

# KOMMUNINVEST I SVERIGE AB

## INTERIM REPORT 2014

### 1 January–30 June

- Balance sheet total SEK 286,672 (277,459) million
- Lending SEK 210,760 (208,644) million
- Net interest income SEK 467 (484) million
- Operating profit SEK 419 (330) million
- Equity SEK 2,709 (1,728) million
- Leverage ratio 1.16 (0.96) percent
- Rating: AAA (S&P), Aaa (Moody's)
- 1 (4) new member

#### Multi-year summary Kommuninvest i Sverige AB

	30 Jun 2014	30 Jun 2013	31 Dec 2013	31 Dec 2012
Balance sheet total, SEK million	286,672.2	288,520.0	277,458.7	283,283.6
Lending, SEK million	210,760.3	209,628.8	208,644.0	200,950.7
Net profit, SEK million	326.7	256.9	590.7	320.6
Members of Kommuninvest Cooperative Society, total	279	278	278	274
Of which municipalities	271	270	270	266
Of which county councils	8	8	8	8
Leverage ratio <sup>1</sup> , %	1.16	0.90	0.96	0.68
Core Tier 1 capital ratio <sup>2</sup> , %	35.6	32.5	37.0	15.2
Total capital ratio <sup>3</sup> , %	50.7	52.7	59.5	30.4

1) Tier 1 capital in relation to total assets and commitments (exposures). See page 8.

2) Total Core Tier 1 capital in relation to total risk exposure amount, see page 15.

3) Total capital base in relation to total risk exposure amount, see page 15.



KOMMUNINVEST  
OF SWEDEN  
Swedish Local Government Debt Office



**ABOUT KOMMUNINVEST** Kommuninvest is owned by Swedish municipalities and county councils with the purpose of supporting their financial operations through secure and cost-efficient financing, financing advice, skills development and cooperation. Kommuninvest's vision is to be the world's best organisation for local government financial administration.

[www.kommuninvest.org](http://www.kommuninvest.org)

**Interim Report for Kommuninvest i Sverige AB (publ)**

Company registration number: 556281-4409  
Registered office: Örebro, Sweden  
1 January–30 June 2014

Comparative earnings figures relate to the same six month period last year (1 January–30 June 2013) unless otherwise indicated. Comparative balance sheet and risk related figures relate to 31 December 2013 unless otherwise indicated.

# CEO's statement

Kommuninvest has once again achieved strong earnings for the first six months of the year. Both profit for the period and the decisions regarding changes to the Articles of Association, at April's Annual General Meeting of Kommuninvest's owner organisation, Kommuninvest Cooperative Society, show that Kommuninvest is well prepared for the leverage ratio requirement for financial institutions, which is to be introduced in 2018.

Kommuninvest's build-up of capital has so far taken place through higher lending margins and the accumulation of profit. The decisions regarding changes to the Articles of Association pave the way for those owners who wish to make additional capital contributions in return for lower borrowing costs. A second decision is required at the 2015 Annual General Meeting before changes to the Articles of Association are formally implemented. These decisions will enable capital to be built up at a faster pace.

Lending to Swedish municipalities and county councils and municipal companies is developing satisfactorily, given that our prices currently include a margin for the build-up of capital. We continue to combine cost increases in certain areas with cost efficiencies in others. The processes and structural capital that we have developed, combined with our skilled staff, give Kommuninvest the ability to cope with a larger balance sheet total than today, without this needing to increase costs to the same extent.

One of our strengths is that we have the lowest funding costs in the Swedish local government sector. No local government sector institution borrows more cost-effectively than us and our administrative costs are low. For the first six months of the year Kommuninvest's administration expenses, excluding the statutory stability fee, was 7.9 (7.0) basis points in relation to lending. The increase is principally explained by higher costs due to new regulations and new reporting requirements.



Tomas Werngren, President and CEO

The healthy demand for securities with the very highest creditworthiness provided good funding conditions in the first half of the year, and demand is greater than we are able to supply at our current rate of lending growth. It is particularly pleasing that Kommuninvest's Swedish Benchmark Programme is performing well. We are continuing to develop this programme and pricing has improved substantially.

The result of this spring's owner, customer and employee surveys show increased satisfaction and strong confidence in Kommuninvest. This is crucial for us in meeting our customers' needs in local government financial administration.

A blue ink handwritten signature of Tomas Werngren, consisting of stylized initials 'T.W.' followed by a horizontal line.

Tomas Werngren  
President and CEO

# Market

## The global economy and financial markets

The global economy has continued to improve gradually, although performance is affected to some extent by geopolitical challenges and other regional circumstances. In the US, which has progressed furthest in putting its financial system in order following the 2008–2009 crisis, the recovery lost momentum in the first half of the year as a result of extreme weather conditions, but it is expected to bounce back in the autumn. Financial concerns in the euro zone have gradually decreased and indicators are pointing to continued economic recovery, albeit from low levels. The low rate of inflation needs to be countered and the European Central Bank is still expected to introduce quantitative easing. In Japan, there are questions about whether the major quantitative measures, known as Abenomics, to bring the economy out of its long deflationary spiral, can bring about growth. In China, growth is slowing and property prices are falling, but the growth target remains high in a global perspective at 7.5 percent. The global economy is expected to grow by around 3–5 percent in 2014, according to the IMF.

Geopolitical uncertainty has surrounded financial markets both during and after the reporting period, so far however with little effect on bond markets. The future outlook is nevertheless uncertain.

## Ownership situation

The Kommuninvest Cooperative Society (“the Society”) owns 100 percent of the shares in the credit market company Kommuninvest i Sverige AB (“Kommuninvest” or “the Company”), in which all business activities within the Kommuninvest Group are conducted.

At 30 June 2014, the Society had 279 members (co-owners), of which 271 were municipalities and 8 were county councils. Consequently, 93 percent of Sweden’s municipalities and 40 percent of county councils were members (co-owners) in the Society. In the first half of 2014, the municipality of Klippan became a member. After the balance sheet date, the municipality of Markaryd also became a member.

## Resolutions at the Annual General Meeting of the Society

The Society held its Annual General Meeting on April 10 in Stockholm. At the Annual General Meeting, a number of resolutions relating to the future capital build-up within the Kommuninvest Group were resolved.

The collective aim of the resolutions is to prepare Kommuninvest ahead of the forthcoming introduction within the European Union of a new capital requirement, the Leverage Ratio, from 2018 (in accordance with the EU Capital Requirements Regulation and Capital Requirements Directive, CRR/CRD IV). A final decision on the design of the Leverage Ratio requirement is expected from the European Commission during 2016.

