RIKSGÄLDEN
SWEDISH NATIONAL DEBT OFFICE

# Summary of Annual Report 2009

**Contents**



## Objectives and vision

**The overall objective of the Swedish National Debt Office is to minimise the costs of central government financial management without taking excessive risks. Our work helps to ensure that taxpayers' money is used as efficiently as possible and that the financial system remains stable.**

**Our vision is to be the world's best financial manager for central government.**

# Financial manager for central government

The Swedish National Debt Office is the central government financial manager. The Debt Office's assignment includes:

- providing banking services for the central government
- raising loans and managing central government debt
- providing state guarantees and loans

We have also been assigned to promote consumer protection and ensure the stability of the financial system by:

- being responsible for the deposit insurance and investor protection schemes
- managing government support for banks

We play an important role within central government, on financial markets and, consequently, in the national economy.

## Banking services

The Debt Office provides efficient solutions for payments to and from central government authorities. The net amount of these payments governs how much we need to borrow or invest on a daily basis. We also assist the authorities in handling their budget appropriations by offering deposits and loans.

## Debt management

We ensure that the state can always make its payments. If the state pays out more money than it receives over a period of time, we raise new loans to cover this budget deficit, which increases the level of central government debt. When there is a budget surplus, we repay loans, thereby reducing the debt. Regardless of whether there is a deficit or surplus, we need to borrow to finance the repayment of old loans that mature.

Our borrowing mainly involves selling bonds and treasury bills to investors, but we also offer savings products to private individuals and businesses. Managing central government borrowing and debt is an important task, as interest costs represent a major expenditure for the state.

## Guarantees and loans

Issuing state guarantees and loans as determined by the Riksdag (the Swedish parliament) is another important financial management task. We assess the credit risk associated with the project in question and charge an appropriate fee. Such fees should in the long term cover the ensuing costs.

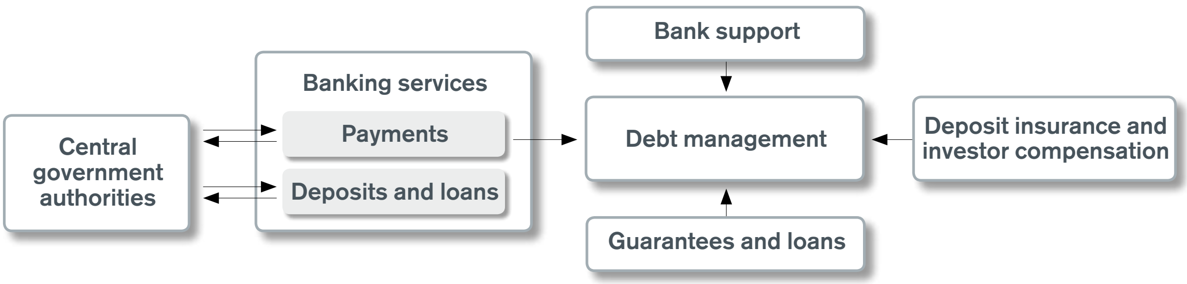
One of the differences between guarantees and loans is that a loan increases the level of central government debt. On the other hand, the Debt Office can borrow at a lower cost than a party that borrows with the support of a state guarantee. Loans are therefore often a more cost-effective form of support than guarantees.

## Deposit insurance and investor compensation

Deposit insurance and investor compensation are important schemes for protecting consumers in financial markets. The deposit insurance scheme entitles savers to compensation from the state if a bank should fail. The investor compensation scheme applies to securities and cash managed by banks and securities companies. These schemes protect savers and investors and help to maintain the stability of the financial system.

## Bank support

The aim of bank support is also to ensure financial stability. In times of crisis, well-capitalised banks can receive support in the form of guarantees, loans and capital injections. The Debt Office can also take over a bank threatened by bankruptcy, if such an event might ultimately seriously disrupt the financial system.



Director General's statement:

# An eventful year

One of the defining characteristics of the previous year was the global financial crisis. The crisis has meant new assignments for the Swedish National Debt Office as well as a greater workload within our ordinary operations.

The surplus in the central government budget in 2008 turned into a large deficit in 2009, with a corresponding increase in the borrowing requirement, as falling global demand led to a sharp drop in production. Another factor that contributed to the reversal was our borrowing on behalf of the Riksbank (the Swedish central bank) in order to strengthen the foreign exchange reserve. Altogether, this resulted in a net borrowing requirement of SEK 176 billion.

We issued a 30-year nominal government bond in March to promptly secure a substantial proportion of the borrowing and avoid a sharp increase in the volumes issued at our ordinary auctions. The loan amounts to SEK 38 billion and was sold at an interest rate of 3.75 per cent. On the date of issue, this was 15 points lower than the corresponding German rate. The rate was also low from a historical perspective. The 30-year loan demonstrates our commitment to the objective to keep borrowing costs low while also limiting the level of risk.

The success of the long-term bond is proof of Sweden's good credit standing, which mainly results from strong central government finances. Despite the crisis, central government debt in Sweden was only 35 per cent of GDP at the end of 2009, excluding the loan to the Riksbank. Several other European countries, such as Germany, France and the United Kingdom, have significantly higher debt ratios.

The various bank support programmes administered by the Debt Office have been utilised to varying extents. At the end of the year, the bank guarantee programme was covering SEK 271 billion, which represented a reduction from its peak of SEK 354 billion. None of the banks have had to utilise the capital injection programme, but the Government participated in Nordea's new share issue through the programme.

Carnegie Investment Bank is the only bank support case in the real sense during the present crisis. Carnegie was taken over by the Debt Office in 2008 when it encountered financial difficulties and lost its banking licence. Our aim here was to avoid further instability in the financial markets. In February 2009, Carnegie was sold for a price that, together with future profit sharing, is likely to fully compensate taxpayers.

Major problems within the automotive industry have been reflected in several assignments for the Debt Office. The most high-profile case was the efforts to arrange a guarantee for loans on behalf of Saab Automobile from the European Investment Bank.

We concluded a procurement for prepaid cards in 2009 on the behalf of the central government and around sixty local authorities. This new payment service will facilitate public disbursements to people who for some reason do not have a bank account in Sweden. During the year, the average cost of central government payments continued to decline thanks to our framework agreements.

In December, the Debt Office, together with our corresponding authorities in France and Hungary, was mandated to implement an EU-financed project in Ukraine over the next two years. The aim of the project is to strengthen the budgetary forecasting and debt management process in Ukraine. By participating in this project, we are taking another step in developing our international cooperation.

Both the Government and our customers have in various contexts expressed their appreciation of our work. Despite our extraordinary workload last year, a survey showed that our employees were satisfied with their work situation. No less than 99 per cent said they would recommend the Debt Office as an employer. It is my hope and ambition that we can maintain a good working environment as this will lay the foundation for continued success over the years to come.

Stockholm, February 2010
Bo Lundgren
*Director General of the Swedish National Debt Office*

# Significant events

- In February, the Debt Office agreed to sell the shares in Carnegie Investment Bank and Max Matthiessen, which we had taken over in November 2008 as Carnegie Investment Bank was experiencing financial difficulties and had its banking licence withdrawn. The conditions of the sale are such that the state is likely to recover its costs for supporting Carnegie. See page 26

- The strategic dollar position that we started to build up in the summer of 2008 resulted in a gain of around SEK 2.5 billion which we reported in March. We also built up a position for a stronger krona against the euro during 2009. See page 15

- In light of the increased borrowing requirement, we issued a 30-year nominal government bond in March with a volume of SEK 38 billion. The bond was sold at an interest rate of 3.75 per cent. This means that we succeeded in borrowing a large amount at a very low interest rate, both in a historical perspective and compared with other countries. See page 12

- We borrowed the equivalent of SEK 97 billion in foreign currency on behalf of the Riksbank in 2009. These funds were used to replenish the foreign exchange reserve after the Riksbank had used part of the reserve for loans to Swedish banks and foreign central banks during the financial crisis. See page 11

- In June, the Government directed us to commence negotiations with Saab Automobile concerning credit guarantees for a loan from the European Investment Bank. These negotiations proved to be protracted and difficult due to the great number of parties involved and issues concerning the future ownership situation at Saab. See page 18

- In September, the Debt Office launched a new trainee programme together with the Swedish Financial Supervisory Authority and the Riksbank. The six participants in the programme (which had over 500 applicants) get a unique insight into the financial system by spending six months at each of these three workplaces before continuing their employment at one of them. See page 34

- For the first time, we procured a framework agreement encompassing the entire public sector. This procurement applies to prepaid cards, which is a new kind of payment service on the Swedish market. Prepaid cards facilitate public payments that, for various reasons, cannot be made directly into a Swedish bank account. See page 7

- At the end of the year, we were awarded an EU contract in Ukraine together with our corresponding authorities in France and Hungary. Our role is to assist in the efforts to improve debt management operations in Ukraine. This project is an important step in developing our international cooperation. See page 28

# Banking services

The cost of central government payments continued to decline in 2009 as more authorities chose banks that were offering lower prices under our current framework agreements. We procured a new prepaid card service and started the next procurement of payment services. We also worked actively to improve the level of security within the government payment model.

Our lending increased, primarily owing to loans to the Riksbank.

## Remit and objectives

As provider of banking services to the central government, the Debt Office is to manage and develop the government payment model, including the government central account. We also offer central government authorities the opportunity to borrow and make deposits.

The objective is for the state payment operation to be run efficiently and to maintain a high level of security as well as provide the authorities with good service. The liquidity management strategy for the central government aims to minimise interest costs over the long term.

The Debt Office is responsible for central government authorities and certain public enterprises receiving their budget appropriations and loans in accordance with their appropriation directions. Through the government payment model, we ensure that the state can make its payments in a way that is both efficient and secure. Overall, payments cost less for the state thanks to the Debt Office establishing framework agreements for payment services covering all of the approximately 240 central government authorities.

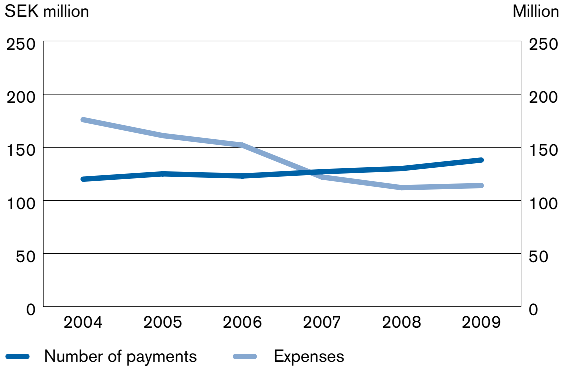
## The cost of payments continues to decline

The average cost for central government payments declined from SEK 0.86 in 2008 to SEK 0.83 in 2009. In total, the authorities paid SEK 114 million for the 138 million payments conducted through the banks selected under the framework agreement; see Figure 1.

Costs have continued to fall since the current framework agreement for payment services entered into force on 1 April 2007. This is not only because of a drop in the price per service, but also because the authorities have chosen payment intermediaries offering lower prices.

The total value of the payments made via the government central account in 2009 was SEK 4,655 billion. SEK 2,303 billion of this amount comprised payments received and SEK 2,352 billion disbursements. These payments affect the balance of the central government budget, which forms the basis for how much the state needs to borrow. Changes in the budget balance are described in the 'Debt management' section.

Figure 1 Central government payments and expenses




## Framework agreements cut central government expenses

In the autumn of 2009, we started working on the next procurement of framework agreements applying to payment and other banking services. The current agreements for these services apply up to and including 31 March 2011. We also have framework agreements in place for charge cards, travel accounts and procurement cards. The current agreements for these services started to apply on 1 January 2009.

Apart from reducing the cost of making payments, these centralised framework agreements mean that procurement expenses are kept low for the state as a whole. At the last round of framework agreement procurements, the average cost per authority was SEK 23,000. The authorities also save time, as they do not have to procure banking services themselves. They call off a framework agreement every four years.

**Framework agreement for prepaid cards**

In 2009, the Debt Office procured a new payment service – prepaid cards – for the entire public sector. The new service means that public authorities will be able to pay out funds in a more secure and efficient way.

The prepaid card facilitates payments that for various reasons cannot be made directly into a Swedish bank account. Cash as well as postal and foreign cheques are currently used for this kind of transaction. The prepaid card helps to enhance security and reduces costs by replacing cash handling and payment services that require a great deal of administration.

The new service means that authorities top up a card with the amount to be disbursed in the form of allowances or compensation. The card can be used for both single and recurring payments. By using their pin code, the recipient can then withdraw the money or use the card to make purchases.

We concluded the framework agreement for prepaid cards with ICA Banken in December. It entered into force on 1 January 2010 and applies for a period of three years. There is an option to extend it for one year. Apart from central government authorities, around sixty local authorities can call off the agreement. This is the first time that we have been assigned by the Government to conclude a procurement covering the entire public sector.

## More secure payments

The Debt Office is actively working to increase the level of security when managing state payments. This work is being carried out both by the Debt Office on its own and in collaboration with other authorities and organisations.

The central government payment model is the generic term for authorities' payment operations, selected banks, account structures, payment services and liquidity management. The authorities have bank accounts with these selected banks and are responsible for their own payments. Their accounts form part of a group account structure, which also includes the Debt Office's top accounts with the framework agreement banks and the government central account at the Riksbank. This structure allows central government payments to be collected in the central account. The deficit or surplus in the central account at the end of each day is dealt with within liquidity management; see page 13.

**Our measures to increase security**

One of the primary steps towards improving the level of security in the payment model is to provide clear information about how it actually functions. We have in 2009 therefore made efforts to enhance awareness of such issues among all those concerned. In the autumn, we held a seminar for government employees on how the payment model works and the system support that we offer.

We also worked to establish limits for accounts forming part of the group account structure. One important component is how to technically limit the drawing rights on the government central account, which are currently unlimited for the authorities. This work constitutes a step in the inquiry into how the group account structure could be modernised.

The Debt Office also introduced several new functions to increase the level of security for those using our business systems. For example, as of June 2009 two people are required to jointly grant access rights to users of our business systems. It also became possible for three major authorities to sign payment orders using e-identification.

