

# INTERIM REPORT

## 30 JUNE 2003



**KOMMUNINVEST**  
The Swedish Local Government Funding Agency

# INTERIM REPORT for Kommuninvest i Sverige AB (publ) 1 January – 30 June 2003

Corporate Identity Number: 556281-4409. Registered office: Örebro, Sweden.

## **Kommuninvest – cooperating for better financing**

Kommuninvest i Sverige AB is a credit market company wholly-owned by Kommuninvest Cooperative Society. The members of the Society – municipalities and county councils – and their companies are able to utilise the credit market company's services.

The cooperation is voluntary, and is run on a commercial basis. The primary aim of the operation is to obtain effective financing solutions and favourable long-term conditions for members' borrowing.

Kommuninvest concerns itself primarily with long-term loans for investment financing. It also offers added value in the form of advisory and training services.

Members' balance sheet totals amounted to SEK 135.0 billion (133.2 billion). Their solidity rose by 1 % to 52 %. Long-term liabilities increased by SEK 1 billion to SEK 38.6 billion. The municipalities' guarantees were almost unchanged at SEK 66.9 billion.

## **Financial trends in the municipal and county council sectors**

Sweden's municipalities and county councils recorded an overall deficit before extraordinary items of SEK -6.8 billion (SEK 1.3 billion). The municipalities reported a slight surplus of SEK 0.8 billion (SEK 4.7 billion), while the county councils reported a deficit of SEK -7.6 billion (SEK -3.4 billion).

The net deficit for the year amounted to SEK -4.4 billion (SEK 7.6 billion) for the sector as a whole.

Fewer municipalities and county councils recorded a surplus before extraordinary items. 180 municipalities (62 %) and 5 county councils (25 %) had a surplus in 2002. This is a rather poorer outcome than in 2001, when the proportions were 68 % and 50 % respectively.

## **Members' financial trends**

Members' results also deteriorated during 2002. Member municipalities recorded a surplus before extraordinary items of SEK 0.3 billion (SEK 0.8 billion), while member county councils reported a deficit of SEK -0.3 billion (SEK 0.1 billion).

Member municipalities had a net surplus for the year of SEK 0.7 billion (SEK 3.5 billion), and member county councils a net deficit of SEK -0.3 billion (SEK 0.1 billion).

The proportion of member municipalities reporting a surplus fell somewhat, amounting to 66 % (69 %). The three member county councils reported deficits for 2002.



## More and more municipalities are joining the Society

Kommuninvest is Sweden's largest inter-municipal cooperative society, and the organization is continuing to grow strongly. In the past few years, the Society has been highly successful in providing loans on favourable terms. More and more municipalities and county councils are seeing the advantages in arranging their financing through Kommuninvest and are applying for membership.

At the end of the half-year, the organization had 140 (128) members, of which 3 were county councils and 137 were municipalities.

The following municipalities became members during the first half-year:

- Municipality of Oxelösund
- Municipality of Haninge
- Municipality of Kungälv
- Municipality of Tomelilla
- Municipality of Växjö
- Municipality of Trelleborg
- Municipality of Lessebo
- Municipality of Säter

On the date of publication of this report, the following had also joined the Society: the County Council of Västmanland and the Municipality of Ånge. This brings the number of members to 142, and represents an increase of 10 in the number of members since the start of the year.

*Photo: Alexander von Sydow, Örebro Sweden*

## Credit rating increased to top level, Aaa

In April 2002, Kommuninvest's credit rating was upgraded by Moody's Investors Service from Aa1 to Aaa, the same level as the Kingdom of Sweden. The credit rating has remained unchanged over the report period, and reflects the overall strength of Kommuninvest's members and the general government sector as a whole.

## Lending

During the first half year, Kommuninvest's lending increased by 12,1% (2002: 7.1 %) to SEK 47,8 (39.1) billion at the period-end. Net new lending during the first half of 2003 was SEK 5.2 billion (SEK 2.6 billion).

The increase in lending is significantly higher than during the first half of 2002. The increase is largely due to the substantial increase in the number of members in recent years, and to the fact that the interest charged on Kommuninvest's loans has been attractive.

The bulk of Kommuninvest's lending has related to the refinancing of older unattractive loans with other institutions. The demand for loans for new investment has, however, risen slightly.

At the end of 2002, Kommuninvest met about 42 percent of its members' (including companies owned by members) borrowing requirements. This proportion has increased in recent years.

## **Borrowing**

During the first half-year, a great deal of effort was put into presenting Kommuninvest to investors and financial institutions. Presentations have been given in a number of countries in Europe, the Middle East and Asia.

Borrowing in the form of structured loans, which was the most important method of financing throughout 2002, continued to be an important financing method during the first part of 2003.

In March, Kommuninvest carried out its largest individual borrowing ever, in the form of a public issue of EUR 500 million, with a five-year maturity. The issue was well received in the market.

