


# 2010



Kommuninvest is tasked with financing Swedish municipalities and county councils. Continued growth in membership and lending pervaded 2010, the capital base was strategically strengthened and a long-term borrowing programme was launched in the Swedish market.

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## Annual report for Kommuninvest i Sverige AB (publ)

This is the annual report for the credit market company Kommuninvest i Sverige AB. The annual report for the owner association, the Kommuninvest Cooperative Society, is available at [www.kommuninvest.se](http://www.kommuninvest.se)

Cover photo: \_\_\_\_\_

**Loui De Geer Concert and Congress Centre. The Municipality of Norrköping has been a member of the Kommuninvest Cooperative Society since 2009.**



**Climbing-wall, Lindesberg Arena. The Municipality of Lindesberg has been a member of the Kommuninvest Cooperative Society since 1993.**

## We are the Swedish Local Government Debt Office

Kommuninvest is tasked with creating the best possible conditions for the financing activities of Swedish municipalities and county councils. In our role as the Swedish Local Government Debt Office, we assume responsibility for the financing of the Swedish local government sector.

This entails:

- Being able to offer all Swedish municipalities and county councils stable and cost-effective financing.
- Acting as the guarantor of financial stability in the local government sector.
- Supporting the finance activities of the municipalities and county councils through financing, financial advice, knowledge development and cooperation.

Kommuninvest was founded in 1986 by nine municipalities and Örebro County Council. Today, we are owned by 260 municipalities and county councils and are the largest lender to the local government sector in Sweden.

Our operations help enhance the stability of the financial system and help ensure that taxpayers' money is used as efficiently as possible.



## 2010

## JANUARY

**Monetary policy counterparty to the Swedish Riksbank**

Kommuninvest is an approved monetary policy counterparty to the Swedish Riksbank and has been part of the Riksbank's RIX payment system, since March. This is an acknowledgement of Kommuninvest's importance to the financial system and, at the same time, grants Kommuninvest access to the Riksbank's short-term credit facilities. This strengthens our position as an issuer of securities and improves our management of, and access to, liquidity.

## FEBRUARY

**Member No. 250**

The Municipality of Falköping becomes member No. 250 of the Kommuninvest Cooperative Society; thereby gaining access to Kommuninvest's financing solutions.

## MARCH

**The Annual General Meeting of the Society resolves to issue SEK 1 billion subordinated loan**

The 2010 Annual General Meeting of the Society resolved to increase Kommuninvest i Sverige AB's capital base by SEK 1 billion through the issue of a subordinated loan to the members of the Kommuninvest Cooperative Society. The purpose is to strengthen Kommuninvest's preparedness for exceptional financial events and to improve the conditions for meeting future regulatory capital requirements. The offer is subsequently over-subscribed.

In February, the Municipality of Falköping became member No. 250 of Kommuninvest.



The Annual General Meeting of the Society is Kommuninvest's highest decision-making body.



## JUNE

**The Swedish Financial Supervisory Authority (Finansinspektionen) confirms that securities issued by Kommuninvest may be treated as though issued by the state**

The Swedish Financial Supervisory Authority confirmed that securities issued by Kommuninvest are, from a risk perspective, equal to those issued by the state. The announcement was significant in terms of investor classification of their investments in Kommuninvest securities. With it being possible to classify investments in Kommuninvest securities as government securities, they will be attractive to considerably more investors.

## JULY

**Kommuninvest debuts in Almedalen**

Kommuninvest participated for the first time as an event organiser during the annual Almedalen political conference in Visby on the island of Gotland on 4-10 July. Under its own auspices, Kommuninvest organised a seminar on the theme of "Financing welfare in a global perspective" and arranged a social gathering. Board members and employees also participated in other seminars and panel debates.

## AUGUST

**New borrowing programme in Australia**

In August, a borrowing programme commenced aimed at the Australian market. Kommuninvest's AUD bonds are included in one of the most widely used indices for Australian government securities, the "UBSA Supranational and Sovereign Index".

## NOVEMBER

**Launch of strategic Swedish borrowing programme, Swedish local government bonds**

In November, the first bonds were issued within Kommuninvest's Swedish benchmark programme, a strategic borrowing programme aimed at increasing the proportion of borrowing in the Swedish market. The target is for 50 percent of Kommuninvest's borrowing to be made in SEK by 2015. With its Swedish local government bond, Kommuninvest has established a new asset category in the Swedish fixed-income market.

In 2010, Kommuninvest participated in the Almedalen political conference for the first time.



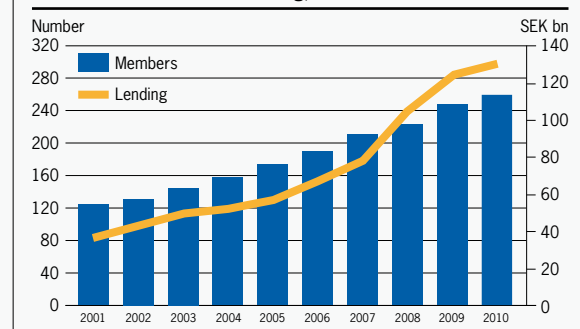
A new borrowing programme was established in the Australian market.



## Results for 2010

- 12 (25) municipalities and county councils became new members. At the end of the year, Kommuninvest had 260 members (248).
- Lending rose by 8 percent to SEK 133.7 billion (123.6).
- The balance sheet total rose by 4 percent to 190.2 billion (183.1).
- Profit for the year amounted to 275.7 million (335.0).
- The capital coverage ratio was 10.09 (3.55).
- Kommuninvest retained the market's highest ratings: Aaa (Moody's), AAA (Standard & Poor's).

Number of members and lending, 2001-2010



Vara Concert Hall.  
The Municipality of Vara has been a member  
of the Kommuninvest Cooperative Society  
since 2010.



## A SIGNIFICANT YEAR

*I would not be surprised if 2010 came to be viewed as an equally important year in Kommuninvest's development as 1993, when we opened up our services to all Swedish municipalities and county councils. Our efforts to strengthen Kommuninvest's role as Sweden's local government debt office were manifested in several ways over the year, with the launch of our Swedish local government bond being the first milestone. Crucially, our efforts have been conducted with the complete support of our owners.*

Kommuninvest's members and borrowers continued to have access to financing on attractive terms during 2010. Although interest rates in the Swedish market gradually rose over the year, they were nonetheless at historically low levels. The year was punctuated by tangible concern, primarily in the international fixed-income markets, although this did not affect Kommuninvest's opportunities to secure credit. Throughout the year, we retained favourable access to liquidity on attractive terms.

Within Kommuninvest, we continued our efforts, in line with our long-term strategy, to establish a Swedish local government debt office able to meet the financing needs of all of Sweden's municipalities and county councils. This was expressed through a number of activities, of which I would like to mention three:

### *Counterparty to the Riksbank*

In early 2010, Kommuninvest was approved as a monetary counterparty to the Riksbank and, since March, it has been part of the Riksbank's RIX payment system. This serves as recognition of Kommuninvest's importance to the financial system and, at the same time, grants us access to the Riksbank's intraday and overnight credits. This benefits both our management of, and access to, liquidity.

### *Capital reinforcement through subordinated loan to Kommuninvest's members*

In March, the members of the Kommuninvest Cooperative Society were offered the opportunity to sign a 30-year subordinated loan for a total of SEK 1 billion, to be used to strengthen the capital base in Kommuninvest i Sverige AB. The issue process continued over the summer and was successful, with all members electing to subscribe. This provided clear confirmation of the long-term ownership set-up for Kommuninvest's operations.

The capital reinforcement enhances Kommuninvest's preparedness for exceptional financial events.



Tomas Werngren, President and CEO

At the same time, the conditions for meeting future regulatory capital requirements are improved. The fact that Kommuninvest has and maintains a solid capital base is particularly important given the increasing demand we expect over the coming years.

### *Swedish local government bond*

In November, we issued the first Swedish local government bonds, issuing a total of SEK 15 billion through two bonds. This marked the culmination of an extensive internal process and the start of something new and exciting in the Swedish financial market. It is certainly not every day that a new asset category is established.

By setting up a market in liquid local government bonds, players in the fixed-income market gain a further instrument in addition to government bonds and mortgage bonds that they can use in their investment activities and liquidity management. This improves the functioning of the fixed-income market in general and brings the welcome addition of a new player in public borrowing as the borrowing needs of central government decrease. The Riksbank

(Sweden's central bank), which safeguards the functioning of the fixed-income market, has provided considerable support in the establishment of a Swedish local government bond, and we are grateful for that.

For Kommuninvest and its borrowers the bond programme offers several advantages. Because our borrowing costs can decrease, we are able to offer borrowers even better prices on the credit we provide. We also gain access to another source of financing in one of the world's best functioning fixed-interest markets. Investors have shown considerable interest for the bonds in connection with the initial and subsequent issues.

However, we will continue to maintain a strong presence in foreign capital markets. Our long-term target is an even distribution between borrowing in Sweden and borrowing in foreign markets.

#### **Good results strengthen stability**

For Kommuninvest, 2010 was another year of favourable financial results. Our membership continued to grow and, by the end of the year, we had 260 members. Our 12 new members helped maintain a good level of demand for credit and our lend-

*Our vision is that Kommuninvest shall be the most natural choice for financing in the local government sector and we are now offering our borrowers support for a financing strategy whereby Kommuninvest provides all, or the absolute majority, of their financing.*

ing grew by 9 percent for the full-year. At the end of 2010, Kommuninvest's total lending amounted to SEK 134 billion. The sizeable state subsidies received by the municipalities during 2010 contributed to demand for credit temporarily weakening.

The operating profit of SEK 276 million should be viewed against the background of the ownership directive to increase Kommuninvest's equity to a target level of 1 percent of the balance sheet total, and is an effect of raised margins in our lending operations. However, these raised margins have not weakened our competitiveness – of ten tenders submitted during 2010, nine were accepted. This demonstrates that Kommuninvest continues to offer its customers the most attractive financing solutions.

#### **Exceptional market position raises questions**

For several years now, the market for local government financing has been undergoing change, driven in part by new regulations affecting financial companies. This trend has led to Kommuninvest gradually increasing its share of local government financing while the banks' lending to the sector has decreased. At the end of 2010, Kommuninvest accounted for 37 percent of total lending to the local government sector.

A survey we conducted among our borrowers in 2010 showed that close to half of the respondents had at least 75 percent of their borrowing with Kommuninvest. One in five borrowers had all of their borrowing with Kommuninvest.

In this regard, one should bear in mind that none of our borrowers are obliged to use Kommuninvest's services. We always recommend that our borrowers use the lender offering the most efficient solution when all direct and indirect borrowing costs, as well as the risks associated with the loan, are taken into account.

One question posed by several of our borrowers concerns the suitability of having such a large share of their borrowing with a single credit provider. Where Kommuninvest is the credit provider, the answer is, in our view, yes. Our specific mission and design means that borrowers can secure all of their borrowing through us while meeting requirements on efficient financing and minimising liquidity and market risks.

Our vision is that Kommuninvest shall be the most natural choice for financing in the local government sector and we are now offering our borrowers support for a financing strategy whereby Kommuninvest provides all, or the absolute majority, of their financing.

#### **Continued development of framework for owners' control and member responsibility**

For a long time, Kommuninvest's owners have been working to strengthen the framework of Kommuninvest's operations and the handling of members' enquiries. This work has encompassed new Articles of Association, a new Society Charter and new owner directive, and fine-tuning of business and operating concepts. In 2010, we worked within the Company to clarify members' responsibility in relation to Kommuninvest's borrowing, lending and management of its liquidity reserve. Certain contractual clarifications are planned to be implemented in 2011 following



discussions at the 2011 member consultations. It is important that our members always be aware of the responsibility and commitments that the cooperation entails.

The basic joint and several guarantee is not affected by this development of the framework, which is a clarification of the responsibility of the owners for the operations currently conducted by Kommuninvest.

Personally, I am grateful that Kommuninvest's owners initiated efforts concerning structure, corporate governance and ownership issues nearly five years ago. This laid the foundation for our success during the financial crisis and, more recently, for the launch of our Swedish local government bond.

### **A stronger Kommuninvest takes shape**

In the finance market, the past three years have been the most eventful and turbulent in modern times. Inherent weaknesses in financial institutions' capitalisation and financing structure have been exposed. Kommuninvest was one of the institutes that coped well with this challenging period and today we stand stronger than we did at the outset of the financial crisis. Given our conservative approach and low risk profile, this is perhaps not entirely surprising, although it is nonetheless a source of pride and satisfaction.

We have strengthened our market position, gained a large number of new members, visibly demonstrated our importance for financial stability and undertaken a number of steps to be able to fulfil our mission as Sweden's local government debt office for municipalities and county councils. Combined with the changes in owner governance that have been made, it is no exaggeration to claim that Kommuninvest is now a considerably stronger and better controlled business than it was just a few years ago, with an entirely different status as a local government debt office of benefit to society.

### **Well prepared for new financial regulations**

In 2010, central bank governors and heads of financial authorities in 27 countries presented stringent new proposals for the contents of the new international regulations for the banking system, Basel III. The proposals by the Basel Committee will now be translated into EU directives and local regulations, which will then be implemented gradually between 2013 and 2018. This is a lengthy start-up period and the regulations will not be fully implemented until 1 January 2019.

The new regulations focus primarily on financial institutes being required to maintain greater capital of a higher quality and to manage their liquidity risks better. This is of course necessary to be able to maintain long-term stability in financial systems. For Kommuninvest, the impact is minor – we meet both the new risk-based capital requirements and the two new liquidity requirements well.

*We have strengthened our market position, gained a large number of new members, visibly demonstrated our importance for financial stability and undertaken a number of steps to be able to fulfil our mission as Sweden's local government debt office for municipalities and county councils.*

However, the proposal to introduce a leverage ratio, a capital measure that is not risk-based, gives cause for concern. The extensive resistance that the leverage ratio has encountered among those consulted does not mean that it will be removed from the agenda. Such a requirement would mean that financial institutions would have to maintain a capital base equivalent to at least 3 percent of their exposures, regardless of the nature of the risk in these exposures. For Kommuninvest this could necessitate increasing the capital base.

### **Safeguarding the trust we have been shown**

The fact that we have never, since the outset of the financial crisis, encountered difficulties securing financing serves as evidence of the trust shown in us by our investors. This also demonstrates the confidence afforded to the entire local government sector in Sweden. However, as we all know, trust amassed over a long time can be quickly lost.

The best guarantee for the local government sector continuing to be able to borrow on attractive terms is order in local government finances and the observance of strict financial discipline.

It is particularly important that the local government sector's financing strategy holds through good times and bad. For this reason, I have, in this forum, previously criticised what we consider to be an exaggerated faith in short-term financing. At the end of 2010, the average period for which capital was

ting up in Kommuninvest's lending portfolio was 1.4 years, compared with 3.2 years for central government debt.

It is important that municipalities and county councils recognise their responsibility in this context so that the long-term nature of their operations is also reflected in their financing strategy. On the positive side, we are now seeing a shift in the trend, with the average period in which capital is tied up increas-

*The best guarantee for the local government sector continuing to be able to borrow on attractive terms is order in local government finances and the observance of strict financial discipline.*

ing by 0.2 years in 2010. It would be preferable for the period to grow further.

At the same time, we can affirm that the local government authorities have a favourable financial position. Today, all of the local government authorities' booked assets exceed their liabilities, and that is without taking hidden surplus values into account. Slightly more than 90 percent of the local government authorities are expected to report positive results for 2010 and the combined result is expected to exceed the rule of thumb for good financial house-keeping by a good margin.

#### **Continued struggle for liquidity**

In 2010 and in early 2011, the European debt crisis entered a new phase with the European Central Bank (ECB) acting as the "lender of last resort" and an avid defender of functioning debt markets. As the ECB acquires large amounts of debt instruments from banks and states in crisis, its own balance sheet has skyrocketed to the extent that it has announced that it will be strengthening its own capital base. The assets of the US central bank, the Federal Reserve, have also swollen.

With countries' borrowing costs escalating and the global financial system still requiring support, clear signs indicate that the financial crisis, now in its fourth year, is not yet over. At the time of writing, concern is focusing on how certain countries and regions will meet their refinancing needs in 2011. The impending struggle for liquidity gives good cause for borrowers to ensure that capital is tied up for extended periods in their financing solutions.

In Sweden, we hold an enviable position, with strong central government finances, a favourable economic trend and widespread optimism about the future. However, as a small, export-dependent nation, we are affected by external developments. There is cause to remind ourselves that unease in financial markets may also impede borrowing opportunities for Swedish borrowers.

#### **Thanks to Kommuninvest's employees**

Within Kommuninvest, 2010 was pervaded by a high tempo with many projects in progress alongside our normal operations. Once again, my colleagues have made tremendous contributions, far exceeding expectations.

An additional number of key employees were recruited to our organisation to meet the increasingly rigorous demands imposed by our role as the local government debt office. But we remain an efficient, streamlined organisation, with just over 50 employees, handling a balance sheet total of just over SEK 190 billion.

We will develop our operations in line with our established strategy and expect that an increasing number of municipalities and county councils will join the Kommuninvest cooperation. By providing a growing portion of the local government sector with efficient and stable financing, Kommuninvest is able to increase its contribution to good welfare and positive development for Sweden.

Örebro, February 2011



Tomas Werngren  
President and CEO

Bio gas buses in public transport.  
The Municipality of Örebro has been  
a member of the Kommuninvest Cooperative  
Society since 1993.



## THE SWEDISH LOCAL GOVERNMENT DEBT OFFICE

*Kommuninvest is responsible for Swedish municipalities' and county councils' coordinated procurement of financing and for financial stability in the local government sector.*

Sweden's municipalities and county councils work together and jointly own Kommuninvest with the purpose of securing financing that is stable and cost-effective in the long term. The owner and member organisation, the Kommuninvest Cooperative Society, had 260 members (248) at the end of 2010, of which 253 were municipalities (241) and 7 county councils (7). The Society is the sole owner of the credit market company, Kommuninvest i Sverige AB, in which all financial operations are conducted.

Kommuninvest i Sverige AB shall support the financial activities of the members by means of stable and cost-effective financing, financial advice, development of expertise and coordination. Operations were established in 1986 by nine municipalities in Örebro county and the county council of Örebro.

### **The local government sector's internal bank**

Kommuninvest's activities are geared entirely to providing the local government 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 Sweden's local government debt office. This means that we function as a guarantor of financial stability within the local government sector and we offer all Swedish municipalities and county councils effective financial management with the focus on financing. Kommuninvest is run with no vested interest in profit-making. Our goal is to create

advantageous financial solutions for our members. Both membership and the right to use Kommuninvest's services are voluntary.

### **Kommuninvest's exceptional position**

Kommuninvest has a unique borrower profile and occupies an exceptional position with regard to borrowing, which is crucial to our ability to fulfil our mission.

#### *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.

#### *Strong guarantee*

Since municipalities and county councils cannot be declared bankrupt and cannot cease to exist, and the state bears the overall responsibility for the activities of the municipalities and county councils, the members' guarantee for all of Kommuninvest's obligations is perceived as very strong.

#### *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 percent risk weight according to applicable capital coverage rules. See also the more detailed description of the creditworthiness of the local government sector on page 18.

#### *Highest possible rating*

Kommuninvest has the highest possible credit ratings, AAA/Aaa, from Moody's and Standard & Poor's; two internationally renowned credit rating institutes, for both long and short-term borrowing.



**Campus Trollhättan.**  
The Municipality of Trollhättan has  
been a member of the Kommuninvest  
Cooperative Society since 1993.

## THE OBVIOUS CHOICE FOR LOCAL GOVERNMENT FINANCIAL ADMINISTRATION

*Kommuninvest is founded on the idea of voluntary collaboration. Our ultimate goal is for all Swedish municipalities and county councils to be part of the financial cooperation and for Kommuninvest to be able to meet all of their financing needs.*

### 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 local government sector on financing issues. In its socially beneficial role as the Swedish Local Government Debt Office, Kommuninvest occupies an exceptional position in the market.

#### *The Company's vision*

Kommuninvest is the natural choice for Swedish municipalities and county councils when it comes to financial administration. Competitive solutions, efficient service and sound advice mean satisfied customers.

In its socially beneficial role as the Swedish Local Government Debt Office, Kommuninvest occupies an exceptional position in the market. Players in the financial market consider Kommuninvest a stable, efficient and knowledgeable partner who represents the part of the public sector consisting of 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

#### *For all municipalities and county councils to be members by 2013*

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 2013, or at least 93 percent of municipalities and 60 percent of county councils. By the end of 2010, 87 percent (83) of municipalities and 35 percent (35) of county councils were members.

#### *Market leader in local government financing*

By the end of 2012, our lending should account for at least 60 percent of the local government sector's external borrowing. By the end of 2015, our lend-

ing could account for 100 percent of the local government sector's external borrowing, and it should account for at least 70 percent. At the end of 2010, this proportion amounted to 37 percent (33).

#### *Stable return and capitalisation of 1 percent 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 target is for the capital base to correspond to 1 percent of the balance sheet total on a sustained basis. At the end of 2010, the proportion was 1.0 percent (0.3).

#### *An organisation pervaded by efficiency*

The target is for the costs of the operations to amount to at most 0.08 percent of the lending volume on a sustained basis by 2015. At the end of 2010, the proportion was 0.13 percent (0.11).

#### *Stronger exceptional position*

By the end of 2012, Kommuninvest should have established a stronger exceptional position in the public sector and in the capital markets. This exceptional position is assessed by means of a customer satisfaction index, an owner satisfaction index and a counterparty satisfaction index.

#### *Attractive employer*

At the close of 2015, Kommuninvest shall be an attractive employer with an even stronger brand in this regard. This is assessed by means of an employee satisfaction index and other measures.

