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Ratings

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Kommuninvest i Sverige AB

Primary Credit Analyst:
Pierre-Brice Hellsing, Stockholm +46 (0)8 440 59 06; Pierre-Brice.Hellsing@spglobal.com

Secondary Contact:
Carl Nyrerod, Stockholm (46) 8-440-5919; carl.nyrerod@spglobal.com

Table Of Contents

1672765 | 302155158

Kommuninvest i Sverige AB

Major Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+
Nordic Regional Scale *--/--/K-1*

Strengths:	Weaknesses:
• Joint and several guarantee from Kommuninvest's members, covering the company's commitments. • Robust liquidity position supported by access to the central bank. • Excellent asset quality in the loan book and the securities portfolio. • Strong financial risk management and a high degree of domestic funding, reducing the need for derivatives. • Renewed member support through capitalization increase ahead of upcoming regulatory requirements.	• Funding risk because of dependence on wholesale markets. • Some concentration risks in lending.

Rationale

S&P Global Ratings bases its ratings on Swedish local government funding agency Kommuninvest i Sverige AB on its assessment of the agency's robust joint and several guarantee structure signed by all member local governments and covering all the agency's financial liabilities. Additional rating support stems from Kommuninvest's access to central bank financing, the excellent asset quality of its loan book and securities investments, strong financial risk management, and strengthening capitalization on the back of member capital contributions. Our ratings incorporate the added funding risk derived from the agency's dependence on wholesale funding, in addition to a degree of concentration risk in its regionally concentrated lending portfolio.

After members agreed Swedish krona (SEK)2.7 billion (about €285 million) of capital contributions in fall 2015 to boost Kommuninvest's equity, the agency's non-risk-weighted leverage ratio has increased above 1.5% at mid-year 2016, a level discussed within the European Parliament regarding low-risk credit institutions for the application of the upcoming EU Capital Requirements Regulation and Capital Requirement Directive, on which a final decision on the design of the leverage ratio is expected during 2016. Should the minimum leverage ratio requirements be higher, the institution would have to consider new means to further increase its capitalization.

Kommuninvest is a subsidiary of Kommuninvest Cooperative Society (KCS). The local governments that belong to

KCS must sign a joint and several guarantee to cover Kommuninvest's financial commitments if they want to become a member of the agency. The guarantee, last updated in 2011, passes on all financial risks to Kommuninvest's member local governments, including exposures in Kommuninvest's derivatives portfolio. No court order or board decision by the guarantors is needed for a payment to be made under the guarantee. A pro rata right of recourse agreement reduces a member's ultimate responsibility to its own share of any liability on which Kommuninvest defaults. In our opinion, the joint and several guarantee commitment from Kommuninvest's member local governments underpins the ratings on the agency.

We acknowledge Kommuninvest's progress in its strategy to build capital to comply with the Basel III leverage ratio requirement, which is set to be introduced in 2018. Internal capital generation continues to be sound, but the agency is increasingly turning to its municipal members for capital contributions. In essence, we consider that it will primarily be the responsibility of the member municipalities to ensure that Kommuninvest holds adequate capitalization to continue with its desired scope of funding activities.

As such, we note positively that Kommuninvest's member municipalities have followed through on their intention to make meaningful capital contributions, in line with the agency's strategy to prepare for the 2018 Basel III leverage ratio requirements. The agency has revised its thresholds for the initial capital contribution levels paid on membership. These currently hold a minimum level at SEK200 per inhabitant and rise to a maximum SEK900 per inhabitant. When the members approach the maximum level of capital contribution they will be entitled to keep a greater portion of the refund of yearly profits. We understand that a large number of members will commit to increasing their initial capital contribution to Kommuninvest and therefore significantly boost the core capital of the agency. At mid-year 2016, we estimate that Kommuninvest's leverage ratio will likely have improved to about 1.9% from a thin 0.9% at year-end 2015 and 0.76% at year-end 2014. We do not include Kommuninvest's SEK1 billion debenture loan as primary capital in this ratio, as we do not think that the current loan satisfies the requirements for inclusion.

