

ANNUAL ACCOUNTS 2011

KOMMUNINVEST I SVERIGE AB

Summary of the year

- Balance sheet total SEK 234.0 (190.2) billion
- Lending SEK 168.1 (133.7) billion
- Market share 65 (54) percent of members' borrowing and 44 (35) percent of local government sector's total lending
- Operating profit SEK 396.1 (275.7) million
- Persistently high credit rating: Aaa (Moody's) and AAA (S&P)
- Seven new members, total membership now 267

CEO's statement

In times of financial unease, the importance of stable and cost-efficient financing for the local government sector increases. This was also the case in 2011 – a year in which the European debt crisis in particular contributed to considerable uncertainty in the financial markets, with increased costs and concerns for borrowers in financing their operations. The municipalities' finance cooperation through Kommuninvest has continued to strengthen – 267 municipalities and county councils are now members. With higher lending volumes than ever, the value of cooperation and Kommuninvest's increased contribution to financial stability is made clear. In 2011, Kommuninvest's role has been secured as the leading financing institution for the entire Swedish local government sector, with a 65 percent market share of member authorities' borrowing.

For the first time, Kommuninvest saw total lending pass SEK 150 billion in 2011; a natural increase and a development that I anticipate will continue. The reformed regulatory system within the financial sector, with increasing demands in terms of capital and liquidity, generally entails raised price levels for bank loans to Swedish local government authorities and thus to increased demand for Kommuninvest's loans. We win nine out of ten procurement processes.

New models for financing the local government sector have been developed in France and in New Zealand and it is also coming in the United Kingdom. We welcome additional colleagues in the international arena. This is particularly important in the work on future regulatory systems for financial institutions. Here, we conduct active lobbying efforts, both on national and international levels, although we need to gain a stronger common voice and that can only be achieved if the local government financing institutions around the world grow in number. Today, regulations are extensively designed with the largest banks in mind and one can feel that the diversity of the sector is not reflected. Specialised players are sometimes caught in between.

Ongoing changes to the regulatory systems make the need to clarify Kommuninvest's role and mission more important, not only in an EU perspective but also in a national perspective. It is natural for the local government sector to have its own borrowing function, in the same way that it is natural for the government to, and for regulations and guidelines to create suitable conditions for this reality. This applies, for example, to the issue of the stability charge, which resulted in an increase of 50 percent of Kommuninvest's total costs in 2011, but even the proposed leverage ratio regulation.

Our operating environment

The financial crisis, which has now chiefly become a national debt crisis, worsened in 2011. Although extensive measures, including conditional support, subsidised loans from the European Central Bank and the stability pact have helped stabilise the markets, there is still a risk that one or more countries will not be able to fulfil their commitments and possibly leave the euro.

Even if Sweden has coped better than most as a result of a persistently cautious financial policy and responsible local government sector, our economy is still affected directly by developments in the eurozone.

Strong local self-government, with an independent right to levy taxes, a strong municipal tax equalisation system and a functioning social contract, with a highly ethical attitude towards taxation and preparedness to accept essential austerity measures all mean that the Swedish local government sector is exceedingly robust in an international perspective.

The Swedish local government authorities also work actively to develop their finance strategies, evidence of which can be seen in the growing proportion of loans that are taken out through Kommuninvest. According to Kommuninvest's calculations, credit provision to the local government sector via banks has fallen by SEK 50 billion in three years. A positive trend is that the average tied-up capital among Kommuninvest's borrowers has increased from 1.4 to 1.8 years in 2011, although it should increase further.

