

# Annual Report 2014

Kommuninvest Cooperative Society



KOMMUNINVEST

# Together for better loan terms

Kommuninvest<sup>1</sup> 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 Cooperative Society is the sole owner of Kommuninvest i Sverige AB, in which all business operations are conducted. Only municipalities and county councils/ regions that are members of the Kommuninvest Cooperative Society, as well as companies, foundations and associations controlled by members may borrow from Kommuninvest.

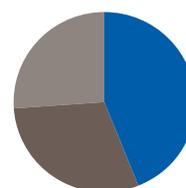
Kommuninvest holds the highest possible credit rating, Aaa/AAA, with a stable outlook. The credit rating is supported by the joint and several guarantee issued by all of the members in favour of Kommuninvest i Sverige AB's obligations.

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

1) "Kommuninvest" refers to the Kommuninvest Group (the Group), comprising the member organization Kommuninvest Cooperative Society, the credit market company Kommuninvest i Sverige AB and Kommuninvest Fastighets AB.

## Market shares, local government borrowing\*

31 December 2014, forecast

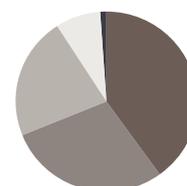


■ Borrowing via Kommuninvest 44 (44) %  
 ■ Bank funding 30 (32) %  
 ■ Proprietary funding programs 26 (24) %

\* Total stock  
 Source: Kommuninvest

## Lending portfolio

31 December 2014



■ Municipalities 40 (40) %  
 ■ Municipal housing companies 29 (30) %  
 ■ Other municipal companies 22 (21) %  
 ■ Municipal energy companies 8 (8) %  
 ■ County councils/regions 1 (1) %

Source: Kommuninvest

## Multi-year summary The Kommuninvest Group

	2014	2013	2012	2011	2010
Balance sheet total, SEK billion	312.1	277.5	283.3	234.0	190.2
Lending, SEK billion	222.8	208.6	201.0	168.1	133.7
Net profit, SEK million	718.6	745.8	424.8	274.8	191.6
Members, total	280	278	274	267	260
Of which municipalities	272	270	266	259	253
Of which county councils/regions	8	8	8	8	7
Core Tier 1 capital ratio <sup>1</sup> , %	35.6	37.6	15.5	23.6	40.0
Tier 1 capital ratio <sup>2</sup> , %	35.6	37.6	15.5	23.6	40.0
Total capital ratio <sup>3</sup> , %	47.4	56.4	23.3	35.3	60.0
Leverage ratio, according to CRR <sup>4</sup> , %	0.79	0.58	0.33	n/a	n/a
Leverage ratio, including subordinated loan <sup>5</sup> , %	1.10	0.97	n/a	n/a	n/a

1) Core Tier 1 capital in relation to total Risk Exposure Amount. See page 27 and Note 34.

2) Tier 1 capital in relation to total Risk Exposure Amount. See page 27 and Note 34.

3) Total capital base in relation to total Risk Exposure Amount. See page 27 and Note 34.

4) Tier 1 capital in relation to total assets and commitments (exposures). See pages 28-30 and Note 35.

5) Tier 1 capital and subordinated loan issued by Kommuninvest Cooperative Society, in relation to total assets and commitments (exposures). See pages 30-32.

## CONTENT

Kommuninvest in brief	2	<b>Board of directors' report</b>		<b>Financial statements</b>	
Our mission	3	Local government loan financing	10	Income statement and statement of comprehensive income	40
Concept, vision and objectives	4	Lending	11	Balance sheet	42
Business model	6	Funding	12	Statement of changes in equity	44
Significant events in 2014	7	Liquidity management	13	Cash flow statement	46
Chairman's statement	8	Organisation and employees	14	Notes	51
President's statement	9	Sustainability and social responsibility	15	Five-year summary	76
		Financial position, other	16	Signatures	78
		Risk and capital management	17	Audit Report	79
		New regulations	28	Review Report	80
		Governance and Control	31	List of members	81

While every care has been taken in the translation of this Annual Report, readers are reminded that the original Annual Report, signed by the Board of Directors, is in Swedish.

## Annual report for Kommuninvest Cooperative Society

This is the Annual Report for the member organisation/ownership association Kommuninvest Cooperative Society.

The Annual Report for the credit market company, Kommuninvest i Sverige AB, is available at [www.kommuninvest.org](http://www.kommuninvest.org)

Cover picture: Kolbäckbron in Umeå. Umeå Municipality holds membership number 2 in the Kommuninvest Cooperative Society. Photo: Ylin Photo/Shutterstock

# Partnership for secure, cost-effective loans

Kommuninvest's role as Sweden's local government debt office entails offering secure and cost-effective financing to its members and customers – Swedish municipalities, county councils/regions, municipal companies and other local government actors. Of the loans that finance local government authorities' investments in schools, care of the elderly, infrastructure or other improvements in service to residents, Kommuninvest accounts for more than 40 percent.



Since its inception in 1986, Kommuninvest has helped lower the local government sector's borrowing costs to the tune of many billion kronor. Ultimately this has benefited citizens who have had access to improved public services at both local and regional levels.



The basic idea behind Kommuninvest is that, by working together, municipalities and county councils/regions can borrow money more securely and less expensively than on their own. Together, the local government sector can also increase its expertise in financial management.



Kommuninvest is owned by 272 municipalities and eight county councils/regions. At the close of 2014, total lending amounted to SEK 223 billion.

# Kommuninvest focuses on public benefit

**Kommuninvest is the largest provider of credit to Swedish municipalities and county councils/regions. Our loans are used for investments at the heart of welfare, such as in premises for health services, education and care, the production of environmentally friendly energy, public transportation and housing for a growing population.**



## A leader in municipal financing

Kommuninvest's vision is to be the world's best organisation for local government financial administration. We finance the development of Sweden's local and regional sectors, as well as investments for a sound and sustainable society.

## Open to all

Kommuninvest is a member organisation that, based on municipal values, effectively represents the municipal sector in public funding issues. We conduct public, socially beneficial operations.

Kommuninvest's creditworthiness is supported by a joint and several guarantee from its members. This helps to make Kommuninvest an attractive counterparty for qualified investors and financial institutions.

Kommuninvest welcomes all Swedish municipalities and county councils/regions that wish to become members. The members themselves determine the focus of the opera-

tions and bear the ultimate responsibility for the organisation. Each member has one vote regardless of its size, business volume or contribution.

Kommuninvest has no interest of its own in generating profit. Its purpose is to provide economic benefit to members. Following any necessary consolidation, profits accrue to the members.

With motivated and competent employees, Kommuninvest can be a quality and knowledge-oriented organisation that offers its customers competitive solutions and excellent service.

Our ambition is for society and actors in the finance market to perceive Kommuninvest as a stable, efficient and knowledgeable player, whose role as a local government debt office benefitting society provides the Swedish local government sector the most efficient financial administration possible, focusing on financing.

# Targets and target fulfilment

**Kommuninvest focuses its long-term effort on continuous improvements in the core operations. The strategy was adopted in 2013.**

## CUSTOMER | MEET CUSTOMERS' NEEDS IN LOCAL GOVERNMENT FINANCING

Kommuninvest provides products and services for municipal financial management, focusing on financing. By being sensitive to customers' needs and challenges, and by offering cost-efficient loans, knowledge transfer and tools that address specific challenges in customers' day-to-day operations, customer satisfaction can be increased. Kommuninvest seeks to make a difference with products and solutions that are cheaper and better for the customer.

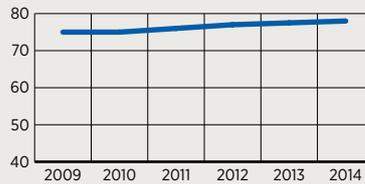
### Target

To have a sustainable better result than comparable institutions according to the Swedish Quality Index customer satisfaction index (CSI), albeit with a rating of at least 72.

### Target fulfilment 2014

In the customer survey conducted in 2014, Kommuninvest had a CSI of 78. The average for comparable institutions was 71.

Customer satisfaction index 2009-2014<sup>1</sup>



1) Survey not conducted in 2011 and 2013, data used is as an average.

## SUSTAINABILITY | KNOWLEDGE-ORIENTED OPERATIONS WITH MOTIVATED PERSONNEL AND EFFICIENT WORKING METHODS, OPERATED WITH FINANCIAL STABILITY AND A CONSERVATIVE RISK APPETITE

Kommuninvest has no interest of its own in generating a profit – its principal objective is to generate financial benefit for the members of the Kommuninvest Cooperative Society. The objective can be more easily attained with knowledgeable and competent employees who are committed to their duties and an organisation characterised by efficient processes, knowledge transfer and innovation. It is also important that Kommuninvest maintain a high level of financial stability and a conservative risk appetite.

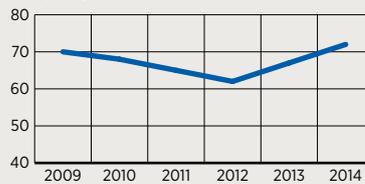
### Target

By the end of 2017 at the latest, to have better results than other public sector employers according to the Swedish Quality Index Employee satisfaction index (ESI), albeit with a rating of at least 72.

### Target fulfilment 2014

In the employee survey conducted in 2014, Kommuninvest had an ESI of 72. The average for comparable employers was 70.

Employee satisfaction index 2009-2014<sup>1</sup>



1) Survey not conducted in 2011 and 2013, data used is as an average.

## FINANCING | STABLE AND COST-EFFECTIVE PROPRIETARY DEBT MANAGEMENT

Kommuninvest's funding operations and liquidity management are critical to supporting customer needs. The financing target is an expression of the need for Kommuninvest to be able to fund itself even in times of uncertainty and of the objective that funding should always be feasible at the lowest possible cost. Easily accessible and secure liquidity preparedness is also crucial.

### Target

To be the best local government financing institution according to an international Investor satisfaction index (ISI) by the end of 2017. To have, by the end of 2017, a cost of borrowing in the Swedish bond market that is 0.25 percentage points lower than the average of the borrowing costs of the five largest municipalities/county councils/regions.

### Target fulfilment 2014

In the survey conducted in 2014, Kommuninvest placed as the third-best local government financing institution, among ten institutions. Kommuninvest's funding costs on the Swedish bond market in 2014 was 0.15 percentage points lower than the average of proprietary funding costs obtained by the five largest member authorities.

# Joint and several guarantee contributes to Kommuninvest's strength

**Kommuninvest only lends money to the Swedish local government sector. The operations are guaranteed by the members of the Kommuninvest Cooperative Society, who have signed a joint and several guarantee and who, through their creditworthiness, contribute to Kommuninvest's strong position in the capital markets.**

Kommuninvest's task is to borrow money in the Swedish and international capital markets with the lowest possible risk and on the most favourable terms and, at the next stage, to offer the Swedish local government sector financing that is as stable and cost-efficient as possible.

## **Cooperatively owned, highest creditworthiness**

Cooperatively owned, highest creditworthiness Operations are conducted within the credit market company Kommuninvest i Sverige AB (the Company) which is owned by the Kommuninvest Cooperative Society (the Society). At the end of 2014, 94 percent of Sweden's municipalities and 40 percent of the county councils/regions were members of the Society. To date, no member has left the partnership, which we see as a clear evidence of the perceived business benefit.

Kommuninvest's ability to offer cost-efficient loans is based on the fact that we are perceived as a highly ranked actor by credit analysts and investors. Kommuninvest holds the highest possible credit rating from two credit rating institutions: Aaa/AAA, with a stable outlook. Crucial to the rating is the unlimited joint and several guarantee signed by all members and covering all of the Company's obligations.

## **Strong guarantee**

Since Swedish municipalities and county councils/regions are entitled to levy taxes and cannot be declared bankrupt or cease to exist other than by merging, the guarantee from the members is considered very strong. Another contributing factor to the high credit rating is that we only lend money to municipalities and county councils/regions who are members of the Society, or to actors that are controlled and guaranteed by those members.

## **Kommuninvest's business model**

Kommuninvest's business model is based on a clear distribution of responsibilities between the ownership association and the financial operations. This entails membership and the joint and several guarantee being administered within the cooperative society, while borrowing, liquidity management and lending are managed by officials of the credit market company.

### **Kommuninvest Cooperative Society**

Members who together own Kommuninvest and guarantee the Company's obligations.

The Board of Directors consists of elected politicians from municipalities and county councils/regions.

### **Funding**

Kommuninvest funds itself by issuing bonds and commercial papers in the Swedish and international capital markets.

Total borrowing SEK 297 billion.

### **Kommuninvest i Sverige AB**

Conducts the financial operations. The Board of Directors consists of individuals Board members with expertise in public management, capital markets and business development, among others.

### **Lending**

Kommuninvest only lends money to municipalities and county councils/regions who are members of the Kommuninvest Cooperative Society and, against guarantees from members, to municipal companies, foundations and associations. Total lending SEK 223 billion.

### **Liquidity management**

Pending onward lending, the borrowed funds are managed in a liquidity reserve.

Total liquidity reserve SEK 65 billion.

# Resolution regarding future capital build-up

**A process of building up capital is in progress within Kommuninvest aimed at meeting the new capital requirement – leverage ratio – that is expected to be introduced in the EU from 1 January 2018. Through resolutions at the 2014 Annual General Meeting of the Society, readiness to meet the new requirements has been created.**

Kommuninvest's planning is based on reaching a leverage ratio of 1.5 percent. Through resolutions at the Society's 2014 Annual General Meeting, readiness has been created to deal with even higher requirements. In 2014, the reported leverage ratio increased to 0.79 (0.58) percent. Including the SEK 1 billion subordinated loan issued by the Society, the leverage ratio amounted to 1.10 (0.97) percent. For further information, see pages 28–30 and Note 35.

## Level 1 asset for liquidity coverage ratio purposes in the EU

In October 2014, the EU's delegated act regarding liquidity coverage ratio (LCR) was published. Within the EU, securities issued by Kommuninvest i Sverige AB form what is known as Level 1 assets, the highest level.

The regulation has contributed to increasing demand for securities issued by Kommuninvest.

## Lending rose to SEK 222.8 (208.6) billion

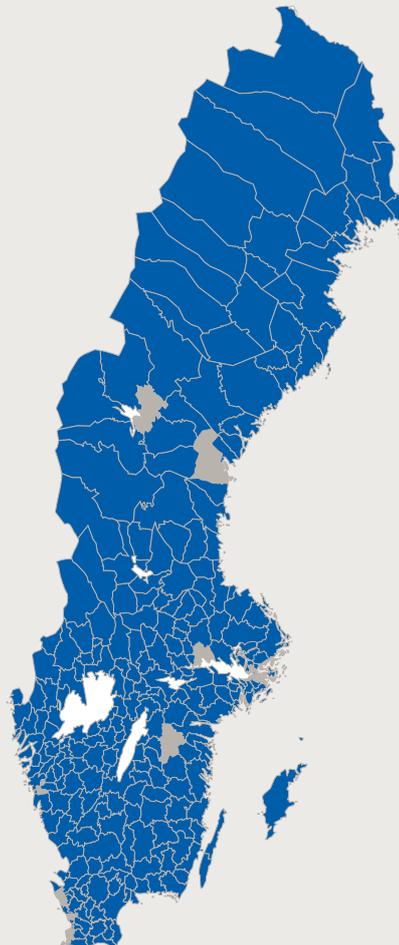
Historically, Kommuninvest has increased its lending due to a rising number of members and due to members sourcing an increasing share of their borrowing with the Group. Lending also continued to grow in 2014, reaching SEK 222.8 (208.6) billion at the end of the year. All lending is to members of the Society or to municipal actors guaranteed by the members.

## Strong support for new debt management system

In 2014, Kommuninvest launched a debt management system specially developed for the local government sector, offering enhanced functionality at lower cost compared with other systems on the market. By the end of the year, 82 (–) members of the Society had signed up for the system.

## Member municipalities

31 December 2014



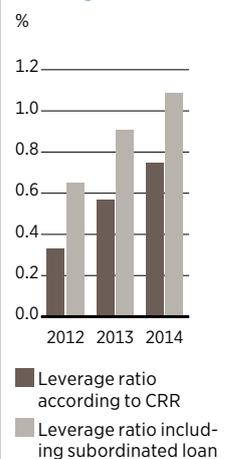
At year-end 2014, 272 municipalities and 8 county councils/regions were members of Kommuninvest Cooperative Society.

■ Municipalities

### County councils/regions

Dalarna	Värmland
Gävleborg	Västmanland
Sörmland	Norrbottn
Uppsala	Örebro

## Leverage ratio



## New members, Kommuninvest Cooperative Society



Municipality of Klippan



Municipality of Markaryd

# A partnership worth nurturing

**Kommuninvest has active, committed members who assume responsibility for the operations through the joint and several guarantee and annual ownership directives. In 2014, the dialogue with members focused largely on measures to meet the new regulatory leverage ratio requirement.**



Clarifying the responsibility of the members of Kommuninvest Cooperative Society as owners of the company has been one of my foremost priorities as Chairman of the Board of Directors of the Society. Although it is well known that membership brings substantial benefits for municipalities and county councils/regions, the joint and several guarantee also entails considerable responsibility. To clarify each member's responsibility in financial terms, an annual statement of undertaking was introduced in 2010, based on the member's share of the credit market company's borrowing and the capital contributions in the Society. In my view, this has helped increase insight into the obligations associated with membership.

This has been valuable when the dialogue with members has increasingly focused on how Kommuninvest will meet the new regulatory leverage ratio requirement to be introduced in 2018. In the view of Finansinspektionen (Swedish Financial Supervisory Authority), a deeper analysis should be performed regarding how the requirement affects institutions that lend predominantly to governments, municipalities and county councils. We share that view but will have to wait until the end of 2016 until the final design is announced.

The decisions taken at the Annual General Meeting of the Society in April 2014, amend-

ing the Society's Articles of Association, including higher membership contributions and new forms of capital, showed that Kommuninvest's members fully support the plan to meet the new requirement, with preparedness for meeting different levels. Since then, the plan has been further developed and in-depth discussions were held at a consultation with members in January and February 2015. A second decision is required by the Annual General Meeting in April 2015 for the changes to the Articles of Association to take effect, but with the members' support appearing so strong, the credit market company introduced price cuts that already took effect in the fourth quarter of 2014.

These price adjustments mean that Kommuninvest is again perceived as competitive. The financial statements for 2014 reflect well-functioning operations that are growing and producing good results in line with the ownership directive.

After eight years as Chairman, the current period will be my last. It has been an exciting and enormously stimulating time for Kommuninvest. Lending has risen from slightly less than SEK 70 billion to slightly more than SEK 220 billion and the number of employees has more than doubled. Governance and operational processes have been refined. Kommuninvest has also gained increasing recognition for its importance in funding the investments made in the Swedish local government sector.

I am grateful for the faith placed in me and for the opportunity to assist in Kommuninvest's fantastic development.

Kommuninvest Cooperative Society

A handwritten signature in blue ink, which appears to read "Ann-Charlotte Stenkil".

**Ann-Charlotte Stenkil**  
Chairman

# Local government cooperation with a solid foundation

**In 2014, Kommuninvest maintained its position as the largest lender to the Swedish local government sector. The Society gained three new members and is well prepared for future leverage requirements.**

In 2014, the local government sector's funding needs continued to increase, with strong population growth, urbanisation and demographic changes driving investment needs. Both new investments and renovation of older properties and infrastructure are required to meet residents' needs for local government services.

Given the considerable future investment needs, further assessment of partnership opportunities would be beneficial to ensure that investment funds are used as efficiently as possible. It is also essential that municipal and county politicians in Sweden consider what a sustainable level of debt is in the long term, based on the unique circumstances of each local government authority. The welfare of both today and tomorrow is built on well-managed and sustainable local government finances.

Lending by Kommuninvest i Sverige AB rose by 6 percent, primarily due to improved competitiveness of the fourth quarter. The Swedish municipal bond programme continues to be built up, with the outstanding volume in the programme currently exceeding SEK 100 billion. During the year, the company launched a debt management system that is now used by hundreds of members and their companies.

The municipalities of Klippan and Markaryd became new members. It is positive that membership continues to grow, albeit at a slower pace than previously. With nearly 95 percent of all local government authorities in Sweden already members, little else could be expected.

Both in 2014 and now in early 2015, consultations with members have focused on the future build-up of capital. I perceive extensive consensus regarding the need for members to inject additional capital into the Society, as well as strong support for the amendments to the Articles of Association.



Kommuninvest's role as the local government debt office is affected by the fact that the terms for local government financing differ depending on whether an authority chooses to secure funding independently or through cooperation. Of course Swedish legislation could not anticipate the kind of financial cooperation the local government sector would develop over nearly 30 years with Kommuninvest. Consequently, we welcome the motion for a review of the legal regulations for local government financial cooperation submitted to the Riksdag in November 2014.

The confidence that our owners show in the Kommuninvest partnership feels highly stimulating. I observe a strong commitment to our mission of helping Swedish municipalities and county councils/regions continue efficiently building up welfare in Sweden.

Örebro, March 2015

**Tomas Werngren**  
President and CEO

# Growing market for Kommuninvest's loans

**In 2014, the local government debt market grew by SEK 33 billion to SEK 501 billion (468)<sup>1</sup>. This growth was primarily the result of an increasing pace of investment within local government authorities and municipal companies. 44 (44) percent of the total local government debt was financed through Kommuninvest.**

The Board of Directors and President of Kommuninvest Cooperative Society hereby submits the annual report and the consolidated annual report. All operations within the Group (Kommuninvest) is conducted within Kommuninvest i Sverige AB (the Company). The parent association Kommuninvest Cooperative Society (the Society) solely deals with membership and ownership issues.

During the five-year period 2010–2014, the local government sector's total external borrowing increased nominally by about SEK 125 billion. The increase was primarily due to 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. The increase in borrowing primarily takes place in growing municipalities. In 2013, 39 percent of the municipal groups amortised on their debt. At the end of 2014, the local government authorities' borrowing debt is estimated to amount to 13.4 percent of Sweden's GDP, compared with 11.0 percent in 2010.

## Swedish local government sector's largest lender

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 Society, which has given an increasing number of local government authorities and municipal companies access to credit from the Group. 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 the Group's assessment of the local government borrowing market in 2014, Kommuninvest accounted for 44 (44) percent 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 (24) percent.

<sup>1</sup>) Forecast based on Kommuninvest's ongoing follow-up of debt and investment trends within the local government sector. At the time of publication of this annual report, neither the complete data for 2014, nor the municipalities' and county councils/regions' own annual reports were available.

Comparison figures relating to the income statement refer to the preceding year (1 January–31 December 2013), unless otherwise stated. Comparative balance sheet and risk- and capital-related figures relate to 31 December 2013, unless otherwise indicated.

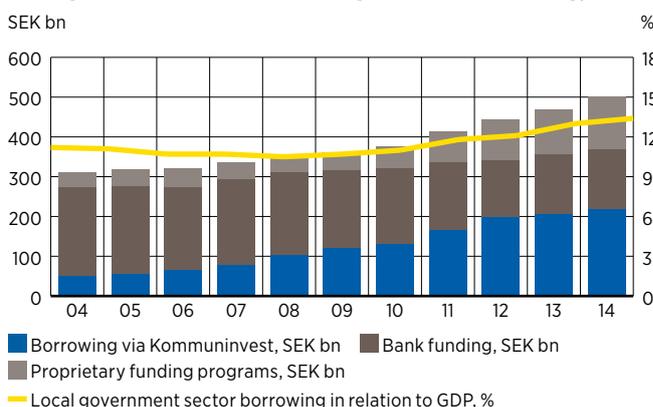
Comments to the Income statement and Balance sheet as well as Changes in equity are found in the financial statements section, see pages 41, 43 and 45.

### Forms of local government borrowing

Swedish municipalities and county councils/regions have access to three main sources of loan financing:

- borrowing via Kommuninvest
- borrowing via the bank sector or other bilateral parties
- borrowing via the money and bond markets.

Local government sector borrowing and forms of funding, 2004–2014



Source: Kommuninvest

The local government sector's borrowing over the past decade is characterised by an increased proportion of borrowing via Kommuninvest and proprietary funding programmes, as well as a reduction in borrowing via the banking sector.

# Loans that meet customers' needs

Historically, Kommuninvest has increased its lending due to a rising number of members and due to members sourcing an increasing share of their borrowing with Kommuninvest. Lending also continued to grow in 2014, reaching SEK 222.8 (208.6) billion at the end of the year. Kommuninvest had a total 791 (773) customers, of whom 280 (278) were members of the Society.

## Market situation – borrowing through proprietary funding programmes continues to increase

In 2014, Swedish local government authorities continued to have good access to liquidity, and generally enjoyed favourable opportunities to meet their borrowing needs via Kommuninvest, the banking system and the capital markets. The trend for individual local government authorities to arrange an increasing share of capital market borrowing through the banks has continued.

## Kommuninvest increased its lending

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.

At the end of the year, lending amounted to SEK 222.8 (208.6) billion.

In nominal terms, lending was at SEK 218.4 (206.6) billion, an increase of 6 (4) percent compared with the previous year. The acceptance rate for bids submitted by Kommuninvest for the full-year 2014 was 83 (79) percent. The acceptance rate was discernibly higher in the fourth quarter, as a result of price reductions on Kommuninvest's lending products.

