



SRP

Nordics Structured Products
& Derivatives Awards 2017

*Best Distributor,
Yield Enhancement Products, Nordics*
Garantum Fondkommission

GARANTUM ANNUAL REPORT 2017

CEO Statement

2017 was an eventful year. Garantum Fondkommission continued to increase its share of the Swedish market for structured investments. With our volumes grown by 11% compared to the previous year, as well as the total volume reducing, Garantum achieved a market share of almost 40%. This is a clear sign that what we offer is in demand and valued. However, it is of course not satisfactory that the market as a whole continues to shrink in 2017 as well after several years of a downwards trend, but hopefully Sweden will soon emerge from this slump and follow the developments in the rest of the world. Across large parts of the rest of Europe, just as in North America and Asia, the market for structured investments has grown strongly in recent years. There is no reason why the Swedish market can't also be pulled along by this growth.

One market that is continuing to grow is Norway. Garantum's Norwegian business, as before, stood for a positive contribution overall. 2017 ended strongly, and volume growth was an impressive 41%.

The Finnish market saw continuing consolidation in the distribution chain and the situation is relatively similar to what we see in Norway, that is, the channel for third party distribution of financial services has shrunk and weakened. With this as a background, we have begun work on building up direct sales at the Helsinki office, based entirely on the model that works well in Norway. This change may mean continued weak profitability in the Finnish business for 2018.

Recently a number of major players have put effort into third party distribution, meaning a growing need for a wider range from Garantum. We have therefore worked hard and focused on refining our fund offerings. 2017 was also something of a breakthrough year for Garantum's fund supermarket. We had a clear indication that we were on the right track, thanks to more than doubled volumes.

Institutional sales had their best year in a long time. It is pleasing to see more and more institutional customers finding their way back to structured investments and seeing the value of adding non-linear returns profiles in their portfolios.

By far the biggest project during the year was the adaptation to the new regulations, MiFID II and PRIIPs, which came into force in January 2018. The new regulations are particularly comprehensive and have meant everything from new revenue and distribution models, to new processes, routines and system support. Even though a large portion of the work is already complete, in the wake of the new legislation, we expect the industry to be fine-tuning the business for years to come.

One of the concrete measures taken in 2017 was to move all Swedish-linked representatives to our sister firm Garantum Partner. This is to cultivate Garantum Fondkommission as a product and platform provider. Now only the Group's Norwegian and Finnish subsidiaries are linked to Garantum Fondkommission.

The introduction to 2018 has been tentative, as expected. The industry is cautiously stepping forward in the world of MiFID II. However, we can see that the types of continued work are beginning to settle, and loosen up, area by area. With the rules of the game in place, we now hope to put even more focus on pure business development to further increase the attraction of Garantum's offerings. We are strengthened by our proud history (average yield of public Swedish products is 7.4% per year after all fees) and want to continue developing the concept of 'right investment at the right time'. At the time of writing, Garantum is breaking new ground in the field of sustainable finance, by being the first supplier in the Nordic countries to provide a public structured investment based on an environmental obligation. It is in this type of context that Garantum belongs. We want to be a pioneer in the savings market.

”With the rules of the game in place, we now hope to put even more focus on pure business development to further increase the attraction of Garantum's offerings.”



Mikael Axelsson,
CEO, Garantum Fondkommission



Directors' Report

The Board of Directors and the CEO of Garantum Fondkommission AB hereby present the annual report and the consolidated financial statements for the financial year 2017.

Ownership

Garantum Fondkommission AB, ('Garantum') is wholly owned by Garantum Invest AB, corporate identity number 556859-2447, registered office in Stockholm. Garantum has 2 subsidiaries, as below, and ownership of these amounts to:

- 100% of the shares in Garantum Strukturerade Produkter AB, corporate identity number 556672-8365, registered office in Stockholm.
- 88% of the shares in Garantum Finland Oy, corporate identity number 2184866-8, registered office in Helsinki

General information about the company

Garantum is engaged in securities trading, incorporating asset management, arrangement and brokering of structured financial products, or other participation in transactions relating to such instruments. As part of their activities, Garantum provides advice in financial issues and also operates other business activities linked to securities trading, and complies with the Swedish Securities Operations Act [lagen om värdepappersrörelse] and the company's securities licence. Garantum has been licensed to operate by the Swedish Financial Supervisory Authority since April 2005. All licences are published at www.fi.se. Garantum carries out cross-border trading in Finland and Norway and has 4 tied agents.

