

KOMMUNINVEST I SVERIGE AB

Year-end report 2022



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.

<p>280 + 14</p> <p>Kommuninvest is owned by 280 municipalities and 14 regions.</p>	 <p>Green Loans</p> <p>Green loans were introduced in 2015 for financing environmental and climate-related investments. Since the launch, the volume of Green Loans has grown to SEK 99.9 billion.</p>	<p>Our vision</p> <p>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.</p>
<p>Organisation with clear division of roles</p> <p>Kommuninvest comprises two parts: The Kommuninvest Cooperative Society (the Society) and the credit market company Kommuninvest i Sverige AB (the Company).</p> <p>Kommuninvest Cooperative Society</p> <p>Administers membership and the joint and several guarantee, and is responsible for capital acquisition.</p> <p>The Board of Directors consists of elected politicians from municipalities and regions.</p> <p>Kommuninvest i Sverige AB</p> <p>Conducts the financial operations, including funding, liquidity management and lending.</p> <p>The Board of Directors consists of individuals with expertise in areas such as public administration, capital markets and business development.</p>	  <p>Kommuninvest has the highest possible credit rating, AAA/Aaa, and a stable outlook.</p>	<p>Basic concept</p> <p>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.</p> <p>Start 1986</p> <p>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.</p>
		<p>SEK 482 bn</p> <p>Lending to members amounted to SEK 482 billion at the end of 2022.</p>

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 2022

Comparison figures relating to the income statement refer to the preceding year (1 January – 31 December 2021), unless otherwise stated. Comparative figures relating to the balance sheet and to risk and capital-related data refer to 31 December 2021 unless otherwise indicated.

Comment from the CEO

Stable development in turbulent times

The year 2022 was a challenging one. The combination of the Russian war against Ukraine, high inflation, rising interest rates, turbulent markets and a weakening economy caused a long list of problems across large areas of the world.

As in previous crises, Kommuninvest has been able to maintain demonstrable stability. The operations have continued as normal. We have stood firm in a turbulent environment.

The local government sector has experienced a rapid shift from a couple of years with strong outcomes to tougher times. The increases in expenses have been drastic. In our assessment, however, the general financial strength of the local government sector remains favourable.

Kommuninvest's lending continued to grow. The increase in volumes was, nonetheless, moderate. A large number of members entered 2022 with strong liquidity. Rising interest rates increased the incentives to make repayments on loans. In addition, increased interest and construction expenses helped restrain the pace of investment.

The volume of Green Loans continued to grow at a good pace. At the same time, Social Sustainability Loans face certain challenges. Volume growth remains cautious. This is an area where the run-up seems to be quite long for many members. Where regulations are concerned, we have established a structure and plan for applying the EU taxonomy.

Unfortunately, Kommuninvest will also pay the risk tax in 2023. The Swedish government has yet to heed the Riksdag's (Swedish parliament) call for an exemption. Although the government has ensured that the local government sector is compensated, the risk tax remains a heavy burden. We now expect the government to ensure that the exemption is in place for 2024.

The operating loss of SEK 53 million for 2022 was associated largely with the risk tax, representing an expense of slightly more than SEK 257 million, and unrealised negative changes in market values of about SEK 209 million. As changes in market value involve accounting practices, negative values will now increase operating profit at a later stage. Excluding the risk tax, operating income amounted to SEK 420 million.

In the autumn of 2021, Kommuninvest initiated an internal restructuring programme. This was associated partly with the risk tax. It was also necessary, however,



Tomas Werngren, CEO

through simplification and standardisation, to free up resources for the investment needs facing the Company. To date, the Company's employees have managed this in exemplary manner. Despite inflation and a weak SEK, the two-year cost reduction target was achieved already in the first year.

This will be my last CEO comment. On 1 April 2023, I will be handing over to Katarina Ljungqvist. It has been an honour to be involved in building up a sustainable local government sector. All of my meetings with customers and members, as well as with players in the capital market, have afforded me great insight and knowledge. Most of all, however, I will miss Kommuninvest's dedicated and talented staff! Thank you for such great teamwork!

Tomas Werngren
President and CEO

Market and organisation

From pandemic to war

The year 2022 was a turbulent and challenging one. Initially, one waning crisis, the corona pandemic, was replaced by another – the Russian invasion of Ukraine. The course of events in Ukraine tangibly pervaded the rest of the year, with an energy crisis in Europe and global inflation at levels not seen in decades.

At the beginning of the year, the pandemic remained a pervasive reality. Another wave of contagion was in progress. From March onwards, contagion diminished significantly, both in Sweden and in large parts of the world. Restrictions were ended and societies opened up. There was a clear return to a new normal. Towards the end of the year, contagion increased again. By the end of the year, this had not led to any restrictions being reintroduced in Sweden or in most other parts of the world.

In terms of the pandemic dynamic, the year began with a strong recovery. This was true of Sweden and most of the global economy. Growth was at a high level. Unemployment decreased. At the same time, bottlenecks and supply issues emerged in global trade. In the interplay between an expansive trend and trade disruptions, inflation began to gain momentum.

With the Russian invasion of Ukraine in late February, the conditions changed. The war exacerbated trade disruptions, with particularly serious consequences in the energy sector. This pushed inflation up to high levels. To restrain inflation, central banks, including the Riksbank, began rapidly tightening their monetary policies. Quantitative easing (QE) programmes were curtailed. Policy rates were rapidly raised. Towards the end of the year, the rate of inflation had again begun to decline in some countries, but not others. Against the backdrop of this general scenario, with a protracted war and tight monetary policy, the economy gradually slowed. At the end of the year, large parts of the global economy, Sweden included, were headed into a slump or recession.

