

KOMMUNINVEST I SVERIGE AB

# Annual Report

# 2017

+  
Sustainability  
Report



KOMMUNINVEST

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# 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.

**277  
+ 11**

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



## 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.

## OUR VISION

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

## Organisation with clear division of roles

Kommuninvest comprises two parts. These are a) the credit market company, Kommuninvest i Sverige AB (the Company) and, b) 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.

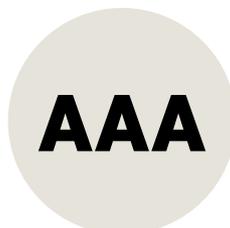
The Board of Directors consists of individuals with expertise in areas such as public administration, capital markets, business development and digitisation.

## 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.

## 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 who have had access to improved public services at both the local and regional levels.



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

**SEK 310 bn**

At the close of 2017, lending totalled SEK 310 billion.

# Important events during the year

Several milestones were reached during 2017, including a UN award for green financing. Kommuninvest's position in the market for municipal financing was strengthened and the European Commission made an important clarification.

## 50

percent of the sector's borrowing

In 2017, Kommuninvest passed SEK 300 billion in lending, for the first time, as a result of increased borrowing needs among municipalities and county councils/regions, new members and an increased share of lending among existing members. At the end of the year, the lending volume was SEK 310 billion, corresponding to 50 percent of the local government sector's total external borrowing.

## Clarification from the EU regarding leverage ratio

During 2017, the European Commission revised the requirements placed on "public development credit institutions" (PDCI), related to the introduction of a leverage ratio requirement. The revised proposal clarifies that even indirect exposures (e.g. lending to municipal companies) are subject to the special leverage regulation for PDCIs. In addition, it is now stated 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 PDCI, which would result in significantly lower capital requirement in contrast to a situation where the leverage ratio is based on the total balance sheet. The leverage ratio requirement is expected to be introduced in 2019, however, the proposal is not final. See also page 36.

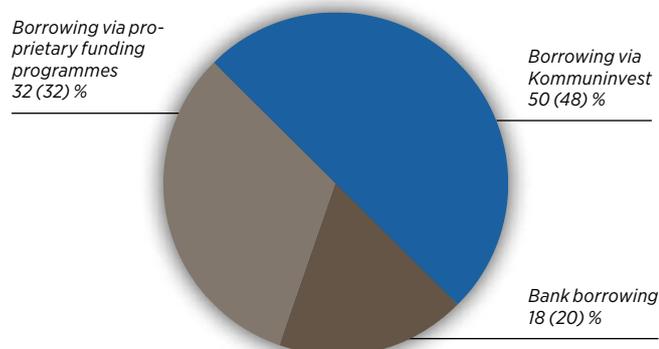


## UN award for Swedish municipalities

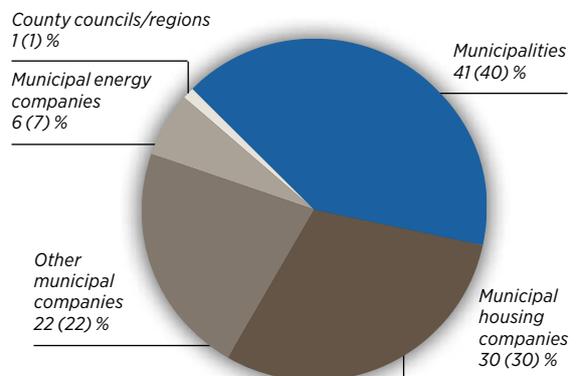
At the UN climate conference COP23, in Bonn in November 2017, the Swedish local government sector received the UN's *Momentum for Change Climate Solutions Award* for the green financing model developed by Kommuninvest and its members.

There to receive the prize was Margareta Rönngren, Deputy Chairman of the municipal executive board in Umeå, and Björn Bergstrand, Head of Sustainability at Kommuninvest. Kommuninvest was one of the three winners nominated in the category Financing for Climate Friendly Investment. According to the UN, the Kommuninvest green finance model is an example of a concrete, innovative and scalable solution by which others can be inspired.

## MARKET SHARES, LOCAL GOVERNMENT LOAN FINANCING<sup>1</sup>



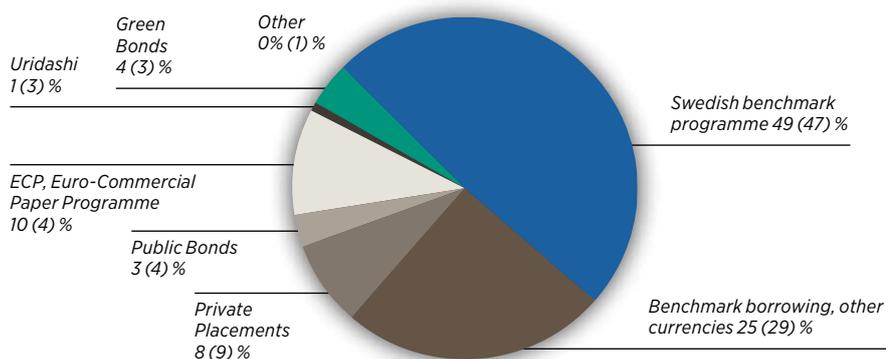
## KOMMUNINVEST'S LENDING PORTFOLIO



1) Forecast for total outstanding borrowing.

## BORROWING PORTFOLIO BY BORROWING PROGRAMME

(excl. commercial paper borrowing)



All pie charts refer to 31 Dec 2017 (31 Dec 2016).

## MULTI-YEAR SUMMARY, KOMMUNINVEST I SVERIGE AB

	2017	2016	2015	2014	2013
Balance sheet total, SEK billion	356.9	361.7	340.6	312.1	277.5
Lending, SEK billion	310.1	277.0	254.4	222.8	208.6
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 <sup>1</sup> , %	212.4	103.7	44.6	34.6	37.0
Tier 1 capital ratio <sup>2</sup> , %	212.4	103.7	44.6	34.6	37.0
Total capital ratio <sup>3</sup> , %	212.4	122.1	59.8	49.3	59.5
Leverage ratio according to CRR <sup>4</sup> , %	1.78	1.56	0.87	0.75	0.57

1) Core Tier 1 capital in relation to total risk exposure. See also page 35–36 and Note 3.

2) Tier 1 capital in relation to total risk exposure. See also page 35–36 and Note 3.

3) Total capital base in relation to total risk exposure. See also page 35–36 and Note 3.

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 page 36 and Note 3.



# Playing a key role in the sustainability transition

**In the wake of international agreements, the pace of the shift towards sustainable capital markets has increased. The role of the cities and the regions as builders of communities is becoming increasingly apparent. Kommuninvest has strengthened its long-term capacity to offer the efficient and stable financing solutions demanded by its members and customers.**

**E**xternal developments are progressing at an unprecedented rate. Polarisation, macro-economic displacement, geopolitical uncertainty, technological development, and environmental and energy issues have a major impact on states and communities. In times of rapid change, it is crucial to keep your ear to the ground, maintaining a conscious relationship to risks and opportunities. Carefully monitoring external developments and their potential effects are, and shall be, part of our efforts in effective risk control.

## **Towards a sustainable capital market**

These changes bring opportunities for Kommuninvest and its members and customers. For example, the financial system is currently being recast in a more sustainable direction, driven partly by international and regulatory initiatives but, in particular, by changing behaviours among individual players, who are glad to take action as long as good ideas exist regarding how to proceed. The ability of the financial system to evaluate and price in climate risks is crucial for societies to develop in a more sustainable direction.

Local government authorities are making extensive investments in energy-efficient buildings and renewable energy production, for example. For several years now, it has been possible to finance these investments through Green Loans from Kommuninvest. Favourable demand for Green Loans has helped Kommuninvest to establish itself as Sweden's largest issuer of green bonds and, indeed, as a world-leading player in this area. Swedish municipalities and county councils/regions are uniquely placed as community builders, and as both role models and key players in this essential realignment.

## **Digitisation and efficiency strategically important**

Digitisation is one of the global megatrends affecting Kommuninvest most and an area in which we are investing considerable energy – to streamline our operations and enhance our offering. One example is our KI Finans service, which allows local government officials official to produce, at the push of a button, a report that previously could take several days to compile. This represents a gain in efficiency that directly benefits members and customers. Other efficiency gains benefit members and customers through improved loan terms.

Working with efficiency throughout the operations is essential. Over the year, we devoted particular energy to achieving a more effective interplay between funding, lending and administration. This allows us to meet our members and customers needs better in terms of price and quality of service.

## **Culture and values under scrutiny**

Kommuninvest is pervaded by low risk, high stability and the strong trust of its stakeholders. Since 2006, we have held the highest possible credit rating, AAA/Aaa with a stable outlook, from the major credit rating agencies. This is something that we must safeguard.

It is crucial how we nurture and develop Kommuninvest's culture – at all levels and in all areas of the operations. Our culture is permeated by our openness, focus on the members, and the insight that we are dealing with other people's money. We will make conscious efforts to ensure that this continues to bear us up.

This is central because cultural issues are decisive to how financial institutions act. The fact that regulators in different parts of the world weigh in cultural issues in their supervision reflects the importance of this matter.

## **Good starting position**

On the whole, 2017 was a very good year for Kommuninvest. We are particularly pleased that the UN brought attention to the green funding partnership between the Swedish municipalities and county councils with its *Momentum for Change Climate Solutions Award* at the Bonn climate summit.

Maintaining a dialogue is central to the direction, quality and efficiency of our future development. As an organisation, Kommuninvest is a keen listener and seeks to learn from its surroundings and stakeholders. There is always more to learn and this provides the basis for ensuring that our contributions to members and customers are targeted, relevant and generate value.

Kommuninvest i Sverige AB



**Ellen Bramness Arvidsson**  
Chairman

# Good year for local government funding

**From the outset, Kommuninvest has had a good number of particularly good years, but, when the history books are written, I would venture to say that 2017 will prove to have been a particularly strong year. Much has developed to strengthen local government infrastructure for investment funding in both the short and long term.**

**N**early 290 municipalities and county councils/regions are members of Kommuninvest Cooperative Society, and are thus, together with their majority-owned companies, associations and foundations 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 in Swedish welfare.

## Membership benefits for all

Total lending rose by 12 percent to SEK 310 billion, due to increased municipal investment and borrowing needs, but also because of our higher share of the sector's overall borrowing. The Municipality of Linköping and the City of Mölndal became new members.

We focus our process of change on four areas: Customers, Digitisation, Efficiency and Competence. This is to ensure that Kommuninvest will continue to be able to meet the expectations of its members and customers in the future.

## Local government debt office for the future

Thanks to our KI Finans service, we have access to large amounts of data on local government debt management. This enables in-depth analysis and more effective debt management for Kommuninvest's members and customers. In addition to inexpensive and secure credit, this also provides considerable opportunities to offer consultation based on data analysis and benchmarking.

We have also begun digitising our services to an increasing extent. We are partnering with Örebro University on artificial intelligence to simplify and improve analytical services.

## Cost-effective borrowing and matching

Efficient funding and low administrative costs are crucial to generate long-term 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. This contributes to better terms in lending, but also to a more solid liquidity reserve.

## Green realignment unites local government and investors

Today, institutional investors increasingly seek sustainable management of their funds, and also to finance clearly defined green and/or social projects. For credit institutions such as Kommuninvest that primarily finance sustainable, green and social investment by municipalities and county councils/regions, this offers favourable opportunities. To date, efforts with Green Loans and Green Bonds have been successful, and the award conferred by the UNFCCC Secretariat during the year provides valued recognition.

## Sustainable local government finances

Meeting sizeable investment needs sustainably remains in focus for the local government sector. It may be assumed that demand for welfare services will continue to be high for many years ahead. We estimate that local government investment and external loan debt will increase by more than 5 percent annually in the years to come. At the same time, local government pension debt is decreasing and the Swedish economy is growing at a good rate. Consequently, the overall increase in debt will be manageable and limited relative to GDP.

## On the right track

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.

Kommuninvest i Sverige AB



**Tomas Werngren**  
President and CEO





# Sustainability Report 2017

**A significant part of the future investments that will be made in Sweden will be implemented by some of the 288 municipalities and county councils/regions that are members of Kommuninvest. This entails Kommuninvest being involved in the financing of housing, schools, energy plants, homes for the elderly, hospitals and other key social infrastructure around Sweden. In this way, we contribute to a stronger welfare and a sustainable society.**

Taking responsibility for how our operations affect society comes naturally to us. However, it is by offering our members attractive financing solutions that we make a real difference. Through our operations, we create scope and opportunities to accept greater economic, environmental and social responsibility.

The municipalities, county councils and regions form the backbone of the Swedish welfare state. It is under the management of these organisations that citizens encounter the most central social services, including healthcare, education and residential care. They also play a central role in the basic social infrastructure, in the form of housing construction, energy supply, public transport, water and sanitation, waste management and recycling, etc. More than half of public investment takes place in the local government sector, with local government investments making significant contributions to the Swedish economy.

The local government sector is also a major employer. Of the total number of jobs in Sweden in 2016, municipalities, municipal companies and county councils/regions account for approximately 25 percent.

Over the upcoming years, the local government sector will need to make major investments – to create the conditions for continued growth, the build-out of welfare and for upgrading and modernising facilities and buildings constructed in previous periods of expansion. What these substantial investments share are the high sustainability ambitions applied. Consequently, Kommuninvest considers supporting sustainability work at the local and regional levels, that is, among our municipalities and county councils/regions, to be a central task that it meets by providing sustainable financing solutions.

The Sustainability Report, including key data, covers the entire Kommuninvest Group.

# The UN's development goals and the Swedish local government sector's sustainability efforts

**Almost half of all Swedish municipalities and county councils/regions use Agenda 2030 in their sustainability work, according to a survey from the Swedish Association of Local Authorities and Regions (SALAR).**

In 2015, the UN's new global development goals, were adopted, the so-called Agenda 2030 targets for sustainable development. There are 17 of these targets, backed by 169 interim targets. To obtain a better picture of what Agenda 2030 looks like around the country, Swedish Association of Local Authorities and Regions (SALAR) conducted a survey in the spring of 2017 together with UNA Sweden and the secretariat of the Agenda 2030 delegation.

The survey showed that:

- Nearly half of the municipalities, county councils and regions use Agenda 2030 as a tool for sustainable development.
- For a long time, the local government sector has been working actively on sustainable development – even where Agenda 2030 is not used directly as a tool or label for the process.
- In 24 municipalities and seven county councils, the municipal executive board/county/regional administrative board or the council has adopted some position with regard to Agenda 2030.
- Agenda 2030 is perceived as a positive umbrella under which sustainability efforts are gathered, particularly for collectively communicating the three dimensions of sustainability – the social, environmental and economic dimensions.

SALAR has also charted the extent to which its focus document for 2016–2019, Responsibility for Welfare, adopted by its general assembly, is in line with the goals of Agenda 2030. The focus document describes how SALAR, as the sector organisation for Sweden's municipalities and county councils/regions, will perform its work over the period. The analysis shows a direct or indirect link to 16 of the 17 global goals. The focus document aligns with the global and interim targets, not only in how it links to them, but also in how its vision, supporting texts and perspectives largely reflect the spirit of Agenda 2030.



Integrating new arrivals into Swedish schools requires new methods. Pupils in the preparation classes at the Vivalaskolan school in Örebro are divided up and moved to other schools in the hope that more mixed classes will raise the level and reduce the knowledge gap.



# How we create sustainable value to society

**Kommuninvest operations serve to secure long-term, stable financing for members' investments. Our view of sustainability originates in the values of the Swedish municipal sector. It is therefore consistent with the international framework of the ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Global Compact.**

## 1 Kommuninvest's conditions

Kommuninvest i Sverige AB only lends money to the Swedish local government sector and its operations are guaranteed by the municipalities and county councils/regions that are members of the Kommuninvest Cooperative Society. The guarantee undertaking means that all members of the Cooperative Society guarantee all commitments to maturity. The members' joint and several guarantee undertaking represents the precondition for the Company's strong position in the capital markets.

- The Company has the highest credit rating from both S&P Global Ratings and Moody's.
- At the end of 2017, 96 percent of Sweden's municipalities and 55 percent of the county councils/regions were members of the Society.
- Every day, Kommuninvest employees help ensure that all parts of our operations are conducted as efficiently as possible.
- Well-established processes support us in our work.

## 2 Kommuninvest's operations

Kommuninvest principal task is to finance the investments made within the Swedish local government sector – in manner that is sustainable in the long term and on as favourable terms as possible. We borrow money on the Swedish and international capital markets in order, in the next stage, to offer members stable and cost-efficient financing. To safeguard good capacity to meet payment commitments, the Company maintains a liquidity reserve of highly liquid fixed-income securities with exceptional credit quality.

- In 2017, Kommuninvest borrowed SEK 76 (104) billion. Total borrowing amounted to SEK 339 (344) billion.
- At the end of 2017, SEK 38 (60) billion was managed by Kommuninvest within the liquidity reserve, which corresponded to 12 (22) percent of the lending volume.
- At the end of the year, lending totalled SEK 310 (277) billion.

## 3 Kommuninvest's direct impact

From a sustainability perspective, Kommuninvest's main direct impact primarily involves how our operations affect the Company's stakeholders and society through our loan financing, our responsibility for our employees, our local collaboration efforts and our direct environmental impact. Over the year, we focused in particular on reaching out to members with so-called "Green Loans". In addition to lending, Kommuninvest also offers assistance and support to its members – this takes the form of, for example, advice and support during the credit provision process and through a web-based debt management system that markedly facilitates follow-up, analysis and reporting.

- Kommuninvest continued to be the local government player borrowing at the lowest cost in the capital market, and market share among members strengthened. In addition to being able to offer our members very attractive financing, our good results have enabled the distribution of a surplus of SEK 445 (501) million from the Society to the members.
- All members of the Society have access to KI Finans, the tool for more efficient debt management that Kommuninvest has developed. 66 (57) percent of members use the full-scale version.
- Kommuninvest's reputation among employees and investors remained at a high level in the surveys conducted.

## 4 Kommuninvest's indirect impact

Kommuninvest makes it possible for municipalities and county councils/regions to implement their social investments as efficiently as possible. Accordingly, Kommuninvest contributes to the general development of welfare and to Sweden as a nation being able to achieve long-term social objectives, including environmental and climate objectives.

- At the end of 2017, Kommuninvest accounted for 50 (48) percent of total local government borrowing in Sweden.
- The volume of approved Green loans rose to SEK 27 (18) billion. During 2017, 65 (72) investment projects obtained financing with Green Loans, which are provided to environmental and climate-related initiatives.
- Kommuninvest received the UN's Momentum for Change Climate Solutions Award and led a Nordic harmonisation initiative on impact reporting for Green Bonds.
- Kommuninvest's operational model contributes to increased stability and security for members. The Company's securities have a broad distribution among institutional investors around the world and considered safe investments in troubled times. If necessary, the liquidity reserve can be converted into cash on short notice.
- Kommuninvest contributes to the local community, for example, through its partnership with Örebro University and several initiatives to reduce exclusion, help young people and boost business ventures led by women.
- Kommuninvest's international commitment contributes to increased awareness on sustainable local government debt management even outside Sweden.

**1 Kommuninvest's conditions**

<p><b>Financial stability</b></p>	<p><b>Member-owned</b></p>	<p><b>Employee competence</b></p>	<p><b>Structural capital</b></p>	<p><b>Vision</b> "a beneficial and sustainable society."</p>
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**2 Kommuninvest's operations**

<p><b>Funding</b></p> <p>Kommuninvest borrows money by issuing bonds and commercial papers in the Swedish and international capital markets.</p> <p>Total borrowing, SEK 339 billion.</p>	<p><b>Liquidity management</b></p> <p>Pending onward lending, the borrowed funds are managed in a liquidity reserve.</p> <p>Total liquidity reserve, SEK 38 billion.</p>	<p><b>Lending</b></p> <p>Kommuninvest solely lends money to municipalities and county councils/regions who are members of the Kommuninvest Cooperative Society and, against guarantees from members, to municipal companies, foundations and associations.</p> <p>Total lending, SEK 310 billion.</p>
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**3 Kommuninvest's direct influence**

 <p><b>Lending</b></p>	 <p><b>Green Loans</b></p>	 <p><b>Effective debt management</b></p>	 <p><b>Reputation (CSI, ESI, ISI)</b></p>	 <p><b>Distribution of surpluses</b></p>
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**4 Kommuninvest's indirect influence**

 <p><b>Building public welfare</b></p>	 <p><b>Sweden's environmental objectives</b></p>	 <p><b>Stability in local government finances</b></p>	 <p><b>Activities in the local community</b></p>	 <p><b>International commitment</b></p>
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# Focus of sustainability efforts

**Behaving ethically and taking responsibility for economic, environmental and long-term sustainable social development are fundamental elements of Kommuninvest's sustainability efforts. We also seek to promote a dynamic dialogue and communications with stakeholders about this work.**

## Stakeholder dialogue

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

Kommuninvest's stakeholder dialogue involves, for example, systematic meetings with customers and owners, discussions with personnel representatives and representatives from central government ministries and authorities. In addition, Kommuninvest conducts regular surveys among owners, customers, employees and investors. As a basis for our sustainability work in 2017 and beyond, a survey on key sustainability issues was conducted among the Company's key stakeholders at the end of 2016. The intention is to repeat the survey every two years.

## Municipalities and county councils/regions are our most important stakeholders

Kommuninvest's members – municipalities, county councils and regions – own and control our operations – but are also our customers when they choose to borrow from us. The dialogue with our members, in their capacity as owners, is mainly conducted with elected politicians. In dialogue with our members, in their role as customers, we mainly interact with finance specialists from municipal and county council/region offices/bodies.

These dialogues with the elected officials and civil servants are conducted on an ongoing basis in both informal and more formal, established contexts. Such important forums for elected officials include the Annual General Meeting of the Society and the member consultations held at the beginning of each year. In 2017, member consultations were held in 18 locations around Sweden with 315 participants. For customers, annual financial seminars are held across the country, but also meetings with various customer constellations. The 2017 financial seminars were held in eight locations with a total of 227 participants.

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

## Materiality analysis

Through the stakeholder dialogue, Kommuninvest forms an idea of which sustainability issues the Company should work with. In the stakeholder survey on sustainability conducted in late 2016, external and internal stakeholders were asked to prioritise which initiatives Kommuninvest should prioritise. Environmental aspects of lending and borrowing are the issues considered most important by stakeholders.

## Governance of sustainability work

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

## Sustainability risks

Sustainability risk is the risk that Kommuninvest's operations will directly or indirectly affect their surroundings negatively in terms of business ethics and corruption, including money laundering and terrorism financing, climate and environment, as well as human rights, including working conditions. Kommuninvest considers itself primarily exposed to sustainability risks related to ethics, IT security and so-called green-washing, that is, the risk that environmental and climate-related investment projects that it funds fail to meet sustainability requirements.

Kommuninvest's actions to address sustainability risks are largely governed by national and international regulations and guidelines alongside the Society's Ownership Directive, internal instructions and policies. With regard to "green financing", the Company's sustainability risk is managed through a Green Bond Framework, including the expert committee responsible for evaluating and approving investment projects for green financing.

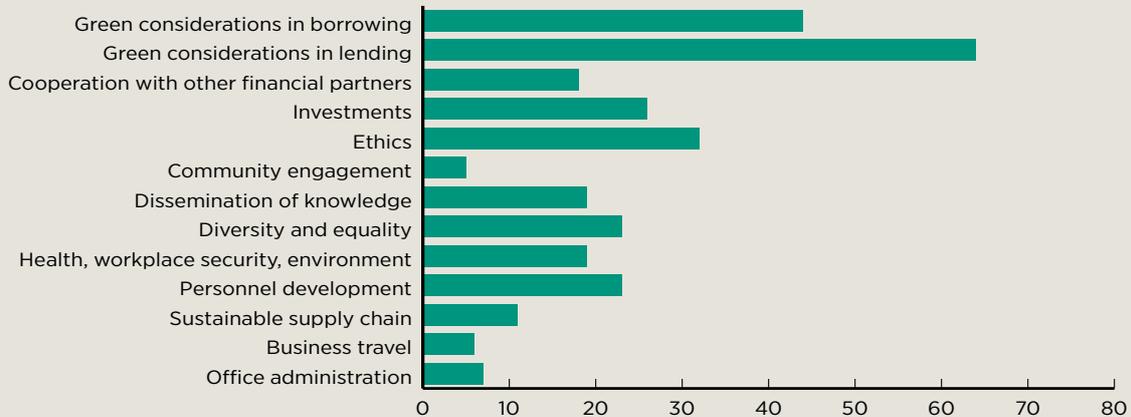
## Focus areas

### *Stable and cost-effective financing solutions*

Kommuninvest's basic mission is ensuring that Swedish municipalities and county councils/regions are able to access

## Sustainability survey: The most important measures to prioritise<sup>1</sup>

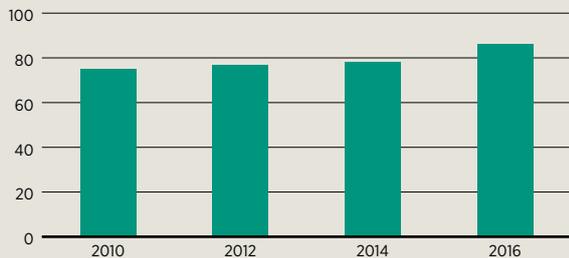
Number of respondents: 80



<sup>1</sup>) Each respondent was asked to rank the three areas they considered most important, second-most important and third-most important. The graph visualises the total number of times each factor is mentioned, as a percentage of total responses.

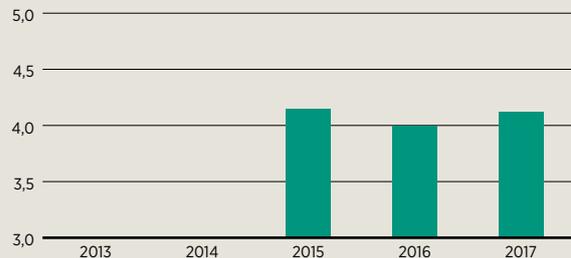
The Sustainability survey was conducted at the end of 2016 and is intended to be repeated biannually.

## Customer satisfaction survey



\* Index between 60-75 is deemed "Satisfied", index of 75 or more is considered "Very satisfied". Survey conducted biannually.

## Investor satisfaction survey



\* In 2017, Kommuninvest was placed as the second (third) best rated credit institution in the international investor survey. The survey was first conducted in 2015.

loan financing on favourable terms, including during periods of unease in the financial markets. Accordingly, as the dominant lenders, we help foster conditions for welfare investments that are both cost-effective and sustainable.

### Green Loans and Green Bonds

Kommuninvest is encountering increasing demand for financial instruments allowing both borrowers and investors to express their sustainability ambitions in concrete terms. Kommuninvest currently offers Green Loans for the financing of local government investment projects with clear environmental and climate benefits. Kommuninvest funds its Green Loans by issuing Green Bonds.

### Attractive workplace

A culture characterised by diversity, gender equality and committed employees is essential if Kommuninvest is to successfully perform its mission. Kommuninvest works proactively in all of these areas and has a high proportion of women in management positions, a high proportion of employees with a foreign background and a strong commitment to employees.

### Review inspired by GRI

The review of Kommuninvest's internal sustainability work is detailed by means of a selection of indicators on this and the following pages. This selection is inspired by the GRI framework (Global Reporting Initiative), a standard for sustainability reporting that is used widely.

# Economic responsibility

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

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

## Local government debt office

Kommuninvest's role in sustainability work primarily involves continuing to provide the Swedish local government sector with stable and efficient financing at the lowest possible cost. Accordingly, Kommuninvest fulfils a similar role for the local government sector as the National Debt Office does for the central government and its authorities.

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

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

## Partnership on behalf of members

One of Kommuninvest's main objectives is to reduce local government borrowing costs. Large volumes and a relatively small organisation mean that administrative expenses can be kept at a low level. In 2017, they amounted to 6.1 (5.5) basis points in relation to total assets.

