KOMMUNINVEST I SVERIGE AB

Year-end 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 + 14

Kommuninvest is owned by 278 municipalities and 14 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 75 billion.

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 443 bn

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

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 2020

Comparison figures relating to the income statement refer to the preceding year (1 January – 31 December 2019), unless otherwise stated.
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

Good stability in challenging times
The economy of the local government sector coped relatively well through the pandemic in 2020. In the spring, the situation appeared extremely gloomy. With substantial central government support, however, and a strong recovery in the early autumn, the situation brightened. A second wave slowed the recovery. Growth is likely to gain impetus again in 2021. In many municipalities and regions, surpluses reached record levels in 2020. The local government sector has maintained a strong financial position.

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

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

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

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

Kommuninvest's sustainability efforts are developing rapidly. Based on clear demand from the local government sector, in the spring, we initiated a concrete process to develop a new product: Social Sustainability Loans. In the autumn, a pilot phase was initiated, with the loan product being offered to a number of pilot customers.


Tomas Werngren, CEO

The operating profit for the year, SEK 228 million, was lower than for the preceding year (SEK 392 million). This was partly attributable to negative unrealised changes in market values. As these changes involve accounting practices, negative values will now increase operating profit at a later stage. Operating income (that is, excluding unrealised changes in market value due to accounting practices) remained high at SEK 462 (573) million. In accordance with an earlier resolution by the Annual General Meeting, we have continued to reduce the margin between our funding and lending. This will entail lower operating income in the upcoming years.

The pandemic imposed considerable demands on the organisation's adaptability. Here, all employees displayed their loyalty to the mission and their willingness to go that extra mile for our members and customers. For this, I am most grateful. That laid the foundation for a successful year.

Tomas Werngren
President and CEO

Market

The corona pandemic

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

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

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

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

All parts of the operations functioned well over the year.

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

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

In its funding operations, Kommuninvest has retained favourable access to the capital market throughout. During the worst of the turbulence, a decision was made to issue securities only in the Swedish market, as the price difference between the markets was unusually large. At the end of April, Kommuninvest returned to the USD market. Over the year, five issues were completed under the USD programme. The first funding forecast for 2020 was SEK 140–160 billion. This was revised upwards in April, given the large lending volumes, and was then revised downwards in both June and October to reflect a lower lending rate. The total funding raised over the year was SEK 131 billion.

In the currency market, the SEK strengthened from May onwards against the USD. This meant that opening unrealised gains from currency swaps, which Kommuninvest uses

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

o hedge currency risks in its USD financing, decreased as the contracts approached maturity. In turn, this contributed to the large item for negative unrealised changes in market value that burdened the year's operating profit.

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

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

The capital situation is also strong. In April, the Annual General Meeting of the Society adopted a plan to gradually build up capital until 2024. Both internal and statutory capital requirements must always be met by a good margin. This provides a capital situation that should suffice well, even in light of the corona pandemic, for the scenarios that could transpire. At the end of the year, a new share issue was in progress, in which the Society is buying shares in the Company, which immediately improves the capital situation.

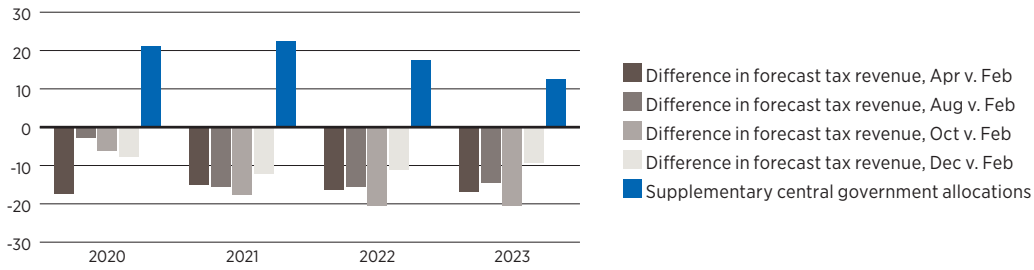
One problem accompanying the pandemic was that many local government authorities were too small to be able to buy protective equipment at acceptable prices. For this reason, SALAR, the coordination office of the County Administrative Boards, Region Stockholm, Region Skåne , Region Västra Götaland, the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

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

Overall, Kommuninvest is very well equipped to deal with continued developments in the corona pandemic. It must be possible to maintain stability even if the situation were to worsen.

Effects of the corona pandemic on the local government sector economy

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



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

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 2020, the Society had 292 (290) members (partners), of which 278 (278) were municipalities and 14 (12) were regions. Consequently, 96 (96) percent of Sweden's municipalities and 67 (57) percent of Sweden's regions were members (partners) in the Society. During the year, two (two) new members joined: Region Kalmar Län and Region Västra Götaland.

Local government debt

Through Kommuninvest and other capital market players, Sweden's municipalities and regions were able to efficiently meet their funding needs in 2020. Kommuninvest estimates that the sector's external loan debt rose by SEK 40 billion in 2019 to SEK 766 billion, and that 58 percent of the loan debt is financed via Kommuninvest.

