Annual Accounts 2017

KOMMUNINVEST I SVERIGE AB

1 January – 31 December	
Total assets	SEK 356,942.6 (361,725.4) million
Lending	SEK 310,147.3 (276,982.1) million
Net interest income	SEK 881.3 (762.0) million
Operating income	SEK 1,123.8 (398.2) million
Operating profit excluding the effect of unrealised market value changes	SEK 697.8 (593.7) million
Core Tier 1 capital ratio[1]	212.4 (103.7) %
Tier 1 capital ratio[2]	212.4 (103.7) %
Total capital ratio[3]	212.4 (122.1) %
Equity	SEK 7,610.8 (6,514.0) million
Leverage ratio according to CRR[4]	1.78 (1.56) %
Market share of local government sector's total funding	50 (48) %
Number of members at the end of the period	288 (286) members, of whom, 277 (275) municipalities and 11 (11) county councils/regions

1) Core Tier 1 capital in relation to total risk exposure
2) Tier 1 capital in relation to total risk exposure
3) Total capital base in relation to total risk exposure
4) Tier 1 capital in relation to total assets and commitments (exposures). The key ratio "Leverage ratio including debenture loan" is no longer used.

KOMMUNINVEST

Working together for better terms

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

Basic concept

Together, municipalities and county councils/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.

Our vision

To be the world's best organisation for local government financial administration, for a beneficial and sustainable society.

Start 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, enabling improved community services at both local and regional levels.

Organisation with clear division of roles

Kommuninvest comprises two parts. In part, the credit market company, Kommuninvest i Sverige AB (the Group) and, in part, the Kommuninvest Cooperative Society (the Society).

Kommuninvest Cooperative Society

- Administrates membership and the joint and several guarantee.
- The Board of Directors consists of elected politicians from municipalities and county councils/regions.

Kommuninvest i Sverige AB

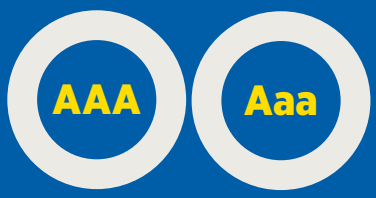
- Conducts the financial operations, including funding, liquidity management and lending.
- The Board of Directors consists of individuals with expertise in areas such as public administration, capital markets, business development and digitisation.

277 + 11

Kommuninvest is owned by 277 municipalities and 11 county councils/regions.

SEK 310 bn

On 31 December 2017, total lending amounted to SEK 310 billion.



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

Green Loans

Green Loans were introduced in 2015 to finance climate friendly investment projects. In 2017, the volume of approved Green Loans rose to SEK 27 (18) billion.

Year-end report for Kommuninvest i Sverige AB (publ)
This is the year-end report for the credit market company Kommuninvest i Sverige AB (Kommuninvest).
Corporate identity number: 556281-4409
Registered office: Örebro
1 January–31 December 2017

Comparison figures relating to the income statement refer to the preceding year (1 January–31 December 2016) unless otherwise stated. Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2016 unless otherwise indicated.

Comment from the CEO

Nearly 290 Swedish municipalities and county councils/regions, corresponding to 93 percent of the total, are members of the Kommuninvest Cooperative Society. Their majority-owned companies, associations and foundations are also entitled to borrow funds from Kommuninvest i Sverige AB. It is in the service of our members and customers that we work each day to ensure secure and cost-effective financing for investments within the Swedish welfare model.

The total lending volume rose by 12 percent over the year to SEK 310 billion, as a result of increased investment and borrowing needs in the local government sector, but also because our share of the sector's overall borrowing is increasing. Membership growth has continued, with the Municipality of Linköping and the City of Mölndal becoming new members.

The capacity to sustainably serve this high rate of investment remains crucial for the local government sector. The sharp increase in population means that demand for welfare services will be considerable for many years to come. Nonetheless, it remains our assessment that municipal leverage will be manageable and limited in relation to GDP.

Four areas are in focus in our ongoing process of change: Customers, Digitisation, Efficiency and Competence. In these areas, we are gathering our forces to ensure that Kommuninvest will continue to be able to meet the expectations of its members and customers in the future. We are partnering with Örebro University in, for example, artificial intelligence, to simplify and improve analysis related to local government debt management.

Effective borrowing and low administrative costs are crucial to Kommuninvest's long-term capacity to generate added value for its members in the form of lower borrowing costs. We are placing increasing emphasis on our strategic borrowing markets in USD and SEK, and have undertaken a series of measures to increase the attractiveness of our bonds. The Swedish market in particular is in focus.

A new strategy for matching assets and liabilities was introduced during the year. As a result, we are able to offer better lending terms but also to maintaining a more solid liquidity reserve, of higher credit quality and with lower price risks than previously.

Tomas Werngren, CEO

There is an increasing trend for institutional investors to seek sustainable management of their funds. For institutions such as Kommuninvest which are largely focused on financing sustainable, green and social investments among municipalities and county councils/regions, this is welcome, providing good opportunities for members and customers alike. To date, our efforts with green loans and bonds have been successful, and the award conferred by the UNFCCC Secretariat during the year provides valued recognition.

In summary, 2017 was a year that built a good foundation for continuing to develop the infrastructure for local government funding. Combined with the positive marketing and regulatory developments we saw over the year, this allows me and my colleagues to take on the coming year with an exceptional degree of confidence.

Tomas Werngren
President and CEO

Market

The world economy and the financial markets

The positive trend in the global economy continued on a broad front in 2017. In both the US and European economies, GDP growth is expected to exceed 2 percent for 2017 – for the global economy as a whole, the IMF and OECD estimate a growth rate of 3.5–4 percent for both 2017 and 2018. Growth in the Nordic economies is also exceeding the average trend.

The risk scenario is pervaded by both economic and political uncertainty. The fact that the Brexit decision and the unexpected outcome of the US presidential elections did not affect household and corporate spending and investment decisions to any greater extent causes analysts to believe that economic downside risks may now outweigh.

The economic recovery beyond Sweden and continued strong domestic demand meant that the Swedish economy grew strongly in 2017 and is expected to continue growing strongly in 2018, before GDP growth shifts down a gear. With GDP growth of 2.5-3 percent, Sweden's growth is above its long-term trend. Growth continues to be driven by domestic demand, with increasing investment in industry and the public sector helping keep total investment up as housing investment declines in the wake of falling housing prices.