In addition, at KCS' annual general meeting in April 2015, the member local governments confirmed their 2014 decision to adopt a contingency plan if the Basel III leverage ratio reaches 3% in 2018, introducing into KCS' statutes the possibility to strengthen Kommuninvest's capital base via the subscription of core capital instruments. We view it as positive that Kommunivest is proactively preparing an action plan for the most conservative scenario of Basel's leverage ratio.

Kommuninvest's risk-weighted capital ratios are solid. Given the zero risk weighting of Swedish local government lending, Kommuninvest's risk weighted Tier 1 capital adequacy was strong at 46.2% at year-end 2015, up from 34.6% at year-end 2014. The increase in the Tier 1 capital ratio relates to different regulatory requirements on the capital charge on the counterparty exposures of Kommuninvest's derivatives. According to our calculations, Kommuninvest's risk-adjusted capital (RAC) ratios were 14% (before concentration adjustments) at the end of March 2016. In our view, this is a sound level of capitalization. In addition, we expect Kommuninvest's capitalization to strengthen further in 2016 when the SEK 2.7 billion member capital contribution becomes fully reflected in the agency's Tier 1 capital.

Kommuninvest's public sector mandate instructs it to provide funding solely to its members, which comprise entities within the Swedish local government sector. Kommuninvest provides funding directly to its member municipalities, county councils, or companies under their control, in which case a municipal guarantee is required. As such, Kommuninvest's loan book holds only Swedish local government risk. We assess the credit quality of the Swedish local and regional government (LRG) sector as robust, and we consequently consider that the asset quality of Kommuninvest's LRG sector loan book represents very limited credit risk. Although the mandate ensures that the agency's lending mirrors the overall credit quality of the Swedish public sector, it imposes certain constraints, primarily on concentration risk in its lending activities. However, we consider the overall stability and predictability of Kommuninvest's business position to be important mitigating factors that support and underlie our assessments.

In 2015, Kommuninvest returned to double-digit lending growth, with a 14% progression, well above the market growth rate and the lending growth registered one year earlier, both at 7%. The agency registered more modest lending growth in 2013 and 2014 as it worked to strengthen profitability to build equity through higher margins and retained earnings, making capital market funding an attractive funding alternative. Although a moderating loan margin has resulted in increased lending levels in 2015, net interest income decreased from SEK915 million in 2014 to SEK798.3 million. This decrease is also partly due to the increase in sales of bonds with short remaining maturities in the liquidity reserve, upon which the original interest rate swaps have been retained to maturity.

We have a positive view of Kommmuninvest's funding strategy, which is to increasingly rely on funding in Swedish kronas through its domestic benchmark program. By year-end 2015, 53% of Kommuninvest's funding had been sourced from the domestic market, significantly reducing the need for derivatives on asset-liability matching. In addition, we observe that the agency enjoys excellent name recognition throughout the international markets. Over the past three years, while its funding in Swedish krona has increased, Kommuninvest has reduced the funding sourced from the Japanese Uridashi market. There is currently a very low degree of callability on Kommuninvest's funding, standing at about 5% of total funding at year-end 2015.

Liquidity

Kommuninvest has a robust liquidity position, in our view. Even though the agency is exposed to risks through its dependence on wholesale market funding, and is transitioning toward bilateral credit support annex (CSA) agreements on its derivatives, we consider this risk to be mitigated by its prudent liquidity policies, substantial high quality prefunding, and importantly through the agency's access to funding operations with the Swedish Riksbank (central bank). In addition, we view favorably Kommuninvest's focus on long-term wholesale funding with a duration of assets shorter than that of liabilities.

Since 2010, Kommuninvest has held the status of a central bank counterparty, which has added a backstop mechanism for liquidity management. Specifically, Kommuninvest can participate in the Riksbank's credit facilities as well as borrow directly from Riksbank against collateral to the extent allowed by pledgeable assets.