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

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 2.9 (2.8) years. Of total funding, 51 (51) percent was based on floating interest rates. During the period 2013–2020, the sector's loan debt grew by an average 7 percent while, during the same period, Kommuninvest grew by an average 11 percent.

Kommuninvest's lending

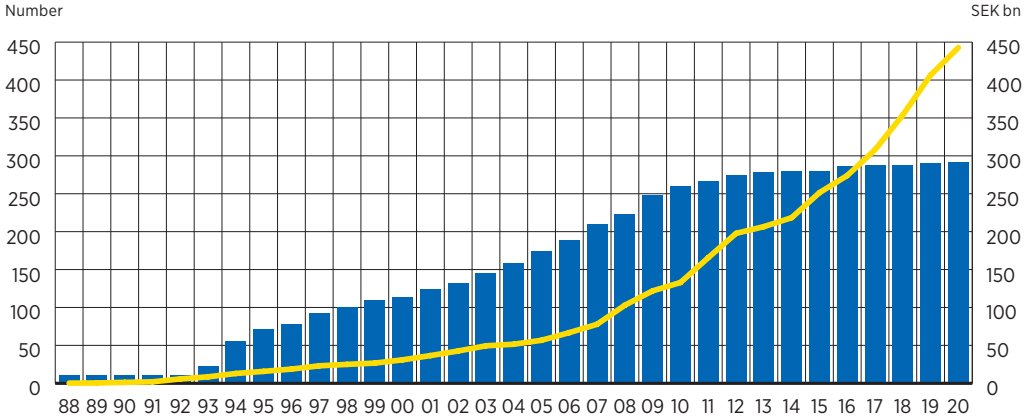
As per 31 December 2020, Kommuninvest's lending amounted to SEK 442,840.6 (406,511.1) million in nominal terms, an increase of 9 (15) percent. The recognised value of the lending was SEK 445,788.8 (408,218.1) million.

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 for 2020.

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

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

Number of members and lending volume
1988–2020



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

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

New funding by currency*
2020 (2019)

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

*excl. commercial paper funding

New funding by programme*
2020 (2019)

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

*excl. commercial paper funding

The volume of Green Loans granted, financing for municipal investment projects promoting the transition to low carbon emissions and sustainable growth, increased over the year. At the end of 2020, SEK 74,677.3 (63,088.8) billion in Green Loans had been granted to 431 (346) projects and to 167 (150) 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.

The Company's largest funding programme is its Swedish Benchmark Programme. During the spring of 2020, the issue procedure within the programme was developed with issues involving weekly auctions, rather than on request.

The change has been received well by the capital market, with the year being characterised by favourable demand for the Company's issues.

At the end of the period, total funding amounted to SEK 499,252.9 (450,791.4) million.

Rating

Kommuninvest holds the highest credit ratings – AAA from S&P Global Ratings and Aaa from Moody's. In December and July 2020, the rating institutes confirmed the Company's credit rating, with a continued stable outlook. The rating agencies highlight the joint and several guarantee from the owners of the Cooperative Society, the mandate the Company has from its owner to act as a local government debt office for its members, the high quality of the loan portfolio and the strategy for building up capital to meet future regulations.

Kommuninvest's "ESG ratings" are also high. The rating by the ISS-Oekom institute is B– (Prime), the rating from Sustainalytics is 9.1, that is, "Negligible ESG risk" and the rating from MSCI is AA. The results place Kommuninvest among the group of financial institutions whose operations are considered least exposed to sustainability risks.

Multi-year summary, Kommuninvest i Sverige AB

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

1) Core Tier I capital in relation to total risk exposure. See also pages 11-12 and Note 6.
2) Tier I capital in relation to total risk exposure. See also pages 11-12 and Note 6.
3) Total capital base in relation to total risk exposure. See also pages 11-12 and Note 6.
4) Tier I capital in relation to total assets and commitments (exposures). See also pages 11–13 and Note 6.

Financial accounts

Net profit

Kommuninvest's operating profit, its profit before tax, amounted to SEK 228.0 (392.1) million. Operating profit includes unrealised changes in market value of a negative SEK 245.3 (193.9) million, and expected credit losses of SEK 11.1 (12.6) million. Excluding changes in market value and expected credit losses, Kommuninvest's operating profit amounted to SEK 462.2 (573.4) million – for additional details, see Alternative performance measurements on page 96 of Kommuninvest's 2020 Annual Report.

The tax expense for the year recognised in the income statement amounted to SEK 48.3 (84.2) million. Through Group contributions, taxable profit is reduced to SEK – (–) million. Profit after tax amounted to SEK 179.7 (307.9) million.

Net interest income

Net interest income amounted to SEK 711.3 (827.5) million and was thus marginally lower than for the preceding year. The decrease is due to a large part of the loans maturing during the year having been agreed before May 2018, when the ownership directive required a higher margin between funding and lending rates than it does today. When these loans mature and are replaced by loans with a lower margin, net interest income decreases. The increased lending volumes have partly offset the decline in net interest income resulting from the reduced margins. During some parts of the year, the load on net interest income from the liquidity reserve also increased due to fluctuations in short-term market interest rates. In total, the liquidity reserve reduced net interest income by about SEK 20.0 million.

