INTERIM REPORT 2018

KOMMUNINVEST I SVERIGE AB

KOMMUNINVEST

Working together for better terms

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

277

+11

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

Organisation with clear division of roles

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

Kommuninvest Cooperative Society

Administrates membership and the joint and several guarantee.

The Board of Directors consists of elected politicians from municipalities and 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 and business development.

Green Loans

Green Loans

Green Loans were introduced in 2015 to finance environmental and climate-related investments. Since the launch, the volume of approved Green loans has increased to SEK 31 billion.

AAA

Aaa

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

OUR VISION

We finance the Swedish local and regional sectors' development and their investments for a beneficial and sustainable society.

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.

Since 1986

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

SEK

331

billion

On 30 June 2018, lending totalled SEK 331 billion.

Interim Report for Kommuninvest i Sverige AB (publ)
This is the interim report for the credit market company Kommuninvest i Sverige AB (Kommuninvest). Corporate identity number: 556281-4409
Registered office: Örebro
1 January–30 June 2018

Comparative income statement figures relate to the corresponding six-month period last year (1 January – 30 June 2017) unless otherwise indicated. Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2017 unless otherwise indicated.

While every care has been taken in translation, readers are reminded that the original report, signed by the Board of Directors, is in Swedish.

Comment from the CEO

Against a background of increasing needs from a growing population, in which the proportion of younger and older people alike is increasing, the Swedish local government sector is continuing to invest in expanded infrastructure. The sector as a whole is showing record financial results. Despite the investment rate being at its highest since the 1970s, debt is low in relation to GDP.

It is gratifying to see the increased interest in financing projects focused on sustainability. By the end of June, nearly 90 municipalities and county councils/regions had financed approximately 180 investment projects with Green Loans from Kommuninvest. This has made Kommuninvest Sweden's largest issuer of green bonds. It is necessary that the local government sector takes these steps for Sweden to meet its commitments under the Paris Agreement.

In late May, prices for Kommuninvest's lending products were cut following a study and a discussion between the members. This change removed a large part of the marginal supplement that Kommuninvest has included in its pricing to cover negative unrealised changes in market values. This means that Kommuninvest's future net profit and its refunds to members will decrease.

Operating profit for the period has developed according to plan. Kommuninvest's expense focus remains and we can affirm that administrative expenses in relation to business volume are falling. Administrative expenses as a share of lending, excluding the resolution fee, amounted to 6.2 basis points, compared with 6.9 basis points as per 30 June 2017.

Lending developed more strongly than expected, due to attractive loan terms and the continued high pace of investment in the local government sector. It is positive that our members and customers are now extending their funding towards longer maturities. Funding has also been greater than expected. In June, Kommuninvest issued USD 2.5 billion in its largest single funding in USD to date.

Among the largest banks and credit institutions in Sweden, Kommuninvest has the highest risk-weighted capital adequacy. We also note the positive signals emerging from the European negotiations on new regulations regarding the leverage ratio capital requirement. It appears as though the regulations will take institutions like Kommuninvest into account, and will be designed to enable those institutions to fulfil their mission. This is most welcome.

Tomas Werngren, President and CEO

However, it is important that fair conditions also are being provided regarding reporting requirements and other operational processes. The proportionality principle should apply not only to the size of the institution but also the nature of the operations, so that regulatory systems do not impact the operations to a greater extent than necessary.

Tomas Werngren
President and CEO

Market

The world economy and the financial markets

Despite significant political uncertainty, the world economy is pervaded by continued favourable global growth. Growth is expected to reach nearly 4 percent in 2018, in line with the historical average. Underlying causes are driving forces late in the economic cycle in the form of strong labour markets and rising investment. Areas of concern include risks associated with increased global trade barriers, Brexit and increased political tension in the Middle East following the US decision to abandon the Iran agreement.

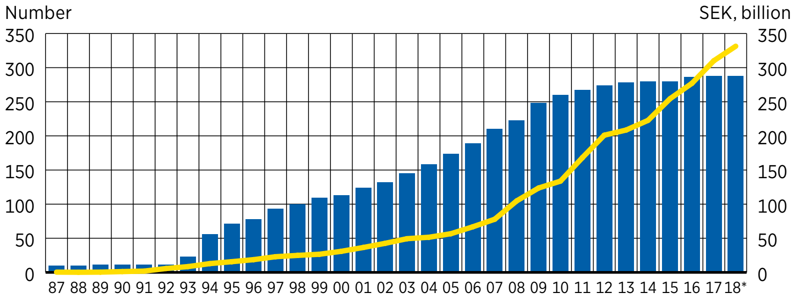
Following an increase in global long-term interest rates at the beginning of the year, the trend has shifted. Fears of a trade war and geopolitical tensions have periodically caused long-term interest rates to fall, although renewed risk appetite and rising inflation expectations have caused US interest rates to regain ground. The US ten-year rate crossed the 3-percent level for the first time since early 2014. At the same time, German and Swedish interest rates have been pressured due to weakened economic development and expectations that interest rate hikes will be delayed. The difference between ten-year German and US sovereign bond rates has widened to approximately 250 basis points, the highest levels since the 1980s.

During the period, the Federal Reserve raised its key rate twice, while the European Central Bank's key rates remained unchanged. The ECB also announced that it would discontinue its quantitative easing program at the end of 2018. The Riksbank has also left its key rate unchanged. The Riksbank's signal that it would postpone its first interest rate hike and the strategy of reinvesting bonds maturing in the spring of 2019 has pushed down the interest rate spread between Swedish and German ten-year rates and, during the period, these have approached recent years' lowest levels of about 15 basis points.

In Sweden, growth is expected to exceed the historical trend, although the prevailing economic upswing is abating over the year. Decreased investment in housing means that industry and exports of goods are expected to take over as the growth engine and GDP growth is expected to reach approximately 2.5 percent for 2018. Unemployment continues to decline to about 6 percent.

As a whole, the Swedish local government sector continues to show strong economic results. Overall, the result corresponds to 3 percent of taxes and central government allocations over the past ten years, according to the Swedish Association of Local Authorities and Regions, SALAR. However, this level is unlikely to be sustained given the intense period of investment that the local government sector is experiencing as a consequence of rapid population development, demographic change and urbanisation. Challenges facing the local government sector include being able to balance substantial investment and recruitment needs with good financial management and stable finances.

Number of members and lending,
1987–2018 (30 June)



Number of members, Kommuninvest Cooperative Society — Lending, Kommuninvest i Sverige AB

* 30 June

The foremost explanations for the historical growth in lending are increasing local government funding needs, an increase in membership of the Society, and members choosing to arrange an increasing part of their funding with the Company.

Ownership situation

The Kommuninvest Cooperative Society (the Society) owns 100 percent of the shares in the credit market company Kommuninvest i Sverige AB (Kommuninvest or the Company), in which all business activities within the Kommuninvest Group (the Group) are conducted. At 30 June 2018, the Society had 288 (288) members, of which 277 (277) were municipalities and 11 (11) were county councils/regions. Consequently, 96 (96) percent of Sweden's municipalities and 55 (55) percent of Sweden's county councils/regions were members (partners) in the Society.

Resolutions by the Annual General Meeting of the Society

The Society held its Annual General Meeting (AGM) on 26 April 2018 in Stockholm. The AGM made the customary resolutions concerning elections to the Board of Directors of the Society, discharge of responsibility for the Board of Directors and dividends to members. Dividends consist of interest on contribution capital and refunds based on business volume and totalled SEK 970 million.

The AGM also adopted owner directives for the Company for 2018. The AGM's resolution regarding the owner directives concerning the Company's operating profit has resulted in the former marginal supplement to cover changes in the market value of assets and liabilities largely being removed. As in previous years, it is explained that it is the Society that is responsible for providing the Company with the capital required for its operations.

As at previous AGMs, the Board of Directors presented its plan for Kommuninvest's capital structure prior to the introduction, within the EU, of a new capital requirement for financial institutions, the leverage ratio. The plan was approved and recorded.

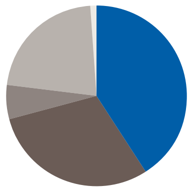
Local government debt

During the period, Swedish municipalities and county councils/regions were again able to meet their funding needs efficiently, both through Kommuninvest and through banking systems and capital markets. Kommuninvest estimates that the sector's external loan debt had risen by SEK 18 billion to SEK 618 (600) billion as per 30 June 2018, compared with the year-end of 2017, and that 53 (51) percent of the loan debt is financed via Kommuninvest. As per 30 June 2018, loan debt was estimated at 12.9 (13.0) percent of Swedish GDP. Over the past 12 months, Kommuninvest's lending has grown twice as fast as the market as a whole.

The local government sector's funding is characterised by short maturities and short-term interest rates. At the end of the period, the average period for which capital was tied up was 2.7 years. Of total funding, 57 percent was based on floating interest rates. By using derivatives the average period of fixed interest was extended to 2.9 years. The average interest rate on loan debt was 1.36 percent, a decrease of 17 basis points over one year.

