Year-end report 2016

Kommuninvest i Sverige AB

The year in brief

- Total assets SEK 361,725.4 (340,626.3) million
- Lending, SEK 276,982.1 (254,421.7) million
- Net interest income SEK 762.0 (798.5) million
- Operating profit SEK 398.2 (655.5) million
- Operating profit excluding the effect of unrealised market value changes was SEK 593.7 (531.3) million
- Core Tier 1 capital ratio[1] 103.7 (44.6) %
- Tier 1 capital ratio[2] 103.7 (44.6) %
- Total capital ratio[3] 122.1 (59.8) %
- Equity SEK 6,514.0 (4,344.3) million
- Leverage ratio according to CRR[4] 1.56 (0.87) %
- Leverage ratio including debenture loan[5] 1.84 (1.16) %
- Market share 48 (46) % of local government sector's total borrowing
- At the end of the period, the Kommuninvest Cooperative Society had 286 (280) members, of whom 275 (272) were municipalities and 11 (8) were county councils/regions.

1) Core Tier 1 capital in relation to total risk exposure.
2) Tier I capital in relation to total risk exposure.
3) Total capital base in relation to total risk exposure.
4) Tier 1 capital in relation to total assets and commitments (exposures).
5) Tier 1 capital and debenture loan issued to the Kommuninvest Cooperative Society. in relation to total assets and commitments (exposures).

KOMMUNINVEST

ABOUT KOMMUNINVEST

We secure better loan terms together than individually. Based on this simple idea, 286 municipalities and county councils/regions participate in an efficient and stable financial partnership. Kommuninvest is the local government sector's largest credit provider and manages about 50 percent of local government debt.

www.kommuninvest.org

Annual Accounts for Kommuninvest i Sverige AB (publ)
This is the annual accounts for the credit market company Kommuninvest i Sverige AB (Kommuninvest).
While every care has been taken in its translation, readers are reminded that the original report, signed by the Board of Directors, is in Swedish.
Corporate identity number: 556281-4409 | Registered office: Örebro | 1 January–31 December 2016.

Comparison figures relating to the income statement refer to the preceding year (1 January–31 December 2015), unless otherwise stated.
Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2015 unless otherwise indicated.

Comment from the CEO

To meet the needs of a growing population and increasing urbanisation, the local government sector continues to invest at a high pace. As an effect, local government borrowing also increased in 2016, with Kommuninvest as the foremost lender. With investment having been substantial in recent years and few signs of this abating, we are placing greater emphasis on sustainable profit levels in our follow-up and analysis.

Since the outset in 1986, Kommuninvest has grown from a grass roots initiative in Örebro County to supporting virtually all Swedish local government authorities with credit. After several years of focusing on capital structure and compliance, we now see a possibility to focus more resources on our core operations. This pleases me greatly. We have a good starting position, with high customer satisfaction and stable, supportive owners.

Over the year, a large number of Kommuninvest's members and customers have, under Kommuninvest's auspices, issued their first joint green bonds, that is, financial instruments where the proceeds are used for various forms of environmental investment. Each year, local government authorities in Sweden invest billions of kronor in environmentally friendly schools and homes, as well as expanded district heating systems, etc. Kommuninvest's role is to be a tool for partnership between local authorities, providing support and accepting responsibility in the transition to more sustainable development, as targeted by, the Paris Accord, for example.

The degree of interaction is greatest in the category of small and medium-sized municipalities. In the category of larger local government authorities, with borrowing exceeding SEK 5–6 billion annually, customers' own borrowing via the capital market is often an option. We now need to take clearer initiatives in this area to offer suitable products on favourable terms. We are also working more closely with our customers in various focus groups to identify needs and which initiatives they would like to see.

Towards the end of the year, the European Commission published its proposals regarding leverage ratio as part of a comprehensive review of the capital adequacy rules, an issue that has long been a strategic priority for Kommuninvest. The proposal entails certain public sector financial players, possibly being subject to lower capital requirements, designed to take into account the special public mission of those institutions. However, the proposal is not final and a process of negotiation awaits.

Tomas Werngren, CEO

As expected, operating profit for 2016 fell as a consequence of the decreased need to take capital structure into account in pricing. The intention is for earnings to accrue entirely to the members of the Kommuninvest Cooperative Society.

With some 100 employees, Kommuninvest is now a large organisation. This facilitates recruitment, reduces vulnerability and provides better conditions for building expertise for the benefit of members and customers. However, size has no intrinsic value in itself, and I want to emphasise that we are working constantly to keep costs down and maintain an efficient organisation. Increasingly, the focus of our efforts is on customer benefit.

Tomas Werngren
President and CEO

Market

The world economy and the financial markets

Despite a number of startling political events, challenges in the European banking system and continued fragile public finances, the international economic recovery continued over the preceding year, with a growth rate of 3–3.5 percent. According to the IMF and the OECDA, a similar rate of growth is expected in 2017.

However, political uncertainty makes economic forecasting challenging. Following the Brexit referendum and the US presidential election, political conditions in the West have changed fundamentally. In 2017, elections will take place in a number of European countries and political developments could lead to new scenarios that could have negative economic effects in the longer term. To date, however, the impact on the financial markets of the two major political events of 2016 has been limited. In the US, promises of major public investments and fiscal stimuli have led to more positive future expectations.

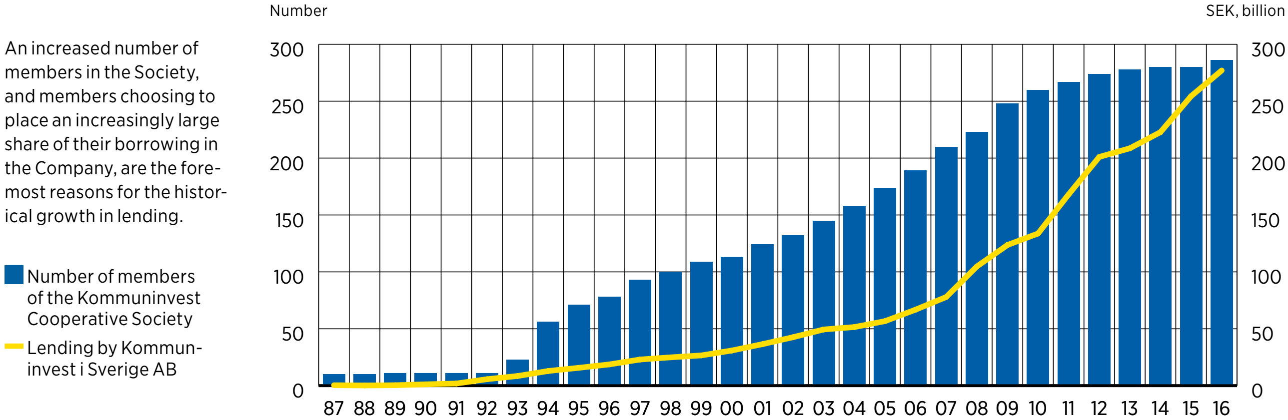
Sweden's current economic trend is outperforming the long-term trend and this positive trend is expected to continue over the next few years, although GDP growth will gradually abate to 2–3 percent, according to economic analysts. Unemployment is decreasing further. Growth continues to be driven by domestic demand, with, above all, public consumption and housing investment making major contributions.

Overall, the Swedish local government sector continues to show stable economic development and a positive balance of earnings. The anticipated surplus for 2016 amounts to 1.7 percent, according to the Swedish Association of Local Authorities and Regions, SALAR. The sector finds itself in a period of intensive investment due to rapid population growth, demographic changes and urbanisation. The sharp increase in the number of asylum seekers poses major challenges for the sector, although the number of asylum seekers abated substantially in 2016. The local government authorities have received additional state funds to be able to cope with the situation.

Interest rates in the US, Sweden and Germany continued to decline over the first half of 2016, to then rise, despite political upheaval. However, the extremely low interest rate environment is persisting and the rate on five-year Swedish sovereign bonds was negative for most of 2016. Swedish municipalities and county councils/regions' funding via Kommuninvest has been able to continue on favourable terms.