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 247.7 (201.5) million. The result is mainly explained by unrealised changes in market value of a negative SEK 245.3 (193.9) million. Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised. For further details, see Note 4.

The unrealised changes in market value during the year are mainly explained by the fact that unrealised gains from currency swaps have decreased as contracts have approached maturity. Currency swaps are used to hedge the risks from the Company's financing in USD and are always held to maturity.

Expenses

Total expenses amounted to SEK 247.5 (246.9) million, including the resolution fee of SEK 20.9 (27.4) million. Excluding the resolution fee, expenses amounted to SEK 226.6 (219.5) million, of which personnel expenses accounted for SEK 128.3 (127.1) million and other expenses for SEK 98.3 (92.4) million. Personnel expenses decreased by approximately SEK 2.3 million in 2020 compared with 2019 due to training and internal meetings being affected by the corona pandemic.

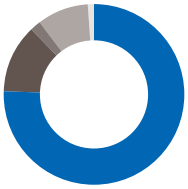
The increase in other expenses is mainly explained by the upgrade of the financial administration system conducted every two years (SEK 4.5 million) and the upgrade of the Company's CRM system (SEK 1.5 million).

Expenses for travel and premises reduced other costs by approximately SEK 3 million compared with 2019 as a consequence of the general situation in society in 2020.

The resolution fee is calculated as a risk-adjusted share of the balance sheet total less lending. The risk-adjusted percentage is determined by the Company's risk profile relative to other institutions required to pay the fee in accordance with the Commission's delegated regulation (EU) 2015/63. Kommuninvest's resolution fee for 2020 has been set by the Swedish National Debt Office at SEK 20.9 (27.4) million. The resolution fee accounted for 8 (11) percent of Kommuninvest's total expenses for 2020.

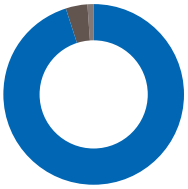
The Company's wholly-owned subsidiary, Kommuninvest Fastighets AB, provided a group contribution of SEK 1.9 (2.4) million in 2020. The Board of Directors of the property company was of the opinion that the Group contribution would not prevent the property

Liquidity reserve distributed by country
2020 (2019)



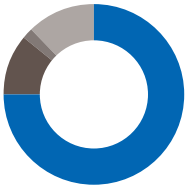
- Sweden 75 (70) %
- Supranationals 12 (4) %
- Finland 2 (7) %
- Germany 9 (11) %
- UK 1 (2) %
- Denmark 0 (2) %
- USA 0 (4) %
- Canada 0 (0) %

Liquidity reserve distributed by rating category
2020 (2019)



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

Liquidity reserve distributed by issuer category
2020 (2019)



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

company from fulfilling its obligations in the short and long term, nor from making necessary investments.

Net credit losses amounted to SEK 11.1 (12.6) million, see Note 3. In accordance with IFRS 9, Kommuninvest recognises expected credit losses. However, for the year at hand, 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, see also Note 3 in Kommuninvest's 2020 Annual Report.

Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 527,363.6 (471,320.7) million, with lending to municipalities and regions accounting for most of the assets. Lending amounted to a recognised value of SEK 445,788.8 (408,218.1) million at the end of the year. The increase in lending is due to a continued high need for investment in the local government sector. During the second half of the year, the growth rate in lending was slowed by the temporarily strengthened liquidity among members as an effect of contributions from the central government, see pages 29–30 in Kommuninvest's 2020 Annual Report.

In nominal terms, lending amounted to SEK 442,840.6 (406,511.1) million. The liquidity portfolio, consisting of the balance sheet items Cash and balances with central banks, Sovereign bonds eligible as collateral, Lending to credit institutions and Bonds and other interest-bearing securities, increased to SEK 62,458.9 (48,137.2) million. Derivative assets (derivatives with positive market value) decreased to SEK 2,429.4 (11,967.0) million. The value of derivative assets depends primarily on the SEK/USD exchange rate, which affects the value of the currency swaps used to hedge the currency risks incurred through the Company's financing in USD. Towards the end of the year, the SEK strengthened, causing negative values among the vast majority of currency swaps. The balance sheet item Other assets amounted to SEK 16,474.5 (2,828.9) million. Other assets consist primarily of SEK 16,460.3 (2,807.6) million in pledged collateral. For the same reason that caused derivative assets to decrease, pledged assets increased. When most currency swaps have negative values, exposures to derivative counterparties become negative and the Company must therefore

pledge more collateral. Collateral pledged for derivatives cleared by central clearing counterparties is recognised net per counterparty and currency in the balance sheet, see further under Note 5. 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 4.

