

KOMMUNINVEST ANNUAL REPORT

2009

The background of the page features several overlapping, wavy, organic shapes in shades of light blue and white. These shapes are layered, creating a sense of depth and movement. The overall aesthetic is clean and modern.

Our role as the Swedish Local Government Debt Office and as a guarantor of financial stability in the local government sector was strengthened during the year. The membership increase was the second highest ever and lending grew by almost 18%. By the end of the year, 241 municipalities and 7 county councils were members of Kommuninvest.

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Annual Report

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Swedish handicrafts is the picture theme of this year's Annual Report. The pictures show works by members of the Konstantverkscentrum (KHVC), an organisation which represents most of the top craftsmen and women in Sweden. They all have degrees from one of the colleges in the area, or similar knowledge. KHVC's main function is to pass on information on Swedish handicrafts and to arrange contact between artists and users of various kinds.

Artistic expression and the skill of the hand are brought together in handicrafts. Utility design and unique objects, all crafted on a personal, small-scale level.



This photo shows Eva Hild working on "Extension".

On the front cover "Consecutive Working", by Eva Hild.
Photo: Anna Sigge.

RESULTS

2009

25 (13) municipalities and county councils became new members.

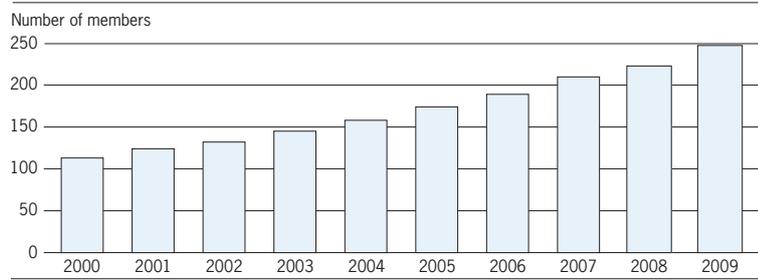
Lending increased by 18% to SEK 123.6 (104.7) billion.

The balance sheet total increased by 28% to SEK 183.0 (142.7) billion.

Operating profit for the year was SEK 193.7 (75.3) million.

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

Membership 2000-2009



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.



»Three bowls 925 Sterling Silver» by Wolfgang Gessl
Photo: Hans Bjurling

A UNIQUELY POWERFUL COOPERATIVE CONCEPT

Ever since Kommuninvest Cooperative Society was established and it became possible for all Swedish municipalities and county councils to become members, Kommuninvest has experienced positive membership growth. 25 new members joined in 2009 – the second-highest number ever recorded. Local government financing collaboration in Kommuninvest now covers 80% of the country's municipalities and county councils.

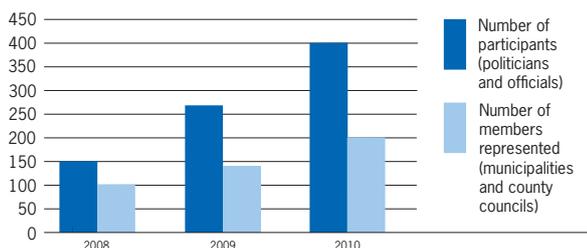
Those of us who have been with Kommuninvest for a long time see parallels between the rapid development in membership of the last few years and the trend at the beginning of the 1990s. In both cases, a crisis in the system acted as the catalyst for intensifying the cooperation on matters of mutual interest within Kommuninvest.

When we look back on 2009 as a whole, we can state that this cooperation encompasses nearly 250 municipalities and county councils. 60 municipalities have become members in the last three years alone.

Kommuninvest has developed into the biggest lender to the municipal sector and accounts for just over a third of the sector's total funding. More than half of our members' financing is accomplished via Kommuninvest.

This points to a number of things. On the one hand, that the requirement for a sound, secure source of financing is at its greatest in a crisis, and on the other that the collaboration in Kommuninvest is based on a fundamentally good idea: that of joining forces in the municipal sector to secure satisfactory access to cost-effective financing in the long term.

Kommuninvest member consultation – forum for discussion and consolidation



Source: Kommuninvest



Tomas Werngren
President and CEO

Interest in Kommuninvest has now reached record levels. When we conducted our annual member consultations at the beginning of 2010 prior to the Annual General Meeting, 400 politicians and officials from 200 municipalities and county councils took part. This level of involvement is highly encouraging and is worth nurturing.

Kommuninvest's income statement 2009

2009 was a year on which the financial crisis had a deep impact initially, with a continuing high level of uncertainty regarding the economic trend and the ability of the global banking system to withstand the anticipated spiralling credit losses. Confidence has gradually returned in parallel with massive injections of state support, capital reinforcement in banks and a recovery in the world economy.

Kommuninvest continued to play a decisive role in stabilising the financing ability of the municipal sector. Strong demand by the members

pushed up the volume of lending by nearly 20% to SEK 123.6 billion (104.7). This good financial result should be viewed against the background of the owner directive to increase Kommuninvest's equity to a target level of 1% of the balance sheet total.

Our role as the Swedish Local Government Debt Office was strengthened both by the satisfactory growth in lending and membership and by the decision of the Riksbank to recognise Kommuninvest as a monetary counterparty. In September we were accepted as a limited monetary counterparty and just after the New Year as a monetary counterparty and participant in RIX.

According to Kommuninvest's owner directive, we must maintain very good liquidity preparedness of at least 25% of the balance sheet total prior to lending.

The aim is to ensure that we have access on the one hand to funds so that we can always cover Kommuninvest's payment obligations and can meet the municipal sector's borrowing requirement on the other. The high demands that are made on the liquidity of securities mean that investment activities do not contribute to the results to any great extent, as investment, for the main

Our role as the Swedish Local Government Debt Office was strengthened both by the satisfactory growth in lending and membership and by the decision of the Riksbank to recognise Kommuninvest as a monetary counterparty

part, is either in government-issued or –guaranteed securities and/or with short terms. This provides security and the ability to manage financing requirements in a turbulent capital market.

During 2009 we launched several successful borrowing programmes, in some cases in new markets, and were able to benefit from a market situation that favoured the most creditworthy borrowers.

Our analysis remained valid throughout the recession

When we sum up 2009, we can state that the worst phases of the global financial crisis that has characterised the global economy since 2007 appear to be over. It is a period that I believe few will want to experience again.

The crisis has demonstrated that Kommuninvest's collaborative way of working has withstood the toughest of tests.

Our ability to lend money when the banking system as a whole was suffering a severe lack of liquidity was due to our cautious approach. In conjunction with the adoption of our new financing strategy at the start of 2008, we also began to build up our readiness to meet an expected increase in loan enquiries. When the recession bit deep, our surplus liquidity amounted to approximately 40% of the balance sheet total.

Our strategy of only working with key system counterparties has also proved correct during the crisis. We have not suffered any losses in our investment operations. The majority of the cash account was put into Swedish treasury bills or government-guaranteed companies.

Recession far from over, however

At the time of writing, the financial markets are coloured by widespread optimism, which may lead the rest of the world to believe that the recession is now over. The risks to the system have naturally receded significantly, but the crisis is by no means over. It is only when the exceptional measures taken by central banks and states of the world to stimulate the markets and create stability are withdrawn that we can say that the recession is over. One precondition is that the withdrawal is carried out in a balanced manner and with the correct timing. If it is too soon, there is a risk that the recovery will slacken off, if the measures are withdrawn too late they risk triggering inflationary tendencies.

We currently have a banking system that continues to be influenced by stimulus measures. The incentives have also had the effect of increasing the indebtedness of countries. This transfer of

financial risk and higher government debt levels contribute to the residual risks of financial instability and make it more difficult to withdraw the raft of measures.

“Moral hazard” in the local government sector?

Given the long-term nature of the public sector's operations, it is sound debt management to strive in their financing and formulation of economic policy for a longer capital immobilisation and a good spread over time where fixed interest rates are concerned. Our experience, however, is that this is happening all too infrequently. The low interest levels mean that many borrowers in the local government sector continued to reduce the average tied-up capital in their debt portfolios during 2009.

At the end of 2009, only 14% of Kommuninvest's lending had a remaining term of 3 years or more. The average term remaining at the end of the year was 1.2 years. This can be compared with the national public debt, which had an average remaining term of 3.2 years.

There is nothing to prevent long-term tied-up capital with short-term interest rate fixing – we offer products of this kind, but demand is limited.

It is important for the municipal sector's strategy for tied-up capital and rate fixing to ensure that debt management works properly in both good and bad times.

People in the financial sector talk of “moral hazard” – the probability that a party that is insulated from risk may behave differently to how it would behave if it were fully exposed to risk. If the local government sector continues to finance long-term assets with short-term borrowing, the sector exposes itself to a refinancing risk that we believe is incompatible with the remit of local government.

Not making inroads into the balanced budget requirement

It is important that the good reputation that Swedish municipalities and county councils have built up in relation to international financing is not undermined. The requirement for sound fi-

ancial management must be maintained, otherwise the risk arises of a direct impact on financing costs. In the latter part of 2009 we saw how many European countries were affected by their lack of financial discipline.

Well-ordered municipal finances, maintaining the balanced budget requirement, a continuing low level of government indebtedness and order and clarity in the finances of both the state and the municipal sector vouch for the ability of Sweden and the municipal sector to continue borrowing on attractive terms.

Good order and clarity in municipal and government finances along with the maintenance of balance demands offer a guarantee that the municipal sector can continue borrowing on attractive terms

New rules increase risk of regulatory arbitrage

In the wake of the financial crisis, increasingly stringent regulations, better international coordination and greater insight into the operations of financial institutions are being introduced. The main aim is to increase financial stability by being alert to and taking care of the system risks that arise, both nationally and internationally.

At present work is proceeding on three different packages of amendments in the EU's Capital Requirements Directive (CRD). Work is also being undertaken in the Basel Committee on Banking Supervision. Decisions have already been made on questions relating among other things to the capital basis and large exposures. Furthermore, better coordination and cooperation between the national supervisory authorities will be achieved by giving three current EU committees increased responsibilities and converting them to authorities. A number of new capital and liquidity measures are in the process of being introduced and these will make greater demands on the level and quality of the capital as well as on the maintenance of adequate liquidity buffers.

We take a positive attitude to all the changes in the pipeline in principle. We question the controversial proposal to introduce a lever principle, however, as proposed by the Basel Committee.

The lever principle is a measure that would complement the risk-based method of working out the capital requirement of financial organisations. The measure would be completely risk-neutral and mean that as much capital must be set aside for lending with a high risk as for low risk. If a lever law is introduced, there will be consequences especially for banks and financial institutions with a markedly low risk profile (and thus relatively low capital requirements). The proposal lumps all institutions together.

For Kommuninvest, it would mean a considerable increase in capital demand and probably higher financing costs for our members. The risk of suboptimisation increases if Kommuninvest's lending costs are affected to such an extent that it becomes cheaper for municipalities to do the borrowing themselves instead of via their own financing institution

A change in conditions in the wake of the financial crisis

Due to the rule changes, it is likely that banks and financial institutions will in the future need larger capital bases, in addition to stricter requirements as to what type of capital may be utilised. Return requirements are likely to be changed, which will have an effect on how the banks handle their balance sheet. One consequence may be that the share of lending directed towards the municipal sector is lower than previously and that pricing is generally adjusted upwards. It is unlikely that banks with an A or AA credit rating can continue to offer cost-effective, long-term loan financing to a municipal sector with a triple A credit rating.

Praise for Kommuninvest's employees

When I look back on 2009, I feel satisfied and proud, as in the preceding year, that Kommuninvest has been able to fulfil its role as a guarantor of financial stability in the local government sector. I am pleased with what we have delivered and how we have delivered it.

This is thanks to the company's employees. There are many who have done far more than was expected of them.

During the year, we have strengthened the organisation with a number of new key positions to meet the ever higher demands placed on us by our growth and our role as the Swedish Local Government Debt Office. But we remain an efficient, streamlined organisation, with just under 50 employees handling a balance sheet total of just over SEK 180 billion.

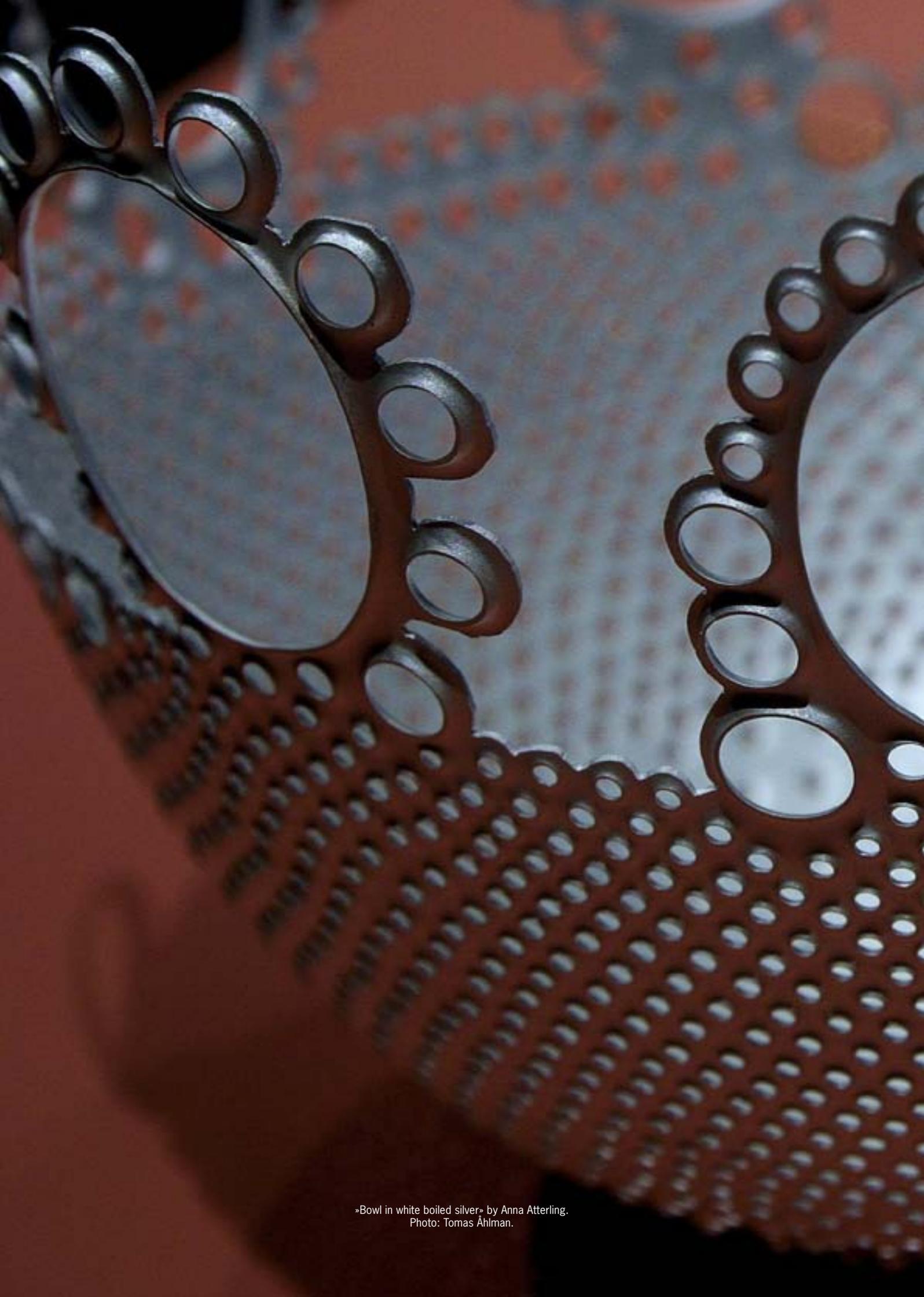
Strong position

The financial crisis has helped to make Kommuninvest, in our role as the Swedish Local Government Debt Office, an integral part of Sweden's public sector. Our importance to financial stability has been noticed and made clearer.

The changes in the financial regulations and the supervision of banks and financial institutions that is now being introduced and discussed mean that the financial system will be characterised by adjustments for a few years. We believe that one effect will be that bank lending to the municipal sector will be reduced.

This illustrates the importance of a financing cooperation that works satisfactorily and effectively. It is especially gratifying, therefore, that Kommuninvest's position was strengthened in so many respects in 2009.

Tomas Werngren
President and CEO



»Bowl in white boiled silver» by Anna Atterling.
Photo: Tomas Åhlman.

THE SWEDISH LOCAL GOVERNMENT DEBT OFFICE

Kommuninvest has the official task of being responsible for Swedish municipalities' and county councils' coordinated procurement of finance.

Kommuninvest is owned by Swedish municipalities and county councils. Its aim is to support their financial operations through secure and cost-effective financing, financial advice, the development of expertise and cooperation.

Kommuninvest comprises a member organisation, Kommuninvest Cooperative Society, and a wholly-owned credit market company, Kommuninvest i Sverige AB. The business is run by Kommuninvest i Sverige AB, which has 49 employees and an office in Örebro.

The municipal sector's internal bank

Kommuninvest's activities are geared entirely to providing the municipal sector with competitive loans, debt management and other services that contribute to effective financial administration. Our products and services are accessible only to members of Kommuninvest, the members' majority-owned companies and intermunicipal cooperative societies, if all of their members are also members of Kommuninvest.

The Swedish Local Government Debt Office

Our mission is to act as the Swedish Local Government Debt Office for Sweden's municipalities and county councils. This means that we function as a guarantor of financial stability within the municipal sector and we offer all Swedish municipalities and county councils effective financial management with the focus on financing.

We have no vested interest in profit-making. Our goal is to create advantageous financial solutions for our members. Both membership and the right to use our services are voluntary

Kommuninvest's exceptional position

Kommuninvest has a unique borrower profile and occupies an exceptional position with regard to borrowing:

Joint and several guarantees from the owners/members

All members of Kommuninvest Cooperative Society provide an explicit guarantee, in the form of a joint and several guarantee, for the commitments entered into by the credit market company Kommuninvest i Sverige AB. This approach means that all members provide the ultimate guarantee for Kommuninvest's operations.

Implicit state guarantee

Since municipalities and county councils cannot be declared bankrupt and cannot cease to exist, and the state holds overall responsibilities for the activities of the municipalities and county councils, there is an implicit state guarantee for all of Kommuninvest's obligations.

High quality of access

Kommuninvest lends solely to Swedish municipalities and county councils and their majority-owned companies. Loans to Swedish municipalities and county councils have a very low risk profile, with a 0% risk factor according to applicable capital coverage rules. A more detailed description of the creditworthiness of the municipal sector can be found on page 17.

Highest possible rating

Kommuninvest has the highest possible credit rating from two independent credit rating institutes for both long- and short-term borrowing.

Kommuninvest was established in 1986 by nine municipalities in Örebro county and the county council of Örebro. At the end of 2009, Kommuninvest had 248 members (223), of which 241 (216) were municipalities and 7 (7) were county councils.



»Necklace«, by Wolfgang Gessl.
Photo: Hans Bjurling.

THE OBVIOUS CHOICE FOR MUNICIPAL FINANCIAL ADMINISTRATION

Kommuninvest is founded on the idea of voluntary collaboration. Our goal is for all municipalities and county councils in Sweden to participate in financial collaboration by 2015.

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 the Swedish Local Government 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 happy customers.

