balance on interest-bearing account</b>	<b>506,795</b>	<b>1,124,795</b>	<b>1,327,624</b>	<b>1,515,576</b>	<b>2,203,196</b>
- of which appropriations	16,576	76,694	89,803	41,662	30,964
- of which fees	490,219	1,048,101	1,237,821	1,473,914	2,172,232
<b>Interest income, interest-bearing account</b>	<b>17,805</b>	<b>22,992</b>	<b>74,041</b>	<b>64,853</b>	<b>48,336</b>
<b>Interest expense, interest-bearing account</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Fee income, budget</b>	<b>144,000</b>	<b>84,100</b>	<b>720,000</b>	<b>365,420</b>	<b>304,522</b>
- at the disposal of the Debt Office	144,000	84,100	20,000	345,120	297,522
- not at the disposal of the Debt Office	–	–	700,000	20,300	7,000
<b>Appropriation credit</b>	<b>88,590</b>	<b>1,150,016</b>	<b>147,750</b>	<b>214,421</b>	<b>214,509</b>
- granted appropriation credit	88,590	1,150,016	147,750	293,250	198,567
- appropriation credit used	–	–	–	–51,829	15,942
<b>Appropriation saving</b>					
- granted appropriation credit	45,475	25,000	7,600	3,751	3,920
- appropriation credit used	–	–	–	–	–
<b>Appropriation saving</b>	<b>25,361</b>	<b>56,786</b>	<b>65,940</b>	<b>22,649</b>	<b>17,204</b>
<b>Reserved for future commitments</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>No. of yearly employees</b>	<b>138</b>	<b>136</b>	<b>137</b>	<b>128</b>	<b>131</b>
<b>Average no. of employees</b>	<b>129</b>	<b>128</b>	<b>141</b>	<b>141</b>	<b>143</b>
<b>Operating expense per yearly employee</b>	<b>1,600</b>	<b>1,896</b>	<b>2,178</b>	<b>2,234</b>	<b>2,022</b>
<b>Capital change for the year (SEK million)</b>	<b>–18,456</b>	<b>–11,706</b>	<b>21,339</b>	<b>14,012</b>	<b>9,187</b>
<b>Capital change carried forward (SEK million)</b>	<b>–65,146</b>	<b>–84,556</b>	<b>–95,340</b>	<b>–73,053</b>	<b>–59,041</b>

## REMUNERATIONS AND OTHER BENEFITS TO LEADING EXECUTIVES AT THE DEBT OFFICE

Pursuant to Chapter 7, section 2, of the Annual Accounts and Budget Data Act (2000:605), the Debt Office is to report on the taxable emoluments and benefits paid to the Director General of the Debt Office and Assistant Director General and to every member of the board of the Debt Office.

During the 2004 fiscal year, the Debt Office paid the following emoluments and taxable benefits:

### During the 2004 fiscal year, the Debt Office paid the following emoluments and taxable benefits:

Salary, Thomas Franzén, 30.09.2004	806,897
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Thomas Franzén has also received a fee in 2004 from OM HEX AB, HEX Integrated Markets OY and the Premium Pension Authority.

Salary, Bo Lundgren from 01.10.2004	264,796
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Bo Lundgren has received a fee from the Riksdag and payment for work on the board of the University College of Physical Education and Sports.

During 2004, a fee has been paid for participation in the meetings of the board. No other taxable emoluments or benefits have been paid to members. The Debt Office has paid fees as below in the past year:

### During the past year, the Debt Office has paid fees to each of the board members as below:

Lisbet Calner	3,300
Peter Englund	23,100
Marie Engström	16,500
Ingemar Hansson	19,800
Inger Nordlander	19,800
Mikael Odenberg	13,200
Åsa Mindus Söderlund	23,100
Per-Olof Svensson	16,500
<b>Total</b>	<b>135,300</b>



THE BOARD OF THE DEBT OFFICE DECIDED AT ITS MEETING  
ON 9 FEBRUARY 2005 TO SUBMIT THIS ANNUAL REPORT.

