

INTERIM REPORT

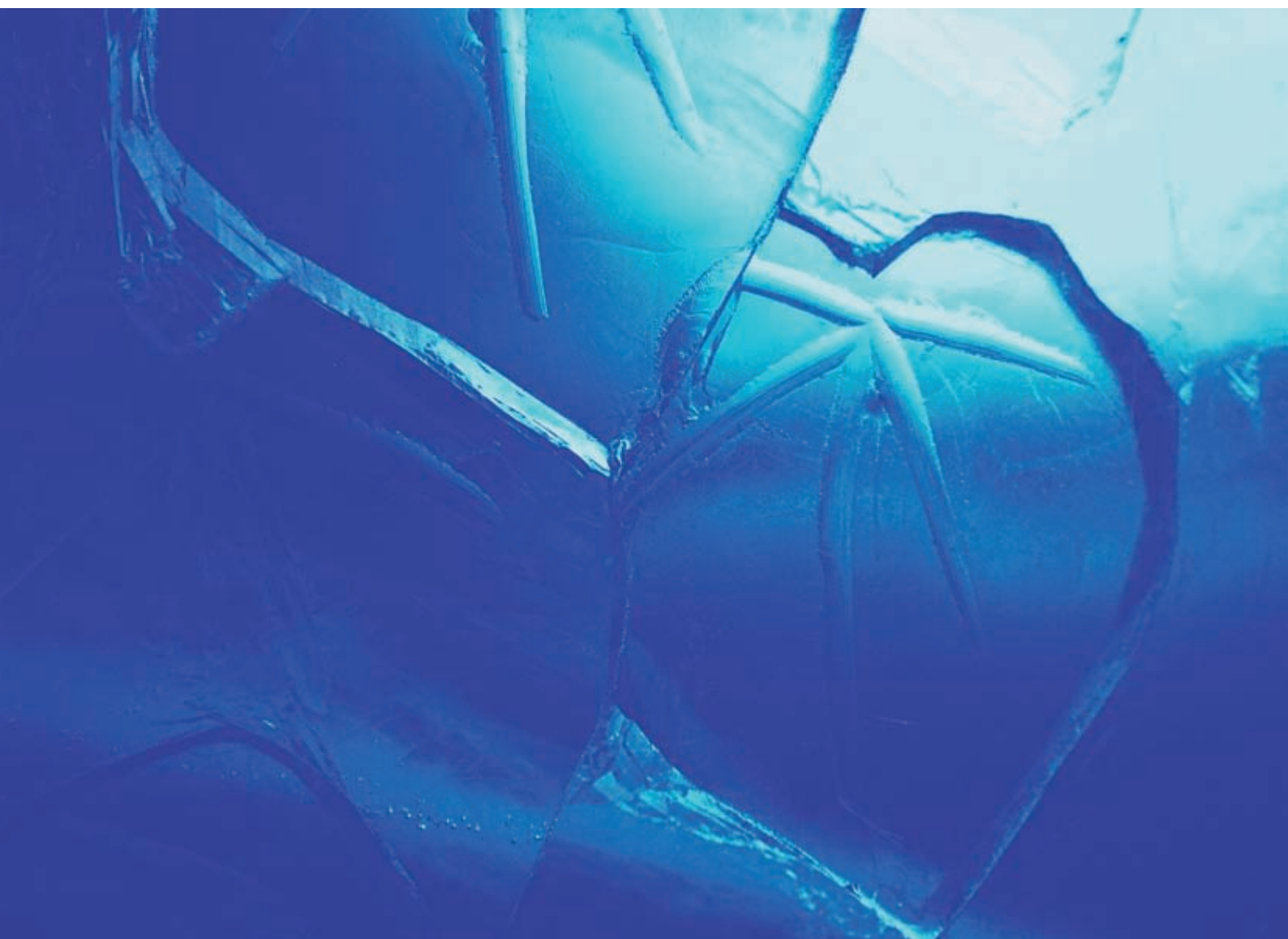
1 January–30 June

2008

KOMMUNINVEST

- 8 new members
- Balance sheet total SEK 105.6 billion
- Lending SEK 66.7 billion
- Operating profit SEK 4.2 million

Interim Report for **Kommuninvest i Sverige AB (publ)**
Corporate Identity Number: 556281-4409. Registered Office: Örebro, Sweden
1 January – 30 June 2008



About Kommuninvest

Kommuninvest is a credit market company owned and guaranteed by Swedish municipalities and county councils. The company's remit is to create the best conditions in the long term for its owners' financial operations based on a municipal value foundation. This concept which is beneficial to society results in a local debt office, a shared function offering municipalities and county councils financial administration. Kommuninvest provides access to competitive loans, debt management and other services that contribute to effective financial administration. This remit is carried out without a vested interest in profit-making. Kommuninvest i Sverige AB has 39 employees and offices in Örebro, central Sweden.