Lending portfolio by borrower category

30 Jun 2018 (31 Dec 2017)



- Municipalities 41 (41) %
- Municipal housing companies 30 (30) %
- Municipal energy companies 6 (6) %
- Other municipal companies 22 (22) %
- County councils/regions 1 (1) %

Kommuninvest's largest borrower groups are municipalities and municipal housing companies. As per 30 June 2018, they accounted for 71 (71) percent of the total lending.

Multi-year summary, Kommuninvest i Sverige AB

	30 June 2018	30 June 2017	31 Dec 2017	31 Dec 2016	31 Dec 2015
Total assets, SEK, million	430,756.9	383,980.7	356,942.6	361,725.4	340,626.3
Lending, SEK, million	331,404.9	296,600.0	310,147.3	276,982.1	254,421.7
Net profit, SEK, million	306.1	408.0	876.0	309.8	561.3
Members, total	288	288	288	286	280
of which, municipalities	*277*	*277*	*277*	*275*	*272*
of which county councils/regions	*11*	*11*	*11*	*11*	*8*
Core Tier I capital ratio[1], %	161.3	141.1	212.4	103.7	44.6
Tier I capital ratio[2], %	161.3	141.1	212.4	103.7	44.6
Total capital ratio[3], %	161.3	163.4	212.4	122.1	59.8
Leverage ratio according to CRR[4], %	1.70	1.65	1.78	1.56	0.87

1) Core Tier I capital in relation to total risk exposure. See also page 10 and Note 8.

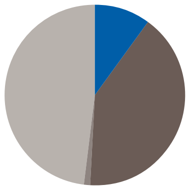
2) Tier I capital in relation to total risk exposure. See also page 10 and Note 8.

3) Total capital base in relation to total risk exposure. See also page 10 and Note 8.

4) Tier I capital in relation to total assets and commitments (exposures). The key ratio "Leverage ratio including debenture loan" has been discontinued. See also page 10 and Note 9.

New funding by currency*

1 Jan–30 Jun 2018
(1 Jan–30 Jun 2017)

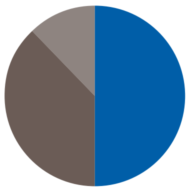


JPY 10 (5) %
SEK 41 (49) %
TRY 1 (–) %
USD 48 (39) %
ZAR 0 (–) %
NOK – (2) %
GBP – (2) %
EUR – (2) %

* excl. commercial paper funding

New funding by programme*

1 Jan–30 Jun 2018
(1 Jan–30 Jun 2017)



Benchmark funding 50 (39) %
Swedish benchmark programme 38 (49) %
Uridashi 12 (5) %
Private Placements – (5) %
Public Bonds – (2) %

* excl. commercial paper funding

Kommuninvest's lending

As per 30 June 2018, Kommuninvest's lending amounted to SEK 331,404.9 million, compared with SEK 310,147.3 million at the end of the previous year. In nominal terms, lending was at SEK 329,071.5 (308,042.3) million, an increase of 7 (7) percent. Kommuninvest's competitiveness, expressed as a percentage of accepted bids, remained strong. The acceptance rate for submitted bids amounted to 99 (99) percent, based on volume.

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

Of the agreed lending for the period, 84 (85) percent were loans with capital tied up for more than one year and 16 (15) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 21 (38) percent of the total volume. At the end of the period, the average period for which capital was tied up in the Company's lending portfolio was 2.7 (2.5) years.

The volume of Green Loans granted – financing for municipal investment projects promoting the transition to low carbon emissions and sustainable growth, increased. As per 30 June 2018, the portfolio of approved Green Loans amounted to SEK 31,352.3 million relating to 179 investment projects and 86 municipalities and county councils/regions. On 31 December 2017, the portfolio amounted to SEK 26,933.7 million relating to 149 investment projects and 81 municipalities and county councils/regions.

Kommuninvest's funding

Kommuninvest's lending is financed by means of short and long-term funding programmes on national and international capital markets. The funding strategy is based on diversified funding, in terms of funding markets, investor categories, funding currencies and funding products. Kommuninvest strives to maintain an even distribution between domestic and international funding over time.

Continued high demand for secure issuers allowed Kommuninvest to borrow on favourable terms during the period, despite intermittent concern in the financial markets. At the end of the period, total outstanding funding amounted to SEK 409,212.3 (339,074.2) million.

During the period, funding in long-term debt instruments with maturities of more than one year was raised for an amount corresponding to SEK 87,950.0 (45,763.5) million. In addition, funding with potential early termination within a year was agreed for an amount corresponding to SEK 9,225.1 (2,431.7) million.

Funding through short-term commercial papers with maturities of less than one year, amounted to SEK 34,651.4 (52,756.6) million. Funding is raised to replace loans that mature or are cancelled, to finance new lending in the lending operations and to adjust the scale of the liquidity reserve in accordance with the prevailing market view and liquidity reserve requirements. Previously issued funding instruments were repurchased for a value of SEK 13,281.2 (10,937.8) million.

Kommuninvest is working actively to increase its funding in major bond programmes, so-called benchmark programmes, both internationally and in Sweden. During the period, three major benchmark funding programmes in USD were implemented. A total of SEK 36,850.0 (23,500.0) million was issued in the Swedish bond programme. In addition to supplementary issues in existing outstanding bonds, two new bonds were issued, maturing in November 2023 and May 2025.

During the period, Kommuninvest continued to issue Green Bonds, which are primarily purchased by investors mandated to support investments with an environmental focus. In April, the Company issued its fourth Green Bond. The funds raised from Green Bonds finance investment projects in the Society's member municipalities and county councils/regions, focusing on energy-efficient housing, renewable energy production and other green infrastructure. In total, as per 30 June 2018, Kommuninvest had SEK 17,396.5 million outstanding in four bonds, compared with the start of the year when SEK 14,396.5 million was outstanding.

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 March and July 2018 respectively, the rating institutes confirmed the Company's credit rating, with a stable outlook. The rating institutes highlight the joint and several guarantee undertaking between the owners of the Society, the Company's mandate from its owners to act as a local government debt office for members, the high quality of the loan portfolio and the strategy for building up capital in preparation for future regulations.

Financial accounts

Profit/loss

Operating profit, that is, profit before tax, amounted to SEK 391.3 (523.7) million. The operating profit includes unrealised changes in market value of SEK 86.3 (230.1) million. Kommuninvest holds assets and liabilities to maturity, meaning that changes in market value are not normally realised. Excluding market value changes, operating profit amounted to SEK 305.0 (293.6) million.

Operating income amounted to SEK 538.9 (661.0) million, including net interest income, commission expenses, net results of financial transactions and other operating income.

Net interest income amounted to SEK 453.7 (424.4) million, which is a moderate increase compared with the preceding year, given the strong growth in lending that the Company experienced in the first half of the year. This development is desirable given Kommuninvest's role as a non-profit company, and is explained by the Company having had the opportunity to reduce its margin on new lending, both at the beginning of the year and following the AGM's decision to change the focus of the Company's operating profit. Kommuninvest grants lending at negative interest rates. Negative interest revenues on lending are reported as interest expenses and amounted to SEK 124.8 (77.1) million for the period. For more information on how interest revenues and interest expenses are reported, see Note 2.

The net result of financial transactions for the period was SEK 84.8 (237.5) million and was primarily affected by unrealised changes in market value of SEK 86.3 (230.1) million. The period's positive outcome in terms of unrealised changes in market value was primarily attributable to the lowering of the lending margins. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 5.

Operating expenses amounted to SEK 140.6 (137.3) million, including the expense of the resolution fee of SEK 34.5 (33.2) million. The resolution fee is calculated as a risk-adjusted share of the balance sheet total less lending. The fee 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. The Swedish National Debt Office has set the resolution fee for 2018 at SEK 69.1 (66.3) million for Kommuninvest. The resolution fee accounted for 25 (24) percent of the Company's total operating expenses for the period.

Excluding the resolution fee, operating expenses amounted to SEK 106.1 (104.1) million, of which personnel expenses accounted for SEK 64.7 (61.9) million and other expenses for SEK 41.4 (42.2) million.

Net credit losses amounted to SEK 7.0 (–) million. The Company has not realised any credit losses. All credit losses are expected credit losses calculated in accordance with the IFRS 9 regulation that came into effect on 1 January 2018. The regulations require that expected credit losses be calculated based on the economic trend regardless of the guarantee commitment from the owners. For more information on credit losses, see Note 4.

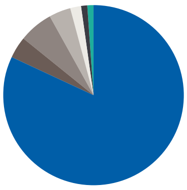
Profit after tax amounted to SEK 306.1 (408.0) million.