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BO LUNDGREN  
*Chairman*

PETER ENGLUND

MARIE ENGSTRÖM

INGEMAR HANSSON

INGER NORDLANDER

MIKAEL ODENBERG

PER-OLOF SVENSSON

ÅSA MINDUS SÖDERLUND

# GLOSSARY

**Authentication (authentication solution)** • Method of checking an identity given on the Internet.

**Benchmark bond** • Bonds in which the Debt Office has undertaken to maintain liquidity. Normally have an outstanding volume of at least SEK 20 billion.

**Break-even inflation** • Break-even inflation is the difference between nominal and real yield at the time of issue. It specifies how large inflation has to be on average in the time to maturity for the cost of a nominal and inflation-linked loan to be equally large. If inflation exceeds the break-even inflation, the inflation-linked loan will be more expensive for the state and vice-versa.

**Cash flow at Risk, CfaR** • A risk measure that measures how much interest payments on the whole central government debt, with a particular given probability, can increase during a year on the basis of certain assumptions.

**Coupon bond** • Bond with annual interest payment.

**Derivative instrument** • Financial instrument, the price of which depends on another instrument. The most common derivative instruments are options, forward contracts and swaps.

**Duration** • Measure of the remaining maturity of a bond taking into consideration both the time to maturity and the coupon rate. A shorter maturity and a higher coupon rate will give a lower duration. Duration can also be viewed as a risk measure, which measures how much the market value of an interest security is affected by changes in the market interest rate.

**Fixed interest rate** • Interest rate fixed at a particular size by agreement during the period of agreement.

**Float** • Is the period in connection with a payment through a bank when neither the person who sends the money nor the recipient receives interest, which instead goes to the bank processing the payment.

**Floating interest rate** • An interest rate that varies during the period to maturity.

**Forward (forward contract)** • Agreement on purchase and sale at a specified price at a specified time in the future.

**Framework agreement** • Agreement entered into between a procuring unit and one or more suppliers. The intention is to establish the conditions that are to apply for a particular period for the unit that decides to make use of (sub-order) from the framework agreement. The Debt Office is the procuring unit for payment processing to and from the state. Government agencies can decide to make use of (sub order from) one of the framework agreements by written agreements with the bank concerned which is a party to the framework agreement.

**Future (Interest future)** • A standardised future contract that is traded on an exchange. *Cf forward contract.*

**Government bond** • An umbrella term for the bonds issued by the Debt Office on the bond market. Includes both inflation-linked and nominal bonds.

**Inflation** • General price increases that decrease the purchasing power of money. Usually measured with the aid of a consumer price index.

**Inflation-linked bond** • A bond where the holder receives a fixed interest rate and compensation for inflation during the maturity. This means that the yield and the amount invested are protected against inflation, so that any inflation does not reduce the value of the bond during the period of saving.

**Issue** • Sale of new government securities. Usually takes place by auctions.

**Limits** • Quantitative limitation of amounts or risks.

**Nominal interest** • An investment at a nominal fixed interest providing a pre-determined amount in SEK at the time of maturity.

**Option** • A right, although not an obligation, for the holder of the bond to sell (or purchase) a security at a price agreed in advance.

**Real interest rate** • An interest rate, the value of which is protected against inflation. *See inflation-linked bond.*

**Reference loan** • A reference loan is a benchmark bond traded as a 2, 5 or 10-year bond. Also called superbenchmark. The Debt Office concentrates borrowing in these maturities. *Cf benchmark bond.*

**Repo (repurchase agreement)** • Agreement on sale of a security where the seller at the same time undertakes to buy back the security after a set period for an agreed price. The repo can be said to be reversed, i.e. a purchase agreement in combination with future sale.

**Spot market** • Market for spot purchases, i.e. for purchases with immediate delivery or within a few days. The purchases may concern, for instance, securities or currencies.

