

# ANNUAL REPORT

# 2007

KOMMUNINVEST

During the year the sustainability of Kommuninvest's concept has been affirmed in various ways, and we have deliberately continued our efforts to create the best possible conditions for the financial operations of municipalities and county councils in Sweden.

The growth in membership was the best to date and we now represent more than two-thirds of Sweden's municipalities.

On average our members source almost half of their total borrowing from Kommuninvest.

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*The ice sculptures in this year's Annual Report were photographed at the ICEHOTEL, on the River Torne, Jukkasjärvi in the far north of Sweden.*

**Cover photo** PHOTOGRAPHY: Håkan Hjort, Niac Photo AB. ARTISTS: Natsuki Munakata & Shingo Saito. **Inside cover** PHOTOGRAPHY: Jan Jordan. ARTIST: A Bergh. **Page 4** PHOTOGRAPHY: Jan Jordan. ARTIST: Rosenboum. **Page 8** PHOTOGRAPHY: Tomas Utsi, Naturfoto AB. ARTISTS: Gunnar Carl & Susanne Stenhammar. **Page 12** PHOTOGRAPHY: Tomas Utsi, Naturfoto AB. ARTIST: Alf Ekberg. **Page 17** PHOTOGRAPHY: Jan Jordan. ARTIST: L Roncoroni. **Page 19** PHOTOGRAPHY: Jan Jordan. ARTIST: T Wingate. **Page 23:** PHOTOGRAPHY: Håkan Hjort, Niac Photo AB. ARTIST: Sakai Hiroyoshi. **Page 26** PHOTOGRAPHY: Håkan Hjort, Niac Photo AB. ARTIST: Natsuki Munakata & Shingo Saito. **Page 30** PHOTOGRAPHY: Tomas Utsi, Naturfoto AB. **Page 58** PHOTOGRAPHY: Håkan Hjort, Niac Photo AB. ARTIST: Sakai Hiroyoshi.



## OUR RESULTS 2007

# 2007

21 municipalities and county councils became new members.

Net lending increased by SEK 17% to SEK 77.9 billion.

The balance sheet total increased by 9% to SEK 109.9 billion.

Net profit was SEK 24.1 million.

Kommuninvest has the market's highest credit rating: Aaa (Moody's) AAA (Standard & Poor's).



**Swedish Coat of Arms.** To clarify Kommuninvest's strong connection to the Swedish public sector, Sweden's lesser coat of arms is used in marketing and presentations in international contexts.

# A PUBLIC FUNDING ORGANISATION OWNED BY SWEDISH MUNICIPALITIES AND COUNTY COUNCILS

## **Kommuninvest Cooperative Society**

*The member organisation*

Represents the public sector  
in funding issues  
Looks after the sector's interests  
Acts as a referral body  
Network for elected representatives  
Wholly-owned subsidiary

## **Kommuninvest i Sverige AB**

*The credit market company*

Lending  
Financial advice  
Business intelligence  
Training

Kommuninvest is a financial organisation focused entirely on creating the best possible conditions for the financial operations of Swedish municipalities and county councils. Kommuninvest is made up of a member organisation, Kommuninvest Cooperative Society, and a wholly-owned credit market company, Kommuninvest i Sverige AB.

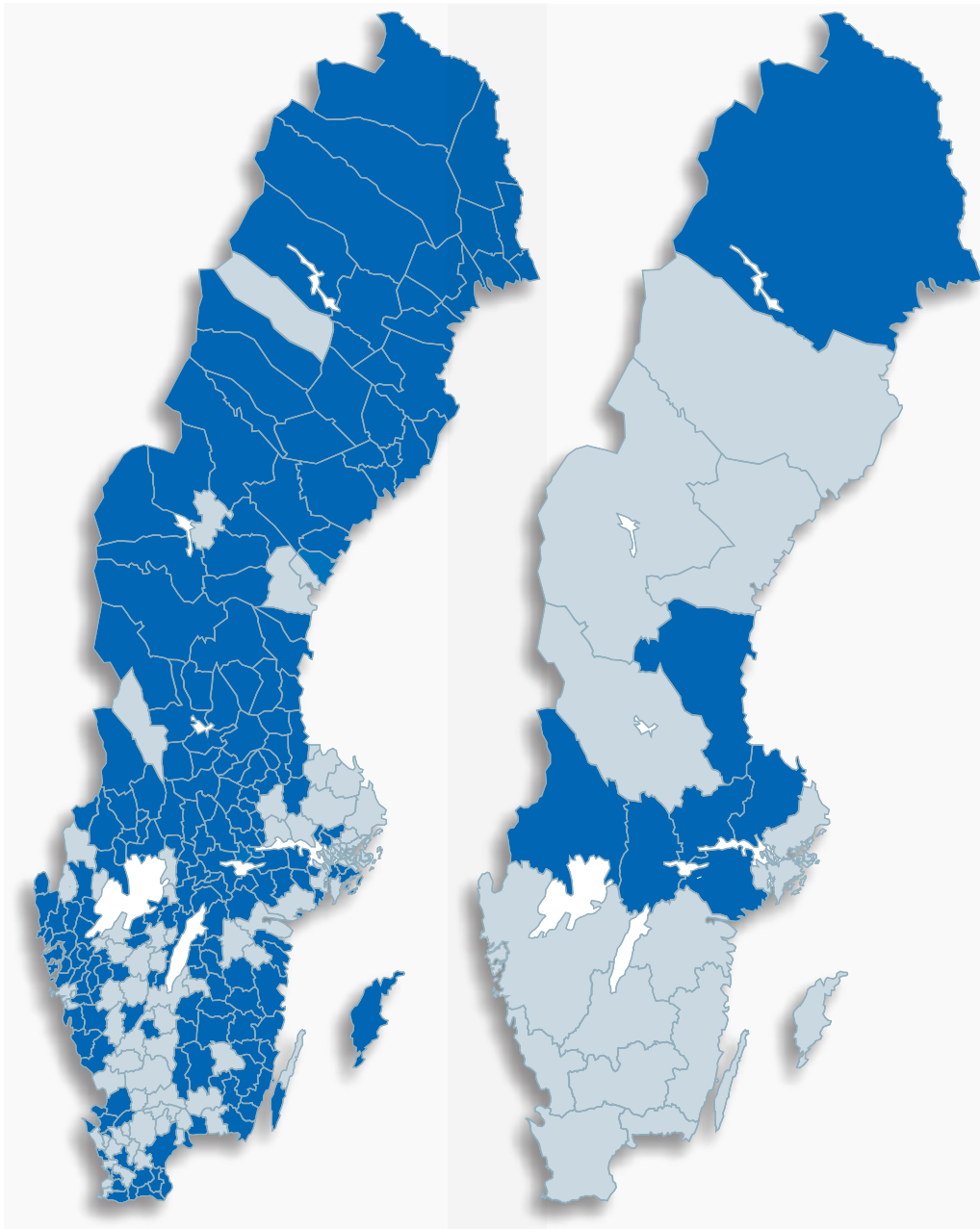
The member organisation is open to all of Sweden's municipalities and county councils. The Society represents the Swedish local and regional government sectors in funding issues and owns all shares in the credit market company.

Kommuninvest i Sverige AB offers members access to competitive loans, debt management and other services that contribute to effective financial administration. The company has 39 employees and office in Örebro, central Sweden.

Kommuninvest was founded in 1986 by nine municipalities and the county council in Örebro County, central Sweden, in order to reduce funding costs for municipalities and county councils.

At the end of 2007 Kommuninvest had 210 members, of which 203 were municipalities and 7 were county councils. 70% of all Swedish municipalities and 35% of all county councils are therefore now members of Kommuninvest.

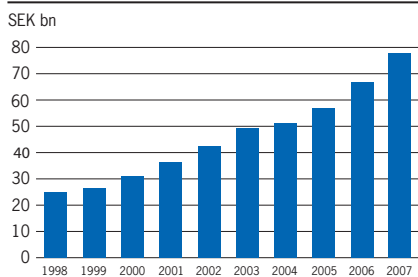
THIS ANNUAL REPORT RELATES TO  
KOMMUNINVEST I SVERIGE AB (PUBL)



*Municipalities*  
31 December 2007

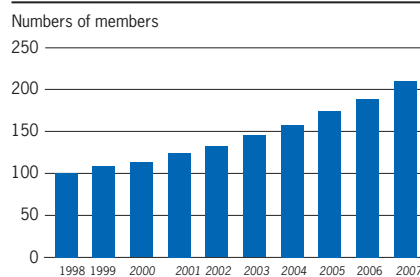
*County councils*  
31 December 2007

**Lending as of 31 December each year 1998–2007**



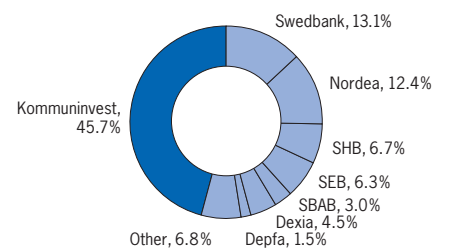
Source: Kommuninvest

**Membership 1998–2007**



Source: Kommuninvest

**Proportion of members' borrowing**



Source: Kommuninvest



## A SOCIALLY BENEFICIAL IDEA FOR ALL OF SWEDEN'S MUNICIPALITIES AND COUNTY COUNCILS

*SEK 300 million. That is a conservative estimate of the savings the municipal and county council sectors in Sweden have made thanks to Kommuninvest's presence on the credit market. The fact that more and more municipalities and county councils are choosing to join Kommuninvest is pleasing, and firm confirmation that our business concept creates value.*

In 2007 a total of 21 Swedish municipalities became members of Kommuninvest, and a further 5 have joined as I write. The total membership is now 208 municipalities and 7 county councils, which equates to 72% of Sweden's municipalities and 35% of its county councils.

This is a pleasing development and the continuation of a stable trend. Steady growth in membership guarantees that we will continue to be able to offer the best financing solutions long-term for Swedish municipalities and county councils in the future.

### **Guarantor for better competition in the entire municipal sector**

Since the beginning 20 years ago, our focus has been clear: to rationalise our members' borrowing operations through coordinated procurement and insightful consultation. With one foot in local government and the other in the financial sector, we act as an internal bank for our members, although they do have full freedom to choose whether or not to use our services.

Our role as a guarantor for effective competition contributes to attractive terms for the municipal sector as a whole. A conservative estimate indicates that Swedish municipalities and county councils, whose total borrowings including municipally owned companies amount to some SEK 350 billion, have saved somewhere in the region of SEK 300 million over the years thanks to rationalised borrowing. This is clear evidence that we are fulfilling our role as a local debt office.

### **Strong development in the municipal sector**

In recent years there have been considerable surpluses in the municipal sector. The increase in em-



ployment has not been this strong since the 1950s, and far higher tax income has followed in its wake. It is unlikely that the same good development can be expected looking ahead. On the one hand there is uncertainty about general economic development, while costs are also being affected in the local government sector due to the higher proportion of elderly people, which will have particular implications for the county councils. However, there is no great call for concern: municipalities and county councils still require a balanced economy and development is otherwise relatively positive.

2007 too has been characterised by extensive interest in lending to the municipal sector. One trend sees lenders seeking to increase sales of different derivative products where margins are higher, unlike the low margins in traditional direct lending. To ensure that new loan products really do meet a genuine need, we support our members with advice and can offer a selective range of equivalent products. Adapting the loan portfolio to the availability structure and anticipated cash flows is important.

### **A satisfactory 2007**

We have seen strong growth in membership during the year. This in turn has led to higher lending volumes. Lending to Kommuninvest members increased by 17% to SEK 77.9 billion in 2007, which is another new record.

Profit for the year totalled SEK 24.1 million, an increase of SEK 6.2 million on 2006, which is slightly less than estimated. The weaker result is primarily attributable to lower return on liquidity management during the second half of the year. Kommuninvest has a large proportion of its liquid assets in securities issued by European states or companies guaranteed by those states. The return on these securities fell considerably when an increasing number of investors began seeking safer securities in the wake of global concern in the credit market, which began in the USA in August.

Moreover, in that part of our lending linked to variable interest rates, we were unable to compensate for higher borrowing costs when the difference between our reference interest rate for lending (repo rate) and our borrowing rate (interbank rate) became greater than normal. One effect of this is that we are now modifying our borrowing strategy for products with variable interest rates. The figures from our core operation, lending to members, remain at a normal level.

### **Uneasy credit market characterises second half-year**

However, the global uneasiness on the credit market has also had some positive effects for Kommuninvest. As a borrower we have been favoured by the 'flight to quality', whereby investors are showing a preference for stable, secure long-term borrowers. It has become even clearer that Kommuninvest attracts investors seeking maximum security.

At the time of writing, the consequences of the credit concern are just becoming apparent. Significant credit losses have been attributable to primarily American and major international business banks. Many of the banks that have taken the greatest risks have thereby been identified. However, consumer credit losses are also increasing, which does not bode well. The financial markets are also characterised by great uncertainty,

linked both to developments in the world economy and to stability in the financial systems. Signs of palpable cooling-off effects in the global economy are becoming increasingly apparent, which will probably lead to lower economic activity in Sweden as well.

### **Kommuninvest's low risk philosophy unwavering**

Caution has created success. We take a long-term approach with no vested interest in profit, keeping our sights set on what is best for our members. Eliminating, limiting and controlling risks demands focus, safety margins and resources. That has helped make Kommuninvest a particularly stable, creditworthy player on the global market.

### **Continued efforts to promote Kommuninvest's example**

The Swedish local government system, a robust system with municipalities that not only stand on a firm financial foundation but also have a strong constitutional position, is attracting more and more attention in the wider world. Not only are we noticing interest from other countries, but more importantly many investors also seem to have a better understanding of the differences between different public systems.

This is vital in our endeavour to diversify, as it can reduce our dependency on individual investors, capital markets and currencies in our borrowing. For instance, during the year we have managed to gain acceptance for Kommuninvest from a number of states and central banks, and they can now buy Kommuninvest's bonds when managing their currency reserve. Our goal is to be a player that can act on all the major global financial markets.

Our efforts to attract attention to Kommuninvest in international bond markets have been successful. For example, we issued a five-year benchmark bond of USD 1 billion for investors primarily in Europe, Asia and the Middle East, and borrowed funds in EUR, DKK and NOK equating to billions of Swedish kronor. When more investors accept us as a borrower, we can price our issues lower and thus reduce our borrowing costs.



### **Demand for continual development**

Kommuninvest's growth improves our ability to offer members efficient financing. Meanwhile, it is absolutely necessary that growth takes place without impacting on the high level of quality.

The process initiated in 2006 to raise quality at registration level in support systems and improve our work flows, was completed during the year. Our personnel have been kept busy with the introduction of the new International Financial Reporting Standards (IFRS) and the new Basel II capital coverage regulations, and we have also devoted a lot of time to various issues related to IAS/IFRS.

Alongside our Nordic sister organisations – Kommunalbanken – the Norwegian local government funding agency, KommuneKredit in Denmark and Municipality Finance in Finland – we organise annual seminars for personnel with the aim of building networks, and strengthening expertise and structural capital through joint training. Kommuninvest hosted the 2007 event.

This past year has called for an extraordinary work effort from our personnel at times, and I would like to take this opportunity to convey my gratitude for their outstanding input.

### **Work complete on vital aspects of our values**

Personnel issues have remained in focus during the year. Among other things, we have completed the basic phases of a major project focusing on Kommuninvest's values, which has involved all employees. Everyone has had a chance to discuss the values which Kommuninvest represents and how they affect day-to-day work within the company and the individual work group, and in the longer term also the public image of Kommuninvest. A book entitled "Brain Book – how we think and work at Kommuninvest" has been produced to clarify the tasks facing Kommuninvest. Roles, responsibilities and instructions have also been the subject of discussion and development.

### **Clearer relationship between society and credit market company**

Intensive work has been carried out during the year in various groupings between the credit mar-

ket company, Kommuninvest i Sverige AB and the parent society, Kommuninvest Cooperative Society. The aim has been to clarify the allocation of work between the company and the society. Proposals for new Articles of Association, new regulations and new owner directives have been formulated, and will be presented to the Annual General Meeting in April 2008. In tandem with this, new business and operating concepts have been fine-tuned and a vision has been established. Altogether it will now be easier for management and personnel to develop Kommuninvest in line with the owners' wishes.

### **Local debt office for Sweden's municipalities and county councils**

Our vision is to be a local debt office for all of Sweden's municipalities and county councils. Our ambition is to fulfil the entire local government sector's needs in terms of financing and general strategic financial advice, and to be a member organisation in the field of public funding.

It is very pleasing to see developments in 2007 moving in the right direction, as indeed they did the previous year. On the date of the 2008 Annual General Meeting, almost 75% of Sweden's municipalities and 35% of its county councils will be members. Based on applications received and informal contacts, this development also looks set to continue, thus bringing ever greater clarity to our role as a local debt office.



Tomas Werngren  
President & CEO



## A MARKET LEADER IN LENDING TO SWEDISH MUNICIPALITIES AND COUNTY COUNCILS

*Kommuninvest focuses entirely on providing Swedish municipalities and county councils with funding and other services related to their financial operations. We lend exclusively to municipalities and county councils that are members of Kommuninvest, and to their majority-owned corporations. Our financing takes place on national and international capital markets.*

The scale of our market amounts to approximately SEK 350 billion, which equates to the total external borrowing of Sweden's municipalities and county councils including their municipally owned corporations. At the end of 2007 our lending totalled SEK 77.9 billion, which means that Kommuninvest accounts for 45.7% of all local government borrowing in Sweden. This makes Kommuninvest the largest financier of municipality and county council borrowing.

Our market position has gradually been strengthened – on average our lending has increased by 15% a year for the past 3 years. The increase is primarily due to the continuously increasing number of members, but also to the fact that Kommuninvest accounts for an increasing proportion of members' borrowing.

### The municipal sector's finances

Sweden's municipal sector comprises 290 municipalities and 20 county councils and its finances represent a significant proportion of total public funding and the national economy. The municipal sector accounts for 70% of public consumption expenditure and 20% of GDP. Including municipi-

pal corporations, the sector accounts for 25% of all employees in Sweden.

### Continued strong development in earnings

The financial results of municipalities and county councils are continuing to develop strongly. Earnings in 2006 were just over SEK 15 billion (excluding municipally owned companies) and continued to develop well in 2007. The municipalities contributed SEK 13 billion to the results, and the county councils SEK 2 billion. The positive financial development of municipalities and county councils is a major factor in making the public sector surplus in Sweden today high by international standards.

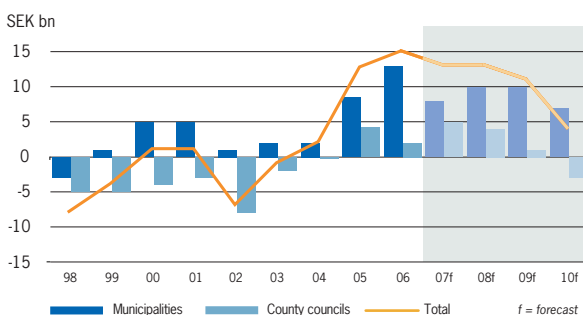
### Close link to Swedish economic development

The improved results in municipalities and county councils are mainly the effect of positive development in the Swedish economy in general and rising employment in particular, which has a positive impact on the taxation base and tax income in the sector. Sweden has had one of the best-performing economies in Europe since the new millennium, characterised by good growth, low inflation and solid state finances.

