

KOMMUNINVEST
ANNUAL REPORT

2013



Kommuninvest in brief

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Board of Directors' Report

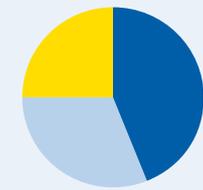
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Market shares, local government borrowing

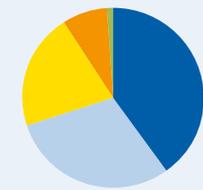
31 Dec 2013



Source: Kommuninvest projections

Lending portfolio

31 Dec 2013



Source: Kommuninvest

Kommuninvest¹ was founded in 1986 by nine municipalities and Örebro County Council to join forces in improving the conditions in the market for local government loan financing. Kommuninvest also helps increase financial stability in the local government sector.

Kommuninvest i Sverige AB, in which all business operations are conducted, is a wholly-owned subsidiary of the Kommuninvest Cooperative Society. Only municipalities and county councils that are members of the Kommuninvest Cooperative Society, as well as companies, foundations and associations controlled by members may borrow from Kommuninvest.

Kommuninvest holds the highest possible credit rating, Aaa/AAA, with a stable outlook. The credit rating is supported by the joint and several guarantee issued by all of the members in favour of Kommuninvest i Sverige AB's obligations.

Kommuninvest's vision is to be the world's best organisation for local government financial administration.

1) On pages 1–9, "Kommuninvest" refers to the Kommuninvest Cooperative Society and/or the credit market company Kommuninvest i Sverige AB as determined by the context. From page 10 and onwards, it refers to Kommuninvest i Sverige AB, unless otherwise stated. Prior to the formation of the Kommuninvest Cooperative Society in 1993, the cooperation was coordinated within the company Kommuninvest i Örebro Län AB, which was founded in 1986 and which changed its name to Kommuninvest i Sverige AB in 1993.

Multi-year summary Kommuninvest i Sverige AB

	2013	2012	2011	2010	2009
Balance sheet total, SEK billion	277.5	283.3	234.0	190.2	183.1
Lending, SEK billion	208.6	201.0	168.1	133.7	123.6
Net profit, SEK million	590.7	320.6	300.6	140.6	170.6
Members, total	278	274	267	260	248
Of which municipalities	270	266	259	253	241
Of which county councils	8	8	8	7	7
Leverage ratio ¹ , %	0.96	0.68	–	–	–
Capitalisation (capital base in relation to the balance sheet total), %	0.96	0.61	0.81	0.99	0.40
Capital adequacy ratio ² , %	59.5	30.4	45.7	80.7	33.9
Capital adequacy quota ³	7.43	3.80	5.71	10.09	4.24

1) Tier 1 capital in relation to total assets and commitments (exposures). See pages 34–35.

2) Capital base in relation to risk-weighted assets.

3) Capital base divided by capital requirement, pillar I in accordance with Basel II regulations and the EU capital requirements directive.

Annual report for Kommuninvest i Sverige AB (publ)

This is the Annual Report for the credit market company Kommuninvest i Sverige AB. The Annual Report for the owner, the Kommuninvest Cooperative Society, is available at www.kommuninvest.org

Cover picture: Extension of the Swedish Exhibition & Congress Centre in Göteborg. The City of Göteborg is a member of Kommuninvest since 2012.



When Swedish municipalities and county councils invest and undertake new construction, it is often Kommuninvest that provides the financing. Of the loans that finance Swedish local government authorities' investments in schools, care of the elderly, infrastructure or other improvements in service to residents, Kommuninvest currently accounts for almost half.

Kommuninvest is owned by the local government authorities and exists for their benefit. Ever since the start in 1986, the purpose of the operations has been the same – to offer members secure financing on the best possible terms. Today, 270 municipalities and eight county councils are members. At the close of 2013, Kommuninvest's total lending amounted to SEK 208.6 billion.



Kommuninvest finances community-building

Kommuninvest acts as the Swedish local government debt office. In many cases, the financing for the investments needed to ensure that society functions well comes from Kommuninvest. This involves critical social investments in daycare centres, schools, retirement homes, health centres and hospitals. Additional investments are made in the areas of energy supply, street maintenance, water and sewage, as well as sports and cultural facilities.

Local government sector debt has risen over time and will likely continue to grow. Major investments are expected in the maintenance and construction of housing and hospitals, for example. Kommuninvest plays an important role in this process, by ensuring stable and advantageous borrowing in national and international capital markets. Borrowed funds are subsequently on-lent to the members of the Kommuninvest Cooperative Society and their majority-owned companies.

Commercial benefit for local government authorities

By turning to Kommuninvest, municipalities and county councils gain access to secure and competitive loans, advice and debt management tools. Kommuninvest has no vested interest in generating profit – its purpose is

solely to provide economic benefit to members. Kommuninvest also represents the local government sector on funding issues.

The basic concept of generating individual commercial benefit for municipalities and county councils remains from the earliest days of the cooperation. When Kommuninvest was founded in 1986 by nine municipalities and Örebro County Council, the purpose was precisely to provide members with cost-efficient loans. Proof that this purpose has been fulfilled lies in the constant growth in membership – which now accounts for 278 of Sweden's 310 municipalities and county councils. The fact that no member has, to date, left the cooperation, is further proof.

Joint and several guarantee

Membership in the Kommuninvest Cooperative Society, the owner of the credit market company Kommuninvest i Sverige AB, is a prerequisite to obtain financing from Kommuninvest. Against guarantees, loans can also be offered to members' majority-owned companies, as well as local government foundations and associations. Kommuninvest's lending operations have a zero risk weight according to current capital adequacy regulation.

All members provide an explicit guarantee, in the form of a joint and several guarantee, for



Pre-school programmes, residential construction, waterworks, health and medical care are some of the key social services that Kommuninvest helps finance through lending to municipalities, municipal companies and county councils.



the commitments entered into by Kommuninvest i Sverige AB. The guarantee is considered very strong since Swedish municipalities and county councils cannot be declared bankrupt and cannot cease to exist other than by merging. In addition, Swedish municipalities and county councils are entitled to levy their own taxes, while the ultimate responsibility for local government sector operations lies with the central government.

Members' responsibilities

Membership also brings responsibility when it comes to determining the focus of the operations. Decisions are made by the Annual General Meeting of the Society. An important consideration for Kommuninvest's members is ensuring that Kommuninvest meets new EU regulations regarding leverage ratio expected to be introduced on 1 January 2018. Decisions regarding the necessary changes to the Articles of Association will be made in April 2014 and April 2015. Read more about the leverage ratio on pages 34–35.

Secure access to liquidity

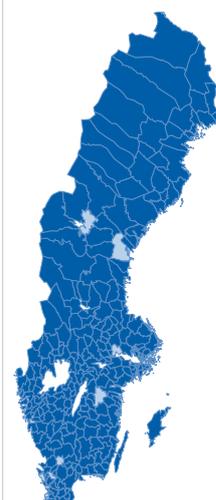
Kommuninvest's assignment is to act as the local government debt office for its members, that is, to secure their access to financing regardless of the external situation.

Throughout the crisis that has pervaded the financial markets since 2008/09, Kommuninvest has fulfilled its assignment. Kommuninvest's access to liquidity under tough economic conditions builds primarily on a well-diversified funding strategy and a considerable liquidity reserve. In addition, since 2010, Kommuninvest is a monetary counterparty to the Swedish central bank, the Riksbank, and is part of RIX, the Riksbank's payment system.

Highest possible credit rating

Having the highest possible rating, Aaa/AAA with a stable outlook, from the two international credit rating institutes Moody's and Standard & Poor's, Kommuninvest is perceived as one of the world's most creditworthy issuers. According to the rating institute, Kommuninvest's credit rating is motivated by the members' joint and several guarantee, Kommuninvest's strong liquidity and its access to financing from the Riksbank, the high quality of Kommuninvest's assets, with lending solely to members, and its conservative asset and debt management with its policy of matching interest rates and currencies. Also mentioned is Kommuninvest's improved profitability, which is strengthening its capital in preparation for upcoming regulatory changes.

Member municipalities
31 December 2013



At year-end 2013, 270 municipalities and 8 county councils were members in the Kommuninvest Cooperative Society.

Focus on long-term stability

Upcoming regulatory changes are becoming increasingly concrete and the effect on Kommuninvest is significant. That we must meet the requirements is self-evident. However, the foundation for value-creation lies in the business operations.

Kommuninvest was established with the purpose of achieving economies of scale in borrowing that would benefit the founding members through favourable financing terms. This principle still remains core to the operations of Kommuninvest i Sverige AB.

The importance of Kommuninvest continuing to provide its members and customers with advantageous financing is clarified in the new vision and business concept that were adopted during the year. Among other things, Kommuninvest is to be perceived as a stable, efficient and knowledgeable actor, whose role as a local government debt office benefitting society provides the Swedish local government sector with the most efficient financial management possible.

Favourable results in borrowing

Being skilled in borrowing is a basic condition for Kommuninvest's ability to be the best financing institute for its members. I am pleased to note that the company reaped several successes in this regard during 2013.

In October, Kommuninvest decided to issue a benchmark bond in USD in the midst of the on-going US budget crisis. As the first institute to issue during the prevailing uncertainty, it was far from obvious that this would succeed. But the issue encountered great interest from investors and was praised in the sector media. The outcome demonstrated not only the strong position that Kommuninvest has achieved in funding markets but also what can sometimes be gained by daring to take the lead. Kommuninvest's long-term, investor-focused efforts, its frequent presence in the market and the high level of confidence in Sweden and the Swedish model of local government financing bore fruit.

We have also received confirmation that Kommuninvest pursues a truly diversified funding strategy. As a result of extensive macroeconomic stimuli in Japan, the Nikkei index rose to record levels over the year, which led to considerable volumes in Kommuninvest's Japanese borrowing being

redeemed prematurely. Having access to several funding programmes then proved to be a source of strength and we were able to avoid overusing the long-term strategic borrowing programmes. Among other measures, several Floating Rate Notes were issued, eventually contributing to the naming of Kommuninvest as the "Best Agency FRN Issuer" of 2013 in the sector media.

External situation difficult to assess

The wave of regulation that has followed the global financial crisis of 2008/09 has been of such vigour and scope than no actor has yet been able to make a comprehensive analysis of the consequences. This makes it harder to assess whether the growing sense of calm that emerged as the year progressed was an expression of a real and fundamental macroeconomic strengthening. Uncertainty prevails regarding how the financial systems will function in a recovery phase. The institutions that are to support the recovery have changed fundamentally since the financial crisis began. The difficult-to-assess external situation means that we must continue to keep our ears to the ground, so that we can identify new developments at an early stage.

Realignment to new regulations

In 2013, the Board of Directors devoted a good deal of time to acquainting itself with the new regulations surrounding financial institutes and how these are to be translated in terms of the on-going operations. It is evident that the new regulations will have a major impact on Kommuninvest and that the company will have to devote considerable resources to compliance.

The challenge for Kommuninvest, as for other financial institutes, will be to cope with this without losing focus on its business operations. Efficient regulatory compliance needs to be combined with a strong focus on business benefit for Kommuninvest's members and customers.

The matter of Kommuninvest's build-up of capital to meet upcoming leverage ratio

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Kommuninvest's long-term, investor-focused efforts, its frequent presence in funding markets and the high level of confidence in the Swedish model of local government financing bore fruit during the year.



requirements as of 2018 has become somewhat clearer. However, we will not know what minimum levels apply or whether leverage ratios will be differentiated until 2016. For Kommuninvest, the leverage ratio requirement may be set at a level higher than that which can be achieved solely through the current earnings-based model of capital accumulation.

How Kommuninvest might act as new capital requirements are set was discussed in detail by the Boards of the Kommuninvest Cooperative Society and Kommuninvest i Sverige AB during 2013, as well as in the membership consultations conducted in early 2014. At the 2014 Annual General Meeting of the Society, it is the owners' intention to reach initial decisions on changes to the Articles of Association aimed at ensuring that the organisation has access to the broadest possible range of capital reinforcement measures should the need arise.

A modern organisation

Kommuninvest's business model may be simple but we operate in a complex, strictly regulated and globalised environment and we

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Efficient regulatory compliance needs to be combined with a strong focus on business benefit for Kommuninvest's members and customers.

have high ambitions. Both the successes we have achieved to date and the objectives towards which we will be working depend entirely on our skilled employees. We must each nurture Kommuninvest's credibility and reinforce its position in the market through our expertise and by professional delivery of the services that Kommuninvest's customers demand.

The duty of the Board of Directors and the senior management is to ensure that those who work at Kommuninvest have interesting and stimulating tasks with opportunities to develop and advance their careers. We want Kommuninvest to be an attractive workplace where employees with different responsibilities and areas of expertise work together efficiently. This requires a modern organisation with leadership that elicits the best from employees.

This is a challenge for any organisation. At the end of 2012, a reorganisation was implemented, primarily to clarify responsibilities in the business operations. This has contributed to improved risk control.

In good stead for the future

Today, Kommuninvest plays a system-crucial role in the Swedish financial market. This is a position that demands humility and that entails substantial responsibility. At the same time, it brings advantages in the development of relations with the company's stakeholder groups.

In a world that is constantly changing, we must keep pace with the changes. We managed to do that in 2013 and we want to continue doing so. Only by accomplishing that we can fulfill the assignment set for us by Kommuninvest's owners.

Kommuninvest i Sverige AB

Ellen Bramness Arvidsson
Chairman

Benefit from cooperation

The Swedish local government sector has a good financial situation. Investments in basic local government services have increased in recent years, which has affected the need for loans. Kommuninvest has maintained its position as the sector's principal lender.

In 2013, Kommuninvest published the first comprehensive report on trends in local government loan debt. It indicated continued major investment needs in the sector, enabling it to meet the growing population's current and future needs for welfare services. Investments are being made in essential local government infrastructure, such as pre-schools, care of the elderly and energy supply. The increasing investment volumes have affected the need for external funding, resulting in higher total loan debt.

The debt increase is concentrated to those local government authorities that experience population growth. In relation to GDP, debt levels remain stable at relatively low levels. In an international comparison, the Swedish local government sector stands strong, with large surpluses, a high level of self-financing and considerable assets.

The local government sector's largest lender

Kommuninvest continues to be the first choice for local government loan financing. However, conditions in the capital market are increasingly normalising and the competitive situation is getting tougher. This has contributed to Kommuninvest's lending growth becoming more subdued over the year. Demand for loans has also been affected by the fact that, at the end of the year, the local government authorities received major repayments of earlier premiums for collectively agreed health insurance policies.

It is natural that Kommuninvest's growth is slowing. Nine out of ten local government authorities are already members and, in a normalised loan market, additional borrowing alternatives are available to municipalities and county councils. For the near future, we expect growth more in line with the increase in debt in the local government sector as a whole.

In certain cases, local government authorities can secure lower borrowing costs independently than through Kommuninvest, despite Kommuninvest having the lowest borrowing costs.

One explanation is the on-going capital build-up in Kommuninvest, resulting in higher lending margins. Few municipalities take into account the Kommuninvest refunds distribution when they compare funding alternatives. In 2013, the refund was equivalent to 42 basis points in relation to a member's borrowing via Kommuninvest.

This year, the results provide scope for a refund of 30–35 basis points, the decision will be taken at the Annual General Meeting of the Kommuninvest Cooperative Society in April.

Earnings support build-up of capital

Operating profit rose to SEK 757.6 (249.1) million, reflecting the work to strengthen the capital base ahead of the EU's introduction of a leverage ratio requirement for credit institutes effective from 2018. This work goes better than expected, providing Kommuninvest with the right conditions to fulfil its vision: to be the world's best organisation for local government financial administration.

Even today, from a risk perspective, Kommuninvest is more than adequately capitalised. The capital adequacy ratio for 2013 was 59.5 percent, compared with the legal requirement of 8.0 percent.

Our general cost level, measured in terms of administration costs as a share of the lending portfolio excluding the statutory Swedish stability fee, is low and declining. For 2013, the cost level was 7.0 basis points, compared with an average of 8.8 basis points for the period 2010 to 2012. At the same time, the adjustment to new regulations, including regarding reporting requirements and process documentation, means that we must both recruit more personnel and increase our purchasing of consultancy services.

High cost for stability fee

The stability fee continued to be the largest individual cost item. In 2013, the stability fee amounted to nearly SEK 100 million for Kommuninvest, equivalent to 40 percent of our total administration costs. For actors

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Increasingly, the development of the sector's debt will set the tone for our growth – nine out of ten local government authorities are already members of Kommuninvest.



with low-risk operations and low costs, the stability fee has a considerable impact. Our view is that the stability fee should not be imposed for institutes of Kommuninvest's type, alternatively that it is calculated taking into account the risks that our business entails. Currently, Kommuninvest's cost level is some 70 percent higher than it would be should no stability fee be levied.

Continued efficiency in borrowing

Demand for securities issued by Kommuninvest was favourable during the year and we are particularly pleased with the international borrowing. We have reinforced our position as one of the foremost actors in the capital market segment in which we operate. Occasionally, Kommuninvest's bonds have been priced even lower than equivalent bonds issued by EU institutes.

In Sweden, the build-up of the Swedish benchmark programme launched in 2010 continued. Programme issuance is in line with our long-term plan, targeting SEK funding to account for half of our long-term borrowing by 2015. The programme is one of our most effective long-term borrowing programmes and efforts are now focused on making it even more attractive to investors.

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Our mission is to generate the greatest possible benefit for our owners and customers while meeting the increasingly rigorous requirements imposed on a systemically important actor.

New vision generates incentive

Kommuninvest's new vision – to be the world's best organisation for local government financial administration – was adopted during the year. It is an excellent tool for the organisation. The vision gives us a clearer focus on benefit for Kommuninvest's customers and is a useful governance tool – everything we do shall take us in the direction of our vision. Comparing ourselves with other institutes owned by and under assignment from local government sectors, it is evident that we are performing well in several areas, including borrowing, although there are opportunities for improvement.

Awareness of why Kommuninvest exists, what we should and should not offer, what we should and should not be involved in, has, in my view, grown stronger over the years. We know that Kommuninvest is a tool for its members/owners, with a clear mandate to focus on debt management in the local government sector.

Initiatives similar to Kommuninvest in other countries

It pleases me that the phenomenon of local government financing institutes is spreading. In a time when many regulatory changes appear primarily to have the large commercial banks in mind, it is important to defend our own operations and those of our sister organisations. At the end of 2013, a French equivalent to Kommuninvest was established and several similar initiatives are in progress in other countries.

I would like to conclude by thanking all of my colleagues at Kommuninvest, whose performance helps generate considerable value for the Swedish local government sector. Of the total membership of the Kommuninvest Cooperative Society, 85 percent of members have at least half of their loans with Kommuninvest.

We focus our efforts on making Kommuninvest an organisation that generates the greatest possible benefit for its members/owners, while meeting the increasingly rigorous requirements imposed on a systemically important actor. It feels particularly stimulating that this helps municipalities and county councils efficiently develop Swedish public welfare.

Örebro, February 2014

Tomas Werngren
President and CEO

Local government loan financing

Kommuninvest is active as a provider of credit in the Swedish local government loan market. At the end of 2013, this market is estimated to amount to about SEK 470 (443) billion¹, equivalent to the total external borrowing of Swedish municipalities and county councils.

During the period 2007–2013, the local government sector's total external borrowing increased nominally by about SEK 135 billion. The increase was primarily the result of an increasing pace of investment by local government authorities and municipal companies. Investments encompass many of the areas for which local government authorities are responsible, with the emphasis being on infrastructure, housing and energy supply. At the end of 2013, the local government authorities' borrowing is estimated to amount to 12.9 percent of Sweden's GDP, compared with 10.7 percent in 2007.

The municipalities and county councils apply three principal forms of borrowing:

- Borrowing via Kommuninvest i Sverige AB
- Borrowing via the bank sector or other bilateral parties
- Borrowing via the money and bond markets

The development and distribution of the borrowing is shown in the diagram below. The shift in the choice of borrowing format continued in 2013. Despite increased lending volumes, both the banks' and Kommuninvest's market shares declined. The local government sector's borrowing through proprietary market programmes increased by 15

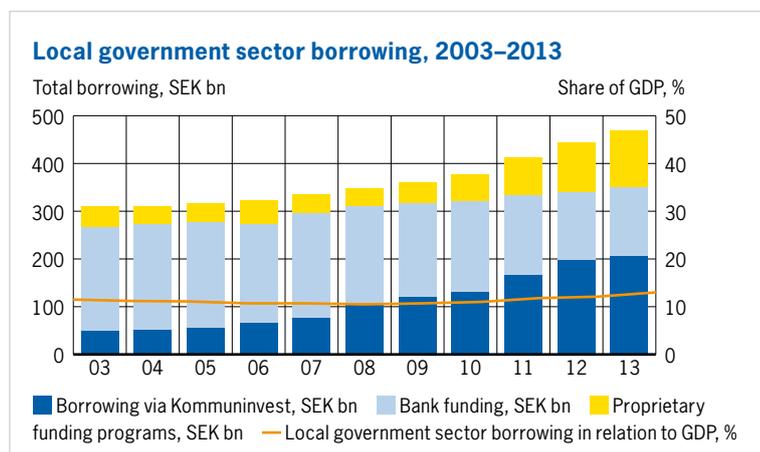
percent and accounted for slightly more than a quarter of the combined funding of the sector's borrowing.

Kommuninvest's position

The portion of the local government sector's borrowing that is conducted via Kommuninvest has increased substantially since 2000. The primary reason is the large number of new members of the Kommuninvest Cooperative Society, which has given an increasing number of local government authorities and municipal companies access to credit from Kommuninvest i Sverige AB. At the same time, the competitiveness of the banks has gradually weakened in the wake of new financial regulations, primarily benefiting Kommuninvest but also borrowing via the capital market, which is mainly an alternative for the larger local government borrowers. Based on Kommuninvest's assessment of the local government borrowing market in 2013, Kommuninvest accounted for 44 (46) percent of the sector's borrowing at the end of the year. Borrowing via the bank sector accounted for 30 (32) percent and direct borrowing via the capital market through the authorities' own bond and commercial paper programmes accounted for 26 (22) percent.

Comparison figures relating to the income statement refer to the preceding year (1 January–31 December 2012) unless otherwise stated. Comparative balance sheet and risk related figures relate to 31 December 2012 unless otherwise indicated.

1) At the time of publication of this annual report, neither the complete data for 2013, nor the municipalities' and county councils' own annual reports were available.



Lending

At the end of 2013, Kommuninvest's lending amounted to SEK 208.6 (201.0) billion. There were 278 (274) members of Kommuninvest Cooperative Society, and Kommuninvest had 773 (728) customers.

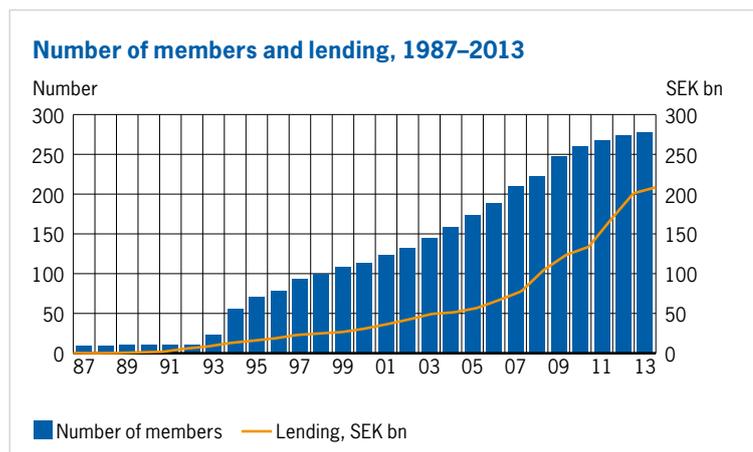
Membership growth

During 2013, the Kommuninvest Cooperative Society gained four new members: the municipalities of Uppsala, Tibro, Järfälla and Svalöv. The Cooperative Society thus had 278 members, of which 270 were municipalities and 8 were county councils. Of Sweden's municipalities, 93 percent were members, as were 40 percent of the county councils. The residents of the member authorities accounted for 76 (73) percent of Sweden's population.

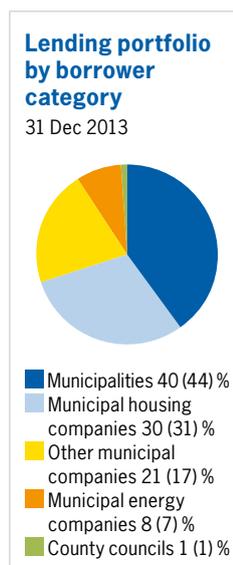
Lending in 2013

At the end of the year, Kommuninvest's lending amounted to SEK 208.6 (201.0) billion. In nominal terms, lending was SEK 206.6 (197.9) billion, an increase of 4 (19) percent compared with the previous year. All lending is to municipalities and county councils who are members of the Kommuninvest Cooperative Society and, against guarantees, to companies in which members are majority shareholders, as well as municipal foundations and associations. Of the total lending, municipalities and county councils accounted for 41 (45) percent and municipal companies for 59 (55) percent. The decreased share of total borrowing by municipalities and county councils is principally explained by the fact that many municipalities in early 2013 ceased to borrow on behalf of the municipal group due to uncertainty regarding new rules limiting interest rate deductions on internal loans.

Municipal housing companies accounted for 30 (31) percent of total lending. The increase in Kommuninvest's lending volumes during the year is explained by generally increased borrowing in the local government

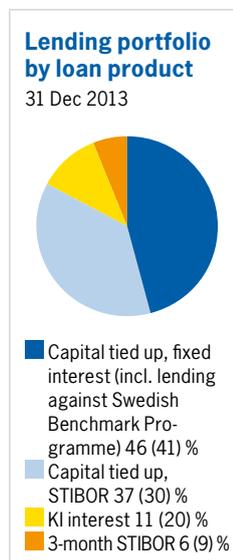


sector and by the number of members of the Kommuninvest Cooperative Society having increased. The growth rate is however lower than in preceding years since, in certain cases, local government authorities can secure lower borrowing costs independently than through Kommuninvest, despite Kommuninvest having the lowest borrowing costs. The local government sector's borrowing in relation to GDP is relatively low – see diagram on page 10.