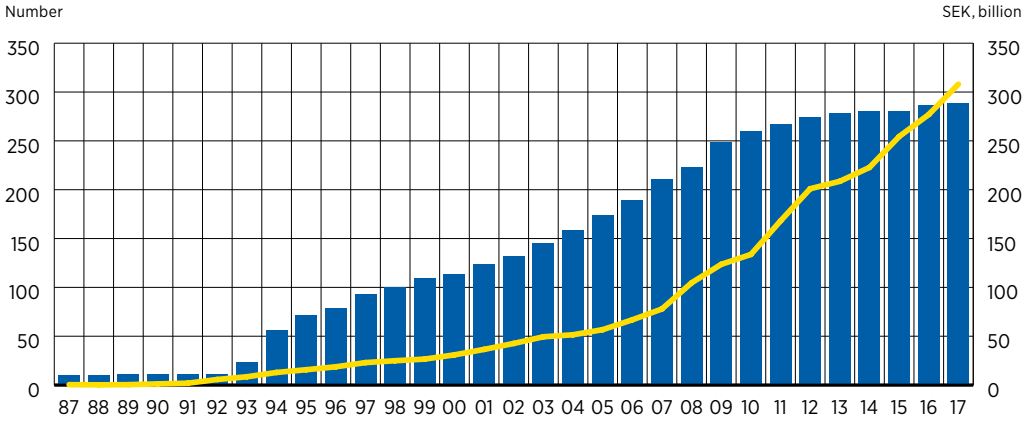
The Swedish local government sector continues to display stable economic development and a positive financial balance. The anticipated surplus for 2017 amounts to 1.8 percent, according to the Swedish Association of Local Authorities and Regions, SALAR. The sector finds itself in a period of intensive investment due to rapid population growth, demographic changes and urbanisation. The number of younger and older people is growing faster than the number of people of working age.

The political drama that has become more commonplace in recent years, had no more than a brief impact on global capital markets during the year. In the wake of US interest rate hikes and continued favourable economic development, European interest rates have begun to rise, mainly towards the end of 2017. However, an environment still prevails with negative interest rates for government bonds, both in Sweden and in Europe.

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.

Number of members and lending volume, 1987–2017



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.

Number of members of the Kommuninvest Cooperative Society

Lending by Kommuninvest i Sverige AB

At 31 December 2017, the Society had 288 (286) members (owners), of which 277 (275) were municipalities and 11 (11) were county councils/regions. Consequently, 96 (95) percent of Sweden's municipalities and 55 (40) percent of county councils/regions were members (owners) in the Society. During the year, 2 (6) new members joined: The Municipality of Linköping and the City of Mölndal.

Local government debt

During the year, Swedish municipalities and county councils/regions were again able to meet their funding needs efficiently, both through Kommuninvest and through banking systems and capital markets. Kommuninvest estimates that the sector's external loan debt had risen by SEK 40.3 billion to SEK 616.4 (576.1) billion as per 31 December 2017, and that 50 (48) percent of the loan debt was financed via Kommuninvest. At year-end 2017, total local government debt is estimated at 13.2 (13.1) percent of Swedish GDP.

Local government borrowing is characterised by short funding maturities and duration. At the end of the period, the average period for which capital was tied up was 2.6 (2.5) years. Of total funding, 58 (61) percent was based on floating interest rates. By means of derivatives, the average period of fixed interest was extended to 2.9 (2.9) years. The average interest rate on loan debt was 1.40 (1.57) percent.

Kommuninvest's lending

As per 31 December 2017, Kommuninvest's lending amounted to SEK 310,147.3 (276,982.1) million. In nominal terms, lending was at SEK 308,042.3 (274,039.0) million, an increase of 12 (9) percent.

Kommuninvest's competitiveness, expressed as a percentage of accepted bids, rose. Based on nominal volumes, the bid acceptance rate amounted to 99 (94) percent for 2017.

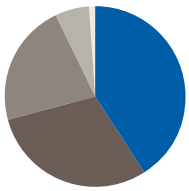
Of the total lending, municipalities accounted for 41 (40) percent, municipal housing companies for 30 (30) percent and other municipal companies for 28 (29) percent of total lending. Lending to county councils/regions accounted for 1 (1) percent.

Of the agreed lending for the year, that is, new loans and renegotiations of existing loans, 83 (76) percent were loans with capital tied up for more than one year and 17 (24) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 35 (38) 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 2.4 (2.3) years. At the end of 2017, Kommuninvest's share of local government borrowing was estimated at 50 (48) percent.

Kommuninvest's lending portfolio

31 December 2017



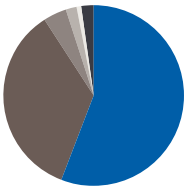
Kommuninvest's largest borrower groups are municipalities and municipal housing companies. As per 30 Dec 2017, they accounted for 71 (70) percent of the total lending.

Multi-year summary, Kommuninvest i Sverige AB

	2017	2016	2015	2014	2013
Total assets, SEK, million	356,942.6	361,725.4	340,626.3	312,052.1	277,458.7
Lending, SEK, million	310,147.3	276,982.1	254,421.7	222,803.7	208,644.0
Net profit, SEK, million	876.0	309.8	561.3	568.4	590.7
Members, total	288	286	280	280	278
of which, municipalities	277	275	272	272	270
of which county councils/regions	11	11	8	8	8
Core Tier 1 capital ratio[1], %	212.4	103.7	44.6	34.6	37.0
Tier 1 capital ratio[2], %	212.4	103.7	44.6	34.6	37.0
Total capital ratio[3], %	212.4	122.1	59.8	49.3	59.5
Leverage ratio according to CRR[4], %	1.78	1.56	0.87	0.75	0.57

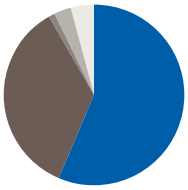
1) Core Tier 1 capital in relation to total risk exposure.
2) Tier 1 capital in relation to total risk exposure.
3) Total capital base in relation to total risk exposure.
4) Tier 1 capital in relation to total assets and commitments (exposures). The key ratio "Leverage ratio including debenture loan" is no longer used. See also sections Liabilities and Equity.

Borrowing during the year, by currency, 2017
(excl. commercial paper borrowing)



- SEK 56 (53) %
- USD 35 (33) %
- JPY 4 (6) %
- GBP 2 (4) %
- EUR 1 (2) %
- ZAR 0 (1) %
- MXN, TRY 0 (1) %
- NOK 2 (0) %

New borrowing by programme, 2017
(excl. commercial paper borrowing)



- Swedish bond programme 56 (45) %
- Benchmark borrowing, other currencies 35 (38) %
- Public Bonds 1 (4) %
- Private Placements 3 (6) %
- Uridashi 4 (7) %

The volume of Green Loans granted – financing for municipal investment projects promoting the transition to lower carbon dioxide emissions and climate-friendly growth, increased by SEK 9,152 (12,748) million. As per 31 December, the portfolio of approved Green Loans amounted to SEK 26,934 (17,782) million relating to 149 (83) investment projects.

At year-end 2017, 288 (236) members of the Society had access to KI Finans, a debt management system developed specifically for the local government sector. 190 (164) members had signed an agreement for the full-scale version.