Following the outbreak of the war, an uncertainty, marked by clearly increased volatility, arose in the financial markets, persisting to varying degrees for the rest of the year. There was a rapid transition – during which market rates were generally a step ahead of the central banks' policy rates – from a distinctly low interest rate environment to what could be regarded historically as more normal rates. In the bond market, issuers found it periodically challenging to find financing on the desired terms. Demand from investors shifted. Volumes in the market decreased. Some stability returned in the fourth quarter, although with future prospects still uncertain.

This overall trend had a major impact on local government finances. With high inflation, rising interest rates and

weak stock markets – and with the expanded central government allocations of the pandemic having been phased out – the local government sector has entered tougher times. It appears as though net profits for 2022 will be relatively favourable. The autumn's budget process was troublesome, and it appears as though both 2023 and 2024 will be difficult years.

Stability

Despite this unsettled environment, Kommuninvest has continued to show tangible stability. Here too, the organisation has demonstrated its ability to stand firm as the storm rages. Immediately following the Russian invasion, the Company entered crisis mode in accordance with its internal crisis plan. A number of measures were taken to increase preparedness and secure the operations with regard to counterparties and cyber threats, for example. In June, the Company returned to its normal mode of operation.

Kommuninvest's lending continued to grow over the year. In the initial turbulence surrounding Ukraine, and intermittently over the subsequent months, some customers chose to borrow from Kommuninvest rather than through their own market programmes. The autumn was instead characterised by subdued growth in lending. High inflation and rising interest rates helped restrain the pace of investment. Given the new interest rate environment and their liquidity being strong, some customers chose to make repayments on loans. Some customers once again stepped up the level of activity in their own capital market programmes.

The sustainable loan products continued to develop. Based on disbursed volume, the share of Green Loans, relative to total lending, rose to about 14 percent at the end of the year. Also at the end of the year, Social Sustainability Loans had achieved 16 approved investment projects, SEK 1.7 billion in loans granted and SEK 1.0 billion in loans disbursed.

Over the year, Kommuninvest achieved key advances in its funding. In connection with a USD issue in February, SOFR entered use as the reference rate, rather than Libor. Following the 2019 decision regarding three strategic funding markets – SEK, USD and EUR – the first bond in EUR was issued in March. The borrowing forecast for the year was revised upwards in April and October. The main reason for the second revision was a need for liquidity to address, with low risk and good margins, major interest and exchange rate fluctuations in a volatile market.

Kommuninvest continued to strengthen the support offered to customers and members regarding financial decisions. An important addition was the "Debt Manage-



ment Handbook” launched in September. The purpose of the handbook is to use data, analysis and concrete examples to seek to assist municipalities and regions in the assessments that must be made to conduct balanced debt management.

The independent and temporary group of experts, the Welfare Economists, that Kommuninvest established in 2020 to strengthen the analysis of local government finances during, and from the perspective of, the pandemic, completed its work in June. Its fifth and final report, published in March, focused on future developments in local government sector investment.

When the pandemic restrictions were lifted in March, Kommuninvest returned to office-based operations. Although digital and hybrid elements remained, the office was back to being the obvious hub of our operations. In March, the Annual General Meeting of the Society was conducted as a hybrid event with some people attending in person in Gothenburg.

In December, Katarina Ljungqvist was appointed as the new CEO of Kommuninvest. On 1 April 2023, she will take over from Tomas Werngren, who announced in September his decision to step down as CEO and prepare for retirement. Like her predecessor, Katarina will take on the role of President and CEO of both the Kommuninvest Cooperative Society and of the Company, Kommuninvest i Sverige AB.

Risk tax

The “risk tax” was implemented as of 1 January 2022. Over the year, Kommuninvest paid SEK 257.3 million in tax.

When the decision on the risk tax was made in December 2021, the Riksdag made an announcement regarding local government cooperation. The Riksdag called on the government to present a proposal, by 1 October 2022 at the latest, to the effect that Kommuninvest would no longer be subject to the tax as of 1 January 2023. The Riksdag also called on the government to devise a solution compensating the local government sector for the additional expense imposed by the tax in 2022. Although the previous government provided compensation of SEK 300 million to the local government sector in the summer, it did not deliver legal exemption for Kommuninvest.

In its 2023 budget, the new government provided compensation. In an expansion of the general central government allocations to the local government sector, the compensation for the risk tax is included as an integral component. The increase, and thus the compensation, covers the period 2023–2025. Nor has the new government, however, delivered any exemptions to date. Accordingly, Kommuninvest expects to have to pay SEK 326 million in tax in 2023, mainly due to a higher tax rate.

Just as in 2022, Kommuninvest will continue its actions to ensure that the exemption is applied. In the organisation’s management of the tax expense, a key component in the overall solution will be stricter terms for the members within the framework of the Kommuninvest Cooperative Society. As another key component, restructuring programmes have begun to be implemented through efficiency enhancements, both in the Company and the Society, to reduce the Group’s cost level (excluding the risk tax). The programmes were successful for the first of two years.

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 2022, the Society had 294 (294) members (partners), of which 280 (280) were municipalities and 14 (14) were regions. Consequently, 97 (97) percent of Sweden's municipalities and 67 (67) percent of Sweden's regions were members (partners) in the Society. No new members were added during the year.

Local government debt

Through Kommuninvest and other capital market players, Sweden's municipalities and regions were able to efficiently meet their funding needs in 2022. Kommuninvest estimates the sector's external debt to have grown by SEK 15 billion in 2022 to SEK 814 billion.

High tax revenues, combined with increased central government allocations during the pandemic, resulted in strong cash flows in both 2021 and 2022. The self-financing rate for investment was high, meaning that local government sector borrowing needs were low in 2022. Kommuninvest's lending has nonetheless continued to grow.

Over the period 2017–2022, growth in the sector's borrowing averaged 6 percent. Over the same period, Kommuninvest's lending grew by an average 9 percent.