### Business concept

#### *The Society's business concept*

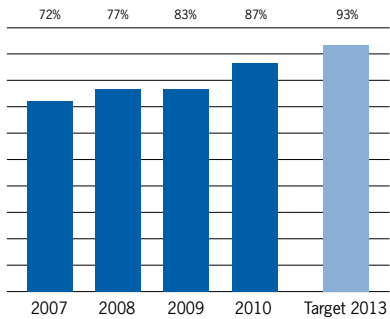
Kommuninvest is a cooperative organisation in which membership is voluntary. The aim is to create lasting favourable conditions for the financial operations of municipalities and county councils in Sweden. As a member organisation, Kommuninvest represents the Swedish local government sector in public funding issues.

#### *The Company's business concept*

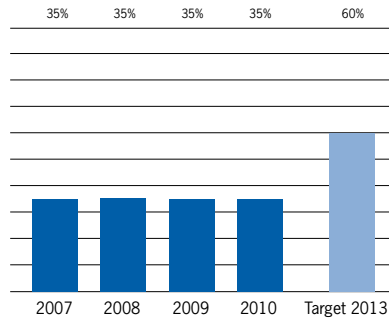
Kommuninvest i Sverige AB's remit is to create lasting favourable conditions for its owners' financial operations based on a foundation of local government values. It achieves this by providing access to competitive loans, debt management and other services that contribute to effective financial administration.

## Goals and goal achievement

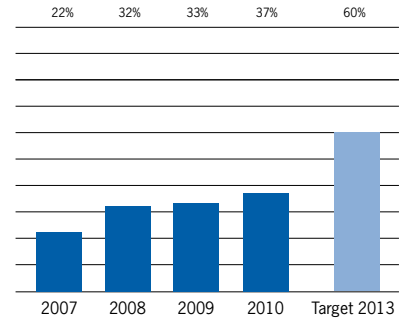
Proportion of Sweden's municipalities as members



Proportion of Sweden's county councils as members



Proportion of the local government sector's total borrowing



### Strategy

Culture, values and corporate governance determine the framework of our operations. Good, target-oriented leadership shall ensure that we benefit from the strength of the organisation, push development in the right direction and allocate our resources appropriately. The objective is a stable, efficient and knowledgeable organisation that generates value for owners, customers and other stakeholders.

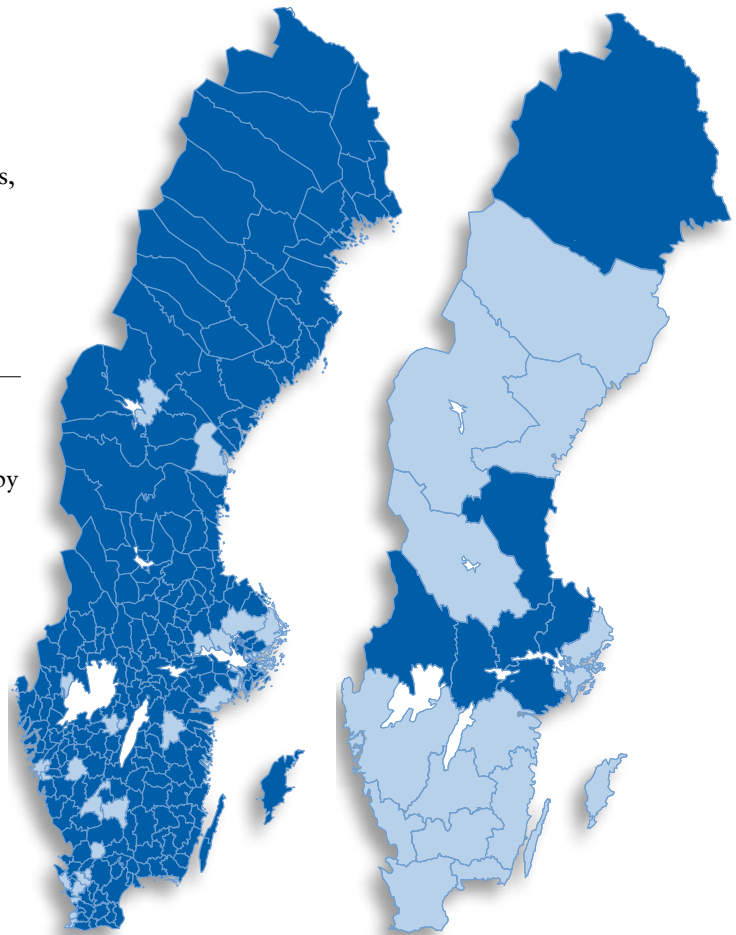
Systematic business planning and management will turn Kommuninvest's long-term goals and business concept into activities and action plans. Business management focuses on four perspectives: Stability, Efficiency, Competitiveness and Employees, with defined strategic objectives for each and every one 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 in 2010

Member No. 249	Municipality of Sorsele
Member No. 250	Municipality of Falköping
Member No. 251	Municipality of Upplands Väsby
Member No. 252	Municipality of Hylte
Member No. 253	Municipality of Borgholm
Member No. 254	Municipality of Höör
Member No. 255	Municipality of Vara
Member No. 256	Municipality of Vallentuna
Member No. 257	Municipality of Salem
Member No. 258	Municipality of Tyresö
Member No. 259	Municipality of Tidaholm
Member No. 260	Municipality of Värmdö



Municipal members,  
31 December 2010

County council members,  
31 December 2010

## STRENGTHENED POSITION FOR KOMMUNINVEST

*The local government sector constitutes a significant part of the public sector and is responsible for a large proportion of community services at local and regional level. An increasing proportion of the local government sector's external borrowing is financed through Kommuninvest.*

Responsibility for public operations in Sweden is divided between the central government and the local government sector. The state is responsible for national commitments, such as infrastructure and the judicial system, while the local government sector is responsible for local and regional commitments. The municipalities are responsible for social care, schooling, waste and sanitation, water and sewage and the emergency services, for example. The principal task of the county councils is to manage health and medical care. Local government activities are regulated in the Local Government Act and other special provisions.

### Local self-government

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 in Swedish society. This self-government is very strong in an international perspective.

The existence of the local government sector is constitutionally protected. According to the Swedish constitution, the exceptional status of the local government authorities and their right to levy taxes means that they cannot be declared bankrupt.

### The importance of the local government sector to the economy

The local government sector is extremely important to the development of the economy, as it accounts for 75 percent of public consumption expenditure and 20 percent of GDP. Including municipal companies, the sector is responsible for 26 percent of the total number of people employed in Sweden.

### Local government revenue sources

The municipalities and county councils have three main sources of revenue: tax revenues, revenue from operations and general state grants and equalisation.

The local government equalisation system, which has both an equalising and revenue-increasing effect, serves to even out differences between the tax bases of different local government authorities and structurally determined costs. It shall ensure that all municipalities and county councils have similar conditions for their provision of services to residents. The Swedish system for income and cost balancing is one of the strongest balancing systems in the world.

### Local government sector economy

According to the Local Government Act, the local government authorities shall practice 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 local government sector's total income, excluding net financial items, amounted to SEK 789 billion in 2010, of which 66 percent consisted of tax revenues. The surplus amounted to SEK 19 billion. Source: The Economy Report December 2010, Swedish Association of Local Authorities and Regions (SALAR).

ASSIGNMENT OF RESPONSIBILITIES WITHIN THE PUBLIC SECTOR	
Local government sector 75 percent of public expenditure	Swedish central government 25 percent of public expenditure
LOCAL/REGIONAL COMMITMENTS	NATIONAL COMMITMENTS
Social care	Universities
Health care	Judicial system
Schooling	Environment
Public transport	Armed forces
Waste disposal	Infrastructure
etc.	etc.

BORROWING IN THE PUBLIC SECTOR	
Local government sector	Swedish central government
DEBT SEK 365 billion	DEBT SEK 1,150 billion
BORROWING RESPONSIBILITY Kommuninvest (member organisation)	BORROWING RESPONSIBILITY Swedish National Debt Office (central government authority)
Borrowing via Kommuninvest banks and proprietary programmes	Borrowing via National Debt Office



## 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 365 billion. The size of the debt has remained stable throughout the 21st century to date. Each municipality or county council determines itself how it wants to finance its operations and has access to three principal forms of financing: borrowing through Kommuninvest, borrowing through the banking sector and direct borrowing on the capital market.

Kommuninvest is the largest individual lender by a broad margin, accounting for 37 percent of the local government sector's financing. The local government sector's direct borrowing on the Swedish fixed-income market is accomplished by means of proprietary bond and commercial paper programmes, although volumes are relatively small. In December 2010, the outstanding volume amounted to SEK 30 billion.

## Shifting landscape in local government financing

In 2010, local government financing continued to shift increasingly towards Kommuninvest. According to Kommuninvest's calculations, the banks' lending to the local government sector has decreased by more than SEK 50 billion over the past three years.

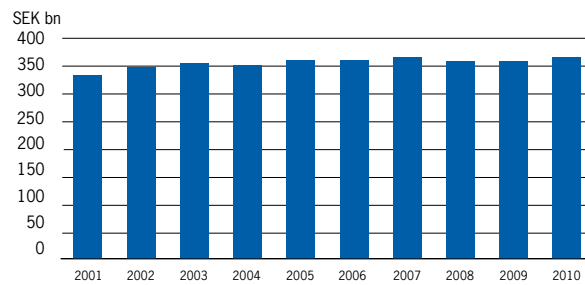
These changes have been hastened by new regulations introduced in the wake of the financial crisis and by the measures taken by Kommuninvest to build a strong and stable local government debt office.

Newly introduced regulations are also contributing to the major commercial banks gradually reducing their lending to the local government sector. This is primarily attributable to the new regulations' capital and liquidity requirements.

The banks can offset associated cost increases by adjusting their operations and balance sheet structure or by passing the increased costs on to customers by means of higher interest margins. Although the Swedish banks are well capitalised and already meet the requirements of the new regulations to all intents and purposes, the local government authorities are affected by the readjustment. Throughout the world, the trend is for specialised lenders, such as Kommuninvest, to account for an increasing proportion of welfare funding.

One indication that Kommuninvest offers the most competitive financing solution is the 87 percent bid-acceptance rate achieved in 2010.

Municipalities' and county councils' debts



Source: Statistics Sweden, SALAR and Kommuninvest

### Kommuninvest's programme for strengthened local government financing

- Monetary counterparty to the Riksbank (2010)
- Membership of RIX, the Riksbank's payment system (2010)
- Bond programme for the Swedish market (2010)
- Strong brand as Sweden's local government debt office, contributing to cost-efficient borrowing

## KOMMUNINVEST'S LENDING ACTIVITIES

*Kommuninvest is the largest lender to the local government sector, accounting for more than 35 percent of the total finance requirement. Lending rose by 8 percent in 2010 to SEK 134 billion, partly as a consequence of lending to new members but also as result of Kommuninvest's continuously increasing share of borrowers' borrowing.*

### Products adapted to suit local government requirements

Our product portfolio includes five principal loan products:

- KI interest. Variable interest (interest set daily), with capital tied up for 60 days. This is Kommuninvest's largest individual product, accounting for more than 40 percent of total lending.
- STIBOR until further notice. Fixed interest for three or six months, with capital tied up for three or six months.
- 3M STIBOR. Fixed interest for three months, with capital tied-up for up to 20 years. Option of selecting a different STIBOR period.
- Fixed interest. Fixed interest for optional period, with capital tied-up for up to 20 years.
- Loan pledge. Kommuninvest guarantees refinancing in outstanding commercial paper programmes.

Of Kommuninvest's overall lending, municipalities and county councils represented 38 percent (38) at the end of 2010. The municipal housing companies' share amounted to 39 percent (40), while energy companies and other municipally owned companies represented 23 percent (22). 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).

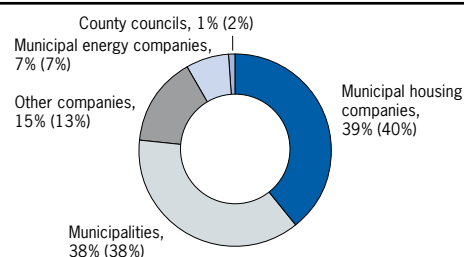
However, the proportion of loans with capital tied up long term is increasing. The proportion of loans agreed in 2010, with capital tied up for more than one year amounted to 47 percent, compared with 22 percent in 2009. At the end of 2010, the average period for which capital was tied up in Kommuninvest's lending portfolio was 1.4 years, an increase of 0.2 years.

Total external borrowing among municipalities and county councils, including the companies they own, amounted to about SEK 365 billion at the end of the year according to Kommuninvest's calculations.

### Debt management and other advisory services

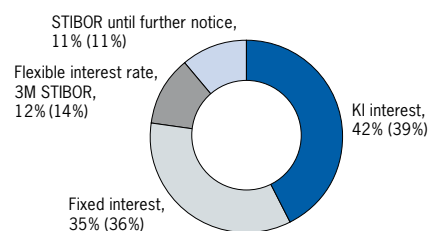
Kommuninvest's objective to assist with effective financial administration for our members demands more than just competitive loans. This is why customers are also offered financial advice and web-based analysis tools. Kommuninvest offers general financial advice and training, as well as models and strategies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

Lending per borrower category, 2010



Source: Kommuninvest

Lending per loan product, 2010



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. Stability is enhanced by spreading borrowing across various markets and different types of financial instruments.*

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 local government sector.

Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). A smaller 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 financial instruments 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. In 2010, new borrowing programmes were launched in the Swedish capital market, as well as in Australia and New Zealand. Efforts are underway to increase Kommuninvest's presence in capital markets in Africa, the Middle East, Canada, Latin America and other areas. Kommuninvest's target is for 50 percent of its borrowing to be secured in Sweden by 2015.

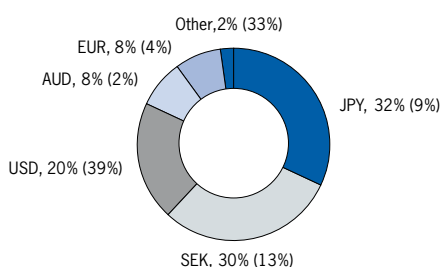
Kommuninvest's biggest borrowing programmes include:

- Swedish local government bond, a medium-term bond programme for maturities of one to ten years.
- Kommuninvest EMTN programme (Euro Medium Term Note), a medium-term bonds programme for maturities of 1 to 30 years and with a framework of EUR 15 billion.
- Kommuninvest Euro-Commercial Paper Programme (ECP), a short-term borrowing programme for maturities of 1 to 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, Uridashi, a medium-term bonds programme.
- German Schuldscheins- und Namensschuldverschreibung, medium-term bonds programmes.

### Development in 2010

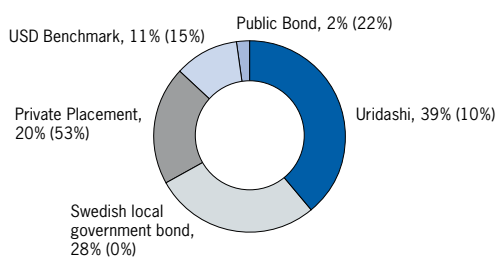
Continued concerns over public finances pervaded 2010, mainly in a number of European countries including Greece, Ireland, Portugal and Spain. The demand for stable issuers with a clear low-risk profile remained good throughout the year, however, and Kommuninvest was able to fulfil its borrowing requirements on favourable terms. Considerable interest in Kommuninvest's EUR and USD-denominated ECP programme was noted, particularly during periods of market unease. Two new currencies were issued in the ECP programme (CHF and GBP). In addition, the first issue of a "Kangaroo/Kauri" programme was carried out in the Australian market. In the Japanese market, considerable volumes were borrowed through Uridashi securities. Towards the end of the year, the first issues of the Swedish local government bond were carried out successfully. This product is planned to become one of Kommuninvest's largest borrowing programmes.

**Borrowing per currency, 2010** (excluding commercial paper borrowing)



Source: Kommuninvest

**Borrowing per programme, 2010** (excluding commercial paper borrowing)



Source: Kommuninvest

## EXCEPTIONAL CREDITWORTHINESS IN THE SWEDISH LOCAL GOVERNMENT SECTOR

*The Swedish local government 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 local government taxation mean that municipalities and county councils cannot be declared 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 local government 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. 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 municipal equalisation system

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 examining what needs to be done to balance the budget, adopt an action plan for restoring a positive result within three years.

### Responsibilities of the Swedish local government authorities

The following is a sample of the local government authorities' 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*

### Kommuninvest's ratings

	2007	2008	2009	2010
Standard & Poor's – long-term	AAA	AAA	AAA	AAA
Standard & Poor's – short-term	A-1+	A-1+	A-1+	A-1+
Moody's – long-term	Aaa	Aaa	Aaa	Aaa
Moody's – short-term	P-1	P-1	P-1	P-1

Sunderby Hospital.  
Norrbotten County Council has  
been a member of the Kommuninvest  
Cooperative Society since 2006.



## BENEFIT TO MEMBERS IN FOCUS AS KOMMUNINVEST DEVELOPS

*Kommuninvest's operations emerged from the concept of voluntary collaboration between municipalities and county councils to secure long-term stable and cost-effective financing. Through the Kommuninvest Cooperative Society, the members own Kommuninvest i Sverige AB, which is an active and well known borrower on 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. Above all, Kommuninvest acts, in its role as Sweden's local government debt office, as a guarantor for municipalities and county councils maintaining access to stable and cost-effective financing.

### An organisation with wind in its sails

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 local government sector works. As more municipalities and county councils become involved in the collaboration, the opportunities increase for Kommuninvest to offer members favourable terms, develop skills and reduce administration costs. Kommuninvest's role in the financial system has strengthened in recent years, among other aspects, through its handling of the financial crisis in 2008, when it was able to meet all of its members' financing needs at the same time as other lenders were withdrawing credit. Several major municipalities have been added as members.

### Member and owner

The members of the Kommuninvest Cooperative Society are indirectly owners of Kommuninvest i Sverige AB and, as such, also bear an ownership responsibility for its operations. The responsibility of the owners has been clarified in recent years, partly as an effect of the altered financial landscape that has crystallised in the wake of the financial crisis.

### Full ownership support for capital reinforcement

Both authorities and investors have increased their demands that financial institutions maintain good, sustained access to financing and a capital base better equipped to deal with unforeseen events. To strengthen preparedness and meet future capital

Kommuninvest carries out a number of activities to promote exchange, dialogue and cooperation between members. These pictures were taken at the 2010 Annual General Meeting of the Society.



requirements, a process was initiated in 2009 to extend Kommuninvest's capital base through a subordinated loan to the owners of SEK 1 billion. The process was completed in 2010, with the subordinated loan offer being over-subscribed. The fact that all members of the Kommuninvest Cooperative Society elected to subscribe provided clear confirmation of the long-term commitment of the owners to our operations.

### Owners support Swedish local government bond programme

Kommuninvest's owners and members have also rallied in support of the setting up of a strategic bond programme in the Swedish market at the end of 2010. It is intended to meet an expected increased borrowing need within Kommuninvest and to reduce dependency on foreign borrowing. Above all it provides members with cost-effective and flexible access to long-term borrowing on the capital market. The design of the Swedish local government bond enables members to raise long-term loans quickly and easily and on pre-set terms.

### Benefit to members in focus for Kommuninvest's development

All business development within Kommuninvest is intended to increase the benefit associated with membership. In recent years, the emphasis has been on strengthening Kommuninvest's role as Sweden's local government debt office, that is to say, its capacity

over time to offer municipalities and county councils stable and cost-effective financing.

In this regard, 2010 was a significant year in Kommuninvest's history, marked primarily by the members' decision to strengthen Kommuninvest's capital base through a subordinated loan of SEK 1 billion. Other events that have strengthened benefit for members include the Riksbank's decision to approve Kommuninvest as a monetary counterparty and the launch of the Swedish local government bond.

With Kommuninvest's reinforced capital situation and improved access to the Swedish capital market, borrowing costs for Swedish local government authorities will decrease in the long term.

### Several forums for member influence

For a member organisation with a mission like Kommuninvest's, it is particularly important that current issues are discussed and that a mandate is established for the decisions taken. For this reason, Kommuninvest's management conducts annual member consultations with the political leadership of the member municipalities and county councils. These member consultations are carried out in January and February, ahead of the Annual General Meeting of the Society in March, which is Kommuninvest's senior decision-making forum. More than 400 elected representatives and salaried officials from some 200 of Kommuninvest's members took part in the 2010 member consultations, which were held in 22 locations.

During the Almedalen political conference in Visby, Kommuninvest arranged a seminar on "Financing welfare in a global perspective".



Other significant Kommuninvest forums are the meetings of the boards of the Society and the Company. 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 representatives of municipalities, municipal companies and county councils.

### Active influence on local government finance issues

Kommuninvest shall participate in the general financial debate and shall as a membership organisation represent the Swedish local government 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.

In 2010, Kommuninvest continued its efforts to have the role of local government credit market companies clarified in legislation. We participated in the establishment of a European network for chief financial officers of local government financing institutes

and, together with SALAR, we initiated a financial network for Swedish local government authorities.

Together with the Finnish and Dutch credit institutes Munifin and NWB, Kommuninvest also lobbied the ministries of finance in each country. The intention was to muster support in EU negotiations for credit institutes of the type and focus that we represent to be exempt from the planned leverage ratio requirement or for this to be modified.

### Kommuninvest represents the local government sector on financial matters

We are one of the principal sponsors of the Financial Days event, aimed at public sector officials and elected politicians. Effective from 2010, we participate in the Almedalen week of political conferences in Visby on the island of Gotland – an excellent opportunity to exchange knowledge with others and to network with key stakeholder groups. Kommuninvest is also part of international networks such as the ICLC, International Centre for Local Credit, and EAPB, European Association of Public Banks.

### Owner survey 2010

We conduct annual surveys among the members of the Kommuninvest Cooperative Society, which owns Kommuninvest i Sverige AB. The members are also the company's customers. The survey carried out in 2010 showed that members were generally highly satisfied with the collaboration and that Kommuninvest meets their expectations well. The customer satisfaction index was 78 compared with 76 in 2009.

Kommuninvest's member consultations took place in 22 locations and brought together more than 400 municipal and county council representatives.