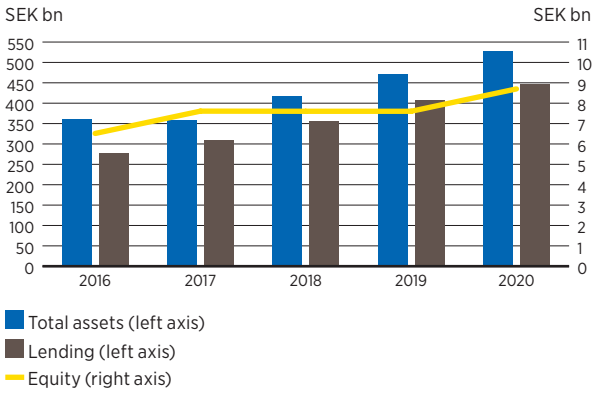
Liquidity management
The starting point for the Company's liquidity strategy is good matching of assets and liabilities. Most of the investments are in securities issued by sovereigns or central banks, multilateral development banks and credit institutions with high credit ratings.

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 518,659.4 (463,718.7) million and funding increased to SEK 499,252.9 (450,790.7) million over the year. Derivative liabilities (derivatives with negative market value) amounted to SEK 18,977.6 (3,484.5) million. The balance sheet item Other liabilities amounted to SEK 382.3 (9,400.6) million. Other liabilities include collateral received of SEK 94.3 (7,981.5) million. As with the decrease in derivative assets and the increase in pledged assets, the increase in derivative liabilities and the decrease in collateral received is attributable to the strengthening of the SEK. Collateral received for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet. 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
As per 31 December 2020, equity amounted to SEK 8,704.2 (7,602.0) million, following Group contributions of SEK 225.9 (393.5) million being paid to the Kommuninvest Cooperative Society. 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.

Balance sheet
2016–2020



The development expenditure reserve of SEK 30.4 (21.1) million corresponds to capitalised development expenditure in-house, adjusted by a proportional share of depreciation transferred back from the 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 I and the basic requirements in Pillar II by a good margin.

The core Tier I capital amounted to SEK 7,376.6 (7,418.8) million, entailing a core Tier I capital ratio of 302.5 (126.8) percent. The Company's capital base consists solely of core Tier I capital and the total capital ratio also therefore amounts to 302.5 (126.8) percent. For further information, see Note 6.

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

Kommuninvest's capitalisation – responsibility of the owners
In 2020, the Annual General Meeting of the Society adopted amended Articles of Association and a new plan for Kommuninvest's build-up of capital, which is based on a forecast of Kommuninvest's lending to members. According to the amended statutes and adopted capital plan, members' contribution capital to the Society will increase by about SEK 5 billion over the next four years, with

members gradually paying a higher contribution per inhabitant up until 2024 – from SEK 900 per inhabitant in 2020 to SEK 1,300 per inhabitant in 2024.

Future leverage ratio requirements

Effective 28 June 2021, the new capital requirement measure, leverage ratio, will be applied within the EU. The leverage ratio is defined as the Tier I capital divided by total exposures in assets and commitments and the requirement is set at 3 percent. The leverage ratio will be directly applicable to Kommuninvest via the supervisory regulation (EU) 2019/876 of 20 May 2019. The leverage ratio has been reported to the relevant authorities since 2014.

A specific leverage ratio regulation is applied when calculating the leverage ratio for Public Development Credit Institutions (PDCI). In Kommuninvest's assessment, the Company meets all of the criteria to be defined as a PDCI. In its most recent review and evaluation process, the Swedish Financial Supervisory Authority (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 Company's leverage ratio. Accordingly, under the rules for a PDCI, Kommuninvest meets the leverage requirement of 3 percent under Pillar I by a good margin. On 12 December 2020, the Company's leverage ratio was 10.60 (12.29) percent.

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

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

New regulations as of 2021

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

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

In September 2020, the Swedish Government, together with the Centre Party and the Liberal Party, presented a proposed risk tax for banks and other credit institutions, which, if implemented unamended, would result in an additional expense of approximately SEK 330 million for Kommuninvest in 2022 and of at least SEK 385 million annually from 2023 onwards. In statements including a consultation response formulated together with SALAR, Kommuninvest has argued for an exemption for public development credit institutions, whose debts and commitments are guaranteed by the public sector. Were no exception to be implemented, Kommuninvest would be forced to raise its lending rates. At the end of the year, it remained unclear how the government would choose to proceed with the matter.

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. As with developments in the capital markets, the macroeconomic trend is uncertain. The corona pandemic has had a highly negative impact on the economy and uncertainty remains as to what the recovery will look like. Geopolitical risks, risks for international trade and generally high levels of debt are 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 529,578.0 (473,916.0) million. Of this exposure, 84 (82) percent involved Swedish municipalities and regions in the form of lending, 12 (13) percent involved sovereigns and other issuers of securities in the form of investments and deposits, 1 (3) percent involved exposures to derivative counterparties and 3 (1) percent of the exposure involved other assets. Off-balance sheet items accounted for 0 (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 6. ISDA-agreements are drawn up with all counterparties. Counterparty exposure to derivative counterparties amounted to SEK 3,102.5 (3,025.2) 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 2020 is shown in the chart on page 10.

A description of the Company's risk exposure can be found on pages 37–41 and in Note 3 in the 2020 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 97 (93) employees. The average number of employees during the period was 103 (101).