Number of members and lending volume, 1987–2016

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



Ownership situation

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

At 31 December 2016, the Society had 286 (280) members (partners), of which 275 (272) were municipalities and 11 (8) were county councils/regions. Consequently, 95 (94) percent of Sweden's municipalities and 55 (40) percent of Sweden's county councils/regions were members (partners) in the Society. During the year, 6 (0) new members joined: the Municipality of Kävlinge, the Municipality of Partille, the Municipality of Sollentuna, the Region of Jämtland Härjedalen, the Region of Kronoberg and Västerbottens County Council.

Kommuninvest's lending

Once again, during 2016, Swedish local government authorities have been able to meet their borrowing needs efficiently, both through Kommuninvest and through banking systems and capital markets.

As per 31 December, Kommuninvest's lending amounted to SEK 276,982.1 (254,421.7) million. In nominal terms, lending was at SEK 274,039.0 (251,374.9) million, an increase of 9 (15) percent.

Kommuninvest's competitiveness, expressed as a percentage of accepted bids, rose. Based on nominal volumes, the bid acceptance rate amounted to 94 (93) percent for 2016.

Of the total lending, municipalities accounted for 40 (41) percent, municipal housing companies for 30 (29) percent and other municipal companies for 29 (29) percent of total lending. Lending to county councils/ regions accounted for 1 (1) percent.

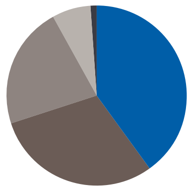
Of the agreed lending for the year, that is, new loans and renegotiations of existing loans, 76 (80) percent were loans with capital tied up for more than one year and 24 (20) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 38 (42) percent of volumes.

At the end of the period, the average period for which capital was tied up in the Company's lending portfolio was 2.3 (2.2) years. At the end of 2016, Kommuninvest's share of local government borrowing was estimated at 48 (46) percent.

The volume of Green Loans granted – financing for municipal investment projects

Kommuninvest's lending portfolio

31 Dec 2016



- Municipalities 40 (41) %
- Municipal housing companies 30 (29) %
- Other municipal companies 22 (22) %
- Municipal energy companies 7 (7) %
- County councils/ regions 1 (1) %

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

Multi-year summary, Kommuninvest i Sverige AB

	2016	2015	2014	2013	2012
Total assets, SEK, million	361,725.4	340,626.3	312,052.1	277,458.7	283,283.6
Lending, SEK, million	276,982.1	254,421.7	222,803.7	208,644.0	200,950.7
Net profit, SEK, million	309.8	561.3	568.4	590.7	320.6
Members, total	286	280	280	278	274
of which, municipalities	275	272	272	270	266
of which county councils/regions	11	8	8	8	8
Core Tier 1 capital ratio[1], %	103.7	44.6	34.6	37.0	15.2
Tier 1 capital ratio[2], %	103.7	44.6	34.6	37.0	15.2
Total capital ratio[3], %	122.1	59.8	49.3	59.5	30.4
Leverage ratio according to CRR[4], %	1.56	0.87	0.75	0.57	0.33
Leverage ratio including debenture loan[5], %	1.84	1.16	1.09	0.91	0.65

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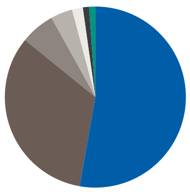
Borrowing during the year, by currency, 2016

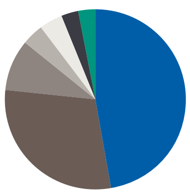
(excl. commercial paper borrowing)



- SEK 53 (53) %
- USD 33 (35) %
- JPY 6 (4) %
- GBP 4 (–) %
- EUR 2 (6) %
- ZAR 1 (–) %
- MXN, TRY 1 (1) %
- AUD 0 (1) %

New borrowing by programme, 2016

(excl. commercial paper borrowing)



- Swedish bond programme 45 (51) %
- Benchmark borrowing, other currencies 38 (22) %
- Public Bonds 4 (8) %
- Private Placements 6 (15) %
- Uridashi 7 (4) %

promoting the transition to low carbon emissions and climate-friendly growth, increased by SEK 12,748 (5,034) million. As per 31 December 2016, the portfolio of approved Green Loans amounted to SEK 17,782 (5,034) million relating to 83 (11) investment projects.

KI Finans, a debt management system developed specifically for the local government sector was launched by Kommuninvest in 2014. KI Finans offers enhanced functionality at lower cost compared with other systems on the market. By the end of the period, 236 (144) of the Society's members had access to the system, of which 164 (125) members had chosen the full scale version of the system.

Kommuninvest's funding

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

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

Continued favourable demand for low-risk issuers made it possible for Kommuninvest to continue borrowing liquidity on favourable terms in 2016. At the end of the period, total funding amounted to SEK 343,975.5 (321,247.1) million.

Kommuninvest is working actively to increase its borrowing in major bond programmes, so-called benchmark programmes, both internationally and in Sweden. During the year, two major benchmark borrowings in USD were carried out. Total borrowing over the year, in long-term debt instruments with maturities of more than one year, amounted to SEK 104,194.4 (105,910.7) million. SEK 46,250.0 (53,808.0) million was issued in the Swedish bond programme.

During the year, Kommuninvest issued its first green bonds, which provided access to new investors with a specific mandate for supporting environmentally oriented investments. In March 2016, a green bond was issued with a volume of USD 600 million. It was the largest green bond hitherto issued by a Nordic issuer. In October, an additional green bond of SEK 5 billion was issued. It was the largest green bonds in SEK to date. The funds borrowed through green bonds finance investment in the local government authorities that are members of the Society, with an emphasis on energy-efficient housing, renewable energy and infrastructure.

Rating

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

Financial accounts

Net profit

Kommuninvest's operating profit, that is profit before taxes, amounted to SEK 398.2 (655.5) million. The operating profit includes unrealised changes in market value of a negative SEK 195.5 (positive 124.2) million. Normally, Kommuninvest holds assets and liabilities to maturity, which is why changes in market value are not realised, see below.

Operating profit excluding the effect of unrealised market value changes was SEK 593.7 (531.3) million. Profit after tax amounted to SEK 309.8 (561.3) million.

Operating income totalled SEK 630.3 (961.6) million. Operating income includes net interest revenues, commission expenses, the net result of financial transactions and other operating income.

Despite increased lending, net interest income decreased to SEK 762.0 (798.5) million. The decrease is mainly due to effects associated with the reduction in lending margins from the autumn of 2014, after the capital structure strategy was changed. The reduction, which had relatively little impact on net interest income over much of 2015, had a greater impact in 2016, as an increasing proportion of lending was gradually affected by the reduction in price.

Since September 2015, Kommuninvest grants lending at negative interest rates. Negative interest revenues is recorded as an interest expense and during the period amounted to SEK 151.0 (5.6) million. For more information on how interest income and interest expenses are recognised, please see Note 1.

The net result of financial transactions amounted to a negative SEK 131.9 (positive 165.7) million. The result was affected by unrealised changes in market value amounting to a negative SEK 195.5 (positive 124.2) million, but also by the buy-back of own bonds and the sale of financial instruments which contributed a positive SEK 63.4 (positive 37.8) million to the figure.

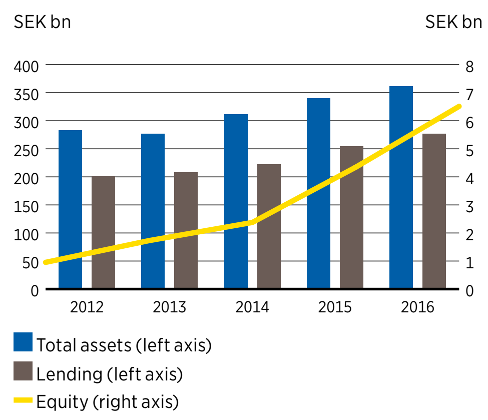
The outcome for unrealised market value changes is attributable to the cost of funding when financing in foreign currencies having been more favourable than financing directly in SEK over the period. Since liabilities only include borrowings in foreign currencies that are reported at fair value, this has entailed an increase in the margin between the Company's borrowing and lending costs on the instruments that are marked to market, leading to adverse changes in market value. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 2.