THE CEO'S COMMENTS

“Kommuninvest’s half year result has been adversely affected by global concern in the credit market. The decrease in profit can mainly be attributed to weak net interest income and a loss during the first quarter of the year, the result of lower margins and lending volumes. However, after a very weak first quarter we are pleased to see that the second quarter was on a par with, and even exceeded, last year.

The new financing strategy introduced during the period aims to give Kommuninvest a better platform for more competitive short-term financing. The aim is to be able to turn the lending trend and once again report positive lending growth, along with a lending level that corresponds to the operation’s objectives. This is also supported by the positive growth in membership. Kommuninvest’s financial stamina and ability to provide its members with effective financing solutions in the long term remain good.”

Tomas Werngren
President and CEO

Market

There is still uncertainty on the international finance markets. High inflation, an uncertain trade outlook and a continued weakening on the housing markets in the USA and Europe are resulting in continued uncertainty about the long-term effects of concern regarding credit. For Kommuninvest, this has partly entailed that the already restrictive view of risk has been tightened further.

Kommuninvest is following its strategy of expanding its investor base both with new borrowing markets and new investor categories, and continuing to develop new loan products that meet the needs of investors. Kommuninvest represents a type of borrower in strong demand in the current market situation. Few players can offer the same stability and security. The high credit rating, members' joint and several guarantees and high credit quality, along with an exclusive focus on financing publicly-run operations all contribute to this.

To strengthen its market position, Kommuninvest's financing strategy has been complemented by a short borrowing programme, known as a Euro Commercial Paper or ECP programme, with a framework of 3 billion euro. The programme enables Kommuninvest to finance itself on the European commercial paper market with terms from 1 to 364 days, and aims to capitalise on the interest in investing in the most creditworthy counterparties, for the type of duration with the best borrowing terms.

The aim is that this should contribute to a more stable and competitive pricing of Kommuninvest's variable short-term interest products. The pricing of other Kommuninvest products, with both longer and shorter terms, has been highly competitive during the period.

The number of members has increased slightly more than Kommuninvest's long-term growth plan.

The positive impact of membership growth on the lending volume, coupled with the new financing strategy, may once again generate a lending level in line with the operation's objective.

Stable membership growth

Kommuninvest is an organisation supported by the idea of voluntary collaboration between municipalities and county councils with the aim of looking after common interests. Kommuninvest is Sweden's strongest growing inter-municipal cooperative organisation and the first half of 2008 too was characterised by good membership growth. At the end of June 2008, Kommuninvest had 218 (203) members, of which 211 (196) were municipalities and 7 (7) were county councils. New members during the first half-year were:

Municipality of Osby
Municipality of Vaggeryd
Municipality of Timrå
Municipality of Knivsta
Municipality of Åtvidaberg
Municipality of Uppvidinge
Municipality of Svenljunga
Municipality of Tingsryd

Still the highest credit rating

Kommuninvest has the highest possible credit rating from the two best-reputed credit rating institutions – Moody's and Standard & Poor's. In Sweden only the Kingdom of Sweden (the Swedish State) and Kommuninvest have this high credit rating from two rating institutions. This reflects the overall financial strength of Kommuninvest's members and the public sector as a whole.

Inquiry into municipal housing companies

During the first half of the year, a Swedish government report on the EU, the public housing sector and rent levels was published. The investigator's remit included reviewing whether or not Swedish regulations for municipal housing companies need to be amended with regard to European Community law on state support and competition. If the Swedish system does need to be amended, this could lead to restrictions on municipal housing companies' opportunities for direct borrowing via Kommuninvest. Many municipalities are, however, already choosing to borrow through Kommuninvest in order to subsequently lend funds to their companies.

Profit

Operating profit (profit before tax) amounted to SEK 4.2 (14.9) million. Profit after appropriations and tax amounted to SEK 2.2 (9.2) million.

Net interest income decreased to SEK 36.4 (47.6) million. Net interest income was adversely affected during the first quarter by the general uneasiness on the credit market, which resulted in lower margins between borrowing and lending, and investments. The decrease can be explained by the fact that Kommuninvest did not fully pass on the increased lending costs to borrowers. Net interest income has also been adversely affected by the decreased lending volumes.