The profits generated in the operations are returned to the members in the form of interest on capital contributions and refunds in relation to business volume. In this way, SEK 445.4

(500.7) million was transferred back to the members of the Society in 2017.

## Anti-corruption and business ethics

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

Risk assessment of the business model and business relationship is done to ensure that work focuses on low-risk countries. Suspicions of serious irregularities that could entail or lead to a breach of law are to be reported. Such violations can also be reported anonymously via a whistleblower function handled by an external party. No matters related to anti-corruption or guidelines on money laundering have been investigated during the year.

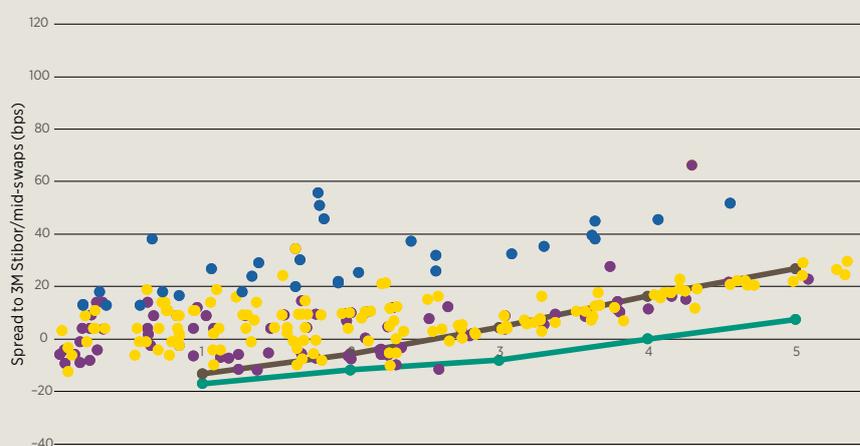
## Lowest borrowing costs

The graph on the next page compares local government funding costs in the Swedish fixed-income market, in relation to a reference rate and to remaining time to maturity. The green line demonstrates that Kommuninvest is the local government player that borrows at the lowest cost, approximately 20–40 basis points lower than other players, depending on maturity.

## In-depth knowledge of conditions in the sector

Through in-house research and reports, Kommuninvest seeks to increase knowledge of the local government sector's long-term financial conditions. Kommuninvest has, among other things, an in-depth partnership with the University of Örebro, promoting, for example, research on the local government sector's debt management and financial conditions. Each year, we publish reports describing developments in local government investment and its funding, and we specifically study trends and phenomena associated with local government borrowing, debt and investment. In 2017, an open database was launched, enabling comparison between all of Sweden's local government authorities with regard to trends in investment, borrowing debt and population.

## Pricing for local government issuers, Swedish fixed-income market as per 12 February 2018



### Lowest borrowing costs

The graph on the left compares local government actors' borrowing costs in the Swedish fixed-income market. The graph's x-axis shows the average remaining term until maturity and the y-axis shows the local government borrowers' borrowing expressed in basis points above the reference rate (mid-swaps), where the green line is Kommuninvest's borrowing. Accordingly, Kommuninvest is the local government player that borrows at the lowest cost.

— Kommuninvest  
— Stadshypotek  
● Municipal companies  
● AAA Local government authorities  
● AA+ Local government authorities

Source: Swedbank Debt Capital Markets

## Generating financial value – Kommuninvest Group

	Unit	2017	2016	2015
<b>Total revenue</b>				
Interest revenues	SEK, million	452.3	654.0	1,438.3
Other operating income	SEK, million	6.2	7.2	4.5
<b>Distributed value</b>				
Interest expenses	SEK, million	-426.4	-107.9	640.0
Commission expenses	SEK, million	7.3	5.2	5.3
Salaries and emoluments	SEK, million	70.4	68.1	62.0
Pension expenses, training expenses and other personnel expenses <sup>1</sup>	SEK, million	21.1	29.4	20.6
Social security contributions and payroll tax on pension expenses	SEK, million	25.3	23.7	22.0
Resolution charge/stability fee	SEK, million	66.3	31.4	120.5
Other operating expenses <sup>1</sup>	SEK, million	102.6	93.2	79.4
Tax	SEK, million	28.0	0.4	-31.2
Transferred to the members of the Society during the year, refunds on business volumes and interest on member contributions for the previous financial year <sup>2</sup>	SEK, million	445.4	500.7	679.5
<b>Efficiency</b>				
Operating expenses, excluding resolution charge/stability fee as % of total assets	%	0.061	0.055	0.051

1) The transfer of expenses for contract personnel has resulted in subtotals for payroll expenses and other operating expenses being changed compared with the 2015 Annual Report.

2) Amounts refer to those transferred in the preceding financial year, that is amounts disbursed in 2017 refer to the 2016 financial year.

# Social responsibility

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

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

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

## Equality, diversity and development

Kommuninvest's Gender Equality and Diversity Policy emphasises the importance of gender equality and diversity in the organisation, to ensure that the Company is an attractive employer for both current and potential employees.

At the end of 2017, 49 (41) percent of the total number of employees were women. Of the managers, 38 (45) percent were women and, in the Executive Management Team, the proportion was 40 (67) percent. The aim is to be able to attract, retain and develop skilled employees – regardless of gender, ethnicity, religious belief, age, disability or sexual orientation.

An internal survey showed that, at the start of 2018, 18 percent of the Company's employees came from countries other than Sweden. A total of 13 different countries are represented in the organisation.

## The year's employee survey

The result of this year's employee survey shows that Kommuninvest is an equal and non-discriminatory workplace, where employees feel considerable commitment to Kommuninvest's social mission. Employees also perceive Kommuninvest as a workplace where you can combine work and leisure. Areas for improvement include the pace of work and stress, as well as internal communications. The 2017 Employee Satisfaction Index amounted to 68 (69) and the Employee Loyalty Index to 75 (this is a new measure) – combined, the Company had 81 percent satisfied and loyal employees, which is considered a relatively high value.

## Sustainable daily life

Increasing absenteeism due to work-related stress and other psychosocial factors have caused Kommuninvest to initiate ambitious efforts within a programme we call Sustainable Daily Life. Within this programme, employees are offered a good physical and social working environment, training and daily exercise, health-inspired lectures, stress management,

individual coaching and self-help programmes. Among other things, all employees are offered individual health and lifestyle reviews. Based on these, employees are given tools to establish a sustainable lifestyle in the areas where the need is perceived to be greatest. This can involve everything from sleep, diet, exercise and lifestyle to work-related concerns.

## Kommuninvest opens the way into the labour market

It is not always easy for students to take their first steps into the labour market. Accordingly, each year, Kommuninvest gives two people an opportunity to gain some initial relevant work experience. Anyone is welcome to apply, but we prioritise highly qualified students who have a slightly higher threshold when entering the labour market. This may involve their ethnic background or disability, for example. The results from the first two rounds have been gratifying. Following their year-long internship at Kommuninvest, four people have permanent jobs with other employers in the financial sector, jobs that match their educational profiles.

## Initiatives in the local community

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

## Funding in support of increased social sustainability

In an increasing number of municipalities, strategic efforts are being conducted, focusing on social sustainability, as well as preventive efforts to address areas with significant social challenges, and associated social costs. Municipalities and county councils/regions are responsible for, and active in, a number of areas linked to social sustainability, including integration, education, health, gender equality and diversity. Through financing, the players in the capital markets are increasingly interested in supporting infrastructure ventures and initiates with a social impact. This is a trend that Kommuninvest is monitoring. In 2017, we participated, for example, in a pilot project led by the Swedish Association of Local Authorities and Regions (SALAR) on social outcome contracts.



## Vivillalla: womens' co-op to boost employment

In the Örebro district of Vivalla, a women's cooperative was started in 2017, at Kommuninvest's initiative. The purpose is to create job opportunities for women with an immigrant background. The Vivalla district has high unemployment and a large share of inhabitants born in other countries. The name of the cooperative, Vivillalla ("We all want") signals

an ambition that the cooperative members want real jobs and want to offer services that meet sustainable demand. Currently, sewing services and catering are offered. The sewing business has signed an agreement with the IKEA store in Örebro, which channels the cooperative's services to prospective customers who need sewing assistance

for instance with curtains. In the future, cleaning services may be offered. The cooperative has received financial support from Kommuninvest and Sparbanksstiftelsen Nya, and will be part of an academic research project involving researchers from Örebro University and the Stockholm School of Economics.

## Employee statistics – Kommuninvest Group

	Unit	2017	2016	2015
Total number of employees, including those on part-time and probationary employment <sup>1</sup>	Number	106	97	90
Proportion of women/men – total	%	49/51	41/59	39/61
Proportion of women/men – all managers	%	38/62	45/55	58/42
Proportion of women/men – Executive Management Team	%	40/60	67/33	67/33
Average number of full-time annual employees (based on hours worked)	Number	91	85	78
Employment period <2 years (based on permanent employees)	%	17	14	25
Employment period 2-4 years	%	29	35	29
Employment period 5-9 years	%	28	25	24
Employment period >10 years	%	26	25	22
Personnel turnover	%	10	3	5
Participation in employee survey	%	95	84	94
Proportion of employees with university education	%	93	88	89
Proportion of employees who had development interviews	%	100	100	100
Proportion of employees who have undergone sustainability training	%	63	84	92

<sup>1</sup>) Number of employees refers to the total headcount, including full and part-time employees, those on parental leave and temporary employees. The total number of permanent and probationary employees was 96 at the end of 2017.

# Environmental responsibility

**Kommuninvest's view is that integrated consideration for the environment is a prerequisite for long-term value creation. The work is partly performed by addressing the direct environmental impact of the office operations, purchasing and services, and partly by managing the indirect environmental impact from the financial operations, i.e. lending, borrowing and management of the liquidity reserve.**

## Reduced emissions from business travel

Kommuninvest's direct environmental impact primarily relates to energy use at the Örebro head office, office supplies and business travel. Kommuninvest seeks to reduce the environmental impact of office operations, by means of environmentally labelled electricity, motion-controlled lighting and plumbing fixtures, micro-flush toilets, and a high level of recycling/sorting of waste. The nature of operations implies a need for domestic and international long-distance travel. Train is to be prioritised between locations with favourable connections. After a major renovation in 2016, the Company expanded into larger office space in 2017. Compared with 2015, energy consumption has been reduced to 264 (271) kWh per sq.m., however energy consumption per employee has risen to 6,436 (5,447) kWh per employee. In 2017, carbon dioxide emissions from business travel amounted to 139.2 (231.7) tonnes or 1.5 (2.7) tonnes per employee.

## Digitisation reduces paper consumption

Through a major digitisation project, Kommuninvest is becoming increasingly paperless. Client mailings, which are now available in digital format through the KI Finans debt management service include membership contribution certificates, commitment advice slips, guarantee certificates, deposit, engagement statements and interest advice slips for subordinated loans. In addition to reduced paper consumption and reduced distribution costs, transport needs also diminish. Overall, paper consumption decreased in 2017 by more than 35 percent to 0.5 (0.8) tonnes.

## Green Loans support the local government sector's sustainability efforts

Of late, initiatives at the local and regional levels have gained increasing emphasis in global sustainability efforts. Consequently, the Swedish municipalities', counties' and regions', ambitious sustainability initiatives make a significant contribution towards achieving the global sustainability targets.

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

At the end of 2017, Kommuninvest had approved SEK 26.9 (17.8) billion for 149 (83) green investment projects. Most of the projects involve renewable energy and green buildings. The total anticipated annual reduction in CO<sub>2</sub> emissions from these projects is published in the *Kommuninvest Green Bonds Impact Report*, available on the Company's web page.

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

## Largest Swedish issuer of Green Bonds

Kommuninvest finances Green Loans by issuing Green Bonds. Three Green Bonds have been issued since March 2016, and a total of SEK 14.4 (10.0) billion was outstanding at the end of 2017. Investors consist primarily of institutional investors with a clear sustainability focus, such as Affirmative Investment Management, AP-fonderna, Alecta, Amundi Folksam Group, German KfW, SEB Investment Management, SBAB, SPP Storebrand, the CalSTRS pension fund for teachers in California, and the UN employees' pension fund (UNJSPF).

## Active role in the development of industry standards

Kommuninvest's Green Bond framework adheres to a number of principles and guidelines voluntarily developed by market participants. Kommuninvest is a member of Green Bond Principles. In 2017, the Nordic Public Sector Issuers report was launched: Position Paper on Green Bonds Impact Reporting, a collaboration on impact reporting between Nordic public Green Bond issuers. This initiative has been led and coordinated by Kommuninvest.

## UN award for green financial cooperation

Since the launch of the green framework, Kommuninvest has received several awards. At the climate summit in Bonn in the autumn of 2017, the UN Climate Secretariat noted 19 global initiatives as role models in climate adjustment. Kommuninvest received the *Momentum for Change Climate Solutions Award* for its model for granting Swedish municipalities and county councils access to green funding.

## Framework covering broad environmental efforts

Swedish municipalities and county councils/regions conduct a broadly oriented environmental activities, including essential elements of the local/regional infrastructure. Kommuninvest's framework for Green Bonds has been developed to respond to needs. Projects in eight different categories can currently obtain financing with Green Loans.

Project category	Committed SEK bn	Disbursed and outstanding, SEK bn	# of projects
Green buildings	13,009.3	9,829.3	89
Renewable energy	9,858.7	7,692.0	39
Water management	3,218.9	1,587.6	12
Public transport	470.9	470.0	4
Energy efficiency	235.0	235.0	3
Waste management	125.0	125.0	1
Adaptation measures	16.0	16.0	1
Environmental mgmt	0.0	0.0	0
<b>Total</b>	<b>26,933.7</b>	<b>19,954.9</b>	<b>149</b>

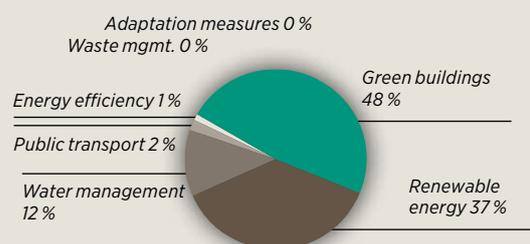
## Green lending and borrowing

31 December 2017

<b>SEK 27 billion</b>	<b>SEK 20 billion</b>	<b>SEK 14 billion</b>
Committed volume Green Loans	Green Loans disbursed and outstanding Green Loans	Green Bonds issued and outstanding

## Distribution Green Loans by category

31 December 2017



## Environmental indicators – Kommuninvest Group

	Unit	2017	2016	2015
<b>Energy consumption</b>				
Total energy consumption (in buildings)	kWh	585,678	463,034	406,160
– of which, electricity	kWh	333,210	295,084	298,087
– of which, heating	kWh	252,468	167,950	108,073
Proportion of renewable energy in energy consumption of electricity	%	100	n/a	50
Change in electricity consumption compared to the preceding year	%	-13	-1	-8
Proportion of renewable energy in energy consumption for heating	%	100	n/a	95
Total office space	m <sup>2</sup>	2,217	2,217	1,498
Total energy consumption per square metre	kWh/m <sup>2</sup>	264	209	271
Total energy consumption per employee	kWh	6,436	5,447	5,207
<b>Resource usage</b>				
Purchased office paper	Tonnes	0.5	0.8	1.3
– of which sustainability labelled paper (PEFC)	Tonnes	0.5	0.8	1.3
Proportion of sustainability labelled office paper, of total purchases	%	100	100	100
Total paper consumption per employee	Kilos	11.0	11.8	12.8
Paper recycling, incl. purchased and delivered paper	Tonnes	3.0	2.4	2.1
<b>Business travel</b>				
Total business travel	Km	887,488	1,319,646	1,081,226
Total business travel per employee	Km	9,753	15,525	13,862
Total air travel	Km	591,480	992,144	770,526
Rail travel in Sweden	Km	291,456	327,162	305,287
Total CO <sub>2</sub> emissions from business travel	Tonnes	139.2	231.7	177.3
CO <sub>2</sub> emissions from business travel, per employee	Tonnes	1.5	2.7	2.3

# Auditor's opinion regarding the statutory sustainability report

To the general meeting of the shareholders in Kommuninvest i Sverige AB (publ),  
corporate identity number 556281-4409

## Engagement and responsibility

It is the board of directors who is responsible for the sustainability report for the year 2017 on pages 10–21 and that it is prepared in accordance with the Annual Accounts Act.

## The scope of the examination

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

that the examination has provided us with sufficient basis for our opinion.

## Opinion

A statutory sustainability report has been prepared.

Stockholm, 14 February 2018  
KPMG AB

Anders Tagde  
Authorized Public Accountant

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# Board of Directors' Report

- Comparison figures relating to the income statement refer to the preceding year (1 January – 31 December 2016), unless otherwise stated. Comparative balance sheet and risk related figures relate to 31 December 2016 unless otherwise indicated.
- Comments on the Income statement, Balance sheet and Changes in equity are provided in connection with the statements on pages 49, 51 and 53.
- In accordance with Chapter 6, Section 11 of the Annual Accounts Act, Kommuninvest i Sverige AB has chosen to prepare the statutory sustainability report separately from the annual report. The sustainability report is presented on pages 10–22 in this document.



# New strategic plan adopted

## Multi-year summary

For 2013–2017, the Company has delivered Group contributions to the Society totalling SEK 3,458.2 million. Of this, SEK 3,291.8 million has been paid out to the Society's members, of which SEK 329.9 million as interest on capital contributions while SEK 2,961.9 million was disbursed in the form of a refund based on business volumes.

The Company's strong growth has continued and total lending passed SEK 300 billion during the year, an increase of nearly 50 percent since 2013. The Company's share of the local government sector's external funding has increased from 44 to 50 percent. The increased demand from the local government sector is still the strongest driving force for the Company's growth, but new members joining the Society are also contributing to the favourable trend. Fourteen new members, of which three county councils/regions have been added in the past five years.

The increase in total assets since 2013 is less than the increase in lending thanks to a conscious strategy to reduce the relative size of the liquidity reserve.

In recent years, the members of the Society have capitalised the Group with the target of achieving a leverage ratio of 1.5 percent. Shareholders' equity in the Company thereby increased from SEK 1.7 billion in 2013 to SEK 7.6 billion in 2017 and, on 31 December 2017, the leverage ratio was 1.78 percent.

In 2014, the Company launched the KI Finans digital offering, a web-based solution offering access to market information and services in debt and asset management. During the year, the service has been upgraded with several new and improved functions; during 2018, a liquidity and investment module will be launched.

Kommuninvest has been offering Green Loans since June 2015. Since then, the product has grown to SEK 26.9 billion in granted volumes, with regard to 149 green investment projects. With Green Loans as the basis, Kommuninvest is able to issue Green Bonds. The first Green Bond was issued in March 2016 and, at the end of 2017, Kommuninvest had three issues outstanding, corresponding to SEK 14.4 billion.

For multi-year data in table format, see page 88.

## Operational governance 2017

Operational governance in the Company takes the vision and business concept established by the Annual General Meeting as its starting point, as well as strategies and objectives established by the Board of Directors.

### Strategic focus

The Company shall meet customers' needs in local government finance management by conducting knowledge-based operations with a conservative risk appetite and effective working methods, contributing to financial stability and cost-effective debt management.

To facilitate control and review, operational governance was supplemented with four focus areas during the year, setting the framework for the Company's continued process of change.

<p><b>Customer</b></p> <p>To be the customer's first choice in local government finance management by adapting product and service offerings within all selected customer segments.</p>	<p><b>Efficiency</b></p> <p>The Company's lending price, average funding cost plus various marginal supplements, are competitive in relation to the local government authorities' proprietary borrowing.</p>
<p><b>Digitisation</b></p> <p>To increase the organisation's adaptability by improving working methods and platforms for development and innovation.</p>	<p><b>Competence</b></p> <p>To broaden and deepen employees' competence to safeguard competitive operations in the future.</p>

Kommuninvest has also defined three business areas to clarify its future focus: *Financing*, *Digital Services* and *Consultation*.

Financing constitutes the traditional business operations in lending, funding and liquidity management. In Digital services the Company can offer a portfolio of technical tools facilitating members' financial decisions. These tools will be gathered within KI Finans. In Consultation, the Company can offer training, debt portfolio analysis and business intelligence. Members' needs will govern what services are offered, meaning that the content of each business area may change over time.



Over the next few years, the Company's process of change will focus on developing effective digital solutions for the traditional business operations, allowing the Company to free-up resources that, supported by a growing portfolio of digital services, can be focused on generating further added value for members through the Consultation business area. The illustration above, in which the segments represent available time, describes the desired change.

# Growing market for Kommuninvest's loans

**In 2017, the Swedish local government loan market grew by SEK 40 billion to SEK 616 (576) billion<sup>1</sup>. Growth is driven by continued high investment volumes in the municipalities and municipal companies. Of the local government sector's total borrowing, 50 (48) percent was financed through Kommuninvest.**

Although the local government sector's external borrowing has risen sharply in volume over the past five-year period, it remains low relative to the country's economic development. Between 2012 and 2017, borrowing in nominal terms rose by SEK 157 billion, mainly as a consequence of high levels of investment among the local government authorities and municipal companies. As a proportion of Sweden's GDP, local government debt at the end of 2017 was estimated at 13.2 percent of GDP, compared with 12.5 percent at the end of 2012.

Investments encompass many of the areas for which local government authorities are responsible, with the emphasis being on properties, infrastructure and energy supply. The increase in borrowing is driven primarily by development in the country's growth municipalities.

## Swedish local government sector's largest lender

The portion of the local government sector's borrowing that is conducted via Kommuninvest has increased substantially since 2000. The primary reason is the large number of new members of the Society, which has given an increasing number of local government authorities and municipal companies access to credit from the

Company. At the same time, the competitiveness of the banks has gradually weakened in the wake of new financial regulations, primarily benefiting Kommuninvest but also borrowing via the capital market, which is mainly an alternative for the larger local government borrowers. The Company estimates that Kommuninvest accounted for 50 (48) percent of the sector's loan financing at the end of 2017. Borrowing via the bank sector accounted for 18 (20) percent and direct borrowing via the capital market through the authorities' own bond and commercial paper programmes accounted for 32 (31) percent.

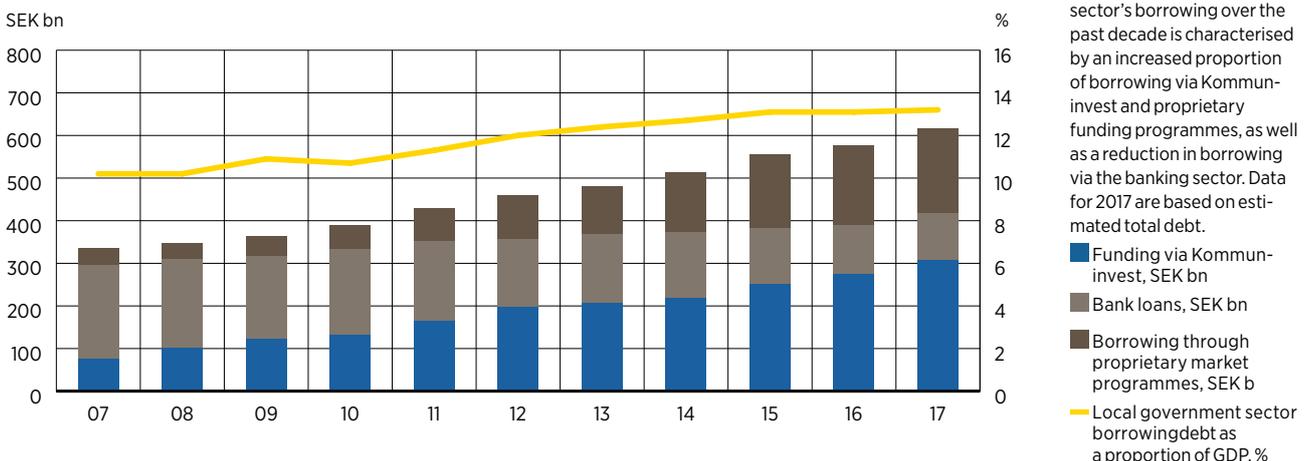
<sup>1</sup>) Forecast based on Kommuninvest's ongoing monitoring of debt and investment trends in the Swedish local government sector. At the time of publication of this annual report, neither the complete data for 2017, nor the municipalities' and county councils/regions' own annual reports were available. Values and shares for 2016 have been adjusted in accordance with the municipalities and county councils/regions' own annual reports.

### Forms of local government borrowing

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

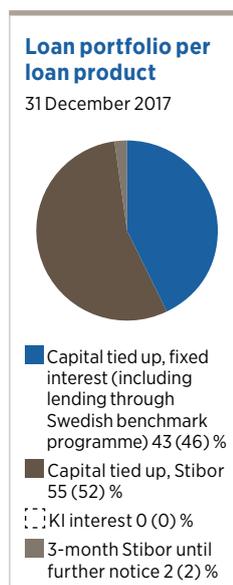
- borrowing via Kommuninvest
- borrowing via the bank sector or other bilateral parties
- borrowing via the money and bond markets

The local government sector's borrowing debt and forms of financing, 2007–2017



# Loans that meet customers' needs

In 2017, Kommuninvest's lending grew to SEK 310.1 (277.0) billion. The increase reflects higher local government sector investments and borrowing, but also a strengthened market position for Kommuninvest. At year-end 2017, the Company had a total 914 (825) active borrowers, either members of the Society or legal entities controlled by the members.



### Strengthened market position

Through Kommuninvest and other capital market players, Sweden's municipalities and county councils/regions were able to efficiently meet their borrowing needs in 2017. Kommuninvest offers loan products with capital being tied up for shorter or longer periods, based on fixed or floating interest rates and with or without right of early termination.

At the end of the year, lending amounted to SEK 310.1 (277.0) billion. In nominal terms, lending was at SEK 308.0 (274.0) billion, an increase of 12 (9) percent compared with the previous year. Based on nominal volumes, the bid acceptance rate amounted to 99 (94) percent for 2017.

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. In 2017 we welcomed two new members to Kommuninvest: the Municipality of Linköping and the Municipality of Mölndal.

### Increased volumes of Green Loans

At the end of 2017, SEK 26.9 (17.8) billion in Green Loans had been granted to 149 (83) projects. Green Loans can be granted for projects and measures that help cut carbon emissions and contribute to sustainable growth or reduce climate change.

### KI Finans accessible to 288 local government authorities

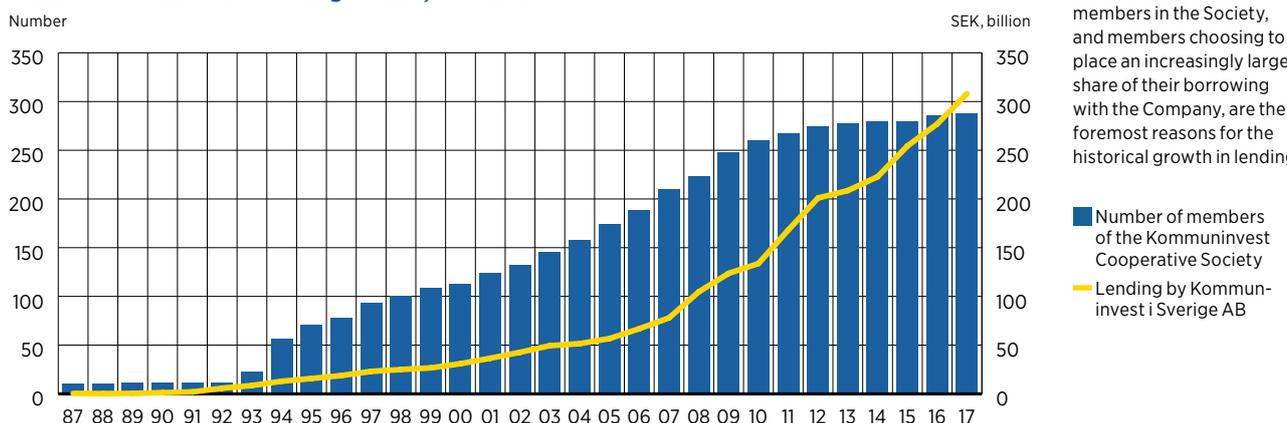
At the end of the year, all 288 (236) members of the Society had access to KI Finans, a specially developed debt management system for the local government sector. Of the Society's members, 190 (164) had signed an agreement for the full-scale version.