Market situation

The banks' lending to the local government sector has steadily decreased in recent years. One of the foremost causes is the new financial regulations – Basel III – that are gradually being introduced between 2013 and 2018. The new regulations require banks and other financial institutions to retain more capital than previously and that this be of a higher quality, while new increased requirements on liquidity are also imposed. Instead of lending money directly to the local government authorities, the banks seek to arrange financing for them in the capital market, which represents an alternative form of financing mainly for the larger local government borrowers. Demand among investors has been growing for local government credit as an asset category, although that demand is driven by the market's appetite for risk and access to liquidity may be subject to disruption. During 2013, the Swedish local government authorities' borrowing through proprietary market programmes increased faster than borrowing through both the banks and Kommuninvest.



Kommuninvest's loan products

Kommuninvest offers loan products designed to meet customers' needs – with capital being tied up for shorter or longer periods, at fixed or variable interest and with or without early termination clauses.

The year's contracted lending, that is new loans and renewals of existing loans, consisted of 72 (58) percent loans with capital tied up for more than a year and 28 (42) percent loans with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 39 (30) percent of the total volume. At the end of the year, the average period for which capital was tied up in Kommuninvest's lending portfolio was 2.0 (1.9) years. The distribution of lending by borrower category and by loan product is shown in the diagrams to the left.

Debt management and other services

For Kommuninvest, being able to assist customers with effective financial administration demands more than just competitive loans. For this reason, web-based analysis tools and models for effective financial administration are also offered.

Funding

Favourable demand for low-risk issuers made it possible for Kommuninvest to continue its funding activities on favourable terms in 2013. At the end of the year, total borrowing amounted to SEK 260.6 (262.9) billion.

Kommuninvest's lending is financed by means of short and long borrowing programmes on national and international capital markets. The funding strategy is based on diversification as regards markets, currencies, products and investors. Strategic funding is conducted through the Swedish benchmark programme, a benchmark programme in USD, an ECP programme and the Japanese market. Diversified funding enhances stability. All borrowing is swapped to SEK, EUR or USD.

Kommuninvest issues securities on international borrowing markets in the category "Sovereigns, Supranationals and Agencies". Issuers with whom Kommuninvest compares itself include the European Investment Bank, EIB, KfW (Germany), Kommunalbanken (Norway), Kommunekredit (Denmark), Municipal Finance (Finland), Nederlandse Waterschapsbank (Netherlands), the Nordic Investment Bank, NIB, and Rentenbank (Germany).

Funding in 2013

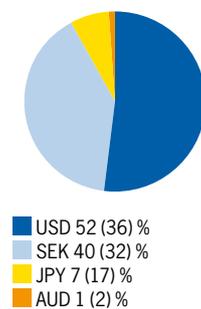
At the end of the year, Kommuninvest's funding totalled SEK 260.6 (262.9) billion.

Over the year, SEK 96.2 (123.1) billion was borrowed in long-term debt instruments with maturities of more than one year. Borrowing is undertaken to replace loans that reach maturity or are cancelled, to finance new loans in the lending operations and to adjust the size of the liquidity reserve according to the current market view and the size of the lending portfolio.

At the end of the year, the average maturity in Kommuninvest's outstanding borrowing was 5.6 (5.5) years, on the condition that cancellable loans are maintained to maturity. If the earliest possible cancellation date is applied in the calculation, the average maturity was 4.2 (3.7) years.

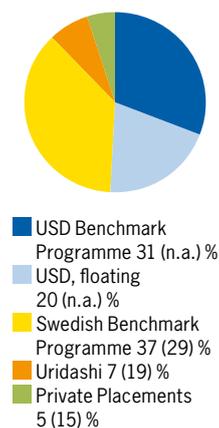
Borrowing during the year, by currency, 2013

(excl. commercial paper borrowing)



Borrowing during the year, by programme, 2013

(excl. commercial paper borrowing)



Market situation

Demand for Kommuninvest's issues was favourable throughout 2013. One explanation is that Kommuninvest belongs to the group of issuers with the highest possible credit rating – Aaa/AAA from Moody's and Standard & Poor's respectively – and a stable ratings outlook. Among other aspects, the credit ratings are based on the joint and several guarantee undertaking by the members of the Kommuninvest Cooperative Society, risk management, market position and the quality of Kommuninvest's assets.

Kommuninvest is working actively to increase its funding in major bond programmes, so-called benchmark programmes, both internationally and in Sweden. Within the framework of Kommuninvest's EMTN programme, two major benchmark borrowings in USD were carried out during the year. Both were well received by the investor community and enjoyed a high level of participation by central banks, public institutions and a new investor category, *bank treasuries*, which, due to new regulations, are investing to a higher degree in assets deemed relatively insensitive to fluctuations in value. Securities issued by Kommuninvest are, in Sweden, among those considered to be of the highest quality in the calculation of the Liquidity Coverage Ratio (LCR).

A total of SEK 35.4 (36.1) billion was issued in the Swedish Benchmark Programme with SEK 78.5 (53.1) billion outstanding at the end of the year. Over the year, two additional bonds were issued and the programme consists of a total of five bonds outstanding.

Liquidity management

At the end of the year, Kommuninvest's liquidity reserve amounted to SEK 62.4 (71.1) billion, corresponding to 30 (35) percent of lending. As a consequence of continued uncertainty in the financial markets, the year's management was characterised by a principal focus on government securities with short remaining maturities.

To ensure that Kommuninvest's customers have access to liquidity even in periods of uncertainty in the financial markets, the Board of Directors of Kommuninvest i Sverige AB has resolved that the company shall have a liquidity reserve amounting to between 20 and 40 percent of the total lending volume. A large proportion of the reserve should qualify as collateral at the Riksbank (Swedish central bank), meaning that Kommuninvest can acquire liquidity at the Riksbank upon providing collateral.

Investment rules for the liquidity reserve

Strict rules and a conservative approach guide Kommuninvest's liquidity reserve. Investments shall primarily be made in securities issued by sovereign states or nationally guaranteed financial institutions. Maturities may not exceed 5.5 years. For further information, see the Risk and capital management section on pages 22–35 or Kommuninvest's website www.kommuninvest.org.

RIX membership strengthens liquidity preparedness

Kommuninvest's membership of the Riksbank's RIX payment system strengthens its access to liquidity in the event of unease in the financial markets, since this provides the opportunity to participate in the Riksbank's market activities and get access to intraday and overnight credit facilities.

Liquidity reserve in 2013

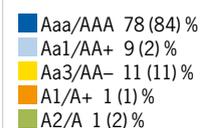
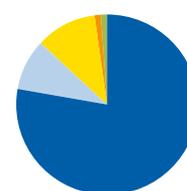
Management was pervaded by caution, primarily as a consequence of the European debt crisis and the fiscal budget problems in the US. Over the year, the liquidity reserve has been adapted to new regulatory requirements, such as LCR (Liquidity Coverage Ratio). This entailed a shift towards investments in securities with higher liquidity issued by states with the highest creditworthiness. Duration in the liquidity portfolio was 1.9 (1.5) years.

At the end of 2013, 39 (31) percent of the reserve was invested in securities issued by sovereign states or state-related entities with the highest possible creditworthiness; 22 (36) percent of the reserve was invested in securities with a remaining time to maturity of less than four months. 67 (75) consisted of investments in securities issued by issuers in Sweden and Germany. 86 (82) percent of the reserve, excluding securities received as collateral, qualified for repo with central banks. Excluding securities received as collateral, the reserve amounted to SEK 59.6 (55.2) billion.

At the end of the year, Kommuninvest had no direct exposure to Greece, Ireland, Italy, Portugal or Spain. See Note 3 for further information on Kommuninvest's credit risk exposure.

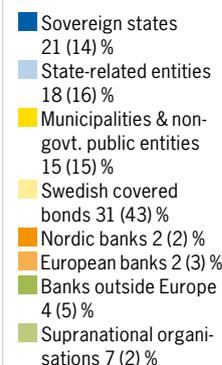
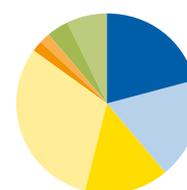
Liquidity reserve distributed by rating category

31 Dec 2013



Liquidity reserve distributed by issuer category

31 Dec 2013



Results

Kommuninvest's operating profit for 2013 was SEK 757.6 (249.1) million. Net interest income rose by 26 percent to SEK 969.5 (771.7) million.

Kommuninvest's operating profit, that is profit before taxes and appropriations, amounted to SEK 757.6 (249.1) million. Operating profit includes unrealised changes in market value of SEK 17.6 (–260.9) million.

Operating profit excluding the effect of unrealised market value changes was SEK 740.0 (510.0) million. Profit after appropriations and taxes amounted to SEK 590.7 (320.6) million. Taxable earnings are reduced through the payment of group contributions, which for 2013 amounted to SEK 0.0 (0.0) million. See also Note 11.

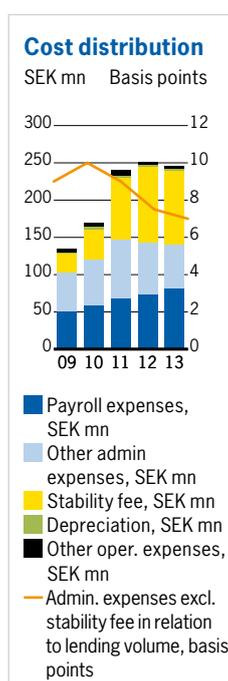
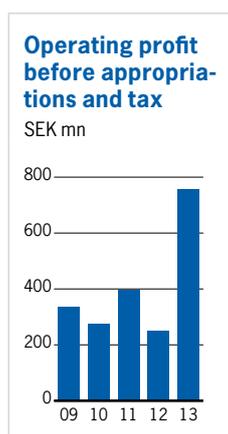
Total operating income rose by 100 percent to SEK 1 002.8 (500.7) million.

Operating income includes net interest income, commission expenses, net result of financial transactions and other operating income.

Net interest income rose to SEK 969.5 (771.7) million. The increase was primarily attributable to higher loan margins, introduced in previous years to strengthen the capital base via the income statement, having an effect on a larger portion of the lending with capital tied up.

The net result of financial transactions amounted to SEK 38.7 (–267.1) million. The difference to the preceding year is primarily attributed to unrealised changes in market value, amounting to SEK 17.6 (–260.9) million. In 2012, the increase in the margin between borrowing and lending resulted in negative changes in market value in the lending portfolio. Since the margin was stable during 2013, no significant changes in market value have been recorded. For further information, see Note 6.

In connection with sales of financial instruments, Kommuninvest charged SEK –1.0 (–24.4) million in losses from other comprehensive income against profit/loss for the year. The profit from buybacks of Kommuninvest's bonds amounted to SEK 13.3 (24.1) million.



Costs amounted to SEK 245.2 (251.7) million, including the stability fee of SEK 99.0 (101.3) million. The decrease in the stability fee, which is calculated based on the balance sheet total, is an effect of total borrowing having decreased in spite of increased lending. The stability fee accounted for 40 (40) percent of Kommuninvest's total costs.

Excluding the stability fee, expenses amounted to SEK 146.2 (150.4) million, of which personnel expenses accounted for SEK 80.7 (72.8) million and other expenses for SEK 65.5 (77.6) million. The increase in personnel expenses is attributable to the workforce having grown. The decrease in other expenses is primarily attributable to certain costs now being charged to the Kommuninvest Cooperative Society as well as certain rating costs now being charged to net interest income.

Tax

The tax expense for the year recognised in the income statement amounted to SEK 166.9 (132.5) million and includes deferred tax attributable to temporary differences of SEK 3.9 (cost) (–56.2) million. Taxable earnings are reduced through the payment of group contributions, which for 2013 amounted to SEK 0.0 (0.0) million. See also Note 11.

Credit losses

Credit losses totalled SEK 0.0 (0.0) million.

Distribution of earnings

The Board of Directors and President propose that the funds available for distribution of earnings, SEK 313.8 (306.9) million after group contributions amounting to SEK 741.1 (717.7) million, is carried forward as appropriations of surplus. For further information, see page 74.

Equity and financial position

At the end of 2013, equity in Kommuninvest amounted to SEK 1,727.6 (952.7) million, following group contributions of SEK 741.1 (717.7) million to the Kommuninvest Cooperative Society.

The change in equity in Kommuninvest in 2013 was, in addition to the group contribution, primarily attributable to the profit/loss for the year of SEK 590.7 (320.6) million and an increase in share capital of SEK 768.0 (316.0) million. Of the increase in share capital, SEK 768.0 (276.0) million involved capital contributions from existing members of the Kommuninvest Cooperative Society and SEK 20.0 (40.0) million in capital contributions from new members of the Society.

Equity was also affected by changes in the market values of assets classified as “available-for-sale financial assets”.

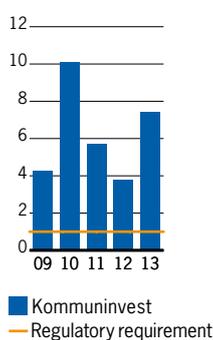
Distribution of surplus

In accordance with the owners' directive from the Kommuninvest Cooperative Society, capital in Kommuninvest i Sverige AB is being built up through profit accumulation. To make the company's results visible for the ultimate owners, that is, the members of the Society, the Society began applying distribution of surpluses as of the 2011 financial year.

Surpluses are distributed through group contributions from Kommuninvest to the Society, which, following deductions to cover the Society's costs, are further distributed to the members of the Society as refunds based on business volumes and interest on capital contributions. The Annual General Meeting of the Society determines whether or not surplus distribution shall be undertaken.

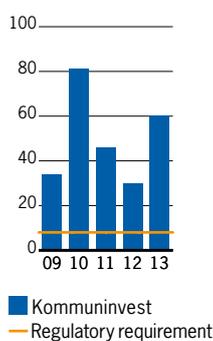
Capital adequacy quota

Capital base in relation to capital requirements



Capital adequacy ratio

Capital base in relation to risk-weighted assets, %



The distribution of surpluses is not associated with any conditions for members, or with any repayment liability or liability to pay new capital contributions.

The 2013 Annual General Meeting of the Society approved the payment of SEK 778.5 (276.0) million in surplus distribution.

Reinforcement of share capital

The Annual General Meeting of the Society also determines whether members are to pay new capital contributions. Capital contributions paid to the Society benefit Kommuninvest as new share capital by means of a directed issue. The 2013 Annual General Meeting of the Society resolved that SEK 768.0 (276.0) million in new capital contributions be paid in. All members chose to participate.

Distribution of surplus in 2014

Pending a decision by the 2014 Annual General Meeting of the Society, the Society will also apply refunds and interest on contributions for the distribution of surpluses for the 2013 financial year. For this purpose, Kommuninvest has in the annual accounts for 2013 made group contributions amounting to SEK 741.1 (717.7) million, equivalent to the taxable earnings before group contributions. If a decision on the payment of new capital contributions is taken, the Board deems it likely that all members will participate.

This entails a certain delay before the profits of Kommuninvest for 2013 appear in

the capital base. Payments of surplus distributions, payments in of capital contributions to the Society and of capital injections to the Company are expected to take place within three months of a decision by the Annual General Meeting of the Society. The estimated but not yet approved capital injection relating to the results for 2013 amounts to SEK 696.5 (768.0) million. This consists of group contributions of SEK 741.1 (717.7) million and the result in the Kommuninvest Cooperative Society.

Derivatives

Derivative contracts are used as risk management instruments to address market risks in operations. Derivatives with positive and negative market value amounted to SEK 6.2 (11.1) billion and SEK 13.2 (17.5) billion respectively.

Subordinated liabilities

Subordinated liabilities consist of a perpetual debenture loan from the Kommuninvest Cooperative Society, amounting to SEK 1,000.1 (1,000.3) million at the end of the year.

Capital adequacy

The capital adequacy quota amounted to 7.43 (3.80). The statutory minimum level is 1.0. The capital adequacy ratio amounted to 59.5 (30.4) percent. The statutory minimum level is 8.0 percent.

Kommuninvest has established an internal capital adequacy quota which includes additional scope for risk as a buffer for risks not accounted for in Pillars 1 and 2. The quota is not permitted to fall below this level without the approval of the Board of Directors. For more information on capital adequacy, see Note 28.

Organisation and employees

The requirements imposed on Kommuninvest as an organisation are increasing in pace with the rising volumes in its operations and the introduction of new regulations for the financial sector. To provide the conditions for the fulfilment of its assignment, the organisation was extended by five new employees in 2013 to a total of 70 (65) employees. The average number of employees during the year was 66 (62).

Kommuninvest is a highly specialised finance organisation that operates both in the Swedish local government sector and in global financial markets. This imposes particular demands on employees' competence, values and corporate culture.

Kommuninvest's success rests on its committed employees, good leadership and values that are fully integrated into its day-to-day operations. Being an attractive company to work in, with a strong employer brand, is important. This is followed up through an employee satisfaction index and other measures.

The employees of Kommuninvest are expected to assume an independent responsibility for their own development, as well as for their part of the operations. All employees are to have an annual dialogue with their managers to set individual targets and to formulate a development plan in accordance with Kommuninvest's objectives and competence needs. The dialogue is followed up after six months to ensure that the employee has progressed with his/her development. With the purpose of increasing employees' knowledge and competence, both employees and managers are offered different forms of tailored development and training. In addition

to compulsory training programmes required for everyone within the company, Kommuninvest also offers shorter or longer specialist and leadership courses for a number of employees.

Most of Kommuninvest's employees, 95 (95) percent, have a university education. At the end of the year, the average age was 43 (42), with a range between 23 (21) and 65 (63) years. Absence due to illness for the year was 1.9 (1.5) percent. The increase in the number of employees over the year can largely be attributed to the regulatory changes that have been introduced and that will be introduced in the financial sector.

For principles and processes for remuneration and benefits to the management, see page 37 and Note 8.

Code of conduct

Kommuninvest is an organisation guided by established values. Kommuninvest's Code of conduct provides guidance on how employees should act in day-to-day operations in accordance with Kommuninvest's core values – completeness, participation, clarity and quality.

The Code of conduct summarises what Kommuninvest's employees and stakeholders can expect of Kommuninvest. It is a responsibility and requirement of all employees that they adhere to the code, current legislation, regulations and other policies that guide operations. Kommuninvest's managers are required to engender an ethical climate in line with the code and to encourage adherence to the code.

Employee statistics	2013	2012	2011
Total number of employees	70	65	59
of whom women	28	29	24
of whom men	42	36	35
Staff turnover, %	4.4	14.5	5.4
Sick leave, %	1.9	1.5	1.2
Average, age	43	42	42

Sustainability and social responsibility

Kommuninvest's vision clarifies that the operations shall finance the development of the local and regional sectors, as well as investments in a sound and sustainable society. Work in the area of sustainability builds on three cornerstones: building of knowledge, assessment work and environmental consideration.

Building of knowledge

The Swedish local government sector faces a number of challenges in the future. An ageing population, strong urbanisation and a segregated housing market, combined with large-scale investment needs and changed regulations create a need for research which is able to generate new, deepened knowledge of the local government sector's situation and opportunities. Kommuninvest supports, in various ways, research originating in questions concerning the local government sector's financial conditions and challenges.

Kommuninvest is a service-providing organisation that is highly dependent on competent and motivated employees with specialist skills. Employee skills are to be developed at the pace and in the manner required to meet the company's future challenges and needs. Beyond the ambition that employees develop in their positions, it is also important that they be afforded the opportunity to maintain their health and to achieve a healthy balance between their professional and private lives.

The Kommuninvest brand shall be exposed in such a way that it is strengthened and perceived by the external community as stable, efficient and knowledgeable. The concept "Kommuninvest in society" forms the framework for efforts aimed at both strengthening Kommuninvest's brand in general terms and the employer brand in particular. The concept has a broad focus and is embodied in various activities, including local interaction. The purpose of local interaction is to achieve a mutual exchange of values with organisations that strengthen the community and social values. The objective is for interaction to strengthen the company's recruitment opportunities, clarify the company's presence in society, and enhance employees' perception of the company as an attractive workplace.

Assessment work

The company has an organisation and culture pervaded by equality and diversity. Significance is attached to attracting, retaining and developing skilled employees,

regardless of gender, ethnic background, religion or faith, age, disability, sexual orientation or transgender identity.

Assessment work is regulated by a number of governance documents, including:

- The company's personnel policy, which outlines the organisation's view on diversity, as well as its development of skills to meet future demands.
- The ethics policy, which underscores the importance of being a learning organisation.
- The procurement policy, which regulates environmental, ethical and social requirements.
- The Code of Conduct, which acts as an internal guide in the areas of workplace environment, diversity and discrimination, corruption and bribery, as well as external relations and the environment.

Environmental consideration

The company's ambition is to contribute to sustainable social development, including through its own environmental advocacy. The point of departure for environmental efforts is the United Nations Environment Program Finance Initiative.

Among other things, efforts on sustainable development and the environment are based on:

- The company adhering to relevant statutory environmental regulations.
- The company nurtures the commitment and awareness of its employees on the issue of the environment and trains them in natural environmental thinking.
- The company conducts an internal environmental process with the purpose of continuously reducing its operations' burden on the environment by, among other things:
 - Reducing greenhouse gas emissions from energy consumption and proprietary transports,
 - Taking environmental aspects into consideration in purchasing and choosing suppliers,
 - Reducing the amount of waste and encouraging systems for recovery and recycling.

Other

Rating

Since April 2002, Kommuninvest has had the highest credit rating Aaa with Moody's, and it has held the highest credit rating AAA with Standard & Poor's since 2006. During 2013, Moody's and Standard & Poor's confirmed Kommuninvest's Aaa/AAA rating, with a stable outlook.

Fulfilment of targets

Concurrent with the adoption of a common vision and business concept for the Society and the Company, the Company has adopted new strategic targets for the operations.

The strategy focuses on three focus areas – customers, sustainability and financing. Follow-up against key performance indicators will be made as of 2014.

Follow-up against the strategic targets for Growth, Stability and Efficiency is which have applied to the operations during 2013 is presented below.

Target for Growth: By the end of 2017, lending is 70 percent of the local government sector's external borrowing. At the end of the year, the share was 44 (46) percent.

Target for Stability: By the end of 2017, the capital base corresponds to at least 1.5 percent of the balance sheet total. At the end of the year, it was 0.96 (0.61) percent.

Target for Efficiency: By the end of 2017, the administration costs for the business is at most 0.08 percent of the lending volume. In 2013, administration costs for the business, excluding the stability fee, amounted to 0.07 (0.08) percent.

Five-year review

See pages 72–73.

Member responsibilities

In 2011, Kommuninvest i Sverige AB and the Kommuninvest Cooperative Society developed two clarifying agreements, which, in addition to the fundamental joint and several guarantee undertaking, clarify the members' responsibilities. Effective from the 2011 financial year, the distribution of responsibilities is communicated to each member in a statement of undertaking. How this statement of undertaking has been calculated on

the basis of the company's balance sheet and each member's holding is detailed in Note 3.

Risks and uncertainty factors

In its business, Kommuninvest encounters a number of risks and uncertainty factors which may have an adverse impact on the company's profit, financial position, future prospects or opportunities to attain set targets. The general development on the capital markets, including interest rate development and the liquidity situation, along with the willingness to invest on various markets, may affect the competitive situation and Kommuninvest. If Kommuninvest is unable to recruit and retain qualified employees, this may restrict Kommuninvest's competitiveness and opportunities for development.

New regulations

As a consequence of the financial crisis of 2008/09, which demonstrated shortcomings in regulations and the supervision of financial market actors, a substantial number of initiatives have been undertaken to safeguard long-term global financial stability.

In September 2009, a political agreement was reached regarding measures to strengthen the international regulations on the operations of credit institutes. In December 2010, the Basel Committee presented a new set of regulations, Basel III. Subsequently in 2011, the European Commission presented a proposal as to how Basel III should be introduced in the EU, as well as a number of other changes. The European Commission's proposal consisted primarily of a new directive (CRD IV) and a new ordinance (CRR). These two new sets of regulations were adopted by the European Parliament and the Council of the European Union on 26 June 2013 and took effect on 1 January 2014.

The new regulations entail credit institutes within the EU being required to increase the quality and size of their capital bases. In addition to the capital base requirement for risk-weighted assets, demands have been set on capital buffers (the capital conservation buffer, the countercyclical capital buffer, capital buffers for systemically

important institutions and the systemic risk buffer). Member states may reach their own decisions regarding some of these capital buffers and they also have the opportunity to phase in the changes gradually by 2019. By means of delegated acts, the European Commission may also introduce stricter supervision requirements for one year, to counteract risks that could arise due to market trends within and outside the EU and that could affect all member states.

The liquidity coverage ratio requirement entails companies having sufficient liquid assets to be able to cope with real and simulated outward cash flows over a 30-day period of stress. In Sweden, a liquidity coverage ratio requirement has already been introduced as of 1 January 2013. Equivalent regulations will be introduced in the EU as of 1 January 2015. Until then, the Swedish regulations apply.

As a complement to the liquidity coverage ratio requirement above, a long-term, structural liquidity measure is also being introduced – the net stable funding ratio (NSFR). The purpose of this long-term liquidity measure is for the credit institutes to fund their non-current assets with long-term liabilities to a greater extent. The ambition is for better matching of maturities to contribute to a more robust financial system. It has been proposed that the measure be introduced as of 1 January 2018. Within the EU, reporting has commenced as of 1 January 2014.

In addition, capital requirements are being introduced for the counterparties with whom derivative contracts are entered. The capital requirement applies to any future change in the creditworthiness of the derivative counterparties. This credit valuation adjustment risk is to be calculated for all OTC derivatives, with the exception of credit derivatives used for credit protection.

Alongside the risk-based capital requirements, a non-risk-weighted capital requirement measure is planned – the leverage ratio. The leverage ratio measure makes no distinction between the risk weights of different assets but is based solely on the size of the primary capital in relation to total exposures in assets and commitments. It is proposed that a

compulsory leverage ratio be introduced from 1 January 2018. The European Commission is to submit a report to the European Parliament and the Council of the European Union by 31 October 2016 proposing, among other things, the level of the leverage ratio based on different business models reflecting the credit institutes' risk profiles.