Influx of new members

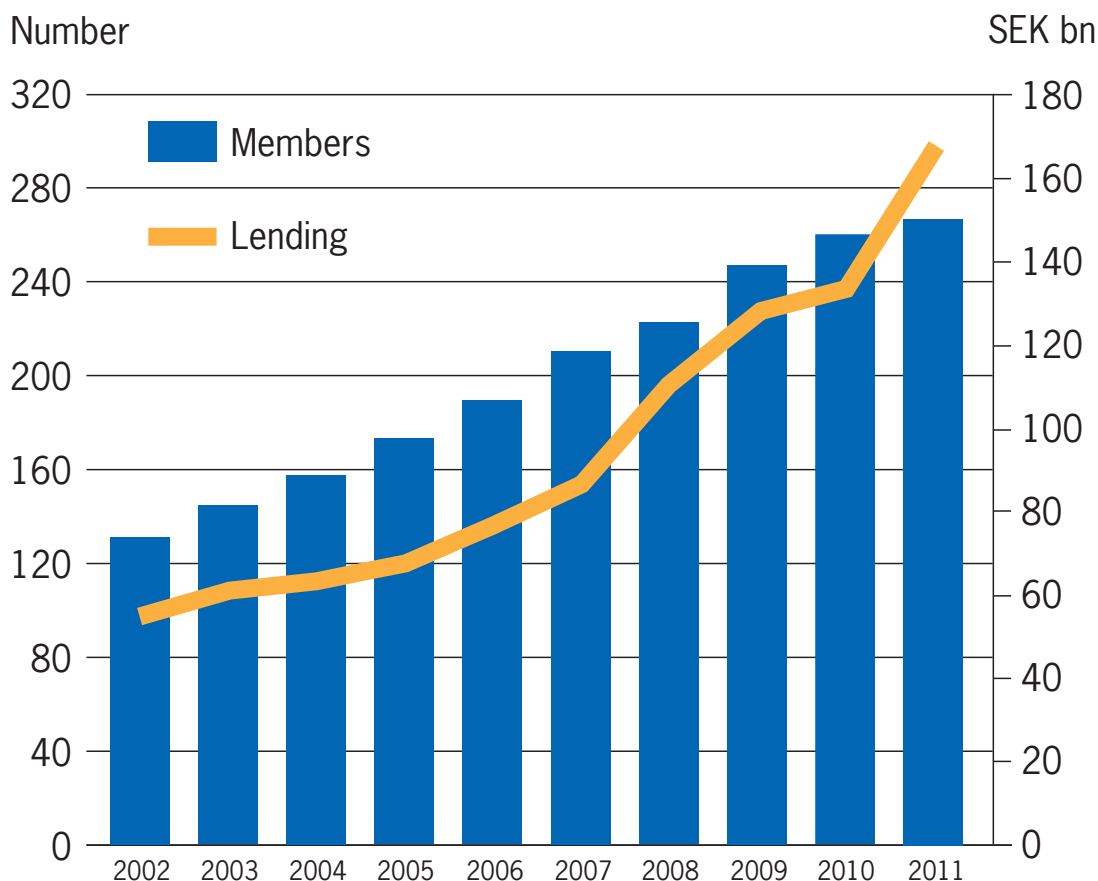
Six new municipalities and one county council joined Kommuninvest during the year, which means that at the end of 2011 Kommuninvest had 267 (260) members, of which 259 (253) were municipalities and 8 (7) county councils.

New members in 2011 included:

- Municipality of Norrtälje
- Dalarna County Council
- City of Solna
- Municipality of Perstorp
- Municipality of Nyköping
- Municipality of Gislaved
- City of Borås



Number of members and lending, 2002–2011



Top credit rating retained

Kommuninvest continues to hold the highest credit rating from both Moody's (Aaa, 2002) and Standard & Poor's (AAA, 2006). The credit rating reflects the overall financial strength of the local government sector as a whole, as well as of Kommuninvest.

Kommuninvest also has the highest possible credit rating for short-term borrowing.

Profit/loss

Operating profit (profit before appropriations and taxes) amounted to SEK 396.1 (275.7) million. The operating profit includes unrealised changes in market value of SEK +13.2 (-86.5) million. Operating profit excluding the effect of market value changes was SEK 382.9 (362.2) million. Profit after appropriations and taxes, including unrealised changes in market value, amounted to SEK 300.6 (140.6) million.