We consider Kommuninvest's liquidity policies as prudent. The agency stipulates that it should at all times hold a liquidity reserve amounting to 15%-35% of total lending. At end-2015, Kommuninvest held prefunding invested in highly rated liquid securities at about SEK63.2 billion, equivalent to a high 25% of total lending. In addition, about 87% of the assets held in the liquidity reserve were eligible as collateral in the European Central Bank (ECB) or the Riksbank, with 84% of the securities repo-eligible in the Riksbank alone. This is in line with the minimum level outlined in Kommuninvest's policy, which dictates that a minimum of 65% of the liquidity reserve should be eligible for repo transactions in the Swedish central bank or with the ECB.

According to Kommuninvest's policy, its liquidity level should sustain a market shutdown of six months without a disruption in its lending activities, including forecast new lending. In April 2014, the liquidity reserve would allow Kommuninvest to continue its operations for 14 months of funding market shutdown without new loan disbursement and with normal calls on funding.

Outlook

The stable outlook reflects our expectation that, in the next two years, Kommuninvest's guarantee structure will remain unchanged and that the agency will maintain robust liquidity, prudent risk management, excellent asset quality, and continuously strengthening capitalization benefitting from unwavering membership support.

A negative rating action could result from a weakening of Kommuninvest's guarantee structure. In addition, pressure on the ratings would build if we observed a significant deterioration in the asset quality of the agency's lending operations or securities investments, if its risk management processes were to loosen, or if its role and relevance for its shareholders were to deteriorate.

Comparative Analysis

Kommuninvest is comparable with three other Nordic local government funding agencies--KommuneKredit, KBN Kommunalbanken Norway, and Finland-based Municipality Finance PLC--and to some extent, two Dutch public-sector banks Bank Nederlandse Gemeenten N.V. and Nederlandse Waterschapsbank N.V. These municipal funding agencies all supply low-cost funding to the LRG sector in their respective countries, providing them with low-risk assets.

Although the ownership and support structures for all four Nordic agencies are different, we consider them to be strong. Ownership of Kommuninvest and KommuneKredit rests with their respective LRG members, which have signed joint and several guarantees. KBN Kommunalbanken Norway receives support from its owner, the central government of Norway. By contrast, the municipalities that own Municipality Finance are jointly liable for its liabilities on a pro rata basis via Finland's Municipal Guarantee Board, which provides a last-resort guarantee. Kommunalbanken, in our view, benefits from an extremely high likelihood of extraordinary support from its 100% owner, the central government of Norway.

All of the Nordic local government funding agencies possess very strong credit profiles, in our view, with similarly high asset quality and prudent asset-liability management. Compared with its Nordic peer group, we think Kommuninvest benefits from robust liquidity access due to its ability to pledge the majority of its securities portfolio for repo transactions with the Riksbank. In a Nordic context, central bank access is only matched by Municipality Finance, which, in addition to its securities portfolio, can also place its entire stock of municipal loans as collateral for repo transactions.

On the funding side, we view positively Kommuninvest's increasing reliance on domestic funding from its Swedish krona benchmark program. Contrary to its Nordic peers, its focus on domestic borrowings reduces the need for derivatives on its asset-liability management.

With regard to the equity-to-assets ratio, Kommuninvest is currently weaker than its Nordic peers. However, we consider it positive that the agency has taken steps to formalize a contingency plan for the most conservative leverage ratio outcome. In addition, we expect to see a marked improvement in Kommuninvest's leverage ratio in 2016 owing to capital contributions from its municipal members.

Table 1

Kommuninvest i Sverige AB--Peer Comparison 2015

	Kommuninvest i Sverige AB	KBN Kommunalbanken Norway	KommuneKredit	Municipality Finance PLC
Ratings as of July 9, 2015	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AA+/Negative/A-1+
Country	Sweden	Norway	Denmark	Finland
Sovereign credit rating	unsolicited AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AA+/Stable/A-1+
Establishment date	1986	1926	1898	1989/1993
Guarantee structure	Joint and several guarantee from local and regional governments	100% owned by the Norwegian government. Letter of support from owner.	Joint and several guarantee from local and regional governments	Municipalities on a joint basis through Municipal Guarantee Board
Market share (%)	47	About 50	More than 90	About 50
S&P Global Ratings' view of competition	Limited	Limited	Very limited	Limited
Default	None	None	None	None

Ownership And Legal Status: Limited Liability Company Set Up As A Cooperative Whose Members Are Swedish LRGs

Kommuninvest is a limited liability company owned by KCS (Kommuninvest Cooperative Society or "Kommuninvest ekonomisk förening"). The board decides Kommuninvest's strategy and rules on ownership and membership applications, but it is not involved in Kommuninvest's day-to-day operations.

