

# Interim report

# 2016

## Kommuninvest i Sverige AB

### 1 January – 30 June

- Total assets SEK 367,146.6 (340,626.3) million
- Lending, SEK 268,882.8 (254,421.7) million
- Net interest income SEK 372.7 (370.6) million
- Operating profit SEK 14.0 (68.9) million
- Operating profit excluding the effect of unrealised market value changes was SEK 271.7 (245.4) million
- Core Tier 1 capital ratio<sup>1</sup> 75.9 (44.6) %
- Tier 1 capital ratio<sup>2</sup> 75.9 (44.6) %
- Total capital ratio<sup>3</sup> 89.2 (59.8) %
- Equity SEK 5,879.5 (4,344.3) million
- Leverage ratio according to CRR<sup>4</sup> 1.56 (0.87) %
- Leverage ratio including debenture loan<sup>5</sup> 1.84 (1.16) %
- Market share 47 (46) % of total local government funding
- At the end of the period, the Kommuninvest Cooperative Society had 282 (280) members, of whom 273 (272) were municipalities and 9 (8) were county councils/regions.

1) Core Tier 1 capital in relation to total risk exposure.

2) Tier 1 capital in relation to total risk exposure.

3) Total capital base in relation to total risk exposure.

4) Tier 1 capital in relation to total assets and commitments (exposures).

5) Tier 1 capital and debenture loan issued to the Kommuninvest Cooperative Society in relation to total assets and commitments (exposures).



**KOMMUNINVEST**

## **ABOUT KOMMUNINVEST**

We secure better loan terms together than individually. Based on this simple idea, 282 municipalities and county councils/regions participate in an efficient and stable financial partnership. Kommuninvest is the local government sector's largest credit provider and manages about 50 percent of local government debt.

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

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

This is the interim report for the credit market company Kommuninvest i Sverige AB (Kommuninvest).

Corporate identity number: 556281-4409

Registered office: Örebro

1 January–30 June 2016

*Comparative income statement figures relate to the preceding six month period (1 January – 30 June 2015) unless otherwise indicated. Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2015 unless otherwise indicated.*

# Comment from the CEO

Swedish municipalities and regions are fundamentally strong and the Swedish economy continues to perform strongly. Increased tax revenues are required when municipalities must meet the challenges of, for example, a growing and ageing population. Refugee immigration puts pressure on many social functions, including schooling and the housing market.

Many municipalities are growing rapidly, with increasing needs for investment and funding. This is reflected in Kommuninvest's development in the first half of the year. Demand for credit remained high. Given the positive GDP trend and the local government sector's reduced pension obligations, however, the sector's debt is manageable.

The members of the Kommuninvest Cooperative Society have for some time prepared Kommuninvest for the upcoming regulatory leverage ratio requirement, intended to be introduced in 2018. In 2015, capital was reinforced by SEK 2.7 billion, SEK 1.5 billion of which was injected into the Company in March this year. This has helped to significantly strengthen the capital base. I wish to stress that the build-up of capital has been triggered solely by regulatory changes. Our business model, with its low risk profile and focus on financing municipal investments, remains unchanged.

The announcement of the final design of the leverage ratio requirement is to be presented by the European Commission in the autumn. The capital reinforcement demonstrates that the members want the Kommuninvest collaboration to continue, providing the Swedish local government sector with efficient and secure investment financing. This is of importance. We are also pleased that during the spring, the Society gained two new members, Region Jämtland Härjedalen and the Municipality of Partille.

At the UN climate conference in Paris in late 2015, the world's countries agreed for the first time to reduce greenhouse gas emissions and limit global warming. Interest in investing in financial instruments that support climate adaptation has subsequently increased significantly and, in March, we issued the local gov-



Tomas Werngren, CEO

ernment sector's first joint green bond. Crucial to this are the high environmental ambitions of the municipalities and county councils and their willingness to invest in environmentally friendly buildings, renewable energy, infrastructure, etc. We are very pleased to have financed 50 investment projects to date aimed at mitigating climate change.

The British vote to leave the EU will change European cooperation. Increased political tensions could lead to increased uncertainty. How Europe meets challenges in areas such as immigration, free movement and growth and investment will characterise the capital markets. Although the impact on Kommuninvest's funding potential is small, the increased volatility highlights the importance of continuous risk management in all dimensions.

**Tomas Werngren**  
President and CEO

# Market

## The world economy and the financial markets

Global growth is sluggish and vulnerable to setbacks. The first half of the year was characterised by a focus on the US presidential election, the major central banks' stimulus measures, China's shift to a more consumption-driven economy and heightened geopolitical uncertainty, mainly in the Middle East. The world economy is affected by the central banks' actions in a completely new environment with negative interest rates and large-scale asset purchases. The outcome of the British referendum on leaving the EU is expected to have consequences mainly for the British economy, although it also means that political risks now play a more prominent role in global risk assessments. The expectations of the IMF and OECD for global growth of around 3–3.5 percent in 2016, have been adjusted down somewhat following the referendum.

The global capital markets are impacted by the central banks' actions, with extremely low interest rates in the western world and major asset purchases. Developments in the fixed income markets have been relatively stable for much of the period, except for the outcome of the British referendum in late June. However, the immediate risk aversion has gradually subsided.

Sweden has an open economy and is not unaffected by economic policy challenges in the international environment. Nonetheless,

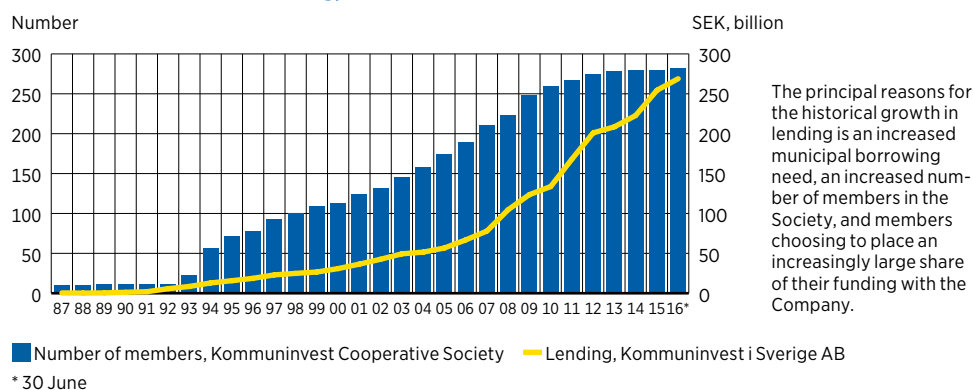
the Swedish economy is growing strongly – by 3.6 percent this year, according to the National Institute of Economic Research. The driving forces are, as in recent years, household consumption and increased construction.

Pressure is high in the local government sector, driven partly by large-scale immigration of refugees. The need for housing and welfare services is expected to persist, despite fewer refugees being received in the current year. Municipal consumption is nonetheless increasing due to more children being in school and higher costs for care of the elderly. County council consumption is more stable.

The economy of the local government sector continues to develop favourably, with an expected combined surplus of 1.8 percent in 2016 according to the Swedish Association of Local Authorities and Regions, SALAR. However, there are considerable differences between the local government authorities.

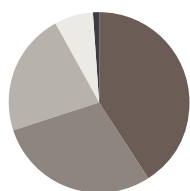
During the first half of 2016, Swedish local government authorities have been able to meet their borrowing needs efficiently, both through Kommuninvest as well as through banking systems and the capital markets. Kommuninvest has a diversified funding strategy, with opportunities to optimise borrowing markets and instruments. During the period, green bonds were added as a new element in Kommuninvest's funding strategy.

Number of members and lending, 1987–2016 (30 June)



**Lending portfolio by borrower category**

30 June 2016



- Municipalities 41 (41) %
- Municipal housing companies 29 (29) %
- Other municipal companies 22 (22) %
- Municipal energy companies 7 (7) %
- County councils/regions 1 (1) %

Kommuninvest's largest borrower groups are municipalities and municipal housing companies. As per 30 June 2016, they accounted for 70 (70) percent of the total lending.

**Ownership situation**

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

At 30 June 2016, the Society had 282 (280) members, of which 273 (272) were municipalities and 9 (8) were county councils/regions. Consequently, 94 (94) percent of Sweden's municipalities and 45 (40) percent of Sweden's county councils/regions were members (partners) in the Society. Two (no) new members, Region Jämtland Härjedalen and the Municipality of Partille, were added during the period.

