KOMMUNINVEST I SVERIGE AB

Annual Report 2019

KOMMUNINVEST

INTRODUCTION

SUSTAINABILITY REPORT

BOARD OF DIRECTORS' REPORT

FINANCIAL STATEMENTS

The Annual Report for Kommuninvest i Sverige AB (publ) is presented on pages 25-93. On pages 1-24 "Kommuninvest" refers to the Kommuninvest Cooperative Society and/or to Kommuninvest i Sverige AB. From page 25 and onwards, it refers to Kommuninvest i Sverige AB, unless otherwise stated. The Annual Report for the Parent Society, the Kommuninvest Cooperative Society, is available at www.kommuninvest.org

Working together for better terms

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

278 +12

Kommuninvest is owned by 278 municipalities and 12 regions.

Green Loans

Green loans were introduced in 2015 for financing environmental and climate-related investments. Since the launch, the volume of Green loans has increased to SEK 63 billion.

Our vision

Kommuninvest shall be the world's best organisation for local government financial administration. We finance the development of Sweden's local and regional sectors, as well as investments for a sound and sustainable society.

Basic concept

Together, municipalities and regions can borrow more securely and inexpensively than each of them could individually. Together, the local government sector can also increase its expertise in financial management.

Organisation with clear division of roles

Kommuninvest comprises two parts. The Kommuninvest Cooperative Society (the Society) and the credit market company Kommuninvest i Sverige AB (the Company).

Kommuninvest Cooperative Society

Administrates membership and the joint and several guarantee.

The Board of Directors consists of elected politicians from municipalities and regions.

Kommuninvest i Sverige AB

Conducts the financial operations, including funding, liquidity management and lending.

The Board of Directors consists of individuals with expertise in areas such as public administration, capital markets and business development.

AAA

Aaa

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

Since 1986

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

SEK 407 bn

Lending to members amounted to SEK 407 billion at the end of 2019.

Important events during the year

In 2019, Kommuninvest's total lending grew beyond SEK 400 billion and the proportion of Green Loans continued to increase. On account of the low sustainability risks in its operations, Kommuninvest's ESG ratings were raised by two sustainability assessors. KI Finans and KI Offert were also developed, with new functions being added to aid customers.


Green Loans have financed Svealandstrafiken's biogas buses

Green Loans reach 10 percent of lending

The strong demand for Green Loans continued in 2019. At the end of the year, the volume of Green Loans granted had increased to SEK 63.1 (39.5) billion, relating to 346 (232) investment projects in 150 (109) municipalities and regions. The volume of Green Loans disbursed increased to SEK 41.0 (26.2) billion, corresponding to 10.1 (7.4) percent of the Company's total lending.

Lending surpassed SEK 400 billion

In 2019, Kommuninvest's lending passed SEK 400 billion. Lending increased to both larger and smaller municipalities, as well as to municipalities both with and without their own market programmes. The increase is greatest among the municipalities with their own market programmes, which can be interpreted as implying that Kommuninvest's pricing has been attractive. In 2019, sector debt was expected to rise 9.9 percent, exceeding the average of 7.1 percent for the past ten years. This increased funding is attributable to extensive investment being required, stemming from population growth and maintenance needs. Alongside the economy slowing down and the municipalities' expenses increasing, this requires that investments be financed through loans.

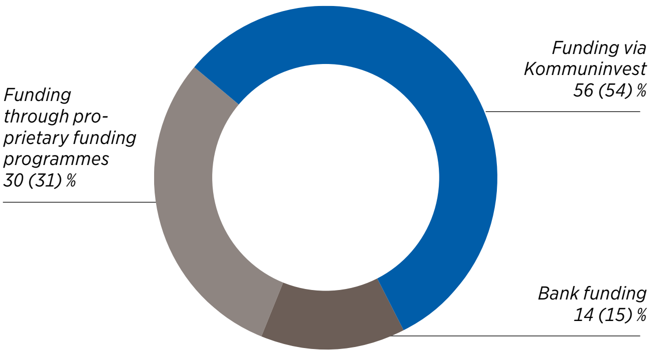
Higher ESG rating from two institutes

Over the year, Kommuninvest raised its ESG ratings from the ISS-Oekom and Sustainalytics institutes. The rating from ISS-Oekom was raised in two steps to B–; while Sustainalytics gave an ESG rating of 9.1, in the category "negligible ESG risk". The results show that Kommuninvest belongs to the group of financial institutions whose operations are considered least exposed to sustainability risks.

KI Finans being developed

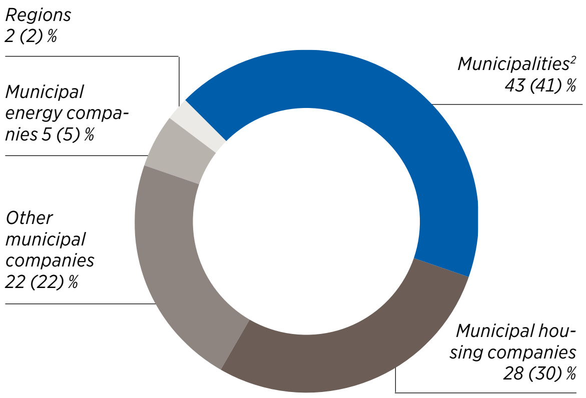
Over the year, Kommuninvest continued its efforts to simplify matters for our customers by further developing, for example, the signing application in KI Finans, allowing our customers to sign loan agreements with mobilt BankID. The service is now offered to all municipalities, regions and wholly-owned companies. Over the year, KI Offert, with which the customer can request a digital quotation request from Kommuninvest, was further developed in consultation with customers and has been extended with requests now being automatically registered in our internal systems and a quotation is compiled on the basis of the customer's wishes. Several functions will be developed and launched in 2020, including an opportunity to sign transactions directly in KI Finans.

MARKET SHARES, LOCAL GOVERNMENT LOAN FINANCING[1]



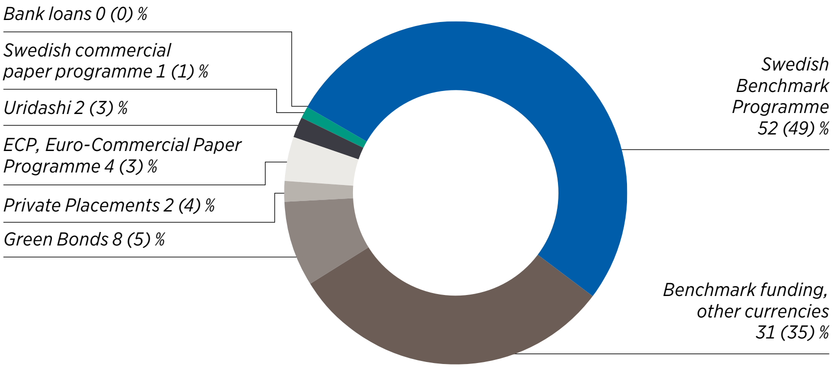
1) Forecast regarding outstanding funding (figures in brackets refer to actual outstanding funding in accordance with members' own annual reports as per 31 December 2018)

LENDING PORTFOLIO BY BORROWER CATEGORY



2) Some lending to municipalities is on-lent to municipal companies through municipal internal banks.

FUNDING PORTFOLIO BY PROGRAMME



All charts refer to 31 December 2019. Figures in parentheses refer to 31 December 2018.

MULTI-YEAR SUMMARY, KOMMUNINVEST I SVERIGE AB

	2019	2018	2017	2016	2015
Balance sheet total, SEK billion	471.3	417.2	356.9	361.7	340.6
Lending (recognised value), SEK, billion	408.2	355.7	310.1	277.0	254.4
Net profit, SEK, million	307.9	586.1	876.0	309.8	561.3
Members, total	290	288	288	286	280
of which, municipalities	*278*	*277*	*277*	*275*	*272*
of which, regions	*12*	*11*	*11*	*11*	*8*
Core Tier I capital ratio[1], %	126.8	188.4	212.4	103.7	44.6
Tier I capital ratio[2], %	126.8	188.4	212.4	103.7	44.6
Total capital ratio[3], %	126.8	188.4	212.4	122.1	59.8
Leverage ratio according to CRR[4], %	1.58	1.75	1.78	1.56	0.87

1) Core Tier I capital in relation to total risk exposure See also pages 37-38 and Note 3.
2) Tier I capital in relation to total risk exposure See also pages 37-38 and Note 3.
3) Total capital base in relation to total risk exposure See also pages 37-38 and Note 3.
4) Tier I capital in relation to total assets and commitments (exposures). See also page 38 and Note 3.

Clarity on the issue of capital

With there now being clarity regarding the regulatory requirements on Kommuninvest's capital, the Company can address other future issues. Rapid external change and continued geopolitical and macroeconomic uncertainty demand both a proactive approach and flexibility. How the business developed in 2019 demonstrates that Kommuninvest continues to play a value-adding role for its members.

For a long time, it has been apparent that financial institutions should be subject to a minimum leverage ratio, a measure of capital not weighted for risk, in addition to other measures that are weighted for risk. How much capital an operation of Kommuninvest's nature needs remains, however, a somewhat open question. The EU's new Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) were ultimately published in 2019. The requirements these impose on public development credit institutions, as well as the views expressed by the Swedish authorities on the new regulations, mean that Kommuninvest has finally gained clarity on the regulatory requirements. On the positive side, Kommuninvest is afforded reasonable conditions for conducting its operations, while meeting the requirements by a good margin.

With the capital requirements having ended up at a manageable level, the risk-related parts of the regulatory system come to the fore, giving the Board of Directors of the Company and the members the opportunity to define a capital requirement reflecting the actual risks.The Board's task here is to identify capital requirements and to safeguard proactive and adequate risk management. Considerable work has been conducted to prepare the data on which to base a well-balanced capital strategy.

"On the positive side, Kommuninvest is afforded reasonable conditions for conducting its operations, while meeting the requirements by a good margin.

Stability confirmed by high ratings

The increased clarity and relevance of the capital requirement enhance stability, which is also reflected in the updated credit ratings received by the Company during the year. Kommuninvest was again awarded the highest possible credit ratings (AAA/Aaa), confirming the stable foundation on which the operations are built.

We are also pleased that Kommuninvest has performed well in ESG assessments, in which independent institutes assess sustainability-related risks. Investors are imposing increasingly strict demands on issuers in terms of ESG factors, and the Company has been thorough in its efforts to respond to these demands. Looking ahead, this could affect demand for Kommuninvest's bonds, as well as the terms for lending to members.

Strategy in focus

During the year, the Board of Directors prioritised detailed and more forward-looking discussions. The 2019 strategy days focused primarily on artificial intelligence, machine learning and automation, as well as on how to actually bring about change in organisations and in human behaviour.

Among other topics, we discussed what future service offerings should look like. Developing digital tools with a substantial element of automation is crucial in responding, among other things, to the ever-faster pace of external change, which affects customers' behaviour and expectations. The Board of Directors has also initiated a process to design a loan product for social sustainability that supports the efforts of the local government authorities.

It is positive that customer and employee surveys reflect a favourable perception of Kommuninvest, and that internal efforts to improve processes, increase diversity, strengthen employee development, etc. are progressing in the right direction.

Strict ethical demands

Kommuninvest is part of the Swedish public sector and ultimately represents Swedish citizens and taxpayers. Accordingly, Kommuninvest should maintain strict standards of ethical conduct. We also impose strict demands on the commercial banks with which we have relationships. In 2019, instances of money laundering gave cause for special handling, including communications with those concerned, emphasising how seriously we view such matters.

Good cooperation

Kommuninvest applies a model of corporate governance in which the strategic development of the Company takes place in close cooperation with its owners. Productive discussions in an open and trusting discourse climate provide the right conditions for the well-founded development of the operations.

Over the past year, these discussions have again been very valuable to the Board.

Nurturing beneficial discussions and developing an approach shared by all areas of the operations will remain a guiding light for the Board of Directors in the upcoming years. This helps shape our culture and enhances creativity, for the benefit of our customers and members – the Swedish municipalities and regions.

Kommuninvest i Sverige AB

Ellen Bramness Arvidsson
Chairman

Effective collaboration engenders favourable conditions

Investments by the local government sector continue to be affected by strong population growth and urbanisation, while homes and properties built in the 1960s and 1970s require extensive renovation. Kommuninvest's development demonstrates that local government authorities are able to join forces to create an effective tool for good financing conditions.

Over the year, the financial prospects for the local government sector weakened. At the same time, the sector's balance sheet is holding up very well and is possibly stronger than ever. The challenges are accumulating in the operations, with access to skills being one of the growing concerns.

The forecast for future years shows a continued increase in borrowing as a consequence of weaker earnings combined with major investments. Priorities between different investments will gain importance in maintaining a balanced economy.

Demand for financing continues to increase

In our assessment, the sector is able to withstand a period with a lower level of self-financing and increased borrowing, as long as revenues are sufficient to cover operating expenses. As borrowing increases, we should also bear in mind that a substantial body of assets is building up among municipalities, regions and municipal companies.

Kommuninvest's development has far exceeded our forecasts. Lending growth, which amounted to 15 percent for the year, is the ultimate proof that the Kommuninvest tool works and that, by joining forces, municipalities and regions can achieve better and more efficient funding than they could separately.

"The trend of an increasing number of members securing, in principle, all of their funding through Kommuninvest underlines our need for uninterrupted access to financing.

Efficiency a constant endeavour

Our core operations entail providing stable and secure financing of our members' investments under optimal terms. Good cost control is afforded high priority. Accordingly, it is gratifying that the strong growth in business volumes in 2019 was not matched by commensurate cost increases, although investments in digitalisation and continued extensive regulatory requirements continue to drive costs. On the whole, in relation to business volumes, operating expenses continue to decline and the overall strategy to reduce lending margins stands firm.

The trend of an increasing number of Kommuninvest's members securing, in principle, all of their funding through Kommuninvest underlines our need for uninterrupted access to financing. Over the past year, this has not been a challenge – geopolitical events have passed surprisingly smoothly without any negative impact on capital markets. The central banks contribute with their efforts regarding low/negative interest rates and their strategies in this area.

As part of developing our financing strategy and safeguarding low funding costs in the long-term, a decision was made during the year to include the euro as a strategic funding currency. This means that Kommuninvest's strategic funding markets will, in the future, include Swedish kronor (SEK), US dollars (USD) and euros (EUR), which are among the world's most liquid.

Knowledge and simplicity

The knowledge-oriented part of our business, which entails building our customers' skills and simplifying their everyday lives, represents a small but growing part of the operations. During the year, in collaboration with a leading educational institute, we developed an advanced training programme in local government finance, initially with five municipalities participating. We plan to continue developing the concept.

Making our services easier to use is an important part of our efforts to enhance efficiency. During the year, we introduced a process for signing loan agreements online with the Mobilt BankID application and automated the process for requesting quotations. The services are offered within the framework of KI Finans, a web-based tool for local government financial management with more than 2,000 users. In consultation with customers and members, KI Finans is under continuous development, adding new functions.

For a beneficial and sustainable society

In conclusion, following a year in which issues of sustainability gained increasing focus, it is gratifying to affirm that Kommuninvest's basic concept and vision are clearly linked to the overarching sustainability efforts of the Swedish local government authorities, including Agenda 2030. To further highlight and promote the transition to a sustainable society, Kommuninvest has joined forces with its members and customers to develop a model for green financing that has become Sweden's largest and attracted attention worldwide.

I would like to extend my considerable thanks to my colleagues for all of their great achievements over the year.

Kommuninvest i Sverige AB

Tomas Werngren
President & CEO

How Kommuninvest helps build welfare

Kommuninvest finances more than half of the Swedish local government sector's investments in new housing, schools, homes for the elderly, swimming baths and other infrastructure investments.

Through our lending, we provide conditions for Swedish municipalities and regions to invest cost-efficiently in welfare. Since the financial crisis ten years ago, Kommuninvest's share of the local government sector's funding has risen sharply and today we account for slightly more than half of the total loan debt. The explanation is partly that municipalities and regions have increasingly joined Kommuninvest as members, and partly that the new, stricter regulations have made it increasingly difficult for banks and other financial institutions to compete with our favourable credit terms.

1. Funding

Kommuninvest continuously raises funding both in Sweden and in the international capital market. The local government sector's inherent stability combined with our members' joint and several guarantee undertaking means that Kommuninvest's funding is regarded as highly secure. From a credit risk perspective, Kommuninvest's funding is regarded as equivalent to the Swedish central government's own funding. The low risk, combined with Kommuninvest's history and good reputation in the capital market, affords us access to financiers who generally lend to us on favourable terms. To be able to meet our members' credit requirements, even when the markets are uneasy, we always maintain surplus liquidity in reserve.

2. Loan application and credit check

When one of Kommuninvest's customers decides to borrow money for one or more investments, the municipality or the region contacts Kommuninvest to apply for a loan. Normally, our lending is not tied to any specific purpose and, in accordance with the Swedish principle of local self-government, borrowers need not account for how the money will be used.

Since we have usually known our members well for many years, we generally have a good knowledge of their financial situation. Kommuninvest performs regular checks to determine customers' credit capacity and, in connection with each lending decision a check is made to ascertain whether the loan to be granted is in line with the customer's credit capacity. Together we find a solution that both meets the needs of the borrower and takes into account the combined borrowing debt of the Society's members.

3. Green Loans

If the investment for which a municipality or region is borrowing money is compatible with Sweden's environmental objectives or those of the region and contributes to a more resource-efficient and climate-resistant society, the borrower has the opportunity to apply for a Green Loan. For the Environmental Committee to grant a Green Loan, the investment must meet a number of predetermined sustainability criteria and be included in one of eight categories, including investments in renewable energy, climate-smart buildings, sustainable transport and energy efficiency. Kommuninvest finances its green lending by issuing Green Bonds, which are sought after by investors and meet a number of requirements to be recognised as green. Read more about Kommuninvest's Green loans on page 16.

4. Disbursement of loans

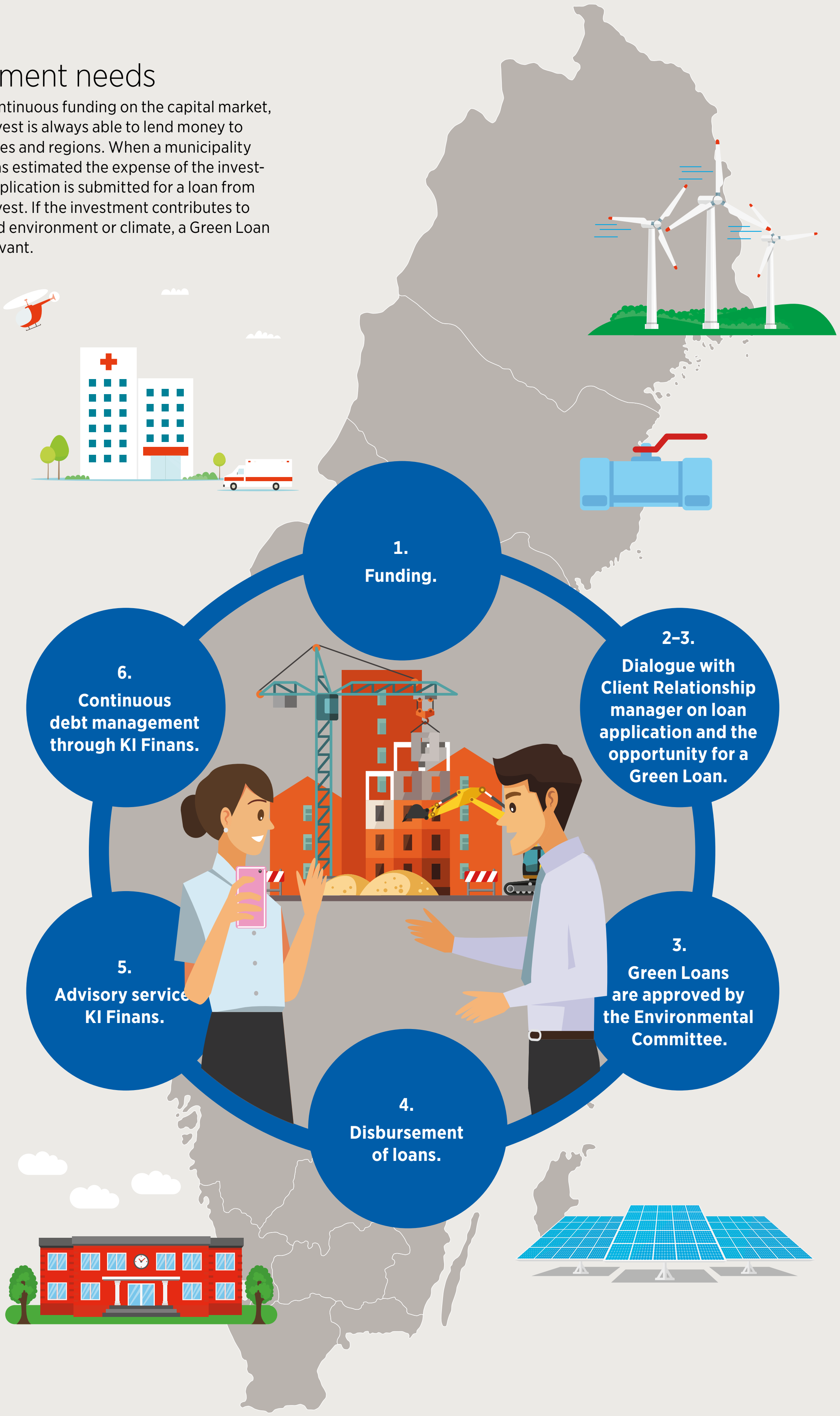
Because we know our members well and apply a fast and efficient credit process, the time from the first call regarding the borrowing requirement until the loan can be disbursed is brief. If a Green Loan is involved, we take care of the additional administration and documentation that green financing requires, such as the ongoing external review and reporting to investors having purchased Kommuninvest's Green Bonds.

5–6. Advice and debt management through KI Finans

Throughout the term of the loan, the borrower is in continuous contact with our Client Relationship manager and has access to all of Kommuninvest's combined expertise. In the web-based financial management service KI Finans, customers' finance officers have access to transaction management, analysis and reporting of liabilities and assets.

Investment needs

Through continuous funding on the capital market, Kommuninvest is always able to lend money to municipalities and regions. When a municipality or region has estimated the expense of the investment, an application is submitted for a loan from Kommuninvest. If the investment contributes to an improved environment or climate, a Green Loan may be relevant.



How we generate sustainable values

Through lending to municipalities and regions, Kommuninvest establishes conditions for the expansion of Swedish welfare, increases the stability of local government finances and contributes to a more sustainable Sweden.

The municipalities and regions form the backbone of the Swedish welfare state. It is under the their management that citizens encounter the most central social services, including healthcare, education and residential care. They also play a central role in the basic social infrastructure, in the form of housing construction, energy supply, public transport, water and sanitation, waste management and recycling, etc.

Local government actors are also a driving force behind Swedish sustainability efforts, with ambitious environmental plans and being responsible for urban planning, local infrastructure and public transport. More than 90 percent of the municipalities have set their own environmental targets or have adopted national or regional targets. They frequently aim higher than the national target of a fossil-free Sweden by 2045.

Generating direct values

In its role as the largest lender to the Swedish municipal sector by a wide margin, Kommuninvest helps generate both direct and indirect values. Among the direct values, the most important is that the cost-efficient lending we provide brings financial stability to municipalities and regions. Our lending makes it possible to carry out essential investments in welfare and sustainability – and to a greater extent or at a faster pace than would have been possible if credit had been more expensive. We also offer our members a tool for easier and more efficient debt management that we have developed in-house, KI Finans, the full-scale version of which is being used by 216 out of 290 members. Because of its good financial results, Kommuninvest's members have been able to receive an annual distribution of surpluses, consisting of refunds and interest on contribution capital. In 2019, SEK 717.8 million in surpluses was distributed for the 2018 financial year.

Generating indirect value

The most important values that Kommuninvest contributes to creating are of course the results of all of the investments financed by our lending. These involve welfare investments including new or refurbished homes for the elderly, schools and healthcare centres, or various forms of infrastructure such as roads, public transport, energy, water/sewerage. Cost-efficient, long-term financing provides conditions for municipalities and regions to make significant investments at the pace needed to meet increased requirements on level of service, population growth and other needs arising in common welfare. Because 96 percent of Sweden's municipalities and 60 percent of its regions are members of Kommuninvest, our lending contributes to making beneficial investments from north to south, in turn engendering conditions for people to live and work in all parts of Sweden.

Kommuninvest works actively to build up capacity and increase knowledge of the local government sector's financial conditions. This is partly achieved by collaborating on research with Örebro University and by developing customised courses for elected local government representatives and officials in collaboration with the Stockholm School of Economics. We have also initiated and fund the Society Lab network, which is aimed at young politicians and where issues of welfare and welfare financing are discussed., In this way, Kommuninvest helps produce the conditions needed for long-term sound and sustainable local government finances. We are also a partner of the Vadstena Forum for Public Construction, which arranges symposia to promote an open debate and exchange of knowledge on public construction issues.

For a long time, municipalities and regions have had clear assignments to shape a sustainable society. Today, the sustainability debate has broadened to cover a wide range of aspects, not least on how we take responsibility for the society we pass on to future generations. Consequently, virtually all local government sector investments have a sustainability focus – particularly when it comes to investments aimed at reducing negative effects on the climate, building long-term sustainable societies, promoting clean water and sustainable energy, and sustainably developing industry, innovations and infrastructure. These investments help meet several of the component targets in the UN's Agenda 2030, on which many actors in the local government sector hold a position. A significant portion of investments promoting sustainability are financed with Kommuninvest's Green Loans, which were introduced in 2015. At the end of 2019, SEK 63.1 (40.0) billion in Green Loans had been granted regarding 346 (232) investment projects in 150 (109) municipalities and regions.

Kommuninvest finances Green Loans by issuing Green Bonds. Demand for our Green Bonds has been very good, and most issues have been oversubscribed. With its Green Loans and Green Bonds, Kommuninvest contributes to the financial market's realignment to support development towards a sustainable society.

Creates stable finances in municipalities and regions.

Contributes to the general build-up of welfare in Sweden.

Lending

407

SEK bn

Of which, 10 percent Green Loans (based on disbursed volume)

Helps all of Sweden live.

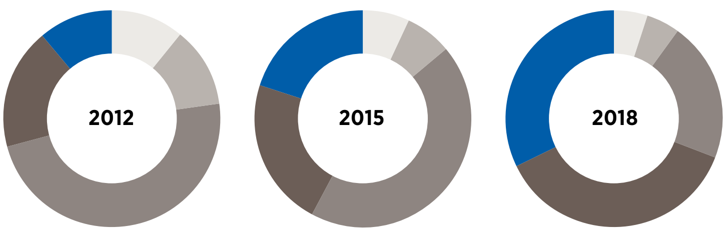
717.8
SEK million in total distribution of surplus[1]

2,062
users of KI Finans

Helps to meet Sweden's sustainability targets.

1) Amount disbursed in 2019, relating to the 2018 financial year.

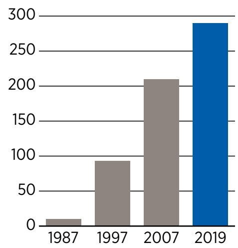
Kommuninvest's share of local government borrowing



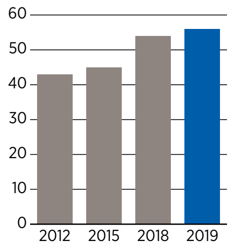
0% 1–50% 51–90% 90–99% 100%

The compilation refers to Kommuninvest's share of borrowing among all of Sweden's municipalities, including both members and non-members. Most of the municipalities with no borrowing from Kommuninvest are non-members, meaning they are not entitled to raise loans from Kommuninvest. Of the 14 municipalities that had no borrowing from Kommuninvest in 2018, 13 were non-members. Data for 2019 were not available at the time of publication.

Number of members



Kommuninvest's market share, %



Sustainability Report 2019

Kommuninvest's basic concept and vision includes encouraging social development that is sustainable in the long term. By offering sustainable financing solutions, we foster the efficient use of tax revenues, financial stability and the local government sector's work with the Sustainable Development Goals.

Our view on sustainability builds on the values of the Swedish local government sector, and our actions are conducted in accordance with the Local Government Act and other relevant legislation. It is therefore consistent with the international framework of the ILO Fundamental Conventions, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Global Compact.

Our sustainability work builds on the expectations of our stakeholders and on our mission to finance local government development and investment for a beneficial and sustainable society. The ambition is to integrate sustainability throughout our operations.

Stakeholder dialogue

Kommuninvest's role as the local government debt office and the node for financial cooperation in the Swedish Local government sector, means that we maintain relationships with a number of stakeholders who affect our operations in various ways and who are affected by our operations. We maintain an ongoing dialogue to identify the sustainability issues with which the Group should work. Our dialogue with stakeholders involves regular meetings with members, customers and employee delegates, as well as with representatives of government ministries and national authorities. Kommuninvest also conducts regular satisfaction surveys among key stakeholders, including members, customers, employees and investors.

Swedish municipalities and regions are our most important stakeholder group. As members, they own and govern our operations, although, when they choose to borrow from us, they are also our customers. In their capacity as owners, our dialogue with members is conducted mainly with elected politicians. In their capacity as customers, our dialogue with members is conducted mainly with local government officials, generally with specialists in economics and finance.

Specific sustainability surveys are conducted on a regular basis. The overarching results of the two surveys conducted to date are presented on the opposite page.

Governance of sustainability work

The Head of Sustainability is responsible for managing, developing and reviewing Kommuninvest's sustainability work in close cooperation with the Executive Management Team and the department managers, who are responsible for taking sustainability aspects into account within their respective areas of responsibility. Guidelines for sustainability work are detailed in a Sustainability Policy adopted by the Company's Board of Directors, and are further specified in supplementary policies and instructions relating to occupational and personal safety, conflicts of interest, IT security, equality and diversity, bribery and hospitality, and regulatory compliance. Sustainability work is reported annually to the Board, and is supplemented by reviews on topical themes.

Sustainability risks

Sustainability risk is the risk that Kommuninvest's operations will directly or indirectly affect their surroundings negatively in terms of business ethics and corruption, including money laundering and terrorism financing, climate and environment, as well as human rights, including working conditions. Kommuninvest is primarily exposed to sustainability risks related to ethics, IT security and so-called green-washing, that is, the risk that environmental and climate-related investment projects that it funds fail to meet sustainability requirements.

Kommuninvest's actions to address sustainability risks are largely governed by national and international regulations and guidelines alongside the Society's Ownership Directive, internal instructions and policies. With regard to green financing, the Company's sustainability risk is managed through its Green Bonds Framework, including the expert committee responsible for evaluating and approving investment projects for green financing.

Direct and indirect influence

Kommuninvest has both a direct and indirect sustainability impact.

Kommuninvest controls the direct impact, meaning this lies within the Company's direct decision-making mandate and efforts can provide concrete qualitative and quantitative effects. Direct impact includes, for example, customer and employee relations, business travel, office premises, local collaboration, etc.

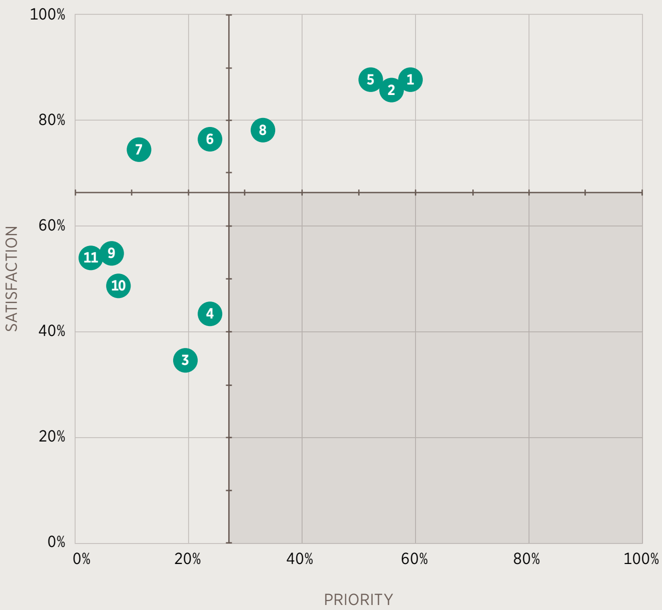
The indirect impact is defined as Kommuninvest's sustainability impact through its balance sheet, primarily through lending operations and business relationships with borrowers, investors and counterparties. This influence is mainly related to the local government authorities' choice of investments and how these contribute to a sustainable society.

The Global Goals

Municipalities' and regions' extensive efforts in sustainable development also entail Kommuninvest's operations meeting, in many ways, the UN Sustainable Development Goals. A mapping conducted in 2019 shows that the Group has a direct or indirect impact on 15 of the 17 global goals and on about 50 of the 169 sub-goals.

Stakeholder priorities and satisfaction

The 2019 sustainability survey showed that Kommuninvest is perceived to perform well in the areas of sustainability that stakeholders consider most important. As with the preceding survey, conducted in 2016, stakeholders felt that Kommuninvest should primarily prioritise green financing and responsible, ethical conduct. On the whole, stakeholders' perceptions of Kommuninvest's performance had improved in all of the areas of sustainability studied.



Higher priority/greater satisfaction
1 Environmental aspects, funding
2 Environmental aspects, lending
5 Responsible and ethical conduct

Higher priority/lower satisfaction
8 Sustainable organisation

Lower priority/greater satisfaction
6 Dissemination of knowledge and information
7 Diversity and equality

Lower priority/lower satisfaction
3 Social aspects, funding
4 Social aspects, lending
9 Sustainable supply chain
10 Environmental impact of business travel
11 Resource consumption, office operations

NUMBER OF RESPONDENTS: 109

Although Kommuninvest has limited direct impact, its indirect impact is extensive, with the organisation comprising some 100 employees at the head office in Örebro, while total assets amount to slightly more than SEK 470 billion.

Three perspectives in sustainability work

The Group's sustainability work is based on three perspectives, described in greater detail on the following pages:

• ***Sustainable financing,*** supporting municipalities' and regions' efforts in financial, environmental and social sustainability, as well as in fostering financial stability.

• ***Responsible operations,*** ensuring that the Group lives up to its Code of Conduct, stakeholder expectations and the laws, regulations and directives applicable to the operations.

• ***Sustainable organisation,*** safeguarding a good working environment and employee health, good management and employee collaboration, as well as an agile organisation.

Performance indicators related to sustainability are presented on pages 22–23.

Sustainable financing

Kommuninvest finances the development of Sweden's local and regional sectors, as well as investments for a sound and sustainable society. The operations contribute to citizens' tax funds being used as efficiently as possible and help improve the stability of the financial system. Financing at the lowest possible cost is central.

Kommuninvest's contribution in the area of sustainable financing involves both cost-effective and stable financing of public investments, as well as long-term analysis for sustainable local government finances. Our work also focuses on enhancing the skills of our members and customers in sustainable financial management, and offering tools that improve internal decision-making processes.

The local government debt office

Kommuninvest plays a similar role for the local government sector as the National Debt Office does for the central government and its authorities. One of our principal tasks is to safeguard financing that is as cost-effective as possible for the investments that municipalities and regions make in housing, schools, healthcare systems, public transport, etc. By "pooling" local government borrowing needs and channelling them through a single organisation, economies of scale can be achieved, while keeping administrative costs down. This allows tax revenues to be used more effectively.

Equally important is being able to offer financing to members even in times of financial market stress. Experience gained from the financial crisis of 2007 – 2008 shows that access to liquidity can be challenging at times, even for actors as creditworthy as local government authorities. Kommuninvest's ability to maintain the financing capacity of the local government sector, even in the most troubled times, engenders security and contributes to financial stability.

Increasing awareness on local government financing

By means of our own research and reports, Kommuninvest helps increase knowledge about the local government sector's long-term financial conditions. Each year, we publish reports describing developments in local government investment and its financing, and we analyse trends and phenomena associated with local government funding, debt and investment. The data are made available in public databases. Knowledge is disseminated on an ongoing basis by means of seminars and individual meetings.

Kommuninvest also collaborates with higher education. Since 2012, Kommuninvest has, among other things, maintained an in-depth partnership with the University of Örebro, promoting, for example, research on the local government sector's debt management and financial conditions, and financing a chair and post-graduate studies. Kommuninvest is also part of the reference group affiliated with the university's Master's programme in Sustainable Business.

Local government debt management tool

KI Finans is a web-based financial management service for transaction management, analysis and reporting of financial liabilities and assets. All members of the Society have access to the service, which had more than 2,000 users at the end of 2019. The service was originally developed for the Swedish local government sector, but is now also offered by Kommuninvest's sister organisations in Finland and Norway.

A non-profit concept that benefits society

Kommuninvest was established as a cooperative concept, to improve the local government sector's access to financing and to increase competition. The operations are to be characterised by the lowest possible risk exposure and a not-for-profit purpose. Any profits generated in the operations are returned to the members in the form of interest on contribution capital and refunds in relation to business volume. In this way, SEK 717.8 (969.8) million was transferred back to the members of the Society in 2019. Profit is expected to decrease in the future, following decisions by members in 2018 regarding a changed and more transparent pricing model. This means that the prices offered by Kommuninvest have been reduced.

Financing promoting a sustainable transition

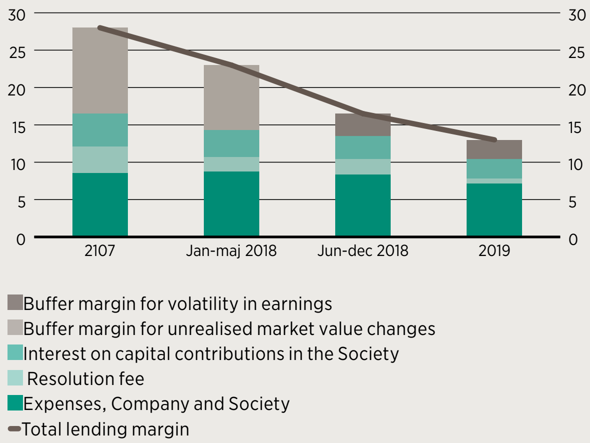
To make the local government sector's work towards national and regional environmental targets more visible, Kommuninvest offers so-called Green Loans. Green Loans may finance investment projects in areas including renewable energy, energy efficiency, public transport and water management, and can be linked to nine of the Sustainable Development Goals 2030 and all of the overall objectives of the Paris Agreement. Approved projects must promote the transition to a climate resilient society with low emissions and be part of the systematic environmental efforts of the borrower.

Kommuninvest finances Green Loans by issuing Green Bonds. Seven Green Bonds have been issued since March 2016, and Kommuninvest is Sweden's largest issuer of such instruments. The expected annual reductions of CO_2 emissions from the projects financed are published in the annual Kommuninvest Green Bonds Impact Report, which is available from Kommuninvest's website.

