Annual Report 2014

Kommuninvest i Sverige AB

KOMMUNINVEST

Together for better loan terms

Kommuninvest[1] was founded in 1986 by nine municipalities and Örebro County Council to join forces in improving the conditions in the market for local government loan financing. Kommuninvest also helps increase financial stability in the local government sector.

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

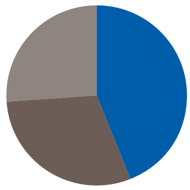
Kommuninvest holds the highest possible credit rating, Aaa/AAA, with a stable outlook. The credit rating is supported by the joint and several guarantee issued by all of the members in favour of Kommuninvest i Sverige AB's obligations.

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

1) On pages 1–11, "Kommuninvest" refers to the Kommuninvest Cooperative Society and/or the credit market company Kommuninvest i Sverige AB as determined by the context. From page 12 and onwards, it refers to Kommuninvest i Sverige AB, unless otherwise stated.

Market shares, local government borrowing*

31 December 2014, forecast



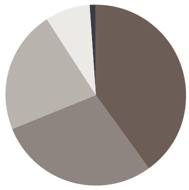
- Borrowing via Kommuninvest 44 (44) %
- Bank funding 30 (32) %
- Proprietary funding programs 26 (24) %

* 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 Kommuninvest i Sverige AB

	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	568.4	590.7	320.6	300.6	140.6
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[1], %	34.6	37.0	15.2	22.9	40.3
Tier 1 capital ratio[2], %	34.6	37.0	15.2	22.9	40.3
Total capital ratio[3], %	49.3	59.5	30.4	45.7	80.6
Leverage ratio, according to CRR[4], %	0.76 %	0.57 %	0.33 %	–	–
Leverage ratio, including subordinated loan[5], %	1.09 %	0.91 %	0.65 %	–	–

1) Core Tier 1 capital in relation to total Risk Exposure Amount. See page 29 and Note 28.
2) Tier 1 capital in relation to total Risk Exposure Amount. See page 29 and Note 28.
3) Total capital base in relation to total Risk Exposure Amount. See page 29 and Note 28.
4) Tier 1 capital in relation to total assets and commitments (exposures). See pages 30–32 and Note 29.
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

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 i Sverige AB (publ)

This is the Annual Report for the credit market company Kommuninvest i Sverige AB.

The Annual Report for the ownership association, the Kommuninvest Cooperative Society, is available at www.kommuninvest.org

Cover picture: Kolbäcksbron 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 operations 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.

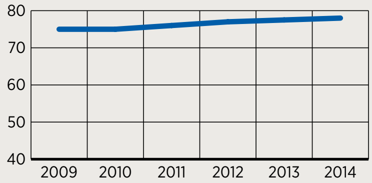
Target

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[1]



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.

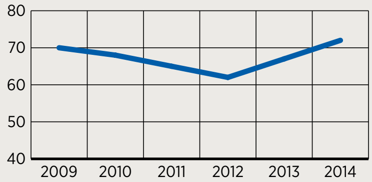
Target

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[1]



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

Operations are conducted within the credit market company Kommuninvest i Sverige AB (the Company) which is owned and controlled by the members of 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 0.76 (0.57) percent. Including the SEK 1 billion subordinated loan issued by the Society, the leverage ratio amounted to 1.09 (0.91) percent. For further information, see pages 30–32 and Note 29.

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

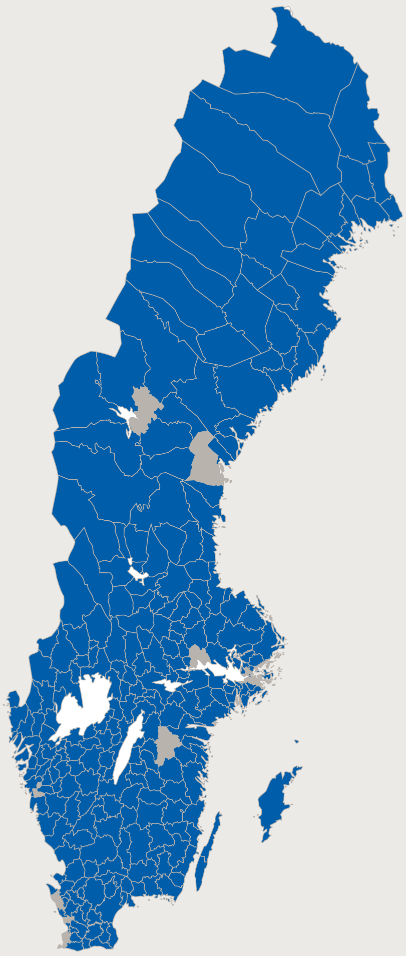
Historically, Kommuninvest has increased its lending due to a rising number of members and due to members sourcing an increasing share of their borrowing with the Company. Lending also continued to grow in 2014, reaching SEK 222.8 (208.6) billion at the end of the year. All lending is to members of the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

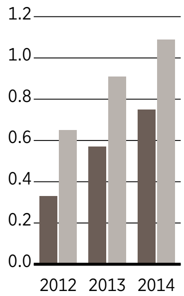
Municipalities

County councils/regions

Dalarna	Värmland
Gävleborg	Västmanland
Sörmland	Norrbotten
Uppsala	Örebro

Leverage ratio

%



Leverage ratio according to CRR

Leverage ratio including subordinated loan

New members, Kommuninvest Cooperative Society

Municipality of Klippan

Municipality of Markaryd

Change is the new normal

Kommuninvest has evolved as an organisation, driven by customer needs and extensive regulatory changes. A new model for building up capital means that, in the future, we will be able to act with pricing that better reflects our actual borrowing costs.

When the winds of change blow, some build walls while others build windmills. Although these words are not mine, they do reflect my view of the past year. In a complex world with rapidly shifting conditions, change has become the new normal. For Kommuninvest, however, we need efficient windmills as well as good shelters. That will allow us to meet the needs of the local government sector while developing our offering in an environment that continuously presents new challenges.

Development work within Kommuninvest affects a number of areas, including leadership. In a modern workplace, employees demand good leadership to be able to perform at the peak of their abilities and to feel a basic sense of security in their jobs. In my view, we have an even stronger organisation than we did a year ago and our employees are more satisfied.

Our development process has also been driven by the extensive regulatory changes introduced since the 2008–2009 financial crisis. All credit institutions are affected and many probably wonder, as do we, whether this cannot be finished soon so that we can focus on business! At the same time, however, we all probably realise that this work will never end and that the changed rules are largely to the institutions' own benefit.

Over the year, work on the internal capital adequacy assessment process (ICAAP) was developed, in terms of both methodology and presentation. The ICAAP is a central tool for risk control and also provides a good basis for dialogue with Finansinspektionen (Swedish Financial Supervisory Authority).

The focus on business value for Kommuninvest's members and customers is central. We are constantly working to deepen customer relationships, including through products and solutions that contribute to improving customer's financial administration and making it less expensive. An excellent example is the new debt management system that we developed for the municipal sector. Our members testify to a better system, at a fraction of the cost of previous solutions.

Capital build-up and pricing

Our strategy for compliance with the minimum leverage ratio effective from 2018 has been based on a capital build-up through raised lending margins. There has been a growing realisation that many local government borrowers do not take the refund they receive from Kommuninvest into account when comparing prices for different funding options. Consequently, the 2014 Annual General Meeting of the owner society adopted a refined model with direct capital contributions. To take effect, the model must also be approved by the 2015 Annual General Meeting. In light of the support we see from members, we have initiated price adjustments so that the price better reflects our actual borrowing costs.

The change in focus on the matter of capital has been stimulating for both the operations and the Board of Directors. There have been many instructive discussions on what the pricing should reflect, and these have provided an in-depth knowledge of the various parts contributing to the operations' results. Even in a non-profit business like ours, we need to achieve certain results.

The regulations regarding the leverage requirement are still being developed, and the signals emerging from that processes are disparate. That means that we must be prepared for the final level to be high.

Complex external trend

The winds of the global economy are more unpredictable than they have been for a long time, with macroeconomic trends pulling in different directions. The extreme low-interest environment also presents challenges and uncertainties. Growth is weak in both Japan and Europe, although Europe is much more exposed to the problem-ridden Russia. The US and the UK are in a recovery phase, with increased growth and lower unemployment.

Discussions regarding how Greece should be helped, as well as uncertainty about the effects of the monetary policy stimulus programmes launched by the European Central Bank contribute to the uncertainty about the economic trend in Europe.

On the whole, there are many factors with the potential to disrupt the financial markets. Historically, however, crises have increased investors' interest in the very safest borrowers, such as Kommuninvest. At Kommuninvest, we are active in many of the world's different economic zones. Consequently, we must adapt our strategy and stay abreast of developments so that we are able to predict how our borrowing costs and pricing may be affected.

Naturally, the Swedish local government sector is affected by external trends, although it is relatively well prepared financially. The sector's investments have increased in recent years and that trend looks set to continue. Our monitoring of the local government sector's financial position enables us to follow how the municipalities and county councils/ regions meet the challenges that come with changes in demographic structure.

Concept at the core

Illustrating the benefit of Kommuninvest's concept to our core target groups – customers, investors and regulators – will continue to be a central task over the next few years.

A great deal of work has been invested. During 2014, long-term relations with investors, a frequent presence in borrowing markets and a high level of confidence in the Swedish model of local government financing continued to bear fruit for Kommuninvest. At the time of writing, the company's employees have just completed a USD benchmark transaction at the lowest funding levels to date.

However, we live in a world brimming with information and our efforts to be heard above the noise must continue. We can then ensure that our customers are able to benefit from Kommuninvest's exceptional creditworthiness. Kommuninvest's ability to fulfil its mission towards its owners and customers, even in the darkest moments on financial markets, is our main priority.

Kommuninvest i Sverige AB

Ellen Bramness Arvidsson
Chairman

Local government cooperation with a solid foundation

Swedish municipalities and county councils/regions are in an intense period of investment and sector borrowing continued to increase in 2014. Kommuninvest maintained its position as the largest lender and again showed strong performance. The operations are well prepared for future leverage requirements.

In 2014, Kommuninvest's lending rose by 6 percent, primarily due to improved competitiveness as of the fourth quarter. 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, it would however be beneficial if the local government authorities could, to an even greater extent, assess opportunities for cooperation and specialisation, so that investment funds are used as efficiently as possible.

Kommuninvest's operating profit was the second highest to date, reflecting the owners' directive regarding the long-term build-up of capital to enable Kommuninvest to meet the leverage requirement being introduced in 2018.

As a result of regulatory changes in particular, the expenses in the operations are increasing. In relation to its scale, our organisation continues to be an efficient one. For 2014, our administration expenses, excluding the stability fee, amounted to less than 8 basis points as a proportion of lending.

In Europe, quantitative easing and interest policies with zero or even negative interest rates are contributing to changes in the conditions for financial operations. Kommuninvest's strength is that, within the framework of our mandate, we can act flexibly, particularly in our funding.

The benefit of local government cooperation

The benefit of the local government sector's financial cooperation within Kommuninvest is considerable. By acting together in funding contexts, not only do local government authorities generate substantial savings in the form of lower interest rates on loans, they also build a stronger financial infrastructure that ensures better access to loans even in times of uncertainty.

However, 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.

With the customer in focus

We live in a period of major external change, driven by both technological, (geo)political and macroeconomic shifts, as well as sharpened customer requirements and intensifying competition. In itself, rapid growth also imposes demands for change. Both for Kommuninvest as an organisation, as well at the individual level, the capacity to adapt is crucial if we are to succeed in the mission entrusted to us by our owners.

Customer satisfaction was the focus of our process of change in 2014. Bringing the customer's perspective into everything we do and plan – in both major actions and smaller ones – is a central task and one where I see us increasingly pulling together. During the year, we launched a debt management system now used by hundreds of members and their companies. We have made considerable progress in our preparations to provide Green Bond funding to all customers.

For this reason, the outcome of the 2014 customer survey felt particularly satisfying (see page 5). The clear improvements evident in the employee survey were also gratifying.

Combined, this tells me that Kommuninvest has the support of its shareholders, customers and employees. It is also a signal to continue along the set course.

Recognition in liquidity regulations

In 2014, the European Commission published its final communication regarding the new liquidity regulations for European credit institutions. While it was not unexpected that Kommuninvest's securities ended up being classified as Level 1-assets, this was nonetheless good news due to the uncertainty preceding the outcome. This has created significant demand for the highest quality asset classes, and has led to banks now forming a significant investor category when we issue securities.

A regulatory issue that is still surrounded by uncertainty is the leverage requirement, where we will have to wait until the end of 2016 until the final design is announced. Through the on-going build-up of capital and the resolution by the 2014 Annual General Meeting, Kommuninvest's owners have already demonstrated that they assume long-term responsibility for the operations. The confidence that our owners show in the Kommuninvest partnership feels highly stimulating for me and my colleagues. A second decision on the further developed model for the build-up of capital will be taken at the 2015 Annual General Meeting.

Thanks to my colleagues

Kommuninvest's business volumes have increased every year since 1988 and today exceed SEK 300 billion. With amounts like these, it is obvious that conservative and clear risk mandates and rigorous risk control and follow-up are applied. But above all, this demands highly competent and conscientious employees.

The organisation was reinforced in 2014 too, bringing the number of employees up to slightly less than 80. Again, I am grateful for my colleagues' contributions over the year – I observe a strong commitment to our mission of helping Swedish municipalities and county councils/regions to continue efficiently building up welfare in Sweden.

Örebro, February 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)[1]. 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.

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 Company. 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 Company'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.

1) 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.