**Resolutions by the Annual General Meeting of the Society**

The Society held its Annual General Meeting on 21 April 2016 in Stockholm. The meeting made the customary resolutions concerning, for example, elections to the Board of Directors, discharge of responsibility and dividends. The Meeting also adopted owner directives for the Company. These state, among other things, that the Society is responsible for providing the Company with the capital required for its operations.

As at the 2015 Meeting, the Board presented its plan for Kommuninvest's build-up

of capital ahead of introduction within the EU of a new capital requirement for financial institutions, leverage ratio, effective from 2018. The Meeting approved the plan. The Meeting also appointed new lay auditors and elected KPMG as the new accounting firm for the Group until the end of the 2020 Annual General Meeting.

**Kommuninvest's lending**

As per 30 June, Kommuninvest's lending amounted to SEK 268,882.8 (254,421.7) million.

In nominal terms, lending was at SEK 264,772.4 (251,374.9) million, an increase of 5 (9) percent. Kommuninvest's competitiveness, expressed as the percentage of accepted bids, remained strong. Based on volume, bid acceptance for the first half of 2016 amounted to 92 (92) percent.

In 2015, Kommuninvest launched a new lending product, Green Loans. Green Loans can be granted for projects and measures that help cut carbon emissions and contribute to sustainable growth or reduce climate change. As per 30 June, SEK 12,811.9 (5,034.0) million in Green Loans had been granted to 50 (11) projects.

Of the total lending, municipalities accounted for 41 (41) percent, municipal housing companies for 29 (29) percent and other municipal companies for 29 (29) percent

**Multi-year summary, Kommuninvest i Sverige AB**

	30 June 2016	30 June 2015	31 December 2015	31 December 2014	31 December 2013
Total assets, SEK, million	367,146.6	350,850.2	340,626.3	312,052.1	277,458.7
Lending, SEK, million	268,882.8	242,088.9	254,421.7	222,803.7	208,644.0
Net profit for the period, SEK, million	10.9	53.3	561.3	568.4	590.7
Members, total	282	280	280	280	278
Of which, municipalities	273	272	272	272	270
Of which county councils/regions	9	8	8	8	8
Core Tier 1 capital ratio <sup>1</sup> , %	75.9	37.1	44.6	34.6	37.0
Tier 1 capital ratio <sup>2</sup> , %	75.9	37.1	44.6	34.6	37.0
Total capital ratio <sup>3</sup> , %	89.2	53.1	59.8	49.3	59.5
Leverage ratio according to CRR <sup>4</sup> , %	1.56	0.67	0.87	0.76	0.57
Leverage ratio including debenture loan <sup>5</sup> , %	1.84	0.96	1.16	1.09	0.91

1) Core Tier 1 capital in relation to total risk exposure.

2) Tier 1 capital in relation to total risk exposure.

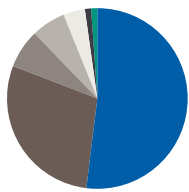
3) Total capital base in relation to total risk exposure.

4) Tier 1 capital in relation to total assets and commitments (exposures).

5) Tier 1 capital and debenture loan issued to the Kommuninvest Cooperative Society in relation to total assets and commitments (exposures).

**Funding, by currency, 1 January–30 June 2016**

(excl. commercial paper borrowing)



- SEK 52 (52) %
- USD 29 (34) %
- GBP 7 (-) %
- JPY 6 (5) %
- EUR 4 (4) %
- ZAR 1 (0) %
- TRY 1 (1) %
- AUD 0 (1) %
- CAD 0 (3) %

of total lending. Lending to county councils/regions accounted for 1 (1) percent.

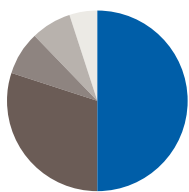
The period's contracted lending, that is new loans and renewals of existing loans, consisted of 73 (78) percent loans with capital tied up for more than a year and 27 (22) percent loans with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 33 (40) percent of volumes. At the end of the period, the average period for which capital was tied up in the Company's lending portfolio was 2.2 (2.3) years.

Kommuninvest's share of local government sector funding is estimated at 47 (46) percent as per 30 June 2016.

Kommuninvest Finansstöd (KI Finans), a debt management system developed specifically for the local government sector was launched by Kommuninvest in 2014. KI Finans offers enhanced functionality at lower cost compared with other systems on the market. By the end of the period, 143 (104) members had elected to sign up for the system.

**Funding, by programme, 1 January–30 June 2016**

(excl. commercial paper borrowing)



- Swedish benchmark programme 50 (51) %
- Benchmark funding 30 (26) %
- Uridashi 8 (6) %
- Public Bonds 7 (6) %
- Private Placements 5 (11) %

**Kommuninvest's funding**

Kommuninvest's lending is financed by means of short and long-term funding programmes on national and international capital markets. The funding strategy is based on diversified funding, in terms of funding markets, investor categories, funding currencies and funding products. All funding not denominated in SEK are swapped to floating interest rate in SEK, EUR or USD.

Kommuninvest belongs to the group of issuers with the highest possible credit rating and stable outlook. Furthermore, bonds issued by Kommuninvest are classified as so-called Level 1 assets when calculating the liquidity coverage ratio (LCR), in the EU, the UK and Switzerland.

Favourable demand for low-risk issuers made it possible for Kommuninvest to continue borrowing liquidity on favourable terms in the first half of 2016. At the end of the period, total funding amounted to SEK 349,334.1 (321,247.1) million. Over the period, SEK 61,360.4 (64,494.2) million was borrowed in long-term debt instruments with maturities of more than one year.

Kommuninvest is working actively to increase its funding in major bond programmes, so-called benchmark programmes, both internationally and in Sweden. During the period, a major benchmark funding programme in USD was implemented, gaining a good reception from Kommuninvest's core investors – central banks, public institutions and so-called bank treasuries.

SEK 30,650.0 (32,654.0) million was issued in the Swedish bond programme. In part, a new bond K2002 was issued, maturing in 2020 and, in part, additional issues were made of existing outstanding bonds.

In March, Kommuninvest issued its first green bond, directed to Swedish and international investors who wish to support climate adaptation. With a volume of USD 600 million (SEK 5.0 billion), this was the largest green bond issued in the Nordic countries to date. The money borrowed finances investment projects by the Society's members and their associated companies, with an emphasis on energy-efficient housing and renewable energy infrastructure.

**Rating**

Since 2002 and 2006 respectively, Kommuninvest holds the highest credit ratings for long-term funding, Aaa from Moody's and AAA from Standard & Poor's. In July 2016, Standard & Poor's confirmed Kommuninvest credit rating, with a stable outlook. Kommuninvest also holds the highest possible rating for short-term funding.

# Financial accounts

## Results

The operating profit (net profit before appropriations and taxes) amounted to SEK 14.0 (68.9) million. Operating profit includes unrealised changes in market value of a negative SEK 257.7 (176.5) million. Kommuninvest normally holds assets and liabilities to maturity, which is why market fluctuations are not realised, see below.

Operating profit excluding the effect of unrealised market value changes was SEK 271.7 (245.4) million. Net profit after taxes amounted to SEK 10.9 (53.3) million.

Operating income totalled SEK 125.1 (211.0) million. Operating income includes net interest revenues, commission expenses, the net result of financial transactions and other operating income.

Net interest income amounted to SEK 372.7 (370.6) million. Since 1 September 2015, Kommuninvest grants lending at negative interest rates. Negative interest income is recorded as an interest expense and during the period amounted to SEK 62.8 (-) million. For more information on how interest income and interest expense are recognised, please see Note 1.

The net result of financial transactions for the period was a negative SEK 246.7 (158.1) million. The result was primarily affected by unrealised changes in market value amounting to a negative SEK 257.7 (176.5) million, but also by the buy-back of own bonds and the sale of financial instruments which contributed SEK 12.3 (57.8) million to the figure. During the period, the unrealised market value changes due to the cost of funding when financing in foreign currencies have been more favourable than financing directly in SEK. Since liabilities only include funding in foreign currencies that are reported at fair value, this has entailed an increase in the margin between the Company's borrowing and lending costs on the instruments that are marked to market,

leading to adverse, unrealised changes in market value. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 2.