### Loans provided only to Swedish municipalities and county councils/regions

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

- Municipalities and county councils/regions that are members of the Kommuninvest Cooperative Society.
- Companies owned by municipalities and county councils/regions where one or several members of the Kommuninvest Cooperative Society hold more than 50 percent of that ownership and has also issued a guarantee for the loan.
- Municipal and county council foundations and associations, on the condition that a guarantee is provided and that they are closely affiliated with a member or members of the Kommuninvest Cooperative Society.

### 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

# Significant international player with the highest credit rating

**Kommuninvest finances its lending to municipalities and county councils/regions by borrowing funds on the Swedish and international capital markets. Demand for low-risk issuers remained good during the year and Kommuninvest was able to meet its funding plans on favourable terms. At the end of the year, total borrowing amounted to SEK 339.1 (344.0) billion.**

## Good demand for Kommuninvest bonds

During 2017, the Company experienced continued good demand for the securities it issues. In Europe, including Sweden, the trend with low market interest rates continued, while the US lies ahead in the interest rate cycle and rates continued to rise gradually over the year there.

The Company's focus on diversified funding sources and a long-term process to further develop the investor base has continued. During 2017, Kommuninvest issued its third Green Bond, opening access to new investors with a specific mandate for supporting environmentally oriented investments. The support from Kommuninvest's core investors – central banks, public institutions and bank treasuries – remained strong over the year. During the year, a major internal process was conducted to provide clearer guidance on how to match assets and liabilities and how this matching should be reviewed.

## Focus on increased benchmark borrowing

At the end of the year, Kommuninvest's borrowing totalled SEK 339.1 (344.0) billion.

Over the year, SEK 75.8 (104.2) billion was borrowed in long-term debt instruments with maturities of more than one year. Borrowing is secured to replace loans that mature or are cancelled, to finance new loans in the lending operations and to adjust the size of the liquidity reserve according to the current market view and the size of the lending portfolio.

The Company 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. Securities issued by the Company are, within the EU and several other jurisdictions, the class of assets considered to be of the highest quality in the calculation of the Liquidity Coverage Ratio (LCR).

A total of SEK 42.7 (46.2) billion was issued in the Swedish benchmark programme with SEK 161.6 (149.1) billion outstanding at the end of the year. In total, the Swedish benchmark programme encompasses eight outstanding bonds.

### Borrowing strategy – Diversified sources of funding provide greater stability

Kommuninvest's lending is financed by means of short and long borrowing programmes on national and international capital markets. The borrowing strategy is based on:

- diversified sources of funding as regards markets, currencies, products and investors. Diversification increases the stability of Kommuninvest's borrowing.
- Continuous presence in a number of strategic borrowing programmes: Swedish Benchmark Programme; benchmark borrowing in USD; ECP programme and Japanese "Uridashi" borrowing.
- Any borrowing not denominated in SEK is swapped to SEK, USD or EUR.

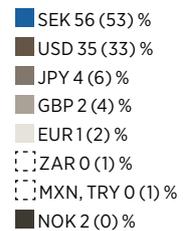
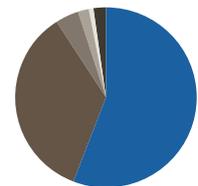
### A significant issuer of SSAs

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

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

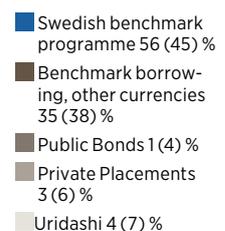
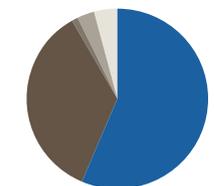
### Borrowing during the year, by currency, 2017

(excl. commercial paper borrowing)



### New borrowing by programme, 2017

(excl. commercial paper borrowing)



# Liquidity reserve to meet customer needs under all circumstances

To continue providing its customers with financing during periods of uncertainty in the financial markets, Kommuninvest maintains a liquidity reserve. At year-end, the reserve amounted to SEK 37.8 (60.1) billion, equivalent to 12 (22) percent of the lending volume.

## Investment rules for the liquidity reserve

- At least 90 percent investments shall be made in securities that can be pledged with the Swedish central bank, the Riksbank.
- The maximum average duration of investments cannot exceed 12 months.
- The maximum maturity of the investments is 39 months.

For more information, see the section Risk and capital management on pages 33–37 or Kommuninvest's website, [www.kommuninvest.se](http://www.kommuninvest.se).

## Reserve with high credit quality and low price risk

Strict rules and a conservative approach guide Kommuninvest's liquidity reserve. According to the Company's instructions, the liquidity reserve shall ensure, with good foresight, that the Company's commitments can be maintained while maintaining lending capacity, see also page 34. The size of the liquidity reserve is adjusted according to funding maturities and external factors. As of 31 December 2017, the liquidity reserve corresponded to 12 (22) percent of the lending volume. At least 90 percent of the reserve shall qualify as collateral with the Riksbank, allowing the Company to obtain liquidity against collateral. As per 31 December 2017, 100 (83) percent of the reserve, excluding cash and equivalents and securities received as collateral, was eligible as collateral at the Riksbank.

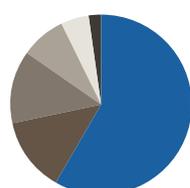
## Effective and conservative management in focus

In 2017, management was characterised by reduced liquidity reserves in terms of volume, albeit with higher credit quality than previously. Investments in covered bonds have been disposed of in favour of investments in securities issued by sovereign states or central government-related institutions. See also page 33.

At the end of 2017, 87 (77) percent of the reserve was invested in securities with the highest possible credit rating, including securities issued by sovereign states, government-guaranteed institutions and other public institutions. 71 (68) percent comprised investments in securities from issuers Sweden and Germany. 13 (13) percent were issued by supranational institutions. See Note 3 for further information on the Company's credit risk exposure.

### Liquidity reserve distributed by country

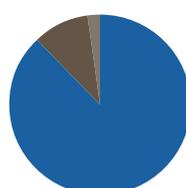
31 December 2017



- 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

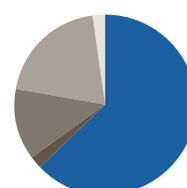
31 December 2017



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

### Liquidity reserve distributed by issuer category

31 December 2017



- National governments or central banks 63 (21) %
- Regional or local governments and 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) %

# Sustainable personnel make for a sustainable organisation

To achieve the overall strategic objectives, work in 2017 continued to focus on cultural issues, competence development, internal communications and work environment issues.

Kommuninvest i Sverige AB is a highly specialised finance organisation that operates both in the Swedish local government sector and in global financial markets. This imposes specific demands on employee skills, values and culture. Most of the Company's employees have university degrees and many have continued their training following graduation. The number of employees (permanent and probationary employees) rose by 5 (6) new employees in 2017, to a total of 96 (91) employees. The average number of employees during the year was 91 (85).

## Strategic competence supply

One of the Company's overall objectives is to conduct knowledge-oriented and competitive operations. The strategic competence supply work that commenced in 2016 was developed further in 2017. The Company works actively throughout the competence supply process to manage and develop the competencies of employees and the organisation in line with operational objectives and strategies, and to attract, develop and retain employees in a structured manner.

## An equal workplace

At Kommuninvest, equal opportunities are afforded to all, regardless of gender, ethnicity, religion or belief, age, disability, sexual orientation or gender identity. The Company applies zero tolerance with regard to discrimination or harassment in any form and works continuously with guidelines, dialogues and action plans to prevent, investigate and address these issues. The age distribution is spread evenly across the age categories, with 31 (33) percent of employees being aged 40–49 years. Of the total number of employees, 49 (41) percent were women; among senior executives, the proportion of women was 40 (67) percent. See also the summary on page 19.

## Preventive healthcare efforts

With the objective of being a sustainable organisation, Kommuninvest proactively assumes overall responsibility for the well-being of all of its employees. Employees at Kommuninvest must be able to combine work and their private lives in a sustainable, long-term manner. As part of the Company's preventive work with the social and organisational working environment, we are continuing our work with the concept of Sustainable Everyday Life. The concept includes a broad range of initiatives, ranging from opportunities for a good physical and social work environment, training and daily exercise and health-inspired lectures to stress management and individual coaching and self-help programmes. The aim is to be able to reduce stress and illness.

## Internal communications

In 2017, the internal communications project initiated in the preceding year was continued and completed. This work included various educational efforts, as well as the development of guidelines, systems and structures relating to internal communications. In addition, forums for information, clarity and participation have been introduced to contribute to our core values of completeness, clarity, quality and participation.

## Employee survey 2017

The year's employee survey gave a CSI (Customer Satisfaction Index) of 68 (69). One of the issues identified as important, but scoring low, was the sense of "us" at the Company. Action plans have been established at the team level throughout the Company to address this and these will be reviewed in 2018. Cultural issues such as cooperation, responsibility and inclusion are on the agenda, and, at all levels in the Company, we are working to evaluate, maintain open communications and "make it possible to talk about difficult things". This work will be intensified and developed further in 2018.

## Code of Conduct provides guidance

Kommuninvest is a values-driven organisation. The Code of conduct provides guidance on how company employees should act in day-to-day operations in accordance with Kommuninvest's core values: completeness, participation, clarity and quality.

The Code of conduct summarises what the Company's employees and stakeholders can expect of Kommuninvest. It is a responsibility and requirement of all employees that they adhere to the code, current legislation, regulations and other policies that guide operations. The Company's managers are required to engender an ethical climate in line with the code and to encourage adherence to the code.

Johan Olander, Ann Sörman, Nedim Murtic,  
Daniel Nykvist, Theresia Ferm and Sofia Frändberg.



## Our client managers are certified financial analysts

The Diploma Programme for Financial Analysts at the Stockholm School of Economics is probably the most comprehensive executive training available to Swedish financial market participants. Over the course of one year, programme participants focus on seven thematic areas, grouped into three parts: Portfolio Management & Risk Management; Fixed Income Instruments & Macroeconomic Analysis; and Corporate Valuation and Corporate Finance.

Good insight into financial matters, both regarding municipal finance and public sector financial management, is key for Kommuninvest in order to assist members and clients with qualified services. Six client managers have been offered the chance to participate in the training and are entitled to receive the title Authorized Finance Analyst in Sweden.

**“We have an altogether different theoretical footing now, with a better understanding of a broad range of subjects that are relevant to our members and clients. This strengthens us and make us more secure in our roles.”**

Theresia Ferm and Sofia Frändberg, client managers

# Financial position

**In 2017, shareholders' equity rose by SEK 1,096.8 (2,169.7) million to SEK 7,610.8 (6,514.0) million, mainly attributable to new issues of shares to the Society. 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.**

Total assets decreased to SEK 3 569,942.6 (3 61,725.4) million over the year, primarily as a result of a reduction in the liquidity reserve and outstanding volume of derivative contracts. This decrease exceeded the increase in lending volume.

## Subordinated liabilities

During the year, a subordinated loan of SEK 1,000.0 million issued by the Company to the Society was cancelled. For further information, see Comments on the statement of changes in equity on page 53 and Note 23.

## Equity

As of 31 December 2017, equity amounted to SEK 7,610.8 (6,514.0) million. The change is mainly attributable to the new share issue in progress, but also to profit for the year (see further page 53).

## Share capital

On the balance sheet date, the share capital amounted to SEK 6,100.0 (5,417.1) million, divided between 61,000,000 (54,170,590) shares. The new share issue in progress of SEK 1,000.0 (682.9) million, divided into 9,999,720 (6,829,410) new shares with a quota value of SEK 100 per share, was fully paid. The new share issue was approved as core Tier 1 capital by Finansinspektionen on 23 January 2018. An application to register the share issue as share capital was received by the Swedish Companies Registration Office on 26 January 2018. Registration as share capital took place on 5 February 2018.

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

## Distribution of surplus in 2017

Pending a resolution by the Society's 2018 Annual General Meeting, the Society will distribute the surplus as refunds and interest on capital contributions for the 2017 financial year. In the financial statements, the Company has submitted Group contributions, for this purpose, of SEK 987.5 (458.7) million, and pro-

posed that the surplus of SEK 969.8 (445.4) million be distributed.

If a decision on the payment of a new capital contribution is made, the Company's Board of Directors deems it likely that all members who have not yet reached the agreed maximum level for member contributions will participate with an amount depending on whether the member has reached 50, 75 or 100 percent of the highest contribution level. Payments of surplus distributions, payments of capital contributions to the Society and of possible capital reinforcement to the Company are expected to take place within three months of a decision. The calculated but yet to be approved capital contribution amounts to SEK 57.9 (34.9) million.

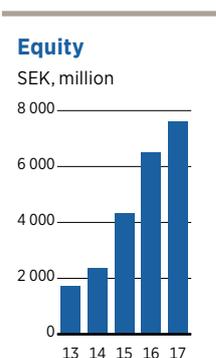
## Capital adequacy

The Company is well-capitalised to meet the risks inherent in its operations and its capital ratios exceed the official requirements 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 Company's capital base consists solely of core Tier 1 capital, meaning that the total capital ratio is also 212.4 (103.7) percent. See also Note 3.

At the end of 2017, the Company's leverage ratio, reported according to CRR, was 1.78 (1.56) percent. The legal requirement for leverage ratio has yet to be set, see page 73 for further information.

## Rating

The Company holds the highest credit ratings: Aaa from Moody's and AAA from S&P Global Ratings (S&P, formerly Standard & Poor's). In May and September 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.



## Comments on the accounts

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

# Proposed Distribution of Earnings

The Board of Directors proposes that:

(SEK)

Profit for the year	875,978,534
Profit or loss brought forward	-386,610,686
Fair value reserve	875,924
<b>Total</b>	<b>490,243,772</b>

be appropriated as follows

To be carried forward	490,243,772
<i>of which, amount allocated to</i>	
<i>Fair value reserve</i>	875,924
<i>of which funds allocated to the item</i>	
<i>Profit brought forward</i>	489,367,848

Applicable rules for capital adequacy and major exposures mean that Kommuninvest must at all times have a capital base which at least corresponds to the total of the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operation in accordance with Kommuninvest's internal capital assessment policy. The total capital ratio amounted to 212.4 (122.1) percent, compared with the requirement, including buffer requirements, of 11.5 (11.7) percent. Following the proposed distribution of profit, the capital base amounted to SEK

6,359.2 (6,641.1) million and the final minimum capital requirement to SEK 239.5 (435.1) million. A specification of items can be found in Note 3 on capital adequacy.

Kommuninvest's financial position does not give rise to any assessment other than that Kommuninvest can be expected to fulfil its obligations in both the short and the long term. For information on Kommuninvest's results and general position, please refer to the income statements and balance sheets with associated comments on the financial statements. See also Note 11 on page 77.

# Low risk tolerance and effective risk management

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

## **Changes in 2017 regarding risk management and risk exposure**

Certain changes took place in 2017 with regard to the Company's targets, principles and methods for managing risk. The changes mainly involve the Company's goal of ensuring good matching of maturities between assets and liabilities, rather than, pursuing longer maturities on liabilities than on assets, as previously. In line with this, the principles for the liquidity reserve have also been amended, with the reserve being allowed to be smaller, while the Company imposes more stringent demands on the quality and marketability of the assets.

In connection with these changes, the Company's exposure to both price risk and credit risk has decreased significantly. The liquidity reserve has decreased in volume and includes assets of higher credit quality than in the preceding period. As a consequence of the risk-weighted exposure to credit risk having decreased, the Company's capital requirement for credit risk has also decreased significantly compared with the preceding period.

## **Risk profile and risk management**

The Company's risk profile and permitted risk taking is established annually in the form of owner directives adopted by the Annual General Meeting. The owner directive states that the Company's risks should be small and never greater than necessary for achieving the objectives of the operations. The operations are subject to the Local Government Act's prohibition of speculative activities.

## **Risk strategy**

In the risk strategy adopted by the Company's Board of Directors, the Board sets out its basic view on risk and details in concrete terms risk appetites and regulations for the management of the risks identified by the Company. The risk appetites describe the risk to which the Board is prepared to expose the Company for the purpose of fulfilling the assignment from the owners. Risk appetite is defined as the level of risk and impact on earnings that the Board of Directors is willing to tolerate over the ensuing year to achieve the Company's strategic objectives. Risk appetite is determined regu-

larly – at least once a year. The level of risk appetite is determined partly by company-specific factors such as financial position and growth targets, as well as anticipated market conditions over the period concerned. The risk strategy is part of the Company's risk framework, which encompasses the Board of Directors' fundamental instruments of operational governance and good internal control.

## **Risk management and risk control**

Kommuninvest i Sverige AB plays a central role in the financing of Swedish municipalities and county councils'/regions' investments. To fulfil this assignment, the Company borrows money on the financial market and lends money to customers. Unlike many other credit institutes, the Company conducts no deposit or active trading operations. The business model means that the Company is exposed to risks associated with the financial market.

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

## **Credit Policy**

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

The current ownership directive formulates the basic view of the Company's provision of credit and its analysis model. This should be based on the basic principle that exposure to a Swedish local government authority be ascribed the same risk weight as an exposure to the Swedish central government and that Swedish local government authorities have traditionally maintained responsible ownership. This shall be afforded considerable significance in the Company's setting

of limits for a municipal group, in combination with the local government authorities' own good creditworthiness, which is transferred to the municipal companies via guarantee undertakings from the local government parent.

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

### *Finance Policy*

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

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

The Company shall identify the most important factors affecting capacity to raise funding and monitor these factors closely to ensure that the assessed funding capacity remains valid under various conceivable circumstances. In view of the overall endeavour to maintain a large proportion of the total funding volume in SEK, the Company shall, to minimise the risk of exclusion from important markets, continuously issue certificates and bonds in various markets.

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

The Company shall maintain good liquidity preparedness under normal market conditions, as well as in periods of stressed liquidity. The Board of Directors shall be informed immediately of any indications of changes in the conditions for maintaining normal liquidity preparedness. The Company's liquidity management shall be organised to ensure that all of the Company's payment obligations can be met in time without significant additional costs and that surplus liquidity permits continued extension of existing loans.

The Company shall ensure good matching between assets (loans and investments) and liabilities (funding and shareholders' equity). Any excess or deficit of liquidity arising in the day-to-day operations is managed intraday via the Riks-

bank's payment system RIX, of which the Company is a full member.

### *Independent control*

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

### *Risk and Control*

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

### *Compliance*

The Company's compliance function is a control and support function independent of the business operations and directly subordinate to the CEO. The head of the compliance function is appointed by the CEO and reports to the CEO and to the Board of Directors on an ongoing basis. As a result of analyses of the shortcomings in regulatory compliance, the CEO establishes an annual plan that is reported to the Company's Board of Directors.

The compliance function shall safeguard good regulatory adherence in the Company and work actively to promote this. It shall actively support business operations and the executive management to ensure that operations are conducted in accordance with external and internal regulations and are conducted in such a way that confidence in the Company is reinforced among customers, members and other stakeholders in the financial market. This encompasses training and contacts with supervisory authorities.

The compliance function is also responsible for safeguarding and assessing the updating of overarching internal regulations and ensuring that they are adapted to the Company's operations. The compliance function shall annually assess these internal regulations and submit proposals for improvement to those responsible for the documents concerned.

### *Internal audit*

The Company's internal audit, which is outsourced to an external party, is an independent review function that reports directly to the Company's Board of Directors. The internal audit is responsible for evaluating risk management, control and governance processes within the Company and for ensuring that operations are conducted in accordance with the intentions of the Company's Board of Directors and the CEO. The internal audit reports to the Company's Board of

Directors, the President and the Group's external auditors on an ongoing basis. Each year, the Company's Board of Directors establishes a plan for the work of the internal audit. The CEO reports to the Company's Board of Directors on measures implemented as a consequence of the internal audit unit's reports.

**Risk organisation**

To provide cost-efficient financing without exceeding the Company's risk appetite, risk management in operations is to be characterised by preventive measures that serve to prevent and/or limit both risks and their damaging effects.

The Company's Chief Risk Officer (CRO) bears the overall responsibility for the Company's risk framework. Each department manager is responsible for the management and control of risks within his/her area of operations. Forward-looking and historical analyses are used to ensure that the Company identifies, assesses and measures risks correctly.

The Risk and Control department, the Company's function for risk control, is responsible for continuously checking and implementing ongoing follow-up and analysis of financial risks and operational risks, as well as limit controls, and reports daily to the President and monthly to the Board of Directors.

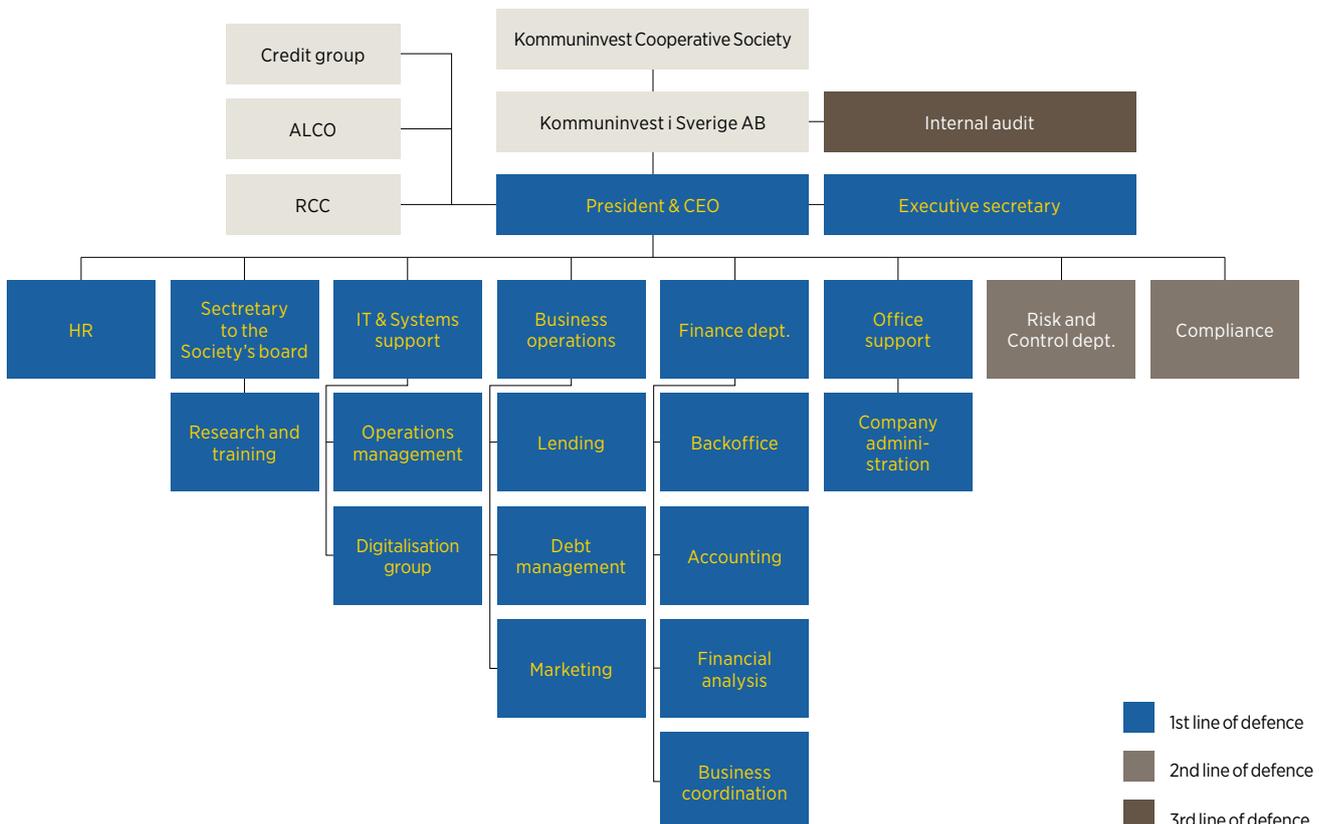
Risk and Control is headed by the CRO, who reports to the President and is a member of the Executive Management Team. The department consists of ten employees, including a deputy CRO. Of the ten employees, four work with prospective analyses regarding credit and market risks, etc., three with reporting and data management, two in contact with the local government sector and one with operational risks.

Beyond what has been mentioned above, the department is also responsible for following up that risks are reported correctly and in accordance with applicable external and internal regulations, regularly performing stress tests, ensuring that the Company's business models are appropriate and secure as well as leading and coordinating efforts related to operational risks.

The Credit Group functions as a preparatory body in the proposal of changes to credit limits to investment and derivatives counterparties and new members and other credit issues requiring decisions by the Board or the President. The Company's Asset Liability Committee (ALCO) is responsible for preparing matters concerning market risk and liquidity that require a decision by the Board of Directors or the CEO.

The Company's RCC committee (Risk Compliance Control) has been established to comprehensively document the work undertaken by the Company's control functions, and

**Organisational chart with the operations' three lines of defence**



to prepare reports by the control functions to the CEO and to the Board of Directors.

### Capital management

The Company's capital planning is intended to ensure that the operations are fully capitalised to meet both the risks in the operations, as well as future regulatory requirements. In relation to the risks inherent in its operations, the Company is well capitalised. The foremost priority with capital planning is ensuring that the Company complies with regulatory capital requirements and the owners' capital target, which corresponds to a leverage ratio of 1.5 percent.

#### *Capital plan and internal capital assessment*

Within the Company, a capital plan is developed at least once a year. The plan estimates how the capital requirement is expected to develop over the ensuing five years. The plan is based on forecasts for lending and other balance sheet items, as well as future regulations. The Society's Ownership Directive, which establishes the risk appetite in the Company's operations and details how capital is to be accumulated in the Company, supports the capital planning process. The capital plan represents an important building block in the establishment of the internal capital and liquidity assessment (ICLA) for the Company and the Group, consisting of the Society, the Company and Kommuninvest Fastighets AB, which owns the property in which the credit market company conducts its operations.

Under current regulations, credit institutes are responsible for designing their own processes for the ICLA. The intention is for the institutes to map their risks and assess their risk management in an integrated and comprehensive way and, on the basis of that, assess their capital requirements, and that they should communicate analyses and conclusions to Finansinspektionen. Within the Company, the Finance department is responsible for capital planning and the ICLA, although the Risk and Control department is responsible for the models that underlie the capital requirement calculations.

The Company's capital assessment shows that the Company meets all known capital requirements, including the owners' capital targets, see Note 3.

#### *Leverage ratio – Kommuninvest's plan and preparations*

Effective from 1 January 2019, the planned new capital requirement measure, leverage ratio, is to be introduced in the EU. Leverage ratio is defined as the primary capital divided by total exposures in assets and liabilities. The leverage ratio has been reported to the relevant authorities since 2014.

In November 2016, the European Commission published its recommendation for a review of the capital adequacy rules (CRD/CRR IV), including proposals regarding the leverage ratio. The European Commission's proposals include a specific leverage ratio regulation for "public development credit institutions" (PDCI), among which Kommuninvest 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 development.

#### *Kommuninvest's capitalisation – responsibility of the owners*

The Society bears the principal responsibility for the Group's capitalisation. The Society's plan is based on the 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.

#### *Capitalisation 2017*

During the spring of 2017, the Society's Board of Directors approved the Company prematurely redeeming the subordinated loan of SEK 1,000 million granted to the Company by the Society in the autumn of 2010. The Company's Board of Directors has subsequently resolved to implement a share issue corresponding to the amount of the subordinated loan. Following a decision by the Society's Board of Directors, the Society has subscribed for all of the shares issued. Accordingly, the Company's capital base consists solely of Tier 1 capital, which can be included in full in the calculation of the liquidity ratio. How the Company calculates its leverage ratio according to CRR is presented in Note 3.

In addition, Tier 1 capital has increased by SEK 682.9 million, corresponding to the shares acquired by the Society in December 2016 and which Finansinspektionen authorised in March 2017.