**Measures taken in collaboration with others**

Security in the payment model was also enhanced through initiatives taken jointly with other parties. For example, we changed the routines for approving payment files from the Agresso business system in collaboration with the Swedish National Financial Management Authority and the Legal, Financial and Administrative Services Agency. This change affected 102 authorities.

During the spring, we analysed and documented routines for a number of key payment services in the payment system within the framework of FSPOS, a cooperation group between the private and public sectors. We assisted with the documentation and analysis of pension and tax payments.

## Deposits and lending

Deposits rose by just over 3 per cent during the year. This increase can mainly be explained by the balances of the interest accounts held by central government authorities. Other deposits generally reduced in size; see Table 1.

Lending rose by 45 per cent, which can mainly be explained by foreign currency loans to the Riksbank corresponding to SEK 92.5 billion; see also the 'Debt management' section. Also, our largest borrower, the Swedish National Board of Student Aid (CSN), borrowed a further SEK 5.6 billion. At the end of the year, CSN had borrowed a total amount of SEK 159 billion; see Table 2.

## Retroactive rebates on EU contribution

In June, Sweden was refunded SEK 8 billion in retroactive rebates on its EU contribution. This was due to the establishment of new rules in the revenue system.

The Debt Office coordinates the payments of Sweden's EU contribution. We also receive EU funding from the European Commission and forward these funds to the authorities responsible for their final distribution.

## Satisfied customers

The Debt Office's annual questionnaire showed that the central government authorities are satisfied with the service that they receive from us and the range of services we provide. The Customer Satisfaction Index for 2009 was 82 out of 100. Our target for the year was to achieve a Customer Satisfaction Index of at least 80.

Table 1 Deposits at the Debt Office

| SEK million | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Central government authorities | 81,777 | 67,080 | 70,666 | 82,328 | 87,095 |
| Public enterprises | 3,516 | 3,511 | 1,978 | 1,087 | 369 |
| Limited companies | 1,200 | 1,000 | 2,896 | 2,782 | 1,488 |
| **Total deposits** | **86,493** | **71,591** | **75,540** | **86,197** | **88,952** |

Table 2 Lending at the Debt Office

| SEK million | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Central government authorities | 226,326 | 235,690 | 232,299 | 207,106 | 216,656 |
| Public enterprises | 6,267 | 7,069 | 6,427 | 7,898 | 7,630 |
| Limited companies | 13,058 | 15,491 | 17,835 | 20,887 | 22,739 |
| Lending in foreign currency | | | | | 93,391 |
| **Total lending** | **245,651** | **258,250** | **256,560** | **235,891** | **340,416** |

# Debt management

Central government borrowing rose sharply as the budget surplus from 2008 turned into a deficit in 2009. The rapid reversal in central government finances can be explained by the financial crisis and the subsequent recession. The Debt Office also borrowed on behalf of the Riksbank to strengthen the foreign exchange reserve. This led to a significant expansion of foreign currency borrowing.

However, Sweden did not have to increase its regular borrowing in nominal government bonds and T-bills, in contrast to many other countries. This was largely due to our covering the increased borrowing requirement by issuing a 30-year nominal government bond.

### Remit and objectives

The Debt Office raises and manages loans on behalf of the Swedish central government according to the Act on State Borrowing and Debt Management. Central government debt is to be managed to minimise long-term costs without an excessive level of risk. Monetary policy restraints must also be taken into account. Borrowing from the retail market is to achieve the greatest possible cost savings in relation to alternative forms of borrowing.

A separate evaluation report provides detailed information about central government debt management during the period 2005 to 2009.

Debt Office borrowing is essentially governed by two factors. The first and most obvious factor is that we borrow in order to cover deficits in the central government budget and to repay maturing loans. The second factor is that the composition and maturity of central government debt must comply with the guidelines issued by the Government.

## The central government budget – from a surplus to a deficit

The deficit in the central government budget amounted to SEK 176 billion in 2009; see Table 3. Just over half of this amount comprised on-lending to the Riksbank to strengthen its foreign exchange reserve. Excluding on-lending to the Riksbank, the deficit was SEK 81 billion.

Central government finances underwent a major transformation compared with 2008, when there was a surplus of SEK 135 billion. This reversal was largely due to the extreme economic downturn as well as the extraordinary lending to the Riksbank. The recession led to a sharp decline in revenues from capital taxes and very weak development of revenues from taxes on

Table 3 Central government net borrowing requirement[1]

| SEK billion | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Primary borrowing requirement** | **−46.7** | **−67.6** | **−150.3** | **−168.4** | **144.7** |
| *Of which:* | | | | | |
| Sales of state-owned assets | −6.5 | 0.0 | −18.0 | −77.0 | 0.0 |
| On-lending | 0.0 | 0.0 | 0.0 | 0.0 | 96.0 |
| Other | −40.2 | −67.6 | −132.3 | −91.4 | 48.7 |
| **Interest on central government debt, etc.** | **32.6** | **49.2** | **47.1** | **33.2** | **31.4** |
| *Of which:* | | | | | |
| Loans in Swedish kronor | 30.5 | 33.9 | 34.9 | 31.1 | 12.0 |
| Foreign currency loans | 12.3 | 9.0 | 9.8 | 8.6 | 5.5 |
| Realised exchange rate differences, net | −10.2 | 6.3 | 2.4 | −6.5 | 13.9 |
| **Central government net borrowing requirement** | **−14.1** | **−18.4** | **−103.2** | **−135.2** | **176.1** |

[1] *The net borrowing requirement is the budget balance but with a reverse sign.*

earned income. The Government also changed the tax and social insurance rules for 2009, which enhanced the reversal somewhat.

The state also received income from the sale of state-owned assets in 2008 amounting to SEK 77 billion. No corresponding sales took place in 2009.

**Accurate forecasts**

Forecasting the net borrowing requirement is the first step in the debt management process. The forecasts serve as a basis for our issue plans and liquidity management. We performed well with our forecasts for 2009 considering the drastic change in the economic outlook during the forecast period. Not least, we were early in anticipating turning points.

The first of our seven forecasts for 2009 was published in February 2008. Our forecasts ranged from a surplus of SEK 83 billion to a deficit of SEK 198 billion; see Figure 2. Excluding proceeds from sales and on-lending, they ranged from a surplus of SEK 33 billion to a deficit of SEK 95 billion.

In conjunction with the financial turbulence prevailing during the autumn of 2008, we realised that the performance of central government finances would be much worse than previously envisaged. Other forecasters still viewed the situation in a more positive light. Our proximity to the financial markets in general, and the government securities market in particular, may have given us an information advantage.

*Difficulties in foreseeing on-lending and support measures*

One of the major difficulties when forecasting for 2009 was foreseeing the extraordinary measures taken due to the financial crisis. Above all, this involved the on-lending to the Riksbank and an extended loan commitment for the Swedish Export Credit Corporation. It was also unclear at the start of the forecast period whether any state-owned companies would be sold during the year.

In May 2009, we decided to borrow the equivalent of SEK 100 billion in foreign currency following a request from the Riksbank. The central bank wanted to strengthen its foreign exchange reserve as it had used some of the reserve for loans to Swedish banks and foreign central banks during the financial crisis. When the on-lending to the Riksbank was concluded, a total amount corresponding to SEK 97 billion had been borrowed. At the exchange rates applying at the end of the year, the total amount was SEK 92.5 billion.

It was also decided that Sweden, together with the other Nordic countries, would lend money to Iceland. Sweden's proportion of the loan originally corresponded to SEK 6.5 billion, but this amount decreased over the year to approximately SEK 5 billion in pace with changing exchange rates. The loan to Iceland was postponed throughout 2009, above all while awaiting various agreements with the IMF. By the end of the year, we had paid Iceland an amount corresponding to SEK 0.9 billion. The rest of this loan will be released in 2010.

In early 2009, we were assigned to give the Swedish Export Credit Corporation (a state-owned company) the opportunity to borrow up to SEK 100 billion through the Debt Office. The expanded loan commitment was intended to help Swedish companies to finance export transactions owing to the difficult situation prevailing in credit markets. In our February forecast, we made the assumption that half of the loan commitment would be utilised. During the spring, credit markets stabilised and the Swedish Export Credit Corporation showed little interest in utilising the loan commitment. Consequently, we anticipated in our June forecast that it would not be utilised at all, which also proved to be the case.

We included revenues of SEK 50 billion from the sale of state-owned assets in our first two forecasts for the net borrowing requirement. However, no sales of state-owned assets were included as of the forecast in November 2008.

Figure 2 Annual forecasts, 2009

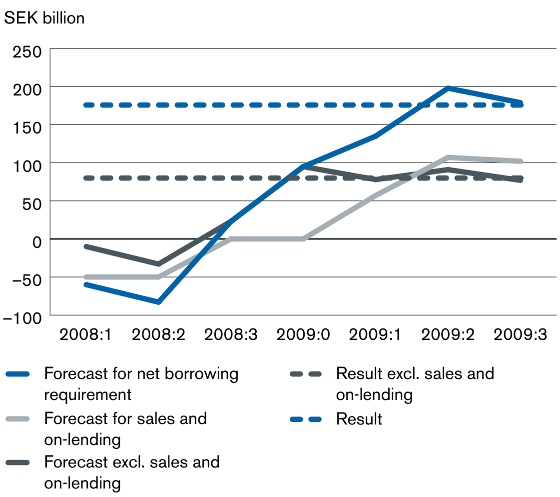
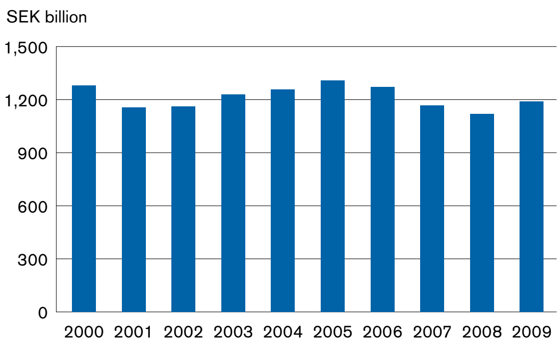



Figure 3 Performance of central government debt



## A slight increase in central government debt

At the end of 2009, central government debt amounted to SEK 1,189 billion. This means that the level of debt rose by SEK 70 billion during the year. As a percentage of GDP, this corresponds to an increase from 35 per cent to 39 per cent. Central government debt, excluding on-lending, was SEK 1,093 billion at the end of the year. This corresponds to 35 per cent of GDP[1].

The main reason why the increase in central government debt was smaller in size than the budget deficit is because there was a reduction in the Debt Office's short-term cash holdings during the year. These totalled SEK 66 billion at the start of 2009, among other things due to extra issues of T-bills to help support the financial markets. At the end of the year, these holdings had fallen to SEK 4 billion. Debt adjustments represent another cause: These reduced the amount of debt by SEK 44 billion, of which SEK 31 billion is due to a revaluation of the foreign currency debt, in part resulting from exchange rate changes.

### Debt shares and maturity

The composition of central government debt performed in line with the guidelines determined by the Government for the year. The guidelines for maturity changed in 2009 as an opportunity arose to issue a 30-year nominal bond.

The share of inflation-linked krona debt amounted to between 25 and 28 per cent, while the share of foreign currency debt was in the interval of 14 and 17 per cent. The remaining debt consisted of nominal krona debt.

The time to maturity for the nominal krona debt rose sharply in March to around 5.5 years because we had issued a large volume of 30-year bonds. Prior to 2009, the Government had decided on an average maturity, in terms of interest rate refixing period, of 3.5 years.

[1] *The calculation is based on the latest forecast of nominal GDP in 2009 by the National Institute of Economic Research.*

At the beginning of the year, the uncertainty about the borrowing requirement was unusually high, while yields for bonds with a long maturity were very favourable. We wanted to be able to issue a long-term bond, although the level of demand was uncertain. We therefore proposed that the Government revoke the guideline decision concerning maturity. The Government accepted our proposal.

For the rest of the year, borrowing in Swedish kronor focused on maintaining stable auction volumes for nominal government bonds.

The interest rate refixing period for the inflation-linked krona debt was reduced from 10.6 years in early 2009 to 10.1 years by the end of the year. This reduction was largely in line with the reduced time to maturity for loan instruments approaching redemption. The interest rate refixing period for foreign currency debt remained at around 0.125 years throughout the year. As this term is controlled by using derivatives, there were no major fluctuations in maturity.

## Sharp increase in borrowing primarily in foreign currency

The very rapid reversal in the budget balance was the single most important factor affecting borrowing in 2009. In addition to this, one of the reasons behind the large budget deficit – on-lending to the Riksbank – affected the composition of the borrowing. We consequently borrowed an unusually large amount in foreign currency.

The distribution of borrowing in 2009 between nominal krona debt, inflation-linked debt and foreign currency debt is shown in Table 4.

### Substantial foreign currency borrowing

There was a substantial amount of borrowing in bonds in foreign currency in 2009. Altogether, this borrowing amounted to SEK 130 billion, of which most went to the Riksbank.