The C visualisation centre.  
The Municipality of Norrköping has been  
a member of the Kommuninvest  
Cooperative Society since 2009.

## INCREASED PARTICIPATION AND COMMITMENT

*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 local government sector. One of our main tasks is to contribute to increased welfare in Sweden through stable and cost-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. Our need for access to the necessary expertise is subject to stringent requirements. 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 the working situation of others. Encouraging internal collaboration and network participation is also important.

Since 2009, Kommuninvest has conducted a long-term management programme focusing on leadership, professional roles and group dynamics. The intention is for managers to grow clearer and more

secure in their professional role. As part of the programme, each manager receives individual coaching.

### Continuous competence development

The ongoing development of our employees’ competence primarily involves learning in the workplace through internal seminars and training programmes. Competence development also includes external training and secondment. As part of a pilot project, one Kommuninvest employee was given the opportunity to work half time at an external company for six months. Secondment allows employees to gain new knowledge and experience, and to build networks that can benefit their work at Kommuninvest. The objective is to build up cooperation of this kind with additional companies.

### Good employeeship, strong employer brand

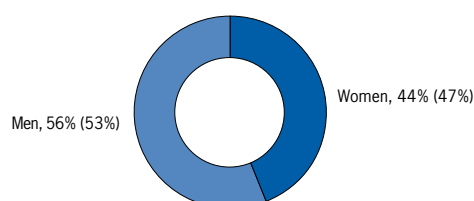
Commitment and good staff engagement are an important element in Kommuninvest’s formula for success: when we grow and develop, our employees must also grow and develop. It is also important to ensure that all specialist skills can interact effectively. One of our objectives is to be an employer with a strong brand among current and future employees and we are working with these issues very actively.

### Favourable employee survey results

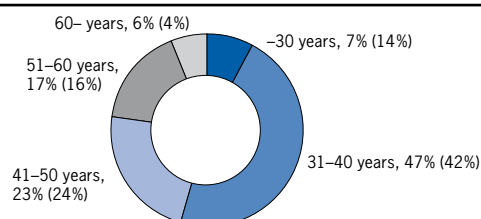
Kommuninvest conducts annual employee surveys to assess the employees’ view of their working situation and of Kommuninvest as an employer. The overall results are presented as an Employee Satisfaction Index. These surveys form an integrated part of Kommuninvest’s operational planning.

In 2010, the results of the survey continued to be favourable, showing employees to be highly committed and proud of being part of Kommuninvest. During 2010, Kommuninvest completed an extensive overhaul of its premises with the intention of

Gender distribution, %



Age interval, total men and women



improving the working environment and facilitating cooperation between various functions within the Company. This has contributed to a marked improvement in employees' perception of the physical working environment.

It is now important for Kommuninvest to identify formats for extended cooperation between groups and individuals to enhance insight and commitment.

### Core values in focus

A high priority within Kommuninvest is clarifying, both within the organisation and externally, what Kommuninvest represents and the goals towards which our operations shall strive. All Kommuninvest's employees have been involved in the development of the Company's core values and in the elaboration of some 40 Company-wide core value promises – concrete promises that can be translated into day-to-day efforts and that help Kommuninvest achieve its targets. Additional promises have been elaborated for the various functions within the Company.

Kommuninvest's core values and core value promises are now so well established that they form a natural part of operational planning and control. 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 the fundamental values of local government converge.

### Remuneration principles

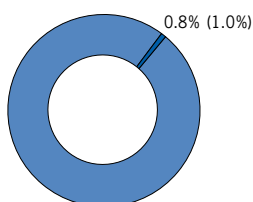
The remuneration principles within Kommuninvest should help us to recruit and retain competent employees who generate favourable long-term development of the business. Remuneration should be market adjusted but not market leading and reflect the nature and demands of the work. A study of wage levels at comparable companies carried out in 2010 shows that remuneration levels live up to this aim.

### Personnel composition

At the end of 2010 Kommuninvest had 53 (49) employees, of whom 23 (23) were women and 30 (26) men. The combined competence of the workforce has been strengthened through the recruitment of a new funding manager and a new manager for the risk and analysis function.

Most Kommuninvest employees have a university-level education in economics or law. The average age was 42.0 (40.8), with a range of between 24 (23) and 66 (65). Absence due to illness for the year was 0.8 percent (1.0).

Absence due to illness, %



Average age

Average age, all employees:	42.0 years (40.8)
Women, 23 (23) individuals:	42.1 years (40.8)
Men, 30 (26) individuals:	42.0 years (40.7)

## CONTINUOUS FOCUS ON GOOD GOVERNANCE AND RISK CONTROL

Trends in the financial markets in recent years have meant that requirements for good governance and control in financial operations have increased. Boards of directors must have a good awareness of external circumstances, as well as knowledge and insight regarding operations, to be able to provide sound advice and qualified guidance.

The fact that Kommuninvest has active and committed owners provides strong support for good governance and control. The Board of Directors of the Kommuninvest Cooperative Society monitors operations, checking that they are conducted within the parameters set annually by the Society through owner directives. The Board of Directors of Kommuninvest i Sverige AB acquires its mandate from these directives and is responsible for ongoing operations.

Despite periodically serious market unease, Kommuninvest maintained good access to the capital markets throughout 2010. Against this background, it has been possible to focus the strategic efforts of the Board of Directors of Kommuninvest i Sverige AB on realising Kommuninvest's long-term objectives. These efforts were supported by the owners' decision in March to strengthen Kommuninvest's capital base by SEK 1 billion through the issue of a subordinated loan to members of the Kommuninvest Cooperative Society.

In November, the Company launched a strategic borrowing programme, the Swedish local government bond, for the continuous issue of bonds in the Swedish market. The bonds were well received by the market and served to strengthen Kommuninvest's position in the Swedish financial system.

Both the strengthening of the capital base and the Swedish local government bond are events that have resulted in numerous questions from members, customers and investors, confirming for us the importance of open and transparent communications in our dialogue with Kommuninvest's stakeholders.

The ongoing process to strengthen risk control continued over the year. Good risk awareness, well developed risk control functions and competent employees are the foremost guarantee that Kommuninvest's pronounced low-risk profile will prevail.

The Board of Directors of the company derives satisfaction from the fact that Kommuninvest was able to implement a number of strategic activities in 2010. Kommuninvest enters 2011 as a visible, stable and strong player – a position that will benefit the company's owners and members.

Ellen Bramness Arvidsson  
*Chairman of the Board, Kommuninvest i Sverige AB*

## GOVERNANCE AND CONTROL

Corporate Governance Report for Kommuninvest i Sverige AB

*Kommuninvest i Sverige AB is a Swedish public limited liability company and a wholly-owned subsidiary of the Kommuninvest Cooperative Society. Since the Company is not listed on an active stock exchange, it is not bound by the Swedish Code of Corporate Governance. However, it is Kommuninvest's ambition to adhere to the applicable sections of the Code.*

*Good governance and control are crucial to Kommuninvest as a publicly owned company with a role of considerable responsibility as Sweden's local government debt office.*

### Shareholders

Kommuninvest i Sverige AB is owned by Swedish municipalities and county councils through the Kommuninvest Cooperative Society. The Company's sole shareholder is the Kommuninvest Cooperative Society.

On 31 December 2010, the share capital in Kommuninvest i Sverige AB amounted to SEK 288.5 million, divided among 2,884,550 shares.

The share capital changes as new members join the Kommuninvest Cooperative Society. Each new member contributes participation capital to the Cooperative Society based on number of residents; this capital then benefits Kommuninvest i Sverige AB, which issues new shares to the Cooperative Society. In 2010, new shares were issued for a value of SEK 18.8 million.

### Annual General Meeting

The Annual General Meeting of the Kommuninvest Cooperative Society is Kommuninvest's highest decision-making body. The Meeting, and the member consultations that precede it, are the natural forums through which the owners exercise their influence.

The Annual General Meeting of Kommuninvest i Sverige AB is held immediately following the Annual General Meeting of the Cooperative Society.

#### *Resolutions by the 2010 Annual General Meeting of the Society*

The 2010 Annual General Meeting of the Society was held on Thursday 25 March 2010 in Stockholm. At the Meeting, 155 municipalities and county councils

were represented, corresponding to about 62 percent of the members. At the Annual General Meeting of the Society, each member has one vote. The resolutions adopted by the Meeting included:

- Approval for the increase of Kommuninvest's capitalisation by at most SEK 1 billion through the raising of a 30-year subordinated loan from the members and for Kommuninvest i Sverige AB to re-lend the funds raised by the Society by means of a perpetual subordinated loan.
- Guidelines for remuneration to the President and CEO, Deputy CEO and other members of the Executive Management Team of Kommuninvest i Sverige AB.
- Adoption of owner directives for Kommuninvest i Sverige AB.
- Procedures for the appointment and activities of the Election Committee.
- Re-election of Board members Christer Akej, Carina Blank, Alf Egnerfors, Marie-Louise Forsberg Fransson, Robert Mörk, Elver Jonsson, Margreth Johnsson, Ewa-May Karlsson, Håkan Heglert, Lars Åke Magnusson, Örjan Mossberg, Ann-Charlotte Stenkil, Roland Åkesson and Bert Öhlund.
- Re-election of Chairman of the Board Ann-Charlotte Stenkil.
- New election of Board member Åsa Herbst, Chairman of the Municipal Executive Board of Ängelholm.

#### *Resolutions by the 2010 Annual General Meeting of Kommuninvest i Sverige AB*

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 and CEO 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 Annual General Meeting of 25 March 2010 decided on various matters, including:

- Discharge from liability for the members of the Board of Directors and the President and CEO regarding their administration of the Company in 2009.
- Increased capitalisation, remuneration principles and owner directives in line with the resolutions by the Annual General Meeting of the Society.
- New share issue and authorisation to implement new share issues during the financial year.
- Adoption of owner directives.
- Re-election of Board members Lorentz Andersson, Ellen Bramness Arvidsson, Anna von Knorring, Catharina Lagerstam, Tommy Persson and Johan Törngren.

#### **Additional information on Kommuninvest's corporate governance**

The following information can be accessed via Kommuninvest's website [www.kommuninvest.se](http://www.kommuninvest.se):

- Statutes of the Kommuninvest Cooperative Society
- Details of members and approval of new members
- Articles of Association of Kommuninvest i Sverige AB
- Information on remuneration
- Information on the work of the Election Committees

- New election of Board members Kurt Eliasson, President, SABO, and Anna Sandborgh, Chief Administrative Officer, Municipality of Karlstad.

### Owner directives

The Board of Directors of the Kommuninvest Cooperative Society develops directives for the Group companies. The directives are adopted annually by the ordinary Annual General Meeting of the Society. The owner directives set out the framework of the operations assigned to the Board of Directors of Kommuninvest i Sverige AB by the Society. The owner directives primarily include guidelines regarding risk levels, remuneration principles, principles for business travel and representation and for any special assignments set for the Company by the Society. The owner directives are adopted by the ordinary Annual General Meeting of Kommuninvest i Sverige AB.

### Member consultations

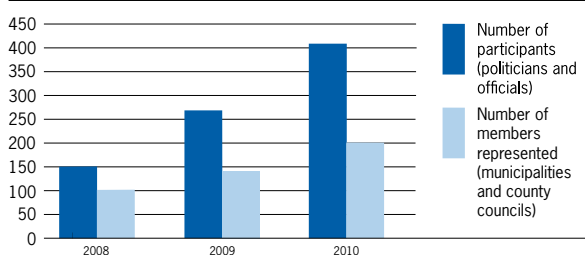
To stimulate owner influence and dialogue between representatives of the owner association, the Kommuninvest Cooperative Society, and representatives of Kommuninvest i Sverige AB, Kommuninvest conducts annual member consultations at which current issues are discussed in a smaller-scale forum. Member consultations represent important forums for the preparation of matters for resolution by the Annual General Meeting of the Society. In 2010, member consultations were held in 22 (22) locations around Sweden, with 408 (265) politicians and officials from 200 (140) member local government authorities taking part.

### Election Committees

There are two Election Committees within Kommuninvest; the Election Committee of the Kommuninvest Cooperative Society and the Election Committee of the companies owned by the Society, Kommuninvest i Sverige AB and Kommuninvest Fastighets AB.

The Election Committees bear the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the members to give their views on proposals and to submit their own proposals regarding appointments and associated issues, thereby establishing favourable conditions for well-founded decisions.

**Kommuninvest member consultations – forum for discussion and consolidation**



The Election Committee of the Kommuninvest Cooperative Society is elected by the Annual General Meeting of the Society based on a proposal submitted by the Board of Directors of the Society. The Election Committee of the companies owned by the Society shall represent the Board of Directors of the Society and consists of members elected by the Board from its own membership. The Board of Directors of the Society has resolved that its working committee shall act as the Election Committee.

#### Election Committee of the Kommuninvest Cooperative Society

<i>Anette Åkesson</i>	Chairman of the Municipal Executive Board, Municipality of Båstad
<i>Kenneth Carlsson</i>	Municipal Commissioner, Municipality of Färgelanda
<i>Anders Ceder</i>	Shadow Municipal Commissioner, Municipality of Lindsberg
<i>Anders Berglöv</i>	Chairman of the Municipal Executive Board, Municipality of Flen
<i>Niklas Sjöberg</i>	Chairman of the Municipal Executive Board, Municipality of Skurup
<i>Kerstin Sjöström</i>	2nd Vice Chairman of the Municipal Executive Board, Municipality of Nordmaling
<i>Elisabet Lassen</i>	Municipal Commissioner, Municipality of Sollefteå

#### Election Committee of the companies owned by the Society

<i>Ann-Charlotte Stenkil</i>	Chairman, Kommuninvest Cooperative Society, Member of the Municipal Executive Board, Municipality of Varberg
<i>Alf Egnerfors</i>	Vice Chairman, Kommuninvest Cooperative Society, Chairman of the Municipal Council, Municipality of Eskilstuna
<i>Christer Akej</i>	Chairman of the Municipal Executive Board, Municipality of Simrishamn
<i>Ewa-May Karlsson</i>	Chairman of the Municipal Executive Board, Municipality of Vindeln
<i>Margreth Johnsson</i>	1st Vice Chairman of the Municipal Executive Board, Municipality of Trollhättan

Further information on the Election Committees and their complete agendas is available at [www.kommuninvest.se](http://www.kommuninvest.se)

### The work of the Board of Directors

Board work is conducted in part by the Board of Directors of the owner association, the Kommuninvest Cooperative Society, and, in part by the Board of Directors of the credit market company Kommuninvest i Sverige AB. The main principle is that the Board of Directors of the Society deals with membership issues, while the Board of Directors of the Company deals with issues involving the financial operations. This means that issues concerning new members,

withdrawal of members, possible exclusion from membership, guarantee issues, etc. are dealt with by the Board of Directors of the Society. The Board of Directors of the Company deals with financing issues, credit issues (such as limits and analyses), as well as other operational issues.

However, the connection between the two boards is strong, since certain issues concern both the Board of Directors of the Society as well as that of the Company. However, the Board of Directors of the Society, which represents the owners, has no right of determination over the Board of Directors of the Company. The Society's control of the Board of Directors of the Company may only be exercised by means of resolutions by the Annual General Meeting of the Society or by owner directives adopted by the Annual General Meeting of the Society.

### Board of Directors of Kommuninvest i Sverige AB

The Board of Directors of Kommuninvest bears the 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 full Board is responsible for completing the tasks otherwise assigned to an audit committee. The rules of procedure are reviewed and adopted once a year.

Instructions for the President and CEO and report instructions prepared by the Board stipulate for example that the President and CEO 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 2010 the Board of Directors met on 11 (15) occasions.

Agendas and decisions have involved:

- Review of risk management processes
- Management of future profits
- Clarification of the responsibilities of owners
- Change of company name
- Introduction of a Swedish bond programme

### Board members

The Board of Directors of the Kommuninvest Cooperative Society is presented in the Society's annual report, which can be downloaded from Kommuninvest's website [www.kommuninvest.se](http://www.kommuninvest.se).

In 2010, the members of the Board of Directors of Kommuninvest i Sverige AB were Tommy Persson (until 1 June 2010), Ellen Bramness Arvidsson, Lorentz Andersson, Kerstin Ryding (until 25 March 2010), Anna von Knorring, Ingemar Alserud (until 25 March 2010), Catharina Lagerstam, Johan Törngren, Anna Sandborgh (from 25 March 2010) and Kurt Eliasson (from 25 March 2010). The members are presented on the next page.

Tommy Persson, who had been the Chairman of the Board of Directors since 2008, resigned his assignment at his own request in early June. He was replaced by Vice Chairman Ellen Bramnes Arvidsson, who stepped in as Chairman until further notice.

The Election Committee of Kommuninvest i Sverige AB proposes that the 2011 Annual General Meeting of the Company re-elect Ellen Bramness Arvidsson, Lorentz Andersson, Anna von Knorring, Catharina Lagerstam, Johan Törngren, Anna Sandborgh and Kurt Eliasson and that Björn Börjesson be elected as Chairman. Björn Börjesson previously worked at Handelsbanken, most recently as Executive vice president, responsible for contacts with the financial sector and authorities, and international corporate governance.

#### Auditors for Kommuninvest i Sverige AB

The Annual General Meeting of Kommuninvest i Sverige AB elects the Company's external and lay auditors.

##### External auditor

Ernst & Young AB have been appointed auditors from 2008 to 2011; 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.

*Peter Strandh, authorised public accountant, Ernst & Young*



#### 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 25 March 2010:

<i>Anita Bohman</i>	Former Vice Chair of the Executive Committee in the Municipality of Västervik.
<i>Barbro Tjernström</i>	Former Chair of the Executive Committee in the Municipality of Söderköping

## Board of Directors of Kommuninvest i Sverige AB

### Ellen Bramness Arvidsson

Chief Economist, Swedish Insurance Federation.  
**Elected:** Chairman since 2010, Vice Chairman since 2006, member since 2003.  
**Education:** Cand. oecon, Oslo University, Diploma in financial analysis, Stockholm School of Economics and FAF.  
**Previous positions:** Ministry of Finance, under-secretary and first secretary.  
**Other assignments:** Chairman of Min Pension i Sverige AB.



### Anna von Knorring, Helsinki

**Elected:** Member since 2004.  
**Education:** Master of Laws, Helsinki University; MA Economics, Swedish School of Business and Economics, Helsinki.  
**Previous positions:** Ministry of Finance and State Treasury.  
**Other assignments:** Member of the Board of Nordic Capital Markets Forum and Hansel AB, the Finnish government's collective procurement unit. Member of the Sparbank Foundation delegation, Helsinki.



### Lorentz Andersson

**Elected:** Member since 2001.  
**Education:** Luleå University of Technology, Honorary Doctor of Technology, construction engineer.  
**Previous positions:** Västerbotten County, County Governor. Chairman of the Municipal Executive Board, Municipality of Skellefteå. AB Asako and Polaris AB, President.  
**Other assignments:** Chairman of Sparbanksstiftelsen Norrland, Sparbanksstiftelsen Norrland's venture capital foundation, Norrbotniabanan AB and others. Member of the Board of Sparbank Foundations Management Company, the Social Democratic Workers' Party of Sweden and the Swedish Association of Local Authorities.



### Kurt Eliasson

President of SABO.  
**Elected:** Member since 2010.  
**Education:** Real Estate Agent Diploma, IFL Executive Education, Stockholm School of Economics.  
**Previous positions:** CEO, Förvaltnings AB Framtiden, Board Member of Riksbyggen.  
**Other assignments:** Chairman of the Board of the Chalmers University of Technology Foundation. Member of the Delegation for Sustainable Cities.



### Catharina Lagerstam

Consultant and professional Board member.  
**Elected:** Member since 2009.  
**Education:** PhD, Stockholm School of Economics; Graduate Engineer, Royal Institute of Technology; Graduate Business Administrator, Stockholm School of Economics.  
**Previous positions:** Member of the Board of Clearstream, Luxembourg; CFO Hufvudstaden AB; Valuation Manager Bankstödsnämnden; lecturer and researcher, Stockholm School of Economics.  
**Other assignments:** Board member of Alpcot Agro, Elektronikgruppen, Franska Skolan and Landshypotek.



### Anna Sandborgh

Chief Administrative Officer, Municipality of Karlstad.  
**Elected:** Member since 2010.  
**Education:** Master of Laws, Uppsala University.  
**Previous positions:** Chief Administrative Officer and research secretary, Municipal Executive Board, Municipality of Karlstad.  
**Other assignments:** Vice Chairman, Vänern AB. Chairman of the Swedish Association of Municipal Chief Administrative Officers.



### Johan Törngren

Senior Vice President and CFO, SAS Group.  
**Elected:** Member since 2009.  
**Education:** MBA, Stockholm School of Economics.  
**Previous positions:** Finance Director, Svensk Exportkredit AB.  
**Other assignments:** Member of the Board of SPP Fonder, SPP Livförsäkring and airline Blue1.





### Internal governance, risk control, compliance and internal audit at Kommuninvest i Sverige AB

The Board of Directors bears the overall responsibility for operations and for internal governance and control. The Board of Directors has adopted an internal governance and control policy and each year adopts an operations plan, as well as plans for internal governance and control.

Responsibility for maintaining an effective control environment and for ongoing internal control processes is delegated to the President and CEO. This includes providing guidelines for and implementing internal governance and control and following up on adherence with policies and other guidelines in the area. The President and CEO is responsible for completed internal control work processes being reported to the Board of Directors.

Kommuninvest's process for the internal control of the financial reporting process is based on the framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The process began with the control environment, which establishes the discipline and structure for the other four components of the process – risk assessment, control activities, information and communication, and follow-up. The processes have been designed to safeguard adherence to the principles for financial reporting and internal control and to ensure that the financial reports are prepared in accordance with legislation, applicable accounting standards and other requirements.

Operations managers are responsible for ensuring that internal governance and control are carried out in accordance with the intentions of the Board and the President and CEO. This responsibility requires the existence of suitable instructions and procedures for operations and that adherence to these procedures is followed-up on a regular basis. Consequently, the responsibility for internal control and adherence to regulations is an integrated part of management responsibility.