At the end of 2019, the volume of Green Loans disbursed amounted to SEK 41.0 (26.2) billion to 346 (232) green investment projects in 150 (109) municipalities and regions. The proportion of Green Loans in relation to total lending was 10.1 (7.4) percent.

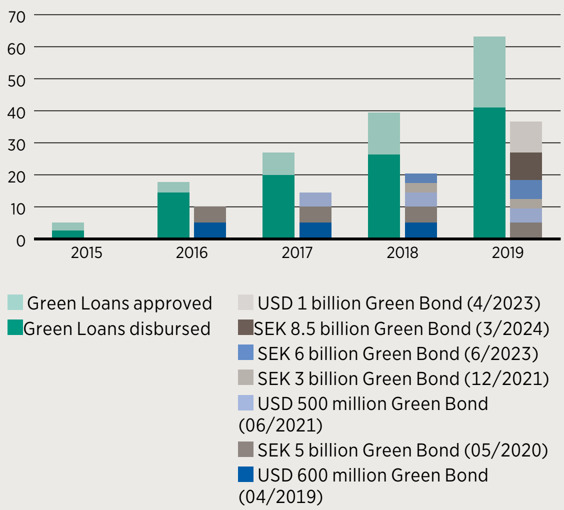
Cost components in the lending margin

Basis points of average lending volume



Green Loans and Green Bonds

SEK bn



Green Loans – examples of funded projects

Umeå – Clean transportation

Investment cost: SEK 215 million

Green Loans (disbursed): SEK 200 million

Since 2011, the Municipality of Umeå has gradually replaced an increasing number of public transport buses with electric buses. The final stage of the process was completed in 2019 when all diesel vehicles on the principal lines routes were replaced with articulated electric buses. In total, 70 percent of Umeå's public transport will be provided using electric buses. By themselves, the 25 articulated electric buses purchased most recently are expected to reduce CO_2 emissions by 2 million tonnes of CO_2 annually (gross).

Härnösand – Renewable energy

Investment cost: SEK 76.4 million

Green Loans (disbursed): SEK 39.5 million

Härnösand is building two new wind power plants that will use advanced wind power technology to generate significantly more power than previously, 3.5–4 MW per plant. The project will supply up to 24,000 MWh of locally produced electricity, corresponding to about 10 percent of Härnösand's consumption.

Smedjebacken – Waste management

Investment cost: SEK 31 million

Green Loans (disbursed): SEK 31 million

In building a new recycling centre, Smedjebacken is thinking circularly and holistically, focusing on re-use at a location 4 km closer to the town than previously. By themselves, the CO_2 savings from shorter passenger and truck connections will amount to 60 tonnes annually. In connection with the construction work, two existing oil furnaces will also be replaced by geothermal or local district heating, and solar panels will be installed.

Responsible operations

A clear division of responsibilities and a focus on ownership control, corporate governance and ethics shall help the Group to comply with the laws, regulations and rules applicable to the operations. The Code of Conduct highlights the importance of professionalism and good business practices.

Kommuninvest comprises two parts: The Society manages membership and matters of ownership issues and its Board of Directors consists of politicians from municipalities and regions. The financial operations, including funding, liquidity management and lending are conducted by the Company. Its Board of Directors consists of individuals with expertise in areas such as public administration, capital markets and business development.

There is a clear division of responsibilities, with the day-to-day operations of the credit market company being separate from the membership organisation and with annual ownership directives from the Society charting the Company's course. Governance and control are designed to meet the requirements both of the ownership directives, as well as the laws, regulations and other rules to which the operations are subject. Risk appetite is low and professional conduct, strict ethical requirements and good business practices are to permeate the operations.

Anti-corruption and anti-money laundering measures

Both the Company's Code of Conduct and its Sustainability Policy emphasise the importance of transactions and relationships being pervaded by good business ethics. The Company's employees shall adhere to the legislation, regulations and rules applicable to the operations and shall always behave in an ethically correct manner, with transparency, integrity and honesty. Zero tolerance of all forms of corruption applies. The Company is required to identify and manage possible conflicts of interest.

A risk-based approach is applied to ensure that the Company's products and services are not used for money laundering or terrorist financing. Suspicions of serious irregularities that could entail or lead to a breach of law are to be reported. Such violations can also be reported anonymously via a whistleblower function handled by an external party. No matters related to corruption or guidelines on money laundering were investigated during the year.

Environmental consideration

Kommuninvest's environmental work takes into account both the direct environmental impact of the office operations, purchases and services, as well as the indirect environmental impact of the financial operations. The latter is described in the preceding section on sustainable financing.

Direct environmental impact arises as a consequence of the Group's operations, including energy consumption in its premises, purchases of office supplies and equipment, meetings and conferences, etc. The greatest direct impact by far derives from business travel, which accounts for over 80 percent of the Group's climate impact. Naturally, emissions reduction efforts focus on air travel, which has the greatest climate impact. As shown in the graph on page 23, emissions from business travel have decreased continuously over the past five-year period. The main explanation is the reduced number of long-haul flights.

In our office operations, we work in various ways to reduce their environmental impact by means of environmentally labelled electricity, motion-controlled lighting and plumbing fixtures, micro-flush toilets, and a high level of recycling/sorting of waste. Total energy consumption, however, is increasing and an analysis of potential improvement measures was initiated in 2019. A plan of action for sustainable IT is being developed, and measures have been initiated to increase the recovery and reuse of obsolete equipment.

Climate compensation

Kommuninvest compensates for the greenhouse gas emissions remaining after its own climate work. In accordance with the conditions that apply to municipalities and regions, we climate compensate internally, that is, for investments made locally/in Sweden. Earmarked funds set aside either to finance initiatives supporting the sustainability efforts of the Society's members or helping reduce Kommuninvest's own impact.

During 2019, climate compensation funds of TSEK 262 (0) were used for the Group's participation in the project "Climate requirements at a reasonable cost", together with Public Housing Sweden and IVL. The project seeks to develop an industry standard allowing public housing organisations to calculate climate impact, including the construction process, and to set climate requirements for new production.

Community commitment

To increase the impact of our sustainability work and to respond to stakeholder expectations, we engage in relevant social issues, often in partnership with others. For example, we are participating in SNS's three-year research project, Community Building, which focuses on community planning, a functioning housing market and investments in infrastructure and public services. Kommuninvest contributes with its expertise in financing welfare and in collaboration between municipalities.

The panel, from the left: Sarah Havneraas, Secretary General, KDU, Romina Pourmokhtari, Deputy Chairman, LUF, Helena Nanne, First Deputy Chairman, MUF, David Ling, Spokesperson, Green Youth.

Young politicians debated challenges in welfare

During the year's Almedalen week (an annual democratic forum in Sweden) Kommuninvest and Society Lab* invited leaders of the political parties' youth associations to participate in panel debate on welfare in three fictional municipalities. The topics discussed were largely based on Kommuninvest's Welfare Challenges report.

The first fictitious municipality, the sparsely populated Municipality of Astridsås, facing problems such as population decline, unemployment and substantial need of welfare staff provoked discussions on the possibilities of digitisation, but also on how an improved integration policy could help resolve Astridsås's welfare problems.

"If we can succeed with integration, immigration is something that could rebuild communities like Astridsås. But we must have systems to accommodate recent arrivals, and to help them find homes and jobs – in that way aiding the rejuvenation of the municipality's population," reasons Romina Pourmokhtari, Deputy Chairman, Liberal Youth of Sweden (LUF).

In the larger Municipality of Bokhamn, a town characterised by substantial differences in terms of security and school results in its various districts, questions of town planning were in focus and how underprivileged areas could be eradicated by means of planning and development.

"A problem I have seen up close in Uppsala is that people always talk about densification, with taller buildings and small apartments. We ought to build for the longer term instead, fitting in smaller houses and different types of housing from the outset," says Sarah Havneraas, Secretary General of the Young Christian Democrats (KDU).

The third and final discussion revolved around the challenges of the rural municipalities, manifested as Alexanderberg, a medium-sized town with high unemployment and few opportunities for further education.

"I believe Alexanderberg is in great need of more business-friendly politics. This partly involves establishing additional new employers, but also ensuring that dealing with the municipality is easy when it comes to administrating permits," says Helena Nanne, First Deputy Chairman, Moderate Youth League (MUF), mentioning farm sales and tax cuts as examples of how the municipality can become more attractive.

*The block-independent Society Lab network, with Kommuninvest as its initiator, is a platform for young politicians and officials on issues of welfare and its funding.

The Society is also a co-founder of the Axel Prize, which draws attention to people who, in their work, help to secure and developing confidence in the social contract and its democratic values. Through a collaboration with the Centre for Municipal Strategic Studies at Linköping University, we support the Vadstena Forum, an annual symposium for researchers and representatives of civil society, business or the public sector. In our research and analysis, the economic development of the municipal sector is continuously monitored and reported via reports, seminars, etc.

We do not work with sponsorship in traditional terms, but seek cooperation with partners who have a pronounced social commitment, with an emphasis on ventures in Örebro, where the Company has its head office. The focus lies on activities in education, culture and inclusion. Initiatives include helping immigrant upper-secondary pupils with their homework, support for artistic endeavours within OpenArt, opportunities for football and horse riding for people with disabilities, as well as initiatives for young immigrant women in the district of Vivalla.

Sustainable organisation

Having a sustainable organisation is crucial to Kommuninvest living up to its mission and vision, as well as to the expectations of our stakeholders. Our high level of ambition and the insight that each employee can make a difference are what guide us in this work. Communicative leadership and committed employee collaboration are essential for success.

By sustainable organisation, we mean an organisation characterised by a strong culture and favourable working conditions, with healthy and motivated employees and managers. The organisation stimulates learning on an ongoing basis and has a good ability to adapt to new conditions. The working environment promotes diversity and gender equality, while discrimination does not occur.

Respect for human rights is a basic requirement

The Group shall avoid causing or contributing to a negative impact on human rights in its own operations and address any such impact if it arises. Employees should be able to combine working life and their free time. Kommuninvest shall also maintain a good knowledge of, and compliance with, applicable legislation and labour market agreements. This involves, in particular, discrimination legislation, environmental legislation, legislation regarding public companies and legislation relating to business relations. No form of discrimination is tolerated within the Company.

An equal workplace

We foster equality, diversity and development and are to be an inclusive (non-discriminatory) workplace. This is emphasised in the Company's Gender Equality and Diversity Policy to ensure that the Company is an attractive employer for both current and potential employees. At the end of 2019, 41 (45) percent of the total number of employees were women. Of the managers, 29 (36) percent were women and, in the Executive Management Team, the proportion was 43 (43) percent. The decreased proportion of female managers was noted in the year's staff and health accounts, and the goal is to achieve gender equality among managers within three years.

The ambition is to be able to attract, retain and develop skilled employees, regardless of gender, ethnic background, faith, age, disability, sexual orientation or transgender identity. Towards the end of 2019, 17 (12) percent of the Company's employees came from countries other than Sweden. A total of 12 (10) different countries are represented in the organisation.

Working environment

Our working environment must satisfy physical, social and organisational targets as well as legal requirements, shall be pervaded by clear mandates and instructions and shall offer a balance between responsibilities and authority. Kommuninvest conducts working environment efforts in which measures are implemented at an early stage and preventively.

A close dialogue between employees and managers, as well as structured efforts to analyse key figures and risk indicators, are key aspects in the process of creating an organisation that is sustainable in the long-term. Working environment efforts are conducted in close collaboration with employees and substantial measures were undertaken in 2019 to increase the quality of office lighting and reduce the volume of noise in office landscapes.

The year's employee survey

Employee surveys are conducted annually, to gauge the working climate and, in a formalised format, ascertain how employees perceive their work situation. The year's results are compared with earlier measurements to identify how perceptions of the Company vary over time. The 2019 survey shows that Kommuninvest is an equal and non-discriminatory workplace, where employees feel considerable commitment to Kommuninvest's social mission. The survey gave an ESI (Employee Satisfaction Index) of 74 (73), which is a high result, indicating a favourable degree of satisfaction and a well-functioning workplace. The outcome also indicates that efforts devoted to leadership, employee collaboration and cultural issues have yielded results and these will remain priority areas moving forward.

Sustainable daily life

We are working actively with the health concept Sustainable Daily Life, seeking to promote a healthy lifestyle, with a balance between work, leisure and parenting. Increasing absenteeism due to work-related stress and other psychosocial factors have caused Kommuninvest to initiate ambitious efforts within the framework of Sustainable Daily Life. The concept encompasses the physical and social working environment, training and daily exercise, health-inspiring lectures, stress management, individual coaching and self-help programmes. Among other things, all employees are offered individual health and lifestyle reviews on a regular basis. Based on these, employees are given tools to establish a sustainable lifestyle in the areas where the need is perceived to be greatest. This can involve sleep, diet, exercise and lifestyle, as well as work-related concerns.

Focus on self-management

Within the Group, all employees are responsible for their own skills development, in dialogue with their managers and in accordance with the Company's objectives. Beyond this,

Employee programme for a safe and trustful workplace

In 2019, Kommuninvest's employee programme was concluded after running for a year with the purpose of: engendering improved conditions for leadership, employee collaboration and communication, providing opportunities for personal development, facilitating self-management, helping employees feel secure, creating platforms for dialogue, feedback and preventive conflict management and increasing the quality of communicative leadership.

An assessment shows that Kommuninvest's employees feel a strong commitment to their work roles and are capable of a high degree of self-management. Despite major changes recently, there is trust in the organisation and employees feel confident in testing new ideas and solutions. One area in need of improvement is feedback, whether this be giving, receiving or requesting feedback.

One of the themes during the programme was levels of role-taking. With working groups increasingly taking on tasks jointly rather than individually, additional commitment to the development of the Company is generated. On the whole, employees are satisfied with the employee programme, finding it to have contributed to both personal development and increased cooperation.

skills development is offered at a more general level and in a number of different forms.

In 2018 and 2019, an extensive initiative in leadership, employee collaboration, communication and culture was carried out. The employee programme has been developed to increase Kommuninvest's capacity to develop in a time pervaded by ever-increasing complexity and rapid change and is described in more detail in the assessment above.

Since 2017, the Company has also run a "Lunch and Learn" concept, offering employees inspirational talks, business intelligence updates and summaries of future trends in connection with a simpler lunch.

All employees participate in compulsory and continuous skills development by means of digital learning platforms. For Kommuninvest, the method has brought high implementation rates and significantly increased knowledge levels following the completion of the courses. Four courses were conducted in 2019: Measures counteracting money laundering and terrorist financing – advanced course; An introduction to GDPR; Insider information and insider crime; and Sustainability training. Most training courses are given once every two years, with new recruits participating in the compulsory courses during their first six months of employment.

Sustainability indicators

Environmental indicators – Kommuninvest Group

	Unit	2019	2018	2017
Energy consumption				
Total energy consumption (in buildings)[1]	kWh	616,853	620,069	586,071
– of which, electricity	kWh	385,980	368,596	333,603
– of which, heating	kWh	230,873	251,473	252,468
Total CO_2 impact of energy consumption (in buildings)	Tonnes	142	138	127
– of which, electricity consumption[2]	Tonnes	122	116	105
– of which, heating[3]	Tonnes	20	22	22
Proportion of renewable energy in energy consumption, electricity[4]	%	56	56	58
Change in electricity consumption compared to the preceding year	%	5	10	7
Proportion of renewable energy in energy consumption, heating[5]	%	95	95	96
Total office space	m^2	2,217	2,217	2,217
Total energy consumption per square metre	kWh/m^2	278	280	264
Total energy consumption per employee	kWh	6,107	6,392	6,440
Resource usage				
Purchased office paper	Tonnes	0.45	0.50	0.50
– of which sustainability labelled paper (PEFC)	Tonnes	0.45	0.50	0.50
Proportion of sustainability labelled office paper, of total purchases	%	100	100	100
Total paper consumption per employee	Kg	4.5	5.2	5.5
Paper recycling, incl. purchased and delivered paper	Tonnes	2.0	2.0	2.5
Business travel				
Total business travel[6]	Km	911,699	948,470	975,489
Total business travel per employee	Km	9,027	9,778	10,720
Total air travel	Km	493,063	521,771	571,379
Rail travel in Sweden	Km	364,616	353,914	341,741
Total CO_2 emissions from business travel[7]	Tonnes	225	242	260
CO_2 emissions from business travel, per employee	Tonnes	2.2	2.5	2.9
Total climate footprint				
Total climate footprint of the operations[8]	Tonnes	367	380	387
Total climate footprint per employee, CO_2e	Tonnes	3.6	3.9	4.2

1) Previously reported values for the breakdown between electricity and heating have been corrected as one of the measurements had been incorrectly categorised. The correction has led to an increase in electricity consumption and a decrease in heat consumption.

2) The climate impact from electricity consumption is calculated applying an emissions factor for electricity of 315 g CO_2e/kWh, in accordance with the principles for impact reporting applied by Kommuninvest for Green Bonds (Nordic Position Paper on Green Bonds Impact Reporting). The reported values are Scope 2, in accordance with the Greenhouse Gas Protocol.

3) The climate impact from heating, calculated applying an emissions factor for district heating in the Municipality of Örebro of 87 g CO2e/kWh, in accordance with the principles for impact reporting applied by Kommuninvest for Green Bonds (Nordic Position Paper on Green Bonds Impact Reporting). The reported values are Scope 2, in accordance with the Greenhouse Gas Protocol.

4) In this year's report, the percentage is based on the national average (source: Swedish Energy Agency and Statistics Sweden), as an agreement regarding 100-percent renewable electricity was found to be missing. Entails a reduction compared with the year-earlier period. Data for 2019 are preliminary and are based on data for 2018.

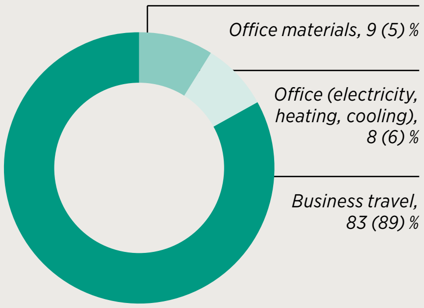
5) In this year's report, the percentage is based on the national average (source: Swedenergy), as an agreement regarding 100-percent renewable district heating was found to be missing. Entails a reduction compared with the year-earlier period. Data for 2019 are preliminary and comprise data for 2018.

6) An in-depth analysis of business travel was conducted in 2019. The identification of error sources in data from suppliers and the inclusion of business travel by car has led to previously reported outcomes for 2018 and 2017 being adjusted upwards.

7) As of 2019, Kommuninvest takes into account a so-called RFI factor of 1.9 in emissions calculations regarding the high altitude effects of air travel, in accordance with Tricorona's calculation method and based on research at the Chalmers University of Technology (Kamb et al, 2018). Previously published emission values have been adjusted.

8) Includes CO_2 emissions from energy consumption, resource consumption and business travel. Calculation by Tricorona Climate Partner in January 2020. All emissions are Scope 1 and Scope 2 according to the Greenhouse Gas Protocol; emissions from business travel are Scope 3.

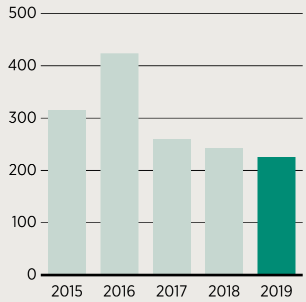
Distribution of total climate impact



Compared with the preceding analysis, carried out for 2017, the impact of business travel has decreased. This is mainly due to an adjustment of the high-altitude factor, the so-called RFI factor, to 1.9 (2.7).

Source: Tricorona Climate Partner

CO_2 emissions from business travel, tonnes



Source: Big Travel, with processing by Kommuninvest (emission values have been multiplied by a so-called RFI factor of 1.9 for the aviation industry's high altitude effects).

Business travel, particularly by air, accounts for the absolute majority of Kommuninvest's climate impact. The objective is to reduce business travel, provided this can be achieved without foregoing operational targets. In 2019, business travel by air, measured in kilometres, decreased by 6 (9) percent. Train travel increased by 3 (4) percent over the year. The total carbon footprint continued to decline, amounting to 3.6 (3.9) tonnes CO_2 per employee in 2019.

Economic value generated – Kommuninvest Group

	Unit	2019	2018	2017
Total revenue				
Interest revenues	SEK, million	1,223.5	505.3	452.3
Other operating income	SEK, million	9.0	7.6	6.2
Distributed value				
Interest expenses	SEK, million	–412.5	367.2	426.4
Commission expenses	SEK, million	–11.3	–8.2	–7.3
Salaries and emoluments	SEK, million	–77.9	–73.9	–70.4
Pension costs, training costs and other personnel costs	SEK, million	–24.5	–23.2	–26.6
Social security contributions and payroll tax on pension expenses	SEK, million	–27.8	–26.9	–25.3
Resolution fee	SEK, million	–27.4	–69.1	–66.3
Other operating expenses	SEK, million	–106.0	–94.1	–97.1
Tax	SEK, million	–2.9	–3.7	–28.0
Transferred to the members of the Society during the year, refunds on business volumes and interest on member contributions for the previous financial year	SEK, million	717.8	969.8	445.4
Efficiency				
Operating expenses, excluding the resolution fee, as % of balance sheet total	%	0.050	0.052	0.061

In this note, revenues are recognised as positive and expenses as negative.

Employee statistics – Kommuninvest Group

	Unit	2019	2018	2017
Total number of employees, including those on part-time and probationary employment[1]	Number	111	104	105
Proportion of women/men – total	%	41/59	45/55	38/62
Proportion of women/men – all managers	%	29/71	36/64	38/62
Proportion of women/men – Executive Management Team	%	43/57	43/57	43/57
Average number of full-time annual employees (based on hours worked)	Number	101	97	91
Employment period <2 years (based on permanent employees)	%	17	18	18
Employment period 2–4 years	%	19	13	28
Employment period 5–9 years	%	34	40	29
Employment period >10 years	%	29	29	25
Personnel turnover	%	10	8	11
Participation in employee survey	%	95	96	95
Proportion of employees with university education	%	90	89	93
Proportion of employees who had development interviews	%	100	100	100
Proportion of employees who have undergone sustainability training	%	93	64	63

1) Number of employees refers to the total headcount, including full and part-time employees, those on parental leave and temporary employees. The total number of permanent and probationary employees was 93 at the end of 2019.

Auditor's opinion regarding the statutory Sustainability Report

To the Annual General Meeting of Kommuninvest i Sverige AB (publ), corporate identity number 556281-4409

Engagement and responsibility
It is the Board of Directors that is responsible for the Sustainability Report for the year 2019 on pages 14–23 and that it is prepared in accordance with the Annual Accounts Act.

The scope of the examination
Our examination has been conducted in accordance with FAR's auditing standard RevR 12: The auditor's opinion regarding the statutory Sustainability Report. This means that our examination of the statutory Sustainability Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion
A statutory Sustainability Report has been prepared.

Stockholm,
KPMG AB

Anders Tagde
Authorised Public Accountant

Board of Directors' Report

- Comparison figures relating to the income statement refer to the preceding year (1 January – 31 December 2018), unless otherwise stated. Comparative balance sheet and risk related figures relate to 31 December 2018 unless otherwise indicated.
- Comments on the Income statement, Balance sheet and statement of changes in equity are provided in connection with the statements on pages 51, 53 and 55 thereof.
- In accordance with Chapter 6, Section 11 of the Annual Accounts Act, Kommuninvest i Sverige AB has chosen to prepare the statutory sustainability report separately from the annual report. The Sustainability Report is available on pages 14-23 of this document.

Effective financing and accessible knowledge

Major investment needs remain among Sweden's municipalities and regions, with escalating welfare challenges demanding that resources be used more efficiently. Kommuninvest plays an important role in both of these areas. Competitive lending provides cost-effective financing and financial expertise, while web-based analysis tools provide opportunities to save time and, accordingly, to manage debt efficiently.

Focus of the operations

Cost-effective financing is achieved by securing liquidity at the lowest possible cost while making such liquidity available to customers and members with the most possible efficient internal processes.

Over the year, an extensive study was conducted aimed to increase the capacity for matching the Company's fixed-rate lending and funding, thereby reducing the use of interest rate derivatives. A new approach intended to improve margins, reduce operational risks and cut costs is to be implemented gradually over the coming years.

The challenges facing the local government sector entail a continued and growing need for knowledge in debt management. Kommuninvest can meet this need by making the Company's knowledge in debt management available and sharing information about the sector that it possesses. Supported by digital tools, this knowledge can be distributed fairly to an increasing number of customers and members.

Kommuninvest's initiatives to digitalise and streamline its administration of loans continued during the year. KI Offert provides the possibility to submit a bid request digitally and KI Signera makes it possible to sign loan documents electronically. The use of these digital solutions is increasing and they are being offered to additional customer categories.

During the year, Kommuninvest produced a new web-based analysis tool that offers support in planning investments and cash flow. This tool makes it possible to generate liquidity forecasts for different time horizons and for different levels within the organisation. KI Finans Likviditet och Investeringar will be launched to Kommuninvest's members and customers in early 2020.

Kommuninvest's focus areas are the starting point for its operational governance.

The Company's focus areas

CUSTOMER/MEMBER
To be the customer's/member's first choice in local government finance management by adapting product and service offerings within all selected customer segments

SKILLS
To broaden and deepen employees' competence to safeguard competitive operations in the future

EFFICIENCY
The Company's lending price, average funding cost plus various marginal supplements, are competitive in relation to the local government authorities' proprietary funding

DIGITALISATION
To increase the organisation's adaptability by improving working methods and platforms for development and innovation

Multi-year summary

The Company's strong growth continues and total lending passed SEK 400 billion in 2019 – an average annual increase of 13 percent over the past five years. The Company's share of the local government sector's external funding has increased from 45 percent to an estimated 56 percent over the same period. In recent years, the members of the Society have capitalised the Group with the target of achieving a leverage ratio of 1.5 percent in accordance with the owner directive. Consequently, the Company's equity has risen from SEK 2.4 billion in 2015 to SEK 7.6 billion in 2019. On 31 December 2019, the leverage ratio was 1.58 percent. For more information on the Company's leverage ratio, see page 38.

For multi-year data in table format, see page 91.

Kommuninvest strengthens its position

Major investments in the Swedish local government sector increase external loan financing needs. In 2019, the local government borrowing grew by SEK 65 billion to SEK 721 (656)[1] billion. Kommuninvest continues to strengthen its position, with the Company financing 56 (54) percent of the local government sector's total debt.

The combination of extensive renovation needs for homes and properties built in 1965–1975 and strong population growth, requiring additional operational premises and expanded infrastructure, is driving up the local government sector's investment volumes. These investments encompass several areas of local government responsibility, including property, housing, water and sewerage, infrastructure and energy production.

Over the past three years, the local government sector's favourable results and strong cash flows have reduced the need for external financing of the investments carried out. In 2018, net profit fell to the level of 2015 and decreased further at the end of 2019. This has led to an increased need for external financing as no decline in investment needs can be discerned.

Kommuninvest grew strongly in the years following the financial crisis and has increased its market share further in recent years, from 44 percent in 2013 to 56 percent in 2019. Funding via the banking sector and bilateral parties has reduced to 14 (15) percent. As recently as 2013, the banks accounted for a third of the lending to Sweden's municipalities and regions. At that time, Kommuninvest was the largest individual lender with a market share of slightly more than 43 percent. About 20 municipalities and about ten municipal companies are currently active in the capital market. In 2019, issues of local government bonds and commercial papers accounted for 30 (31) percent of the sector's funding.

During the period 2013–2019, the sector's borrowing grew by an average 7 percent while, during the same period, Kommuninvest grew by an average 12 percent. Growth in the banking sector's lending to the local government sector was negative during that period, averaging negative 6 percent.

1) Forecast based on Kommuninvest's ongoing monitoring of debt and investment trends in the Swedish local government sector. At the time of publication of this Annual Report, neither the complete data for 2019, nor the municipalities' and regions' own annual reports were available. Values and shares for 2018 have been adjusted in accordance with the municipalities' and regions' own annual reports.

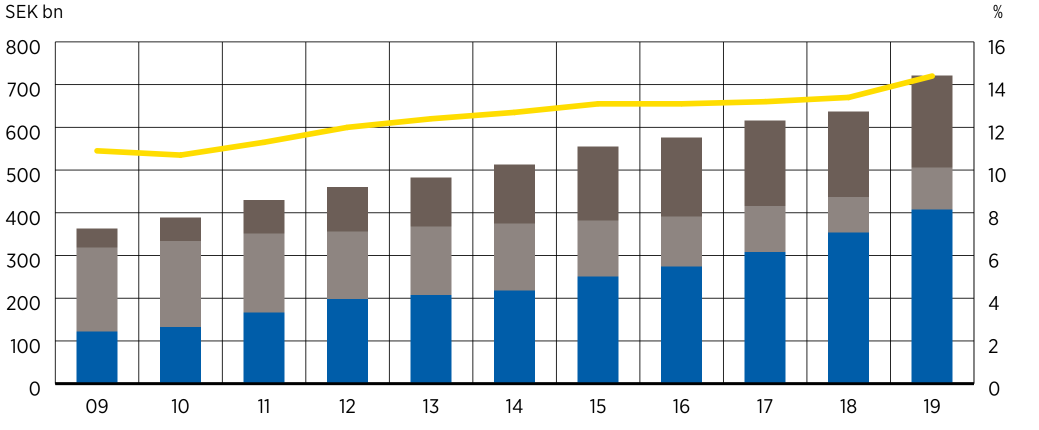
Forms of local government funding

Swedish municipalities and regions have access to three main sources of loan financing:

- funding via Kommuninvest
- funding via the bank sector or other bilateral parties
- funding via the money and bond markets

The local government sector's borrowing debt and forms of financing

2008–2019



The local government sector's funding over the past decade is characterised by an increased proportion of funding via Kommuninvest and proprietary funding programmes, as well as a reduction in funding via the banking sector. Data for 2019 are based on estimated total debt.

Loans that meet customers' needs

In 2019, Kommuninvest's lending grew to SEK 406.5 (353.9) billion. This growth reflects increased investment and funding needs among Sweden's municipalities and regions. The increase also demonstrates Kommuninvest's increased competitiveness. At the end of 2019, Kommuninvest had a total of 964 (945) active borrowers.

Loans provided only to Swedish municipalities and regions

All of Kommuninvest's lending is to Swedish municipalities and regions. Loans may be offered to:

- Municipalities and regions who are members of the Kommuninvest Cooperative Society.
- Municipal and regionally-owned companies, in which one or more members of the Kommuninvest Cooperative Society holds a controlling influence.
- Local government foundations and associations, on the condition that a guarantee is provided and that they are closely affiliated with a member or members of the Kommuninvest Cooperative Society.

Strengthened market position

Through Kommuninvest and other capital markets, Sweden's municipalities and regions were able to efficiently meet their funding needs in 2019. Kommuninvest offers loan products with capital tied up for shorter or longer periods, based on fixed or floating interest rates, as well as loans of complete or partial termination.

At the end of the year, lending amounted to SEK 406.5 (353.9) billion in nominal terms, an increase of 15 (15) percent. Kommuninvest's competitiveness, expressed as the percentage of accepted bids, has remained strong. The acceptance rate for submitted bids was 99 (99) percent.

Of the agreed lending for the year, that is, new loans and renegotiations of existing loans, 88 (85) percent were loans with capital tied up for more than one year and 12 (15) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 20 (23) percent of volumes.

At the end of 2019, Kommuninvest's lending portfolio consisted of 47 (44) percent loans with fixed interest and 53 (56) percent loans with variable interest rates.

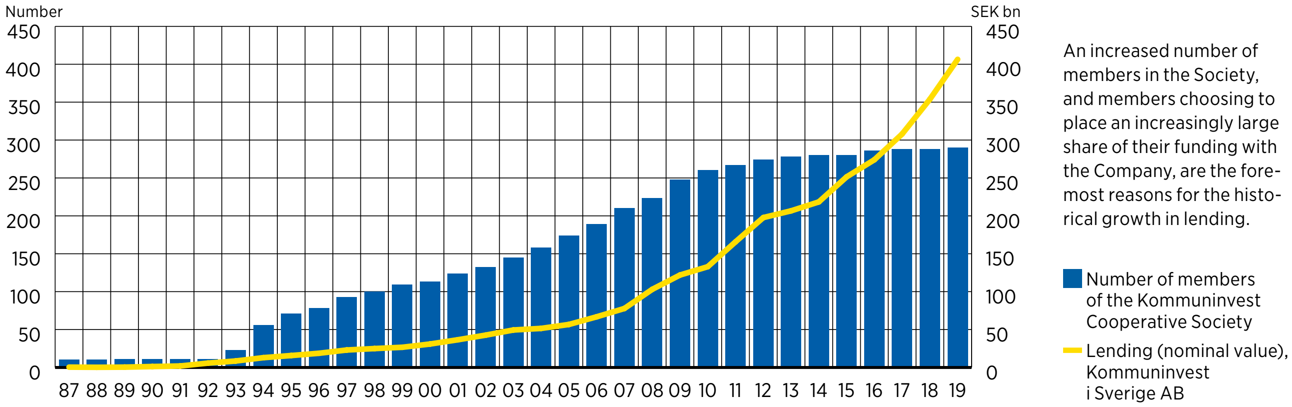
Increased volumes of Green Loans

The volume of Green Loans granted, financing municipal investment projects promoting the transition to low carbon emissions and sustainable growth, increased over the year.

At the end of 2019, SEK 63.1 (39.5) billion in Green Loans had been granted to 346 (232) projects and to 150 (109) municipalities and regions. More information about Green Loans can be found on pages 16–17.

Number of members and lending volume

1987–2019



An increased number of members in the Society, and members choosing to place an increasingly large share of their funding with the Company, are the foremost reasons for the historical growth in lending.

Kommuninvest and the Stockholm School of Economics developed a leading edge training programme

In the spring of 2019, a course developed by Kommuninvest and Stockholm School of Economics was given for the first time, focusing on financial analysis of local government operations. There were 22 participants from five different municipalities: Karlstad, Kristianstad, Luleå, Skellefteå and Skövde.

The four-day course, proceeded from the core concepts, principal relationships and the analytical framework within the subject areas of accounting and financial analysis. Against this background, issues were addressed involving local government investment analyses, efficiency requirements, strategic choices in financing investment needs and the type of long-term financial sustainability needed by local government authorities.

What the five municipalities participating in the course that first time shared was that they face major investment needs, involving several different strategic choices. For this reason, part of the course addressed investment control and the financing options available. Central to this was also a discussion of the different models for coordinating investment needs within a municipal group.

By bringing together municipalities with similar conditions and challenges, the stage was set for an instructive dialogue. A key component of the course was that each municipality brought along a practical investment case from its own operations. The teachers analysed the decision-supporting data and strategic considerations, and the participants exchanged experiences.

"We hope that this training initiative will help people with different qualifications and assignments, and who work with issues of local government finance, to collaborate more effectively in the future. This applies both to collaborations between elected representatives and officials, as well as between those in power and those in opposition. The hope is that the municipalities will gain a sustained effect from this investment in education, benefiting as much as possible from the financial resources that have been made available," says Johan Nordlund, who heads the programme at the Stockholm School of Economics.

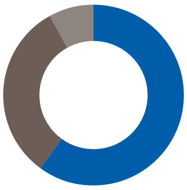
This first course served as a trial run. Kommuninvest now wants to continue developing the concept, to be able to offer the course to additional municipalities in the future.

Significant borrower with highest credit rating

Kommuninvest borrows money in capital markets in Sweden and internationally, which funds lending to municipalities and regions. Demand for secure issuers remained good during the year and Kommuninvest was able to meet its funding plans on competitive terms. At the end of the year, total funding amounted to SEK 450.8 (397.4) billion.

New funding by currency*

2019 (2018)

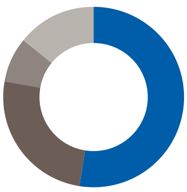


- SEK 60 (46) %
- USD 32 (44) %
- JPY 8 (9) %
- MXN, TRY 0 (1) %
- ZAR 0 (0) %
- AUD 0 (–) %

*excl. commercial paper funding

New funding by programme*

2019 (2018)



- Swedish Benchmark Programme 52 (42) %
- Benchmark funding, other currencies 25 (43) %
- Uridashi 8 (11) %
- Green Bonds 14 (4) %

*excl. commercial paper funding

Good demand for Kommuninvest bonds

During 2019, the Company experienced continued good demand for the securities it issues. In October, the Company decided to add the EUR market as a new strategic funding market. The announcement had a positive effect, leading to increased demand for the Company's bonds. In October, the issue volume was doubled, which was largely attributable to the positive reception of the announcement regarding the EUR market.

In addition to the EUR market, our strategic funding markets are the SEK and USD markets, both in terms of traditional funding and what is termed as sustainable funding, that is, green bonds. The Company also addresses a tactical market in the form of Uridashi funding in the Japanese market. Kommuninvest strives to maintain an even distribution between domestic and international funding.

Focus on increased benchmark funding

Over the year, funding of SEK 135.4 (138.8) billion was raised in bonds with maturities of more than one year. In addition, funding with potential premature redemption within one year was agreed, corresponding to SEK 11.3 (14.7) billion. Funding through short-term commercial papers, with maturities of less than one year, amounted to SEK 35.5 (48.5) billion. Previously issued funding of SEK 19.7 (17.7) billion was repurchased. Funding is secured to replace loans that mature or are cancelled, to finance new loans in the lending operations and to adjust the size of the liquidity reserve according to the current market view and liquidity contingencies.

The Company conducts active funding activities, both internationally and in Sweden, through its major bond programmes, referred to as benchmark programmes. During the year, four major benchmark fundings denominated in USD were implemented.

A total of SEK 76.8 (64.9) billion was issued in the Swedish Benchmark Programme with SEK 231 (192.7) billion outstanding at the end of the year. In 2019, two bonds were issued (one of which was green), with the Swedish Benchmark Programme comprising a total of eight outstanding bonds.

During 2019, two green bonds were issued, meaning the Company has issued a total of seven bonds since 2016. Green bonds make it possible to finance environmentally-oriented investment projects in the Society's member municipalities and regions.

Positive news for Kommuninvest's bonds during the year

In October, Kommuninvest decided to add the EUR market as a new strategic funding market. The announcement had a positive impact on the Company's funding conditions in the Swedish market. Kommuninvest's strategic funding markets are denominated in EUR, SEK and USD, both in terms of traditional funding and what is termed as sustainable funding, that is, green bonds.