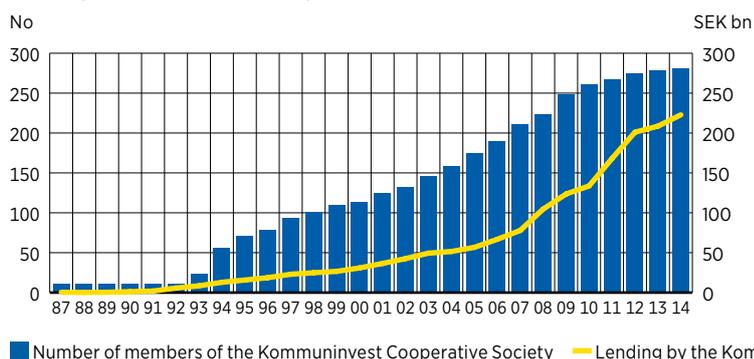
The year's contracted lending, that is new loans and renewals of existing loans, consisted of 84 (72) percent loans with capital tied up for more than a year and 16 (28) percent loans with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 49 (39) percent 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 2.2 (2.0) years.

## Loans provided only to Swedish municipalities and county councils/regions

All of Kommuninvest's lending is to Swedish municipalities and county councils/regions. Loans may be offered to:

- Municipalities and county councils/regions who are members of the Kommuninvest Cooperative Society
- Companies owned by municipalities and county councils/regions where a member of the Kommuninvest Cooperative Society holds more than 50 percent of that ownership and has also issued a guarantee for the loan
- Municipal and county council foundations and associations, on the condition that a guarantee is provided and that they are closely affiliated with a member or members of the Kommuninvest Cooperative Society.

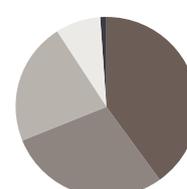
## Lending volume and members, 1987–2014



An increased number of members in the Society, and members choosing to place an increasingly large share of their borrowing with the Company, are the foremost reasons for the historical growth in lending.

## Lending portfolio by borrower category

31 December 2014

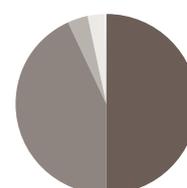


- Municipalities 40 (40) %
- Municipal housing companies 29 (30) %
- Other municipal companies 22 (21) %
- Municipal energy companies 8 (8) %
- County councils/regions 1 (1) %

Kommuninvest's largest borrower groups are municipalities and municipal housing companies. At the end of 2014, they accounted for 69 (70) percent of the total lending.

## Lending portfolio by loan product

31 December 2014



- Capital tied up, fixed interest (incl. Lending against Swedish Benchmark Programme) 50 (46) %
- Capital tied up, STIBOR 43 (37) %
- KI interest 4 (11) %
- 3-month STIBOR 3 (6) %

# Significant international actor with the highest credit rating

**Kommuninvest finances its lending to municipalities and county councils/regions through funding on the Swedish and international capital markets. Favourable demand for low-risk issuers made it possible for Kommuninvest to continue its funding activities on favourable terms in 2014. At the end of the year, total borrowing amounted to SEK 297.1 (260.6) billion.**

## Market situation – favourable demand for Kommuninvest's bonds

Demand for bonds issued by Kommuninvest was favourable throughout 2014. One explanation is that Kommuninvest belongs to the group of issuers with the highest possible credit rating 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 Society, as well as the risk management, market position and quality of Kommuninvest's assets.

## Borrowing in 2014 – focus on increased benchmark borrowing

At the end of the year, Kommuninvest's outstanding borrowing totalled SEK 297.1 (260.6) billion.

Over the year, SEK 81.2 (96.2) billion was borrowed in long-term debt instruments with maturities of more than one year. Funding 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.

Kommuninvest actively works to increase its funding in benchmark programmes. Two major benchmark borrowings in USD were carried out during the year, and a third in January 2015. All were well received, with a high level of participation by central banks, public institutions and bank treasuries.

Securities issued by Kommuninvest constitute, within the EU, Level 1 assets, considered to be of the highest quality in the calculation of the Liquidity Coverage Ratio (LCR).

A total of SEK 41.4 (35.4) billion was issued in the Swedish Benchmark Programme with SEK 93.7 (78.5) billion outstanding at the end of the year. Over the year, two additional bonds were issued. In total, the Programme consists of six outstanding bonds.

At the end of the year, the average maturity on Kommuninvest's outstanding borrowing was 5.7 (5.6) 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 4.4 (4.2) years. Cancellable loans provide the investor with a right to demand early redemption of extended funds, if certain conditions are met.

## Funding strategy – Diversified funding sources provide greater stability

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:

- Diversified funding sources as regards markets, currencies, products and investors. This diversification increases the stability of Kommuninvest's funding.
- Continuous presence in a number of strategic funding programs: the Swedish Benchmark Programme; benchmark funding in USD; an ECP programme and Japanese "Uridashi" funding.
- Fifty percent of the funding is to be denominated in SEK. Any funding outside of SEK is swapped to SEK, USD or EUR.

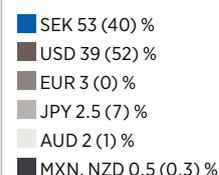
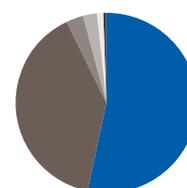
## A significant SSA issuer

Kommuninvest issues securities on international funding markets in the category "Sovereigns, Supranationals and Agencies". With annual funding volumes equivalent to USD 10-15 billion, Kommuninvest is a significant international actor in the SSA segment. Issuers with whom Kommuninvest compares itself include:

- Bank Nederlandse Gemeenten (Netherlands)
- Kommunekredit (Denmark)
- European Investment Bank, EIB
- Municipal Finance (Finland)
- KfW (Germany)
- Nordic Investment Bank, NIB
- Kommunalbanken (Norway)
- Rentenbank (Germany).

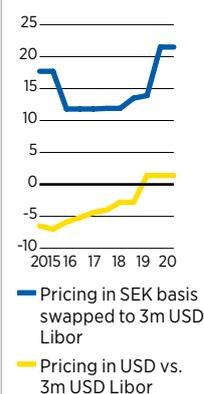
## Borrowing during the year per currency, 2014

(excl. commercial paper borrowing)



## Funding cost in different markets

Basis points



The graph reflects secondary market pricing as of 6 Feb 2015. The comparison is between Kommuninvest's USD denominated bonds (bottom curve) and its SEK Benchmark Programme, expressed in USD terms (upper curve).

Source: SEB Merchant Banking

# Large-scale reserves to meet customer needs in all situations

To continue providing its customers with financing even during periods of uncertainty in the financial markets, Kommuninvest maintains a liquidity reserve. The reserve, which shall amount to between 20 and 40 percent of the lending portfolio, was SEK 65.2 (62.4) billion at the end of the year.

In accordance with a decision by the Board of Directors of the Company, Kommuninvest shall have a liquidity reserve equivalent to at least 20 and at most 40 percent of the total lending volume. As of 31 December 2014 the reserve amounted to 30 (30) percent. 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. As of 31 December 2014, 74 (86) percent of the reserve, excluding securities held as collateral, qualified for repo with central banks.

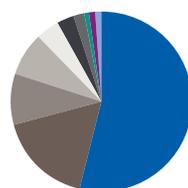
## Continued conservative management in 2014

Strict rules and a conservative approach guide Kommuninvest's liquidity reserve. During 2014, management was characterised by continued caution, as reflected by investments with shorter maturities and increased exposure to zero risk-weighted counterparts and covered bonds. The duration of the liquidity portfolio was 1.9 (1.9) years.

At the end of 2014, 75 (78) percent of the reserve was invested in securities issued by sovereign states or state-associated institutes and covered bonds, with the highest possible creditworthiness; 71 (67) consisted of investments in securities issued by issuers in Sweden and Germany; 15 (22) percent was in securities with a remaining maturity of less than four months. See Note 2 for further information on Kommuninvest's credit risk exposure.

Liquidity reserve distributed by issuer domicile

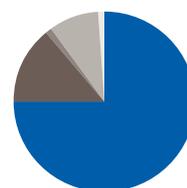
31 December 2014



- Sweden 54 (52) %
- Germany 17 (15) %
- Finland 9 (8) %
- Supranationals Europe 8 (6) %
- Canada 4 (2) %
- Australia 3 (3) %
- Denmark 2 (4) %
- UK 1 (n.a.) %
- Netherlands 1 (7) %
- Supranationals, non-European 1 (n.a.) %
- USA 0 (n.a.) %

Liquidity reserve distributed by rating category

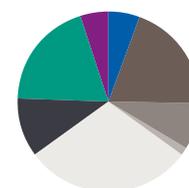
31 December 2014



- Aaa/AAA 75 (78) %
- Aa1/AA+ 14 (9) %
- Aa2/AA1 (-) 9 (9) %
- Aa3/AA- 9 (11) %
- A1/A+ 3 (1) %
- A2/A 1 (1) %
- A3/A- 0 (-) %
- Baa1/BBB+ 0 (-) %

Liquidity reserve distributed by issuer category

31 December 2014



- Regional governments or local authorities 6 (4) %
- Central governments or central banks 20 (20) %
- Multilateral development banks 8 (7) %
- Public sector entities 1 (1) %
- Covered bonds 30 (31) %
- Nordic institutions 11 (13) %
- European institutions 19 (20) %
- Non-European institutions 5 (4) %

### Investment rules for the liquidity reserve

- Investments shall primarily be made in securities issued by sovereign states or nationally guaranteed financial institutions.
- 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 of the investments is 5.5 years.
- The Kingdom of Sweden (the Swedish state) is approved as counterparty without further decisions being required. For borrowers outside Sweden, a borrowing limit is applied on a per-country basis.

For further information, see the Risk and capital management section on pages 19–29 or Kommuninvest's website, [www.kommuninvest.org](http://www.kommuninvest.org)

# Skilled and committed employees bring satisfied customers

**Increasingly rigorous demands are imposed on Kommuninvest as an organisation, both by its growing operations and new regulations in the financial sector. The organisation's personnel continued to increase in 2014, by 7 new recruits to a total of 77 (70) employees. The average number of employees during the year was 74 (66).**

## A skills-driven organisation

All of the Group's employees work for Kommuninvest i Sverige AB, 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. Most of Kommuninvest's employees have a university education, and several have concluded post-graduate programmes.

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 for, with a strong employer brand, is important. This is followed up through an Employee satisfaction index (ESI) and other measures. In the latest ESI survey, conducted in 2014, ESI rose to 72, compared with 62 in the survey conducted in 2012.

## Diversity policy

Kommuninvest's personnel policy, as adopted by the Company's Board of Directors, emphasises the importance of equality and diversity in the organisation. The ambition is to be able to attract, retain and develop skilled employees, regardless of gender, ethnic background, religion or faith, age, disability, sexual orientation or transgender identity. At the end of 2014, the average age among the Group's employees was 42 (43) years, with a range between 23 (23) and 64 (65) years. Of the total

number of employees, 44 (40) percent were women. Among senior executives, the proportion of women was 50 (50) percent.

## Independent employee responsibility

Kommuninvest's employees 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 Kommuninvest, Kommuninvest also offers shorter or longer specialist and leadership courses for a number of employees. A strategic training effort is ongoing for employees within the Lending Group, whereby Kommuninvest is sponsoring training to be a Certified Financial Analyst at the Stockholm School of Economics.

## Remuneration policy

Information on remuneration and benefits to the management can be found on page 34 and in Note 7.

## Code of Conduct provides guidance

Kommuninvest is an organisation guided by established values. The Code of conduct provides guidance on how the Group's 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 the Group'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. The Group's managers are required to engender an ethical climate in line with the code and to encourage adherence to the code.

Employee statistics Kommuninvest i Sverige AB <sup>1)</sup>	2014	2013	2012	2011
Total number of employees	77	70	65	59
of whom women	34	28	29	24
of whom men	43	42	36	35
Employee turnover, %	8.2	4.4	14.5	5.4
Sick leave, %	2.4	1.9	1.5	1.2
Average age, years	42	43	42	42

1) There are no people employed by Kommuninvest Cooperative Society and Kommuninvest Fastighets AB.

# Focus on knowledge, values and environmental 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, work with values and environmental consideration.**

## **Increased knowledge, internally and among stakeholders**

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 concerning the local government sector's financial conditions and challenges. Among other things, Kommuninvest conducts research in partnership with Örebro University. The Society may, at its Annual General Meeting, decide on research grants of up to SEK 500,000 annually.

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 Group's future challenges and needs. Beyond the ambition that employees develop in their positions, it is also important that employees be afforded the opportunity to maintain their health and to achieve a healthy balance between their professional and private lives.

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 Group's recruitment opportunities, clarify the Group's presence in society, and enhance employees' perception of the Group as an attractive workplace.

## **Values process guided by policy**

Kommuninvest 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.

Work with values is regulated by a number of governance documents, including:

- The Group'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, an internal guide within workplace environment, diversity and discrimination, corruption and bribery, as well as external relations and the environment.

## **Reducing our own environmental impact**

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

# Financial position, other

## Rating

Since 2002 and 2006, respectively, the Company has had the highest credit rating, Aaa with Moody's and AAA with Standard & Poor's. The Company's rating, with a stable outlook, was confirmed in May and June 2014.

In motivating the ratings, the rating agencies emphasise aspects such as the joint and several guarantee from the Society's owners, the robust liquidity reserve with access to central bank financing, the high quality of the loan portfolio and strategy for building up the capital structure in preparation for future legislation.

## Target fulfilment

Since 2013, the Society and the Company have had a common vision and mission. Follow-up on strategic targets is presented on page 5.

## Five-year review

See pages 76–77.

## Member responsibilities

In 2011, the Society and the Company 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 of the Company's Annual Report.

## 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.

Further information about Kommuninvest's risk and capital management can be found on pages 17–30.

## Distribution of surplus in 2015

Pending a decision by the 2015 Annual General Meeting of the Society, the Society will apply refunds and interest on contributions for the distribution of surpluses for the 2014 financial year. For this purpose, the Company has in the annual accounts for 2014 made a provision for a group contribution of SEK 725.6 (741.1) million, equivalent to the taxable earnings before group contributions. If a decision on the payment of new capital contributions is taken, the Society's Board of Directors deems it likely that all members will participate.

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 2014 amounts to SEK 680.0 (696.5) million.

## Capital adequacy

On 31 December 2014, the Group's core Tier 1 capital ratio amounted to 35.6 (37.6) percent, the Tier 1 capital ratio was 35.6 (37.6) percent and the total capital ratio 47.4 (56.4) percent. For further information, see page 27 and Note 34.

## Events after the balance sheet date

No significant events have occurred after the balance sheet date. On 12 February, the Swedish central bank, the Riksbank, decided to cut the repo rate to -0.10 percent. This decision creates a new and unique situation for financial institutions and society, with unclear effects. However, in Kommuninvest's opinion, a negative interest rate environment has no material consequences on the Group's results or financial position.

# Efficient risk management to keep risk exposures on sustainable level

**Kommuninvest's principal assignment is to safeguard stable and efficient borrowing for the local government sector. The operations are conducted within Kommuninvest i Sverige AB and shall be characterised by a restrictive risk appetite than only permits limited risks. No material changes took place in 2014 with regard to the Group's targets, principles or methods for managing risk. Nor have the Group's exposures to different types of risk changed significantly.**

## RISK STRATEGY

Kommuninvest plays a central role in the financing of Swedish municipalities and county councils/regions' investments. The Group's risk management is designed for operations to be conducted with as low a level of risk taking as possible.

The Group's risk profile and permitted risk taking is established annually in the form of an owner directive adopted by the Annual General Meeting. The owner directive states that the Company's risks should be small and never greater than necessary for achieving the objectives of the operations. The operations are subject to the Local Government Act's prohibition of speculative activities.

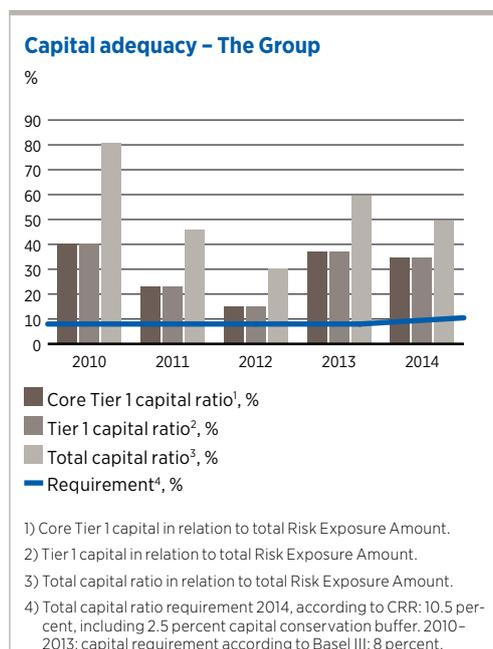
In the risk strategy adopted by the Company's Board of Directors, the Board sets out its basic view on risk and details in concrete

terms risk appetites and regulations for the management of the risks identified by the Company. The risk appetites describe the risk to which the Board is prepared to expose the Company for the purpose of fulfilling the assignment from the owners. 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 its assignment, willing to accept over the next year. The risk appetite is 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.

The risk strategy is part of the Group's risk framework, which encompasses the Board of Directors' fundamental instruments of operational governance and good internal control. The risk framework consists in its entirety of: Financial instructions; Compliance instructions; Internal audit instructions; Internal capital assessment instructions; ISDA and CSA instructions; Credit instructions; Operational risk policy; Operational governance and control policy; Crisis management policy; Reporting instructions; Risk strategy and security policy.

## RISKS AND RISK MANAGEMENT

The Group's mission – to provide municipalities, county councils/regions and other local government actors with financing – entails the Group funding itself on national and international capital markets and, as needs arise among customers, lending these funds to them. The business model means that the Group is exposed to risks associated with the financial market. Unlike many other credit



institutes, however, the Group conducts no deposit or active trading operations.

As part of the risk management process, the duration of capital tied-up is longer in borrowing than in lending. While awaiting lending, liquidity is invested in a reserve consisting of high-quality interest-bearing securities.

When 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, the Group only undertakes transactions with counterparties of high credit quality. The counterparties with whom the Group has undertaken contracts are followed up continuously with regard to their capacity to meet their obligations towards the Group.

The risks to which Kommuninvest is exposed (gross risks) are managed and mitigated by means of efficient risk management. The risks that remain (net risks) are limited and are to be kept at a level that is sustainable over the long-term, taking Kommuninvest's capacity to manage losses into account.

Kommuninvest works continuously to reduce both gross and net risks.

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 2014, 77 percent (77) of Kommuninvest's credit risk exposure was towards Swedish municipalities and county councils/regions in the form of loans; 22 percent (23) of the exposure was towards states and other issuers of securities in the form of investments; and 1 percent (0) 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 group level. Risk in credit provision refers to the risk that a credit counterparty is unable to meet its obligations.

The municipalities and county councils/regions and the companies they own respectively 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 of the Group's lending is to, or guaranteed by, municipalities and county councils/regions, which, from a capital adequacy perspective, have a risk weight of 0 percent, the risks in the Group's lending activities are low. The Group has never suffered a credit loss in its lending.

In 2014, the ten largest borrowers accounted for 22 (22) percent of lending, while the combined population of these borrowers was equivalent to 12 (12) percent of the total population of the Society's members. These borrowers are characterised by being relatively large and growing municipalities, with significant operations in a company form.

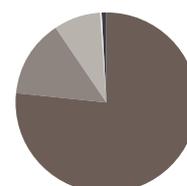
### Issuer risk

Kommuninvest's liquidity reserve shall consist of securities issued by governments and financial institutions. Issuer risk refers to the risk that an issuer fails to repay its full undertaking on maturity.

The Company's Board of Directors sets the maximum gross exposure towards individual issuers. The maturity of securities in the

### Credit risk exposure

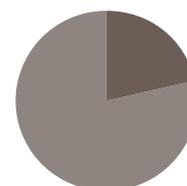
31 December 2014



- Lending, 0 percent risk weight 77 (77) %
- Liquidity reserve, 0 percent risk weight 14 (13) %
- Liquidity reserve, 10 and 20 percent risk weight 8 (10) %
- Liquidity reserve, 50 percent risk weight 0 (-) %
- Derivatives 1 (0) %

### Credit concentration, distribution of lending

31 December 2014



- 10 largest lending counterparties 22 (22) %
- Other lending counterparties 78 (78) %

## Risk management at Kommuninvest: transforming gross risks into net risks

GROSS EXPOSURE	RISK MANAGEMENT	NET EXPOSURE
<p><b>Credit risk</b> <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 Group 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/regions 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><b>Issuer risk</b></p> <p>Investments are made in securities issued primarily by governments, government-guaranteed issuers and covered bonds.</p>	<p>New contracts may only be entered with issuers that have at least a rating of A2 (Moody's) or A (Standard &amp; Poor's). 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><b>Counterparty risk</b></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>New contracts may only be entered with issuers that have at least a rating of A2 (Moody's) or A (Standard &amp; Poor's), unless specific analysis by Risk and Control and decision by CEO. 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. 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><b>Market risk</b></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 Group 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><b>Liquidity risk</b></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><b>Operational risks</b></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>

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, the permitted exposure is subject to a country-based limit.

**Counterparty risk**

To limit the market risks that arise when contractual borrowing and lending terms do not match, the Group 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.

The Group 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 Group 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 the Group 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 no CSA agreement with that counterparty, the Group is only permitted to enter interest and currency swap agreements. In the event that a counterparty is downgraded so that its rating falls below A2/A, no new contracts may be entered into before an in-depth analysis has been performed by Risk and Control and a decision has been taken by the President.

**Membership of ISDA**

Kommuninvest i Sverige AB 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 on the contract counterparty. ISDA agreements are to be established with all derivatives counterparties. Kommuninvest i Sverige AB 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.

**Risk management – lending**



**Collateral agreements**

To limit the risks arising because of value changes to derivatives and repo transactions, the Group enters collateral agreements with its counterparties – CSAs (Credit Support Annexes) for derivatives contracts and GMRAs (Global Master Repurchase Agreements) for repo transactions. These give the Group 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 contracts entered exceeds the pre-determined contracted exposure or if the creditworthiness of any of the counterparties deteriorates. The Group 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 2014**

The Group's gross replacement cost for derivatives contracts – contracts with a fair value entailing that Kommuninvest has a claim on the counterparty – amounted to SEK 23,848 (6,236) million. The net replacement cost, after netting of exposures by counterparty, amounted to SEK 14,238 (907) million. For these net exposures, the Group had received collateral amounting to SEK 11,711 (791) million. The counterparty risk, after netting and deduction of collateral, amounted to SEK 2,526 (115) million.

In terms of nominal amounts, 32 (32) percent of derivative contracts were with counterparties with a minimum credit rating of Aa3/AA- from one of the recognised ratings institutes. 97 (95) 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.

The Group only provides 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. 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 and include holdings in the liquidity portfolio and collateral received. These 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 governments. There are concentrations towards groups of counterparties.

**Events in 2014**

Over the year, the Group's liquidity reserve was mainly invested in bonds issued by sovereign states, institutions and supranationals 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 where the level of reconciliation is high and whereby both parties pledge collateral in accordance with low thresholds. Over the year, several of the Group's CSA agreements have been renegotiated in this direction.

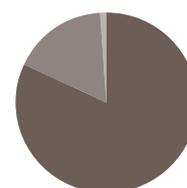
The Group cooperates with its sister organisations in Denmark and Finland and exchanges information on counterparty and credit-related risks within the framework of what is permitted by confidentiality.

**MARKET RISK**

Market risk is defined as the risk that the net value (combined value) of the Group's assets and liabilities will decrease due to changes in

**Business volume derivative contracts, distributed by counterparty group**

31 December 2014, SEK 529 (463) bn



- European banks 82 (79) %
- North American banks 17 (19) %
- Derivative Product Companies 1 (2) %

risk factors in the financial market. The Company's market risks are divided into interest rate risk, foreign exchange risk, credit market risk, basis swap risk, other price risks and liquidation risk.

Market risk mainly arises in the funding operations and in the investment of the funds included in the Group's liquidity reserve. For funding to be stable and efficient, the Group needs to be active in several different funding markets. Consequently, the Group is exposed to risk such as foreign exchange, interest rate and other price risks. As far as possible, the Group hedges market risk through derivative contracts. A limited exposure is permitted in order to make the operations more efficient.

#### Interest rate risk

Interest rate risk refers to the risk that a change in the interest rate environment will decrease the net value of the Group's assets and liabilities. Interest rate risk arises because of mismatches in duration between assets and liabilities.

For the Group'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 the Group 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. When calculating the interest rate risk for contracts with no pre-agreed maturity, assumptions are made regarding the expected duration.

On 31 December 2014 the risk in the entire portfolio was SEK -8.5 (-4.7) million in a one (1) percentage point parallel shift in the yield curve. At the same time, the interest rate risk per currency was: SEK 1.4 (-1.6), EUR 0.3 (0.7) and USD -10.5 (-3.9) million. 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 the Group'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. The Group 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. The Group's foreign exchange exposure is detailed in Note 2. The exposure means that a 10-percent strengthening of the SEK would cause the Group's profit to decrease by SEK 0.4 (0.4) million.

#### Credit market risk

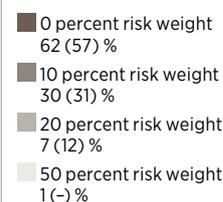
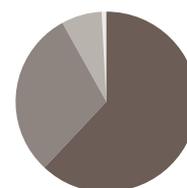
Credit market risk refers to the risk that a change in a basis or credit market spread in the market would reduce the net value (combined value) of the Group's assets and liabilities.

Credit market risk arises primarily as a consequence of imbalances in maturities between assets and liabilities. The business model means that the Group 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 is further divided into credit spread risk on assets, credit spread risk on derivatives, credit spread risk on proprietary debt and basis swap risk. Credit spread risk on assets and derivatives respectively refers to the risk that a change in the counterparty's credit spread will reduce the value of the Group's asset or derivative (credit spread risk on derivatives corresponds to the risk

#### Liquidity reserve distributed by risk weighting

31 December 2014



sometimes referred to as credit valuation adjustment risk). Credit spread risk on proprietary debt refers to the risk that a change in the Group's credit spread will increase the value of the Group'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.

