

Credit Analysis

Moody's International Public Finance Government-Related Issuers

November 2009

Kommuninvest i Sverige Aktiebolag

Orebro, Sweden

Summary Rating Rationale

The Aaa rating of Kommuninvest i Sverige AB, with stable outlook, is underpinned by its strong franchise with a solid market share in lending to its member local governments. It has maintained its good financial fundamentals, strong asset quality and prudent asset liability management throughout the disruptions of the global financial crisis and the resulting economic downturn. The ratings also reflect the collective guarantee of Kommuninvest's members, which ensures that Kommuninvest will receive extraordinary support from the large number of local governments that are members of its ownership society (235 municipalities and seven county councils as of 31 August 2009).

Kommuninvest is a not-for-profit organisation and an important player in Sweden's municipal lending market, providing its members with approximately 60% of their total borrowings at the end of 2008 and more than 90% of their new lending. Lending is restricted to local authorities that are members of the Kommuninvest Co-operative Society ("the Society") and to entities that are majority-owned and fully guaranteed by one or more members.

Peer Comparison

Kommuninvest's Aaa rating relies firmly on the guarantee that it enjoys. Compared to its Nordic peers, Kommuninvest operates with a lower level of capital, 0.35% of total assets, compared to the average of 1.35%, and a lower level of internal liquid reserves (6 months). However, the lower level of reserves is mitigated by a reduced risk of market impacts on the investments, alternative liquidity arrangements equal to SEK 21 billion by offering Kommuninvest's own debt securities to its liquidity providers, which may be in turn be offered for security to the Swedish central bank. Ultimately, the guarantee of its members, which play an essential role in the Swedish governmental system, provides comprehensive coverage of Kommuninvest's obligations.

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Analyst Contacts:

London 44.20.7772.5454

Thomas Amenta
Senior Vice President

Eeva Antila
Analyst

Mattias Frithiof
Analyst

David Rubinoff
Team Managing Director

This Credit Analysis provides an in-depth discussion of credit rating(s) for Kommuninvest i Sverige Aktiebolag and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



Moody's Investors Service

Kommuninvest i Sverige Aktiebolag

Rating Outlook

The Aaa rating has a stable outlook, based on the stability of the support mechanisms of Kommuninvest's members and its good asset liability and liquidity management.

Issuer Overview

Kommuninvest was established in 1986 under the name Kommuninvest I Örebro Län AB by a group of municipalities in the County of Örebro, Sweden, with the aim of providing low-cost financing to municipalities in the region. Following central government approval, Kommuninvest's activities were expanded to cover the whole of Sweden in 1993 and its name was changed to Kommuninvest i Sverige AB (publ). Kommuninvest is a wholly owned subsidiary of the Kommuninvest Cooperative Society.

In addition to its role in providing competitive financing, it acts as the local government debt office for its member municipalities and county councils, as well as offering advisory and training services. As a member organisation, Kommuninvest represents the Swedish municipal sector in public funding issues.

Registered as a joint-stock credit company, Kommuninvest is subject to supervision by the Financial Supervisory Authority of Sweden (*Finansinspektionen*).

The institution has been allowed to take deposits since 2004, but has so far not chosen not to do so. Kommuninvest acts as a local government debt office and, as such, it executes its activities without a vested interest in profit-making, beyond its needs to maintain appropriate internal capital to service its members.

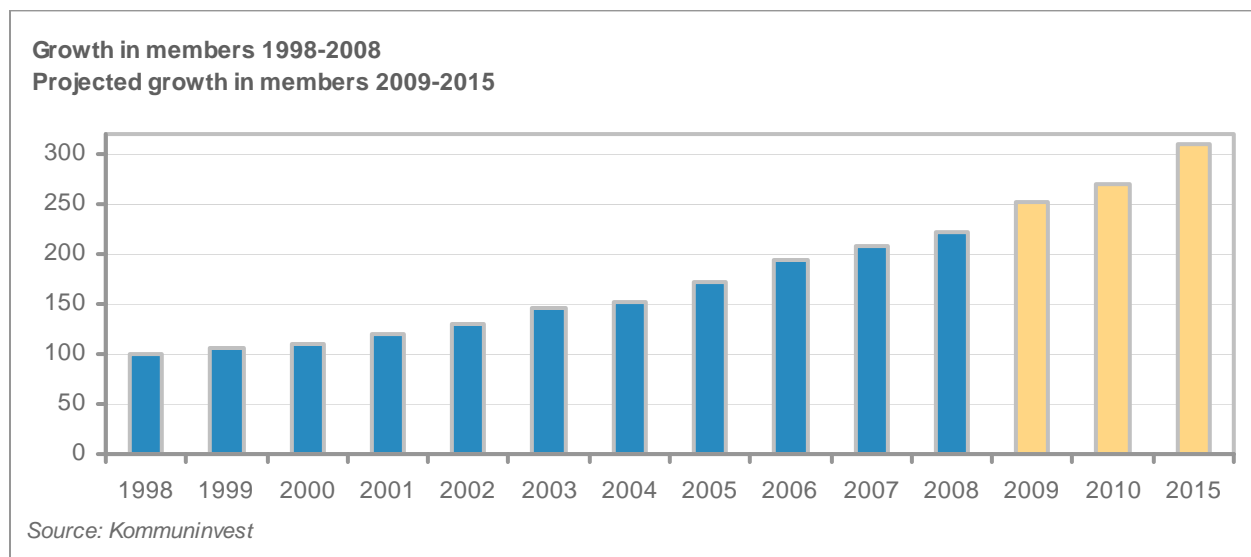
Key Rating Considerations

Institutional Framework

Broad membership continues to grow

As of August 2008, Kommuninvest had 242 members (comprising 235 municipalities and seven counties, out of a national total of 290 municipalities and 20 county councils) accounting for four out of five political units and 55% of Sweden's population. No member has left the Society since its inception. Kommuninvest's goal is to have all 310 regional and local governments in Sweden as members by 2015.

