KOMMUNINVEST I SVERIGE AB

Annual Report 2018

KOMMUNINVEST

INTRODUCTION

SUSTAINABILITY REPORT

BOARD OF DIRECTORS' REPORT

FINANCIAL STATEMENTS

The Annual Report for Kommuninvest i Sverige AB (publ) is presented on pages 23–95. On pages 1–22 "Kommuninvest" refers to the Kommuninvest Cooperative Society and/or to Kommuninvest i Sverige AB. From page 23 and onwards, it refers to Kommuninvest i Sverige AB, unless otherwise stated.
The Annual Report for the Parent Society, the Kommuninvest Cooperative Society, is available at www.kommuninvest.se/en
While care has been taken in translation, readers are reminded that the original annual report, signed by the Board of Directors, is in Swedish.

Working together for better terms

Kommuninvest's role entails offering secure and cost-effective financing to its members and customers – Swedish municipalities, regions, municipal companies and other local government actors.

277
+11

Kommuninvest is owned by 277 municipalities and 11 regions.

Organisation with clear division of roles

Kommuninvest comprises two parts. Kommuninvest Cooperative Society (the Society) is one part and the credit market company Kommuninvest i Sverige AB (the Company) is the other.

Kommuninvest Cooperative Society
Administrates membership and the joint and several guarantee.

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

Kommuninvest i Sverige AB
Conducts the financial operations, including funding, liquidity management and lending.

The Board of Directors consists of individuals with expertise in areas such as public administration, capital markets and business development.

Green Loans

Green Loans

Green loans were introduced in 2015 for financing environmental and climate-related investments. Since the launch, the volume of Green loans has increased to SEK 40 billion.

AAA

Aaa

Kommuninvest has the highest possible credit rating, AAA/Aaa, and a stable outlook.

Our vision

Kommuninvest shall 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.

Basic concept

Together, municipalities and regions can borrow more securely and inexpensively than each of them could individually. Together, the local government sector can also increase its expertise in financial management.

Since 1986

Since its inception in 1986, Kommuninvest has helped reduce the Swedish local government sector's funding expenses by many billions of kronor. Ultimately this has benefited citizens who have had access to improved public services at both the local and regional levels.

SEK
354
billion

Lending to members amounted to SEK 354 billion at the end of 2018.

Important events during the year

In 2018, Barclays became a retailer of the Swedish bonds and new digital tools were launched to customers. The year also brought new owner directives making it possible to lower lending prices, and a preliminary leverage ratio requirement for gross debt from the EU, which Kommuninvest meets.

Vårgårda Bostäders environment-smart construction project.

New bank sells Kommuninvest bonds

As of 1 January 2019, the number of retailers of Kommuninvest's Swedish Benchmark Programme increased with the addition of the international bank Barclays.

The addition of Barclays is part of Kommuninvest's long-term strategy of establishing local government bonds as a liquid part of the Swedish bond market, and is further motivated by increased interest from foreign investors in Kommuninvest's bonds denominated in SEK.

During 2018, Kommuninvest's bonds were also included in Nasdaq's broadest bond index, OMRXALL, and have been approved as collateral with the clearing organisation LCH.

New leverage ratio proposal from the EU

The European Commission has presented a preliminary proposal for new regulations for Public Development Credit Institutions. The proposal entails the required leverage ratio being set at 3 percent and that direct and indirect exposures to the public sector may be deducted when calculating the leverage ratio.

Since, in Kommuninvest's assessment, all criteria in the proposal for being counted as a public development credit institution are met, Kommuninvest can deduct all lending to members and their companies while meeting the new capital requirement and by a good margin. The proposal is expected to be completed in the first quarter of 2019 and can then come into effect by 1 July 2019 at the earliest, to be ratified at the national level two years later.

New applications for efficient lending

Kommuninvest constantly strives to improve and simplify matters for customers. During the year, several new technical solutions were launched to facilitate opportunities for borrowing from Kommuninvest.

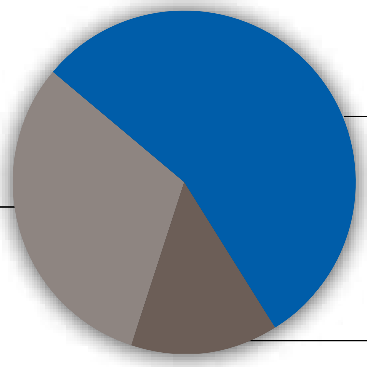
During the spring, KI Prislista was launched, a new application within KI Finans providing price illustrations for the various loan options. A digital quotation request, KI Offert, was introduced after the summer allowing customers to request a loan offer through KI Finans. KI Signera, the latest addition, makes it possible to sign loan agreements with the support of a mobile bank identification application. Additional functions will be developed and launched in 2019.

Lower margin in lending to customers

At the Annual General Meeting in April 2018, the owner directive was amended to enable a price reduction for customers. This entails the Company's lending margin no longer taking into account fluctuations in unrealised market value and expected loan losses.

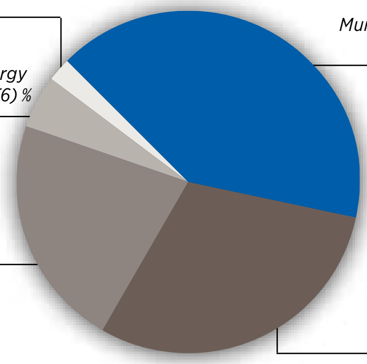
Initially, the margin was lowered from 23 basis points to 16.5 and, in December 2018, to 14.5. The price change strengthened the already high lending rate, particularly to members with their own funding programmes. In the long term, however, refunds to members will be lower.

MARKET SHARES, LOCAL GOVERNMENT LOAN FINANCING[1]



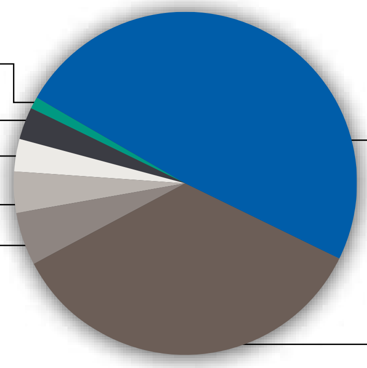
1) Forecast regarding outstanding funding (figures in brackets refer to actual outstanding funding in accordance with members' own annual reports as per 31 December 2017).

LENDING PORTFOLIO BY BORROWER CATEGORY



2) Some lending to municipalities is on-lent to municipal companies through municipal internal banks.

FUNDING PORTFOLIO BY PROGRAMME



All charts refer to 31 December 2018. Figures in parentheses refer to 31 December 2017.

MULTI-YEAR SUMMARY, KOMMUNINVEST I SVERIGE AB

	2018	2017	2016	2015	2014
Balance sheet total, SEK billion	417.2	356.9	361.7	340.6	312.1
Lending, SEK billion	355.7	310.1	277.0	254.4	222.8
Net profit, SEK, million	586.1	876.0	309.8	561.3	568.4
Members, total	288	288	286	280	280
of which, municipalities	*277*	*277*	*275*	*272*	*272*
of which, regions	*11*	*11*	*11*	*8*	*8*
Core Tier I capital ratio[1], %	188.4	212.4	103.7	44.6	34.6
Tier I capital ratio[2], %	188.4	212.4	103.7	44.6	34.6
Total capital ratio[3], %	188.4	212.4	122.1	59.8	49.3
Leverage ratio according to CRR[4], %	1.75	1.78	1.56	0.87	0.75

1) Core Tier I capital in relation to total risk exposure. See also pages 35-36 and Note 3.
2) Tier I capital in relation to total risk exposure. See also pages 35-36 and Note 3.
3) Total capital base in relation to total risk exposure. See also pages 35-36 and Note 3.
4) Tier I capital in relation to total assets and commitments (exposures). See also page 36 and Note 3.

Support for key public mission

An increasing number of municipalities and regions are choosing Kommuninvest for all of their funding needs. Supporting members in their public mission is our core task, and one that imposes commitment. How we develop our operations to achieve the best possible benefit for members was the Board of Directors' principal focus during the year.

As this is being written, a global slowdown appears to be imminent and financial forecasts are being dialled back. In this climate it is important to be vigilant of the fact that causal relationships we have been accustomed to in the past may no longer be valid – (geo)politically, economically and financially. For the capital markets, the withdrawal of the central banks' programmes for quantitative easing may change how risk is viewed and could have significant consequences.

In light of this prevailing uncertainty, it is gratifying that Kommuninvest's operations are developing so stably, maintaining a good capacity to respond to members' financing needs.

Sustainable in every sense

Municipalities and regions perform a key public mission, particularly perhaps with regard to matters of sustainability. During the year, the Board of Directors discussed the requirements it imposes on the Company. The fact that we have been offering Green Loans for a couple of years helps draw attention to the issue of climate in a favourable way, and demonstrates how Kommuninvest can be used as a tool in the transition process.

It is crucial that the operations are themselves sustainable in all respects. When Kommuninvest, through financing and other services, helps members complete their public missions, it must be able to withstand scrutiny regarding broad aspects of sustainability, including ethical, social and environmental attributes, while complying with the Local Government Act and the level of risk taking defined by the members.

"The long-term development of the operations is vital and was in focus over the year. The Company stands well equipped.

Focus on operational development

Holding open, qualified and forward-looking discussions is important for the work of the Board, and I feel we have accomplished that. Over the year, we devoted much of our time to the strategic development of the Company's operations. Based on effective financing solutions, how will Kommuninvest further develop its services and range to provide good support for efficient financial management in Swedish municipalities and regions. As a natural step, the Company has also engaged a number of members and customers in its work.

Well equipped

The Board of Directors believes that the Company has good prospects of meeting the future needs of the operations and external challenges. The business developed well in 2018, a year characterised by a strong focus on customer and member benefit through, for example, new digital services, more efficient business processes and, not least, a changed pricing model for lending. Employees willing to embrace change and a committed management team have facilitated development and are essential in being able to deliver. The Company stands well equipped for the future.

The preconditions for local government financing collaboration have been clarified.

The proposed decisions on financial regulations currently being discussed, where central elements affecting us appear to have been finalised, favour the Kommuninvest partnership. The amended pricing strategy has meant that an increasing share of local government groups' funding is arranged through Kommuninvest.

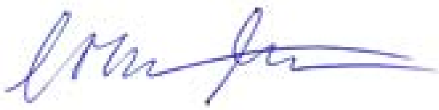
Growing responsibility

It is gratifying that the partnership through Kommuninvest is growing increasingly important for members. In 2010, ten members arranged all of their funding through Kommuninvest – in 2018, that group had grown to 100 members. Today, more than 200 members arrange more than 95 percent of their loan financing through Kommuninvest.

This testifies that the Company is fulfilling its basic mission to provide cost-efficient financing supporting members' public investments. And this underscores how imperative it is that we meet members' expectations, both with regard to financing – that is, providing access to liquidity – and to developing the services that the Company provides. On the Board of Directors, we take this very seriously.

A company that is owned by its members must work closely with them. Accordingly, those of us on the Board of Directors of the Company appreciate the fruitful collaboration we have enjoyed with the Board of the Cooperative Society over the year. We feel that our discussions have led to even greater consensus on the long-term development of the operations.

Kommuninvest i Sverige AB



Ellen Bramness Arvidsson
Chairman

Better local government financial management

A process of change focusing on increased benefit for members and customers is in progress. In cooperation with our customers, the objective is to broaden the range of products and services. Digitalising the business represents both a prerequisite and a challenge and, at the same time, operating expenses should be restricted. In this process, nurturing members' substantial confidence in the operations is essential.

Municipalities' and regions' favourable financial results in recent years have helped reduce the need to finance major investments stemming from population growth, urbanisation and the increase in older and younger inhabitants through loans. Despite high investment levels, local government debt is therefore growing at a lower rate than previously. In relation to GDP, debt is low and clearly manageable. However, the sector's skills supply challenge is of concern from both an operational and expense perspective.

Increasingly important tool

Today, many municipalities and regions rely heavily on Kommuninvest for their financing, and borrow more from Kommuninvest than ever before. For my colleagues and myself, this fills us with both pride and humility.

At the end of the year, lending exceeded SEK 350 billion, partly as an effect of the members' decision regarding a new pricing strategy. Quoted lending rates have been cut, meaning, in the long term, that Kommuninvest's net profit and refunds will gradually decrease. A high level of customer satisfaction is probably also contributing to Kommuninvest being selected over other funding alternatives.

"Today, many municipalities and regions rely heavily on Kommuninvest for their financing. This fills us with both pride and humility.

Cost control and efficiency

Maintaining good cost control is a particular priority, as operating expenses have risen sharply over the past ten years, mainly as a consequence of increased official reporting requirements. In 2018, however, the increase in expense was marginal. In relation to lending volume, the Company's operating expenses over the year decreased to 5.7 (6.5) basis points, excluding the resolution fee.

We work extensively on efficiency in our core lending and funding processes and are pleased that our international funding is functioning so well in terms of accessibility and pricing. This was significant in 2018, when five major benchmark programmes denominated in USD were implemented with favourable results. Areas to continue working on with regard to funding include the Swedish market and strategic currency diversification. Kommuninvest's increasing responsibility for the financing of the local government sector adds weight to these issues.

The mission is changing

Today, modern technology enables development of product and service offerings in completely new ways. At Kommuninvest, we are working to fully automate the lending process. Over the year, price lists updated in real time were introduced on the website, as well as a bid application linked directly to the business system. Loan agreements entered into by customers can now be signed digitally.

When time for analysis and follow-up can be freed up on both sides, relations with customers and members will change, for our part imposing demands on both skills reinforcement and development. This is such an important issue that Skills is one of our four focus areas, in addition to Customers, Efficiency and Digitalisation.

Towards the right conditions

It is now apparent that institutions such as Kommuninvest will be recognised as Public Development Credit Institutions (PDCIs) in future EU regulations. This will, to a greater extent, afford us appropriate conditions and more reasonable capital requirements, which is, of course, welcome. At the same time, it can be noted that no corresponding change has occurred with regard to requirements on our reporting to government authorities, which is challenging since it drives up expenses.

Development alongside customers

In my view, Kommuninvest has continued to develop well, in line with its vision of being the world's best organisation for local government financial management. We nonetheless perceive several areas for improvement that need to be addressed to meet the legitimate expectations of the members.

With the insight that the trust of our members is our foremost asset, my employees and I will continue seeking to develop and streamline the operations, in close cooperation with members and customers. Kommuninvest shall provide the best support in streamlining and improving municipalities and regions' financial management processes.

Kommuninvest i Sverige AB

Tomas Werngren
President & CEO

How Kommuninvest helps build welfare

Kommuninvest finances more than half of the Swedish local government sector's investments in new housing, schools, homes for the elderly, swimming baths and other infrastructure investments.

Through our lending, we provide conditions for Swedish municipalities and regions to invest cost-efficiently in welfare. Since the financial crisis ten years ago, Kommuninvest's share of the local government sector's funding has risen sharply and today we account for about half of the total loan debt. The explanation is partly that municipalities and regions have increasingly joined Kommuninvest as members, and partly that the new, stricter regulations have made it increasingly difficult for banks and other financial institutions to compete with our favourable credit terms.

1. Funding

Kommuninvest continuously raises funding both in Sweden and in the international capital market. The local government sector's inherent stability combined with our members' joint and several guarantee undertaking means that Kommuninvest's funding is regarded as highly secure. From a credit risk perspective, Kommuninvest's funding is regarded as equivalent to the Swedish central government's own funding. The low risk, combined with Kommuninvest's history and good reputation in the capital market, affords us access to financiers who generally lend to us on favourable terms. To be able to meet our members' credit requirements, even when the markets are uneasy, we always maintain surplus liquidity in reserve, that is, assets not yet earmarked for lending to our members.

2. Loan application and credit check

When one of Kommuninvest's customers decides to borrow money for one or more investments, the municipality or the region contacts Kommuninvest to apply for a loan. Normally, our lending is not tied to any specific purpose and, in accordance with the Swedish principle of local self-government, borrowers need not account for how the money will be used.

Since we have usually known our members well for many years, we generally have a good knowledge of their financial situation. Kommuninvest performs regular checks to determine customers' credit capacity and, in connection with each lending decision a check is made to ascertain whether the loan to be granted is in line with the customer's credit capacity. Together we find a solution that both meets the needs of the borrower and takes into account the combined borrowing debt of the Society's members.

3. Green Loans

If the investment for which a municipality or region is borrowing money is compatible with Sweden's environmental objectives or those of the region and contributes to a more resource-efficient and climate-resistant society, the borrower has the opportunity to receive a Green Loan. For the Environmental Committee to grant a Green Loan, the investment must meet to a number of predetermined sustainability criteria and be included in one of eight categories, including investments in renewable energy, climate-smart buildings, sustainable transport and energy efficiency. Kommuninvest finances its green lending by issuing Green Bonds, which are sought after by investors and meet a number of requirements to be recognised as green. Read more about Kommuninvest's Green loans on page 20.

4. Disbursement of loans

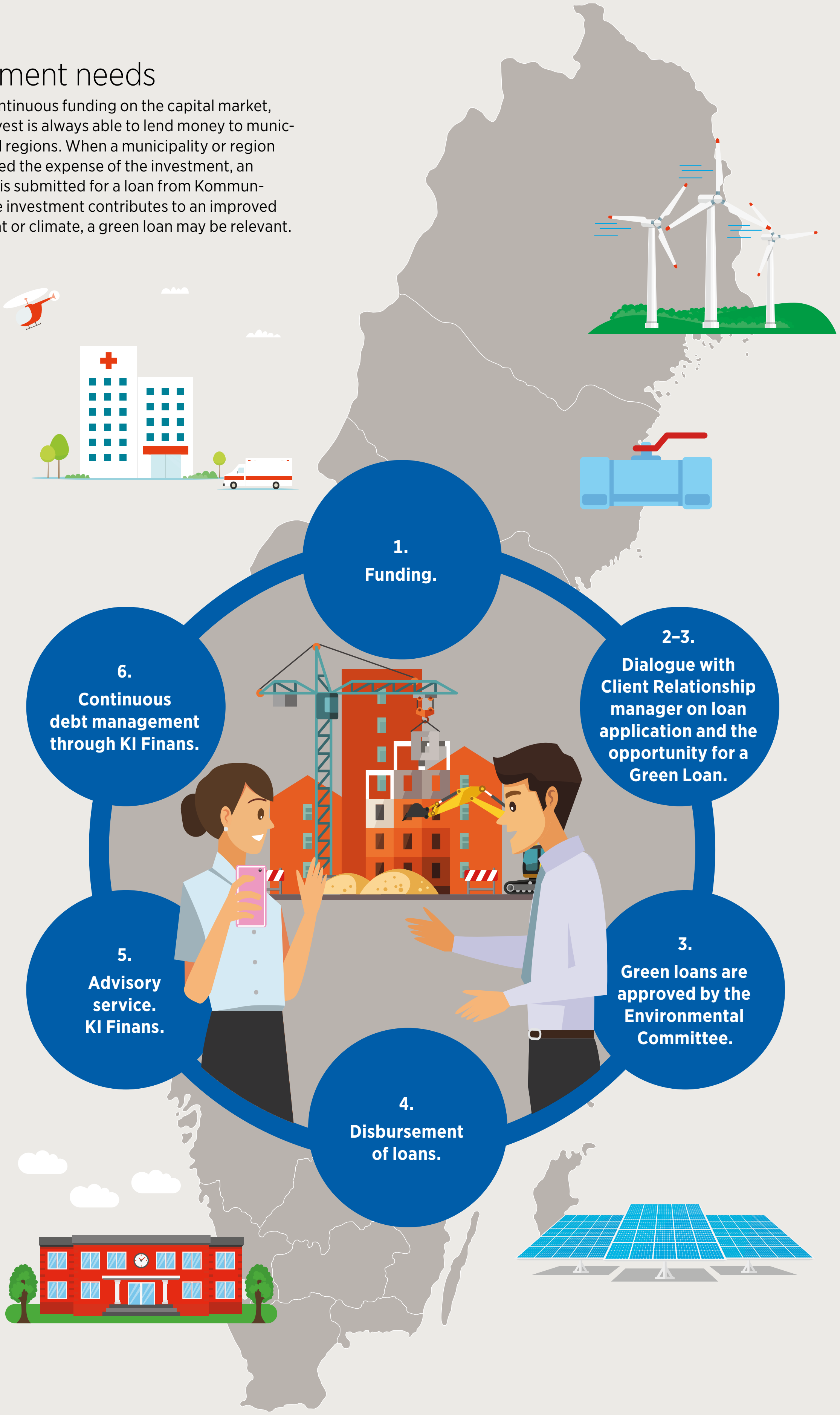
Because we know our members well and apply a fast and efficient credit process, the time from the first call regarding the borrowing requirement until the loan can be disbursed is brief. If a Green Loan is involved, we take care of the additional administration and documentation that green financing requires, such as the ongoing external review and reporting to investors having purchased Kommuninvest's Green Bonds.

5–6. Advice and debt management through KI Finans

Throughout the term of the loan, the borrower is in continuous contact with our Client Relationship manager and has access to all of Kommuninvest's combined expertise. In the web-based financial management service KI Finans, customers' finance officers have access to transaction management, analysis and reporting of liabilities and assets.

Investment needs

Through continuous funding on the capital market, Kommuninvest is always able to lend money to municipalities and regions. When a municipality or region has estimated the expense of the investment, an application is submitted for a loan from Kommuninvest. If the investment contributes to an improved environment or climate, a green loan may be relevant.



How we generate sustainable values

Through lending to municipalities and regions, Kommuninvest establishes conditions for the expansion of Swedish welfare, increases the stability of local government finances and contributes to a more sustainable Sweden.

The municipalities and regions form the backbone of the Swedish welfare state. It is under the their management that citizens encounter the most central social services, including healthcare, education and residential care. They also play a central role in the basic social infrastructure, in the form of housing construction, energy supply, public transport, water and sanitation, waste management and recycling, etc.

Local government actors are also a driving force behind Swedish sustainability efforts, with ambitious environmental plans and being responsible for urban planning, local infrastructure and public transport. More than 90 percent of the municipalities have set their own environmental targets or have adopted national or regional targets. They frequently aim higher than the national target of a fossil-free Sweden by 2045.

Generating direct values

In its role as the largest lender to the Swedish municipal sector by a wide margin, Kommuninvest helps generate both direct and indirect values. Among the direct values, the most important is that the cost-efficient lending we provide brings financial stability to municipalities and regions. Our lending makes it possible to carry out essential investments in welfare and sustainability – and to a greater extent or at a faster pace than would have been possible if credit had been more expensive. We also offer our members a tool for easier and more efficient debt management that we have developed in-house, KI Finans, the full-scale version of which is used by 204 out of 288 members. Because of its good financial results, Kommuninvest's members have been able to receive an annual distribution of surpluses, consisting of refunds and interest on contribution capital. In 2018, SEK 969.8 million in surpluses was distributed for the 2017 financial year.

Generating indirect value

The most important values that Kommuninvest contributes to creating are of course the results of all of the investments financed by our lending. These involve welfare investments including new or refurbished homes for the elderly, schools and healthcare centres, or various forms of infrastructure such as roads, public transport, energy, water/sewerage. Cost-efficient, long-term financing provides conditions for municipalities and regions to make significant investments at the pace needed to meet increased requirements on level of service, population growth and other needs arising in common welfare. Because 96 percent of Sweden's municipalities and 55 percent of its regions are members of Kommuninvest, our lending contributes to making beneficial investments from north to south, in turn engendering conditions for people to live and work in all parts of Sweden.

Kommuninvest works actively to build up capacity and increase knowledge of the local government sector's financial conditions. This is achieved by collaborating on research with Örebro University, developing customised courses for elected local government representatives and officials in collaboration with the Stockholm School of Economics, and so-called Society Lab networks for young politicians on how we make local government financial data available in open databases. In this way, Kommuninvest helps produce the conditions needed for long-term sound and sustainable local government finances. We are also a partner of the Vadstena Forum for Public Construction, which arranges symposia to promote an open debate and exchange of knowledge on public construction issues.

For a long time, municipalities and regions have had clear assignments to shape a sustainable society. Today, the sustainability debate has broadened to cover a wide range of aspects, not least on how we take responsibility for the society we pass on to future generations. Consequently, virtually all local government sector investments have a sustainability focus – particularly when it comes to investments aimed at reducing negative effects on the climate, building long-term sustainable societies, promoting clean water and sustainable energy, and sustainably developing industry, innovations and infrastructure. These investments help meet several of the component targets in the UN's Agenda 2030, on which many actors in the local government sector hold a position. A significant portion of investments promoting sustainability are financed with Kommuninvest's Green Loans, which were introduced in 2015. At the end of 2018, SEK 39.5 billion in Green Loans had been granted regarding 232 projects in 109 municipalities and regions.

Kommuninvest finances Green Loans by issuing Green Bonds. Demand for our Green Bonds has been very good, and most issues have been oversubscribed. With its Green Loans and Green Bonds, Kommuninvest contributes to the financial market's realignment to support development towards a sustainable society.

Creates stable finances in municipalities and regions.

Contributes to the general build-up of welfare in Sweden.

Helps all of Sweden live.

Helps to meet Sweden's sustainability targets.

Lending

354

SEK billion

Of which 7 percent are Green Loans (based on disbursed volume)

969.8
SEK million in total distribution of surplus[1]

1,878
users of KI Finans

1) Amount disbursed in 2018, relating to the 2017 financial year.

1987[1]
10

2018
288

Members (municipalities and regions)

1987
SEK 0.3 billion

2018
SEK 354 billion

Total lending to members

2002
14 %

2018
55 %

Market share local government sector

1) Kommuninvest was founded in 1987. From 1993, ownership is organised through the Kommuninvest Cooperative Society.

Sustainability Report 2018

Given Kommuninvest's business concept, vision and position, naturally we volunteer to take responsibility for our impact on society from an economic, environmental and social perspective. Our Sustainability Policy states that this is to be respected throughout the operations, in terms of both direct and indirect impact.

Kommuninvest supports its members' high sustainability ambitions through efficient and appropriate financing, as well as in its consultancy work. The principal tasks in our sustainability work include responding to the needs and expectations of our members and customers. Other important areas include our own environmental responsibility, being a responsible employer and conducting operations pervaded by professionalism, stringent ethical requirements and good business practices.

Direct and indirect influence

Within the framework of a situation assessment conducted in 2018, Kommuninvest's direct and indirect sustainability impacts have been mapped. Kommuninvest owns the direct influence, meaning this lies within the Company's direct decision-making mandate and efforts can provide concrete qualitative and quantitative effects. Direct influence includes, for example, customer and employee relations, business travel, office premises, local collaboration, etc.

Kommuninvest's indirect impact is defined as its sustainability impact through its lending to local government groups/ its balance sheet and business relations with borrowers, investors and counterparties. The impact is mainly related to the local government authorities' choice of investments and how these contribute to a sustainable society.

The survey shows that the sustainability work conducted by the Company is beneficial in several regards. The development needs that have been identified relate primarily to the indirect impact. It is also important for the Group to continue reducing its direct environmental impact.

Stakeholder dialogue

Kommuninvest has relationships with a range of stakeholders who, in different ways affect – and are affected by – our operations. It is very important that we listen to our stakeholders to identify the issues that Kommuninvest's activities affect and that stakeholders consider essential.

Kommuninvest's stakeholder dialogue involves, for example, systematic meetings with customers and owners, discussions with personnel representatives and representatives from central government ministries and authorities. In addition, Kommuninvest conducts regular surveys among owners, customers, employees and investors. Kommuninvest's members own and control our operations but are also our customers when they choose to borrow from us. In the 2018 customer survey, Kommuninvest received a SCI of 88, an improvement by two points since the 2016 survey and a very high result.

The dialogue with our members, in their capacity as owners, is mainly conducted with elected politicians. In dialogue with our members, in their role as customers, we mainly interact with specialists in economy and finance.

The ongoing dialogue with other societal actors – central government ministries, regulatory bodies and supervisory authorities – takes place largely through meetings in person and exchanges of information. The dialogue with investors and the capital market takes place through meetings in person and presentations, both nationally and internationally. The dialogue with employees is conducted in both formal and informal formats, between managers and employees and at regular information meetings.

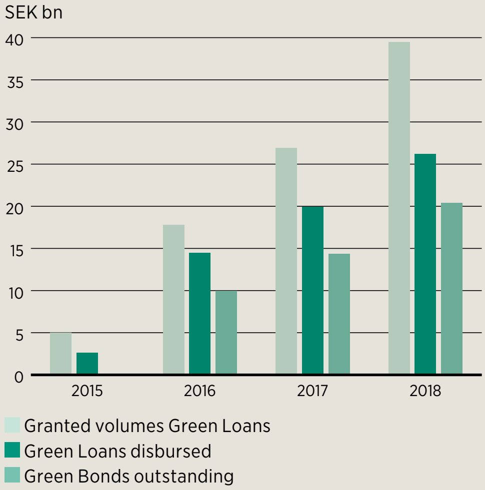
Materiality analysis

Through the stakeholder dialogue, Kommuninvest forms an idea of which sustainability issues the Company should work with. In the stakeholder survey on sustainability that was conducted in 2016, external and internal stakeholders were asked to prioritise which initiatives Kommuninvest should prioritise. Environmental aspects of lending and funding were the issues considered most important by stakeholders. The intention is to implement the stakeholder survey again in 2019.

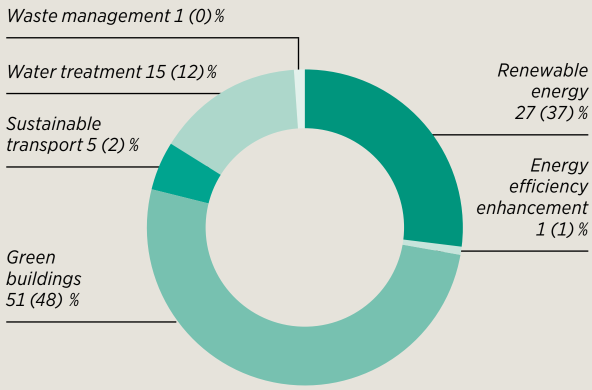
Governance of sustainability work

The Sustainability Manager is responsible for managing, developing and reviewing Kommuninvest's sustainability work in close cooperation with the Executive Management Team and the department heads, who are responsible for taking sustainability aspects into account within their respective areas of responsibility. Guidelines for sustainability work are detailed in a Sustainability Policy adopted by the Company's Board of Directors, and are further specified in supplementary policies and instructions relating to occupational and personal safety, IT security, equality and diversity, competence supply, bribery and hospitality, and regulatory compliance.

Green Loans and Green Bonds



Green Loans by project category



Funding supporting the Paris Agreement and the Sustainable Development Goals

Green Loans permit financing of environmental and climate-related investment projects in Kommuninvest's member municipalities and regions. At the end of 2018, SEK 39.5 billion in Green loans had been granted for 232 projects and 109 members. These projects and their funding can be linked to nine of the UN's global Sustainable Development Goals, and all of the overall goals of the Paris Agreement.

Partnership increases knowledge and drives development

Attaining ambitious sustainability goals demands collaboration and partnership. Coordinated efforts facilitate the transition, improving its accuracy. Based on this, Kommuninvest entered into strategic collaborations with SABO and SNS during the year.

During the autumn of 2018, a climate initiative was launched in the public housing sector, whereby SABO member companies seek to make public housing fossil-free by 2030. A focus area within the initiative involves the life-cycle perspective and climate requirements in the construction of multi-dwelling buildings. The intention is for the requirements to be used for procurement and as criteria for being able to obtain Green loans from Kommuninvest.

To enhance knowledge of how the build-out of Swedish welfare works and how it could function better, Kommuninvest supports SNS's research project Community Building. The project serves to bring enhanced knowledge and to propose measures in various areas of policy, based on scientific studies and proven experience.

Yet another example is the "Nordic Public Sector Issuers' Position Paper on Green Bonds Impact Reporting" that Kommuninvest has headed since 2016.

Economic responsibility

Kommuninvest finances the development of Sweden's local and regional sectors, as well as investments for a sound and sustainable society. The Company and its employees shall adhere to the legislation, regulations and rules applicable to the operations and shall always behave in an ethically correct manner, with transparency, integrity and honesty.

The Company applies zero tolerance to all kinds of corruption; no employee may provide or receive benefits that may be considered unfair and therefore criminal. The Company is required to identify and manage potential or emerging conflicts of interest.

Local government debt office

Continuing to provide the Swedish local government sector with stable and efficient financing at the lowest possible expense is an important contribution to our sustainability efforts. Accordingly, Kommuninvest fulfils a similar role for the local government sector as the Swedish National Debt Office does for the central government and its authorities.

Financing at lower expense means that tax funds stretch further. The fact that Kommuninvest has been able to continue offering financing during periods of financial unease, contributes to the security of the local government sector and the stability of the financial system. Accordingly, an indirect effect of Kommuninvest's work is the strengthening of financial sustainability among the members, by ensuring the most effective possible financing, and by providing advice and support during the funding process.

Kommuninvest was established in 1986 to provide municipalities with access to an additional source of funding, as a complement to loans through the banking system. Our lending operations are limited to Swedish municipalities and regions, including their majority owned companies and foundations. The operations are to be characterised by the lowest risk exposure possible and lacks a profit-making purpose. To ensure high creditworthiness and low funding expenses, the members of Kommuninvest Cooperative Society have entered into a joint-and-several guarantee undertaking for the Company's commitments.

Partnership on behalf of members

One of Kommuninvest's main objectives is to reduce local government funding expenses. Large volumes and a relatively small organisation mean that operating expenses can be kept at a low level. In 2018, the Group's operating expenses, excluding the resolution fee, amounted to 6.1 (7.1) basis points in relation to the lending volume. The Company's operating expenses were 5.7 (6.5) basis points of lending.

The profits generated in the operations are returned to the members in the form of interest on contribution capital and refunds in relation to business volume. In 2018, SEK 969.8 (445.4) million was transferred in this way to the members of the Society, due to the high financial outcome in 2017. Profit is expected to decrease in the future, following decisions by members in 2018 regarding a changed and more transparent pricing model. This means that the prices offered by Kommuninvest have been reduced.

Anti-corruption and anti-money laundering measures

Kommuninvest strives for its transactions and relationships to be pervaded by good business ethics, as evident in both the Company's Code of Conduct and its Sustainability Policy. The Company's employees shall adhere to the legislation, regulations and rules applicable to the operations and shall always behave in an ethically correct manner, with transparency, integrity and honesty. Zero tolerance of all forms of corruption applies.

A risk-based approach is applied to ensure that the Company's products and services are not used for money laundering or terrorist financing. Suspicions of serious irregularities that could entail or lead to a breach of law are to be reported. Such violations can also be reported anonymously via a whistleblower function handled by an external party. No matters related to anti-corruption or guidelines on money laundering were investigated during the year.