Operating expenses amounted to SEK 232.1 (293.1) million, including the supervisory fee of SEK 31.4 million (SEK 120.5 million for the former stability fee).

In 2016, the supervisory fee replaced the stability fee, and constitutes a risk-adjusted percentage of total assets less lending. The risk-adjusted percentage is determined by the Company's risk profile relative to other institutions required to pay the fee in accordance with the Commission's delegated regulation (EU) 2015/63. Under the transitional provisions, the supervisory fee for 2016 was reduced by half, and for Kommuninvest has been set by the Swedish National Debt Office at SEK 31.4 million. The supervisory fee accounted for 14 percent of Kommuninvest's operating expenses, compared with 41 percent for the stability fee in 2015. In 2016, Kommuninvest also had a cost of SEK 0.2 million for the stability fee, involving the reversal of booked reserves.

Excluding the supervisory fee, operating expenses amounted to SEK 200.7 million (SEK 172.6 million excluding the stability fee in

Kommuninvest's balance sheet, 2012–2016



2015), of which personnel expenses amounted to SEK 118.8 (102.6) million and other expenses for SEK 81.9 (70.0) million. The increase in personnel expenses is mainly attributable to an increase in the number of employees. In addition, efforts in preventive occupational healthcare and employee recruitment have contributing to increased personnel expenses. Expenses for contract personnel increased by SEK 5.2 million in 2016, due to Kommuninvest having had several fixed-term temporary employees for projects and the company having appointed contract employees in several positions during ongoing recruitment processes. As of 2016, expenses for contract personnel are accounted for as personnel expenses (previously as other administrative expenses). Comparative figures for 2015 have been restated.

Expenses for premises increased by SEK 2.3 million in 2016, attributable to larger premises and their renovation.

Consulting expenses increased by SEK 7.8 million. The principal reason is a change in Kommuninvest's IT strategy whereby the company now owns the pre-existing business system and utilises consulting services directly from the supplier. The business system was previously rented, with an associated service contract, and the change reduced the company's IT costs. Furthermore, the increase in consulting expenses was also attributable to the increased use of consulting services regarding regulatory compliance.

Credit losses

Credit losses totalled SEK – (–) million.

Financial position

Total assets increased to SEK 361,725.4 (340,626.3) million at the end of the period, as a result of increased lending.

During the year, the associated company Administrative Solutions NLGFA AB was placed in voluntary liquidation. Since then, the company holds no shares in associated companies.

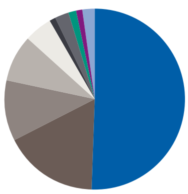
Lending

At the end of the period, the Company's lending amounted to SEK 276,982.1 (254,421.7) million. In nominal terms, lending was SEK 274,039.0 (251,374.9) million. The increase is explained by the local government sector's increased funding needs.

Funding

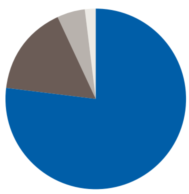
Funding amounted to SEK 343,975.5 (321,247.1) million at the end of the period. The Company's borrowing takes place in the

Liquidity reserve distributed by country
2016-12-31



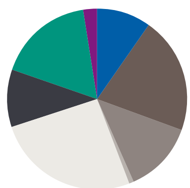
- Sweden 51 (57) %
- Germany 17 (16) %
- Supranational Europe 11 (8) %
- Finland 9 (8) %
- Denmark 5 (4) %
- Australia 1 (2) %
- Canada 2 (2) %
- UK 2 (2) %
- Netherlands 1 (1) %
- Supranational outside Europe 2 (1) %
- USA 0 (0) %

Liquidity reserve distributed by rating category
2016-12-31



- Aaa/AAA 77 (77) %
- Aa1/AA+ 16 (16) %
- Aa3/AA– 5 (7) %
- A1/A+ 2 (–) %
- A2/A 0 (0) %

Liquidity reserve distributed by issuer category
2016-12-31



- State or local governments and authorities 10 (8) %
- National governments or central banks 21 (20) %
- Multilateral development banks 13 (9) %
- Public bodies 1 (2) %
- Covered bonds 26 (32) %
- Nordic credit institutions 10 (9) %
- European credit institutions 17 (16) %
- Credit institutions outside Europe 2 (4) %

form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). The Company acts over terms of between 1 day and 30 years and focuses primarily on financial instruments with fixed or floating interest.

Liquidity reserve

At year-end, the liquidity reserve amounted to SEK 60,090.6 (63,227.7) million, consisting of the balance sheet items Sovereign bonds eligible as collateral, Lending to credit institutions, Bonds and other interest-bearing securities. According to the Company's instructions, the liquidity reserve should be a minimum of 15 and a maximum of 35 percent of the lending volume.

Most of the investments are in securities issued by the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. A considerable proportion of the investments are to be made in assets that can be pledged with the Swedish Riksbank and the European central bank, ECB. More than 95 percent of assets are to consist of securities with a credit rating of A from Standard & Poor's or equivalent from a recognised rating agency.

Derivatives

Derivative contracts are used as risk management instruments to address market risks in operations. Derivatives with positive market value (recognised as assets in the balance sheet) and negative market value (recognised as liabilities in the balance sheet) amounted to SEK 24,449.8 (22,775.6) million and SEK 9,390.5 (11,723.1) million respectively.

Subordinated liabilities

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

Equity

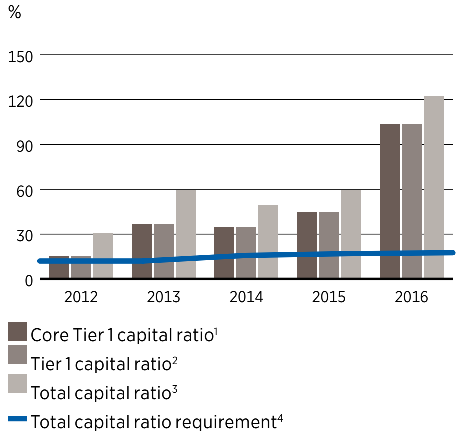
At the end of 2016, equity in the Company amounted to SEK 6,514.0 (4,344.3) million, following Group contributions of SEK 458.7 (545.4) million paid to the Kommuninvest Cooperative Society. The increase in equity in the company is primarily attributable to an increase in share capital by SEK 1,490.7 (1,880.0) million and by a new share issue in progress amounting to SEK 682.9 (–) million. In addition, equity was impacted by changes in market values for assets classified as "financial assets available for sale" (see Statement of comprehensive income on page 12).

In accordance with the Society's owner directives, capital in the Company is being built up through the Company's equity. The primary method are capital contributions to the Society from its members, which are transferred to the Company in the form of share capital. The total increase of share capital during the year, amounting to SEK 1,490.7 million, is attributable to capital contributions from during 2015. The new share issue in progress is related to contribution capital from existing members of the Society amounting to SEK 632.2 (1,880.0) million and SEK 50.7 (-) million in contribution capital from new members in 2016.

At the end of the year, share capital amounted to SEK 5,417.1 (3,926.4) million, divided on 54,170,590 (39,263,850) shares. New share issue in progress amounting to SEK 682.9 (-)million, divided between 6,829,410 shares, was registered as a pending case with the Swedish Companies Registration Office and was registered as equity on 2 January 2017. This entire amount was fully paid on the closing date, with a nominal value of SEK 100 per share. All share capital is attributable to the members of the Society and no shares are available for trade.