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

Management
On 31 December 2020, 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	2020	2019
Interest revenues calculated according to effective interest method		1,741.9	1,198.9
Other interest revenues		1.2	24.6
Interest expenses calculated according to effective interest method		–973.0	–241.0
Other interest expenses		–58.8	–155.0
NET INTEREST INCOME	2	**711.3**	**827.5**
Dividends received		1.9	2.4
Commission expenses		–12.7	–11.3
Net result of financial transactions		–247.7	–201.5
of which, derecognised assets valued at amortised cost		*0.2*	*3.3*
Other operating income		11.6	9.3
TOTAL OPERATING INCOME		**464.4**	**626.4**
General administration expenses		–240.2	–236.2
Depreciation and impairment of intangible assets		–1.1	–4.4
Depreciation and impairment of material assets		–2.3	–2.3
Other operating expenses		–3.9	–4.0
TOTAL EXPENSES		**–247.5**	**–246.9**
PROFIT BEFORE CREDIT LOSSES		**216.9**	**379.5**
Net credit losses		11.1	12.6
OPERATING PROFIT		**228.0**	**392.1**
Tax		–48.3	–84.2
NET PROFIT		**179.7**	**307.9**

Statement of comprehensive income

1 January – 31 December

SEK, million	2020	2019
NET PROFIT	**179.7**	**307.9**
Other comprehensive income	–	–
TOTAL COMPREHENSIVE INCOME	**179.7**	**307.9**

Balance sheet

As per 31 December

SEK, million	Note	2020	2019
ASSETS			
Cash and balances with central banks	4	18,931.2	811.1
Sovereign bonds eligible as collateral	4	28,035.2	17,686.3
Lending to credit institutions	4	1,669.6	21,917.2
Lending	4	445,788.8	408,218.1
Change in value of interest-hedged item in portfolio hedging		33.9	–
Bonds and other interest-bearing securities	4	13,822.9	7,722.6
Shares and participations in subsidiaries		42.0	42.0
Derivatives	4, 5	2,429.4	11,967.0
Intangible assets		30.7	21.4
Tangible assets		6.8	7.1
Current tax assets		79.0	79.0
Other assets		16,474.5	2,828.9
Prepaid expenses and accrued revenues		19.6	20.0
TOTAL ASSETS		**527,363.6**	**471,320.7**
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities and provisions			
Liabilities to credit institutions	4	947.0	4,027.7
Securities issued	4	498,305.9	446,763.0
Derivatives	4, 5	18,977.6	3,484.5
Change in value of interest-hedged item in portfolio hedging	4	–	0.7
Other liabilities		382.3	9,400.6
Accrued expenses and prepaid revenues		46.6	42.1
Provisions		0.0	0.1
Total liabilities and provisions		**518,659.4**	**463,718.7**
Equity			
Restricted equity			
Share capital		7,100.0	7,100.0
New share issue in progress		1,100.0	–
Development expenditure reserve		30.4	21.1
Statutory reserve		17.5	17.5
Unrestricted equity			
Profit or loss brought forward		276.6	155.5
Net profit		179.7	307.9
Total equity		**8,704.2**	**7,602.0**
TOTAL LIABILITIES, PROVISIONS AND EQUITY		**527,363.6**	**471,320.7**

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 brought forward 1 Jan 2020	**7,100.0**	**–**	**21.1**	**17.5**	**–**	**155.5**	**307.9**	**7,602.0**
Net profit							179.7	179.7
Change in development expenditure reserve for the year			9.3			–9.3		–
Other comprehensive income								–
Total comprehensive income	***–***	***–***	***9.3***	***–***	***–***	***–9.3***	***179.7***	***179.7***
Transactions with shareholders								
Appropriation of surplus						307.9	–307.9	–
New share issue								–
New share issue in progress		1,100.0						1,100.0
Group contributions						–225.9		–225.9
Tax effect on Group contribution						48.3		48.3
Total transactions with shareholders	***–***	***1,100.0***	***–***	***–***	***–***	***130.4***	***–307.9***	***922.5***
Equity carried forward 31 Dec 2020	**7,100.0**	***1,100.0***	**30.4**	**17.5**	**–**	**276.6**	**179.7**	**8,704.2**
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	2020	2019
Operational activities		
Operating profit	228.0	392.1
Adjustment for items not included in cash flow	238.1	188.4
Income tax paid	–	–
	466.1	**580.5**
Change in liquidity portfolio	–16,442.1	21,349.0
Change in lending	–36,313.8	–52,528.7
Change in other assets	–13,645.1	–1,363.4
Change in other liabilities	–7,893.7	3,427.4
Cash flow from operational activities	**–73,828.6**	**–28,535.2**
Investment activities		
Acquisitions of intangible assets	–10.3	–10.1
Acquisitions of tangible assets	–2.0	–4.5
Divestments of tangible assets	–	0.2
Cash flow from investment activities	**–12.3**	**–14.4**
Financing activities		
Issue of interest-bearing securities	201,396.9	182,226.2
Maturity and repurchases of interest-bearing securities	–129,437.1	–132,155.6
New share issue	1,100.0	–
Change in debt ratios within the Group	–1,345.9	–636.4
Cash flow from financing activities	**71,713.9**	**49,434.2**
Cash flow for the year	**–2,127.0**	**20,884.6**
Cash and cash equivalents at start of the year	**22,728.7**	**1,844.1**
Cash and cash equivalents at end of the year	**20,601.7**	**22,728.7**