In its role as the Swedish Local Government Debt Office that benefits society, Kommuninvest occupies an exceptional position in the market. Players on the financial market consider Kommuninvest a stable, efficient and knowledgeable business partner that represents the part of the public sector that comprises 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.

Objective

All municipalities and county councils to be members by 2015

Membership growth is helping to reinforce Kommuninvest's position as a borrower. The objective is for all municipalities and county councils to be members by 2015. By the end of 2009, 83% (76) of the municipalities and 35% (35) of the county councils were members.

51% of members' total financing

One important indicator of our competitiveness is the proportion of the members' financing that takes place through Kommuninvest. Our objective is for this proportion to exceed 50% and remain stable. At the end of 2009, this proportion amounted to 51% (58).

Stable return and capitalisation of 1% of the balance sheet total

Kommuninvest is run with no vested interest in profit-making but needs to show positive results in order to support anticipated growth in membership and lending. The goal is for equity to constitute 1% of the balance sheet total.

Most effective in Nordic region compared with similar institutions

Kommuninvest must be perceived as an organisation characterised by efficiency. This is achieved by means of good quality, good internal cooperation and increased automation. The goal is to be the most efficient national government financing agency in the Nordic region by 2015.

Highest possible rating

A consistently high rating is the single most important factor for Kommuninvest in accessing cost-effective borrowing and other finance solutions, and consequently it is also crucial to our ability to attain our objectives. Since 2006, Kommuninvest has held the highest possible rating given by two independent credit rating institutions.

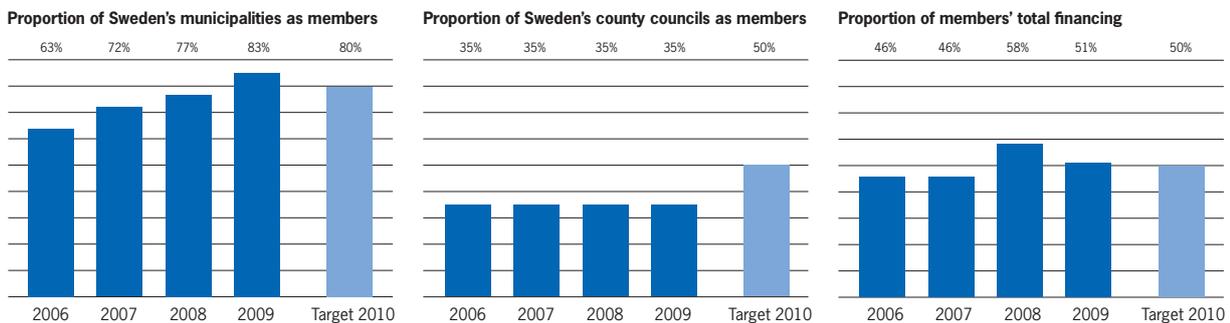
| Rating | 2006 | 2007 | 2008 | 2009 | Goal |
|--------------------------------|------|------|------|------|------|
| Standard & Poor's – long term | AAA | AAA | AAA | AAA | AAA |
| Standard & Poor's – short term | A-1+ | A-1+ | A-1+ | A-1+ | A-1+ |
| Moody's - long term | Aaa | Aaa | Aaa | Aaa | Aaa |
| Moody's - short term | P-1 | P-1 | P-1 | P-1 | P-1 |

Business concept

The Society's business concept

Kommuninvest is a cooperative organisation of which membership is voluntary. The aim is to create lasting favourable 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.

Goals and goal achievement



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.

Strategy

Systematic business planning and management will turn Kommuninvest's long-term goals and business concept into activities and action plans.

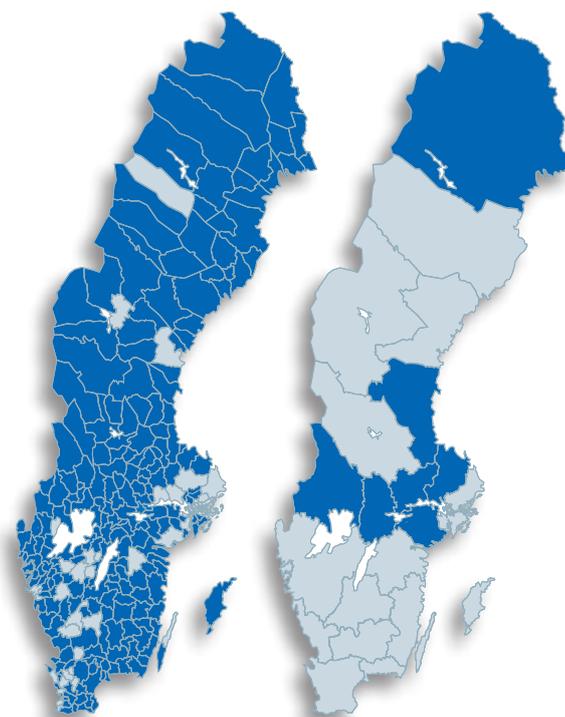
Business management focuses on four perspectives: Stability, Efficiency, Competitiveness and Employees, with defined strategic objectives for each and every one of these perspectives.

Core and brand values

By actively integrating and living up to Kommuninvest's core values – Quality, Clarity, Participation and a Holistic Approach – in its day to day work, Kommuninvest will be perceived as Stable, Effective and Knowledgeable; Kommuninvest's three brand values.

New members 2009

| | |
|----------------|------------------------------|
| Member no. 224 | Municipality of Malung-Sälen |
| Member no. 225 | Municipality of Östra Göinge |
| Member no. 226 | Municipality of Årjäng |
| Member no. 227 | Municipality of Dals-Ed |
| Member no. 228 | Municipality of Vaxholm |
| Member no. 229 | Municipality of Älvkarleby |
| Member no. 230 | Municipality of Ljungby |
| Member no. 231 | Municipality of Hörby |
| Member no. 232 | Municipality of Älmhult |
| Member no. 233 | Municipality of Burlöv |
| Member no. 234 | Municipality of Hässleholm |
| Member no. 235 | Municipality of Olofström |
| Member no. 236 | Municipality of Sala |
| Member no. 237 | Municipality of Öckerö |
| Member no. 238 | Municipality of Kristinehamn |
| Member no. 239 | Municipality of Östhammar |
| Member no. 240 | Municipality of Bromölla |
| Member no. 241 | Municipality of Gullspång |
| Member no. 242 | Municipality of Aneby |
| Member no. 243 | Municipality of Lidköping |
| Member no. 244 | Municipality of Bjuv |
| Member no. 245 | Municipality of Nynäshamn |
| Member no. 246 | Municipality of Norrköping |
| Member no. 247 | Municipality of Halmstad |
| Member no. 248 | Municipality of Ronneby |



Municipality members,
31 December 2009

County council members,
31 December 2009

FINANCIAL STABILITY FOR SWEDEN'S MUNICIPALITIES AND COUNTY COUNCILS

The municipal sector constitutes a significant part of the public sector and is responsible for a large proportion of community services at local and regional level. The indebtedness of Sweden's municipalities, municipal companies, county councils and regions amounts to approximately SEK 360 billion.

Municipal activities are regulated in the Local Government Act and other special provisions.

The municipalities are responsible for example for social care, schooling, waste and sanitation, water and sewage and the emergency services. The principal task of the county councils is to manage health and medical care.

The special status of the municipalities as set out in the constitution and the right of municipal taxation mean that it is not possible for a municipality to go bankrupt. The existence of the municipal sector is protected in the constitution.

The municipalities and county councils themselves determine how they should manage their tasks and how they should allocate their resources in accordance with the Swedish principle of local self-government. Municipalities and county councils have the right to levy taxes and also to decide how high these should be. Local self-government is a fundamental principle of Swedish society and a very strong one by international standards.

The state supports the funding of municipal activities through the system of state subsidies.

The state subsidy system has a balancing effect on the one hand and on the other hand has the effect of increasing income. The system aims to even out differences in the taxation base of the municipalities and structurally contingent costs and should ensure that all municipalities and county councils have similar conditions when it comes to providing services for residents. The Swedish system for income and cost balancing is one of the strongest balancing systems in the world.

Finances in the municipal sector

According to the Local Government Act, the municipalities shall practise sound financial management in their own operations and such activities as are conducted through other legal entities. Engaging in speculative activity with the aim of generating profit is prohibited.

The municipalities and county councils have three main sources of income: taxation income, income from operations and general state grants and equalisation. The municipal sector's total income excluding net financial income in 2009 amounted to SEK 760 (738) billion, of which 67% was accounted for by taxation income.

The municipal sector is extremely important to the development of the economy, as it accounts for 74% of public consumption expenditure and 23% of GDP. Including the municipal companies, the sector is responsible for 25% of the total number of people employed in Sweden.

| ASSIGNMENT OF RESPONSIBILITIES WITHIN THE PUBLIC SECTOR | |
|---|--|
| Local government sector 74% of public expenditure | Swedish state 26% of public expenditure |
| LOCAL/REGIONAL COMMITMENTS | NATIONAL COMMITMENTS |
| Social care | University |
| Health care | Judicial system |
| Schooling | Environment |
| Public transport | Armed forces |
| Waste disposal | Infrastructure |
| etc. | etc. |

| BORROWING IN THE PUBLIC SECTOR | |
|---|--|
| Local government sector | Swedish state |
| DEBT 360 billion | DEBT 1 190 billion |
| BORROWING RESPONSIBILITY Kommuninvest (member organisation) | BORROWING RESPONSIBILITY Swedish National Debt Office (central government authority) |
| Borrowing via Kommuninvest, banks and own programmes | Borrowing via National Debt Office |

Municipal sector borrowing requirements and forms of financing

The total external borrowing of the municipalities and county councils, including their municipally owned corporations, amounts to approximately SEK 360 billion. Each municipality or county council itself decides how it intends to finance its operations.

Municipalities and county councils are borrowers from Swedish business banks among other institutions, but the exposure of the banks to the sector has diminished significantly since the start of the recession. Some municipalities turn directly to the capital market via their own bond and certificate programme for long- and short-term borrowing. Due to market conditions and high costs for rating, banking fees and documentation, however, dedicated borrowing programmes are only an option for borrowers with large and recurring borrowing volumes.

The biggest lender to the municipal sector is Kommuninvest, which is owned by the sector itself through a member association. Cooperation within Kommuninvest aims to achieve coordination advantages with regard to reduced borrowing costs, a reduction in risk and access to specialist skills common to the sector.

A change in conditions in the wake of the financial crisis

Swedish municipalities and county councils were able for a long time to benefit from good access to liquidity in the national and international capital markets. The banking system was willing to lend money at a price that was below its own borrowing costs.

The changes in the rules and the supervision that has now been introduced and is being dis-

cussed by banks and financial institutions has resulted in a considerable tightening of the rules, better international cooperation and greater insight.

It is likely that banks and financial institutions will in the future need larger capital bases, in addition with stricter requirements as to what type of capital may be utilised. Return requirements are likely to be changed, which will have an effect on how the banks handle their balance sheet. One consequence may be that the share of lending directed towards the municipal sector is lower than previously and that pricing is generally adjusted upwards. It is unlikely that banks with an A or AA credit rating can continue to offer cost-effective, long-term loan financing to a municipal sector with an AAA credit rating.

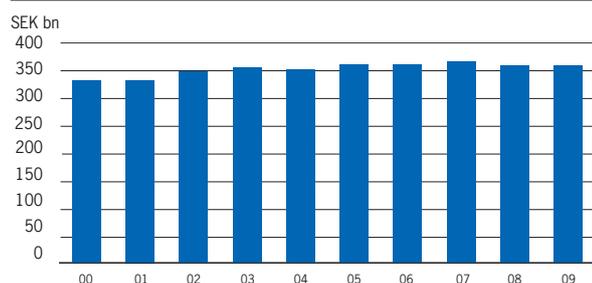
Kommuninvest's role

Kommuninvest is currently pursuing a number of projects aimed at even sounder and more effective financing of the municipal sector.

At the start of 2010, Kommuninvest became a monetary counterparty of the Swedish Riksbank and was approved as a member of the Riksbank's payment system RIX, the hub of the Swedish payment system. Kommuninvest is thus one of the organisations used by the Riksbank to implement monetary policy. This also yields specific advantages with regard to the cost of borrowing and access to liquidity.

Furthermore, Kommuninvest is working to establish a bond programme with long maturities in Sweden. This should create another access category on the Swedish capital market in addition to the bonds issued by the Swedish state and housing finance institutions.

Municipal sector borrowing



Source: Statistics Sweden, SALAR and Kommuninvest calculations

Kommuninvest's programme for strong municipal financing

- Monetary counterparty in the Swedish Riksbank
- Membership of RIX, the Riksbank's payment system
- Bond programme for the Swedish market
- Strong brand warranted by the Swedish Local Government Debt Office for cost effective borrowing

THE KOMMUNINVEST'S LENDING ACTIVITIES

Kommuninvest is the biggest lender in the municipal sector and accounts for around 35% of the total finance requirement. Lending volumes continued to increase in 2009, primarily due to a large number of new members but also because Kommuninvest accounts for an ever increasing proportion of members' borrowing.

All lending by Kommuninvest is currently in Swedish kronor and the terms are up to 20 years. Lending involves both loans which can be cancelled and loans with tied-up capital at both fixed and variable interest rates.

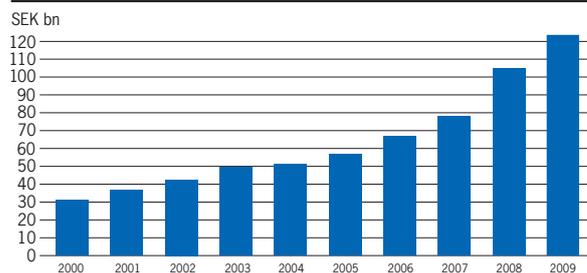
Products adapted to suit municipal requirements

Our product portfolio consists of four main loan products:

- KI interest. Variable interest (daily interest rate fixing) and tied-up capital for up to 10 years.
- Stibor until further notice. Fixed interest rate 3 or 6 months, tied-up capital for 3 or 6 months.
- 3 m Stibor. Fixed interest rate 3 months, tied-up capital for up to 20 years. Option of selecting a different Stibor period.
- Fixed interest rate. Fixed interest rate for optional period and tied-up capital for up to 20 years.

Of Kommuninvest's overall lending, municipalities and county councils represented 40% (43%) at the end of 2009. The municipal housing companies' share of lending amounted to 40% (41%), while energy companies and other municipally

Lending as of 31 December each year 2000–2009



Source: Kommuninvest

owned companies represented 20% (16%). Some of the lending to municipalities relates to the municipalities' borrowing for onward lending to their own companies, such as housing companies.

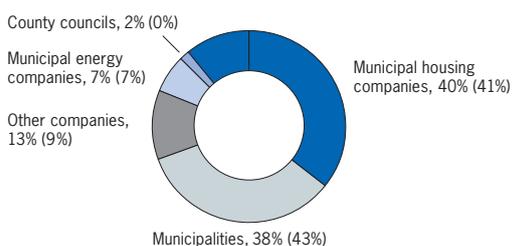
More than half of Kommuninvest's lending comprises products which may be cancelled by either party (KI interest and Stibor until further notice). The single biggest loan product is KI interest, with 40% (44%) of lending.

The total external loan liability among Kommuninvest members amounts to approximately SEK 240 billion, according to Kommuninvest's calculations. Kommuninvest therefore represents 51% of its members' total borrowing.

Greater emphasis on advice

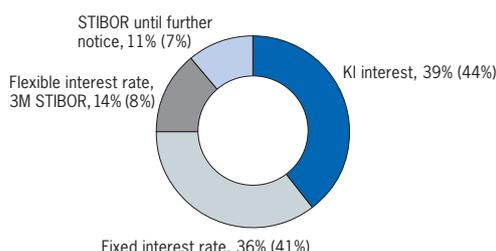
Kommuninvest's objective to assist with effective financial administration for our members demands more than just competitive loans. This is why customers are also offered financial advice and web-based analysis tools. Kommuninvest offers general financial advice and training, as well as models and strategies for effective debt management and assistance with structuring clients' debt portfolios.

Lending per borrower category, 2009



Source: Kommuninvest

Lending per loan product, 2009



Source: Kommuninvest

KOMMUNINVEST'S BORROWING ACTIVITIES

Kommuninvest's lending is financed by means of short and long borrowing programmes on national and international capital markets. The risks are reduced by spreading borrowing across various markets and different types of financial instrument.

Kommuninvest's borrowing strategy is based on diversified sources of finance as regards borrowing markets, investor categories, borrowing currencies and borrowing products. We maintain a high level of flexibility so that we can constantly meet investors' needs for investment options. Kommuninvest is perceived as a stable, secure borrower, with the highest possible rating and exposure only to the Swedish municipal sector.

Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year) and certificates (for terms of less than 1 year). A smaller part of our borrowing takes place as direct loan financing. Kommuninvest handles a broad range of structured products; currency as well as shares and raw materials. We act over terms of between 1 day and 30 years, and focus mainly on non-exotic types of financial instrument with fixed or variable interest rates.

International and domestic borrowing programmes

The Kommuninvest financing base is spread over several different geographical markets. The borrowing strategy involves increasing the number of markets in order to ensure as high a degree of diversification as possible. Programmes have been started over the year so that issuing can take place in Australia and New Zealand, and work is in

progress on increasing the company's presence in the Swedish capital market and in North America and Latin America, among others.

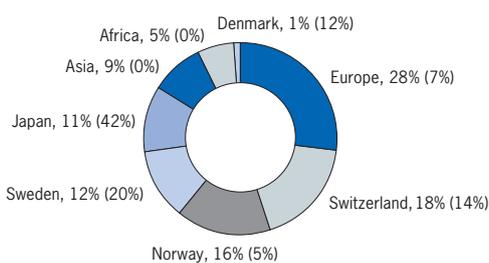
Kommuninvest's biggest borrowing programmes include:

- Kommuninvest EMTN programme (Euro Medium Term Note), a medium-term bonds programme for terms of between 1 and 30 years and with a framework of EUR 15 billion.
- Kommuninvest Euro-Commercial Paper Programme (ECP), a short-term borrowing programme for terms of between 1 and 364 days and with a framework of EUR 5 billion.
- Kommuninvest Domestic Commercial Paper Programme, a short-term borrowing programme aimed at the Swedish market, with a framework of SEK 50 billion.
- Japanese Shelf Registrations, as they are known, a medium-term bonds programme
- German Schuldscheins- und Namensschuldverschreibung, medium-term bonds programmes.

Development in 2009

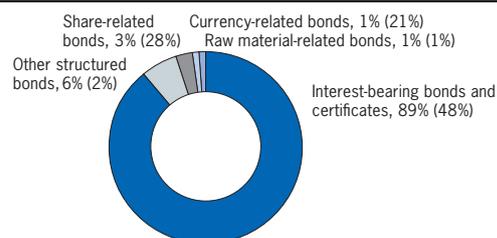
At the start of 2009, the international capital markets were still being deeply affected by the credit crunch. The situation gradually eased from the end of the first quarter. The demand for stable issuers with a clear low-risk profile remained good throughout the year, and Kommuninvest was able to fulfil its borrowing requirements on good terms. Among other things, an issue took place of a benchmark bond of USD 1 billion. Borrowing took place on several new markets in Africa, Asia and the Middle East, which helped to broaden the investor base. Investor preferences have clearly shifted from structured products to traditional, interest-bearing instruments; a fact reflected in the borrowing instruments issued by Kommuninvest in 2009.