Kommuninvest grew strongly after the financial crisis of 2007–2008 and has since continued to increase its market share. In 2017–2022, Kommuninvest's market share increased from 50 percent to 59 percent.

Local government sector borrowing is characterised by relatively short capital and interest rate maturities.

Kommuninvest's lending

As per 31 December 2022, Kommuninvest's lending amounted to SEK 482.5 (460.7) million in nominal terms, an increase of 4.7 (4.0) percent. The recognised value of the lending was SEK 470.7 (460.7) million.

Kommuninvest's competitiveness, expressed as the percentage of accepted bids, has remained strong. Based on nominal volumes, the bid acceptance rate amounted to 97 (98) percent for 2022.

New lending for the year and renegotiations of existing loans, 86 (89) percent were loans with capital tied up for more than one year and 14 (11) percent with capital tied up for one year or less. Loans with capital tied up for one to three years accounted for 34 (20) percent of the total volume.

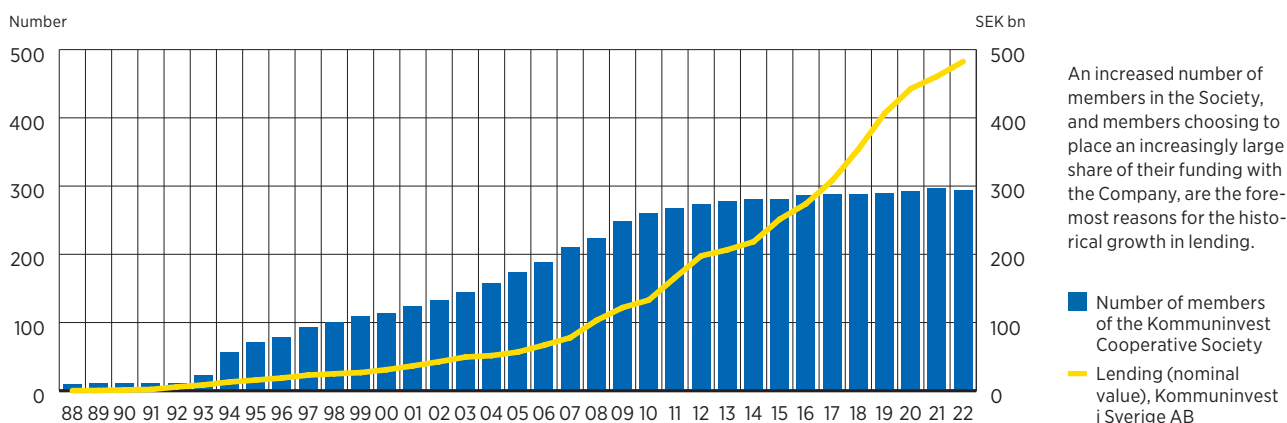
At the end of 2022, Kommuninvest's lending portfolio consisted of 44 (47) percent loans with fixed interest and 56 (53) percent loans with variable interest rates.

The volume of Green Loans granted increased over the year. At the end of 2022, Green Loans had been granted for SEK 99.9 (83.5) million. The corresponding amount for Green Loans disbursed was SEK 66.4 (60.2) billion. The proportion of Green Loans in relation to total lending is based on disbursed volumes and amounted to 14 (13) percent.

The volume of Social Sustainability Loans granted over the year also increased. By the end of 2022, SEK 1.7 billion (0.6) in Social Sustainability Loans had been granted, distributed between 16 different projects (7). The corresponding amount for disbursed Social Sustainability Loans was SEK 1 (0.2) million. By the end of 2022, 14 (6) members had been granted a Social Sustainability Loan.

Number of members and lending volume

1988–2022



Kommuninvest's funding

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

Kommuninvest's strategy builds on maintaining a presence in strategic funding markets, matching assets and liabilities, a highly liquid reserve, and correct pricing of liquid assets. The three strategic funding markets are denominated in SEK, USD and EUR.

The Company's largest funding programme in terms of volumes outstanding is the Swedish Benchmark Programme. Within the programme, bonds outstanding are increased by means of weekly auctions. During the period, six benchmark funding programmes in USD were also implemented.

Over the year, funding of SEK 142.6 (119.9) billion was raised in bonds with maturities of more than one year, of which SEK 68.5 (64.7) billion was issued within the Swedish Benchmark Programme.

At the end of the year, total funding amounted to SEK 547.5 (506.7) million.

Rating

The Company holds the highest credit ratings – AAA from S&P Global Ratings and Aaa from Moody's. In December 2022, the rating agencies confirmed the Company's rating, with continued stable prospects. 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 also receives high so-called ESG ratings from a number of players, including ISS-oekom, MSCI and Sustainalytics. The assessments place Kommuninvest among the group of financial institutions whose operations are considered to have a low exposure to sustainability risks.

New funding by currency*

2022 (2021)

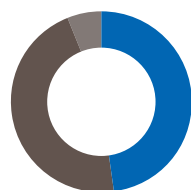


■ SEK 50 (59) %
 ■ USD 46 (36) %
 ■ EUR 4 (-) %
 ■ JPY - (5) %
 ■ AUD - (0) %

*excl. commercial paper funding

New funding by programme*

2022 (2021)



■ Swedish Benchmark Programme 48 (51) %
 ■ Benchmark funding, other currencies 46 (29) %
 ■ Green Bonds 6 (15) %
 ■ Uridashi - (5) %

*excl. commercial paper funding



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

Multi-year summary, Kommuninvest i Sverige AB

	2022	2021	2020	2019	2018
Balance sheet total, SEK, billion	553.3	524.3	527.4	471.3	417.2
Lending (recognised value), SEK, billion	470.7	460.7	445.8	408.2	355.7
Net profit, SEK, million	-42.1	375.6	179.7	307.9	586.1
Members, total	294	294	292	290	288
of which, municipalities	280	280	278	278	277
of which, regions	14	14	14	12	11
Core Tier I capital ratio, %	454.1	397.1	302.5	126.8	188.4
Tier I capital ratio, %	454.1	397.1	302.5	126.8	188.4
Total capital ratio, %	454.1	397.1	302.5	126.8	188.4
Leverage ratio, %	14.23	15.36	10.60	12.29	11.30

Financial accounts

Net profit

Kommuninvest's operating loss, its loss before tax, amounted to SEK 53.1 (profit 476.1) million. For the first time, Kommuninvest's net profit was burdened by the new risk tax on certain credit institutions. The risk tax amounted to SEK 257.3 million for 2022.