The Group's credit market risk on 31 December 2014 entails that an upward parallel shift of one (1) basis point in the market's basis and credit market spreads, would change the Group's income, reported according to IFRS, by SEK -1.1 (-2.2) 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 the Group's assets and liabilities. The Group uses derivatives to hedge price risks with regard to underlying assets and indexes. This means that no other price risks remain.

#### 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 the Group incurs increased costs to enter a replacement transaction. The Group's process for managing counterparty risks (see "Counterparty risk" above) also includes management of liquidation risks. The Group 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.

The Group's liquidity risk management is pervaded by a highly restrictive attitude towards liquidity risk. The Group has diversified funding, with access to several different capital markets. This ensures that funding activities provides the necessary conditions to cover new lending, renewals and maturing borrowings even under worsening market

conditions. Strategic funding is conducted within the Group's Swedish Benchmark Programme, benchmark funding in USD within the EMTN (Euro Medium Term Note) programme, the ECP (Euro Commercial Paper) programme, as well as in funding in the Japanese market. The Group 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. Kommuninvest has completed several issues within the Swedish Benchmark Programme, as well as two major benchmark transactions in USD.

The Group continuously monitors the effect on the amount of collateral the company would have to pledge in relation to CSA agreements, were its credit rating to deteriorate three notches. At the end of the year, this amounted to SEK 928 (1,896) million.

The Group's structural liquidity situation is stable with longer maturities on liabilities than on assets. Short-term liquidity risk are capped through limits on the amount of negative net outflows the Group may be permitted in certain time buckets. Short-term liquidity risk is further limited by the Group being a full member of the Riksbank's (Swedish central bank) RIX payment system, through which the Group 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 of the Company has decided to maintain a liquidity reserve whose nominal value may not be less than 20 percent or more than 40 percent of the total lending volume. In addition, at least 40 percent of the liquidity reserve is to be held in SEK. The liquidity reserve contains securities of good credit and liquidity quality and that largely qualify as collateral at central banks. As of 31 December 2014, the Group's liquidity reserve consisted to 69 (82) percent of assets eligible as collateral with the Riksbank or the ECB.

The favourable quality of the Group's liquidity reserve is reflected by the fact that the liquidity coverage ratio (LCR) exceeds by a good margin the statutory requirement of a quota of one (1), imposed in Sweden since

#### Liquidity Coverage Ratio (LCR)

Reporting 2014

##### 31 March

LCR Total	2.82
LCR EUR	163.72
LCR USD	4.77

##### 30 June

LCR Total	4.94
LCR EUR	9.28
LCR USD	79.85

##### 30 September

LCR Total	3.83
LCR EUR	250.80
LCR USD	9.27

##### 31 December

LCR Total	3.21
LCR EUR	26.03
LCR USD	7.81

1 January 2013. On 31 December 2014, the Group's total LCR was 3.21 (5.11), and 26.03 (468.67) in EUR and 7.81 (15.44) in USD.

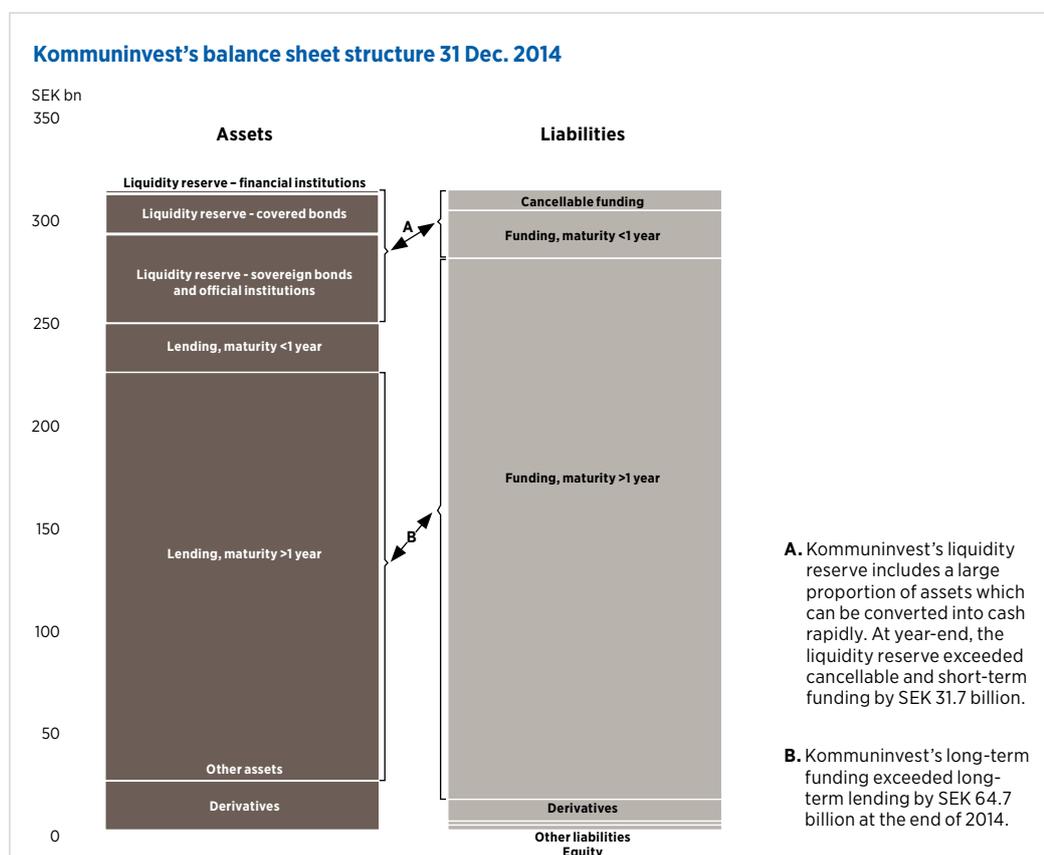
Liquidity risks are monitored and analysed continuously to ensure that excessive liquidity outflows do not arise. The Group also reviews liquidity by continuously calculating a "survival period". This denotes the period during which the Group can manage without access to new financing. On 31 December 2014, the estimated period during which the company could survive, maintaining normal operations but without access to new financing, was 8.7 (9.7) months.

During the year, the Group 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 the Group's strategies, guidelines and positions. The results of the stress tests were satisfactory by a good margin.

The Group's liquidity exposure with regard to remaining durations on assets and liabilities is shown in Note 2. The cash flow analysis also illustrates the Group's liquidity situation.

**Events in 2014**

As in previous years, the Group's liquidity situation was very good in 2014. Among other measures, the Group has carried out several issues within the framework of the Swedish Benchmark Programme, as well as two major benchmark transactions in USD. Over the year, the Group evaluated the effects of EU-wide liquidity coverage ratio requirements as of 2015 and prepared to adapt to these. Preparations were also made for the introduction of the new regulations on longterm liquidity, the Net Stable Funding Ratio, to be introduced as of 2018 and with reporting requirements effective from 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 the Group's operations, as well as in connection with important events that affect the Group 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.

The Group 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 adjustments to new and amended regulations; agreements entered being correctly formulated, and operations including processes and procedures that, among other things, enable the Group 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 the Group due to negative publicity or rumours about the Group 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 the Group due to negative publicity or rumours about the Group or the local government sector in general.

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

#### **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 the Group 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 sector and/or local government sector.

The Group has an established procedure for processing strategic targets set by the Board of Directors. The risk appetite for stra-

tegic 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 the Group prove to be less effective than expected.

The Group deliberately applies relatively simple methods and techniques for measuring risk, capital requirements and risk appetite to reduce the risk of error. The Group conducts both forward-looking and historical analyses of all risk types. The internal capital adequacy assessment process, ICAAP (see page 27), addresses negative scenarios to ensure that the impact on the Group is not greater than expected.

#### **RISK CONTROL**

To provide cost-efficient financing without exceeding the Group'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.

The Company's Risk Manager bears the overall responsibility for the Group's risk framework. Each department manager is responsible for the management and control of risks within his/her area of operations.

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

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

Risk and Control consists of nine employees of whom four work with credit and counterparty risks, three with liquidity and market risks and one with operational risks. The department is headed by the Chief Risk Officer, who reports to the President of the Company and is a member of the Executive Management Team of the Company.

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; ensuring that Kommuninvest's business models are appropriate and secure; as well as leading and coordinating efforts related to operational risks.

The Credit Committee functions as a preparatory body in the assessment of new counterparties, new financial instruments and other credit issues requiring decisions by the Board of the Company 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 Control act as secretaries in the above mentioned groups. The diagram on page 20 illustrates the Group's risk management in relation to the credit risks in its lending operations.

#### **CAPITAL MANAGEMENT**

The Group'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, the Group 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 (see also the section New regulations on pages 28-30).

#### **Clear distribution of responsibilities**

- The Board of Directors sets risk policy and risk limits, revised at least annually.
- The President is responsible for the limits not being exceeded and has delegated the opportunity to apply lower limits in their respective areas to the business functions within the Company.
- The Company applies the principles of a first, second and third line of defence in its internal control.

### Capital plan and internal capital adequacy assessment process

Within the Group, a capital plan is developed at least once a year. 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 internal capital adequacy assessment process (ICAAP) for the Group. In supporting the capital plan, the Society's owner directives determine the desired risk appetite and sets clear targets with regard to capital structure.

Under current regulations, credit institutes are responsible for designing their own ICAAP. The intention is 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. Within the Group, the Company's finance department is responsible for the ICAAP. The Company's Risk and Control department performs quality assurance related to the ICAAP, for example by assessing the evaluation methods that are applied.

A significant portion of the Group'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.

The Group's capital assessment shows that the Group meets all known requirements in accordance with both current and future regulations (primarily CRR/CRD IV<sub>1</sub> – Capital Requirements Regulation/Capital Requirements Directive IV; and EMIR<sub>2</sub>

– European Markets Infrastructure Regulation). However, uncertainty prevails regarding the introduction of a leverage ratio requirement in the EU, with levels to be announced in 2016 (see also pages 28–30).

### Capital adequacy

On 31 December 2014, the Group's risk exposure amount (REA), calculated in accordance with CRR, amounted to SEK 6,788.9 (4,455.0) million. The core Tier 1 capital amounted to SEK 2,345.7 (1,650.8) million, entailing a core Tier 1 capital ratio of 35.6 (37.6) percent. The requirement, including the capital conservation buffer requirement, was 7.0 percent. Tier 1 capital was also SEK 2,416.9 (1,674.3) million, and the Tier 1 capital ratio was 35.6 (37.6) percent. The requirement, including the buffer requirement, was 8.5 percent. The total capital base was SEK 3,216.9 (2,511.4) million, which gave a total capital ratio of 47.4 (56.4) percent. The requirement, including the buffer requirement, was 10.5 percent. Transitional regulations do not significantly affect the Company's capital ratio and other measures of capital.

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.

### CRR disclosure requirements

Additional disclosures according to the EU Capital Requirements Regulation, CRR, can be found at [www.kommuninvest.org](http://www.kommuninvest.org)

# Plan to meet leverage ratio requirement

## EXTENSIVE NEW REGULATIONS

As a consequence of the financial crisis of 2008/09, 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 an updated capital coverage directive (CRD IV) and a new supervisory 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 Group meets all of the requirements regarding risk-weighted capital adequacy (Core Tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio). The Group also meets current and future regulation regarding liquidity (Liquidity Coverage Ratio, Net Stable Funding Ratio). There is uncertainty surrounding the introduction of the leverage ratio requirement. For further information, see below.

### Increased requirements on capital base

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). The capital conservation buffer was introduced in Sweden during 2014, amounts to 2.5 percent of REA

and shall be covered by Core Tier 1 capital. For further information see Note 34. The countercyclical capital buffer amounts to 1 percent of REA, is to be introduced as of 13 September 2015 and shall be covered by Core Tier 1 capital. The Company is not required to hold capital against the systemic risk buffer. During 2015, the Swedish Financial Supervisory Authority will resolve whether the Company is to be treated as a systemically important institution. If that is the case, the core Tier 1 capital requirement can be raised with a maximum of 2 percent points of the total Risk Exposure Amount.

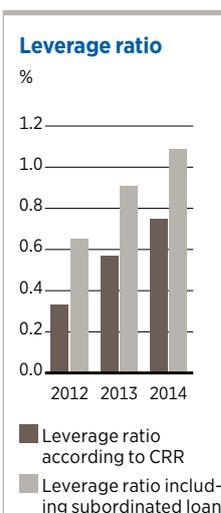
### New, non-risk-weighted capital measure – leverage ratio

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 Tier 1 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 reporting of leverage ratio to the relevant authorities began during 2014.

The European Commission is to submit a report to the European Parliament and the Council of the European Union by 31 December 2016 proposing, among other things, the level of the leverage ratio based on different business models reflecting the credit institutes' risk profiles. Leverage ratio levels between 1.5 and 4.5 percent have previously been discussed. The Group's plan to meet the leverage ratio requirement is described on page 30.

### New requirements to meet short and long-term liquidity needs

The liquidity coverage ratio (LCR) 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 effective from 2013. Equivalent regulations will be introduced in the EU during 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 commenced effective from 2014. As of 2014, in accordance with the regulatory requirements, Kommuninvest reports calculation data for the NSFR on a quarterly basis.

#### **Management of OTC derivatives**

During 2015, 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. The regulation was to have been introduced in 2014, but is delayed.

#### **New regulations for handling distressed institutes**

Financial crises can lead to significant public costs, since access to the financial system's basic functions – payment services, capital supply and risk management – are essential to

the functioning of the economy. To prevent a financial crisis from spreading, states have often been forced to step in and rescue systemically important institutions. Expectations of a government rescue could lead to companies taking greater risks and obtaining cheaper financing, which could, among other things, increase the risk of a future financial crisis.

Within the EU there is a political agreement that, when in financial distress, systemically important institutions should be reorganised or liquidated in a manner that does not threaten to trigger a financial crisis and that entails the company's owners and loan financiers bearing the costs of the situation – this is known as resolution. In 2014, a directive was adopted by the European Parliament and the Council, establishing a framework for the recovery and resolution of credit institutes and securities companies. This directive will be implemented in Swedish law during 2015.

In addition, the regulations 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 AND LEVERAGE RATIO**

Through a number of unique circumstances, the Group has been able to operate with a leverage ratio that has historically been below 0.5 percent, while nonetheless remaining sufficiently well capitalised to cover the risks in its operations:

- All of the Group's obligations are guaranteed by the members of the Society by means of a joint and several guarantee. This approach means that all members provide the ultimate guarantee for the Group's operations.

- Since municipalities and county councils/regions cannot be declared bankrupt and cannot cease to exist, and the state bears the overarching responsibility for the activities of the municipalities and county councils/regions, the members' guarantee for all of the Company's obligations is perceived as very strong.
- The Group lends solely to Swedish municipalities and county councils/regions who are members of the Society and their majority-owned companies. Loans to Swedish municipalities and county councils/regions have a low risk profile, with a 0 percent risk weight according to applicable capital coverage rules. The Group also has a low risk profile in its liquidity reserve and the members of the Society guarantee the Company's exposures towards derivative counterparties.

However, the leverage ratio requirement does not generally take the risks in the operations into account. Leverage ratio is defined as the Tier 1 capital divided by total exposures in assets and liabilities. To meet the requirement, the capital bases of both the Group and the Company need to be increased.

In accordance with the Society's owner directives, capital in the Group is being built up over the long term through profit accumulation. From 2011, the build-up of capital has involved profit accumulation, although it may in the future also involve direct capital contributions from members of the Society and other forms of capital.

#### Capital plan regarding leverage ratio

The Society bears the principal responsibility for the Group's capitalisation. The Society's plan is based on the capitalisation of the Group and the Company being raised to a level corresponding to a leverage ratio of 1.5 percent. At its Annual General Meeting on 10 April 2014, the Society made decisions regarding matters including a raised minimum contribution for existing members, as well as the possibility of making extra contributions. A second decision by the 2015 Annual General Meeting is required for the decisions to become binding.

In the event that the final leverage ratio requirement is set higher than 1.5 percent, the Society, as the first priority, plans to issue additional Tier 1 capital instruments to members. The articles of association however allows issuing Tier 1 capital instruments to actors affiliated with the Society and other local government actors. Provided approval is given by the Annual General Meeting, Tier 1 capital instruments may also be issued to other capital market actors.

#### Leverage ratio 2014

On 31 December 2014, the Group's leverage ratio<sup>1)</sup>, reported according to CRR, was 0.79 (0.58) percent. Including the SEK 1 billion subordinated loan issued in 2010 to the Society's members, the leverage ratio amounted to 1.10 (0.97) percent. On 31 December 2014, the Company's leverage ratio<sup>1)</sup>, reported according to CRR, was 0.76 (0.57) percent. Including the SEK 1 billion subordinated loan issued in 2010 to the Society, the leverage ratio amounted to 1.09 (0.91) percent.

However, the loan terms for the subordinated loans are such that they are not eligible for inclusion as Tier 1 capital according to CRR. The Group intends to replace the existing subordinated loans with new ones or with other capital forms that are eligible for inclusion as Tier 1 capital well in advance of year-end 2017.

For further details, see Note 35.

<sup>1)</sup> Leverage ratio is defined as the Tier 1 capital divided by total exposures in assets and liabilities.

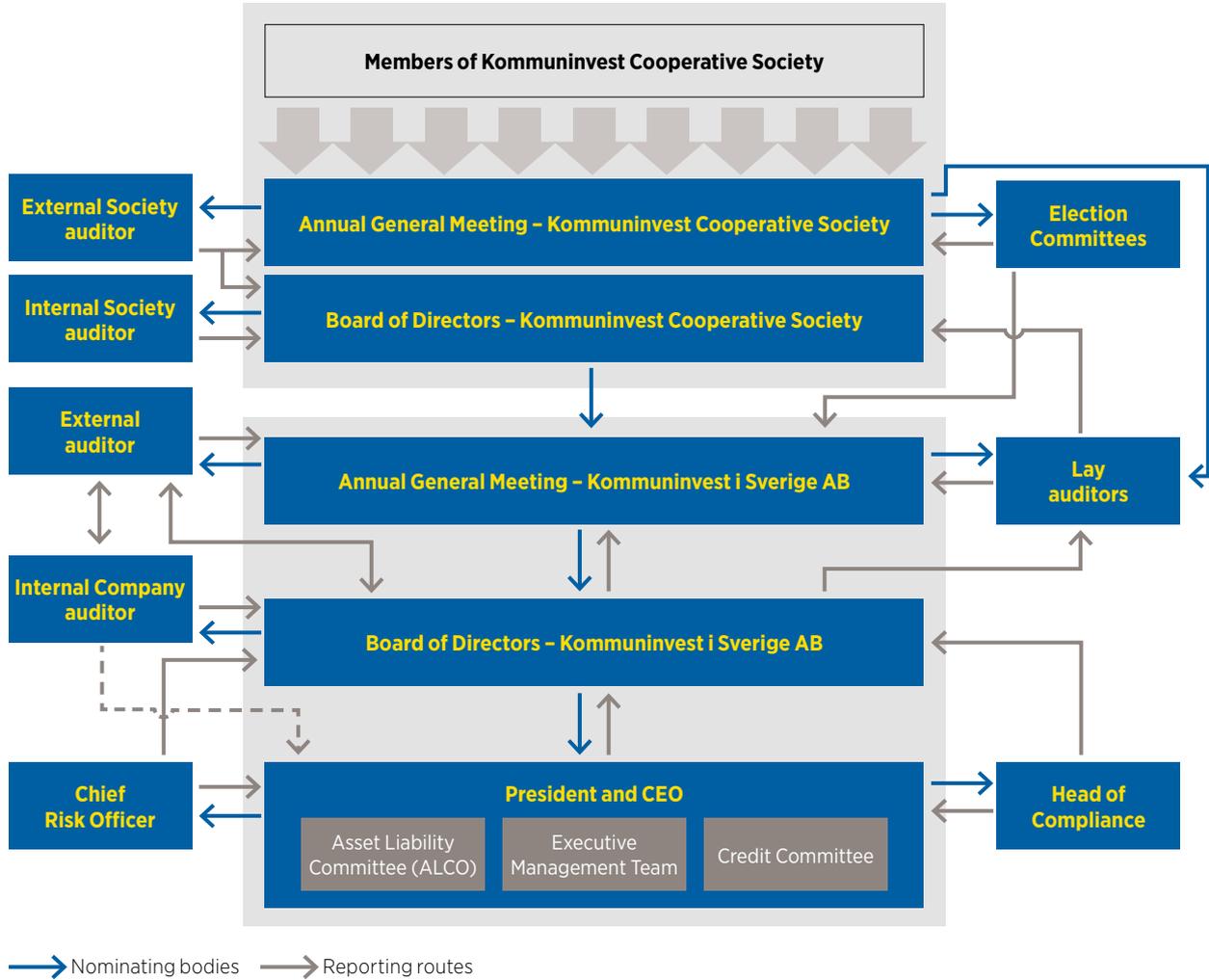
Regarding the lending portfolio and the liquidity reserve the exposure equals the book value. For derivatives assets the exposure is calculated by totalling all exposures in individual netting agreements with derivatives counterparties. To this exposure amount is added a possible future exposure amount 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 value. The exposure amount is calculated based on the probability that the commitment will be utilised. Applicable commitments for Kommuninvest are committed undisbursed loans.

The reported leverage ratios for 2013 differ from what was reported in the 2013 Annual Report, due to a change in calculation methods. As of 2014, Kommuninvest calculates leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter.

# Governance and control

## Kommuninvest Cooperative Society



The Kommuninvest Cooperative Society is the parent society of the Kommuninvest Group. The Society is owned by a large number of Swedish municipalities and county councils with the purpose of enhancing the efficiency of their financial operations. Together with Kommuninvest i Sverige AB and Kommuninvest Fastighets AB, the Society forms a financial group of companies. Good governance and control are crucial to the Kommuninvest Group, since it is publicly owned and has a role of considerable responsibility. The Corporate Governance Report for Kommuninvest i Sverige AB is included in that company's Annual Report.

### The Kommuninvest Group

The Kommuninvest Cooperative Society ("the Society", corp. ID no. 716453-2074) owns 100

percent of the shares in Kommuninvest i Sverige AB ("the Company", corp. ID no. 556281-4409). The Company owns 100 percent of the shares in Kommuninvest Fastighets AB (corp. ID no. 556464-5629) and 50 percent of the shares in Administrative Solutions NLGFA AB (corp. ID no. 556581-0669).

On 31 December 2014, participation capital in the Society amounted to SEK 2,054.0 (1,356.3) million. Each new member of the Society contributes participation capital to the Society based on number of residents. At 31 December 2014, the Society had 280 (278) members.

### Governance principles

The Group is owned by Swedish municipalities and county councils. The Society is a cooperative venture with the principal pur-

pose of providing members and their majority-owned companies access to cost-efficient and stable loan financing. All business operations are conducted within the Company, while the Society deals with matters concerning membership and ownership.

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 that affect internal corporate governance.

Beyond these, the Board of Directors of the company has established principles, stances, limits and target figures in a number of steering documents and instructions.

#### Member consultations

To stimulate owner influence and dialogue, annual member consultations are conducted at which representatives of the Board of the Society discuss current issues with representatives of the membership in a smaller-scale forum. Member consultations represent important forums for the preparation of matters for resolution by the Annual General Meeting. Ahead of the 2014 Annual General Meeting, member consultations were held in 18 (19) locations around Sweden, with some 391 (330) participating politicians and officials.

#### Owner directives

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

#### Targets for operations

The Kommuninvest Group'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 sat-

#### Additional information on Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website [www.kommuninvest.se](http://www.kommuninvest.se):

- 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.

isfied customers, by accounting for a large proportion of members' loan financing, by maintaining a high level of cost efficiency and having the financial strength to support the long-term focus of the operations. Follow-up on the targets is presented on page 5.

#### Remuneration principles

The Board of Directors of the Company sets the remuneration principles applicable within the Group, in accordance with the ownership directives. The Society has no salaried employees. 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.

#### Annual General Meeting

The Annual General Meeting of the Society is the Group's highest decision-making body. The Annual General Meeting of the Company is held in direct connection with the Annual General Meeting of the Society.

The 2014 Annual General Meeting was held on 10 April 2014 in Stockholm. At the Meeting, 156 (138) municipalities and county councils/regions were represented, corresponding to 56 (50) percent of the members. At the Annual General Meeting, each member has one vote. The resolutions adopted by the Meeting included:

- The first of two resolutions regarding amendments to the Articles of Association for the Society and its companies.
- Annual contribution commitments for 2014.
- Adoption of owner directives for Kommuninvest i Sverige AB, including guidelines for remuneration to the President and CEO, the Deputy CEO and other members of the Executive Management Team of Kommuninvest i Sverige AB.

- Rules of procedure for the work of the Election Committees.
- Rules of procedure for the work of the lay auditors.

### Election Committees

There are two Election Committees within the Group; the Election Committee of the Society and the Election Committee of the Society's companies. The Election Committees bear the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the members to give their views on proposals and to submit their own proposals regarding appointments and associated issues, thereby establishing favourable conditions for well-founded decisions.

The Election Committee of the Society is elected by the Annual General Meeting based on a proposal submitted by the Board of Directors of the Society. 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 membership. The Board of Directors of the Society has resolved that its working committee shall act as the Election Committee.

### The work of the Board of Directors

Board work is conducted in part by the Board of Directors of the Society, and, in part by the Board of Directors of the Company. The main principle is that the Board of Directors of the Society deals with membership and ownership issues, while the Board of Directors of the Company deals with issues involving business operations.

This means that issues concerning new members, withdrawal of members, possible exclusion from membership, guarantee issues, etc. are dealt with by the Board of Directors of the Society. The Board of Directors of the Company deals with financing issues, credit issues (such as limits and analyses), as well as other operational issues.