Development of the company's business, performance and position

Financial information

Profit for the Garantum Group and parent company as at 31 December 2017.

The Group's operating profit amounted to SEK 13.6 (11.5) million, while the profit after tax amounted to SEK 9.1 (7.6) million. Total income amounted to SEK 176.2 (169.1) million, of which SEK 160.6 (148.4) million related to the parent company, SEK 20.0 (30.7) million in the Swedish subsidiary and SEK 3.4 (4.2) million in the Finnish subsidiary including internal Group transactions.

Operating expenses amounted to SEK 162.6 (157.6) million during the financial year, of which SEK 134.0 (122.6) million related to the parent company. The company employed 46 (46) staff at the end of the year.

During the year, the Group arranged 292 (313) different products, the longest issue having a term of 9 years (10 years) and the shortest a term of 1 year (1 year). The average term was 5.26 (5.35) years.

Equity in the Group amounts to SEK 151.8 (192.7) million. Total capital coverage ratio in the parent company amounts to 23.09% (24.49%).

Business development

Garantum Fondkommission AB had a strong finish to 2017. Volumes in structured investments recovered in Sweden and continued to grow in Norway. We took a few key steps in the development of the fund platform, and the fund volume doubled over the year. Our offering was widened and sharpened, including with the launch of several new management services, which saw a positive reception into the market. Investments in digitalisation have been and continue to be a key theme for the company. In 2017 there was a successful replacement of the systems for derivative pricing, simulation and risk monitoring. A detailed mapping was also carried out of the company's processes. This will form the basis for the implementation of a new, tailored system support, introduced in 2018. Large parts of the business changes in 2017 were taken up with the particularly comprehensive regulations which came into force in January 2018. The preparations prior to MiFID II and PRIIPs have been demanding, in that all significant parts of the business are involved. The revenue model has been adapted, as has the distribution strategy. In order to comply with the new regulations, the company has needed to cope with greater costs. The work on simplifying the regulations had a negative effect on sales, primarily during the autumn, as it took focus away from the business for most of the distributors. Expectations are that the adaptations to the new provisions will also be ongoing in 2018, which may negatively impact profit. For the Finnish business operations, the conversion of the distribution strategy was introduced according to the Norwegian model, that is, greater focus on direct sales against the background of weakened third-party distribution. It is still too early to evaluate, but the conditions are right for a successful outcome. The focus for Finland in 2018 will be an expansion of offerings.

Environmental policy

The company's active environmental awareness has continued to develop during the year. Amongst the measures, the most prominent is sorting waste and office materials, environmentally-friendly electricity, using environmentally-friendly paper and pens for printing adverts, and using cycle couriers. As far as possible, business travel takes place using more environmentally friendly alternatives, such as travel by train instead of by road or air.

Risks and uncertainty factors

Garantum's business faces a number of different risks every day. In some regards this is a natural part of our business, such as market risks in the trading book.

Garantum's Board of Directors bears overall responsibility for Garantum's risk management. The Board of Directors has used a special instruction and a particular framework to delegate responsibility to Garantum's CEO and Deputy CEO to bear overall functional responsibility for Garantum's risk management. For the daily management and control of risks, Garantum has entered into an assignment agreement with Garantum Invest AB in respect of risk control and Compliance. The Board of Directors receives regular reports on this. See also Note 3. The risks to which Garantum is exposed and which are managed include:

Market risks

Liquidity risks

Operational risks

Credit risks

Legal risks

Personnel

The average number of employees in the Group during the financial year was 46 (51). The Group employed 46 (46) people at the end of the financial year, of whom 29 (28) were men and 17 (18) were women. See also Note 9.

Events after the end of the balance sheet date

No events of significance to the assessment of the financial position of the Group as at 31 December 2017 have occurred since the end of the report period.

PROPOSED ALLOCATION OF PROFIT

At the disposal of the annual general meeting, SEK

Retained earnings	95 284 947
Profit/loss for the year	11 063 413
Total	106 348 360
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Carry forward to next year	106 348 360
Total	106 348 360

The Board proposes that the profit/loss for the year is carried forward.