The resolutions at the Annual General Meeting of the Society concern changes to the articles of association for the Society, and are summarized below:

### 1. A reformed system regarding contribution capital from the Society’s members.

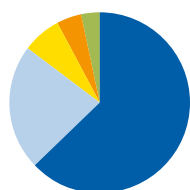
A higher level of initial capital contribution from new members, applicable as of 2014. A higher level of minimum capital contribution from existing members, applicable as of 2018. Possibility for members to make additional capital contributions, providing scope for members to keep all or part of the refund they can receive from the Society. A ceiling level for contribution capital per inhabitant is written into the Society’s articles of association. Adjustment for changes in population to be performed every ten years.

### 2. New capital forms.

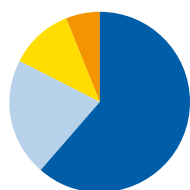
Possibility to strengthen the capital base of the Society via two new capital forms: (i) voluntary participation capital (*Swedish: “frivillig överinsats”*) and (ii) a core capital instrument (*Swedish: “förlagsinsats”*). Voluntary participation capital can only be subscribed by members of the Society. The core capital instrument is primarily to be offered to members of the Society, and, if the Society so desires, also to other parties.

### 3. New solution for extraordinary capital situation.

**Borrowing per currency, 1 January–30 June 2014**  
(excl. commercial paper borrowing)



**Borrowing per programme, 1 January–30 June 2014**  
(excl. commercial paper borrowing)



If so required to meet statutory requirements on minimum capital, the Society has the right to claim payment of contribution capital up to the ceiling level for members' contribution capital. In order for the resolutions at the Annual General Meeting to become legally binding in accordance with Swedish law, they need to be repeated at the next Annual General Meeting, in 2015.

### Lending activities

The market for local government loan financing continued to be marked by increased competition in the first half of the year, with both traditional bank financing and borrowing through proprietary market programmes providing alternatives for a number of the Society's members. The bid-acceptance rate for the first half of the year, based on volume, decreased to 79 percent compared with 87 percent for the corresponding period 2013.

At 30 June 2014, lending amounted to SEK 210,760.3 (208,644.0) million. Of total lending, municipalities and county councils accounted for 41 (41) percent and municipal corporations for 59 (59) percent. Municipal housing companies accounted for 29 (30) percent of total lending.

Of the agreed lending for the period, that is, new loans and renegotiations of existing loans, 78 (72) percent were loans with capital tied up for more than a year and 22 (28) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 46 (39) percent of the total volume. At the close of the period, the average period for which capital was tied up in Kommuninvest's lending portfolio was 2.1 (2.0) years.

Kommuninvest's share of local government sector borrowing is estimated to be 43 percent at 30 June 2014, compared with 44 percent at the end of 2013.

In the spring, Kommuninvest launched a specially developed debt management system for the local government sector that offers increased functionality at a lower cost than other systems on the market. At 30 June 2014, 64 members had opted to sign up to this system.

### Funding activities

Kommuninvest's lending is financed by means of short-term and long-term funding programmes on national and international capital markets. The funding strategy is based on diversified funding, in terms of funding markets, investor categories, funding currencies and borrowing products. All borrowings are swapped to floating interest rate in SEK, EUR or USD.

The demand for stable issuers with a clear low-risk profile remained good throughout the period and Kommuninvest was able to fulfil its funding requirements on favourable terms, both for short-term and long-term maturities. Terms for funding in SEK via the Swedish Benchmark Programme have continued to improve and the price difference compared with equivalent Swedish government bonds has decreased further.

In total, SEK 33,061.7 (56,826.0) million was raised in long-term debt instruments during the first six months of 2014. The decrease is principally explained by a lower level of maturing loans in funding activities.

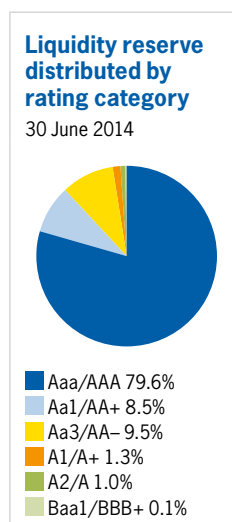
The average maturity of Kommuninvest's long-term capital market funding, provided that cancellable borrowings are extended until maturity, was 5.8 years at 30 June 2014, compared with 5.6 years at 31 December 2013. If the earliest possible cancellation date is applied in the calculation, the average maturity was 4.4 (4.2) years.

### Rating

Kommuninvest has the highest possible credit rating from two credit rating agencies – since 2002 from Moody's (Aaa) and since 2006 from Standard & Poor's (AAA). In their rating reports of May and June 2014, respectively, Moody's and Standard & Poor's confirmed Kommuninvest's Aaa/AAA rating, both with stable outlooks.

According to the rating agencies, the ratings reflect the joint and several guarantee from Kommuninvest's owners, the robust liquidity reserve with access to central bank financing, the high quality of the lending portfolio and the strategy for the build-up of capital ahead of forthcoming regulatory reforms.

# Financial account



Comparative earnings figures relate to the preceding six month period (1 January –30 June 2013) unless otherwise indicated. Comparative balance sheet and risk-related figures relate to 31 December 2013 unless otherwise indicated.

## Results

The operating profit (profit before appropriations and taxes) amounted to SEK 419.0 (329.6) million. Operating profit includes unrealised changes in market value of SEK 92.7 (neg. 34.6) million. Operating profit excluding the effect of unrealised market value changes was SEK 326.3 (364.2) million. Profit after appropriations and taxes amounted to SEK 326.7 (256.9) million.

Total operating income rose by 23 percent to SEK 562.4 (455.7) million. Operating income includes net interest revenues, commission expenses, net result of financial transactions and other operating income.

Net interest income decreased by 3 percent to SEK 466.7 (483.7) million. The decrease was due to a slightly lower margin as a result of increased competition.

The net result of financial transactions for the period was SEK 97.8 (neg. 24.6) million. The result was primarily affected by unrealised changes in market value amounting to SEK 92.7 (neg. 34.6) million, but also by the buyback of own bonds and the sale of financial instruments which contributed SEK 4.1 (9.8) million to the figure. The unrealised changes in market value are principally the result of a reduction in the margin between the Company's funding and lending rates.

During the period, Kommuninvest transferred SEK –(0.6) million in losses from other comprehensive income to profit for the period in connection with the sale of financial instruments. The profit from the buyback of the Company's own bonds amounted to SEK 0.0 (2.1) million.