### Increased investment rate

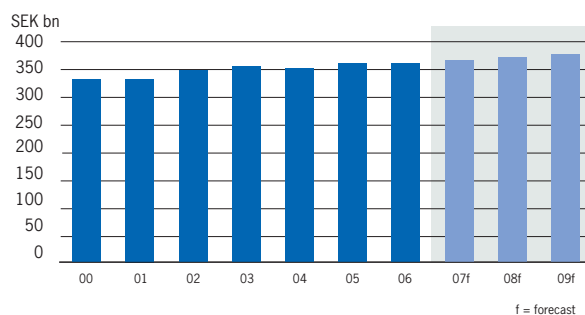
Municipal and county council investment is expected to increase looking ahead. The strong focus in recent years on creating a balanced economy has led to a lower rate of investment, and the municipal sector as a whole is considered to have a slightly neglected investment requirement. However, it is not certain that this will increase the municipal sector's total borrowing, as funding can be

Financial development in the municipal sector



Source: Statistics Sweden, SALAR and och Kommuninvest calculations

Municipal sector borrowing



Source: Statistics Sweden, SALAR and och Kommuninvest calculations

solved by selling municipal assets or off the balance sheet through leasing, for instance.

### **Cheaper borrowing for the entire municipal sector**

Supported by members' joint and several guarantees, since the beginning in 1986 Kommuninvest has endeavoured to create the most favourable conditions possible on the public funding market. Kommuninvest's success is illustrated in part by the lower margins in lending to the municipal sector. In the last five-year period alone, local government borrowing costs have fallen by an average of approximately 20 points, which corresponds to SEK 700 million on a total debt of SEK 350 billion.

Kommuninvest's efficacy is also evident in its market position and the proportion of loan offers accepted. In 2007 Kommuninvest accounted for 45.7% of members' total borrowing. Roughly 80% of loan offers to members and their companies were accepted.

### **Attractive market segment**

Municipalities and county councils are attractive customers to many lenders. One reason for this is the new capital coverage standard, Basel II, which came into force at the beginning of 2007. The new standard has presented an incentive for banks to increase lending to the public sector, as lending to this kind of borrower requires less equity. One trend is that lenders are increasingly offering both more and less complex derivative products, as this opens up opportunities for better earning than conventional lending. For Kommuninvest this has entailed higher demand from members for similar products, but also for financial advice.

### **Kommuninvest an active issuer on the capital markets**

We fund our lending to Sweden's municipalities and county councils by borrowing primarily on the international capital markets. The strong economic development of Sweden and the municipal sector, the municipal financial balancing system, local government's constitutional right of direct taxation and above all the joint and several guarantees of the member municipalities make Kommuninvest a stable, reliable borrower. Kommuninvest's security is comprised solely of credit to the municipal sector with a 0% risk-weighting, and the entire operation has the highest possible rating.

### *Market development*

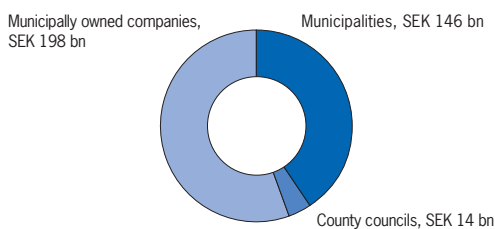
Since summer 2007 the capital markets have been characterised by a considerable sense of unease, with a dramatic fall in liquidity on markets directly or indirectly related to the American sub-prime market – the market for home borrowers with lower creditworthiness.

A large proportion of the sub-prime loans had been securitised and sold on as bonds or structured credit instruments to investors around the world. When it became evident during the summer that there would be more payment stoppages on sub-prime loans than expected, the number of interested investors plummeted. It also became more difficult to value securities with sub-prime loans as the underlying asset. The price of credit risk rose dramatically, and there was far-reaching uncertainty about which parties in the financial system were left exposed to the sub-prime market.

The problems on the sub-prime market spread quickly and to an unexpected degree. Many banks were forced to progressively enter sub-prime related securities that were previously off the balance sheet back into the balance sheet, thus placing higher demands on the banks' equity and reducing their ability to provide the market with liquidity. The result was dramatically increased interest rates for lending between banks and this effect was also noticeable in Sweden, even though the Swedish banking system had very little exposure to the American sub-prime market.

This uncertainty in the credit sector also had a knock-on effect on Kommuninvest's ability to of-

#### **Municipal sector borrowing, forecast 2007**



Source: Statistics Sweden, SALAR and och Kommuninvest calculations

fer low interest rates. As a borrower Kommuninvest was favoured by the investors' increased demand for the very best borrowers, but the prices for the insurance instruments (swaps) we use rose considerably, as they are priced on interbank interest rates. As a result of these events in the second half of 2007, we have reviewed our financing strategy, partly in order to avoid costly insurance instruments linked to interbank interest rates.

### Borrowing

The majority of Kommuninvest's borrowing takes place in the form of bonds issued on the Swedish and international capital markets. In addition, there is a small proportion of direct loan financing.

We have a well-diversified borrowing base, with firmly established investor contacts on several major capital markets. In 2007 the Swedish, European and Japanese markets accounted for the largest proportion of Kommuninvest's borrowing. As in previous years the largest transaction was a benchmark loan of USD 1 billion which was very well received by investors. The loan was primarily invested in Asia and Europe and the level of borrowing improved on previous years.

Bonds were issued in 11 different currencies during the year. There was great interest in investing in structured bonds and Kommuninvest has issued structured loan products, bond loans in which return is linked to the development in value of an underlying asset type, such as shares, commodities, currencies and interest rates.

Kommuninvest's strategy is to expand its investor base both with new borrowing markets and new investor categories, and to continue developing new loan products that meet the needs of investors.

### Lending

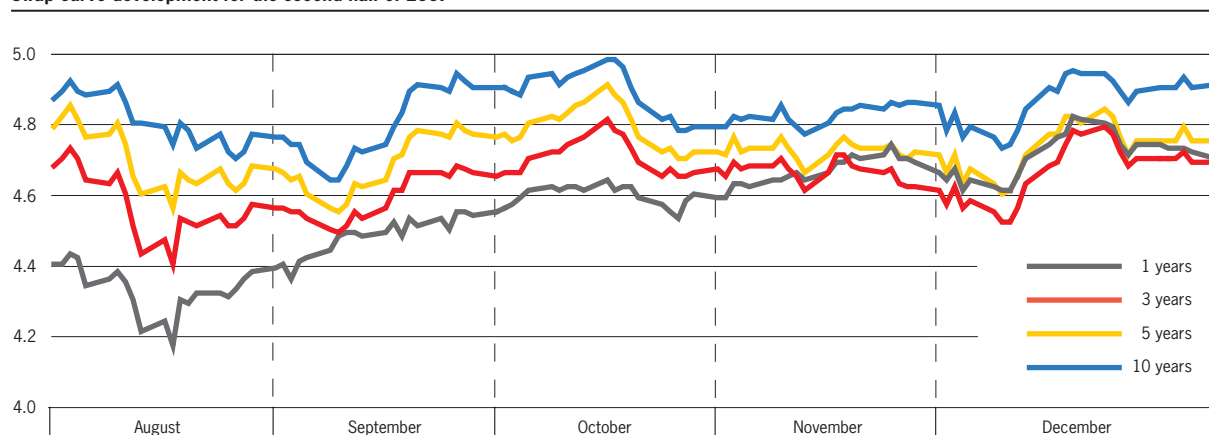
All funds are lent to Kommuninvest's members, their majority-owned companies and to intermunicipal cooperation organisations, if all their members are also members of Kommuninvest. All lending is currently in Swedish kronor and the terms are generally under 10 years. Lending takes place at fixed and variable interest rates, as well as derivatives as additional products.

During the year Kommuninvest has seen the highest increase in lending in its history. Total lending amounted to SEK 77.9 (66.8) billion. In addition to the municipalities and county councils that are already members of Kommuninvest, the influx of new members – of which there were 21 in 2007 – is fundamental to a continued steady development in lending.

Of Kommuninvest's total lending, municipalities and county councils accounted for 48%. Municipal housing companies accounted for 41% of lending, and energy companies and other municipally owned companies for the remaining 11%.

Kommuninvest increased its market share of member borrowing, which amounted to 46% in 2007. The remainder was divided between various other players with no particular dominance.

Swap curve development for the second half of 2007





## KOMMUNINVEST: THE HIGHEST POSSIBLE CREDIT RATING AND EXPOSURE TO THE SWEDISH PUBLIC SECTOR

*Kommuninvest is an active borrower on capital markets all over the world. We offer investors zero-risk-weighted exposure to Swedish municipalities and county councils. We have the highest possible rating from two independent credit rating institutions and are on a par with the Kingdom of Sweden in terms of creditworthiness. This is a key factor in our ability to secure favourable borrowing terms.*

Kommuninvest represent a unique form of co-operation between municipalities and county councils. It is a model developed in Sweden, using some good examples from our Nordic neighbours, which has attracted great attention from the outside world. Forming Kommuninvest and coordinating the borrowing volumes of individual municipalities and county councils open up interest rate advantages that benefit our members. Members guarantee Kommuninvest's borrowing through joint and several guarantees.

### **High creditworthiness among municipalities and county councils**

Swedish municipalities and county councils have a very high creditworthiness, and no municipality or county council has ever failed to fulfil an agreement entered into with a lender. This high level of creditworthiness is attributable to a number of factors:

#### *A municipality or county council cannot be declared bankrupt*

The special status in the Swedish constitution and the right of municipal taxation mean that municipalities and county councils cannot go bankrupt.

Neither can they cease to exist in any other way. This entails an implicit government guarantee for their commitments. Moreover, it is forbidden to pledge municipal property as security for a loan, which means that municipalities and county councils are liable for all obligations they enter into, with all their tax power and their total assets.

#### *The right to levy taxes and set tax rates*

Municipalities and county councils in Sweden have a constitutional right to charge taxes for carrying out their remit. The tax base is based on the residents' income, and each municipality and county council sets its own tax rate. Income from taxation accounts for just over 70% of all funding. The constitutional right to levy taxes is an important aspect of local self-government, which states that there must be an autonomous right of decision-making for municipalities and county councils. This level of autonomy in Swedish local government is uncommonly high by international standards.

#### *Strong system for balancing municipal finances*

To ensure that all municipalities and county councils, irrespective of their tax base and structural conditions, have an equal foundation for providing their residents with services, Sweden has a system of balancing incomes and costs. Income equalisation evens out differences in the tax base of the municipalities or county councils, and is primarily state-funded. Cost equalisation evens out differences in structural costs and is neutral in terms of state finances. Municipalities and county councils with a favourable structure pay a charge, while those with an unfavourable structure are paid a cost equalisation grant.

**AAA Aaa**

### Local government financing principle

The local government financing principle is officially approved by the Swedish parliament (the Riksdag). It means that if the state should decide on measures that directly affect the activities of the municipal sector, the economic effects of that decision should be neutralised by altering the level of the state grant.

### Strict financial requirements and regulations

High demands are placed on the economies of the municipalities and county councils in Sweden. A balance demand has applied since 2000, which means that the budget should normally be set with income exceeding costs. If new costs are introduced during the current budget year, the decision must also contain details of how the expenditure is to be funded. If the result is a deficit, the council must, after looking into the balance demand, adopt an action plan for restoring a positive result within three years.

### Kommuninvest's exceptional position as a borrower

#### Joint and several guarantees from the owners/members

All members of Kommuninvest Cooperative Society provide a joint and several guarantee for the commitments entered into by the credit market company Kommuninvest i Sverige AB. New members guarantee current and future commitments. No member has ever left the cooperation, but if one were to leave it would remain responsible for the relevant commitments on its exit date. This

approach means that all members and their resources provide the ultimate guarantee for Kommuninvest's operations. This explicit guarantee from municipalities and county councils is an important reason behind Kommuninvest's high creditworthiness.

### High quality of access

Kommuninvest lends solely to its members and their majority-owned companies. Consequently it is only ever exposed to municipalities and county councils. Such exposure is equated with state exposure according to prevailing capital coverage rules, and has a zero risk-weighting. Lending and borrowing can therefore be carried out with 0% capital coverage.

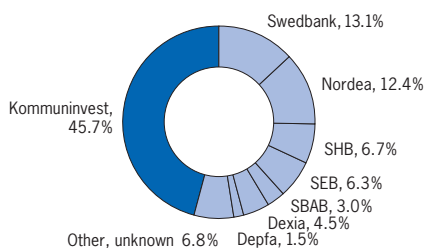
As mentioned above, no Swedish municipality or county council has ever failed to fulfil its obligation to a lender, nor can either type of local government body be declared bankrupt. Furthermore, Kommuninvest has never sustained a credit loss.

### Good liquidity

In order to fulfil the need for lending even when financing on the capital markets may be limited for a certain period or unattractively priced, Kommuninvest maintains considerable liquid assets. These assets are intended to meet the liquidity requirement for around 12 months.

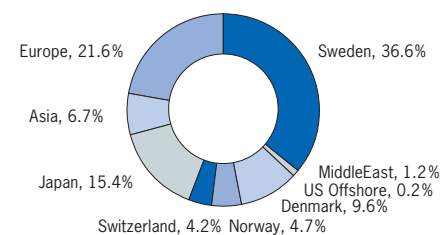
Pending a loan, the liquidity is managed in an investment portfolio comprising interest-related products denominated in Swedish kronor, US dollars or euro. Investments are only made in interest-bearing securities issued by borrowers with a

Proportion of members' borrowing



Source: Kommuninvest

Borrowing per market, 2007



Source: Kommuninvest



low risk-weighting and a high rating. The investments have an average term of 10 months.

Some of the liquid assets are kept in a primary liquidity reserve which, according to a Kommuninvest Board directive, should be between 4% and 6% of the balance sheet total. The primary liquidity reserve is banked or kept in securities which can be converted into cash within two days, and is there to ensure that Kommuninvest can fulfil its obligations for 30 days. At the end of 2007 the investment portfolio amounted to SEK 5.2 billion.

#### *Risk minimisation*

Kommuninvest constantly strives to minimise the risks in its operation. Market risks are minimised as far as possible through individual matching, and otherwise at the portfolio level. Counterparty risks are kept at a low level, primarily by investing with counterparties that have government guarantees for their obligations. It is also possible to reduce exposure to individual counterparties through security agreements related to derivative contracts.

More than 88% of the value of the derivative contracts Kommuninvest has entered into are with counterparties with minimum credit ratings of AA from one of the recognised rating institutions. In financial transactions, all price risks are eliminated via hedging. All residual risks to which Kommuninvest is exposed are interest-related. Kommuninvest's risk management is described in more detail on pages 27-29.

#### *Highest possible rating*

Kommuninvest is one of few global borrowers to have the highest possible credit rating from rating institutions Moody's Investor Services and Standard & Poor's, both for short-term and long-term borrowing. In Sweden only the Kingdom of Sweden (the Swedish State) has the same high credit rating from two independent institutions (Aaa and AAA respectively for long-term funding). Kommuninvest is therefore on a par with the Kingdom of Sweden when it comes to creditworthiness.

This is one of the key reasons why Kommuninvest can borrow money on such favourable terms. Other factors are its focus on lending to municipalities and county councils, and our role as a local debt office for the Swedish municipal sector.

#### *Monitoring borrowers*

We continuously monitor the economy of the municipal sector, particularly the member organisations we help fund. Twice a year we conduct a major review of each member and apply an individual ceiling for total borrowing, including liabilities, pension obligations and guarantees issued to parties other than Kommuninvest.

## LOCAL DEBT OFFICE FOR SWEDISH MUNICIPALITIES AND COUNTY COUNCILS

*The idea of voluntary cooperation between Sweden's municipalities and county councils for better financial terms is firmly rooted, and 21 new members joined Kommuninvest in 2007. This growth increases our ability to offer members favourable terms, to develop skills and to reduce administration costs. The vision of acting as a local debt office for the whole of Sweden is increasingly approaching reality.*

Kommuninvest is founded on the ideal of voluntary cooperation without vested interest in profit-making. This simple concept has made Kommuninvest a well-known player in national and international capital markets, synonymous with the Swedish public sector with a high degree of stability and creditworthiness. For seven years we have been carrying out considerable bond issues on our members' behalf, while building an understanding of Kommuninvest among investors. Our activities and our very presence have helped Swedish municipalities and county councils save billions of Swedish kronor in their borrowing for public funding. Through advice and other member services, we contribute to developing and improving our members' funding operations.

### **Debt office for the entire municipal sector**

Our ultimate goal is to act as a local debt office for all of Sweden's municipalities and county councils. This aim highlights the fact that what we do is of benefit to society, open to all municipalities and county councils but with the fundamental principle of voluntary involvement, both as regards joining Kommuninvest and using its services. At the end of 2007, 70% of municipalities and 35% of county councils in Sweden were members. Our right to use Sweden's lesser coat of arms in international contexts clearly signifies Kommuninvest's exceptional position and its link to the public remit.

### **Growth in membership a priority**

Increasing the number of members is important to Kommuninvest. Greater borrowing volumes increase the capital market's interest in Kommuninvest

and borrowing terms can improve. The size also generates opportunities for developing expertise and reducing administration costs, which strengthens Kommuninvest's competitiveness. Moreover, a stronger organisation is attractive and makes even more local government bodies want to be members. An important channel for reaching new members is recommendations from existing members, although Kommuninvest also actively promotes its organisation and concept.

### **Focusing on communication**

Communication and dialogue between Kommuninvest and individual members is a high priority. The natural forums for discussion and mutual exchange include the company and Society Board meetings. Members are represented by 30 members and deputy members on the Society Board. The society's Board is also partly represented in the company's Board. Moreover, Kommuninvest's financial advisors often visit the municipalities as part of their day-to-day work, and there are also meetings of a more general strategic nature, and these forums too serve to increase the contact interface. In 2007, Kommuninvest's management and the leading political figures in the member municipalities gathered at 15 locations for member consultation. Dialog, our magazine for members and customers, is published four times a year.

### **Education and networking**

Cooperation is fundamental to Kommuninvest, and for many members access to networks for exchanging information and experiences in various financial matters is important. In 2007 Kommuninvest was a co-organiser of Finansdagarna, the 'Finance Days' for the Swedish public sector, an event which was popular with, and appreciated by, participants and exhibitors alike. Other contact interfaces are also available for new member municipalities, member county councils and their companies in the meetings organised by Kommuninvest a couple of times a year, as well as visits by Kommuninvest to individual municipalities.

### **Active influence on municipal finance issues**

Kommuninvest shall participate in the general financial debate and shall as a member organisation



represent the Swedish municipal sector in public funding issues. Kommuninvest not only monitors legislative proposals in Sweden, but also follows the establishment of norms and new legislation within the EU. Issues Kommuninvest has been working with in 2007 include research into the conditions for public benefit, reporting of pension provisions and the expertise inquiry.

### **High customer satisfaction**

We conduct regular surveys among customers to gain an idea of how we are perceived. Our 2007 survey once again indicated a high degree of customer satisfaction. The customer satisfaction index was 73% and 9 out of 10 respondents said that membership of Kommuninvest was of great benefit to them.

### **Member and customer survey, December 2007**

The online survey was conducted on 3-24 December. Members were represented by the Chair of the Municipal Executive Committee, while customers were represented by the Chief Financial Officer or an equivalent contact person at our member municipalities and their companies. The overall results were reported in an index based on a general assessment, expectations and the ideal situation.

**Member Satisfaction Index (MSI): 75%**  
**Customer Satisfaction Index (CSI): 73%**

Members rate Kommuninvest as a whole very highly. The most satisfied members were those that took part in the latest members' council or the latest general meeting, and those who had the same position even before the most recent election. When respondents were asked what they would recommend to others, borrowing terms and the favourable prices were the main answers. They also mentioned the ben-

efits of membership, the fact that Kommuninvest is a safe, smoothly functioning organisation, and that the personnel are professional, treat the members well and provide good service.

The survey did not reveal any critical action points among members. However, they would like to see clearer, more relevant information.

Prices and conditions are by far the most important issues for customers, and Kommuninvest was rated very highly in this respect. The company's image and profile also achieved high scores, but this does not have quite as large an effect on customer satisfaction. Customers would like to see improvements primarily in invoicing procedures and financial follow-up, but would also like online information and would prefer Finance Support to be easier to deal with. Customers would like more contact in the form of CFO meetings, Finance Days and training. However, 75% were satisfied with the current contact frequency.