Finally, the regulations also impose increased demands on corporate governance and risk management. Increased opportunities for sanctions are granted to the appropriate supervisory authority, with the ceiling for the sanction fee being raised and it also being possible to charge the fee to physical persons. Demands are also made that systems and protection be introduced for those who raise the alarm regarding transgressions at their workplaces – whistle-blowers.

Kommuninvest meets most requirements in accordance with both current and future regulations, see the section on Risk and capital management on pages 22–35. Uncertainty prevails regarding the introduction of a leverage ratio requirement in the EU from 2018, see pages 34–35.

Outlook for 2014

The reformed regulatory system within the financial sector, with increasing demands in terms of capital and liquidity, is expected to continue to result in increased price levels for bank loans to Swedish local government authorities. The capital market can be expected to continue to provide an alternative source of financing for certain local government authorities, while Kommuninvest's higher lending margins may also affect demand. However, it is expected that Kommuninvest's lending growth can remain stable in 2014. For Kommuninvest, one challenge will be achieving the future requirement of a minimum leverage ratio by the close of 2017, for which the final level will be announced in 2016. Investors' interest in investing in securities issued by low-risk institutions means that interest in Kommuninvest among investors is expected to be able to continue to increase.

Risk and capital management

No material changes took place in 2013 with regard to Kommuninvest's targets, principles or objectives in managing risk. Nor have Kommuninvest's exposures to different types of risk changed significantly.

On 31 December 2013, Kommuninvest's risk-weighted assets (RWA), calculated in accordance with Basel II, amounted to SEK 4,558.8 (5,687.1) million. Kommuninvest is well-capitalised to meet the risks inherent in its operations. The core Tier 1 capital amounted to SEK 1,650.8 (866.3) million, entailing a core Tier 1 capital ratio of 37.0 (15.2) percent. The Tier 1 capital also amounted to SEK 1,650.8 (866.3) million, and the Tier 1 capital ratio was 37.0 (15.2) percent. The total capital base was SEK 2,650.8 (1,732.6) million, resulting in a total capital adequacy ratio of 59.5 (30.4) percent (without taking into account transitional rules between Basel I and Basel II). The principal priority of capital planning is ensuring that Kommuninvest meets the new leverage ratio requirement planned to be introduced within the EU from 2018.

Transitional regulations do not significantly affect Kommuninvest's capital adequacy ratio and other capital ratios.

INTRODUCTION

In the wake of the 2008/09 financial crisis, authorities around the world have undertaken a number of measures to safeguard stability and transparency in the financial system. This is achieved not only by means of extensive reporting requirements but also through new legal requirements in terms of liquidity, the capital base, and the management of OTC derivatives and operational risks.

In addition to the financial crisis having resulted in a number of new official requirements, certain changes have taken place in the credit market itself. Among actors in the market, a greater awareness has been established of differences between various credit markets and of the credit and liquidity risks associated with different issuers and the securities they issue. This has led to greater differentiation in pricing and increased volatility in individual securities.

RISK STRATEGY

Kommuninvest plays a central role in the financing of Swedish municipalities and county councils' investments. Kommuninvest's risk management is designed for operations to be conducted with as low a level of risk taking as possible. The operations are subject to the Local Government Act's prohibition of speculative activities.

Kommuninvest's principal assignment is to safeguard stable and efficient borrowing for the members of the Kommuninvest Cooperative Society and the other local government actors entitled to borrow from Kommuninvest. This is achieved by Kommuninvest funding itself on national and international capital markets and, as needs arise among customers, lending these funds to them. As part of the risk management process, less capital is tied up in borrowing than in lending. This means that a certain amount of liquidity, while awaiting lending, is invested in a liquidity reserve consisting of high-quality interest-bearing securities. The business model means that Kommuninvest is exposed to risks associated with the financial market.

Risk management is a key factor in Kommuninvest's ability to meet a) its assignment with regard to efficient and stable financing for its customers and b) the owners' requirement that the level of risk taking in the operations be as low as possible.

Kommuninvest conducts no deposit or active trading operations.

Risk management primarily entails Kommuninvest applying different techniques to reduce gross risks to net risks. Kommuninvest works continuously to reduce both gross and net risks. The methods are summarised on page 24.

For funding to be stable and efficient, Kommuninvest needs to be active in several different funding markets. To support

New regulations

Liquidity

Effective from 1 January 2013, Swedish credit institutes must maintain a Liquidity Coverage Ratio (LCR) in relevant currencies of at least one (1). The LCR serves to ensure that the institutes are able to meet the next 30 days' net liquidity outflows even under stressed circumstances.

Capital base

On 26 June 2013, regulation (EU) No. 575/2013 of the European Parliament and of the Council was issued regarding supervisory requirements for credit institutes and securities companies (CRR). This regulation establishes the liquidity and capital adequacy requirements that will gradually take effect over the next few years, replacing current Swedish regulations on capital adequacy and liquidity. The regulation imposes stringent requirements on institutes within the European Union in terms of reporting and the capital and liquidity that institutes are to maintain to cover potential risks.

Management of OTC derivatives

During 2014, new regulations will be introduced regarding the handling of OTC derivatives in

accordance with regulation (EU) No. 648/2012 of the European Parliament and of the Council regarding OTC derivatives, central counterparties and trade repositories (EMIR, European Markets Infrastructure Regulation). The regulation serves to reduce dependency between different actors and to thereby increase stability in the market for OTC derivatives, which, during the financial crisis, turned out to represent a major risk for the financial system as a whole.

Operational risks

Kommuninvest is subject to supervision by Finansinspektionen (Swedish Financial Supervisory Authority) and, as a credit market company, is required to adhere to Finansinspektionen's regulations. During 2013, Finansinspektionen issued proposals for three new regulations to be introduced in 2014:

- Regulations and general recommendations on governance, risk management and control in credit institutes.
- Regulations and general recommendations on IT systems, data security and deposit systems,
- Regulations and general recommendations on management of operational risks.

Kommuninvest's funding, all members of Kommuninvest Cooperative Society provide an explicit guarantee, in the form of a joint and several guarantee, for the commitments entered into by Kommuninvest. The guarantee is considered very strong since neither the municipalities nor the county councils can be declared bankrupt or cease to exist other than by merging; because the central government bears the ultimate responsibility for local government sector operations; and because municipalities and county councils have the right to levy their own taxes.

Borrowing in different markets involves Kommuninvest being exposed to different types of risks, for example currency, interest and other price risks. Kommuninvest hedges

this exposure to market risks to as great an extent as possible by using derivative contracts. A limited exposure is permitted with the purpose of making the operations more efficient.

When lending to members, investing in securities and entering derivative contracts, risk taking shall be kept to a minimum according to the owners' basic agreement for the operations. All such activity entails a risk that the counterparty will not be able to fulfil its obligations. Consequently, Kommuninvest only undertakes transactions with counterparties of high credit quality. The counterparties with whom Kommuninvest has undertaken contracts are followed up continuously with regard to their capacity to meet their obligations towards Kommuninvest.

Risk management at Kommuninvest: transforming gross risks into net risks

GROSS EXPOSURE	RISK MANAGEMENT	NET EXPOSURE
<p>Credit risk <i>Risk in credit provision</i></p> <p>Credit is only provided to members and their majority owned companies. Credit can also be provided to municipal foundations and associations.</p>	<p>The company follows up members according to its own model for risk review and local government analysis. Each year, the company's Board of Directors sets a group limit for all members. The limit entails a maximum level on a group's net consolidated debt. Lending to municipal companies, foundations and associations must be supported by a guarantee from one or several members.</p>	<p>Swedish municipalities and county councils have the right to levy taxes and cannot be declared bankrupt. The central government also bears the ultimate responsibility for the local government sector's operations, which have a 0-percent risk weight according to applicable capital adequacy rules. The risk in credit provision is assessed as very low.</p>
<p><i>Issuer risk</i></p> <p>Investments are made in securities issued primarily by governments, government-guaranteed issuers and covered bonds.</p>	<p>Exposure to a single issuer may not exceed a risk weight of 20 percent. Maturities may not exceed 5.5 years. All outstanding issuers are followed up on an annual basis and when necessary. Each year, the company's Board of Directors sets a total limit for each issuer.</p>	<p>Kommuninvest imposes high demands on issuers, with the effect that the greater share of the exposures involve issuers with very good creditworthiness. The issuer risk is considered to be limited.</p>
<p><i>Counterparty risk</i></p> <p>Counterparty risk arises when derivatives contracts are entered with counterparties with the purpose of reducing or eliminating market risks. Depending on changes in market prices, a derivative contract of this kind can entail either a receivable or a liability in relation to the counterparty.</p>	<p>Exposure to a single counterparty may not exceed a risk weight of 20 percent. Derivative exposures are to be covered by ISDA agreements and, to the greatest extent possible, by CSA agreements. The scope of business is limited based on a number of criteria aimed at mitigating the risk that the cost of transferring the contract to a new counterparty will exceed the collateral secured. All outstanding counterparties are followed up on an annual basis and when necessary. Each year, the company's Board of Directors sets a total limit for each counterparty.</p>	<p>CSA agreements entail Kommuninvest receiving collateral for receivables exceeding the exposure determined in the agreement. The collateral that Kommuninvest receives entails the counterparty risk being limited.</p>
<p>Market risk</p> <p>Kommuninvest's operations and business model give rise to market risks in the form of interest rate risk, currency risk, credit market risk, credit spread risk, basis swap risk, other price risks and settlement risk.</p>	<p>Market risk is measured and followed up continuously. Most interest rate and currency risks, and all other price risks, are exchanged for counterparty risks through derivative contracts. Credit market risk is limited in part through good matching of maturities between liabilities and assets and, in part, through both assets and liabilities being of a very high credit quality with historically small fluctuations in underlying prices.</p>	<p>The company is exposed to changes in credit spreads on assets and/or liabilities, as well as changes in basis swaps. Through good governance and control, this risk is kept to a controlled and acceptable level. The exposure to interest rate and currency risk is very limited.</p>
<p>Liquidity risk</p> <p>Liquidity risk refers to the risk that Kommuninvest will not be able to meet its payment obligations on maturity without the cost of obtaining payment funds increasing considerably.</p>	<p>The structural liquidity situation is to be highly stable with somewhat longer maturities on liabilities than on assets. Liquidity risks are limited by means of the company being a full member of the Riksbank's RIX payment system. Through RIX, Kommuninvest can, for example, borrow funds against collateral. To be able to meet short-term lending or funding needs, a readily available liquidity reserve is maintained.</p>	<p>The liquidity risks in the Company are very limited.</p>
<p>Operational risks</p> <p>Operational risks exist in all business operations and can never be avoided. The gross risk is considerable in a financial business that manages large amounts and long-term transactions.</p>	<p>Risks in the operations are identified continuously over the year. The method includes planning measures to manage the risks that are identified. Procedures and systems support are in place that enable reporting and follow-up of undesired events.</p>	<p>Through good governance and control, operational risk is kept to a controlled and acceptable level.</p>

The owners' view of Kommuninvest's risk profile and permitted risk taking is established annually in the form of an owner directive. In line with the owner directive, Kommuninvest's operations shall be characterised by a restrictive risk appetite than only permits limited risks.

For the risks inherent in the business model, Kommuninvest is, from 2014, required to determine a risk appetite that serves to keep risks within an acceptable level, thereby safeguarding the fulfilment of Kommuninvest's principal assignment. The risk appetite is defined as the level of risk and the changes in earnings that the Board of Directors is, within the framework of the assignment, willing to accept over the next year. The risk appetite shall be set regularly, but at least once a year. The level of risk appetite is determined by a) company-specific factors such as financial position and growth targets and b) by expected market conditions over the stated period.

RISKS AND RISK MANAGEMENT

Kommuninvest is exposed to risks (gross risks) associated with financial operations. These are managed and mitigated by means of efficient risk management. The risks that remain (net risks) are limited and are to be at a level that is sustainable over the long-term, considering Kommuninvest's capacity to manage losses. Below follows an overview of the types of risks that Kommuninvest regularly manages and assesses.

Credit risk

Credit risk refers to the risk of a loss being incurred as a consequence of a counterparty's incapacity to meet its obligations on time. Credit risk is divided into risk in credit provision, issuer risk and counterparty risk.

On 31 December 2013, 77 (74) percent of Kommuninvest's credit risk exposure was towards Swedish municipalities and county councils in the form of loans; 23 (26) percent of the exposure was towards states and other issuers of securities in the form of invest-

ments; and 0 (0) percent of the exposure was towards derivatives counterparties. The total credit risk exposure, gross and net, is detailed in Note 3.

Risk in credit provision

Kommuninvest may only provide credit to members and approved companies over whom one or more members have a decisive influence through majority ownership. Lending to municipal companies, foundations and associations must be supported by a guarantee from one or several members. Members and approved companies are followed up continuously and assessed from a holistic perspective at the corporation level. Risk in credit provision refers to the risk that a credit counterparty is unable to meet its obligations.

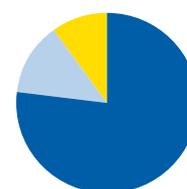
The municipalities/county councils and the companies they own are analysed when processing membership applications and on an ongoing basis during their membership. To obtain an overall view of a member's financial situation, a quantitative risk value analysis is performed. The analysis includes the income statement, balance sheet, demographics and risks in municipal operations. Once a quantitative analysis has been made, it is, if necessary, followed by a qualitative analysis. This scrutinises and analyses the local government corporation and its financial conditions in more detail. Lending can be limited on the basis of the combined analysis.

Since all lending is to, or guaranteed by, municipalities and county councils, which, from a capital adequacy perspective, have a risk weight of 0 percent, the risks in Kommuninvest's lending activities are low. Kommuninvest has never suffered a credit loss in its lending.

In 2013, the ten largest borrowers accounted for 22 (23) percent of lending, while the combined population of these borrowers was equivalent to 12 (13) percent of the total population of the local government authorities that are members of the Kommuninvest Cooperative Society. These borrowers

Credit risk exposure

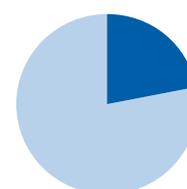
31 Dec 2013



■ Lending, 0 percent risk weight 77 (74) %
 ■ Liquidity reserve investments, 0 percent risk weight, 13 (12) %
 ■ Liquidity reserve investments, 10 and 20 percent risk weight 10 (14) %
 ■ Derivatives, 0 (0) %

Credit concentration, distribution of lending

31 Dec 2013



■ 10 largest borrowers 22 (23) %
 ■ Others 78 (77) %

are characterised by being relatively large and growing municipalities, with significant operations in a company form.

Issuer risk

Kommuninvest's liquidity reserve shall consist of securities issued by governments and financial institutions with a maximum risk weight of 20 percent. Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity.

Kommuninvest's Board of Directors sets the maximum gross exposure towards individual issuers, as well as what maturities are permitted. The maturity of securities in the liquidity reserve shall not exceed the period during which the financial capacity of the counterparty can be assessed. Investments may only be made in counterparties with a credit rating of at least A2 from Moody's and/or A from Standard & Poor's. The maximum maturity for investments is 5.5 years.

The Kingdom of Sweden (the Swedish state) is approved as counterparty without further decisions being required. For counterparties outside Sweden, a per-country based total limit is applied.

Counterparty risk

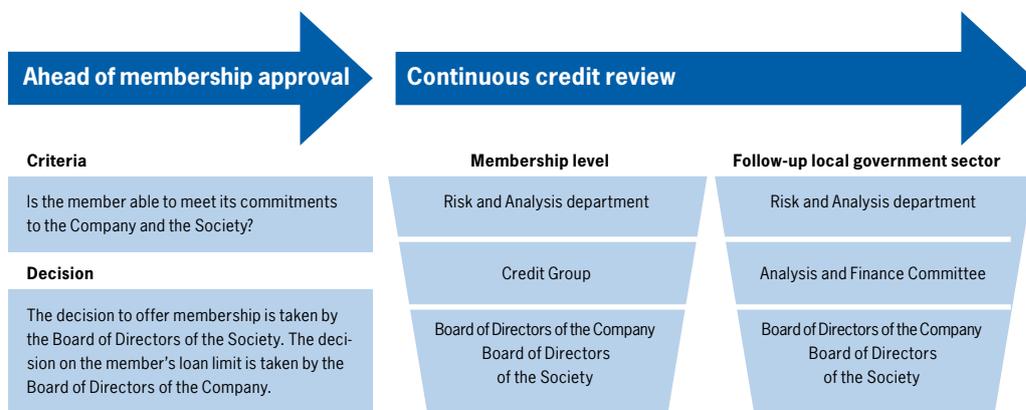
To limit the market risks that arise when contractual borrowing and lending terms do not match, Kommuninvest uses risk management instruments in the form of derivative contracts. This gives rise to counterparty risk, that is, the risk that a counterparty to a financial agreement fails to meet its commitments in accordance with the agreement.

Kommuninvest limits counterparty risks by a) requiring agreements to be set out in accordance with the financial industry standard (ISDA agreements) and b) by signing collateral agreements with counterparties (CSA agreements), see below.

Risk taking towards derivatives counterparties is also limited by the Company ensuring a right to transfer a derivatives agreement to a new counterparty if the credit rating of an existing counterparty falls below Baa1 (Moody's) or BBB+ (Standard & Poor's).

The counterparty's credit rating is also decisive in what Kommuninvest is prepared to accept when it comes to the contracts' maturity period, structure and permitted risk exposure. In cases where the credit rating is lower than Aa3/AA- and where there is

Risk management – lending



no CSA agreement with that counterparty, Kommuninvest is only permitted to enter interest and currency swap agreements.

Membership of ISDA

Kommuninvest is a member of the International Swaps and Derivatives Association (ISDA), and before entering derivative contracts it stipulates the right to early redemption of such contracts if the counterparty's credit rating deteriorates below a pre-determined level.

The risk exposure comprises the cost of entering an equivalent contract in the market. Such cost is calculated for each contract and is considered a risk to the contract counterparty. ISDA agreements are to be established with all derivatives counterparties. Kommuninvest is also a member of the International Capital Markets Association (ICMA), which is responsible for, among other things, the established market standard for repo agreements.

CSA agreements

To limit the risks and exposure arising because of value changes to derivatives, Kommuninvest enters credit support annexes (CSAs) with derivatives counterparties, in addition to ISDA agreements. These give Kommuninvest the right, under certain conditions, to require collateral but also an obligation to provide collateral under certain other conditions.

The determinants of when and how much extra collateral is to be pledged are whether the value change in derivative contracts entered exceeds the pre-determined contracted exposure or if the creditworthiness of any of the counterparties deteriorates. Kommuninvest accepts collateral only in the form of government securities, which have zero risk-weighting from a capital adequacy perspective. Collateral agreements are intended to mitigate the credit and counterparty risk associated with receivables.

Counterparty exposure in 2013

Kommuninvest's exposures through derivative contracts are shown in Note 3. In terms of nominal amounts, 32 (34) percent of derivative contracts are with counterparties with a minimum credit rating of Aa3/AA– from one of the recognised ratings institutions. On 31 December 2013, Kommuninvest had collateral from counterparties corresponding to SEK 1.1 (2.5) billion.

At the end of 2013, 95 (94) percent of the counterparty exposures, in terms of nominal amounts, were covered by CSA agreements.

Concentration risk

Concentration risk refers to a) major exposures to a customer or groups of customers that are mutually connected and b) major exposures to groups of counterparties where the likelihood of default is associated with factors such as the type of sector, geographical area, etc.

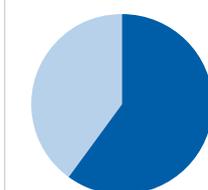
Kommuninvest's assignment is to provide credit only to members and approved companies over whom one or more members have a decisive influence through majority ownership. Lending to municipal companies, foundations and associations must be supported by a guarantee from one or several members. The characteristics of the operations mean there are concentrations in lending.

Exposures to issuers primarily entail governments and financial institutions with high creditworthiness from a selection of OECD countries approved by the Board of Directors. Exposures are subject to country-based limits. There are concentrations towards groups of issuers.

Exposures towards counterparties entail financial institutions from a selection of OECD countries approved by the Board of Directors. For counterparties in derivative contracts, the exposure is reduced through collateral agreements in which approved collateral consists of instruments issued by

Derivative receivables distributed by counterparty group

31 Dec 2013



Derivative Product Companies (DPC)	60 (50) %
North American banks	40 (32) %
Australian banks	0 (4) %
European banks	0 (14) %

governments. There are concentrations towards groups of counterparties.

Events in 2013

Creditworthiness for counterparties and counterparty countries grew more differentiated in 2013. Consequently, the company's liquidity reserve has mainly been invested in countries and with counterparties with a superior credit rating, exceeding the AA level. Specific maturity limits are imposed for individual counterparties and countries to limit price risks.

The tendency in the market is towards increased use of CSA agreements whereby both parties pledge collateral. Over the year, several of the company's CSA agreements have been renegotiated in this direction.

Kommuninvest cooperates with its sister organisations in Denmark and Finland and exchanges information on counterparty and credit-related risks within the framework of what is permitted by confidentiality.

MARKET RISK

Market risk is defined as the risk that the net value (combined value) of Kommuninvest's assets and liabilities will decrease due to changes in risk factors in the financial market. Kommuninvest's market risks are divided into interest rate risk, foreign exchange risk, credit market risk, other price risks and liquidation risk.

Interest rate risk

Interest rate risk refers to the risk that a change in the interest situation will decrease the net value of Kommuninvest's assets and liabilities.

Interest rate risk arises as a consequence of the periods for which interest is fixed for assets and liabilities not being in agreement. For Kommuninvest's assignment to be conducted efficiently with regard to the conservative view on risk, risk is managed through

portfolio matching. This means that small, temporary differences in interest rate periods are permitted for assets and liabilities. The interest rate risk appetite applies only to the currencies in which Kommuninvest has investments or lending.

According to the limit set by the Board of Directors, the risk (exposure) in the portfolio may never exceed SEK 10 million from a one (1) percentage point parallel shift in the yield curve. However, interest risk is permitted to correspond to an exposure of at most SEK 15 million over a period of at most three consecutive business days.

On 31 December 2013, the risk in the entire portfolio was SEK -4.7 (-2.7) million in a one (1) percentage point parallel shift. A negative exposure (negative value) entails a loss if interest rates rise and a profit if interest rates fall. A positive exposure (positive value) entails a positive effect on earnings if interest rates rise and a negative effect on earnings if interest rates fall.

Foreign exchange risk

Foreign exchange risk refers to the risk that a change in exchange rates will affect the net value (combined value) of Kommuninvest's assets and liabilities.

Foreign exchange risk arises if assets and liabilities denominated in a specific currency in the balance sheet are mismatched in terms of size. Kommuninvest hedges all known future flows by means of derivatives. However, foreign exchange risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments. This risk is limited by continuously converting such returns into SEK. Kommuninvest's foreign exchange exposure is detailed in Note 3. The exposure means that a 10-percent appreciation of SEK would cause Kommuninvest's result to decrease by SEK 0.4 (1.2) million.

Credit market risk

Credit market risk refers to the risk that a change in a basis or credit market spread in the market would reduce the net value (combined value) of Kommuninvest's assets and liabilities.

Credit market risk arises primarily as a consequence of imbalances in maturities between assets and liabilities. The business model means that Kommuninvest is permitted to have longer maturities on liabilities than on the corresponding assets. Maturity risk as a consequence of an inverse imbalance, that is, maturities on assets being longer than on liabilities, shall not occur. The imbalances that arise in maturities between borrowing and lending shall, to the extent possible, taking other types of risks into account, be offset by maturities on investments.

Credit market risk can be further divided into credit spread risk on assets, credit spread risk on proprietary debt and basis swap risk. Credit spread risk on assets refers to the risk that a change in the counterparty's credit spread will reduce the value of the company's asset. Credit spread risk on proprietary debt refers to the risk that a change in the company's credit spread will increase the value of the company's liabilities. Basis swap risk refers to the risk that a change in the basis swap spread between two currencies will affect the market value of currency-related derivatives contracts negatively.

Kommuninvest's credit market risk on 31 December 2013 entails that, on a parallel shift of one (1) basis point in the market's basis and credit market spreads, the net value of Kommuninvest's assets and liabilities would change by SEK -2.2 (+2.4) million.

Other price risks

Other price risks refers to the risk that a change in the pricing situation of underlying assets, such as shares, share indexes or raw

materials indexes, will affect the net value (combined value) of Kommuninvest's assets and liabilities. Kommuninvest uses derivatives to hedge price risks with regard to underlying assets and indexes. This means that no other price risks arise.

Liquidation risk

Liquidation risk refers to the risk that a counterparty to a transaction in interest-bearing instruments or foreign currency is unable to meet its obligations and that Kommuninvest incurs increased costs to enter a replacement transaction. Kommuninvest's process for managing counterparty risks (see paragraph above) also includes management of liquidation risks. Kommuninvest is to work proactively to avoid losses as a consequence of liquidation risks.

LIQUIDITY RISK

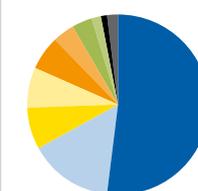
Liquidity risk refers to the risk that it will not be possible to meet payment obligations on maturity without the cost of obtaining payment funds increasing considerably.

Kommuninvest's liquidity risk management is pervaded by a highly restrictive attitude towards liquidity risk. Kommuninvest has diversified funding, with access to several different capital markets. This ensures that funding activities provides the necessary conditions to cover new lending, maturities and renewals even under worsening market conditions. The strategic funding programs are Kommuninvest's Swedish Benchmark Programme, its USD benchmark programme and ECP program as well as funding in the Japanese market. Kommuninvest maintains a continuous market presence in strategic funding programs.

Over the year, Kommuninvest has had good access to liquidity, in both long-term and short-term borrowing. Among other measures, Kommuninvest has carried out

Liquidity reserve distributed by country

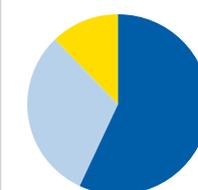
31 Dec 2013



Sweden	52 (61) %
Germany	15 (14) %
Finland	8 (6) %
Netherlands	7 (6) %
Supranationals EU	6 (2) %
Denmark	4 (5) %
Australia	3 (3) %
Canada	2 (1) %
Belgium	1 (1) %
Others	2 (1) %

Liquidity reserve distributed by risk weighting

31 Dec 2013



0 percent risk weight	57 (45) %
10 percent risk weight	31 (43) %
20 percent risk weight	12 (12) %

several issues within the framework of the Swedish local government bond programme, as well as two major benchmark borrowing programmes in USD.

