

KOMMUNINVEST I SVERIGE AB

Interim report 2020



KOMMUNINVEST

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
+ 13**

Kommuninvest is owned by 278 municipalities and 13 regions.



Green Loans

Green Loans were introduced in 2015 for financing environmental and climate-related investments. Since the launch, the volume of approved Green Loans has increased to SEK 70 billion.

Our vision

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

Basic concept

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

Organisation with clear division of roles

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

Kommuninvest Cooperative Society

Administrates membership and the joint and several guarantee.

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

Kommuninvest i Sverige AB

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

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



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 438 bn

On 30 June 2020, lending to members amounted to SEK 438 billion.

Interim Report for Kommuninvest i Sverige AB (publ)

This is the interim report for the credit market company Kommuninvest i Sverige AB (Kommuninvest). Corporate identity number: 556281-4409
Registered office: Örebro
1 January–30 June 2020

Comparative income statement figures relate to the corresponding period in the preceding year (1 January – 30 June 2019) unless otherwise indicated. Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2019 unless otherwise indicated.

Comment from the CEO

This unusual spring, showed once again the strength of Kommuninvest's business model. It was designed to hold up come rain or shine – and particularly to withstand the worst of storms. And that is what it does. Precisely as in the financial crisis of 2008–2009, we provided a safe haven during the first phase of the corona pandemic. We were one of very few players with consistently favourable access to the credit market. We ensured that the local government sector always received the loans it needed. We were there to help municipalities and regions just as we should.

At the same time, it must be stated that the crisis is not over. Most of the greatest difficulties remain ahead of us. Following the most acute initial phase and the wobbly intermediate phase now in progress, there will be a third phase, in which the local government sector must navigate into a new normality. This will be a major challenge, not least in financial terms. Even before the pandemic, many municipalities and regions were experiencing difficulties. Their circumstances are likely to be even tougher now.

Kommuninvest stands very well equipped for this third phase. Its liquidity remained strong and stable throughout the spring. In April, following thorough preparations, the Annual General Meeting of the Society, reached an important and highly positive resolution on an aggressive long-term capitalisation plan for the period until 2024. In June, to further enhance our comprehension of the pandemic's consequences, we initiated an independent expert group, "The Welfare Economists", to analyse municipal and regional economies in the wake of the corona crisis.

The net loss for the first half of the year was SEK 159.6 million. The negative outcome is primarily associated with unrealised negative changes in market values of SEK 405.6 million. These have primarily been attributable to funding in USD having become cheaper relative to funding in SEK. However, since we intend to hold assets and liabilities to maturity, such values are not normally realised. Operating income ended up at SEK 239.0 million. This



Tomas Werngren, CEO

indicates substantial stability. Following the approval of a new pricing strategy by the 2018 Annual General Meeting, we are pushing down prices on our lending by reducing the margin between borrowing and lending rates. One effect of this, which strengthens as higher-margin loans mature, is that we now generally work at lower profit levels than previously.

Kommuninvest's sustainability efforts are now expanding rapidly. Progress in the local government sector is impressive. Many municipalities and regions hold very advanced positions in the sustainability trend. Volumes continue to grow for our Green Loans, which celebrated their fifth anniversary in June. With regard to the social perspective, in the spring, we commenced the practical process of designing a new product and prepare for its launch: Social Sustainability Loans. Initially, this loan product will be introduced to a number of pilot customers in the autumn of 2020.

Tomas Werngren
President and CEO

Market

Corona pandemic

The corona pandemic has left a harsh and clear mark on all social development globally. Almost everywhere, strict rules and restrictions have been introduced to limit contagion. The effects include sharp declines in GDP and rapidly rising unemployment, although they have only had a gradual effect on contagion over time.

From early March, the uncertainty surrounding covid-19 caused substantial turbulence in the financial markets. Stock prices fell and interest rates rose in most parts of the world. With time, however, it transpired that the turbulence, in this phase at least, was transient in nature. Since mid-April, most of the world's stock market indices have recovered noticeably. At the same time, several important policy rates have returned roughly to the levels noted before the turbulence began.

Governments and central banks have taken strong measures to limit the negative economic effects. In Kommuninvest's strategic funding markets – USD, EUR and SEK – the Federal Reserve, the European Central Bank and the Riksbank have all pursued an active and partly innovative monetary policy. Fiscally, extensive efforts have been implemented in the US and Sweden. Where the EU is concerned, the member states agreed in July on a historic recovery plan in which up to EUR 750 billion (EUR 390 billion in grants and EUR 360 billion in loans) will specifically be used to stimulate the hardest-hit parts of the European economy.

It is difficult to say what awaits the financial markets in the future. Thus far, market behaviour has closely tracked the decline in the real economy. But there has also been a measure of decoupling. While the real economy in the US and Europe continued to deteriorate from mid-April to early June, stock prices generally rose, while interest rates generally fell. This decoupling makes it even more difficult to predict what direction the markets will take in the future.

Kommuninvest was able to manage the development of the crisis over the period without any significant problems. All parts of the operations have remained stable. On 18 March, given the financial turbulence and uncertain external situation, a decision was made to place the organisation on high alert. This contingency

level still applies at the end of the period. Contingencies have entailed more frequent meetings and internal reporting.

On the same date, to reduce operational risks and help limit contagion, the Company switched to virtually fully digital operation. Working from home and conducting meetings digitally became standard. Some employees may be given permission to work from the office for certain purposes. These are specific exceptions, however. The Annual General Meeting of the Society in April was held in digital format. Regular webinars have become a core component of our external communications. Even working digitally, as was still the case at the end of the six-month period, operations have progressed at full capacity.

Where lending was concerned, volumes were sizeable in the first few weeks of the crisis. In the stressed market situation of the day, the pressure from municipalities and regions were high. The level was about twice as high as during an average week in 2019. Some of them increased their funding from Kommuninvest because they were unable to raise funds independently at reasonable prices during the market turbulence. 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 has been at normal levels.

Kommuninvest has had continuous access to the capital market and has been able to finance municipalities' and regions' funding needs on favourable terms. For a number of weeks, during the worst of the turbulence, the choice was to issue only in the Swedish market. Here, there was substantial access to liquidity and reasonable credit spreads. From mid-April, when the market stress generally began to subside, the USD market in particular became relevant once more. On 23 April and 16 June, Kommuninvest completed two successful new issues under its USD benchmark programme. On 9 April, based on the substantial lending, Kommuninvest raised its funding forecast for 2020 to SEK 150–170 billion. Given that lending growth then slowed, this forecast was adjusted down slightly to SEK 150–160 billion on 23 June.

In two steps, on 16 March and 27 April, Kommuninvest introduced a new issue procedure. Today, funding is raised in the Swedish market and takes by means of weekly auctions. The purpose of this change was, in part, to provide conditions for the Riksbank to buy Kommuninvest bonds. The main purpose, however, was to improve the functioning of the market by improving clarity and transparency. The change has been received positively. Particularly in the somewhat longer term, this change should have a favourable impact on Kommuninvest's liquidity situation.

At the end of April, the Riksbank expanded its QE programme to also include local government bonds. The intention is to purchase local government bonds for SEK 45 billion by 31 December. The total volume of local government bonds outstanding is about SEK 430 billion. Although they have no decisive significance in either direction, from Kommuninvest's perspective, the Riksbank's actions are having positive rather than negative effects.

Kommuninvest did not need to utilise any provisions in its liquidity management during the period. The basic requirement in the legislation is usually referred to as "LCR 30". Put simply, funds should be readily available to survive for 30 days in the event that the market becomes extremely stressed. Kommuninvest also maintains its own requirement level: "LCR 90". This entails ensuring that means are accessible to survive for at least 90 days in an extremely stressed market situation. Since the start of the turbulence in early March, Kommuninvest has consistently maintained LCR 90.

A pronounced stability also prevails with regard to the capital situation. In April, the Annual General Meeting of the Society approved a long-term and aggressive capital build-up plan. The capitalisation period extends until 2024. Both internal and statutory capital requirements must always be met by a broad margin. The plan had been proposed and discussed long before the outbreak of the pandemic. In the light of the crisis, it has, however, become all the more valuable. It provides a capital situation that should suffice well for the scenarios that could transpire.

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 make this possible, Kommuninvest offered an interest-free loan of SEK 500 million. The Cities of Stockholm, Gothenburg and Malmö, as well as the Municipality of Uppsala are the guarantors of 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.

In a new report released on 17 June, Kommuninvest revised its assessment of how local government debt will develop. According to an earlier forecast, total local government debt was expected to increase by 8 percent in 2020. In the new scenario, growth in local government debt will fall to 6.5 percent in 2020, to then pick up again with growth figures of 8.3 percent for 2021 and 9.1 percent for 2022. Kommuninvest is able to cope with such a trend without difficulty.

Overall, Kommuninvest is very well equipped to deal with the ongoing developments stemming from the coronavirus. A return from working online to working more from the office has been included in our planning, although this will not be implemented until reasonable in terms of risk. Where both lending and funding are concerned, as well as liquidity and capital, Kommuninvest is deemed resilient even if developments in terms of the crisis were to worsen significantly.