**Swap** • Agreement between two parties on a swap or exchange of interest payments during a particular period, for instance, an exchange of fixed interest for variable interest.

**T-bill** • A short-term security without coupon payments that is issued with maturities up to a year.

**TCW** • Total Competitiveness Weights. The exchange rate of the krona in relation to a weighted index of the most important competitor currencies.

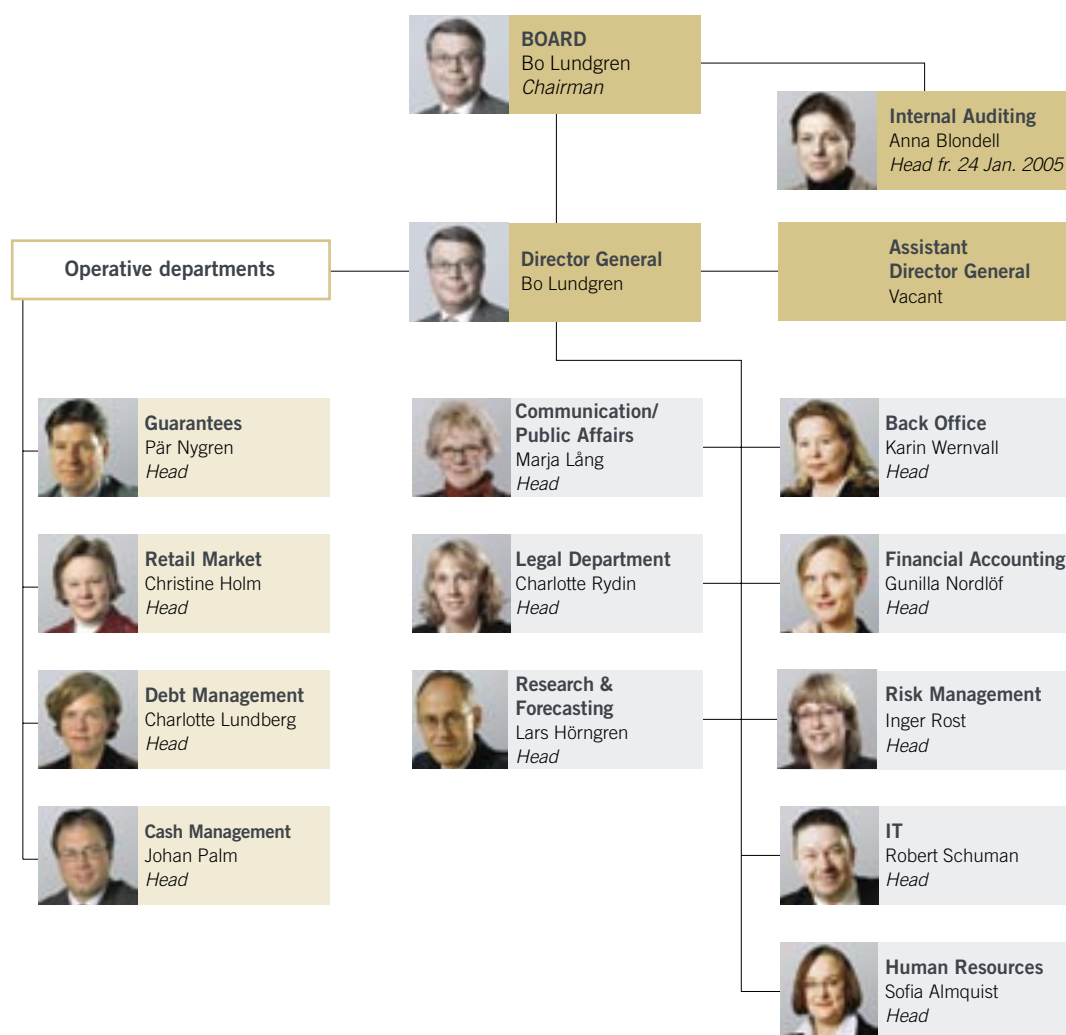
**Value at Risk, VaR** • A measure of risk that forecasts anticipated loss level with a given probability during a set period.