The operating loss also includes unrealised changes in market value of a negative SEK 209.5 (positive 43.9) million, and expected credit losses of SEK 5.9 (6.3) million. The market trend over the year produced greater variations in unrealised changes in market values than previously and the second half of the year saw a positive development with the interim outcome amounting to a negative SEK 395.5 million.

Kommuninvest's operating income, defined as operating profit less risk tax, unrealised changes in market value and expected credit losses, amounted to SEK 419.6 (425.9) million.

The loss after tax amounted to SEK 42.1 (profit 375.6) million. The tax expense for the year, reported in the Income Statement, amounted to SEK 11.0 (tax asset 100.5) million, of which SEK 14.0 million pertains to a deferred tax asset.

Net interest income

Net interest income for 2022 amounted to SEK 665.8 (680.8) million and was thus about SEK 15 million lower than for the preceding year. Over the year, earnings were strongly affected by higher policy rates and rising market interest rates, and both interest revenues and interest expenses were at a significantly higher level than previously. The outcome for the full-year was nonetheless

in line with the Company's forecasts. Expenses for ratings, the Swedish Benchmark Programme and other fees associated with funding burdened net interest income by SEK 42.2 million (39.7).

Net result of financial transactions

The net result of financial transactions amounted to a negative SEK 208.8 (positive 47.6) million. The result is mainly explained by unrealised changes in market value of a negative SEK 209.5 (positive 43.9) million. Most shifts in unrealised changes in market value are explained by the cost of funding in USD being relatively more favourable than the cost of funding in SEK.

Since Kommuninvest intends to hold its assets and liabilities to maturity, these values are not normally realised.

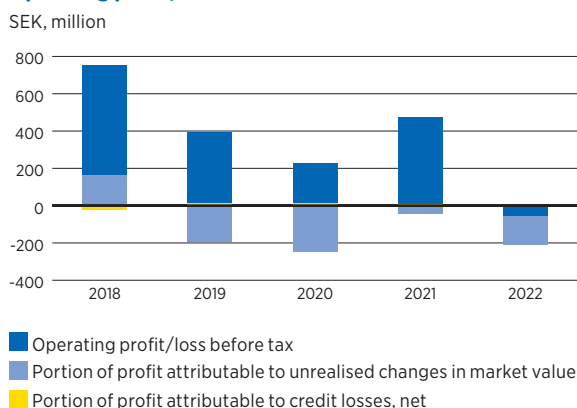
Expenses

Total expenses amounted to SEK 223.9 (259.5) million, including the resolution fee of SEK 0.0 (23.0) million. The resolution fee for 2022 is reported on a separate line in the Income Statement, together with the new risk tax for certain credit institutions, which burdened the Company's net profit for the first time. Excluding the resolution fee, expenses amounted to SEK 223.9 (236.5) million, of which payroll expenses accounted for SEK 126.0 (137.4) million and other expenses for SEK 97.9 (99.1) million.

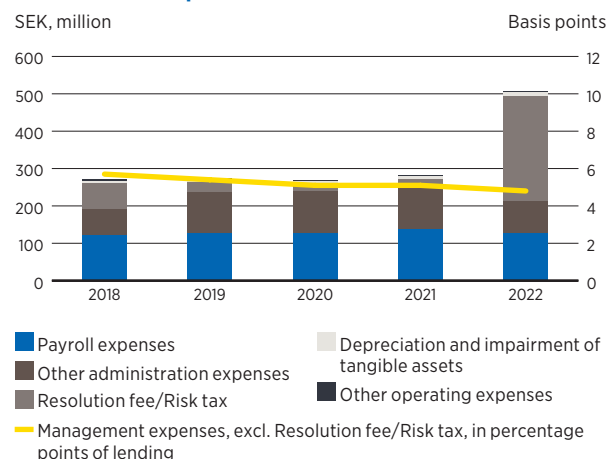
Payroll expenses decreased by SEK 11.4 million compared with the preceding year. The Company performed an organisational review over the year, resulting in reduced expenses both for employees and contract personnel.

Kommuninvest's resolution fee for 2022 has been set by the Swedish National Debt Office at SEK 25.0 (23.0)

Operating profit/loss before tax



Distribution of expenses



million. As of 2022, the resolution fee is reported on a separate line in the Income Statement, together with the risk tax for certain credit institutions, which amounted to SEK 257.3 (-) million for 2022. The risk tax shall amount to 0.05 percent of the Company's liabilities for 2022, subsequently increasing to 0.06 percent for 2023.

The Company's wholly-owned subsidiary, Kommuninvest Fastighets AB, provided a Group contribution of SEK 1.8 (2.1) million in 2022. The Board of Directors of the property company was of the opinion that the Group contribution would not prevent the property company from fulfilling its obligations in the short and long term, nor from making necessary investments.