Expenses amounted to SEK 143.4 (126.1) million, including the stability fee of SEK 57.6 (57.6) million. The stability fee is calculated based on the balance sheet total. The stability fee accounted for 40 (46) percent of Kommuninvest's total costs for the period. Excluding

the stability fee, costs amounted to SEK 85.8 (68.5) million. The increase is due in its entirety to an increase in staff and consulting costs relating to the introduction of new European Banking Authority (EBA) regulations.

Major changes in the regulatory systems and development of Kommuninvest's national and international borrowing programmes place more stringent demands on operations, generally leading to higher costs. In parallel, projects and activities are in place to streamline the operations, contributing to lower costs over time. Costs can be expected to increase during the second half of 2014, as larger planned projects are started.

## Financial position

The balance sheet total rose to SEK 286,672.2 (277,458.7) million at the end of the period, due to increased lending and borrowing. No significant events have occurred after the balance sheet date.

## Funding

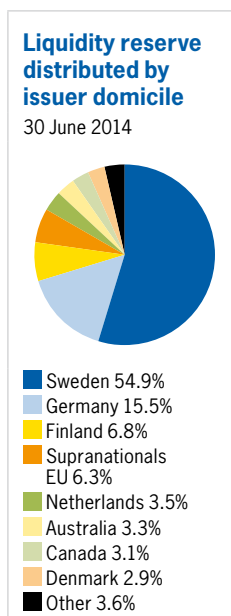
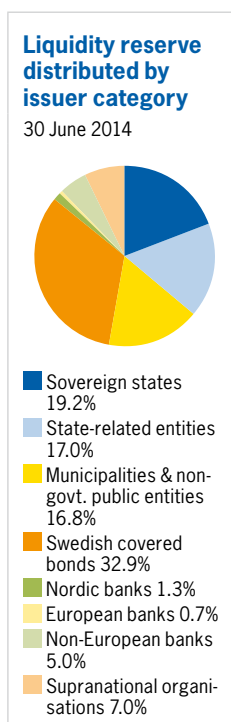
Borrowing amounted to SEK 272,528.5 (260,610.7) million at the end of the period. Most of Kommuninvest's funding takes place in the form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). A small proportion of its borrowing takes place as direct loan financing (bilateral loan agreements with supranational institutions). Kommuninvest acts over terms of between 1 day and 30 years and focuses primarily on financial instruments with fixed or floating interest.

## Lending

At the end of the period, Kommuninvest's lending amounted to SEK 210,760.3 (208,644.0) million. In nominal terms, lending was SEK 207,117.3 (206,636.7) million.

## Liquidity reserve management

At the end of the period, Kommuninvest's liquidity reserve amounted to SEK 64,822.8 (62,381.3) million, corresponding to 31 (30) percent of the lending volume. According to Kommuninvest's guidelines, the liquidity



reserve should amount to between 20 and 40 percent of the lending volume.

Most of the investments are in securities issued by the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. A considerable proportion of the investments are made in assets that can be pledged with the Swedish central bank (the Riksbank) and the European Central Bank, ECB. Investments may only be made with counterparties with a credit rating of at least A2 from Moody's and/or A from Standard & Poor's. Investments may also be made in securities issued by Swedish municipalities and county councils.

#### Derivatives

Derivative contracts are used as risk management instruments to address market risks in operations. Any changes in the market value of the derivatives contracts are offset by changes in the market value of the borrowing and lending portfolios. Derivatives with positive and negative market value amounted to SEK 10,862.7 (6,235.8) million and SEK 10,114.7 (13,231.8) million.

#### Subordinated liabilities

Subordinated liabilities consist of a perpetual debenture loan from the Society. The loan, including accrued interest, amounts to SEK 1,000.0 (1,000.1) million.

#### Equity – surplus distribution through refunds and interest on capital contributions

In accordance with the owners' directives from the Society, capital is being built up within the Company through profit accumulation. To render the Company's results visible for the ultimate owners, that is, the members of the Society, the Society has, effective from the 2011 financial year, begun to distribute surpluses.

The decisions regarding the distribution of surpluses are made at the Annual General Meeting of the Society. This distribution of

surpluses takes place by means of Group contributions from the Company to the Society, which, after deductions to cover the Society's costs, is further distributed to the members of the Society in the form of refunds on business volumes and interest on capital contributions. The distribution of surpluses is not associated with any conditions for members, nor with any repayment liability or liability to pay new capital contributions. At the 2014 Annual General Meeting of the Society, a decision was made to distribute SEK 696.5 (778.5) million in surpluses. Payment of surpluses took place in May.

The Annual General Meeting of the Society also determines whether members are to pay in new capital contributions. Capital contributed to the Society may be used to strengthen the capital base in the Company. At the Board meeting of the Society following its 2014 Annual General Meeting, a decision was made regarding the payment of SEK 696.5 (768.0) million in new capital contributions. All members elected to participate.

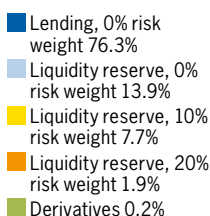
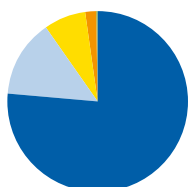
The Board of the Society decided to contribute SEK 650.0 million to the Company as new share capital. Before the end of 2014, the Board is expected to decide whether the remaining SEK 46.5 million in contribution capital, together with new contribution capital from new members, shall be used to subscribe for new shares in the Company, or be retained in the Society.

#### Equity

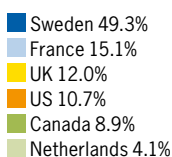
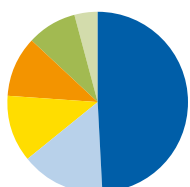
At the end of the period, equity amounted to SEK 2,708.9 (1,727.6) million. In addition to the profit for the period and the payment of capital contributions relating to the surplus distribution for 2013, equity was impacted by changes in market values for assets classified as "financial assets available for sale" (see Statement of Changes in Equity on page 12).

**Credit risk exposure**

30 June 2014

**Net exposure on derivatives counterparties distributed by exposure countries**

30 June 2014

**Share capital**

Due to the authorisation given to the Board of Directors by the Annual General Meeting, share capital has increased over the period by SEK 650.0 million through the issue of new shares compared with SEK 768.0 million during 2013.

At the end of the period, the share capital amounted to SEK 2,046.4 (1,396.4) million, distributed over 20,463,850 (13,963,850) shares.

**Credit losses**

Credit losses totalled SEK – (–) million.