Cash and cash equivalents consists in their entirety of cash and balances with 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		
Depreciation	3.3	6.7
Profit from divestments of tangible assets	–	–0.1
Exchange rate differences from change in financial assets	0.6	0.5
Unrealised changes in market value	245.3	193.9
Net credit losses	–11.1	–12.6
Total	**238.1**	**188.4**
Interest paid and received, included in the cash flow		
Interest received[1]	1,898.2	1,086.2
Interest paid[2]	–706.3	546.6

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

2) Reported as 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

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

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 10.

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

In the first half of 2020, certain adjustments were made in Kommuninvest's model for expected credit losses, the changes appear in Note 3 in Kommuninvest's 2020 Annual Report.

New and amended standards and interpretations

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

In January 2020, the EU adopted amendments to IFRS 9, IAS 39 and IFRS 7 as a result of the reform for new reference rates. The changes are aimed at minimising unwanted effects that may occur while the new reference rate reform is in progress and entail certain relief rules with regard to hedge accounting and new disclosure requirements. The amendments entail the Company being able to continue applying hedge accounting despite any inefficiency that could arise in the hedge accounting as a consequence of the change in how Stibor and other IBOR are determined and/or any compensation of Stibor/other IBOR with a risk-free interest rate. Furthermore, amendments to IFRS 7 entail additional disclosure requirements being introduced, see Note 3 and Note 17 in Kommuninvest's 2020 Annual Report. 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.

New and amended standards and interpretations yet to come into effect

Kommuninvest is monitoring developments in the ongoing reform regarding new reference rates and its impact on accounting standards. No new or amended laws, standards or interpretations yet to come into effect are currently assessed to have any material impact on Kommuninvest's net profit, position, disclosures, capital requirements, capital base or major exposures.

Note 2 Net interest

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

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, see the income statement on page 14.

Note 3 Credit losses, net

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

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

For information on the calculation model, provisions and credit loss fluctuations, see Note 3 in Kommuninvest's 2020 Annual Report.

Note 4 Financial assets and liabilities

Financial instruments broken down by valuation category

2020	Amortised cost	Fair value through the income statement				Recognised value	Fair value
		Held for trade	Compulsory	Fair value option	Derivatives used for hedge accounting		
Financial assets							
Cash and balances with central banks	18,931.2	–	–	–	–	18,931.2	18,931.2
Sovereign bonds eligible as collateral	25,198.4	–	–	2,836.8	–	28,035.2	28,036.4
Lending to credit institutions	1,669.6	–	–	–	–	1,669.6	1,669.6
Lending	335,739.7	–	–	110,049.0	–	445,788.7	446,717.1
Change in value of interest-hedged items in portfolio hedging	33.9	–	–	–	–	33.9	33.9
Bonds and other interest-bearing securities	8,036.8	–	–	5,786.1	–	13,822.9	13,816.4
Derivatives	–	–	1,693.2	–	736.2	2,429.4	2,429.4
Other financial assets	16,464.2	–	–	–	–	16,464.2	16,464.2
Total	**406,073.8**	**–**	**1,693.2**	**118,671.9**	**736.2**	**527,175.1**	**528,098.2**
Financial liabilities							
Liabilities to credit institutions[1]	379.7	–	–	567.3	–	947.0	947.0
Securities issued[1]	349,899.6	–	–	148,406.3	–	498,305.9	499,820.2
Derivatives	–	18,464.0	–	–	513.6	18,977.6	18,977.6
Change in value of interest-hedged items in portfolio hedging	–	–	–	–	–	–	–
Other financial liabilities	379.6	–	–	–	–	379.6	379.6
Total	**350,658.9**	**18,464.0**	**–**	**148,973.6**	**513.6**	**518,610.1**	**520,124.4**

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

Note 4, continued

Financial instruments broken down by valuation category

2019	Amortised cost	Fair value through the income statement				Recognised value	Fair value
		Held for trade	Compulsory	Fair value option	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) The nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 496,443.1 (451,880.3) million.

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

The recognised value for liabilities to credit institutions and securities issued is composed partly of liabilities recognised at amortised cost, liabilities 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 including 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. Fundings 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 4, 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, 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 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 191 (267) million. An increase in the funding cost, in relation to swap rates, by 10 basis points on the liabilities recognised at fair value would mean a positive change in net profit of SEK 224 (253) million. A parallel displacement in the lending and funding price, in relation to swap rates, by 10 basis points would mean a change in net profit of SEK +/– 33 (+/– 14) million. A displacement of the valuation curve upwards or downwards by 10 basis points for the financial instruments valued according to level 3 would mean a change in income of SEK +/–18 (+/–14) million.

All of the above changes refer to 31 December 2020 (comparative figures refer to 31 December 2019) and exclude tax effects. Impact on equity relates to the tax effect.