## CUSTOMISED MEMBER SERVICES

*Kommuninvest provides a range of services exclusively for members and their companies – i.e. our customers. These include consulting services as well as special web-based tools to support the individual customer's funding operations.*

### Specialised advice

Kommuninvest's general financial advice to its members aims to minimise financing costs and financial risks. The financial advisors also have the important task of interpreting and communicating the market information to which they have access through daily contact with the financial markets. This is partly achieved through our weekly newsletter. Our six financial advisors interface with customers through personal visits, by phone and digital communication, and at various fairs, exhibitions and seminars. We also assist customers in strategic matters.

### Powerful finance support

Customers use our online finance support function, often in cooperation with our financial advisors, as a tool in their efforts to rationalise their financial administration.

Finance support encompasses five main areas.

#### 1. Financial Analysis

This is a tool for establishing the financial strength of the municipality or county council in question. To support the analysis, the local government body is assessed in six sub-areas: financial strength, liquidity preparedness, financial flexibility, financial capacity, commitments and external business factors.

#### 2. Finance Policy

A well-established model which helps members draw up their own financing policy in a simple, educational way. To satisfy the need for general strategies and more detailed rules, Kommuninvest has developed two proposals: General Finance Policy and Detailed Guidelines for the municipality's financial operation.

#### 3. Debt Calculation

This tool offers our customers a collective picture of the current borrowing situation. It is presented in a well-organised way and reports can be generated for the compilation of a loan portfolio. The compilation includes total debt, the proportion of fixed interest taking into account derivatives and variable interest respectively, the average fixed interest period and average interest rate. The tool can also simulate the effects of changes in interest rates, for example.

#### 4. Market Information

This tool provides access to market data from Reuters news agency on national and international interest rates, exchange rates and financial news. The service also includes access to historic data.

#### 5. Benchmark

Using the benchmark service customers can compare the performance of their loan portfolio with a relevant reference, an index. Has the loan portfolio performed better, worse or the same as the norm? Kommuninvest's benchmark model is based on three different norm portfolios for customers with strong, balanced and weak economies respectively. The user chooses the norm portfolio that best matches its own profile depending on the user's financial strength.



## AN EFFECTIVE PUBLIC FUNDING ORGANISATION REPRESENTING ALL SWEDISH MUNICIPALITIES AND COUNTY COUNCILS

*Kommuninvest is comprised of two integrated operations. Kommuninvest Cooperative Society ('the Society') is a member organisation open to all Swedish municipalities and county councils. The Society is the sole owner of the credit market company Kommuninvest i Sverige AB ('the Company') which offers members effective financial administration, with the emphasis on public funding. All operational activities take place in the Company.*

### Effective organisation

Kommuninvest i Sverige AB is made up of 39 employees at the office in Örebro, central Sweden. Low administration costs in relation to total lending and balance sheet total show that Kommuninvest has a cost-effective organisation.

### Business concept

#### *The Society's operating concept*

Kommuninvest Cooperative Society is an organisation based on voluntary membership. The aim is to create the most favourable long-term conditions for the financial operations of municipalities and county councils in Sweden. As a member organisation, Kommuninvest represents the Swedish municipal sector in public funding issues.

#### *The company's business concept*

Kommuninvest i Sverige AB's remit is to create lasting favourable conditions for its owners' financial operations based on a foundation of municipal values. It achieves this by providing access to competitive loans, debt management and other services that contribute to effective financial administration.

### Objectives

#### *Membership growth*

One of our primary aims is to increase the number of members, as this entails growth in lending and strengthens Kommuninvest's position as a borrower. The goal is for 80% of municipalities and 50% of county councils in Sweden to be members by 2010, which equates to approximately 240 members. At the end of 2007 Kommuninvest had 210 members, of which 203 were municipalities and 7 were county councils.

#### *Proportion of members' total financing*

One important indicator of our competitiveness is the proportion of members' total financing that takes place through Kommuninvest. At the end of 2007 that proportion was roughly 46%, and the aim is to exceed 50%.

#### *Rating*

A steady high rating is the single most important factor for Kommuninvest in accessing cheap loans and other finance solutions, and consequently it is also crucial to our ability to grow. Since 2006 we have had the highest possible rating from both Moody's Investor Services and Standard & Poor's – the largest rating institutions – and the aim is to maintain that rating.

### Kommuninvest's remit – local debt office

Our members have asked Kommuninvest to offer them effective financial management with the focus on public funding, and to represent them in public funding issues. Kommuninvest carries out this remit without a vested interest in profit-making but with the aim of creating favourable solutions for its members – an operation of benefit to society in the form of a local debt office.

Our long-term ambition is for the member organisation to act as a local debt office for all of Sweden's municipalities and county councils. Our aim is to fulfil the entire local government sector's needs in terms of financing and general strategic financial advice, and to proactively represent the sector in the field of public funding. It is voluntary to become a member of Kommuninvest, as it is to use its services.

### Vision

#### *The Society's vision*

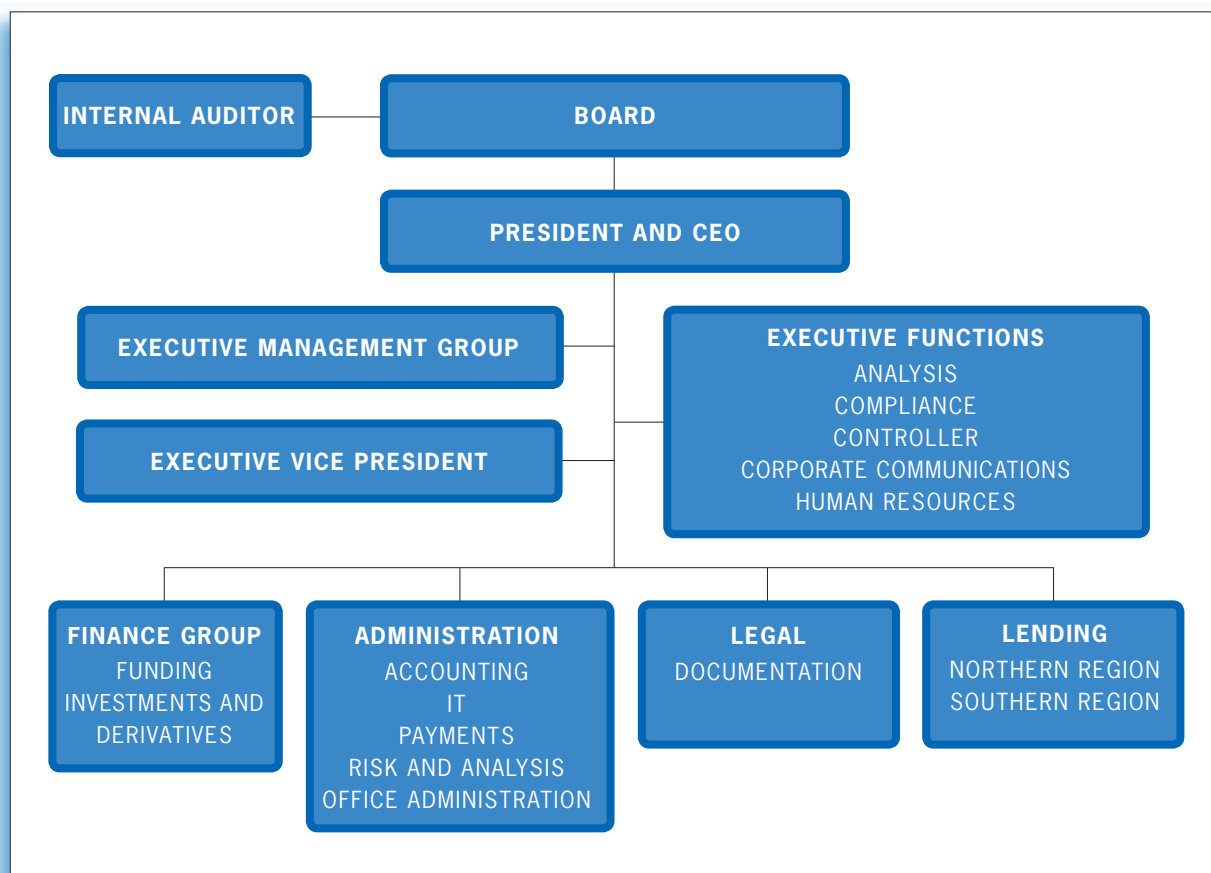
Kommuninvest is the natural choice for Swedish municipalities and county councils when it comes to financial administration. Kommuninvest is a member organisation that effectively represents the municipal sector in public funding issues. In its role as a local debt office that benefits society, Kommuninvest occupies an exceptional position in the market.

### The Company's vision

Kommuninvest is the natural choice for Swedish municipalities and county councils when it comes to financial administration. Competitive solutions, efficient service and sound advice mean satisfied customers. In its role as a local debt office that benefits society, Kommuninvest occupies an exceptional position in the market. Players on the financial mar-

ket consider Kommuninvest a stable, efficient and knowledgeable business partner that represents the part of the public sector comprising municipalities and county councils. Its personnel perceive Kommuninvest – and contribute to its standing – as a workplace focused on quality and knowledge with clear controls and follow-up, where the individual is motivated, happy and can develop.

### Organisation



### Goals and goal accomplishment

	RESULT			GOAL
	2005	2006	2007	2010
Proportion of Sweden's municipalities as members	60%	63%	72%	80%
Proportion of Sweden's county councils as members	30%	35%	35%	50%
Proportion of members' total financing	42%	46%	46%	50%
<i>Rating</i>				
Standard & Poor's	–	AAA	AAA	AAA
Moody's Investor Service	Aaa	Aaa	Aaa	Aaa

## HIGH DEMANDS ON EXPERTISE AND PERFORMANCE

*In relation to the scope of its operation, Kommuninvest is quite a small organisation. Thirty-nine employees handle a balance sheet total of SEK 110 billion and ongoing loans of SEK 78 billion. There are extreme demands on expertise and performance, and every co-worker is a key employee.*

A financial organisation like Kommuninvest needs to be a specialist in a wide range of areas. The company operates partly on international capital markets where we borrow and invest money, and partly in Sweden where we offer funding and consultancy to municipalities and county councils. This places high demands on financial expertise not only in borrowing and investment, but also in financial administration in the municipal sector. Our success is due to the fact that all our areas of specialist expertise work together effectively.

At the end of 2007 Kommuninvest had 39 employees, of whom 20 were women and 19 men. The majority have a degree-level education in the fields of economics or law. The average age is 39, ranging from 28 to 62. Sick leave during the year was 1.27%.

### Focus on competence development

Kommuninvest relies on its personnel having the expertise required for the job and therefore devotes considerable resources to increasing their knowledge and supporting personal and professional development. Every year we invest more

than SEK 1 million in training, which equates to SEK 25,000 per employee. One example is an IFL programme that has been under way for a year, focusing on several selected subject areas in financial economics, national economics and financial reporting. The programme encompassed 35 days and was taught by instructors from the Stockholm School of Economics. Each subject area finished off with an examination, and participants had to pass all the exams to be awarded a diploma.

We also enjoy regular cooperation with our sister organisations in the Nordic region. This cooperation has been in place for over 10 years and has led to some valuable contacts and several networks for exchanging knowledge and experience.

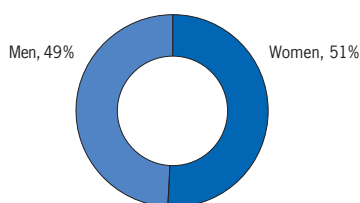
### Personnel surveys

As part of our efforts to increase the attractiveness of Kommuninvest as an employer, we conducted a personnel survey during the year with questions relating to leadership, work environment and well-being, participation and motivation. The survey partly revealed a high degree of satisfaction, and that the document entitled 'Brain Book – how we think and work at Kommuninvest' is a useful aid in internal communication. However, a desire was expressed for more competence development and even clearer leadership. The Employee Satisfaction Index amounted to 53%.

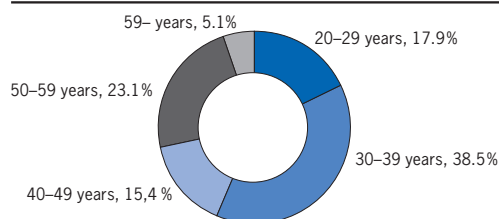
### Performance system

As a way of clarifying the individual's contribution to the overall result and also to motivate the workforce, all personnel – excluding the President,

Gender distribution, %



Age groups, total for men and women







internal auditor and one employed owner representative – are included in a variable performance system. The system focuses on the total value creation within Kommuninvest and is designed with the special nature of Kommuninvest's operation in mind, i.e. the fact that it is an operation run without vested interest in profit-making. Results in the

variable performance system are based on the financial result less return on equity and the lending margin. It is therefore in the individual's interest to contribute to the more efficient management of the operation, but not to improve profit by raising interest rates, for example.

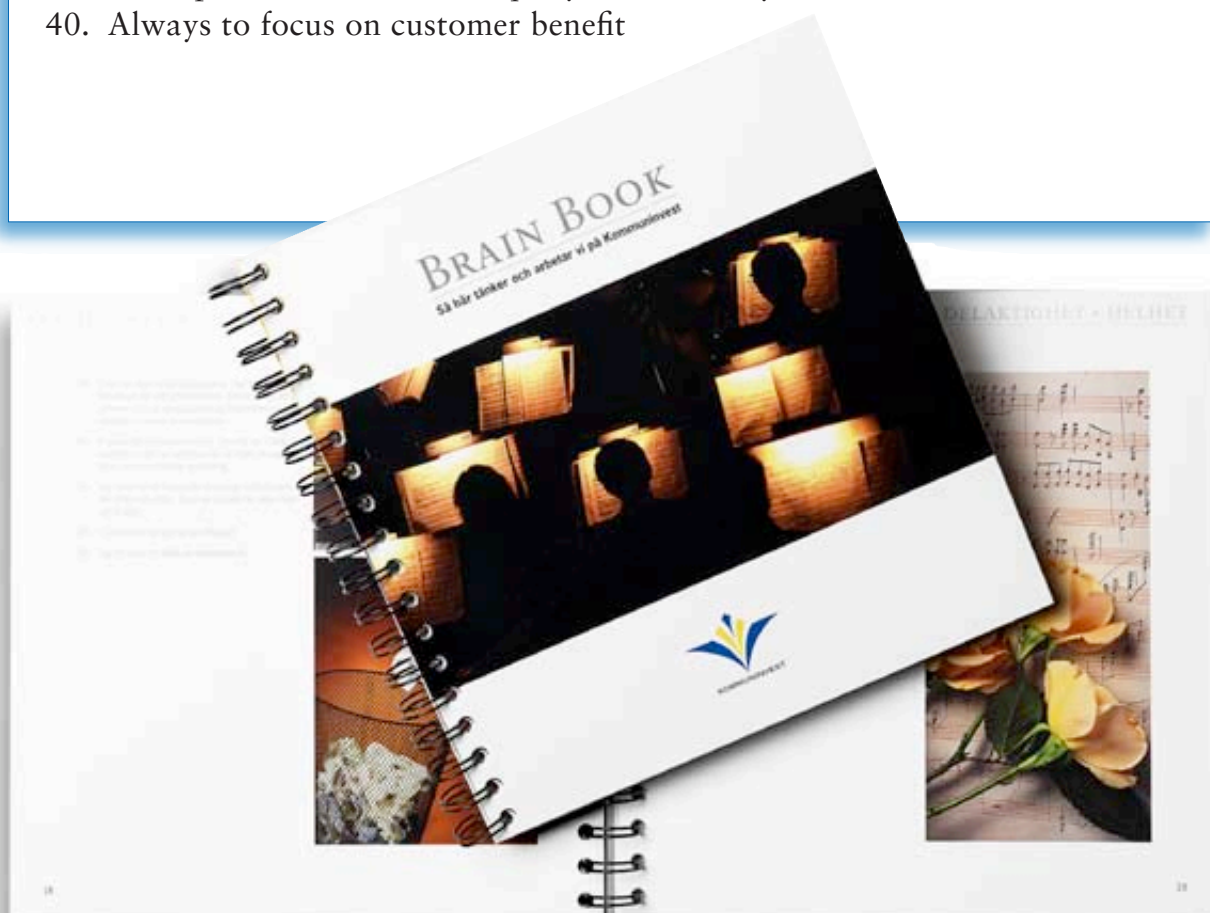
#### Average age

Average total:	39 years
Women, 20 people:	38 years
Men, 19 people:	41 years

## “WE PROMISE...”

Some of the 40 joint promises developed by Kommuninvest's personnel

4. To be even more efficient
8. To get it right from the start
9. To realise the importance of continuous development and creative thinking
15. To establish structures for capitalising on good ideas
22. To oppose 'it-can't-be-done' attitudes
27. Always to follow up on a delivery to assure ourselves that the customer is satisfied
33. To respond to a customer's query the same day it is made
40. Always to focus on customer benefit

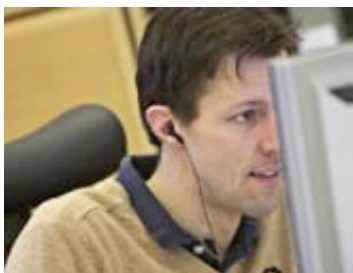


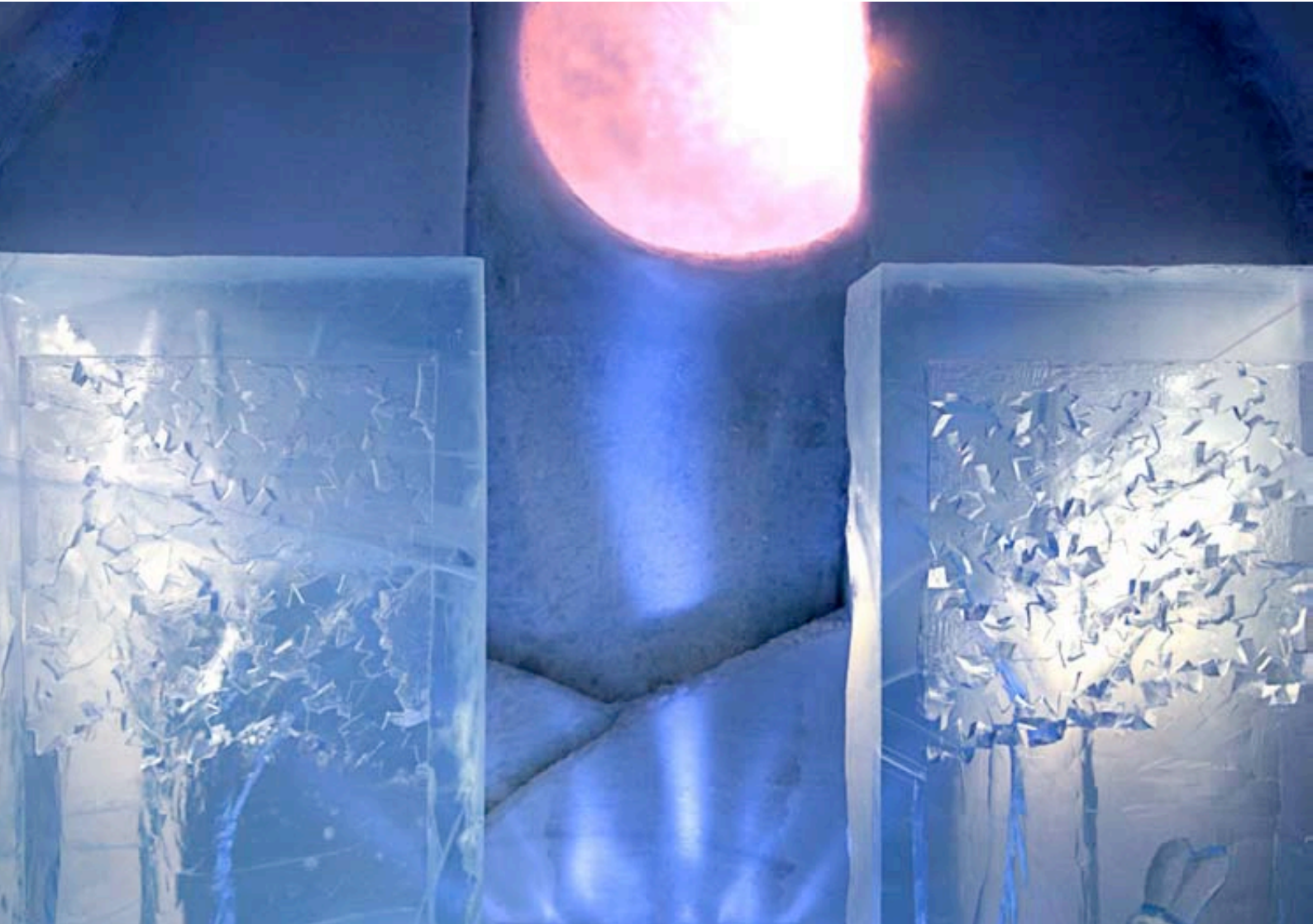
For several years now Kommuninvest has been focusing intently within the company on corporate values, with the aim of developing a common view on our values and incorporating them in our day-to-day work.