Net interest income increased by 33 percent, to SEK 572.6 (432.1) million. The increase is partly attributable to a 25-percent rise in lending volumes in nominal terms (actual amount loaned) during the year, as well as the fact that loans were provided at new, higher margins. In accordance with the owners' directive, increased margins

between borrowing and lending are contributing to Kommuninvest's equity increasing as lending volumes increase.

The net result of financial transactions during the year amounted to SEK +72.1 (+17.2) million. The buy-back of issued securities and the sale of financial instruments contributed SEK 58.9 (102.5) million to the figures, as recognised in 'Net profit/loss from financial transactions'.

Unrealised changes in market value recognised in the income statement amounted to SEK 13.2 (-86.5) million and are also entered under 'Net profit/loss from financial transactions'. In 2011, Kommuninvest recognised unrealised gains on basis swaps and unrealised losses in the investment portfolio due to the European debt crisis and general trends in the capital markets.

Expenses amounted to SEK 240.1 (169.4) million. The stability charge of SEK 83.6 (41.2) million is included in the reported expenses. The increase is primarily due to the fact that only half the fee was paid in 2010. The stability charge accounted for 35 (25) percent of Kommuninvest's total costs.

Excluding the stability charge, costs increased by 22 percent to SEK 156.5 (128.2) million. Growth in lending combined with major changes in the regulatory systems and development of Kommuninvest's national and international borrowing programme makes more stringent demands on operations, and results in higher costs. However, costs as a percentage of lending have fallen from 0.096 percent, to 0.093 percent.

Financial position

The balance sheet total rose to SEK 234.0 (190.2) billion as a consequence of increased lending and borrowing.

Lending

At the end of the year, Kommuninvest's lending amounted to SEK 168.1 (133.7) billion. In nominal terms, lending was at SEK 165.7 (132.9) billion, an increase of 25 percent compared with the previous year. The rise can be explained by the fact that Kommuninvest is gradually increasing its proportion of existing members' borrowing and that of future members.

Borrowing

At the end of the year, borrowing amounted to SEK 222.2 (177.3) billion. Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). A smaller proportion of our borrowing is conducted in the form of direct loan financing (bilateral loan agreements with supranational institutions). Kommuninvest acts over maturities of between 1 day and 30 years.

Investments

At the end of the year, Kommuninvest's liquidity reserve amounted to SEK 52.1 (43.3) billion, corresponding to 31 (32) percent of lending volume. Most of the investments are in securities issued by the Swedish government, state-guaranteed

financial institutions within the OECD and banks in the Nordic region. To ensure high liquidity, investments may only be made with counterparties with a rating of at least A2 from Moody's and/or A from Standard & Poor's, or that are local government authorities that are members of Kommuninvest.

Kommuninvest has no direct exposure to Greece, Ireland, Italy or Portugal in the investment portfolio but we do have a direct exposure to Spain via two investments of USD 80 million and EUR 50 million in the Spanish state-guaranteed bank Instituto Credito Oficial, which equals SEK 551 million respectively SEK 446 million in book value.

Derivatives

Derivatives with positive and negative market value amounted to SEK 13.7 (13.0) billion and SEK 9.4 (10.8) billion, respectively. Derivative contracts are used as risk management instruments to address market risks in operations.

Subordinated liabilities

Subordinated liabilities consist of a perpetual debenture loan from the Kommuninvest Cooperative Society.

Equity

At the end of 2011, equity amounted to SEK 714.4 (782.8) million after a Group contribution to the Kommuninvest Cooperative Society. Including the upcoming contribution from the Kommuninvest Cooperative Society, which will be decided on at the 2012 Annual General Meeting of the Society, equity amounts to SEK 990.4 (782.8) million. In addition to the profit for the year and Group contribution to the Kommuninvest Cooperative Society as stated above, other factors that had an impact on equity were changes in market values for financial assets classified as "available-for-sale financial assets" and the effects of investments previously reclassified to loans and receivables that are recognised directly against other comprehensive income.