**Zero coupon instrument** • Interest-bearing securities without annual interest payment, which are sold at a discount and redeemed at their nominal value at the time of maturity. The interest payment consists of the difference between the nominal amount and the sales price.



# ORGANISATION

The Debt Office is a government agency reporting to the Ministry of Finance with 144 employees at its office in central Stockholm. Their average age was 44 and 68 per cent were university graduates. Of all employees, 60 per cent were women and 40 per cent men and over half of the managers were women. The Debt Office has four operative departments.





# THE BOARD

The Board of the Swedish National Debt Office is appointed by the Government. The Director General is the Chairman. It consists of eight members, of whom half are Members of Parliament. From Spring 2005, the Board will have an external Chairman. Staff representatives are Ann Sjöberg (ST), appointed in 2001 and Per Franzén (SACO-S) appointed in 2004.



*Ingemar Hansson, Per-Olof Svensson, Marie Engström, Åsa Mindus Söderlund, Inger Nordlander, Bo Lundgren*

Bo Lundgren, Chairman and Director-General. *Appointed in 2004.*

Peter Englund, Professor, Stockholm School of Economics and Stockholm Institute for Financial Research. *Appointed in 1997.*

Marie Engström, MP, Left Party and member of the Parliamentary Committee on Taxation. *Appointed in 2000.*

Ingemar Hansson, Director General of the National Institute of Economic Research. *Appointed in 1993.*

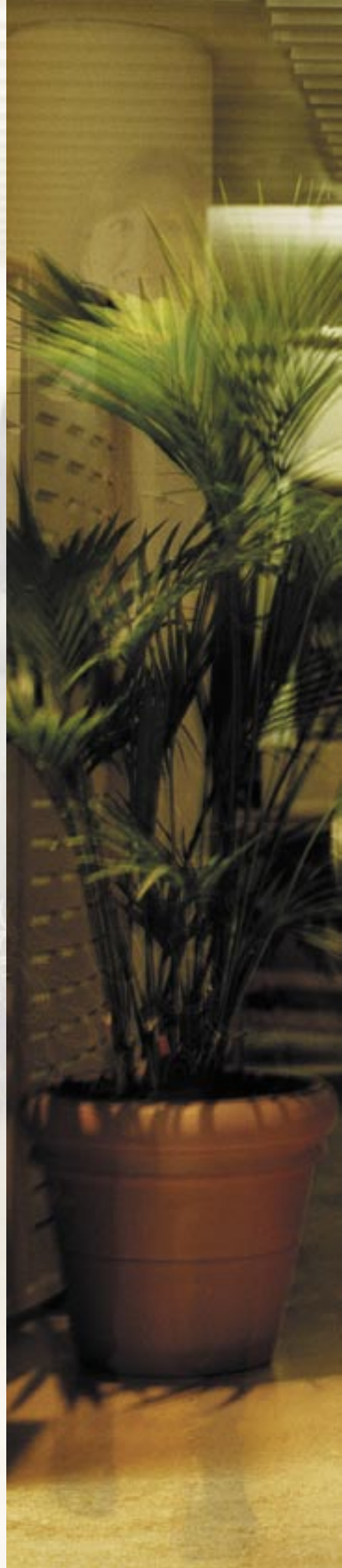
Inger Nordlander, MP, Social Democratic Party and economist. *Appointed in 2003.*

Mikael Odenberg, MP, Moderate Party and deputy chairperson of the FU. *Appointed in 2004.*

Per-Olof Svensson, MP, Social Democratic Party and member of the Parliamentary Committee on Taxation. *Appointed in 2000.*

Åsa Mindus Söderlund, Economist. *Appointed in 2003.*

Thomas Franzén was Chairman and Director General until the end of September 2004.



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