KCS was set up as a cooperative association because of Kommuninvest's orientation and strategy as a nonprofit organization under Sweden's Municipal Act (1991). On joining Kommuninvest, all members must sign a joint and several guarantee to cover the company's current and future commitments. The guarantee covers all of Kommuninvest's financial commitments, including the agency's derivative exposures. No court order or board decision is needed to honor a call on the guarantee. A pro rata right of recourse agreement reduces a member's ultimate responsibility to its own share of any liability on which Kommuninvest defaults. The guarantee agreement was updated in 2011 with the purpose of making the overall member responsibility more transparent. The update did not alter the level of commitment by the member municipalities but rather made it clearer.

With regard to possible member support, we believe that Kommuninvest would come within the scope of the resolution regime introduced by the EU Bank Recovery and Resolution Directives. This regime could, in some circumstances, prevent governments from injecting capital into a bank to correct an acute solvency problem, without bailing in a minimum of senior liabilities. However, we note that Kommuninvest would ultimately rely on the explicit guarantee commitment of its owner municipalities to provide support in case of need. Importantly, we also note that Kommuninvest's joint and several guarantee mechanism does not constitute state aid. Consequently, we don't anticipate that the regulatory changes would meaningfully impede Kommuninvest's members from following through on their guarantee commitments to the agency.

Profile: Leading Credit Institution For Swedish Local Governments

Kommuninvest operates on a nonprofit basis and provides funding to its members, Swedish municipalities and county councils and their majority-owned companies, which is backed by guarantees from the owners. The company has experienced continuous growth since membership opened to all Swedish municipalities and counties in 1993. Its membership count stood at 281 in May 2016, up from 280 one year earlier. To date, only 18 municipalities and 11 county councils are nonmembers.

Kommuninvest's lending growth stood at 14% in 2015, doubling that of the sector trend as well as the 7% lending growth rate in 2014. The pickup in lending growth over 2014-2015 is primarily due to overall increasing investment levels in the LRG sector, but also resulted from Kommuninvest having increased its share of the public sector borrowing by reducing its loan margins. Kommuninvest held a market share of 47% of the outstanding loans to the entire Swedish LRG sector at year-end to 2015, up from 44% one year earlier. Kommuninvest aims to expand both its member base and market share of LRG lending over the medium term.

After having reinforced its capital base through member contributions, we expect Kommuninvest to continue on its more competitive pricing strategy and secure loan growth of around 14% in 2016, in line with 2015 performance. We then expect its lending to follow overall market growth, at about 6%-8% annually. The sector's funding needs continue to be driven by comprehensive investments, suggesting a sustained robust funding need.

Profitability: A Low-Margin Business, But A Strong Market Position And Good Efficiency Sustaining Earnings

Although Kommuninvest is not a profit-maximizing organization, its dominant market position and efficient organization has produced stable earnings over recent years.

Kommuninvest's niche lending market is generally characterized by low margins. Loan margins are based on Kommuninvest's all-in funding costs and the agency charges similar margins to its customers on similar loan amounts and tenors. Still, profitability has remained stable and robust over the past few years, owing to efficient management and increased lending operations. For 2015, we note that profitability remained largely stable on the robust level registered in 2014, as a result of a combination of lower margins and increased lending. For 2016-2018, we expect Kommuninvest's profitability to moderate slightly as a consequence of the low interest-rate environment.