Responsibility for internal governance and control is not limited solely to the Board of Directors and management. Everyone within the organisation is responsible for his/her portion of the internal governance and control system by producing information or, for example, by carrying out checks in various work flows. All employees also bear a general responsibility for reporting, where relevant, infractions of the above-mentioned guidelines, illegal acts or other problems within operations to their immediate manager or to another executive responsible for dealing with such reports.

Beyond its internal control processes, Kommuninvest maintains three control functions that are independent from its business operations – risk control, compliance and internal audit.

#### Risk control

Kommuninvest's risk control function exercises group-wide risk control and monitors the Group's risks, principally credit risks, market risks, liquidity risks and operational risks. A more detailed description of the organisation and work of the risk control function is given on page 40. The function is separated from business operations. The manager of the risk control function is appointed by the President and CEO upon approval by the Board of Directors and reports to the Head of Administration. The Board of Directors receives regular updates on risk control issues.

#### Compliance

Kommuninvest's compliance function is entirely independent of the business operations while also acting as a support function for operations. It is also separated from Kommuninvest's legal function, which is often involved in ongoing business operations. The compliance function shall work proactively to safeguard the quality of compliance within the Group and to support compliance issues by means of advice and

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

Name	Position of dependence	Presence Board meetings	Remuneration 2010	Remuneration 2009
<i>Current Board of Directors</i>				
Ellen Bramness Arvidsson	Independent	11 (of 11)	283,000	142,000
Lorentz Andersson	Independent	11 (of 11)	126,000	102,000
Kurt Eliasson	Independent	8 (of 9)	94,000	–
Anna von Knorring	Independent	8 (of 11)	90,000	94,000
Catharina Lagerstam	Independent	11 (of 11)	110,000	78,000
Johan Törngren	Independent	7 (of 11)	94,000	70,000
Anna Sandborgh	Independent	9 (of 9)	102,000	–
<i>Departing Board members, March 2010</i>				
Kerstin Ryding	Independent	2 (of 2)	55,000	110,000
Ingemar Alserud	Independent	0 (of 2)	31,000	62,000
<i>Departing Board members, June 2010</i>				
Tommy Persson	Independent	5 (of 5)	200,000	400,000

follow-up in all areas of compliance, thereby also supporting business operations and management. Tasks include risk management, monitoring, reporting, developing internal rules, training and contacts with supervisory authorities.

However, compliance with regulations is the responsibility of everyone within Kommuninvest. The establishment of a central compliance function does not exempt any employee from his/her responsibility to adhere to the internal and external rules applicable to operations.

It is the duty of the head of the compliance function to assist the Board of Directors and the President and CEO on compliance issues and to coordinate the administration of such issues. The head of the compliance function is appointed by the President and CEO, reports to the President and CEO and Executive Management Team on an ongoing basis and also informs the Board of Directors on compliance issues. Based on analyses of the Group's compliance risks, the President and CEO sets an annual compliance plan.

#### *Internal audit*

The internal audit is an independent and impartial safeguard and an advisory unit tasked with adding value and improving the organisation's operations. The internal audit helps the organisation achieve its objectives by assessing and enhancing efficiency in risk management, governance, control and management processes in a systematic and structured way.

Kommuninvest's internal audit is an independent review function that reports directly to the Board of Directors. It is responsible for evaluating risk management, control and governance processes within Kommuninvest and for ensuring that operations are conducted in accordance with the intentions of the Board of Directors and the President and CEO. The internal audit reports to the Board of Directors, the President and CEO and the Group's external auditors on an ongoing basis. Each year, the Board of Directors establishes a plan for the work of the internal audit.

#### **Remunerations**

In accordance with the framework for fees to the Board of Directors set by the Annual General Meeting of the Company, the Chairman of the Board of Directors, Ellen Bramnes Arvidsson received SEK 283,000 for the period 1 January 2010 to 31 December 2010. Tommy Persson, the former Chairman of the Board of Directors, received SEK 200,000 in fees for the period 1 January 2010 to 1 June 2010. Fees to the other members of the Board of Directors have been paid in accordance with the table on page 31. The total fees paid to the members of the Board of Directors elected by the Annual General Meeting amounted to SEK 1,185,000 for 2010.

## Committees and working groups

### **Analysis and Finance Committee of the Kommuninvest Cooperative Society**

The Board of Directors of the Society appoints an Analysis and Finance Committee. The committee is responsible for monitoring the financial status of the member municipalities and the development of the local government sector as a whole. It also has the task of preparing new member applications at the behest of the Board of Directors of the Society. 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.

#### **Analysis and Finance Committee of the Kommuninvest Cooperative Society**

<i>David Nyberg</i>	Chairman President, Skellefteå Stadshus AB
<i>Nils-Eric Gustavsson</i>	Finance Director, Västmanland County Council
<i>Ingalill Hellberg</i>	Chief Administrative Officer, Municipality of Staffanstorp
<i>Victoria Galbe</i>	Chief Financial Officer, Landskronahem AB
<i>Gunilla Josefsson</i>	Chief Financial Officer, Municipality of Stenungsund
<i>Johan Sandlund</i>	Chief Administrative Officer, Municipality of Trosa
<i>Tommy Malm</i>	Finance Director, Municipality of Eskilstuna
<i>Bernt Grah</i>	President, Luleå Stadshus AB
<i>Maria Johansson</i>	Chief Financial Officer, Municipality of Upplands-Bro

## Executive Management Team

### Executive managers of Kommuninvest i Sverige AB

Written instructions stipulate the division of labour between the Board of Directors and the President. These instructions also take into account the Swedish Financial Supervisory Authority's (Finansinspektionen) general recommendations on the control and management of financial companies, as well as the Swedish Financial Supervisory Authority's perception of the President's tasks and responsibilities.

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.

### Executive Management Team

Tomas Werngren, President and CEO; Maria Viimne, Deputy CEO; Johanna Larsson, Head of Administration; Anders Gånge, Head of Funding and Treasury.

#### Tomas Werngren

President and CEO  
**Education:** BSc Engineering, Public Administration, Örebro University and Stockholm University.  
**Previous positions:** Deputy President and Finance Director at Kommuninvest and Treasurer at SBAB, and others.  
**Other assignments:** Board member of Vasallen AB.  
**Born:** 1961



#### Maria Viimne

Deputy CEO  
**Education:** BSc in Business and Economics, Mälardalen University; Master of Laws, Stockholm University; European Master in Law and Economics, University of Rotterdam and University of Hamburg.  
**Previous positions:** Finance Group Director and company counsel at Kommuninvest; Court Clerk, Mora District Court, and others.  
**Born:** 1970



#### Anders Gånge

Head of Funding & Treasury  
**Education:** BSc Economics, Lund University; Central Missouri State University, USA. Örebro University.  
**Previous positions:** Senior Bond and Swap Trader at Handelsbanken, Head of Treasury at Kommuninvest and Senior Swap and Bond Trader at Unibank, and others.  
**Born:** 1971



#### Johanna Larsson

Head of Administration  
**Education:** MA Economics, Stockholm University; IFL Executive Education, Stockholm School of Economics; Diploma in Financial Analysis (AFA, CEFA).  
**Previous positions:** Financial advisor at Kommuninvest and portfolio manager at Birka Energi.  
**Born:** 1973



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

Name	Year	Basic salary	Other benefits	Variable performance benefit	Pension costs	Total
Tomas Werngren	2009	2,398,159	73,401	0	885,000	3,356,560
	2010	2,595,561	82,371	0	598,000	3,275,932
Maria Viimne	2009	1,325,361	357	0	276,000	1,601,718
	2010	1,426,689	63	0	335,442	1,762,194
Executive Management Team	2009	2,208,921	252	0	409,460	2,618,633
	2010	2,477,634	313	0	777,000	3,254,947

Örebro, 1 March 2011

Ellen Bramness Arvidsson  
*Chairman*

Lorentz Andersson

Kurt Eliasson

Anna von Knorring

Catharina Lagerstam

Anna Sandborgh

Johan Törngren

Tomas Werngren  
*President and CEO*

## AUDITOR'S STATEMENT REGARDING THE CORPORATE GOVERNANCE REPORT

To the Board of Directors of Kommuninvest i Sverige AB (publ).  
Corporate identity number 556281-4409.

The Board of Directors is responsible for the Corporate Governance Report and for ensuring that it is prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL).

As a basis for our opinion on whether the Corporate Governance Report has been prepared in accordance with the annual accounts and in agreement with them, we have read the 2010 Corporate Governance Report, pages 27–33, and assessed its statutory contents based on our knowledge of the Company.

We consider the Corporate Governance Report to have been prepared in accordance with the annual

accounts and consider the statutory disclosures made in the Report to agree with the annual accounts.

Örebro, 1 March 2011  
Ernst & Young AB

Peter Strandh  
*Certified Public Accountant*



Hagfors Waterworks.  
The Municipality of Hagfors has been  
a member of the Kommuninvest  
Cooperative Society since 2007.

## BOARD OF DIRECTORS' REPORT

### General information about the company

Kommuninvest i Sverige AB 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.

The Corporate Governance Report has been prepared as a separate document from the Annual Report.

### Market

A gradual stabilisation and recovery in the global economy pervaded 2010. However, the international capital markets were also affected by periodic unease in 2010, caused primarily by the fragility of certain European countries' central government finances. These countries were penalised through substantially increased interest on their borrowing. In these countries, far-reaching financial measures were adopted to quell market concerns. In addition, the EU resolved to introduce a stability fund to be able to provide support to member states. The world's major central banks continued their market interventions with the purpose of maintaining financial stability and boosting confidence. Proposals for new financial regulations by the Basel Committee presented tighter requirements on both capital and liquidity in financial institutions.

The Swedish economy grew quickly over the year, with the banking system gradually showing greater profits as the pace of credit losses abated, primarily related to the provision of credit to the Baltic markets. The Riksbank implemented four hikes in its repo rate, from 0.25% early in the year to 1.25% at its close.

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 12 new members during the year, meaning that Kommuninvest had 260 (248) members, of which 253 (241) were municipalities and 7 (7) were county councils, at the end of 2010.

### Results

The operating profit (profit before taxes and appropriations) amounted to SEK 275.7 (335.0) million. The profit includes unrealised market value changes of SEK -86.5 (-9.4) million. The profit after appropriations and taxes amounted to SEK 140.6 (170.6) million.

Net interest income increased to SEK 432.1 (382.1) million. This improvement was attributable to strong development over the year, with improved 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 buy-back of issued securities and the sale of financial instruments has contributed SEK 102.5 (97.0) million to the figures, as recognised in 'Net results of financial transactions'.

Unrealised changes in market value recognised in the income statement amounted to SEK -86.5 (-9.4) million and are also entered under 'Net results of financial transactions'. The change for the year arose through the strengthened creditworthiness of Kommuninvest's outstanding liabilities and increased margins on Kommuninvest's lending. Kommuninvest's intention is to hold assets and liabilities to maturity, which means that these are values which Kommuninvest does not intend to realise. Of the unrealised changes in market value for the year, SEK 1.9 million derived from assets classified as held for trade.

Expenses amounted to SEK 169.4 (134.4) million. The increased expenses are mainly attributable to the increased stability charge, as well as increased personnel, IT and consultancy costs.

Operating profit excluding the effect of unrealised market value changes amounted to SEK 362.2 (344.4) million.

## Financial position

The balance sheet total rose to SEK 190.2 (183.1) billion as a consequence of increase lending and borrowing, as well as the subordinated loan raised from the Kommuninvest Cooperative Society.

### Lending

At the end of the year, lending amounted to SEK 133.7 (123.6) billion. In nominal terms (actually lent), lending was at SEK 132.9 (121.9) billion, an increase of 9% 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 43.3 (48.4) billion. 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 only be made with counterparties with a rating of at least A2 from Moody's and/or A from S&P, or with local government authorities that are members of Kommuninvest.

Kommuninvest has low exposure to the countries at the heart of the European debt crisis. The sole exposure is an investment, corresponding to 2% of the total invested capital, placed with the Instituto de Crédito Oficial, a bank guaranteed by the Spanish state.

### Borrowing

At the end of the year, borrowing amounted to SEK 177.3 (172.0) billion. Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). A smaller part of our borrowing takes place as direct loan financing. Kommuninvest acts over terms of between 1 day and 30 years and focuses primarily on financial instruments with fixed or variable interest.

### Derivatives

Derivatives with positive and negative market value amounted to SEK 13.0 (11.1) billion and SEK 10.8 (9.9) 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.

### Subordinated liabilities

Subordinated liabilities consist of a perpetual subor-

dated loan from the Kommuninvest Cooperative Society.

### Equity

At the end of 2010, equity amounted to SEK 782.8 (690.2) million. Besides the income for the year, equity has been affected by changes in the market values of financial assets classified as available-for-sale and investments reclassified as loans and receivables, where unrealised changes in market value are entered directly against other comprehensive income.

### 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 18.8 (32.9) 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 288.4 (269.6) million, distributed over 2,884,550 (2,696,200) shares.

## Changed accounting principles

Due to changes implemented through regulation FFFS 2009:11 on changes to the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25), Kommuninvest has amended certain valuation and accounting principles. To achieve comparability regarding Kommuninvest's development and position, figures for the comparison year have been recalculated with the net result of financial transactions being adjusted up by SEK 141.3 million, tax on net income for the period being adjusted down by SEK 37.2 million and income for the period being adjusted up by SEK 104.1 million. Profit brought forward at 1 January 2010 has been adjusted up by SEK 104.1 million. For further details, see Note 2.

## Credit losses

Credit losses totalled SEK 0 (0) million.

## Capital coverage

The capital coverage ratio amounts to 10.09 (3.55).

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. See Note 24.

### Five-year review

See page 72.

### 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.

### Member responsibilities

To clarify members' responsibilities beyond the basic joint and several guarantee responsibility, Kommuninvest has elaborated two agreements mapping out these responsibilities. The division of responsibilities has been communicated to each member by means of a statement of undertaking. How this statement of undertaking has been calculated on the basis of the company's balance sheet and each member's holding is detailed in Note 3.

### Significant events that took place during the financial year

Kommuninvest has implemented a process to strengthen its capital base by SEK 1 billion by raising a subordinated loan from the Kommuninvest Cooperative Society. 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. Thus the strengthening of the capital base was not necessitated by the company having incurred any losses.

Kommuninvest was 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 was 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.

Kommuninvest established a Swedish benchmark program for continuous bond issue, the Swedish local government bond. The ambition is for the bond programme to become Kommuninvest's largest borrowing programme with a volume exceeding SEK 100 billion.

### 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.

Within the framework of its normal business operations, the company is a party to two disputes currently before the courts. Both disputes concern the same bond issue. It is the company's view that these disputes will not lead to any significant negative impact on the company or its financial position.

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 four during the year, to total 53 (49) at 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 was adopted by the Board of Directors in 2009.

### Prospects for 2011

Interest in Kommuninvest's business concept is increasing, and the Society will have several new members in 2011. 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.



Jönköping Energi AB.  
The Municipality of Jönköping has  
been a member of the Kommuninvest  
Cooperative Society since 2008.



## RISK MANAGEMENT

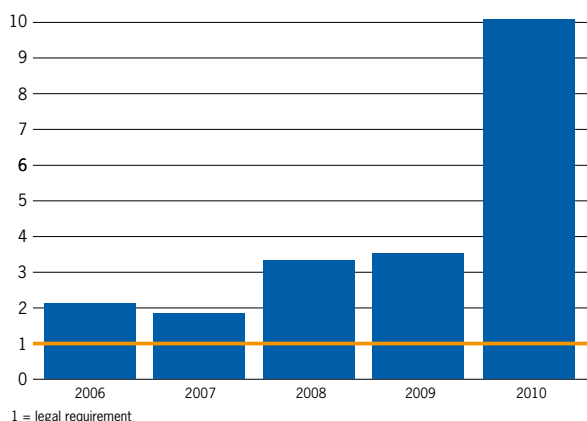
*Kommuninvest's risk management is designed to meet the owners' requirement that the level of risk in the operations be kept as low as possible. This means that the terms for borrowing and lending must be equivalent from the risk perspective. Kommuninvest maintains a liquidity reserve of at least 25 percent of its balance sheet total excluding derivatives and, as a public sector organisation, is prohibited from engaging in speculative and risky activities as specified by Chapter 2, Section 7 of the Local Government Act.*

### Introduction

Kommuninvest is a credit market company that is owned entirely by the Swedish local government sector. Kommuninvest's operations serve solely to support the financing activities of the local government sector, distinguishing it in several key regards from other financial market players.

- Lending is provided exclusively to Swedish municipalities, municipal corporations, county councils or borrowers guaranteed by local government authorities and therefore carries a zero risk weight from the perspective of capital coverage.
- The owners of Kommuninvest are also the Company's customers and are party to a joint and several guarantee supporting all of the Company's obligations.
- Kommuninvest does not work to maximise its profits and is run without a vested interest in generating profits.
- Kommuninvest conducts no deposit or active trading operations.

Capital coverage quota



- Kommuninvest has a favourable capital situation. At the end of 2010, the capital coverage ratio was 10.09, compared with the official requirement of 1.0.

### 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 functions within Kommuninvest, that is, the Funding & Treasury and Lending & Advisory Services departments, are responsible for risks being kept within the established limits. Follow-up is conducted within the Risk & Analysis function, with the President and CEO performing an overall follow-up. The company's Controller reviews the risks in operations to assess the scope of the capital requirements to be addressed by internal capital evaluation. The controller bears overall and coordinating responsibility for the Company's aggregate risks and reports to the President and CEO and the 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.

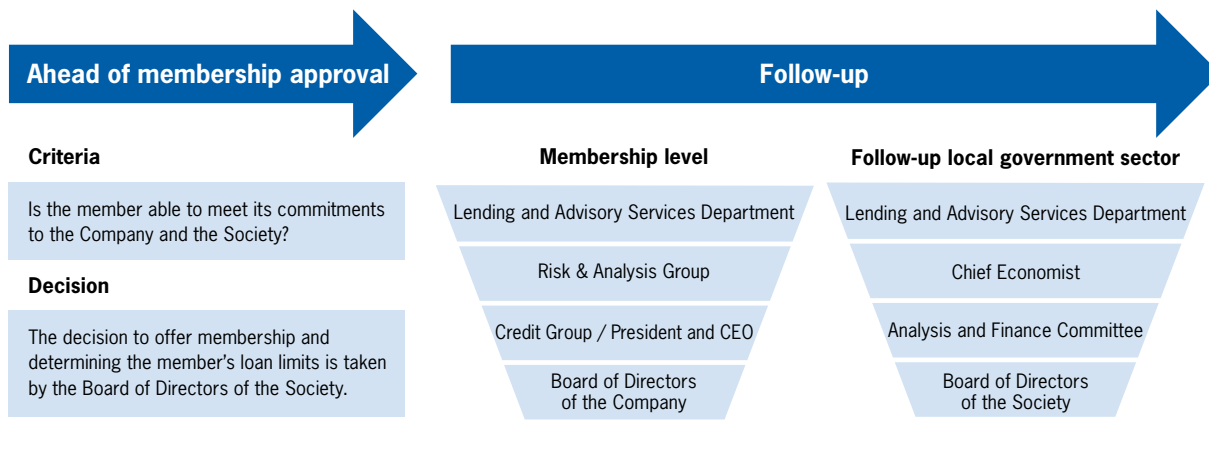
It reports daily to the President and CEO and monthly to the Board.

The Credit Group provides support in the assessment of new counterparties and new financial instruments before decisions are made by the President and CEO. 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 applies internal instructions, process descriptions and steering documents, and that these are in accordance with prevailing requirements from the Swedish Financial Supervisory Authority (Finansinspektionen).

*The diagram on the next page illustrates the Company's risk management in relation to the credit risks in its lending operations.*

## Risk management – Lending

**Credit and counterparty risk**

Credit and counterparty risk represent the risk of incurring losses due to customers or counterparties failing to meet their obligations within the agreed time. Credit and counterparty risk is divided into three categories:

- Risks from lending
- Risks from management of the liquidity reserve
- Risks from value changes on derivative contracts

On 31 December 2010, 75 percent (71) of Kommuninvest's credit risk exposure was towards Swedish municipalities and county councils in the form of loans; 24 percent (27) of the exposure was towards states and other issuers of securities in the form of investments; and 1 percent (2) of the exposure was towards derivatives counterparties. The total credit risk exposure is detailed in Note 3.

*Risks from lending*

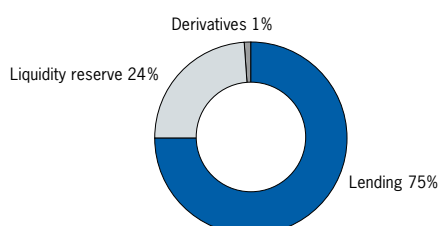
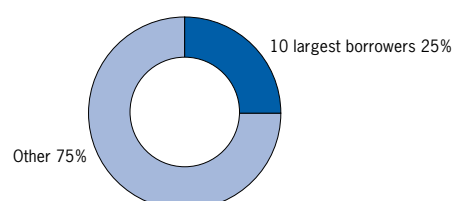
Kommuninvest's products and services are only available against local government guarantees. All members are party to a joint and several guarantee for Kommuninvest's commitments, meaning that

Kommuninvest's obligations are always guaranteed by its members.

Credits to borrowers that are not municipalities or county councils (for example, companies, foundations or inter-authority associations) require that a member of the Kommuninvest Cooperative Society sign a surety guaranteeing all of the borrower's obligations towards Kommuninvest.

The risks associated with Kommuninvest's lending operations are low. From a capital cover perspective, the local government sector has a 0 percent risk weight. To date, no municipality or county council has defaulted on a payment commitment, nor has Kommuninvest ever suffered any credit losses in its lending operations. In addition, Kommuninvest is covered by the joint and several guarantees of the members and the guarantees signed by members on behalf of borrowers who are not members of Kommuninvest.