The conditions obtained have been, in the longer term view, very favourable, and show the importance of Kommuninvest as a cooperative organization.

Total long-term borrowing at the end of the report period amounted to SEK 55.0 billion (SEK 47.3 billion).

On 16 June 2003, Kommuninvest's EMTN programme was updated. The programme's credit limit is unchanged at EUR 7 billion.

## **Financial result**

Profit before tax for the first six months of the year was SEK 4.5 million (SEK 9.2 million). The result is attributable to a combination of increased lending, favourable investment of prefinance funds. The contribution to results from the repurchases was less than in the corresponding period of 2002, which explain the lower result.

## **Finance support complements lending operations**

For the past two years, Kommuninvest has been providing a number of new services and methods in the area of Finance Support.

The development of Finance Support is carried out in close collaboration with members. During the first half-year, this largely involved changing the IT-based model for analysing, optimising and following up the municipality's own loan portfolio so as to improve the ability to analyse the whole municipal group's financial liabilities. This service can now also be accessed via the Internet.

## **Growth permits new issues**

The General Meeting on 20 March 2003 resolved, through a new issue directed at Kommuninvest Cooperative Society, to increase Kommuninvest's share capital by SEK 27.6 million. This issue has been completed.





The General Meeting resolved at the same time to change the section in the Articles of Association relating to the size of authorized share capital so that the company's authorized share capital shall be no less than SEK 50 million, and no greater than SEK 200 million.

At the date of publication of this report, the Board, in accordance with the authority granted by the General Meeting, has resolved to implement a new issue directed at the Parent Society, in order to increase share capital by a further SEK 14.7 million. The Society is expected to take a decision on the offer during September.

### **Executive Management Group**

The management group was unchanged, and consists of Thomas Åkelius (President and CEO), Tomas Werngren (Executive Vice President and CFO), Malin Gillberg (HR Manager), Harriet Forsell Söderberg (Deputy CFO) and Maria Viimne (Founding and Investment Manager).

### **Prospects for the second half of 2003**

During the second half-year, it is estimated that net lending will be rather lower than in the report period. It is not unlikely that total lending will be almost SEK 50 billion at the year-end.

Interest in membership of Kommuninvest is expected to remain largely unchanged. The number of members of the Cooperative Society is, therefore, expected to increase to more than 145 by the year-end.

*Photo: Alexander von Sydow, Örebro Sweden*

## INCOME STATEMENT (in millions of SEK)

|   | 2003<br>1 January-<br>30 June | 2002<br>1 January-<br>31 December | 2002<br>1 January-<br>30 June |
|---|-------------------------------|-----------------------------------|-------------------------------|
| Interest income                                   | 1 261.0                       | 2 249.5                           | 1 066.9                       |
| Interest expenses                                 | -1 231.4                      | -2 178.1                          | -1 031.0                      |
| <b>NET INTEREST INCOME</b>                        | <b>29.6</b>                   | <b>71.4</b>                       | <b>35.9</b>                   |
| Commission expenses                               | -0.5                          | -0.6                              | -0.3                          |
| Net result of financial transactions              | 0.7                           | -0.8                              | -0.7                          |
| Other operating income                            | 1.1                           | 1.6                               | 0.3                           |
| <b>TOTAL OPERATING INCOME</b>                     | <b>30.9</b>                   | <b>71.6</b>                       | <b>35.2</b>                   |
| General administration expenses                   | -24.8                         | -43.3                             | -22.3                         |
| Depreciation of tangible assets                   | -0.6                          | -1,2                              | -1.0                          |
| Other operating expenses                          | -0.4                          | -1.5                              | -0.4                          |
| <b>TOTAL EXPENSES</b>                             | <b>-25.8</b>                  | <b>46.0</b>                       | <b>-23.7</b>                  |
| <b>OPERATING INCOME</b>                           | <b>5.1</b>                    | <b>25.6</b>                       | <b>11.5</b>                   |
| Allocations                                       | -0.6                          | -5.2                              | -2.3                          |
| Tax on profit for the year                        | -1.3                          | -5.9                              | -2.7                          |
| <b>PROFIT FOR THE PERIOD</b>                      | <b>3.2</b>                    | <b>14.5</b>                       | <b>6.5</b>                    |
| <b>BALANCE SHEET (in millions of SEK)</b>         |                               |                                   |                               |
|   | <b>30 June 2003</b>           | <b>31 December 2002</b>           | <b>30 June 2002</b>           |
| <b>ASSETS</b>                                     |                               |                                   |                               |
| Cash  | 0.0                           | 0.0                               | 0.0                           |
| State bonds eligible as collateral                | 2 771.0                       | 2 751.1                           | 3 451.7                       |
| Lending to credit institutions                    | 892.6                         | 1 076.3                           | 2 038.9                       |
| Lending   | 47 768.9                      | 42 615.6                          | 39 105.2                      |
| Bonds and other interest-bearing securities       | 6 336.9                       | 2 453.9                           | 2 558.8                       |
| Shares and participations in associated companies | 0.5                           | 0.5                               | 0.5                           |
| Tangible assets, equipment                        | 4.0                           | 3.9                               | 3.8                           |
| Other assets                                      | 213.8                         | 153.2                             | 326.2                         |
| Prepaid expenses and accrued income               | 730.3                         | 713.4                             | 621.9                         |
| <b>TOTAL ASSETS</b>                               | <b>58 718.0</b>               | <b>49 767.9</b>                   | <b>48 107.0</b>               |
| <b>LIABILITIES AND EQUITY</b>                     |                               |                                   |                               |
| Liabilities to credit institutions                | 2 764.5                       | 2 807.1                           | 2 767.1                       |
| Securities issued                                 | 55 011.2                      | 46 080.9                          | 44 560.5                      |
| Other liabilities                                 | 8.6                           | 15.2                              | 30.6                          |
| Accrued expenses and prepaid income               | 748.4                         | 710.7                             | 601.2                         |
| Untaxed reserves                                  | 22.5                          | 22.0                              | 19.0                          |
| <b>Equity</b>                                     |                               |                                   |                               |
| Share capital                                     | 96.2                          | 68.6                              | 68.6                          |
| Statutory reserve                                 | 11.9                          | 10.5                              | 10.5                          |
| Profit brought forward                            | 51.5                          | 38.4                              | 43.0                          |
| Profit for the period                             | 3.2                           | 14.5                              | 6.5                           |
|   | <b>162.8</b>                  | <b>132.0</b>                      | <b>128.6</b>                  |
| <b>TOTAL LIABILITIES AND EQUITY</b>               | <b>58 718.0</b>               | <b>49.767.9</b>                   | <b>48 107.0</b>               |