Looking ahead, an important challenge will be further strengthening the analysis of how the corona pandemic impacts the local government sector. As a part of this, in May–June, Kommuninvest took the initiative to establish a temporary and independent expert group, the "Welfare Economists", to analyse the finances of municipalities and regions in the wake of the corona crisis. In this format and others, the intention is to maintain a focused exchange of knowledge about the new problems now faced by local government economies.

Ownership situation

The Kommuninvest Cooperative Society (the Society) owns 100 percent of the shares in the credit market company Kommuninvest i Sverige AB (Kommuninvest or the Company), in which all business activities within the Kommuninvest Group (the Group) are conducted. At 30 June 2020, the Society had 291 (290) members (partners), of which 278 (278) were municipalities and 13 (12) were regions. Consequently, 96 (96) percent of Sweden’s municipalities and 65 (60) percent of Sweden’s regions were members (partners) in the Society. During the period, Region Kalmar County became a member.

Resolutions by the Annual General Meeting of the Society

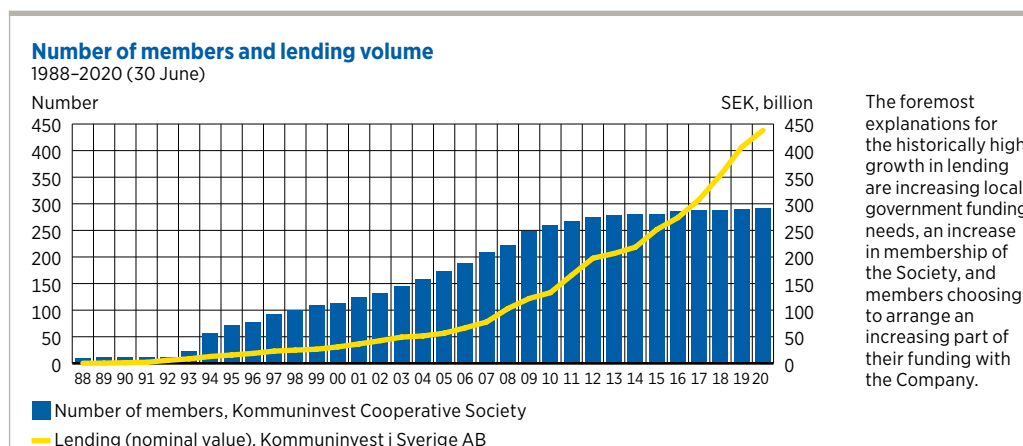
The Society held its Annual General Meeting on 16 April 2020 in Gothenburg. Taking into account the corona pandemic and the Public Health Agency of Sweden’s recommendations on public gatherings, the 2020 Annual General Meeting of the Society was held as a “hybrid meeting”, that is, with only a few people on site in Gothenburg and with representatives participating online.

The Meeting made the customary resolutions concerning elections to the Board of Directors of the Society, discharge of responsibility for the Board of Directors of the Society and the distribution of surpluses to members. The surpluses distributed comprise interest on

contribution capital and refunds based on business volumes, and totalled SEK 355 million.

The Annual General Meeting 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 Articles of Association 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. It was also determined that the fixed-term debenture loan issued by the Society in 2010 will be wound up, as debenture loans of this type may no longer be included in the capital base.

Following a proposal from the Election Committee of the Society, new rules of procedure were approved for the Election Committee, entailing all parliamentary parties having an ordinary representative on the Election Committee. The Meeting also appointed a new lay auditor and approved a change in the rules of procedure for the lay auditors. The Meeting also adopted owner directives for 2020 for the Company. As in previous years, these state that it is the Society that is responsible for providing the Company with the capital required for its operations.



Local government debt

Despite the prevailing conditions, Swedish municipalities and regions were again able, during the period, to meet their funding needs efficiently through Kommuninvest, the capital market and the banks. Kommuninvest estimates that the local government sector's external debt, following an increase of SEK 34 billion since the start of the year, amounted to SEK 755 (721) billion as of 30 June 2020, corresponding to 15.4 (14.4) percent of GDP. This assessment is more uncertain than normal due to the prevailing situation.

The forecast for local government debt for 2020 builds on assumed extensive investment needs in the local government sector due to high population growth, demographic changes, urbanisation and an extensive maintenance liability in existing buildings and infrastructure. Before the corona pandemic had an impact on the national economy, Kommuninvest's assessment was that debt would increase by 8 percent in 2020, corresponding to SEK 58 billion. The assessment is now that debt will grow less than expected in 2020, while, conversely, it will be higher in 2021 and 2022. Two reasons for this are the central government's support package providing favourable liquidity effects for 2020 and the negative liquidity effects of the sharply deteriorating growth in the tax base not taking full effect in the local government sector until 2022.

The local government sector's funding is characterised by short maturities and short-

term interest rates. At the end of the period, the average amount of time during which capital was tied up was 2.9 years and 56 percent of funding carried variable interest. By means of derivatives, the average period of fixed interest was extended to 3.0 years. The average interest rate on loan debt was 1.14 percent, a decline of 11 basis points over one year.

Kommuninvest's lending

As per 30 June 2020, Kommuninvest's lending amounted to SEK 438.1 (406.5) billion, an increase of 8 (9) percent. The recognised value of the lending was SEK 441.5 (408.2) billion. Kommuninvest's assessment is that 58 (56) percent of local government debt is financed via Kommuninvest. In the past 12-month period, Kommuninvest's lending has grown twice as fast as the local government sector's debt as a whole.

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 own proprietary funding programmes to turn to Kommuninvest for their financing to a greater extent than they otherwise would. Initially, there was also some uncertainty as to whether liquidity could become strained, which led to people in various parts of the local government sector seeking to safeguard additional liquidity. When

Lending portfolio by borrower category

30 Jun 2020
(31 Dec 2019)



- Municipalities¹⁾ 44 (43) %
- Municipal housing companies 27 (28) %
- Municipal energy companies 5 (5) %
- Other municipal companies 22 (22) %
- Regions 2 (2) %

Kommuninvest's largest borrower groups are municipalities and municipal housing companies. As per 30 June 2020, they accounted for 71 (71) percent of the total lending.

¹⁾ Some lending to municipalities is on-lent to municipal companies through municipal internal banks.

Multi-year summary, Kommuninvest i Sverige AB

	30 June 2020	30 June 2019	31 December 2019	31 December 2018	31 December 2017
Total assets, SEK, million	537,446.3	469,297.4	471,320.7	417,202.1	356,942.6
Lending (recognised value), SEK, million	441,481.9	388,448.6	408,218.1	355,710.0	310,147.3
Net profit for the period, SEK, million	-159.6	282.5	307.9	586.1	876.0
Members, total	291	289	290	288	288
of which, municipalities	278	277	278	277	277
of which, regions	13	12	12	11	11
Core Tier I capital ratio ¹ , %	153.4	156.3	126.8	188.4	212.4
Tier I capital ratio ² , %	153.4	156.3	126.8	188.4	212.4
Total capital ratio ³ , %	153.4	156.3	126.8	188.4	212.4
Leverage ratio according to CRR ⁴ , %	1.35	1.55	1.58	1.75	1.78

¹⁾ Core Tier I capital in relation to total risk exposure. See also pages 11-12 and Note 9.

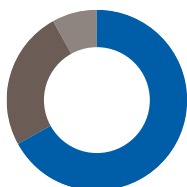
²⁾ Tier I capital in relation to total risk exposure. See also pages 11-12 and Note 9.

³⁾ Total capital base in relation to total risk exposure. See also pages 11-12 and Note 9.

⁴⁾ Tier I capital in relation to total assets and commitments (exposures). See also pages 11-12 and Note 9.

New funding by currency¹

1 Jan-30 Jun 2020
(1 Jan-30 Jun 2019)

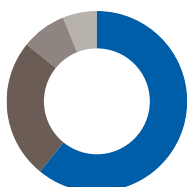


- SEK 67 (60) %
- USD 25 (31) %
- JPY 8 (9) %
- ZAR 0 (0) %
- AUD 0 (0) %

1) excl. commercial paper funding

New funding by programme¹

1 Jan-30 Jun 2020
(1 Jan-30 Jun 2019)



- Swedish Benchmark Programme 61 (50) %
- Benchmark funding 25 (31) %
- Uridashi 8 (9) %
- Green Bonds 6 (10) %

1) excl. commercial paper funding

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.

Kommuninvest’s competitiveness, expressed as the percentage of accepted bids, has remained strong. Based on nominal volumes, the bid acceptance rate amounted to 98 (99) percent. The bid statistics do not reflect funding by the Society’s members through their own proprietary funding programmes.

Of the total lending, municipalities accounted for 44 (43) percent, municipal housing companies for 27 (28) percent and municipal companies for 27 (27) percent. Lending to regions accounted for 2 (2) percent.

