KOMMUNINVEST I SVERIGE AB

Year-end report 2019

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
+12

Kommuninvest is owned by 278 municipalities and 12 regions.

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.

Green Loans

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

AAA

Aaa

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

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.

Start 1986

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

SEK 407 bn

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

Year-end report for Kommuninvest i Sverige AB (publ)
This is the year-end report for the credit market company Kommuninvest i Sverige AB (Kommuninvest).
Corporate identity number: 556281-4409
Registered office: Örebro
1 January – 31 December 2019

Comparison figures relating to the income statement refer to the preceding year (1 January – 31 December 2018), unless otherwise stated.
Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2018 unless otherwise indicated.

Comment from the CEO

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

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

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

Our core operations entail providing stable and secure financing of our members' investments under optimal terms. Good cost control is afforded high priority. Accordingly, it is gratifying that the strong growth in 2019 was not matched by commensurate cost increases, although investments in digitalisation and continued extensive regulatory requirements continue to drive costs.

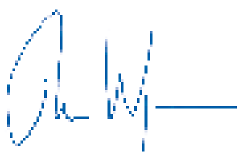
On the whole, in relation to business volumes, operating expenses continue to decline and the overall strategy to reduce lending margins stands firm. As part of developing our financing strategy and safeguarding low borrowing costs in the long-term, a decision was made during the year to include the euro as a strategic funding currency.

Making our services easier to use is an important part of our efforts to enhance efficiency. During the year, we introduced a process for signing loan agreements online with the Mobilt BankID application and automated the process for requesting quotations. At the same time, the knowledge-oriented part of our business is growing, which entails building our customers' skills and simplifying their everyday lives. During the year, in collaboration with a leading educational institute, we developed an advanced training programme in local government finance, initially with five municipalities participating. We plan to continue developing the concept.

Tomas Werngren, CEO

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

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



Tomas Werngren
President and CEO

Market

The world economy and the financial markets
There are clear signs that the international economic trend is slowing and that expectations of growth in the global economy have been dialled back. Global growth is estimated at just under 3 percent for 2019 and the OECD expects it to remain at that level for the next two years. During the period, the international capital markets were pervaded by increased concerns regarding global growth, driven by uncertainty associated with trade conflicts and Brexit.

Brexit concerns eased towards the end of the year when it became clear that the UK would leave the EU on 1 February 2020. Prior to the UK's withdrawal, the parties agreed on a transitional period until 31 December 2020.

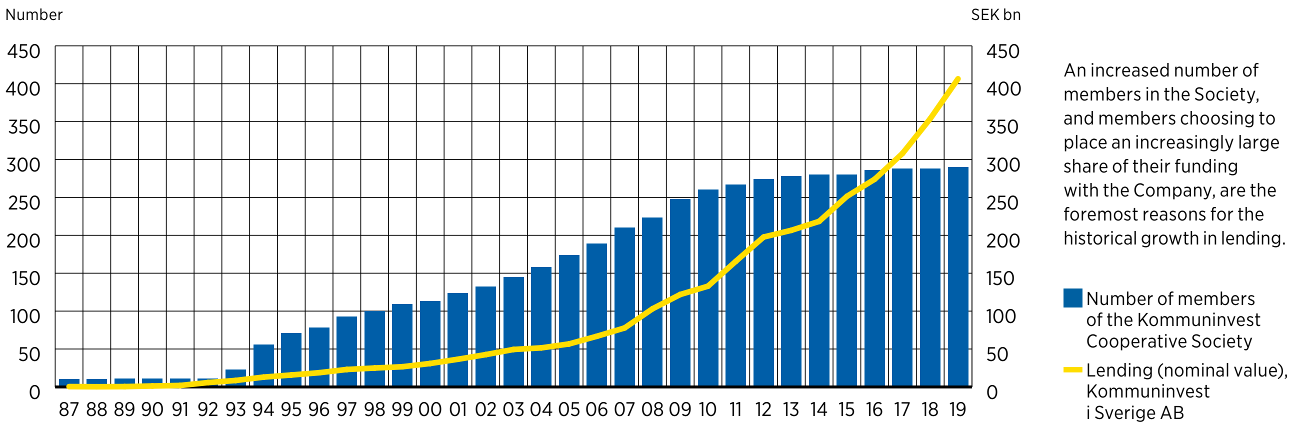
This means that the current rules will continue to apply while new agreements are being negotiated, postponing the risk of an exit without an agreement.