Exhibit 1: Growth in membership



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Joint-and-several guarantee underpins Kommuninvest's creditworthiness

The members of the Society are jointly and severally liable for Kommuninvest's commitments and liabilities¹. As a result, it would in theory be possible to request payment of all liabilities from the wealthiest local government, instead of contacting all the members for their contributions. New members become liable for current and future liabilities, whilst any member leaving the Society is liable for liabilities outstanding as of the date of departure.

Member local authorities are required to contribute capital on a per-inhabitant basis, with different participation capital levied on municipalities and counties. In June 2009 participation capital reached a total of SEK496.6 million (SEK372.4 million in 2007). Kommuninvest also has SEK50.5 million in untaxed reserves, as of 30 June 2009.

The legality of the joint-and-several guarantee has been challenged once in the Swedish courts and was confirmed by the Supreme Administrative Court (*Regeringsrätten*) in 1994. There have been no claims under the pledge, and the workings of notifying and securing funding from members in the case of a call on the pledge have never been tested. Kommuninvest's members have unlimited taxing authority and ample liquidity, estimated at SEK23 billion for 2008.

The price and security conditions of loans by Kommuninvest are offered equally for all members, regardless of the size of the loan or the borrower. Kommuninvest may offer terms up to 20 years in fixed or floating rates. Floating rates may include future settlement at fixed rates as well as interest rate caps or floors. Kommuninvest also acts as an intermediary for loans from the Council of Europe Development Bank (CEB) to finance infrastructure, healthcare, education, environmental projects and accommodation for senior citizens.

Kommuninvest complements its lending activities by offering advisory services to its clients.

Competition

Up to the second half of 2007, Kommuninvest had intense competition in lending to local governments, and faced progressively narrowing lending spreads. Since 2008, and especially after the market dislocations following the failure of Lehman Brothers, Kommuninvest's competition has fallen back, in the market for municipal lending. Kommuninvest has continued to grow, improving its share of its members' total borrowing to 58% (approximately 35% of the total market), providing approximately 90% of all new lending to its members. Over the longer term, however, domestic banks may return as serious competition, as part of their long-term strategies of taking on low margin lending to cross sell a wider range of higher margin financial services.

Kommuninvest has for now an enviable market position. In 2008 and first six months of 2009, Kommuninvest won virtually all of its bids for tendered loans. The continuing growth of its membership and market share indicate that Kommuninvest has been successfully extending its franchise both in good times and in period of more difficult markets. At the same time Kommuninvest has improved its net interest margins (see *Financial Position and Performance*, below).

Kommuninvest franchise strongly benefits from the goodwill of both national and local governmental interests. In August 2005, Kommuninvest received permission to use the Coat of Arms of the Kingdom of Sweden on its prospectuses for bond issuance, thereby demonstrating its importance as a funding vehicle for local governments in Sweden. Kommuninvest has also become a Restricted Monetary Policy Counterparty to the Swedish Central Bank, reflecting its importance to the national financing system, and giving it greater flexibility in maintaining its liquidity.

As it is created by contract to its members, rather than within national legislation, it theoretically may face competition from new entrants with a more direct national mandate. In early 2009, proposals were put forward from the Swedish national debt office to undertake direct lending to the municipal sector. It was possible that the rates the debt office could charge would have been substantially closer to those of Swedish sovereign

¹ Kommuninvest Co-Operative Society Articles of Association, article 7

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debt, and which could squeeze out the improvements in lending spreads Kommuninvest has gained over the past 18 months. These proposals, which could have broad implications for the role of central government financing and the constitutional arrangements for independent local government financing, have not gone forward. Nevertheless, Moody's monitors the politics of local government finances in Sweden across a range of issues, including any that may have significant impact on Kommuninvest's market share.

Financial Position and Performance

Core income growth and bottom-line surpluses, but significant negative marked-to-market effects

The 2008 results show both the benefit of the Kommuninvest franchise in lending and some of the continuing risks that it manages in what is likely to remain a low-margin sector. Interest income in 2008 rose to SEK152 million, an increase of 90% over the SEK80 million of 2007, driven by increased lending and higher prevailing margins for debt financing in general. The first six months of 2009 showed even stronger growth and pricing power. Interest income rose to SEK206.1 million, dwarfing the SEK36.4 million for the same period in 2008 and exceeding the full-year 2008 result.

Profits after appropriations and tax were SEK44.5 million in 2008, up almost 85% from SEK 24.1 million in 2007; and operating profit rose to SEK75.3 million from SEK30.7 million. Mid-year results for 2009 were similarly positive. Profits after appropriation and taxes was SEK23.3 million, compared to SEK2.2 million for the same period in 2008.

But within the positive bottom line outcomes, significant impacts of market volatility had to be managed. Total profits for 2008 benefited from an SEK41.3 million gain on the buyback of Kommuninvest's own securities, which offset SEK-2.7 million of unrealised losses on securities and SEK-25.8 million on the replacement of hedging contracts previously with Lehman Brothers. On 10 November 2008 Kommuninvest reclassified certain assets as loans and receivables from assets available for sale. Had this reclassification not been made, year-end equity for 2008 would be SEK-66.4 million lower² and, absent other measures, lower than 2007.

Mid-year 2009 results show continuing impacts of market volatility. Despite the strong net interest income gains, the SEK23.2 million result came after SEK69.8 million of gains from the buyback of outstanding securities and a reduction of SEK-176 million in market valuation passing through the income statement. The cause of the decline in value is from the higher spreads applied to the valuation of Kommuninvest's local government lending according to current accounting regulations. Kommuninvest's intention is to hold assets and liabilities to maturity, so that these values which will ultimately not be realised. Moody's does not view the credit quality of the Swedish local government sector as appreciably weakening, given its equalisation system, strong institutional ties with the central government, its good disclosure and prudent financial practices.