Kommuninvest began applying distribution of surpluses to its member municipalities in 2011. In practice, this meant that the earnings from the incumbent financial year reach Kommuninvest's equity with a six-month time lag. In 2015, the agency refunded surpluses to its member local governments totaling SEK501 million, which in turn agreed to submit 18% of the refunded amount as a capital contribution to Kommuninvest at the Annual General Meeting in April 2016. As such, SEK90.2 million of retained earnings reached Kommuninvest's balance sheet in 2016. As Kommuninvest's members reach the maximum level of capital contribution at SEK900/inhabitant, we assume that the respective municipalities will retain the distributed surpluses rather than source them back to Kommuninvest.

Sweden's Local And Regional Government Sector: Predictable And Supportive Institutional Framework Ensure Robust LRG Creditworthiness

We believe that the Swedish LRG system displays predictability, supportiveness, and a high degree of institutional stability. In addition, the country's fiscal policy framework promotes budget discipline through a balanced-budget requirement, with which the LRG sector is broadly compliant. The sector's revenue and expenditure management hinges on the LRGs' autonomy in setting local tax rates and a comprehensive equalization system that effectively redistributes revenues to balance unfavorable regional developments, such as adverse demographic compositions or cost structures. We believe these systemic features underpin the overall creditworthiness of the sector which we consider strong.

For more information on Swedish LRGs, see "Swedish Local And Regional Government Risk Indicators: February 2016 Update", published Feb. 10, 2016.

Risk Profile And Management: Strong, As Reflected In Excellent Asset Quality And A Robust Liquidity Position

We consider Kommuninvest to hold a strong risk profile based on its focus on low-risk lending to, or guaranteed by, Swedish local governments and our expectation of sustained loan book growth. Kommuninvest has a simple business model, undertakes no trading activities, and market risks are controlled within a conservative framework of limits that are approved by the board. Kommuninvest's policy is to hedge all foreign currency debt issuance by entering into currency swaps.

Credit risk – lending

Kommuninvest's credit portfolio has a 100% Swedish LRG sector concentration. However, we believe this is mitigated by the very strong credit quality of the Swedish LRG sector. Kommuninvest has never suffered credit losses on the loans it has extended to the Swedish LRG sector and has no nonperforming loans on its books. Overall, we consider the asset quality of Kommuninvest's loan book to be excellent.

In addition to its sector concentration, Kommuninvest continues to have rather high exposure concentrations in its loan portfolio. The 10 largest exposures represented about 22% of total lending as of December 2015, similar to the situation one year earlier. We consider Kommuninvest's significant exposure to individual borrowers acceptable, given the low-risk nature of the company's loan book.

Credit risk – investments

Kommuninvest holds sizable treasury investments (prefunding), which in December 2015 amounted to about SEK63 billion, or 25% of total lending. The prefunding is conservatively invested, primarily in short-term money market instruments and highly rated liquid securities. In December 2015, 77% of the liquidity portfolio was invested in 'AAA' rated securities.

The investment portfolio geographically tilts toward Sweden and Western Europe, with about 57% of the portfolio invested in Sweden, 16% in Germany, 8% in Finland, and 8% in European supranationals. A large share of its treasury investments are zero-risk-weighted securities (about SEK54 billion in March 2016) and 10%-risk-weighted securities (about SEK20 billion), reflecting asset holdings in Swedish covered bonds (about 32% of treasury), which attract a 10% risk weighting.

Counterparty credit risk

At year-end 2015, Kommuninvest sourced about half of its funding from outside Sweden, as was the case one year previously. The agency's funding strategy is to focus on issuing through its Swedish benchmark program, supplemented by U.S. dollar (USD) benchmark transactions. The Japanese Uridashi market has historically been one of Kommuninvest's strategic markets, but its relative share in the agency's funding portfolio has decreased in recent years and stood at 4% in 2015, compared with 2.5% in 2014, 7% in 2013, and 38% in 2011. To date, only 5% of Kommuninvest's funding has call features.

As such, the funding trend in 2015 has leaned toward more plain vanilla funding through Kommuninvest's Swedish benchmark program complemented by funding in U.S. dollars. We view positively Kommuninevst's strategy to source the majority of its funding from its Swedish benchmark program, as this limits the agency's need for derivatives management.