## Undertakings not on the balance sheet

Refers to undertakings as at 30 June 2003 and 31 December 2002 (in millions of SEK).

|                | Interest related |         |                |         | Exchange rate based |         |                |         | Share related |         |                |         |
|----------------|------------------|---------|----------------|---------|---------------------|---------|----------------|---------|---------------|---------|----------------|---------|
|                | Market value     |         | Nominal amount |         | Market value        |         | Nominal amount |         | Market value  |         | Nominal amount |         |
|                | 2003.06          | 2002.12 | 2003.06        | 2002.12 | 2003.06             | 2002.12 | 2003.06        | 2002.12 | 2003.06       | 2002.12 | 2003.06        | 2002.12 |
| Positive value | 397              | 353     | 12 773         | 7 820   | 2 295               | 2 298   | 32 128         | 26 350  | 66            | 189     | 713            | 1 730   |
| Negative value | -1 538           | -1 006  | 28 336         | 25 044  | -4 470              | -3 675  | 37 020         | 28 113  | -378          | -441    | 8 896          | 14 289  |

Note: When calculating market value, based on a fictional expiry date, all contracts are calculated using the present value method with current market rates for interest, currency conversion and share prices. Those contracts which indicate a claim on the counterparty are entered under the heading positive value. For counterparties with which Kommuninvest has signed ISDA contracts, the net market value is calculated in accordance with the Swedish Financial Supervisory Authority's instruction 1998:32.

Under the Articles of Association, derivative instruments may be used only with the aim of eliminating risks in borrowing and lending operations. Kommuninvest accepts only the best players as counterparties in swaps. At present, the majority of our contracts have been entered into with counterparties whose creditworthiness is AA by at least one of the recognised US ratings institutions. When signing ISDA contracts with a counterparty, Kommuninvest insists on reserving the right to terminate a contract prematurely if the counterparty's rating falls below a certain level. No counterparty currently has a rating below A2 and/or A. Kommuninvest's Board has issued regulations limiting the extent of exposure to any single counterparty.

## Accounting principles

The accounting principles and calculation methods used in this interim report are identical to those used in the annual report for 2002.

Örebro 18 August 2003

*Thomas Åkelius*  
President

## Capital cover

Capital cover amounts to 19.02 % (16.00 %).

The Interim report has been reviewed by the auditors of the corporation.

## Review report for Kommuninvest i Sverige AB

Corporate ID number: 556281-4409

We have carefully reviewed this interim report for the period 1 January 2003 - 30 June 2003, and in doing so have followed the recommendations issued by the Swedish Institute of Authorized Public Accountants.

A review is considerably more limited than an audit.

Nothing has emerged to suggest that the interim report does not fulfil the requirements for interim reports laid down in the Annual Accounts for Credit Institutions and Securities Companies Act.

Örebro, Sweden 18 August 2003

KPMG

*Johan Bäckström*  
Authorized Public Accountant

*Kaj Gustafsson*  
Authorized Public Accountant  
Appointed by the Financial Supervisory Authority  
Ernst & Young AB

**Kommuninvest i Sverige AB (publ)**

Corporate ID No: 556281-4409

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