European Investment Advisory Hub

Europe's gateway to investment support

POTENTIAL OF SCALING SOCIAL OUTCOMES CONTRACTS – SUSTAINABILITY BONDS WITH IMPACT LINKED RETURN

16/04/2019

PUBLIC REPORT

European Investment Bank The EU bank

European Commission

DISCLAIMER

List of contents_Toc6303990

Background to the initiative

In January 2017 the European Investment Bank (EIB) commissioned an assignment with Impact Invest Scandinavia (SIIN) to review the potential to develop a financial instrument allowing capital market investors to participate in the funding of societal challenges. The assignment constituted technical assistance to the Swedish Association of Local Authorities and Regions (SALAR) in the context of a pre-study on *Innovative funding models for preventive and early interventions for occupational health* undertaken between January and March 2017.

In the Terms of Reference signed with SALAR, the purpose and objectives of the pre-study were outlined as follows:

"The overall objective of this initiative is to develop and issue a new kind of sustainability bond to strengthen preventive and early interventions for occupational health in local authorities and regions. The overall target audience for this initiative are investors in the financial markets, primarily in Europe, and regions/municipalities in Sweden.

The purpose of this pre-study is to evaluate the feasibility of a new kind of sustainability bond, with objective to develop the proposed concept, including overall design recommendations for both the sustainability bond and SIB/SOC[1]. The design recommendations will cover all major design and process issues. The concept will take into account input from representatives for all the main parties involved – investors, organizations that could act as FV/SPV, service providers, target groups, regions/municipalities and intermediary."

The work done by SIIN was to evaluate the feasibility of a new kind of sustainability bond, targeting investors in the Swedish and international financial markets as investors. The proceeds of the bond would be, in part, used to finance the strengthening of preventive and early interventions for occupational health in local authorities and regions in Sweden.

The design recommendations would cover all major design and process issues and take into account input from key stakeholders. For the bond the key stakeholders were investors, financial intermediary/proposed issuer of the bond as well as banks and other intermediaries required.

The context – the growth of impact investment instruments

The amount of resources drawn from capital market and other investors for the financing of societal challenges has grown rapidly over the last ten years. These investments can mainly be grouped into two categories of financial instruments with very different risk/return profiles – various types of sustainability bonds such as the green bonds and Social Outcomes Contracts (SOCs).

Bonds – Green Bonds, Social Bonds and other types of Sustainability Bonds

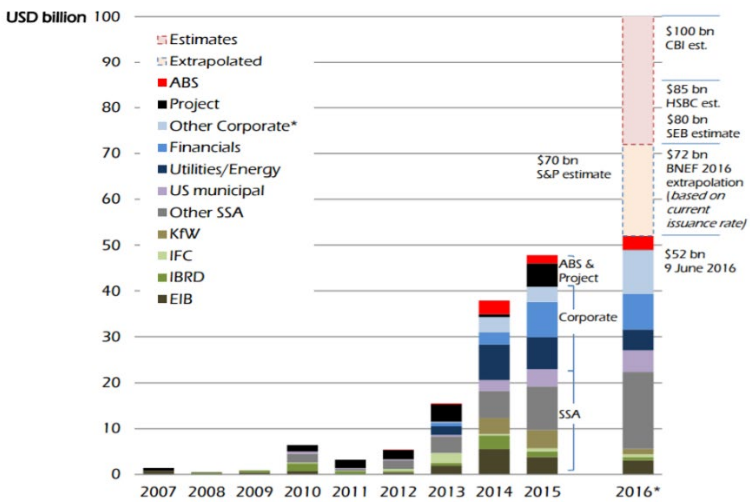
In 2007 the EIB and the World Bank became the first issuers of capital market bonds backed by investments focused on reducing carbon emissions, so called green investments. These first issues led to the emergence of a new class of bonds in the capital markets known as green bonds. The green bonds, unlike standard capital market bonds, are subject to a strict framework used to identify both the type of assets that the bond is intended to finance, the

[1] It should be noted that the terms Social Impact Bond (SIB) and Social Outcomes Contract (SOC) are used as synonyms, and to underline that outcomes are in focus, the term SOC will be used throughout this document.

depth of environmental impact expected from these investments and the way in which this impact fits with the overall environmental policy of the issuer. All green bond frameworks are validated by external experts, providing further comfort to the investors.

After a hesitant start the green bonds have seen tremendous success among an increasingly impact conscious group of capital markets investors. It has also allowed specialized fund managers, specifically targeting green investments, to also include fixed income instruments into their portfolios, thus becoming active in the interest rate markets. The green bond framework guiding the issuance process has furthermore led to a more or less standardized format providing comfort to investor, supervising authorities and other stakeholders.

Figure 1: Development of green bonds since first issue



Source: Green Bonds Country Experiences – Barriers and Options, OECD 2016

The reasons for the great demand for green bonds by investors can be sought in a combination of factors. Public awareness of the issues related to climate change has prompted pension fund managers, insurance companies and some other high-profile fund managers in the capital markets to actively search for "green" assets in which to invest. This has been further fuelled by specialized green investors.

For the issuers the success of the green bonds in the last decade has effectively led to the establishment of a sub-sector of the bond market with different demand patterns and slightly different prices. Several issuers of green bonds give testimonial evidence to there being a very strong demand for green bonds even in turbulent market conditions, leading to an over-subscription of the bonds by investors. As a result green bonds are generally issued in the market with a lower coupon than "plain vanilla" bonds. Even if the difference is only a few basis points it is more than enough compensation for the additional cost associated with green bond issues.

With the involvement of the private sector and investor community in the run-up to the Agenda 2030 accord, the awareness of the investor community has spread also to other impact areas such as water and social sectors. As a result other forms of "impact bonds", where the proceeds are used to finance infrastructure with an impact-driven purpose, have started being issued. These have been both pure social bonds (targeting investments aimed at supporting a social policy agenda), forestry bonds and water bonds, but also hybrid bonds where a combination of social and environmental policies are targeted. The latter have been termed sustainability bonds.

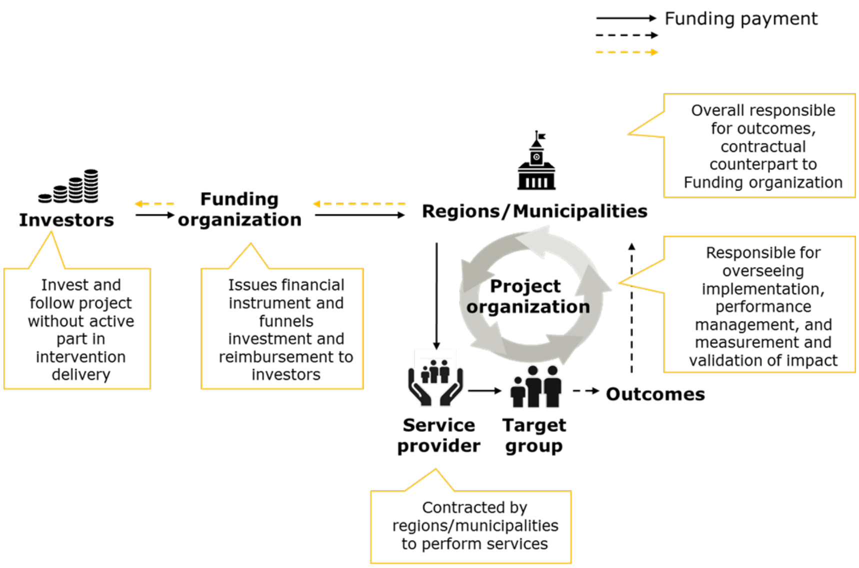
Catching up with this development the International Capital Markets Association, ICMA, who are the custodians of the green bond principles, issued social bond principles in June 2017 and updated as of June 2018. The purpose of these principles is to provide a similar guide to issuers of, and investors in, social bonds as has been the case for green bonds. To date the volume of social bonds remains relatively modest.

