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Kommuninvest i Sverige AB

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Kommuninvest i Sverige AB

Major Ratings Factors

Strengths

- A joint and several guarantee with direct liability signed by all members
- Very strong asset quality in lending and investments with lending exposures only to the Swedish local and regional government sector
- Strong liquidity
- Very prudent matching principles that minimize risk
- Strong market position and improving profitability

Weaknesses

- Thin capitalisation that is expected to improve
- 100% sector concentration and fairly high, although diminishing, concentration on individual local and regional governments in the lending portfolio
- High unsecured derivative exposures to certain financial institutions

Issuer Credit Rating

AAA/Stable/A-1+

Nordic National Scale Rating

--/--/K-1

Rationale

The ratings on Sweden-based local government funding agency Kommuninvest i Sverige AB reflect its extremely solid guarantee structure, very strong asset quality, strong liquidity, very prudent matching principles, strong market position, and improving profitability. The ratings also factor in fairly thin capitalisation that is expected to improve, fairly high, although diminishing, concentration in the company's lending portfolio, and high unsecured derivative exposures to certain counterparty banks.

Kommuninvest is a membership organization open to Swedish local and regional governments (LRGs). Since operations started in 1986, the company has experienced continuous growth and in May 2009 had a membership penetration of 80% of municipalities (up from 73% a year before) and 35% of county councils.

All members of Kommuninvest's owner, Kommuninvest Cooperative Society, have to sign a joint and several guarantee with direct liability to cover the company's obligations. This is a very strong type of guarantee, which should be timely because no court decision or board decision by the guarantor is needed for payment to be made. Standard & Poor's Ratings Services has in previous reports recognized that Kommuninvest's articles of association could be clarified regarding members' liability after a possible exit from the Cooperative Society. At the 2008 annual meeting of the Cooperative Society it was unanimously decided to clarify the statutes on this issue. All member approvals have now been received, which indicates a further strengthening of the structure.

In general terms, Kommuninvest has withstood the recent financial downturn well and was able to find financing even in the most uncertain period in the second half of 2008. Furthermore, Kommuninvest has witnessed a rapid increase in lending (lending stood at Swedish krona (SEK) 107.7 billion at March 30, 2009 compared with SEK77.9 at year-end 2007) at the same time as profitability has improved (the net interest margin-to-average earning assets ratio was 0.13% at year-end 2008, up from 0.08% at year-end 2007). On a negative note, the company realized a minor derivative counterparty loss on Lehman Brothers, but otherwise the company's prudent risk management has

prevented losses and facilitated strong lending growth. The company has large significant unsecured swap exposures to certain financial institutions, which it is seeking to reduce.

Kommuninvest's assets and lending exposures are of very high quality. The company lends only to its members, which are Swedish municipalities and counties, or their majority-owned companies backed by municipal guarantees. The creditworthiness of the Swedish local government sector is high (the average credit quality of Swedish local governments rated by Standard & Poor's is 'AA+'), and consequently Kommuninvest has never experienced a credit loss. The company has a relatively high concentration in its lending portfolio. Concentration has, however, fallen in recent years, and is likely to continue to decline, in line with projected membership growth.

Kommuninvest also has very prudent matching principles. Interest rate positions and currency exposures are systematically hedged, eliminating interest rate and currency risk.

The company has a strong liquidity position with a policy of holding a primary liquidity reserves in the range of 4%-6% of total assets, and other highly liquid pre-funding that should cover at least 12 months' lending needs. In April 2009, Kommuninvest had a primary liquidity reserve of SEK7.2 billion and other highly liquid pre-funding of SEK30 billion. This corresponds to 35% of lending (44% in April 2009). The company also has extensive bank facilities, however, corresponding to a high SEK21 billion.

The company operates with a low capital base (adjusted total equity at 0.43% of customer loans at year-end 2008), although this is mitigated by its low-risk assets, strong liquidity position, and prudent asset-liability management. Furthermore it plans, through a combination of measures (such as temporarily higher margins, rights issue and subordinated debt), to increase its capitalization ratio over the coming years.

An inquiry report on future changes in the Swedish public housing sector presented in April 2008 suggested that Kommuninvest's lending to public housing companies backed with a municipal guarantee, which currently comprises 41% of total lending, should be terminated. We will monitor developments regarding this proposal and assess its implications for the rating.