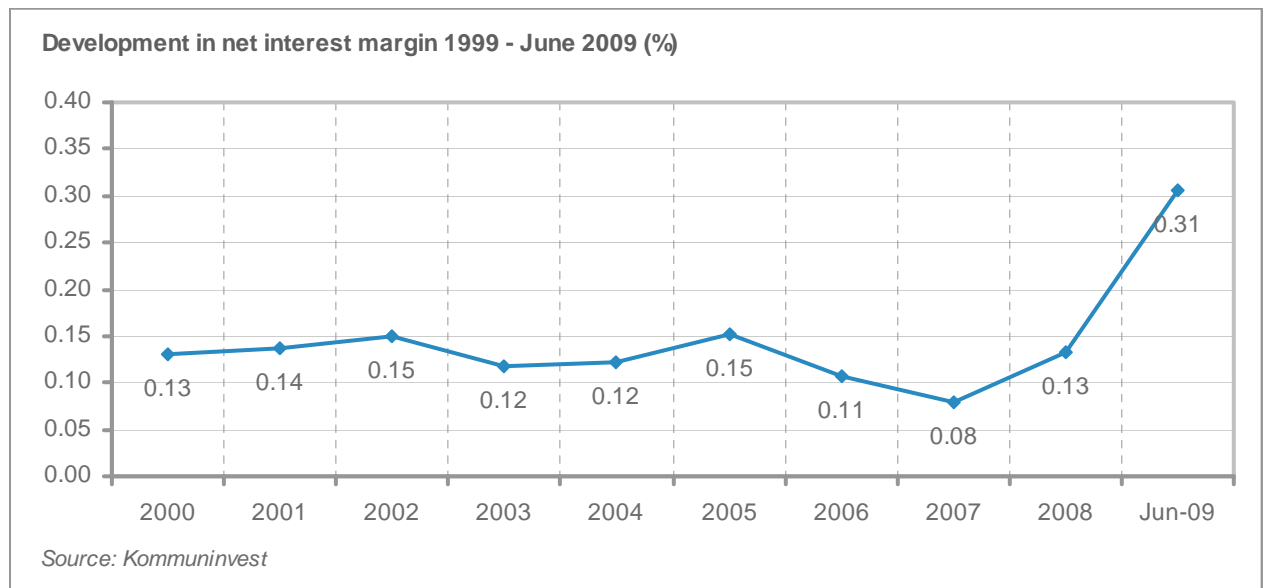
Despite these difficulties, Moody's views that Kommuninvest's equity has been sufficient to handle valuation stresses to date; see *Capital Adequacy*, below for plans to increase equity to accommodate further growth in lending and to provide additional capital margins for what is expected to be scalar increases in hedging and investments related to this growth.

In regards to its core business, Kommuninvest is beginning to enjoy a fortuitous combination of improved pricing power and dramatically expanding market share. As shown in exhibit 3, net interest margin has increased from a very low 8bps in 2007 to 13 bps in 2008 and 31 bps in the first 6 months of 2009. While the current level cannot be assumed to hold were markets to return to more 'normal' conditions, Kommuninvest aims to reset its long-term spread above the medium term average of 12bps. Moody's anticipates that Kommuninvest's market will continue to appear unattractive to commercial banks, which will be looking for higher profits to build up their own capital reserves.

² Annual report, page 42.

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Exhibit 2



Operating expenses remain proportionate to balance sheet

Administrative expenses have increased slightly in the last 5 years and reached SEK87.4 million in 2008 compared to SEK80.6 million in 2007. As a percentage of average assets, however, these expenses have remained proportionate within Kommuninvest's business, having fallen slightly, to approximately 0.07%, down from 0.08% in 2007.

Capital Adequacy

Low business risk underpins low capitalisation...

Kommuninvest's capitalisation has proven sufficient for challenges to date, given the low risk of its core lending business. It has been challenged, however, by turbulence in financial markets, such that risk management practices have been adjusted to dampen valuation changes. Kommuninvest has taken steps to reduce its market exposures, such that by the end of 2008 its Tier-1 capital ratio of 26.8% had risen substantially from the 15.0% at year-end 2007. The increase is to some degree attributed to the increase in equity from retained earnings and share capital. Of even greater benefit is Kommuninvest's change of strategy for its investment portfolio, in which Kommuninvest has decreased the risk of its liquidity investments, by shifting exposures to more non-0% risk weighted assets. Tier I for June 30 2009 is stable at 25.0%.

Total equity, including untaxed reserves, rose to SEK512.8 million at year end 2008 from SEK413.0 million at year-end 2007. In addition to 2008 profits retained for the year of SEK44.5 million, equity increased due to new members joining, who contributed SEK37.8 million, and by a change in fair value reserves of SEK15 million. In June 2009, equity amounted to SEK547.1 millions. These amounts are substantially greater than the largest market value adjustments to income or equity seen during peak market instabilities over the past year.

The Swedish FSA concluded in March 2008 that the then current capital levels were sufficient, and current levels have consistently exceeded levels from that time.

...but it may be challenging to sustain enough earnings to reach higher capital targets

The owners of Kommuninvest have stated that they intend to increase equity over time to 1.0% of the balance sheet total, compared to the current level of 0.35%. Kommuninvest's higher lending margins should lead to higher retained earnings. To achieve an increase of approximately SEK1 billion needed to meet the 1.0%

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target could nevertheless take several years, unless Kommuninvest produces multiples of its recent bottom line results. Moody's therefore continues to use Kommuninvest's current capital levels as its anchor for evaluating capital sufficiency.