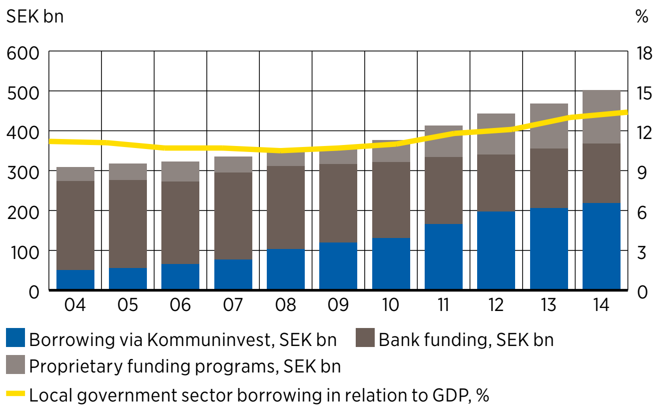
Comments to the Income statement and Balance sheet as well as Changes in equity are found in the financial statements section, see pages 43, 45 and 47.

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. The Company 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 the Company 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 the Company's lending products.

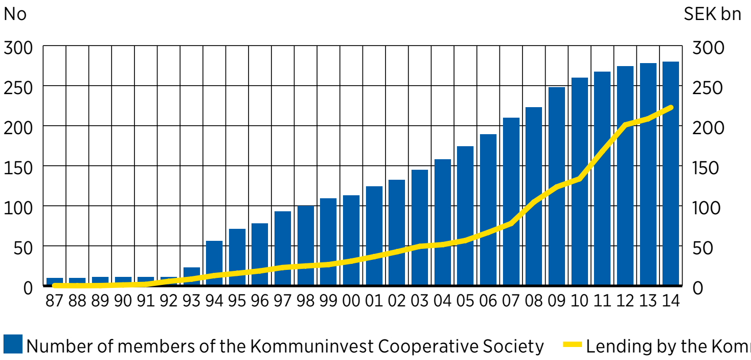
The year's contracted lending, that is new loans and renewals of existing loans, consisted of 84 (72) percent loans with capital tied up for more than a year and 16 (28) percent loans with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 49 (39) percent of the total volume. At the end of the year, the average period for which capital was tied up in the Company'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.

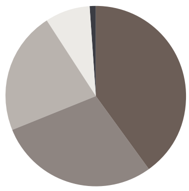
Lending volume and members, 1987–2014



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

Lending portfolio by borrower category

31 December 2014

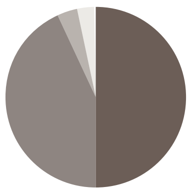


- Municipalities 40 (40) %
- Municipal housing companies 29 (30) %
- Other municipal companies 22 (21) %
- Municipal energy companies 8 (8) %
- County councils/ regions 1 (1) %

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 the Company 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 the Company 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 the Company'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.

The Company 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 the Company 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 the Company'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.

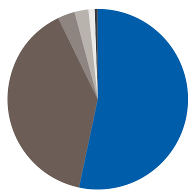
A significant SSA issuer

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

Borrowing during the year per currency, 2014

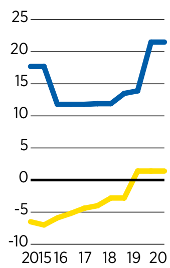
(excl. commercial paper borrowing)



- SEK 53 (40) %
- USD 39 (52) %
- EUR 3 (0) %
- JPY 2.5 (7) %
- AUD 2 (1) %
- MXN, NZD 0.5 (0.3) %

Funding cost in different markets

Basis points



- Pricing in SEK basis swapped to 3m USD Libor
- Pricing in USD vs. 3m USD Libor

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 Company's Board of Directors, Kommuninvest i Sverige AB 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 the Company 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.

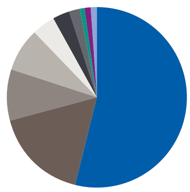
Continued conservative management in 2014

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 3 for further information on the Company's credit risk exposure.

Liquidity reserve distributed by issuer domicile

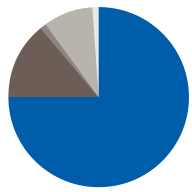
31 December 2014



- 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

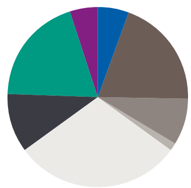
31 December 2014



- Aaa/AAA 75 (78) %
- Aa1/AA+ 14 (9) %
- Aa2/AA 1 (–) %
- Aa3/AA– 9 (11) %
- A1/A+ 3 (1) %
- A2/A – (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

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

Kommuninvest i Sverige AB is a highly specialised finance organisation that operates both in the Swedish local government sector and in global financial markets. This imposes particular demands on employees' competence, values and corporate culture. Most of the Company's employees have a university education, and several have concluded post-graduate programmes.

The Company'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

The Company'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 in the Company 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

The Company'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 the Company's objectives and competence needs. The dialogue is followed up after six months to ensure that the employee has progressed with his/her development. With the purpose of increasing employees' knowledge and competence, both employees and managers are offered different forms of tailored development and training. In addition to compulsory training programmes required for everyone within the company, the Company 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.

The increase in the number of employees over the year can largely be attributed to the regulatory changes that have been introduced and that will be introduced in the financial sector.

Remuneration policy

Information on remuneration and benefits to the management can be found on page 39 and in Note 8.

Code of Conduct provides guidance

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

Employee statistics	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

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, the Company 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.

The Company is a service-providing organisation that is highly dependent on competent and motivated employees with specialist skills. Employee skills are to be developed at the pace and in the manner required to meet the company's future challenges and needs. Beyond the ambition that employees develop in their positions, it is also important that 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 company's recruitment opportunities, clarify the company's presence in society, and enhance employees' perception of the company as an attractive workplace.

Values process guided by policy

The company has an organisation and culture pervaded by equality and diversity. Significance is attached to attracting, retaining and developing skilled employees, regardless of gender, ethnic background, religion or faith, age, disability, sexual orientation or transgender identity.

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

- The Company's personnel policy, which outlines the organisation's view on diversity, as well as its development of skills to meet future demands.
- The ethics policy, which underscores the importance of being a learning organisation.
- The procurement policy, which regulates environmental, ethical and social requirements.
- The Code of Conduct, 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

The Company'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. Kommuninvest'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 72–73.

Member responsibilities

In 2011, the Company and the Society developed two clarifying agreements, which, in addition to the fundamental joint and several guarantee undertaking, clarify the members' responsibilities. Effective from the 2011 financial year, the distribution of responsibilities is communicated to each member in a statement of undertaking. How this statement of undertaking has been calculated on the basis of the company's balance sheet and each member's holding is detailed in Note 3.

Risks and uncertainty factors

In its business, Kommuninvest encounters a number of risks and uncertainty factors which may have an adverse impact on the company's profit, financial position, future prospects or opportunities to attain set targets. The general development on the capital markets, including interest rate development and the liquidity situation, along with the willingness to invest on various markets, may affect the competitive situation and Kommuninvest. If Kommuninvest is unable to recruit and retain qualified employees, this may restrict Kommuninvest's competitiveness and opportunities for development. Further information about Kommuninvest's risk and capital management can be found on pages 19–32.

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 Company's Board of Directors deems it likely that all members will participate.

This entails a certain delay before the Company's profits for 2014 appear in the capital base. Payments of surplus distributions, payments in of capital contributions to the Society and of capital injections to the Company are expected to take place within three months of a decision by the Annual General Meeting of the Society. The estimated but not yet approved capital injection relating to the results for 2014 amounts to SEK 680.0 (696.5) million.

Capital adequacy

On 31 December 2014, the Company's core Tier 1 capital ratio amounted to 34.6 (37.0) percent, the Tier 1 capital ratio was 34.6 (37.0) percent and total capital ratio 49.3 (59.5) percent. For further information, see page 29.

Appropriation of surplus

The Board of Directors proposes that the funds available for distribution of earnings, SEK 311.5 (313.8) million after group contributions amounting to SEK 725.6 (741.1) million, is carried forward as appropriations of surplus. For further information, see page 74.

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 Company's results or financial position.

Efficient risk management to keep risk exposures on sustainable level

Kommuninvest i Sverige AB's principal assignment is to safeguard stable and efficient borrowing for the Society's members and the other local government actors that can borrow from the Company. The operations shall be characterised by a restrictive risk appetite than only permits limited risks. No material changes took place in 2014 with regard to the Company's targets, principles or methods for managing risk. Nor have the Company's exposures to different types of risk changed significantly.

RISK STRATEGY

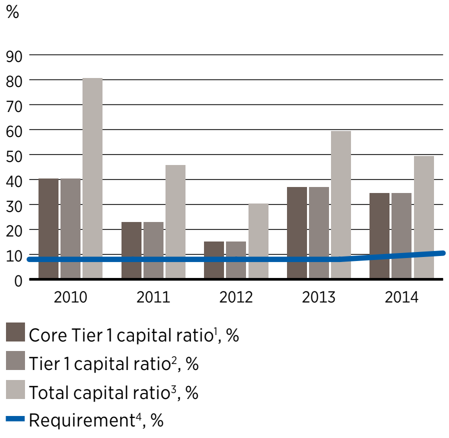
Kommuninvest i Sverige AB plays a central role in the financing of Swedish municipalities and county councils/regions' investments. The Company's risk management is designed for operations to be conducted with as low a level of risk taking as possible.

The Company'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 Company'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.

Capital adequacy



1) Core Tier 1 capital in relation to total Risk Exposure Amount.

2) Tier 1 capital in relation to total Risk Exposure Amount.

3) Total capital ratio in relation to total Risk Exposure Amount.

4) Total capital ratio requirement 2014, according to CRR: 10.5 percent, including 2.5 percent capital conservation buffer. 2010–2013: capital requirement according to Basel III: 8 percent.

RISKS AND RISK MANAGEMENT

The Company's mission – to provide municipalities, county councils/regions and other local government actors with financing – entails the Company 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 Company is exposed to risks associated with the financial market. Unlike many other credit institutes, however, the

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

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 corporation 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 Company'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 Company's lending activities are low. The Company 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.

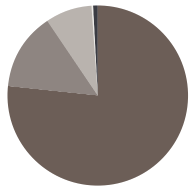
Issuer risk

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 liquidity reserve shall not exceed the period

Credit risk exposure

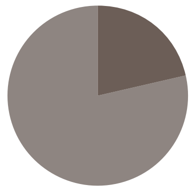
31 December 2014



- 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
Credit risk		
Risk in credit provision		
Credit is only provided to members and their majority owned companies. Credit can also be provided to municipal foundations and associations.	The company follows up members according to its own model for risk review and local government analysis. Each year, the Company's Board of Directors sets a group limit for all members. The limit entails a maximum level on a group's net consolidated debt. Lending to municipal companies, foundations and associations must be supported by a guarantee from one or several members.	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.
Issuer risk		
Investments are made in securities issued primarily by governments, government-guaranteed issuers and covered bonds.	New contracts may only be entered with issuers that have at least a rating of A2 (Moody's) or A (Standard & 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.	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.
Counterparty risk		
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.	New contracts may only be entered with issuers that have at least a rating of A2 (Moody's) or A (Standard & 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.	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.
Market risk		
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.	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.	The company is exposed to changes in credit spreads on assets and/or liabilities, as well as changes in basis swaps. Through good governance and control, this risk is kept to a controlled and acceptable level. The exposure to interest rate and currency risk is very limited.
Liquidity risk		
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.	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.	The liquidity risks in the Company are very limited.
Operational 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.	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.	Through good governance and control, operational risk is kept to a controlled and acceptable level.

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

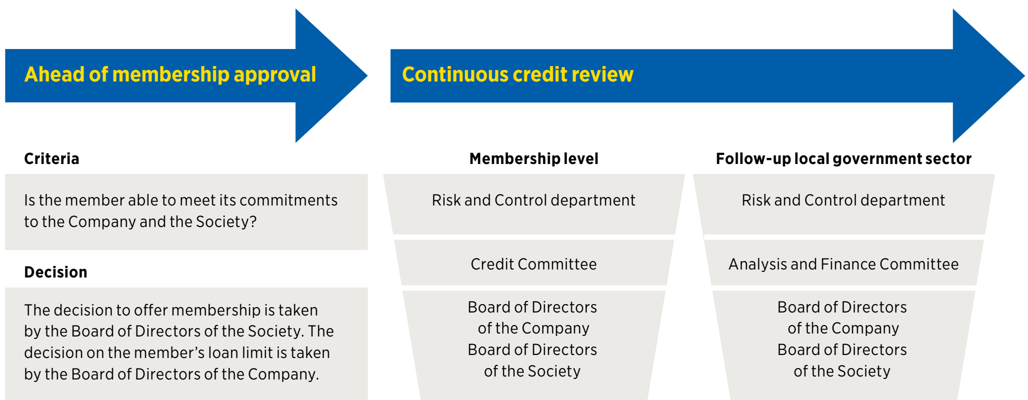
Risk taking towards derivatives counterparties is also limited by the Company ensuring a right to transfer a derivatives agreement to a new counterparty if the credit rating of an existing counterparty falls below Baa1 (Moody's) or BBB+ (Standard & Poor's). The counterparty's credit rating is also decisive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

The Company 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. The Company 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 Company 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 Company 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 Company 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 Company'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 Company 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 Company 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

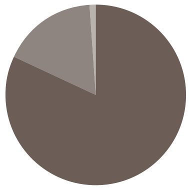
Over the year, the company's liquidity reserve was mainly invested in bonds issued by sovereign states, institutions and supranationals with a superior credit rating, exceeding the AA level. Specific maturity limits are imposed for individual counterparties and countries to limit price risks.

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 company's CSA agreements have been renegotiated in this direction.

The Company 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.

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) %

MARKET RISK

Market risk is defined as the risk that the net value (combined value) of the Company's assets and liabilities will decrease due to changes in 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 Company's liquidity reserve. For funding to be stable and efficient, the Company needs to be active in several different funding markets. Consequently, the Company is exposed to risk such as foreign exchange, interest rate and other price risks. As far as possible, the Company 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 Company's assets and liabilities. Interest rate risk arises because of mismatches in duration between assets and liabilities.

For the Company'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 Company 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 Company'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 Company 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 Company's foreign exchange exposure is detailed in Note 3. The exposure means that a 10-percent strengthening of the SEK would cause the Company's profit to decrease by SEK 0.4 (0.4) million.

Credit market risk

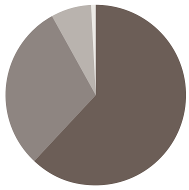
Credit market risk refers to the risk that a change in a basis or credit market spread in the market would reduce the net value (combined value) of the Company's assets and liabilities.

