

KOMMUNINVEST I SVERIGE AB

# Annual Report 2020



KOMMUNINVEST

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# 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 + 14

Kommuninvest is owned by 278 municipalities and 14 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 75 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**

Administers 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.



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 443 bn

Lending to members amounted to SEK 443 billion at the end of 2020.

# The corona pandemic

**In 2020, Kommuninvest did not encounter any significant problems in coping with the corona pandemic and its consequences. Access to the capital market remained favourable throughout. The liquidity and capital situation has been strong. The digital approach, applied fully or in part, has worked well. Should developments worsen ahead, this approach can be maintained.**

Over the year, the corona pandemic has left a harsh and clear mark on all development globally. To counter the first wave of contagion in the spring, strict rules and restrictions were introduced. This led to sharp falls in GDP and rising unemployment. During the summer and early autumn, a relatively strong economic recovery took hold. This slowed, however, when a second wave of contagion took hold from October onwards and was met with the necessary countermeasures. In many countries, mass vaccinations commenced towards the end of 2020 and in early 2021. Much suggests that this will gradually limit contagion, allowing the economic recovery to regain impetus.

From early March, the uncertainty surrounding the pandemic caused substantial turbulence in the financial markets. Stock prices fell and interest rates rose. The turbulence lasted through March and April, after which the markets functioned more normally. Since mid-April, most of the world's stock market indices have risen noticeably. Several important policy rates have returned to roughly the levels noted before the pandemic. During the autumn, the market trend was relatively normal.

Governments and central banks have taken rigorous measures to limit the negative effects. In Kommuninvest's strategic funding markets – USD, EUR and SEK – the Federal Reserve, the European Central Bank and the Riksbank have all pursued highly active monetary policies, including extensive purchasing of bonds for example. Major financial policy efforts have been undertaken in the US, the EU and Sweden.

Kommuninvest did not encounter any significant problems in coping with the corona pandemic and its

consequences. All parts of the operations functioned well over the year.

On 18 March, the organisation was placed on high alert. This level, entailing more frequent meetings and internal reporting, for example, remained in effect at the end of the year. At the same time, Kommuninvest switched to virtually fully digital operation. The Annual General Meeting of the Society in April was held in digital format. Webinars became a core component of our communications. In September and October, when the contagion was weaker, a return to working from the office was initiated. This was put on hold when the second wave of contagion hit. Even working digitally, operations have progressed with full capacity.

Lending volumes rose rapidly in early March. In the stressed market situation at the time, the pressure from municipalities and regions reached a high level, with increasing demand for new loans and for existing loans to be extended. Some of them increased their funding from Kommuninvest because they were unable to raise funds independently at reasonable prices. Others chose to review and expand their funding within the framework of their liquidity planning. Towards the end of April, volumes began to return to normal levels. Since the second half of May, lending to Kommuninvest's customers has been at normal levels.

In its funding operations, Kommuninvest has retained favourable access to the capital market throughout. During the worst of the turbulence, the choice was made to issue securities only in the Swedish market, as the price difference between the markets was unusually large. At the end of April, Kommuninvest returned to the USD



**“ Overall, Kommuninvest is very well equipped to deal with the ongoing developments stemming from the coronavirus. It must be possible to maintain stability even if the situation were to worsen. ”**

market. Over the year, five issues were completed under the USD programme. The first funding forecast for 2020 was SEK 140–160 billion. This was revised upwards in April, given the large lending volumes, and was then revised downwards in both June and October to reflect a lower lending rate. The total funding raised over the year was SEK 131 billion.

In turn, this contributed to the large item for negative unrealised changes in market value that burdened the year’s operating profit.

In the currency market, the SEK strengthened from May onwards against the USD. This meant that opening unrealised gains from currency swaps, which Kommuninvest uses to hedge currency risks in its USD financing, decreased as the contracts approached maturity.

In two stages, on 16 March and 27 April, Kommuninvest established a new issue procedure under which funding in the Swedish market is arranged through weekly auctions. The purpose was, in part, to provide conditions for the Riksbank to buy Kommuninvest bonds through QE programmes. The main purpose, however, was to improve the functioning of the market by improving transparency. The change was received favourably by Kommuninvest’s investors in the Swedish market.

Kommuninvest did not need to utilise any provisions in its liquidity management during the year. The basic requirement in the legislation is referred to as “LCR 30”. Kommuninvest applies its own requirement level, “LCR 90”, which entails having means accessible to manage for at least 90 days in an extremely stressed market situation. This level has been maintained without difficulty.

The capital situation is also strong. In April, the Annual General Meeting of the Society adopted a plan to gradually build up capital until 2024. Both internal and statutory capital requirements must always be met by a good margin. This provides a capital situation that should suf-

fice well, even in the light of the corona pandemic, for the scenarios that could transpire. At the end of the year, a new share issue was in progress, in which the Society is buying shares in the Company, which immediately improves the capital situation.

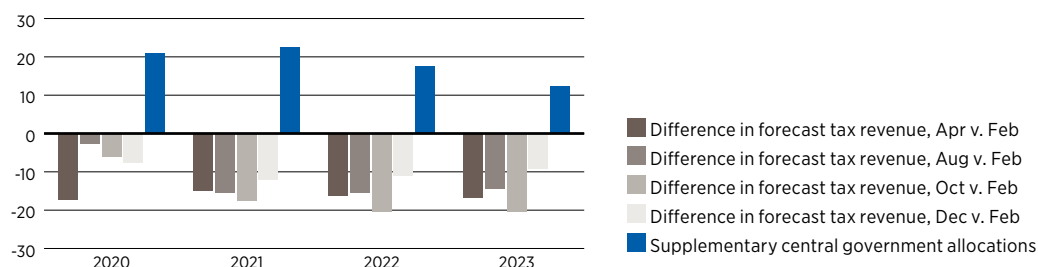
One problem accompanying the pandemic was that many local government authorities were too small to be able to buy protective equipment at acceptable prices. For this reason, SALAR, the coordination office of the County Administrative Boards, Region Stockholm, Region Skåne, Region Västra Götaland, the City of Stockholm, the City of Gothenburg, the City of Malmö and the Municipality of Uppsala commissioned SKL Kommentus Inköpscentral (SALAR’s centralised purchasing service) to make large-scale joint purchases on the local government authorities’ behalf. To realise this, Kommuninvest established an opportunity to borrow funds of up to SEK 500 million interest free. The Cities of Stockholm, Gothenburg and Malmö, as well as the Municipality of Uppsala acted as guarantors for this loan. The loan is actually outside the scope of Kommuninvest’s business model, but was deemed a reasonable effort to contribute at a critical stage. SKL Kommentus Inköpscentral did not avail itself of this loan opportunity in 2020.

In June, to strengthen the analysis of how the corona pandemic is impacting the municipalities and regions, Kommuninvest set up the independent expert group “Welfare Economists”. During the autumn, the group produced two reports that have broadened Kommuninvest’s knowledge base and that were received well among municipalities and regions.

Overall, Kommuninvest is very well equipped to deal with the ongoing developments stemming from the coronavirus. It must be possible to maintain stability even if the situation were to worsen.

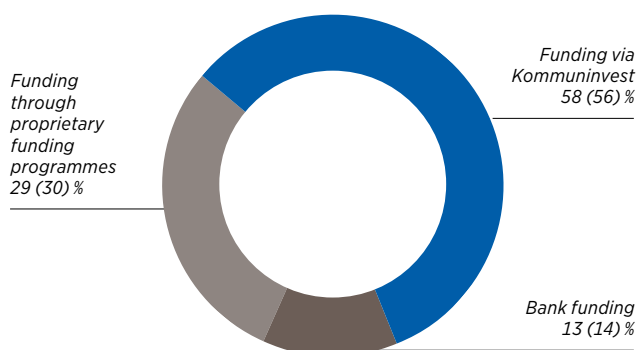
### Effects of the corona pandemic on the local government sector economy

Changes in central government allocations and forecast tax revenue (compared with February)



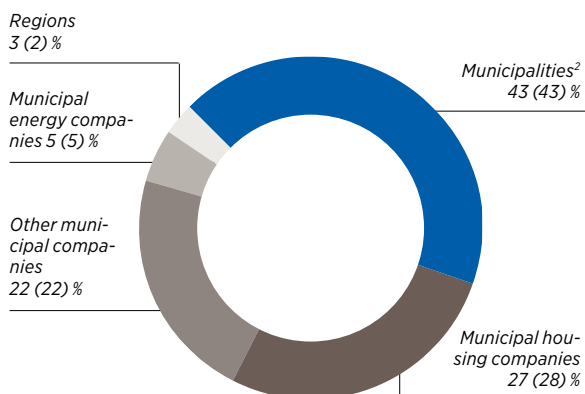
The blue columns show the sum of the central government allocations that, at the end of the year, had been added since February 2020. The remaining columns show how the forecast tax base had deteriorated as per four forecast occasions in comparison with the forecast made in February 2020. The net effects since February 2020, reflecting changes during the pandemic, were positive at the end of the year for the entire period up until 2023 (the positive values in the blue columns are greater than the negative values in the light grey columns). Accordingly, the central government’s supplementary allocations are, across the board, greater than the amounts lost by the municipalities and regions through the forecast deterioration of the tax base.

## MARKET SHARES, LOCAL GOVERNMENT LOAN FINANCING<sup>1</sup>



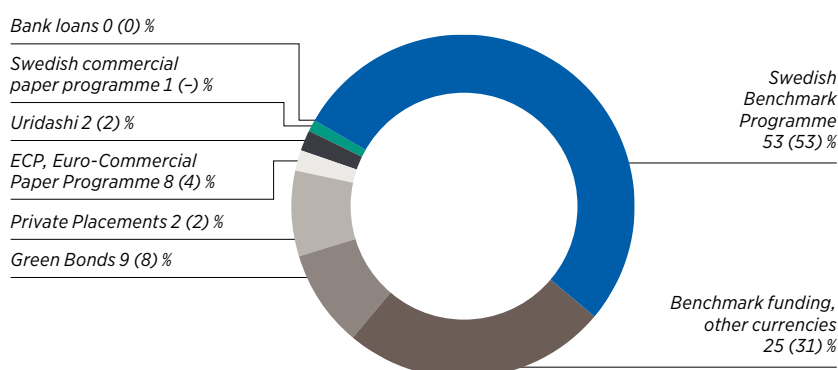
1) Forecast regarding outstanding funding (figures in brackets refer to actual outstanding funding in accordance with members' own Annual Reports as per 31 December 2019)

## 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 2020. Figures in parentheses refer to 31 December 2019.

## Multi-year summary, Kommuninvest i Sverige AB

	2020	2019	2018	2017	2016
Balance sheet total, SEK billion	527.4	471.3	417.2	356.9	361.7
Lending (recognised value), SEK, billion	445.8	408.2	355.7	310.1	277.0
Net profit, SEK, million	179.7	307.9	586.1	876.0	309.8
Members, total	292	290	288	288	286
of which, municipalities	278	278	277	277	275
of which, regions	14	12	11	11	11
Core Tier I capital ratio <sup>1</sup> , %	302.5	126.8	188.4	212.4	103.7
Tier I capital ratio <sup>2</sup> , %	302.5	126.8	188.4	212.4	103.7
Total capital ratio <sup>3</sup> , %	302.5	126.8	188.4	212.4	122.1
Leverage ratio according to CRR <sup>4</sup> , %	1.43	1.58	1.75	1.78	1.56

1) Core Tier I capital in relation to total risk exposure. See also pages 39–40 and Note 3.

2) Tier I capital in relation to total risk exposure. See also pages 39–40 and Note 3.

3) Total capital base in relation to total risk exposure. See also pages 39–40 and Note 3.

4) Tier I capital in relation to total assets and commitments (exposures). See also page 40 and Note 3.

# Resilience and dynamism – through the fiercest of storms

**Kommuninvest plays a key role in society's resilience. During the first phase of the corona pandemic, we safeguarded the local government sector's access to credit – even when the storm was at its fiercest. A solid capitalisation plan, strengthened digital capacity and active development of our sustainability work have equipped us well for whatever lies ahead.**

## Resilience

The corona pandemic is a severe strain on society as a whole. The local government sector plays a key role in the common effort to resist. From the initial outbreak in Sweden, the tasks of caring for the sick, limiting the contagion and keeping society going in other regards have fallen upon the municipalities and regions. Welfare workers have stood on the front line.

In our mission on behalf of Sweden's municipalities and regions, Kommuninvest represents an important component in the joint resistance. Our task is to safeguard the local government sector's access to stable and cost-efficient loan financing even when the storm is at its fiercest. Our straightforward and, at the same time, vigorous business model, with low risks and solid buffers, must be able to deliver under all weather conditions. And it proved able to do so, even through the severe market turbulence in March and April. We held our course. Through-out, municipalities and regions were able to borrow the volumes they needed.

In April, Kommuninvest established a loan opportunity, in the form of a SEK 500 million credit, with which local government authorities could procure protective equipment through SKL Kommentus Inköpscentral. Although this represented a minor departure from our normal business model, it was, at the same time, an action entirely in line with our mission's objective to safeguard resilience.

And, over the year, we achieved substantial progress in strengthening our own resilience, as well as that of the local government sector. An example of this was our transition to fully digi-



**In our mission on behalf of Sweden's municipalities and regions, Kommuninvest represents an important component in the joint resistance.**

tal operations, and our rapid development of digital methods, from early on in the pandemic. Kommuninvest can deliver at full capacity, even when our employees are not working from the office. These are key skills worth maintaining – even once the pandemic has subsided.

Unlike many other credit institutions, Kommuninvest does not appropriate profit to increase its capital. Instead, capital is built up by means of capital contributions from members. The resolution by the Annual General Meeting of the Society in April to build up capital in the operations will have a positive impact on the Company. This ensures a robust process building sound capacity for manoeuvre in other areas of financial management.

## Dynamism

Despite the difficult times, the operations demonstrated vigorous dynamism.

Product development progressed at a strong pace. Towards the end of the year, we achieved our objective of creating a digital loan process within KI Finans. Customers are now able to complete all steps in the loan process with digital support, which increases flexibility and reduces administration. We launched a new analysis tool to support planning of investments and liquidity flows. We phased out another analysis tool, KI Finans Tillgång, which had not been useful for a sufficient number of customers. In the autumn, the process of developing a new sustainability product, Social Sustainability Loans, entered a pilot phase. With four pilot customers having been granted loans, the results, up until the end of the year, were promising.





To gain access to an independent and current analysis of the consequences of the pandemic for the local government sector, we established the external expert group “Welfare Economists”. The purpose is to contribute to a knowledge-based public debate on issues that are complicated and important to our members. By the end of the year, two reports had been produced providing advice for the central government, municipalities and regions.

At the same time, a dark cloud of concern appeared in the autumn: the proposed risk tax presented by the Swedish government, the Centre Party and the Liberal Party. As a public development credit institution, we take the view that Kommuninvest should be exempt from tax. Without such an exception, one of several negative consequences would be that we lose some of our developmental vigour.

### **Constructive discussions**

It is in times of difficulty that an organisation is truly put to the test. From the Board of Directors, we are able to affirm that the constructive discussions normally typical of Kommuninvest - from its 292 owners to those employed in the operations - continued to characterise the Company in 2020. The commitment and constructiveness has always been there. Not only is this gratifying. It is also a decisive strategic strength.

Kommuninvest i Sverige AB

**Ellen Bramness Arvidsson**  
Chairman

# Good stability in challenging times

**With the support provided by the Swedish central government, the local government sector enjoyed a strong financial position at the end of 2020, despite the corona pandemic. Through the Kommuninvest partnership, access to loan financing remained favourable, even as market stress peaked. Key advances achieved in Kommuninvest's operations included improved digital capacity, a solid capitalisation plan and developed sustainability efforts.**

## **Profitability despite the effects of the pandemic**

The economy of the local government sector coped relatively well through the pandemic in 2020. In the spring, trends and forecasts looked bleak. With substantial central government support, however, and a strong recovery in the early autumn, the situation in the second half of the year brightened. A second wave of contagion slowed the recovery. Growth is likely to gain impetus again in 2021. In many municipalities and regions, surpluses reached record levels in 2020. Despite the pandemic, the local government sector has a strong financial position.

On the investment side, the local government sector still has considerable needs. However, improved economic prospects over the year resulted in demand for loan financing slowing down. During the market turbulence in March and April, Kommuninvest had very high lending, although it subsequently returned to normal levels.

## **Effective response to the pandemic**

In dealing with the pandemic, Kommuninvest experienced no significant problems. We remained completely stable even when the market was at its most stressed. As one of very few players maintaining good access to the credit market, we ensured that the local government sector could always borrow without interruption. As in the financial crisis of 2008–09, we provided a safe haven.

In March, Kommuninvest switched to virtually entirely digital operations. Employees worked from home. This worked well. We were able to achieve progress in the operations with full capacity. Once the pandemic has subsided, it



**As one of very few players maintaining good access to the credit market, we ensured that the local government sector could always borrow without interruption.**

will be possible to return to the office environment. At the same time, it is important to continue using the digital tools that have now achieved a breakthrough. Our broad contact networks should allow us to benefit greatly from the new digital formats.

## **Key capitalisation plan**

Kommuninvest was further reinforced by the capitalisation plan for 2021–2024 adopted by the Annual General Meeting of the Society in April. We will soon commence a gradual build-up of capital, with both internal and statutory capital requirements having to be met by a good margin throughout.

## **Challenging risk tax proposal**

In September, the Government, the Centre Party and the Liberals presented a proposal for a risk tax applicable to banks and other credit institutions, which would have highly negative consequences for Kommuninvest and for the local government sector as a whole. We are therefore arguing for an exception. In November, we submitted a consultation response together with SALAR. We are also conducting an intensive dialogue and information efforts in this area.

## **Promising developments in sustainability efforts**

Kommuninvest's sustainability efforts are developing rapidly. Green Loans now comprise close to 12 percent of lending. Based on clear demand from the local government sector, in the spring, we initiated a concrete process to develop a new product: Social Sustainability Loans. In the



autumn, a pilot phase was initiated, with the loan product being offered to a number of pilot customers. By the end of the year, four loans had been granted. If the results of the pilot phase are favourable, the ambition is to make the new product available to all customers/members.

#### **Net profit**

At SEK 228 million, operating profit for the year was lower than for the preceding year (SEK 392 million). This was partly attributable to negative unrealised changes in market values. Because such changes (which are difficult to predict and guard against) are only an accounting phenomenon, negative values will now increase operating profit later. Operating income (that is, excluding unrealised changes in market value due to accounting practices) remained high at SEK 462 (573) million. This is higher than our long-term target. In accordance with an earlier resolution by the Annual General Meeting, we have con-

tinued to reduce the margin between our funding and lending. This will entail lower operating income in the upcoming years.

#### **Special thanks to colleagues**

The pandemic imposed considerable demands on the organisation's adaptability. Particularly during the initial phase of the pandemic, all employees demonstrated their loyalty to our mission and were prepared to make additional efforts for Kommuninvest's members and customers. For this, I am most grateful. That laid the foundation for a successful 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 funds 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 loan 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 18.

## 4. Disbursement of loans

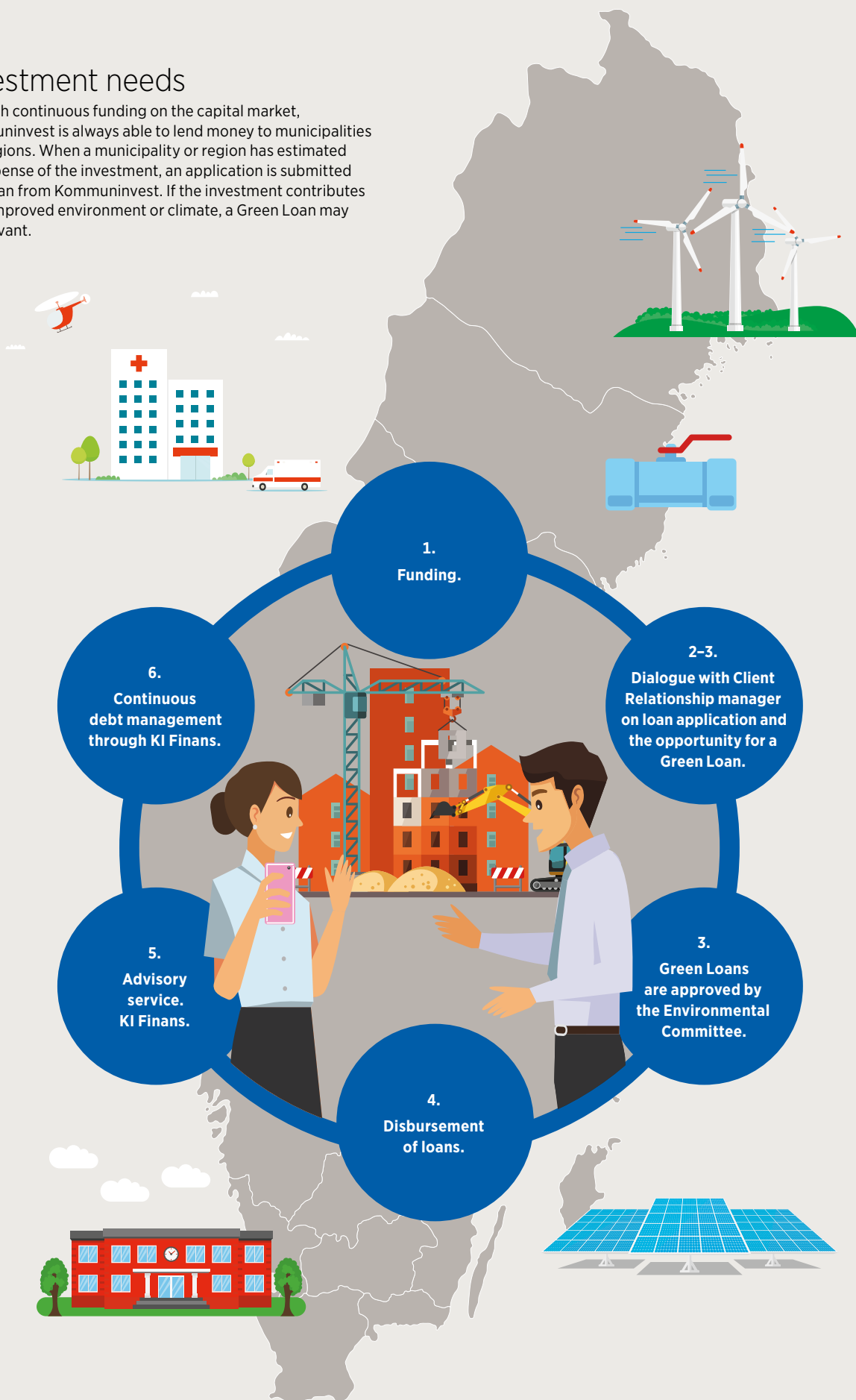
Because we know our members well and apply a fast and efficient credit process, the time from the first call regarding the borrowing requirement until the loan can be disbursed is brief. If a Green Loan is involved, we take care of the additional administration and documentation that green financing requires, such as the 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.



# Sustainable financing is our mission

**Kommuninvest's basic concept and vision includes encouraging social development that is sustainable in the long term. Sustainable financing solutions foster efficient use of tax revenues, financial stability and the local government sector's work with Agenda 2030. Despite the exceptional corona pandemic conditions, the operations were able to fulfil their mission during the year relatively unaffected .**

The municipalities and regions form the backbone of the Swedish welfare state. It is under 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, energy supply, public transport, water/sewerage, etc. Local government actors play a key role in advancing Swedish efforts towards Agenda 2030 and the global goals, in terms of both environmental change and societal issues.

## How we generate sustainable values

Kommuninvest plays a similar role for the local government sector as the National Debt Office does for the central government and its authorities. 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. By "pooling" local government borrowing needs and channelling them through a single organisation, economies of scale can be achieved, while keeping management costs down.

As the largest lender to the sector by far, we generate both direct and indirect values. Crucially, the financing solutions and the knowledge and debt management tools we provide benefit financial stability in Swedish municipalities and regions and help develop members' debt management expertise. Accordingly, essential investments in welfare and sustainability can be made more efficiently and at a lower cost to taxpayers. This strengthens the welfare society by providing new or refurbished homes for the elderly, schools, apartments and healthcare facilities, or various forms of infrastructure such as roads, public transport, energy, water/sewerage.

## Covid-19 exerts pressure on local government operations

The corona pandemic exerted severe pressure on the operations of municipalities, with the need to care for the ill and to protect risk groups being the focus in the handling of the pandemic. The pandemic has greatly affected the local government sector's finances, mainly by causing a heavy burden on health and care services. It has also hampered growth in the tax base and also affected other revenues and expenses.

During 2020, the cooperation that Kommuninvest represents was therefore particularly relevant, helping support the sector in dealing with the challenges it has faced. Throughout the year, Kommuninvest primarily maintained continued access to the capital market and was able to finance municipalities' and regions' funding needs on favourable terms. This was of particular importance early in the crisis, when the stressed market situation caused strong pressure from customers.

## Normal level of operations generally

Despite the pandemic, Kommuninvest's own operations could be maintained without significant problems. In mid-March, a decision was made to place the organisation on high alert and operations basically switched entirely to digital platforms, with working from home and digital meetings becoming the new normal, to mitigate operational risks and to help limit contagion.

The transition to digital working methods allowed the operations to develop according to plan. Events formerly held in person, have switched to digital formats, including the Annual General Meeting of the Society, customer seminars, etc. The heightened level of preparedness has also brought an increased frequency of meetings and reporting, with regular "town hall"-meetings with the CEO and the management, for example. Surveys among the employees suggest that internal communications improved over the year.

## Continued central role

The welfare assignment for Sweden's municipalities and regions, and thus the conditions for their long-term economic sustainability is largely a matter of demographic development, with an increasing proportion of younger and older people. In addition, the local government sector still has significant needs for investment. Accordingly, it is still of the utmost importance to have access to favourable financing and efficient debt management support.

Kommuninvest's ability to maintain the sector's financing capacity, even in the most troubled times, engenders security and contributes to a high level of trust in the operations.



**Creates stable finances in municipalities and regions.**



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



**Lending**

**443**

SEK bn

Of which 12 percent are Green Loans



**Helps all of Sweden live.**

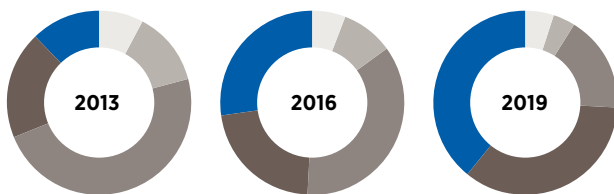
**355.4**  
SEK million in total distribution of surplus<sup>1</sup>

**2,246**  
users of KI Finans

**Helps to meet Sweden's sustainability targets.**

<sup>1</sup>) Amount disbursed in 2020, relating to the 2019 financial year.

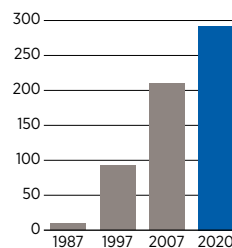
**Kommuninvest's share of local government borrowing**



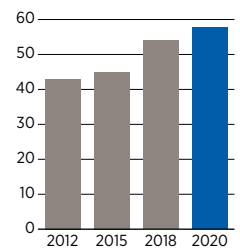
0% 1-50% 51-90% 90-99% 100%

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 13 municipalities that had no funding from Kommuninvest in 2019, 12 were non-members. Data for 2020 were not available at the time of publication.

**Number of members**



**Kommuninvest's market share, %**



# Sustainability work

**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.**

Our view on sustainability builds on the values of the Swedish local government sector, and 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.