Liquidity

Kommuninvest aims to maintain ample liquidity resources to cover most likely scenarios. According to a board decision, the primary liquidity reserve should be kept at between 4%-6% of total assets. The reserve is earmarked for use only if there is no other liquidity to fulfill an obligation. In April 2009, the company's primary liquidity reserve amounted to SEK7.2 billion (5% of assets). In addition, the company has a policy stating that other liquidity (i.e. not including the primary liquidity reserve) should cover 12 months' liquidity needs (including estimated lending). For this purpose, Kommuninvest had excess pre-funded liquidity and liquid funds of a further SEK30 billion in April 2009 (about eight months' liquidity needs). The fact that pre-funded liquidity is currently below the 12-month target is mitigated by access to extensive bank facilities corresponding to SEK21 billion.

Outlook

The stable outlook factors in our expectation that the company's guarantee structure and organizational structure will remain solid. We also expect Kommuninvest to keep a healthy liquidity position and gradually improve its capitalization in the medium term.

The ratings could come under pressure if the company's liquidity position were to weaken significantly, if the capital

base were to decline, or if the guarantee structure and organizational structure were to change. Signs of weakened asset quality in lending or investments could also have a negative rating impact. Furthermore, changes in lending or asset-liability policies could put the ratings under pressure.

Standard & Poor's will monitor the development with regard to the report on future changes in the Swedish public housing sector and assess its potential implications for the rating on Kommuninvest. We will also monitor any litigation claims that arise.

Comparative Analysis

All four of the Nordic municipal funding vehicles that Standard & Poor's rates have strong credit profiles (see "Strong Liquidity Eases Funding Pressure On European Public Sector Financing Organizations", published on Oct. 29, 2008, and "Nordic Municipal Funding Vehicles Cement Their Strong Market Positions", published on May 24, 2007 on RatingsDirect). Kommunalbanken receives support from its 100% owner, the central government. In the case of Finland-based Municipality Finance PLC (AAA/Stable/A-1+), the municipalities that own the entity are jointly liable for its liabilities on a pro rata scale via Finland's Municipal Guarantee Board (AAA/Stable/A-1+), which provides a last-resort guarantee.

Kommuninvest has the weakest capitalization ratios of the four which could pose slightly higher risk and constrain growth. However, as with Kommunalbanken and Municipality Finance, Kommuninvest aims to increase its capitalization ratios.

All Nordic agencies enjoy similarly high asset quality and dominate lending to municipalities in their respective countries.

Table 1

Peer Comparison				
2008				
	Kommuninvest i Sverige AB	KBN Kommunalbanken Norway	Municipality Finance PLC*	KommuneKredit*
Issuer credit rating	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Country	Sweden	Norway	Finland	Denmark
Sovereign credit rating	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Established	1986	1926	1989/1993	1898
Guarantee structure	Joint and several guarantee from local and regional governments	Letter of support from Kingdom of Norway	Municipalities on a joint basis through the Municipal Guarantee Board	Joint and several guarantee from local and regional governments
Market share	~35	45%	~50	>80%
Competition	Limited	Limited	Limited	Very limited
Adj. equity/adj. assets (%)	0.32	1.32	0.9	3.33
Adj. equity/customer loans (%)	0.43	2.35	1.37	4.33
Defaults	none	none	none	none

*2007

Business Profile

Kommuninvest is a nonprofit local government funding agency that aims to provide low-cost funding for its members, which consist of municipalities and counties, and to their majority-owned companies. Kommuninvest borrows on the market and onlends to its members.

Kommuninvest started operations with 12 members in 1986 as a regional project for inter-municipal financing cooperation in the County of Örebro. Membership was opened to all Swedish municipalities and counties in 1993, and the company has experienced very rapid growth since. In June 2009, Kommuninvest had 238 members (218 in June 2008), which accounts for more than 80% of Swedish municipalities, and 35% of Swedish counties are members. By 2015, Kommuninvest expects to have more or less all 310 Swedish LRGs as members and total lending of SEK175 billion (SEK107.7 billion as at March 30, 2009). At year-end 2008, Kommuninvest managed 58% of its members' total outstanding debt (46% in 2007). Typically the company has enjoyed a comparative advantage due to its access to cheap funding and nonprofit-oriented mark-up, and the acceptance rate of tenders received is generally high.