Outcome based investments often called Social Impact Bonds or Social Outcomes Contracts

A few years after the first issuances of green bonds another type of financial instrument was used for the first time in the UK under the name Social Impact Bonds (SIBs). Unlike the bonds mentioned in the previous section the SIBs are not really bonds in the sense that the cash flow from the repayments to the investors remain unsecure. In Sweden the term Social Outcomes Contract (SOC) has therefore been adopted to better describe the nature of the instrument. In this document we only use the term SOC for these instruments.

A SOC is a contract between an outcomes payer (normally a public institution or authority) and an investor whereby the investor agrees to finance a new way of addressing a social challenge, with the objective of improving a pre-specified outcome, and the outcomes payer agrees to repay the investor when the outcomes are proven and validated by an external validator. Repayments to investors is done with interest, which is justified by the fact that the outcomes achieved will either lead to considerable cost savings or quality improvement in a social aspect over time, generating substantial economic values.

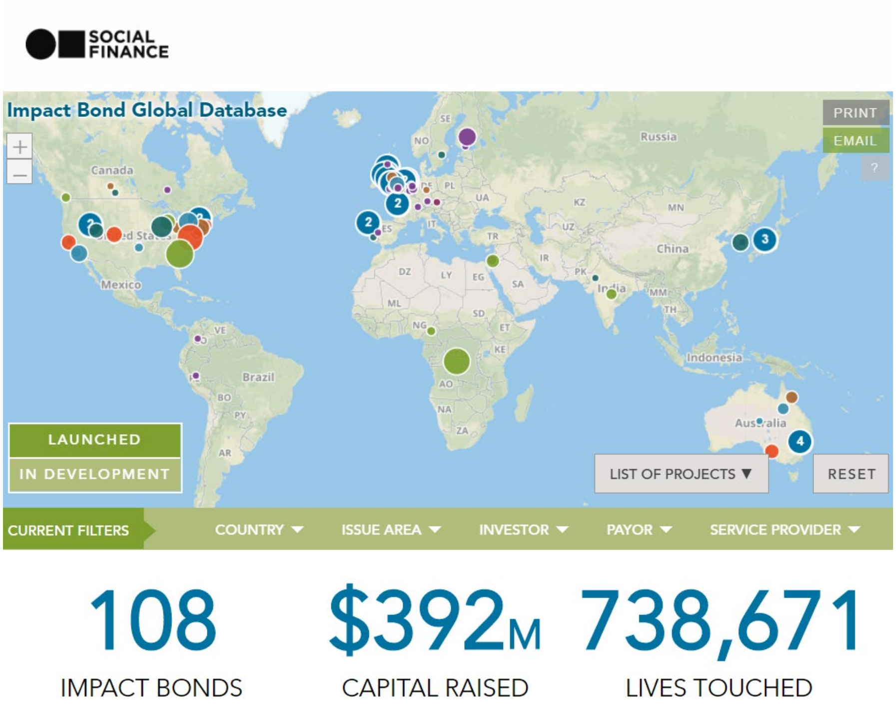
Figure 2: SOC model adapted to the intervention developed under the pre-study



Source: SALAR pre-study April 2017

The first SOC was issued in the UK in 2010, addressing the high percentage of re-offenders among prison inmates released from the Peterborough prison. Since the start the concept of social outcomes contracting has spread throughout the world with more than 100 contracts issues to date in a wide variety of sectors.

Figure 3: Impact Bond Global Database



Source: Social Finance June 2018

With a total volume of less than USD 400 million the size is, however, modest both in terms of overall volume and in terms of average size per contract. As a result initial interest shown in the funding instrument by large scale capital markets investors looking for new asset classes within the impact investment space, has been subdued as they realize that this is not something that they will be able to get involved in at present due to the complexity and relatively small size of the contracts.

Pros and Cons of impact focused financial instruments

Have green bonds made a difference?

The tremendous growth in green bonds has triggered a number of studies into the real impact and value of these in the wider picture of environmental impact and combating climate change. In many cases the question asked has been whether or not the green bonds have made a difference in terms of the types of investments the issuer would have undertaken, thus creating real impact in terms of more environmentally friendly investments taking place.

The short answer to this question is probably NO, at least for the first issuances done. In interviews early issuers state that the investment decisions were taken independently of the type of funding available for it and that the main value of the bond for them has been one of image building. This is supported by the findings of a Swedish inquiry on the need to promote green bonds, published in January 2018, where it is concluded that “to date, the value of owning or issuing green bonds has mainly been of a signalling nature". Over time there are, however, two aspects of green bond issues that we would argue have contributed to a certain extent to more environmentally friendly investments taking place:

Profile drives strategy – Green bonds have been a profile enhancer, which has also led to a greater degree of transparency and differentiation between different issuers. Companies wishing to issue a green bond would, as a consequence, have had to sharpen, and in some cases render more stringent, their environmental policies. Reporting to investors would have required a greater degree of scrutiny not only of the investments made with the bond proceeds, but also of the company's environmental practices in general. Over time this is likely to move a green bond issuer faster towards a sustainable practice than otherwise.

Copying successful issuers – The great interest for green bonds, and the ease at which they can be placed in the market, have also lead to more companies considering the issuance of such bonds leading them to embark on the development of environmental strategies. Anecdotal evidence also indicate that investors' expectations in certain sectors, such as real estate, that investors' appetite for plain vanilla bonds is so low that it becomes virtually impossible to fill such an issue.

The two aspects above have also been happening on the investor side where initial investors may have been profile-driven, but where the availability of fixed rate instruments issued under a controlled and validated framework has made it easier for new investors to understand how they can also become more impact-focused. As the validators of the green bond frameworks have increasingly started to differentiate between the various levels of likely impact from the investments financed a number of the investors have also started to become more selective, thus showing that impact is moving from profile to business strategy also among the investors.

In summary we would argue that the green bonds have, indeed, lead to real impact although more in the form of "brown going green". The sheer magnitude of the market that has been established does, however, make us argue that this impact is important, although many investors would like to see a greater depth in the impact achieved.

What about SIBs/SOCs' potential for impact?

Unlike green bonds the SOCs are not primarily a funding model and procurement model but rather a change management process to encourage all partners to focus on outcomes. The SOC models have proven useful to drive innovation and a focus on outcomes in the public sector, thereby offering a real potential for impact. This raised investors' expectations for a capital markets instrument that would allow them to engage in funding of investments with a deeper and more far reaching impact. The initial enthusiasm has tended to cool off as the average small size and high level of complexity of SOCs have become clear to capital market investors.

