

FINANCIAL STATEMENTS 2009

KOMMUNINVEST I SVERIGE AB

2010-02-24

The year in summary

- 25 new members
- Balance sheet total SEK 183.0 (142.7) billion
- Lending SEK 123.6 (104.7) billion
- Operating profit SEK 193.7 (75.3) million

The President's comments

Kommuninvest has enjoyed positive membership growth ever since it was possible for all Swedish municipalities and county councils to become members. During 2009, 25 new members were added, the second highest number on record. At year-end, 248 municipalities and county councils were members of Kommuninvest, which has evolved into the largest lender to the Swedish local government sector, accounting for over a third of the sector's total borrowings.

We are proud to present these good results. It provides scope to reach the target outlined in the ownership directive, to increase the capital base of Kommuninvest to a target level of 1 percent of the balance sheet total. Increased lending margins accounted for the lion's share of the improved operating profit in 2009.

During 2009 we launched several new funding programs, partly in new markets, and have been able to benefit from a market situation that has favoured the most creditworthy borrowers.

Our position as the Swedish Local Government Debt Office was strengthened both by the solid lending and membership growth and by the decision of the Swedish Riksbank to approve Kommuninvest as a Monetary Policy Counterparty.

The implemented and discussed changes to financial regulations and supervision of banks and financial institutions will lead to transformation in the financial system over the course of the coming years. We believe one of the effects will be reduced lending by banks to the local government sector.

This highlights the need for well-functioning and efficient financial cooperation within the local government sector. We are therefore very satisfied that Kommuninvest's position has been strengthened in so many ways during 2009.

Tomas Werngren, President and CEO

Market

International capital markets continued to be affected by the global financial crisis during 2009. Considerable uncertainty regarding the stability of the financial system and continued weak confidence between banks led to significant global liquidity problems at the onset of the year. Market volatility reached historically high levels.

Beginning at the end of the first quarter 2009, confidence was gradually restored as the result of liquidity intervention by the world's central banks and increased levels of transparency, partly through official stress testing of banks, higher regulatory capital requirements and better than expected profitability in banks. In addition, significant fiscal policy stimulus was implemented in many countries. The increased transparency contributed to restoring investor risk appetite, leading to easier access to funding for banks and other institutions.

Credit spreads for all types of borrowers, regardless of creditworthiness, was significantly lowered during the latter part of 2009. This occurred in parallel to the raising of capital by numerous banks throughout the year. The Swedish Riksbank continued to add liquidity to the Swedish banking system but announced towards the end of the year the gradual withdrawal of the supportive liquidity measures. The Swedish repo rate was lowered on three occasions during 2009, from 2 percent to currently 0.25 percent.

The high creditworthiness of Kommuninvest and its role as the Local Government Debt Office have contributed to the position as a stable and safe borrower, leading to high demand from all types of investors.

At the start of 2010, there is still uncertainty, primarily related to sovereign debt burdens and the possible effect on the world economic recovery from introducing national austerity measures and withdrawing financial stimulus packages.

Kommuninvest is continuing its strategy of broadening its investor base, in terms of both new financial markets and new categories of investors, as well as continuing to develop new loan products to meet investor demands.

Kommuninvest's business is affected mainly by the number of members of the society and their financial requirements, as well as by Kommuninvest's ability to offer them good borrowing terms. The latter is dependent on Kommuninvest in turn being able to obtain favourable terms for its own financing in domestic and international capital markets.

Stable membership growth

Kommuninvest is a membership organisation founded on the idea of voluntary cooperation between Sweden's municipalities and county councils in order to take advantage of common interests. Kommuninvest is the fastest growing intermunicipal cooperation organisation in Sweden.

The cooperative society acquired 25 new members during the year, and by year-end 2009 Kommuninvest had 248 (223) members of which 241 (216) were municipalities

and 7 (7) were county councils. The number of members increased slightly more than forecast in Kommuninvests long-term growth plans.

The new members who joined during 2009 were:

The Municipality of Malung-Sälen
The Municipality of Östra Göinge
The Municipality of Årjäng
The Municipality of Dals-Ed
The Municipality of Vaxholm
The Municipality of Älvkarleby
The Municipality of Ljungby
The Municipality of Hörby
The Municipality of Älmhult
The Municipality of Burlöv
The Municipality of Hässleholm
The Municipality of Olofström
The Municipality of Sala
The Municipality of Öckerö
The Municipality of Kristinehamn
The Municipality of Östhammar
The Municipality of Bromölla
The Municipality of Gullspång
The Municipality of Aneby
The Municipality of Lidköping
The Municipality of Bjuv
The Municipality of Nynäshamn
The Municipality of Norrköping
The Municipality of Halmstad
The Municipality of Ronneby

Continued highest credit rating

Kommuninvest has had the highest possible credit rating (Aaa) from Moody's since April 2002, and also the highest (AAA) from Standard & Poor's since 2006 for its long-term funding. These credit ratings reflect the collective financial strength of Kommuninvest's members and the public sector as a whole. Kommuninvest also has the highest possible rating for its short-term borrowings.