A report on future changes in the Swedish public housing sector presented in April 2008 suggested that Kommuninvest's lending operations to public housing companies with a municipal guarantee should be terminated. The reason for this is that the housing companies should not, even if they pay a guarantee fee to their owners reflecting risk reduction and a premium for lower capital requirement, benefit from unlawful state support in the form of Kommuninvest's low yield requirement as it is a non-profit organization. The report is currently being circulated for consultation and possible legislative changes will come into force in 2010 at the earliest.

If public housing companies were prohibited from taking loans from Kommuninvest, it could, all other things equal, have a negative impact on Kommuninvest's lending size. In theory this could be a significant reduction, as housing company funding currently comprises 41% of Kommuninvest's lending. We believe, however, that the decline in such a scenario would not be that significant as many, although not all, housing companies would switch their funding strategy to fund themselves through their owners (the municipalities), which in turn could continue to secure funding from Kommuninvest. Nevertheless, we will monitor any developments and assess their implications for the rating on Kommuninvest. For further information on the inquiry report and possible future changes for Swedish public housing companies, see "Swedish Public Housing Set For Structural Reform", published June 4, 2008, on RatingsDirect.)

Ownership And Legal Status

Kommuninvest is owned by Kommuninvest Cooperative Society (Kommuninvest ekonomisk förening). In June 2009, the Cooperative Society had 238 members (231 municipalities and seven county councils). The board of the Cooperative Society decides on strategic issues as well as ownership and on membership applications, but is not involved in day-to-day operations.

Kommuninvest was set up as a cooperative association, as this structure best accommodated the company's orientation and strategy as a nonprofit organization operating within the Municipal Act. Every member has one vote and new members can join relatively easily compared with a limited liability company.

All members of Kommuninvest have to sign a joint and several guarantee to cover the company's obligations. This is

a very strong type of guarantee, which should be timely, since no court decision or board decision by the guarantor is needed for payment to be made.

To assign ultimate responsibility among the members, there is a pro rata right of recourse agreement, which reduces the ultimate responsibility of a member to its own share of any loan on which Kommuninvest defaults.

We have in previous reports recognized that Kommuninvest's articles of association could be clarified regarding members' liability after a possible exit from the Cooperative Society, although we believe that members would not question their obligations in such a scenario. At the 2008 annual meeting of the Cooperative Society, it was decided to clarify the statutes on this. However as all members were not present at the annual meeting, the proposal was sent for formal approval to members that were not present. All approvals have now been received, which indicates a further strengthening of the structure.

In accordance with its articles of association, Kommuninvest operates within the Municipal Act. The Supreme Administrative Court (Regeringsrätten) has confirmed that the nature of Kommuninvest's operations and guarantee structure are consistent with the Swedish Municipal Law (Kommunallagen). The European Commission has also stated that Kommuninvest's operations are consistent with EU state aid and competition rules, as long as the company does not engage in competitive activities, which means lending to entities other than its members.

Since 1995, Kommuninvest has had the legal status of a credit market company and has been subject to supervision by the Swedish financial services authority, Finansinspektionen.

Kommuninvest has been given a zero-risk weighting by Finansinspektionen, and this has also been acknowledged by financial services authorities in a number of other European countries.

Strategy

Kommuninvest's aim is to become a municipal debt office for the entire LRG sector in Sweden. In terms of membership expansion, Kommuninvest aims to include 80% of all municipalities and 50% of all counties as members by 2010, which, if membership growth continues at the current pace, would be a realistic target. Kommuninvest also endeavors to provide 50% of the total credit to its members, including majority state-owned corporations. The company aims to represent the entire LRG sector by 2015.

A key consideration for Kommuninvest is to operate within the Municipal Act and to ensure that lending is provided only to members and their majority-owned companies that operate within municipal competence and comply with the balanced budget requirement.

As the Municipal Act prohibits speculative and high-risk activities, Kommuninvest aims to minimize its risk exposure through perfect matching of assets and liabilities. Risk management is by using derivative contracts, and practically all exchange rate and interest rate risks are hedged.