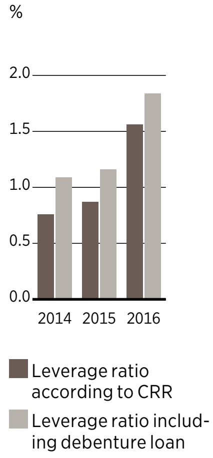
Changes to the Annual Accounts Act entail the introduction of the development expenditure reserve. This fund of SEK 1.6 (–) million corresponds to capitalised development ex-

Capital adequacy, 2012–2016

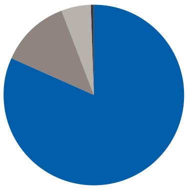


1) Core Tier 1 capital in relation to total risk exposure.
2) Tier I capital in relation to total risk exposure.
3) Total capital base in relation to total risk exposure.
4) 2016/2015/2014: Capital requirement under CRR 11.7/11.3/10.5 percent, of which, buffer requirement 3.7/3.3/2.5 percent. 2012–2013: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

Leverage ratio, 2014–2016



Credit risk exposure
2016-12-31



- Lending, 0 percent risk weight, 82 (79) %
- Liquidity reserve, 0 percent risk weight 12 (12) %
- Liquidity reserve, 10 and 20 percent risk weight 5 (8) %
- Liquidity reserve, 50 percent risk weight – (–) %
- Derivatives 0 (1) %

penditure in-house over the year adjusted by a proportional share of depreciation transferred back from the fund to unrestricted equity.

Capital adequacy

The Company is well-capitalised to meet the risks inherent in its operations. The core Tier 1 capital amounted to SEK 5,641.1 (2,931.7) million, entailing a core Tier 1 capital ratio of 103.7 (44.6) percent. The total capital base was SEK 6,641.1 (3,931.7) million, which gave a total capital ratio of 122.1 (59.8) percent.

Future regulatory requirements – leverage ratio

Effective from 1 January 2018, the planned new capital requirement measure, leverage ratio, is to be introduced in the EU. Leverage ratio is defined as the primary capital divided by total exposures in assets and liabilities. 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 may be included. Among other things, the institute's operations are to be restricted to specified public purposes and have guarantee arrangements covering its exposures. Nor may the institution have any vested interests in generating profits.

If the proposal is implemented, and Kommuninvest is regarded as a PDCI, lending would be deducted from the exposure measurements applied in the calculation of the leverage ratio. Calculated in this way, Kommuninvest meets the leverage ratio of 3 percent being discussed by a good margin. However, the European Commission's proposal is not final and a process of negotiation has been initiated. Kommuninvest is participating actively in these developments.

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. Should the final design of the leverage ratio requirement entail additional capital strengthening being required, the Society plans primarily to turn to its members. Measures may include additional contribution capital as well as Tier 1 capital instruments in the form of subordinated loans, "överinsats" or "förlagsinsats" contributions from the Society's members. However, the Society's statutes do also permit core capital instruments to be issued to actors closely associated with the Society and other local government actors. Provided specific approval is given by the Annual General Meeting, other primary capital instruments may also be issued to other capital market actors.

Leverage ratio as per 31 December 2016

As per 31 December 2016, the Company's leverage ratio, reported according to CRR, was 1.56 (0.87) percent. Including the debenture loan of SEK 1 billion that the Company issued to the Society in 2010, the leverage ratio was 1.84 (1.16) percent.

However, the terms of the debenture loan are such that it may not be included as Tier 1 capital under CRR. Until the conditions for the leverage ratio requirement have been clarified, Kommuninvest is holding on its plans to replace the existing subordinated loan between the Society and its members with a new subordinated loan or other form of capital that can be included in Tier I capital. The plan to replace the subordinated loan between the Company and the Society remains unchanged.

How the Company estimates its leverage ratio according to CRR is presented in Note 4 on page 24.

Risks and uncertainty factors

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

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

In the autumn of 2016, the European Commission submitted proposals to the European Parliament concerning the introduction in the

EU of the new leverage ratio capital requirement measure, in accordance with the description above. The proposal may have an effect on the capital needs of the Company.

Risk management

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

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

At the end of the period, the Company's total credit risk exposure amounted to SEK 337,720.7 (320,433.5) million. Of the exposure, 82 (79) percent was related to lending to Swedish municipalities and county councils/regions; 18 (20) percent was related to investments in securities issued by sovereigns or other issuers, and 0 (1) percent was related to exposure to derivatives counterparties.

In order to ensure good liquidity, the Company's liquidity reserve is primarily held in sovereign securities, with a concentration to Sweden and northern Europe. The composition of the liquidity reserve as per 31 December 2016 is shown in the chart on page 8.

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

ISDA (International Swaps and Derivatives Association) agreements guaranteeing the right to early redemption if the counterparty's creditworthiness deteriorates, have been established with all derivative counterparties. See also Note 3.

CSA (Credit Support Annex) agreements cover a considerable portion of the counterparty risks. CSA agreements regulate the right to secure collateral to eliminate the exposure arising through derivative transactions. As of 31 December 2016, CSA agreements had been established with 19 out of 22 counterparties with whom Kommuninvest has outstanding contracts. Based on nominal amounts, 98 (98) percent of the contracts, were covered by CSA agreements.

As per 31 December 2016, counterparty exposure to derivative counterparties amounted to SEK 877.7 (1,723.0) million after netting for each counterparty and deductions of collateral received.

A description of the Company's risk exposure and risk management, is provided on pages 30–38 in the annual report for 2016. No significant changes have taken place after its publication.

Employees and the environment

Over the period, the number of employees rose by 6 (2) persons to 91 (85). The average number of employees the period was 85 (78). The Company does not conduct any operations requiring a licence under Sweden's Environmental Code. The Company has an environmental policy that it adopted in earlier years.

Events after the balance sheet date

A new share issue for SEK 682.9 million, implemented in December 2016, was registered with the Swedish Companies Registration Office on 2 January 2017. An application to receive permission to classify the increase in share capital as Core Tier I capital was registered with Finansinspektionen, Sweden's financial supervisory authority, on 10 January 2017.

Board of Directors

At the Annual General Meeting on 21 April 2016, Ellen Bramness Arvidsson was re-elected as Chairman of the Board. Lars Heikensten was elected as a new member. The other members of the Board are Kurt Eliasson, Anna von Knorring, Erik Langby, Anna Sandborgh, Johan Törngren and Nedim Murtic (employee representative). Nedim Murtic replaced Anders Pelander as employee representative in the autumn of 2016, with Ulrika Gonzalez Hedqvist as the replacement employee representative.

Management

During 2016, the Company's executive management team consisted of Tomas Werngren (President), Maria Viimne (Executive Vice President, COO), Johanna Larsson (CFO), Malin Norbäck (Chief of Staff), Britt Kerkenberg (CRO) and Christofer Ulfgren (IT Manager).