Borrowing per market, 2009



Source: Kommuninvest

Borrowing per instrument, 2009



Source: Kommuninvest



»Coloured cups», by Mia E Göransson.
Photo: Per Ranung.

EXCEPTIONAL CREDITWORTHINESS IN THE SWEDISH MUNICIPAL SECTOR

The Swedish municipal sector has very high creditworthiness – no Swedish municipality or county council has ever failed to comply with a contract entered into with a creditor.

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. The level of autonomy granted 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.

Strict financial requirements and regulations

High demands are placed on the economies of the municipalities and county councils in Sweden. The balance requirement means that the budget normally has to be set up so that income exceeds expenses. If new expenses are introduced during the 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 balanced budget requirement, adopt an action plan for restoring a positive result within three years.

Responsibility of the Swedish municipalities

The following is a sample of the municipalities' obligatory tasks:

Pre-school programme
Schooling
Municipal adult education
Social services
Care for the elderly
Town planning and development issues
Health care and environmental protection
Waste and sanitation
Emergency services
Water/sewerage
Library services
Crisis contingency planning
Public transport (together with county councils)
Housing provision

COOPERATION YIELDS SECURE AND EFFECTIVE FINANCING

Kommuninvest is founded on the idea of voluntary collaboration without any vested interest in profit. This simple concept has made Kommuninvest a well-known player in national and international capital markets. Kommuninvest is associated with the Swedish public sector and with a high degree of stability and creditworthiness.

Kommuninvest represents a unique form of cooperation between municipalities and county councils. Coordinating the borrowing volumes of individual municipalities and county councils opens up interest rate advantages that benefit our members. Kommuninvest also provides a range of services to members, including advisory services and tools developed in-house by the company to support financial operations; these help to develop and enhance members' financial operations.

Kommuninvest is an active borrower on capital markets all over the world on behalf of its members. Our role as the Swedish Local Government Debt Office and our focus on the public sector are a significant part of our attraction.

A prospering member organisation

The number of members has increased each year since the Kommuninvest Cooperative Society was formed. This is an acknowledgement of the idea that voluntary cooperation for enhanced financial conditions in the municipal sector works. The greater the number of municipalities and county councils that become involved in collaboration, the greater the ability of Kommuninvest to offer its members favourable terms, to develop skills and to reduce administration costs.

Kommuninvest is the biggest lender to the municipal sector and plays a vital role in giving municipalities and county councils secure access to financing. Its role in the financial system has been strengthened inter alia by the recognition given to it as a monetary counterparty to Sweden's central bank, the Riksbank.

In 2009 Kommuninvest launched a number of new services in an effort to consolidate and expand its expertise. These include roles such as chief economist, head of finance and head of treasury.

Focus on member influence

To discuss and secure current issues, the Kommuninvest management instigates member consultation with the political management in the member municipalities once a year.

Some 265 elected representatives and officials from 140 of Kommuninvest's members took part in the member consultation for 2009, which was held in 16 locations. This signified a considerable increase over 2008, when around 150 elected representatives and officials from approximately 100 members participated. Member consultation is implemented before the Annual General Meeting, which is Kommuninvest's most important decision-making forum.

Other significant Kommuninvest forums are the Society and company board meetings. Members are represented by 30 members and deputy members on the Society board.

The Analysis and Finance Committee, which falls under the jurisdiction of the Society board, is another tool for member influence and for exchanging knowledge. Among other things, the job of the committee is to prepare applications from municipalities and county councils who wish to become members, to examine the financial status of existing members on an ongoing basis and to assist the Society board by preparing and evaluating fundamentally important economic and financial issues. This committee's members are officials from municipalities, municipal companies and county councils.

Cooperation and networking

Cooperation is at the heart of Kommuninvest. For many members, this cooperation and network for exchanging information on and experience of various financial issues is important. During 2009, for example, we arranged financial seminars at six locations around the country on the topic of "The interest rate market and risk management", directed at both politicians and officials who deal with financial issues in municipalities, county councils and their companies. The chief economists at Sweden's biggest banks attended as guest speakers.

As before, we were one of the principal sponsors of the "Finance Days" directed at politicians and officials in the public sector.

Kommuninvest is also part of international networks such as the ICLC, International Centre for Local Credit, and EAPB, European Association of Public Banks.



Kommuninvest undertakes a range of activities to promote exchanges between members, dialogue and member cooperation. The pictures are taken from the Annual General Meeting in 2009 and from the financial seminars held at six locations in Sweden in autumn 2009 as well as from a reception held in London for players on the capital market, November 2009.

Extended information efforts

We place great emphasis on providing both elected representatives and officials at municipalities and county councils with frequent, high quality information. There are four issues a year of Dialog, our magazine for members and customers, and customers also receive weekly newsletters containing the latest financial market information. Kommuninvest Perspektiv provides our customers with in-depth information on the financial market and municipal financing. Kommuninvest Information is used for special information requirements directed at the members. Kommuninvest's visibility in the media, including the daily newspapers and the specialist press, has increased significantly in the last few years.

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. For instance, we take part

in the local government days organised by the parliamentary parties. Kommuninvest not only monitors legislative proposals in Sweden, but also follows the establishment of norms and new legislation within the EU.

During 2009, Kommuninvest submitted proposals to the Ministry of Finance regarding the formulation of a special law for municipal credit market companies. Discussions have taken place with the Ministry of Finance about new capital coverage rules and their potential effects on local government funding. During the year Kommuninvest's response to the draft report on municipal housing corporations was submitted. In connection with a hearing before the Swedish Parliament's Finance Committee, representatives of Kommuninvest gave a presentation on Swedish municipal financing. Kommuninvest has also worked on making local government securities into an asset type that is accepted as security for credit by the Riksbank.

CHALLENGING TASKS, FOCUS ON PUBLIC BENEFITS

Kommuninvest's ambition is for its employees to feel – and help to ensure – that Kommuninvest is a quality- and knowledge-oriented place to work where individuals are motivated, can develop and enjoy their work. Attracting and developing personnel is strategically important.

Kommuninvest is active in the financial markets while remaining firmly rooted in the Swedish municipal sector. One of our main tasks is to contribute to increased welfare in Sweden through secure and effective financing for Swedish municipalities, municipal companies and county councils. This socially beneficial role, together with the fact that our business is non-profit-oriented, is what differentiates us from many other employers in the financial sector.

A developing workplace

The highly specialised nature of our business means that we depend on competent, motivated employees. It is extremely important that we have access to the right expertise. Our personnel development is based on our view of good “employee-ship” and our belief that each employee is responsible for his or her own development and professional role in a way that the company’s purpose is served.

Effective modern leadership is a prerequisite for this. At Kommuninvest, the primary duty of a manager is to encourage the employees to assume responsibility, both for their own function and for

the working situation of others. Encouraging internal collaboration and network participation is also important.

Commitment and good staff engagement are an important element in Kommuninvest’s formula for success: when we grow and develop, our employees must also grow and develop. It is also important to ensure that all specialist skills can interact effectively.

Investing in competence development

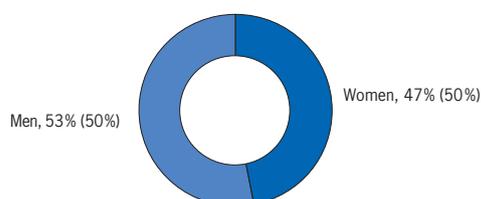
Each year, Kommuninvest invests significant resources in order to enhance its employees’ skills and to support their professional and personal development. Several employees have been able to qualify for a one-year IFL programme, involving a 35-day course in financial economics, national economics and financial reporting. During 2009 all employees took part in ongoing development work focusing on leadership, professional roles and group dynamics.

Core values the focal point of Kommuninvest's development

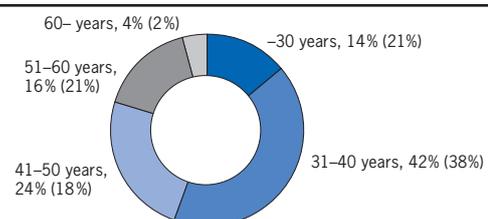
In recent years we have carried out extensive evaluation work with the aim of clarifying, both internally and externally, what Kommuninvest stands for and what goals the company should be striving for. This process has included development of the specific core values which characterise Kommuninvest’s values.

Kommuninvest’s core values and core value promises are now so well established that they naturally form a fundamental part of business

Gender distribution, %



Age groups, total for men and women



planning and management. We also attach great importance to our core values in recruitment, to ensure that we recruit employees who can thrive and perform well in an environment in which international financing and a municipal value foundation converge.

Remuneration system

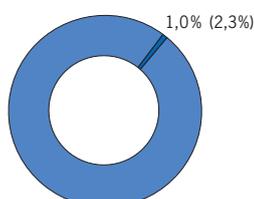
The remuneration system within Kommuninvest should help us to recruit and retain competent employees who accomplish positive long-term development of the business. Remuneration should be market adjusted but not market leading and reflect the nature and demands of the work. Pending the introduction of a new remuneration system, which is expected to take place during 2011, the Board of Kommuninvest decided on a bonus for 2009 of a maximum of one half of the monthly salary for each employee covered.

Personnel composition

At the end of 2009 Kommuninvest had 49 (44) employees, of whom 23 (22) were women and 26 (22) men. The majority have a university degree-level education in economics and law. The average age was 40.8 (40.5), with a range of between 23 (25) and 65 (64).

Sick leave for the year was 0.95% (2.3%).

Sick leave, %



Average age

| | |
|------------------------|-------------------|
| Average total: | 40.8 years (40.5) |
| Women, 23 (22) people: | 40.8 years (39.7) |
| Men, 26 (22) people: | 40.7 years (41.3) |

BOARD OF DIRECTORS' REPORT

General information about the company

Kommuninvest i Sverige AB («Kommuninvest») is a wholly owned subsidiary of Kommuninvest Cooperative Society, the members of which are Swedish municipalities and county councils.

The purpose of the company is to offer good conditions for its members' financial operations over the long term. It achieves this by providing access to competitive loans, debt management and other services that contribute to effective financial administration.

Kommuninvest's services are offered only to members of Kommuninvest Cooperative Society and to its members' majority-owned companies.

All members of Kommuninvest Cooperative Society provide an explicit guarantee, in the form of a joint and several guarantee, for the commitments entered into by the credit market company. This approach means that all members and their resources provide the ultimate guarantee for Kommuninvest's operations.

The scope of the business is affected mainly by the number of members of the society and their financial needs, along with Kommuninvest's ability to offer good loan terms. In its turn, the latter assumes that Kommuninvest is able to obtain beneficial terms in its own financing on domestic and foreign capital markets.

Kommuninvest is also a special-interest organisation for the municipal sector in respect of issues relating to general conditions for financing of the sector.

Kommuninvest is a credit market company and is regulated by the Swedish Financial Supervisory Authority.

Market

The international capital markets were affected by the global financial crisis in 2009 as well. Major uncertainty relating to the stability of the financial systems and a continuing lack of trust between banks led to significant global liquidity problems at the start of the year. Volatility in the market in-

creased to historically high levels. From the end of the first quarter of 2009, trust was gradually regained as a result of the central banks of the world adding liquidity in various ways and enhancing transparency; among other things by means of official stress tests on banks, more stringent capital coverage demands and stated improved profitability at banks. In addition, many countries implemented powerful measures in terms of financial policy. The increase in transparency helped to restore investors' willingness to take risks, which was a relief for the borrowing options of banks and other institutions.

Credit spreads for all types of borrowers, irrespective of creditworthiness, fell enormously over the latter part of 2009. In parallel, a large number of banks executed capital reinforcements over the year. The Swedish Riksbank continued to add liquidity to the Swedish banking system, but at the end of the year it announced that it had begun to phase out its liquidity support. The Swedish key interest rate was lowered on three occasions in 2009, from 2% down to the current 0.25%.

Kommuninvest's high creditworthiness and role as the Swedish Local Government Debt Office has continued to contribute to the company's position as a secure, stable borrower, resulting in high demand from all types of investor. The society acquired 25 new members during the year, meaning that Kommuninvest had 248 (223) members, of which 241 (216) were municipalities and 7 (7) were county councils, at the end of 2009.

Results

The operating profit (profit before appropriations and taxes) amounted to SEK 193.7 (75.3) million. Compared with last year, the operating profit was up by 157%, thanks to increased lending volumes and improved margins. The improvement in margins is an effect of ongoing efforts to increase the capitalisation of the company in accordance with the owner directives. The profit includes negative market value changes of SEK -150.7 (-2.7)

million. The profit after appropriations and taxes amounted to SEK 66.5 (44.5) million.

Net interest income increased to SEK 382.1 (152.1) million. This improvement was attributable to strong development over the year, with improved lending volumes and improved margins.

The buy-back of issued securities and the sale of financial instruments has contributed SEK 97.0 (41.3) million to the figures, as recognised in 'Net profit/loss from financial transactions'.

Unrealised changes in market value recognised in the income statement amounted to SEK -150.7 (-2.7) million and are also entered under 'Net profit/loss from financial transactions'. The market value change for the year is attributable to the margin increase that took place between borrowing, which is recognised for the most part at fair value with regard to the hedged risk (liabilities that are not part of a hedging relationship) and lending recognised at fair value. Kommuninvest's intention is to hold assets and liabilities to maturity, which means that these are values which will not be realised.

Operational profit (operating profit excluding the effect of market value changes) amounted to SEK 344.4 (78.0) million.

Expenses amounted to SEK 134.4 (87.4) million. The increased expenses are attributable mainly to the introduction of the stability charge plus increased personnel, IT, consultancy and rating expenses.

Financial position

The balance sheet total increased to SEK 183.0 (142.7) billion as a consequence of increased lending volumes, a higher liquidity reserve and increased borrowing.

Lending

At the end of the year, lending amounted to SEK 123.6 (104.7) billion. In nominal terms (actually lent), lending was at SEK 121.9 (103.0) billion, an increase of 18% compared with the previous year.

This increase in lending is attributable to robust lending growth over the year, driven by a strong demand from Kommuninvest's members.

Investments

At the end of the year, Kommuninvest had invested SEK 48.4 (21.9) billion. According to internal guidelines, surplus liquidity must constitute at least 25% of the balance sheet total, plus the forecast result of outstanding tenders, although never less than 50% of outstanding tenders, with limits for the amount available for repos at the Riksbank or other counterparties. Investments are divided according to liquidity in three categories: primary (33%), secondary (38%) and return (29%). Most of the investments are with the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. To ensure high liquidity, investments may be made only with counterparties with a rating of at least A2 from Moody's and/or A from S&P.

Kommuninvest has no direct exposure to the American sub-prime market, nor any positions in structured credit products such as ABS, Asset-Backed Securities, or CDOs, Collateralised Debt Obligations.

Borrowing

At the end of the year, borrowing amounted to SEK 172.0 (131.5) billion. Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year) and certificates (for terms of less than 1 year). A smaller part of our borrowing takes place as direct loan financing. We act over terms of between 1 day and 30 years, and focus mainly on non-exotic types of financial instrument with fixed or variable interest rates.

Derivatives

Derivatives with positive and negative market value amounted to SEK 11.0 (16.1) billion and SEK 9.9 (10.7) billion respectively. Derivative contracts are used as risk management instruments to limit the market risks that arise when borrowing and lending/investment terms do not match.

Equity

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

Share capital

Due to the authorisation given to the Board of Directors by the Annual General Meeting, share capital has increased over the year by SEK 32.9 (37.8) million through the issue of new shares. The purpose is to strengthen the company's financial base by transferring participation capital from new members of the Society. Such transfers have been carried out regularly as membership has increased. Share capital amounts to SEK 269.6 (236.7) million, distributed over 2 696 200 (2 367 000) shares.

Credit losses

Credit losses totalled SEK 0 (0) million.

Capital coverage

The capital coverage quota amounts to 3.55 (3.35); see Note 23.

Kommuninvest has also established an internal capital coverage quota which includes additional scope for risk as a buffer for risks not accounted for in columns 1 and 2.

Five-year review

See page 54

Rating

Since April 2002, Kommuninvest has had the highest credit rating Aaa with Moody's, and it has held the highest credit rating AAA with Standard & Poor's since 2006.

Incidents of significance taking place over or after the end of the financial year

In accordance with the owner directive adopted by the AGM in March 2009, Kommuninvest has examined the criteria for capital reinforcement of the company, to a target level of 1% of the balance sheet total.

Suggestions for capital reinforcement of around SEK 1 billion have been discussed with the members at member consultations in January 2010. This capital reinforcement aims to allow the company to continue creating finance terms for members of Kommuninvest Cooperative Society which are best in the long term; to allow the company to be able to offer all municipalities and county councils in Sweden alternative finance under competitive terms; to allow the company to retain the highest possible rating and ensure continued cost-effective borrowing on the international capital market; to allow the company to be even better prepared for exceptional financial incidents. This capital reinforcement has not come about because the company has suffered losses, but because the company, just like other financial institutions, must be able to show that it is well prepared for exceptional financial incidents and that it has a good ability to absorb losses. Decisions on capital infusion will be discussed at the AGM in March 2010.

Kommuninvest has also applied to become and been approved as a monetary counterparty of the

Riksbank. Kommuninvest was approved as a restricted monetary counterparty in September 2009 and as a monetary counterparty in January 2010.

Kommuninvest has applied and been accepted for participation in RIX, the Riksbank's system for the transfer of funds. Kommuninvest was accepted as a member of RIX in January 2010.

Risks and uncertainty factors

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

The general development on the capital market, including interest rate development and the liquidity situation, along with the willingness to invest on various markets, may affect the competitive situation and how the competitive advantage of Kommuninvest develops. If Kommuninvest is unable to recruit and retain qualified employees, this may restrict Kommuninvest's competitiveness and opportunities for development. Access to qualified expertise also constitutes a risk in respect of the localisation of the company.

For a more detailed description of risks and security factors, see the section on risk management.

Employees and the environment

The number of employees increased by five during the year, to total 49 (44) at the year-end. For principals and processes for remuneration and benefits to the management, see Note 7.

Kommuninvest does not conduct any operations requiring a licence under Sweden's Environmental Code. Kommuninvest has prepared an environmental policy which has been adopted by the Board of Directors in 2009.

Prospects for 2010

Interest in Kommuninvest's business concept is increasing, and the Society will have several new members in 2010. This is also expected to contribute to higher lending, as there is a historical correlation between member growth and lending growth. With the prevailing market situation, Kommuninvest is thought to have good chances of offering competitive loan products.

Kommuninvest is working to establish a bond programme for long term products in Sweden, which the country currently does not have although it is demanded by institutional investors. This should create another access category on the Swedish capital market in addition to the bonds issued by the Swedish state and housing finance institutions.

RISK MANAGEMENT

The fundamental principle for Kommuninvest's risk management is that the terms for borrowing and lending are equal from a risk perspective. The objective is to minimise or eliminate the risks occurring within the business.

As part of the public sector, Kommuninvest is obliged to align itself with the prohibition of speculative and high-risk activities in accordance with Section 2, § 7 of the Local Government Act.

Risk organisation and responsibility

Kommuninvest's rules and processes have been formulated in order to ensure systematic and secure 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 and responsibilities for good internal control and management of operational risks, capital coverage and liquidity reserves as well as the orientation and limits for Kommuninvest's exposure to credit-related counterparty and market risks.