FIVE-YEAR SUMMARY

CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET, SEK thousands	2017	2016	2015	2014	2013
Income statement					
Total operating revenue	176 231	169 125	241 223	224 014	262 804
Total expenses before credit losses	-162 606	-157 648	-182 589	-176 720	-162 514
Operating income	13 625	11 477	58 634	47 294	100 290
Tax	-4 546	-3 928	-14 213	-11 515	-23 073
Profit/loss for the year	9 079	7 550	44 420	35 779	77 217
Balance sheet					
Lending to credit institutions	370 028	345 170	442 678	402 488	356 642
Other assets	586 522	376 955	234 637	310 171	188 229
Total assets	956 550	722 125	677 315	712 659	544 871
Deposits from the public	642 769	348 364	340 994	283 845	160 586
Other liabilities	162 005	181 046	103 355	218 192	137 768
Total liabilities	804 774	529 410	444 349	502 037	298 354
Equity	151 800	192 650	230 340	206 239	243 203
Holdings without a controlling influence	-24	65	2 626	4 382	3 314
Total equity and liabilities	956 550	722 125	677 315	712 659	544 871
CONSOLIDATED KEY INDICATORS					
Balance sheet total, SEK thousands	956 550	722 125	677 315	712 659	544 871
Return on assets, %	0,01	1,05	6,56	5,02	14,17
Equity ratio, %	15,87	26,68	34,01	28,94	44,63
Average number of employees	54	51	54	50	46
PARENT COMPANY INCOME STATEMENT AND BALANCE SHEET					
Income statement					
Total operating revenue	160 609	148 425	193 795	172 970	207 762
Total expenses before credit losses	-133 999	-122 574	-127 531	-118 823	-109 249
Operating income	26 609	25 851	66 264	54 147	98 513
Profit/loss for the year	11 063	11 415	44 579	31 955	57 905
Balance sheet					
Lending to credit institutions	364 836	341 824	437 555	389 755	348 323
Other assets	582 726	371 013	226 879	304 603	187 140
Total assets	947 562	712 837	664 434	694 358	535 463
Deposits from the public	642 769	348 364	340 994	283 845	160 586
Other liabilities	146 636	167 378	93 182	205 835	132 153
Total liabilities	789 405	515 743	434 176	489 680	292 739
Untaxed reserves	42 809	42 809	42 809	42 809	42 809
Equity	115 348	154 285	187 449	161 869	199 915
Total equity and liabilities	947 562	712 837	664 434	694 358	535 463
PARENT COMPANY'S KEY INDICATORS					
Balance sheet total, SEK thousands	947 562	712 837	664 434	694 358	535 463
Return on assets, %	1,17	1,60	6,71	4,60	10,81
Equity ratio, %	12	22	28	23	37
Total capital coverage ratio, %	23,09	24,49	27,29	19,40	30,80
Capital-output ratio	2,89	3,06	3,41	2,42	3,85
Average number of employees	46	44	47	43	39

For information on Garantum's results and general position, please refer to the following income statements and balance sheets with associated comments on the financial statements.

CONSOLIDATED INCOME STATEMENT

1 January – 31 December

SEK thousands	Note	2017	2016
Interest income	4	802	1 075
Interest expenses	4	-3 292	-2 139
Net interest income		-2 490	-1 064
Commission income	5	336 523	294 703
Commission expenses	6	-230 540	-194 804
Net result of financial transactions	7	41 213	37 146
Other operating revenue	8	31 525	33 144
Total operating revenue		176 231	169 125
General administration expenses	9	-132 664	-127 978
Depreciation of tangible assets		-12	-65
Other operating expenses	10	-29 931	-29 605
Total expenses before credit losses		-162 606	-157 648
Operating income		13 625	11 477
Tax on profit for the year	12	-4 546	-3 928
Profit/loss for the year		9 079	7 550
Attributable to:			
Parent Company's shareholders		9 166	7 618
Holdings without a controlling influence		-87	-68

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January – 31 December

SEK thousands	2017	2016
Profit/loss for the year	9 079	7 550
Items that can be reversed via the income statement		
Translation of foreign operations	-17	157
Other comprehensive income after tax	-17	157
Total profit after tax	9 062	7 707
Attributable to:		
Parent Company's shareholders	9 157	7 756
Holdings without a controlling influence	-95	-49