Income statement

1 January–31 December

SEK, million	Note	2016	2015
Interest revenues	1	654.0	1,438.3
Interest expenses	1	108.0	–639.8
NET INTEREST INCOME		**762.0**	**798.5**
Commission expenses		–5.2	–5.3
Net result of financial transactions		–131.9	165.7
Other operating income		5.4	2.7
TOTAL OPERATING INCOME		**630.3**	**961.6**
General administration expenses		–221.0	–283.0
Amortisation of intangible assets		–4.2	–4.0
Depreciation of tangible assets		–1.9	–1.9
Other operating expenses		–5.0	–4.2
TOTAL OPERATING EXPENSES		**–232.1**	**–293.1**
Impairment of financial fixed assets		–	–13.0
OPERATING PROFIT		**398.2**	**655.5**
Tax		–88.4	–94.2
NET PROFIT		**309.8**	**561.3**

Statement of comprehensive income

1 January–31 December

SEK, million	2016	2015
NET PROFIT	**309.8**	**561.3**
OTHER COMPREHENSIVE INCOME		
Items that may subsequently be reclassified to the income statement		
Available-for-sale financial assets	56.6	–60.2
Available-for-sale financial assets, transferred to the income statement	–	0.1
Tax attributable to items that may subsequently be reclassified to the income statement	–12.5	13.2
OTHER COMPREHENSIVE INCOME	**44.1**	**–46.9**
TOTAL COMPREHENSIVE INCOME	**353.9**	**514.4**

Balance sheet

As of 31 December

SEK, million	Note	2016	2015
ASSETS			
State bonds eligible as collateral	2	16,964.4	16,839.4
Lending to credit institutions	2, 3	1,122.3	699.9
Lending	2	276,982.1	254,421.7
Bonds and other interest-bearing securities	2	42,003.9	45,688.4
Shares and participations		3.3	2.8
Shares and participations in associated companies		–	0.5
Shares and participations in subsidiaries		42.0	42.0
Derivatives	2, 3	24,449.8	22,775.6
Intangible assets		13.4	15.7
Tangible assets		7.6	4.6
Current tax assets		79.0	79.0
Other assets		14.6	17.0
Deferred tax assets		28.1	28.1
Prepaid expenses and accrued revenues		14.9	11.6
TOTAL ASSETS		**361,725.4**	**340,626.3**
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities and provisions			
Liabilities to credit institutions	2	2,396.1	2,303.5
Securities issued	2	341,579.4	318,943.6
Derivatives	2, 3	9,390.5	11,723.1
Other liabilities		810.4	2,163.5
Accrued expenses and prepaid revenues		30.9	144.9
Provisions for pensions and similar commitments		4.1	3.4
Subordinated liabilities	2	1,000.0	1,000.0
Total liabilities and provisions		**355,211.4**	**336,282.0**
Equity			
Restricted equity			
Share capital		5,417.1	3,926.4
New share issue in progress		682.9	–
Development expenditure reserve		1.6	–
Statutory reserve		17.5	17.5
Unrestricted equity			
Fair value reserve		9.8	–34.3
Profit or loss brought forward		75.3	–126.6
Net profit		309.8	561.3
Total equity		**6,514.0**	**4,344.3**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**361,725.4**	**340,626.3**

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 Jan 2015	**2,046.4**	**–**	**–**	**17.5**	**12.6**	**–269.5**	**568.4**	**2,375.4**
Net profit							561.3	561.3
Capitalised over the year								–
Other comprehensive income					–46.9			–46.9
Total comprehensive income	***–***	***–***	***–***	***–***	***–46.9***	***–***	***561.3***	***514.4***
Transactions with shareholders								
Appropriation of surplus						568.4	–568.4	0.0
New share issue	1,880.0							1,880.0
New share issue in progress								–
Group contributions						–545.4		–545.4
Tax effect on Group contribution						119.9		119.9
Total transactions with shareholders	***1,880.0***	***–***	***–***	***–***	***–***	***142.9***	***–568.4***	***1,454.5***
Equity carried forward 31 December 2015	**3,926.4**	**–**	**–**	**17.5**	**–34.3**	**–126.6**	**561.3**	**4,344.3**
Equity brought forward 1 Jan 2016	**3,926.4**	**–**	**–**	**17.5**	**–34.3**	**–126.6**	**561.3**	**4,344.3**
Net profit							309.8	309.8
Capitalised over the year			1.6			–1.6		0.0
Other comprehensive income					44.1			44.1
Total comprehensive income	***–***	***–***	***1.6***	***–***	***44.1***	***–1.6***	***309.8***	***353.9***
Transactions with shareholders								
Appropriation of surplus						561.3	–561.3	0.0
New share issue	1,490.7							1,490.7
New share issue in progress		682.9						682.9
Group contributions						–458.7		–458.7
Tax effect on Group contribution						100.9		100.9
Total transactions with shareholders	***1,490.7***	***682.9***	***–***	***–***	***–***	***203.5***	***–561.3***	***1,815.8***
Equity carried forward 31 December 2016	**5,417.1**	**682.9**	**1.6**	**17.5**	**9.8**	**75.3**	**309.8**	**6,514.0**

1) The development expenditure reserve consists of development expenditure incurred in-house.

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.

Cash flow statement

1 January–31 December

SEK, million	2016	2015
Operational activities		
Operating profit	398.2	655.5
Adjustment for items not included in cash flow	201.1	–104.4
Income tax paid	–0.4	66.2
Cash flow from operating activities before changes in the assets and liabilities of operating activities	**598.9**	**617.3**
Change in liquidity reserve	2,051.0	7,633.6
Change in lending	–22,558.3	–32,734.2
Change in other assets	–0.9	–29.8
Change in other liabilities	–107.8	2.6
Cash flow from operational activities	**–20,017.1**	**–24,510.5**
Investment activities		
Acquisition of intangible assets	1.9	–18.1
Acquisition of tangible assets	–5.0	–0.5
Divestment of tangible assets	0.3	–
Divestment of shares in associated companies	1.8	–
Cash flow from investment activities	**-4.8**	**–18.6**
Financing activities		
Issue of interest-bearing securities	129,345.1	121,888.3
Redemption and buybacks of interest-bearing securities	–109,256.9	–103,395.5
New share issue	2,173.6	1,880.0
Change in intra-Group liabilities	–1,817.5	834.1
Cash flow from financing activities	**20,444.3**	**21,206.9**
Cash flow for the year	**422.4**	**–3,322.2**
Cash and cash equivalents at the start of the year	699.9	4,022.1
Cash and equivalents at end of the year	**1,122.3**	**699.9**

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

Adjustment for items not included in cash flow		
Depreciation and amortisation	6.1	5.9
Profit from divestments of tangible assets	–0.1	–
Profit from divestments of shares in associated companies	–1.3	–
Exchange rate differences from change in financial assets	0.9	0.9
Unrealised changes in market value	195.5	–124.2
Impairment of financial assets	–	13.0
Total	**201.1**	**–104.4**

Interest paid and earned, included in the cash flow		
Interest received[1]	787.1	1,780.1
Interest paid[2]	–42.3	–978.1

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

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

Capital adequacy

Since January 1, 2014, capital adequacy has been calculated according to CRR[1]. The greatest change compared with the previous calculation method relates to risk exposure amounts for credit valuation adjustment (CVA risk) for all OTC derivative contracts. The capital buffers to be introduced under CRD IV[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 applies, as well as the countercyclical buffer, which Finansinspektionen has set at 1.5 percent effective from 27 June 2016 for relevant exposures within Sweden. Kommuninvest is not subject to the requirement for a systemic risk buffer, nor has the Company been identified as a systemically important institution. It is Kommuninvest's assessment that all buffer requirements will be met.

	2016	2015
Share capital[3]	5,417.1	2,726.4
Retained earnings[4]	386.7	285.6
Accumulated other comprehensive income and other reserves	27.3	–16.9
Core Tier 1 capital before regulatory adjustments	**5,831.1**	**2,995.1**
Further value adjustments[5]	–190.0	–63.4
Total regulatory adjustments to core Tier 1 capital	**–190.0**	**–63.4**
Total core Tier 1 capital	**5,641.1**	**2,931.7**
Tier 1 capital contributions	–	–
Total Tier 1 capital	**5,641.1**	**2,931.7**
Debenture loan[6]	1,000.0	1,000.0
Total supplementary capital	**1,000.0**	**1,000.0**
Total capital	**6,641.1**	**3,931.7**

1) European Parliament and Council Regulation (EU) No 575/2013 of 26 June 2013 on supervisory requirements for credit institutions and securities companies and amending Regulation (EU) No 648/2012.

2) European Parliament and Council Directive 2013/36/EU of 26 June 2013 on authorisation to conduct operations in credit institutions and on the supervision of credit institutions and securities companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

3) For a more detailed description of the instruments included in share capital, see page 9 . Deductions have been made for the increase in share capital registered with the Swedish Companies Registration Office on 2 January 2017 and not yet approved by Finansinspektionen – the application was registered on 10 January 2017. According to CRR, Kommuninvest may not classify the increase of the share capital as core Tier 1 capital prior until this has been approved by Finansinspektionen. For 31 December 2015, the shares were registered with the Swedish Companies Registration Office on 23 December 2015, with the application being submitted to Finansinspektionen on January 2016 and was approved on 10 May 2016.