The period’s contracted lending consisted of 90 (89) percent loans with capital tied up for more than one year and 10 (11) percent loans with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 26 (19) percent of the total volume. At the end of the period, the average period for which capital was tied up in the Company’s lending portfolio was 2.7 years and was thus unchanged compared with 30 June 2019.

The volume of approved Green Loans increased. These provide financing for municipal and regional investment projects that promote the transition to low-carbon, climate friendly growth. As per 30 June 2020, the green portfolio included 379 approved green projects, corresponding to SEK 70.1 billion to 157 municipalities and regions. This can be compared with the end of 2019 when the portfolio amounted to SEK 63.1 billion regarding 346 investment projects among 150 municipalities and regions. The corresponding amount of disbursed Green Loans was SEK 49.3 billion as of 30 June 2020 and SEK 41.0 billion at the start of the year. The proportion of Green Loans in relation to total lending is based on disbursed volumes and amounted to 11.2 (10.1) percent.

Kommuninvest’s funding

Kommuninvest finances its lending to municipalities and regions by raising funds on the

Swedish and international capital markets. The Company’s strategy is to raise funds from the Company’s strategic funding markets, which are the SEK, USD and EUR markets. For tactical reasons, Kommuninvest also pursues “Uridashi” funding in the Japanese market.

The period has been pervaded by the concerns surrounding the spread of covid-19, as well as the uncertainty in the markets and in society regarding the real economic consequences that the contagion entails. The Company’s focus on large, liquid funding markets has worked very well. Access to liquidity has been good and the Company has been able to finance its funding needs and those of its customers on favourable terms. At the end of the period, total outstanding funding amounted to SEK 518.1 billion, compared with SEK 450.8 billion at the end of 2019. The increase of SEK 67.3 billion is due to an increase in lending and the liquidity reserve in comparison to the start of the year.

During the period, funding in long-term debt instruments with a maturity of more than one year was raised for an amount corresponding to SEK 77.0 (75.0) billion. In addition, funding with potential premature cancellation within one year was agreed, corresponding to SEK 7.1 (7.5) billion. Funding through short-term commercial papers, with maturities of less than one year, amounted to SEK 40.7 (23.9) billion. Previously issued funding instruments were repurchased for a value of SEK 2.6 (9.5) billion and 50.0 (53.3) billion matured. For further information regarding changes in assets and liabilities, including funding maturities, see page 18.

The Company’s largest funding programme is its Swedish benchmark programme. During the period, the issue procedure within the programme was developed with issues involving weekly auctions, rather than on request. A total of SEK 50.9 (40.9) billion was issued in the Swedish benchmark programme. Good demand, combined with a favourable pricing scenario relative to other alternatives in connection with the market turmoil in March and April, contributed to the Company’s funding more in SEK during the first part of 2020 compared with the preceding year. Two benchmark fundings were also implemented in USD

during the period, both of which were over-subscribed by a broad margin.

During the period, Kommuninvest continued, as planned, to issue Green Bonds, which are primarily purchased by investors seeking to support investments with an environmental focus. Funds borrowed via Green Bonds finance municipalities' and regions' green investment projects.

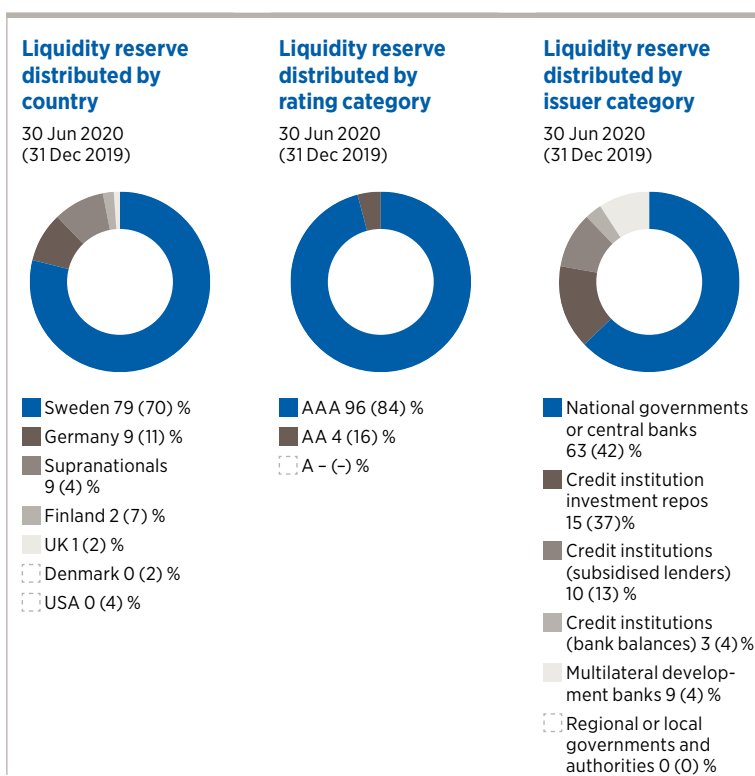
Liquidity management

To be able to continue providing customers with financing during periods of stress in the financial markets, and to ensure that matured funding can be repaid in a timely manner, Kommuninvest maintains a liquidity reserve. At period-end, the reserve amounted to SEK 75.8 (44.7) billion, equivalent to 17 (11) percent of the lending volume. Throughout the period, the Company's liquidity contingencies have been in line with the adopted policies and instructions.

Strict rules and a conservative approach to risk guide Kommuninvest's liquidity reserve. According to the Company's instructions, the liquidity reserve shall ensure that the Company's commitments can be maintained while maintaining lending capacity. The size of the liquidity reserve is adjusted according to, for example, funding maturities and external factors, including readiness to post collateral in connection with changes in values of derivative contracts. Guiding principles in the management of such assets are high credit quality and tradability. The liquidity reserve shall be invested short-term to further increase accessibility as needed, with the average maturity not exceeding 12 months. Individual investments may have a maturity of 39 months at most.

During the period, the reserve has largely been invested with the Riksbank and in repo transactions with short maturities. Direct investments are made mainly in securities issued by sovereigns or central banks, subsidised lenders and multilateral development banks.¹ Covered housing bonds are approved as collateral only in connection with repo transactions.

1) 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.



Rating

The Company holds the highest credit ratings – AAA from S&P Global Ratings and Aaa from Moody's. In December 2019 and July 2020, 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 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 also receives so-called ESG ratings from a number of agencies, including ISS-Oekom, MSCI and Sustainalytics. The results show place Kommuninvest among the group of financial institutions whose operations are considered to have a low exposure to sustainability risks.

Financial accounts

Net profit

Kommuninvest's operating profit, its net profit before tax, amounted to a loss of SEK 159.6 (profit 359.4) million. Operating income, defined as operating profit/loss excluding unrealised changes in market value and net credit losses, amounted to SEK 239.0 (308.6) million.

Net interest income

Net interest income amounted to SEK 359.8 (435.9) million.

Lower net interest income compared with the corresponding period in the preceding year, despite increased lending, was primarily attributable to Kommuninvest lowering the margins between its funding and lending rates in June 2018. The margin was lowered due to the introduction of a new pricing strategy that does not take unrealised changes in market value into account. This adjustment will gradually lower net interest income over several years as lending agreed at a higher margin matures. During the period, net interest income was also affected negatively by increased operating expenses for the liquidity reserve.

For further information regarding net interest income for the period, see Note 2.

Net result of financial transactions

The net result of financial transactions amounted to a negative SEK 408.2 (positive 30.4) million. The result is mainly explained by unrealised changes in market value of a negative SEK 405.6 (positive 38.3) million. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised.

At the end of the period, most of the unrealised changes in market values were due to the cost of funding in foreign currencies becoming more favourable than financing directly in SEK. Since liabilities only include fundings in foreign currencies that are reported at fair value, this has entailed an increase in the margin between the Company's funding and lending instruments, which are marked to market, leading to adverse unrealised changes in market values.

Other factors negatively affecting the changes in market values include existing contracts with unrealised gains having matured and short-term fluctuations in market values due to changes in Stibor and currency swap spreads in the second quarter.

Expenses

Total expenses amounted to SEK 117.3 (118.3) million, including the resolution fee of SEK 10.4 (13.7) million. Kommuninvest's resolution fee for 2020 has been set by the Swedish National Debt Office at SEK 20.9 (27.4) million. The resolution fee accounted for 9 (12) percent of Kommuninvest's total expenses for the period. Excluding the resolution fee, expenses amounted to SEK 106.9 (104.6) million, of which payroll expenses accounted for SEK 65.5 (64.8) million and other expenses for SEK 41.4 (39.8) million.

Credit losses

Credit losses totalled SEK 7.0 (12.5) million.

The Company has not suffered any confirmed credit losses. All credit losses are expected credit losses calculated in accordance with the accounting standard IFRS 9. The standard requires expected credit losses to be calculated based on a forward-looking analysis of the economic trend. The expected credit losses for the period amounted to a positive sum due to a change of model. For further information, see Note 4.

Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 537,446.3 (471,320.7) million.

Lending to municipalities and regions, which accounts for most of the assets, amounted to a recognised value of SEK 441,481.9 (408,218.1) million at the end of the period. In nominal terms, lending increased to SEK 438,112.7 (406,511.1) million, corresponding to an annual growth rate of 16 percent. The increase in lending was particularly strong during March and April in connection with the turbulence in the markets as a consequence of the corona pandemic. For example, a number of members of the Society with proprietary

funding programmes chose, at that time, to transfer their financing to Kommuninvest. In other regards, the increase was expected, tracking the trend over recent years of increased funding requirements among the members of the Society, resulting from increased investment needs.

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 80,288.0 (48,137.2) million. For more information regarding the principles for liquidity management, see the Liquidity management section on page 9.

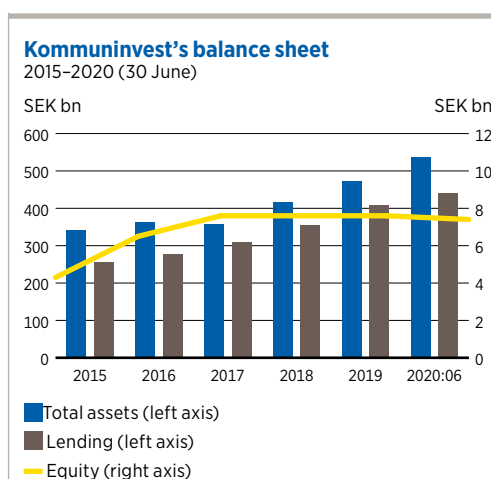
Derivative assets (derivatives with positive market value) decreased marginally to SEK 10,376.9 (11,967.0) million.

The balance sheet item other assets amounted to SEK 5,013.4 (2,828.9) million. The increase in other assets is primarily due to collateral of SEK 4,958.7 (2,807.6) million being pledged. Pledged assets for derivatives cleared by central clearing counterparties are netted per counterparty and currency in the balance sheet, see further under Note 6. 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. For more information on other assets, see Note 7.

Liabilities

The Company's liabilities amounted to SEK 530,003.9 (463,718.7) million and funding increased to SEK 518,114.7 (450,790.7) million over the period. Derivative liabilities (derivatives with negative market value) amounted to SEK 5,130.5 (3,484.5) million.

The balance sheet item other liabilities amounted to SEK 6,725.0 (9,400.6) million. Other liabilities include collateral received of SEK 5,627.0 (7,981.5) million. Collateral received for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet, see further under Note 6. No right of netting applies for cash collateral received for deriva-



tives 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 8.

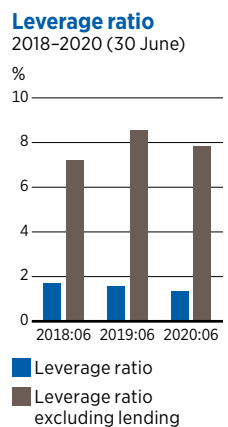
Equity

At the end of the period, equity in Kommuninvest amounted to SEK 7,442.4 (7,602.0) million, of which the share capital amounted to SEK 7,100.0 (7,100.0) million, divided 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.

For further information on equity, see Statement of changes in equity on page 17.

Capital adequacy

Due to the covid-19 situation, the Company conducted an additional update of its internal capital and liquidity assessment (ICLA). 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. The core Tier I capital amounted to SEK 7,244.5 (7,418.8) million, entailing a core Tier I capital ratio of 153.4 (126.8) percent. The Company's capital base consists solely of core Tier I capital and the total capital ratio also therefore amounts to 153.4 (126.8) percent. For further information, see Note 9.



Countercyclical capital buffer

On 13 March 2020, the Swedish Financial Supervisory Authority (Finansinspektionen) reduced the countercyclical buffer requirement for Sweden from 2.5 percent to 0 percent in order to ensure a well-functioning supply of credit. The reduction had no significant effect on Kommuninvest’s total capital requirements however. As of 30 June, the institution-specific countercyclical buffer amounted to 0.0 (2.03) percent of Risk Exposure Amount (REA), corresponding to SEK 0.0 (119.2) million.

Leverage ratio

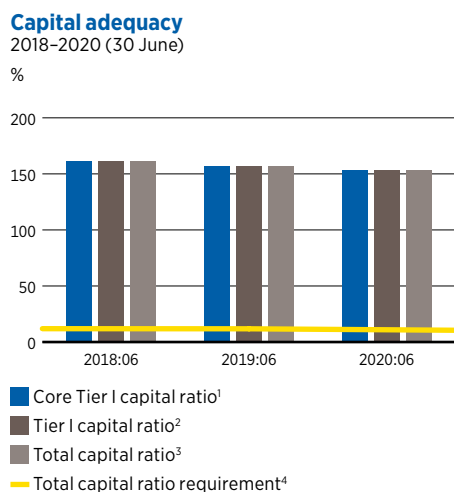
Effective 28 June 2021, the new capital requirement measure, leverage ratio, will be applied within the EU. The leverage ratio has been set at 3 percent and will be directly applicable to Kommuninvest via the Capital Adequacy Regulation (EU) 2019/876 of 20 May 2019.

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

A specific leverage ratio regulation is applied when calculating the leverage ratio for Public

Development Credit Institutions (PDCI). In Kommuninvest’s assessment, the Company meets all of the criteria to be defined as a PDCI. In its most recent review and evaluation process, Finansinspektionen found no reason to question that assessment. For Kommuninvest, this means that all lending to members and their companies can be deducted from the exposure measure applied in calculating the leverage ratio of the Company and the Group. Accordingly, Kommuninvest meets the leverage requirement of 3 percent under Pillar I by a good margin.

Finansinspektionen has communicated that it’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). Finansinspektionen’s assessment regarding the risk of an insufficient leverage ratio applies both to the Company and the Group.



1) Core Tier I capital in relation to total risk exposure
 2) Tier I capital in relation to total risk exposure
 3) Total capital base in relation to total risk exposure
 4) Capital requirement including buffer requirements in accordance with CRR (Regulation (EU) No 575/2013 of the European Parliament and of the Council).

Leverage ratio as per 30 June 2020

As per 30 June 2020, the Company’s leverage ratio, reported according to CRR, was 1.35 (1.58) percent. See Note 10 for calculations. The leverage ratio, calculated in accordance with the new legal requirement described previously, under which all lending to members and their companies is excluded from the exposure amount, amounted to 7.84 (12.29) percent. See the section Alternative performance measurements on page 29. Accordingly, Kommuninvest meets the upcoming legal requirement in Pillar I and Finansinspektionen’s preliminary assessment of a 1 percent leverage ratio in Pillar II by a good margin.

Risks and uncertainty factors

In its business, the Company encounters a number of risks and uncertainty factors which may have an adverse impact on the Company’s

net profit, financial position, future prospects or opportunities to attain set targets. The corona crisis has had a negative impact on macroeconomic developments as well as on general developments in the capital markets. Previous geopolitical risks and restrictions in international trade have increased as a result of the crisis, while the problems caused by high debt have been accentuated. This has contributed to a high degree of volatility in the financial markets, which is likely to persist looking ahead. These factors, as well as interest rate trends, actions by central banks and willingness to invest in various markets, can have effects on the Company.

Risk management

The Company's operations serve solely to support financing activities in the local government sector, distinguishing it in several key regards from other financial market players.

- Lending is provided exclusively to Swedish municipalities, municipal corporations, regions or borrowers guaranteed by local government authorities and therefore carries a zero risk weight from the perspective of capital coverage.
- The members of the Kommuninvest Cooperative Society, its owners, are also the Company's customers and are party to a joint and several guarantee supporting all of the Company's obligations.
- The Company conducts no deposit or active trading operations.

The Company regularly measures and manages a number of types of risks, such as credit risk, market risk, counterparty risk, liquidity risk and operational risk. From 1 January 2020, the Company applies a new risk framework and a new risk policy. The purpose of the policy is to clarify the connection between the targets and limits stemming from ownership directives and legal requirements, as well as the risk measures applied.

Credit risk refers to the risk of a loss being incurred as a consequence of a counterparty's incapacity to meet its obligations on time. Credit risk arises in various ways in the operations and is divided into three areas: risk in credit provision arising in the lending opera-

tions, issuer risk arising in the Company's liquidity reserve and counterparty risk, which arises when the Company uses derivative instruments.

At the end of the period, the Company's total credit risk exposure amounted to SEK 541.3 (473.9) billion.

Of the exposure, 82 (86) percent was related to lending to Swedish municipalities and regions; 15 (10) percent was related to investments and deposits in securities issued by sovereigns or other issuers, and 2 (3) percent was related to exposure to derivatives counterparties.

Market risk refers to the risk that the net market value (combined value) of the Company's assets and liabilities will decrease due to changes in risk factors in the financial market. Market risk arises in the operations when the Company enters into contracts in its lending and funding activities, as well as when investing the funds included in the Company's liquidity reserve. The Company limits its exposure to market risk by means of derivative contracts.