**Capital adequacy**

Kommuninvest is well-capitalised to meet the risks inherent in its operations. Core Tier 1 capital amounted to SEK 2,354.1 (1,650.8) million, entailing a Core Tier 1 capital ratio of 35.6 (37.0) percent. The total capital base was SEK 3,354.1 (2,650.8) million, which gave a total capital ratio of 50.7 (59.5) percent.

**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.

Kommuninvest's planning is based on achieving a leverage ratio of 1.5 percent, a level that has been discussed within the European Parliament regarding low-risk credit institutions. Should a higher leverage ratio than 1.5 percent be established for Kommuninvest, additional capital measures are required, for example utilising such capital instruments as resolved at the Annual General Meeting of the Society (see page 4).

Leverage ratio is defined as the primary capital divided by total exposures in assets and liabilities. A description on how Kommuninvest calculates its exposures can be found in the 2013 Annual Report, on page 35.

On 30 June 2014, Kommuninvest's leverage ratio was 1.16 (0.96) percent. When calculating the leverage ratio, the subordinated SEK 1 billion loan issued by Kommuninvest 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 0.82 (0.61) 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.

**Employees and the environment**

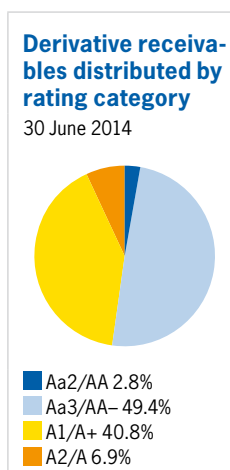
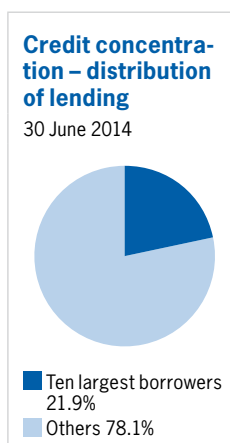
The number of employees increased by 3 during the period to 73 people (70 at 31 December 2013). The average number of employees over the period was 75 (66 during 2013). Kommuninvest does not conduct any operations requiring a licence under Sweden's Environmental Code. Kommuninvest has an environmental policy adopted by the Board of Directors.

**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 in the capital market, including interest rate development and the liquidity situation, along with the willingness to invest in various markets, may affect Kommuninvest. If Kommuninvest is unable to recruit and retain qualified employees, this may restrict Kommuninvest's competitiveness and opportunities for development.





### Risk management

Kommuninvest's operations serve solely to support the financial activities of the local government sector, distinguishing it in several key regards from other financial market players.

- Lending is provided exclusively to Swedish municipalities, municipal corporations, county councils or borrowers guaranteed by local government authorities and loans therefore carry a zero risk weight in a capital adequacy perspective.
- The members of Kommuninvest's owner, the Kommuninvest Cooperative Society, are also the Company's customers and are party to a joint and several guarantee supporting all of the Company's obligations.
- Kommuninvest conducts no deposit or active trading operations.
- Kommuninvest has a favourable capital situation.

At the end of the period, Kommuninvest's total credit risk exposure amounted to SEK 276,068.9 (271,140.5) million. Of the exposure, 76 (77) percent was related to lending to Swedish municipalities and county councils; 24 (23) percent was related to investments in securities issued by sovereign states or other issuers; and 0 (0) percent was related to exposure to derivatives counterparties.

In order to ensure good liquidity, Kommuninvest's liquidity reserve is primarily held in sovereign securities, with a concentration to Sweden and northern Europe. The composition of the liquidity reserve at 30 June 2014 is presented in the charts on pages 6–7.

Counterparty risk is limited by entering into contracts with counterparties with high creditworthiness. New counterparties are required to have a credit rating of at least A2 from Moody's and/or A from Standard & Poor's, as well as established ISDA and CSA agreements (Credit Support Annex).

ISDA agreements, conveying entitlement to early redemption if the creditworthiness of the counterparty deteriorates, are established with all derivatives counterparties. See also Note 2.

CSA agreements cover a considerable portion of the counterparty risks. CSA agreements regulate the right to secure collateral to eliminate the exposure arising through derivative transactions. As of 30 June 2014, CSA agreements had been established with 17 out of 24 counterparties with whom Kommuninvest has outstanding contracts. 96 (95) percent of the contracts, based on nominal amounts, were covered by CSA agreements.

At 30 June 2014, counterparty exposure to derivatives counterparties amounted to SEK 485.8 (115.2) million after netting. The exposure was distributed among ten counterparties, compared with two counterparties at 31 December 2013. 52 (100) percent of the exposure was distributed among counterparties with a credit rating of at least Aa3 from Moody's and/or AA- from Standard & Poor's.

### Board of Directors

At the Annual General Meeting on 10 April 2014, Ellen Bramness Arvidsson was re-elected as Chairman of the Board. The other Board members are Lorentz Andersson, Kurt Eliasson, Anna von Knorring, Catharina Lagerstam, Anna Sandborgh, Johan Törngren and Anders Pelander (employee representative).

### Management

Over the first six months of 2014, Kommuninvest's executive management team consisted of Tomas Werngren (President and CEO), Maria Viimne (Deputy CEO), Johanna Larsson (CFO), Michael Jansson (Head of Human Resources), Britt Kerkenberg (CRO) and Hans Wäljamets (COO).

# Income statement

SEK million	Jan–Jun 2014	Jan–Jun 2013	Jan–Dec 2013
Interest revenues	2,059.3	2,262.7	4,571.2
Interest expenses	-1,592.6	-1,779.0	-3,601.7
<b>NET INTEREST INCOME</b>	<b>466.7</b>	<b>483.7</b>	<b>969.5</b>
Commission expenses	-2.4	-3.4	-5.6
Net result of financial transactions	97.8	-24.6	38.7
Other operating income	0.3	0.0	0.2
<b>TOTAL OPERATING INCOME</b>	<b>562.4</b>	<b>455.7</b>	<b>1,002.8</b>
General administration expenses	-140.1	-123.8	-239.3
Depreciation of tangible fixed assets	-1.6	-1.1	-2.4
Other operating expenses	-1.7	-1.2	-3.5
<b>TOTAL EXPENSES</b>	<b>-143.4</b>	<b>-126.1</b>	<b>-245.2</b>
<b>OPERATING PROFIT</b>	<b>419.0</b>	<b>329.6</b>	<b>757.6</b>
Tax expense	-92.3	-72.7	-166.9
<b>NET PROFIT</b>	<b>326.7</b>	<b>256.9</b>	<b>590.7</b>