Assets

Total assets increased to SEK 430,756.9 (356,942.6) million, mainly as an effect of the larger liquidity reserves and increased lending, although derivative assets have also increased. At the end of the period, the Company's lending amounted to SEK 331,404.9

Liquidity reserve distributed by country

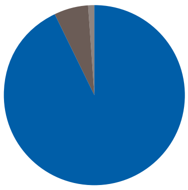
30 Jun 2018 (31 Dec 2017)



- Sweden 82 (58) %
- Germany 4 (13) %
- Supranationals 6 (13) %
- Finland 4 (8) %
- Denmark 2 (5) %
- Canada 1 (2) %
- UK 1 (0) %
- USA 0 (0) %

Liquidity reserve distributed by rating category

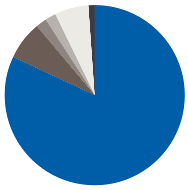
30 Jun 2018 (31 Dec 2017)



- AAA 93 (87) %
- AA 6 (10) %
- A 1 (2) %

Liquidity reserve distributed by issuer category

30 Jun 2018 (31 Dec 2017)



- National governments or central banks 82 (63) %
- Credit institutions, subsidised lenders 7 (20) %
- Credit institutions, bank balances 2 (2) %
- Credit institutions, investment repos 2 (0) %
- Multilateral development banks 6 (13) %
- Regional or local governments and authorities 1 (2) %

(310,147.3) million. In nominal terms, lending was SEK 329,071.5 (308,042.3) million. The increase is partly explained by the fact that investment needs in the local government sector remain high, entailing high demand for financing. The aforementioned margin reductions have also entailed more competitive prices, contributing to increased lending.

At the end of the period, the Company's liquidity reserve amounted to SEK 79,908.9 (37,785.5) million, consisting of the balance sheet items Sovereign bonds eligible as collateral, Lending to credit institutions and Bonds and other interest-bearing securities.

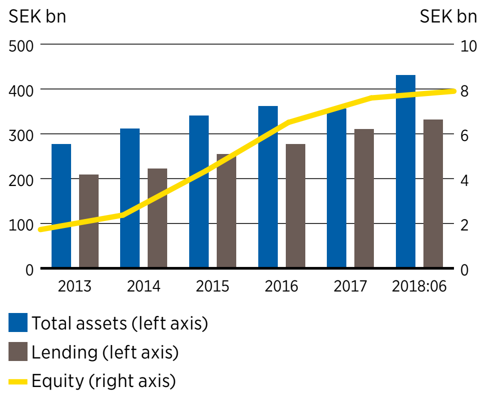
According to the Company's instructions, the liquidity reserve shall ensure, with good advance planning, that the Company's commitments can be met while retaining lending capacity. Compared with the start of the year, the liquidity reserve had increased in volume as per 30 June 2018. The increase is mainly due to a greater amount of funding reaching maturity over the coming period, and continued favourable growth in lending having been taken into account, necessitating a larger liquidity reserve.

Most of the investments are in securities issued by national governments or central banks, multilateral development banks and credit institutions with high creditworthiness. At least 90 percent of the reserve shall be eligible as collateral at the Riksbank, allowing the Company to obtain liquidity against collateral. As of 30 June 2018, 100 percent of the reserve, excluding cash and cash equivalents and securities received as collateral, was eligible as collateral at the Riksbank. Investments in the liquidity reserve may have a maturity of at most 39 months, and the reserve as a whole shall have an average maturity of at most 12 months.

Derivative assets (derivatives with a positive market value) have increased to SEK 18,547.1 (8,044.6) million. Exchange rate fluctuations are the foremost reason for changes in the scope of the derivative assets. During the period, the SEK has weakened against the USD, Kommuninvest's largest foreign funding currency. Accordingly, the value of derivatives hedging currency risks attributable to funding in USD has increased.

Other assets amounted to SEK 746.1 (814.1) million, of which SEK 516.4 (793.0) million is attributable to pledged collateral. Kommuninvest began pledging collateral for derivatives cleared by central clearing counterparties in 2016 and these are netted per counterparty and currency in the balance sheet, see further Note 6. In 2017, the Company also began pledging cash collateral for derivatives not cleared by central clearing counterparties. There is no right of netting for these and they are therefore included in full in the balance sheet.

Kommuninvest's balance sheet
2013–2018 (30 June)



Liabilities

At the end of the period, the Company's liabilities amounted to SEK 422,848.0 (349,331.8) million, of which funding amounted to SEK 409,212.3 (339,074.2) million. The Company's funding takes place in the form of bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). The Company issues with terms of between 1 day and 30 years and focuses primarily on financial instruments with fixed or floating interest. Derivative liabilities (derivatives with a negative market value) amounted to SEK 4,658.1 (7,793.9) million, with the decrease being attributable to the same cause as the increase in derivatives assets, that is, exchange rate fluctuations.

Other liabilities amounted to SEK 8,939.8 (2,422.5) million. Other liabilities include collateral received of SEK 8,092.3 (654.8) million. Kommuninvest began receiving collateral for derivatives cleared by central clearing counterparties in 2016 and these are netted per counterparty and currency in the balance sheet, see further Note 6. In 2017, the Company also began receiving cash collateral for derivatives not cleared by central clearing counterparties. There is no right of netting for these and they are therefore included in full in the balance sheet.

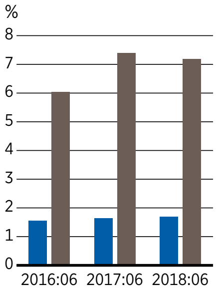
In the fourth quarter of 2017, the subordinated loan of SEK 1,000.0 million from the Society to the Company was cancelled. Following that, the Company has no subordinated liabilities on its balance sheet. For further information, see page 53 and Note 23 in the 2017 Annual Report for Kommuninvest i Sverige AB.

Equity

At the end of the period, equity amounted to SEK 7,908.9 (7,610.8) million, of which the share capital amounted to SEK 7,100.0 (6,100.0) million, divided between 70,999,720 (61,000,000) shares. The SEK 1,000.0 million, corresponding to 9,999,720 shares, that were booked as a new share issue in progress as per 31 December 2017, were registered as share capital at the Swedish Companies Registration Office on 5 February 2018. All shares are fully paid as per 31 December 2017 with a nominal value of SEK 100 per share. Total share capital is attributable to the Society's members and no shares are available for trading.

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

Leverage ratio
2016–2018 (30 June)



The development expenditure reserve of SEK 9.5 (3.1) million corresponds to capitalised development expenditures accrued in-house adjusted for a proportionate share of the amortisation reversed from the reserve to unrestricted equity.

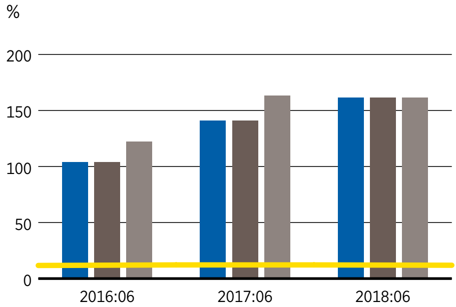
The transition to IFRS 9 has had a negative impact of SEK 8.0 million on equity, see Note 13 for further information.

For further information on equity, see Statement of changes in equity on page 15.

Capital adequacy

The Company is well capitalised to meet the risks in the operations, with capital ratios exceeding the required minimum standards in the Pillar 1 and Pillar 2 basic requirements by a good margin. Core Tier I capital amounted to SEK 7,430.0 (6,359.2) million, entailing a Core Tier I capital ratio of 161.3 (212.4) percent. The Company's capital base consists exclusively of Core Tier I capital and, accordingly, the total capital ratio was also 161.3 (212.4) percent. See also Note 8.

Capital adequacy
2016–2018 (30 June)



1) Core Tier I capital in relation to total risk exposure.
2) Tier I capital in relation to total risk exposure.
3) Total capital base in relation to total risk exposure.
4) Capital requirements under CRR Pillar 1 (575/2013/EU), including buffer requirements.

Future regulatory requirements – leverage ratio

Effective from 1 January 2019 at the earliest, the new capital requirement measure, leverage ratio, will apply within the EU, provided that the Council of the European Union (EU Council) and the European Parliament agree on this. Provided that Kommuninvest secures classification as a public development credit institution (PDCI), lending may be exempt from the calculation of the Company's and the Group's leverage ratio. Calculated in this way, Kommuninvest meets the leverage ratio under discussion by a good margin. The negotiation process is progressing within the EU and Kommuninvest is participating actively in the development.

The Society bears the principal responsibility for the Group's capitalisation. The Society's capital plan is based on the Group and the Company maintaining a level corresponding to a leverage ratio of 1.5 percent including lending. 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. The Society's Articles of Association also permit other options, such as issuing Tier I capital instruments.

Leverage as per 30 June 2018

As per 30 June 2018, the Company's leverage ratio reported according to CRR was 1.70 (1.78) percent (see Note 9 for calculations). If lending is excluded, in accordance with the discussion above, the leverage ratio amounted to 7.19 (14.06) percent.

Risks and uncertainty factors

In its business, the Company encounters a number of risks and uncertainty factors which may have an adverse impact on the Company's net profit, financial position, future prospects or opportunities to attain set targets. The macroeconomic trend, like the general trend in the capital markets, remains uncertain, with geopolitical risks, limitations on international trade, and generally high debt levels being a few of the factors that may cause volatility in the financial markets.

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

In the autumn of 2016, the European Commission submitted proposals to the European Parliament concerning the introduction in the EU of the new leverage ratio capital requirement measure, in accordance with the description on page 10. The proposal may entail additional capital measures being required.