## Financing, knowledge, responsibility

By providing efficient financing of investments for Sweden's municipalities and regions, we contribute to sustainable welfare over the long term. A strong ownership structure and the joint and several guarantee between the members allow us to raise capital in the financial market cost-efficiently and stably. The members' considerable investment needs and Kommuninvest's position, being responsible for a sizeable proportion of members' funding, generate economies of scale.

We support our members' sustainability work with financing products clearly focused on environmental and social sustainability. Since its launch in 2015, Kommuninvest's green financing programme has grown to become one of the largest in the Nordic region. In 2020, a new product, Social Sustainability Loans, was introduced in a pilot phase and the first loans were granted.

We are also working to build knowledge on debt management, as part of good financial management in the sector. By extension, this should give elected representatives optimal room for manoeuvre in delivering welfare services to citizens. Given its role in society, it is crucial that Kommuninvest be governed clearly to ensure the operations are conducted responsibly.

## Stakeholder dialogue

We maintain a continuous dialogue with those stakeholders who, in various ways, influence and are affected by our operations, to identify the sustainability issues with which the Group should work. Our dialogue with stakeholders involves meetings with members, customers and employee delegates, as well as with representatives of government ministries and national authorities. We also conduct satisfaction surveys among key stakeholders on an ongoing basis, 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 every two years, with the next being planned for 2021.

## Governance of sustainability work

The Sustainability Manager is responsible for managing, developing and reviewing Kommuninvest's sustainability work in close cooperation with the Executive Management Team and the department heads, 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. For climate-related financial risk, see also the Sustainable financing section.

## Direct and indirect influence

Kommuninvest has both a direct and indirect impact on sustainability. Kommuninvest owns the direct influence, meaning this lies within the Company's direct decision-making mandate and efforts can provide concrete qualitative and quantitative effects. Direct influence includes, for example,





## Our sustainability perspectives

### Sustainability work builds on three perspectives

#### Sustainable financing

Supporting municipalities and regions' efforts in financial, environmental and social sustainability, as well as in fostering stability.

#### Responsible operations

Ensuring that Kommuninvest complies with its Code of Conduct, the expectations of stakeholders, as well as with laws, rules and regulations.

#### Sustainable organisation

Fostering a good working environment and employee health, good management, employee collaboration, and an agile organisation.



## Which global goals are most clearly connected?



Our influence is both direct (within the Company's decision-making mandate) and indirect (in the case of lending, funding and other balance sheet items). 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. The goals most clearly connected are presented here.

customer and employee relations, business travel, office premises, local collaboration, etc. The indirect influence is defined as Kommuninvest's impact on sustainability through its balance sheet, primarily through its 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. Although Kommuninvest's direct impact is limited, its indirect impact is extensive.

# Sustainable financing

**Kommuninvest offers financial services and products that support the work of the municipalities and regions regarding good financial management and sustainable development. This provides conditions for tax funds to be used as efficiently as possible, to increase the stability of the financial system and to promote the local government sector's sustainability work.**

Our contribution in sustainable financing involves cost-effective and stable financing of public investments, products capable of promoting sustainable realignment, and long-term analysis for sustainable local government finances. The 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.

## Digitalised lending process

Lending forms the foundation of our operations. To be able to offer stable financing at the right price, it must continuously be streamlined in accordance with the needs of customers and members. In 2020, a multi-year development process was completed resulting in a digitalised lending process, KI Låna. This increases flexibility and reduces administration for customers while freeing up resources in the Company for more qualified customer support and strategic conversations.

## Social sustainability loans

During the year, the process of developing a loan product for social sustainability, initiated in 2019 together with a small group of members and customers, transitioned to a "pilot launch" during the year. By the end of 2020, four loans had been granted with a total value of SEK 462.6 million. For further information, see the article on the next page.

## The proportion of Green Loans continues to grow

To highlight and stimulate the local government sector's environmental and climate work, Kommuninvest offers "Green Loans" (for further information, see the article on the next page). At the end of 2020, the volume of Green Loans granted amounted to SEK 74.7 (63.1) billion and related to 431 (346) green investment projects in 167 (150) municipalities and regions. The proportion of Green Loans disbursed in relation to total lending was 12.0 (10.1) percent.

Kommuninvest finances Green Loans by issuing Green Bonds. To date, 11 Green Bonds have been issued and Kommuninvest is one of the Nordic region's largest issuers. The expected annual reduction of CO<sub>2</sub> emissions from the projects financed can be seen in Kommuninvest Green Bonds Impact Report.

## Increasing awareness on local government financing

To increase knowledge of the local government sector's long-term financial conditions, we conduct our own research and publish reports detailing trends in local government investments and their financing, including funding and debt analyses. The data are made available in public databases. Knowledge

is disseminated on an ongoing basis by means of seminars and individual meetings. In 2020, Kommuninvest took the initiative to establish a temporary expert group, the "Welfare Economists", to analyse the finances of municipalities and regions in the wake of the corona crisis. By the end of the year, the group had published two reports.

We also collaborate with higher education. Among other things, Kommuninvest has for several years partnered with the University of Örebro to promote research on the local government sector's debt management and financial conditions, and we finance both 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 developed in-house

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 2,246 (2,062) users at the end of 2020. 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.

## Limited climate-related financial risk

In recent years, there has been increasing awareness that sustainability factors can also lead to financial risk. For Kommuninvest, such a risk could potentially be materialised, associated primarily with balance sheet exposures in the form of lending and funding, for example. Given the Group's organisational and basic structure, including the members' joint and several guarantee for the Group's liabilities, that all lending is zero risk weighted and that primary and secondary local government authorities cannot be declared bankrupt, the financial exposure to climate-related risk is, in practice, negligible.

## A non-profit concept that benefits society

Kommuninvest is established as a cooperative concept whose operations have no vested interest in generating a profit and are to be characterised by as low a level of risk-taking as possible. The profits generated are returned to the members in the form of interest on contribution capital and refunds on business volumes. In this way, SEK 355.4 (717.8) million was transferred back to the members of the Society in 2020. In recent years, profits have decreased following a decision by the members in 2018 to change the pricing model, entailing a reduction in the prices offered by Kommuninvest.



In a few years, Granngårdens Centrum in Trollhättan has been transformed from a deserted and insecure place, where no one wanted to be, into a living district centre with a health centre, pharmacy, grocery shop, etc. Behind the transformation is AB Eidar, Trollhättan’s housing company, whose decision to move its own operations to the area played a major part. This generated a basic degree of security that encouraged other actors, and Granngården Centrum is now a workplace for some 200 people. To finance the renovation and remodeling project, AB Eidar was among the first in Sweden to be granted a Social Sustainability Loan.

## Financing as a catalyst

It is becoming increasingly clear that the financial market can influence the transition to more sustainable societies. The market for “sustainable financing” is growing rapidly, and efforts are under way to adapt regulations to ensure that capital flows are used for sustainable operations.

Kommuninvest is participating actively in this development. Since 2015, municipalities and regions have been offered Green Loans for the financing of investment projects with clear environmental and climate ambitions. By the end of 2020, this loan programme had grown to encompass 431 projects in 167 municipalities and regions, with SEK 74.7 billion in approved loan volumes, of which SEK 53 billion has been disbursed.

In 2020, work on a new Social Sustainability Loans product advanced by several important steps. Municipalities and regions, including their companies, shall be able to use these loans to foster investments for a socially sustainable society. By the end of the year, four loans had been granted, to Botkyrkabyggen AB, AB Eidar i Trollhättan, the Municipality of Botkyrka and Uppsalahem/the Municipality of Uppsala.

The Green and Social financing programmes both promote increased measurement of their effects on society, that is, following up and assessing the investment contribution from a sustainability perspective. Financing is conditional on requirements for both transparency and feedback. For Green Loans, the impact generally involves reducing or avoiding CO<sub>2</sub> emissions. For Social Sustainability Loans, it may be a matter of increased security, increased participation, improved school results or increased employment.

Contributing to a development resulting in improved governance, follow-up and assessment, as well as an increased focus on sustainable investments closely complements Kommuninvest’s basic concept. Accordingly, initiating Nordic co-operation in reporting the impact of Green Bonds has been a natural step. The guidance generated by this collaboration, *the Nordic Position Paper on Green Bonds Impact Reporting*, is in its third edition and has developed into a de facto standard for the Nordic market.

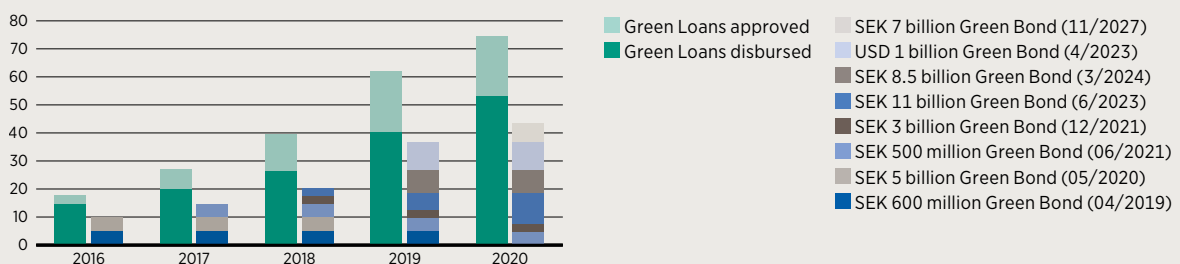
For Social Sustainability Loans, basic requirements for financing include clear targets and systematic assessments of the results. This makes sense, as research indicates that no culture exists of measuring the impacts of local government social initiatives.

In our role as the largest financier of local government investment projects, which are increasingly implemented including aspects of sustainability, we have the opportunity to contribute to development.

At the end of the year, we became members of (and thus active in) the two non-profit associations *Swedish National Advisory Board for Impact Investing* and *Effektfullt*, in efforts aimed at establishing a more uniform view on impact measurement and effects in Sweden, and increasing the accessibility and usefulness of established methods of impact measurement. Potentially, these efforts could help build learning and are deemed to be of great benefit to the members of the Society.

### Green Loans and Green Bonds

SEK bn



# Responsible operations

**A clear division of responsibilities and a focus on owner control, corporate governance and ethics shall help the Group to comply with the laws, regulations and rules applicable to the operations. Control and review activities are designed to meet the demands that can be made on a systemically important player.**

Our efforts to conduct operations responsibly build on the following circumstances:

- The clear division of responsibilities between the parent organisation and the business operations. The Society addresses membership and ownership matters, while the Company addresses business issues.
- Annual ownership directives indicate the Company's course ahead. Risk appetite is low and professional conduct, strict ethical requirements and good business practices are to permeate the operations.
- Clearly regulated requirements on matters of corporate governance, risk management and compliance, including in areas such as money laundering and anti-corruption.
- Integrated sustainability work, in terms of both direct and indirect impact. We climate compensate as a complement to our own emission reductions.
- Commitment to relevant societal issues and coordination with others, to meet stakeholder expectations and increase the effect of our efforts.

## Ethics at the fore

Both the Company's Sustainability Policy and its Code of Conduct emphasise the importance of ethical and responsible behaviour. We are to conduct financially sound and sustainable operations and shall not participate in violations of human rights or the rights of employees, nor shall we contribute to negative environmental impacts, or accept corruption. Our success depends on the trust of members, customers, counterparties, investors, employees and authorities.

Any conflicts of interest are to be identified and handled efficiently and effectively to prevent negative impacts on customers, members or the Company. With regard to tax matters, the Company's actions must be responsible, correct and transparent. The Company shall not participate in transactions or make products available that may be questionable in relation to applicable tax legislation. Where there is any doubt, the Company shall refrain from participating. Ethics shall always be taken into account.

## Anti-corruption and anti-money laundering measures

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 suspicions of corruption or money laundering were identified 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. Business travel by air, which has historically had the greatest direct impact on the climate, has gradually decreased, particularly during the corona pandemic (see graph on page 25). Efforts are in progress to reduce the impact of our office operations on the climate. In 2020, a decision was made to install solar panels on the roof and to replace roof-mounted cooling units with a district cooling-based system. This is expected to increase the energy we generate ourselves and to reduce energy consumption and noise.

## Climate compensation

We compensate for the emissions remaining following our own climate efforts. 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 are being set aside either to finance initiatives supporting the sustainability efforts of the Society's members or helping reduce Kommuninvest's own impact. To date, climate compensation funds have been used for the Group's participation in the project "Climate requirements at a reasonable cost", together with Public Housing Sweden and IVL. In 2020, the project launched 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 and cooperation

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. 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. We are also part of several initiatives aimed at promoting sustainable change, including the Viable Cities strategic innovation programme for intelligent and sustainable towns and cities.



**“ This financing form can advance efforts by municipalities and regions for a more socially sustainable society, and can increase our knowledge about which initiatives generate benefit. ”**

The gender equality initiative of Botkyrkabyggen, Qvinna i Botkyrka, which is now permanent within the operations, offers jobs, language studies, education and healthcare for women living in the company's housing.

## Targeted financing to support increased social sustainability

As Sweden's societal challenges have grown clearer, demand has increased for a financing product able to stimulate the local government sector's work with social sustainability. For this reason, in 2019 and 2020, Kommuninvest worked alongside members and customers to develop the Social Sustainability Loans product. The ambition is to support the work and investments of the municipalities and regions in terms of integration, gender equality and security, for example. Social Sustainability Loans are to finance investments that, individually or in combination with social initiatives, foster a socially sustainable society, and facilitate the achievement of social objectives.

“Two insights have guided the development process, (a) that social results are generally achieved through interpersonal or ‘soft’ initiatives, and (b) that municipalities usually only borrow money for physical investments, that is, ‘hard’ assets. We have tried to translate this into a financing product with which Kommuninvest finances the ‘hard’, physical investment but imposes requirements regarding the ‘soft’, social efforts and values,” says Björn Bergstrand, Head of Sustainability at Kommuninvest.

As certain physical investments can help promote social sustainability without being linked to specific social initiatives, it is also possible to finance a physical investment that can, in itself, qualify as a social initiative. This applies in cases where research, feasibility studies and/or proven experience show that the investment can contribute to achieving established social objectives.

During the autumn of 2020, the first loans were granted, with the leading public housing companies Botkyrkabyggen (Municipality of Botkyrka) and Eidar (Municipality of Trollhättan) as the very first borrowers. The goal is to now build up a sufficiently large lending volume and, in the longer term, to issue the first social bond.

“The Green Loans that we began offering in 2015 have proven to be in demand among members and customers, with more than SEK 70 billion being granted to date. We also have high ambitions regarding loans for social investments, although it is currently difficult to assess how rapidly these may grow. What can be ascertained, however, is that the issue of sustainability is established on the agenda, meaning progress could be much faster than any of us can imagine,” says Björn Bergstrand.

# Sustainable organisation

**Having a sustainable organisation is crucial to meeting the expectations of our stakeholders in the long term. Our high level of ambition and the insight that each employee can make a difference are what guide us in this work. Communicative leadership, committed employee collaboration and a focus on skills are essential for success.**

By “a 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.

With the corona pandemic, 2020 exposed the organisation and its employees to significant tribulations. The Company’s actions in this regard are detailed on pages 23 and 34.

## **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 2020, 39 (41) percent of the total number of employees were women. Of the managers, 35 (29) percent were women and, in the Executive Management Team, the proportion was 43 (43) percent. A defined target for the Company entails increasing the proportion of female managers. 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 2020, 13 (17) percent of the Company’s employees came from countries other than Sweden. Employees with origins in 12 (12) different countries are represented in the organisation.

## **Continuous learning to increase benefit for members**

Systematic skills supply shall safeguard appropriate capabilities being available in the right place at the right time. To a large extent, skills supply entails increasing skills among existing

personnel. During 2020, extensive skills development efforts were initiated, aimed at making the Company an even more pronounced learning organisation, continuously developing its skills in the right direction. This allows the Company to achieve its objectives and facilitates optimum benefit for members.

## **Focus on self-management**

Building on the systems support, structures and processes for learning that the Company provides, the individual employees, together with their immediate managers, bear substantial responsibility for their own development and learning. The Company works pro-actively to promote the shift in culture and behaviour needed by managers and employees alike. Key elements in this are the management and employee programmes that have been implemented, multi-year investments in leadership, employee collaboration, communication and culture.

## **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 2020 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 76 (74), 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.

## **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. Sustainable Daily Life 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 the situation at work.



## Handling of Covid-19

From the perspective of employees and the organisation, handling the corona pandemic had three principle focuses:

- Safeguarding delivery and benefit to customers and members
- Contributing to a safe working environment for employees
- Taking social responsibility and help reducing the spread of infection

The Company's crisis group was activated during the month of February, with scenario planning and crisis exercises being carried out. On March 17, working from home was introduced as standard, this measure being necessary to safeguard the Company's day-to-day operations and the safety of its employees.

Over the spring, as knowledge about the virus measures and it became clear what preventative measures would need to be undertaken, actions were taken to foster conditions for the Company to be able to perform its mission in both the short and long term. These involved both clear and frequent communications, as well as recurring employee surveys concerning health, workload and well-being.

Specific efforts were made to strengthen managers in leadership issues arising during the crisis, such as managing remotely, preventing ill health, digital culture building and facilitating cross-group interactivity, etc. Measures were also taken to ensure that it would also be as safe as possible, from a contagion perspective, to visit the offices in Örebro for the few employees who needed to spend time there. Restrictions on external visits to the offices were introduced.

As a preventive measure, working environment initiatives were also introduced, including ergonomics training, yoga and exercise during working hours, helping to assure a favourable working environment for employees working from home.

The experience gained is that the Company's digital maturity was hastened during the pandemic, with the overall capacity for change being strengthened. Once again, the Company's ability to cope with crisis situations has proven strong. Another positive consequence is that the shift in behaviour to accommodate digital skills development occurred faster than would otherwise have been the case.

# Sustainability indicators

## Environmental indicators – Kommuninvest Group

	Unit	2020	2019	2018
<b>Energy consumption</b>				
Total energy consumption (in buildings)	kWh	518,793	616,853	620,069
– of which, electricity	kWh	334,963	385,980	368,596
– of which, heating	kWh	183,830	230,873	251,473
Total CO <sub>2</sub> impact of energy consumption (in buildings)	Tonnes	119	142	138
– of which, from electricity consumption <sup>1</sup>	Tonnes	106	122	116
– of which, from heating <sup>2</sup>	Tonnes	13	20	22
Proportion of renewable energy in energy consumption of electricity	%	100	56	56
Change in electricity consumption compared to the preceding year	%	-13	5	10
Proportion of renewable energy in energy consumption for heating	%	100	95	95
Total office space	m <sup>2</sup>	2,217	2,217	2,217
Total energy consumption per square metre	kWh/m <sup>2</sup>	234	278	280
Total energy consumption per employee	kWh	5,037	6,107	6,392
<b>Resource usage</b>				
Purchased office paper	Tonnes	0.39	0.45	0.50
– of which sustainability labelled paper (PEFC) <sup>3</sup>	Tonnes	0.33	0.45	0.50
Proportion of sustainability labelled office paper, of total purchases	%	84	100	100
Total paper consumption per employee	Kg	3.8	4.5	5.2
Paper recycling, incl. purchased and delivered paper	Tonnes	1.6	2.0	2.0
CO <sub>2</sub> emissions avoided through recycling <sup>4</sup>	Tonnes	2.3	2.7	3.3
<b>Business travel</b>				
Total business travel	Km	228,922	911,699	948,470
Total business travel per employee	Km	2,223	9,027	9,778
Total air travel	Km	90,363	493,063	521,771
Rail travel in Sweden	Km	120,241	364,616	353,914
Total CO <sub>2</sub> emissions from business travel	Tonnes	43	225	242
CO <sub>2</sub> emissions from business travel, per employee <sup>5</sup>	Tonnes	0.42	2.2	2.5
<b>Total climate footprint</b>				
Total climate footprint of the operations <sup>6</sup>	Tonnes	162	367	380
Total climate footprint per employee, CO <sub>2</sub> e	Tonnes	1.6	3.6	3.9

1) The climate impact from electricity consumption, calculated applying an emissions factor for electricity of 315g CO<sub>2</sub>e/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 within Scope 2, in accordance with the Greenhouse Gas Protocol.

2) The climate impact from heating, calculated applying an emissions factor for district heating in the Municipality of Örebro of 87 g CO<sub>2</sub>e/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 within Scope 2, in accordance with the Greenhouse Gas Protocol.

3) Although the remaining quantity of office paper purchased in 2020 is environmentally friendly, it is not sustainability-labelled (PEFC).

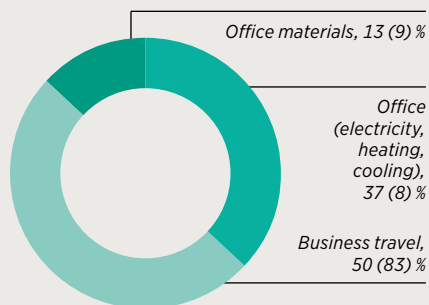
4) The emissions avoided through recycling over the year break down between 855 kg plastics, 634 kg paper, 607 kg iron, and 160 kg alternative raw materials, source: Stena Recycling. Kommuninvest does not include emissions avoided by recycling resources, as the climate impact of the purchases in question has not been calculated.

5) 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.

6) Includes CO<sub>2</sub> emissions from energy consumption, resource consumption and business travel. All emissions are included in Scope 1 and Scope 2 and emissions from business travel are included in Scope 3.

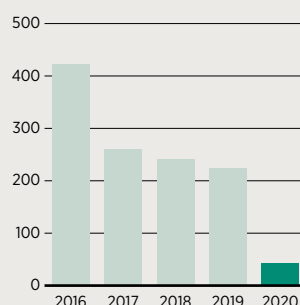


## Distribution of total climate impact



With its impact on business travel, the corona pandemic has dramatically altered the relationship between various factors' impact on Kommuninvest's overall climate footprint.

Source: Tricorona Climate Partner

CO<sub>2</sub> 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 within the operations decreased drastically over the year as a result of the corona pandemic. Business travel by air, measured in kilometres, decreased by 81 (6) percent. Train travel decreased by 67 (increased 3) percent over the year. The total carbon footprint continued to decline, amounting to 1.6 (3.6) tonnes CO<sub>2</sub>e per employee in 2020.

## Economic value generated – Kommuninvest Group

	Unit	2020	2019	2018
<b>Total revenue</b>				
Interest revenues	SEK, million	1,743.1	1,223.5	505.3
Other operating income	SEK, million	10.8	9.0	7.6
<b>Distributed value</b>				
Interest expenses	SEK, million	-1,045.6	-412.5	367.2
Commission expenses	SEK, million	-12.7	-11.3	-8.2
Salaries and emoluments	SEK, million	-76.6	-77.9	-73.9
Pension costs, training costs and other personnel costs	SEK, million	-27.6	-24.5	-23.2
Social security contributions and payroll tax on pension expenses	SEK, million	-26.8	-27.8	-26.9
Resolution fee	SEK, million	-20.9	-27.4	-69.1
Other operating expenses	SEK, million	-107.7	-106.0	-94.1
Tax	SEK, million	-2.3	-2.9	-3.7
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	355.4	717.8	969.8
<b>Efficiency</b>				
Operating expenses, excluding the resolution fee, as % of balance sheet total	%	0.045	0.050	0.052

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

## Employee statistics – Kommuninvest Group

	Unit	2020	2019	2018
Total number of employees, including those on part-time and probationary employment <sup>1</sup>	Number	116	111	104
Proportion of women/men – total	%	39/61	41/59	45/55
Proportion of women/men – all managers	%	35/65	29/71	36/64
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	103	101	97
Employment period <2 years (based on permanent employees)	%	15	17	18
Employment period 2–4 years	%	26	19	13
Employment period 5–9 years	%	32	34	40
Employment period >10 years	%	27	29	29
Personnel turnover	%	9	10	8
Participation in employee survey	%	94	95	96
Proportion of employees with university education	%	89	90	89
Proportion of employees who had development interviews	%	100	100	100
Proportion of employees who have undergone sustainability training	%	83	93	64

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 97 at the end of 2020.

# 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 2020 on pages 14-25 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

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# Board of Directors' Report

- Comparison figures relating to the income statement refer to the preceding year (1 January – 31 December 2019), unless otherwise stated. Comparative balance sheet and risk related figures relate to 31 December 2019 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 53, 55 and 57 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 14–25 of this document.

# Sustainable financing and accessible knowledge

The global corona pandemic that impacted the world over the year presented new challenges for Sweden's municipalities and regions. Although broad central government support has made a difference, the substantial investment needs and demographic challenges confronting the local government sector remain. The local government partnership that Kommuninvest represents, which enables competitive lending and access to financial expertise for efficient debt management, is more relevant than ever.

## Focus of the operations

By providing efficient financing of investments for Sweden's municipalities and regions, Kommuninvest shall contribute to sustainable welfare over the long term. Kommuninvest is owned by its members and the strong ownership structure, together with the joint and several guarantee from the members, gives it a unique position as a financial player, allowing capital to be raised cost-efficiently and stably in the financial market, thereby providing members with secure access to financing.

The sector's challenges bring an increasing need for skills in debt management as part of sound financial management. Kommuninvest shall offer products and services in this area to contribute to the entire sector's expertise in debt management. By extension, this shall provide elected representatives optimal room for manoeuvre in delivering welfare services to citizens.

Kommuninvest's assignment also includes supporting the sector's sustainability efforts, and steps were taken during the year to launch a new financial product focusing on social sustainability. Financing in this area shall promote social initiatives for increased security and safety, for example, improved housing environments or investments in health, education, sports and culture.

Over the year, Kommuninvest's efforts to digitalise and streamline the administration of loan processing reached a milestone, with the final stage, the settlement of the transaction between the parties, now also being offered as a digital service. This enables Kommuninvest's customers to complete all steps in the loan process with digital support.

During the year, Kommuninvest also launched 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, thereby constituting a strong addition to the services that Kommuninvest already offered.

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 440 billion in 2020 – an average annual increase of 13 percent over the past five years. The Company's share of the local government sector's external borrowing has increased from 47 percent to an estimated 58 percent over the same period.

Accordingly, the Company's equity has risen from SEK 6.5 billion in 2016 to SEK 8.7 billion in 2020. On 31 December 2020, the leverage ratio was 1.43 percent. For more information on the Company's leverage ratio, see page 40.

For multi-year data in table format, see page 7.

# Strong sector surpluses

**Generous central government allocations reduce needs for loan financing. In 2020, Swedish local government borrowing grew by SEK 40 billion to SEK 766 (726)<sup>1</sup> billion. Kommuninvest continues to strengthen its position, with the Company financing 58 (56) 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 investments. These investments encompass several areas of local government responsibility, including property, housing, water and sewerage, infrastructure and energy production.

In 2017 and 2018, the self-financing ratio for investments decreased, while it stabilised in 2019 and it is now expected to increase in 2020 due to the strong surpluses that were primarily a result of the general allocations from the central government announced during the year. Additionally, the effects of slightly lower growth in the tax base will not be felt until two years later, in this case in 2022, when repayments are due. This entailed decreased funding requirements in 2020, despite investment needs remaining high.

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 58 percent in 2020. Financing via the banking sector and bilateral parties has fallen to 13 (14) percent. As recently as in 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 2020, issues of local government bonds and commercial papers accounted for 29 (30) percent of the sector's funding.

During the period 2013–2020, the sector's loan debt grew by an average 7 percent while, during the same period, Kommuninvest grew by an average 11 percent.