Most of these investors are reluctant to invest in anything where the size of the individual investors' contribution is less than EUR 50 million. With average SOC size sitting at USD 3,63 million the scope of being able to access capital market funds for these investments is still some way off, leaving the funding of SOCs dependent on the interest and priorities of impact investors.

Impact investment is an area that has developed at different speeds in different countries. While the area is relatively well developed in the UK and US, where philanthropy is a well-established activity among affluent individuals and corporates, the history of publicly funded social welfare in the Nordic countries has slowed the emergence of investors with a pronounced impact focus in these countries. Many of the higher profile impact investors also tend to choose one or two focus area(s) of investment limiting funding to any projects falling outside these areas. Since many of the impact investors are individuals or family offices their average size of investments also tends to be small. While this means that they are well aligned with the present size of SOCs this hampers the potential to find financing for larger scale outcomes contracts.

Also from the public sector side there is a general interest in identifying ways in which the SOC model can be scaled, while maintaining focus on outcomes and public sector innovation. It is clear that the potential of the SOC model is getting increased recognition, but the average size of the contracts issued to date limits the overall impact potential of SOCs. Additionally the cost of structuring a SOC is high and since this cost isn't proportionate to the size of the contract, there are economies of scale to be gained.

The interest of finding mechanisms for drawing in capital market funds into the funding of outcomes contracts therefore comes both from the issuer and the investor sides. There are, however, a number of issues that need to be resolved in order for the two perspectives to become aligned.

Issues to be resolved in the pre-study

Capital market investors tend to focus on a couple of key aspects of investments – size and risk. The latter is especially relevant when looking at anything that is, or is perceived to be, an interest rate instrument such as a bond.

As mentioned earlier mainstream capital market investors are generally unwilling or unable – for cost management reasons – to consider making an investment of less than the equivalent of EUR 50 million. In many cases investors are also prohibited by their investment frameworks, or unwilling for risk management purposes, to provide more than 50% of any investment. As a consequence most bond issues tend to be at a size of EUR 100 million and up. The normal size of SOCs is consequently a hinder from most capital markets investors.

In addition to this the (perceived) risk profile moves the instrument out of the "bond" part of the market and into the risk capital part, where terms are more onerous and investors are fewer. Any new instrument introduced into the capital market thereby needs to consider the risk-return requirement of the investors, as well as the need for proper transparency and risk management in line with the standard practices in the market.

On the other hand, many of the investors that have invested in green bonds over the last ten years have moved up the learning curve on the issue of impact that their investments generate. They are thus becoming more skilled in differentiating between various levels of impact depth and are showing increasing demand for more "impactful" investment vehicles.

A financial instrument that combines the size and managed risk profile expected by capital markets investors with a greater level of impact would, as a consequence, seem like an instrument that would tick a number of boxes among the more advanced asset managers.

The pre-study

The pre-study for an occupational health outcomes contract coordinated by SALAR was organized into three works streams. The first two dealt with the design of the SOC through the definition of the type of intervention that would be most appropriate to address the issue at hand, and the organizational set-up required to manage an intervention with the number and type of stakeholders expected. The third work stream, financed by the EIB under the European

Investment Advisory Hub and carried out by SIIN, was aimed at reviewing the potential for developing a financial instrument that addressed the issues identified in the previous section.

The third work stream was conducted in three phases.

In the initial phase preliminary interviews were planned with the main capital market investors listed in the table below. The selection of interviewees was based on the institutions deemed most likely to be interested in a concept that the team wished to test. Interviews were held with the institutions marked in green below. The two red institutions either declined an interview citing either that they did not invest in fixed interest instruments, or that their investment policy would not allow an investment in anything but a regular bond. The institutions marked in yellow never responded to the request for interview.

Table 1: List of prospective interviewees

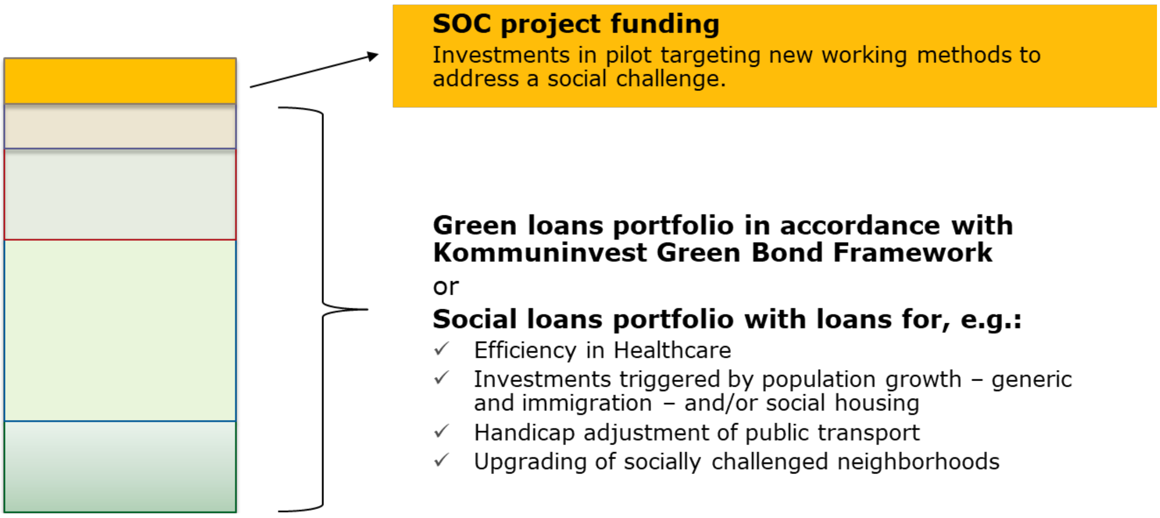
Members of SWESIF - Swedish Sustainable Investment Forum	Larger members of the Swedish Fundraising council (FRII)
2nd AP-fonden	Cancerfonden (Swedish Cancer Foundation)
6th AP-fonden	Rädda Barnen (Swedish Save the Children)
7th AP-fonden	Röda korset (Swedish Red Cross)
Folksam	WWF
Länsförsäkringar	Svenska Kyrkan (Church of Sweden)
Nordea	
Öhman	**Other investors into Kommuninvest's and EIB's green bonds who are not members of the above fora**
Robur/Swedbank	
Skandia Fonder	
	3e AP-Fonden
	Alecta
	KPA Pension
	SBAB

The conceptual instrument proposed was a form of structured financial instrument combining the key aspects of green bonds and SOCs. Although the response to the initial inquiry was mixed the likely interest from a sufficiently large and varied number of investors was deemed to be sufficient to proceed with the next step of the pre-study.

In the second phase the preliminary concept was refined and the process by which the two underlying instruments – a green/social bond and a SOC – would be integrated was developed. The refinement of the concept was based primarily on the experience from issuing similar instruments by the EIB and Kommuninvest. Both institutions are well known issuers of green bonds and bonds issued by both institutions have been used as the base for different forms of structured financial products in Japan and France respectively. Particular concerns or requirements expressed by the target group of investors.

The work resulted in the development of a proposed new financial instrument called a Sustainability Bond with Impact-linked return (SBIR), whereby an SOC was included as part of the use of proceeds of either a pure social bond or a combined green/social sustainability bond.