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

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

The effect on 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 – 2.7 years. This would have an effect on net profit in the interval SEK +0.7 million – SEK –3.9 million.

Change in value due to anticipated credit risk
With the joint and several guarantee for Kommuninvest's funding provided by the members of the Kommuninvest Cooperative Society, Kommuninvest's own credit risk is considered to be negligible.

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

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

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

Note 4, continued

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

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

Financial instruments recognised at fair value in the balance sheet

2020	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	–	2,836.8	–	2,836.8
Lending	–	110,049.0	–	110,049.0
Bonds and other interest-bearing securities	2,632.3	3,153.7	–	5,786.0
Derivatives	–	1,944.3	485.0	2,429.3
Total	**2,632.3**	**117,983.8**	**485.0**	**121,101.1**
Financial liabilities				
Liabilities to credit institutions	–	567.3	–	567.3
Securities issued	122,672.4	18,069.4	7,664.5	148,406.3
Derivatives	–	18,587.7	389.9	18,977.6
Total	**122,672.4**	**37,224.4**	**8,054.4**	**167,951.2**

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**

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

	Recognised value 31 Dec 2020	Recognised value 31 Dec 2019
Assets		
To level 1 from level 2	–	–
To level 2 from level 1	585.2	–
Liabilities		
To level 1 from level 2	–	–
To level 2 from level 1	8,284.9	35,348.8

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

The indicators show the number of observations and their standard deviation for bond prices and a specific number of executable quotes. The transfers are considered to have taken place on 31 December 2020 and 31 December 2019 for the preceding period.

Note 4, continued

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

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

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**

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 2020	**184.8**	**–489.0**	**–6,731.5**	**–7,035.7**
Recognised gains and losses:				
– recognised in the income statement (net result of financial transactions)	300.3	99.1	–386.4	13.0
Loans raised/Issues			6,173.7	6,173.7
Maturing during the year			–6,720.2	–6,720.2
Closing balance, 31 Dec 2020	**485.1**	**–389.9**	**–7,664.4**	**–7,569.2**
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 Dec 2020	135.9	–166.9	31.9	0.9
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 Dec 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 5 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			
2020	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	10,000.3	–7,570.9	**2,429.4**	–1,134.8	–668.2	–77.2	**549.2**
Repos	379.7		**379.7**		–379.5		**0.2**
Liabilities							
Derivatives	–21,357.8	2,380.2	**–18,977.6**	1,134.8	2.0	16,292.8	**–1,548.0**
Repos	379.7		**379.7**		–379.7		**–**
Total	**–10,598.1**	**–5,190.7**	**–15,788.8**	**–**	**–1,425.4**	**16,215.6**	**–998.6**

				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**

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

Note 6 Capital adequacy

Since 1 January 2014, the capital adequacy requirements have 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). The Company has not been identified as systemically critical institute.

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

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

Capital base	2020	2019
Share capital[1]	7,100.0	7,100.0
Non-distributed retained earnings[2]	484.5	484.5
Accumulated other comprehensive income and other reserves	17.5	17.5
Core Tier I capital before regulatory adjustments	**7,602.0**	**7,602.0**
Further value adjustments[3]	–225.4	–183.2
Total regulatory adjustments to core Tier I capital	**–225.4**	**–183.2**
Total core Tier I capital	**7,376.6**	**7,418.8**
Tier I capital contributions	–	–
Total Tier I capital	**7,376.6**	**7,418.8**
Total Tier II capital	**–**	**–**
Total capital	**7,376.6**	**7,418.8**

1) For a more detailed description of the constituent instruments, see page 16.
2) As of 31 December 2020, deductions of SEK 2.2 million have been made, which refer to the portion of net profit that has not been distributed to the Kommuninvest Cooperative Society in the form of Group contributions and which may not be included in the capital base prior to a decision by the Annual General Meeting in accordance with CRR Article 26.
3) 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	2020		2019	
Capital requirement, Pillar I	**Risk exposure**	**Capital requirement**	**Risk exposure**	**Capital requirement**
Capital requirement for credit risks (the standardised method)	360.3	28.8	2,703.8	216.3
of which, institutional exposures	*258.2*	*20.6*	*951.9*	*76.2*
of which, corporate exposures	*102.1*	*8.2*	*94.0*	*7.5*
of which, exposures in the form of covered bonds	*–*	*–*	*1,657.9*	*132.6*
Operational risks, basic indicator method	1,337.1	107.0	1,917.5	153.4
Market risks	–	–	–	–
Credit valuation adjustment	741.4	59.3	1,230.3	98.4
Total risk exposure amount and minimum capital amount	**2,438.8**	**195.1**	**5,851.6**	**468.1**

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

Buffer requirements	2020	2019
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	–	2.0%
Capital planning buffer[2]	43.8%	14.8%
Total buffer requirements	**46.3%**	**19.3%**
Core Tier I capital available for use as buffer	**294.5%**	**118.8%**

Internally estimated capital requirements	2020	2019
Capital requirement, Pillar II		
Credit risk	20.7	165.1
Market risks	1,823.6	1,869.8
Other risk[1,2]	446.0	–
Total internally estimated capital requirement	**2,290.3**	**2,034.9**

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

The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements. For further information on the Company's internal capital assessment and capital plan, see pages 39–40 in Kommuninvest's 2020 Annual Report; for details of capital targets, see the next page.