Global long-term interest rates have fallen to historically low levels since the beginning of the 2019. During the period, both the Federal Reserve (Fed) and the European Central Bank (ECB) implemented measures to stimulate the economy by adjusting their policy rates, issued loans to banks and purchased assets including sovereign or housing bonds. Due to weaker economic development, expectations of interest rate hikes have been postponed, in turn driving up the stock exchanges to new record levels. In the long term, the international reference interest rates are to be replaced, as they are required to reflect interest rates on transactions between banks. Since 2018, the alternative to USD Libor has been the Secured Overnight Financing Rate (SOFR) and, since October 2019, the European equivalent, the Euro Short-Term Rate (ESTR) has been traded. In the first quarter of 2020, the Swedish Bankers' Association intends to submit a recommendation regarding reference interest rates that could supplement and/or replace Stibor. For further information, see Note 7.

Over the year, the Swedish economy began to weaken following several years of economic growth. This recession was compounded by the uncertainty surrounding Brexit and trade conflicts. At the same time, the SEK weakened sharply in 2019. Inflation rose over the year, prompting the Riksbank to raise the repo rate to 0 percent (–0.25 percent) at its December meeting. The current interest rate path signals that the interest rate will remain at zero until 2021. The decision caused a rise in short-term market rates and a slight strengthening of the SEK against the EUR and the USD.

Over the year, the local government authorities' debts increased while their net profit weakened. Weaker net profit could be offset by tax increases, for example, efficiency improvements or increased central government allocations. In recent years, Sweden's population has increased, demographic conditions have worsened and there is a trend of increasing urbanisation. Children, young

Number of members and lending volume
1987–2019



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

people and elderly are the fastest growing groups in society. Combined with expectations that the Swedish economy will slow down in 2020, this entails the costs of maintaining welfare at the current level rising faster than tax revenues. Coping with this will be one of the local government sector's foremost challenges in 2020.

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 31 December 2019, the Society had 290 (288) members (partners), of which 278 (277) were municipalities and 12 (11) were regions. Consequently, 96 (96) percent of Sweden's municipalities and 57 (55) percent of Sweden's regions were members (partners) in the Society. During the year, two (zero) new members joined: Region Blekinge and the Municipality of Ekerö.

Local government debt

Through Kommuninvest and other capital market players, Sweden's municipalities and regions were able to efficiently meet their funding needs in 2019. Kommuninvest estimates that the sector's external loan debt rose by SEK 65 billion in 2019 to SEK 721 billion, and that 56 percent of the loan debt is financed via Kommuninvest.

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

The local government sector's funding is characterised by short maturities and short-term interest rates. At the end of the period, the average period for which capital was tied up was 2.8 (2.7) years. Of total funding, 53 (56) percent was based on floating interest rates. By using derivatives the average period of fixed interest was extended to 2.9 (2.8) years. The average interest rate on loan debt was 1.15 percent, a decrease of 9 basis points over one year.

Kommuninvest's lending

As per 31 December 2019, Kommuninvest's lending amounted to SEK 406,511.1 (353,946.1) million in nominal terms, an increase of 15 (15) percent. The recognised value of the lending was SEK 408,218.1 (355,710.0) million.

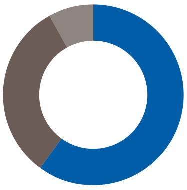
Kommuninvest's competitiveness, expressed as the percentage of accepted bids,

Multi-year summary, Kommuninvest i Sverige AB

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

1) Core Tier I capital in relation to total risk exposure See also page 9–10 and Note 5.
2) Tier I capital in relation to total risk exposure.See also page 9–10 and Note 5.
3) Total capital base in relation to total risk exposure See also page 9–10 and Note 5.
4) Tier I capital in relation to total assets and commitments (exposures). See also pages 9–11 and Note 5.

New funding by currency*
2019 (2018)



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

*excl. commercial paper funding

New funding by programme*
2019 (2018)

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

*excl. commercial paper funding

has remained strong. Based on nominal volumes, the bid acceptance rate amounted to 99 (99) percent for 2019.

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

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

The volume of Green Loans granted, financing for municipal investment projects promoting the transition to low carbon emissions and sustainable growth, increased over the year. At the end of 2019, SEK 63,088.8 (39,503.3) million in Green Loans had been granted to 346 (232) projects and to 150 (109) municipalities and regions.

Kommuninvest's funding

Kommuninvest's lending is financed by means of short and long funding programmes on national and international capital markets.

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

During 2019, the Company experienced continued good demand for the securities it issues. The euro market was added as a new strategic funding market in October. Publishing this news was , in part, what caused the volume of emissions to double in October. At the end of the period, total funding amounted to SEK 450,791.4 (397,380.9) million.

