Agenda

- Regional and local sector in Sweden
- Kommuninvest’s role & set-up
- Local government borrowing needs & Kommuninvest’s lending
- Funding and Green loans & Green bonds
- Follow-up of members & risk management
- Relations to Central level
Regional and Local sector in Sweden
Structure of public sector spending

*Local governments are responsible for the core of the citizens welfare system*

<table>
<thead>
<tr>
<th>Local governments</th>
<th>➔ 70% of public sector spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Childcare and schooling for children and young people</td>
<td></td>
</tr>
<tr>
<td>• Healthcare and care of elderly and disabled</td>
<td></td>
</tr>
<tr>
<td>• Municipal housing</td>
<td></td>
</tr>
<tr>
<td>• Law, order and security</td>
<td></td>
</tr>
<tr>
<td>• Sanitation and waste management</td>
<td></td>
</tr>
<tr>
<td>• Energy supply</td>
<td></td>
</tr>
<tr>
<td>• Water supply and sewage</td>
<td></td>
</tr>
<tr>
<td>• Construction issues</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Central government</th>
<th>➔ 30% of public sector spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Laws and ordinances</td>
<td></td>
</tr>
<tr>
<td>• Judicial system</td>
<td></td>
</tr>
<tr>
<td>• Defence &amp; security</td>
<td></td>
</tr>
<tr>
<td>• Environment</td>
<td></td>
</tr>
<tr>
<td>• Higher education and research</td>
<td></td>
</tr>
<tr>
<td>• Transport infrastructure</td>
<td></td>
</tr>
<tr>
<td>• Rural affairs, animals and food</td>
<td></td>
</tr>
<tr>
<td>• Migration and integration</td>
<td></td>
</tr>
<tr>
<td>• National economy and budget</td>
<td></td>
</tr>
<tr>
<td>• Pensions</td>
<td></td>
</tr>
</tbody>
</table>
According to the Swedish Bankruptcy Act a local government cannot be declared bankrupt since they do not fulfil the criteria of being insolvent. This is due to the fact that the local governments have the constitutional right to levy taxes. The Swedish Court has stated that the local governments in Sweden are not covered by the Bankruptcy Act. (RH 1996:75) This view is supported by the Swedish legal doctrine.

**Requirement for sound financial management**

Local governments must work according to a sound financial management.


**Balanced budget requirement**

Annual local government budgets should normally be in balance, imbalances must be restored within 3 years.


**Local government financing principle**

If the government alters the tasks of local governments, the government must also neutralise their financial effect.

Approved by the government and in force since 1993.

**Financial equalisation**

Imbalances between local governments are equalised annually through income and cost equalisation schemes.


---

Financial prudence explains Sweden’s strong public finances and low levels of public debt.
Kommuninvest’s role & set-up
Swedish Local Government Debt Office

- Founded 1986 by ten local governments. Currently 288 owners/members (total=310), of which 277 municipalities and 11 county councils/regions.
- AAA/Aaa, stable outlook. (Moody’s & S&P)
- Balance sheet Q3 2018: SEK 403bn
- Lending portf. Q3 2018: SEK 335bn
- Funding on international and domestic capital markets. Lending in Sweden in SEK only.
- Mission: provide members with cost-efficient and stable investment funding.
Legal structure

Municipalities and county councils
(Ultimate owners: members of Kommuninvest Cooperative Society)

Kommuninvest Cooperative Society
(Ownership association)

Kommuninvest i Sverige AB
(Credit market company)

Ownership: 100%
Explicit & unlimited guarantee from members underpins AAA/Aaa rating

| STRONG | • Joint and several guarantee (explicit, irrevocable and unlimited) signed by all members of Kommuninvest Cooperative Society, for all undertakings made by Kommuninvest i Sverige AB.  
  ✓ municipalities and county councils cannot be declared bankrupt and cannot cease to exist other than by merging;  
  ✓ Swedish municipalities and county councils are entitled to levy taxes;  
  ✓ state bears ultimate responsibility for the local government sector. |
| STABLE | • Underpins Kommuninvest’s AAA/Aaa rating.  
  • No Swedish local government has ever defaulted on a payment commitment.  
  ✓ Sweden’s Supreme Administrative Court confirmed the right of local government to sign the joint and several guarantee in a 1994 ruling. |
| IMMEDIATELY ENFORCEABLE | • Investors can make a claim on any, or all, of the guarantors without a court order  
  ✓ All debt guaranteed by Swedish local governments is BIS 0% risk-weighted in the EU area |
Regional and Local government borrowing needs & Kommuninvest’s lending
Local government investments on the rise