Table 4 Central government borrowing

| SEK billion | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Net borrowing requirement[1]** | **–14** | **–18** | **–103** | **–135** | **176** |
| Change in cash balance, etc. | 24 | –39 | –35 | 57 | –138 |
| Maturities, buybacks, etc. | 56 | 71 | 79 | 96 | 181 |
| Government bonds | 16 | 36 | 62 | 68 | 121 |
| Foreign currency loans | 40 | 35 | 17 | 28 | 59 |
| **Total** | **66** | **13** | **–59** | **18** | **218** |
| **T-bill borrowing, net** | **–27** | **–78** | **–110** | **–32** | **–24** |
| **Borrowing in bonds, gross** | **93** | **91** | **51** | **50** | **243** |
| Foreign currency bonds | 25 | 20 | 5 | 0 | 130 |
| Inflation-linked bonds | 12 | 7 | 5 | 3 | 3 |
| Nominal government bonds | 56 | 64 | 41 | 47 | 110 |
| **Funding** | **66** | **13** | **–59** | **18** | **218** |

[1] *The net borrowing requirement is the budget balance but with a reverse sign.*

Figure 4 Composition of foreign currency debt

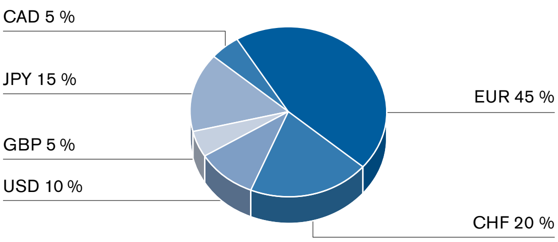
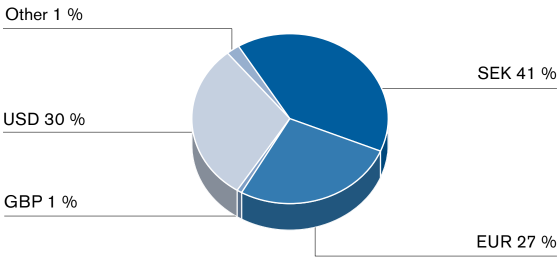



Figure 5 Funding of foreign currency debt




During the first six months of 2009 we issued three U.S. dollar loans in the bond market for a total amount of USD 6 billion. We also issued two bond loans in euro: one in May for EUR 4 billion and one in September for EUR 3 billion. Most of these loans were for the Riksbank. In addition, we issued commercial paper on behalf of the central bank.

The foreign currency debt share in 2009 remained around the target of 15 per cent set by the Government. When calculating this percentage, we exclude debts corresponding to funds that have been lent on.

*Composition of the foreign currency debt*

The foreign currency debt is governed by a benchmark specifying the distribution between the currencies included. The current distribution was established prior to 2009 and will apply up to and including 2011; see Figure 4.

We do not finance foreign currency debt according to this benchmark. Instead, we endeavour to borrow as inexpensively as possible and then use derivatives to achieve a foreign currency debt with a composition that is in line with the benchmark. For example, about half of the foreign currency debt financing is in kronor, which is subsequently converted to foreign currency commitments using currency swaps; see Figure 5. Currency swaps amounted to SEK 50 billion in 2009.

**New 30-year nominal bond**

We auctioned nominal government bonds for a total amount of SEK 72 billion in 2009. Up until the summer, the sales volume was SEK 3.5 billion per auction, which declined to SEK 3.0 billion per auction as of August.

We also issued the 30-year nominal government bond on 23 March with a volume of SEK 38 billion through a syndication. Syndication means that a number of lead banks explore the level of interest in the bond in question and sell it for us at terms we have approved. The sale meant that it was possible to leave issue volumes in the ordinary auctions of nominal government bonds unchanged.

The 30-year bond was sold at an interest rate of 3.75 per cent. This means that we succeeded in borrowing a large amount at a very low interest rate, both in a historical perspective and compared with other countries. The fact that we could borrow at a lower interest rate than Germany, which serves as the benchmark for European interest rates, represents a major success. The low cost of borrowing should be viewed against the background of Sweden's strong central government finances compared with other states and as evidence of Sweden's good credit standing.

The fact that such a large volume could be sold on just one occasion shows that the market was functioning well in spite of the financial crisis. At the same time, investors who needed longer maturities had a unique opportunity to better match their assets and liabilities.

Borrowing via nominal krona bonds is decisive for long-term state financing, as this is the only instrument with a sufficiently broad international investor base and sufficient depth to achieve satisfactory financing of central government debt in the long term without an excessive level of risk.

### Inflation-linked borrowing at a low level

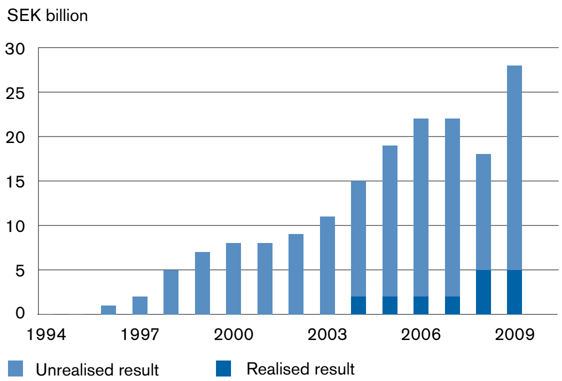
Total borrowing in inflation-linked bonds amounted to SEK 3 billion in 2009. As in 2008, borrowing took place on six occasions at the amount of SEK 0.5 billion per auction. Unlike the previous year demand outstripped the offered volumes at all of the auctions.

Greater uncertainty about future inflation may have contributed to this increase in investor demand. Nonetheless, we did not consider increasing the auction volumes bearing in mind the fact that the inflation-linked debt's share of the total debt for most of the year exceeded the target by a couple of percentage points. At the end of 2009, the share of inflation-linked debt had come into line with the target of 25 per cent.

*Inflation-linked debt showed a surplus*

The estimated saving achieved in 2009 by the Debt Office issuing inflation-linked bonds was SEK 10.7 billion. Aggregated since 1994, this saving amounted to SEK 28.0 billion; see Figure 6.

Figure 6 Computed result for inflation-linked debt




The main aim of inflation-linked loans is risk diversification. It also entails a saving in relation to nominal krona debt if inflation is lower than market expectations. In this case, compensation for inflation paid by the state is low.

The key indicator for comparisons of this kind is called break even-inflation. It is defined as the difference between the inflation-linked interest rate at the time of issue and the interest rate on the same date for nominal bonds with the same maturity. The higher the level of break-even inflation, the greater the scope for inflation to rise without the inflation-linked loan becoming a more costly alternative.

In 2009, the inflation rate was lower than the average break-even level for the inflation-linked debt.

### T-bills

Funding via T-bills – short-term government securities with a maximum maturity of six months – decreased in comparison with 2008. This was mainly due to a considerable level of borrowing in bonds, but also because there were a large number of outstanding T-bills in early 2009 as a consequence of our measures to support the market in 2008.

We sell T-bills by auction in the same way as nominal bonds. The bills are used to offset fluctuations in the central government borrowing requirement over the course of the year. For this reason, the variation in both auction volume and outstanding stock is considerably greater than for bonds.

*Interest rate swaps*

An alternative to issuing T-bills is to use interest rate swaps to exchange the fixed interest rate on a long-term bond for a floating interest rate. In this way we can issue more long-term bonds than we would otherwise have done, which makes the bond market more efficient. In 2009, we arranged short-term borrowing amounting to SEK 5 billion using interest rate swaps.

### Liquidity management

In liquidity management we borrow money to cover deficits on days when the state has large expenditures, for example when state salaries are paid. On days when there is a large inflow of taxes, the state receives more money than it needs at that time. We then invest the surplus. Liquidity management means ensuring that the state can always make its payments on time.

The preconditions for our liquidity management in kronor changed in 2009. The surpluses in kronor were unusually large on account of the 30-year bond. Part of the foreign currency surplus from the sale of Vin & Sprit in the summer of 2008 was used to cover a bond that matured in January. In May, we issued a euro loan in order to finance possible future on-lending to the

Riksbank. This was mainly invested in tri-party repos and commercial papers.

Changing conditions in the Swedish overnight deposit market also meant that we bought commercial papers in kronor to a greater extent. The reason for this change was that liquidity in the overnight deposit market increased when the Riksbank boosted its lending to support the banks' funding. Interest terms for investments in the interbank market consequently deteriorated and were 10 basis points below the Riksbank's repo rate. We normally invest at the Riksbank's repo rate, but in order to achieve better terms, we purchased commercial papers instead.

### Market support

Market support is a key element of our endeavours to reduce the cost of central government debt. The better the market for Swedish government securities works, the more investors are prepared to pay for the securities we sell and the lower the state's borrowing costs become.

The Debt Office had a large quantity of outstanding T-bills at the beginning of 2009 that had been issued to support the market during the financial crisis. These were completely repaid in March when the longest additional bills matured. Although the situation in the financial markets remained uncertain, we were of the opinion that the gradual additional lending to the banks by the Riksbank reduced the need for this type of measure. We issued a total of SEK 206 billion in additional auctions that were invested in reverse repos at a profit of SEK 175 million.

On 1 June 2009, the Debt Office once again started to offer market support repos and weekly repo swaps in T-bills to primary dealers on a small scale. We had stopped offering such repos in September 2008, when the demand for bills became so great that it could not be managed within the framework of our normal system for lending T-bills to primary dealers.

The aim of repos is to improve liquidity in the government securities market. Repos reduce the level of risk associated with primary dealers buying and selling large amounts, which both eases trading and benefits the state by lowering funding costs.

## Increased cost savings from retail market borrowing

Private individuals and other small investors help finance central government debt by investing in lottery bonds and depositing money in National Savings Accounts. At the end of 2009, SEK 71.1 billion, or 6 per cent of the debt, was borrowed on the retail market; see Figure 7. The objective of retail market borrowing is to achieve cost savings that are as large as possible compared with corresponding borrowing in the capital market.

Retail market borrowing in 2009 reduced the cost of central government debt by SEK 206 million. The result for lottery bonds improved, but was slightly lower for National Debt Savings. The total cost saving was SEK 805 million for the five-year period 2005–2009.

Figure 7 Retail market percentage of central government debt

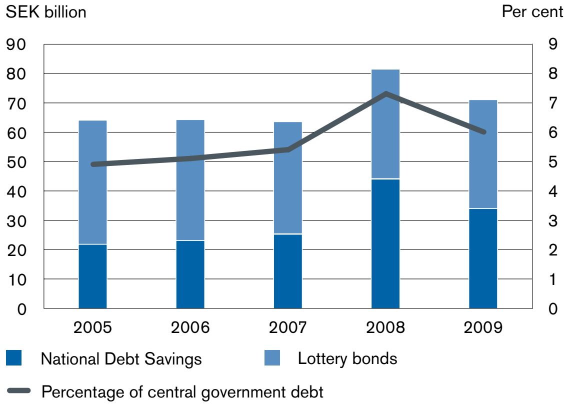



Table 5 Saving, retail market borrowing[1]

| SEK million | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Lottery bonds | 98 | 150 | 149 | 106 | 170 |
| National Debt Savings | 10 | 27 | 23 | 38 | 36 |
| National Savings Account | −2 | – | – | – | – |
| **Total savings** | **106** | **177** | **171** | **144** | **206** |

[1] *Government securities are excluded from the cost savings, as we pay the same interest rate to private Individuals as to institutional investors.*

### Great interest in lottery bonds

Lottery bonds generated a result of SEK 170 million, which represents an improvement of SEK 64 million compared with the year before. Better sales contributed to the improvement, but the main factor was that three old lottery bonds, which were issued in paper form, had expired. This happens ten years after the date of maturity and any holdings that are not redeemed are added to the result. Changing the distribution of shared costs also improved the financial result for lottery bonds by approximately SEK 12 million, while there was a corresponding deterioration in the performance of National Debt Savings.

Low interest rates on bank savings contributed to the demand for lottery bonds. As interest on lottery bonds is awarded in a lottery, the individual customer has the chance of receiving a good return, even when the total prizes awarded is small in percentage terms. The marketing of our new lottery bonds also bolstered demand.

We sold lottery bonds for a total of SEK 9.0 billion during the year, while SEK 9.4 billion of bonds matured. At the end of the year, we had outstanding lottery bonds amounting to SEK 37.1 billion.

**Slight changes in the result of National Debt Savings**
National Debt Savings accounts yielded savings of SEK 36 million, which was slightly less than the previous year. The performance for the first six months of the year was much better than previous results owing to large deposits made during the financial turbulence in the autumn of 2008. The result subsequently fell sharply in the second half of the year owing to large outflows and an unusually low interest rate margin.

After the Riksbank cut the repo rate to 0.25 per cent on 8 July, we started to offer an interest rate of 0.10 per cent on deposits in floating rate accounts and 0.05 per cent for monthly savings accounts. This corresponds to a margin of 0.15 and 0.20 percentage points respectively, compared with the normal margins of 0.25 and 0.35 percentage points respectively. This produced a loss of income of approximately SEK 45 million in 2009.

The low interest rates resulted in deposits in National Debt Savings falling by SEK 10 billion. This reduction was due to withdrawals being made from existing accounts, smaller deposits in new accounts and the fact that fewer customers chose to renew fixed savings that matured. The interest rates for longer maturities were between 2 and 3 per cent, with the margin remaining unchanged at 0.35 percentage points. As accounts with a floating interest rate represent over 80 per cent of the outstanding volume, floating interest rates have a major impact on both the volume of these deposits and on the result.

Figure 7 on page 15 shows that, despite large outflows, the outstanding volume of SEK 34 billion exceeded the volume prior to the financial crisis in 2008. The number of customers fell by 14,500 to 144,000.

**Internet sales of government securities discontinued**
In March, we discontinued the direct sale of government securities to private customers via the Internet. These sales were introduced on a trial basis in 2002 with the aim of reaching a broader group of investors. However, the volumes were never large enough to justify the additional costs associated with this service.

Private individuals and small investors who wish to buy government securities can still do so through banks and securities brokers. Many private savers also own government securities indirectly through fixed income funds.

**The Debt Office's share of the savings market**
Lottery bonds and National Debt Savings represent in total 5.6[1] per cent of the Swedish fixed income market. This shows a reduction of 1.1 percentage points in 2009, which is identical to the increase in the market share during the financial crisis of autumn 2008.

[1] *The Debt Office's retail market borrowing as at 31 December 2009, the rest of the savings market as at 20 September 2009.*

## Profitable positions

Alongside the ordinary financing of central government debt, we are able to take positions through what is known as active management. A position means that we increase or decrease our exposure to a particular asset on the basis of how we believe the value of that asset will develop. We can take both foreign currency and interest rate positions in global markets. The objective is to reduce the cost to the state without assuming excessive risk.

A profit in active management reduces the state's interest costs by the same amount. Active management is a normal element of asset management, but is unusual among central government debt managers.