However, the connection between the two boards is strong, since certain issues concern both the Board of Directors of the Society as well as that of the Company. However, the

### Election Committee of the Kommuninvest Cooperative Society 2013/2014

Arne Lernhag (M), Chairman of the Municipal Executive Board, Municipality of Öckerö  
 Anders Ceder (S), Member of the Municipal Executive Board, Municipality of Lindsberg, Deputy Chairman  
 Anders Berglöv (S), Chairman of the Municipal Executive Board, Municipality of Flen  
 Kenneth Carlsson (FP), First Deputy Chairman of the Municipal Executive Board, Municipality of Färgelanda  
 Elisabet Lassen (S), Chairman of the Municipal Executive Board, Municipality of Sollefteå  
 Martina Mossberg (M), Municipality of Haninge  
 Kerstin Sjöström (C), Member of the Municipal Executive Board, Municipality of Nordmaling

Board of Directors of the Society, which represents the owners, has no direct right of determination over the Board of Directors of the Company. The Society's control of the Board of Directors of the Company takes place only by means of resolutions by the Annual General Meeting or by owner directives adopted by the Annual General Meeting.

### Working Committee of the Board of Directors of the Society

From among the members of the Board of Directors of the Society, a working Committee is appointed each year, including the Chairman of the Board, the Vice Chairman of the Board and at least one other Board Member. On assignment from the Board of Directors, the Working Committee is responsible for matters including the preparation of the work of the Board of Directors and for annually assessing the work of the President. The Working Committee also acts as the Election Committee of the Society's companies in accordance with rules of procedure established by the Annual General Meeting. In addition, the Working Committee is tasked with meeting the external and lay auditors of the Society and its subsidiaries to inform itself of the focus and scope of the audit and the view taken of the Society and Group's risks. The results of the Working Committee's work are to be reported at Board meeting on an ongoing basis.

### President

The President is responsible for the on-going administration of the Society in accordance with the Board's guidelines and instructions.

### Election Committee of the companies owned by the Society 2014/2015

Ann-Charlotte Stenkil (M), Municipality of Varberg, Chairman  
 Alfv Egnerfors (S), Municipality of Eskilstuna, Vice 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](http://www.Kommuninvest.org).

Since the Society's owners are democratically governed organisations and the Society's operations are socially beneficial in nature, the President's responsibility for on-going administration shall be limited to on-going administrative matters that are not significant in terms of principles or otherwise of special significance for the Society. If, in a particular matter, it is unclear whether the right of determination lies with the Board of Directors or the President, the President shall allow the Board to consider the matter or, if it is not possible to await the position of the Board, he shall consult the Chairman of the Board.

According to the Economic Associations Act (Chapter 6, Section 6), the President is entitled, in certain instances, to undertake measures without the authorisation of the Board. For the reasons stated above, the President shall, in such instances observe very considerable restriction and always seek consultation with the Chairman of the Board.

#### Leadership assessment

In accordance with the regulations for financial companies under the supervision of Finansinspektionen (the Swedish Financial Supervisory Authority), the members of the Board of the Kommuninvest Cooperative Society and the President are assessed by Finansinspektionen.

#### Board members

Effective from the Annual General Meeting of 10 April 2014, the Board of Directors of the Kommuninvest Cooperative Society has consisted of Ann-Charlotte Stenkil (Chairman), Alf Egnerfors, (Vice Chairman), Carina Blank, Åsa Herbst, Margreth Johnsson, Elver Jonsson, Ewa-May Karlsson, Niklas Karlsson, Örjan Mossberg, Robert Mörk, Magnus Oscarsson, Jonas Ransgård, Roland Åkesson, Bert Öhlund and Lotta Öhlund. The members are presented on page 35.

#### Analysis and Finance Committee

The Board of Directors of the Society appoints an Analysis and Finance Committee. The committee is responsible for monitoring the financial status of the member municipalities and the development of the local government sector as a whole. It also has the task of preparing new member applications at the behest of the Board of Directors of the Society. In contrast to other committees in the Society, it is made up of officials. The reason for this is that the tasks call for extensive specialised economic expertise.

#### Analysis and Finance Committee of the Kommuninvest Cooperative Society

Nils-Eric Gustavsson, Finance Director, Västmanland County Council, Chairman;  
Camilla Broo, Treasurer, Municipality of Södertälje;  
Åsa Byman-Falck, Chief Administrative Officer, Municipality of Norrköping;  
Gunnar Eikeland, President, Luleå Municipal Corporation;  
Lilian Eriksson, Chief Administrative Officer, Municipality of Ängelholm; Maria Johansson, Financial Manager, Municipality of Upplands-Bro; Gunilla Josefsson, Financial Manager, Municipality of Kungsbacka; Stefan Sorpola, Financial Manager, Municipality of Halmstad;  
Carina Åresved-Gustavsson, Financial Manager, Municipality of Nybro; Thomas Åkelius, Kommuninvest i Sverige AB, secretary of the committee

The committee's brief states further that it shall represent different parts of the country, it shall have experience of different types of municipalities and it shall have knowledge of operations in the form of a public enterprise.

#### Remunerations

The Chairman received a fixed fee of SEK 100,000 and a variable fee of SEK 3,500 per meeting. The Vice Chairman received a fixed fee of SEK 50,000 and a variable fee of SEK 3,500 per meeting. Alongside the Chairman and Vice Chairman, two other members of the Board form the Society's Working Committee and consequently receive an annual fixed fee of SEK 12,000 and a variable fee of SEK 3,500 per meeting. Other Board members received a fixed fee of SEK 6,000 and a variable fee of SEK 3,500 per meeting. Deputy members received a fixed fee of SEK 3,500 per meeting. All members receive a fixed fee of SEK 1,750 per meeting held by telephone.

Within the framework for fees to the Board of Directors set by the Annual General Meeting, fees of SEK 179,000 (205,000) were paid to the Chairman of the Board of Directors of the Society, Ann-Charlotte Stenkil, in 2014. The fee paid to the Vice Chairman of the Board of Directors, Alf Egnerfors, totalled SEK 127,000 (134,000).

Fees to the other members of the Board of Directors, including deputies, have been paid in accordance with the resolution by the Annual General Meeting and totalled SEK 646,000 (689,000) for 2014. The total fees paid to the members of the Board of Directors of the Society elected by the Annual General Meeting are determined by the Annual General Meeting and amounted to SEK 952,000 (1,027,000) for 2014.

#### Work of the Board of Directors in 2014

In 2014, the Board of Directors held five (five) ordinary meetings, no (one) extra meetings and one (one) inaugural meeting. Agendas and decisions have involved:

- New Articles of Association for the Society
- Plan for the Group's build-up of capital
- Member consultation and policy design
- Owner directives
- Follow-up of members
- Owner survey
- Matters associated with new regulations
- ICA
- Annual report and interim reports

# Board of Directors Kommuminvest Cooperative Society

## Chairman



**ANN-CHARLOTTE STENKIL**  
Member of the Municipal Executive Board, Varberg

## Vice Chairman



**ALF EGNERFORS**  
Eskilstuna

## Ledamöter



**CARINA BLANK**  
Chairman of the Municipal Executive Board, Gävle



**ÅSA HERBST**  
Chairman of the Municipal Executive Board, Ängelholm



**MARGRETH JOHNSSON**  
Member of the Municipal Executive Board, Trollhättan



**ELVER JONSSON**  
Member of the Municipal Executive Board, Alingsås



**EWA-MAY KARLSSON**  
Chairwoman of the Municipal Executive Board, Vindeln



**NIKLAS KARLSSON**  
2nd Vice Chairman of the Municipal Executive Board, Landskrona



**ÖRJAN MOSSBERG**  
Member of the Municipal Executive Board, Växjö



**ROBERT MÖRK**  
Member of the Executive Board, Örebro County Council, Degerfors



**MAGNUS OSCARSSON**  
Chairman of the Municipal Executive Board, Ödeshög



**JONAS RANSGÅRD**  
Vice Chairman of the Municipal Executive Board, Gothenburg



**ROLAND ÅKESSON**  
Chairman of the Municipal Executive Board, Mönsterås



**BERT ÖHLUND**  
Chairman of the Municipal Executive Board, Skellefteå



**LOTTA ÖHLUND**  
Member of the Municipal Executive Board, Hallsberg

## ALTERNATE MEMBERS OF THE BOARD

Lilly Bäcklund, Chairwoman of the Municipal Executive Board, Lycksele  
Lennart Holmlund, Chairman of the Municipal Executive Board, Umeå  
Barbro Hassel, 2nd Vice Chairman of the Municipal Executive Board, Skara  
Peter Kärnström, Chairman of the Municipal Executive Board, Sandviken  
Camilla Egberth, Chairwoman of the Municipal Executive Board, Motala  
Christina Johansson, member of the Municipal Executive Board, Hällefors  
Urban Widmark, Chairman of the Municipal Executive Board, Hässleholm  
Fredrik Larsson, Chairman of the County Council Board, Värmland County Council

Peter Hemlin, member of the Municipal Executive Board, Sotenäs  
Ann-Marie Jacobsson, member of the Municipal Executive Board, Färgelanda  
Marie Wilén, Chairwoman of the Municipal Executive Board, Heby  
Gertowe Thörnros, member of the Municipal Executive Board, Degerfors  
Malin Danielsson, 2nd Vice Chairman of the Municipal Executive Board, Huddinge  
Andreas Sturesson, 1st Vice Chairman of the Municipal Executive Board, Jönköping  
Robert Stenkvist, member of the Municipal Council, Botkyrka

**AUDITORS**

The Annual General Meeting of the Kommuninvest Cooperative Society elects external and lay auditors. According to the Articles of Association, Kommuninvest shall have one external auditor. The auditor is appointed by the Annual General Meeting following a proposal by the Society's lay auditors, 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 Erik Åström as the auditor with overall responsibility, replacing Peter Strandh, the previously selected authorised auditor Peter Strandh as the auditor with overall responsibility, in 2014. The auditor with overall responsibility meet the Board at least twice yearly. Among Erik Åström's other auditing assignments include Intrum Justitia AB, Nasdaq OMX, Skistar AB, AB Svensk Exportkredit and Svenska Handelsbanken AB.

The same auditing company appointed as the external auditor for the Kommuninvest Cooperative Society is also appointed as the external auditor for Kommuninvest i Sverige AB. The same individuals appointed as the lay auditors for the Kommuninvest Cooperative

Society are also appointed as the lay auditors for Kommuninvest i Sverige AB. The purpose is to obtain more efficient auditing for the Kommuninvest Group.

**Internal auditor**

The Board of Directors of the Society procured the services of an internal auditor for the Group and the Society in 2013. KPMG AB was appointed as the internal audit company, with certified internal auditor Anders Thunholm as the internal auditor.

**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 Vice Chairwoman of the Municipal Executive Board in the Municipality of Västervik (re-elected)

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

**Remunerations – Board of Directors of the Kommuninvest Cooperative Society (permanent members)**

Name	Remuneration 2014, SEK	Remuneration 2013, SEK
Alf Egnersfors	127,000	134,000
Ann-Charlotte Stenkil	178,750	205,000
Bert Öhlund	23,500	27,000
Carina Blank	13,000	16,500
Elver Jonsson	23,500	27,000
Ewa-May Karlsson	90,750	80,250
Jonas Ransgård	23,500	17,000
Lotta Öhlund	23,500	30,500
Magnus Oscarsson	20,000	20,000
Margreth Johnsson	83,750	83,750
Niklas Karlsson	23,500	23,500
Per Mosseby, resigned during 2013	-	13,500
Robert Mörk	23,500	27,000
Roland Åkesson	20,000	30,500
Åsa Herbst	27,000	20,000
Örjan Mossberg	27,000	30,500
<b>Total</b>	<b>728,250</b>	<b>786,000</b>

# Administration report – Parent Society

## General information about the company

Kommuninvest was founded in 1986 as a regional project for cooperation between local government authorities in the County of Örebro, through the company Kommuninvest i Örebro Län AB. Effective from 1993, it became possible for all municipalities and county councils in the country to apply for membership of the Kommuninvest Cooperative Society (the Society). The Society owns the credit market company Kommuninvest i Sverige AB (the Company), in which all business activities are conducted.

The cooperation is voluntary and based on professionalism. The principal purpose of the operations is to achieve favourable long-term conditions for members' financing. Operations primarily involve loans for the financing of investments. Kommuninvest also functions as a member organisation to influence general conditions for financing of the sector.

Only members of the owner society and companies, foundations and associations controlled by members are entitled to use Kommuninvest's services. Loans to such companies, foundations and associations are conditional on the purpose of such loans being within the framework of local government expertise and on the member having signed a guarantee for the borrower's obligations. The financial cooperation is to be conducted with the lowest possible level of risk taking by the Society, the Company and its members.

## Organisation of the financial cooperation

Following an approval process, Swedish municipalities and county councils can become members of the Kommuninvest Cooperative Society. The Kommuninvest Group consists primarily of the Society and the Company. Since 1 January 2012, the Company also owns Kommuninvest Fastighets AB, having acquired it from the Society for SEK 32 million. Kommuninvest

Fastighets AB owns the property where the Company conducts its operations.

## Joint and several guarantee

The members of the Society sign an unlimited joint and several unconditional guarantee for all of the Company's obligations. In addition to this guarantee, the guarantors have also signed an agreement that allocates any claims based on the guarantee relative to each local government authority's debt to Kommuninvest. The members have also signed a guarantee agreement regulating their responsibility for the counterparty exposures arising as a consequence of the Company's use of derivative contracts.

## Operations based on members' needs

The scope of the Company's operations is determined mainly by the number of members in the Society and the financial needs of the individual members. At the end of 2014, 94 (93) percent of Sweden's municipalities and 40 (40) percent of Sweden's county councils were members – an increase of two (four) members over the financial year. From experience, an increased number of members entails an increase in net lending. This occurs with a certain delay as new members' existing loans expire and new loans are required.

## Subscribed capital

The Board of Directors of the Society determines annually the scale of the contribution that members are to provide. The size of the contribution is related to the population of the municipality or county council. At the end of 2014, participation capital in the Society totalled SEK 2,054.0 (1,356.3) million. In addition, subscription capital can be increased through decisions by the Annual General Meeting regarding participation issues or decisions regarding new annual contributions.

### Membership status

At the end of the year, there were 280 (278) members in the Kommuninvest Cooperative Society. No memberships were cancelled during 2014 and no repayment of subscription capital has been made as a consequence of membership cancellations to be made during the ensuing financial year.

### Refunds and interest on contributions

Following a decision by the Annual General Meeting of the Society, effective from the 2011 financial year, the Society makes use of refunds and interest on contributions as a format for the distribution of surpluses to make the gains earned by the Company tangible for the members/owners of the Society.

### Financial outcome

For 2014, the Society reported profit before tax of SEK 717.9 (733.3) million. This profit is primarily attributable to a Group contribution from the Company of SEK 725.6 (741.1) million. Profit after tax amounted to SEK 715.2 (733.3) million.

The Society has a deferred tax asset of SEK 26.3 million due to tax loss carryforwards, which the Society has not reported as a taxable asset.

### Personnel

The Society had no employees in 2014 and consequently no salaries were paid.

### Appropriation of surplus

The Board of Directors of the Kommuninvest Cooperative Society proposes that:

The profit of SEK 715,439,682 at the disposal of the Annual General Meeting of the Society be appropriated as follows:

Interest of 2.5 percent on contributions be paid to members	SEK 44,808,351
Bonuses be distributed to members in proportion to each member's share of the total volume of business volume in 2014	SEK 634,641,649
Allocated to statutory reserve	SEK 35,760,540
Brought forward to new account	SEK 229,142
<b>Total appropriated</b>	<b>SEK 715,439,682</b>

*That* members entitled to interest on contributions and refunds are those municipalities and county councils that had become members by 31 December 2014 at the latest.

*That* interest on contributions and refunds are to be disbursed at the latest one month after the decision by the 2015 Annual General Meeting.

*That* volume of business refer to the sum of the interest expenses on each member's loans from Kommuninvest i Sverige AB for 2014. The volume of business for each member also includes interest charged to the member's companies, etc. in the manner stated in Section 13 of the Articles of Association.

## FINANCIAL STATEMENTS

### Financial statements

Income statement and Statement of comprehensive income – The Group	40
Balance sheet – The Group	42
Statement of changes in equity – The Group	44
Cash flow statement – The Group	46
Income statement and Statement of comprehensive income – Parent society	47
Balance sheet – Parent society	48
Statement of changes in equity – Parent society	49
Cash flow statement – Parent society	50

### Notes

Note 1 Accounting principles	51
Note 2 Financial risks – The Group	56
Note 3 Net interest income	61
Note 4 Commission expenses	61
Note 5 Net result of financial transactions	61
Note 6 Other operating income	61
Note 7 General administration expenses	61
Note 8 Other operating expenses	64
Note 9 Taxes	64
Note 10 Sovereign bonds eligible as collateral	65
Note 11 Lending to credit institutions	65
Note 12 Lending	65
Note 13 Bonds and other interest-bearing securities	65
Note 14 Shares and participations	66
Note 15 Shares and participations in associated companies	66
Note 16 Shares in subsidiaries	66
Note 17 Intangible assets	66
Note 18 Receivables from subsidiaries	66
Note 19 Tangible fixed assets	67
Note 20 Other assets	67
Note 21 Prepaid expenses and accrued revenues	67
Note 22 Other liabilities	67
Note 23 Accrued expenses and prepaid revenues	67
Note 24 Provisions for pensions and similar obligations	67
Note 25 Subordinated liabilities	67
Note 26 Equity in Kommuninvest Cooperative Society	68
Note 27 Consolidated equity – The Group	68
Note 28 Pledged assets	69
Note 29 Obligations	69
Note 30 Related parties	69
Note 31 Events after the balance sheet date	69
Note 32 Financial assets and liabilities – The Group	70
Note 33 Information on financial assets and liabilities subject to offsetting – The Group	74
Note 34 Capital adequacy – The Group	75
Note 35 Leverage ratio – The Group	75
Five-year summary – The Group	76
Signatures	78
Audit Report	79
Review Report	80
Our members	81

# Consolidated income statement – The Group

1 January–31 December

SEK, million	Note	2014	2013
Interest revenues		3,651.0	4,571.1
Interest expenses		-2,736.1	-3,602.2
<b>NET INTEREST INCOME</b>	3	<b>914.9</b>	<b>968.9</b>
Commission expenses	4	-5.1	-5.6
Net result of financial transactions	5	101.9	38.7
Other operating income		3.3	1.9
<b>TOTAL OPERATING INCOME</b>		<b>1,015.0</b>	<b>1,003.9</b>
General administration expenses	7	-282.4	-247.1
Amortisation of intangible fixed assets	17	-0.4	-
Depreciation of tangible fixed assets	19	-5.1	-3.8
Other operating expenses	8	-5.9	-3.4
<b>TOTAL EXPENSES</b>		<b>-293.8</b>	<b>-254.3</b>
<b>OPERATING INCOME</b>		<b>721.2</b>	<b>749.6</b>
Taxes	9	-2.6	-3.8
<b>NET PROFIT</b>		<b>718.6</b>	<b>745.8</b>

# Consolidated statement of comprehensive income – The Group

1 January–31 December

SEK, million	Note	2014	2013
<b>NET PROFIT</b>		<b>718.6</b>	<b>745.8</b>
<b>Other comprehensive income</b>			
Items that may subsequently be reclassified to the income statement			
Available-for-sale financial assets		0.8	-8.3
Available-for-sale financial assets, transferred to the income statement		-6.8	1.0
Tax attributable to items that may subsequently be reclassified to the income statement	9	-	1.6
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-6.0</b>	<b>-5.7</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>712.6</b>	<b>740.1</b>

## Comment on the income statement

### Income

Total operating income rose by 1 percent to SEK 1,015.0 (1,003.9) million. Operating income includes net interest income, commission expenses, net result of financial transactions and other operating income.

### Net interest income

Net interest income decreased to SEK 914.9 (968.9) million. The decrease is due a reduction of margins in lending operations, due to increased competition.

### Net result of financial transactions

The net result of financial transactions amounted to SEK 101.9 (38.7) million. The result was affected by unrealised changes in market value of SEK 65.4 (17.6) million, but also by the buy-back of own bonds and the sale of financial instruments in the amount of SEK 31.5 (15.0) million. For further information, see Note 5.

In connection with sales of financial instruments, the Group has transferred SEK +6.8 (-1.0) million in profits from other comprehensive income to profit/loss for the year. The profit from buybacks of the Company's bonds amounted to SEK 0.2 (13.3) million.

### Expenses

Costs amounted to SEK 293.8 (254.3) million, including the stability fee of SEK 110.7 (99.0) million. The stability fee is calculated based on the size of the balance sheet. The stability fee accounted for 38 (39) percent of Kommuninvest's total costs.

Excluding the stability fee, expenses amounted to SEK 183.1 (155.3) million, of which personnel expenses accounted for SEK 97.6 (82.3) million and other expenses for SEK 85.5 (73.0) million. The increase in expenses is explained entirely by the increase in personnel and consulting costs related to the introduction of new regulations from the EBA, the European Banking Authority.

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.

Credit losses totalled SEK - (-) million.

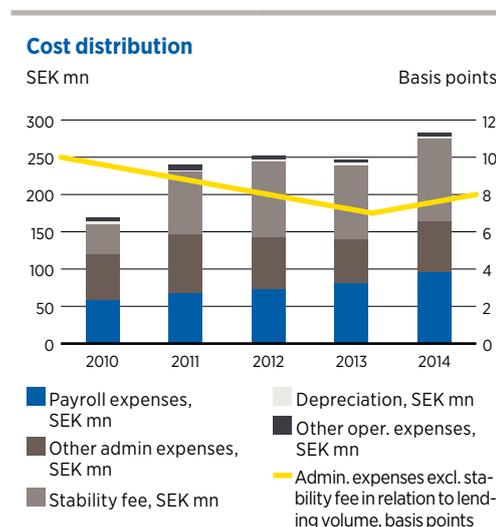
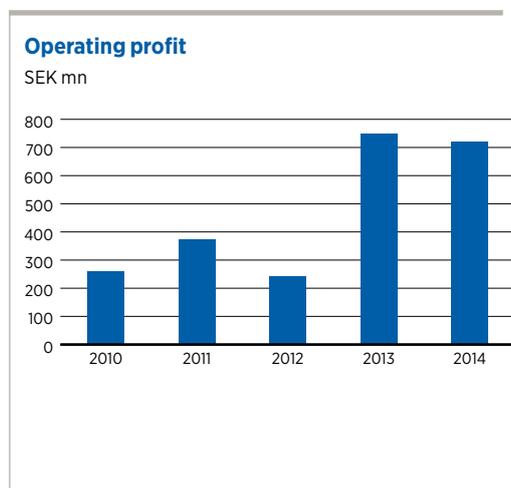
### Operating profit

Kommuninvest's operating profit, that is profit before taxes, amounted to SEK 721.2 (749.6) million. Operating profit includes unrealised changes in market value of SEK 65.4 (17.6) million.

Operating profit excluding the effect of unrealised market value changes was SEK 655.8 (732.0) million. Profit after taxes amounted to SEK 718.6 (745.8) million.

### Tax

The tax expense for the year recognised in the income statement amounted to SEK 2.6 (3.8) million. See also Note 10.



# Consolidated balance sheet

## – The Group

As per 31 December

SEK, million	Note	2014	2013
<b>ASSETS</b>			
State bonds eligible as collateral	10	15,204.1	14,626.2
Lending to credit institutions	2	4,070.2	2,832.5
Lending	12	222,803.7	208,644.0
Bonds and other interest-bearing securities	13	45,974.5	44,932.9
Shares and participations	14	2.4	2.1
Shares and participations in associated companies	15	0.5	0.5
Derivatives	2	23,848.8	6,235.8
Intangible assets	17	1.6	–
Tangible assets	19	6.6	5.4
Tangible assets, lands and buildings	19	33.7	32.1
Current tax assets	9	81.4	81.1
Other assets	20	1.5	4.3
Deferred tax assets	9	54.7	54.6
Prepaid expenses and accrued revenues	21	8.3	11.2
<b>TOTAL ASSETS</b>		<b>312,092.0</b>	<b>277,462.6</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
Liabilities to credit institutions	2	4,823.6	4,375.0
Securities issued	2	292,318.0	256,258.7
Derivatives	2	10,628.3	13,231.8
Current tax liability	9	–	–
Other liabilities	22	20.2	24.7
Accrued expenses and prepaid revenues	23	137.4	122.2
Provisions for pensions and similar obligations	24	3.0	2.5
Subordinated liabilities	25	1,000.1	1,000.1
<b>Total liabilities and provisions</b>		<b>308,930.6</b>	<b>275,015.0</b>
<b>Equity</b>			
Subscribed capital	27	2,054.0	1,356.3
Reserves		11.3	17.4
Profit carried forward		377.5	328.1
Net profit		718.6	745.8
<b>Total equity</b>		<b>3,161.4</b>	<b>2,447.6</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>312,092.0</b>	<b>277,462.6</b>
<b>Memorandum items</b>			
Collateral pledged	28	21,711.2	22,996.3
Contingent liabilities		None	None
<b>Obligations</b>			
Committed undisbursed loans	29	<b>3,783.5</b>	<b>3,480.0</b>

## Comment on the balance sheet

### Total assets

The Group's total assets increased to SEK 312,092.0 (277,462.6) million, as a result of increased lending. Lending totalled SEK 222,803.7 (208,644.0) million. The liquidity reserve was SEK 65,248.8 (62,391.6) million, consisting of the balance sheet items Sovereign bonds eligible as collateral, Lending to credit institutions and Bonds and other interest-bearing securities.