In the face of ongoing global financial volatility and continued high demand from its borrowers, the low level of capital is a modest risk factor for the baseline credit assessment, and the plans for its increase are likely to take some time to realise, absent more contributions from its owners. Meanwhile, the trajectory of increasing lending (look ahead to exhibit 4) may still be steep, and may continue to place the equity ratios under pressure. Whilst the low levels of absolute equity could place pressure on Moody's evaluations of Kommuninvest's baseline credit assessment, Moody's views the strength of the members and the joint and several guarantee as fully compensating for these risks within the final rating.

Liquidity

Prudent management to meet lending needs

Kommuninvest has maintained liquidity margins in line with its longstanding internal guidelines throughout the global financial crisis, so that new lending could proceed whilst clients could maintain existing lines.

Kommuninvest projects all cash flows from its lending and investment activities with a forward looking, multi-month analysis. This analysis incorporates a working estimate of potential additional lending and excludes any cash benefit from calling in its short-term lending programmes. This analysis also includes the impact of the highly theoretical and conservative case of all calls on its own financing (approximately 5% of its borrowing) being exercised.

Traditionally, the securities portfolio has been treated as the dominant source of liquidity. In June 2009, Kommuninvest's securities portfolio totalled SEK24.1 billion, equal to 15.5% of total assets, (compared to SEK19.5 billion at year-end 2008, or 13.7%). Kommuninvest also had SEK3.3 billion in deposits, formally listed as loans to credit institutions, which it may access without restriction as part of its liquidity reserve (see below). Levels in both the past year and past six months were substantially below the roughly 30% ratio of liquid assets to average total assets seen from 2005 to 2007.

At these lower levels liquid assets provide coverage for approximately six months, down from the previous benchmark of 12. To compensate, Kommuninvest has set into place external liquidity arrangements equal to SEK 21 billion, roughly 13.5% of its balance sheet, and has qualified as a restricted monetary policy counterparty to the Swedish central bank, eligible to take part in some of the Riksbank's facilities.

Reduced market risk in securities portfolio creates some concentration risk in liquidity provision

Reducing the investment portfolio leads to an increase in concentration of liquidity risk to a single firm, which could limit its own operations under stress. Additionally, the arrangement could be vulnerable in the highly unlikely event of a cash-flow difficulty for Kommuninvest and where the highest rating of Kommuninvest is lost. Moody's believes that over the near- to mid-term, the current attitude of the Swedish central bank is to support liquidity throughout the financial system and implicitly to support this liquidity mechanism. These uncertainties could be eliminated by allowing Kommuninvest to offer its loans to local governments and guaranteed entities as collateral directly to the central bank, as do the Dutch specialised lenders NWB (Aaa, stable) and BNG (Aaa), or as a proxy for the risk of its borrowers finances, offer the security of the member's joint-and-several guarantee. These provisions have not been accepted to date, but remain under consideration.

A secondary concern within liquidity management is the new targeting mechanism for the size of the investment portfolio. Previously the size of the investment portfolio was conditioned the length of time that it would support normal lending and refinancing operations. The new mechanism sets a ratio of liquid assets against the balance sheet to 25%, plus the expected acceptance of outstanding lending offers in liquidity reserves. Other factors, such as increased callability in Kommuninvest's own financing no longer tie directly to the calculation of internal liquidity reserves.

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The expansion of authorisation of the commercial paper programme to €5.0 billion (approximately SEK50 billion, or approximately one third of the balance sheet) raises the profile of internal cash management and underscores the importance of managing this risk. The programme has been raised better to match Kommuninvest's funding costs to currently high demand for low-cost, short-term borrowing by its clients. As the short-term lending can only be called with rolling 60-days notice, the maturities of the CP programme can not be matched to cash inflows from the short-term lending programme.

Kommuninvest does not provide specific internal limits on the daily, weekly, or monthly profiles of its CP programme, and instead relies on its estimates of net cash flow. Whilst Moody's takes comfort from the tight scrutiny on ultimate cash flow, this approach offers fewer layers of control than would limitations on the exposures that could be created by the CP programme directly.

Prudent management of securities portfolio and liquidity reserve

Management of overall liquidity investments is prudent, with the securities portfolio held to a short average maturity of 0.89 years as of June 2009, against an internally set maximum of 5.5 years.

The Kommuninvest Board also requires a special liquidity reserve within the broader investment portfolio. The reserve is sized between 4% and 6% of the balance sheet, a range of SEK6.2 billion to SEK9.1 billion as of June 2009. This amount is to be deposited in bank accounts with immediate access or invested in securities that can be converted to liquid funds within two days. Previously referred to as a "backup facility", the liquidity reserve includes the bank loan noted above, and a portion of the government securities within the bond portfolio. These components are to ensure that the necessary funds are available at short notice for Kommuninvest to fulfil all of its obligations in principle over a rolling 30-day period. As of June 2008, the liquidity reserve amounted to SEK9.8 billion, slightly in excess of the target range.

Kommuninvest's members maintain their own liquidity (SEK23 billion, estimated as of year-end 2008) to meet their direct cash flow obligations to Kommuninvest and their joint-and-several obligations under the guarantee.

Governance and Management Factors

Efficiency is adequate

Since 2007 Kommuninvest's cost-to-income ratio has improved to 24.5% as of June 2009 and 53.8% as of year end 2008 from 72.4% at year end 2007. The improved ratio is mainly due to significantly increased revenues, whereas costs have increased only slightly, given the volume of lending.

For a not-for-profit entity such as Kommuninvest, Moody's also compares operating expenses to total assets, as this removes the volatility of earnings in the efficiency calculation. This ratio was 7bps in the first six months of 2009 as well as full year 2008 compared to 8bps in both 2007 and 2006, comparing well with that of similar entities, and it has crept below the steady range of 8-10bps since 1999.

As Kommuninvest does not have any branches, its cost base is substantially lower than that of the Swedish commercial banks. It has 45 full-time employees and despite its expanding role and increased risk management activities, expects to maintain a lean organisation going forward.