Credit market risk arises primarily as a consequence of imbalances in maturities between assets and liabilities. The business model means that the Company 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

Liquidity reserve distributed by risk weighting

31 December 2014



refers to the risk that a change in the counterparty's credit spread will reduce the value of the Company's asset or derivative (credit spread risk on derivatives corresponds to the risk sometimes referred to as credit valuation adjustment risk). Credit spread risk on proprietary debt refers to the risk that a change in the company's credit spread will increase the value of the company's liabilities. Basis swap risk refers to the risk that a change in the basis swap spread between two currencies will affect the market value of currency related derivatives contracts negatively.

The Company'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 Company'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 Company's assets and liabilities. The Company 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 Company incurs increased costs to enter a replacement transaction. The Company's process for managing counterparty risks (see "Counterparty risk" above) also includes management of liquidation risks. The Company 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 Company's liquidity risk management is pervaded by a highly restrictive attitude towards liquidity risk. The Company 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 Company'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 Company 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 Company 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 Company'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 Company may be permitted in certain time buckets. Short-term liquidity risk is further limited by the Company being a full member of the Riksbank's (Swedish central bank) RIX payment system, through which the Company can, among other things, raise loans against collateral.

In order to meet liquidity needs even during periods when financing opportunities on the capital markets are limited or too costly, the Board of Directors has decided to 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 Company's liquidity reserve consisted to 69 (82) percent of assets eligible as collateral with the Riksbank or the ECB.

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

The favourable quality of the Company'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 1 January 2013. On 31 December 2014, the Company'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 Company also reviews liquidity by continuously calculating a "survival period". This denotes the period during which the Company 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.

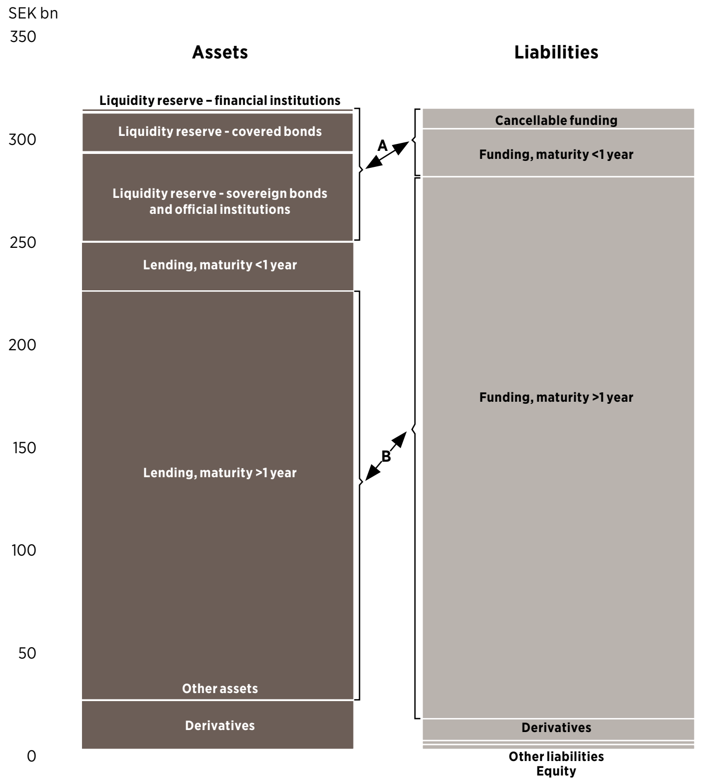
During the year, the Company conducted stress tests on both the short and long-term liquidity to assess the size and composition of the liquidity reserve. The results also form the basis for any revisions of the Company's strategies, guidelines and positions. The results of the stress tests were satisfactory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

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

Events in 2014

As in previous years, the Company's liquidity situation was very good in 2014. Among other measures, the Company 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 Company 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

Kommuninvest's balance sheet structure 31 Dec. 2014



A. Kommuninvest's liquidity reserve includes a large proportion of assets which can be converted into cash rapidly. At year-end, the liquidity reserve exceeded cancellable and short-term funding by SEK 31.7 billion.

B. Kommuninvest's long-term funding exceeded long-term lending by SEK 64.7 billion at the end of 2014.

introduction of the new regulations on long-term 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 Company's operations, as well as in connection with important events that affect the Company 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 Company 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 Company 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 Company due to negative publicity or rumours about the Company 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 Company due to negative publicity or rumours about the Company or the local government sector in general.

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

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

RESIDUAL RISK

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

The Company deliberately applies relatively simple methods and techniques for measuring risk, capital requirements and risk appetite to reduce the risk of error. The Company conducts both forward-looking and historical analyses of all risk types. The internal capital adequacy assessment process, ICAAP (see page 29), addresses negative scenarios to ensure that the impact on the Company is not greater than expected.

RISK CONTROL

To provide cost-efficient financing without exceeding the Company'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 Company'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 Company identifies, assesses and measures risks correctly.

The Risk and Control department, the Company'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 and is a member of the Executive Management Team.

Beyond what has been mentioned above, the department is also responsible for following up that risks are reported correctly and in accordance with applicable external and internal regulations; regularly performing stress tests; 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 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 22 illustrates the Company's risk management in relation to the credit risks in its lending operations.

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 MANAGEMENT

The Company'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 Company 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 30–32).

Capital plan and internal capital adequacy assessment process

Within the Company, 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 Company and the Group, consisting of the Society, the Company and Kommuninvest Fastighets AB, which owns the property in which the credit market company conducts its operations. 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 Company, the finance department is responsible for the ICAAP. The 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 Company'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 Company's capital assessment shows that the Company meets all known requirements in accordance with both current and future regulations (primarily CRR/CRD IV[1] – Capital Requirements Regulation/Capital Requirements Directive IV; and EMIR[2] – 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 30–32).

Capital adequacy

On 31 December 2014, the Company's risk exposure amount (REA), calculated in accordance with CRR, amounted to SEK 6,784.9 (4,558.7) million. The core Tier 1 capital amounted to SEK 2,345.7 (1,650.8) million, entailing a core Tier 1 capital ratio of 34.6 (37.0) percent. The requirement, including the capital conservation buffer requirement, was 7.0 percent. Tier 1 capital was also SEK 2,345.7 (1,650.8) million, and the Tier 1 capital ratio was 34.6 (37.0) percent. The requirement, including the buffer requirement, was 8.5 percent. The total capital base was SEK 3,345.7 (2 650.8) million, which gave a total capital ratio of 49.3 (59.5) 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

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.

Kommuninvest meets all of the requirements regarding risk-weighted capital adequacy (Core Tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio). Kommuninvest 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 28. 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 of the total Risk Exposure Amount.

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

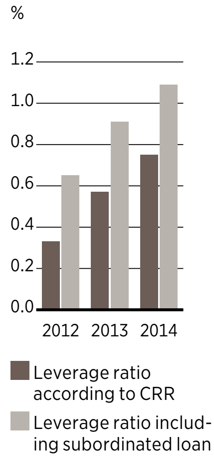
Alongside the risk-based capital requirements, a non-risk-weighted capital requirement measure is planned – the leverage ratio. The leverage ratio measure makes no distinction between the risk weights of different assets but is based solely on the size of the Tier 1 capital in relation to total exposures 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 Company's plan to meet the leverage ratio requirement is described on page 32.

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 simu-

Leverage ratio



lated 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 Company 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 Company'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 Company'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 Company 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 Company 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 Company 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 or actors affiliated with the Society, such as the Company's customers, municipalities and county councils/regions that are not members of the Society, or 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 Company's leverage ratio[1], 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 amounte to 1.09 (0.91) percent.

However, the loan terms for the subordinated loan are such that the loan is not eligible for inclusion as Tier 1 capital according to CRR. The Company intends to replace the existing subordinated loan with a new one or with another capital form that is eligible for inclusion as Tier 1 capital well in advance of year-end 2017.

For further details, see Note 29.

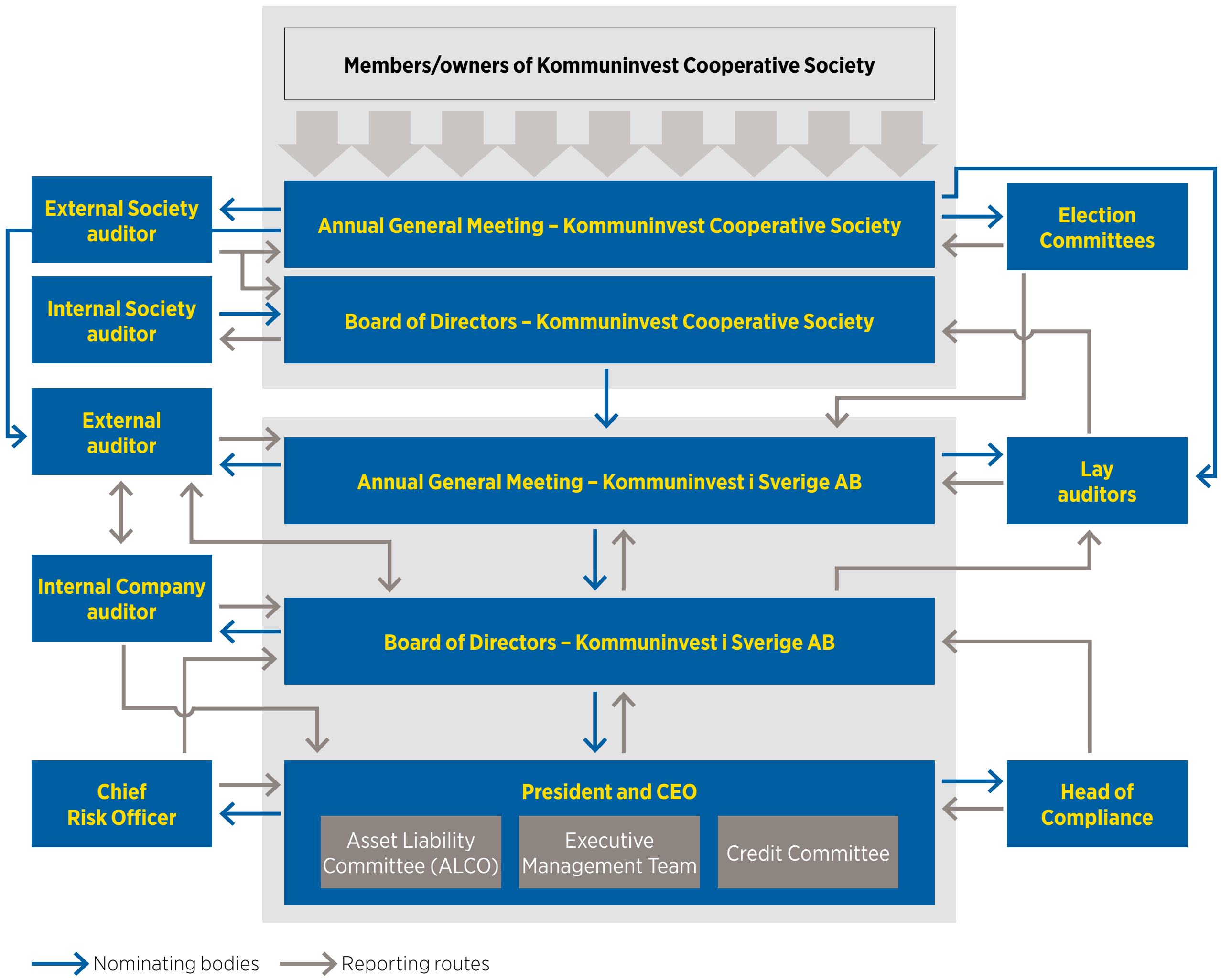
1) Leverage ratio is defined as the Tier 1 capital divided by total exposures in assets and liabilities.

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 i Sverige AB (the Company) is a Swedish public limited liability company and a wholly-owned subsidiary of the Kommuninvest Cooperative Society (the Society). Good governance and control are crucial to the Company, as it is owned by Swedish municipalities and county councils/ regions and has a public mandate.

Together with the Society and Kommuninvest Fastighets AB, the Company forms a financial group of companies – the Kommuninvest Group (the Group). Since the Company issues debt instruments that are listed for trading in a regulated market, the Company is legally bound to present a corporate governance report. However, since the Company's shares are not traded on a regulated market in Sweden, it is not bound by the Swedish Code of Corporate Governance. The particular nature of the operations is also deemed to be such that neither the Swedish Code of Corporate Governance nor the Principles for the Governance of Companies Owned by Municipalities and County Councils, developed by the local government sector, should be applied on a voluntary basis.

Basic corporate governance regulations

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

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

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

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

Principles of corporate governance

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

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

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

Ownership Directive

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 Board of Directors of the Company by the Society. The owner directives primarily include guidelines regarding consolidation, risk levels, remuneration principles, principles for business travel and representation, expertise on funding matters, development of products and services and any special assignments set for the Company by the Society. The owner directives are set annually by the Annual General Meeting of the Company.

Additional information on Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website 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.

Targets for operations

The Company's overarching objective is to generate the greatest possible benefit for the members of the Society. Among other measures, this shall be achieved by maintaining a high proportion of satisfied customers, accounting for a large proportion of members' loan financing, maintaining a high level of cost efficiency and having the financial strength to support the long-term focus of the operations. Follow-up against the targets are presented on page 5.

Remuneration principles

The Board of Directors sets the remuneration principles applicable within the company. 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, however not at the higher end, 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.

Shareholders and Annual General Meeting

The Society owns all of the shares in the Company and exerts its influence at the Annual General Meeting. The Annual General Meeting of the Company was held on

10 April 2014, in immediate connection with the Annual General meeting of the Society.

The Annual General Meeting of the Company approved the Annual Report for 2013 proposed by the Board of Directors and the President, and discharged the members of the Board of Directors and the President from responsibility for the year. Furthermore, the Annual General Meeting approved the distribution of earnings proposed by the Board of Directors and the President.

The entire Board of Directors was reelected by the Annual General Meeting. Ellen Bramness Arvidsson was reelected as the Chairman of the Board.