### Derivatives

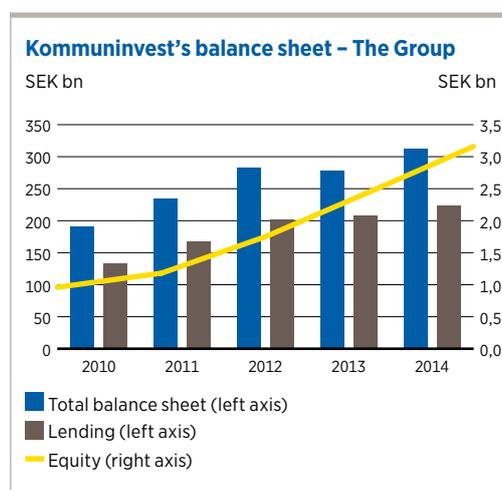
Derivative contracts are used as risk management instruments to address market risks in operations. Derivatives with positive market value (recognised as assets in the balance sheet) and negative market value (recognised as liabilities in the balance sheet) amounted to SEK 23,848.8 (6,235.8) million and SEK 10,628.3 (13,231.8) million respectively.

### Liabilities

At the end of 2014, the Group's liabilities amounted to SEK 308,930.6 (275,015.0) million. The change during the year is mainly explained by borrowing having increased as a consequence of increased lending.

### Subordinated liabilities

Subordinated liabilities consist of a perpetual debenture loan from the Society's members. The loan amounted to SEK 1,000.1 (1,000.1) million.



# Consolidated equity – The Group

Statement of changes in equity

SEK, million	Subscribed capital	Reserves	Profit carried forward	Total equity
<b>Equity brought forward 1 Jan 2013</b>	<b>615.6</b>	<b>23.1</b>	<b>1,106.6</b>	<b>1,745.3</b>
Comprehensive income for the period		-5.7	745.8	740.1
<i>Appropriation of surplus in accordance with decision by the Annual General Meeting of the Society</i>				
Distribution of surplus as bonuses and interest			-778.5	-778.5
<i>New subscribed capital during the year</i>				
Participation capital from new members of the society	12.7			12.7
New participation capital from members	728.0			728.0
<b>Equity carried forward 31 Dec 2013</b>	<b>1,356.3</b>	<b>17.4</b>	<b>1,073.9</b>	<b>2,447.6</b>
<b>Equity brought forward 1 Jan 2014</b>	<b>1,356.3</b>	<b>17.4</b>	<b>1,073.9</b>	<b>2,447.6</b>
Comprehensive income for the period		-6.1	718.6	712.5
<i>Appropriation of surplus in accordance with decision by the Annual General Meeting of the Society</i>				
Distribution of surplus as bonuses and interest			-696.5	-696.5
<i>New subscribed capital during the year</i>				
Participation capital from new members of the society	1.2			1.2
New participation capital from members	696.5			696.5
<b>Equity carried forward 31 Dec 2014</b>	<b>2,054.0</b>	<b>11.3</b>	<b>1,096.0</b>	<b>3,161.4</b>
Reserves consist of the following:	<b>2014</b>	<b>2013</b>		
- Available-for-sale financial assets	11.3	17.4		

For further information, see Note 27.

## Comment on the statement of changes in equity

### Equity

At the end of 2014, equity in the Group amounted to SEK 3,161.4 (2,447.6) million. The increase was attributable to the profit for the year of SEK 718.6 (745.8) million and an increase in share capital of SEK 697.7 (740.7) million. Of the increase in share capital, SEK 696.5 (730.7) million involved capital contributions from existing members of the Society and SEK 1.2 (12.7) million involved 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”.

### Surplus distribution model

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

Decisions regarding the distribution of surpluses are made at the Annual General Meeting of the Society. Surpluses are distributed through group contributions from the Company 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 busi-

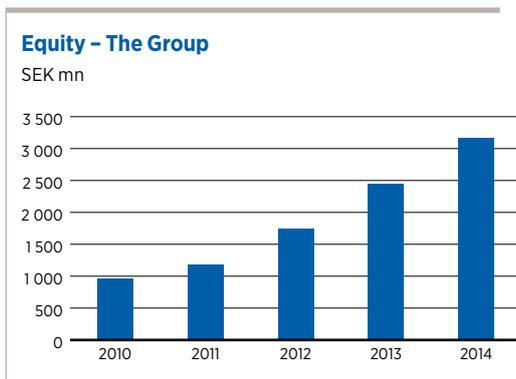
ness volumes and interest on capital contributions. The distribution of surpluses is not associated with any conditions for members, or with any repayment liability or liability to pay new capital contributions.

The 2014 Annual General Meeting of the Society approved the payment of SEK 696.5 (778.5) million in surplus distribution. Payment was effectuated in May.

### 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 can be used to reinforce the capital base in the Company. At the meeting of the Board of Directors of the Society held following the 2014 Annual General Meeting of the Society it was resolved that SEK 696.5 (768.0) million in new capital contributions to the Society should be paid in. All members chose to participate.

The Board of Directors of the Society resolved that SEK 650.0 (768.0) million should be injected into the Company as new share capital. At the meeting of the Board of Directors of the Society in December 2014, the Board resolved that the surplus capital contributions of SEK 46.5 million and the new capital contributions paid into the Society in 2014 by new members would remain in the Society.



# Consolidated cash flow statement – The Group

1 January–31 December

SEK, million	2014	2013
<b>Operational activities</b>		
Operating income	721.2	749.6
Adjustment for items not included in cash flow	-60.0	-14.0
Income tax paid	-0.7	-1.6
<b>Cash flow from operating activities before changes in the assets and liabilities of operating activities</b>	<b>660.5</b>	<b>734.0</b>
Change in interest-bearing securities	-1,220.5	-11,840.9
Change in lending	-11,659.3	-8,741.6
Change in other assets	3.1	28.2
Change in other liabilities	11.2	-19.1
<b>Cash flow from operational activities</b>	<b>-12,205.0</b>	<b>-19,839.4</b>
<b>Investment activities</b>		
Acquisitions of intangible assets	-2.0	-
Acquisition of tangible assets	-8.0	-1.9
Divestments of tangible assets	-	0.4
<b>Cash flow from investment activities</b>	<b>-10.0</b>	<b>-1.5</b>
<b>Financing activities</b>		
Issue of interest-bearing securities	108,359.7	126,416.0
Redemption of interest-bearing securities	-94,908.2	-119,342.1
Distribution of surplus as bonuses and interest	-696.5	-778.5
New participation capital from members	696.5	727.9
Participation capital from new members of the society	1.2	12.8
<b>Cash flow from financing activities</b>	<b>13,452.7</b>	<b>7,036.1</b>
<b>Cash flow for the year</b>	<b>1,237.7</b>	<b>-12,804.8</b>
<b>Liquid assets at the start of the accounting period</b>	<b>2,832.5</b>	<b>15,637.3</b>
<b>Cash and equivalents at end of the year</b>	<b>4,070.2</b>	<b>2,832.5</b>
Liquid assets consists 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	5.5	3.8
Exchange rate differences from change in financial assets	-0.1	0.0
Profit from divestments of tangible assets	-	-0.2
Unrealised changes in market value	-65.4	-17.6
<b>Total</b>	<b>-60.0</b>	<b>-14.0</b>
<b>Interest paid and earned, included in the cash flow</b>		
Interest received	3,820.9	4,379.5
Paid interest	-2,928.0	-3,481.7

# Income statement – Parent Society

1 January–31 December

SEK, million	Note	2014	2013
Operating expenses	7	-7.7	-7.8
<b>Operating income</b>		<b>-7.7</b>	<b>-7.8</b>
<b>Financial revenues and expenses</b>			
Revenues from participations in Group companies, Group contributions		725.6	741.1
Interest revenues	3	0.0	0.0
Interest income, debenture loan	3	24.7	29.5
Interest expenses, debenture loan	3	-24.7	-29.5
<b>Total</b>		<b>725.6</b>	<b>741.1</b>
<b>Profit/loss after financial items</b>		<b>717.9</b>	<b>733.3</b>
<b>Profit/loss before tax</b>		<b>717.9</b>	<b>733.3</b>
Tax expense	9	-2.7	0.0
<b>NET PROFIT</b>		<b>715.2</b>	<b>733.3</b>

# Statement of comprehensive income – Parent Society

1 January–31 December

SEK, million	2014	2013
<b>Net profit</b>	<b>715.2</b>	<b>733.3</b>
Other comprehensive income	0.0	0.0
<b>Comprehensive income for the year</b>	<b>715.2</b>	<b>733.3</b>

# Balance sheet – Parent Society

As per 31 December

SEK, million	Note	2014	2013
<b>ASSETS</b>			
<b>Fixed assets</b>			
<i>Financial fixed assets</i>			
Debenture loan to subsidiary	25	1,000.1	1,000.0
Shares in subsidiaries	16	2,039.9	1,389.9
<b>Total fixed assets</b>		<b>3,040.0</b>	<b>2,389.9</b>
<b>Current assets</b>			
<i>Receivables</i>			
Prepaid expenses and accrued revenues		0.3	0.5
Receivables from subsidiaries	18	770.2	741.3
<b>Total current assets</b>		<b>770.5</b>	<b>741.8</b>
Cash and bank balances	11	41.0	0.3
<b>TOTAL ASSETS</b>		<b>3,851.5</b>	<b>3,132.0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Subscribed capital		2,054.0	1,356.3
Statutory reserve		78.2	41.5
Profit brought forward		0.2	0.1
Net profit		715.2	733.3
<b>Total equity</b>		<b>2,847.6</b>	<b>2,131.2</b>
<b>Liabilities</b>			
<i>Long-term liabilities</i>			
Subordinated liabilities	25	1,000.1	1,000.1
<b>Total long-term liabilities</b>		<b>1,000.1</b>	<b>1,000.1</b>
<i>Current liabilities</i>			
Accounts payable, trade	22	0.7	0.3
Tax liabilities	22	2.7	-
Other current liabilities	22	0.1	0.2
Accrued expenses and prepaid revenues	23	0.3	0.2
<b>Total current liabilities</b>		<b>3.8</b>	<b>0.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,851.5</b>	<b>3,132.0</b>
Pledged assets		None	None
Contingent liabilities		None	None

# Equity – Parent Society

Statement of changes in equity

SEK, million	Subscribed capital	Statutory reserve	Unrestricted equity	Total equity
<b>Equity brought forward 1 Jan 2013</b>	<b>615.6</b>	<b>0.5</b>	<b>819.6</b>	<b>1,435.7</b>
Profit for the period			733.3	733.3
<i>Appropriation of surplus in accordance with decision by the Annual General Meeting of the Society</i>				
Distribution of surplus as bonuses and interest			-778.5	-778.5
Allocation to statutory reserve		41.0	-41.0	0.0
<i>New subscribed capital during the year</i>				
Participation capital from new members of the society	12.7			12.7
New participation capital from members	728.0			728.0
<b>Equity carried forward 31 Dec 2013</b>	<b>1,356.3</b>	<b>41.5</b>	<b>733.4</b>	<b>2,131.2</b>
<b>Equity brought forward 1 Jan 2014</b>	<b>1,356.3</b>	<b>41.5</b>	<b>733.4</b>	<b>2,131.2</b>
Profit for the period			715.2	715.2
<i>Appropriation of surplus in accordance with decision by the Annual General Meeting of the Society</i>				
Distribution of surplus as bonuses and interest			-696.5	-696.5
Allocation to statutory reserve		36.7	-36.7	0.0
<i>New subscribed capital during the year</i>				
Participation capital from new members of the society	1.2			1.2
New participation capital from members	696.5			696.5
<b>Equity carried forward 31 Dec 2014</b>	<b>2,054.0</b>	<b>78.2</b>	<b>715.4</b>	<b>2,847.6</b>

For further information, see Note 26.

# Cash flow statement

## – Parent Society

1 January–31 December

SEK, million	2014	2013
<b>Operational activities</b>		
Operating income	717.9	733.3
Adjustment for items not included in cash flow	-725.6	-741.2
Income tax paid	-	0.1
<b>Cash flow from operating activities before changes in the assets and liabilities of operating activities</b>	<b>-7.7</b>	<b>-7.8</b>
<b>Cash flow from changes in working capital</b>		
Change in accounts payable, trade	0.4	0.3
Change in other liabilities	0.0	0.0
Change in other assets	0.3	-0.5
<b>Cash flow from operational activities</b>	<b>-7.0</b>	<b>-8.0</b>
<b>Financing activities<sup>1</sup></b>		
New share issue in subsidiary	-650.0	-768.0
Distribution of surplus as bonuses and interest	-696.5	-778.5
New participation capital from members	696.5	727.9
Participation capital from new members of the society	1.2	12.8
Group contributions received	696.5	805.3
<b>Cash flow from financing activities</b>	<b>47.7</b>	<b>-0.5</b>
<b>Cash flow for the year</b>	<b>40.7</b>	<b>-8.5</b>
<b>Liquid assets at the start of the accounting period</b>	<b>0.3</b>	<b>8.8</b>
<b>Cash and equivalents at end of the year</b>	<b>41.0</b>	<b>0.3</b>
Liquid assets consists in their entirety of cash and bank balances.		
<b>Adjustment for items not included in cash flow</b>		
Group contributions not received	-725.6	-741.2
<b>Interest paid and earned, included in the cash flow</b>		
Interest received	24.7	29.6
Paid interest	-24.7	-29.6

1) Under "Financing activities" the Group has chosen to present Group contributions, distribution of surplus, new participation capital from members and new share issue in subsidiary, since these transactions are closely associated with one another.

# Notes

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

## Note 1 Accounting principles

The Annual Report was approved for publication by the Board of Directors on 11 March 2015. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 16 April 2015.

### Compliance with standards and legislation

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

### The Group

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated accounts also apply the supplementary regulations in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅARKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25), and the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Corporate Groups.

### The Society

The Society's Annual Report was prepared in accordance with the Annual Accounts Act (ÅRL) and the Swedish Financial Reporting Board's recommendation RFR 2 Reporting for Legal Entities. Consequently all International Financial Reporting Standards and statements endorsed by the EU are followed as far as possible, within the provisions of ÅRL and considering the exemptions motivated by tax regulations.

### New and amended standards from interpretations

#### 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 10 *Consolidated Financial Statements*

New standard for consolidated financial statements that replaces IAS 27 and SIC 12. IFRS 10 includes a model to be applied in the assessment whether or not a controlling influence exists for all of a company's investments including those previously referred to as Special Purpose Entities (SPE) and regulated under SIC 12. For a controlling influence to prevail, the investor should have an influence over the object of the investment, be exposed or entitled to variable returns on its undertaking to the object of the investment and is able to exercise its influence over the object of the investment to affect its returns. According to the EU, the standard is to be applied retroactively to financial years beginning 1 January 2014 or later. The standard has been approved by the EU. The standard entails no effect on Kommuninvest's results, position or disclosures.

#### IFRS 11 *Joint Arrangements*

New standard for reporting of joint ventures and shared operations. The new standard will primarily introduce two changes compared with IAS 31 *Interests in Joint Ventures*. One of the changes addresses whether an investment is considered a shared operation or joint venture. The accounting rules differ depending on the type of investment in question. The second change requires joint ventures to be accounted for in accordance with the equity method and prohibits the application of the proportional method. According to the EU, the standard is to be applied to financial years commencing 1 January 2014 or later. The standard has been approved by the EU. The standard entails no effect on Kommuninvest's results, position or disclosures.

#### IFRS 12 *Disclosure of Interests in Other Entities*

New standard for disclosures regarding investments in subsidiaries, joint arrangements, associated companies and unconsolidated structured companies. According to the EU, the standard is to be applied retroactively to financial years beginning 1 January 2014 or later. The standard has been approved by the EU. The standard entails no effect on Kommuninvest's results, position or disclosures.

#### Amended IAS 27 *Separate Financial Statements*

The amended standard only includes rules for legal entities. There are essentially no changes regarding accounting and disclosure in separate financial statements. The accounting and disclosure of associated companies and joint ventures are included in IAS 27. According to the EU, the amendments apply to financial years commencing 1 January 2014 or later. The amendment has been approved by the EU. The amendment entails no effect on Kommuninvest's results, position or disclosures.

#### IAS 28 *Investments in Associates and Joint Ventures*

The amended standard is broadly consistent with the former IAS 28. The amendments address how accounting is to be conducted when changes are made in holdings or when significant or joint influence does or does not cease. According to the EU, the amendment is to be applied to financial years commencing 1 January 2014 or later. The amendment has been approved by the EU. The amendment entails no effect on Kommuninvest's results, position or disclosures.

#### IAS 36 *Impairment of assets*

Disclosures regarding the recoverable value of non-financial assets. The amendment entails the removal of the requirement to disclose the recoverable amount for all cash-generating units to which goodwill has been allocated. Furthermore, the disclosure requirements regarding fair value less sales costs to sell and value in use are coordinated. The standard will be applied retroactively to financial years beginning 1 January 2014 or later. The amendment has been approved by the EU. The amendment entails no effect on Kommuninvest's results, position or disclosures.

Note 1 cont.

#### IAS 39 Financial Instruments

Novation of derivatives and on-going application of hedge accounting. The amendment allows companies to continue applying hedge accounting, despite counterparties to derivative contracts having changed due to legislation. The standard will be applied retroactively to financial years beginning 1 January 2014 or later. The amendment has been approved by the EU and will affect Kommuninvest since the company will not need to cease hedge accounting when counterparties to derivative contracts have changed due to legislation.

#### New and amended standards and interpretations yet to come into effect

Of the new standards and interpretations coming into force after 2014, the following regulations have been deemed to affect Kommuninvest's future annual accounts. Kommuninvest does not apply any regulations pre-emptively and instead applies regulations once they have been adopted for application by the EU.

#### IFRS 9 Financial instruments

The standard will come into effect on 1 January 2018 and will replace IAS 39 Financial Instruments: Recognition and Measurement. Various parts of the new standard has been revised, with one part relating to the recognition and measurement of financial assets and financial liabilities. IFRS 9 states that financial assets are to be classified according to three different categories. The classification is established on initial recognition based on the characteristics of the asset and the company's business model. For financial liabilities, there are no major changes compared with IAS 39. The greatest change relates to liabilities recognised at fair value. For these, the portion of the fair value change attributable to the company's own credit risk shall be recognised in other comprehensive income rather than in profit unless this causes inconsistencies in the accounts. The other part relates to hedge accounting. To a large extent, the new principles improve the conditions for accounting that provides a fair picture of a company's management of financial risks in financial instruments. Finally, new principles have been introduced regarding the impairment of financial assets, where the model is based on anticipated losses. The purpose of the new model includes provisions for credit losses being made at an earlier stage. Impairment applies to all types of assets, including lending and investments. The EU has yet to approve the standard. Kommuninvest has yet to conduct an assessment of the effects of IFRS 9.

#### IFRS 15 Revenue from Contracts with Customers

The standard will come into effect on 1 January 2017, replacing all previously issued standards and interpretations addressing income (i.e. IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue – Barter Transactions Involving Advertising Services). Consequently, IFRS 15 contains a combined model for all income recognition. The EU has yet to approve the standard. Kommuninvest has yet to conduct an assessment of the effects of IFRS 15.

#### IFRIC 21 Levies

The standard clarifies when the liability to pay fees ("levies") should be recognised and, in accordance with IASB, will come into effect for financial years beginning 1 January 2014 or later. However, the EU has approved it for application to finan-

cial years commencing 17 June 2014 or later. This means that it will come into effect in 2015 for companies whose financial years coincide with the calendar year. "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. The standard will have no material impact on Kommuninvest's earnings, position or disclosures.

Other new and amended standards yet to come into effect are not assessed to have any material impact on Kommuninvest's position, earnings or disclosure requirements.

#### Significant judgements 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.

#### Consolidated accounts

The consolidated accounts cover the Parent Company and all companies in which the Parent Company controls more than 50 percent of the voting rights or in other regards has a controlling influence. Subsidiaries are consolidated effective from the date on which control is transferred to the Group and cease to be consolidated on the date on which they are separated from the Group. When control of a subsidiary has ceased, the profits of the subsidiary are only included for that part of the accounting year during which the Group controlled the subsidiary.

The consolidated accounts are prepared in accordance with the acquisition method. Transactions between Group companies, balance sheet items and unrealised gains on transactions between companies are eliminated.

#### 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.

Note 1 cont.

#### 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 income 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. Where applicable, interest income and interest expenses include periodised amounts of transaction costs.

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.

#### Other operating income

Since 2014, Kommuninvest has provided a web-based debt management service to members of the Kommuninvest Cooperative Society. The members who have chosen to use this ser-

vice pay an annual fee to Kommuninvest. This income is recognised as other operating income.

#### 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.

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

*Note 1 cont.*

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 trade inventory 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 impairment or exchange rate differences 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 impairment of 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 impairment 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 asset 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.

**Intangible assets**

Intangible assets are carried at cost less accumulated amortisation and impairment.

Amortisation is recognised in the income statement on a linear basis over the estimated useful life of the intangible asset. The useful lives of assets are reassessed at least once per year. The estimated useful life is five years.

**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.

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 dur-

*Note 1 cont.*

ing 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 charge, costs for consultants, premises, training, IT, telecommunications, travel and representation expenses. Also included are expenses for 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. The tax regulations for economic associations are applied in the calculation of current taxes. These entail the year's proposal for dividends for the financial year (which will be paid out in the subsequent year) being eligible for deduction from the current year's taxation on the condition that a dividend decision is made and has been deducted in the calculation of current taxes. The deductions have affected the tax expense reported in profit/loss for the year.

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.

**Equity**

Kommuninvest has classified the subscribed capital in the Kommuninvest Cooperative Society as consolidated equity, since the subscribed capital has the characteristics and meets the conditions stated in IAS 32:16 A and B, see also Note 25.

**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 more than 10 percent of income.

**The Society's accounting principles**

The Society's accounting principles reflect those applied by the Group, with the exceptions that the income statement and balance sheet follow the presentation format stipulated by the Annual Accounts Act, IAS 39 is not applied and financial instruments are instead reported based on cost, and shares in subsidiaries are recognised at cost. Group contributions are recognised in the income statement as income from participations in Group companies.

## Note 2 Financial risks – The Group

For information on risk management, see pages 20–33.

### Credit risk exposure

2014	Total credit risk exposure (before impairment)	Writedown/ provision	Carrying amount	Value of collateral	Total credit risk exposure after deduction for collateral
<b>Credit against security of:</b>					
Government and municipal guarantees	222,803.7	-	222,803.7	-	222,803.7
<b>Total</b>	<b>222,803.7</b>	<b>-</b>	<b>222,803.7</b>	<b>-</b>	<b>222,803.7</b>
<b>Securities</b>					
Government securities and other public bodies					
- AAA	11,342.9	-	11,342.9	-	11,342.9
- AA	3,861.2	-	3,861.2	-	3,861.2
Other issuers					
- AAA	33,575.8	-	33,575.8	-	33,575.8
- AA	11,939.7	-	11,939.7	205.0	11,734.7
- A	4,446.3	-	4,446.3	3,747.1	699.2
- BBB	83.5	-	83.5	-	83.5
<b>Total</b>	<b>65,249.4</b>	<b>-</b>	<b>65,249.4</b>	<b>3,952.1</b>	<b>61,297.3</b>
<b>Derivatives</b>					
- AA	8,446.9	-	8,446.9	4,217.4	4,229.5
- A	15,401.2	-	15,401.2	7,493.9	7,907.3
- BBB	0.7	-	0.7	-	0.7
<b>Total</b>	<b>23,848.8</b>	<b>-</b>	<b>23,848.8</b>	<b>11,711.3</b>	<b>12,137.5</b>
<b>Obligations</b>					
Committed undisbursed loans against municipal guarantees					
	3,783.5	-	3,783.5	-	3,783.5
<b>Total</b>	<b>3,783.5</b>	<b>-</b>	<b>3,783.5</b>	<b>-</b>	<b>3,783.5</b>
<b>Total credit risk exposure</b>	<b>315,685.4</b>	<b>-</b>	<b>315,685.4</b>	<b>15,663.4</b>	<b>300,022.0</b>

2013	Total credit risk exposure (before impairment)	Writedown/ provision	Carrying amount	Value of collateral	Total credit risk exposure after deduction for collateral
<b>Credit against security of:</b>					
Government and municipal guarantees	208,644.0	-	208,644.0	-	208,644.0
<b>Total</b>	<b>208,644.0</b>	<b>-</b>	<b>208,644.0</b>	<b>-</b>	<b>208,644.0</b>
<b>Securities</b>					
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
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	2,130.1	-	2,130.1	2,109.5	20.6
<b>Total</b>	<b>62,391.6</b>	<b>-</b>	<b>62,391.6</b>	<b>2,796.9</b>	<b>59,594.6</b>
<b>Derivatives</b>					
- 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
<b>Total</b>	<b>6,235.8</b>	<b>-</b>	<b>6,235.8</b>	<b>1,083.7</b>	<b>5,152.1</b>
<b>Obligations</b>					
Committed undisbursed loans against municipal guarantees					
	3,480.0	-	3,480.0	-	3,480.0
<b>Total</b>	<b>3,480.0</b>	<b>-</b>	<b>3,480.0</b>	<b>-</b>	<b>3,480.0</b>
<b>Total credit risk exposure</b>	<b>280,751.4</b>	<b>-</b>	<b>280,751.4</b>	<b>3,880.6</b>	<b>276,870.7</b>

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.

## FINANCIAL STATEMENTS

Note 2 cont.