4) Deductions of SEK – (149.1) million have been made, which refer to the portion of profit for the year that has not been distributed to the Kommuninvest Cooperative Society in the form of group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.

5) 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. The increase in deduction is because EBA's technical standard regarding prudent valuation entered into force during 2016.

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

Capital requirement	2016 Risk exposure	2016 Capital requirement	2015 Risk exposure	2015 Capital requirement
Capital requirement for credit risks (the standardised method)	2,274.1	181.9	2,985.8	238.9
of which, exposures to states and central banks	*70.2*	*5.6*	*70.2*	*5.6*
of which, institutional exposures	*550.6*	*44.1*	*777.9*	*62.3*
of which, corporate exposures	*91.8*	*7.3*	*87.9*	*7.0*
of which, exposures in the form of covered bonds	*1,561.5*	*124.9*	*2,049.8*	*164.0*
Operational risks, basic indicator method	1,628.2	130.3	1,573.0	125.8
Market risks	–	–	–	–
Credit valuation adjustment	1,536.1	122.9	2,020.1	161.6
Total risk exposure amount and minimum capital amount	**5,438.4**	**435.1**	**6,578.9**	**526.3**

Capital adequacy ratios	2016	2015
Core Tier 1 capital ratio	103.7 %	44.6 %
Tier 1 capital ratio	103.7 %	44.6 %
Total capital ratio	122.1 %	59.8 %

Buffer requirements	2016	2015
Capital conservation buffer	2.5 %	2.5 %
Countercyclical buffer	1.2 %	0.8 %
Total buffer requirements	**3.7 %**	**3.3 %**
Core Tier capital available for use as buffer	**97.7 %**	**38.6 %**

Internally estimated capital requirements	2016	2015
Capital requirement		
Credit risk	28.9	36.8
Market risks	1,505.1[1]	696.9
Liquidity risk	–	27.5
Operational risk	–	–
Business risk	–	–
Reputation risk	–	13.7
Strategic risks	–	0.7
Residual risk	–	–
Total risk exposure amounts and minimum capital amounts	**1,534.0**	**775.6**

1) The increase of the internally assessed capital requirement for market risks, in relation to 2015, is not due to a change in risk exposures but to changes in the calculation. The 2016 calculation, similar to 2015, builds on a scenario analysis, however scenarios have been added that include market stress during the financial crisis 2008. This affects the extreme outcomes.

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 page 10.

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

Note 1 Accounting principles

The Kommuninvest year-end report has been prepared applying the regulation regarding annual accounts in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25). Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. 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 financial statements, see Note 6.

Information on the character and extent of risks related to financial instruments can be found in the Kommuninvest Annual Report for 2016, on pages 30–38.

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

New or amended international accounting standards that have been published but that are yet to be implemented are deemed to have a limited effect on Kommuninvest's net profit, position, disclosure, capital requirements, capital basis or major exposures.

Kommuninvest has commenced the process of assessing IFRS 9 Financial Instruments, which is to enter force on 1 January 2018, replacing IAS 39 Financial Instruments: Recognition and measurement. The Company's initial report under IFRS 9 will cover the reporting period ending 30 June 2018. It has yet to be determined how the standard will affect Kommuninvest's earnings, position, disclosure requirements, capital requirements, capital base or large exposures. The introduction of IFRS 9 may have a negative impact on reported earnings, financial position and thereby the Company's capital base, particularly in that IFRS 9 entails anticipated credit losses having to be reported rather than incurred credit losses. Currently, what is expected to be subject to impairment testing are the investments and loans not measured at fair value through profit or loss. Kommuninvest's very special business model, in which lending is provided only to members of the Kommuninvest Cooperative Society and, subject to a guarantee from the members, to member-owned companies and for investments in companies with a high credit rating means that provisions for anticipated credit losses are estimated to have a negligible effect on the earnings, financial position and capital base. To date, Kommuninvest has not suffered any credit losses in its lending or investment activities in the Company's 30-year history.

For further information, see Note 2 in Kommuninvest's annual report for 2016.

Interest income and interest expenses

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

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

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

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

Note 2 Financial assets and liabilities

31 December 2016	Financial assets at fair value through the income statement		Loan receivables and accounts receivable	Investments held to maturity
	Financial assets determined as belonging to this category	Holdings for trading purposes		
Sovereign bonds eligible as collateral	9,448.0	–	–	–
Lending to credit institutions	–	–	1,122.3	–
Lending	95,601.1	–	181,381.0	–
Bonds and other interest-bearing securities	32,633.8	–	–	–
Derivatives	–	16,968.6	–	–
Other assets	–	–	11.8	–
Total	**137,682.9**	**16,968.6**	**182,515.1**	**–**
Liabilities to credit institutions[1]	–	–	–	–
Securities issued[1]	–	–	–	–
Derivatives	–	–	–	–
Other liabilities	–	–	–	–
Subordinated liabilities	–	–	–	–
Total	**–**	**–**	**–**	**–**

31 December 2015	Financial assets at fair value through the income statement		Loan receivables and accounts receivable	Investments held to maturity
	Financial assets determined as belonging to this category	Holdings for trading purposes		
Sovereign bonds eligible as collateral	12,568.2	–	–	–
Lending to credit institutions	–	–	699.9	–
Lending	63,452.5	–	190,969.2	–
Bonds and other interest-bearing securities	35,204.1	–	–	–
Derivatives	–	15,792.7	–	–
Other assets	–	–	4.6	–
Total	**111,224.8**	**15,792.7**	**191,673.7**	**–**
Liabilities to credit institutions[1]	–	–	–	–
Securities issued[1]	–	–	–	–
Derivatives	–	–	–	–
Other liabilities	–	–	–	–
Subordinated liabilities	–	–	–	–
Total	**–**	**–**	**–**	**–**

1) Nominal amount of borrowing, that is, the amount to be paid up by the maturity date, amounts to SEK 278,543.1 (315,447.1) million.

The carrying amount 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.

Available-for-sale financial assets	Financial liabilities at fair value through the income statement		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
7,516.4	–	–	–	–	16,964.4	16,964.4
–	–	–	–	–	1,122.3	1,122.3
–	–	–	–	–	276,982.1	277,002.9
9,370.1	–	–	–	–	42,003.9	42,003.9
–	–	–	–	7,481.2	24,449.8	24,449.8
–	–	–	–	–	11.8	11.8
16,886.5	**–**	**–**	**–**	**7,481.2**	**361,534.3**	**361,555.1**
–	2,394.4	–	1.7	–	2,396.1	2,396.1
–	144,686.7	–	196,892.7	–	341,579.4	343,012.4
–	–	8,184.5	–	1,206.0	9,390.5	9,390.5
–	–	–	803.3	–	803.3	803.3
–	–	–	1,000.0	–	1,000.0	1,039.1
–	**147,081.1**	**8,184.5**	**198,697.7**	**1,206.0**	**355,169.3**	**356,641.4**

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

The majority of financial instruments in Kommuninvest's debt and investment portfolio are traded on active markets with quoted prices in accordance with level 1. For a small portion of the debt and investment portfolio, 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 via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted by current new lending margins. This means that if new lending margins rise, the fair value lower of existing loans will decline and vice versa.