Co-operation with other Nordic lenders remains strong

For several years, Kommuninvest AS and Kommunalbanken AS of Norway have co-operated on administrative systems, in particular information technology under the jointly owned Administrative Solutions NLGFA AB (AS). Going forward, Kommuninvest, Kommunalbanken, Municipality Finance and KommuneKredit have agreed to co-operate on other areas of potential administrative efficiencies, with a view to finding cost efficiencies for their relatively small management operations. A quarterly working group has been established to exchange ideas and information, and resulting efforts will be voluntary.

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Asset Quality

Sound credit risk supported by well-diversified asset quality

As specified in its bylaws, Kommuninvest may only lend to local governments that are members of the Society or to entities guaranteed by such local governments. The main sources of revenues for local governments are income taxes, set independently by each government, fees and central government grants. There are no legal restrictions on local government borrowing other than meeting prudential guidelines; in practice borrowing is limited to capital expenditure.

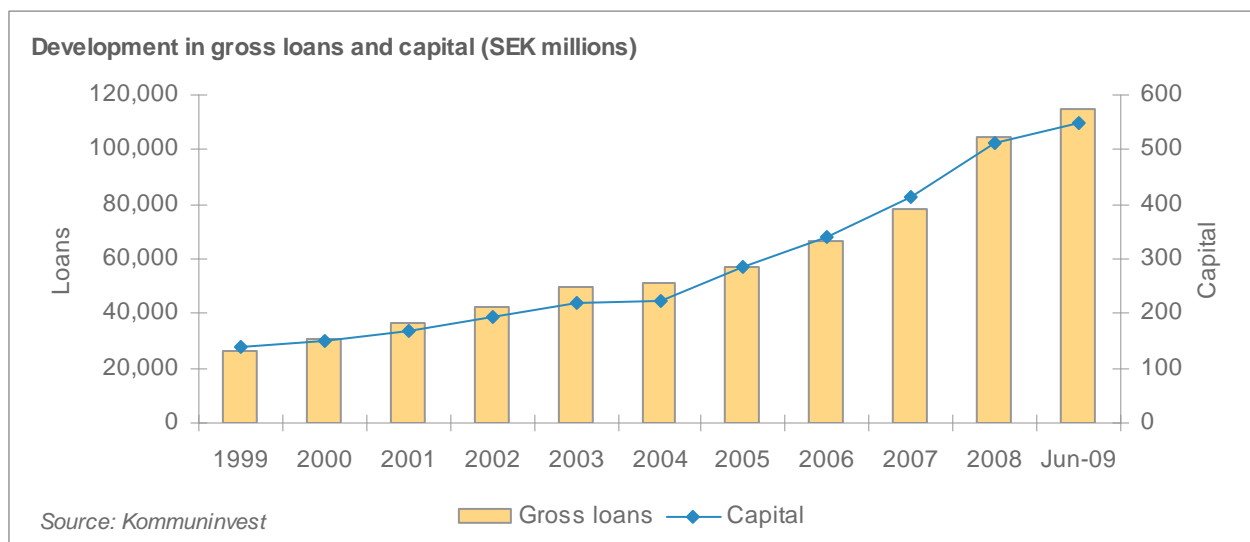
Moody's views the credit quality of the local government sector in Sweden to be of high. Sweden's equalisation system is strong, accounting standards are consistent and detailed and the oversight from the central government is thorough. The sector has historically benefited from a broad, consensus-based approach to allocating and funding responsibilities; and the central government has acted with a firm and stabilising hand in periods of financial difficulty. In the national budget of 9 September, the central government proposed SEK10 billion in additional funding to the sector, which Moody's sees as consistent within this history.

Moody's assesses that ongoing support and the potential for extraordinary support to the sector is very high. Kommuninvest has never sustained a loan loss.

Kommuninvest has strict methods for assessing and analysing applications for membership. Members' credit strengths and weaknesses are monitored at least twice a year. If the credit requirements are not met, Kommuninvest may expel a member – although this has not yet proved necessary, given the good controls and strong governance in the sector. Kommuninvest has direct access to the accounts of around 75% of its members so as to draw their payments. In addition, Moody's views positively Kommuninvest's ability to refuse to lend to a financially weak local authority.

Kommuninvest's outstanding loans totalled SEK114.7 billion in June 2009, an 9.6% increase from SEK104.7 billion in 2008, which itself was a substantial increase of 34.3% from year end 2006. Since year end 2006 lending has increased 70.4%, emphasising Kommuninvest's increased importance as a provider of loans to local governments in Sweden.

Exhibit 3



Around 43% of the portfolio consists of loans made directly to member municipalities and county councils, with the remainder comprising loans to guaranteed companies, of which municipal housing companies account for around 41% and other companies with municipal guarantees account for 16%.

In cases of privatisation, any outstanding loan must be repaid. This restriction is similar to that applied by other Nordic specialised lenders, but not by Dutch specialised lenders.

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Kommuninvest's credit management has been conservative and its total loan portfolio is well diversified, with the top 10 borrowers accounting for 27% of the loan portfolio as of May 2009 and the largest individual borrower accounting for approximately 4.1%. These levels are roughly comparable to those in prior years.

Policy sets counterparty ratings at high levels

Moody's monitors the quality of the liquidity portfolio for any potential impacts on overall operations and available liquidity. Kommuninvest only permits investments for the pre-financing portfolio in securities issued by governments, financial institutions with government guarantees and financial borrowers with risk weightings of 0% or 20%. As of March 2009, over 73% of investments were in Aaa and Aa level entities. Ratings can be no lower than the A level. Kommuninvest reports that it has no exposure to US sub-prime investments, nor does it have positions in CDOs or ABS.