Counterparty risk is limited by entering into contracts with counterparties with high creditworthiness, as well as ISDA agreements drawn up permitting early redemption should the counterparty's credit rating deteriorate, and CSA agreements regulating the right to secure collateral to eliminate the exposure incurred in derivative transactions. See further under Note 6. ISDA agreements are drawn up with all counterparties. As of 30 June 2020 CSA agreements had been drawn up with 24 out of 26 counterparties with whom Kommuninvest has outstanding, non-cleared contracts.

That corresponds to 99.9 (99.9) percent of the contracts, based on nominal amounts. Counterparty exposure to derivative counterparties totalled SEK 3.6 (3.0) billion after netting for each counterparty and net of collateral received.

Liquidity risk refers to the risk that it will not be possible to meet the Company's payment obligations on maturity without the expense of obtaining payment funds increasing considerably. Liquidity risk is divided into two areas: short-term liquidity risk arising in

the daily management of liquidity, and structural liquidity risk, which is incurred if the Company has not financed its long-term commitments in advance. Combined with a highly liquid reserve, favourable matching of maturities between assets and liabilities and full membership in the Riksbank's payment system, RIX, limit the Company's liquidity risks. To ensure a high level of liquidity, the Company's liquidity reserve is dominated by investments in sovereign securities. The composition of the liquidity reserve as per 30 June 2020 is shown in the charts on page 9.

Operational risk refers to the risk of losses resulting from human error, inadequate or failed internal processes or routines and incorrect systems or external events, including legal risks. Operational risk are inherent in the Company's operations and cannot be completely avoided. Good governance and control reduce the likelihood of operational risks and mitigate the expenses incurred.

During the first half of 2020, the Company's risk work was impacted extensively by the covid-19 pandemic. Several risk indicators are updated on a daily basis and reported at weekly meetings of the Company's Market and Liquidity Risk Committee. During the spring, 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 Risk Group. To reduce the operational risks and to help reduce contagion in the community, the Company adapted its operations such that its employees, with only a few exceptions, worked from home during the spring. Looking ahead, uncertainty regarding the development of the financial markets in the wake of covid-19 is expected to remain high and the Company expects that its risk management will also be affected.

A description of the Company's risk exposure and risk management can be found on

pages 35–39 in Kommuninvest's 2019 Annual Report, and in the Risk and Capital Management Report available at www.kommuninvest.se. No significant changes have taken place after the publication of them.

Employees

The number of employees increased during the period, amounting to 94, compared with 92 at the beginning of the year. The average number of employees during the period was 98 (101 in 2019).

Despite operations having been more or less entirely digital since 18 March, recruitment and introduction of new employees has progressed as planned.

Board of Directors

At the Annual General Meeting on 16 April 2020, Johan Törngren stepped down from his assignment on the Board of Directors. Catrina Ingelstam was elected as a new member. The Board of Directors consists of Ellen Bramness Arvidsson (Chairman), Kurt Eliasson, Lars Heikensten, Anna von Knorring, Erik Langby, Kristina Sundin Jonsson and employee representatives Mattias Bokenblom and Kristin Ekblad.

Management

At the end of the period, the Company's executive management consisted of Tomas Werngren (President and CEO), Maria Viimne (Deputy CEO and COO), Patrick Nimander (CFO and treasurer), Malin Waldenström (Head of Human Resources), Britt Kerkenberg (CRO), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (CIO). No changes occurred during the first half of the year.

Events after the balance sheet date

No significant events have occurred after the end of the period.

Income statement

SEK, million	Note	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Interest revenues calculated according to effective interest method		1,019.0	527.5	1,198.9
Other interest revenues		1.1	12.3	24.6
Interest expenses calculated according to effective interest method		-615.7	-34.6	-241.0
Other interest expenses		-44.6	-69.3	-155.0
NET INTEREST INCOME	2	359.8	435.9	827.5
Dividends received		-	-	2.4
Commission expenses		-5.9	-4.9	-11.3
Net result of financial transactions		-408.2	30.4	-201.5
<i>of which, derecognised assets measured at amortised cost</i>		<i>0.2</i>	<i>0.2</i>	<i>3.3</i>
Other operating income	3	5.0	3.8	9.3
TOTAL OPERATING INCOME		-49.3	465.2	626.4
General administration expenses		-114.1	-113.1	-236.2
Depreciation and impairment of intangible assets		-0.4	-2.2	-4.4
Depreciation and impairment of tangible assets		-1.1	-1.1	-2.3
Other operating expenses		-1.7	-1.9	-4.0
TOTAL EXPENSES		-117.3	-118.3	-246.9
PROFIT BEFORE CREDIT LOSSES		-166.6	346.9	379.5
Net credit losses	4	7.0	12.5	12.6
OPERATING PROFIT		-159.6	359.4	392.1
Tax		0.0	-76.9	-84.2
NET PROFIT FOR THE PERIOD		-159.6	282.5	307.9

Statement of comprehensive income

SEK, million	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
NET PROFIT FOR THE PERIOD	-159.6	282.5	307.9
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME	-159.6	282.5	307.9

Balance sheet

SEK, million	Note	30 Jun 2020	30 Jun 2019	31 Dec 2019
ASSETS				
Cash and balances with central banks		19,872.8	-	811.1
Sovereign bonds eligible as collateral	5	27,845.0	52,914.1	17,686.3
Lending to credit institutions	5	18,438.0	3,135.5	21,917.2
Lending	5	441,481.9	388,448.6	408,218.1
Change in value of interest-hedged item in portfolio hedging		63.2	-	-
Bonds and other interest-bearing securities	5	14,132.2	6,694.0	7,722.6
Shares and participations in subsidiaries		42.0	42.0	42.0
Derivatives	5, 6	10,376.9	15,076.3	11,967.0
Intangible assets		26.0	18.5	21.4
Tangible assets		6.3	7.2	7.1
Current tax assets		122.1	45.1	79.0
Other assets	7	5,013.4	2,885.6	2,828.9
Prepaid expenses and accrued revenue		26.5	30.5	20.0
TOTAL ASSETS		537,446.3	469,297.4	471,320.7
LIABILITIES, PROVISIONS AND EQUITY				
Liabilities and provisions				
Liabilities to credit institutions	5	5,052.7	1,647.0	4,027.7
Securities issued	5	513,062.0	446,797.6	446,763.0
Derivatives	5, 6	5,130.5	4,402.4	3,484.5
Change in value of interest-hedged item in portfolio hedging		-	-	0.7
Other liabilities	8	6,725.0	8,528.3	9,400.6
Accrued expenses and prepaid revenues		33.6	36.1	42.1
Provisions		0.1	0.1	0.1
Total liabilities and provisions		530,003.9	461,411.5	463,718.7
Equity				
Restricted equity				
Share capital		7,100.0	7,100.0	7,100.0
Development expenditure reserve		25.6	16.6	21.1
Statutory reserve		17.5	17.5	17.5
Unrestricted equity				
Profit or loss brought forward		458.9	469.3	155.5
Net profit for the period		-159.6	282.5	307.9
Total equity		7,442.4	7,885.9	7,602.0
TOTAL LIABILITIES, PROVISIONS AND EQUITY		537,446.3	469,297.4	471,320.7

Statement of changes in equity

SEK, million	Restricted equity				Unrestricted equity			Total equity
	Share capital	New share issue in progress	Development expenditure reserve ¹	Statutory reserve ²	Fair value reserve ³	Profit or loss brought forward	Net profit for the period	
Equity brought forward 1 Jan 2020	7,100.0	-	21.1	17.5	-	155.5	307.9	7,602.0
Net profit for the period							-159.6	-159.6
Change in development expenditure reserve			4.5			-4.5		-
Other comprehensive income								-
Total comprehensive income	-	-	4.5	-	-	-4.5	-159.6	-159.6
Transactions with shareholders								
Appropriation of surplus						307.9	-307.9	-
New share issue								-
Total transactions with shareholders	-	-	-	-	-	307.9	-307.9	-
Equity carried forward 30 Jun 2020	7,100.0	-	25.6	17.5	-	458.9	-159.6	7,442.4
Equity brought forward 1 Jan 2019	7,100.0	-	12.0	17.5	-	-112.2	586.1	7,603.4
Net profit for the period							282.5	282.5
Change in development expenditure reserve			4.6			-4.6		-
Other comprehensive income								-
Total comprehensive income	-	-	4.6	-	-	-4.6	282.5	282.5
Transactions with shareholders								
Appropriation of surplus						586.1	-586.1	-
New share issue								-
Total transactions with shareholders	-	-	-	-	-	586.1	-586.1	-
Equity carried forward 30 Jun 2019	7,100.0	-	16.6	17.5	-	469.3	282.5	7,885.9
Equity brought forward 1 Jan 2019	7,100.0	-	12.0	17.5	-	-112.2	586.1	7,603.4
Net profit for the period							307.9	307.9
Change in development expenditure reserve			9.1			-9.1		-
Other comprehensive income								-
Total comprehensive income	-	-	9.1	-	-	-9.1	307.9	307.9
Transactions with shareholders								
Appropriation of surplus						586.1	-586.1	-
New share issue								-
New share issue in progress								-
Group contributions						-393.5		-393.5
Tax effect on Group contribution						84.2		84.2
Total transactions with shareholders	-	-	-	-	-	276.8	-586.1	-309.3
Equity carried forward 31 Dec 2019	7,100.0	-	21.1	17.5	-	155.5	307.9	7,602.0

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

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

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

For further information on equity, see Equity in the Financial accounts on page 11.