By means of a decision by the 2011 Annual General Meeting of the Society and pending confirmation by the 2012 Annual General Meeting, Kommuninvest will, effective from the 2011 financial year, apply refunds as a format for the distribution of surplus earnings in order to make visible the results of Kommuninvest i Sverige AB to the owners/members of the Kommuninvest Cooperative Society. At the same time, a requirement to make an annual contribution will be introduced. This means that the owners/members will be able to benefit from the earnings of Kommuninvest i Sverige AB at the same time that the surplus distribution, after tax, can be used to strengthen the capital base in Kommuninvest i Sverige AB.

Share capital

Due to the authorisation given to the Board of Directors by the Annual General Meeting, share capital has increased over the year by SEK 3.9 (18.8) million through the issue of new shares. The purpose is 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. Share capital amounts to SEK 292.4 (288.4) million, distributed over 2,923,850 (2,884,550) shares.



Credit losses

Credit losses totalled SEK 0 (0) million.

Capital coverage

The capital coverage quota amounted to 5.71 (10.09). The minimum statutory level is 1.0. The capital coverage ratio amounted to 45.7 (80.7) percent. Kommuninvest has established an internal capital coverage quota, which includes additional scope for risk as a buffer for risks not accounted for in columns 1 and 2.

Risks and uncertainty factors

In its business, Kommuninvest encounters a number of risks and uncertainty factors which may have an adverse impact on the company's profit, financial position, future prospects or opportunities to attain set targets.

General trends on the capital markets, including interest rate developments and the liquidity situation, along with the willingness to invest on various markets, may affect the competitive situation and how the competitive advantage of Kommuninvest develops.

Employees and the environment

The number of employees increased by six during the year, to a total of 59 (53) at year-end. Kommuninvest does not conduct any operations requiring a licence under Sweden's Environmental Code. Kommuninvest has an environmental policy that it adopted in earlier years.

Prospects for 2012

The reformed regulatory system within the financial sector, with increasing demands in terms of capital and liquidity, generally entails raised price levels for bank loans to Swedish municipalities and thus to increased demand for loans from Kommuninvest among both existing and potential customers. The increased attractiveness of securities issued by low-risk institutions means that interest in Kommuninvest among investors is expected to continue to increase. Kommuninvest is expected to retain steady growth in lending during 2012 as well. One challenge for the company is to be able to grow lending, while ensuring that equity as a proportion of the balance sheet total meets the owners' requirement of a minimum of 1 percent.

Group contribution

The transition to refunds for surplus distribution means that Kommuninvest distributes profits via Group contributions to Kommuninvest Cooperative Society. Equity thus decreased by SEK 375 million as at 31 December, 2011. The surplus distribution will be returned to Kommuninvest as equity following the Annual General Meeting of the Society in April 2012. After tax is deducted, a total of SEK 276 million will be returned as new investment capital in Kommuninvest i Sverige AB.

Board of Directors

At the company's AGM on 7 April 2011, Björn Börjesson was elected the new Chairman of the Board and Ellen Bramness Arvidsson was elected Deputy Chairman. The other members of the Board are Lorentz Andersson, Anna von Knorring, Catharina Lagerstam, Johan Törngren, Anna Sandborgh and Kurt Eliasson.

Management

The company's executive management team consists of Tomas Werngren, President and CEO, Maria Viimne, Executive Vice President, Johanna Larsson, Head of Administration, Anders Gånge, Head of Finance, and Pelle Holmertz, Head of the Customer Group.

The company's AGM will be held on 18 April, 2012. On 15 March, the complete 2011 annual report will be available for downloading from Kommuninvest's website www.kommuninvest.se.

Any questions should be directed to:

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Executive Vice President Maria Viimne, tel. +46 (0)70 3336902

Head of Communication Anitha Holmberg, tel. +46 (0)70 6386663,
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Örebro, 7 March 2012

Board of Directors of Kommuninvest i Sverige AB (publ)

This year-end report has not been reviewed by the company's auditors.