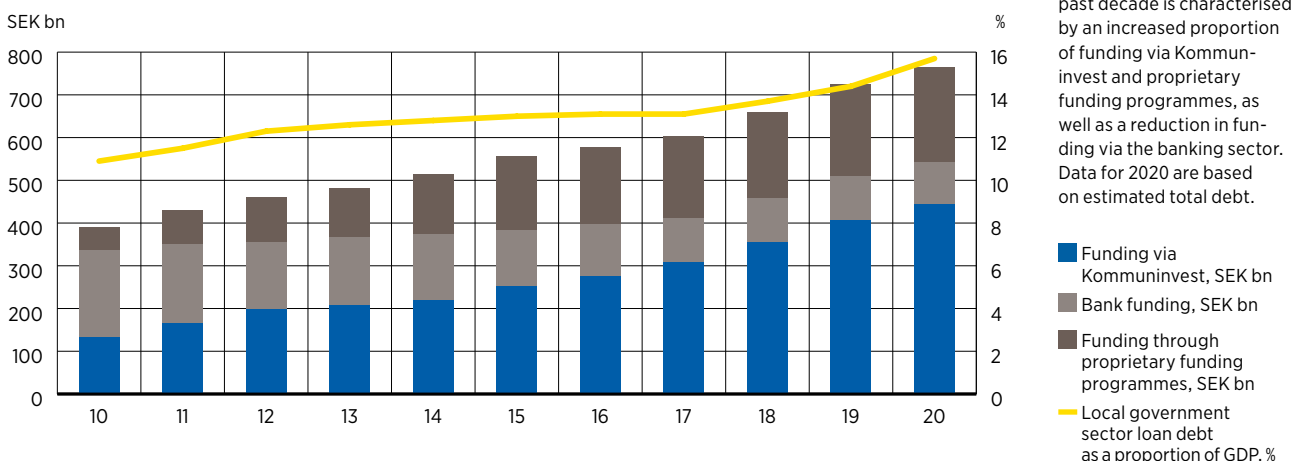
<sup>1</sup>) Forecast based on Kommuninvest's ongoing monitoring of debt and investment trends in the Swedish local government sector. At the time of publication of this Annual Report, neither the complete data for 2020, nor the municipalities' and regions' own annual reports were available. Values and shares for 2019 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 loan debt and forms of financing**  
2010–2020



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 2020 are based on estimated total debt.

# Loans that meet customers' needs

**In 2020, Kommuninvest's lending grew to SEK 442.8 (406.5) 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 2020, Kommuninvest had a total of 912 (964) 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 market players, Sweden's municipalities and regions were able to efficiently meet their funding needs in 2020. Kommuninvest offers loan products for which capital is tied up for short or long periods, at fixed or variable interest rates, as well as loans of complete or partial termination.

As a consequence of the corona pandemic, the pace of lending per week in March and April was more than twice as high as during an average week in 2019. Uncertain conditions in the bond and commercial papers market at the beginning of the crisis caused municipalities with their proprietary funding programmes to turn to Kommuninvest for their financing to a greater extent than they otherwise would. Initially, there was also a need for a slightly increased liquidity in some municipalities.

When the uncertainty in the bond and commercial papers market had subsided and the central government support packages appeared, Kommuninvest's lending returned to more normal levels. Due to the central government support packages, liquidity remained favourable among municipalities and regions, resulting in relatively low lending growth in the autumn.

At the end of the year, lending amounted to SEK 442.8 (406.5) billion in nominal terms, an increase of 9 (15) percent. Kommuninvest's competitiveness, expressed as the percentage of accepted bids, has remained strong. The acceptance rate for submitted bids was 98 (99) percent.

Of the agreed lending for the year, that is, new loans and renegotiations of existing loans, 89 (88) percent were loans with capital tied up for more than one year and 11 (12) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 26 (20) percent of volumes.

At the end of 2020, Kommuninvest's lending portfolio consisted of 49 (47) percent loans with fixed interest and 51 (53) percent loans with variable interest rates.

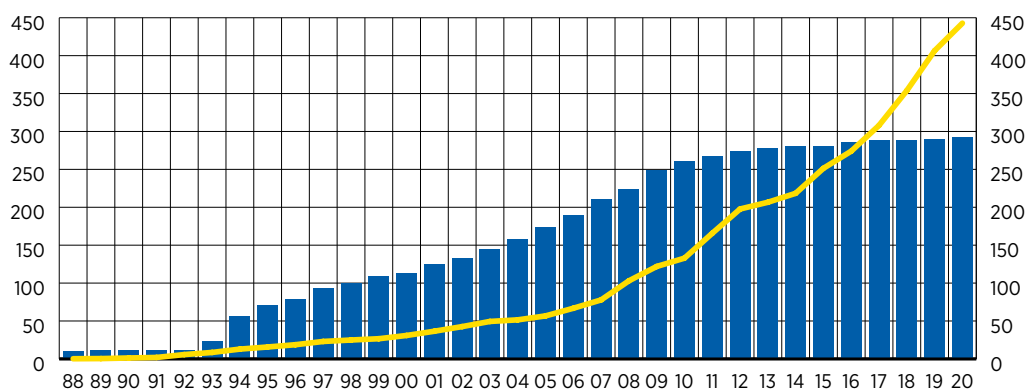
## Increased volumes of Green Loans

The volume of Green Loans granted, financing for municipal investment projects promoting the transition to low carbon emissions and sustainable growth, increased over the year. At the end of 2020, SEK 74.7 (63.1) billion in Green Loans had been granted to 431 (346) projects and to 167 (150) municipalities and regions. More information about Green Loans can be found on pages 18–19.

## Number of members and lending volume

1988–2020

Number



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.

- Number of members of the Kommuninvest Cooperative Society
- Lending (nominal value), Kommuninvest i Sverige AB



## Welfare Economists: Accurate expert advice in tough times

In June, to strengthen the analysis of how the corona pandemic is impacting the municipalities and regions, Kommuninvest initiated the independent expert group “Welfare Economists”. The pandemic has brought a tougher economic situation for the local government sector. The group is tasked with identifying, investigating and presenting recommendations regarding key issues that arise. The group includes some of the foremost experts on local government sector finance in Sweden. In the autumn of 2020, the group published two reports for the government and to the local government sector, containing eight recommendations in total. The process will be continued in the spring of 2021. These reports have broadened Kommuninvest’s knowledge base and have been well received among municipalities and regions.

The recommendations in the second report, published in November, were directly addressed to the municipalities and regions: “The local government sector’s path out of Covid-19 – three sound pieces of advice”. Despite the stresses of the pandemic, a certain scope for economic manoeuvre has been created.

This should be made use of, primarily to build long-term economic sustainability, mainly by means of efficiencies.

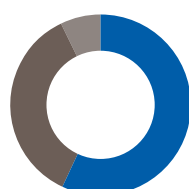
It is a matter of **keeping funds under control**. The scope that has arisen should not be used to incur unsustainable cost increases. It is a matter of **creating new approaches**. Aided by more rigorous and consistent investments in digitalisation, coordination and reduced administration, it is possible to raise quality while rationalising resource utilisation and improving the working environment. It is also a matter of **thinking long term**. Many municipalities and regions can improve their long-term financial management: by, among other things, developing their group structure, applying performance targets adapted to their specific conditions, and by more actively analysing their liquidity and cash flows. On the whole, the Welfare Economists state that the local government sector has a unique opportunity to start building economies that will be sustainable in the long term. This opportunity must be taken.

# Significant borrower with highest credit rating

**Kommuninvest borrows money in capital markets in Sweden and internationally, which funds lending to municipalities and regions. Despite considerable global concerns regarding the trend in the corona pandemic, the Company's strategic funding markets have functioned well with a favourable demand for Kommuninvest's bonds. Kommuninvest was able to fulfil its funding plans at competitive rates. At the end of the year, total funding amounted to SEK 492.9 (446.8) billion in nominal terms.**

## New funding by currency\*

2020 (2019)



■ SEK 57 (60) %  
 ■ USD 36 (32) %  
 ■ JPY 7 (8) %  
 ■ ZAR – (0) %  
 ■ MXN – (0) %  
 ■ AUD – (0) %

\*excl. commercial paper funding

## New funding by programme\*

2020 (2019)



■ Swedish Benchmark Programme 49 (52) %  
 ■ Benchmark funding, other currencies 35 (25) %  
 ■ Uridashi 7 (8) %  
 ■ Green Bonds 8 (14) %  
 ■ Private placement 1 (0) %

\*excl. commercial paper funding

## New issue procedure and good demand for Kommuninvest bonds

The Company's largest funding programme is its Swedish Benchmark Programme. During the spring of 2020, the issue procedure within the programme was developed with issues involving weekly auctions, rather than on request. The change has been received well by the capital market, with the year being characterised by favourable demand for the Company's issues.

Our strategic funding markets are the SEK, USD and EUR markets, both in terms of traditional funding and what is termed as sustainable funding. The Company also addresses a tactical market in the form of Uridashi funding from the Japanese market.

## Focus on increased benchmark funding

Over the year, funding of SEK 131.4 (135.4) 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 9.5 (11.3) billion. Funding through short-term

commercial papers, with maturities of less than one year, amounted to SEK 65.0 (35.5) billion. Previously issued funding of SEK 8.7 (19.7) billion was repurchased and SEK 129.4 (124.1) billion matured. 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.

During the year, five major funding programmes denominated in USD were implemented.

A total of SEK 68.7 (76.8) billion was issued in the Swedish Benchmark Programme with SEK 259.3 (231.0) billion outstanding at the end of the year. In 2020, one bond with a new maturity was issued, with the Swedish Benchmark Programme comprising a total of eight outstanding bonds.

During 2020, two Green Bonds were issued, meaning the Company has issued 11 green transactions since 2016. Green Bonds make it possible to finance environmentally-oriented investment projects in the Society's member municipalities and regions.

## The Riksbank acquires Kommuninvest bonds

At the end of April, the Riksbank expanded its QE programme to also include local government bonds. Over the year, the Riksbank has acquired local government bonds on 31 different occasions for a total of SEK 45 billion, of which SEK 40.7 billion involved purchases of the Company's outstanding 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 safeguard the Company's capacity to meet its commitments even in periods of stress in the financial markets, Kommuninvest maintains a liquidity reserve. Over the year, the Company demonstrated favourable liquidity preparedness, with all internal and statutory requirements being complied with by a good margin despite the market concerns associated with the corona pandemic. The reserve consists of short-term investments with high credit ratings. At year-end, the reserve amounted to SEK 59.6 (44.7) billion, equivalent to 14 (11) 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 commitments during periods of extreme financial stress. The scale of the liquidity reserve is adapted according to funding maturities, for example, and external factors, such as exchange and interest rate fluctuations. 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. Accordingly, the Company's liquidity reserve is purposefully designed to ensure preparedness under turbulent market conditions, similar to those that have characterised 2020.

## Focusing on effective and prudent asset management

In 2020, 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 sovereigns or central banks, multilateral development banks and subsidised lenders<sup>1</sup>. At the end of 2020, 95 (84) percent of the reserve was invested in securities with the highest possible creditworthiness. Also, 75 (70) 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

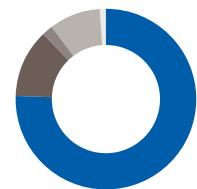
- The liquidity reserve may have a maximum average maturity of 12 months
- The maximum maturity of individual investments is 39 months.

For further information, see the Risk and capital management section on pages 37–41 or Kommuninvest's website, [www.kommuninvest.se](http://www.kommuninvest.se).

<sup>1</sup> Subsidised lenders refers to issuers of securities where exposures are treated as exposures to the national government in accordance with the CRR regulations. Among others, these include the Company's neighbour organisations in the other Nordic countries.

### Liquidity reserve distributed by country

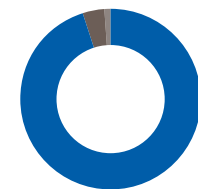
2020 (2019)



Sweden	75 (70) %
Supranationals	12 (4) %
Finland	2 (7) %
Germany	9 (11) %
UK	1 (2) %
Denmark	0 (2) %
USA	0 (4) %
Canada	0 (0) %

### Liquidity reserve distributed by rating category

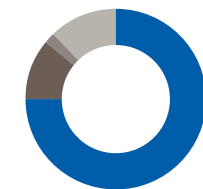
2020 (2019)



AAA	95 (84) %
AA	4 (16) %
A	1 (0) %

### Liquidity reserve distributed by issuer category

2020 (2019)



National governments or central banks	75 (41) %
Credit institutions (subsidised lenders)	11 (13) %
Credit institutions (bank balances)	2 (4) %
Multilateral development banks	12 (4) %
Credit institution investment repos	– (37) %
Regional or local governments and authorities	0 (0) %

# Digital maturity and continuous learning

**During the corona pandemic, the Company's digital maturity accelerated and the overall capacity for change strengthened. Once again, the Company's ability to cope with crisis situations has proven strong. Another positive consequence is that the shift in behaviour to accommodate digital skills development occurred faster than would otherwise have been the case.**

The corona pandemic has affected the Company in several ways. On March 17, working from home was introduced as standard, this measure being necessary to safeguard the Company's day-to-day operations and the safety of its employees. Over the spring, as knowledge about the virus increased, measures were taken to foster conditions for performing the Company's mission in both the short and long term.

To create transparency, weekly company-wide meetings have been held on a digital platform – these have involved a dialogue on health, workload and well-being, as well as addressing recurring questions on these issues. Regular management meetings have also been held to strengthen managers on matters of leadership arising during the crisis.

To ensure visiting the Örebro offices is as safe as possible from a contagion perspective, a number of measures have been taken to enable social distancing and adherence to current guidelines, in addition to the opportunity to work entirely from home. Based on roles, tasks and operational risk considerations, some employees worked from home during the autumn while others worked at the office. For preventive purposes, specific initiatives have been implemented in the area of the working environment, such as ergonomics training, yoga and exercise during working hours to facilitate a favourable working environment when working from home.

## Continuous learning to increase benefit for members

Through systematic skills supply, Kommuninvest shall safeguard appropriate capabilities being available in the right place at the right time. To a certain extent, skills supply involves recruitments, but, to a large extent, it entails increasing skills among existing personnel.

Over the past year, extensive skills development efforts were initiated, aimed at making the Company an even more pronounced learning organisation, continuously developing its skills in the right direction. Continuous learning and skills development are not really objectives in themselves, rather they are tools with which the Company can achieve its targets and provide the greatest possible benefit for its members, today and in the future. While the Company shall provide systems support, structures and processes for learning, the individual employees, together with their immediate managers, bear substantial responsibility for their own development and learning. Achieving this requires a shift in culture and behaviour among managers and employees alike, and resources are to be set aside for this over the upcoming years.

## 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. The Company considers facilitating a balance between work and private life important and applies rigorous demands on all aspects of sustainability. The Company provides tools, structures and processes that enable employees to assume considerable responsibility for their own sustainability.



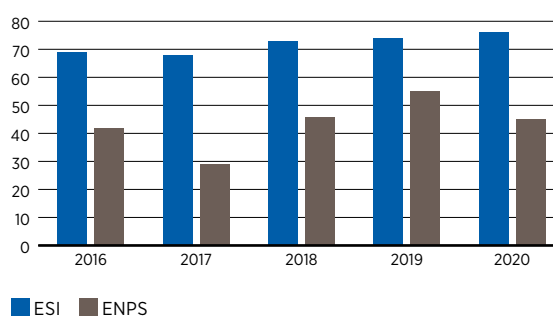
**Kommuninvest applies zero tolerance** of all forms of discrimination or harassment and works preventively on these issues. The Company endeavours to integrate equality and diversity into all areas of the Company.

## Employee survey 2020

The 2020 employee survey gave an ESI (Employee Satisfaction Index) of 76 (74). 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 2021. The ENPS (Employee-Net-Promoter-Score) decreased by ten units, from 55 to 45, which is classified as a high value with a good proportion of ambassadors and a low proportion of critics.

## Employee survey

13 March 2020



# Financial position

**At the end of 2020, equity in the Company amounted to SEK 8,704.2 (7,602.0) million, following Group contributions of SEK 225.9 (393.5) million paid to the Kommuninvest Cooperative Society. The total capital base was SEK 7,376.6 (7,418.8) million, which gave a total capital ratio of 302.5 (126.8) percent.**

At the end of the period, the total assets amounted to SEK 527,363.6 (471,320.7) million, with lending to municipalities and regions accounting for most of the assets. At the end of the year, lending amounted to SEK 445,788.8 (408,218.1) million.

## Equity

As per 31 December 2020, equity amounted to SEK 8,704.2 (7,602.0) million, following Group contributions of SEK 225.9 (393.5) 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 2021

Pending a resolution by the Society's 2021 Annual General Meeting, the Society will distribute the surplus as interest on capital contributions and as refunds for the 2020 financial year. The proposed distribution of surplus amounts to SEK 197.8 (355.4) million. To cover this, the Company has posted group contribution paid of SEK 225.9 (393.5) million in the accounts.

## Capital adequacy and leverage

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 7,376.6 (7,418.8) million, entailing a core Tier I capital ratio of 302.5 (126.8) percent. The Company's capital base consists solely of core Tier I capital and the total capital ratio also

therefore amounts to 302.5 (126.8) percent. See also Note 3.

At the end of 2020, the Company's leverage ratio, reported according to CRR, was 1.43 (1.58) percent. For further information regarding the Company's capital management, see page 39-40 and Note 3.

The leverage ratio, calculated in accordance with the new legal requirement (described on page 40), under which all lending to members and their companies is excluded from the exposure amount, amounted to 10.60 (12.29) percent. For calculations, see the section Alternative performance measurements on page 96. Accordingly, Kommuninvest meets the upcoming legal requirement in Pillar I and the Swedish Financial Supervisory Authority's preliminary assessment of a 1 percent leverage ratio in Pillar II by a good margin.

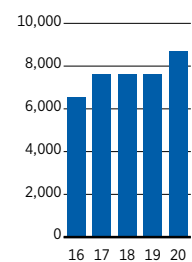
## Rating

The Company holds the highest credit ratings – AAA from S&P Global Ratings and Aaa from Moody's. In December and July 2020 respectively, 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.

Kommuninvest's "ESG ratings" are also high. The rating by the ISS-Oekom institute is B- (Prime), the rating from Sustainalytics is 9.1, that is, "Negligible ESG risk" and the rating from MSCI is AA. 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 53, 55 and 57 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

<i>The Board of Directors proposes that:</i>	SEK
Net profit	179,742,225
Profit or loss brought forward	276,600,477
<b>Total</b>	<b>456,342,702</b>

<i>Be appropriated as follows:</i>	
To be carried forward	456,342,702

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 operation in accordance with Kommuninvest's internal capital assessment policy. The total capital ratio amounted to 302.5 (126.8) percent, compared with the requirement, including buffer requirements, of 10.5 (12.5) percent. Excluding lending to members, the leverage ratio amounts to 10.6 percent, compared with the legal requirement of 3 percent introduced in June 2021.

Following the proposed distribution of profit, the capital base amounted to SEK 7,376.6 (7,418.8) million and the final minimum capital requirement to SEK 195.1 (468.1) 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.

For further information, see also Note 12.

# 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 shall apply a low level of risk-taking, with risks only being accepted to be able to fulfil the local government debt office assignment. Presented below is a comprehensive overview of the Company's targets, principles and methods for managing risk.**

## **Changes in 2020 regarding risk management and risk exposure**

In 2020, the Company implemented a new risk framework and associated risk policy. 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 and limitations in the form of owner directives, legal requirements and risk measures.

During 2020, the Company's risk work was extensively impacted by the corona pandemic. At an overarching level, the Company can be said to have coped with the crisis well. During the spring, the Company introduced weekly management and crisis group meetings, as well as company-wide meetings, to ensure efficient internal communications and fast decision-making. Information was shared regarding the market situation and developments in the Company's liquidity situation, and this was also discussed at weekly meetings of the Company's Asset and Liability Committee (ALCO). Over the year, efforts to monitor developments and the effects on our members, customers and counterparties were reinforced. These efforts have been reported on regularly in the Credit Group. Early in the spring, the Company adapted to enable employees, with few exceptions, to work from home, thereby mitigating operational risks helping decrease contagion in the community.

## **Risk profile**

Kommuninvest plays a central role in the financing of investments by Swedish municipalities and regions. The Company raises funding in the financial market on the basis of customers' needs. 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.

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 risk level may not exceed a permissible level of risk-taking for a member in accordance with the Swedish Local Government Act.

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. For an overview of the types of risks that Kommuninvest regularly manages and assesses, see page 41. 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, risk appetite indicators or other measures are applied.

## **Risk policy**

The Company's attitude towards risk is set out in the Board of Directors' risk declaration, which is part of the Board of Directors' risk policy. The risk declaration is divided into four areas of limitation (pillars): equity, net profit, liquidity and confidence. Each of the pillars has an established qualitative risk appetite against which all risk is measured. The risk appetites 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. 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.

## **Equity**

The Company's Board of Directors has determined that the Company's capital base shall cover the Company's internally estimated capital requirements or the regulatory capital requirement, whichever is highest, by a margin. This margin takes into account a number of uncertainty factors that may adversely affect the Company's capital ratios, such as stronger growth in lending than forecast. 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).

Risk declaration				
<b>RISK DECLARATION</b>	The Company's level of risk-taking shall be low. Risks shall be accepted only to be able to fulfil the mission as local government debt office. Other risks are to be eliminated. The risks that are accepted must be clarified, limited and continuously assessed. A sound risk culture safeguards the Company's low risk profile.			
<b>PILLAR</b>	<b>EQUITY</b>	<b>NET PROFIT</b>	<b>LIQUIDITY</b>	<b>CONFIDENCE</b>
<b>RISK APPETITE</b>	The Company shall maintain a favourable capital situation to be able to meet both the members' financing needs, as well as regulatory requirements. This is achieved through foresight, capital planning and risk management.	The Company shall achieve an operating income covering the Society's costs and interest on the owners' share capital. This is achieved through good cost control, sufficient lending margins and fees. The Company has no vested interest in generating a profit.	The Company shall meet the members' financing needs. This is achieved through good planning, diversified funding, maturity matching, efficient security management and a highly liquid reserve.	The Company shall maintain a high degree of trust among employees, customers, members and other stakeholders. This is safeguarded by means of a sound risk culture based on local government values, regulatory compliance and good internal governance and control.

**Net profit**

The Company has no vested interest in generating profit. Its purpose is to provide economic benefit to members and, following any necessary consolidation, profits accrue to the members. Pricing is based instead on the requirements for financial results stated in the ownership directives. These requirements mean that the margin between funding and lending rates must be sufficient to cover the operating costs of the Company and the Society. The margin shall also provide an opportunity for a return on members' contribution capital.

**Liquidity**

The purpose of the Company's liquidity operations is to meet known and forecast liquidity needs. Liquidity preparedness shall also be favourable, both under normal market conditions and during periods of stressed liquidity. Liquidity management is designed to safeguard the Company's capacity to meet all of its payment commitments on time, without significant additional costs, and to ensure that liquidity is sufficient to be able to extend existing loans. This is ensured through sufficient diversification of funding sources, taking into account the number and types of counterparties, types of financial instruments, maturities, currencies and geographic markets.

**Confidence**

The Company's business concept builds on society and actors in the finance market perceiving the Company as a "stable, efficient and knowledgeable player", whose role as a local government debt office benefiting society provides the Swedish local government sector the most efficient financial management possible, focusing on financing. The Company's efforts to build confidence in the operations build on a risk culture founded on the values of local government, regulatory compliance and good internal governance and control.

**Risk organisation**

The overall responsibility for the Company's risk framework lies with the Company's CRO. The manager of each individual area of operations is responsible for risk management and control within those operations. Forward-looking and histor-

ical 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 and 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.

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 on page 39.

**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 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. It is also responsible for ensuring that all relevant information is available to the Board of Directors and the Management when making decisions on risk policy, risk appetites and risk appetite indicators.

**Compliance**

The Company's compliance function is an independent control and support function 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 Company's internal regulations. The internal auditor reports to the Board of Directors and the CEO on an ongoing basis. 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 management**

To keep the operations within the established risk appetite, risk appetite indicators or other measures are applied, limiting the Company's risks. The risk appetite indicators are quantitative and designed to support the established risk appetite within each pillar. The level of the risk appetite indicators are dependent on both Company-specific factors (financial position, strategic targets, legal requirements, risk exposure, etc.), as well as on expected market conditions.

Risk appetite indicators may be determined by the Board of Directors, the CEO, the CRO and/or others responsible (referred to as "risk owners") and constitute the various limits within the Company's risk framework.

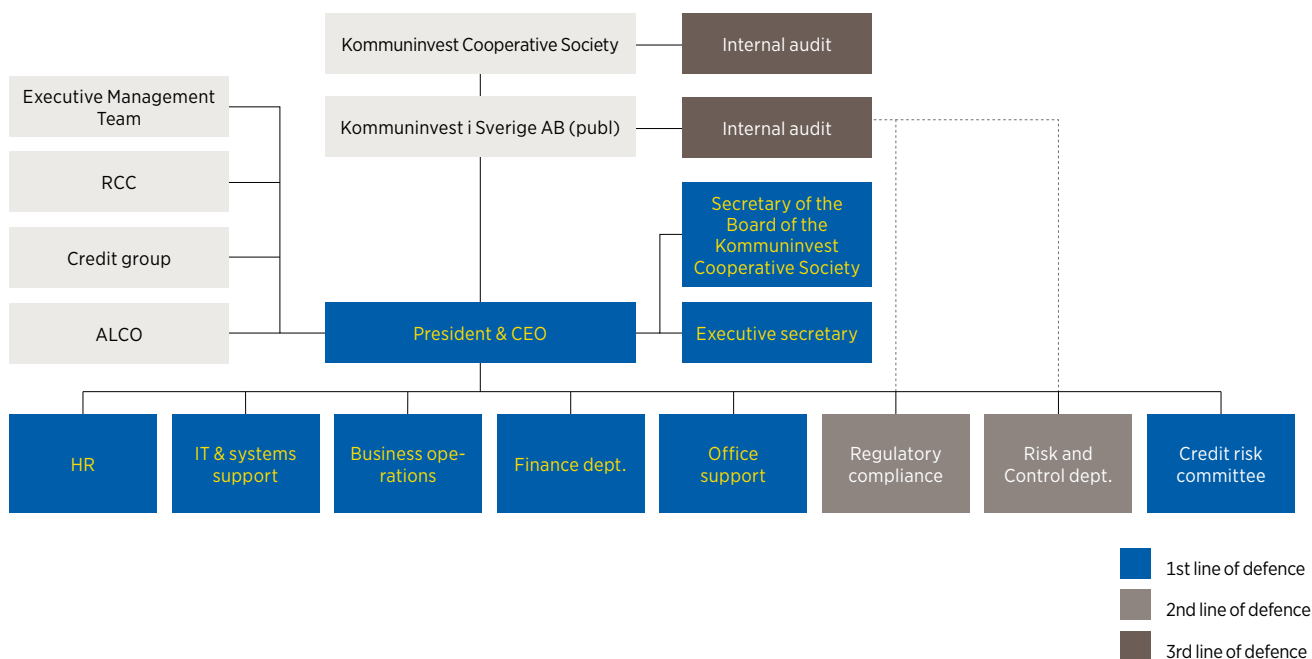
In the Company's risk management, the qualitative risk appetites are connected to risk categories. Risks are categorised with the purpose of connecting the risk declaration and the quantitative risk appetites with the generally accepted risk taxonomy. The risk categories also symbolise different areas of responsibility within the Company. The connection is based on the pillars that potential risk would primarily affect if realised. The overarching risk categories managed by the Company are credit risk, market risk, liquidity risk, operational risk, strategic risk, regulatory compliance risk, stakeholder risk and sustainability risk. The Risk categories diagram on page 41 defines all of the risk categories managed by the Company. A detailed description of how the Company handles each risk can be found in Note 3.

**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).

**Organisational chart with the operations' three lines of defence**



***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. The Annual General Meeting of the Society in April 2020 adopted amended Articles of Association and a new plan for Kommuninvest's build-up of capital, which is based on a forecast of Kommuninvest's lending to members. According to the amended statutes and adopted capital plan, members' contribution capital to the Society will increase by about SEK 5 billion over the next four years, with members gradually paying a higher contribution per inhabitant up until 2024 – from SEK 900 per inhabitant in 2020 to SEK 1,300 per inhabitant in 2024. In accordance with another resolution, the time-limited debenture loan issued by the Society in 2010 was wound up during the second half of the year, as debenture loans of this type may no longer be included in the capital base.