As Kommuninvest accepts no residual risks on its funding, its international funding provides for comprehensive use of financial derivatives. This creates important counterparty exposures to banks, given the relative size of Kommuninvest's equity. Ultimately, through its guarantee agreements, the risks in Kommuninvest's derivatives portfolio are transferred onto its member local governments. However, to address these exposures, the agency prudently monitors risk and works with what we regard as a prudent set of counterparty limitations and risk-reducing contracts, such as International Swaps and Derivative Association (ISDA) master agreements and CSAs.

In March 2016, Kommuninvest had 23 active derivative counterparties with ISDA agreements (of which, 20 also had CSA agreements). In addition, we note that Kommuninvest actively seeks CSA agreements with all counterparties and does not enter into any new transactions or new ISDA agreements without also entering into a collateral agreement. Prudent thresholds for the exchange of collateral are incorporated into its CSA agreements. In addition, we note that Kommuninvest is increasingly adopting two-way bilateral CSA agreements, which we take into consideration when assessing its liquidity. We consider Kommuninvest's monitoring mechanisms and stress testing robust and observe that contingent capital requirements of expected collateral postings are funded already under current liquidity policy.

In this regard, Kommuninvest has an advanced set of systems and monitoring in place. The valuation of derivatives exposure is performed daily or weekly depending on the size and riskiness of the exposure. Collateral is exchanged daily, weekly, or monthly, depending on the CSA agreement.

Funding and liquidity risk

Kommuninvest does not take deposits and is consequently wholly dependent on international and domestic capital markets for wholesale funding. Still, the agency has access to several funding markets and, in our view, enjoys excellent name recognition within those markets. This, together with significant prefunding, helps mitigate the funding risks. We also observe that Kommuninvest issuance is positioned in risk class 1 with regard to Basel's liquidity coverage ratio (LCR), which will contribute to continued strong investor demand for its paper.

In terms of the 2015 geographic breakdown of funding, we observe a continued increase in the funds sourced from the Swedish benchmark program, which accounted for 53% of funding (same as in 2014). In addition, benchmark transactions in U.S. dollars, where Kommuninvest through its 144A registration can sell debt directly to U.S. investors, continued their upward trend. They complement its Swedish krona funding and stood at 35% of funding in 2015, slightly down from 39% of total funding in 2014. As mentioned above, the Japanese Uridashi market represents a key market for Kommuninvest, even though its relative share in the agency's funding portfolio has decreased progressively over the past three years. Structured funding accounts for less than 5% of total funding. All structured funding is 100% hedged and strict policies are in place for usage of new structures.

In terms of funding strategy, we view positively Kommuninvest's strategy of sourcing the majority of debt from its domestic SEK benchmark program. We regard this development as positive because it means less usage of basis swap derivatives.

Since 2010, Kommuninvest has been eligible for repo transactions with the Riksbank, with the ability to pledge the majority of its securities portfolio as collateral. We consider the agency's access to central bank financing as a key feature that further mitigates the funding risks associated with its dependence on wholesale market funding. We understand that Kommuninvest does not intend to utilize this option on an ongoing basis, although we note the routines and procedures have been tested.

Kommuninvest's adopted strategy of increased benchmark issuance means that significant single-day maturities can occur, increasing the need for close liquidity planning. In addition to its comprehensive prefunding, the liquidity risks from benchmark funding are mitigated by comprehensive repurchase plans and substantial matched lending, which decrease refinancing risks at the time of maturity.

Market risk

Kommuninvest has limited exposure to market risks due to its prudent asset-liability management. Interest rate matching occurs on a transaction level. Currency and interest rate risks are controlled through the extensive use of derivatives. However, the extensive use of the Swedish benchmark program has reduced the overall use of derivatives. In addition, no exposure to stock markets, commodities, or volatilities are allowed.

Kommuninvest uses derivatives for hedging purposes only. Total interest rate risk is maximized to SEK15 million in a parallel shift of the yield curve by 1 percentage point. In addition, currency risk is kept minimal and only allowed to a limit of SEK5 million on open positions.