Kommuninvest's funding

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

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

Continued favourable demand for low-risk issuers made it possible for Kommuninvest to continue borrowing liquidity on favourable terms in 2017. At the end of the period, total funding amounted to SEK 339,074.2 (343,975.5) million.

Kommuninvest is working actively to increase its funding 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 75,770.4 (104,194.4) million. SEK 42,715.0 (46,250.0) million was issued in the Swedish bond programme.

During the year, Kommuninvest continued, as planned, to issue green bonds, which are primarily purchased by investors with special mandates to support investments with an environmental focus. In May, the third green bond was issued, for USD 500 million. Kommuninvest is behind several of the largest green bonds issued to date in Sweden. The funds borrowed through green bonds finance investment projects in the Society's member municipalities, focusing on energy-efficient housing, renewable energy production and other green infrastructure. In total, as per 31 December 2017, Kommuninvest had SEK 14,396.5 (10,004.0) million outstanding in three green bonds.

UN award for green finance model

Since the launch in 2015, the Kommuninvest Green Bonds Framework has received several awards. At the UN climate summit in Bonn in autumn 2017, the UN Climate Change Secretariat recognised nineteen global initiatives as role models in the climate transition. Kommuninvest received the Momentum for Change Climate Solutions Award for the model that provides Swedish municipalities and county councils/regions with access to green finance.

Rating

Since 2002 and 2006 respectively, Kommuninvest holds the highest credit ratings for long-term funding, Aaa from Moody's and AAA from S&P Global Ratings (S&P, formerly Standard & Poor's). In September and May 2017, 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 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.

Financial accounts

Net profit

Kommuninvest's operating income, that is, its profit before tax and appropriations, amounted to SEK 1,123.8 (398.2) million. Profit after tax amounted to SEK 876.0 (309.8) million.

The operating profit includes unrealised changes in market value of SEK 426.0 (negative 195.5) million. Kommuninvest intends to hold assets and liabilities to maturity, meaning that changes in market value are not normally realised. Excluding market value changes, operating profit amounted to SEK 697.8 (593.7) million.

Operating income amounted to SEK 1,393.1 (630.3) million, including net interest income, commission expenses, net results of financial transactions and other operating income.

Net interest income rose to SEK 881.3 (762.0) million. The increase is mainly due to increased lending volumes and favourable interest rates in short-term liquidity management.

Kommuninvest grants lending at negative interest rates. Negative interest income is recorded as interest expense and, during the period, amounted to SEK 161.8 (151.0) million. For more information on how interest income and interest expenses are reported, see Note 1.

The net result of financial transactions amounted to SEK 512.0 (negative 131.9) million. The result was affected by unrealised changes in market value amounting to SEK 426.0 (negative 195.5) million, but also by the buy-back of own bonds and sales of financial instruments for SEK 89.8 (63.4) million.

The result of unrealised changes in market value is due to the funding cost for financing directly in SEK during the period having been more advantageous than financing in foreign currencies. Among the Company's liabilities, only borrowings in foreign currencies are recognised at fair value, which means that a decrease in the margin between the Company's funding and lending costs on instruments marked to market lead to positive 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 269.3 (232.1) million, including the resolution fee of SEK 66.3 (31.4) million.

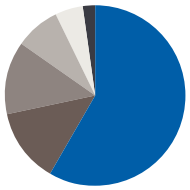
The resolution fee represents a risk-adjusted share of the balance sheet total less lending. The risk-adjusted percentage is determined by the Company's risk profile relative to other institutions required to pay the fee in accordance with the Commission's delegated regulation (EU) 2015/63. Kommuninvest's resolution fee for 2017 has been set by the Swedish National Debt Office at SEK 66.3 million. The resolution fee replaced the former stability fee in 2016 and, according to transitional measures, the resolution fee was reduced by half in 2016, being set at SEK 31.4 million. The resolution fee represented 25 percent of Kommuninvest's operating expenses, compared with 14 percent in 2016.

Excluding the resolution fee, operating expenses amounted to SEK 203.0 (200.7) million, of which personnel expenses accounted for SEK 119.9 (118.8) million and other expenses for SEK 83.1 (81.9) million. For further information, please see Comments on the income statement on page 49 of Kommuninvest's Annual Report for 2017.

Having sufficient scope, the Company's wholly-owned subsidiary, Kommuninvest Fastighets AB, issued a Group contribution of SEK 1.8 (–) million during 2017. The Board of Directors of this company was of the opinion that the Group contribution would not prevent the property company from fulfilling its obligations in the short and long term, nor from making necessary investments.

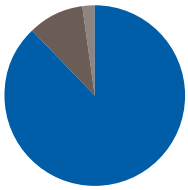
Credit losses totalled SEK – (–) million.

Liquidity reserve distributed by country
31 December 2017



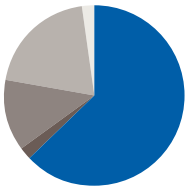
- Sweden 58 (51) %
- Germany 13 (17) %
- Supranational institutes 13 (13) %
- Finland 8 (9) %
- Denmark 5 (5) %
- Australia 0 (1) %
- Canada 2 (2) %
- UK 0 (2) %
- Netherlands 0 (1) %
- USA 0 (0) %

Liquidity reserve distributed by rating category
31 December 2017



- AAA 87 (77) %
- AA 10 (21) %
- A 2 (2) %

Liquidity reserve distributed by issuer category
31 December 2017



- Central governments or central banks 63 (21) %
- Regional governments or local authorities 2 (10) %
- Multilateral development banks 13 (13) %
- Public bodies 0 (1) %
- Covered bonds 0 (26)%
- Credit institutions (subsidised lenders) 20 (28)%
- Credit institutions (bank balances) 2 (2)%

Assets

Kommuninvest's total assets decreased to SEK 356,942.6 (361,725.4) million, primarily as an effect of a reduced liquidity reserve and volume of derivative contracts outstanding. This decrease exceeded the increase in lending volume.

Lending increased over the period to SEK 310,147.3 (276,982.1) million. In nominal terms, lending was SEK 308,042.5 (274,039.0) million.

The changed liquidity management principles have resulted in the liquidity reserve, comprising the balance sheet items, Sovereign bonds eligible as collateral, Lending to credit institutions, and Bonds and other interest-bearing securities, decreasing to SEK 37,785.5 (60,090.6) million. Apart from the liquidity reserve having decreased in size, its composition also changed during the period. Sovereign bonds eligible as collateral increased to SEK 24,635.8 (16,964.4) million, while Bonds and other interest-bearing securities decreased to SEK 12,500.0 (42,003.9) million. For further information on changed liquidity management principles, see section Rules for the liquidity reserve on page 9.