***Capitalisation 2020***

In December, the Society strengthened the Company's capital by SEK 1,100.0 million, with this being reported as a new share issue in progress. As approval has yet to be obtained from the Swedish Financial Supervisory Authority (Finansinspektionen), the amount is not included in the capital base. Approval is expected during the first quarter of 2021.

***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, and 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 evaluation 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.

Due to the corona pandemic, the Company also conducted an additional update of its ICLA in the spring. The Company is well capitalised to withstand the operations' risks, with capital ratios exceeding the prescribed minimum requirements in Pillar I and the basic requirements in Pillar II by a good margin.

***Leverage ratio***

Effective 28 June 2021, the new capital requirement measure, leverage ratio, will be applied within the EU. The leverage ratio is defined as the Tier I capital divided by total exposures in assets and commitments and the requirement is set at 3 percent.

The leverage ratio will be directly applicable to Kommuninvest via the supervisory regulation (EU) 2019/876 of 20 May 2019, and 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, all of the criteria to be defined as a PDCI have been met. 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. Accordingly, under the rules for a PDCI, Kommuninvest meets the leverage requirement of 3 percent by a good margin. On 12 December 2020, the Company's leverage ratio was 10.60 (12.29) percent.

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 I. The capital requirement to counter the risk of an insufficient leverage ratio is addressed in Pillar II 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.

***New regulations as of 2021***

On 20 November 2020, the Swedish Financial Supervisory Authority (Finansinspektionen) announced its adoption of an amended application of the capital requirements for Swedish banks to adapt these requirements to the EU's "bank packages". This entails, for example, the introduction of a gross leverage requirement, which, in addition to the minimum requirement of 3 percent of the exposure amount, may also include an institution-specific special gross leverage requirement within the framework of Pillar II. This requirement is intended to cover the risk of a low leverage ratio. Guidance on the leverage ratio is also to be introduced to cover risks other than the risk of a low leverage ratio.

As Kommuninvest does not currently know what the gross leverage requirement to be introduced by the Swedish Financial Supervisory Authority will be, it is applying, for the time being, the institution-specific Pillar II requirements to which it is currently held to cover the risk of a low leverage ratio.



## Kommuninvest's risk management in brief

PILLAR	RISK CATEGORY	RISK DEFINITION
EQUITY	Strategic capital risk	The risk of inappropriate operational planning and the Company's role in its capital planning.
	Credit market risk	The risk of loss or a negative effect on the Company's income as a result of changes in basis or credit spreads.
NET PROFIT	Issuer risk	The risk that the issuer of a security fails to repay its full undertaking on maturity.
	Counterparty risk	The risk of a counterparty in derivative contracts failing prior to the final settlement of cash flows. The risk also includes potential concentrations among individual counterparties.
	Other price risks	The risk that a change in the pricing situation of underlying assets, such as shares, share indexes or raw materials indexes, will affect values of assets and liabilities negatively.
	Interest rate risk	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.
	Foreign exchange risk	The risk of a negative effect on the Company's income as a result of exchange rate fluctuations.
LIQUIDITY	Liquidity risk	The risk of not meeting a payment commitment on the due date.
	Structural liquidity risk	The risk of the Company not having financed its long-term commitments in advance.
	Local government debt office liquidity risk	The risk of having to disapprove financing to a member.
CONFIDENCE	Operational risks - Personnel risk - Process risk - IT and systems risk - External risk	The risk of losses resulting from inadequate or failed internal processes or routines, human error, incorrect systems or external events, including legal risks.
	Stakeholder risk	The risk of a ratings agency, customer, member, employee, investor, mass media organisation, national assembly, central government or other stakeholder losing confidence in the Company and its business concept.
	Sustainability risk	The risk of the Company directly or indirectly negatively affecting or being affected in the areas of the environment and climate, corruption, human rights, working conditions or business ethics.
	Risk in credit provision	The risk that a credit counterparty is unable to meet its obligations.
	Compliance risk	The risk of the Company failing to comply with current external or internal regulations and thereby risking being sanctioned, suffering losses or impairment or loss of reputation.
	Strategic risk	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.

In September 2020, the Swedish Government, together with the Centre Party and the Liberal Party, presented a proposed risk tax for banks and other credit institutions, which, if implemented without any exemption, would result in an additional expense of approximately SEK 330 million for Kommuninvest in 2022 and of at least SEK 385 million annually from 2023 onwards. In statements including a consultation response formulated together with SALAR, Kommuninvest has argued for an exemption for PDCI, whose debts and commitments are guaranteed by the public sector.

Were no exception to be implemented, Kommuninvest would be forced to raise its lending rates. At the end of the year, it remained unclear how the government would choose to proceed with the matter.

**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](http://www.kommuninvest.se)

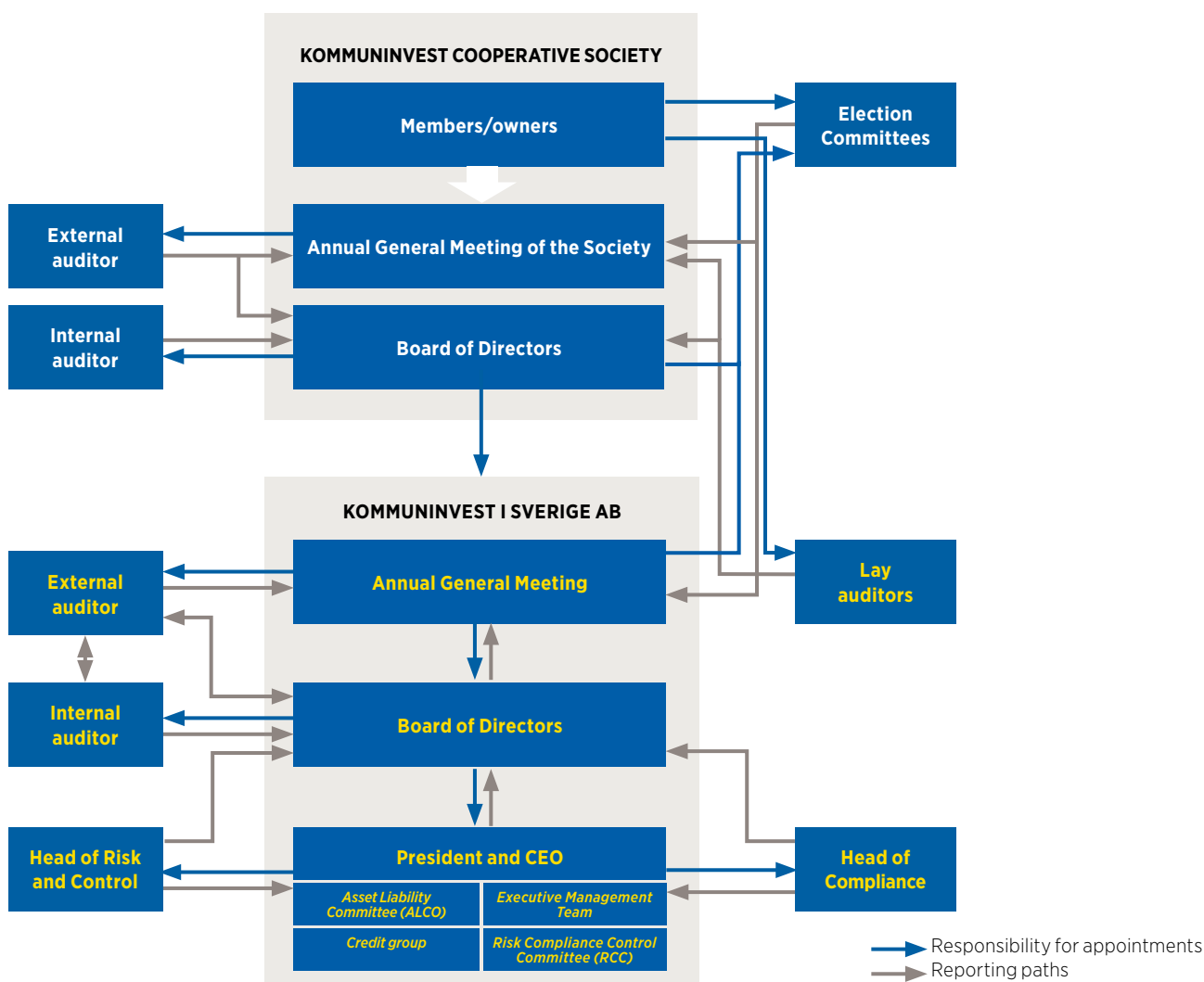
# Focus on governance and control

**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 shall adhere to the Banking and Financing Business Act and the general advice and regulations issued by the Swedish Financial Supervisory Authority (Finansinspektionen) 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.

### 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. The Company is not deemed to require a specific Remunerations 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.

### More information about Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website [www.kommuninvest.se/en](http://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.

Accordingly, 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.

### Audit Committee

Within the Company, the tasks of an Audit Committee are performed by the full Board of Directors. In 2020, the Audit Committee met on four occasions. The matters addressed included: a risk control of the 2019 annual financial statements and the 2020 interim financial statements, including the external auditors' Review Report, reports by the internal audit, the internal audit's annual plan for 2021, the external audit's review of the operating activities, the risk policy, the annual risk and control report, as well as the operations plan and budget for 2021.

### 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 in Gothenburg and on line on 16 April 2020, in immediate connection with the Annual General meeting of the Society.

The Annual General Meeting of the Company approved the 2019 Annual Report 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.

At the Annual General Meeting, Johan Törngren stepped down as a regular Board Member and Catrina Ingelstam was elected as a new regular member. The remaining ordinary Board Members were re-elected. 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.

### 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

**Election Committee of the companies owned by the Society 2020/2021**

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 Staffanstorps

Further information on the Election Committee, including its complete formal work plan, is available at [www.kommuninvest.se/en](http://www.kommuninvest.se/en).

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 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.

**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 policy.

**CEO**

The Board of Directors has adopted a set of instructions for the President and CEO, detailing his tasks and responsibilities. The CEO 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 responsible for appropriate systems and procedures being in place for reporting the financial situation and position to the Board of Directors. The President is also responsible for operations being conducted in adherence with current regulations and for determining guidelines and instructions regarding the various risks incurred in the operations.

**Board members**

As per 31 December 2020, the Company's Board of Directors consisted of Ellen Bramness Arvidsson (Chairman), Kurt Eliasson, Lars Heikensten, Erik Langby, Kristina Sundin Jonsson, Catrina Ingelstam, as well as employee representatives Mattias Bokenblom and Kristin Ekblad. Kristin Ekblad was appointed as an employee representative in March and Anna von Knorring resigned as a regular Board Member in October 2020. The members are presented on pages 45–46.

**Remunerations**

For 2020, the Annual General Meeting approved a fixed fee of TSEK 600 (550) for the Chairman of the Board. For the other Board Members, a fixed fee of TSEK 330 (300) was set.

The fees paid to Board Members totalled TSEK 2,430 (2,350) for 2020. No fee was paid to the employee representatives. The combined fees are detailed in the table on page 45.

**Work of the Board of Directors in 2020**

In 2020, the Board of Directors held 7 (7) ordinary meetings, two (zero) extra meetings and 1 (1) inaugural meeting. Due to the corona pandemic, all meetings of the Board of Directors have been conducted digitally since March 2020. 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 funding programmes
- Counterparty limits
- Employee survey
- Valuation principles
- Digitalisation and automation
- Establishment of expert group Welfare Economists
- Social sustainability loans
- Review of counterparties
- Annual Report and interim reports

# Board of Directors of Kommuninvest i Sverige AB



## ELLEN BRAMNESS ARVIDSSON

*Executive Director of Strategy and International Affairs, Finans Norge*

**Elected:** Chairman since 2013. Vice Chairman from 2006 to 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 State Secretary, Ministry of Finance.

**Other assignments:** Chairman, Norske Finansielle Referanser AS.



## KURT ELIASSON

*Consultant*

**Elected:** Member since 2010.

**Education:** Real Estate Agent Diploma, SSE Executive Education.

**Previous positions:** Chairman of the Committee for modern building rules The Swedish Government Office, 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, Board Member Göteborg & Co (City of Gothenburg)



## CATRINA INGELSTAM

*Own consulting business Creatme AB*

**Elected:** Member since 2020.

**Education:** Master of Science in Business and Economics, Stockholm University.

**Previous positions:** Acting CEO Svensk Handel Fondförskring AB CFO Dina Försäkringar, Internal Audit Manager Folksam Sak, CFO Folksam Group, Head of Product Development AMF Pension, Head of Administration AMF Fonder, Head of Division Fond/Finance Premium Pension Authority (PPM), Business Manager Equity Trading SkandiaBanken, Authorized Public Accountant EY, Board member (member of the Risk and Audit Committee) Sparbanken Sjuhärad AB, Board member (member of the Risk- and Capital Committee) KPA Pension, a number of assignments/board assignments in the financial sector.

**Other assignments:** Chairman (Chairman Sustainability Committee) Sixth AP Fund, Board member (Chairman of the Audit Committee) Swedfund International AB, Board member (Chairman of the Audit Committee, Board Member Remuneration Committee) Orio AB, Board member Spiltan Fonder AB, Board member Landstingens Ömsesidiga Försäkringsbolag (LÖF).



## ERIK LANGBY

*Consultant*

**Elected:** Member since 2015.

**Education:** 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:** Member SALAR International AB, Board Member Atrium Ljungberg AB, Chairman NackaStrandsMässan 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 2020	Remuneration 2020, SEK	Remuneration 2019, SEK
Ellen Bramness Arvidsson	Independent	10 (of 10)	585,417	550,000
Kurt Eliasson	Independent	10 (of 10)	321,250	300,000
Catrina Ingelstam	Independent, appointed in April 2020	8 (of 8)	233,750	–
Erik Langby	Independent	10 (of 10)	321,250	300,000
Lars Heikensten	Independent	9 (of 10)	321,250	300,000
Johan Törngren	Independent, stepped down in April 2020	2 (of 2)	87,500	300,000
Kristina Sundin Jonsson	Independent	10 (of 10)	321,250	300,000
Anna von Knorring	Independent, stepped down in October 2020	7 (of 7)	238,750	300,000
Mattias Bokenblom	Employee representative	10 (of 10)	Not remunerated	Not remunerated
Kristin Ekblad	Employee representative, newly elected March 2020	8 (of 8)	Not remunerated	Not remunerated

# Board of Directors of Kommuninvest i Sverige AB



## LARS HEIKENSTEN

President, Nobel Foundation

**Elected:** Member since 2016.

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

### Previous positions:

Member of the European Court of Auditors, Governor of the Riksbank, Board Member, Bank of International Settlement (BIS) and the ECB's general council, Chief Economist at Handelsbanken and Financial and head of the finance department at the Swedish Ministry of Finance.

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



## KRISTINA SUNDIN JONSSON

Chief Administrator, Municipality of Skellefteå, President Skellefteå Stadshus AB

**Elected:** Member since 2018.

**Education:** Bachelor in Business Administration, Umeå University.

### Previous positions:

Authorised Public Accountant, KPMG AB, CFO Skelleftebostäder AB, expert in the 112 inquiry.

**Other assignments:** Chairman of the Association of Local Government Chief Administrative Officers, Board Member of Inera AB, delegate in the Västerbotten County Delegation on Gender Equality, Board Member of Mistra Carbon Exit, Mistra research programme.



## MATTIAS BOKENBLOM

Employee representative

**Elected:** Member since 2019.

**Education:** Licentiate degree in economics, Örebro University.

**Position at Kommuninvest:** Change leader.

### Other assignments:

Chairman of the local union.



## KRISTIN EKBLAD

Employee representative

**Elected:** Member since 2020.

**Education:** PhD in economics, Örebro University.

**Position at Kommuninvest:** Head of Business Analysis.

## AUDITORS FOR KOMMUNINVEST I SVERIGE AB

The Annual General Meeting of the Kommuninvest Cooperative Society 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 Society is also the appointed external auditor for the Company and Kommuninvest Fastighets AB. The purpose is to obtain more efficient auditing for the Group.

### External auditor

At the Society's 2020 Annual General Meeting, KPMG AB was appointed as the auditing company for the period extending until the end of the Annual General Meeting in 2024. KPMG AB has appointed authorised public accountant Anders Tagde as chief auditor. The auditor with overall responsibility meets the Board of Directors at least twice 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 Society 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 Society. Where necessary, the lay auditors can initiate auditing measures additional to the normal statutory audit. At the 2020 Annual General Meeting of the Society, the following lay auditors for the Society were appointed for the period extending until the end of the 2024 Annual General Meeting: Anki Svensson (M), Municipality of Tyresö (re-elected) and Ambjörn Hardenstedt (S), Municipality of Svedala (newly elected). Barbro Hassel (S), Municipality of Skara, stepped down. The same individuals appointed as lay auditors for the Society were previously appointed as lay auditors for the Group as a whole. The 2020 Annual General Meeting of the Society resolved that the assignment of the lay auditors should focus solely on reviewing the Society and its operations.

# Executive Management Team

## Management of Kommuninvest i Sverige AB

The President and CEO of the Company 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's tasks include providing the Board of Directors with the necessary information and materials on which to base decisions.

The CEO is supported by the Executive Management Team. On 31 December 2020, in addition to the President and 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 AND 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 AND COO**

**Utbildning:** 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.

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

Name	Year	Basic salary	Benefits	Variable pay	Pension expense	Total, SEK
Tomas Werngren	2020	3,443,295	116,340	-	1,086,885	4,646,520
	2019	3,113,890	89,860	-	971,044	4,174,794
Maria Viimne	2020	2,181,037	-	-	699,059	2,880,096
	2019	2,119,147	-	-	679,339	2,798,486
Other Executive Management Team	2020	6,507,750	4,346	-	2,203,612	8,715,708
	2019	5,844,803	17,525	-	1,726,733	7,589,061
Employees who have a material impact on the Company's risk profile <sup>1</sup>	2020	21,447,914	12,800	-	5,606,080	27,096,794
	2019	24,207,520	62,229	-	5,857,800	30,127,549

1) In addition to the Executive Management Team. This group comprises 26 (31) employees with the following positions: Head of Communications, Head of Funding and Debt Management, Head of Lending, Customer Relationship Managers, Head of Operational Control and Analysis, Head of Accounting, Chief Liaison with the Society, Head of Sustainability, Chief Legal Officer and Head of Compliance.

# 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, a good capacity to comply with external and internal regulations and the Company being afforded considerable trust in developing the quality and efficiency of its operations in line with demand from its owners and customers.

## 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 apply data and resources 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.

## Targets and strategies

Long-term objectives and strategies for the operations are formulated in an annual strategic operations plan. In line with the strategic course that has been set, initiatives are prioritised and implemented within the framework of the active operations plan targeting the operational objectives.

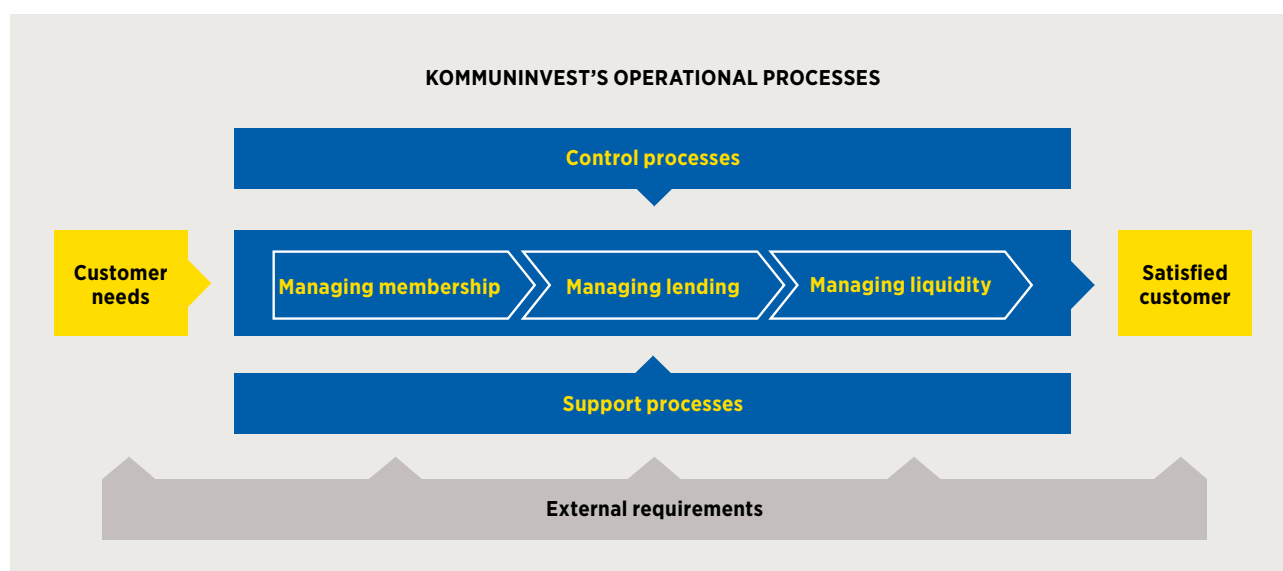
## Risk management

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 37–41.

## 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





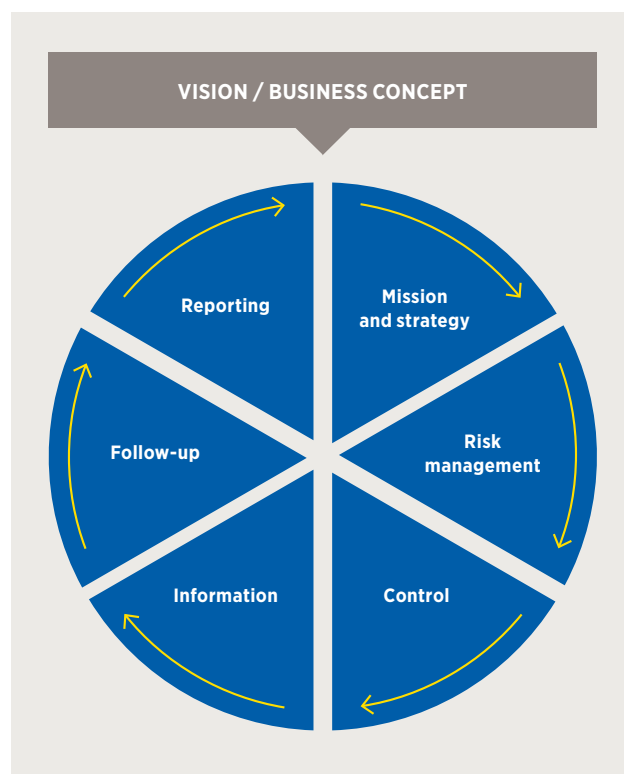
The Company's organisation also forms part of the formal control environment and is divided into three lines of defence as described below. Checks are performed in the Company's first and second lines of defence. In the third line of defence, reviews are conducted by the internal audit.

1. *The first line of defence* lies in 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.

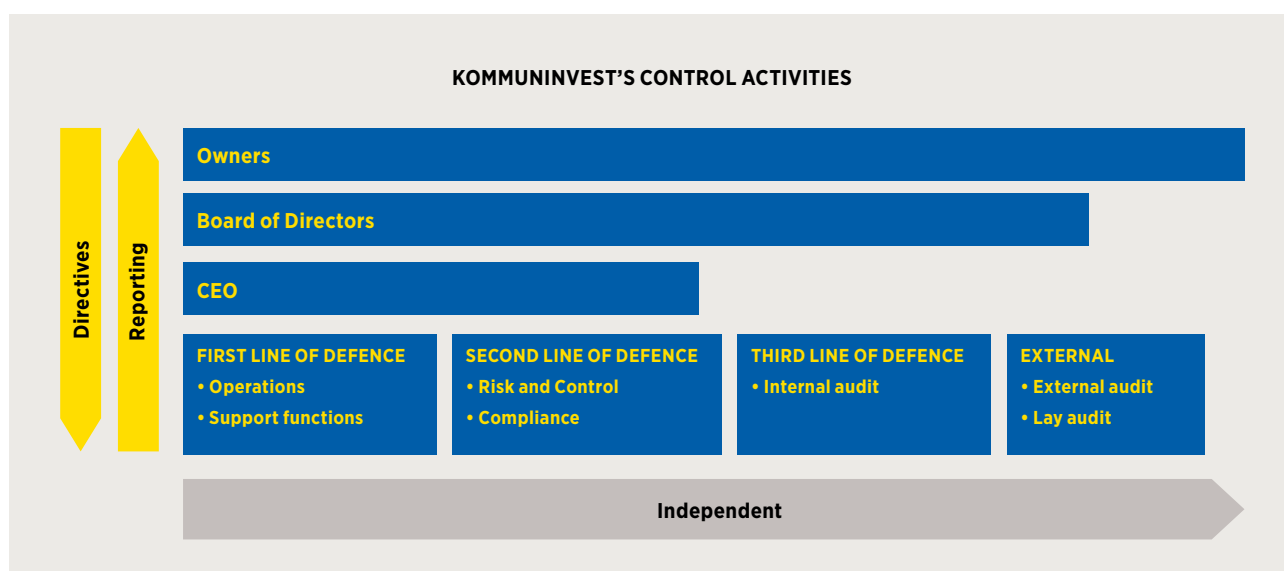
**Information and communication**

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.



**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.



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# Financial statements

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# Income statement

1 January – 31 December

SEK, million	Note	2020	2019
Interest revenues calculated according to effective interest method		1,741.9	1,198.9
Other interest revenues		1.2	24.6
Interest expenses calculated according to effective interest method		-973.0	-241.0
Other interest expenses		-58.8	-155.0
<b>NET INTEREST INCOME</b>	4	<b>711.3</b>	<b>827.5</b>
Dividends received		1.9	2.4
Commission expenses	5	-12.7	-11.3
Net result of financial transactions	6	-247.7	-201.5
<i>of which, derecognised assets measured at amortised cost</i>		0.2	3.3
Other operating income	7	11.6	9.3
<b>TOTAL OPERATING INCOME</b>		<b>464.4</b>	<b>626.4</b>
General administration expenses	8	-240.2	-236.2
Depreciation and impairment of intangible assets	18	-1.1	-4.4
Depreciation and impairment of tangible assets	19	-2.3	-2.3
Other operating expenses	9	-3.9	-4.0
<b>TOTAL EXPENSES</b>		<b>-247.5</b>	<b>-246.9</b>
<b>PROFIT BEFORE CREDIT LOSSES</b>		<b>216.9</b>	<b>379.5</b>
Net credit losses	10	11.1	12.6
<b>OPERATING PROFIT</b>		<b>228.0</b>	<b>392.1</b>
Tax	11	-48.3	-84.2
<b>NET PROFIT</b>	12	<b>179.7</b>	<b>307.9</b>

# Statement of comprehensive income

1 January – 31 December

SEK, million	2020	2019
<b>NET PROFIT</b>	<b>179.7</b>	<b>307.9</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>179.7</b>	<b>307.9</b>

## Comments on the income statement

### Net interest income

Net interest income amounted to SEK 711.3 (827.5) million and was thus lower than the preceding year. The decrease is due to a large part of the loans maturing during the year having been agreed before May 2018, when the ownership directive required a higher margin between funding and lending rates than it does today. When these loans mature and are replaced by loans with a lower margin, net interest income decreases.

The increased lending volumes have partly offset the decline in net interest income resulting from the reduced margins. During parts of the year, net interest income was also affected negatively by the interest income from the liquidity reserve being lower than the interest costs for the funding that finances it.