Overall, the company has careful risk policies and strategies, decided by the board in place for both lending and funding operations. Kommuninvest also applies the principle of duality, which means having at least two persons to sign a transaction to minimize the risk of fraud and errors. Management is competent, with both risk management and risk control treated as top priorities.

Asset Quality

Kommuninvest had total assets of SEK142.7 billion at year-end 2008 (SEK 109.9 billion in 2007), of which SEK104.7 billion was lending to members (SEK77.9 billion in 2007). Asset quality is very high, and Kommuninvest has never experienced any credit loss, although marginal technical delays have been experienced in a few cases. Lending is provided only to members and only for purposes that fall within municipal competence.

Applicant municipalities or county councils are screened before being offered membership, and Kommuninvest can refuse membership. The company monitors members twice-yearly. Kommuninvest has different types of lending restrictions that can be put in place for members which show negative financial trends. As Kommuninvest is gradually becoming an increasingly large part of the Swedish LRG sector, however, the company is expected to change its membership screening procedure such that it focuses more on aspects such as regulatory compliance with LRG sector regulations, and relies to a lesser extent on performing traditional credit analysis.

Individual ceilings for overall lending, covering debt, pension liabilities, and guarantees to other parties than Kommuninvest are set for each member. As long as members' debts remain within these ceilings, approval of loans is fairly automatic.

Kommuninvest continues to have a somewhat high concentration in its loan portfolio, with lending to the 10 largest borrowers representing about 27% of total lending as at April 2009, slightly down from 28% a year earlier. This figure has fallen in recent years, and we expect concentration to continue to decrease, in line with continued membership penetration. Overall, the largest borrowers are LRGs with healthy operating margins and reasonable debt.

Swedish Local Government Sector

Swedish LRGs have, by international standards, a very high degree of autonomy and unrestricted taxation rights. Moreover, there is a very far-reaching financial equalization system across the local government sector. Although there is no formal guarantee, the state has ultimate responsibility for the overall sector. The central government monitors the LRGs' financial position and development and has a number of instruments for supporting individual LRGs in financial difficulties. This system has been proven over the years and no LRG has ever defaulted. (For more information on the Swedish LRG sector see "Report Card: Sweden's Sharp Economic Slowdown Will Test Local And Regional Governments' Credit Strengths", published March 16, 2009, "Swedish Public Housing Set For Structural Reform", published June 4, 2008, and "Credit Strengths Of Swedish Subsovereigns Set To Support Potential Public Sector Reform", published March 26, 2007, all on RatingsDirect.)

Profitability And Liquidity

As a nonprofit organization, Kommuninvest has a traditionally low profit level, which is in line with the other Nordic municipal funding agencies. In 2008, however, pretax profit amounted to SEK75 million, significantly up from SEK31 million in 2007, due to higher increased credit volumes and higher margins. The net interest margin-to-average earning assets ratio improved to 0.13% from 0.08% in 2007.

Kommuninvest aims to maintain ample liquidity resources to cover most likely scenarios. According to a board

decision, the primary liquidity reserve should be kept at between 4%-6% of total assets. The reserve is earmarked for use only if there is no other liquidity to fulfill an obligation. In April 2009, the company's primary liquidity reserve amounted to SEK7.2 billion (5% of assets). In addition, the company has a policy stating that other liquidity (i.e. not including the primary liquidity reserve) should cover 12 months' liquidity needs (including estimated lending). For this purpose, Kommuninvest had excess pre-funded liquidity and liquid funds of a further SEK30 billion in April 2009 (about eight months' liquidity needs). In other words, in April 2008, Kommuninvest had total liquidity, primary liquidity reserves, and excess pre-funded liquidity of SEK 37.2 billion, or 35% of lending (44% in April 2009) or about 10 months' liquidity needs. The fact that pre-funded liquidity is currently below the 12-month target is mitigated by access to extensive bank facilities corresponding to SEK21 billion. Kommuninvest is actively developing its liquidity access and reviewing its policies on liquidity coverage.