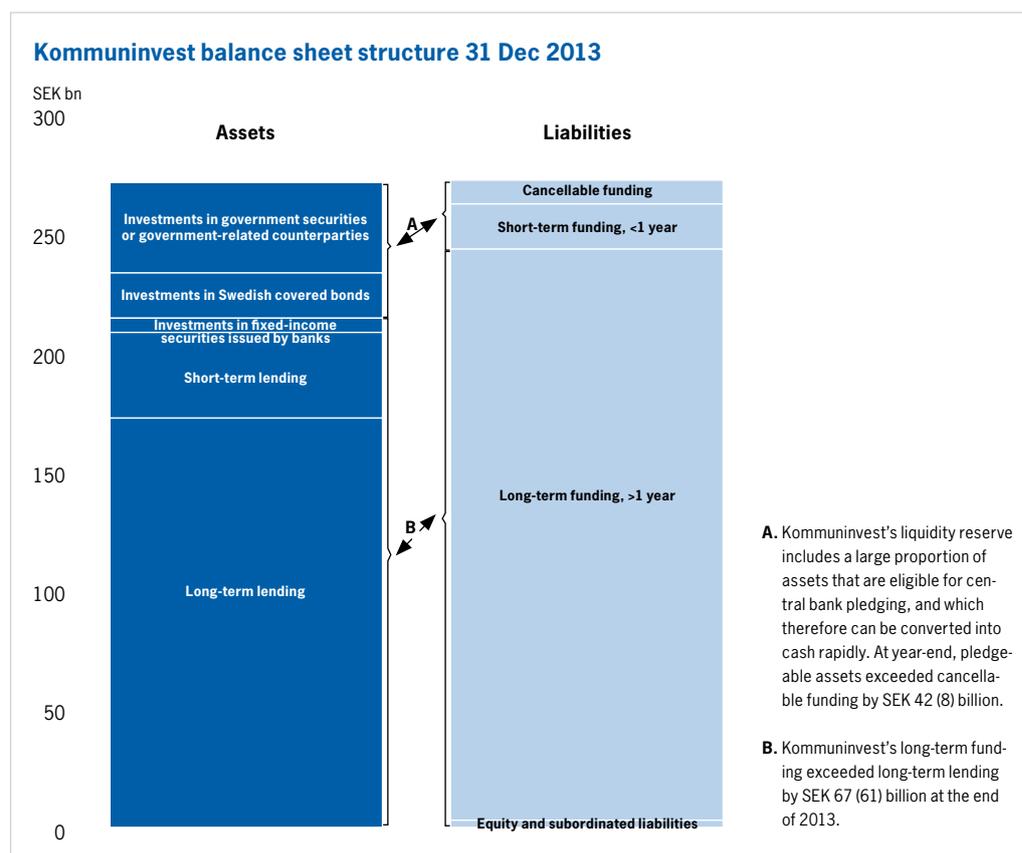
Kommuninvest's structural liquidity situation is stable with longer maturities on liabilities than on assets. Short-term liquidity risk is subject to limits on the scale of negative net outflows Kommuninvest may have within certain time intervals. Short-term liquidity risk is further limited by Kommuninvest being a full member of the Riksbank's (Swedish central bank) RIX payment system, through which Kommuninvest can, among other things, raise loans against collateral.

In order to meet liquidity needs even during periods when financing opportunities on the capital markets are limited or too costly, the Board of Directors has decided to main-

tain a liquidity reserve amounting a nominal value that may not be less than 20 percent or more than 40 percent of the total lending volume. The liquidity reserve is invested in highly liquid securities that largely qualify as collateral at central banks.

The favourable quality of Kommuninvest's liquidity reserve is reflected by the fact that Liquidity Coverage Ratio (LCR) exceeds by a good margin the statutory requirement of a quota of one (1), imposed since 1 January 2013. On 31 December 2013, Kommuninvest's total LCR was 5.11, and 468.67 in EUR and 15.44 in USD.

Liquidity risks are monitored and analysed continuously to ensure that excessive liquidity outflows do not arise. Kommuninvest also reviews liquidity by continuously calculating a "survival period". This denotes the period dur-



ing which Kommuninvest can manage without access to new financing. On 31 December 2013, the estimated period during which the company could survive without access to new financing, while continuing its normal business activities, was 9.7 (9.0) months.

During the year, Kommuninvest conducted stress tests on both the short and long-term liquidity to assess the size and composition of the liquidity reserve. The results also form the basis for any revisions of Kommuninvest's strategies, guidelines and positions.

Kommuninvest's liquidity exposure with regard to remaining durations on assets and liabilities is shown in Note 3. The cash flow analysis also illustrates Kommuninvest's liquidity situation.

Events in 2013

As in previous years, Kommuninvest's liquidity situation has been very good. Despite stringent requirements on the quality of assets to qualify as LCR-approved, Kommuninvest has not needed to alter its liquidity strategy to meet the requirements.

During 2013, Kommuninvest has prepared for the new EU regulations with regard to liquidity that are to be introduced in 2014.

OPERATIONAL RISKS

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or routines, human error, incorrect systems or external events, including legal risks.

Operational risks exist in all business operations and can never be avoided. The gross risk is considerable in a financial business that manages large amounts and long-term transactions. Through good governance and control, operational risk is kept to a controlled and acceptable level.

Risks are identified continuously over the year in connection with each major change

in Kommuninvest's operations, as well as in connection with important events that affect Kommuninvest directly or that occur externally. A risk assessment is performed for each risk that is identified. The method also includes planning measures to manage the risks that are identified.

Procedures and systems support are in place to enable reporting and follow-up of undesired events.

Kommuninvest divides operational risks into the risk areas: process risk, personnel risk, IT and systems risk and external risk.

Process risk

This risk arises when internal processes and procedures are faulty or inadequate. Process risk is mitigated by means of internal instructions, process descriptions and steering documents with checkpoints that are quality assured on a regular basis.

Personnel risk

This risk arises as a consequence of shortcomings attributable to human error. Personnel risk is mitigated by it not being permitted for any individual to singlehandedly manage a transaction throughout the administration chain and by ensuring that the person assigned to each post has the necessary competence and experience.

IT and systems risk

This risk arises as a consequence of faulty systems. IT and systems risk is mitigated by means of a clear strategy based on IT industry standards (Information Technology Infrastructure Library, ITIL), a well-functioning back-up environment and internal regulations.

External risk

This risk arises as a consequence of external events. External risk is mitigated by Compliance following up on adherence to regulations and providing advice on adjust-

ments to new and amended regulations; agreements entered being correctly formulated, and operations including processes and procedures that, among other things, enable Kommuninvest to prevent external crime and detect supplier errors at an early stage.

REPUTATION RISK

Reputation risk is the risk that income from potential and existing customers declines if they lose confidence in Kommuninvest due to negative publicity or rumours about Kommuninvest or the local government sector in general. Reputation risk is also the risk of increased borrowing costs if potential or existing investors lose confidence in Kommuninvest due to negative publicity or rumours about Kommuninvest or the local government sector in general.

Kommuninvest works preventively with media monitoring and has employees with in-depth knowledge in the area to pre-empt and counter possible rumours about Kommuninvest.

BUSINESS RISK

Business risk is the risk of reduced revenues or increased costs as a consequence of factors in the external business environment (including market conditions, customer behaviours and technological developments) having a negative impact on volumes and margins.

All departments within Kommuninvest work continuously with external monitoring in their respective fields. A process is also in place to conduct in-depth media monitoring each year ahead of strategy discussions.

STRATEGIC RISK

Strategic risk is the long-term risk of losses due to erroneous or misguided strategic choices and business decisions, incorrect implementation of decisions or inadequate sensitivity to changes in society, regulatory systems or the financial services industry and/or local government sector.

Kommuninvest has an established procedure for processing strategic targets set by the Board of Directors. The risk appetite for strategic risks is limited by strategic decisions being made on the basis of well-founded analyses and decisions of a strategic nature often being made by the Board of Directors.

RESIDUAL RISK

Residual risk is the risk that established techniques for risk assessment and risk reduction applied by Kommuninvest prove to be less effective than expected.

Kommuninvest deliberately applies relatively simple methods and techniques for measuring risk, capital requirements and risk appetite to reduce the risk of error. Kommuninvest conducts both forward-looking and historical analyses of all risk types. The internal capital assessment report (ICA report) addresses negative scenarios to ensure that the impact on Kommuninvest is not greater than expected.

RISK CONTROL

To provide cost-efficient financing without exceeding Kommuninvest's risk appetite, risk management in operations is to be characterised by preventive measures that serve to prevent and/or limit both risks and their damaging effects.

Kommuninvest's Chief Risk Officer bears the overall responsibility for Kommuninvest's risk framework. Each department manager is responsible for the management and control of risks within his/her area of operations. Kommuninvest's personnel shall be continuously informed and trained so that they have relevant knowledge of Kommuninvest's risk framework.

Forward-looking and historical analyses are used to ensure that Kommuninvest identifies, assesses and measures risks correctly.

RISK ORGANISATION AND RESPONSIBILITY

The Board of Directors sets risk policy and risk limits. The President is responsible for the limits not being exceeded and has delegated responsibility to the business functions within Kommuninvest, that is, the Funding and Treasury department and the Customer Group, to apply lower limits in their respective areas. Kommuninvest applies the principles of a first, second and third line of defence in its internal control (see further pages 43–44).

The Risk and Analysis department, Kommuninvest's function for risk control, is responsible for continuously checking and implementing ongoing follow-up and analysis of financial risks and reports daily to the President and monthly to the Board of Directors.

Risk and Analysis has eight employees and is headed by the Chief Risk Officer, who reports to the President and is a member of the Executive Management Team. Beyond what has been mentioned above, the department is also responsible for following up that risks are reported correctly and in accordance with applicable external and internal regulations; regularly performing stress tests to ensure that Kommuninvest's business models are appropriate and secure; as well as leading and coordinating efforts related to operational risks.

The Credit Group functions as a preparatory body in the assessment of new counterparties, new financial instruments and other credit issues requiring decisions by the Board or the President. The company's Asset Liability Committee (ALCO) is responsible for preparing matters concerning market risk and liquidity that require a decision by the Board of Directors or the President. Representatives from Risk and Analysis are secretaries in the groups mentioned above. The diagram on page 26 illustrates Kommuninvest's risk management in relation to the credit risks in its lending operations.

CAPITAL MANAGEMENT

Kommuninvest's capital planning is intended to ensure that the operations are fully capitalised to meet both the risks in the operations, as well as future regulatory requirements. In relation to the risks inherent in its operations, Kommuninvest is well capitalised. The principal priority of capital planning is ensuring that Kommuninvest meets the new leverage ratio requirement planned to be introduced within the EU from 2018.

Capital plan and internal capital assessment (ICA)

A capital plan is developed each year at Kommuninvest in connection with the budget process or when otherwise necessary. The plan calculates how capital is intended to be developed over the next three years. The plan is based on assumptions regarding, among other aspects, margins in lending operations, margins in the management of the liquidity reserve, cost trends and forecasts for lending and other balance sheet items.

The capital plan is an important building block in the establishment of the internal capital assessment for the credit market company Kommuninvest i Sverige AB and the financial group of companies, consisting of the Kommuninvest Cooperative Society, Kommuninvest i Sverige AB and Kommuninvest Fastighets AB. In supporting the capital plan, Kommuninvest's owner directive determines the desired risk appetite and sets clear targets with regard to capital structure.

According to Basel II, pillar 2, the credit institutes have been assigned responsibility for designing their own processes for internal capital assessment (ICA). This means that the institutes shall map their risks and assess their risk management in an integrated and comprehensive way and, on the basis of that, assess their capital requirements, and that they should communicate analyses and conclusions to Finansinspektionen. During 2013, the finance department has taken over

responsibility for Kommuninvest's ICA from the Risk & Analysis department. Risk & Analysis performs quality assurance related to the ICA, for example by assessing the evaluation methods that are applied.

Each ICA is specific to a particular institute and should reflect that institute's operations and risk profile, and their scope and complexity. At least once a year, the institute shall assess its combined capital requirement based on risk and it shall ensure that the capital base is sufficient in terms of its amount and composition. The capital assessment is to be documented and explained throughout the institute.

A significant portion of Kommuninvest's risk-focused capital planning consists of stress tests that illuminate how risk-related capital requirements are affected by unfavourable external trends in various dimensions.

Kommuninvest's capital assessment shows that Kommuninvest meets most requirements in accordance with both current and future regulations (primarily CRR/CRD IV¹ and EMIR²). Uncertainty prevails regarding the introduction of a leverage ratio requirement in the EU from 2018, see below.

1) Capital Requirements Regulation/Capital Requirements Directive IV, i.e. the European Parliament and the Council's regulation (EU) No. 575/2013 on supervisory requirements for credit institutes and securities companies and the European Parliament and Council's directive (EU) No. 2013/36/EU on authorisation to conduct operations in credit institutes and on supervision of credit institutes and securities companies.

2) EMIR (European Markets Infrastructure Regulation). The European Parliament and the Council's regulation (EU) No. 648/2012 on OTC derivatives, central counterparties and trade repositories.

Capital adequacy

In relation to the risks inherent in its operations, Kommuninvest has a favourable capital situation. The core Tier 1 capital amounted to SEK 1,650.8 (866.3) million on 31 December 2013, entailing a core Tier 1 capital ratio of 37.0 (15.2) percent. Tier 1

capital was also SEK 1,650.8 (866.3) million, and the Tier 1 capital ratio was 37.0 (15.2) percent. The total capital base was SEK 2,650.8 (1,732.6) million, resulting in a total capital adequacy ratio of 59.5 (30.4) percent (not taking into account transitional regulations from Basel I to Basel II), compared with the statutory requirement of 8.0 percent. The capital adequacy quota was 7.43 (3.80), compared with the statutory requirement of 1.0.

Transitional regulations does not significantly affect Kommuninvest's capital adequacy ratio and other capital ratios.

Future regulatory requirements

– leverage ratio

Effective from 1 January 2018, the new capital adequacy measure leverage ratio will be introduced in the EU on the condition that the Council of the European Union (EU Council) and the European Parliament agree to this after having read the report to be issued by the European Commission by 31 December 2016. Reporting of the leverage ratio to the concerned authorities shall be made as of 2014, ahead of the introduction of the requirement on 1 January 2018.

Leverage ratio is a non-risk-weighted measure expressing the relation between a credit institute's primary capital and total exposures in assets and commitments. The levels have yet to be set but may, according to an announcement by the EU Council, be differentiated depending on the institutes' business models.

Kommuninvest's owner directive prescribes a long-term build-up of capital to meet expected future requirements. In addition to the ongoing build-up of capital through earnings, a debenture loan of SEK 1 billion was issued to the members of the Kommuninvest Cooperative Society in 2010.

The issue was over-subscribed and all members participated.

Kommuninvest's planning is based on being able to achieve a leverage ratio of 1.5 percent through the on-going capital build-up. Should a higher leverage ratio than 1.5 percent be established for Kommuninvest, additional capital measures are required.

Work is in progress to enable additional alternatives to capital contributions in the event that Kommuninvest's leverage ratio will exceed 1.5 percent. The intention is that the 2014 and 2015 Annual General Meetings of the Kommuninvest Cooperative Society should consider a) a proposal for a reformed system for member contributions, and b) amendments to the Articles of Association enabling alternative forms of capitalisation.

Leverage ratio 2013

Leverage ratio is defined as the primary capital divided by total exposures in assets and liabilities.

Regarding the lending portfolio and the liquidity reserve the exposure equals the book value. For derivatives assets the exposure is calculated by totaling all exposures in individual netting agreements with derivatives counterparties. To this exposure amount is added a possible future exposure amount calculated according to the standardised method (the market valuation method) established in the EU Capital Requirements Regulation, CRR.

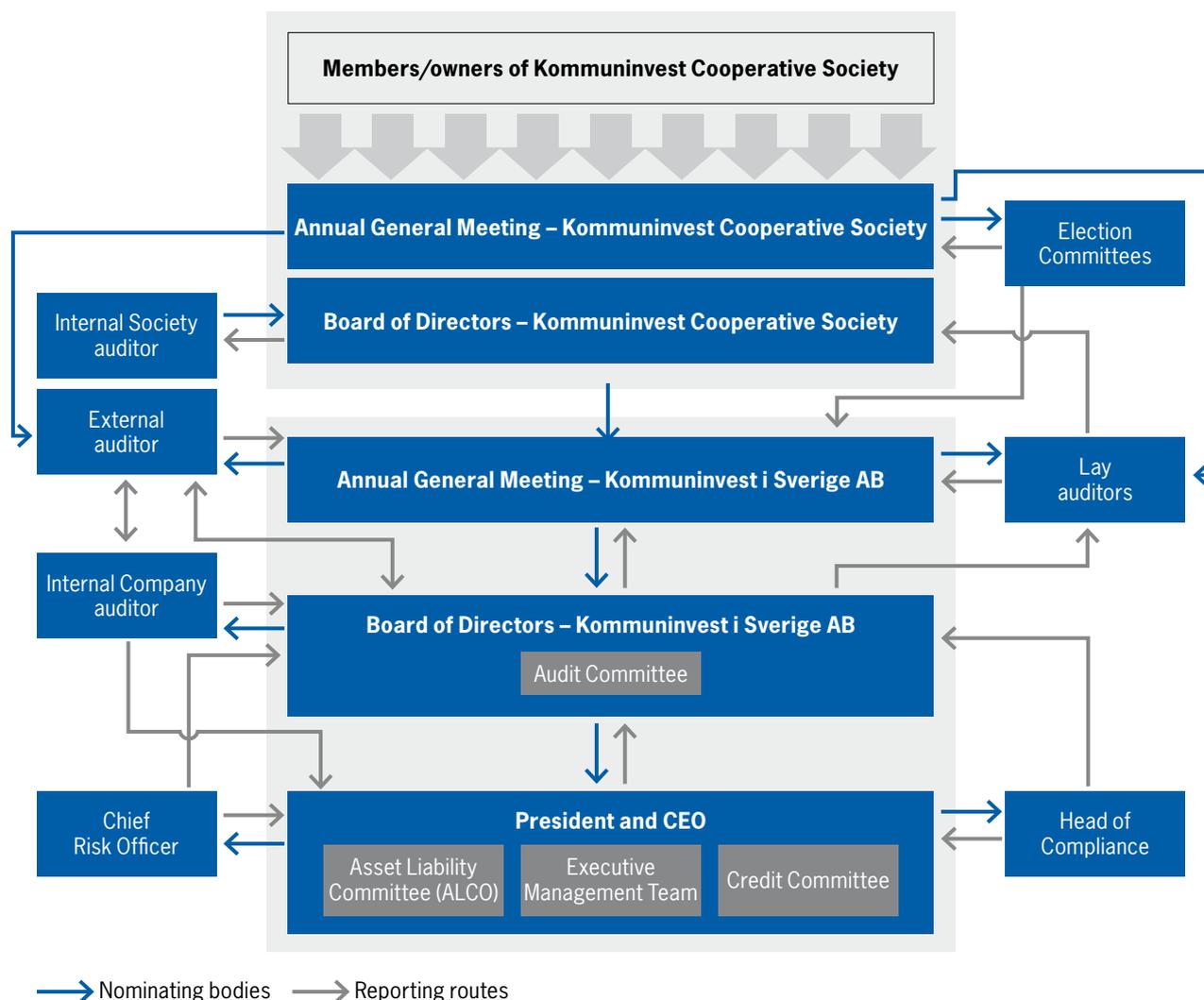
Off-balance sheet commitments are also assigned an exposure amount, calculated with a probability conversion factor based on the likelihood of the commitment being

called upon. Applicable commitments for Kommuninvest are committed undisbursed loans.

On 31 December 2013, the Company's leverage ratio was 0.96 (0.68) percent.

When calculating the leverage ratio, the subordinated SEK 1 billion loan issued by the Company to the Society in 2010 has been included as primary capital. However, the loan terms are such that the loan is not eligible for inclusion as primary capital in future regulations. The leverage ratio excluding the subordinated loan was 0.61 (0.33) percent. Kommuninvest intends to replace the existing subordinated loan with a new one or with another capital form that is eligible for inclusion as primary capital well in advance of year-end 2017.

Governance and control



Kommuninvest is a Swedish public limited liability company and a wholly-owned subsidiary of the Kommuninvest Cooperative Society. Since Kommuninvest's shares are not traded on a regulated market in Sweden, it is not bound by the Swedish Code of Corporate Governance. The particular nature of the operations is also deemed to be such that neither the Swedish Code of Corporate Governance nor the Principles for the Governance of Companies Owned by Municipalities and County Councils developed by the local government sector should be applied on a voluntary basis.

Together with the Kommuninvest Cooperative Society ("the Society") and Kommuninvest Fastighets AB, Kommuninvest forms a finan-

cial group of companies ("the Kommuninvest Group"). Since Kommuninvest issues debt instruments that are listed for trading in a regulated market, the company is legally bound to present a corporate governance report. Good governance and control are crucial to Kommuninvest as a company owned by Swedish municipalities and county councils, with a public mandate.

Basic regulations

The regulations that Kommuninvest must primarily apply with regard to corporate governance are the Companies Act and the Annual Accounts Act.

The Companies Act includes basic regulations regarding the organisation of companies. These include the requirement for a Board of

Directors appointed by an Annual General Meeting. In turn, the Board of Directors appoints a Chairman, who is to lead the work of the Board, and a President, who is responsible for ongoing management in accordance with the Board of Directors' guidelines and instructions. The Annual General Meeting shall also appoint an auditor to monitor operations and check the accounts.

As a credit market company, Kommuninvest must adhere to the Banking and Financing Business Act and the general advice and regulations issued by Finansinspektionen (Swedish Financial Supervisory Authority) and its equivalents within the European Union, the ESAs (European Supervisory Authorities).

Principles of corporate governance

The members of the Society are Swedish municipalities and county councils. The Society is a cooperative venture with the principal purpose of providing members and their majority-owned companies access to cost-efficient and stable loan financing.

According to its Articles of Association, the Society shall not be operated with the purpose of generating profit. Once consolidation needs have been satisfied, all surpluses shall accrue to the members. The members themselves determine the focus of the operations and no individual member has any decisive influence in isolation. At the Annual General Meeting, each member has one vote.

Presented below are some of the principles on which corporate governance is based. Additional to these are the formal work plan for the Board of Directors, the instructions to the President and other internal governance documents adopted by the Board of Directors.

Owner directives

The Board of Directors of the Society develops directives for Kommuninvest and these are set annually at the Annual General Meeting of the Society. The owner directives set out the framework of the operations assigned to the Board of Directors of Kommuninvest by the Society. The owner directives primarily include guidelines regarding risk levels, remuneration principles, principles for business travel and representation and for any special assignments set for the Company by the Society. The owner directives are also set annually by the Annual General Meeting of Kommuninvest.

Targets for operations

Kommuninvest's overarching objective is to generate the greatest possible benefit for the members of the Society. Among other measures, this shall be achieved by maintaining a high proportion of satisfied customers, accounting for a large proportion of members' loan financing, maintaining a high level of cost efficiency and having the financial strength to support the long-term focus of the operations.

Remuneration principles

The Board of Directors sets the remuneration principles applicable within Kommuninvest. Remunerations shall engender conditions to attract, retain and motivate employees so that operations can be conducted in an optimal manner. The basic principle is that remunerations and other terms of employment should be in-line with the market and should consist solely of fixed wages. No variable remunerations are paid. Wages are set taking into consideration the tasks involved and their degree of difficulty, responsibilities, educational requirements and how the employee fulfils the demands imposed and contributes to improvements in operations.

Additional information on Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website www.kommuninvest.org:

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

Shareholders and Annual General Meeting

The Society holds all of the shares in Kommuninvest and, as the owner, exerts its influence at the Annual General Meeting. The Annual General Meeting of Kommuninvest was held on 18 April 2013, in immediate connection with the Annual General meeting of the Society.

The Annual General Meeting of Kommuninvest approved the Annual Report for 2012 proposed by the Board of Directors and the President, and discharged the members of the Board of Directors and the President from responsibility for the year. Furthermore, the Annual General Meeting approved the distribution of earnings proposed by the Board of Directors and the President.

The entire Board of Directors was re-elected by the Annual General Meeting. Ellen Bramness Arvidsson was elected new Chairman of the Board.

The Annual General Meeting also made decisions on the following matters:

- Guidelines on remunerations to senior executives
- Adoption of owner directives
- Amendments to the Articles of Association
- Authorisation for the Board of Directors to implement new share issues during the financial year.

Election Committees

There is an election committee for the Society's companies, Kommuninvest i Sverige AB, Kommuninvest Fastighets AB and Administrative Solutions NLGFA AB. The Election Committee bears the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the shareholder to give its views on proposals and to submit its own proposals regarding appointments and associated issues, thereby establishing favourable conditions for well-founded decisions. The Election Committee of the companies owned by the Society shall represent the Board of Directors of the Society and consists of members elected by the Board from its own

Election Committee of the companies owned by the Society 2013/2014

Ann-Charlotte Stenkil (M), Municipality of Varberg, Chairman
 Alf Egnerfors (S), Municipality of Eskilstuna, Deputy Chairman
 Ewa-May Karlsson (C), Municipality of Vindeln
 Margreth Johnsson (S), Municipality of Trollhättan

Further information on the Election Committee, including its complete formal work plan, is available at www.kommuninvest.org.

membership. The Board of Directors of the Society has resolved that its working committee shall act as the Election Committee.

Board of Directors of Kommuninvest i Sverige AB

The Board of Directors bears the ultimate responsibility for the Company's organisation and management. Each year, the Board of Directors establishes a formal work plan that, among other things, regulates the Board's tasks, reporting to the Board, the number and regular contents of Board meetings, and the assessment of the work of the Board of Directors and President.