Risk management

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

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

At the end of the period, the Company's total credit risk exposure amounted to SEK 438,375.7 (359,838.9) million. Of the exposure, 77 (87) percent was related to lending to Swedish municipalities and county councils/regions; 18 (11) percent was related to investments in securities issued by sovereigns or other issuers, and 5 (2) percent was related to exposure to derivative counterparties.

In order to ensure good liquidity, the Company's liquidity reserve is primarily held in sovereign securities. The composition of the liquidity reserve as per 30 June 2018 is shown in the chart on page 8.

Counterparty risk is limited by entering into contracts with counterparties with high creditworthiness. New counterparties are required to have a credit rating of at least BBB+ from S&P Global Ratings, as well as established ISDA and CSA agreements (Credit Support Annex).

ISDA agreements guaranteeing the right to early redemption if the counterparty's creditworthiness deteriorates, have been established with all derivative counterparties. See also Note 6.

CSA agreements cover a considerable portion of the counterparty risks. CSA agreements regulate the right to secure collateral to eliminate the exposure arising through derivative transactions. As of 30 June 2018, CSA agreements had been established with 23 out of 25 counterparties with whom Kommuninvest has outstanding, non-cleared contracts. Based on nominal amounts, 99.9 (99.9) percent of the contracts were covered by CSA agreements.

As per 30 June 2018, counterparty exposure to derivative counterparties amounted to SEK 2,706.9 (971.3) million after netting for each counterparty and less collateral received.

A description of the Company's risk exposure and risk management, is provided on pages 33–37 in the 2017 Annual Report and in the Risk and Capital Management Report, which is available at www.kommuninvest.se. No significant changes have taken place after the publication of these.

Employees

The number of employees during the period was unchanged, amounting to 96. The average number of employees during the period was 95 (91 in 2017).

Events after the balance sheet date

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

Build-up of capital and distribution of surplus

In accordance with the Society's owner directives, capital in the Group is being built up over the long term through profit accumulation. Effective from 2011, capital has been built up partly through processing of earnings and re-injection of profits, partly through direct capital contributions from the members.

Decisions regarding the distribution of surpluses are made at the Annual General Meeting of the Society. Surpluses are distributed through a group contribution from the Company to the Society, which, following deductions to cover the Society's expenses, are further distributed to the members of the Society as refunds based on business volumes and interest on contribution capital. The distribution of surpluses is not associated with any conditions for members, or with any repayment liability or liability to pay new contribution capital. The 2018 Annual General Meeting of the Society approved the disbursement of SEK 969.8 (445.4) million in surplus distribution, related to the 2017 results. Disbursement was effectuated in May.

The Annual General Meeting of the Society also determines whether members are to pay new capital contributions. Contribution capital paid to the Society can be used to reinforce the capital base in the Company. At the Society's Board meeting following the 2018 Annual General Meeting, a decision was made that SEK 57.9 (34.9) million in new contribution capital would be paid in. All members that have yet to reach the agreed highest level for member contributions have chosen to participate with an amount depending on whether the member has reached 50, 75 or 100 percent of the highest contribution level. As in previous years, there has also been a request to all members who have not yet reached the agreed highest contribution level to voluntarily inject capital up to this level.

Board of Directors

At the Annual General Meeting of the Company on 26 April 2018, Anna Sandborgh and Åsa Zetterberg stepped down from their Board assignments. Kristina Sundin Jonsson was elected as a new member. The Board of Directors also includes Ellen Bramness Arvidsson (Chairman of the Board), Kurt Eliasson, Lars Heikensten, Anna von Knorring, Erik Langby and Johan Törngren, as well as Ulrika Gonzalez Hedqvist and Jonas Håkansson (employee representatives).

Management

At the end of the period, the Company's executive management consisted of Tomas Werngren (President and CEO), Maria Viimne (Deputy CEO and Chief Operating Officer), Patrick Nimander (CFO), Malin Norbäck (Head of Human Resources), Britt Kerkenberg (CRO), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (CIO). In April 2018, Anders Pelander (Deputy CFO and former Acting CFO) left the executive management and was replaced by Patrick Nimander.

Income statement

SEK, million	Note	2018 Jan–Jun	2017 Jan–Jun	2017 Jan–Dec
Interest revenues	2	265.9	236.8	452.3
Interest expenses	2	187.8	187.6	429.0
NET INTEREST INCOME		**453.7**	**424.4**	**881.3**
Dividends received		-	-	1.8
Commission expenses		-3.7	-3.6	-7.3
Net result of financial transactions		84.8	237.5	512.0
Other operating income	3	4.1	2.7	5.3
TOTAL OPERATING INCOME		**538.9**	**661.0**	**1,393.1**
General administration expenses		-135.1	-131.5	-258.5
Depreciation of intangible assets		-2.4	-2.3	-4.8
Depreciation of tangible assets		-1.2	-1.3	-2.5
Other operating expenses		-1.9	-2.2	-3.5
TOTAL EXPENSES		**-140.6**	**-137.3**	**-269.3**
PROFIT BEFORE CREDIT LOSSES		**398.3**	**523.7**	**1,123.8**
Net credit losses	4	-7.0	-	-
OPERATING PROFIT		**391.3**	**523.7**	**1,123.8**
Tax expense		-85.2	-115.7	-247.8
NET PROFIT		**306.1**	**408.0**	**876.0**

Statement of comprehensive income

SEK, million	2018 Jan–Jun	2017 Jan–Jun	2017 Jan–Dec
NET PROFIT	**306.1**	**408.0**	**876.0**
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to the income statement			
Available-for-sale financial assets	-	9.5	24.1
Available-for-sale financial assets, transferred to the income statement	-	-	-35.6
Tax attributable to items that may subsequently be reclassified to the income statement	-	-2.1	2.5
OTHER COMPREHENSIVE INCOME	**-**	**7.4**	**-9.0**
TOTAL COMPREHENSIVE INCOME	**306.1**	**415.4**	**867.0**

Balance sheet

SEK, million	Note	30 June 2018	30 June 2017	31 Dec 2017
ASSETS				
Sovereign bonds eligible as collateral	5	66,460.3	36,076.2	24,635.8
Lending to credit institutions	5	3,229.0	4,020.8	649.7
Lending	5	331,404.9	296,600.0	310,147.3
Bonds and other interest-bearing securities	5	10,219.6	31,208.2	12,500.0
Shares and participations		-	3.5	-
Shares and participations in subsidiaries		42.0	42.0	42.0
Derivatives	5, 6	18,547.1	14,658.4	8,044.6
Intangible assets		15.2	13.2	10.9
Tangible assets		6.0	8.4	7.2
Current tax assets		36.9	32.3	79.0
Other assets	7	746.1	1,270.1	814.1
Deferred tax assets		-	-	-
Prepaid expenses and accrued revenues		49.8	47.6	12.0
TOTAL ASSETS		**430,756.9**	**383,980.7**	**356,942.6**
LIABILITIES, PROVISIONS AND EQUITY				
Liabilities and provisions				
Liabilities to credit institutions	5	1,173.5	8,436.1	1,318.4
Securities issued	5	408,038.8	357,441.8	337,755.8
Derivatives	5, 6	4,658.1	9,721.1	7,793.9
Other liabilities		8,939.8	413.4	2,422.5
Accrued expenses and prepaid revenues		37.8	34.5	41.2
Provisions		0.0	4.4	-
Subordinated liabilities		-	1,000.0	-
Total liabilities and provisions		**422,848.0**	**377,051.3**	**349,331.8**
Equity				
Restricted equity				
Share capital		7,100.0	6,100.0	6,100.0
New share issue in progress		-	-	1,000.0
Development expenditure reserve		9.5	3.4	3.1
Statutory reserve		17.5	17.5	17.5
Unrestricted equity				
Fair value reserve		-	17.2	0.8
Profit or loss brought forward		475.8	383.3	-386.6
Net profit for the period		306.1	408.0	876.0
Total equity		**7,908.9**	**6,929.4**	**7,610.8**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**430,756.9**	**383,980.7**	**356,942.6**