Capitalization: Reinforced After Member Capital Contributions

At year-end 2015, Kommuninvest's capital base consisted of core equity (share capital and retained earnings) of SEK3 billion and supplementary capital (hybrid Tier 2 capital) at SEK0.7 billion. In a strict balance-sheet comparison, this places Kommuninvest's capitalization as thin, with the equity-to-asset ratio at 0.9% at year-end 2015 (this excludes Kommuninvest's SEK1 billion debenture, as we do not believe that the current loan satisfies requirements for inclusion in primary capital). However, we expect Tier 1 capital to have increased over SEK6 billion at mid-year 2016, as the effects of the member contributions become fully reflected in the institution's balance sheet, bringing its equity-to-asset ratio closer to 2%.

The proposed leverage requirement within Basel III means that financial organizations' leverage ratios (with no risk weighting of assets) must be 3% of their balance sheets. Discussions are ongoing whether or not the leverage ratio requirement should be moderated for niche institutions like Kommuninvest, subjecting them to a leverage ratio requirement of 1.5%.

We note that Kommuninvest's strategy for building capital includes turning to its members for additional capital contributions, and believe that such further member support could be required for Kommuninvest to be able to continue with its scope of activities under a 3% leverage ratio requirement. We also note that the institution is contemplating new capital forms, namely voluntary participation capital and core capital instruments. Additionally, if Kommuninvest was required to meet higher regulatory requirements on minimum capital than currently expected, it could use its right to claim payment of contribution capital up to ceiling level for member contribution capital.

Given Kommuninvest's low risk lending, the agency's Tier 1 risk-weighted regulatory capital adequacy ratio stood at a strong at 44.6% at year-end 2015, compared with 34.6% in 2014. The uplift is primarily due to the build-up of capital having taken place as a consequence of the new capital adequacy leverage ratio soon to be introduced in the EU, effective from Jan. 1, 2018.

Under S&P Global Ratings RAC framework, we estimate Kommuninvest's RAC ratios at 14% (before concentration adjustments) with data at March 31, 2016. In our view, this signals an adequate level of capitalization. In our RAC calculations we do not include Kommuninvest's hybrid capital, as we assess this instrument as eligible for inclusion in primary capital and it does not meet our criteria for holding intermediate equity content. Moreover, we include the agency's lending to municipal enterprises exposures under local government risk subject to a 4% risk weight. The inclusion of the earnings for 2016 together with our expectations of strengthened core capital in 2016 provides for a positive trend on the RAC ratio.

Table 2

Kommuninvest i Sverige AB Risk-Adjusted Capital Framework Data

(Mil. SEK)	Exposure*	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	307,960	10,935	4
Institutions	65,070	7,542	12

Table 2

Kommuninvest i Sverige AB Risk-Adjusted Capital Framework Data (cont.)			
Corporate	-	-	-
Retail	-	-	-
Of which mortgage	-	-	-
Securitization§	-	-	-
Other assets	-	-	-
Total credit risk	373,030	18,477	5
Market risk			
Equity in the banking book†	-	-	-
Trading book market risk	--	-	--
Total market risk	--	-	--
Insurance risk			
Total insurance risk	--	-	--
Operational risk			
Total operational risk	--	1,903	--
(Mil. SEK)		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments			
RWA before diversification	--	20,379	100
Total Diversification/Concentration Adjustments	--	5,137	25
RWA after diversification	--	25,516	125
(Mil. SEK)		**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio			
Capital ratio before adjustments	--	2,891	14
Capital ratio after adjustments‡	--	2,891	11

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. SEK--Swedish krona. Sources: Company data as of March 31, 2015, S&P Global Ratings.

Table 3

Kommuninvest i Sverige AB Summary Balance Sheet				
	--Year ended Dec. 31--			
(Mil. SEK)	**2015**	**2014**	**2013**	**2012**
Assets				
Cash and money market instruments	717	4,022	2,822	15,619
Securities	62,531	61,182	59,562	55,457
Customer loans (gross)	254,422	222,804	208,644	200,951
Customer loans (net)	254,422	222,804	208,644	200,951
Earning assets	317,670	288,007	271,028	272,026
Fixed assets	37	6	5	6
Derivatives credit amount	22,776	23,849	6,236	11,057

Table 3

Kommuninvest i Sverige AB Summary Balance Sheet (cont.)