Furthermore, the Board sets objectives and strategies for operations, is responsible for identifying and managing risks, and ensures that operations are conducted in compliance with the pre-determined objectives. The Board is also tasked with preparing internal controlling documents including a reporting policy that states what reports are to be produced within the Company. The full Board is responsible for completing the tasks otherwise assigned to an audit committee. The rules of procedure are reviewed and adopted once a year.

The Board consists of eight members representing a broad skills base in areas such as public services, the capital markets and business development.

Chairman of the Board

The Chairman of the Board is responsible for the work of the Board of Directors being well organised and efficiently conducted and

for ensuring that the Board fulfils its tasks. Among other things, the Chairman is required to encourage an open and constructive discussion among the Board, to ensure that the Board continuously updates and deepens its knowledge of the company and its operations, to ensure that the Board has rules for identifying and dealing with conflicts of interest on the Board, and for receiving comments from the owner association and disseminating these within the Board. The Chairman of the Board shall also check that the Board's decisions are implemented efficiently, ensure that the work of the Board is evaluated annually, and act as a discussion partner and support for the President of the company.

The Chairman of the Board is also responsible for ensuring that the company's remuneration policy is independently reviewed and for preparing Board decisions regarding a) remunerations to senior executives, b) remunerations to employees with overarching responsibility for any of the company's control functions, and c) measures for monitoring the application of the company's remuneration policy.

President and CEO

The Board of Directors has adopted a set of instructions for the President and Chief Executive Officer, detailing his tasks and responsibilities. The President is to deal with the ongoing administration of Kommuninvest in accordance with the Board's guidelines. This includes drawing up a proposed operations plan, budget and annual/interim accounts. The President is also responsible for appropriate systems and procedures being in place for reporting the financial situation and position to the Board, for operations being conducted in adherence to regulations and for setting guidelines and instructions regarding the various risks that arise in the operations.

Board Members

During 2013, the Board of Directors of Kommuninvest consisted of Ellen Bramness

Arvidsson (Chairman), Lorentz Andersson, Kurt Eliasson, Anna von Knorring, Catharina Lagerstam, Anna Sandborgh and Johan Törngren, as well as the employee representative Anders Pelander. The members are presented on page 40.

Remunerations

The Chairman of the Board of Kommuninvest i Sverige AB received a fee of SEK 400,000 (400,000) for 2013 as determined by the Annual General Meeting. Other Board Members received a fixed fee of SEK 100,000 and a variable fee of SEK 10,000 per meeting as determined by the Annual General Meeting. The combined fees are detailed in the table on page 41. The total fees paid to the members of the Board of Directors amounted to SEK 1,400,000 (1,505,000) for 2013.

Work of the Board of Directors in 2013

In 2013, the Board of Directors held seven (eight) ordinary meetings, two (zero) extra meetings and one (one) inaugural meeting. Agendas and decisions have involved:

- Guarantee issues and rules for central government support
- Remunerations
- Procurement matters
- Updates of loan programmes
- IFRS matters
- Matters associated with new regulations, such as EMIR, CRR/CRD IV
- Limits for investment and derivatives counterparties
- Customer survey
- Personnel policy
- Review of investment and derivatives counterparties
- Owner directives
- Policy matters
- Annual Report

Board of Directors of Kommuninvest i Sverige AB

ELLEN BRAMNESS ARVIDSSON

Director, International coordination, Finans Norge.

Elected: Chairman 2013–, Deputy Chairman 2006–2013, member since 2003.

Education: Cand. oecon., Oslo University, Diploma in financial analysis, Stockholm School of Economics and FAF.

Previous positions: Chief economist, Svensk Försäkring, under-secretary and first secretary at Ministry of Finance.



ANNA VON KNORRING

Assistant Director, State Treasury, Finland.

Elected: Member since 2004.

Education: Master of Laws, Helsinki University; MA Economics, Swedish School of Business and Economics, Helsinki.

Previous positions: Ministry of Finance and State Treasury.

Other assignments: Board Member, Nordic Capital Markets Forum. Member of the Tre Smeder Foundation delegation, Helsinki. Member, Market Advisory Committee, Euroclear Finland.



CATHARINA LAGERSTAM

Independent consultant and professional Board Member.

Elected: Member since 2009.

Education: PhD, Stockholm School of Economics; Graduate Engineer, Royal Institute of Technology.

Previous positions: Member of the Board of Clearstream, Luxembourg; CFO Hufvudstaden AB; Valuation Manager Bankstödsnämnden.

Other assignments: Member of the Boards of Erik Penser Bankaktiebolag, ICA Banken AB, Landshypotek AB, Retail Finance Europe, StyrelseAkademien Stockholm, Deputy Chairman Franska Skolan Foundation, Board Member Observation Council Swedish Armed Forces.



ANNA SANDBORGH

Chief Administrative Officer, Municipality of Karlstad; President, Karlstads Stadshus AB.

Elected: Member since 2010.

Education: Master of Laws, Uppsala University.

Previous positions: Chief Administrative Officer and research secretary, Municipal Executive Board, Municipality of Karlstad.

Other assignments: Vice Chairman, Vänerhamn AB, Chairman Fastighets AB Sandgrund, Board Member Karlstads Stadshus lager 1 AB.



LORENTZ ANDERSSON

Elected: Member since 2001.

Education: Luleå University of Technology, Honorary Doctor of Technology, Construction engineer.

Previous positions: Västerbotten County, County Governor. Chairman of the Municipal Executive Board, Municipality of Skellefteå. AB Asako and Polaris AB, President.

Other assignments: Chairman of the Boards of Träcentrum Norr and Norrbotten AB.



JOHAN TÖRNGREN

Consultant.

Elected: Member since 2009.

Education: MBA, Stockholm School of Economics.

Previous positions: Senior Vice President and CFO, SAS Group; Vice President Group Finance SAS Group; Treasury at Svensk Exportkredit AB.

Other assignments: Chairman, SPP Fonder AB.



KURT ELIASSON

President, SABO.

Elected: Member since 2010.

Education: Real Estate Agent Diploma, IFL Executive Education, Stockholm School of Economics.

Previous positions: CEO, Förvaltnings AB Framtiden, Board Member of Riksbyggen.

Other assignments: Chairman of the Board, Chalmers University of Technology Foundation, Housing Nordic (NBO), Cecodhas Housing Europe and AB Järntorgskvarteret. Member of Fastigo.



ANDERS PELANDER

Employee representative.

Elected: Member since 2012.

Education: PhD in mathematics, Uppsala University.

Position at Kommuninvest: Financial analyst.

Previous positions: Market risk analyst, Kommuninvest i Sverige AB, university lecturer, University of Narvik.



Auditors for Kommuninvest i Sverige AB

The Annual General Meeting of Kommuninvest elects external and lay auditors. According to the Articles of Association, Kommuninvest shall have one auditor. The auditor is appointed by the Annual General Meeting of the Company following a proposal by the Society's representative at the Meeting, for the period extending until the end of the ordinary Annual General Meeting held in the fourth financial year following the auditor's election. The Annual General Meeting also appoints a deputy auditor.

External auditor

At Kommuninvest's 2012 Annual General Meeting, Ernst & Young AB was appointed as the auditing company for the period extending until the end of the Annual General Meeting in 2016. Ernst & Young AB has selected authorised auditor Peter Strandh as the auditor with overall responsibility. The auditor meets the Board of Directors at least twice a year. Peter Strandh has conducted the audit for Kommuninvest since 2007. Peter Strandh's other audit assignments include the First, Second, Third, Fourth and Seventh AP Funds, IF Skadeförsäkring (non-life insurance), Nordnet, LRF, Sala Sparbank and Nobelstiftelsen.



Peter Strandh, authorised auditor Ernst & Young

Lay auditors

The lay auditors regularly meet the external auditor, the Chairman of the Board, the President and other representatives of the Company. Where necessary the lay auditors can initiate auditing measures additional to the normal statutory audit. The lay auditors also act as an election committee, recommending auditors and submitting proposals for their remuneration.

At the 2012 Annual General Meeting of the Kommuninvest Cooperative Society, the following lay auditors for the Company were appointed for the period extending until the end of the 2016 Annual General Meeting:

Anita Bohman (S), former Deputy Chairman of the Municipal Executive Board in the Municipality of Västervik (re-election)

Niklas Sjöberg (M), Chairman of the Municipal Executive Board of the Municipality of Skurup (newly elected).

The same auditing company appointed as external auditor for Kommuninvest i Sverige AB is also appointed external auditor for Kommuninvest Cooperative Society. The same individuals appointed as lay auditors for Kommuninvest i Sverige AB are also appointed lay auditors for Kommuninvest Cooperative Society. The purpose is to obtain more efficient auditing for the Kommuninvest group.

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

Name	Independence	Attendance Board meetings 2013 ¹	Remuneration 2013, SEK	Remuneration 2012, SEK
<i>Current Board of Directors</i>				
Ellen Bramness Arvidsson	Independent	11 (of 11)	400,000	225,000
Lorentz Andersson	Independent	11 (of 11)	175,000	155,000
Kurt Eliasson	Independent	9 (of 11)	160,000	135,000
Anna von Knorring	Independent	10 (of 11)	165,000	135,000
Catharina Lagerstam	Independent	8 (of 11)	150,000	145,000
Anna Sandborgh	Independent	11 (of 11)	175,000	155,000
Johan Törngren	Independent	11 (of 11)	175,000	155,000
Anders Pelander	Employee representative	11 (of 11)	Not remunerated	
Björn Börjesson ²	Independent		0	400 000

1) Remuneration for 2013 refer to 10 Board meetings and 1 meeting with the Board of Kommuninvest Cooperative Society.

2) Björn Börjesson resigned as Board Member and Chairman of the Board on 4 December 2012.

Executive Management Team

Executive managers of Kommuninvest i Sverige AB

The President and CEO leads, organises and develops operations in such a way that the objectives determined by the Board of Directors are achieved. Written instructions stipulate the division of labour between the Board of Directors and the President.

The President is responsible for keeping the Board of Directors continuously informed of changes to regulatory structures, the content of audit reports and other significant events. The President has the job of providing the Board of Directors with necessary information and decision-support data, including prior to the Board meetings, and of ensuring that the Board receives a written report each month.

Executive Management Team

To support the President, there is an Executive Management Team. During 2013, in addition to the President, the Executive Management Team consisted of Maria Viimne (Deputy President), Hans Wäljamets (COO), Johanna Larsson (CFO), Michael Jansson (Head of Human Resources) and Britt Kerkenberg (CRO).

Hans Wäljamets was appointed to the position of COO effective from 1 February 2013 and has been, from that date, a member of the Executive Management Team. Until that date, the Heads of Funding & Treasury and Lending were co-opted members of the Executive Management Team.

TOMAS WERNGREN, PRESIDENT

Education: University of Örebro and Stockholm University. B.A. Engineering, public administration.

Previous positions: Vice President and Finance Director at Kommuninvest and Treasurer at SBAB, and others.

Other assignments: Board Member of Vasallen AB.

Born: 1961



MARIA VIIMNE, DEPUTY CEO

Education: Mälardalen University, B.A. Economics. Stockholm University, Master of Laws. University of Rotterdam and University of Hamburg. European Master in Law and Economics.

Previous positions: Finance Group Director and company counsel at Kommuninvest, and others.

Born: 1970



BRITT KERKENBERG, CHIEF RISK OFFICER

Education: Uppsala University, degree in business administration.

Previous positions: Head of the statistics unit at the Riksbank (Swedish central bank); Head of Administration and Finance, Trevis Private Banking; Back and Middle Office Manager, Inter IKEA Treasury, and others

Born: 1964



MICHAEL JANSSON, HEAD OF HUMAN RESOURCES

Education: University of Örebro, programme in personnel and occupational issues focusing on business administration.

Previous positions: Human Resources Manager, county labour board, County of Örebro; Human Resources Manager, Kumla Penitentiary; Economist, Örebro County Council, and others.

Born: 1961



JOHANNA LARSSON, CFO

Education: Stockholm University, M.A. Economics; IFL Executive Education, Stockholm School of Economics, Diploma in Financial Analysis (AFA, CEFA).

Previous positions: Financial advisor at Kommuninvest and portfolio manager at Birka Energi, and others.

Born: 1973



HANS WÄLJAMETS, CHIEF OPERATING OFFICER

Education: Stockholm School of Economics, degree in business administration

Previous positions: Senior Relationship Manager, BNP Paribas Fortis, Director Structured Finance, PWC, CEO Philips Leasing GmbH, and others.

Born: 1957



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

Name	Year	Base salary	Benefits	Variable pay	Pension costs	Total
Tomas Werngren	2013	2,890,263	85,644	–	803,927	3,779,834
	2012	2,707,746	78,600	–	819,650	3,605,996
Maria Viimne	2013	1,835,511	560	–	424,399	2,260,470
	2012	1,830,148	160	–	417,502	2,247,810
Other executive managers	2013	3,751,663	14,728	–	1,329,544	5,095,935
	2012	4,251,352	7,699	–	966,307	5,225,358

Board of Directors' report on internal control with regard to financial reporting

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

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

Kommuninvest's process for the internal control of the financial reporting process is based on the framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The process is based on the targets set for the operations and includes five components – risk assessment, control environment, control activities, information and communication, as well as monitoring. The process has been designed to ensure the appropriate and efficient organisation and management of operations, reliable financial reporting and strong capacity for adherence to legislation, regulations, internal rules, as well as generally accepted principles and good standards.

Risk assessment

Risk assessment is based on the Company's understanding and use of the concept of risk and a combination of likelihood and consequence, where risks in financial reporting form one part. Certain risk, such as financial risks, are assessed based on mathematical models, while others, such as the risk of fire or power outage, are assessed based on models.

Control environment

To manage the risks, clear leadership and efficient organisation of operations are necessary. For this purpose, a policy exists for

operational governance and control, as well as several other governance documents.

Each manager is responsible for internal governance and control of the operations that he/she oversees. This responsibility requires the existence of suitable instructions and procedures for operations and that adherence to these procedures is followed-up on a regular basis.

Control activities

The responsibility for internal control and adherence to regulations is an integrated part of management responsibility. All others within the organisation are also responsible for their portion of the internal governance and control system by producing information or, for example, by carrying out checks in various workflows.

In addition to each manager's responsibilities for analysing developments within his/her domain, the Accounting Group is responsible for financial planning and follow-up, handling annual accounts and related reporting, and managing tax matters. The Back Office Group is responsible for managing the Company's payment flows. To support the handling of annual/interim accounts, the amounts entered into the accounts are continuously reconciled and checked, and analyses are made of the income statements and balance sheets. Valuation issues are determined by the Company's ALCO-group (Asset Liability Committee) and subsequently handled by the Risk and Analysis Department together with the Accounting Group to ensure correct application of accounting regulations.

Information and communication

The company has an internal website where policies, instructions and other governance documents are made available. Also available here is other important information regarding operations, such as operations reports and minutes from the executive management team, the ALCO group and the credit group.

Supervision

The follow-up and control of Kommuninvest's operations involves three lines of defence. The first line of defence is located within the business operations, where responsibility is allocated for measuring, checking and managing this risks on a daily basis by means of efficient control procedures. The first line of defence also includes middle office.

The second line of defence is separated from the business operations and is located primarily within the Risk and Analysis department, which checks, monitors and ensures efficient risk management processes throughout the organisation. The second line of defence also includes back office, compliance and reporting. The supervision promotes completeness and accuracy in financial reporting.

The third line of defence is the internal audit unit, which, among other things, reports in a risk-based manner to the Board and Management on how the company assesses and manages its risks. This includes the procedures of the first and second lines of defence.

Risk control functions

Kommuninvest's risk control function, Risk and Analysis, exercises group-wide risk control and monitors the Group's risks, principally credit risks, market risks, liquidity risks and operational risks. A more detailed description of the organisation and work of the risk control function is given on pages 32–33. The function is separated from business operations. The manager of the Risk and Analysis department is appointed by the President who reports the appointment to the Board of Directors. The Board of Directors receives regular updates on risk control issues.

Compliance

Kommuninvest's compliance function (regulatory adherence) is a control and support function that is independent of the business operations. It is also separated from Kommuninvest's function for commercial law, which is often involved in ongoing business operations. The manager of the compliance function is appointed by the President and reports to the Board of Directors at each meeting. Based on analyses of the Group's

compliance risks, the President sets an annual compliance plan, which is reported to the Board of Directors.

The compliance function shall safeguard good regulatory adherence in the company and work actively to promote this. It shall actively support business operations and the executive management to ensure that operations are conducted in accordance with external and internal regulations and are conducted in such a way that confidence in the company is reinforced among customers, members and other stakeholders in the financial market. This encompasses training and contacts with supervisory authorities. The compliance function is also responsible for safeguarding and assessing the updating of internal regulations at the Board level and ensuring that they are adapted to the company's operations. The compliance function shall annually assess these internal regulations and submit proposals for improvement to those responsible for the documents concerned. Fundamentally, compliance is the responsibility of everyone within Kommuninvest. The establishment of a central compliance function does not exempt any employee from his/her responsibility to adhere to the internal and external rules applicable to operations.

Internal audit

The internal audit is an independent and impartial safeguard and an advisory unit tasked with adding value and improving the organisation's operations.

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

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Income statement

1 January–31 December

SEK, million	Note	2013	2012
Interest revenues		4,571.2	6,046.2
Interest expenses		-3,601.7	-5,274.5
NET INTEREST INCOME	4	969.5	771.7
Commission expenses	5	-5.6	-8.5
Net result of financial transactions	6	38.7	-267.1
Other operating income	7	0.2	4.6
TOTAL OPERATING INCOME		1,002.8	500.7
General administration expenses	8	-239.3	-244.0
Depreciation of tangible fixed assets	18	-2.4	-2.7
Other operating expenses	9	-3.5	-5.0
TOTAL EXPENSES		-245.2	-251.7
OPERATING PROFIT		757.6	249.1
Appropriations	10	-	204.0
Tax expense	11	-166.9	-132.5
NET PROFIT		590.7	320.6

Statement of comprehensive income

1 January–31 December

SEK, million	Note	2013	2012
NET PROFIT		590.7	320.6
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to the income statement			
Available-for-sale financial assets		-8.3	125.3
Available-for-sale financial assets, transferred to the income statement		1.0	24.4
Loans and receivables		-	-1.2
Tax attributable to items that may subsequently be reclassified to the income statement	11	1.6	-37.9
OTHER COMPREHENSIVE INCOME		-5.7	110.6
TOTAL COMPREHENSIVE INCOME		585.0	431.2

Balance sheet

As per 31 December

SEK, million	Note	2013	2012
ASSETS			
Sovereign bonds eligible as collateral	12	14,626.2	11,160.8
Lending to credit institutions	3	2,822.2	15,618.6
Lending	3, 13	208,644.0	200,950.7
Bonds and other interest-bearing securities	14	44,932.9	44,293.7
Shares and participations	15	2.1	1.7
Shares and participations in associated companies	16	0.5	0.5
Shares in subsidiaries	17	32.0	32.0
Derivatives	3, 27	6,235.8	11,057.4
Tangible assets	18	4.6	5.6
Current tax assets	11	79.0	79.0
Other assets		14.2	14.1
Deferred tax assets	11	54.6	56.8
Prepaid expenses and accrued revenues		10.6	12.7
TOTAL ASSETS		277,458.7	283,283.6
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities to credit institutions	3	4,352.0	5,610.4
Securities issued	3	256,258.7	257,257.3
Derivatives	3, 27	13,231.8	17,517.2
Other liabilities	19	764.6	818.4
Accrued expenses and prepaid revenues	20	121.4	125.2
Provisions	21	2.5	2.1
Subordinated liabilities	22	1,000.1	1,000.3
Total liabilities and provisions		275,731.1	282,330.9
Equity		1,727.6	952.7
Restricted equity			
Share capital (13,963,850 and 6,083,850 shares, quota value SEK 100)		1,396.4	608.4
New share issue in progress (0 shares and 200,000 shares, quota value SEK 100)		–	20.0
Statutory reserve		17.5	17.5
Unrestricted equity			
Fair value reserve		17.3	23.0
Profit brought forward		–294.3	–36.8
Net profit		590.7	320.6
Total equity		1,727.6	952.7
TOTAL LIABILITIES, PROVISIONS AND EQUITY		277,458.7	283,283.6
Memorandum items			
Collateral pledged	23	22,954.3	22,442.3
Contingent liabilities		None	None
Obligations			
Committed undisbursed loans		3,480.0	2,876.4

Statement of changes in equity

SEK, million	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Fair value reserve ¹	Profit or loss brought forward	Net profit	
Equity brought forward 1 Jan 2012	292.4	17.5	-87.6	191.5	300.6	714.4
Net profit					320.6	320.6
Other comprehensive income ²			110.6			110.6
<i>Transactions with shareholders*</i>						
Appropriation of surplus				300.6	-300.6	0.0
New share issue	316.0					316.0
New share issue in progress	20.0					20.0
Group contributions				-717.7		-717.7
Tax effect on Group contribution				188.8		188.8
Total transactions with shareholders*	336.0	0.0	0.0	-228.3	-300.6	-192.9
Equity carried forward 31 Dec 2012	628.4	17.5	23.0	-36.8	320.6	952.7
Equity brought forward 1 Jan 2013	628.4	17.5	23.0	-36.8	320.6	952.7
Net profit					590.7	590.7
Other comprehensive income ²			-5.7			-5.7
<i>Transactions with shareholders*</i>						
Appropriation of surplus				320.6	-320.6	0.0
New share issue	768.0					768.0
Group contributions				-741.1		-741.1
Tax effect on Group contribution				163.0		163.0
Total transactions with shareholders*	768.0	0.0	0.0	-257.5	-320.6	189.9
Equity carried forward 31 Dec 2013	1,396.4	17.5	17.3	-294.3	590.7	1,727.6

1) The fair value reserve consists of the following

	2012	2013
- Available-for-sale financial assets	23.0	17.3

2) Other comprehensive income
See Statement of comprehensive income on page 46

* Transactions with Kommuninvest Cooperative Society

Cash flow statement

1 January – 31 December

SEK, million	2013	2012
Operational activities		
Operating income	757.6	249.1
Adjustment for items not included in cash flow	-15.4	262.2
Income tax paid	-0.6	-0.6
Cash flow from operating activities before changes in the assets and liabilities of operating activities	741.6	510.7
Change in interest-bearing securities	-11,840.9	-4,561.7
Change in lending	-8,741.7	-32,299.7
Change in other assets	2.1	23.4
Change in other liabilities	7.1	-45.4
Cash flow from operational activities	-19,831.8	-36,372.7
Investment activities		
Acquisition of subsidiaries	-	-32.0
Acquisition of tangible assets	-1.6	-1.6
Divestments of tangible assets	0.4	-
Cash flow from investment activities	-1.2	-33.6
Financing activities		
Issue of interest-bearing securities	126,416.0	163,834.8
Redemption of interest-bearing securities	-119,342.0	-113,585.4
New share issue	768.0	336.0
Group contribution paid	-805.3	-295.0
Cash flow from financing activities	7,036.7	50,290.4
Cash flow for the year	-12,796.3	13,884.1
<i>Cash and equivalents at the start of the accounting period</i>	15,618.6	1,734.5
Cash and equivalents at end of the year	2,822.3	15,618.6
Cash and equivalents consist in their entirety of loans to credit institutions with a maturity of at most three months at the time of acquisition and that are exposed to insignificant risk of fluctuations in value.		
Adjustment for items not included in cash flow		
Depreciation	2.4	2.7
Profit from divestments of tangible assets	-0.2	-
Exchange rate differences from change in financial assets	0.0	-1.4
Unrealised changes in market value	-17.6	260.9
Total	-15.4	262.2
Interest paid and earned, included in the cash flow		
Interest received	4,379.3	5,777.8
Paid interest	-3,481.0	-5,000.0

Notes

All amounts are given in millions of SEK unless otherwise stated.

Note 1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2013 and relates to Kommuninvest i Sverige AB (publ), registered number: SE556281-4409. Kommuninvest has its registered office in Örebro. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden.

The parent company of Kommuninvest i Sverige AB is the Kommuninvest Cooperative Society, registered number: SE716453-2074.

The Annual Report was approved for publication by the Board of Directors on 25 February 2014. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 10 April 2014.

Note 2 Accounting principles

Compliance with standards and legislation

The Kommuninvest Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKIL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25).

Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKIL and considering the additions and exemptions specified in FFFS 2008:25.

In accordance with Section 7:6a of ÅRKIL, Kommuninvest has elected not to prepare consolidated accounts.

The accounting principles stated below were applied consistently in all periods presented in the financial statements, unless stated otherwise.

Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the parent company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts its operations. In accordance with Section 7:6a of ÅRKIL, Kommuninvest i Sverige AB will not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal of position and earnings. For further details, see Note 17. The consolidated accounts is prepared by the parent association, the Kommuninvest Cooperative Society, and is published at www.kommuninvest.se

Amended accounting principles due to new or amended IFRS

IAS 1 Presentation of Financial Statements

The amendment concerns how items under other comprehensive income are to be presented. The items are to be divided into two categories: i) items that may be reclassified to the income statement; ii) items that may not be reclassified to the income

statement. Among other comprehensive income, Kommuninvest only has items that may be reclassified to the income statement. The change affects the presentation only and has no impact on earnings and position.

IFRS 7 Financial Instruments: Disclosures

The change entails that details of financial assets and liabilities offset in the balance sheet or covered by various types of framework agreements that allow offsetting shall be disclosed. The change has entailed increased disclosure requirements.

IFRS 13 Fair value measurement

A new uniform standard for measurement of fair value and improved disclosure requirements. The standard replaces earlier guidance regarding fair value measurement in the relevant IFRS standards. The standard determines how, not when, fair value measurement is to be applied. The standard has not entailed any change in how Kommuninvest calculated fair value. The standard has entailed increased disclosure requirements.

New and amended standards from IASB and interpretations from IFRIC

Of the new standards and interpretations coming into force after 2013, the following regulations have been deemed to affect Kommuninvest's future annual accounts. Kommuninvest does not apply any regulations preemptively and instead applies regulations once they have been adopted for application by the EU.