The buy-back of issued securities, SEK 2,597.6 (4,424.3) million, and the sale of investments has contributed SEK 13.3 (12.7) 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 -3.5 (0.2) million and are entered under 'Net profit/loss from financial

transactions'. Operational profit (profit excluding the effect of changes in market value) amounted to SEK 7.6 (14.7) million.

Costs decreased and amounted to SEK 39.8 (44.0) million. The reduced costs are mainly due to lower personnel and consultant costs.

Financial position

The balance sheet total amounted to SEK 105,551.2 (97,464.3) million at the end of the period.

Lending totalled SEK 66,667.2 (74,084.7) million. In nominal terms (actual amount loaned), lending amounted to SEK 67,164.3 (74,134.6) million. The decrease in lending is mainly due to strong competition and a greater repayment frequency on short-term variable loan products. One reason for this is that Kommuninvest has had limited opportunities to finance itself cost effectively for very short durations, in contrast to longer durations where financing opportunities have remained good.

Invested funds pending onward lending to members totalled SEK 31,968.0 (18,717.5) million. This increase can mainly be attributed to reduced lending, but also to increased borrowing motivated by Kommuninvest's forecasted need for significant liquidity.

At the end of the period, borrowing amounted to SEK 91,619.3 (86,370.5) million.

Derivatives are recognised as separate items in the balance sheet. Derivatives with positive and negative market value amounted to SEK 6,884.9 (4,489.7) million and SEK 13,492.9 (10,591.2) million respectively.

Equity totalled SEK 344.5 (337.9) million. In addi-

tion to profit for the year, equity has also been affected by assets classified as available-for-sale financial assets, where unrealised changes in market value are entered directly against equity. The change for the year totalled SEK -38.0 (6.8) million.

Share capital has increased through a new issue, on the authorisation given to the Board by the AGM. A new issue to the value of SEK 7.8 million was carried out during the year. The purpose was to strengthen the company's financial base by transferring participation capital from new members of the Society. Such transfers have been carried out regularly as membership has increased. Share capital amounted to SEK 206.7 million across 2,067,000 shares.

Risk management

Kommuninvest's restrictive handling of market, liquidity and counterparty risks has proven sustainable. Surplus liquidity is invested in interest-bearing securities issued by financial institutions with a credit rating of at least A2 from Moody's and/or A from Standard & Poor's, as well as in interest-bearing securities issued by states with a credit rating of AAA/Aaa. Kommuninvest has no exposure itself to the American sub-prime market, nor any positions in CDOs (Collateralised Debt Obligations) or ABSs (Asset Backed Securities).

Uncertainty in the financial sector has resulted in changes in the scope for business with counterparties. Moreover, a higher proportion of the investments currently have a term of less than four months, the aim being to further reduce the price risk. At the same time, work to establish Credit Support Annexes with all derivative counterparties has continued, and is a priority. One-third of the approved derivative counterparties are currently covered by CSAs.

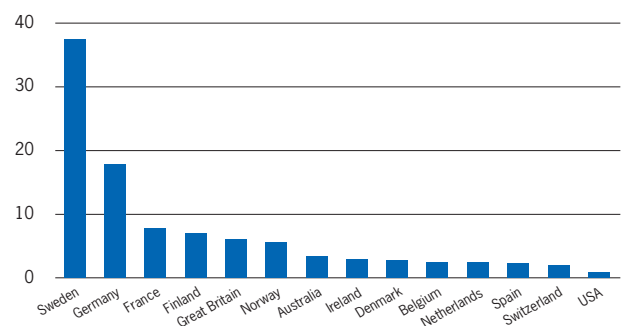
Operational risks

In 2007 the company introduced a new capital assessment process in accordance with an EC Directive (Basel II), which has been taken into account when calculating the company's capital coverage ratio. The new capital assessment process has been inspected and approved by the Swedish Financial Supervisory Authority.