# Statement of comprehensive income

SEK million	Jan–Jun 2014	Jan–Jun 2013	Jan–Dec 2013
<b>NET PROFIT</b>	<b>326.7</b>	<b>256.9</b>	<b>590.7</b>
<b>Other comprehensive income</b>			
Items that may subsequently be reclassified to the income statement			
Available-for-sale financial assets	5.9	-7.9	-8.3
Available-for-sale financial assets, transferred to the income statement	-	0.6	1.0
Tax attributable to items that may subsequently be reclassified to the income statement	-1.3	1.7	1.6
<b>OTHER COMPREHENSIVE INCOME</b>	<b>4.6</b>	<b>-5.6</b>	<b>-5.7</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>331.3</b>	<b>251.3</b>	<b>585.0</b>

# Balance sheet

SEK million	30 Jun 2014	30 Jun 2013	31 Dec 2013
<b>ASSETS</b>			
Sovereign bonds eligible as collateral	15,146.2	15,455.3	14,626.2
Lending to credit institutions	4,978.4	7,970.1	2,822.2
Lending	210,760.3	209,628.8	208,644.0
Bonds and other interest-bearing securities	44,698.2	44,580.4	44,932.9
Shares and participations	2.2	1.9	2.1
Shares and participations in associated companies	0.5	0.5	0.5
Shares and participations in subsidiaries	32.0	32.0	32.0
Derivatives	10,862.7	10,652.5	6,235.8
Tangible assets	7.0	4.9	4.6
Intangible assets	1.4	-	-
Current tax assets	122.1	41.8	79.0
Other assets	18.4	76.0	14.2
Deferred tax assets	32.9	65.9	54.6
Prepaid expenses and accrued revenues	9.9	9.9	10.6
<b>TOTAL ASSETS</b>	<b>286,672.2</b>	<b>288,520.0</b>	<b>277,458.7</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
Liabilities to credit institutions	6,618.4	4,719.0	4,352.0
Securities issued	265,910.1	270,195.4	256,258.7
Derivatives	10,114.7	10,439.5	13,231.8
Other liabilities	139.9	14.7	764.6
Accrued expenses and prepaid revenues	177.4	176.9	121.4
Provisions	2.8	2.3	2.5
Subordinated liabilities	1,000.0	1,000.2	1,000.1
<b>Total liabilities and provisions</b>	<b>283,963.3</b>	<b>286,548.0</b>	<b>275,731.1</b>
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital (20,463,850 shares, quota value SEK 100)	2,046.4	628.4	1,396.4
New share issue in progress	-	768.0	-
Statutory reserve	17.5	17.5	17.5
<b>Unrestricted equity</b>			
Fair value reserve	21.9	17.4	17.3
Profit brought forward	296.4	283.8	-294.3
Profit for the period	326.7	256.9	590.7
<b>Total equity</b>	<b>2,708.9</b>	<b>1,972.0</b>	<b>1,727.6</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>	<b>286,672.2</b>	<b>288,520.0</b>	<b>277,458.7</b>
<b>Memorandum items</b>			
Collateral pledged for own liabilities	21,029.5	22,762.4	22,954.3
Contingent liabilities	None	None	None
<b>Obligations</b>			
Committed undisbursed loans	5,377.8	3,897.9	3,480.0

# Statement of changes in equity

1 Jan 2014–30 June 2014	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Fair value reserve <sup>1</sup>	Profit or loss brought forward	Net profit	
SEK million						
Equity brought forward 1 Jan 2014	1,396.4	17.5	17.3	-294.3	590.7	1,727.6
Profit for the period	-	-	-	-	326.7	326.7
Other comprehensive income <sup>2</sup>	-	-	4.6	-	-	4.6
Transactions with shareholders*						
Appropriation of surplus	-	-	-	590.7	-590.7	0.0
New share issue	650.0	-	-	-	-	650.0
<b>Total transactions with shareholders*</b>	<b>650.0</b>	<b>0.0</b>	<b>0.0</b>	<b>590.7</b>	<b>-590.7</b>	<b>650.0</b>
<b>Equity carried forward 30 June 2014</b>	<b>2,046.4</b>	<b>17.5</b>	<b>21.9</b>	<b>296.4</b>	<b>326.7</b>	<b>2,708.9</b>

1) The fair value reserve consists of the following

- Available-for-sale financial assets: SEK 21.9 million

2) Other comprehensive income

See Statement of Comprehensive Income on page 10

\* Transactions with Kommuninvest Cooperative Society

1 Jan 2013–30 Jun 2013	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Fair value reserve <sup>1</sup>	Profit or loss brought forward	Net profit	
SEK million						
Equity brought forward 1 Jan 2013	628.4	17.5	23.0	-36.8	320.6	952.7
Profit for the period	-	-	-	-	256.9	256.9
Other comprehensive income <sup>2</sup>	-	-	-5.6	-	-	-5.6
Transactions with shareholders*						
Appropriation of surplus	-	-	-	320.6	-320.6	0.0
New share issue in progress	768.0	-	-	-	-	768.0
<b>Total transactions with shareholders*</b>	<b>768.0</b>	<b>0.0</b>	<b>0.0</b>	<b>320.6</b>	<b>-320.6</b>	<b>768.0</b>
<b>Equity carried forward 30 June 2013</b>	<b>1,396.4</b>	<b>17.5</b>	<b>17.4</b>	<b>283.8</b>	<b>256.9</b>	<b>1,972.0</b>

1) The fair value reserve consists of the following

- Available-for-sale financial assets: SEK 17.4 million

2) Other comprehensive income

See Statement of Comprehensive Income on page 10

\* Transactions with Kommuninvest Cooperative Society

1 Jan 2013–31 Dec 2013	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Fair value reserve <sup>1</sup>	Profit or loss brought forward	Net profit	
SEK million						
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 <sup>2</sup>	-	-	-5.7	-	-	-5.7
Transactions with shareholders*						
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 contributions	-	-	-	163.0	-	163.0
<b>Total transactions with shareholders*</b>	<b>768.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-257.5</b>	<b>-320.6</b>	<b>189.9</b>
<b>Equity carried forward 31 Dec 2013</b>	<b>1,396.4</b>	<b>17.5</b>	<b>17.3</b>	<b>-294.3</b>	<b>590.7</b>	<b>1,727.6</b>