IAS 32 Financial Instruments: Presentation

The change involves clarifications regarding the rules determining when the offsetting of financial assets and liabilities is permitted. The standard will be applied retroactively to financial years beginning 1 January 2014 or later. The amendment was approved by the EU in December 2012. Kommuninvest's assessment is that this will not affect the company's earnings or position.

IFRS 9 Financial instruments

The standard is intended to replace IAS 39 Financial Instruments: Recognition and Measurement. The IASB's project to replace IAS 39 is divided into three sections, Classification and Measurement, Impairment and Hedge Accounting. At this time, IASB has published the phases Classification and Measurement, and Hedge Accounting. The remaining phases of the project are still under discussion and review. During 2013, IASB has decided to postpone the publication of an effective date until all phases of the IFRS 9 project are complete.

– Classification and Measurement. The categories of financial assets currently included in IAS 39 will be replaced in IFRS 9 by three categories, whereby assets are assessed at fair value through the income statement or other comprehensive income, or accrued cost. Accrued cost is used for instruments held according to a business model the object of which is to receive the contractual cash flows; which shall consist of payments of capital sums and interest on those capital sums on specified dates. Other financial assets are reported at fair value and the opportunity to apply a "fair value option", as in IAS 39, is retained. Changes in fair value are to be reported in income, with the exception of value changes on equity instruments not held for trade and for which an initial choice is made to report value changes in other comprehensive income. Changes on derivatives used in hedge accounting are not affected by this section of IFRS 9 and are reported in accordance with IAS 39 until further notice. Most of the principles of classification and measurement of financial liabilities under IFRS 9 are consistent with the principles in IAS 39, except for how to report changes in fair value of financial liabilities voluntarily reported at fair

Note 2 cont.

value according to the fair value option. For these liabilities, the change in value is divided between changes attributable to own creditworthiness and changes in other factors. Kommuninvest has yet to conduct an assessment of the effects of IFRS 9.

IFRIC 21 Levies

This interpretation clarifies when a liability for “levies” is to be recognised. “Levies” are fees/taxes imposed by central government authorities or their equivalents on companies in accordance with laws/regulations, with the exception of income taxes, penalties and fines. The interpretation states that a liability is to be recognised when the company is obliged to pay the fee as a consequence of an event that has occurred. A liability is recognised gradually if the obliging event occurs on an on-going basis. In the event that a certain minimum level is to be achieved for the obligation to arise, the liability is not recognised until that level has been reached. The interpretation is to be applied for financial years beginning 1 January 2014 or later. It has not yet been approved by the EU. It is expected that the interpretation could become applicable to Kommuninvest in connection with the stability fee.

Other standards and interpretations entering force after 2013 are not assessed to have any material impact on Kommuninvest’s position, earnings or disclosure requirements.

Significant judgments and assumptions

The preparation of the annual report includes judgments and assumptions that affect the accounting and disclosures. The most important judgments when applying accounting principles concern the choice of accounting category for financial instruments, as explained below in the section on financial instruments. When determining the fair value of financial instruments not traded in active markets, Kommuninvest applies valuation techniques and then makes assumptions that may be associated with uncertainty. Note 26 describes how fair value for financial instruments is derived and significant assumptions and uncertainty factors including sensitivity analysis.

The financial statements have been prepared on the basis of accrued cost, with the exception of a significant part of the company’s financial assets and liabilities, which are recognised at fair value alternatively at accrued cost with a fair value adjustment pertaining to the risk that is subject to hedge accounting. For further information, see the section on Financial instruments and Note 26.

Functional currency and presentation currency

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

Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in force on the balance sheet date. Exchange rate differences arising from the conversions are recognised in the income statement.

Associated companies

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

Subsidiaries

Holdings in subsidiaries are reported in accordance with the cost method.

Interest revenues and interest expenses

Interest revenues and interest expenses presented in the income statement comprise:

- Interest on financial assets and liabilities measured at amortised cost.
- Interest from financial assets classified as available-for-sale.
- Interest from financial assets classified as available-for-sale measured at fair value via profit or loss.
- Interest on derivatives that are hedging instruments and for which hedge accounting is applied.

Interest revenues and interest expenses are calculated and reported applying the effective interest method.

Since September 2012, interest income and interest expenses for derivatives used to hedge an asset are recognised as interest income. Interest income and interest expenses for derivatives used to hedge a liability are recognised as interest income. Previously all interest income and costs for derivatives were recognised as interest expenses. Calculation of comparative figures to new principles has not been completed.

Commission expenses

Commission expenses consist of expenses for services received such as deposit fees, payment agency commissions and securities brokerage.

Net result of financial transactions

‘Net result of financial transactions’ encompasses the realised and unrealised changes in value arising from financial transactions. The net result of financial transactions comprises:

- Unrealised changes in fair value on assets and liabilities held for trading purposes.
- Unrealised changes in fair value on assets and liabilities recognised at fair value through profit or loss.
- Unrealised changes in fair value on derivatives where hedge accounting of fair value is applied.
- Unrealised changes in fair value on hedged item with regard to hedged risk in hedging fair value.
- Capital gain/loss from divestment of financial assets and liabilities.
- Exchange rate changes.

Financial instruments

Financial instruments recognised in the asset side of the balance sheet include lending, lending to credit institutions, interest-bearing securities, derivatives and other financial assets. Liabilities and equity include liabilities to credit institutions, issued securities, derivatives, subordinated liabilities and other financial liabilities. For further information, see Note 26.

Recognition in and removal from the balance sheet

A financial asset or financial liability is recognised in the balance sheet when Kommuninvest becomes party to the instrument’s contractual terms.

A financial asset is removed from the balance sheet when the rights in the agreement are realised, fall due or the company loses control over them. The same applies for part of a financial asset. A financial liability is removed from the balance sheet once the obligation in the contract has been fulfilled or is in some other way extinguished. The same applies for part of a financial liability.

Financial assets and financial liabilities are offset and recognised at a net amount in the balance sheet only where there is a legal right to offset the amounts and it is intended to adjust the items with a net amount or, at the same time, to capitalise the asset and adjust the liability.

Note 2 cont.

Acquisitions and sales of financial instruments are reported on the business day, i.e. the day the company commits to acquiring or selling the instrument.

Classification and measurement of financial instruments

Financial instruments are initially measured at their fair value with transaction costs taken into account, the exception being assets and liabilities included in the category of financial assets and liabilities measured at fair value through profit or loss, which are measured at fair value without taking transaction costs into account.

On first recognition, a financial instrument is classified partly based on the reason for its purchase, but also on the options included in IAS 39. The classification determines how the financial instrument is measured after the first recognition as described below.

Financial assets and liabilities valued at fair value through profit or loss

Financial instruments in this category are measured continuously at fair value with changes in value reported in the income statement.

This category consists of two sub-groups: in part, financial assets and liabilities held for trade and, in part, other financial assets and liabilities allocated to this category by Kommuninvest on first recognition.

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

The second sub-group includes assets such as lending and investments. The reason Kommuninvest has classified assets to this category is to rectify an accounting mismatch that would otherwise arise regarding measurement and recognition. Risk management instruments in the form of derivative contracts are used to limit the market risks that arise when the terms for borrowing, lending and investment do not match. It would result in an accounting mismatch if the derivatives were measured at fair value through profit or loss but not the associated lending or investment.

The second sub-group also includes liabilities to credit institutions and issued securities. This refers primarily borrowing at fixed interest and structured borrowing. The reason for classifying borrowing at fixed interest in this category is that these borrowings are hedged financially with a derivative at fair value and the borrowings are mainly used for loans measured at fair value. It would be inconsistent to measure lending and derivatives at fair value but not borrowings.

The reason for classifying structured credit in this category is that the borrowing contains material embedded derivatives and that it significantly reduces inconsistencies in the valuation of free-standing derivatives and borrowing.

Loans and receivables

Loan receivables and accounts receivable are assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at the amount estimated to be paid, i.e. with a deduction for doubtful receivables. This includes lending to credit institutions and certain other lending.

Available-for-sale financial assets

This category includes Kommuninvest's investments in interest-bearing securities which are not included in the trading operations or have an accompanying interest hedging derivative.

Assets in this category are constantly valued at fair value with value changes recognised on other comprehensive income. Changes in value due to writedowns or exchange rate differ-

ences are recognised in the income statement. Interest is also recognised in the income statement.

Measurement at fair value recognised on other comprehensive income is on-going until the instrument matures or is divested. On divestment of the asset the accumulated gain or loss, which was previously recognised on other comprehensive income, is recognised in the income statement.

Other financial liabilities

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

Hedge accounting

To obtain a true and fair picture of the operation, Kommuninvest applies, where possible, hedge accounting of fair value for the assets and liabilities which have been hedged with one or more financial instruments. The hedged risk is the risk of fluctuations in fair value as a consequence of changes in the interest on swaps. The hedged item is therefore reassessed on the basis of changes in the fair value of the hedged risk. Kommuninvest uses interest rate and currency swaps as hedge instruments. This means that the asset/liability is measured at fair value through profit or loss with regard to the components which the instrument hedges.

Any inefficiency is recognised in the income statement. If a hedging relationship does not fulfil the efficiency requirements, the relationship is severed and the asset/liability is recognised at amortised cost and the accumulated change in value of the asset/liability is allocated over the remaining term. Kommuninvest's hedging relationships have been deemed highly efficient.

Credit losses and writedowns on financial instruments

The special status of the local government authorities in the Swedish constitution and their right to levy taxes mean that municipalities and county councils cannot be declared bankrupt. Neither can they cease to exist in any other way. This entails an implicit government guarantee for their commitments. Moreover, it is forbidden to pledge local government property as security for a loan, which means that municipalities and county councils are liable for all obligations they enter into, with all their tax power and their total assets.

At each reporting date, Kommuninvest evaluates whether there is objective evidence that any writedown is necessary for a financial asset or group of assets as the result of one or more events (loss events) occurring after first recognition of the asset, and of these loss events having an impact on the estimated future cash flows relating to the asset or group of assets. Objective evidence constitutes 1) observable conditions that have arisen and that have an adverse impact on the possibility of recovering the acquisition cost, and 2) significant or lengthy reduction of the fair value of an investment in a financial investment classed as an available-for-sale financial asset.

Where there are objective indications for the need to recognise impairment of a financial asset reported at accrued cost, the amount of any such impairment is calculated as the difference between the current value of the asset's estimated future cash flows discounted at the original effective rate of interest and the reported value of the asset.

Tangible assets

Tangible fixed assets are recognised as assets in the balance sheet if it is probable that the future economic benefits will flow to Kommuninvest and the cost of the assets can be measured reliably.

Note 2 cont.

Tangible fixed assets are carried at cost less accumulated depreciation.

The recognised value of a tangible fixed asset is derecognised from the balance sheet on scrapping or sale, or when no future economic benefits are expected from its use or the scrapping/sale of the asset. Gain or loss which may arise from the sale or scrapping of an asset constitutes the difference between the sale price and the asset's recognised value less direct sales costs. Gain and loss are recognised as other operating income/expense.

Depreciation is carried out on a linear basis over the asset's estimated useful life. Kommuninvest calculates a useful life of five years for equipment. Works of art included in the balance sheet are not depreciated.

Pension through insurance

Kommuninvest's pension plans for service pensions under collective agreements are safeguarded through an insurance agreement with SPP.

According to IAS 19, a defined contribution pension plan is a plan for remuneration after termination of employment whereby the company pays pre-determined fees to a separate legal entity, and has no legal or informal obligation to make further payments if the legal entity has insufficient assets to pay all employee benefits relating to service during the current and earlier periods. A defined benefit pension plan is classed as a different type of plan for post-employment benefit to a defined contribution plan.

The pension plan for Kommuninvest's employees has been deemed a defined contribution plan encompassing more than one employer. Kommuninvest's pension payments are entered as a cost in the income statement at the rate at which they are earned as employees carry out services for Kommuninvest during a particular period. Premiums are paid to SPP based on the current salary.

In addition to collectively agreed service pensions, Kommuninvest has also made a defined contribution pension obligation to the President in a separate agreement. The pension obligation is invested in an endowment insurance which is recognised in shares and participations. The insurance is also pledged for the pension obligation. With regard to liabilities, the pension obligation is recognised as a provision.

The year's costs for these insurance premiums are shown in Note 8.

General administration expenses

General administration expenses encompass personnel costs, including salaries and emoluments, pension expenses, employer's contributions and other social security contributions. Other expenses included in administrative expenses are the stability fee, costs for consultants, premises, training, IT, telecommunications, travel and representation, ratings, market data, and the costs of maintaining an aftermarket for issued securities.

Other operating expenses

Other operating expenses primarily include expenses for marketing and insurance.

Leasing

All leasing agreements are for operating leases. Lease fees are periodised and recognised on a straight-line basis over the duration of the leasing agreement.

Taxes

Tax expense includes current tax and deferred tax. Income taxes are recognised in the income statement, except when the underlying transaction is recognised directly against other comprehensive income or equity, whereby the appurtenant tax is also recognised in other comprehensive income or equity.

Current taxes are taxes that must be paid for the current year. This also includes adjustments to current taxes attributable to previous periods.

Deferred tax is calculated on the basis of temporary differences between reported and tax values of assets and liabilities according to the balance sheet approach.

Group contributions

Kommuninvest recognises Group contributions paid to the parent company directly against equity.

Cash flow statement

The cash flow statement has been prepared using the indirect method. Operating profit has been adjusted for changes not included in operational activities. The cash flow statement has been divided into inward and outward payments from operational activities, investment activities and financing activities.

Segment reporting

Kommuninvest i Sverige AB does not prepare segment reports since it has only one segment: lending to members. All operations are conducted in Sweden and all customers are domiciled in Sweden. Kommuninvest i Sverige AB has no single customer who accounts for 10 percent of income or more.

Note 3 Financial risks

For information on risk management, see pages 22–35.

Credit risk exposure

2013	Total credit risk exposure (before impairment)	Writedown/provision	Recognised value	Value of collateral	Total credit risk exposure after deduction for collateral
Credit against security of:					
Government and municipal guarantees	208,644.0	–	208,644.0	–	208,644.0
Total	208,644.0	–	208,644.0	–	208,644.0
Securities					
Government securities and other public bodies					
– AAA	10,715.3	–	10,715.3	–	10,715.3
– AA	3,910.9	–	3,910.9	–	3,910.9
– no rating	–	–	–	–	0.0
Other issuers					
– AAA	35,015.4	–	35,015.4	–	35,015.4
– AA	9,547.5	–	9,547.5	661.2	8,886.3
– A	1,072.4	–	1,072.4	26.2	1,046.2
– BBB	2,119.9	–	2,119.9	2,109.5	10.4
Total	62,381.4	–	62,381.4	2,796.9	59,584.4
Derivatives					
– AA	2,297.5	–	2,297.5	18.9	2,278.6
– A	3,379.3	–	3,379.3	1,064.8	2,314.5
– BBB	559.0	–	559.0	–	559.0
Total	6,235.8	–	6,235.8	1,083.7	5,152.1
Obligations					
Committed undisbursed loans against municipal guarantees					
	3,480.0	–	3,480.0	–	3,480.0
Total	3,480.0	–	3,480.0	–	3,480.0
Total credit risk exposure	280,741.2	–	280,741.2	3,880.6	276,860.5

Kommuninvest had no direct exposure to Greece, Ireland, Italy, Spain or Portugal. Securities with a BBB rating pertain to secured lending to Danske Bank. Securities that lack a rating pertain to the Municipality of Umeå. Derivatives with a BBB rating pertain to Danske Bank, AEG and Morgan Stanley.

2012	Total credit risk exposure (before impairment)	Writedown/provision	Recognised value	Value of collateral	Total credit risk exposure after deduction for collateral
Credit against security of:					
Government and municipal guarantees	200,950.7	–	200,950.7	–	200,950.7
Total	200,950.7	–	200,950.7	–	200,950.7
Securities					
Government securities and other public bodies					
– AAA	8,829.9	–	8,829.9	–	8,829.9
– AA	2,129.6	–	2,129.6	–	2,129.6
– no rating	201.3	–	201.3	–	201.3
Other issuers					
– AAA	35,481.4	–	35,481.4	–	35,481.4
– AA	10,146.8	–	10,146.8	3,167.4	6,979.4
– A	2,260.2	–	2,260.2	587.6	1,672.6
– BBB	11,863.7	–	11,863.7	11,863.7	0.0
– BB	160.2	–	160.2	–	160.2
Total	71,073.1	–	71,073.1	15,618.7	55,454.4
Derivatives					
– AA	3,620.0	–	3,620.0	215.1	3,404.9
– A	5,998.4	–	5,998.4	2,206.6	3,791.8
– BBB	1,439.0	–	1,439.0	372.1	1,066.9
Total	11,057.4	–	11,057.4	2,793.8	8,263.6
Obligations					
Committed undisbursed loans against municipal guarantees					
	2,876.4	–	2,876.4	–	2,876.4
Total	2,876.4	–	2,876.4	–	2,876.4
Total credit risk exposure	285,957.6	–	285,957.6	18,412.5	267,545.1

Kommuninvest had no direct exposure to Greece, Ireland, Italy, Spain or Portugal. Securities with a BB rating pertain to Exportfinans of Norway. Securities with a BBB rating pertain to secured lending to Danske Bank. Securities that lack a rating pertain to the Municipality of Umeå. Derivatives with a BBB rating pertain to Danske Bank.

Note 3 cont.

Maturity information¹

2013	Nominal cash flows – contractual remaining duration						Total
	On demand	At most 3 months	More than 3 months but max. 1 year	More than 1 year but max. 5 years	Longer than 5 years	No maturity	
Liquidity exposure							
Assets							
Sovereign bonds eligible as collateral	–	5,604.6	3,020.1	5,885.5	–	–	14,510.2
Lending to credit institutions	–	2,703.0	–	–	–	–	2,703.0
Lending	–	46,398.5	33,317.2	111,522.2	15,398.8	–	206,636.7
Bonds and other interest-bearing securities	–	3,843.5	7,056.3	32,637.9	469.6	–	44,007.3
Derivatives	–	41,822.5	60,990.3	296,482.2	32,353.1	–	431,648.1
Other asset items	–	–	–	–	–	197.6	197.6
Total assets	–	100,372.1	104,383.9	446,527.8	48,221.5	197.6	699,702.9
Liabilities							
Liabilities to credit institutions	–	1,624.4	–	1,874.2	678.8	–	4,177.4
Securities issued	–	24,984.1	52,076.1	155,389.9	21,031.3	–	253,481.4
Derivatives	–	43,043.9	62,277.6	299,961.0	33,145.4	–	438,427.9
Other liabilities	–	–	–	–	–	888.6	888.6
Subordinated liabilities	–	–	–	–	1,000.0	–	1,000.0
Equity	–	–	–	–	–	1,727.7	1,727.7
Total equity and liabilities	–	69,652.4	114,353.7	457,225.1	55,855.5	2,616.3	699,702.9
Net	–	30,719.7	–9,969.8	–10,697.3	–7,634.0	–2,418.7	0.0
Committed undisbursed loans	3 480.0	–	–	–	–	–	–

2012	Nominal cash flows – contractual remaining duration						Total
	On demand	At most 3 months	More than 3 months but max. 1 year	More than 1 year but max. 5 years	Longer than 5 years	No maturity	
Liquidity exposure							
Assets							
Sovereign bonds eligible as collateral	–	4,450.0	2,487.8	4,064.7	–	–	11,002.5
Lending to credit institutions	–	14,414.8	–	–	–	–	14,414.8
Lending	–	65,920.6	29,423.7	97,512.9	10,836.9	–	203,694.1
Bonds and other interest-bearing securities	–	5,280.8	5,968.0	30,480.6	552.7	–	42,282.1
Derivatives	–	93,805.0	65,574.9	245,207.0	34,985.4	–	439,572.3
Other asset items	–	202.4	–	–	–	–	202.4
Total assets	–	184,073.6	103,454.4	377,265.2	46,375.0	–	711,168.2
Liabilities							
Liabilities to credit institutions	–	2,291.8	–	1,628.8	1,410.2	–	5,330.8
Securities issued	–	35,887.4	44,191.7	159,936.1	19,650.1	–	259,665.3
Derivatives	–	94,844.0	66,749.0	248,188.6	33,491.7	–	443,273.3
Other liabilities	–	945.8	–	–	–	–	945.8
Subordinated liabilities	–	–	–	–	1,000.3	–	1,000.3
Equity	–	–	–	–	–	952.7	952.7
Total equity and liabilities	–	133,969.0	110,940.7	409,753.5	55,552.3	952.7	711,168.2
Net	–	50,104.6	–7,486.3	–32,488.3	–9,177.3	–952.7	0.0
Committed undisbursed loans	2 876.4	–	–	–	–	–	–

1) To a large extent, future interest payments involve matching payment flows. These are exclusive of both deposits and outgoing payments.

Note 3 cont.

Maturity information

2013	Recognised values – contractual remaining duration						
	On demand	At most 3 months	More than 3 months but max. 1 year	More than 1 year but max. 5 years	Longer than 5 years	No maturity	Total recognised value
Liquidity exposure							
Assets							
Sovereign bonds eligible as collateral	–	5,613.2	3,094.1	5,918.9	–	–	14,626.2
Lending to credit institutions	–	2,822.2	–	–	–	–	2,822.2
Lending	–	46,570.5	33,528.4	113,121.8	15,423.3	–	208,644.0
Bonds and other interest-bearing securities	–	3,848.7	7,143.4	33,459.6	481.2	–	44,932.9
Derivatives	–	507.7	681.4	4,383.7	663.0	–	6,235.8
Other asset items	–	–	–	–	–	197.6	197.6
Total assets	–	59,362.3	44,447.3	156,884.0	16,567.5	197.6	277,458.7
Liabilities							
Liabilities to credit institutions	–	1,624.9	–	1,989.8	737.3	–	4,352.0
Securities issued	–	24,854.7	52,370.0	157,637.9	21,396.1	–	256,258.7
Derivatives	–	1,956.8	2,033.7	7,991.0	1,250.3	–	13,231.8
Other liabilities	–	–	–	–	–	888.5	888.5
Subordinated liabilities	–	–	–	–	1,000.1	–	1,000.1
Equity	–	–	–	–	–	1,727.6	1,727.6
Total equity and liabilities	–	28,436.4	54,403.7	167,618.7	24,383.8	2,616.1	277,458.7
Total difference	–	30,926.2	–9,956.5	–10,734.7	–7,816.3	–2,418.7	0.0
Committed undisbursed loans	3 480.0	–	–	–	–	–	–

2012	Recognised values – contractual remaining duration						
	On demand	At most 3 months	More than 3 months but max. 1 year	More than 1 year but max. 5 years	Longer than 5 years	No maturity	Total recognised value
Liquidity exposure							
Assets							
Sovereign bonds eligible as collateral	–	4,445.9	2,492.3	4,222.6	–	–	11,160.8
Lending to credit institutions	–	15,618.6	–	–	–	–	15,618.6
Lending	–	65,452.8	28,246.3	96,416.8	10,834.8	–	200,950.7
Bonds and other interest-bearing securities	–	5,285.3	6,059.0	32,322.1	627.3	–	44,293.7
Derivatives	–	592.9	1,028.8	6,484.8	2,950.9	–	11,057.4
Other asset items	–	202.4	–	–	–	–	202.4
Total assets	–	91,597.9	37,826.4	139,446.3	14,413.0	–	283,283.6
Liabilities							
Liabilities to credit institutions	–	2,353.1	–	1,693.2	1,564.1	–	5,610.4
Securities issued	–	35,754.8	45,138.7	162,976.4	13,387.4	–	257,257.3
Derivatives	–	2,448.8	2,257.9	10,675.8	2,134.7	–	17,517.2
Other liabilities	–	945.7	–	–	–	–	945.7
Subordinated liabilities	–	–	–	–	1,000.3	–	1,000.3
Equity	–	–	–	–	–	952.7	952.7
Total equity and liabilities	–	41,502.4	47,396.6	175,345.4	18,086.5	952.7	283,283.6
Total difference	–	50,095.5	–9,570.2	–35,899.1	–3,673.5	–952.7	0.0
Committed undisbursed loans	2,876.4	–	–	–	–	–	–

Note 3 cont.

Fixed interest terms, Interest exposure

2013	Nominal cash flows						Total
	Fixed interest terms for assets and liabilities – interest exposure	At most 3 months	More than 3 months but max. 1 year	More than 1 year but max. 5 years	More than 5 years. but max. 10 years	More than 10 years	
Assets							
Sovereign bonds eligible as collateral	6,981.0	2,920.0	4,609.2	–	–	–	14,510.2
Lending to credit institutions	2,703.0	–	–	–	–	–	2,703.0
Lending	115,239.5	12,938.7	65,404.3	12,705.2	349.0	–	206,636.7
Bonds and other interest-bearing securities	13,064.1	4,234.8	26,238.8	469.6	–	–	44,007.3
Derivatives	266,617.3	26,896.6	122,727.7	14,233.0	1,173.6	–	431,648.1
Other assets	–	–	–	–	–	197.6	197.6
Total assets	404,604.9	46,990.0	218,980.1	27,407.7	1,522.6	197.6	699,703.0
Equity and liabilities							
Liabilities to credit institutions	2,586.0	–	1,413.3	–	178.2	–	4,177.4
Securities issued	78,410.9	30,250.7	126,792.8	17,031.5	995.5	–	253,481.4
Derivatives	317,249.3	18,996.6	91,456.8	10,376.2	349.0	–	438,427.9
Other liabilities	–	–	–	–	–	888.6	888.6
Subordinated liabilities	1,000.0	–	–	–	–	–	1,000.0
Equity	–	–	–	–	–	1,727.7	1,727.7
Total equity and liabilities	399,246.1	49,247.3	219,662.9	27,407.7	1,522.6	2,616.3	699,703.0
Net	5,358.8	-2,257.3	-682.8	0.0	0.0	-2,418.7	0.0

2012	Nominal cash flows						Total
	Fixed interest terms for assets and liabilities – interest exposure	At most 3 months	More than 3 months but max. 1 year	More than 1 year but max. 5 years	More than 5 years. but max. 10 years	More than 10 years	
Assets							
Sovereign bonds eligible as collateral	6,160.8	1,462.8	3,378.9	–	–	–	11,002.5
Lending to credit institutions	14,414.8	–	–	–	–	–	14,414.8
Lending	120,033.2	8,900.3	65,714.4	8,677.2	369.0	–	203,694.1
Bonds and other interest-bearing securities	16,510.7	3,607.6	21,611.1	552.7	–	–	42,282.1
Derivatives	290,636.2	45,580.4	93,030.0	9,325.7	1,000.0	–	439,572.3
Other assets	–	–	–	–	–	202.4	202.4
Total assets	447,755.7	59,551.1	183,734.4	18,555.6	1,369.0	202.4	711,168.2
Equity and liabilities							
Liabilities to credit institutions	3,420.9	–	1,154.2	755.7	–	–	5,330.8
Securities issued	95,295.5	49,873.4	104,926.4	8,570.0	1,000.0	–	259,665.3
Derivatives	335,985.9	18,977.4	78,710.9	9,230.1	369.0	–	443,273.3
Other liabilities	–	–	–	–	–	945.8	945.8
Subordinated liabilities	1,000.3	–	–	–	–	–	1,000.3
Equity	–	–	–	–	–	952.7	952.7
Total equity and liabilities	435,702.6	68,850.8	184,791.5	18,555.8	1,369.0	1,898.5	711,168.2
Net	12,053.1	-9,299.7	-1,057.1	-0.2	0.0	-1,696.1	0.0

Financial statements

Note 3 cont.