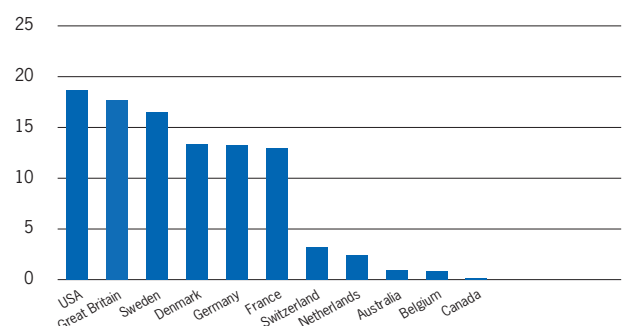
Risk diversification

Since the new year, equity invested in Nordic securities has increased, and as a result Swedish counterparties are predominant. With regard to derivatives, counterparties from the USA dominate the geographical distribution based on nominal amounts. Counter-

Geographic division of investments, % 30 June 2008



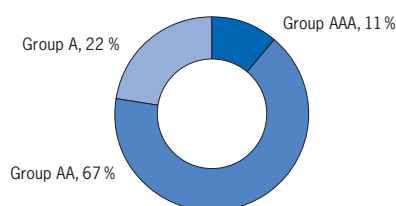
Geographic division of derivative contracts, % 30 June 2008



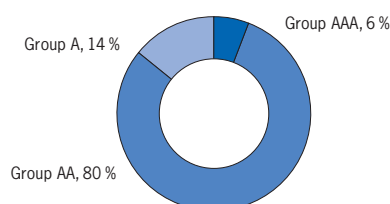
parties from Spain are not included in the chart due to their low share.

For investments, over 77% are distributed among counterparties with a credit rating of at least AA-. For derivatives, approximately 86% of the nominal amounts are distributed among counterparties with a rating of at least AA-. Exposure in the form of counterparty risks is reduced through the Credit Support Annex (CSA) agreements Kommuninvest has with one-third of the counterparties. All of the counterparties which are investment banks from the USA are covered by such agreements, which give us the unilateral right, under certain conditions, to require extra collateral.

Invested assets by rating, 30 June 2008



Nominal amounts of derivatives by rating category, 30 June 2008



Board of Directors

At the Annual General Meeting on 3 April 2008, Tommy Persson was appointed the new Chairman of the Board, with Ann-Charlotte Stenkil and Ingemar Alserud elected as new members. In addition to these, the Board also comprises Ellen Bramness Arvidsson (Vice Chairman), Lorentz Andersson, Alf Egnerfors, Kerstin Ryding and Anna von Knorring.

Executive management

The executive management during the first half of 2008 comprised Tomas Werngren, President and CEO, Harriet Forsell Söderberg, Executive Vice President, Ulf Jivmark, Head of Legal, Johanna Larsson, Head of Administration and Maria Viimne, Head of Funding & Investment and of Municipality Finance. During the report period, responsibility for Municipality Finance transferred from Harriet Forsell Söderberg to Maria Viimne.

INCOME STATEMENT

SEK mn	Jan-Jun 2008	Jan-Jun 2007	Jan-Dec 2007
Interest income	2,144.9	1,754.5	3,792.7
Interest expenses	-2,108.5	-1,706.9	-3,713.1
Net interest income	36.4	47.6	79.6
Commission expenses	-1.5	-1.7	-3.1
Net result of financial transactions	9.1	12.9	34.2
Other operating income	0.0	0.1	0.6
Total operating income	44.0	58.9	111.3
General administration expenses	-37.5	-41.7	-75.9
Depreciation of tangible assets	-0.7	-0.6	-1.6
Other operating expenses	-1.6	-1.7	-3.1
Total expenses	-39.8	-44.0	-80.6
Operating profit	4.2	14.9	30.7
Appropriations	0.5	-1.9	0.5
Tax on profit for the period	-2.5	-3.8	-7.1
Profit for the period	2.2	9.2	24.1

BALANCE SHEET

SEK mn	30 June 2008	30 June 2007	30 June 2006
ASSETS			
Cash	0.0	0.0	0.0
State bonds eligible as collateral	2,325.3	6,797.8	5,598.8
Lending to credit institutions	1,743.5	2,567.8	2,513.8
Lending	66,667.2	74,084.7	77,937.7
Bonds and other interest-bearing securities	27,899.2	9,351.9	17,748.3
Shares and participations	0.2	-	0.1
Shares in associated companies	0.5	0.5	0.5
Derivatives Note 1	6,884.9	4,489.7	5,863.8
Tangible assets	4.2	3.7	3.2
Other assets	24.2	167.4	249.1
Prepaid expenses and accrued income	2.0	0.8	2.2
Total assets	105,551.2	97,464.3	109,917.5
LIABILITIES AND EQUITY			
Liabilities to credit institutions	4,352.0	4,496.9	4,627.4
Securities issued	87,267.3	81,873.6	93,561.3
Derivatives Note 1	13,492.9	10,591.2	11,275.2
Other liabilities	44.7	111.6	32.2
Accrued expenses and deferred income	9.5	10.1	8.3
Provisions for pensions and similar obligations	0.3	-	0.2
Total liabilities	105,166.7	97,083.4	109,504.6
Untaxed reserves	40	43	40.5
Share capital	206.7	175.9	198.9
Statutory reserve	17.5	17.5	17.5
Fund for fair value Note 2	-43.4	-10.3	-5.4
Profit brought forward	161.5	145.6	137.3
Profit for the period	2.2	9.2	24.1
Total equity	344.5	337.9	372.4
Total equity and liabilities	105,551.2	97,464.3	109,917.5