The business function is responsible for keeping risks within limits. Follow-up takes place within every function, the President performing overall follow-up. The company's controller monitors risk control in the enterprise in accordance with internal capital evaluation (intern kapitalvärdering, IKU). The controller bears overall and coordinating responsibility for the company's aggregate risks and reports to the President and Board.

The company's risk and analysis function is responsible for checking and implementing ongoing follow-up and analysis of financial risks arising in the business contracts into which Kommuninvest enters with other counterparties.

It reports daily to the President and monthly to the Board.

The credit group constitutes support in the assessment of new counterparties and new financial instruments before decisions are made by the President. The credit group is also responsible for monitoring development of the counterparties and

financial instruments applied in the company's financial operations.

Kommuninvest also has an internal auditor who is responsible for constantly monitoring how the company is working with internal instructions, process descriptions and steering documents, and that these are in accordance with prevailing requirements from the Swedish Financial Supervisory Authority.

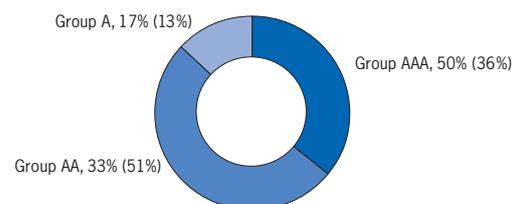
Credit and counterparty risk

The risk of losses due to customers or counterparties failing to meet their obligations within an agreed time

Continuously analysing and monitoring the progress of Kommuninvest's counterparties is an important element of its activities to minimise risk. 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 bi-annually 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'.

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 ability 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.

Invested equity by rating category, 31 December 2009



Source: Kommuninvest

In addition to a monthly risk report from the risk and analysis group, the credit group has to report at least once a year to the Board of Directors of Kommuninvest on the development of all counterparties. Kommuninvest's total credit risk exposure is shown in Note 3.

As at 31 December 2009, 70% (76%) of the credit risk exposure was to Swedish municipalities and county councils, 27% (16%) of the exposure was to states and other approved issuers of securities, plus 3% (8%) of the exposure was to derivative counterparties.

Credit and counterparty risk is divided into three categories:

- Risks from lending
- Risks when investing in assets not yet loaned
- Risks from value changes on derivative contracts

Risks from lending

The borrowers are the members of Kommuninvest's owner association, Kommuninvest Cooperative Society, and their majority-owned companies, and the purpose of the company is to lend only to these.

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%.

The risks of lending to members and the majority-owned companies are very low. Almost 60% of the inhabitants of Sweden, in more than 80% of the country's municipalities and county councils, are responsible for all lending.

Risks when investing in assets not yet loaned

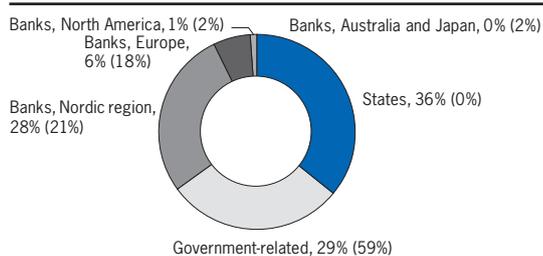
The counterparties are financial institutions. These risks consist of losses and value changes on invested assets. The risks are limited by restricting investment exclusively to highly creditworthy counterparties. Highly creditworthy counterparties must have a minimum stable A level from one of the internationally recognised rating institutions, Moody's or Standard and Poor's. A significant proportion of the investments are in 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 a maximum of 20%, and they must be system-important in the countries in which they are legally domiciled. Investments in investment banks are not permitted.

Risks from value changes on derivative contracts

Counterparty risks are restricted by entering into contracts with counterparties with high creditworthiness and requirements for assets pledged. The counterparties are financial institutions. 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.

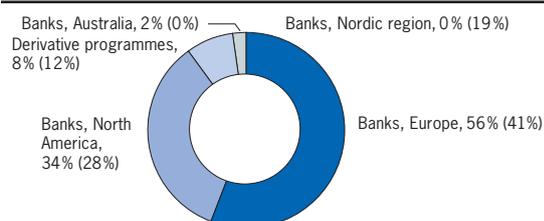
As one of the internal requirements for becoming an approved counterparty in a derivative transaction with Kommuninvest, the counterparty must hold a minimum credit rating of a stable A level

Invested equity by issuer category, 31 December 2009



Source: Kommuninvest

Receivables on derivative contracts by counterparty group, 31 December 2009



Source: Kommuninvest

from Moody's or Standard and Poor's. 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.

To limit the risks and exposure arising because of value changes to derivatives, we enter credit support annexes (CSAs) with our derivatives counterparties. These give us a right, under certain conditions, to require but also to provide 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 creditworthiness of any of the counterparties deteriorates. Kommuninvest accepts only collateral in the form of government securities, which have zero risk-weighting from a capital coverage perspective. The intention of security agreements is to cover receivables.

Kommuninvest's exposures through derivative contracts is shown in Note 3. In terms of nominal amounts, 48% (63%) 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. On 31 December 2009 Kommuninvest had collateral from counterparties corresponding to SEK 2 053 million. These securities consist of securities issued by the following states: Germany, France and the UK.

Greater emphasis on dealing with counterparty risks

Work continued in 2009 on preparing CSAs (Credit Support Annexes) with derivative counterparties. The aim is to enter into these with all counterparties. The creditworthiness of a number of counterparty countries also continued to decline over the year. Kommuninvest has responded by reducing its exposure to counterparties and states where the current situation is deemed to be more uncertain in respect of price risks, for example.

Right to early redemption

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. The risk is that losses may occur if the counterparty fails to fulfil its obligations.

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 Kommuninvest always ensures that the counterparty first fulfils its commitments, or else that an approach is utilised where both counterparties have to have fulfilled their commitments simultaneously.

Liquidity risk

Liquidity risk can be described as a lack of financing, which in itself involves a risk concerning the organisation's chances of compliance with its undertakings. Liquidity risk is also the risk of far higher costs for borrowing required funds, or of loss when assets cannot be sold at a reasonable price.

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% of the balance sheet total plus the forecast result of outstanding tenders, although never under 50% of outstanding tenders. Surplus liquidity must constitute at least 25% of the balance sheet total, and a large amount of this must be available for repos at the Riksbank.

Kommuninvest is currently compliant with the following requirements from the Swedish Financial Supervisory Authority:

- Liquidity contingency
- Policy and principles
- Organisation and distribution of responsibilities
- Contingency plan
- Target values and limits
- Internal reporting

Kommuninvest's liquidity exposure with regard to remaining durations on assets and liabilities is shown in Note 3. The cash flow analysis also illustrates Kommuninvest's liquidity situation.

Market risk

The main market risks to which Kommuninvest is exposed are interest-rate risk and foreign exchange risk.

Interest-rate risk limited at portfolio level

Interest-rate risk arises 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-rate 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 never exceed SEK 15,000,000 in a one percentage point parallel shift in the yield curve. The risk over the entire portfolio amounted to SEK 7,402,000 (701,000) as at 31 December 2009 at a one percentage point parallel shift.

Foreign exchange limits currency 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. Kommuninvest is securing this risk with derivatives. However, currency risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments.

This risk is limited by continuously converting such returns into Swedish kronor. Note 3 indicates Kommuninvest's currency exposure. At a 10% change in currency rates, this exposure will mean a SEK 156,000 (SEK -248,000) in currency risk.

Price risk is eliminated through the use of derivatives

Kommuninvest is issuing contracts with option elements in the form of shares, share indices, raw materials and raw material indices. All price risks are eliminated by always securing such borrowing instruments with a swap offsetting the risk.

Operational risks

The risk of unexpected financial or confidence-related losses as a result of internal causes such as computer fault, or external influence such as crime.

Our work on operational risk 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:

- Utilisation of internal instructions, process descriptions and steering documents at every unit level.
- The duality principle – a single person may never manage a transaction alone through the entire process. There are usually 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 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.
- Compliance follows up steering documents and procedures.
- The internal audit monitors compliance within the enterprise with policies and rules laid down by the Board.

INCOME STATEMENT

1 January – 31 December

| SEK 000 | Note | 2009 | 2008 |
|---|----------|-----------------|----------------|
| Interest income | | 3,339,735 | 4,727,197 |
| Interest expenses | | -2,957,596 | -4,575,122 |
| NET INTEREST INCOME | 4 | 382,139 | 152,075 |
| Commission expenses | 5 | -3,493 | -3,633 |
| Net result of financial transactions | 6 | -50,749 | 13,942 |
| Other operating income | | 198 | 336 |
| TOTAL OPERATING INCOME | | 328,095 | 162,720 |
| General administration expenses | 7 | -127,827 | -80,582 |
| Depreciation on tangible fixed assets | 16 | -1,812 | -1,630 |
| Other operating expenses | 8 | -4,778 | -5,174 |
| TOTAL EXPENSES | | -134,417 | -87,386 |
| OPERATING INCOME | | 193,678 | 75,334 |
| Appropriations | 9 | -82,507 | -11,636 |
| Tax on net income for the year | 10 | -44,703 | -19,158 |
| INCOME FOR THE YEAR | | 66,468 | 44,540 |
| Report on total profit or loss | | 2009 | 2008 |
| Income for the period accounted over the income statement | | 66,468 | 44,540 |
| Other total profit or loss | | | |
| Available-for-sale financial assets | | 50,680 | 19,177 |
| Loans and receivables | | -4,169 | -4,287 |
| Tax related to other total profit or loss | | -14,721 | - |
| Other total profit or loss, total | | 31,790 | 14,890 |
| Total profit or loss, total | | 98,258 | 59,430 |

BALANCE SHEET

As at 31 December

| SEK 000 | Note | 2009 | 2008 |
|--|-----------|--------------------|--------------------|
| ASSETS | | | |
| Cash | | 2 | 3 |
| State bonds eligible as collateral | 11 | 20,912,293 | 1,879,588 |
| Lending to credit institutions | 3 | 1,851,246 | 2,439,973 |
| Lending | 12 | 123,624,140 | 104,658,088 |
| Bonds and other interest-bearing securities | 13 | 25,604,067 | 17,631,604 |
| Shares and participations | 14 | 734 | 323 |
| Shares and participations in associated companies | 15 | 504 | 504 |
| Derivatives | 3 | 10,973,991 | 16,094,288 |
| Tangible assets | 16 | 3,621 | 4,415 |
| Other assets | | 19,300 | 25,925 |
| Prepaid expenses and accrued revenues | | 7,058 | 3,744 |
| TOTAL ASSETS | | 182,996,956 | 142,738,455 |
| LIABILITIES, PROVISIONS AND EQUITY | | | |
| Liabilities to credit institutions | 3 | 7,348,127 | 5,390,191 |
| Securities issued | 3 | 164,696,122 | 126,106,103 |
| Derivatives | 3 | 9,883,055 | 10,675,017 |
| Other liabilities | 17 | 312,402 | 40,421 |
| Accrued expenses and prepaid revenues | | 35,616 | 13,499 |
| Provisions | 18 | 912 | 402 |
| Total liabilities and provisions | | 182,276,234 | 142,225,633 |
| Untaxed reserves | 19 | 134,676 | 52,169 |
| Equity | | 586,046 | 460,653 |
| Restricted equity | | | |
| Share capital (2,596,200 shares, quoted value SEK 100) | | 259,620 | 236,700 |
| New share issue in progress (100,000 shares, quoted value SEK 100) | | 10,000 | - |
| Statutory reserve | | 17,473 | 17,473 |
| Non-restricted equity | | | |
| Fund for fair value | | 41,251 | 9,461 |
| Profit brought forward | | 191,234 | 152,479 |
| Income for the year | | 66,468 | 44,540 |
| Total equity | | 586,046 | 460,653 |
| TOTAL LIABILITIES, PROVISIONS AND EQUITY | | 182,996,956 | 142,738,455 |
| Memorandum items | | | |
| Collateral pledged for own liabilities | 20 | 3,499,887 | 323 |
| Contingent liabilities | | None | None |
| Obligations | | | |
| Pledged loans | | 1,498,888 | 1,752,688 |

EQUITY

Account for changes relating to changes in equity.

| 2009 | Restricted equity | | Non-restricted equity | | | Total equity |
|---|-------------------|-------------------|----------------------------------|--------------------------------|---------------------|----------------|
| | Share capital | Statutory reserve | Fund for fair value ¹ | Profit or loss brought forward | Income for the year | |
| SEK 000 | | | | | | |
| Equity brought forward 1 Jan 2009 | 236,700 | 17,473 | 9,461 | 152,479 | 44,540 | 460,653 |
| Allocation of profit | - | - | - | 44,540 | -44,540 | 0 |
| Total result for the period | - | - | 31,790 | - | 66,468 | 98,258 |
| New share issue | 22,920 | - | - | - | - | 22,920 |
| Share issue in progress | 10,000 | - | - | - | - | 10,000 |
| Group contributions | - | - | - | -7 850 | - | -7,850 |
| Tax effect on Group contributions | - | - | - | 2 065 | - | 2,065 |
| Equity carried forward 31 Dec 2009 | 269,620 | 17,473 | 41,251 | 191,234 | 66,468 | 586,046 |

¹ Fund for fair value consists of the following

| | |
|--|--------|
| - Available-for-sale financial assets | 34,180 |
| - Loans and receivables (reclassified) | 7,071 |

| 2008 | Restricted equity | | Non-restricted equity | | | Total equity |
|---|-------------------|-------------------|----------------------------------|--------------------------------|---------------------|----------------|
| | Share capital | Statutory reserve | Fund for fair value ¹ | Profit or loss brought forward | Income for the year | |
| SEK 000 | | | | | | |
| Equity brought forward 1 Jan 2008 | 198,900 | 17,473 | -5,429 | 137,353 | 24,126 | 372,423 |
| Allocation of profit | - | - | - | 24,126 | -24,126 | 0 |
| Total result for the period | - | - | 14,890 | - | 44,540 | 59,430 |
| New share issue | 37,800 | - | - | - | - | 37,800 |
| Group contributions | - | - | - | -12,500 | - | -12,500 |
| Tax effect on Group contributions | - | - | - | 3,500 | - | 3,500 |
| Equity carried forward 31 Dec 2008 | 236,700 | 17,473 | 9,461 | 152,479 | 44,540 | 460,653 |

¹ Fund for fair value consists of the following

| | |
|--|--------|
| - Available-for-sale financial assets | -4,301 |
| - Loans and receivables (reclassified) | 13,762 |

CASH FLOW STATEMENT

1 January – 31 December

| SEK 000 | 2009-12-31 | 2008-12-31 |
|---|--------------------|--------------------|
| Liquid assets at the start of the accounting period | 340,832 | 780 |
| Operational activities | | |
| Operating income | 193,678 | 75,334 |
| Adjustment for items not included in cash flow, Note 1 | 149,541 | 4,271 |
| Income tax paid | -14,330 | -3,938 |
| Cash flow from operating activities before changes in the assets and liabilities of operating activities | 328,889 | 75,667 |
| Change in interest-bearing securities | -26,260,149 | 4,381,533 |
| Change in lending | -18,655,089 | -25,373,971 |
| Change in other assets | 2,900 | 212,292 |
| Change in other liabilities | 256,229 | 10,050 |
| Cash flow from operational activities | -44,327,220 | -20,694,429 |
| Investment activities | | |
| Acquisition of tangible assets | -1,018 | -2,861 |
| Cash flow from investment activities | -1,018 | -2,861 |
| Financing activities | | |
| Change in securities issued | 42,381,422 | 20,392,484 |
| Change in liabilities to credit institutions | 2,013,265 | 618,508 |
| New share issue | 32,920 | 37,800 |
| Group contribution paid | -12,500 | -11,450 |
| Cash flow from financing activities | 44,415,107 | 21,037,342 |
| Cash flow for the year | 86,869 | 340,052 |
| Cash and cash equivalents at the end of the year, Note 2 | 427,701 | 340,832 |
| <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 operational activities. The cash flow statement has been divided into inward and outward payments from operational activities, investment activities and financing activities.</p> | | |
| Note 1. Adjustment for items not included in cash flow. | | |
| Depreciation | 1,812 | 1,630 |
| Change in accrued cost | - | 1,034 |
| Exchange rate differences from change in financial assets | -2,954 | -1,063 |
| Unrealised changes in market value | 150,683 | 2,670 |
| Total | 149,541 | 4,271 |
| Note 2. This item consists in its entirety of lending to credit institutions excluding deposits of SEK1,423,545. | | |
| Note 3. Interest paid and earned, included in the cash flow | | |
| SEK 000 | | |
| Earned interest | 3,648,370 | 4,396,121 |
| Paid interest | -3,300,000 | -4,365,492 |

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 2009 and relates to Kommuninvest i Sverige AB (publ), registered number: SE556281-4409. Kommuninvest has its registered office in Örebro. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden.

The Annual Report was approved for publication by the Board of Directors on 24 February 2010. The income statement and balance sheet will be subject to ratification at the Annual General Meeting on 25 March 2010.

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 2008:25).

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 2008:25.

The accounting principles stated below were applied consistently in all periods presented in the financial statements, unless stated otherwise.

Amended accounting principles

Amended accounting principles due to new or amended IFRS

Below is a description of which accounting principles are being applied by the company as of 1 January 2009. Other amendments to IFRS with application as of 2009 have had no significant effect on the company's accounts.

Information on financial instruments

Amendments to IFRS 7 Financial instruments: Information with application as of 1 January 2009 will affect Kommuninvest's financial reporting as of the 2009 annual accounts. These amendments mainly involve new information requirements concerning financial instruments valued at fair value in the balance sheet. The instruments are divided into three levels depending on the quality of the input data in the valuation. Division into levels determines how - and what - information is to be submitted on the instruments; level 3 with the lowest input data quality being covered by more information requirements than the other levels. These information requirements have primarily affected Note 22 below.

According to the transitional provisions in IFRS 7, comparative information for the first year of application does not need to be submitted for the information required by the amendments.

Amendments to IAS 1 Presentation of Financial Statements

This standard divides up changes in equity as a consequence of transactions with owners and other changes. The list of changes in equity will include only details relating to owner transactions. In addition, this standard introduces the term "Report on total profit or loss", which shows all items of income and expense which were previously reported in the equity calculation, either in a separate table or in two interlinked tables. Kommuninvest presents a report on total profit or loss in a separate table.

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. Amounts are rounded off to the nearest thousand unless otherwise indicated.

Future accounting principles. New and amended standards from IASB and statements from IFRIC

Of the new standards and interpretations coming into force after 2009, IASB's work on replacing IAS 39 has been deemed to affect Kommuninvest's future annual report. Kommuninvest has not assessed its future effects.

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.

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. The net result of financial transactions comprises:

- Unrealised changes in fair value on assets and liabilities held for trading purposes.
- Unrealised changes in fair value on assets recognised at fair value through profit or loss.
- Unrealised changes in fair value on derivatives where hedge accounting of fair value is applied.
- 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.
- Exchange rate changes.

Fundamental measurement principles for preparing the company's financial statements

Financial assets and liabilities are recognised at amortised cost, except for financial assets measured at fair value, see below.

Financial instruments

With regard to assets, financial instruments recognised in the balance sheet include lending, interest-bearing securities, derivatives, shares, participations 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.