**Position for a stronger krona**
During the first quarter of 2009, the Debt Office built up a position of SEK 15 billion for a stronger krona against the euro. This was the highest level permitted according to Government guidelines. We considered that the krona was so weak that it was justified to build up a larger position. Our proposal led to the Government changing its guidelines so that we could increase the position to a maximum of SEK 50 billion. We were also authorised to take positions in Swedish kronor without using derivatives and outside of the mandate for taking other positions; see below. This position was gradually built up to SEK 48 billion by November 2009.

Our krona position is strategic, which means that we can keep it for an extended period of time. The future closing out of this position will take place gradually. Although the krona has strengthened since its lowest level at the start of March 2009, it still appears to be undervalued. In our view the krona is far from levels that can be justified by more fundamental conditions. It should therefore strengthen considerably over time. By increasing our currency exposure when the krona is weak and reducing it when the krona is stronger, we can reduce the cost of central government debt.

On 31 December 2009, the first part of this position showed an unrealised gain of SEK 0.8 billion, and the second part, where SEK 33 billion out of SEK 35 billion had been built up, showed an unrealised gain of SEK 0.9 billion.

**Gain on strategic dollar position**
In March, we reported that a strategic dollar position had resulted in a gain of approximately SEK 2.5 billion. The decision on this position was taken around six months into 2008, when the dollar was weak in relation to the euro. The position, which amounted to USD 1.6 billion, was taken at an average rate of just under USD 1.58 per euro. After the dollar had strengthened considerably, we closed out the position at an average rate of around 1.26 in the first quarter of 2009.

**Profit from ongoing active management**

Alongside strategic positions, we conduct ongoing active management in foreign currency, where we can take more short-term positions. Over the period 2005 to 2009, these activities made a total profit of SEK 677 million. During this five-year period, interest rate positions made a considerable profit and foreign currency positions made a small loss.

The profit was SEK 514 million in 2009; see Table 6. The profit for the year was mainly derived from foreign currency positions, but interest rate positions also performed well.

Table 6 Active management performance

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| *SEK million* | | | | | |
| Total management | −430 | 339 | −238 | 492 | 514 |
| Debt Office | −426 | 348 | −203 | 305 | 424 |
| *Of which:* | | | | | |
| Interest rate positions | 187 | 367 | −241 | 44 | 138 |
| Foreign currency positions | −613 | −19 | 38 | 261 | 286 |
| External managers | −4 | −9 | −35 | 187 | 90 |
| *Percentage of assets under management* | | | | | |
| Debt Office | −0.25 | 0.21 | −0.12 | 0.18 | 0.25 |
| External managers | −0.01 | −0.03 | −0.11 | 0.65 | 0.32 |

In its own active management, the Debt Office took positions that reflected a low utilisation of the risk limit permitted in 2009. The external managers utilised considerably more of the risk limit in their management, but since they account for a relatively small proportion, the total level of risk-taking was low.

On average, the external management performed slightly better than our own management in 2009. The preceding year was one of the best ever for the external management. There was a wide spread between the different managers. Over a five-year period (2005 to 2009), our own management and the external management contributed to positive performance by two-thirds and one-third, respectively. To make the comparison fair, considering the fact that the size of the risk mandates differ, the results are converted into a percentage of the amount managed.

The Debt Office engages external managers to bring in external expertise and experience in order to further reduce costs and to get a benchmark against which we can evaluate our own management.

**Guidelines for active management**

The active management is governed by a framework limiting the risks we can take. The Government has granted us a total risk mandate of SEK 600 million in terms of daily Value at Risk (VaR). This means that we can take positions that (based on specified financial and statistical assumptions) with a certain probability can fall in value by no more than SEK 600 million in one day.

The Board decided that the risk mandate for the ongoing active management would be SEK 220 million in 2009, which is the same as previous years. The rest of the risk mandate was reserved for potential strategic positions.

The first guideline decision included foreign currency positions in kronor at no more than SEK 15 billion in the VaR mandate. However, our krona positions have been governed by separate rules since the guidelines were changed in March 2009.

# Guarantees and loans

Our guarantee operations were placed in the limelight when we were directed by the Government to negotiate with Volvo Cars and Saab Automobile regarding state guarantees for loans granted by the European Investment Bank. We also assumed responsibility for a special loan programme for the automotive industry.

The Debt Office's lending to parties other than government authorities increased over the year. As a consequence of the financial crisis, we granted a loan to Iceland and provided a loan commitment of SEK 100 billion to the Swedish Export Credit Corporation.

The bank guarantee programme is described in the 'Bank support' section.

### Remit and objectives

The Debt Office is responsible for providing and managing state guarantees and loans. Our assignment also includes actively working to ensure that the guarantee and loan operations of other public authorities are run efficiently.

Guarantee fees and interest rate conditions for guarantees and loans provided by the Debt Office are to reflect acturarial principles so that our costs are covered by revenues over the long term. We seek to limit the state's risk and safeguard the state's rights.

The Debt Office's role as a guarantee and loan authority entailed many new and significant tasks over the year. These new assignments required a considerable amount of work and some new expertise. We were able to manage this responsibility by reprioritising and engaging more consultants than usual.

## Focus on the automotive industry

In December 2008, the Riksdag decided on a framework for state credit guarantees applying to automotive companies seeking loans from the European Investment Bank (EIB) to adapt their operations to green technology. These guarantees may not exceed SEK 20 billion in total. The Riksdag also initiated a rescue loan programme for the automotive industry at the start of the year.

**Lengthy negotiation process with Saab Automobile**

The Government assigned us in June to commence negotiations with Saab Automobile (Saab) regarding a state credit guarantee for a loan from EIB. Saab's owner, General Motors (GM), signed a declaration of intent in the same month regarding the sale of Saab to Koenigsegg Group.

Our negotiations, which were based on guidelines issued by the Government, included discussions with Saab, Koenigsegg and GM concerning the terms of credit guarantees. We also conducted an extensive analysis of Saab's business plan and assessed the collateral that would be provided for a guarantee.

Koenigsegg announced at the end of November that it did not intend to go ahead with the purchase of Saab. Shortly thereafter, negotiations for the guarantee once again gathered momentum when GM identified Spyker Cars as a potential buyer of the company. However, GM announced on 18 December that the sale could not go through and that Saab would be wound up in an orderly fashion. GM nevertheless left the door open for new bids during the winding-up process.

The plans for Saab took a new turn in early 2010. The Debt Office submitted a report of our assignment to the Government on 12 January 2010, including proposals for appropriate guarantee agreements, an analysis of Saab's business plan and a valuation of the collateral. Within two weeks of this, GM announced that an agreement had been reached to sell Saab to Spyker. The Government then directed us to finalise the negotiations on the outstanding items and provide the guarantee.

A precondition for the provision of this guarantee was that the outcome of negotiations about the outstanding items did not lead to an increased level of risk for the state. We also needed the Government's approval of the guarantee agreement with the EIB.

The Government approved our proposed guarantee agreement with the EIB on 12 February 2010. On this same date, the EIB gave its final approval for the loan of a maximum of EUR 400 million. The terms of the guarantee had already been approved by the European Commission.

The guarantee agreement was signed and came into force on 23 February 2010 when the transaction between GM and Spyker for the purchase of Saab was finalised.

**Negotiations with Volvo Cars put on hold**

At the beginning of the year, we had a similar assignment to commence negotiations with Volvo Cars and its owner, Ford, concerning a credit guarantee for a loan with EIB. We presented a final proposal for the guarantee conditions in early April.

On 7 May, Volvo Cars announced that it had reached an agreement with the Government to postpone the negotiations about the guarantee. According to Ford, this was partly because the strategic review being conducted within the company could possibly bring about the sale of Volvo Cars.

**No rescue loans granted**

Seven companies applied for a rescue loan in 2009, but the conditions are stringent and consequently no loans were granted. For example, loans must be repaid within six months and adequate collateral must be provided. The programme is primarily directed at major subcontractors in the car and truck manufacturing industry.

## New loans

Our lending to parties other than central government authorities increased during the year. This partly resulted from our assignment to provide a loan to Iceland. We were also involved in facilitating the funding of Swedish export companies.

**Loan commitment for the Swedish Export Credit Corporation**

Long-term loans are necessary for many export transactions, but uncertainty in the financial markets made it difficult for Swedish export companies to obtain such loans. The Riksdag therefore decided to extend access to export financing. As part of a package of measures, we were assigned to provide the Swedish Export Credit Corporation with a maximum loan commitment of SEK 100 billion.

This loan commitment may be used to finance commercial exports as well as for lending within the existing system for state-supported loans. The Swedish Export Credit Corporation did not utilise the loan commitment in 2009, but it still helped to facilitate the company's lending to the export industry. The loan commitment has been extended and will also apply in 2010.

**Loans for Iceland and Latvia**

At the beginning of the year, the Riksdag decided that Sweden, together with the other Nordic countries, would provide a loan to Iceland. The aim of this joint loan is to provide long-term assistance to help Iceland's recovery from its financial crisis. The loan is being co-ordinated with a financial support programme from the International Monetary Fund (IMF).

The Debt Office was assigned by the Government to draw up a loan agreement together with the other Nordic countries. This agreement was signed on 1 July and entitled Iceland to a total loan of USD 2.5 billion. These payments, which are intended to keep to the IMF programme's time schedule, are to be made in euro. Sweden's share of the loan is EUR 495 million, of which EUR 84 million was paid out in 2009. The rest will be paid out in 2010. Iceland will make the first amortisation payment on the loan at the end of 2014 and it is to be completely repaid by 2021.

The Nordic countries and Estonia have jointly decided to lend a total amount of EUR 1.9 billion to Latvia, of which Sweden's maximum share amounts to EUR 720 million. No loans were paid out in 2009.

**Royalty loan to Volvo Aero**

In the autumn we lent approximately SEK 300 million to Volvo Aero, an aircraft engine company. This money represents part-financing of the company's costs for developing components of a new aircraft engine (GEnx) being manufactured by General Electric. The loan is to be repaid through the company paying the central government a royalty on future sales proceeds. This means that repayments entirely depend on how many GEnx aircraft engines are sold.

The conditions for the loan were negotiated quite some time ago, but the release of the loan was awaiting approval from the European Commission. This is the third loan on similar conditions the Government has assigned us to pay out to a company within the aviation industry.

## Risks associated with the guarantee and loan portfolio

Besides the bank guarantee programme and deposit insurance scheme, our guarantee portfolio amounted to SEK 46 billion at the end of the year. We have major commitments to infrastructure, Swedish and international credit institutions as well as pensions for former employees of central government authorities that have been corporatised; see Figure 8. However, we also

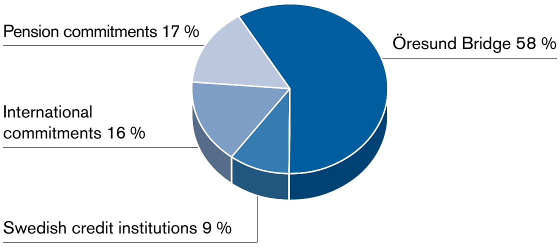
Table 7 Commitments, provisions and assets in the guarantee operation

31 December 2009, SEK million

| | Guarantee commitments | Provisions for expected guarantee losses | Guarantee fees paid in | Future guarantee fees that have not yet been paid |
|---|---|---|---|---|
| Guarantee portfolio | 46,213 | 1,083 | 2,227 | 96 |

Figure 8 Guarantee commitments

Guarantees for SEK 46 billion, 31 December 2009,
Distribution in per cent




have many small guarantees outstanding to businesses within agriculture and in sparsely populated areas.

The provision for expected losses in the guarantee portfolio was SEK 1.1 billion at the end of the year, which is broadly the same amount as at the end of the previous year. The guarantee fees that we charge to cover future losses create a guarantee reserve, which amounted to SEK 2.2 billion at the end of the year. This means that the guarantee reserve is larger than the provision; see Table 7. It is normal for provisions and reserves not to tally at all times. A claim paid out under a guarantee, or a significant risk of a claim having to be paid, may lead to the reserve being smaller than the provision.

Our lending to non-state borrowers amounted to SEK 23.6 billion at the end of the year, compared with SEK 21 billion in 2008. This is primarily intended to finance infrastructure projects. Loans are valued at a total amount of SEK 22.7 billion owing to expected credit losses. The write-down of SEK 0.9 billion remained the same compared with the end of the previous year.

**Guarantees terminated**

We provided a guarantee in 2007 to support a bank loan for SwePol Link, a company that is running a power cable under the Baltic Sea. This guarantee, which amounted to approximately SEK 150 million, was released in 2009 as the company was able to borrow money without it.

The summer saw the termination of a guarantee issued at the time of the central government's sale of Vin & Sprit. According to a Government decision, no fees were charged to cover economic risks to the state. Any claim paid out under the guarantees would instead have been deducted from the proceeds of the sale of the company.

## Guarantee and credit management at other authorities

Our assignment includes providing ongoing advice and assistance to other guarantee and credit authorities and suggesting changes to improve the efficiency and ensure the prudent management of guarantees and loans within the central government. We downgraded the activities planned within this area in 2009 to free up resources for the new assignments generated by the financial crisis.

At the end of the year, the Government directed us to conduct two new inquiries. The aim of the first is to provide proposals for how to amend the system of rules (applicable ordinance) for granting state guarantees and for a new system of rules for granting state loans. This assignment resulted from the changes expected to ensue from the review of the Budget Act currently underway. The second assignment is to propose how risks associated with the state's overall guarantees could be better analysed each year. Reports on both assignments are to be submitted in 2010.

# Deposit insurance and investor compensation

The compensation level for the deposit insurance scheme was adapted to the EU requirement in 2009. A government inquiry proposed a number of changes to the deposit insurance scheme to further bolster protection for savers and underpin financial stability. Our work largely involved providing information about and preparing the Debt Office for these changes. We also continued to work on a previous compensation case under the investor compensation scheme and produced a proposal for the allocation of the costs involved in this case.

### Remit and objectives

The Debt Office is responsible for managing the deposit insurance and investor compensation schemes.