In November, Kommuninvest issued nearly SEK 10 billion in a new three-year green bond within its benchmark funding programme denominated in USD. The transaction is the largest individual green bond to date from a Nordic SSA player (Sovereigns, Supranationals, Agencies), confirming Kommuninvest's position as Sweden's largest issuer of green bonds.

A significant SSA issuer

Kommuninvest issues securities on international funding markets in the category "Sovereigns, Supranationals and Agencies" (SSA). With large annual funding volumes, Kommuninvest is a major international player in the SSA segment. Borrowers with whom Kommuninvest compares itself include:

- Bank Nederlandse Gemeenten (Netherlands)
- European Investment Bank, EIB (Europe)
- KfW (Germany)
- Kommunalbanken (Norway)
- Kommunekredit (Denmark)
- Municipality Finance (Finland)
- Nordic Investment Bank, NIB (Nordic region and Baltic states)

Liquidity reserve to meet customer needs under all circumstances

To be able to continue providing customers with financing during periods of uncertainty in the financial markets, and to ensure that matured funding can be repaid in a timely manner, Kommuninvest has a liquidity reserve. At year-end, the reserve amounted to SEK 44.7 (47.3) billion, equivalent to 11 (13) percent of the lending volume.

Reserve with high credit quality and low risk

The starting point for the Company's liquidity strategy is good matching of assets and liabilities. The Company also maintains a liquidity reserve, the purpose of which is to safeguard existing and future undertakings during periods of financial stress. The Company must always be able to fulfil the agreements into which it has entered and, accordingly, the Company's liquidity reserve is dependent on funding in each relevant currency. Strict rules and a conservative approach guide Kommuninvest's liquidity reserve. According to the Company's instructions, the liquidity reserve shall ensure that the Company's commitments can be maintained while maintaining lending capacity, see also page 36. The scale of the liquidity reserve is adapted according to funding maturities, for example, and external factors, such as exchange and interest rate fluctuations. As of 31 December 2019, the liquidity reserve corresponded to 11 (13) percent of the lending volume. In accordance with the Company's strategy, the liquidity reserve shall be invested short-term, with the average maturity not exceeding 12 months. Individual investments may have a maturity of up to 39 months.

Focusing on effective and prudent asset management

In 2019, asset management activities were characterised by a liquidity reserve comprising highly tradable assets of superior credit quality. Direct investments are made mainly in securities issued by national governments or central banks, Sovereigns, Supranationals and Agencies (SSA)[1] and multilateral development banks.

At the end of 2019, 84 (86) percent of the reserve was invested in securities with the highest possible creditworthiness. 70 (76) percent consisted of investments in securities issued by issuers in Sweden. See Note 3 for further information on the Company's credit risk exposure.

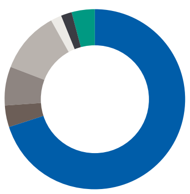
Investment rules for the liquidity reserve

- The liquidity reserve may have a maximum average maturity of 12 months
- The maximum maturity of individual investments is 39 months.

For further information, see the Risk and capital management section on pages 35-39 or Kommuninvest's website, www.kommuninvest.se.

Liquidity reserve distributed by country

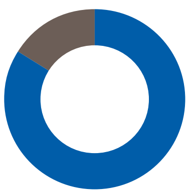
2019 (2018)



- Sweden 70 (76) %
- Supranationals 4 (7) %
- Finland 7 (7) %
- Germany 11 (4) %
- Denmark 2 (2) %
- UK 2 (2) %
- USA 4 (0) %
- Canada 0 (2) %

Liquidity reserve distributed by rating category

2019 (2018)



- AAA 84 (86) %
- AA 16 (12) %
- A 0 (2) %

Liquidity reserve distributed by issuer category

2019 (2018)

- National governments or central banks 41 (78) %
- Credit institutions (subsidised lenders) 13 (9) %
- Credit institutions (bank balances) 4 (4) %
- Credit institution investment repos 37 (–) %
- Multilateral development banks 4 (7) %
- Regional or local governments and authorities 0 (2) %

1) Among others, these include the Company's neighbour organisations in the other Nordic countries.

Collaboration for greatest-possible membership benefit

Kommuninvest fundamentally believes that its leaders and employees together perform the organisation's mission and generate benefit for the members. The process of building a strong culture reflecting the Company's local government values was further developed with the Employee Programme implemented in 2019.

Kommuninvest operates in an ever-changing world that grows increasingly complex. The organisation, its leaders and its employees must have a high capacity for understanding the sector's current and future needs, as well as a capacity for rapid change to be able to generate the greatest possible benefit and value for customers and members even in the future. To manage developments and enhance its employees' capacity for self-management, Kommuninvest has implemented a comprehensive initiative in leadership, employee collaboration, communication and culture in the form of an *employee programme*.

The programme has involved all employees receiving training in modules including:

- Roles, objectives and contexts
- Feedback
- Communication
- Development of groups
- Effective meetings

Measurements of the effects conducted in the autumn of 2019 showed good results with increases in all of the areas measured, including employees feeling a strong commitment to their work roles and being capable of a high degree of self-management. More information about the assessment can be found on page 21.

Strategic competence supply

One of the Company's overall focus areas is to conduct knowledge-oriented operations. The Company works actively with skills supply to develop the expertise of employees and the organisation in line with its operational objectives. Similarly, the Company works in a structured manner to attract, develop and retain employees. Kommuninvest strives to be a continuously learning organisation, able to generate the greatest possible benefit for customers and members. Learning new things and exchanging skills will be one of the Company's most important challenges in the future and, in the coming years, resources will be devoted to increasing all employees capacity to learn new things, as well as on strategic and operational change management.

Guide and develop the skills of the employees and of the organisation in line with operational objectives and strategies

A sustainable organisation

Kommuninvest maintains a holistic view of what a sustainable organisation should look like. To create a well-functioning and healthy workplace, many different parts must be in place, as illustrated below. For Kommuninvest, maintaining a balance between one's professional and private life is important, and we impose strict demands on all aspects of sustainability. The Company provides tools, structures and processes that enable employees to assume considerable responsibility for their own sustainability.

Kommuninvest applies zero tolerance of all forms of discrimination or harassment and works preventively on these issues. The Company endeavours to integrate equality and diversity into all areas of the Company.

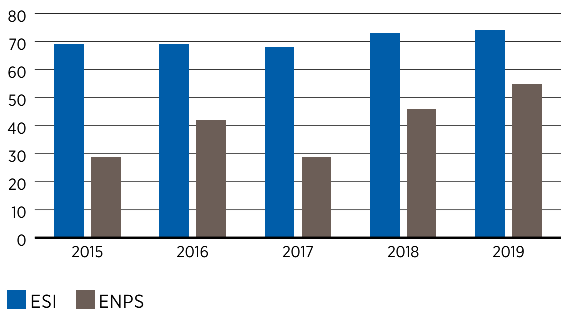
Employee survey 2019

The 2019 employee survey gave an ESI (Employee Satisfaction Index) of 74 (73). This is a high result, indicating a good level of satisfaction with a well-functioning workplace. The outcome also indicates that efforts devoted to leadership, employee collaboration and cultural issues have yielded results. These will also be priority areas as we progress into 2020.

The ENPS (Employee-Net-Promoter-Score) rose from 46 to 55, which is classified as a high value with a high proportion of ambassadors and a low proportion of critics.

Employee survey

20 March 2019



Financial position

At the end of 2019, equity in the Company amounted to SEK 7,602.0 (7,603.4) million, following Group contributions of SEK 393.5 (750.6) million paid to the Kommuninvest Cooperative Society. The total capital base was SEK 7,418.8 (7,425.2) million, which gave a total capital ratio of 126.8 (188.4) percent.

At the end of the period, the total assets amounted to SEK 471,320.7 (417,202.1) million, with lending to municipalities and regions accounting for most of the assets. At the end of the year, lending amounted to SEK 408,218.1 (355,710.0) million.

Equity

As per 31 December 2019, equity amounted to SEK 7,602.0 (7,603.4) million, following Group contributions of SEK 393.5 (750.6) million being paid to the Kommuninvest Cooperative Society.

On the closing date, the share capital amounted to SEK 7,100.0 (7,100.0) million, divided between 70,999,720 (70,999,720) shares. All share capital is attributable to the members of the Society and no shares are available for trade.

Distribution of surplus in 2020

Pending a resolution by the 2020 Annual General Meeting of the Society, the Society will distribute the surplus as refunds and interest on capital contributions for the 2019 financial year, with the proposed distribution of surplus amounting to SEK 355.4 (717.8) million. To cover this, the Company has posted group contribution paid of SEK 393.5 (750.6) million in the accounts.

If a decision on the payment of a new capital contribution is made, the Company's Board of Directors deems it likely that all members who have not yet reached the agreed maximum level for member contributions will participate with an amount depending on whether the member has reached 50, 75 or 100 percent of the highest contribution level. Payments of surplus distributions, incoming payments of capital contributions to the Society and of possible capital reinforcement to the Company are expected to take place within three months of a decision. The calculated but yet to be approved capital contribution amounts to SEK 13.0 (30.9) million.

Capital adequacy

The Company is well capitalised to withstand the operational risks, with capital ratios exceeding the prescribed minimum requirements in Pillar I and the basic requirements in Pillar II by a good margin. The core Tier I capital amounted to SEK 7,418.8 (7,425.2) million, entailing a core Tier I capital ratio of 126.8 (188.4) percent. The Company's capital base consists solely of core Tier I capital and the total capital ratio also therefore amounts to 126.8 (188.4) percent.

At the end of 2019, the Company's leverage ratio, reported according to CRR (Capital Requirements Regulation), was 1.58 (1.75) percent.

For further information regarding the Company's capital management, see pages 37–38 and Note 3.

Rating

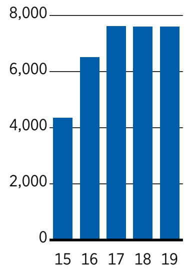
The Company holds the highest credit ratings – AAA from S&P Global Ratings and Aaa from Moody's. In February and September 2019, the rating institutes confirmed the Company's credit rating, with a stable outlook. The rating agencies highlight the joint and several guarantee from the owners of the Cooperative Society, the mandate the Company has from its owner to act as a local government debt office for its members, the high quality of the loan portfolio and the strategy for building up capital to meet future regulations.

Over the year, Kommuninvest raised its ESG ratings from the ISS-Oekom and Sustainalytics institutes. The rating from ISS-Oekom was raised in two steps to B–; while Sustainalytics gave an ESG rating of 9.1, in the category "negligible ESG risk".

The results show that Kommuninvest belongs to the group of financial institutions whose operations are considered least exposed to sustainability risks.

Equity

SEK, million



Comments on the accounts

Pages 51, 53 and 55 present comments to the income statement, balance sheet and statement of changes in equity. These comments form part of the Board of Directors' Report.

Proposed distribution of earnings

The Board of Directors proposes that:	SEK
Net profit	307,953,353
Profit or loss brought forward	155,509,458
Total	**463,462,811**

Be appropriated as follows:	
To be carried forward	463,462,811

Applicable rules for capital adequacy and major exposures mean that Kommuninvest must at all times have a capital base which at least corresponds to the total of the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operations in accordance with Kommuninvest's internal capital assessment policy. The total capital ratio amounted to 126.8 (188.4) percent, compared with the requirement, including buffer requirements, of 12.5 (11.5) percent. Following the proposed distribution of profit, the capital base amounted to SEK 7,418.8 (7,425.2) million and the final minimum capital requirement to SEK 468.1 (315.3) million. A specification of items can be found in Note 3, see section Capital adequacy.

Kommuninvest's financial position does not give rise to any assessment other than that Kommuninvest can be expected to fulfil its obligations in both the short and the long term. For information on Kommuninvest's net profit and general position, please refer to the income statements and balance sheets with associated comments on the financial statements. See also Note 12 on page 80.

Low risk tolerance and effective risk management

The Company's principal assignment is to ensure access to stable and efficient funding for the local government sector. This entails borrowing funds on the financial market, in accordance with customers' needs. The operations are to be characterised by limited risks. Presented below is a comprehensive overview of the Company's targets, principles and methods for managing risk.

Changes in 2019 regarding risk management and risk exposure

No material changes took place in 2019 with regard to the Company's targets, principles or methods for managing risk. Nor have the Company's exposures to different types of risk changed significantly.

A new risk framework and associated risk policy were prepared during the year. This framework takes effect from 1 January 2020. The purpose of the policy is to establish the external framework of the Company's risk-taking and risk management. The new framework will make a clearer connection between targets, limitations in the form of owner directives and legal requirements and risk measures.

Risk profile and risk management

The Company's risk profile and permitted risk taking is established annually in the owner directives, which are adopted by the Annual General Meeting of the Society. The owner directive states that the Company's risks should be small and never greater than necessary for achieving the objectives of the operations. The operations are subject to the Local Government Act's prohibition of speculative activities.

Risk strategy

In the risk strategy, the Board of Directors sets out its basic view on risk and details in concrete terms risk appetites and regulations for the management of the risks identified by the Company. The risk appetite describes the level of risk to which the Board is prepared to expose the Company for the purpose of fulfilling the assignment from the owners. Risk appetite is defined as the level of risk and impact on earnings that the Board of Directors is willing to tolerate over the ensuing year to achieve the Company's strategic objectives. The risk appetite is determined at least once a year. The level of risk appetite is determined by factors including financial position, growth targets, market conditions for the given time period and whether efficiency gains can be achieved when risk-taking changes. The risk strategy is part of the Company's risk framework, which encompasses the Board of Directors' fundamental instruments of operational governance and good internal control.

Risk management and risk control

Kommuninvest plays a central role in the financing of investments by Swedish municipalities and regions. To fulfil this assignment, the Company borrows money on the financial market and lends this to customers. The business model entails the Company being exposed to risks associated with the financial market, the Swedish central government and the local government authorities' financial conditions, their challenges in terms of climate and sustainability, as well as internal and external operational risks.

In accordance with the ownership directives, the Company's risk management is designed for operations to be conducted with a low level of risk taking. See page 39 for an overview of the types of risk Kommuninvest regularly manages and measures. To limit the risks associated with the Company's operating model and to ensure that operations are kept within the risk appetites specified by the Board of Directors, limits or other measures are applied. Limits and guidelines for risk management are set out in the Board of Directors' Credit Policy and Finance Policy and in the Board of Directors' Policy for Operational Risks.

Credit Policy

In the Credit Policy, the Board of Directors outlines the basic view of credit provision, how it should be organised and how credit decisions should be documented.

The current ownership directive formulates the basic view of the Company's credit provision and its analysis model. This is based on the basic principle that exposure to a Swedish local government authority be ascribed the same risk weight as an exposure to the Swedish central government. Traditionally, Swedish local government authorities have also maintained responsible ownership, which is ascribed considerable significance when setting limits for the municipal group.

The credit risk associated with lending to a municipally owned company is considered to be very low. According to the Articles of Association, credit may be provided to municipal companies, foundations or municipal associations, provided that the member/s exercise a controlling influence over the borrower and that the member/s sign guarantees for the undertaking. Credit provision to an alliance of local government authorities requires that all members of that alliance are members of the Kommuninvest Cooperative Society.

Finance Policy

The Finance Policy states the Board of Directors' basic view on the Company's liquidity strategy, liquidity reserve and use of derivatives, as well as its management and control of risks attributable to these operations.

The liquidity procurement strategy is a long-term plan for the Company's current and future financing. The guidelines of the strategy require fulfilling a sufficient degree of diversification among funding sources, taking into account the number and types of counterparties, types of financial instruments, maturities, currencies and geographic markets.

According to the Finance Policy, the Company shall identify the crucial factors affecting opportunities to obtain financing. These factors are to be monitored closely to ensure that the assessed funding capacity remains valid under various conceivable circumstances. The Company endeavours in general to maintain a large proportion of its total funding volume in SEK. To minimise the risk of being excluded from other markets, the Company shall, on an ongoing basis, issue commercial papers and bonds in markets other than Sweden.

The purpose of the liquidity operations is to enable the Company to meet its known and forecast liquidity needs. The Company's liquidity procurement strategy serves to create favourable conditions to meet needs in terms of extending current lending, new lending, funding maturities and liquidity requirements based on hedging of derivatives and repurchase agreements.

The Company shall maintain good liquidity preparedness under normal market conditions, as well as in periods of stressed liquidity. The Board of Directors shall be informed immediately of any indications of changes in the conditions for maintaining normal liquidity preparedness. The Company's liquidity management organisation shall be designed to ensure that all of the Company's payment obligations can be met in time without incurring significant additional operating expenses and that surplus-liquidity enables continued refinancing of existing lending.

The Company shall ensure good matching between assets (loans and investments) and liabilities (funding and equity). Any excess or deficit of liquidity arising in the day-to-day operations is managed intraday via the Riksbank's payment system RIX, of which the Company is a full member.

Independent control

Within the Company there are three independent control functions; the Risk and Control department, compliance and the internal audit. Risk and Control and compliance form the Company's second line of defence, while the internal audit is the Company's third line of defence. The three different lines of defence are visualised in the organisational chart presented in the Risk organisation section.

Risk and Control

The Risk and Control department exercises group-wide risk control and monitors the Group's financial and operational risks. The Board of Directors receives regular updates on risk control issues. The function is separate from the business operations and reports to the CEO. The department is headed by the CRO, who is appointed by the CEO who also reports the appointment to the Board of Directors.

The department is also responsible for following up that risks are reported correctly and in accordance with applicable external and internal regulations, regularly performing stress tests, as well as leading and coordinating efforts related to operational risks.

Compliance

The Company's compliance function is a control and support function, independent of the business operations, and reports to the CEO. The head of the compliance function is appointed by the CEO and reports on compliance matters to both the CEO and the Board of Directors.

Among other things, the compliance function is responsible for monitoring and controlling regulatory compliance within the licensed operations, as well as providing advice and support to the operations and the executive management on matters regarding legislation and other regulations applicable to the licensed operations.

Internal audit

The Company's internal audit, which is outsourced to an external party, is an independent review function that reports to the Board of Directors. The internal audit is responsible for evaluating risk management, the Company's control and governance processes and for the operations being conducted in accordance with the instructions of the Board of Directors and the CEO. The internal auditor reports to the Board of Directors and the CEO on an ongoing basis. The external auditors have continuous access to the internal audit's reports. Each year, the Board of Directors establishes a plan for the work of the internal audit. The CEO reports to the Board on measures implemented as a consequence of the internal audit unit's reports.

Risk organisation

To provide cost-efficient financing without exceeding the Company's risk appetite, risk management in operations is to be characterised by preventive measures that serve to prevent and/or limit both risks and their damaging effects.

The Company's CRO bears the overall responsibility for the Company's risk framework. Each department manager is responsible for the management and control of risks within his/her area of operations. Forward-looking and historical analyses are used to ensure that the Company identifies, assesses and measures risks correctly.

The Credit Group functions as a preparatory body in the assessment of new counterparties, new financial instruments and other credit issues requiring decisions by the Board of Directors or the CEO. The Credit Risk Committee determines the model and factors on which the Company's calculation of expected credit losses is based. The Company's Asset Liability Committee (ALCO) is responsible for preparing matters concerning market risk and liquidity requiring a decision by the Board of Directors or the CEO.

The Company's RCC (Risk Compliance Control) committee aims to document the work of the Company's control functions, as well as preparing reports to the Executive Management Team and the Board of Directors.

For more detailed information, as well as quantitative data regarding the Company's risk exposure, please see Note 3 and the separate Risk and Capital Management Report, which is available at www.kommuninvest.se.

Capital management

The Company must retain sufficient capital to be able to meet both internally estimated capital requirements and regulatory requirements. Sufficient capital adequacy is important for lending to Sweden's municipalities and regions to be able to continue growing and to maintain the confidence of the Company's stakeholders, particularly investors.

The Board of Directors has set a principal capital target for the Company, exceeding by a margin, the highest of the internally estimated capital requirements and the Swedish Financial Supervisory Authority's (Finansinspektionen) overall capital assessment. The scale of the capital target in quantitative terms is determined annually within the framework of the Company's internal capital and liquidity assessment (ICLA).

Kommuninvest's capitalisation – responsibility of the owners

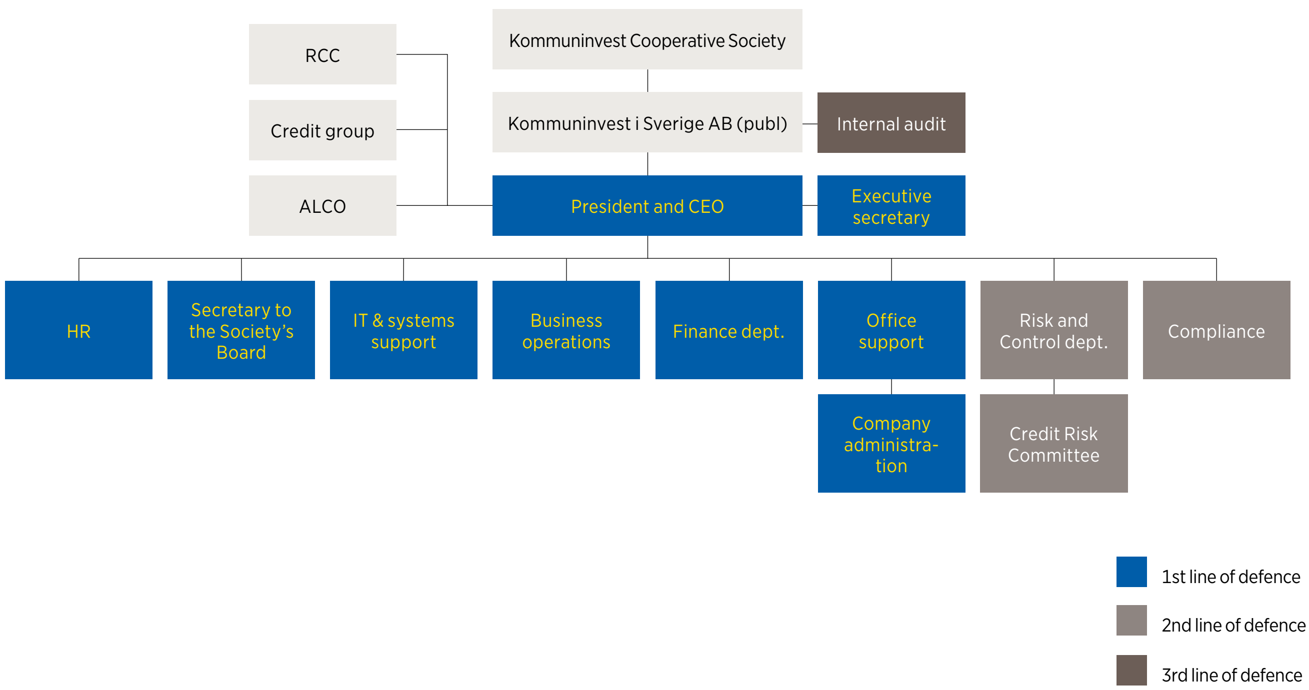
The Society is responsible for the Group's capitalisation. Kommuninvest does not build up capital by retaining earnings, but by means of obligatory and voluntary member contributions from the members of the Society, who are also the Company's owners. Kommuninvest's owners have determined that it shall be possible to double member contributions in an effort to strengthen capital, without it being necessary to amend the statutes of the Society. Implementing this requires a special decision at an Annual or Extraordinary General Meeting of the Society. The Society's statutes also permit other options, such as subordinated loans or the issuance of Tier I capital instruments.

The Society strengthens the Company's capital by acquiring shares. All share capital in the Company consists of core Tier 1 capital.

Capitalisation 2019

The Society did not strengthen the Company's capital in 2019. The relatively small changes that have occurred in the capital base are attributable to increased price adjustments associated with the regulations on prudent valuation.

Organisational chart with the operations' three lines of defence



Capital plan and internal capital assessment

The Group's capital planning is integrated with the Company's strategic operational planning and ICLA. The plans look five years ahead and the capital requirements of the Company and the Group are analysed in the process, based on forecasted growth, operational changes affecting capital and future regulatory requirements.

The objective of this capital planning is to ensure that the capital base in the Company and the Group is large enough to bear the risks and regulatory requirements stemming from the implementation of the business plan. Forecasts build on the Company's base scenario, although capital buffers also ensure that the Company can cope with a stressed scenario, as well as a certain degree of deviation from the plan.

The internal capital assessment identifies all significant risks within the Group and the capital requirements for these risks are evaluated and quantified. The internal capital assessment is compiled in a report that is submitted to the Swedish Financial Supervisory Authority on request. As per the end of the year, the internal capital assessment shows that the Company meets all regulatory capital requirements, as well as internal capital targets, see Note 3.

Future leverage ratio requirements

Effective from 28 June 2021, the new capital requirement measure, leverage ratio, will be applied within the EU. The leverage ratio has been set at 3 percent and will be directly applicable to Kommuninvest via the Capital Adequacy Regulation (EU) 2019/876 of 20 May 2019.

Leverage ratio is defined as the Tier I capital divided by total exposures in assets and commitments. The leverage ratio has been reported to the relevant authorities since 2014.

A specific leverage ratio regulation is applied when calculating the leverage ratio for Public Development Credit Institutions (PDCI). In Kommuninvest's assessment, the Company meets all of the criteria to be defined as a PDCI. In its most recent review and evaluation process, the Swedish Financial Supervisory Authority found no reason to question that assessment. For Kommuninvest, this means that all lending to members and their companies can be deducted from the exposure measure applied in calculating the leverage ratio of the Company and the Group. Accordingly, Kommuninvest meets the leverage requirement of 3 percent under Pillar 1 by a good margin.

The Swedish Financial Supervisory Authority has communicated that the supervisory authority's assessment is that Kommuninvest has a continued need to retain capital to avoid an insufficient leverage ratio, in accordance with Article 98 (6) of the Capital adequacy directive (2013/36 /EU), regardless of the leverage ratio regulation determined under Pillar 1. The capital requirement to counter the risk of an insufficient leverage ratio is addressed in Pillar 2 and is based on Kommuninvest's total capital requirement corresponding to a leverage ratio of at least 1 percent, calculated on the basis of the total gross exposure (including lending to members and their companies). The Swedish Financial Supervisory Authority 's assessment regarding the risk of an insufficient leverage ratio applies both to the Company and the Group.

Kommuninvest's risk management in brief

DESCRIPTION	RISK MANAGEMENT
Credit risk	
Risk in credit provision	
Risk in credit provision refers to the risk that a credit counterparty is unable to meet its obligations.	Loans are only provided to members and their majority owned companies. Loans may also be made to municipal foundations and associations. The members are followed up by applying an in-house model for risk monitoring and local government analysis. Each year, the Company's Board of Directors sets a group limit for all members. The limit entails a maximum level on the Group's net consolidated debt per inhabitant. Lending is only provided to municipal companies, foundations and alliances of local government authorities if the local government authorities concerned have guaranteed the undertaking. Swedish municipalities and regions have the right to levy taxes and cannot be declared bankrupt. In addition, the central government bears the ultimate responsibility for local government sector operations. The risk in credit provision is assessed as very low.
Issuer risk	
Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity.	Investments are made primarily in securities issued by sovereign states or state-guaranteed issuers, where the issuer has a credit rating of at least A from S&P Global Ratings. The maximum remaining maturity on securities in the liquidity reserve is 39 months. All outstanding issuers are followed up on an annual basis and when necessary. Each year, the Company's Board of Directors sets a total limit for each issuer. Kommuninvest's stringent requirements on issuers mean that issuer risk is considered to be limited.
Counterparty risk	
Counterparty risk refers to the risk of a counterparty in a financial contract defaulting before the final settlement of the cash flows. Counterparty risk arises when derivative contracts are entered with counterparties with the purpose of reducing or eliminating market risks. Depending on changes in market values, a derivative contract of this kind can entail either a receivable from, or a liability to, the counterparty.	In order for the Company to enter into an uncleared derivative, the counterparty must, at the time of the transaction, have a credit rating, as an issuer, of at least BBB+ or be guaranteed by someone with this credit rating. If the counterparty has a credit rating lower than A, particular attention is paid to the derivative's marketability, complexity and maturity. For the Company to enter into a cleared derivative, the counterparty must, at the time of the transaction, have a credit rating as an issuer of at least BBB–. The scope for transactions is limited on the basis of several criteria. All outstanding counterparties are followed up on an annual basis and when necessary. Derivatives exposures are to be covered by ISDA agreements and, in most instances, by CSA agreements. For new counterparties, CSA agreements are required. CSA agreements entail Kommuninvest receiving collateral for receivables exceeding the exposure determined in the agreement. The collateral that Kommuninvest receives entails the counterparty risk being limited. The Board of Directors of the Company determines the requirements and design of the ISDA and CSA agreements by means of instructions.
Market risk	
Market risk refers to the risk that the net market value (combined value) of the Company's assets and liabilities will decrease due to changes in risk factors in the financial market.	Kommuninvest's operations and business model give rise to market risks in the form of interest rate risk, currency risk, credit market risk, other price risks and liquidation risk. Market risk is measured and monitored continuously. Most interest rate and currency risks and price risks are exchanged for counterparty risks through derivative contracts. Credit market risk is limited in part through good matching of maturities between liabilities and assets and, in part, through both assets and liabilities being of a very high credit quality with historically small fluctuations in underlying prices. The Company is exposed to changes in credit spreads on assets and/or liabilities, as well as changes in basis swaps. Through good governance and control, this risk is kept to a controlled and acceptable level. The exposure to interest rate and currency risk is very limited.
Liquidity risk	
Liquidity risk refers to the risk that it will not be possible to meet payment obligations on maturity without the expense of obtaining payment funds increasing considerably.	The structural liquidity situation shall be highly stable with a favourable matching of maturities between liabilities and assets. Liquidity risks are limited by means of the Company being a full member of the Riksbank's RIX payment system. Through RIX, Kommuninvest can, for example, borrow funds against collateral. In order to ensure good liquidity preparedness, including during periods of stress, the Company has a highly liquid liquidity reserve. Overall, this limits the liquidity risks in the Company.
Operational risks	
Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or routines, human error, incorrect systems or external events, including legal risks.	Risks in the operations are identified continuously over the year. The method includes planning measures to manage the risks that are identified. Procedures and systems support are in place to enable reporting and follow-up of undesired events. Good governance and control means that the operational risk is kept at a controlled and acceptable level.

Focus on governance and control

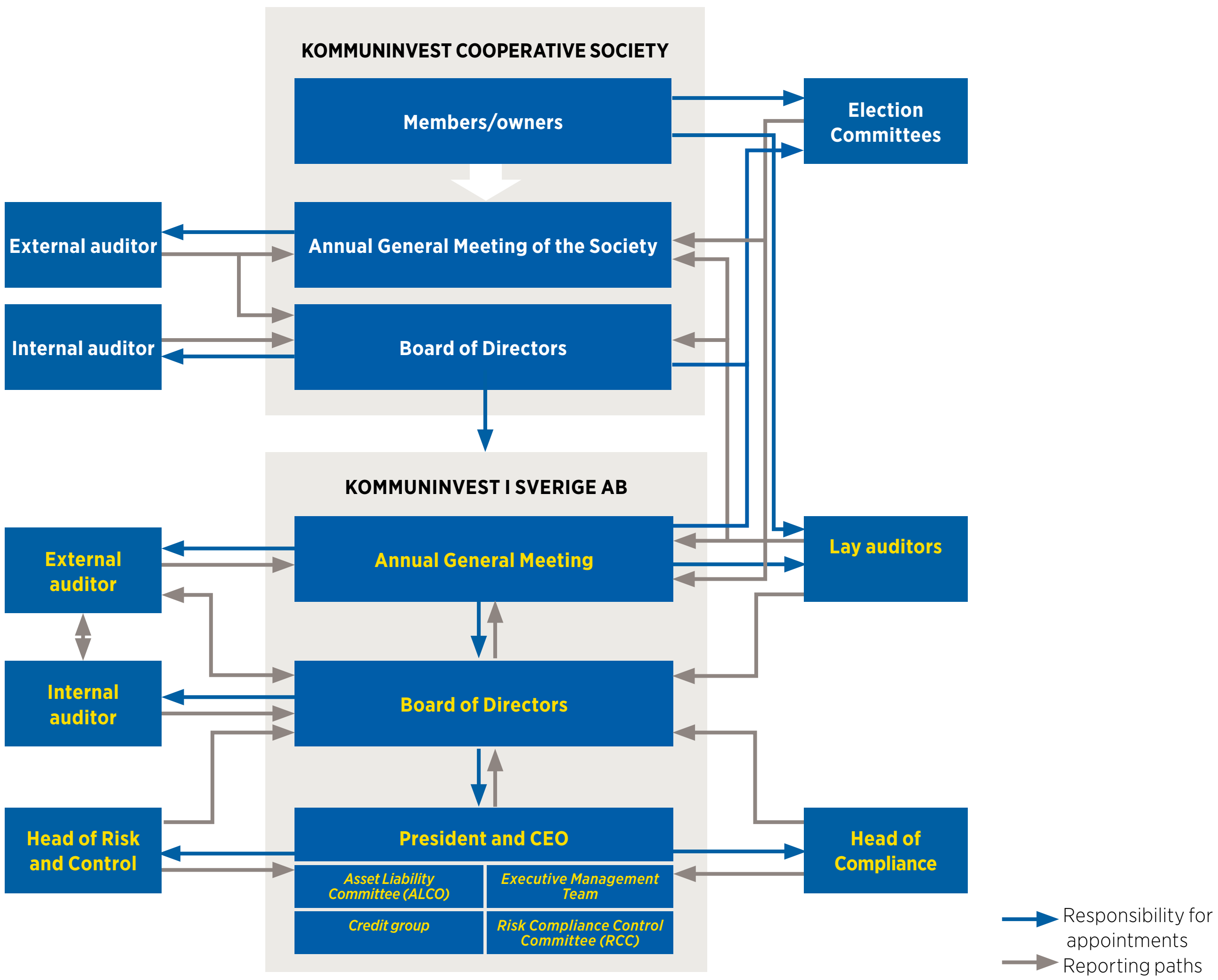
Kommuninvest i Sverige AB is a Swedish public limited liability company and a wholly-owned subsidiary of the Kommuninvest Cooperative Society. Good governance and control are crucial to the Company as it is owned by Swedish municipalities and regions, with a public mandate.

Together with the Society and Kommuninvest Fastighets AB, the Company forms a financial group of companies, the Kommuninvest Group (the Group). Since the Company issues debt instruments that are listed for trading in a regulated market, the Company is legally bound to present a corporate governance report. Since the Company's shares have not been admitted for trading on a regulated market in Sweden, the Company is not subject to the Swedish Code of Corporate Governance. Nor, in the Company's assessment, should the principles for the governance of companies owned by municipalities and regions, prepared by the local government sector, be applied given the financial focus of the operations.

Regulatory framework for corporate governance

The Companies Act includes basic regulations for the organisation of companies. These include the requirement for a Board of Directors appointed by an Annual General Meeting. In turn, the Board of Directors appoints a Chairman, who is to lead the work of the Board, and a President, who is responsible for ongoing management in accordance with the Board of Directors' guidelines and instructions. The Annual General Meeting shall also appoint an auditor to monitor operations and check the accounts.

As a credit market company, the Company must adhere to the Banking and Financing Business Act and the general advice and regulations issued by Finansinspektionen (Swedish Financial Supervisory Authority) and its equivalents within the European Union, the ESAS (European Supervisory Authorities).



Principles of corporate governance
The members of the Society consist of Swedish municipalities and regions. The Society is a cooperative venture with the principal purpose of providing members and their majority-owned companies access to cost-efficient and stable loan financing.

According to its statutes, the Society shall not be operated with the purpose of generating profit. Once consolidation needs have been satisfied, all surpluses shall accrue to the members. The members themselves determine the focus of the operations and no individual member has any decisive influence in isolation. At the Annual General Meeting, each member has one vote.

Presented below are some of the principles on which corporate governance is based. Additional to these are the formal work plan for the Board of Directors, the instructions to the President and other internal regulations adopted by the Board of Directors.

Owner directives from the Annual General Meeting of the Society
The Board of Directors of the Society develops owner directives for the Company and these are set annually at the Annual General Meeting. The owner directives set out the framework of the operations assigned to the Board of Directors of the Company by the Society. The owner directives include guidelines regarding consolidation, risk levels, remuneration principles, principles for business travel and representation, expertise on funding matters, development of products and services and any special assignments set for the Company by the Society. The owner directives take effect by being adopted by the Annual General Meeting of the Company.

Targets for operations
The Company's overarching objective is to generate the greatest possible benefit for the members of the Society. Routes towards this could involve maintaining a high proportion of satisfied customers, accounting for a large proportion of members' loan financing, maintaining a high level of cost efficiency and having the financial strength to support the long-term focus of the operations.

Remuneration principles
The Board of Directors sets the remuneration principles applicable within the Company. The principles are also reviewed regularly. Since the Swedish Financial Supervisory Authority does not consider the Company to be significant in terms of its size, internal organisation and the nature, scope and complexity of its operations, there is no need for a compensation committee. These duties are performed instead by the Chairman of the Board.

Remunerations shall engender conditions to attract, retain and motivate employees so that operations can be conducted in an optimal manner. The basic principle is that remunerations and other terms of employment should be in-line with the market and should consist solely of fixed wages. No variable remunerations are paid. Wages are set taking into consideration the tasks involved and their degree of difficulty, responsibilities, educational requirements and how the employee fulfils the demands imposed and contributes to improvements in operations.

More information about Kommuninvest's corporate governance
The following information can be accessed via Kommuninvest's website www.kommuninvest.se/en:

- Statutes of the Kommuninvest Cooperative Society.
- Details of members and approval of new members.
- Articles of Association of Kommuninvest i Sverige AB.
- Information on the work of the Election Committees.

Audit Committee
Within the Company, the tasks of an Audit Committee are performed by the full Board of Directors. In 2019, the Audit Committee met on three occasions. Matters included a risk control of the 2018 annual accounts and the 2019 interim accounts, including the external auditors' review report, internal audit reports, the internal audit's annual plan for 2020, valuation principles, a plan and budget for operations in 2020, as well as the approval of non-audit services.

Shareholders and Annual General Meeting
The Society owns all of the shares in the Company and exerts its influence at the Annual General Meeting. The Annual General Meeting of the Company was held on 11 April 2019, in immediate connection with the Annual General meeting of the Society.

The Annual General Meeting of the Company approved the Annual Report for 2018 proposed by the Board of Directors and the President, and discharged the members of the Board of Directors and the President from responsibility. Furthermore, the Annual General Meeting approved the distribution of earnings proposed by the Board of Directors and the President.

All Board Members were re-elected by the Annual General Meeting. No one from the Executive Management Team of the Company sits on the Board of Directors.