Financial assets and financial liabilities are offset and recognised at a net amount in the balance sheet only where there is a legal right to offset the amounts and it is intended to adjust the items with a net amount or to at the same time capitalise the asset and adjust 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 2008:25. 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

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

This category consists of two sub-groups: financial assets available for sale, and other financial assets classified as such by Kommuninvest on first recognition.

The first sub-group comprises derivatives with a positive fair value held for financial hedging but not encompassed by hedge accounting and investments included in the trade inventory.

The second sub-group comprises Kommuninvest's lending plus investments which have an accompanying interest hedging derivative.

The reason Kommuninvest has classified lending plus investments which have an accompanying interest hedging derivative in this category is to rectify a misleading relationship in the accounts that would otherwise arise regarding measurement and recognition. Risk management instruments in the form of derivative contracts are used to limit the market risks that arise when borrowing and lending/investment terms do not match. It would result in a misleading relationship in the accounts if the derivatives were measured at fair value through profit or loss but not the associated lending/investment.

Loans and receivables

Loans and receivables are assets with determined or determinable payments. These assets are measured at the amount estimated to be paid, i.e. with a deduction for doubtful receivables. This also includes the investments which Kommuninvest has reclassified from financial assets which may be sold, see Note 22.

Available-for-sale financial assets

This category includes Kommuninvest's investments in interest-bearing securities which are not included in trade inventory or have an accompanying interest hedging derivative. This category formerly recognised the interest-bearing securities which have been reclassified as loans and receivables; see Note 22.

Assets in this category are constantly valued at fair value with value changes recognised on other total profit or loss.

Changes in value due to writedowns or exchange rate differences are recognised in the income statement.

Interest is also recognised in the income statement.

Measurement at fair value recognised on other total profit or loss is ongoing until the instrument matures or is divested. On divestment of the asset the accumulated gain or loss, which was previously recognised on other total profit or loss, 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. Kommuninvest uses interest rate and currency swaps as hedge 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 is allocated over the remaining term. Kommuninvest's hedging relationships have been deemed highly efficient.

The derivatives which are part of a fair value hedge relationship are recognised at fair value through profit or loss.

Credit losses and writedowns on financial instruments

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.

At each reporting date, Kommuninvest evaluates whether there is objective evidence that any writedown 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 1) observable conditions that have arisen and that have an adverse impact on the possibility of recovering the acquisition cost, and 2) significant or lengthy reduction of the fair value of an investment in a financial investment classed as an available-for-sale financial asset.

Kommuninvest has not come to the conclusion with the above-mentioned accounting principles that there is any need for writedowns as at 31 December 2009.

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 recognised value of a tangible fixed asset is derecognised from the balance sheet on scrapping or sale, or when no future economic benefits are expected from its use or the scrapping/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 recognised 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:

- fixtures and fittings: 5 years.

Remuneration to employees:

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 contribution plan encompassing more than one employer. Kommuninvest's pension payments 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 defined contribution pen-

sion obligation to the President in a separate agreement.

The pension obligation is invested in an endowment insurance which is recognised in shares and participations. The insurance is also pledged for the pension obligation. With regard to liabilities, the pension obligation 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 deferred tax. Income taxes are recognised in the income statement, except when the underlying transaction is recognised directly against equity, whereby the appurtenant tax is also recognised in equity.

Current taxes are taxes that must be paid for the current year. This also includes adjustments to current taxes attributable to previous periods.

Deferred tax is calculated on the basis of temporary differences between reported and tax values of assets and liabilities according to the balance sheet approach.

Group contributions

Kommuninvest recognises Group contributions directly against equity.

3 Financial risks

Credit risk exposure

| 2009 | Total credit risk exposure (before writedown) | Writedown/ Provision | Carrying amount | Value of securities with regard to balance sheet items | Total credit risk exposure after deduction for securities |
|---|---|----------------------|--------------------|--|---|
| Credit against security of: | | | | | |
| Government and municipal guarantees | 123,624,140 | - | 123,624,140 | - | 123,624,140 |
| Total | 123,624,140 | - | 123,624,140 | - | 123,624,140 |
| Securities | | | | | |
| Government securities and other public bodies | | | | | |
| - AAA | 18,542,577 | - | 18,542,577 | - | 18,542,577 |
| - AA | 2,369,716 | - | 2,369,716 | - | 2,369,716 |
| - A | - | - | - | - | - |
| Other issuers | | | | | |
| - AAA | 5,286,904 | - | 5,286,904 | - | 5,286,904 |
| - AA | 12,433,059 | - | 12,433,059 | - | 12,433,059 |
| - A | 7,884,104 | - | 7,884,104 | - | 7,884,104 |
| Total | 46,516,360 | - | 46,516,360 | - | 46,516,360 |
| Derivatives | | | | | |
| - AAA | 77,711 | - | 77,711 | - | 77,711 |
| - AA | 5,872,545 | - | 5,872,545 | 1,802,493 | 4,070,052 |
| - A | 5,023,735 | - | 5,023,735 | 250,333 | 4,773,403 |
| Total | 10,973,991 | - | 10,973,991 | 2,052,826 | 8,921,165 |
| Obligations | | | | | |
| Pledged loans against municipal guarantees | 1,498,888 | - | 1,498,888 | - | 1,498,888 |
| Total credit risk exposure | 182,613,379 | - | 182,613,379 | 2,052,826 | 180,560,553 |

| 2008 | Total credit risk exposure (before writedown) | Writedown/ Provision | Carrying amount | Value of securities with regard to balance sheet items | Total credit risk exposure after deduction for securities |
|---|---|----------------------|--------------------|--|---|
| Credit against security of: | | | | | |
| Government and municipal guarantees | 104,658,088 | - | 104,658,088 | - | 104,658,088 |
| Total | 104,658,088 | - | 104,658,088 | - | 104,658,088 |
| Securities | | | | | |
| Government securities and other public bodies | | | | | |
| - AAA | - | - | - | - | - |
| - AA | 1,879,588 | - | 1,879,588 | - | 1,879,588 |
| - A | - | - | - | - | - |
| Other issuers | | | | | |
| - AAA | 7,637,556 | - | 7,637,556 | - | 7,637,556 |
| - AA | 9,589,482 | - | 9,589,482 | - | 9,589,482 |
| - A | 2,844,539 | - | 2,844,539 | - | 2,844,539 |
| Total | 21,951,165 | - | 21,951,165 | - | 21,951,165 |
| Derivatives | | | | | |
| - AAA | 7,789,724 | - | 7,789,724 | - | 7,789,724 |
| - AA | 6,556,965 | - | 6,556,965 | 2,261,798 | 4,295,167 |
| - A | 1,747,599 | - | 1,747,599 | 2,557,572 | - |
| Total | 16,094,288 | - | 16,094,288 | 4,819,370 | 12,084,891 |
| Obligations | | | | | |
| Pledged loans against municipal guarantees | 1,752,688 | - | 1,752,688 | - | 1,752,688 |
| Total credit risk exposure | 144,456,229 | - | 144,456,229 | 4,819,370 | 140,446,832 |

Maturity information¹

| 2009 | | | | | | | |
|---|------------------|--------------------|---------------------------------|-------------------------------|-------------------|-------------------|-----------------------|
| Nominal cash flows - Contractual remaining duration | | | | | | | |
| 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 | | | | | | | |
| Assets | | | | | | | |
| Cash | 2 | - | - | - | - | - | 2 |
| State bonds eligible as collateral | - | 17,965,699 | 881,854 | 2,005,936 | - | - | 20,853,490 |
| Lending to credit institutions | 1,851,246 | - | - | - | - | - | 1,851,246 |
| Lending | - | 65,230,281 | 16,814,197 | 33,379,981 | 6,432,393 | - | 121,856,851 |
| Bonds and other interest-bearing securities | - | 11,503,287 | 4,308,720 | 9,525,225 | - | - | 25,337,231 |
| Derivatives | - | 85,028,101 | 49,186,025 | 120,955,146 | 27,789,842 | - | 282,959,114 |
| Other asset items | - | - | - | - | - | 31,217 | 31,217 |
| Total assets | 1,851,248 | 179,727,368 | 71,190,796 | 165,866,287 | 34,222,234 | 31,217 | 452,889,151 |
| Liabilities | | | | | | | |
| Liabilities to credit institutions | - | - | 3,716,125 | 774,279 | 2,737,976 | - | 7,228,380 |
| Derivatives | - | 86,238,811 | 46,804,392 | 120,576,246 | 27,002,254 | - | 280,621,703 |
| Securities issued | - | 60,237,621 | 27,819,438 | 64,468,754 | 11,443,601 | - | 163,969,415 |
| Other liabilities | - | - | - | - | - | 348,930 | 348,930 |
| Equity | - | - | - | - | - | 720,722 | 720,722 |
| Total equity and liabilities | - | 146,476,432 | 78,339,956 | 185,819,279 | 41,183,831 | 1,069,652 | 452,889,151 |
| Unentered pledged loans | 1,498,888 | - | - | - | - | - | - |
| Total difference | 1,851,248 | 33,250,936 | -7,149,160 | -19,952,992 | -6,961,597 | -1,038,435 | 0 |

| 2008 | | | | | | | |
|---|------------------|-------------------|---------------------------------|-------------------------------|-------------------|-----------------|-----------------------|
| Nominal cash flows - Contractual remaining duration | | | | | | | |
| 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 | | | | | | | |
| Assets | | | | | | | |
| Cash | 3 | - | - | - | - | - | 3 |
| State bonds eligible as collateral | - | - | - | 1,838,150 | - | - | 1,838,150 |
| Lending to credit institutions | 2,437,652 | - | - | - | - | - | 2,437,652 |
| Lending | - | 28,830,768 | 10,242,108 | 48,196,176 | 15,740,165 | - | 103,009,217 |
| Bonds and other interest-bearing securities | - | 2,396,394 | 3,098,241 | 12,179,551 | - | - | 17,674,187 |
| Derivatives | - | 27,953,320 | 55,695,262 | 128,493,750 | 32,443,787 | - | 244,586,118 |
| Other asset items | - | - | - | - | - | 34,911 | 34,911 |
| Total assets | 2,437,655 | 59,180,482 | 69,035,611 | 190,707,627 | 48,183,952 | 34,911 | 369,580,238 |
| Liabilities | | | | | | | |
| Liabilities to credit institutions | - | 608,668 | - | 1,385,967 | 3,220,480 | - | 5,215,115 |
| Derivatives | - | 27,353,624 | 55,339,243 | 125,468,831 | 29,188,992 | - | 237,350,689 |
| Securities issued | - | 29,770,586 | 22,288,608 | 55,830,109 | 18,557,986 | - | 126,447,289 |
| Other liabilities | - | - | - | - | - | 54,322 | 54,322 |
| Equity | - | - | - | - | - | 512,822 | 512,822 |
| Total equity and liabilities | - | 57,732,878 | 77,627,851 | 182,684,907 | 50,967,458 | 567,144 | 369,580,238 |
| Unentered pledged loans | 1,752,688 | - | - | - | - | - | - |
| Total difference | 2,437,655 | 1,447,604 | -8,592,240 | 8,022,721 | -2,783,507 | -532,233 | 0 |

1. Future interest payments are excluded in respect of both deposits and outgoing payments

Liquidity exposure

| 2009 | | | | | | | |
|--|------------------|-------------------|---------------------------------|-------------------------------|-------------------|-------------------|-----------------------|
| Recognised values - Contractual remaining duration | | | | | | | |
| 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 | | | | | | | |
| Assets | | | | | | | |
| Cash | 2 | - | - | - | - | - | 2 |
| State bonds eligible as collateral | - | 17,973,059 | 883,103 | 2,056,130 | - | - | 20,912,293 |
| Lending to credit institutions | 1,851,246 | - | - | - | - | - | 1,851,246 |
| Lending | - | 65,364,341 | 17,011,450 | 34,656,001 | 6,592,349 | - | 123,624,140 |
| Bonds and other interest-bearing securities | - | 11,545,970 | 4,331,645 | 9,726,452 | - | - | 25,604,067 |
| Derivatives | - | 1,389,168 | 2,005,398 | 4,511,060 | 3,068,365 | - | 10,973,991 |
| Other asset items | - | - | - | - | - | 31,217 | 31,217 |
| Total assets | 1,851,248 | 96,272,538 | 24,231,596 | 50,949,643 | 9,660,714 | 31,217 | 182,996,956 |
| Liabilities | | | | | | | |
| Liabilities to credit institutions | - | - | 3,725,221 | 774,620 | 2,848,286 | - | 7,348,127 |
| Derivatives | - | 1,723,521 | 1,601,488 | 3,945,788 | 2,612,258 | - | 9,883,055 |
| Securities issued | - | 59,959,646 | 26,717,140 | 66,144,060 | 11,875,276 | - | 164,696,122 |
| Other liabilities | - | - | - | - | - | 348,930 | 348,930 |
| Equity | - | - | - | - | - | 720,722 | 720,722 |
| Total equity and liabilities | - | 61,683,167 | 32,043,849 | 70,864,468 | 17,335,820 | 1,069,652 | 182,996,956 |
| Unentered pledged loans | 1,498,888 | - | - | - | - | - | - |
| Total difference | 1,851,248 | 34,589,370 | -7,812,253 | -19,914,825 | -7,675,106 | -1,038,435 | 0 |

| 2008 | | | | | | | |
|--|------------------|--------------------|---------------------------------|-------------------------------|-------------------|-----------------|-----------------------|
| Recognised values - Contractual remaining duration | | | | | | | |
| 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 | | | | | | | |
| Assets | | | | | | | |
| Cash | 3 | - | - | - | - | - | 3 |
| State bonds eligible as collateral | - | - | - | 1,879,588 | - | - | 1,879,588 |
| Lending to credit institutions | 2,439,973 | - | - | - | - | - | 2,439,973 |
| Lending | - | 13,511,431 | 10,618,872 | 54,504,699 | 26,023,086 | - | 104,658,088 |
| Bonds and other interest-bearing securities | - | 2,402,163 | 2,787,962 | 12,441,479 | - | - | 17,631,604 |
| Derivatives | - | 942,571 | 2,010,570 | 8,977,915 | 4,163,232 | - | 16,094,288 |
| Other asset items | - | - | - | - | - | 34,911 | 34,911 |
| Total assets | 2,439,976 | 16,856,165 | 15,417,404 | 77,803,682 | 30,186,318 | 34,911 | 142,738,455 |
| Liabilities | | | | | | | |
| Liabilities to credit institutions | - | 615,767 | - | 1,402,814 | 3,371,610 | - | 5,390,191 |
| Derivatives | - | 647,949 | 1,790,119 | 5,070,074 | 3,166,875 | - | 10,675,017 |
| Securities issued | - | 29,704,588 | 22,006,580 | 58,224,706 | 16,170,228 | - | 126,106,103 |
| Other liabilities | - | - | - | - | - | 54,322 | 54,322 |
| Equity | - | - | - | - | - | 512,822 | 512,822 |
| Total equity and liabilities | - | 30,968,304 | 23,796,699 | 64,697,594 | 22,708,714 | 567,144 | 142,738,455 |
| Unentered pledged loans | 1,752,688 | - | - | - | - | - | - |
| Total difference | 2,439,976 | -14,112,140 | -8,379,295 | 13,106,088 | 7,477,604 | -532,233 | 0 |

Fixed interest terms, Interest exposure

| 2009 | | | | | | | |
|---|--------------------|-----------------------------------|-------------------------------|---------------------------------|------------------|-------------------|--------------------|
| Nominal cash flows | | | | | | | |
| Fixed interest terms for assets and liabilities – Interest exposure | Max. 3 mths | More than 3 mths. but max. 1 year | More than 1 yr but max. 5 yrs | More than 5 yrs but max. 10 yrs | More than 10 yrs | No interest | Total |
| Assets | | | | | | | |
| Cash | 2 | - | - | - | - | - | 2 |
| State bonds eligible as collateral | 19,207,192 | 759,841 | 886,457 | - | - | - | 20,853,490 |
| Lending to credit institutions | 1,851,246 | - | - | - | - | - | 1,851,246 |
| Lending | 81,414,324 | 8,178,582 | 26,914,647 | 5,119,513 | 229,785 | - | 121,856,851 |
| Bonds and other interest-bearing securities | 16,989,260 | 6,057,464 | 2,290,507 | - | - | - | 25,337,231 |
| Derivatives | 187,054,665 | 30,762,616 | 52,263,434 | 11,791,926 | 1,086,473 | - | 282,959,114 |
| Other assets | - | - | - | - | - | 31,217 | 31,217 |
| Total | 306,516,689 | 45,758,503 | 82,355,045 | 16,911,439 | 1,316,258 | 31,217 | 452,889,151 |
| Liabilities | | | | | | | |
| Liabilities to credit institutions | 1,481,224 | 3,539,262 | - | 1,771,859 | 436,035 | - | 7,228,380 |
| Securities issued | 77,970,530 | 24,068,482 | 51,259,973 | 10,019,993 | 650,437 | - | 163,969,415 |
| Derivatives | 215,578,622 | 28,600,282 | 31,114,776 | 5,098,238 | 229,785 | - | 280,621,703 |
| Other liabilities | - | - | - | - | - | 348,930 | 348,930 |
| Equity | - | - | - | - | - | 720,722 | 720,722 |
| Total equity and liabilities | 295,030,376 | 56,208,026 | 82,374,749 | 16,890,090 | 1,316,258 | 1 069,652 | 452,889,151 |
| Cumulative exposure | 11,486,313 | -10,449,523 | -19,705 | 21,349 | 0 | -1 038,435 | 0 |

| 2008 | | | | | | | |
|---|--------------------|-----------------------------------|-------------------------------|---------------------------------|------------------|-----------------|--------------------|
| Nominal cash flows | | | | | | | |
| Fixed interest terms for assets and liabilities – Interest exposure | Max. 3 mths | More than 3 mths. but max. 1 year | More than 1 yr but max. 5 yrs | More than 5 yrs but max. 10 yrs | More than 10 yrs | No interest | Total |
| Assets | | | | | | | |
| Cash | 3 | - | - | - | - | - | 3 |
| State bonds eligible as collateral | 700,000 | - | 1,138,150 | - | - | - | 1,838,150 |
| Lending to credit institutions | 2,437,652 | - | - | - | - | - | 2,437,652 |
| Lending | 62,846,737 | 7,211,815 | 27,475,467 | 5,243,746 | 231,452 | - | 103,009,217 |
| Bonds and other interest-bearing securities | 11,881,066 | 1,343,833 | 4,449,288 | - | - | - | 17,674,187 |
| Derivatives | 139,602,409 | 39,299,499 | 55,302,145 | 8,041,486 | 2,340,580 | - | 244,586,118 |
| Other assets | - | - | - | - | - | 34,911 | 34,911 |
| Total | 217,467,866 | 47,855,147 | 88,365,049 | 13,285,232 | 2,572,032 | 34,911 | 369,580,238 |
| Liabilities | | | | | | | |
| Liabilities to credit institutions | 1,848,171 | 310,820 | 601,992 | 1,977,975 | 476,157 | - | 5,215,115 |
| Securities issued | 35,645,195 | 28,413,636 | 54,460,524 | 6,063,512 | 1,864,423 | - | 126,447,289 |
| Derivatives | 176,542,613 | 21,842,312 | 33,490,762 | 5,243,551 | 231,452 | - | 237,350,689 |
| Other liabilities | - | - | - | - | - | 54,322 | 54,322 |
| Equity | - | - | - | - | - | 512,822 | 512,822 |
| Total equity and liabilities | 214,035,979 | 50,566,768 | 88,553,278 | 13,285,037 | 2,572,032 | 567,144 | 369,580,238 |
| Cumulative exposure | 3,431,888 | -2,711,621 | -188,229 | 195 | 0 | -532,233 | 0 |