1) The fair value reserve consists of the following

- Available-for-sale financial assets: SEK 17.3 million

2) Other comprehensive income

See Statement of Comprehensive Income on page 10

\* Transactions with Kommuninvest Cooperative Society

# Cash flow statement

SEK million	Jan–Jun 2014	Jan–Jun 2013	Jan–Dec 2013
<b>Operational activities</b>			
Operating profit	419.0	329.6	757.6
Adjustment for items not included in cash flow	-91.1	35.5	-15.4
Income tax paid	-43.1	-43.1	-0.6
<b>Cash flow from operating activities before changes in the assets and liabilities of operating activities</b>	<b>284.8</b>	<b>322.0</b>	<b>741.6</b>
Change in interest-bearing securities	432.0	-5,783.6	-11,840.9
Change in lending	-657.3	-9,867.5	-8,741.7
Change in other assets	-3.6	-59.2	2.1
Change in other liabilities	55.9	53.5	7.1
<b>Cash flow from operational activities</b>	<b>111.8</b>	<b>-15,334.8</b>	<b>-19,831.8</b>
<b>Investment activities</b>			
Acquisition of intangible assets	-1.5	-	-
Acquisition of tangible assets	-3.8	-0.4	-1.6
Divestments of tangible assets	-	-	0.4
<b>Cash flow from investment activities</b>	<b>-5.3</b>	<b>-0.4</b>	<b>-1.2</b>
<b>Financing activities</b>			
Issue of interest-bearing securities	45,443.0	81,116.8	126,416.0
Redemption of interest-bearing securities	-43,346.9	-73,392.8	-119,342.0
New share issue	650.0	768.0	768.0
Group contribution paid	-696.5	-805.3	-805.3
<b>Cash flow from financing activities</b>	<b>2,049.6</b>	<b>7,686.7</b>	<b>7,036.7</b>
<b>Cash flow for the period</b>	<b>2,156.1</b>	<b>-7,648.5</b>	<b>-12,796.3</b>
<b>Cash and equivalents at the start of the accounting period</b>	<b>2,822.3</b>	<b>15,618.6</b>	<b>15,618.6</b>
<b>Cash and equivalents at the end of the accounting period</b>	<b>4,978.4</b>	<b>7,970.1</b>	<b>2,822.3</b>
Cash and equivalents consist in their entirety of loans to credit institutions that, at the time of acquisition, have a maturity of at most three months and that are exposed to insignificant risk of fluctuations in value.			
<b>Adjustment for items not included in cash flow</b>			
Depreciation	1.6	1.1	2.4
Profit from divestments of tangible assets	-	-	-0.2
Exchange rate differences from change in financial assets	-	-0.2	-
Unrealised changes in market value	-92.7	34.6	-17.6
<b>Total</b>	<b>-91.1</b>	<b>35.5</b>	<b>-15.4</b>
<b>Interest paid and earned, included in the cash flow</b>			
Interest received	1,860.4	2,130.5	4,379.3
Paid interest	-1,332.1	-1,679.0	-3,481.0

# Accounting principles

Kommuninvest's Interim Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), 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 ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. The Swedish Financial Reporting Board's recommendation RFR 2 Reporting for Legal Entities has also been applied.

From 2014, the report is also subject to the clarifications regarding when offsetting of financial assets and liabilities may take place in accordance with IAS 32 Financial

Instruments: Presentation. A supplement to IAS 39 Financial Instruments: Recognition and Measurement means that under certain conditions it is possible to continue applying hedge accounting where a derivative is transferred to a central clearing counterparty. These clarifications have no effect on earnings, financial position or disclosures. A change to IFRIC 21 Levies applies from 1 January 2014 and was approved by the EU in June 2014. The introduction of the change does not have any material effect on financial position or earnings.

In all other respects, the accounting principles and calculation methods used in this Interim Report are identical to those used in the 2013 Annual Report.

In accordance with Section 7:6a of ÅRKL, Kommuninvest has elected not to prepare consolidated accounts (see Note 4).

# Capital adequacy

Since 1 January 2014 capital adequacy has been calculated in accordance with the new regulation, CRR<sup>1</sup>. The most significant change compared with previous calculation methods relates to risk exposure amounts for credit valuation adjustments (CVA risk) for all OTC derivative contracts. Comparative figures are calculated according to the old regulations. The capital buffers to be intro-

duced under CRD IV<sup>2</sup> first require implementation in Swedish legislation. On 12 May 2014, the Swedish government presented a bill regarding stronger capital adequacy rules, which came into force on 2 August 2014. Kommuninvest's assessment is that all buffer requirements have been met.

Capital base, SEK million	30 Jun 2014	30 Jun 2013	31 Dec 2013
Equity according to the balance sheet	2,708.9	1,972.0	1,727.6
Less profit for the period <sup>3</sup>	-326.7	-	-
Less expected dividends/group contributions	-	-284.7	-
Less deferred tax assets	-	-71.0	-59.5
Less financial assets available for sale <sup>4</sup>	-28.1	-17.4	-17.3
<b>Total Core Tier 1 capital</b>	<b>2,354.1</b>	<b>1,598.9</b>	<b>1,650.8</b>
<b>Supplementary capital</b>			
Perpetual debenture loan	1,000.0	1,000.0	1,000.0
<b>Total supplementary capital</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>
<b>Total capital base</b>	<b>3,354.1</b>	<b>2,598.9</b>	<b>2,650.8</b>
<b>Capital requirement</b>			
Capital requirement for credit risks (the standardised method)	264.1	314.8	277.5
Capital requirement for operational risks	107.0	79.1	79.1
Capital requirement for market risks	1.9	0.8	0.1
Capital requirement for credit valuation adjustment	155.9	-	-
<b>Total capital requirement</b>	<b>528.9</b>	<b>394.7</b>	<b>356.7</b>
Risk exposure amount for credit risks (standardised method)	3,301.0	3,935.6	3,468.2
Risk exposure amount for operational risks	1,337.3	988.8	988.8
Risk exposure amount for market risks	23.7	1.1	1.8
Risk exposure amount for credit valuation adjustment	1,948.8	-	-
<b>Total risk exposure amount</b>	<b>6,610.8</b>	<b>4,925.5</b>	<b>4,458.8</b>
<b>Core Tier 1 capital ratio</b>	<b>35.6 %</b>	<b>32.5 %</b>	<b>37.0 %</b>
<b>Total capital ratio</b>	<b>50.7 %</b>	<b>52.7 %</b>	<b>59.5 %</b>

1) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 regarding supervisory requirements for credit institutions and securities companies and regarding a change to Regulation (EU) No. 648/2012.

2) The European Parliament and Council's directive 2013/36/EU of 26 June 2013 regarding authorisation to conduct operations in credit institutions and regarding supervision of credit institutions and securities companies and regarding a change to directive 2002/87/EC and with the repeal of directive 2006/48/EC and 2006/49/EC.