Costs amounted to SEK 111.1 (142.1) million, including the resolution fee of SEK 15.7 (57.1 for the former stability fee) million. Excluding the resolution fee, expenses amounted to SEK 95.4 (85.0) million, of which personnel expenses accounted for SEK 55.0 (51.4) million and other expenses for SEK 40.4 (33.6) million.

In 2016, the resolution fee has replaced the stability fee, and constitutes a risk-adjusted percentage of total assets less lending. The risk-adjusted percentage is determined by the Company's risk profile relative to other institutions required to pay the fee in accordance with the Commission's delegated regulation (EU) 2015/63.

Under the transitional provisions, the resolution fee for 2016 is reduced by half, and for Kommuninvest has been set by the Swedish National Debt Office at SEK 31.4 million. The resolution fee accounted for 14 percent of the Company's total costs for the period, compared with 40 percent for the stability fee the corresponding period 2015.

## Credit losses

Credit losses totalled SEK - (-) million.

## Financial position

Total assets increased to SEK 367,146.6 (340,626.3) million at the end of the period, mainly due to increased lending, but also an increase in the liquidity reserve.

During the period, a voluntarily liquidation has been undertaken in the associated company Administrative Solutions NLGFA AB. Subsequently, the Company has no shares in associated companies.



**Lending**

At the end of the period, the Company's lending amounted to SEK 268,882.8 (254,421.7) million. In nominal terms, lending was SEK 264,772.4 (251,374.9) million. The increase is explained by the local government sector's increased funding needs.

**Funding**

Funding amounted to SEK 349,334.1 (321,247.1) million at the end of the period. The Company's borrowing takes place in the form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). The Company acts over terms of between 1 day and 30 years and focuses primarily on financial instruments with fixed or floating interest.

**Liquidity reserve**

At the end of the period, the Company's liquidity reserve amounted to SEK 72,582.7 (63,227.7) million, corresponding to 27 (25) percent of its lending. According to Kommuninvest's guidelines, the liquidity reserve should amount to between 15 and 35 percent of the lending volume.

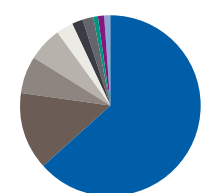
Most of the investments are in securities issued by the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. A considerable proportion of the investments are made in assets that can be pledged with the Swedish Riksbank and the European central bank, ECB.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

**Derivatives**

Derivative contracts are used as risk management instruments to address market risks in operations. Any changes in the market value of the derivatives contracts are offset by changes in the market value of the funding and lending portfolios. Derivatives with positive and negative market value amounted to SEK 25,269.4 (22,775.6) million and SEK 10,413.3 (11,723.1) million respectively.

**Liquidity reserve distributed by country**

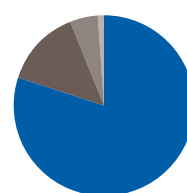
30 June 2016



- Sweden 60 (56) %
- Germany 14 (16) %
- Supranationals EU 9 (8) %
- Finland 7 (8) %
- Denmark 3 (4) %
- Supranationals, other 2 (1) %
- Canada 2 (2) %
- Australia 1 (2) %
- UK 1 (2) %
- Netherlands 1 (1) %
- USA 0 (0) %

**Liquidity reserve distributed by rating category**

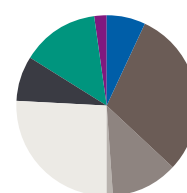
30 June 2016



- Aaa/AAA 80 (77) %
- Aa1/AA+ 14 (16) %
- Aa3/AA- 5 (7) %
- A1/A+1(-) %
- A2/A0 0 (0) %

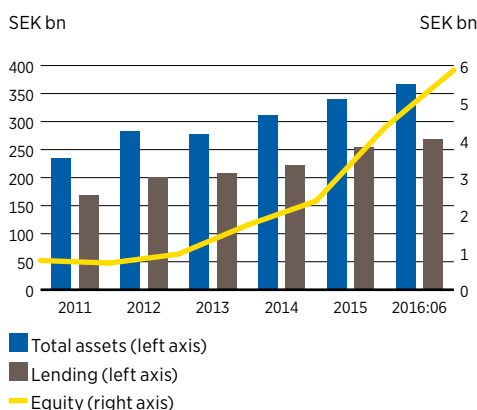
**Liquidity reserve distributed by issuer category**

30 June 2016



- State or local governments and authorities 7 (8) %
- National governments or central banks 30 (20) %
- Multilateral development banks 12 (9) %
- Public bodies 1 (2) %
- Covered bonds 26 (32) %
- Nordic credit institutions 8 (9) %
- European credit institutions 14 (16) %
- Credit institutions outside Europe 2 (4) %

**Kommuninvest's balance sheet, 2011-2016 (30 June)**

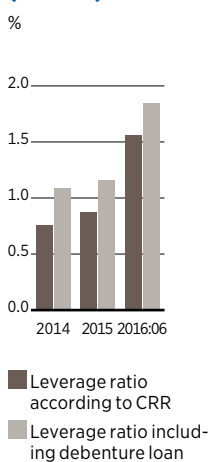


**Subordinated liabilities**

Subordinated liabilities consist of a perpetual debenture loan from the Society. Including accrued interest, the loan amounted to SEK 1,000.0 (1,000.0) million.



**Leverage ratio, 2014-2016 (30 June)**



**Equity**

At the end of the period, equity amounted to SEK 5,879.5 (4,344.3) million. The increase is primarily attributable to an increase in share capital, made possible thanks to the special contribution paid by the Society's members to the Society in 2015. The contributions have been made available to the Company as share capital during the second half of 2015 and the first half of 2016.

Share capital rose by SEK 1,490.7 million during the period through new issues, compared with SEK 1,880.0 million in 2015. At the end of the period, the share capital amounted to SEK 5,417.1 (3,926.4) million, distributed over 54,170,590 (39,263,850) shares. Equity was also impacted by net profit for the period and changes in market values for assets classified as "financial assets available for sale" (see Statement of changes in equity on page 14).

Changes to the Annual Accounts Act entail the introduction of the development expenditure reserve. This fund of SEK 0.8 (-) million corresponds to capitalised development expenditure in-house during the period adjusted by a proportional share of depreciation transferred back from the fund to unrestricted equity.

**Capital adequacy**

The Company is well-capitalised to meet the risks inherent in its operations. The core Tier 1 capital amounted to SEK 5,707.0 (2,931.7) million, entailing a core Tier 1 capital ratio of 75.9 (44.6) percent. The total capital base was SEK 6,707.0 (3,931.7) million, which gave a total capital ratio of 89.2 (59.8) percent.

**Future regulatory requirements - leverage ratio**

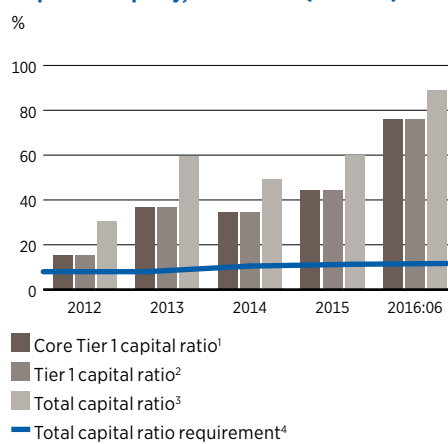
Effective from 1 January 2018, the new capital adequacy measure leverage ratio will be introduced in the EU on the condition that the Council of the European Union (EU Council) and the European Parliament agree to this after having read the report to be issued by the

European Commission by 31 December 2016. Leverage ratio must be reported to the relevant authorities effective from 2014. 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. In the event that the final leverage ratio requirement is set higher than 1.5 percent, the Society's principal plan is to issue additional Tier 1 capital (AT1) instruments to the members of the Society. However, the Society's statutes do permit AT1 instruments to be issued to actors closely associated with the Society and other local government actors. Provided specific approval is given by the Annual General Meeting, AT1 instruments may also be issued to other capital market actors.