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

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

Election Committees

There is an election committee for the Society's companies, Kommuninvest i Sverige AB, Kommuninvest Fastighets AB and the associated company Administrative Solutions NLGFA AB (Nordic Local Government Funding Agencies). The Election Committee bears the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the shareholder to give its views on proposals and to submit its own proposals regarding appointments and associated issues, thereby establishing favourable conditions for well-founded decisions. The board composition shall, in accordance with the election committee's instructions, reflect the nature, scale and complexity of the operations. At least one board member shall be a present or former elected trustee in a member municipality or county council, and possess knowledge about the local government sector and the political process. 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.

Board of Directors – Kommuninvest i Sverige AB

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

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

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

Chairman of the Board

The Chairman of the Board is responsible for the work of the Board of Directors being well organised and efficiently conducted and for ensuring that the Board fulfils its tasks. Among other things, the Chairman is required to encourage an open and constructive

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

Ann-Charlotte Stenkil (M), Municipality of Varberg, Chairman; Alf 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.

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

The Chairman of the Board is also responsible for ensuring that the Company's remuneration policy is independently reviewed and for monitoring the application of the Company's remuneration policy.

President and CEO

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

Board Members

During 2014, the Board of Directors of the Company consisted of Ellen Bramness Arvidsson (Chairman), Lorentz Andersson, Kurt Eliasson, Anna von Knorring, Catharina Lagerstam, Anna Sandborgh and Johan Törngren, as well as the employee representative Anders Pelander. The members are presented on page 37.

Remunerations

The Chairman of the Board of Kommuninvest i Sverige AB received a fee of SEK 400,000 (400,000) for 2014 as determined by the Annual General Meeting. Other Board Members received a fixed fee of SEK 100,000 and a variable fee of SEK 10,000 per meeting as determined by the Annual General Meeting. The combined fees are detailed in the table on page 38. The total fees paid to the members of the Board of Directors amounted to SEK 1,615,000 (1,400,000) for 2014.

Work of the Board of Directors in 2014

In 2014, the Board of Directors held eight (seven) ordinary meetings, one (two) extra meeting and one (one) inaugural meeting. In addition to ongoing matters, agendas and decisions have involved:

- Internal capital assessment
- Risk framework
- Capitalisation issues
- Remuneration issues
- Updates of loan programmes
- Matters associated with new regulations, such as the capital coverage directive, the supervisory regulation and EMIR
- Counterparty limits
- Customer and employee survey
- Organisational issues
- Debt management system, KI Finance
- Personnel policy
- Review of counterparties
- Owner directives
- Annual report and interim reports

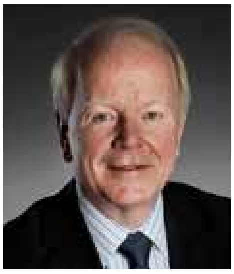
Board of Directors – Kommuninvest i Sverige AB

ELLEN BRAMNESS ARVIDSSON
Director, International coordination, Finans Norge.
Elected: Chairman 2013–, Vice Chairman 2006–2013, member since 2003.
Education: Cand. oecon., Oslo University, Diploma in financial analysis, Stockholm School of Economics and FAF.
Previous positions: Chief economist, Svensk Försäkring, under-secretary and first secretary at Ministry of Finance.

CATHARINA LAGERSTAM
Independent consultant and professional Board Member.
Elected: Member since 2009.
Education: PhD, Stockholm School of Economics; Graduate Engineer, Royal Institute of Technology.
Previous positions: Member of the Board of Clearstream, Luxembourg; CFO Hufvudstaden AB; Valuation Manager Bankstödsnämnden.
Other assignments: Member of the Boards of Erik Penser Bankaktiebolag, ICA Banken AB, Landshypotek AB, Retail Finance Europe, StyrelseAkademien Stockholm, Vice Chairman Franska Skolan Foundation, Board Member Observation Council Swedish Armed Forces.

LORENTZ ANDERSSON
Elected: Member since 2001.
Education: Luleå University of Technology, Honorary Doctor of Technology, Construction engineer.
Previous positions: Västerbotten County, County Governor. Chairman of the Municipal Executive Board, Municipality of Skellefteå. AB Asako and Polaris AB, President.
Other assignments: Chairman of the Boards of Träcentrum Norr and Norrbotniabanan AB.

KURT ELIASSON
President, SABO.
Elected: Member since 2010.
Education: Real Estate Agent Diploma, IFL Executive Education, Stockholm School of Economics.
Previous positions: CEO, Förvaltnings AB Framtiden, Board Member of Riksbyggen.
Other assignments: Chairman of the Board Finance Watch (Brussels), Chalmers University of Technology Foundation, Housing Nordic (NBO) and Järntorgskvarteret AB. Member of Fastigo and SABO Försäkring AB.



ANNA VON KNORRING
Assistant Director, State Treasury, Finland.
Elected: Member since 2004.
Education: Master of Laws, Helsinki University; MA Economics, Swedish School of Business and Economics, Helsinki.
Previous positions: Ministry of Finance and State Treasury.
Other assignments: Board Member, Nordic Capital Markets Forum. Member of the Tre Smeder Foundation delegation, Helsinki. Member, Market Advisory Committee, Euroclear Finland.

ANNA SANDBORGH
Consultant, Public Partner.
Elected: Member since 2010.
Education: Master of Laws, Uppsala University.
Previous positions: Chief Administrative Officer, Municipality of Karlstad; President, Karlstads Stadshus AB.
Other assignments: Vice Chairman, Vänerhamn AB.

JOHAN TÖRNGREN
Consultant.
Elected: Member since 2009.
Education: MBA, Stockholm School of Economics.
Previous positions: Senior Vice President and CFO, SAS Group; Vice President Group Finance SAS Group; Treasury at Svensk Exportkredit AB.
Other assignments: Chairman, SPP Fonder AB.

ANDERS PELANDER
Employee representative.
Elected: Member since 2012.
Education: PhD in mathematics, Uppsala University.
Position at Kommuninvest: Financial analyst.
Previous positions: Market risk analyst, Kommuninvest i Sverige AB, university lecturer, University of Narvik.

AUDITORS FOR KOMMUNINVEST I SVERIGE AB

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

External auditor

At the Company'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. He replaced authorised auditor Peter Strandh as the auditor with overall responsibility in 2014. The auditor with overall responsibility meets the Board of Directors at least twice a year. Among Erik Åström's other auditing assignments are Intrum Justitia AB, Nasdaq OMX, Skistar AB, AB Svensk Exportkredit and Svenska Handelsbanken AB.

The same auditing company appointed as external auditor for the Company is also the appointed external auditor for the Society. The same individuals appointed as lay auditors for the Company are also appointed as lay auditors for the Society. The purpose is to obtain more efficient auditing for the Group.

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 external auditors and submitting proposals for their remuneration.

At the 2012 Annual General Meeting of the 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 Chairman of the Municipal Executive Board in the Municipality of Västervik (reelection)

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

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

Name	Independence	Attendance Board meetings 2014[1]	Remuneration 2014, SEK	Remuneration 2013, SEK
Current Board of Directors				
Ellen Bramness Arvidsson	Independent	10 (of 10)	400,000	400,000
Lorentz Andersson	Independent	10 (of 10)	210,000	175,000
Kurt Eliasson	Independent	9 (of 10)	185,000	160,000
Anna von Knorring	Independent	9 (of 10)	200,000	165,000
Catharina Lagerstam	Independent	10 (of 10)	205,000	150,000
Anna Sandborgh	Independent	10 (of 10)	205,000	175,000
Johan Törngren	Independent	10 (of 10)	210,000	175,000
Anders Pelander	Employee representative	10 (of 10)	Not remunerated	Not remunerated

1) Remuneration for 2014 refer to 10 Board meetings and 1 meeting with the Board of Kommuninvest Cooperative Society.

Executive Management Team

Executive managers of Kommuninvest i Sverige AB

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

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

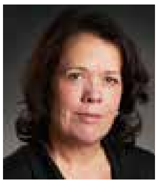
Executive Management Team

To support the President, there is an Executive Management Team. During 2014, in addition to the President, the Executive Management Team consisted of Maria Viimne (Deputy President), Hans Wäljamets (COO), Johanna Larsson (CFO), Michael Jansson (Head of Human Resources) and Britt Kerkenberg (CRO).

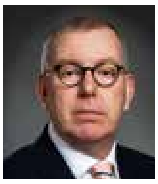
TOMAS WERNGREN, PRESIDENT
Education: University of Örebro and Stockholm University. B.A. Engineering, public administration.
Previous positions: Vice President and Finance Director at Kommuninvest and Treasurer at SBAB, and others.
Other assignments: Board Member of Vasallen AB.
Born: 1961

MARIA VIIMNE, DEPUTY CEO
Education: Mälardalen University, B.A. Economics. Stockholm University, Master of Laws. University of Rotterdam and University of Hamburg. European Master in Law and Economics.
Previous positions: Finance Group Director and company counsel at Kommuninvest, and others.
Born: 1970

BRITT KERKENBERG, CHIEF RISK OFFICER
Education: Uppsala University, degree in business administration.
Previous positions: Head of the statistics unit at the Riksbank (Swedish central bank); Head of Administration and Finance, Trevise Private Banking; Back and Middle Office Manager, Inter IKEA Treasury, and others.
Born: 1964

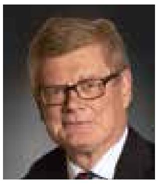


MICHAEL JANSSON, HEAD OF HUMAN RESOURCES
Education: University of Örebro, business administration at programme in personnel and occupational issues, Business management at Stockholm School of Business Executive Education.
Previous positions: Human Resources Manager, county labour board, County of Örebro; Human Resources Manager, Kumla Penitentiary; Economist, Örebro County Council, and others.
Born: 1961



JOHANNA LARSSON, CFO
Education: Stockholm University, M.A. Economics; IFL Executive Education, Stockholm School of Economics, Diploma in Financial Analysis (AFA, CEFA).
Previous positions: Financial advisor at Kommuninvest and portfolio manager at Birka Energi, and others.
Born: 1973

HANS WÄLJAMETS, CHIEF OPERATING OFFICER
Education: Stockholm School of Economics, degree in business administration
Previous positions: Senior Relationship Manager, BNP Paribas Fortis, Director Structured Finance, PWC, CEO Philips Leasing GmbH, and others.
Born: 1957



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

Name	Year	Base salary	Benefits	Variable pay	Pension costs	Total
Tomas Werngren	2014	2,774,552	96,096	–	826,185	3,696,833
	2013	2,890,263	85,644	–	803,927	3,779,834
Maria Viimne	2014	1,871,279	–	–	545,640	2,416,919
	2013	1,835,511	560	–	424,399	2,260,470
Other executive managers	2014	4,143,128	15,504	–	1,384,652	5,543,284
	2013	3,751,663	14,728	–	1,329,544	5,095,935

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

Kommuninvest i Sverige AB's process for the internal control of the financial reporting process is based on the framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) (1992). The process is based on the targets set for the operations and includes five components – control environment, risk assessment, control activities, information and communication, and follow-up. The process has been designed to ensure the appropriate and efficient organisation and management of operations, reliable financial reporting and strong capacity for adherence to legislation, regulations, internal rules, as well as generally accepted principles and good standards.

Control environment

The control environment can be divided into two different parts: a formal part and an informal part. The formal part consists of the documents that describe the principles of internal control, with the most important being:

- Policy for operational governance and control (adopted by the Company's Board of Directors)
- The President's instructions for operational governance and control.

In addition to these documents, the work of the Company is governed, among other things, by the following policy and instruction documents, approved by the Board:

- Finance instructions
- Ethics policy
- Instructions on measures to counteract money laundering and financing of terrorism.

The informal part consists of the culture established by the Board of Directors and Executive Management. There is also a Code of Conduct that encompasses all employees of the Company.

Risk assessment

The Company conducts an annual self-assessment of operational risks, covering all employees in all departments and groups within the Company. This self-assessment includes risks that could affect the Company's financial reporting. Risk assessment is based on the Company's understanding and use of the concept of risk, according to which risk is viewed as a combination of probability and consequence.

Control activities

All processes within the Company are documented in work descriptions for the different groups. For the Company's most essential processes, specifically designed process descriptions are in place that also include a description of the checks undertaken.

Information and communication

The Company has an internal website where policies, instructions and other governance documents are made available. The objective is for all documents to be updated at least once every year. The internal website also provides other important information regarding operations, such as operations reports and minutes from the Executive Management Team, the Company's Asset Liability Committee (ALCO) and the Credit Committee. The fact that essentially all of the Company's employees are gathered at a single office encourages and promotes communication between employees in different areas of operations, and between employees and managers.

Follow-up

The Board of Directors continuously monitor the Company's financial performance based on monthly reports including budgeted amounts and actual outcomes with associated comments. The Company's principles for the valuation of financial instruments are adopted by the President of the Company after having been prepared by the ALCO group. Compliance with these principles are reported annually to the Board of Directors. In addition, the internal audit assesses and reviews how governance, risk management and internal control are organised and adhered to.

Financial statements

Notes

Income statement

1 January–31 December

SEK, million	Note	2014	2013
Interest revenues		3,650.8	4,571.2
Interest expenses		-2,735.6	-3,601.7
NET INTEREST INCOME	4	**915.2**	**969.5**
Commission expenses	5	-5.1	-5.6
Net result of financial transactions	6	101.9	38.7
Other operating income	7	1.3	0.2
TOTAL OPERATING INCOME		**1,013.3**	**1,002.8**
General administration expenses	8	-274.7	-239.3
Depreciation of intangible fixed assets	17	-0.4	-
Depreciation of tangible fixed assets	18	-2.9	-2.4
Other operating expenses	9	-5.9	-3.5
TOTAL EXPENSES		**-283.9**	**-245.2**
OPERATING PROFIT		**729.4**	**757.6**
Tax expense	10	-161.0	-166.9
NET PROFIT		**568.4**	**590.7**

Statement of comprehensive income

1 January–31 December

SEK, million	Note	2014	2013
NET PROFIT		**568.4**	**590.7**
OTHER COMPREHENSIVE INCOME			
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	10	1.3	1.6
OTHER COMPREHENSIVE INCOME		**-4.7**	**-5.7**
TOTAL COMPREHENSIVE INCOME		**563.7**	**585.0**

Comments on the income statement

Income
Total operating income rose by 1 percent to SEK 1,013.3 (1,002.8) 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 915.2 (969.5) 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 6.