The Annual General Meeting also made decisions on the following matters:

- Adoption of owner directives.
- Determination of a formal work plan for the Election Committee.
- Authorisation for the Board of Directors to implement new share issues during the financial year.
- Amendment to the Articles of Association.

Election Committees
There is an Election Committee for the Society's companies: Kommuninvest i Sverige AB and Kommuninvest Fastighets AB. The Election Committee bears the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the shareholder to give its views on proposals and to submit its own proposals regarding appointments and associated issues, thereby

Election Committee of the companies owned by the Society 2019/2020

Göran Färm (S), Municipality of Norrköping, Chairman

Linda Frohm (M), Municipality of Kalix, Vice Chairman

Ewa-May Karlsson (C), Region Västerbotten

Pierre Sjöström (S), Municipality of Staffanstorp (elected 11 April 2019)

Margreth Johnsson (S), Municipality of Trollhättan (stepped down 11 April 2019)

Further information on the Election Committee, including its complete formal work plan, is available at www.kommuninvest.se/en.

establishing favourable conditions for well-founded decisions. In accordance with the Election Committee's instructions, the composition of the Board of Directors shall reflect the nature, scope and complexity of the operations. At least one member shall be, or have been, an elected representative in a member municipality or region and possess a knowledge of the local government sector and the political process.

The Election Committee of the companies owned by the Society shall represent the Board of Directors of the Society and consists of members elected by the Board from its own membership. The Board of Directors of the Society has resolved that its working committee shall act as the Election Committee.

Board of Directors of Kommuninvest i Sverige AB

The Board of Directors of the Company bears the ultimate responsibility for its organisation and management. Each year, the Board of Directors establishes a formal work plan that, among other things, regulates the Board's tasks, reporting to the Board, the number of Board meetings and their regular agenda, as well as the assessment of the work of the Board of Directors and President.

Furthermore, the Board sets objectives and strategies for operations, is responsible for identifying and managing risks, and ensures that operations are conducted in compliance with the predetermined objectives. The Board is also tasked with preparing internal guidelines including a reporting policy that states what reports are to be produced within the Company. The full Board is responsible for completing the tasks otherwise assigned to an audit committee. The rules of procedure are reviewed and adopted at least once a year.

The Board consists of eight members representing a broad skills base in areas such as public services, the capital markets and business development.

Chairman of the Board

The Chairman of the Board is responsible for the work of the Board of Directors being well organised and efficiently conducted and for ensuring that the Board otherwise fulfils its duties. Among other things, the Chairman is required to encourage an open and constructive discussion among the Board, to ensure that the Board continuously updates and deepens its knowledge of the Company and its operations, to ensure that the Board has rules for identifying and dealing with conflicts of interest on the Board, and for receiving comments from the Parent Society and disseminating these within the Board. The Chairman of the Board shall also check that the Board's decisions are implemented efficiently, ensure that the work of the Board is evaluated annually, and act as a discussion partner and support for the President of the Company.

The Chairman of the Board is also responsible for ensuring that the Company's remuneration policy and remuneration systems are independently reviewed and for monitoring the application of the Company's remuneration policy.

CEO

The Board of Directors has adopted a set of instructions for the President and CEO, detailing his tasks and responsibilities. The President is to deal with the ongoing administration of the Company in accordance with the Board's guidelines. This includes drawing up a proposed operations plan, budget and annual/interim accounts. The President is also responsible for appropriate systems and procedures being in place for reporting the financial situation and position to the Board, for operations being conducted in adherence to regulations and for setting guidelines and instructions regarding the various risks that arise in the operations.

Board members

As per 31 December 2019, the Company's Board of Directors consisted of Ellen Bramness Arvidsson (Chairman), Kurt Eliasson, Lars Heikensten, Erik Langby, Kristina Sundin Jonsson, Johan Törngren and Anna von Knorring, as well as employee representative Mattias Bokenblom. Mattias Bokenblom was appointed as employee representative in March 2019 and Ulrika Gonzalez Hedqvist stepped down from her assignment as employee representative in December 2019. The members are presented on pages 43–44.

Remunerations

For 2019, the Annual General Meeting approved a fixed fee of TSEK 550 (550) for the Chairman of the Board. For the other Board members, a fixed fee of TSEK 300 (300) was set.

The fees paid to the Board Members totalled TSEK 2,350 (2,450) for 2019. No fees were paid to employee representatives. The combined fees are detailed in the table on page 43.

Work of the Board of Directors in 2019

In 2019, the Board of Directors held 7 (8) ordinary meetings, and 1 (1) inaugural meeting. In addition to ongoing matters, agendas and decisions have involved:

- Internal capital and liquidity assessment
- Risk framework
- Recovery plan
- Capitalisation issues
- Remuneration issues
- Updates of loan programmes
- Counterparty limits
- Employee survey
- Valuation principles
- Social sustainability loans
- Strategic funding markets
- Review of counterparties
- Annual report and interim reports

Board of Directors of Kommuninvest i Sverige AB

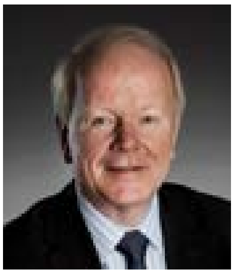
ELLEN BRAMNESS ARVIDSSON
Executive Director Strategy and International Affairs, Finance Norway

Elected: Chairman since 2013. Vice Chairman 2006-2013. Member since 2003.

Education: Cand. Oecon, Oslo University, Diploma in financial analysis, Stockholm School of Economics and FAF.

Previous positions: Chief Economist Insurance Sweden, Under Secretary and First Secretary at the Ministry of Finance.

Other assignments: Board Member, Norske Finansielle Referanser AS.



KURT ELIASSON
Chairman of the Committee for modern building rules, The Swedish Government Office

Elected: Member since 2010.

Education: Real Estate Agent Diploma, IFL Executive Education, Stockholm School of Economics.

Previous positions: CEO SABO, CEO Förvaltnings AB Framtiden, Managing Director Riksbyggen Göteborg, Chairman Chalmers University of Technology Foundation, President Housing Europe (Brussels), President Finance Watch (Brussels), Chairman of NBO (Nordic Housing), Chairman Port of Gothenburg, President IFK Göteborg.

Other assignments: Chairman Järntorgskvarteret AB (Göteborg).

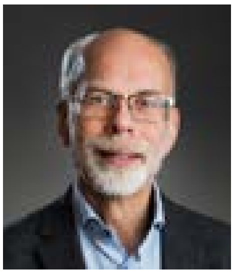
LARS HEIKENSTEN
Executive Director the Nobel Foundation

Elected: Member since 2016.

Education: PhD Stockholm School of Economics, Honorary Doctor University of Umeå and Gustavus Adolphus College (USA).

Previous positions: Member European Court of Auditors, Governor Central Bank of Sweden, Board Member Bank of International Settlement (BIS) and the General Council of the ECB, Chief Economist Handelsbanken, Director General Ministry of Finance.

Other assignments: Chairman Trygg-Stiftelsen. Member Royal Swedish Academy of Science, Member Royal Swedish Academy of Engineering Sciences



ERIK LANGBY
Consultant

Elected: Member since 2015.

Education: Individual courses, Stockholm University.

Previous positions: Chairman of the Municipal Executive Board and Municipal Commissioner in Nacka, Chairman of the Association of Local Government Authorities in Stockholm County, Board Member SALAR, Chairman of the Regional Planning Board in the county council, Board Member Hegeli Public Affairs AB, Chairman of Healthcare- and Welfare Committee of Norrtälje, Board Member HSB Omsorg AB, Chairman Texab AB, Chairman AB Solom, Board Member Dagens Samhälle AB and Chairman of Structural partnership of Stockholm.

Other assignments: Board Member Atrium Ljungberg AB, Chairman Nacka-StrandsMässan AB, AB SigtunaHem, Bosstadsrätterna i Sverige Ekonomisk Förening, Tegelhatt AB and Municipal Council of Sigtuna Municipality.

Remuneration and attendance – Board of Directors of Kommuninvest i Sverige AB (publ)

Name	Position of dependence	Attendance, Board meetings 2019	Remuneration 2019, SEK	Remuneration 2018, SEK
Ellen Bramness Arvidsson	Independent	8 (of 8)	550,000	550,000
Kurt Eliasson	Independent	6 (of 8)	300,000	300,000
Lars Heikensten	Independent	7 (of 8)	300,000	300,000
Erik Langby	Independent	8 (of 8)	300,000	300,000
Kristina Sundin Jonsson	Independent	8 (of 8)	300,000	200,000
Johan Törngren	Independent	8 (of 8)	300,000	300,000
Anna von Knorring	Independent	7 (of 8)	300,000	300,000
Anna Sandborgh	Independent, stepped down April 2018	–	–	100,000
Åsa Zetterberg	Independent, stepped down April 2018	–	–	100,000
Ulrika Gonzalez Hedqvist	Employee representative, stepped down in December 2019	7 (of 8)	Not remunerated	Not remunerated
Mattias Bokenblom	Employee representative, newly elected March 2019	6 (of 7)	Not remunerated	Not remunerated

Board of Directors of Kommuninvest i Sverige AB

KRISTINA SUNDIN JONSSON
Chief Executive Officer of Skellefteå Municipality, CEO of Skellefteå Stadshus AB

Elected: Member since 2018.

Education: Bachelor of Science in Business and Economics, Umeå University.

Previous positions: Certified public accountant, consultant KPMG AB, CFO Skelleftebostäder AB.

Other assignments: Chairman of the Association of Chief Executive Officers for Municipalities in Sweden, board member Inera AB, delegate of the Delegation of gender equality, Västerbotten County.

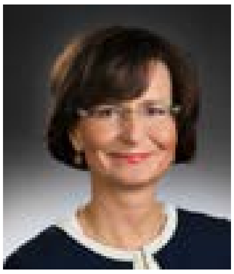
JOHAN TÖRNGREN
Consultant

Elected: Member since 2009.

Education: MBA, Stockholm School of Economics.

Previous positions: Senior Vice President and Head of Finance, SAS Group, Vice President Group Finance and Asset Management, SAS Group, Treasury at Svensk Exportkredit AB.

Other assignments: Chairman, SPP Fonder AB.



ANNA VON KNORRING
Deputy Director, State Treasury, Finland

Elected: Member since 2004.

Education: Master of Laws, Helsinki University, Master of Science (Econ.), Swedish School of Economics and Business Administration Helsinki.

Previous positions: Ministry of Finance and State Treasury.

Other assignments: Board Member Nordic Capital Markets Forum, Delegation member Tre Smeder Foundation Helsinki, Member User Committee Euroclear Finland Ltd.

MATTIAS BOKENBLOM
Employee representative

Elected: Member since 2019.

Education: Licentiate in Economics, Örebro University.

Position at Kommuninvest: Change agent.

Other assignments: Member of the local union.

AUDITORS FOR KOMMUNINVEST I SVERIGE AB

The Annual General Meeting of the Company elects external and lay auditors. According to the Articles of Association, Kommuninvest shall have one auditor. The external auditor is appointed by the Annual General Meeting on the basis of a proposal from the Board of Directors' Audit Committee, for the period extending until the end of the ordinary Annual General Meeting held in the fourth financial year following the auditor's election. The Annual General Meeting also appoints a deputy auditor.

The same auditing company appointed as external auditor for the Group is also the appointed external auditor for the Company and Kommuninvest Fastighets AB. The same individuals appointed as lay auditors for the Group are also appointed as lay auditors for the Company. The purpose is to obtain more efficient auditing for the Group.

External auditor

At the Company's 2016 Annual General Meeting, KPMG AB was appointed as the auditing company for the period extending until the end of the Annual General Meeting in 2020. KPMG AB has appointed authorised public accountant Anders Tagde as chief auditor. The chief auditor meets with the Board of Directors of the Company at least twice a year, and with the Board of Directors of the Company at least once a year. Among Anders Tagde's other auditing assignments, ICA Banken and OK-Q8 Bank can be mentioned.

Internal auditor

Effective from 2017, the Board of Directors of the Company appointed PwC (PricewaterhouseCoopers AB) as its internal auditing company, with authorised internal auditor Peter Nilsson as the internal auditor.

Lay auditors

The lay auditors regularly meet the external auditors, the Chairman of the Board, the President and other representatives of the Company. Where necessary the lay auditors can initiate auditing measures additional to the normal statutory audit.

At the 2016 Annual General Meeting of the Company, the following lay auditors for the Company were appointed for the period extending until the end of the 2020 Annual General Meeting: Barbro Hassel (S), Municipality of Skara (newly elected) and Cecilia Löfgren (M), Municipality of Järfälla (newly elected). At the 2019 Annual General Meeting of the Society, Cecilia Löfgreen stepped down as lay auditor and Anki Svensson (M), Municipality of Tyresö, was elected in her place.

Executive Management Team

Management of Kommuninvest i Sverige AB
The Company's Chief Executive Officer (CEO) leads, organises and develops the business in such a way that objectives set by the Board of Directors are achieved. Written instructions stipulate the division of labour between the Board of Directors and the CEO.

The CEO is responsible for keeping the Board of Directors continuously informed of changes to regulatory structures, the content of risk, compliance and audit reports and other significant events. The CEO has the job of providing the Board of Directors with necessary information and decision-support data, including prior to the Board meetings, and of ensuring that the Board receives a written report each month.

The CEO is supported by the Executive Management Team. On 31 December 2019, in addition to the CEO, the Company's executive management consisted of Maria Viimne (Deputy CEO and COO), Patrick Nimander (CFO), Malin Waldenström (Head of Human Resources), Britt Kerkenberg (CRO), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (CIO).

TOMAS WERNGREN, PRESIDENT & CEO

Education: University of Örebro and Stockholm University. B.A. Engineering, public administration.

Previous positions: Deputy CEO and CFO at Kommuninvest and Treasurer at SBAB, among others.

Other assignments: Board Member of Vasallen AB.

Born: 1961.

MARIA VIIMNE, DEPUTY CEO & COO

Education: Mälardalen University, B.A. Economics. candidate. Stockholm University, Master of Laws. University of Rotterdam and University of Hamburg. European Master in Law & Economics.

Previous positions: Finance Group Director and Company Counsel at Kommuninvest, among others.

Born: 1970.

Remunerations – Executive Management Team, Kommuninvest i Sverige AB (publ)

Name	Year	Basic salary	Benefits	Variable pay	Pension expense	Total, SEK
Tomas Werngren	2019	3,113,890	89,860	–	971,044	4,174,794
	2018	3,129,079	83,592	–	1,057,267	4,269,938
Maria Viimne	2019	2,119,147	–	–	679,339	2,798,486
	2018	2,105,085	–	–	602,372	2,707,457
Other Executive Management Team	2019	5,844,803	17,525	–	1,726,733	7,589,061
	2018	5,546,465	17,468	–	1,830,973	7,394,906
Employees who have a material impact on the Company's risk profile[1]	2019	24,207,520	62,229	–	5,857,800	30,127,549
	2018	16,291,381	54,179	–	3,648,890	19,994,450

1) In addition to the Executive Management Team. This group comprises 31 (24) employees with the following positions: Head of Funding, Head of Lending and Customer Managers, Investment Managers, Head of Financial Analysis, Accounting Manager, Chief Compliance Officer, Society Liaison Officer, Sustainability Manager, Marketing Director, Business Developers, Senior Company Counsel, Compliance Officer and Communications Strategist. In 2019, seven positions were added.

Board of Directors' report on internal control with regard to financial reporting

Kommuninvest i Sverige AB's process for internal governance and control is based on the targets set for the operations having been designed to ensure appropriate organisation and effective management, an attentive risk awareness, reliable financial reporting and a good capacity to comply with external and internal regulations rules, as well as generally accepted practices and standards.

Operational processes

An efficient process for internal governance and control requires clearly defined business processes. For Kommuninvest, operational processes are defined as the recurring and interconnected activities that are performed in order to satisfy the needs of members and customers. Processes are divided into core processes, governing processes and supporting processes. Kommuninvest's core processes are: Managing membership, Managing lending and Managing liquidity. The governing processes serve to support decisions regarding the Company's goals, strategies, rules and limits, and carrying out planning, management, improvement and review of the organisation's other processes. Supporting processes within the Company serve to sustain core processes, either directly or indirectly, to ensure that they function as well as possible.

Operations plan

Overarching objectives and strategies for the operations are formulated in an annual strategic operations plan. During the financial year, initiatives are prioritised and implemented within the framework of an active operations plan aimed at achieving operational objectives.

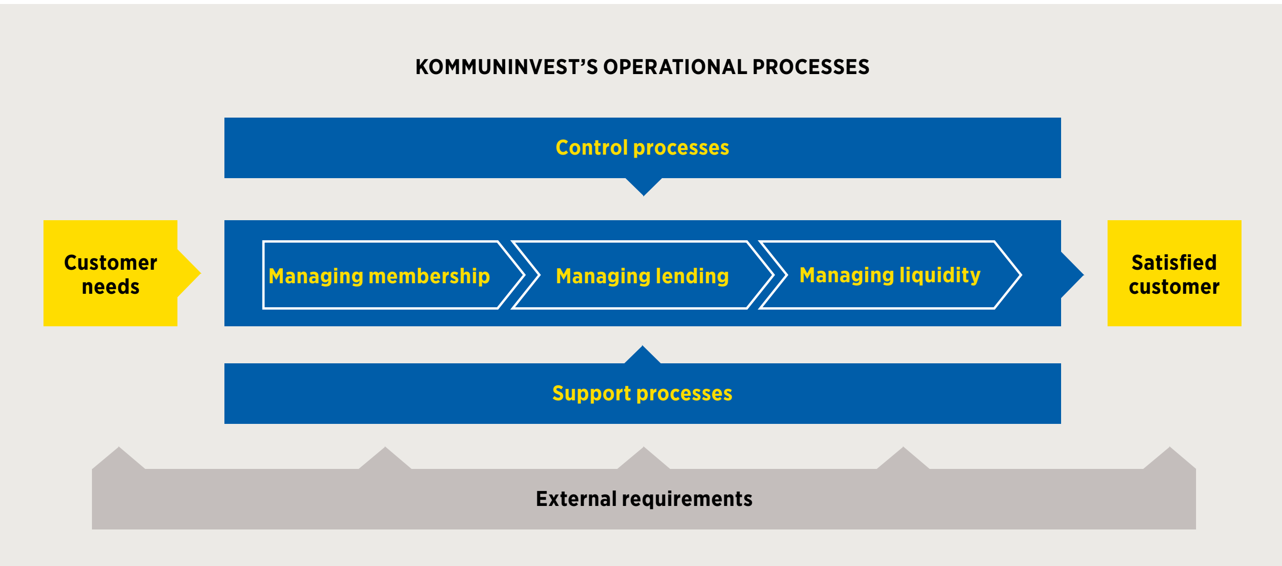
Risk management

The Company conducts ongoing assessments of the risks that may arise in connection with the Company's operations. The valuation of the identified risks is based on an overall assessment of the probability of the risk occurring and the financial impact that the event may have on Kommuninvest. See more under the section Risk and capital management on pages 35–39.

Control environment

The control environment can be divided into two different parts: a formal part and an informal part. The formal part consists of the documents that describe the principles of internal control, with the most important being:

- Operational governance and control policy
- Finance Policy
- Credit Policy
- Risk policy
- Internal capital and liquidity assessment Policy (ICLA)
- Compliance Policy
- Operational Risk Policy
- Internal Audit Policy



The Company's organisation also forms part of the formal control environment and is divided into three lines of defence as described below. Checks are performed in the Company's first and second lines of defence. In the third line of defence, reviews are conducted by the internal audit.

1. *The first line of defence* lies within the operations and is responsible for the identification, control and management of the risks arising there.

2. *The second line of defence* is separate from the operations, and consists of the Risk and Control Department, and the compliance function. They monitor and check how risks and compliance are managed by the operations. The functions provide support in the introduction of effective risk management processes and regulatory compliance controls, as well as in connection with internal risk reporting. They are also tasked with reporting regularly, within the scope of their responsibilities, to the Company's Board of Directors and the CEO.

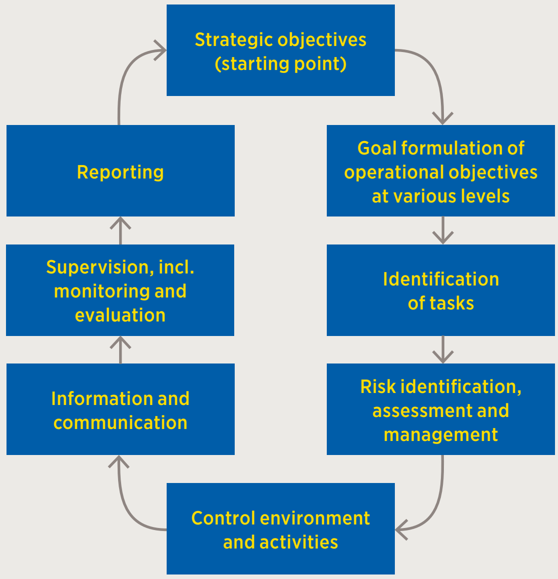
3. *The third line of defence* is the internal audit unit, which, in a risk-based manner, reports to the Board and Management on how the Company assesses and manages its risks. This includes the procedures of the first and second lines of defence. The internal audit is performed at the behest of the Board of Directors.

The informal part of the control environment consists of the culture that the Board of Directors and management create by how they lead and control the operations. This is expressed in, among other things, ethical values that create awareness among employees and in the shared Code of Conduct that encompasses all employees within the Company.

Information and communication

The Company has an internal website where policies, instructions and other governance documents are made available. The objective is for all governance documents to be updated at least once annually. The internal website also contains other important information concerning the operations, such as operational reports and protocols from the decision-making forums.

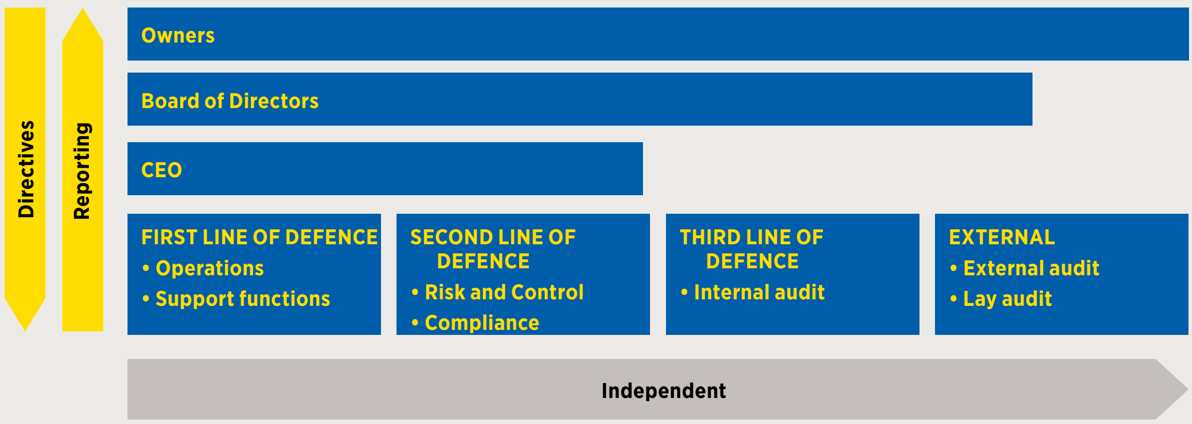
PROCESS FOR INTERNAL GOVERNANCE AND CONTROL



Monitoring and reporting

The Board of Directors continuously monitors the Company's financial performance based on monthly reports including budgeted amounts and actual outcomes with associated comments. The Board of Directors continuously evaluates the information submitted by management and the control functions. This monitoring ensures, among other things, that action is taken to rectify any deficiencies, and that the proposed measures emerging from the annual assessment and internal and external audits are taken into account. In addition, management, the internal audit, the Risk function and the Control and Compliance function perform regular checks and audits.

KOMMUNINVEST'S CONTROL ACTIVITIES



Financial statements

FINANCIAL STATEMENTS

NOTES

Income statement

1 January – 31 December

SEK, million	Note	2019	2018
Interest revenues calculated according to effective interest method		1,198.9	494.0
Other interest revenues		24.6	11.3
Interest expenses calculated according to effective interest method		–241.0	437.0
Other interest expenses		–155.0	–56.8
NET INTEREST INCOME	4	**827.5**	**885.5**
Dividends received		2.4	2.1
Commission expenses	5	–11.3	–8.2
Net result of financial transactions	6	–201.5	161.4
of which, derecognised assets measured at amortised cost		*3.3*	*0.5*
Other operating income	7	9.3	7.8
TOTAL OPERATING INCOME		**626.4**	**1,048.6**
General administration expenses	8	–236.2	–259.8
Depreciation and impairment of intangible assets	18	–4.4	–5.3
Depreciation and impairment of tangible assets	19	–2.3	–2.5
Other operating expenses	9	–4.0	–4.2
TOTAL EXPENSES		**–246.9**	**–271.8**
PROFIT BEFORE CREDIT LOSSES		**379.5**	**776.8**
Net credit losses	10	12.6	–24.3
OPERATING PROFIT		**392.1**	**752.5**
Tax	11	–84.2	–166.4
NET PROFIT	12	**307.9**	**586.1**

Statement of comprehensive income

1 January – 31 December

SEK, million	2019	2018
NET PROFIT	**307.9**	**586.1**
Other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME	**307.9**	**586.1**

Comments on the income statement

Net interest income
Net interest income amounted to SEK 827.5 (885.5) million and was thus marginally lower than the preceding year. It was possible to lower the Company's lending margin by slightly more than 3 basis points in 2019, compared with the preceding year, and this was mainly due to a restrained expenses trend combined with increased lending volumes. The sharply increased lending volumes have partly offset the decline in net interest income resulting from the reduced margins.

For further information regarding net interest income for the period, see Note 4.

Net result of financial transactions
The net result of financial transactions amounted to negative SEK 201.5 (positive 161.4) million. The result is mainly explained by unrealised changes in market value of negative SEK 193.9 (positive 164.4) million. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. The unrealised changes in market value during the year are mainly explained by the fact that unrealised gains from currency swaps have decreased as contracts have approached maturity. Currency swaps are used to hedge the risks from the Company's financing in USD and are always held to maturity. For further information, see Note 6.

Expenses
Expenses totalled SEK 246.9 (271.8) million, including the cost of the resolution fee of SEK 27.4 (69.1) million.

The resolution fee is calculated as a risk-adjusted share of the balance sheet total less lending. The risk-adjusted percentage is determined by the Company's risk profile relative to other institutions required to pay the fee in accordance with the Commission's delegated regulation (EU) 2015/63. Kommuninvest's resolution fee for 2019 has been set by the Swedish National Debt Office at SEK 27.4 (69.1) million.

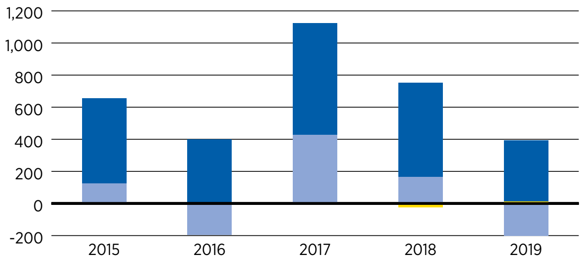
Excluding the resolution fee, expenses amounted to SEK 219.5 (202.7) million, of which payroll expenses accounted for SEK 127.1 (121.5) million and other expenses for SEK 92.4 (81.2) million. The increase in other expenses is largely explained by higher IT expenses and an increase in the supervisory fee by SEK 7.4 million paid to the Swedish Financial Supervisory Authority for the preceding year.

The Company's wholly-owned subsidiary, Kommuninvest Fastighets AB, provided a Group contribution of SEK 2.4 (2.1) million in 2019. The Board of Directors of the property company was of the opinion that the Group contribution would not prevent the property company from fulfilling its obligations in the short and long term, nor from making necessary investments.

Net profit
Kommuninvest's operating profit, its profit before tax, amounted to SEK 392.1 (752.5) million. Operating profit includes unrealised changes in market value of negative SEK 193.9 (positive 164.4) million and net credit gains of SEK 12.6 (losses 24.3) million. Excluding unrealised changes in market value and expected credit gains (rather than expected credit losses), Kommuninvest's operating profit amounted to SEK 573.4 (612.4) million – for additional details, see Alternative performance measurements on page 92. The tax expense for the year recognised in the income statement amounted to SEK 84.2 (166.4) million. Through Group contributions, taxable profit is reduced to SEK – (–) million. For further information regarding recognised tax, see Note 11. Profit after tax amounted to SEK 307.9 (586.1) million.

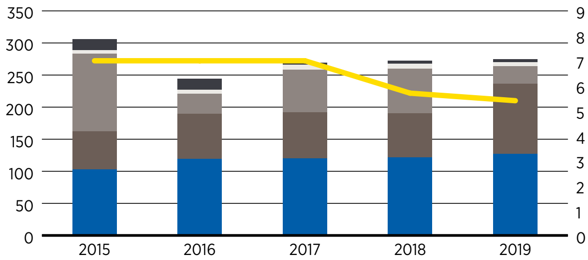
Operating profit before tax

SEK, million



Distribution of expenses

SEK, million Basis points



1) The resolution fee replaced the stability fee during 2016.

Balance sheet

As per 31 December

SEK, million	Note	2019	2018
ASSETS			
Cash and balances with central banks	3	811.1	–
Sovereign bonds eligible as collateral	3, 13	17,686.3	39,230.3
Lending to credit institutions	3	21,917.2	1,843.4
Lending	3, 14	408,218.1	355,710.0
Bonds and other interest-bearing securities	3, 15	7,722.6	7,457.8
Shares and participations in subsidiaries	16	42.0	42.0
Derivatives	3, 17, 26	11,967.0	11,333.2
Intangible assets	18	21.4	15.7
Tangible assets	19	7.1	5.0
Current tax assets		79.0	79.0
Other assets	20	2,828.9	1,471.0
Prepaid expenses and accrued revenue		20.0	14.7
TOTAL ASSETS		**471,320.7**	**417,202.1**
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities and provisions			
Liabilities to credit institutions	3	4,027.7	584.0
Securities issued	3	446,763.0	396,796.9
Derivatives	3, 17, 26	3,484.5	5,959.6
Change in value of interest-hedged item in portfolio hedging	17	0.7	–
Other liabilities	21	9,400.6	6,217.5
Accrued expenses and prepaid revenues		42.1	40.6
Provisions	22	0.1	0.1
Total liabilities and provisions		**463,718.7**	**409,598.7**
Equity			
Restricted equity			
Share capital		7,100.0	7,100.0
Development expenditure reserve		21.1	12.0
Statutory reserve		17.5	17.5
Unrestricted equity			
Profit or loss brought forward		155.5	–112.2
Net profit	12	307.9	586.1
Total equity		**7,602.0**	**7,603.4**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**471,320.7**	**417,202.1**

Comments on the balance sheet

Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 471,320.7 (417,202.1) million, with lending to municipalities and regions accounting for most of the assets. Lending amounted to a recognised value of SEK 408,218.1 (355,710.0) million at the end of the year. The increase in lending is due to a continued high need for investment in the local government sector, combined with lower lending prices, see section Net interest income on page 51. In nominal terms, lending amounted to SEK 406,511.1 (353,946.1) million. The liquidity portfolio, consisting of the balance sheet items Cash and balances with central banks, Sovereign bonds eligible as collateral, Lending to credit institutions and Bonds and other interest-bearing securities, decreased to SEK 48,137.2 (48,531.5) million. Derivative assets (derivatives with positive market value) increased to SEK 11,967.0 (11,333.2) million. Other assets amounted to SEK 2,828.9 (1,471.0) million. Other assets consist primarily of SEK 2,807.6 (1,454.4) million in collateral pledged. Collateral pledged for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet, see further under Note 26.

No right of netting applies for cash collateral pledged for derivatives not cleared by a central clearing counterparty and these are therefore included in full in the balance sheet, with separate asset and liability items. For more information on other assets, see Note 20.

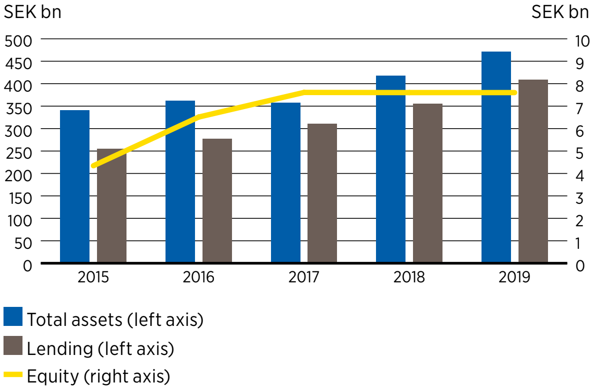
Liabilities

The Company's liabilities amounted to SEK 463,718.7 (409,598.7) million and funding increased to SEK 450,791.4 (397,380.9) million over the year. Derivative liabilities (derivatives with negative market value) amounted to SEK 3,484.5 (5,959.6) million. Other liabilities amounted to SEK 9,400.6 (6,217.5) million. Other liabilities include collateral received of SEK 7,981.5 (4,551.8) million. Collateral received for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet, see further under Note 26. No right of netting applies for cash collateral received for derivatives not cleared by a central clearing counterparty and these are therefore included in full in the balance sheet. Further information on other liabilities can be found in Note 21.

Equity

For information on equity, see the Statement of changes in equity on page 54.

Balance sheet



Statement of changes in equity

	Restricted equity				Unrestricted equity			Total equity
SEK, million	Share capital	New share issue in progress	Development expenditure reserve[1]	Statutory reserve[2]	Fair value reserve[3]	Profit or loss brought forward	Net profit	
Equity carried forward 31 December 2017	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**0.8**	**–386.6**	**876.0**	**7,610.8**
Transition effect IFRS 9					–0.8	–7.2		–8.0
Equity brought forward 1 January 2018	**6,100.0**	**1,000.0**	**3.1**	**17.5**	**–**	**–393.8**	**876.0**	**7,602.8**
Net profit							586.1	586.1
Change in development expenditure reserve for the year			8.9			–8.9		–
Other comprehensive income								–
Total comprehensive income	**–**	**–**	***8.9***	**–**	**–**	***–8.9***	***586.1***	***586.1***
Transactions with shareholders								
Appropriation of surplus						876.0	–876.0	–
New share issue	1,000.0	–1,000.0						–
New share issue in progress								–
Group contributions						–750.6		–750.6
Tax effect on Group contribution						165.1		165.1
Total transactions with shareholders	***1,000.0***	***–1,000.0***	**–**	**–**	**–**	***290.5***	***–876.0***	***–585.5***
Equity carried forward 31 December 2018	**7,100.0**	**–**	**12.0**	**17.5**	**–**	**–112.2**	**586.1**	**7,603.4**
Equity brought forward 1 January 2019	**7,100.0**	**–**	**12.0**	**17.5**	**–**	**–112.2**	**586.1**	**7,603.4**
Net profit							307.9	307.9
Change in development expenditure reserve for the year			9.1			–9.1		–
Other comprehensive income					–			–
Total comprehensive income	**–**	**–**	***9.1***	**–**	**–**	***–9.1***	***307.9***	***307.9***
Transactions with shareholders								
Appropriation of surplus						586.1	–586.1	–
New share issue								–
New share issue in progress								–
Group contributions						–393.5		–393.5
Tax effect on Group contribution						84.2		84.2
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–**	***276.8***	***–586.1***	***–309.3***
Equity carried forward 31 December 2019	**7,100.0**	**–**	**21.1**	**17.5**	**–**	**155.5**	**307.9**	**7,602.0**

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

2) The statutory reserve refers to previous statutory provisions to restricted equity. The requirement was abolished on 1 January 2006 and prior provisions remain.

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

Comments on the statement of changes in equity

Equity
At the end of 2019, equity in the Company amounted to SEK 7,602.0 (7,603.4) million, following Group contributions of SEK 393.5 (750.6) million paid to the Kommuninvest Cooperative Society.

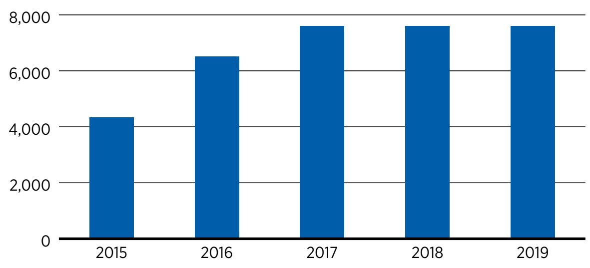
The development expenditure reserve of SEK 21.1 (12.0) million corresponds to capitalised development expenditure in-house adjusted by a proportional share of depreciation transferred back from the reserve to unrestricted equity.

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

In 2019, no actions were taken to reinforce the share capital.

Share capital
At the end of the year, share capital amounted to SEK 7,100.0 (7,100.0) million, distributed between 70,999,720 (70,999,720) shares. Total share capital is attributable to the Society's members and no shares are available for trading.

Equity
SEK, million



Cash flow statement

1 January – 31 December

SEK, million	2019	2018
Operational activities		
Operating profit	392.1	752.5
Adjustment for items not included in cash flow	188.4	–131.8
Income tax paid	0.0	–1.2
	580.5	**619.5**
Change in liquidity portfolio	21,349.0	–9,564.7
Change in lending	–52,528.7	–45,915.2
Change in other assets	–1,363.4	–658.6
Change in other liabilities	3,427.4	3,906.8
Cash flow from operational activities	**–28,535.2**	**–51,612.2**
Investment activities		
Acquisitions of intangible assets	–10.1	–11.0
Acquisition of tangible assets	–4.5	–0.3
Divestments of tangible assets	0.2	–
Cash flow from investment activities	**–14.4**	**–11.3**
Financing activities		
Issue of interest-bearing securities	182,226.2	202,020.3
Redemption and repurchases of interest-bearing securities	–132,155.6	–148,339.2
New share issue	–	–
Change in intra-Group liabilities	–636.4	–863.2
Cash flow from financing activities	**49,434.2**	**52,817.9**
Cash flow for the year	**20,884.6**	**1,194.4**
Cash and cash equivalents at start of the year	**1,844.1**	**649.7**
Cash and cash equivalents at end of the year	**22,728.7**	**1,844.1**

Cash and cash equivalents consist in their entirety of cash and balances with central banks, as well as lending to credit institutions that, at the time of acquisition, have a maturity of at most three months and that are exposed to insignificant risk of fluctuations in value.