Statement of changes in equity

	Restricted equity				Unrestricted equity			Total equity
SEK, million	Share capital	New share issue in progress	Development expenditure reserve[1]	Statutory reserve[2]	Fair value reserve[3]	Profit or loss brought forward	Net profit for the period	
Equity carried forward 31 Dec 2017	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**0.8**	**-386.6**	**876.0**	**7,610.8**
Transition effect IFRS 9					-0.8	-7.2		-8.0
Equity brought forward 1 Jan 2018	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**-**	**-393.8**	**876.0**	**7,602.8**
Total comprehensive income								
Net profit for the period							306.1	306.1
Change in development expenditure reserve for period			6.4			-6.4		-
Other comprehensive income								-
Total comprehensive income	***-***	***-***	***6.4***	***-***	***-***	***-6.4***	***306.1***	***306.1***
Transactions with shareholders								
Appropriation of surplus						876.0	-876.0	-
New share issue	1,000.0	-1,000.0						-
New share issue in progress								-
Total transactions with shareholders	***1,000.0***	***-1,000.0***	***-***	***-***	***-***	***876.0***	***-876.0***	***-***
Equity carried forward 30 June 2018	**7,100.0**	**-**	**9.5**	**17.5**	**-**	**475.8**	**306.1**	**7,908.9**
Equity brought forward 1 Jan 2017	**5,417.1**	**682.9**	**1.6**	**17.5**	**9.8**	**75.3**	**309.8**	**6,514.0**
Total comprehensive income								
Net profit for the period							408.0	408.0
Change in development expenditure reserve for period			1.8			-1.8		-
Other comprehensive income					7.4			7.4
Total comprehensive income	***-***	***-***	***1.8***	***-***	***7.4***	***-1.8***	***408.0***	***415.4***
Transactions with shareholders								
Appropriation of surplus						309.8	-309.8	-
New share issue	682.9	-682.9						-
New share issue in progress								-
Total transactions with shareholders	***682.9***	***-682.9***	***-***	***-***	***-***	***309.8***	***-309.8***	***-***
Equity carried forward 30 June 2017	**6,100.0**	**-**	**3.4**	**17.5**	**17.2**	**383.3**	**408.0**	**6,929.4**
Equity brought forward 1 Jan 2017	**5,417.1**	**682.9**	**1.6**	**17.5**	**9.8**	**75.3**	**309.8**	**6,514.0**
Net profit for the period							876.0	876.0
Change in development expenditure reserve for period			1.5			-1.5		-
Other comprehensive income					-9.0			-9.0
Total comprehensive income	***-***	***-***	***1.5***	***-***	***-9.0***	***-1.5***	***876.0***	***867.0***
Transactions with shareholders								
Appropriation of surplus						309.8	-309.8	-
New share issue	682.9	-682.9						-
New share issue in progress		1,000.0						1,000.0
Group contributions						-987.5		-987.5
Tax effect on Group contributions						217.3		217.3
Total transactions with shareholders	***682.9***	***317.1***	***-***	***-***	***-***	***-460.4***	***-309.8***	***229.8***
Equity carried forward 31 Dec 2017	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**0.8**	**-386.6**	**876.0**	**7,610.8**

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

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

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

For further information on equity, see the Equity section in the financial accounts on page 9.

Cash flow statement

SEK, million	2018 Jan–Jun	2017 Jan–Jun	2017 Jan–Dec
Operational activities			
Operating profit	391.3	523.7	1,123.8
Adjustment for items not included in cash flow	-75.5	-226.4	-418.5
Income tax paid	-43.1	-43.1	0.0
	272.7	**254.2**	**705.3**
Change in liquidity reserve[1]	-39,587.4	-8,374.7	19,661.8
Change in lending	-20,982.0	-20,067.5	-33,877.0
Change in other assets	30.3	-1,288.3	-793.3
Change in other liabilities	7,431.9	17.3	657.0
Cash flow from operational activities	**-52,834.5**	**-29,459.0**	**-13,646.2**
Investment activities			
Acquisitions of intangible assets	-6.7	-2.1	-2.2
Acquisition of tangible assets	-	-2.1	-2.3
Divestments of tangible assets	-	0.2	0.2
Cash flow from investment activities	**-6.7**	**-4.0**	**-4.3**
Financing activities			
Issue of interest-bearing securities	131,912.3	78,763.9	147,433.0
Redemption and repurchases of interest-bearing securities[1]	-75,573.5	-45,991.9	-135,229.0
New share issue	-	-	1,000.0
Change in intra-Group liabilities	-918.0	-410.5	-26.1
Cash flow from financing activities	**55,420.8**	**32,361.5**	**13,177.9**
Cash flow for the period	**2,579.6**	**2,898.5**	**-472.6**
Cash and cash equivalents at the start of the accounting period	**649.7**	**1,1 22.3**	**1,122.3**
Cash and cash equivalents at the end of the accounting period	**3,229.3**	**4,020.8**	**649.7**
Cash and cash 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.			
Adjustment for items not included in cash flow			
Net credit losses	7.0	-	-
Depreciation	3.6	3.6	7.3
Profit from divestments of tangible assets	-	-0.1	-0.1
Exchange rate differences from change in financial assets	0.2	0.2	0.3
Unrealised changes in market value	-86.3	-230.1	-426.0
Total	**-75.5**	**-226.4**	**-418.5**
Interest paid and received, included in the cash flow			
Interest received[2]	77.1	75.7	371.0
Interest paid[3]	252.4	326.7	279.8

1) The change in own holdings is included in Redemption and repurchases of interest-bearing securities. In the published Interim Report 2017, this change was included in Change in liquidity reserve. The comparative figures have been changed compared with the published Interim Report 2017. Adjustment has been made amounting to SEK 11,161.2 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 interest paid are payments that have been paid and received for the Company's funding, as well as payments paid and received for derivative contracts used to hedge the Company's funding.

Notes

All amounts are stated in SEK millions unless expressly stated otherwise.

Note 1 Accounting principles

Compliance with standards and legislation

The Kommuninvest interim report has been prepared applying the regulation regarding interim reports in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's (Finansinspektionen) regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25). Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. Furthermore, the recommendations from the Swedish Financial Reporting Board on 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, see Note 11.

The accounting principles and calculation methods in the interim report are consistent with those applied in the 2017 Annual Report with the exception of changes necessitated by new IFRS standards that came into effect on 1 January 2018, see below.

Amendments to accounting principles due to new IFRS

IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers came into effect as of 1 January 2018. The introduction of the standards has had an immaterial effect on Kommuninvest's earnings, position, disclosures, capital requirements, capital base or major exposures.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement and consists of three parts: classification and valuation, impairment and hedge accounting.

The effect of the transition to IFRS 9 is described in Note 13 and comparative figures have not been recalculated. Transitional rules regarding the effect of impairments on the capital base have not been applied.

Classification and valuation

In accordance with IFRS 9, Kommuninvest's classification and valuation of financial assets is assessed based on the Company's business model for financial assets and the cash flow characteristics of the asset. 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 all of the Company's financial assets.

A test of the assets cash flow characteristics, an SPPI test, was applied to existing ledgers on transition to IFRS 9 on 1 January 2018, with all assets being found to have cash flows only in the form of principal or interest on principal. Since the transition to IFRS 9, the test has only been applied to new financial assets in the Company. If an asset fails the SPPI test, it is mandatory for it to be valued at fair value through the income statement. As per 30 June 2018, Kommuninvest held no assets that failed the SPPI test.

Since the Company's business model is to hold assets to maturity, the Company's financial assets are valued at amortised cost in accordance with IFRS 9. In cases of poor matching, the fair value option will be applied 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 valuation of Lending and Lending to credit institutions, the transition to IFRS 9 entailed no change when the assets were valued at amortised cost, at fair value with respect to hedged risk in fair value hedging, or at fair value through the income statement where matching was poor even in accordance with IAS 39.

For the liquidity reserve, IFRS 9 entails investments classified as assets available for sale under IAS 39 being reclassified at amortised cost on transition to IFRS 9 and this revaluation has reduced opening balance for equity by SEK 0.8 million. Items affected are Sovereign bonds eligible as collateral, and Bonds and other interest-bearing securities. For further information, see Statement of changes in equity on page 15 and Note 13.

The accounting of financial liabilities has not changed on transition to IFRS 9.

Impairment

The new principles regarding impairment of financial assets represent a model based on expected, rather than confirmed, credit losses on assets valued at amortised cost or at fair value through other comprehensive income. IFRS 9 also entails credit loss provisions on off-balance sheet exposures, which, for Kommuninvest, consist of committed undisbursed loans, liquidity guarantees and construction loan agreements.

To date, in its 30-year history, Kommuninvest has not suffered any actual credit losses in its lending or investment activities. Kommuninvest has a special business model, according to which loans are provided only 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. The expected credit losses on transition to IFRS 9 amounted to SEK 7.2 million, which adjusted the opening balance for equity as per 1 January 2018.

Changes in expected credit losses are recognised in the income statement under Net credit losses. In the balance sheet, expected credit losses are reported as an impairment in the recognised value of assets subject to impairment in accordance with IFRS 9. Credit loss provisions on off-balance sheet exposures are reported as provisions in the balance sheet.

For more information on impairment, see Note 4.

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is a new accounting standard for revenue from contracts with customers and replaces current standards and interpretations for income accounting under IFRS. IFRS 15 does not apply to financial instruments. Kommuninvest has a finance management service affected by IFRS 15 and recognised under Other operating income. The impact of the standard on Kommuninvest's earnings, position, disclosures, capital requirements, capital base or major exposures is immaterial and does not alter the Company's income accounting. No adjustment to the opening balance

Note 1, continued

has been made that was attributable to IFRS 15. Kommuninvest does not prepare segment reporting in accordance with IFRS 8 since thresholds in accordance with IFRS 8:13 are not met. For more information on reported income, see Note 3, and for information on contract assets included in the balance sheet, see Note 7.

New and amended laws, standards and interpretations that have yet to come into effect

Of the new standards and interpretations coming into force after 2018, it has been deemed that IFRS 16 Leases may affect Kommuninvest's future 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, disclosures, capital requirements, capital base or major exposures.