Kommuninvest in summary

Kommuninvest is a credit market company owned and guaranteed by Swedish municipalities and county councils. Kommuninvest's vision is to be the natural choice for Swedish municipalities and county councils when it comes to products and tools for efficient financial administration, with a focus on financing. Kommuninvest borrows money on the national and international capital markets and has the highest possible credit rating, Aaa/AAA. Lending has the lowest possible risk rating (BIS 0 percent). The company is a monetary counterparty in the Swedish Riksbank. The 269 members comprise 90 percent of Sweden's municipalities and 40 percent of Sweden's county councils or regions. The balance sheet total was SEK 234 billion, and lending amounted to SEK 168 billion at the end of 2011.

Kommuninvest i Sverige AB (publ)

Org nr: 556281-4409.

Styrelsens säte: Örebro

Kommuninvest Ekonomisk förening

Org nr: 716453-2074.

Styrelsens säte: Örebro

Kommuninvest Fastighets AB

Org nr: 556464-5629.

Styrelsens säte: Örebro

INCOME STATEMENT

1 January - 31 December

SEK, million	2011	2010
Interest revenues	5 401.6	3 025.0
Interest expenses	-4 829.0	-2 593.0
NET INTEREST INCOME	572.6	432.1
Commission expenses	-8.6	-4.4
Net result of financial transactions	72.1	17.2
Other operating income	0.1	0.3
TOTAL OPERATING INCOME	636.2	445.1
General administration expenses	-230.0	-160.5
Depreciation of tangible fixed assets	-2.5	-2.7
Other operating expenses	-7.6	-6.2
TOTAL EXPENSES	-240.1	-169.4
OPERATING INCOME	396.1	275.7
Appropriations	13.9	-83.2
Tax on net income for the year	-109.4	-51.9
INCOME FOR THE YEAR	300.6	140.6

STATEMENT OF COMPREHENSIVE INCOME

1 January - 31 December

	2011	2010
INCOME FOR THE YEAR	300.6	140.6
Other comprehensive income		
Available-for-sale financial assets	-99.0	-68.1
Available for sale financial assets, transferred to income for the year	-0.2	0.9
Loans and receivables	-4.2	-4.2
Tax attributable to components in other comprehensive income	27.2	18.8
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-76.2	-52.6
COMPREHENSIVE INCOME FOR THE YEAR	224.4	88.0

BALANCE SHEET

As per 31 December

SEK, million	2011	2010
ASSETS		
Cash	0.0	0.0
State bonds eligible as collateral	10,841.7	12,887.7
Lending to credit institutions	1,734.5	1,697.6
Lending	168,070.5	133,729.1
Bonds and other interest-bearing securities	39,518.7	28,759.5
Shares and participations	1.3	1.0
Shares and participations in associated companies	0.5	0.5
Derivatives	13,687.2	13,024.0
Tangible assets	6.7	6.9
Other assets	148.3	67.5
Prepaid expenses and accrued revenue	19.0	26.4
TOTAL ASSETS	234,028.4	190,200.2
LIABILITIES, PROVISIONS AND EQUITY		
Liabilities to credit institutions	4,149.4	3,438.9
Securities issued	218,037.4	173,851.9
Derivatives	9,354.5	10,794.2
Other liabilities	455.4	66.4
Accrued expenses and prepaid revenue	111.5	44.1
Provisions	1.6	1.2
Subordinated liabilities	1,000.2	1,002.9
Total liabilities and provisions	233,110.0	189,199.5
Untaxed reserves	204.0	217.9
Equity	714.4	782.8
Restricted equity		
Share capital (2,923,850 respectively 2,734,550 shares, quoted value SEK 100)	292.4	273.4
New share issue in progress (0 respectively 150,000 shares, quoted value SEK 100)	-	15.0
Statutory reserve	17.5	17.5
Unrestricted equity		
Fair value reserve	-87.6	-11.3
Profit brought forward	191.5	347.6
Income for the year	300.6	140.6
Total equity	714.4	782.8
TOTAL LIABILITIES, PROVISIONS AND EQUITY	234,028.4	190,200.2
Memorandum items		
Collateral pledged for own liabilities	3,516.9	4,808.2
Contingent liabilities	None	None
Obligations		
Pledged loans	1,576.0	1,856.0