## Kommuninvest's risk management in brief

### DESCRIPTION

### RISK MANAGEMENT

#### Credit risk

##### *Risk in credit provision*

Credit provider risk refers to the risk that a credit counterparty is unable to meet its obligations.

Loans are only provided to members and their majority owned companies. Loans may also be made to municipal foundations and associations. The members are followed up by applying an in-house model for risk monitoring and local government analysis. Each year, the Company's Board of Directors sets a group limit for all members. The limit entails a maximum level on the Group's net consolidated debt per inhabitant. Lending is only provided to municipal companies, foundations and alliances of local government authorities if the local government authorities concerned have guaranteed the undertaking. Swedish municipalities and county councils/regions have the right to levy taxes and cannot be declared bankrupt. In addition, the central government bears the ultimate responsibility for local government sector operations. The risk in credit provision is assessed as very low.

##### *Issuer risk*

Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity.

Investments are made primarily in securities issued by sovereign states or state-guaranteed issuers, where the issuer has a credit rating of at least A from S&P. The maximum remaining maturity on securities in the liquidity reserve is 39 months. All outstanding issuers are followed up on an annual basis and when necessary. Each year, the Company's Board of Directors sets a total limit for each issuer. Kommuninvest's stringent requirements on issuers mean that issuer risk is considered to be limited.

##### *Counterparty risk*

Counterparty risk refers to the risk of a counterparty to a financial contract defaulting before the final settlement of the cash flows. Counterparty risk arises when derivatives contracts are entered with counterparties with the purpose of reducing or eliminating market risks. Depending on changes in market values, a derivative contract of this kind can entail either a receivable from, or a liability to, the counterparty.

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

The scope for transactions is limited on the basis of several criteria. All outstanding counterparties are followed up on an annual basis and when necessary. Derivatives Exposures are to be covered by ISDA agreements and, in most instances, by CSA agreements. For new counterparties, CSA agreements are required. CSA agreements entail Kommuninvest receiving collateral for receivables exceeding the exposure determined in the agreement. The collateral that Kommuninvest receives entails the counterparty risk being limited. The Board of Directors of the Company determines the requirements and design of the ISDA and CSA agreements by means of instructions.

#### Market risk

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

Kommuninvest's operations and business model give rise to market risks in the form of interest rate risk, currency risk, credit market risk, other price risks and liquidation risk. Market risk is measured and monitored continuously. Most interest rate and currency risks and price risks are exchanged for counterparty risks through derivative contracts. Credit market risk is limited in part through good matching of maturities between liabilities and assets and, in part, through both assets and liabilities being of a very high credit quality with historically small fluctuations in underlying prices. The Company is exposed to changes in credit swaps on assets and/or liabilities, as well as changes in basis swaps. Through good governance and control, this risk is kept to a controlled and acceptable level. The exposure to interest rate and currency risk is very limited.

#### Liquidity risk

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

The structural liquidity situation shall be highly stable with a favourable matching of maturities between liabilities and assets. Liquidity risks are limited by means of the Company being a full member of the Riksbank's RIX payment system. Through RIX, Kommuninvest can, for example, borrow funds against collateral. In order to ensure good liquidity preparedness, including during periods of stress, the Company has a highly liquid liquidity reserve. Overall, this limits the liquidity risks in the Company.

#### Operational risks

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or routines, human error, incorrect systems or external events, including legal risks.

Risks in the operations are identified continuously over the year. The method includes planning measures to manage the risks that are identified. Procedures and systems support are in place to enable reporting and follow-up of undesired events. Good governance and control mean that the operational risk is kept at a controlled and acceptable level.

# Focus on governance and control

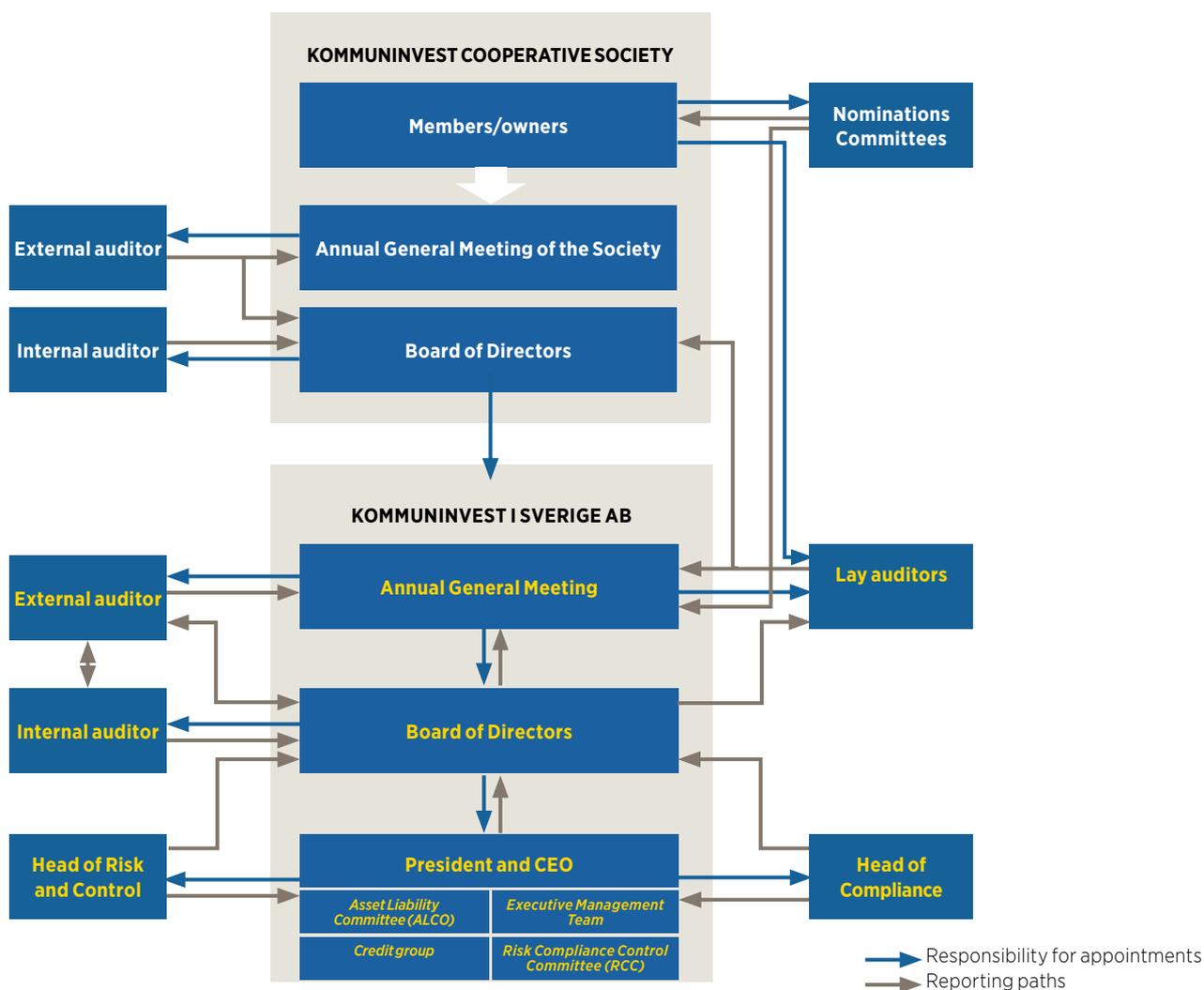
**Kommuninvest i Sverige AB is a Swedish public limited liability company and a wholly owned subsidiary of the Kommuninvest Cooperative Society. Good governance and control are crucial to the Company as it is owned by Swedish municipalities and county councils/regions and has a public mandate.**

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

## Regulatory framework for corporate governance

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

The Companies Act includes basic regulations regarding the organisation of companies. These include the requirement for a Board of Directors (Board) appointed by an Annual General Meeting. In turn, the Board appoints a Chairman, who is to lead the work of the Board, and a President, who is responsible for ongoing management in accordance with the Board's guidelines and instructions. The Annual General Meeting shall also appoint an auditor to monitor operations and check the accounts.



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

### Principles of corporate governance

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

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

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

### Owner directives from the Annual General Meeting of the Society

The Board of Directors of the Society develops directives for the Company and these are set annually at the Annual General Meeting. The owner directives set out the framework of the operations assigned to the Board of the Company by the Society. The owner directives primarily include guidelines regarding consolidation, risk levels, remuneration principles, principles for business travel and representation, expertise on funding matters, development of products and services and any special assignments set for the Company by the Society. The owner directives take effect by being adopted by the AGM of the Company.

### Targets for operations

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

### Remuneration principles

The Board sets the remuneration principles applicable within the Company. The principles are also reviewed regularly. Since Finansinspektionen does not consider the Company to be significant in terms of its size, internal organisation and the nature, scope and complexity of its operations, there is no need for a compensation committee. These duties are performed instead by the Chairman of the Board, who is presented on page 41.

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

### Audit Committee

In the Company, the tasks of an Audit Committee are performed by the full Board. In 2017, the Audit Committee met on three occasions. Matters included risk control of the 2016 annual accounts and the 2017 interim report, including the external auditor's audit report, a review of the new accounting standard IFRS9 and approval of non-audit services.

### Shareholders and Annual General Meeting

The Society owns all of the shares in the Company and exerts its influence at the AGM. The AGM of the Company was held on 20 April 2017, in immediate connection with the AGM of the Society.

The AGM of the Company approved the Annual Report for 2016 proposed by the Board and the President, and discharged the members of the Board and the President from responsibility for the year. Furthermore, the AGM approved the distribution of earnings proposed by the Board and the President.

At the AGM, the existing Board members were re-elected and Åsa Zetterberg was elected as a new member. No one from the Executive Management Team of the Company sits on the Board of Directors.

The AGM also made decisions on the following matters:

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

### Election Committees

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

**Election Committee of the companies owned by the Society 2017/2018**

Göran Färm (S), Municipality of Norrköping, Chairman

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

Ewa-May Karlsson (C), Västerbotten County Council

Margreth Johnsson (S), Municipality of Trollhättan

Further information on the Election Committee, including its complete formal work plan, is available at [www.kommuninvest.se](http://www.kommuninvest.se).

The Election Committee of the companies owned by the Society shall represent the Board of the Society and consists of members elected by the Board from its own membership. The Board of the Society has resolved that its working committee shall act as the Election Committee.

**Board of Directors of Kommuninvest i Sverige AB**

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

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

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

**Chairman of the Board**

The Chairman of the Board is responsible for the work of the Board being well organised and efficiently conducted and for ensuring that the Board fulfils its tasks. Among other things, the Chairman is required to encourage an open and constructive discussion among the Board, to ensure that the Board continuously updates and deepens its knowledge of the Company and its operations, to ensure that the Board has rules for identifying and dealing with conflicts of interest on the Board, and for receiving comments from the owner Society and disseminating these within the Board. The Chairman of the Board shall also check that the Board's decisions are implemented efficiently, ensure that the work of the Board is evaluated annually, and act as a discussion partner and support for the President of the Company.

The Chairman of the Board is also responsible for ensuring that the Company's remuneration policy is independently reviewed and for preparing Board decisions regarding a) remunerations to senior executives, b) remunerations to employees with overarching responsibility for any of the

Company's control functions, and c) monitoring the application of the Company's remuneration policy.

**CEO**

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

**Board members**

On 31 December 2017, the Company's Board consisted of Ellen Bramness Arvidsson (Chairman), Kurt Eliasson, Lars Heikensten, Anna von Knorring, Erik Langby, Anna Sandborgh, Johan Törngren and Åsa Zetterberg, and 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. The members are presented on pages 41–42.

**Remunerations**

For 2017, the Annual General Meeting approved a fixed fee of SEK 550,000 (550,000) for the Chairman of the Board. For the other Board members, a fixed fee of SEK 300,000 (300,000) was set. The combined fees are detailed in the table on page 41. The total fees paid to the members of the Board of Directors amounted to SEK 2,558,300 (2,257,500) for 2017. No fee was paid to the employee representatives.

**Work of the Board of Directors in 2017**

In 2017, the Board of Directors held 7 (8) ordinary meetings, and 1 (1) inaugural meeting. In addition to ongoing matters, agendas and decisions have involved:

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

# Board of Directors of Kommuninvest i Sverige AB



## ELLEN BRAMNESS ARVIDSSON

*Executive Director Strategy and International Affairs, Finance Norway*

**Elected:** Chairman since 2013. Vice Chairman from 2006 to 2013. Member since 2003.

**Education:** Cand. Oecon., Oslo University, Diploma in financial analysis, Stockholm School of Economics and FAF.

**Previous positions:** Chief Economist, Insurance Sweden, Under Secretary and First Secretary, Ministry of Finance.

**Other assignments:** Board member of Norske Finansielle Referanser AS.



## KURT ELIASSON

*Investigator and Chairman of the Committee on Modern Building Rules, Swedish Government Offices*

**Elected:** Member since 2010.

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

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

**Other assignments:** Chairman Järntorgskvarteret AB (Gothenburg).



## LARS HEIKENSTEN

*Executive Director the Nobel Foundation*

**Elected:** Member since 2016.

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

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

**Other assignments:** Chairman, Trygg-Stiftelsen.



## ERIK LANGBY

*Consultant*

**Elected:** Member since 2015.

**Education:** Individual courses, Stockholm University.

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

**Other assignments:** Board Member of Atrium Ljungberg AB, Chairman of NackaStrandsMässan AB, Chairman of AB Solom, Chairman of Texab AB and Chairman of Tegelhatt AB.



## ANNA SANDBORGH

*Consultant, Public Partner*

**Elected:** Member since 2010.

**Education:** Master of Laws, Uppsala University.

**Previous positions:** Chief Administrative Officer, Municipality of Karlstad; President, Karlstads Stadshus AB.

**Other assignments:** Chairman Helmia AB, Chairman Public Partner AB, Board Member of Karlstad Innovation Park.

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

Name	Position of dependence	Attendance, Board meetings 2017	Remuneration 2017, SEK	Remuneration 2016, SEK
Ellen Bramness Arvidsson	Independent	8 (of 8)	550,000	550,000
Anna von Knorring	Independent	7 (of 8)	300,000	300,000
Kurt Eliasson	Independent	7 (of 8)	300,000	300,000
Johan Törngren	Independent	8 (of 8)	300,000	300,000
Erik Langby	Independent	8 (of 8)	300,000	300,000
Anna Sandborgh	Independent	7 (of 8)	300,000	300,000
Lars Heikensten	Independent (newly elected in 2016)	7 (of 8)	300,000	207,500
Åsa Zetterberg	Independent (newly elected in 2017)	5 (of 6)	208,300	–
Nedim Murtic	Employee representative	7 (of 8)	Not remunerated	Not remunerated
Ulrika Gonzalez Hedqvist	Employee representative	8 (of 8)	Not remunerated	Not remunerated

# Board of Directors of Kommuninvest i Sverige AB



**JOHAN TÖRNGREN**  
*Consultant*

**Elected:** Member since 2009.

**Education:** MBA, Stockholm School of Economics.

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

**Other assignments:** Chairman, SPP Fonder AB.



**ANNA VON KNORRING**  
*Deputy Director, State Treasury, Finland*

**Elected:** Member since 2004.

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

**Previous positions:** Ministry of Finance and State Treasury.

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



**ÅSA ZETTERBERG**  
*Digital strategist, speaker & change agent*

**Elected:** Member since 2017.

**Education:** Bachelor science Political science, Uppsala University, Bachelor of Science Business, Uppsala University/Western Sydney University.

**Previous positions:** Head of section, Digitisation division, Swedish Association for Local Authorities and Regions, Expert, The Committee for Digitisation of the Swedish Government and Strategist digitisation, Project Manager infrastructure and Controller, Swedish Association for Local Authorities and Regions.

**Other assignments:** Member, Swedish Government's Board of Digitisation.



**NEDIM MURTIC**  
*Employee representative*

**Elected:** Member since 2016.

**Education:** Degree of Master Science in Business and Economics, Business and Finance, Organization and Leadership, Örebro University; and Stockholm School of Economics Executive Education, Stockholm University.

**Position at Kommuninvest:** Customer Relationship Manager.

**Other assignments:** Vice Chairman of Kommuninvest Fastighets AB, member of the local union.



**ULRIKA GONZALEZ HEDQVIST**  
*Employee representative*

**Elected:** Member since 2017, deputy employee representative since 2016.

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

**Position at Kommuninvest:** Senior Funding Officer.

**Other assignments:** Member of the local union.

## AUDITORS FOR KOMMUNINVEST I SVERIGE AB

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

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

### External auditor

At the Company's 2016 Annual General Meeting, KPMG AB was appointed as the auditing company for the period extending until the end of the Annual General Meeting

in 2020. KPMG AB has appointed authorised public accountant Anders Tagde as chief auditor. The auditor with overall responsibility meets the Board of Directors at least twice a year. Among Anders Tagde's other auditing assignments, the Nordic Investment Bank, ICA Banken and OK-Q8 Bank can be mentioned.

### Lay auditors

The lay auditors regularly meet the external auditors, the Chairman of the Board, the President and other representatives of the Company. Where necessary the lay auditors can initiate auditing measures additional to the normal statutory audit. The lay auditors also act as an election committee, recommending external auditors and submitting proposals for their remuneration.

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

# Executive Management Team

## Management of Kommuninvest i Sverige AB

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

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

The CEO is supported by the Executive Management Team. On 31 December 2017, in addition to the CEO, the Executive Management Team consisted of Maria Viimne (Deputy CEO & COO), Anders Pelander (acting CFO), Malin Norbäck (Head of Human Resources), Britt Kerkenberg (CRO), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (Head of IT, CIO). During 2017, Johanna Larsson left the executive management, while Jens Larsson and Anders Pelander were added.



**TOMAS WERNGREN,  
PRESIDENT & CEO**

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

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

**Other assignments:** Board Member of Vasallen AB.

**Born:** 1961.



**MARIA VIIMNE,  
DEPUTY CEO & COO**

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

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

**Born:** 1970.

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

Name	Year	Basic salary	Benefits	Variable pay	Pension expense	Total, SEK
Tomas Werngren	2017	3,123,265	84,000	-	964,109	4,171,374
	2016	3,181,015	90,192	-	951,711	4,222,918
Maria Viimne	2017	2,068,724	-	-	616,934	2,685,658
	2016	2,036,770	-	-	461,729	2,498,499
Other Executive Management Team <sup>1</sup>	2017	4,698,250	18,259	-	1,386,166	6,103,945
	2016	3,011,950	8,734	-	887,556	3,908,240
Employees who have a material impact on the Company's risk profile <sup>2</sup>	2017	14,408,167	52,801	-	3,047,655	17,508,623
	2016	16,345,388	46,339	-	3,656,964	20,048,691

<sup>1</sup>) Salaries and remuneration to other members of Company management have been affected by the fact that senior executives who previously served as external consultants are now employed by the Company and that the Executive Management Team has been extended by one person.

<sup>2</sup>) In addition to the Executive Management Team. This group comprises 20 employees with the following positions: Senior Funding Officer, Head of Lending and Customer Relationship Managers, Chief Financial Analyst, Accounting Manager, and Chief Compliance Officer. In 2016 this group included 24 employees, which is why the data for 2017 and 2016 are not comparable.

### More information about Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website [www.kommuninvest.se](http://www.kommuninvest.se):

- Statutes of the Kommuninvest Cooperative Society.

- Details of members and approval of new members.
- Articles of Association of Kommuninvest i Sverige AB.
- Information on the work of the Election Committees.

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

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

## Operational processes

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

either directly or indirectly, to ensure that they function as well as possible.

## Control environment

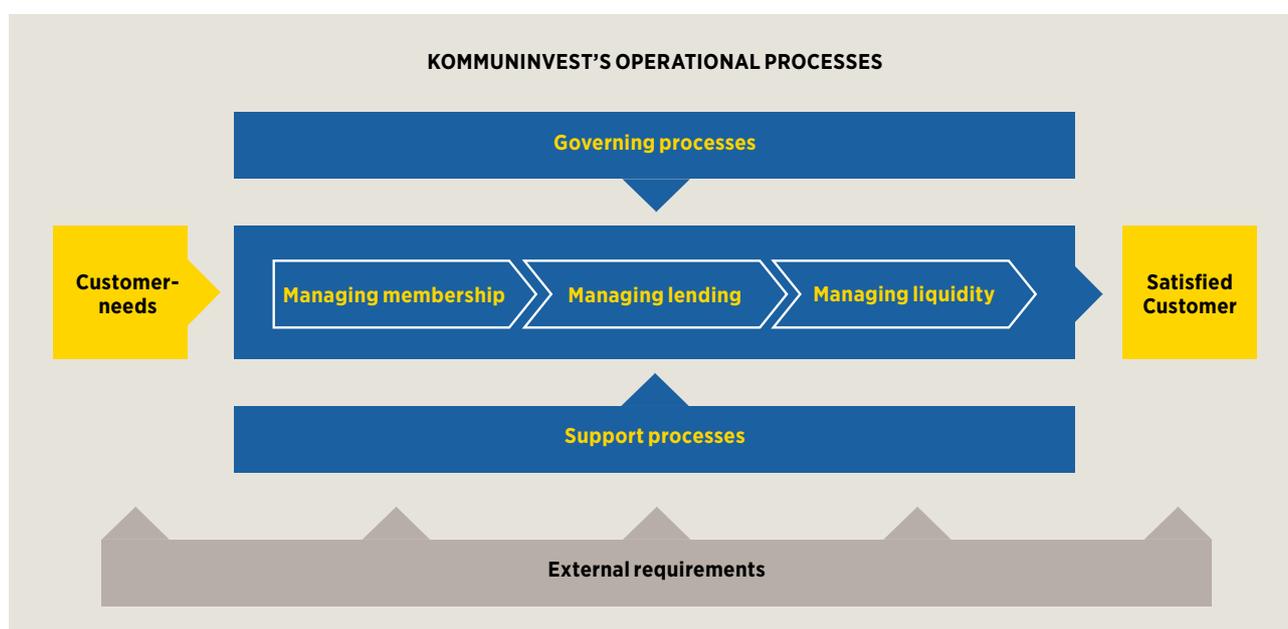
The control environment can be divided into two different parts: a formal part and an informal part. The formal part consists of the documents that describe the principles of internal control, with the most important being:

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

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

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

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



**Risk management**

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

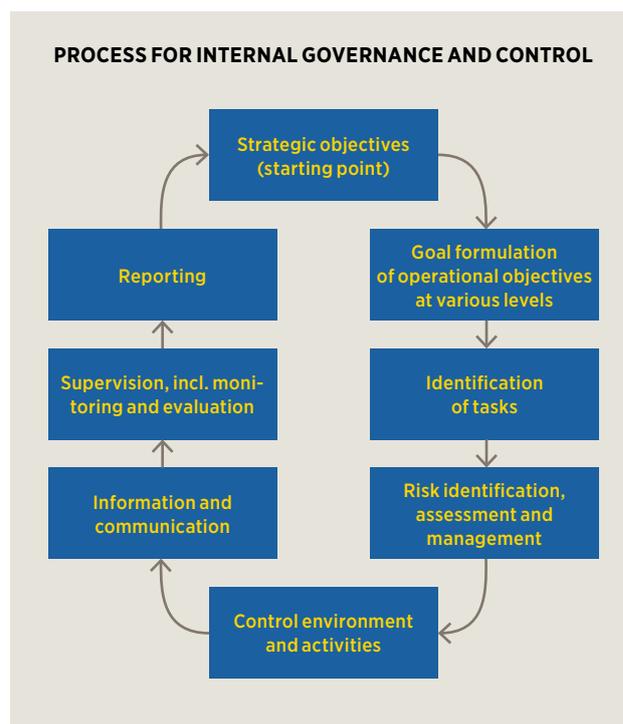
**Control activities**

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

1. *The first line of defence* lies in the operations and is responsible for the identification, control and management of the risks arising there.
2. *The second line of defence* is separate from the operations, and consists of the Risk and Control Department, and the compliance function. They monitor and check how risks and compliance are managed by the operations. The functions provide support in the introduction of effective risk management processes and regulatory compliance controls, as well as in connection with internal risk reporting. They are also tasked with reporting internally and externally.
3. *The third line of defence* is the internal audit unit, which, in a risk-based manner, reports to the Board and Management on how the Company assesses and manages its risks. This includes the procedures of the first and second lines of defence.

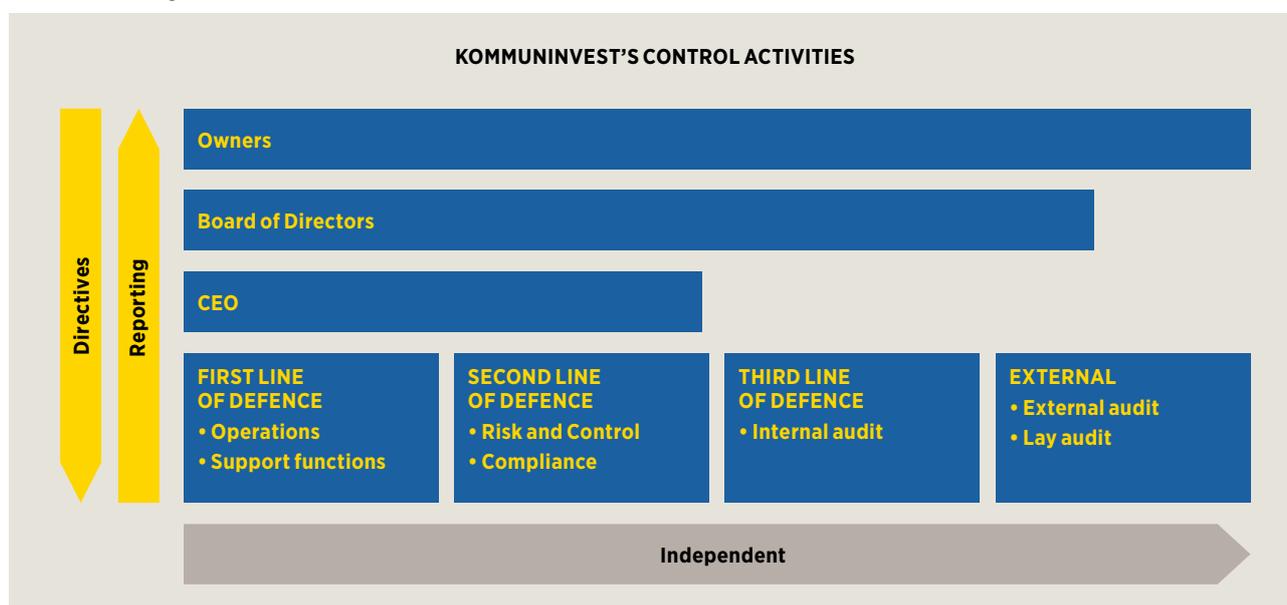
**Information and communication**

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



**Follow-up**

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



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# Financial statements

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# Income statement

1 January - 31 December

SEK, million	Note	2017	2016
Interest revenues	2	452.3	654.0
Interest expenses	2	429.0	108.0
<b>NET INTEREST INCOME</b>	4	<b>881.3</b>	<b>762.0</b>
Dividends received		1.8	-
Commission expenses	5	-7.3	-5.2
Net result of financial transactions	6	512.0	-131.9
Other operating income	7	5.3	5.4
<b>TOTAL OPERATING INCOME</b>		<b>1,393.1</b>	<b>630.3</b>
General administration expenses	8	-258.5	-221.0
Amortisation of intangible assets	18	-4.8	-4.2
Depreciation of tangible assets	19	-2.5	-1.9
Other operating expenses	9	-3.5	-5.0
<b>TOTAL OPERATING EXPENSES</b>		<b>-269.3</b>	<b>-232.1</b>
<b>OPERATING PROFIT</b>		<b>1,123.8</b>	<b>398.2</b>
Tax	10	-247.8	-88.4
<b>NET PROFIT</b>	11	<b>876.0</b>	<b>309.8</b>

# Statement of comprehensive income

1 January - 31 December

SEK, million	Note	2017	2016
<b>NET PROFIT</b>		<b>876.0</b>	<b>309.8</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may subsequently be reclassified to the income statement</b>			
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	10	2.5	-12.5
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-9.0</b>	<b>44.1</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>867.0</b>	<b>353.9</b>

## Comments on the income statement

### Net interest income

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

Kommuninvest grants lending at negative interest rates, which is recognised as an interest expense, amounting over the period to SEK 161.8 (151.0) million. For more information on how interest revenue and interest expense are recognised, see Note 2.