The investments of the liquidity portfolio have now been increasingly designated as trading portfolio securities, and fewer as available for sale. Whilst in general the investments are expected to be held to maturity in the normal course of business operations, and are incorporated as such in Kommuninvest's cash management forecasts, they are highly liquid and available to allow continued normal operations during periods of market disruption. Any changes in the market value of the trading portfolio have a direct impact on the income statement and those held as available for sale adjust the changes in value attributable to available-for-sale-assets within the profit brought forward on the balance sheet, in line with IAS 39.

Derivative positions are regularly marked-to-market, and 50% are rated Aa or above. Kommuninvest employs credit support annexes (CSAs) with 14 counterparties, and is seeking to complete them eventually with all counterparties. These agreements give Kommuninvest the sole right to require extra collateral in the form of government securities under certain conditions, and thereby cover receivables under the contracts and permit further business with the relevant counterparties.

Risk Positioning

Governance

At its Annual Meeting, the Society appoints the eight members of the Board of Directors, its Chairman and Vice Chairman. It also appoints the Audit Committee, which has the power to institute audits in addition to the statutory audit.

The Board has final responsibility for the organisation and management of the company. It sets objectives and strategies for operation, responsibilities for managing risk (including market, liquidity, credit-related, counterparty and operational risks), objectives for capital coverage and liquidity reserves, and key internal reports to be produced by management so as to ensure that objectives are met.

The President of Kommuninvest is responsible for ensuring that the company's ongoing activities are within Board guidelines, for drawing up operating plans and budgets and for producing the annual accounts. The President is also required to provide monthly written reports to the Board and to supply information for Board decisions, as well as to inform the Board continually about regulatory structures, audit reports and other significant events.

The risk analysis department reports daily to the President and monthly to the Kommuninvest Board on market, liquidity, credit and counterparty risk.

Comprehensive asset-liability management

The Board of Kommuninvest has imposed prudent asset-liability management policies, stipulating comprehensive hedging and the requirement that liquidity investments and derivative contracts be diversified by counterparties and by country. Whilst these controls have not been able to eliminate substantial changes in market valuation, they have been comprehensive enough to produce surpluses over the now nearly two-and-a-half years of the financial crisis.

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Total interest-rate exposure is managed on a portfolio basis, and is limited to SEK10 million (equal to 1.8% of equity, as of June 2009), for up to three days produced by a 1% shift in the yield curve on its investment portfolio of SEK27.4 billion. All derivative contracts are required for hedging of the investment portfolio or to transfer risks directly to the local authorities as ultimate borrowers. The derivative positions are closely monitored and follow internal guidelines for credit exposure. Kommuninvest is not allowed to maintain open currency positions and foreign currency returns are converted into Swedish kronor. All lending is currently done in kronor.

The interest rate risk limit has been effective in controlling short-term market variations. Changes in market risk premiums for low risk assets, including 0% risk weighted loans and securities, have led to marked-to-market adjustments that substantially exceed the stated standard risk thresholds as covered by interest rates, currency exposure, counterparty limits, etc., which otherwise have been effective. Kommuninvest notes that it has natural hedges between the spreads on its main asset classes (loans to local governments and purchases of government and government related securities) and its liabilities as a government related issuer. Gains on the purchases of its own debt offset losses on the asset portfolio. Nevertheless, hedging for spread risks remains difficult to practice with precision and future changes in spreads used for valuing very secure loans and investment securities may affect future results.

The majority of Kommuninvest's loans are fully hedged for interest rate shifts and currency exposures. Any increase in the institution's funding cost for floating-rate loans is contractually covered by the local government through 10-day and 60-day mutual call/reset periods.

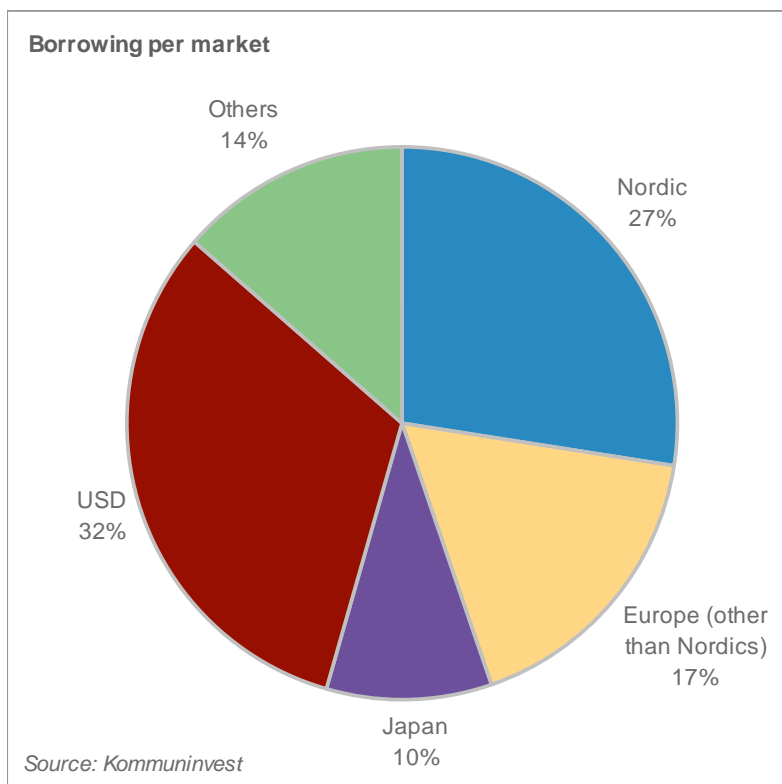
Market funding from diversified sources

Kommuninvest is totally dependent on market funding. Moody's views positively Kommuninvest's focus on diversifying funding sources by investor type, geographical region and type of instrument. In 2008, Kommuninvest raised most of its funding in Nordic or other European countries. Asia and, particularly, Japan remain key markets for a significant portion of its international funds.

Exhibit 4

Kommuninvest itself carries a zero risk-weighting according to BIS regulations, confirmed by the financial supervisory bodies in a number of European countries.