	2019	2018
Adjustment for items not included in cash flow		
Depreciation and impairment of tangible and intangible assets	6.7	7.8
Profit from divestments of tangible assets	–0.1	–
Exchange rate differences from change in financial assets	0.5	0.5
Unrealised changes in market value	193.9	–164.4
Net credit losses	–12.6	24.3
Total	**188.4**	**–131.8**
Interest paid and received, included in the cash flow		
Interest received[1]	1,086.2	352.2
Interest paid[2]	546.6	1,247.7

1) Reported as interest received are payments that have been paid and received for the Company's loans and investments, as well as the payments paid and received for derivative contracts used to hedge the Company's loans and investments.

2) Reported as interest paid are payments that have been paid and received for the Company's funding, as well as payments paid and received for derivative contracts used to hedge the Company's funding.

Reconciliation of liabilities arising from financing activities

2019	Opening balance	Cash flows	Currency exchange fluctuations	Fair value change	Group contributions	Closing balance
Funding, incl. derivatives	392,007.3	50,070.6	0.5	229.8		442,308.2
Share capital and new share issue in progress	7,100.0					7,100.0
Intra-Group liabilities	1,639.8	–636.4			393.5	1,396.9
Total	**400,747.1**	**49,434.2**	**0.5**	**229.8**	**393.5**	**450,805.1**

Notes

All amounts are given in millions of SEK unless otherwise stated.

Note 1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2019 and relates to Kommuninvest i Sverige AB (publ), registered number: SE556281-4409. Kommuninvest has its registered office in Örebro. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden.

The parent company of Kommuninvest i Sverige AB is the Kommuninvest Cooperative Society, registered number: SE716453-2074.

The Annual Report was approved for publication by the Board of Directors on 11 February 2020. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 16 April 2020.

Note 2 Accounting principles

Compliance with standards and legislation

The Kommuninvest Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25) including all applicable amending regulations. Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. Furthermore, the recommendations from the Swedish Financial Reporting Board, Accounting for legal entities (RFR 2) have been applied. In accordance with Chapter 7, Section 6a of ÅRKL, Kommuninvest has chosen not to prepare consolidated accounts.

The accounting principles are in line with those applied in the 2018 Annual Report, with the exception of amendments caused by new IFRS standards came into effect on 1 January 2019.

During the first half of 2019, the Company adjusted certain assumptions in its model for expected credit losses – adjustments that were reversed in the second half of 2019 due to relevant information no longer being available. Adjustments attributable to the model for expected credit losses are presented in Note 3.

Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the parent company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts its operations. In accordance with Chapter 7, Section 6a of ÅRKL, Kommuninvest i Sverige AB will not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal of position and net profit. For further details, see Note 16. The annual report is prepared by the Parent Society, the Kommuninvest Cooperative Society, and will be published on 16 April 2020 at www.kommuninvest.se.

New and amended standards and interpretations

Kommuninvest amended its accounting principles regarding leasing after IFRS 16 Leases replaced IAS 17 Leases on 1 January 2019. The Company applies the exception in RFR 2. The amendment has not entailed any transitional effect and no comparative figures have been recalculated.

Other new or amended laws, standards and interpretations introduced during the year have not had any material effect on Kommuninvest's net profit, position, disclosure, capital requirements, capital base or major exposures.

IFRS 16 Leases

IFRS 16, Leases, is a new leasing standard that took effect on 1 January 2019, replacing IAS 17 Leases. A key difference in the new lease standard is that leases are no longer classified as finance or operating for lessees. Instead, an accounting model is introduced in which the leases are included in the balance sheet as rights of use and leasing debt. The leasing expenses are divided between net interest income and depreciation over the term of the lease.

Kommuninvest applies the exemption in RFR 2, meaning that IFRS 16 need not be applied to legal entities and that the Company will apply the rules for lease accounting in RFR 2. When applying the exemption in RFR 2, leasing fees are recognised as a cost on a straight-line basis over the term of the lease and no asset or liability is booked in the balance sheet.

The accounting principles are essentially unchanged compared with earlier accounting principles. In applying IAS 17, the Company only had operating lease.

The transition to new lease accounting rules has had no effect on the opening balance for 2019 and no comparative figures have been recalculated. The impact of the standard is immaterial in relation to Kommuninvest's net profit, position, disclosures, capital requirements, capital base and large exposures.

New and amended laws, standards and interpretations yet to take an effect

Of the new standards and interpretations coming into force after 2019, the following regulations have been deemed to affect Kommuninvest's future annual accounts. Kommuninvest does not apply any regulations pre-emptively and instead applies regulations once they have been adopted for application by the EU.

Other new and amended laws, standards and interpretations yet to come into effect are not assessed to have any material impact on Kommuninvest's net profit, position, disclosure, capital requirements, capital basis or major exposures.

Amendments to IFRS 9, IAS 39 and IFRS 7

On 26 September 2019, the IASB published amendments to the standards IAS 39, IFRS 9 and IFRS 7, prompted by ongoing reforms of current reference rates (also referred to as IBOR). The amendments entail companies not being forced to cancel hedge accounting due to the uncertainty prevalent on transition to new reference rates, as well as additional disclosure requirements being added.

The amendments entail the Company being able to continue applying hedge accounting despite the possible inefficiencies that could arise in the hedge accounting as a consequence of the change in how Stibor and other IBOR are determined and/or any compensation of Stibor/other IBOR with a risk-free interest rate. In addition, the amendments to IFRS 7 will entail additional disclosures beginning to be provided in the annual report as of 2020.

Note 2, continued

The amendments are to apply to all hedging relationships that are directly affected by the IBOR reform. The amendments to the standards will come into effect on 1 January 2020, but have yet to be approved by the EU. The Company does not intend to apply the changes prematurely. The changes to the standards have a very limited impact on the Company's net profit and position as the Company has very few hedging relationships associated with the uncertainty in foreign IBOR.

Significant judgements and assumptions

The preparation of the Annual Report includes judgements and assumptions that affect the accounting and supplementary disclosures. The most important judgements when applying accounting principles concern how financial instruments are classified and assessed, as explained below in the section Financial instruments.

For assets and liabilities valued at fair value, their value is affected by the assessment of whether the available market prices are based on an active market. When determining the fair value of financial instruments not traded in an active market, Kommuninvest applies valuation techniques and then makes assumptions that may be associated with uncertainty. Note 25 describes how fair value for financial instruments is derived including significant assumptions, uncertainty factors and sensitivity analyses. The report has been prepared based on amortised cost, with the exception of a significant portion of the Company's financial assets and liabilities, which are measured at fair value in cases of accounting mismatches or amortised cost adjusted for fair value with regard to the risk that is subject to hedge accounting. For further information, see section Financial instruments and Note 25.

With regard to Kommuninvest's business model for financial assets, this has been assessed as holding such assets to maturity. During the year, the purpose of the business model did not change and the assessment is that the business model has both been complied with during the year and that its purpose of receiving contractual cash flows remains. This assessment has taken into account an evaluation of sales during the year and the fact that the Company's Finance Policy remains unchanged. For more information on the net result of financial transactions, see Note 6.

Kommuninvest calculates expected credit losses in accordance with IFRS 9 on financial assets valued at amortised cost. The calculation of expected credit losses includes the application of forward-looking scenarios and assumptions. Accordingly, the method for determining expected credit losses is associated with uncertainty. Note 3 describes the choice of method and its assumptions.

Functional currency and presentation currency

Kommuninvest's functional currency is the Swedish krona (SEK) and the financial statements are presented in the same currency. All amounts are rounded off to the nearest million unless otherwise stated.

Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in force on the balance sheet date. Exchange rate differences arising from the conversions are recognised in the income statement.

Subsidiaries

Holdings in subsidiaries are reported in accordance with the cost method.

Interest revenues and interest expenses

Interest revenues and interest expenses presented in the income statement comprise:

- Interest on financial assets and liabilities measured at amortised cost.
- Interest from financial assets classified as available-for-sale measured at fair value through the income statement.
- Interest on derivatives that are hedging instruments and for which hedge accounting is applied.

Interest revenues and interest expenses on lending, interest-bearing securities, Liabilities to credit institutions and derivatives are calculated and reported by applying the effective interest method. Where applicable, interest revenue and interest expenses include periodised amounts of transaction expenses.

Interest revenues consist of interest revenue from loans and investments, as well as interest revenues and interest expenses from derivatives hedging loans and investments.

In accordance with the effective interest method, interest expenses consist of interest expenses on funding, as well as interest revenues and interest expenses from derivatives hedging funding.

Since derivative contracts allow interest to be received in the payment leg, the prevailing interest situation means, in many cases, that Kommuninvest has earned interest on funding and its derivative hedging. This has led to total interest expenses corresponding to positive amounts (income).

Kommuninvest grants lending at negative interest rates, these negative interest revenues being reported as interest expenses.

Other interest revenues and other interest expenses include interest on collateral pledged and received, as well as operating expenses for rating and funding programmes.

For more information on interest revenues and interest expense, see Note 4.

Commission expenses

Commission expenses consist of expenses for services received such as deposit fees, payment agency commissions and securities brokerage.

Net result of financial transactions

Net result of financial transactions encompasses the realised and unrealised changes in value arising from financial transactions. The net result of financial transactions comprises:

- Unrealised changes in the fair value on assets and liabilities recognised at fair value through the income statement, divided between Held for trade, Compulsory or through application of the Fair value option.
- Unrealised changes in fair value on derivatives where hedge accounting of fair value is applied.
- Unrealised changes in fair value on hedged items with regard to hedged risk in hedging of fair value.
- Capital gain/loss from divestment of financial assets and liabilities.
- Exchange rate changes.

Financial instruments

Financial instruments recognised in the asset side of the balance sheet include lending, cash and balances with central banks, lending to credit institutions, interest– bearing securities, derivatives and other financial assets. Liabilities and equity include liabilities to credit institutions, securities issued, derivatives and other financial liabilities. For further information, see Note 25.

Note 2, continued

Recognition in and removal from the balance sheet

A financial asset or financial liability is recognised in the balance sheet when Kommuninvest becomes party to the instrument's contractual terms.

A financial asset is removed from the balance sheet when the contractual rights to cash flows from that financial asset cease or on the transfer of the financial asset, upon which Kommuninvest, in all material regards, transfers to another all of the risks and benefits associated with ownership of the financial asset. A financial liability is removed from the balance sheet once the obligation in the contract has been fulfilled or is in some other way extinguished. The same applies for part of a financial liability.

Financial assets and financial liabilities are offset and recognised at a net amount in the balance sheet only where there is a legal right to offset the amounts and it is intended to adjust the items with a net amount or, at the same time, to capitalise the asset and settle the liability. Acquisitions and sales of financial instruments are reported on the business day, i.e. the day the Company commits to acquiring or selling the instrument.

Financial instruments are initially measured at their fair value with transaction expenses taken into account, the exception being assets and liabilities included in the category of financial assets and liabilities measured at fair value through the income statement, which are measured at fair value without taking transaction expenses into account.

Classification and measurement of financial instruments

Since 1 January 2018, Kommuninvest applies IFRS 9 and financial assets are classified based on the Company's business model. The business model is identified at portfolio level and reflects how the portfolio's financial assets are managed together to achieve a specific business objective.

Possible business models for financial assets are:
- Hold to maturity.
- Hold to maturity and sell.
- Held for trade or evaluated on a fair value basis.

Kommuninvest's financial assets are divided into three portfolios: lending portfolio, liquidity portfolio and other. All portfolios are deemed to have the same business objectives, to receive contractual cash flows, and the business model is to hold to maturity. To ensure that cash flows consist only of capital amounts and interest on principal, SPPI tests are carried out continuously on the Company's new assets. As per 31 December 2019, Kommuninvest had no assets that had failed the SPPI test. The classification of the business model and the outcome of the SPPI test affects the Company's valuation of financial assets.

Financial instruments can be valued according to the categories:
- Amortised cost.
- Fair value through other comprehensive income.
- Fair value through the income statement, divided between Held for trade, Compulsory or Fair value option

Where there is no accounting mismatch, financial liabilities are recognised at amortised cost. Where there is an accounting mismatch, financial liabilities are recognised at fair value through the income statement.

Amortised cost

When the business model for financial assets is to hold to maturity and cash flows consist solely of capital amounts and interest on principal, that is, they pass the SPPI test, the financial assets shall be valued at amortised cost. This means that Kommuninvest's valuation of financial assets is based on amortised cost since the business model for all of Kommuninvest's instruments is to hold to maturity and all assets are deemed to have cash flows consisting only of capital amounts and interest on principal.

Where there is no accounting mismatch, financial liabilities are valued at amortised cost. Financial liabilities include the items liabilities to credit institutions, securities issued and other financial liabilities, such as marginal collateral received and accounts payable.

Fair value through other comprehensive income

Since Kommuninvest's business model is not to hold to maturity and sell, it has no financial instruments in the valuation category Fair value through other comprehensive income.

Fair value through the income statement

The valuation category Fair value through the income statement is divided between Held for trade, Compulsory and Fair value option.

Kommuninvest's derivatives that are held for financial hedging, but not included in hedge accounting, are reported under the valuation category Held for trade for liability derivatives and Compulsory for asset derivatives.

If Kommuninvest has a financial asset that fails the SPPI test, the instrument is valued in the category Compulsory fair value through the income statement.

Kommuninvest applies the fair value option where accounting mismatches have been identified. Accounting mismatches occur when an instrument is hedged with one or more derivative contracts to minimise market risks without applying hedge accounting. As derivatives are valued at fair value through the income statement but not the hedged item, accounting mismatches occur. When this is the case, the financially hedged item is also valued at fair value through the income statement through the fair value option. This would result in accounting mismatches if the derivative were measured at fair value through the income statement but not the hedged item.

Financial liabilities in the category Fair value through the income statement refer primarily to funding at fixed interest and structured funding, that is, loans that are subject to cancellation and/or that have coupon payments that are variable, but not connected to the interbank rate. The reason for fixed-rate funding being identified in this category is that such funding is hedged financially with a derivative without applying hedge accounting. This would result in accounting mismatches if the derivative were measured at fair value through the income statement but not the funding.

The reason for classifying structured funding in this category is that the funding includes material embedded derivatives and that it significantly reduces inconsistencies in the valuation of free-standing derivatives and funding.

Hedge accounting

Kommuninvest applies IAS 39 with regard to hedge accounting.

To obtain a true and fair picture of the operations, Kommuninvest applies, where possible, hedge accounting of fair value for the assets and liabilities which have been hedged with one or more financial instruments. As of 2019, Kommuninvest applies both transaction-matched fair value hedging and portfolio-matched fair value hedging.

The hedged risk is the risk of fluctuations in fair value as a consequence of changes in the interest on swaps.

Any inefficiency is recognised in the income statement. If a hedging relationship does not fulfil the efficiency requirements,

Note 2, continued

the relationship is severed and the asset/liability is recognised at amortised cost and the accumulated change in value of the asset/liability is allocated over the remaining term. Kommuninvest's hedging relationships have been deemed efficient.

Transaction-matched hedging
The hedged item, consisting of fixed-interest funding or lending, is therefore reassessed on the basis of changes in fair value in terms of the hedged risk. Kommuninvest uses interest rate and currency swaps as hedge instruments. The change in value of the hedged risk is reported on the same line in the balance sheet as the hedged item. Both the change in value of the hedged item and the hedging instrument are recognised in the income statement under Net result of financial transactions.

Portfolio hedging
The hedged item derives from a fixed-interest lending portfolio based on maturity date. The hedged item is revalued at fair value, taking the hedged risk into account. The value of the hedged risk is reported on a separate line in the balance sheet as change in value of interest-hedged items in portfolio hedging. As a hedging instrument, Kommuninvest uses interest rate swaps whose terms are in agreement with the hedged item. Both the change in value of the hedged item and the hedging instrument are recognised in the income statement under Net result of financial transactions.

Credit losses and impairments on financial instruments
Since the introduction of IFRS 9 on 1 January 2018, Kommuninvest has begun to calculate expected credit losses on financial assets valued at amortised cost. Loss provisions are also made for off-balance sheet commitments, which for Kommuninvest consist of committed undisbursed loans, liquidity guarantees and building loans. Kommuninvest has no confirmed credit losses.

The special status of the local government authorities in the Swedish constitution and their right to levy taxes mean that municipalities and regions cannot be declared bankrupt. Neither can they cease to exist in any other way. Moreover, it is forbidden to pledge local government property as security for a loan, which means that municipalities and regions are liable for all obligations they enter into, with all their tax power and their total assets.

Changes in expected credit losses are reported in the income statement under the item Net credit losses. Expected credit losses are reported in the balance sheet as an impairment of the recognised value of assets which, according to IFRS 9, are subject to impairment. Loss provisions on off-balance sheet items are reported as provisions in the balance sheet.

For information on credit losses and the calculation model, see Note 3 and for the effect earnings of credit losses, see Note 10.

Intangible assets
Intangible assets are carried at cost less accumulated depreciation and impairment.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful life of the intangible asset, effective from the month in which the asset is acquired and thus used. The useful lives of assets are reassessed at least once per year. The estimated useful life is five years.

Tangible assets
Tangible assets are recognised as assets in the balance sheet if it is probable that Kommuninvest will derive future economic benefit and the cost of the assets can be measured reliably.

Tangible assets are carried at cost less accumulated depreciation. The recognised value of a tangible fixed asset is derecognised from the balance sheet on scrapping or sale, or when no future economic benefits are expected from its use or the scrapping/sale of the asset. The gain or loss that may arise from the sale or scrapping of an asset constitutes the difference between the sale price and the asset's recognised value less direct sales expenses. Gain/loss is recognised as other operating income/expense.

Depreciation is carried out on a straight-line basis over the estimated useful life of the asset, effective from the month in which the asset is acquired and thus used. Kommuninvest calculates a useful life of three or five years for equipment. Works of art included in the balance sheet are not depreciated.

Pension through insurance
Kommuninvest's pension plans for service pensions under collective agreements are safeguarded through an insurance agreement with Alecta.

According to IAS 19, a defined contribution pension plan is a plan for remuneration after termination of employment whereby the Company pays pre-determined fees to a separate legal entity, and has no legal or informal obligation to make further payments if the legal entity has insufficient assets to pay all employee benefits relating to service during the current and earlier periods. A defined benefit pension plan is classed as a different type of plan for post-employment benefit to a defined contribution plan.

The pension plan for Kommuninvest's employees has been deemed a defined contribution plan encompassing more than one employer. Kommuninvest's pension payments are entered as an expense in the income statement at the rate at which they are earned as employees carry out services for Kommuninvest during a particular period. Premiums are paid to Alecta based on the current salary.

With regard to pension terms for senior executives, Kommuninvest has decided to comply with the principles set out in the Swedish government's guidelines for senior executives of state-owned companies (April 2009). The Company pays into a defined-contribution pension scheme equivalent to 30 percent of the CEO's and senior executives' pensionable salary, at most until the executive reaches the age of 65.

The year's expenses for insurance premiums are shown in Note 8.

General administration expenses
General administration expenses include payroll expenses, including salaries and emoluments, pension expenses, payroll taxes and other social security contributions and temporary/contract personnel, training expenses and other payroll expenses. Other expenses included in administrative expenses are the resolution fee, expenses for consultants, premises, IT, travel, rating, market data and other. For further information, see Note 8.

Note 2, continued

Other operating income

Other operating income consists primarily of the financial management service KI Finans, which Kommuninvest provides to the members of the Kommuninvest Cooperative Society. The members who have chosen to use this service pay an annual fee to Kommuninvest, which is reported under other operating income.

Since 1 January 2018, revenues from KI Finans is recognised in accordance with IFRS 15 and Kommuninvest recognises revenue for KI Finans during the contract period when the customer is entitled to access the service, meaning that revenue for the financial management service is allocated over the calendar year. Current expenses related to KI Finans are expensed.

Other operating expenses

Other operating expenses primarily include expenses for marketing and insurance.

Contingent liabilities

Disclosures regarding contingent liabilities are provided when there is a possible obligation arising from past events and the existence of which is substantiated only by one or more uncertain future events, or when there is an obligation which is not recognised as a liability or provision because it is not likely that an outflow of resources will be needed.

Leasing

The Company applies the exception in RFR 2 regarding lease accounting and does not therefore apply IFRS 16 to legal entities. Leasing fees are recognised as expenses on a straight-line basis across the term of the lease.

Tax

Tax expense includes current tax and deferred tax. Income taxes are recognised in the income statement, except when the underlying transaction is recognised directly against other comprehensive income or equity, whereby the appurtenant tax effect is also recognised in other comprehensive income or equity.

Current taxes are taxes that must be paid for the current year. This also includes adjustments to current taxes attributable to previous periods.

Deferred tax is calculated on the basis of temporary differences between reported and tax values of assets and liabilities according to the balance sheet approach.

Group contributions

Kommuninvest recognises Group contributions paid to the Parent Company directly against equity. Group contributions received are reported in the income statement under dividends received.

Cash flow statement

The cash flow statement has been prepared using the indirect method. The cash flow statement has been divided into inward and outward payments from operational activities, investment activities and financing activities. Operating activities mainly include changes in the lending and liquidity portfolio. Investing activities encompass investments in tangible and intangible assets. The financing activities shows the issue and redemption/repurchase of securities issued. Kommuninvest applies the exemption rule in IAS7:23 and reports issues of less than three months net. The financing activities also include a new share issue and change in consolidated debt.

Segment reporting

Kommuninvest does not prepare segment reports since it has only one segment: lending to members. All operations are conducted in Sweden and all customers are domiciled in Sweden. Kommuninvest has no single customer who accounts for 10 percent or more of income.

Note 3 Risk and capital management

Kommuninvest's principal assignment is to ensure access to stable and efficient funding for the local government sector. This entails borrowing funds on the financial market, based on customers' needs. The operating model entails the Company being exposed to risks. The Company's targets, principles and methods for managing these risks, and the methods for measuring those risks, are presented below (see also pages 35-39 for a comprehensive description of the Company's risk profile and risk organisation and the separate Risk and Capital Management Report, which is available at www.kommuninvest.se). Also shown under each area of risk are the current exposure and estimated capital requirement.

No material changes took place in 2019 with regard to the Company's targets, principles or methods for managing risk. Nor have the Company's exposures to different types of risk changed significantly. A new risk framework and associated risk policy were prepared during the year. This framework took effect from 1 January 2020. The purpose of the policy is to establish the external framework of the Company's risk-taking and risk management. The new framework will make clearer the connection between targets, limitations in the form of owner directives and legal requirements and risk measures.

Credit risk

Credit risk refers to the risk of a loss being incurred as a consequence of a counterparty's incapacity to meet its obligations on time. Credit risk arises in various ways in the Company's operations and is divided into three areas: Risk in credit provision arising in the lending operations, issuer risk arising in the Company's liquidity reserve and counterparty risk, which arises when the Company uses derivative instruments.

Credit risk is managed based on the Company's Risk Strategy, Credit Policy and Financial Policy. At least once a year, the Board sets limits for all investment and derivative counterparties, which relate to the Company's total exposure to the counterparty. Limits are determined by the CEO based on the counterparty's creditworthiness. When the Company assesses which investment and derivative counterparties are to be approved, as well as the requirements to which these are subject, the counterparty's creditworthiness, including ownership status, scope and extent of operations, and financial stability are to be taken into account.

Note 3, continued

The Company's credit risk exposures are presented in the table below.

Credit risk exposure	2019					2018				
	Recognised gross value	Expected credit losses	Recognised value[1]	Risk-weighted exposure value	Capital require-ment	Recognised gross value	Expected credit losses	Recognised value[1]	Risk-weighted exposure value	Capital require-ment
Credit provision										
Lending to municipalities and municipal companies[2]	408,235.9	–17.8	408,218.1	–	–	355,738.5	–28.5	355,710.0	–	–
– Risk category 1	*251,135.4*	*–10.5*	*251,124.9*	–	–	*230,784.0*	*–17.4*	*230,766.6*	–	–
– Risk category 2	*136,210.9*	*–6.3*	*136,204.6*	–	–	*113,889.9*	*–10.1*	*113,879.8*	–	–
– Risk category 3	*13,253.9*	*–0.6*	*13,253.3*	–	–	*4,853.6*	*–0.4*	*4,853.2*	–	–
– Risk category 4	*7,635.7*	*–0.4*	*7,635.3*	–	–	*6,211.0*	*–0.6*	*6,210.4*	–	–
Investments										
Sovereign bonds eligible as collateral	17,686.8	–0.5	17,686.3	–	–	39,232.4	–2.1	39,230.3	–	–
– AAA	*14,900.9*	*–0.5*	*14,900.4*	–	–	*37,071.9*	*–2.1*	*37,069.8*	–	–
– AA	*2,785.9*	–	*2,785.9*	–	–	*1,254.0*	–	*1,254.0*	–	–
– A	–	–	–	–	–	*906.5*	–	*906.5*	–	–
Cash and balances with central banks	811.1	0.0	811.1	–	–	–	–	–	–	–
– AAA	*811.1*	*0.0*	*811.1*	–	–	–	–	–	–	–
Bonds and other interest-bearing securities	7,722.6	–	7,722.6	–	–	7,457.8	–	7,457.8	–	–
– AAA	*6,308.3*	–	*6,308.3*	–	–	*5,064.5*	–	*5,064.5*	–	–
– AA	*1,414.3*	–	*1,414.3*	–	–	*2,393.3*	–	*2,393.3*	–	–
Lending to credit institutions	21,917.6	–0.4	21,917.2	2,045.4	163.6	1,844.1	–0.7	1,843.4	368.7	29.5
– AAA	*20,042.6*	–	*20,042.6*	*1,664.8*	*133.2*	–	–	–	–	–
– AA	*1,875.0*	*–0.4*	*1,874.6*	*380.6*	*30.4*	*1,844.1*	*–0.7*	*1,843.4*	*368.7*	*29.5*
Derivatives										
Derivatives[1]	11,967.0	–	11,967.0	–	–	11,333.2	–	11,333.2	–	–
– AA	*4,451.7*	–	*4,451.7*	–	–	*4,269.5*	–	*4,269.5*	–	–
– A	*6,742.3*	–	*6,742.3*	–	–	*6,311.1*	–	*6,311.1*	–	–
– BBB	*773.0*	–	*773.0*	–	–	*752.6*	–	*752.6*	–	–
Other assets										
Other assets	2,998.4	–	2,998.4	658.4	52.7	1,627.4	–	1,627.4	378.8	30.3
Off-balance sheet items										
Committed loans[2]	976.6	–0.1	976.5	–	–	1,213.6	–0.1	1,213.5	–	–
Committed, undisbursed loans[2]	1,618.8	–0.0	1,618.8	–	–	2,144.4	–0.0	2,144.4	–	–
Total (including off-balance sheet items)	**473,934.8**	**–18.8**	**473,916.0**	**2,703.8**	**216.3**	**420,591.4**	**–31.4**	**420,560.0**	**747.5**	**59.8**

1) The recognised value corresponds to the maximum credit risk exposure without taking collateral received or other forms of credit enhancement into account.For information on collateral received, see section Counterparty risk on page 66.
2) Guaranteed by local government undertaking For the definition of risk categories 1–4, see section Risk in credit provision on page 65.

Expected credit losses
The Company has a Credit Risk Committee that meets quarterly to assess changes in the Company's phase allocation and expected credit losses. These changes pertain to quantitative models based on input data and assumptions. The process is managed entirely by the Risk and Control department and the Finance department.

Changes in the credit risk are monitored daily and expected credit losses (ECL) are updated on a daily basis. The three factors probability of default (PD), loss given default (LGD), exposure at default (EAD) and the phase allocation are monitored on an ongoing basis and an overall assessment is made quarterly of the trend for the period and of any need to adjust the model.

Credit risk exposure
Kommuninvest's liquidity reserve consists of investments in these types of counterparties:
- Sovereign states or state-related counterparties, including states, local government authorities and credit institutions similar to Kommuninvest.

Kommuninvest's lending portfolio consists of lending to the following groups:
- Municipalities and regions (members of the Society).
- Companies, municipal associations and other entities in which members have a majority influence (municipal guarantee).

Off-balance sheet items:
- New lending agreed but not yet paid, building loans and liquidity guarantees.

Note 3, continued

Calculation of expected credit losses
In the calculation of expected credit losses (ECL), the probability of default (PD) is multiplied by the loss given default (LGD) and the exposure at default (EAD).
ECL = PD * LGD * EAD

Expected maturity
Indicators are used to continuously monitor the development of credit risk in the Company's lending. All credit exposures are in phase 1, entailing provisions based on 12 months' expected credit losses. Should a lending counterparty be classified in phase 2 due to increased credit risk, the exposure will be based on all cash flows over the remaining maturity.

For the liquidity reserve, Kommuninvest utilises the regulations' exemption for low credit risk, supported by the liquidity reserve's credit risk profile and good credit quality. Kommuninvest defines low credit risk as a credit rating from Moody's of at least Baa3 and from S&P Global Ratings of at least BBB–. Kommuninvest currently only has investments in counterparties with good credit quality that are sovereign states or that are related to a sovereign.

Qualitative assessments are made of negative changes in credit ratings to determine whether there has been a significant increase in credit risk. Assuming that no significant increase is deemed to have occurred and the credit rating meets the Company's requirement of low credit risk, the asset remains in phase 1, entailing 12-months' expected credit losses.

Definition of default
Any lending to parties other than members directly requires a guarantee for the entire credit amount from one or more members.

Kommuninvest's definition of default is in line with the guidelines developed by the European Banking Authority (EBA) and entail a counterparty having defaulted when one or both of the following situations has occurred:
- Kommuninvest considers it unlikely that the counterparty will be able to meet its commitments in full.
- Any of the counterparty's commitments to Kommuninvest have been due for payment for more than 90 days.

Before an exposure is considered to be in default, Kommuninvest is to perform an expert assessment. This should assess:
- Whether a "technical default" situation has arisen, determined based on the European Banking Authority's guidelines.
- Whether the exposure is directly towards a member (municipality or region). The in-depth analysis is motivated primarily by the local government authorities' constitutionally protected role in society, which includes, among other things, the right to levy taxes, meaning in practice that a local government authority cannot be declared bankrupt.

Determination of impaired credit quality
Kommuninvest applies a set of indicators to continuously monitor the development of credit risk in the lending portfolio. The function of the indicators is to demonstrate whether there is a change in the probability of default necessitating a transfer between credit risk phases based on limits. On the signing of the contract, an asset is classified in phase 1, meaning a 12-month probability of default being applied. If there is a significant increase in credit risk, it is transferred to phase 2, meaning that the probability of default on the remaining maturity is applied. In the event of default, the exposure is transferred to phase 3.

Kommuninvest uses both quantitative and qualitative indicators in its ongoing monitoring of the lending portfolio. The quantitative indicators consist of ratings from rating agencies and data from credit information providers (risk score, risk forecast and payment orders) and Kommuninvest's internal risk value model for assessing lending counterparties. For the quantitative indicators, limits are set in place, with breaches requiring follow-up. The qualitative indicators consist of restructuring of loan terms. A limit of 30 days also applies, meaning that an asset will be transferred to phase 2 if payment is delayed by more than 30 days. Before an individual counterparty is transferred to phase 2, a special assessment is to be made to elucidate the underlying causes and the counterparty's overall repayment capacity. The Credit Risk Committee determines the credit quality of the financial assets and any deterioration.

Kommuninvest has not suffered any actual credit loss, nor has it modified payment flows or renegotiated any existing agreements at any point during the Company's more than 30-year history.

The surety regulates the members' liability towards the Company. In light of the above, the Company has no specific principles for write-offs.

Probability of default (PD)
Kommuninvest has no empirical data of its own to start with as the Company has not suffered any defaults, neither of a material or technical nature. For calculating the probability of default, the Company instead applies S&P Global Ratings' database, which is well-suited to low-default financial institutions.

The probability of default used to calculate expected credit losses is a weighted average of three different macro scenarios (normal, medium-low and medium-high economic situations). The data on which historical default figures are based have been collected from S&P Global Ratings and then calibrated for each individual scenario. The scenario involving a normal economic situation is based on observed values for the macroeconomic factors included in the model, while the scenario involving a medium-low economic situation is based on a historically low percentile for the values for the macroeconomic factors and vice versa for the scenario involving a medium-high economic situation.

In the calculation of expected credit losses in the liquidity reserve, probability of default is allocated based on the issuer's rating. In calculating expected credit losses in the loan portfolio, probability of default is allocated based on a interpolation between the highest and lowest ratings noted. For the interpolation of the lending counterparty's rating, Kommuninvest's internal risk value model is used.

For the lending portfolio, Kommuninvest determines the probability of default at the counterparty level and not the transaction level. This is motivated by the fact that the conditions for all lending are identical and no hierarchical order of credit has been assigned to counterparties. In other words, a deteriorated credit quality will affect all of the counterparty's transactions.

Note 3, continued

Quantitative input data

Quantitative input data for the calculation of expected credit losses can be found in the table below.

Macroeconomic factor	Scenario	2020, %	2021, %	2022, %	2023, %
Forecast input data					
GDP trend Sweden	Principal scenario	1.0	1.5	1.8	1.8
	Positive scenario	4.5	4.5	4.5	4.5
	Negative scenario	–0.4	–0.4	–0.4	–0.4
Change in unemployment Sweden	Principal scenario	0.4	0.2	–0.2	–0.3
	Positive scenario	–13.4	–13.4	–13.4	–13.4
	Negative scenario	26.6	26.6	26.6	26.6
Change in global energy index	Principal scenario	–3.1	1.9	1.9	1.9
	Positive scenario	27.9	27.9	27.9	27.9
	Negative scenario	–12.9	–12.9	–12.9	–12.9
Change in global non-energy index	Principal scenario	0.1	1.7	1.7	1.7
	Positive scenario	17.8	17.8	17.8	17.8
	Negative scenario	–8.5	–8.5	–8.5	–8.5
Historical input data					
Historical change in credit rating (-1 year)	Principal scenario	0.0	–	–	–
	Positive scenario	1.0	–	–	–
	Negative scenario	99.0	–	–	–
Historical change in OMX index (-1 year)	Principal scenario	26.0	–	–	–
	Positive scenario	42.9	–	–	–
	Negative scenario	–23.5	–	–	–
Historical change in S&P 500 index (-1 year)	Principal scenario	28.5	–	–	–
	Positive scenario	26.4	–	–	–
	Negative scenario	–6.8	–	–	–

Sensitivity analysis

The sensitivity analysis for the macroeconomic factors can be found in the table below and applies only to the Company's lending portfolio. The table shows how, under stress, ECL is affected by the macroeconomic factors given the Company's present weighting of its scenarios (Basic scenario 70 percent, Positive scenario 10 percent, Negative scenario 20 percent).

Macro scenarios	Change in ECL, %
GDP: –3%; Unemployment: +3%; Energy index: –10%; Non-energy index: –10% OMX Index: –15%; Downgrades: +3%	59.0
GDP: –2%; Unemployment: +2%; Energy index: –5%; Non-energy index: –5% OMX Index: –10%; Downgrades: +2%	28.0
GDP: –1%; Unemployment: +1%; Energy index: –1%; Non-energy index: –1% OMX Index: –5%; Downgrades: +1%	24.0
GDP: 0%; Unemployment: 0%; Energy index: 0%; Non-energy index: 0% OMX Index: 0%; Downgrades: 0%	3.0

Since all exposures are in phase 1, only one year's PD affects the Company's expected credit losses and the sensitivity analysis is performed on a one year horizon in the principal scenario.

Loss given default (LGD)

Standard values are used for loss given default that are applied based on the type of counterparty.

For sovereigns and state-related counterparties, historical data from Moody's are used, including lending. It can be noted that all of Kommuninvest's counterparties have a higher credit rating and a more stable economic position than those on which Moody's based its calculation of loss given default. Accordingly, it is assessed that loss given default for these counterparties does not exceed the empirically derived assessment by Moody's. For other counterparties, loss given default is applied in accordance with the CRR regulations.

Exposure at default (EAD)

For exposure at default, the nominal amount of the assets and outstanding contractual cash flows are discounted by applying the effective interest rate. Which cash flows are included in the calculation depends on the outcome of the phase allocation. As the exemption for low credit risk is applied to the liquidity reserve, only cash flows with a one-year horizon are included in these assets. The Company has no collateral for its credit risk exposure.

The effective interest rate comprises swap rates, the spread for the Company's outstanding issues and lending, and the spread between the Company's funding expenses and the various types of issuers included in the liquidity reserve. Swap rates and spreads for the Company's issues are obtained from the secondary market, spreads for the Company's lending are obtained from the current customer price list, while the spread between the Company's funding expenses and the various types of issuers is determined through expert assessment.

These components are combined and a discount curve is built up for each currency and maturity.

Changes in expected credit losses during the period

Overall, the Company's expected credit losses decreased by SEK 12.6 million, from SEK 31.4 million to SEK 18.8 million, distributed as follows.

Probability of default (PD)

The change in the probability of default is attributable to four factors: adjustment in the method of the ECL model, adjustment in the weighting of scenarios, changes in macroeconomic factors (see table below), and a new historical probability from S&P Global Ratings.

In 2018, a linear method was applied to interpolate the Company's internal risk value with external credit ratings. As of 2019, the interpolation was instead switched to being exponential. The weighting of different scenarios has been adjusted from Basic scenario 85 percent, Positive scenario 5 percent and Negative scenario 10 percent to Basic scenario 70 percent, Positive scenario 10 percent and Negative scenario 20 percent. The macroeconomic factors are updated in accordance with new forecasts from the National Institute of Economic Research and the World Bank, while historical probability has been obtained from S&P Global Ratings.

Note 3, continued

Macroeconomic factors	2019, %	2018, %
GDP growth	1.1	1.3
Change in unemployment (% of total labour force)	0.5	1.6
OMX Index	26.0	10.0
S&P Index	28.5	–5.0
Energy index	–14.6	1.4
Non-energy index	–4.7	1.1

The table alongside shows how expected credit losses are affected by model components.

Change	Effect on ECL, %
Switch to exponential adjustment	–35.0
Macro factor update	1.0
Change in weighting of scenarios	2.0
New S&P PD	-3.7

Loss given default (LGD)

During the period, no change was made in LGD.

Exposure at default (EAD)

In 2019, the Company's assets not valued at fair value increased from a total SEK 286.1 billion to SEK 288.5 billion. The liquidity reserve decreased by SEK 18.6 billion, while the lending portfolio increased by SEK 21.5 billion. In total, assets corresponding to SEK 2,282.7 billion were initiated during the year and assets of SEK 2,280.0 billion matured. The increased credit risk exposure (given all other variables remaining constant) means that expected credit losses increased by 7 percent.

The change in credit loss provisions for the period is shown in the table below. All provisions relate to stage 1 and have been constant throughout the year. Kommuninvest has never suffered any confirmed credit losses. For more information on recognised gross value in the tables below, see the table on Credit risk exposures on page 62.