Note 1. The interim figures for 2007 have been adjusted so that the derivatives are recognised as separate items rather than under other assets and liabilities

Note 2. The interim figures for 2007 have been adjusted so that the fund for fair value is recognised as a separate item rather than as part of profit brought forward

CHANGE IN EQUITY

30 June 2008	Restricted equity		Non-restricted equity			Total equity
SEK mn	Share capital	Statutory reserve	Fund for fair value	Profit or loss brought forward	Profit for the year	
Equity brought forward 1 Jan 2008	198.9	17.5	-5.4	137.4	24.1	372.5
Available-for-sale financial assets:						
<i>Remeasurements entered directly against equity</i>	0.0	0.0	-38.0	0.0	0.0	-38.0
New share issue	7.8	0.0	0.0	0.0	0.0	7.8
<i>Appropriation of surplus according to AGM decision</i>						
Allocation of last year's profit	0.0	0.0	0.0	24.1	-24.1	0.0
Profit for the year	0.0	0.0	0.0	0.0	2.2	2.2
Equity carried forward 30 June 2008	206.7	17.5	-43.4	161.5	2.2	344.5

30 June 2007	Restricted equity		Non-restricted equity			Total equity
SEK mn	Share capital	Statutory reserve	Fund for fair value	Profit or loss brought forward	Profit for the year	
Equity brought forward 1 Jan 2007	153.1	17.5	-17.1	127.7	17.9	299.1
Available-for-sale financial assets:						
<i>Remeasurements entered directly against equity</i>	0.0	0.0	6.8	0.0	0.0	6.8
New share issue	22.8	0.0	0.0	0.0	0.0	22.8
<i>Appropriation of surplus according to AGM decision</i>						
Allocation of last year's profit	0.0	0.0	0.0	17.9	-17.9	0.0
Profit for the year	0.0	0.0	0.0	0.0	9.2	9.2
Equity carried forward 30 June 2007	175.9	17.5	-10.3	145.6	9.2	337.9

31 Dec 2007	Restricted equity		Non-restricted equity			Total equity
SEK mn	Share capital	Statutory reserve	Fund for fair value	Profit or loss brought forward	Profit for the year	
Equity brought forward 1 Jan 2007	153.1	17.5	-17.1	127.7	17.9	299.1
Available-for-sale financial assets:						
<i>Remeasurements entered directly against equity</i>	0.0	0.0	9.4	0.0	0.0	9.4
<i>Recognised in income statement on divestment</i>	0.0	0.0	2.3	0.0	0.0	2.3
New share issue	45.8	0.0	0.0	0.0	0.0	45.8
<i>Appropriation of surplus according to AGM decision</i>						
Allocation of last year's profit	0.0	0.0	0.0	17.9	-17.9	0.0
Group contribution	0.0	0.0	0.0	-11.5	0.0	-11.5
Tax effect on Group contribution	0.0	0.0	0.0	3.2	0.0	3.2
Profit for the year	0.0	0.0	0.0	0.0	24.1	24.1
Equity carried forward 31 Dec 2007	198.9	17.5	-5.4	137.3	24.1	372.4