Kommuninvest's competitive advantage in the field of low-margin public-sector finance is its broad diversified funding structure, which provides it with the benefit of significant funding flexibility. Kommuninvest undertakes the vast bulk of its borrowing with 'plain-vanilla' structures. Like other specialised lenders, however, it may issue notes with more variable payments in response to specific demands of sophisticated investors, often in specific markets which may from time-to-time increase in importance to its overall funding activities. Such notes may be more variable in



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market valuation. Kommuninvest hedges its own exposures to such valuations³, and manages these instruments including any reputational impacts from such variable market valuation within its broader debt financing activities. We regard Kommuninvest's solid global recognition and reputation as a borrower is a major strength and essential to its future success. Therefore Kommuninvest must maintain a strategic priority to protect its standing in the market. In October of 2009 the city of Helsingborg and the Dunkers Donation fund filed suit against Kommuninvest regarding the performance of a structured note issued by Kommuninvest in 2004. Kommuninvest notes that it provides normal disclosures on market risks and that investors, including the parties noted above, signed documents acknowledging their review of the disclosure. Whilst Kommuninvest believes the suits have no merit, the SEK82 million claimed underscores the importance of managing reputation risk within Kommuninvest's market position and branding as the 'debt office for local government.'

Operational risk management adequate

Operational risks are continually under review. Since Kommuninvest is a small monoline organisation, it has standardised most of its procedures and loan agreements to reduce risk and promote efficiency. Personnel are trained to take over other tasks should the need arise, and no single person manages a transaction alone; usually, three people from different departments are involved in the business flow. In order to provide more robust IT systems and to reduce costs, Kommuninvest and its Norwegian counterpart Kommunalbanken have undertaken a joint venture which has also resulted in a reduced dependence on key persons (see *Co-operation with other Nordic lenders*, below).

As of 2007, Kommuninvest has implemented capital assessments under Basel II in its overall capital risk management.

Rating History

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Date	Rating	
19-Jun-95	Aa3	Rating Assigned
04-Jun-98	Aa2	Rating Raised
24-Aug-99	Aa1	Rating Raised
11-Apr-02	Aaa	Rating Raised

³ Hedging still incurs counter-party risk. See Asset Quality for discussion of such risk.

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Annual Statistics

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Summary Balance Sheet (SEK million)	6 months 2009 ⁴	31/12/08	31/12/07	31/12/06	31/12/05	31/12/04
Cash & central bank	0	0	0	0	0	0
Due from banks	3,319	2,440	2,514	2,703	3,110	1,705
Securities	24,122	19,512	23,348	27,943	28,636	13,893
Gross loans	114,740	104,658	77,938	67,344	56,738	51,115
Loan loss reserves (LLR)	0	0	0	0	0	0
Insurance assets	0	0	0	0	0	0
Fixed assets	4	4	3	3	3	4
Other assets	13,794	16,124	6,115	4,545	2,661	1,267
Total assets	155,980	142,738	109,918	102,538	91,148	67,984
Total assets (USD million) [1]	20,290	18,969	17,182	14,925	11,453	10,292
Demand deposits	0	0	0	0	0	0
Savings deposits [2]	0	0	0	0	0	0
Due to banks	4,522	5,390	4,627	3,618	3,425	1,801
Market funds	141,397	126,106	93,561	88,212	84,738	64,682
Insurance liabilities	0	0	0	0	0	0
Other liabilities	9,514	10,729	11,316	10,367	2,699	1,276
Total liabilities	155,432	142,225	109,505	102,198	90,862	67,759
Subordinated debt	0	0	0	0	0	0
Shareholders' equity	547.1	512.8	413.0	340.2	287	225
Total capital funds	547	513	413	340	287	225
Total liabilities & capital funds	155,980	142,738	109,918	102,538	91,148	67,984
Derivatives - notional amount	--	237,351	198,606	169,733	162,442	121,747
Derivatives - replacement value	--	--	2,133	8,368	7,559	3,399
Contingent liabilities	--	--	514	1,185	620	2,113
Risk weighted assets (RWA)	1,528	1,516	2,714	1,569	1,618	1,334
Assets under management (SEK million) [3]	--	--	--	--	--	--
Number of employees	45	41	37	38	35	34

⁴ Six-month results do not provide full analysis of risk-weighted assets or same level of detail within its notes as do the annual reports.

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Kommuninvest i Sverige Aktiebolag						
Summary Balance Sheet (SEK million)	6 months 2009 ⁴	31/12/08	31/12/07	31/12/06	31/12/05	31/12/04
Summary Income Statement						
+Interest income	1,879	4,727	3,793	3,216	2,477	2,125
-Interest expense	1,673	4,575	3,713	3,116	2,360	2,047
=Net interest income	206	152	80	100	118	78
+Trading income	0	0	0	0	0	0
+Fees & commissions	-2	-4	-3	-4	-4	-3
+Insurance income (net)	0	0	0	0	0	0
+Other operating income	-104	14	35	14	4	2
=Operating income	100	162	111	110	118	77
-Personnel expenses	0	44	36	33	31	27
-Other operating expenses	49	41	42	45	29	27
= Operating funds flow	51	77	32	32	58	23
-Amortisation/depreciation	1	2	2	2	2	2
<i>(Total operating expenses)</i>	50	87	81	80	62	55
=Preprovision income (PPI)	50	75	31	30	56	22
-Loan loss provisions (LLP)	0	0	0	0	0	0
+Other non operating adjustments [4]	1	-12	1	-4	-12	-3
+Extraordinary profit / loss	0	0	0	0	0	0
=Pretax income	51	63	31	26	44	19
-Taxes	29	19	7	8	13	6
=Net income	23	44	24	18	32	14
-Minority interests	0	0	0	0	0	0
=Net income (group share)	23	44	24	18	32	14
Growth Rates (%)						
Gross loans	72	34	16	19	11	3
Total assets	48	30	7	12	34	10
Customer deposits (demand and savings)	--	--	--	--	--	--
Net interest income	466	91	-21	-15	50	20
Fee and commission income	--	--	--	--	--	--
Operating expenses	26	8	0	30	11	2
Preprovision income	3,581	144	4	-47	157	45
Net Income	959	83	35	-43	133	29