### Net result of financial transactions

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 the sale of financial instruments which contributed SEK 89.8 (63.4) million to the figure.

The result of the unrealised changes in market value is due to the funding cost for financing directly in SEK during the period being more advantageous than financing in foreign currencies. Since liabilities only include foreign currency funding reported at fair value, this has entailed a decrease in the margin between the Company's funding and lending costs on the instruments that are marked to market, leading to adverse changes in market value. For further information, see Note 6. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 27.

In connection with sales of financial instruments, the Company transferred SEK 35.6 (-) million in gains from other comprehensive income to profit/loss for the period.

### Operating expenses

Operating expenses amounted to SEK 269.3 (232.1) million, including the resolution charge of SEK 66.3 (31.4) million.

The resolution charge 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 reso-

lution charge for 2017 has been set by the Swedish National Debt Office at SEK 66.3 million. The resolution charge replaced the former stability fee in 2016 and, according to transitional measures, the resolution charge was reduced by half in 2016, being set at SEK 31.4 million. The resolution charge represented 25 percent of Kommuninvest's operating expenses, compared with 14 percent in 2016.

Excluding the resolution charge, 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. The increase in personnel expenses is mainly attributable to an increase in the number of employees. The largest changes under other expenses are an increase in IT expenses of SEK 3.8 million, mainly due to increased expenses for licenses and maintenance, as well as a decrease in Finansinspektionen's supervision fee, which amounted to SEK 0.0 (2.0) million for 2017.

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

Credit losses totalled SEK - (-) million.

### Operating profit

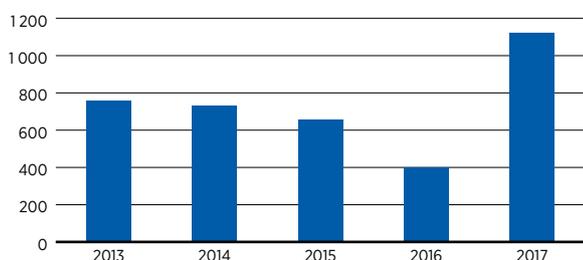
Kommuninvest's operating profit, that is, its profit before tax, amounted to SEK 1,123.8 (398.2) million. The operating profit includes unrealised changes in market value of SEK 426.0 (negative 195.5) million. Operating profit excluding the effect of unrealised market value changes was SEK 697.8 (593.7) million. Profit after tax amounted to SEK 876.0 (309.8) million.

### Tax

The tax expense for the year recognised in the income statement amounted to SEK 247.8 (88.4) million. Through Group contributions, taxable profit is reduced to SEK - (-) million. See Note 10.

### Operating profit/loss before tax

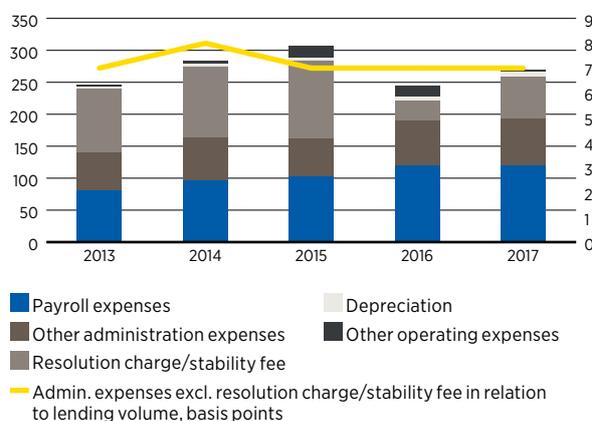
SEK, million



### Distribution of expenses

SEK, million

Basis points



# Balance sheet

As per 31 December

SEK, million	Note	2017	2016
<b>ASSETS</b>			
Sovereign bonds eligible as collateral	12	24,635.8	16,964.4
Lending to credit institutions	3	649.7	1,122.3
Lending	3, 13	310,147.3	276,982.1
Bonds and other interest-bearing securities	14	12,500.0	42,003.9
Shares and participations	15	-	3.3
Shares and participations in subsidiaries	16	42.0	42.0
Derivatives	3, 17, 28	8,044.6	24,449.8
Intangible assets	18	10.9	13.4
Tangible assets	19	7.2	7.6
Current tax assets		79.0	79.0
Other assets	20	814.1	14.6
Deferred tax assets	10	-	28.1
Prepaid expenses and accrued revenues		12.0	14.9
<b>TOTAL ASSETS</b>		<b>356,942.6</b>	<b>361,725.4</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
<b>Liabilities and provisions</b>			
Liabilities to credit institutions	3	1,318.4	2,396.1
Securities issued	3	337,755.8	341,579.4
Derivatives	3, 17, 28	7,793.9	9,390.5
Other liabilities	21	2,422.5	810.4
Accrued expenses and prepaid revenues		41.2	30.9
Provisions	22	-	4.1
Subordinated liabilities	23	-	1,000.0
<b>Total liabilities and provisions</b>		<b>349,331.8</b>	<b>355,211.4</b>
<b>Equity</b>			
<b>Restricted equity</b>			
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
<b>Unrestricted equity</b>			
Fair value reserve		0.8	9.8
Profit or loss brought forward		-386.6	75.3
Profit for the year	11	876.0	309.8
<b>Total equity</b>		<b>7,610.8</b>	<b>6,514.0</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>356,942.6</b>	<b>361,725.4</b>

## Comments on the balance sheet

### Assets

Kommuninvest's total assets decreased to SEK 356,942.6 (361,725.4) million, mainly attributable to a reduced liquidity reserve and reduced volume of derivative contracts outstanding. Lending increased over the period to SEK 310,147.3 (276,982.1) million.

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 more information, see page 78.

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 has 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 28. In 2017, the Company also began to pledge cash collateral for derivatives not cleared by a central clearing counterparty and for which there no right of offsetting applies and which are therefore included in full in the balance sheet. For more information on other assets, see Note 20.

### Liabilities

The Company's liabilities amounted to SEK 349,331.8 (355,211.4) million and funding decreased during the year to SEK 339,074.2 (343,975.5) million. Derivative liabilities (derivatives with negative market value) amounted to SEK 7,793.9 (9,390.5) million.

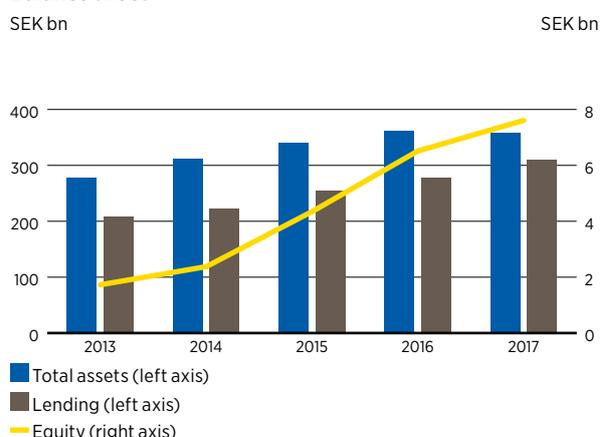
Other liabilities amounted to SEK 2,422.5 (810.4) million. Other liabilities include collateral received of SEK 654.8 (-) million. In 2016, Kommuninvest began receiving collateral for derivatives cleared by central clearing counterparties, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 28. 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 offsetting applies and which are therefore included in full in the balance sheet. Further information on other liabilities can be found in Note 21.

During the year a subordinated loan of SEK 1,000.0 million between the Company and the Society was cancelled. For more information, see Comments on the statement of changes in equity on page 53 as well as in Note 23.

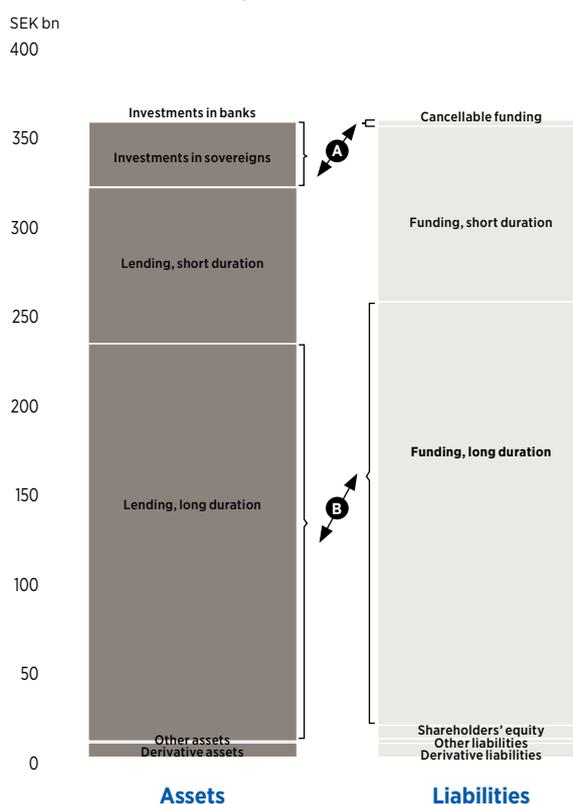
### Equity

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

### Balance sheet



### Balance sheet structure, 31 December 2017



- A.** Kommuninvest's liquidity reserve contains a large proportion of assets that can quickly be converted into cash. At the end of the year, the liquidity reserve exceeded cancellable funding by SEK 34.4 billion.
- B.** At the end of 2017, Kommuninvest's non-current funding exceeded non-current lending by SEK 14.5 billion.

# Statement of changes in equity

SEK, million	Restricted equity				Unrestricted equity			Total equity
	Share capital	New share issue in progress	Development expenditure reserve <sup>1</sup>	Statutory reserve <sup>2</sup>	Fair value reserve <sup>3</sup>	Profit or loss brought forward	Profit for the year	
<b>Equity brought forward 1 January 2016</b>	<b>3,926.4</b>	-	-	<b>17.5</b>	<b>-34.3</b>	<b>-126.6</b>	<b>561.3</b>	<b>4,344.3</b>
Profit for the year							309.8	309.8
Capitalised over the year			1.6			-1.6		0.0
Other comprehensive income					44.1			44.1
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1.6</b>	<b>-</b>	<b>44.1</b>	<b>-1.6</b>	<b>309.8</b>	<b>353.9</b>
<b>Transactions with shareholders</b>								
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
<b>Total transactions with shareholders</b>	<b>1,490.7</b>	<b>682.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>203.5</b>	<b>-561.3</b>	<b>1,815.8</b>
<b>Equity carried forward 31 December 2016</b>	<b>5,417.1</b>	<b>682.9</b>	<b>1.6</b>	<b>17.5</b>	<b>9.8</b>	<b>75.3</b>	<b>309.8</b>	<b>6,514.0</b>
<b>Equity brought forward 1 January 2017</b>	<b>5,417.1</b>	<b>682.9</b>	<b>1.6</b>	<b>17.5</b>	<b>9.8</b>	<b>75.3</b>	<b>309.8</b>	<b>6,514.0</b>
Profit for the year							876.0	876.0
Capitalised over the year			1.5			-1.5		0.0
Other comprehensive income					-9.0			-9.0
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1.5</b>	<b>-</b>	<b>-9.0</b>	<b>-1.5</b>	<b>876.0</b>	<b>867.0</b>
<b>Transactions with shareholders</b>								
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
<b>Total transactions with shareholders</b>	<b>682.9</b>	<b>317.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-460.4</b>	<b>-309.8</b>	<b>229.8</b>
<b>Equity carried forward 31 December 2017</b>	<b>6,100.0</b>	<b>1,000.0</b>	<b>3.1</b>	<b>17.5</b>	<b>0.8</b>	<b>-386.6</b>	<b>876.0</b>	<b>7,610.8</b>

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.

## Comments on the statement of changes in equity

### 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 increase in equity in the Company is mainly attributable to an increase in the share capital of SEK 1,000.0 million in the form of a new share issue in progress, compared with the previous year when the share capital increased by SEK 1,490.7 million through a new share issue and by SEK 682.9 million in the form of a new share issue in progress.

### Reinforcement of share capital

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.

### Share capital

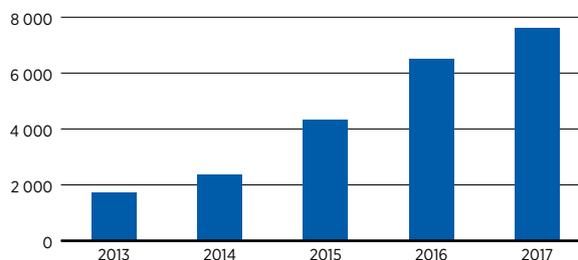
At the end of the year, the share capital amounted to SEK 6,100.0 (5,417.1) million, distributed over 61,000,000 (54,170,590) shares. On the balance sheet date, the new share issue in progress of SEK 1,000.0 (682.9) million, divided into 9,999,720 (6,829,410) shares with a nominal value of SEK 100 per 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.

### Development expenditure reserve

This reserve of SEK 3.1 (1.6) million corresponds to capitalised development expenditure in-house adjusted by a proportional share of depreciation transferred back from the reserve to unrestricted equity.

### Equity

SEK, million



# Cash flow statement

1 January – 31 December

SEK, million	2017	2016
<b>Operational activities</b>		
Operating profit	1,123.8	398.2
Adjustment for items not included in cash flow	-418.5	201.1
Income tax paid	0.0	-0.4
	<b>705.3</b>	<b>598.9</b>
Change in liquidity reserve <sup>1</sup>	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
<b>Cash flow from operational activities</b>	<b>-13,646.2</b>	<b>-18,571.9</b>
<b>Investment activities</b>		
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
<b>Cash flow from investment activities</b>	<b>-4.3</b>	<b>-4.8</b>
<b>Financing activities</b>		
Issue of interest-bearing securities	147,433.0	129,345.1
Redemption and repurchases of interest-bearing securities <sup>1</sup>	-135,229.0	-110,702.1
New share issue	1,000.0	2,173.6
Change in intra-Group liabilities	-26.1	-1,817.5
<b>Cash flow from financing activities</b>	<b>13,177.9</b>	<b>18,999.1</b>
<b>Cash flow for the year</b>	<b>-472.6</b>	<b>422.4</b>
<b>Cash and equivalents at start of the year</b>	<b>1,122.3</b>	<b>699.9</b>
<b>Cash and equivalents at end of the year</b>	<b>649.7</b>	<b>1,122.3</b>
Cash and equivalents consists in their entirety of loans to credit institutions that, at the time of acquisition, have a maturity of at most three months and that are exposed to insignificant risk of fluctuations in value.		
<b>Adjustment for items not included in cash flow</b>		
Depreciation	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
<b>Total</b>	<b>-418.5</b>	<b>201.1</b>
<b>Interest paid and earned, included in the cash flow</b>		
Interest received <sup>2</sup>	371.0	787.1
Interest paid <sup>3</sup>	279.8	-42.3

1) The change in own holdings are included in Redemption 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	Opening balance	Cash flows	Currency exchange fluctuations	Fair value change	Group contributions	Closing balance
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
Intra-Group liabilities	790.9	-26.1			987.5	1,752.3
<b>Total</b>	<b>336,807.1</b>	<b>13,177.9</b>	<b>-1,762.7</b>	<b>-1,534.0</b>	<b>987.5</b>	<b>347,675.8</b>

# Notes

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

## Note 1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2017 and relates to Kommuninvest i Sverige AB (publ), registration number: SE556281-4409. Kommuninvest has its registered office in Örebro. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden.

The Parent Company of Kommuninvest i Sverige AB is the Kommuninvest Cooperative Society, registration number SE716453-2074.

The Annual Report was approved for publication by the Board of Directors on 13 February 2018. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 26 April 2018.

## Note 2 Accounting principles

### Compliance with standards and legislation

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

Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. Furthermore, the recommendations from the Swedish Financial Reporting Board, Accounting for legal entities (RFR 2) have been applied.

In accordance with Chapter 7, section 6a of ÅRKL, Kommuninvest has chosen not to prepare consolidated accounts.

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

### Consolidated accounts

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

### 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 54 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 pre-emptively and instead applies regulations once they have been adopted for application by the EU.

Other new and amended laws, standards and interpretations yet to come into effect are not assessed to have any material impact on Kommuninvest's earnings, position, disclosure, capital requirements, capital basis or major exposures.

### IFRS 9 Financial instruments

The standard will come into effect on 1 January 2018 and will replace IAS 39 Financial Instruments: Recognition and measurement. IFRS 9 covers the classification and valuation of financial assets and liabilities, 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. According to IFRS 9, a company's business model may entail:

- receiving cash flows in the form of interest and principal, where assets are to be valued at amortised cost,
- a mixed model involving receiving cash flows in the form of interest and principal, but where the objectives of the business model are also met through sales of holdings, this model is valued at fair value with changes in value being included in other comprehensive income,
- holding assets where the focus is on following up their fair value and generating cash flows by selling those assets. In this model, assets are valued at fair value with changes in value in the income statement.

For the first two business models, for the above valuation to apply, it is also required that cash flows consist solely of payments of principal and interest – otherwise, the asset will be valued at fair value through the income statement. To assess this, the asset's cash flow character is tested by means of a so-called SPPI test.

In Kommuninvest's assessment, the purpose of the Company's financial assets is for them to be held to maturity and to receive cash flows in the form of principal and interest on principal. This assessment applies to both the Company's lending

*Note 2, continued*

and liquidity portfolios. The existing ledgers have been SPPI tested, showing that all assets had cash flows only in the form of principal or interest on principal and those assets will 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, investments currently classified as assets available for sale will be 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 shareholders' 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 expected 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 the Company's 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 highly individual 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, or for investments in companies with high creditworthiness, means that provisions for expected 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.

*Effect on the capital base*

Kommuninvest's assessment is that the impact of the standard will be insignificant in relation to Kommuninvest's capital base. Transitional rules regarding the effect of impairments on the capital base will not be applied.

*IFRS 15 Revenue from contracts with customers*

IFRS 15 is a new accounting standard that will come into force on 1 January 2018. Although pre-emptive application is permitted, Kommuninvest has chosen not to apply the standard pre-emptively. 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 will be insignificant in relation to Kommuninvest's earnings, position, disclosures, capital requirements, capital base or large exposures.

*IFRS 16 Leases*

IFRS 16 Leases is the new leasing standard, which comes into force on 1 January 2019 and replaces IAS 17 Leases.

A key difference in the new lease standard is that leases are no longer classified as financial or operational for lessees. Instead, a model is introduced whereby all leases are capitalised in the balance sheet. The extent of the impact on the balance sheet is based on the length of the lease, unless it is reasonably certain that the agreement will be extended. In this case, the activation is also based on future contract periods.

Another difference is that expensing the lease will be divided into two parts. One part that is attributable to operating profit and another classified as an interest expense on the lease liability and thus expensed under net interest income. IFRS 16 also includes a relief rule for short leases (under one year) and for agreements regarding assets of lesser value. In its standard, the IASB has not specified what is classified as lesser value, although it gives a guideline indication of USD 5,000.

For lessors, IFRS 16 entails no significant differences. The new standard retains the division/classification into operational and financial leases.

Kommuninvest currently has no financial leases. The majority of the operational leases held by Kommuninvest can be seen as assets of minor value and are therefore subject to the relief rules under IFRS 16 and can be reported as previously. An analysis of IFRS 16's impact will be conducted in 2018, although a preliminary assessment is that the impact of the standard will be insignificant in relation to Kommuninvest's earnings, position, disclosures, capital requirements, capital base or major exposures.

**Significant judgements and assumptions**

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

For assets and liabilities valued at fair value, their value is affected by the assessment of whether the available market prices are based on an active market. All holdings in the liquidity reserve and funding instruments issued within the EMTN programme are estimated to have available market prices based on an active market, and these prices are used to determine fair value. When determining the fair value of financial instruments not traded in active markets, Kommuninvest applies valuation techniques and then makes assumptions that may be associated with uncertainty. Note 27 describes how fair value for financial instruments is derived including significant assumptions, uncertainty factors and sensitivity analyses. The report has been prepared based on amortised cost, with the exception of a significant portion of the Company's financial assets and liabilities, which are measured at fair value or amortised cost adjusted for fair value with regard to the risk that is subject to hedge accounting. For further information, see the section on Financial instruments and Note 27.

*Note 2, continued***Functional currency and presentation currency**

Kommuninvest's functional currency is the Swedish krona (SEK) and the financial statements are presented in the same currency.

All amounts are rounded off to the nearest million unless otherwise stated.

**Transactions in foreign currencies**

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

**Associated companies**

Participations in associated companies are reported in accordance with the cost method. During 2016, the associated company, Administrative Solutions NLGFA AB, was placed in voluntary liquidation. Following that, the Company holds no shares in associated companies.

**Subsidiaries**

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

**Interest revenues and interest expenses**

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

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

Interest revenues and interest expenses are calculated and reported by applying the effective interest method. Where applicable, interest income and interest expenses include periodised amounts of transaction expenses.

The 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.

The 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. This negative interest income is reported as an interest expense, see Note 4.

**Commission expenses**

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

**Net result of financial transactions**

'Net result of financial transactions' encompasses the realised and unrealised changes in value arising from financial transactions. The net result of financial transactions comprises:

- Unrealised changes in fair value on assets and liabilities held for trading purposes.

- Unrealised changes in fair value on assets and liabilities recognised at fair value through the income statement.
- Unrealised changes in fair value on derivatives where hedge accounting of fair value is applied.
- Unrealised changes in fair value on hedged item with regard to hedged risk in hedging fair value.
- Capital gain/loss from divestment of financial assets and liabilities.
- Exchange rate changes.

**Financial instruments**

Financial instruments recognised in the asset side of the balance sheet include lending, lending to credit institutions, interest-bearing securities, derivatives and other financial assets. Liabilities and shareholders' equity include liabilities to credit institutions, issued securities, derivatives, subordinated liabilities and other financial liabilities. For further information, please see Note 27.

**Recognition in and removal from the balance sheet**

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

A financial asset is removed from the balance sheet when the contractual rights to cash flows from that financial asset cease or on the transfer of the financial asset, upon which Kommuninvest, in all material regards, transfers to another all of the risks and benefits associated with ownership of the financial asset. A financial liability is removed from the balance sheet once the obligation in the contract has been fulfilled or is in some other way extinguished. The same applies for part of a financial liability.

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

Acquisitions and sales of financial instruments are reported on the business day, i.e. the day the Company commits to acquiring or selling the instrument.

**Classification and measurement of financial instruments**

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

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

**Financial assets and liabilities valued at fair value through the income statement.**

Financial instruments in this category are measured continuously at fair value with changes in value reported in the income statement.

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

The first sub-group includes derivatives held for financial hedging, but not included in hedge accounting.

The second sub-group includes assets such as lending and investments. The reason Kommuninvest has classified assets to

*Note 2, continued*

this category is to rectify an accounting mismatch that would otherwise arise regarding measurement and recognition. Risk management instruments in the form of derivative contracts are used to limit the market risks that arise when the terms for funding, lending and investment do not match. It would result in an accounting mismatch if the derivatives were measured at fair value through the income statement but not the associated lending or investment.

The second sub-group also includes liabilities to credit institutions and issued securities. This refers primarily to funding at fixed interest and structured funding, that is, loans that are subject to cancellation and/or for which coupon payments are variable, but not connected to the interbank rate. The reason for classifying funding at fixed interest in this category is that this funding is hedged financially with a derivative at fair value and the borrowings are mainly used for loans measured at fair value. It would be inconsistent to measure lending and derivatives at fair value but not funding.

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

**Loan receivables and accounts receivable**

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

**Available-for-sale financial assets**

This category includes Kommuninvest's investments in interest-bearing securities which are not included in trading operation or do not have an accompanying interest hedging derivative.

Assets in this category are constantly valued at fair value with value changes recognised on other comprehensive income. Changes in value due to impairment or exchange rate differences are recognised in the income statement. Interest is also recognised in the income statement.

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

**Other financial liabilities**

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

**Hedge accounting**

To obtain a true and fair picture of the operation, Kommuninvest applies, where possible, hedge accounting of fair value for the assets and liabilities which have been hedged with one or more financial instruments. The hedged risk is the risk of fluctuations in fair value as a consequence of changes in the interest on swaps. The hedged item is therefore reassessed on the basis of changes in the fair value of the hedged risk. Kommuninvest uses interest rate and currency swaps as hedge instruments. This means that the asset/liability is measured at fair value through the income statement with regard to the components which the instrument hedges.

Any inefficiency is recognised in the income statement. If a hedging relationship does not fulfil the efficiency requirements, the relationship is severed and the asset/liability is recognised at amortised cost and the accumulated change in value of

the asset/liability is allocated over the remaining term. Kommuninvest's hedging relationships have been deemed efficient.

**Credit losses and impairments on financial instruments**

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

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

Where there are objective indications for the need to recognise impairment of a financial asset reported at accrued cost, the amount of any such impairment is calculated as the difference between the current value of the asset's estimated future cash flows discounted at the original effective rate of interest and the reported value of the asset. In Kommuninvest's assessment, no impairments were required as per 31 December 2017.

**Intangible assets**

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

Amortisation is recognised in the income statement on a linear basis over the estimated useful life of the intangible asset. Effective from October 2016, the depreciation of an asset commences in the month in which the asset acquired and thus utilised, unlike previously when the amortisation began effective from January of the year in which the asset was acquired. The useful lives of assets are reassessed at least once per year. The estimated useful life is five years.

**Tangible assets**

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

Tangible assets are carried at cost less accumulated depreciation.

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

Depreciation is carried out on a linear basis over the asset's estimated useful life. Effective from October 2016, the depreciation of an asset commences in the month in which the asset acquired and thus utilised, unlike previously when the depreciation began effective from January of the year in which the asset was acquired. Kommuninvest calculates a useful life of three or five years for equipment. Works of art included in the balance sheet are not depreciated.

*Note 2, continued***Pension through insurance**

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

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

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

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

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

**General administration expenses**

General administration expenses include payroll expenses, including salaries and emoluments, pension expenses, payroll taxes and other social security contributions and temporary/contract personnel, training expenses and other personnel expenses. Other expenses included in administrative expenses are the resolution charge (formerly, stability fee), expenses for consultants, premises, IT, telecommunications, travel and representation expenses. Also included are expenses for ratings, market data, and the expenses of maintaining an aftermarket for issued securities.

**Other operating income**

Since 2014, Kommuninvest has provided a web-based finance management service to members of the Kommuninvest Cooperative Society. The members who have chosen to use this service pay an annual fee to Kommuninvest. This income is recognised as other operating income.

**Other operating expenses**

Other operating expenses primarily include expenses for marketing and insurance.

**Leasing**

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

**Taxes**

Under Tax on profit for the year, current and deferred tax is recognised. Income taxes are recognised in the income statement, except when the underlying transaction is recognised directly against other comprehensive income or shareholders' equity, whereby the appurtenant tax is also recognised in other comprehensive income or shareholders' equity.

Current taxes are taxes that must be paid for the current year. This also includes adjustments to current taxes attributable to previous periods.

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

**Group contributions**

Kommuninvest recognises Group contributions paid to the Parent Company directly against shareholders' equity. Group contributions received are reported in the income statement under dividends received.

**Cash flow statement**

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

**Segment reporting**

Kommuninvest does not prepare segment reports since it has only one segment: lending to members. All operations are conducted in Sweden and all customers are domiciled in Sweden. Kommuninvest has no single customer who accounts for 10 percent or more of income.

## Note 3 Risk and capital management

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

Certain changes took place in 2017 with regard to the Company's targets, principles and methods for managing risk. The changes mainly involve the Company's goal of ensuring good matching of maturities between assets and liabilities, rather than, pursuing longer maturities on liabilities than on assets, as previously. In line with this, the principles for the liquidity reserve have also been amended, with the reserve being allowed to be smaller, while the Company imposes more stringent demands on the quality and marketability of the assets.