CASH FLOW STATEMENT

SEK mn	30 June 2008	30 June 2007	31 Dec 2007
Cash and cash equivalents at the start of the accounting period	0.8	139.8	139.7
Operating activities			
Operating profit	4.2	14.9	30.7
Adjustment for items not included in cash flow: (NOTE 1)	8.1	1.7	-3.9
Income tax paid	-6.0	-6.3	-15.3
Cash flow from operating activities before the changes in the assets and liabilities of operating activities	6.3	10.3	11.5
Change in interest-bearing securities	-6,214.0	11,734.2	4,591.9
Change in lending	10,656.0	-7,939.6	-11,652.8
Change in other assets	-792.6	794.5	-2,349.9
Change in other liabilities	2,231.6	6,515.9	7,459.0
Cash flow from operating activities	5,887.3	11,115.3	-1,940.3
Investing activities			
Sale/disposal of tangible assets	0.0	0.0	0.2
Acquisition of tangible assets	-1.7	-0.9	-1.6
Cash flow from investing activities	-1.7	-0.9	-1.4
Financing activities			
Change in securities issued	-5,634.6	-12,151.8	787.1
Change in liabilities to credit institutions	-221.2	878.5	978.2
New share issue	7.8	22.8	45.8
Group contribution paid			-8.3
Cash flow from financing activities	-5,848.0	-11,250.5	1,802.8
Cash flow for the period	37.6	-136.1	-138.9
Liquid assets at the end of the accounting period	38.4	3.7	0.8
NOTE 1. Adjustment for items not included in cash flow	30 June 2008	30 June 2007	31 Dec 2007
Depreciation of fixed assets	0.7	0.6	1.6
Net change in accrued acquisition cost during the period	1.0	1.2	2.5
Exchange rate differences from change in financial assets	2.9	0.1	-0.3
Unrealised market values	3.5	-0.2	-7.7
Total	8.1	1.7	-3.9

ACCOUNTING PRINCIPLES

Kommuninvest's interim report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2006:16). The accounting principles and calculation methods used in this interim report are identical to those used in the most recent annual report, unless otherwise stated below:

- Kommuninvest has introduced trading warehouses during the year, which means these investments are classified as financial assets available for sale. These assets are measured continuously at fair value with changes in value reported in the income statement.
- The investments carried out during the year in interest-bearing securities and which have an accompanying interest hedging derivative, are classified as financial assets at fair value through profit or loss. These assets are measured continuously at fair value with changes in value reported in the income statement. This is to rectify a lack of agreement regarding the measurement and recognition that would arise if the derivatives were measured at fair value through profit or loss, but not its accompanying investment.

CAPITAL COVER

The information on Kommuninvest's capital cover refers to periodic information to be submitted in accordance with the regulations and general recommendations of the Swedish Financial Supervisory Authority regarding disclosure of information on capital adequacy and risk management (FFFS 2007:5).

The law sets out specific minimum capital requirements for Kommuninvest regarding credit risks, mar-

ket risks and operational risks. Kommuninvest also has an internal capital assessment process which aims to ensure that Kommuninvest's capital also covers other risks in the operation, such as interest rate risks in the balance sheet, for example. The disclosures regarding capital requirement are limited to the legal minimum capital requirement.

Capital base

(in thousands of SEK)	30 June 2008	30 June 2007	31 Dec 2007
Primary capital, net	416,621	328,356	407,033
Total capital base	416,621	328,356	407,033

Capital requirement

Capital requirement for credit risk in accordance with the standardised method	126,699	126,366	207,186
Capital requirement for operational risk	16,932	15,131	16,932
Capital requirement for foreign exchange risk	942	10,644	919
Capital requirement for positions in interest-linked financial instruments	66,269	0	0

Total capital requirement	210,842	152,141	225,037
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Capital cover ratio	1,98	2,16	1,81
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BOARD MEMBER SIGNATURES

Örebro, 21 August 2008

Tommy Persson
Chairman

Ellen Bramness Arvidsson
Vice Chairman

Ingemar Alserud
Board member

Lorentz Andersson
Board member

Alf Egnerfors
Board member

Kerstin Ryding
Board member

Ann-Charlotte Stenkil
Board member

Anna von Knorring
Board member

Tomas Werngren
President and CEO

REVIEW REPORT FOR KOMMUNINVEST I SVERIGE AB

To the Board of Directors of Kommuninvest i Sverige AB (publ)
Corporate Identity Number: 556281-4409

Introduction

We have reviewed the interim report for Kommuninvest i Sverige AB (publ) for the period from January 1, 2008 to June 30, 2008. It is the Board of Directors and the Managing Director who are responsible for the presentation of this interim report in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

The Scope of the Review

We conducted our review in accordance with the Standard on Review Engagements, SÖG 2410, Review of the Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Federation of Authorized Public Accountants. A review of the interim report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope compared to an audit conducted according to Standards on Auditing in Sweden (RS) and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, the conclusion expressed based on a review does not constitute the same level of assurance as a conclusion based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report, in all material respects, is not prepared in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies.

Stockholm; August 21, 2008
Ernst&Young AB

Peter Strandh
Certified Public Accountant



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