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

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

Capital targets

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

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

Note 7 Leverage ratio

The leverage ratio is defined as the Tier I capital divided by total exposures in assets and commitments. Regarding the lending portfolio and the liquidity reserve, the exposure corresponds to the recognised value. For derivatives assets the exposure is calculated by totalling all exposures in individual netting agreements with 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 undisbursed loans issued.

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

Kommuninvest has a capital plan for achieving the future statutory leverage ratio requirement, see pages 11-12 and page 40 in Kommuninvest's 2020 Annual Report.

Note 8 External monitoring

Reference rate phase-out

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

Since 17 October 2018, the Swedish reference rate, Stibor, has been included in the EU's list of critical reference values, the so-called Benchmark Regulation. Stibor is currently being adapted to comply with the Benchmark Regulation and an application for a permit must be submitted to the Swedish Financial Supervisory Authority 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 published its recommendations on 15 May 2020.

Following this publication, the development process was taken over by the Swedish central bank (Riksbanken) to produce a final framework and reference rate able to function as an alternative reference rate for financial contracts in SEK. In January 2021, the Swedish central bank will begin a test period during which a preliminary transaction-based reference interest rate for the shortest maturity (over-night, O/N) will be published.

On 27 January, the Swedish central bank announced that the new interest rate will be called SWESTR. Like the Bank of England and the Federal Reserve, the Swedish central bank will publish historical averages based on the daily quotations. The development of SWESTR was prompted by a round of consultations. It remains unclear, however, whether the new reference rate is intended to replace Stibor or exist alongside it.

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

On 30 November 2020, ICE Benchmark Administration (IBA, administrator of USD Libor) announced that the publication of Libor in GBP, EUR, CHF and JPY would likely cease on 31 December 2021, as planned. For USD, however, only Libor on maturities of 1 week and 2 months are expected to cease at the end of 2021, while other maturities (overnight, 1m, 3m, 6m and 12m) may continue to be published until as late as June 2023. However, the IBA advises against entering into new Libor agreements after the end of 2021.

The Company has established a reconnaissance group with representatives of the relevant functions to monitor developments in the area and to assess which measures must be implemented in the operations. In 2020, a separate project was initiated for the implementation of instruments linked to the new SOFR reference rate prior to the cessation of USD Libor. The work of the reconnaissance group is continuing in parallel with the project to identify other changes that could be needed. The Company expects to be fully adapted for a migration from Libor to SOFR during the first half of 2021.

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

For Kommuninvest, this risk lay in UK financial institutions not being able to act as derivative counterparties in the event of a withdrawal without an agreement. This could entail higher concentration risks and lower prices in derivative transactions. Despite an agreement being signed late in 2020, uncertainties regarding the financial sector remain.

This risk has been managed by approving new counterparties within the EU and negotiating new agreements with them. Preparations for withdrawal without an agreement were made in 2020, with new agreements being drawn up with nine of the Company's prioritised counterparties. Negotiations with other counterparties will continue in 2021. The Swedish central government has decided to extend the transitional rules until the end of 2021 for companies from third countries that conduct securities operations and some counterparties have chosen to apply these rules.

Another risk for Kommuninvest has been no longer being able to hedge derivatives subject to clearing obligations under EMIR, as the Company uses London Clearing House Limited (LCH) of the UK. In order to prevent the risk of disruption, the European Securities and Markets Authority (ESMA) has decided that LCH would be permitted to provide its services as a clearing house within the EU, even following a Brexit without an agreement, for a transitional period extending until 30 June 2022. This risk has been managed by approving another clearing house, Eurex Clearing AG in Germany.

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

Note 9 Relations with related parties

No significant changes in relationships or transactions have occurred.

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 2020 Annual Report.

Note 10 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 Section 7:6a of ÅRKL, Kommuninvest i Sverige AB will not prepare consolidated accounts since its subsidiary is of limited significance in presenting a fair portrayal of position and net profit.

As per 31 December 2020, Kommuninvest Fastighets AB had a balance sheet total of SEK 46.2 (46.4) million, equity of SEK 42.0 (42.3) million and generated a loss of SEK 0.3 (0.3) million.

Note 11 Events after the balance sheet date

No significant events have occurred after the end of the financial year.

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, 9 February 2021

Ellen Bramness Arvidsson
Chairman

Kurt Eliasson
Board Member

Lars Heikensten
Board Member

Catrina Ingelstam
Board Member

Erik Langby
Board Member

Kristina Sundin Jonsson
Board Member

Mattias Bokenblom
Employee representative

Kristin Ekblad
Employee representative

Tomas Werngren
President and CEO

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 9 February 2021 at 4:00 p.m. CET.
From 18 February, it will be possible to download the complete 2020 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 15 April 2021.

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KOMMUNINVEST

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