Foreign exchange risk

| 2009 | | Reported values | | | | | | |
|--|--------------------|------------------|------------------|-------------|------------|------------------|-----------------------|--------------------|
| Assets and liabilities in major foreign currencies | SEK | EUR | USD | JPY | DKK | Other currencies | Fair value adjustment | Total |
| Assets | | | | | | | | |
| Lending to credit institutions | 202,192 | 227,172 | 1,421,952 | -12 | 147 | 51 | -255 | 1,851,247 |
| Lending | 122,493,770 | - | - | - | - | - | 1,130,370 | 123,624,140 |
| Interest-bearing securities | 32,677,374 | 6,571,270 | 7,072,144 | - | - | - | 195,571 | 46,516,359 |
| Shares and participations | 1,238 | - | - | - | - | - | - | 1,238 |
| Derivatives | - | - | - | - | - | - | 10,973,991 | 10,973,991 |
| Other assets | 22,764 | 7,210 | 7 | - | - | - | - | 29,981 |
| Total assets | 155,397,338 | 6,805,652 | 8,494,103 | -12 | 147 | 51 | 12,299,677 | 182,996,956 |
| Liabilities | | | | | | | | |
| Liabilities to credit institutions | 3,482,025 | 1,027,258 | 176,864 | 2,542,233 | - | - | 119,746 | 7,348,126 |
| Securities issued | 23,911,236 | 17,886,561 | 68,510,925 | 11,626,874 | 6 254 834 | 34 169 750 | 2,335,943 | 164,696,123 |
| Derivatives | 127,134,868 | -12,346,858 | -60,194,365 | -14,169,107 | -6 254 834 | -34 169 705 | 9,883,055 | 9,883,054 |
| Other liabilities inc. equity | 870,733 | 237,987 | - | - | - | - | -39,067 | 1,069,653 |
| Total equity and liabilities | 155,398,862 | 6,804,948 | 8,493,424 | 0 | 0 | 45 | 12,299,677 | 182,996,956 |
| Difference, assets and liabilities | -1,524 | 704 | 679 | -12 | 147 | 6 | 0 | 0 |
| Effect (pre-tax) of a 10% increase in the SEK exchange rate compared to the foreign currency | - | 71 | 68 | -1 | 15 | 1 | - | - |

| 2008 | | Reported values | | | | | | |
|--|--------------------|------------------|------------------|-------------|--------------|------------------|-----------------------|--------------------|
| Assets and liabilities in major foreign currencies | SEK | EUR | USD | JPY | DKK | Other currencies | Fair value adjustment | Total |
| Assets | | | | | | | | |
| Lending to credit institutions | 274,925 | 609,515 | 1,566,344 | -2 | 1,062 | -47 | -11,821 | 2,439,976 |
| Lending | 103,838,681 | - | - | - | - | - | 819,407 | 104,658,088 |
| Interest-bearing securities | 3,868,063 | 9,041,995 | 6,827,202 | - | - | - | -226,069 | 19,511,192 |
| Shares and participations | 827 | - | - | - | - | - | - | 827 |
| Derivatives | - | - | - | - | - | - | 16,094,288 | 16,094,288 |
| Other assets | 26,171 | 7,370 | 68 | - | 5 | 470 | - | 34,084 |
| Total assets | 108,008,667 | 9,658,880 | 8,393,614 | -2 | 1,067 | 423 | 16,675,805 | 142,738,455 |
| Liabilities | | | | | | | | |
| Liabilities to credit institutions | 482,025 | 1,702,285 | 192,842 | 2,837,963 | - | - | 175,076 | 5,390,191 |
| Securities issued | 36,315,401 | 9,231,016 | 36,023,196 | 8,363,927 | 10,075,090 | 20,336,865 | 5,760,609 | 126,106,103 |
| Derivatives | 70,719,128 | -1,276,118 | -27,828,440 | -11,202,578 | -10,075,127 | -20,336,865 | 10,675,017 | 10,675,017 |
| Other liabilities inc. equity | 489,636 | 11,519 | 59 | 687 | 101 | 39 | 65,103 | 567,144 |
| Total equity and liabilities | 108,006,190 | 9,668,701 | 8,387,657 | 0 | 64 | 39 | 16,675,805 | 142,738,455 |
| Difference, assets and liabilities | 2,477 | -9 821 | 5,958 | -2 | 1,003 | 384 | 0 | 0 |
| Effect (pre-tax) of a 10% increase in the SEK exchange rate compared to the foreign currency | - | -982 | 596 | - | 100 | 38 | - | - |

4 Net interest income

| Interest income | 2009 | 2008 |
|---|------------------|------------------|
| Lending to credit institutions | 10,765 | 14,582 |
| Lending | 2,839,976 | 3,329,731 |
| Interest-bearing securities | 488,495 | 1,382,371 |
| Other | 499 | 513 |
| Total | 3,339,735 | 4,727,197 |
| Of which: interest income from financial items not measured at fair value through profit or loss | 337,773 | 718,997 |
| Interest expenses | | |
| Liabilities to credit institutions | 585 | 4,824 |
| Interest-bearing securities | 2,953,894 | 4,569,794 |
| Other | 3,117 | 504 |
| Total | 2,957,596 | 4,575,122 |
| Of which: interest expense from financial items not measured at fair value through profit or loss | 2,877,144 | 4,472,585 |
| Total net interest income | 382,139 | 152,075 |

5 Commission expenses

| | 2009 | 2008 |
|----------------------------|--------------|--------------|
| Payment agency commissions | 387 | 313 |
| Brokerage for securities | 3,065 | 3,256 |
| Other commissions | 41 | 64 |
| Total | 3,493 | 3,633 |

6 Net result of financial transactions

| | 2009 | 2008 |
|--|----------------|---------------|
| Result from buyback of own bonds | 48,209 | 26,390 |
| Interest-bearing securities | -215 | 3,764 |
| Realised profit from other financial instruments | 48,986 | -14,605 |
| Unrealised changes in market value | -150,683 | -2,670 |
| Exchange rate changes | 2,954 | 1,063 |
| Total | -50,749 | 13,942 |

Net gain/loss by measurement category

| | 2009 | | 2008 | |
|--|------------------------|----------------|------------------------|----------------|
| | Through profit or loss | Through equity | Through profit or loss | Through equity |
| Financial assets at fair value through profit or loss | 385,458 | - | 1,473,485 | - |
| Holdings for trading purposes (assets) | 25,439 | - | -755,058 | - |
| Available-for-sale financial assets | -215 | 50,680 | 3,764 | 19,177 |
| Loans and receivables | - | -4,169 | - | -4,287 |
| Financial liabilities at fair value through profit or loss | 285,280 | - | 112,380 | - |
| Financial liabilities at amortised cost | 51,163 | - | 27,453 | - |
| Change in fair value of derivatives that are hedging instruments in a fair value hedge | -501,808 | - | 4,003,595 | - |
| Change in fair value on hedged item with regard to hedged risk in fair value hedges | -296,066 | - | -4,851,677 | - |
| Total | -50,749 | 46,511 | 13,942 | 14,890 |

7 General administration expenses

| Payroll expenses | 2009 | 2008 |
|--|----------------|---------------|
| - salaries and emoluments | 29,239 | 23,675 |
| - variable performance benefit | - | 2,420 |
| - social security charges | 8,952 | 9,180 |
| - pension expenses | 5,796 | 3,232 |
| - education/training costs | 2,140 | 1,434 |
| - other personnel costs | 3,576 | 4,327 |
| Total personnel costs | 49,703 | 44,268 |
| Other general administration expenses | 2009 | 2008 |
| - travel expenses | 2,931 | 2,570 |
| - IT expenses | 9,717 | 5,092 |
| - consultancy fees | 15,743 | 8,692 |
| - temporary/contract personnel | 1,558 | 2,701 |
| - rating expenses | 6,845 | 3,766 |
| - Reuters | 3,770 | 2,640 |
| - rent and other expenses for premises | 1,893 | 1,830 |
| - annual report and interim report | 893 | 1,644 |
| - other | 34,774 | 7,379 |
| Total other general administration expenses | 78,124 | 36,314 |
| Total | 127,827 | 80,582 |

Remuneration policy

There has been no agreement over the year in respect of variable salary.

The company will be adopting a remuneration policy in early 2010. Information on the company's remuneration will be accessible on the company's website, www.kommuninvest.se, by 25 March 2010 at the latest.

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 has received SEK 2,472,000 (2,410,000). Social security contributions amounted to SEK 754,000. Pension expenses for the President amounted to SEK 885,000 (580,000) and 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. For termination initiated by the company, the President will continue to receive a salary for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration for the Executive Vice President has been decided by the President after consultation with the Board Chairman. Remuneration to the Vice President in 2009 comprises a fixed salary and other benefits. The Vice President has received SEK 1,326,000 (1,239,000), of which variable remuneration amounted to SEK 0 (144,000). Social security contributions amounted to SEK 416,000. Pension expenses for the Vice President amounted to SEK 276,000 (245,000) and are covered by insurance. For termination initiated by the company, the Vice President will continue to receive a salary for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration to other senior executives in the corporate management, 2 (2, of whom 1 for part of the year) people in total of whom 1 (1) woman and 1 (1) man, has been decided upon by the President. Remuneration in 2009 comprises a fixed salary and other benefits. One of the senior executives has an agreement concerning a conditional salary with deferred payment. The total amount of the remuneration for these people amounted to SEK 2,209,000 (1,048,000), of which variable remuneration amounted to SEK 0 (146,000). Social security contributions amount to SEK 880,000 and pension expenses to SEK 409,000, which are covered by insurance.

Remuneration to the Board of Directors

During the year, the Board of Directors comprised 8 (8) members, of whom 4 (4) were women.

Remuneration to the Board, within the framework of the Board fees approved by the Annual General Meeting, is shown in the table below. The Chairman of the Board received a fixed fee of SEK 400,000. 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.

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

| | 2009 | 2008 |
|---|--------------|--------------|
| Tommy Persson | 400 | 400 |
| Ellen Bramness Arvidsson | 142 | 158 |
| Lorentz Andersson | 102 | 134 |
| Alf Egnerfors (until 2 April 2009) | 32 | 134 |
| Kerstin Ryding | 110 | 136 |
| Anna von Knorring | 94 | 134 |
| Ingemar Alserud | 62 | 78 |
| Ann-Charlotte Stenkil (until 2 April 2009) | 32 | 102 |
| Catharina Lagerstam (with effect from 2 April 2009) | 78 | - |
| Johan Törngren (with effect from 2 April 2009) | 70 | - |
| Total | 1,122 | 1,276 |

| | 2009 | 2008 |
|---|------|------|
| Average number of employees during the year | 48 | 41 |
| - of whom women | 24 | 22 |

Sick leave

Total sick leave for all employees was 0.95% (2.30%) of standard working hours. Total sick leave for women was 0.89% (3.45%) and for men 1.01% (0.99%). The proportion of total sick leave of 60 days or more was 0.00% (9.32%).

| Absence due to illness by age category: | | 2009 | 2008 |
|---|--|------|------|
| Up to age 29 | | * | * |
| 30-49 years | | 0.91 | 2.46 |
| Age 50 and above | | 0.72 | 1.56 |

* 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

| | 2009 | 2008 |
|-----------------------------|-------|------|
| <i>Ernst & Young AB</i> | | |
| Auditing engagement | 857 | 801 |
| Other engagements | 2,533 | 772 |

Auditing work refers to the scrutiny of the annual report and bookkeeping and administration by the Board of Directors and President, 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.

Operating leases where Kommuninvest i Sverige AB is the lessor

| Non-cancellable lease payments amount to: | | 2009 | 2008 |
|---|--|--------------|--------------|
| Within one year | | 1,749 | 1,734 |
| Between one and five years | | 1,328 | 1,268 |
| More than five years | | 83 | 78 |
| Total | | 3,160 | 3,080 |

Expenses over the year amounted to SEK 1,749,000 (1,734,000).

8 Other operating expenses

| | 2009 | 2008 |
|-------------------------------|--------------|--------------|
| Insurance expenses | 773 | 362 |
| Communication and information | 3,926 | 4,742 |
| Other operating expenses | 79 | 70 |
| Total | 4,778 | 5,174 |

9 Appropriations

| | 2009 | 2008 |
|------------------------------------|----------------|----------------|
| Transfer to tax allocation reserve | -85,721 | -18,640 |
| Reversal of tax allocation reserve | 3,214 | 7,004 |
| Total | -82,507 | -11,636 |

10 Taxes

| Recognised in income statement | 2009 | 2008 |
|-------------------------------------|---------------|---------------|
| Tax expense for the period | 69,698 | 19,158 |
| Deferred tax income | -24,995 | - |
| Total tax expense recognised | 44,703 | 19,158 |

The deferred tax income relates to tax on unrealised market value changes.

| Reconciliation of effective tax | 2009 (%) | 2009 | 2008 (%) | 2008 |
|--|--------------|---------------|--------------|---------------|
| Profit/loss before tax | | 111,171 | | 63,698 |
| Tax according to prevailing tax rate (28%) | 26.3% | 29,238 | 28.0% | 17,835 |
| Non-deductible expenses | 36.4% | 40,461 | 2.2% | 1,379 |
| Non-taxable income | 0.0% | 0 | -0.1% | -57 |
| Recognised effective tax | 62.7% | 69,698 | 30.1% | 19,158 |

| Tax items entered directly against equity | 2009 | 2008 |
|--|---------------|--------------|
| Current tax in Group contributions received/paid | 2,065 | 3,500 |
| Deferred tax attributable to available-for-sale financial assets | 12,197 | - |
| Deferred tax attributable to loans and receivables | 2,523 | - |
| Total sum entered directly against equity | 16,785 | 3,500 |

11 State bonds eligible as collateral

| State bonds eligible as collateral | 2009 | | | 2008 | | |
|---|-------------------|-------------------|-------------------|-------------------|------------------|------------------|
| | Acquisition value | Fair value | Carrying amount | Acquisition value | Fair value | Carrying amount |
| - Swedish state | 17,299,141 | 17,299,178 | 17,299,178 | - | - | - |
| - Swedish municipalities | 3,554,348 | 3,613,517 | 3,613,115 | 1,834,106 | 1,871,150 | 1,879,588 |
| Total | 20,853,489 | 20,912,695 | 20,912,293 | 1,834,106 | 1,871,150 | 1,879,588 |
| Positive difference of book values exceeding nominal values | | | 56,674 | | | 44,941 |
| Negative difference of book values falling below nominal values | | | -8,963 | | | -3,502 |

Recognised value differs from fair value because the item includes assets which are reclassified as loans and receivables - see Note 22 - which are recognised at amortised cost.

12 Lending

Lending refers to lending to municipalities and county councils, as well as to companies owned by municipalities and county councils. Approximately 40% (44%) 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 40% (42%) and other companies with municipal guarantees 20% (14%).

13 Bonds and other interest-bearing securities

| | 2009 | | | 2008 | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Acquisition value | Fair value | Carrying amount | Acquisition value | Fair value | Carrying amount |
| Bonds and other interest-bearing securities | | | | | | |
| - Swedish housing finance institutions | 3,828,938 | 3,827,752 | 3,827,752 | 1,296,259 | 1,297,269 | 1,297,269 |
| - other Swedish issuers | 6,570,116 | 6,570,993 | 6,572,068 | 2,050,876 | 2,064,643 | 2,068,472 |
| - other foreign issuers | 14,938,177 | 15,176,986 | 15,204,247 | 13,971,732 | 14,211,711 | 14,265,863 |
| Total | 25,337,231 | 25,575,731 | 25,604,067 | 17,318,867 | 17,573,623 | 17,631,604 |
| Positive difference of book values exceeding nominal values | | | 272,746 | | | 304,791 |
| Negative difference of book values falling below nominal values | | | -19,919 | | | -14,778 |

Recognised value differs from fair value because the item includes assets which are reclassified as loans and receivables - see Note 22 - which are recognised at amortised cost.

14 Shares and participations

| | 2009 | 2008 |
|--|------------|------------|
| Endowment insurance | 734 | 323 |
| Total shares and participations | 734 | 323 |

17 Other liabilities

| | 2009 | 2008 |
|-------------------------------|----------------|---------------|
| Liabilities to parent society | 7,850 | 12,500 |
| Other liabilities | 304,552 | 27,921 |
| Total | 312,402 | 40,421 |

15 Shares in associated companies

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

18 Provision for pensions and similar commitments

| | 2009 | 2008 |
|-----------------------------------|------------|------------|
| Provision for pension obligations | 912 | 402 |
| Total | 912 | 402 |

16 Tangible assets

| | 2009 | 2008 |
|---|---------------|---------------|
| Acquisition value brought forward | 9,290 | 6,429 |
| Investments for the year | 1,018 | 2,861 |
| Acquisition value carried forward | 10,308 | 9,290 |
| Opening balance, depreciation | -4,875 | -3,245 |
| Depreciation for the year | -1,812 | -1,630 |
| Depreciation carried forward | -6,687 | -4,875 |
| Planned residual value at the end of the accounting period | 3,621 | 4,415 |

19 Untaxed reserves

| | 2009 | 2008 |
|--------------------------------|----------------|---------------|
| Tax allocation reserves | | |
| 2004 tax assessment | - | 3,214 |
| 2005 tax assessment | 4,906 | 4,906 |
| 2006 tax assessment | 13,770 | 13,770 |
| 2007 tax assessment | 6,952 | 6,952 |
| 2008 tax assessment | 4,687 | 4,687 |
| 2009 tax assessment | 18,640 | 18,640 |
| 2010 tax assessment | 85,721 | - |
| Total untaxed reserves | 134,676 | 52,169 |

20 Pledged assets

| | 2009 | 2008 |
|---|------------------|------------|
| <i>In the form of assets pledged for own provisions and liabilities</i> | | |
| Government securities pledges with the Riksbank | 3,499,153 | - |
| Endowment insurance for pension obligations | 734 | 323 |
| Assets pledged, total | 3,499,887 | 323 |

The recognised value of liabilities and provisions involving pledges amounted to SEK 3,002,845,000 (402,000).

21 Related parties

Close associations

Kommuninvest has close associations with Kommuninvest Cooperative Society (parent company), Kommuninvest Fastighets AB (affiliate 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 December | Liabilities to related parties on 31 December |
|-----------------------------------|------|--|---|---|---|
| Kommuninvest Cooperative Society | 2009 | 10 | - | - | 7,850 |
| | 2008 | 202 | - | 192 | 12,500 |
| Kommuninvest Fastighets AB | 2009 | 268 | 1,589 | 208 | - |
| | 2008 | 55 | 1,576 | - | 397 |
| Administrative Solutions NLGFA AB | 2009 | - | 7,825 | - | 641 |
| | 2008 | - | 3,928 | - | 470 |

Transactions with related 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.