Rating

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

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

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

Financial accounts

Net profit

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

Net interest income

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

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

Net result of financial transactions

The net result of financial transactions amounted to a negative SEK 201.5 (positive 161.4) million. The result is mainly explained by unrealised changes in market value of a negative SEK 193.9 (positive 164.4) million. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 3.

The unrealised changes in market value over the year are explained by the Company having lowered its lending margin towards customers, and that the cost of funding in SEK became cheaper relative to funding in foreign currencies during the period. Since the liabilities only include foreign currency funding reported at fair value, the more expensive financing in USD has entailed a decrease in the margin between the Company's funding and lending expenses on the instruments that are marked to market value.

Expenses

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

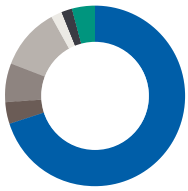
The resolution fee is calculated as a risk-adjusted share of the balance sheet total less lending. The risk-adjusted percentage is determined by the Company's risk profile relative to other institutions required to pay the fee in accordance with the Commission's delegated regulation (EU) 2015/63. Kommuninvest's resolution fee for 2019 has been set by the Swedish National Debt Office at SEK 27.4 (69.1) million. The resolution fee accounted for 11 (25) percent of Kommuninvest's total expenses for 2019.

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

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

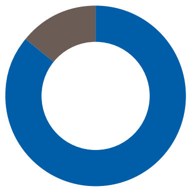
Net credit gains amounted to SEK 12.6 (losses 24.3) million. In accordance with IFRS 9, Kommuninvest recognises expected credit losses. However, for the year at hand,

Liquidity reserve distributed by country
2019 (2018)



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

Liquidity reserve distributed by rating category
2019 (2018)



AAA 86 (86) %
AA 14 (12) %
A 0 (2) %

Liquidity reserve distributed by issuer category
2019 (2018)

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

these actually amounted to an expected credit gain, mainly due to changes in credit risk. Among other factors, the model for calculating expected credit losses takes forward-looking analyses of economic development into account. For more information on credit losses (or gains), see Note 3 in Kommuninvest's Annual Report.

Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 471,320.7 (417,202.1) million, with lending to municipalities and regions accounting for most of those assets. Lending amounted to a recognised value of SEK 408,218.1 (355,710.0) million at the end of the year. In nominal terms, lending amounted to SEK 406,511.1 (353,946.1) million. The increase in lending is due to a continued high need for investment in the local government sector, combined with lower lending prices.

The liquidity portfolio, consisting of the balance sheet items Cash and balances with central banks, Sovereign bonds eligible as collateral, Lending to credit institutions and Bonds and other interest-bearing securities, decreased to SEK 48,137.2 (48,531.5) million. For more information regarding the principles for liquidity management, see the Liquidity management section on page 9.

Derivative assets (derivatives with positive market value) increased to SEK 11,967.0 (11,333.2) million.

The balance sheet item Other assets amounted to SEK 2,828.9 (1,471.0) million. Other assets consist primarily of SEK 2,807.6 (1,454.4) million in pledged collateral. Collateral pledged for derivatives cleared by central clearing counterparties are recognised net per counterparty and currency in the balance sheet, see further under Note 4. No right of netting applies for cash collateral pledged for derivatives not cleared by a central clearing counterparty and these are therefore recognised gross in the balance sheet, with separate asset and liability items. For more information on other assets, see Note 3.

Liquidity management
Strict rules and a conservative approach guide Kommuninvest's liquidity reserve. According to the Company's instructions, the liquidity reserve shall ensure that the Company's commitments can be maintained while maintaining lending capacity.

Most of the investments are in securities issued by national governments or central banks, multilateral development banks and credit institutions with high credit ratings.

At least 90 percent of the reserve shall qualify as collateral with the Riksbank, allowing the Company to obtain liquidity against collateral.

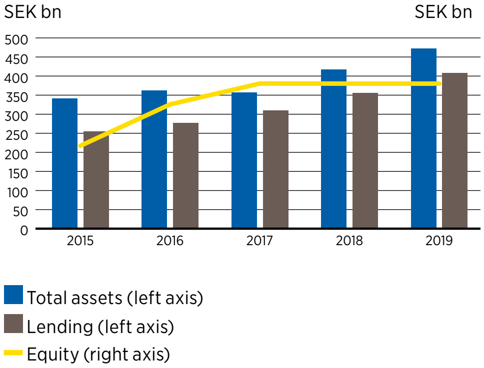
The liquidity reserve shall be invested short-term, with the average maturity not exceeding 12 months. Individual investments may have a maturity of 39 months at most.