Change in provisions for credit losses

2019	Opening balance	Initiated during the period	Maturing during the period	Changed risk variables	Changes in model	Closing balance
Cash and balances at central banks	–	0.0	–	–	–	**0.0**
Sovereign bonds eligible as collateral	–2.1	–89.4	89.5	1.5	–	**–0.5**
Lending to credit institutions	–0.7	0.0	0.0	0.3	–	**–0.4**
Lending	–28.5	–2.9	4.9	18.6	–10.0	**–17.9**
Provisions for off-balance sheet items	–0.1	–2.6	3.0	–0.3	–	**0.0**
Total	**–31.4**	**–94.9**	**97.4**	**20.1**	**–10.0**	**–18.8**

Change in provisions for credit losses

2018	Opening balance	Initiated during the period	Maturing during the period	Changed risk variables	Changes in model	Closing balance
Sovereign bonds eligible as collateral	–0.4	–46.8	46.8	–1.7	–	**–2.1**
Lending to credit institutions	–0.2	0.0	0.0	–0.5	–	**–0.7**
Lending	–6.5	–1.8	2.8	–23.0	–	**–28.5**
Bonds and other interest-bearing securities	0.0	0.0	0.0	0.0	–	**0.0**
Provisions for off-balance sheet items	–0.1	0.0	0.0	0.0	–	**–0.1**
Total	**–7.2**	**–48.6**	**49.6**	**–25.2**	**–**	**–31.4**

Risk in credit provision

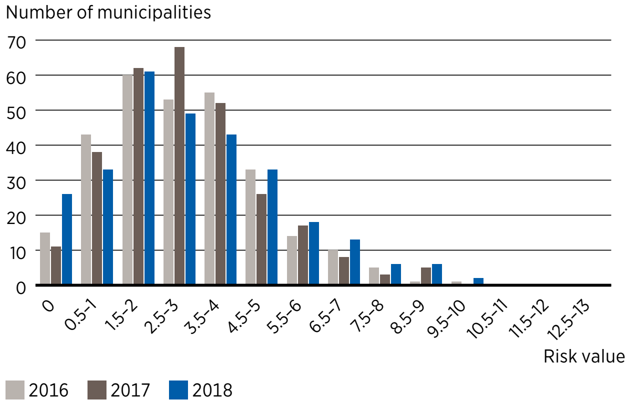
Risk in credit provision refers to the risk that a credit counterparty fails to meet its obligations. This risk is limited by providing credit only to members and approved companies, foundations and associations in which one or more members has a controlling influence. Approved companies, foundations and associations are to be covered by a guarantee from one or more members.

Members and approved companies, foundations and associations are followed up continuously and assessed from a holistic perspective at the corporation level. The risk in the Company's lending operations is very low and the Company has never suffered any credit losses in its lending operations.

The municipalities and regions and the companies they own respectively are analysed when processing membership applications and on an ongoing basis during their membership. To obtain an overall view of a member's financial situation, a quantitative risk value analysis is performed. The analysis includes the income statement, balance sheet, demographics and risks in municipal operations.

Based on this analysis, each of the Society's member municipalities and regions is allocated a risk value between 0 and 13, where the lower the risk value is, the better. How the municipalities are distributed between different risk-value groups is illustrated below in the diagram "Risk value model".

Risk value model



Capital requirement for risk in credit provision

From the perspective of capital adequacy, the local government sector has a risk weight of 0 percent, meaning that when the Company uses the standardised method in the CRR regulations, there is no statutory capital requirement for risk in credit provision.

Note 3, continued

Issuer risk

Issuer risk refers to the risk that the issuer of a security fails to repay its full undertaking on maturity. The risk is limited by investing the liquidity reserve in securities and bank balances where the issuer has a credit rating of at least A (S&P Global Ratings) or equivalent at an approved credit rating agency. In accordance with the Company's Finance Policy, investments may not be made in securities with a remaining maturity of more than 39 months. Placements are also subject to a country limit where the exposure to any individual country may not exceed SEK 15 billion, with the exception of Sweden for which there is no country limit. In addition, the Board of Directors determines the maximum gross exposure to individual issuers.

At year-end, the average remaining maturity of liquidity reserve investments was 1.8 (1.8) months.

The longest remaining maturity of an individual security was 30.1 (34.9) months.

The tables below show the exposure by country, rating and issuer category. The category "credit institution" consists primarily of securities issued by so-called subsidised lenders, which are treated as exposures to the national government, according to the CRR regulations.

Investments by country	2019	2018
Sweden	34,725.3	37,069.8
Supranationals	1,978.7	3,291.1
Finland	2,991.2	3,181.0
Germany	4,936.0	1,773.4
Denmark	807.9	1,174.1
United Kingdom	820.0	1,135.6
Canada	–	906.5
USA	1,878.0	–
Total	**48,137.1**	**48,531.5**

Investments by rating	2019	2018
AAA	42,062.3	42,134.3
AA	6,074.8	5,490.7
A	–	906.5
Total	**48,137.1**	**48,531.5**

Investments by issuer category	2019	2018
National governments or central banks	18,497.3	38,323.8
Credit institute	27,661.1	6,010.0
of which, subsidised lenders	*5,744.0*	*4,166.6*
of which, investment repos	*20,042.6*	*–*
of which, bank balances	*1,874.6*	*1,843.4*
Multilateral development banks	1,978.7	3,291.2
Regional or local governments and authorities	–	906.5
Total	**48,137.1**	**48,531.5**

Capital requirement for issuer risk

When calculating capital requirements for issuer risk, Kommuninvest uses the standard method in accordance with the CRR regulations, where the exposure value is equivalent to the recognised value. The risk-weighted exposure value is calculated by the exposure being assigned a risk weight in accordance with the regulations. The risk-weighted exposure value is multiplied by 8 percent and, accordingly, the capital requirement for issuer risk amounts to SEK 216.3 (59.8) million.

Counterparty risk

Counterparty risk refers to the risk that a counterparty in a financial agreement fails to fulfil its obligations under the contract. Counterparty risk arises when the Company includes derivative contracts to limit market risks. Counterparty risks are restricted by entering into contracts with financial institutions with high creditworthiness and requirements for pledged assets. Interest-rate contracts entered into as of October 2016 must be cleared by a central clearing counterparty.

In order for the Company to enter into an uncleared derivative, the counterparty must, at the time of the transaction, have a credit rating, as an issuer, of at least BBB+ or be guaranteed by someone with this credit rating. If the counterparty has a credit rating lower than A, particular attention is paid to the derivative's marketability, complexity and maturity. For the Company to enter into a cleared derivative, the counterparty must, at the time of the transaction, have a credit rating as an issuer of at least BBB–.

Counterparty risks are further reduced by concluding ISDA agreements and security agreements (known as CSA agreements) with all counterparties. ISDA agreements allow netting of positive and negative exposures. CSA agreements govern the right to collect collateral to eliminate the exposure arising from changes in the value of derivative contracts that have been entered. In connection with the new EMIR regulatory framework, which requires the replacement of variation margins for OTC derivatives, the Company has, since March 2017, introduced CSA agreements with most counterparties, entailing a daily exchange of collateral without thresholds.

The exposure to counterparty risk is determined based on the market value of the derivative contracts. A positive market value means a potential loss if the counterparty were to fall. This risk is reduced by all transactions with the same counterparty, according to ISDA agreements, being netted against one another. Under the terms of CSA agreements, collateral is subsequently obtained for the net exposure (the current replacement cost), further reducing the risk.

The initial margin set for cleared derivatives also entails a counterparty, as well as surplus collateral being pledged. Accordingly, the total counterparty risk amounts to SEK 3,025.2 (1,770.6) million.

Derivatives exposure	2019	2018
Recognised value[1]	11,967.0	11,333.2
Amount netted in the balance sheet	5,586.6	1,955.2
Gross market vale[2]	**17,553.6**	**13,288.4**
Netting gains	–3,679.0	–4,273.3
Current replacement cost[3]	**13,874.6**	**9,015.1**
Collateral received	–12,974.0	–8,571.1
Net per counterparty incl. deductions for collateral	**900.6**	**444.0**
Initial margin pledged	2,099.4	1,279.7
Surplus collateral pledged	25.2	46.9
Total counterparty risk	**3,025.2**	**1,770.6**

1) Total positive market values before netting.
2) Total positive gross market values before netting.
3) Total positive gross market values after netting within each netting agreement.

Capital requirements for counterparty risk

In calculating capital requirements for counterparty risk, Kommuninvest applies the market valuation method where the exposure value is equal to the sum of the current replacement cost and potential future exposure. To determine the current replacement cost for all contracts with a positive value, the contracts are assigned the current market values. To determine

Note 3, continued

the potential future exposure, the nominal amount is multiplied by the percentages stated, based on maturity and contract structure, in the CRR regulations.

The exposure value is then multiplied by the current risk weight, giving the risk-weighted exposure value. Since all members of the Society have signed a guarantee agreement, under which they assume responsibility for the Company's exposures, the risk weight of zero is assigned to all counterparty exposures. Accordingly, the risk-weighted exposure amounts are zero and the capital requirement for counterparty risk is thus also zero. See table Capital requirements for counterparty risk below.

Capital requirements for counterparty risk	2019	2018
Current replacement cost[1]	13,874.6	9,015.1
Potential future exposure	7,447.3	6,732.8
Exposure value	**21,321.9**	**15,747.9**
Risk-weighted exposure value[2]	0.0	0.0
Capital requirement	**0.0**	**0.0**

1) Total positive gross market values after netting within each netting agreement.

2) Guarantee undertaking by local government authorities gives a risk weight of 0 percent.

CVA risk

Creditworthiness adjustment or Credit Valuation Adjustment (CVA) is a price adjustment applied to derivatives that takes the counterparty's creditworthiness into account. Accordingly, CVA measures the risk that the market value of derivative contracts will decrease as the creditworthiness of the counterparty deteriorates. At the end of the year, recognised CVA amounted to SEK 5.0 million.

The Company has not previously made any such adjustment in its income statement with reference to the members' guarantee for the counterparty risk in the derivative exposures. Starting with the financial statements as per 31 December 2019, the Company adjusts the value of the derivative contracts for counterparty risk.

Capital requirement for CVA risk

In calculating capital requirements for CVA risk under Pillar I, Kommuninvest applies the standardised method in CRR. As the exposure value, the fully adjusted exposure value is used, meaning that the risk-reducing effects of the collateral are taken into account. In accordance with the regulations, transactions with central clearing counterparties are excluded.

At the end of the year, the capital requirement for CVA risk was SEK 98.4 (101.9) million.

Concentration risk

Concentration risk refers to the risk of losses beyond what is justified by an individual customer/issuer/counterparty's credit rating, due to the correlation of the risk of default among customers/issuers/counterparties. The correlation in the risk of default can be explained by factors such as industrial and geographical affiliation.

The Company's assignment, to provide credit to the local government sector, entails concentrations in the provision of credit. Concentrations in risk in credit provision are restricted by limits on lending to individual customers. Since all lending is covered by a guarantee from one or more members, the assessment is made that no capital requirement need be recognised for concentration risk in the provision of credit.

Concentrations towards counterparties in the Company's derivative portfolio are restricted, in part, by limits on individual counterparties and, in part, by limits on how large a share of the total derivative portfolio (nominal volume) may result from exposure to individual counterparties. Given that the Society's members sign guarantee undertakings for the Company's derivative exposures, no capital requirement is recognised for concentration risk in the derivative portfolio.

Concentrations towards issuers in the Company's liquidity reserves is restricted by limits on individual counterparties as well as by country limits. For this concentration risk, the Company recognises capital requirements as shown below.

Capital requirement for concentration risk

The calculations of capital requirements for credit risk-related concentration risk implemented by the Company are based on the method described in the Swedish Financial Supervisory Authority's (Finansinspektionen) memorandum "FI's methods for assessing individual risk types under Pillar II" from 8 May 2015.

Credit-related concentration risks are measured for three concentrations: geographic concentration, industry-specific concentration and name concentration.

Concentration risks are estimated applying the Herfindahl index, meaning that exposures are grouped and weighted in relation to their share of the total exposure. A higher Herfindahl index means a greater concentration. Capital requirements for concentration risks are subsequently calculated, applying formulas, as a proportion of the capital requirement for credit risk under Pillar 1.

When the calculations were performed as per 31 December 2019, the capital requirement under Pillar II for concentration risks in the liquidity reserve was 16.6 (16.6) percent of the capital requirement for credit risk under Pillar 1, that is to say, SEK 58.8 (9.9) million.

Market risk

Market risk is defined as the risk of loss (negative change in financial value) or a negative effect on the Company's income as a result of changes in risk factors in the financial market.

Market risk mainly arises in the funding operations and in the investment of the funds included in the Company's liquidity reserve. For funding to be stable and efficient, the Company needs to be active in several different funding markets while also hedging the market risks that can arise due to being present in different markets. The market risks are divided into interest rate risk, foreign exchange risk, credit market risk, other price risks and liquidation risk.

The Company limits its exposure to market risk by means of derivative contracts. The reason for a certain exposure to market risks being permitted is to make the business more efficient and not to permit risk-taking for speculative purposes.

Interest rate risk

Interest rate risk is defined as the risk of loss (negative change in financial value) or a negative effect on the Company's income as a result of changes in interest rates. Interest rate risk arises as a consequence of the periods for which interest is fixed for assets and liabilities not being in agreement. The Company does not take any interest rate risk positions for speculative purposes. For the Company's assignment to be conducted efficiently with regard to the conservative view on risk, interest rate risk is managed through portfolio matching. This means that small, temporary differences in interest rate periods are permitted for assets and liabilities. This risk includes earnings risks, meaning the risk of losses resulting from revenues or expenses differing in relation to the business plan and forecasts.

Note 3, continued

The table below shows the periods of fixed interest for assets and liabilities. Period of fixed interest term for cancellable lending and funding refers to the next possible cancellation date.

Periods of fixed interest				Nominal amount			
2019	**0-3 months**	**3 months-1 year**	**1-5 years**	**5-10 years**	**More than 10 years**	**Without interest**	**Total**
Assets							
Cash and balances with central bank	811.1	–	–	–	–	–	811.1
Sovereign bonds eligible as collateral	14,983.2	2,616.1	–	–	–	–	17,599.3
Lending to credit institutions	21,917.2	–	–	–	–	–	21,917.2
Bonds and other interest-bearing securities	1,006.5	2,483.0	4,122.4	–	–	–	7,611.8
Lending	223,775.8	26,611.5	119,497.6	34,411.0	2,215.3	–	406,511.1
Derivative investments	14,041.3	–9,783.0	–4,258.4	–	–	–	–
Derivative lending	171,189.4	–15,376.5	–119,647.4	–34,191.9	–1,973.6	–	–
Other assets	708.2	–	–	–	–	2,290.2	2,998.4
Total assets	**448,432.7**	**6,551.1**	**–285.8**	**219.1**	**241.7**	**2,290.2**	**457,448.9**
Liabilities and equity							
Liabilities to credit institutions	3,963.8	–	–	–	–	–	3,963.8
Securities issued	39,173.2	88,147.2	268,982.6	49,192.6	1,250.0	–	446,745.5
Derivative funding	378,460.7	–73,768.1	–268,627.6	–48,842.6	–1,000.0	–	–13,777.5
Other liabilities	7,981.5	–	–	–	–	1,462.1	9,443.5
Subordinated liabilities	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,602.0	7,602.0
Total liabilities and equity	**429,579.2**	**14,379.1**	**355.0**	**350.0**	**250.0**	**9,064.1**	**453,977.3**
Difference, assets and liabilities	18,853.5	–7,828.0	–640.8	–130.9	–8.3	–6,773.9	3,471.6

Periods of fixed interest				Nominal amount			
2018	**0-3 months**	**3 months-1 year**	**1-5 years**	**5-10 years**	**More than 10 years**	**Without interest**	**Total**
Assets							
Sovereign bonds eligible as collateral	36,095.0	2,103.1	875.0	–	–	–	39,073.1
Lending to credit institutions	1,843.4	–	–	–	–	–	1,843.4
Bonds and other interest-bearing securities	1,676.9	5,149.8	579.0	–	–	–	7,405.7
Lending	212,683.4	17,165.8	100,476.7	21,179.4	2,440.8	–	353,946.1
Derivative investments	8,971.9	–6,666.2	–2,220.0	–	–	–	85.7
Derivative lending	134,700.9	–13,072.6	–98,136.7	–21,292.5	–2,199.1	–	–
Other assets	1,320.1	–	–	–	–	307.3	1,627.4
Total assets	**397,291.6**	**4,679.9**	**1,574.0**	**–113.1**	**241.7**	**307.3**	**403,981.4**
Liabilities and equity							
Liabilities to credit institutions	576.9	–	–	–	–	–	576.9
Securities issued	53,767.8	53,748.7	271,161.1	20,720.9	1,250.0	–	400,648.5
Derivative funding	312,079.4	–34,141.0	–267,219.1	–20,720.9	–1,000.0	–	–11,001.6
Other liabilities	4,551.8	–	–	–	–	1,706.4	6,258.2
Subordinated liabilities	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,603.4	7,603.4
Total liabilities and equity	**370,975.9**	**19,607.7**	**3,942.0**	**–**	**250.0**	**9,309.8**	**404,085.4**
Difference, assets and liabilities.	26,315.7	–14,927.8	–2,368.0	–113.1	–8.3	–9,002.5	–104.0

Sensitivity analysis of financial value

According to a fixed limit set by the Board of Directors, the risk (exposure) in the portfolio may never exceed SEK 30 (30) million given a one percentage point parallel shift in the yield curve. However, interest rate risk is permitted to correspond to an exposure of at most SEK 50 (50) million over a period of at most five consecutive business days.

At year-end, the exposure (throughout the portfolio) amounted to negative SEK 14.1 (positive 9.3) million given a one percentage point parallel shift (upwards) in the yield curve. Due to changes in the value of assets and liabilities, a positive value exposure entails a positive interest effect if rates rise and a negative interest effect if rates fall.

If only transactions valued at fair value are taken into account, the result would change by SEK 232.2 (231.3) million given a one percentage point parallel shift (upwards) in all market interest rates.

Note 3, continued

Sensitivity analysis of the Company's net interest income

The effect on the Company's net interest income is analysed on the basis of two scenarios: a parallel displacement upwards of 100 basis points and a parallel displacement downwards of 50 basis points. Given the generally very low market rates, the scenarios are made asymmetrical – the interest rate was adjusted less in the scenario where interest rates fall further.

The Company has good matching of cash flows between assets and liabilities. The only exceptions are assets financed by equity, which lack cash flows. The earnings from these assets, which are financed with equity, will therefore increase if market interest rates rise and correspondingly decrease if market interest rates fall.

If all market interest rates were to rise by 100 basis points at year-end, net interest income over a one-year period would increase by SEK 182 (229) million, provided that the size and composition of balance sheet does not change, and correspondingly, if all market interest rates were to fall by 50 basis points at year-end, net interest income would have decreased by SEK 115 (115) million over a one-year period.

Capital requirement for interest rate risk

The capital requirement for interest rate risk under Pillar II has been calculated based on the Swedish Financial Supervisory Authority's (Finansinspektionen) model for interest rate risk in the banking book.

The model calculates the change in the value of the Company's net assets, given a number of change scenarios for the zero coupon curve. The change scenarios consist partly of parallel displacements, upwards and downwards, where the magnitude of the shift is based on historical market data and partly of four changes in the curve gradient, where the interest rate curve increases or decreases over short or long maturities.

As one of the ten largest institutes in Sweden, Kommuninvest calculates the capital requirement according to the advanced approach, in which cash flows are grouped by trading day.

Under Pillar II, a capital requirement for interest rate risk of SEK 67.4 (45.0) million has been entered.

Foreign exchange risk

Currency risk refers to the risk of a negative effect on the Company's income as a result of exchange rate fluctuations. Foreign exchange risk arises if assets and liabilities denominated in a specific currency in the balance sheet are mismatched in terms of size. The Company hedges all known future flows by means of derivatives. However, foreign exchange risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments. This risk is limited by continuously converting such returns into SEK. The maximum permitted exposure corresponds to SEK 5 million in each currency.

Capital requirement for foreign exchange risk

The Company's exposure to foreign exchange risk is so low that there is no longer a statutory capital requirement.

The capital requirement under Pillar II is calculated by multiplying the exposure by the foreign exchange fluctuations over the year. In 2019, the SEK/EUR and SEK/USD foreign exchange rates fluctuated by as much as 6 (6) percent per month. An exchange rate fluctuation of 6 (6) percent, with an exposure of SEK 5 million, would entail a capital requirement of SEK 0.3 (0.3) million per month. Accordingly, on an annual basis, this corresponds to a capital requirement of SEK 3.6 (3.6) million.

Assets and liabilities by currency				**Recognised value**				
2019	**SEK**	**EUR**	**USD**	**JPY**	**AUD**	**Other currencies**	**Fair value adjustment**	**Total**
Assets								
Cash and balances with central banks	811.1	–	–	–	–	–	–	811.1
Sovereign bonds eligible as collateral	15,209.1	–	2,474.6	–	–	–	2.6	17,686.3
Lending to credit institutions	21,097.2	31.3	788.7	0.0	0.0	0.0	–	21,917.2
Bonds and other interest-bearing securities	1,578.2	–	6,114.5	–	–	–	29.9	7,722.6
Lending	406,912.3	–	–	–	–	–	1,305.8	408,218.1
Derivatives	–122,417.3	816.8	119,888.4	3,058.8	3,293.1	4,317.6	3,009.6	11,967.0
Other assets	502.3	–	2,496.1	–	–	–	–	2,998.4
Total assets	**323,692.9**	**848.1**	**131,762.3**	**3,058.8**	**3,293.1**	**4,317.6**	**4,347.9**	**471,320.7**
Liabilities and equity								
Liabilities to credit institutions	3,435.2	587.7	–	–	–	–	4.8	4,027.7
Securities issued	264,972.9	261.3	159,157.0	7,378.8	4,134.2	8,523.8	2,335.0	446,763.0
Derivatives	43,266.3	–0.6	–32,300.7	–4,320.0	–841.1	–4,206.2	1,886.8	3,484.5
Other liabilities	4,537.3	–	4,906.2	–	–	0	–	9,443.5
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	7,480.8	–	–	–	–	–	121.2	7,602.0
Total liabilities and equity	**323,692.5**	**848.4**	**131,762.5**	**3,058.8**	**3,293.1**	**4,317.6**	**4,347.8**	**471,320.7**
Difference, assets and liabilities	**0.3**	**–0.3**	**–0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	–	0.0	0.0	0.0	0.0	0.0	–	–

Note 3, continued

Assets and liabilities by currency				Recognised value				
2018	**SEK**	**EUR**	**USD**	**JPY**	**AUD**	**Other currencies**	**Fair value adjustment**	**Total**
Assets								
Sovereign bonds eligible as collateral	36,225.2	–	3,020.6	–	–	–	–15.5	39,230.3
Lending to credit institutions	707.8	92.2	1,043.4	–	0.0	0.0	–	1,843.4
Bonds and other interest-bearing securities	1,092.3	523.9	5,861.8	–	–	–	–20.2	7,457.8
Lending	354,372.8	–	–	–	–	–	1,337.2	355,710.0
Derivatives	–116,089.6	1,012.2	117,814.2	1,438.7	954.7	4,215.6	1,987.4	11,333.2
Other assets	455.9	0.1	1,170.9	0.3	–	0.2	–	1,627.4
Total assets	**276,764.4**	**1,628.4**	**128,910.9**	**1,439.0**	**954.7**	**4,215.8**	**3,288.9**	**417,202.1**
Liabilities and equity								
Liabilities to credit institutions	0.3	576.2	–	0.3	–	0.2	7.0	584.0
Securities issued	221,264.5	410.4	141,468.2	11,280.9	4,109.0	18,898.9	–635.0	396,796.9
Derivatives	44,571.0	641.9	–15,176.0	–9,842.2	–3,154.3	–14,683.3	3,602.5	5,959.6
Other liabilities	3,637.5	0.1	2,620.6	–	–	–	–	6,258.2
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	7,289.0	–	–	–	–	–	314.4	7,603.4
Total liabilities and equity	**276,762.3**	**1,628.6**	**128,912.8**	**1,439.0**	**954.7**	**4,215.8**	**3,288.9**	**417,202.1**
Difference, assets and liabilities.	**2.1**	**–0.2**	**–1.9**	**–**	**0.0**	**0.0**	**–**	**–**
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	–	0.0	–0.2	–	0.0	0.0	–	–

Credit market risk

Credit market risk refers to the risk of loss or a negative effect on the Company's income as a result of changes in basis or credit spreads. Credit market risk arises primarily as a consequence of imbalances in maturities between assets and liabilities valued at fair value. Credit market risk is further broken down into credit spread risk on assets, credit spread risk on liabilities, credit spread risk on derivatives (CVA risk) and basis swap risk.

The Company restricts the credit market risk through good maturity matching between assets (loans and investments) and liabilities (funding and equity). Shown below is the Company's sensitivity to general changes in market credit spreads corresponding to a basis point parallel shift (upwards).

Sensitivity to credit market risk	2019	2018
Investments, fair value option	–1.9	–1.1
Lending	–26.7	–23.8
Funding	25.4	26.0
Total	**–3.2**	**1.1**

Capital requirement for credit market risk

A total capital requirement under Pillar II for credit market risk (excluding credit spread derivatives) is calculated for a number of scenarios. The largest capital requirement calculated for a single principal scenario will then constitute the Company's capital requirement for credit market risk. The principal scenarios underlying the capital requirement calculation are either theoretical or have been developed based on actual market changes for selected time periods.

The historical scenarios are intended to capture periods when fluctuations were greatest in the credit markets where the Company makes business transactions. The historical scenarios also include scenarios in which credit and basis swap movements are simulated using mathematical models, with a certain degree of probability, based on market data from various, selected periods of time.

The theoretical scenarios are prepared based on the credit market risks associated with the Company's business model and that could arise from that. These scenarios are included to ensure that the capital requirements cover all of the risks that could arise from the Company's business model since the historical scenarios do not necessarily cover all of the various possible scenarios.

In the calculations performed as per 31 December 2019, the total capital requirement for credit market risk amounted to SEK 1,766.4 (1,530.0) million.

Other price risks

Other price risks refers to the risk that a change in the pricing situation of underlying assets and indexes, such as shares or share indexes, will lead to a loss or negative effect on the Company's income. The Company uses derivatives to hedge price risks with regard to underlying assets and indexes. This means that no other price risks remain.

Liquidation risk

Liquidation risk refers to the risk that a counterparty to a transaction in interest-bearing instruments or foreign currency before settlement is unable to meet its obligations and that the Company incurs increased expenses to enter a replacement transaction. The Company's process for managing counterparty risks also includes management of liquidation risks. The Company is to work proactively to avoid losses as a consequence of liquidation risks.

Business risk and strategic risk

Business risk is the risk of reduced revenues or increased expenses as a consequence of factors in the external business environment (including market conditions, customer behaviours and technological developments) having a negative impact on volumes and margins. All departments within the Company work continuously with external monitoring in their respective fields.

Note 3, continued

Strategic risk is the long-term risk of losses due to erroneous or misguided strategic choices and business decisions, incorrect implementation of decisions or inadequate sensitivity to changes in society, regulatory systems or the financial sector and/or local government sector. The Company has a procedure for developing strategic targets set by the Board of Directors. Strategic risks are limited by strategic decisions being made on the basis of well-founded analyses and decisions of a strategic nature often being made by the Board of Directors.

Capital requirements for business risk and strategic risk

The Company has not assigned any capital requirements for business risk and strategic risk. On the other hand, these risks are assessed as part of the Company's stress tests in the capital planning buffer.

Liquidity and financing risk

Liquidity risk refers to the risk that it will not be possible to meet payment obligations on maturity.

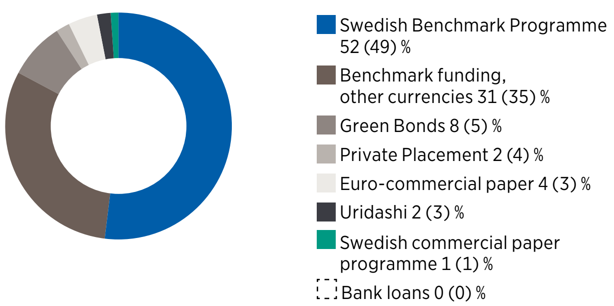
The short liquidity risk corresponds to risks in day-to-day liquidity management where unforeseen events could make it difficult for the Company to meet its obligations. This risk is restricted by holding a liquidity reserve with highly liquid assets. Short-term liquidity risk is further limited by the Company being a full member of the Riksbank's (Swedish central bank) RIX payment system, through which the Company can, among other things, raise loans against collateral.

The structural liquidity risk (financing risk) corresponds to the risk that the Company has not financed its long-term commitments in advance. This risk is restricted, in part, through access to diversified funding and, in part, through good matching of maturities between assets and liabilities.

The Company's method for managing structural liquidity risk (good maturity matching) represents a change from the previous period when the Company generally sought longer maturities on liabilities than assets.

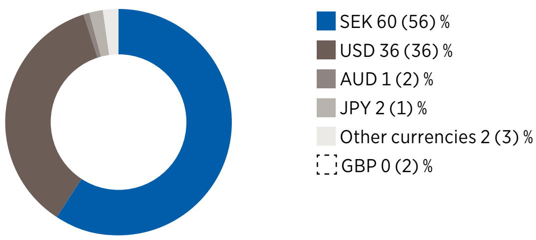
Total funding by type of instrument

2019 (2018)



Total funding by currency

2019 (2018)



Diversified funding

Kommuninvest's liquidity risk management is pervaded by a highly restrictive attitude towards liquidity risk. The Company has diversified funding, with access to several different capital markets. This ensures that funding activities provides the necessary conditions to cover new lending, renewals and funding maturities, even under worsening market conditions. The strategic funding programmes are the Company's Swedish Benchmark Programme, benchmark funding in USD within the EMTN (Euro Medium Term Note) programme, the ECP (Euro Commercial Paper) programme, as well as its funding in the Japanese market. The Company maintains a continuous market presence in strategic funding programmes.

Good matching between assets and liabilities

Liquidity risks arise when assets and liabilities have different maturities. To minimise this risk, the Company strives to achieve good matching between assets (lending and investments) and liabilities (funding and equity). The goal is to match assets and liabilities with maturities of more than one year and for deviations over time to be zero. The graph below illustrates the balance sheet maturity profile, indicating good matching between assets and liabilities.

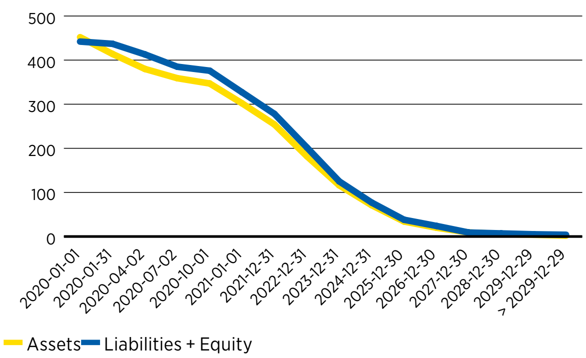
The average maturity of the Company's outstanding funding amounted to 2.3 (2.3) years at the end of the year, if the earliest possible cancellation date is used in the calculation. In connection with cancellable funding, the investor has the right, under certain conditions, to request premature repayment of loaned funds.

At year-end, the average maturity on the Company assets amounted to 2.3 (2.3) years, with capital tied up in the Company's lending portfolio for an average 2.6 (2.6) years, and with capital tied up in the liquidity reserve for 0.2 (0.2) years.

Maturity profile, balance sheet

31 December 2019

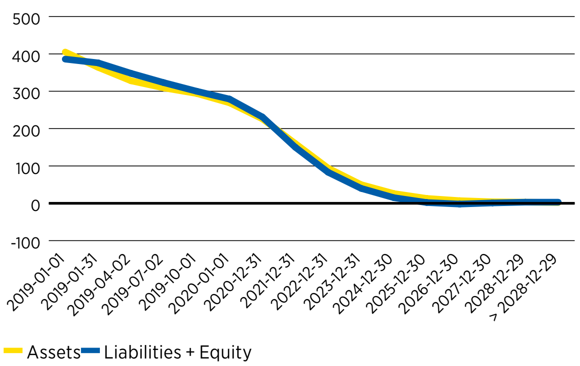
SEK bn



Maturity profile, balance sheet

31 December 2018

SEK bn



Note 3, continued

Maturity analysis
The maturity analysis below shows undiscounted cash flows, including amortisation and interest payments, based on the remaining agreed maturity dates. All flows are converted to Swedish kronor by applying a spot rate.

	Contractual, non-discounted cash flows							
2019	On demand	0-3 months	3 months-1 year	1-5 years	> 5 years	No maturity	Total	Recognised value
Assets						–		
Cash and balances with central banks	811.1	–	–	–	–	–	811.1	811.1
Sovereign bonds eligible as collateral	–	15,022.3	2,680.6	–	–	–	17,702.9	17,686.3
Lending to credit institutions	–	21,917.2	–	–	–	–	21,917.2	21,917.2
Bonds and other interest-bearing securities	–	1,065.5	2,590.3	4,194.6	–	–	7,850.4	7,722.6
Lending	–	38,392.8	73,564.4	255,131.9	48,107.5	–	415,196.6	408,218.0
Derivatives	–	2,115.6	7,861.1	9,866.0	476.2	–	20,318.9	11,967.0
Other assets	–	2,998.5	–	–	–	–	2,998.5	2,998.5
Total assets	**811.1**	**81,511.9**	**86,696.4**	**269,192.5**	**48,583.7**	**–**	**486,795.6**	**471,320.7**
Liabilities and equity								
Liabilities to credit institutions	–	3,435.3	–	586.7	–	–	4,021.9	4,027.7
Securities issued	–	31,199.4	93,683.1	279,805.6	51,440.6	–	456,128.7	446,763.0
Derivatives	–	799.7	449.3	2,078.7	236.7	–	3,564.5	3,484.5
Other liabilities	–	9,442.7	–	–	–	–	9,442.7	9,443.5
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,602.0	7,602.0	7,602.0
Total liabilities and equity	**–**	**44,877.1**	**94,132.4**	**282,471.0**	**51,677.3**	**7,602.0**	**480,759.8**	**471,320.7**
Total difference	**811.1**	**36,634.8**	**–7,436.0**	**–13,278.5**	**–3,093.6**	**–7,602.0**	**6,035.8**	**–**
Committed loans	976.5	–	–	–	–	–	**976.5**	**–**
Committed, undisbursed loans[1]	–	–1,026.5	–521.2	347.3	1,259.4	–	**58.9**	**–**

	Contractual, non-discounted cash flows							
2018	On demand	0-3 months	3 months-1 year	1-5 years	> 5 years	No maturity	Total	Recognised value
Assets						–		
Sovereign bonds eligible as collateral	–	36,227.8	2,148.8	907.9	–	–	39,284.5	39,230.3
Lending to credit institutions	–	1,843.4	–	–	–	–	1,843.4	1,843.4
Bonds and other interest-bearing securities	–	1,734.5	5,234.9	605.8	–	–	7,575.2	7,457.8
Lending	–	37,761.1	45,995.6	247,541.6	31,160.8	–	362,459.1	355,710.0
Derivatives	–	8,877.9	6,020.7	10,143.8	82.0	–	25,124.4	11,333.2
Other assets	–	1,627.4	–	–	–	–	1,627.4	1,627.4
Total assets	**–**	**88,072.1**	**59,400.0**	**259,199.1**	**31,242.8**	**–**	**437,914.0**	**417,202.1**
Liabilities and equity								
Liabilities to credit institutions	–	0.9	0.3	581.6	–	–	582.8	584.0
Securities issued	–	46,167.1	64,109.7	283,435.2	22,723.3	–	416,435.3	396,796.9
Derivatives	–	1,103.7	1,389.3	1,315.8	–137.1	–	3,671.7	5,959.6
Other liabilities	–	6,258.2	–	–	–	–	6,258.2	6,258.2
Subordinated liabilities	–	–	–	–	–	–	–	–
Equity	–	–	–	–	–	7,603.4	7,603.4	7,603.4
Total liabilities and equity	**–**	**53,529.9**	**65,499.3**	**285,332.6**	**22,586.2**	**7,603.4**	**434,551.4**	**417,202.1**
Total difference	**–**	**34,542.2**	**–6,099.3**	**–26,133.5**	**8,656.6**	**–7,603.4**	**3,362.6**	**–**
Committed loans	1,213.5	–	–	–	–	–	**1,213.5**	**–**
Committed, undisbursed loans[1]	–	–1,992.0	20.7	1,373.8	680.2	–	**82.6**	**–**

1) Negative amounts refer to outflows and positive amounts to inflows.

Note 3, continued

Liquidity reserve

To ensure good liquidity preparedness even during periods of stress (e.g. aggravating financing opportunities in the capital markets), the Company maintains a liquidity reserve. The liquidity reserve is defined as the Company's holdings in securities, investment repos and bank balances. Bank balances refer to investments lacking underlying securities. The Company's direct holdings of securities and securities pledged as collateral are excluded from the reserve.

The scale of the liquidity reserve is governed by the principle that a sufficient volume shall be maintained to meet the Company's liquidity needs even during periods of substantial unease in the financial markets.

The Company's liquidity reserve shall also comprise assets of good credit quality that are easily traded or redeemed.

Investments may only be made in liquid interest-bearing securities and bank balances with senior status in the event of insolvency. Investment may include implicit or explicit zero interest rate flooring but no other structures.

Liquidity measure

The liquidity coverage ratio (LCR) measures the ratio of highly liquid assets to net cash outflows over a 30-day period, in a stressed situation. Accordingly, a liquidity coverage ratio of 100 percent ensures that, in the short term, the Company's liquidity reserve comprises sufficiently liquid assets to meet net cash outflows over the ensuing 30 days in a stressed situation.

Kommuninvest measures and monitors LCR on a daily basis, in part, on an overall level and, in part, for significant currencies, that is, within each currency where the Company has fundings amounting to at least 5 percent or more of total funding (those currencies being SEK and USD).

According to the limit set by the Board of Directors, the LCR quota may not be lower than 110 percent. This requirement includes all currencies combined, and individually for EUR and USD, given that each currency is a so-called significant currency. For SEK, the Board of Directors has set a limit of 85 percent.

The high proportion of sovereign bonds and other cash and cash equivalents in the Company's liquidity reserve mean that the liquidity ratio exceeds the government's requirements by a good margin. In accordance with the CRR regulations, the Company's LCR, as of 31 December 2019, was 416.5 (247.5) percent, 842.8 (327.1) percent in USD and 713.0 (331.3) percent in SEK (see table below).