**Leverage as per 30 June 2016**

The leverage ratio is defined as the ratio between Tier 1 capital and total exposure in assets and commitments. As per 30 June 2016,

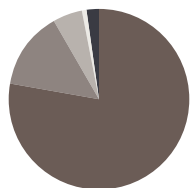
**Capital adequacy, 2012-2016 (30 June)**



1) Core Tier 1 capital in relation to total risk exposure.  
 2) Tier 1 capital in relation to total risk exposure.  
 3) Total capital base in relation to total risk exposure.  
 4) 2016/2015/2014: capital requirement under CRR of 11.7/11.3/10.5 percent, of which the buffer requirement is 3.7/3.3/2.5 percent. 2012-2013: capital requirements under Basel III: 8 percent.

**Credit risk exposure**

30 June 2016



- Lending, 0 percent risk weight, 77 (79) %
- Liquidity reserve, 0 percent risk weight 14 (12) %
- Liquidity reserve, 10 percent risk weight, 5 (6) %
- Liquidity reserve, 20 percent risk weight, 1 (1) %
- Derivatives 2 (1) %

the Company's leverage ratio, reported according to CRR, was 1.56 (0.87) percent. Including the debenture loan of SEK 1 billion that the Company issued to the Society in 2010, the leverage ratio was 1.84 (1.16) percent.

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

How the Company estimates its leverage ratio according to CRR is presented in Note 4 on page 22. The calculation of the leverage ratio including the debenture loan is presented on page 24. Further information on how the Company calculates its exposures can be found in Note 30 in the 2015 Annual Report.

**Risks and uncertainty factors**

In its business, the Company encounters a number of risks and uncertainty factors which may have an adverse impact on the Company's net profit, financial position, future prospects or opportunities to attain set targets. Macroeconomic developments as well as general trends in the capital markets remain uncertain, albeit with a greater element of political risk following the British referendum on withdrawal from the European Union (EU), so-called Brexit, in late June 2016.

These factors, as well as interest rates, actions by central bank and the willingness to invest in various markets, can have effects on the company that are difficult to assess. If the Company is unable to recruit and retain qualified employees, this may restrict the Company's competitiveness and opportunities for development.

In the autumn of 2016, the European Commission is expected to submit proposals to the European Parliament concerning the introduction in the EU of the leverage ratio capital requirement measure, in accordance with the description on page 9. The proposal may entail additional capital measures being required.

**Risk management**

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

- Lending is provided exclusively to Swedish municipalities, municipal corporations, county councils/regions or borrowers guaranteed by local government authorities and therefore carries a zero risk weight from the perspective of capital coverage.
- The members of the Kommuninvest Cooperative Society, Kommuninvest's owners, are also the Company's customers and are party to a joint and several guarantee supporting all of the Company's obligations.
- The Company conducts no deposit or active trading operations.

At the end of the period, the Company's total credit risk exposure amounted to SEK 349,983.1 (320,433.5) million. Of the exposure, 77 (79) percent was related to lending to Swedish municipalities and county councils/regions; 21 (20) percent was related to investments in securities issued by sovereigns or other issuers, and 2 (1) percent was related to exposure to derivatives counterparties.

In order to ensure good liquidity, the Company's liquidity reserve is primarily held in sovereign securities, with a concentration to Sweden and northern Europe. The composition of the liquidity reserve as per 30 June 2016 is shown in the chart on page 8.

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

ISDA agreements guaranteeing the right to early redemption if the counterparty's creditworthiness deteriorates, have been established with all derivative counterparties. See also Note 2.

CSA agreements cover a considerable portion of the counterparty risks. CSA agreements regulate the right to secure collateral to eliminate the exposure arising through derivative transactions. As of 30 June 2016 CSA agreements had been established with 20 out of 23 counterparties with whom Kommuninvest has outstanding contracts. Based on nominal amounts, 97 (98) percent of the contracts, were covered by CSA agreements.

As per 30 June 2016, counterparty exposure to derivative counterparties amounted to SEK 4,443.2 (1,723.0) million after netting for each counterparty and net of collateral.

A description of the Company's risk exposure and risk management, is provided on pages 28–37 in the annual report for 2015. No significant changes have taken place after its publication.

#### **Employees and the environment**

During the period, the number of employees increased by 2 to 87 (85 as per 31 December 2015). The average number of employees during the period was 80 (74 in 2015). The Company does not conduct any operations requiring a licence under Sweden's Environmental Code. The Company has an environmental policy that it adopted in earlier years.

#### **Events after the balance sheet date**

No significant events have occurred after the end of the reporting period.

#### **Equity – build-up of capital and distribution of surplus**

In accordance with the Society's owner directives, capital in the Group is being built up over the long term through profit accumulation. Between 2011 and 2014, this was mainly achieved by accumulating and re-injecting profits. Since 2015, this has been supplemented by the opportunity for the Society's

members to make direct capital contributions and by other forms of capital. This required the adoption of new Articles of Association in 2014 and 2015, with, among other things, a new peak level for member contributions being adopted.

In November 2015, a further capital injection into the Society was announced (see the press release dated 17 November 2015 on Kommuninvest's website). As per 31 December 2015, the amount paid into the Society amounted to SEK 2,690.7 million, of which SEK 1,200.0 million had been paid into the Company as new share capital. The remainder of the capital injection, SEK 1,490.7 million, was contributed to the Company as new share capital in March 2016.

During the period, the Company received SEK 0 (680) million as new share capital attributable to member contributions from members not yet having reached the highest level for member contributions and member contributions to the Society from new members.

#### **Board of Directors**

At the Annual General Meeting on 21 April 2016, Ellen Bramness Arvidsson was re-elected as Chairman of the Board. Lars Heikensten was elected as a new Board Member. The other members of the Board are Kurt Eliasson, Anna von Knorring, Erik Langby, Anna Sandborgh, Johan Törngren and Anders Pelander (employee representative).

#### **Management**

Over the first six months of 2016, the Company's executive management team consisted of Tomas Werngren (President and CEO), Maria Viimne (Deputy CEO, Chief Operating Officer), Johanna Larsson (CFO), Malin Norbäck (Chief of Staff), Britt Kerkenberg (CRO) and Christofer Ulfgren (CIO).

# Income statement

SEK, million	Note	Jan – Jun 2016	Jan – Jun 2015	Jan – Dec 2015
Interest revenues	1	349.1	975.4	1,438.3
Interest expenses	1	23.6	-604.8	-639.8
<b>NET INTEREST INCOME</b>		<b>372.7</b>	<b>370.6</b>	<b>798.5</b>
Commission expenses		-3.6	-2.7	-5.3
Net result of financial transactions		-246.7	-158.1	165.7
Other operating income		2.7	1.2	2.7
<b>TOTAL OPERATING INCOME</b>		<b>125.1</b>	<b>211.0</b>	<b>961.6</b>
General administration expenses		-106.9	-138.7	-283.0
Amortisation of intangible assets		-2.1	-0.4	-4.0
Depreciation of tangible assets		-0.9	-1.0	-1.9
Other operating expenses		-1.2	-2.0	-4.2
<b>TOTAL OPERATING EXPENSES</b>		<b>-111.1</b>	<b>-142.1</b>	<b>-293.1</b>
Impairment of financial assets		-	-	-13.0
<b>OPERATING PROFIT</b>		<b>14.0</b>	<b>68.9</b>	<b>655.5</b>
Tax expense		-3.1	-15.6	-94.2
<b>NET PROFIT</b>		<b>10.9</b>	<b>53.3</b>	<b>561.3</b>

# Statement of comprehensive income

SEK, million	Jan – Jun 2016	Jan – Jun 2015	Jan – Dec 2015
<b>NET PROFIT</b>	<b>10.9</b>	<b>53.3</b>	<b>561.3</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may subsequently be reclassified to the income statement			
Available-for-sale financial assets	43.1	-48.7	-60.2
Available-for-sale financial assets, transferred to the income statement	-	-	0.1
Tax attributable to items that may subsequently be reclassified to the income statement	-9.5	10.7	13.2
<b>OTHER COMPREHENSIVE INCOME</b>	<b>33.6</b>	<b>-38.0</b>	<b>-46.9</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>44.5</b>	<b>15.3</b>	<b>514.4</b>