Kommuninvest analyses both municipalities/county councils and the companies they own when processing membership applications and on an ongoing basis during their membership.

**Credit risk exposure****Credit concentration – distribution of lending**

### Risks from management of the liquidity reserve

In accordance with the instructions of the Board of Directors, Kommuninvest maintains a considerable liquidity reserve, described in greater detail under Market risk below. Credit and counterparty risks associated with the management of the liquidity reserve consist of the risk of losses being incurred or of fluctuations in the value of the managed funds. The risks are mitigated by:

- investments being limited to securities issued by counterparties with high creditworthiness, at least A (Standard & Poor's) or A2 (Moody's)
- investments being limited to assets with a risk weight of 0, 10 or 20 percent
- the requirement that a significant share of investments be made in assets that can be pledged with the Riksbank
- investments having a maximum maturity of 5.5 years.

At the end of 2010, the liquidity reserve was mainly invested in securities issued by states or state-associated institutes with the highest possible creditworthiness, see graphs below. Of the investments, 88 percent were in securities issued by Nordic and German issuers.

Kommuninvest has low exposure to the countries at the heart of the European debt crisis. The sole exposure is an investment, corresponding to 2 percent of the total invested capital, placed with the Instituto de Crédito Oficial, a bank guaranteed by the Spanish state.

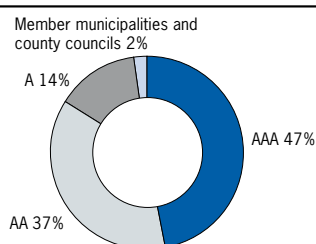
### Risks from value changes on derivative contracts

To limit the market risks that arise when contractual borrowing and lending terms do not match, Kommuninvest uses risk management instruments in the form of derivative contracts. The counterparties are financial institutions. The counterparty risk consists of the risk of losses as a consequence of the counterparty failing to meet its payment obligation in accordance with derivative contracts.

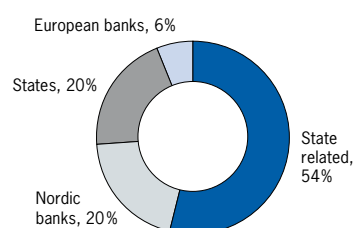
This risk is limited by entering into contracts with counterparties with high creditworthiness and requirements for assets pledged:

- A rating of at least A (Standard & Poor's) or A2 (Moody's). The counterparty's credit rating is also decisive in what Kommuninvest is prepared to accept when it comes to the contracts' maturity period, structure and permitted risk exposure. If the rating of an approved derivative counterparty exceeds A/A2 but is less than AA-/Aa3, and there is no CSA agreement with that counterparty, Kommuninvest may only enter interest and currency swap agreements with that counterparty.
- ISDA agreements are to be established with all counterparties and CSA agreements are also sought. ISDA agreements convey the right to prior redemption if the creditworthiness of the counterparty worsens and permits netting of positive and negative exposures. CSA agreements regulate the right to secure collateral to eliminate the exposure arising through derivative transactions.

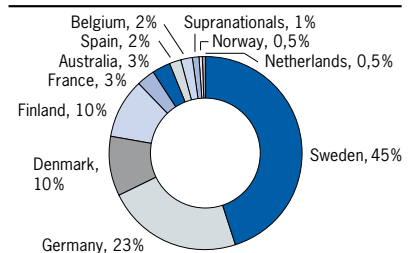
Liquidity reserve distributed by rating category



Liquidity reserve distributed by issuer category



Liquidity reserve distributed by country



### Continuous analysis and review

A key component in the work to minimise credit and counterparty risks involves continuously analysing and monitoring development among Kommuninvest's borrowers and counterparties in financial transactions. For lending activities, each municipality or county council is screened before being approved as a member of the Kommuninvest Cooperative Society. Members' progress is subsequently analysed biannually based on a pre-determined model. Each year, as part of the research process, the Board sets credit limits for the members. The credit limits are universal and are set on the basis of each member's consolidated borrowing. Individual members may have differentiated credit limits, following specific scrutiny. Raised loan limits are normally motivated by the borrower holding assets with hidden surplus values, such as energy or property assets. Decreased loan limits are justified by members' opportunities to cope with increased debt being judged as limited.

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 obligations if market conditions change. The Credit Group's activities also include proposing the removal or introduction of limits for approved counterparties and financial instruments.

In addition to a monthly risk report from the Company's risk and analysis function, the Credit Group reports at least once a year to the Board of Directors of Kommuninvest on the development of all counterparties.

### Greater emphasis on dealing with counterparty risks

In 2010, the risk that a number of states might cancel payments increased. In early 2009, Kommuninvest initiated an analysis in view of the weakened credit rating prospects of a number of states. This led to the concentration of invested capital to states with a more stable financial capacity. To further mitigate

exposure, Kommuninvest aims to secure CSA (Credit Support Annex) agreements with all derivative counterparties. This process continued in 2010 with the result that Kommuninvest now has CSA agreements with 20 out of 35 counterparties with whom the Company has outstanding contracts. A large proportion of the exposures incurred in relation to derivative counterparties are covered by these agreements.

### Right to early redemption

Kommuninvest is also 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 counterparties, 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 to 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.

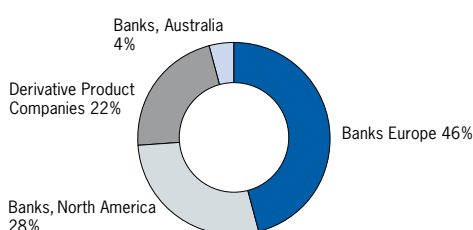
Accordingly, before embarking on a transaction Kommuninvest always ensures that the counterparty first fulfils its obligations, or that an approach is employed whereby both counterparties must meet their commitments simultaneously.

### Collateral received for derivatives

To limit the risks and exposure arising because of value changes on derivatives, we enter credit support annexes (CSAs) with our derivatives counterparties. These give us a right, under certain conditions, to require extra collateral but also an obligation to provide it. 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 credit-worthiness of any of the counterparties deteriorates. Kommuninvest accepts collateral only in the form of government securities, which have zero risk-weighting from a capital coverage perspective. Collateral agreements are intended to mitigate the credit and counterparty risk associated with receivables.

Kommuninvest's exposures through derivative contracts are shown in Note 3. In terms of nominal

Changes in derivative contracts, by counterparty group



amounts, 50 percent (48) 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 2010 Kommuninvest had collateral from counterparties corresponding to SEK 3.9 billion. This collateral consisted of securities issued by the following states: Germany, France and the UK.

### Market risk

The main market risks to which Kommuninvest is exposed are liquidity risk, interest-rate risk and currency risk.

#### Liquidity risk

Liquidity risk can be described as a lack of financing, which in itself involves a risk concerning the organisation's opportunities to fulfil 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. Kommuninvest limits this risk by maintaining favourable matching between the maturities of the Company's assets and liabilities.

To be able to continue meeting lending needs during periods in which financing opportunities on the capital markets are limited or too costly, the Board of Directors has decided to maintain a liquidity reserve corresponding to at least 25 percent of the balance sheet total, including 50 percent of outstanding tenders. A large portion of the liquidity reserve must be accessible for repos at the Riksbank.

During 2010, the liquidity situation was good. The Company has well diversified borrowing and utilises several capital markets. Over the year, the

Company made use of both short and long-term capital markets. In November, Kommuninvest issued, for the first time, local government bonds in a new bond programme in the Swedish market. Through the programme, the Company expects to be able to further improve its liquidity through, for example, the broadening of the investor base.

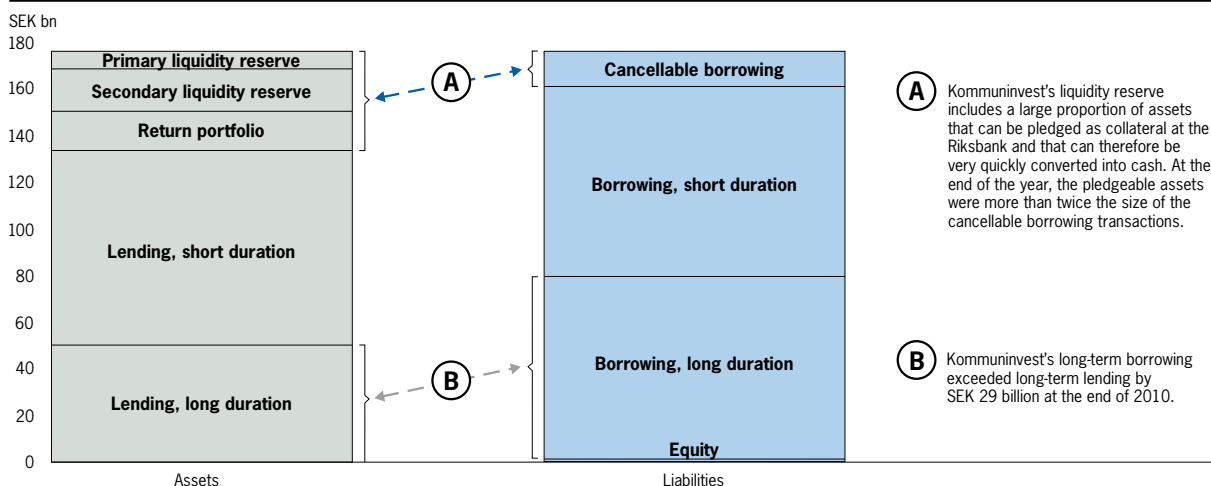
The diagram below shows the composition of current and non-current assets in Kommuninvest's balance sheet. Kommuninvest has a favourable structural liquidity situation whereby its most liquid assets – the primary liquidity reserve, which is fully pledgeable at the Riksbank – well exceeds the most current liabilities, borrowing that may be subject to early redemption.

Liquidity risks are monitored and analysed continuously to ensure that excessive short-term payment obligations do not arise. Kommuninvest also conducts stress tests of its liquidity on a regular basis to enhance preparedness and ensure that the Company is able to cope with situations in which, for example, various sources of financing fail. The Company also reviews liquidity by continuously calculating a "survival period". This denotes the period during which the Company can manage without access to new financing.

The Basel Committee has developed new liquidity measures to assess structural and stressed liquidity. Given these regulatory changes, the Company has developed and adjusted its liquidity management to meet future requirements. (Additional details are given on page 46.)

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.

**Kommuninvest's balance sheet structure, 2010**



### *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 10 million in a one percentage point parallel shift in the yield curve. However, there is an opportunity to have an exposure of at most SEK 15 million over a period of at most three days. At 31 December 2010, the risk over the entire portfolio amounted to SEK 8.3 million (7.4) at a parallel shift of one percentage point.

### *Foreign exchange limits currency risk*

Currency risk arises when assets and liabilities denominated in a specific foreign currency in the balance sheet are mismatched in terms of size. Kommuninvest hedges this risk by means of 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. Kommuninvest's currency exposure is detailed in Note 3. At a 10 percent change in exchange rates, this exposure entails SEK 0.9 million (0.2) in currency risk.

### *Price risk is eliminated through the use of derivatives*

As part of its borrowing activities, Kommuninvest issues structured debt obligations, the return on which is determined by the price trend for an underlying instrument, such as individual shares, share indices, commodities or commodity indices. The issue of a structured debt obligations may incur a price risk associated with the derivative instrument included in the structured product. All price risks of this kind are eliminated through agreements with swap counterparties.

## **Operational risks**

Operational risk is the risk of unexpected financial or confidence-related losses as a result of internal causes such as computer error, or external influences, for example, crime.

Our work on operational risk focuses on our internal environment, which is the area we can most

directly influence. One example of an operational risk type 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 – no single individual may ever manage an entire transaction alone. 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 perceives and assumes responsibility for the risks in his/her specific area, and that each skill and skill area is respected.
- Compliance follows up control documents and work procedures.
- The internal audit monitors operational compliance with policies and rules established by the Board.

### **Kommuninvest's liquidity reserve**

At least 25 percent of Kommuninvest's balance sheet total, including 50 percent of outstanding tenders, is to be included in a liquidity reserve subject to strict investment rules. The liquidity reserve consists of three different portfolios:

#### **Primary liquidity reserve**

Shall correspond to at least 4 percent of the balance sheet total, including 50 percent of outstanding tenders. One hundred percent of investments shall be pledgeable at the Riksbank.

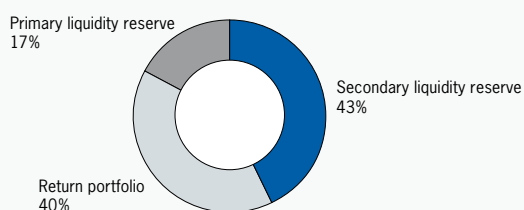
#### **Secondary liquidity reserve**

At least 50 percent of investments shall be pledgeable at the Riksbank.

#### **Return portfolio**

May never exceed 10 percent of the balance sheet total, including 50 percent of outstanding tenders. At least 25 percent of investments shall be pledgeable at the Riksbank.

#### **Composition of the liquidity reserve, 31 December 2010**



### Kommuninvest and the new financial regulations, Basel III

In 2010, central bank governors and heads of financial authorities in 27 countries presented stringent new proposals for the contents of the new international regulations for the banking system, Basel III. The proposals by the Basel Committee will now be translated into EU directives and national regulations, which will then be implemented gradually between 2013 and 2018, to be fully implemented by 1 January 2019.

The new Basel III rules will lay a global foundation for a more stable financial system in the future. At the core is the need for larger and higher-quality capital bases among banks and a global framework for the assessment of liquidity risks.

According to Basel III, capital requirements and buffers for normal institutes will amount to between 10.5 and 13.0 percent, of which 7.0 percent shall be core capital. The quotas determine the scope of the capital requirement in relation to the risk-weighted assets. Beyond this, even higher capital requirements for the very largest banks are being discussed.

Even today, Kommuninvest has a high-quality capital base. Its structure is well adapted to the new requirements. At the end of 2010, the capital coverage ratio totalled 80.7 percent – considerably higher than the future minimum requirement of 10.5-13.0 percent and providing a good buffer given that new rules for the calculation of risk-weighted assets may cause these to increase compared with today.

The Basel Committee proposes that two new liquidity measures be introduced to monitor the Banks' access to liquidity in both the short and long term.

*Liquidity Coverage Ratio (LCR)* measures short-term liquidity capacity. The ratio of liquid assets to net cash outflow over a 30-day period shall exceed 1.0.

*Net Stable Funding Ratio (NSFR)* measures long-term liquidity capacity. The ratio of available long-term financing to non-current assets shall exceed 1.0.

Thanks to its large, high-quality liquidity reserve, Kommuninvest has a considerable safety margin in relation to both the LCR and NSFR measures.

	Requirements Basel III	Kommuninvest 2010
<b>Capital coverage</b>		
Minimum requirements for normal institutions	10.5-13.0%	80.7%
<b>Liquidity coverage ratio</b>		
Portfolio of high-quality liquid assets / Net cash outflow over the next 30 days	≥ 1.0	1.3
<b>Net Stable Funding ratio, NSFR</b>		
Volume of available long-term financing / Volume of non-current assets	≥ 1.0	Assessment to commence during 2011



Library, Sunne Cultural Centre.  
The Municipality of Sunne has been  
a member of the Kommuninvest  
Cooperative Society since 1995.



# INCOME STATEMENT

1 January - 31 December

SEK million	Note	2010	2009
Interest income		3,025.0	3,339.7
Interest expenses		-2,593.0	-2,957.6
<b>NET INTEREST INCOME</b>	<b>4</b>	<b>432.1</b>	<b>382.1</b>
Commission expenses	5	-4.4	-3.5
Net result of financial transactions	6	17.2	90.6
Other operating income		0.3	0.2
<b>TOTAL OPERATING INCOME</b>		<b>445.1</b>	<b>469.4</b>
General administration expenses	7	-160.5	-127.8
Depreciation of tangible assets	16	-2.7	-1.8
Other operating expenses	8	-6.2	-4.8
<b>TOTAL EXPENSES</b>		<b>-169.4</b>	<b>-134.4</b>
<b>OPERATING INCOME</b>		<b>275.7</b>	<b>335.0</b>
Appropriations	9	-83.2	-82.5
Tax on net income for the year	10	-51.9	-81.9
<b>INCOME FOR THE YEAR</b>		<b>140.6</b>	<b>170.6</b>

Statement of comprehensive income	Note	2010	2009
<b>Income for the year</b>		<b>140.6</b>	<b>170.6</b>
<i>Other comprehensive income</i>			
Available-for-sale financial assets		-67.2	50.7
Loans and receivables		-4.2	-4.2
Tax attributable to items in other comprehensive income	10	18.8	-14.7
<b>Total other comprehensive income for the year</b>		<b>-52.6</b>	<b>31.8</b>
<b>Comprehensive income for the year</b>		<b>88.0</b>	<b>202.4</b>

# BALANCE SHEET

As per 31 December

SEK million	Note	2010	2009
<b>ASSETS</b>			
Cash		0.0	0.0
State bonds eligible as collateral	11	12,887.7	20,912.3
Lending to credit institutions	3	1,697.6	1,851.2
Lending	12	133,729.1	123,624.1
Bonds and other interest-bearing securities	13	28,759.5	25,604.1
Shares and participations	14	1.0	0.7
Shares and participations in associated companies	15	0.5	0.5
Derivatives	3	13,024.0	11,105.3
Tangible assets	16	6.9	3.6
Other assets		67.5	19.3
Prepaid expenses and accrued revenues		26.4	7.1
<b>TOTAL ASSETS</b>		<b>190,200.2</b>	<b>183,128.2</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
Liabilities to credit institutions	3	3,438.9	7,348.1
Securities issued	3	173,851.9	164,696.1
Derivatives	3	10,794.2	9,873.0
Other liabilities	17	66.4	349.6
Accrued expenses and prepaid revenues		44.1	35.6
Provisions	18	1.2	0.9
Subordinated liabilities	19	1,002.9	-
<b>Total liabilities and provisions</b>		<b>189,199.5</b>	<b>182,303.4</b>
<b>Untaxed reserves</b>	<b>20</b>	<b>217.9</b>	<b>134.7</b>
<b>Equity</b>		<b>782.8</b>	<b>690.2</b>
<b>Restricted equity</b>			
Share capital (2,734,550 shares, quoted value SEK 100)		273.4	259.6
New share issue in progress (150,000 shares, quoted value SEK 100)		15.0	10.0
Statutory reserve		17.5	17.5
<b>Unrestricted equity</b>			
Fair value reserve		-11.3	41.3
Profit brought forward		347.6	191.2
Income for the year		140.6	170.6
<b>Total equity</b>		<b>782.8</b>	<b>690.2</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>190,200.2</b>	<b>183,128.2</b>
<b>Memorandum items</b>			
Collateral pledged for own liabilities	21	4,808.2	3,499.9
Contingent liabilities		None	None
<b>Obligations</b>			
Pledged loans		1,856.0	1,498.9

# EQUITY

Account for changes relating to changes in equity.

## 2010

	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Fair value reserve <sup>1</sup>	Profit or loss brought forward	Income for the year	
<b>SEK million</b>						
Equity brought forward 1 Jan 2010	269.6	17.5	41.3	191.2	170.6	690.2
Income for the year	-	-	-	-	140.6	140.6
Other comprehensive income	-	-	-52.6	-	-	-52.6
Appropriation of surplus	-	-	-	170.6	-170.6	0.0
New share issue	3.8	-	-	-	-	3.8
New share issue in progress	15.0	-	-	-	-	15.0
Group contributions	-	-	-	-19.3	-	-19.3
Tax effect on Group contribution	-	-	-	5.1	-	5.1
<b>Equity carried forward 31 Dec 2010</b>	<b>288.4</b>	<b>17.5</b>	<b>-11.3</b>	<b>347.6</b>	<b>140.6</b>	<b>782.8</b>

<sup>1</sup> Fund for fair value consists of the following

- Available-for-sale financial assets	-15.3
- Loans and receivables (reclassified)	4.0

## 2009

	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Fair value reserve <sup>1</sup>	Profit or loss brought forward	Income for the year	
<b>SEK million</b>						
Equity brought forward 1 Jan 2009	236.7	17.5	9.5	152.5	44.5	460.7
Income for the year	-	-	-	-	170.6	170.6
Other comprehensive income	-	-	31.8	-	-	31.8
Appropriation of surplus	-	-	-	44.5	-44.5	0.0
New share issue	22.9	-	-	-	-	22.9
New share issue in progress	10.0	-	-	-	-	10.0
Group contributions	-	-	-	-7.9	-	-7.9
Tax effect on Group contribution	-	-	-	2.1	-	2.1
<b>Equity carried forward 31 Dec 2009</b>	<b>269.6</b>	<b>17.5</b>	<b>41.3</b>	<b>191.2</b>	<b>170.6</b>	<b>690.2</b>

<sup>1</sup> Fund for fair value consists of the following

- Available-for-sale financial assets	34.2
- Loans and receivables (reclassified)	7.1

# CASH FLOW STATEMENT

1 January - 31 December

SEK million	31 Dec 2010	31 Dec 2009
<b>Operational activities</b>		
Operating income	275.7	335.0
Adjustment for items not included in cash flow	88.0	8.2
Income tax paid	-121.0	-14.3
<b>Cash flow from operating activities before changes in the assets and liabilities of operating activities</b>	<b>242.7</b>	<b>328.9</b>
Change in interest-bearing securities	6,163.7	-26,260.1
Change in lending	-11,143.9	-18,655.1
Change in other assets	-11.3	2.9
Change in other liabilities	-235.0	256.2
<b>Cash flow from operational activities</b>	<b>-4,983.8</b>	<b>-44,327.2</b>
<b>Investment activities</b>		
Sale/disposal of tangible assets	0.4	-
Acquisition of tangible assets	-6.4	-1.0
<b>Cash flow from investment activities</b>	<b>-6.0</b>	<b>-1.0</b>
<b>Financing activities</b>		
Change in securities issued	9,210.7	42,381.4
Change in liabilities to credit institutions	-3,950.5	2,013.3
Subordinated loan	1,000.0	-
New share issue	18.8	32.9
Group contribution paid	-19.3	-12.5
<b>Cash flow from financing activities</b>	<b>6,259.7</b>	<b>44,415.1</b>
<b>Cash flow for the year</b>	<b>1,269.9</b>	<b>86.8</b>
<b>Liquid assets at the start of the accounting period</b>	<b>427.7</b>	<b>340.8</b>
<b>Cash and equivalents at end of the year</b>	<b>1,697.6</b>	<b>427.7</b>
<p>The Cash Flow Statement is produced using the cash accounting method.            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>		
<b>Adjustment for items not included in cash flow.</b>		
Depreciation	2.7	1.8
Exchange rate differences from change in financial assets	-1.2	-3.0
Unrealised changes in market value	86.5	9.4
<b>Total</b>	<b>88.0</b>	<b>8.2</b>
<p><b>Liquid assets consists in its entirety of lending to credit institutions excluding deposits of SEK 0.0 (1,423.5) million.</b></p>		
<p><b>Interest paid and earned, included in the cash flow.</b></p>		
Interest received	2,923.0	3,648.4
Paid interest	-2,454.0	-3,300.0

## NOTES

All amounts are given in SEK millions unless otherwise stated.