Lowest funding expenses

Kommuninvest continuously analyses its capacity to secure low funding expenses in the fixed-income market. The analysis shows that Kommuninvest is consistently the local government actor (municipalities and regions) that raises funding at the lowest expense, although the difference compared with other players decreased during the year.

In-depth knowledge of conditions in the sector

Through in-house research and reports, Kommuninvest seeks to increase knowledge of the local government sector's long-term financial conditions. Since 2012, Kommuninvest has, among other things, maintained an in-depth partnership with the University of Örebro, promoting, for example, research on the local government sector's debt management and financial conditions, and financing a chair and post-graduate studies.

Kommuninvest has been part of the reference group associated with the University's Master's programme in Sustainable Business which commenced in the autumn of 2018, and participated with guest lecturers at the special Finance Day arranged during the first term of the programme. Kommuninvest will also be offering internships for programme participants during 2019.

Each year, we publish reports describing developments in local government investment and its funding, and we analyse trends and phenomena associated with local government funding, debt and investment.

Nano learning: learning a lot from a little

As an organisation, Kommuninvest values learning and knowledge highly. With more municipalities and regions having joined, demand increases for us to be able to work with and for additional players. Here, an important component is the ongoing skills development of all employees.

To satisfy this in a fast, easy and quality-assured manner, Kommuninvest uses a user-friendly digital learning platform based on the principle of small-scale learning, so-called "nano learning". Building on research about learning, tools are offered to optimise learning and awareness of current issues.

The method is based on "spaced repetition", that is, split repetition, and entails short parts of a training programme being distributed to all employees at even and adaptable intervals. By dividing the programme into two to three-minute lessons, the employees' forgetfulness curve is suppressed without requiring much time or effort.

In 2018, Kommuninvest's employees completed courses in the following areas: Measures against money laundering and financing of terrorism, operational risks, inventory of secondary jobs and conflicts of interest, internal governance and control, information security and continuity management.

The platform also includes reporting functions and analysis tools to monitor participation and development within the organisation. For Kommuninvest, the method has brought high implementation rates and significantly increased knowledge levels following the completion of the courses.

Generating financial value – Kommuninvest Group

	Unit	2018	2017	2016
Total revenue				
Interest revenues	SEK, million	505.3	452.3	621.4
Other operating income	SEK, million	7.6	6.2	7.2
Distributed value				
Interest expenses	SEK, million	367.2	426.4	140.5
Commission expenses	SEK, million	-8.2	-7.3	-5.2
Salaries and emoluments	SEK, million	-73.9	-70.4	-68.1
Pension expenses, training expenses and other payroll expenses	SEK, million	-23.2	-26.6	-29.4
Social security contributions and payroll tax on pension expenses	SEK, million	-26.9	-25.3	-23.7
Resolution fee	SEK, million	-69.1	-66.3	-31.4
Other operating expenses	SEK, million	-94.1	-97.1	-93.2
Tax	SEK, million	-3.7	-28.0	-0.4
Transferred to the members of the Society during the year, refunds based on business volumes and interest on members' contribution capital for the previous financial year	SEK, million	969.8	445.4	500.7
Efficiency				
Operating expenses, excluding the resolution fee, as % of balance sheet total	%	0.052	0.061	0.059

In this note, revenues are recognised as positive and expenses as negative.

Social responsibility

Respect for human rights is a basic prerequisite for being able to generate value within Kommuninvest in the long term. We will work to prevent discrimination, promote diversity and equality, and ensure good working conditions.

The Company shall avoid causing or contributing to a negative impact on human rights in its own operations and address any such impact if it arises. Employees should be able to combine working life and their free time.

Kommuninvest shall have good knowledge of, and compliance with, applicable legislation and labour market agreements. This involves, in particular, discrimination legislation, environmental legislation, legislation regarding public companies and legislation relating to business relations. No form of discrimination is tolerated within the Company.

Equality, diversity and development

Kommuninvest's Gender Equality and Diversity Policy emphasises the importance of gender equality and diversity in the organisation, to ensure that the Company is an attractive employer for both current and potential employees. At the end of 2018, 45 (38) percent of the total number of employees were women. Of the managers, 36 (38) percent were women and, in the Executive Management Team, the proportion was 43 (43) percent. The ambition is to be able to attract, retain and develop skilled employees, regardless of gender, ethnic background, faith, age, disability, sexual orientation or transgender identity.

Towards the end of 2018, 12 (18) percent of the Company's employees came from countries other than Sweden. A total of 10 (13) different countries are represented in the organisation.

The year's employee survey

The result of this year's employee survey shows that Kommuninvest is an equal and non-discriminatory workplace, where employees feel considerable commitment to Kommuninvest's social mission. Employees also perceive Kommuninvest as a workplace where you can combine work and leisure. Areas for improvement include the pace of work and stress, as well as internal communications. The 2018 Employee Satisfaction Index amounted to 73 (68) and the Employee Loyalty Index to 79 (75) – combined, the Company had 86 (81) percent satisfied and loyal employees, which is considered a relatively high value.

Sustainable daily life

Increasing absenteeism due to work-related stress and other psychosocial factors have caused Kommuninvest to initiate ambitious efforts within the framework of what we call "sustainable daily life". Sustainable daily life offers everything from substantial opportunities for a good physical and social working environment, training and daily exercise, health-inspired lectures, stress management, individual coaching and self-help programmes. Among other things, all employees are offered individual health and lifestyle reviews on a regular basis. Based on these, employees are given tools to establish a sustainable lifestyle in the areas where the need is perceived to be greatest. This can involve everything from sleep, diet, exercise and lifestyle to work-related concerns.

Initiatives in the local community

Kommuninvest does not work with sponsorship in traditional terms, but seeks cooperation partners who have a pronounced social commitment, with an emphasis on ventures in Örebro, where the Company has its head office. We focus on activities involving education, culture and social inclusion and share our values in terms of gender equality, diversity and ethics. Initiatives include helping immigrant upper-secondary pupils with their homework, support for artistic endeavours within OpenArt, opportunities for football and horse riding for people with disabilities, as well as initiatives for young immigrant women in the district of Vivalla.

Kommuninvest's Employee Programme

In 2018, an extensive initiative in leadership, collaboration, communication and culture was initiated. The employee programme has been developed to increase Kommuninvest's capacity to develop in a time pervaded by ever-increasing complexity and rapid change. With the programme, Kommuninvest seeks, among other things, to establish platforms for developmental dialogue between employees and managers, to increase the quality of the communicative leadership and to give employees opportunities for personal development and better conditions for self-leadership. More information about the programme can be found on page 29.

Programme for lower labour market thresholds

For various reasons, the transition into the labour market may take a particularly long time for some academics. Accordingly, each year, Kommuninvest gives a number of people the opportunity to gain relevant work experience that could ease the next step in their careers. At the end of 2018, eight people had undergone the threshold-passing programme and six of them had gained continued trust from other employers, generally in the form of permanent jobs matching their educational profiles. The three people pictured – Muhammad Amin Sadiq, Zubdah Farrukh and Mohammad Ehtasham Billah – began their threshold-passing jobs at Kommuninvest in January 2019.

Employee statistics – Kommuninvest Group

	Unit	2018	2017	2016
Total number of employees, including those on part-time and probationary employment[1]	Number	104	105	97
Proportion of women/men – total	%	45/55	38/62	41/59
Proportion of women/men – all managers	%	36/64	38/62	45/55
Proportion of women/men – Executive Management Team	%	43/57	43/57	67/33
Average number of full-time annual employees (based on hours worked)	Number	97	91	85
Employment period <2 years (based on permanent employees)	%	18	18	14
Employment period 2-4 years	%	13	28	35
Employment period 5-9 years	%	40	29	25
Employment period >10 years	%	29	25	25
Personnel turnover	%	8	11	3
Participation in employee survey	%	96	95	84
Proportion of employees with university education	%	89	93	88
Proportion of employees who had development interviews	%	100	100	100
Proportion of employees who have undergone sustainability training	%	64	63	84

1) Number of employees refers to the total headcount, including full and part-time employees, those on parental leave and temporary employees. The total number of permanent and probationary employees was 92 at the end of 2018.

Environmental responsibility

Kommuninvest's environmental work takes into account both the direct environmental impact of the office operations, purchases and services, as well as the indirect environmental impact of the financial operations.

Direct environmental impact

Kommuninvest's direct environmental impact relates to the impact arising as a direct consequence of the Group's operations, including energy consumption in its premises, purchases of office supplies and equipment, meetings and conferences, business travel, etc.

The environmental impact has been monitored annually since 2015 regarding the most significant areas. In 2018, a calculation was made, in cooperation with an external party, of Kommuninvest's total carbon footprint for the 2017 financial year. The analysis showed a total climate impact of 383.1 tonnes of carbon dioxide equivalents (CO_2e), or 4.1 tonnes of CO_2e per employee. Business travel, in the form of air travel, hotel accommodation and car travel accounted for 89 percent of the Group's climate impact, of which air travel accounted for 79 percent.

As such a large proportion of the Group's climate impact relates to aircraft, this is a natural focus area for reducing the total carbon footprint. A fundamental principle is that it should be possible to reduce travel without compromising on business objectives.

Significant emission reductions was achieved in business travel. Total emissions from business travel have decreased from 801 to 338 tonnes of CO_2 equivalents between 2014 and 2018. The main explanation is the reduced number of long-haul flights.

In our office operations, we work in various ways to reduce their environmental impact by means of environmentally labelled electricity, motion-controlled lighting and plumbing fixtures, micro-flush toilets, and a high level of recycling/sorting of waste. Towards the end of 2018, an analysis process was initiated to map the office property's performance from an environmental perspective, aimed at identifying possible improvement measures.

Climate compensation

During the year, Kommuninvest decided to compensate for the greenhouse gas emissions remaining following its own climate efforts. In accordance with the conditions that apply to municipalities and regions, we climate compensate internally, that is, for investments made locally/in Sweden. The funds allocated are calculated based on the estimated expense for external climate compensation, multiplied by a factor of two, and are used to finance initiatives that either support the sustainability efforts of the Society's members or that help reduce Kommuninvest's own impact.

Reducing the impact of office operations

Beyond business travel, the Group's climate impact occurs mainly through the office operations, through consumption of energy and other resources, as well as purchases of office materials and supplies. The Company has modern office premises in which sustainability ambitions are expressed through eco-labelled electricity, motion-controlled lighting and plumbing fixtures, "print-on-demand" solutions, low-flush toilets, etc. However, total energy consumption is increasing and an analysis of potential energy efficiency measures is planned to be implemented in 2019.

Green Loans support the local government sector's sustainability efforts

Green Loans were introduced in 2015 and allow financing of investment projects undertaken by Kommuninvest's member municipalities and regions, including renewable energy, energy efficiency, green buildings, public transport and water management. Approved projects must promote the transition to a climate resilient society with low emissions and be part of the systematic environmental efforts of the borrower.

At the end of 2018, Kommuninvest had granted loans totalling SEK 39.5 (26.9) billion for 232 (149) green investment projects. Of the funds granted, SEK 26.2 (19.9) billion had been disbursed. The majority involved renewable energy and green buildings. The expected annual reduction of CO_2 emissions from these projects is visible in Kommuninvest Green Bonds Impact Report, which is available on Kommuninvest's website.

All projects are reviewed from an environmental perspective by Kommuninvest's Environmental Committee for Green Bonds. The Committee is an advisory body composed of representatives from the environmental function in at least two member municipalities and regions, environmental experts from other relevant organisations in the public sector or academia, as well as from Kommuninvest's Client Relationship Group.

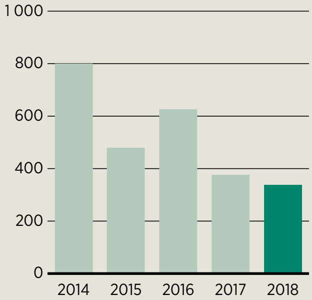
Largest Swedish issuer of Green Bonds

Kommuninvest finances Green Loans by issuing Green Bonds. Five Green Bonds have been issued since March 2016, and a total of SEK 20.4 (14.4) billion was outstanding at the end of 2018. Investors are primarily institutional ones, both domestic and foreign, with a clear sustainability focus.

Emissions from business travel more than halved

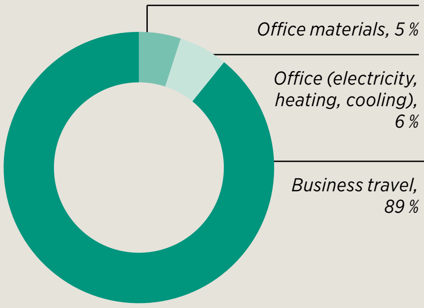
Since 2014, Kommuninvest's business travel, particularly by air, has declined sharply. Air travel, measured in kilometres flown, has decreased by more than 60 percent. Over the same period, rail travel has increased by slightly more than 20 percent. An analysis commissioned by Kommuninvest of its total CO_2 footprint shows that about 90 percent of the Group's total climate impact relates to business travel.

CO_2 emissions from business travel, tonnes



Source: Big Travel, with processing by Kommuninvest (emission values have been multiplied by a so-called RFI factor of 2.7 for the aviation industry's high altitude effects).

Distribution of total climate impact



The analysis related to the 2017 financial year and comparative values are not available.

Source: Tricorona Climate Partner

Business travel

Air travel
79 %

Hotel stays
8 %

Car travel
2 %

Environmental indicators – Kommuninvest Group

	Unit	2018	2017	2016
Energy consumption				
Total energy consumption (in buildings)	kWh	620,068	585,678	463,034
– of which, electricity	kWh	365,237	333,210	295,084
– of which, heating	kWh	254,831	252,468	167,950
Proportion of renewable energy in energy consumption of electricity	%	100	100	100
Change in electricity consumption compared to the preceding year	%	10	13	-1
Proportion of renewable energy in energy consumption for heating	%	100	100	100
Total office space	m^2	2,217	2,217	2,217
Total energy consumption per square metre	kWh/m^2	280	264	209
Total energy consumption per employee	kWh	6,392	6,436	5,447
Resource usage				
Purchased office paper	Tonnes	0.5	0.5	0.8
–of which sustainability labelled paper (PEFC)	Tonnes	0.5	0.5	0.8
Proportion of sustainability labelled office paper, of total purchases	%	100	100	100
Total paper consumption per employee	Kg	10.3	11.0	11.8
Paper recycling, incl. purchased and delivered paper	Tonnes	2.0	3.0	2.4
Business travel				
Total business travel	Km	862,896	887,488	1,319,646
Total business travel per employee	Km	8,896	9,753	15,525
Total air travel	Km	515,965	591,480	992,144
Rail travel in Sweden	Km	311,037	291,456	327,162
Total CO_2 emissions from business travel[1]	Tonnes	338.4	375.8	625.6
CO_2 emissions from business travel, per employee[1]	Tonnes	3.5	4.1	7.3

1) Effective from 2018, Kommuninvest observes a so-called RFI factor of 2.7 in its emissions calculations, with regard to the aviation industry's high altitude effects. Previously published emission values for 2017 and 2016 have been adjusted.

Auditor's opinion regarding the statutory Sustainability Report

To the Annual General Meeting of Kommuninvest i Sverige AB (publ), corporate identity number 556281-4409

Engagement and responsibility
It is the Board of Directors that is responsible for the Sustainability Report for the year 2018 on pages 14–21 and that it is prepared in accordance with the Annual Accounts Act.

The scope of the examination
Our examination has been conducted in accordance with FAR's auditing standard RevR 12: The auditor's opinion regarding the statutory Sustainability Report. This means that our examination of the statutory Sustainability Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion
A statutory Sustainability Report has been prepared.

Stockholm, 12 February 2019
KPMG AB

Anders Tagde
Authorised Public Accountant

Board of Directors' Report

- Comparison figures relating to the income statement refer to the preceding year (1 January–31 December 2017), unless otherwise stated. Comparative balance sheet and risk related figures relate to 31 December 2017 unless otherwise indicated.
- Comments on the Income statement, Balance sheet and statement of changes in equity are provided in connection with the statements on pages 49, 51 and 53 thereof.
- In accordance with Chapter 6, Section 11 of the Annual Accounts Act, Kommuninvest i Sverige AB has chosen to prepare the statutory Sustainability Report separately from the Annual Report. The Sustainability Report is available on pages 14–22 of this document.

Future local government collaboration

Stable and cost-efficient financing remains at the heart of the operations, although external changes bring new conditions for Kommuninvest. The Company's efforts in four focus areas provide opportunities to respond optimally to these changes.

Operational governance

Kommuninvest's change process is being conducted in four areas of focus: *Customer/Member, Skills, Efficiency* and *Digitalisation.*

The Company's focus areas

In the *Customer/Member* area of focus, the Company's ambition is for the knowledge that exists in the operations and the local government sector to support financial management skills among customers and members. Technical developments facilitate this being accomplished through products and services that support customers and members' strategic efforts to achieve a balance sheet enabling financial management that is sustainable in the long term. Over the year, the use of Kommuninvest's digital services has increased. At the end of 2018, there were 204 (182) active user agreements for the full version of KI Finans, a tool developed specifically for debt management in the local government sector. The results of the customer survey provided a strong acknowledgement of customer satisfaction. In the survey, which is conducted every two years, Kommuninvest achieved a result of 88, compared with 86 in the previous survey from 2016. The highest degree of satisfaction was in the areas considered most important by customers.

Over the year, Kommuninvest launched its Employee Programme in the *Skills* area of focus – a skills development initiative encompassing all Company employees. The goal is to create a platform for developmental dialogue, constructive feedback and personal development that will provide the conditions for more active and secure collaboration based on communication and participation. For more information on the Employee Programme, see page 29.

To increase the understanding of the local government sector's needs, a survey was also conducted in 2018 based on in-depth interviews with a representative sample of Kommuninvest's customers.

The *Efficiency* area of focus is to provide Kommuninvest with opportunities to offer long-term competitive financing options to all members. During the year, Kommuninvest's competitiveness was further strengthened when amended owner directives allowed significant price reductions on lending products. Projects performed to increase efficiency in internal processes have also provided conditions for clearer follow-up and a long-term sustainable cost trend.

More efficient and automated management of new loans is the main thrust of the *Digitalisation* area of focus. Over the year, new technical solutions for price information, bid requests and electronic signing of loan documents were developed and launched to customers with favourable results.

Multi-year summary

The Company's strong growth continues and total lending passed SEK 350 billion in 2018 – an average annual increase of 11 percent over the past five years. The Company's share of the local government sector's external funding has increased from 44 to 55 percent over the same period. In recent years, the members of the Society have capitalised the Group with the target of achieving a leverage ratio of 1.5 percent. Accordingly, the Company's equity has risen from SEK 2.4 billion in 2014 to SEK 7.6 billion in 2018. On 31 December 2018, the leverage ratio was 1.75 percent.

For multi-year data in table format, see page 93.

Kommuninvest strengthens its position

High investment volumes in the local government sector are increasing the need for external loan financing. In 2018, the Swedish local government loan market grew by SEK 36 billion to SEK 637 (601)[1] billion. Kommuninvest continues to strengthen its position, with the Company financing 55 (51) percent of the local government sector's total debt.

The combination of extensive renovation needs for homes and properties built in the record years of 1965–1975 and strong population growth, requiring additional operational premises and expanded infrastructure, is driving up the local government sector's investment volumes. These investments encompass several areas of local government responsibility, including property, housing, water and sewerage, infrastructure and energy production.

Over the past three years, the local government sector's favourable results and strong cash flows have reduced the need for external financing of the investments carried out. Although the loan debt has increased by SEK 82 billion in nominal terms since 2015, it has remained largely unchanged as a percentage of GDP, at around 13 percent.

Over the past ten years, the municipal funding market has undergone major changes. As recently as in 2007, the banks accounted for two thirds of lending to Sweden's municipalities and regions. At that time, Kommuninvest was the largest individual lender with a market share of more than 20 percent, while half a dozen larger municipalities and an equal number of municipal housing companies were active in the capital market. Ten years after the financial crisis of 2008/09, more than 20 municipalities and regions are active in the capital market. In 2018, issued local government bonds and commercial papers accounted for 31 (32) percent of the sector's financing. Financing through the banking sector and bilateral parties has continuously decreased to 14 (17) percent, despite a sharp increase in lending by the EIB and NIB in recent years. Kommuninvest grew strongly in the years following the financial crisis and has further strengthened its market share in recent years. The Company's market share has increased from 42 percent in 2014 to 55 percent in 2018.

1) Forecast based on Kommuninvest's ongoing monitoring of debt and investment trends in the Swedish local government sector. At the time of publication of this Annual Report, neither the complete data for 2018, nor the municipalities' and regions' own annual reports were available. Values and shares for 2017 have been adjusted in accordance with the municipalities' and regions' own annual reports.

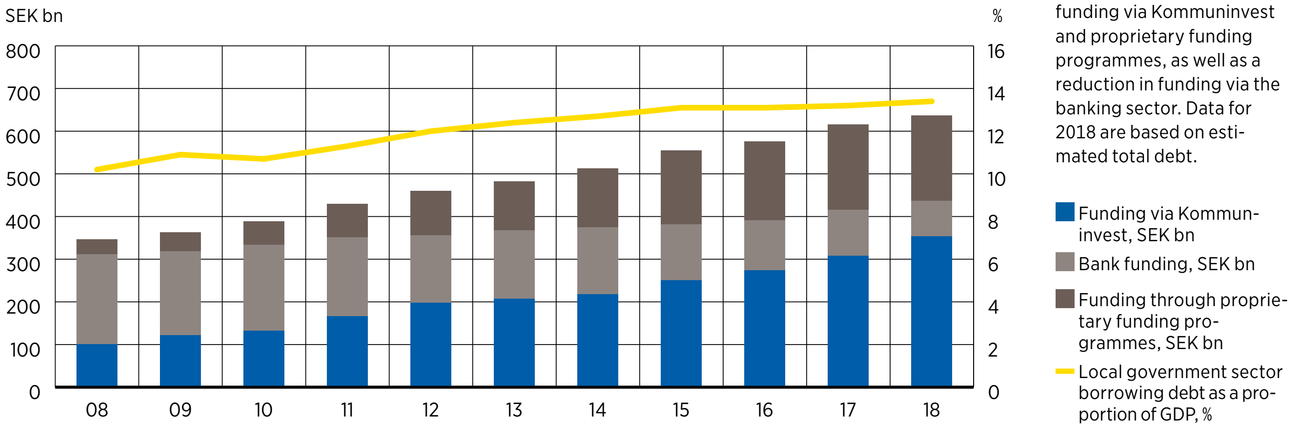
Forms of local government funding

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

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

The local government sector's borrowing debt and forms of financing

2008–2018



The local government sector's funding over the past decade is characterised by an increased proportion of funding via Kommuninvest and proprietary funding programmes, as well as a reduction in funding via the banking sector. Data for 2018 are based on estimated total debt.

Loans that meet customers' needs

In 2018, Kommuninvest's lending grew to SEK 353.9 (308.0) billion. This growth reflects increased investment and funding needs among Sweden's municipalities and regions. The increase also demonstrates Kommuninvest's increased competitiveness. At the end of 2018, Kommuninvest had a total of 945 (914) active borrowers.

Loans provided only to Swedish municipalities and regions

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

- Municipalities and regions that are members of the Kommuninvest Cooperative Society.
- Municipal and regionally-owned companies, in which one or more members of the Kommuninvest Cooperative Society holds a controlling influence.
- Municipal and regional foundations and associations, on the condition that a guarantee is provided and that they are a related party to a member or members of the Kommuninvest Cooperative Society.

Strengthened market position

Through Kommuninvest and other capital market players, Sweden's municipalities and regions were able to efficiently meet their funding needs in 2018. Kommuninvest offers loan products with capital tied up for shorter or longer periods, based on fixed or floating interest and with or without right of early termination.

At the end of the year, lending amounted to SEK 353,946.1 (308,042.3) million in nominal terms, an increase of 15 (12) percent. The recognised value of the lending was SEK 355,710.0 (310,147.3) million. Kommuninvest's competitiveness, expressed as the percentage of accepted bids, has remained strong. The acceptance rate for submitted bids was 99 (99) percent.

Of the agreed lending for the year, that is, new loans and renegotiations of existing loans, 85 (83) percent were loans with capital tied up for more than one year and 15 (17) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 23 (35) percent of volumes.

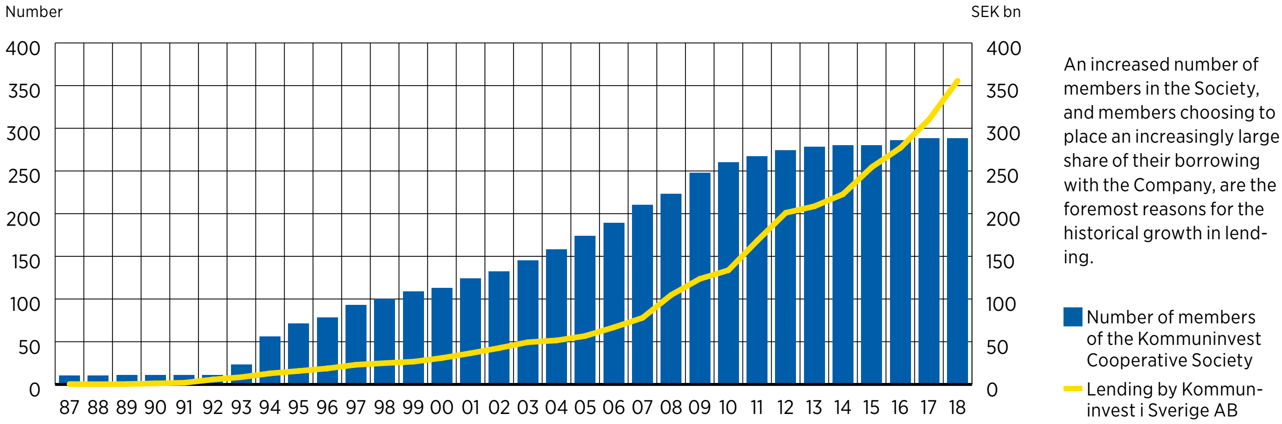
At the end of 2018, Kommuninvest's lending portfolio consisted of 44 (43) percent loans with fixed interest and 56 (57) percent loans with variable interest rates.

Increased volumes of Green Loans

The volume of Green Loans granted, financing for municipal investment projects promoting the transition to low carbon emissions and sustainable growth, increased over the year. At the end of 2018, SEK 39.5 (26.9) billion in Green Loans had been granted to 232 (149) projects and to 109 (81) municipalities and regions.

Number of members and lending volume

1987–2018



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

Significant borrower with highest credit rating

Kommuninvest finances its lending to municipalities and regions by borrowing funds on the Swedish and international capital markets. Demand for low-risk issuers remained good during the year and Kommuninvest was able to meet its funding plans on favourable terms. At the end of the year, total borrowing amounted to SEK 397.4 (339.1) billion.

Good demand for Kommuninvest bonds

During 2018, the Company experienced continued favourable demand for the securities it issues, despite an occasionally anxious economic environment. An example of the Company's strong position in the market is the USD 2.5 billion note issued in June – the Company's individual largest transaction to date.

Over the year, the Company focused its funding efforts to its three strategic funding markets – Swedish kronor, US dollar and so-called Uridashi funding from the Japanese market. Kommuninvest strives to maintain an even distribution between domestic and international funding over time.

During 2018, two green bonds were issued, meaning the Company has issued a total of five bonds since 2016. Green bonds finance environmentally oriented investment projects in the Society's member municipalities and regions.

Focus on increased benchmark funding

Over the year, SEK 138.8 (72.6) billion was borrowed in long-term debt instruments with maturities of more than one year. In addition, funding with potential premature redemption within one year was agreed, corresponding to SEK 14.7 (3.2) billion. Funding through short-term commercial papers, with maturities of less than one year, amounted to SEK 48.5 (92.7) billion. Previously issued funding of SEK 17.7 (20.0) billion was repurchased. Funding is secured to replace loans that mature 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 liquidity preparedness requirements. Long-term funding increased in 2018 compared with 2017, due to very good growth in lending and longer-term financing of the Company's liquidity reserve. A change of strategy had also been implemented in 2017, reducing borrowing needs for that year.

The Company is working actively to increase its funding in major bond programmes, referred to as benchmark programmes, both internationally and in Sweden. During the year, six major benchmark borrowings in USD were carried out.

A total of SEK 64.9 (42.7) billion was issued in the Swedish Benchmark Programme with SEK 192.7 (161.6) billion outstanding at the end of the year. In total, the Swedish Benchmark programme encompasses nine outstanding bonds.

Positive news for Kommuninvest's bonds during the year

Early in the year, Nasdaq decided to include the Company's Swedish benchmark bonds in its broadest and most important index for the Swedish fixed income market, OMRXALL. This inclusion is an important step in the Company's objective of establishing municipal bonds in the Swedish bond market as an option offering good liquidity.

In October, the clearing operator London Clearing House (LCH) announced that it was expanding its range of approved securities issuers whose securities are eligible as collateral to include certain so-called supranational and agencies. Kommuninvest was one of eight to be added.

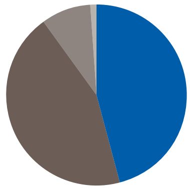
A significant issuer of SSAs

Kommuninvest issues on the international borrowing markets in the category "Sovereigns, Supranationals and Agencies". With large annual borrowing volumes, Kommuninvest is a major international player in the SSA segment. Borrowers with whom Kommuninvest compares itself include:

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

New funding by currency*

2018 (2017)

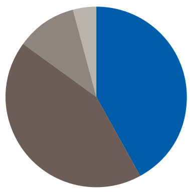


- SEK 46 (56) %
- USD 44 (35) %
- JPY 9 (4) %
- GBP – (2) %
- EUR – (1) %
- ZAR 0 (0) %
- MXN, TRY 1 (0) %
- NOK – (2) %

*excl. commercial paper funding

New funding by programme*

2018 (2017)



- Swedish Benchmark Programme 42 (56) %
- Benchmark funding, other currencies 43 (32) %
- Private Placements – (3) %
- Uridashi 11 (4) %
- Green Bonds 4 (5) %

*excl. commercial paper funding

Liquidity reserve to meet customer needs under all circumstances

To be able to continue providing customers with financing during periods of uncertainty in the financial markets, and to ensure that matured funding can be repaid in a timely manner, Kommuninvest has a liquidity reserve. At the end of the year, the reserve amounted to SEK 47.3 (36.9) billion, equivalent to 13 (12) percent of the lending volume.

Investment rules for the liquidity reserve

- At least 90 percent of the investments are to be made in assets eligible as collateral with the Riksbank (Swedish central bank).
- The liquidity reserve may have a maximum average maturity of 12 months.
- The maximum maturity of individual investments is 39 months.

For more information, see section Risk and capital management on pages 33–37 or Kommuninvest's website, www.kommuninvest.se/en.

Reserve with high credit quality and low risk

Strict rules and a conservative approach guide Kommuninvest's liquidity reserve. According to the Company's instructions, the liquidity reserve shall ensure that the Company's commitments can be maintained while maintaining lending capacity, see also page 34. The size of the liquidity reserve is adjusted according to, for example, funding maturities and external factors. As of 31 December 2018, the liquidity reserve corresponded to 13 (12) percent of the lending volume. At least 90 percent of the reserve shall qualify as collateral with the Riksbank, allowing the Company to obtain liquidity against collateral. The liquidity reserve shall be invested short-term, with the average maturity not exceeding 12 months. Individual investments may have a maturity of 39 months at most.

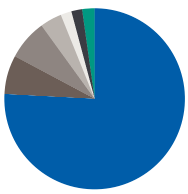
Effective and conservative management in focus

In 2018, management was pervaded by the new strategies and instructions adopted in late 2017. Put briefly, this entails a lower-volume liquidity reserve, albeit with higher credit quality and greater ease of trade than previously. Covered bonds are approved as collateral only in connection with repo transactions. Direct investments are made primarily in securities issued by sovereigns or central banks, subsidised lenders and multilateral development banks.

At the end of 2018, 86 (88) percent of the reserve was invested in securities with the highest possible creditworthiness. 76 (58) percent consisted of investments in securities issued by issuers in Sweden. See Note 3 for further information on the Company's credit risk exposure.

Liquidity reserve distributed by country

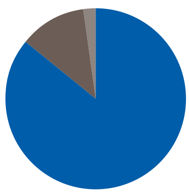
2018 (2017)



- Sweden 76 (58) %
- Supranationals 7 (13) %
- Finland 7 (7) %
- Germany 4 (13) %
- Denmark 2 (6) %
- UK 2 (0) %
- Canada 2 (3) %
- USA 0 (0) %

Liquidity reserve distributed by rating category

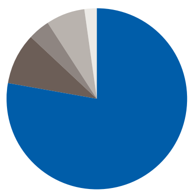
2018 (2017)



- AAA 86 (88) %
- AA 12 (10) %
- A 2 (2) %

Liquidity reserve distributed by issuer category

2018 (2017)



- National governments or central banks 78 (62) %
- Credit institutions (subsidised lenders) 9 (21) %
- Credit institutions (bank balances) 4 (2) %
- Multilateral development banks 7 (13) %
- Regional or local governments and authorities 2 (2) %

1) Subsidised lenders refers to issuers of securities where exposures are treated as exposures to the national government in accordance with the CRR regulations. Among others, these include the Company's neighbour organisations in the other Nordic countries.

Collaboration for greatest-possible membership benefit

Kommuninvest fundamentally believes that its leaders and employees together perform the organisation's mission and generate benefit for the members. The process of building a strong culture reflecting the Company's local government values was further developed with the Employee Programme started in 2018.

Kommuninvest operates in an ever-changing world that grows increasingly complex and fast-moving. The organisation, its leaders and its employees must have a high capacity for understanding the sector's current and future needs, as well as a capacity for rapid change to be able to generate the greatest possible benefit for customers and members. To build its responsiveness to developments, Kommuninvest initiated in 2018 an extensive leadership, collaboration, communication and culture drive in the form of an *Employee Programme*.

The programme comprises a total of six half days in mixed groups within the Company. Each group is led by a consultant from the Company's partner Sandahl Partners and a manager from Kommuninvest. The purpose of involving managers is to enable the Company to independently drive and develop change following the completion of the *Employee Programme* in June 2019.

With the employee programme, Kommuninvest seeks to:

- establish a shared language within the Company in terms of leadership, collaboration and communication
- grant employees opportunities for personal development and create conditions for self-leadership
- contribute to employees feeling secure in a changing world
- establish platforms for developmental dialogue between employees and managers
- increase the quality of the communicative leadership represented by Kommuninvest's managers
- engender conditions for an enhanced sense of belonging and opportunities for deeper trust between groupings.