In connection with these changes, the Company's exposure to both price risk and credit risk decreased significantly. The liquidity reserve has decreased in volume and includes assets of higher credit quality than in the preceding period. As a conse-

quence of the risk-weighted exposure to credit risk having decreased, the Company's capital requirement for credit risk has also decreased significantly compared with the preceding period.

### Credit risk

Credit risk refers to the risk of a loss being incurred as a consequence of a counterparty's incapacity to meet its obligations on time. Credit risk arises in various ways in the Company's operations and is divided into three areas: credit provision risk arising in the lending operations, issuer risk arising in the Company's liquidity reserve and counterparty risk, which arises when the Company uses derivative instruments.

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

Credit risk exposure	2017				2016			
	Recognised value	Exposure value <sup>2</sup>	Risk-weighted exposure value	Capital requirement	Recognised value	Exposure value <sup>2</sup>	Risk-weighted exposure value	Capital requirement
<b>Credit services</b>								
Lending to municipalities and municipal companies <sup>1</sup>	310,147.3	310,147.3	0.0	0.0	276,982.1	276,982.1	0.0	0.0
<b>Liquidity reserve</b>								
Sovereign bonds eligible as collateral	24,635.8	24,635.8	0.0	0.0	16,964.4	16,964.4	0.0	0.0
Bonds and other interest-bearing securities	12,500.0	12,500.0	0.0	0.0	42,003.9	42,003.9	1,887.4	151.0
Lending to credit institutions	649.7	649.7	129.9	10.4	1,122.3	1,122.3	224.5	17.9
<b>Derivatives</b>								
Derivatives <sup>2</sup>	8,044.6	6,630.4	0.0	0.0	24,449.8	21,951.6	0.0	0.0
<b>Other assets</b>								
Other assets	965.2	965.2	243.9	19.5	202.9	202.9	162.2	13.0
<b>Off-balance sheet items</b>								
Committed loans <sup>1</sup>	1,834.3	1,834.3	0.0	0.0	1,765.4	1,765.4	0.0	0.0
Committed, undisbursed loans <sup>1</sup>	2,476.2	2,476.2	0.0	0.0	4,535.7	4,535.7	0.0	0.0
<b>Total (including off-balance sheet items)</b>	<b>361,253.1</b>	<b>359,838.9</b>	<b>373.8</b>	<b>29.9</b>	<b>368,026.5</b>	<b>365,528.3</b>	<b>2,274.1</b>	<b>181.9</b>

1) Guaranteed by local government undertaking

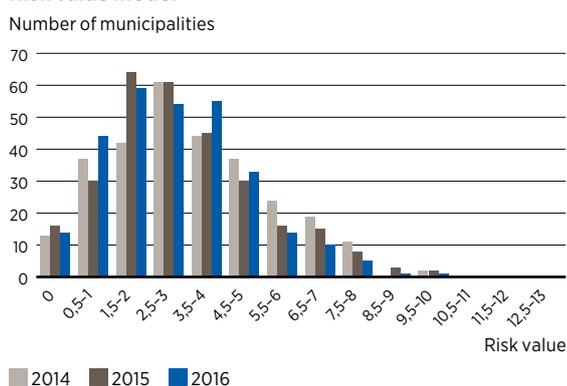
2) For all asset items other than derivatives, the recognised value corresponds to the maximum credit risk exposure, i.e. exposure value. For derivatives, where the recognised value refers to the total positive market value after netting of receivables and liabilities vis-à-vis central counterparty clearing houses, the maximum credit risk exposure (exposure value) corresponds to the sum of current replacement cost and potential future exposures (further details can be found in the section Counterparty risk on pages 61–62).

### Credit provider risk

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

The municipalities and county councils/regions and the companies they own respectively are analysed when processing membership applications and on an ongoing basis during their membership. To obtain an overall view of a member's financial situation, a quantitative risk value analysis is performed. The analysis includes the income statement, balance sheet, demographics and risks in municipal operations. Based on this analysis, each of the Society's member municipalities is allocated a risk value between 0 and 13, where the lower the risk value is, the better. How the municipalities are distributed between different risk-value groups is illustrated below in the diagram Risk value model.

### Risk value model



### Capital requirement for credit provider risk

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

### Issuer risk

Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity. The risk is limited by investing the liquidity reserve in securities and bank balances where the issuer has a credit rating of at least A (S&P) or equivalent at an approved credit rating agency. In accordance with the Company's Finance Policy, investments may not be made in securities with a remaining maturity of more than 39 months (in the previous period, maturities were limited to 5.5 years). Placements are also subject to a country limit where the exposure to any individual country may not exceed SEK 15 billion, with the exception of Sweden for which there is no country limit. In addition, the Board of Directors determines the maximum gross exposure to individual issuers.

At year-end, the average remaining maturity of the investments in the liquidity reserve was 7.2 (20.6) months. The longest remaining maturity of an individual security was 26.1 (60.3) months.

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

Invested per country	2017	2016
Sweden	21,742.0	30,497.4
Supranationals	4,915.9	7,701.3
Germany	4,806.2	10,153.5
Finland	3,195.2	5,114.4
Denmark	2,063.2	3,004.0
Canada	925.7	1,470.3
United Kingdom	129.1	946.6
USA	8.2	9.0
Australia	-	602.0
Netherlands	-	592.1
<b>Total</b>	<b>37,785.5</b>	<b>60,090.6</b>

Invested per rating	2017	2016
AAA	33,006.7	46,327.2
AA	3,940.3	12,728.4
A	838.5	1,035.0
<b>Total</b>	<b>37,785.5</b>	<b>60,090.6</b>

Invested per issuer category	2017	2016
National governments or central banks	23,710.1	12,448.2
Credit institute		
- of which, subsidised lenders	7,584.1	16,730.9
- of which, bank balances	649.7	1,122.3
Multilateral development banks	4,915.9	7,701.3
Regional or local governments and authorities	925.7	5,974.1
Covered bonds	-	15,614.9
Public bodies	-	498.9
<b>Total</b>	<b>37,785.5</b>	<b>60,090.6</b>

### Capital requirement for issuer risk

When calculating capital requirements for issuers risk, Kommuninvest uses the standard method in accordance with the CRR regulations. To determine the exposure value, the recognised value is assigned. The risk-weighted exposure value is calculated by the exposure being assigned a risk weight in accordance with the regulations. The risk-weighted exposure value is multiplied by 8 percent and, accordingly, the capital requirement for issuer risk amounts to SEK 10.4 (168.9) million.

### Counterparty risk

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

*Note 3, continued*

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, as well as surplus collateral being pledged. Accordingly, the total counterparty risk amounts to SEK 971.3 (1,269.2) million.

Derivatives exposure	2017	2016
Recognised value <sup>1</sup>	8,044.6	24,449.8
Amount offset in the balance sheet	576.4	115.4
<b>Gross market value<sup>2</sup></b>	<b>8,621.0</b>	<b>24,565.2</b>
Netting gains	-5,647.3	-8,064.5
<b>Current replacement cost<sup>3</sup></b>	<b>2,973.7</b>	<b>16,500.7</b>
Collateral received	-2,628.0	-15,623.0
<b>Net per counterparty incl. deductions for collateral</b>	<b>345.7</b>	<b>877.7</b>
Initial margin pledged	590.2	317.7
Surplus collateral pledged	35.4	73.8
<b>Total counterparty risk</b>	<b>971.3</b>	<b>1,269.2</b>

1) Total positive market values after offsetting.

2) Total positive gross market values before offsetting.

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

*Capital requirements for counterparty risk*

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

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

zero and the capital requirement for counterparty risk is thus also zero. See the table Capital requirements for counterparty risk below.

Capital requirements for counterparty risk	2017	2016
Current replacement cost <sup>1</sup>	2,973.7	16,500.7
Potential future exposure	3,656.7	5,450.9
<b>Exposure value</b>	<b>6,630.4</b>	<b>21,951.6</b>
Risk-weighted exposure value <sup>2</sup>	0.0	0.0
<b>Capital requirement</b>	<b>0.0</b>	<b>0.0</b>

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

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

*CVA risk*

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

*Capital requirement for CVA risk*

In calculating capital requirements for CVA risk under Pillar 1, Kommuninvest applies the standardised method in CRR. As the exposure value, the fully adjusted exposure value is used, meaning that the risk-reducing effects of the collateral are taken into account. In accordance with the regulations, transactions with central clearing counterparties are excluded. At the end of the year, the capital requirement for CVA risk was SEK 60.4 (122.9) million.

*Concentration risk*

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

The Company's assignment, to provide credit to the local government sector, entails concentrations in the provision of credit. Concentrations in the provision of credit are restricted by limits on lending to individual customers. Since all lending is covered by a guarantee from one or more members, the assessment is made that no capital requirement need be recognised for concentration risk in the provision of credit.

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

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

*Capital requirements for concentration risk in the liquidity reserve*

The calculations of capital requirements for credit risk-related concentration risk that the Company has implemented are based on the method described in the Financial Supervisory Authority's (FI) memorandum "FI methods for assessing individual risk types under Pillar 2" from 8 May 2015.

## Note 3, continued

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

Concentration risks are estimated applying the Herfindahl index, meaning that exposures are grouped and weighted in relation to their share of the total exposure. A higher Herfindahl index means a greater concentration. Capital requirements for concentration risks are subsequently calculated, applying formulas, as a proportion of the capital requirement for credit risk under Pillar 1.

Upon calculations as per 31 December 2017, the capital requirement under Pillar 2 for concentration risks in the liquidity reserve was 19.0 (15.9) percent of the capital requirement for credit risk under Pillar 1, that is to say, SEK 5.7 (28.9) million.

**Market risk**

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

Market risk mainly arises in the funding operations and in the investment of the funds included in the Company's liquidity reserve. For funding to be stable and efficient, the Company

needs to be active in several different funding markets. As a result, the Company is exposed to market risks. The market risks are divided into interest rate risk, foreign exchange risk, credit market risk, other price risks and liquidation risk.

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

**Interest rate risk**

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

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

**Periods of fixed interest**

2017	Nominal amount						Total
	0-3 months	3 months-1 year	1-5 years	5-10 years	More than 10 years	Without interest	
<b>Assets</b>							
Sovereign bonds eligible as collateral	17,474.7	1,222.2	5,623.4	-	-	-	24,320.3
Lending to credit institutions	649.7	-	-	-	-	-	649.7
Bonds and other interest-bearing securities	2,346.3	3,838.7	6,184.2	-	-	-	12,369.2
Lending	180,329.5	20,151.4	87,308.3	18,080.1	2,173.1	-	308,042.4
Derivative investments	24,374.3	-11,136.6	-12,773.6	-	-	-	464.1
Derivative lending	113,179.3	-16,068.1	-76,938.3	-18,241.5	-1,931.4	-	0.0
Other assets	-	-	-	-	-	965.2	965.2
<b>Total assets</b>	<b>338,353.8</b>	<b>-1,992.4</b>	<b>9,404.0</b>	<b>-161.4</b>	<b>241.7</b>	<b>965.2</b>	<b>346,810.9</b>
<b>Liabilities and shareholders' equity</b>							
Liabilities to credit institutions	558.8	729.2	-	-	-	-	1,288.0
Securities issued	53,115.3	64,848.1	194,490.5	25,507.4	1,250.0	-	339,211.3
Derivative funding	260,421.4	-53,644.0	-183,229.1	-25,407.4	-1,000.0	-	-2,859.1
Other liabilities	654.8	-	-	-	-	1,808.9	2,463.7
Subordinated liabilities	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	7,610.8	7,610.8
<b>Total shareholders' equity and liabilities</b>	<b>314,750.3</b>	<b>11,933.3</b>	<b>11,261.4</b>	<b>100.0</b>	<b>250.0</b>	<b>9,419.7</b>	<b>347,714.7</b>

## FINANCIAL STATEMENTS

### Note 3, continued

2017	Nominal amount						Total
	0-3 months	3 months-1 year	1-5 years	5-10 years	More than 10 years	Without interest	
Difference, assets and liabilities.	23,603.5	-13,925.7	-1,857.4	-261.4	-8.3	-8,454.5	-903.8

### Periods of fixed interest

2016 <sup>1</sup>	Nominal amount						Total
	0-3 months	3 months-1 year	1-5 years	5-10 years	More than 10 years	Without interest	
<b>Assets</b>							
Sovereign bonds eligible as collateral	7,586.0	3,225.3	7,372.2	-	-	-	18,183.5
Lending to credit institutions	1,122.3	-	-	-	-	-	1,122.3
Bonds and other interest-bearing securities	10,775.1	4,511.4	23,981.9	0.0	0.0	0.0	39,268.4
Lending	153,979.6	28,933.0	77,274.8	12,370.6	1,481.0	0.0	274,039.0
Derivative investments	51,094.8	-15,656.0	-33,935.7	0.0	0.0	0.0	1,503.1
Derivative lending	100,345.7	-22,815.6	-63,743.3	-12,547.5	-1,239.3	0.0	0.0
Other assets	-	-	-	-	-	202.9	202.9
<b>Total assets</b>	<b>324,903.5</b>	<b>-1,801.9</b>	<b>10,949.9</b>	<b>-176.9</b>	<b>241.7</b>	<b>202.9</b>	<b>334,319.2</b>
<b>Liabilities and shareholders' equity</b>							
Liabilities to credit institutions	771.1	774.9	774.8	-	-	-	2,320.8
Securities issued	58,075.7	61,773.8	206,334.9	12,958.6	1,250.0	-	340,393.0
Derivative funding	253,288.2	-61,383.0	-194,791.1	-12,958.6	-1,000.0	-	-16,844.5
Other liabilities	-	-	-	-	-	845.4	845.4
Subordinated liabilities	1,000.0	-	-	-	-	-	1,000.0
Shareholders' equity	-	-	-	-	-	6,514.0	6,514.0
<b>Total shareholders' equity and liabilities</b>	<b>313,135.0</b>	<b>1,165.7</b>	<b>12,318.6</b>	<b>0.0</b>	<b>250.0</b>	<b>7,359.4</b>	<b>334,228.7</b>
Difference, assets and liabilities.	11,768.5	-2,967.6	-1,368.7	-176.9	-8.3	-7,156.5	90.5

1) The comparative figures for 2016 have been restated, with the effect that they are not comparable with the figures in the 2016 Annual Report.

#### Sensitivity analysis

According to the limit set by the Board of Directors, the risk (exposure) in the portfolio may never exceed SEK 30 (15) million given a one percentage point parallel shift in the yield curve. However, interest rate risk is permitted to correspond to an exposure of at most SEK 50 (25) million over a period of at most FIVE consecutive business days.

At year-end, the exposure (throughout the portfolio) amounted to a negative SEK 11.0 (21.0) million given a one percentage point parallel shift (upwards) in the yield curve. Due to changes in the value of assets and liabilities, a positive value exposure entails a positive interest effect if rates rise and a negative interest effect if rates fall.

If only transactions valued at fair value are taken into account, the result would change by SEK 211.8 (203.8) million given a one percentage point parallel shift (upwards) in all market interest rates.

#### Capital requirement for interest rate risk

The capital requirement for interest rate risk under Pillar 2 has been calculated based on Finansinspektionens model for interest rate risk in the banking book. The model calculates the change in the value of the Company's net assets, given a number of change scenarios for the zero coupon curve. The change scenarios consist partly of parallel displacements, upwards and downwards, where the magnitude of the shift is based on historical market data and partly of four changes in the curve gradient, where the interest rate curve increases or decreases by 150 basis points over short or long maturities.

As one of the 10 largest institutions in Sweden, Kommuninvest makes one calculation in which flows are grouped in time slots, the so-called basic approach, and another calculation in which cash flows are grouped by business day, the so-called advanced approach. The Company recognises the capital requirement for interest risk based on the worst outcome of the two approaches.

## Note 3, continued

The capital requirement for interest risk under Pillar 2 is recognised in the amount of SEK 31.1 (44.4) million, based on the basic approach, which gave the worst outcome.

**Foreign exchange risk**

Foreign exchange risk refers to the risk that a change in exchange rates will decrease the net market value (combined value) of the Company's assets and liabilities. Foreign exchange risk arises if assets and liabilities denominated in a specific currency in the balance sheet are mismatched in terms of size. The Company hedges all known future flows by means of derivatives. However, foreign exchange risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments.

The Company's foreign exchange risks arise from the net interest income generated by the portion of the liquidity reserve

denominated in USD or EUR. This risk is limited by continuously converting such returns into SEK. The maximum permitted exposure corresponds to SEK 5 million in each currency.

**Capital requirement for foreign exchange risk**

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

The capital requirement under Pillar 2 is calculated by multiplying the exposure by the foreign exchange fluctuations over the year. In 2017, the SEK/EUR and SEK/USD foreign exchange rates fluctuated by as much as 6 (6) percent per month. An exchange rate fluctuation of 6 (6) percent, with an exposure of SEK 5 million, would entail a capital requirement of SEK 0.3 (0.3) million per month. Accordingly, on an annual basis, this corresponds to a capital requirement of SEK 3.6 (3.6) million.

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

Foreign exchange risk, 2016 <sup>1</sup>	Recognised value							Fair value adjustment	Total
	SEK	EUR	USD	JPY	AUD	Other currencies			
<b>Assets and liabilities by currency</b>									
<b>Assets</b>									
Sovereign bonds eligible as collateral	10,227.4	1,597.0	6,575.1	-	-	-	22.8	18,422.3	
Lending to credit institutions	974.6	71.2	75.1	-	0.0	1.4	-	1,122.3	
Bonds and other interest-bearing securities	18,112.1	4,270.0	17,804.5	-	-	-	359.4	40,546.0	
Lending	274,609.1	-	-	-	-	-	2,373.0	276,982.1	
Derivatives	-96,754.6	-4,311.2	113,273.9	5,455.9	1,488.8	2,099.4	3,197.6	24,449.8	
Other assets	202.2	-	0.7	-	-	-	-	202.9	
<b>Total assets</b>	<b>207,370.8</b>	<b>1,627.0</b>	<b>137,729.3</b>	<b>5,455.9</b>	<b>1,488.8</b>	<b>2,100.8</b>	<b>5,952.8</b>	<b>361,725.4</b>	

## FINANCIAL STATEMENTS

### Note 3, continued

#### Liabilities and shareholders' equity

Liabilities to credit institutions	0.3	537.0	0.1	1,793.8	-	1.3	63.6	2,396.1
Securities issued	172,227.6	3,111.7	132,533.6	10,912.5	5,400.8	14,500.7	2,892.5	341,579.4
Derivatives	26,521.6	-2,022.2	5,194.4	-7,250.4	-3,912.0	-12,401.3	3,260.4	9,390.5
Other liabilities	845.4	-	-	-	-	-	-	845.4
Subordinated liabilities	1,000.0	-	-	-	-	-	-	1,000.0
Shareholders' equity	6,777.7	-	-	-	-	-	-263.7	6,514.0
<b>Total shareholders' equity and liabilities</b>	<b>207,372.6</b>	<b>1,626.5</b>	<b>137,728.1</b>	<b>5,455.9</b>	<b>1,488.8</b>	<b>2,100.7</b>	<b>5,952.8</b>	<b>361,725.4</b>
<b>Difference, assets and liabilities.</b>	<b>-1.8</b>	<b>0.5</b>	<b>1.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>-</b>	<b>-</b>
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-	0.1	0.1	0.0	0.0	0.0	-	-

1) In this table, comparative figures for the year 2016 have been changed compared with the annual report 2016 due to reclassification of counterparties, new form of presentation and that derivatives, previously reported on the liability side only, from 2017 are reported on both the asset and liability side. For two of the items, the summary in the table differs from what is reported in the balance sheet. The item Sovereign bonds eligible as collateral is SEK 1,457.9 million higher than in the balance sheet. Bonds and other interest-bearing securities are SEK 1,457.9 million lower than in the balance sheet.

#### Credit market risk

Credit market risk refers to the risk that a change in a basis or credit spread in the market would reduce the net market value (combined value) of the Company's assets and liabilities. Credit market risk arises primarily as a consequence of imbalances in maturities between assets and liabilities valued at fair value.

Credit market risk is further broken down into credit spread risk on assets, credit spread risk on liabilities, credit spread risk on derivatives (CVA risk) and basis swap risk. Credit spread risk on assets and derivatives refers to the risk that a change in the counterparty's credit spread would reduce the value of the Company's assets or derivatives. Credit spread risk on liabilities refers to the risk that a change in the Company's credit spread will increase the value of the Company's liabilities. Basis swap risk refers to the risk that a change in the basis swap spread between two currencies will affect the market value of currency related derivatives contracts negatively.

The Company restricts the credit market risk through good maturity matching between assets (loans and investments) and liabilities (funding and shareholders' equity).

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

Sensitivity to credit market risk	2017	2016
<b>Total</b>	<b>-0.1</b>	<b>-5.8</b>
Investments, fair value option	-2.9	-8.7
Investments, available for sale	-0.2	-2.3
Lending	-15.8	-20.7
Funding	18.8	25.9

#### Capital requirement for credit market risk

A total capital requirement under Pillar 2 for credit market risk (excluding credit spread derivatives) is calculated for a number of scenarios. The largest capital requirement calculated for a single principal scenario will then constitute the Company's capital requirement for credit market risk. The principal scenarios underlying the capital requirement calculation are either theoretical or have been developed based on actual market changes for selected time periods.

The historical scenarios are intended to capture periods when fluctuations were greatest in the credit markets where the Company makes business transactions. The historical scenarios also include scenarios in which credit and basis swap movements are simulated using mathematical models, with a certain

degree of probability, based on market data from various, selected periods of time.

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

In the calculations performed as per 31 December 2017, the total capital requirement for credit market risk amounted to SEK 1,434.0 (1,457.2) million.

#### Other price risks

Other price risks refers to the risk that a change in the pricing situation of underlying assets, such as shares, or share indexes, will reduce the net value (combined value) of the Company's assets and liabilities. The Company uses derivatives to hedge price risks with regard to underlying assets and indexes. This means that no other price risks remain.

#### Liquidation risk

Liquidation risk refers to the risk that a counterparty to a transaction in interest-bearing instruments or foreign currency before settlement is unable to meet its obligations and that the Company incurs increased expenses to enter a replacement transaction. The Company's process for managing counterparty risks also includes management of liquidation risks. The Company is to work proactively to avoid losses as a consequence of liquidation risks.

#### Business risk and strategic risk

Business risk is the risk of reduced revenues or increased expenses as a consequence of factors in the external business environment (including market conditions, customer behaviours and technological developments) having a negative impact on volumes and margins. All departments within the Company work continuously with external monitoring in their respective fields.

Strategic risk is the long-term risk of losses due to erroneous or misguided strategic choices and business decisions, incorrect implementation of decisions or inadequate sensitivity to changes in society, regulatory systems or the financial sector and/or local government sector. The Company has a procedure for developing strategic targets set by the Board of Directors. Strategic risks are limited by strategic decisions being made on

Note 3, continued

the basis of well-founded analyses and decisions of a strategic nature often being made by the Board of Directors.

These risks include, among other things, the earnings risk, which means that the risk of losses resulting from revenues or expenses differing in relation to the business plan and forecasts. The Company's earnings risks decreased during the year as part of the Company's increased focus on matching of maturities between assets and liabilities in the balance sheet. Since the Company thereby reduced the amount of pre-financed new lending, the likelihood increases that the Company will be able to transfer increased/lower funding costs to customers. Since the favourable matching of maturities also includes assets and liabilities in different currencies, a change in basis and exchange spreads will not affect earnings on existing balances in the balance sheet, to any significant extent.

*Sensitivity analysis of the Company's net interest income based on a change in all market interest rates*

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

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

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

*Capital requirements for business risk and strategic risk*

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

**Liquidity and financing risk**

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

The short liquidity risk corresponds to risks in day-to-day liquidity management where unforeseen events could make it difficult for the Company to meet its obligations. The short liquidity risk is restricted by holding a liquidity reserve with highly liquid assets. Short-term liquidity risk is further limited by the Company being a full member of the Riksbank's (Swedish central bank) RIX payment system, through which the Company can, among other things, raise loans against collateral.

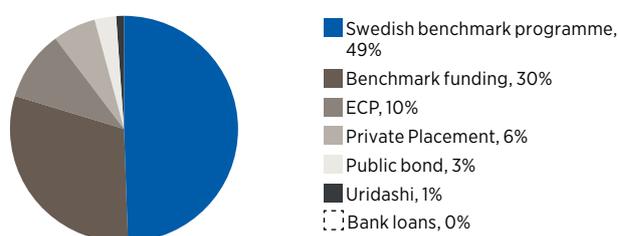
The structural liquidity risk (financing risk) corresponds to the risk that the Company has not financed its long-term commitments in advance. This risk is restricted, in part, through access to diversified funding and, in part, through good matching of maturities between assets and liabilities.

The Company's method for managing structural liquidity risk (good maturity matching) represents a change from the previous period when the Company generally sought longer maturities on liabilities than assets.

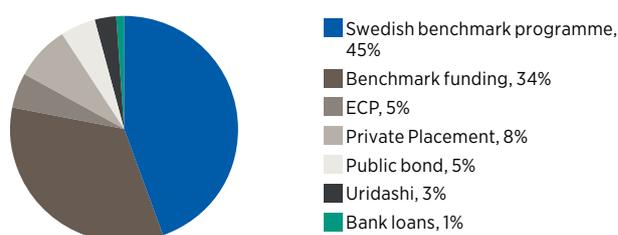
**Diversified funding**

Kommuninvest's liquidity risk management is pervaded by a highly restrictive attitude towards liquidity risk. The Company has diversified funding, with access to several different capital markets. This ensures that funding activities provides the necessary conditions to cover new lending, funding maturities and renewals even under worsening market conditions. The strategic funding programmes are the Company's Swedish benchmark programmes, USD benchmark funding through the EMTN (Euro Medium Term Note) programme, the ECP (Euro Commercial Paper) programme, as well as its funding in the Japanese market. The Company maintains a continuous market presence in strategic funding programmes.

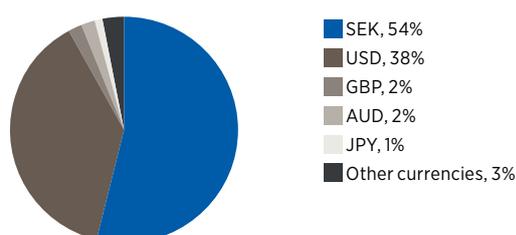
Total funding by type of instrument, 31 December 2017



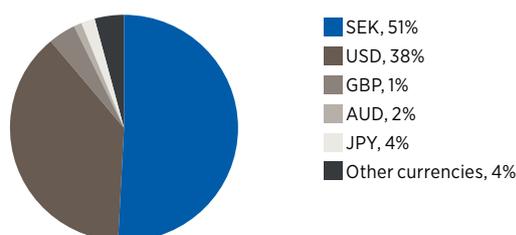
Total funding by type of instrument, 31 December 2016



Total funding by currency, 31 December 2017



Total funding by currency, 31 December 2016



Note 3, continued

**Good matching between assets and liabilities**

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

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

At year-end, the average maturity on the Company assets amounted to 2.2 (2.2) years, with capital in the Company's lending portfolio being tied up for an average 2.4 (2.3) years, and capital in the liquidity reserve being tied up for 0.6 (1.7) years.