# Balance sheet

SEK, million	Note	30 June 2016	30 June 2015	31 December 2015
<b>ASSETS</b>				
Sovereign bonds eligible as collateral	2	25,711.1	28,260.3	16,839.4
Lending to credit institutions	2, 3	1,478.0	5,116.2	699.9
Lending	2	268,882.8	242,088.9	254,421.7
Bonds and other interest-bearing securities	2	45,393.6	48,211.7	45,688.4
Shares and participations		3.1	2.6	2.8
Shares and participations in associated companies		-	0.5	0.5
Shares and participations in subsidiaries		42.0	32.0	42.0
Derivatives	2, 3	25,269.4	26,926.1	22,775.6
Intangible assets		14.6	3.1	15.7
Tangible assets		4.3	5.5	4.6
Current tax assets		111.5	117.3	79.0
Other assets	2	179.0	14.8	17.0
Deferred tax assets		28.1	54.6	28.1
Prepaid expenses and accrued revenues		29.1	16.6	11.6
<b>TOTAL ASSETS</b>		<b>367,146.6</b>	<b>350,850.2</b>	<b>340,626.3</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>				
<b>Liabilities and provisions</b>				
Liabilities to credit institutions	2	2,708.0	2,382.9	2,303.5
Securities issued	2	346,626.1	330,213.1	318,943.6
Derivatives	2, 3	10,413.3	13,864.4	11,723.1
Other liabilities	2	367.4	125.6	2,163.5
Accrued expenses and prepaid revenues		148.5	190.3	144.9
Provisions for pensions and similar commitments		3.8	3.2	3.4
Subordinated liabilities	2	1,000.0	1,000.0	1,000.0
<b>Total liabilities and provisions</b>		<b>361,267.1</b>	<b>347,779.5</b>	<b>336,282.0</b>
<b>Equity</b>				
<b>Restricted equity</b>				
Share capital (54,170,590 shares, quoted value SEK 100)		5,417.1	2,726.4	3,926.4
Development expenditure reserve		0.8	-	-
Statutory reserve		17.5	17.5	17.5
<b>Unrestricted equity</b>				
Fair value reserve		-0.7	-25.4	-34.3
Profit/loss brought forward		433.9	298.9	-126.6
Net profit for the period		10.9	53.3	561.3
<b>Total equity</b>		<b>5,879.5</b>	<b>3,070.7</b>	<b>4,344.3</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>367,146.6</b>	<b>350,850.2</b>	<b>340,626.3</b>

# Statement of changes in equity

SEK, million	Restricted equity			Unrestricted equity			Total equity
	Share capital	Development expenditure reserve	Statutory reserve	Fair value reserve <sup>1</sup>	Profit or loss brought forward	Net profit for the period	
<b>Equity brought forward 1 Jan 2016</b>	<b>3,926.4</b>	<b>0.0</b>	<b>17.5</b>	<b>-34.3</b>	<b>-126.6</b>	<b>561.3</b>	<b>4,344.3</b>
Net profit for the period						10.9	10.9
Capitalised in the period		0.8			-0.8		0.0
Other comprehensive income				33.6			33.6
<b>Total comprehensive income</b>	<b>0.0</b>	<b>0.8</b>	<b>0.0</b>	<b>33.6</b>	<b>-0.8</b>	<b>10.9</b>	<b>44.5</b>
<b>Transactions with shareholders</b>							
Appropriation of surplus					561.3	-561.3	0.0
New share issue	1,490.7						1,490.7
<b>Total transactions with shareholders</b>	<b>1,490.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>561.3</b>	<b>-561.3</b>	<b>1,490.7</b>
<b>Equity carried forward 30 June 2016</b>	<b>5,417.1</b>	<b>0.8</b>	<b>17.5</b>	<b>-0.7</b>	<b>433.9</b>	<b>10.9</b>	<b>5,879.5</b>
<b>Equity brought forward 1 Jan 2015</b>	<b>2,046.4</b>	<b>0.0</b>	<b>17.5</b>	<b>12.6</b>	<b>-269.5</b>	<b>568.4</b>	<b>2,375.4</b>
Net profit for the period						53.3	53.3
Other comprehensive income				-38.0			-38.0
<b>Total comprehensive income</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-38.0</b>	<b>0.0</b>	<b>53.3</b>	<b>15.3</b>
<b>Transactions with shareholders</b>							
Appropriation of surplus					568.4	-568.4	0.0
New share issue	680.0						680.0
<b>Total transactions with shareholders</b>	<b>680.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>568.4</b>	<b>-568.4</b>	<b>680.0</b>
<b>Equity carried forward 30 June 2015</b>	<b>2,726.4</b>	<b>0.0</b>	<b>17.5</b>	<b>-25.4</b>	<b>298.9</b>	<b>53.3</b>	<b>3,070.7</b>
<b>Equity brought forward 1 Jan 2015</b>	<b>2,046.4</b>	<b>0.0</b>	<b>17.5</b>	<b>12.6</b>	<b>-269.5</b>	<b>568.4</b>	<b>2,375.4</b>
Net profit for the period						561.3	561.3
Other comprehensive income				-46.9			-46.9
<b>Total comprehensive income</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-46.9</b>	<b>0.0</b>	<b>561.3</b>	<b>514.4</b>
<b>Transactions with shareholders</b>							
Appropriation of surplus					568.4	-568.4	0.0
New share issue	1,880.0						1,880.0
Group contributions					-545.4		-545.4
Tax effect on Group contribution					119.9		119.9
<b>Total transactions with shareholders</b>	<b>1,880.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>142.9</b>	<b>-568.4</b>	<b>1,454.5</b>
<b>Equity carried forward 31 December 2015</b>	<b>3,926.4</b>	<b>0.0</b>	<b>17.5</b>	<b>-34.3</b>	<b>-126.6</b>	<b>561.3</b>	<b>4,344.3</b>

30 June 2016    30 June 2015    31 December 2015

1) The fair value reserve consists of the following  
 - Financial assets available for sale

-0.7    -25.4    -34.3

# Cash flow statement

SEK, million	Jan - Jun 2016	Jan - Jun 2015	Jan - Dec 2015
<b>Operational activities</b>			
Operating profit	14.0	68.9	655.5
Adjustment for items not included in cash flow	259.3	178.1	-104.4
Income tax paid	-42.8	-43.1	66.2
<b>Cash flow from operating activities before changes in the assets and liabilities of operating activities</b>	<b>230.5</b>	<b>203.9</b>	<b>617.3</b>
Change in liquidity reserve	-15,355.6	725.6	7,633.6
Change in lending	-13,477.5	-19,860.0	-32,734.2
Change in other assets	-182.1	-8.8	-29.8
Change in other liabilities	108.5	42.6	2.6
<b>Cash flow from operational activities</b>	<b>-28,676.2</b>	<b>-18,896.7</b>	<b>-24,510.5</b>
<b>Investment activities</b>			
Acquisitions of intangible assets	-0.9	-1.9	-18.1
Acquisition of tangible assets	-0.8	-0.6	-0.5
Divestments of tangible assets	0.3	-	-
Divestment of shares in associated companies	1.8	-	-
<b>Cash flow from investment activities</b>	<b>0.4</b>	<b>-2.5</b>	<b>-18.6</b>
<b>Financing activities</b>			
Issue of interest-bearing securities	77,016.8	71,437.3	121,888.3
Redemption and buybacks of interest-bearing securities	-47,153.0	-51,470.8	-103,395.5
New share issue	1,490.7	680.0	1,880.0
Change in intra-Group liabilities	-1,900.6	-653.2	834.1
<b>Cash flow from financing activities</b>	<b>29,453.9</b>	<b>19,993.3</b>	<b>21,206.9</b>
<b>Cash flow for the period</b>	<b>778.1</b>	<b>1,094.1</b>	<b>-3,322.2</b>
<i>Cash and equivalents at the start of the accounting period</i>	699.9	4,022.1	4,022.1
<b>Cash and equivalents at the end of the accounting period</b>	<b>1,478.0</b>	<b>5,116.2</b>	<b>699.9</b>
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.			
<b>Adjustment for items not included in cash flow</b>			
Depreciation and amortisation	3.0	1.4	5.9
Profit from divestments of tangible assets	-0.1	-	-
Profit from divestments of shares in associated companies	-1.3	-	-
Exchange rate differences from change in financial assets	0.0	0.2	0.9
Unrealised changes in market value	257.7	176.5	-124.2
Impairment of financial assets	-	-	13.0
<b>Total</b>	<b>259.3</b>	<b>178.1</b>	<b>-104.4</b>
<b>Interest paid and earned, included in the cash flow</b>			
Interest received	165.1	1,029.4	1,780.1
Paid interest <sup>1)</sup>	198.8	-751.5	-978.1

1) As paid interest are declared those payments which have been paid and received in relation to the Company's funding activities, as well as payments paid and received in relation to derivatives contracts used to hedge the Company's funding activities.