Cash flow statement

SEK, million	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Operational activities			
Operating profit	-159.6	359.4	392.1
Adjustment for items not included in cash flow	400.5	-47.0	188.4
Income tax paid	-43.1	-43.1	0.0
	197.8	269.3	580.5
Change in liquidity portfolio	-16,518.8	-12,847.1	21,349.0
Change in lending	-31,681.5	-30,635.0	-52,528.7
Change in other assets	-2,191.0	-1,430.4	-1,363.4
Change in other liabilities	-2,341.7	3,001.3	3,427.4
Cash flow from operational activities	-52,535.2	-41,641.9	-28,535.2
Investment activities			
Acquisitions of intangible assets	-4.9	-5.0	-10.1
Acquisition of tangible assets	-0.3	-3.3	-4.5
Divestments of tangible assets	-	0.0	0.2
Cash flow from investment activities	-5.2	-8.3	-14.4
Financing activities			
Issue of interest-bearing securities	121,223.5	106,450.8	182,226.2
Redemption and repurchases of interest-bearing securities	-52,756.6	-62,814.0	-132,155.6
Change in intra-Group liabilities	-342.4	-694.9	-636.4
Cash flow from financing activities	68,124.5	42,941.9	49,434.2
Cash flow for the period	15,584.1	1,291.7	20,884.6
Cash and cash equivalents at the start of the period	22,728.7	1,844.1	1,844.1
Cash and cash equivalents at the end of the period	38,312.8	3,135.8	22,728.7
Cash and cash equivalents consist in their entirety of cash and balances with central banks, as well as lending to credit institutions that, at the time of acquisition, have a maturity of at most three months and that are exposed to insignificant risk of fluctuations in value.			
Adjustment for items not included in cash flow			
Depreciation and impairment of tangible and intangible assets	1.5	3.3	6.7
Profit from divestments of tangible assets	-	-	-0.1
Exchange rate differences from change in financial assets	0.4	0.5	0.5
Unrealised changes in market value	405.6	-38.3	193.9
Net credit losses	-7.0	-12.5	-12.6
Total	400.5	-47.0	188.4
Interest paid and received, included in the cash flow			
Interest received ¹	1,292.5	740.8	1,086.2
Interest paid ²	-430.2	12.4	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 that have been 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 that have been used to hedge the Company's funding.

Notes

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

Note 1 Accounting principles

Compliance with standards and legislation

The Kommuninvest's interim report has been prepared applying the regulation regarding interim reports in 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). Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25. Furthermore, the recommendations from the Swedish Financial Reporting Board, Accounting for legal entities (RFR 2) have been applied.

In accordance with Chapter 7, section 6a of ÅRKL, Kommuninvest has chosen not to prepare consolidated accounts, see Note 12.

For all material purposes, the accounting principles and calculation methods in the interim report remain unchanged compared with the 2019 Annual Report.

New and amended laws, standards and interpretations having come into effect

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

The amendments are to apply to all hedging relationships that are directly affected by the IBOR reform. The change entails a very limited impact on the Company's earnings and position as the Company has very few hedging relationships associated with the uncertainty in foreign IBOR.

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

During 2020, no new or amended laws, standards or interpretations yet to come into effect are assessed to have any material impact on Kommuninvest's net profit, position, disclosures, capital requirements, capital base or major exposures.

Note 2 Net interest income

	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Interest revenues			
Interest revenues calculated according to effective interest method	1,019.0	527.5	1,198.9
<i>of which, lending</i>	955.2	472.0	1,102.6
<i>of which, interest-bearing securities</i>	63.8	55.5	96.3
Other interest revenues	1.1	12.3	24.6
Total	1,020.1	539.8	1,223.5
<i>Of which: interest revenues from financial items not measured at fair value through the income statement</i>	871.4	304.2	692.6
Interest expenses			
Interest expenses calculated according to effective interest method	-615.7	-34.6	-241.0
<i>of which, liabilities to credit institutions</i>	-2.9	-1.1	-2.7
<i>of which, securities issued</i>	-610.3	-23.5	-230.4
<i>of which lending, negative lending rate</i>	-2.5	-10.0	-7.9
Other interest expenses	-44.6	-69.3	-155.0
Total	-660.3	-103.9	-396.0
<i>Of which: interest expenses from financial items not measured at fair value through the income statement</i>	-1,112.9	-470.3	-1,149.4
Net interest income	359.8	435.9	827.5

In this note, income is recognised as positive and expenses as negative. Kommuninvest considers all income and expenses to be attributable to the country in which the Company has its

registered office, Sweden. For further information on net interest income for the period, please see the Financial accounts on page 10.

Note 3 Other operating income

	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Capital gain on divestments of tangible assets	-	-	0.1
Revenue from contracts with customers	4.1	3.0	6.5
Other operating income	0.9	0.8	2.7
Total	5.0	3.8	9.3

All revenues from contracts with customers relate to revenues from a financial management service offered to members of the Kommuninvest Cooperative Society.

The service allows customers to create their own 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. All contracts extend over one calendar year.

Note 4 Net credit losses

Kommuninvest calculates expected credit losses in accordance with IFRS 9. In the second quarter of 2020, Kommuninvest launched a new model for the calculation of expected credit losses. The previous model was of a more general nature and not fully adapted to Kommuninvest's operations. The new model entails a more robust and fair adaptation to Kommuninvest's credit risk profile as macro factors and history of cancelled payments are used more dynamically and consistently.

The new model has been validated with the aid of external expertise. What primarily distinguishes the new model from the earlier 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.

Impact assessments of the new model in comparison with the previous one gave the following results:

Model components	Relative impact on ECL
Weightings for macro factors	-29%
LTPD	-45%
Z benchmark	-26%

Changes during the period

Kommuninvest continuously monitors financial development among its members and customers. The current pandemic affects customers differently. Some customers, such as the regions, are affected substantially in terms of their operations, while other customers are affected more financially. Kommuninvest closely monitors developments regarding, for example, central government initiatives and support measures, how individual customer categories are affected and how counterparties will be affected in the long term. However, Kommuninvest does not see the current crisis leading to any realised credit losses. On the other hand, the estimated value of expected credit losses would be negatively affected if the previous model continued to be used due, among other things, to weaker GDP development and increased forecast unemployment. The fact that the value of expected credit losses has nonetheless improved is due to changes made to the model.

Note 4, continued

Provisions for credit losses

30 Jun 2020	Recognised gross value	Provisions for credit losses	Recognised net value
Cash and balances with central banks	19,874.2	-1.4	19,872.8
Sovereign bonds eligible as collateral	27,846.4	-1.4	27,845.0
Lending to credit institutions	18,438.6	-0.5	18,438.1
Lending	441,490.2	-8.4	441,481.8
Bonds and other interest-bearing securities	14,132.2	-0.1	14,132.1
Provisions for off-balance sheet items	3,914.6	0.0	3,914.6
Total	525,696.2	-11.8	525,684.4

31 Dec 2019	Recognised gross value	Provisions for credit losses	Recognised net value
Cash and balances with central banks	811.1	0.0	811.1
Sovereign bonds eligible as collateral	17,686.8	-0.5	17,686.3
Lending to credit institutions	21,917.6	-0.4	21,917.2
Lending	408,235.8	-17.9	408,218.0
Bonds and other interest-bearing securities	7,722.6	-	7,722.6
Provisions for off-balance sheet items	2,595.3	0.0	2,595.3
Total	458,969.2	-18.8	458,950.5

Change in provisions for credit losses

30 Jun 2020	Opening balance	Initiated during the period	Maturing during the period	Changed risk variables	Changed models	Closing balance
Cash and balances with central banks	0.0	-1.4	0.0	0.0	-	-1.4
Sovereign bonds eligible as collateral	-0.5	-15.1	14.0	0.2	-	-1.4
Lending to credit institutions	-0.4	0.0	0.0	-0.1	-	-0.5
Lending	-17.9	-3.3	3.1	-32.2	41.9	-8.4
Bonds and other interest-bearing securities	-	0.0	-	-0.1	-	-0.1
Provisions for off-balance sheet items	0.0	-2.5	3.3	-0.8	-	0.0
Total	-18.8	-22.3	20.5	-33.0	41.9	-11.8

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

Note 5 Financial assets and liabilities

Financial instruments broken down by valuation category

30 Jun 2020	Amortised cost	Fair value through the income statement			Recognised value	Fair value
		Held for trade	Compulsory	Fair value option		
Financial assets						
Cash and balances with central banks	19,872.8	-	-	-	-	19,872.8
Sovereign bonds eligible as collateral	25,669.6	-	-	2,175.4	-	27,845.0
Lending to credit institutions	18,438.0	-	-	-	-	18,438.0
Lending	312,855.4	-	-	128,626.5	-	441,481.9
Change in value of interest-hedged item in portfolio hedging	63.2	-	-	-	-	63.2
Bonds and other interest-bearing securities	5,333.9	-	-	8,798.3	-	14,132.2
Derivatives	0.0	-	8,592.2	0.0	1,784.7	10,376.9
Other financial assets	4,960.0	-	-	-	-	4,960.0
Total	387,192.9	-	8,592.2	139,600.2	1,784.7	537,170.0
Financial liabilities						
Liabilities to credit institutions ¹	4,460.5	-	-	592.2	-	5,052.7
Securities issued ¹	346,695.2	-	-	166,366.8	-	513,062.0
Derivatives	-	4,583.3	-	-	547.2	5,130.5
Other financial liabilities	6,721.7	-	-	-	-	6,721.7
Total	357,877.4	4,583.3	-	166,959.0	547.2	529,966.9

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

1) Nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 515,229.9 (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.