Strategic competence supply

One of the Company's overall focus areas is to conduct knowledge-oriented and competitive operations. The Company works actively with skills supply to develop the expertise of employees and the organisation in line with operational objectives. Similarly, the Company works in a structured manner to attract, develop and retain employees. Kommuninvest strives to be an agile, continuously learning organisation, able to generate the greatest possible benefit for customers and members. Efforts will be intensified in 2019 at both organisational and employee levels.

A sustainable workplace

Kommuninvest holds a holistic view of a sound workplace. To create a well-functioning and sound workplace, many different parts must be in place. In part, the efforts within the *Employee Programme* contributes to a healthy organisation. Preventive efforts regarding the physical, socio-organisational and digital work environment are also essential in building a sound workplace. Working at Kommuninvest must be safe and secure and the Company applies zero tolerance against all forms of discrimination and harassment. Kommuninvest also believes that the third pillar of a sound workplace involves the individual's ability to build a sustainable everyday life in which employees should be able to combine their professional and private lives. Kommuninvest therefore provides access to preventive healthcare at the employee level, with opportunities for occupational healthcare, coaching, training, ergonomic aids and a sustainable lifestyle.

Employee survey 2018

The 2018 employee survey gave a ESI (Employee Satisfaction Index) of 73 (68). The result is an increase of five units since last year, indicating a good level of satisfaction and a well-functioning workplace. The outcome also indicates that efforts devoted to leadership, internal communications and cultural issues have yielded results and these will remain priority areas moving forward.

An inclusive workplace

At Kommuninvest, everyone is welcome.

At the end of 2018, 12 percent of Kommuninvest's employees were of non-Swedish extraction. The age distribution is even across all age groups. Of the total number of employees, 45 (38) percent were women and in the Executive Management Team, the proportion of women was 43 (43) percent.

See also the compilation on page 19.

The Municipality of Lidköping is growing

The municipal housing company AB Bostäder Lidköping anticipates that some 200 apartments will need to be built annually in the municipality until 2023, with the municipal company striving to contribute with an average of 50 apartments per year.

Four housing projects are in progress in the municipality, all of which have been financed with Green Loans from Kommuninvest.

In the autumn of 2018, approximately 160 new apartments were ready to be occupied by residents in the municipality, which is located in the County of Västra Götaland. Planning is in progress for two additional new neighbourhoods with multi-family dwellings.

What distinguishes the new properties is their sustainability approach, from start to finish. The homes and business premises are all being built in accordance with the requirements for Miljöbyggnad Silver, demanding more of a building than it simply meeting statutory requirements. The ventilation, sound environment and solar protection, for example, have been improved. With the help of Green Loans from Kommuninvest, the housing company has been able to keep financing expenses down.

In parallel with the housing projects, the Municipality of Lidköping is building two new schools, two preschools and a waste water treatment plant – all of which have been granted Green Loans by Kommuninvest.

"It will be a win-win situation. Naturally, we want to continue developing our environmental and sustainability perspective and it is good that Kommuninvest is encouraging this by lending at a more favourable interest rate for green projects," says Karl Alexanderson, President of AB Bostäder Lidköping.

Financial position

At the end of 2018, equity in the Company amounted to SEK 7,603.4 (7,610.8) million, following Group contributions of SEK 750.6 (987.5) million paid to the Kommuninvest Cooperative Society. The total capital base was SEK 7,425.2 (6,359.2) million, which gave a total capital ratio of 188.4 (212.4) percent.

At the end of the period, the balance sheet total amounted to SEK 417,202.1 (356,942.6) million, with lending to municipalities and regions accounting for most of the assets. At the end of the year, lending amounted to SEK 355,710.0 (310,147.3) million.

Equity

As per 31 December 2018, equity amounted to SEK 7,603.4 (7,610.8) million, following Group contributions of SEK 750.6 (987.5) million being paid to the Kommuninvest Cooperative Society.

The transition to IFRS 9 has affected equity negatively by SEK 8.0 million, see Note 28 for more information.

On the closing date, the share capital amounted to SEK 7,100.0 (6,100.0) million, divided between 70,999,720 (61,000,000) shares. The change in share capital is attributable to the SEK 1,000.0 million, corresponding to 9,999,720 shares, recognised as a new share issue in progress as per 31 December 2017. The shares were registered as share capital at the Swedish Companies Registration Office on 5 February 2018.

All share capital is attributable to the members of the Society and no shares are available for trade.

Distribution of surplus in 2019

Pending a resolution by the Society's 2019 Annual General Meeting, the Society will distribute the surplus as refunds and interest on contribution capital for the 2018 financial year. In the financial statements, the Company has submitted Group contributions, for this purpose, of SEK 750.6 (987.5) million, and proposed that the surplus of SEK 717.8 (969.8) million be distributed.

If a decision on the payment of a new capital contribution is made, the Company's Board of Directors deems it likely that all members who have not yet reached the agreed maximum level for member contributions will participate with an amount depending on whether the member has reached 50, 75 or 100 percent of the highest contribution level. Payments of surplus distributions, payments of contribution capital to the Society and of possible capital reinforcement to the Company are expected to take place within three months of a decision. The calculated but yet to be approved capital contribution amounts to SEK 30.9 (57.9) million.

Capital adequacy

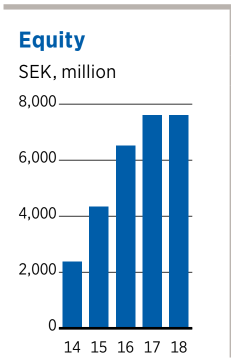
The Company is well capitalised to withstand the risks in the operations, with capital ratios exceeding the prescribed minimum requirements in Pillar I and the basic requirements in Pillar II by a good margin. The core Tier 1 capital amounted to SEK 7,425.2 (6,359.2) million, entailing a core Tier 1 capital ratio of 188.4 (212.4) percent. The Company's capital base consists solely of Tier 1 capital and the total capital ratio also therefore amounts to 188.4 (212.4) percent.

At the end of 2018, the Company's leverage ratio, reported according to CRR, was 1.75 (1.78) percent.

For further information regarding the Company's capital management, see pages 35–36 and Note 3.

Rating

The Company has the highest credit rating, Aaa from Moody's and AAA from S&P Global Ratings. In March and July 2018, the rating institutes confirmed the Company's credit rating, with a stable outlook. The rating agencies highlight the joint and several guarantee from the owners of the Cooperative Society, the mandate the Company has from its owner to act as a local government debt office for its members, the high quality of the loan portfolio and the strategy for building up capital to meet future regulations.



AAA

Aaa

Comments on the accounts

Pages 49, 51 and 53 present comments to the income statement, balance sheet and statement of changes in equity. These comments form part of the Board of Directors' Report.

Proposed distribution of earnings

The Board of Directors proposes that:	SEK
Profit for the year	586,115,350
Profit or loss brought forward	–112,204,898
Total	**473,910,452**

Be appropriated as follows:	
To be carried forward	473,910,452

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 amounted to 188.4 (212.4) percent, compared with the requirement, including buffer requirements, of 11.5 (11.5) percent. Following the proposed distribution of profit, the capital base amounted to SEK 7,425.2 (6,359.2) million and the final minimum capital requirement to SEK 315.3 (239.5) million. A specification of items can be found in Note 3, see section 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 net profit and general position, please refer to the income statements and balance sheets with associated comments on the financial statements. See also Note 12 on page 80.

Low risk tolerance and effective risk management

The Company's principal assignment is to ensure access to stable and efficient funding for the local government sector. This entails borrowing funds on the financial market, in accordance with customers' needs. The operations are to be characterised by limited risks. Presented below is a comprehensive overview of the Company's targets, principles and methods for managing risk. For more detailed information, as well as quantitative data regarding the Company's risk exposure, see Note 3 and the separate Risk and Capital Management Report, which is available at www.kommuninvest.se/en.

Changes in 2018 regarding risk management and risk exposure

No material changes took place in 2018 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 profile and risk management

The Company's risk profile and permitted risk taking is established annually in the owner directives 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.

Risk strategy

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. Risk appetite is defined as the level of risk and impact on earnings that the Board of Directors is willing to tolerate over the ensuing year to achieve the Company's strategic objectives. Risk appetite is determined regularly – at least once a year. The level of risk appetite is determined partly by company-specific factors such as financial position and growth targets, as well as anticipated market conditions over the period concerned. 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.

Risk management and risk control

Kommuninvest plays a central role in the financing of the Swedish municipalities' and regions' investments. To fulfil this assignment, the Company borrows money on the financial market and lends this to customers. Although, unlike many other credit institutions, the Company does not conduct any deposit operations and has no active trading operations, the operating model entails the Company being exposed to risks associated with the financial market.

In accordance with the ownership directives, the Company's risk management is designed for operations to be conducted with a low level of risk taking. See page 37 for an overview of the types of risk Kommuninvest regularly manages and measures. To limit the risks associated with the Company's operating model and to ensure that operations are kept within the risk appetites specified by the Board of Directors, limits or other measures are applied. Limits and guidelines for risk management are set out in the Board of Directors' Credit Policy and Finance Policy and in the Board of Directors' Policy for Operational Risks.

Credit Policy

In the Credit Policy, the Board of Directors outlines the basic view of credit provision, how it should be organised and how credit decisions should be documented.

The current ownership directive formulates the basic view of the Company's credit provision and its analysis model. This is based on the basic principle that exposure to a Swedish local government authority be ascribed the same risk weight as an exposure to the Swedish central government and that Swedish local government authorities have traditionally maintained responsible ownership. This is afforded considerable significance in the Company's setting of limits for a municipal group, in combination with the local government authorities' own good creditworthiness, which is transferred to the municipal companies via guarantee undertakings from the local government parent.

The credit risk associated with lending to a municipally owned company is considered to be very low. According to the Articles of Association, credit may be provided to municipal companies, foundations or municipal associations, provided that the member/s exercise a controlling influence over the borrower and that the member/s sign guarantees for the undertaking. Credit provision to an alliance of local government authorities requires that all members of that alliance are members of the Kommuninvest Cooperative Society.

Finance Policy

The Finance Policy states the Board of Directors' basic view on the Company's funding and liquidity strategy, investments and use of derivatives, as well as the management and control of risks attributable to these operations.

The funding strategy is a long-term plan for the Company's current and future financing. The guidelines of the strategy require fulfilling a sufficient degree of diversification among funding sources, taking into account the number and types of counterparties, types of financial instruments, maturities, currencies and geographic markets.

According to the Finance Policy, the Company shall identify the crucial factors affecting opportunities to obtain financing. These factors are to be monitored closely to ensure that the assessed funding capacity remains valid under various conceivable circumstances. In view of the overall endeavour to maintain a large proportion of the total funding volume in SEK, the Company shall, to minimise the risk of exclusion from important markets, continuously issue certificates and bonds in various markets.

The purpose of the liquidity operations is to enable the Company to meet its known and forecast liquidity needs. The liquidity strategy shall ensure that all of the Company's current liquidity risks are defined, that current liquidity needs are known and that future needs are forecast. The Company's liquidity preparedness shall serve to create favourable conditions to meet needs in terms of extending current lending, forecast new lending, forecast funding maturities and liquidity requirements based on hedging of derivatives and repurchase agreements.

The Company shall maintain good liquidity preparedness under normal market conditions, as well as in periods of stressed liquidity. The Board of Directors shall be informed immediately of any indications of changes in the conditions for maintaining normal liquidity preparedness. The Company's liquidity management organisation shall be designed to ensure that all of the Company's payment obligations can be met in time without incurring significant additional operating expenses and that surplus-liquidity enables continued refinancing of existing lending.

The Company shall ensure good matching between assets (loans and investments) and liabilities (funding and equity). Any excess or deficit of liquidity arising in the day-to-day operations is managed intraday via the Riksbank's payment system RIX, of which the Company is a full member.

Independent control

Within the Company there are three independent control functions; the Risk and Control department, compliance and the internal audit. Risk and Control and compliance form the Company's second line of defence, while the internal audit is the Company's third line of defence. The three different lines of defence are visualised in the organisational chart presented in the Risk organisation section.

Risk and Control

The Risk and Control department exercises group-wide risk control and monitors the Group's risks, principally credit risks, market risks, liquidity risks and operational risks. The Board of Directors receives regular updates on risk control issues. The function is separate from the business operations and directly subordinate to the CEO. The department is headed by the CRO, who is appointed by the CEO who also reports the appointment to the Board of Directors.

Compliance

The Company's compliance function is a control and support function, independent of the business operations, and directly subordinate to the CEO. The head of the compliance function is appointed by the CEO and reports on compliance matters to the CEO and the Board of Directors on an ongoing basis.

Among other things, the compliance function is responsible for monitoring and controlling regulatory compliance within the licensed operations, as well as providing advice and support to the operations and the executive management on matters regarding legislation and other regulations applicable to the licensed operations.

Internal audit

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

Risk organisation

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 CRO 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 and operational risks, as well as limit controls, and reports daily to the CEO and monthly to the Board of Directors.

Risk and Control is headed by the CRO who reports to the CEO 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 the Company's business models are appropriate and secure as well as leading and coordinating efforts related to operational risks.

The Credit Group prepares proposals regarding new members and limit adjustments for investment and derivative counterparties, as well as other credit matters requiring decisions by the Board of Directors or the CEO. The Company's Asset Liability Committee (ALCO) is responsible for preparing matters concerning market risk and liquidity requiring a decision by the Board of Directors or the CEO.

The Company's RCC (Risk Compliance Control) committee aims to document the work of the Company's control functions, as well as preparing reports to the Executive Management Team and the Board of Directors.

Capital management

The Company's capital management serves to ensure that the operations are fully capitalised to meet the risks in the operations, as well as future regulatory requirements and increased lending.

Capital plan and internal capital assessment

Within the Company, a capital plan is developed at least once a year. The foremost purpose of the capital plan is to assess the capital the Company needs to maintain a leverage ratio of at least 1.5 percent, which is the Company's capital target. The capital plan extends five years ahead and is based on forecasts for lending growth and other balance sheet items, as well as future regulations. The Company's capital plan forms a key component in the Society's capital planning for the consolidated situation.

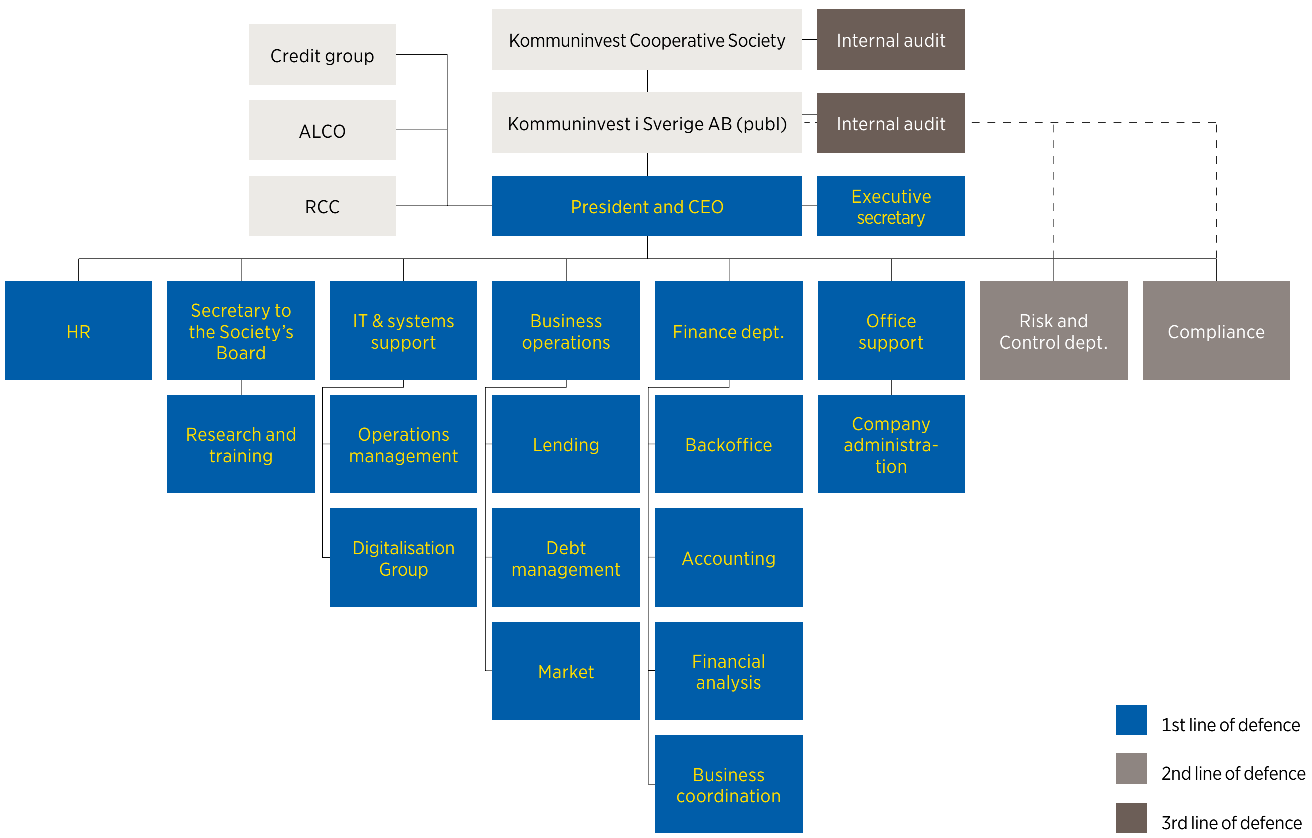
The capital plan also forms the basis on which the internal capital and liquidity assessment (ICLA) is prepared. The purpose of the Company's ICLA is to map, in a combined and comprehensive manner, the risks in the operations and to perform an internal assessment of the Company's capital and liquidity needs. The ICLA is compiled in a report approved by the Board and reported to the Swedish Financial Supervisory Authority (Finansinspektionen). Within the Company, the Finance department is responsible for capital planning and the ICLA. The Risk and Control department is responsible for the models on which stress tests and calculations of capital requirements are based.

As per the end of the year, the Company's internal capital assessment shows that the Company meets all regulatory capital requirements, including the owners' capital targets, see Note 3.

Future leverage ratio requirements

Effective from 1 January 2021, the planned new capital requirement measure, leverage ratio, is to be introduced in

Organisational chart with the operations' three lines of defence



the EU. The leverage ratio is defined as the ratio between Tier 1 capital and total exposure in assets and commitments. The leverage ratio has been reported to the relevant authorities since 2014.

In November 2016, the European Commission published its recommendation for a review of the capital adequacy rules (CRD/CRR IV), including proposals regarding the leverage ratio. The European Commission's proposals include a specific leverage ratio regulation for *Public Development Credit Institutions (PDCI)*, among which Kommuninvest will most likely be included. The proposal regarding which requirements an institution must meet to qualify as a PDCI was revised in December 2017 by both the European Council and the European Parliament. The revised proposal clarifies that even indirect exposures (e.g. lending to municipal companies) are subject to the special leverage regulation for PDCIs. In addition, it is now proposed that an institution need not be established under public law to be considered a PDCI. In Kommuninvest's assessment, the Company meets all of the stated criteria to be defined as a public development credit institution, PDCI.

At present, the so-called trilogue is in progress between the European Parliament, the Council and the Commission, and decisions on the forthcoming regulations are expected to be communicated during the first quarter of 2019. If the proposals in accordance with the above are realised, lending will be deducted from the exposure measure applied in the calculation of the leverage ratio under Pillar 1 for the Company and the Group. Calculated in this way, Kommuninvest meets the leverage ratio of 3 percent being discussed by a good margin.

The Swedish Financial Supervisory Authority (Finansinspektionen) has, however, communicated that, in its risk assessment regarding inadequate leverage ratio, it may, under Article 98.6 of the Capital Adequacy Directive (2013/36/EU), include the total capital requirement for the consolidated situation in the Company's lending. Finansinspektionen's combined capital assessment for Kommuninvest currently comprises a capital requirement equivalent to a leverage ratio of 1.5 percent. Kommuninvest is participating actively in the development of the forthcoming leverage ratio requirement.

Kommuninvest's capitalisation – responsibility of the owners

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, taking all of the Group's exposures into account. If further capital needs to be accumulated to meet the capital requirement, as a result of future regulatory changes, for example, the Society plans primarily to ask members for additional member contributions. In accordance with its Articles of Association, the Society applies a minimum (compulsory) and maximum level of contribution capital per resident paid by the Society's members as capital. In 2017, the Annual General Meeting of the Society resolved that it should be possible to double the highest level of contribution capital if the need were to arise. However, this requires a special decision at an ordinary or extraordinary Annual General Meeting of the Society. The Society's Articles of Association also permit other options, such as subordinated loans or the issuance of Tier 1 capital instruments.

Capitalisation 2018

During the spring of 2017, the Society's Board of Directors approved the Company prematurely redeeming the subordinated loan of almost SEK 1,000.0 million granted to the Company by the Society in the autumn of 2010. The Company's Board of Directors subsequently resolved to implement a share issue corresponding to the amount of the subordinated loan. The application to replace the subordinated loan with shares was approved by the Swedish Financial Supervisory Authority (Finansinspektionen) in January 2018. Accordingly, the Company's capital base now consists solely of core Tier 1 capital, which can be included in full in the calculation of the liquidity ratio.

In addition, unrestricted equity in the Company has increased through profit carried forward. Combined, the Company's capital base increased by SEK 1,066.0 million in 2018.

Kommuninvest's risk management in brief

DESCRIPTION	RISK MANAGEMENT
Credit risk	
Risk in credit provision	
Risk in credit provision refers to the risk that a credit counterparty is unable to meet its obligations.	Loans are only provided to members and their majority owned companies. Loans may also be made to municipal foundations and associations. The members are followed up by applying an in-house model for risk monitoring 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 the Group's net consolidated debt per inhabitant. Lending is only provided to municipal companies, foundations and alliances of local government authorities if the local government authorities concerned have guaranteed the undertaking. Swedish municipalities and regions have the right to levy taxes and cannot be declared bankrupt. In addition, the central government bears the ultimate responsibility for local government sector operations. The risk in credit provision is assessed as very low.
Issuer risk	
Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity.	Investments are made primarily in securities issued by sovereign states or state-guaranteed issuers, where the issuer has a credit rating of at least A from S&P Global Ratings. The maximum remaining maturity on securities in the liquidity reserve is 39 months. 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's stringent requirements on issuers mean that issuer risk is considered to be limited.
Counterparty risk	
Counterparty risk refers to the risk of a counterparty in a financial contract defaulting before the final settlement of the cash flows. Counterparty risk arises when derivatives contracts are entered with counterparties with the purpose of reducing or eliminating market risks. Depending on changes in market values, a derivative contract of this kind can entail either a receivable from, or a liability to, the counterparty.	In order for the Company to enter into an uncleared derivative, the counterparty must, at the time of the transaction, have a credit rating, as an issuer, of at least BBB+ or be guaranteed by someone with this credit rating. If the counterparty has a credit rating lower than A, particular attention is paid to the derivative's marketability, complexity and maturity. For the Company to enter into a cleared derivative, the counterparty must, at the time of the transaction, have a credit rating as an issuer of at least BBB-. The scope for transactions is limited on the basis of several criteria. All outstanding counterparties are followed up on an annual basis and when necessary. Derivatives exposures are to be covered by ISDA agreements and, in most instances, by CSA agreements. For new counterparties, CSA agreements are required. 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. The Board of Directors of the Company determines the requirements and design of the ISDA and CSA agreements by means of instructions.
Market risk	
Market risk refers to the risk that the net market value (combined value) of the Company's assets and liabilities will decrease due to changes in risk factors in the financial market.	Kommuninvest's operations and business model give rise to market risks in the form of interest rate risk, currency risk, credit market risk, other price risks and liquidation risk. Market risk is measured and monitored continuously. Most interest rate and currency risks and 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 it will not be possible to meet payment obligations on maturity without the expense of obtaining payment funds increasing considerably.	The structural liquidity situation shall be highly stable with a favourable matching of maturities between liabilities and 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. In order to ensure good liquidity preparedness, including during periods of stress, the Company has a highly liquid liquidity reserve. Overall, this limits the liquidity risks in the Company.
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.	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 to enable reporting and follow-up of undesired events. Good governance and control means that the operational risk is kept at a controlled and acceptable level.

Focus on governance and control

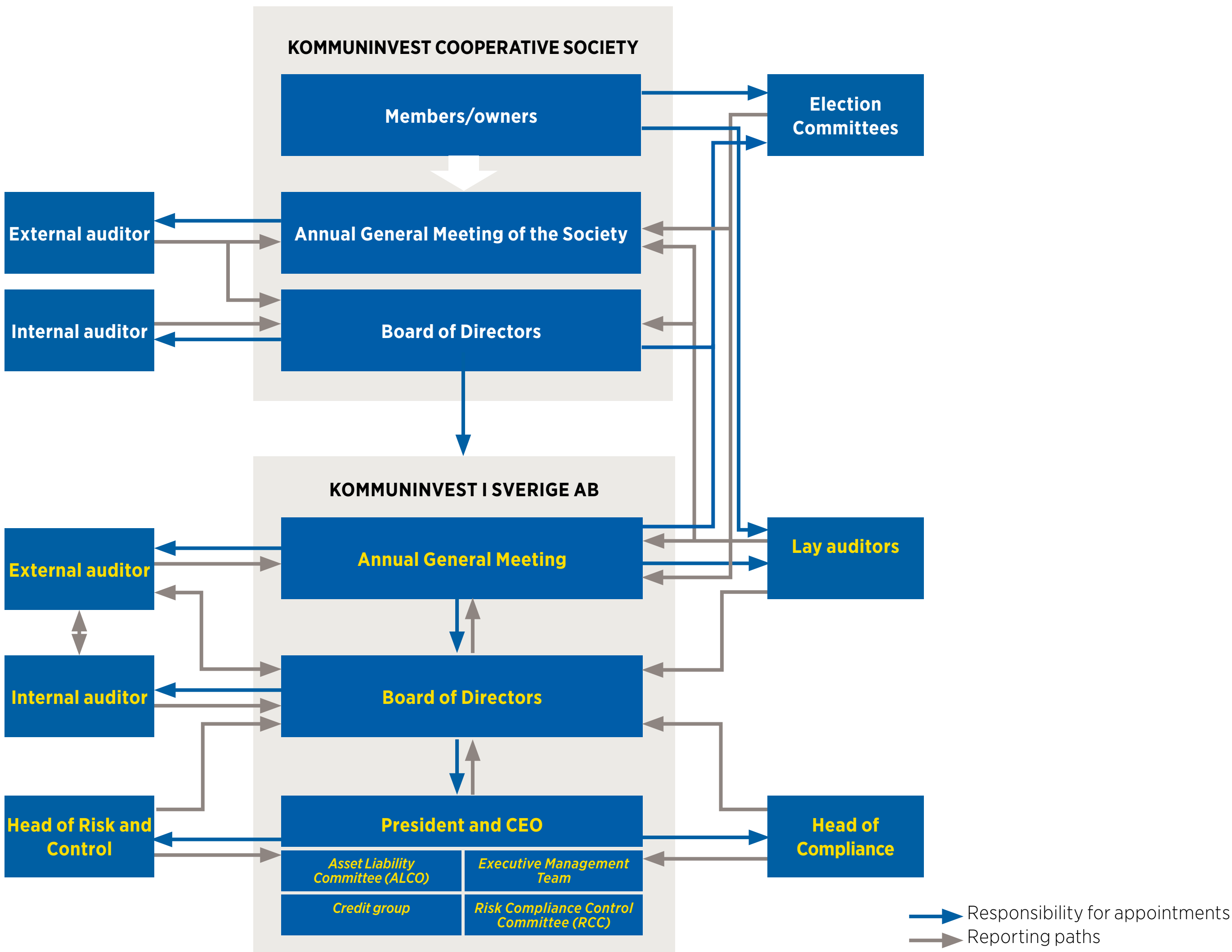
Kommuninvest i Sverige AB is a Swedish public limited liability company and a wholly owned subsidiary of the Kommuninvest Cooperative Society. Good governance and control are crucial to the Company as it is owned by Swedish municipalities and regions, with a public mandate.

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. Since the Company's shares have not been admitted for trading on a regulated market in Sweden, the Company is not subject to the *Swedish Code of Corporate Governance*. Nor, in the Company's assessment, should the *Principles for the Governance of Companies Owned by Municipalities and County Councils* developed by the local government sector be applied given the financial focus of the operations.

Regulatory framework for corporate governance

The Companies Act includes basic regulations for 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 the Swedish Financial Supervisory Authority (Finansinspektionen) and its equivalents



within the European Union, the ESAs (European Supervisory Authorities).

Principles of corporate governance

The members of the Society consist of Swedish municipalities and 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.

Owner directives from the Annual General Meeting of the Society

The Board of Directors of the Society develops owner 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 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 take effect by being adopted by the Annual General Meeting of the Company.

Targets for operations

The Company's overarching objective is to generate the greatest possible benefit for the members of the Society. Routes towards this could involve maintaining a high proportion of satisfied customers, accounting for a large proportion of members' loan financing, maintaining a high level of cost efficiency and having the financial strength to support the long-term focus of the operations.

Remuneration principles

The Board of Directors sets the remuneration principles applicable within the Company. The principles are also reviewed regularly. Since the Swedish Financial Supervisory Authority (Finansinspektionen) does not consider the Company to be significant in terms of its size, internal organisation and the nature, scope and complexity of its operations, there is no need for a compensation committee. These duties are performed instead by the Chairman of the Board.

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

Audit Committee

Within the Company, the tasks of an Audit Committee are performed by the full Board of Directors. In 2018, the Audit Committee met on two occasions. Matters included a risk control of the 2017 annual accounts, including the external auditors' review report, internal audit reports, a study of the capital situation, a capital plan for 2019–2023 and an investigation policy, as well as the approval of non-audit services.

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 26 April 2018, in immediate connection with the Annual General meeting of the Society.

The Annual General Meeting of the Company approved the Annual Report for 2017 proposed by the Board of Directors and the President, and discharged the members of the Board of Directors and the President from responsibility. Furthermore, the Annual General Meeting approved the distribution of earnings proposed by the Board of Directors and the President.

At the Annual General Meeting, Anna Sandborgh and Åsa Zetterberg stepped down from their assignments as Board Members and Kristina Sundin Jonsson was elected as a new member. The other members were re-elected. No one from the Executive Management Team of the Company sits on the Board of Directors.

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

- Adoption of owner directives.
- Determination of a formal work plan for the Election Committee.
- Authorisation for the Board of Directors to implement new share issues during the financial year.
- Amendment to the Articles of Association.

Election Committees

There is an Election Committee for the Society's companies: Kommuninvest i Sverige AB and Kommuninvest Fastighets AB. The Election Committee bears the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the shareholder to give its views on proposals and to submit its own proposals regarding appointments and associated issues, thereby establishing favourable conditions for well-founded decisions. In accordance with the Election Committee's instructions, the composition of the Board of Directors shall reflect the nature, scope and complexity of the operations. At least one member shall be, or have been, an elected representative

Election Committee of the companies owned by the Society 2018/2019

Göran Färm (S), Municipality of Norrköping, Chairman

Linda Frohm (M), Municipality of Kalix, Vice Chairman

Ewa-May Karlsson (C), Västerbotten County Council

Margreth Johnsson (S), Municipality of Trollhättan

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

in a member municipality or region and possess a knowledge of 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 of 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, the reporting to the Board, the number of Board meetings and their regular agenda, as well as 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 otherwise fulfils its duties. Among other things, the Chairman is required to encourage an open and constructive discussion among the Board, to ensure that the Board continuously updates and deepens its knowledge of the Company and its operations, to ensure that the Board has rules for identifying and dealing with conflicts of interest on the Board, and for receiving comments from the Parent Society 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 and remuneration systems are independently reviewed and for monitoring the application of the Company's remuneration policy.

CEO

The Board of Directors has adopted a set of instructions for the President and CEO, 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

As per 31 December 2018, the Company's Board of Directors consisted of Ellen Bramness Arvidsson (Chairman), Kurt Eliasson, Lars Heikensten, Erik Langby, Kristina Sundin Jonsson, Johan Törngren and Anna von Knorring, as well as employee representative Ulrika Gonzalez Hedqvist. In March 2018, Nedim Murtic was replaced by Jonas Håkansson as employee representative. Jonas Håkansson stepped down from his assignment in August 2018. The members are presented on pages 41–42.

Remunerations

For 2018, the Annual General Meeting approved a fixed fee of TSEK 550 (550) for the Chairman of the Board. For the other Board members, a fixed fee of TSEK 300 (300) was set.

The total fees paid to the members of the Board of Directors amounted to TSEK 2,450 (2,558) for 2018. No fee was paid to the employee representatives. The combined fees are detailed in the table on page 41.

Work of the Board of Directors in 2018

In 2018, the Board of Directors held 8 (7) ordinary meetings, and 1 (1) inaugural meeting. In addition to ongoing matters, agendas and decisions have involved:

- Strategic objectives
- Internal capital and liquidity assessment
- Risk framework
- Recovery plan
- Capitalisation issues
- Remuneration issues
- Updates of loan programmes
- Board evaluation
- Counterparty limits
- Employee survey
- Valuation principles
- Organisational issues
- Personnel and innovation issues
- Review of counterparties
- Annual report and interim reports

Board of Directors of Kommuninvest i Sverige AB

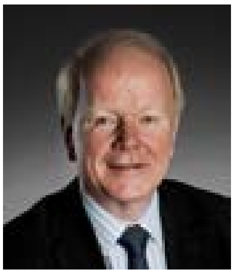
ELLEN BRAMNESS ARVIDSSON
Executive Director Strategy and International Affairs, Finance Norway

Elected: Chairman since 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 Insurance Sweden, Under Secretary and First Secretary at the Ministry of Finance.

Other assignments: Board Member, Norske Finansielle Referanser AS.



KURT ELIASSON
Chairman of the Committee for modern building rules, The Swedish Government Office

Elected: Member since 2010.

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

Previous positions: CEO SABO, CEO Förvaltnings AB Framtiden, Managing Director Riksbyggen Göteborg, Chairman Chalmers University of Technology Foundation, President Housing Europe (Brussels), President Finance Watch (Brussels), Chairman of NBO (Nordic Housing), Chairman Göteborgs Hamn AB.

Other assignments: Chairman Järntorgskvarteret AB (Göteborg).

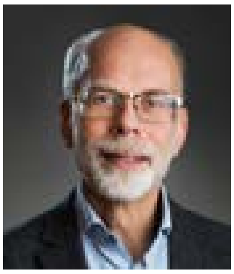
LARS HEIKENSTEN
Executive Director the Nobel Foundation

Elected: Member since 2016.