Kommuninvest i Sverige Aktiebolag

Kommuninvest i Sverige Aktiebolag						
Summary Balance Sheet (SEK million)	6 months 2009 ⁴	31/12/08	31/12/07	31/12/06	31/12/05	31/12/04
Income Statement in % Average Risk Weighted Assets						
Net interest income	14	7	4	6	8	6
Trading income	0	0	0	0	0	0
Fee and commission income	0	0	0	0	0	0
Insurance income	0	0	0	0	0	0
Operating income	7	8	5	7	8	6
Operating expenses	3	4	4	5	4	4
Preprovision income	3	4	1	2	4	2
Loan loss provisions	0	0	0	0	0	0
Extraordinary profit	0	0	0	0	0	0
Net income	1	2	1	1	2	1
Liquidity, Funding & Balance Sheet Composition						
Avg. liquid assets % avg. total assets	17	19	27	32	30	21
Avg. gross loans % avg. total assets	73	72	68	64	68	77
Avg. customer deposits % avg. total funding	0	0	0	0	0	0
Avg. interbank funds % avg. total funding	4	4	4	4	3	3
Avg. market funds (excl. interbank) % avg. total funding	96	96	96	96	97	97
Avg. sub debt % total funding	0	0	0	0	0	0
Avg. liquid assets % avg. customer deposits	--	--	--	--	--	--
Avg. gross loans % avg. customer deposits	--	--	--	--	--	--
Avg. market funds reliance [5]	91	93	86	89	95	95
Avg. RWA % avg. total assets	1	2	2	2	2	2
Breakdown of Operating Income in %						
Net interest income % operating income	101	94	72	91	100	102
Trading income % operating income	0	0	0	0	0	0
Fees & commissions % operating income	-1	-2	-3	-4	-3	-4
Insurance income % operating income	0	0	0	0	0	0
Other operating income % operating income	0	9	31	12	3	2

Kommuninvest i Sverige Aktiebolag

Kommuninvest i Sverige Aktiebolag						
Summary Balance Sheet (SEK million)	6 months 2009 ⁴	31/12/08	31/12/07	31/12/06	31/12/05	31/12/04
Profitability						
Yield on avg. earning assets (%)	3	4	4	3	3	3
Cost of interest bearing liabilities (%)	2	4	4	3	3	3
Net interest margin (%)	0.3	0.1	0.1	0.1	0.1	0.1
Recurring earning power (PPI % avg. assets)	0	0	0	0	0	0
Risk-weighted recurring earning power (PPI % avg. RWA)	3	4	1	2	4	2
Return on average assets (%)	0	0	0	0	0	0
Return on avg. RWA (%)	1	2	1	1	2	1
Return on equity (period end) (%)	9	9	6	5	11	6
Net interest income coverage of loan loss provisions	--	--	--	--	--	--
Loan loss provisions % preprovision income	0	0	0	0	0	0
Internal capital growth (%)	6	11	7	6	14	6
Dividend payout ratio (%)	0	0	0	0	0	0
Efficiency						
Cost/income ratio (operating expenses % operating income)	24.5	53.8	72.4	73.1	52.4	71.8
Operating expenses % average assets	0.07	0.07	0.08	0.08	0.08	0.09
Operating income / employee (SEK thousand)	4,551	3,961	3,007	2,890	3,359	2,270
Operating expenses / employee (SEK thousand)	1,116	2,131	2,177	2,113	1,760	1,629
PPI / employee (SEK thousand)	3,436	1,829	830	776	1,599	641
Total assets / employee (SEK million)	3,466	3,481	2,971	2,698	2,604	2,000
Asset Quality						
Problem loans % gross loans	--	--	--	--	--	--
LLR % problem loans	--	--	--	--	--	--
LLR % gross loans	--	--	--	--	--	--
Loan loss provisions % gross loans	--	--	--	--	--	--
Problem loans % (shareholders' equity + LLR)	--	--	--	--	--	--
Replacement value % shareholder's equity	--	--	517	2,460	2,634	1,508

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Kommuninvest i Sverige Aktiebolag						
Summary Balance Sheet (SEK million)	6 months 2009 ⁴	31/12/08	31/12/07	31/12/06	31/12/05	31/12/04
Capital Adequacy (Period End)						
Tier 1 ratio (%)	25.0	26.8	15.0	18.8	17.1	16.4
Total capital BIS ratio (%)	25.0	26.8	--	--	--	--
Shareholders' equity % total assets	0.35	0.36	0.38	0.33	0.31	0.33
Equity participations % shareholders' equity	0	0	0	0	0	0

[1] USD figure uses historical exchange rate against the SEK.

[2] Full disclosure may not be available for all years. The amount is then included in "demand deposits".

[3] As reported by the bank

[4] This may include value adjustments of securities.

[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]

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Moody's Related Research

Banking System Outlook:

- Sweden, March 2009 (114764)

Banking Statistical Supplement:

- Sweden, July 2009 (119136)

Special Comment:

- Specialised Lenders to Nordic Local Governments, August 2006, (98800)
- Government Related Issuers: May 2007 Update, March 2005 (102945)
- Rating Impact of 'GRI' Methodology for Non Depository Financial Institutions in the EMEA Region, June 2005 (93349)

Analysis:

- Sweden, Government of, 5 December 2008 (112502)

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Kommuninvest i Sverige Aktiebolag

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Authors

Thomas Amenta
Mattias Frithiof

Production Associate

Sarah Warburton

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