Liabilities
The Company's liabilities amounted to SEK 463,718.7 (409,598.7) million and funding increased to SEK 450,791.4 (397,380.9) million over the year. Derivative liabilities (derivatives with negative market value) amounted to SEK 3,484.5 (5,959.6) million.

The balance sheet item Other liabilities amounted to SEK 9,400.6 (6,217.5) million. Other liabilities include collateral received of SEK 7,981.4 (4,551.8) million. Collateral received for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet, see also Note 5. No right of netting applies for cash collateral received for derivatives not cleared by a central clearing counterparty and these are therefore included in full in the balance sheet.

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

Balance sheet
2015–2019



At the end of the year, share capital amounted to SEK 7,100.0 (7,100.0) million, distributed between 70,999,720 (70,999,720.0) shares. Total share capital is attributable to the Society's members and no shares are available for trading.

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

Capital adequacy
The Company is well capitalised to withstand the operations' risks, with capital relationships exceeding the prescribed minimum requirements in Pillar 1 and the basic requirements in Pillar 2 by a good margin. The core Tier I capital amounted to SEK 7,418.8 (7,425.2) million, entailing a core Tier I capital ratio of 126.8 (188.4) percent. The Company's capital base consists solely of Tier I capital and the total capital ratio also therefore amounts to 126.8 (188.4) percent. For further information, see Note 5.

The Society bears the principal responsibility for the Group's capitalisation. The Society's plan is based on the capitalisation of the Group and the Company being raised to a level corresponding to a leverage ratio of 1.5 percent. If further capital needs to be accumulated to meet the capital requirement, as a result of future regulatory changes, for example, the Society plans primarily to ask members for additional member contributions. In accordance with its Articles of Association, the Society applies a minimum (compulsory) and maximum level of contribution capital per resident contributed by the Society's members as capital. In 2017, the Annual General Meeting of the Society resolved that it should be possible to double the highest level of contribution capital if the need were to arise. The Society's Articles of Association also permit other options, such as subordinated loans or the issuance of Tier I capital instruments.

Future leverage ratio requirements

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).* Kommuninvest meets all criteria to be defined as a PDCI, an assessment also reached by the Swedish Financial Supervisory Authority (Finansinspektionen). For Kommuninvest, this means that all lending to members and their companies can be deducted from the exposure measure applied in calculating the leverage ratio of the Company and the Group. Accordingly, Kommuninvest meets the leverage requirement of 3 percent under Pillar 1 by a good margin.

The Swedish Financial Supervisory Authority has communicated that the supervisory authority's assessment is that Kommuninvest has a continued need to retain capital to avoid an insufficient leverage ratio, in accordance with Article 98.6 of the Capital adequacy directive (2013/36 /EU), regardless of the leverage ratio regulation determined under Pillar 1.

The capital requirement to counter the risk of an insufficient leverage ratio is addressed in Pillar 2 and is based on Kommuninvest's total capital requirement corresponding to a leverage ratio of at least 1 percent, calculated on the basis of the total gross exposure (including lending to members and their companies).

The Swedish Financial Supervisory Authority's assessment regarding the risk of an insufficient leverage ratio applies both to the Company and the Group.

Leverage ratio as per 31 December 2019

As per 31 December 2019, the Company's gross leverage ratio reported according to CRR was 1.58 (1.75) percent (see Note 6 for calculations). If lending is excluded, in accordance with the discussion in the preceding section, the leverage ratio was 12.29 (11.30) percent.

Risks and uncertainty factors

In its business, the Company encounters a number of uncertainties that may have an impact on the Company's net profit, financial position or opportunities to attain set targets. The macroeconomic trend, as well as the trend in the capital markets is uncertain, with geopolitical risks, risks for international trade and generally high levels of debt being among the factors that could cause volatility in the financial markets.

Risk management
The Company's operations serve solely to support the financing of 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, the 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 operations and does not seek to make a profit.

At the end of the period, the Company's total credit risk exposure amounted to SEK 473,916.0 (420,560.0) million. Of this exposure, 82 (84) percent involved Swedish municipalities and regions in the form of lending, 13 (12) percent involved sovereigns and other issuers of securities in the form of investments and deposits, 3 (3) percent involved exposures to derivative counterparties and 1 (0) percent of the exposure involved other assets. Off-balance sheet items accounted for 1 (1) percent (committed loans and committed undisbursed loans).