Figure 4: Integration of SOC into sustainability bond use of proceeds



Source: SALAR pre-study April 2017

This was documented through a process description, explaining how a standard green bond issuance process would have to be adapted to incorporate the SOC, and a draft sample documentation based on a standard EMTN bond issuance documentation.

The process and documentation developed as part of the second phase was tested, in the third and final phase, with the intended investor community and potential agent banks. This was done both formally and informally through plenary sessions with follow-up interviews and through one-to-one meetings.

Findings of the pre-study and Final Concept

The overall finding of the pre-study suggests that the SBIR, which combines the size and relatively low risk level of other similar bond-based products, such as index-linked bonds, with the greater impact depth of the SOC, it is possible to attract a significant number of investors in the broader capital market into investing in a SOCs. Furthermore, it has been shown how this new instrument can be documented in line with other structured products, and what additional steps will be required over and above the once required when a green or social bond is issued.

The process developed is based on the standard process for Kommuninvest’s green bonds, adapted to the issuance of a social bond as the underlying instrument, including the SOC as one of specified uses of proceeds in the bond documentation. The variable return resulting from the inclusion of the SOC is handled in the form of including an impact linked return, which is explained in an annex to the bond documentation. This annex emulates the way index-linked returns are incorporated into structured bond documentations. The level and mechanism of this return is derived from the business case developed for the SOC.

The inclusion of the SOC required the addition of a few more steps in the bond issue process one of which is the drafting of a special section in the bond information memorandum that explains all aspects of the SOC in language familiar to capital market investors. Information that will be needed includes, but is not limited to:

- What issue the SOC is addressing, the present status and reasons why this is not addressed in the ongoing management of the outcomes payer;
- Proposed intervention including the organization of the services, any external service providers expected to undertake the work (in full or part) and the manner in which the various stakeholders will be coordinated;
- Expected results, including the way these are derived and validated, and the full business case expected to be derived;
- The division of the values generated between the stakeholders;
- The mechanisms of risk sharing between stakeholders;
- The public bodies that are expected to ensure the outcomes payment;
- The contractual and institutional arrangements put in place to ensure the proper management of adherence to the contract by all parties along with the mandates deriving from such arrangements.

Subsequent developments

The pre-study conclusions were generally positive towards the feasibility of issuing a new, scalable, type of bond that could be used to fund SOCs through the capital market, and the attractiveness of such a bond to some of the more savvy investors in the market. This was also confirmed in bilateral discussion with a couple of potential key investors. A smaller group of investors was identified for a private placement of a potential first issuance of SEK 1 billion.

The intention at the outset was for the bond to be issued by Kommuninvest, who is both the largest issuer of green bonds in Sweden and the wholesale funding provider for most of the Swedish local authorities.

EIB was one of the prospective investors and initiated a preliminary due diligence supported by ii4i Consulting under the present contract. During the due diligence work for EIB, the following issues with a broad relevance to the subject were highlighted:

- Early in on the internal process it became clear that the ***issuance of a social bond*** based on the existing green bond framework would require substantial work by both Kommuninvest and its members. Unlike for their green loans and bonds neither Kommuninvest nor its members have any clearly defined national priorities on which to base their own focus areas in the social sphere. While it would have been possible to revert to an initial approach of using a standard green bond as the base for the financial instrument, it was felt that this would detract from the clear profile of the new bond.
- A key organisation in a social outcomes contract is the ***project organisation***, which oversees the adherence of the other stakeholders to the contract conditions. This organisation has to be impartial, while understanding the viewpoint of the various parties involved. The cost of setting such an organisation up is high the first time, but with a rapidly declining cost for every additional project managed by the same organisation. This is one reason why RISE decided to initiate Social and Health Impact Centre (SHIC), a national competence and implementation support function. The

centre is supported by SALAR and the national government with funding from the Swedish Innovation Agency Vinnova. The centre was started in January 2018, and was built up gradually during 2018.

- The key elements of the ***case study had to be translated into contractual arrangements*** involving all stakeholders. This was done through an outcomes based procurement of external service providers and an outcomes contract with three signatories – municipalities, funding organisation and the project organisation.

In January 2018 Kommuninvest withdrew from the planned issuance process as it was deemed to be too early for the organisation's members. The prospective investors in the SBIR expressed a wish to be consulted should the instrument be contemplated by any other issuer.

The SOC pilot that was developed under the pre-study was launched in September 2018 under the oversight and guidance of SHIC. The pilot now includes only two municipalities, Botkyrka and Örnsköldsvik.

Take-aways for EIB

EIB's interest in funding part of the initial pre-study work was to assist in the development of a new financial instrument that would allow for the implementation of SOCs at a larger scale, which would also be possible for EIB to invest in.

The objective has been largely met, although an investment is not possible due to the fact that no SBIR bond issue is planned at present. It is, nevertheless, possible for the EIB to draw some learnings both from the instrument developed and the subsequent process.

The pre-study rested on a number of assumptions:

- The first was the premise that the capital market ***investors active in the green bond market would also be interested in exploring other impact-focused financial instruments***, especially one that offers a greater level of impact, provided that the risk-return requirements of the investors could be taken into account. This assumption has been validated, as several of the investors with whom the team discussed noted that this was the first SOC structure presented to them that they felt was investable.
- Secondly there was the assumption that ***structured products, such as index-linked bonds, would be relevant in the design of the intended instrument*** both in terms of allowing the capital market investors a point of reference with which they are familiar and having a documentation on which to base a draft sample documentation. Both of these aspects of structured products turned out to be true and the fact that the documentation could be so closely aligned with an existing documentation based on a Euro Bond MTN-program documentation will allow the EIB to demonstrate this to other prospective issuers in a format to which they can relate directly.
- The third of the assumptions was that the ***process developed for the issuance of green bonds would be applicable also to this form of sustainability bond***. This was confirmed as true in terms of the possibility to include social outcomes contracts as one of the use of proceeds of a social bond. The translation of a green bond process into one focusing on social impact is, however, not as straightforward as assumed. While green bond frameworks are able to refer to an international climate change agenda that in its simplest form even can be translated into one simple KPI – reduction in CO_2 emissions – social impact is more complex and a matter of national, or even local, priorities.

The subsequent events also led to insights that will be useful for EIB to integrate into any future operations based on the SBIR or similar types if innovative financial instruments for impact.