### 1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2010 and relates to Kommuninvest i Sverige AB (publ), registered number: SE556281-4409. Kommuninvest has its registered office in Örebro, Sweden. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden. The parent company of Kommuninvest i Sverige AB is the Kommuninvest Cooperative Society, registered number: SE716453-2074.

The Annual Report was approved for publication by the Board of Directors on 1 March 2011. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 7 April 2011.

### 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 regulations and general recommendations of the Swedish Financial Supervisory Authority (Finansinspektionen) regarding annual accounts for credit institutions and securities companies (FFFS 2008:25).

Consequently all International Financial Reporting Standards (IFRS) and statements endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and taking into account the additions and exemptions specified in FFFS 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 recommendations by the Swedish Financial Supervisory Authority.*

Due to changes implemented through regulation FFFS 2009:11 on changes to the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25), Kommuninvest has amended certain valuation and accounting principles, and recalculated figures for earlier periods, as detailed below.

In accordance with principles applied in previous years, Kommuninvest has, within the framework of the principles applied for hedge accounting (as set out in FFFS 2008:25 and not IAS 39), valued financial liabilities at fair value.

Since the regulations and general recommendations of the Swedish Financial Supervisory Authority no longer permit the application of any hedge accounting other than that set out in IFRS, Kommuninvest has amended the principles it applies as follows:

- i. For interest risk, hedge accounting at fair value has been introduced in accordance with the principles in IAS 39 and is applied for borrowing transactions carrying fixed interest and that are subject to hedging through interest or currency derivatives.
- ii. A fair value option is applied to borrowing transactions carrying fixed interest and borrowing involving embedded derivatives – structured credit.

#### *Hedge accounting at fair value*

Hedge accounting at fair value and in accordance with the prin-

ciples of IAS 39 is applied for borrowing transactions carrying fixed interest and subject to hedging through interest derivatives or currency interest derivatives. The hedged risk is the risk of fluctuations in fair value as a consequence of changes in the interest on swaps. The hedged item is therefore reassessed on the basis of changes in the fair value of the hedged risk.

Since Kommuninvest has previously applied another model and principle than that set out in IAS 39 for hedge accounting, the transition to the application of the principles in IAS 39 also entails a change in accounting principle. In accordance with the principal rule in IAS 39 (p. 104) regarding how the introduction of this standard shall be reported, the opening balance for profit carried forward for the immediately preceding period and all other comparison figures shall be recalculated as if this standard had always been applied. The adjustment thus implemented in the opening balance for 2010 is reported such that the adjustment in market value corresponding to the change in value resulting from changes in the borrowing spread and that had, in accordance with the previously applied method of hedge accounting, been reported as an adjustment of the value of the hedge instrument, the opening balance for profit carried forward and deferred tax. The income statement for 2009 has also been recalculated. See below for further disclosures on the amounts concerned.

#### *Application of a fair value option on structured credit and certain borrowing at fixed interest*

For structured credit, Kommuninvest applies the opportunity offered by IAS 39 to value a financial liability, even when not held for trade, at fair value via profit and loss. Because its borrowing includes considerable embedded derivatives, Kommuninvest elects to proceed in this manner since doing so significantly reduces inconsistencies in the valuation of free-standing derivatives and borrowing.

For certain borrowing at fixed interest, Kommuninvest exercises the opportunity offered by IAS 39 to value a financial asset at fair value via profit and loss despite the liability not being held for trade. Kommuninvest elects to proceed in this manner because these credits are mainly used for lending that is valued at fair value.

However, the application of the fair value option has had no effect on the amounts reported in the income statement and balance sheet since these market values were already reported within the framework of the previously applied method and principles for hedge accounting. Consequently, it has not been necessary to adjust the comparison figures.

#### *Effects of changed accounting principles*

The above changes in accounting principles had the following effects for 2009.

The net result of financial transactions has been adjusted up by SEK 141.3 million.

The tax on profit for the period has been adjusted down by SEK 37.2 million.

The profit for the period has been adjusted up by SEK 104.1 million.

Profit brought forward at 1 January 2010 has been adjusted up by SEK 104.1 million.

Kommuninvest has not prepared an opening balance sheet for 1 January 2009 because the relevant transactions did not commence until after 1 January 2009, meaning that the balance sheet as per that date was not affected by the change of principle detailed above.

*Amended accounting principles due to new or amended IFRS*

Other amendments to IFRS with application as of 2010 have had no significant effect on the company's accounts.

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

Of the new standards and interpretations coming into force after 2010, IAS 9 Financial instruments, which is intended to replace IAS 39, has been deemed to affect Kommuninvest's future annual accounts.

*IFRS 9 Financial instruments is intended to replace IAS 39 Financial instruments: recognition and measurement* from 2013 at the latest. IASB has published the first of at least three sections that combined will form IFRS 9. This first section deals with the classification and measurement of financial assets. The categories of financial assets currently included in IAS 39 will be replaced by two categories, whereby assets are assessed at fair value or amortised cost. Amortised cost is used for instruments held according to a business model whose purpose is to receive the contractual cash flows; which shall consist of payments of capital sums and interest on those capital sums on specified dates. Other financial assets are reported at fair value and the opportunity to apply a fair value option, as in IAS 39, is retained. Changes in fair value are to be reported in profit or loss, with the exception of value changes on equity instruments not held for trade and for which an initial choice is made to report value changes in other comprehensive income. Changes on derivatives used in hedge accounting are not affected by this section of IFRS 9 and are reported in accordance with IAS 39 until further notice. The IASB has also decided to change the manner in which the change in fair value due to changes in the entity's creditworthiness are reported in cases where the fair value option is applied to the entity's own liabilities.

Kommuninvest has yet to conduct an assessment of the effects of the proposed changes and has yet to determine whether the new principles should be applied prospectively or effective from 2013, since the amendments have not yet been approved by the EU for implementation.

**Functional currency and presentation currency**

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

**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.

**Associated companies**

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

**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 via profit or loss.
- Interest on derivatives that are hedging instruments and for which hedge accounting is applied.

**Commission expenses**

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

**Net result of financial transactions**

Net result of financial transactions' encompasses the realised and unrealised changes in value arising from

- Unrealised changes in fair value on assets and liabilities held for trading purposes.
- Unrealised changes in fair value on assets and liabilities 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 or subject to fair value hedging, see below.

**Financial instruments**

Financial instruments recognised in the asset side of the balance sheet include lending, lending to credit institutions, interest-bearing securities, derivatives and other financial assets. Liabilities and equity include liabilities to credit institutions, issued securities, derivatives, subordinated liabilities 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 removed from the balance sheet when the rights in the agreement are realised, fall due 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 included in IAS 39. The classification determines how the financial instrument is measured after the first recognition as described below.

#### **Financial assets and liabilities valued 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: 1) financial assets and liabilities held for trade and, 2) other financial assets and liabilities allocated to this category by Kommuninvest on first recognition.

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

The second sub-group includes lending, investments, liabilities to credit institutions and issued securities. The reason Kommuninvest has classified transactions to 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 the terms for borrowing, lending and investment 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 borrowing, lending or investment.

#### **Loans and receivables**

Loan receivables and accounts receivable are assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at the amount estimated to be paid, i.e. with a deduction for doubtful receivables. This includes lending to credit institutions, certain other lending and the investments which Kommuninvest has reclassified from financial assets which may be sold, see Note 23.

#### **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 23.

Assets in this category are constantly valued at fair value with value changes recognised on other comprehensive income.

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 comprehensive income 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 comprehensive income, is recognised in the income statement.

#### **Other financial liabilities**

Included here are liabilities to credit institutions, issued securities, subordinated liabilities and other financial liabilities, such as accounts payable. The liabilities are measured at amortised cost.

#### **Hedge accounting**

To obtain a true and fair picture of the operation, Kommuninvest applies, where possible, hedge accounting of fair value for the assets and 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.

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.

#### **Credit losses and writedowns on financial instruments**

The special status in the Swedish constitution and the right of local government taxation mean that municipalities and county councils cannot be declared 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 local government 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 observable conditions that have arisen and that have an adverse impact on the possibility of recovering the acquisition cost, and significant or lengthy reduction of the fair value of a financial investment classed as an available-for-sale financial asset.



**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. Gains and losses are recognised as other operating income/expense.

Depreciation is carried out on a linear basis over the asset's estimated useful life. Kommuninvest calculates a useful life of five years for equipment.

**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 pension 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, as well as the stability charge.

**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 other comprehensive income or equity, whereby the appurtenant tax is also recognised in other comprehensive income or 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

2010	Total credit risk exposure (before writedown)	Writedown/ Provision	Carrying amount	Value of securities	Total credit risk exposure after deduction for securities
<b>Credit against security of:</b>					
Government and municipal guarantees	133,729.1	-	133,729.1	-	133,729.1
<b>Total</b>	<b>133,729.1</b>	<b>-</b>	<b>133,729.1</b>	<b>-</b>	<b>133,729.1</b>
<b>Securities</b>					
Government securities and other public bodies					
- AAA	9,939.4	-	9,939.4	-	9,939.4
- AA	2,948.3	-	2,948.3	-	2,948.3
- A	-	-	-	-	-
Other issuers					
- AAA	14,435.1	-	14,435.1	-	14,435.1
- AA	12,345.3	-	12,345.3	496.4	11,848.9
- A	3,676.8	-	3,676.8	-	3,676.8
<b>Total</b>	<b>43,344.9</b>	<b>-</b>	<b>43,344.9</b>	<b>496.4</b>	<b>42,848.5</b>
<b>Derivatives</b>					
- AAA	-	-	-	-	-
- AA	4,605.2	-	4,605.2	2,154.1	2,451.1
- A	8,418.8	-	8,418.8	1,700.2	6,718.5
<b>Total</b>	<b>13,024.0</b>	<b>-</b>	<b>13,024.0</b>	<b>3,854.3</b>	<b>9,169.7</b>
<b>Obligations</b>					
Pledged loans	1,856.0	-	1,856.0	-	1,856.0
<b>Total</b>	<b>1,856.0</b>	<b>-</b>	<b>1,856.0</b>	<b>-</b>	<b>1,856.0</b>
<b>Total credit risk exposure</b>	<b>191,954.0</b>	<b>-</b>	<b>191,954.0</b>	<b>4,350.7</b>	<b>187,603.3</b>

2009	Total credit risk exposure (before writedown)	Writedown/ Provision	Carrying amount	Value of securities	Total credit risk exposure after deduction for securities
<b>Credit against security of:</b>					
Government and municipal guarantees	123,624.1	-	123,624.1	-	123,624.1
<b>Total</b>	<b>123,624.1</b>	<b>-</b>	<b>123,624.1</b>	<b>-</b>	<b>123,624.1</b>
<b>Securities</b>					
Government securities and other public bodies					
- AAA	18,542.6	-	18,542.6	-	18,542.6
- AA	2,369.7	-	2,369.7	-	2,369.7
- A	-	-	-	-	-
Other issuers					
- AAA	5,286.9	-	5,286.9	-	5,286.9
- AA	12,433.1	-	12,433.1	-	12,433.1
- A	7,884.1	-	7,884.1	-	7,884.1
<b>Total</b>	<b>46,516.3</b>	<b>-</b>	<b>46,516.3</b>	<b>-</b>	<b>46,516.3</b>
<b>Derivatives</b>					
- AAA	77.7	-	77.7	-	77.7
- AA	6,003.9	-	6,003.9	1,802.5	4,201.4
- A	5,023.7	-	5,023.7	250.3	4,773.4
<b>Total</b>	<b>11,105.3</b>	<b>-</b>	<b>11,105.3</b>	<b>2,052.8</b>	<b>9,052.5</b>
<b>Obligations</b>					
Pledged loans against municipal guarantees	1,498.9	-	1,498.9	-	1,498.9
<b>Total</b>	<b>1,498.9</b>	<b>-</b>	<b>1,498.9</b>	<b>-</b>	<b>1,498.9</b>
<b>Total credit risk exposure</b>	<b>182,744.6</b>	<b>-</b>	<b>182,744.6</b>	<b>2,052.8</b>	<b>180,691.8</b>

Maturity information<sup>1</sup>

2010		Nominal cash flows – Contractual remaining duration					
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total
Contractual remaining duration							
<b>Assets</b>							
Cash	-	-	-	-	-	-	-
State bonds eligible as collateral	-	6,805.8	2,332.9	3,687.6	-	-	12,826.3
Lending to credit institutions	1,697.6	-	-	-	-	-	1,697.6
Lending	-	74,649.8	9,003.1	42,771.9	7,534.7	-	133,959.5
Bonds and other interest-bearing securities	-	4,571.6	1,791.2	22,214.3	-	-	28,577.1
Derivatives	-	66,952.1	55,616.1	142,982.1	30,643.0	-	296,193.3
Other asset items	-	-	-	-	-	102.3	102.3
<b>Total assets</b>	<b>1,697.6</b>	<b>152,979.3</b>	<b>68,743.3</b>	<b>211,655.9</b>	<b>38,177.6</b>	<b>102.3</b>	<b>473,356.1</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	-	-	1,201.9	2,076.0	-	3,277.9
Derivatives	-	69,189.0	55,712.8	143,009.6	27,328.3	-	295,239.7
Securities issued	-	55,516.4	28,585.6	80,466.0	8,155.3	-	172,723.3
Subordinated liabilities	-	-	-	-	1,002.9	-	1,002.9
Other liabilities	-	-	-	-	-	111.6	111.6
Equity	-	-	-	-	-	1,000.7	1,000.7
<b>Total equity and liabilities</b>	<b>-</b>	<b>124,705.4</b>	<b>84,298.5</b>	<b>224,677.4</b>	<b>38,562.5</b>	<b>1,112.3</b>	<b>473,356.1</b>
<b>Total</b>	<b>1,697.6</b>	<b>28,273.9</b>	<b>-15,555.2</b>	<b>-13,021.5</b>	<b>-384.9</b>	<b>-1,010.0</b>	<b>0.0</b>
Unentered pledged loans	1,856.0	-	-	-	-	-	-

2009		Nominal cash flows – Contractual remaining duration					
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total
Contractual remaining duration							
<b>Assets</b>							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	-	17,965.7	881.9	2,005.9	-	-	20,853.5
Lending to credit institutions	1,851.2	-	-	-	-	-	1,851.2
Lending	-	65,230.3	16,814.2	33,380.0	6,432.4	-	121,856.9
Bonds and other interest-bearing securities	-	11,503.3	4,308.7	9,525.2	-	-	25,337.2
Derivatives	-	85,028.1	49,186.0	120,955.1	27,789.8	-	282,959.1
Other asset items	-	-	-	-	-	31.2	31.2
<b>Total assets</b>	<b>1,851.2</b>	<b>179,727.4</b>	<b>71,190.8</b>	<b>165,866.3</b>	<b>34,222.2</b>	<b>31.2</b>	<b>452,889.2</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	-	3,716.1	774.3	2,738.0	-	7,228.4
Derivatives	-	86,238.8	46,804.4	120,434.9	27,002.3	-	280,480.4
Securities issued	-	60,237.6	27,819.4	64,468.8	11,443.6	-	163,969.4
Other liabilities	-	-	-	-	-	386.1	386.1
Equity	-	-	-	-	-	824.9	824.9
<b>Total equity and liabilities</b>	<b>0.0</b>	<b>146,476.4</b>	<b>78,340.0</b>	<b>185,678.0</b>	<b>41,183.8</b>	<b>1,211.0</b>	<b>452,889.2</b>
<b>Total</b>	<b>1,851.2</b>	<b>33,250.9</b>	<b>-7,149.2</b>	<b>-19,811.7</b>	<b>-6,961.6</b>	<b>-1,179.8</b>	<b>0.0</b>
Unentered pledged loans	1,498.9	-	-	-	-	-	-

1. To a large extent, future interest payments involve matched payment flows. These are excluded in respect of both deposits and outgoing payments.

## Maturity information

### Liquidity exposure

2010

Recognised values - Contractual remaining duration

Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total recognized value
Contractual remaining duration							
<b>Assets</b>							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	-	6,802.9	2,354.8	3,730.0	-	-	12,887.7
Lending to credit institutions	1,697.6	-	-	-	-	-	1,697.6
Lending	-	74,837.4	9,130.5	42,778.0	6,983.2	-	133,729.1
Bonds and other interest-bearing securities	-	4,571.5	1,816.8	22,371.2	-	-	28,759.5
Derivatives	-	1,507.4	1,661.4	5,987.1	3,868.0	-	13,024.0
Other asset items	-	-	-	-	-	102.3	102.3
<b>Total assets</b>	<b>1,697.6</b>	<b>87,719.3</b>	<b>14,963.6</b>	<b>74,866.3</b>	<b>10,851.2</b>	<b>102.3</b>	<b>190,200.2</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	-	-	1,202.9	2,236.0	-	3,438.9
Derivatives	-	2,119.4	1,487.8	5,114.2	2,072.9	-	10,794.2
Securities issued	-	53,342.0	29,228.9	82,667.4	8,613.7	-	173,852.0
Subordinated liabilities	-	-	-	-	1,002.9	-	1,002.9
Other liabilities	-	-	-	-	-	111.6	111.6
Equity	-	-	-	-	-	1,000.7	1,000.7
<b>Total equity and liabilities</b>	<b>0.0</b>	<b>55,461.3</b>	<b>30,716.7</b>	<b>88,984.5</b>	<b>13,925.5</b>	<b>1,112.3</b>	<b>190,200.2</b>
<b>Total difference</b>	<b>1,697.6</b>	<b>32,258.0</b>	<b>-15,753.1</b>	<b>-14,118.2</b>	<b>-3,074.3</b>	<b>-1,010.0</b>	<b>0.0</b>
Unentered pledged loans	1,856.0	-	-	-	-	-	-

2009

Recognised values - Contractual remaining duration

Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total recognized value
Contractual remaining duration							
<b>Assets</b>							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	-	17,973.1	883.1	2,056.1	-	-	20,912.3
Lending to credit institutions	1,851.2	-	-	-	-	-	1,851.2
Lending	-	65,364.3	17,011.5	34,656.0	6,592.3	-	123,624.1
Bonds and other interest-bearing securities	-	11,546.0	4,331.6	9,726.5	-	-	25,604.1
Derivatives	-	1,389.2	2,005.4	4,556.4	3,154.3	-	11,105.3
Other asset items	-	-	-	-	-	31.2	31.2
<b>Total assets</b>	<b>1,851.2</b>	<b>96,272.5</b>	<b>24,231.6</b>	<b>50,995.0</b>	<b>9,746.6</b>	<b>31.2</b>	<b>183,128.2</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	-	3,725.2	774.6	2,848.3	-	7,348.1
Derivatives	-	1,723.5	1,601.5	3,935.7	2,612.3	-	9,873.0
Securities issued	-	59,959.6	26,717.1	66,144.1	11,875.3	-	164,696.1
Other liabilities	-	-	-	-	-	386.1	386.1
Equity	-	-	-	-	-	824.9	824.9
<b>Total equity and liabilities</b>	<b>-</b>	<b>61,683.2</b>	<b>32,043.8</b>	<b>70,854.4</b>	<b>17,335.8</b>	<b>1,211.0</b>	<b>183,128.2</b>
<b>Total difference</b>	<b>1,851.2</b>	<b>34,589.4</b>	<b>-7,812.3</b>	<b>-19,859.4</b>	<b>-7,589.2</b>	<b>-1,179.7</b>	<b>0.0</b>
Unentered pledged loans	1,498.9	-	-	-	-	-	-

## Fixed interest terms, interest exposure

2010							
Nominal cash flows							
Fixed interest terms for assets and liabilities – Interest exposure	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	More than 5 yr. but max. 10 yrs.	More than 10 yrs.	Without interest	Total
<b>Assets</b>							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	9,314.6	1,997.7	1,514.0	-	-	-	12,826.3
Lending to credit institutions	1,697.6	-	-	-	-	-	1,697.6
Lending	87,816.9	7,012.4	33,176.5	5,866.7	87.0	-	133,959.5
Bonds and other interest-bearing securities	17,349.8	4,241.3	6,986.0	-	-	-	28,577.1
Derivatives	170,319.9	43,306.1	73,074.1	8,942.6	550.5	-	296,193.3
Other asset items	-	-	-	-	-	102.3	102.3
<b>Total</b>	<b>286,498.8</b>	<b>56,557.5</b>	<b>114,750.7</b>	<b>14,809.4</b>	<b>637.5</b>	<b>102.3</b>	<b>473,356.1</b>
<b>Liabilities</b>							
Liabilities to credit institutions	1,201.9	-	-	1,896.6	179.4	-	3,277.9
Securities issued	49,776.9	39,586.0	75,995.6	6,993.7	371.1	-	172,723.3
Derivatives	224,289.4	26,324.2	38,620.1	5,919.0	87.0	-	295,239.7
Subordinated liabilities	1,002.9	-	-	-	-	-	1,002.9
Other liabilities	-	-	-	-	-	111.6	111.6
Equity	-	-	-	-	-	1,000.7	1,000.7
<b>Total equity and liabilities</b>	<b>276,271.0</b>	<b>65,910.2</b>	<b>114,615.7</b>	<b>14,809.4</b>	<b>637.5</b>	<b>1,112.3</b>	<b>473,356.1</b>
<b>Cumulative exposure</b>	<b>10,227.8</b>	<b>-9,352.8</b>	<b>134.9</b>	<b>0.0</b>	<b>0.0</b>	<b>-1,010.0</b>	<b>0.0</b>