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 collateral to eliminate the counterparty exposure incurred in derivative transactions. See Note 5. ISDA-agreements are drawn up with all counterparties. Counterparty exposure to derivative counterparties amounted to SEK 3,025.2 (1,770.6) million after netting for each counterparty and net of collateral received.

In order to ensure good liquidity, the Company's liquidity reserve is primarily held in sovereign securities, as well as in investment repos backed by covered bonds. The composition of the liquidity reserve as per 31 December 2019 is shown in the chart on page 8.

A description of the Company's risk exposure can be found on pages 35–39 and in Note 3 in the 2019 Annual Report for Kommuninvest AB, as well as in the Risk and Capital Management Report that is available at www.kommuninvest.se.

Employees
At the end of the period, there were 93 (92) employees. The average number of employees during the period was 101 (97).

Board of Directors
As per 31 December 2019, the Company's Board of Directors consisted of Ellen Bramness Arvidsson (Chairman), Kurt Eliasson, Lars Heikensten, Erik Langby, Kristina Sundin Jonsson, Johan Törngren and Anna von Knorring, as well as employee representative Mattias Bokenblom.

Mattias Bokenblom was appointed as employee representative in March 2019 and Ulrika Gonzales Hedqvist stepped down from her assignment as employee representative in December 2019.

Management
On 31 December 2019, the Company's executive management consisted of Tomas Werngren (CEO), Maria Viimne (Deputy CEO and COO), Patrick Nimander (CFO), Malin Waldenström (Head of Human Resources), Britt Kerkenberg (CRO), Jens Larsson (Chief Legal Officer) and Christofer Ulfgren (CIO).

Events after the balance sheet date
No significant events have occurred after the end of the financial year.

Income statement

1 January – 31 December

SEK, million	Note	2019	2018
Interest revenues calculated according to effective interest method		1,198.9	494.0
Other interest revenues		24.6	11.3
Interest expenses calculated according to effective interest method		–241.0	437.0
Other interest expenses		–155.0	–56.8
NET INTEREST INCOME	2	**827.5**	**885.5**
Dividends received		2.4	2.1
Commission expenses		–11.3	–8.2
Net result of financial transactions		–201.5	161.4
of which, derecognised assets valued at amortised cost		*3.3*	*0.5*
Other operating income		9.3	7.8
TOTAL OPERATING INCOME		**626.4**	**1,048.6**
General administration expenses		–236.2	–259.8
Depreciation and impairment of intangible assets		–4.4	–5.3
Depreciation and impairment of material assets		–2.3	–2.5
Other operating expenses		–4.0	–4.2
TOTAL EXPENSES		**–246.9**	**–271.8**
PROFIT BEFORE CREDIT LOSSES		**379.5**	**776.8**
Net credit losses		12.6	–24.3
OPERATING PROFIT		**392.1**	**752.5**
Tax		–84.2	–166.4
NET PROFIT		**307.9**	**586.1**

Statement of comprehensive income

1 January – 31 December

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

Balance sheet

As per 31 December

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

Statement of changes in equity

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

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

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

Cash flow statement

1 January – 31 December

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

Cash and cash equivalents consists in their entirety of cash and balances at central banks, as well as loans 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	2019	2018
Depreciation and impairment of tangible and intangible assets	6.7	7.8
Profit from divestments of tangible assets	–0.1	–
Exchange rate differences from change in financial assets	0.5	0.5
Unrealised changes in market value	193.9	–164.4
Net credit losses	–12.6	24.3
Total	**188.4**	**–131.8**

Interest paid and received, included in the cash flow	2019	2018
Interest received[1]	1,086.2	352.2
Interest paid[2]	546.6	1,247.7

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

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

Reconciliation of liabilities arising from financing activities

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

Note 1 Accounting principles

Compliance with standards and legislation

Kommuninvest's year-end report has been prepared applying the regulation regarding annual 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 9.

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

During the first half of 2019, the Company adjusted certain assumptions in its model for expected credit losses – adjustments that were reversed in the second half of 2019. Adjustments attributable to the model for expected credit losses are presented in Note 3 in Kommuninvest's annual report.

Amended accounting principles due to new IFRS

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

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

IFRS 16 Leases

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

Kommuninvest will apply the exemption in RFR 2, meaning that IFRS 16 need not be applied to legal entities, meaning that the Company will apply the rules for lease accounting in RFR 2. When applying the exemption in RFR 2, leasing fees are recognised as a cost on a straight-line basis over the term of the lease and no asset or liability is booked in the balance sheet. The accounting principles are essentially unchanged compared with earlier accounting principles. In applying IAS 17, the Company only had operational leasing.