Our work aims to promote consumer protection regarding deposits as well as securities and other funds managed by financial institutions on behalf of customers. We are responsible for charging correct fees in a cost efficient way. Deposit insurance fees should be managed so that they provide a good long-term return, while maintaining good contingency reserves and spreading risks. We are also responsible for ensuring that compensation cases are processed correctly and efficiently. This for example requires our cooperating in international fora while also being prepared to disburse money quickly in the event of a compensation case.

The financial crisis has resulted in a number of changes being made to deposit insurance schemes around the world, including increased levels of compensation. The crisis has also clearly illustrated that countries need to improve their cooperation in order to better deal with the problems experienced by major multinational banks. An important part of our work is to provide Swedish savers with information about how the deposit insurance and investor compensation schemes work.

## Inquiry proposes improved and quicker deposit insurance

In the spring, the Government inquiry on deposit insurance presented its report (Swedish Government Official Reports – SOU 2009:41). The inquiry proposed a number of changes to the insurance scheme aimed at strengthening the protection for savers and further bolstering financial stability. It was for example proposed that the Debt Office should be able to inform savers in advance about which accounts are covered by the insurance. We should also be able to pay out compensation more quickly than is currently required, to reflect new EU rules. These changes will place greater demands on us. For example, we need to further improve our readiness to deal with compensation cases.

## Level of compensation adapted to the EU

The maximum compensation from the Swedish deposit insurance scheme was changed on 30 June to correspond to EUR 50,000 (it was formerly SEK 500,000). This was an adaptation to the EU's rules which require compensation limits within the European Union to be a minimum of EUR 50,000. Sweden also decided that the limit should be at least SEK 500,000 regardless of the exchange rate between the euro and the Swedish krona.

## Increased awareness about the deposit insurance scheme

The financial crisis has led to an increased level of interest in, and greater awareness about, the deposit insurance scheme. A survey conducted by the Debt Office in 2009 showed that the proportion of respondents who had never heard about the deposit insurance scheme had dropped to 13 per cent compared with over 40 per cent in 2008.

We continued to receive many enquiries about the scheme. The number of visitors to our designated web site (www.insattningsgarantin.se) increased dramatically at an early stage of the financial uncertainty that arose during the autumn of 2008 and remained at a level in 2009 that was higher than the first six months of 2008.

## No new compensation cases, but one old one

There were no new compensation cases under the deposit insurance and investor compensation schemes in 2009, although our work relating to a previous compensation case: the securities company CTA Lindh & Co Scandinavia (CTA).

The Supreme Administrative Court ruled in November that a former client of CTA was entitled to compensation from the investor protection scheme even though the client's account had been closed before the company went into bankruptcy in 2004. The Deposit Guarantee Board, which was formerly the responsible guarantee authority, rejected the application for compensation, with the reasoning that the client was no longer considered to have any business relationship with CTA as of the account being closed. However, the client had closed the account without being aware that CTA had not paid out all of his assets.

We reconsidered the investor's claim for compensation following the decision by the Supreme Administrative Court, and began to review how the judgment could affect other former clients of CTA.

During the year, we also continued to present financial claims through CTA's bankruptcy estate to a number of persons who we considered bore the main responsibility for CTA's bankruptcy. These claims are based on irresponsible or fraudulent conduct. One of these actions was concluded to the benefit of the bankruptcy estate and the central government. Two cases are still pending.

## Fees

The deposit insurance and investor protection schemes are financed by means of fees charged to the banks and other financial institutions covered by the central government's guarantee.

**Deposit insurance**

Deposit insurance is financed by annual fees charged to the affiliated institutions. The total fees must be equivalent to 0.1 per cent of the guaranteed deposits. Fees vary for each institution depending on the total capital of the institution in relation to the other institutions.

Fees increased in 2009 because the level of compensation had been raised in October 2008 at the same time as all deposit accounts received cover by the insurance scheme. Over 150 institutions are currently affiliated and the total deposits insured amounted to SEK 886 billion on 31 December 2008. The total fees for 2009 were consequently SEK 886 million.

The fees received are deposited in an investment fund managed by the Legal, Financial and Administrative Services Agency on behalf of the Debt Office. Investments are made in government bonds or one of our own interest-bearing accounts. The accumulated value of the assets was just over SEK 21 billion at the end of 2009. The return in 2009 was –0.38 per cent, which slightly outperformed the comparison index. The negative yield resulted from the market value of the investment fund being adjusted downwards due to the changes in market interest rates.

**Investor protection**

The institutions affiliated to the investor protection scheme pay an annual charge corresponding to the administrative expenses related to this protection. The cost of compensation cases is paid after the extent of the loss has been determined through additional fees.

There are no regulations stipulating in detail how we should impose fees for compensation cases. We have therefore analysed how such fees should be allocated following the compensation case that arose in connection with the bankruptcy of CTA. We circulated a proposal for consultation in the autumn to institutions affiliated to the investor protection scheme at the time of CTA's bankruptcy. In 2010, we will determine how these fees will be allocated.

## Results and costs

Our costs attributed to the deposit insurance and investor compensation schemes amounted to SEK 5.5 million and SEK 1.8 million respectively in 2009. In total, this was SEK 2.3 million less than in 2008, as there were greater costs for dealing with enquiries from the public in conjunction with the beginning of the financial turbulence.

In addition, we had costs totalling SEK 4.6 million for processing of previous compensation cases, which was twice the amount of the previous year. This twofold increase primarily resulted from the legal proceedings due to the CTA compensation case.

# Bank support

Action taken by the Government to stabilise the financial market situation gradually began to yield results in 2009. The guarantees for securities borrowing by banks were utilised frequently by a small number of banks in the first six months of the year, but thereafter reduced in scope.

In February 2009, we sold the shares in Carnegie Investment Bank and Max Matthiessen, which we had taken over in November 2008. The terms of sale mean that the state's costs of supporting Carnegie will probably be recovered.

The Stabilisation Fund, which was set up to finance support measures, was worth SEK 31.6 billion (including the Fund's Nordea shares) at the end of the year.

## Remit and objectives

The Debt Office is the supporting authority under the Government Support to Credit Institutions Act. Our assignment includes responsibility for managing the central government's guarantee programme for securities borrowing by banks and mortgage institutions, and the capital injection programme for solvent banks. Furthermore, we have been given a mandate to take decisions on emergency support measures for banks and other credit institutions. We also administer the Stabilisation Fund that has been set up to finance measures to safeguard the financial system.

The objective is to counteract serious disruptions to the financial system. The support measures should be provided on a commercial basis as far as possible, and must not cause any unfair distortion of competition. We are to strive to keep the central government's long-term support costs to a minimum and to recover contributions made by the central government as far as practicable. We report to the Government, according to directives, on a quarterly basis.

The Debt Office plays a central role in the Government's initiatives to reinstate confidence in the financial system. The combined support measures implemented by the central government helped to mitigate the effects of the financial crisis in 2009. The bank guarantee programme facilitated banks' borrowing, which in turn made it easier for households and businesses to get loans on reasonable terms. Up until now, the support measures that we have taken have generated revenues exceeding the central government's expenses. This caused the value of the Stabilisation Fund to double during 2009.

## Bank guarantee programme utilised extensively at the start of the year

State bank guarantees were utilised frequently over the first six months of 2009, when continued uncertainty in the financial markets made it difficult for banks to borrow. The volume of outstanding guarantees peaked at SEK 354 billion. The maximum limit for the bank guarantee programme is SEK 1,500 billion.

The banks joining the programme in 2009 were SBAB, Sparbanken Gripen, Carnegie Investment Bank and SEB. Swedbank AB, Swedbank Hypotek and Volvofinans Bank had already joined in 2008. The Swedbank Group represented the largest share – almost 90 per cent – of the guarantees provided.

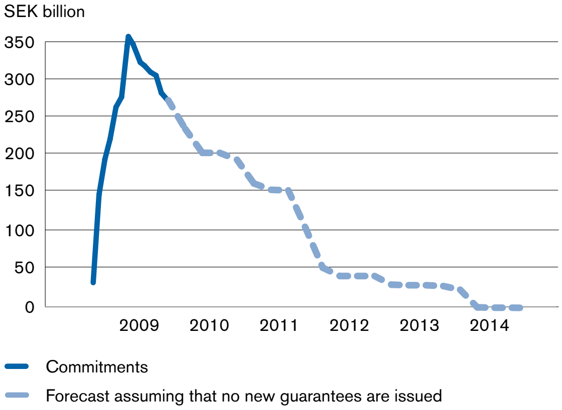
In April 2009, the Government extended the guarantee programme and broadened its scope so that it also covered unsecured loans with maturities of up to five years. The aim was to reduce the liquidity risks in the financial system and to improve the banks' capacity to provide businesses and households with loans with longer maturities.

**Gradually falling demand for guarantees**

Outstanding bank guarantees gradually decreased after the summer. The main reason for the reduction was that old guarantees started to expire at a faster rate than new ones were being issued, as the financial turbulence abated. A stronger krona also led to a reduction in the value of the guarantees issued in foreign currency. By the end of the year, outstanding guarantees had fallen to SEK 271 billion.

Approximately SEK 70 billion (or around one quarter of the outstanding guarantees at the end of the year) will fall due in 2010. A further SEK 100 billion is expected to expire in 2011; see Figure 9. This forecast assumes that no new guarantees will be issued and that all outstanding guarantees will run until maturity.

Figure 9 Scope of the commitment under the bank guarantee programme over a period of time




**Too early to wind up the programme**

Despite the better outlook in the financial markets, the Government extended the bank guarantee programme in October for the second time. The reason was that an additional safety net was still needed to cover the eventuality that financial stability might once again deteriorate. The programme now applies until 30 April 2010.

SEB and SBAB chose not to renew their contracts in conjunction with this extension. SEB had never utilised the programme and thus has no outstanding loans with a state guarantee. The loans raised by SBAB within the programme are guaranteed until they mature or are repurchased.

**More money flowing in than out**

Put simply, the guarantee programme means that, in return for a fee, the Government undertakes to step in if the institution that has raised the guaranteed loan cannot pay its lenders. During 2009, we charged fees of SEK 2.1 billion in total for bank guarantees. No payments had to be made for claims under the guarantee programme.

We estimated in 2009 that expected gains for the entire programme would be SEK 5 billion. Projected expenses were estimated at SEK 1.1 billion and revenues at SEK 6.1 billion. However, it should be mentioned that expected gains tend to conceal the fact that there is a risk of considerable expenses arising (though of very low probability), while the most likely outcome is that no guarantee claims will have to be paid. This projection assumes that no new guarantees will be issued and that those outstanding will be kept until they expire.

## Only one case of capital injection

The Debt Office has been empowered since 17 February 2009 to provide solvent banks and mortgage institutions with capital injections in the form of either loans or share capital. Through a capital injection the government can make it easier for banks and mortgage institutions to increase their lending to businesses and households and in this way offset a credit squeeze. In 2009, the capital injection programme was extended until 17 February 2010. It was extended once again in January 2010 and is now open until 17 August 2010.

So far, only one bank (Nordea) has received a capital injection. The Government, as the largest shareholder of Nordea, chose in the spring of 2009 to participate in the bank's new share rights issue through the capital injection programme. This capital injection amounted to SEK 5.6 billion.

## No new emergency support for banks – Carnegie sold

As a supporting authority, the Debt Office can step in if a financial institution experiences financial difficulties of such magnitude that there is a risk of serious disruption to the financial system in Sweden. No such intervention was needed in 2009.

On the other hand, we continued to handle Carnegie Investment Bank (CIB) and Max Matthiessen (MM), which we took over in November 2008 to protect creditors and uphold financial stability. Shortly after these takeovers, we initiated a sale of the shares through a so-called controlled auction and in February 2009 agreed to sell these companies to Altor Fund III and Bure Equity AB. The sale was concluded in May.

We estimate that the total income from this sale will cover the support loan received by CIB in November 2008 including our expenses. The sale will generate at least SEK 2,275 million, including an amortisation of our loan to CIB. In addition, we are entitled to a share in the future repayments of certain loans granted by CIB. If we are not compensated for our involvement, Altor and Bure will compensate us if they sell CIB for a profit within a 15-year period.

**Ongoing legal proceedings**

The former owners, D. Carnegie & Co, have requested that the Examination Board consider our valuation of CIB and MM made at the time of their takeover, which they are entitled to do under the pledge agreement. This valuation has a bearing on the issue of whether there will be any surplus to report to the former owners once the support loan has been deducted. D. Carnegie have requested that the value be adjusted upwards by approximately SEK 5 billion.

The valuation commissioned by us is a liquidation valuation, because CIB would have been put into liquidation as the company had no licence to run a banking operation. D. Carnegie claims on their part that the valuation should have been conducted as if the company held a licence.

We have also requested that the District Court should determine that we were entitled to take over the companies and then, as their owner, to sell them. D. Carnegie have questioned this in various contexts and left open the possibility of going to the District Court if they are unsuccessful at the Examination Board. We were of the opinion that these issues should be considered in the proper sequence and have therefore also requested that the dispute at the Examination Board should be suspended pending the ruling of the District Court. The Board decided to allow the matter to proceed, so these proceedings are now running in parallel.

## Size of the Stabilisation Fund has doubled

The Riksdag has decided to set up a stabilisation fund to finance future bank support measures in the form of, for instance, calls to make payments under guarantees and provide capital injections. The administrative costs associated with bank support are also to be financed by the Fund, while revenues in conjunction with support measures will be added to the Fund. Such income may involve, for instance, guarantee fees, dividends and sales proceeds. The Fund is underpinned by unlimited credit.

The Fund will be built up by banks and other credit institutions paying an annual stabilisation charge. The Government has also stated that the Deposit Insurance Fund, which currently holds approximately SEK 21 billion, will ultimately be transferred to the Stabilisation Fund.

The objective is for the Stabilisation Fund to attain a value corresponding to 2.5 per cent of GDP within 15 years (by 2023). According to our calculations it can be expected to reach this level already by 2016.