Derivative assets (derivatives with positive market value) also decreased sharply to SEK 8,044.6 (24,449.8) million. The foremost reason for the changes in the scope of the derivative assets are fluctuations in exchange rates affecting the value of derivatives hedging currency risk from funding in foreign currency. The changes over the year were also due to a large number of derivatives with high opening values having fallen due when the corresponding funding matured.

Other assets amounted to SEK 814.1 (14.6) million. The increase in other assets is primarily due to collateral of SEK 793.0 (–) million being pledged. In 2016, Kommuninvest began pledging collateral for derivatives cleared by central clearing counterparties, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 3. In 2017, the Company also began to issue cash collateral for derivatives not cleared by central clearing counterparties and for which there no right of settlement

applies and which are therefore included in full in the balance sheet. For further information on Other assets, please see Note 20 in Kommuninvest's 2017 Annual Report.

Rules for the liquidity reserve

A new strategy for matching assets and liabilities was introduced during the year. This included new instructions regarding the size and management of the liquidity reserve.

According to the Company's instructions, the liquidity reserve shall, with a margin, enable the Company to meet its payment commitments over the ensuing 30 days (LCR30, in accordance with regulatory requirements). In addition, the Company applies an internal liquidity coverage requirement to meet its payment commitments over the ensuing 90 days (LCR90).

Most of the investments are in securities issued by states, state-guaranteed financial institutions, and credit institutions with high creditworthiness. The investments may have a maximum average maturity of 12 months. At least 90 percent of the investments are to be made in assets pledged by the Riksbank (Swedish central bank).

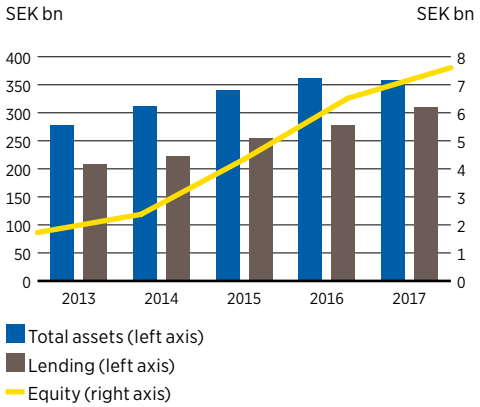
Liabilities

The Company's liabilities amounted to SEK 349,331.8 (355,211.4) million and funding decreased to SEK 339,774.2 (343,975.5) million. Derivative liabilities (derivatives with negative market value) amounted to SEK 7,793.9 (9,390.5) million.

Other liabilities amounted to SEK 2,422.5 (810.4) million. Other liabilities include collateral received of SEK 654.8 (–) million. In 2016, Kommuninvest began receiving collateral for derivatives cleared by central clearing counterparties, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 3.

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 settlement applies and which are therefore included in full in the balance sheet. Further information regarding other

Kommuninvest's balance sheet, 2013–2017



liabilities can be found in Note 21 in Kommuninvest's 2017 Annual Report.

During the year a subordinated loan of SEK 1,000.0 million between the Company and the Society was cancelled.

Shareholders' equity

At the end of 2017, equity in the Company amounted to SEK 7,610.8 (6,514.0) million, following Group contributions of SEK 987.5 (458.7) million paid to the Kommuninvest Cooperative Society. The change is mainly attributable to a share issue for SEK 1,000.0 million currently in progress, compared with the preceding year when the share capital increased by SEK 1,490.7 million through a new issue and SEK 682.9 million from a share issue in progress.

The subordinated loan between the Company and the Society of SEK 1,000.0 million was cancelled in the fourth quarter of 2017, after which a new share issue was implemented for the corresponding amount. On the balance sheet date, an application to replace the subordinated loan with shares had been filed with Finansinspektionen (FI). SEK 1,000.0 million was recognised as new share issue in progress, to be counted as shares in the Company's capital base once approval has been obtained from FI. The approval was obtained on 23 January, 2018.

At the end of the year, the share capital amounted to SEK 6,100.0 (5,417.1) million, distributed over 61,000,000 (54,170,590) shares. On the balance sheet date, the new share issue in progress of SEK 1,000.0 (682.9) million, divided into 9,999,720 (6,829,410) shares with a nominal value of SEK 100 per share, was fully paid. The application to register the new share issue as share capital was received by the Swedish Companies Registration Office on 26 January 2018. Registration as share capital was made on 5 February 2018. All share capital is attributable to the members of the Society and no shares are available for trade.

The development expenditure fund was introduced in accordance with the Annual Accounts Act (ÅRL) effective from January 2016. This fund of SEK 3.1 (1.6) million corresponds to capitalised development expenditure 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 in the operations, with capital ratios exceeding the required minimum standards by a good margin. The core Tier 1 capital amounted to SEK 6,359.2 (5,641.1) million, entailing a core Tier 1 capital ratio of 212.4 (103.7) percent. The total capital base was SEK 6,359.2 (6,641.1) million, which gave a total capital ratio of 212.4 (122.1) percent.

That the capital relations are identical is explained by the fact that the subordinated loan has been converted into share capital, see also previous section on Shareholders' equity. Calculations can be found in the chapter on Capital adequacy on page 17.

The Society bears the principal responsibility for the Group's capitalisation. The Society's plan is based on the internal capital target that the capitalisation of the Group and the Company is to be 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 capital contributed per resident by the Society's members. In 2017, the Annual General Meeting of the Society resolved that, if the need arises, the highest level of capital contributions may be doubled. 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.

Leverage ratio – Kommuninvest's plan and preparations

Effective from 1 January 2019 at the earliest, 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. Since 2014, the leverage ratio has been reported to the relevant authorities.

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 Council and the 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 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.

If the proposals are adopted, lending will be deducted from the exposure measure used to calculate the Company's and the Group's leverage ratio. Calculated in this way, Kommuninvest meets the leverage ratio of 3 percent being discussed by a good margin. The negotiation process is ongoing within the EU and Kommuninvest participates actively in the development.

Leverage ratio as per 31 December 2017

As per 31 December 2017, the Company's leverage ratio reported according to CRR was 1.78 (1.56) percent (see Note 4 for calculations). The Company no longer reports its leverage ratio inclusive of the subordinated loan of SEK 1 billion issued by the Company in 2010 to the Society, since the subordinated loan was terminated in 2017, to be replaced by another form of capital (see also Shareholders' equity on page 9).

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. The macroeconomic trend, as well as general development in capital markets, remain uncertain, since political risks after the UK referendum on an exit from the European Union (EU) and the outcome of the US presidential election cannot be ignored, although they decreased following the elections in the Netherlands and France.

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.