IFRS 16 Leases

IFRS 16 Leases is a leasing standard that will come into effect on 1 January 2019, replacing IAS 17 Leases. A key difference in the new lease standard is that leases are no longer classified as financial or operational for lessees. Instead, a model is introduced whereby all leases are capitalised in the balance sheet, albeit with a relief rule for short-term leases or agreements regarding assets of lesser value.

According to RFR 2, the application of IFRS 16 to legal entities is optional. If the exemption is exercised to not apply the standard, the rules in RFR 2 for the accounting of leases are applied. An analysis of the impact of IFRS 16 is being conducted during 2018. A preliminary assessment is that the impact of the standard will be immaterial in relation to Kommuninvest's earnings, position, disclosures, capital requirements, capital base or major exposures.

Note 2 Net interest income

	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Interest revenues			
Lending	214.2	255.0	487.0
Interest-bearing securities	49.5	-18.8	-36.4
Other	2.2	0.6	1.7
Total	**265.9**	**236.8**[1]	**452.3**
Of which: interest revenues from financial items not measured at fair value through the income statement	*421.9*	*187.5*	*219.4*
Interest expenses			
Liabilities to credit institutions	-9.5	-0.9	-2.0
Interest-bearing securities	343.7	290.1	645.4
Lending, negative lending rate	-124.8	-77.1	-161.8
Other	-21.6	-24.5	-52.6
Total	**187.8**	**187.6**[1]	**429.0**
Of which: interest expenses from financial items not measured at fair value through the income statement[2]	*-1,201.1*	*-154.1*	*-379.4*
Total net interest income	**453.7**	**424.4**	**881.3**

1) In the fourth quarter of 2017, a change was implemented in the presentation of interest on own holdings of securities issued, entailing a change in the sub-totals for 30 June 2017 in comparison with the published Interim Report 2017. The adjustment amounts to SEK 35.5 million.

2) Interest from derivatives that financially hedge funding is recognised as interest expenses. 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 expenses 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 for the period, please see the Profit/loss section in the Financial accounts on page 7.

Note 3 Other operating income

	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Capital gain on divestment of tangible assets	-	0.1	0.1
Revenue from contracts with customers	2.8	2.4	4.9
Other operating income	1.3	0.2	0.3
Total	**4.1**	**2.7**	**5.3**

All revenue from contracts with customers refers to revenue from a finance management service offered to members of Kommuninvest Cooperative Society. The service enables customers to put together their own overview of their financial positions. All revenues derive from a customer category consisting of municipalities or county councils/regions that are members of the Kommuninvest Cooperative Society and all customers operate within the same geographic market, Sweden. All contracts are handled at the portfolio level, entitle the customer to access a service and the performance commitment is met over time. All contracts extend over a calendar year.

Note 4 Net credit losses

On 1 January 2018, the IFRS 9 regulations came into effect. The regulations require reporting institutions to calculate their expected credit losses. The calculation shall be based on expected future economic development. This also applies to the Company, regardless of the fact that the Company's borrowers are zero risk-weighted according to current regulations, and regardless of the fact that the members of the Kommuninvest Cooperative Society have entered a joint and several guarantee commitment to support all of the Company's obligations.

The purpose of calculating expected credit losses is to continuously take credit risk development in Kommuninvest's assets into account. The calculation consists of two sub-processes, phase allocation and calculation of expected credit losses.

Phase allocation entails ongoing follow-up of changes in credit risk in Kommuninvest's assets. A significant increase in credit risk or a default causes an asset to be transferred between credit risk phases, from phase 1 to phase 2 and phase 3 respectively. All of Kommuninvest's assets are in phase 1 and all credit loss provisions refer to these assets.

The calculation of expected credit losses is based on phase allocation, whereby phase 1 involves calculating expected credit losses over a one-year horizon, while phases 2 and 3 involve the calculation of expected credit losses over a lifetime horizon.

Below follows a more detailed review of the sub-processes, phase allocation and the calculation of expected credit losses.

Phase allocation

Kommuninvest applies a set of indicators to continuously monitor the development of credit risk in its assets. The function of the indicators is to indicate a change in the likelihood of default that should cause a transfer between credit risk phases. On initiation of the contract, an asset is classified in phase 1. If there is a significant increase in credit risk, it is transferred to phase 2 and, in the event of default, to phase 3.

In part, Kommuninvest uses quantitative indicators and, in part, qualitative ones in its ongoing follow-up of the lending portfolio. The quantitative indicators consist of ratings from rating institutions and other credit ratings from credit data suppliers, as well as Kommuninvest's internal risk value model for assessing lending counterparties. The qualitative indicators consist of loan term restructuring. There is also a 30-day backstop, meaning that unless another assessment is made, an asset is transferred to phase 2 if a payment is delayed by more than 30 days.

For the liquidity reserve, Kommuninvest makes use of the regulations' exemption for low credit risk, supported by the credit risk profile and good credit quality of the liquidity reserve. According to Kommuninvest's finance policy, the liquidity reserve is to be invested with issuers with a rating of at least A (S&P Global Ratings) or equivalent at the time of the transaction. This entails assuming that a significant increase in credit risk has not occurred, provided that the good credit quality is maintained and the asset remains in phase 1.

Calculation of expected credit losses

The calculation is made by multiplying the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

For probability of default, Kommuninvest applies probabilities based on historical trends which are projected forward in time by applying three probability-weighted macroeconomic scenarios. The historical trend, as well as the model for forward-looking projections of probabilities of default, are gathered from rating institutions. Forecasts for macro variables included in the macroeconomic scenarios are gathered from well-established forecast institutions. Examples of macro variables applied are gross domestic product, unemployment and number of ratings downgrades.

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

For loss given default, generally accepted standard values are applied for state-related counterparties on the one hand, and financial institutions on the other. For exposure at default, the assets' nominal amount and outstanding contractual cash flows are discounted applying compound interest. Which cash flows are included in the calculation depends on the outcome of phase allocation. Since the exemption for low credit risk is applied to the liquidity reserve, only cash flows with a one-year horizon are included for these assets.

	30 June 2018
Lending classified at amortised cost[1]	
Gross carrying amount	254,301.6
Carrying amount	254,289.4
Credit loss provisions	**12.2**
Liquidity reserve classified at amortised cost[2]	
Gross carrying amount	62,728.6
Carrying amount	62,726.7
Credit loss provisions	**1.9**
Off balance sheet exposures	**2,979.9**
Credit loss provisions	**0.1**
Total credit loss provisions	**14.2**
Changes in credit loss provisions for the period	
Opening balance credit loss provisions	**7.2**
New financial assets	6.7
Derecognised financial assets	-18.5
Changed risk variables	18.8
Closing balance credit loss provisions	**14.2**

1) Includes balance sheet item Lending.

2) Includes balance sheet items Sovereign bonds eligible as collateral, Lending to credit institutions, and Bonds and other interest-bearing securities.

Note 5 Financial assets and liabilities

Financial assets and liabilities are presented in accordance with IFRS 9 as per 30 June 2018 and in accordance with IAS 39 as per 31 December 2017.

30 June 2018	Amortised cost	Fair value through the income statement		Derivatives that are used for hedge reporting	Recognised value	Fair value
		Held for trade	Fair value option			
Financial assets						
Sovereign bonds eligible as collateral	58,596.3	-	7,864.0	-	66,460.3	66,461.6
Lending to credit institutions	3,229.0	-	-	-	3,229.0	3,229.0
Lending	254,289.4	-	77,115.5	-	331,404.9	331,561.9
Bonds and other interest-bearing securities	901.4	-	9,318.2	-	10,219.6	10,219.9
Derivatives	-	14,712.9	-	3,834.2	18,547.1	18,547.1
Other financial assets	743.2	-	-	-	743.2	743.2
Total financial assets	**317,759.3**	**14,712.9**	**94,297.7**	**3,834.2**	**430,604.1**	**430,762.7**
Financial liabilities						
Liabilities to credit institutions[1]	160.4	-	1,013.1	-	1,173.5	1,173.5
Securities issued[1]	238,978.2	-	169,060.6	-	408,038.8	409,255.7
Derivatives	-	4,022.1	-	636.0	4,658.1	4,658.1
Other financial liabilities	8,931.5	-	-	-	8,931.5	8,931.5
Total financial liabilities	**248,070.1**	**4,022.1**	**170,073.7**	**636.0**	**422,801.9**	**424,018.8**

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

1) Nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 405,274.4 (334,023.3) 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.

Note 5, continued

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

Lending

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

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 in level 1, while other securities are classified in 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 of the funding and for the market by using secondary market spreads on similar securities issued by Kommuninvest or similar issuers. For funding in currencies other than SEK, EUR and USD, the current funding margin is set as the funding margin in USD plus the currency basis spread between the currency concerned and USD. Market prices used for valuation are mid-prices. Funding expected to be traded in an active market are classified in level 1. Funding valued at quoted prices, not deemed as traded in an active market, are classified in level 2. Funding that is valued on the basis of 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 funding and lending margins, increased margins on lending leading to unrealised losses when the value of existing business is reduced. Kommuninvest has only a marginal exposure to swap rates and, since it hedges other market risks, it is changes in funding and lending margins, basis swap spreads and credit spreads, on holdings in the liquidity reserve that give rise to the changes in market value.