Education: PhD Stockholm School of Economics, Honorary Doctor University of Umeå and Gustavus Adolphus College (USA).

Previous positions: Member European Court of Auditors, Governor Central Bank of Sweden, Board Member Bank of International Settlement (BIS) and the General Council of the ECB, Chief Economist Handelsbanken, Director General Ministry of Finance.

Other assignments: Chairman Trygg-Stiftelsen.



ERIK LANGBY
Consultant

Elected: Member since 2015.

Education: Individual courses, Stockholm University.

Previous positions: Chairman of the Municipal Executive Board and Municipal Commissioner in Nacka, Chairman of the Association of Local Government Authorities in Stockholm County, Board Member SALAR, Chairman of the Regional Planning Board in the county council, Board Member Hegeli Public Affairs AB, Chairman of Healthcare- and Welfare Committee of Norrtälje, Board Member HSB Omsorg AB, Chairman Texab AB, Chairman of Structural partnership of Stockholm.

Other assignments: Board Member Atrium Ljungberg AB, Chairman NackaStrands-Mässan AB, Chairman of AB Solom, Board Member Bostadsrätterna I Sverige Ekonomisk Förening, Chairman Tegelhatt AB and Chairman Municipal Council of Sigtuna Municipality.

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

Name	Position of dependence	Attendance, Board meetings 2018	Remuneration 2018, SEK	Remuneration 2017, SEK
Ellen Bramness Arvidsson	Independent	9 (of 9)	550,000	550,000
Kurt Eliasson	Independent	8 (of 9)	300,000	300,000
Lars Heikensten	Independent	6 (of 9)	300,000	300,000
Erik Langby	Independent	9 (of 9)	300,000	300,000
Kristina Sundin Jonsson	Independent, newly elected April 2018	5 (of 6)	200,000	–
Johan Törngren	Independent	8 (of 9)	300,000	300,000
Anna von Knorring	Independent	8 (of 9)	300,000	300,000
Anna Sandborgh	Independent, stepped down April 2018	3 (of 3)	100,000	300,000
Åsa Zetterberg	Independent, stepped down April 2018	0 (of 3)	100,000	208,000
Ulrika Gonzalez Hedqvist	Employee representative	8 (of 9)	Not remunerated	Not remunerated
Nedim Murtic	Employee representative, stepped down March 2018.	1 (of 2)	Not remunerated	Not remunerated
Jonas Håkansson	Employee representative, newly elected March 2018 and stepped down August 2018.	4 (of 4)	Not remunerated	Not remunerated

Board of Directors of Kommuninvest i Sverige AB

KRISTINA SUNDIN JONSSON
Chief Executive Officer/City Manager of Skellefteå Municipality, CEO of Skellefteå Stadshus AB

Elected: Member since 2018.

Education: Bachelor of Science in Business and Economics, Umeå University.

Previous positions: Certified public accountant, consultant KPMG AB, CFO Skelleftebostäder AB.

Other assignments: Chairman of the Association of Chief Executive Officers for Municipalities in Sweden, board member Inera AB, delegate of the Delegation of gender equality, Västerbotten County.

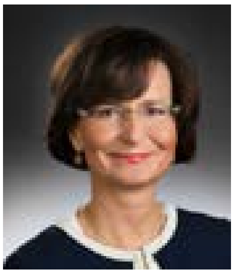
JOHAN TÖRNGREN
Consultant

Elected: Member since 2009.

Education: MBA, Stockholm School of Economics.

Previous positions: Senior Vice President and Head of Finance, SAS Group, Vice President Group Finance and Asset Management, SAS Group, Treasury at Svensk Exportkredit AB.

Other assignments: Chairman, SPP Fonder AB.



ANNA VON KNORRING
Deputy Director, State Treasury, Finland

Elected: Member since 2004.

Education: Master of Laws, Helsinki University, Master of Science (Econ.), Swedish School of Economics and Business Administration Helsinki.

Previous positions: Ministry of Finance and State Treasury.

Other assignments: Board Member Nordic Capital Markets Forum, Delegation member Tre Smeder Foundation Helsinki, Member Market Advisory Committee and User Committee, Euroclear Finland.

ULRIKA GONZALEZ HEDQVIST
Employee representative

Elected: Member since 2017, deputy member since 2016.

Education: Degree of Master Science in Business and Economics, Accounting and Financials, Örebro University.

Position at Kommuninvest: Senior Funding Officer.

Other assignments: Member of the local union.

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.

The same auditing company appointed as external auditor for the Company is also the appointed external auditor for the Group and Kommuninvest Fastighets AB. 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.

External auditor

At the Company's 2016 Annual General Meeting, KPMG AB was appointed as the auditing company for the period extending until the end of the Annual General Meeting in 2020. KPMG AB has appointed authorised public accountant Anders Tagde as chief auditor. The auditor with overall responsibility meets the Board of Directors at least twice a year. Among Anders Tagde's other auditing assignments, ICA Banken and OK-Q8 Bank can be mentioned.

Lay auditors

The lay auditors regularly meet the external auditors, 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 2016 Annual General Meeting of the Society, the following lay auditors for the Company were appointed for the period extending until the end of the 2020 Annual General Meeting:
Barbro Hassel (S), Municipality of Skara (newly elected),
Cecilia Löfgren (M), Municipality of Järfälla (newly elected).

Executive Management Team

Management of Kommuninvest i Sverige AB

The Company's Chief Executive Officer (CEO) leads, organises and develops the business in such a way that objectives set by the Board of Directors are achieved. Written instructions stipulate the division of labour between the Board of Directors and the CEO.

The CEO 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 CEO 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.

The CEO is supported by the Executive Management Team. On 31 December 2018, in addition to the CEO, the Company's executive management consisted of Maria Viimne (Deputy CEO and COO), Patrick Nimander (CFO), Malin Norbäck (Head of Human Resources), Britt Kerkenberg (CRO), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (CIO). In April 2018, Anders Pelander (Deputy CFO and former Acting CFO) left the executive management and was replaced by Patrick Nimander.

TOMAS WERNGREN, PRESIDENT & CEO

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

Previous positions: Deputy CEO and CFO at Kommuninvest and Treasurer at SBAB, among others.

Other assignments: Board Member of Vasallen AB.

Born: 1961.

MARIA VIIMNE, DEPUTY CEO & COO

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

Previous positions: Finance Group Director and Company Counsel at Kommuninvest, among others.

Born: 1970.

Remunerations – Executive Management Team, Kommuninvest i Sverige AB (publ)

Name	Year	Basic salary	Benefits	Variable pay	Pension expense	Total, SEK
Tomas Werngren	2018	3,129,079	83,592	–	1,057,267	4,269,938
	2017	3,123,265	84,000	–	964,109	4,171,374
Maria Viimne	2018	2,105,085	–	–	602,372	2,707,457
	2017	2,068,724	–	–	616,934	2,685,658
Other Executive Management Team	2018	5,546,465	17,468	–	1,830,973	7,394,906
	2017	4,698,520	18,259	–	1,386,166	6,102,945
Employees who have a material impact on the Company's risk profile[1]	2018	16,291,381	54,179	–	3,648,890	19,994,450
	2017	14,408,167	52,801	–	3,047,655	17,508,623

1) In addition to the Executive Management Team. This group comprises 24 (20) employees with the following positions: Senior Funding Officer, Head of Lending and Client Relationship Managers, Chief Financial Analyst, Accounting Manager, and Chief Compliance Officer.

More information about Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website www.kommuninvest.se/en:

- 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.

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, 2013). The COSO framework comprises five components: control environment, risk management, control activities, information and communication, and follow-up. The Company's process is based on the targets set for the operations having been designed to ensure an appropriate and effective organisation and management, reliability of financial reporting and a good capacity to comply with laws and regulations, internal rules, as well as generally accepted practices and standards.

Operational processes

An efficient process for internal governance and control requires clearly defined business processes. For Kommuninvest, operational processes are defined as the recurring and interconnected activities that are performed in order to satisfy the needs of members and customers. Processes are divided into core processes, governing processes and supporting processes. Kommuninvest's core processes are: managing membership, managing lending and managing liquidity. The governing processes serve to support decisions regarding the Company's goals, strategies, rules and limits, and carrying out planning, management, improvement and review of the organisation's other processes. Supporting processes within the Company serve to sustain core processes, either directly or indirectly, to ensure that they function as well as possible.

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:

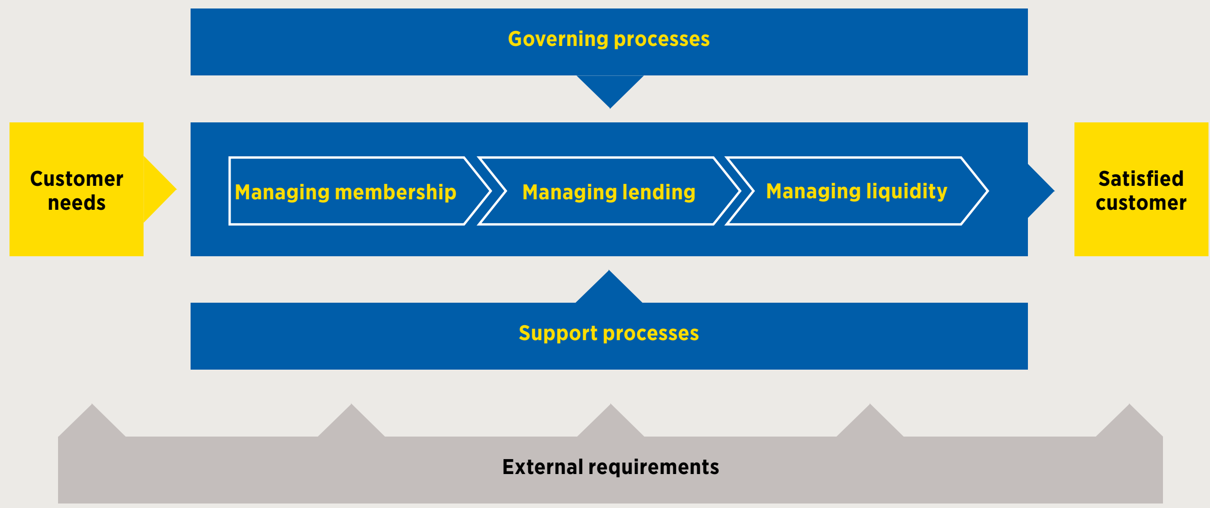
- Management and Control Policy (adopted by the Board of Directors of the Company).
- The President's instructions for operational governance and control.

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

- Finance Policy.
- Credit Policy.
- Sustainability Policy.
- Compliance Policy.
- Operational Risk Policy.

The informal part consists of the culture that the Board of Directors and management create through their leadership and management approaches. This is expressed in, among other things, ethical values that create awareness among employees and in the shared Code of Conduct that encompasses all employees within the Company.

KOMMUNINVEST'S OPERATIONAL PROCESSES



Risk management

The Company conducts annual assessments of the risks that may arise in connection with the Company's operations. The valuation of the identified risks is based on an overall assessment of the probability of the risk occurring and the financial impact that the event may have on Kommuninvest. See more under the section Risk and capital management on pages 33–37.

Control activities

The Company's control structure is based on control activities defined and described in the light of the identified risks. The organisation of the control environment is divided into three lines of defence, as described below. Checks are performed in the Company's first and second lines of defence. Review is conducted in the third line of defence, by the internal audit.

1. *The first line of defence* lies in the operations and is responsible for the identification, control and management of the risks arising there.

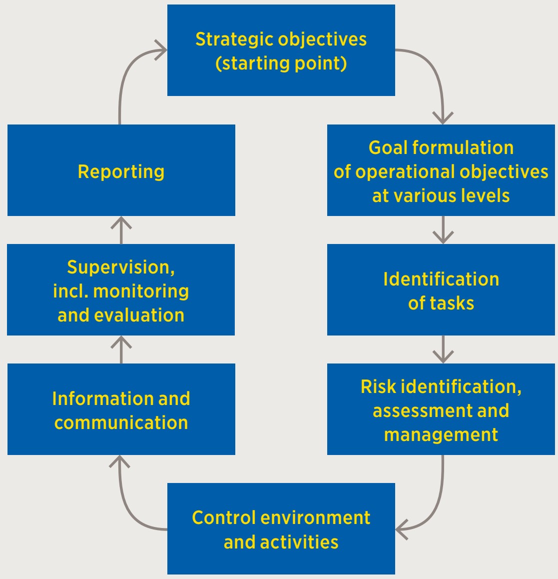
2. *The second line of defence* is separate from the operations, and consists of the Risk and Control Department, and the compliance function. They monitor and check how risks and compliance are managed by the operations. The functions provide support in the introduction of effective risk management processes and regulatory compliance controls, as well as in connection with internal risk reporting. They are also tasked with reporting internally and externally.

3. *The third line of defence* is the internal audit unit, which, in a risk-based manner, reports to the Board and Management on how the Company assesses and manages its risks. This includes the procedures of the first and second lines of defence. The internal audit within Kommuninvest is performed by PwC on behalf of the Board of Directors.

Information and communication

The Company has an internal website where policies, instructions and other governance documents are made available. The objective is for all governance documents to be updated at least once annually. The internal website also contains other important information concerning the operations, such as operational reports and protocols from the decision-making forums.

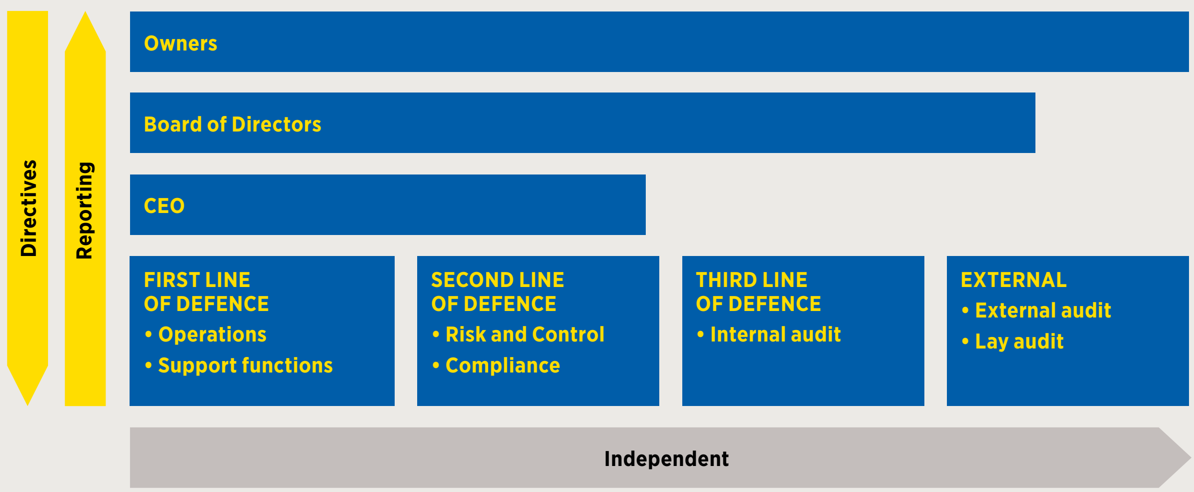
PROCESS FOR INTERNAL GOVERNANCE AND CONTROL



Follow-up

The Board of Directors continuously monitors the Company's financial performance based on monthly reports including budgeted amounts and actual outcomes with associated comments. The Board of Directors continuously evaluates the information submitted by management and the control functions. This monitoring ensures, among other things, that action is taken to rectify any deficiencies, and that the proposed measures emerging from the annual assessment and internal and external audits are taken into account. In addition, management, the internal audit, the Risk and Control function and the Compliance function perform regular checks and audits.

KOMMUNINVEST'S CONTROL ACTIVITIES



Financial statements

FINANCIAL STATEMENTS

NOTES

Income statement

1 January – 31 December

SEK, million	Note	2018	2017
Interest revenues calculated according to effective interest method		494.0	450.6
Other interest revenues		11.3	1.7
Interest expenses calculated according to effective interest method		437.0	481.6
Other interest expenses		–56.8	–52.6
NET INTEREST INCOME	4	**885.5**	**881.3**
Dividends received		2.1	1.8
Commission expenses	5	–8.2	–7.3
Net result of financial transactions	6	161.4	512.0
of which, derecognised assets measured at amortised cost		*0.5*	*0.2*
Other operating income	7	7.8	5.3
TOTAL OPERATING INCOME		**1,048.6**	**1,393.1**
General administration expenses	8	–259.8	–258.5
Depreciation and impairment of intangible assets	18	–5.3	–4.8
Depreciation and impairment of tangible assets	19	–2.5	–2.5
Other operating expenses	9	–4.2	–3.5
TOTAL EXPENSES		**–271.8**	**–269.3**
PROFIT BEFORE CREDIT LOSSES		**776.8**	**1,123.8**
Net credit losses	10	–24.3	–
OPERATING PROFIT		**752.5**	**1,123.8**
Tax	11	–166.4	–247.8
NET PROFIT	12	**586.1**	**876.0**

Statement of comprehensive income

1 January – 31 December

SEK, million	Note	2018	2017
NET PROFIT		**586.1**	**876.0**
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to the income statement			
Available-for-sale financial assets		–	24.1
Available-for-sale financial assets, transferred to the income statement		–	–35.6
Tax attributable to items that may subsequently be reclassified to the income statement	11	–	2.5
OTHER COMPREHENSIVE INCOME		**–**	**–9.0**
TOTAL COMPREHENSIVE INCOME		**586.1**	**867.0**

Comments on the income statement

Net interest income

Over the year, the Company has lowered its lending margin as a result of a new pricing strategy, which does not take unrealised changes in market value into account. For more information, see section Important events during the year on page 4. This reduction in margin had a negative impact on net interest income, but this was offset entirely by the increase in volumes over the year. Net interest income amounted to SEK 885.5 (881.3) million and was thus marginally higher than for the preceding year.

Kommuninvest grants lending at negative interest rates, which is recognised as an interest expense, amounting over the period to SEK 229.0 (161.8) million.

For further information regarding net interest income for the period, see Note 4.

Net result of financial transactions

The net result of financial transactions amounted to SEK 161.4 (512.0) million. The result is mainly explained by unrealised changes in market value of SEK 164.4 (426.0) million. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 25.

The unrealised changes in market value over the year are explained by the Company having lowered its lending margin towards customers during the year, and that funding expenses in SEK became cheaper relative to funding in foreign currencies during the period. Since the liabilities only include foreign currency funding reported at fair value, the more expensive financing in USD has entailed a decrease in the margin between the Company's funding and lending expenses on the instruments that are marked to market. For further information, see Note 6.

Expenses

Total expenses amounted to SEK 271.8 (269.3) million, including the cost of resolution fee of SEK 69.1 (66.3) million.

The resolution fee is calculated as a risk-adjusted share of the balance sheet total 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. Kommuninvest's resolution fee for 2018 has been set by the Swedish National Debt Office at SEK 69.1 (66.3) million. The resolution fee accounted for 25 (25) percent of Kommuninvest's total expenses for 2018.

Excluding the resolution fee, expenses amounted to SEK 202.7 (203.0) million, of which payroll expenses accounted for SEK 121.5 (119.9) million and other expenses for SEK 81.2 (83.1) million.

The Company's wholly-owned subsidiary, Kommuninvest Fastighets AB, provided a group contribution of SEK 2.1 (1.8) million in 2018. The Board of Directors of this subsidiary was of the opinion that the Group contribution would not prevent the subsidiary from fulfilling its obligations in the short and long term, nor from making necessary investments.

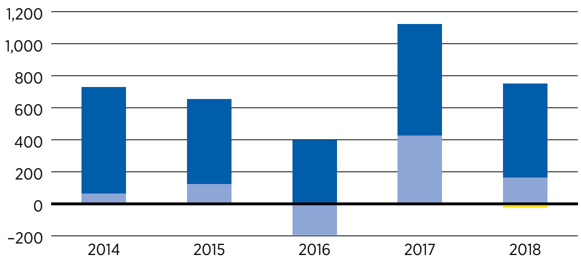
Net credit losses amounted to SEK 24.3 (–) million. The Company has not suffered any confirmed credit loss. All credit losses are expected credit losses calculated in accordance with the accounting standard IFRS 9, which came into force on 1 January 2018. IFRS 9 requires expected credit losses to be calculated based on a forward-looking analysis of the economic trend. For more information on credit losses, see Note 3.

Net profit

Kommuninvest's operating profit, its profit before tax, amounted to SEK 752.5 (1,123.8) million. Operating profit includes unrealised changes in market value of SEK 164.4 (426.0) million. Excluding unrealised changes in market value, operating profit amounted to SEK 588.1 (697.8) million. The tax expense for the year recognised in the income statement amounted to SEK 166.4 (247.8) million. Through Group contributions, taxable profit is reduced to SEK – (–) million. For further information regarding tax, see Note 11. Profit after tax amounted to SEK 586.1 (876.0) million.

Operating profit before tax

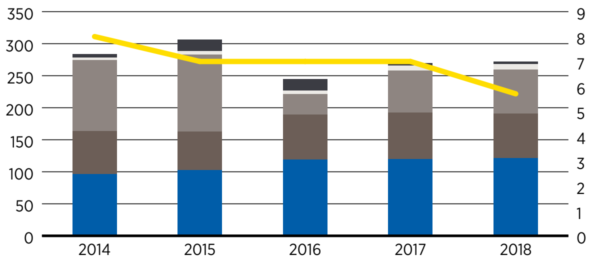
SEK, million



Operating profit before tax
Portion of profit attributable to unrealised changes in market value
Portion of profit attributable to net credit losses

Distribution of expenses

SEK, million — Basis points



Payroll expenses
Other administration expenses
Resolution fee/stability fee[1]
Depreciation and impairment of tangible and intangible assets
Other operating expenses
Operating expenses excl. resolution fee/stability fee in relation to lending volume, basis points

1) The resolution fee replaced the stability fee during 2016.

Balance sheet

As per 31 December

SEK, million	Note	2018	2017
ASSETS			
Sovereign bonds eligible as collateral	3, 13	39,230.3	24,635.8
Lending to credit institutions	3	1,843.4	649.7
Lending	3, 14	355,710.0	310,147.3
Bonds and other interest-bearing securities	3, 15	7,457.8	12,500.0
Shares and participations in subsidiaries	16	42.0	42.0
Derivatives	3, 17, 26	11,333.2	8,044.6
Intangible assets	18	15.7	10.9
Tangible assets	19	5.0	7.2
Current tax assets		79.0	79.0
Other assets	20	1,471.0	814.1
Prepaid expenses and accrued revenue		14.7	12.0
TOTAL ASSETS		**417,202.1**	**356,942.6**
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities and provisions			
Liabilities to credit institutions	3	584.0	1,318.4
Securities issued	3	396,796.9	337,755.8
Derivatives	3, 17, 26	5,959.6	7,793.9
Other liabilities	21	6,217.5	2,422.5
Accrued expenses and prepaid revenues		40.6	41.2
Provisions	22	0.1	–
Total liabilities and provisions		**409,598.7**	**349,331.8**
Equity			
Restricted equity			
Share capital		7,100.0	6,100.0
New share issue in progress		–	1,000.0
Development expenditure reserve		12.0	3.1
Statutory reserve		17.5	17.5
Unrestricted equity			
Fair value reserve		–	0.8
Profit or loss brought forward		–112.2	–386.6
Net profit	12	586.1	876.0
Total equity		**7,603.4**	**7,610.8**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**417,202.1**	**356,942.6**

Comments on the balance sheet

Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 417,202.1 (356,942.6) million, with lending to municipalities and regions accounting for most of the assets. Lending amounted to a recognised value of SEK 355,710.0 (310,147.3) million at the end of the year. The increase in lending is due to a continued high need for investment in the local government sector, combined with lower lending prices, see section Net interest income on page 49. In nominal terms, lending amounted to SEK 353,946.1 (308,042.3) million.

The liquidity portfolio, consisting of the balance sheet items Sovereign bonds eligible as collateral, Lending to credit institutions and Bonds and other interest-bearing securities, increased to SEK 48,531.5 (37,785.5) million.

Derivative assets (derivatives with positive market value) also increased to SEK 11,333.2 (8,044.6) million. The foremost reason for the changes in the scale of the derivative assets is the stronger USD, which increases the value of derivatives that hedge the currency risk from funding in USD.

Other assets amounted to SEK 1,471.0 (814.1) million. The increase in other assets is primarily due to collateral of SEK 1,454.4 (793.0) million being pledged. Pledged assets for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet, see further under Note 26. No right of netting applies for cash collateral pledged for derivatives not cleared by a central clearing and these are therefore included in full in the balance sheet. For more information on other assets, see Note 20.

Liabilities

The Company's liabilities amounted to SEK 409,598.7 (349,331.8) million and funding increased to SEK 397,380.9 (339,074.2) million over the year.

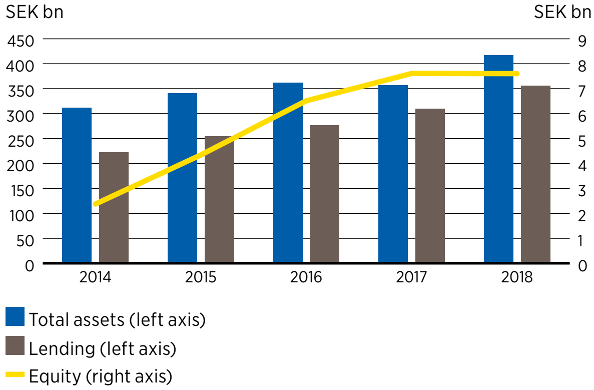
Derivative liabilities (derivatives with negative market value) amounted to SEK 5,959.6 (7,793.9) million.

Other liabilities amounted to SEK 6,217.5 (2,422.5) million. Other liabilities include collateral received of SEK 4,551.8 (654.8) million. Collateral received for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet, see further under Note 26. No right of netting applies for cash collateral received for derivatives not cleared by a central clearing counterparty and these are therefore included in full in the balance sheet. Further information on other liabilities can be found in Note 21.

Equity

For information on equity, see the Statement of changes in equity on page 52.

Balance sheet



Statement of changes in equity

	Restricted equity				Unrestricted equity			Total equity
SEK, million	**Share capital**	**New share issue in progress**	**Development expenditure reserve**[1]	**Statutory reserve**[2]	**Fair value reserve**[3]	**Profit or loss brought forward**	**Net profit**	
Equity brought forward 1 January 2017	**5,417.1**	**682.9**	**1.6**	**17.5**	**9.8**	**75.3**	**309.8**	**6,514.0**
Net profit							876.0	876.0
Change in development expenditure reserve for the year			1.5			–1.5		–
Other comprehensive income					–9.0			–9.0
Total comprehensive income	**–**	**–**	***1.5***	**–**	***–9.0***	***–1.5***	***876.0***	***867.0***
Transactions with shareholders								
Appropriation of surplus						309.8	–309.8	–
New share issue	682.9	–682.9						–
New share issue in progress		1,000.0						1,000.0
Group contributions						–987.5		–987.5
Tax effect on Group contribution						217.3		217.3
Total transactions with shareholders	***682.9***	***317.1***	**–**	**–**	**–**	***–460.4***	***–309.8***	***229.8***
Equity carried forward 31 December 2017	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**0.8**	**–386.6**	**876.0**	**7,610.8**
Equity carried forward 31 December 2017	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**0.8**	**–386.6**	**876.0**	**7,610.8**
Transition effect IFRS 9					–0.8	–7.2		–8.0
Equity brought forward 1 January 2018	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**–**	**–393.8**	**876.0**	**7,602.8**
Net profit							586.1	586.1
Change in development expenditure reserve for the year			8.9			–8.9		–
Other comprehensive income								–
Total comprehensive income	**–**	**–**	***8.9***	**–**	**–**	***–8.9***	***586.1***	***586.1***
Transactions with shareholders								
Appropriation of surplus						876.0	–876.0	–
New share issue	1,000.0	–1,000.0						–
New share issue in progress								–
Group contributions						–750.6		–750.6
Tax effect on Group contribution						165.1		165.1
Total transactions with shareholders	***1,000.0***	***–1,000.0***	**–**	**–**	**–**	***290.5***	***–876.0***	***–585.5***
Equity carried forward 31 December 2018	**7,100.0**	**–**	**12.0**	**17.5**	**–**	**–112.2**	**586.1**	**7,603.4**

1) The development expenditure reserve corresponds to capitalised development expenses accrued in-house that have been transferred from profit or loss brought forward, adjusted for a proportionate share of the amortisation reversed from the reserve to unrestricted equity.

2) The statutory reserve refers to previous statutory provisions to restricted equity. The requirement was abolished on 1 January 2006 and prior provisions remain.

3) The fair value reserve consists of financial assets available for sale.

Comments on the statement of changes in equity

Equity

At the end of 2018, equity in the Company amounted to SEK 7,603.4 (7,610.8) million, following Group contributions of SEK 750.6 (987.5) million paid to the Kommuninvest Cooperative Society.

The transition to IFRS 9 has affected equity negatively by SEK 8.0 million, see Note 28 for more information.

The development expenditure reserve of SEK 12.0 (3.1) million corresponds to capitalised development expenditure in-house, adjusted by a proportional share of depreciation transferred back from the reserve to unrestricted equity.

Reinforcement of share capital

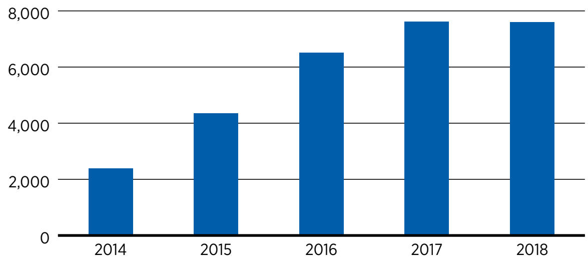
In accordance with the owner directives from the Society, capital in the Company is being built up through the Company's share capital. The principal method for this involves capital injections to the Society from its members, which are contributed to the Company as share capital.

Share capital

At the end of the year, share capital amounted to SEK 7,100.0 (6,100.0) million, distributed between 70,999,720 (61,000,000) shares. The change in share capital is attributable to the SEK 1,000.0 million, corresponding to 9,999,720 shares, recognised as a new share issue in progress as per 31 December 2017. The shares were registered as share capital at the Swedish Companies Registration Office on 5 February 2018. Total share capital is attributable to the Society's members and no shares are available for trading.

Equity

SEK, million



Cash flow statement

1 January – 31 December

SEK, million	2018	2017
Operational activities		
Operating profit	752.5	1,123.8
Adjustment for items not included in cash flow	–131.8	–418.5
Income tax paid	–1.2	0.0
	619.5	**705.3**
Change in liquidity portfolio	–9,564.7	19,661.8
Change in lending	–45,915.2	–33,877.0
Change in other assets	–658.6	–793.3
Change in other liabilities	3,906.8	657.0
Cash flow from operational activities	**–51,612.2**	**–13,646.2**
Investment activities		
Acquisitions of intangible assets	–11.0	–2.2
Acquisition of tangible assets	–0.3	–2.3
Divestments of tangible assets	–	0.2
Cash flow from investment activities	**–11.3**	**–4.3**
Financing activities		
Issue of interest-bearing securities	202,020.3	147,433.0
Redemption and repurchases of interest-bearing securities	–148,339.2	–135,229.0
New share issue	–	1,000.0
Change in intra-Group liabilities	–863.2	–26.1
Cash flow from financing activities	**52,817.9**	**13,177.9**
Cash flow for the year	**1,194.4**	**–472.6**
Cash and cash equivalents at start of the year	**649.7**	**1,122.3**
Cash and cash equivalents at end of the year	**1,844.1**	**649.7**

Cash and cash equivalents consist in their entirety of loans to credit institutions that, at the time of acquisition, have a maturity of at most three months and that are exposed to insignificant risk of fluctuations in value.

Adjustment for items not included in cash flow	2018	2017
Depreciation	7.8	7.3
Profit from divestments of tangible assets	–	–0.1
Exchange rate differences from change in financial assets	0.5	0.3
Unrealised changes in market value	–164.4	–426.0
Net credit losses	24.3	–
Total	**–131.8**	**–418.5**

Interest paid and received, included in the cash flow	2018	2017
Interest received[1]	352.2	371.0
Interest paid[2]	1,247.7	279.8

1) Reported as interest received are payments that have been paid and received for the Company's loans and investments, as well as the payments paid and received for derivative contracts used to hedge the Company's loans and investments.

2) Reported as interest paid are payments that have been paid and received for the Company's funding, as well as payments paid and received for derivative contracts used to hedge the Company's funding.

Reconciliation of liabilities arising from financing activities

2018	Opening balance	Cash flows	Currency exchange fluctuations	Fair value change	Group contributions	Closing balance
Funding, incl. derivatives	338,823.5	53,681.1	0.5	–497.8		392,007.3
Share capital and new share issue in progress	7,100.0					7,100.0
Intra-Group liabilities	1,752.3	–863.2			750.7	1,639.8
Total	**347,675.8**	**52,817.9**	**0.5**	**–497.8**	**750.7**	**400,747.1**

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 2018 and relates to Kommuninvest i Sverige AB (publ), registration 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, registration number SE716453-2074.

The Annual Report was approved for publication by the Board of Directors on 12 February 2019. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 11 April 2019.

Note 2 Accounting principles

Compliance with standards and legislation

Kommuninvest's Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and Finansinspektionen's (the Swedish Financial Supervisory Authority) 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. Furthermore, the recommendations from the Swedish Financial Reporting Board, Accounting for legal entities (RFR 2) have been applied. In accordance with Chapter 7, section 6a of ÅRKL, Kommuninvest has chosen not to prepare consolidated accounts.

The accounting principles are in line with those applied in the 2017 Annual Report, with the exception of amendments caused by new IFRS standards coming into effect on 1 January 2018. The comparative figures have not been recalculated.

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. For further details, see Note 16. The annual report is prepared by the Parent Society, the Kommuninvest Cooperative Society, and will be published on 11 April 2019 at www.kommuninvest.se/en.

New and amended standards and interpretations

Kommuninvest has amended its accounting principles in relation to two new IFRS standards that came into effect on 1 January 2018, IFRS 9, Financial instruments and IFRS 15, Revenue from Contracts with Customers. No comparative figures have been recalculated with regard to the 2017 Annual Report. The effect of the introduction of IFRS 9 has been adjusted in equity, see Note 28. IFRS 15 has not caused any transitional effects in the balance sheet. The 2018 Annual report for has also been adapted in accordance with changes in IFRS 7 Financial Instruments: Disclosures.

Other new or amended laws, standards and interpretations introduced during the year have not had any material effect on Kommuninvest's net profit, position, disclosures, capital requirements, capital base or major exposures.