Population growth

Ageing infrastructure
Local government debt development

SEK Billion


Municipalities and their subsidiaries
Regions

Share of GDP


National government
Households
Local governments
Companies
Funding and Green Loans and Green Bonds
Funding Strategy

Our ALM strategy means:

• Diligent matching between assets and liabilities.

• Funding needs to a high degree determined by developments in lending.

• Conservative liquidity management, with a liquidity reserve composed solely of HQLA assets.

In our long-term funding we have a focus on benchmark funding in SEK and USD, including green funding. Our third strategic market is Uridashi funding in the Japanese market.

Funding need 2018: SEK 130 bn long-term funding
Funding Activity H1 2018

**Funding by currency**
(excl. commercial paper borrowing)
- SEK, 41%
- USD, 48%
- JPY, 10%
- TRY, 1%

**Funding by programme**
(excl. commercial paper borrowing)
- Swedish benchmark programme, 38%
- Benchmark funding, 50%
- Uridashi, 12%

**Yearly funding by currency 2010-2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>SEK</th>
<th>USD</th>
<th>JPY</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2012</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2014</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2015</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2016</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2017</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>2018*</td>
<td>0</td>
<td>25</td>
<td>50</td>
<td>25</td>
</tr>
</tbody>
</table>
Since 2016 the spread against Sweden Government Bonds has tightened. Kommuninvest view is that the spread should tighten even more in the future due to potential growth in the Swedish Benchmark Program and more transparency and higher liquidity in the secondary market.
A leading Nordic green bond issuer

- Sweden’s largest issuer of green bonds:
  - USD 600m green bond (maturing 04/2019)
  - SEK 5bn green bond (05/2020)
  - USD 500m green bond (06/2021)
  - SEK 4bn green bond (12/2021)
- Green loans offered to clients since 2015:
  - Current green loan portfolio includes committed funding for ~180 green investment projects in >85 Swedish cities and regions

Strong potential pipeline, due to investment trends and green aggregation model
Green Bonds

- Finance investment projects undertaken by our member municipalities and county councils/regions.
- Eligible projects are screened and initially approved by consensus vote in the Kommuninvest Green Bonds Environmental Committee.
- Green Bonds framework adheres to the guidelines set out by the Green Bond Principles.
- Second opinion from Cicero.
- To date, we have issued five green bonds.
Green loans for eligible investments

Committed SEK 31.4 bn

- Renewable Energy: 33%
- Green Buildings: 52%
- Energy Efficiency: 12%
- Clean Transportation: 2%
- Water Management: 1%
- Waste Management: 1%
- Adaptation Measures: 0%
Nordic Position Paper on Impact Reporting

- Joint position paper on impact reporting from ten Nordic public sector issuers
- Common positions on Financial, Environmental and Procedural aspects of impact reporting
Follow-up of members & risk management
Credit analysis model

- Capacity
- Profitability
- Liquidity
- Environment
- Commitments

Member follow up
Sector follow up
Risk evaluation

Quantitative model based on 11 key ratios
Member key ratios analysed against both the member’s own trend and the average for similar members.

<table>
<thead>
<tr>
<th>Trend</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population growth</td>
<td>Net cost</td>
</tr>
<tr>
<td>Solvency incl. pension commitments</td>
<td>Taxable capacity</td>
</tr>
<tr>
<td>Tax</td>
<td>Results before extraordinary items</td>
</tr>
<tr>
<td>Financing of assets</td>
<td>Loan debts</td>
</tr>
</tbody>
</table>
Relations to Central Level
Relations to Central Level

• Kommunivest is a credit institution and is governed by bank regulations.
• Kommuninvest is supervised by Swedish FSA
• Kommuninvest is also governed by the resolution regulations that is based on the EU Bank Recovery and Resolution Directive
• Informal contacts with Ministry of Finance