The Fund's total holding at the end of 2009 was SEK 11 billion, including invoiced guarantee fees for the first three quarters. If the Nordea shares are included at their acquisition value, the Fund was worth SEK 16.5 billion; if they are valued at their market value instead, the Fund was worth SEK 31.6 billion.

### Invoices for stabilisation charges to be issued in 2010

The first invoices for stabilisation charges will be based on balance sheet figures as of 31 December 2009. For 2009 and 2010 the institutions will pay half of the prescribed long-term fee. Institutions participating in the bank guarantee programme may deduct the guaranteed loans from the reference base for the stabilisation charge.

The stabilisation charge will initially be related to the respective institution's balance sheets without risk differentiation. The Government has announced that it intends to present a proposal in 2011 regarding how the stabilisation fee system could be merged with the deposit insurance scheme to form a common and risk-differentiated fee system.

# International contacts

The global spread of the financial crisis has clearly demonstrated the need for international cooperation within the financial sector. Crisis management and bank support was the main subject discussed at most of the seminars that we participated in during 2009. The international assignments that we took part in were mainly in the field of debt management.

We were awarded an EU contract in Ukraine at the end of the year together with corresponding authorities in France and Hungary. Our role in this project is to support Ukraine in developing its debt management operation.

There was considerable international interest throughout the year in how Sweden manages banking crises. Director General Bo Lundgren was invited to give speeches about Sweden's experience of bank support measures, for example at the US Congress and at the Eurofi meeting held in Gothenburg during Sweden's Presidency of the EU. The Debt Office also continued to foster its international relations in the areas of debt management and deposit insurance.

This exchange of experience with other countries helps to enhance expertise and motivation among Debt Office staff and strengthens our reputation internationally.

## Focus on the impact of the financial crisis

The Debt Office has participated in the OECD's Working Party on Debt Management for many years. The Working Party on Debt Management, which usually meets once per year, held an extraordinary meeting in April 2009 to discuss the consequences of the financial crisis for debt offices around the world. In many countries, the most obvious impact has been the considerable cost of bank support and other measures to maintain financial stability leading to a sharp increase in their borrowing requirements.

We participated in a number of international conferences within the area of deposit insurance and investor compensation. At these fora, discussions covered how states could more rapidly release compensation to savers if a bank should go bankrupt. Another important issue was how increased cooperation between countries could help to improve management of financial difficulties by major multinational banks.

We also cooperate regularly with the World Bank and the IMF. This cooperation involves our employees taking part in seminars and workshops and from time to time carrying out assignments (technical assistance) in countries that have requested debt management services. Our employees took part in two assignments of this kind in 2009.

## EU assignment in Ukraine

As of 2009, our Instructions allow us to engage in the export of services. This means that we can develop broader and more long-term forms of collaboration with countries that are about to set up or develop their central government financial management. Our first assignment will be to participate in an EU project in Ukraine. We were awarded the Ukraine contract in December together with corresponding authorities in France and Hungary. The Swedish National Financial Management Authority (ESV) will also participate.

The work in Ukraine takes the form of a twinning project, which involves public authorities in EU member countries assisting corresponding organisations in candidate countries, potential candidate countries and neighbouring states to the EU. The Ukraine project is funded by a support grant from the EU.

The aim of the twinning project is to support Ukraine in improving its budgetary forecasting and debt management processes, with the purpose of developing the country's central government financial management in line with EU legislation, regulations and best practice. The project will commence in June 2010 and run for a period of two years. The Debt Office will administer the debt management side of this project and provide expertise in the areas of institutional building, debt strategy development and financial instruments.

## Study visits from India, Vietnam, Serbia and Turkey

An important component of our international relations is to receive study visits. We were visited in 2009 by the Indian Ministry of Finance. India has decided to set up a debt management office and visited Sweden to get an insight into how this type of operation can be organised. This cooperation will continue with a workshop on risk models in 2010.

We were also visited by representatives of the Vietnamese Department of Finance, where the theme was development of the financial market in Vietnam. We discussed management of deposit insurance schemes with representatives from Serbia and also met with the Turkish Ministry of Finance.

# Risk management

Risk management is an area of high priority within our complex and important operation. We observe market practices and are continually developing our risk management. The models that we use to assess risk within debt management have worked well over the year, despite the market turbulence.

As part of our security work, all of our employees underwent training to learn about how to maintain information security. We also produced a plan at an early stage for dealing with possible work disruptions ensuing from the potential spread of the new flu virus.

## Remit and objectives

The Debt Office must prepare a description of the main risks associated with its operation and how these risks should be managed. We must also prepare internal instructions for how to manage existing risks.

In our risk management operation, besides what is stated in the Government guidelines, we must strive to comply with market practices. We should ensure that the management of financial and operational risks complies with the relevant requirements for the operation set out in the legislation relating to financial companies and the regulations and general advice issued by the Swedish Financial Supervisory Authority.

The overall objective of the Debt Office is to minimise costs without assuming excessive risks. Analysing and managing risks consequently form a vital part of our operation. The cost of managing central government debt, managing the government payment model and pricing guarantees and loans depend partly on our capacity to assess and manage risk. Risks also arise in our ongoing operation through external events and developments and through our own actions.

In broad terms, our operations involve two main types of risk – financial and operational – as well as security issues.

## Overall risk management

The risk management practices we adopt are in line with market practices. This means that we use methods and models similar to those used by other leading financial market participants and have clearly defined policies and instructions.

The Board has the ultimate responsibility for limiting and monitoring risks associated with our operations and for ensuring good internal management and control.

We monitor on a daily basis how financial risks develop in relation to the limits and benchmarks set by the Board in the Finance and Risk Policy. Monitoring ensures that debt does not deviate from what is allowed and helps us to decide upon the transactions required to manage the debt. Deviations are reported to the executive management team and the Board.

Each department is responsible for assessing and managing the operational risks inherent within their own operation. The Risk Management Department is responsible for independent overall control as well as the comprehensive reports submitted to the executive management team and the Board. The Internal Auditor, who reports directly to the Board, evaluates overall risk management activities.

## Financial risk

Financial risk includes market risks and credit risks. Interest rate risk and currency risk are different types of market risk, while settlement risk, counterparty risk and concentration risk are examples of credit risk.

We monitor on a daily basis how the risks inherent in debt management develop in relation to limits and benchmarks that have been set. There were no significant deviations in 2009.

### Market risk in active management

We set limits based on Value at Risk (VaR) to measure and control the market risks in our active management. VaR is based on a statistical method, where the VaR value depends on the size of the market movements and the covariance in interest rates and foreign currencies. This method forecasts the size of a loss with a given probability over a given period of time. We conduct regular follow-ups of the model's forecasts by comparing them with the actual outcomes.

The VaR model's forecasts corresponded well with the actual outcomes during the period 2005 to 2009. Figure 10 shows that these outcomes largely follow the statistical normal distribution curve used by the VaR model. The model's forecasts corresponded relatively well with the outcomes even during periods of extreme market fluctuations, as over the past year.

**Credit risk management**

Credit risk means the risk of a counterparty to a transaction not fulfilling its obligations in relation to the Debt Office. Credit risk arises in derivative transactions that we execute to manage central government debt, in securities in which we have invested to manage the state's liquidity, and in the government payment model.

Management of credit risk differs slightly depending on the type of transaction involved. In general, we have limits for the maximum credit exposure to each counterparty. We also impose requirements on the credit rating of all of our counterparties. The lowest credit rating permitted is A-, but most of our counterparties have a higher credit rating than this; see Figure 11. The proportion of counterparties with an AAA credit rating increased to 26 per cent in 2009 from 16 per cent in 2008.

Besides requirements imposed on maximum exposure and the lowest permitted credit rating, we have concluded agreements in derivative transactions for netting, exchange of collateral to cover exposures (Credit Support Annex, CSA) and contracts that allow us to terminate transactions if the credit rating of a counterparty should fall below a certain level.

## Operational risk

Operational risk refers to human error, dysfunctional processes and systems as well as external events. We analyse this type of risk in conjunction with the planning of our operations, in projects and in our processes. These analyses are based on a self-evaluation method, where we identify and appraise our operational risk. We also take a position on whether each item of risk is at an acceptable level. In this way, we achieve a clear information base for prioritising and planning measures.

The risk analysis conducted in conjunction with the planning of our operations for 2009 was followed up over the course of the year and a new appraisal of the risks was conducted based on the measures we took.

Deviations in our operations are also reported and compiled to determine our operational risk. These deviations are compared with the risk analyses conducted and are evaluated using the same method.

The Board and the executive management team are kept continually informed about the current risk status. They are also kept informed about any deviations that have a major impact on our operations, together with any measures we have taken.

## Security

Conducting ongoing risk and vulnerability analyses is a key component of our security work. We identify deficiencies so that we can take appropriate action at a reasonable cost. We actively work to improve our level of security by implementing measures that encompass the entire operation.

**Information security**

The aim of information security is to protect our data. Our operation depends on correct information so that we can make appropriate decisions. This is why we place a major emphasis on issues relating to information security.

For example, in 2009 we arranged interactive basic training for all employees. We also started to work with information classification. By marking documents according to the sensitivity of their content, our internal processing of information will become more secure.

**Emergency preparedness**

The Debt Office sets high standards to ensure that it can conduct its operations even in the event of an emergency. For this reason, emergency preparedness represents an important part of our security work. We also collaborate with other public authorities to ensure that our part of the financial system always functions.

In 2009, we actively participated in FSPOS (a forum for cooperation between public authorities and the private sector), which strives to ensure that the financial system can function even in the event of a crisis. By exchanging experiences and know-how within this forum, our own continuity planning is better coordinated with the rest of the world.

One of the major topics of the year was the new influenza virus, A(H1N1). We were quick to produce a plan for how to deal with consequences affecting our work due to a major outbreak. The new influenza virus did not affect our performance during the year.

Figure 10 Value at Risk and outcome, 2005–2009

Per cent

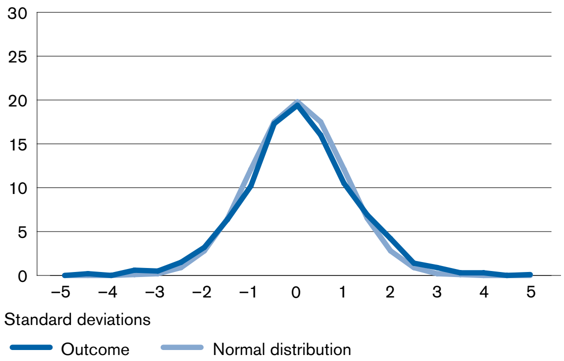
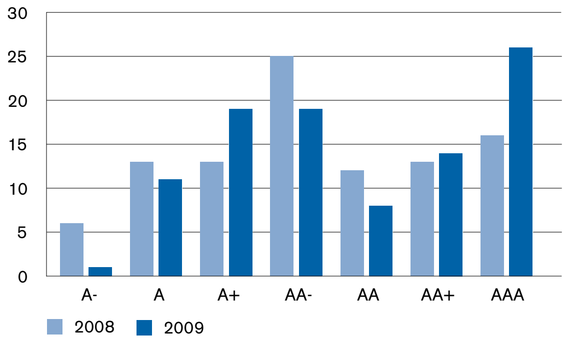



Figure 11 Debt Office counterparties by credit rating

Percentage on 31 December 2009



# Staff and skills

The Debt Office operates in a rapidly changing environment. This means that our collective skills must be continually developed. One of our key tasks in 2009 was to meet the need for skills that arose when we were given new assignments as a consequence of the financial crisis. The employee survey conducted in the spring showed that our employees, despite a continued heavy workload, are largely very satisfied with their work situation and with the Debt Office as an employer.

Within the framework of our long-term work to attract new staff, we initiated a trainee programme together with the Riksbank and the Swedish Financial Supervisory Authority.

The Debt Office is a knowledge-based organisation that is entirely dependent on the skills and capacity of its staff. For this reason, we always strive to ensure that we have the right number of employees with the right professional skills to enable us to perform our assignments. We also conduct an inventory twice a year to assess the skills that we need in both the short and long term.

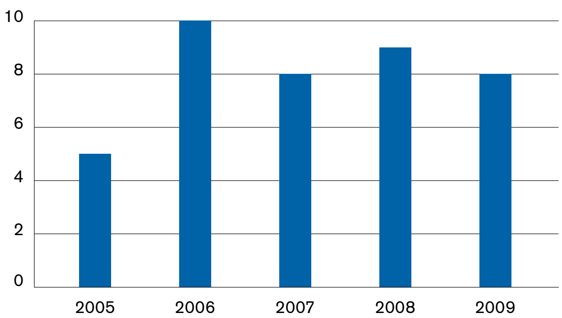
## New assignments increased the need for expertise

Our short-term skills need increased in 2009, mainly within our bank support and guarantee operations.

We ensured that we had sufficient resources and the right expertise to perform our new assignments by recruiting new staff within certain areas and engaging more consultants than usual. The number of employees (including temporary staff) increased from 160 in 2008 to 164 in 2009.

Staff turnover decreased from 9 per cent to 8 per cent. The average period of employment was 9.3 years and the average age was 43.5; see Table 8. Corresponding figures for 2008 were 9.9 and 43.8 years respectively.

Figure 12 Staff turnover




## Continuous professional development

Working for the Debt Office involves continual learning, both on the job and through education. The financial crisis meant that, on the one hand, many employees developed their skills by taking on new work tasks during the year. On the other hand, fewer staff had the time to take courses outside work.

In 2009, we invested SEK 18,620 per employee in external professional development programmes, compared with SEK 22,738 in 2008. Examples of in-house training included writing courses and seminars about information security and risk control.

Initiatives for professional development are afforded high priority in 2010, as are measures to reduce dependence on key members of staff.

## Committed and satisfied staff

In the employee survey conducted in the spring, 99 per cent of respondent stated that they would recommend the Debt Office as an employer. The survey resulted in an Employee Satisfaction Index of 77, an increase from 72 two years earlier. Our employees describe the Debt Office as an organisation with a good atmosphere and a high level of commitment and expertise. The outcome of the survey also showed that they consider that they have meaningful jobs where they utilise their skills and know-how.