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, has replaced IAS 39 Financial Instruments: Recognition and Measurement and consists of three parts: classification and valuation, impairment and hedge accounting. The effect of the transition to IFRS 9 is described in Note 28. Comparative figures have not been recalculated. Transitional rules regarding the impact of impairment on the capital base have not been applied.

For the Company's valuation of Lending and Lending to credit institutions, the transition to IFRS 9 entailed no change in valuation. For the items Sovereign bonds eligible as collateral and Bonds and other interest-bearing securities, the transition to IFRS 9 meant that the investments classified as available-for-sale assets under IAS 39 have been reclassified at amortised cost on the transition to IFRS 9. The revaluation has reduced opening equity by SEK 0.8 million. The accounting and valuation of financial liabilities has not changed on the transition to IFRS 9. For further information, see section Financial instruments and Note 28.

The new principles regarding the impairment of financial assets entail a model that is based on expected, rather than established, credit losses. The expected credit losses on the transition to IFRS 9 amounted to SEK 7.2 million, by which opening equity was adjusted as per 1 January 2018. For further information and the calculation model for credit losses, see section Credit losses and impairments on financial instruments and Note 3.

Kommuninvest has chosen to apply the exemption rule in IFRS 9 and will continue to apply hedge accounting in accordance with IAS 39. Disclosures on hedge accounting have been adapted to the new disclosure requirements, see Note 17.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers, is a new accounting standard for revenue from customer contracts and replaces current standards and interpretations for revenue recognition under IFRS. IFRS 15 does not apply to financial instruments. The impact of the standard on Kommuninvest's net profit, position, disclosures, capital requirements, capital base or large exposures is intangible and has not caused any transitional effect in Kommuninvest's financial reports. No adjustment attributable to IFRS 15 has been made to the opening balance.

Kommuninvest has a financial management service, KI Finans, which is affected by IFRS 15 and reported under Other operating income. The performance commitment for the service extends over a calendar year and is invoiced and paid for by the customer during the year, meaning that no contractual asset or contractual liability is entered in the balance sheet.

Note 2, continued

For further information on revenue recognition and disclosures relating to IFRS 15, see section Other operating income and Note 7.

New and amended standards and interpretations yet to come into effect

Of the new standards and interpretations coming into force after 2018, the following regulations have been deemed to affect Kommuninvest's future annual accounts. Kommuninvest does not apply any regulations pre-emptively and instead applies regulations once they have been adopted for application by the EU. Other new and amended laws, standards and interpretations yet to come into effect are not assessed to have any material impact on Kommuninvest's net profit, position, disclosure, capital requirements, capital base or major exposures.

IFRS 16 Leases

IFRS 16, Leases, is a new leasing standard that will come into effect on 1 January 2019, replacing IAS 17 Leases. A key difference in the new lease standard is that leases are no longer classified as financial or operating for lessees. Instead, an accounting model is introduced in which the leases are included in the balance sheet as rights of use and leasing debt. The leasing expenses are divided between net interest income and depreciation over the term of the lease.

Due to the connection between accounting and taxation, RFR 2 provides an exemption whereby IFRS 16 need not be applied to legal entities. If the exemption is used, the rules for lease reporting in RFR 2 are applied instead. When applying the exemption in RFR 2, leasing fees are recognised as an expense on a straight-line basis over the term of the lease and no asset or liability is booked in the balance sheet.

The Company will apply the exemption in RFR 2, meaning that there will be no significant differences compared with the current accounting in accordance with IAS 17. No adjustment attributable to IFRS 16 will be made in the opening balance in the Company's balance sheet for 2019. The impact of the standard is immaterial in relation to Kommuninvest's net profit, position, disclosures, capital requirements, capital base and large exposures.

Significant judgements and assumptions

The preparation of the Annual Report includes judgements and assumptions that affect the accounting and supplementary disclosures. The most important judgements when applying accounting principles concern how financial instruments are classified and assessed, as explained below in the section Financial instruments. Note that there are different sections for the financial years 2017 and 2018 since IAS 39 was applied in 2017 and IFRS 9 was applied in 2018. The accounting principles for 2017 have been compressed to describe, in particular, the differences between 2017 and 2018. For the complete accounting principles for 2017, see the Annual Report for the 2017 financial year, pages 55–59.

For assets and liabilities valued at fair value, their value is affected by the assessment of whether the available market prices are based on an active market. When determining the fair value of financial instruments not traded in an active market, Kommuninvest applies valuation techniques and then makes assumptions that may be associated with uncertainty. Note 25 describes how fair value for financial instruments is derived including significant assumptions, uncertainty factors and sensitivity analyses. The report has been prepared based on amortised cost, with the exception of a significant portion of the Company's financial assets and liabilities, which are measured at fair value in cases of accounting mismatches or amortised cost adjusted for fair value with regard to the risk that is subject to hedge accounting. For further information, see section Financial instruments and Note 25.

With regard to Kommuninvest's business model for financial assets, this has been assessed as being to hold such assets to maturity. During the year, the purpose of the business model did not change and the assessment is that the business model has both been complied with during the year and that its purpose of receiving contractual cash flows remains. This assessment has taken into account an evaluation of sales during the year and the fact that the Company's Finance Policy remains unchanged. For more information on the net result of financial transactions, see Note 6.

Kommuninvest calculates expected credit losses in accordance with IFRS 9 on financial assets valued at amortised cost. The calculation of expected credit losses includes application of forward-looking scenarios and assumptions. Accordingly, the method for determining expected credit losses is associated with uncertainty. Note 3 describes the choice of method and its assumptions.

Functional currency and presentation currency

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

Transactions in foreign currencies

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

Subsidiaries

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

Interest revenues and interest expenses

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

- Interest on financial assets and liabilities measured at amortised cost.
- Interest from financial assets classified as available-for-sale measured at fair value through the income statement.
- Interest on derivatives that are hedging instruments and for which hedge accounting is applied.
- Interest on financial assets classified as available-for-sale financial assets.

Interest revenues and interest expenses on lending, interest-bearing securities, Liabilities to credit institutions and derivatives are calculated and reported by applying the effective interest method. Where applicable, interest revenues and interest expenses include periodised amounts with regard to transaction expenses.

Interest revenues consist of interest revenue from loans and investments, as well as interest revenues and interest expenses from derivatives hedging loans and investments.

In accordance with the effective interest method, interest expenses consist of interest expenses on funding, as well as interest revenues and interest expenses from derivatives hedging funding.

Since derivative contracts allow interest to be received in the payment leg, the prevailing interest situation means, in many

Note 2, continued

cases, that Kommuninvest has received interest on funding and its derivative hedging. This has led to total interest expenses being positive.

Kommuninvest grants lending at negative interest rates, these negative interest revenues being reported as interest expenses.

Other interest revenues and other interest expenses include interest on collateral pledged and received, as well as operating expenses for rating and funding programmes.

Following an amendment to IAS 1, paragraph 82a, according to the effective interest method, interest revenues must be specified separately in the income statement. This has led to a change in the income statement with a new breakdown under net interest income. Kommuninvest has also chosen to specify interest expenses according to the effective interest method on a separate line for a more uniform and consistent presentation. This division has also been made in Note.

For more information on interest revenues and interest expense, see Note 4.

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 the fair value on assets and liabilities recognised at fair value through the income statement, divided between Held for trade, Compulsory or through application of the Fair value option.
- Unrealised changes in fair value on derivatives where hedge accounting of fair value is applied.
- Unrealised changes in fair value on hedged items with regard to hedged risk in hedging of fair value.
- Unrealised changes in fair value on assets with changes in value in other comprehensive income.
- 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, securities issued, derivatives and other financial liabilities. For further information, see Note 25.

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 contractual rights to cash flows from that financial asset cease or on the transfer of the financial asset, upon which Kommuninvest, in all material regards, transfers to another all of the risks and benefits associated with ownership of the 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.

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

Classification and measurement of financial instruments (IFRS 9)

Since 1 January 2018, Kommuninvest applies IFRS 9 and financial assets are classified based on the Company's business model. The business model is identified at portfolio level and reflects how the portfolio's financial assets are managed together to achieve a specific business objective.

Possible business models for financial assets are:

- Hold to maturity.
- Hold to maturity and sell.
- Held for trade or evaluated on a fair value basis.

Kommuninvest's financial assets are divided into three portfolios: lending portfolio, liquidity portfolio and other. All portfolios are deemed to have the same business objectives, to receive contractual cash flows, and the business model is to hold to maturity. To ensure that cash flows consist only of capital amounts and interest on principal, SPPI tests are carried out continuously on the Company's new assets. An SPPI test was also carried out on existing ledgers in connection with the transition to IFRS 9. As per 31 December 2018, Kommuninvest had no assets that had failed the SPPI test. The classification of the business model and the outcome of the SPPI test affects the Company's valuation of financial assets.

Financial instruments can be valued according to the categories:

- Amortised cost.
- Fair value through other comprehensive income.
- Fair value through the income statement, divided between Held for trade, Compulsory or Fair value option.

Amortised cost

When the business model for financial assets is to hold to maturity and cash flows consist solely of capital amounts and interest on principal, that is, they pass the SPPI test, the financial assets shall be valued at amortised cost. This means that Kommuninvest's valuation of financial assets is based on amortised cost since the business model for all of Kommuninvest's instruments is to hold to maturity and all assets are deemed to have cash flows consisting only of capital amounts and interest on principal.

Where there is no accounting mismatch, financial liabilities are valued at amortised cost. Financial liabilities include the items liabilities to credit institutions, securities issued and other financial liabilities, such as marginal collateral and accounts payable.

Fair value through other comprehensive income

Since Kommuninvest's business model is not to hold to maturity and sell, it has no financial instruments in the valuation category Fair value through other comprehensive income.

Note 2, continued

Fair value through the income statement
The valuation category Fair value through the income statement is divided between Held for trade, Compulsory and Fair value option.

Kommuninvest's derivatives that are held for financial hedging, but not included in hedge accounting, are reported under the valuation category Held for trade for liability derivatives and Compulsory for asset derivatives.

If Kommuninvest has a financial asset that fails the SPPI test, the instrument is valued in the category Compulsory fair value through the income statement.

Kommuninvest applies the fair value option where accounting mismatches have been identified. Accounting mismatches occur when an instrument is hedged with one or more derivative contracts to minimise market risks without applying hedge accounting. As derivatives are valued at fair value through the income statement but not the hedged item, accounting mismatches occur. When this is the case, the financially hedged item is also valued at fair value through the income statement through the fair value option. This would result in accounting mismatches if the derivative were measured at fair value through the income statement but not the hedged item.

Financial liabilities in the category Fair value through the income statement refer primarily to funding at fixed interest and structured funding, that is, loans that are subject to cancellation and/or that have coupon payments that are variable, but not connected to the interbank rate. The reason for fixed-rate funding being identified in this category is that such funding is hedged financially with a derivative without applying hedge accounting. This would result in accounting mismatches if the derivative were measured at fair value through the income statement but not the funding.

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

Classification and measurement of financial instruments (IAS 39)
The comparative figures for financial instruments from the 2017 financial year have been reported in accordance with IAS 39 and have not been recalculated.

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

Financial assets and liabilities valued at fair value through the income statement
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 includes derivatives held for financial hedging, but not included in hedge accounting.

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. The criteria for accounting mismatches are the same as for IFRS 9.

The second sub-group also includes liabilities to credit institutions and securities issued, the principles being in accordance with the principles for financial liabilities in IFRS 9.

Loan receivables and accounts receivable
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 amortised cost and recognised in 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 not included in the trading operations or that 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 impairment or exchange rate differences are recognised in the income statement. Interest is also recognised in the income statement.

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

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

Hedge accounting
Kommuninvest has chosen to continue applying, until further notice, IAS 39 regarding hedge accounting and the principles have therefore remain unchanged between 2017 and 2018. Changes have, however, been made in the supplementary disclosures to meet new disclosure requirements, see Note 17.

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 the income statement 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 efficient.

Credit losses and impairments on financial instruments (IFRS 9)
Since the introduction of IFRS 9 on 1 January 2018, Kommuninvest has begun to calculate expected credit losses on financial assets valued at amortised cost. Loss provisions are also made for off-balance sheet commitments, which for Kommuninvest consist of committed undisbursed loans, liquidity guarantees and building loans. Kommuninvest has no confirmed credit losses.

Note 2, continued

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

Changes in expected credit losses are reported in the income statement under the item Net credit losses. Expected credit losses are reported in the balance sheet as an impairment of the recognised value of assets which, according to IFRS 9, are subject to impairment. Loss provisions on off-balance sheet items are reported as provisions in the balance sheet.

For information on credit losses and the calculation model, see Note 3 and for the effect earnings of credit losses, see Note 10. Since Kommuninvest has no credit losses recognised in accordance with IAS 39, there are no disclosures of comparative figures in connection with the transition to IFRS 9.

Credit losses and impairments on financial instruments (IAS 39)

At each reporting date, Kommuninvest evaluates whether there is objective evidence that any impairment is necessary for a financial asset or group of assets as the result of one or more events (loss events) occurring after first recognition of the asset, and of these loss events having an impact on the estimated future cash flows relating to the asset or group of assets. Objective evidence constitutes 1) observable conditions that have arisen and that have an adverse impact on the possibility of recovering the acquisition value, 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 amortised 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. In Kommuninvest's assessment, no impairment was necessary as per 31 December 2017.

Intangible assets

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

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful life of the intangible asset, effective from the month in which the asset is acquired and thus used. The useful lives of assets are reassessed at least once per year. The estimated useful life is five years.

Tangible assets

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

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

Depreciation is carried out on a straight-line basis over the estimated useful life of the asset, effective from the month in which the asset is acquired and thus used. Kommuninvest calculates a useful life of three or 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 Alecta.

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 Alecta based on the current salary.

With regard to pension terms for senior executives, Kommuninvest has decided to comply with the principles set out in the Swedish government's guidelines for senior executives of state-owned companies (April 2009). The Company pays into a defined-contribution pension scheme equivalent to 30 percent of the CEO's and senior executives' pensionable salary, at most until the executive reaches the age of 65. In connection with Kommuninvest choosing to secure the CEO's commitment through a pension scheme, rather than through a pledged endowment policy as previously, the pledged endowment policy has been dissolved with the commitment instead being secured by means of a pension scheme for an amount equivalent to that paid out by the endowment policy. The endowment policy was dissolved in 2017.

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

General administration expenses

General administration expenses include payroll expenses, including salaries and emoluments, pension expenses, payroll taxes and other social security contributions and temporary/contract personnel, training expenses and other payroll expenses. Other expenses included in administrative expenses are the resolution fee, expenses for consultants, premises, IT, travel, rating, market data and other. For further information, see Note 8.

Other operating income

Other operating income consists primarily of the financial management service KI Finans, which Kommuninvest provides to the members of the Kommuninvest Cooperative Society. The members who have chosen to use this service pay an annual fee to Kommuninvest, which is reported under other operating income.

Revenue from KI Finans has been reported in accordance with IFRS 15 since 1 January 2018. IFRS 15 is a new standard for revenue recognition based on a five-step model in which the Company shall:

- Identify the contracts with the customer: This step is only met by revenue associated with KI Finans, since the criteria according to which a customer exists are not met for the remaining revenue items in this section.

Note 2, continued

- Identify the performance commitment: The contract entitles the customer to access a distinct service, with control being considered to have been transferred as per 1 January, since the contracts are valid by calendar year. The performance commitment is met over time during the term of the contract.
- Determine the transaction price: The terms of the transaction price are specified in contracts and are always fixed. No adjustment is made to the transaction price for any material financing component, since the contracts are valid for one year, with payment occurring within that year.
- Allocate the transaction price to the performance commitment: The transaction price for the service can be allocated to the customer's entitlement, in accordance with the contract, to utilise the financial management service, which is also the Company's performance commitment.
- Revenue recognition: Kommuninvest recognises revenue for KI Finans during the contract period when the customer is entitled to access the service, meaning that revenue for the financial management service is allocated over the calendar year.

In connection with the contracts, the Company has no specific expenses that are paid by the customer. Current expenses related to KI Finans are expensed.

The transition to IFRS 15 has not entailed any change in Kommuninvest's revenue recognition in the financial statements compared with the preceding period. For further information, see Note 7.

Other operating expenses
Other operating expenses primarily include expenses for marketing and insurance.

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

Tax
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 effect 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. Group contributions received are reported in the income statement under dividends received.

Cash flow statement
The cash flow statement has been prepared using the indirect method. The cash flow statement has been divided into inward and outward payments from operational activities, investment activities and financing activities. Operating activities mainly include changes in the lending and liquidity portfolio. Investing activities encompass investments in tangible and intangible assets. The financing activities shows the issue and redemption/repurchase of securities issued. Kommuninvest applies the exemption rule in IAS7:23 and reports issues of less than three months net. The financing activities also include a new share issue and change in consolidated debt.

Segment reporting
Kommuninvest 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 has no single customer who accounts for 10 percent or more of income.

Note 3 Risk and capital management

Kommuninvest's principal assignment is to ensure access to stable and efficient funding for the local government sector. This entails borrowing funds on the financial market, based on customers' needs. The operating model entails the Company being exposed to risks. The Company's targets, principles and methods for managing these risks, and the methods for measuring those risks, are presented below (see also pages 33–37 for a comprehensive description of the Company's risk profile and risk organisation and the separate Risk and Capital Management Report, which is available at www.kommuninvest.se/en). Also shown under each area of risk are the current exposure and estimated capital requirement.

No material changes took place in 2018 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.

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 arises in various ways in the Company's operations and is divided into three areas: Risk in credit provision arising in the lending operations, issuer risk arising in the Company's liquidity reserve and counterparty risk, which arises when the Company uses derivative instruments.

Credit risk is managed based on the Company's Risk Strategy, Credit Policy and Financial Policy. At least once a year, the Board sets limits for all investment and derivative counterparties, which relate to the Company's total exposure to the counterparty. Maturity limits are determined by the President based on the counterparty's creditworthiness. When the Company assesses which investment and derivative counterparties are to be approved, as well as the requirements to which these are subject, the counterparty's creditworthiness, including ownership status, scope and extent of operations, and financial stability are to be taken into account.

Note 3, continued

The Company's credit risk exposures are presented in the table below. For 2017, only the recognised value is stated, since the Company had no provisions for expected credit losses under IAS 39. All provisions for 2018 pertain to stage 1.

Credit risk exposure	2018					2017		
	Recognised gross value	Expected credit losses	Recognised value[1]	Risk-weighted exposure value	Capital requirement	Recognised value[1]	Risk-weighted exposure value	Capital requirement
Credit provision								
Lending to municipalities and municipal companies[2]	355,738.5	–28.5	355,710.0	–	–	310,147.3	–	–
– Risk category 1	*230,784.0*	*–17.4*	*230,766.6*	–	–	*200,626.6*	–	–
– Risk category 2	*113,889.9*	*–10.1*	*113,879.8*	–	–	*99,526.2*	–	–
– Risk category 3	*4,853.6*	*–0.4*	*4,853.2*	–	–	*4,274.9*	–	–
– Risk category 4	*6,211.0*	*–0.6*	*6,210.4*	–	–	*5,719.6*	–	–
Investments								
Sovereign bonds eligible as collateral	39,232.4	–2.1	39,230.3	–	–	24,635.8	–	–
– AAA	*37,071.9*	*–2.1*	*37,069.8*	–	–	*21,221.4*	–	–
– AA	*1,254.0*	–	*1,254.0*	–	–	*2,575.9*	–	–
– A	*906.5*	–	*906.5*	–	–	*838.5*	–	–
Bonds and other interest-bearing securities	7,457.8	–	7,457.8	–	–	12,500.0	–	–
– AAA	*5,064.5*	–	*5,064.5*	–	–	*11,785.3*	–	–
– AA	*2,393.3*	–	*2,393.3*	–	–	*714.7*	–	–
Lending to credit institutions	1,844.1	–0.7	1,843.4	368.7	29.5	649.7	129.9	10.4
– AA	*1,844.1*	*–0.7*	*1,843.4*	*368.7*	*29.5*	*649.7*	*129.9*	*10.4*
Derivatives								
Derivatives	11,333.2	–	11,333.2	–	–	8,044.6	–	–
– AA	*4,269.5*	–	*4,269.5*	–	–	*3,538.0*	–	–
– A	*6,311.1*	–	*6,311.1*	–	–	*3,932.3*	–	–
– BBB	*752.6*	–	*752.6*	–	–	*574.3*	–	–
Other assets								
Other assets	1,627.4	–	1,627.4	378.8	30.3	965.2	243.9	19.5
Off-balance sheet items								
Committed loans[2]	1,213.6	–0.1	1,213.5	–	–	1,834.3	–	–
Committed, undisbursed loans[2]	2,144.4	–0.0	2,144.4	–	–	2,476.2	–	–
Total (including off-balance sheet items)	**420,591.4**	**–31.4**	**420,560.0**	**747.5**	**59.8**	**361,253.1**	**373.8**	**29.9**

1) The recognised value corresponds to the maximum credit risk exposure without taking collateral received or other forms of credit enhancement into account. For information on collateral received, see section Counterparty risk on page 65.
2) Guaranteed by local government undertaking For the definition of risk categories 1–4, see section Risk in credit provision on page 64.

Expected credit losses

The Company has a Credit Risk Committee that meets quarterly to assess changes in the Company's phase allocation and expected credit losses. These changes pertain to quantitative models based on input data and assumptions. The process is managed entirely by the Risk and Control department and the Finance department.

Changes in the credit risk are monitored daily and expected credit losses (ECL) are updated on a daily basis. The three factors probability of default (PD), loss given default (LGD), exposure at default (EAD) and the phase allocation are monitored on an ongoing basis and an overall assessment is made quarterly of the trend for the period and of any need to adjust the model.

Credit risk exposure

Kommuninvest's liquidity reserve consists of investments in these types of counterparties:

- Sovereign states or state-related counterparties, including states, local government authorities and credit institutions similar to Kommuninvest.

Kommuninvest's lending portfolio consists of lending to the following groups:

- Municipalities and regions (members of the Society).
- Companies, municipal associations and other entities in which members have a majority influence (municipal guarantee).

Off-balance sheet items:

- New lending agreed but not yet paid, building loans and liquidity guarantees.

Calculation of expected credit losses

In the calculation of expected credit losses (ECL), the probability of default (PD) is multiplied by the loss given default (LGD) and the exposure at default (EAD).

ECL = PD * LGD * EAD

Expected maturity

Indicators are used to continuously monitor the development of credit risk in the Company's lending. All credit exposures are in phase 1, entailing provisions based on 12 months' expected

Note 3, continued

credit losses. Should a lending counterparty be classified in phase 2 due to increased credit risk, the exposure will be based on all cash flows over the remaining maturity.

For the liquidity reserve, Kommuninvest utilises the regulations' exemption for low credit risk, supported by the liquidity reserve's credit risk profile and good credit quality. Kommuninvest defines low credit risk as a credit rating from Moody's of at least Baa3 and from S&P Global Ratings of at least BBB-. Kommuninvest currently only has investments in counterparties with good credit quality that are sovereign states or that are related to a central government.

Qualitative assessments are made of negative changes in credit ratings to determine whether there has been a significant increase in credit risk. Assuming that no significant increase is deemed to have occurred and the credit rating meets the Company's requirement of low credit risk, the asset remains in phase 1, entailing 12-months' expected credit losses.

Definition of default

Any lending other than those to members directly requires a guarantee for the entire credit amount from one or more members.

Kommuninvest's definition of default is in line with the guidelines developed by the European Banking Authority (EBA) and entail a counterparty having defaulted when one or both of the following situations has occurred:

- Kommuninvest considers it unlikely that the counterparty will be able to meet its commitments in full.
- Any of the counterparty's commitments to Kommuninvest have been due for payment for more than 90 days.

Before an exposure is considered to be in default, Kommuninvest is to perform an expert assessment. This should assess:

- Whether a "technical default" situation has arisen, determined based on the European Banking Authority's guidelines.
- Whether the exposure is directly towards a member (municipality or region). The in-depth analysis is motivated primarily by the local government authorities' constitutionally protected role in society, which includes, among other things, the right to levy taxes, meaning in practice that a local government authority cannot be declared bankrupt.

Determination of impaired credit quality

Kommuninvest applies a set of indicators to continuously monitor the development of credit risk in the lending portfolio. The function of the indicators is to demonstrate whether there is a change in the probability of default necessitating a transfer between credit risk phases based on limits. On the signing of the contract, an asset is classified in phase 1, meaning a 12-month probability of default being applied. If there is a significant increase in credit risk, it is transferred to phase 2, meaning that the probability of default on the remaining maturity is applied. In the event of default, the exposure is transferred to phase 3.

Kommuninvest uses both quantitative and qualitative indicators in its ongoing monitoring of the lending portfolio. The quantitative indicators consist of ratings from rating agencies and data from credit information providers (risk score, risk forecast and payment orders) and Kommuninvest's internal risk value model for assessing lending counterparties. For the quantitative indicators, limits are set in place, with breaches requiring follow-up. The qualitative indicators consist of restructuring of loan terms. A limit of 30 days also applies, meaning that an asset will be transferred to phase 2 if payment is delayed by more than 30 days. Before an individual counterparty is transferred to phase 2, a special assessment is to be made to elucidate the underlying causes and the counterparty's overall repayment capacity. The Credit Risk Committee determines the credit quality of the financial assets and any deterioration.

Kommuninvest has not suffered any actual credit loss, nor has it modified payment flows or renegotiated any existing agreements at any point during the Company's 30-year history.

The surety regulates the members' liability towards the Company. In light of the above, the Company has no specific principles for write-offs.

Probability of default (PD)

Kommuninvest has no empirical data of its own to start with as the Company has not suffered any actual credit losses to date. For calculating the probability of default, the Company instead applies S&P Global Ratings' IFRS9 Credit Impairment Solution tool because it is suitable for financial institutions with low credit risk assets.

For probability of default, Kommuninvest applies probabilities based on historical trends that are projected into the future by applying three probability-weighted macroeconomic scenarios. These three scenarios are called the principal scenario, the positive scenario and the negative scenario. The principal scenario uses forecasts for the macroeconomic factors. The negative scenario is derived empirically from the financial crisis of 2008–2012. The positive scenario is derived from the period 1997–2001, which was a period of strong economic development. The historical trend and the model for forward-looking forecasting of probabilities of default have been provided by a rating agency.

In the calculation of expected credit losses in the liquidity reserve, probability of default is allocated based on the issuer's rating. In calculating expected credit losses in the loan portfolio, probability of default is allocated based on a interpolation between the Swedish central government's rating as the lowest probability and a theoretical rating ceiling as the highest. For the interpolation of the lending counterparty's rating, Kommuninvest's internal risk value model is used.

For the lending portfolio, Kommuninvest determines the probability of default at the counterparty level and not the transaction level. This is motivated by the fact that the conditions for all lending are identical and no hierarchical order of credit has been assigned to counterparties. In other words, a deteriorated credit quality will affect all of the counterparty's transactions.

Note 3, continued

Quantitative input data

Quantitative input data for the calculation of expected credit losses can be found in the table below.

Macroeconomic factor	Scenario	2019, %	2020, %	2021, %	2022, %	2023, %
Forecast input data						
GDP trend Sweden	Principal scenario	1.3	1.7	–	–	–
	Positive scenario	3.1	4.1	4.3	4.9	1.7
	Negative scenario	–0.8	–5.1	5.7	2.7	0.1
Change in unemployment Sweden	Principal scenario	1.6	1.6	–	–	–
	Positive scenario	–15.7	–14.2	–16.0	–11.9	2.1
	Negative scenario	33.7	3.1	–9.3	2.3	0.8
Change in global energy index	Principal scenario	1.4	–6.7	0.2	–	–
	Positive scenario	–1.9	–24.4	29.4	60.7	–7.3
	Negative scenario	28.6	–34.2	20.9	16.0	–0.2
Change in global non-energy index	Principal scenario	1.1	1.2	1.2	–	–
	Positive scenario	2.6	–10.2	–7.7	2.2	–1.9
	Negative scenario	9.4	–16.1	15.9	7.9	–7.9
Historical input data						
Historical change in credit rating (-1 year)	Principal scenario	–	–	–	–	–
	Positive scenario	–	–	–	–	–
	Negative scenario	100.0	–	–	–	–
Historical change in OMX index (-1 year)	Principal scenario	–10.0	–	–	–	–
	Positive scenario	39.4	–	–	–	–
	Negative scenario	–6.0	–	–	–	–
Historical change in S&P 500 index (-1 year)	Principal scenario	–5.0	–	–	–	–
	Positive scenario	20.3	–	–	–	–
	Negative scenario	3.5	–	–	–	–

Sensitivity analysis

A sensitivity analysis of critical macroeconomic factors can be found in the table below. The outcome refers to the immediate change in the current ECL if the GDP forecast and change in unemployment in future years were to change by +1 percent.

Macroeconomic factor	Forecast 2019, %	Outcome, SEK million
GDP trend Sweden	+1%	–11.7
Change in unemployment Sweden	+1%	5.3

Since all exposures are in phase 1, only one year's PD affects the Company's expected credit losses and the sensitivity analysis is performed on a one year horizon in the principal scenario.

Loss given default (LGD)

Standard values are used for loss given default that are applied based on the type of counterparty.

For sovereigns and state-related counterparties, historical data from Moody's are used, including lending. It can be noted that all of Kommuninvest's counterparties have a higher credit rating and a more stable economic position than those on which Moody's based its calculation of loss given default. Accordingly, it is assessed that loss given default for these counterparties does not exceed the empirically derived assessment by Moody's. For other counterparties, loss given default is applied in accordance with the CRR regulations.

Exposure at default (EAD)

For exposure at default, the nominal amount of the assets and outstanding contractual cash flows are discounted by applying the effective interest rate. Which cash flows are included in the calculation depends on the outcome of the phase allocation. As the exemption for low credit risk is applied to the liquidity reserve, only cash flows with a one-year horizon for are included these assets. The Company has no collateral for its credit risk exposure.

The effective interest rate comprises swap rates, the spread for the Company's outstanding issues and lending, and the spread between the Company's funding expenses and the various types of issuers included in the liquidity reserve. Swap rates and spreads for the Company's issues are obtained from the secondary market, spreads for the Company's lending are obtained from the current customer price list, while the spread between the Company's funding expenses and the various types of issuers is determined through expert assessment. These components are combined and a discount curve is built up for each currency and maturity.

Changes in expected credit losses during the period

Overall, the Company's expected credit losses increased by SEK 24.2 million, from SEK 7.2 million to SEK 31.4 million, distributed as follows.

Probability of default (PD)

The forward-looking economic situation for 2019 deteriorated compared with the beginning of 2018, meaning that expected credit losses increased by SEK 23.3 million. Revised historical probabilities of default from S&P Global Ratings reduced expected credit losses by SEK 1.7 million.

Loss given default (LGD)

During the period, no change was made in LGD.

Exposure at default (EAD)

In 2018, the Company's assets not valued at fair value increased from a total SEK 254.5 billion to SEK 286.1 billion. The liquidity reserve increased in particular, by SEK 20.6 billion, while the lending portfolio increased by SEK 11.0 billion. Due to the increased credit risk exposure, expected credit losses have increased by SEK 0.9 million.

Note 3, continued

The change in credit loss provisions for the period is shown in the table below. All provisions pertain to phase 1. Kommuninvest has not suffered any confirmed credit losses. Under IAS 39, no provisions for credit losses were recognised in the balance sheet and there is therefore no table for the comparison period.

Change in provisions for credit losses

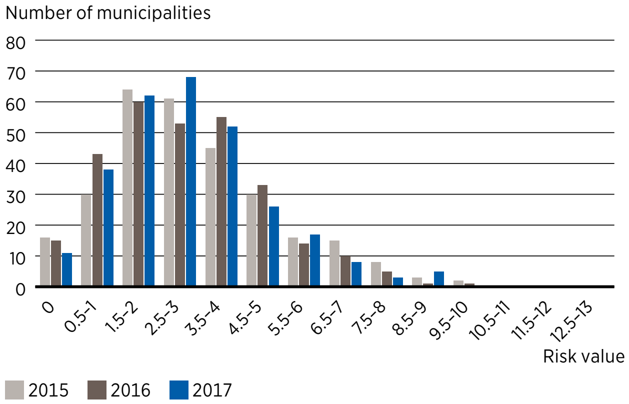
2018	Opening balance	Initiated during the period	Maturing during the period	Changed risk variables	Closing balance
Sovereign bonds eligible as collateral	–0.4	–46.8	46.8	–1.7	**–2.1**
Lending to credit institutions	–0.2	0.0	0.0	–0.5	**–0.7**
Lending	–6.5	–1.8	2.8	–23.0	**–28.5**
Bonds and other interest-bearing securities	0.0	0.0	0.0	0.0	**0.0**
Provisions for off-balance sheet items	–0.1	0.0	0.0	0.0	**–0.1**
Total	**–7.2**	**–48.6**	**49.6**	**–25.2**	**–31.4**

Risk in credit provision

Risk in credit provision refers to the risk that a credit counterparty fails to meet its obligations. This risk is limited by providing credit only to members and approved companies, foundations and associations in which one or more members has a controlling influence. Approved companies, foundations and associations are to be covered by a guarantee from one or more members. Members and approved companies, foundations and associations are followed up continuously and assessed from a holistic perspective at the corporation level. The risk in the Company's lending operations is very low and the Company has never suffered any credit losses in its lending operations.

The municipalities and 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. Based on this analysis, each of the Society's member municipalities and regions is allocated a risk value between 0 and 13, where the lower the risk value is, the better. Municipalities with risk values 0–3 are allocated risk category 1, risk values 4–6 are allocated risk category 2, risk values 7–8 are assigned risk category 3 and risk values 9–13 are allocated risk category 4. How the municipalities are distributed between different risk-value groups is illustrated below in the diagram "Risk value model".

Risk value model



Capital requirement for risk in credit provision

From the perspective of capital adequacy, the local government sector has a risk weight of 0 percent, meaning that when the Company uses the standardised method in the CRR regulations, there is no statutory capital requirement for risk in credit provision.

Issuer risk

Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity. The risk is limited by investing the liquidity reserve in securities and bank balances where the issuer has a credit rating of at least A (S&P Global Ratings) or equivalent at an approved credit rating agency. In accordance with the Company's Finance Policy, investments may not be made in securities with a remaining maturity of more than 39 months. Placements are also subject to a country limit where the exposure to any individual country may not exceed SEK 15 billion, with the exception of Sweden for which there is no country limit. In addition, the Board of Directors determines the maximum gross exposure to individual issuers.

At year-end, the average remaining maturity of the investments in the liquidity reserve was 1.8 (7.2) months. The longest remaining maturity of an individual security was 34.9 (26.1) months.

The tables below show the exposure by country, rating and issuer category. The category "credit institution" consists primarily of securities issued by so-called subsidised lenders, which are treated as exposures to the national government, according to the CRR regulations.