2009							
Nominal cash flows							
Fixed interest terms for assets and liabilities – Interest exposure	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	More than 5 yr. but max. 10 yrs.	More than 10 yrs.	Without interest	Total
<b>Assets</b>							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	19,207.2	759.8	886.5	-	-	-	20,853.5
Lending to credit institutions	1,851.2	-	-	-	-	-	1,851.2
Lending	81,414.3	8,178.6	26,914.6	5,119.5	229.8	-	121,856.9
Bonds and other interest-bearing securities	16,989.3	6,057.5	2,290.5	-	-	-	25,337.2
Derivatives	187,054.7	30,762.6	52,263.4	11,791.9	1,086.5	-	282,959.1
Other asset items	-	-	-	-	-	31.2	31.2
<b>Total</b>	<b>306,516.7</b>	<b>45,758.5</b>	<b>82,355.0</b>	<b>16,911.4</b>	<b>1,316.3</b>	<b>31.2</b>	<b>452,889.1</b>
<b>Liabilities</b>							
Liabilities to credit institutions	1,481.2	3,539.3	-	1,771.9	436.0	-	7,228.4
Securities issued	77,970.5	24,068.5	51,260.0	10,020.0	650.4	-	163,969.4
Derivatives	215,437.3	28,600.3	31,114.8	5,098.2	229.8	-	280,480.4
Other liabilities	-	-	-	-	-	386.1	386.1
Equity	-	-	-	-	-	824.9	824.9
<b>Total equity and liabilities</b>	<b>294,889.1</b>	<b>56,208.0</b>	<b>82,374.7</b>	<b>16,890.1</b>	<b>1,316.3</b>	<b>1,211.0</b>	<b>452,889.1</b>
<b>Cumulative exposure</b>	<b>11,627.6</b>	<b>-10,449.5</b>	<b>-19.7</b>	<b>21.3</b>	<b>0.0</b>	<b>-1,179.8</b>	<b>0.0</b>

## Foreign exchange risk

2010

Carrying amounts

Assets and liabilities in major foreign currencies	SEK	EUR	USD	JPY	CHF	Other currencies	Fair value adjustment	Total
<b>Assets</b>								
Lending to credit institutions	1,571.8	23.8	102.0	-	-	-	-	1,697.6
Lending	133,637.6	-	-	-	-	-	91.5	133,729.1
Interest-bearing securities	16,883.9	6,793.2	17,903.3	-	-	-	66.8	41,647.2
Shares and participations	1.5	-	-	-	-	-	-	1.5
Derivatives	-	-	-	-	-	-	13,024.0	13,024.0
Other assets	99.5	-	1.2	-	0.1	-	-	100.8
<b>Total assets</b>	<b>152,194.3</b>	<b>6,817.0</b>	<b>18,006.5</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>13,182.3</b>	<b>190,200.2</b>
<b>Liabilities</b>								
Liabilities to credit institutions	482.0	899.2	-	1,896.6	-	-	161.1	3,438.9
Securities issued	36,529.2	7,507.0	63,577.3	28,692.4	16,077.6	19,097.8	2,370.6	173,851.9
Derivatives	113,020.6	-1,591.5	-45,577.4	-30,589.0	-16,077.6	-19,097.8	10,706.9	10,794.2
Subordinated liabilities	1,002.9	-	-	-	-	-	-	1,002.9
Other liabilities inc. equity	1,168.0	0.6	-	-	-	-	-56.3	1,112.3
<b>Total equity and liabilities</b>	<b>152,202.7</b>	<b>6,815.3</b>	<b>17,999.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>13,182.3</b>	<b>190,200.2</b>
<b>Difference, assets and liabilities</b>	<b>-8.4</b>	<b>1.7</b>	<b>6.6</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Effect (pre-tax) of a 10% increase in the SEK exchange rate compared to the foreign currency	-	0.2	0.7	-	0.0	-	-	-

2009

Carrying amounts

Assets and liabilities in major foreign currencies	SEK	EUR	USD	JPY	DKK	Other currencies	Fair value adjustment	Total
<b>Assets</b>								
Lending to credit institutions	202.2	227.2	1 422.0	0.0	0.1	0.1	-0.3	1,851.3
Lending	122,493.8	-	-	-	-	-	1,130.4	123,624.1
Interest-bearing securities	32,677.4	6,571.3	7 072.1	-	-	-	195.6	46,516.4
Shares and participations	1.2	-	-	-	-	-	-	1.2
Derivatives	-	-	-	-	-	-	11,105.2	11,105.2
Other assets	22.8	7.2	0.0	-	-	-	0.0	30.0
<b>Total assets</b>	<b>155,397.3</b>	<b>6,805.7</b>	<b>8,494.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>12,430.9</b>	<b>183,128.2</b>
<b>Liabilities</b>								
Liabilities to credit institutions	3,482.0	1,027.3	176.9	2,542.2	-	-	119.7	7,348.1
Securities issued	23,911.2	17,886.6	68,510.9	11,626.9	6,254.8	34,169.8	2,335.9	164,696.1
Derivatives	127,134.9	-12,346.9	-60,194.4	-14,169.1	-6,254.8	-34,169.7	9,873.0	9,873.0
Other liabilities inc. equity	870.7	238.0	-	-	-	-	-102.2	1,210.9
<b>Total equity and liabilities</b>	<b>155,398.9</b>	<b>6,804.9</b>	<b>8,493.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>12,430.9</b>	<b>183,128.2</b>
<b>Difference, assets and liabilities</b>	<b>-1.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Effect (pre-tax) of a 10% increase in the SEK exchange rate compared to the foreign currency	-	0.1	0.1	-	0.0	-	-	-

### Member responsibilities

Municipalities and county councils that are members of the Kommuninvest Cooperative Society have entered a joint and several guarantee covering all of the Company's commitments. Kommuninvest's operations have changed considerably since the inception of the company in 1986. The company borrows funds in advance to be prepared for members' borrowing needs and to meet requirements imposed by authorities and rating institutes, and it uses hedging instruments (derivatives) to mitigate the risks in its operations.

Members' responsibilities have been mapped out in two agreements in addition to the basic joint and several guarantee undertaking. One is a guarantee agreement regulating the responsibility for counterparty exposures in derivatives and replaces earlier clauses in the documentation of loans. The other is an updated regress agreement that details the members' mutual responsibility. It is planned that these agreements be presented to the Annual General Meeting of the Kommuninvest Cooperative Society for approval.

The distribution of responsibility has been communicated to members by means of a statement of undertaking based on each member's proportional participation in Kommuninvest's total lending and borrowing, and its share of the total capital contributed to the Kommuninvest Cooperative Society.

The statement of undertaking is based on the following items in Kommuninvest's balance sheet (SEK millions) as per 31 December 2010.

Liabilities to credit institutions	3,438.9
Securities issued	173,851.9
<b>Total borrowing</b>	<b>177,290.8</b>

#### LIABILITIES, according to statement of undertaking

Loaned borrowing (1)	133,945.9
Borrowing not loaned (2)	43,344.9
<b>Total borrowing</b>	<b>177,290.8</b>

in accordance with the above

Other liabilities (2)	111.6
Derivatives, connected with loaned borrowing (1)	4,590.0
Derivatives, connected with borrowing not loaned (2)	1,462.8
<b>Total liabilities/undertaking</b>	<b>183,455.1</b>

#### ASSETS, according to statement of undertaking

Loaned borrowing (1)	133,729.1	see note 12
Borrowing not loaned (2)	43,344.9	see notes 3, 11, 13
Other liabilities (2)	102.2	
Derivatives, connected with loaned borrowing (1)	1,202.6	
Derivatives, connected with borrowing not loaned (2)	454.3	
<b>Total assets</b>	<b>178,833.1</b>	

Basis for distribution:

1. Percentage equivalent to each member's participation in Kommuninvest's loaned borrowing.
2. Percentage equivalent to each member's participation in the total capital contributed to the Kommuninvest Cooperative Society.

\* The derivatives (hedging contracts) are included gross in the company's balance sheet (see Note 3), that is contract by contract, and are recognised as an asset when Kommuninvest has a claim against the counterparty and as a liability when the counterparty has a claim against Kommuninvest. In the statement of undertaking, the derivatives are recognised net per counterparty, that is, claims against the same counterparty have been netted against liabilities to the same counterparty. In addition, the derivatives recognised above as assets have been reduced by collateral received, such as government bonds. At 31 December 2010, collateral received amounted to SEK 3,854,300 and may only be used to cover outstanding exposures. These are disclosed in Note 3 of the company's Annual Report but may not be reduced in the balance sheet. The company currently has no corresponding collateral pledged for liabilities in connection with derivatives.

## 4 Net interest

Interest income	2010	2009
Lending to credit institutions	10.8	10.7
Lending	2,519.0	2,840.0
Interest-bearing securities	494.8	488.5
Other	0.5	0.5
<b>Total</b>	<b>3,025.0</b>	<b>3,339.7</b>
Of which: interest income from financial items not measured at fair value through profit or loss	897.0	337.8
<b>Interest expenses</b>		
Liabilities to credit institutions	0.8	0.6
Interest-bearing securities	2,585.8	2,953.9
Other	6.3	3.1
<b>Total</b>	<b>2,593.0</b>	<b>2,957.6</b>
Of which: interest expense from financial items not measured at fair value through profit or loss	1,541.7	1,683.7
<b>Total net interest income</b>	<b>432.1</b>	<b>382.1</b>

## 5 Commission expenses

	2010	2009
Payment agency commissions	1.2	0.4
Brokerage for securities	3.2	3.1
Other commissions	0.0	0.0
<b>Total</b>	<b>4.4</b>	<b>3.5</b>

## 6 Net result of financial transactions

	2010	2009
Result from buyback of own bonds	70.9	48.2
Interest-bearing securities	-0.9	-0.2
Other financial instruments	32.5	49.0
Unrealised changes in market value	-86.5	-9.4
Exchange rate changes	1.2	3.0
<b>Total</b>	<b>17.2</b>	<b>90.6</b>

Net gain/loss by measurement category	2010	2009
Financial assets at fair value through profit or loss	-952.1	336.4
Holdings for trading purposes (assets)	-1,085.2	-844.9
Loans and receivables	17.6	0.0
Financial liabilities at fair value through profit or loss	861.3	130.9
Holdings for trading purposes (liabilities)	1,244.0	475.8
Capital gains/losses on available-for-sale financial assets	-0.9	-0.2
Change in fair value of derivatives that are hedging instruments in fair value hedge	396.3	368.1
Change in fair value on hedged item with regard to hedged risk in fair value hedges	-465.0	-378.5
Exchange rate changes	1.2	3.0
<b>Total</b>	<b>17.2</b>	<b>90.6</b>
<b>Net result of available-for-sale financial assets recognised in other comprehensive income.</b>	<b>-71.4</b>	<b>46.5</b>

## 7 General administration expenses

In SEK, thousands

	2010	2009
<b>Payroll expenses</b>		
- salaries and emoluments	32,907	29,239
- social security charges	10,600	8,952
- variable performance benefit	917	-
- pension expenses	7,772	5,796
- education/training costs	1,761	2,140
- other personnel expenses	4,415	3,576
<b>Total personnel costs</b>	<b>58,372</b>	<b>49,703</b>
<b>Other general administration expenses</b>		
- travel expenses	5,438	2,931
- IT expenses	13,560	9,717
- consultancy fees	18,233	15,743
- temporary/contract personnel	3,355	1,558
- rating expenses	5,544	6,845
- market data	3,525	3,770
- rent and other expenses for premises	2,167	1,893
- Annual Report and interim report	866	893
- stability charge	41,230	25,600
- other	8,205	9,174
<b>Total other general administration expenses</b>	<b>102,123</b>	<b>78,124</b>
<b>Total</b>	<b>160,495</b>	<b>127,827</b>

### Remuneration policy

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

The company adopted a remuneration policy in 2010. Information on the company's remuneration will be accessible on the company's website, [www.kommuninvest.se](http://www.kommuninvest.se), by 7 April 2011 at the latest.

### Remuneration to senior executives

Remuneration for the President and CEO has been decided by the Board. The President and CEO received SEK 2,596,000 (2,472,000). Pension expenses for the President and CEO amounted to SEK 598,000 (885,000) 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 and CEO 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 Deputy CEO has been decided by the President and CEO after consultation with the Board Chair-

man. Pension expenses for the Deputy CEO amounted to SEK 335,000 (276,000) and are covered by insurance. For termination initiated by the company, the Deputy CEO 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. The Deputy CEO received SEK 1,427,000 (1,326,000).

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 and CEO.

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 2,478,000 (2,209,000).

The pension expenses are covered through insurance.

### Remuneration to the Board of Directors

At the end of the year, the Board of Directors comprised 7 (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.

		2010	2009
Tommy Persson	Until 1 June 2010	200	400
Ellen Bramness Arvidsson		283	142
Lorentz Andersson		126	102
Kurt Eliasson	As of AGM, 25 March 2010	94	-
Anna von Knorring		90	94
Catharina Lagerstam		110	78
Anna Sandborgh	As of AGM, 25 March 2010	102	-
Johan Törngren		94	70
Kerstin Ryding	Until AGM, 25 March 2010	55	110
Ingemar Alserud	Until AGM, 25 March 2010	31	62
<b>Total</b>		<b>1,185</b>	<b>1,058</b>

### Wages and remunerations

	Basic salary / Board fee	Variable pay	Other benefits	Pension expense	Other remuneration	Total
Board of Directors	1,185	-	-	-	1	1,186
CEO	2,596	-	82	598	-	3,276
Deputy CEO	1,427	-	-	335	-	1,762
Other members of company management	2,478	-	-	777	-	3,255
Other salaried employees	25,221	917	186	6,062	-	32,386
<b>Total</b>	<b>32,907</b>	<b>917</b>	<b>268</b>	<b>7,772</b>	<b>1</b>	<b>41,865</b>



Average number of employees	2010	2009
Average number of employees during the year	49	48
- of whom women	21	24

#### Sick leave

Total absence due to illness for all employees amounted to 1.10 percent (0.95) of ordinary working hours. Total absence due to illness was 1.65 percent (0.89) for women and 0.65 percent (1.01) for men. The proportion of absence due to illness involving absences of 60 days or more was 0.00 percent (0.00).

Absence due to illness by age category:	2010	2009
29 years of age or younger	*	*
30-49 years	1.16	0.91
- Men	0.39	-
- Women	0.77	-
50 years or older	0.77	0.72

\*Not disclosed due to the exception indicated in the legislation stating that this information shall not be disclosed if there are at most ten people in the group or if the information can, by implication, be attributed to a particular individual. In this context, "group" refers to age category and gender distribution within that age category.

Emoluments and costs for the auditors	2010	2009
Ernst & Young AB		
Auditing engagement	688	857
Auditing assignments beyond principal auditing engagement	476	-
Other Services	843	2,533

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	2010	2009
Non-cancellable lease payments amount to:		
Within one year	1,762	1,749
Between one and five years	4,327	1,328
More than five years	100	83
<b>Total</b>	<b>6,189</b>	<b>3,160</b>

Expenses over the year amounted to SEK 1,808,000 (1,749,000).

## 8 Other operating expenses

	2010	2009
Insurance expenses	0.2	0.8
Communication and information	5.5	3.9
Capital loss on divestment of tangible and intangible assets	0.3	-
Other operating expenses	0.2	0.1
<b>Total</b>	<b>6.2</b>	<b>4.8</b>

## 9 Appropriations

	2010	2009
Transfer to tax allocation reserve	-88.1	-85.7
Reversal of tax allocation reserve	4.9	3.2
<b>Total</b>	<b>-83.2</b>	<b>-82.5</b>

## 10 Taxes

Recognised in income statement	2010	2009
Tax expense for the period	74.6	69.7
Deferred tax expense (+)/ tax asset (-)	-22.7	12.2
<b>Total tax expense recognised</b>	<b>51.9</b>	<b>81.9</b>

The deferred tax relates to tax on unrealised market value changes. The closing balance amounts to SEK 14.6 million (-26.9) and is reported under other liabilities.

Reconciliation of effective tax	2010%	2010	2009%	2009
Profit/loss before tax		192.5		252.5
Tax according to prevailing tax rate	26.3%	50.6	26.3%	66.4
Non-deductible expenses	0.6%	1.2	6.1%	15.5
Non-taxable income	0.0%	0.0	0.0%	0.0
<b>Recognised effective tax</b>	<b>26.9%</b>	<b>51.9</b>	<b>32.4%</b>	<b>81.9</b>

Tax expense attributable to other comprehensive income	2010	2009
Financial assets available-for-sale	-17.7	12.1
Loans and receivables	-1.1	2.6
<b>Total other comprehensive income</b>	<b>-18.8</b>	<b>14.7</b>

Tax items entered directly against equity	2010	2009
Current tax in Group contributions paid	5.1	2.1
<b>Total sum entered directly against equity</b>	<b>5.1</b>	<b>2.1</b>

## 11 State bonds eligible as collateral

	2010			2009		
	Acquisition value	Fair value	Carrying amount	Acquisition value	Fair value	Carrying amount
<b>State bonds eligible as collateral</b>						
- Swedish central government	8,059.1	8,065.8	8,065.8	17,299.1	17,299.2	17,299.2
- Swedish municipalities	4,096.6	4,142.2	4,141.2	3,554.4	3,613.5	3,613.1
- Foreign governments	670.6	680.7	680.7	-	-	-
<b>Total</b>	<b>12,826.3</b>	<b>12,888.7</b>	<b>12,887.7</b>	<b>20,853.5</b>	<b>20,912.7</b>	<b>20,912.3</b>
Positive difference of book values exceeding nominal values			69.1			56.7
Negative difference of book values falling below nominal values			-22.3			-9.0

Recognised value differs from fair value because the item includes assets which are reclassified as loans and receivables (see Note 23) which are recognised at amortised cost. In Kommuninvest's assessment no writedowns were required as per 31 December 2010.

## 12 Lending

Lending refers to lending to municipalities and county councils, as well as to companies owned by municipalities and county councils. Approximately 38.1 percent (38.2) 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 39.2 percent (39.9) and other companies with municipal guarantees 22.7 percent (21.9). In Kommuninvest's assessment no writedowns were required as per 31 December 2010.

## 13 Bonds and other interest-bearing securities

	2010			2009		
	Acquisition value	Fair value	Carrying amount	Acquisition value	Fair value	Carrying amount
<b>Bonds and other interest-bearing securities</b>						
- Swedish housing finance institutions	1,201.1	1,221.0	1,221.0	3,828.9	3,827.8	3,827.8
- Other Swedish issuers	4,937.3	4,979.7	4,980.1	6,570.1	6,571.0	6,572.1
- Other foreign issuers	22,438.7	22,548.2	22,558.5	14,938.2	15,177.0	15,204.2
<b>Total</b>	<b>28,577.1</b>	<b>28,748.9</b>	<b>28,759.5</b>	<b>25,337.2</b>	<b>25,575.7</b>	<b>25,604.1</b>
Positive difference of book values exceeding nominal values			273.3			272.7
Negative difference of book values falling below nominal values			-78.8			-19.9

Recognised value differs from fair value because the item includes assets which are reclassified as loans and receivables (see Note 23) which are recognised at amortised cost. In Kommuninvest's assessment no writedowns were required as per 31 December 2010.

## 14 Shares and participations

	2010	2009
Endowment insurance	1.0	0.7
<b>Total shares and participations</b>	<b>1.0</b>	<b>0.7</b>

## 15 Shares and participations in associated companies

Administrative Solutions NLGFA AB, owned share 50 %.  
Org nr: 556581-0669

	2010	2009
	0.5	0.5
	<b>0.5</b>	<b>0.5</b>

## 16 Tangible assets

	2010	2009
<b>Acquisition value</b>		
Acquisition value brought forward	10.3	9.3
Investments for the year	6.4	1.0
Disposals	-2.1	-
<b>Acquisition value carried forward</b>	<b>14.6</b>	<b>10.3</b>
<b>Depreciation</b>		
Eliminations, opening balance	-6.7	-4.9
Depreciation for the year	-2.7	-1.8
Disposals	1.7	-
<b>Depreciation carried forward</b>	<b>-7.7</b>	<b>-6.7</b>
<b>Planned residual value at the end of the period</b>	<b>6.9</b>	<b>3.6</b>

## 17 Other liabilities

	2010	2009
Debt to Group companies	0.0	-
Liabilities to parent society	7.7	7.9
Other liabilities	58.6	341.7
<b>Total</b>	<b>66.4</b>	<b>349.6</b>

## 18 Provision for pensions and similar commitments

	2010	2009
Provision for pension obligations	1.2	0.9
<b>Total</b>	<b>1.2</b>	<b>0.9</b>

## 19 Subordinated liabilities

	Currency	Nominal amount	Interest rate	Due date	Carrying amount	
					2010	2009
Subordinated loan	SEK	1,000.0	Variable	Perpetual	1,002.9	-
<b>Total</b>		<b>1,000.0</b>			<b>1,002.9</b>	<b>-</b>

Perpetual subordinated loan with three-month variable Stibor-linked interest. The terms only allow repayment or repurchase on approval by the Swedish Financial Supervisory Authority. At the earliest, however, this may occur on the interest date five years after the loan date and thereafter on each subsequent interest date. The interest expense for the year amounted to SEK 2.9 million.