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

New and amended standards and interpretations yet to come into effect

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

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

Amendments to IFRS 9, IAS 39 and IFRS 7

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

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

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

Note 2 Net interest

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

Kommuninvest considers all income and expenses to be attributable to the country in which the Company has its registered office, Sweden. In this note, income is recognised as positive and expenses as negative. For further information on net interest income for the period, please see the Comments on the income statement on page 7.

Note 3 Financial assets and liabilities

Financial instruments broken down by valuation category

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

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

Note 3, continued

Financial instruments broken down by valuation category

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

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

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

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

Calculation of fair value

General

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

Level 1: Valuation is made according to prices noted on an active market for the same instrument.

Level 2: Valuation is made on the basis of directly or indirectly observable market data not included in level 1.

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

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

Lending

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

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

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

Liabilities to credit institutions, securities issued and other subordinated liabilities

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

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

Note 3, continued

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

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

The debt value adjustment for derivatives (DVA) corresponds to the credit rating 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 value adjustment is an insignificant amount.

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

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

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

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

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

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

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

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

Change in value due to anticipated credit risk
With the joint and several guarantee for Kommuninvest's funding provided by the members of the Kommuninvest Cooperative Society, Kommuninvest's own credit risk is considered to be negligible. Changes are only considered to occur in Kommuninvest's own credit risk as a consequence of events such as a major downgrading of the Company's rating, or significant amendments to the members' guarantee undertaking that would reduce their collective responsibility for the Company's commitments. Since no such events or changes have occurred, all variations in funding margins and resulting changes in the value of liabilities are deemed attributable to general changes in the market price of credit and liquidity risk and not from changes in Kommuninvest's own credit risk.

The credit risk in lending is considered to be the same as Kommuninvest's own credit risk. Accordingly, no part of the change in the value of lending is considered to derive from changes in credit risk.

The assets in the liquidity reserve hold a very high credit rating. A change in credit risk affecting their valuation is deemed to occur only in connection with significant downgrades. Such downgrades have not occurred for any of the issuers, which is why no changes in the value of the liquidity reserve are considered to derive from changes in credit risk.

Note 3, continued

Changed valuation models
During the period, Kommuninvest introduced accounting of credit rating adjustment for derivatives, CVA, for derivatives not cleared by central clearing counterparties. While members' guarantees regarding counterparty exposures were previously taken into account, following reassessment, these are no longer considered a feature to be taken into account when valuing derivatives. Including this adjustment is considered to better reflect fair value. The change affects the overall value of the derivative portfolio negatively by SEK 5.0 million as per 31 December 2019.

Approval of valuation models
The valuation models applied are approved by the CFO and reported to the Company's ALCO (Asset and Liability Committee) and Board of Directors. The Finance department is responsible for the valuation process, including the valuation models. The Risk and Control department is responsible for ensuring independent control of the quality of valuation models and market data used in the valuation.

Financial instruments recognised at fair value in the balance sheet

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	2,667.6	1,507.5	–	4,175.1
Lending	–	137,190.3	–	137,190.3
Bonds and other interest-bearing securities	5,065.2	2,657.4	–	7,722.6
Derivatives	–	11,782.2	184.8	11,967.0
Total	**7,732.8**	**153,137.4**	**184.8**	**161,055.0**
Financial liabilities				
Liabilities to credit institutions	–	592.4	–	592.4
Securities issued	101,897.5	52,418.2	6,731.5	161,047.2
Derivatives	–	2,995.5	489.0	3,484.5
Total	**101,897.5**	**56,006.1**	**7,220.5**	**165,124.1**

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	2,542.4	3,486.3	–	6,028.7
Lending	–	106,398.1	–	106,398.1
Bonds and other interest-bearing securities	2,389.1	5,068.7	–	7,457.8
Derivatives	0.0	11,204.2	129.0	11,333.2
Total	**4,931.5**	**126,157.3**	**129.0**	**131,217.8**
Financial liabilities				
Liabilities to credit institutions	–	583.2	–	583.2
Securities issued	89,764.9	58,209.7	7,866.3	155,840.9
Derivatives	–	4,168.1	1,791.5	5,959.6
Total	**89,764.9**	**62,961.0**	**9,657.8**	**162,383.7**

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

	Recognised value 31 Dec 2019	Recognised value 31 Dec 2018
Assets		
To level 1 from level 2	–	–
To level 2 from level 1	–	7,797.5
Liabilities		
To level 1 from level 2	–	–
To level 2 from level 1	35,348.8	40,186.9

Kommuninvest continuously reviews the criteria for its division into levels of financial assets and liabilities measured at fair value. The movements are attributable variations in the indicators that Kommuninvest uses to demarcate between level 1 and level 2 for bonds.