Investments by country	2018	2017
Sweden	37,069.8	21,742.0
Supranationals	3,291.1	4,915.9
Finland	3,181.0	3,195.2
Germany	1,773.4	4,806.2
Denmark	1,174.1	2,063.2
United Kingdom	1,135.6	129.1
Canada	906.5	925.7
USA	–	8.2
Total	**48,531.5**	**37,785.5**

Investments by rating	2018	2017
AAA	42,134.3	33,006.7
AA	5,490.7	3,940.3
A	906.5	838.5
Total	**48,531.5**	**37,785.5**

Note 3, continued

Investments by issuer category	2018	2017
National governments or central banks	38,323.8	23,710.1
Credit institute	6,010.0	8,233.8
of which, subsidised lenders	*4,166.6*	*7,584.1*
of which, bank balances	*1,843.4*	*649.7*
Multilateral development banks	3,291.2	4,915.9
Regional or local governments and authorities	906.5	925.7
Total	**48,531.5**	**37,785.5**

Capital requirement for issuer risk

When calculating capital requirements for issuers risk, Kommuninvest uses the standard method in accordance with the CRR regulations, where the exposure value is equivalent to the recognised value. The risk-weighted exposure value is calculated by the exposure being assigned a risk weight in accordance with the regulations. The risk-weighted exposure value is multiplied by 8 percent and, accordingly, the capital requirement for issuer risk amounts to SEK 29.5 (10.4) million.

Counterparty risk

Counterparty risk refers to the risk that a counterparty in a financial agreement fails to fulfil its obligations under the contract. Counterparty risk arises when the Company includes derivative contracts to limit market risks. Counterparty risks are restricted by entering into contracts with financial institutions with high creditworthiness and requirements for pledged assets. Interest-rate contracts entered into as of October 2016 must be cleared by a central clearing counterparty.

In order for the Company to enter into an uncleared derivative, the counterparty must, at the time of the transaction, have a credit rating, as an issuer, of at least BBB+ or be guaranteed by someone with this credit rating. If the counterparty has a credit rating lower than A, particular attention is paid to the derivative's marketability, complexity and maturity. For the Company to enter into a cleared derivative, the counterparty must, at the time of the transaction, have a credit rating, as an issuer of at least BBB-.

Counterparty risks are further reduced by concluding ISDA agreements and security agreements (known as CSA agreements) with all counterparties. ISDA agreements allow netting of positive and negative exposures. CSA agreements govern the right to collect collateral to eliminate the exposure arising from changes in the value of derivative contracts that have been entered. In connection with the EMIR regulatory framework, which requires the replacement of variation margins for OTC derivatives, the Company has, since March 2017, introduced new CSA agreements with most counterparties, entailing a daily exchange of collateral without thresholds.

The exposure to counterparty risk is determined based on the market value of the derivative contracts. A positive market value means a potential loss if the counterparty were to fall. This risk is reduced by all transactions with the same counterparty, according to ISDA agreements, being netted against one another. Under the terms of CSA agreements, collateral is subsequently obtained for the net exposure (the current replacement cost), further reducing the risk. The initial margin set for cleared derivatives also entails a counterparty, as well as surplus collateral being pledged. Accordingly, the total counterparty risk amounts to SEK 1,770.6 (971.3) million.

Derivatives exposure	2018	2017
Recognised value[1]	11,333.2	8,044.6
Amount netted in the balance sheet	1,955.2	576.4
Gross market vale[2]	**13,288.4**	**8,621.0**
Netting gains	−4,273.3	−5,647.3
Current replacement cost[3]	**9,015.1**	**2,973.7**
Collateral received	−8,571.1	−2,628.0
Net per counterparty incl. deductions for collateral	**444.0**	**345.7**
Initial margin pledged	1,279.7	590.2
Surplus collateral pledged	46.9	35.4
Total counterparty risk	**1,770.6**	**971.3**

1) Total positive market values before netting.

2) Total positive gross market values before netting.

3) Total positive gross market values after netting within each netting agreement.

Capital requirements for counterparty risk

In calculating capital requirements for counterparty risk, Kommuninvest applies the market valuation method where the exposure value is equal to the sum of the current replacement cost and potential future exposure. To determine the present replacement cost for all contracts with a positive value, the contracts are assigned the current market values. To determine the potential future exposure, the nominal amount is multiplied by the percentages stated, based on maturity and contract structure, in the CRR regulations.

The exposure value is then multiplied by the current risk weight, giving the risk-weighted exposure value. Since all members of the Society have signed a guarantee agreement, under which they assume responsibility for the Company's exposures, the risk weight of zero is assigned to all counterparty exposures. Accordingly, the risk-weighted exposure amounts are zero and the capital requirement for counterparty risk is thus also zero. See table Capital requirements for counterparty risk.

Capital requirements for counterparty risk	2018	2017
Current replacement cost[1]	9,015.1	2,973.7
Potential future exposure	6,732.8	3,656.7
Exposure value	**15,747.9**	**6,630.4**
Risk-weighted exposure value[2]	0.0	0.0
Capital requirement	**0.0**	**0.0**

1) Total positive gross market values after netting within each netting agreement.

2) Guarantee undertaking by local government authorities gives a risk weight of 0 percent.

CVA risk

Creditworthiness adjustment or Credit Valuation Adjustment (CVA) is a price adjustment applied to derivatives that takes the counterparty's creditworthiness into account. Accordingly, CVA measures the risk that the market value of derivative contracts will decrease as the creditworthiness of the counterparty deteriorates.

Capital requirement for CVA risk

In calculating capital requirements for CVA risk under Pillar I, Kommuninvest applies the standardised method in CRR. As the exposure value, the fully adjusted exposure value is used, meaning that the risk-reducing effects of the collateral are taken into account. In accordance with the regulations, transactions with central clearing counterparties are excluded. At the end of the year, the capital requirement for CVA risk was SEK 101.9 (60.4) million.

Note 3, continued

Concentration risk
Concentration risk refers to the risk of losses beyond what is justified by an individual customer/issuer/counterparty's credit rating, due to the correlation of the risk of default among customers/issuers/counterparties. The correlation in the risk of default can be explained by factors such as industrial and geographical affiliation.

The Company's assignment, to provide credit to the municipal and regional sector, entails concentrations in the provision of credit. Concentrations in risk in credit provision are restricted by limits on lending to individual customers. All lending is covered by a guarantee from one or more members.

Concentrations towards issuers in the Company's derivative portfolio are restricted, in part, by limits on individual counterparties and, in part, by limits on how large a share of the total derivative portfolio (nominal volume) may result from exposure to individual counterparties. Given that the Society's members sign guarantee undertakings for the Company's derivative exposures, no capital requirement is recognised for concentration risk in the derivative portfolio.

Concentrations towards issuers in the Company's liquidity reserves is restricted by limits on individual counterparties as well as by country limits. For this concentration risk, the Company recognises capital requirements as shown below.

Capital requirement for concentration risk
The calculations of capital requirements for credit risk-related concentration risk that the Company has implemented are based on the method described in the Swedish Financial Supervisory Authority's (FI) memorandum "FI methods for assessing individual risk types under Pillar II" from 8 May 2015.

Credit-related concentration risks are measured for three concentrations: geographic concentration, industry-specific concentration and name concentration.

Concentration risks are estimated applying the Herfindahl index, meaning that exposures are grouped and weighted in relation to their share of the total exposure. A higher Herfindahl index means a greater concentration. Capital requirements for concentration risks are subsequently calculated, applying formulas, as a proportion of the capital requirement for credit risk under Pillar I.

When the calculations were performed as per 31 December 2018, the capital requirement under Pillar II for concentration risk was 16.6 (19.0) percent of the capital requirement for credit risk under Pillar I, that is to say, SEK 9.9 (5.7) million.

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

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. As a result, the Company is exposed to market risks. The market risks are divided into interest rate risk, foreign exchange risk, credit market risk, other price risks and liquidation risk.

The Company limits its exposure to market risk by means of derivative contracts. The reason for a certain exposure to market risks being permitted is to make the business more efficient, not to permit risk-taking for speculative purposes.

Interest rate risk
Interest rate risk refers to the risk that a change in the interest situation will decrease the net market value of the Company's assets and liabilities. Interest rate risk arises as a consequence of the periods for which interest is fixed for assets and liabilities not being in agreement. The Company does not take any interest rate risk positions for speculative purposes. For the Company's assignment to be conducted efficiently with regard to the conservative view on risk, interest rate risk is managed through portfolio matching. This means that small, temporary differences in interest rate periods are permitted for assets and liabilities.

The table below shows the periods of fixed interest for assets and liabilities. Period of fixed interest term for cancellable lending and funding refers to the next possible cancellation date.

Periods of fixed interest			Nominal amount				
2018	0–3 months	3 months–1 year	1–5 years	5–10 years	More than 10 years	Without interest	Total
Assets							
Sovereign bonds eligible as collateral	36,095.0	2,103.1	875.0	–	–	–	39,073.1
Lending to credit institutions	1,843.4	–	–	–	–	–	1,843.4
Bonds and other interest-bearing securities	1,676.9	5,149.8	579.0	–	–	–	7,405.7
Lending	212,683.4	17,165.8	100,476.7	21,179.4	2,440.8	–	353,946.1
Derivative investments	8,971.9	–6,666.2	–2,220.0	–	–	–	85.7
Derivative lending	134,700.9	–13,072.6	–98,136.7	–21,292.5	–2,199.1	–	–
Other assets	1,320.1	–	–	–	–	307.3	1,627.4
Total assets	**397,291.6**	**4,679.9**	**1,574.0**	**–113.1**	**241.7**	**307.3**	**403,981.4**
Liabilities and equity							
Liabilities to credit institutions	576.9	–	–	–	–	–	576.9
Securities issued	53,767.8	53,748.7	271,161.1	20,720.9	1,250.0	–	400,648.5
Derivative funding	312,079.4	–34,141.0	–267,219.1	–20,720.9	–1,000.0	–	–11,001.6
Other liabilities	4,551.8	–	–	–	–	1,706.4	6,258.2
Subordinated liabilities	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,603.4	7,603.4
Total liabilities and equity	**370,975.9**	**19,607.7**	**3,942.0**	**–**	**250.0**	**9,309.8**	**404,085.4**
Difference, assets and liabilities	26,315.7	–14,927.8	–2,368.0	–113.1	–8.3	–9,002.5	–104.0

Note 3, continued

Periods of fixed interest			Nominal amount				
2017	**0–3 months**	**3 months–1 year**	**1–5 years**	**5–10 years**	**More than 10 years**	**Without interest**	**Total**
Assets							
Sovereign bonds eligible as collateral	17,474.7	1,222.2	5,623.4	–	–	–	24,320.3
Lending to credit institutions	649.7	–	–	–	–	–	649.7
Bonds and other interest-bearing securities	2,346.3	3,838.7	6,184.2	–	–	–	12,369.2
Lending	180,329.5	20,151.4	87,308.3	18,080.1	2,173.1	–	308,042.4
Derivative investments	24,374.3	–11,136.6	–12,773.6	–	–	–	464.1
Derivative lending	113,179.3	–16,068.1	–76,938.3	–18,241.5	–1,931.4	–	–
Other assets	–	–	–	–	–	965.2	965.2
Total assets	**338,353.8**	**–1,992.4**	**9,404.0**	**–161.4**	**241.7**	**965.2**	**346,810.9**
Liabilities and equity							
Liabilities to credit institutions	558.8	729.2	–	–	–	–	1,288.0
Securities issued	53,115.3	64,848.1	194,490.5	25,507.4	1,250.0	–	339,211.3
Derivative funding	260,421.4	–53,644.0	–183,229.1	–25,407.4	–1,000.0	–	–2,859.1
Other liabilities	654.8	–	–	–	–	1,808.9	2,463.7
Subordinated liabilities	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,610.8	7,610.8
Total liabilities and equity	**314,750.3**	**11,933.3**	**11,261.4**	**100.0**	**250.0**	**9,419.7**	**347,714.7**
Difference, assets and liabilities	23,603.5	–13,925.7	–1,857.4	–261.4	–8.3	–8,454.5	–903.8

Sensitivity analysis

According to a fixed limit set by the Board of Directors, the risk (exposure) in the portfolio may never exceed SEK 30 million given a one percentage point parallel shift in the yield curve. However, interest rate risk is permitted to correspond to an exposure of at most SEK 50 million over a period of at most five consecutive business days.

At year-end, the exposure (throughout the portfolio) amounted to a positive SEK 9.3 (negative 11.0) million given a one percentage point parallel shift (upwards) in the yield curve. Due to changes in the value of assets and liabilities, a positive value exposure entails a positive interest effect if rates rise and a negative interest effect if rates fall.

If only transactions valued at fair value are taken into account, the result would change by SEK 231.3 (211.8) million given a one percentage point parallel shift (upwards) in all market interest rates.

Capital requirement for interest rate risk

The capital requirement for interest rate risk under Pillar II has been calculated based on the Swedish Financial Supervisory Authority's (FI) model for interest rate risk in the banking book. The model calculates the change in the value of the Company's net assets, given a number of change scenarios for the zero coupon curve. The change scenarios consist partly of parallel displacements, upwards and downwards, where the magnitude of the shift is based on historical market data and partly of four changes in the curve gradient, where the interest rate curve increases or decreases by 200 basis points over short or long maturities.

As one of the ten largest institutes in Sweden, Kommuninvest calculates the capital requirement according to the advanced approach, in which cash flows are grouped by trading day. Under Pillar II, a capital requirement for interest rate risk of SEK 45.0 (31.1) million has been entered.

Foreign exchange risk

Foreign exchange risk refers to the risk that a change in exchange rates will decrease the net market 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.

The Company's foreign exchange risks arise from the net interest income generated by the portion of the liquidity reserve denominated in USD or EUR. This risk is limited by continuously converting such returns into SEK. The maximum permitted exposure corresponds to SEK 5 million in each currency.

Capital requirement for foreign exchange risk

The Company's exposure to foreign exchange risk is so low that there is no longer a statutory capital requirement.

The capital requirement under Pillar II is calculated by multiplying the exposure by the foreign exchange fluctuations over the year. In 2018, the SEK/EUR and SEK/USD foreign exchange rates fluctuated by as much as 6 (6) percent per month. An exchange rate fluctuation of 6 (6) percent, with an exposure of SEK 5 million, would entail a capital requirement of SEK 0.3 (0.3) million per month. Accordingly, on an annual basis, this corresponds to a capital requirement of SEK 3.6 (3.6) million.

Note 3, continued

Assets and liabilities by currency				Recognised value				
2018	**SEK**	**EUR**	**USD**	**JPY**	**AUD**	**Other currencies**	**Fair value adjustment**	**Total**
Assets								
Sovereign bonds eligible as collateral	36,225.2	–	3,020.6	–	–	–	–15.5	39,230.3
Lending to credit institutions	707.8	92.2	1,043.4	–	0.0	0.0	–	1,843.4
Bonds and other interest-bearing securities	1,092.3	523.9	5,861.8	–	–	–	–20.2	7,457.8
Lending	354,372.8	–	–	–	–	–	1,337.2	355,710.0
Derivatives	–116,089.6	1,012.2	117,814.2	1,438.7	954.7	4,215.6	1,987.4	11,333.2
Other assets	455.9	0.1	1,170.9	0.3	–	0.2	–	1,627.4
Total assets	**276,764.4**	**1,628.4**	**128,910.9**	**1,439.0**	**954.7**	**4,215.8**	**3,288.9**	**417,202.1**
Liabilities and equity								
Liabilities to credit institutions	0.3	576.2	–	0.3	–	0.2	7.0	584.0
Securities issued	221,264.5	410.4	141,468.2	11,280.9	4,109.0	18,898.9	–635.0	396,796.9
Derivative liabilities	44,571.0	641.9	–15,176.0	–9,842.2	–3,154.3	–14,683.3	3,602.5	5,959.6
Other liabilities	3,637.5	0.1	2,620.6	–	–	–	–	6,258.2
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	7,289.0	–	–	–	–	–	314.4	7,603.4
Total liabilities and equity	**276,762.3**	**1,628.6**	**128,912.8**	**1,439.0**	**954.7**	**4,215.8**	**3,288.9**	**417,202.1**
Difference, assets and liabilities	**2.1**	**–0.2**	**–1.9**	**–**	**–**	**–**	**–**	**–**
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	–	0.0	–0.2	–	0.0	0.0	–	–

Assets and liabilities by currency				Recognised value				
2017	**SEK**	**EUR**	**USD**	**JPY**	**AUD**	**Other currencies**	**Fair value adjustment**	**Total**
Assets								
Sovereign bonds eligible as collateral	18,206.1	1,386.6	5,055.5	–	–	–	–12.4	24,635.8
Lending to credit institutions	520.6	37.4	91.7	–	–	–	–	649.7
Bonds and other interest-bearing securities	960.0	2,457.3	9,095.7	–	–	–	–13.0	12,500.0
Lending	308,486.1	–	–	–	–	–	1,661.2	310,147.3
Derivatives	–37,835.1	–1,686.5	36,969.1	3,636.0	968.9	3,928.7	2,063.5	8,044.6
Other assets	916.7	0.0	42.7	–	–	5.8	–	965.2
Total assets	**291,254.4**	**2,194.8**	**51,254.7**	**3,636.0**	**968.9**	**3,934.5**	**3,699.3**	**356,942.6**
Liabilities and equity								
Liabilities to credit institutions	–	553.0	–	734.3	–	5.8	25.3	1,318.4
Securities issued	180,945.4	1,726.2	130,610.5	3,001.5	5,044.9	14,888.8	1,538.5	337,755.8
Derivative liabilities	101,041.4	–84.6	–80,011.6	–99.8	–4,076.0	–10,960.1	1,984.6	7,793.9
Other liabilities	1,807.9	–	655.8	–	–	–	–	2,463.7
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	7,459.9	–	–	–	–	–	150.9	7,610.8
Total liabilities and equity	**291,254.6**	**2,194.6**	**51,254.7**	**3,636.0**	**968.9**	**3,934.5**	**3,699.3**	**356,942.6**
Difference, assets and liabilities	**–0.2**	**0.2**	**–**	**–**	**–**	**–**	**–**	**–**
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	–	0.0	0.0	0.0	0.0	0.0	–	–

Note 3, continued

Credit market risk
Credit market risk refers to the risk that a change in a basis or credit spread in the market would reduce the net market 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 valued at fair value.

Credit market risk is further broken down into credit spread risk on assets, credit spread risk on liabilities, credit spread risk on derivatives (CVA risk) and basis swap risk. Credit spread risk on assets and derivatives refers to the risk that a change in the counterparty's credit spread would reduce the value of the Company's assets or derivatives. Credit spread risk on liabilities 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 restricts the credit market risk through good maturity matching between assets (loans and investments) and liabilities (funding and equity).

Shown below is the Company's sensitivity to general changes in market credit spreads corresponding to a basis point parallel shift (upwards).

Sensitivity to credit market risk	2018	2017
Investments, fair value option	–1.1	–2.9
Investments, available for sale	–	–0.2
Lending	–23.8	–15.8
Funding	26.0	18.8
Total	**1.1**	**–0.1**

Capital requirement for credit market risk
A total capital requirement under Pillar II for credit market risk (excluding credit spread derivatives) is calculated for a number of scenarios. The largest capital requirement calculated for a single principal scenario will then constitute the Company's capital requirement for credit market risk. The principal scenarios underlying the capital requirement calculation are either theoretical or have been developed based on actual market changes for selected time periods.

The historical scenarios are intended to capture periods when fluctuations were greatest in the credit markets where the Company makes business transactions. The historical scenarios also include scenarios in which credit and basic swap movements are simulated using mathematical models, with a certain degree of probability, based on market data from various, selected periods of time.

The theoretical scenarios are prepared based on the credit market risks associated with the Company's business model and that could arise from that. These scenarios are included to ensure that the capital requirements cover all of the risks that could arise from the Company's business model since the historical scenarios do not necessarily cover all of the various possible scenarios.

In the calculations performed as per 31 December 2018, the total capital requirement for credit market risk amounted to SEK 1,530.0 (1,434.0) million.

Other price risks
Other price risks refers to the risk that a change in the pricing situation of underlying assets, such as shares, or share indexes, will reduce 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 before settlement is unable to meet its obligations and that the Company incurs increased expenses to enter a replacement transaction. The Company's process for managing counterparty risks also includes management of liquidation risks. The Company works proactively to avoid losses as a consequence of liquidation risks.

Business risk and strategic risk
Business risk is the risk of reduced revenues or increased expenses 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.

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 a procedure for developing strategic targets set by the Board of Directors. Strategic risks are 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.

These risks include, among other things, the earnings risk, meaning that the risk of losses resulting from revenues or expenses differs in relation to the business plan and forecasts. The Company's good matching of maturities of assets and liabilities entails favourable opportunities for transferring changed funding expenses to customers, limiting the earnings risks. This good match also includes assets and liabilities in different currencies, limiting the earnings risks stemming from changes in exchange and basis spreads.

Sensitivity analysis of the Company's net interest income based on a change in all market interest rates
The effect on the Company's net interest income, which also affects profit, is analysed on the basis of two scenarios: a parallel displacement upwards of 100 basis points and a parallel displacement downwards of 50 basis points. Given the generally very low market rates, the scenarios are made asymmetrical – the interest rate was adjusted less in the scenario where interest rates fall further.

The Company has good matching of cash flows between assets and liabilities. The only exceptions are assets financed by equity, which lack cash flows. The earnings from these assets, which are financed with equity, will therefore increase if market interest rates rise and correspondingly decrease if market interest rates fall.

If all market interest rates were to rise by 100 basis points at year-end, net interest income over a one-year period would increase by SEK 229 (104) million, provided that the size and composition of balance sheet does not change, and correspondingly, if all market interest rates were to fall by 50 basis points at year-end, net interest income would have decreased by SEK 115 (52) million over a one-year period.

Capital requirements for business risk and strategic risk
The Company has not assigned any capital requirements for business risk and strategic risk. On the other hand, these risks are assessed as part of the Company's stress tests in the capital planning buffer.

Note 3, continued

Liquidity and financing risk

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

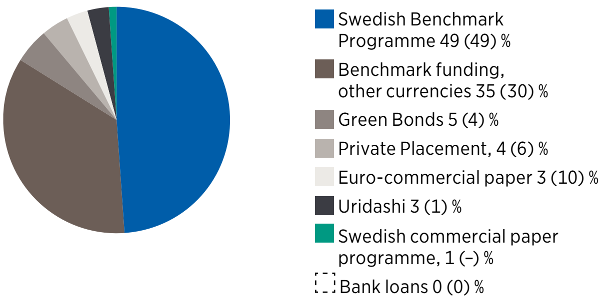
The short liquidity risk corresponds to risks in day-to-day liquidity management where unforeseen events could make it difficult for the Company to meet its obligations. This risk is restricted by holding a liquidity reserve with highly liquid assets. Short-term liquidity risk is further limited by the 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.

The structural liquidity risk (financing risk) corresponds to the risk that the Company has not financed its long-term commitments in advance. This risk is restricted, in part, through access to diversified funding and, in part, through good matching of maturities between assets and liabilities.

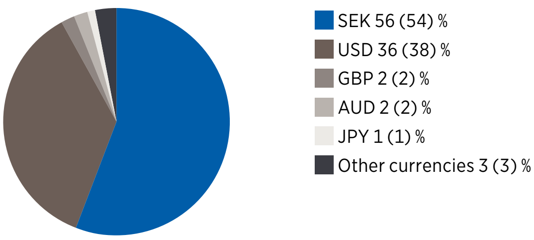
Diversified funding

Kommuninvest'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 funding maturities, even under worsening market conditions. The strategic funding programmes are 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 its funding in the Japanese market. The Company maintains a continuous market presence in strategic funding programmes.

Total funding by type of instrument
2018 (2017)



Total funding by currency
2018 (2017)



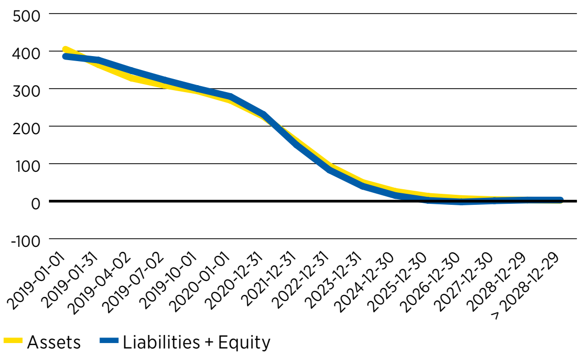
Good matching between assets and liabilities

Liquidity risks arise when assets and liabilities have different maturities. To minimise this risk, the Company strives to achieve good matching between assets (lending and investments) and liabilities (funding and equity). The goal is to match assets and liabilities with maturities of more than one year. The graph below illustrates the balance sheet maturity profile, indicating good matching between assets and liabilities.

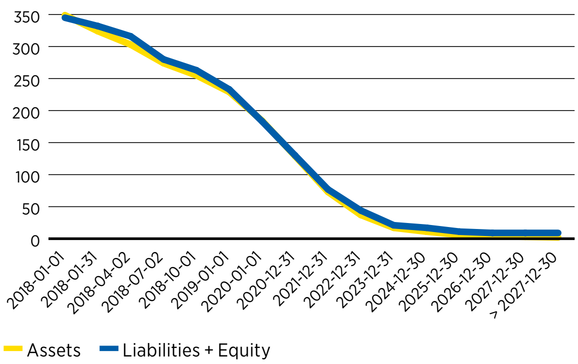
The average maturity of the Company's outstanding funding amounted to 2.3 (2.2) years at the end of the year, if the earliest possible cancellation date is used in the calculation. In connection with cancellable funding, the investor has the right, under certain conditions, to request premature repayment of on-lent funds.

At year-end, the average maturity on the Company assets amounted to 2.3 (2.2) years, with capital tied up in the Company's lending portfolio for an average 2.6 (2.4) years, and with capital tied up in the liquidity reserve for 0.2 (0.6) years.

Maturity profile, balance sheet
31 December 2018
SEK bn



Maturity profile, balance sheet
31 December 2017
SEK bn



Note 3, continued

Maturity analysis
The maturity analysis below shows undiscounted cash flows, including amortisation and interest payments, based on the remaining agreed maturity dates. All flows are converted to Swedish kronor by applying a spot rate.

	Contractual, non–discounted cash flows							
2018	**On demand**	**0–3 months**	**3 months–1 year**	**1–5 years**	**> 5 years**	**No maturity**	**Total**	**Recognised value**
Assets						–		
Sovereign bonds eligible as collateral	–	36,227.8	2,148.8	907.9	–	–	39,284.5	39,230.3
Lending to credit institutions	–	1,843.4	–	–	–	–	1,843.4	1,843.4
Bonds and other interest-bearing securities	–	1,734.5	5,234.9	605.8	–	–	7,575.2	7,457.8
Lending	–	37,761.1	45,995.6	247,541.6	31,160.8	–	362,459.1	355,710.0
Derivatives	–	8,877.9	6,020.7	10,143.8	82.0	–	25,124.4	11,333.2
Other assets	–	1,627.4	–	–	–	–	1,627.4	1,627.4
Total assets	**–**	**88,072.1**	**59,400.0**	**259,199.1**	**31,242.8**	**–**	**437,914.0**	**417,202.1**
Liabilities and equity								
Liabilities to credit institutions	–	0.9	0.3	581.6	–	–	582.8	584.0
Securities issued	–	46,167.1	64,109.7	283,435.2	22,723.3	–	416,435.3	396,796.9
Derivative liabilities	–	1,103.7	1,389.3	1,315.8	–137.1	–	3,671.7	5,959.6
Other liabilities	–	6,258.2	–	–	–	–	6,258.2	6,258.2
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,603.4	7,603.4	7,603.4
Total liabilities and equity	**–**	**53,529.9**	**65,499.3**	**285,332.6**	**22,586.2**	**7,603.4**	**434,551.4**	**417,202.1**
Total difference	**–**	**34,542.2**	**–6,099.3**	**–26,133.5**	**8,656.6**	**–7,603.4**	**3,362.6**	**–**
Committed loans	1,213.5	–	–	–	–	–	**1,213.5**	**–**
Committed, undisbursed loans[1]	–	–1,992.0	20.7	1,373.8	680.2	–	**82.6**	**–**

	Contractual, non–discounted cash flows							
2017	**On demand**	**0–3 months**	**3 months–1 year**	**1–5 years**	**> 5 years**	**No maturity**	**Total**	**Recognised value**
Assets								
Sovereign bonds eligible as collateral	–	17,534.9	1,368.8	5,823.9	–	–	24,727.6	24,635.8
Lending to credit institutions	–	649.7	–	–	–	–	649.7	649.7
Bonds and other interest-bearing securities	–	1,601.8	4,789.2	6,306.4	–	–	12,697.4	12,500.0
Lending	–	27,911.4	61,535.7	199,063.1	27,206.2	–	315,716.4	310,147.3
Derivatives	–	1,598.5	3,209.8	5,005.9	197.4	–	10,011.6	8,044.6
Other assets	–	965.2	–	–	–	–	965.2	965.2
Total assets	**–**	**50,261.5**	**70,903.5**	**216,199.3**	**27,403.6**	**–**	**364,767.9**	**356,942.6**
Liabilities and equity								
Liabilities to credit institutions	–	5.8	745.3	562.2	–	–	1,313.3	1,318.4
Securities issued	–	29,852.4	75,665.8	212,028.7	27,619.7	–	345,166.6	337,755.8
Derivative liabilities	–	719.0	1,185.9	4,104.0	–121.9	–	5,887.0	7,793.9
Other liabilities	–	2,463.7	–	–	–	–	2,463.7	2,463.7
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,610.8	7,610.8	7,610.8
Total liabilities and equity	**–**	**33,040.9**	**77,597.0**	**216,694.9**	**27,497.8**	**7,610.8**	**362,441.4**	**356,942.6**
Total difference	**–**	**17,220.6**	**–6,693.5**	**–495.6**	**–94.2**	**–7,610.8**	**2,326.5**	**–**
Committed loans	1,834.3	–	–	–	–	–	**1,834.3**	**–**
Committed, undisbursed loans[1]	–	–1,525.7	–701.6	1,939.8	359.5	–	**72.0**	**–**

1) Negative amounts refer to outflows and positive amounts to inflows.

Note 3, continued

Liquidity reserve

To ensure good liquidity preparedness even during periods of stress (e.g. aggravating financing opportunities in the capital markets), the Company maintains a liquidity reserve. The liquidity reserve is defined as the Company's holdings in securities, investment repos and bank balances. Bank balances refer to investments lacking underlying securities. The Company's own holdings of securities and securities pledged as collateral are excluded from the reserve.

The scale of the liquidity reserve is governed by the principle that a sufficient volume shall be maintained to meet the Company's liquidity needs even during periods of substantial unease in the financial markets.

The Company's liquidity reserve shall also comprise assets of good credit quality that are easily traded or redeemed. Investments may only be made in liquid interest-bearing securities and bank balances with senior status in the event of insolvency and, from a capital adequacy point of view, have a maximum risk-weight of 50 percent. Investment may include implicit or explicit zero interest rate flooring but no other structures.

Liquidity measure

The liquidity coverage ratio (LCR) measures the ratio of highly liquid assets to net cash outflows over a 30-day period, in a stressed situation. Accordingly, a liquidity coverage ratio of 100 percent ensures that, in the short term, the Company's liquidity reserve comprises sufficiently liquid assets to meet net cash outflows over the ensuing 30 days in a stressed situation.

Kommuninvest measures and monitors LCR on a daily basis. In part, on an overall level and, in part, for significant currencies, that is, within each currency where the Company has funding amounting to at least 5 percent or more of total funding (those currencies being SEK and USD). According to the limit set by the Board of Directors, the LCR quota may not be lower than 110 percent. This requirement includes all currencies combined, and individually for EUR and USD, given that each currency is a so-called significant currency. For SEK, the Board of Directors has set a limit of 50 percent.

The high proportion of sovereign bonds and other cash and cash equivalents in the Company's liquidity reserve mean that the liquidity ratio exceeds the government's requirements by a good margin. In accordance with the CRR regulations, the Company's LCR, as of 31 December 2018, was 247.5 (206.7) percent, 327.1 (472.4) percent in USD and 331.3 (234.0) percent in SEK (see table below).

For measures of structural liquidity risk, the Company measures and monitors the net stable funding ratio (NSFR), that is, the relationship between available stable financing and the Company's need for stable financing. The Company has a limit set by the Board of Directors since 2016 requiring that the NSFR not fall below 110 percent. At year-end, the NSFR was 143.2 (136.8) percent.

	2018			2017		
Liquidity Coverage Ratio (LCR) in accordance with the CRR regulations	**Total**	**USD**	**SEK**	**Total**	**USD**	**SEK**
Extremely highly liquid assets (Level 1), excluding covered bonds	45,238.3	993.5	35,820.8	35,954.3	1,692.1	18,595.2
Extremely highly liquid covered bonds (Level 1)	–	–	–	–	–	–
Highly liquid assets (Level 2)	–	–	–	–	–	–
Liquidity buffer, SEK million	**45,238.3**	**993.5**	**35,820.8**	**35,954.3**	**1,692.1**	**18,595.2**
Cash outflows, SEK million	21,461.6	1,215.1	12,742.0	21,835.2	1,432.8	12,364.2
Cash inflows[1], SEK million	3,183.0	911.3	1,929.9	4,442.9	1,074.6	4,416.1
Net cash outflow, SEK million	**18,278.6**	**303.8**	**10,812.1**	**17,392.3**	**358.2**	**7,948.1**
Liquidity coverage ratio (%)	**247.5**	**327.1**	**331.3**	**206.7**	**472.4**	**234.0**

1) In the calculation of net cash outflow, cash inflows may only be included to a maximum of 75 percent of cash outflows.

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 risk is inherent in the Company's operations and cannot be completely avoided, eliminated or transferred to another party. However, through good governance and control, Kommuninvest can reduce the likelihood of this risk arising and can reduce the consequences that may arise as a result of operational risk.

Risk management

Operational risks exist throughout the operations and can never be completely avoided. Risk management and analysis are performed continuously. Self-assessment, incident management, approval processes in connection with amendments, and contingency and continuity planning are among the methods used to identify, manage and analyse operational risk. The risks are mitigated by good governance and control, thus keeping operational risk at a controlled and acceptable level.

Risk management within Kommuninvest comprises uniform measurement and reporting of operational risks. An analysis of the level of risk in all operations is performed on a regular basis and reported to the Board of Directors, CEO and management. The operational risk unit within the Risk and Control department bears overall responsibility for the methods and procedures used to measure, identify, control, assess, analyse, evaluate and report operational risks. The process of managing operational risk is performed based on Kommuninvest's risk appetite and the processes essential to the operations.