For measures of structural liquidity risk, the Company measures and monitors the net stable funding ratio (NSFR), that is, the relationship between available stable financing and the Company's need for stable financing. In 2018, a statutory quota of 100 percent was introduced and the Company has a limit set by the Board of Directors since 2016 requiring that the NSFR not fall below 110 percent. At year-end, the NSFR was 139.4 (143.2) percent.

	2019			2018		
Liquidity Coverage Ratio (LCR) in accordance with the CRR regulations	**Total**	**USD**	**SEK**	**Total**	**USD**	**SEK**
Extremely highly liquid assets (Level 1), excluding covered bonds	25,245.7	918.0	16,680.9	45,238.3	993.5	35,820.8
Extremely highly liquid covered bonds (Level 1)	15,444.5	–	15,444.5	–	–	–
Highly liquid assets (Level 2)	–	–	–	–	–	–
Liquidity buffer, SEK million	**40,690.2**	**918.0**	**32,125.4**	**45,238.3**	**993.5**	**35,820.8**
Cash outflows, SEK million	17,918.3	445.2	11,505.7	21,461.6	1,215.1	12,742.0
Cash inflows[1], SEK million	8,148.3	333.9	7,000.0	3,183.0	911.3	1,929.9
Net cash outflow, SEK million	**9,770.0**	**111.3**	**4,505.7**	**18,278.6**	**303.8**	**10,812.1**
Liquidity coverage ratio (%)	**416.5**	**824.8**	**713.0**	**247.5**	**327.1**	**331.3**

1) In the calculation of net cash outflow, cash inflows may only be included to a maximum of 75 percent of cash outflows.

Operational risks

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or routines, human error, incorrect systems or external events, including legal risks. Operational risk is inherent in the Company's operations and cannot be completely avoided, eliminated or transferred to another party. However, through good governance and control, Kommuninvest can reduce the likelihood of this risk arising and can reduce the consequences that may arise as a result of operational risk.

Risk management

Operational risks exist throughout the operations and can never be completely avoided. Risk management and analysis are performed continuously. Self-assessment, incident management, approval processes in connection with amendments, and contingency and continuity planning are among the methods used to identify, manage and analyse operational risk.

The risks are mitigated by good governance and control, thus keeping operational risk at a controlled and acceptable level.

Risk management within Kommuninvest comprises uniform measurement and reporting of operational risks. An analysis of the level of risk in all operations is performed on a regular basis and reported to the Board of Directors, CEO and management.

The operational risk unit within the Risk and Control department bears overall responsibility for the methods and procedures used to measure, identify, control, assess, analyse, evaluate and report operational risks. The process of managing operational risk is performed based on Kommuninvest's risk appetite and the processes essential to the operations.

Methods for identifying, managing and analysing operational risks

Risk indicators

Risk indicators are a measure of the effects of governance and control within the Company, and are to be monitored and analysed continuously to alert the operations if their risks increase. Reviewing these indicators serves to inform the operations if the risk situation within Kommuninvest changes.

Note 3, continued

Self-assessment
Operational risks can arise in any part of the Company's operations. What the operational risks have in common is that their size is only to a minor extent affected by external factors, such as changes in market rates or in the creditworthiness of different customers or counterparties. Instead, operational risks arise through shortcomings in Kommuninvest's own operations and/or organisation. Against this background, the CEO is responsible, alongside all department managers, for conducting at least one yearly self-assessment of the operational net risks in the Company's products, services, functions, processes and IT systems. The results of the self-assessment are reported annually to the Board of Directors, the CEO and the management.

Stress tests
Stress tests are a tool for ensuring that Kommuninvest keeps a forward-looking perspective in its risk management and capital planning. Stress test is a collective name for various types of evaluations that the Company performs in its operations, experienced-based or hypothetical, to quantify risks and to measure the Company's capacity to manage extraordinary circumstances. Stress tests are to be performed using scenario analyses or sensitivity analyses.

Incident management
A reportable event is defined as one that deviates from the expected. Reportable events are those where risks are materialised, that is, external events or events within Kommuninvest that have, or could have, a negative impact on the Company's business, assets, or reputation.

Kommuninvest shall, in an organised and structured manner, track reportable events (incidents), basing this work on the Company's established instructions for such reporting. Events that deviate from the expected should, as far as possible, be reported and handled within the area of operations or the process in which the risk arises.

The head of the relevant operations is responsible for employees reporting such events and taking action to handle the events.

Processes for approving new products, services, markets, currencies, IT systems, and organisational and operational changes (NPAP)
Kommuninvest's approval process is to be initiated when the need for a new product, service, market, currency, process, or IT system arises or is identified, or when a substantial change is needed in an existing one. The process should also be initiated in connection with major changes in the Company's operations or organisation. The purpose of the process is to identify and manage the risks that may arise in connection with change.

Written documentation for approval decisions shall be prepared in accordance with the operational management templates by the individual initiating the matter. The documentation shall be developed in dialogue with all relevant functions at the Company.

Continuity management
The organisation shall perform crisis prevention work. This is done in the operations under the direction of the relevant department manager. To provide support, guidelines are to be provided in the form of security instructions, continuity management plans and security procedures.

To ensure that continuity management in the Company includes coordinating, reviewing and reporting functions , the CEO has appointed a Crisis Group. At least once a year, the Board of Directors shall be informed of the latest results from tests of the contingency, continuity and recovery plans.

Capital requirement for operational risk
Kommuninvest applies the base indicator method to determine the capital requirement for operational risk. The method calculates the capital requirement based on 15 percent of the operating income over the past three years.

Kommuninvest's capital requirement under Pillar 1 for operational risks amounts to SEK 153.4 (153.6) million.

Reputation risk
Reputation risk is the risk that income from potential and existing customers declines if they lose confidence in the Company due to negative publicity or rumours about the Company or the local government sector in general. Reputation risk is also the risk of increased funding expenses if potential or existing investors lose confidence in the Company due to negative publicity or rumours about the Company or the local government sector in general. The Company works preventively with media monitoring and has employees with in-depth knowledge in the area to pre-empt and counter possible rumours about the Company.

Residual risk
Residual risk is the risk that established techniques for risk assessment and risk reduction applied by the Company prove to be less effective than expected. The Company deliberately applies relatively simple methods and techniques for measuring risk, capital requirements and risk appetite to reduce the risk of error. The Company conducts both forward-looking and historical analyses of all risk types. The internal capital assessment addresses negative scenarios to ensure that the impact on the Company is not greater than expected.

Capital adequacy
Since 1 January 2014, capital adequacy has been calculated according to CRR[1]. The capital buffers to be introduced under CRD IV[2] first require implementation under Swedish law, which has been effectuated through the Act concerning capital buffers (2014:966). For Kommuninvest, only the capital conservation buffer of 2.5 percent and the countercyclical buffer apply, the size of which is based on the geographical distribution of the credit exposures.

On 31 December 2019, the countercyclical buffer requirement for Kommuninvest i Sverige AB was 2.0 percent. Kommuninvest is not subject to the requirement for a systemic risk buffer, nor has the Company been identified as a systemically important institution. Kommuninvest meets the buffer requirements by a good margin.

1) European Parliament and Council Regulation (EU) No 575/2013 of 26 June 2013 on supervisory requirements for credit institutions and securities companies and amending Regulation (EU) No 648/2012.
2) European Parliament and Council Directive 2013/36/EU of 26 June 2013 on authorisation to conduct operations in credit institutions and on the supervision of credit institutions and securities companies, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Note 3, continued

Capital base	2019	2018
Capital Instruments[1]	7,100.0	7,100.0
Non-distributed retained earnings[2]	484.5	485.2
Accumulated other comprehensive income and other reserves	17.5	17.5
Core Tier I capital before regulatory adjustments	**7,602.0**	**7,602.7**
Further value adjustments[3]	–183.2	–177.5
Total regulatory adjustments to core Tier I capital	**–183.2**	**–177.5**
Total core Tier I capital	**7,418.8**	**7,425.2**
Tier I capital contributions	–	–
Total Tier I capital	**7,418.8**	**7,425.2**
Total Tier II capital	**–**	**–**
Total capital	**7,418.8**	**7,425.2**

1) For a more detailed description of the instruments included in share capital, see page 55.
2) As of 31 December 2018, deductions of SEK 0.7 million have been made, which refer to the portion of net profit that has not been distributed to the Kommuninvest Cooperative Society in the form of Group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.
3) Deductions calculated according to the EBA's technical standard regarding prudent valuation. The purpose is to adjust the uncertainty in valuation regarding positions valued and recognised at fair value.

Risk exposure amounts and minimum capital amounts	2019		2018	
Capital requirement, Pillar I	**Risk exposure**	**Capital require-ment**	**Risk exposure**	**Capital require-ment**
Capital requirement for credit risks (the standardised method)	2,703.8	216.3	747.5	59.8
of which, institutional exposures	*951.9*	*76.2*	*660.2*	*52.8*
of which, corporate exposures	*94.0*	*7.5*	*87.3*	*7.0*
of which, exposures in the form of covered bonds	*1,657.9*	*132.6*	*–*	*–*
Operational risks, basic indicator method	1,917.5	153.4	1,920.0	153.6
Market risks	–	–		
Credit valuation adjustment	1,230.3	98.4	1,273.4	101.9
Total risk exposure amount and minimum capital amount	**5,851.6**	**468.1**	**3,940.9**	**315.3**

Capital adequacy ratios	2019	2018
Core Tier I capital ratio	126.8 %	188.4%
Tier I capital ratio	126.8 %	188.4%
Total capital ratio	126.8 %	188.4%

Buffer requirements	2019	2018
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	2.0 %	1.0%
Total buffer requirements	**4.5 %**	**3.5%**
Core Tier I capital available for use as buffer	**120.8 %**	**180.4%**

Internally estimated capital requirements	2019	2018
Capital requirement, Pillar II		
Credit risk	165.1	133.6
Market risks	1,869.8	1,578.6
Other risk[1]	520.5	797.8
Total internally estimated capital requirement	**2,555.4**	**2,510.0**

1) Consists of capital requirements for the risk of excessively low leverage ratio.

The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements. For more information on the Company's internal capital assessment and capital plan, see page 38.

Total assessed capital requirement	2019	2019	2018	2018
Capital requirement, Pillar I	468.1	8,0%	315.3	8,0%
Buffer requirement, Pillar I	265.5	4,5%	136.5	3,5%
Capital requirement, Pillar II	2,555.4	43,7%	2,510.0	63,7%
Total assessed capital requirement	**3,289.0**	**56,2%**	**2,961.8**	**75,2%**

For information to be disclosed under Commission Implementing Regulation No 1423/2013 of 20 December 2013 on technical standards for implementation of the disclosure requirements for capital base for institutions according to European Parliament and Council Regulation (EU) No 575/2013 and the Swedish Financial Supervisory Authority's (Finansinspektionen) rules and general advice for annual accounts from credit institutions and securities companies, FFFS 2008:25, see the Kommuninvest website.

Leverage ratio

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

	2019	2018
Total assets	471,320.7	417,202.1
Less asset amounts deducted to determine the core Tier I capital	–183.2	–177.5
Less derivatives according to the balance sheet	–11,967.0	–11,333.2
Plus derivatives exposure	9,363.3	15,747.8
Plus possible change in risk in connection with repo transactions	28.4	–
Plus off-balance sheet commitments	1,297.7	1,678.9
Total exposure	**469,859.9**	**423,118.1**
Tier I capital, calculated applying transitional rules, see the section Capital adequacy	**7,418.8**	**7,425.2**
Leverage ratio	**1.58 %**	**1.75%**

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, see page 38.

Note 3, continued

External monitoring

End of IBOR

At present, the most important reference rates for Kommuninvest, bar none, are Stibor 3m and USD Libor 3m. As a consequence of the euro being approved as a strategic funding market, Euribor and its potential replacement will also become increasingly important for the Company.

Since 17 October 2018, the Swedish reference rate, Stibor, has been included in the EU's list of critical reference values, the so-called Benchmark Regulation. Stibor is currently being adapted to comply with the Benchmark Regulation and an application for a permit must be submitted to Finansinspektionen by 31 December 2021.

Work to develop alternatives to Stibor commenced late compared with other currencies. In December 2018, on the initiative of the Swedish Bankers' Association, a working group was commissioned to submit, in the fourth quarter of 2019, a recommendation regarding reference rates that could act as a complement and/or alternative to Stibor. However, this process has taken longer than planned and the Swedish Bankers' Association is expected to publish its recommendations during the first quarter of 2020. Representatives from the banks currently involved in the development of Stibor participate in the working group. Accordingly, it is unclear at the time of writing whether the alternative reference rate will replace Stibor or exist alongside it.

In the US, at the initiative of the Federal Reserve, an Alternative Reference Rates Committee (ARRC) was appointed as early as in 2014, to find a reference rate suitable as a replacement for Libor. In June 2017, the Secured Overnight Financing Rate (SOFR) was chosen as an alternative to Libor, an interest rate that is based entirely on actual repo market transactions. SOFR has been published in early April 2018 and a market for swaps and futures already exists.

In connection with critical reference rates ceasing to apply, the Company has appointed a group. The purpose of the group is to assess what measures need to be taken prior to the cessation or change of system-critical reference rates. In the short term, the phasing out of USD Libor and the transition to the new reference rate Secured Overnight Financing Rate (SOFR) needs to be addressed as almost half of the Company's funding is currently raised in USD, with associated interest rate and currency swaps referring to Libor 3m. This requires, among other things, ensuring the adaptation of the Company's business system to enable the management of SOFR-linked contracts.

Brexit

The UK left the EU on 1 February 2020. Prior to the UK's exit, however, the parties agreed that a transitional period would apply until 31 December 2020, meaning that the old rules will continue to apply while new agreements are negotiated. This postpones the risk of the UK leaving without an agreement.

For Kommuninvest, this risk lies in UK financial institutions not being able to act as derivative counterparties in the event of a withdrawal without an agreement. This could entail higher concentration risks and lower prices in derivative transactions. The Company has managed this risk by approving new counterparties within the EU and negotiating new ISDA agreements with them.

Another risk for Kommuninvest has been that it is no longer able to clear derivatives that are subject to clearing obligations under EMIR, as the Company, through HSBC and SEB, uses London Clearing House Limited (LCH) of the UK. In order to prevent the risk of disruptions in terms of clearing derivatives, the European Securities and Markets Authority (ESMA) has decided that LCH should be allowed to provide its services as a clearing house within the EU, even following a Brexit without an agreement. The Company has also managed this risk by approving another clearing house, Eurex Clearing AG in Germany.

Kommuninvest's assessment is that the UK's exit from the EU will not have a significant impact on Kommuninvest's net profit, position, disclosures, capital requirements, capital base or large exposures.

Member responsibilities

Municipalities and regions that are members of the Kommuninvest Cooperative Society have entered a joint and several guarantee covering all of the Company's commitments.

In 2010, two agreements were prepared in addition to the basic joint and several guarantee to clarify the responsibility of the members. One is a guarantee agreement regulating the responsibility for counterparty exposures in derivatives and replaces earlier clauses in the documentation of loans. The other is an updated regress agreement that details the members' mutual responsibility. The agreements clarify and replace the earlier responsibility according to the regress agreement and promissory Note terms. The agreements were adopted by the member authorities individually during 2011.

The distribution of responsibility has been communicated twice annually to members by means of a statement of undertaking based on each member's proportional participation in Kommuninvest total lending and each member's share of the total contribution capital paid to the Kommuninvest Cooperative Society.

The statement of undertaking is based on the following items in Kommuninvest balance sheet as per 31 December 2019 (SEK, millions).

	2019
Liabilities to credit institutions	4,027.7
Securities issued	446,763.0
Total funding	**450,790.7**
LIABILITIES, according to statement of undertaking	
On-lent funding[1]	402,654.3
Funding not on-lent[2]	48,136.4
Total funding	**450,790.7**
Derivatives, connected with on-lent funding[1]	691.8
Other liabilities[2]	9,443.4
Total liabilities/undertaking	**460,925.9**
ASSETS, according to statement of undertaking	
Lending[1], see Note 14	408,218.1
Liquidity reserve[2], see Notes 3, 13, 15	48,137.2
Derivatives, connected with on-lent funding[1]	1,010.9
Other assets[2]	2,998.5
Total assets	**460,364.7**

1) Basis of allocation: Percentage equivalent to each member's share of Kommuninvest's total lending.

2) Basis of allocation: Percentage equivalent to each member's participation in the total contribution capital paid to the Kommuninvest Cooperative Society.

In the statement of undertaking, the derivatives are recognised net per counterparty, that is, claims against the same counterparty have been netted against liabilities to the same counterparty. In addition, the derivatives recognised above as assets or liabilities have been reduced by pledged assets and collateral received, such as government securities. At 31 December 2019, collateral received amounted to SEK 1,584.2 (4,151.9) million and may only be used to cover outstanding exposures. The corresponding collateral for the Company's liabilities relating to derivatives amounts to SEK 5.3 (558.1) million. These are disclosed in Note 26, but may not be reduced in the balance sheet.

Note 4 Net interest income

Interest revenues	2019	2018
Interest revenues calculated according to effective interest method	1,198.9	494.0
of which, lending	*1,102.6*	*456.4*
of which, interest-bearing securities	*96.3*	*37.6*
Other interest revenues	24.6	11.3
Total	**1,223.5**	**505.3**
Of which: interest revenues from financial items not measured at fair value through the income statement	692.6	231.1
Interest expenses		
Interest expenses calculated according to effective interest method	–241.0	437.0
of which, liabilities to credit institutions	*–2.7*	*–15.0*
of which, securities issued	*–230.4*	*681.0*
of which lending, negative lending rate	*–7.9*	*–229.0*
Other interest expenses	–155.0	–56.8
Total	**–396.0**	**380.2**
Of which: interest expenses from financial items not measured at fair value through the income statement	–1,149.4	–549.9
Net interest income	**827.5**	**885.5**

Kommuninvest considers all income and expenses to be attributable to the country in which the Company has its registered office, Sweden.

In this note, income is recognised as positive and expenses as negative. For further information on net interest income for the period, please see the Comments on the income statement on page 51.

Note 5 Commission expenses

	2019	2018
Payment agency commissions	7.4	4.9
Brokerage for securities	3.6	3.1
Other commissions	0.3	0.2
Total	**11.3**	**8.2**

Note 6 Net result of financial transactions

	2019	2018
Realised profit	–7.1	–2.5
of which, interest-bearing securities	*–*	*–1.2*
of which, other financial instruments	*–7.1*	*–1.3*
Unrealised changes in market value	–193.9	164.4
Exchange rate changes	–0.5	–0.5
Total	**–201.5**	**161.4**

Kommuninvest considers all income and expenses to be attributable to the country in which the Company has its registered office, Sweden.

Net gain/loss by measurement category	2019	2018
Financial assets at fair value through the income statement	–519.6	–106.2
of which, compulsory	*–344.9*	*412.9*
of which, fair value option	*–174.7*	*–519.1*
Financial assets measured at amortised cost	3.3	0.5
Financial liabilities at fair value through the income statement	358.4	244.9
of which, held for trade	*3,872.8*	*–1,727.1*
of which, fair value option	*–3,514.4*	*1,972.0*
Financial liabilities measured at amortised cost	–	–
Change in fair value of derivatives that are hedging instruments in fair value hedge	–790.8	–362.5
Change in fair value of derivatives that are hedging instruments in a fair value hedge, portfolio	0.7	–
Change in fair value on hedged item with regard to hedged risk in fair value hedging	747.7	385.2
Change in fair value on hedged item with regard to hedged risk in fair value hedging, portfolio	–0.7	–
Exchange rate changes	–0.5	–0.5
Total	**–201.5**	**161.4**
Results (net)		
Net result of available-for-sale financial assets recognised in other comprehensive income	–	–

Kommuninvest has no assets or liabilities that are reported in other comprehensive income. Kommuninvest does not enter any credit risk of its own in the financial statements, see Note 25.

Net profit on financial assets measured at amortised cost amounts to SEK 3.3 (0.5) million. This amount includes compensation for the interest spread of SEK 3.3 (0.6) million, pertaining to prematurely discontinued lending. In all instances, discontinuation has been on the customer's initiative. No financial assets were sold during the year.

Note 7 Other operating income

	2019	2018
Capital gain on divestments of tangible assets	0.1	–
Revenue from contracts with customers	6.5	5.8
Other operating income	2.7	2.0
Total	**9.3**	**7.8**

All revenues from contracts with customers relate to revenues from a financial management service, KI Finans, which is offered to members of the Kommuninvest Cooperative Society. The service allows customers to create an overview of their financial positions. All revenues derive from a customer category consisting of municipalities and regions which are members of the Kommuninvest Cooperative Society and all customers operate in the same geographical market, Sweden.

All contracts are processed at the portfolio level, entitle the customer access to a service and the performance commitment is fulfilled over time during the period in which the service is provided. All contracts extend over one calendar year and are normally invoiced within that financial year. There is no adjustment for any material financing component since payment terms, invoicing and access to the service occur within one financial year. The revenue is recognised within the financial year as performance commitment is met. The transaction price of the contracts is fixed with no adjustments for variable compensation, obligations or benefits linked to the contracts or other assessment items. The transaction price is determined by Kommuninvest's price list and takes the customer group's external borrowing debt into account. Contract expenses for the KI Finans system are capitalised as an intangible asset and recognised under IAS 38 Intangible Assets, and current expenses attributable to KI Finans are expensed in accordance with IFRS 15, paragraph 96. No specific expenses associated with the contracts are paid by the customer.

Kommuninvest considers all income to be attributable to the country in which the Company has its registered office, Sweden.

Note 8 General administration expenses

In TSEK	2019	2018
Payroll expenses		
Salaries and emoluments	75,309	71,981
Social security contributions	41,208	40,418
of which, social security contributions and wage debt for social security contributions	*23,606*	*22,931*
of which, pension expenses	*13,907*	*14,081*
of which, special payroll tax on pension expenses	*3,695*	*3,406*
Temporary/contract personnel	3,164	2,507
Education/training expenses	3,946	3,425
Other payroll expenses	3,449	3,153
Total payroll expenses	**127,076**	**121,484**
Other general administration expenses		
Travel expenses	3,942	3,838
IT expenses	20,437	19,257
Consultancy fees	16,517	14,376
Rating expenses	1,781	1,118
Market data	9,484	9,079
Rent and other expenses for premises	6,634	6,470
Annual Report and interim report	709	677
Resolution fee	27,434	69,052
Other expenses	22,171	14,477
Total other general administration expenses	**109,109**	**138,344**
Total	**236,185**	**259,828**

Remuneration policy

The Company applies a remuneration policy that explains that Kommuninvest does not apply variable remuneration. Nor has any variable remuneration been paid to Kommuninvest employees in 2019. No non-recurring remuneration has been approved in connection with new appointments, nor has any severance been paid to Board Members, the CEO or other senior executives. No individual employee receives compensation equivalent to EUR 1 million or more per financial year.

Remuneration to senior executives

Remuneration for the President and CEO has been decided by the Board. For 2019, the President and CEO received TSEK 3,114 (3,129) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to TSEK 971 (1,057) and are covered by insurance. For termination initiated by the Company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration for the Deputy CEO has been decided by the Board. The Deputy CEO received TSEK 2,119 (2,105) in basic salary for 2019. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to TSEK 679 (602) and are covered by insurance. For termination initiated by the Company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration details regarding other senior executives only include remunerations paid during the period in which each individual has been a senior executive. At the end of the year, other senior executives consisted of 5 (5) people, of whom 2 (2) were women and 3 (3) were men. For further information regarding the composition of Company management and changes during the year, see page 45.

Remuneration to other senior executives in Company management has been determined by the Board. During 2019, the total remuneration to senior executives who were part of the Executive Management Team amounted to TSEK 5,845 (5,546). The pension expenses are covered through insurance.

In accordance with the work plan for the Board of Directors established in 2019, the Chairman of the Board is responsible for an independent review being performed of the Company's remuneration and compensation policies, for preparing the Board's decisions, and for compensation to Executive Management, as well as for compensation to employees bearing the overall responsibility for any of the Company's control functions, and for measures to monitor the application of the Company's remuneration policy.

Note 8, continued

Remuneration to the Board of Directors

At the end of the year, the Board of Directors was composed of 8 (8) members, including the employee representatives, of whom 3 (4) were women. Ellen Bramness Arvidsson is the Chairman of the Board. Up until the 2019 Annual General Meeting, the fees to the Board of Directors consisted of a fixed fee of TSEK 550 to the Chairman. Members of the Board are paid a fixed fee of TSEK 300 each. No fees were paid to employee representatives. The 2019 Annual General Meeting resolved that Board fees would remain unchanged. Kommuninvest does not have any pension obligations or any particular conditions of notice for the Board of Directors.

In TSEK	2019	2018
Ellen Bramness Arvidsson	550	550
Kurt Eliasson	300	300
Lars Heikensten	300	300
Erik Langby	300	300
Anna von Knorring	300	300
Johan Törngren	300	300
Kristina Sundin Jonsson	300	200
Anna Sandborgh, stepped down in April 2018	–	100
Åsa Zetterberg, stepped down in April 2018	–	100
Ulrika Gonzalez Hedqvist, employee representative, stepped down in December 2019	–	–
Mattias Bokenblom, employee representative, newly elected in March 2019	–	–
Total	**2,350**	**2,450**

Wages and remunerations

2019, in TSEK	Basic salary / Board fee	Other benefits	Pension expense	Total
Board of Directors	2,350	–	–	2,350
President and CEO	3,114	90	971	4,175
Deputy CEO	2,119	–	679	2,798
Others in Company management	5,845	17	1,727	7,589
Other salaried employees	61,881	–	10,530	72,411
Total	**75,309**	**107**	**13,907**	**89,323**

2018, in TSEK	Basic salary / Board fee	Other benefits	Pension expense	Total
Board of Directors	2,450	–	–	2,450
President and CEO	3,129	84	1,057	4,270
Deputy CEO	2,105	–	602	2,707
Others in Company management	5,546	18	1,831	7,395
Other salaried employees	58,751	–	10,591	69,342
Total	**71,981**	**102**	**14,081**	**86,164**

Average number of employees	2019	2018
Average number of employees during the year	101	97
of whom, women	*42*	*41*

Auditing engagement

At the 2016 Annual General Meeting of the Company, KPMG AB was appointed as the firm of auditors for the period until the end of the 2020 Annual General Meeting and, at the same time, Ernst & Young AB stepped down. Auditing engagement refers to the scrutiny of the annual report and bookkeeping and administration by the Board of Directors and President, other tasks that are the responsibility of Kommuninvest i Sverige AB's auditors, and other advice or assistance brought about by observations from such audits and/or performance of other tasks. The term Other audit services refers to quality assessment services, such as reviews resulting in reports or attestations intended for recipients including others than the client. Other services refers to those not included in any of the above.

Emoluments and expenses for the auditors, KPMG AB	2019	2018
Auditing engagement	714	925
Other audit services	970	969
Other Services	49	48

Leasing

Leasing in 2019 in accordance with RFR 2

On 1 January 2019, IFRS 16 Leases came into effect, replacing IAS 17 Leases. RFR 2 includes an option not to apply IFRS 16 in legal entities and to instead apply the rules for lease accounting included in RFR 2. The Company has chosen the option in RFR2 not to apply IFRS 16.

The tables below show future leasing fees in accordance with RFR 2 and leasing expenses for 2019. Comparison figures have not been included. The scale of leasing activities is unchanged from previous years. No breakdown has been made based on the terms of the leases, as the leasing activity is such an immaterial part of Kommuninvest's operations. Most of the expenses are attributable to the Company's rental of office premises from the subsidiary Kommuninvest Fastighets AB.

Future leasing fees	2019
Within 1 year	5,586
1–5 years	4,405
More than 5 years	–
Total	**9,991**

Leasing expenses for the period	2019
Leasing expenses	5,914
of which, variable leasing fees	–

Note 8, continued

Leasing in 2018 in accordance with IAS 17
For 2018, operating lease expenses amounted to TSEK 5,926. Future lease payments for non-cancellable operating leases in accordance with IAS 17, and how these are distributed over the years, are shown in the table below.

Non-cancellable operating leases where Kommuninvest i Sverige AB is the leaseholder	2018
Within one year	5,611
Between one and five years	16,899
Total	**22,510**

For more information on leasing, see Note 27.

Note 9 Other operating expenses

	2019	2018
Insurance expenses	1.2	1.1
Communication and information	2.8	2.7
Other operating expenses	0.0	0.4
Total	**4.0**	**4.2**

Note 10 Net credit losses

	2019	2018
Cash and balances at central banks	0.0	–
Sovereign bonds eligible as collateral	1.6	–1.7
Lending to credit institutions	0.2	–0.6
Lending	10.7	–21.9
Bonds and other interest-bearing securities	–	0.0
Off-balance sheet items	0.1	–0.1
Total	**12.6**	**–24.3**

Although Kommuninvest recognises expected credit losses in accordance with IFRS 9, Kommuninvest has not had any realised loan losses. For 2019, credit losses amounted to a positive amount, mainly as a result of changes in credit risk. For information on the calculation model, provisions and credit loss fluctuations, see Note 3.

Note 11 Tax

Recognised in income statement	2019	2018
Current tax expense	84.2	165.1
Adjustment of taxes attributable to previous years	–	1.3
Total tax expense recognised	**84.2**	**166.4**

Reconciliation of effective tax	2019	2019	2018	2018
Profit before tax		392.1		752.5
Tax according to prevailing tax rate	21.4%	83.9	22.0%	165.5
Non-deductible expenses/ Non-taxable revenues	0.1%	0.3	–0.1%	–0.4
Tax attributable to previous years	0.0%	–	0.2%	1.3
Recognised effective tax	**21.5%**	**84.2**	**22.1%**	**166.4**

Tax items entered directly against equity	2019	2018
Current tax on Group contributions paid	84.2	165.1
Total sum entered directly against equity	**84.2**	**165.1**

Note 12 Proposed distribution of earnings

	2019
The Board of Directors proposes that:	
Profit for the year	307.9
Profit or loss brought forward	155.5
Total	**463.4**
Be appropriated as follows:	
To be carried forward	463.4

For more information, see page 34.

Note 13 Sovereign bonds eligible as collateral

	2019				2018			
	Recognised value				Recognised value			
	Amortised cost	Fair value through the income statement	Total recognised value	Fair value	Amortised cost	Fair value through the income statement	Total recognised value	Fair value
Sovereign bonds eligible as collateral								
– Swedish central government	13,511.2	1,389.2	14,900.4	14,900.9	33,201.6	3,868.2	37,069.8	37,072.4
– Foreign governments	–	2,785.9	2,785.9	2,785.9	–	2,160.5	2,160.5	2,160.5
Total	**13,511.2**	**4,175.1**	**17,686.3**	**17,686.8**	**33,201.6**	**6,028.7**	**39,230.3**	**39,232.9**
Positive difference of book values exceeding nominal values			87.0				166.7	
Negative difference of book values falling below nominal values			–				–9.5	
Total			**87.0**				**157.2**	

The decrease compared with 2018 is mainly due to a redistribution of liquidity from investments in Riksbank Certificates to repo transactions.

Note 14 Lending

	2019				2018			
	Recognised value				Recognised value			
	Amortised cost	Fair value through the income statement	Total recognised value	Fair value	Amortised cost	Fair value through the income statement	Total recognised value	Fair value
Lending								
– municipalities and regions	120,642.9	63,335.4	183,978.3	184,100.0	106,619.6	46,415.0	153,034.6	152,997.1
– housing companies with municipal guarantees	98,309.6	46,628.6	144,938.2	144,938.9	95,114.9	36,720.3	131,835.2	131,824.3
– other companies with municipal guarantees	52,075.3	27,226.3	79,301.6	79,227.2	47,577.4	23,262.8	70,840.2	70,859.5
Total	**271,027.8**	**137,190.3**	**408,218.1**	**408,266.1**	**249,311.9**	**106,398.1**	**355,710.0**	**355,680.9**

Lending refers to lending to municipalities and regions, as well as to companies owned by municipalities and regions.

Note 15 Bonds and other interest-bearing securities

	2019				2018			
	Recognised value				Recognised value			
	Amortised cost	Fair value through the income statement	Total recognised value	Fair value	Amortised cost	Fair value through the income statement	Total recognised value	Fair value
Bonds and other interest-bearing securities								
– Swedish mortgage finance institutions					–	–	–	–
– other foreign issuers	–	7,722.6	7,722.6	7,722.6	–	7,457.8	7,457.8	7,457.8
Total	**–**	**7,722.6**	**7,722.6**	**7,722.6**	**–**	**7,457.8**	**7,457.8**	**7,457.8**
Positive difference of book values exceeding nominal values			111.6				70.7	
Negative difference of book values falling below nominal values			–0.8				–18.6	
Total			**110.8**				**52.1**	

Note 16 Shares and participations in subsidiaries

Kommuninvest Fastighets AB, holding 100 percent.
Reg. no: SE-556464-5629, Örebro, Sweden.

	2019	2018
Number of shares: 1,000	42.0	42.0
Total	**42.0**	**42.0**

As per 31 December 2019, Kommuninvest Fastighets AB had a balance sheet total of SEK 46.4 (51.5) million, equity of SEK 42.3 (42.6) million and generated a loss of SEK 0.3 (0.3) million.

Note 17 Derivatives and hedge accounting

Kommuninvest's funding is conducted in several different currencies and at both fixed and variable interest rates. Kommuninvest's lending is conducted only in Swedish kronor, but at both fixed and variable interest rates. Kommuninvest uses derivative instruments to hedge interest rate and currency risks that arise when the contractual terms of the Company's funding and lending do not match.

With the aim of reducing volatility in earnings and equity, hedge accounting of fair value is applied for fixed-rate funding and lending. This hedging entails one or more derivative contracts, known as hedging instruments, being signed to hedge one or more market risks associated with funding or lending. Only plain-vanilla derivatives in the form of interest rate and currency swaps are used as hedging instruments.

Hedging relationships

In hedge accounting, Kommuninvest uses two different types of hedging relationships, hedging of interest rate risk and hedging of interest rate and currency risk. As of 2019, Kommuninvest applies both transaction-matched hedging and portfolio hedging. Previously, only transaction-based hedging relationships were applied.

In the case of transaction-matched hedging, the critical terms – currency, due date, date of fixed-interest payments and the total nominal amount always agree between the hedging instrument and the hedged item. Accordingly, Kommuninvest expects sources of inefficiency during the validity of the hedging relationship to solely comprise changes in the value of the variable legs of the hedging instrument and, where applicable, changes in the currency basis spread.

Portfolio hedging is applied on some fixed-rate lending to hedge interest rate risk based on the maturity date of the loan. The hedging instruments applied are interest rate swaps on terms that agree with the hedged item.

Interest rate risk hedging

Interest rate risk arises when Kommuninvest borrows or lends money at fixed interest rates. Since funding and lending do not occur simultaneously, they are hedged using one or more derivative instruments. Kommuninvest's objective with these hedges is to reduce the risk of changes in the fair value of the funding or lending transaction caused by changes in the benchmark interest rate. Kommuninvest identifies this benchmark interest rate risk as the risk component hedged in funding and lending.

For transaction-matched hedging, the hedged item consists of fixed-rate funding or lending, and for portfolio hedging, the hedged item consists of a secured amount. The hedging instrument consists of one or more interest rate swaps. The interest rate swaps must be in the same currency and have the same maturity date and total nominal amount as the hedged item.

Interest rate and currency risk hedging

Interest rate and currency risk arises when Kommuninvest borrows money in foreign currency at a fixed interest rate. Since Kommuninvest's lending is in Swedish kronor, derivative contracts are used to exchange this money to SEK, meaning that this funding is hedged at the transaction level with one or more derivatives. Kommuninvest's objective with these hedges is to reduce the risk of changes in the fair value of the funding caused by changes in the current benchmark interest rate and exchange rate. Kommuninvest identifies this benchmark interest rate and currency risk as the risk components hedged in its funding.

In these cases, the hedged item consists of fixed-rate funding in foreign currency. The hedging instruments consist of one or more currency swaps where the hedging results in variable SEK flows. Interest rate swaps are to be based on the same currency, maturity date, dates for fixed rate payments and total nominal amount as the hedged item.

Efficiency testing

Kommuninvest conducts an initial prospective review when a hedging relationship is to be initiated and thereafter retrospective tests on a quarterly basis. The prospective review ascertains whether the critical terms for the hedged item and the hedging instrument are consistent. If the critical conditions do not agree, hedge accounting will not be applied.

The efficiency of the hedging relationship is measured retrospectively in an analysis based on historical data for balances of unrealised market value for the hedged item and the hedging instrument. The analysis comprises a regression test. The regression test deems the hedge relationship efficient if a linear regression produces a regression coefficient between –0.8 and –1.25. If the hedging relationship is not deemed efficient, the relationship is broken, the previously hedged item is recognised at amortised cost and the changes value are allocated across the remaining maturity of the item.

All hedging relationships have been deemed efficient. Kommuninvest has no hedging relationships that have been discontinued prematurely.