The indicators show the number of observations and their standard deviation for bond prices and a specific number of executable quotes. The transfers are considered to have taken place on 31 December 2019 and 31 December 2018 for the preceding period.

Note 3, continued

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

2019	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Cash and balances with central banks	–	811.1	–	811.1	811.1
Sovereign bonds eligible as collateral	–	13,511.7	–	13,511.7	13,511.2
Lending to credit institutions	–	21,917.2	–	21,917.2	21,917.2
Lending	–	271,075.8	–	271,075.8	271,027.8
Other assets	–	2,825.9	–	2,825.9	2,825.9
Total	–	**310,141.7**	–	**310,141.7**	**310,093.2**
Financial liabilities					
Liabilities to credit institutions	–	3,435.2	–	3,435.2	3,435.3
Securities issued	–	286,975.3	–	286,975.3	285,715.8
Change in value of interest-hedged items in portfolio hedging	–	0.7	–	0.7	0.7
Other liabilities	–	9,397.6	–	9,397.6	9,397.6
Total	**–**	**299,808.8**	**–**	**299,808.8**	**298,549.4**

2018	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Sovereign bonds eligible as collateral	–	33,204.2	–	33,204.2	33,201.6
Lending to credit institutions	–	1,843.4	–	1,843.4	1,843.4
Lending	–	249,282.8	–	249,282.8	249,311.9
Other assets	–	1,468.2	–	1,468.2	1,468.2
Total	**–**	**285,798.6**	**–**	**285,798.6**	**285,825.1**
Financial liabilities					
Liabilities to credit institutions	–	0.8	–	0.8	0.8
Securities issued	–	241,826.8	–	241,826.8	240,956.0
Other liabilities	–	6,207.9	–	6,207.9	6,207.9
Total	**–**	**248,035.5**	**–**	**248,035.5**	**247,164.7**

Changes in level 3

The table below presents a reconciliation of opening and closing balances for financial instruments recognised at fair value in the balance sheet based on an assessment technique proceeding from unobservable input data (level 3). Value changes in Level 3 are followed up continuously over the year.

	Derivative assets	Derivative liabilities	Securities issued	Total
Opening balance, 1 Jan 2018	**138.4**	**–63.2**	**–1,325.3**	**–1,250.1**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	–9.4	–1,728.3	1,716.8	–20.9
Loans raised/Issues	–	–	–8,911.6	–8,911.6
Maturing during the year	–	–	653.8	653.8
Closing balance, 31 Dec 2018	**129.0**	**–1,791.5**	**–7,866.3**	**–9,528.8**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2018	–35.0	–1,691.1	1,705.3	–20.8
Opening balance, 1 Jan 2019	**129.1**	**–1,791.4**	**–7,866.3**	**–9,528.6**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	55.7	1,302.4	–1,350.8	7.3
Loans raised/Issues			–3,190.6	–3,190.6
Maturing during the year			5,676.2	5,676.2
Closing balance, 31 Dec 2019	**184.8**	**–489.0**	**–6,731.5**	**–7,035.7**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 December 2019	185.2	216.9	–408.4	–6.3

Because the instruments in level 3 are hedged on a transaction basis, and each funding combination behaves as a funding combination in level 2, the changes in value in level 3 are analysed in the same manner as in level 2.

Note 4 Information on financial assets and liabilities subject to netting

Kommuninvest nets assets and liabilities in the balance sheet where there is a legal right to do so and the intention is to settle the items net, which occurs for Kommuninvest's derivative assets and liabilities towards central counterparties for clearing.

Kommuninvest's derivatives are what are known as OTC derivatives, that is, they are not traded on an exchange but are issued under ISDA (International Swaps and Derivatives Association) Master agreements. In addition to the ISDA agreement, a supplementary CSA (Credit Support Annex) has been signed with a considerable portion of the counterparties. CSA agreements regulate the right to secure collateral to eliminate the exposure.

For non-cleared derivatives carried out under ISDA Master agreements, all payment flows with a particular counterparty that mature on the same date are, to the greatest extent possible, netted in each currency to a net amount to be paid by one counterparty to another. For specific events, such as past-due payment, bankruptcy, etc. all transactions are concluded with that counterparty, as assessment is conducted and a net settlement is made.

ISDA Master agreements do not meet the criteria for netting in the balance sheet, since the legal right of netting only applies for a stated type of suspension of payments, insolvency or bankruptcy.