Note 2, continued

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 subordinated liabilities
Borrowings are 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 borrowing margins, for the structure of the borrowings and for the market by using similar issues by the organisation or similar issuers. For borrowings in currencies other than SEK, EUR and USD, the current borrowing margin is set as the borrowing margin in USD plus the currency basis spread between the currency concerned and USD. Market prices used for valuation are mid-prices. Borrowings expected to be traded in an active market are classified in level 1. Borrowings valued at quoted prices, not deemed as traded in an active market, are classified in level 2. Borrowings valued based on discounted future cash flows are classified in level 2, with the exception of borrowings 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 in the relevant reference rate for the currency concerned. Where anticipated future cash flows are dependent on significant unobservable market data or elements on in-house assessment, derivatives are classified in level 3; otherwise, they are classified in level 2. All derivatives classified in level 3 are swaps matching funding transactions classified in level 3. The discount rate has been set as the current quoted swap rate in each currency. For cleared interest rate swaps, the discount rate has been set at the currently quoted OIS 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 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 borrowing and lending margins, increased margins on lending leading to unrealised losses when the value of existing business is reduced. Kommuninvest has only a marginal exposure to swap rates and, since it hedges other market risks, it is changes in borrowing and lending margins, basis swap spreads and credit spreads, on holdings in the liquidity reserve that give rise to the changes in market value.

An increase in the lending price, in relation to swap rates, by 10 basis points on the receivables recognised at fair value would mean a negative change in net profit of SEK 207 (143) million. An increase in the borrowing cost, in relation to swap rates, by 10 basis points on the liabilities recognised at fair value would mean a positive change in income of SEK 259 (309) million. A parallel displacement in the lending and funding price, in relation to swap rates, by 10 basis points would mean a change in net profit of SEK +/-52 (+/– 166) million. A displacement of the valuation curve upwards or downwards by 10 basis points for the financial instruments valued according to level 3 would mean a change in income of SEK +/–17 (+/–13) million.

All of the above changes pertain to the balance sheet date and are net of tax effects. Impact on equity relates to the tax effect.

All market value effects are unrealised, and as Kommuninvest intends to hold its assets and liabilities to maturity, this means that these values will not normally be realised. Investments made as part of normal management of liquidity and investments represent an exception as do investments necessitated by adjustments to internal and external regulations. Repurchases of funding or lending instruments, which always take place on the investors' or customers' initiative respectively, also lead to market values being realised.

Uncertainty in measurement due to unobservable input data
Input data that cannot be observed in the market consist of correlations between market data and volatilities in maturities longer than those for which observable market data are available. Instruments affected by unobservable input data consist of issued structured securities with options for premature redemption and the derivatives that hedge these at the transaction level. The recipient leg of such a derivative always consists of the warrants in the issued security and the payment leg of the interbank interest rate +/– a fixed margin.

The effect on net profit of these contracts is realised when Kommuninvest's funding margins for this type of funding change. The scope of the change depends on the anticipated remaining duration of the contracts, which depend in turn on unobservable data. The effect on earnings from the unobservable input data that arises is therefore attributable to how input data affect the estimated remaining maturity of the contract.

Kommuninvest has calculated the maturity at 1.6 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable funding in the interval of 1.0 – 3.5 years. This would have an effect on net profit in the interval SEK –2.6 million – SEK +2.6 million.

Change in value due to anticipated credit risk
With the joint and several guarantee for Kommuninvest's borrowing 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 borrowing 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.

Note 2, continued

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, the valuation of securities valued under level 2 in the liquidity reserve has been changed. Previously, fair value was calculated via a discount of anticipated future cash flows, with the discount rate set to the swap rate adjusted on the basis of the issuer's credit risk. The change to the method described above occurred after the quoted market prices were considered to better reflect fair value. The change affects the value of the liquidity reserve positively by SEK 15.5 million at 31 December 2016.

During the period, the valuation of borrowings for which there are quoted market prices has changed. Fair value was previously measured via a discount of anticipated future cash flows where the discount rate was set at the swap rate adjusted for current borrowing margins for the structure and market of the funding. The change to the method described above occurred after the quoted market prices were considered to better reflect fair value. The change affects the overall value negatively by SEK 65.0 million as of 31 December 2016.

Transfers between valuation levels

Kommuninvest continuously reviews the criteria for its division into levels of financial assets and liabilities measured at fair value. During the period, financial assets of SEK 1,491.2 (100.8) million were transferred to level 1 from level 2, while SEK 5,168.3 (–) million was transferred to level 2 from level 1. Financial liabilities of SEK 61,605.2 (–) million were transferred from level 2 to level 1. All transfers of liabilities were associated with the change in valuation method. The transfers are considered to have taken place on 31 December 2016 and 31 December 2015 for the preceding period.

Approval of valuation models

The valuation models applied are approved by the CFO and reported to company's ALCO (Asset and Liability Committee and the Board of Directors. The Finance department is responsible for the valuation process, including the valuation models. The Risk and Control department is responsible for ensuring independent control of the quality of valuation models and market data used in the valuation.

Financial instruments measured at fair value in the balance sheet

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Sovereign bonds eligible as collateral	7,370.4	9,594.0	-	16,964.4
Lending	-	95,601.1	-	95,601.1
Bonds and other interest-bearing securities	32,324.4	9,679.5	-	42,003.9
Derivatives	-	24,227.2	222.6	24,449.8
Total	**39,694.8**	**139,101.8**	**222.6**	**179,019.2**
Liabilities to credit institutions	-	2,394.4	-	2,394.4
Securities issued	100,634.1	37,799.1	6,253.5	144,686.7
Derivatives	0.0	9,202.3	188.2	9,390.5
Total	**100,634.1**	**49,395.8**	**6,441.7**	**156,471.6**

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

Note 2, continued

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	Liabilities to credit institutions	Securities issued	Total
Opening balance, 1 January 2015	**479.5**	**–844.9**	**–205.1**	**–9,516.1**	**–10,086.6**
Recognised gains and losses:					
– recognised in the income statement (net result of financial transactions)	-183.3	-629.8	0.4	797.5	-15.2
Cost, acquisitions	-	-	-	-2,430.9	-2,430.9
Maturing during the year	-	-	204.7	7,235.8	7,440.5
Closing balance, 31 December 2015	**296.2**	**-1,474.7**	**-**	**-3,913.7**	**-5,092.2**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2015	1.7	-822.6	-	821.1	0.2
Opening balance, 1 January 2016	**296.2**	**-1,474.7**	**-**	**-3,913.7**	**-5,092.2**
Recognised gains and losses:					
– recognised in the income statement (net result of financial transactions)	-73.5	1,286.5	-	-1,210.9	2.1
Cost, acquisitions	-	-	-	-2,428.4	-2,428.4
Maturing during the year	-	-	-	1,299.5	1,299.5
Closing balance, 31 December 2016	**222.7**	**-188.2**	**-**	**-6,253.5**	**-6,219.0**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2016	442.6	188.8	-	-629.8	1.6

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

Financial instruments not measured at fair value in the balance sheet

2016	Level 1	Level 2	Level 3	Total	Recognised value
Lending to credit institutions	-	1,122.3	-	1,122.3	1,122.3
Lending	-	181,401.8	-	181,401.8	181,381.0
Other assets	-	11.8	-	11.8	11.8
Total	**-**	**182,535.9**	**-**	**182,535.9**	**182,515.1**
Liabilities to credit institutions	-	1.7	-	1.7	1.7
Securities issued	88,051.9	110,273.8	-	198,325.7	196,892.7
Other liabilities	-	803.3	-	803.3	803.3
Subordinated liabilities	-	1,039.1	-	1,039.1	1,000.0
Total	**88,051.9**	**112,117.9**	**-**	**200,169.8**	**198,697.7**

2015	Level 1	Level 2	Level 3	Total	Recognised value
Lending to credit institutions	-	699.9	-	699.9	699.9
Lending	-	190,929.2	-	190,929.2	190,969.2
Other assets	-	4.6	-	4.6	4.6
Total	**-**	**191,633.7**	**-**	**191,633.7**	**191,673.7**
Liabilities to credit institutions	-	80.4	-	80.4	80.4
Securities issued	143,236.1	25,045.0	-	168,281.1	167,810.2
Other liabilities	-	2,154.9	-	2,154.9	2,154.9
Subordinated liabilities	-	999.9	-	999.9	1,000.0
Total	**143,236.1**	**28,280.2**	**-**	**171,516.3**	**171,045.5**

Note 3 Information on financial assets and liabilities subject to offsetting

Kommuninvest offsets 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 – this occurs for Kommuninvest's derivative assets and liabilities towards central counterparties for clearing.