Note 17, continued

Hedging instrument	Nominal amount					Assets at fair value		Liabilities at fair value		Changes in fair value used for accounting of hedging inefficiency	
	Remaining contractual maturity			Total							
	<1 year	1-5 years	>5 years	2019	2018	2019	2018	2019	2018	2019	2018
Derivatives in hedging relationship											
Derivatives in hedging of interest rate risk	68,041.3	239,299.0	82,515.8	389,856.1	297,131.9	1,220.8	2,576.2	–453.3	–491.4	–777.0	–335.8
Derivatives in hedging of interest rate risk, portfolio	–	150.0	–	150.0		–		–		0.7	
Derivatives in hedging of interest rate and currency risk	981.8	2,389.0	–	3,370.8	3,708.4	396.0	343.3	–	–97.1	–13.8	–26.7
Total	**69,023.1**	**241,838.0**	**82,515.8**	**393,376.9**	**300,840.3**	**1,616.8**	**2,919.5**	**–453.3**	**–588.5**	**–790.1**	**–362.5**
Average interest rate	0.24%	0.22%	0.41%								
Derivatives not used for hedging											
Interest rate-related	109,235.3	146,289.7	2,657.7	258,182.7	223,441.4	23.9	71.3	–330.7	–756.5		
Currency-related	76,367.5	97,204.4	1,130.6	174,702.5	178,731.6	10,256.5	8,339.1	–2,347.1	–2,969.1		
Other	6,481.8	–	–	6,481.8	8,508.1	69.8	3.3	–353.4	–1,645.5		
Total	**192,084.6**	**243,494.1**	**3,788.3**	**439,367.0**	**410,681.1**	**10,350.2**	**8,413.7**	**–3,031.2**	**–5,371.1**		
Total	**261,107.7**	**485,332.1**	**86,304.1**	**832,743.9**	**711,521.4**	**11,967.0**	**11,333.2**	**–3,484.5**	**–5,959.6**		

Hedged items	Assets, recognised value		Accrued amount for adjustment of fair value, assets		Liabilities, recognised value		Accrued amount for adjustment of fair value, liabilities		Changes in fair value used for accounting of hedging inefficiency	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Lending in an interest rate risk hedge	116,060.4	85,680.7	869.5	656.5					213.0	206.5
Funding in an interest rate risk hedge					258,602.4	202,333.8	657.3	1,169.9	512.6	146.6
Funding in an interest rate and currency risk hedge					3,252.2	2,947.1	153.4	175.5	22.1	32.1
Hedged item in an interest rate risk hedge, portfolio	150.0	–	–0.7						–0.7	–
Total	**116,210.4**	**85,680.7**	**868.8**	**656.5**	**261,854.6**	**205,280.9**	**810.7**	**1,345.4**	**747.0**	**385.2**

Total hedging inefficiency	2019	2018
Interest rate risk hedging		
Derivatives	–777.0	–335.8
Funding	512.6	146.6
Lending	213.0	206.5
Portfolio	0.0	–
Total	**–51.4**	**17.3**
Interest rate and currency risk hedging		
Derivatives	–13.8	–26.7
Funding	22.1	32.1
Total	**8.3**	**5.4**

All inefficiency is recognised in net result of financial transactions.

Note 18 Intangible assets

	2019	2018
Acquisition value		
Acquisition value brought forward	34.0	24.3
Investments for the year	10.1	11.1
Disposals and scrappings	–	–1.4
Acquisition value carried forward	**44.1**	**34.0**
Depreciation		
Opening balance, depreciation	–18.3	–13.4
Depreciation for the year	–4.4	–4.9
Depreciation carried forward	**–22.7**	**–18.3**
Planned residual value at the end of the accounting period	**21.4**	**15.7**

Kommuninvest's intangible assets consist of business systems developed in-house.

Note 19 Tangible assets

	2019	2018
Acquisition value		
Acquisition value brought forward	20.2	19.9
Investments for the year	4.5	0.3
Disposals and scrappings	–0.6	–
Acquisition value carried forward	**24.1**	**20.2**
Depreciation		
Opening balance, depreciation	–15.2	–12.7
Depreciation for the year	–2.3	–2.5
Disposals and scrappings	0.5	–
Depreciation carried forward	**–17.0**	**–15.2**
Planned residual value at the end of the accounting period	**7.1**	**5.0**

Tangible assets mainly comprise IT equipment and office equipment.

Note 20 Other assets

	2019	2018
Receivables from subsidiaries	2.5	7.2
Marginal collateral pledged	2,807.6	1,454.4
Other assets	18.8	9.4
Total	**2,828.9**	**1,471.0**

Receivables from subsidiaries refer to Group contributions.

In 2016, Kommuninvest began pledging collateral for derivatives cleared by a central clearing counterparty, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 26. In 2017, the Company also began to pledge cash collateral for derivatives not cleared by central clearing counterparties and for which there no right of netting applies. Accordingly, these are entered in full in the balance sheet.

Note 21 Other liabilities

	2019	2018
Liabilities to parent society	1,397.0	1,639.8
Marginal collateral received	7,981.5	4,551.8
Other liabilities	22.1	25.9
Total	**9,400.6**	**6,217.5**

The liability to the Kommuninvest Cooperative Society involves Group and member contributions, which are handled by the Company on the Society's behalf and have not yet been transferred to the Company in the form of new share capital. In 2016, Kommuninvest began receiving collateral for derivatives cleared by a central clearing counterparty, with the net collateral for each counterparty and currency being recognised in the balance sheet, see further under Note 26. In 2017, the Company also began to receive cash collateral for derivatives not cleared by central clearing counterparties and for which there no right of netting applies and which are therefore included in full in the balance sheet.

Note 22 Provisions

	2019	2018
Provisions for off-balance sheet commitments	0.1	0.1
Total	**0.1**	**0.1**

This item includes provisions for expected credit losses on off-balance sheet commitments. For more information on off-balance sheet items, see Note 23.

Note 23 Pledged assets, contingent liabilities and commitments

Pledged assets	2019	2018
In the form of assets pledged for own provisions and liabilities		
Deposited at the Riksbank		
– government bonds	2,297.1	833.9
– state-related securities	3,448.4	4,666.2
Collateral pledged for derivative liabilities		
– government bonds	5.3	566.2
Marginal collateral pledged to a central clearing counterparty		
– government bonds	–	1,280.6
Assets pledged, total	**5,750.8**	**7,346.9**
Contingent liabilities	None	None
Committed undisbursed loans	1,618.8	2,144.4
Committed loans	976.5	1,213.5

The recognised value of liabilities and provisions involving pledges amounted to SEK 5.8 (562.6) million. To qualify for participation in RIX, the Riksbank's system for the transfer of account funds, Kommuninvest is required to deposit securities with the Riksbank. This is also a condition for short-term liquidity management via RIX.

Note 24 Related party relationships

In 2019, Kommuninvest had a related party relationship to the Kommuninvest Cooperative Society (parent society), and Kommuninvest Fastighets AB (subsidiary).

Related party, in TSEK	Year	Sales of goods/ services to related parties	Purchase of goods/services from related parties	Other (interest)	Receivables from related parties on 31 December	Liabilities to related parties on 31 December
Kommuninvest Cooperative Society	2019	1,109	40	–	–167	1,396,952
	2018	1,091	153	–	167	1,639,816
Kommuninvest Fastighets AB	2019	295	4,423	–	2,435	–
	2018	286	4,542	–	7,156	21

The related party relationship with Kommuninvest Fastighets AB refers to transactions involving Kommuninvest's premises, which are owned by Kommuninvest Fastighets AB, and Group contributions. The liability to the Kommuninvest Cooperative Society involves member contributions, which are handled by the Company on the Society's behalf and have not yet been transferred to the Company in the form of new share capital.

Note 25 Financial assets and liabilities

Financial instruments broken down by valuation category

2019	Amortised cost	Fair value through the income statement				Recognised value	Fair value
		Held for trade	Compulsory	Fair value option	Derivatives used for hedge accounting		
Financial assets							
Cash and balances with central banks	811.1	–	–	–	–	811.1	811.1
Sovereign bonds eligible as collateral	13,511.2	–	–	4,175.1	–	17,686.3	17,686.8
Lending to credit institutions	21,917.2	–	–	–	–	21,917.2	21,917.2
Lending	271,027.8	–	–	137,190.3	–	408,218.1	408,266.1
Bonds and other interest-bearing securities	–	–	–	7,722.6	–	7,722.6	7,722.6
Derivatives	–	–	10,350.2	–	1,616.8	11,967.0	11,967.0
Other financial assets	2,825.9	–	–	–	–	2,825.9	2,825.9
Total	**310,093.2**	**–**	**10,350.2**	**149,088.0**	**1,616.8**	**471,148.2**	**471,196.7**
Financial liabilities							
Liabilities to credit institutions[1]	3,435.3	–	–	592.4	–	4,027.7	4,027.6
Securities issued[1]	285,715.8	–	–	161,047.2	–	446,763.0	448,022.5
Derivatives	–	3,031.2	–	–	453.3	3,484.5	3,484.5
Change in value of interest-hedged items in portfolio hedging	0.7	–	–	–	–	0.7	0.7
Other financial liabilities	9,397.6	–	–	–	–	9,397.6	9,397.6
Total	**298,549.4**	**3,031.2**	**–**	**161,639.6**	**453.3**	**463,673.5**	**464,932.9**

1) Nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 451,880.3 (401,574.2) million.

Note 25, continued

Financial instruments broken down by valuation category

2018	Amortised cost	Fair value through the income statement				Recognised value	Fair value
		Held for trade	Compulsory	Fair value option	Derivatives used for hedge accounting		
Financial assets							
Sovereign bonds eligible as collateral	33,201.6	–	–	6,028.7	–	39,230.3	39,232.9
Lending to credit institutions	1,843.4	–	–	–	–	1,843.4	1,843.4
Lending	249,311.9	–	–	106,398.1	–	355,710.0	355,680.9
Bonds and other interest-bearing securities	–	–	–	7,457.8	–	7,457.8	7,457.8
Derivatives	–	–	8,413.7	–	2,919.5	11,333.2	11,333.2
Other financial assets	1,468.2	–	–	–	–	1,468.2	1,468.2
Total	**285,825.1**	**–**	**8,413.7**	**119,884.6**	**2,919.5**	**417,042.9**	**417,016.4**
Financial liabilities							
Liabilities to credit institutions[1]	0.8	–	–	583.2	–	584.0	584.0
Securities issued[1]	240,956.0	–	–	155,840.9	–	396,796.9	397,667.7
Derivatives	–	5,371.1	–	–	588.5	5,959.6	5,959.6
Other financial liabilities	6,207.9	–	–	–	–	6,207.9	6,207.9
Total	**247,164.7**	**5,371.1**	**–**	**156,424.1**	**588.5**	**409,548.4**	**410,419.2**

1) Nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 451,880.3 (401,574.2) million.

The recognised value for lending consists of lending recognised at amortised cost, lending included in a fair value hedging relation and lending recognised at fair value.

The recognised value for liabilities to credit institutions and securities issued is composed partly of liabilities recognised at amortised cost, liabilities included in a fair value hedging relation and liabilities recognised at fair value.

Calculation of fair value

General

For financial instruments, fair value calculations are to be divided according to the following three levels:

Level 1: Valuation is made according to prices noted on an active market for the same instrument.
Level 2: Valuation is made on the basis of directly or indirectly observable market data not included in level 1.
Level 3: Valuation is made on the basis of non-observable market data, with significant elements of internal and external estimates.

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

Lending

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

Sovereign bonds eligible as collateral, and bonds and other interest-bearing securities

In the valuation of securities, the quoted price of the asset is used. If trading is considered to occur on an active market, the valuation is classified under level 1, while other securities are classified under level 2.

Liabilities to credit institutions, securities issued and other subordinated liabilities

Funding is valued in the same way as by market participants holding the debt as an asset, either through quoted market prices or by discounting anticipated future cash flows. The discount rate is set to swap rate, adjusted for current funding margins, for the structure of the funding and for the market by using secondary market spreads on similar instruments issued by Kommuninvest or similar issuers. For funding in currencies other than SEK, EUR and USD, the current funding margin is set as the funding margin in USD plus the currency basis spread between the currency concerned and USD. Market prices used for valuation are mid-prices. Funding expected to be traded in an active market are classified in level 1. Funding valued at quoted prices, not deemed as traded in an active market, are classified in level 2. Funding valued based on discounted future cash flows are classified in level 2, with the exception of funding for which anticipated future cash flows are attributable to significant non-observable market data, which are classified in level 3.

The members' guarantee undertaking affects the valuation of funding and that the guarantee undertaking is taken into account by market players and thus affects quoted market prices and current funding margins.

Note 25, continued

Derivatives
Standardised derivatives in the form of FRA contracts scheduled for IMM days and traded in an active market are measured according to level 1. The fair value of other derivatives is calculated by discounting the anticipated future cash flows taking place at mid-prices at relevant reference rates for the currency concerned. Where anticipated future cash flows are dependent on unobservable market data or elements on in-house assessment, derivatives are classified in level 3; otherwise, they are classified in level 2. All derivatives classified in level 3 are swaps matching funding transactions classified in level 3. The discount rate has been set as the current quoted swap rate in each currency. For currency swaps, the discount rate has been adjusted according to current basis swap spreads.

The credit valuation adjustment for derivatives, CVA, is the market value of the expected loss of counterparty risks for derivatives. The valuation takes into account the risk mitigation measures taken by Kommuninvest, such as netting agreements (ISDA agreements) and agreements on the exchange of collateral (CSA agreements). Netting agreements and exchanges of collateral reduce the expected exposure in the event that a counterparty defaults. For those of Kommuninvest's derivative contracts that are cleared with central clearing counterparties, initial marginal collateral is provided, entailing a further step in reducing the counterparty risk. For these derivative contracts, CVA is not calculated. For derivative contracts not cleared by central clearing counterparties, CVA is calculated and entered in the accounts.

The debt valuation adjustment for derivatives (DVA) corresponds to the credit valuation adjustment that Kommuninvest's derivative counterparties have through their exposure to Kommuninvest. Due to the members' joint and several guarantee and their high creditworthiness, the debt valuation adjustment is an insignificant amount.

Lending to credit institutions, other assets and other liabilities
For these items, the recognised value is an acceptable approximation of fair value. Lending to credit institutions consists of bank accounts and repo transactions with a maximum duration of seven days. Other assets and liabilities consist primarily of pledged assets/cash collateral received, accounts receivable and payable, open items, as well as Group-internal receivables and debts.

Significant assumptions and uncertainty factors
Kommuninvest has applied the valuation techniques best deemed to reflect the value of the Company's assets and liabilities. Changes in underlying market data could mean changes to the income statement and balance sheet in respect of unrealised market values. The valuation curves are also determined on the basis of current funding and lending margins, increased margins on lending leading to unrealised losses when the value of existing business is reduced. Kommuninvest has only a marginal exposure to swap rates and, since it hedges other market risks, it is changes in funding and lending margins, basis swap spreads and credit spreads, on holdings in the liquidity reserve that give rise to the changes in market value.

An increase in the lending price, in relation to swap rates, by 10 basis points on the receivables recognised at fair value would mean a negative change in net profit of SEK 267 (238) million. An increase in the funding cost, in relation to swap rates, by 10 basis points on the liabilities recognised at fair value would mean a positive change in net profit of SEK 253 (259) million. A parallel displacement in the lending and funding price, in relation to swap rates, by 10 basis points would mean a change in net profit of SEK +/– 14 (+/– 22) million. A displacement of the valuation curve upwards or downwards by 10 basis points for the financial instruments valued according to level 3 would mean a change in income of SEK +/–14 (+/–23) million.

All of the above changes refer to 31 December 2019 (comparative figures refer to 31 December 2018) and exclude tax effects. Impact on equity relates to the tax effect.

All market value effects are unrealised, and as Kommuninvest intends to hold its assets and liabilities to maturity, this means that these values will not normally be realised. Exceptions are repurchases of funding or lending instruments, which always take place on the investors' or customers' initiative respectively, leading to market values being realised.

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

The effect on net profit of these contracts is realised when Kommuninvest's funding margins for this type of funding change. The scope of the change depends on the anticipated remaining duration of the contracts, which depend in turn on unobservable data. The effect on net profit from the unobservable input data that arises is therefore attributable to how input data affect the estimated remaining maturity of the contracts.

Kommuninvest has calculated the maturity at 1.3 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable funding in the interval of 1.0 – 2.1 years. This would have an effect on net profit in the interval SEK –0.4 million – SEK +0.3 million.

Change in value due to anticipated credit risk
With the joint and several guarantee for Kommuninvest's funding provided by the members of the Kommuninvest Cooperative Society, Kommuninvest's own credit risk is considered to be negligible.

Changes are only considered to occur in Kommuninvest's own credit risk as a consequence of events such as a major downgrading of the Company's rating, or significant amendments to the members' guarantee undertaking that would reduce their collective responsibility for the Company's commitments. Since no such events or changes have occurred, all variations in funding margins and resulting changes in the value of liabilities are deemed attributable to general changes in the market price of credit and liquidity risk and not from changes in Kommuninvest's own credit risk.

The credit risk in lending is considered to be the same as Kommuninvest's own credit risk. Accordingly, no part of the change in the value of lending is considered to derive from changes in credit risk.

The assets in the liquidity reserve hold a very high credit rating. A change in credit risk affecting their valuation is deemed to occur only in connection with significant downgrades. Such downgrades have not occurred for any of the issuers, which is why no changes in the value of the liquidity reserve are considered to derive from changes in credit risk.

Note 25, continued

Changed valuation models
During the period, Kommuninvest introduced accounting of credit valuation adjustment for derivatives, CVA, for derivatives not cleared by central clearing counterparties. While members' guarantees regarding counterparty exposures were previously taken into account, following reassessment, these are no longer considered a feature to be taken into account when valuing derivatives. Including this adjustment is considered to better reflect fair value. The change affects the overall value of the derivative portfolio negatively by SEK 5.0 million as per 31 December 2019.

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

Financial instruments recognised at fair value in the balance sheet

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	2,667.6	1,507.5	–	4,175.1
Lending	–	137,190.3	–	137,190.3
Bonds and other interest-bearing securities	5,065.2	2,657.4	–	7,722.6
Derivatives	–	11,782.2	184.8	11,967.0
Total	**7,732.8**	**153,137.4**	**184.8**	**161,055.0**
Financial liabilities				
Liabilities to credit institutions	–	592.4	–	592.4
Securities issued	101,897.5	52,418.2	6,731.5	161,047.2
Derivatives	–	2,995.5	489.0	3,484.5
Total	**101,897.5**	**56,006.1**	**7,220.5**	**165,124.1**

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	2,542.4	3,486.3	–	6,028.7
Lending	–	106,398.1	–	106,398.1
Bonds and other interest-bearing securities	2,389.1	5,068.7	–	7,457.8
Derivatives	0.0	11,204.2	129.0	11,333.2
Total	**4,931.5**	**126,157.3**	**129.0**	**131,217.8**
Financial liabilities				
Liabilities to credit institutions	–	583.2	–	583.2
Securities issued	89,764.9	58,209.7	7,866.3	155,840.9
Derivatives	–	4,168.1	1,791.5	5,959.6
Total	**89,764.9**	**62,961.0**	**9,657.8**	**162,383.7**

Transfer between levels of instruments recognised at fair value in the balance sheet

	Recognised value 31 Dec 2019	Recognised value 31 Dec 2018
Assets		
To level 1 from level 2	–	–
To level 2 from level 1	–	7,797.5
Liabilities		
To level 1 from level 2	–	–
To level 2 from level 1	35,348.8	40,186.9

Kommuninvest continuously reviews the criteria for its division into levels of financial assets and liabilities measured at fair value. The movements are attributable variations in the indicators that Kommuninvest uses to demarcate between level 1 and level 2 for bonds.

The indicators show the number of observations and their standard deviation for bond prices and a specific number of executable quotes. The transfers are considered to have taken place on 31 December 2019 and 31 December 2018 for the preceding period.

Note 25, continued

Fair value of financial instruments not recognised at fair value in the balance sheet

2019	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Cash and balances with central banks	–	811.1	–	811.1	811.1
Sovereign bonds eligible as collateral	–	13,511.7	–	13,511.7	13,511.2
Lending to credit institutions	–	21,917.2	–	21,917.2	21,917.2
Lending	–	271,075.8	–	271,075.8	271,027.8
Other assets	–	2,825.9	–	2,825.9	2,825.9
Total	–	**310,141.7**	–	**310,141.7**	**310,093.2**
Financial liabilities					
Liabilities to credit institutions	–	3,435.2	–	3,435.2	3,435.3
Securities issued	–	286,975.3	–	286,975.3	285,715.8
Change in value of interest-hedged items in portfolio hedging	–	0.7	–	0.7	0.7
Other liabilities	–	9,397.6	–	9,397.6	9,397.6
Total	**–**	**299,808.8**	**–**	**299,808.8**	**298,549.4**

2018	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Sovereign bonds eligible as collateral	–	33,204.2	–	33,204.2	33,201.6
Lending to credit institutions	–	1,843.4	–	1,843.4	1,843.4
Lending	–	249,282.8	–	249,282.8	249,311.9
Other assets	–	1,468.2	–	1,468.2	1,468.2
Total	**–**	**285,798.6**	**–**	**285,798.6**	**285,825.1**
Financial liabilities					
Liabilities to credit institutions	–	0.8	–	0.8	0.8
Securities issued	–	241,826.8	–	241,826.8	240,956.0
Other liabilities	–	6,207.9	–	6,207.9	6,207.9
Total	**–**	**248,035.5**	**–**	**248,035.5**	**247,164.7**

Changes in level 3

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

	Derivative assets	Derivative liabilities	Securities issued	Total
Opening balance, 1 January 2018	**138.4**	**–63.2**	**–1,325.3**	**–1,250.1**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	–9.4	–1,728.3	1,716.8	–20.9
Borrowings raised/Securities issued	–	–	–8,911.6	–8,911.6
Maturing during the year	–	–	653.8	653.8
Closing balance, 31 December 2018	**129.0**	**–1,791.5**	**–7,866.3**	**–9,528.8**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2018	–35.0	–1,691.1	1,705.3	–20.8
Opening balance, 1 January 2019	**129.1**	**–1,791.4**	**–7,866.3**	**–9,528.6**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	55.7	1,302.4	–1,350.8	7.3
Borrowings raised/Securities issued			–3,190.6	–3,190.6
Maturing during the year			5,676.2	5,676.2
Closing balance, 31 December 2019	**184.8**	**–489.0**	**–6,731.5**	**–7,035.7**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2019	185.2	216.9	–408.4	–6.3

Because the instruments in level 3 are hedged on a transaction basis, and each funding combination behaves as a funding combination in level 2, the changes in value in level 3 are analysed in the same manner as in level 2.

Note 26 Information on financial assets and liabilities subject to netting

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

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

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

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

2019	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet[1]	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet: Financial instruments	Provided (+)/Received (-) collateral – security	Provided (+)/Received (-) cash collateral	Net amount
Assets							
Derivatives	17,553.6	–5,586.6	**11,967.0**	–2,104.1	–1,584.2	–7,267.8	**1,010.9**
Repos	20,042.6		**20,042.6**		–20,008.4		**34.2**
Liabilities							
Derivatives	–5,063.6	1,579.1	**–3,484.5**	2,104.1	5.3	683.3	**–691.8**
Repos	–3,435.1		**–3,435.1**		3,435.1		**–**
Total	**29,097.5**	**–4,007.5**	**25,090.0**	**–**	**–18,152.2**	**–6,584.5**	**353.3**

2018	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet[1]	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet: Financial instruments	Provided (+)/Received (-) collateral – security	Provided (+)/Received (-) cash collateral	Net amount
Assets							
Derivatives	13,288.4	–1,955.2	**11,333.2**	–2,955.3	–4,151.9	–3,771.8	**454.2**
Liabilities							
Derivatives	–7,262.7	1,303.1	**–5,959.6**	2,955.3	558.1	1,281.3	**–1,164.9**
Total	**6,025.7**	**–652.1**	**5,373.6**	**–**	**–3,593.8**	**–2,490.5**	**–710.7**

1) The netted amount for derivative liabilities includes cash collateral of SEK 4,007 million as per 31 December 2019 and SEK 652 million as per 31 December 2018.

Note 27 Transition to new principles for lease accounting

On 1 January 2019, IFRS 16 Leases came into effect, replacing IAS 17 Leases. Under IFRS 16, lease agreements must be entered in the balance sheet as a right of use on the asset side and as a lease liability on the liability side. The expenses are allocated in the income statement on the basis of a depreciation component and an interest component, as opposed to previously when leasing expenses were reported under administrative expenses. RFR 2 includes an option not to apply IFRS 16 in legal entities and to instead apply the rules for lease accounting included in RFR 2.

The Company has chosen the option in RFR2 to not apply IFRS 16, meaning that lease accounting remains essentially unchanged from the preceding year. Under IAS 17, Kommuninvest only had operating leases, with the leasing fees being expensed on a straight-line basis over the lease term, which agrees with how they are reported today under the principles for lease accounting under RFR 2. The implementation of new principles for lease accounting have not entailed any transitional effect for the Company.

Kommuninvest's leasing activities are insubstantial, consisting primarily of leases where the underlying asset is deemed to be of low value. Leases pertain to laptops, mobile phones and various items of office equipment. The Company's most significant lease is for the office premises for which the Company's subsidiary, Kommuninvest Fastighets AB, is the lessor. As Kommuninvest is not a lessor, it has no leasing revenues. For further information, see Note 8.

Note 28 Events after the balance sheet date

No significant events have occurred following the end of the reporting period

Five-Year Summary

Key ratios 2015-2019, SEK, million	2019	2018	2017	2016	2015
Equity					
Core Tier I capital ratio (%)	126.8	188.4	212.4	103.7	44.6
Tier I capital ratio (%)	126.8	188.4	212.4	103.7	44.6
Total capital ratio (%)	126.8	188.4	212.4	122.1	59.8
Leverage ratio according to CRR (%)	1.58	1.75	1.78	1.56	0.87
Net profit					
Operating income	573.4	612.4	697.8	593.7	531.3
Operating expenses, excluding the resolution fee/stability fee, as % of lending [1]	0.054	0.057	0.065	0.072	0.068
Operating expenses, excluding the resolution fee/stability fee, as % of balance sheet total [1]	0.047	0.049	0.057	0.055	0.051
Return on assets (%)	0.065	0.140	0.245	0.086	0.165
Cost/income ratio	0.295	0.304	0.304	0.302	0.366

1) The resolution fee replaced the stability fee during 2016.

Other information					
Number of employees at the end of the year	93	92	96	91	85

Income statement 1 January – 31 December, SEK, million	2019	2018	2017	2016	2015
Net interest income	827.5	885.5	881.3	762.0	798.5
Dividends received	2.4	2.1	1.8	–	–
Commission expenses	–11.3	–8.2	–7.3	–5.2	–5.3
Net result of financial transactions	–201.5	161.4	512.0	–131.9	165.7
Other operating income	9.3	7.8	5.3	5.4	2.7
Total operating income	**626.4**	**1,048.6**	**1,393.1**	**630.3**	**961.6**
Total expenses	**–246.9**	**–271.8**	**–269.3**	**–232.1**	**–293.1**
Profit before credit losses	**379.5**	**776.8**	**1,123.8**	**398.2**	**668.5**
Net credit losses	12.6	–24.3	–	–	–
Impairment of financial assets	–	–	–	–	–13.0
Operating profit	**392.1**	**752.5**	**1,123.8**	**398.2**	**655.5**
Tax	–84.2	–166.4	–247.8	–88.4	–94.2
Net profit	**307.9**	**586.1**	**876.0**	**309.8**	**561.3**

Balance sheet summary as at 31 December, SEK million	2019	2018	2017	2016	2015
Cash and balances with central banks	811.1	–	–	–	–
Sovereign bonds eligible as collateral	17,686.3	39,230.3	24,635.8	16,964.4	16,839.4
Lending to credit institutions	21,917.2	1,843.4	649.7	1,122.3	699.9
Lending	408,218.1	355,710.0	310,147.3	276,982.1	254,421.7
Bonds and other interest-bearing securities	7,722.6	7,457.8	12,500.0	42,003.9	45,688.4
Derivatives	11,967.0	11,333.2	8,044.6	24,449.8	22,775.6
Other assets	2,998.4	1,627.4	965.2	202.9	201.3
Total assets	**471,320.7**	**417,202.1**	**356,942.6**	**361,725.4**	**340,626.3**
Liabilities to credit institutions	4,027.7	584.0	1,318.4	2,396.1	2,303.5
Securities issued	446,763.0	396,796.9	337,755.8	341,579.4	318,943.6
Derivatives	3,484.5	5,959.6	7,793.9	9,390.5	11,723.1
Change in value of interest-hedged item in portfolio hedging	0.7	–	–	–	–
Other liabilities	9,442.8	6,258.2	2,463.7	845.4	2,311.8
Subordinated liabilities	–	–	–	1,000.0	1,000.0
Total liabilities and provisions	**463,718.7**	**409,598.7**	**349,331.8**	**355,211.4**	**336,282.0**
Equity	7,602.0	7,603.4	7,610.8	6,514.0	4,344.3
Total liabilities, provisions and equity	**471,320.7**	**417,202.1**	**356,942.6**	**361,725.4**	**340,626.3**

Alternative performance measurements

In this annual report, Kommuninvest i Sverige AB has chosen to present a number of alternative performance measurements that are not defined or specified in the applicable rules on financial reporting. Operating profit excluding the effect of unrealised changes in market value, as used in the 2018 annual report, has been replaced by Operating income, motivated by this being a key ratio monitored by the Executive Management Team. These alternative performance measurements have been defined in accordance with the guidelines of the European Securities and Markets Authority (ESMA).

Alternative performance measurements	Definition	Reconciliation	2019	2018
Operating income	Operating profit reduced with the result of unrealised changes in market value, included in the income statement item Net result of financial transactions and net credit losses. The key ratio is of interest in showing Kommuninvest's underlying earning capacity.	Operating profit	392.1	752.5
		Result of unrealised changes in market value	193.9	–164.4
		Net credit losses	–12.6	24.3
		Operating income	**573.4**	**612.4**
Leverage ratio excluding lending to members and their companies	Kommuninvest's Tier 1 capital divided by the gross exposure amount less exposures in the form of Kommuninvest's lending to members and their companies. The key figure is relevant in illustrating the impact of the new regulations that will come into effect in June 2021.	Total exposure according to current regulations	469,859.9	423,118.1
		Exposure in the form of lending to members and their companies	409,515.7	357,388.9
		Total exposure	**60,344.2**	**65,729.2**
		Tier 1 capital, calculated applying transitional rules	7,418.8	7,425.2
		Leverage ratio excluding lending to members and their companies	**12.29%**	**11.30%**
Operating expenses, excluding the resolution fee, as % of lending	Operating expenses over the financial year, excluding the resolution fee in relation to the recognised value of lending on the closing date. A key ratio that is relevant in assessing the organisation's overall cost effectiveness in relation to lending, adjusted for the resolution fee.	General administration expenses	–236.2	–259.8
		Depreciation and impairment	–6.7	–7.8
		Other operating expenses	–4.0	–4.2
		Total operating expenses	–246.9	–271.8
		Resolution fee	–27.4	–69.1
		Total operating expenses excluding resolution fee	**–219.5**	**–202.7**
		Lending as per the closing date	**408,218.1**	**355,710.0**
		Operating expenses, excluding the resolution fee, as % of lending	**0.054**	**0.057**
Operating expenses, excluding the resolution fee, as % of balance sheet total	Total operating expenses over the financial year, excluding the resolution fee in relation to balance sheet total on the closing date. A key ratio that is relevant in assessing the organisation's overall cost effectiveness in relation to balance sheet total adjusted for the resolution fee.	General administration expenses	–236.2	–259.8
		Depreciation and impairment	–6.7	–7.8
		Other operating expenses	–4.0	–4.2
		Total operating expenses	–246.9	–271.8
		Resolution fee	–27.4	–69.1
		Total operating expenses excluding resolution fee	**–219.5**	**–202.7**
		Balance sheet total as per the closing date	**471,320.7**	**417,202.1**
		Operating expenses, excluding the resolution fee, as % of balance sheet total	**0.047**	**0.049**
Return on assets (%)	Net profit in relation to total assets, expressed as a percentage. Key ratios presented in accordance with FFFS 2008:25 Chapter 6, Section 2a.	Net profit	307.9	586.1
		Total assets	471,320.7	417,202.1
		Return on assets (%)	**0.065**	**0.140**
Cost/income ratio	Total expenses in relation to net interest income and other operating income. An established key ratio in the banking sector for assessing the relationship between expenses and income.	**Total expenses**	**–246.9**	**–271.8**
		Net interest income	827.5	885.5
		Other operating income	9.3	7.8
		Total net interest income and other operating income	**836.8**	**893.3**
		Cost/income ratio	**0.295**	**0.304**

Signatures

We hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles, that the Annual Report gives a true and fair view of the development of the Company's operations, financial position and net profit and describes the material risks and uncertainties facing the Company.

Stockholm, 11 February 2020

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson *Board Member*	Anna von Knorring *Board Member*	Erik Langby *Board Member*
Kristina Sundin Jonsson *Board Member*	Johan Törngren *Board Member*	Lars Heikensten *Board Member*

Mattias Bokenblom
Employee representative

Tomas Werngren
President and CEO

Our Audit Report was submitted on

KPMG AB

Anders Tagde
Authorised Public Accountant

Audit Report

To the Annual General Meeting of Kommuninvest i Sverige AB (publ), corporate identity number 556281-4409

Report on the annual accounts

Opinions

We have audited the annual accounts of Kommuninvest i Sverige AB (publ) for 2019. The annual accounts of the Company are included on pages 25–93 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of Kommuninvest i Sverige AB (publ) as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. A corporate governance statement has been prepared. The Board of Directors' report and the corporate governance statement are consistent with the other parts of the annual accounts, and the corporate governance statement is in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Our opinions in this report on the annual accounts are compatible with the contents of the supplementary report submitted to the Board in accordance with the audit regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Kommuninvest i Sverige AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and belief, no prohibited services as referred to in the audit regulation (537/2014) Article 5.1 have been provided to the audited company or, if applicable, its parent association or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Fair value measurement of financial instruments classified as level 2 and 3

See accounting principles for financial instruments in Note 2 and disclosure in Note 25 in the annual accounts for detailed disclosures and a description of the matter.

Description of key audit matter

The Company has financial assets and liabilities measured at fair value, which are classified as level 2 and 3 according to the IFRS fair value hierarchy. The fair value of these financial instruments is measured either based on quoted prices on markets that are not active or based on valuation models using both observable and unobservable inputs.

The Company has financial assets of SEK 153,137 million classified as level 2, financial assets of SEK 185 million classified as level 3, financial liabilities of SEK 56,006 million classified as level 2 and financial liabilities of SEK 7,220 million classified as level 3. In total, these assets and liabilities represent 33 percent of the Company's total assets and 14 percent of total liabilities.

The Company's assets and liabilities described above, where the fair value is measured based on valuation models, consist of lending, liabilities to credit institutions, securities issued and derivatives. The valuation models used for these types of financial instruments are based on discounted cash flow forecasts.

The fair value of financial instruments classified as level 3 is based on valuation models that involve significant levels of management judgements as the fair value calculation is based on input that is unobservable by a third party. The valuation of financial instruments classified as level 2, and where the fair value is based on valuation models, also relies on judgements made by management. In view of this, fair value calculations for measurements of financial instruments is considered a key audit matter, in particular the valuation of financial instruments where the fair value is determined by using valuation models.

Response in the audit

We have obtained the Company's valuation principles and assessed their valuation methodologies against industry practice. We have also assessed whether the models have been applied appropriately and comply with the Company's accounting principles.

We have tested the Company's controls over the valuation process, including the Risk and Controls department's review of performed valuations, the application of the four-eye principle in the valuation process and the Company's internal evaluation of valuation adjustments.

We have engaged our internal valuations specialists to assist us in performing our audit procedures in challenging the methodology and assumptions used in the valuation models.

On a sample basis, we have compared the input data used in the models against appropriate pricing sources and for a sample of financial instruments, we have performed our own independent valuations.

We have also assessed the circumstances disclosed in the annual report and assessed whether the information presented is comprehensive enough to understand the judgements made by management and the application of valuation methods used.

Applying hedge accounting
See accounting principles in Note 2 and disclosures in Note 6, 17 and 25 in the annual account for detailed disclosures and a description of the matter.

Description of key audit matter	Response in the audit
Hedge accounting is a complex area from an accounting perspective. To qualify for hedge accounting, certain criteria must be met including requirements to document the nature and purpose of the hedge and the Company shall perform regular testing of the effectiveness of the hedging relation. Because of the complex nature of the relevant accounting policies, hedge accounting is considered a key audit matter.	We have obtained the Company's documentation for hedge accounting and evaluated whether the applied methods comply with the Company's accounting principles. Moreover, we have tested the Company's effectiveness test for hedge relationships. At year-end, we have assessed whether the hedge relationships have been subject to effectiveness testing. For a sample of hedges, we also verified the accuracy of the input data and evaluated the result of the effectiveness test. We have also assessed the circumstances disclosed in the annual report and assessed whether the information presented is comprehensive enough to understand the Company's application of hedge accounting.

Other Information than the annual accounts
This document also contains other information than the annual accounts and is found on pages 3–23. The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President
The Board of Directors and the President are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and the President are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts the Board of Directors and the President are responsible for the assessment of the Company's ability to continue as a going concern. They disclose, as applicable, matters related to the going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intend to liquidate the Company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility
Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the Company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- Conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the President of Kommuninvest i Sverige AB (publ) for the year 2019 and the proposed appropriations of the Company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Kommuninvest i Sverige AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibility of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the Company's type of operations, size and risks place on the size of the Company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs. This includes among other things continuous assessment of the Company's financial situation and ensuring that the Company's organisation is designed so that the accounting, management of assets and the Company's financial affairs otherwise are controlled in a reassuring manner. The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the Company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the Company, or
- in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the Company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the Company, or that the proposed appropriations of the Company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the Company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgement with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As the basis for our opinion on the Board of Directors' proposal regarding the appropriation of the Company's profit or loss, we have considered whether or not the proposal is consistent with the Companies Act.

KPMG AB, P.O. Box 382, SE– 101 27 Stockholm, was appointed auditor for Kommuninvest i Sverige AB (publ) at the Annual General Meeting on 21 April 2016. KPMG AB or auditors working for KPMG AB have been the Company's auditor since 2016.

Stockholm, 11 February 2020

KPMG AB

Anders Tagde
Authorised Public Accountant

Review Report

We, the lay auditors, appointed by the Annual General Meeting, have examined the operations of Kommuninvest i Sverige AB.

The Board of Directors and President are responsible for the operations being conducted in accordance with the Articles of Association and owner directives as well as the laws and regulations pertaining to the operations. Our responsibility is to examine the operations and internal control and assess whether the operations have been conducted in accordance with the mandate of the Annual General Meeting.

Our review has been performed in accordance with the Companies Act and the regulations applicable to the operations.

The review has been carried out with the focus and scope required to provide a reasonable basis for evaluation and assessment. A thorough review has been conducted regarding the operations. We have also monitored the work of the Board of Directors by means of the minutes recorded at its meetings.

In 2019, in-depth reviews were conducted in the areas of sustainability and the handling of public documents. The lay auditors would particularly like to draw the attention of the Board of Directors and the Annual General Meeting to the results of these in-depth reviews.

On the whole, it is our assessment that the Company's operations have been managed adequately and, from an economic perspective, satisfactorily.

In our assessment, the Company's internal control has been adequate.

Örebro,

Barbro Hassel

Anki Svensson

On the Kommuninvest website, www.kommuninvest.se/en, you can read more about Kommuninvest, our services and news affecting the economy and finances of municipalities and regions in Sweden. On the website you will find:

- Our newsletter, each week providing members the latest updates on macroeconomic developments and other areas affecting local government finances
- Reports on local government finances.
- Membership magazine Dialog.
- Log-in to the finance management tool KI Finans.
- Information for investors.

KOMMUNINVEST

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