In connection with sales of financial instruments, the Company 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 Kommuninvest's bonds amounted to SEK 0.2 (13.3) million.

Expenses
Costs amounted to SEK 283.9 (245.2) 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 39 (40) percent of Kommuninvest's total costs.

Excluding the stability fee, expenses amounted to SEK 173.2 (146.2) million, of which personnel expenses accounted for SEK 96.1 (80.7) million and other expenses for SEK 77.1 (65.5) 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.

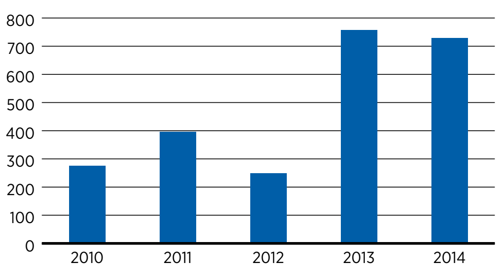
Operating profit
Kommuninvest's operating profit, that is profit before taxes, amounted to SEK 729.4 (757.6) million. Operating profit includes unrealised changes in market value of SEK 65.4 (17.6) million.

Operating profit excluding the effect of unrealised market value changes was SEK 664.0 (740.0) million. Profit after taxes amounted to SEK 568.4 (590.7) million.

Tax
The tax expense for the year recognised in the income statement amounted to SEK 161.0 (166.9) million. The payment of group contributions reduced taxable earnings, which for 2014 amounted to SEK – (–) million. See also Note 10.

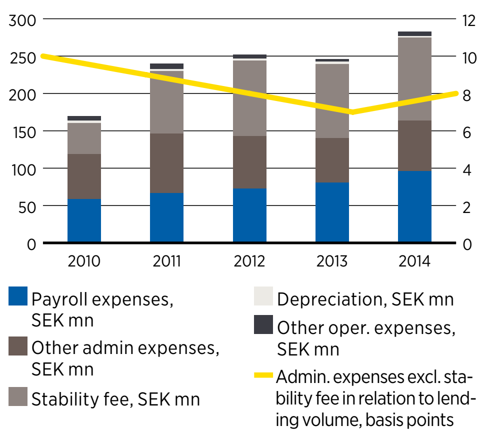
Operating profit

SEK mn



Cost distribution

SEK mn | Basis points



Balance sheet

As per 31 December

SEK, million	Note	2014	2013
ASSETS			
Sovereign bonds eligible as collateral	11	15,204.1	14,626.2
Lending to credit institutions	3	4,022.1	2,822.2
Lending	3,12	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
Shares and participations in subsidiaries	16	32.0	32.0
Derivatives	3,27	23,848.8	6,235.8
Intangible assets	17	1.6	-
Tangible assets	18	6.0	4.6
Current tax assets	10	79.0	79.0
Other assets		14.9	14.2
Deferred tax assets	10	54.6	54.6
Prepaid expenses and accrued revenues		7.9	10.6
TOTAL ASSETS		**312,052.1**	**277,458.7**
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities to credit institutions	3	4,800.6	4,352.0
Securities issued	3	292,318.0	256,258.7
Derivatives	3,27	10,628.3	13,231.8
Other liabilities	19	789.9	764.6
Accrued expenses and prepaid revenues	20	136.8	121.4
Provisions	21	3.0	2.5
Subordinated liabilities	22	1,000.1	1,000.1
Total liabilities and provisions		**309,676.7**	**275,731.1**
Equity			
Restricted equity			
Share capital (20,463,850 and 13,963,850 shares, quota value SEK 100)		2,046.4	1,396.4
Statutory reserve		17.5	17.5
Unrestricted equity			
Fair value reserve		12.6	17.3
Profit brought forward		-269.5	-294.3
Net profit		568.4	590.7
Total equity		**2,375.4**	**1,727.6**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**312,052.1**	**277,458.7**
Memorandum items			
Collateral pledged	23	21,669.2	22,954.3
Contingent liabilities		None	None
Obligations			
Committed undisbursed loans		3,783.5	3,480.0

Comment on the balance sheet

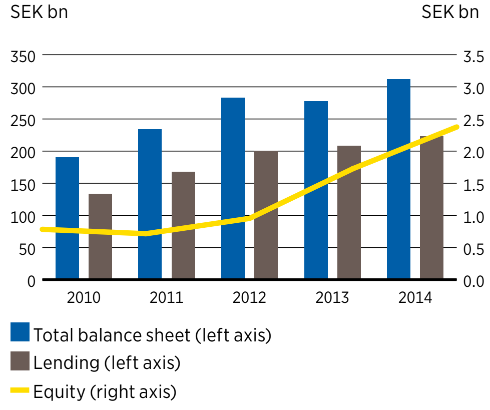
Total assets
The Company's total assets increased to SEK 312,052.1 (277,458.7) million, as a result of increased lending. Lending totalled SEK 222,803.7 (208,644.0) million. The liquidity reserve was SEK 65,200.7 (62,381.3) million, consisting of the balance sheet items Sovereign bonds eligible as collateral, 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 Company's liabilities amounted to SEK 309,676.7 (275,731.1) 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. The loan amounted to SEK 1,000.1 (1,000.1) million.

Kommuninvest's balance sheet



Statement of changes in equity

SEK, million	Restricted Share capital	Statutory reserve	Unrestricted equity Fair value reserve[1]	Profit or loss brought forward	Net profit	Total equity
Equity brought forward 1 Jan 2013	**628.4**	**17.5**	**23.0**	**–36.8**	**320.6**	**952.7**
Net profit					590.7	590.7
Other comprehensive income[2]			–5.7			–5.7
Total comprehensive income			**-5.7**		**590.7**	**585.0**
Transactions with shareholders*						
Appropriation of surplus				320.6	–320.6	0.0
New share issue	768.0					768.0
Group contributions				–741.1		–741.1
Tax effect on Group contribution				163.0		163.0
Total transactions with shareholders*	***768.0***			***–257.5***	***–320.6***	***189.9***
Equity carried forward 31 Dec 2013	**1,396.4**	**17.5**	**17.3**	**–294.3**	**590.7**	**1,727.6**
Equity brought forward 1 Jan 2014	**1,396.4**	**17.5**	**17.3**	**-294.3**	**590.7**	**1,727.6**
Net profit					568.4	568.4
Other comprehensive income[2]			-4.7			-4.7
Total comprehensive income			**-4.7**		**568.4**	**563.7**
Transactions with shareholders*						
Appropriation of surplus				590.7	-590.7	0.0
New share issue	650.0					650.0
Group contributions				-725.6		-725.6
Tax effect on Group contribution				159.7		159.7
Total transactions with shareholders*	***650.0***			***24.8***	***-590.7***	***84.1***
Equity carried forward 31 Dec 2014	**2,046.4**	**17.5**	**12.6**	**-269.5**	**568.4**	**2,375.4**

	2013	2014
1) The fair value reserve consists of the following – Available-for-sale financial assets	17.3	12.6

2) Other comprehensive income
See Statement of comprehensive income on page 42.

* Transactions with Kommuninvest Cooperative Society.

Comment on the statement of changes in equity

Equity

At the end of 2014, equity in the Company amounted to SEK 2,375.4 (1,727.6) million, following group contributions of SEK 725.6 (741.1) million to the Society. The increase in equity in the Company was also attributable to the profit for the year of SEK 568.4 (590.7) million and an increase in share capital of SEK 650.0 (768.0) million. Of the increase in share capital, SEK 650.0 (768.0) million involved capital contributions from existing members of the Society and SEK – (20.0) 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.

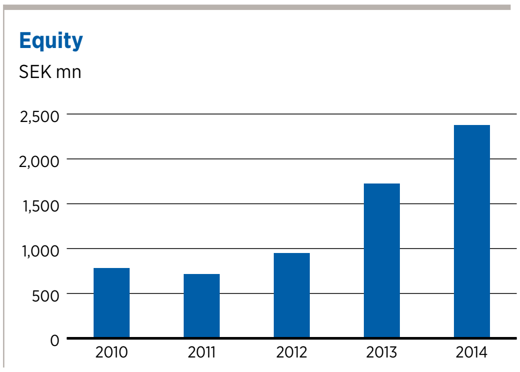
Decisions regarding the distribution of surpluses are made at the Annual General Meeting of the Society. Surpluses are distributed through group contributions from the Company to the Society, which, following deductions to cover the Society's costs, are further distributed to the members of the Society as refunds based on business 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.



Cash flow statement

1 January–31 December

SEK, million	2014	2013
Operational activities		
Operating profit	729.4	757.6
Adjustment for items not included in cash flow	-62.2	–15.4
Income tax paid	-0.7	–0.6
Cash flow from operating activities before changes in the assets and liabilities of operating activities	**666.5**	**741.6**
Change in interest-bearing securities	-1,220.5	–11,840.9
Change in lending	-11,659.3	–8,741.7
Change in other assets	2.3	2.1
Change in other liabilities	12.1	7.1
Cash flow from operational activities	**-12,198.9**	**–19,831.8**
Investment activities		
Acquisition of intangible assets	-2.0	-
Acquisition of tangible assets	-4.3	-1.6
Divestments of tangible assets	-	0.4
Cash flow from investment activities	**-6.3**	**-1.2**
Financing activities		
Issue of interest-bearing securities	108,359.7	126,416.0
Redemption of interest-bearing securities	-94,908.2	-119,342.0
New share issue	650.0	768.0
Group contribution paid	-696.5	-805.3
Cash flow from financing activities	**13,405.0**	**7,036.7**
Cash flow for the year	**1,199.8**	**-12,796.3**
Cash and equivalents at the start of the accounting period	2,822.3	15,618.6
Cash and equivalents at end of the year	**4,022.1**	**2,822.3**

Cash and equivalents 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.

Adjustment for items not included in cash flow		
Depreciation	3.3	2.4
Profit from divestments of tangible assets	-	–0.2
Exchange rate differences from change in financial assets	-0.1	0.0
Unrealised changes in market value	-65.4	–17.6
Total	**-62.2**	**–15.4**

Interest paid and earned, included in the cash flow		
Interest received	3,820.7	4,379.3
Paid interest	-2,927.5	–3,481.0

Notes

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

Note 1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2014 and relates to Kommuninvest i Sverige AB (publ), registered number: SE556281-4409. Kommuninvest has its registered office in Örebro. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden.

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

The Annual Report was approved for publication by the Board of Directors on 24 February 2015. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 16 April 2015.

Note 2 Accounting principles

Compliance with standards and legislation

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

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

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

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

Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the parent company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts is operations. In accordance with chapter 7:6a of ÅRKL, Kommuninvest i Sverige AB will not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal of position and earnings. For further details, see Note 16. The consolidated accounts are prepared by the parent association, the Kommuninvest Cooperative Society, and is published at www.kommuninvest.se

New and amended standards and 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 amendment was approved by the EU in December 2012 and is applied from 1 January 2014. The standard entails no effect on Kommuninvest's results, position, disclosures, capital requirements, capital base or large exposures.

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, disclosures, capital requirements, capital base or large exposures, since Kommuninvest in accordance with ÅRKL chapter 7:6a does not prepare consolidated accounts.

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, disclosures, capital requirements, capital base or large exposures.

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, disclosures, capital requirements, capital base or large exposures.

Note 2 cont.

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, disclosures, capital requirements, capital base or large exposures.

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 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, disclosures, capital requirements, capital base or large exposures.

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.

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 preemptively 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 financial 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 stability fee is affected by IFRIC 21 but the interpretation will not have a material effect on Kommuninvest's result, position, disclosures, capital requirements, capital base or large exposures.

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 judgements and assumptions that affect the accounting and disclosures. The most important judgements when applying accounting principles concern the choice of accounting category for financial instruments, as explained below in the section on financial instruments.

Note 2 cont.

When determining the fair value of financial instruments not traded in active markets, Kommuninvest applies valuation techniques and then makes assumptions that may be associated with uncertainty. Note 26 describes how fair value for financial instruments is derived and significant assumptions and uncertainty factors including sensitivity analysis. The financial statements have been prepared on the basis of accrued cost, with the exception of a significant part of the company's financial assets and liabilities, which are recognised at fair value alternatively at accrued cost with a fair value adjustment pertaining to the risk that is subject to hedge accounting. For further information, see the section on Financial instruments and Note 26.

Functional currency and presentation currency
Kommuninvest's functional currency is the Swedish krona (SEK) and the financial statements are presented in the same currency. All amounts are presented in SEK million unless otherwise stated.

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

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

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

Interest 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.

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.

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

Net result of financial transactions
'Net result of financial transactions' encompasses the realised and unrealised changes in value arising from financial transactions. The net result of financial transactions comprises:
– Unrealised changes in fair value on assets and liabilities held for trading purposes.
– Unrealised changes in fair value on assets and liabilities recognised at fair value through profit or loss.
– Unrealised changes in fair value on derivatives where hedge accounting of fair value is applied.
– Unrealised changes in fair value on hedged item with regard to hedged risk in hedging fair value.
– Capital gain/loss from divestment of financial assets and liabilities.
– Exchange rate changes.

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

Recognition in and removal from the balance sheet
A financial asset or financial liability is recognised in the balance sheet when Kommuninvest becomes party to the instrument's contractual terms.

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

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

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.

Note 2 cont.

Financial assets and liabilities valued at fair value through profit or loss
Financial instruments in this category are measured continuously at fair value with changes in value reported in the income statement.

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

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

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

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

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

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

Available-for-sale financial assets
This category includes Kommuninvest's investments in interest-bearing securities which are not included in trading operations or which do not have an accompanying interest hedging derivative.