In 2007 this process manifested itself in an active discussion among all personnel on our core values: Quality, Clarity, Participation and a Holistic Approach. Personnel discussed issues in their own work groups and in mixed cross-pollination groups

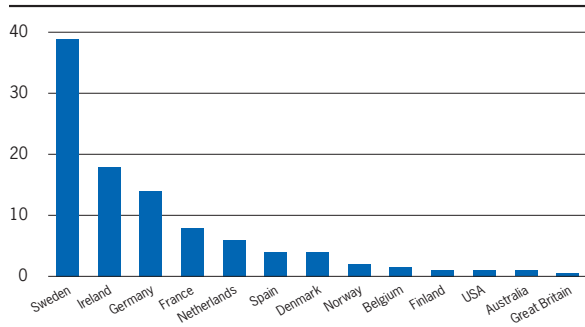
with the aim of producing a number of company-wide and group-specific promises to support the day-to-day operation. Some of the 40 company-wide promises developed by the personnel are shown above.

All of the daily promises have been compiled in a document entitled “Brain Book – how we think and work at Kommuninvest”, which is now a natural work tool in Kommuninvest's everyday tasks.



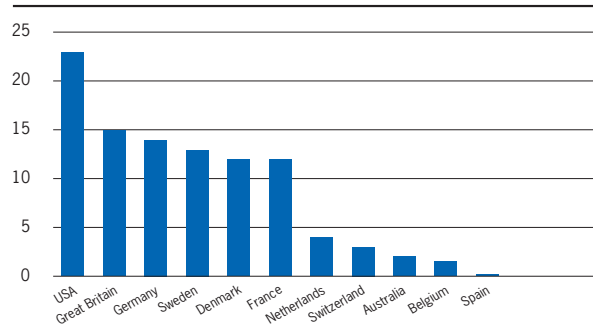


**Geographic division of investments, %, 31 Dec 2007**



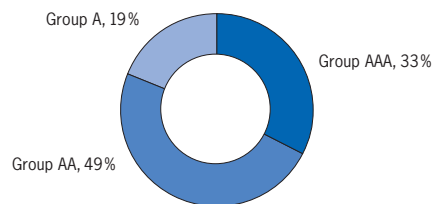
Apart from Sweden, no individual country may exceed SEK 7 billion of invested assets.

**Geographic division of derivative contracts, %, 31 Dec 2007**



All counterparties are domiciled in countries that are full members of the OECD.

**Invested assets by rating, 31 Dec 2007**



Source: Kommuninvest

## RELIABLE RULES AND PROCESSES FOR RISK MANAGEMENT

*Kommuninvest's risk management aims to minimise or eliminate the risks in its operation. Market risks are reduced through far-reaching matching. Counterparty risks can be kept at a low level through investments with highly creditworthy counterparties and with demands for pledged assets.*

The fundamental principle for Kommuninvest's risk management is that the terms for borrowing and lending are equal from a risk perspective. This does not mean that the transactions or the operation are completely free of risk, but that we should avoid being exposed to risks that cannot be managed. Moreover, as part of the public sector we are also obliged to align ourselves with the prohibition of speculative and high-risk activities in accordance with Section 2 §7 of the Swedish Local Government Act.

### Four types of risk

The risks we have to manage are:

- Market risk – the risk of loss, mainly as a result of changes in interest and exchange rates.
- Liquidity risk – the risk of far higher costs for borrowing required funds, or of loss when assets cannot be sold at a reasonable price.
- Credit or counterparty risk – the risk of loss due to the counterparty not fulfilling its commitments at the contracted time.
- Operational risk – the risk of unexpected financial or confidence-related losses as a result of internal causes such as computer error, or external influence such as crime.

### Market risk

#### *Interest risks limited at portfolio level*

Due to the scope of the operation, comprehensive matching between the company's assets (lending) and liabilities (financing) is not always possible for each individual position, instead interest risk is also limited at portfolio level.

Interest risks also arise through mismatches in fixed interest periods between invested assets and the related funding. The risk (exposure) in the portfolio at any measurement point may not ex-

ceed SEK 10 million in a one (1) percentage point parallel shift in the yield curve.

### *Foreign exchange limits currency risks*

Currency risk arises when assets and liabilities denominated in a specific foreign currency in the balance sheet are mismatched in terms of size. Currency risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments. We limit this risk by frequently converting such returns into Swedish kronor.

### Liquidity risk

Liquidity risk can most simply be expressed as a shortage of funding. In order to fulfil the need for lending even during periods when financing opportunities on the capital markets are limited or too costly, the Board of Directors has decided on a primary liquidity reserve of at least 4% and at most 6% of the balance sheet total. This is to cover the lending requirement for 30 days ahead. There are also investments in the form of surplus liquidity which should cover the lending requirement for 12 months ahead. Investments with a remaining term of no more than one year should be able to cover 6 months' lending requirement.

### Credit or counterparty risk

Having secure counterparties is a prerequisite for a successful financial operation. Credit and counterparty risk can be divided into three categories:

#### *Risks from lending*

Kommuninvest lends solely to its members in the parent society (Kommuninvest Cooperative Society) and their majority-owned companies. All members sign joint and several guarantees for Kommuninvest's commitments. The owner-members always issue a guarantee for majority-owned companies, thus ensuring that the member municipalities and county councils are behind all Kommuninvest's lending. From a capital cover perspective, the municipal and county council sector has a risk-weighting of 0%.

#### *Risks when investing in assets not yet loaned*

These risks consist of losses and value changes on

invested assets. The risks are limited by restricting investment exclusively to highly creditworthy counterparties. Highly creditworthy counterparties must have a minimum stable A level from one of the internationally recognised rating institutions. A significant proportion of the investments are in European governments and government-guaranteed financial institutions, counterparties which usually have the highest credit ratings. The risks are also limited by the fact that the investments have a maximum term of 5.5 years. Board guidelines also stipulate that Kommuninvest should strive to diversify investments in securities between various types of counterparty, and counterparties in different geographical areas. Counterparties may only have a risk-weighting of 0 or 20%.

#### *Risks from value changes on derivative contracts*

To limit the market risks that arise when contractual borrowing and lending terms do not match, risk management instruments are used in the form of derivative contracts.

This risk is that a loss may occur if the counterparty in interest, currency, equity and commodity swaps, for instance, does not fulfil its commitments. The risk exposure comprises the cost of entering an equivalent contract in the market. Such cost is calculated for each contract and is considered a risk on the contract counterparty.

To limit the risks and exposure arising because of value changes in derivatives, we enter into Credit Support Annexes (CSAs) with our derivatives counterparties. These give us the sole right, under certain conditions, to require extra collateral. The determinants of when and how much extra collateral is to be pledged are whether the value change in derivative contracts entered exceeds the pre-determined contracted exposure or if the counterparty's creditworthiness deteriorates. Such collateral comprises government securities, which have zero risk-weighting from a capital coverage perspective. The aim of the CSAs is to cover receivables while simultaneously extending the scope for business with counterparties.

To become an approved counterparty in a derivative transaction with Kommuninvest, the par-

ty must have a minimum credit rating of a stable A level from one of the internationally recognised credit rating institutions. The counterparty's credit rating is also a deciding factor in what we are prepared to accept when it comes to the contracts' maturity period, structure and permitted risk exposure.

We are also a member of the International Swaps and Derivatives Association (ISDA), and before entering derivative contracts this stipulates the right to early redemption of such contracts if the counterparty's credit rating deteriorates below a pre-determined level. The scope of our commitments in derivative contracts is shown in Note 3 on page 41.

In terms of nominal amounts, 88% of derivative contracts are with counterparties with minimum credit ratings of AA from one of the recognised ratings institutions. Kommuninvest has only entered into basic currency and interest derivatives on the remaining contracts, all of which have a short duration.

Board guidelines stipulate that Kommuninvest should strive to diversify derivative contracts between various types of counterparty, and counterparties in different geographical areas.

Delivery risk can also be said to be a type of credit and counterparty risk. This is the risk of a counterparty being unable to fulfil a securities or payment transaction.

Accordingly, before embarking on a transaction we always ensure that the counterparty is the first to fulfil its commitments, or utilise an approach where both counterparties must fulfil their commitments simultaneously.

#### **Ongoing research and monitoring of counterparties**

The continuous monitoring of Kommuninvest's counterparties is an important part of the work to to minimise risk. Our Credit Group has the task of processing and continuously monitoring new counterparties and financial instruments used in the company's financing activities.

Counterparties are evaluated according to their financial strength, and are compared with similar players. The research is intended to provide a complete picture of the counterparty's abil-

ity to fulfil its commitments if market conditions change. The Credit Group's activities also include proposing the removal or introduction of limits for approved counterparties and financial instruments. The Credit Group must report developments of all counterparties to Kommuninvest's Board of Directors at least once a year.

For lending activities, each municipality or county council is screened before being approved as a member of Kommuninvest Cooperative Society. Members' progress is subsequently analysed biannually based on a pre-determined model. As part of the research process, every year the Board sets credit limits for the members. The credit limits are universal and proceed on the basis of each member's consolidated borrowing. Individual members may increase their credit limit subject to scrutiny. Increased limits are usually motivated by assets with 'surplus value'.

### **Operational risk**

Our work on operational risk primarily focuses on our internal environment, which is the area we can most directly influence. One example of operational risk is legal risk. This is the risk of loss due to the inability to carry through a contract on legal grounds, such as due to insufficient documentation. The central aspects of work to reduce operational risks internally are:

- The duality principle – a single person may never manage a transaction alone through the entire process. There are usually at least three people from different departments involved in a business flow.
- The right tools – in the form of guidelines, standardised processes, reporting procedures and policies.
- The right skills and experience – each employee is well-prepared with the latest information and technology. The right skills to ensure that risks can be calculated and managed so that no unplanned risks arise. Establishing high personnel competence through continuous training is an important tool in this work.
- Respect for skill – the internal control requires that each employee feels and takes responsibility for the risks in their specific work area, and that each skill and skill area is respected.

In 2007 the Board established a model for Internal Capital Assessment in line with Swedish Financial Supervisory Authority guidelines. The internal capital assessment evaluates the financial consequences of Kommuninvest's aggregate risks.

### **Risk organisation and responsibility**

Kommuninvest is organised with reliable rules and processes for secure, systematic risk management. The Board of Directors bears overall responsibility for risk exposure and risk management and decides on the Group's overall risk policy and instructions for the finance operation. These specify how market, liquidity, credit-related, counterparty and operational risks should be managed.

The Board decides on overall objectives for capital coverage and liquidity reserves as well as the orientation and limits for Kommuninvest's exposure to credit-related counterparty and market risks. The President of the company is responsible for following up business activities and ensuring they are conducted within the framework of the policies and instructions determined by the Board. There is a separate corporate staff function which has an independent status within the company and monitors the ongoing operational control.

This function bears overall and coordinating responsibility for the company's aggregate risks (risk monitoring) and reports to the President and Board. The Risk & Analysis section is responsible for controlling and conducting continuous monitoring and analysis of market, liquidity, credit and counterparty risks. It reports daily to the President and monthly to the Board. Risks are mainly controlled through frequent monitoring of risk exposure through comparison with the established limits.





# ADMINISTRATION REPORT

## Operations

Kommuninvest AB is a wholly-owned subsidiary of Kommuninvest Cooperative Society ("the Society"). The purpose of the operation is to offer attractive long-term conditions for members' financing and to be a local debt office for Sweden's municipalities and county councils.

The scope of the operation is primarily determined by the number of members in the Society and the development of individual members' financial needs. Kommuninvest i Sverige AB is a credit market company and is thus regulated by the Swedish Financial Supervisory Authority.

In addition to loans, Kommuninvest i Sverige AB also offers advisory and training services to members and their companies. Moreover, Kommuninvest i Sverige AB also acts as an interest organisation for the municipal sector in issues relating to general conditions for the sector's financing. The operation is growing, and 21 new municipalities joined the Society in 2007, bringing the total number of Society members at the year-end to 210 (189).

For Kommuninvest i Sverige AB to be able to offer good borrowing terms to Society members, the company must in turn be able to find competitive terms in its own financing on the capital market in Sweden and internationally.

## Change in accounting principles

The Kommuninvest Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2006:16). Consequently all International Financial Reporting Standards and statements endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and taking into account the additions and exemptions specified in FFFS 2006:16 – known as legally restricted IFRS.

For Kommuninvest the most significant difference is that the majority of the company's financial instruments are now recognised at fair value, and that unrealised changes in market value are recognised in the income statement or entered

directly against equity. Because of the change in accounting principles, the opening balance on 1 January 2007 has been recalculated in line with the new principles. For further information about new accounting principles and their effect on the company's opening balance, please see Notes 2 and 26.

Comparison figures for the notes and income statement are based on the former accounting principles. In the balance sheet, both the opening balance and the balance sheet are based on the former accounting principles.

New financial reporting standards have had an effect on the capital base and the exposure amounts that form the basis of the capital requirements.

## Profit

Profit before tax amounted to SEK 31.2 (25.9) million. Profit after appropriations and tax amounted to SEK 24.1 (17.9) million.

Net interest income decreased to SEK 79.6 (100.2) million. Net interest income has been adversely affected by the uneasiness on the credit market during the autumn, reducing margins between borrowing and lending and investments.

The buy-back of issued securities has contributed just over SEK 28.5 (14.9) million to the results, as recognised in 'Net profit/loss from financial transactions'.

Unrealised changes in market value amounted to SEK 19.4 million, of which SEK 7.8 million is recognised in the income statement in 'Net profit/loss from financial transactions', and SEK 11.6 million is entered directly against equity in the fund for fair value.

Expenses increased marginally to SEK 80.6 (80.3) million.

## Credit losses

Credit losses totalled SEK 0 (0) million. To date Kommuninvest has never sustained a credit loss in its operation.

## Financial position

The balance sheet total increased to SEK 109.9 (101.2) billion, an increase of 9%.

At the end of the year, lending amounted to SEK 77.9 (67.3) billion. In nominal terms lending was SEK 77.8 (66.8) billion, an increase of 17%.

Investment operations amounted to SEK 25.9 (30.6) billion. Investments mainly comprise interest-

bearing securities that are hedged against changes in interest and exchange rates ahead of being loaned to members. Kommuninvest's investment operations include investing in securities with a high credit rating, of which 51% are investments in zero-risk weighted states and financial institutions guaranteed by these states.

At the end of the year, borrowing amounted to SEK 98.2 (91.8) billion. Derivatives were previously recognised under borrowing using deferred hedge accounting. Derivatives are now recognised as a separate item in the balance sheet. Derivatives with positive and negative market value amounted to SEK 5.9 (4.5) billion and SEK 11.3 (10.3) billion respectively.

Accrued interest income and accrued interest expenses were recognised as accrued income and accrued expenses during previous periods. Following the introduction of new financial reporting standards, these items now appear separately in the balance sheet.

At the end of 2007, equity amounted to SEK 372.4 (265.6) million. In addition to profit for the year, equity has been affected by an adjustment to the opening balance by an amount of SEK 33.5 million due to new financial reporting standards, see Note 26.

Equity has also been affected by assets classified as available-for-sale financial assets, where unrealised changes in market value are entered directly against equity.

Share capital has increased through a new issue, on the authorisation given to the Board by the AGM. A new issue to the value of SEK 45.8 (3.1) million was carried out during the year. 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 198.9 million across 1,989,000 shares.

### Rating

Kommuninvest i Sverige AB's opportunities for good financing terms greatly depend on a high credit rating from the international rating institutions. Kommuninvest i Sverige AB has had the highest possible credit score (Aaa) from Moody's since April 2002. In 2006 it also received the highest credit rating, AAA, from Standard & Poor's.

### Significant events during the year

The financial unease on the capital market, caused primarily by problems with home loans in the American sub-prime segment and a subsequent lack of liquidity in the international banking sector, has led to dramatic fluctuations in short-term market interest rates. These fluctuations have in turn affected Kommuninvest's operations.

Kommuninvest operates on a lending market which, in the prevailing interest rate climate, has continued to see a strong demand for variable interest rates. In order to offer lasting good terms on sought-after products, Kommuninvest has been working to restructure its financing strategy. Kommuninvest has no exposure to the American sub-prime market, nor any positions in CDOs (Collateralised Debt Obligations) or ABSs (Asset Backed Securities).

### Financial instruments and risk management

The fundamental principle is that the terms for borrowing and lending are equal from a risk perspective. This does not mean that the transactions or the operation are completely free of risk, but that Kommuninvest should avoid being exposed to risks that cannot be managed.

The risks Kommuninvest has to manage are:

Market risk – the risk of loss, mainly as a result of changes in interest and exchange rates.

Liquidity risk – the risk of far higher costs for borrowing required funds, or of loss when assets cannot be sold at a reasonable price.

Credit or counterparty risk – the risk of loss due to the counterparty not fulfilling its commitments at the contracted time.

Operational risk – the risk of unexpected financial or confidence-related losses as a result of internal causes such as computer error, or external influence such as crime.

To limit the market risks that arise when borrowing and lending terms do not match, risk management instruments are used in the form of derivative contracts. The principle applied is that the rights and obligations resulting from the derivative contract are transferred to the ultimate borrower, i.e. Kommuninvest's members.

88% of all derivative contracts' nominal amounts are with counterparties with a credit rating of at least AA. Kommuninvest has only entered into basic currency and interest derivatives on the remaining 12% of contracts, all of which have a short duration.

Kommuninvest's Board of Directors bears overall responsibility for the company's risk exposure and risk management, see Note 3.

### Information about risks and uncertainties

The dramatic fluctuations in short-term market interest rates arising from financial concern on the capital market may continue to affect Kommuninvest unless they stabilise. As mentioned earlier, Kommuninvest is restructuring its financing strategy in order to mitigate these effects.

### Employees and the environment

The number of employees decreased by one during the year, to total 37 at the year-end.

Kommuninvest does not conduct any operations requiring a licence under Sweden's Environmental Code.

### Prospects for 2008

Interest in Kommuninvest's business concept is growing. Several new members are expected to join the Society in 2008. As an increase in the number of members has previously always entailed an increase in net lending, if with some delay, lending is expected to increase again in 2008. It is however difficult in the short term to determine the size of the effect on the lending operation, as other factors also need to be considered, such as the level of the sector's new investment.

On the whole, growth in membership remains one of the most important fundamental factors in ensuring an increase in lending in future years.