Results

Operating profit (profit before tax and appropriations) amounted to SEK 193.7 (75.3) million. Compared to the previous year, this represented an increase in operating profit of 157 percent, which can be attributed to both an increase in lending volumes and improved margins. The improved margins are an effect of the ongoing capitalisation project, in accordance with the ownership directives. Negative effects from mark-to-market valuations are included in the results with SEK -150.7 (-2.7) million. The profit after tax and appropriations amounted to SEK 66.5 (44.5) million.

Net interest income increased to SEK 382.1 (152.1) million. The improvement is attributed to a strong development throughout the year, with increased lending

volumes and improved margins. The buy-back of issued securities and the sale of financial instruments contributed SEK 97.0 (41.3) million to the result, as recognised under “Net result of financial transactions”.

Unrealised changes in market values shown on the income statement amounted to SEK -150.7 (-2.7) million, and are shown under “Net result of financial transactions”. The unrealised changes in market values are attributable to the increased margin between lending and borrowings, as well as effects from applying IFRS accounting standards. Kommuninvest’s intention is to hold assets and liabilities until maturity, which means that the changes in market values will not be realised and that the results for future reporting periods will be positively affected.

The operating profit (the profit excluding the effects of changes in market values) amounted to SEK 344.4 (78.0) million.

Expenses amounted to SEK 134.4 (87.4) million. The increase in expenses was mainly due to the introduction of a stabilisation fee by the Swedish government, fee to the national guarantee fund amounting to SEK 25.6 million, as well as increased costs for personnel, IT, consultants and rating agencies.

Financial position

The balance sheet total increased to SEK 183.0 (142.7) billion as a result of increased lending volumes, an increased liquidity reserve and increased borrowings.

Lending

By year-end, lending amounted to SEK 123.6 (104.7) billion. In nominal terms (actually lent), lending was SEK 121.9 (103.0) billion, an increase of 18 percent compared to the previous year. The increase in lending can be attributed to a strong growth in lending during the the year, driven by strong demand from Kommuninvest’s members.

Investments

At year-end, Kommuninvest had SEK 48.4 (21.9) billion invested. According to internal guidelines, the excess liquidity should amount to at least 25 percent of the balance sheet total and at least 50 percent of outstanding loan offers, with limits for repurchase ability with the Swedish Riksbank or other counterparty. Investments are categorised according to liquidity in three categories: primary (33%), secondary (38%) and yield (29%)

The majority of investments are made with the Swedish State, state-guaranteed financial institutions from OECD countries and Nordic banks. To ensure high liquidity, investments can only be entered with counterparties that carry a rating of at least A2 (Moody’s) or A (Standard & Poor’s).

Kommuninvest has no exposure to the American sub-prime market, nor does it have any positions in structured credit instruments such as ABSs (Asset-Backed Securities) or CDOs (Collateralised Debt Obligations).

Borrowings

At year-end borrowings amounted to SEK 172.0 (131.5) billion. The majority of Kommuninvests borrowings are undertaken in the form of issued bonds (for terms of over 1 year) and certificates (for terms of less than 1 year). A smaller part of the borrowings takes place as direct loan financing. Kommuninvest is principally engaged in non-exotic types of financial instrument with fixed or variable interest rates and with maturities between 1 day and 30 years.

Derivatives

Derivatives with positive and negative market value amounted to SEK 11.0 (16.1) billion and SEK 9.9 (10.7) billion respectively. Derivates contracts are used for risk management purposes, to reduce market risks occurring when the contractual maturities of borrowings and lending/investments do not match.

Equity

At year-end 2009, equity amounted to SEK 586.0 (460.6) million. In addition to the profit for the year, equity has also been affected by changes in market value of financial assets classified as available-for-sale, where unrealised changes in market value are entered directly against equity in the "Fund for fair value".

Share capital

On the authorisation given to the Board by the Annual General Meeting, the share capital increased during the year through a new issue in the amount of SEK 32.9 (37.8) million. The purpose of this was to strengthen the company's financial base by transferring participation capital from new members of the Society. Such transfers have been carried out regularly as membership has increased. At year-end, the share capital amounted to SEK 269.6 (236.7) million, allocated across 2,696,200 (2,367,000) shares.

Credit losses

Credit losses amounted to SEK 0 (0) million.

Capital coverage

The capital coverage quota amounted to 3.55 (3.35). to be compared with the legal quota 1.0

Events of considerable importance occurring during the fiscal year or afterwards

In accordance with the ownership directives established at the Annual General Meeting in March 2009, Kommuninvest has reviewed the prerequisites for a capitalisation of the company, to reach a target level of 1 percent of the balance sheet total.