The employee survey identified three areas where the Debt Office needs to improve: openness to change, efficiency and conflict management. Consequently, we decided to have a number of employees discuss these areas in focus groups. The first group was set up in the autumn and related work will continue in 2010. We will implement improvement measures based on the results of the discussions conducted within the focus groups.

Table 8 Age distribution, 2009

| | 29 and under | 30–39 | 40–49 | 50 and over |
|---|---|---|---|---|
| Number of employees | 11 | 55 | 56 | 42 |

## Joint initiative for a new trainee programme

As part of our strategic work to secure the provision of skills, we initiated a trainee programme in 2009 together with the Riksbank and the Swedish Financial Supervisory Authority. This programme attracted a great deal of interest among students, with over 500 people applying for the six places, two places per agency.

The purpose of launching a trainee programme is to enhance our own profile as an employer as well as to increase the level of interest in the government finance sector and develop the cooperation with the Riksbank and the Swedish Financial Supervisory Authority. The trainees get a unique insight into the financial system by spending six months at each authority before continuing their employment at one of the authorities.

Our long-term strategy to attract new staff also includes meeting with students and marketing the Debt Office as a prospective employer. We attended job fairs at the universities in Linköping, Stockholm and Uppsala in 2009.

## Alternative career paths

Another important initiative is our work relating to alternative career paths that we resumed in 2009. Our aim here is to ensure that there are different ways of making a career and developing professionally at the Debt Office. Besides the traditional managerial route, one option is to be appointed an expert. Obviously, there should also be good professional development opportunities through one's present job.

The role of an expert includes actively driving the progress of the Debt Office within a specific area. Experts should be at the cutting edge of their field, monitor developments in the surrounding world and bring new know-how to the organisation. The first experts were appointed at the end of the year.

## Equal opportunities

The Debt Office is an equal opportunity employer. We strive for diversity, as people from different backgrounds and with different kinds of experience, know-how and various types of personality enrich our operation. In 2009, the Debt Office drew up a new Diversity Policy and a Diversity Plan, which also includes an Equality Plan and a pay analysis.

The pay analysis showed that there were no unwarranted pay differences from an equality perspective. In the employee survey, 95 per cent of our employees stated that they consider that both sexes have equal opportunities at the Debt Office.

At the end of 2009, women represented 56 per cent and men represented 44 per cent of our staff. An equal number of men and women held managerial positions. Despite this generally equal distribution, there are major differences between departments. We endeavour to even out the distribution within the different departments or occupational categories when we recruit staff.

The Diversity Plan includes a number of activities to be conducted up to and including 2011 with the aim of achieving various sub-objectives in this area. For example, we assess the quality of our recruitment process on an ongoing basis and enhance the level of awareness and knowledge about diversity issues among our employees and managers.

## Health and sickness absence

Total sickness absence was 2.0 per cent in 2009; see Table 9. This may be compared with 2.8 per cent in 2008. Employees on long-term sick leave (that is, employees absent from work for 60 days or more) represented 29.5 per cent of total sickness absence.

We offer all of our employees health promotion in the form of, for instance, health promotion subsidies, subsidized massages and vaccinations with the aim of reducing absence due to sickness. The health promotion subsidy (SEK 3,000 maximum per employee) was used by 66 per cent of employees in 2009, an increase from 58 per cent in 2008.

We ran information campaigns to prevent the spread of the new influenza virus and offered vaccinations. Employees could also receive ordinary influenza and TBE vaccinations.

Table 9 Sickness absence

| Group of staff | Per cent [1] 2008 | Per cent [1] 2009 |
|---|---|---|
| Women | 4.4 | 2.9 |
| Men | 0.9 | 0.9 |
| Employees 29 and under | 1.1 | 1.4 |
| Employees 30–49 | 2.8 | 1.9 |
| Employees 50 and older | 3.0 | 2.2 |
| **Total for all employees[2]** | **2.8** | **2.0** |

[1] *Period of sickness absence/total standard hours for each group.*
[2] *Long-term sick leave of 60 days or more accounted for 29.5 per cent of total sickness absence.*

# Expenditure and appropriations

The Debt Office is responsible for making interest payments on central government debt. We also have an appropriation for commission payments associated with central government debt management and an appropriation to cover our operating costs.

## Interest payments on central government debt

We paid SEK 31.4 billion in interest on central government debt in 2009, which was less than the appropriation of SEK 33.7 billion. This difference can be attributed to lower market rates than those assumed when this appropriation was calculated. This yielded lower rates on loans in Swedish kronor and higher premiums on issues than estimated. The lower rates were counteracted by greater foreign currency losses than estimated.

Compared with 2008, interest payments decreased by SEK 1.8 billion. Lower market rates meant that, taken together, interest on loans in Swedish kronor, foreign currency as well as deposits and lending reduced by SEK 17.7 billion. Premiums on issues and exchange losses reduced by SEK 2.8 billion and SEK 2.4 billion respectively.

At the same time, exchange rate differences increased by SEK 20.4 billion. The scale of the exchange rate differences depends on how the exchange rates for loans in foreign currency develop between the date when the loan is raised and the date of maturity. Such exchange gains and losses are also affected by currency forwards, which we use to achieve the foreign currency exposure we set for each foreign currency.

## Lower average interest rates

The average running yield for the entire central government debt was 1.90 per cent at the end of the year compared with 3.50 per cent at the end of 2008. This drop is due to significantly lower market rates. The full impact of changes in market rates is reflected in the running yield for all loans and instruments issued with short maturities. The running yield changes much more slowly for the stock of bonds.

The average running yield is a measure of the cost of central government debt. This is a nominally weighted average value of historical running yields. This measure is based on outstanding debt at the end of the year and does not include loans that have matured during the year.

The average running yield for our largest loan instruments in Swedish kronor is shown in Figure 13. The outstanding volume in these instruments was SEK 819 billion at the end of the year. Total central government debt was SEK 1,189 billion.

### Nominal bonds

The average running yield for the outstanding stock of nominal bonds was 4.15 per cent at the end of 2009, which is 0.21 percentage points lower than the previ-

Table 10 **Interest on central government debt**

| SEK million | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Interest on loans in Swedish kronor | 39,428 | 37,914 | 38,587 | 39,063 | 25,008 |
| Interest on loans in foreign currency | 11,415 | 10,512 | 10,921 | 9,645 | 7,696 |
| Interest on deposits and lending | –6,943 | –6,111 | –5,400 | –4,813 | –6,459 |
| **Total** | **43,900** | **42,315** | **44,108** | **43,895** | **26,245** |
| Issue premium/discount | –9,049 | –3,967 | –3,533 | –7,986 | –10,755 |
| Foreign exchange losses/gains | –10,228 | 6,336 | 2,454 | –6,497 | 13,904 |
| Exchange losses/gains | 7,615 | 5,929 | 4,228 | 3,922 | 1,567 |
| Other (deposits, etc.) | 323 | –1,240 | –97 | –209 | 181 |
| **Total** | **–11,339** | **7,059** | **3,052** | **–10,769** | **4,897** |
| **Total appropriation interest on central government debt** | **32,561** | **49,374** | **47,161** | **33,126** | **31,142** |
| Cash basis adjustment | 35 | –189 | –77 | 46 | 256 |
| **Total interest payments** | **32,596** | **49,185** | **47,084** | **33,172** | **31,398** |

ous year. This reduction can be explained by the year's issues being made at lower market rates than the historical average for nominal bonds.

During the year, nominal bonds were sold for SEK 110 billion at an interest rate of 3.17 per cent. This means that the rate for new borrowing was 0.65 percentage points lower than the previous year.

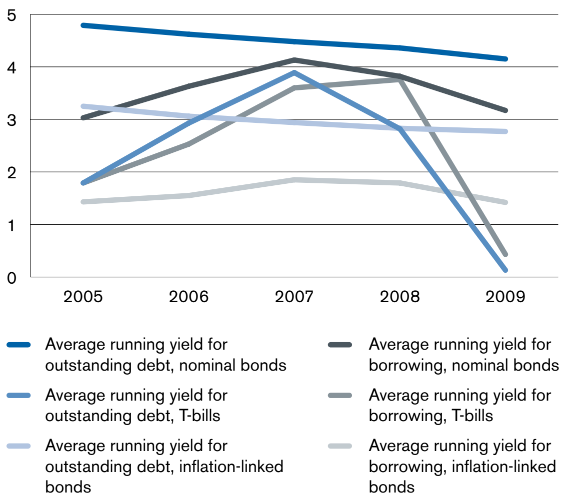
**T-bills**

The average running yield for the outstanding stock of T-bills in December 2009 was 0.13 per cent compared with 2.82 per cent at the end of 2008. We sold T-bills for SEK 300 billion during the year. The outstanding stock at the end of the year was SEK 115 billion, compared with SEK 139 billion at the end of 2008.

During the year, the average running yield for T-bills fell in line with rapidly falling market rates. The interest rate for T-bills tracks the market rate much faster than the interest rate for bonds. This is because the outstanding stock of T-bills is traded more frequently than once a year, as their time to maturity is less than one year.

Figure 13 Average running yields

Per cent




**Inflation-linked bonds**

The average running yield was 2.77 per cent for the outstanding stock of inflation-linked bonds at the end of 2009, representing a reduction of 0.06 percentage points compared with the previous year. The average yield for inflation-linked bonds sold during the year was 1.42 per cent, which was 0.37 percentage points lower than 2008. This reduction can be explained by a general decline in interest rates.

## Higher commission expenses

We pay commission expenses in connection with borrowing and external management. Commission expenses totalled SEK 164.4 million in 2009 compared with SEK 125.2 million in 2008. This increase is largely attributed to sales commission and commission for external managers having risen.

## Higher cost of administration

Expenditure on human resources, premises, marketing and IT is collectively referred to as 'cost of administration'. The total operating costs for the Debt Office were SEK 301.5 million, of which SEK 260.2 million was paid using an appropriation from the central government budget. The remaining SEK 41.3 million relates to the operation that is borne by the guarantee and loans area of operation and bank support expenses. Compared with 2008, these expenses rose by SEK 23.7 million, while administration appropriation expenditure fell by SEK 21.6 million. This explains why the total operating costs only increased by SEK 0.8 million compared with 2008.

**Result for operation financed by charges**

The surplus for the guarantee and loans operation was SEK 33.0 million. The corresponding result for 2008 was SEK 71.0 million. This was mainly due to lower interest income from the guarantee reserve owing to the prevailing interest rate situation.

Table 11 Income statement by area of operations

| SEK million | Cash Management | Bank support | Central government debt management | Deposit insurance and investor compensation | Guaran tees and loans | Debt Office total, 2009 |
|---|---|---|---|---|---|---|
| Income from appropriations, interest on central government debt 26 1:1 | −6,836 | 0 | 37,748 | 0 | 0 | 30,911 |
| Income from appropriations, commission 26 1:3 | 0 | 0 | 212 | 0 | 0 | 212 |
| Income from appropriations, debt management 2 1:12 | 39 | 0 | 207 | 11 | 0 | 258 |
| Income from fees and grants | 0 | 43 | 2 | 0 | 46 | 91 |
| Interest income | 0 | 0 | 0 | 0 | 16 | 16 |
| **Total operating income** | **−6,797** | **43** | **38,169** | **11** | **61** | **31,488** |
| **Operating expenses** | | | | | | |
| **Financial expenses for management of central government debt** | | | | | | |
| Financial expenses for management of central government debt | 6,465 | 0 | −23,471 | 0 | 0 | −17,007 |
| Realised exchange gains/losses | 372 | 0 | −14,276 | 0 | 0 | −13,904 |
| **Total interest on central government debt 26 1:1** | **6,836** | **0** | **−37,748** | **0** | **0** | **−30,911** |
| **Commission 26 1:3** | **0** | **0** | **−212** | **0** | **0** | **−212** |
| Unrealised net interest income/expense, etc. | −65 | 0 | 192 | 0 | 0 | 127 |
| Unrealised exchange gains/losses | −745 | 0 | 30,833 | 0 | 0 | 30,088 |
| Commission expenses not deducted from appropriations | 0 | 0 | 48 | 0 | 0 | 48 |
| **Total interest and commission expense not deducted from appropriations** | **−810** | **0** | **31,072** | **0** | **0** | **30,262** |
| **Total financial expenses for central government debt** | **6,027** | **0** | **−6,888** | **0** | **0** | **−861** |
| **Other operating expenses** | | | | | | |
| Guarantee expenses | 0 | 0 | 0 | 0 | −28 | −28 |
| Costs of state support to credit institutions | 0 | −43 | 0 | 0 | 0 | −43 |
| Administration 2 1:120 | −39 | 0 | −209 | −11 | 0 | −260 |
| **Total other operating expenses** | **−39** | **−44** | **−209** | **−11** | **−28** | **−332** |
| **Total expenses** | **5,987** | **−44** | **−7,097** | **−11** | **−28** | **−1,193** |
| Revenue collection | 5 | 0 | 0 | 9 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 4 | 0 | 4 |
| **Change in capital for the year** | **−805** | **0** | **31,072** | **13** | **33** | **30,299** |