Foreign exchange risk¹

2013	Recognised value							Total
	SEK	EUR	USD	JPY	GBP	Other currencies	Fair value adjustment	
Assets and liabilities in major foreign currencies								
Assets								
Lending to credit institutions	2,807.4	10.5	4.2	-0.1	0.1	0.1	-	2,822.2
Lending	207,657.2	-	-	-	-	-	986.8	208,644.0
Interest-bearing securities	29,659.8	10,946.3	18,450.1	-	-	-	502.8	59,559.1
Shares and participations	34.6	-	-	-	-	-	-	34.6
Derivatives	-	-	-	-	-	-	6,235.8	6,235.8
Other assets	108.4	0.0	0.0	0.0	-	-	54.6	163.0
Total assets	240,267.5	10,956.8	18,454.3	-0.1	0.1	0.1	7,780.0	277,458.7
Liabilities								
Liabilities to credit institutions	1,625.0	1,140.9	-	1,422.5	-	-	163.6	4,352.0
Securities issued	100,183.7	3,524.0	108,756.4	15,664.0	4,053.0	22,942.7	1,134.9	256,258.7
Derivatives	134,655.9	6,291.8	-90,306.5	-17,086.9	-4,053.0	-22,944.5	6,675.0	13,231.8
Subordinated liabilities	1,000.1	-	-	-	-	-	-	1,000.1
Other liabilities incl. equity	2,806.5	0.0	1.0	0.4	0.0	1.7	-193.5	2,616.1
Total equity and liabilities	240,271.2	10,956.7	18,450.9	0.0	0.0	-0.1	7,780.0	277,458.7
Difference, assets and liabilities	-3.7	0.1	3.4	-0.1	0.1	0.2	0.0	0.0
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-	0.0	0.3	0.0	0.0	0.0	0.0	-

2012	Recognised value							Total
	SEK	EUR	USD	JPY	GBP	Other currencies	Fair value adjustment	
Assets and liabilities in major foreign currencies								
Assets								
Lending to credit institutions	15,616.0	2.6	-	-0.2	0.1	0.1	-	15,618.6
Lending	198,915.6	-	-	-	-	-	2,035.1	200,950.7
Interest-bearing securities	29,701.0	7,833.0	18,684.9	-	-	-	-764.4	55,454.5
Shares and participations	34.2	-	-	-	-	-	-	34.2
Derivatives	-	-	-	-	-	-	11,057.4	11,057.4
Other assets	111.2	-	0.1	-	-	-	56.9	168.2
Total assets	244,378.0	7,835.6	18,685.0	-0.2	0.1	0.1	12,385.0	283,283.6
Liabilities								
Liabilities to credit institutions	2,384.6	1,270.8	-	1,749.5	-	-	205.5	5,610.4
Securities issued	76,645.7	2,383.3	83,325.4	48,049.0	15,844.0	31,519.7	-509.8	257,257.3
Derivatives	162,259.7	4,180.5	-64,651.6	-49,798.5	-15,844.0	-31,519.7	12,890.8	17,517.2
Subordinated liabilities	1,000.3	-	-	-	-	-	-	1,000.3
Other liabilities incl. equity	2,099.9	-	-	-	-	-	-201.5	1,898.4
Total equity and liabilities	244,390.2	7,834.6	18,673.8	0.0	0.0	0.0	12,385.0	283,283.6
Difference, assets and liabilities	-12.2	1.0	11.2	-0.2	0.1	0.1	0.0	0.0
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-	0.1	1.1	0.0	0.0	0.0	-	-

1) Kommuninvest has elected to present fair value adjustments totalled by balance sheet item rather than by currency since currency risk is assessed on the basis of contracted payment flows.

Member responsibilities

Municipalities and county councils that are members of the Kommuninvest Cooperative Society have entered a joint and several guarantee covering all of the Company's commitments. Kommuninvest's operations have changed considerably since the inception of the company in 1986. The company borrows

funds in advance to be prepared for members' borrowing needs and to meet requirements imposed by authorities and rating institutes, and it uses hedging instruments (derivatives) to mitigate the risks in its operations.

In 2010, two agreements were prepared in addition to the basic joint and several guarantee to clarify the responsibility of

Note 3 cont.

the members. One is a guarantee agreement regulating the responsibility for counterparty exposures in derivatives and replaces earlier clauses in the documentation of loans. The other is an updated regress agreement that details the members' mutual responsibility. The agreements clarify and replace the earlier responsibility according to the regress agreement and promissory Note terms. The agreements were adopted by the member authorities individually during 2011.

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

The statement of undertaking is based on the following items in Kommuninvest's balance sheet as per 31 December 2013 (SEK, millions).

Liabilities to credit institutions	4,352.0
Securities issued	256,258.7
Total borrowing	260,610.7

Liabilities, according to statement of undertaking

Loaned borrowing (1)	198,229.4
Borrowing not loaned (2)	62,381.3
Total borrowing	260,610.7

Other liabilities (2)	888.6
Derivatives* connected with loaned borrowing (1)	7,902.5
Total liabilities/undertaking	269,401.7

Assets, according to statement of undertaking

Loaned borrowing (1), see Note 13	208,644.1
Borrowing not loaned (2), see Note 3, 12, 14	62,381.3
Other assets (2)	197.6
Derivatives* connected with loaned borrowing (1)	115.2
Total assets	271,338.2

Basis for distribution:

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

* The derivatives (hedging contracts) are included gross in the company's balance sheet (see Note 3), that is contract by contract, and are recognized as an asset when Kommuninvest has a claim against the counterparty and as a liability when the counterparty has a claim against Kommuninvest.

In the statement of undertaking, the derivatives are recognized net per counterparty, that is, claims against the same counterparty have been netted against liabilities to the same counterparty. In addition, the derivatives recognised above as assets have been reduced by collateral received, such as government bonds. At 31 December 2013, collateral received amounted to SEK 3,881 (18,413) million and may only be used to cover outstanding exposures. These are disclosed in Note 3 on page 54 but may not be reduced in the balance sheet. The company currently has no pledged for liabilities in connection with derivatives.

Note 4 Net interest income

	2013	2012
Interest revenues		
Lending to credit institutions	0.0	6.8
Lending	3,791.2	4,929.8
Interest-bearing securities	778.1	1,109.0
Other	1.9	0.6
Total	4,571.2	6,046.2
Of which: interest income from financial items not measured at fair value through the income statement	3,261.0	3,748.4
Interest expenses		
Liabilities to credit institutions	0.4	0.0
Interest-bearing securities	3,577.1	5,254.7
Other	24.2	19.8
Total	3,601.7	5,274.5
Of which: interest expense from financial items not measured at fair value through the income statement	3,373.3	2,682.2
Total net interest income	969.5	771.7

Note 5 Commission expenses

	2013	2012
Payment agency commissions	2.2	1.3
Brokerage for securities	3.2	6.7
Other commissions	0.2	0.5
Total	5.6	8.5

Note 6 Net result of financial transactions

	2013	2012
Result from buyback of own bonds	13.3	24.1
Interest-bearing securities	1.7	-25.2
Other financial instruments	6.1	-6.4
Unrealised changes in market value	17.6	-260.9
Exchange rate changes	0.0	1.3
Total	38.7	-267.1
Net gain/loss by measurement category	2013	2012
Financial assets at fair value through profit or loss	-1,064.0	700.9
Holdings for trading purposes (assets)	301.5	1,171.2
Loans and receivables	3.2	-
Financial liabilities at fair value through profit or loss	-1,787.4	-2,818.6
Holdings for trading purposes (liabilities)	2,595.5	772.8
Capital gains/losses on available-for-sale financial assets	1.0	-24.4
Change in fair value of derivatives that are hedging instruments in fair value hedge	-1,499.7	190.3
Change in fair value on hedged item with regard to hedged risk in fair value hedges	1,488.6	-260.6
Exchange rate changes	0.0	1.3
Total	38.7	-267.1
Results (net)		
Net result of available-for-sale financial assets recognised in other comprehensive income	-7.3	148.4

Note 7 Other operating income

	2013	2012
Legal representation fees in connection with dispute	–	4.6
Other operating income	0.2	0.0
Total	0.2	4.6

Note 8 General administration expenses

Payroll expenses, in SEK, thousands	2013	2012
– salaries and emoluments	47,562	43,577
– social security charges	15,004	13,513
– pension expenses	8,519	7,285
– special payroll tax on pension expenses	2,066	1,718
– education/training costs	1,852	1,733
– other personnel expenses	5,701	5,007
Total personnel costs	80,704	72,833
Other general administration expenses		
– travel expenses	3,798	4,013
– IT expenses	13,293	13,576
– consultancy fees	18,550	20,046
– temporary/contract personnel	1,684	1,967
– rating expenses	905	7,601
– market data	5,388	5,391
– rent and other expenses for premises	3,148	3,093
– annual and interim reports	698	1,595
– stability fee	99,015	101,346
– other	12,132	12,491
Total other general administration expenses	158,611	171,119
Total	239,315	243,952

Remuneration policy

The company applies a remuneration policy that explains that Kommuninvest does not apply variable remuneration. No variable remuneration has been paid to Kommuninvest employees in 2013.

Remuneration to senior executives

Remuneration for the President and CEO has been decided by the Board. For 2013, the President and CEO received SEK 2,890,000 (2,708,000) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to SEK 804,000 (820,000) and are covered by insurance. Part of the insurance cost relates to endowment insurance for pension obligations. The obligation contains survivors' protection. The pension is vested, i.e. not conditional on future employment. For termination initiated by the company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration for the Deputy CEO has been decided by the President after consultation with the Board Chairman. The

Deputy CEO received SEK 1,836,000 (1,830,000) in basic salary for 2013. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to SEK 424,000 (418,000) and are covered by insurance. For termination initiated by the company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration details regarding other senior executives only include remunerations paid during the period in which each individual has been a senior executive. Remuneration to other senior executives in the corporate management, totalling 4 (3) at the end of the year, of whom 2 (2) were women and 2 (1) were men, has been determined by the President in consultation with the Chairman. During the year, 1 new executive was appointed; a man. During the period February to December 2013, other senior executives consisted of 4 individuals. During January, other senior executives consisted of 5 people, of whom 2 were women and 3 were men. The total amount of the remuneration for these people amounted to SEK 3,752,000 (4,251,000) for the period in which they were members of the corporate management team. The pension expenses are covered through insurance.

According to the Board's work procedures, as adopted in 2013, the Chairman of the Board is responsible for ensuring that the company's remuneration policy and remuneration systems are independently reviewed and for preparing Board decisions regarding a) remunerations to senior executives, b) remunerations to employees with overarching responsibility for any of the company's control functions, and c) measures for following-up the application of the company's remuneration policy.

Remuneration to the Board of Directors

At the end of the year, the Board of Directors comprised 7 (8) members, of whom 4 (4) were women. Ellen Bramness Arvidsson is the Chairman of the Board.

Remuneration to the Board, within the framework of the Board fees approved by the Annual General Meeting, is shown in the table below. The Chairman of the Board is paid a fixed fee of SEK 400,000. Other Board members receive a fixed fee of SEK 100,000 and a variable fee of SEK 10,000 per meeting and SEK 5,000 per meeting by phone. No fee is paid to the employee representative.

Kommuninvest does not have any pension obligations or any particular conditions of notice for the Board of Directors.

In SEK, thousands	2013	2012
Björn Börjesson 1 January–4 December 2012	–	400
Ellen Bramness Arvidsson	400	225
Lorentz Andersson	175	155
Kurt Eliasson	160	135
Anna von Knorring	165	135
Catharina Lagerstam	150	145
Anna Sandborgh	175	155
Johan Törngren	175	155
Anders Pelander, employee representative effective from 28 August 2012	–	–
Total	1,400	1,505

Note 8 cont.

Wages and remunerations

2013, in SEK, thousands	Basic salary/ Board fee	Variable pay	Other benefits	Pension expense	Other remuneration	Total
Board of Directors	1,400	–	–	–	–	1,400
President and CEO	2,890	–	86	804	–	3,780
Deputy CEO	1,836	–	1	424	–	2,261
Other members of company management	3,752	–	15	1,330	–	5,097
Other salaried employees	37,685	–	251	4,876	–	42,812
Total	47,563	–	353	7,434	–	55,350

2012	Basic salary/ Board fee	Variable pay	Other benefits	Pension expense	Other remuneration	Total
Board of Directors	1,505	–	–	–	–	1,505
President and CEO	2,708	–	79	820	–	3,607
Deputy CEO	1,830	–	–	418	–	2,248
Other members of company management	4,251	–	8	966	–	5,225
Other salaried employees	33,283	–	210	5,081	–	38,574
Total	43,577	–	297	7,285	–	51,159

Average number of employees	2013	2012
Average number of employees during the year	66	62
– of whom women	27	27

Emoluments and costs for the auditors	2013	2012
Ernst & Young AB Auditing engagement	982	939
Other audit services	1,605	1,559
Other services	1,034	764

Auditing work refers to the scrutiny of the annual report and bookkeeping and administration by the Board of Directors and President, other tasks that are the responsibility of Kommuninvest i Sverige AB's auditors, and other advice or assistance brought about by observations from such audits and/or performance of other tasks. The term Other audit services refers to quality assessment services, such as reviews resulting in reports or attestations intended for recipients including others that the client. Other services refers to those not included in any of the above.

Operating leases where Kommuninvest i Sverige AB is the lessee	2013	2012
Non-cancellable lease payments amount to:		
Within one year	3,482	3,553
Between one and five years	6,362	4,710
Total	9,844	8,263

Expenses over the year amounted to SEK 3,483,000 (3,448,000).

Note 9 Other operating expenses

	2013	2012
Insurance expenses	0.7	0.6
Communication and information	2.6	4.2
Other operating expenses	0.2	0.2
Total	3.5	5.0

Note 10 Appropriations

	2013	2012
Reversal of tax allocation reserve	–	204.0
Total	–	204.0

Note 11 Taxes

Recognised in income statement	2013	2012
Current tax expense	163.0	188.7
Deferred tax expense (+) / tax income (-) attributable to temporary differences	3.9	-56.2
Total tax expense recognised	166.9	132.5

Reconciliation of effective tax	2013 %	2013	2012 %	2012
Profit/loss before tax		757.6		453.1
Tax according to prevailing tax rate	22.0%	166.7	26.3%	119.2
Non-deductible expenses	0.0%	0.2	0.1%	0.3
Effect of changed tax rates	0.0%	-	2.7%	12.4
Standard interest on tax allocation reserve	0.0%	-	0.1%	0.6
Recognised effective tax	22.0%	166.9	29.3%	132.5

Tax expense attributable to other comprehensive income	2013	2012
Available-for-sale financial assets	-1.6	37.6
Loans and receivables	-	0.3
Total other comprehensive income	-1.6	37.9

Recognised in the balance sheet

Current tax assets	2013	2012
Current tax assets	79.0	79.0
	79.0	79.0

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following:

	Deferred tax assets		Deferred tax liabilities		Net	
	2013	2012	2013	2012	2013	2012
Unrealised changes in market value						
- of which, recognised in the income statement	59.5	63.3	-	-	59.5	63.3
- of which, recognised in other comprehensive income	-4.9	-6.5	-	-	-4.9	-6.5
Tax assets/liabilities, net	54.6	56.8	-	-	54.6	56.8

Tax items entered directly against equity	2013	2012
Current tax on group contributions paid	163.0	188.7
Total sum entered directly against equity	163.0	188.7

Note 12 Sovereign bonds eligible as collateral

	2013			2012		
	Acquisition cost	Fair value	Recognised value	Acquisition cost	Fair value	Recognised value
Sovereign bonds eligible as collateral						
- Swedish central government	9,024.6	9,073.0	9,073.0	6,792.5	6,809.3	6,809.3
- Swedish municipalities	1,851.4	1,865.0	1,865.0	2,086.6	2,103.7	2,103.7
- Foreign governments	3,714.8	3,688.2	3,688.2	2,213.6	2,247.8	2,247.8
Total	14,590.8	14,626.2	14,626.2	11,092.7	11,160.8	11,160.8
of which:						
- Securities listed on an exchange			14,626.2			11,160.8
- Unlisted securities			0.0			0.0
Positive difference of book values exceeding nominal values			154.9			171.3
Negative difference of book values falling below nominal values			-12.5			-13.0
Total			142.4			158.3

Note 13 Lending

Lending refers to lending to municipalities and county councils, as well as to companies owned by municipalities and county councils. Approximately 40.9 percent (45.1) of total lending is direct to municipalities and county councils that are members of Kommuninvest Cooperative Society. The remain-

der is to their corporations, which have municipal guarantees, and are mainly municipal housing corporations 30.0 percent (30.7) and other companies with municipal guarantees 29.1 percent (24.2). In Kommuninvest's assessment, no writedowns were required as per 31 December 2013.

Note 14 Bonds and other interest-bearing securities

	2013			2012		
	Acquisition cost	Fair value	Recognised value	Acquisition cost	Fair value	Recognised value
Bonds and other interest-bearing securities						
- Swedish mortgage finance institutions	17,519.7	17,825.2	17,825.2	17,100.4	17,727.5	17,727.5
- Other Swedish issuers	874.5	904.4	904.4	690.4	731.3	731.3
- other foreign issuers	26,050.3	26,203.3	26,203.3	25,480.6	25,834.9	25,834.9
Total	44,444.5	44,932.9	44,932.9	43,271.4	44,293.7	44,293.7
of which:						
- Securities listed on an exchange			43,302.5			42,189.8
- Unlisted securities			1,630.4			2,103.9
Positive difference of book values exceeding nominal values			1,804.7			2,024.2
Negative difference of book values falling below nominal values			-35.4			-12.6
Total			1,769.3			2,011.6

Note 15 Shares and participations

	2013	2012
Endowment insurance	2.1	1.7
Total shares and participations	2.1	1.7

Note 16 Shares and participations in associated companies

Administrative Solutions NLGFA AB, holding 50 percent
Reg. no: SE-556581-0669, Örebro, Sweden

	2013	2012
Number of shares: 500	0.5	0.5
Total	0.5	0.5

As per 31 December 2013, Administrative Solutions NLGFA had a balance sheet total of SEK 8.7 (6.6) million, equity of SEK 2.0 (1.9) million and generated a profit of SEK 0.1 (0.04) million.

Note 17 Shares and participations in subsidiaries

Kommuninvest Fastighets AB, holding 100 percent.
Reg. no: SE-556464-5629, Örebro, Sweden

	2013	2012
Number of shares: 1,000	32.0	32.0
Total	32.0	32.0

As per 31 December 2013, Kommuninvest Fastighets AB had a balance sheet total of SEK 45.1 (45.7) million, equity of SEK 10.7 (11.8) million and generated a profit of SEK -0.1 (-2.7) million.

Note 18 Tangible assets

	2013	2012
<i>Acquisition value</i>		
Acquisition value brought forward	18.5	16.9
Investments for the year	1.6	1.6
Disposals	-0.8	-
Acquisition value carried forward	19.3	18.5
<i>Depreciation</i>		
Opening balance, depreciation	-12.9	-10.2
Depreciation for the year	-2.4	-2.7
Disposals	0.6	-
Depreciation carried forward	-14.7	-12.9
Planned residual value at the end of the accounting period	4.6	5.6

Note 19 Other liabilities

	2013	2012
Liabilities to parent society	741.1	805.3
Other liabilities	23.5	13.1
Total	764.6	818.4

Note 20 Accrued expenses and prepaid revenues

	2013	2012
Accrued stability fee	99.3	101.6
Other accrued expenses	22.1	23.6
Total	121.4	125.2

Note 21 Provisions for pensions and similar commitments

	2013	2012
Provisions for pensions obligations	2.5	2.1
Total	2.5	2.1

Note 22 Subordinated liabilities

	Currency	Nom	Interest rate (%)	Due date	Recognised value	
					2013	2012
Debenture loan	SEK	1,000.0	Variable	Perpetual	1,000.1	1,000.3
Total		1,000.0			1,000.1	1,000.3

Perpetual debenture with three-month variable Stibor-linked interest. The terms only allow repayment or repurchase on the approval of the Swedish Financial Supervisory Authority. At the earliest, however, this may occur on the interest date five years after the loan date of 30 November 2010 and thereafter on each subsequent interest date. The interest expense for the year totalled SEK 29.4 (38.8) million.

If the loan is not permitted for inclusion in the company's capital base, it may be repaid at any point in its duration. The holder may not transfer the debenture or his/her rights in any other way. The general guarantee undertaking issued by the members of the Kommuninvest Cooperative Society to cover the undertakings of Kommuninvest cannot be invoked regarding the debenture loan.

Note 23 Pledged assets

	2013	2012
In the form of assets pledged for own provisions and liabilities		
Deposited with the Riksbank:		
– Government bonds	5,676.7	5,039.2
– Securities issued by Swedish municipalities and county councils	653.3	2,213.1
– Swedish covered bonds	16,622.2	15,188.3
Endowment insurance for pension obligations	2.1	1.7
Assets pledged, total	22,954.3	22,442.3

The recognised value of liabilities and provisions involving pledges amounted to SEK 2.5 (2.1) million. To qualify for participation in RIX, the Riksbank's system for the transfer of account funds, Kommuninvest is required to deposit securities with the Riksbank. This is also a condition for short-term liquidity management via RIX.

Note 24 Related parties

Related parties

Kommuninvest has a close association with the Kommuninvest Cooperative Society (parent company), Kommuninvest

Fastighets AB (subsidiary) and Administrative Solutions NLGFA AB (associated company).

Related parties, in SEK, thousands	Year	Sales of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest)	Receivables from related parties on 31 December	Liabilities to related parties on 31 December
Kommuninvest Cooperative Society	2013	2,628	48	-29,448	126	1,741,176
	2012	1,217	–	-38,782	13	1,805,579
Kommuninvest Fastighets AB	2013	541	2,404	–	10,539	–
	2012	69	2,376	–	10,000	–
Administrative Solutions NLGFA AB	2013	59	6,913	25	2,706	592
	2012	37	8,012	90	2,001	835

Transactions with key people in senior posts

With regard to salaries, other remuneration and pensions for key people in management positions, please see Note 8.

Note 25 Events after the balance sheet date

Nothing significant has taken place after the balance sheet date.

Note 26 Financial assets and liabilities

2013	Financial assets at fair value through profit or loss		Loan receivables and accounts receivable	Investments held to maturity
	Financial assets determined as belonging to this category	Held for trade		
Sovereign bonds eligible as collateral	13,096.5	-	-	-
Lending to credit institutions	-	-	2,822.2	-
Lending	78,801.3	-	129,842.7	-
Bonds and other interest-bearing securities	32,562.1	-	-	-
Derivatives	-	2,466.2	-	-
Other assets	-	-	11.8	-
Total	124,459.9	2,466.2	132,676.7	-
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
Total	-	-	-	-

2012	Financial assets at fair value through profit or loss		Loan receivables and accounts receivable	Investments held to maturity
	Financial assets determined as belonging to this category	Held for trade		
Sovereign bonds eligible as collateral	9,239.4	-	-	-
Lending to credit institutions	-	-	15,618.6	-
Lending	73,686.7	-	127,264.0	-
Bonds and other interest-bearing securities	27,583.2	250.4	-	-
Derivatives	-	5,525.9	-	-
Other assets	-	-	12.3	-
Total	110,509.3	5,776.3	142,894.9	-
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
Total	-	-	-	-

The recognised value of lending to credit institutions consists of receivables from credit institutions including receivables in genuine repurchasing transactions, which are recognised at amortised cost. The difference between recognised value and fair value pertains to changes in genuine repurchasing transactions.

The recognised value for lending consists of lending recognised at amortised cost, lending included in a fair value hedging relation and lending recognised at fair value.

The recognised value for liabilities to credit institutions and securities issued is composed partly of liabilities recognised at amortised cost, liabilities in a fair value hedging relation and liabilities recognised at fair value.

Calculation of fair value

General

Regardless of whether financial instruments are measured at fair value in the balance sheet or for disclosure purposes, fair value is to be divided up in accordance with the following three levels.

Level 1: valuation is made according to prices noted on an active market for the same instrument.

Level 2: valuation is made on the basis of directly or indirectly observable market data not included in level 1.