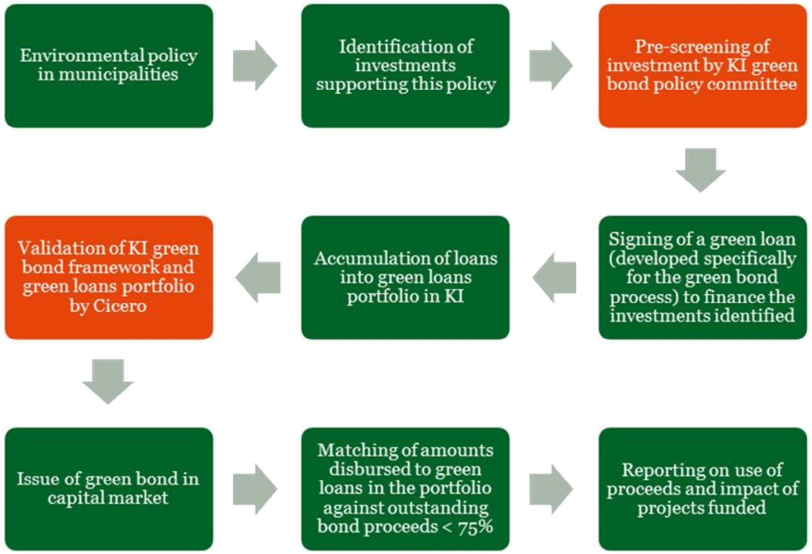
ICMA has developed ***social bond principles***. These, however, appear to have been developed with poorer countries in mind and are only marginally useful to Swedish bond issuers. Consequently the development of a social bond framework by a Swedish issuer will require that priorities are defined either at local or national level before any meaningful frameworks can be developed. The global Sustainable Development Goals (SDGs) can be a starting point for such work, but in most cases these remain very high level and have to be brought down to an operational level.

It appears that there is a misconception of the SOC as primarily a funding mechanism. ***The main values of the SOC instrument*** lies in the bridging of traditional silos and the bringing in of private investors, and with that a focus on transparency and stringency in the follow up and validation of results and impact. It is important that presentations of SOCs to prospective issuers fully cover these aspects as the sheer size of the funding raised, even in a scaled version such as the SBIR, is likely to be met by the reaction that investments at that level can be self-financed.

SOCs are an unfamiliar territory for most institutions both among public authorities and capital market investors. In order to avoid an instinctive dismissal on the grounds of the previous point an ***anchoring process with the intended issuer and beneficiaries*** should be done in a format allowing for all of the key aspects of an SBIR, not least the SOC part, to be fully covered.

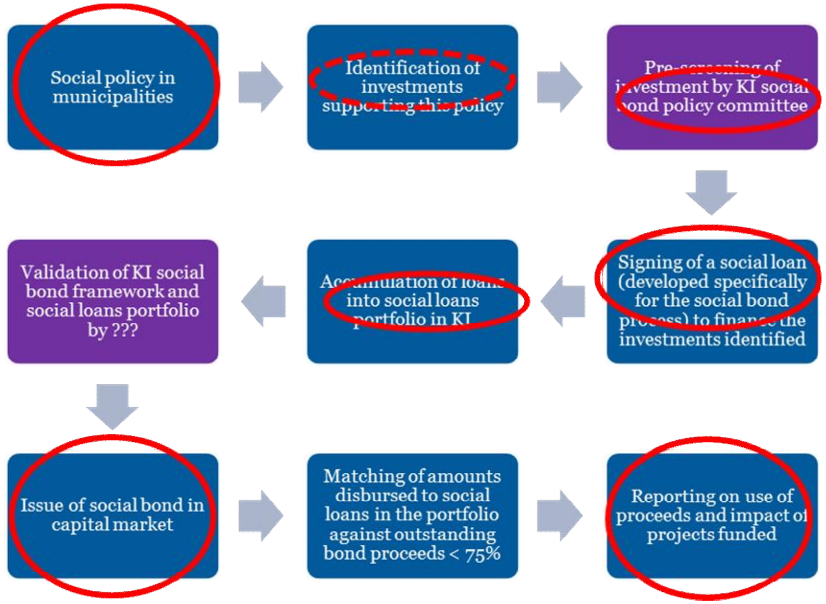
Annex 1 Process for integration of SOC into bond documentation

Adaptation of Green Bond process to fit Social Bond issuance



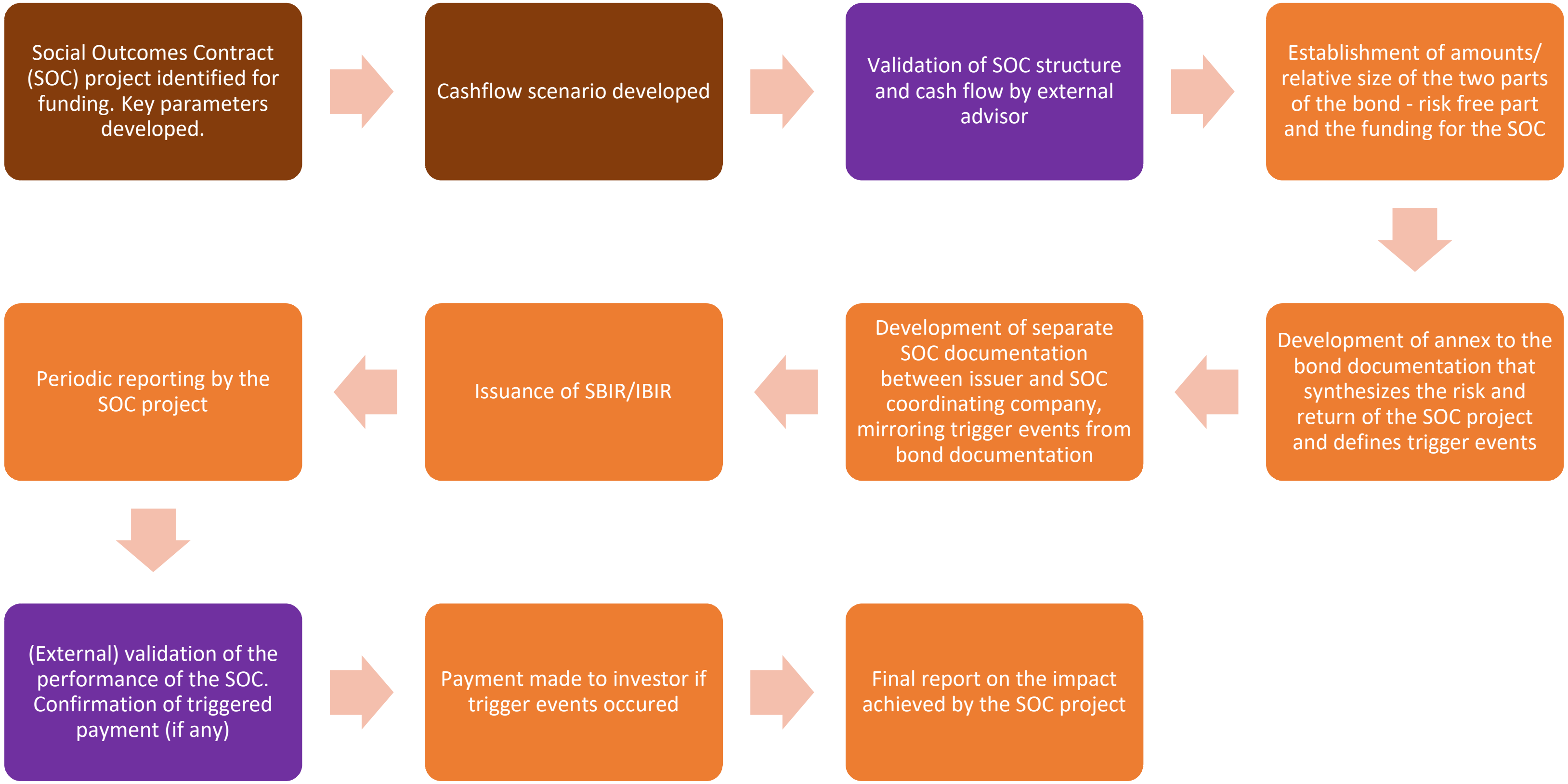
Building on KI:s green bond issue process