Pre-financing is placed in highly rated securities, and primarily in highly liquid treasury bonds. Kommuninvest is only allowed to invest its pre-financing in 0% or 20% risk-weighted securities. Only European states with a rating of 'AAA', and parties guaranteed by any of these, are allowed as counterparties without a particular decision. Furthermore, due to Kommuninvest's relatively low capital base, a large share of pre-financing is invested in 0% risk paper. As at April 2009, 71% of the company's liquidity was invested in securities rated 'AA-' or above (79% a year earlier) and 29% in 'A' rated securities (21% a year earlier).

Asset-Liability Management

Overall, Kommuninvest has very prudent asset-liability management, with the necessary policies, instructions, delegations, and limits in place.

The company aims to have a highly-diverse funding portfolio in terms of investor community, loan instruments, and geographic diversity. Kommuninvest raises funds on the Swedish and international capital markets, primarily through bonds and structured bond loans with maturities of 2-25 years. Bonds are mainly issued via a €15 billion euro medium-term note program and a €3 billion euro commercial paper program.

Kommuninvest has a policy of entering established markets, being a well-known and reliable partner, and building long-term relationships. As a consequence, the company has very high geographic concentration in Europe and Japan in its funding portfolio, with particularly high shares in Japan and Sweden. If liquidity in these markets were to weaken, Kommuninvest would, however, have easy access to the global capital markets within its existing loan programs, for example in Canada and Australia, which the company could enter promptly. In the future, with increased lending size, Kommuninvest is likely to enter the U.S., which up to now has been considered a country where cost-effective funding could be difficult.

Table 2

Kommuninvest i Sverige AB Funding By Geographic Markets, December 2008 (%)	
Sweden	30
Rest of Europe	38
Japan	12
Rest of Asia	17
U.S. Offshore	3

Given the increased scale of Kommuninvest's lending, the company performs portfolio-based matching rather than

loan-to-loan matching. Interest rate positions and currency exposures are systematically hedged, eliminating interest rate and currency risks. The derivative instruments most often used are currency- and interest-related swap agreements. In these derivative contracts, rights and obligations are legally transferred to the ultimate borrower--namely the member LRGs and their majority-owned corporations. For certain portfolios, a minimum risk exposure is allowed. This is, however, limited to a maximum of SEK10 million, given a one percentage point parallel shift in the yield curve.

Kommuninvest accepts only highly rated counterparties, and the board has issued limits for exposure to any single counterparty.

The company has an International Swaps and Derivatives Association Master Agreement for all derivative instruments. These agreements entail a right to early redemption if the credit ratings on the counterparty were to deteriorate below a certain predetermined level. Furthermore, the agreements allow netting of positive and negative exposures. Kommuninvest is increasingly using Credit Support Annex agreements. Given the company's joint and several guarantee, these agreements are unilateral and only the other party has to provide collateral.

As a consequence of the recent financial downturn and severe problems in the banking sector, many of Kommuninvest's former counterparties have been downgraded and are no longer eligible to act a such. To some extent this has led to higher concentrations. Kommuninvest currently has significant exposure to unsecured swaps with certain financial institutions, that it is seeking to reduce.

In the second half of of 2008, Kommuninvest experienced a loss of SEK25.8 million attributable to the replacement of derivative contracts following the bankruptcy of Lehman Holdings Inc. and related companies in the Lehman Brothers group. Kommuninvest had collateral agreements in place and it was not in violation of counterparty limits. What generated the loss, however, was the fact that collateral was collected only on a monthly basis. Based on this experience Kommuninvest has tightened up its administrative routines which, among other things, now comprise collection of collateral on a weekly basis.

Capitalization

Kommuninvest's members have decided to operate the company with a thin capital base since they believe that the strong guarantee structure provides sufficient surety for bond investors. Kommuninvest's capital base is weak, with a capital base-to-customer loans ratio of 0.43% at year-end 2008 (0.48% a year earlier). Heightened by the recent financial downturn, there is a general trend of higher capitalization requirements in the financial industry. Kommuninvest acknowledges this and plans to increase it capitalization over the next few years through measures such as temporarily higher margins, a rights issue, and subordinated debt. Consequently we expect the capital base-to-customer loans ratio to gradually approach 1%.

The company's risk-weighted Tier 1 capital ratio was 26.8% at year-end 2008 (14.9% a year earlier), significantly higher than the minimum regulatory requirement of 4%, and above Kommuninvest's internal target of 15%.