# Capital adequacy

Since January 1, 2014, capital adequacy has been calculated according to CRR<sup>1</sup>. 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 capital buffers to be introduced under CRD IV<sup>2</sup> require implementation under Swedish law, which has been effectuated through the Act concerning capital buffers (2014:966). For Kommuninvest, only the capital conservation buffer of 2.5

percent applies, as well as the countercyclical buffer, which Finansinspektionen has set at 1.5 percent effective from 27 June 2016 for relevant exposures within Sweden. Kommuninvest is not subject to the requirement for a systemic risk buffer, nor has the Company been identified as a systemically important institution. It is Kommuninvest's assessment that all buffer requirements will be met. Comparative data for January to June 2015 reflect the corrections made public in October 2015.

	30 June 2016	30 June 2015	31 December 2015
Equity according to balance sheet	5,879.5	3,070.7	4,344.3
Less share capital yet to be registered <sup>3</sup>	-	-680.0	-1,200.0
Less adjustment for prudent valuation <sup>4</sup>	-161.6	-15.4	-63.5
Less net profit for the period <sup>5</sup>	-10.9	-53.3	-
Less net profit not distributed <sup>6</sup>	-	-	-149.1
<b>Total core Tier 1 capital</b>	<b>5,707.0</b>	<b>2,322.0</b>	<b>2,931.7</b>
<b>Total Tier 1 capital</b>	<b>5,707.0</b>	<b>2,322.0</b>	<b>2,931.7</b>
<b>Tier 2 capital</b>			
Perpetual debenture loan <sup>7</sup>	1,000.0	1,000.0	1,000.0
<b>Total Tier 2 capital</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>1,000.0</b>
<b>Total capital base</b>	<b>6,707.0</b>	<b>3,322.0</b>	<b>3,931.7</b>
<b>Capital adequacy ratios</b>			
Core Tier 1 capital ratio	75.9%	37.1%	44.6%
Tier 1 capital ratio	75.9%	37.1%	44.6%
Total capital ratio	89.2%	53.1%	59.8%
<b>Buffer requirements</b>			
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical buffer <sup>8</sup>	1.2%	-	0.8%
<b>Total buffer requirements</b>	<b>3.7%</b>	<b>2.5%</b>	<b>3.3%</b>
<b>Core Tier 1 capital available for use as buffer</b>	<b>69.9%</b>	<b>31.1%</b>	<b>38.6%</b>

- 1) European Parliament and Council Regulation (EU) No 575/2013 of 26 June 2013 on supervisory requirements for credit institutions and securities companies and amending Regulation (EU) No 648/2012.
- 2) European Parliament and Council Directive 2013/36/EU of 26 June 2013 on authorisation to conduct operations in credit institutions and on the supervision of credit institutions and securities companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
- 3) Deductions for the increase in share capital registered with the Swedish Companies Registration Office but not yet approved by Finansinspektionen. According to CRR, Kommuninvest may not classify the increase of the share capital as core Tier 1 capital prior until this has been approved by Finansinspektionen. For 30 June 2015, the shares were registered at the Swedish Companies Registration Office on 24 June 2015, and an application to classify the increase in share capital as core Tier 1 capital was submitted to Finansinspektionen and approved on 24 August 2015. For 31 December 2015, the shares were registered on 23 December 2015, with the application being submitted to Finansinspektionen on 18 January 2016 and was approved on 10 May 2016.
- 4) Deductions calculated according to the EBA's technical standard regarding prudent valuation. The purpose is to adjust the uncertainty in valuation regarding positions valued and recognized at fair value.
- 5) Kommuninvest has chosen not to seek permission under CRR article 26 to include net profit for the period in the capital base. The reason is that most of the net profit for the period is expected to be distributed in accordance with Kommuninvest's refund model and should thus be deducted from the capital base.
- 6) Refers to the portion of net profit for the year that has not been distributed to the Kommuninvest Cooperative Society in the form of group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.
- 7) Perpetual debenture 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.
- 8) The countercyclical buffer requirement is calculated as the share of the Company's credit risk exposures multiplied with the countercyclical buffer add-on for the exposure country in question. Amongst the countries with which the Company has credit risk exposures, only Sweden has a buffer add-on exceeding zero. As of 30 June 2016, 82 (81) percent of Kommuninvest's credit exposures were related to Sweden, while the add-on for Sweden amounted to 1.5 (1.0) percent.

	30 June 2016		30 June 2015		31 December 2015	
	Risk exposure	Capital requirement	Risk exposure	Capital requirement	Risk exposure	Capital requirement
Capital requirement for credit risks (the standardised method)	2,764.2	221.1	3,106.3	248.5	2,985.8	238.9
<i>of which, exposures to states and central banks</i>	70.2	5.6	136.5	10.9	70.2	5.6
<i>of which, institutional exposures</i>	699.0	55.9	849.1	67.9	777.9	62.2
<i>of which, corporate exposures</i>	103.2	8.3	72.6	5.8	87.9	7.1
<i>of which, exposures in the form of covered bonds</i>	1,891.8	151.3	2,048.1	163.9	2,049.8	164.0
Capital requirement for operational risks, basic indicator method	1,861.1	148.9	1,573.0	125.8	1,573.0	125.8
Capital requirements for market risks	-	-	-	-	-	-
Capital requirements for credit valuation adjustment	2,891.1	231.3	1,577.4	126.2	2,020.1	161.6
<b>Total risk exposure and minimum capital amount</b>	<b>7,516.4</b>	<b>601.3</b>	<b>6,256.7</b>	<b>500.5</b>	<b>6,578.9</b>	<b>526.3</b>

## Note 1 Accounting principles

The Kommuninvest interim report has been prepared applying the regulation regarding interim reports in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25). Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. In addition, the recommendations of the Swedish Financial Reporting Board on Accounting for legal entities (RFR 2) has been applied.

In accordance with Chapter 7, section 6a of ÅRKL, Kommuninvest has chosen not to prepare consolidated financial statements, see Note 6.

For all material purposes, the accounting policies and calculation methods remain unchanged compared with the 2015 Annual Report. Changes to the Annual Accounts Act (ÅRL) have entailed line items being removed from the balance sheet and development expenditure reserve being introduced – the reserve corresponds to capitalised development expenditure incurred in-house.

New or amended international accounting standards that have been published but that are yet to be implemented are

deemed to have a limited effect on Kommuninvest's net profit, position, disclosure, capital requirements, capital basis or major exposures.

Kommuninvest has begun the process of evaluating IFRS 9 Financial Instruments, which will come into effect on 1 January 2018, replacing IAS 39 Financial Instruments: Recognition and Measurement, but has not yet determined how the standard will affect Kommuninvest's net profit, position, disclosures, capital requirements, capital basis or major exposures.

### *Interest income and interest expenses*

Kommuninvest's interest income consists of interest income from loans and investments, as well as interest income and interest expenses from derivatives that hedge loans and investments.

Kommuninvest's interest expenses consist of interest expenses on funding, as well as interest income and interest expenses from derivatives that hedge borrowings.

Since derivative contracts allow interest to be received in the payment leg, the prevailing interest situation means, in many cases, that Kommuninvest has earned interest on funding and its derivative hedging. This has led to total interest expenses being to a positive amount.

Since 1 September 2015, Kommuninvest grants lending at negative interest rates. This negative interest income is recognised as and interest expense.

## Note 2 Financial assets and liabilities

30 June 2016	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	Holdings for trading purposes		
Sovereign bonds eligible as collateral	13,205.0	-	-	-
Lending to credit institutions	-	-	1,478.0	-
Lending	97,360.0	-	171,522.8	-
Bonds and other interest-bearing securities	36,054.3	-	-	-
Derivatives	-	15,517.3	-	-
Other assets	-	-	178.9	-
<b>Total assets</b>	<b>146,619.3</b>	<b>15,517.3</b>	<b>173,179.7</b>	<b>-</b>
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

31 December 2015	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	Holdings for trading purposes		
Sovereign bonds eligible as collateral	12,568.2	-	-	-
Lending to credit institutions	-	-	699.9	-
Lending	63,452.5	-	190,969.2	-
Bonds and other interest-bearing securities	35,204.1	-	-	-
Derivatives	-	15,792.7	-	-
Other assets	-	-	4.6	-
<b>Total assets</b>	<b>111,224.8</b>	<b>15,792.7</b>	<b>191,673.7</b>	<b>-</b>
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Calculation of fair value

#### General

For financial instruments, fair value calculations are to be divided according to 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:** Valuation is made on the basis of non-observable market data, with significant elements of internal and external estimates.