Activities required to adapt it to a social bond issue process



Sveriges Kommuner och Landsting

Process for integration of Impact-linked return into a Sustainability bond (SBIR)

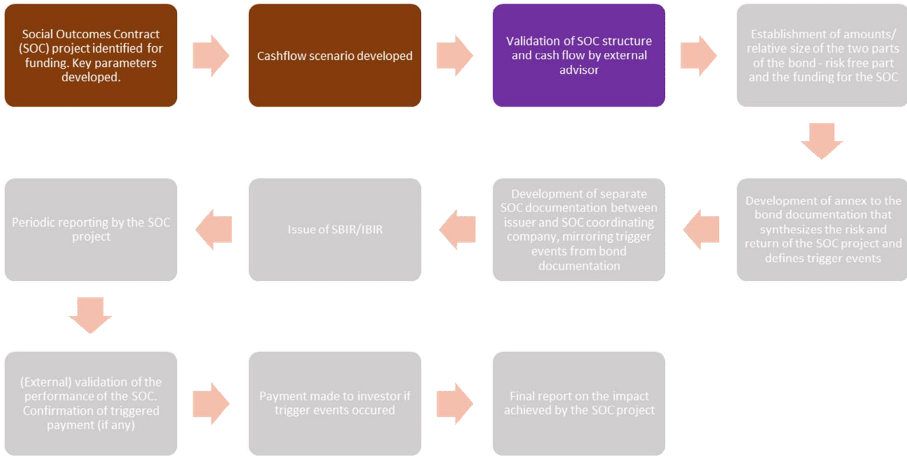


Sveriges Kommuner och Landsting

Process for integration of Impact-linked return into a Sustainability bond (SBIR) – defining SOC and cashflow

Key activities

- Definition of impact sought and challenge to be addressed
- Development of activities/approach to be piloted and economic impact from these
- Selection/design of methodology to be applied for impact measurement and validation
- Development of SOC structure
- Calculation of cash flow arising from SOC and development of cash flow scenarios for stakeholders involved.
- External validation of risk/return to investors from proposed cash flow



Expected outcomes

- SOC project report, covering:
  - Description of challenge to address with causes and consequences
  - Intervention/activities to be performed, including how these have been selected
  - Stakeholders involved and how the interest of these will be aligned both operationally and financially
  - Management structure safeguarding implementation as per plan
  - Impact measurement and validation methodology and processes
  - Description of financial value created and how this will be shared between stakeholders
  - Description of risks and mitigants in project design
- Validation report confirming the realism and fairness of proposed return to investors in relation to risk assumed

Sveriges Kommuner och Landsting

Process for integration of Impact-linked return into a Sustainability bond (SBIR) – developing documentation

Key activities

- Identify investments that fit into the overall purpose of the risk free part of the bond
- Evaluation of the assessed need of the SOC project in relation to the intended use of proceeds of the bond and acceptable risk levels
- Translation of cash flow to investors into an Impact-linked return described in an appendix
- Development of corresponding documentation for the on-investment by the bond issuer into the SOC project
- Issue of the SBIR/IBIR in the market

Expected outcomes

- Bond documentation based on standard Green(/Social/Impact) bond documentation.
- Appendix to bond documentation defining how the impact achieved will be translated into investor return.
- Investment/On-lending contract between the bond issuer and the SOC project coordinator (if different) mirroring trigger events for impact payments
- Issue of SBIR/IBIR in the market

Sveriges Kommuner och Landsting

Process for integration of Impact-linked return into a Sustainability bond (SBIR) – reporting and payment

Key activities

- Reporting on progress of planned activities during the implementation period of the SOC project in line with established timeline
- Reporting on progress of expected impact from SOC project in line with established timeline
- Flagging of the occurrence of a trigger event and validation of such event in line with bond terms
- Payment of Impact-linked return as per bond terms to investors
- Reporting on SOC project, including impact achieved

Expected outcomes

- Periodic reports on SOC project implementation
- Periodic or ad-hoc reports on impact achieved (depending on terms of bond)
- Validation confirmation with regards to attainment of trigger event
- Payment of Impact-linked return
- Final report on SOC project implementation and impact achieved

Sveriges Kommuner och Landsting

FINAL TERMS

[January 2018]

Kommuninvest i Sverige Aktiebolag (publ)
Issue of SEK[2,000,000,000] [Social/Green] Bonds with Impact-linked return due [31 December 2020] linked to the outcome of the project for Early Intervention for Short Term Sick-leave in Public Sector
Guaranteed by certain county councils of Sweden and certain municipalities of Sweden under [the €30,000,000,000 Note Programme[1]]

PART 1

CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 9 June 2016 and the base prospectus supplement dated [tbd] which together constitute a base prospectus for the purposes of the Luxembourg act relating to prospectuses for securities (*loi relative aux prospectus pours valeurs mobilières*). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus.

1.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	1
2.		Specified Currency or Currencies:	Swedish Krona ("SEK")
3.		Aggregate Nominal Amount:	
	•	Tranche:	SEK [2,000,000,000]
	•	Series:	SEK [2,000,000,000]
4.		Issue Price of Tranche:	[100.00] per cent. of the Aggregate Nominal Amount
5.	(a)	Specified Denomination(s):	SEK 1,000,000
	(b)	Calculation Amount:	SEK 1,000,000
6.	(a)	Issue Date and Interest Commencement Date:	[XX January 2018]
7.		Maturity Date:	[3 years from Issue Date], subject to adjustment in accordance with the Modified Following Business Day convention
8.		Interest Basis:	[ ]% Fixed Rate

[1] The bond to be issued under an existing debt program

			(further particulars specified below)
9.	Redemption/Payment Basis:		Redemption in accordance with the provisions set out in the Appendix.
10.	Change of Interest Basis or Redemption/Payment Basis:		Not Applicable
11.	Put/Call Options:		Not Applicable
12.	Method of distribution:		Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	**Fixed Rate Note Provisions**		Applicable
	(a)	Rate[(s)] of Interest:	[ ] per cent. per annum payable quarterly in arrear
	(b)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date
	(c)	Fixed Coupon Amount(s):	[ ] per Calculation Amount
	(d)	Broken Amount(s):	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA)]
	(f)	Determination Date(s):	Not Applicable
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
14.	**Floating Rate Note Provisions**		Not Applicable
15.	**Zero Coupon Note Provisions**		Not Applicable
16.	**Index Linked Interest Note Provisions**		Not Applicable
17.	**Dual Currency Interest Note Provisions**		Not Applicable