	--Year ended Dec. 31--			
(Mil. SEK)	**2015**	**2014**	**2013**	**2012**
Accrued receivables	12	8	11	13
All other assets	105	149	148	150
Total assets	340,616	312,052	277,459	283,284
Adjusted assets	340,600	312,051	277,459	283,284
Liabilities				
Noncore deposits	2,304	4,801	4,352	5,610
Other borrowings	319,944	293,318	270,491	257,257
Other liabilities	11,887	11,558	14,121	18,463
Total liabilities	334,134	309,677	275,731	281,331
Total equity	6,482	2,375	1,728	1,953
Preferred stock and other capital	0	0	0	1,000
Common shareholders' equity	6,482	2,375	1,728	953
Share capital and surplus	5,424	2,046	1,396	628
Revaluation reserve	(49)	13	17	23
Retained profits	1,107	299	296	284
Total liabilities and equity	340,616	312,052	277,459	283,284

SEK--Swedish krona.

Table 4

Kommuninvest i Sverige AB Profit And Loss

	--Year ended Dec. 31--			
(Mil. SEK)	**2015**	**2014**	**2013**	**2012**
Net interest income	798	915	970	772
Interest income	1,438	3,651	4,571	6,046
Interest expense	640	2,736	3,602	5,275
Operating noninterest income	202	98	20	(295)
Fees and commissions	(5)	(5)	(6)	(9)
Other market-sensitive income	203	102	25	(291)
Operating revenues	1,000	1,013	990	477
Noninterest expenses	300	284	245	252
Personnel expenses	102	96	81	73
Other general and administrative expense	195	185	162	176
Preprovision operating income	700	729	744	225
Operating income after loss provisions	700	729	744	225
Nonrecurring/special income	0	0	13	228
Nonrecurring/special expense	37	0	0	0
Amortization of intangibles	4	0	0	0
Pretax profit	659	729	758	453
Tax expense/credit	(31)	161	167	133
Net income (before minority interest)	690	568	591	321

Table 4

Kommuninvest i Sverige AB Profit And Loss (cont.)				
	--Year ended Dec. 31--			
(Mil. SEK)	2015	2014	2013	2012
Net income after extraordinaries	690	568	591	321

SEK--Swedish krona.

Table 5

Kommuninvest i Sverige AB Ratio Analysis						
	--Year ended Dec. 31--					
(%)	2015	2014	2013	2012	2011	2010
Profitability						
Net interest income/average earning assets	0.3	0.3	0.4	0.3	0.3	0.3
Noninterest expenses/revenues	29.0	28.0	24.8	52.8	41.4	45.3
Personnel expense/revenues	10.0	9.5	8.2	15.3	11.5	15.6
Preprovision operating income/operating revenues	71.0	72.0	75.2	47.2	58.6	54.7
Tax/pretax profit	14.0	22.1	22.0	29.3	26.7	27.0
Core earnings/revenues	59.4	56.1	58.7	33.4	43.0	40.0
Core earnings/average adjusted common equity	17.6	27.9	44.0	16.9	26.2	17.6
Capitalization						
Adjusted total equity/adjusted assets	1.3	0.8	0.6	0.4	0.5	0.7
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	1.8	1.1	0.8	0.6	0.8	0.9

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Swedish Local And Regional Government Risk Indicators: February 2016 Update, Feb. 10, 2016

Ratings Detail (As Of July 12, 2016)	
Kommuninvest i Sverige AB	
Issuer Credit Rating	AAA/Stable/A-1+
Nordic Regional Scale	--/--/K-1
Commercial Paper	A-1+
Nordic Regional Scale	K-1
Senior Unsecured	AAA

Ratings Detail (As Of July 12, 2016) (cont.)		
Issuer Credit Ratings History		
03-Jul-2006		AAA/Stable/A-1+
21-Nov-2008	*Nordic Regional Scale*	--/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com