### Maturity information<sup>1</sup>

2014							
Nominal cash flows – Contractual remaining duration							
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No duration	Total
<b>Assets</b>							
Sovereign bonds eligible as collateral	-	4,684.6	2,955.4	6,903.4	566.7	-	15,110.1
Lending to credit institutions	-	3,772.2	-	-	-	-	3,772.2
Lending	-	24,313.2	52,009.8	129,002.8	13,090.5	-	218,416.3
Bonds and other interest-bearing securities	-	824.1	8,839.2	34,560.8	453.4	-	44,677.5
Derivatives	-	10,278.1	112,091.6	312,166.3	28,179.6	-	462,715.6
Other asset items	-	-	-	-	-	190.7	190.7
<b>Total assets</b>	-	<b>43,872.2</b>	<b>175,896.0</b>	<b>482,633.3</b>	<b>42,290.2</b>	<b>190.7</b>	<b>744,882.5</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	2,463.5	-	1,495.3	718.4	-	4,677.2
Securities issued	-	28,583.7	52,948.5	185,005.0	19,291.1	-	285,828.3
Derivatives	-	7,549.0	108,433.9	305,926.3	28,145.6	-	450,054.8
Other liabilities	-	-	-	-	-	160.7	160.7
Subordinated liabilities	-	-	-	-	1,000.0	-	1,000.0
Equity	-	-	-	-	-	3,161.4	3,161.4
<b>Total equity and liabilities</b>	-	<b>38,596.2</b>	<b>161,382.4</b>	<b>492,426.6</b>	<b>49,155.1</b>	<b>3,322.1</b>	<b>744,882.4</b>
<b>Net</b>	-	<b>5,276.0</b>	<b>14,513.6</b>	<b>-9,793.3</b>	<b>-6,864.9</b>	<b>-3,131.4</b>	<b>0</b>
Committed undisbursed loans	3,783.5	-	-	-	-	-	-
<b>2013</b>							
Nominal cash flows – Contractual remaining duration							
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No duration	Total
<b>Assets</b>							
Sovereign bonds eligible as collateral	-	5,604.6	3,020.1	5,885.5	-	-	14,510.2
Lending to credit institutions	-	2,713.2	-	-	-	-	2,713.2
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	-	-	-	-	-	191.3	191.3
<b>Total assets</b>	-	<b>100,382.3</b>	<b>104,383.9</b>	<b>446,527.8</b>	<b>48,221.5</b>	<b>191.3</b>	<b>699,706.8</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	1,624.4	-	1,874.2	701.8	-	4,200.4
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	-	-	-	-	-	149.5	149.5
Subordinated liabilities	-	-	-	-	1,000.0	-	1,000.0
Equity	-	-	-	-	-	2,447.6	2,447.6
<b>Total equity and liabilities</b>	-	<b>69,652.4</b>	<b>114,353.7</b>	<b>457,225.1</b>	<b>55,878.5</b>	<b>2,597.1</b>	<b>699,706.8</b>
<b>Net</b>	-	<b>30,729.9</b>	<b>-9,969.8</b>	<b>-10,697.3</b>	<b>-7,657.0</b>	<b>-2,405.8</b>	<b>0.0</b>
Committed undisbursed loans	3,480.0	-	-	-	-	-	-

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

## FINANCIAL STATEMENTS

Note 2 cont.

### Maturity information

2014	Recognised values – Contractual remaining duration						
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No duration	Total
<b>Assets</b>							
Sovereign bonds eligible as collateral	-	4,684.7	2,961.7	6,967.3	590.4	-	15,204.1
Lending to credit institutions	-	4,070.2	-	-	-	-	4,070.2
Lending	-	24,371.6	52,443.8	132,061.9	13,926.4	-	222,803.7
Bonds and other interest-bearing securities	-	828.7	8,977.4	35,694.3	474.1	-	45,974.5
Derivatives	-	2,838.9	5,599.5	13,637.7	1,772.7	-	23,848.8
Other asset items	-	-	-	-	-	190.7	190.7
<b>Total assets</b>	-	<b>36,794.1</b>	<b>69,982.4</b>	<b>188,361.2</b>	<b>16,763.6</b>	<b>190.7</b>	<b>312,092.0</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	2,463.5	-	1,605.7	754.4	-	4,823.6
Securities issued	-	28,614.1	53,828.3	189,311.8	20,563.8	-	292,318.0
Derivatives	-	344.2	1,619.5	7,228.9	1,435.7	-	10,628.3
Other liabilities	-	-	-	-	-	160.6	160.6
Subordinated liabilities	-	-	-	-	1,000.1	-	1,000.1
Equity	-	-	-	-	-	3,161.4	3,161.4
<b>Total equity and liabilities</b>	-	<b>31,421.8</b>	<b>55,447.8</b>	<b>198,146.4</b>	<b>23,754.0</b>	<b>3,322.0</b>	<b>312,092.0</b>
<b>Total difference</b>	-	<b>5,372.3</b>	<b>14,534.6</b>	<b>-9,785.2</b>	<b>-6,990.4</b>	<b>-3,131.4</b>	<b>0.0</b>
Committed undisbursed loans	3,783.5	-	-	-	-	-	-

2013	Recognised values – Contractual remaining duration						
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No duration	Total
<b>Assets</b>							
Sovereign bonds eligible as collateral	-	5,613.2	3,094.1	5,918.8	-	-	14,626.1
Lending to credit institutions	-	2,832.5	-	-	-	-	2,832.5
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	-	-	-	-	-	191.3	191.3
<b>Total assets</b>	-	<b>59,372.6</b>	<b>44,447.3</b>	<b>156,883.9</b>	<b>16,567.5</b>	<b>191.3</b>	<b>277,462.6</b>
<b>Liabilities</b>							
Liabilities to credit institutions	-	1,624.9	-	1,989.8	760.3	-	4,375.0
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	-	-	-	-	-	149.4	149.4
Subordinated liabilities	-	-	-	-	1,000.1	-	1,000.1
Equity	-	-	-	-	-	2,447.6	2,447.6
<b>Total equity and liabilities</b>	-	<b>28,436.4</b>	<b>54,403.7</b>	<b>167,618.7</b>	<b>24,406.8</b>	<b>2,597.0</b>	<b>277,462.6</b>
<b>Total difference</b>	-	<b>30,926.2</b>	<b>-9,956.4</b>	<b>-10,734.8</b>	<b>-7,839.3</b>	<b>-2,405.7</b>	-
Committed undisbursed loans	3,480.0	-	-	-	-	-	-

In the table above, the contractual remaining duration for cancellable lending and funding refers to the next possible cancellation date.

## FINANCIAL STATEMENTS

Note 2 cont.

### Fixed interest terms, Interest exposure

2014	Nominal cash flows						Total
	Fixed interest terms for assets and liabilities – Interest exposure	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	More than 5 yr. but max. 10 yrs.	Longer than 10 yrs.	
<b>Assets</b>							
Sovereign bonds eligible as collateral	6,895.2	2,139.1	5,509.1	566.7	-	-	15,110.1
Lending to credit institutions	3,772.2	-	-	-	-	-	3,772.2
Lending	109,353.6	25,231.7	73,361.4	10,094.6	375.0	-	218,416.3
Bonds and other interest-bearing securities	12,198.0	5,198.5	26,827.6	453.4	-	-	44,677.5
Derivatives	252,737.5	47,474.1	148,842.0	12,477.7	1,184.3	-	462,715.7
Other assets	-	-	-	-	-	190.7	190.7
<b>Total assets</b>	<b>384,956.9</b>	<b>80,043.4</b>	<b>254,540.1</b>	<b>23,592.4</b>	<b>1,559.3</b>	<b>190.7</b>	<b>744,882.5</b>
<b>Liabilities</b>							
Liabilities to credit institutions	2,993.3	-	1,495.3	-	188.6	-	4,677.2
Securities issued	61,790.3	44,177.6	164,035.5	14,829.2	995.7	-	285,828.3
Derivatives	319,089.7	32,436.3	89,295.9	8,858.0	375.0	-	450,054.9
Other liabilities	-	-	-	-	-	160.7	160.7
Subordinated liabilities	1,000.0	-	-	-	-	-	1,000.0
Equity	-	-	-	-	-	3,161.4	3,161.4
<b>Total equity and liabilities</b>	<b>384,873.3</b>	<b>76,613.9</b>	<b>254,826.7</b>	<b>23,687.2</b>	<b>1,559.3</b>	<b>3,322.1</b>	<b>744,882.5</b>
<b>Net</b>	<b>83.6</b>	<b>3,429.5</b>	<b>-286.6</b>	<b>-94.8</b>	<b>-</b>	<b>-3,131.4</b>	<b>0</b>

2013	Nominal cash flows						Total
	Fixed interest terms for assets and liabilities – Interest exposure	At most 3 mths.	More than 3 mths. but max. 1 yr.	More than 1 yr. but max. 5 yrs.	More than 5 yr. but max. 10 yrs.	Longer than 10 yrs.	
<b>Assets</b>							
Sovereign bonds eligible as collateral	6,981.0	2,920.0	4,609.2	-	-	-	14,510.2
Lending to credit institutions	2,713.2	-	-	-	-	-	2,713.2
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	-	-	-	-	-	191.3	191.3
<b>Total assets</b>	<b>404,615.1</b>	<b>46,990.0</b>	<b>218,980.1</b>	<b>27,407.7</b>	<b>1,522.6</b>	<b>191.3</b>	<b>699,706.8</b>
<b>Liabilities</b>							
Liabilities to credit institutions	2,609.0	-	1,413.2	-	178.2	-	4,200.4
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	-	-	-	-	-	149.5	149.5
Subordinated liabilities	1,000.0	-	-	-	-	-	1,000.0
Equity	-	-	-	-	-	2,447.6	2,447.6
<b>Total equity and liabilities</b>	<b>399,269.2</b>	<b>49,247.3</b>	<b>219,662.8</b>	<b>27,407.7</b>	<b>1,522.7</b>	<b>2,597.1</b>	<b>699,706.8</b>
<b>Net</b>	<b>5,345.9</b>	<b>-2,257.3</b>	<b>-682.7</b>	<b>-</b>	<b>-0.1</b>	<b>-2,405.8</b>	<b>-</b>

In the table above, the contractual remaining duration for cancellable lending and funding refers to the next possible cancellation date.

## FINANCIAL STATEMENTS

Note 2 cont.

### Foreign exchange risk<sup>1</sup>

2014	Recognised value							Fair value adjustment	Total
	SEK	EUR	USD	JPY	GBP	Other currencies			
<b>Assets and liabilities in major foreign currencies</b>									
<b>Assets</b>									
Lending to credit institutions	4,035.5	23.5	11.0	-	0.1	0.1	-	4,070.2	
Lending	219,316.6	-	-	-	-	-	3,487.1	222,803.7	
Interest-bearing securities	30,247.9	7,906.9	22,062.1	-	-	-	961.7	61,178.6	
Shares and participations	2.9	-	-	-	-	-	-	2.9	
Derivatives	-	-	-	-	-	-	23,848.8	23,848.8	
Other assets	132.2	-	1.0	-	-	-	54.6	187.8	
<b>Total assets</b>	<b>253,735.1</b>	<b>7,930.4</b>	<b>22,074.1</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>28,352.2</b>	<b>312,092.0</b>	
<b>Liabilities</b>									
Liabilities to credit institutions	1,975.8	1,207.2	-	1,505.0	-	-	135.6	4,823.6	
Securities issued	114,672.9	4,019.4	136,438.9	7,376.3	4,726.1	20,304.5	4,779.9	292,318.0	
Derivatives	132,637.5	2,703.4	-114,369.8	-8,881.4	-4,726.1	-20,306.2	23,570.9	10,628.3	
Subordinated liabilities	1,000.1	-	-	-	-	-	-	1,000.1	
Other liabilities incl. equity	3,452.8	-	1.6	0.1	-	1.7	-134.2	3,322.0	
<b>Total equity and liabilities</b>	<b>253,739.1</b>	<b>7,930.0</b>	<b>22,070.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,352.2</b>	<b>312,092.0</b>	
<b>Difference, assets and liabilities</b>	<b>-4.0</b>	<b>0.4</b>	<b>3.4</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-0.4	-	0.3	-	-	-	-	-	

2013	Recognised value							Fair value adjustment	Total
	SEK	EUR	USD	JPY	GBP	Other currencies			
<b>Assets and liabilities in major foreign currencies</b>									
<b>Assets</b>									
Lending to credit institutions	2,817.7	10.5	4.2	-0.1	0.1	0.1	-	2,832.5	
Lending	207,657.2	-	-	-	-	-	986.8	208,644.0	
Interest-bearing securities	29,659.9	10,946.3	18,450.1	-	-	-	502.8	59,559.1	
Shares and participations	2.6	-	-	-	-	-	-	2.6	
Derivatives	-	-	-	-	-	-	6,235.8	6,235.8	
Other assets	134.1	-	-	-	-	-	54.6	188.7	
<b>Total assets</b>	<b>240,271.5</b>	<b>10,956.8</b>	<b>18,454.3</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>7,780.0</b>	<b>277,462.6</b>	
<b>Liabilities</b>									
Liabilities to credit institutions	1,648.0	1,140.9	-	1,422.5	-	-	163.6	4,375.0	
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	2,787.4	-	1.0	0.4	-	1.7	-193.5	2,597.0	
<b>Total equity and liabilities</b>	<b>240,275.1</b>	<b>10,956.7</b>	<b>18,450.9</b>	<b>-</b>	<b>-</b>	<b>-0.1</b>	<b>7,780.0</b>	<b>277,462.6</b>	
<b>Difference, assets and liabilities</b>	<b>-3.6</b>	<b>0.1</b>	<b>3.4</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-0.4	-	0.3	-	-	-	-	-	

<sup>1</sup>) 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.

## FINANCIAL STATEMENTS

### Note 3 Net interest income

The Group	2014	2013
<b>Interest income</b>		
Lending to credit institutions	0.1	0.0
Lending	3,061.4	3,791.1
Interest-bearing securities	588.3	778.1
Other	1.2	1.9
<b>Total</b>	<b>3,651.0</b>	<b>4,571.1</b>
Of which: interest income from financial items not measured at fair value through the income statement	2,236.9	3,261.3
<b>Interest expenses</b>		
Liabilities to credit institutions	0.5	0.7
Interest-bearing securities	2,713.3	3,577.2
Other	22.3	24.3
<b>Total</b>	<b>2,736.1</b>	<b>3,602.2</b>
Of which: interest expense from financial items not measured at fair value through the income statement	1,646.6	3,374.0
<b>Total net interest income</b>	<b>914.9</b>	<b>968.9</b>

All income and expenses are attributable to Sweden.

#### Kommuninvest Cooperative Society

The Group	2014	2013
<b>Interest income</b>		
Lending to credit institutions	0.0	0.0
Interest income, debenture loan	24.7	29.5
<b>Total</b>	<b>24.7</b>	<b>29.5</b>
<b>Interest expenses</b>		
Interest expenses, debenture loan	24.7	29.5
<b>Total</b>	<b>24.7</b>	<b>29.5</b>
<b>Total net interest income</b>	<b>0.0</b>	<b>0.0</b>

### Note 4 Commission expenses

The Group	2014	2013
Payment agency commissions	1.9	2.2
Brokerage for securities	2.7	3.2
Other commissions	0.5	0.2
<b>Total</b>	<b>5.1</b>	<b>5.6</b>

### Note 5 Net result of financial transactions

The Group	2014	2013
Realised result		
Result from buyback of own bonds	0.2	13.3
Interest-bearing securities	31.3	1.7
Other financial instruments	4.9	6.1
Unrealised changes in market value	65.4	17.6
Exchange rate changes	0.1	0.0
<b>Total</b>	<b>101.9</b>	<b>38.7</b>

All income and expenses are attributable to Sweden.

Net gain/loss by measurement category	2014	2013
Financial assets at fair value through profit or loss	2,408.9	-1,064.0
Holdings for trading purposes (assets)	-114.8	301.5
Loan receivables and accounts receivable	0.0	3.2
Financial liabilities at fair value through profit or loss	-1,228.4	-1,787.4
Holdings for trading purposes (liabilities)	-1,019.0	2,595.6
Capital gains/losses on available-for-sale financial assets	6.8	1.0
Change in fair value of derivatives that are hedging instruments in fair value hedge	1,847.0	-1,499.7
Change in fair value on hedged item with regard to hedged risk in fair value hedges	-1,798.7	1,488.6
Exchange rate changes	0.1	0.0
<b>Total</b>	<b>101.9</b>	<b>38.7</b>
<b>Results (net)</b>		
Net result of available-for-sale financial assets recognised in other comprehensive income	-6.0	-7.3

### Note 6 Other operating income

The Group	2014	2013
Capital gain on divestments of tangible assets	0.1	-
Other operating income	3.2	1.9
<b>Total</b>	<b>3.3</b>	<b>1.9</b>

### Note 7 General administration expenses

The Group	2014	2013
<b>Payroll expenses, in SEK, thousands</b>		
- salaries and emoluments	57,709	48,790
- social security charges	17,779	15,327
- pension expenses	10,341	8,519
- special payroll tax on pension expenses	2,495	2,066
- education/training costs	3,147	1,852
- other personnel expenses	6,145	5,761
<b>Total personnel costs</b>	<b>97,616</b>	<b>82,315</b>
<b>Other general administration expenses</b>		
- travel expenses	5,363	4,093
- IT expenses	14,391	13,293
- consultancy fees	22,126	19,156
- temporary/contract personnel	3,130	1,684
- rating expenses	1,793	905
- market data	5,615	5,388
- rent and other expenses for premises	1,234	912
- property expenses	1,682	1,978
- annual and interim reports	1,226	698
- stability fee	110,727	99,013
- other expenses	17,514	17,666
<b>Total other general administration expenses</b>	<b>184,801</b>	<b>164,786</b>
<b>Total</b>	<b>282,417</b>	<b>247,101</b>

Note 7 cont.

Payroll expenses, in SEK, thousands	2014	2013
<b>Kommuninvest Cooperative Society</b>		
Board fees, incl. social security charges	1,201	1,292
Other expenses	6,522	6,476
<b>Total</b>	<b>7,723</b>	<b>7,768</b>

#### Remuneration policy of Kommuninvest i Sverige AB

The company applies a remuneration policy that explains that Kommuninvest does not apply variable remuneration. No variable remuneration been paid to employees of Kommuninvest i Sverige AB in 2014. During the financial year, no remuneration has been paid in connection with new recruitment or severance and no severance pay has been granted. No individual employee receives compensation equivalent to EUR 1 million or more per financial year.

#### Remuneration to the Board of Directors of Kommuninvest i Sverige AB

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

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	2014	2013
Ellen Bramness Arvidsson	400	400
Lorentz Andersson	210	175
Kurt Eliasson	185	160
Anna von Knorring	200	165
Catharina Lagerstam	205	150
Anna Sandborgh	205	175
Johan Törngren	210	175
Anders Pelander, employee representative	-	-
<b>Total</b>	<b>1,615</b>	<b>1,400</b>

#### Remuneration to senior executives of Kommuninvest i Sverige AB

Remuneration for the President and CEO has been decided by the Board. For 2014, the President and CEO received SEK 2,775,000 (2,890,000) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to SEK 826,000 (804,000) 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 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 (4) at the end of the year, of whom 2 (2) were women and 2 (2) were men, has been determined by the President in consultation with the Chairman. The total amount of the remuneration for these people amounted to SEK 4,143,000 (3,752,000) for the period in which they were members of the corporate management team. The pension expenses are covered through insurance.

According to the work procedures of the Board of Directors of Kommuninvest i Sverige AB, as adopted in 2014, the Chairman of the Board of Directors of Kommuninvest i Sverige AB 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 credit market company's control functions, and c) measures for following-up the application of the credit market company's remuneration policy.

#### Remuneration to the Board of Directors of the Kommuninvest Cooperative Society

During the year, the Board of Directors comprised 15 (15) members, of whom 6 (6) were women. There were 15 (15) deputy members, of whom 7 (7) were women. Ann-Charlotte Stenkil is the Chairman of the Board and Alf Egnerfors is the Vice Chairman of the Board of the Kommuninvest Cooperative Society.

The Chairman received a fixed fee of SEK 100,000 and a variable fee of SEK 3,500 per meeting. The Vice Chairman received a fixed fee of SEK 50,000 and a variable fee of SEK 3,500 per meeting. Alongside the Chairman and Vice Chairman, two other members of the Board form the Society's Working Committee and consequently receive an annual fixed fee of SEK 12,000 and a variable fee of SEK 3,500 per meeting. Other Board members received a fixed fee of SEK 6,000 and a variable fee of SEK 3,500 per meeting. Deputy members received a fixed fee of SEK 3,500 per meeting. All members receive a fixed fee of SEK 1,750 per meeting held by telephone.

## FINANCIAL STATEMENTS

Note 7 cont.

Remuneration to the Board of Directors of the Kommuninvest Cooperative Society, in SEK thousands	2014	2013	Remuneration to the Board of Directors of the Kommuninvest Cooperative Society, in SEK thousands	2014	2013
Alf Egnerfors	127.0	134.0	Lotta Öhlund	23.5	30.5
Andreas Sturesson	21.0	10.5	Magnus Oscarsson	20.0	20.0
Ann-Charlotte Stenkil	178.6	205.0	Malin Danielsson	10.5	10.5
Ann-Marie Jacobsson	17.5	21.0	Margreth Johnsson	83.8	83.8
Barbro Hassel	21.0	17.5	Marie Wilén	3.5	10.5
Bert Öhlund	23.5	27.0	Niklas Karlsson	23.5	23.5
Camilla Egberth, effective from April 2014	7.0	-	Per Mosseby	-	13.5
Carina Blank	13.0	16.5	Peter Hemlin	21.0	24.5
Carina Jönsson, until and including April 2014	-	10.5	Peter Kärnström	14.0	17.5
Christina Johansson	10.5	17.5	Robert Mörk	23.5	27.0
Elver Jonsson	23.5	27.0	Robert Stenkvist	24.5	7.0
Ewa-May Karlsson	90.8	80.3	Roland Åkesson	20.0	30.5
Fredrik Larsson	14.0	17.5	Stefan Gustafsson, until and including April 2013	-	3.5
Gert Ove Thörnros	17.5	17.5	Urban Widmark	10.5	17.5
Jonas Ransgård	23.5	17.0	Åsa Herbst	27.0	20.0
Lennart Holmlund	17.5	17.5	Örjan Mossberg	27.0	30.5
Lilly Bäcklund	14.0	21.0	<b>Total</b>	<b>952.1</b>	<b>1,027.5</b>

### Wages and remunerations – Kommuninvest i Sverige AB

2014, in SEK, thousands	Basic salary/ Board fee	Variable pay	Other benefits	Pension costs	Other remuneration	Total
Board of Directors	1,615	-	-	-	-	1,615
President and CEO	2,775	-	96	826	-	3,697
Deputy CEO	1,871	-	-	546	-	2,417
Other members of company management	4,143	-	16	1,385	-	5,544
Other salaried employees	46,104	-	236	7,584	-	53,924
<b>Total</b>	<b>56,508</b>	<b>-</b>	<b>348</b>	<b>10,341</b>	<b>-</b>	<b>67,197</b>

2013, in SEK, thousands	Basic salary/ Board fee	Variable pay	Other benefits	Pension costs	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	1,329	-	5,096
Other salaried employees	37,685	-	251	5,962	-	43,898
<b>Total</b>	<b>47,563</b>	<b>-</b>	<b>353</b>	<b>8,519</b>	<b>-</b>	<b>56,435</b>

### The Group

Average number of employees	2014	2013
Average number of employees during the year	74	66
– of whom women	31	27
– of whom, men	43	39

The Society has no employees.

### The Group

Emoluments and costs for the auditors, SEK, thousands, Ernst & Young AB	2014	2013
Auditing engagement	1,965	1,144
Auditing assignments beyond principal	1,844	1,605
Tax consultancy	414	-
Other Services	2,312	1,034

Kommuninvest Cooperative Society, SEK, thousands, Ernst & Young AB	2014	2013
Auditing engagement	129	162

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 than the client. Other assignments refers to those not related to any of the points above.

Operating leases where the Kommuninvest Group is the lessor	2014	2013
Non-cancellable lease payments amount to:		
Within one year	1,506	1,332
Between one and five years	2,633	4,158
More than five years		
<b>Total</b>	<b>4,139</b>	<b>5,490</b>

Expenses over the year amounted to SEK 4,264,000 (4,014,000). Most of the costs are attributable to the rental of premises.

## Note 8 Other operating expenses

The Group	2014	2013
Insurance expenses	0.7	0.7
Communication and information	5.0	2.5
Other operating expenses	0.2	0.2
<b>Total</b>	<b>5.9</b>	<b>3.4</b>

## Note 9 Taxes

The Group	2014	2013
<b>Recognised in income statement</b>		
Current tax expense		
Deferred tax attributable to temporary differences	-2.6	-3.8
Deferred tax attributable to untaxed reserves	-	-
<b>Total tax expense recognised</b>	<b>-2.6</b>	<b>-3.8</b>

Reconciliation of effective tax	2014 %	2014	2013 %	2013
Profit/loss before tax		721.2		749.6
Tax according to prevailing tax rate	22.0 %	158.7	22.0 %	164.9
Tax effect of deductible distribution	-20.7 %	-149.5	-20.4 %	-153.2
Utilised tax loss carryforwards not previously recognised	-1.0 %	-7.2	0 %	-8.2
Non-deductible expenses	0.1 %	0.6	0 %	0.3
Other	-	-	-	-
<b>Recognised effective tax</b>	<b>0.4 %</b>	<b>2.6</b>	<b>0.0</b>	<b>3.8</b>

Tax expense attributable to other comprehensive income	2014	2013
Available-for-sale financial assets	-1.3	-1.6
Loans and receivables	-	-
<b>Other comprehensive income</b>	<b>-1.3</b>	<b>-1.6</b>

In the Group and the Kommuninvest Cooperative Society, tax loss carryforwards not recognised as tax assets amount to SEK 26.3 (63.9) million. This amount corresponds to tax of SEK 5.7 (14.1) million at a tax rate of 22 percent.