### Group contribution

Kommuninvest pays a Group contribution of SEK 11.4 million to Kommuninvest Cooperative Society. This contribution enables the Society to carry out a participation issue to members for the seventh consecutive year. If the Annual General Meeting approves the Board's proposal, the issue will correspond to 4.0% of the participation capital. The Board of Kommuninvest i Sverige AB also intends to propose a new issue of shares to the Parent Society. The size of the new issue corresponds to the total of the proposed participation issue in the Society.

### APPROPRIATION OF SURPLUS

The Board and President propose that the surplus for the year of SEK 24,126,376 together with the balance brought forward of SEK 137,353,109 and the fund for fair value of SEK -5,428,612, making a total of SEK 156,050,873, be allocated by the Annual General Meeting as follows:

**To be carried forward to the year 2008 accounts**                      **SEK 156,050,873**

# INCOME STATEMENT

1 January – 31 December

(SEK 000)	Note	2007	2006
Interest income		3,792,707	3,216,430
Interest expenses		-3,713,097	-3,116,216
<b>NET INTEREST INCOME</b>	4	<b>79,610</b>	<b>100,214</b>
Commission expenses	5	-3,126	-4,080
Net result of financial transactions	6	34,181	12,632
Other operating income		600	1,042
<b>TOTAL OPERATING INCOME</b>		<b>111,265</b>	<b>109,808</b>
General administration expenses	7	-75,868	-74,535
Depreciation of tangible assets	16	-1,602	-2,084
Other operating expenses	8	-3,093	-3,686
<b>TOTAL EXPENSES</b>		<b>-80,563</b>	<b>-80,305</b>
<b>OPERATING PROFIT</b>		<b>30,702</b>	<b>29,503</b>
Appropriations	9	544	-3,595
<b>PROFIT BEFORE TAX</b>		<b>31,246</b>	<b>25,908</b>
Tax on profit for the year	10	-7,120	-8,026
<b>PROFIT FOR THE YEAR</b>		<b>24,126</b>	<b>17,882</b>

# BALANCE SHEET

On 31 December

(SEK 000)	Note	2007	2006*	2006
<b>ASSETS</b>				
Cash		5	1	1
State bonds eligible as collateral	11	5,598,771	6,346,377	6,349,315
Lending to credit institutions	3	2,513,814	2,703,322	2,680,563
Lending	3, 12	77,937,698	67,343,684	66,811,917
Bonds and other interest-bearing securities	13	17,748,327	21,595,755	21,567,302
Shares and participations	14	146	-	0
Shares in associated companies	15	504	504	504
Derivatives	3	5,863,772	4,483,368	0
Tangible assets, equipment	16	3,184	3,356	3,356
Other assets	17	249,051	60,115	3,067,005
Prepaid expenses and accrued income	18	2,284	1,702	694,089
<b>TOTAL ASSETS</b>		<b>109,917,556</b>	<b>102,538,224</b>	<b>101,174,052</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>				
Liabilities to credit institutions	3	4,627,355	3,618,393	3,618,393
Securities issued	3	93,561,362	88,212,409	93,388,186
Derivatives	3	11,275,184	10,260,487	0
Other liabilities	19	32,223	98,728	3,105,578
Accrued expenses and deferred income	20	8,294	8,031	755,206
Provisions for pensions and similar obligations	21	182	-	0
<b>Total liabilities and provisions</b>		<b>109,504,600</b>	<b>102,198,048</b>	<b>100,867,363</b>
<b>Untaxed reserves</b>	22	<b>40,533</b>	<b>41,077</b>	<b>41,077</b>
<b>Equity</b>		<b>372,423</b>	<b>299,099</b>	<b>265,612</b>
<b>Restricted equity *</b>				
Share capital (1,989,000 shares, quoted value SEK 100)		198,900	153,100	153,100
Statutory reserve		17,473	17,473	17,473
<b>Non-restricted equity</b>				
Fund for fair value		-5,429	-17,071	0
Profit or loss brought forward		137,353	127,715	77,157
Profit for the year		24,126	17,882	17,882
<b>Total equity</b>		<b>372,423</b>	<b>299,099</b>	<b>265,612</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>109,917,556</b>	<b>102,538,224</b>	<b>101,174,052</b>
<b>Memorandum items</b>				
Other pledged assets	23	146		None
Contingent liabilities		None		None
<b>Obligations</b>				
- credit facilities agreed, but not taken up		513,680		1,185,428

\* Following the introduction of new accounting principles, Note 2 and 26.

**EQUITY, SEK 000**

The tables below show changes in equity including the effects of the effects of the new accounting principles.

**2007**

	Restricted equity			Non-restricted equity		Totalt equity
	Share capital	Statutory reserve	Fund for fair value	Profit or loss brought forward	Profit for the year	
<b>(SEK 000)</b>						
Equity brought forward 1 Jan 2007	153,100	17,473	0	77,157	17,882	265,612
Adjustment for change in accounting principles, Note 26	0	0	-17,071	50,558	0	33,487
<b>Adjusted equity 1 Jan 2007</b>	<b>153,100</b>	<b>17,473</b>	<b>-17,071</b>	<b>127,715</b>	<b>17,882</b>	<b>299,099</b>
Available-for-sale financial assets:						
<i>Remeasurements entered directly against equity</i>						
	0	0	9,314	0	0	9,314
<i>Recognised in income statement on divestment</i>						
	0	0	2,328	0	0	2,328
New share issue	45,800	0	0	0	0	45,800
<i>Appropriation of surplus according to AGM decision</i>						
Allocation of last year's profit	0	0	0	17,882	-17,882	0
Group contribution	0	0	0	-11,450	0	-11,450
Tax effect on Group contribution	0	0	0	3,206	0	3,206
Profit for the year	0	0	0	0	24,126	24,126
<b>Equity carried forward 31 Dec 2007</b>	<b>198,900</b>	<b>17,473</b>	<b>-5,429</b>	<b>137,353</b>	<b>24,126</b>	<b>372,423</b>

**2006**

	Restricted equity			Non-restricted equity		Total equity
	Share capital	Statutory reserve	Fund for fair value	Profit or loss brought forward	Profit for the year	
<b>(SEK 000)</b>						
Equity brought forward 1 Jan 2006	150,000	14,315	0	85,139	0	249,454
New share issue	3,100	0	0	0	0	3,100
Appropriation of surplus according to AGM decision						
Transfer to statutory reserve	0	3,158	0	-3,158	0	0
Group contribution	0	0	0	-6,700	0	-6,700
Tax effect on Group contribution	0	0	0	1,876	0	1,876
Profit for the year	0	0	0	0	17,882	17,882
<b>Equity carried forward 31 Dec 2006</b>	<b>153,100</b>	<b>17,473</b>	<b>0</b>	<b>77,157</b>	<b>17,882</b>	<b>265,612</b>

# CASH FLOW STATEMENT

1 January - 31 December

SEK 000)	31 Dec 2007	31 Dec 2006
<i>Cash and cash equivalents at the start of the accounting period</i>	<b>139,753</b>	<b>302,751</b>
<b>Operating activities</b>		
Operating profit	30,702	29,503
Adjustment of items not included in cash flow, Note 1	-3,956	7,408
Income tax paid	-15,264	-13,443
<b>Cash flow from operating activities before changes in the assets and liabilities of operating activities</b>	<b>11,482</b>	<b>23,468</b>
Change in interest-bearing securities	4,591,863	984,896
Change in lending	-11,652,793	-10,073,666
Change in other assets	-2,349,927	-1,095,264
Change in other liabilities	7,459,011	1,163,187
<b>Cash flow from operating activities</b>	<b>-1,940,364</b>	<b>-8,997,379</b>
<b>Investing activities</b>		
Sale/disposal of tangible assets	163	73
Acquisition of tangible assets	-1,593	-2,362
<b>Cash flow from investing activities</b>	<b>-1,430</b>	<b>-2,289</b>
<b>Financing activities</b>		
Change in securities issued	787,052	8,644,563
Change in liabilities to credit institutions	978,213	193,831
New share issue	45,800	3,100
Group contribution paid	-8,244	-4,824
<b>Cash flow from financing activities</b>	<b>1,802,821</b>	<b>8,836,670</b>
<b>Cash flow for the year</b>	<b>-138,973</b>	<b>-162,998</b>
<b>Cash and cash equivalents at the end of the year, Note 2</b>	<b>780</b>	<b>139,753</b>
<p>The Cash Flow Statement is produced using the cash accounting method and based on the operating profit for the period and changes in the Balance Sheet's opening balances. Operating profit has been adjusted for changes not included in operating activities. The Cash Flow Statement has been divided into inward and outward payments from operating activities, investing activities and financing activities.</p>		
<b>Note 1. Adjustment for items not included in cash flow</b>		
Depreciation	1,602	2,084
Change in accrued cost	2,483	3,022
Exchange rate differences from change in financial assets	-286	2,302
Unrealised market values	-7,755	0
<b>Total</b>	<b>-3,956</b>	<b>7,408</b>

**Note 2. This item in its entirety consists of cash and bank deposits.**

# NOTES

All amounts are given in thousands of SEK unless otherwise stated.

## 1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2007 and relates to Kommuninvest i Sverige AB (publ).

Registered number 556281-4409.

The accounting principles below have also been applied in establishing the opening balance on 1 January 2007, which clarifies the transition from the accounting principles previously applied.

The Annual Report was approved for publication by the Board of Directors on 27 February 2008. The income statement and balance sheet will be subject to ratification at the Annual General Meeting on 3 April 2008.

## 2 Accounting principles

### Compliance with standards and legislation

The Kommuninvest Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2006:16).

Consequently all International Financial Reporting Standards and statements endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2006:16.

This Annual Report contains the first full financial statements prepared in accordance with legally restricted IFRS. Note 26 contains a list of explanations as to how transition to legally restricted IFRS has affected Kommuninvest's position.

### Amended accounting principles

The amended accounting principles in accordance with FFFS 2006:16 mean that IAS 39, Financial Instruments: Recognition and Measurement shall be applied as far as possible within the provisions of ÅRKL.

According to FFFS 2006:16, IAS 39 does not have to be applied to comparison figures for 2006 but only from 1 January 2007 onwards. The application of new accounting principles entails an impact on equity of SEK 33.5 million on 1 January 2007, which is described in more detail in Note 26.

### Functional currency and presentation currency

The company's functional currency is the Swedish krona (SEK) and the financial statements are presented in the same currency. All amounts, unless otherwise stated, are rounded off to the nearest thousand.

### New IFRS and interpretations not yet applied

A number of new standards, amendments and interpretations come into force from the 2008 financial year and have not been applied in preparing these financial statements. Kommuninvest does not believe that any of these new standards, changes in standards or interpretations will have any significant impact on financial results or position when the new rules are applied.

### Associated companies

Participations in associated companies are reported in accordance with the cost method.

### Transactions in foreign currencies

Kommuninvest's functional currency is the Swedish krona (SEK). Transactions in foreign currencies are translated into the functional currency at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in force on the balance sheet date. Exchange rate differences arising from the conversions are recognised in the income statement.

### Interest income and interest expenses

Interest income and interest expenses presented in the income statement comprise:

- Interest on financial assets and liabilities measured at amortised cost
- Interest from financial assets classified as available-for-sale
- Interest from financial assets classified as available-for-sale measured at fair value through profit or loss
- Interest on derivatives
- Interest on borrowing for which hedge accounting has been applied

### Commission expenses

These are expenses for services received such as deposit fees, payment agency commissions and securities brokerage.

### Net result of financial transactions

The item 'Net result of financial transactions' encompasses the realised and unrealised changes in value arising from financial transactions. Net result of financial transactions comprises:

- Unrealised changes in fair value on assets and liabilities recognised at fair value through profit or loss
- Unrealised changes in fair value on hedged item with regard to hedged risk in hedging fair value
- Capital gain/loss from divestment of financial assets and liabilities
- Capital gain/loss from available-for-sale financial assets
- Exchange rate changes

### Fundamental measurement principles for preparing the company's financial statements

Assets and liabilities are recognised on the basis of cost. Financial assets and liabilities are recognised at amortised cost, except for financial assets measured at fair value, see below.

### Financial instruments

Financial instruments are measured and recognised in accordance with the provisions of FFFS 2006:16. With regard to



assets, financial instruments recognised in the balance sheet include lending, interest-bearing securities, derivatives and other financial assets. Financial instruments relating to liabilities and equity include issued securities, derivatives and other financial liabilities.

#### *Recognition in and removal from the balance sheet*

A financial asset or financial liability is recognised in the balance sheet when Kommuninvest becomes party to the instrument's contractual terms.

A financial asset is excluded from the balance sheet once the contractual rights have been realised, have expired or the company loses control over them. The same applies for part of a financial asset. A financial liability is removed from the balance sheet once the obligation in the contract has been fulfilled or is in some other way extinguished. The same applies for part of a financial liability.

A financial asset and a financial liability are offset and recognised as a net amount in the balance sheet only when a legal entitlement to offset the amounts is in place, and where there is an intention to balance the items with a net amount or to simultaneously realise the asset and settle the liability.

Acquisitions and sales of financial instruments are reported on the business day, i.e. the day the company commits to acquiring or selling the instrument.

#### **Classification and measurement**

On first recognition, a financial instrument is classified partly based on the reason for its purchase, but also on the options inherent in FFFS 2006:16. The classification determines how the financial instrument is measured after the first recognition as described below.

#### **Financial assets at fair value through profit or loss**

This category comprises two sub-groups: financial assets available for sale, and other financial assets classified as such by Kommuninvest on first recognition. Financial instruments in this category are measured continuously at fair value with changes in value reported in the income statement.

The first sub-group comprises derivatives with a positive fair value held for financial hedging but not encompassed by hedge accounting. The second sub-group comprises Kommuninvest's lending.

The reason Kommuninvest has classified lending in this category is to rectify a misleading relationship in the accounts that would otherwise arise regarding measurement and recognition.

Kommuninvest's fundamental principle is that the terms for borrowing and lending should be equal from a risk perspective. To limit the market risks that arise when borrowing and lending terms do not match, risk management instruments are used in the form of derivative contracts. This would result in a misleading relationship in the accounts if the derivatives were measured at fair value but not lending, which were it not assigned to this category would be measured at amortised cost.

#### **Other financial assets**

Other financial assets, such as accounts receivable, are assets with determined or determinable payments. These assets are measured at amortised cost. Other financial assets are measured at the amount estimated to be paid, i.e. with a deduction for doubtful receivables.

#### **Available-for-sale financial assets**

This category includes financial assets that do not fall within any of the other categories and financial assets which the company has initially chosen to classify in this category. For Kommuninvest this entails the company's investments in interest-bearing securities. Assets in this category are measured continuously at fair value with changes in value recognised under equity in the fund for fair value. Changes in value due to write-downs or exchange rate differences are recognised in the income statement.

#### *Interest is also recognised in the income statement.*

Measurement at fair value recognised in the fund for fair value is ongoing until the instrument matures or is divested. On divestment of the asset the accumulated gain or loss, which was previously recognised under equity, is recognised in the income statement.

#### **Financial liabilities at fair value through profit or loss**

Financial instruments in this category are measured continuously at fair value with changes in value reported in the income statement.

This includes derivatives with a negative fair value held for financial hedging but not encompassed by hedge accounting.

#### **Other financial liabilities**

Kommuninvest's borrowing and other financial liabilities, such as accounts payable, are included in this category. The liabilities are measured at amortised cost.

#### **Derivatives and hedge accounting**

As outlined above, Kommuninvest's borrowing is initially recognised at amortised cost. This is because the Annual Accounts Act does not permit measurement at fair value for liabilities if no part of the liability has been hedged against a financial instrument.

To obtain a true and fair picture of the operation, Kommuninvest applies, where possible, hedge accounting of fair value for liabilities which have been hedged with one or more financial instruments. This means that the liability is measured at fair value through profit or loss with regard to the components which the instrument hedges. The liabilities and parts of liabilities which are not part of a hedging relationship are recognised at amortised cost.

Any inefficiency is recognised in the income statement. If a hedging relationship does not fulfil the efficiency requirements, the relationship is severed and the liability is recognised at amortised cost and the accumulated change in value of the liability

ity is allocated over the remaining term. Kommuninvest's hedging relationships have been deemed highly efficient.

The derivatives which are part of a hedging relationship are recognised at fair value via the income statement.

#### **Credit losses and write-downs on financial instruments**

At each reporting date, Kommuninvest evaluates whether there is objective evidence that any write-down is necessary for a financial asset or group of assets as the result of one or more events (loss events) occurring after first recognition of the asset, and of these loss events having an impact on the estimated future cash flows relating to the asset or group of assets.

Objective evidence constitutes observable events that have an adverse impact on the potential to recover the purchase cost, and a significant or long-term decrease in the fair value of a component of a financial investment classified as an available-for-sale financial asset.

Kommuninvest deemed that no write-downs were necessary on 31 December 2007.

#### **Tangible assets**

Tangible fixed assets are recognised as assets in the balance sheet if it is probable that the future economic benefits will flow to Kommuninvest and the cost of the assets can be measured reliably.

Tangible fixed assets are carried at cost less accumulated depreciation.

The carrying amount for a tangible fixed asset is removed from the balance sheet on scrapping or sale, or when no future economic benefits are expected from the use, scrapping or sale of the asset. Gain or loss which may arise from the sale or scrapping of an asset constitutes the difference between the sale price and the asset's carrying amount less direct sales costs. Gain and loss are recognised as other operating income/expense.

Depreciation is carried out on a linear basis over the asset's estimated useful life.

Estimated useful lives:

- equipment                      5 years

#### **Employee benefits**

*Remuneration after termination of employment*

#### **Pension through insurance**

Kommuninvest's pension plans for service pensions under collective agreements are safeguarded through an insurance agreement with SPP. According to IAS 19, a defined contribution pension plan is a plan for remuneration after termination of employment whereby the company pays pre-determined fees to a separate legal entity, and has no legal or informal obligation to make further payments if the legal entity has insufficient assets to pay all employee benefits relating to service during the current and earlier periods.

A defined benefit pension plan is classed as a different type of plan for post-employment benefit to a defined contribution plan. The pension plan for Kommuninvest's employees has been deemed a defined benefit plan encompassing more than one employer. However, Kommuninvest considers URA 45 Pension Plans encompassing more than one employer to be applicable also to Kommuninvest's pension plan with SPP. Kommuninvest does not have sufficient information to enable recognition in line with IAS 19 and is therefore recognising its pension plans as defined contribution plans. Kommuninvest's obligations with regard to defined contribution plans are entered as a cost in the income statement at the rate at which they are earned as employees carry out services for Kommuninvest during a particular period. Premiums are paid to SPP based on the current salary.

In addition to collectively agreed service pensions, Kommuninvest has also made a pension commitment to the President in a separate agreement. The pension commitment is invested in an endowment insurance which is recognised in shares and participations. The insurance is also pledged for the pension commitment. With regard to liabilities, the pension commitment is recognised as a provision.

The year's costs for these insurance premiums are shown in Note 7.

#### **General administration expenses**

General administration expenses encompass personnel costs, including salaries and emoluments, pension expenses, employer's contributions and other social security contributions. They also include costs for premises, training, IT, telecommunications, travel and entertainment.

#### **Appropriations**

Appropriations comprise provisions for and dissolution of untaxed reserves.

#### **Taxes**

Tax on profit for the year includes current tax and tax relating to previous years.

### **3 Financial risks**

Kommuninvest is exposed to market risks, liquidity risks, credit or counterparty risks and operational risks. Kommuninvest is organised with reliable rules and processes for secure, systematic risk management.

The Board of Directors bears overall responsibility for risk exposure and risk management and decides on the company's overall risk policy and instructions for the finance operation. The Board decides on overall objectives for capital coverage and liquidity reserves as well as the orientation and limits for Kommuninvest's exposure to credit-related counterparty and market risks. The President of the company is responsible for following up business activities and ensuring they are conducted within the framework of the policies and instructions determined by the Board.