PROVISIONS RELATING TO REDEMPTION

18.	Issuer Call:		Not Applicable
19.	Investor Put:		Not Applicable
20.	Final Redemption Amount:		See Appendix

21.	Early Redemption Amount(s) payable on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.5):	See Appendix

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	(a) Form of Notes:	**BEARER NOTES** Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes only upon an Exchange Event
	(b) New Global Note	No
23.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	Not Applicable
24.	Talons for future Coupon or Receipts to be attached to Definitive Notes in bearer form (and dates on which such Talons mature):	No
25.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, if different from those specified in the Temporary Global Note, consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
26.	Details relating to Instalment Notes:	Not Applicable
	(a) Instalment Amount(s):	Not Applicable
	(b) Instalment Date(s):	Not Applicable
27.	Redenomination:	Redenomination not applicable
28.	Other final terms:	See Appendix
29.	The names of the Guarantors as at the issue date of the relevant Tranche and details of the date, form and other relevant details of the Guarantee given by such Guarantors:	See attached Guarantee dated 7 May 1993, as amended

DISTRIBUTION

30.	(a)	If syndicated, names of Managers:	Not Applicable
	(b)	Stabilising Manager(s) (if any):	Not Applicable
	(c)	Names of Financial Intermediaries (if any):	Not Applicable
31.	If non-syndicated, name of relevant Dealer:		[ ]
32.	Total commission and concession:		Not Applicable
33.	U.S. Selling Restrictions:		Reg S Compliance Category 2; [TEFRA D]
34.	Additional selling restrictions:		Not Application
35.	Additional U.S. Federal income tax considerations:		Not Applicable
36.	Additional ERISA considerations:		Not Applicable

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of Kommuninvest i Sverige Aktiebolag (publ):

By:

Duly authorised

PART 2

OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

Listing and admission to trading:	Application has been made for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange with effect from the Issue Date

2. RATINGS

Ratings:	Not Applicable

3. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

(a) Reasons for the offer:

Earmarked Account

An amount equal to the net proceeds will be credited to a special account that will support the Issuer's lending for Eligible Loans and Impact Capital invested in Impact Project (as further described below). As long as the Notes are outstanding and the special account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the special account and added to the Issuer's lending pool in an amount equal to all disbursements from that pool made during such quarter in respect of Eligible Loans. An amount equal to the special account balance will be held in cash, green bonds, Swedish covered bonds, Municipality and/or Government risk with a minimum, average credit rating of A- by Standard & Poor's or corresponding credit rating by another rating agency approved by the Issuer.

Eligible Loans and Eligible Projects

In accordance with the Issuer's [Green/Social] Bonds Framework (to be annually reviewed and as amended from time to time) published on the Issuer's web page http://kommuninvest.se. As at the date of these Final Terms

Eligible Loans create a pool of selected loans from the Issuer which are financing, in whole of in part, Eligible Projects (as described below) of the Issuer's member municipalities/county councils and their subsidiaries; and

Eligible Projects include projects consisting of [categories as per KI's green bonds or social bond framework prevalent at the time of issuance][2]

Impact Capital and Impact Project

Impact Capital means the amount invested in the Impact Project. This amount equates to 5% of net proceeds.

Impact Project means the project for Early Intervention for Short Term Sick-leave in Public Sector as detailed in the accompanying Impact Project description document

(b)	Estimated net proceeds:	Not Applicable
(c)	Estimated total expenses:	Not Applicable

4. YIELD (*Fixed Rate Notes only*)

Indication of yield:	[To be calculated at Issue Date on the basis of Issue Price]

5. OPERATIONAL INFORMATION

(a)	ISIN Code:	[ ]
(b)	Common Code:	[ ]
(c)	CUSIP:	Not Applicable
(d)	CINS:	Not Applicable
(e)	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	Not Applicable
(f)	Agent:	[ ]
(g)	Delivery:	Delivery against payment
(h)	Names and address of additional or alternative Paying Agent(s) (if any):	Not Applicable
(i)	Intended to be held in a manner which would allow Eurosystem eligibility:	No

[2] Social Bond Framework is yet to be defined. Eligible Projects within current Green Bond framework consist of: renewable energy, energy efficiency in energy systems, green buildings and energy efficiency public transportation, waste management, water management, adaptation measures in buildings, infrastructure and sensitive surroundings and environmental management.

APPENDIX

1. Redemption at Maturity

Unless previously redeemed or purchased and cancelled and subject as provided below, each Note will be redeemed, by the Issuer on the Maturity Date:

(a) If Amendment Event has occurred which led to the Early Impact-linked amount having been paid prior to the Maturity Date, in accordance with the following formula

SEK 1,000,000 x 95%

(b) If no Amendment Event leading to Early Impact-linked Amount has occurred, in accordance with the following formula

SEK 1,000,000 x (97% + Impact-linked Ratio)

Whereby:

"Impact-linked Ratio" means a percentage as determined by the Calculation Agent in accordance with the verified Outcome of the Impact Project as per the following table:

Impact Project Outcome	Impact-linked Ratio
Sick Leave Reduction over 0% but below or equal to [17%]	x% = between 0% to 4.50% where x%=(60% of Project Savings/ Aggregated Nominal Amount)
Sick Leave Reduction over [17%]	4.50%

Illustration of level of Impact-linked ratio for specific levels of Sick Leave Reduction		
Sick Leave Reduction	**Project Savings**	**Impact-linked Ratio**
12% (corresponding to low case)	100% of Impact Capital	3.00%
15 % (between low and base case)	124 % of Impact Capital	3.90%
17% (base case) or more	140% of Impact Capital	4.50%

"Sick Leave Reduction" means a percentage reduction in Sick Leave Days comparing the Reference Period to the Observation Period in accordance to the following formula and as validated by Impact Project Evaluator:

$$Max\left(\frac{S_e - S_n}{S_e},0\right)$$

where

S_n = Number of Sick Leave Days during the Observation Period

S_e = Expected Number of Sick Leave Days, based on the Reference Period

"Sick Leave Days" means Short Term Sick Leave Days per Employee during the Reference Period or Observation Period as verified by Impact Project Evaluator.

"Short Term Sick Leave Days" means total number of sick leave days, adjusted for full time equivalent, taken by Employees during first fourteen days of a sick leave period whereby there can be more than one sick leave period per Employee over 12 months.

"Expected Number of Sick Leave Days" means Sick Leave Days based on data from the Reference Period, adjusted by a Sick Leave Trend Factor in accordance to the following formula and as validated by Impact Project:

$S_e = \sum_{i=1}^{36} \frac{SLT_{o_i} * S_{r_i}}{SLT_{r_i}}$

Where S_r= Sick Leave Days in the each month in the Reference Period
SLT_o = Sick Leave Trend Factor in each month in the Observation Period
SLT_r = Sick Leave Trend Factor in each month in the Reference Period
i = is the relevant month

SLT, "Sick Leave Trend Factor", means the monthly published SSIA index "Sjukpenningtalet" in each corresponding calendar month.

"Employee" means the average number of public sector employees of the Piloting Municipalities in a specific year.

"Piloting Municipalities" means the municipalities participating in the Impact Project.

"Reference Date" means 31 December 2016.

"Reference Period" means 12 months prior to the Reference Date

"Observation Date" means [30] days prior to the Maturity Date.

"Observation Period" means [36] months prior to the [Observation Date]

"Project Savings" is the total amount saved by the municipalities and regions taking part in the Impact Project as a result from Sick Leave Reduction as calculated by the Impact Project Evaluator according to the following formula.

$$Max\left(\frac{S_e - S_n}{S_e}, 0\right) * Sick\ Leave\ Day\ Value * Employee$$

"Impact Project Evaluator" means [RISE].