**Maturity profile, balance sheet, 31 December 2017**



**Maturity profile, balance sheet, 31 December 2016**



## Note 3, continued

## Maturity analysis

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

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

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

2016 <sup>1</sup>	Contractual, non-discounted cash flows						Total	Recognised value
	On demand	0-3 months	3 months-1 year	1-5 years	> 5 years	No maturity		
<b>Assets</b>								
Sovereign bonds eligible as collateral	-	3,156.7	3,327.3	12,140.6	-	-	18,624.6	16,964.4
Lending to credit institutions	-	1,122.3	-	-	-	-	1,122.3	1,122.3
Bonds and other interest-bearing securities	-	3,983.6	7,916.5	29,158.9	-	-	41,059.0	42,003.9
Lending	-	22,921.9	76,936.3	163,922.3	17,573.3	-	281,353.8	276,982.1
Derivatives	-	4,038.8	10,668.7	13,675.2	659.1	-	29,041.8	24,449.8
Other assets	-	202.9	-	-	-	-	202.9	202.9
<b>Total assets</b>	<b>-</b>	<b>35,426.2</b>	<b>98,848.8</b>	<b>218,897.0</b>	<b>18,232.4</b>	<b>-</b>	<b>371,404.4</b>	<b>361,725.4</b>
<b>Liabilities and shareholders' equity</b>								
Liabilities to credit institutions	-	240.5	810.1	1,342.1	-	-	2,392.7	2,396.1
Securities issued	-	29,892.1	67,381.4	237,100.7	15,115.0	-	349,489.2	341,579.4
Derivative liabilities	-	806.2	3,533.4	4,790.9	220.4	-	9,350.9	9,390.5
Other liabilities	-	845.4	-	-	-	-	845.4	845.4
Subordinated liabilities	-	2.7	9.3	85.3	1,787.8	-	1,885.1	1,000.0
Shareholders' equity	-	-	-	-	-	6,514.0	6,514.0	6,514.0
<b>Total shareholders' equity and liabilities</b>	<b>-</b>	<b>31,786.9</b>	<b>71,734.2</b>	<b>243,319.0</b>	<b>17,123.2</b>	<b>6,514.0</b>	<b>370,477.3</b>	<b>361,725.4</b>
<b>Total difference</b>	<b>-</b>	<b>3,639.3</b>	<b>27,114.6</b>	<b>-24,422.0</b>	<b>1,109.2</b>	<b>-6,514.0</b>	<b>927.1</b>	<b>-</b>
Committed loans	1,765.4							
Committed, undisbursed loans <sup>2</sup>		-3,327.2	-570.8	3,113.9	918.6	-	134.5	

1) The comparative figures for 2016 have been restated, with the effect that they are not comparable with the figures in the 2016 Annual Report.

2) Negative amounts refers to outflows and positive amounts to inflows.

Note 3, continued

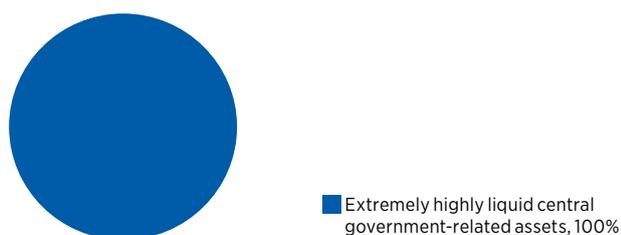
**Liquidity reserve**

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

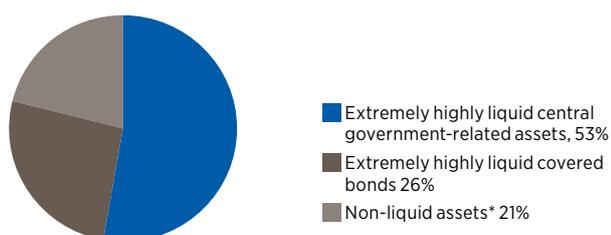
Certain changes have been made since the previous period regarding the Company's targets and principles for the liquidity reserve. The scale of the liquidity reserve is no longer limited to at least 15 percent of the total lending volume, but is governed instead by the principle that a sufficient volume shall be maintained to meet the Company's liquidity needs even during periods of substantial unease in the financial markets.

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

**Liquidity reserve by HQLA category, 31 December 2017**



**Liquidity reserve by HQLA category, 31 December 2016**



\* Non-liquid assets: Credit institutions 10%, Local government authorities 8%, Development banks 2%, Public bodies 1%

**Liquidity measure**

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

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

The high proportion of sovereign bonds and other liquid assets in the Company's liquidity reserve mean that the liquidity ratio exceeds the government's requirements by a good margin. As of 31 December 2017, the Company's LCR was 206.7 (699.7) percent, 472.4 (1,127.7) percent in USD and 234.0 (186.2) percent in SEK (see table below).

Up until 31 December 2017, the Company has also had to meet an LCR quota calculated in accordance with the Swedish Financial Supervisory Authority's (Finansinspektionen, FI) regulations. The two different LCR measurements are broadly equal, with only a few differences in how they are calculated. As per 31 December 2017, the Company's LCR according to FI totalled 399.8 (708.8) percent, 648,552.8 (1,285.7) percent in EUR and 470.7 (1,470.6) percent in USD. The Company has very small outflows in EUR, which explains the extremely high liquidity coverage ratio in EUR.

For measures of structural liquidity risk, the Company measures and monitors the net stable funding ratio (NSFR), that is, the relationship between available stable financing and the Company's need for stable financing. In 2018, a statutory quota of 100 percent will be introduced and the Company has a limit set by the Board of Directors since 2016 requiring that the NSFR not fall below 110 percent. At year-end, the NSFR was 136.8 (145.5) percent.

Liquidity Coverage Ratio (LCR) in accordance with the CRR regulations	2017			2016		
	Total	USD	SEK	Total	USD	SEK
Extremely highly liquid assets (Level 1), excluding covered bonds	35,954.3	1,692.1	18,595.2	31,179.7	2,188.8	6,729.4
Extremely highly liquid covered bonds (Level 1)	-	-	-	13,667.8	-	13,667.8
Highly liquid assets (Level 2)	-	-	-	81.9	9.0	-
<b>Liquidity buffer, SEK million</b>	<b>35,954.3</b>	<b>1,692.1</b>	<b>18,595.2</b>	<b>44,929.4</b>	<b>2,197.8</b>	<b>20,397.2</b>
Cash outflows, SEK million	21,835.2	1,432.8	12,364.2	9,638.1	779.6	15,565.9
Cash inflows, SEK million	4,442.9	1,074.6	4,416.1	3,217.1	1,329.7	4,609.4
<b>Net cash outflow, SEK million</b>	<b>17,392.3</b>	<b>358.2</b>	<b>7,948.1</b>	<b>6,421.0</b>	<b>194.9<sup>1</sup></b>	<b>10,956.5</b>
<b>Liquidity coverage ratio (%)</b>	<b>206.7</b>	<b>472.4</b>	<b>234.0</b>	<b>699.7</b>	<b>1,127.7</b>	<b>186.2</b>

1) When calculating net cash outflow, cash inflows are subject to a 75 % cap of cash outflows (194.9 = 779.6-779.6 \* 0.75).

*Note 3, continued***Operational risks**

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or routines, human error, incorrect systems or external events, including legal risks. Operational risk is inherent in the Company's operations and cannot be completely avoided, eliminated or transferred to another party. However, through good governance and control, Kommuninvest can reduce the likelihood of this risk arising and can reduce the consequences that may arise as a result of operational risk.

**Risk management**

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

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

**Methods for identifying, managing and analysing operational risks***Risk indicators*

Risk indicators are a measure of the effects of governance and control within the Company, and are to be monitored and analysed continuously to alert the operations if their risks increase. Reviewing these indicators serves to inform the units of the operations if the risk situation within Kommuninvest changes.

*Self-assessment*

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

*Stress tests*

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

*Incident management*

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

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

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

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

*Continuity management*

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

**Capital requirement for operational risk**

Kommuninvest applies the base indicator method to determine the capital requirement for operational risk. The method calculates the capital requirement based on 15 percent of the operating income over the past three years. Kommuninvest's capital requirement under Pillar 1 for operational risks amounts to SEK 149.3 (130.3) million.

**Reputation risk**

Reputation risk is the risk that income from potential and existing customers declines if they lose confidence in the Company due to negative publicity or rumours about the Company or the local government sector in general. Reputation risk is also the risk of increased funding costs if potential or existing investors lose confidence in the Company due to negative publicity or rumours about the Company or the local government sector in general. The Company works preventively with media monitoring and has employees with in-depth knowledge in the area to pre-empt and counter possible rumours about the Company.

Note 3, continued

**Residual risk**

Residual risk is the risk that established techniques for risk assessment and risk reduction applied by the Company prove to be less effective than expected. The Company deliberately applies relatively simple methods and techniques for measuring risk, capital requirements and risk appetite to reduce the risk of error. The Company conducts both forward-looking and historical analyses of all risk types. The internal capital assessment addresses negative scenarios to ensure that the impact on the Company is not greater than expected.

**Capital adequacy**

Since 1 January 2014, capital adequacy is calculated according to CRR<sup>1</sup>. The capital buffers introduced under CRD IV<sup>2</sup> are implemented in Swedish law through the Act concerning capital buffers (2014:966). For Kommuninvest, only the capital conservation buffer of 2.5 percent applies, as well as the countercyclical buffer, the size of which is determined by the geographical 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 meets the buffer requirement by a good margin. The calculations for capital requirement for credit risk in Pillar 11 has been developed and are now based on a stressed scenario based on the same model used to report expected credit losses according to IFRS 9. This has resulted in an increased capital requirement for credit risk.

	2017	2016
Share capital <sup>3</sup>	6,100.0	5,417.1
Retained earnings <sup>4</sup>	386.8	386.7
Accumulated other comprehensive income and other reserves	18.3	27.3
<b>Core Tier 1 capital before regulatory adjustments</b>	<b>6,505.1</b>	<b>5,831.1</b>
Further value adjustments <sup>5</sup>	-145.9	-190.0
<b>Total regulatory adjustments to core Tier 1 capital</b>	<b>-145.9</b>	<b>-190.0</b>
<b>Total core Tier 1 capital</b>	<b>6,359.2</b>	<b>5,641.1</b>
Tier 1 capital contributions	-	-
<b>Total Tier 1 capital</b>	<b>6,359.2</b>	<b>5,641.1</b>
Debenture loan <sup>6</sup>	-	1,000.0
<b>Total Tier 2 capital</b>	<b>-</b>	<b>1,000.0</b>
<b>Total capital</b>	<b>6,359.2</b>	<b>6,641.1</b>

1) European Parliament and Council Regulation (EU) No 575/2013 of 26 June 2013 on supervisory requirements for credit institutions and securities companies and amending Regulation (EU) No 648/2012.  
 2) European Parliament and Council Directive 2013/36/EU of 26 June 2013 on authorisation to conduct operations in credit institutions and on the supervision of credit institutions and securities companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.  
 3) For a more detailed description of the instruments included in share capital, see p.53.  
 4) Deductions of SEK 105.7 (-) million have been made, which refer to the portion of profit for the year that has not been distributed to the Kommuninvest Cooperative Society in the form of Group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.  
 5) Deductions calculated according to the EBA's technical standard regarding prudent valuation. The purpose is to adjust the uncertainty in valuation regarding positions valued and recognised at fair value.  
 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 loan was cancelled in the fourth quarter of 2017, for more information see page 53 and Note 23.

Capital requirement, Pillar 1	2017		2016	
	Risk exposure	Capital requirement	Risk exposure	Capital requirement
Capital requirement for credit risks (the standardised method)	373.8	29.9	2,274.1	181.9
<i>of which, exposures to states and central banks</i>	-	-	70.2	5.6
<i>of which, institutional exposures</i>	289.7	23.2	550.6	44.1
<i>of which, corporate exposures</i>	84.1	6.7	91.8	7.3
<i>of which, exposures in the form of covered bonds</i>	-	-	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
<b>Total risk exposure amount and minimum capital amount</b>	<b>2,993.8</b>	<b>239.5</b>	<b>5,438.4</b>	<b>435.1</b>

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%
<b>Total buffer requirements</b>	<b>3.5%</b>	<b>3.7%</b>
<b>Core Tier 1 capital available for use as buffer</b>	<b>204.4%</b>	<b>97.7%</b>

Internally assessed capital requirement, Pillar 2 <sup>1</sup>	2017	2016
<b>Capital requirement</b>		
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	-	-
<b>Total risk exposure amounts and minimum capital amounts</b>	<b>1,597.8</b>	<b>1,534.0</b>

1) To cover the risk of an excessively low leverage ratio, Finansinspektionen has imposed on Kommuninvest a capital increase in Pillar 2, which means that the capital base should amount to at least 1.5 percent of the total exposure value.

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

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

## Note 3, continued

Authority) rules and general advice for annual accounts from credit institutions and securities companies, FFFS 2008:25, see the Kommuninvest website.

**Leverage ratio**

Leverage ratio is defined as the Tier 1 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
<b>Total exposure</b>	<b>357,537.8</b>	<b>360,802.6</b>
<b>Tier 1 capital, calculated with transitional rules, see section Capital adequacy</b>	<b>6,359.2</b>	<b>5,641.1</b>
<b>Leverage ratio</b>	<b>1.78%</b>	<b>1.56%</b>

**Member responsibilities**

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

In 2010, two agreements were prepared in addition to the basic joint and several guarantee to clarify the responsibility of the members. One is a guarantee agreement regulating the responsibility for counterparty exposures in derivatives and replaces earlier clauses in the documentation of loans. The other is an updated regress agreement that details the members' mutual responsibility. The agreements clarify and replace the earlier responsibility according to the regress agreement and promissory Note terms. The agreements were adopted by the member authorities individually during 2011.

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

The statement of undertaking is based on the following items in Kommuninvest balance sheet as per 31 December 2017 (SEK, millions).

	2017
Liabilities to credit institutions	1,318.4
Securities issued	337,755.8
<b>Total funding</b>	<b>339,074.2</b>
<b>LIABILITIES, according to statement of undertaking</b>	
Loaned funding <sup>1</sup>	301,288.7
Funding not loaned <sup>2</sup>	37,785.5
<b>Total funding</b>	<b>339,074.2</b>
Other liabilities <sup>2</sup>	2,463.7
Derivatives, connected with loaned funding <sup>1</sup>	946.0
<b>Total liabilities/undertaking</b>	<b>342,483.9</b>
<b>ASSETS, according to statement of undertaking</b>	
Lending <sup>1</sup> , see Note 13	310,147.3
Liquidity reserve <sup>2</sup> , see Notes 3, 12, 14	37,785.5
Other assets <sup>2</sup>	965.2
Derivatives, connected with loaned funding <sup>1</sup>	345.7
<b>Total assets</b>	<b>349,243.7</b>

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

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

In the statement of undertaking, the derivatives are recognised net per counterparty, that is, claims against the same counterparty have been netted against liabilities to the same counterparty. In addition, the derivatives recognised above as assets or liabilities have been reduced by the collateral received or pledged, such as government bonds. At 31 December 2017, collateral received amounted to SEK 2,055.6 (15,623.0) million and may only be used to cover outstanding exposures. The corresponding collateral for the Company's liabilities relating to derivatives amounts to SEK 1,026.6 (170.9) million. These are disclosed in Note 28 on page 87, but may not be reduced in the balance sheet.

## Note 4 Net interest income

	2017	2016
<b>Interest revenues</b>		
Lending	487.0	603.3
Interest-bearing securities	-36.4	16.8
Other	1.7	1.3
<b>Total</b>	<b>452.3</b>	<b>621.4<sup>1</sup></b>
Of which: interest revenues from financial items not measured at fair value through the income statement	219.4	481.7
<b>Interest expenses</b>		
Liabilities to credit institutions	-2.0	-4.8
Interest-bearing securities	645.4	331.4
Lending, negative lending rate	-161.8	-151.0
Other	-52.6	-35.0
<b>Total</b>	<b>429.0</b>	<b>140.6<sup>1</sup></b>
Of which: interest expenses from financial items not measured at fair value through the income statement <sup>2</sup>	-379.4	-332.6
<b>Total net interest income</b>	<b>881.3</b>	<b>762.0</b>

1) In 2017, there has been a change in the presentation of interest rates on treasury holdings, meaning that the component figures for 2016 have been changed in comparison with the 2016 annual report. The adjustment amounts to SEK 32.6 million.

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

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

## Note 5 Commission expenses

	2017	2016
Payment agency commissions	3.4	0.9
Brokerage for securities	3.7	4.1
Other commissions	0.2	0.2
<b>Total</b>	<b>7.3</b>	<b>5.2</b>

## Note 6 Net result of financial transactions

	2017	2016
Realised profit	86.3	64.5
<i>of which, interest-bearing securities</i>	<i>89.8</i>	<i>63.4</i>
<i>of which, other financial instruments</i>	<i>-3.5</i>	<i>1.1</i>
Unrealised changes in market value	426.0	-195.5
Exchange rate changes	-0.3	-0.9
<b>Total</b>	<b>512.0</b>	<b>-131.9</b>

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

<b>Net gain/loss by measurement category</b>	<b>2017</b>	<b>2016</b>
Financial assets at fair value through the income statement	-730.0	-255.7
Holdings for trading purposes (assets)	45.7	-159.3
Loan receivables and accounts receivable	0.2	3.0
Financial liabilities at fair value through the income statement	86.8	-358.1
Holdings for trading purposes (liabilities)	1,077.8	668.3
Capital gains/losses on available-for-sale financial assets	35.6	-
Change in fair value of derivatives that are hedging instruments in fair value hedge	-985.5	216.6
Change in fair value on hedged item with regard to hedged risk in fair value hedges	981.7	-245.8
Exchange rate changes	-0.3	-0.9
<b>Total</b>	<b>512.0</b>	<b>-131.9</b>

### Results (net)

Net result of available-for-sale financial assets recognised in other comprehensive income	-11.5	56.6
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## Note 7 Other operating income

	2017	2016
Capital gain on divestments of tangible assets	0.1	0.1
Capital gains on sales of shares	-	1.3
Other operating income	5.2	4.0
<b>Total</b>	<b>5.3</b>	<b>5.4</b>

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

## Note 8 General administration expenses

In SEK, thousands	2017	2016
<b>Payroll expenses</b>		
Salaries and emoluments	68,535	66,215
Social security contributions	38,289	36,119
<i>of which, social security contributions and wage debt for social security contributions</i>	<i>21,599</i>	<i>20,087</i>
<i>of which, pension expenses</i>	<i>13,446</i>	<i>12,907</i>
<i>of which, special payroll tax on pension expenses</i>	<i>3,244</i>	<i>3,125</i>
Temporary/contract personnel	5,401	8,051
Education/training costs	2,913	3,150
Other personnel costs	4,801	5,262
<b>Total personnel expenses</b>	<b>119,939</b>	<b>118,797</b>
<b>Other general administration expenses</b>		
Travel expenses	4,020	5,312
IT expenses	19,094	15,306
Consultancy fees	21,833	19,631
Rating expenses	1,339	936
Market data	9,620	6,981
Rent and other expenses for premises	6,740	5,956
Annual report and interim report	1,196	1,990
Resolution charge	66,307	31,635
Other expenses	8,374	14,472
<b>Total other general administration expenses</b>	<b>138,523</b>	<b>102,219</b>
<b>Total</b>	<b>258,462</b>	<b>221,016</b>

### Remuneration policy

The Company applies a remuneration policy that explains that Kommuninvest does not apply variable remuneration. Nor has any variable remuneration been paid to Kommuninvest employees in 2017. No non-recurring remuneration has been approved in connection with new appointments, nor has any severance been paid to Board Members, the CEO or other senior executives. No individual employee receives compensation equivalent to EUR 1 million or more per financial year.

### Remuneration to senior executives

Remuneration for the President and CEO has been decided by the Board. For 2017, the President and CEO received TSEK 3,123 (3,181) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to TSEK 964 (952) and are covered by insurance. For termination initiated by the Company, salary will continue to be paid for the duration of the six-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration for the Deputy CEO has been decided by the Board. The Deputy CEO received TSEK 2,069 (2,036) in basic salary for 2017. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to TSEK 617 (462) and are covered by insurance. For termination initiated by the Company, salary will continue to be paid for the duration

of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration details regarding other senior executives only include remunerations paid during the period in which each individual has been a senior executive. At the end of the year, other senior executives consisted of five (four) people, of whom two (three) were women and three (one) were men. In the preceding year, no one stepped down from the Executive Management Team. In 2017, one person, of which one woman, resigned from the Executive Management Team and two people took office, both of whom were men.

Remuneration to other senior executives in Company management has been determined by the Board. During 2017, the total remuneration to senior executives who were part of the Executive Management Team amounted to TSEK 4,789 (3,012). Pension expenses are covered by insurance.

In accordance with the work plan for the Board of Directors established in 2017, the Chairman of the Board is responsible for an independent review being performed of the Company's remuneration and compensation policies, for preparing the Board's decisions, and for compensation to Executive Management, as well as for compensation to employees bearing the overall responsibility for any of the Company's control functions, and for measures to monitor the application of the Company's remuneration policy.

### Remuneration to the Board of Directors

At the end of the year, the Board of Directors was composed of nine (eight) members, including the employee representative, of whom four (three) were women. Ellen Bramness Arvidsson is the Chairman of the Board.

Up until the 2017 Annual General Meeting, the fees to the Board of Directors consisted of a fixed fee of TSEK 550 to the Chairman. Members of the Board were paid a fixed fee of TSEK 300 each. No fees were paid to employee representatives. The 2017 Annual General Meeting resolved that Board fees would remain unchanged.

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

In SEK, thousands	2017	2016
Ellen Bramness Arvidsson	550	550
Anna von Knorring	300	300
Kurt Eliasson	300	300
Johan Törngren	300	300
Erik Langby	300	300
Anna Sandborgh	300	300
Lars Heikensten, newly elected in April 2016	300	208
Åsa Zetterberg, newly elected in April 2017	208	-
Nedim Murtic, employee representative	-	-
Ulrika Gonzalez Hedqvist, employee representative	-	-
<b>Total</b>	<b>2,558</b>	<b>2,258</b>

*Note 8, continued*
**Wages and remunerations**

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

2016, in SEK, thousands	Basic salary / Board fee	Other benefits	Pension expense	Total
Board of Directors	2,258	-	-	2,258
President and CEO	3,181	90	952	4,223
Deputy CEO	2,036	-	462	2,498
Others in Company management <sup>1</sup>	3,012	9	887	3,908
Other salaried employees	55,728	-	10,606	66,334
<b>Total</b>	<b>66,215</b>	<b>99</b>	<b>12,907</b>	<b>79,221</b>

<sup>1</sup>) Salaries and remuneration to other members of Company management have been affected by the fact that senior executives who previously served as external consultants are now employed by the Company and that the Executive Management Team has been extended by one person.

Average number of employees	2017	2016
Average number of employees during the year	91	85
<i>of whom, women</i>	35	32

Emoluments and expenses for the auditors, Ernst & Young AB	2017	2016
Auditing engagement	-	72
Other audit services	-	354
Tax consultancy	-	43
Other Services	-	145

Emoluments and expenses for the auditors, KPMG AB	2017	2016
Auditing engagement	1,178	690
Other audit services	1,130	2,360
Tax consultancy	-	15
Other Services	15	25

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

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

**Operating leasing**

Over the year, expenses for operating leases amounted to TSEK 6,287 (6,023). Most of the expenses are attributable to the Company's rental of office premises.

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

Non-cancellable operating leases where Kommuninvest i Sverige AB is the leaseholder	2017	2016
Within one year	5,552	5,221
Between one and five years	19,643	18,844
<b>Total</b>	<b>25,195</b>	<b>24,065</b>

**Note 9 Other operating expenses**

	2017	2016
Insurance expenses	0.9	0.9
Communication and information	2.5	4.0
Other operating expenses	0.1	0.1
<b>Total</b>	<b>3.5</b>	<b>5.0</b>

**Note 10 Tax**

Recognised in income statement	2017	2016
Current tax expense	248.1	88.5
Deferred tax expense (+) / tax income (-) attributable to temporary differences	-	-
Adjustment of taxes attributable to previous years	-0.3	-0.1
<b>Total tax expense recognised</b>	<b>247.8</b>	<b>88.4</b>

Reconciliation of effective tax	2017, %	2017	2016, %	2016
Profit before tax		1,123.8		398.2
Tax according to prevailing tax rate	22.0%	247.2	22.0%	87.6
Non-deductible expenses/ Non-taxable revenues	0.1%	0.9	0.2%	0.9
Reassessment of deferred tax	0.0%	-	-	-
Utilisation of tax-loss carryforwards not previously capitalised	0.0%	-	-	-
Tax attributable to previous years	-0.03%	-0.3	-0.0%	-0.1
<b>Recognised effective tax</b>	<b>22.1%</b>	<b>247.8</b>	<b>22.2%</b>	<b>88.4</b>

Tax expense attributable to other comprehensive income	2017	2016
Available-for-sale financial assets	-2.5	12.5
<b>Total other comprehensive income</b>	<b>-2.5</b>	<b>12.5</b>

**Recognised deferred tax assets and liabilities**

The Company has no deferred tax liability. Deferred tax assets are attributable to the following:

	Deferred tax assets	
	2017	2016
<b>Tax assets, opening balance</b>	<b>28.1</b>	<b>28.1</b>
Unrealised changes in market value	-28.1	-
<i>of which, recognised in the income statement</i>	<i>-28.1</i>	<i>-</i>
<i>of which, recognised in other comprehensive income</i>	<i>-</i>	<i>-</i>
<b>Tax assets, closing balance</b>	<b>-</b>	<b>28.1</b>

Tax items entered directly against shareholders' equity	2017	2016
Current tax on Group contributions paid	217.3	100.9
<b>Total sum entered directly against shareholders' equity</b>	<b>217.3</b>	<b>100.9</b>

**Note 11 Proposed Distribution of Earnings**

	2017
<i>The Board of Directors proposes that:</i>	
Profit for the year	876.0
Profit or loss brought forward	-386.6
Fair value reserve	0.8
<b>Total</b>	<b>490.2</b>
<i>Be appropriated as follows</i>	
To be carried forward	490.2
<i>of which funds to the fair value reserve</i>	<i>0.8</i>
<i>of which funds allocated to profit brought forward</i>	<i>489.4</i>

For more information, see page 32.

## Note 12 Sovereign bonds eligible as collateral

	2017			2016		
	Cost	Fair value	Recognised value	Cost	Fair value	Recognised value
Sovereign bonds eligible as collateral						
- Swedish central government	21,178.5	21,221.4	21,221.4	6,673.5	6,691.5	6,691.5
- Swedish municipalities	-	-	-	7,507.2	7,516.4	7,516.4
- Foreign governments	3,435.3	3,414.4	3,414.4	2,729.6	2,756.5	2,756.5
<b>Total</b>	<b>24,613.8</b>	<b>24,635.8</b>	<b>24,635.8</b>	<b>16,910.3</b>	<b>16,964.4</b>	<b>16,964.4</b>
Positive difference of book values exceeding nominal values			332.7			207.5
Negative difference of book values falling below nominal values			-17.2			-18.1
<b>Total</b>			<b>315.5</b>			<b>189.4</b>

According to the Company's new Financial Instructions, adopted by the Company's CEO in 2017, the average maturity of the Company's liquidity reserve is limited to one year. In 2017, this resulted in the divestment of investments with longer

maturities. The Company has also divested all holdings of securities issued by Swedish mortgage finance institutions and Swedish municipalities, while it has increased its holdings of securities issued by the Swedish central government.

## Note 13 Lending

	2017			2016		
	Cost	Fair value	Recognised value	Cost	Fair value	Recognised value
Lending						
- Municipalities and county councils/regions	127,965.0	129,043.8	128,905.1	112,858.5	114,127.5	114,117.8
- Housing companies with municipal guarantees	116,225.7	116,922.7	116,828.9	103,440.6	104,291.3	104,292.5
- Other companies with municipal guarantees	63,851.6	64,472.1	64,413.3	57,739.9	58,584.1	58,571.8
<b>Total</b>	<b>308,042.3</b>	<b>310,438.6</b>	<b>310,147.3</b>	<b>274,039.0</b>	<b>277,002.9</b>	<b>276,982.1</b>

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

In Kommuninvest's assessment, no impairments were required as per 31 December 2017.