There is a separate corporate staff function which has an independent status within the company and monitors the ongoing operational control. This function bears overall and coordinating responsibility for the company's aggregate risks (risk monitoring) and reports to the President and Board.

Risks are mainly controlled through frequent monitoring of risk exposure through comparison with the established limits. The Risk & Research section is responsible for controlling and conducting continuous monitoring and analysis of market, liquidity, credit and counterparty risks. It reports daily to the President and monthly to the Board.

### **Credit and counterparty risk**

Counterparty risks can be kept at a low level through investments with highly creditworthy counterparties and with demands on pledged assets. Credit and counterparty risk can be divided into three categories:

#### *Risks from lending*

Kommuninvest lends solely to its members in the parent society (Kommuninvest Cooperative Society) and their majority-owned companies. All members sign joint and several guarantees for Kommuninvest's commitments. The owner-members always issue a guarantee for majority-owned companies, thus ensuring that the member municipalities and county councils are behind all Kommuninvest's lending. From a capital cover perspective, the municipal sector has a risk-weighting of 0%.

#### *Risks when investing in assets not yet loaned*

These risks consist of losses and value changes on invested assets. The risks are limited by restricting investment exclusively to highly creditworthy counterparties. Highly creditworthy counterparties must have a minimum stable A level from one of the internationally recognised rating institutions. A significant proportion of the investments are in European governments and government-guaranteed financial institutions, counterparties which usually have the highest credit ratings. The risks are also limited by the fact that the investments have a maximum term of 5.5 years. Board guidelines also stipulate that Kommuninvest should strive to diversify investments in securities between various types of counterparty, and counterparties in different geographical areas. Counterparties may only have a risk-weighting of 0 or 20%.

#### *Risks from value changes on derivative contracts*

To limit the market risks that arise when contractual borrowing and lending terms do not match, risk management instruments are used in the form of derivative contracts.

To become an approved counterparty in a derivative transaction with Kommuninvest, the party must have a minimum credit rating of a stable A level from one of the internationally recognised credit rating institutions. The counterparty's credit rating is also a deciding factor in what we are prepared to accept when it comes to the contracts' maturity period, structure and permitted risk exposure.

Kommuninvest is moreover a member of the International Swaps and Derivatives Association (ISDA), and before entering derivative contracts it stipulates the right to early redemption of such contracts if the counterparty's credit rating deteriorates below a pre-determined level.

Board guidelines stipulate that Kommuninvest should strive to diversify derivative contracts between various types of counterparty, and counterparties in different geographical areas.

This risk is that a loss may occur if the counterparty in interest, currency, equity and commodity swaps, for instance, does not fulfil its commitments. The risk exposure comprises the cost of entering an equivalent contract in the market. Such cost is calculated for each contract and is considered a risk on the contract counterparty.

Delivery risk can also be said to be a type of credit and counterparty risk. This is the risk of a counterparty being unable to fulfil a securities or payment transaction. Accordingly, before embarking on a transaction we always ensure that the counterparty is the first to fulfil its commitments, or utilise an approach where both counterparties must fulfil their commitments simultaneously.

Continuously monitoring the progress of Kommuninvest's counterparties is an important element of its activities to minimise risk. Our Credit Group has the task of processing and continuously monitoring new counterparties and financial instruments used in the company's financing activities.

Kommuninvest's credit risk exposure with regard to counterparties, as well as loan receivables by category, is shown in the following tables. 72% of Kommuninvest's credit risk exposure is with Swedish municipalities and county councils, 23% with states and other issuers of securities, and 5% with derivative counterparties.

**Credit risk exposure**

	Total credit risk risk exposure (before write-down)	Write-down/ Provision	Carrying amount	Value of securities with regard to balance sheet items	Total credit risk exposure after deduction for securities
<b>Credit against security of:</b>					
Government and municipal guarantees	77,937,697	0	77,937,697	0	77,937,697
<b>Total</b>	<b>77,937,697</b>	<b>0</b>	<b>77,937,697</b>	<b>0</b>	<b>77,937,697</b>
<b>Securities</b>					
Government securities and other public bodies					
- AAA	3,402,843	0	3,402,843	0	3,402,843
- AA	2,195,928	0	2,195,928	0	2,195,928
- A	0	0	0	0	0
Other issuers					
- AAA	4,791,567	0	4,791,567	0	4,791,567
- AA	10,544,106	0	10,544,106	0	10,544,106
- A	4,926,467	0	4,926,467	0	4,926,467
<b>Total</b>	<b>25,860,912</b>	<b>0</b>	<b>25,860,912</b>	<b>0</b>	<b>25,860,912</b>
<b>Derivatives</b>					
- AAA	814,383	0	814,383	0	814,383
- AA	4,416,713	0	4,416,713	542 380	3,874,333
- A	632,676	0	632,676	0	632,676
<b>Total</b>	<b>5,863,772</b>	<b>0</b>	<b>5,863,772</b>	<b>542 380</b>	<b>5,321,392</b>
<b>Obligations</b>					
Pledged loans	3,107,975	0	3,107,975	0	3,107,975
<b>Total</b>					
<b>Total credit risk exposure</b>	<b>112,770,356</b>	<b>0</b>	<b>112,770,356</b>	<b>542 380</b>	<b>112,227,976</b>

**Collateral received**

To limit the risks and exposure arising because of value changes in derivatives, we enter into Credit Support Annexes (CSAs) with our derivatives counterparties. These give us the sole right, under certain conditions, to require extra collateral. The determinants of when and how much extra collateral is to be pledged are whether the value change in derivative contracts entered exceeds the pre-determined contracted exposure or if the counterparty's creditworthiness deteriorates. Such collateral comprises government securities, which have zero risk-weighting from a capital coverage perspective. The aim of the CSAs is to cover receivables while simultaneously extending the scope for business with counterparties. On 31 December 2007 Kommuninvest had collateral from counterparties corresponding to SEK 542 million.

**Liquidity risk**

Liquidity risk can most simply be expressed as a shortage of funding. In order to fulfil the need for lending even during periods when financing opportunities on the capital markets are limited or too costly, the Board of Directors has decided on a primary liquidity reserve of at least 4% and at most 6% of the balance sheet total. There are also investments in the form of surplus liquidity which should cover the capital requirement for 12 months ahead. Investments with a remaining term of no more than one year should be able to cover 6 months' capital requirement.

Kommuninvest's liquidity exposure with regard to remaining durations on assets and liabilities is shown in the following table. The cash flow analysis on page 37 in the Annual Report also illustrates Kommuninvest's liquidity situation.

**Information on durations**

Liquidity exposure	On demand	Max. 3 mths	More than 3 mths but max. 1 yr	More than 1 yr but max. 5 yrs	More than 5 yrs	No duration	Total carrying amount
Contractual remaining duration (carrying amount)							
<b>Assets</b>							
Cash	5						5
State bonds eligible as collateral etc.		4,569,469	531,423	497,879			5,598,771
Lending to credit institutions	2,513,814						2,513,814
Lending		14,248,936	8,044,804	38,895,046	16,748,912		77,937,698
Bonds and other interest-bearing securities		7,796,691	6,780,002	3,171,634			17,748,327
Derivatives		250,460	1,614,458	2,939,848	1,059,006		5,863,772
Other asset items						255,169	255,169
<b>Total assets</b>	<b>2,513,819</b>	<b>26,865,556</b>	<b>16,970,687</b>	<b>45,504,407</b>	<b>17,807,918</b>	<b>255,169</b>	<b>109,917,556</b>
<b>Liabilities</b>							
Liabilities to credit institutions		606,463	0	1,463,477	2,557,415		4,627,355
Derivatives		265,626	1,920,246	6,170,057	2,919,255		11,275,184
Securities issued		7,417,430	11,927,521	60,956,224	13,260,187		93,561,362
Other liability items and equity						453,655	453,655
<b>Total liabilities and equity</b>	<b>0</b>	<b>8,289,519</b>	<b>13,847,767</b>	<b>68,589,758</b>	<b>18,736,857</b>	<b>453,655</b>	<b>109,917,556</b>
Unentered pledged loans	3,107,975						
<b>Total difference</b>	<b>2,513,819</b>	<b>18,576,036</b>	<b>3,122,920</b>	<b>-23,085,351</b>	<b>-928,938</b>	<b>-198,486</b>	<b>0</b>

**Market risk**

The fundamental principle for Kommuninvest's risk management is that the terms for borrowing and lending are equal from a risk perspective. This does not mean that the transactions or the operation are completely free of risk, but that we should avoid being exposed to risks that cannot be managed. Moreover, as part of the public sector we are also obliged to align ourselves with the prohibition of speculative and high-risk activities in accordance with Section 2 §7 of the Swedish Local Government Act. The main market risks to which Kommuninvest is exposed are interest risk and foreign exchange risk.

**Interest risk**

Interest risks arise through mismatches in fixed interest periods between invested assets and the related funding. Due to the scope of the operation, comprehensive matching between the company's assets (lending) and liabilities (financing) is not always possible for each individual position, instead interest risk is also limited at portfolio level. This can be done by matching two assets – one with daily fixed interest and the other with 6 months' fixed interest – with a debt that has 3 months' fixed interest. The risk (exposure) in the portfolio at any measurement point may not exceed SEK 10 million in a one (1) percentage point parallel shift in the yield curve.

**Fixed interest terms, Interest exposure**

<b>Fixed interest terms from assets and liabilities - interest exposure</b>	<b>Max. 3 mths</b>	<b>More than 3 mths but max. 1 yr</b>	<b>More than 1 yr but max. 5 yrs</b>	<b>More than 5 yrs but max. 10 yrs</b>	<b>More than 10 yrs</b>	<b>No interest</b>	<b>Total</b>
<b>Assets</b>							
Cash	5						5
State bonds eligible as collateral	4,940,000	29,200	500,000				5,469,200
Lending to credit institutions	2,494,511						2,494,511
Lending	47,867,313	4,051,600	20,260,645	5,162,639	461,552		77,803,748
Bonds and other interest-bearing securities	12,822,457	4,382,197	605,892				17,810,547
Derivatives received	106,867,349	12,217,477	60,021,290	9,209,990	7,286,655		195,602,760
Other assets						255,169	255,169
<b>Total</b>	<b>174,991,636</b>	<b>20,680,474</b>	<b>81,387,827</b>	<b>14,372,628</b>	<b>7,748,207</b>	<b>255,169</b>	<b>299,435,941</b>
<b>Liabilities</b>							
Liabilities to credit institutions	2,524,102	0	399,689	742,279	930,538		4,596,607
Securities issued	8,691,094	12,145,158	60,065,772	8,521,684	6,356,117		95,779,825
Derivatives paid	161,661,900	9,904,776	21,406,924	5,170,702	461,552		198,605,854
Other liabilities						40,699	40,699
Equity						412,956	412,956
<b>Total liabilities and equity</b>	<b>172,877,096</b>	<b>22,049,934</b>	<b>81,872,384</b>	<b>14,434,665</b>	<b>7,748,207</b>	<b>453,655</b>	<b>299,435,941</b>
<b>Cumulative exposure</b>	<b>2,114,539</b>	<b>-1,369,460</b>	<b>-484,557</b>	<b>-62,037</b>	<b>0</b>	<b>-198,486</b>	<b>0</b>

### Foreign exchange risk

Foreign exchange risk arises when assets and liabilities denominated in a specific foreign currency in the balance sheet are mismatched in terms of size. Currency risk arises on an ongoing basis due to the net interest income generated on returns on foreign currency investments, and to buy-back gains in foreign currencies. We limit this risk by frequently converting such returns into Swedish kronor.

### Foreign exchange risk

#### Assets and liabilities in major

foreign currencies (nom. amount)	SEK	EUR	USD	JPY	DKK	Other currencies	Fair value	Total
Cash	5							5
Lending to credit institutions	4	1,218,199	1,292,632		768	4	2,207	2,513,814
Lending	78,464,710						-527,012	77,937,698
Interest-bearing securities	8,433,767	9,456,209	5,464,757				-7,636	23,347,098
Shares and participations	504						0	504
Derivatives	-						5,863,772	5,863,772
Other assets	118,594	5	45	548	145,475		0	254,666
<b>Total assets</b>	<b>87,007,583</b>	<b>10,674,413</b>	<b>6,757,434</b>	<b>548</b>	<b>146,243</b>	<b>4</b>	<b>5,331,332</b>	<b>109,917,556</b>
Liabilities to credit institutions	493,822	1,488,602	584,555	1,884,229	145,913	-514	30,748	4,627,355
Securities issued	24,122,750	10,774,772	24,423,663	8,311,192	11,323,399	21,633,070	-6,027,484	93,561,362
Derivatives	62,003,081	-1,598,937	-17,252,786	-10,194,890	-11,323,399	-21,633,070	11,275,183	11,275,183
Other liabilities inc. equity	399,969	709	59		35	0	52,885	453,656
<b>Total liabilities and equity</b>	<b>87,019,621</b>	<b>10,665,147</b>	<b>6,755,491</b>	<b>532</b>	<b>145,947</b>	<b>-514</b>	<b>5,331,332</b>	<b>109,917,556</b>

#### Difference, assets and liabilities

	<b>-12,038</b>	<b>9,266</b>	<b>1,943</b>	<b>16</b>	<b>295</b>	<b>518</b>	<b>0</b>	<b>0</b>
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Effect (pre-tax) of a 10% increase in the SEK exchange rate compared to the foreign currency

	927	194	2	30	52			
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### Operational risk

Our work on operational risk primarily focuses on our internal environment, which is the area we can most directly influence. One example of operational risk is legal risk. This is the risk of loss due to the inability to carry through a contract on legal grounds, such as due to insufficient documentation. Operational risks are reduced through:

- The duality principle – a single person may never manage a transaction alone through the entire process. There are usually at least three people from different departments involved in a business flow.
- The right skills and experience – each employee is well-prepared with the latest information and technology. The right skills to ensure that risks can be calculated and managed so that no unplanned risks arise. Establishing high personnel competence through continuous training is an important tool in this work.

- Respect for skill – the internal control requires that each employee feels and takes responsibility for the risks in their specific work area, and that each skill and skill area is respected.

In 2007 the Board established a model for Internal Capital Assessment in line with Swedish Financial Supervisory Authority guidelines. The internal capital assessment evaluates financial consequences of Kommuninvest's aggregate risks.

## 4 Net interest income

Interest income	2007	2006
Lending to credit institutions	8,730	14,541
Lending	2,785,573	2,011,777
Interest-bearing securities	998,063	1,189,975
Other interest income	341	137
<b>Total</b>	<b>3,792,707</b>	<b>3,216,430</b>
Of which: interest income from financial items not measured at fair value	9,071	0
<b>Interest expenses</b>		
Liabilities to credit institutions	2,306	6,200
Interest-bearing securities	3,710,020	3,108,726
Other interest expenses	771	1,290
<b>Total</b>	<b>3,713,097</b>	<b>3,116,216</b>
Of which: interest expense from financial items not measured at fair value	5,561	0
<b>Total net interest income</b>	<b>77,282</b>	<b>100,214</b>

## 5 Commission expenses

	2007	2006
Payment agency commissions	311	350
Brokerage for securities	2 802	3,730
Other commissions	13	0
<b>Total</b>	<b>3 126</b>	<b>4,080</b>

## 6 Net result of financial transactions

	2007	2006
Result from buy-back of own bonds	28,469	14,934
Interest-bearing securities	-2,328	0
Unrealised changes in market value	7,755	0
Exchange rate changes	285	-2,302
<b>Total</b>	<b>34,181</b>	<b>12,632</b>

Net gain/loss by measurement category	Through profit or loss	Through equity
Financial assets at fair value through profit or loss	91,394	0
Available-for-sale financial assets	-2,328	11,642
Financial liabilities at fair value through profit or loss	-499,114	0
Financial liabilities at amortised cost	28,754	0
Change in fair value of derivatives that are hedging instruments in a fair value hedge	341,692	0
Change in fair value on hedged item with regard to hedged risk in fair value hedges	73,783	0
<b>Total</b>	<b>34,181</b>	<b>11,642</b>

## 7 General administration expenses

Personnel costs	2007	2006
- salaries and emoluments	21,505	19,233
- pension expenses	3,395	3,188
- social security charges	7,771	6,976
- education/training costs	1,572	2,279
- other personnel costs	2,234	1,269
<b>Total personnel costs</b>	<b>36,477</b>	<b>32,945</b>
<b>Other general administration expenses</b>	<b>2007</b>	<b>2006</b>
- rents	1,749	1,750
- temporary/contract personnel	2,484	1,606
- consultancy fees	9,405	12,600
- computer expenses	5,302	7,253
- travel expenses	4,364	3,468
- rating expenses	3,416	3,229
- Reuters	2,377	1,652
- annual report and interim report	3,356	3,061
- other	6,938	6,971
<b>Total other general administration expenses</b>	<b>39,391</b>	<b>41,590</b>
<b>Total</b>	<b>75,868</b>	<b>74,535</b>

### Remuneration to the Board of Directors

During the year, the Board of Directors comprised 8 members (9), of which 3 were women (3).

Remuneration to the Board, within the framework of the Board fees approved by the Annual General Meeting, is shown in the table below. The Board Chairman received a fixed fee of SEK 500,000, SEK 350,000 (150,000) of which relates to work on the Credit Committee. The Vice Chairman received a fixed fee of SEK 70,000 and a variable fee of SEK 8,000 per meeting. Other Board members received a fixed fee of SEK 30,000 and a variable fee of SEK 8,000 per meeting.

	2007	2006
Robert Stenram	502	288
Ellen Bramnäs Arvidsson	152	118
Christer Akej	81	0
Lorentz Andersson	113	78
Alf Egnerfors	106	71
Kerstin Ryding	106	64
Petter Skouen	102	44
Anna von Knorring	94	74

Kommuninvest does not have any pension obligations or any particular conditions of notice for the Board of Directors.

### Remuneration to senior executives

Remuneration for the President has been decided by the Board. Remuneration to the President comprises a fixed salary and other benefits. The President received SEK 2,350,000 (1,997,000). Pension expenses for the President amounted to SEK 553,000 (418,000) which are covered by insurance. Part of the insurance cost relates to endowment insurance for pension obligations. The obligation contains compliance protection.



The pension is vested, i.e. not conditional on future employment.

There are no agreements regarding severance pay. For termination initiated by the company, the President will continue to receive a salary for the duration of the 24-month notice period. If a new position is found, the salary paid by Kommuninvest will be reduced accordingly.

Remuneration to other senior executives in the corporate management, 4 people in total of whom 3 (3) women and 1 (1) man, comprises basic salary, variable remuneration and other benefits. The sum total of remuneration to these people amounted to SEK 3,385,000 (2,549,000). No variable salary has been paid during the year. The pension obligations are covered by insurance contracts.

	2007	2006
Average number of employees during the year	37	38
- of whom women	19	19

#### Sick leave

Total sick leave for all employees was 1.27% (1.78%) of standard working hours. Total sick leave for women was 1.78% (2.79%) and for men 0.73% (0.69%). The proportion of total sick leave of 60 days or more was 0.00% (0.00%).

Total sick leave by age:	2007	2006
Up to age 29	*	*
30-49 years	0.90	1.69
Age 50 and above	2.66	*

\* Not reported due to a special provision in Swedish legislation which stipulates that data must not be issued if the number of employees in the group is 10 or less, or if the data can be attributed to an individual. Group refers both to the age category and the gender distribution within the age category.

Emoluments and costs for the auditors	2007	2006
<i>Ernst &amp; Young AB</i>		
Audit assignments	1,248	630
Other assignments	186	69
<i>Öhrlings PricewaterhouseCoopers AB</i>		
Audit assignments	69	180

Audit assignments refer to the audit of the annual report and bookkeeping records as well as a review of the administration by the President and Board of Directors, other tasks that are the responsibility of Kommuninvest i Sverige AB's auditors, and other advice or assistance brought about by observations from such audits and/or performance of other tasks. All other work comes under other assignments.