Assets in this category are constantly valued at fair value with value changes recognised on other comprehensive income. Changes in value due to writedowns or exchange rate 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 writedowns on financial instruments
The special status of the local government authorities in the Swedish constitution and their right to levy taxes mean that municipalities and county councils/regions 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/regions are liable for all obligations they enter into, with all their tax power and their total assets.

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

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

Intangible assets
Intangible assets are carried at cost less accumulated depreciation. Depreciation is carried out on a linear basis over the intangible asset's estimated useful life. A review of useful life periods is carried out at least yearly. 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.

Note 2 cont.

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 or sale of the asset. Gain or loss which may arise from the sale or scrapping of an asset constitutes the difference between the sale price and the asset's recognised value less direct sales costs. Gain and loss are recognised as other operating income/ expense.

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

Pension through insurance

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

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

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

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

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

General administration expenses

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

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

Group contributions

Kommuninvest recognises Group contributions paid to the parent company directly against equity. See page 47.

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, or equal to, 10 percent of income.

Note 3 Financial risks

For information on risk management, see pages 19–29.

Credit risk exposure

2014	Total credit risk exposure (before impairment)	Writedown/ provision	Recognised value	Value of collateral	Total credit risk exposure after deduction for collateral
Credit against security of:					
Government and municipal guarantees	222,803.7	–	222,803.7	-	222,803.7
Total	**222,803.7**	**–**	**222,803.7**	**-**	**222,803.7**
Securities					
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	4,481.0	–	4,481.0	3,747.1	733.9
– BBB	–	–	–	–	–
Total	**65,200.7**	**–**	**65,200.7**	**3,952.1**	**61,248.6**
Derivatives					
– AAA	–	–	-	-	-
– AA	8,446.9	–	8,446.9	4,217.4	4,229.5
– A	15,401.2	–	15,401.2	7,493.90	7,907.3
– BBB	0.7	–	0.7	–	0.7
Total	**23,848.8**	**–**	**23,848.8**	**11,711.3**	**12,137.5**
Obligations					
Committed undisbursed loans against municipal guarantees	3,783.5	–	3,783.5	-	3,783.5
Total	**3,783.5**	**–**	**3,783.5**	**-**	**3,783.5**
Total credit risk exposure	**315,636.7**	**–**	**315,636.7**	**15,663.4**	**299,973.3**

2013	Total credit risk exposure (before impairment)	Writedown/ provision	Recognised value	Value of collateral	Total credit risk exposure after deduction for collateral
Credit against security of:					
Government and municipal guarantees	208,644.0	–	208,644.0	–	208,644.0
Total	**208,644.0**	**–**	**208,644.0**	**–**	**208,644.0**
Securities					
Government securities and other public bodies					
– AAA	10,715.3	–	10,715.3	–	10,715.3
– AA	3,910.9	–	3,910.9	–	3,910.9
Other issuers					
– AAA	35,015.4	–	35,015.4	–	35,015.4
– AA	9,547.5	–	9,547.5	661.2	8,886.3
– A	1,072.4	–	1,072.4	26.2	1,046.2
– BBB	2,119.9	–	2,119.9	2,109.5	10.4
Total	**62,381.4**	**–**	**62,381.4**	**2,796.9**	**59,584.4**
Derivatives					
– AA	2,297.5	–	2,297.5	–	2,297.5
– A	3,379.3	–	3,379.3	791.3	2,588.0
– BBB	559.0	–	559.0	–	559.0
Total	**6,235.8**	**–**	**6,235.8**	**791.3**	**5,444.5**
Obligations					
Committed undisbursed loans against municipal guarantees	3,480.0	–	3,480.0	–	3,480.0
Total	**3,480.0**	**–**	**3,480.0**	**–**	**3,480.0**
Total credit risk exposure	**280,741.2**	**–**	**280,741.2**	**3,588.2**	**277,152.9**

As of 31 December 2014, there were no amounts due but not paid. Kommuninvest had no direct exposure to Greece, Ireland, Italy, Portugal, Russia, Spain or Ukraine. Securities with a BBB rating in 2013 pertain to secured lending to, and cash with, Danske Bank.

Note 3 cont.

Maturity information[1]

2014	Nominal cash flows – Contractual remaining duration						
Liquidity exposure	**On demand**	**At most 3 months**	**More than 3 months but max. 1 year**	**More than 1 year but max. 5 years**	**More than 5 years**	**No duration**	**Total**
Assets							
Sovereign bonds eligible as collateral	–	4,684.6	2,955.4	6,903.4	566.7	–	15,110.1
Lending to credit institutions	–	3,724.0	–	–	–	–	3,724.0
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	–	–	–	–	–	198.9	198.9
Total assets	**–**	**43,824.0**	**175,896.0**	**482,633.3**	**42,290.2**	**198.9**	**744,842.4**
Liabilities							
Liabilities to credit institutions	–	2,440.5	–	1,495.3	718.4	–	4,654.2
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	–	–	–	–	–	929.7	929.7
Subordinated liabilities	–	–	–	–	1,000.0	–	1,000.0
Equity	–	–	–	–	–	2,375.4	2,375.4
Total equity and liabilities	**–**	**38,573.2**	**161,382.4**	**492,426.6**	**49,155.1**	**3,305.1**	**744,842.4**
Net	**–**	**5,250.8**	**14,513.6**	**-9,793.3**	**-6,864.9**	**-3,106.2**	**–**
Committed undisbursed loans	3,783.5	-	-	-	-	-	-

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

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

Note 3 cont.

Maturity information

2014			Recognised values – Contractual remaining duration				
Liquidity exposure	**On demand**	**At most 3 months**	**More than 3 months but max. 1 year**	**More than 1 year but max. 5 years**	**More than 5 years**	**No duration**	**Total**
Assets							
Sovereign bonds eligible as collateral	-	4,684.7	2,961.7	6,967.3	590.4	-	15,204.1
Lending to credit institutions	-	4,022.1	–	–	–	-	4,022.1
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	-	–	–	–	–	198.9	198.9
Total assets	**-**	**36,746.0**	**69,982.4**	**188,361.2**	**16,763.6**	**198.9**	**312,052.1**
Liabilities							
Liabilities to credit institutions	-	2,440.5	–	1,605.7	754.4	-	4,800.6
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	-	–	–	–	-	929.7	929.7
Subordinated liabilities	-	–	–	–	1,000.1	–	1,000.1
Equity	-	–	–	–	–	2,375.4	2,375.4
Total equity and liabilities	**-**	**31,398.8**	**55,447.8**	**198,146.4**	**23,754.0**	**3,305.1**	**312,052.1**
Total difference	**-**	**5,347.2**	**14,534.6**	**-9,785.2**	**-6,990.4**	**-3,106.4**	**–**
Committed undisbursed loans	3,783.5	-	-	-	-	-	-

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

Note 3 cont.

Fixed interest terms, Interest exposure

2014	Nominal cash flows						
Fixed interest terms for assets and liabilities – interest exposure	**At most 3 months**	**More than 3 months but max. 1 year**	**More than 1 year but max. 5 years**	**More than 5 years. but max. 10 years**	**More than 10 years**	**Without interest**	**Total**
Assets							
Sovereign bonds eligible as collateral	6,895.2	2,139.1	5,509.1	566.7	-	-	15,110.1
Lending to credit institutions	3,724.0	–	–	–	-	-	3,724.0
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	-	462,715.6
Other assets	–	–	–	-	-	198.9	198.9
Total assets	**384,908.3**	**80,043.4**	**254,540.1**	**23,592.4**	**1,559.3**	**198.9**	**744,842.4**
Equity and liabilities							
Liabilities to credit institutions	2,970.2	–	1,495.3	–	188.6	-	4,654.1
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	–	–	–	-	-	929.7	929.7
Subordinated liabilities	1,000.0	–	–	-	-	–	1,000.0
Equity	–	–	–	-	-	2,375.4	2,375.4
Total equity and liabilities	**384,850.2**	**76,613.9**	**254,826.7**	**23,687.2**	**1,559.3**	**3,305.1**	**744,842.4**
Net	**58.1**	**3,429.5**	**-286.6**	**-94.8**	**–**	**-3,106.2**	**–**

2013	Nominal cash flows						
Fixed interest terms for assets and liabilities – interest exposure	**At most 3 months**	**More than 3 months but max. 1 year**	**More than 1 year but max. 5 years**	**More than 5 years. but max. 10 years**	**More than 10 years**	**Without interest**	**Total**
Assets							
Sovereign bonds eligible as collateral	6,981.0	2,920.0	4,609.2	–	–	–	14,510.2
Lending to credit institutions	2,703.0	–	–	–	–	–	2,703.0
Lending	115,239.5	12,938.7	65,404.3	12,705.2	349.0	–	206,636.7
Bonds and other interest-bearing securities	13,064.1	4,234.8	26,238.8	469.6	–	–	44,007.3
Derivatives	266,617.3	26,896.6	122,727.7	14,233.0	1,173.6	–	431,648.1
Other assets	–	–	–	–	–	197.6	197.6
Total assets	**404,604.9**	**46,990.0**	**218,980.1**	**27,407.7**	**1,522.6**	**197.6**	**699,703.0**
Equity and liabilities							
Liabilities to credit institutions	2,586.0	–	1,413.3	–	178.2	–	4,177.4
Securities issued	78,410.9	30,250.7	126,792.8	17,031.5	995.5	–	253,481.4
Derivatives	317,249.3	18,996.6	91,456.8	10,376.2	349.0	–	438,427.9
Other liabilities	–	–	–	–	–	888.6	888.6
Subordinated liabilities	1 000.0	–	–	–	–	–	1 000.0
Equity	–	–	–	–	–	1,727.7	1,727.7
Total equity and liabilities	**399,246.1**	**49,247.3**	**219,662.9**	**27,407.7**	**1,522.6**	**2,616.3**	**699,703.0**
Net	**5,358.8**	**–2,257.3**	**–682.8**	**–**	**–**	**–2,418.7**	**–**

Note 3 cont.

Foreign exchange risk[1]

2014	Recognised value							
Assets and liabilities in major foreign currencies	**SEK**	**EUR**	**USD**	**JPY**	**GBP**	**Other currencies**	**Fair value adjustment**	**Total**
Assets								
Lending to credit institutions	3,987.4	23.5	11.0	–	0.1	0.1	-	4,022.1
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	34.9	-	-	-	-	-	-	34.9
Derivatives	-	-	-	-	-	-	23,848.8	23,848.8
Other assets	108.4	–	1.0	–	-	-	54.6	164.0
Total assets	**253,695.2**	**7,930.4**	**22,074.1**	**–**	**0.1**	**0.1**	**28,352.2**	**312,052.1**
Liabilities								
Liabilities to credit institutions	1,952.8	1,207.2	–	1,505.0	-	-	135.6	4,800.6
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	3,435.9	–	1.6	0.1	-	1.7	-134.2	3,305.1
Total equity and liabilities	**253,699.2**	**7,930.0**	**22,070.7**	**–**	**–**	**–**	**28,352.2**	**312,052.1**
Difference, assets and liabilities	**-4.0**	**0.4**	**3.4**	**–**	**0.1**	**0.1**	**–**	**–**
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-	–	0.3	–	–	–	-	-

2013	Recognised value							
Assets and liabilities in major foreign currencies	**SEK**	**EUR**	**USD**	**JPY**	**GBP**	**Other currencies**	**Fair value adjustment**	**Total**
Assets								
Lending to credit institutions	2,807.4	10.5	4.2	−0.1	0.1	0.1	–	2,822.2
Lending	207,657.2	–	–	–	–	–	986.8	208,644.0
Interest-bearing securities	29,659.9	10,946.3	18,450.1	–	–	–	502.8	59,559.1
Shares and participations	34.6	–	–	–	–	–	–	34.6
Derivatives	–	–	–	–	–	–	6,235.8	6,235.8
Other assets	108.4	–	–	–	–	–	54.6	163.0
Total assets	**240,267.5**	**10,956.8**	**18,454.3**	**−0.1**	**0.1**	**0.1**	**7,780.0**	**277,458.7**
Liabilities								
Liabilities to credit institutions	1 625.0	1,140.9	–	1,422.5	–	–	163.6	4,352.0
Securities issued	100,183.7	3,524.0	108,756.4	15,664.0	4,053.0	22,942.7	1,134.9	256,258.7
Derivatives	134,655.9	6,291.8	−90,306.5	−17,086.9	−4,053.0	−22,944.5	6,675.0	13,231.8
Subordinated liabilities	1,000.1	–	–	–	–	–	–	1,000.1
Other liabilities incl. equity	2,806.5	0.0	1.0	0.4	0.0	1.7	−193.5	2,616.1
Total equity and liabilities	**240,271.2**	**10,956.7**	**18,450.9**	**–**	**–**	**-0.1**	**7,780.0**	**277,458.7**
Difference, assets and liabilities	**−3.7**	**0.1**	**3.4**	**−0.1**	**0.1**	**0.2**	**0.0**	**0.0**
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	–	–	0.3	–	–	–	–	–

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

Member responsibilities
Municipalities and county councils/regions that are members of the Kommuninvest Cooperative Society have entered a joint and several guarantee covering all of the Company's commitments. Kommuninvest's operations have changed considerably since the inception of the company in 1986. The company borrows funds in advance to be prepared for members' borrowing needs and to meet requirements imposed by authorities and rating institutes, and it uses hedging instruments (derivatives) to mitigate the risks in its operations.

In 2010, two agreements were prepared in addition to the basic joint and several guarantee to clarify the responsibility of the members. One is a guarantee agreement regulating the responsibility for counterparty exposures in derivatives and

Note 3 cont.

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

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

The statement of undertaking is based on the following items in Kommuninvest's balance sheet as per 31 December 2014 (SEK, millions).