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 recognised value for credit risk exposure amounted to SEK 361,253.1 (368,026.5) million. Of the exposure, 86 (75) percent was related to lending to Swedish municipalities and county councils/regions; 11 (16) percent was related to investments in securities issued by sovereigns or other issuers, and 2 (7) percent was related to exposure to derivatives counterparties. 1 (2) percent related to off-balance sheet commitments (loan commitments and loans approved but which had not yet started). Due to a change in presentation, comparative figures for the previous year differ from those previously reported. See also Note 3 in the annual report.

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 2017 is shown in the chart on page 8.

Counterparty risks are restricted by entering into contracts with financial institutions with high creditworthiness and requirements for assets pledged. 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 new 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 risk, as well as surplus collateral being pledged. Accordingly, the total counterparty risk amounts to SEK 971.3 (1,269.2) million.

An in-depth description of the Company's risk exposure and risk management can be found in Annual Report for 2017 on pages 33–37 and in Note 3.

Employees

Over the period, the number of employees rose by 5 (6) persons to 96 (91). The average number of employees over the period was 91 (85).

Events after the balance sheet date

The Financial Supervisory Authority's approval regarding redemption of the subordinated loan and the issuance of new shares issues (see Equity) was received on 23 January 2018. Registration of new share capital took place at Swedish Companies Registration Office on 5 February 2018.

On 8 January 2018, Nasdaq announced that Kommuninvest's Swedish benchmark bonds will be included in Nasdaq's broadest bond index, OMRXALL, from 12 March 2018. This index is used as the benchmark index for a large proportion of assets managed in the Swedish interest rate market.

Board of Directors

At the Annual General Meeting on 20 April 2017, all Board members were re-elected. Ellen Bramness Arvidsson was elected as Chairman of the Board. Åsa Zetterberg was elected as a new member. The Board of Directors also includes Kurt Eliasson, Lars Heikensten, Anna von Knorring, Erik Langby, Anna Sandborgh, Johan Törngren, plus employee representatives Nedim Murtic and Ulrika Gonzalez Hedqvist. In June 2017, Ulrika Gonzalez Hedqvist transitioned from being a deputy to being an ordinary employee representative.

Management

On 31 December 2017, the Company's executive management consisted of Tomas Werngren (CEO), Maria Viimne (Deputy CEO and COO), Anders Pelander (Managing Director of Finance and Finance), Malin Norbäck (HR Manager), Britt Kerkenberg (Head of Risk and Control), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (IT Manager). During 2017, Johanna Larsson left the executive management, while Jens Larsson and Anders Pelander were added.

Income statement

SEK, million	Note	Jan – Dec 2017	Jan – Dec 2016
Interest revenues	1	452.3	654.0
Interest expenses	1	429.0	108.0
NET INTEREST INCOME		**881.3**	**762.0**
Dividends received		1.8	-
Commission expenses		-7.3	-5.2
Net result of financial transactions		512.0	-131.9
Other operating income		5.3	5.4
TOTAL OPERATING INCOME		**1,393.1**	**630.3**
General administration expenses		-258.5	-221.0
Amortisation of intangible assets		-4.8	-4.2
Depreciation of tangible assets		-2.5	-1.9
Other operating expenses		-3.5	-5.0
TOTAL OPERATING EXPENSES		**-269.3**	**-232.1**
OPERATING PROFIT		**1,123.8**	**398.2**
Tax		-247.8	-88.4
NET PROFIT		**876.0**	**309.8**

Statement of comprehensive income

SEK, million	Jan – Dec 2017	Jan – Dec 2016
NET PROFIT	**876.0**	**309.8**
OTHER COMPREHENSIVE INCOME		
Items that may subsequently be reclassified to the income statement		
Available-for-sale financial assets	24.1	56.6
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	2.5	-12.5
OTHER COMPREHENSIVE INCOME	**-9.0**	**44.1**
TOTAL COMPREHENSIVE INCOME	**867.0**	**353.9**

Balance sheet

SEK, million	Note	31 Dec 2017	31 Dec 2016
ASSETS			
State bonds eligible as collateral	2	24,635.8	16,964.4
Lending to credit institutions	2, 3	649.7	1,122.3
Lending	2	310,147.3	276,982.1
Bonds and other interest-bearing securities	2	12,500.0	42,003.9
Shares and participations		-	3.3
Shares in subsidiaries		42.0	42.0
Derivatives	2, 3	8,044.6	24,449.8
Intangible assets		10.9	13.4
Tangible assets		7.2	7.6
Current tax assets		79.0	79.0
Other assets		814.1	14.6
Deferred tax assets		-	28.1
Prepaid expenses and accrued revenues		12.0	14.9
TOTAL ASSETS		**356,942.6**	**361,725.4**
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities and provisions			
Liabilities to credit institutions	2	1,318.4	2,396.1
Securities issued	2	337,755.8	341,579.4
Derivatives	2, 3	7,793.9	9,390.5
Other liabilities		2,422.5	810.4
Accrued expenses and prepaid revenues		41.2	30.9
Provisions for pensions and similar commitments		-	4.1
Subordinated liabilities	2	-	1,000.0
Total liabilities and provisions		**349,331.8**	**355,211.4**
Shareholders' equity			
Restricted equity			
Share capital		6,100.0	5,417.1
New share issue in progress		1,000.0	682.9
Development expenditure reserve		3.1	1.6
Statutory reserve		17.5	17.5
Unrestricted equity			
Fair value reserve		0.8	9.8
Accumulated profit		-386.6	75.3
Net profit		876.0	309.8
Total equity		**7,610.8**	**6,514.0**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**356,942.6**	**361,725.4**

Account for changes relating to 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 income	
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 Dec 2016	**5,417.1**	**682.9**	**1.6**	**17.5**	**9.8**	**75.3**	**309.8**	**6,514.0**
Equity brought forward 1 Jan 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
Capitalised over the year			1.5			-1.5		0.0
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	0.0
New share issue	682.9	-682.9						0.0
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 Dec 2017	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**0.8**	**-386.6**	**876.0**	**7,610.8**