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

				Related amounts that are not netted in the balance sheet			
2018	**Financial assets and liabilities, gross amounts**	**Amounts netted in the balance sheet[1]**	**Net amount reported in the balance sheet**	**Financial instruments**	**Provided (+)/ Received (–) collateral – security**	**Provided (+)/ Received (–) cash collateral**	**Net amount**
Assets							
Derivatives	13,288.4	–1,955.2	**11,333.2**	–2,955.3	–4,151.9	–3,771.8	**454.2**
Liabilities							
Derivatives	–7,262.7	1,303.1	**–5,959.6**	2,955.3	558.1	1,281.3	**–1,164.9**
Total	**6,025.7**	**–652.1**	**5,373.6**	**–**	**–3,593.8**	**–2,490.5**	**–710.7**

1) The netted amount for derivative liabilities includes cash collateral of SEK 4,007 million as per 31 December 2019 and SEK 652 million as per 31 December 2018.

Note 5 Capital adequacy

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

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

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

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

1) For a more detailed description of the instruments included in share capital, see page 9.
2) As of 31 December 2019, deductions of SEK 0.7 million have been made, which refer to the portion of net profit that has not been distributed to the Kommuninvest Cooperative Society in the form of Group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.
3) Deductions calculated according to the EBA's technical standard regarding prudent valuation. The purpose is to adjust the uncertainty in valuation regarding positions valued and recognised at fair value.

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

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

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

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

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

The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements. For more information on the Company's capital plan, see page 9–10.

Total capital base requirement	2019	2018
Capital requirement, Pillar I	468.1	315.3
Buffer requirement, Pillar I	265.5	136.5
Capital requirement, Pillar II	2,555.4	2,510.0
Total assessed capital base requirement	**3,289.0**	**2,961.8**

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 6 Leverage ratio

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

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

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, see page 10.

Note 7 External monitoring

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

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

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

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

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

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

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

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

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

Note 8 Relations with related parties

No significant changes have taken place in relationships or transactions with related parties compared with those described in the annual report for 2018.

During the period, Kommuninvest had a related party relationship with the Kommuninvest Cooperative Society (parent society), Kommuninvest Fastighets AB (subsidiary). For more information, see Note 24 in Kommuninvest's Annual Report.

Note 9 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 is 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. As per 31 December 2019, Kommuninvest Fastighets AB had a balance sheet total of SEK 46.4 (51.5) million, equity of SEK 42.3 (42.6) million and generated a loss of SEK 0.3 (0.3) million.

Note 10 Transition to new principles for lease accounting

On 1 January 2019, IFRS 16 Leases came into effect, replacing IAS 17 Leases. Under IFRS 16, lease agreements must be entered in the balance sheet as a right of use on the asset side and as a lease liability on the liability side. The expenses are allocated in the income statement on the basis of a depreciation component and an interest component, as opposed to previously when leasing expenses were reported under administrative expenses. RFR 2 includes an option not to apply IFRS 16 in legal entities and to instead apply the rules for lease accounting included in RFR 2.

The company has chosen the option in RFR2 to not apply IFRS 16, meaning that lease accounting remains essentially unchanged from the preceding year. Under IAS 17, Kommuninvest only had operating leases, with the leasing fees being expensed on a straight-line basis over the lease term, which agrees with how they are reported today under the principles for lease accounting under RFR 2. The implementation of new principles for lease accounting have not entailed any transitional effect for the Company.

Kommuninvest's leasing activities are insubstantial, consisting primarily of leases where the underlying asset is deemed to be of low value. Leases pertain to laptops, mobile phones and various items of office equipment. The most significant lease is the Company leasing of the office premises for which the Company's subsidiary, Kommuninvest Fastighets AB, is the lessor. As Kommuninvest is not a lessor, it has no leasing revenues. For more information, see Note 8 in Kommuninvest's Annual Report.

Note 11 Events after the balance sheet date

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

Board member signatures

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

Stockholm, 11 February 2020

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson
Board Member

Anna von Knorring
Board Member

Erik Langby
Board Member

Kristina Sundin Jonsson
Board Member

Johan Törngren
Board Member

Lars Heikensten
Board Member

Mattias Bokenblom
Employee representative

Tomas Werngren
President and CEO

This report has not been audited.
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 11 February 2020 at 4:00 p.m.
From 20 February, it will be possible to download the complete 2019 Annual Report from the website, www.kommuninvest.se.

The consolidated accounts are prepared by the Parent Society, the Kommuninvest Cooperative Society, and will be published on www.kommuninvest.se on 16 April 2020.

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KOMMUNINVEST

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