Methods for identifying, managing and analysing operational risks

Risk indicators

Risk indicators are a measure of the effects of governance and control within the Company, and are to be monitored and analysed continuously to alert the operations if their risks increase.

Note 3, continued

Self-assessment

Operational risks can arise in any part of the Company's operations. What the operational risks have in common is that their size is only to a minor extent affected by external factors, such as changes in market rates or in the creditworthiness of different customers or counterparties. Instead, operational risks arise through shortcomings in Kommuninvest's own operations and/or organisation. Against this background, the CEO is responsible, alongside all department managers, for conducting at least one yearly self-assessment of the operational net risks in the Company's products, services, functions, processes and IT systems. The results of the self-assessment are reported annually to the Board of Directors, the CEO and the management.

Stress tests

Stress tests are a tool for ensuring that Kommuninvest keeps a forward-looking perspective in its risk management and capital planning. Stress test is a collective name for various types of evaluations that the Company performs in its operations, experienced-based or hypothetical, to quantify risks and to measure the Company's capacity to manage extraordinary circumstances. Stress tests are to be performed using scenario analyses or sensitivity analyses.

Incident management

A reportable event is defined as one that deviates from the expected. Reportable events are those where risks are materialised, that is, external events or events within Kommuninvest that have, or could have, a negative impact on the Company's business, assets, or reputation.

Kommuninvest shall, in an organised and structured manner, track reportable events (incidents), basing this work on the Company's established instructions for such reporting. Events that deviate from the expected should, as far as possible, be reported and handled within the area of operations or the process in which the risk arises. The head of the relevant operations is responsible for employees reporting such events and taking action to handle the events.

Processes for approving new products, services, markets, currencies, IT systems, and organisational and operational changes (NPAP)

Kommuninvest's approval process is to be initiated when the need for a new product, service, market, currency, process, or IT system arises or is identified, or when a substantial change is needed in an existing one. The process should also be initiated in connection with major changes in the Company's operations or organisation. The purpose of the process is to identify and manage the risks that may arise in connection with change. Written documentation for approval decisions shall be prepared in accordance with the operational management templates by the individual initiating the matter. The documentation shall be developed in dialogue with all relevant functions at the Company.

Continuity management

The organisation shall perform crisis prevention work. This is done in the operations under the direction of the relevant department manager. To provide support, guidelines are to be provided in the form of security instructions, continuity management plans and security procedures. To ensure that continuity management in the Company includes coordinating, reviewing and reporting functions, the CEO has appointed a Crisis Group. At least once a year, the Board of Directors shall be informed of the latest results from tests of the contingency, continuity and recovery plans.

Capital requirement for operational risk

Kommuninvest applies the base indicator method to determine the capital requirement for operational risk. The method calculates the capital requirement based on 15 percent of average operating income for the past three years. Kommuninvest's capital requirement under Pillar I for operational risks amounts to SEK 153.6 (149.3) million.

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 funding expenses 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.

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. To mitigate the risk of errors, the Company deliberately uses relatively simple methods and techniques to measure risk, capital requirements and risk appetite. The Company conducts both forward-looking and historical analyses of all risk types. The internal capital assessment addresses negative scenarios to ensure that the impact on the Company is not greater than expected.

Capital adequacy

Since 1 January 2014, capital adequacy has been calculated according to CRR[1]. The capital buffers to be introduced under CRD IV[2] first 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 and the countercyclical buffer apply, the size of which is based on the geographical distribution of the credit exposures. On 31 December 2018, the countercyclical buffer requirement for Kommuninvest i Sverige AB was 1 percent. Kommuninvest is not subject to the requirement for a systemic risk buffer, nor has the Company been identified as a systemically important institution. Kommuninvest meets the buffer requirements by a good margin.

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.

Note 3, continued

Capital base	2018	2017
Share capital[1]	7,100.0	6,100.0
Non-distributed retained earnings[2]	485.2	386.8
Accumulated other comprehensive income and other reserves	17.5	18.3
Core Tier I capital before regulatory adjustments	**7,602.7**	**6,505.1**
Further value adjustments[3]	–177.5	–145.9
Total regulatory adjustments to core Tier I capital	**–177.5**	**–145.9**
Total core Tier I capital	**7,425.2**	**6,359.2**
Tier I capital contributions	–	–
Total Tier I capital	**7,425.2**	**6,359.2**
Total Tier II capital	**–**	**–**
Total capital	**7,425.2**	**6,359.2**

1) For a more detailed description of the instruments included in share capital, see page 53.
2) Deductions of SEK 0.7 (105.7) million have been made, which refer to the portion of net profit 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.
3) 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 recognised at fair value.

Risk exposure amounts and minimum capital amounts	2018		2017	
Capital requirement, Pillar I	**Risk exposure**	**Capital requirement**	**Risk exposure**	**Capital requirement**
Capital requirement for credit risks (the standardised method)	747.5	59.8	373.8	29.9
of which, institutional exposures	*660.2*	*52.8*	*289.7*	*23.2*
of which, corporate exposures	*87.3*	*7.0*	*84.1*	*6.7*
Operational risks, basic indicator method	1,920.0	153.6	1,865.6	149.2
Credit valuation adjustment	1,273.4	101.9	754.4	60.4
Total risk exposure amount and minimum capital amount	**3,940.9**	**315.3**	**2,993.8**	**239.5**

Capital adequacy ratios	2018	2017
Core Tier I capital ratio	188.4 %	212.4 %
Tier I capital ratio	188.4 %	212.4 %
Total capital ratio	188.4 %	212.4 %

Buffer requirements	2018	2017
Capital conservation buffer	2.5 %	2.5 %
Countercyclical buffer	1.0 %	1.0 %
Total buffer requirements	**3.5 %**	**3.5 %**
Core Tier I capital available for use as buffer	**180.4 %**	**204.4 %**

Internally estimated capital requirements	2018	2017
Capital requirement, Pillar II		
Credit risk	133.6	129.1
Market risks	1,578.6	1,468.7
Other risk[1]	797.8	–
Total internally estimated capital requirement	**2,510.0**	**1,597.8**

1) Risk of inadequate leverage ratio.

The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements. For more information on the Company's internal capital assessment and capital plan, see pages 35–36.

For information to be disclosed under Commission Implementing Regulation No 1423/2013 of 20 December 2013 on technical standards for implementation of the disclosure requirements for capital base for institutions according to European Parliament and Council Regulation (EU) No 575/2013 and the Swedish Financial Supervisory Authority's (Finansinspektionen) rules and general advice for annual accounts from credit institutions and securities companies, FFFS 2008:25, see the Kommuninvest website.

Leverage ratio

Leverage ratio is defined as the Tier I capital divided by total exposures in assets and commitments. Regarding the lending portfolio and the liquidity reserve, the exposure corresponds to the recognised value. For derivatives assets the exposure is calculated by totalling all exposures in individual netting agreements with derivatives counterparties. To this exposure amount, a possible future exposure amount is added, 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. For Kommuninvest, this affects committed loans and committed undisbursed loans issued.

Note 3, continued

	2018	2017
Total assets	417,202.1	356,942.6
Less asset amounts deducted to determine the core Tier I capital	–177.5	–145.9
Less derivatives according to the balance sheet	–11,333.2	–8,044.6
Plus derivatives exposure	9,015.1	2,973.7
Plus possible change in derivatives risk	6,732.7	3,656.7
Plus off-balance sheet commitments	1,678.9	2,155.3
Total exposure	**423,118.1**	**357,537.8**
Tier I capital, calculated applying transitional rules	**7,425.2**	**6,359.2**
Leverage ratio	**1.75 %**	**1.78 %**

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, see pages 35–36.

Member responsibilities

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

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 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 total lending and each member's share of the total contribution capital paid to the Kommuninvest Cooperative Society.

The statement of undertaking is based on the following items in Kommuninvest balance sheet as per 31 December 2018 (SEK, millions).

	2018
Liabilities to credit institutions	584.0
Securities issued	396,796.9
Total funding	**397,380.9**
LIABILITIES, according to statement of undertaking	
On-lent funding[1]	348,849.4
Funding not on-lent[2]	48,531.5
Total funding	**397,380.9**
Derivatives, connected with on-lent funding[1]	1,164.9
Other liabilities[2]	6,258.3
Total liabilities/undertaking	**404,804.1**
ASSETS, according to statement of undertaking	
Lending[1], see Note 14	355,710.0
Liquidity reserve[2], see Notes 3, 13, 15	48,531.5
Derivatives, connected with on-lent funding[1]	454.2
Other assets[2]	1,627.3
Total assets	**406,323.0**

1) Basis of allocation: Percentage equivalent to each member's share of Kommuninvest's total lending.

2) Basis of allocation: Percentage equivalent to each member's participation in the total contribution capital paid to the Kommuninvest Cooperative Society.

In the statement of undertaking, the derivatives are recognised 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 or liabilities have been reduced by pledged assets and collateral received, such as government securities. At 31 December 2018, collateral received amounted to SEK 4,151.9 (2,055.6) million and may only be used to cover outstanding exposures. The corresponding collateral for the Company's liabilities relating to derivatives amounts to SEK 558.1 (1,026.6) million. These are disclosed in Note 26, but may not be reduced in the balance sheet.

Note 4 Net interest income

Interest revenues	2018	2017
Interest revenues calculated according to effective interest method	494.0	450.6
of which, lending	*456.4*	*487.0*
of which, interest-bearing securities	*37.6*	*–36.4*
Other interest revenues	11.3	1.7
Total	**505.3**	**452.3**
Of which: interest revenues from financial items not measured at fair value through the income statement	231.1	219.4
Interest expenses		
Interest expenses calculated according to effective interest method	437.0	481.6
of which, liabilities to credit institutions	*–15.0*	*–2.0*
of which, securities issued	*681.0*	*645.4*
of which lending, negative lending rate	*–229.0*	*–161.8*
Other interest expenses	–56.8	–52.6
Total	**380.2**	**429.0**
Of which: interest expenses from financial items not measured at fair value through the income statement[1]	–549.9	–379.4
Net interest income	**885.5**	**881.3**

1) Interest from derivatives that financially hedge funding is recognised as an interest expense. Since derivative contracts allow interest to be received in the payment leg, the prevailing interest situation means, in many cases, that Kommuninvest has received interest on funding and its hedging. This has led to the total interest expense for financial items measured at fair value being positive.

Kommuninvest considers all income and expenses to be attributable to the country in which the Company has its registered office, Sweden. In this note, income is recognised as positive and expenses as negative. For further information on net interest income for the period, see the Comments on the income statement on page 49.

Note 5 Commission expenses

	2018	2017
Payment agency commissions	4.9	3.4
Brokerage for securities	3.1	3.7
Other commissions	0.2	0.2
Total	**8.2**	**7.3**

Note 6 Net result of financial transactions

	2018	2017
Realised profit	–2.5	86.3
of which, interest-bearing securities	*–1.2*	*89.8*
of which, other financial instruments	*–1.3*	*–3.5*
Unrealised changes in market value	164.4	426.0
Exchange rate changes	–0.5	–0.3
Total	**161.4**	**512.0**

Kommuninvest considers all income and expenses to be attributable to the country in which the Company has its registered office, Sweden.

Net gain/loss by measurement category (IFRS 9)	**2018**
Financial assets at fair value through the income statement	–106.2
of which, compulsory	*412.9*
of which, fair value option	*–519.1*
Financial assets measured at amortised cost	0.5
Financial liabilities at fair value through the income statement	244.9
of which, held for trade	*–1,727.1*
of which, fair value option	*1,972.0*
Financial liabilities measured at amortised cost	–
Change in fair value of derivatives that are hedging instruments in fair value hedge	–362.5
Change in fair value on hedged item with regard to hedged risk in fair value hedging	385.2
Exchange rate changes	–0.5
Total	**161.4**
Results (net)	
Net result of available-for-sale financial assets recognised in other comprehensive income	–

Kommuninvest has no assets or liabilities that are reported in other comprehensive income. Kommuninvest does not enter any credit risk of its own in the financial statements, see Note 25.

Net profit on financial assets measured at amortised cost amounts to SEK 0.5 (0.2) million. This amount includes compensation for the interest spread of SEK 0.6 (0.2) million, pertaining to prematurely discontinued lending. In all instances, discontinuation has been on the customer's initiative. In addition, a negative SEK 0.1 (–) million relates to a Riksbank repurchase agreement that was sold. The sale was motivated by greater liquidity outflows than expected during the extended maturity, over the end of the year, of the Riksbank's repurchase agreements, from the normal one week to three weeks.

Net gain/loss by measurement category (IAS 39)	**2017**
Financial assets at fair value through the income statement	–730.0
Holdings for trading purposes (assets)	45.7
Loan receivables and accounts receivable	0.2
Financial liabilities at fair value through the income statement	86.8
Holdings for trading purposes (liabilities)	1,077.8
Capital gains/losses on available-for-sale financial assets	35.6
Change in fair value of derivatives that are hedging instruments in fair value hedge	–985.5
Change in fair value on hedged item with regard to hedged risk in fair value hedges	981.7
Exchange rate changes	–0.3
Total	**512.0**
Results (net)	
Net result of available-for-sale financial assets recognised in other comprehensive income	–11.5

Note 7 Other operating income

	2018	2017
Capital gain on divestments of tangible assets	–	0.1
Revenue from contracts with customers	5.8	4.9
Other operating income	2.0	0.3
Total	**7.8**	**5.3**

All revenues from contracts with customers relate to revenues from a financial management service, KI Finans, which is offered to members of the Kommuninvest Cooperative Society. The service allows customers to create their own overview of their financial positions. All revenues derive from a customer category consisting of municipalities and regions which are members of the Kommuninvest Cooperative Society and all customers operate in the same geographical market, Sweden.

All contracts are processed at the portfolio level, entitle the customer access to a service and the performance commitment is fulfilled over time during the period in which the service is provided. All contracts extend over one calendar year and are normally invoiced within that financial year. There is no adjustment for any material financing component since payment terms, invoicing and access to the service occur within one financial year. The revenue is recognised within the financial year as performance commitment is met. The transaction price of the contracts is fixed with no adjustments for variable compensation, obligations or benefits linked to the contracts or other assessment items. The transaction price is determined by Kommuninvest's price list and takes the customer group's external borrowing debt. Contract expenses for the KI Finans system are capitalised as an intangible asset and recognised under IAS 38 Intangible Assets, and current expenses attributable to KI Finans are expensed in accordance with IFRS 15, paragraph 96. No specific expenses associated with the contracts are paid by the customer.

Kommuninvest considers all income to be attributable to the country in which the Company has its registered office, Sweden.

Note 8 General administration expenses

In TSEK	2018	2017
Payroll expenses		
Salaries and emoluments	71,981	68,535
Social security contributions	40,418	38,289
of which, social security contributions and wage debt for social security contributions	*22,931*	*21,599*
of which, pension expenses	*14,081*	*13,446*
of which, special payroll tax on pension expenses	*3,406*	*3,244*
Temporary/contract personnel	2,507	5,401
Education/training expenses	3,425	2,913
Other payroll expenses	3,153	4,801
Total payroll expenses	**121,484**	**119,939**
Other general administration expenses		
Travel expenses	3,838	4,020
IT expenses	19,257	19,094
Consultancy fees	14,376	21,833
Rating expenses	1,118	1,339
Market data	9,079	9,620
Rent and other expenses for premises	6,470	6,740
Annual Report and interim report	677	1,196
Resolution fee	69,052	66,307
Other expenses	14,477	8,374
Total other general administration expenses	**138,344**	**138,523**
Total	**259,828**	**258,462**

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 2018. No non-recurring remuneration has been approved in connection with new appointments, nor has any severance been paid to Board Members, the CEO or other senior executives. 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 2018, the President and CEO received TSEK 3,129 (3,123) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to TSEK 1,057 (964) and are covered by insurance. For termination initiated by the Company, salary will continue to be paid for the duration of the six-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 Board. The Deputy CEO received TSEK 2,105 (2,069) in basic salary for 2018. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to TSEK 602 (617) 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. At the end of the year, other senior executives consisted of 5 (5) people, of whom 2 (2) were women and 3 (3) were men. For further information regarding the composition of Company management and changes during the year, see page 43.

Remuneration to other senior executives in Company management has been determined by the Board. During 2018, the total remuneration to senior executives who were part of the Executive Management Team amounted to TSEK 5,546 (4,789). Pension expenses are covered by insurance.

In accordance with the work plan for the Board of Directors established in 2018, the Chairman of the Board is responsible for an independent review being performed of the Company's remuneration and compensation policies, for preparing the Board's decisions, and for compensation to Executive Management, as well as for compensation to employees bearing the overall responsibility for any of the Company's control functions, and for measures to monitor the application of the Company's remuneration policy.

Remuneration to the Board of Directors

At the end of the year, the Board of Directors was composed of 8 (10) members, including the employee representative, of whom 4 (5) were women. Ellen Bramness Arvidsson is the Chairman of the Board.

Up until the 2018 Annual General Meeting, the fees to the Board of Directors consisted of a fixed fee of TSEK 550 to the Chairman. Members of the Board are paid a fixed fee of TSEK 300 each. No fees were paid to employee representatives. The 2018 Annual General Meeting resolved that Board fees would remain unchanged.

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

In TSEK	2018	2017
Ellen Bramness Arvidsson	550	550
Kurt Eliasson	300	300
Lars Heikensten	300	300
Erik Langby	300	300
Anna von Knorring	300	300
Johan Törngren	300	300
Kristina Sundin Jonsson, newly elected in April 2018	200	–
Anna Sandborgh, stepped down in April 2018	100	300
Åsa Zetterberg, stepped down in April 2018	100	208
Ulrika Gonzalez Hedqvist, employee representative	–	–
Nedim Murtic, employee representative, stepped down in March 2018	–	–
Jonas Håkansson, employee representative, newly elected in March 2018, stepped down in August 2018	–	–
Total	**2,450**	**2,558**

Note 8, continued

Wages and remunerations

2018, in TSEK	Basic salary / Board fee	Other benefits	Pension expense	Total
Board of Directors	2,450	–	–	2,450
President and CEO	3,129	84	1,057	4,270
Deputy CEO	2,105	–	602	2,707
Others in Company management	5,546	18	1,831	7,395
Other salaried employees	58,751	–	10,591	69,342
Total	**71,981**	**102**	**14,081**	**86,164**

2017, in TSEK	Basic salary / Board fee	Other benefits	Pension expense	Total
Board of Directors	2,558	–	–	2,558
President and CEO	3,123	84	964	4,171
Deputy CEO	2,069	–	617	2,686
Others in Company management	4,699	18	1,386	6,103
Other salaried employees	56,086	–	10,479	66,565
Total	**68,535**	**102**	**13,446**	**82,083**

Average number of employees	2018	2017
Average number of employees during the year	97	91
of whom, women	*41*	*35*

Auditing engagement

At the 2016 Annual General Meeting of the Company, KPMG AB was appointed as the firm of auditors for the period until the end of the 2020 Annual General Meeting and, at the same time, Ernst & Young AB stepped down.

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 than the client. Other services refers to those not included in any of the above.

Emoluments and expenses for the auditors, KPMG AB	2018	2017
Auditing engagement	925	1,325
Other audit services	969	983
Tax consultancy	–	–
Other Services	48	15

Operating leases

Over the year, operating lease expenses amounted to TSEK 5,926 (6,287). Most of the expenses are attributable to the Company's rental of office premises from the subsidiary Kommuninvest Fastighets AB.

Future lease payments for non-cancellable operating leases and how these are distributed over the years, are shown in the table below.

Non-cancellable operating leases where Kommuninvest i Sverige AB is the leaseholder	2018	2017
Within one year	5,611	5,552
Between one and five years	16,899	19,643
Total	**22,510**	**25,195**

Note 9 Other operating expenses

	2018	2017
Insurance expenses	1.1	0.9
Communication and information	2.7	2.5
Other operating expenses	0.4	0.1
Total	**4.2**	**3.5**

Note 10 Net credit losses

	2018	2017
Sovereign bonds eligible as collateral	1.7	–
Lending to credit institutions	0.6	–
Lending	21.9	–
Bonds and other interest-bearing securities	0.0	–
Off-balance sheet items	0.1	–
Total	**24.3**	**–**

In accordance with IFRS 9, Kommuninvest began recognising expected credit losses in 2018. Kommuninvest had no credit losses in 2017 under IAS 39. For information on the calculation model, provisions and credit loss fluctuations, see Note 3.

Note 11 Tax

Recognised in income statement	2018	2017
Current tax expense	165.1	248.1
Adjustment of taxes attributable to previous years	1.3	−0.3
Total tax expense recognised	**166.4**	**247.8**

Reconciliation of effective tax	2018	2018	2017	2017
Profit before tax		752.5		1,123.8
Tax according to prevailing tax rate	22.0 %	165.5	22.0 %	247.2
Non-deductible expenses/ Non-taxable revenues	−0.1 %	−0.4	0.1 %	0.9
Tax attributable to previous years	0.2 %	1.3	−0.0 %	−0.3
Recognised effective tax	**22.1 %**	**166.4**	**22.1 %**	**247.8**

Tax expense attributable to other comprehensive income	2018	2017
Available-for-sale financial assets	–	−2.5
Total other comprehensive income	**–**	**−2.5**

Recognised deferred tax assets and liabilities

The Company has no deferred tax liability or receivable.

Deferred tax assets	2018	2017
Tax assets, opening balance	**–**	**28.1**
Unrealised changes in market value	–	−28.1
of which, recognised in the income statement	*–*	*−28.1*
Tax assets, closing balance	**–**	**–**

Tax items entered directly against equity	2018	2017
Current tax on Group contributions paid	165.1	217.3
Total sum entered directly against equity	**165.1**	**217.3**

Note 12 Proposed distribution of earnings

	2018
The Board of Directors proposes that:	
Profit for the year	586.1
Profit or loss brought forward	–112.2
Total	**473.9**
Be appropriated as follows:	
To be carried forward	473.9

For more information, see page 32.

Note 13 Sovereign bonds eligible as collateral

	2018				2017	
	Recognised value					
	Amortised cost	Fair value through the income statement	Total recognised value	Fair value	Recognised value	Fair value
Sovereign bonds eligible as collateral						
– Swedish central government	33,201.6	3,868.2	37,069.8	37,072.4	21,221.4	21,221.4
– Foreign governments	–	2,160.5	2,160.5	2,160.5	3,414.4	3,414.4
Total	**33,201.6**	**6,028.7**	**39,230.3**	**39,232.9**	**24,635.8**	**24,635.8**
Positive difference of book values exceeding nominal values			166.7		332.7	
Negative difference of book values falling below nominal values			–9.5		–17.2	
Total			**157.2**		**315.5**	

The increase compared with 2017 is due to a larger liquidity reserve in terms of volume, while the Company increased, at the same time, the proportion of holdings in securities issued by the Swedish central government.

Note 14 Lending

	2018				2017	
	Recognised value					
	Amortised cost	Fair value through the income statement	Total recognised value	Fair value	Recognised value	Fair value
Lending						
– municipalities and regions	106,619.6	46,415.0	153,034.6	152,997.1	128,905.1	129,043.8
– housing companies with municipal guarantees	95,114.9	36,720.3	131,835.2	131,824.3	116,828.9	116,922.7
– other companies with municipal guarantees	47,577.4	23,262.8	70,840.2	70,859.5	64,413.3	64,472.1
Total	**249,311.9**	**106,398.1**	**355,710.0**	**355,680.9**	**310,147.3**	**310,438.6**

Lending refers to lending to municipalities and regions, as well as to companies owned by municipalities and regions.

Note 15 Bonds and other interest-bearing securities

	2018				2017	
	Recognised value					
	Amortised cost	Fair value through the income statement	Total recognised value	Fair value	Recognised value	Fair value
Bonds and other interest-bearing securities						
– Swedish mortgage finance institutions	–	–	–	–	–	–
– other foreign issuers	–	7,457.8	7,457.8	7,457.8	12,500.0	12,500.0
Total	**–**	**7,457.8**	**7,457.8**	**7,457.8**	**12,500.0**	**12,500.0**
Positive difference of book values exceeding nominal values			70.7		163.7	
Negative difference of book values falling below nominal values			–18.6		–32.9	
Total			**52.1**		**130.8**	

The decrease compared with 2017 is due to the fact that the Company increased the share of holdings in securities issued by the Swedish central government, for more information, see Note 13.

Note 16 Shares and participations in subsidiaries

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

	2018	2017
Number of shares: 1,000	42.0	42.0
Total	**42.0**	**42.0**

As per 31 December 2018, Kommuninvest Fastighets AB had a balance sheet total of SEK 51.5 (56.7) million, equity of SEK 42.6 (42.9) million and generated a loss of SEK 0.3 (0.7) million.

Note 17 Derivatives and hedge accounting

Kommuninvest's funding is conducted in several different currencies and at both fixed and variable interest rates. Kommuninvest's lending is conducted only in Swedish kronor, but at both fixed and variable interest rates. Kommuninvest uses derivative instruments to hedge interest rate and currency risks that arise when the contractual terms of the Company's funding and lending do not match.

With the aim of reducing volatility in earnings and equity, hedge accounting of fair value is applied for fixed-rate funding and lending. This hedging entails one or more derivative contracts, known as hedging instruments, being signed to hedge one or more market risks associated with funding or lending. Only plain-vanilla derivatives in the form of interest rate and currency swaps are used as hedging instruments.

Hedging relationships

In hedge accounting, Kommuninvest uses two different types of hedging relationships, hedging of interest rate risk and hedging of interest rate and currency risk. All hedging relationships are transaction-based.

Since the critical terms, currency, maturity date, dates for fixed rate payments and total nominal amount, in the hedging instrument and the hedged item always correspond, Kommuninvest expects that sources of inefficiency during the hedge relationship will solely comprise changes in the value on the variable legs of the hedging instrument and, where applicable, changes in currency basis spread.

Interest rate risk hedging

Interest rate risk arises when Kommuninvest borrows or lends money at fixed interest rates. Since funding and lending do not occur simultaneously, they are hedged at the transaction level with one or more derivative instruments. Kommuninvest's objective with these hedges is to reduce the risk of changes in the fair value of the funding or lending transaction caused by changes in the benchmark interest rate. Kommuninvest identifies this benchmark interest rate risk as the risk component hedged in funding and lending.

In these cases, the hedged item consists of fixed-rate funding or lending. The hedging instrument consists of one or more interest rate swaps. The interest rate swaps are to be based on the same currency, maturity date, dates for fixed rate payments and total nominal amount as the hedged item.

Interest rate and currency risk hedging

Interest rate and currency risk arises when Kommuninvest borrows money in foreign currency at a fixed interest rate. Since Kommuninvest's lending is in Swedish kronor, derivative contracts are used to exchange this money to SEK, meaning that this funding is hedged at the transaction level with one or more derivatives. Kommuninvest's objective with these hedges is to reduce the risk of changes in the fair value of the funding caused by changes in the current benchmark interest rate and exchange rate. Kommuninvest identifies this benchmark interest rate and currency risk as the risk components hedged in its funding.

In these cases, the hedged item consists of fixed-rate funding in foreign currency. The hedging instruments consist of one or more currency swaps where the hedging results in variable SEK flows. Interest rate swaps are to be based on the same currency, maturity date, dates for fixed rate payments and total nominal amount as the hedged item.

Efficiency testing

Kommuninvest conducts an initial prospective review when a hedging relationship is to be initiated and thereafter retrospective tests on a quarterly basis. The prospective review ascertains whether the critical terms for the hedged item and the hedging instrument are consistent. If the critical conditions do not agree, hedge accounting will not be applied.

The efficiency of the hedging relationship is measured retrospectively in an analysis based on historical data for balances of unrealised market value for the hedged item and the hedging instrument. The analysis comprises a regression test. The regression test deems the hedge relationship efficient if a linear regression produces a regression coefficient between −0.8 and −1.25. If the hedging relationship is not deemed efficient, the relationship is broken, the previously hedged item is recognised at amortised cost and the changes value are allocated across the remaining maturity of the item.

All hedging relationships have been deemed efficient. Kommuninvest has no hedging relationships that have been discontinued prematurely.

Hedging instrument	**Nominal amount**					**Assets at fair value**		**Liabilities at fair value**		**Changes in fair value used for accounting of hedging inefficiency**	
	Remaining contractual maturity			**Total**							
	<1 year	**1–5 years**	**>5 years**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Derivatives in hedging relationship											
Derivatives in hedging of interest rate risk	35,915.1	219,056.2	42,160.6	297,131.9	232,991.8	2,576.2	4,240.3	–491.4	677.1	–335.8	–919.8
Derivatives in hedging of interest rate and currency risk	363.6	3,344.8	–	3,708.4	3,656.0	343.3	273.1	–97.1	76.4	–26.7	–65.8
Total	**36,278.7**	**222,401.0**	**42,160.6**	**300,840.3**	**236,647.8**	**2,919.5**	**4,513.4**	**–588.5**	**753.5**	**–362.5**	**–985.6**
Average interest rate	0.11 %	–0.08 %	0.42 %								
Derivatives not used for hedging											
Interest rate-related	80,606.6	140,623.0	2,211.8	223,441.4	190,343.8	71.3	176.4	–756.5	1,297.7		
Currency-related	72,651.5	104,657.4	1,422.7	178,731.6	160,427.4	8,339.1	3,288.3	–2,969.1	5,742.7		
Other	8,508.1	–	–	8,508.1	976.3	3.3	66.5	–1,645.5	–		
Total	**161,766.2**	**245,280.4**	**3,634.5**	**410,681.1**	**351,747.5**	**8,413.7**	**3,531.2**	**–5,371.1**	**7,040.4**		
Total	**198,044.9**	**467,681.4**	**45,795.1**	**711,521.4**	**588,395.3**	**11,333.2**	**8,044.6**	**–5,959.6**	**7,793.9**		

Note 17, continued

Hedged items	Assets, recognised value		Accrued amount for adjustment of fair value, assets		Liabilities, recognised value		Accrued amount for adjustment of fair value, liabilities		Changes in fair value used for accounting of hedging inefficiency	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Lending in an interest rate risk hedge	85,680.7	63,105.8	656.5	450.0	–	–	–	–	206.5	–358.9
Funding in an interest rate risk hedge	–	–	–	–	202,333.8	174,924.9	1,197.7	1,344.3	146.6	1,264.7
Funding in an interest rate and currency risk hedge	–	–	–	–	2,947.1	2,863.1	147.7	179.8	32.1	75.8
Total	**85,680.7**	**63,105.8**	**656.5**	**450.0**	**205,280.9**	**177,788.0**	**1,345.4**	**1,524.1**	**385.2**	**981.6**

Total hedging inefficiency	2018	2017
Interest rate risk hedging		
Derivatives	–335.8	–919.8
Funding	146.6	1,264.7
Lending	206.5	–358.9
Total	**17.3**	**–14.0**
Interest rate and currency risk hedging		
Derivatives	–26.7	–65.8
Funding	32.1	75.8
Total	**5.4**	**10.0**

All inefficiency is recognised in net result of financial transactions.

Note 18 Intangible assets

	2018	2017
Acquisition value		
Acquisition value brought forward	24.3	22.0
Investments for the year	11.1	2.3
Disposals and scrappings	–1.4	–
Acquisition value carried forward	**34.0**	**24.3**
Depreciation		
Opening balance, depreciation	–13.4	–8.6
Depreciation for the year	–4.9	–4.8
Disposals and scrappings	–	–
Depreciation carried forward	**–18.3**	**–13.4**
Planned residual value at the end of the accounting period	**15.7**	**10.9**

Kommuninvest's intangible assets consist of business systems. The item disposals and scrappings refers to the impairment of an application in KI Finans that is not considered to have met the standard required to be used in the intended manner. The effect on earnings of a negative SEK 0.4 million has been reported under depreciation and impairment of intangible assets in the income statement.

Note 19 Tangible assets

	2018	2017
Acquisition value		
Acquisition value brought forward	19.9	28.6
Investments for the year	0.3	2.3
Disposals and scrappings	–	–11.0
Acquisition value carried forward	**20.2**	**19.9**
Depreciation		
Opening balance, depreciation	–12.7	–21.0
Depreciation for the year	–2.5	–2.5
Disposals and scrappings	–	10.8
Depreciation carried forward	**–15.2**	**–12.7**
Planned residual value at the end of the accounting period	**5.0**	**7.2**

Tangible assets mainly comprise IT equipment and office equipment.

Note 20 Other assets

	2018	2017
Receivables from subsidiaries	7.2	11.8
Marginal collateral pledged	1,454.4	793.0
Other assets	9.4	9.3
Total	**1,471.0**	**814.1**

Receivables from subsidiaries refer to Group contributions and a zero-interest loan.

In 2016, Kommuninvest began pledging collateral for derivatives cleared by a central clearing counterparty, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 26. In 2017, the Company also began to pledge cash collateral for derivatives not cleared by central clearing counterparties and for which there no right of netting applies. Accordingly, these are entered in full in the balance sheet.

Note 21 Other liabilities

	2018	2017
Liabilities to parent society	1,639.8	1,752.3
Marginal collateral received	4,551.8	654.8
Other liabilities	25.9	15.4
Total	**6,217.5**	**2,422.5**

The liability to the Kommuninvest Cooperative Society involves Group and member contributions in 2018, which are handled by the Company on the Society's behalf and have not yet been transferred to the Company in the form of new share capital. In 2016, Kommuninvest began receiving collateral for derivatives cleared by a central clearing counterparty, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 26. In 2017, the Company also began to receive cash collateral for derivatives not cleared by central clearing counterparties and for which there no right of netting applies and which are therefore included in full in the balance sheet.

Note 22 Provisions

	2018	2017
Provisions for off-balance sheet commitments	0.1	–
Total	**0.1**	**–**

This item includes provisions for expected credit losses on off-balance sheet commitments. For more information on off-balance sheet items, see Note 23.

Note 23 Pledged assets, contingent liabilities and commitments

Pledged assets	**2018**	**2017**
In the form of assets pledged for own provisions and liabilities		
Deposited at the Riksbank		
– government bonds	521.6	3,690.4
Collateral pledged for derivative liabilities		
– government bonds	566.2	1,031.2
Marginal collateral pledged to a central clearing counterparty		
– government bonds	1,280.6	590.1
Assets pledged, total	**2,368.4**	**5,311.7**
Contingent liabilities	None	None
Committed undisbursed loans	2,144.4	2,476.2
Committed loans	1,213.5	1,834.3

The recognised value of liabilities and provisions involving pledges amounted to SEK 562.6 (1,407.0) 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 party relationships

In 2018, Kommuninvest had a related party relationship to the Kommuninvest Cooperative Society (parent society), and Kommuninvest Fastighets AB (subsidiary).