As only a minor 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. For the vast majority of Kommuninvest's financial instruments, the valuation is based on observable market data according to valuation level 2. For a small part of Kommuninvest's financial instruments, input data not observable in the market or the Company's own estimates have a material effect on valuation, which is thus classed under valuation level 3.

#### Lending

Fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted by current new lending margins. This means that when the new lending margin rises, a lower fair value arises for previous lending, and vice versa.

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	Holdings for trading purposes				
12,506.1	-	-	-	-	25,711.1	25,711.1
-	-	-	-	-	1,478.0	1,478.0
-	-	-	-	-	268,882.8	269,495.9
9,339.3	-	-	-	-	45,393.6	45,393.6
-	-	-	-	9,752.1	25,269.4	25,269.4
-	-	-	-	-	178.9	178.9
<b>21,845.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,752.1</b>	<b>366,913.8</b>	<b>367,526.9</b>
-	2,538.6	-	169.4	-	2,708.0	2,708.0
-	152,427.4	-	194,198.7	-	346,626.1	347,363.9
-	-	8,645.4	-	1,767.9	10,413.3	10,413.3
-	-	-	361.7	-	361.7	361.7
-	-	-	1,000.0	-	1,000.0	1,007.4
-	<b>154,966.0</b>	<b>8,645.4</b>	<b>195,729.8</b>	<b>1,767.9</b>	<b>361,109.1</b>	<b>361,854.3</b>

Available-for-sale financial assets	Financial liabilities at fair value through profit or loss		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Holdings for trading purposes				
4,271.2	-	-	-	-	16,839.4	16,839.4
-	-	-	-	-	699.9	699.9
-	-	-	-	-	254,421.7	254,381.7
10,484.3	-	-	-	-	45,688.4	45,688.4
-	-	-	-	6,982.9	22,775.6	22,775.6
-	-	-	-	-	4.6	4.6
<b>14,755.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,982.9</b>	<b>340,429.6</b>	<b>340,389.6</b>
-	2,223.1	-	80.4	-	2,303.5	2,303.5
-	151,133.4	-	167,810.2	-	318,943.6	319,414.5
-	-	10,328.0	-	1,395.1	11,723.1	11,723.1
-	-	-	2,154.9	-	2,154.9	2,154.9
-	-	-	1,000.0	-	1,000.0	999.9
-	<b>153,356.5</b>	<b>10,328.0</b>	<b>171,045.5</b>	<b>1,395.1</b>	<b>336,125.1</b>	<b>336,595.9</b>

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

For the valuation of securities, quoted market prices are applied. If trading is considered to occur on an active market in accordance with the regulations on liquidity coverage, the valuation is classified under level 1, while other securities are classified under level 2.

During the period, the valuation of securities valued under level 2 in the liquidity reserve has been changed. Previously, fair value was calculated by discounting anticipated future cash flows, with the discount rate set as the swap rate adjusted for the issuer's credit risk. The change to the above-described method took place because the quoted market prices, which are not based on active trading, were considered to better reflect fair value.

*Liabilities to credit institutions, securities issued and subordinated liabilities*

Funding within the framework of the Swedish local government benchmark 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 funding margins for the structure and market of the funding. This means that if current funding margins rise, the fair value of existing funding will decline and vice versa. 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.

*Note 2, continued*

The members' guarantee undertaking affects the valuation of funding and that the guarantee undertaking is taken into account by market players and thus affects quoted market prices and current funding margins. Changes are only considered to occur in Kommuninvest's own credit risk as a consequence of events such as a major downgrading of the Company's rating, or significant amendments to the members' guarantee undertaking that would reduce their collective responsibility for the Company's commitments. Variations in funding margins and consequent changes in the values of liabilities are therefore considered to be attributable to general changes in market prices for credit and liquidity risk rather than to changes in Kommuninvest's own credit risk.

*Derivatives*

Standardised derivatives in the form of FRA contracts scheduled for IMM days and traded in an active market are measured according to level 1. The fair value of other derivatives is calculated via a discount of anticipated future cash flows. Where anticipated future cash flows are dependent on unobservable market data or elements of in-house assessment, 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 swap rates and, since it hedges other market risks, it is changes in borrowing and lending margins, basis swap spreads and credit spreads, on holdings in the liquidity reserve that give rise to the changes in market value.

An increase in the lending price, in relation to swap rates, by 10 basis points on the receivables recognised at fair value would mean a negative change in net profit of SEK 235 (143) million.

An increase in the funding cost, in relation to swap rates, by 10 basis points on the liabilities recognised at fair value would mean a positive change in net profit of SEK 311 (309) million. A parallel displacement in the lending and funding price, in relation to swap rates, by 10 basis points would mean a change in net profit of SEK +/-76 (+/-166) 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 net profit of SEK +/-20 (+/-13) million.

All of the above changes pertain to the balance sheet date and are net of tax effects. Comparative figures related to 31 December 2015. 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 funding 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 hedge 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 net profit of these contracts is realised when Kommuninvest's funding margins for this type of funding 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 net profit 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 maturity at 1.8 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable funding in the interval of 1.0 – 3.2 years. This would have an effect on net profit in the interval SEK -3.1 million – SEK +1.9 million.

*Approval of valuation models*

The valuation models applied are approved by the CFO and reported to company's ALCO (Asset and Liability Committee) and the Board of Directors. 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 valuation models and market data used in the valuation.

Note 2, continued

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

<b>30 June 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Sovereign bonds eligible as collateral	13,205.0	12,506.1	-	25,711.1
Lending	-	97,360.0	-	97,360.0
Bonds and other interest-bearing securities	38,805.6	6,588.0	-	45,393.6
Derivatives	1.9	24,680.1	587.4	25,269.4
<b>Total</b>	<b>52,012.5</b>	<b>141,134.2</b>	<b>587.4</b>	<b>193,734.1</b>
Liabilities to credit institutions	-	2,538.6	-	2,538.6
Securities issued	-	144,753.8	7,673.6	152,427.4
Derivatives	2.9	9,738.6	671.8	10,413.3
<b>Total</b>	<b>2.9</b>	<b>157,031.0</b>	<b>8,345.4</b>	<b>165,379.3</b>

Kommuninvest continuously reviews the criteria for the allocation into levels of financial assets and liabilities to be measured at fair value; see "Calculation of fair value" above. Over the period, SEK 2,076.4 million has been transferred from level 2 to level 1 and SEK 457.6 million from level 1 to level 2. All transfers are considered to have been made as of 30 June 2016.

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Sovereign bonds eligible as collateral	12,568.2	4,271.2	-	16,839.4
Lending	-	63,452.5	-	63,452.5
Bonds and other interest-bearing securities	38,711.4	6,977.0	-	45,688.4
Derivatives	0.4	22,479.0	296.2	22,775.6
<b>Total</b>	<b>51,280.0</b>	<b>97,179.7</b>	<b>296.2</b>	<b>148,755.9</b>
Liabilities to credit institutions	-	2,223.1	-	2,223.1
Securities issued	-	147,219.7	3,913.7	151,133.4
Derivatives	2.6	10,245.8	1,474.7	11,723.1
<b>Total</b>	<b>2.6</b>	<b>159,688.6</b>	<b>5,388.4</b>	<b>165,079.6</b>

Kommuninvest continuously reviews the criteria for the allocation into levels of financial assets and liabilities to be measured at fair value; see "Calculation of fair value" above. During the period, SEK 100.8 million was transferred from level 2 to level 1. All transfers are considered to have taken place as per 31 December 2015.

**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). Value changes in Level 3 are followed up continuously over the year.