## 8 Other operating expenses

	2007	2006
Communication and information	2,471	3,095
Corporate insurance	511	507
Other operating expenses	111	84
<b>Total</b>	<b>3,093</b>	<b>3,686</b>

## 9 Appropriations

	2007	2006
Transfer to tax allocation reserve	-4,687	-6,953
Cancellation of tax allocation reserve	5,231	3,358
<b>Total</b>	<b>544</b>	<b>-3,595</b>

## 10 Taxes

### Recognised in income statement

	2007	2006
Tax expense for the period	-7,120	-8,026
<b>Total tax expense recognised</b>	<b>-7,120</b>	<b>-8,026</b>

### Reconciliation of effective tax

	2007	2006	2007	2006
	%	%		
Profit before tax			31,246	25,908
Tax according to prevailing tax rate	28.0 %	28.0 %	-8,749	-7,254
Non-deductible expenses	1.8 %	1.8 %	-566	-462
Non-taxable income	-6.9 %	0.0 %	2,171	0
Tax attributable to previous years	-0.1 %	1.2 %	23	-310
<b>Reported effective tax</b>	<b>22.8 %</b>	<b>31.0 %</b>	<b>-7,120</b>	<b>-8,026</b>

### Tax items accounted directly against equity

	2007	2006
Current tax in Group contributions paid	3,206	1,876
	<b>3,206</b>	<b>1,876</b>

## 11 State bonds eligible as collateral

	Acquisition value	2007 Fair value	Carrying amount	Acquisition value	2006 Fair value	Carrying amount
<b>State bonds eligible as collateral etc.</b>						
- Swedish state	3,403,164	3,402,843	3,402,843	3,720,538	3,717,056	3,720,538
- Swedish municipalities	2,188,559	2,195,928	2,195,928	2,628,777	2,628,077	2,628,777
<b>Total</b>	<b>5,591,723</b>	<b>5,598,771</b>	<b>5,598,771</b>	<b>6,349,315</b>	<b>6,345,133</b>	<b>6,349,315</b>
Positive difference of book values exceeding nominal values			2,942			1,402
Negative difference of book values falling below nominal values			-33,371			-81,584

## 12 Lending

Lending refers to lending to municipalities and county councils, and to municipal and county-council owned corporations

Approximately 48% (46%) of total lending is direct to municipalities and county councils that are members of Kommuninvest. The remainder is to their corporations, which have municipal guarantees, and are mainly municipal housing corporations 41% (43%) and other companies with municipal guarantees 11% (11%).

## 13 Bonds and other interest-bearing securities

	Acquisition value	2007 Fair value	Carrying amount	Acquisition value	2006 Fair value	Carrying amount
<b>Bonds and other interest-bearing securities</b>						
- Swedish housing finance institutions	1,899,395	1,901,126	1,901,126	1,577,015	1,576,715	1,577,015
- other Swedish issuers	2,443,066	2,454,150	2,454,150	2,464,546	2,462,197	2,464,546
- other foreign issuers	13,354,724	13,393,051	13,393,051	17,525,741	17,513,363	17,525,741
<b>Total</b>	<b>17,697,185</b>	<b>17,748,327</b>	<b>17,748,327</b>	<b>21,567,302</b>	<b>21,552,275</b>	<b>21,567,302</b>

Positive difference of book values exceeding nominal values	56,496	321
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Negative difference of book values falling below nominal values	-118,725	-95,117
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## 14 Shares and participations

	2007	2006
Endowment insurance	146	0

## 15 Shares in associated companies

Administrative Solutions NLGFA AB, holding 50%  
Reg. no.: 556581-0669

## 16 Tangible assets, equipment

	2007	2006
Cost brought forward	6,622	10,323
Investments for the year	1,593	2,362
Sales/disposals during the year	1,786	6,063
<b>Cost carried forward</b>	<b>6,429</b>	<b>6,622</b>
Depreciation brought forward	3,266	7,172
Depreciation for the year	1,602	2,084
Adjustment for depreciation on equipment sold/disposed of	1,623	5,990
<b>Depreciation carried forward</b>	<b>3,245</b>	<b>3,266</b>
<b>Planned residual value at end of accounting period</b>	<b>3,184</b>	<b>3,356</b>

## 17 Other assets

	2007	2006
Market valuation, equity derivatives	0	3,006,850
Other assets	249,051	60,155
<b>Total</b>	<b>249,051</b>	<b>3,067,005</b>

### Comments

Following the introduction of new accounting principles, see Note 2, equity derivatives are recognised under Derivatives. Other assets include loan receivables of SEK 236,346,000 (54,764,000) settled after the end of the year.

## 18 Prepaid expenses and accrued income

	2007	2006
Accrued interest	0	692,388
Other prepaid expenses and accrued income	2,284	1,701
<b>Total</b>	<b>2,284</b>	<b>694,089</b>

### Comments

Following the introduction of new accounting principles, see Note 2, accrued interest items now appear separately in the balance sheet.

## 19 Other liabilities

	2007	2006
Market valuation, equity derivatives	0	3,006,850
Liabilities to parent society	11,450	6,700
Other liabilities	20,773	92,028
<b>Total</b>	<b>32,223</b>	<b>3,105,578</b>

### Comments

Following the introduction of new accounting principles, see Note 2, equity derivatives are recognised under Derivatives. Other liabilities include loan receivables of SEK 16,642,000 (86,125,000) settled after the end of the year.

## 20 Accrued expenses and prepaid income

	2007	2006
Accrued interest	0	747,174
Other accrued expenses and deferred income	8,294	8,032
<b>Summa</b>	<b>8,294</b>	<b>755,206</b>

### Comments

Following the introduction of new accounting principles, see Note 2, accrued interest items now appear separately in the balance sheet.

## 21 Provision for pensions and similar obligations

	2007	2006
Provision for personnel commitments	182	0

## 22 Untaxed reserves

	2007	2006
<b>Tax allocation reserves</b>		
2002 tax assessment	-	5,231
2003 tax assessment	7,004	7,004
2004 tax assessment	3,214	3,214
2005 tax assessment	4,906	4,905
2006 tax assessment	13,770	13,770
2007 tax assessment	6,952	6,953
2008 tax assessment	4,687	0
<b>Total untaxed reserves</b>	<b>40,533</b>	<b>41,077</b>

## 23 Pledged assets

	2007	2006
Endowment insurance	146	0

## 24 Related parties

### Close associations

Kommuninvest has close associations with Kommuninvest Cooperative Society (parent company), Kommuninvest Fastighets AB (sister company) and Administrative Solutions NLGFA AB (associated company).

Close association	Year	Sales of goods/ services to related parties	Purchase of goods/ services from related parties	Receivables from related parties on 31 Dec	Liabilities to related parties on 31 Dec
Kommuninvest Cooperative Society	2007	242	0	242	11,450
	2006	0	0	0	6,700
Kommuninvest Fastighets AB	2007	0	1,518	55	380
	2006	0	1,512	55	0
Administrative Solutions NLGFA AB	2007	0	4,291	901	0
	2006	0	5,978	0	0

Transactions with associated parties are priced in accordance with market conditions.

### Transactions with key people in senior posts

With regard to salaries, other remuneration and pensions for key people in management positions, please see Note 7.

## 25 Financial assets and liabilities

	Assets at fair value through profit or loss, identified as such on first recognition	Assets at fair value through profit or loss, available for sale	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss, available for sale
Cash	0	0	5	0	0
State bonds eligible as collateral	0	0	0	5,598,771	0
Lending to credit institutions	0	0	776	2,513,038	0
Lending	77,937,698	0	0	0	0
Bonds and other interest-bearing securities	0	0	0	17,748,327	0
Derivatives	0	793,874	0	0	0
Other assets	0	0	239,767	0	0
<b>Total</b>	<b>77,937,698</b>	<b>793,874</b>	<b>240,548</b>	<b>25,860 136</b>	<b>0</b>
Liabilities to credit institutions	0	0	0	0	0
Securities issued etc.	0	0	0	0	0
Derivatives	0	0	0	0	2,113,074
Other liabilities	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,113,074</b>

The carrying amount for liabilities to credit institutions and securities issued is composed partly of liabilities entered at amortised cost (liabilities that are not part of a hedging relationship) and liabilities at fair value, with measurement based on the underlying credit spread for the issue (liabilities that are part of a hedging relationship). Fair value

differs from book value as it is based on measurements of both these groups based on the credit spread that would have applied at the year-end.

### Calculation of fair value

The following is a summary of the main methods and assumptions used to establish the fair value of the financial instruments entered in the table above.

### Lending

Fair value has been based on a discount of anticipated future cash flows, with the discount rate set at the applicable lending interest rate.

### State bonds eligible as collateral, and bonds and other interest-bearing securities

Fair value has been based on a discount of anticipated future cash flows, with the discount rate set at the issuer's risk-weighting. If fair value has deviated greatly from the quoted prices, the discount rate has been adjusted.

### Derivatives

Fair value has been based on a discount of anticipated future cash flows, with the discount rate set at the applicable quoted swap rate.

### Borrowing and borrowing swaps

Fair value for borrowing and the receiving side in a swap has been calculated on a model valuation based on the borrowing structure. This value is continuously reconciled by comparing the counterparties' fair value for corresponding derivatives. The paying side in the derivative has been measured at the applicable quoted swap rate, taking account of the relevant credit spread in the swap.

### Other financial assets and liabilities

Fair value is the nominal value of each item.

For receivables and accounts payable with a remaining term of less than six months, the carrying amount is considered to reflect fair value.

Other liabilities	Derivatives		Fair value
	used in hedge accounting	Total carrying amount	
0	0	5	5
0	0	5,598,771	5,598,771
0	0	2,513,814	2,513,814
0	0	77 937 698	77,937,698
0	0	17,748,327	17,748,327
0	5,069,898	5,863,772	5,863,772
0	0	239,767	239,767
<b>0</b>	<b>5,069,898</b>	<b>109,902,154</b>	<b>109,902,154</b>
4,627,355	0	4,627,355	4,626,993
93,561,362	0	93,561,362	93,527,196
0	9,162,110	11,275,184	11,275,184
31,131	0	31,131	31,131
<b>98,219,848</b>	<b>9,162,110</b>	<b>109,495,032</b>	<b>109,460,504</b>

## 26 Change in accounting principles

This Annual Report for Kommuninvest is the first prepared in accordance with legally restricted International Financial Reporting Standards, as shown in Note 2.

The accounting principles outlined in Note 2 have been applied in preparing Kommuninvest's financial statements for the 2007 financial year. With reference to FFFS 2006:16, previous accounting principles are applied in the comparison information on financial instruments which fall into the application area for IAS 39. IAS 39 is the accounting principle that has by far the greatest impact on Kommuninvest for which we report a transition from 1 January 2007.

The following table and comments explain how the transition from previous accounting principles has affected Kommuninvest's financial position.

## BALANCE SHEET

Assets	Comments	31 Dec 06	Effect of change in accounting principle	1 Jan 07
Cash		1		1
State bonds eligible as collateral	a	6,349,315	-2,938	6,346,377
Lending to credit institutions	a	2,680,563	22,759	2,703,322
Lending	b	66,811,917	531,767	67,343,684
Bonds and other interest-bearing securities	a	21,567,302	28,453	21,595,755
Shares		504		504
Tangible assets, equipment		3,356		3,356
Derivatives	c		4,483,368	4,483,368
Other assets	e	3,067,005	-3,006,850	60,155
Prepaid expenses and accrued income	f	694,089	-692,387	1,702
<b>Total assets</b>		<b>101,174,052</b>	<b>1,364,172</b>	<b>102,538,224</b>
<b>Liabilities, provisions and equity</b>				
Liabilities to credit institutions	d	3,618,393		3,618,393
Securities issued	d	93,388,186	-5,175,777	88,212,409
Derivatives	c		10,260,487	10,260,487
Other liabilities	e	3,105,578	-3,006,850	98,728
Accrued expenses and prepaid income	f	755,206	-747,175	8,031
<b>Total liabilities and provisions</b>		<b>100,867,363</b>		<b>102,198,048</b>
Untaxed reserves		41,077		41,077
Share capital		153,100		153,100
Statutory reserve		17,473		17,473
Fund for fair value	g		-17,071	-17,071
Profit or loss brought forward	h	77,157	50,558	127,715
Profit for the year		17,882		17,882
<b>Total equity</b>		<b>265,612</b>		<b>299,099</b>
<b>Total liabilities, provisions and equity</b>		<b>101,174,052</b>	<b>1,364,172</b>	<b>102,538,224</b>

### Comments on the balance sheet.

Under previous accounting principles, all financial instruments were measured at amortised cost.

Significant changes from the new accounting principle are described in Note 2 and in summary below.

- (a) State bonds eligible as collateral, lending to credit institutions, and bonds and interest-bearing securities are now recognised as available-for-sale financial assets. As described in Note 2, these are measured at fair value with changes in value charged directly to equity in the fund for fair value.
- (b) Lending is now recognised as fair value through profit or loss. This ensures more true and fair financial accounting as the company's derivatives are recognised at fair value.
- (c) Kommuninvest's derivatives are now recognised at fair value, either as financial assets and liabilities at fair value through profit or loss, which include derivatives which are hedging instruments but are not included in hedge accounting; or as derivatives which are included in hedge accounting and are measured at fair value.

- (d) Securities issued and liabilities to credit institutions are hedged against a financial instrument and, where hedge accounting is applied, are recognised at fair value with regard to the hedged risk. Securities issued which are not hedged against a financial instrument are measured at amortised cost.
- (e) Other assets and liabilities include the previous market value of equity derivatives. These are now recognised under derivatives according to principle C, as noted above.
- (f) Accrued interest was previously recognised in prepaid expenses and accrued income and accrued expenses and deferred income. It is now recognised under the relevant asset item.
- (g) Fund for fair value recognises the change between recognition at fair value and previous accounting principles, which relate to the assets recognised in the available-for-sale category.
- (h) Profit brought forward includes the change between recognition at fair value and previous accounting principles for all accounting principles excluding the available-for-sale category.

## 27 Capital coverage

### Capital coverage

For the establishment of statutory capital requirements, the Capital Adequacy and Large Exposures Act (2006:1371) applies, along with Swedish Financial Supervisory Authority Regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1).

As far as Kommuninvest i Sverige AB is concerned, these regulations contribute to greater resistance against financial losses, thereby protecting customers. The regulations mean that Kommuninvest i Sverige AB's capital base (equity) should on the one hand cover with a good margin the prescribed minimum capital requirements, which include the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operation in accordance with the chosen principles for capital assessment. Kommuninvest has set an internal capital coverage quote which includes both legal and other risks in the operation.

Kommuninvest i Sverige AB has a set plan (the capital plan) regarding the size of the capital base for several years ahead, which is based on

- the risk profile
- identified risks with regard to probability and financial impact
- 'stress test' and scenario analyses
- anticipated operational expansion and financing opportunities, and new legislation and other external factors.

Reviewing the capital plan is an integral part of Kommuninvest i Sverige AB's work on the annual operations plan and budget. The plan is followed up annually or as required when an annual review is carried out to ensure that the risks are correctly assessed and reflect Kommuninvest i Sverige AB's true risk profile and capital requirement.

As with major credit decisions and investments, any change or addition to a policy or strategy document adopted by the Board must always be related to the Institute's current and future capital requirements.

Information on Kommuninvest i Sverige AB's risk management can be found in Note 3.

In this Annual Report, Kommuninvest i Sverige AB has chosen only to disclose the required information on the capital base and capital requirements in accordance with Chapter 4 of the Swedish Financial Supervisory Authority's Regulations and general guidelines regarding public disclosure of information concerning capital adequacy and risk management (FFFS 2007:5). Other disclosures required by these regulations can be found on Kommuninvest i Sverige AB's website, [www.kommuninvest.se](http://www.kommuninvest.se).

Kommuninvest i Sverige AB's statutory capital requirements in line with Pillar 1 of the new capital adequacy regulations can be summarised as follows, with specifications as per the sections below:

	2007	2006
<b>Primary capital</b>		
Share capital	198,900	153,100
Statutory reserve	17,473	17,473
Profit brought forward	137,353	77,157
Profit for the year	24,126	17,882
Untaxed reserves (72%)	29,181	29,575
<b>Net capital base</b>	<b>407,033</b>	<b>295,187</b>
<b>Total capital requirement for credit risk</b>		
Standardised method	207,186	124,581
Capital requirement for operational risks	16,932	15,131
Capital requirement for foreign exchange risk	919	905
<b>Total capital requirement</b>	<b>225,037</b>	<b>140,617</b>
Capital coverage quota	1,81	2,10

### Capital base

The capital basis includes the Board's proposed disposition of earnings

	2007	2006
<b>Primary capital</b>	<b>377,852</b>	<b>265,612</b>
Tax allocation reserve (72%)	29,181	29,575
<b>Total primary capital</b>	<b>407,033</b>	<b>295,187</b>

### Capital requirement

#### Credit risk in accordance with standardised method

	2007	2006
1. Exposures to states and central banks	0	0
2. Exposures to municipalities and comparable cooperatives, and authorities	0	0
3. Institutional exposures	206,265	123,792
4. Corporate exposures	320	320
5. Other items	601	469
<b>Total capital requirement for credit risks</b>	<b>207,186</b>	<b>124,581</b>

	2007	2006
<b>Operational risks</b>		
Basic indicator method	16,932	15,131
Total capital requirement for operational risks	16,932	15,131

	2007	2006
<b>Foreign exchange risk</b>		
Foreign exchange risk	919	905
Total capital requirement for foreign exchange risks	919	905
<b>Total minimum capital requirement</b>	<b>225,037</b>	<b>140,617</b>

## FIVE-YEAR SUMMARY

(SEK 000)	2007	2006	2005	2004	2003
<b>KEY RATIOS 2003-2007</b>					
<b>Growth</b>					
Lending (change in %)	16.7	17.8	11.0	3.4	16.0
Net interest income (change in %)	-20.6	9.5	16.8	20.0	-8.6
<b>Consolidation</b>					
Equity + untaxed reserves as a percentage of balance sheet total	0.38	0.30	0.31	0.33	0.33
<b>Income measure</b>					
Administration expenses as a percentage of lending	0.103	0.120	0.109	0.104	0.102
Administration expenses as a percentage of balance sheet total	0.073	0.079	0.068	0.079	0.081
<b>Efficiency</b>					
Administration expenses/employee (SEK 000)	2177	2113	1760	1569	1574
Change (%)	3.0	20.1	12.2	-0.3	-7.5
Lending/employee (SEK 000)	2,106,424	1,758,208	1,621,093	1,503,397	1,544,690
Change (%)	19.8	8.5	7.8	-2.7	-2.1
<b>Returns</b>					
Operating profit after tax as a percentage of average equity	6.34	7.43	16.29	7.55	6.47
<b>Income/expense ratio (I/E)</b>					
Net interest income + other operating income in relation to total costs	1.0	1.3	1.5	1.5	1.4
<b>Other information</b>					
Number of employees	37	38	35	34	32



(SEK 000)	2007	2006	2005	2004	2003
<b>INCOME STATEMENT</b>					
Net interest income	79,610	100,214	91,504	78,373	65,291
Commission expenses	-3,126	-4,080	-3,806	-2,704	-1,065
Net result of financial transactions	34,181	12,632	26,043	-1,948	-1,528
Other operating income	600	1,042	3,831	1,514	3,163
<b>Total income</b>	<b>111,265</b>	<b>109,808</b>	<b>117,572</b>	<b>75,235</b>	<b>65,861</b>
General administration expenses	-75,868	-74,535	-57,604	-49,413	-47,529
Depreciation	-1,602	-2,084	-1,807	-1,634	-1,623
Other operating expenses	-3,093	-3,686	-2,192	-2,386	-1,200
<b>Total expenses</b>	<b>-80,563</b>	<b>-80,305</b>	<b>-61,603</b>	<b>-53,433</b>	<b>-50,352</b>
<b>Operating profit</b>	<b>30,702</b>	<b>29,503</b>	<b>55,969</b>	<b>21,802</b>	<b>15,509</b>
Appropriations, net	544	-3,595	-11,595	-2,722	-1,206
Taxes	-7,120	-8,026	-12,798	-5,503	-4,117
<b>Profit for the year</b>	<b>24,126</b>	<b>17,882</b>	<b>31,576</b>	<b>13,577</b>	<b>10,186</b>
<b>BALANCE SHEET</b>					
Cash	5	1	1	0	3
State bonds eligible as collateral	5,598,771	6,349,315	10,518,887	5,175,618	3,670,647
Lending to credit institutions	2,513,814	2,680,563	3,109,722	1,705,395	2,140,192
Lending	77,937,698	66,811,917	56,738,251	51,115,491	49,430,079
Bonds and other interest-bearing securities	17,748,327	21,567,302	18,116,466	8,716,646	5,990,106
Shares and participations	146				
Shares in associated companies	504	504	504	504	504
Derivatives	5,863,772				
Tangible assets, equipment	3,184	3,356	3,151	3,599	3,576
Other assets	249,051	3,067,005	2,043,157	616,513	8,236
Prepaid expenses and accrued income	2,284	694,089	618,308	650,304	743,648
<b>Total assets</b>	<b>109,917,556</b>	<b>101,174,052</b>	<b>91,148,447</b>	<b>67,984,070</b>	<b>61,986,991</b>
Liabilities to credit institutions	4,627,355	3,618,393	3,424,562	1,800,503	2,529,389
Securities issued	93,561,362	93,388,186	84,738,299	64,682,421	58,458,959
Derivatives	11,275,184				
Other liabilities	32,223	3,105,578	2,019,697	623,238	12,443
Accrued expenses and prepaid income	8,294	755,206	678,953	652,479	782,182
Provisions for pensions and similar obligations	182				
<b>Total liabilities</b>	<b>109,504,600</b>	<b>100,867,363</b>	<b>90,861,511</b>	<b>67,758,641</b>	<b>61,782,973</b>
Untaxed reserves	40,533	41,077	37,482	25,887	23,166
Equity	372,423	265,612	249,454	199,542	180,852
<b>Total liabilities and equity</b>	<b>109,917,556</b>	<b>101,174,052</b>	<b>91,148,447</b>	<b>67,984,070</b>	<b>61,986,991</b>

Figures for comparison years are based on the former accounting principles

We hereby certify that, to the best of our knowledge, the Annual Report has been prepared in accordance with generally accepted accounting principles. The information submitted concurs with the actual situation in the operation, and nothing of material importance has been omitted which could affect the image of Kommuninvest conveyed by the Annual Report.