Assets

At the end of the period, Kommuninvest's total assets amounted to SEK 553,256.5 (524,261.7) million. Lending to municipalities and regions, which accounts for most of the assets, amounted to a recognised value of SEK 470,675.9 (460,650.3) million. In nominal terms, lending amounted to SEK 482,459.1 (460,691.3) million. In nominal terms, the increase in lending for the year amounted to 4.7 (4.0) percent. Despite the considerable uncertainty generated by the war in Ukraine, rising interest rates and inflation, the Company achieved favourable growth. It can be observed, however, that Kommuninvest's customers are reviewing their liquidity management more carefully and that they are affected by the uncertainty prevalent in several areas. The underlying driving force for growth in Kommuninvest's lending, local government sector investment needs, is not deemed to have diminished.

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 65,422.6 (55,261.1) million. Pledged assets for derivative liabilities, which are included under the item Other assets, decreased to SEK 676.5 (2,414.4) million.

Derivative assets (derivatives with positive market value) increased to SEK 16,353.0 (5,729.3) million. Derivative assets increased because the SEK weakened further against the USD over the year. This meant that the value of the currency swaps used to hedge the currency risks incurred through the Company's financing in USD then increased.

Liabilities

The Company's liabilities amounted to SEK 543,087.8 (514,639.4) million and funding increased to SEK 522,264.5 (506,357.8) million over the year. Derivative liabilities (derivatives with negative market value) amounted to SEK 2,834.2 (3,851.4) million.

The balance sheet item Other liabilities amounted to SEK 15,059.9 (4,005.0) million. Other liabilities include collateral received of SEK 14,738.7 (3,503.3) million.

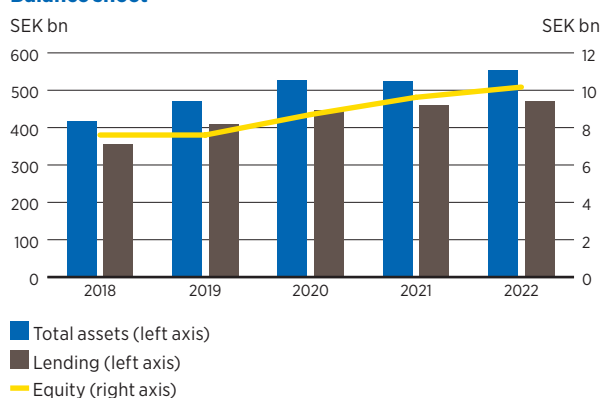
Collateral pledged and received for derivatives cleared by central clearing counterparties is netted per counterparty and currency in the balance sheet. There being no right to offset cash collateral pledged and received for derivatives not cleared by a central clearing counterparty, this is reported gross in the Balance Sheet.

Equity

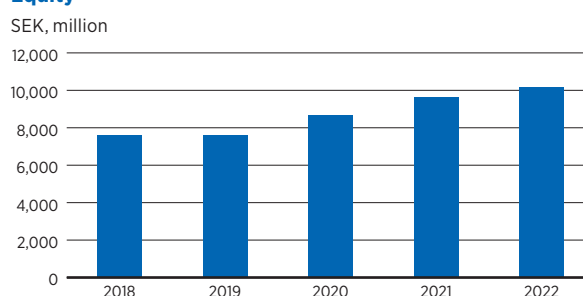
At the end of 2022, shareholders' equity in the Company amounted to SEK 10,168.7 (9,622.3) million, following Group contributions of SEK 14.6 (488.0) million paid to the Kommuninvest Cooperative Society.

At the end of the year, share capital amounted to SEK 9,475.0 (8,975.0) million, distributed between 94,750,000 (89,750,000) shares. Total share capital is attributable to the Society's members and no shares are available for trading. A process of building-up capital is in progress in the Group, intended to cope with growth in lending over the upcoming years. This will be achieved through capital injections to the Society from its members, which will subsequently be contributed to the Company as share capital.

Balance sheet



Equity



The increase in share capital comprises a new share issue for SEK 500.0 million. In accordance with the Society’s capital plan, the issue was implemented at a premium of 120 percent. This increases the unrestricted share premium reserve by SEK 100.0 (155.0) million.

Liquidity strategy

The strategy builds on maintaining a presence in strategic funding markets, matching assets and liabilities, a highly liquid reserve, and correct pricing of liquid assets. The three strategic funding markets are denominated in SEK, USD and EUR. Funding is agreed to replace loans that mature, to finance new loans in the lending operations and to adjust the size of the liquidity reserve according to the current market view and liquidity preparedness requirements.

During the year, market conditions have been marked by geopolitical unrest and rising interest rates due to rising inflation. The Company’s liquidity strategy has worked well. Access to liquidity has been good and the Company has been able to finance its funding needs and those of its customers on favourable terms despite challenging market conditions.

Capital adequacy and leverage

The Company is well capitalised to withstand the operations’ risks, with capital relationships exceeding the prescribed minimum requirements in Pillar I, the capital base requirement in Pillar II, as well as the combined buffer requirement by a good margin. Finansinspektionen (Swedish Financial Supervisory Authority) does not impose any Pillar II guidance requirements at the individual company level – only at the Group level.

The core Tier I capital amounted to SEK 9,909.9 (9,399.2) million, entailing a core Tier I capital ratio of 454.1 (397.1) percent. The Company’s capital base consists solely of core Tier I capital and the total capital ratio also therefore amounts to 454.1 (397.1) percent.

At the close of 2022, the Company had a leverage ratio of 14.23 (15.36) percent. The Company’s capital target for 2022 amounts to SEK 6,900 (6,700) million, corresponding to a 1 percent leverage ratio plus the Board of Directors’ buffer of SEK 1,400 (1,000) million. In relation to the Company’s capital base, the capital target is met by a good margin.