	<b>Derivative assets</b>	<b>Derivative liabilities</b>	<b>Liabilities to credit institutions</b>	<b>Securities issued</b>	<b>Total</b>
<b>Opening balance, 1 January 2015</b>	<b>479.5</b>	<b>-844.9</b>	<b>-205.1</b>	<b>-9,516.1</b>	<b>-10,086.6</b>
Recognised gains and losses:					
- recognised in the income statement (net result of financial transactions)	-183.3	-629.8	0.4	797.5	-15.2
Raised loans, issued securities	-	-	-	-2,430.9	-2,430.9
Matured during period	-	-	204.7	7,235.8	7,440.5
<b>Closing balance, 31 December 2015</b>	<b>296.2</b>	<b>-1,474.7</b>	<b>0.0</b>	<b>-3,913.7</b>	<b>-5,092.2</b>

Gains and losses recognised in the income statement (net result of financial transactions) for assets and liabilities included in the closing balance as per 31 December 2015	1.7	-822.6	-	821.1	0.2
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<b>Opening balance, 1 January 2016</b>	<b>296.2</b>	<b>-1,474.7</b>	<b>0.0</b>	<b>-3,913.7</b>	<b>-5,092.2</b>
Recognised gains and losses:					
- recognised in the income statement (net result of financial transactions)	291.2	802.9	-	-1,094.0	0.1
Raised loans, issued securities	-	-	-	-3,739.2	-3,739.2
Matured during period	-	-	-	1,073.3	1,073.3
<b>Closing balance, 30 June 2016</b>	<b>587.4</b>	<b>-671.8</b>	<b>0.0</b>	<b>-7,673.6</b>	<b>-7,758.0</b>

Gains and losses recognised in the income statement (net result of financial transactions) for assets and liabilities included in the closing balance as per 30 June 2016	-242.6	195.4	-	47.4	0.2
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Because the instruments in level 3 are hedged on a transaction basis, and each borrowing combination behaves as a borrowing combination in level 2, the changes in value are analysed in the same manner.

### Note 3 Information on financial assets and liabilities subject to offsetting

To limit the market risks that arise when contractual funding and lending terms do not match, Kommuninvest uses risk management instruments in the form of derivative contracts.

Kommuninvest's derivatives are what are known as OTC derivatives, that is, they are not traded on an exchange but are issued under 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.

30 June 2016	Amounts <sup>1</sup> reported in the balance sheet	Related amounts that are not offset in the balance sheet			Net amount
		Financial instruments	Provided (+)/received (-) collateral – security	Provided (+)/received (-) cash collateral	
<b>Assets</b>					
Derivatives	25,269.4	-9,741.7	-11,084.5	-	4,443.2
Repos <sup>2</sup>	599.8	-	-599.7	-	0.1
<b>Liabilities</b>					
Derivatives	-10,413.3	9,741.7	-	-	-671.6
<b>Total</b>	<b>15,455.9</b>	<b>0.0</b>	<b>-11,684.2</b>	<b>-</b>	<b>3,771.7</b>

31 December 2015	Amounts <sup>1</sup> reported in the balance sheet	Related amounts that are not offset in the balance sheet			Net amount
		Financial instruments	Provided (+)/received (-) collateral – security	Provided (+)/received (-) cash collateral	
<b>Assets</b>					
Derivatives	22,775.6	-9,661.4	-11,391.2	-	1,723.0
Repos <sup>2</sup>	80.9	-	-80.8	-	0.1
<b>Liabilities</b>					
Derivatives	-11,723.1	9,661.4	-	-	-2,061.7
<b>Total</b>	<b>11,133.4</b>	<b>0.0</b>	<b>-11,472.0</b>	<b>-</b>	<b>-338.6</b>

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

### Note 4 Leverage ratio

	30 June 2016	31 December 2015
Total assets	367,146.6	340,626.3
Less derivatives according to the balance sheet	-25,269.4	-22,775.6
Plus derivatives exposure	15,527.7	13,114.2
Plus possible change in derivatives risk	6,033.1	4,892.0
Plus off-balance sheet commitments	1,692.9	2,903.3
<b>Total exposure</b>	<b>365,130.9</b>	<b>338,760.2</b>
<b>Tier 1 capital, calculated applying transitional rules, see the section Capital adequacy</b>	<b>5,707.0</b>	<b>2,931.7</b>
<b>Leverage ratio</b>	<b>1.56%</b>	<b>0.87%</b>

### Note 5 Transactions with related parties

Transactions with related parties are disclosed in Note 25 of Kommuninvest's annual report for 2015. No transactions have taken place with Administrative Solutions NLGFA AB (associated company) during the period in 2016 due to voluntary liquidation. Otherwise, no significant changes have taken place in relationships or transactions with related parties compared with those described in the annual report for 2015.

### Note 6 Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the Parent Company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts its operations. In accordance with chapter 7, section 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 net profit. Kommuninvest Fastighets AB has a balance sheet total of SEK 54.0 (55.5) million, equity of SEK 43.5 (42.9) million and generated a net profit of SEK 591.7 (155.1) thousand for the first six months of the year.

### Note 7 Events after the balance sheet date

No significant events have occurred after the end of the reporting period.



# Board member signatures

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

*Örebro, 30 August 2016*

Ellen Bramness Arvidsson  
*Chairman*

Kurt Eliasson  
*Board Member*

Anna von Knorring  
*Board Member*

Erik Langby  
*Board Member*

Anna Sandborgh  
*Board Member*

Johan Törngren  
*Board Member*

Lars Heikensten  
*Board Member*

Anders Pelander  
*Employee representative*

Tomas Werngren  
*President and CEO*

*The report contains information that Kommuninvest is required to publish under the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 31 August 2016 at 08:00 a.m.*

# Alternative key ratios

In this interim report, Kommuninvest i Sverige AB has chosen to present a number of alternative key ratios that are not defined or specified in the applicable rules on financial

reporting. These alternative key ratios have been defined in accordance with the guidelines of the European Securities and Markets Authority (ESMA).

Alternative key ratios	Definition
Operating profit excluding the effect of unrealised market value changes <sup>1</sup>	Operating profit reduced with the result of unrealised market value changes that are included in the income statement item Net profit from the financial transaction. The key ratio is of interest in showing Kommuninvest's underlying earning capacity.
Leverage ratio according to CRR (%) <sup>2</sup>	Kommuninvest's Tier 1 capital divided by Kommuninvest's total exposure measure. The key ratio is of interest in showing how Kommuninvest meets the future leverage ratio requirement.
Leverage ratio including debenture loan (%) <sup>2</sup>	Kommuninvest's Tier 1 capital plus the debenture loan divided by Kommuninvest's total exposure measure. The debenture loan comprises in its entirety the balance sheet item Subordinated liabilities. The key ratio is of interest in showing how Kommuninvest meets the future regulatory leverage ratio requirement if the debenture loan were classified as Tier 1 capital.

Reconciliation	2016	2015
Operating profit	14.0	68.9
Result of unrealised changes in market value	-257.7	-176.5
<b>Operating profit excluding the effect of unrealised market value changes</b>	<b>271.7</b>	<b>245.4</b>
Tier I capital	5,707.0	2,931.7
Exposure measures	365,130.9	338,760.2
<b>Leverage ratio according to CRR (%)</b>	<b>1.56%</b>	<b>0.87%</b>
Tier I capital	5,707.0	2,931.7
Debenture loan	1,000.0	1,000.0
<b>Tier 1 capital including debenture loan</b>	<b>6,707.0</b>	<b>3,931.7</b>
Exposure measures	365,130.9	338,760.2
<b>Leverage ratio including debenture loan (%)</b>	<b>1.84%</b>	<b>1.16%</b>

1) Comparative data for 2015 relates to the period 1 January to 30 June 2015.

2) Comparative data for 2015 relates to 31 December 2015.

# Auditor's review report

**To the Board of Directors of Kommuninvest i Sverige AB (publ).  
Corporate identity number 556281-4409**

## Introduction

We have reviewed the interim report for Kommuninvest i Sverige AB (publ) as per 30 June 2016 and the six-month period ending on that date. It is the Board of Directors and the President who are responsible for the presentation of this interim report in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

## Focus and scope of the review

We have conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of the interim report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and

applying analytical and other review procedures. A review is substantially less in scope compared to an audit conducted according to the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. This statement of opinion based on a review therefore does not have the assurance that an opinion based on an audit has.

## Opinion

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

*Örebro, 30 August 2016*

KPMG

Anders Tagde  
*Authorised Public Accountant*



# KOMMUNINVEST

Swedish Local Government Debt Office

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