3) Kommuninvest has opted not to seek permission under article 26 of CRR to include profit for the period in the capital base. This is because the majority of the SEK 326.3 million in operating profit excluding the effect of unrealised market value changes is expected to be distributed in accordance with the refund model (see page 7) and shall then be deducted from the capital base.

4) The fair value reserve presented in the balance sheet includes deferred tax. Pursuant to previous capital adequacy regulations, Kommuninvest has adjusted financial assets available for sale, including deferred tax which has not been included in the capital base. Kommuninvest uses an exemption rule in CRR and does not make a deduction for deferred tax. Consequently, the deduction in the capital base for financial assets available for sale differs by the figure stated in the balance sheet.

## Note 1 Financial assets and liabilities

30 Jun 2014	Financial assets at fair value through profit or loss		Loans and receivables	Available -for-sale financial assets	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial assets determined as belonging to this category	Holdings for trading purposes					
Sovereign bonds eligible as collateral	12,556.0	–	–	2,590.2	–	15,146.2	15,146.2
Lending to credit institutions	–	–	4,978.4	–	–	4,978.4	4,978.3
Lending	75,022.0	–	135,738.3	–	–	210,760.3	211,581.8
Bonds and other interest-bearing securities	33,365.1	–	–	11,333.1	–	44,698.2	44,698.1
Derivatives	–	5,223.2	–	–	5,639.5	10,862.7	10,862.7
Other assets	–	–	16.1	–	–	16.1	16.1
<b>Total</b>	<b>120,943.1</b>	<b>5,223.2</b>	<b>140,732.8</b>	<b>13,923.3</b>	<b>5,639.5</b>	<b>286,461.9</b>	<b>287,283.2</b>

	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	Holdings for trading purposes				
Liabilities to credit institutions	2,364.4	–	4,254.0	–	6,618.4	6,618.4
Securities issued	129,200.8	–	136,709.3	–	265,910.1	267,120.3
Derivatives	–	8,699.5	–	1,415.2	10,114.7	10,114.7
Other liabilities	–	–	24.2	–	24.2	24.2
Subordinated liabilities	–	–	1,000.0	–	1,000.0	1,037.3
<b>Total</b>	<b>131,565.2</b>	<b>8,699.5</b>	<b>141,987.5</b>	<b>1,415.2</b>	<b>283,667.4</b>	<b>284,914.9</b>

31 Dec 2013	Financial assets at fair value through profit or loss		Loans and receivables	Available -for-sale financial assets	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial assets determined as belonging to this category	Holdings for trading purposes					
Sovereign bonds eligible as collateral	13,096.5	–	–	1,529.7	–	14,626.2	14,626.2
Lending to credit institutions	–	–	2,822.2	–	–	2,822.2	2,822.2
Lending	78,801.3	–	129,842.7	–	–	208,644.0	208,910.0
Bonds and other interest-bearing securities	32,562.1	–	–	12,370.8	–	44,932.9	44,932.9
Derivatives	–	2,466.2	–	–	3,769.6	6,235.8	6,235.8
Other assets	–	–	11.8	–	–	11.8	11.8
<b>Total</b>	<b>124,459.9</b>	<b>2,466.2</b>	<b>132,676.7</b>	<b>13,900.5</b>	<b>3,769.6</b>	<b>277,272.9</b>	<b>277,538.9</b>

	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	Holdings for trading purposes				
Liabilities to credit institutions	2,266.2	–	2,085.8	–	4,352.0	4,352.6
Securities issued	120,818.5	–	135,440.2	–	256,258.7	256,935.5
Derivatives	–	11,606.2	–	1,625.6	13,231.8	13,231.8
Other liabilities	–	–	761.5	–	761.5	761.5
Subordinated liabilities	–	–	1,000.1	–	1,000.1	993.7
<b>Total</b>	<b>123,084.7</b>	<b>11,606.2</b>	<b>139,287.6</b>	<b>1,625.6</b>	<b>275,604.1</b>	<b>276,275.1</b>



*Note 1 cont.*

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. Fair value differs from the recognised value as it relates to fair value for all groups.

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. Fair value differs from the recognised value as it relates to fair value for all groups.

Certain disclosures regarding financial instruments recognised at fair value in the balance sheet.

The tables below provide information on how fair value was determined for the financial instruments valued at fair value in the balance sheet. The distribution of how fair value was determined takes place on the basis of the following three levels.

Level 1: 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 certain role and where these estimates have a significant effect on fair value.

<b>30 Jun 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Sovereign bonds eligible as collateral	12,209.6	2,936.6	–	15,146.2
Lending	–	75,022.0	–	75,022.0
Bonds and other interest-bearing securities	33,864.1	10,834.1	–	44,698.2
Derivatives	4.9	10,175.2	682.6	10,862.7
<b>Total</b>	<b>46,078.6</b>	<b>98,967.9</b>	<b>682.6</b>	<b>145,729.1</b>
Liabilities to credit institutions	–	2,164.3	200.2	2,364.5
Securities issued	–	117,062.7	12,138.1	129,200.8
Derivatives	1.8	9,221.6	891.3	10,114.7
<b>Total</b>	<b>1.8</b>	<b>128,448.6</b>	<b>13,229.6</b>	<b>141,680.0</b>

Kommuninvest continuously reviews the criteria to determine the appropriate level for financial assets and liabilities recognised at fair value; see "Calculation of fair value" below. During the period, securities valued at SEK 641.6 million were transferred to level 1 from level 2. All transfers are considered to have taken place as per 30 June 2014.

<b>31 Dec 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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	–	5,616.1	619.7	6,235.8
<b>Total</b>	<b>43,919.7</b>	<b>100,056.8</b>	<b>619.7</b>	<b>144,596.2</b>
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
<b>Total</b>	<b>1.7</b>	<b>125,915.7</b>	<b>10,399.1</b>	<b>136,316.5</b>

In 2013, securities valued at SEK 6,568.6 million were transferred to level 1 from level 2. All transfers are considered to have taken place as per 30 June 2013.

Note 1 cont.

### 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 a valuation technique based on unobservable input data (level 3).