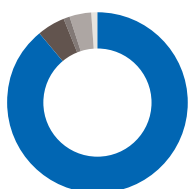
Risk profile and risk management

Kommuninvest plays a central role in the financing of investments by Swedish municipalities and regions. The Company raises funding in the financial market on the basis of customers’ needs. The operating model entails the Company being exposed to risks. The Company’s risk profile and permitted risk-taking is established annually in the owner directives, which are adopted by the Annual General Meeting of the Kommuninvest Cooperative Society. The owner directive states that the Company’s risks should be small and never greater than necessary for achieving the objectives of the operations. The risk level may not exceed a permissible level of risk-taking for a member in accordance with the Swedish Local Government Act.

The Company’s operations differ in several ways from those of others operating in the financial market.

Liquidity reserve distributed by country

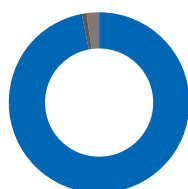
2022 (2021)



- Sweden 89 (69) %
- Supranationals 5 (16) %
- Finland 1 (3) %
- Germany 4 (11) %
- UK 1 (1) %

Liquidity reserve distributed by rating category

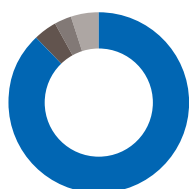
2022 (2021)



- AAA 97 (93) %
- AA 1 (6) %
- A 2 (1) %

Liquidity reserve distributed by issuer category

2022 (2021)



- National governments or central banks 88 (69) %
- Credit institutions (subsidised lenders) 4 (13) %
- Credit institutions (bank balances) 3 (2) %
- Multilateral development banks 5 (16) %

- 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 553,805.7 (524,779.5) million. Of this exposure, 85 (88) percent involved Swedish municipalities and regions in the form of lending, 12 (11) percent involved sovereigns and other issuers of securities in the form of investments and deposits, while 1 (3) percent involved exposures to derivative counterparties.

Counterparty risks are restricted by entering into contracts with financial institutions with high creditworthiness and requirements for pledged assets. Counterparty exposure to derivative counterparties amounted to SEK 3,414.3 (2,613.6) million after netting for each counterparty and net of collateral received.

Employees

At the end of the period, the total number of employees was 105 (118), including part-time and probationary positions. The average number of employees during the period was 98 (100).

Board of Directors

As per 31 December 2022, the Company's Board of Directors consisted of Ellen Bramness Arvidsson (Chairman), Lars Heikensten, Erik Langby, Kristina Sundin Jonsson, Catrina Ingelstam, Mats Filipsson and Anette Henriksson, as well as employee representatives Mattias Bokenblom and Kristin Ekblad. The fees paid to Board Members totalled SEK 2,580 (2,484) thousand for 2022. No fees were paid to employee representatives.

Management

On 31 December 2022, 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), David Ljung (Head of Lending and Advice) and Jimmy Leonborn (CIO).

The total remuneration to the Executive Management Team, including pension expenses but excluding social security contributions, amounted to SEK 16,907 thousand (17,378).

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	2022	2021
Interest revenues calculated according to effective interest method		4,780.0	997.3
Other interest revenues		133.9	1.0
Interest expenses calculated according to effective interest method		-4,179.8	-275.3
Other interest expenses		-68.3	-42.2
NET INTEREST INCOME	2	665.8	680.8
Dividends received		1.8	2.1
Commission expenses		-11.7	-11.4
Net result of financial transactions		-208.8	47.6
<i>of which, derecognised assets valued at amortised cost</i>		0.2	2.5
Other operating income		11.9	10.2
TOTAL OPERATING INCOME		459.0	729.3
General administration expenses		-212.4	-247.8
Depreciation and impairment of intangible assets		-6.3	-6.4
Depreciation and impairment of material assets		-1.8	-2.5
Other operating expenses		-3.4	-2.8
TOTAL EXPENSES		-223.9	-259.5
PROFIT BEFORE CREDIT LOSSES		235.1	469.8
Net credit losses	3	-5.9	6.3
Fees imposed: Risk tax and resolution fee ¹		-282.3	-
OPERATING PROFIT		-53.1	476.1
Tax		11.0	-100.5
NET PROFIT		-42.1	375.6

Statement of comprehensive income

1 January – 31 December

SEK, million	Note	2022	2021
NET PROFIT		-42.1	375.6
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		-42.1	375.6

1) From January 2022, the resolution fee is booked on the same legal line as the recently introduced risk tax. In previous years, the resolution fee has been booked under Other general administration expenses. For the preceding year, the resolution fee amounted to SEK 23 million. For additional information, see Note 11.

Balance sheet

As per 31 December

SEK, million	Not	2022	2021
ASSETS			
Cash and balances with central banks	4	26,217.2	7,672.5
Sovereign bonds eligible as collateral	4	30,689.7	30,724.1
Lending to credit institutions	4	1,763.4	1,334.7
Lending	4	470,675.9	460,650.3
Bonds and other interest-bearing securities	4	6,752.3	15,529.8
Shares and participations in subsidiaries		42.0	42.0
Derivatives	4, 5	16,353.0	5,729.3
Intangible assets		18.5	24.7
Tangible assets		4.4	6.0
Current tax assets		3.6	79.0
Other assets		685.7	2,428.0
Deferred tax assets		14.0	-
Prepaid expenses and accrued revenues		36.8	41.3
TOTAL ASSETS		553,256.5	524,261.7
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities and provisions			
Liabilities to credit institutions	4	1,487.5	277.7
Securities issued	4	520,777.0	506,080.1
Derivatives	4, 5	2,834.2	3,851.4
Change in value of interest-hedged item in portfolio hedging	4	2,886.3	381.8
Other liabilities		15,059.9	4,005.0
Accrued expenses and prepaid revenues		42.9	43.4
Provisions		0.0	0.0
Total liabilities and provisions		543,087.8	514,639.4
Equity			
Restricted equity			
Share capital		9,475.0	8,975.0
Development expenditure reserve		18.5	24.7
Statutory reserve		17.5	17.5
Unrestricted equity			
Unrestricted share premium reserve		255.0	155.0
Profit or loss brought forward		444.8	74.5
Net profit		-42.1	375.6
Total equity		10,168.7	9,622.3
TOTAL LIABILITIES, PROVISIONS AND EQUITY		553,256.5	524,261.7