An increase in the lending price, in relation to swap rates, by 10 basis points on the receivables recognised at fair value would mean a negative change in net profit of SEK 129 (158) million. An increase in the funding expense, in relation to swap rates, by 10 basis points on the liabilities recognised at fair value would mean a positive change in net profit of SEK 270 (188) million. A parallel displacement in the lending and funding price, in relation to swap rates, by 10 basis points would mean a change in net profit of SEK +/– 141 (+/– 30) million. A displacement of the valuation curve upwards or downwards by 10 basis points for the financial instruments valued according to level 3 would mean a change in net profit of SEK +/– 24 (+/– 6) million.

All of the above changes refer to 30 June 2018 (comparative figures refer to 31 December 2017) and exclude tax effects. Impact on equity relates to the tax effect.

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

Uncertainty in measurement due to unobservable input data

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

The effect on net profit of these contracts is realised when Kommuninvest's funding margins for this type of funding change. The scope of the change depends on the anticipated remaining duration of the contracts, which in turn depend on unobservable data. The effect on net profit from the unobserva-

Note 5, continued

ble input data that arises is therefore attributable to how input data affect the estimated remaining maturity of the contract.

Kommuninvest has calculated the maturity at 1.8 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable funding in the interval of 1.0–3.0 years. This would have an effect on net profit in the interval SEK –2.7 million to SEK +2.9 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 previous changes, see Note 28 in Kommuninvest's Annual Report for 2016.

Transfers between valuation levels

Kommuninvest continuously reviews the criteria for its division into levels of financial assets and liabilities measured at fair value. During the period, financial assets of SEK – (40.2) million were transferred to level 1 from level 2, while SEK 4,624.7 (–) million was transferred to level 2 from level 1. Financial liabilities of SEK – (5,407.9) million were transferred to level 1 from level 2, while SEK 25,337.7 (5,707.3) million was transferred to level 2 from level 1. The transfers are related to variations in the indicators used by Kommuninvest to demarcate between level 1 and level 2. The indicators show the number of observations and their standard deviation for bond prices and a specific number of executable quotes.

The transfers are considered to have taken place on 30 June 2018 and 31 December 2017 for the preceding period.

Approval of valuation models

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

Financial instruments measured at fair value in the balance sheet

30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	5,208.8	2,655.2	-	7,864.0
Lending	-	77,115.5	-	77,115.5
Bonds and other interest-bearing securities	5,750.9	3,567.3	-	9,318.2
Derivatives	0.0	18,402.2	144.9	18,547.1
Total financial assets	**10,959.7**	**101,740.2**	**144.9**	**112,844.8**
Financial liabilities				
Liabilities to credit institutions	-	1,013.1	-	1,013.1
Securities issued	114,878.6	45,356.3	8,825.7	169,060.6
Derivatives	-	3,923.9	734.2	4,658.1
Total financial liabilities	**114,878.6**	**50,293.3**	**9,559.9**	**174,731.8**

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

Note 5, continued

Changes in level 3

The table below presents a reconciliation of opening and closing balances for financial instruments recognised at fair value in the balance sheet based on an assessment technique proceeding from unobservable input data (level 3). Value changes in Level 3 are followed up continuously over the year.

	Derivative assets	Derivative liabilities	Liabilities to credit institutions	Securities issued	Total
Opening balance, 1 January 2017	**222.7**	**-188.2**	**-**	**-6,253.5**	**-6,219.0**
Recognised gains and losses:					
– recognised in the income statement (net result of financial transactions)	-84.3	125.0	-	-34.3	6.4
Borrowings raised/securities issued	-	-	-	-3,177.8	-3,177.8
Matured during period	-	-	-	8,140.3	8,140.3
Closing balance, 31 December 2017	**138.4**	**-63.2**	**-**	**-1,325.3**	**-1,250.1**
Gains and losses recognised in the income statement (net result of financial transactions) for assets and liabilities included in the closing balance as per 31 December 2017	3.3	1.6	-	-4.6	0.3
Opening balance, 1 January 2018	**138.4**	**-63.2**	**-**	**-1,325.3**	**-1,250.1**
Recognised gains and losses:					
– recognised in the income statement (net result of financial transactions)	6.5	-671.0	-	637.6	-26.9
Borrowings raised/securities issued	-	-	-	-8,573.0	-8,573.0
Matured during period	-	-	-	435.0	435.0
Closing balance, 30 June 2018	**144.9**	**-734.2**	**-**	**-8,825.7**	**-9,415.0**
Gains and losses recognised in the income statement (net result of financial transactions) for assets and liabilities included in the closing balance as per 30 June 2018	14.2	-492.5	-	451.0	-27.3

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 6 Information on financial assets and liabilities subject to netting

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

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

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

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

				Related amounts that are not netted in the balance sheet			
30 June 2018	**Financial assets and liabilities, gross amounts**	**Amounts netted in the balance sheet[1]**	**Net amount reported in the balance sheet**	**Financial instruments**	**Provided (+)/ Received (–) collateral – securities**	**Provided (+)/ Received (–) cash collateral**	**Net amount**
Assets							
Derivatives	19,864.4	-1,317.3	18,547.1	-3,277.2	-5,943.2	-7,918.4	1,408.3
Repos[2]	1,758.0	-	1,758.0	-	-1,753.1	-	4.9
Total assets	**21,622.4**	**-1,317.3**	**20,305.1**	**-3,277.2**	**-7,696.3**	**-7,918.4**	**1,413.2**
Liabilities							
Derivatives	-6,334.1	1,676.0	-4,658.1	3,277.2	290.9	406.2	-683.8
Total liabilities	**-6,334.1**	**1,676.0**	**-4,658.1**	**3,277.2**	**290.9**	**406.2**	**-683.8**
Total	**15,288.3**	**358.7**	**15,647.0**	**-**	**-7,405.4**	**-7,512.2**	**729.4**

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

1) The netted amount for derivative assets/liabilities includes cash collateral of a negative SEK 555.2 (-) million and SEK 913.9 (390.9) million respectively.

2) Repos are included in Lending to credit institutions.

Note 7 Other assets

	30 June 2018	30 June 2017	31 Dec 2017
Receivables from subsidiaries	5.0	10.0	11.8
Marginal collateral pledged	516.4	1,254.7	793.0
Contract assets	2.4	-	-
Other assets	222.3	5.4	9.3
Total	**746.1**	**1,270.1**	**814.1**

Kommuninvest began pledging collateral for derivatives cleared by central clearing counterparties in 2016 and these are netted per counterparty and currency in the balance sheet, see further Note 6. In 2017, the Company also began pledging cash collateral for derivatives not cleared by central clearing counterparties. There is no right of netting for these and they are therefore included in full in the balance sheet.

Contract assets refers to the recording of non-invoiced revenues attributable to Kommuninvest's finance management service. For an account of this revenue, see Note 3.

Note 8 Capital adequacy

Since 1 January 2014, capital adequacy has been calculated according to CRR[1]. The capital buffers to be introduced under CRD IV[2] first require implementation under Swedish law, which has been effectuated through the Act concerning capital buffers (2014:966). For Kommuninvest, only the capital conservation buffer of 2.5 percent applies, as well as the countercyclical buffer, the size of which is determined by the geographical location of credit exposures. As of 30 June 2018, the countercyclical buffer requirement for Kommuninvest i Sverige AB was 1.39 percent. Kommuninvest is not subject to the requirement for a systemic risk buffer, nor has the Company been identified as a systemically important institution. Kommuninvest meets the buffer requirement by a good margin.

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

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

Capital base	**30 June 2018**	**30 June 2017**	**31 Dec 2017**
Share capital[1]	7,100.0	6,100.0	6,100.0
Non-distributed retained earnings[2]	475.8	386.7	386.8
Accumulated other comprehensive income and other reserves	27.0	34.7	18.3
Core Tier I capital prior to regulatory adjustments	**7,602.8**	**6,521.4**	**6,505.1**
Further value adjustments[3]	-172.8	-174.0	-145.9
Total regulatory adjustments to Core Tier I capital	**-172.8**	**-174.0**	**-145.9**
Total Core Tier I capital	**7,430.0**	**6,347.4**	**6,359.2**
Tier I capital contributions	-	-	-
Total Tier I capital	**7,430.0**	**6,347.4**	**6,359.2**
Debenture loan[4]	-	1,000.0	-
Total Tier II capital	**-**	**1,000.0**	**-**
Total capital	**7,430.0**	**7,347.4**	**6,359.2**

1) For a more detailed description of the instruments included in share capital, see page 9.

2) As per 30 June 2018, deductions of SEK 306.1 million have been made, which refer to the portion of net profit that has not been distributed to the Kommuninvest Cooperative Society in the form of group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.For 30 June 2017 and 31 December 2017, the amounts were SEK 408.0 million and SEK 105.7 million respectively.

3) Deductions calculated according to the EBA's technical standard regarding prudent valuation. The purpose is to adjust the uncertainty in valuation regarding positions valued and recognised at fair value.

4) 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). 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 debenture loan was cancelled in the fourth quarter of 2017. For further information, see Note 23 in the 2017 Annual Report.