Given its small size, the company's equity would not provide a good buffer if one of the larger borrowers or counterparty banks in the derivative agreements were to default. Accordingly, we view Kommuninvest's efforts to gradually increase its capitalization as positive. That said, limited capital for this type of entity is common, and is partly compensated for by liquidity arrangements that provide additional flexibility until funds arrive through

calling on the joint and several guarantee.

Table 3

Balance Sheet Statistics										
(Mil. SEK)	--Year ended Dec. 31--					Breakdown as a % of assets (adj.)				
	2008*	2007	2006	2005	2004	2008*	2007	2006	2005	2004
Assets										
Cash and money market instruments	2,440	2,514	2,681	3,110	1,705	1.71	2.29	2.65	3.41	2.51
Securities	19,511	23,348	27,917	28,636	13,893	13.67	21.24	27.59	31.42	20.44
Nontrading securities	19,511	23,348	27,917	28,636	13,893	13.67	21.24	27.59	31.42	20.44
Customer loans (gross)	104,658	77,938	66,812	56,738	51,115	73.32	70.91	66.04	62.25	75.19
Public sector/government	104,658	77,938	66,812	56,738	51,115	73.32	70.91	66.04	62.25	75.19
Customer loans (net)	104,658	77,938	66,812	56,738	51,115	73.32	70.91	66.04	62.25	75.19
Earning assets	126,609	103,799	97,410	88,484	66,714	88.70	94.43	96.28	97.08	98.13
Equity interests/participations (nonfinancial)	1	N.A.	N.A.	N.A.	N.A.	0.00	N.A.	N.A.	N.A.	N.A.
Fixed assets	4	3	3	3	4	0.00	0.00	0.00	0.00	0.01
Derivatives credit amount	16,094	5,864	3,007	2,005	613	11.28	5.33	2.97	2.20	0.90
Accrued receivables	4	2	694	618	650	0.00	0.00	0.69	0.68	0.96
All other assets	26	249	60	39	4	0.02	0.23	0.06	0.04	0.01
Total reported assets	142,738	109,918	101,174	91,148	67,984	100.00	100.00	100.00	100.00	100.00
Adjusted assets	142,738	109,918	101,174	91,148	67,984	100.00	100.00	100.00	100.00	100.00
Breakdown as a % of liabilities + equity										
	2008*	2007	2006	2005	2004	2008*	2007	2006	2005	2004
Liabilities										
Total deposits	5,390	4,627	3,618	3,425	1,801	3.78	4.21	3.58	3.76	2.65
Noncore deposits	5,390	4,627	3,618	3,425	1,801	3.78	4.21	3.58	3.76	2.65
Other borrowings	126,106	93,561	93,388	84,738	64,682	88.35	85.12	92.30	92.97	95.14
Other liabilities	10,782	11,356	3,902	2,736	1,302	7.55	10.33	3.86	3.00	1.91
Total liabilities	142,278	109,545	100,908	90,899	67,785	99.68	99.66	99.74	99.73	99.71
Total shareholders' equity	461	372	266	250	200	0.32	0.34	0.26	0.27	0.29
Common shareholders' equity (reported)	461	372	266	250	200	0.32	0.34	0.26	0.27	0.29
Share capital and surplus	237	199	153	150	129	0.17	0.18	0.15	0.16	0.19
Revaluation reserve	9	N.A.	N.A.	N.A.	N.A.	0.01	N.A.	N.A.	N.A.	N.A.
Reserves (incl. inflation revaluations)	17	17	17	15	13	0.01	0.02	0.02	0.02	0.02
Retained profits	197	156	95	85	58	0.14	0.14	0.09	0.09	0.09
Total liabilities and equity	142,738	109,918	101,174	91,149	67,984	100.00	100.00	100.00	100.00	100.00
Equity Reconciliation Table										
Common shareholders' equity (reported)	461	372	266	250	200					
- Revaluation reserves	(9)	0	0	0	0					
Adjusted common equity	451	372	266	250	200					
Adjusted total equity	451	372	266	250	200					

*Data as of fiscal year end. N.A.--Not available.