Statement of changes in equity

SEK, million	Restricted equity				Unrestricted equity			Total equity	
	Share capital	New share issue in progress	Development expenditure reserve ¹	Statutory reserve ²	Fair value reserve ³	Unrestricted share premium reserve	Profit or loss brought forward	Net profit	
Equity brought forward 1 Jan 2022	8,975.0	-	24.7	17.5	-	155.0	74.5	375.6	9,622.3
Net profit								-42.1	-42.1
Change in development expenditure reserve for the year			-6.2				6.2		-
Other comprehensive income					-				-
Total comprehensive income	-	-	-6.2	-	-	-	6.2	-42.1	-42.1
Transactions with shareholders									
Appropriation of surplus							375.6	-375.6	-
New share issue	500.0					100.0			600.0
Group contributions							-14.6		-14.6
Tax effect on Group contribution							3.0		3.0
Total transactions with shareholders	500.0	-	-	-	-	100.0	364.0	-375.6	588.4
Equity carried forward 31 Dec 2022	9,475.0	-	18.5	17.5	-	255.0	444.8	-42.1	10,168.7
Equity brought forward 1 Jan 2021									
Equity brought forward 1 Jan 2021	7,100.0	1,100.0	30.4	17.5	-	-	276.6	179.7	8,704.2
Net profit								375.6	375.6
Change in development expenditure reserve for the year			-5.7				5.7		-
Other comprehensive income					-				-
Total comprehensive income	-	-	-5.7	-	-	-	5.7	375.6	375.6
Transactions with shareholders									
Appropriation of surplus							179.7	-179.7	-
New share issue	1,875.0								1,875.0
Unrestricted share premium reserve						155.0			155.0
New share issue in progress		-1,100.0							-1,100.0
Group contributions							-488.0		-488.0
Tax effect on Group contribution							100.5		100.5
Total transactions with shareholders	1,875.0	-1,100.0	-	-	-	155.0	-207.8	-179.7	542.5
Equity carried forward 31 Dec 2021	8,975.0	-	24.7	17.5	-	155.0	74.5	375.6	9,622.3

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	2022	2021
Operational activities		
Operating profit	-53.1	476.1
Adjustment for items not included in cash flow	224.5	-40.2
Income tax paid	75.4	-
	246.8	435.9
Change in liquidity portfolio	8,750.0	-4,443.7
Change in lending	-22,531.8	-17,824.3
Change in other assets	1,746.7	14,024.8
Change in other liabilities	11,527.8	3,408.5
Cash flow from operational activities	-260.5	-4,398.8
Investment activities		
Acquisitions of intangible assets	-	-0.4
Acquisitions of tangible assets	-0.3	-1.7
Cash flow from investment activities	-0.3	-2.1
Financing activities		
Issue of interest-bearing securities	208,652.7	173,761.3
Maturity and repurchases of interest-bearing securities	-189,529.5	-181,607.9
New share issue	600.0	930.0
Change in debt ratios within the Group	-488.0	-276.9
Cash flow from financing activities	19,235.2	-7,193.5
Cash flow for the year	18,974.4	-11,594.4
Cash and cash equivalents at start of the year	9,007.3	20,601.7
Cash and cash equivalents at end of the year	27,981.7	9,007.3
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	8.1	8.9
Exchange rate differences from change in financial assets	1.0	1.1
Unrealised changes in market value	209.5	-43.9
Net credit losses	5.9	-6.3
Total	224.5	-40.2
Interest paid and received, included in the cash flow		
Interest received ¹	3,346.1	1,163.3
Interest paid ²	-2,721.0	-561.8

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

2022	Opening balance	Cash flows	Currency exchange fluctuations	Fair value change	Group contributions	Closing balance
Funding, incl. derivatives	504,479.9	19,123.2	1.0	-14,858.4		508,745.7
Share capital and unrestricted share premium reserve	9,130.0	600.0				9,730.0
Inter-company liability	488.0	-488.0			14.6	14.6
Total	514,097.9	19,235.2	1.0	-14,858.4	14.6	518,490.3

Note 1 Accounting principles

Compliance with standards and legislation

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

The accounting principles are in line with those applied in the 2021 Annual Report, with the exception of amendments caused by new or amended IFRS standards coming into effect during 2022.

New and amended standards and interpretations

No new or amended laws, standards and interpretations introduced during the year have 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

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	2022	2021
Interest revenues according to effective interest method	4,780.0	997.3
<i>of which, lending</i>	4,272.7	1,003.3
<i>of which, interest-bearing securities</i>	507.3	-6.0
Other interest revenues	133.9	1.0
Total	4,913.9	998.3
<i>Of which: interest revenues from financial items not measured at fair value through the income statement</i>	3,604.1	716.7
Interest expenses		
Interest expenses according to effective interest method	-4,179.8	-275.3
<i>of which, liabilities to credit institutions</i>	-9.0	-22.0
<i>of which, securities issued</i>	-4,166.7	-247.3
<i>of which lending, negative lending rate</i>	-4.1	-6.0
Other interest expenses	-68.3	-42.2
Total	-4,248.1	-317.5
<i>Of which: interest expenses from financial items not measured at fair value through the income statement</i>	-3,255.2	-344.5
Net interest income	665.8	680.8

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 comments of the income statement on page 53.