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

Available-for-sale financial assets	Financial liabilities at fair value through profit or loss		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
1,529.7	-	-	-	-	14,626.2	14,626.2
-	-	-	-	-	2,822.2	2,822.2
-	-	-	-	-	208,644.0	208,910.0
12,370.8	-	-	-	-	44,932.9	44,932.9
-	-	-	-	3,769.6	6,235.8	6,235.8
-	-	-	-	-	11.8	11.8
13,900.5	-	-	-	3,769.6	277,272.9	277,538.9
-	2,266.2	-	2,085.8	-	4,352.0	4,352.6
-	120,818.5	-	135,440.2	-	256,258.7	256,935.5
-	-	11,606.2	-	1,625.6	13,231.8	13,231.8
-	-	-	761.5	-	761.5	761.5
-	-	-	1,000.1	-	1,000.1	993.7
-	123,084.7	11,606.2	139,287.6	1,625.6	275,604.1	276,275.1

Available-for-sale financial assets	Financial liabilities at fair value through profit or loss		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
1,921.4	-	-	-	-	11,160.8	11,160.8
-	-	-	-	-	15,618.6	15,617.8
-	-	-	-	-	200,950.7	201,156.0
16,460.1	-	-	-	-	44,293.7	44,293.7
-	-	-	-	5,531.5	11,057.4	11,057.4
-	-	-	-	-	12.3	12.3
18,381.5	-	-	-	5,531.5	283,093.5	283,298.0
-	2,610.6	-	2,999.8	-	5,610.4	5,609.7
-	120,098.9	-	137,158.5	-	257,257.4	257,658.8
-	-	16,074.2	-	1,442.9	17,517.1	17,517.1
-	-	-	814.5	-	814.5	814.5
-	-	-	1,000.3	-	1,000.3	995.7
-	122,709.5	16,074.2	141,973.1	1,442.9	282,199.7	282,595.8

As only a small part of Kommuninvest's financial instruments are traded on an active market at listed prices as per level 1, accepted and well established valuation techniques are primarily used to determine fair value. These valuation techniques are based on observable market information in accordance with valuation level 2. The valuation techniques applied are based on discounted cash flows and prices from the primary and secondary markets. Financial instruments for which the valuation includes significant input data not observable in the market or in-house assessments have been classed at valuation level 3.

Lending

Fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted by current new lending margins. This calculation

technique means that when the new lending margin rises, a lower fair value arises for previous lending, and vice versa. Kommuninvest's lending is focused solely on members of Kommuninvest Cooperative Society and to its members' majority-owned companies.

Sovereign bonds eligible as collateral, and bonds and other interest-bearing securities

Investments traded on an active market are valued on the basis of quoted market prices and classified in level 1. For investments where listed market prices do not derive from active trading, fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted on the basis of the issuer's credit risk. These investments are classified in level 2. Most of the investments are

Note 26 cont.

with the Swedish State, Swedish covered bonds, state-guaranteed financial institutions within the OECD and banks in the Nordic region. Kommuninvest holds no positions in structured credit products such as ABS, Asset-Backed Securities, or CDOs, Collateralised Debt Obligations.

Liabilities to credit institutions, securities issued and subordinated liabilities

Funding within the framework of the Swedish local government bond programme is measured at the quoted market price and classified in level 1. Other funding has been measured via a discount of anticipated future cash flows where the discount rate has been set at the swap rate adjusted for current borrowing margins for the structure and market of the funding. Funding where expected future cash flows are dependent on unobservable market data is classified in level 3, if not they are classified in level 2.

Derivatives

Standardised derivatives in the form of FRA contracts scheduled for IMM days and traded in an active market are measured according to level 1. The fair value of other derivatives is calculated via a discount of anticipated future cash flows. Where anticipated future cash flows are dependent on unobservable market data, derivatives are classified in Level 3; otherwise, they are classified in level 2. All derivatives classified in level 3 are swaps matching funding transactions classified in level 3. The discount rate has been set as the current quoted swap rate in each currency. For currency swaps, the discount rate has been adjusted according to current basis swap spreads. Derivatives are reported as assets when they have a positive market value, and as liabilities when they have a negative market value.

Lending to credit institutions, other assets and other liabilities

For these items, the recognised value is an acceptable approximation of fair value. Lending to credit institutions consists of bank accounts and repo transactions with a maximum duration of seven days. Other assets and liabilities consists of accounts receivable and payable, as well as Group-internal receivables and debts.

Significant assumptions and uncertainty factors

Kommuninvest has applied the valuation techniques best deemed to reflect the value of the company's assets and liabilities. Changes in underlying market data could mean changes to the income statement and balance sheet in respect of unrealised market values. The valuation curves are also determined on the basis of current borrowing and lending margins, increased margins on lending leading to unrealised losses when the value of existing business is reduced. Kommuninvest has only a marginal exposure to interest risk and, since it hedges other market risks, it is changes in credit spreads that give rise to the changes in market value.

An increase in the lending price by 10 basis points on the receivables recognised at fair value would mean a negative change in income of SEK 191 (180) million. An increase in the borrowing cost by 10 basis points on the liabilities recognised at fair value would mean a positive change in income of SEK 300 (317) million. A parallel displacement in the borrowing and lending price by 10 basis points would mean a change in income of SEK +/-109 (+/-137) million.

A displacement of the valuation curve upwards or downwards by 10 basis points for the financial instruments valued according to level 3 would mean a change in income of SEK +/-33 (+/-87) million.

All of the above changes pertain to the balance sheet date and are net of tax effects. Impact on equity relates to the tax effect.

All market value effects are unrealised, and as Kommuninvest intends to hold its assets and liabilities to maturity, this means that these values will not normally be realised. Investments that may be made as part of normal management of liquidity and investments represent an exception as do investments necessitated by adjustments to internal and external regulations. Repurchases of borrowing or lending instruments, which always take place on the investors' or customers' initiative respectively, also lead to market values being realised.

Uncertainty in measurement due to unobservable input data

Input data that cannot be observed in the market consist of correlations between market data and volatilities in maturities longer than those for which observable market data are available. Instruments affected by unobservable input data consist of issued structured securities with options for premature redemption and the derivatives that secure these at the transaction level. The recipient leg of such a derivative always consists of the warrants in the issued security and the payment leg of the interbank interest rate +/- a fixed margin.

The effect on profit or loss of these contracts is realised when Kommuninvest's borrowing margins for this type of borrowing change. The scope of the change depends on the anticipated remaining duration of the contracts, which depend in turn on unobservable data. The effect on earnings from the unobservable input data that arises is therefore attributable to how input data affect the estimated remaining maturity of the contract.

Kommuninvest has calculated the duration to 4.4 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable borrowing in the interval of 2.8–5.1 years. This would have an effect on earnings in the interval SEK -1.8 million–SEK +3.1 million.

Approval of valuation models

The valuation models applied are approved by the company's ALCO (Asset and Liability Committee). The Finance department is responsible for the valuation process, including the valuation models. The Risk & Analysis department is responsible for ensuring independent control of the quality of the valuation models and market data used in the valuation.

Note 26 cont.

Financial instruments measured at fair value in the balance sheet

2013	Level 1	Level 2	Level 3	Total
Sovereign bonds eligible as collateral	12,228.9	2,397.3	–	14,626.2
Lending	–	78,801.3	–	78,801.3
Bonds and other interest-bearing securities	31,690.8	13,242.1	–	44,932.9
Derivatives	0.0	5,616.1	619.7	6,235.8
Total	43,919.7	100,056.8	619.7	144,596.2
Liabilities to credit institutions	–	2,039.9	226.3	2,266.2
Securities issued	–	111,981.6	8,836.9	120,818.5
Derivatives	1.7	11,894.2	1,335.9	13,231.8
Total	1.7	125,915.7	10,399.1	136,316.5

Kommuninvest regularly reviews the criteria regarding the classification of financial assets and liabilities valued at fair value, see “Calculation of fair value” on page 66. During 2013, SEK

6,568.6 million was transferred from level 1 to level 2. All transfers are considered to have been made as of 30 June 2013.

2012	Level 1	Level 2	Level 3	Total
Sovereign bonds eligible as collateral	8,081.5	3,079.3	–	11,160.8
Lending	–	73,686.7	–	73,686.7
Bonds and other interest-bearing securities	20,299.6	23,833.9	160.2	44,293.7
Derivatives	9.9	9,354.3	1,693.2	11,057.4
Total	28,391.0	109,954.2	1,853.4	140,198.6
Liabilities to credit institutions	–	2,374.1	236.5	2,610.6
Securities issued	–	85,421.1	34,677.8	120,098.9
Derivatives	1.9	12,987.3	4,527.9	17,517.1
Total	1.9	100,782.5	39,442.2	140,226.6

During 2012, securities valued at SEK 5,987.8 million were transferred from level 2 to level 1. This applies to government securities and institutions with government guarantees.

Changes in level 3

The table below presents a reconciliation of opening and closing balances for financial instruments recognised at fair value in the balance sheet based on an assessment technique proceeding from unobservable input data (level 3). Changes in valuation in level 3 are followed up on a regular basis throughout the year.

	Bonds and interest-bearing securities	Derivative assets	Derivative liabilities	Liabilities to credit institutions	Securities issued	Total
Opening balance, 1 January 2012	150.9	2,581.2	-1,978.0	-228.7	-32,626.0	-32,100.6
Recognised gains and losses:						
– recognised in the income statement (net result of financial transactions)	9.3	-891.3	-2,520.5	-7.8	3,464.8	54.5
Cost, acquisitions	–	3.3	-29.4	–	-17,199.5	-17,225.6
Maturing during the year	–	0.1	–	–	11,682.8	11,682.9
Closing balance, 31 December 2012	160.2	1,693.3	-4,527.9	-236.5	-34,677.9	-37,588.8
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance, 31 December 2012	9.3	-1,137.9	-2,515.6	-7.7	3,731.0	79.1
Opening balance, 1 January 2013	160.2	1,693.3	-4,527.9	-236.5	-34,677.9	-37,588.8
Recognised gains and losses:						
– recognised in the income statement (net result of financial transactions)	–	-1,073.6	3,201.4	10.2	-2,323.5	-185.5
Cost, acquisitions	–	–	-9.4	–	-5,133.2	-5,142.6
Maturing during the year	-160.2	–	–	–	33,297.7	33,137.5
Closing balance, 31 December 2013	–	619.7	-1,335.9	-226.3	-8,836.9	-9,779.4
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance, 31 December 2013	–	-1,695.6	1,973.6	10.2	-386.6	-98.4

Note 26 cont.

Financial instruments not measured at fair value in the balance sheet

2013	Level 1	Level 2	Level 3	Total
Lending to credit institutions	–	2,822.2	–	2,822.2
Lending	–	130,108.7	–	130,108.7
Other assets	–	11.8	–	11.8
Total	–	132,942.7	–	132,942.7
Liabilities to credit institutions	–	2,086.4	–	2,086.4
Securities issued	92,298.9	43,818.1	–	136,117.0
Other liabilities	–	761.5	–	761.5
Subordinated liabilities	–	993.7	–	993.7
Total	92,298.9	47,659.7	–	139,958.6

Note 27 Information on financial assets and liabilities subject to netting

To limit the market risks that arise when contractual borrowing and lending terms do not match, Kommuninvest uses risk management instruments in the form of derivative contracts. Kommuninvest's derivatives are so-called OTC derivatives - that is, they are not traded via an exchange but made through ISDA (International Swaps and Derivatives Association) Master agreements; an organisation in which Kommuninvest is a member. In addition to the ISDA agreement, a supplementary CSA (Credit Support Annex) has been signed with a considerable portion of the counterparties. CSA agreements regulate the right to secure collateral to eliminate the exposure.

For transactions carried out under ISDA Master agreements, all payment flows with a particular counterparty that mature on the same date are, to the greatest extent possible,

netted in each currency to a net amount to be paid by one counterparty to another. For specific events, such as past-due payment, bankruptcy, etc. all transactions are concluded with that counterparty, as assessment is conducted and a net settlement is made.

ISDA Master agreements do not meet the criteria for settlement in the balance sheet, since the legal right to settlement only applies for a stated type of suspension of payments, insolvency or bankruptcy.

Information – by type of financial instrument

Financial assets and liabilities that are subject to offsetting and that are covered by a legally binding framework agreement on netting or similar agreements.

31 Dec 2013	Amounts ¹ reported in the balance sheet	Related amounts that are not offset in the balance sheet			Net amount
		Financial instruments	Provided (+)/received (-) collateral – security	Provided (+)/received (-) cash collateral	
Assets					
Derivatives	6,235.8	-5,329.3	-791.3	–	115.2
Repos	2,796.9	–	-2,796.9	–	–
Liabilities					
Derivatives	-13,231.8	5,329.3	–	–	-7,902.5
Total	-4,199.1	0.0	-3,588.2	–	-7,787.3

31 Dec 2012	Amounts ¹ reported in the balance sheet	Related amounts that are not offset in the balance sheet			Net amount
		Financial instruments	Provided (+)/received (-) collateral – security	Provided (+)/received (-) cash collateral	
Assets					
Derivatives	11,057.4	-9,568.9	-984.5	–	504.0
Repos	15,679.6	–	-15,679.6	–	–
Liabilities					
Derivatives	-17,517.2	9,568.9	–	–	-7,948.3
Total	9,219.8	0.0	-16,664.1	–	-7,444.3

1) None of the amounts reported in the balance sheet have been offset.

Note 28 Capital adequacy

Capital adequacy

For the establishment of statutory capital requirements, the Capital Adequacy and Large Exposures Act (2006:1371) applies, along with Swedish Financial Supervisory Authority Regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1).

As far as Kommuninvest i Sverige AB is concerned, these regulations contribute to greater resistance against financial losses, thereby protecting customers. The regulations mean that Kommuninvest i Sverige AB's capital base (equity) should on the one hand cover with a good margin the prescribed minimum capital requirements, which include the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operation in accordance with the chosen principles for capital assessment. For capital requirements above minimum level (Pillar 1), amounts have been allocated for the following other risks (Pillar 2): Credit risk, market risk, operational risk, interest risk, business risk, reputation risk and strategic risk. Kommuninvest has set an internal capital adequacy quota which includes all risks in the operation in accordance with Pillars 1 and 2 and also an additional risk area as a buffer for risks not calculated for Pillars 1 and 2. The quota is not permitted to fall below this level without the approval of the Board of Directors.

Kommuninvest i Sverige AB has a set plan (the capital plan) regarding the size of the capital base for several years ahead, which is based on

- risk profile,
- identified risks with regard to probability and financial impact,
- stress tests and scenario analyses,
- anticipated lending expansion and financing opportunities, and
- new legislation and other external factors.

Reviewing the capital plan is an integral part of Kommuninvest i Sverige AB's work on the annual operations plan and budget. The plan is followed up annually or as required when an annual review is carried out to ensure that the risks are correctly assessed and reflect Kommuninvest i Sverige AB's true risk profile and capital requirement.

In its overall assessment, the Board has found that the capital requirements arising as a consequence of the risks (Pillars 1 and 2) identified in a reasonable manner are covered within the scope of current capital.

As with major credit decisions and investments, any change or addition to a policy or strategy document adopted by the Board must always be related to the institute's current and future capital requirements.

Information on Kommuninvest i Sverige AB's risk management can be found in the administration report and in Note 3.

Kommuninvest i Sverige AB has opted in this annual report only to provide the information required on capital base and capital requirements in accordance with Chapter 3, §§ 1-2 and Chapter 4 of the regulations and general recommendations of the Swedish Financial Supervisory Authority regarding disclosure of information on capital adequacy and risk management (FFFS 2007:5). Other disclosures required by these regulations can be found on the Kommuninvest i Sverige AB's website: www.kommuninvest.org.

Kommuninvest i Sverige AB's statutory capital requirements in line with Pillar I of the capital adequacy regulations can be summarised as follows, with specifications as per the sections below:

Capital base

As per the end of the year, the capital base had been reduced through Group contributions of SEK 741.1 (717.7) million to the Kommuninvest Cooperative Society to enable the distribution of surpluses, by means of refunds and interest on capital contributions, to the Society's members. This has below affected Profit brought forward. For further information, see page 48.

Primary capital	2013	2012
Share capital	1,396.4	628.4
Statutory reserve	17.5	17.5
Profit brought forward	-294.3	-36.8
Net profit	590.7	320.6
Less deferred tax assets	-59.5	-63.4
Total primary capital	1,650.8	866.3

Supplementary capital

Perpetual debenture loan	1 000.0	866.3
Total supplementary capital	1 000.0	866.3
Total capital base	2,650.8	1,732.6

Capital requirement

Credit risk in accordance with standardised method	2013	2012
1. Exposures to states and central banks	-	-
2. Exposures to municipalities and comparable cooperatives	-	-
3. Institutional exposures	272.4	370.1
4. Corporate exposures	3.7	4.6
5. Other items	1.4	0.6
Total capital requirement for credit risks	277.5	375.3

Risks in trading operations

Interest risks		
- Specific risk	-	0.6
- General risk	-	0.8
Total capital requirements for risks in trading operations	0.0	1.4

Operational risks

Basic indicator method	79.1	79.1
Total capital requirement for operational risks	79.1	79.1

Foreign exchange risk

Foreign exchange risk	0.1	0.5
Total capital requirement for foreign exchange risks	0.1	0.5

Total minimum capital requirement	356.7	456.3
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Starting capital	48.0	48.0
Capital adequacy quota	7.43	3.80
Capital adequacy ratio, %	59.5	30.4

Five-year summary

Key ratios 2009–2013, SEK million	2013	2012	2011	2010	2009
Growth					
Lending (change in %)	3.8	20.0	25.7	8.2	18.1
Net interest income (change in %)	25.6	35.0	32.5	13.1	151.3
Consolidation					
Capital base as % of balance sheet total	0.96	0.61	0.81	0.99	0.40
Adjusted capital base as % of balance sheet total ¹	1.21	0.93	0.95	0.99	0.40
Capital adequacy quota	7.43	3.80	5.71	10.09	4.24
Adjusted capital adequacy quota ¹	9.38	5.77	6.72	10.09	4.24
Capital adequacy ratio (%)	59.5	30.4	45.7	80.7	33.9
Adjusted capital adequacy ratio (%) ¹	75.1	46.3	53.7	80.7	33.9
Efficiency					
Administration expenses as % of lending ²	0.117	0.125	0.143	0.127	0.109
Administration expenses, excluding the stability charge, as % of lending ²	0.070	0.075	0.093	0.096	0.088
Administration expenses as % of balance sheet total ²	0.088	0.089	0.103	0.089	0.073
Administration expenses, excluding the stability charge, as % of balance sheet total ²	0.053	0.053	0.067	0.067	0.059
Lending/employee (SEK millions)	2,980.6	3,091.5	2,848.7	2,523.2	2,522.9
Change (%)	-3.6	8.5	12.9	0.0	-1.2
Return					
Operating income after standard tax as % of average equity	44.09	20.20	32.28	23.45	38.32
Cost/income ratio					
Total expenses in relation to net interest and other operating income	0.25	0.32	0.42	0.39	0.35
Other information					
Number of employees at the end of the year	70	65	59	53	49

1) Adjusted capital base: capital base adjusted for the capital injection from the Kommuninvest Cooperative Society, if so decided by the 2014 Annual General Meeting of the Society regarding earnings for the current year. The capital injection relating to the results for 2013 is estimated at SEK 696.5 million, consisting of group contributions of SEK 741.1 million and the result of the Kommuninvest Cooperative Society. The adjusted capital base is used to calculate the adjusted capital base as a percentage of the balance sheet total and to calculate the adjusted capital adequacy quota and the adjusted capital adequacy ratio.

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

Income statement 1 January–31 December, SEK, million	2013	2012	2011	2010	2009
Net interest income	969.5	771.7	572.6	432.1	382.1
Commission expenses	-5.6	-8.5	-8.6	-4.4	-3.5
Net result of financial transactions	38.7	-267.1	72.1	17.2	90.6
Other operating income	0.2	4.6	0.1	0.3	0.2
Total revenues	1,002.8	500.7	636.2	445.1	469.4
General administration expenses	-239.3	-244.0	-230.0	-160.5	-127.8
Depreciation	-2.4	-2.7	-2.5	-2.7	-1.8
Other operating expenses	-3.5	-5.0	-7.6	-6.2	-4.8
Total expenses	-245.2	-251.7	-240.1	-169.4	-134.4
Operating income	757.6	249.1	396.1	275.7	335.0
Appropriations, net	-	204.0	13.9	-83.2	-82.5
Taxes	-166.9	-132.5	-109.4	-51.9	-81.9
Net profit	590.7	320.6	300.6	140.6	170.6
Balance sheet summary as at 31 December	2013	2012	2011	2010	2009
Sovereign bonds eligible as collateral	14,626.2	11,160.8	10,841.7	12,887.7	20,912.3
Lending to credit institutions	2,822.2	15,618.6	1,734.5	1,697.6	1,851.2
Lending	208,644.0	200,950.7	168,070.5	133,729.1	123,624.1
Bonds and other interest-bearing securities	44,932.9	44,293.7	39,518.7	28,759.5	25,604.1
Shares and participations	34.1	33.7	1.3	1.0	0.7
Shares in associated companies	0.5	0.5	0.5	0.5	0.5
Derivatives	6,235.8	11,057.4	13,687.2	13,024.0	11,105.3
Tangible assets	4.6	5.6	6.7	6.9	3.6
Other assets	147.8	149.9	148.3	67.5	19.3
Prepaid expenses and accrued revenues	10.6	12.7	19.0	26.4	7.1
Total assets	277,458.7	283,283.6	234,028.4	190,200.2	183,128.2
Liabilities to credit institutions	4,352.0	5,610.4	4,149.4	3,438.9	7,348.1
Securities issued	256,258.7	257,257.3	218,037.4	173,851.9	164,696.1
Derivatives	13,231.8	17,517.2	9,354.5	10,794.2	9,873.0
Other liabilities	764.6	818.4	455.4	66.4	349.6
Accrued expenses and prepaid revenues	121.4	125.2	111.5	44.1	35.6
Provisions for pensions and similar obligations	2.5	2.1	1.6	1.2	0.9
Subordinated liabilities	1,000.1	1,000.3	1,000.2	1,002.9	-
Total liabilities and provisions	275,731.1	282,330.9	233,110.0	189,199.5	182,303.3
Untaxed reserves	-	-	204.0	217.9	134.7
Equity	1,727.6	952.7	714.4	782.8	690.2
Total liabilities, provisions and equity	277,458.7	283,283.6	234,028.4	190,200.2	183,128.2

Proposed distribution of earnings

The Board of Directors and President propose that:

net profit	590,667,529
profit brought forward	-294,265,196
fair value reserve	17,369,728
total	313,772,061

be appropriated as follows

To be carried forward	313,772,061
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Applicable rules for capital adequacy and major exposures mean that Kommuninvest must at all times have a capital base which at least corresponds to the total of the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operation in accordance with Kommuninvest's internal capital assessment policy. Kommuninvest's capital adequacy quota after the proposed allocation of profits amounts to 7.43 (3.80). The capital base amounts to SEK 2,651 (1,733) million after the proposed allocation of profits, and the final mini-

imum capital requirement amounts to SEK 357 (456) million. A specification of items can be found in the Note 28 on capital adequacy.

Kommuninvest's financial position does not give rise to any assessment other than that Kommuninvest can be expected to fulfil its obligations in both the short and the long term.

For information on Kommuninvest's results and general position, please refer to the income statements and balance sheets with associated comments on the financial statements.

We hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles, that the Annual Report gives a true and fair view of the development of Kommuninvest's operation, financial position and results and describes the material risks and uncertainties facing the company.

Örebro, 25 February 2014

Ellen Bramness Arvidsson
Chairman

Lorentz Andersson
Board Member

Kurt Eliasson
Board Member

Anna von Knorring
Board Member

Catharina Lagerstam
Board Member

Anna Sandborgh
Board Member

Johan Törngren
Board Member

Anders Pelander
Employee representative

Tomas Werngren
President and CEO

Our Audit Report was submitted on 25 February 2014
Ernst & Young AB

Peter Strandh
Authorised Public Accountant

Audit Report

To the annual general meeting of Kommuninvest i Sverige AB (publ), corporate identity number SE556281-4409

Report on the annual accounts

We have audited the annual accounts of Kommuninvest i Sverige AB (publ) for 2013. In this document, the annual accounts are presented on pages 10–74, with the exception of the Corporate Governance Report on pages 36–44.

Responsibilities of the Board of Directors and the President for the annual accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and for such internal controls as the Board of Directors and the President determine are necessary to enable the preparation of annual accounts that are free of material misstatement, regardless of whether this is due to fraud or errors.

Responsibility of the Auditor

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statements

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of Kommuninvest i Sverige AB as of 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the Corporate Governance Report on pages 36–44. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the Company.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have also

audited the proposed appropriations of the Company's profit or loss and administration of the Board of Directors and the President of Kommuninvest i Sverige AB (publ) in 2013. We have also conducted a statutory examination of the Corporate Governance Report.

Responsibility of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. The Board of Directors and the President are responsible for the administration of the Company in accordance with the Companies Act and the Banking and Financing Business Act and that the Corporate Governance Report presented on pages 36–44 is prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Responsibility of the Auditor

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the Company's profit or loss and the administration of the Company based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Sweden.

As the basis for our opinion on the Board of Directors' proposal regarding the appropriation of the Company's profit or loss, we have considered whether or not the proposal is consistent with the Swedish Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the Company in order to determine whether any member of the Board of Directors or the President is liable to the Company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Furthermore, we have read the Corporate Governance Report and based on that reading and our knowledge of the Company we believe that we have obtained a sufficient basis for our statement. This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Statements

We recommend that the Annual General Meeting appropriate the Company's profits in accordance with the proposal presented in the Board of Directors' Report and that the Meeting discharge the Members of the Board of Directors and the President from liability for the financial year.

A Corporate Governance Report has been prepared and its statutory content is consistent with the other parts of the annual accounts.

Örebro, 25 February 2014
Ernst & Young AB

Peter Strandh
Authorised Public Accountant

Review Report

We the lay auditors, appointed by the Annual General Meeting, have examined the operations of Kommuninvest i Sverige AB for 2013.

The Board of Directors and President are responsible for the operation being conducted in accordance with the Articles of Association and owner directive as well as the regulations pertaining to the operation. The responsibility of the lay auditors is to examine the operation and control and assess if the operation has been conducted in accordance with the mandate of the Annual General Meeting.

The examination was made in accordance with the Swedish Companies Act. By reviewing documents/basis for decisions, protocols/information and by discussion with Management, Chairman of the Board and the authorised auditors, the audit has been made with the focus and scope necessary to give a reasonable basis for opinion and assessment.

It is our opinion that the Company's operation has been carried out in a purposeful and financially satisfactory manner and the Company's internal control has been sufficient.

Örebro, 25 February 2014

Niklas Sjöberg

Anita Bohman

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KOMMUNINVEST

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