### Recognised in the balance sheet

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following:

	Deferred tax assets		Deferred tax liabilities		Net	
	2014	2013	2014	2013	2014	2013
<b>Unrealised changes in market value</b>						
- of which, recognised in the income statement	59.6	59.6	-	-	59.6	59.6
- or which, recognised in other comprehensive income	-4.9	-4.9	-	-	-4.9	-4.9
<b>Tax assets/liabilities, net</b>	<b>54.7</b>	<b>54.7</b>	<b>-</b>	<b>-</b>	<b>54.7</b>	<b>54.7</b>

#### Kommuninvest Cooperative Society

Recognised in income statement	2014	2013
Tax expense for the period	-2.7	-
<b>Total tax expense recognised</b>	<b>-2.7</b>	<b>-</b>

Reconciliation of effective tax	2014 %	2014	2013 %	2013
Profit/loss before tax		717.9		733.3
Tax according to prevailing tax rate	22.0 %	157.9	22.0 %	161.3
Tax effect of deductible distribution	-20.8 %	-149.5	-20.9 %	-153.2
Utilised tax loss carryforwards not previously recognised	-0.8 %	-5.7	-1.1 %	-8.1
<b>Recognised effective tax</b>	<b>0.4 %</b>	<b>2.7</b>	<b>0.0 %</b>	<b>0.0</b>

## Note 10 Sovereign bonds eligible as collateral

The Group	2014			2013		
	Acquisition cost	Fair value	Carrying amount	Acquisition cost	Fair value	Carrying amount
State bonds eligible as collateral						
- Swedish central government	10,449.8	10,491.9	10,491.9	9,024.6	9,073.0	9,073.0
- Swedish local government authorities	2,470.9	2,477.8	2,477.8	1,851.4	1,865.0	1,865.0
- Foreign governments	2,188.3	2,234.4	2,234.4	3,714.8	3,688.2	3,688.2
<b>Total</b>	<b>15,109.0</b>	<b>15,204.1</b>	<b>15,204.1</b>	<b>14,590.8</b>	<b>14,626.2</b>	<b>14,626.2</b>
of which:						
- Securities listed on an exchange			15,204.1			14,626.2
- Unlisted securities			-			-
Positive difference of book values exceeding nominal values			162.0			154.9
Negative difference of book values falling below nominal values			-8.5			-12.5
<b>Total</b>			<b>153.5</b>			<b>142.4</b>

## Note 11 Lending to credit institutions

Kommuninvest Cooperative Society	2014	2013
Lending in SEK	41.0	0.3
<b>Total</b>	<b>41.0</b>	<b>0.3</b>

## Note 12 Lending

Lending refers to lending to municipalities and county councils, as well as to companies owned by municipalities and county councils. Approximately 41.7 percent (40.9) 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 35.8 percent (30.0) and other companies with municipal guarantees 22.5 percent (29.1). In Kommuninvest's assessment, no writedowns were required as per 31 December 2014.

## Note 13 Bonds and other interest-bearing securities

The Group	2014			2013		
	Acquisition cost	Fair value	Carrying amount	Acquisition cost	Fair value	Carrying amount
Bonds and other interest-bearing securities						
- Swedish housing finance institutions	17,123.2	17,614.5	17,614.5	17,519.7	17,825.2	17,825.2
- other Swedish issuers	845.4	870.5	870.5	874.5	904.4	904.4
- other foreign issuers	27,320.9	27,489.5	27,489.5	26,050.3	26,203.3	26,203.3
<b>Total</b>	<b>45,289.5</b>	<b>45,974.5</b>	<b>45,974.5</b>	<b>44,444.5</b>	<b>44,932.9</b>	<b>44,932.9</b>
of which:						
- Securities listed on an exchange			45,626.4			43,302.5
- Unlisted securities			348.1			1,630.4
Positive difference of book values exceeding nominal values			2,035.6			1,804.7
Negative difference of book values falling below nominal values			-21.7			-35.4
<b>Total</b>			<b>2,013.9</b>			<b>1,769.3</b>

## Note 14 Shares and participations

The Group	2014	2013
Endowment insurance	2.4	2.1
<b>Total shares and participations</b>	<b>2.4</b>	<b>2.1</b>

## Note 15 Shares and participations in associated companies

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

The Group	2014	2013
Number of shares: 500	0.5	0.5
<b>Total</b>	<b>0.5</b>	<b>0.5</b>

As per 31 December 2014, Administrative Solutions NLGFA had a balance sheet total of SEK 9.3 (8.7) million, equity of SEK 3.9 (2.0) million and generated a profit of SEK 2.0 (0.1) million.

## Note 16 Shares in subsidiaries

Kommuninvest Cooperative Society	2014	2013	2014	2013
Companies	Number of shares	Number of shares	Carrying amount	Carrying amount
Kommuninvest i Sverige AB, 556281-4409	20,463,850	13,963,850	2,039.9	1,389.9
<b>Total</b>	<b>20,463,850</b>	<b>13,963,850</b>	<b>2,039.9</b>	<b>1,389.9</b>

The value has increased due to a new share issue.

## Note 17 Intangible assets

The Group	2014	2013
<b>Acquired intangible assets</b>		
<b>Other technology/contract-based assets</b>		
<i>Acquisition value</i>		
Acquisition value brought forward	-	-
Investments for the year	2.0	-
Disposals and scrappings	-	-
<b>Acquisition value carried forward</b>	<b>2.0</b>	<b>-</b>
<i>Amortisation</i>		
Opening balance, amortisation	-	-
Amortisation for the year	-0.4	-
Disposals and scrappings	-	-
<b>Amortisation carried forward</b>	<b>-0.4</b>	<b>-</b>
<b>Planned residual value at the end of the accounting period</b>	<b>1.6</b>	<b>-</b>

## Note 18 Receivables from subsidiaries

Kommuninvest Cooperative Society	2014	2013
Group contributions	770.2	741.1
Accounts receivable, trade	0	0.2
<b>Total</b>	<b>770.2</b>	<b>741.3</b>

## Note 19 Tangible assets

The Group	2014	2013
<i>Equipment</i>		
Acquisition value brought forward	22.4	21.4
Investments for the year	4.8	1.8
Disposals	-	-0.8
<b>Acquisition value carried forward</b>	<b>27.2</b>	<b>22.4</b>
Opening balance, depreciation	17.0	14.7
Depreciation for the year	3.6	2.9
Disposals	-	-0.6
<b>Depreciation carried forward</b>	<b>20.6</b>	<b>17.0</b>
<b>Recognised value</b>	<b>6.6</b>	<b>5.4</b>
<i>Land and building</i>		
Acquisition value brought forward	46.6	46.4
Investments for the year	3.2	0.2
Disposals and scrappings	-	-
<b>Acquisition value carried forward</b>	<b>49.8</b>	<b>46.6</b>
Opening balance, depreciation	14.5	13.6
Depreciation for the year	1.6	0.9
Disposals	-	-
<b>Depreciation carried forward</b>	<b>16.1</b>	<b>14.5</b>
<b>Recognised value</b>	<b>33.7</b>	<b>32.1</b>
<i>Tax assessment values</i>		
Tax assessment value of Fenix 1 property	28.8	36.4
Of which, land (in Sweden)	8.0	11.4

## Note 20 Other assets

The Group	2014	2013
Other assets	1.5	4.3
<b>Total</b>	<b>1.5</b>	<b>4.3</b>

## Note 25 Subordinated liabilities

The Society	Currency	Nom	Interst rate (%)	Due date	Carrying amount	
					2014	2013
Debenture loan	SEK	1,000.0	Variable	40-11-30	1,000.1	1,000.1
<b>Total</b>		<b>1,000.0</b>			<b>1,000.1</b>	<b>1,000.1</b>

On repayment, the Society is entitled to subtract the amount required to settle past due counterclaims from the Society and

## Note 21 Prepaid expenses and accrued revenues

The Group	2014	2013
Prepaid expenses and accrued revenues	8.3	11.2
<b>Total</b>	<b>8.3</b>	<b>11.2</b>

## Note 22 Other liabilities

The Group	2014	2013
Other liabilities	20.2	24.7
<b>Total</b>	<b>20.2</b>	<b>24.7</b>

### Kommuninvest Cooperative Society

Other liabilities	0.1	0.2
Tax liabilities	2.7	-
Accounts payable, trade	0.7	0.3
<b>Total</b>	<b>3.5</b>	<b>0.5</b>

## Note 23 Accrued expenses and prepaid revenues

The Group	2014	2013
Accrued stability fee	111.1	99.3
Other accrued expenses and prepaid revenues	26.3	22.9
<b>Total</b>	<b>137.4</b>	<b>122.2</b>

### Kommuninvest Cooperative Society

Other accrued expenses and prepaid revenues	0.3	0.2
<b>Total</b>	<b>0.3</b>	<b>0.2</b>

## Note 24 Provision for pensions and similar commitments

The Group	2014	2013
Provisions for pensions obligations	3.0	2.5
<b>Total</b>	<b>3.0</b>	<b>2.5</b>

any claims from the Society's companies. As per the balance sheet date, no repayment amounts were pending.

## Note 26 Equity in the Kommuninvest Cooperative Society

In the consolidated accounts, the Kommuninvest Cooperative Society has classified subscribed capital of SEK 2,054.0 million as equity. Members who leave or are expelled from the Society shall be able to recover subscribed capital they have paid in or been allocated through participation issues. It is only on leaving or being expelled that members can recover their subscribed capital. Subscribed capital shall be paid back six months after the discontinuation of membership.

However, repayments of subscribed capital may only be made to the extent permitted by the Society's retained assets

in accordance with the balance sheet set up at the point of the discontinuation of membership without having to make use of the statutory reserve or appreciation fund and only on the condition that this can be done without setting aside the equal rights of the other members.

On repayment, the Society is entitled to subtract the amount required to settle past due counterclaims from the Society and any claims from the Society's companies. As per the balance sheet date, no repayment amounts were pending.

## Note 27 Consolidated equity – The Group

	Restricted equity		Unrestricted equity		Total equity
	Subscribed capital	Restricted reserves	Fair value reserve	Unrestricted reserves	
<b>The Group</b>					
<b>Equity brought forward 1 Jan 2013</b>	<b>615.6</b>	<b>24.7</b>	<b>23.1</b>	<b>1,082.1</b>	<b>1,745.3</b>
<b>Comprehensive income for the period</b>			<b>-5.7</b>	<b>745.8</b>	<b>740.1</b>
<b>Appropriation of surplus in accordance with decision by the Annual General Meeting of the Society</b>					
Distribution of surplus as bonuses and interest				-778.5	-778.5
Allocated to statutory reserve		41.0		-41.0	0.0
<b>New subscribed capital during the year</b>					
Participation capital from new members of the society	12.7				12.7
New annual participation capital from members	728.0				728.0
<b>Equity carried forward 31 Dec 2013</b>	<b>1,356.3</b>	<b>65.6</b>	<b>17.4</b>	<b>1,008.5</b>	<b>2,447.6</b>
<b>Equity brought forward 1 Jan 2014</b>	<b>1,356.3</b>	<b>65.6</b>	<b>17.4</b>	<b>1,008.5</b>	<b>2,447.6</b>
<b>Comprehensive income for the period</b>			<b>-6.1</b>	<b>718.6</b>	<b>712.5</b>
<b>Revaluation, property</b>					
<b>Appropriation of surplus in accordance with decision by the Annual General Meeting of the Society</b>					
Distribution of surplus as bonuses and interest				-696.5	-696.5
Allocated to statutory reserve		36.7		-36.7	0.0
<b>New subscribed capital during the year</b>					
Participation capital from new members of the society	1.2				1.2
New annual participation capital from members	696.5				696.5
<b>Equity carried forward 31 Dec 2014</b>	<b>2,054.0</b>	<b>102.3</b>	<b>11.3</b>	<b>993.9</b>	<b>3,161.4</b>

## Note 28 Pledged assets

The Group	2014	2013
<i>In the form of assets pledged for own provisions and liabilities</i>		
Endowment insurance for pension obligations	2.4	2.1
Property mortgages	42.0	42.0
<i>Deposited at the Riksbank</i>		
- government bonds	5,399.1	5,676.7
- securities issued by Swedish municipalities and county councils	501.8	653.3
- Swedish covered bonds	15,765.9	16,622.2
<b>Assets pledged, total</b>	<b>21,711.2</b>	<b>22,996.3</b>

The recognised value of liabilities and provisions involving pledges amounted to SEK 3.0 (25.5) 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.

## Note 29 Obligations

The Group	2014	2013
Committed undisbursed loans	3,783.5	3,480.0
<b>Total</b>	<b>3,783.5</b>	<b>3,480.0</b>

## Note 30 Related parties

### Close associations

The Kommuninvest Cooperative Society has had related party transactions with Kommuninvest i Sverige AB. Receivables from and liabilities to subsidiaries are stated in the balance sheet.

Related parties, in SEK, thousands	Year	Sales of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest)	Liabilities to related parties on 31 December	Receivables from related parties on 31 December
Kommuninvest i Sverige AB	2014	0	1,723	24,687	1,770,243	420
	2013	48	2,628	29,448	1,741,176	126

### Transactions with key personnel in a management position

See note 7 for information about salary, other compensation and pensions to senior executives.

## Note 31 Events after the balance sheet date

No significant events have occurred after the end of the period. On 12 February 2015, the Riksbank (the Swedish central bank) decided to cut the repo rate to a negative 0.1 percent. The decision creates a new and unique situation for financial actors and society in general and it is unclear what the effects will be. However, Kommuninvest is of the opinion that a situation with negative interest rates will not have a material impact on the Group's earnings or financial position.

## Note 32 Consolidated financial assets and liabilities – The Group

2014	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		
State bonds eligible as collateral	12,803.8	-	-	-
Lending to credit institutions	-	-	4,070.2	-
Lending	68,965.1	-	153,838.6	-
Bonds and other interest-bearing securities	33,690.1	-	-	-
Derivatives	-	17,446.2	-	-
Other assets	-	-	1.7	-
<b>Total</b>	<b>115,459.0</b>	<b>17,446.2</b>	<b>157,910.5</b>	<b>-</b>
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
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		
State bonds eligible as collateral	13,096.5	-	-	-
Lending to credit institutions	-	-	2,832.5	-
Lending	78,801.3	-	129,842.7	-
Bonds and other interest-bearing securities	32,562.1	-	-	-
Derivatives	-	2,466.2	-	-
Other assets	-	-	11.8	-
<b>Total</b>	<b>124,459.9</b>	<b>2,466.2</b>	<b>132,687.0</b>	<b>-</b>
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 certain role.

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

## FINANCIAL STATEMENTS

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				
2,400.3	-	-	-	-	15,204.1	15,204.1
-	-	-	-	-	4,070.2	4,070.2
-	-	-	-	-	222,803.7	223,696.5
12,284.4	-	-	-	-	45,974.5	45,974.5
-	-	-	-	6,402.6	23,848.8	23,848.8
-	-	-	-	-	1.7	1.7
<b>14,684.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,402.6</b>	<b>311,903.0</b>	<b>312,795.8</b>
-	2,360.1	-	2,463.5	-	4,823.6	4,823.6
-	145,857.9	-	146,460.1	-	292,318.0	293,839.5
-	-	9,026.8	-	1,601.5	10,628.3	10,628.3
-	-	-	16.3	-	16.3	16.3
-	-	-	1,000.1	-	1,000.1	1,067.4
-	<b>148,218.0</b>	<b>9,026.8</b>	<b>149,940.0</b>	<b>1,601.5</b>	<b>308,786.3</b>	<b>310,375.1</b>

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
-	-	-	-	-	2,832.5	2,832.5
-	-	-	-	-	208,644.0	208,910.0
12,370.8	-	-	-	-	44,932.9	44,932.9
-	-	-	-	3,769.6	6,235.8	6,235.8
-	-	-	-	-	2.0	2.0
<b>13,900.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,769.6</b>	<b>277,273.4</b>	<b>277,539.4</b>
-	2,266.2	-	2,108.8	-	4,375.0	4,375.6
-	120,818.5	-	135,440.2	-	256,258.7	256,935.5
-	-	11,606.2	-	1,625.6	13,231.8	13,231.8
-	-	-	20.4	-	20.4	20.4
-	-	-	1,000.1	-	1,000.1	993.7
-	<b>123,084.7</b>	<b>11,606.2</b>	<b>138,569.5</b>	<b>1,625.6</b>	<b>274,886.0</b>	<b>275,557.0</b>

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.

### *State 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.

Note 32 cont.

*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. Changes are only considered to occur in Kommuninvest's own credit risk as a consequence of events such as significant downgrading of its the company's rating, or amendments to the members' of guarantee undertaking that would reduce their collective responsibility for the Company's commitments. Variations in borrowing margins and consequent changes in the values of liabilities are therefore considered to be attributable to general changes in market prices for credit and liquidity risk rather than to changes in Kommuninvest's own credit risk.

*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 151 (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 297 (300) million. A parallel displacement in the borrowing and lending price by 10 basis points would mean a change in income of SEK -/+146 (+/- 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 +/-12 (+/- 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 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 3.1 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable borrowing in the interval of 2.1–4.3 years. This would have an effect on earnings in the interval SEK -2.9 million – SEK +4.5 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 and Control department is responsible for ensuring independent control of the quality of the valuation models and market data used in the valuation.

## FINANCIAL STATEMENTS

Note 32 cont.

### Financial instruments measured at fair value in the balance sheet

2014	Level 1	Level 2	Level 3	Total
State bonds eligible as collateral	12,726.3	2,477.8	-	15,204.1
Lending	-	68,965.1	-	68,965.1
Bonds and other interest-bearing securities	36,292.9	9,681.6	-	45,974.5
Derivatives	13.2	23,356.1	479.5	23,848.8
<b>Total</b>	<b>49,032.4</b>	<b>104,480.6</b>	<b>479.5</b>	<b>153,992.5</b>
Liabilities to credit institutions	-	2,155.0	205.1	2,360.1
Securities issued	-	136,341.8	9,516.1	145,857.9
Derivatives	7.1	9,776.3	844.9	10,628.3
<b>Total</b>	<b>7.1</b>	<b>148,273.1</b>	<b>10,566.1</b>	<b>158,846.3</b>

Kommuninvest continuously reviews the criteria for the allocation into levels of financial assets and liabilities to be measured at fair value; see "Calculation of fair value", page 70. During

the period, SEK 679.4 million was transferred from level 1 to level 2. All transfers are considered to have been made as of 30 June 2014.

2013	Level 1	Level 2	Level 3	Total
State 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
<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>

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

### 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
<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>-</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 profit/loss (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)	-	-140.2	491.0	21.2	-289.2	82.8
Cost, acquisitions	-	0.0	0.0	0.0	-6,860.4	-6,860.4
Maturing during the year	-	0.0	0.0	0.0	6,470.4	6,470.4
<b>Closing balance, 31 December 2014</b>	<b>-</b>	<b>479.5</b>	<b>-844.9</b>	<b>-205.1</b>	<b>-9,516.1</b>	<b>-10,086.6</b>
Gains and losses recognised in profit/loss (net result of financial transactions) for assets included in the closing balance as per 31 December 2014	-	212.0	28.1	31.6	-262.7	9.0

Note 32 cont.

**Financial instruments not measured at fair value in the balance sheet**

2014	Level 1	Level 2	Level 3	Total	Carrying amount
Lending to credit institutions	-	4,070.2	-	4,070.2	4,070.2
Lending	-	154,731.4	-	154,731.4	153,838.6
Other assets	-	1.7	-	1.7	1.7
<b>Total</b>	<b>-</b>	<b>158,803.3</b>	<b>-</b>	<b>158,803.3</b>	<b>157,910.5</b>
Liabilities to credit institutions	-	2,463.5	-	2,463.5	2,463.5
Securities issued	99,904.9	48,076.7	-	147,981.6	146,460.1
Other liabilities	-	16.3	-	16.3	16.3
Subordinated liabilities	-	1,067.4	-	1,067.4	1,000.1
<b>Total</b>	<b>99,904.9</b>	<b>51,623.9</b>	<b>-</b>	<b>151,528.8</b>	<b>149,940.0</b>

2013	Level 1	Level 2	Level 3	Total	Carrying amount
Lending to credit institutions	-	2,832.5	-	2,832.5	2,832.5
Lending	-	130,108.7	-	130,108.7	129,842.7
Other assets	-	2.0	-	2.0	2.0
<b>Total</b>	<b>-</b>	<b>132,943.2</b>	<b>-</b>	<b>132,943.2</b>	<b>132,677.2</b>
Liabilities to credit institutions	-	2,109.4	-	2,109.4	2,108.8
Securities issued	92,298.9	43,818.1	-	136,117.0	135,440.2
Other liabilities	-	20.4	-	20.4	20.4
Subordinated liabilities	-	993.7	-	993.7	1,000.1
<b>Total</b>	<b>92,298.9</b>	<b>46,941.6</b>	<b>-</b>	<b>139,240.5</b>	<b>138,569.5</b>

**Note 33 Information on financial assets and liabilities subject to offsetting – The Group**

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 2014	Amounts <sup>1</sup> 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	
<b>Assets</b>					
Derivatives	23,848.8	-9,611.1	-11,711.3	-	2,526.4
Repos <sup>2</sup>	3,952.1	-	-3,952.1	-	-
<b>Liabilities</b>					
Derivatives	-10,628.3	9,611.1	-	-	-1,017.2
<b>Total</b>	<b>17,172.6</b>	<b>0.0</b>	<b>-15,663.4</b>	<b>-</b>	<b>1,509.2</b>

31 Dec 2013	Amounts <sup>1</sup> 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	
<b>Assets</b>					
Derivatives	6,235.8	-5,329.3	-791.3	-	115.2
Repos <sup>2</sup>	2,796.9	-	-2,796.9	-	-
<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) None of the amounts reported in the balance sheet have been offset. 2) Repos are including in Lending to credit institutions.

## Note 34 Capital adequacy – The Group

Since 1 January 2014, capital adequacy is calculated in accordance with the new CRR1 framework. The greatest change compared with the previous calculation method relates to risk exposure amounts for credit valuation adjustment (CVA risk) for all OTC derivative contracts. The comparison figures have been calculated in accordance with the former regulations (under the Capital Adequacy and Large Exposures Act (2006:1371) and the Swedish Financial Supervisory Authority's Regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1)). The capital buffers to be introduced under CRD IV22 must first be implemented in Swedish law. On 12 May 2014, the Swedish government presented a bill regarding reinforced capital adequacy regulations which came into effect on 2 August 2014. In Kommuninvest's assessment, all of the buffer requirements have been met.

	2014	2013
Equity according to balance sheet	3,161.4	2,447.6
Less deferred tax assets <sup>3</sup>	-	-59.5
Less available-for-sale financial assets <sup>4</sup>	-16.2	-17.3
Less adjustment for prudent valuation <sup>5</sup>	-9.7	-
Less refunds/participation issue	-	-696.5
Less profit not distributed <sup>6</sup>	-718.6	-
<b>Total core Tier 1 capital</b>	<b>2,416.9</b>	<b>1,674.3</b>
<b>Total Tier 1 capital</b>	<b>2,416.9</b>	<b>1,674.3</b>
<b>Supplementary capital</b>		
Perpetual debenture loan <sup>7</sup>	800.0	837.1
<b>Total supplementary capital</b>	<b>800.0</b>	<b>837.1</b>
<b>Total capital base</b>	<b>3,216.9</b>	<b>2,511.4</b>

Capital requirement	2014-12-31		2013-12-31	
	Risk exposure	Capital requirement	Risk exposure	Capital requirement
Capital requirement for credit risks (the standardised method)	3,341.5	267.3	3,462.5	277.0
<i>of which, exposures to states and central banks</i>	<i>136.5</i>	<i>10.9</i>	<i>-</i>	<i>-</i>
<i>of which, institutional exposures</i>	<i>1,189.1</i>	<i>95.1</i>	<i>3,407.5</i>	<i>272.6</i>
<i>of which, corporate exposures</i>	<i>55.3</i>	<i>4.4</i>	<i>3.8</i>	<i>0.3</i>
<i>of which, exposures in the form of covered bonds</i>	<i>1,960.6</i>	<i>156.9</i>	<i>51.3</i>	<i>4.1</i>
Operational risks, basic indicator method	1,339.4	107.2	991.3	79.3
Market risks	-	-	1.3	0.1
Credit valuation adjustment	2,108.0	168.6	-	-
<b>Total risk exposure amounts and minimum capital amounts</b>	<b>6 789.9</b>	<b>543.1</b>	<b>4,455.0</b>	<b>356.4</b>

Capital adequacy ratios	2014-12-31	2013-12-31
Core Tier 1 capital ratio	35.6 %	37.6 %
Tier 1 capital ratio	35.6 %	37.6 %
Total capital adequacy ratio	47.4 %	56.4 %

Buffer requirement	2014-12-31	2013-12-31
Capital conservation buffer	2.5 %	-
<b>Total buffer requirements</b>	<b>2.5 %</b>	<b>-</b>
<b>Core Tier 1 capital available for use as buffer</b>	<b>29.6 %</b>	

- 1) European Parliament and Council Regulation (EU) No 575/2013 of 26 June 2013 on supervisory requirements for credit institutions and securities companies and amending Regulation (EU) No 648/2012.
- 2) European Parliament and Council Directive 2013/36/EU of 26 June 2013 on authorisation to conduct operations in credit institutions and on the supervision of credit institutions and securities companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
- 3) According to CRR Article 48, no adjustment is made for deferred tax receivables.
- 4) According to CRR Article 468, 100 percent of unrealised gains recorded at fair value and recognised in the fair value reserve are excluded. In accordance with previous capital adequacy regulations, Kommuninvest has adjusted financial assets available for sale including the deferred tax, which has not been included in the capital base. As described above, an exemption in CRR is applied and no deduction is made for deferred tax. Consequently, the deduction for financial assets available for sale in the capital base differs from the figure presented under equity.
- 5) Adjustment for prudent valuation according to CRR Article 34 has been calculated using the simplified method in the EBA's proposed technical standard for price adjustment (EBA/RTS/2014/06).
- 6) Profit for the year that may not be included in the capital base prior to the resolution by the annual general meeting in accordance with the CRR Article 26.
- 7) 30-year debenture loan with three-month variable Stibor-linked interest. The terms allow early repayment or repurchase if the perpetual debenture loan from the Kommuninvest Cooperative Society to Kommuninvest i Sverige AB is repaid or repurchased. The debenture loan is valid as supplementary capital under the transitional rules in CRR.