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 a negative SEK 247.7 (201.5) million. The result is mainly explained by unrealised changes in market value of a negative SEK 245.3 (193.9) 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 at the beginning of the year have decreased as contracts have approached maturity.

Another factor having an effect is that, relatively speaking, funding in USD has become more advantageous than funding directly in SEK. Since the liabilities only include foreign currency funding reported at fair value, this has entailed an increase in the margin between the Company's funding and lending expenses on the instruments that are marked to market. For further information, see Note 6.

### Expenses

Total expenses amounted to SEK 247.5 (246.9) million, including the resolution fee of SEK 20.9 (27.4) million. Excluding the resolution fee, expenses amounted to SEK 226.6 (219.5) million, of which payroll expenses accounted for SEK 128.3 (127.1) mil-

lion and other expenses for SEK 98.3 (92.4) million. Payroll expenses decreased by approximately SEK 2.3 million in 2020 compared with 2019 due to training and internal meetings being affected by the corona pandemic.

The increase in other expenses is mainly explained by the upgrade of the financial administration system conducted every two years (SEK 4.5 million) and the upgrade of the Company's CRM system (SEK 1.5 million). Expenses for travel and premises reduced other costs by approximately SEK 3 million compared with 2019 as a consequence of the general situation in society in 2020.

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 2020 has been set by the Swedish National Debt Office at SEK 20.9 (27.4) million. The Company's wholly-owned subsidiary, Kommuninvest Fastighets AB, provided a group contribution of SEK 1.9 (2.4) million in 2020. 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.

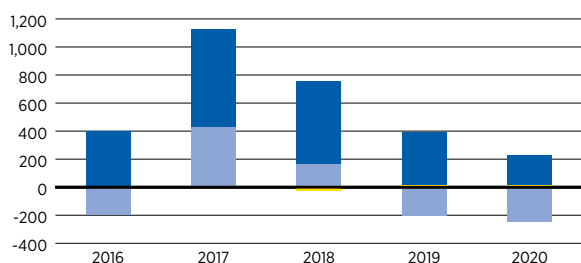
### Net profit

Kommuninvest's operating profit, its profit before tax, amounted to SEK 228.0 (392.1) million. Operating profit includes unrealised negative changes in market value of SEK 245.3 (193.9) million and net credit losses of SEK 11.1 (12.6) million. Excluding unrealised changes in market value and expected credit gains (rather than expected credit losses), Kommuninvest's operating profit amounted to SEK 462.2 (573.4) million – for additional details, see Alternative performance measurements on page 96.

The tax expense for the year recognised in the income statement amounted to SEK 48.3 (84.2) 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 179.7 (307.9) million.

### Operating profit before tax

SEK, million

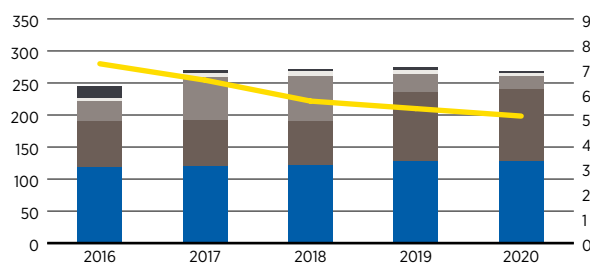


■ Operating profit before tax  
 ■ Portion of profit attributable to unrealised changes in market value  
 ■ Portion of profit attributable to credit losses, net

### Distribution of expenses

SEK, million

Basis points



■ Payroll expenses  
 ■ Other administration expenses  
 ■ Resolution fee/stability fee¹  
 ■ Operating expenses excl. resolution fee/stability fee in relation to lending volume, basis points  
 ■ Depreciation and impairment of tangible and intangible assets  
 ■ Other operating expenses

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

# Balance sheet

As per 31 December

SEK, million	Note	2020	2019
<b>ASSETS</b>			
Cash and balances with central banks	3	18,931.2	811.1
Sovereign bonds eligible as collateral	3, 13	28,035.2	17,686.3
Lending to credit institutions	3	1,669.6	21,917.2
Lending	3, 14	445,788.8	408,218.1
Change in value of interest-hedged item in portfolio hedging		33.9	-
Bonds and other interest-bearing securities	3, 15	13,822.9	7,722.6
Shares and participations in subsidiaries	16	42.0	42.0
Derivatives	3, 17, 26	2,429.4	11,967.0
Intangible assets	18	30.7	21.4
Tangible assets	19	6.8	7.1
Current tax assets		79.0	79.0
Other assets	20	16,474.5	2,828.9
Prepaid expenses and accrued revenue		19.6	20.0
<b>TOTAL ASSETS</b>		<b>527,363.6</b>	<b>471,320.7</b>
<b>LIABILITIES, PROVISIONS AND EQUITY</b>			
<b>Liabilities and provisions</b>			
Liabilities to credit institutions	3	947.0	4,027.7
Securities issued	3	498,305.9	446,763.0
Derivatives	3, 17, 26	18,977.6	3,484.5
Change in value of interest-hedged item in portfolio hedging	17	-	0.7
Other liabilities	21	382.3	9,400.6
Accrued expenses and prepaid revenues		46.6	42.1
Provisions	22	0.0	0.1
<b>Total liabilities and provisions</b>		<b>518,659.4</b>	<b>463,718.7</b>
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		7,100.0	7,100.0
New share issue in progress		1,100.0	-
Development expenditure reserve		30.4	21.1
Statutory reserve		17.5	17.5
<b>Unrestricted equity</b>			
Profit or loss brought forward		276.6	155.5
Net profit	12	179.7	307.9
<b>Total equity</b>		<b>8,704.2</b>	<b>7,602.0</b>
<b>TOTAL LIABILITIES, PROVISIONS AND EQUITY</b>		<b>527,363.6</b>	<b>471,320.7</b>

## Comments on the balance sheet

### Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 527,363.6 (471,320.7) million, with lending to municipalities and regions accounting for most of the assets. Lending amounted to a recognised value of SEK 445,788.8 (408,218.1) 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. During the second half of the year, the growth rate in lending was slowed by the temporarily strengthened liquidity among members as an effect of contributions from the central government, see pages 29–30. In nominal terms, lending amounted to SEK 442,840.6 (406,511.1) 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, increased to SEK 62,458.9 (48,137.2) million. Derivative assets (derivatives with positive market value) decreased to SEK 2,429.4 (11,967.0) million. The value of derivative assets depends primarily on the SEK/USD exchange rate, which affects the value of the currency swaps used to hedge the currency risks incurred through the Company's funding in USD. Towards the end of the year, the SEK strengthened, causing negative values among the vast majority of currency swaps. Other assets amounted to SEK 16,474.5 (2828.9) million. Other assets consist primarily of SEK 16,460.3 (2,807.6) million in pledged collateral. The same reason for the decrease in derivative assets also caused pledged assets to increase. When most currency swaps have negative values, exposures to derivative counterparties become negative and the Company must therefore pledge more collateral. 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 518,659.4 (463,718.7) million and funding increased to SEK 499,252.9 (450,791.4) million over the year. Derivative liabilities (derivatives with negative market value) amounted to SEK 18,977.6 (3,484.5) million. Other liabilities amounted to SEK 382.3 (9,400.6) million.

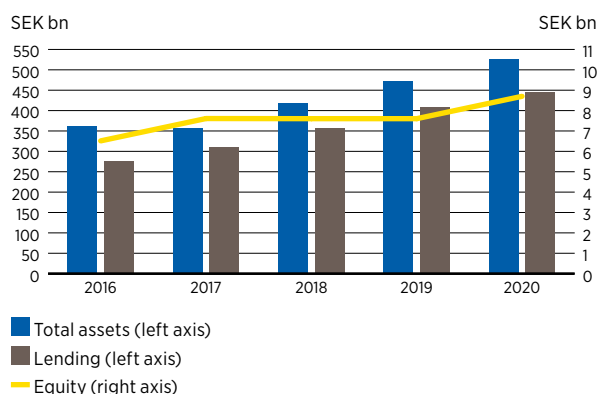
Other liabilities include collateral received of SEK 94.3 (7,981.5) million. As with the decrease in derivative assets and the increase in pledged assets, the increase in derivative liabilities and the decrease in collateral received is attributable to the strengthening of the SEK. Collateral received 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 56.

### Balance sheet



# Statement of changes in equity

SEK, million	Restricted equity				Unrestricted equity			Total equity
	Share capital	New share issue in progress	Development expenditure reserve <sup>1</sup>	Statutory reserve <sup>2</sup>	Fair value reserve <sup>3</sup>	Profit or loss brought forward	Net profit	
<b>Equity brought forward 1 Jan 2020</b>	<b>7,100.0</b>	-	<b>21.1</b>	<b>17.5</b>	-	<b>155.5</b>	<b>307.9</b>	<b>7,602.0</b>
Net profit							179.7	179.7
Change in development expenditure reserve for the year			9.3			-9.3		-
Other comprehensive income								-
<b>Total comprehensive income</b>	-	-	<b>9.3</b>	-	-	<b>-9.3</b>	<b>179.7</b>	<b>179.7</b>
<b>Transactions with shareholders</b>								
Appropriation of surplus						307.9	-307.9	-
New share issue								-
New share issue in progress		1,100.0						1,100.0
Group contributions						-225.9		-225.9
Tax effect on Group contributions						48.3		48.3
<b>Total transactions with shareholders</b>	-	<b>1,100.0</b>	-	-	-	<b>130.4</b>	<b>-307.9</b>	<b>922.5</b>
<b>Equity carried forward 31 Dec 2020</b>	<b>7,100.0</b>	<b>1,100.0</b>	<b>30.4</b>	<b>17.5</b>	-	<b>276.6</b>	<b>179.7</b>	<b>8,704.2</b>
<b>Equity brought forward 1 Jan 2019</b>	<b>7,100.0</b>	-	<b>12.0</b>	<b>17.5</b>	-	<b>-112.2</b>	<b>586.1</b>	<b>7,603.4</b>
Net profit							307.9	307.9
Change in development expenditure reserve for the year			9.1			-9.1		-
Other comprehensive income								-
<b>Total comprehensive income</b>	-	-	<b>9.1</b>	-	-	<b>-9.1</b>	<b>307.9</b>	<b>307.9</b>
<b>Transactions with shareholders</b>								
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
<b>Total transactions with shareholders</b>	-	-	-	-	-	<b>276.8</b>	<b>-586.1</b>	<b>-309.3</b>
<b>Equity carried forward 31 Dec 2019</b>	<b>7,100.0</b>	-	<b>21.1</b>	<b>17.5</b>	-	<b>155.5</b>	<b>307.9</b>	<b>7,602.0</b>

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 2020, equity in the Company amounted to SEK 8,704.2 (7,602.0) million, following Group contributions of SEK 225.9 (393.5) million being paid to the Kommuninvest Cooperative Society.

The development expenditure reserve of SEK 30.4 (21.1) 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

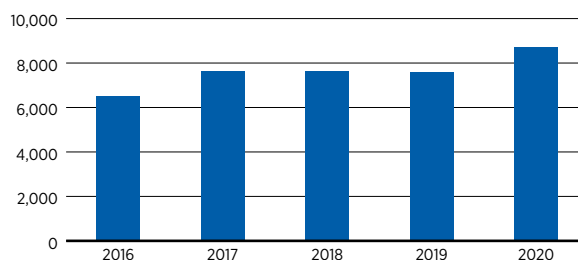
At the end of the year, share capital amounted to SEK 7,100.0 (7,100.0) million, distributed between 70,999,720 (70,999,720) shares. The total share capital is attributable to the members of the Society and no shares are available for trade.

In accordance with the Society's capital plan, adopted at the 2020 Annual General Meeting of the Society, capital is being built up within the Group to correspond to lending growth in the upcoming years. This will be achieved through capital injections to the Society from its members, which will subsequently be contributed to the Company as share capital.

As of the balance sheet date, a new share issue of SEK 1,100.0 million is in progress, which was registered with the Swedish Companies Registration Office on 5 January 2021.

### Equity

SEK, million



# Cash flow statement

1 January – 31 December

SEK, million	2020	2019
<b>Operational activities</b>		
Operating profit	228.0	392.1
Adjustment for items not included in cash flow	238.1	188.4
Income tax paid	-	-
	<b>466.1</b>	<b>580.5</b>
Change in liquidity portfolio	-16,442.1	21,349.0
Change in lending	-36,313.8	-52,528.7
Change in other assets	-13,645.1	-1,363.4
Change in other liabilities	-7,893.7	3,427.4
<b>Cash flow from operational activities</b>	<b>-73,828.6</b>	<b>-28,535.2</b>
<b>Investment activities</b>		
Acquisitions of intangible assets	-10.3	-10.1
Acquisition of tangible assets	-2.0	-4.5
Divestments of tangible assets	-	0.2
<b>Cash flow from investment activities</b>	<b>-12.3</b>	<b>-14.4</b>
<b>Financing activities</b>		
Issue of interest-bearing securities	201,396.9	182,226.2
Redemption and repurchases of interest-bearing securities	-129,437.1	-132,155.6
New share issue	1,100.0	-
Change in intra-Group liabilities	-1,345.9	-636.4
<b>Cash flow from financing activities</b>	<b>71,713.9</b>	<b>49,434.2</b>
<b>Cash flow for the year</b>	<b>-2,127.0</b>	<b>20,884.6</b>
<b>Cash and cash equivalents at start of the year</b>	<b>22,728.7</b>	<b>1,844.1</b>
<b>Cash and cash equivalents at end of the year</b>	<b>20,601.7</b>	<b>22,728.7</b>
Cash and cash equivalents consists 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.		
<b>Adjustment for items not included in cash flow</b>		
Depreciation	3.3	6.7
Profit from divestments of tangible assets	-	-0.1
Exchange rate differences from change in financial assets	0.6	0.5
Unrealised changes in market value	245.3	193.9
Net credit losses	-11.1	-12.6
<b>Total</b>	<b>238.1</b>	<b>188.4</b>
<b>Interest paid and received, included in the cash flow</b>		
Interest received <sup>1</sup>	1,898.2	1,086.2
Interest paid <sup>2</sup>	-706.3	546.6

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

2020	Opening balance	Cash flows	Currency exchange fluctuations	Fair value change	Group contributions	Closing balance
Funding, incl. derivatives	442,308.2	71,959.8	0.6	1,532.5		515,801.1
Share capital and new share issue in progress	7,100.0	1,100.0				8,200.0
Intra-Group liabilities	1,396.9	-1,345.9			225.9	276.9
<b>Total</b>	<b>450,805.1</b>	<b>71,713.9</b>	<b>0.6</b>	<b>1,532.5</b>	<b>225.9</b>	<b>524,278.0</b>

# 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 2020 and relates to Kommuninvest i Sverige AB (publ), registered number: SE-556281-4409. 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, registration number SE-716453-2074.

The Annual Report was approved for publication by the Board of Directors on 9 February 2021. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 5 April 2021.

## 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 elected not to prepare consolidated accounts.

The accounting principles are in line with those applied in the 2019 Annual Report, with the exception of amendments caused by new IFRS standards coming into effect on during 2020.

In the first half of 2020, certain adjustments were made in Kommuninvest's model for expected credit losses, the changes appear 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 Section 7:6a 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 15 April 2021 at [www.kommuninvest.se](http://www.kommuninvest.se).

### New and amended standards and interpretations

The European Securities and Markets Authority (ESMA) has developed a technical standard for a single electronic reporting format (ESEF). This has been adopted by the European Commission as a delegated regulation (2018/815), coming into effect on 18 June 2019. The regulation was intended to apply to annual and consolidated accounts containing financial statements for financial years commencing on or after 1 January 2020. However, the appropriate decisions have been taken within the EU permitting member states to defer ESEF reporting for one year. A legal amendment has been proposed that is due to come into effect on 15 March 2021 and that will be applicable as of 1 January 2021, under which reporting from and including the 2021 Annual Report shall be ESEF compliant. For this reason, Kommuninvest i Sverige AB will not prepare an ESEF-compliant annual report for 2020.

In January 2020, the EU adopted amendments to IFRS 9, IAS 39 and IFRS 7 as a result of new reference rates being introduced. The changes are aimed at minimising unwanted effects that may occur while the new reference rate reform is in progress and entail certain relief rules with regard to hedge accounting and new disclosure requirements. 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. Furthermore, amendments to IFRS 7 entail additional disclosure requirements being introduced, see Notes 3 and 17.

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.

### New and amended laws, standards and interpretations yet to come into effect

Kommuninvest is monitoring developments in the ongoing reform regarding new reference rates and its impact on accounting standards.

No new or amended laws, standards or interpretations yet to come into effect are currently assessed to have any material impact on Kommuninvest's net profit, position, disclosures, capital requirements, capital base or major exposures.

### 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

*Note 2, continued*

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 being to hold 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 that the purpose of the assets in the Company's Finance Policy remains unchanged, as well as an evaluation of the year's sales. 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 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.

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, 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.

**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 to at the same time capitalise the asset and adjust 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.

*Note 2, continued***Classification and measurement of financial instruments**

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 2020, 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 assets 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.

*Fair value through other comprehensive income*

Since Kommuninvest's business model have no purpose of both 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. It 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. It 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 operation, Kommuninvest applies, where possible, hedge accounting of fair value for the assets and liabilities which have been hedged with one or more financial instruments. 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, 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 assessed 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 instruments, 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.

*Note 2, continued***Credit losses and impairment of financial instruments**

Kommuninvest calculates expected credit losses in accordance with IFRS 9. 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 realised 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.

In 2020, changes have taken place in the model for calculating expected credit losses. 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 de-recognised 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.

**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. For further information, see Note 7.

**Other operating expenses**

Other operating expenses primarily include expenses for marketing and insurance.

*Note 2, continued***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. For more information on leasing, see Note 8.

**Tax**

Tax on profit for the year 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 apportioned 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 37–41 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](http://www.kommuninvest.se)). Also shown under each area of risk are the current exposure and estimated capital requirement.

**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 in 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.

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. Additional 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.

## FINANCIAL STATEMENTS

### Note 3, continued

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

Credit risk exposure	2020					2019				
	Recognised gross value	Expected credit losses	Recognised value <sup>1</sup>	Risk-weighted exposure value	Capital requirement	Recognised gross value	Expected credit losses	Recognised value <sup>1</sup>	Risk-weighted exposure value	Capital requirement
<b>Credit provision</b>										
Lending to municipalities and municipal companies <sup>2</sup>	445,794.7	-5.9	445,788.8	-	-	408,235.9	-17.8	408,218.1	-	-
- Risk category 1	265,293.8	-3.5	265,290.3	-	-	251,135.4	-10.5	251,124.9	-	-
- Risk category 2	156,148.5	-2.1	156,146.4	-	-	136,210.9	-6.3	136,204.6	-	-
- Risk category 3	21,414.0	-0.3	21,413.7	-	-	13,253.9	-0.6	13,253.3	-	-
- Risk category 4	2,938.4	0.0	2,938.4	-	-	7,635.7	-0.4	7,635.3	-	-
<b>Investments</b>										
Sovereign bonds eligible as collateral	28,036.0	-0.8	28,035.2	-	-	17,686.8	-0.5	17,686.3	-	-
- AAA	28,036.0	-0.8	28,035.2	-	-	14,900.9	-0.5	14,900.4	-	-
- AA	-	-	-	-	-	2,785.9	-	2,785.9	-	-
Cash and balances with central banks	18,931.9	-0.7	18,931.2	-	-	811.1	0.0	811.1	-	-
- AAA	18,931.9	-0.7	18,931.2	-	-	811.1	0.0	811.1	-	-
Bonds and other interest-bearing securities	13,822.9	0.0	13,822.9	-	-	7,722.6	-	7,722.6	-	-
- AAA	12,054.9	-	12,054.9	-	-	6,308.3	-	6,308.3	-	-
- AA	1,768.0	0.0	1,768.0	-	-	1,414.3	-	1,414.3	-	-
Lending to credit institutions	1,669.9	-0.3	1,669.6	258.0	20.6	21,917.6	-0.4	21,917.2	2,045.4	163.6
- AAA	379.7	-	379.7	0.0	0.0	20,042.6	-	20,042.6	1,664.8	133.2
- AA	480.2	-0.1	480.1	96.0	7.7	1,875.0	-0.4	1,874.6	380.6	30.4
- A	810.0	-0.2	809.8	162.0	12.9	-	-	-	-	-
<b>Derivatives</b>										
Derivatives <sup>1</sup>	2,429.4	-	2,429.4	-	-	11,967.0	-	11,967.0	-	-
- AA	477.7	-	477.7	-	-	4,451.7	-	4,451.7	-	-
- A	1,572.6	-	1,572.6	-	-	6,742.3	-	6,742.3	-	-
- BBB	379.1	-	379.1	-	-	773.0	-	773.0	-	-
<b>Other assets</b>										
Other assets	16,686.5	-	16,686.5	102.3	8.2	2,998.4	-	2,998.4	658.4	52.7
<b>Off-balance sheet items</b>										
Committed loans <sup>2</sup>	355.3	-	355.3	-	-	976.6	-0.1	976.5	-	-
Committed, undisbursed loans <sup>2</sup>	1,859.1	-	1,859.1	-	-	1,618.8	-0.0	1,618.8	-	-
<b>Total (including off-balance sheet items)</b>	<b>529,585.7</b>	<b>-7.7</b>	<b>529,578.0</b>	<b>360.3</b>	<b>28.8</b>	<b>473,934.8</b>	<b>-18.8</b>	<b>473,916.0</b>	<b>2,703.8</b>	<b>216.3</b>

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 69.

2) Guaranteed by local government undertaking. For the definition of risk categories 1-4, see section Risk in credit provision on page 69.

#### Expected credit losses (ECL)

Kommuninvest calculates expected credit losses in accordance with IFRS 9. Decisions on the methods used in these calculations are made by the Company's Credit Risk Committee, which meets quarterly. The daily follow-up and implementation of the Credit Group's decisions is performed by the Finance Department and the Risk and Control Department. Changes in credit risk are monitored daily.

#### Credit risk exposure

Kommuninvest is exposed to credit risks through its liquidity reserve, its lending portfolio and off-balance sheet items. The liquidity reserve consists of investments in sovereigns or state-related counterparties, including federal states, local government authorities and credit institutions similar to Kommuninvest.

Kommuninvest's lending portfolio consists of lending to municipalities and regions (members of the Society), as well as companies, local government associations and other entities in which members hold a majority influence (local government guarantee).

Off-balance sheet items consist of contracted new lending yet to be disbursed, building loans and liquidity guarantees.



*Note 3, continued*

When calculating expected credit losses (ECL), the exposure at default (EAD) is multiplied by the proportion determining the loss given default (LGD). This is then multiplied by the probability of default (PD).

$$ECL = PD * LGD * EAD$$

ECL is updated on a daily basis, with the three factors, and phase allocation, being monitored on an ongoing basis. On a quarterly basis, an assessment is made of the trend for the period, and of any need for adjusting the model.

*Expected maturity in the ECL calculation*

ECL can be calculated for different periods, which vary depending on the development of the counterparties' creditworthiness. When a contract is initiated, it is in Phase 1. ECL is then calculated on the basis of default possibly occurring within the ensuing 12 months. In the event that a counterparty be classified in Phase 2 due to a heightened credit risk, the calculation is based instead on all cash flows throughout the remaining maturity. In the event of default, the exposure is transferred to Phase 3. Indicators are used to continuously monitor the development of credit risk in the Company's lending. All credit exposures are currently in Phase 1.

For the liquidity reserve, Kommuninvest uses the regulatory exemption for low credit risk. This is supported by the liquidity reserve's credit risk profile and favourable 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, and which are a sovereign or are related to a sovereign.

In connection with negative changes in credit ratings, qualitative assessments are often made to determine whether credit risk has increased significantly. 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.

*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 at least one 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. Based on the EBA's guidelines, this shall ascertain whether a "technical default" situation has arisen. If the exposure is directly to a member (municipality or region), the in-depth analysis is motivated primarily by the local government authorities' constitutionally protected role in society, including 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.

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. Limits have been established for the quantitative indicators, and violations are followed up. A limit is also applied, meaning that an asset will be transferred to Phase 2 if payment is delayed by more than 30 days. The qualitative indicators consist of restructuring of loan terms. 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 quality of the financial assets is determined by the Credit Risk Committee.

Kommuninvest has never 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)*

To date, Kommuninvest has not suffered any defaults, neither of a material or technical nature. Accordingly, the Company lacks empirical data of its own on which to base its PD calculations. Instead, the Company applies S&P Global Ratings' database, this being suitable for low-default financial institutions.

The PD 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, PD is allocated based on the issuer's rating. In calculating expected credit losses in the loan portfolio, probability of default is allocated based on an 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 PD at the counterparty level and not at the transaction level. This is motivated by the fact that the conditions for all lending are identical with no hierarchical order of credit having been assigned to counterparties. In other words, a deteriorated credit quality will affect all of the counterparty's transactions.

## FINANCIAL STATEMENTS

### 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	2021, %	2022, %	2023, %
<b>Forecast input data</b>				
GDP trend Sweden	Principal scenario	3.2	3.5	2.2
	Positive scenario	4.4	4.7	3.4
	Negative scenario	2.0	2.3	1.0
Change in unemployment Sweden	Principal scenario	5.9	-11.1	-8.8
	Positive scenario	-3.6	-20.6	-18.3
	Negative scenario	15.4	-1.6	0.8
Change in global energy index	Principal scenario	9.4	12.0	4.2
	Positive scenario	24.0	26.6	18.8
	Negative scenario	-5.2	-2.7	-10.5
Change in global non-energy index	Principal scenario	1.7	1.4	1.5
	Positive scenario	9.2	8.9	9.0
	Negative scenario	-5.8	-6.0	-5.9
<b>Historical input data</b>				
Historical change in credit rating (sovereigns-companies)	Principal scenario	304.8	-	-
	Positive scenario	272.0	-	-
	Negative scenario	337.6	-	-
Historical change in credit rating (financial)	Principal scenario	99.4	-	-
	Positive scenario	56.4	-	-
	Negative scenario	142.4	-	-
Historical change in OMX index (-1 year)	Principal scenario	4.2	-	-
	Positive scenario	8.0	-	-
	Negative scenario	0.5	-	-
Historical change in S&P 500 index (-1 year)	Principal scenario	4.8	-	-
	Positive scenario	7.9	-	-
	Negative scenario	1.7	-	-

### 1-year PDs from S&P

S&P Rating	Sovereigns-Companies		Financial	
	2020 Q4	2019 Q4	2020 Q4	2019 Q4
AAA	0.00132%	0.00182%	0.00993%	0.01055%
AA+	0.00230%	0.00313%	0.01490%	0.01579%
AA	0.00400%	0.00538%	0.02237%	0.02364%
AA-	0.00697%	0.00926%	0.03358%	0.03539%
A+	0.01215%	0.01594%	0.05041%	0.05298%
A	0.02116%	0.02742%	0.07567%	0.07931%
A-	0.03686%	0.04718%	0.11357%	0.11869%
BBB+	0.06419%	0.08115%	0.17041%	0.17760%
BBB	0.11176%	0.13955%	0.25563%	0.26567%
BBB-	0.19453%	0.23989%	0.38331%	0.39723%
BB+	0.33839%	0.41207%	0.57440%	0.59357%
BB	0.58800%	0.70696%	0.85991%	0.88608%
BB-	1.01986%	1.21030%	1.28552%	1.32082%
B+	1.76328%	2.06456%	1.91771%	1.96463%
B	3.03199%	3.50042%	2.85180%	2.91300%
B-	5.16557%	5.87499%	4.22131%	4.29909%
CCC-C	22.35699%	24.12733%	12.98004%	13.10139%

### 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 60 percent, Positive scenario 20 percent, Negative scenario 20 percent).