If the loan cannot be included in the company's capital base, it may be repaid at any time before the due date. The creditor may not transfer the subordinated loan or transfer his/her rights in any other way. The general guarantee provided by the members of the Kommuninvest Cooperative Society for Kommuninvest's obligations cannot be invoked with regard to the subordinated loan.

## 20 Untaxed reserves

Tax allocation reserves	2010	2009
2005 tax assessment	-	4.9
2006 tax assessment	13.8	13.8
2007 tax assessment	7.0	7.0
2008 tax assessment	4.7	4.7
2009 tax assessment	18.6	18.6
2010 tax assessment	85.7	85.7
2011 tax assessment	88.1	-
<b>Total untaxed reserves</b>	<b>217.9</b>	<b>134.7</b>

## 21 Pledged assets

	2010	2009
<i>In the form of assets pledged for own provisions and liabilities</i>		
Government securities pledged with the Riksbank	4,807.2	3,499.2
Endowment insurance for pension obligations	1.0	0.7
<b>Assets pledged, total</b>	<b>4,808.2</b>	<b>3,499.9</b>

The recognised value of liabilities and provisions involving pledges amounted to SEK 1.2 million (3,002.8).

## 22 Related parties

*In SEK, thousands*

### 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	2010	10	-	-	7,730
	2009	10	-	-	7,850
Kommuninvest Fastighets AB	2010	60	1,613	-	40
	2009	268	1,589	208	-
Administrative Solutions NLGFA AB	2010	30	10,489	-	-
	2009	-	7,825	-	641

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.

## 23 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
<b>2010</b>				
Cash	-	-	-	-
State bonds eligible as collatera	1,886.9	-	699.5	-
Lending to credit institutions	-	-	1,697.6	-
Lending	52,369.9	-	81,359.2	-
Bonds and other interest-bearing securities	7,798.1	1,531.3	4,549.9	-
Derivatives	-	9,755.8	-	-
Other assets	-	-	11.1	-
<b>Total</b>	<b>62,054.9</b>	<b>11,287.1</b>	<b>88,317.3</b>	<b>-</b>
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2009</b>				
Cash	-	-	0.0	-
State bonds eligible as collateral	409.3	20.0	697.1	-
Lending to credit institutions	-	-	427.7	-
Lending	123,624.1	-	-	-
Bonds and other interest-bearing securities	4,399.4	9,561.0	4,901.6	-
Derivatives	-	10,315.9	-	-
Other assets	-	-	19.0	-
<b>Total</b>	<b>128,432.9</b>	<b>19,896.8</b>	<b>6,045.5</b>	<b>-</b>
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The carrying amount for lending consists of lending recognised at amortised cost, lending included in a fair value hedging relation and lending recognised at fair value. Fair value differs from the carrying amount as it relates to fair value for all 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. The carrying amount for liabilities to credit institutions and securities issued is composed partly of liabilities recognised at amortised cost, liabilities in a fair value hedging relation and liabilities recognised at fair value. Fair val-

ue differs from the carrying amount as it relates to fair value for all groups.

The carrying amount for derivatives consists, in part, of derivatives recognised at fair value and, in part, derivatives included in a hedging relation. The carrying amount differs from fair value for derivatives included in a hedge relation where credit spreads have been adjusted against derivatives rather than issued securities. Fair value concerns refers to the fair value of all derivatives. The change in lending recognised at fair value between 2009 and 2010 is attributable to new short-term lending being classified as 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 financial liabilities	Derivatives that are used for hedge reporting	Total carrying amount	Fair value
-	-	-	-	-	0.0	0.0
10,301.2	-	-	-	-	12,887.7	12,888.7
-	-	-	-	-	1,697.6	1,697.6
-	-	-	-	-	133,729.1	133,667.0
14,880.3	-	-	-	-	28,759.5	28,748.9
-	-	-	-	3,268.2	13,024.0	12,825.2
-	-	-	-	-	11.1	11.1
<b>25,181.6</b>	-	-	-	<b>3,268.2</b>	<b>190,109.0</b>	<b>189,838.4</b>
-	2,236.0	-	1,202.9	-	3,438.9	3,436.6
-	69,610.7	-	104,241.2	-	173,851.9	173,945.9
-	-	9,298.6	-	1,495.6	10,794.2	10,889.5
-	-	-	14.1	-	14.1	14.1
-	-	-	1,002.9	-	1,002.9	1,002.9
-	<b>71,846.7</b>	<b>9,298.6</b>	<b>106,461.1</b>	<b>1,495.6</b>	<b>189,102.0</b>	<b>189,289.0</b>
-	-	-	-	-	0.0	0.0
19,785.9	-	-	-	-	20,912.3	20,912.7
1,423.5	-	-	-	-	1,851.2	1,851.2
-	-	-	-	-	123,624.1	123,624.1
6,742.0	-	-	-	-	25,604.1	25,575.7
-	-	-	-	789.4	11,105.3	10,974.0
-	-	-	-	-	19.0	19.0
<b>27,951.4</b>	-	-	-	<b>789.4</b>	<b>183,116.0</b>	<b>182,956.8</b>
-	2,864.3	-	4,483.9	-	7,348.1	7,333.5
-	71,302.2	-	93,393.9	-	164,696.1	164,911.9
-	-	9,836.6	-	36.4	9,873.0	9,883.1
-	-	-	264.5	-	264.5	264.5
-	<b>74,166.5</b>	<b>9,836.6</b>	<b>98,142.2</b>	<b>36.4</b>	<b>182,181.7</b>	<b>182,392.9</b>

### Certain disclosures regarding financial instruments recognized at fair value in income for the year.

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: value is determined according to prices quoted in an active market for the same instrument. This level includes government notes payable and standardised derivatives where the quoted price is used in the valuation.

Level 2: value is determined on the basis of directly or indirectly observable market data not included according to level 1. This level includes lending, less liquid investments and borrowing. It also includes derivatives where the valuation is based on observable price quotes.

Level 3: value is determined on the basis of input data that are not observable in the market, with the company's own estimates playing a certain role.

2010	Level 1	Level 2	Level 3	Total
<b>SEK million</b>				
State bonds eligible as collateral	7,243.5	4,944.7	-	12,188.2
Lending	-	52,369.9	-	52,369.9
Bonds and other interest-bearing securities	-	24,209.7	-	24,209.7
Derivatives	18.3	8,888.4	4,117.3	13,024.0
<b>Total</b>	<b>7,261.8</b>	<b>90,412.7</b>	<b>4,117.3</b>	<b>101,791.8</b>
Liabilities to credit institutions	-	2,236.0	-	2,236.0
Securities issued	-	39,198.1	30,412.6	69,610.7
Derivatives	13.2	8,341.5	2,439.5	10,794.2
<b>Total</b>	<b>13.2</b>	<b>49,775.6</b>	<b>32,852.1</b>	<b>82,640.9</b>

2009	Level 1	Level 2	Level 3	Total
<b>SEK million</b>				
State bonds eligible as collateral	-	20,215.2	-	20,215.2
Lending to credit institutions	-	1,423.5	-	1,423.5
Lending	-	123,624.1	-	123,624.1
Bonds and other interest-bearing securities	-	20,702.4	-	20,702.4
Derivatives	48.4	8,452.4	2,604.5	11,105.3
<b>Total</b>	<b>48.4</b>	<b>174,417.7</b>	<b>2,604.5</b>	<b>177,070.6</b>
Liabilities to credit institutions	-	2,864.3	-	2,864.3
Securities issued	-	59,812.6	11,489.6	71,302.2
Derivatives	32.6	7,108.0	2,732.4	9,873.0
<b>Total</b>	<b>32.6</b>	<b>69,784.9</b>	<b>14,222.0</b>	<b>84,039.4</b>

### 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 for government notes payable 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, bonds and other interest-bearing securities

Liquid investments are valued on the basis of quoted market prices according to level 1. For less liquid investments, 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. These are classified according to level 2. 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.

### Borrowing and borrowing derivatives

Since borrowing is hedged against the various market risks using borrowing derivatives, the same principles are applied in calculating the fair value of the company's borrowing and credit swaps based on the structure of the borrowing instruments and their market. Borrowing and derivatives have been measured at the applicable quoted swap rate, adjusted by relevant borrowing margins. Borrowing for which valuation, to some extent, involves the company's own assessments, is valued according to level 3. The same assessments have been made for both the borrowing itself and the matching credit swaps since they both have the same structure. Other borrowing and borrowing derivatives are valued according to level 2. Derivatives are reported as assets when they have a positive market value and as liabilities when they have a negative market value.

### Derivatives

Other derivatives are used to hedge currency and interest risks. Standardised derivatives in the form of FRA contracts traded in an active market are valued according to level 1. Non-standardised derivatives (OTC) are recognised at fair value according to level 2. 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 has conducted a Credit Value Adjustment (CVA) calculation for its derivative exposure. Since Kommuninvest only has derivative counterparties with a high rating and has secured collateral for a large proportion of its exposure, this amounts indicated by this calculation were not significant.

### Other financial assets and liabilities

These items are valued at amortised cost.

### Significant assumptions and uncertainty factors

Kommuninvest has applied the valuation techniques deemed

to best 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. Kommuninvest has only a marginal exposure to interest risk and, since it hedges other market risks, it is changes in credit spreads that give rise to the changes in market value.

An increase in the the lending margin by 10 basis points on Kommuninvest's lending to municipalities would mean a change in income of SEK -141 million. An increase in the borrowing margin by 10 basis points on the liabilities included in the hedge accounting at fair value category would mean a change in income of SEK 133 million. A parallel displacement in the borrowing and lending margins by 10 basis points would mean a change in income of SEK 8 million. A displacement of the valuation curve by 10 basis points for the financial instruments valued according to level 3 would mean a change in income of SEK 52 million.

All market value effects are unrealised, and as Kommuninvest intends to hold its assets and liabilities to maturity, Kommuninvest does not intend to realise these values.

### Changes in level 3

The table below presents a reconciliation of opening and closing balances for financial instruments recognised at fair value in the balance sheet based on an assessment technique proceeding from non-observable input data (level 3). During 2010, Kommuninvest changed the accounting principles it applies for financial assets and liabilities, see Note 2. In connection with this change, certain financial instruments are also classified according to level 3.

SEK million	Derivative assets	Derivative liabilities	Securities issued	Total
Opening balance, 1 January 2009	3,289.2	-2,469.1	-11,382.2	<b>-10,562.1</b>
Recognised gains and losses:				
– recognised in income for the year	350.9	-501.5	-32.1	<b>-182.7</b>
Cost, acquisitions	158.8	-157.1	-2,413.3	<b>-2,411.6</b>
Maturing during the year	-1,194.4	395.3	2,338.0	<b>1,538.9</b>
<b>Closing balance, 31 December 2009</b>	<b>2,604.5</b>	<b>-2,732.4</b>	<b>-11,489.6</b>	<b>-11,617.5</b>
Gains and losses recognised in income for the year included in the closing balance as per 31 December 2009.	131.5	-341.5	32.2	<b>-177.8</b>
Opening balance, 1 January 2010	2,604.5	-2,732.4	-11,489.6	<b>-11,617.5</b>
Recognised gains and losses:				
– recognised in income for the year	-200.9	-255.6	471.3	<b>14.8</b>
Cost, acquisitions	1,816.6	-890.4	-22,785.7	<b>-21,859.5</b>
Maturing during the year	-102.9	1,438.9	3,391.4	<b>4,727.4</b>
<b>Closing balance, Dec 31, 2010</b>	<b>4,117.3</b>	<b>-2,439.5</b>	<b>-30,412.6</b>	<b>-28,734.8</b>
Gains and losses recognised in income for the year included in the closing balance as per 31 December 2010.	544.2	-1,062.4	538.5	<b>20.3</b>

### 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 recorded in other comprehensive income.

#### 31 Dec 2010

Had this reclassification not taken place, equity would have been affected negatively by SEK 9.7 million in the fund for fair value as at 31 December 2010. This means that over the year, the fund for fair value has improved by SEK 18.2 million in respect of the reclassified securities.

Interest income amounting to SEK 25.9 million has been recognised in the income statement for the period 1 January – 31 December with regard to the reclassified assets.

	31 December 2010		31 December 2009	
	Book value	Fair value	Book value	Fair value
Interest-bearing securities	5,249.4	5,239.7	5,598.8	5,570.8

#### 31 Dec 2009

Had this reclassification not taken place, equity would have been affected negatively by SEK 27.9 million 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 38.5 million in respect of the reclassified securities.

Interest income amounting to SEK 63.0 million 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	5,598.8	5,570.8	6,057.6	5,991.2

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.

## 24 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 quota 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 lending 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 Kommuninvest i Sverige AB's website: [www.kommuninvest.se](http://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:

<b>Primary capital</b>	<b>2010</b>	<b>2009</b>
Share capital	288.5	269.6
Statutory reserve	17.5	17.5
Profit brought forward	347.6	191.2
Income for the year	140.6	66.5
Less deferred tax assets	-10.6	-25.0
Untaxed reserves	160.6	99.3
<b>Net capital base</b>	<b>944.2</b>	<b>619.1</b>
<b>Total capital requirement, credit risk</b>		
Capital requirement for credit risks (the standardised method)	129.0	116.9
Capital requirement for risks in trade inventory	4.3	27.1
Capital requirement for operational risks	53.9	30.1
Capital requirement for foreign exchange risk	0.1	0.1
<b>Total capital requirement</b>	<b>187.2</b>	<b>174.2</b>
Capital coverage quota	10.09	3.55
<b>Supplementary capital</b>		
Perpetual subordinated loan	944.2	-
<b>Total supplementary capital</b>	<b>944.2</b>	<b>-</b>
<b>Total capital base</b>	<b>1,888.4</b>	<b>619.1</b>

#### Capital basis

The capital basis includes the Board's proposed disposition of earnings, which does not include payment of a dividend.

#### Capital requirement

##### Credit risk in accordance with standardised method

	<b>2010</b>	<b>2009</b>
1. Exposures to states and central banks	-	-
2. Exposures to municipalities and comparable cooperatives, and authorities	-	-
3. Institutional exposures	125.9	115.1
4. Corporate exposures	0.3	0.3
5. Other items	2.8	1.6
<b>Total capital requirement for credit risks</b>	<b>129.0</b>	<b>117.0</b>
<b>Risks in trade inventory</b>		
Interest risks		
- Specific risk	2.9	24.0
- General risk	1.4	3.1
<b>Total capital requirement for risks in trade inventory</b>	<b>4.3</b>	<b>27.1</b>
<b>Operational risks</b>		
Basic indicator method	53.9	30.1
<b>Total capital requirement for operational risks</b>	<b>53.9</b>	<b>30.1</b>
<b>Foreign exchange risk</b>		
Foreign exchange risk	0.1	0.1
<b>Total capital requirement for foreign exchange risks</b>	<b>0.1</b>	<b>0.1</b>
<b>Total minimum capital requirement</b>	<b>187.2</b>	<b>174.2</b>
<b>Starting capital</b>	<b>9.3</b>	<b>9.3</b>

## FIVE-YEAR SUMMARY

SEK million	2010	2009	2008	2007	2006
<b>KEY RATIOS 2006-2010</b>					
<b>Growth</b>					
Lending (change in %)	8.2	18.1	34.3	16.7	17.8
Net interest income (change in %)	13.1	151.3	91.0	-20.6	9.5
<b>Consolidation</b>					
Equity and untaxed reserves as a percentage of balance sheet total	0.53	0.45	0.36	0.38	0.30
<b>Efficiency</b>					
Administration expenses as a percentage of lending	0,127	0,109	0,083	0,103	0,120
Administration expenses as a percentage of balance sheet total	0,089	0,073	0,061	0,073	0,079
Administration expenses/employee (SEK millions)	3.2	2.7	2.1	2.2	2.1
Change (%)	16.5	28.7	-2.1	3.0	20.1
Lending/employee (SEK millions)	2,523.2	2,522.9	2,552.6	2,106.4	1,758.2
Change (%)	0,0	-1.2	21.2	19.8	8.5
<b>Return</b>					
Operating profit after standard tax as a percentage of average equity	23.45	38.32	12.06	6.34	7.43
<b>Income/expense ratio (I/E)</b>					
Net interest income and other operating income in relation to total costs	2.6	2.8	1.7	1.0	1.3
<b>Other information</b>					
Number of employees	53	49	41	37	38

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

SEK million	2010	2009	2008	2007	2006
<b>INCOME STATEMENT JANUARY 1 - DECEMBER 31</b>					
Net interest income	432.1	382.1	152.1	79.6	100.2
Commission expenses	-4.4	-3.5	-3.6	-3.1	-4.1
Net result of financial transactions	17.2	90.6	13.9	34.2	12.6
Other operating income	0.3	0.2	0.3	0.6	1.0
<b>Total income</b>	<b>445.1</b>	<b>469.4</b>	<b>162.7</b>	<b>111.3</b>	<b>109.8</b>
General administration expenses	-160.5	-127.8	-80.6	-75.9	-74.5
Depreciation	-2.7	-1.8	-1.6	-1.6	-2.1
Other operating expenses	-6.2	-4.8	-5.2	-3.1	-3.7
<b>Total expenses</b>	<b>-169.4</b>	<b>-134.4</b>	<b>-87.4</b>	<b>-80.6</b>	<b>-80.3</b>
<b>Operating income</b>	<b>275.7</b>	<b>335.0</b>	<b>75.3</b>	<b>30.7</b>	<b>29.5</b>
Appropriations, net	-83.2	-82.5	-11.6	0.5	-3.6
Taxes	-51.9	-81.9	-19.2	-7.1	-8.0
<b>Income for the year</b>	<b>140.6</b>	<b>170.6</b>	<b>44.5</b>	<b>24.1</b>	<b>17.9</b>
<b>BALANCE SHEET AS AT 31 DECEMBER</b>					
Cash	0.0	0.0	0.0	0.0	0.0
State bonds eligible as collateral	12,887.7	20,912.3	1,879.6	5,598.8	6,349.3
Lending to credit institutions	1,697.6	1,851.2	2,440.0	2,513.8	2,680.6
Lending	133,729.1	123,624.1	104,658.1	77,937.7	66,811.9
Bonds and other interest-bearing securities	28,759.5	25,604.1	17,631.6	17,748.3	21,567.3
Shares and participations	1.0	0.7	0.3	0.1	0.0
Shares in associated companies	0.5	0.5	0.5	0.5	0.5
Derivatives	13,024.0	11,105.3	16,094.3	5,863.8	0.0
Tangible assets	6.9	3.6	4.4	3.2	3.4
Other assets	67.5	19.3	25.9	249.1	3,067.0
Prepaid expenses and accrued revenues	26.4	7.1	3.7	2.3	694.1
<b>Total assets</b>	<b>190,200.2</b>	<b>183,128.2</b>	<b>142,738.5</b>	<b>109,917.6</b>	<b>101,174.1</b>
Liabilities to credit institutions	3,438.9	7,348.1	5,390.2	4,627.4	3,618.4
Securities issued	173,851.9	164,696.1	126,106.1	93,561.4	93,388.2
Derivatives	10,794.2	9,873.0	10,675.0	11,275.2	0.0
Other liabilities	66.4	349.6	40.4	32.2	3,105.6
Accrued expenses and prepaid revenues	44.1	35.6	13.5	8.3	755.2
Provisions for pensions and similar obligations	1.2	0.9	0.4	0.2	-
Subordinated liabilities	1,002.9	-	-	-	-
<b>Total liabilities and provisions</b>	<b>189,199.5</b>	<b>182,303.4</b>	<b>142,225.6</b>	<b>109,504.6</b>	<b>100,867.4</b>
Untaxed reserves	217.9	134.7	52.2	40.5	41.1
Equity	782.8	690.2	460.7	372.4	265.6
<b>Total liabilities, provisions and equity</b>	<b>190,200.2</b>	<b>183,128.2</b>	<b>142,738.5</b>	<b>109,917.6</b>	<b>101,174.1</b>

1. Figures for comparison years from 2006 are in accordance with earlier accounting principles.

### Group contributions

Kommuninvest will pay a Group contribution of SEK 7.7 million to Kommuninvest Cooperative Society. This contribution will enable the Society to carry out a participation issue to members for the tenth 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 3.9 million. The size of the new issue corresponds to the total of the proposed participation issue in the Society.

## APPROPRIATION OF SURPLUS

The Board of Directors and President propose that:

the profit for the year	140,622,181
profit brought forward	347,643,496
fund for fair value	-11,360,323
total	476,905,354

be appropriated as follows:

To be carried forward	476,905,354
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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 operation in

accordance with Kommuninvest's internal capital assessment policy. Kommuninvest's capital coverage quota after the proposed allocation of profits amounts to 10.09 (3.55). The capital base amounts to SEK 1,888 (619) million after the proposed allocation of profits, and the final minimum capital requirement amounts to SEK 187 (174) million. A specification of items can be found in the Note 24 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 above 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 below, was approved for issue by the Board on 1 March 2011. Kommuninvest's income statement and balance sheet are subject to approval by the Annual General Meeting on 7 April 2011.

Örebro, 1 March 2011

Ellen Bramness Arvidsson  
*Chairman*

Lorentz Andersson

Kurt Eliasson

Anna von Knorring

Catharina Lagerstam

Anna Sandborgh

Johan Törngren

Tomas Werngren  
*President and CEO*

Our Audit Report was submitted on 1 March 2011  
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 President of Kommuninvest i Sverige AB (publ) for the year 2010. 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 President. 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 President and significant estimates made by the Board of Directors and the President 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 liabil-

ity, 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 President. We also examined whether any board member or the President 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 President be discharged from liability for the financial year.

Örebro, Sweden, 1 March 2011  
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, Chairman of the Board 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 1 March 2011

Barbro Tjernström

Anita Bohman



**Bohuslän Museum.**  
The Municipality of Uddevalla has  
been a member of the Kommuninvest  
Cooperative Society since 1993.



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