Note 5, continued

Level 3: Valuation is made on the basis of non-observable market data, with significant elements of internal and external estimates.

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

Lending

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

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

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

Liabilities to credit institutions, securities issued and other subordinated liabilities

Funding is valued in the same way as by market participants holding the debt as an asset, either through quoted market prices or by discounting anticipated future cash flows. The discount rate is set to swap rate, adjusted for current funding margins, for the structure of the funding and for the market by using secondary market spreads on similar instruments issued by Kommuninvest. 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. Fundings expected to be traded in an active market is classified in level 1. Funding valued at quoted prices, not deemed as traded in an active market, is classified in level 2. Funding valued based on discounted future cash flows is classified in level 2, with the exception of funding for which anticipated future cash flows are attributable to significant non-observable market data, which is 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.

Derivatives

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

The discount rate has been set as the current quoted swap rate in each currency. For currency swaps, the discount rate has been adjusted according to current basis swap spreads. The credit valuation adjustment for derivatives, CVAS, 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 other liabilities consist primarily of pledged/received cash collateral, accounts receivable and payable, open items, as well as Group-internal receivables and debt.

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 238 (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 252 (253) million. A parallel displacement in the lending and funding price, in relation to swap rates, by 10 basis points upwards or downwards would entail a change in net profit of SEK +/-14 (+/-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 net profit of SEK +/-20 (+/-14) million.

All of the above changes refer to 30 June 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, which lead to the market values being realised.

Note 5, continued
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 net profit of these contracts is realised when Kommuninvest's funding margins for this type of funding change. The scope of the change depends on the anticipated remaining duration of the contracts, which depend in turn on unobservable data. The effect on net profit from the unobservable input data that arises is therefore attributable to how input data affect the estimated remaining duration of the contracts. Kommuninvest has calculated the duration to 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 to 2.0 years. This would have an effect on net profit in the interval SEK 3.1 million to SEK -6.5 million.

Change in value due to expected 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 in Kommuninvest's own credit risk are only considered to occur 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 funding 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.

Changed valuation models

The valuation models have remained unchanged since 31 December 2019. This also means that no changes in valuation models have been triggered by the crisis associated with the coronavirus. For previous changes, see Note 25 in Kommuninvest's 2019 Annual Report.

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

30 Jun 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	1,174.8	1,000.6	-	2,175.4
Lending	-	128,626.5	-	128,626.5
Bonds and other interest-bearing securities	4,182.8	4,615.5	-	8,798.3
Derivatives	-	10,180.4	196.5	10,376.9
Total	5,357.6	144,423.0	196.5	149,977.1
Financial liabilities				
Liabilities to credit institutions	-	592.2	-	592.2
Securities issued	89,282.6	67,916.2	9,168.0	166,366.8
Derivatives	-	4,034.0	1,096.5	5,130.5
Total	89,282.6	72,542.4	10,264.5	172,089.5
31 Dec 2019				
Financial assets				
Sovereign bonds eligible as collateral	2,667.6	1,507.5	-	4,175.1
Lending	-	137,190.3	-	137,190.3
Bonds and other interest-bearing securities	5,065.2	2,657.4	-	7,722.6
Derivatives	-	11,782.2	184.8	11,967.0
Total	7,732.8	153,137.4	184.8	161,055.0
Financial liabilities				
Liabilities to credit institutions	-	592.4	-	592.4
Securities issued	101,897.5	52,418.2	6,731.5	161,047.2
Derivatives	-	2,995.5	489.0	3,484.5
Total	101,897.5	56,006.1	7,220.5	165,124.1

Note 6 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 – this 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.

30 Jun 2020	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet ¹	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet			Net amount
				Financial instruments	Provided (+)/Received (-) collateral – security	Provided (+)/Received (-) cash collateral	
Assets							
Derivatives	20,128.7	-9,751.8	10,376.9	-2,375.8	-1,338.0	-5,563.9	1,099.2
Repos	16,441.6	-	16,441.6	-	-16,437.0	-	4.6
Liabilities							
Derivatives	-7,901.2	2,770.7	-5,130.5	2,375.8	5.3	2,322.7	-426.7
Repos	-4,460.5	-	-4,460.5	-	4,460.5	-	-
Total	24,208.6	-6,981.1	17,227.5	-	-13,309.2	-3,241.2	677.1

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

1) The amount netted for derivative assets/liabilities includes cash collateral of SEK 6,981.1 million as per 30 June 2020 and SEK 4,007.5 million as per 31 December 2019.

Note 7 Other assets

	30 Jun 2020	30 Jun 2019	31 Dec 2019
Receivables from subsidiaries	-	5.0	2.5
Marginal collateral pledged	4,958.7	2,826.2	2,807.6
Contract assets	-	3.0	-
Other assets	54.7	51.4	18.8
Total	5,013.4	2,885.6	2,828.9

Kommuninvest pledges collateral for derivatives cleared by central clearing counterparties, which is netted per counterparty and currency in the balance sheet. For further information, see Note 6. The Company also pledges 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.

Contract assets refer to the posting of non-invoiced revenue attributable to Kommuninvest’s financial management service, KI Finans. For revenue recognition, see Note 3.

Note 8 Other liabilities

	30 Jun 2020	30 Jun 2019	31 Dec 2019
Liabilities to parent society	1,054.6	944.9	1,397.0
Marginal collateral received	5,627.0	7,557.6	7,981.5
Other liabilities	43.4	25.8	22.1
Total	6,725.0	8,528.3	9,400.6

The liability to the Parent Society, the Kommuninvest Cooperative Society, involves Group contributions 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.

Kommuninvest receives collateral for derivatives cleared by central clearing counterparties, which is netted per counterparty and currency in the balance sheet. For further information, see Note 6. The Company also receives 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 9 Capital adequacy

Since 1 January 2014, the capital adequacy requirements have been calculated according to CRR¹. The capital buffers to be introduced under CRD IV² 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 systemically critical institute.

As of 30 June 2020, due to the effects of Covid-19, 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. 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	30 Jun 2020	30 Jun 2019	31 Dec 2019
Capital Instruments ¹	7,100.0	7,100.0	7,100.0
Retained earnings	324.9	485.9	484.5
Accumulated other comprehensive income and other reserves	17.5	17.5	17.5
Core Tier I capital prior to regulatory adjustments	7,442.4	7,603.4	7,602.0
Further value adjustments ²	-197.9	-187.9	-183.2
Total regulatory adjustments to core Tier I capital	-197.9	-187.9	-183.2
Total core Tier I capital	7,244.5	7,415.5	7,418.8
Tier I capital contributions	-	-	-
Total Tier I capital	7,244.5	7,415.5	7,418.8
Total Tier II capital	-	-	-
Total capital	7,244.5	7,415.5	7,418.8

1) For a more detailed description of the constituent instruments, see page 55 of the 2019 Annual Report.

2) 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.