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

Cash flow statement

1 January – 31 December

SEK, million	2017	2016
Operational activities		
Operating income	1,123.8	398.2
Adjustment for items not included in cash flow	-418.5	201.1
Income tax paid	0.0	-0.4
	705.3	**598.9**
Change in liquidity reserve[1]	19,661.8	3,496.2
Change in lending	-33,877.0	-22,558.3
Change in other assets	-793.3	-0.9
Change in other liabilities	657.0	-107.8
Cash flow from operational activities	**-13,646.2**	**-18,571.9**
Investment activities		
Acquisitions of intangible assets	-2.2	-1.9
Acquisition of tangible assets	-2.3	-5.0
Divestments of tangible assets	0.2	0.3
Divestment of shares in associated companies	-	1.8
Cash flow from investment activities	**-4.3**	**-4.8**
Financing activities		
Issue of interest-bearing securities	147,433.0	129,345.1
Maturity and repurchases of interest-bearing securities[1]	-135,229.0	-110,702.1
New share issue	1,000.0	2,173.6
Change in debt ratios within the Group	-26.1	-1,817.5
Cash flow from financing activities	**13,177.9**	**18,999.1**
Cash flow for the year	**-472.6**	**422.4**
Cash and equivalents at start of the year	**1,122.3**	**699.9**
Cash and equivalents at end of the year	**649.7**	**1,122.3**
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	7.3	6.1
Profit from divestments of tangible assets	-0.1	-0.1
Profit from divestments of shares in associated companies	-	-1.3
Exchange rate differences from change in financial assets	0.3	0.9
Unrealised changes in market value	-426.0	195.5
Total	**-418.5**	**201.1**
Interest paid and earned, included in the cash flow		
Interest received[2]	371.0	787.1
Interest paid[3]	279.8	-42.3

1) The change in own holdings are included in Maturity and repurchases of interest-bearing securities. In the Annual Report 2016 this change was included in the liquidity reserve. Comparative figures have changed compared with Annual Report 2016. Adjustment has been made amounting to SEK 1,445.2 million.

2) 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.

3) Reported as paid interest 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

2017	OB	Cash flows	Currency exchange fluctuations	Fair value change	Group contributions	CB
Funding, incl. derivatives	328,916.2	13,204.0	-1,762.7	-1,534.0		338,823.5
Subordinated liabilities	1,000.0	-1,000.0				0.0
Share capital and new issue in progress	6,100.0	1,000.0				7,100.0
Inter-company liability	790.9	-26.1			987.5	1,752.3
Total	**336,807.1**	**13,177.9**	**-1,762.7**	**-1,534.0**	**987.5**	**347,675.8**

Capital adequacy

Since 1 January 2014, capital adequacy has been calculated according to CRR1. The capital buffers required under CRD IV2 has been implementation under Swedish law through the Act concerning capital buffers (2014:966). For Kommuninvest, only the capital conservation buffer of 2.5 percent and the countercyclical buffer applies, the size of the latter depends on the geographic location of credit exposures. As of 31 December 2017, the countercyclical buffer requirement for the Company was 1.01%. Kommuninvest is not subject to the requirement for a systemic risk buffer, nor has the Company been identified as a systemically important institution. Kommuninvest's assessment is that all buffer requirements will be met.

The capital adequacy calculations for credit risk in Pillar II have been developed and are now calculated based on a stressed scenario of expected credit losses according to the same model used to report expected credit losses according to IFRS 9. This has led to an increased capital requirement for credit risk.

	2017	2016
Share capital[3]	6,100.0	5,417.1
Retained earnings[4]	386.8	386.7
Accumulated other comprehensive income and other reserves	18.3	27.3
Core Tier 1 capital before regulatory adjustments	**6,505.1**	**5,831.1**
Further value adjustments[5]	-145.9	-190.0
Total regulatory adjustments to core Tier 1 capital	**-145.9**	**-190.0**
Total core Tier 1 capital	**6,359.2**	**5,641.1**
Tier 1 capital contributions	-	-
Total Tier 1 capital	**6,359.2**	**5,641.1**
Debenture loan[6]	-	1,000.0
Total supplementary capital	**-**	**1,000.0**
Total capital	**6,359.2**	**6,641.1**

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 10.

4) Deductions of SEK 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.

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.

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. The subordinated loan was cancelled in the fourth quarter of 2017, for more information see page 9 and Note 23 in the Kommuninvest Annual Report for 2017.

	2017		2016	
Capital requirement, Pillar 1	**Risk exposure**	**Capital require-ment**	**Risk exposure**	**Capital require-ment**
Capital requirement for credit risks (the standardised method)	373.8	29.9	2,274.1	181.9
of which, exposures to states and central banks	*-*	*-*	*70.2*	*5.6*
of which, institutional exposures	*289.7*	*23.2*	*550.6*	*44.1*
of which, corporate exposures	*84.1*	*6.7*	*91.8*	*7.3*
of which, exposures in the form of covered bonds	*-*	*-*	*1,561.5*	*124.9*
Operational risks, basic indicator method	1,865.6	149.2	1,628.2	130.3
Market risks	-	-	-	-
Credit valuation adjustment	754.4	60.4	1,536.1	122.9
Total risk exposure amount and minimum capital amount	**2,993.8**	**239.5**	**5,438.4**	**435.1**

Capital adequacy ratios	**2017**	**2016**
Core Tier 1 capital ratio	212.4%	103.7 %
Tier 1 capital ratio	212.4%	103.7 %
Total capital ratio	212.4%	122.1 %

Buffer requirements	**2017**	**2016**
Capital conservation buffer	2.5%	2.5 %
Countercyclical buffer	1.0%	1.2 %
Total buffer requirements	**3.5%**	**3.7 %**
Core Tier 1 capital available for use as buffer	**204.4%**	**97.7 %**

Internally assessed capital requirement, Pillar 2[1]	**2017**	**2016**
Capital requirement		
Credit risk	129.1	28.9
Market risks	1,468.7	1,505.1
Liquidity risk	-	-
Operational risk	-	-
Business risk	-	-
Reputation risk	-	-
Strategic risks	-	-
Residual risk	-	-
Total risk exposure amounts and minimum capital amounts	**1,597.8**	**1,534.0**

1) To cover the risk of an excessively low leverage ratio, the Swedish Financial Supervisory Authority has imposed on Kommuninvest a capital increase in Pillar II, which means that the capital base should be to at least 1.5 percent of the gross exposure amount.

Kommuninvest's capital planning aims 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 10-11.

For information to be disclosed under the EU Commission Implementing Regulation No 1423/2013 of 20 December 2013 on technical standards for implementation 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

Compliance with standards and legislation

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

Disclosures on the nature and extent of risks deriving from financial instruments are provided in Kommuninvest's Annual Report for 2017, see pages 33–37 as well as Note 3.

For all material purposes, the accounting policies and calculation methods remain unchanged compared with the 2016 Annual Report.

New and amended standards and interpretations

Amended IAS 7 Statement of Cash Flows is applied effective from 2017. Disclosures have been added to the Cash flow statement on page 16 where the year's change in liabilities attributable to financing activities is specified in terms of new funding, amortisation, changes related to divestment/acquisition of subsidiaries and exchange rate effects. Disclosures are made for changes that affect cash flow and changes that do not affect cash flow. The amendment is applied prospectively, so no disclosures are presented for the comparison year.

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

New and amended standards and interpretations yet to come into effect

Of the new standards and interpretations coming into force after 2017, the following regulations have been deemed to affect Kommuninvest's future annual accounts. Kommuninvest does not apply any regulations preemptively and instead applies regulations once they have been adopted for application by the EU. Other new and amended laws, standards and interpretations yet to come into effect are not assessed to have any material impact on Kommuninvest's earnings, position, disclosure, capital requirements, capital basis or major exposures.