The proposal to strengthen Kommuninvests capital base by SEK 1 billion has been discussed with members at the member consultations in January 2010. The purpose of the capitalisation is that the company shall continue to realise the best possible long-term financial conditions for the members of Kommuninvest Cooperative Society; that the company shall be able to offer all Swedish municipalities and county councils a competitive financing alternative; that the company shall maintain the highest possible credit rating and secure continuous cost-efficient borrowings on international capital markets; that the company shall be even better prepared for exceptional financial events. The capital strengthening is not brought about as a result of losses

incurred by the company, but rather that the company, much like other banks and financial institutions, must be able to demonstrate that it has a high readiness for exceptional financial events and that it has a strong ability to absorb losses. The decision on a strengthening of the capital base will be taken at the Annual General Meeting in March 2010.

Kommuninvest has applied for and been approved as Monetary Policy Counterparty to the Swedish Riksbank. Kommuninvest was approved as a Restricted Monetary Policy Counterparty in September 2009, and as a Monetary Policy Counterparty in January 2010.

Risks and uncertainties

Kommuninvest faces a number of risks and uncertainty factors in its operations that could negatively affect the company's result, financial status, future prospects, or possibility to fulfil objectives that have been set.

The general development of the capital markets including interest rate development and the liquidity situation, as well as willingness to invest in various markets, can affect the overall competitive situation and the way in which Kommuninvest's competitive advantage develops. If Kommuninvest is unable to recruit and retain qualified personnel, this could limit Kommuninvest's competitiveness and opportunities for further development.

Employees and the environment

The number of employees increased by five people during the year and totalled 49 (44) at year-end. Kommuninvest does not conduct any operations that require a licence under Sweden's Environmental Code. Kommuninvest has drawn up an environmental policy which the Board established during 2009.

Prospects for 2010

Interest in Kommuninvest's business concept is increasing, and the society will be acquiring several new members during 2010. This is expected to lead to an increase in net lending, as there is a historical correlation between membership growth and net lending growth. At the same time other factors, such as the level of the municipal sector's new investment, can also affect the members' borrowing requirements. In the present market situation Kommuninvest is deemed to be in a good position to be able to offer competitive loan products.

Kommuninvest is working to establish a municipal bond program for longer term maturities in Sweden, which is not available currently and is in demand from institutional investors. This would create another category of assets to the Swedish capital market, in addition to bonds issued by the Swedish State and mortgage credit institutions.

Group contribution

Kommuninvest pays a Group contribution of SEK 7.85 million to Kommuninvest Cooperative Society. This contribution enables the Society to carry out a participation issue to members for the ninth consecutive year. If the Annual General Meeting approves the Board's proposal, the issue will correspond to 1.5% of the participation

capital. The Board of Kommuninvest i Sverige AB also intends to propose a new issue of shares to the Parent Society of SEK 3.8 million. The size of the new issue corresponds to the total of the proposed participation issue in the Society.

The Board

At the Annual General Meeting on 2 April 2009, Catharina Lagerstam and Johan Törngren were appointed new Board members. Ann-Charlotte Stenkil and Alf Egnerfors resigned on that same date. In addition to these, the Board consists of Tommy Persson (Chairman), Ellen Bramness Arvidsson (Vice Chairman), Ingemar Alserud, Lorentz Andersson, Kerstin Ryding and Anna von Knorring.

Executive management

The executive management group consists of Tomas Werngren, President and CEO, Maria Viimne, Deputy CEO, Anders Gånge, Head of Funding & Treasury, and Johanna Larsson, Head of Administration.

The Annual General Meeting will be held on March 25, 2010, after which date the full 2009 Annual Report will be available to order from the Kommuninvest website: www.kommuninvest.se.

/Graph: Membership development, 2000-2009/

/Graph: Lending, 2000-2009/

Questions may be directed to Chairman of the Board Tommy Persson, tel +46 (0)73-964 17 90 or Tomas Werngren, President and CEO tel +46 (0)70-645 06 69 or Anitha Holmberg, Head of Corporate Communications tel +46 (0)70-638 66 63.

Örebro, February 24, 2010

The Board of Kommuninvest i Sverige AB (publ)

The annual accounts have not been reviewed by the company's auditors.

ABOUT KOMMUNINVEST

Kommuninvest is a credit market company owned and guaranteed by Swedish municipalities and county councils through Kommuninvest Cooperative Society. The company's remit is to create the best conditions in the long term for its owners' financial operations based on a municipal value foundation. This socially-beneficial concept results in a local debt office, a shared function offering municipalities and county councils financial administration. Kommuninvest provides access to competitive loans, debt management and other services that contribute to effective financial administration. Kommuninvest has the highest possible credit rating, triple-A, from both Moody's Investors Service and Standard & Poor's.