"Sick Leave Day Value" is set at [1,650] SEK per day.

2. Amendment Event and Early Impact-linked Amount

In the event of the occurrence of an Amendment Event, the Issuer shall be required to pay an amount (which maybe zero), calculated per Specified Denomination, equal to the Early Impact-linked Amount, as soon as practicable after the Amendment Event occurs. For the avoidance of doubt, the occurrence of an Amendment Event shall not alter the Issuer's obligation to pay an amount of 95% of SEK1,000,000 as per Specified Denomination in respect of each Bond on Maturity Date

"Amendment Event" means the occurrence of any of the following events:

(a) Early Termination of the Impact Project to by the Piloting Municipalities
(b) Change in Law

The Issuer shall give notice to the Bondholders as soon as practicable of Amendment Event above, as the case may be, and the date on which the Early Impact-linked Amount will be paid.
The Issuer shall be entitled to determine the Early Impact-linked Amount, in the event the Calculation Agent is unable to fulfil its obligations hereunder due to its bankruptcy, insolvency (or other similar proceedings), or it becoming subject to the appointment of an administrator or other similar official, with insolvency, rehabilitative or regulatory jurisdiction over it.

"Change In Law" means that, on or after the Issue Date, due to any change in any applicable law or regulation, or due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority of any applicable law or regulation, the Issuer determines that it has become illegal for it to be a party to the Impact Project

"Early Impact-linked Amount" means [5%] of Specified Denomination which relates to the Impact Capital plus Early Project Saving if any.

"Early Project Saving" means any Project Saving up to the date in which Amendment Event occur over and above the amount of Impact Capital.

3. Other Definitions

"Calculation Agent" means [ ], which term shall include any successor thereto or any agent acting on behalf thereof, as the case may be. The Calculation Agent will act solely as agent of the Issuer and will not assume any obligations or relationships of agency or trust to or with the Noteholders. The calculations and determinations of the Calculation Agent shall (save in the case of manifest error) be final and binding upon all parties but all determinations made by the Calculation Agent hereunder shall be made in good faith.

"Insolvency" means that by reason of the voluntary or involuntary dissolution, liquidation, bankruptcy (*hasan*), commencement of civil reconstruction proceedings (*minji saisei tetsuzuki*), commencement of corporate reorganisation proceedings (*kaisha kosei tetsuzuki*) or commencement of special liquidation (*tokubetsu seisan*), winding-up or insolvency of or any analogous proceeding affecting the Company, (i) all of the Underlying Shares are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Underlying Shares become legally prohibited from transferring them.

4. Additional Risk Factors

An investment in the Bonds is subject to the risks described below, as well as the risks described under "Risk Factors" as outline in the Base Prospectus dated 9 June 2016. The Bonds are a riskier investment than ordinary fixed rate bonds or floating rate bonds. Investors should carefully consider whether the Bonds are suited to their particular circumstances. Accordingly, prospective investors should consult their financial and legal advisers as to the risks entailed by an investment in the Bonds and the suitability of the Bonds in light of their particular circumstances.

Suitability of Investment

An investment in the Bonds is only suitable for investors who have the requisite knowledge and experience in financial and business matters to evaluate the information contained in the Offering Circular and these Final Terms, who have made their own independent decision to invest in the Bonds and as to whether the Bonds are appropriate for them, and who are capable of bearing the economic risk of an investment in the Bonds.

The Impact-linked Ratio may result redemption below 100% of Specific Denomination at Maturity with the minimum redemption being 97% of Specific Denomination

The objective of the Impact-linked Ratio is to measure the performance of the Impact Project Outcome. The Impact Project was chosen due to the its potential in creating positive social impact and financial return to the Piloting Municipalities in form of direct cost saving, some of which will be shared with investors as per the terms above. The Impact Project is one of the projects financed by the proceeds of the Bonds but it is the only project in which the redemption payment amount is linked. No assurance can be given that the Impact Project Outcome will result in redemption amount greater than 97% of the Specific Denomination. If the Impact Project Outcome results in Impact-linked Ratio of greater than 3%, the Bonds would be redeemed at a Premium, i.e. in an amount greater than 100% of

Specific Denomination. The maximum redemption amount is 101.5% of Specific Denomination in accordance of the terms above and therefore the maximum premium is 1.5% of Specific Denomination The Premium, if any, that Bondholders will be entitled to on the Maturity Date will depend on the Impact Project resulting in Project Savings greater than the Impact Capital

In case of an Amendment Event, Bondholders will receive for each SEK1,000,000 nominal amount of Bonds held, an Early Impact-linked Amount which may not reflect the performance of the Impact Project throughout the term of the Bonds
In the event of the occurrence of an Amendment Event (as described in provision 3 "Amendment Event / Early Impact-linked Amount"), the Issuer shall be required to pay an amount calculated per SEK 1,000,000 nominal amount of Bonds, equal to the Early Impact-linked Amount (as defined in provision 3), as soon as possible after the occurrence of such Amendment Event, which may be earlier than the scheduled Maturity Date. Such Early Impact-linked Amount, as further detailed in Section 2 "Amendment Event/Early Impact-linked Amount" of this Appendix and may not reflect the performance of the Impact Project throughout the term of the Bonds. Should an Amendment Event occur prior to the Maturity Date, the Redemption Amount at maturity will only be 95% of the Specified Denomination, and therefore Bondholders will not benefit from or participate in any financial returns from the Impact Project after such Amendment Event.

The market price of the Bonds may be influenced by many factors

The Bonds are not designed to be short-term trading instruments. Many factors, most of which are beyond the Issuer's control, will influence the value of the Bonds and the price at which the Relevant Dealer may be willing to purchase or sell the Bonds in the secondary market, including: the performance of the Impact Project at any such time and the Issuer's creditworthiness. Some or all of these factors may influence the price that Bondholders will receive if they choose to sell their Bonds prior to maturity. The impact of any of the factors set forth above may enhance or offset some or all of any change resulting from another factor or factors.

Historical performance of similar projects is not indicative of future performance of the Impact Project
The future performance of the Impact Project cannot be predicted based on its historical performance of similar projects. The Issuer cannot guarantee that the outcome of the Impact Project.

The Impact Project Sponsors may discontinue the Impact Projet
The Impact Project is sponsored by [SKL] who may choose to discontinue or suspends the Impact Project which may result in Early Impact-linked Payment.

5. Other terms or special conditions

Disclaimers and Agreements

a) By investing in the Bonds, each investor represents and agrees that:

(i) it has made its own independent decision to invest in the Bonds based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer, the Impact Project Sponsors, the Calculation Agent, or the Relevant Dealer as investment advice or as a recommendation to invest in the Bonds, it being understood that information and explanations related to the terms and conditions of the Bonds shall not be considered to be investment advice or a recommendation to invest in the Bonds. No communication (written or oral) received from the Issuer, the Calculation Agent, the Index Sponsor or the Relevant Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Bonds;

(ii) it is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and conditions and the risks of the investment in the Bonds, including but not limited to the risks set out in these Final Terms (which are not, and do not intend to be, exhaustive). It is also capable of assuming, and assumes, the risks of the investment in the Bonds;