Macro scenarios	Change in ECL, %
GDP: -2%; Unemployment: +34%; Energy Index: -32%; Non-energy index: -14% OMX Index: -7%; Downgrades: +174%	173.0
GDP: -0.3%; Unemployment: +10%; Energy Index: -13%; Non-energy index: -8% OMX Index: +0.6%; Downgrades: +99%	-3.0
GDP: +1.6%; Unemployment: +4%; Energy Index: -7%; Non-energy index: -4% OMX Index: +0.9%; Downgrades: +35%	-37.0
GDP: +2%; Unemployment: +2.5%; Energy Index: -3%; Non-energy index: -1.9% OMX Index: +2%; Downgrades: +23%	-41.0

Since all exposures are in Phase I, it is only the PD of one year that 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.

**Liquidity reserve**

Kommuninvest's counterparties all have high credit ratings and a stable financial position. Historically, no Kommuninvest counterparty has suspended payments. Consequently, no empirical history for LGD exists. To assess LGD, standard values are used instead.

For sovereigns and state-related entities, an expert analysis is made based on S&P Global Ratings "Aggregated European Recovery Data 2020" as well as on Moody's Sovereign Default and Recovery Rates for 1983–2016 and 1983–2019. The result of the assessment is to apply an LGD of 35 percent.

For other counterparties, LGD is applied in accordance with the CRR regulations. Under Article 161, senior exposures (non-subordinated exposures) to unsecured financial institutions must be allocated an LGD of 45 percent.

For covered bonds, LGD is also applied in accordance with the CRR regulations. Under Article 161, covered bonds that meet the terms of Article 129 are to be allocated an LGD of 11.25 percent. Covered bonds include excess collateral.

In the event that the regulations are amended or the reports from Moody's and S&P are updated, LGD may be adjusted.

**Lending portfolio**

For Swedish local government authorities, a standard value is applied by means of an expert analysis based on S&P Global Ratings "Aggregated European Recovery Data 2020" as well as on Moody's Sovereign Default and Recovery Rates for 1983–2016 and 1983–2019. The result of the assessment is to apply an LGD of 35 percent.

Swedish municipalities cannot be declared bankrupt and the assessment is also that there is a high degree of covariation between Swedish local government authorities and the Swedish central government in times of crisis. The tax base for both is also the Swedish economy. Accordingly, there is a strong connection between the LGD for Swedish local government authorities and the Swedish central government.

**Exposure at default (EAD)**

For EAD, 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. The spread between the Company's funding expenses and the various types of issuers is determined through expert assessment.

By combining these components, a discount curve for each currency and maturity is derived.

**Changes in ECL during the period**

The Company's ECL decreased by SEK 11.1 million overall, from SEK 18.8 million to SEK 7.7 million, distributed as follows.

The Corona pandemic affected the macro variables applied in the calculation of ECL, as do the scenario weights, thereby deteriorating the ECL value. However, this effect is smaller than the effect from the changes in the model that the Company made in 2020, which are described below.

**Changes in PD**

The change in PD is attributable to four factors: replacement 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.

As of the second quarter (Q2) of 2020, Kommuninvest has implemented a new ECL model.

The new model aims to better adapt the credit risk profile of Kommuninvest's portfolio and to capture more consistently the dynamics of macro variables and default history alike.

The principal components distinguishing the new model from the previous one are:

1. The weightings for macro factors are based on the empirical correlations between macro factors and Z factors.
2. For each segment, a specific Long Term Probability of Default (LTPD) is used, where the categories "Non-Financial corporate" and "Sovereign" are used for the lending portfolio and "Financial" for the liquidity reserve.
3. Z benchmark intervals are calibrated dynamically and individually for each segment.

The weighting of different scenarios has been adjusted from Basic scenario 70 percent, Positive scenario 10 percent and Negative scenario 20 percent to Basic scenario 60 percent, Positive scenario 20 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.

Macroeconomic factors	2020, %	2019, %
GDP growth	3.2	1.1
Change in unemployment (% of total labour force)	5.88	0.52
OMX Index	4.24	8.53
S&P Index	4.78	5.92
Energy Index	9.39	-14.64
Non-energy index	1.69	-4.71
Historical change in credit rating (sovereigns-companies)	304.79	28.75
Historical change in credit rating (financial)	99.42	-10.03

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

Change	Effect on ECL, %
New S&P PD	-38.0
Change in weighting of macro factors	-39.0
Change in weighting of scenarios	-7.5
Macro factor update	79.0

## FINANCIAL STATEMENTS

### Note 3, continued

#### Changes in LGD

During the period, no change was made in LGD.

#### Changes in EAD

In 2020, the Company's assets not valued at fair value increased from a total SEK 287.5 billion to SEK 378.7 billion. The liquidity reserve increased by SEK 26.6 billion, while the lending portfolio increased by SEK 64.5 billion.

The increased credit risk exposure (given all other variables remaining constant) means that expected credit losses increased by 32 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 64.

Change in provisions for credit losses						
	Opening balance	Initiated during the period	Maturing during the period	Changed risk variables	Change of model	Closing balance
<b>2020</b>						
Cash and balances with central banks	-	-0.7	-	-	-	-0.7
Sovereign bonds eligible as collateral	-0.5	-32.7	31.1	1.3	-	-0.8
Lending to credit institutions	-0.4	-	-	0.1	-	-0.3
Lending	-17.8 <sup>1</sup>	-3.5	3.7	-30.2	41.9	-5.9
Bonds and other interest-bearing securities	-	-0.4	-	0.4	-	0.0
Provisions for off-balance sheet items	-0.1 <sup>1</sup>	-2.8	3.7	-0.8	-	0.0
<b>Total</b>	<b>-18.8</b>	<b>-40.1</b>	<b>38.5</b>	<b>-29.2</b>	<b>41.9</b>	<b>-7.7</b>

<sup>1</sup>The opening values in the table differ from the closing values in 2019 due to rounding.

#### Change in provisions for credit losses

	Opening balance	Initiated during the period	Maturing during the period	Changed risk variables	Change of model	Closing balance
<b>2019</b>						
Cash and balances with central banks	-	-	-	-	-	0.0
Sovereign bonds eligible as collateral	-2.1	-89.4	89.5	1.5	-	-0.5
Lending to credit institutions	-0.7	-	-	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
<b>Total</b>	<b>-31.4</b>	<b>-94.9</b>	<b>97.4</b>	<b>20.1</b>	<b>-10.0</b>	<b>-18.8</b>

#### Changes in gross carrying amount

	Opening balance	Initiated during the period	Maturing during the period	Closing balance
<b>2020</b>				
Cash and balances with central banks	811.1	4,160,267.7	-4,142,146.9	18,931.9
Sovereign bonds eligible as collateral	13,511.7	1,193,244.5	-1,181,557.0	25,199.2
Lending to credit institutions	1,874.5	411,822.2	-412,406.5	1,290.2
Lending	271,045.5	130,196.8	-65,496.6	335,745.7
Bonds and other interest-bearing securities	-	8,036.9	-	8,036.9
Off-balance sheet items	2,182.5	132,410.7	-132,901.7	1,691.5
<b>Total</b>	<b>289,425.3</b>	<b>6,035,978.8</b>	<b>-5,934,508.7</b>	<b>390,895.4</b>

#### Changes in gross carrying amount

	Opening balance	Initiated during the period	Maturing during the period	Closing balance
<b>2019</b>				
Cash and balances with central banks	-	10,341.6	-9,530.5	811.1
Sovereign bonds eligible as collateral	33,203.7	2,140,892.0	-2,160,584.0	13,511.7
Lending to credit institutions	1,844.1	370,138.4	-370,108.0	1,874.5
Lending	249,340.4	78,627.5	-56,922.4	271,045.5
Off-balance sheet items	2,379.0	80,979.9	-81,176.4	2,182.5
<b>Total</b>	<b>286,767.2</b>	<b>2,680,979.4</b>	<b>-2,678,321.3</b>	<b>289,425.3</b>

## Note 3, continued

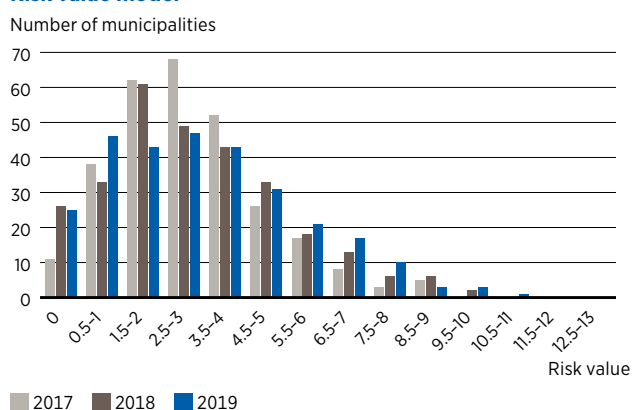
**Risk in credit provision**

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 a lower value represents a lower risk.

**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.

**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 or senior securities of at least BBB+ or be guaranteed by someone with this credit rating. 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 senior securities of at least BBB-. Counterparty risks are further reduced by concluding ISDA agreements and security agreements (known as CSA agreements) with all counter-

parties. ISDA agreements allow netting of positive and negative exposures. The exposure to counterparty risk is determined based on the market value of the derivative contracts. 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 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 3,102.5 (3,025.2) million.

Derivative exposure	2020	2019
Recognised value <sup>1</sup>	2,429.4	11,967.0
Amount netted in the balance sheet	6,036.7	5,586.6
<b>Gross market value<sup>2</sup></b>	<b>8,466.1</b>	<b>17,553.6</b>
Netting gains	-1,978.4	-3,679.0
<b>Current replacement cost<sup>3</sup></b>	<b>6,487.7</b>	<b>13,874.6</b>
Collateral received	-6,058.9	-12,974.0
<b>Net per counterparty incl. deductions for collateral</b>	<b>428.8</b>	<b>900.6</b>
Initial margin pledged	2,665.7	2,099.4
Surplus collateral pledged	8.1	25.2
<b>Total counterparty risk</b>	<b>3,102.5</b>	<b>3,025.2</b>

1) Total positive market values after 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 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.

Capital requirements for counterparty risk	2020	2019
Current replacement cost <sup>1</sup>	6,487.7	13,874.6
Potential future exposure	5,787.5	7,447.3
<b>Exposure value</b>	<b>12,275.2</b>	<b>21,321.9</b>
Risk-weighted exposure value <sup>2</sup>	0.0	0.0
<b>Capital requirement</b>	<b>0.0</b>	<b>0.0</b>

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.

**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

*Note 3, continued*

Ratings) or equivalent at an approved credit rating agency. Placements are 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 annually the maximum gross exposure to individual issuers.

At year-end, the average remaining maturity of liquidity reserve investments was 3.3 (3.2) months.

The longest remaining maturity of an individual security was 24.8 (30.4) 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.

<b>Investments by country</b>	<b>2020</b>	<b>2019</b>
Sweden	47,346.0	34,725.3
Supranationals	7,390.2	1,978.7
Germany	5,618.0	4,936.0
Finland	1,127.1	2,991.2
United Kingdom	809.8	820.0
Denmark	167.8	807.9
USA	-	1,878.0
<b>Total</b>	<b>62,458.9</b>	<b>48,137.1</b>

<b>Investments by rating</b>	<b>2020</b>	<b>2019</b>
AAA	59,401.0	42,062.3
AA	2,248.1	6,074.8
A	809.8	-
<b>Total</b>	<b>62,458.9</b>	<b>48,137.1</b>

<b>Investments by issuer category</b>	<b>2020</b>	<b>2019</b>
National governments or central banks	46,966.3	18,497.3
Credit institute	8,102.4	27,661.1
<i>of which, subsidised lenders</i>	6,432.8	5,744.0
<i>of which, investment repos</i>	379.7	20,042.6
<i>of which, bank balances</i>	1,289.9	1,874.6
Multilateral development banks	7,390.2	1,978.7
<b>Total</b>	<b>62,458.9</b>	<b>48,137.1</b>

*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 20.6 (163.6) million.

*Concentration in issuer risk*

In addition to the losses justified by an individual issuer's creditworthiness, there is also a risk of further losses as a result of issuers' risk of default co-varying. 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. In other contexts, the corresponding risk also applies to counterparties and customers. Concentrations in risk in credit provision are controlled by means of limits on lending to individual customers. However, since all of the Company's 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 controlled, in part, through 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. Accordingly, the Company's concentration risk derives solely from issuers in the Company's liquidity reserve. This is controlled through limits on individual counterparties and through country limits. For this concentration risk, the Company recognises capital requirements as shown below.

*Capital requirement for concentration in issuer 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, 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 I. When the calculations were performed as per 31 December 2020, the capital requirement under Pillar II for concentration risks in the liquidity reserve was 18.0 (16.6) percent of the capital requirement for credit risk under Pillar I, that is to say, SEK 5.2 (35.8) 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. The market risks are divided into interest rate risk, foreign exchange risk, credit market risk, as well as other price risks. Market risk mainly arises from mismatches between assets and liabilities. The Company's exposure to market risk is limited by means of derivative contracts. The Company accepts some exposure to market risks to increase operational efficiency, but never for speculative purposes.

*Interest rate risk*

Interest rate risk is defined as the risk of a 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 assume interest rate risk positions for speculative purposes but only to manage its operations. Risk management is based on matching interest maturities between assets and liabilities. When necessary, derivatives are used to achieve favourable matching. Interest rate risk includes earnings risks, meaning the risk of losses resulting from revenues or expenses deviating from the business plan and forecasts.

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

## Note 3, continued

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

Periods of fixed interest	Nominal amount						Total
	2020	0-3 months	3 months-1 year	1-5 years	5-10 years	More than 10 years	
<b>Assets</b>							
Cash and balances with central banks	18,931.9	-	-	-	-	-	18,931.9
Sovereign bonds eligible as collateral	26,029.8	2,000.0	-	-	-	-	28,029.8
Lending to credit institutions	1,669.6	-	-	-	-	-	1,669.6
Bonds and other interest-bearing securities	3,481.5	1,936.7	8,219.7	-	-	-	13,637.9
Lending	222,674.7	27,978.6	146,953.2	42,866.3	2,367.8	-	442,840.6
Derivative investments	9,908.3	-1,552.6	-8,355.7	-	-	-	-
Derivative lending	193,781.4	-8,338.2	-142,914.1	-40,403.0	-2,126.1	-	-
Other assets	16,296.9	-	-	-	-	389.6	16,686.5
<b>Total assets</b>	<b>492,774.1</b>	<b>22,024.5</b>	<b>3,903.1</b>	<b>2,463.3</b>	<b>241.7</b>	<b>389.6</b>	<b>521,796.3</b>
<b>Liabilities and equity</b>							
Liabilities to credit institutions	930.0	-	-	-	-	-	930.0
Securities issued	42,905.0	97,347.2	304,870.4	48,781.8	1,250.0	-	495,154.4
Derivative funding	432,119.9	-71,473.6	-303,229.4	-46,233.8	-1,000.0	-	10,183.1
Other liabilities	94.3	-	-	-	-	334.6	428.9
Subordinated liabilities	-	-	-	-	-	-	-
Equity	-	-	-	-	-	8,704.2	8,704.2
<b>Total liabilities and equity</b>	<b>476,049.2</b>	<b>25,873.6</b>	<b>1,641.0</b>	<b>2,548.0</b>	<b>250.0</b>	<b>9,038.8</b>	<b>515,400.6</b>
Difference, assets and liabilities	16,724.9	-3,849.1	2,262.1	-84.7	-8.3	-8,649.2	6,395.7

Periods of fixed interest	Nominal amount						Total
	2019	0-3 months	3 months-1 year	1-5 years	5-10 years	More than 10 years	
<b>Assets</b>							
Cash and balances with central banks	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
<b>Total assets</b>	<b>448,432.7</b>	<b>6,551.1</b>	<b>-285.8</b>	<b>219.1</b>	<b>241.7</b>	<b>2,290.2</b>	<b>457,448.9</b>
<b>Liabilities and equity</b>							
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
<b>Total liabilities and equity</b>	<b>429,579.2</b>	<b>14,379.1</b>	<b>355.0</b>	<b>350.0</b>	<b>250.0</b>	<b>9,064.1</b>	<b>453,977.3</b>
Difference, assets and liabilities	18,853.5	-7,828.0	-640.8	-130.9	-8.3	-6,773.9	3,471.6

## Sensitivity analysis of financial value

According to a fixed limit set by the Board of Directors, the exposure to interest rate risk in the portfolio may never exceed SEK 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 million over a period of at most five consecutive business days.

At year-end, the exposure (throughout the portfolio) amounted to a negative SEK 29.1 (14.1) million given a one percentage point parallel shift (upwards) in the yield curve. An exposure with a positive value means an increase in the economic value of assets and liabilities if the interest rate rises and a decrease in the economic value of assets and liabilities if the interest rate falls.

*Note 3, continued*

If only transactions valued at fair value are taken into account, the result would change by SEK 134.5 (231.2) million given a one percentage point parallel shift (upwards) in all market interest rates.

*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. Earnings from assets 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 123.8 (93.6) 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 61.9 (46.8) 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 106.9 (67.4) 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 are mismatched in terms of size in the balance sheet. 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 such returns continuously being exchanged to 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 2020, the SEK/EUR and SEK/USD foreign exchange rates fluctuated by as much as 8 (6) percent per month. An exchange rate fluctuation of 8 (6) percent, with an exposure of SEK 5 million, would entail a capital requirement of SEK 0.4 (0.3) million per month. Accordingly, on an annual basis, this corresponds to a capital requirement of SEK 4.8 (3.6) million.

Assets and liabilities by currency	Recognised value							
	SEK	EUR	USD	JPY	AUD	Other currencies	Fair value adjustment	Total
<b>2020</b>								
<b>Assets</b>								
Cash and balances with central banks	18,931.2	-	-	-	-	-	-	18,931.2
Sovereign bonds eligible as collateral	27,699.7	-	334.6	-	-	-	0.9	28,035.2
Lending to credit institutions	859.8	35.5	774.2	0.0	0.0	0.1	-	1,669.6
Bonds and other interest-bearing securities	6,923.4	-	6,860.5	-	-	-	39.0	13,822.9
Lending	443,237.9	-	-	-	-	-	2,550.9	445,788.8
Derivatives	-16,175.2	785.2	2,692.5	5,139.5	1,732.5	3,547.2	4,707.7	2,429.4
Other assets	13,714.8	-	2,937.8	-	-	-	33.9	16,686.5
<b>Total assets</b>	<b>495,191.6</b>	<b>820.7</b>	<b>13,599.6</b>	<b>5,139.5</b>	<b>1,732.5</b>	<b>3,547.3</b>	<b>7,332.4</b>	<b>527,363.6</b>
<b>Liabilities and equity</b>								
Liabilities to credit institutions	379.7	565.0	-	-	-	-	2.3	947.0
Securities issued	304,526.3	2,520.4	167,250.7	8,339.5	3,956.1	7,304.7	4,408.2	498,305.9
Derivatives	181,119.2	-2,269.7	-153,737.5	-3,200.0	-2,223.6	-3,757.5	3,046.7	18,977.6
Other liabilities	337.4	5.1	86.4	-	-	0.0	-	428.9
Subordinated liabilities	-	-	-	-	-	-	-	-
Equity	8,829.0	-	-	-	-	-	-124.8	8,704.2
<b>Total liabilities and equity</b>	<b>495,191.6</b>	<b>820.8</b>	<b>13,599.6</b>	<b>5,139.5</b>	<b>1,732.5</b>	<b>3,547.2</b>	<b>7,332.4</b>	<b>527,363.6</b>
<b>Difference, assets and liabilities</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>-</b>
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

2019	Recognised value							Fair value adjustment	Total
	SEK	EUR	USD	JPY	AUD	Other currencies			
<b>Assets</b>									
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	
<b>Total assets</b>	<b>323,692.9</b>	<b>848.1</b>	<b>131,762.3</b>	<b>3,058.8</b>	<b>3,293.1</b>	<b>4,317.6</b>	<b>4,347.9</b>	<b>471,320.7</b>	
<b>Liabilities and equity</b>									
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	
<b>Total liabilities and equity</b>	<b>323,692.5</b>	<b>848.4</b>	<b>131,762.5</b>	<b>3,058.8</b>	<b>3,293.1</b>	<b>4,317.6</b>	<b>4,347.8</b>	<b>471,320.7</b>	
<b>Difference, assets and liabilities</b>	<b>0.3</b>	<b>-0.3</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
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	-	-	

**Credit market risk**

Credit market risk is defined as 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 is divided into two subcategories: (a) credit spread risk on derivatives (CVA risk) and credit spread risk on lending, funding and investments, and (b) basis spread risk.

**Credit spread risk on lending, funding and investments, and basis spread risk**

Credit spread risk on lending, funding and investments, and basis spread risk arises primarily as a consequence of imbalances in maturities between assets and liabilities valued at fair value. 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	2020	2019
Investments, fair value option	-2.1	-1.9
Investments, available for sale	0.0	0.0
Lending	-19.1	-26.7
Funding	22.4	25.4
<b>Total</b>	<b>1.2</b>	<b>-3.2</b>

**Credit spread risk on derivatives (CVA risk)**

The credit spread risk on derivatives (CVA risk) derives from the risk of the Company's income statement being adjusted for the risk of changes in credit rating, or Credit Valuation Adjustment (CVA). CVA is a price adjustment applied to derivatives depending on the development of CDS prices, FX volatility and the exposure to the counterparty. CVA can be considered equal to the deviation from the risk-free price of a contract and is often interpreted as the market price for counterparty risk. At the end of the year, recognised CVA amounted to SEK 5.1 million.

CVA risk refers to the risk that the Company's earnings will be negatively affected by an increase in reported CVA.

**Capital requirement for credit market risk**

A total capital requirement under Pillar II for credit market risk (excluding credit spread on 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 on which the capital requirement calculation is based are either historical, simulated or theoretical. The historical and simulated scenarios are intended to capture periods when fluctuations were greatest in the credit markets where the Company makes business transactions.

The simulated scenarios 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.

Note 3, continued

The theoretical scenarios are prepared based on the credit market risks associated with and which could arise from the Company’s business model. 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 and simulated scenarios do not necessarily cover all of the various possible scenarios.

In the calculations performed as per 31 December 2020, the total capital requirement for credit market risk amounted to SEK 1,711.9 (1,798.7) million.

In calculating capital requirements for CVA risk under Pillar I, Kommuninvest applies the standardised method in the capital requirement regulations (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. The Company’s derivatives entered into after 1 March 2017 are included in the daily reconciliation with the exchange of collateral, which reduces the capital requirement. At the end of the year, the capital requirement for CVA risk was SEK 59.3 (98.4) 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.

**Liquidity risk**

Liquidity risk refers to the risk that it will not be possible to meet payment obligations on maturity. Kommuninvest’s liquidity risk management is pervaded by a highly restrictive attitude towards liquidity risk, with the risk being limited by maintaining a liquidity reserve of highly liquid assets. The 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.

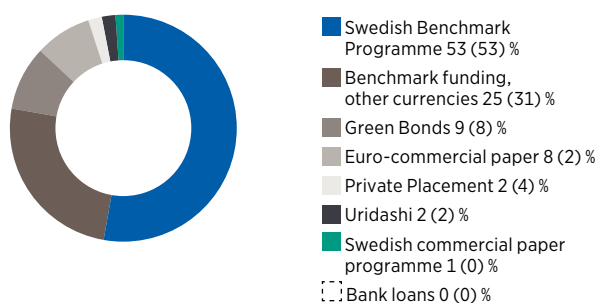
The Company also manages structural liquidity risk, which is the risk that the Company has not financed its long-term commitments in advance. This risk is restricted, in part, through access to diversified funding and, in part, through good matching of maturities between assets and liabilities.

The Company’s principal assignment is to act as a local government debt office and to ensure access to stable and efficient funding for the local government sector. The greatest risk that the Company will not be able to fulfil its assignment as a local government debt office is that the Company would not have access to sufficient liquidity to cover the needs of the local government sector. The Company has identified this risk as a local government debt office liquidity risk and primarily manages this through diversified funding.

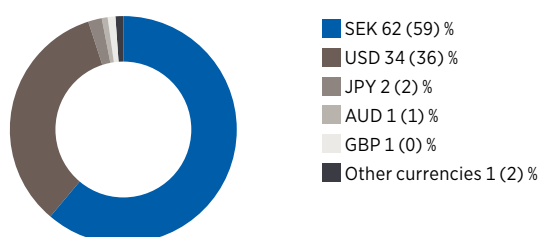
**Diversified funding**

To ensure that funding activities provide the necessary conditions to cover new lending, renewals and funding maturities, even under worsening market conditions, the Company maintains diversified funding with access to several different capital markets. The strategic funding programmes are the Company’s Swedish Benchmark Programme, benchmark funding in USD

**Total funding by type of instrument**  
2020 (2019)



**Total funding by currency**  
2020 (2019)



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. The Company also issues Green Bonds on an ongoing basis in the currencies SEK and USD.

**Good matching between assets and liabilities**

When assets and liabilities have different maturities, liquidity risks arise. To minimise this risk, the Company strives to achieve good matching between assets (lending and investments) and liabilities (funding and equity). Assets and liabilities with maturities of more than one year are to be matched. 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 (2.5) 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 2.4 (2.4) years, with capital tied up in the Company’s lending portfolio for an average 2.7 (2.6) years, and with capital tied up in the liquidity reserve for 0.3 (0.3) years.

**Maturity analysis**

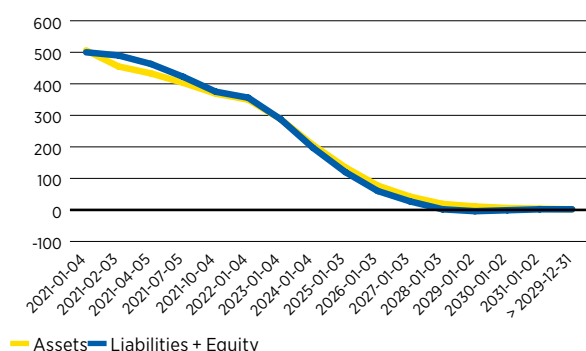
The maturity analysis below shows undiscounted cash flows, including amortisation and interest payments, based on the remaining agreed maturity dates. All flows are converted to Swedish kronor by applying a spot rate.