## Note 35 Leverage ratio – The Group

	2014-12-31
<b>Leverage ratio, calculated as an arithmetical average</b>	<b>0.79 %</b>
Total assets	312,092.0
Less derivatives according to the balance sheet	-23,848.8
Plus derivatives exposure	14,237.7
Plus possible change in derivatives risk	5,371.8
Plus off-balance sheet commitments	3,783.5
<b>Total exposure</b>	<b>311,636.2</b>
<b>Tier 1 capital, calculated applying transitional rules, see Note 34</b>	<b>2 416.9</b>
<b>Leverage ratio, December</b>	<b>0.78 %</b>
Exposure, November	302,786.3
Tier 1 capital, calculated applying transitional rules	2,391.2
<b>Leverage ratio, November</b>	<b>0.79 %</b>
Exposure, October	301,717.8
Tier 1 capital, calculated applying transitional rules	2 389.9
<b>Leverage ratio, October</b>	<b>0.79 %</b>

Kommuninvest has a capital plan for achieving the statutory leverage ratio requirement when this is introduced, see page 30.

# Five-year summary – The Group

Key ratios 2010–2014, SEK million	2014	2013	2012	2011	2010
<b>Growth</b>					
Lending (change in %)	6.8	3.8	19.6	25.7	8.2
Net interest income (change in %)	-5.6	25.6	34.9	32.5	13.0
<b>Consolidation</b>					
Leverage ratio, according to CRR (%)	0.79	0.58	0.33	i.u.	i.u.
Leverage ratio, including subordinated loan (%)	1.10	0.97	i.u.	i.u.	i.u.
Core Tier 1 capital ratio (%)	35.6	37.6	15.5	23.6	40.0
Tier 1 capital ratio (%)	35.6	37.6	15.5	23.6	40.0
Total capital ratio (%)	47.4	56.4	23.3	35.3	60.0
<b>Efficiency</b>					
Administration expenses as % of lending <sup>1</sup>	0.132	0.122	0.129	0.156	0.138
Administration expenses, excluding the stability charge, as % of lending <sup>1</sup>	0.082	0.074	0.079	0.106	0.108
Administration expenses as % of balance sheet total <sup>1</sup>	0.094	0.092	0.092	0.112	0.097
Administration expenses, excluding the stability charge, as % of balance sheet total <sup>1</sup>	0.059	0.056	0.056	0.076	0.076
Lending/employee (SEK millions)	2,893.6	2,980.6	3,091.5	2,848.7	2,523.2
Change (%)	-2.9	-3.6	8.5	12.9	0.0
Return on assets (%)	0.230	0.269	0.150	0.117	0.101
<b>Cost/income ratio</b>					
Total expenses in relation to net interest and other operating income	0.32	0.26	0.33	0.46	0.43
<b>Other information</b>					
Number of employees at the end of the year	77	70	65	59	53

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

## FINANCIAL STATEMENTS

<b>Income statement 1 January–31 December, SEK million</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net interest income	914.9	968.9	771.5	572.1	431.7
Commission expenses	-5.1	-5.6	-8.5	-8.6	-4.4
Net result of financial transactions	101.9	38.7	-267.1	72.1	17.2
Other operating income	3.3	1.9	6.4	1.3	2.3
<b>Total revenues</b>	<b>1,015.0</b>	<b>1,003.9</b>	<b>502.3</b>	<b>636.9</b>	<b>446.8</b>
General administration expenses	-282.4	-247.1	-250.8	-250.7	-175.1
Depreciation	-5.5	-3.8	-4.2	-3.7	-3.9
Other operating expenses	-5.9	-3.4	-5.0	-7.7	-6.2
<b>Total expenses</b>	<b>-293.8</b>	<b>-254.3</b>	<b>-260.0</b>	<b>-262.1</b>	<b>-185.1</b>
<b>Operating income</b>	<b>721.2</b>	<b>749.6</b>	<b>242.3</b>	<b>374.8</b>	<b>261.7</b>
Taxes	-2.6	-3.8	182.5	-100.0	-70.1
<b>Net profit</b>	<b>718.6</b>	<b>745.8</b>	<b>424.8</b>	<b>274.8</b>	<b>191.6</b>
<b>Other comprehensive income</b>	<b>-4.7</b>	<b>-5.7</b>	<b>110.7</b>	<b>-76.2</b>	<b>-52.6</b>
<b>Total profit or loss</b>	<b>713.9</b>	<b>740.1</b>	<b>535.5</b>	<b>198.6</b>	<b>139.0</b>
<b>Balance sheet summary as at 31 December, SEK million</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Sovereign bonds eligible as collateral	15,204.1	14,626.2	11,160.8	10,841.7	12,887.7
Lending to credit institutions	4,070.2	2,832.5	15,637.3	1,756.6	1,703.9
Lending	222,803.7	208,644.0	200,950.7	168,070.5	133,729.1
Bonds and other interest-bearing securities	45,974.5	44,932.9	44,293.7	39,518.7	28,759.5
Shares and participations	2.4	2.1	1.7	1.3	0.9
Shares in associated companies	0.5	0.5	0.5	0.5	0.5
Derivatives	23,848.8	6,235.8	11,057.4	13,687.2	13,024.0
Tangible assets	6.6	5.4	6.7	8.4	8.6
Tangible assets, lands and buildings	33.7	32.1	32.8	33.7	30.1
Intangible assets	1.6	-	-	-	-
Other assets	82.9	85.4	110.8	112.8	69.4
Deferred tax assets	54.7	54.6	56.8	38.4	14.6
Prepaid expenses and accrued revenues	8.3	11.2	12.8	19.1	26.4
<b>Total assets</b>	<b>312,092.0</b>	<b>277,462.6</b>	<b>283,322.0</b>	<b>234,088.9</b>	<b>190,254.7</b>
Liabilities to credit institutions	4,823.6	4,375.0	5,633.4	4,172.4	3,461.9
Securities issued	292,318.0	256,258.7	257,257.3	218,037.4	173,851.9
Derivatives	10,628.3	13,231.8	17,517.2	9,354.5	10,794.2
Current tax liability	-	0.0	26.7	101.0	63.0
Other liabilities	20.2	24.7	13.5	75.6	13.4
Accrued expenses and prepaid revenues	137.4	122.2	126.2	112.2	44.7
Provisions for pensions and similar obligations	3.0	2.5	2.1	1.6	1.2
Deferred tax liabilities	-	-	-	53.7	57.3
Subordinated liabilities	1,000.1	1,000.1	1,000.3	1,000.2	1,002.9
<b>Total liabilities and provisions</b>	<b>308,930.6</b>	<b>275,015.0</b>	<b>281,576.7</b>	<b>232,908.6</b>	<b>189,290.5</b>
Equity	3 161.4	2,447.6	1,745.3	1,180.3	964.2
<b>Total liabilities, provisions and equity</b>	<b>312,092.0</b>	<b>277,462.6</b>	<b>283,322.0</b>	<b>234,088.9</b>	<b>190,254.7</b>

# Signatures

The Board of Directors and the President certify that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as determined by the IASB and adopted by the EU, and provide a true and fair view of the Group's financial position and earnings. The Parent Society's accounts have been prepared in accordance with generally accepted accounting principles in Sweden and provide a true and fair view of the Parent Society's financial position and earnings.

The administration report for the Group and the Parent Society provides a true and fair description of the develop-

ment of the Group and Parent Society's operations, financial position and earnings, and addresses significant risks and uncertainties facing the Parent Society and the companies within the Group.

The consolidated and annual accounts, as specified below, were approved for issue by the Board on 5 March 2015. The consolidated income statement, statement of comprehensive income and balance sheet, as well as the Parent Company's income statement and balance sheet will be subject to ratification by the Annual General Meeting on 16 April 2015.

Örebro, 11 March 2015

Ann-Charlotte Stenkil  
*Chairman*

Alf Egnerfors  
*Vice Chairman*

Carina Blank  
*Board Member*

Åsa Herbst  
*Board Member*

Margreth Johnsson  
*Board Member*

Elver Jonsson  
*Board Member*

Ewa-May Karlsson  
*Board Member*

Niklas Karlsson  
*Board Member*

Örjan Mossberg  
*Board Member*

Robert Mörk  
*Board Member*

Magnus Oscarsson  
*Board Member*

Jonas Ransgård  
*Board Member*

Roland Åkesson  
*Board Member*

Bert Öhlund  
*Board Member*

Lotta Öhlund  
*Board Member*

Tomas Werngren  
*President and CEO*

Our Audit Report was submitted on 11 March 2015  
Ernst & Young AB

Erik Åström  
*Authorised Public Accountant*

# Audit Report

To the Annual General Meeting of the Kommuninvest Cooperative Society, corporate identity number 716453-2074.

## Report on the annual and consolidated accounts

We have audited the annual and consolidated accounts of the Kommuninvest Cooperative Society for 2014. In this document, the annual and consolidated accounts of the Society are presented on pages 10–78.

## Responsibilities of the Board of Directors and the President for the annual and consolidated 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 and consolidated accounts that provide a fair portrayal in accordance with the International Financial Reporting Standards as approved by the EU and 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 and consolidated 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 and consolidated 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 and consolidated accounts are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual and consolidated accounts, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the annual and consolidated 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 Society's internal control. An audit also includes assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Board of Directors and President in the accounts, as well as assessing the overall presentation of the annual 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 and provide in all material respects a fair portrayal of the Society's financial position as per 31 December 2014 and of its financial performance and cash flows for the year in accordance with the Annual Accounts Act, and the consolidated 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 the Group as per 31

December 2014 and its financial performance and cash flows for the year in accordance with the International Financial Reporting Standards as approved by the EU and the Annual Accounts Act for Credit Institutions and Securities Companies. The statutory administration report (Directors' Report) is consistent with the other parts of the annual and consolidated accounts. We therefore recommend that the Annual General Meeting of the Society adopt the income statement and balance sheet for the Society and the Group.

## Report on other legal and regulatory requirements

In addition to our audit of the annual and consolidated accounts, we have also audited the proposed appropriations of the Society's profit or loss and administration of the Board of Directors and the President of the Kommuninvest Cooperative Society in 2014.

## Responsibility of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the Society's profit or loss. The Board of Directors and the President are responsible for the administration of the Society in accordance with the Economic Associations Act.

## Responsibility of the Auditor

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the Society'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 Society's profit or loss, we have considered whether or not the proposal is consistent with the Economic Associations Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual and consolidated accounts, we examined significant decisions, actions taken and circumstances of the Society in order to determine whether any member of the Board of Directors or the President is liable to the Society.

We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Economic Associations Act, the Annual Accounts Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Society's Articles of Association.

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

## Statements

We recommend that the Annual General Meeting appropriate the Society'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.

Örebro, 11 March 2015

Ernst & Young AB

Erik Åström  
Authorised Public Accountant

# Review Report

We the lay auditors, appointed by the Annual General Meeting of the Kommuninvest Cooperative Society, have examined the operations of the Kommuninvest Cooperative Society in 2014.

The Board of Directors and President are responsible for the operation being conducted in accordance with the Articles of Association of the Society as well as the regulations pertaining to the operations. 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 of the Society.

The review was conducted in accordance with the Economic Associations Act, the Articles of Association of the Society and the rules of procedure for the lay auditors adopted by the

Annual General Meeting of the Society. By reviewing documents/basis for decisions, protocols/information and by discussion with Management, the Board of Directors of the Society 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 Society's operations have been carried out in a purposeful and financially satisfactory manner, that the operations have been conducted in accordance with the principles of local government law and the principles of local government operations in corporate formats, and that the Society's internal control has been sufficient.

Örebro, 11 March 2015

Niklas Sjöberg

Anita Bohman

# Members of Kommuninvest Cooperative Society

Name of member	Member- ship nr.	Number of citizens, 31 Dec 2014	Member, year	Name of member	Member- ship nr.	Number of citizens, 31 Dec 2014	Member, year
Gävle kommun	1	98 314	1993	Landstinget Sörmland	49	280 666	1994
Umeå kommun	2	119 613	1993	Katrineholms kommun	50	33 268	1994
Trollhättans kommun	3	56 929	1993	Vadstena kommun	51	7 393	1994
Lindesbergs kommun	4	23 269	1993	Pajala kommun	52	6 303	1994
Uddevalla kommun	5	53 517	1993	Piteå kommun	53	41 508	1994
Vänersborgs kommun	6	37 890	1993	Kristianstads kommun	54	81 826	1994
Sandvikens kommun	7	37 833	1993	Bergs kommun	55	7 067	1997
Varbergs kommun	8	60 422	1993	Vårgårda kommun	56	11 089	1994
Mjölby kommun	9	26 428	1996	Ödeshögs kommun	57	5 240	1995
Örebro läns landsting	10	288 150	1993	Orsa kommun	58	6 812	1995
Örebro kommun	11	142 618	1993	Svedala kommun	59	20 248	1995
Kumla kommun	12	21 016	1993	Lomma kommun	60	22 946	1995
Laxå kommun	13	5 664	1993	Lekebergs kommun	61	7 363	1995
Ljusnarsbergs kommun	14	4 913	1993	Kungsörs kommun	62	8 269	1995
Karlskoga kommun	15	30 054	1993	Tjörns kommun	63	15 135	1995
Hallsbergs kommun	16	15 315	1993	Staffanstorps kommun	64	22 994	1995
Degerfors kommun	17	9 531	1993	Härryda kommun	65	36 291	1995
Askersunds kommun	18	11 119	1993	Grums kommun	66	8 958	1995
Nora kommun	19	10 352	1993	Höganäs kommun	67	25 298	1995
Hällefors kommun	20	6 936	1993	Ängelholms kommun	68	40 229	1995
Härnösands kommun	21	24 755	1993	Flens kommun	69	16 242	1995
Ale kommun	22	28 423	1993	Essunga kommun	70	5 538	1995
Norbergs kommun	23	5 719	1993	Nordmalings kommun	71	7 085	1995
Karlskrona kommun	24	64 348	1993	Oskarshamns kommun	72	26 301	1996
Skellefteå kommun	25	72 024	1994	Båstads kommun	73	14 419	1996
Västerviks kommun	26	35 920	1994	Storumans kommun	74	5 955	1996
Fagersta kommun	27	13 133	1994	Älvdalens kommun	75	7 052	1996
Gotlands kommun	28	57 255	1994	Sunne kommun	76	13 099	1995
Alingsås kommun	29	39 188	1994	Hjo kommun	77	8 885	1996
Smedjebackens kommun	30	10 712	1994	Mönsterås kommun	78	13 057	1996
Boxholms kommun	31	5 322	1994	Malå kommun	79	3 115	1997
Ockelbo kommun	32	5 765	1994	Högsby kommun	80	5 782	1997
Tanums kommun	33	12 346	1994	Torsby kommun	81	11 992	1997
Borlänge kommun	34	50 715	1994	Lycksele kommun	82	12 208	1997
Strömsunds kommun	35	11 873	1994	Bengtstads kommun	83	9 556	1997
Kungsbacka kommun	36	78 219	1994	Åstorps kommun	84	15 061	1997
Valdemarsviks kommun	37	7 657	1994	Simrishamns kommun	85	18 905	1997
Eda kommun	38	8 453	1994	Vimmerby kommun	86	15 297	1997
Gnosjö kommun	39	9 509	1994	Hultsfreds kommun	87	13 738	1997
Övertorneå kommun	40	4 711	1994	Mörbylånga kommun	88	14 498	1997
Hedemora kommun	41	15 085	1994	Arvika kommun	89	25 771	1997
Luleå kommun	42	75 966	1994	Hammarö kommun	90	15 256	1997
Falu kommun	43	56 896	1994	Karlskrona kommun	91	31 598	1997
Landskrona kommun	44	43 574	1994	Skara kommun	92	18 747	1997
Arboga kommun	45	13 631	1994	Sävsjö kommun	93	11 100	1997
Munkedals kommun	46	10 243	1994	Skurups kommun	94	15 167	1998
Orust kommun	47	15 054	1994	Vindelns kommun	95	5 383	1997
Falkenbergs kommun	48	42 433	1994	Rättviks kommun	96	10 748	1998

## LIST OF MEMBERS

<b>Name of member</b>	<b>Member-ship nr.</b>	<b>Number of citizens, 31 Dec 2014</b>	<b>Member, year</b>	<b>Name of member</b>	<b>Member-ship nr.</b>	<b>Number of citizens, 31 Dec 2014</b>	<b>Member, year</b>
Melleruds kommun	97	8 936	1998	Ystads kommun	154	28 771	2004
Färgelanda kommun	98	6 502	1998	Säffle kommun	155	15 334	2004
Söderköpings kommun	99	14 268	1998	Bollnäs kommun	156	26 394	2004
Vetlanda kommun	100	26 647	1998	Storfors kommun	157	4 106	2004
Herrljunga kommun	101	9 376	1999	Huddinge kommun	158	104 185	2004
Laholms kommun	102	23 781	1999	Håbo kommun	159	20 034	2005
Landstinget Gävleborg	103	279 991	1999	Gällivare kommun	160	18 231	2005
Marks kommun	104	33 887	1999	Landstinget i Uppsala län	161	348 942	2005
Leksands kommun	105	15 252	1999	Kramfors kommun	162	18 435	2005
Strömstads kommun	106	12 694	1999	Haparanda kommun	163	9 776	2005
Upplands-Bro kommun	107	25 287	1999	Krokoms kommun	164	14 648	2005
Alvesta kommun	108	19 503	1999	Arvidsjaur kommun	165	6 484	2005
Kalix kommun	109	16 307	1999	Mariestads kommun	166	23 921	2005
Bräcke kommun	110	6 463	2000	Åsele kommun	167	2 838	2005
Örkelljunga kommun	111	9 733	2000	Sollefteå kommun	168	19 776	2005
Götene kommun	112	13 080	2000	Örnsköldsviks kommun	169	55 248	2005
Ovanåkers kommun	113	11 432	2000	Karlstads kommun	170	88 350	2005
Ydre kommun	114	3 660	2001	Surahammars kommun	171	9 918	2005
Bollebygds kommun	115	8 652	2001	Filipstads kommun	172	10 613	2005
Torsås kommun	116	6 925	2001	Motala kommun	173	42 556	2005
Habo kommun	117	11 110	2001	Jokkmokks kommun	174	5 086	2005
Gagnefs kommun	118	10 024	2001	Hallstahammars kommun	175	15 596	2006
Sotenäs kommun	119	8 931	2001	Avesta kommun	176	22 022	2006
Köpings kommun	120	25 376	2001	Trosa kommun	177	11 864	2006
Bodens kommun	121	27 887	2001	Lilla Edets kommun	178	13 031	2006
Tranemo kommun	122	11 640	2001	Skinnskattebergs kommun	179	4 434	2006
Nässjö kommun	123	29 907	2001	Kiruna Kommun	180	23 241	2006
Kinda kommun	124	9 795	2001	Finspångs kommun	181	21 150	2006
Sigtuna kommun	125	44 085	2002	Lysekil Kommun	182	14 299	2006
Karlsborgs kommun	126	6 786	2002	Söderhamns kommun	183	25 456	2006
Robertsfors kommun	127	6 724	2002	Hudiksvalls kommun	184	36 924	2006
Ålvsbyns kommun	128	8 171	2002	Landstinget Norrbotten	185	249 987	2006
Mora kommun	129	20 006	2002	Dorotea kommun	186	2 757	2006
Tranås kommun	130	18 416	2002	Nordanstigs kommun	187	9 493	2006
Eksjö kommun	131	16 598	2002	Arjeplogs kommun	188	2 907	2006
Heby kommun	132	13 490	2002	Botkyrka kommun	189	88 901	2006
Oxelösunds kommun	133	11 551	2003	Nybro kommun	190	19 714	2007
Haninge kommun	134	82 407	2003	Hagfors kommun	191	11 921	2007
Kungälv kommun	135	42 334	2003	Vännäs kommun	192	8 616	2007
Tomelilla kommun	136	13 007	2003	Bjurholms kommun	193	2 451	2007
Växjö kommun	137	86 970	2003	Eskilstuna kommun	194	100 923	2007
Trelleborgs kommun	138	42 973	2003	Gnesta kommun	195	10 513	2007
Lessebo kommun	139	8 256	2003	Forshaga kommun	196	11 379	2007
Säters kommun	140	10 886	2003	Kalmar kommun	197	64 676	2007
Ånge kommun	141	9 484	2003	Sjöbo kommun	198	18 415	2007
Landstinget Västmanland	142	261 703	2003	Stenungsunds kommun	199	25 275	2007
Ljusdals kommun	143	18 949	2003	Strängnäs kommun	200	33 878	2007
Norsjö kommun	144	4 180	2003	Åre kommun	201	10 555	2007
Hofors kommun	145	9 431	2003	Ludvika kommun	202	26 030	2007
Överkalix kommun	146	3 409	2004	Lerums kommun	203	39 771	2007
Kils kommun	147	11 885	2004	Nykvarns kommun	204	9 815	2007
Härjedalens kommun	148	10 224	2004	Vilhelmina kommun	205	6 848	2007
Landstinget i Värmland	149	274 691	2004	Emmaboda kommun	206	9 009	2007
Eslövs kommun	150	32 179	2004	Vansbro kommun	207	6 694	2007
Mullsjö kommun	151	7 109	2004	Töreboda kommun	208	9 072	2007
Vingåkers kommun	152	8 919	2004	Sölvesborgs kommun	209	16 959	2007
Munkfors kommun	153	3 656	2004	Ragunda kommun	210	5 440	2007

## LIST OF MEMBERS

Name of member	Member- ship nr.	Number of citizens, 31 Dec 2014	Member, year	Name of member	Member- ship nr.	Number of citizens, 31 Dec 2014	Member, year
Osby kommun	211	12 828	2008	Enköpings kommun	268	41 163	2012
Vaggeryds kommun	212	13 229	2008	Åmåls kommun	269	12 326	2012
Timrå kommun	213	18 025	2008	Värnamo kommun	270	33 334	2012
Knivsta kommun	214	16 105	2008	Södertälje kommun	271	92 235	2012
Åtvidabergs kommun	215	11 472	2008	Göteborgs stad	272	541 145	2012
Uppvidinge kommun	216	9 222	2008	Skövde kommun	273	53 134	2012
Svenljunga kommun	217	10 365	2008	Sundbybergs stad	274	44 090	2012
Tingsryds kommun	218	12 198	2008	Uppsala kommun	275	207 362	2013
Jönköpings kommun	219	132 140	2008	Tibro kommun	276	10 864	2013
Lunds kommun	220	115 968	2008	Järfälla kommun	277	70 701	2013
Ulricehamns kommun	221	23 244	2008	Svalövs kommun	278	13 460	2013
Tierps kommun	222	20 245	2008	Klippans kommun	279	16 733	2014
Grästorps kommun	223	5 630	2008	Markaryds kommun	280	9 549	2014
Malung-Sälens kommun	224	9 969	2009				
Östra Göinge kommun	225	13 864	2009				
Årjängs kommun	226	9 804	2009				
Dals-Eds kommun	227	4 764	2009				
Vaxholms kommun	228	11 329	2009				
Älvkarleby kommun	229	9 169	2009				
Ljungby kommun	230	27 522	2009				
Hörby kommun	231	14 927	2009				
Älmhults kommun	232	15 908	2009				
Burlövs kommun	233	17 211	2009				
Hässleholms kommun	234	50 565	2009				
Olofströms kommun	235	13 031	2009				
Sala kommun	236	21 925	2009				
Öckerö kommun	237	12 645	2009				
Kristinehamns kommun	238	24 114	2009				
Östhammars kommun	239	21 374	2009				
Bromölla kommun	240	12 400	2009				
Gullspångs kommun	241	5 240	2009				
Aneby kommun	242	6 426	2009				
Lidköpings kommun	243	38 761	2009				
Bjuvs kommun	244	14 894	2009				
Nynäshamns kommun	245	27 041	2009				
Norrköpings kommun	246	135 283	2009				
Halmstads kommun	247	95 532	2009				
Ronneby kommun	248	28 221	2009				
Sorsele kommun	249	2 565	2010				
Falköpings kommun	250	32 185	2010				
Upplands-Väsby kommun	251	41 816	2010				
Hylte kommun	252	10 278	2010				
Borgholms kommun	253	10 681	2010				
Höörs kommun	254	15 770	2010				
Vara kommun	255	15 597	2010				
Vallentuna kommun	256	31 969	2010				
Salems kommun	257	16 140	2010				
Tyresö kommun	258	45 390	2010				
Tidaholms kommun	259	12 617	2010				
Värmdö kommun	260	40 541	2010				
Norrtälje kommun	261	57 568	2011				
Landstinget Dalarna	262	278 903	2011				
Solna stad	263	74 041	2011				
Perstorps kommun	264	7 174	2011				
Nyköping	265	53 508	2011				
Gislaved	266	28 737	2011				
Borås stad	267	107 022	2011				



**KOMMUNINVEST**

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