For more information, see Note 2 in Kommuninvest's Annual Report.

IFRS 9 Financial instruments

IFRS9 will come into effect on 1 January 2018 and will replace IAS 39 Financial Instruments: recognition and measurement. The new standard consists of three parts: classification and valuation, impairment and hedge accounting.

Classification and measurement

IFRS 9 classifies financial assets based on business model, which, together with the asset's cash flow, affects the valuation of the financial assets. Kommuninvest's objective with its transactions is to hold financial assets to maturity, in terms of both the lending and investment portfolios. Combined with an assessment of the asset's cash flow nature, this influences asset valuation.

If the cash flows consist solely of capital amounts and interest on capital amounts, the asset will be valued at amortised cost. After reviewing the existing portfolio, on the transition to IFRS 9 on 1 January 2018, the assessment was made that all assets only have cash flows consisting of capital amounts and interest on capital amounts, and the assets will therefore be valued at amortised cost.

In cases of poor matching, the fair value option will be applied to the lending or investment and the asset is valued at fair value through the income statement. This arises when the asset is hedged without hedge accounting being applied, with one or more derivatives being valued at fair value through the income statement. This would lead to a mismatch if the hedged asset were valued at amortised cost, while the derivative was valued at fair value through the income statement.

For the Company's lending portfolio, the transition to IFRS 9 will not entail any change in valuation since the lending is currently valued at amortised cost, at fair value with regard to hedged risk in fair value hedges, or at fair value through the income statement where matching is poor. For the liquidity portfolio, IFRS 9 entails investments currently classified as assets available for sale being revalued at amortised cost on the transition to IFRS 9, with the impact on shareholders' equity amounting to SEK 0.9 million, which is derecognised from equity.

For financial liabilities, there are no major changes compared with IAS 39. The greatest change relates to liabilities recognised at fair value. For these, the portion of the fair value change attributable to the Company's own credit risk shall be recognised in other comprehensive income rather than in profit unless this causes inconsistencies in the accounts. For Kommuninvest, the transition to IFRS 9 will not have any impact on the liability side.

Impairment
The new principles for impairment of financial assets entail a model based on anticipated credit losses on those assets that are valued at amortised cost or at fair value through other comprehensive income. Impairment is to be calculated based on the probability of a counterparty defaulting and the share of exposure that would thus be lost.

To date, Kommuninvest has not suffered any credit losses in its lending or investment activities in Kommuninvest's 30-year history. Kommuninvest's unique business model, according to which loans are only provided to members of the Kommuninvest Cooperative Society and, where guaranteed by the members, to member-owned companies, and where liquidity reserve investments are made in assets with high creditworthiness, means that provisions for anticipated credit losses will only amount to SEK 7.2 million on the implementation of IFRS 9.

Hedge accounting
Kommuninvest has chosen to apply the exemption rule in IFRS 9 and will continue to apply hedge accounting in accordance with IAS 39.

Impact on capital base
Kommuninvest assesses the impact of the standard on the Company capital base will be intangible. Transitional rules regarding the impact of impairment on the capital base will not be applied.

IFRS 15 Revenue from contracts with customers
IFRS 15 came into effect on 1 January 2018 – Kommuninvest has not applied this standard prematurely. The standard is an accounting model for revenue from customer contracts and replaces current standards and interpretations for revenue recognition under IFRS. IFRS 15 does not apply to financial instruments. Kommuninvest has a financial management service that is affected by IFRS 15. Kommuninvest's assessment is that the impact of the standard is insignificant in relation to Kommuninvest's earnings, position, disclosures, capital requirements, capital base or large exposures.

Interest revenues 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 funding.

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 positive.

Kommuninvest grants lending at negative interest rates and the negative interest income is reported as interest expense.

Note 2 Financial assets and liabilities

2017	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	12,998.3	-	-	-
Lending to credit institutions	-	-	649.7	-
Lending	72,929.9	-	237,217.4	-
Bonds and other interest-bearing securities	11,677.3	-	-	-
Derivatives	-	3,531.2	-	-
Other assets	-	-	811.3	-
Total	**97,605.5**	**3,531.2**	**238,678.4**	**-**
Liabilities to credit institutions[1]	-	-	-	-
Securities issued[1]	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
Total	**-**	**-**	**-**	**-**

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	**-**	**-**	**-**	**-**

1) Nominal amount of borrowing, that is, the amount to be paid up by the maturity date, amounts to SEK 334,023.3 (278,543.1) 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.

Available-for-sale financial assets	Financial liabilities at fair value through profit or loss		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
11,637.5	-	-	-	-	24,635.8	24,635.8
-	-	-	-	-	649.7	649.7
-	-	-	-	-	310,147.3	310,438.6
822.7	-	-	-	-	12,500.0	12,500.0
-	-	-	-	4,513.4	8,044.6	8,044.6
-	-	-	-	-	811.3	811.3
12,460.2	**-**	**-**	**-**	**4,513.4**	**356,788.7**	**357,080.0**
-	1,312.7	-	5.7	-	1,318.4	1,318.4
-	116,878.6	-	220,877.2	-	337,755.8	339,396.6
-	-	7,040.4	-	753.5	7,793.9	7,793.9
-	-	-	2,414.4	-	2,414.4	2,414.4
-	-	-	-	-	-	-
-	**118,191.3**	**7,040.4**	**223,297.3**	**753.5**	**349,282.5**	**350,923.3**

Available-for-sale financial assets	Financial liabilities at fair value through profit or loss		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
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**

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 of existing loans will decline and vice versa.

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.

Note 2, continued

Liabilities to credit institutions, securities issued and 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 borrowing margins related to the structure and market of the borrowing by using secondary market spreads for similar transactions 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. Borrowings 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 in the relevant reference rate 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 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 pledged/received cash collateral, 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 158 (207) 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 188 (259) 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 +/–30 (+/–52) 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 +/–6 (+/–17) million.

All of the above changes refer to 31 December 2017 (comparative figures refer to 31 December 2016) 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. 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 profit or loss of these contracts is realised when Kommuninvest's borrowing margins for this type of borrowing change. The scope of the change depends on the anticipated remaining duration of the contracts, which depend in turn on unobservable data. The effect on net profit from the unobservable input data that arises is therefore attributable to how input data affect the estimated remaining maturity of the contract.

Kommuninvest has calculated the maturity at 3.6 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable funding in the interval of 1.0–7.6 years. This would have an effect on net profit in the interval SEK –3.1 million – SEK +1.1 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 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.

Note 2, continued

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
The valuation models have remained unchanged since 31 December 2016. For more information regarding previous changes, see Note 28 in Kommuninvest's 2016 Annual Report .