## Note 3, continued

## Maturity profile, balance sheet

31 Dec 2020

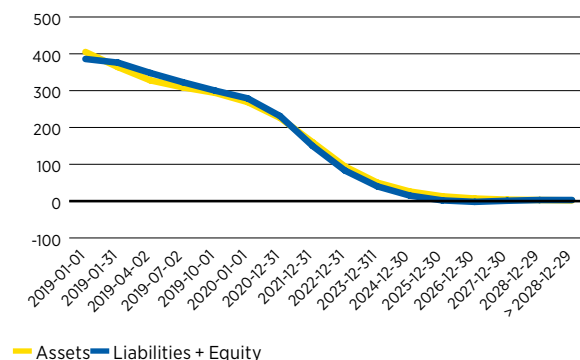
SEK bn



## Maturity profile, balance sheet

31 Dec 2019

SEK bn



2020	Contractual, non-discounted cash flows						Total	Recognised value
	On demand	0-3 months	3 months-1 year	1-5 years	> 5 years	No maturity		
<b>Assets</b>								
Cash and balances with central banks	18,931.2	-	-	-	-	-	18,931.2	18,931.2
Sovereign bonds eligible as collateral	-	26,034.4	2,000.0	-	-	-	28,034.4	28,035.2
Lending to credit institutions	-	1,669.6	-	-	-	-	1,669.6	1,669.6
Bonds and other interest-bearing securities	-	2,924.2	2,020.6	8,901.2	-	-	13,846.0	13,822.9
Lending	-	25,132.5	76,789.0	287,500.8	60,884.5	-	450,306.8	445,788.8
Derivatives	-	1,434.5	3,053.1	5,087.6	325.2	-	9,900.4	2,429.4
Other assets	-	16,686.5	-	-	-	-	16,686.5	16,686.5
<b>Total assets</b>	<b>18,931.2</b>	<b>73,881.7</b>	<b>83,862.7</b>	<b>301,489.6</b>	<b>61,209.7</b>	<b>-</b>	<b>539,374.9</b>	<b>527,363.6</b>
<b>Liabilities and equity</b>								
Liabilities to credit institutions	-	379.7	563.7	-	-	-	943.4	947.0
Securities issued	-	36,310.1	100,844.2	313,842.1	50,716.9	-	501,713.3	498,305.9
Derivatives	-	2,886.7	4,717.0	11,842.7	353.4	-	19,799.8	18,977.6
Other liabilities	-	428.9	-	-	-	-	428.9	428.9
Subordinated liabilities	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	8,704.2	8,704.2	8,704.2
<b>Total liabilities and equity</b>	<b>-</b>	<b>40,005.4</b>	<b>106,124.9</b>	<b>325,684.8</b>	<b>51,070.3</b>	<b>8,704.2</b>	<b>531,589.6</b>	<b>527,363.6</b>
<b>Total difference</b>	<b>18,931.2</b>	<b>33,876.3</b>	<b>-22,262.2</b>	<b>-24,195.2</b>	<b>10,139.4</b>	<b>-8,704.2</b>	<b>7,785.3</b>	<b>-</b>
Committed loans	355.3	-	-	-	-	-	<b>355.3</b>	-
Committed, undisbursed loans <sup>1</sup>	-	-1,667.2	443.5	812.8	429.1	-	<b>18.2</b>	-

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

## FINANCIAL STATEMENTS

### Note 3, continued

2019	Contractual, non-discounted cash flows						Total	Recognised value
	On demand	0-3 months	3 months-1 year	1-5 years	> 5 years	No maturity		
<b>Assets</b>								
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
<b>Total assets</b>	<b>811.1</b>	<b>81,511.9</b>	<b>86,696.4</b>	<b>269,192.5</b>	<b>48,583.7</b>	<b>-</b>	<b>486,795.6</b>	<b>471,320.7</b>
<b>Liabilities and equity</b>								
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
<b>Total liabilities and equity</b>	<b>-</b>	<b>44,877.1</b>	<b>94,132.4</b>	<b>282,471.0</b>	<b>51,677.3</b>	<b>7,602.0</b>	<b>480,759.8</b>	<b>471,320.7</b>
<b>Total difference</b>	<b>811.1</b>	<b>36,634.8</b>	<b>-7,436.0</b>	<b>-13,278.5</b>	<b>-3,093.6</b>	<b>-7,602.0</b>	<b>6,035.8</b>	<b>-</b>
Committed loans	976.5	-	-	-	-	-	<b>976.5</b>	-
Committed, undisbursed loans <sup>1</sup>	-	-1,026.5	-521.2	347.3	1,259.4	-	<b>58.9</b>	-

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

#### 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 own 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, an LCR 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 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 2020, was 271.8 (416.5) percent, 491.8 (842.8) percent in USD and 502.4 (713.0) percent in SEK (see the table on the next page).

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 141.5 (139.4) percent.

#### 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.

## Note 3, continued

Liquidity Coverage Ratio (LCR) in accordance with the CRR regulations	2020			2019		
	Total	USD	SEK	Total	USD	SEK
Extremely highly liquid assets (Level 1), excluding covered bonds	60,629.8	868.6	53,532.0	25,245.7	918.0	16,680.9
Extremely highly liquid covered bonds (Level 1)	0.0	0.0	0.0	15,444.5	-	15,444.5
Highly liquid assets (Level 2)	0.0	0.0	0.0	-	-	-
<b>Liquidity buffer, SEK million</b>	<b>60,629.8</b>	<b>868.6</b>	<b>53,532.0</b>	<b>40,690.2</b>	<b>918.0</b>	<b>32,125.4</b>
Cash outflows, SEK million	-25,048.5	-706.4	-13,136.0	-17,918.3	-445.2	-11,505.7
Cash inflows, SEK million	2,738.1	529.8	2,480.0	8,148.3	333.9	7,000.0
<b>Net cash outflow, SEK million</b>	<b>-22,310.4</b>	<b>-176.6</b>	<b>-10,656.0</b>	<b>-9,770.0</b>	<b>-111.3</b>	<b>-4,505.7</b>
<b>Liquidity coverage ratio (%)</b>	<b>271.8</b>	<b>491.8</b>	<b>502.4</b>	<b>416.5</b>	<b>824.8</b>	<b>713.0</b>

**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.

*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 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 107.0 (153.4) million.

Note 3, continued

**Strategic risk**

Strategic risk refers to 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.

Included under strategic risk is business risk, which 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.

*Capital requirement for strategic risk*

The Company's assessment is that the capital requirement for strategic risk is managed within operational risks.

**Stakeholder risk**

Stakeholder risk refers to the risk of a ratings agency, customer, member, employee, investor, mass media organisation, national assembly, central government or other stakeholder losing confidence in the Company and its business concept.

The Company's stakeholder risk is managed by the Company safeguarding a sound risk culture based on local government values, regulatory compliance and good internal governance and control. An analysis of the level of risk is performed on a regular basis and reported to the Board of Directors, CEO and the management

*Capital requirement for Stakeholder risk*

The Company's assessment is that the capital requirement for stakeholder risk is managed within operational risks.

**Compliance risk**

Regulatory compliance risk refers to the risk of the Company failing to comply with current external or internal regulations and thereby risking being sanctioned, suffering losses or impairment or loss of reputation.

The Company works continuously with external monitoring and analysis of regulatory changes to reduce the Company's regulatory compliance risks. External monitoring is coordinated by the Company's regulatory group, which also verifies the analyses. The principal responsibility for the operation being conducted in accordance with current regulations rests with the operational organisation. The regulatory compliance function contributes both pro-actively through advice and support for the operational organisation and reactively by examining and checking the risk management processes. In preparation for each year, an analysis is made of the Company's regulatory compliance risks and, based on that analysis, a plan is drawn up for the future work of the function. The plan is approved by the CEO and reported to the Board of Directors.

*Capital requirement for regulatory compliance risk*

The Company's assessment is that the capital requirement for regulatory compliance risk is addressed within the operational risks.

**Sustainability risk**

Sustainability risk refers to the risk of the Company directly or indirectly negatively affecting or being affected in the areas of

the environment and climate, corruption, human rights, working conditions or business ethics.

Sustainability risks are managed by considering economic, social and environmental sustainability throughout the operations. Requirements are based on national and international regulations and guidelines in the areas of the environment and climate, corruption, human rights, working conditions or business ethics. An analysis of the level of risk is performed on a regular basis and reported to the Board of Directors, CEO and the management.

*Capital requirement for sustainability risk*

The Company's assessment is that the capital requirement for sustainability risk is addressed within the operational risks.

**Capital adequacy**

Since 1 January 2014, the capital adequacy requirements have been calculated according to CRR<sup>1</sup>. The capital buffers to be introduced under CRD IV<sup>2</sup> first require implementation under Swedish law, which has been effectuated through the Act concerning capital buffers (2014:966). The Company has not been identified as a systemically critical institute.

At 31 December 2020, the countercyclical buffer requirement for Kommuninvest i Sverige AB amounted to 0.0 percent, a decrease of 2.5 percent as of 16 March 2020 when the Swedish Financial Supervisory Authority (Finansinspektionen) lowered the buffer requirement for Sweden from 2.5 percent to 0 percent with the purpose of fostering a functioning credit supply. This reduction has had a marginal effect on the Company's capital requirements. 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.

Capital base	2020	2019
Capital Instruments <sup>1</sup>	7,100.0	7,100.0
Non-distributed retained earnings <sup>2</sup>	484.5	484.5
Accumulated other comprehensive income and other reserves	17.5	17.5
<b>Core Tier I capital before regulatory adjustments</b>	<b>7,602.0</b>	<b>7,602.0</b>
Further value adjustments <sup>3</sup>	-225.4	-183.2
<b>Total regulatory adjustments to core Tier I capital</b>	<b>-225.4</b>	<b>-183.2</b>
<b>Total core Tier I capital</b>	<b>7,376.6</b>	<b>7,418.8</b>
Tier I capital contributions	-	-
<b>Total Tier I capital</b>	<b>7,376.6</b>	<b>7,418.8</b>
<b>Total Tier II capital</b>	<b>-</b>	<b>-</b>
<b>Total capital</b>	<b>7,376.6</b>	<b>7,418.8</b>

1) For a more detailed description of the constituent instruments, see page 57.

2) As of 31 December 2020, deductions of SEK 2.2 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) Deduction 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.

## Note 3, continued

Risk exposure amounts and minimum capital amounts	2020		2019	
	Risk exposure	Capital requirement	Risk exposure	Capital requirement
<b>Capital requirement, Pillar I</b>				
Capital requirement for credit risks (the standardised method)	360.3	28.8	2,703.8	216.3
of which, institutional exposures	258.2	20.6	951.9	76.2
of which, corporate exposures	102.1	8.2	94.0	7.5
of which, exposures in the form of covered bonds	-	-	1,657.9	132.6
Operational risks, basic indicator method	1,337.1	107.0	1,917.5	153.4
Market risks	-	-	-	-
Credit valuation adjustment	741.4	59.3	1,230.3	98.4
<b>Total risk exposure amount and minimum capital amount</b>	<b>2,438.8</b>	<b>195.1</b>	<b>5,851.6</b>	<b>468.1</b>

Capital adequacy ratios	2020	2019
Core Tier I capital ratio	302.5%	126.8%
Tier I capital ratio	302.5%	126.8%
Total capital ratio	302.5%	126.8%

Buffer requirements	2020	2019
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	-	2.0%
Capital planning buffer <sup>2</sup>	43.8%	14.8%
<b>Total buffer requirements</b>	<b>46.3%</b>	<b>19.3%</b>
<b>Core Tier I capital available for use as buffer</b>	<b>294.5%</b>	<b>118.8%</b>

Internally estimated capital requirements	2020	2019
<b>Capital requirement, Pillar II</b>		
Credit risk	20.7	165.1
Market risks	1,823.6	1,869.8
Other risk <sup>1,2</sup>	446.0	-
<b>Total internally estimated capital requirement</b>	<b>2,290.3</b>	<b>2,034.9</b>

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

2) The comparative figure for 2019 has been recalculated, following which it is not comparable with the 2019 Annual Report. The recalculation was necessary because a capital planning buffer was calculated in connection with the establishment of the ICLA as of 31 December 2020.

The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements. For further information on the Company's internal capital assessment and capital plan, see pages 40; for details of capital targets, see the table.

Total assessed capital requirement	2020		2019	
Capital requirement, Pillar I	195.1	8.0%	468.1	8.0%
Buffer requirement, Pillar I	61.0	2.5%	265.5	4.5%
Capital requirement, Pillar II	2,290.3	93.9%	2,034.9	34.8%
Buffer requirement, Pillar II	1,069.3	43.8%	864.9	14.8%
<b>Total assessed capital requirement</b>	<b>3,615.7</b>	<b>148.2%</b>	<b>3,633.4</b>	<b>62.1%</b>

For information to be disclosed under Commission Implementing Regulation No 1423/2013 of 20 December 2013 on technical standards for implementation 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.

**Capital targets**

The Company's capital target for 2020 amounts to SEK 6,500 (5,599) million, corresponding to a 1 percent leverage ratio plus the Board of Directors' buffer of SEK 900 (900) million. In relation to the Company's capital base, which amounts to SEK 7,376.6 (7,418.8) million, the capital target is met by a good margin.

Capital targets, SEK million	2020	2019
Internally estimated capital requirements	3,900	3,633
Capital requirements determined by Finansinspektionen	5,600	4,699
Board of Directors' buffer	900	900
<b>Capital targets</b>	<b>6,500</b>	<b>5,599</b>

**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.

	2020	2019
Total assets	527,363.6	471,320.7
Less asset amounts deducted to determine the core Tier I capital	-225.4	-183.2
Adjustment for derivative instruments	-11,717.2	-2,603.7
Plus possible change in risk in connection with repo transactions	-	28.4
Plus off-balance sheet commitments	1,107.2	1,297.7
<b>Total exposure</b>	<b>516,528.2</b>	<b>469,859.9</b>
<b>Tier I capital, calculated applying transitional rules, see the section Capital adequacy</b>	<b>7,376.6</b>	<b>7,418.8</b>
<b>Leverage ratio</b>	<b>1.43%</b>	<b>1.58%</b>

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, see page 40.

**External monitoring***Reference rate phase-out*

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. 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 the Swedish Financial Supervisory Authority (Finansinspektionen) by 31 December 2021.

*Note 3, continued*

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 published its recommendations on 15 May 2020.

Following this publication, the development process was taken over by the Riksbank (the Swedish central bank) to produce a final framework and reference rate able to function as an alternative reference rate for financial contracts in SEK. In January 2021, the Riksbank began a test period during which a preliminary transaction-based reference rate for the shortest maturity (over-night, O/N) will be published. On 27 January, the Riksbank announced that the new reference rate will be called SWESTR. Like the Bank of England and the Federal Reserve, the Riksbank will publish historical averages based on the daily quotations. The development of SWESTR was prompted by a round of consultations. It remains unclear, however, whether the new reference rate is intended to 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 determine a reference rate suitable as a replacement for Libor in USD. In June 2017, the Secured Overnight Financing Rate (SOFR) was chosen, a reference rate based entirely on actual repo market transactions. SOFR has been published since early April 2018 and a market for swaps and futures has already been established. SOFR-linked bonds have also been issued since 2018.

On 30 November 2020, ICE Benchmark Administration (IBA, administrator of USD Libor) announced that the publication of Libor in GBP, EUR, CHF and JPY would likely cease on 31 December 2021, as planned. For USD, however, only Libor on maturities of 1 week and 2 months are expected to cease at the end of 2021, while other maturities (overnight, 1m, 3m, 6m and 12m) may continue to be published until as late as June 2023. However, the IBA advises against entering into new Libor agreements after the end of 2021. The Company has established a reconnaissance group with representatives of the relevant functions to monitor developments in the area and to assess which measures must be implemented in the operations. In 2020, a separate project was initiated for the implementation of instruments linked to the new SOFR reference rate prior to the cessation of USD Libor. The work of the reconnaissance group is continuing in parallel with the project to identify other changes that could be needed. The Company expects to be fully adapted for a migration from Libor to SOFR during the first half of 2021.

**Brexit**

The UK left the EU on 1 February 2020. Prior to the UK's withdrawal, however, the parties agreed that a transitional period would apply until 31 December 2020, with existing regulations continuing to apply while new agreements were negotiated. This postponed the risk of the UK leaving without an agreement.

For Kommuninvest, this risk lay 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. Despite an agreement being signed late in 2020, uncertainties regarding the financial sector remain.

This risk has been managed by approving new counterparties within the EU and negotiating new agreements with them. Preparations for withdrawal without an agreement were made in 2020, with new agreements being drawn up with nine of the Company's prioritised counterparties. Negotiations with other counterparties will continue in 2021. The Swedish central government has decided to extend the transitional rules until the

end of 2021 for companies from third countries that conduct securities operations and some counterparties have chosen to apply these rules. Another risk for Kommuninvest has been no longer being able to hedge derivatives subject to clearing obligations under EMIR, as the Company uses London Clearing House Limited (LCH) of the UK. In order to prevent the risk of disruption, the European Securities and Markets Authority (ESMA) has decided that LCH would be permitted to provide its services as a clearing house within the EU, even following a Brexit without an agreement, for a transitional period extending until 30 June 2022. This risk has been managed 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 earnings, 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. Kommuninvest operations have changed considerably since the inception of the Company in 1986.

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's 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 2020 (SEK, millions).

	<b>2020</b>
Liabilities to credit institutions	947.0
Securities issued	498,305.9
<b>Total funding</b>	<b>499,252.9</b>
<b>LIABILITIES, according to statement of undertaking</b>	
On-lent funding <sup>1</sup>	436,794.0
Funding not on-lent <sup>2</sup>	62,458.9
<b>Total funding</b>	<b>499,252.9</b>
Derivatives, linked to on-lent funding <sup>1</sup>	1,548.0
Other liabilities <sup>2</sup>	428.9
<b>Total liabilities/undertaking</b>	<b>501,229.8</b>
<b>ASSETS, according to statement of undertaking</b>	
Lending <sup>1</sup> , see Note 14	445,788.8
Liquidity reserve <sup>2</sup> , see Notes 3, 13, 15	62,458.9
Derivatives, linked to on-lent funding <sup>1</sup>	549.2
Other assets <sup>2</sup>	16,686.5
<b>Total assets</b>	<b>525,483.4</b>

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.



## Note 3, continued

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 2020, collateral received amounted to SEK 668.2 (1,584.2) million and may only be used to cover outstanding exposures. The corresponding collateral for the Company's liabilities relating to derivatives amounts to SEK 2.0 (5.3) million. These are disclosed in Note 26, but may not be reduced in the balance sheet.

## Note 4 Net interest income

Interest revenues	2020	2019
Interest revenues calculated according to effective interest method	1,741.9	1,198.9
<i>of which, lending</i>	1,671.2	1,102.6
<i>of which, interest-bearing securities</i>	70.7	96.3
Other interest revenues	1.2	24.6
<b>Total</b>	<b>1,743.1</b>	<b>1,223.5</b>
Of which: interest revenues from financial items not measured at fair value through the income statement	1,197.1	692.6
<b>Interest expenses</b>		
Interest expenses calculated according to effective interest method	-973.0	-241.0
<i>of which, liabilities to credit institutions</i>	-26.2	-2.7
<i>of which, securities issued</i>	-942.1	-230.4
<i>of which lending, negative lending rate</i>	-4.7	-7.9
Other interest expenses	-58.8	-155.0
<b>Total</b>	<b>-1,031.8</b>	<b>-396.0</b>
Of which: interest expense from financial items not measured at fair value through the income statement	-1,110.4	-1,149.4
<b>Net interest income</b>	<b>711.3</b>	<b>827.5</b>

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 53.

## Note 5 Commission expenses

	2020	2019
Payment agency commissions	8.4	7.4
Brokerage for securities	3.2	3.6
Other commissions	1.1	0.3
<b>Total</b>	<b>12.7</b>	<b>11.3</b>

## Note 6 Net result of financial transactions

	2020	2019
Realised profit	-1.7	-7.1
<i>of which, interest-bearing securities</i>	-	-
<i>of which, other financial instruments</i>	-1.7	-7.1
Unrealised changes in market value	-245.3	-193.9
Exchange rate changes	-0.7	-0.5
<b>Total</b>	<b>-247.7</b>	<b>-201.5</b>

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	2020	2019
Financial assets at fair value through the income statement	210.6	-519.6
<i>of which, compulsory</i>	-7.3	-344.9
<i>of which, fair value option</i>	217.9	-174.7
Financial assets measured at amortised cost	0.1	3.3
Financial liabilities at fair value through the income statement	-461.2	358.4
<i>of which, held for trade</i>	-68.4	3,872.8
<i>of which, fair value option</i>	-392.8	-3,514.4
Financial liabilities measured at amortised cost	-	-
Change in fair value of derivatives that are hedging instruments in fair value hedge	648.8	-790.8
Change in fair value of derivatives that are hedging instruments in a fair value hedge, portfolio	-34.8	0.7
Change in fair value on hedged item with regard to hedged risk in fair value hedging	-645.1	747.7
Change in fair value on hedged item with regard to hedged risk in fair value hedging, portfolio	34.6	-0.7
Exchange rate changes	-0.7	-0.5
<b>Total</b>	<b>-247.7</b>	<b>-201.5</b>
<b>Results (net)</b>		
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 0.2 (3.3) million. This amount includes compensation for the interest spread of SEK 0.2 (3.3) million, pertaining to prematurely discontinued lending. In all instances, discontinuation has been on the customer's initiative.

## Note 7 Other operating income

	2020	2019
Capital gain on divestments of tangible assets	-	0.1
Revenue from contracts with customers	8.2	6.5
Other operating income	3.4	2.7
<b>Total</b>	<b>11.6</b>	<b>9.3</b>

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 a period of one calendar

year and are not normally invoiced within that financial year, no adjustment is made for any material financing component since payment terms, invoicing and access to the service occur within an individual 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	2020	2019
<b>Payroll expenses</b>		
Salaries and emoluments	74,492	75,309
Social security contributions	40,974	41,208
<i>of which, social security contributions and wage debt for social security contributions</i>	22,692	23,606
<i>of which, pension expenses</i>	14,713	13,907
<i>of which, special payroll tax on pension expenses</i>	3,569	3,695
Temporary/contract personnel	7,461	3,164
Education/training expenses	2,698	3,946
Other payroll expenses	2,711	3,449
<b>Total payroll expenses</b>	<b>128,336</b>	<b>127,076</b>
<b>Other general administration expenses</b>		
Travel expenses	675	3,942
IT expenses	24,489	20,437
Consultancy fees	22,542	16,517
Rating expenses	3,009	1,781
Market data	9,344	9,484
Rent and other expenses for premises	6,116	6,634
Annual Report and interim report	616	709
Resolution fee	20,879	27,434
Other expenses	24,151	22,171
<b>Total other general administration expenses</b>	<b>111,821</b>	<b>109,109</b>
<b>Total</b>	<b>240,157</b>	<b>236,185</b>

### Salary policy

The Company applies a salary policy that explains that Kommuninvest does not apply variable remuneration. Nor has any variable remuneration been paid to Kommuninvest employees in 2020. 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 2020, the President and CEO received TSEK 3,443 (3,114) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to TSEK 1,087 (971) 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 2,181 (2,119) in basic salary for 2020. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to TSEK 699 (679) 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 47.

Remuneration to other senior executives in Company management has been determined by the Board. During 2020, the total remuneration to senior executives who were part of the Executive Management Team amounted to TSEK 6,508 (5,845). The pension expenses are covered through insurance.

In accordance with the work plan for the Board of Directors established in 2020, the Chairman of the Board is responsible for an independent review being performed of the Company's salary 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 salary 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 4 (3) were women. Ellen Bramness Arvidsson is the Chairman of the Board. The 2020 Annual General Meeting resolved that the Board would receive fixed fees of SEK 600,000 to the Chairman and a fixed fee of SEK 330,000 to the other members. No fees were paid to employee representatives.

Kommuninvest does not have any pension obligations or any particular conditions of notice for the Board of Directors.

In TSEK	2020	2019
Ellen Bramness Arvidsson	585	550
Kurt Eliasson	321	300
Lars Heikensten	321	300
Johan Törngren, stepped down in April 2020	88	300
Catrina Ingelstam, newly elected in April 2020	234	-
Erik Langby	321	300
Anna von Knorring, stepped down in October 2020	239	300
Kristina Sundin Jonsson	321	300
Mattias Bokenblom, employee representative	-	-
Kristin Ekblad, employee representative, newly elected in March 2020	-	-
<b>Total</b>	<b>2,430</b>	<b>2,350</b>

**Wages and remunerations**

2020, in TSEK	Basic salary / Board fee	Other benefits	Pension expense	Total
Board of Directors	2,430	-	-	2,430
President and CEO	3,443	116	1,087	4,646
Deputy CEO	2,181	-	699	2,880
Others in Company management	6,508	4	2,204	8,716
Other salaried employees	59,930	60	10,723	70,713
<b>Total</b>	<b>74,492</b>	<b>180</b>	<b>14,713</b>	<b>89,385</b>

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	61,882	-	10,530	72,411
<b>Total</b>	<b>75,309</b>	<b>107</b>	<b>13,907</b>	<b>89,323</b>

Average number of employees	2020	2019
Average number of employees during the year	103	101
<i>of whom, women</i>	39	42

**Auditing engagement**

At the Company's 2020 Annual General Meeting, KPMG AB was appointed as the auditing company for the period extending until the end of the Annual General Meeting in 2024. 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	2020	2019
Auditing engagement	1,304	714
Other audit services	659	970
Other Services	77	49

**Leasing**

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 to apply the option in RFR 2 not to apply IFRS 16.

The tables below show future leasing fees in accordance with RFR 2 and leasing expenses for the period in 2020. 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	2020
Within 1 year	5,342
2-5 years	9,525
More than 5 years	-
<b>Total</b>	<b>14,867</b>

Leasing expenses for the period	2020	2019
Leasing expenses	6,087	5,914
<i>of which, variable leasing fees</i>	-	-

## Note 9 Other operating expenses

	2020	2019
Insurance expenses	1.3	1.2
Communication and information	2.6	2.8
Other operating expenses	0.0	0.0
<b>Total</b>	<b>3.9</b>	<b>4.0</b>

## Note 10 Net credit losses

	2020	2019
Cash and balances with central banks	-0.7	0.0
Sovereign bonds eligible as collateral	-0.3	1.6
Lending to credit institutions	0.2	0.2
Lending	11.9	10.7
Bonds and other interest-bearing securities	0.0	-
Off-balance sheet items	0.0	0.1
<b>Total</b>	<b>11.1</b>	<b>12.6</b>

Although Kommuninvest reports expected credit losses in accordance with IFRS 9, Kommuninvest has not had any realised credit losses. For 2020, credit losses amounted to a positive amount, mainly as a result of changes in the model applied by the Company to calculate expected credit losses.

For information on the calculation model, provisions and credit loss fluctuations, see Note 3.

## Note 11 Tax

Recognised in income statement	2020	2019
Current tax expense	48.3	84.2
Adjustment of taxes attributable to previous years	-	-
<b>Total tax expense recognised</b>	<b>48.3</b>	<b>84.2</b>

Reconciliation of effective tax	2020		2019	
Profit before tax		228.0		392.1
Tax according to prevailing tax rate	21.4%	48.8	21.4%	83.9
Non-deductible expenses/ Non-taxable revenues	-0.2%	-0.5	0.1%	0.3
Tax attributable to previous years	0.0%	-	0.0%	-
<b>Recognised effective tax</b>	<b>21.2%</b>	<b>48.3</b>	<b>21.5%</b>	<b>84.2</b>

Tax items entered directly against equity	2020	2019
Current tax on Group contributions paid	48.3	84.2
<b>Total sum entered directly against equity</b>	<b>48.3</b>	<b>84.2</b>

## Note 12 Proposed distribution of earnings

	2020
<i>The Board of Directors proposes that:</i>	
Profit for the year	179.7
Profit or loss brought forward	276.6
<b>Total</b>	<b>456.3</b>
<i>Be appropriated as follows:</i>	
To be carried forward	456.3

For more information, see page 36.