# Income statement

| SEK thousand | 2009 | 2008 |
|---|---|---|
| **Operating income** | | |
| Income from appropriations | 31,381,635 | 33,664,015 |
| Income from fees | 90,991 | 26,633 |
| Interest income, interest account | 15,697 | 114,137 |
| **Total operating income** | **31,488,323** | **33,804,785** |
| **Operating expenses** | | |
| **Financial expenses for central government debt management** | | |
| Interest expense | −51,772,522 | −81,913,704 |
| Interest income | 30,583,235 | 36,123,567 |
| Issue premiums/discounts | 5,826,210 | 6,519,468 |
| Realised price changes | −1,567,080 | −3,922,234 |
| Realised exchange rate changes | −13,904,478 | 6,497,033 |
| Unrealised exchange rate changes | 30,087,741 | −35,711,933 |
| Expired bonds, coupons and prizes recognised in income | 50,171 | 22,196 |
| Commissions to banks, etc. | −164,376 | −125,188 |
| **Total** | **−861,098** | **−72,510,795** |
| **Other operating expenses** | | |
| Personnel costs | −119,182 | −112,276 |
| Cost of premises | −19,619 | −18,237 |
| Expenses from guarantee operations | 8,397 | −25,609 |
| Other operating expenses | −189,434 | −187,017 |
| Interest expense | −157 | −829 |
| Depreciation, amortisation and impairment | −11,816 | −8,823 |
| **Total** | **−331,810** | **−352,791** |
| **Total operating expenses** | **−1,192,908** | **−72,863,587** |
| **Results of operations** | **30,295,415** | **−39,058,802** |
| **Revenue collection work** | | |
| Income from fees, etc. not at the disposal of the public authority | 13,647 | 12,376 |
| Income from revenue collection | 0 | 3,656,924 |
| Funds paid to the central government budget from revenue collection | −13,790 | −3,669,534 |
| **Total revenue collection work** | **−143** | **−234** |
| **Transfers** | | |
| Allocations received from the central government budget to finance grants | 28,000 | 0 |
| Other allocations received to finance grants | 2,344,835 | 707,698 |
| Financial income | 971,215 | 930,120 |
| Financial expenses | −290,874 | −61,374 |
| Allocations to funds, etc. for transfers | −3,021,212 | −1,574,105 |
| Grants provided | −28,114 | 0 |
| **Balance, transfers** | **3,850** | **2,338** |
| **Change in capital for the year** | **30,299,121** | **−39,056,698** |

# Balance sheet

| SEK thousand | 31 Dec 2009 | 31 Dec 2008 |
|---|---|---|
| **ASSETS** | | |
| **Intangible assets** | **14,174** | **11,617** |
| Capitalised expenditure for development | 8,593 | 8,409 |
| Rights and other intangible assets | 5,581 | 3,208 |
| **Tangible assets** | **21,388** | **20,495** |
| Leasehold improvements | 6,821 | 7,660 |
| Machinery, equipment, fixtures and fittings, etc. | 14,567 | 12,835 |
| **Financial assets** | **365,797,454** | **253,951,633** |
| Other securities held as fixed assets | 26,317,459 | 18,994,000 |
| Long-term receivables from other public authorities | 224,084,342 | 214,944,942 |
| Other long-term receivables | 115,395,654 | 20,012,691 |
| **Receivables** | **2,961,684** | **4,383,748** |
| Accounts receivable | 13,258 | 23,040 |
| Receivables from other public authorities | 1,405,606 | 1,337,424 |
| Other receivables | 1,542,820 | 3,023,283 |
| **Cut-off items** | **17,183,677** | **19,044,540** |
| Prepaid expenses | 6,157,307 | 6,888,261 |
| Other accrued income | 11,026,370 | 12,156,279 |
| **Settlement with the government** | **912,294,801** | **842,778,424** |
| Settlement with the government | 912,294,801 | 842,778,424 |
| **Current investments** | **4,225,730** | **68,347,914** |
| Securities and participating interests | 4,225,730 | 68,347,914 |
| **Cash and bank balances** | **12,681,324** | **15,865,495** |
| Interest account balance at the Debt Office | 48,001 | 29,454 |
| Other balances at the Debt Office | 12,196,348 | 14,935,053 |
| Cash and bank balances | 436,975 | 900,988 |
| **TOTAL ASSETS** | **1,315,180,232** | **1,204,403,866** |
| **CAPITAL AND LIABILITIES** | | |
| **Agency capital** | **−61,177,299** | **−91,717,548** |
| State capital | 1,771,534 | 1,539,860 |
| Change in capital brought forward | −93,247,954 | −54,200,710 |
| Change in capital according to the income statement | 30,299,121 | −39,056,698 |
| **Funds** | **37,234,041** | **34,212,733** |
| Funds | 37,234,041 | 34,212,733 |
| **Provisions** | **1,084,460** | **1,092,323** |
| Provisions for pensions | 1,460 | 1,323 |
| Provisions for future guarantee losses | 1,083,000 | 1,091,000 |
| **Central government debt** | **1,189,170,599** | **1,118,963,424** |
| Loans in Swedish kronor | 860,706,124 | 893,916,328 |
| Loans in foreign currency | 328,464,475 | 225,047,096 |
| **Liabilities, etc.** | **103,676,855** | **99,276,548** |
| Liabilities to other public authorities | 89,043,707 | 85,082,809 |
| Accounts payable | 24,937 | 37,846 |
| Other liabilities | 14,608,210 | 14,155,893 |
| **Cut-off items** | **45,191,577** | **42,576,386** |
| Accrued expenses | 17,923,034 | 21,261,404 |
| Other deferred income | 27,268,543 | 21,314,982 |
| **TOTAL CAPITAL AND LIABILITIES** | **1,315,180,232** | **1,204,403,866** |
| **Guarantees without provision** | | |
| The deposit guarantee | 886,370,851 | 638,851,101 |
| Bank guarantees under the guarantee programme | 270,715,693 | 148,077,260 |
| Other | 107,253,396 | 92,726,083 |
| **Contingent liabilities** | | |
| Debt instruments | 7,048,656 | 6,400,948 |
| Registered savings and lottery bonds | 1,331 | 1,331 |

# Organisation

The Government appoints the Board of the Debt Office and issues general instructions in the appropriations directions. The Government also appoints the Director General of the Debt Office. Based on proposals made by the Debt Office, the Government decides on the guidelines for central government debt management.

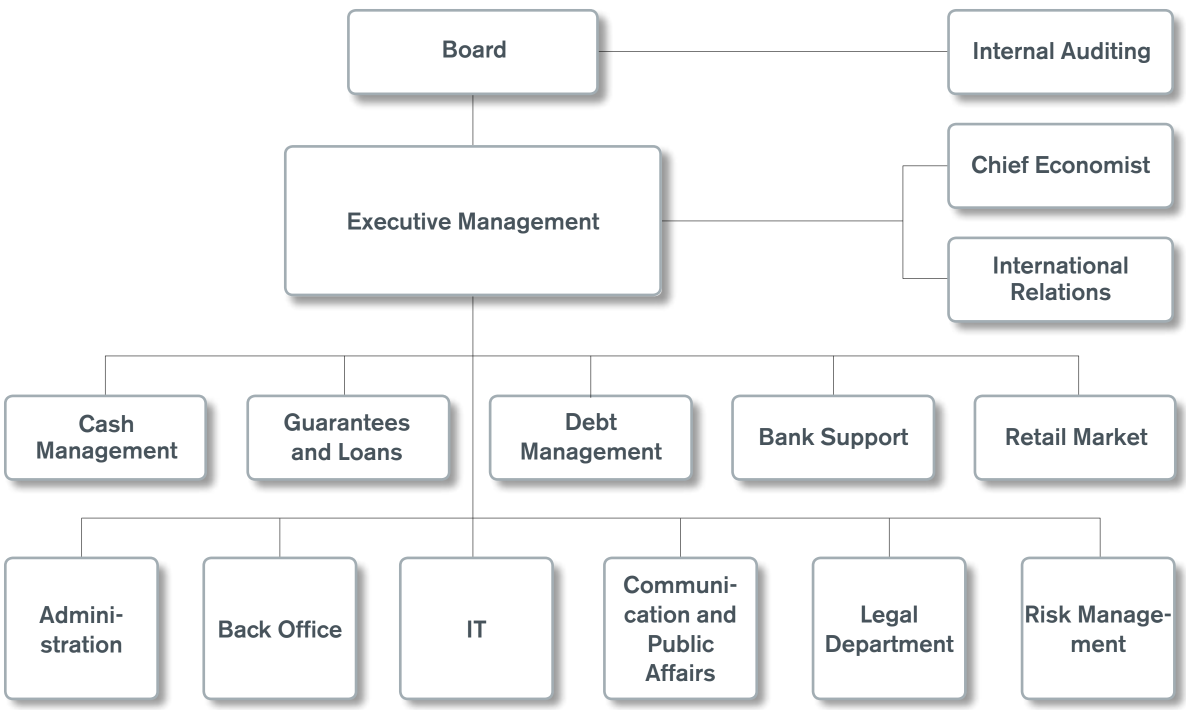
The Board is responsible for the operations of the Debt Office. On 1 January 2009, the Board comprised eight members and two employee representatives; it also has an internal audit committee. As of 1 January 2008, the Director General of the Debt Office is also a member of the Board.

*Chair*
**Ove Nilsson,** Chair of Ministerial Remuneration Board and former Secretary of the Parliamentary Committee on Finance. Appointed as Chair on 1 April 2008

*Deputy Chair*
**Lotty Nordling,** Appointed as Deputy Chair on 1 January 2009

*Board Members*
**Mats Dillén,** Director General, National Institute of Economic Research. Appointed 2007
**Lars O. Grönstedt,** former CEO of Handelsbanken. Appointed 2009
**Lena Johansson,** Director General, National Board of Trade. Appointed 2008
**Bo Lundgren,** Director General, Swedish National Debt Office
**Marika Rindborg Holmgren,** Lawyer. Appointed 2009
**Irma Rosenberg,** former Deputy Governor of the Riksbank. Appointed 1 April 2009

*Other Board Members in 2009*
**Göran Robertsson,** PhD, Institute for Financial Research. Resigned as Board Member in August 2009




*Bo Lundgren, Director General of the Debt Office, and Pär Nygren, Deputy Director General of the Debt Office, form the executive management team.*

# Glossary

**Appropriation** • A sum of money a central government authority receives to conduct its activities.

**Average interest rate refixing period** • The average duration until the remaining cash flows generated by a security are to be paid. Cash flows arise when interest and loans fall due for payment. Used as a measure of time to maturity.

**Bond** • A current (transferable) debt instrument that provides one or more payments of agreed amounts. The agreed amounts can be fixed in Swedish kronor or be dependent on a specific factor, such as inflation; see inflation-linked bond. Certain bonds provide a number of payments in the form of recurrent interest payments and are then referred to as 'coupon bonds'. A bond without interest payments is called a 'zero coupon bond'. See also *'T-bill'*.

**Break-even inflation** • The difference between the nominal and inflation-linked interest rate when an inflation-linked loan is issued. It indicates what the average rate of inflation must be for the cost of an inflation-linked loan and a nominal loan to be the same. If inflation exceeds the break-even rate, the inflation-linked loan will be more expensive for the state, and vice versa.

**Commercial paper** • Certificate that usually has a time to maturity of up to one year.

**Credit market** • The market for borrowed capital. An umbrella term for the bond and money markets.

**Credit risk** • The risk that a counterparty to a financial transaction will fail to fulfil their obligation.

**Derivative instrument** • Financial asset whose value depends on the value of another asset. The most common derivative instruments are options, futures and swaps.

**Discount (bond trading)** • A bond is traded at a discount when the bond's price is lower than the nominal amount. This happens when the market rate is higher than the bond's set rate (coupon rate). See also *'Premium'*.

**Expenditure ceiling in the central government budget** • A maximum amount limiting central government expenditure in the central government budge as predetermined by the Riksdag. This expenditure ceiling applies to all appropriations in the central government budget with the exception of interest on central government debt.

**Financial risk** • Consists of credit risk and market risk. See *'Credit risk'* and *'Market risk'*.

**Government bond** • Umbrella term for the bonds that the Debt Offices issues on the bond market; these include inflation-linked and nominal bonds.

**Inflation-linked bond** • Holders of inflation-linked bonds received a fixed interest rate and compensation for inflation during the time to maturity. This means that inflation does not erode the value of the bond.

**Inflation-linked interest** • The interest rate excluding inflation. If the market rate is 6 per cent and inflation is 4 per cent, inflation-linked interest will be 2 per cent.

**Limit** • A quantitative limit of amounts or risks.

**Loan commitment** • A promise of a loan in the form of a framework for how much money a public authority or company may borrow from the Debt Office. The Riksdag or the Government determine loan commitments.

**Market risk** • The risk that the value of investments may decline due to changes in market rates. Interest rate risk and currency risk are two types of market risk.

**Nominal bond** • A bond that pays a predetermined amount in Swedish kronor on maturity. Nominal government bonds also pay a fixed rate of annual interest, a coupon rate.

**Operational risk** • The risk of loss resulting from inadequate internal processes, human error, system faults or external events. The concept includes legal risks but not strategic risks.

**Ordinance** • A binding regulation issued by the Government, for example the provision governing the operations of central government authorities.

**Overnight loan** • A loan with a time to maturity of up to five days. Used to finance short-term deficits in the state's cash holding.

**Premium** • A bond is traded at a premium when the bond's price is higher than the nominal amount. This happens when the market rate is lower than the bond's set rate. See also *'Discount'*.

**Provision** • An amount reserved (set aside) on the balance sheet to cover anticipated losses in the future.

**Repo (repurchase agreement)** • An agreement on the sale of a security whereby the seller undertakes to repurchase the security at a particular time at a specified price. A reverse repo is the purchase of a security with an agreement to resell on a future date.

**Riksbank's repo rate** • The Riksbank's key interest rate. The repo rate affects short-term market rates.

**Strategic position** • Strategic positions are long-term in nature and refer to transactions whose aim is to reduce the cost of central government debt independent of any underlying need to borrow or invest funds.

**Swap** • Agreement between two parties on exchanging cash flows with one another during an agreed period. This may be done by exchanging interest payments during a given time to maturity; for example, exchanging fixed interest for floating interest.

**T-bill** • A short-term government security without interest payments during the period to maturity. The yield consists of the difference between final payment and the purchase price of the T-bill.

**Tri-party repos** • Contracts for the sale of a security where the seller simultaneously undertakes to repurchase the security after a predetermined period of time at an agreed rate. As opposed to ordinary repos, a third, independent party acts as an intermediary by holding the security as custodian for the buyer and seller.

**Value at Risk** • A risk measure that estimates future losses with a given probability and over a given period of time. For instance, it may estimate that there is a five per cent probability that a one-day loss will be SEK 50 million or more.

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