Liabilities to credit institutions	4,800.6
Securities issued	292,318.0
Total borrowing	**297,118.6**

Liabilities, according to statement of undertaking	
Loaned borrowing (1)	231,918.0
Borrowing not loaned (2)	65,200.7
Total borrowing	**297,118.6**

Other liabilities (2)	929.7
Derivatives* connected with loaned borrowing (1)	1,017.1
Total liabilities/undertaking	**299,065.5**

Assets, according to statement of undertaking	
Loaned borrowing (1), see Note 12	222,803.7
Borrowing not loaned (2), see Note 3, 11, 13	65,200.7
Other assets (2)	198.9
Derivatives* connected with loaned borrowing (1)	2,526.4
Total assets	**290,729.7**

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

* The derivatives (hedging contracts) are included gross in the company's balance sheet, that is contract by contract, and are recognized as an asset when Kommuninvest has a claim against the counterparty and as a liability when the counterparty has a claim against Kommuninvest. In the statement of undertaking, the derivatives are recognized net per counterparty, that is, claims against the same counterparty have been netted against liabilities to the same counterparty. In addition, the derivatives recognised above as assets have been reduced by collateral received, such as government bonds. At 31 December 2014, collateral received amounted to SEK 11,711.3 (791.3) million and may only be used to cover outstanding exposures. These are disclosed in Note 3 on page 54 but may not be reduced in the balance sheet. The company currently has no pledged for liabilities in connection with derivatives.

Note 4 Net interest income

Interest income	**2014**	**2013**
Lending to credit institutions	0.0	0.0
Lending	3,061.3	3,791.2
Interest-bearing securities	588.3	778.1
Other	1.2	1.9
Total	**3,650.8**	**4 571.2**
Of which: interest income from financial items not measured at fair value through the income statement	2,236.8	3,261.0
Interest expenses		
Liabilities to credit institutions	0.0	0.4
Interest-bearing securities	2,713.3	3,577.1
Other	22.3	24.2
Total	**2,735.6**	**3,601.7**
Of which: interest expense from financial items not measured at fair value through the income statement	1,646.1	3,373.3
Total net interest income	**915.2**	**969.5**

All income and expenses are attributable to Sweden.

Note 5 Commission expenses

	2014	**2013**
Payment agency commissions	1.9	2.2
Brokerage for securities	2.7	3.2
Other commissions	0.5	0.2
Total	**5.1**	**5.6**

Note 6 Net result of financial transactions

	2014	**2013**
Realised result		
– 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
Total	**101.9**	**38.7**

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	2,595.5
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
Total	**101.9**	**38.7**
Results (net)		
Net result of available-for-sale financial assets recognised in other comprehensive income	-6.0	–7.3

Note 7 Other operating income

	2014	2013
Capital gain due to divestment of tangible fixed assets	0.1	–
Other operating income	1.2	0.2
Total	**1.3**	**0.2**

All income is attributable to Sweden.

Note 8 General administration expenses

Payroll expenses, in SEK, thousands	**2014**	**2013**
– salaries and emoluments	56,508	47,563
– social security charges	17,460	15,004
– 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	6,127	5,700
Total personnel costs	**96,078**	**80,704**
Other general administration expenses		
– travel expenses	5,170	3,798
– IT expenses	14,391	13,293
– consultancy fees	20,857	18,550
– temporary/contract personnel	3,130	1,684
– rating expenses	1,793	905
– market data	5,615	5,388
– rent and other expenses for premises	3,283	3,148
– annual and interim reports	1,226	698
– stability fee	110,727	99,015
– other expenses	12,408	12,132
Total other general administration expenses	**178,600**	**158,611**
Total	**274,678**	**239,315**

Remuneration policy

The company applies a remuneration policy that explains that Kommuninvest does not apply variable remuneration. Nor has any variable remuneration been paid to Kommuninvest employees 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 senior executives

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 for the Deputy CEO has been decided by the President after consultation with the Board Chairman. The Deputy CEO received SEK 1,871,000 (1,836,000) in base salary for 2014. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to SEK 546,000 (424,000) and are covered by insurance. For termination initiated by the company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration details regarding other senior executives only include remunerations paid during the period in which each individual has been a senior executive. Remuneration to other senior executives in the corporate management, totalling 4 (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 Board's work procedures, as adopted in 2014, the Chairman of the Board is responsible for ensuring that the company's remuneration policy and remuneration systems are independently reviewed and for preparing Board decisions regarding a) remunerations to senior executives, b) remunerations to employees with overarching responsibility for any of the company's control functions, and c) measures for following- up the application of the company's remuneration policy.

Remuneration to the Board of Directors

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

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

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

In SEK, thousands	**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	-	–
Total	**1,615**	**1,400**

Note 8 cont.

Wages and remunerations

2014, in SEK, thousands	Basic salary/ Board remuneration	Variable pay	Other benefits	Pension expense	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
Total	**56,508**	**–**	**348**	**10,341**	**–**	**67,197**

2013, in SEK, thousands	Basic salary/ Board remuneration	Variable pay	Other benefits	Pension expense	Other remuneration	Total
Board of Directors	1,400	–	-	-	–	1,400
President and CEO	2,890	–	86	804	–	3,780
Deputy CEO	1,836	–	1	424	–	2,261
Other members of company management	3,752	–	15	1,329	–	5,096
Other salaried employees	37,685	–	251	5,962	–	43,898
Total	**47,563**	**–**	**353**	**8,519**	**–**	**56,435**

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

Emoluments and costs for the auditors, Ernst & Young AB	2014	2013
Auditing engagement	1,811	982
Other audit services	1,844	1,605
Tax advisory services	414	-
Other services	2,312	1,034

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

Operating leases where Kommuninvest i Sverige AB is the lessee	2014	2013
Non-cancellable lease payments amount to:		
Within one year	3,899	3,482
Between one and five years	11,319	6,362
Total	**15,218**	**9,844**

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 9 Other operating expenses

	2014	2013
Insurance expenses	0.7	0.7
Communication and information	5.0	2.6
Other operating expenses	0.2	0.2
Total	**5.9**	**3.5**

Note 10 Taxes

Recognised in income statement	2014	2013
Current tax expense	161.0	163.0
Deferred tax expense (+)/tax income (-) attributable to temporary differences	–	3.9
Total tax expense recognised	**161.0**	**166.9**

Reconciliation of effective tax	2014 %	2014	2013 %	2013
Profit/loss before tax		729.4		757.6
Tax according to prevailing tax rate	22.0 %	160.5	22.0 %	166.7
Non-deductible expenses	0.1 %	0.5	0.0 %	0.2
Recognised effective tax	**22.1 %**	**161.0**	**22.0 %**	**166.9**

Tax expense attributable to other comprehensive income	2014	2013
Available-for-sale financial assets	-1.3	-1.6
Total other comprehensive income	**-1.3**	**-1.6**

Recognised in the balance sheet

Current tax assets	2014	2013
Current tax assets	79.0	79.0
	79.0	**79.0**

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following:

	Deferred tax assets		Deferred tax liabilities		Net	
	2014	2013	2014	2013	2014	2013
Unrealised changes in market value						
– of which, recognised in the income statement	59.5	59.5	–	–	59.5	59.5
– or which, recognised in other comprehensive income	-4.9	-4.9	–	–	-4.9	-4.9
Tax assets/liabilities, net	**54.6**	**54.6**	**–**	**–**	**54.6**	**54.6**

Tax items entered directly against equity	2014	2013
Current tax on group contributions paid	159.7	163.0
Total sum entered directly against equity	**159.7**	**163.0**

Note 11 Sovereign bonds eligible as collateral

	2014			2013		
	Acquisition cost	Fair value	Recognised value	Acquisition cost	Fair value	Recognised value
Sovereign bonds eligible as collateral[1]						
– Swedish central government	10,449.8	10,491.9	10,491.9	9,024.6	9,073.0	9,073.0
– Swedish municipalities	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
Total	**15,109.0**	**15,204.1**	**15,204.1**	**14,590.8**	**14,626.2**	**14,626.2**
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
Total			**153.5**			**142.4**

1) Including bonds issued by Swedish local governments.

Note 12 Lending

Lending refers to lending to municipalities and county councils/regions, as well as to companies owned by municipalities and county councils/regions. Approximately 41.7 percent (40.9) of total lending is direct to municipalities and county councils/regions that are members of Kommuninvest Cooperative Society. The remainder 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

	2014			2013		
	Acquisition cost	Fair value	Recognised value	Acquisition cost	Fair value	Recognised value
Bonds and other interest-bearing securities						
- Swedish mortgage 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
Total	**45,289.5**	**45,974.5**	**45,974.5**	**44,444.5**	**44,932.9**	**44,932.9**
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
Total			**2,013.9**			**1,769.3**

Note 14 Shares and participations

	2014	2013
Endowment insurance	2.4	2.1
Total shares and participations	**2.4**	**2.1**

Note 15 Shares and participations in associated companies

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

	2014	2013
Number of shares: 500	0.5	0.5
Total	**0.5**	**0.5**

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 and participations in subsidiaries

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

	2014	2013
Number of shares: 1,000	32.0	32.0
Total	**32.0**	**32.0**

As per 31 December 2014, Kommuninvest Fastighets AB had a balance sheet total of SEK 54.9 (45.1) million, equity of SEK 19.1 (10.7) million and generated a profit of SEK -0.4 (-0.1) million.

Note 17 Intangible assets

	2014	2013
Acquired intangible assets		
Other technology/contract-based assets		
Acquisition value		
Acquisition value brought forward	-	-
Investments for the year	2.0	-
Disposals	-	-
Acquisition value carried forward	**2.0**	**-**
Depreciation		
Opening balance, depreciation	-	-
Depreciation for the year	-0.4	-
Disposals	-	-
Depreciation carried forward	**-0.4**	**-**
Planned residual value at the end of the accounting period	**1.6**	**-**

Note 18 Tangible assets

	2014	2013
Acquisition value		
Acquisition value brought forward	19.3	18.5
Investments for the year	4.3	1.6
Disposals	–	–0.8
Acquisition value carried forward	**23.6**	**19.3**
Depreciation		
Opening balance, depreciation	-14.7	–12.9
Depreciation for the year	-2.9	–2.4
Disposals	–	0.6
Depreciation carried forward	**-17.6**	**–14.7**
Planned residual value at the end of the accounting period	**6.0**	**4.6**

Note 19 Other liabilities

	2014	2013
Liabilities to parent society	770.1	741.1
Other liabilities	19.8	23.5
Total	**789.9**	**764.6**

Note 20 Accrued expenses and prepaid revenues

	2014	2013
Accrued stability fee	111.1	99.3
Other accrued expenses	25.7	22.1
Total	**136.8**	**121.4**

Note 21 Provisions for pensions and similar commitments

	2014	2013
Provisions for pensions obligations	3.0	2.5
Total	**3.0**	**2.5**

Note 22 Subordinated liabilities

	Currency	Nom	Interest rate (%)	Due date	Recognised value 2014	Recognised value 2013
Debenture loan	SEK	1,000.0	Variable	Perpetual	1,000.1	1,000.1
Total		**1,000.0**			**1,000.1**	**1,000.1**

Perpetual debenture with three-month variable Stibor-linked interest. The terms only allow repayment or repurchase on the approval of the Swedish Financial Supervisory Authority. At the earliest, however, this may occur on the interest date five years after the loan date of 30 November 2010 and thereafter on each subsequent interest date. The interest expense for the year totalled SEK 24.7 (29.4) million.

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

Note 23 Pledged assets

	2014	2013
In the form of assets pledged for own provisions and liabilities		
Deposited with the Riksbank:		
– government securities	5,399.1	5,676.7
– securities issued by Swedish municipalities and county councils/regions	501.8	653.3
– Swedish covered bonds	15,765.9	16,622.2
Endowment insurance for pension obligations	2.4	2.1
Assets pledged, total	**21,669.2**	**22,954.3**

The recognised value of liabilities and provisions involving pledges amounted to SEK 3.0 (2.5) 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. This is also a condition for short-term liquidity management via RIX.

Note 24 Related parties

Close associations

Kommuninvest has a close association with the Kommuninvest Cooperative Society (parent company), Kommuninvest Fastighets AB (subsidiary) and Administrative Solutions NLGFA AB (associated company).

Related parties, in SEK, thousands	Year	Sales of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest)	Receivables from related parties on 31 December	Liabilities to related parties on 31 December
Kommuninvest Cooperative Society	2014	1,723	–	-24,687	420	1,770,243
	2013	2,628	48	-29,448	126	1,741,176
Kommuninvest Fastighets AB	2014	1,153	2,442	–	10,000	–
	2013	541	2,404	–	10,539	–
Administrative Solutions NLGFA AB	2014	43	6,189	17	2,000	571
	2013	59	6,913	25	2,706	592

Transactions with key people in senior posts

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

Note 25 Events after the balance sheet date

Nothing significant has taken place after the balance sheet date.

Note 26 Financial assets and liabilities

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		
Sovereign bonds eligible as collateral	12,803.8	-	-	-
Lending to credit institutions	-	-	4,022.1	-
Lending	68,965.1	-	153,838.6	-
Bonds and other interest-bearing securities	33,690.1	-	-	-
Derivatives	-	17,446.2	-	-
Other assets	-	-	11.9	-
Total	**115,459.0**	**17,446.2**	**157,872.6**	**–**
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
Total	**–**	**–**	**–**	**–**

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

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 unobservable market data, with external suppliers' and the company's own estimates playing a significant 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 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.

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
-	-	-	-	-	4,022.1	4,022.1
-	-	-	-	-	222,803.7	223,696.5
12,284.4	-	-	-	-	45,974.5	45,974.5
-	-	-	-	6,402.6	23,848.8	23,848.8
-	-	-	-	-	11.9	11.9
14,684.7	**–**	**–**	**–**	**6,402.6**	**311,865.1**	**312,757.9**
-	2,360.1	-	2,440.5	-	4,800.6	4,800.6
-	145,857.9	-	146,460.1	-	292,318.0	293,839.5
-	-	9,026.8	-	1,601.5	10,628.3	10,628.3
-	-	-	786.0	-	786.0	786.0
-	-	-	1,000.1	-	1,000.1	1,067.4
–	**148,218.0**	**9,026.8**	**150,686.7**	**1,601.5**	**309,533.0**	**311,121.8**

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

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.