Risk exposure amounts and minimum capital amounts	**30 June 2018**		**30 June 2017**		**31 December 2017**	
Capital requirement, Pillar 1	**Risk exposure**	**Capital requirement**	**Risk exposure**	**Capital requirement**	**Risk exposure**	**Capital requirement**
Capital requirement for credit risks (the standardised method)	722.2	57.8	1,737.8	139.1	373.8	29.9
of which, exposures to states and central banks	-	-	-	-	-	-
of which, institutional exposures	*442.0*	*35.4*	*355.7*	*28.5*	*289.7*	*23.2*
of which, corporate exposures	*120.5*	*9.6*	*124.8*	*10.0*	*84.1*	*6.7*
of which, exposures in the form of covered bonds	*159.7*	*12.8*	*1,257.3*	*100.6*	-	-
Operational risks, basic indicator method	1,865.6	149.2	1,628.2	130.3	1,865.6	149.2
Market risks	-	-	-	-	-	-
Credit valuation adjustment	2,019.9	161.6	1,131.2	90.5	754.4	60.4
Total risk exposure amounts and minimum capital amounts	**4,607.7**	**368.6**	**4,497.2**	**359.9**	**2,993.8**	**239.5**

Note 8, continued

Capital adequacy ratios	30 June 2018	30 June 2017	31 Dec 2017
Core Tier I capital ratio	161.3%	141.1%	212.4%
Tier I capital ratio	161.3%	141.1%	212.4%
Total capital ratio	161.3%	163.4%	212.4%

Buffer requirements	30 June 2018	30 June 2017	31 Dec 2017
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical buffer	1.4%	1.7%	1.0%
Total buffer requirements	**3.9%**	**4.2%**	**3.5%**
Core Tier I capital available for use as buffer	**155.3%**	**135.1%**	**204.4%**

Internally estimated capital requirements	30 June 2018	30 June 2017	31 Dec 2017
Capital requirement, Pillar 2			
Credit risk	135.6	24.5	129.1
Market risks	1,708.1	1,630.9	1,468.7
Other risk[1]	707.1	-	-
Total internally estimated capital requirements	**2,550.8**	**1,655.4**	**1,597.8**

1) The capital requirement for other risks consists of the difference between the capital required to achieve Kommuninvest's anticipated leverage ratio requirement, that is, a leverage ratio of 3 percent excluding the Company's lending and the sum of the risk-weighted capital requirement.

The aim of Kommuninvest's capital planning is for the operations to be adequately capitalised to meet both current and future regulatory requirements. For further information on the Company's internal capital assessment and capital plan, see pages 35–36 of the 2017 Annual Report.

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 the Swedish Financial Supervisory Authority's (Finansinspektionen) rules and general advice for annual accounts from credit institutions and securities companies, FFFS 2008:25, see the Kommuninvest website.

Note 9 Leverage ratio

Leverage ratio is defined as the Tier I capital divided by total exposures in assets and commitments. Regarding the lending portfolio and the liquidity reserve, the exposure corresponds to the recognised value. For derivative assets, the exposure is calculated by totalling all exposures in individual netting agreements with derivatives counterparties. To this exposure amount, a possible future exposure amount is added, calculated according to the standardised method (the market valuation method) established in the EU Capital Requirements Regulation, CRR. Off-balance sheet commitments are also assigned an exposure value. The exposure amount is calculated based on the probability that the commitment will be utilised. For Kommuninvest, this affects committed loans and committed undisbursed loans.

Note 9, continued

	30 June 2018	30 June 2017	31 Dec 2017
Total assets	430,756.9	383,980.7	356,942.6
Less asset amounts deducted to determine the Core Tier I capital	-172.8	-174.0	-145.9
Less derivatives according to the balance sheet	-18,547.1	-14,658.4	-8,044.6
Plus derivatives exposure	15,264.4	8,283.0	2,973.7
Plus possible change in derivatives risk	7,396.8	4,957.5	3,656.7
Plus possible change in repo transaction risk	0.0	13.2	-
Plus off-balance sheet commitments	2,418.8	2,393.6	2,155.3
Total exposure	**437,117.0**	**384,795.6**	**357,537.8**
Tier I capital, calculated applying transitional rules, see Note 8	**7,430.0**	**6,347.4**	**6,359.2**
Leverage ratio	**1.70%**	**1.65%**	**1.78%**

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, for further information see page 10 and pages 35–36 of the 2017 Annual Report.

Note 10 Transactions with related parties

Transactions with related parties are disclosed in Note 25 of the 2017 Annual Report for Kommuninvest i Sverige AB. No significant changes have taken place in relationships or transactions with related parties compared with those described in the 2017 Annual Report.

Note 11 Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the Parent Company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts is operations. In accordance with chapter 7, section 6a of ÅRKL, Kommuninvest i Sverige AB does not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal of position and net profit. Kommuninvest Fastighets AB has a balance sheet total of SEK 49.2 (56.7) million, equity of SEK 43.5 (42.9) million and generated a net profit of TSEK 590.1 (791.7) for the first six months of the year.

Note 12 Events after the balance sheet date

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

Note 13 Quantitative impact of introduction of IFRS 9

The transition to accounting in accordance with IFRS 9 was implemented in the opening balance. The standard has been applied retroactively with adjustments being made in unrestricted equity. No comparative figures have been recalculated.

The transition resulted in a negative impact on equity of SEK 8.0 million, of which SEK 0.8 million related to investments reported in accordance with IAS 39 as available for sale, which shall, in accordance with IFRS 9, be reported at amortised cost.

The effect of expected credit losses on assets reported at amortised cost amounted to SEK 7.2 million, of which SEK 6.6 million related to lending and SEK 0.6 million related to the liquidity reserve.

Balance sheet

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

Alternative performance measurements

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

Alternative performance measurement	Definition
Operating profit excluding the effect of unrealised market value changes.	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 expenses excluding resolution fee.	Operating expenses with the resolution fee deducted. The key ratio is relevant in better reflecting the operations' expense trend between reporting periods, since the resolution fee varies depending on, among other things, the size of the balance sheet total.

Reconciliation	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Operating profit	391.3	523.7	1,123.8
Result of unrealised changes in market value	86.3	230.1	426.0
Operating profit excluding the effect of unrealised market value changes	**305.0**	**293.6**	**697.8**
Operating expenses	140.6	137.3	269.3
Resolution fee	34.5	33.2	66.3
Operating expenses excluding resolution fee	**106.1**	**104.1**	**203.0**

Board member signatures

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

Örebro, 28 August 2018

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson
Board Member

Anna von Knorring
Board Member

Erik Langby
Board Member

Kristina Sundin Jonsson
Board Member

Johan Törngren
Board Member

Lars Heikensten
Board Member

Jonas Håkansson
Employee representative

Ulrika Gonzalez Hedqvist
Employee representative

Tomas Werngren
President and CEO

The report contains information that Kommuninvest is required to publish under the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 29 August 2018 at 8.00 a.m.

Auditor's review report

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

Introduction

We have reviewed the interim report for Kommuninvest i Sverige AB (publ) as per 30 June 2018 and the six-month period ending on that date. It is the Board of Directors and the President who are responsible for the presentation of this interim report in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Focus and scope of the review

We have conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of the interim report consists of making inquiries, primarily with persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope compared to an audit conducted according to the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. This statement of opinion is based on a review and, accordingly, does not provide the same degree of assurance as an opinion based on an audit.

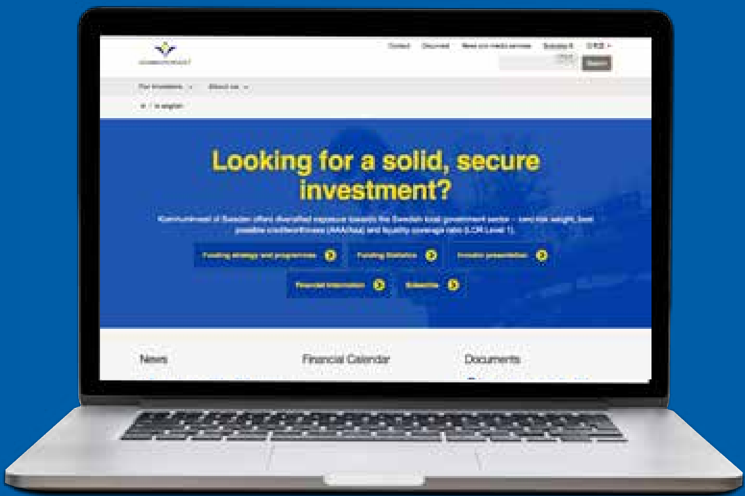
Opinion

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

Örebro, 28 August 2018

KPMG AB

Anders Tagde
Authorised Public Accountant



On Kommuninvest's website, www.kommuninvest.se, you can read more about Kommuninvest, our services and news affecting the economy and finances of municipalities and county councils/regions. On the website you will find, for example:

- Newsletters that each week update our members on macro-economics and other areas affecting local government finances
- Reports on local government economics
- Dialog, a magazine for our members
- Login to the KI Finans finance management tool
- Information for investors

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