Table 4

Profit and Loss Statement Statistics										
(Mil. SEK)	--Year ended Dec. 31--					Adj. avg. assets (%)				
	2008*	2007	2006	2005	2004	- 2008*	2007	2006	2005	2004
Profitability										
Interest income	4,727	3,793	3,216	2,477	2,125	3.74	3.59	3.34	3.11	3.27
Interest expense	4,575	3,713	3,116	2,386	2,047	3.62	3.52	3.24	3.00	3.15
Net interest income	152	80	100	92	78	0.12	0.08	0.10	0.12	0.12
Operating noninterest income	(16)	3	(5)	26	(3)	(0.01)	0.00	(0.01)	0.03	0.00
Fees and commissions	(4)	(3)	(4)	(4)	(3)	0.00	0.00	0.00	0.00	0.00
Other market-sensitive income	(12)	6	(2)	26	(2)	(0.01)	0.01	0.00	0.03	0.00
Other noninterest income	0	1	1	4	2	0.00	0.00	0.00	0.00	0.00
Operating revenues	136	83	95	118	75	0.11	0.08	0.10	0.15	0.12
Noninterest expenses	87	81	81	62	53	0.07	0.08	0.08	0.08	0.08
Personnel expenses	44	36	33	31	27	0.04	0.03	0.03	0.04	0.04
Other general and administrative expense	41	43	46	29	24	0.03	0.04	0.05	0.04	0.04
Depreciation	2	2	2	2	2	0.00	0.00	0.00	0.00	0.00
Net operating income before loss provisions	49	2	14	56	23	0.04	0.00	0.01	0.07	0.03
Net operating income after loss provisions	49	2	14	56	23	0.04	0.00	0.01	0.07	0.03
Nonrecurring/special income	26	29	15	0	0	0.02	0.03	0.02	0.00	0.00
Pretax profit	75	31	29	56	23	0.06	0.03	0.03	0.07	0.03
Tax expense/credit	31	7	12	24	8	0.02	0.01	0.01	0.03	0.01
Net income before minority interest	45	24	17	31	14	0.04	0.02	0.02	0.04	0.02
Net income before extraordinary	45	24	18	32	14	0.04	0.02	0.02	0.04	0.02
Net income after extraordinary	45	24	18	32	14	0.04	0.02	0.02	0.04	0.02
Core Earnings Reconciliation										
Net Income (before Minority Interest)	45	24	17	31	14					
- Nonrecurring/Special Income	(26)	(29)	(15)	0	0					
+/- Tax Impact of Adjustments	11	6	6	0	0					
Core earnings	29	2	8	31	14	0.02	0.00	0.01	0.04	0.02
	2008*	2007	2006	2005	2004					
Asset Quality										
Average balance sheet										
Average customer loans	91,298	72,375	61,775	53,927	50,273					
Average earning assets	115,204	100,604	92,947	77,599	63,973					
Average assets	126,328	105,546	96,161	79,566	64,986					
Average total deposits	5,009	4,123	3,521	2,613	2,165					
Average interest-bearing liabilities	114,843	97,598	92,585	77,323	63,736					
Average common equity	417	319	258	225	190					
Average adjusted assets	126,328	105,546	96,161	79,566	64,986					
Other data										
Number of employees (end of period, actual)	44	37	38	35	34					
Off-balance-sheet credit equivalents	1,753	3,108	0	0	0					

Table 4

Profit and Loss Statement Statistics (cont.)

*Data as of fiscal year end.