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

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 a significant downgrading of the Company's rating, or amendments to the members' guarantee undertaking that would significantly reduce their collective responsibility for the Company's commitments. Variations in borrowing margins

Note 26 cont.

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 and basis swaps 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 to 4.3 years. This would have an effect on earnings in the interval SEK -2.9 million to 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.

Note 26 cont.

Financial instruments measured at fair value in the balance sheet

2014	Level 1	Level 2	Level 3	Total
Sovereign 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
Total	**49,032.4**	**104,480.6**	**479.5**	**153,992.5**
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
Total	**7.1**	**148,273.1**	**10,566.1**	**158,846.3**

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

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

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
Opening balance, 1 January 2013	**160.2**	**1,693.3**	**–4,527.9**	**–236.5**	**–34,677.9**	**–37,588.8**
Recognised gains and losses:						
– recognised in the income statement (net result of financial transactions)	–	–1,073.6	3,201.4	10.2	–2,323.5	–185.5
Cost, acquisitions	–		–9.4	–	–5,133.2	–5,142.6
Maturing during the year	–160.2			–	33,297.7	33 137.5
Closing balance, 31 December 2013	**–**	**619.7**	**–1,335.9**	**–226.3**	**–8,836.9**	**–9,779.4**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2013	–	-1,695.6	–1,973.6	10.2	-386.6	-98.4
Opening balance, 1 January 2014	**–**	**619.7**	**-1,335.9**	**–226.3**	**–8,836.9**	**-9,779.4**
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
Closing balance, 31 December 2014	**–**	**479.5**	**-844.9**	**–205.1**	**-9,516.1**	**-10,086.6**
Gains and losses recognised in the income statement (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 26 cont.

Financial instruments not measured at fair value in the balance sheet

2014	Level 1	Level 2	Level 3	Total	Recognised value
Lending to credit institutions	–	4,022.1	–	4,022.1	4,022.1
Lending	–	154,731.4	–	154,731.4	153,838.6
Other assets	–	11.9	–	11.9	11.9
Total	**–**	**158,765.4**	**–**	**158,765.4**	**157,872.6**
Liabilities to credit institutions	–	2,440.5	–	2,440.5	2,440.5
Securities issued	99,904.9	48,076.7	–	147,981.6	146,460.1
Other liabilities	–	786.0	–	786.0	786.0
Subordinated liabilities	–	1,067.4	–	1,067.4	1,000.1
Total	**99,904.9**	**52,370.6**	**–**	**152,275.5**	**150,686.7**

2013	Level 1	Level 2	Level 3	Total	Recognised value
Lending to credit institutions	–	2,822.2	–	2,822.2	2,822.2
Lending	–	130,108.7	–	130,108.7	129,842.7
Other assets	–	11.8	–	11.8	11.8
Total	**–**	**132,942.7**	**–**	**132,942.7**	**132,676.7**
Liabilities to credit institutions	–	2,086.4	–	2,086.4	2,085.8
Securities issued	92,298.9	43,818.1	–	136,117.0	135,440.2
Other liabilities	–	761.5	–	761.5	761.5
Subordinated liabilities	–	993.7	–	993.7	1,000.1
Total	**92,298.9**	**47,659.7**	**–**	**139,958.6**	**139,287.6**

Note 27 Information on financial assets and liabilities subject to offsetting

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.

		Related amounts that are not offset in the balance sheet			
31 Dec 2014	Amounts[1] reported in the balance sheet	Financial instruments	Provided (+)/ received (–) collateral – security	Provided (+)/ received (–) cash collateral	Net amount
Assets					
Derivatives	23,848.8	-9,611.1	-11,711.3	–	2,526.4
Repos[2]	3,952.1	–	-3,952.1	–	-
Liabilities					
Derivatives	-10,628.3	9,611.1	–	–	-1,017.2
Total	**17,172.6**	**–**	**-15,663.4**	**–**	**1,509.2**

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

1) None of the amounts reported in the balance sheet have been offset.
2) Repos are including in Lending to credit institutions.

Note 28 Capital adequacy

Since 1 January 2014, capital adequacy is calculated in accordance with the new CRR[1] 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 IV[2] 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. The core Tier 1 capital ratio was 34.6 (37.0) percent, compared with a requirement, including the capital conservation buffer requirement, of 7.0 percent. The Tier 1 capital ratio was 34.6 (37.0) percent, compared with a requirement, including the buffer requirement, of 8.5 percent. The total capital ratio was 49.3 (59.5) percent, compared with a requirement of 10.5 percent including the buffer requirement. Additional disclosures according to the EU Capital Requirements Regulation, CRR, can be found at www.kommuninvest.org

	2014-12-31	2013-12-31
Equity according to balance sheet	2,375.4	1,727.6
Less deferred tax assets[3]	-	-59.5
Less available-for-sale financial assets[4]	-16.2	-17.3
Less adjustment for prudent valuation[5]	-9.7	-
Less profit/loss for the year[6]	-729.4	–
Add recognised group contributions[6]	725.6	–
Total core Tier 1 capital	**2,345.7**	**1,650.8**
Total Tier 1 capital	**2,345.7**	**1,650.8**
Supplementary capital		
Perpetual debenture loan[7]	1,000.0	1,000.0
Total supplementary capital	**1,000.0**	**1,000.0**
Total capital base	**3,345.7**	**2,650.8**

	2014-12-31		2013-12-31	
Capital requirement	**Risk exposure**	**Capital requirement**	**Risk exposure**	**Capital requirement**
Capital requirement for credit risks (the standardised method)	3,339.6	267.2	3,468.1	277.5
of which, exposures to states and central banks	*136.5*	*10.9*	-	-
of which, institutional exposures	*1,179.5*	*94.4*	*1,484.9*	*118.8*
of which, corporate exposures	*63.0*	*5.0*	*63.2*	*5.1*
of which, exposures in the form of covered bonds	*1,960.6*	*156.8*	*1,920.0*	*153.6*
Capital requirement for operational risks, basic indicator method	1,337.3	107.0	988.8	79.1
Capital requirement for market risks	-	-	1.8	0
Capital requirement for credit valuation adjustment	2,108.0	168.6	-	-
Total risk exposure amounts and minimum capital amounts	**6,784.9**	**542.8**	**4,458.7**	**356.7**

Capital adequacy ratios	**2014-12-31**	**2013-12-31**
Core Tier 1 capital ratio	34.6 %	37.0 %
Tier 1 capital ratio	34.6 %	37.0 %
Total capital ratio	49.3 %	59.5 %
Buffer requirements		
Capital conservation buffer	2.5 %	-
Total buffer requirements	**2.5 %**	**-**
Core Tier 1 capital available for use as buffer	**28.6 %**	**-**

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 recognized 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.

6) Refers to that part of the year's profit/loss which has not been distributed to Kommuninvest Cooperative Society in the form of group contributions, and which is not eligible for inclusion in the capital base prior to a resolution at the Annual General Meeting, in accordance with CRR Article 26.

7) Perpetual subordinated loan with three-month variable Stibor-linked interest. The terms only allow repayment or repurchase on the approval of the Swedish Financial Supervisory Authority. At the earliest, however, this may occur on the interest date five years after the loan date of 30 November 2010 and thereafter on each subsequent interest date.

Note 29 Leverage ratio

	2014-12-31
Leverage ratio, calculated as an arithmetical average for the fourth quarter	**0.76 %**
Total assets	312,052.1
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
Total exposure	**311,596.3**
Tier 1 capital, calculated applying transitional rules, see Note 28	**2,347.5**
Leverage ratio, December	**0.75 %**
Exposure, November	302,741.6
Tier 1 capital, calculated applying transitional rules	2,320.0
Leverage ratio, November	**0.77 %**
Exposure, October	301,745.3
Tier 1 capital, calculated applying transitional rules	2,318.6
Leverage ratio, October	**0.77 %**

Kommuninvest has a capital plan for achieving the statutory leverage ratio requirement when this is introduced, see page 32.

Five-year summary

Key ratios 2010–2014, SEK, million	2014	2013	2012	2011	2010
Growth					
Lending (change in %)	6.8	3.8	20.0	25.7	8.2
Net interest income (change in %)	-5.6	25.6	35.0	32.5	13.1
Consolidation					
Core Tier 1 capital ratio (%)	34.6	37.0	15.2	22.9	40.3
Tier 1 capital ratio (%)	34.6	37.0	15.2	22.9	40.3
Total capital ratio (%)	49.3	59.5	30.4	45.7	80.6
Leverage ratio, reported according to CRR (%)	0.76	0.57	0.33		
Leverage ratio, including subordinated loan (%)	1.09	0.91	0.65		
Efficiency					
Administration expenses as % of lending[1]	0.127	0.117	0.125	0.143	0.127
Administration expenses, excluding the stability fee, as % of lending[1]	0.078	0.070	0.075	0.093	0.096
Administration expenses as % of balance sheet total[1]	0.091	0.088	0.089	0.103	0.089
Administration expenses, excluding the stability fee, as % of balance sheet total[1]	0.055	0.053	0.053	0.067	0.067
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 (%)	0.182	0.213	0.113	0.128	0.074
Return					
Operating income after standard tax as % of average equity	27.7	44.1	20.2	32.3	23.5
Cost/income ratio					
Total expenses in relation to net interest and other operating income	0.31	0.25	0.32	0.42	0.39
Other information					
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.

Income statement 1 January–31 December, SEK, million	2014	2013	2012	2011	2010
Net interest income	915.2	969.5	771.7	572.6	432.1
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	1.3	0.2	4.6	0.1	0.3
Total revenues	**1,013.3**	**1,002.8**	**500.7**	**636.2**	**445.1**
General administration expenses	-274.7	–239.3	–244.0	–230.0	–160.5
Depreciation	-3.3	–2.4	–2.7	–2.5	–2.7
Other operating expenses	-5.9	–3.5	–5.0	–7.6	–6.2
Total expenses	**-283.9**	**–245.2**	**–251.7**	**–240.1**	**–169.4**
Operating income	**729.4**	**757.6**	**249.1**	**396.1**	**275.7**
Appropriations, net	-	–	204.0	13.9	–83.2
Taxes	-161.0	–166.9	–132.5	–109.4	–51.9
Net profit	**568.4**	**590.7**	**320.6**	**300.6**	**140.6**

Balance sheet summary as at 31 December, SEK million	2014	2013	2012	2011	2010
Sovereign bonds eligible as collateral	15,204.1	14,626.2	11,160.8	10,841.7	12,887.7
Lending to credit institutions	4,022.1	2,822.2	15,618.6	1,734.5	1,697.6
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	34.4	34.1	33.7	1.3	1.0
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	6.0	4.6	5.6	6.7	6.9
Intangible assets	1.6	-	-	-	-
Other assets	148.5	147.8	149.9	148.3	67.5
Prepaid expenses and accrued revenues	7.9	10.6	12.7	19.0	26.4
Total assets	**312,052.1**	**277,458.7**	**283,283.6**	**234,028.4**	**190,200.2**
Liabilities to credit institutions	4,800.6	4,352.0	5,610.4	4,149.4	3,438.9
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
Other liabilities	789.9	764.6	818.4	455.4	66.4
Accrued expenses and prepaid revenues	136.8	121.4	125.2	111.5	44.1
Provisions for pensions and similar obligations	3.0	2.5	2.1	1.6	1.2
Subordinated liabilities	1,000.1	1,000.1	1,000.3	1,000.2	1,002.9
Total liabilities and provisions	**309,676.7**	**275,731.1**	**282,330.9**	**233,110.0**	**189,199.5**
Untaxed reserves	-	-	-	204.0	217.9
Equity	2,375.4	1,727.6	952.7	714.4	782.8
Total liabilities, provisions and equity	**312,052.1**	**277,458.7**	**283,283.6**	**234,028.4**	**190,200.2**

Proposed distribution of earnings

The Board of Directors propose that:

the profit for the year	568,434,557
profit brought forward	-269,560,110
fair value reserve	12,613,047
total	311,487,494
be appropriated as follows	
To be carried forward	311,487,494

Applicable rules for capital adequacy and major exposures mean that Kommuninvest must at all times have a capital base which at least corresponds to the total of the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operation in accordance with Kommuninvest's internal capital assessment policy. The total capital ratio amounts to 49.3 (59.5) percent, compared with a requirement of 10.5 percent, including the buffer requirement. The capital base amounts to SEK 3,346 (2,651) million after the proposed allocation of profits, and the final minimum capital requirement amounts to SEK 543 (357) million. A specification of items can be found in the Note 28 on capital adequacy.

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

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

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

Örebro, 24 February 2015

Ellen Bramness Arvidsson
Chairman

Lorentz Andersson
Board Member

Kurt Eliasson
Board Member

Anna von Knorring
Board Member

Catharina Lagerstam
Board Member

Anna Sandborgh
Board Member

Johan Törngren
Board Member

Anders Pelander
Employee representative

Tomas Werngren
President and CEO

Our Audit Report was submitted on 24 February 2015
Ernst & Young AB

Erik Åström
Authorised Public Accountant

Audit Report

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

Report on the annual accounts
We have audited the annual accounts of Kommuninvest i Sverige AB (publ) for 2014. The annual accounts are presented on pages 12–74.

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

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

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

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

Statements
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of Kommuninvest i Sverige AB as of 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. A Corporate Governance Report has been prepared. The statutory administration report and the Corporate Governance Report are consistent with the other parts of the annual accounts.

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

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts, we have also audited the proposed appropriations of the Company's profit or loss and administration of the Board of Directors and the President of Kommuninvest i Sverige AB (publ) in 2014.

Responsibility of the Board of Directors and the President
The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. The Board of Directors and the President are responsible for the administration of the Company in accordance with the Companies Act and the Banking and Financing Business Act.

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

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

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

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

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

Örebro, 24 February 2015

Ernst & Young AB

Erik Åström
Authorised Public Accountant

Review Report

We the lay auditors, appointed by the Annual General Meeting, have examined the operations of Kommuninvest i Sverige AB for 2014.

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

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

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

Örebro, 24 February 2015

Niklas Sjöberg

Anita Bohman

KOMMUNINVEST

Swedish Local Government Debt Office

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