## Note 13 Sovereign bonds eligible as collateral

	2020				2019			
	Recognised value		Total recognised value	Fair value	Recognised value		Total recognised value	Fair value
Amortised cost	Fair value through the income statement	Amortised cost			Fair value through the income statement			
Sovereign bonds eligible as collateral								
- Swedish central government	25,198.4	2,836.8	28,035.2	28,036.4	13,511.2	1,389.2	14,900.4	14,900.9
- Foreign governments	-	-	-	-	-	2,785.9	2,785.9	2,785.9
<b>Total</b>	<b>25,198.4</b>	<b>2,836.8</b>	<b>28,035.2</b>	<b>28,036.4</b>	<b>13,511.2</b>	<b>4,175.1</b>	<b>17,686.3</b>	<b>17,686.8</b>
Positive difference of book values exceeding nominal values			6.0				87.0	
Negative difference of book values falling below nominal values			-0.6				-	
<b>Total</b>			<b>5.4</b>				<b>87.0</b>	

## Note 14 Lending

	2020				2019			
	Recognised value			Fair value	Recognised value			Fair value
	Amortised cost	Fair value through the income statement	Total recognised value		Amortised cost	Fair value through the income statement	Total recognised value	
Lending								
- municipalities and regions	155,571.9	49,169.4	204,741.2	205,327.2	120,642.9	63,335.4	183,978.3	184,100.0
- housing companies with municipal guarantees	115,177.3	38,232.3	153,409.7	153,689.1	98,309.6	46,628.6	144,938.2	144,938.9
- other companies with municipal guarantees	64,990.5	22,647.4	87,637.9	87,700.8	52,075.3	27,226.3	79,301.6	79,227.2
<b>Total</b>	<b>335,739.7</b>	<b>110,049.0</b>	<b>445,788.8</b>	<b>446,717.1</b>	<b>271,027.8</b>	<b>137,190.3</b>	<b>408,218.1</b>	<b>408,266.1</b>

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

	2020				2019			
	Recognised value			Fair value	Recognised value			Fair value
	Amortised cost	Fair value through the income statement	Total recognised value		Amortised cost	Fair value through the income statement	Total recognised value	
Bonds and other interest-bearing securities								
- Swedish mortgage finance institutions	-	-	-	-	-	-	-	-
- other Swedish issuers	3,013.7	1,215.4	4,229.1	4,224.4	-	-	-	-
- other foreign issuers	5,023.1	4,570.6	9,593.7	9,591.9	-	7,722.6	7,722.6	7,722.6
<b>Total</b>	<b>8,036.8</b>	<b>5,786.0</b>	<b>13,822.8</b>	<b>13,816.3</b>	<b>-</b>	<b>7,722.6</b>	<b>7,722.6</b>	<b>7,722.6</b>
Positive difference of book values exceeding nominal values			185.1				111.6	
Negative difference of book values falling below nominal values			0.0				-0.8	
<b>Total</b>			<b>185.1</b>				<b>110.8</b>	

## Note 16 Shares and participations in subsidiaries

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

	2020	2019
Number of shares: 1,000	42.0	42.0
<b>Total</b>	<b>42.0</b>	<b>42.0</b>

As per 31 December 2020, Kommuninvest Fastighets AB had a balance sheet total of SEK 46.2 (46.4) million, equity of SEK 42.0 (42.3) 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 hedges 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 in 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.

### Hedge accounting and uncertainty resulting from the reference interest rate reform

The reform regarding new reference interest rates will have an immaterial effect on Kommuninvest's earnings and position because Kommuninvest has very few hedges linked to uncertainty in foreign IBOR.

Kommuninvest has three hedging relationships linked to LIBOR 3m that extend beyond the end of 2021 and have a nominal amount of SEK 2 billion. Kommuninvest has decided not to enter into any new hedging relationships of this kind.

Kommuninvest includes hedge accounting linked to Stibor 3m, for which the nominal amount totals slightly less than SEK 300 billion. Today, it has yet to be established how Stibor will be affected by the reference rate reform.

## 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		2020	2019	2020	2019	2020	2019
	<1 year	1-5 years	>5 years	2020	2019						
<i>Derivatives in hedging relationship</i>											
Derivatives in hedging of interest rate risk	55,154.3	308,455.7	85,233.2	448,843.2	389,706.1 <sup>1)</sup>	566.7	1,220.8	-454.5	-453.3	702.5	-777.0
Derivatives in hedging of interest rate risk, portfolio	-	10,330.0	5,925.0	16,255.0	150.0	0.0	0.0	0.0	0.0	-34.8	0.7
Derivatives in hedging of interest rate and currency risk	776.3	1,581.5	-	2,357.8	3,370.8	169.4	396.0	-59.1	-	-52.7	-13.8
<b>Total</b>	<b>55,930.6</b>	<b>320,367.2</b>	<b>91,158.2</b>	<b>467,456.0</b>	<b>393,226.9<sup>1)</sup></b>	<b>736.1</b>	<b>1,616.8</b>	<b>-513.6</b>	<b>-453.3</b>	<b>615.0</b>	<b>-790.1</b>
Average interest rate	0.15%	0.13%	0.25%								
<i>Derivatives not used for hedging</i>											
Interest rate-related	101,908.2	135,218.9	1,882.4	239,009.5	258,182.7	0.1	23.9	-194.5	-330.7		
Currency-related	99,729.8	101,919.1	150.9	201,799.8	174,702.5	1,342.1	10,256.5	-18,020.6	-2,347.1		
Other	6,779.1	-	-	6,779.1	6,481.8	351.0	69.8	-249.0	-353.4		
<b>Total</b>	<b>208,417.1</b>	<b>237,138.0</b>	<b>2,033.3</b>	<b>447,588.4</b>	<b>439,367.0</b>	<b>1,693.2</b>	<b>10,350.2</b>	<b>-18,464.1</b>	<b>-3,031.2</b>		
<b>Total</b>	<b>264,347.7</b>	<b>557,505.2</b>	<b>93,191.5</b>	<b>915,044.4</b>	<b>832,593.9<sup>1)</sup></b>	<b>2,429.3</b>	<b>11,967.0</b>	<b>-18,977.7</b>	<b>-3,484.5</b>		

Hedged items	Assets, recognised value		Accrued amount for adjustment of fair value, assets		Liabilities, recognised value		Accrued amount for adjustment of fair value, for accounting of hedging inefficiency		Changes in fair value used for accounting of hedging inefficiency	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Lending in an interest rate risk hedge	145,286.9	116,060.4	1,895.5	869.5					1,026.0	213.0
Investment in an interest rate risk hedge	7,389.9	-	8.8	-					8.8	-
Funding in an interest rate risk hedge					299,897.0	258,602.4	2,397.7	657.3	-1,740.4	512.6 <sup>1)</sup>
Funding in an interest rate and currency risk hedge					2,468.0	3,252.2	92.8	153.4	60.6	22.1 <sup>1)</sup>
Hedged item, portfolio	16,255.0	150.0	33.9	-0.7					34.6	-0.7
<b>Total</b>	<b>168,931.8</b>	<b>116,210.4</b>	<b>1,938.2</b>	<b>868.8</b>	<b>302,365.0</b>	<b>261,854.6</b>	<b>2,490.5</b>	<b>810.7</b>	<b>-610.4</b>	<b>747.0</b>

1) This item has been corrected and does not agree with the 2019 Annual Report.

Total hedging inefficiency	2020	2019
<i>Interest rate risk hedging</i>		
Derivatives	702.5	-777.0
Funding	-1,740.4	512.6 <sup>1)</sup>
Lending	1,026.0	213.0
Investment	8.8	-
Portfolio	-0.2	0.0
<b>Total</b>	<b>-3.3</b>	<b>-51.4</b>
<i>Interest rate and currency risk hedging</i>		
Derivatives	-52.7	-13.8
Funding	60.6	22.1 <sup>1)</sup>
<b>Total</b>	<b>7.9</b>	<b>8.3</b>

1) This item has been corrected and does not agree with the 2019 Annual Report.

All inefficiency is recognised in net result of financial transactions.

**Note 18** Intangible assets

	2020	2019
<i>Acquisition value</i>		
Acquisition value brought forward	44.1	34.0
Investments for the year	10.3	10.1
Disposals and scrappings	-2.3	-
<b>Acquisition value carried forward</b>	<b>52.1</b>	<b>44.1</b>
<i>Depreciation</i>		
Opening balance, depreciation	-22.7	-18.3
Depreciation for the year	-0.7	-4.4
Disposals and scrappings	2.0	-
<b>Depreciation carried forward</b>	<b>-21.4</b>	<b>-22.7</b>
<b>Planned residual value at the end of the accounting period</b>	<b>30.7</b>	<b>21.4</b>

Kommuninvest's intangible assets consist of business systems developed in-house. The item Disposals and scrappings pertains to the impairment of an application in K1 Finans.

**Note 19** Tangible assets

	2020	2019
<i>Acquisition value</i>		
Acquisition value brought forward	24.1	20.2
Investments for the year	2.0	4.5
Disposals and scrappings	-	-0.6
<b>Acquisition value carried forward</b>	<b>26.1</b>	<b>24.1</b>
<i>Depreciation</i>		
Opening balance, depreciation	-17.0	-15.2
Depreciation for the year	-2.3	-2.3
Disposals and scrappings	-	0.5
<b>Depreciation carried forward</b>	<b>-19.3</b>	<b>-17.0</b>
<b>Planned residual value at the end of the accounting period</b>	<b>6.8</b>	<b>7.1</b>

Tangible assets mainly comprise IT equipment and office equipment.

**Note 20** Other assets

	2020	2019
Receivables from subsidiaries	1.9	2.5
Marginal collateral pledged	16,460.3	2,807.6
Other assets	12.3	18.8
<b>Total</b>	<b>16,474.5</b>	<b>2,828.9</b>

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

	2020	2019
Liabilities to parent society	276.9	1,397.0
Marginal collateral received	94.3	7,981.5
Other liabilities	11.1	22.1
<b>Total</b>	<b>382.3</b>	<b>9,400.6</b>

The liability to the Kommuninvest Cooperative Society involves Group and member contributions in 2020, 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

	2020	2019
Provisions for off-balance sheet commitments	0.0	0.1
<b>Total</b>	<b>0.0</b>	<b>0.1</b>

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

	2020	2019
<b>Pledged assets</b>		
<i>In the form of assets pledged for own provisions and liabilities</i>		
Deposited at the Riksbank		
- government bonds	334.6	2,297.1
- state-related securities	8,220.6	3,448.4
Collateral pledged for derivative liabilities		
- government bonds	5.3	5.3
Marginal collateral pledged to a central clearing counterparty		
- government bonds	2,502.2	-
<b>Assets pledged, total</b>	<b>11,062.7</b>	<b>5,750.8</b>
<b>Contingent liabilities</b>	None	None
<b>Committed undisbursed loans</b>	1,859.1	1,618.8
<b>Committed loans</b>	355.3	976.5

The recognised value of liabilities and provisions involving pledges amounted to SEK 2.0 (5.8) 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 2020, 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	Liabilities to
					related parties on 31 December	related parties on 31 December
Kommuninvest Cooperative Society	2020	1,515	-	-	269	276,890
	2019	1,109	40	-	-	1,396,952
Kommuninvest Fastighets AB	2020	609	4,390	-	2,202	-
	2019	295	4,423	-	2,435	-

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 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.

## Note 25 Financial assets and liabilities

### Financial instruments broken down by valuation category

2020	Amortised cost	Fair value through the income statement			Recognised value	Fair value
		Held for trade	Compulsory	Fair value option		
<b>Financial assets</b>						
Cash and balances with central banks	18,931.2	-	-	-	18,931.2	18,931.2
Sovereign bonds eligible as collateral	25,198.4	-	-	2,836.8	28,035.2	28,036.4
Lending to credit institutions	1,669.6	-	-	-	1,669.6	1,669.6
Lending	335,739.7	-	-	110,049.0	445,788.7	446,717.1
Change in value of interest-hedged items in portfolio hedging	33.9	-	-	-	33.9	33.9
Bonds and other interest-bearing securities	8,036.8	-	-	5,786.1	13,822.9	13,816.4
Derivatives	-	-	1,693.2	-	736.2	2,429.4
Other financial assets	16,464.2	-	-	-	16,464.2	16,464.2
<b>Total</b>	<b>406,073.8</b>	<b>-</b>	<b>1,693.2</b>	<b>118,671.9</b>	<b>736.2</b>	<b>527,175.1</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions <sup>1</sup>	379.7	-	-	567.3	947.0	947.0
Securities issued <sup>1</sup>	349,899.6	-	-	148,406.3	498,305.9	499,820.2
Derivatives	-	18,464.0	-	-	513.6	18,977.6
Change in value of interest-hedged items in portfolio hedging	-	-	-	-	-	-
Other financial liabilities	379.6	-	-	-	379.6	379.6
<b>Total</b>	<b>350,658.9</b>	<b>18,464.0</b>	<b>-</b>	<b>148,973.6</b>	<b>513.6</b>	<b>520,124.4</b>

1) The nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 496,443.1 (451,880.3) million.

*Note 25, continued*
**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		
<b>Financial assets</b>						
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	-	11,967.0	11,967.0
Other financial assets	2,825.9	-	-	-	2,825.9	2,825.9
<b>Total</b>	<b>310,093.2</b>	<b>-</b>	<b>10,350.2</b>	<b>149,088.0</b>	<b>471,148.2</b>	<b>471,196.7</b>
<b>Financial liabilities</b>						
Liabilities to credit institutions <sup>1</sup>	3,435.3	-	-	592.4	4,027.7	4,027.6
Securities issued <sup>1</sup>	285,715.8	-	-	161,047.2	446,763.0	448,022.5
Derivatives	-	3,031.2	-	-	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
<b>Total</b>	<b>298,549.4</b>	<b>3,031.2</b>	<b>-</b>	<b>161,639.6</b>	<b>463,673.5</b>	<b>464,932.9</b>

1) The nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 496,443.1 (451,880.3) 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, the liquidity reserve and 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 on elements of 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 191 (267) 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 224 (253) 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 +/- 33 (+/- 14) 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 +/-18 (+/-14) million.

All of the above changes refer to 31 December 2020 (comparative figures refer to 31 December 2019) 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 the income statement 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 – 2.7 years. This would have an effect on net profit in the interval SEK +0.7 million – SEK -3.9 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.

## FINANCIAL STATEMENTS

### Note 25, continued

#### Changed valuation models

During the period, Kommuninvest introduced SOFR discounting of cleared interest rate swaps in USD. Following the switch to these interest rates by clearing house LCH, SOFR discounting is considered to better reflect fair value. The change affects the overall value of the derivative portfolio positively by SEK 0.1 million as per 31 December 2020. No changes in valuation models have been triggered by the crisis associated with the coronavirus.

#### 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

2020	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Sovereign bonds eligible as collateral	-	2,836.8	-	2,836.8
Lending	-	110,049.0	-	110,049.0
Bonds and other interest-bearing securities	2,632.3	3,153.7	-	5,786.0
Derivatives	-	1,944.3	485.0	2,429.3
<b>Total</b>	<b>2,632.3</b>	<b>117,983.8</b>	<b>485.0</b>	<b>121,101.1</b>
<b>Financial liabilities</b>				
Liabilities to credit institutions	-	567.3	-	567.3
Securities issued	122,672.4	18,069.4	7,664.5	148,406.3
Derivatives	-	18,587.7	389.9	18,977.6
<b>Total</b>	<b>122,672.4</b>	<b>37,224.4</b>	<b>8,054.4</b>	<b>167,951.2</b>
<b>2019</b>				
<b>Financial assets</b>				
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
<b>Total</b>	<b>7,732.8</b>	<b>153,137.4</b>	<b>184.8</b>	<b>161,055.0</b>
<b>Financial liabilities</b>				
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
<b>Total</b>	<b>101,897.5</b>	<b>56,006.1</b>	<b>7,220.5</b>	<b>165,124.1</b>

#### Transfer between levels of instruments recognised at fair value in the balance sheet

	Recognised value 31 Dec 2020	Recognised value 31 Dec 2019
<b>Assets</b>		
To level 1 from level 2	-	-
To level 2 from level 1	585.2	-
<b>Liabilities</b>		
To level 1 from level 2	-	-
To level 2 from level 1	8,284.9	35,348.8

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 2020 and 31 December 2019 for the preceding period.

## Note 25, continued

## Fair value of financial instruments not recognised at fair value in the balance sheet

2020	Level 1	Level 2	Level 3	Total fair value	Recognised value
<b>Financial assets</b>					
Cash and balances with central banks	-	18,931.2	-	18,931.2	18,931.2
Sovereign bonds eligible as collateral	-	25,199.7	-	25,199.7	25,198.4
Lending to credit institutions	-	1,669.6	-	1,669.6	1,669.6
Lending	-	336,668.0	-	336,668.0	335,739.7
Change in value of interest-hedged items in portfolio hedging	-	33.9	-	33.9	33.9
Bonds and other interest-bearing securities	3,673.0	4,357.3	-	8,030.3	8,036.8
Other assets	-	16,464.2	-	16,464.2	16,464.2
<b>Total</b>	<b>3,673.0</b>	<b>403,323.9</b>	<b>-</b>	<b>406,996.9</b>	<b>406,073.8</b>
<b>Financial liabilities</b>					
Liabilities to credit institutions	-	379.7	-	379.7	379.9
Securities issued	-	351,413.9	-	351,413.9	349,899.6
Other liabilities	-	379.6	-	379.6	379.6
<b>Total</b>	<b>-</b>	<b>352,173.2</b>	<b>-</b>	<b>352,173.2</b>	<b>350,659.1</b>

2019	Level 1	Level 2	Level 3	Total fair value	Recognised value
<b>Financial assets</b>					
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
<b>Total</b>	<b>-</b>	<b>310,141.7</b>	<b>-</b>	<b>310,141.7</b>	<b>310,093.2</b>
<b>Financial liabilities</b>					
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
<b>Total</b>	<b>-</b>	<b>299,808.8</b>	<b>-</b>	<b>299,808.8</b>	<b>298,549.4</b>

## 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
<b>Opening balance, 1 Jan 2020</b>	<b>184.8</b>	<b>-489.0</b>	<b>-6,731.5</b>	<b>-7,035.7</b>
Recognised gains and losses:				
- recognised in the income statement (net result of financial transactions)	300.3	99.1	-386.4	13.0
Borrowings raised/Securities issued			6,173.7	6,173.7
Maturing during the year			-6,720.2	-6,720.2
<b>Closing balance, 31 Dec 2020</b>	<b>485.1</b>	<b>-389.9</b>	<b>-7,664.4</b>	<b>-7,569.2</b>
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as of 31 December 2020	135.9	-166.9	31.9	0.9
<b>Opening balance, 1 Jan 2019</b>	<b>129.1</b>	<b>-1,791.4</b>	<b>-7,866.3</b>	<b>-9,528.6</b>
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
<b>Closing balance, 31 Dec 2019</b>	<b>184.8</b>	<b>-489.0</b>	<b>-6,731.5</b>	<b>-7,035.7</b>
Gains and losses recognised in the Income Statement (the net result of financial transactions) for assets included in the closing balance as of 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.

2020	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet <sup>1</sup>	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet			Net amount
				Financial instruments	Provided (+)/ Received (-) collateral – security	Provided (+)/ Received (-) cash collateral	
<b>Assets</b>							
Derivatives	10,000.3	-7,570.9	<b>2,429.4</b>	-1,134.8	-668.2	-77.2	<b>549.2</b>
Repos	379.7		<b>379.7</b>		-379.5		<b>0.2</b>
<b>Liabilities</b>							
Derivatives	-21,357.8	2,380.2	<b>-18,977.6</b>	1,134.8	2.0	16,292.8	<b>-1,548.0</b>
Repos	379.7		<b>379.7</b>		-379.7		<b>-</b>
<b>Total</b>	<b>-10,598.1</b>	<b>-5,190.7</b>	<b>-15,788.8</b>	<b>-</b>	<b>-1,425.4</b>	<b>16,215.6</b>	<b>-998.6</b>

2019	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet <sup>1</sup>	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet			Net amount
				Financial instruments	Provided (+)/ Received (-) collateral – security	Provided (+)/ Received (-) cash collateral	
<b>Assets</b>							
Derivatives	17,553.6	-5,586.6	<b>11,967.0</b>	-2,104.1	-1,584.2	-7,267.8	<b>1,010.9</b>
Repos	20,042.6		<b>20,042.6</b>		-20,008.4		<b>34.2</b>
<b>Liabilities</b>							
Derivatives	-5,063.6	1,579.1	<b>-3,484.5</b>	2,104.1	5.3	683.3	<b>-691.8</b>
Repos	-3,435.1		<b>-3,435.1</b>		3,435.1		<b>-</b>
<b>Total</b>	<b>29,097.5</b>	<b>-4,007.5</b>	<b>25,090.0</b>	<b>-</b>	<b>-18,152.2</b>	<b>-6,584.5</b>	<b>353.3</b>

1) The amount offset for derivative liabilities includes cash collateral of SEK 5190.7 (4,007.5) million.

## Note 27 Events after the balance sheet date

No significant events have occurred following the end of the reporting period.

# Five-Year Summary

Key ratios 2016–2020, SEK, million	2020	2019	2018	2017	2016
<b>Equity</b>					
Core Tier I capital ratio (%)	302.5	126.8	188.4	212.4	103.7
Tier I capital ratio (%)	302.5	126.8	188.4	212.4	103.7
Total capital ratio (%)	302.5	126.8	188.4	212.4	122.1
Leverage ratio according to CRR (%)	1.43	1.58	1.75	1.78	1.56
<b>Net profit</b>					
Operating income	462.2	573.4	612.4	697.8	593.7
Operating expenses, excluding the resolution fee/stability fee, as % of lending <sup>1</sup>	0.051	0.054	0.057	0.065	0.072
Operating expenses, excluding the resolution fee/stability fee, as % of balance sheet total <sup>1</sup>	0.043	0.047	0.049	0.057	0.055
Return on assets (%)	0.034	0.065	0.140	0.245	0.086
Cost/income ratio	0.342	0.295	0.304	0.304	0.302
1) The resolution fee replaced the stability fee during 2016.					
<b>Other information</b>					
Number of employees at the end of the year	97	93	92	96	91
<b>Income statement 1 January – 31 December, SEK, million</b>		<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net interest income	711.3	827.5	885.5	881.3	762.0
Dividends received	1.9	2.4	2.1	1.8	-
Commission expenses	-12.7	-11.3	-8.2	-7.3	-5.2
Net result of financial transactions	-247.7	-201.5	161.4	512.0	-131.9
Other operating income	11.6	9.3	7.8	5.3	5.4
<b>Total operating income</b>	<b>464.4</b>	<b>626.4</b>	<b>1,048.6</b>	<b>1,393.1</b>	<b>630.3</b>
<b>Total expenses</b>	<b>-247.5</b>	<b>-246.9</b>	<b>-271.8</b>	<b>-269.3</b>	<b>-232.1</b>
<b>Profit before credit losses</b>	<b>216.9</b>	<b>379.5</b>	<b>776.8</b>	<b>1,123.8</b>	<b>398.2</b>
Net credit losses	11.1	12.6	-24.3	-	-
Impairment of financial assets	-	-	-	-	-
<b>Operating profit</b>	<b>228.0</b>	<b>392.1</b>	<b>752.5</b>	<b>1,123.8</b>	<b>398.2</b>
Tax	-48.3	-84.2	-166.4	-247.8	-88.4
<b>Net profit</b>	<b>179.7</b>	<b>307.9</b>	<b>586.1</b>	<b>876.0</b>	<b>309.8</b>
<b>Balance sheet summary as at 31 December, SEK million</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cash and balances with central banks	18,931.2	811.1	-	-	-
Sovereign bonds eligible as collateral	28,035.2	17,686.3	39,230.3	24,635.8	16,964.4
Lending to credit institutions	1,669.6	21,917.2	1,843.4	649.7	1,122.3
Lending	445,788.8	408,218.1	355,710.0	310,147.3	276,982.1
Change in value of interest-hedged item in portfolio hedging	33.9	-	-	-	-
Bonds and other interest-bearing securities	13,822.9	7,722.6	7,457.8	12,500.0	42,003.9
Derivatives	2,429.4	11,967.0	11,333.2	8,044.6	24,449.8
Other assets	16,652.6	2,998.4	1,627.4	965.2	202.9
<b>Total assets</b>	<b>527,363.6</b>	<b>471,320.7</b>	<b>417,202.1</b>	<b>356,942.6</b>	<b>361,725.4</b>
Liabilities to credit institutions	947.0	4,027.7	584.0	1,318.4	2,396.1
Securities issued	498,305.9	446,763.0	396,796.9	337,755.8	341,579.4
Derivatives	18,977.6	3,484.5	5,959.6	7,793.9	9,390.5
Change in value of interest-hedged item in portfolio hedging	-	0.7	-	-	-
Other liabilities	428.9	9,442.8	6,258.2	2,463.7	845.4
Subordinated liabilities	-	-	-	-	1,000.0
<b>Total liabilities and provisions</b>	<b>518,659.4</b>	<b>463,718.7</b>	<b>409,598.7</b>	<b>349,331.8</b>	<b>355,211.4</b>
Equity	8,704.2	7,602.0	7,603.4	7,610.8	6,514.0
<b>Total liabilities, provisions and equity</b>	<b>527,363.6</b>	<b>471,320.7</b>	<b>417,202.1</b>	<b>356,942.6</b>	<b>361,725.4</b>

# 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.

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	2020	2019		
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	228.0	392.1		
		Result of unrealised changes in market value	-245.3	-193.9		
		Net credit losses	11.1	12.6		
		<b>Operating income</b>	<b>462.2</b>	<b>573.4</b>		
Leverage ratio excluding lending to members and their companies	Kommuninvest's Tier I 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	516,528.2	469,859.9		
		Exposure in the form of lending to members and their companies	446,929.9	409,515.7		
		<b>Total exposure</b>	<b>69,598.3</b>	<b>60,344.2</b>		
		Tier I capital, calculated applying transitional rules	7,376.6	7,418.8		
<b>Leverage ratio excluding lending to members and their companies</b>	<b>10.60%</b>	<b>12.29%</b>				
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	-240.2	-236.2		
		Depreciation	-3.4	-6.7		
		Other operating expenses	-3.9	-4.0		
		Total operating expenses	-247.5	-246.9		
		Resolution fee	-20.9	-27.4		
		<b>Total operating expenses excluding resolution fee</b>	<b>-226.6</b>	<b>-219.5</b>		
		<b>Lending as per the closing date</b>	<b>445,788.8</b>	<b>408,218.1</b>		
		<b>Operating expenses, excluding the resolution fee, as % of lending</b>	<b>0.051</b>	<b>0.054</b>		
		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	-240.2	-236.2
				Depreciation	-3.4	-6.7
Other operating expenses	-3.9			-4.0		
Total operating expenses	-247.5			-246.9		
Resolution fee	-20.9			-27.4		
<b>Total operating expenses excluding resolution fee</b>	<b>-226.6</b>			<b>-219.5</b>		
<b>Balance sheet total as per the closing date</b>	<b>527,363.6</b>			<b>471,320.7</b>		
<b>Operating expenses, excluding the resolution fee, as % of balance sheet total</b>	<b>0.043</b>			<b>0.047</b>		
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	179.7	307.9
				Total assets	527,363.6	471,320.7
		<b>Return on assets (%)</b>	<b>0.034</b>	<b>0.065</b>		
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.	<b>Total expenses</b>	<b>-247.5</b>	<b>-246.9</b>		
		Net interest income	711.3	827.5		
		Other operating income	11.6	9.3		
		<b>Total net interest income and other operating income</b>	<b>722.9</b>	<b>836.8</b>		
		<b>Cost/income ratio</b>	<b>0.342</b>	<b>0.295</b>		



# 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, 9 February 2021

Ellen Bramness Arvidsson  
*Chairman*

Kurt Eliasson  
*Board Member*

Lars Heikensten  
*Board Member*

Catrina Ingelstam  
*Board Member*

Erik Langby  
*Board Member*

Kristina Sundin Jonsson  
*Board Member*

Mattias Bokenblom  
*Employee representative*

Kristin Ekblad  
*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 2020. The annual accounts of the Company are included on pages 27–97 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 2020 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 117,984 million classified as level 2, financial assets of SEK 485 million classified as level 3, financial liabilities of SEK 37,224 million classified as level 2 and financial liabilities of SEK 8,054 million classified as level 3. In total, these assets and liabilities represent 22 percent of the Company's total assets and 9 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 Control 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**

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.

**Response in the audit**

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 3–25. 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 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, measures taken to eliminate threats or countermeasures that have been implemented.

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 2020 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 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 Swedish 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 16 April 2020. KPMG AB or auditors working for KPMG AB have been the Company's auditor since 2016.

Stockholm,

KPMG AB

Anders Tagde  
*Authorised Public Accountant*



On the Kommuninvest website, [www.kommuninvest.se/en](http://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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