CONSOLIDATED BALANCE SHEET

As at 31 December

SEK thousands	Note	2017	2016
ASSETS			
Lending to credit institutions	13	370 028	345 170
Bonds and other securities	14	58 968	65 614
Tangible assets	17	32	43
Current tax receivables		29 995	19 259
Other assets	18	483 686	280 247
Prepaid expenses and accrued income	19	13 840	11 792
Total assets		956 550	722 125
LIABILITIES, PROVISIONS AND EQUITY			
Deposits from the public	20	642 769	348 364
Deferred tax liability		9 418	9 418
Other liabilities	21	124 495	135 869
Accrued expenses and prepaid income	22	28 092	35 759
Total liabilities		804 774	529 410
EQUITY			
	24		
Share capital (9,000 shares, quoted value SEK 1,000)		9 000	9 000
Translation reserve		-210	-195
Earnings including profit for the year		143 010	183 845
Total equity attributable to Parent Company's shareholders		151 800	192 650
Holdings without a controlling influence		-24	65
Total shareholders' equity		151 776	192 715
Total liabilities, provisions and equity		956 550	722 125

SUMMARY OF CONSOLIDATED CHANGES IN EQUITY

SEK thousands	Share capital	Translation of accounts of foreign subsidiaries	Earnings	Equity attributable to the Parent Company's shareholders	Holdings without a controlling influence	Total equity
Opening equity, 01/01/2016	9 000	-333	221 672	230 340	2 626	232 966
Profit/loss for the year			7 618	7 618	-68	7 550
Other comprehensive income		138		138	19	157
Total comprehensive income	-	-195	229 290	238 095	2 577	240 673
Transactions with owners						
Dividend, SEK 4,953.2397 per share			-44 579	-44 579	-1 308	-45 887
Acquisition of holdings without a controlling influence			-866	-866	-1 204	-2 070
Total	-	-	-45 445	-45 445	-2 512	-47 957
Closing equity, 31/12/2016	9 000	-195	183 845	192 650	65	192 715

SEK thousands	Share capital	Translation of accounts of foreign subsidiaries	Earnings	Equity attributable to the Parent Company's shareholders	Holdings without a controlling influence	Total equity
Opening equity, 01/01/2017	9 000	-195	183 845	192 650	65	192 715
Profit/loss for the year			9 165	9 165	-87	9 078
Other comprehensive income		-15		-15	-2	-17
Total comprehensive income	-	-210	193 010	201 800	-24	201 776
Transactions with owners						
Dividend, SEK 5,555.5556 per share			-50 000	-50 000	-	-50 000
Total	-	-	-50 000	-50 000	-	-50 000
Closing equity, 31/12/2017	9 000	-210	143 010	151 800	-24	151 776

CONSOLIDATED CASH FLOW STATEMENTS

1 January – 31 December

SEK thousands	2017-12-31	2016-12-31
Operating activities		
Operating profit (+)	13 625	11 477
Adjustment for items not included in cash flow		
Unrealised changes in value of securities (+/-)	-808	2 568
Unrealised profits/losses	-54	-1 518
Depreciation (+)	12	65
Income tax paid	-15 282	-20 117
Cash flow from operating activities before changes in working capital	-2 507	-7 525
Cash flow from changes in working capital		
Change in bonds plus shares and participations (+/-)	7 454	5 328
Changes in other assets (+/-)	-205 487	-134 701
Change in deposits and borrowing from the general public (+/-)	294 404	7 371
Changes in other liabilities (+/-)	-19 041	78 301
Cash flow from current operations	74 823	-51 226
Investment activities		
Mergers & acquisitions (-)	-	-2 070
Investments in tangible assets (-)	-2	-
Cash flow from investment activities	-2	-2 070
Financing activities		
Dividends paid (-)	-50 000	-45 887
Cash flow from financing activities	-50 000	-45 887
Cash flow for the year	24 821	-99 183
Cash and cash equivalents at start of year	345 170	442 678
Exchange rate differences in cash and cash equivalents	37	1 675
Cash and cash equivalents at end of year	370 028	345 170
SEK thousands	2017-12-31	2016-12-31
The following subcomponents are included in liquid funds:		
Lending to credit institutions	370 028	345 170
Total	370 028	345 170
Interest paid and dividends received which are included in cash flow from current operations		
SEK thousands	2017	2016
Interest earned	802	1 075
Interest paid	3 292	2 139

PARENT COMPANY INCOME STATEMENT

1 January – 31 December

SEK thousands	Note	2017	2016
Interest income	4	802	1 059
Interest expenses	4	-3 292	-2 139
Net interest income		-2 490	-1 079
Commission income	5	336 523	294 703
Commission expenses	6	-233 899	-198 967
Dividends received		-	1 361
Net result of financial transactions	7	41 171	36 453
Other operating revenue	8	19 303	15 954
Total operating revenue		160 609	148 425
General administration expenses	9	-119 916	-112 506
Depreciation of tangible assets		-	-50
Write-down of shares in subsidiaries	15	-1 500	-
Other operating expenses	10	-12 583	-10 018
Total expenses before credit losses		-133 999	-122 574
Operating income		26 609	25 851
Group contributions paid	11	-11 000	-11 000
Tax on profit for the year	12	-4 546	-3 437
Profit/loss for the year		11 063	11 415