The Annual Report was, as indicated above, approved for publication by the Board of Directors on 27 February 2008. The income statement and balance sheet will be subject to ratification at the Annual General Meeting on 3 April 2008.

Örebro, Sweden, 27 February 2008

Robert Stenram  
*Chairman*

Ellen Bramness Arvidsson  
*Vice Chairman*

Christer Akej

Lorentz Andersson

Alf Egnerfors

Anna von Knorring

Kerstin Ryding

Petter Skouen

Tomas Werngren  
*President and CEO*

Our Audit Report was submitted on 27 February 2008  
Ernst & Young AB

Peter Strandh  
*Authorised Public Accountant*

# AUDIT REPORT

To the annual meeting of the shareholders of Kommuninvest i Sverige AB (publ)  
Corporate identity number 556281-4409

We have audited the annual accounts, the accounting records and the administration of the board of directors and the managing director of Kommuninvest i Sverige AB (publ) for the year 2007. These accounts and the administration of the company and the application of the Annual Accounts Act for Credit Institutions and Securities Companies when preparing the annual accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. As a basis for our opinion concerning discharge from liability, we examined

significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Örebro, Sweden, 27 February 2008  
Ernst & Young AB

Peter Strandh  
*Authorised Public Accountant*



## CORPORATE GOVERNANCE REPORT KOMMUNINVEST I SVERIGE AB (PUBL)

In legal terms, Kommuninvest i Sverige AB (publ) ("Kommuninvest") is a limited company which conducts its financing operations as a credit market company. The business is regulated by the Swedish Financial Supervisory Authority. As a non-listed company, Kommuninvest is not encompassed by the Swedish Code of Corporate Governance, but the owner directives do state that the Code should be progressively implemented from 2007 onwards. Kommuninvest has assumed a responsible role as a debt office for Sweden's municipal sector and therefore pursues active corporate governance.

As a wholly-owned subsidiary of Kommuninvest Cooperative Society, Kommuninvest has only one owner. As a result, an important part of the actual corporate governance is carried out by the Annual General Meeting of Kommuninvest Cooperative Society, which is the natural forum of the owners. This means that the members of the two committees appointed at the Society's AGM – the Election Committee and the Auditing Committee – are also appointed as the Election Committee and Auditing Committee for Kommuninvest i Sverige AB at the following AGM.

### Election Committee

The seven members of the Election Committee are appointed at the Annual General Meeting of Kommuninvest Cooperative Society. The members must be individuals with commissions of trust with municipalities or county councils that are members of the Society, but they must be independent of the Society's Board. The Election Committee appointed by the Society is responsible for putting forward proposals regarding the election of the Board of Directors, chairman, deputy chairman and auditors in Kommuninvest, as well as proposals for their remuneration. The Election Committee places high demands on the company's Board members. It works according to a profile of standards, based on the principle that the Board members should possess the skills required by the Swedish Financial Supervisory Authority relevant to the nature and scope of Kommuninvest's operation.

The Election Committee shall also submit proposals for members of Kommuninvest's Auditing Committee and proposals for their remuneration.

The Kommuninvest Cooperative Society AGM in 2007 elected the following members onto the Election Committee:

**Anette Åkesson**, born 1966

Chair of the Executive Committee, Municipality of Båstad. (Convener from 7 September 2007)

**Anders Ceder**, born 1951

Member of the Executive Committee, Municipality of Lindesberg. (Convener until 7 September 2007)

**Kenneth Carlsson**, born 1952

1st Vice Chair of the Executive Committee, Municipality of Färgelanda

**Kerstin Sjöström**, born 1955

Member of the Executive Committee, Municipality of Nordmaling

**Niklas Sjöberg**, born 1964

Chair of the Executive Committee, Municipality of Skurup

**Anders Berglöv**, born 1961

1st Vice Chair of the Executive Committee, Municipality of Flen

**Elisabeth Lassen**, born 1953

Chair of the Executive Committee, Municipality of Sollefteå

For further information on the Election Committee and its full rules of procedure, please see [www.kommuninvest.se](http://www.kommuninvest.se)

### Auditing Committee

The members of the Auditing Committee are appointed at the Annual General Meeting of Kommuninvest Cooperative Society. The Auditing Committee regularly meets the appointed auditors and where necessary it can initiate auditing measures additional to the statutory audit. The Auditing Committee also acts as an election committee, recommending auditors and submitting proposals for their remuneration.

The Kommuninvest Cooperative Society AGM on 22 March 2007 appointed the following members onto the Auditing Committee:

**Anita Bohman**, born 1944

Municipality of Västervik

**Barbro Tjernström**, born 1936

Municipality of Söderköping

The following were appointed deputies:

**Mats Sjöström**, born 1942

Municipality of Örebro

**Margaretha Yngvesson**, born 1941

Municipality of Herrljunga

### Articles of Association

The Articles of Association of Kommuninvest i Sverige AB, which is a public company, define the company's operation, the share capital framework, the number of members and deputies on the Board, procedures for appointing auditors, AGM location, rules for convening the AGM and dealing with the items on its agenda, the company's financial year and other par.

The full Articles of Association can be read at [www.kommuninvest.se](http://www.kommuninvest.se)

### Annual General Meeting

The Annual General Meeting of Kommuninvest i Sverige AB (publ) considers and resolves on the company's income statement and balance sheet, discharge of Board members and the President from liability, appointment of the Board, Chairman and Vice Chairman for the coming 12 months, and where applicable appointment of the auditors and remuneration for the Board and auditors.

The AGM on 22 March 2007 decided on various matters, including:

- Appointment of the Board, its Chairman and Vice Chairman
- Appointment of an Election Committee and Auditing Committee
- Payment of an annual fee to the Board Chairman
- Owner directives
- New share issue
- New share issue during the current financial year

### The Board of Directors and its activities

The Board of Directors of Kommuninvest has ultimate responsibility for the company's organisation and management. Set rules of procedure stipulate areas such as the Board's remit and routines for Board meetings. The Board's remit includes setting objectives and strategies for the operation, a responsibility for identifying and managing risks,

and ensuring the operation is conducted in compliance with the pre-determined objectives. The Board shall also prepare internal controlling documents including written instructions for the reports to be produced by the company. The rules of procedure are reviewed and adopted once a year.

Instructions for the President and report instructions prepared by the Board stipulate for example that the President is responsible for the company's ongoing activities pursuant to Board guidelines, and for drawing up a proposed operations plan, budget and annual/interim accounts.

The Board consists of eight members representing a broad skills base in areas such as public services, the capital markets and business development.

In 2007 the Board of Directors met on 12 (12) occasions. Among other things, agendas and decisions have related to:

- Alignment with regulations on internal capital assessment (ICAAP)
- Ownership issues – allocation of work and responsibility between the company and Cooperative Society
- How member contact can be further improved
- Changes to the Articles of Association and other fundamental operating documents

### Board members and their remuneration

At the Annual General Meeting of Kommuninvest i Sverige AB (publ) on 22 March 2007, the following Board of Directors was elected:

**Robert Stenram**, born 1941, **London**

Board Chairman since 2006,

Vice Chairman since 1999, member since 1989.

Former Executive Vice President, Swedbank, Stockholm.

Other assignments: Chairman London Section of Swedish Center for Business and Policy Studies.

Board member – Sweden-Japan Foundation, Stockholm.

**Ellen Bramness Arvidsson**, born 1964, **Stockholm**

Vice Chairman since 2006, member since 2003.

Chief Accountant, Swedish Insurance Federation, Stockholm.

Other assignments: Minpension i Sverige AB. Deputy Board member for the association for good practice on the securities market.

**Christer Akej**, born 1955, **Simrishamn**

Member since 2007.

Chair of the Executive Committee,  
Municipality of Simrishamn.

Other assignments: Municipal Council member,  
Simrishamn. Member of the Öresund Committee.  
Deputy on the Regional Council, Region Skåne.  
Deputy on the Public Transport Committee,  
Region Skåne. Member of SAV.

**Lorentz Andersson**, born 1942, **Skellefteå**

Member since 2001.

Former County Governor, Västerbotten County.

Other assignments: Chairman of the Municipal  
Competence Inquiry, Digital TV Commission, Na-  
tional Wood Building Committee, Sparbank Foun-  
dation Norrland. Board member of the Sparbank  
Foundations Management Company.

**Alf Egnerfors**, born 1946, **Eskilstuna**

Member since 2006.

Vice Chairman, Kommuninvest Cooperative So-  
ciety. Board Chairman of Eskilstuna Kommunfas-  
tigheter AB and Torshälla Fastighets AB.

**Kerstin Ryding**, born 1952, **Gävle**

Member since 2006, deputy member since 2003.  
CFO, Municipality of Sandviken.

Other assignments: Chair of the Friends of Visu-  
ally-Impaired Persons Association in Gävleborg  
County.

**Petter Skouen**, born 1946, **Oslo**

Member since 1994.

President, Norges Kommunalbank, Oslo.

**Anna von Knorring**, born 1965, **Helsinki**

Member since 2004.

Assistant Director, State Treasury, Helsinki.

Other assignments: Board member of Hansel AB,  
the Finnish government's central procurement unit.  
Member of the Sparbank Foundation delegation,  
Helsinki. Board member of Nordic Capital Mar-  
kets Forum.

**Board members' remuneration**

Remuneration to the Board Chairman within the  
framework of the Board fees approved by the An-  
nual General Meeting, amounted to SEK 150,000  
in 2007. Remuneration is payable to each Board  
member as specified in the table below. Total remu-  
neration to the Board members elected by the An-  
nual General Meeting is subject to AGM resolution  
and amounted to SEK 1,302,000 in 2007. In ad-  
dition, Chairman Robert Stenram was paid an ad-  
ditional SEK 350,000 for his work on the Credit  
Committee as approved by the AGM.

In addition to the committees appointed by the  
AGM – the Election Committee and the Auditing  
Committee – Kommuninvest i Sverige AB (publ)  
has three committees appointed by the Board of  
Directors: the Credit Committee, the Credit Re-  
search Committee and the Financial Committee.

**Remuneration and attendance – Board of Directors of Kommuninvest i Sverige AB (publ)**

Name	Board	Credit Committee	Remuneration	
	attendance	attendance	2007	2006
Robert Stenram,	12 (10)	5 (5)	502,000	(288 000)
Ellen Bramness Arvidsson,	12 (10)	5 (5)	161,000	(118 000)
Christer Akej	8 (–)		94,000	(–)
Lorentz Andersson	12 (10)		121,000	(78 000)
Alf Egnerfors	10 (10)		110,000	(70 634)
Kerstin Ryding	11 (10)		118,000	(63 866)
Petter Skouen	9 (10)		102,000 <sup>1)</sup>	(44 000)
Anna von Knorring	9 (10)		102,000	(74 000)

1) Remuneration paid to Kommunalbanken AS, Oslo.

## Committees

### *Credit Committee*

The Credit Committee is entitled to decide on issues stipulated in policies and instructions for the credit and finance operation.

The Board Chairman and Vice Chairman are the members of the Credit Committee.

## Committees

### *Credit Research Committee*

The overall purpose of the Credit Research Committee is to act as an advisory body for the Board of Directors. Activities include monitoring the financial progress of the municipal sector and Society members to ensure they fulfil the requirements for sound public fund management, and screening municipalities and county councils that apply for membership.

The members of the Credit Research Committee are recruited from member organisations or their companies and are appointed by the Board of Kommuninvest.

### **Credit Research Committee members:**

#### *Chairman*

#### **Thomas Åkelius**

Controller, Kommuninvest

#### **Tomas Carlsson**

Principal Finance Director, Municipality of Eksjö

#### **Nils-Eric Gustavsson**

Principal Finance Director, Västmanland County Council

#### **Ingalill Hellberg**

Chief Administrative Officer, Municipality of Staffanstorps

#### **Tommy Malm**

Principal Finance Director, Municipality of Eskilstuna

#### **David Nyberg**

Chief Administrative Officer, Municipality of Skellefteå

#### **Madeleine Sjöstrand**

Chief Administrative Officer, Municipality of Haninge

### **Financial Committee**

The Financial Committee's task is to monitor progress on the financial markets and thereby

offer support for the company's finance activities. The Committee's remit includes monitoring progress on those capital markets significant to the company's borrowings, to act as an advisory body to the CFO on issues relating to finance strategies, risk management and financial technology, and to deal with issues regarding assessments of the future, partly comprising the municipal sector's need for finance, and partly the development of the economy and interest rates. The members of the Financial Committee are appointed by the Board of Kommuninvest and are representatives of the member municipalities and their companies.

### **Financial Committee members:**

#### *Chairman*

#### **Harriet Forsell Söderberg**

Executive Vice President, Kommuninvest

#### **Per Björkengren**

Principal Finance Director, Municipality of Karlstad

#### **Stefan Ekfeldt**

Principal Finance Director, ÖrebroBostäder AB

#### **Ulf Ericsson**

Principal Finance Director, Tanums Bostäder AB

#### **Bernt Grahn**

Chief Administrative Officer, Municipality of Luleå

#### **Kerstin Gustavsson**

Principal Finance Officer, Municipality of Örkelljunga

#### **Björn Ryd**

Principal Finance Officer, Municipality of Gävle

#### **Johan Sandlund**

Chief Administrative Officer, Municipality of Trosa

#### **Lars Sjökvist**

Managing Director, Växjö Kommunfastigheter

### **Corporate management**

The President leads, organises and develops operations in such a way that the objectives determined by the Board of Directors are achieved. Written instructions stipulate the division of responsibility between the Board of Directors and President. These instructions also take account of the Swedish Fi-



financial Supervisory Authority's general recommendations on the control and management of financial companies, as well as the Authority's perception of the President's tasks and responsibilities.

The President is responsible for keeping the Board of Directors continuously informed of changes to regulatory structures, the content of Audit Reports and other significant events. The President's task is to provide the Board with the requisite information and decision-support data in contexts such as Board meetings, and to ensure that the Board receives a monthly written report. The rules of procedure also formalise the President's financial framework.

### Executive managers and their remuneration

#### Corporate management

**Tomas Werngren**, born 1961

President and CEO

Employed since 1994

**Harriet Forsell Söderberg**, born 1959

Executive Vice President

Employed since 1995

**Maria Viimne**, born 1970

Head of Funding and Investment

Employed since 1998

**Ulf Jivmark**, born 1956

Head of Legal

Employed since 1995

**Johanna Larsson**, born 1973

Head of Administration

Employed since 2000

### Auditors

The auditors are appointed by the Annual General Meeting of Kommuninvest every four years, the most recent occasion being the 2004 AGM. The auditors' task is to review the company's annual report and accounting records, and the Board of Directors' and President's administration on behalf of the owner. The auditors report to the Board of Directors and the Auditing Committee on an ongoing basis.

### Audit Report

The internal and external auditors attend Kommuninvest's final Board meeting of each calendar year and report observations on their examination on a continuous basis throughout the year. The auditors also attend the first scheduled Board meeting of the year, when the company's annual accounts for the past year are considered.

### The Board's Report on Internal Controls

In internal control, the Board of Directors annually specifies the focus of the recurring independent audit in written instructions. This audit monitors that the operation's scope and direction comply with the Board's guidelines, and that accounting, fund management and the company's financial situation can otherwise be controlled in a manner that provides reasonable assurance. The audit also encompasses evaluating the company's organisation for the financial reporting. Kommuninvest's own internal audit function is the Board's tool for conducting the audit that aims to secure internal control.

### Remuneration – Executive managers of Kommuninvest i Sverige AB (publ)

Name	Year	Basic salary	Other benefits	Pension expense	Total
Tomas Werngren	2006	1,911,000	86,000	418,000	2,415,000
	2007	2,260,000	90,000	553,000	2,903,000
Executive management	2006	2,526,688	0	Persuant to SPP:s pension plan	
	2007	3,360,060	29,960		

# THE BOARD MEMBERS

## Board Chairman



**Robert Stenram**  
(born in 1941)  
Chairman since 2006.  
Vice Chairman since 1999.  
Member since 1989.  
London

## Vice Chairman



**Ellen Bramness Arvidsson**  
(born in 1964)  
Vice Chairman since 2006.  
Member since 2003.  
Chief Accountant, Swedish Insurance Federation,  
Stockholm.

## Board Members



**Christer Akej**  
(born in 1955)  
Member since 2007.  
Chair of the Executive Committee,  
Simrishamn.



**Lorentz Andersson**  
(born in 1942)  
Member since 2001.  
Former County Governor,  
Västerbotten County.



**Alf Egnerfors**  
(born in 1946)  
Member since 2006.  
Vice Chairman of Kommuninvest Coop-  
erative Society. Board Chairman  
of Kommunfastigheter i Eskilstuna.



**Anna von Knorring**  
(born in 1965)  
Member since 2004.  
Assistant Director, State Treasury,  
Helsinki.



**Kerstin Ryding**  
(born in 1952)  
Member since 2006.  
Deputy Member since 2003  
CFO, Sandviken.



**Petter Skouen**  
(born in 1946)  
Member since 1994.  
President, Kommunalbanken AS,  
Oslo.





**KOMMUNINVEST**

*The Swedish Local Government Funding Agency*

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