Risk exposure amounts and minimum capital amounts	30 Jun 2020		30 Jun 2019		31 Dec 2019	
	Risk exposure	Capital requirement	Risk exposure	Capital requirement	Risk exposure	Capital requirement
Capital requirement, Pillar I						
Capital requirement for credit risks (the standardised method)	1,578.5	126.3	1,052.1	84.2	2,703.8	216.3
<i>of which, institutional exposures</i>	1,393.3	111.5	905.0	72.4	951.9	76.2
<i>of which, corporate exposures</i>	101.6	8.1	107.2	8.6	94.0	7.5
<i>of which, exposures in the form of covered bonds</i>	83.6	6.7	39.9	3.2	1,657.9	132.6
Operational risks, basic indicator method	1,917.5	153.4	1,920.0	153.6	1,917.5	153.4
Credit valuation adjustment	1,225.1	98.0	1,771.7	141.7	1,230.3	98.4
Total risk exposure amounts and minimum capital amounts	4,721.1	377.7	4,743.8	379.5	5,851.6	468.1

Capital adequacy ratios	30 Jun 2020	30 Jun 2019	31 Dec 2019
Core Tier I capital ratio	153.4%	156.3%	126.8%
Tier I capital ratio	153.4%	156.3%	126.8%
Total capital ratio	153.4%	156.3%	126.8%
Buffer requirements	30 Jun 2020	30 Jun 2019	31 Dec 2019
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical buffer	-	1.3%	2.0%
Capital planning buffer ¹	18.9%	-	-
Total buffer requirements	21.4%	3.8%	4.5%
Core Tier I capital available for use as buffer	145.4%	148.3%	118.8%

1) If the internal capital assessment shows the size of the capital conservation buffer to be insufficient to cover losses that could arise in a difficult but not unlikely scenario, additional capital shall be included as a capital planning buffer in Pillar II. Kommuninvest applies the Finansinspektionen's stress test method to assess the size of the capital planning buffer, albeit adapted to Kommuninvest's business model with limited margins between funding and lending rates.

Internally estimated capital requirements	30 Jun 2020	30 Jun 2019	31 Dec 2019
Capital requirement, Pillar II			
Credit risk	44.9	155.1	165.1
Market risks	1,858.5	1,691.1	1,869.8
Other risk ¹	458.3	964.1	520.5
Total internally estimated capital requirement	2,361.7	2,810.3	2,555.4

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

The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements. For further information on the Company's internal capital assessment and capital plan, see pages 11–12, as well as pages 37–38 of the 2019 Annual Report.

Note 9, continued

Total assessed capital base requirement	30 Jun 2020		30 Jun 2019		31 Dec 2019	
Capital requirement, Pillar I	377.7	8.0%	379.5	8.0%	468.1	8.0%
Buffer requirement, Pillar I	118.0	2.5%	177.9	3.8%	265.5	4.5%
Capital requirement, Pillar II	2,361.7	50.0%	2,810.3	59.2%	2,555.4	43.7%
Buffer requirement, Pillar II	893.2	18.9%	-	-	-	-
Total assessed capital base requirement	3,750.6	79.4%	3,367.7	71.0%	3,289.0	56.2%

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

Note 10 Leverage ratio

Leverage ratio is defined as Tier I capital divided by total exposures in assets and liabilities. Regarding the lending portfolio and the liquidity reserve, the exposure corresponds to the recognised value. For derivative assets the exposure is calculated by totalling all exposures in individual netting agreements with derivatives counterparties. Added to this exposure is the potential future exposure, calculated in accordance with a standard (market value method) determined in CRR, the EU's capital adequacy directive. 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.

	30 Jun 2020	30 Jun 2019	31 Dec 2019
Total assets	537,446.3	469,297.4	471,320.7
Less asset amounts deducted to determine core Tier I capital	-197.9	-187.9	-183.2
Less derivatives according to the balance sheet	-10,376.9	-15,076.3	-11,967.0
Plus derivatives exposure	6,973.2	21,174.5	9,363.3
Plus possible change in risk in connection with repo transactions	6.5	0.7	28.4
Plus off-balance sheet commitments	1,957.3	2,085.1	1,297.7
Total exposure	535,808.5	477,293.5	469,859.9
Tier I capital, calculated applying transitional rules, see the section Capital adequacy	7,244.5	7,415.5	7,418.8
Leverage ratio	1.35%	1.55%	1.58%

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement. For further information, see page 6, as well as pages 37–38 in the 2019 Annual Report.

Note 11 Transactions with related parties

Transactions with related parties are disclosed in Note 24 of the 2019 Annual Report for Kommuninvest i Sverige AB. No significant changes have taken place in relationships or transactions with related parties compared with those described in the 2019 Annual Report.

Note 12 Consolidated accounts

Since 1 January 2012, Kommuninvest i Sverige AB owns Kommuninvest Fastighets AB, which means that Kommuninvest i Sverige AB is now a group with Kommuninvest i Sverige AB as the parent company and Kommuninvest Fastighets AB as its subsidiary. The operations of Kommuninvest Fastighets AB consist entirely of owning and managing the building in which Kommuninvest i Sverige AB conducts its operations. In accordance with Chapter 7, Section 6a of ÅRKL, Kommuninvest i Sverige AB will not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal of position and net profit/loss. Kommuninvest Fastighets AB has a balance sheet total of SEK 45.6 (46.4) million, equity of SEK 43.2 (42.3) million and generated a net profit of SEK 0.9 (0.7) million for the first six months of the year.

Note 13 Events after the balance sheet date

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

Alternative performance measurements

In this interim 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	Jan - Jun 2020	Jan - Jun 2019	Jan - Dec 2019
Operating income	Operating profit reduced with the result of unrealised changes in market value that are 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	-159.6	359.4	392.1
		Result of unrealised changes in market value	405.6	38.3	193.9
		Net credit losses	-7.0	12.5	-12.6
		Operating income	239.0	308.6	573.4

Alternative performance measurement	Definition	Reconciliation	30 Jun 2020	30 Jun 2019	31 Dec 2019
Leverage ratio excluding lending to members and their companies	Kommuninvest's Tier I capital divided by the total 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	535,808.5	477,293.5	469,859.9
		Exposure in the form of lending to members and their companies	443,439.2	390,533.7	409,515.7
		Total exposure	92,369.3	86,759.8	60,344.2
		Tier I capital, calculated applying transitional rules	7,244.5	7,415.5	7,418.8
		Leverage ratio excluding lending to members and their companies	7.84%	8.55%	12.29%

Board member signatures

The Board of Directors hereby declares that this interim report provides a true and fair overview of the operations, position and net profit of the Company as well as describing significant risks and uncertainty factors facing the Company.

Örebro, 25 August 2020

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson
Board Member

Anna von Knorring
Board Member

Erik Langby
Board Member

Kristina Sundin Jonsson
Board Member

Catrina Ingelstam
Board Member

Lars Heikensten
Board Member

Mattias Bokenblom
Employee representative

Kristin Ekblad
Employee representative

Tomas Werngren
President and CEO

The report contains information that Kommuninvest is required to publish under the Securities Market Act and/or the Financial Instruments Trading Act. The information was submitted for publication on 25 August 2020 at 4:00 p.m.

Auditor's review report

To the Board of Directors of Kommuninvest i Sverige AB (publ).
Corporate identity number 556281-4409

Introduction

We have reviewed the interim report for Kommuninvest i Sverige AB (publ) as per 30 June 2020 and the six-month period ending on that date. It is the Board of Directors and the President who are responsible for the presentation of this interim report in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Focus and scope of the review

We have conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of the interim report consists of making inquiries, primarily of persons responsible for financial and accounting matters,

and applying analytical and other review procedures.

A review is substantially less in scope compared to an audit conducted according to the International Standards on Auditing and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. This statement of opinion is based on a review and, accordingly, does not provide the same degree of assurance as an opinion based on an audit.

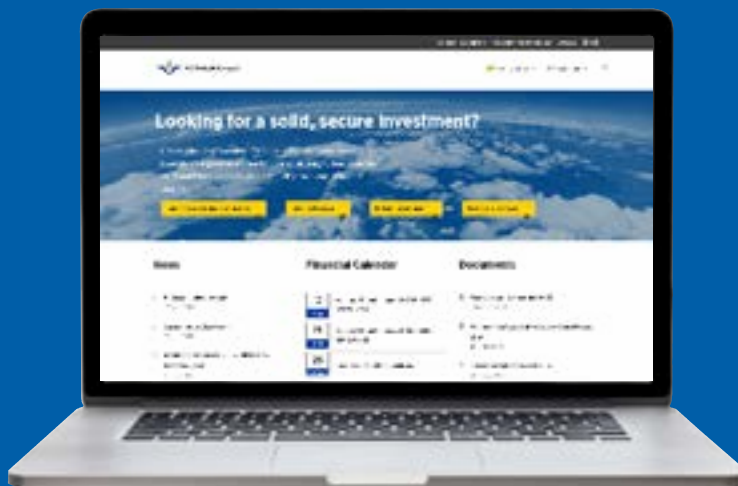
Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim report, in all material respects, is not prepared in accordance with the Swedish Act on Annual Accounts for Credit Institutions and Securities Companies.

Örebro, 25 August 2020

KPMG AB

Anders Tagde
Authorised Public Accountant



On the Kommuninvest website, www.kommuninvest.se/en, you can read more about Kommuninvest, our services and news affecting the economy and finances of municipalities and regions in Sweden. On the website you will find:

- Our newsletter that each week provides members with the latest updates on macroeconomics 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

Postal address: Box 124, SE-701 42 Örebro, Sweden. Visitors: Fenixhuset, Drottninggatan 2, Örebro.
Telephone: +46 (0)10-470 87 00. Telefax: +46 (0)19-12 11 98. E-mail: name.surname@kommuninvest.se
www.kommuninvest.org