Income statement – Parent Company

1 January – 31 December

SEK thousands	2017	2016
Profit/loss for the year	11 063	11 415
Other comprehensive income to be reversed via the income statement	-	-
Comprehensive income after tax	11 063	11 415

PARENT COMPANY'S BALANCE SHEET

As at 31 December

SEK thousands	Note	2017	2016
ASSETS			
Lending to credit institutions	13	364 836	341 824
Bonds and other securities	14	57 248	64 055
Shares and participations in associated companies	15	1 081	1 584
Current tax receivables		29 483	16 809
Other assets	18	481 840	277 201
Prepaid expenses and accrued income	19	13 075	11 364
Total assets		947 562	712 837
LIABILITIES, PROVISIONS AND EQUITY			
Deposits from the public	20	642 769	348 364
Other liabilities	21	122 187	139 377
Accrued expenses and prepaid income	22	24 448	28 002
Total liabilities		789 405	515 743
Untaxed reserves	23	42 809	42 809
EQUITY	24		
Restricted equity			
Share capital (9,000 shares, quoted value SEK 1,000)		9 000	9 000
Non-restricted equity			
Profit or loss brought forward		95 285	133 870
Profit/loss for the year		11 063	11 415
Total shareholders' equity		115 348	154 285
Total liabilities, provisions and equity		947 562	712 837

SUMMARY OF PARENT COMPANY'S CHANGES IN EQUITY

	Restricted equity	Non-restricted equity		Total equity
SEK thousands	Share capital	Profit or loss brought forward	Profit/loss for the year	
Opening equity, 01/01/2016	9 000	133 870	44 579	187 449
Previous year's profit/loss	-	44 579	-44 579	-
Profit/loss for the year	-	-	11 415	11 415
Transactions with owners				
Dividend, SEK 4,953.2397 per share	-	-44 579		-44 579
Closing equity, 31/12/2016	9 000	133 870	11 415	154 285

	Restricted equity	Non-restricted equity		Total equity
SEK thousands	Share capital	Profit or loss brought forward	Profit/loss for the year	
Opening equity, 01/01/2017	9 000	133 870	11 415	154 285
Previous year's profit/loss	-	11 415	-11 415	-
Profit/loss for the year	-	-	11 063	11 063
Transactions with owners				
Dividend, SEK 5,555.5556 per share	-	-50 000		-50 000
Closing equity, 31/12/2017	9 000	95 285	11 063	115 348

PARENT COMPANY CASH FLOW STATEMENTS

1 January – 31 December

SEK thousands	2017-12-31	2016-12-31
Operating activities		
Operating profit (+)	26 609	25 851
Adjustment for items not included in cash flow		
Unrealised changes in value of securities (+/-)	-984	2 000
Unrealised profits/losses	6	-1 247
Depreciation/Write-downs (+)	1 500	50
Income tax paid	-17 220	-18 521
Cash flow from operating activities before changes in working capital	9 911	8 133
Cash flow from changes in working capital		
Change in bonds plus shares and participations (+/-)	7 792	6 464
Changes in other assets (+/-)	-206 350	-136 564
Change in deposits and borrowing from the general public (+/-)	294 404	7 371
Changes in other liabilities (+/-)	-20 742	74 197
Cash flow from current operations	85 015	-40 399
Investment activities		
Acquisition of shares, subsidiary companies (-)	-997	-1 000
Cash flow from investment activities	-997	-1 000
Financing activities		
Paid Group contributions (-)	-11 000	-11 000
Dividends paid (-)	-50 000	-44 579
Cash flow from financing activities	-61 000	-55 579
Cash flow for the year	23 018	-96 978
Cash and cash equivalents at start of year	341 824	437 555
Exchange rate differences in cash and cash equivalents	-6	1 247
Cash and cash equivalents at end of year	364 836	341 824

SEK thousands	2017-12-31	2016-12-31
The following subcomponents are included in liquid funds:		
Lending to credit institutions	364 836	341 824
Total	364 836	341 824

Interest paid and dividends received which are included in cash flow from current operations		
SEK thousands	2017	2016
Interest earned	802	1 059
Interest paid	3 292	2 139