## Note 14 Bonds and other interest-bearing securities

	2017			2016		
	Cost	Fair value	Recognised value	Cost	Fair value	Recognised value
Bonds and other interest-bearing securities						
- Swedish mortgage finance institutions	-	-	-	15,528.0	15,614.9	15,614.9
- Other Swedish issuers	-	-	-	-	-	-
- other foreign issuers	12,595.7	12,500.0	12,500.0	26,541.1	26,389.0	26,389.0
<b>Total</b>	<b>12,595.7</b>	<b>12,500.0</b>	<b>12,500.0</b>	<b>42,069.1</b>	<b>42,003.9</b>	<b>42,003.9</b>
Positive difference of book values exceeding nominal values			163.7			1,380.2
Negative difference of book values falling below nominal values			-32.9			-53.2
<b>Total</b>			<b>130.8</b>			<b>1,327.0</b>

According to the Company's new Financial Instructions, adopted by the Company's CEO in 2017, the average maturity of the Company's liquidity reserve is limited to one year. In 2017, this resulted in the divestment of investments with longer

maturities. The Company has also divested all holdings of securities issued by Swedish mortgage finance institutions and Swedish municipalities, while it has increased its holdings of securities issued by the Swedish central government.

## Note 15 Shares and participations

	2017	2016
Endowment insurance	-	3.3
<b>Total shares and participations</b>	<b>-</b>	<b>3.3</b>

The pension undertaking that had been invested in an endowment insurance policy was discontinued in 2017 to be replaced by a pension scheme. For further information, see Note 2 on page 59.

## Note 16 Shares and participations in subsidiaries

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

	2017	2016
Number of shares: 1,000	42.0	42.0
<b>Total</b>	<b>42.0</b>	<b>42.0</b>

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 loss of SEK 0.7 (profit of 0.7) million.

## Note 17 Derivatives

	2017			2016		
	Assets valued at fair value	Liabilities at fair value	Nominal value	Assets valued at fair value	Liabilities at fair value	Nominal value
<i>Derivatives not included in hedge accounting</i>						
Interest rate-related	176.4	-1,297.7	190,343.8	411.4	-3,451.2	187,931.5
Currency-related	3,288.3	-5,742.7	160,428.4	16,415.5	-4,659.6	155,217.6
Other <sup>1</sup>	66.5	-	976.3	141.7	-74.4	4,627.4
<b>Total</b>	<b>3,531.2</b>	<b>-7,040.4</b>	<b>351,748.5</b>	<b>16,968.6</b>	<b>-8,185.2</b>	<b>347,776.5</b>
<i>Derivatives included in hedge accounting</i>						
Interest rate-related	4,240.3	-677.1	232,991.8	7,044.1	-1,031.1	180,469.8
Currency-related	273.1	-76.4	3,656.0	437.1	-174.2	4,857.6
<b>Total</b>	<b>4,513.4</b>	<b>-753.5</b>	<b>236,647.8</b>	<b>7,481.2</b>	<b>-1,205.3</b>	<b>185,327.4</b>
<b>Total derivative contracts</b>	<b>8,044.6</b>	<b>-7,793.9</b>	<b>588,396.3</b>	<b>24,449.8</b>	<b>-9,390.5</b>	<b>533,103.9</b>

1) Derivatives where the return is linked to shares, currencies, etc. These derivatives have precisely matched funding since the recipient leg of the derivative should reflect and hedge all risks in its funding.

## Note 18 Intangible assets

	2017	2016
<i>Cost</i>		
Cost brought forward	22.0	20.1
Investments for the year	2.3	1.9
Disposals and scrappings	-	-
<b>Cost carried forward</b>	<b>24.3</b>	<b>22.0</b>
<i>Depreciation</i>		
Opening balance, depreciation	-8.6	-4.4
Depreciation for the year	-4.8	-4.2
Disposals and scrappings	-	-
<b>Depreciation carried forward</b>	<b>-13.4</b>	<b>-8.6</b>
<b>Planned residual value at the end of the accounting period</b>	<b>10.9</b>	<b>13.4</b>

Intangible assets refers to business systems.

## Note 19 Tangible assets

	2017	2016
<i>Cost</i>		
Cost brought forward	28.6	24.1
Investments for the year	2.3	5.0
Disposals and scrappings	-11.0	-0.5
<b>Cost carried forward</b>	<b>19.9</b>	<b>28.6</b>
<i>Depreciation</i>		
Opening balance, depreciation	-21.0	-19.5
Depreciation for the year	-2.5	-1.9
Disposals and scrappings	10.8	0.4
<b>Depreciation carried forward</b>	<b>-12.7</b>	<b>-21.0</b>
<b>Planned residual value at the end of the accounting period</b>	<b>7.2</b>	<b>7.6</b>

Tangible assets mainly include IT and office equipment for SEK 6.6 (7.0) million and artwork for SEK 0.6 (0.6) million.

**Note 20 Other assets**

	2017	2016
Receivables from subsidiaries	11.8	10.0
Marginal collateral pledged	793.0	-
Other assets	9.3	4.6
<b>Total</b>	<b>814.1</b>	<b>14.6</b>

Receivables from subsidiaries refer to Group contributions and a zero-interest loan. 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 28. In 2017, the Company also began to pledge cash collateral for derivatives not cleared by a central clearing counterparty and for which there no right of offsetting applies and which are therefore included in full in the balance sheet.

**Note 21 Other liabilities**

	2017	2016
Liabilities to parent society	1,752.3	790.9
Marginal collateral received	654.8	-
Other liabilities	15.4	19.5
<b>Total</b>	<b>2,422.5</b>	<b>810.4</b>

The liability to the Kommuninvest Cooperative Society involves Group and member contributions in 2017, which are handled by the Company on the Society's behalf and have not yet been transferred to the Company in the form of new share capital. In 2016, Kommuninvest began receiving collateral for derivatives cleared by central clearing counterparties, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 28. 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 offsetting applies and which are therefore included in full in the balance sheet.

**Note 22 Provisions for pensions and similar commitments**

	2017	2016
Provisions for pensions obligations	-	4.1
<b>Total</b>	<b>-</b>	<b>4.1</b>

The pension undertaking that had been invested in an endowment insurance policy was discontinued in 2017 to be secured by a pension scheme instead. For further information, see Note 2 on page 59.

**Note 23 Subordinated liabilities**

	Currency	Nominal	Interest rate (%)	Due date	Recognised value	
					2017	2016
Debenture loan	SEK	1,000.0	Variable	Perpetual	-	1,000.0
<b>Total</b>		<b>1,000.0</b>			<b>-</b>	<b>1,000.0</b>

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 (Finansinspektionen). The loan of SEK 1,000.0 million was cancelled by the Company during the fourth quarter 2017, after which a new share issue with the corresponding amount was completed. The approval to cancel the subordinated loan and issue new shares was obtained from Finansinspektionen on 23 January 2018.

## Note 24 Pledged assets, contingent liabilities and commitments

Pledged assets	2017	2016
<i>In the form of assets pledged for own provisions and liabilities</i>		
Endowment insurance for pension obligations	-	3.3
Deposited at the Riksbank		
- Government bonds	3,690.4	-
- Securities issued by Swedish municipalities and county councils/regions	-	2,121.8
- Swedish covered bonds	-	13,147.2
Collateral pledged for derivative liabilities		
- Government bonds	30.6	170.9
Marginal collateral pledged to a central clearing counterparty		
- Government bonds	230.0	316.2
<b>Assets pledged, total</b>	<b>3,951.0</b>	<b>15,759.4</b>
<b>Contingent liabilities</b>	None	None
<b>Committed undisbursed loans</b>	2,476.2	4,535.7
<b>Committed loans</b>	1,834.3	1,765.4

The recognised value of liabilities and provisions involving pledges amounted to SEK 1,407.0 (558.8) million. To qualify for participation in RIX, the Riksbank's system for the transfer of account funds, Kommuninvest is required to deposit securities with the Riksbank. This is also a condition for short-term liquidity management via RIX. The difference is due to the reduced liquidity reserve, in terms of volume, over the year and the distribution between issuer categories.

The pension undertaking that had been invested in an endowment insurance policy was discontinued in 2017 to be replaced by a pension scheme. For further information, see Note 2 on page 59.

## Note 25 Related parties

During the period, Kommuninvest had a close association with the Kommuninvest Cooperative Society (parent society), Kommuninvest Fastighets AB (subsidiary) as well as with Malin Norbäck Consulting AB.

Related party, in SEK, thousands	Year	Sales of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest)	Receivables from related parties on 31 December	Liabilities to related parties on 31 December
Kommuninvest Cooperative Society	2017	5,990	118	-9,652	-	1,752,320
	2016	3,505	106	-12,269	6	1,790,955
Kommuninvest Fastighets AB	2017	400	5,188	-	11,790	-
	2016	145	4,623	-	10,013	1,625
Sandahl Partners Örebro AB	2017	-	-	-	-	-
	2016	-	155	-	-	-
Malin Norbäck Consulting AB	2017	-	705	-	-	-
	2016	-	2,007	-	169	355

The close association with Kommuninvest Fastighets AB refers to transactions involving Kommuninvest's premises, which are owned by Kommuninvest Fastighets AB as well as group contributions. The liability to the Kommuninvest Cooperative Society involves member contributions, which are handled by the Company on the Society's behalf and have not yet been transferred to the Company in the form of new share capital. The remaining two companies, Sandahl Partners Örebro AB and Malin Norbäck Consulting AB, are classified as closely associ-

ated parties since these companies have provided key personnel in leading positions. Sandahl Partners Örebro AB provided this service during the period from September 2015 to January 2016. From February 2016 to May 2017, Malin Norbäck Consulting AB provided this service. Only transactions with these companies during the aforementioned periods are listed in the above table. For transactions with other key personnel employed by Kommuninvest, see Note 8.

## Note 26 Events after the balance sheet date

The Financial Supervisory Authority's approval regarding redemption of the debenture loan and the issuance of new shares issues (see section Comments on the statement of changes in shareholders' equity and Note 23) 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.

## Note 27 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	-
<b>Total</b>	<b>97,605.5</b>	<b>3,531.2</b>	<b>238,678.4</b>	<b>-</b>
Liabilities to credit institutions <sup>1</sup>	-	-	-	-
Securities issued <sup>1</sup>	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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	-
<b>Total</b>	<b>137,682.9</b>	<b>16,968.6</b>	<b>182,515.1</b>	<b>-</b>
Liabilities to credit institutions <sup>1</sup>	-	-	-	-
Securities issued <sup>1</sup>	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

1) Nominal amount of funding, 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 the income statement		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
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
<b>12,460.2</b>	-	-	-	<b>4,513.4</b>	<b>356,788.7</b>	<b>357,080.0</b>
-	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
-	-	-	-	-	-	-
-	<b>118,191.3</b>	<b>7,040.4</b>	<b>223,297.3</b>	<b>753.5</b>	<b>349,282.5</b>	<b>350,923.3</b>

Available-for-sale financial assets	Financial liabilities at fair value through the income statement		Other financial liabilities	Derivatives that are used for hedge reporting	Total recognised value	Fair value
	Financial liabilities determined as belonging to this category	Held for trade				
7,516.4	-	-	-	-	16,964.4	16,964.4
-	-	-	-	-	1,122.3	1,122.3
-	-	-	-	-	276,982.1	277,002.9
9,370.1	-	-	-	-	42,003.9	42,003.9
-	-	-	-	7,481.2	24,449.8	24,449.8
-	-	-	-	-	11.8	11.8
<b>16,886.5</b>	-	-	-	<b>7,481.2</b>	<b>361,534.3</b>	<b>361,555.1</b>
-	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
-	<b>147,081.1</b>	<b>8,184.5</b>	<b>198,697.7</b>	<b>1,206.0</b>	<b>355,169.3</b>	<b>356,641.4</b>

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

#### Lending

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

*Note 27, continued****Sovereign bonds eligible as collateral, and bonds and other interest-bearing securities***

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

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

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 the swap rate, adjusted for current funding margins for the structure and market of the funding, by using secondary market spreads for similar issues by Kommuninvest or similar issuers. For funding in currencies other than SEK, EUR and USD, the current funding margin is set as the funding margin in USD plus the currency basis spread between the currency concerned and USD. Market prices used for valuation are mid-prices. Funding expected to be traded in an active market are classified in level 1. Funding valued at quoted prices, not deemed as traded in an active market, are classified in level 2. Funding valued based on discounted future cash flows are classified in level 2, with the exception of funding for which anticipated future cash flows are attributable to significant non-observable market data, which are classified in level 3. The members' guarantee undertaking affects the valuation of funding and that the guarantee undertaking is taken into account by market players and thus affects quoted market prices and current funding margins.

***Derivatives***

Standardised derivatives in the form of FRA contracts scheduled for IMM days and traded in an active market are measured according to level 1. The fair value of other derivatives is calculated by discounting the anticipated future cash flows taking place at mid-prices 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 funding 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 shareholders' 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 funding margins for this type of funding change. The scope of the change depends on the anticipated remaining duration of the contracts, which depend in turn on unobservable data. The effect on net profit from the unobservable input data that arises is therefore attributable to how input data affect the estimated remaining maturity of the contract.

*Note 27, continued*

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 funding provided by the members of the Kommuninvest Cooperative Society, Kommuninvest's own credit risk is considered to be negligible. Changes are only considered to occur in Kommuninvest's own credit risk as a consequence of events such as a major downgrading of the Company's rating, or significant amendments to the members' guarantee undertaking that would reduce their collective responsibility for the Company's commitments. Since no such events or changes have occurred, all variations in funding margins and resulting changes in the value of liabilities are deemed attributable to general changes in the market price of credit and liquidity risk and not from changes in Kommuninvest's own credit risk.

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

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

*Changed valuation models*

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 SEK –(5,168.3) million was transferred to level 2 from level 1. Financial liabilities 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 STATEMENTS

### Note 27, continued

#### 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
<b>Total</b>	<b>21,107.2</b>	<b>96,864.7</b>	<b>138.4</b>	<b>118,110.3</b>
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
<b>Total</b>	<b>97,176.5</b>	<b>27,420.2</b>	<b>1,388.5</b>	<b>125,985.2</b>
<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
<b>Total</b>	<b>39,694.8</b>	<b>139,101.8</b>	<b>222.6</b>	<b>179,019.2</b>
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
<b>Total</b>	<b>100,634.1</b>	<b>49,395.8</b>	<b>6,441.7</b>	<b>156,471.6</b>

#### 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
<b>Opening balance, 1 January 2016</b>	<b>296.2</b>	<b>-1,474.7</b>	<b>-</b>	<b>-3,913.7</b>	<b>-5,092.2</b>
Recognised gains and losses:					
- recognised in the income statement (net result of financial transactions)	-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
<b>Closing balance, 31 December 2016</b>	<b>222.7</b>	<b>-188.2</b>	<b>-</b>	<b>-6,253.5</b>	<b>-6,219.0</b>
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
<b>Opening balance, 1 January 2017</b>	<b>222.7</b>	<b>-188.2</b>	<b>-</b>	<b>-6,253.5</b>	<b>-6,219.0</b>
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
<b>Closing balance, 31 December 2017</b>	<b>138.4</b>	<b>-63.2</b>	<b>-</b>	<b>-1,325.3</b>	<b>-1,250.1</b>
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.

## Note 27, continued

## Financial instruments not measured at fair value in the balance sheet

2017	Level 1	Level 2	Level 3	Total	Recognised value
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
<b>Total</b>	-	<b>238,969.7</b>	-	<b>238,969.7</b>	<b>238,678.4</b>
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	-
<b>Total</b>	<b>125,895.2</b>	<b>99,042.9</b>	-	<b>224,938.1</b>	<b>223,297.3</b>

2016	Level 1	Level 2	Level 3	Total	Recognised value
Lending to credit institutions	-	1,122.3	-	1,122.3	1,122.3
Lending	-	181,401.8	-	181,401.8	181,381.0
Other assets	-	11.8	-	11.8	11.8
<b>Total</b>	-	<b>182,535.9</b>	-	<b>182,535.9</b>	<b>182,515.1</b>
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
<b>Total</b>	<b>88,051.9</b>	<b>112,117.9</b>	-	<b>200,169.8</b>	<b>198,697.7</b>

## Note 28 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 offsetting in the balance sheet, since the legal right to offsetting 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 <sup>1</sup>	Net amount reported in the balance sheet	Financial instruments	Provided (+)/Received (-) collateral - security	Provided (+)/Received (-) cash collateral	Net amount
<b>Assets</b>							
Derivatives	8,621.0	-576.4	<b>8,044.6</b>	-5,070.9	-2,055.6	-572.4	<b>345.7</b>
Repos <sup>2</sup>	-	-	-	-	-	-	-
<b>Liabilities</b>							
Derivatives	-8,761.2	967.3	<b>-7,793.9</b>	5,070.9	1,026.6	750.4	<b>-946.0</b>
<b>Total</b>	<b>-140.2</b>	<b>390.9</b>	<b>250.7</b>	<b>0.0</b>	<b>-1,029.0</b>	<b>178.0</b>	<b>-600.3</b>

### 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 <sup>1</sup>	Net amount reported in the balance sheet	Financial instruments	Provided (+)/Received (-) collateral - security	Provided (+)/Received (-) cash collateral	Net amount
<b>Assets</b>							
Derivatives	24,565.2	-115.4	<b>24,449.8</b>	-7,949.1	-15,623.0	-	<b>877.7</b>
Repos <sup>2</sup>	-	-	-	-	-	-	-
<b>Liabilities</b>							
Derivatives	-9,866.7	476.2	<b>-9,390.5</b>	7,949.1	170.9	-	<b>-1,270.5</b>
<b>Total</b>	<b>14,698.5</b>	<b>360.8</b>	<b>15,059.3</b>	<b>0.0</b>	<b>-15,452.1</b>	-	<b>-392.8</b>

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.

# Five-Year Summary

Key ratios 2013-2017, SEK, million	2017	2016	2015	2014	2013
<b>Equity</b>					
Core Tier 1 capital ratio (%)	212.4	103.7	44.6	34.6	37.0
Tier 1 capital ratio (%)	212.4	103.7	44.6	34.6	37.0
Total capital ratio (%)	212.4	122.1	59.8	49.3	59.5
Leverage ratio according to CRR (%)	1.78	1.56	0.87	0.75	0.57
<b>Net profit</b>					
Operating profit excluding the effect of unrealised changes in market value	697.8	593.7	531.3	664.0	740.0
Operating expenses, excluding the resolution charge/stability fee, as % of lending	0.065	0.072	0.068	0.078	0.070
Operating expenses, excluding the resolution charge/stability fee, as % of balance sheet total	0.057	0.055	0.051	0.055	0.053
Return on assets (%)	0.245	0.086	0.165	0.182	0.213
Cost/income ratio	0.304	0.302	0.366	0.310	0.250
<b>Other information</b>					
Number of employees at the end of the year	96	91	85	77	70
<b>Income statement 1 January – 31 December, SEK, million</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net interest income	881.3	762.0	798.5	915.2	969.5
Dividends received	1.8	-	-	-	-
Commission expenses	-7.3	-5.2	-5.3	-5.1	-5.6
Net result of financial transactions	512.0	-131.9	165.7	101.9	38.7
Other operating income	5.3	5.4	2.7	1.3	0.2
<b>Total operating income</b>	<b>1,393.1</b>	<b>630.3</b>	<b>961.6</b>	<b>1,013.3</b>	<b>1,002.8</b>
<b>Total operating expenses</b>	<b>-269.3</b>	<b>-232.1</b>	<b>-293.1</b>	<b>-283.9</b>	<b>-245.2</b>
Impairment of financial assets	-	-	-13.0	-	-
<b>Operating profit</b>	<b>1,123.8</b>	<b>398.2</b>	<b>655.5</b>	<b>729.4</b>	<b>757.6</b>
Tax	-247.8	-88.4	-94.2	-161.0	-166.9
<b>Net profit</b>	<b>876.0</b>	<b>309.8</b>	<b>561.3</b>	<b>568.4</b>	<b>590.7</b>
<b>Balance sheet summary as at 31 December, SEK million</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Sovereign bonds eligible as collateral	24,635.8	16,964.4	16,839.4	15,204.1	14,626.2
Lending to credit institutions	649.7	1,122.3	699.9	4,022.1	2,822.2
Lending	310,147.3	276,982.1	254,421.7	222,803.7	208,644.0
Bonds and other interest-bearing securities	12,500.0	42,003.9	45,688.4	45,974.5	44,932.9
Derivatives	8,044.6	24,449.8	22,775.6	23,848.8	6,235.8
Other assets	965.2	202.9	201.3	198.9	197.6
<b>Total assets</b>	<b>356,942.6</b>	<b>361,725.4</b>	<b>340,626.3</b>	<b>312,052.1</b>	<b>277,458.7</b>
Liabilities to credit institutions	1,318.4	2,396.1	2,303.5	4,800.6	4,352.0
Securities issued	337,755.8	341,579.4	318,943.6	292,318.0	256,258.7
Derivatives	7,793.9	9,390.5	11,723.1	10,628.3	13,231.8
Other liabilities	2,463.7	845.4	2,311.8	929.7	888.5
Subordinated liabilities	-	1,000.0	1,000.0	1,000.1	1,000.1
<b>Total liabilities and provisions</b>	<b>349,331.8</b>	<b>355,211.4</b>	<b>336,282.0</b>	<b>309,676.7</b>	<b>275,731.1</b>
Equity	7,610.8	6,514.0	4,344.3	2,375.4	1,727.6
<b>Total liabilities, provisions and equity</b>	<b>356,942.6</b>	<b>361,725.4</b>	<b>340,626.3</b>	<b>312,052.1</b>	<b>277,458.7</b>

# Alternative performance measurements

In this annual report, Kommuninvest i Sverige AB has chosen to present a number of alternative performance measurements that are not defined or specified in the applicable rules on financial reporting. These alternative

performance measurements have been defined in accordance with the guidelines of the European Securities and Markets Authority (ESMA).

Alternative 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
<b>Operating profit excluding the effect of unrealised changes in market value</b>			<b>697.8</b>	<b>593.7</b>
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
		<b>Total operating expenses excluding resolution charge/stability fee</b>	<b>-203.0</b>	<b>-200.7</b>
		<b>Lending as per the closing date</b>	<b>310,147.3</b>	<b>276,982.1</b>
<b>Operating expenses, excluding the resolution charge/stability fee, as % of lending</b>			<b>0.065</b>	<b>0.072</b>
Operating expenses, excluding the resolution charge/stability fee, as % of balance sheet total	Total operating expenses over the financial year, excluding the resolution charge/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
		<b>Total operating expenses excluding resolution charge/stability fee</b>	<b>-203.0</b>	<b>-200.7</b>
		<b>Total assets as per the closing date</b>	<b>356,942.6</b>	<b>361,725.4</b>
<b>Operating expenses, excluding the resolution charge/stability fee, as % of balance sheet total</b>			<b>0.057</b>	<b>0.055</b>
Return on assets (%)	Profit for the year in relation to total assets, expressed as a percentage. Key ratios presented in accordance with FFFS 2008:25 Chapter 6, Section 2a.	Profit for the year	876.0	309.8
		Total assets	356,942.6	361,725.4
		<b>Return on assets (%)</b>	<b>0.245</b>	<b>0.086</b>
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.	<b>Total operating expenses</b>	<b>-269.3</b>	<b>-232.1</b>
		Net interest income	881.3	762.0
		Other operating income	5.3	5.4
		<b>Total interest income and other income</b>	<b>886.6</b>	<b>767.4</b>
		<b>Cost/income ratio</b>	<b>0.304</b>	<b>0.302</b>

# Signatures

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

Tomas Werngren  
*President and CEO*

Our Audit Report was submitted on 14 February 2018

KPMG AB

Anders Tagde  
*Authorised Public Accountant*

# Audit Report

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

## Report on the annual accounts

### Opinions

We have audited the annual accounts of Kommuninvest i Sverige AB (publ) for 2017. The annual accounts of the Company are included on pages 23–90 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of Kommuninvest i Sverige AB (publ) as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

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

Our opinions in this report on the annual accounts are

compatible with the contents of the supplementary report submitted to the Board in accordance with the audit regulation (537/2014) Article 11.

### Basis for Opinions

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

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

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period. These matters

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

*See accounting principles for financial instruments in note 2 and disclosure in Note 27 in the annual accounts for detailed information and a description of the matter.*

### Description of key audit matter

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

The Company has financial assets of SEK 96,865 million classified as level 2, financial assets of SEK 138 million classified as level 3, financial liabilities of SEK 27,420 million classified as level 2 and financial liabilities of SEK 1,388 million classified as level 3. In total, these assets and liabilities represent 27 percent of the Company's total assets and 8 percent of total liabilities.

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

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

### Response in the audit

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

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

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

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

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

**Applying hedge accounting**

*See accounting principles in note 2 and disclosures in note 6, 17 and 27 in the annual account for detailed information and a description of the matter.*

**Description of key audit matter**

Hedge accounting is a complex area from an accounting perspective. To qualify for hedge accounting, certain criteria must be met including requirements to document the nature and purpose of the hedge and that the Company regularly performs testing of the effectiveness of the hedging relation.

Because of the complex nature of the relevant accounting policies, hedge accounting is considered a key audit matter.

**Response in the audit**

We have obtained the Company’s documentation for hedge accounting and evaluated whether the applied methods comply with the Company’s accounting principles. Moreover, we have tested the Company’s effectiveness test for hedge relationships.

At year-end, we have assessed whether the hedge relationships have been subject to effectiveness testing. For a sample of hedges, we also verified the accuracy of the input data and evaluated the result of the effectiveness test.

We have also assessed the circumstances disclosed in the annual report and assessed whether the information presented is comprehensive enough to understand the Company’s application of hedge accounting.

were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

**Other Information than the annual accounts**

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

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

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

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

**Responsibilities of the Board of Directors and the President**

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

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

**Auditor’s responsibility**

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

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

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

auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

#### Report on other legal and regulatory requirements

##### *Opinions*

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the President of Kommuninvest i Sverige AB (publ) for the year 2017 and the proposed appropriations of the Company's profit or loss.

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

##### *Basis for Opinions*

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

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

#### Responsibilities of the Board of Directors and the President

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

The Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs. This includes among other things continuous assessment of the Company's financial situation and ensuring that the Compa-

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

#### Auditor's responsibility

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

- has undertaken any action or been guilty of any omission which can give rise to liability to the Company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

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

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

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

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

Stockholm, 14 February 2018

KPMG AB

Anders Tagde  
*Authorised Public Accountant*

# Review Report

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

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

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

The review has been carried out with the focus and scope required to provide a reasonable basis for evaluation and

assessment. A thorough review has been conducted through talks with the Company's management regarding the operations and their internal governance and control. We have also monitored the work of the Board of Directors by means of the minutes recorded at its meetings.

In 2017, an in-depth review of internal control was performed in the areas of competence supply and employees' other engagements.

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

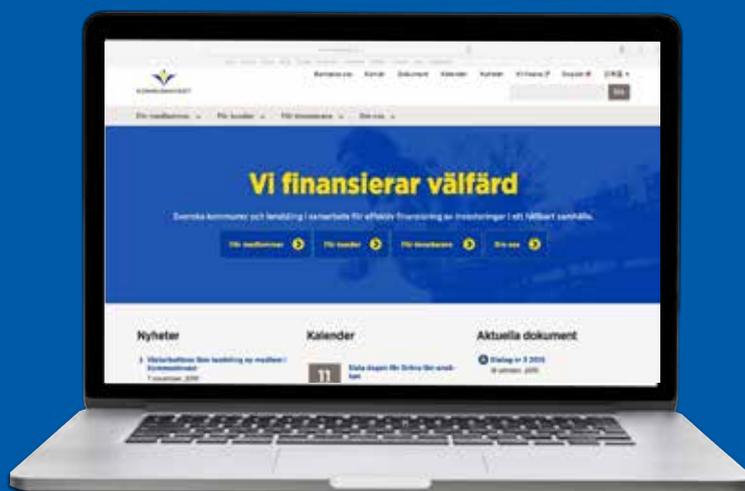
In our assessment, the Company's internal control has been adequate.

Örebro, 14 February 2018

Barbro Hassel

Cecilia Löfgreen





On the Kommuninvest website, [www.kommuninvest.se](http://www.kommuninvest.se), you can read more about Kommuninvest, our services and news affecting the economy and finances of local government authorities in Sweden. **On the website you will find:**

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



**KOMMUNINVEST**  
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