Table 5

Ratio Analysis

	--Year ended Dec. 31--				
	2008*	2007	2006	2005	2004
ANNUAL GROWTH (%)					
Customer loans (gross)	34.28	16.65	17.75	11.00	3.41
Adjusted assets	29.86	8.64	11.00	34.07	9.67
Total equity	23.69	40.21	6.35	25.16	10.33
Operating revenues	65.03	(12.92)	(19.31)	56.27	14.23
Noninterest expense	8.42	(0.59)	31.19	17.43	3.97
Net operating income before provisions	2336.24	(85.43)	(75.27)	146.74	48.32
Net operating income after provisions	2336.24	(85.43)	(75.27)	146.74	48.32
Pretax profit	145.72	6.74	(48.49)	146.74	48.32
Net income	84.95	40.82	(45.49)	118.22	44.99
	2008*	2007	2006	2005	2004
PROFITABILITY (%)					
Interest Margin Analysis					
Net interest income (taxable equiv.)/avg. earning assets	0.13	0.08	0.11	0.12	0.12
Net interest spread	0.12	(0.03)	0.09	0.11	0.11
Interest income (taxable equiv.)/avg. earning assets	4.10	3.77	3.46	3.19	3.32
Interest income on loans/avg. total loans	3.66	3.86	3.28	3.34	3.81
Interest expense/avg. interest-bearing liabilities	3.98	3.80	3.37	3.09	3.21
Revenue Analysis					
Net interest income/revenues	111.55	96.37	105.63	77.83	104.17
Fee income/revenues	(2.66)	(3.79)	(4.30)	(3.24)	(3.59)
Personnel expense/revenues	32.47	43.58	34.78	26.37	35.89
Noninterest expense/revenues	64.10	97.57	85.47	52.57	69.96
Noninterest expense/revenues less investment gains	58.74	104.57	83.44	67.53	68.19
Net operating income before provision/revenues	35.90	2.43	14.53	47.43	30.04
Net operating income after provisions/revenues	35.90	2.43	14.53	47.43	30.04
Net nonrecurring/abnormal income/revenues	19.36	34.68	15.74	0.00	0.00
Pretax profit/revenues	55.26	37.11	30.27	47.43	30.04
Tax/pretax profit	40.88	21.45	40.46	43.74	36.39
Core Earnings/Revenues	21.23	1.91	8.65	26.68	19.11
	2008*	2007	2006	2005	2004
Other Returns					
Pretax profit/avg. risk assets (%)	3.32	1.43	1.80	3.78	1.75
Revenues/avg. risk assets (%)	6.01	3.86	5.95	7.96	5.84
Net operating income before loss provisions/avg. risk assets (%)	2.16	0.09	0.87	3.78	1.75

Table 5

Ratio Analysis (cont.)					
Net operating income after loss provisions/avg. risk assets (%)	2.16	0.09	0.87	3.78	1.75
Net income before minority interest/avg. adjusted assets	0.04	0.02	0.02	0.04	0.02
Net income/employee (currency unit)	1,086,341	642,187	475,028	922,706	435,636
Non-interest expenses/average adjusted assets	0.07	0.08	0.08	0.08	0.08
Personnel expense/employee (currency unit)	1,079,707	960,000	916,667	911,765	818,182
Core earnings/average risk-weighted assets	1.27	0.07	0.52	2.12	1.12
Core earnings/average adjusted assets	0.02	0.00	0.01	0.04	0.02
Core earnings/ Average ACE (ROE)	7.03	0.49	3.19	13.97	7.56
	2008*	2007	2006	2005	2004
FUNDING AND LIQUIDITY (%)					
Total loans/customer deposits + long-term funds	22719.65	20927.20	25153.95	22717.65	25616.41
Customer loans (net)/assets (adj.)	73.32	70.91	66.04	62.25	75.19
Parent Only Analysis					
	2008*	2007	2006	2005	2004
CAPITALIZATION (%)					
Adjusted common equity/risk assets	24.72	13.72	16.93	15.43	14.95
Internal capital generation/prior year's equity	11.96	9.08	7.16	15.82	7.51
Tier 1 capital ratio	26.80	14.85	18.81	17.08	16.35
Regulatory total capital ratio	26.80	14.85	18.81	17.08	16.35
Adjusted total equity/adjusted assets	0.32	0.34	0.26	0.27	0.29
Adjusted total equity/adjusted assets + securitizations	0.32	0.34	0.26	0.27	0.29
Adjusted total equity/risk assets	24.72	13.72	16.93	15.43	14.95
Adjusted total equity plus LLR (specific)/customer loans (gross)	0.43	0.48	0.40	0.44	0.39

*Data as of fiscal year end.

Ratings Detail (As Of June 29, 2009)***Kommuninvest i Sverige AB**

Issuer Credit Rating	AAA/Stable/A-1+
<i>Nordic National Scale Rating</i>	--/--/K-1
Commercial Paper	A-1+
<i>Nordic National Scale Rating</i>	K-1
Senior Unsecured (26 Issues)	AAA

Issuer Credit Ratings History

03-Jul-2006	AAA/Stable/A-1+
21-Nov-2008	<i>Nordic National Scale Rating</i> --/--/K-1

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