Related party, in TSEK	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	2018	1,091	153	–	167	1,639,816
	2017	5,990	118	–9,652	–	1,752,320
Kommuninvest Fastighets AB	2018	286	4,542	–	7,156	21
	2017	400	5,188	–	11,790	–
Malin Norbäck Consulting AB	2018	–	–	–	–	–
	2017	–	705	–	–	–

The related party relationship with Kommuninvest Fastighets AB refers to transactions involving Kommuninvest's premises, which are owned by Kommuninvest Fastighets AB, and Group contributions. The liability to the Kommuninvest Cooperative Society involves member contributions, which are handled by the Company on the Society's behalf and have not yet been transferred to the Company in the form of new share capital.

Malin Norbäck Consulting AB was classified as a related party in 2017 as that company has provided key personnel in leading positions. For transactions with other key personnel employed by Kommuninvest, see Note 8.

Note 25 Financial assets and liabilities

Financial assets and liabilities are presented in accordance with IFRS 9 as of 31 December 2018 and in accordance with IAS 39 as of 31 December 2017.

Financial instruments broken down by valuation category

2018	Amortised cost	Fair value through the income statement				Recognised value	Fair value
		Held for trade	Compulsory	Fair value option	Derivatives used for hedge accounting		
Financial assets							
Sovereign bonds eligible as collateral	33,201.6	–	–	6,028.7	–	39,230.3	39,232.9
Lending to credit institutions	1,843.4	–	–	–	–	1,843.4	1,843.4
Lending	249,311.9	–	–	106,398.1	–	355,710.0	355,680.9
Bonds and other interest-bearing securities	–	–	–	7,457.8	–	7,457.8	7,457.8
Derivatives	–	–	8,413.7	–	2,919.5	11,333.2	11,333.2
Other financial assets	1,468.2	–	–	–	–	1,468.2	1,468.2
Total	**285,825.1**	**–**	**8,413.7**	**119,884.6**	**2,919.5**	**417,042.9**	**417,016.4**
Financial liabilities							
Liabilities to credit institutions[1]	0.8	–	–	583.2	–	584.0	584.0
Securities issued[1]	240,956.0	–	–	155,840.9	–	396,796.9	397,667.7
Derivatives	–	5,371.1	–	–	588.5	5,959.6	5,959.6
Other financial liabilities	6,207.9	–	–	–	–	6,207.9	6,207.9
Total	**247,164.7**	**5,371.1**	**–**	**156,424.1**	**588.5**	**409,548.4**	**410,419.2**

1) Nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 401,574.2 (405,274.4) million.

Note 25, continued

2017	Financial assets and liabilities valued at fair value through the income statement		Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Derivatives used for hedge accounting	Recognised value	Fair value
	Financial assets/ liabilities determined as belonging to this category	Held for trade						
Financial assets								
Sovereign bonds eligible as collateral	12,998.3	–	–	11,637.5	–	–	24,635.8	24,635.8
Lending to credit institutions	–	–	649.7	–	–	–	649.7	649.7
Lending	72,929.9	–	237,217.4	–	–	–	310,147.3	310,438.6
Bonds and other interest-bearing securities	11,677.3	–	–	822.7	–	–	12,500.0	12,500.0
Derivatives	–	3,531.2	–	–	–	4,513.4	8,044.6	8,044.6
Other assets	–	–	811.3	–	–	–	811.3	811.3
Total	**97,605.5**	**3,531.2**	**238,678.4**	**12,460.2**	**–**	**4,513.4**	**356,788.7**	**357,080.0**
Financial liabilities								
Liabilities to credit institutions[1]	1,312.7	–	–	–	5.7	–	1,318.4	1,318.4
Securities issued[1]	116,878.6	–	–	–	220,877.2	–	337,755.8	339,396.6
Derivatives	–	7,040.4	–	–	–	753.5	7,793.9	7,793.9
Other liabilities	–	–	–	–	2,414.4	–	2,414.4	2,414.4
Total	**118,191.3**	**7,040.4**	**–**	**–**	**223,297.3**	**753.5**	**349,282.5**	**350,923.3**

1) Nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 401,574.2 (405,274.4) million.

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

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.

Some of the financial instruments in Kommuninvest's debt portfolio and liquidity reserve are traded on active markets with quoted prices in accordance with level 1. For almost all of the remainder of the debt portfolio, liquidity reserve, all lending and derivatives not traded on an active market with quoted prices, accepted and well-established valuation techniques are applied to determine fair value based on observable market data in accordance with level 2. For a small portion of financial instruments in Kommuninvest's debt portfolio with input data not observable through the market or proprietary assessments, material effects on the valuation of these instruments are, accordingly, classified under level 3.

Lending

Fair value has been calculated by discounting anticipated future cash flows by a discount rate set at the swap rate adjusted by current new lending margins. This means that if new lending margins rise, the fair value lower of existing loans will decline and vice versa at lower margins.

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

In the valuation of securities, the quoted price of the asset is used. If trading is considered to occur on an active market, the valuation is classified under level 1, while other securities are classified under level 2.

Liabilities to credit institutions, securities issued and other subordinated liabilities

Funding is valued in the same way as by market participants holding the debt as an asset, either through quoted market prices or by discounting anticipated future cash flows. The discount rate is set to swap rate, adjusted for current funding margins, for the structure of the funding and for the market by using secondary market spreads on similar instruments issued by Kommuninvest or similar issuers. For funding in currencies other than SEK, EUR and USD, the current funding margin is set as the funding margin in USD plus the currency basis spread between the currency concerned and USD. Market prices used for valuation are mid-prices. Funding expected to be traded in an active market are classified in level 1. Funding valued at quoted prices, not deemed as traded in an active market, are classified in level 2. Funding valued based on discounted future cash flows are classified in level 2, with the exception of funding for which anticipated future cash flows are attributable to significant non-observable market data, which are classified in level 3. 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.

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 by discounting the anticipated future cash flows taking place at mid-prices at relevant reference rates for the currency concerned. Where anticipated future cash flows are dependent on unobservable market data or elements on in-house assessment, derivatives are classified in level 3; otherwise, they are

Note 25, continued

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.

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 consist primarily of pledged assets/cash collateral received, accounts receivable and payable, open items, 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 funding 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 funding 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 238 (158) 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 259 (188) 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 +/- 22 (+/– 30) 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 +/–23 (+/–6) million.

All of the above changes refer to 31 December 2018 (comparative figures refer to 31 December 2017) and exclude 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. Exceptions are repurchases of funding or lending instruments, which always take place on the investors' or customers' initiative respectively, which lead to the 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 contracts.

Kommuninvest has calculated the maturity at 2.1 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 – 2.7 years. This would have an effect on net profit in the interval SEK –5.3 million – SEK –0.6 million.

Change in value due to expected credit risk
With the joint and several guarantee for Kommuninvest's funding provided by the members of the Kommuninvest Cooperative Society, Kommuninvest's own credit risk is considered to be negligible. 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. Since no such events or changes have occurred, all variations in funding margins and resulting changes in the value of liabilities are deemed attributable to general changes in the market price of credit and liquidity risk and not from changes in Kommuninvest's own credit risk.

The credit risk in lending is considered to be the same as Kommuninvest's own credit risk. Accordingly, no part of the change in the value of lending is considered to derive from changes in credit risk.

The assets in the liquidity reserve hold a very high credit rating. A change in credit risk affecting their valuation is deemed to occur only in connection with significant downgrades. Such downgrades have not occurred for any of the issuers, which is why no changes in the value of the liquidity reserve are considered to derive from changes in credit risk.

Changed valuation models
During the period, Kommuninvest introduced OIS discounting on all derivatives – this was previously applied only to cleared derivatives. OIS discounting is considered to better reflect fair value. The change affects the overall value of the derivative portfolio positively by SEK 35.2 million as per 31 December 2018.

Approval of valuation models
The valuation models applied are approved by the CFO and reported to the Company's ALCO (Asset and Liability Committee) and 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 25, continued

Financial instruments recognised at fair value in the balance sheet

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	2,542.4	3,486.3	–	6,028.7
Lending	–	106,398.1	–	106,398.1
Bonds and other interest-bearing securities	2,389.1	5,068.7	–	7,457.8
Derivatives	0.0	11,204.2	129.0	11,333.2
Total	**4,931.5**	**126,157.3**	**129.0**	**131,217.8**
Financial liabilities				
Liabilities to credit institutions	–	583.2	–	583.2
Securities issued	89,764.9	58,209.7	7,866.3	155,840.9
Derivatives	–	4,168.1	1,791.5	5,959.6
Total	**89,764.9**	**62,961.0**	**9,657.8**	**162,383.7**

2017	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	8,607.2	16,028.6	–	24,635.8
Lending	–	72,929.9	–	72,929.9
Bonds and other interest-bearing securities	12,500.0	–	–	12,500.0
Derivatives	–	7,906.2	138.4	8,044.6
Total	**21,107.2**	**96,864.7**	**138.4**	**118,110.3**
Financial liabilities				
Liabilities to credit institutions	–	1,312.7	–	1,312.7
Securities issued	97,176.5	18,376.8	1,325.3	116,878.6
Derivatives	0.0	7,730.7	63.2	7,793.9
Total	**97,176.5**	**27,420.2**	**1,388.5**	**125,985.2**

Transfer between levels of instruments recognised at fair value in the balance sheet

	Recognised value 31 Dec 2018	Recognised value 31 December 2017
Assets		
To level 1 from level 2	–	40.2
To level 2 from level 1	7,797.5	–
Liabilities		
To level 1 from level 2	–	5,407.9
To level 2 from level 1	40,186.9	5,707.3

Kommuninvest continuously reviews the criteria for its division into levels of financial assets and liabilities measured at fair value. The movements are attributable variations in the indicators that Kommuninvest uses to demarcate between level 1 and level 2.

The indicators show the number of observations and their standard deviation for bond prices and a specific number of executable quotes. The transfers are considered to have taken place on 31 December 2018 and 31 December 2017 for the preceding period.

Note 25, continued

Fair value of financial instruments not recognised at fair value in the balance sheet

2018	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Sovereign bonds eligible as collateral	–	33,204.2	–	33,204.2	33,201.6
Lending to credit institutions	–	1,843.4	–	1,843.4	1,843.4
Lending	–	249,282.8	–	249,282.8	249,311.9
Other assets	–	1,468.2	–	1,468.2	1,468.2
Total	**–**	**285,798.6**	**–**	**285,798.6**	**285,825.1**
Financial liabilities					
Liabilities to credit institutions	–	0.8	–	0.8	0.8
Securities issued	–	241,826.8	–	241,826.8	240,956.0
Other liabilities	–	6,207.9	–	6,207.9	6,207.9
Total	**–**	**248,035.5**	**–**	**248,035.5**	**247,164.7**

2017	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Lending to credit institutions	–	649.7	–	649.7	649.7
Lending	–	237,507.7	–	237,507.7	237,217.4
Other assets	–	811.3	–	811.3	811.3
Total	**–**	**238,968.7**	**–**	**238,968.7**	**238,678.4**
Financial liabilities					
Liabilities to credit institutions	–	5.7	–	5.7	5.7
Securities issued	125,895.2	96,622.8	–	222,518.0	220,877.2
Other liabilities	–	2,414.4	–	2,414.4	2,414.4
Total	**125,895.2**	**99,042.9**	**–**	**224,938.1**	**223,297.3**

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.

	Derivative assets	Derivative liabilities	Securities issued	Total
Opening balance, 1 January 2017	**222.7**	**–188.2**	**–6,253.5**	**–6,219.0**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	–84.3	125.0	–34.3	6.4
Borrowing raised/Securities issued	–	–	–3,177.8	–3,177.8
Maturing during the year	–	–	8,140.3	8,140.3
Closing balance, 31 December 2017	**138.4**	**–63.2**	**–1,325.3**	**–1,250.1**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2017	3.3	1.6	–4.6	0.3
Opening balance, 1 January 2018	**138.4**	**–63.2**	**–1,325.3**	**–1,250.1**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	–9.4	–1,728.3	1,716.8	–20.9
Borrowing raised/Securities issued	–	–	–8,911.6	–8,911.6
Maturing during the year	–	–	653.8	653.8
Closing balance, 31 December 2018	**129.0**	**–1,791.5**	**–7,866.3**	**–9,528.8**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2018	–35.0	–1,691.1	1,705.3	–20.8

Because the instruments in level 3 are hedged on a transaction basis, and each funding combination behaves as a funding combination in level 2, the changes in value in level 3 are analysed in the same manner as in level 2.

Note 26 Information on financial assets and liabilities subject to netting

Kommuninvest nets assets and liabilities in the balance sheet where there is a legal right to do so and the intention is to settle the items net, which occurs for Kommuninvest's derivative assets and liabilities towards central counterparties for clearing.

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. 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 non-cleared derivatives carried out under ISDA Master agreements, all payment flows with a particular counterparty that mature on the same date are, to the greatest extent possible, netted in each currency to a net amount to be paid by one counterparty to another. For specific events, such as past-due payment, bankruptcy, etc. all transactions are concluded with that counterparty, as assessment is conducted and a net settlement is made.

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

				Related amounts that are not netted in the balance sheet			
2018	**Financial assets and liabilities, gross amounts**	**Amounts netted in the balance sheet[1]**	**Net amount reported in the balance sheet**	**Financial instruments**	**Provided (+)/Received (–) collateral – security**	**Provided (+)/Received (–) cash collateral**	**Net amount**
Assets							
Derivatives	13,288.4	–1,955.2	**11,333.2**	–2,955.3	–4,151.9	–3,771.8	**454.2**
Liabilities							
Derivatives	–7,262.7	1,303.1	**–5,959.6**	2,955.3	558.1	1,281.3	**–1,164.9**
Total	**6,025.7**	**–652.1**	**5,373.6**	**–**	**–3,593.8**	**–2,490.5**	**–710.7**

				Related amounts that are not netted in the balance sheet			
2017	**Financial assets and liabilities, gross amounts**	**Amounts netted in the balance sheet[1]**	**Net amount reported in the balance sheet**	**Financial instruments**	**Provided (+)/Received (–) collateral – security**	**Provided (+)/Received (–) cash collateral**	**Net amount**
Assets							
Derivatives	8,621.0	–576.4	**8,044.6**	–5,070.9	–2,055.6	–572.4	**345.7**
Liabilities							
Derivatives	–8,761.2	967.3	**–7,793.9**	5,070.9	1,026.6	750.4	**–946.0**
Total	**–140.2**	**390.9**	**250.7**	**–**	**–1,029.0**	**178.0**	**–600.3**

1) The netted amount for derivative liabilities includes cash collateral of SEK 652 million as per 31 December 2018 and SEK 390 million as per 31 December 2017.

Note 27 Events after the balance sheet date

After the balance sheet date, Region Blekinge joined as a member of the Kommuninvest Cooperative Society. Accordingly, the Society now has 289 members, of which 277 are municipalities and 12 are regions.

Note 28 Effects of transition to IFRS 9

The tables in this note describe the transition effects from IAS 39 to IFRS 9. The effects have been adjusted in the opening balance as per 1 January 2018 and earnings effects are adjusted in profit or loss brought forward. No comparative figures have been recalculated. The transition entailed a negative impact on equity of SEK 8.0 million, of which SEK 0.8 million relates to investments reported in accordance with IAS 39 that are available for sale, which, in accordance with IFRS 9, are reported at amortised cost. The impact of expected credit losses on assets reported at amortised cost amounts to SEK 7.2 million, of which SEK 6.6 million relates to lending and SEK 0.6 million relates to the liquidity portfolio. For further information, see Note 2. The financial assets reclassified from available for sale at amortised cost matured during 2018. If the assets had not been reclassified, they would have affected other comprehensive income by SEK 0.8 million.

Balance sheet

	Recognised value in accordance with IAS 39 as per 31 December 2017	Transition effect impairment	Transition effect reclassification	Recognised value in accordance with IFRS 9 as per 1 January 2018
ASSETS				
Sovereign bonds eligible as collateral	24,635.8	–0.5	–0.5	24,634.8
Lending to credit institutions	649.7	–0.1	–	649.6
Lending	310,147.3	–6.5	–	310,140.8
Bonds and other interest-bearing securities	12,500.0	0.0	–0.3	12,499.7
Shares and participations in subsidiaries	42.0	–	–	42.0
Derivatives	8,044.6	–	–	8,044.6
Intangible assets	10.9	–	–	10.9
Tangible assets	7.2	–	–	7.2
Current tax assets	79.0	–	–	79.0
Other assets	814.1	–	–	814.1
Prepaid expenses and accrued revenues	12.0	–	–	12.0
TOTAL ASSETS	**356,942.6**	**–7.1**	**–0.8**	**356,934.7**
LIABILITIES, PROVISIONS AND EQUITY				
Liabilities and provisions				
Liabilities to credit institutions	1,318.4	–	–	1,318.4
Securities issued	337,755.8	–	–	337,755.8
Derivatives	7,793.9	–	–	7,793.9
Other liabilities	2,422.5	–	–	2,422.5
Accrued expenses and prepaid revenues	41.2	–	–	41.2
Provisions	–	0.1	–	0.1
Total liabilities and provisions	**349,331.8**	**0.1**	**–**	**349,331.9**
Equity				
Restricted equity				
Share capital	6,100.0	–	–	6,100.0
New share issue in progress	1,000.0	–	–	1,000.0
Development expenditure reserve	3.1	–	–	3.1
Statutory reserve	17.5	–	–	17.5
Unrestricted equity				
Fair value reserve	0.8	–	–0.8	–
Profit or loss brought forward	–386.6	–7.2	–	–393.8
Net profit	876.0	–	–	876.0
Total equity	**7,610.8**	**–7.2**	**–0.8**	**7,602.8**
TOTAL LIABILITIES, PROVISIONS AND EQUITY	**356,942.6**	**–7.1**	**–0.8**	**356,934.7**

Note 28, continued

Reclassification of financial assets on transition to IFRS 9

	Amortised cost	Fair value through the income statement – fair value option	Available for sale	Loans and receivables	Total
Sovereign bonds eligible as collateral					
31 December 2017 IAS 39	–	12,998.3	11,637.5	–	24,635.8
Reclassification	11,637.5	–	–11,637.5	–	–
Revaluation – classification	–0.5	–	–	–	–0.5
Expected credit losses	–0.5	–	–	–	–0.5
1 January 2018 IFRS 9	**11,636.5**	**12,998.3**	**–**	**–**	**24,634.8**
Lending to credit institutions					
31 December 2017 IAS 39	–	–	–	649.7	649.7
Reclassification	649.7	–	–	–649.7	–
Expected credit losses	–0.1	–	–	–	–0.1
1 January 2018 IFRS 9	**649.6**	**–**	**–**	**–**	**649.6**
Lending					
31 December 2017 IAS 39	–	72,929.9	–	237,217.4	310,147.3
Reclassification	237,217.4	–	–	–237,217.4	–
Expected credit losses	–6.5	–	–	–	–6.5
1 January 2018 IFRS 9	**237,210.9**	**72,929.9**	**–**	**–**	**310,140.8**
Bonds and other interest-bearing securities					
31 December 2017 IAS 39	–	11,677.3	822.7	–	12,500.0
Reclassification	822.7	–	–822.7	–	–
Revaluation – classification	–0.3	–	–	–	–0.3
Expected credit losses	0.0	–	–	–	0.0
1 January 2018 IFRS 9	**822.4**	**11,677.3**	**–**	**–**	**12,499.7**
Provisions					
31 December 2017 IAS 39	–	–	–	–	–
Expected credit losses	0.1	–	–	–	0.1
1 January 2018 IFRS 9	**0.1**	**–**	**–**	**–**	**0.1**

Five-Year Summary

Key ratios 2014-2018, SEK, million	2018	2017	2016	2015	2014
Equity					
Core Tier I capital ratio (%)	188.4	212.4	103.7	44.6	34.6
Tier I capital ratio (%)	188.4	212.4	103.7	44.6	34.6
Total capital ratio (%)	188.4	212.4	122.1	59.8	49.3
Leverage ratio according to CRR (%)	1.75	1.78	1.56	0.87	0.75

Net profit					
Operating profit excluding the effect of unrealised changes in market value	588.1	697.8	593.7	531.3	664.0
Operating expenses, excluding the resolution fee/stability fee, as % of lending [1]	0.057	0.065	0.072	0.068	0.078
Operating expenses, excluding the resolution fee/stability fee, as % of balance sheet total [1]	0.049	0.057	0.055	0.051	0.055
Return on assets (%)	0.140	0.245	0.086	0.165	0.182
Cost/income ratio	0.304	0.304	0.302	0.366	0.310

1) The resolution fee replaced the stability fee during 2016.

Other information					
Number of employees at the end of the year	92	96	91	85	77

Income statement 1 January–31 December, SEK, million	2018	2017	2016	2015	2014
Net interest income	885.5	881.3	762.0	798.5	915.2
Dividends received	2.1	1.8	–	–	–
Commission expenses	–8.2	–7.3	–5.2	–5.3	–5.1
Net result of financial transactions	161.4	512.0	–131.9	165.7	101.9
Other operating income	7.8	5.3	5.4	2.7	1.3
Total operating income	**1,048.6**	**1,393.1**	**630.3**	**961.6**	**1,013.3**
Total expenses	**–271.8**	**–269.3**	**–232.1**	**–293.1**	**–283.9**
Profit before credit losses	**776.8**	**1,123.8**	**398.2**	**668.5**	**729.4**
Net credit losses	–24.3	–	–	–	–
Impairment of financial assets	–	–	–	–13.0	–
Operating profit	**752.5**	**1,123.8**	**398.2**	**655.5**	**729.4**
Tax	–166.4	–247.8	–88.4	–94.2	–161.0
Net profit	**586.1**	**876.0**	**309.8**	**561.3**	**568.4**

Balance sheet summary as at 31 December, SEK million	2018	2017	2016	2015	2014
Sovereign bonds eligible as collateral	39,230.3	24,635.8	16,964.4	16,839.4	15,204.1
Lending to credit institutions	1,843.4	649.7	1,122.3	699.9	4,022.1
Lending	355,710.0	310,147.3	276,982.1	254,421.7	222,803.7
Bonds and other interest-bearing securities	7,457.8	12,500.0	42,003.9	45,688.4	45,974.5
Derivatives	11,333.2	8,044.6	24,449.8	22,775.6	23,848.8
Other assets	1,627.4	965.2	202.9	201.3	198.9
Total assets	**417,202.1**	**356,942.6**	**361,725.4**	**340,626.3**	**312,052.1**
Liabilities to credit institutions	584.0	1,318.4	2,396.1	2,303.5	4,800.6
Securities issued	396,796.9	337,755.8	341,579.4	318,943.6	292,318.0
Derivatives	5,959.6	7,793.9	9,390.5	11,723.1	10,628.3
Other liabilities	6,258.2	2,463.7	845.4	2,311.8	929.7
Subordinated liabilities	–	–	1,000.0	1,000.0	1,000.1
Total liabilities and provisions	**409,598.7**	**349,331.8**	**355,211.4**	**336,282.0**	**309,676.7**
Equity	7,603.4	7,610.8	6,514.0	4,344.3	2,375.4
Total liabilities, provisions and equity	**417,202.1**	**356,942.6**	**361,725.4**	**340,626.3**	**312,052.1**

Alternative performance measurements

In this annual report, Kommuninvest i Sverige AB has chosen to present a number of alternative performance measurements that are not defined or specified in the applicable rules on financial reporting. These alternative performance measurements have been defined in accordance with the guidelines of the European Securities and Markets Authority (ESMA).

Alternative performance measurements	**Definition**	**Reconciliation**	**2018**	**2017**
Operating profit excluding effects of unrealised changes in market value	Operating profit reduced with the outcome of unrealised changes in market value included in the income statement item Net result of financial transactions. The key ratio is of interest in showing Kommuninvest's underlying earning capacity.	Operating profit	752.5	1,123.8
		Result of unrealised changes in market value	164.4	426.0
		Operating profit excluding the effect of unrealised changes in market value	**588.1**	**697.8**
Operating expenses, excluding the resolution fee, as % of lending	Operating expenses over the financial year, excluding the resolution fee in relation to the recognised value of lending on the closing date. A key ratio that is relevant in assessing the organisation's overall cost effectiveness in relation to lending, adjusted for the resolution fee.	General administration expenses	–259.8	–258.5
		Depreciation and impairment	–7.8	–7.3
		Other operating expenses	–4.2	–3.5
		Total operating expenses	–271.8	–269.3
		Resolution fee	–69.1	–66.3
		Total operating expenses excluding the resolution fee	**–202.7**	**–203.0**
		Lending as per the closing date	**355,710.0**	**310,147.3**
		Operating expenses, excluding the resolution fee, as % of lending	**0.057**	**0.065**
Operating expenses, excluding the resolution fee, as % of balance sheet total	Total operating expenses over the financial year, excluding the resolution fee in relation to the balance sheet total on the closing date. A key ratio that is relevant in assessing the organisation's overall cost effectiveness in relation to total assets, adjusted for the resolution fee.	General administration expenses	–259.8	–258.5
		Depreciation and impairment	–7.8	–7.3
		Other operating expenses	–4.2	–3.5
		Total operating expenses	–271.8	–269.3
		Resolution fee	–69.1	–66.3
		Total operating expenses excluding the resolution fee	**–202.7**	**–203.0**
		Total assets as per the closing date	**417,202.1**	**356,942.6**
		Operating expenses, excluding the resolution fee, as % of balance sheet total	**0.049**	**0.057**
Return on assets (%)	Net profit in relation to total assets, expressed as a percentage. Key ratios presented in accordance with FFFS 2008:25 Chapter 6, Section 2a.	Net profit	586.1	876.0
		Total assets	417,202.1	356,942.6
		Return on assets (%)	**0.140**	**0.245**
Cost/income ratio	Total expenses in relation to total net interest income and other operating income. An established key ratio in the banking sector for assessing the relationship between expenses and income.	**Total expenses**	**–271.8**	**–269.3**
		Net interest income	885.5	881.3
		Other operating income	7.8	5.3
		Total net interest income and other operating income	**893.3**	**886.6**
		Cost/income ratio	**0.304**	**0.304**

Signatures

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 net profit and describes the material risks and uncertainties facing the Company.

Stockholm, 12 February 2019

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson *Board Member*	Anna von Knorring *Board Member*	Erik Langby *Board Member*
Kristina Sundin Jonsson *Board Member*	Johan Törngren *Board Member*	Lars Heikensten *Board Member*

Ulrika Gonzalez Hedqvist
Employee representative

Tomas Werngren
President and CEO

Our Audit Report was submitted on 12 February 2019

KPMG AB

Anders Tagde
Authorised Public Accountant

Audit Report

To the Annual General Meeting of Kommuninvest i Sverige AB (publ), corporate identity number 556281-4409

Report on the annual accounts

Opinions

We have audited the annual accounts of Kommuninvest i Sverige AB (publ) for 2018. The annual accounts of the Company are included on pages 23–95 in this document.

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 (publ) as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. A corporate governance statement has been prepared. The Board of Directors' report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the annual accounts are compatible with the contents of the supplementary report submitted to the Board in accordance with the audit regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Kommuninvest i Sverige AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and belief, no prohibited services as referred to in the audit regulation (537/2014) Article 5.1 have been provided to the audited company or, if applicable, its parent association or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Fair value measurement of financial instruments classified as level 2 and 3

See accounting principles for financial instruments in Note 2 and disclosure in Note 25 in the annual accounts for detailed disclosures and a description of the matter.

Description of key audit matter

The Company has financial assets and liabilities measured at fair value, which are classified as level 2 and 3 according to the IFRS fair value hierarchy. The fair value of these financial instruments is measured either based on quoted prices on markets that are not active or based on valuation models using both observable and unobservable inputs.

The Company has financial assets of SEK 126,157 million classified as level 2, financial assets of SEK 129 million classified as level 3, financial liabilities of SEK 62,961 million classified as level 2 and financial liabilities of SEK 9,658 million classified as level 3. In total, these assets and liabilities represent 30 percent of the Company's total assets and 18 percent of total liabilities.

The Company's assets and liabilities described above, where the fair value is measured based on valuation models, consist of lending, liabilities to credit institutions, securities issued and derivatives. The valuation models used for these types of financial instruments are based on discounted cash flow forecasts.

The fair value of financial instruments classified as level 3 is based on valuation models that involve significant levels of management judgements as the fair value calculation is based on input that is unobservable by a third party. The valuation of financial instruments classified as level 2, and where the fair value is based on valuation models, also relies on judgements made by management. In view of this, fair value calculations for measurements of financial instruments is considered a key audit matter, in particular the valuation of financial instruments where the fair value is determined by using valuation models.

Response in the audit

We have obtained the Company's valuation principles and assessed their valuation methodologies against industry practice. We have also assessed whether the models have been applied appropriately and comply with the Company's accounting principles.

We have tested the Company's controls over the valuation process, including the Risk and Controls department's review of performed valuations, the application of the four-eye principle in the valuation process and the Company's internal evaluation of valuation adjustments.

We have engaged our internal valuations specialists to assist us in performing our audit procedures in challenging the methodology and assumptions used in the valuation models.

On a sample basis, we have compared the input data used in the models against appropriate pricing sources and for a sample of financial instruments, we have performed our own independent valuations.

We have also assessed the circumstances disclosed in the annual report and assessed whether the information presented is comprehensive enough to understand the judgements made by management and the application of valuation methods used.

Applying hedge accounting
See accounting principles in Note 2 and disclosures in Note 6, 17 and 25 in the annual account for detailed disclosures and a description of the matter.

Description of key audit matter	Response in the audit
Hedge accounting is a complex area from an accounting perspective. To qualify for hedge accounting, certain criteria must be met including requirements to document the nature and purpose of the hedge and the Company shall perform regular testing of the effectiveness of the hedging relation. Because of the complex nature of the relevant accounting policies, hedge accounting is considered a key audit matter.	We have obtained the Company's documentation for hedge accounting and evaluated whether the applied methods comply with the Company's accounting principles. Moreover, we have tested the Company's effectiveness test for hedge relationships. At year-end, we have assessed whether the hedge relationships have been subject to effectiveness testing. For a sample of hedges, we also verified the accuracy of the input data and evaluated the result of the effectiveness test. We have also assessed the circumstances disclosed in the annual report and assessed whether the information presented is comprehensive enough to understand the Company's application of hedge accounting.

Other Information than the annual accounts
This document also contains other information than the annual accounts and is found on pages 3–21. The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In preparing the annual accounts the Board of Directors and the President are responsible for the assessment of the Company's ability to continue as a going concern. They disclose, as applicable, matters related to the going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intend to liquidate the Company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the Company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- Conclude on the appropriateness of the Board of Directors' and the President's, use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the President of Kommuninvest i Sverige AB (publ) for the year 2018 and the proposed appropriations of the Company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Kommuninvest i Sverige AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibility of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the Company's type of operations, size and risks place on the size of the Company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs. This includes among other things continuous assessment of the Company's financial situation and ensuring that the Company's organisation is designed so that the accounting, management of assets and the Company's financial affairs otherwise are controlled in a reassuring manner. The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the Company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the Company, or
- in any other way has 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.

Our objective concerning the audit of the proposed appropriations of the Company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the Company, or that the proposed appropriations of the Company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the Company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgement with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. 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 Companies Act.

KPMG AB, P.O. Box 382, SE– 101 27 Stockholm, was appointed auditor for Kommuninvest i Sverige AB (publ) at the Annual General Meeting on 21 April 2016. KPMG AB or auditors working for KPMG AB have been the Company's auditor since 2016.

Stockholm, 12 February 2019

KPMG AB

Anders Tagde
Authorised Public Accountant

Review Report

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

The Board of Directors and President are responsible for the operations being conducted in accordance with the Articles of Association and owner directives as well as the laws and regulations pertaining to the operations. Our responsibility is to examine the operations and internal control and assess whether the operations have been conducted in accordance with the mandate of the Annual General Meeting.

Our review has been performed in accordance with the Companies Act and the regulations applicable to the operations.

The review has been carried out with the focus and scope required to provide a reasonable basis for evaluation and assessment. A thorough review has been conducted through talks with the Company's management regarding the operations and their internal governance, control and representation. We have also monitored the work of the Board of Directors by means of the minutes recorded at its meetings.

In 2018, thorough and in-depth reviews were performed of compliance with the GDPR and the NIS Directives. The lay auditors would particularly like to draw the attention of the Board of Directors and the Annual General Meeting to the results of both the in-depth and the basic reviews.

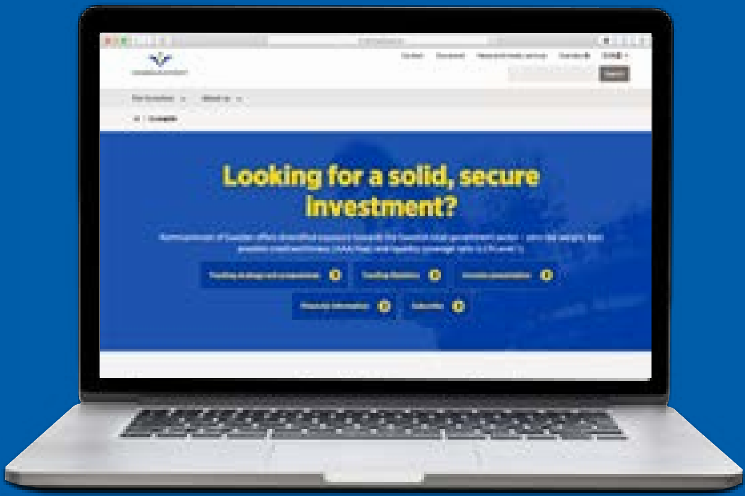
On the whole, it is our assessment that the Company's operations have been managed adequately and, from an economic perspective, satisfactorily.

In our assessment, the Company's internal control has been adequate.

Örebro, 12 February 2019

Barbro Hassel

Cecilia Löfgreen



On the Kommuninvest website, www.kommuninvest.se/en, you can read more about Kommuninvest, our services and news affecting the economy and finances of municipalities and regions in Sweden. On the website you will find:

- Our newsletter, each week providing members the latest updates on macroeconomic developments and other areas affecting local government finances.
- Reports on local government finances.
- Membership magazine Dialog.
- Log-in to the finance management tool KI Finans.
- Information for investors.

KOMMUNINVEST

Postal address: P.O. Box 124, SE-701 42 Örebro, Sweden. Visitors: Fenixhuset, Drottninggatan 2, Örebro.
Telephone: +46 (0)10-470 87 00. Telefax: +46 (0)19-12 11 98. E-mail: name.surname@kommuninvest.se
www.kommuninvest.se/en

Production: Kommuninvest and Intellecta Corporate. Photos and illustrations: Jennifer Glans, Melker Dahlstrand, Terése Andersson, AB Bostäder i Lidköping, Shutterstock