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 40.2 (1,491.2) million were transferred to level 1 from level 2, while (negative SEK 5,168.3) million was transferred to level 2 from level 1. Financial assets of SEK 5,407.9 (61,605.2) million were transferred to level 1 from level 2, while SEK 5,707.3 (–) million was transferred to level 2 from level 1. The movements are attributable variations in the indicator Kommuninvest uses to draw the boundary between level 1 and level 2. The indicator weighs up the number of observations and their standard deviation for bond prices. The transfers are considered to have taken place on 31 December 2017 and 31 December 2016 for the preceding period.

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 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

2017	Level 1	Level 2	Level 3	Total
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**
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**

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**

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 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
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
Cost, acquisitions	-	-	-	-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

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.

Financial instruments not measured at fair value in the balance sheet

2017	Level 1	Level 2	Level 3	Total	Carrying amount
Lending to credit institutions	-	649.7	-	649.7	649.7
Lending	-	237,508.7	-	237,508.7	237,217.4
Other assets	-	811.3	-	811.3	811.3
Total	**-**	**238,969.7**	**-**	**238,969.7**	**238,678.4**
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
Subordinated liabilities	-	-	-	0.0	-
Total	**125,895.2**	**99,042.9**	**-**	**224,938.1**	**223,297.3**

2016	Level 1	Level 2	Level 3	Total	Carrying amount
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**

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, 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 settlement in the balance sheet, since the legal right to settlement only applies for a stated type of suspension of payments, insolvency or bankruptcy.

				Related amounts that are not offset in the balance sheet			
31 Dec 2017	**Financial assets and liabilities, gross amounts**	**Amounts offset 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**
Repos[2]							
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**	**0.0**	**-1,029.0**	**178.0**	**-600.3**

				Related amounts that are not offset in the balance sheet			
31 Dec 2016	**Financial assets and liabilities, gross amounts**	**Amounts offset 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	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**

1) The amount offset for derivative liabilities includes cash collateral of SEK 390 million as per 31 December 2017 and SEK 360 million as per 31 December 2016.

2) Repos are included in Lending to credit institutions.

Note 4 Leverage ratio

Leverage ratio is defined as the primary 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 issued loan commitments and committed undisbursed loans.

	2017	**2016**
Total assets	356,942.6	361,725.4
Less asset amounts deducted to determine the core Tier 1 capital	-145.9	-190.0
Less derivatives according to the balance sheet	-8,044.6	-24,449.8
Plus derivatives exposure	2,973.7	16,500.7
Plus possible change in derivatives risk	3,656.7	5,450.9
Plus off-balance sheet commitments	2,155.3	1,765.4
Total exposure	**357,537.8**	**360,802.6**
Tier 1 capital, calculated applying transitional rules, see the section Capital adequacy	**6,359.2**	**5,641.1**
Leverage ratio	**1.78%**	**1.56%**

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, see pages 10-11.

Note 5 Transactions with related parties

Transactions with related parties are disclosed in Note 25 of Kommuninvest's 2017 Annual Report. Effective from 1 June 2017, neither Sandahl Partners Örebro AB nor Malin Norbäck Consulting AB provide key people in senior posts and, accordingly, those companies are no longer classified as related parties. For more information, see Note 25 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 per 31 December 2017, Kommuninvest Fastighets AB had a balance sheet total of SEK 56.7 (57.7) million, shareholders' equity of SEK 42.9 (43.6) million and generated a profit of a negative SEK 0.7 (0.7) million.

Note 7 Events after the balance sheet date

The Financial Supervisory Authority's approval regarding redemption of the subordinated loan and the issuance of new shares issues (see Equity) was received on 23 January 2018. Registration of new share capital took place at the Swedish Companies Registration Office on 5 February 2018.

On 8 January 2018, Nasdaq announced that Kommuninvest's Swedish benchmark bonds will be included in Nasdaq's broadest bond index, OMRXALL, from 12 March 2018. This index is used as the benchmark index for a large proportion of assets managed in the Swedish interest rate market.

Alternative performance measurements

In this 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 key ratios	Definition	Reconciliation	2017	2016
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	1,123.8	398.2
		Result of unrealised changes in market value	426.0	-195.5
		Operating profit excluding the effect of unrealised changes in market value	**697.8**	**593.7**
Operating expenses, excluding the resolution charge/stability fee, as % of lending	Total operating expenses over the financial year, excluding the resolution charge/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 resolution charge/stability fee.	General administration expenses	-258.5	-221.0
		Depreciation and amortisation	-7.3	-6.1
		Other operating expenses	-3.5	-5.0
		Total operating expenses	-269.3	-232.1
		Resolution charge/stability fee	-66.3	-31.4
		Total operating expenses excluding resolution charge/stability fee	**-203.0**	**-200.7**
		Lending as per the closing date	**310,147.3**	**276,982.1**
		Operating expenses, excluding the resolution charge/stability fee, as % of lending	**0.065**	**0.072**
Operating expenses, excluding the resolution charge/stability fee, as % of balance sheet total	Total operating 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 total assets, adjusted for the resolution charge/stability fee.	General administration expenses	-258.5	-221.0
		Depreciation and amortisation	-7.3	-6.1
		Other operating expenses	-3.5	-5.0
		Total operating expenses	-269.3	-232.1
		Resolution charge/stability fee	-66.3	-31.4
		Total operating expenses excluding resolution charge/stability fee	**-203.0**	**-200.7**
		Total assets as per the closing date	**356,942.6**	**361,725.4**
		Operating expenses, excluding the resolution charge/stability fee, as % of balance sheet total	**0.057**	**0.055**
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	876.0	309.8
		Total assets	356,942.6	361,725.4
		Return on assets (%)	**0.245**	**0.086**
Cost/income ratio	Total operating expenses in relation to net interest and other operating income. An established key ratio in the banking sector for assessing the relationship between expenses and income.	**Total operating expenses**	**-269.3**	**-232.1**
		Net interest income	881.3	762.0
		Other operating income	5.3	5.4
		Total interest income and other income	**886.6**	**767.4**
		Cost/income ratio	**0.304**	**0.302**

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, 13 February 2018

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

Åsa Zetterberg
Board Member

Nedim Murtic
Employee representative

Ulrika Gonzalez Hedqvist
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 14 February 2018 at 08:00 a.m.
From 22 February, it will be possible to download the complete 2017 Annual Report from the website, www.kommuninvest.se.

The consolidated accounts are prepared by the Parent Society, the Kommuninvest Cooperative Society, and are published at www.kommuninvest.se on 26 April 2018.

Production: Kommuninvest and Intellecta Corporate. Photo: Melker Dahlstrand

KOMMUNINVEST

The Swedish Local Government Debt Office

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