Kommuninvest's non-cleared derivatives are what are known as OTC derivatives, that is, they are not traded on an exchange but are issued under ISDA (International Swaps and Derivatives Association) Master agreements, an organisation in which Kommuninvest is a member. In addition to the ISDA agreement, a supplementary CSA (Credit Support Annex) has been signed with a considerable portion of the counterparties. CSA agreements regulate the right to secure collateral to eliminate the exposure.

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

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

31 December 2016	Financial assets and liabilities, gross amounts	Amounts offset in the balance sheet[1]	Net amount reported in the balance sheet	Related amounts that are not offset in the balance sheet: Financial instruments	Provided (+)/ Received (–) collateral – security	Provided (+)/ Received (–) cash collateral	Net amount
Assets							
Derivatives	24,565.2	–115.4	**24,449.8**	–7,949.1	–15,623.0	–	**877.7**
Repos[2]	–	–	**–**	–	–	–	**–**
Liabilities							
Derivatives	–9,866.7	476.2	**–9,390.5**	7,949.1	170.9	–	**–1,270.5**
Total	**14,698.5**	**360.8**	**15,059.3**	**0.0**	**–15,452.1**	**–**	**–392.8**

31 December 2015	Financial assets and liabilities, gross amounts	Amounts offset in the balance sheet[1]	Net amount reported in the balance sheet	Related amounts that are not offset in the balance sheet: Financial instruments	Provided (+)/ Received (–) collateral – security	Provided (+)/ Received (–) cash collateral	Net amount
Assets							
Derivatives	–	–	**22,775.6**	–9,661.4	–11,391.2	–	**1,723.0**
Repos[2]	–	–	**80.9**	–	–80.8	–	**0.1**
Liabilities							
Derivatives	–	–	**–11,723.1**	9,661.4	–	–	**–2,061.7**
Total	**–**	**–**	**11,133.4**	**0.0**	**–11,472.0**	**–**	**–338.6**

1) The amount offset for derivative liabilities includes cash collateral of SEK 360 million.

2) Repos are included in Lending to credit institutions.

Note 4 Leverage ratio

Defined as ratio between Tier 1 capital and total exposure in assets and commitments. Regarding lending portfolio and liquidity reserve, exposure corresponds to recognised value. For derivative assets, exposure is estimated by adding exposures in individual netting agreements with derivative counterparties. A possible future exposure amount is added, calculated according to the standardised method (the market valuation method) established in the EU CRR. Off-balance sheet commitments are also assigned an exposure value, based on the probability that the commitment will be utilised. For Kommuninvest, this involves committed undisbursed loans.

	2016	2015
Total assets	361,725.4	340,626.3
Less asset amounts deducted to determine the core Tier 1 capital	–190.0	–63.4
Less derivatives according to the balance sheet	–24,449.8	–22,775.6
Plus derivatives exposure	16,500.7	13,114.2
Plus possible change in derivatives risk	5,450.9	4,892.0
Plus off-balance sheet commitments	1,765.4	2,903.3
Total exposure	**360,802.6**	**338,696.8**
Tier 1 capital, calculated applying transitional rules, see the section Capital adequacy	**5,641.1**	**2,931.7**
Leverage ratio	**1.56 %**	**0.87 %**

Kommuninvest has a capital plan regarding the leverage ratio in order to meet future regulatory requirements, see page 10.

Note 5 Transactions with related parties

Transactions with related parties are disclosed in Note 26 of Kommuninvest's annual report for 2016. No transactions have taken place with Administrative Solutions NLGFA AB (associated company) during the period in 2016 due to voluntary liquidation. In 2016, the concept of related companies was extended to include companies providing the company with key individuals in leading positions. The change entails two companies being included as related parties to Kommuninvest – Sandahls Partners i Örebro AB and Malin Norbäck Consulting AB. For more information, see Note 26 in Kommuninvest's Annual Report.

Note 6 Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the Parent Company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts is 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. As of 31 December 2016, Kommuninvest Fastighets AB has a balance sheet total of SEK 57.7 (55.5) million, equity of SEK 43.6 (42.9) million and generated a net profit of SEK 0.7 (0.7) million.

Note 7 Events after the balance sheet date

New share issue for SEK 682.9 million, implemented in December 2016, was registered with the Swedish Companies Registration Office on 2 January 2017. An application to receive permission to classify the increase in share capital as Core Tier I capital was registered with Finansinspektionen on 10 January 2017.

Alternative key ratios

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

Alternative key ratios	Definition	Reconciliation	2016	2015
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 income	398.2	655.5
		Result of unrealised changes in market value	–195.5	124.2
		Operating profit excluding the effect of unrealised changes in market value	**593.7**	**531.3**
Administration expenses, excluding the resolution/stability fee, as % of lending	Management expenses over the financial year, excluding the supervisory/stability fee in relation to the carrying 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 supervisory/stability fee.	General administration expenses	–221.0	–283.0
		Depreciation	–6.1	–5.9
		Other operating expenses	–5.0	–4.2
		Total operating expenses	–232.1	–293.1
		Resolution/stability fee	–31.4	–120.5
		Total operating expenses excluding supervisory/stability fee	**–200.7**	**–172.6**
		Lending as per the closing date	**276,982.1**	**254,421.7**
		Operating expenses, excluding the resolution/stability fee, as % of lending	**0.072**	**0.068**
Administration expenses, excluding the resolution/stability fee, as % of balance sheet total	Total administrative expenses over the financial year, excluding the supervisory/stability fee in relation to total assets on the closing date. A key ratio that is relevant in assessing the organisation's overall cost effectiveness in relation to the balance sheet total, adjusted for the supervisory/stability fee.	General administration expenses	–221.0	–283.0
		Depreciation	–6.1	–5.9
		Other operating expenses	–5.0	–4.2
		Total operating expenses	–232.1	–293.1
		Resolution/stability fee	–31.4	–120.5
		Total operating expenses excluding resolution/stability fee	**–200.7**	**–172.6**
		Total assets as per the closing date	**361,725.4**	**340,626.3**
		Operating expenses, excluding the resolution/stability fee, as % of balance sheet total	**0.055**	**0.051**
Return on assets (%)	Net profit in relation to total assets, as a percentage. Indicator submitted in accordance with FFS 2008:25 chapter 2a.	Net profit	309.8	561.3
		Total assets	361,725.4	340,626.3
		Return on assets (%)	**0.086**	**0.165**
Cost/income ratio	Total operating expenses in relation to net interest and other operating income. A commonly used indicator in the banking sector to evaluate the relationshop between costs and revenues.	**Total operating expenses**	**–232.1**	**–293.1**
		Net interest income	762.0	798.5
		Other operating income	5.4	2.7
		Total interest income and other income	**767.4**	**801.2**
		Cost/income ratio	**0.302**	**0.366**

Board member signatures

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

Stockholm, 14 February 2017

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson
Board Member

Anna von Knorring
Board Member

Erik Langby
Board Member

Anna Sandborgh
Board Member

Johan Törngren
Board Member

Lars Heikensten
Board Member

Nedim Murtic
Employee representative

Tomas Werngren
President and CEO

This report has not been audited.
The report contains information that Kommuninvest is required to publish under the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 15 February 2017 at 8:00 a.m. From 23 February, it will be possible to download the complete annual report for 2016 from the Kommuninvest website, www.kommuninvest.se.

The consolidated accounts are prepared by the parent association, the Kommuninvest Cooperative Society, and are published at www.kommuninvest.se on 20 April.

Production: Kommuninvest and Intellecta Corporate. Photo: Melker Dahlstrand

KOMMUNINVEST

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