	Bonds and interest-bearing securities	Derivative assets	Derivative liabilities	Liabilities to credit institutions	Securities issued	Total
<b>Opening balance, 1 January 2013</b>	<b>160.2</b>	<b>1,693.3</b>	<b>-4,527.9</b>	<b>-236.5</b>	<b>-34,677.9</b>	<b>-37,588.8</b>
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
<b>Closing balance, 31 December 2013</b>	<b>0.0</b>	<b>619.7</b>	<b>-1,335.9</b>	<b>-226.3</b>	<b>-8,836.9</b>	<b>-9,779.4</b>
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2013	–	-1,695.6	1,973.6	10.2	-386.6	-98.4
<b>Opening balance, 1 January 2014</b>	<b>–</b>	<b>619.7</b>	<b>-1,335.9</b>	<b>-226.3</b>	<b>-8,836.9</b>	<b>-9,779.4</b>
Recognised gains and losses:						
– recognised in the income statement (net result of financial transactions)	–	62.9	444.6	26.1	-527.2	6.4
Cost, acquisitions	–	–	–	–	-3,614.1	-3,614.1
Maturing during the year	–	–	–	–	840.1	840.1
<b>Closing balance, 30 June 2014</b>	<b>–</b>	<b>682.6</b>	<b>-891.3</b>	<b>-200.2</b>	<b>-12,138.1</b>	<b>-12,547.0</b>
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 30 June 2014	–	301.3	224.4	10.1	-546.8	-11.0

### Calculation of fair value

For financial instruments where fair value cannot be determined as per level 1, fair value is determined by discounting the future expected cash flows that the financial instrument is expected to generate. How cash flows are calculated and discount factors are determined is explained below.

### 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 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

Borrowing within the framework of the Swedish local government bond programme is valued at the quoted market price and classified in level 1. Other borrowing has been valued by means of 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 borrowing. Borrowing where expected future cash flows are dependent on unobservable market data is classified in level 3; in other instances, they are classified in level 2.

### 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 intra-Group receivables and debts.

### Derivatives

Standardised derivatives in the form of FRA contracts scheduled for IMM days and traded in an active market are valued 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 borrowing transactions classified in level 3. The discount rate has been set as the current listed swap rate in

Note 1 cont.

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.

#### 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 -180 (-191) 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 +268 (+300) million. A parallel displacement upward or downward of the borrowing and lending price by 10 basis points would result in a change in income of SEK +/-88 (+/-109) 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 +/-28 (+/-33) 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 instruments, which always take place on the investors' initiative, 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.

If a change in unobservable input data leads to an increase/decrease in the fair value of the issued security, this will result in an equal increase/decrease in the fair value of the structured leg of the derivative. The only effect on earnings from unobservable input data therefore derives from the payment leg of the derivative and can be attributed to how input data affect the estimated remaining maturity of the contract.

Kommuninvest has calculated the maturity at 3.0 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable borrowing in the interval of 1.8 to 4.5 years. This would have an effect on earnings in the range of SEK -2.4 million to SEK +2.8 million.

#### Valuation process

The Finance department is responsible for the valuation models, including the ongoing control and analysis of the valuation. Initial control of the valuation as well as control of market data is performed by the Business Unit. Sensitivity measures are used in controls and analysis of valuations, to identify which market data has the most impact on the valuation. Based on changes in these market data, probability judgments of changes in fair value is applied to all and parts of the portfolio, and subsequently compared with actual outcome. The large proportion of micro-hedges is also used in the control of valuations. This particularly facilitates the analysis of the impact of valuations to level 3.

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

## Note 2 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 "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 netting in the balance sheet, since the legal right to netting 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 netting and that are covered by a legally binding framework agreement on netting or a similar agreement.

30 Jun 2014	Amounts <sup>1</sup> reported in the balance sheet	Related amounts that are not netted in the balance sheet			Net amount
		Financial instruments	Provided (+)/Received (-) collateral – security	Provided (+)/Received (-) cash collateral	
<b>Assets</b>					
Derivatives	10,862.7	-8,074.6	-2,302.3	-	485.8
Repos	4,908.8	-	-4,908.8	-	0.0
<b>Liabilities</b>					
Derivatives	-10,114.7	8,074.6	58.5	-	-1,981.6
Repos	-1,500.3	-	1,500.3	-	0.0
<b>Total</b>	<b>4,156.5</b>	<b>0.0</b>	<b>-5,652.3</b>	<b>-</b>	<b>-1,495.8</b>

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

1) No netting has been made of amounts reported in the balance sheet.

## Note 3 Related-party transactions

Related-party transactions are set out in Note 24 of Kommuninvest's 2013 Annual Report. No material changes have occurred in relations or transaction with related parties compared with the circumstances described in the 2013 Annual Report.

## Note 4 Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB has owned 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 ÅRKL, Kommuninvest i Sverige AB does not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal. As per 30 June 2014, Kommuninvest Fastighets AB had a balance sheet total of SEK 45.0 (45.1) million, equity of SEK 10.7 (10.7) million and generated a loss of SEK 72.8 thousand (loss of SEK 35.3 thousand) for the first six months of the year.

# Board member signatures

The Board of Directors hereby declares that this Interim Report provides a true and fair overview of the operations, position and results of the Company as well as describing significant risks and uncertainty factors facing the Company.

*Örebro, 26 August 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*

# Review report

To the Board of Directors of Kommuninvest i Sverige AB (publ)  
Corporate Registration Number: 556281-4409

## Introduction

We have performed a summary review of the Interim Report for Kommuninvest i Sverige AB for the period from 1 January to 30 June 2014. The Board of Directors and the President are responsible for the presentation of this Interim Report according to the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies (ÅRKL). Our responsibility is to express a conclusion on this Interim Report based on our review.

## Scope and focus of the review

We conducted our review in accordance with the International Standard on Review Engagements 2410 Review of the Interim Financial Information Performed by the Independent Auditor of the Entity. A review of the Interim Report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a substantially reduced scope compared to an audit conducted according to International Standards on Auditing, ISA, and compared with sound auditing principles in general. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an

audit. Accordingly, the conclusion expressed based on a review does not constitute the same level of assurance as a conclusion based on an audit.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Report, in all material respects, is not prepared in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies.

*Örebro, 26 August 2014*

Ernst & Young AB

Erik Åström  
*Authorised Public Accountant*



**KOMMUNINVEST  
OF SWEDEN**

*Swedish Local Government Debt Office*

Postal address: P.O. Box 124, SE-701 42 Örebro, Sweden. Visitors: Fenix House, Drottninggatan 2, Örebro, Sweden.  
Telephone: +46 (0)10-470 87 00. Fax: +46 (0)19-12 11 98. E-mail: [firstname.lastname@kommuninvest.se](mailto:firstname.lastname@kommuninvest.se)  
[www.kommuninvest.org](http://www.kommuninvest.org)