22 Financial assets and liabilities

| | Financial assets at fair value through profit or loss. Financial assets determined to belong to this category | Financial assets at fair value through profit or loss. Holdings for trading purposes | Loans and receivables | Investments held to maturity |
|---|---|--|-----------------------|------------------------------|
| 2009 | | | | |
| Cash and balances with central banks | - | - | 2 | - |
| State bonds eligible as collateral | 409,317 | 20,000 | 697,120 | - |
| Lending to credit institutions | - | - | 427,701 | - |
| Lending | 123,624,140 | - | - | - |
| Bonds and other interest-bearing securities | 4,399,444 | 9,560,974 | 4,901,638 | - |
| Derivatives | - | 1,748,779 | - | - |
| Other assets | - | - | 19,025 | - |
| Total | 128,432,901 | 11,329,753 | 6,045,486 | 0 |
| Liabilities to credit institutions | - | - | - | - |
| Securities issued | - | - | - | - |
| Derivatives | - | - | - | - |
| Other liabilities | - | - | - | - |
| Total | 0 | 0 | 0 | 0 |
| 2008 | | | | |
| Cash and balances with central banks | - | - | 3 | - |
| State bonds eligible as collateral | 403,506 | - | 696,497 | - |
| Lending to credit institutions | - | - | 340,830 | - |
| Lending | 104,658,088 | - | - | - |
| Bonds and other interest-bearing securities | 5,185,376 | 2,060,610 | 5,361,094 | - |
| Derivatives | - | 4,038,233 | - | - |
| Other assets | - | - | 25,606 | - |
| Total | 110,246,970 | 6,098,843 | 6,424,030 | 0 |
| Liabilities to credit institutions | - | - | - | - |
| Securities issued | - | - | - | - |
| Derivatives | - | - | - | - |
| Other liabilities | - | - | - | - |
| Total | 0 | 0 | 0 | 0 |

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 regard to the hedged risk (liabilities that are not part of a hedging relationship). Fair value differs from book value as it relates to fair value for both of these groups. The carrying amount for state bonds eligible as collateral and bonds and other interest-bearing securities differ from fair value due to reclassification from available-for-sale financial assets to loans and receivables.

| Available-for-sale financial assets | Financial liabilities at fair value through profit or loss, financial liabilities determined to belong to this category | Financial liabilities at fair value through profit or loss. Holdings for trading purposes | Other liabilities | Derivatives that are used for hedge reporting | Total carrying amount | Fair value |
|--|---|--|----------------------|--|--------------------------|--------------------|
| - | - | - | - | - | 2 | 2 |
| 19,785,856 | - | - | - | - | 20,912,293 | 20,912,695 |
| 1,423,545 | - | - | - | - | 1,851,246 | 1,851,246 |
| - | - | - | - | - | 123,624,140 | 123,624,140 |
| 6,742,011 | - | - | - | - | 25,604,067 | 25,575,731 |
| - | - | - | - | 9,225,212 | 10,973,991 | 10,973,991 |
| - | - | - | - | - | 19,025 | 19,025 |
| 27,951,412 | 0 | 0 | 0 | 9,225,212 | 182,984,764 | 182,956,830 |
| - | - | - | 7,348,127 | - | 7,348,127 | 7,333,462 |
| - | - | - | 164,696,122 | - | 164,696,122 | 164,911,893 |
| - | - | 5,296,256 | - | 4,586,799 | 9,883,055 | 9,883,055 |
| - | - | - | 264,480 | - | 264,480 | 264,480 |
| 0 | 0 | 5,296,256 | 172,308,729 | 4,586,799 | 182,191,784 | 182,392,890 |
| - | - | - | - | - | 3 | 3 |
| 779,585 | - | - | - | - | 1,879,588 | 1,871,150 |
| 2,099,143 | - | - | - | - | 2,439,973 | 2,439,973 |
| - | - | - | - | - | 104,658,088 | 104,658,088 |
| 5,024,524 | - | - | - | - | 17,631,604 | 17,573,623 |
| - | - | - | - | 12,056,055 | 16,094,288 | 16,094,288 |
| - | - | - | - | - | 25,606 | 25,606 |
| 7,903,252 | 0 | 0 | 0 | 12,056,055 | 142,729,150 | 142,662,731 |
| - | - | - | 5,390,191 | - | 5,390,191 | 5,388,515 |
| - | - | - | 126,106,103 | - | 126,106,103 | 126,161,011 |
| - | - | 3,528,061 | - | 7,146,956 | 10,675,017 | 10,675,017 |
| - | - | - | 36,864 | - | 36,864 | 36,864 |
| 0 | 0 | 3,528,061 | 131,533,158 | 7,146,956 | 142,208,175 | 142,261,407 |

The table below provides information on how fair value was determined for the financial instruments valued at fair value in the balance sheet. The distribution of how fair value was determined takes place on the basis of the following three levels.

Level 1: according to prices noted on an active market for the same instrument

Level 2: on the basis of directly or indirectly observable market data not included in level 1

Level 3: on the basis of input data which is not observable on the market

2009

| SEK 000 | Level 1 | Level 2 | Level 3 | Total |
|---|---------------|--------------------|----------|--------------------|
| Cash | - | - | - | - |
| State bonds eligible as collateral | - | 20,215,172 | - | 20,215,172 |
| Lending to credit institutions | - | 1,423,545 | - | 1,423,545 |
| Lending | - | 123,624,140 | - | 123,624,140 |
| Bonds and other interest-bearing securities | - | 20,702,429 | - | 20,702,429 |
| Shares and participations | - | - | - | - |
| Derivatives | 48,387 | 10,925,604 | - | 10,973,991 |
| Other assets | - | - | - | - |
| Total | 48,387 | 176,890,890 | - | 176,939,277 |
| Liabilities to credit institutions | - | - | - | - |
| Securities issued | - | - | - | - |
| Derivatives | 32,562 | 9,850,493 | - | 9,883,055 |
| Other liabilities | - | - | - | - |
| Total | 32,562 | 9,850,493 | - | 9,883,055 |

The remeasurements of the hedged item in hedge accounting have not been included in the table above as this remeasurement of the accrued acquisition value is not a valuation at fair value.

Calculation of fair value

As only a small part of Kommuninvest's financial instruments are traded on an active market at listed prices as per level 1, accepted and well established valuation techniques are primarily used to determine fair value. These valuation techniques are based on observable market information in accordance with valuation level 2. The valuation techniques applied are based on discounted cash flows and prices from the primary and secondary markets.

Lending

Fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted by current new lending margins. This calculation technique means that when the new lending margin rises, a lower fair value arises for previous lending, and vice versa.

Kommuninvest's lending is focused solely on members of Kommuninvest Cooperative Society and to its members' majority-owned companies.

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

Fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted on the basis of the issuer's credit risk. Most of the investments are with the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. Kommuninvest holds no positions in structured credit products such as ABS, Asset-Backed Securities, or CDOs, Collateralised Debt Obligations.

Derivatives which are not utilised in hedge accounting

Fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the current listed swap rate for the derivative. Derivatives are reported as assets when they have a positive market value, and as liabilities when they have a negative market value. Kommuninvest's derivative instruments not utilised in hedge accounting consist of interest rate and currency swaps and FRA contracts. For more information on Kommuninvest derivatives, see Note 3.

*Borrowing and borrowing derivatives**(derivatives not utilised in hedge accounting)*

Fair value for borrowing and the receiving side in a swap has been calculated on a valuation based on the structure of individual borrowings. Different borrowing products are utilised on different markets. 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, adjusted by relevant borrowing margins. Derivatives are reported as assets when they have a positive market value, and as liabilities when they have a negative market value. Kommuninvest's derivative instruments not utilised in hedge accounting consist of interest rate and currency swaps. For more information on Kommuninvest derivatives, see Note 3.

Other financial assets and liabilities

These items are valued at accrued cost.

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

Significant assumptions and uncertainty factors

Kommuninvest has applied the valuation techniques best deemed to reflect the value of the company's assets and liabilities. Changes in underlying market data could mean major changes to the income statement and balance sheet in respect of unrealised market values. Kommuninvest has longer terms on its liabilities than on its assets, which is also stated in the note on terms. This means that its liabilities are more susceptible to market value changes than its assets. The valuation curves are also determined on the basis of current borrowing and lending margins, increased margins on lending leading to unrealised losses when the value of existing business is reduced. A parallel displacement of the lending margin by 10 bp on Kommuninvest's lending to municipalities would mean a change in income of SEK 150 million. A parallel displacement of the borrowing margin by 10 bp on the liabilities included in the hedge accounting at fair value category would mean a change of SEK 250 million. All market value effects are unrealised, and as Kommuninvest intends to hold its assets and liabilities to maturity, these will not be realised. The interest rate risk is limited to SEK 0.7 million in the event of a parallel displacement of the swap curve by 10 bp.

Reclassification

Reclassification has taken place on 10 November 2008 of assets in the form of interest-bearing securities, recorded previously in the financial assets which can be sold to the category loans and receivables. As this reclassification has been made from financial assets which can be sold, the income statement is not affected by changes in value which are recorded in equity in the fund for fair value.

31/12/2009

Had this reclassification not taken place, equity would have been affected negatively by SEK 27,933,000 in the fund for fair value as at 31 December 2009. This means that over the year, the fund for fair value has improved by SEK 38,485,000 in respect of the reclassified securities.

Interest income amounting to SEK 62,982,000 has been recognised in the income statement for the period 1 January - 31 December with regard to the reclassified assets.

| | 31 December 2009 | | 31 December 2008 | |
|-----------------------------|------------------|------------|------------------|------------|
| | Book value | Fair value | Book value | Fair value |
| Interest-bearing securities | 5,598,758 | 5,570,825 | 6,057,591 | 5,991,173 |

31/12/2008

Had this reclassification not taken place, equity would have been affected negatively by SEK 66,418,000 in the fund for fair value as at 31 December 2008.

Interest income amounting to SEK 25,253,000 has been recognised in the income statement for the period 10 November - 31 December with regard to the reclassified assets.

| | 31 December 2008 | | 10 November 2008 | |
|-----------------------------|------------------|------------|------------------|------------|
| | Book value | Fair value | Book value | Fair value |
| Interest-bearing securities | 6,057,591 | 5,991,173 | 6,078,148 | 6,078,148 |

All assets are of high quality, mostly zero-risk-weighted, interest payments are being made according to plan and Kommuninvest is of the view that a nominal amount will be received on the due date.

23 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. For capital requirements above minimum level (column 1), amounts have been allocated for the following other risks (column 2): Credit risk, market risk, operational risk, interest risk, business risk, reputation risk and strategic risk. Kommuninvest has set an internal capital coverage quote which includes all risks in the operation in accordance with columns 1 and 2 and also an additional risk area as a buffer for risks not calculated for columns 1 and 2. This quota is a minimum and must be complied with unless internal approval is given for non-compliance.

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

- risk profile,
- identified risks with regard to probability and financial impact,
- 'stress tests' 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.

In its overall assessment, the Board has found that the capital requirements arising as a consequence of the risks (columns 1 and 2) identified in a reasonable manner are covered within the scope of current capital.

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 the administration report and in Note 3.

Kommuninvest i Sverige AB has opted in this annual report only to provide the information required on capital base and capital requirements in accordance with Chapter 3, §§ 1-2 and Chapter 4 of the regulations and general recommendations of the Swedish Financial Supervisory Authority regarding disclosure of information on capital coverage and risk management (FFFS 2007:5). Other disclosures required by these regulations can be found on the company's Kommuninvest i Sverige AB website: www.kommuninvest.se.

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

| | 2009 | 2008 |
|---|----------------|----------------|
| Primary capital | | |
| Share capital | 269,620 | 236,700 |
| Statutory reserve | 17,473 | 17,473 |
| Profit brought forward | 191,233 | 152,479 |
| Income for the year | 66,467 | 44,540 |
| Less deferred tax income | -24,995 | - |
| Untaxed reserves (2009: 73.7%, 2008: 72.0%) | 99,257 | 37,561 |
| Net capital base | 619,055 | 488,753 |
| Total capital requirement | | |
| Capital requirement for credit risks (the standardised method) | 116,932 | 120,794 |
| Capital requirement for risks in trade inventory | 27,084 | 5,948 |
| Capital requirement for operational risks | 30,104 | 19,190 |
| Capital requirement for foreign exchange risk | 61 | 99 |
| Total capital requirement | 174,181 | 146,031 |
| Capital coverage quota | 3.55 | 3.35 |
| Capital basis | | |
| The capital basis includes the Board's proposed disposition of earnings. | | |
| Capital requirement | | |
| Credit risk in accordance with standardised method | 2009 | 2008 |
| 1. Exposures to states and central banks | 0 | 0 |
| 2. Exposures to municipalities and comparable cooperatives, and authorities | 0 | 0 |
| 3. Institutional exposures | 115,053 | 119,150 |
| 4. Corporate exposures | 320 | 320 |
| 5. Other items | 1,559 | 1,324 |
| Total capital requirement for credit risks | 116,932 | 120,794 |
| Risks in trade inventory | | |
| Interest risks | | |
| - Specific risk | 23,952 | 5,154 |
| - General risk | 3,132 | 794 |
| Total capital requirements for risks in trade inventory | 27,084 | 5,948 |
| Operational risks | | |
| Basic indicator method | 30,104 | 19,190 |
| Total capital requirement for operational risks | 30,104 | 19,190 |
| Foreign exchange risk | | |
| Foreign exchange risk | 61 | 99 |
| Total capital requirement for foreign exchange risks | 61 | 99 |
| Total minimum capital requirement | 174,181 | 146,031 |
| Starting capital | 9,320 | 9,320 |



»Japanese Mountain» by Eva Zethraeus.

FIVE-YEAR SUMMARY

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|-----------|-----------|-----------|-----------|-----------|
| KEY RATIOS 2005-2009 | | | | | |
| Growth | | | | | |
| Lending (change in %) | 18.1 | 34.3 | 16.7 | 17.8 | 11.0 |
| Net interest income (change in %) | 151.3 | 91.0 | -20.6 | 9.5 | 16.8 |
| Consolidation | | | | | |
| Equity and untaxed reserves as a percentage of balance sheet total | 0.39 | 0.36 | 0.38 | 0.30 | 0.31 |
| Efficiency | | | | | |
| Administration expenses as a percentage of lending | 0.109 | 0.083 | 0.103 | 0.120 | 0.109 |
| Administration expenses as a percentage of balance sheet total | 0.073 | 0.061 | 0.073 | 0.079 | 0.068 |
| Administration expenses/employee (in thousands of SEK) | 2,743 | 2,131 | 2,177 | 2,113 | 1,760 |
| Change (%) | 28.7 | -2.1 | 3.0 | 20.1 | 12.2 |
| Lending/employee (in thousands of SEK) | 2,522,942 | 2,552,636 | 2,106,424 | 1,758,208 | 1,621,093 |
| Change (%) | -1.2 | 21.2 | 19.8 | 8.5 | 7.8 |
| Return | | | | | |
| Operating profit after tax as a percentage of average equity | 23.61 | 12.06 | 6.34 | 7.43 | 16.29 |
| Income/expense ratio (I/E) | | | | | |
| Net interest income and other operating income in relation to total costs | 2.8 | 1.7 | 1.0 | 1.3 | 1.5 |
| Other information | | | | | |
| Number of employees | 49 | 41 | 37 | 38 | 35 |

Administration expenses relates to general administration expenses, depreciation and other operating expenses.

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|-----------------|----------------|----------------|----------------|----------------|
| INCOME STATEMENT, 1 JANUARY – 31 DECEMBER | | | | | |
| SEK 000 | | | | | |
| Net interest income | 382,139 | 152,075 | 79,610 | 100,214 | 91,504 |
| Commission expenses | -3,493 | -3,633 | -3,126 | -4,080 | -3,806 |
| Net result of financial transactions | -50,749 | 13,942 | 34,181 | 12,632 | 26,043 |
| Other operating income | 198 | 336 | 600 | 1,042 | 3,831 |
| Total income | 328,095 | 162,720 | 111,265 | 109,808 | 117,572 |
| General administration expenses | -127,827 | -80,582 | -75,868 | -74,535 | -57,604 |
| Depreciation | -1,812 | -1,630 | -1,602 | -2,084 | -1,807 |
| Other operating expenses | -4,778 | -5,174 | -3,093 | -3,686 | -2,192 |
| Total expenses | -134,417 | -87,386 | -80,563 | -80,305 | -61,603 |
| Operating income | 193,678 | 75,334 | 30,702 | 29,503 | 55,969 |
| Appropriations, net | -82,507 | -11,636 | 544 | -3,595 | -11,595 |
| Taxes | -44,703 | -19,158 | -7,120 | -8,026 | -12,798 |
| Income for the year | 66,468 | 44,540 | 24,126 | 17,882 | 31,576 |

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|--------------------|--------------------|--------------------|--------------------|-------------------|
| BALANCE SHEET AS AT 31 DECEMBER | | | | | |
| SEK 000 | | | | | |
| Cash | 2 | 3 | 5 | 1 | 1 |
| State bonds eligible as collateral | 20,912,293 | 1,879,588 | 5,598,771 | 6,349,315 | 10,518,887 |
| Lending to credit institutions | 1,851,246 | 2,439,973 | 2,513,814 | 2,680,563 | 3,109,722 |
| Lending | 123,624,140 | 104,658,088 | 77,937,698 | 66,811,917 | 56,738,251 |
| Bonds and other interest-bearing securities | 25,604,067 | 17,631,604 | 17,748,327 | 21,567,302 | 18,116,466 |
| Shares and participations | 734 | 323 | 146 | - | - |
| Shares in associated companies | 504 | 504 | 504 | 504 | 504 |
| Derivatives | 10,973,991 | 16,094,288 | 5,863,772 | - | - |
| Tangible assets, equipment | 3,621 | 4,415 | 3,184 | 3,356 | 3,151 |
| Other assets | 19,300 | 25,925 | 249,051 | 3,067,005 | 2,043,157 |
| Prepaid expenses and accrued revenues | 7,058 | 3,744 | 2,284 | 694,089 | 618,308 |
| Total assets | 182,996,956 | 142,738,455 | 109,917,556 | 101,174,052 | 91,148,447 |
| Liabilities to credit institutions | 7,348,127 | 5,390,191 | 4,627,355 | 3,618,393 | 3,424,562 |
| Securities issued | 164,696,122 | 126,106,103 | 93,561,362 | 93,388,186 | 84,738,299 |
| Derivatives | 9,883,055 | 10,675,017 | 11,275,184 | - | - |
| Other liabilities | 312,402 | 40,421 | 32,223 | 3,105,578 | 2,019,697 |
| Accrued expenses and prepaid revenues | 35,616 | 13,499 | 8,294 | 755,206 | 678,953 |
| Provisions for pensions and similar obligations | 912 | 402 | 182 | - | - |
| Total liabilities and provisions | 182,276,234 | 142,225,633 | 109,504,600 | 100,867,363 | 90,861,511 |
| Untaxed reserves | 134,676 | 52,169 | 40,533 | 41,077 | 37,482 |
| Equity | 586,046 | 460,653 | 372,423 | 265,612 | 249,454 |
| Total liabilities, provisions and equity | 182,996,956 | 142,738,455 | 109,917,556 | 101,174,052 | 91,148,447 |

1. Figures for comparison years are based on 2006 and previously in accordance with earlier accounting principles.

Group contributions

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

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

APPROPRIATION OF SURPLUS

| | |
|---|-------------|
| The Board and the President propose that: | |
| profit for the year | 66,467,193 |
| profit brought forward | 191,234,045 |
| fund for fair value | 41,251,594 |
| total | 298,952,832 |

| | |
|-----------------------------|-------------|
| be appropriated as follows: | |
| To be carried forward | 298,952,832 |

Applicable rules for capital coverage and major exposures mean that Kommuninvest must at all times have a capital base which at least corresponds to the total of 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 oper-

ation in accordance with Kommuninvest's internal capital assessment policy.

Kommuninvest's capital coverage quota after the proposed allocation of profits amounts to 3.55% (3.35%). The capital base amounts to SEK 619 (489) million after the proposed allocation of profits, and the final minimum capital requirement amounts to SEK 174 (146) million. A specification of items can be found in the note 23 on capital coverage.

Kommuninvest's financial position does not give rise to any assessment other than that Kommuninvest can be expected to fulfil its obligations in both the short and the long term.

For information on Kommuninvest's results and general position, please refer to the income statements and balance sheets with associated comments on the financial statements.

We hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles, that the Annual Report gives a true and fair view of the development of Kommuninvest's operation, financial position and results and describes the material risks and uncertainties facing the company.

The annual report, as specified above, was approved for issue by the Board on 24 February 2010. Kommuninvest's income statement and balance sheet will be adopted by the Annual General Meeting on 25 March 2010.

Örebro, Sweden, 24 February 2010

Tommy Persson
Chairman

Ellen Bramness Arvidsson
Vice Chairman

Johan Törngren

Anna von Knorring

Kerstin Ryding

Ingemar Alserud

Lorentz Andersson

Catharina Lagerstam

Tomas Werngren
President and CEO

Our Audit Report was submitted on 24 February 2010
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 2009. 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, 24 February 2010

Ernst & Young AB

Peter Strandh
Authorised Public Accountant

REVIEW REPORT

We the lay auditors, appointed by the Annual General Meeting, have examined the operation of Kommuninvest i Sverige AB.

The Board and President are responsible for the operation being conducted in accordance with the Articles of Association and owner directive as well as the regulations pertaining to the operation. The responsibility of the lay auditors is to examine the operation and control and test if the operation has been conducted in accordance with the mandate of the Annual General Meeting.

The examination was made in accordance with the Swedish Companies Act. By reviewing documents/basis for decisions, protocols/information and by discussion with Management and the authorised auditors, the audit has been made with the focus and scope necessary to give a reasonable basis for opinion and testing.

It is our opinion that the company's operation has been carried out in a purposeful and financially satisfactory manner and the company's internal control has been sufficient.

Örebro, Sweden, 24 February 2010

Barbro Tjernström

Anita Bohman

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 an unlisted company, Kommuninvest is not covered by the Swedish Code of Corporate Governance. 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 also means that the auditors elected at the Society's annual general meeting will be appointed within both the Society and the company.

Election Committees

There are two Election Committees, one for Kommuninvest Cooperative Society and one for the Society's companies, comprising Kommuninvest i Sverige AB and Kommuninvest Fastighets AB ("property company").

Election Committee for the Society's companies

The primary task for the Election Committee for the Society's companies is to act as the Society's and Annual General Meetings' organisation for preparation of AGM decisions concerning the election of Boards and lay auditors with a view to creating a good basis for the Annual General Meetings to deal with such issues.

The Election Committee holds overall responsibility for making decisions on appointment in a structured and transparent process which gives shareholders the opportunity to give their views on and make suggestions on appointment issues and other associated issues, and thereby for paving the way for well-founded decisions.

The Election Committee for the Society's companies shall represent the Society's Board.

The Society Board shall appoint members for the Election Committee from within itself. The Election Committee for the Society's companies deals with the tasks set in the statutes of the Kommuninvest Cooperative Society and the rules of procedure established by the Annual General Meeting.

The Society Board has decided that its executive committee is to constitute the Election Committee for the Society's companies. The following individuals have been members of the Election Committee since the 2009 Annual General Meeting:

Ann-Charlotte Stenkil, (born 1953)

Chair of the Kommuninvest Cooperative Society.
Member of the Executive Committee, Municipality of Varberg

Alf Egnerfors, (born 1946)

Vice Chair of the Kommuninvest Cooperative Society.
Chair of the Municipal Council, Eskilstuna

Christer Akej, (born 1955)

Chair of the Executive Committee, Municipality of Simrishamn.

Ewa-May Karlsson, (born 1957)

Chair of the Executive Committee, Municipality of Vindeln.

Margreth Johnsson, (born 1950)

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

For further information on the Election Committee and its full rules of procedure, please see www.kommuninvest.se

Auditors

The Annual General Meeting of Kommuninvest Cooperative Society appoints the external auditor and lay auditors.

External auditor

Ernst & Young AB have been appointed auditors from 2008 to 2012; appointed for the first time in 2004, with Peter Strandh as authorised auditor with overall responsibility. Peter Strandh has conducted the audit for Kommuninvest since 2007.

Lay auditors

The lay auditors regularly meet the external auditor and where necessary they can initiate auditing measures additional to the statutory audit. The lay auditors also act as an election committee, recommending auditors and submitting proposals for their remuneration.

The following lay auditors were appointed at the Annual General Meeting of Kommuninvest Cooperative Society on 02.04.09:

Anita Bohman (born 1944),

former Vice Chair of the Executive Committee in the Municipality of Västervik.

Barbro Tjernström (born 1936),

former Chair of the Executive Committee in the Municipality of Söderköping

Election Committee for the Society's companies

The Election Committee for the Society's companies consists of five members, which according to the regulations of the Kommuninvest Cooperative Society are appointed by the Society board. The Election Committee shall consist of members from the Society board. A member of the Election Committee for the Society's companies may not at the same time be a member, deputy member or auditor in the Society's companies.

The Election Committee for the Society's companies is responsible for putting forward proposals regarding the election of the Board of Directors, chairman and deputy chairman of Kommuninvest and the property company, as well as proposals for their remuneration. As a basis for its proposals, the Election Committee shall judge the degree to which the present board satisfies the requirements placed upon it, determine profiles of requirements for members that need to be recruited and implement a systematic procedure for seeking candidates for the board seats that are to be filled. At least one member of Kommuninvest's board must be, or have been, elected in a member municipality or a member county council and possess knowledge of the local government sector and the political process. A member of the Society board may not at the same time be a member of Kommuninvest's Board of Directors.

The board of Kommuninvest Cooperative Society decided in 2009 that the Executive Committee would constitute the Election Committee for the Society's companies. The following persons sit on the Executive Committee:

Ann-Charlotte Stenkil, (born 1953)
Municipality of Varberg, Chair

Alf Egnerfors, (born 1946)
Municipality of Eskilstuna, Vice Chair

Christer Akej, (born 1955)
Municipality of Simrishamn

Margreth Johnsson, (born 1950)
Municipality of Trollhättan

Ewa-May Karlsson, (born 1957)
Municipality of Vindeln

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 and the number of members 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 parameters.

The full Articles of Association can be read at www.kommuninvest.se

Annual General Meeting

The Annual General Meeting of Kommuninvest i Sverige AB (publ) considers and decides 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, establishment of an owner directive, establishment of rules of procedure for the Election Committee and where applicable appointment of the auditors and remuneration for the board and auditors.

The AGM on 02.04.09 decided on various matters, including:

- Appointment of the Board, its Chairman and Vice Chairman
- Appointment of the Election Committee
- Payment of remuneration to the Board
- Owner directives
- Guidelines for remuneration of the President and Vice President
- New share issue
- New share issue during the current financial year
- Rules of procedure for the Election Committee
- Changes to the Articles of Association

The work of the Board of Directors

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 2009 the Board of Directors met on 11 (15) occasions. Agendas and decisions have related to:

- Review of risk management processes
- Position on the capital markets
- Membership of the Swedish Riksbank's RIX

Internal control and internal audit

In accordance with the Swedish Companies Act the Board is responsible for the internal control. Work is being carried out on a continuous basis to evaluate, improve and document control activities in critical processes. In addition the Board has an independent revision function at its disposal that is directly subordinate to the Board (internal audit). The task of the internal audit is to revise and evaluate efficiency, governance, risk management and control within the group. The function works proactively on recommending improvements in the internal control. The internal audit reports on a regular basis to the Board, the President and to the appointed auditors.

Board members and their remuneration

The Board of Directors had the following composition in 2009:

Tommy Persson (born 1948), Stockholm

Elected: Chairman since 2008.

Education: University of Lund, 1971, economics graduate. Former positions: Länsförsäkringar AB, President and CEO. Posten AB, Vice President. Holmen AB, President. Holmen Hygien. Electrolux AB. Ballingslövök. Klippan AB, President.

Present appointments: Chairman of CEA; European insurance federation. Chairman of Länsförsäkringar Bergslagen. Chairman of the Seventh AP Fund. Member of LRF Konsult. Member of Stockholm Chamber of Commerce. Member of supervisory council at the Legal, Financial and Administrative Services Agency.

Ellen Bramness Arvidsson (born 1964), Stockholm

Elected: Vice Chairman since 2006, member since 2003.

Education: School of Business and Economics and FAF, diploma course for financial analysts University of Oslo, candidata oeconomiae.

Present position: Chief Economist, Swedish Insurance Federation .

Former positions: Ministry of Finance, Deputy Director and ministry secretary.

Present appointments: Chairman of Min pension i Sverige AB. Deputy board member for the association for good practice on the securities market.

Ingemar Alserud (born 1954), Täby

Elected: Member since 2008.

Education: School of Business, Economics and Law at Gothenburg University, MBA Örebro College, administration socioeconomist.

Former positions: Lernia AB, President and CEO. KPA AB, President and CEO. Swedish Association of Local Authorities, Director of Negotiations

Lorentz Andersson (born 1942), Skellefteå

Elected: Member since 2001.

Education: Luleå University of Technology, honorary Doctor of Technology Construction engineer

Former positions: Västerbotten County, County Governor Municipality of Skellefteå, Chairman of the Executive Committee. AB Asako and Polaris AB, President
Present appointments: Chairman of Sparbanksstiftelsen Norrland. Director of Sparbank Foundations Management Company. Chairman of the Sparbanksstiftelsen Norrland venture capital foundation. Chairman of Träcentrum Norr. Chairman of Norrbotniaban AB. Chairman and director of a large number of government bodies, including the tax equalisation committees and the municipal expertise committee. Member of the Board for the Social Democratic Workers' Party of Sweden. Board member, Swedish Association of Local Authorities.

Catharina Lagerstam (born 1962), Stockholm

Elected: Member since 2009.

Education: Stockholm School of Economics, doctorate KTH Royal Institute of Technology, civil engineer Stockholm School of Economics, economics graduate.

Present position: Consultant and professional board member.

Former positions: Clearstream, Luxembourg, Director. Société Européenne de Communication, SEC, Luxembourg, Treasurer, Hufvudstaden AB, Head of Economics and Finance. Föreningsbanken, bank director. Bankstödsmånden, evaluations. Stora Finanstjänster, Brussels and Stockholm, risk and project manager. ABB Treasury Center (Sweden) AB, developer. Stockholm School of Economics, lecturer and researcher. Franska Skolan, teacher
Present appointments: Deputy board member in foundation of Franska Skolan. Deputy board member of Franska Skolan's property foundation. Member of Placeringsrådet (investment consultancy). Board member of Alpcot Agro. Board member of ElektronikGruppen BK AB. Member of Remuneration Committee.

Kerstin Ryding (born 1952), Gävle

Elected: Member since 2006, deputy member since 2003.

Present position: CFO, Municipality of Sandviken.

Former positions: Enator, regional director. Swedish Association of Local Authorities, Audit Department, auditor Södertälje Energi, planning assistant. Association of Swedish Deafblind, study organiser

Johan Törngren (born 1960), Stockholm

Elected: Member since 2009.

Education: Stockholm School of Economics, MBA

Present position: Senior Vice President SAS Group Finance & Asset Management.

Former positions: Svensk Exportkredit AB, Finance Director
Present appointments: Chairman, SPP Fonder Board member SPP Livförsäkring Board member Commercia Aviation Leasing Limited.

Anna von Knorring (born 1965), Helsinki

Elected: Member since 2004.

Education: Helsinki University, 1993, Juris kandidat.

Swedish School of Business and Economics, Helsinki, 1989, Ekonomie magister.

Present position: Assistant Director, State Treasury Financing, Finland.

Former positions: Ministry of Finance and State Treasury.
Present appointments: Board member, Hansel AB. Finnish government's collective procurement unit. Member of the Sparbank Foundation delegation, Helsinki. Board member of Nordic Capital Markets Forum.

Board members' remuneration

Remuneration to the Board Chairman, Tommy Persson, within the framework of the board fees approved by the Annual General Meeting, amounted to SEK 400,000 in 2009. Remuneration is payable to each board member as specified in the table on page 62. Total remuneration to the board members elected by the Annual General Meeting is subject to AGM resolution and amounted to SEK 1,122,000 in 2009.

Members in position of dependence

All members are regarded as being independent in relation to the company.

Analysis and Finance Committee

The Analysis and Finance Committee is appointed by the Annual General Meeting. The committee is responsible for monitoring the financial status of the member municipalities and the development of the municipal sector as a whole. It also has the task of preparing new member applications at the behest of the Society board.

In contrast to other committees in the Society, it is made up of officials. The reason for this is that the tasks call for extensive specialised economic expertise.

The committee's brief states further that it shall represent different parts of the country, it shall have experience of different types of municipalities and it shall have knowledge of operations in the form of a public enterprise.

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

| Name | Board attendance | Finance Committee attendance | Remuneration | |
|---------------------------------------|------------------|------------------------------|--------------|---------|
| | | | 2009 | 2008 |
| <i>Current Board of Directors</i> | | | | |
| Tommy Persson | 11 (11) | | 400,000 | 400,000 |
| Ellen Bramness Arvidsson | 10 (13) | | 142,000 | 158,000 |
| Lorentz Andersson | 10 (15) | | 102,000 | 134,000 |
| Kerstin Ryding | 11 (15) | | 110,000 | 136,000 |
| Anna von Knorring | 9 (13) | | 94,000 | 134,000 |
| Ingemar Alserud | 5 (9) | | 62,000 | 78,000 |
| Catharina Lagerstam | 7 (–) | | 78,000 | – |
| Johan Törngren | 6 (–) | | 70,000 | – |
| <i>Retiring directors, April 2009</i> | | | | |
| Ann-Charlotte Stenkil | 4 (11) | | 32,000 | 102,000 |
| Alf Egnerfors | 4 (15) | | 32,000 | 134,000 |

Analysis and Finance Committee:

Chairman

David Nyberg

President, Skellefteå Stadshus AB, Skellefteå

Nils-Eric Gustavsson

Principal Finance Director, Västmanland County Council

Ingalill Hellberg

Chief Administrative Officer, Municipality of Staffanstorp

Victoria Galbe

Finance Director, AB Landskronahem

Gunilla Josefsson

Finance Director, Municipality of Stenungsund

Johan Sandlund

Chief Administrative Officer, Municipality of Trosa

Tommy Malm

Principal Finance Director, Municipality of Eskilstuna

Bernt Grahn

President, Luleå Stadshus AB, Luleå

Maria Johansson

Principal Finance Director, Municipality of Upplands-Bro (from December 2009)

Madeleine Sjöstrand

Chief Administrative Officer, Municipality of Haninge (until May 2009)

Stefan Ekfeldt

Chief Administrative Officer, ÖrebroBostäder AB (until May 2009)

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 labour between the Board of Directors and the President. These instructions also take account of the Swedish 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 has the job of providing the Board of Directors with necessary information and decision-support data, including prior to the board meetings, and of ensuring that the board receives a written report each month. The rules of procedure also formalise the President's financial framework.

Executive managers and their remuneration

There is an executive management team to support the President.

The executive management team is:

Tomas Werngren, President

Maria Viimne, Vice President

Johanna Larsson, Head of Administration

Pelle Holmertz, Treasury, until 31 August 2009

Anders Gånge, Head of Financial Department with effect from 1 September 2009

*Executive management and deputies***Tomas Werngren** (born 1961), President

Education: Örebro College and University of Stockholm, Tek. kand – public administration.

Former positions: Kommuninvest, Vice President, Finance Director

SBAB, Treasurer, Head of Funding.

1988 PK-Kredit, Trader, Chief Dealer

Other assignments: Board member, Vasallen AB

Maria Viimne (born 1970), Vice President

Education: Mälardalen University, BSc in Business and Economics. Stockholm University, Candidate of Law.

University of Rotterdam & University of Hamburg.

European, Master in Law & Economics.

Former positions: Kommuninvest, Finance Group Director and company lawyer Mora City Court, Court Clerk.

Anders Gånge (born 1971), Head of Finance Department

Education: University of Lund, Bachelor of Science

Economics. Central Missouri State University, USA.

Örebro University.

Former positions: Svenska Handelsbanken, Senior Bond &

Swap Trader. Kommuninvest, Head of Treasury. Svenska

Handelsbanken, Senior Swap Trader. Unibank, Denmark,

Senior Swap Trader and Bond Trader.

Pelle Holmertz (born 1960), Head of Treasury

Education: University of California at Berkeley, Bachelors Degree Economics.

Former positions: SEB International, Trainee and Senior Trader. ABB Treasury Center, Head of Trading.

Swedbank, Global Head of Trading FX and Bonds RCM,

Executive Hedge Funds Manager. Intrinsic AB, founder

and trustee. Evli Bank, CEO Stockholm branch, Global

Head of Markets.

Johanna Larsson (born 1973), Head of Administration

Education: AFA – authorised financial analyst. University of Stockholm Master of Science Economics.

Former positions: Kommuninvest, financial advisor.

Birka Energi, portfolio manager. Statistics Sweden, case

officer.

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

| Name | Year | Basic salary | Other benefits | Variable performance benefit | Pension expenses | Total |
|----------------------|------|--------------|----------------|------------------------------|--------------------------------|-----------|
| Tomas Werngren | 2008 | 2,306,890 | 103,420 | | 580,000 | 2,990,310 |
| | 2009 | 2,398,159 | 73,401 | | 885,000 | 3,356,560 |
| Maria Viimne | 2008 | 1,092,880 | 1,780 | 144,000 | 245,000 | 1,339,660 |
| | 2009 | 1,325,361 | 357 | | 276,000 | 1,601,718 |
| Executive management | 2008 | 901,700 | 0 | 146,000 | Pursuant to SPP's pension plan | |
| | 2009 | 2,208,921 | 252 | 0 | 409,460 | 2,618,633 |

THE BOARD MEMBERS

Board Chairman



Tommy Persson
(born in 1948)
Chairman since 2008.
Stockholm.

Vice Chairman



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

Members



Ingemar Alserud
(born in 1954)
Member since 2008.
Stockholm.



Lorentz Andersson
(born in 1942)
Member since 2001.
Umea



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



Catharina Lagerstam
(born in 1962)
Member since 2009.
Consultant and professional board
member, Stockholm



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



Johan Törngrén
(born in 1960)
Member since 2009.
Senior Vice President
SAS Group Finance & Asset
Management, Stockholm



"Iron bowls" from the exhibition Sadness, by Pernilla Sylwan.
Photo: Petter Mörk



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www.kommuninvest.org