Note 3 Credit losses, net

	2022	2021
Cash and balances with central banks	0.4	0.6
Sovereign bonds eligible as collateral	0.4	0.7
Lending to credit institutions	0.6	0.3
Lending	4.5	4.8
Bonds and other interest-bearing securities	0.0	-0.1
Off-balance sheet items	0.0	0.0
Total	5.9	6.3

In accordance with IFRS 9, Kommuninvest accounts for expected credit losses, Kommuninvest has not had any realised credit losses.

Note 4 Financial assets and liabilities

Financial instruments broken down by valuation category

2022	Amortised cost	Fair value through the income statement			Recognised value	Fair value
		Held for trade	Compulsory	Fair value option		
Financial assets						
Cash and balances with central banks	26,217.2	-	-	-	-	26,217.2
Sovereign bonds eligible as collateral	28,872.6	-	-	1,817.1	-	30,689.7
Lending to credit institutions	1,763.4	-	-	-	-	1,763.4
Lending	314,055.2	-	-	156,620.7	-	470,675.9
Bonds and other interest-bearing securities	1,505.9	-	-	5,246.4	-	6,752.3
Derivatives	-	-	16,127.6	-	225.4	16,353.0
Other financial assets	682.3	-	-	-	-	682.3
Total	373,096.6	-	16,127.6	163,684.2	225.4	553,133.8
Financial liabilities						
Liabilities to credit institutions ¹	1,487.5	-	-	-	-	1,487.5
Securities issued ¹	361,041.7	-	-	159,735.3	-	520,777.0
Derivatives	-	2,609.7	-	-	224.5	2,834.2
Change in value of interest-hedged items in portfolio hedging	2,886.3	-	-	-	-	2,886.3
Other financial liabilities	14,800.2	-	-	-	-	14,800.2
Total	380,215.7	2,609.7	-	159,735.3	224.5	542,785.2

1) The nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 549,472.6 (509,910.9) million.

Note 4, continued

Financial instruments broken down by valuation category

2021	Amortised cost	Fair value through the income statement			Recognised value	Fair value
		Held for trade	Compulsory	Fair value option		
Financial assets						
Cash and balances with central banks	7,672.5	-	-	-	-	7,672.5
Sovereign bonds eligible as collateral	29,072.1	-	-	1,652.0	-	30,724.1
Lending to credit institutions	1,334.7	-	-	-	-	1,334.7
Lending	351,749.0	-	-	108,901.3	-	460,650.3
Change in value of interest-hedged items in portfolio hedging	-	-	-	-	-	-
Bonds and other interest-bearing securities	6,537.0	-	-	8,992.8	-	15,529.8
Derivatives	-	-	5,485.7	-	243.6	5,729.3
Other financial assets	2,417.7	-	-	-	-	2,417.7
Total	398,783.0	-	5,485.7	119,546.1	243.6	524,058.4
Financial liabilities						
Liabilities to credit institutions ¹	277.7	-	-	-	-	277.7
Securities issued ¹	349,319.4	-	-	156,760.7	-	506,080.1
Derivatives	-	3,576.7	-	-	274.7	3,851.4
Change in value of interest-hedged items in portfolio hedging	381.8	-	-	-	-	381.8
Other financial liabilities	4,002.4	-	-	-	-	4,002.4
Total	353,981.3	3,576.7	-	156,760.7	274.7	514,593.4

1) The nominal amount of funding, that is, the amount to be paid up by the maturity date, amounts to SEK 509,910.9 (496,443.1) million.

Calculation of fair value

General

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

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

Some of the financial instruments in Kommuninvest's debt portfolio and liquidity reserve are traded on active markets with quoted prices in accordance with level 1. For almost all of the remainder of the debt portfolio, the liquidity reserve, 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 lending margins. This means that if 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 and securities issued

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 has been set to the swap rate adjusted for current borrowing margins for the funding structure and market by applying the Company's current funding margins. 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.

Derivatives

Standardised derivatives in the form of FRA contracts scheduled for IMM days and traded in an active market are measured

Note 4, continued

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 assets recognised at fair value would mean a negative change in net profit of SEK 270 (195) 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 243 (224) 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 +/- 28 (+/- 29) 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 +/- 12 (+/- 17) million.

All of the above changes refer to 31 December 2022 (comparative figures refer to 31 December 2021) 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 the market values being realised.

Uncertainty in measurement due to unobservable input data

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

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

Kommuninvest has calculated the maturity at 1.6 years but estimates that, under reasonable conditions, unobservable input data lead to an average duration of prematurely cancellable funding in the interval of 1.0 – 2.1 years. This would have an effect on net profit in the interval SEK +0.3 million – SEK –0.0 million.

Change in value due to changed 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 borrowings 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

The valuation models are unchanged since the beginning of the preceding year. No changes in valuation models have been triggered by the crisis associated with the corona virus.

For previous changes, see Note 25 in Kommuninvest's 2020 Annual Report.

Approval of valuation models

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

Financial instruments recognised at fair value in the balance sheet

2022	Level 1	Level 2	Level 3	Total
Financial assets				
Sovereign bonds eligible as collateral	-	1,817.1	-	1,817.1
Lending	-	156,620.7	-	156,620.7
Bonds and other interest-bearing securities	-	5,246.4	-	5,246.4
Derivatives	-	16,350.5	2.5	16,353.0
Total	-	180,034.7	2.5	180,037.2
Financial liabilities				
Liabilities to credit institutions	-	-	-	-
Securities issued	46,962.5	108,361.8	4,411.0	159,735.3
Derivatives	-	1,407.6	1,426.6	2,834.2
Total	46,962.5	109,769.4	5,837.6	162,569.5
2021				
Financial assets				
Sovereign bonds eligible as collateral	-	1,652.0	-	1,652.0
Lending	-	108,901.3	-	108,901.3
Bonds and other interest-bearing securities	5,941.8	3,051.1	-	8,992.9
Derivatives	-	5,638.2	91.1	5,729.3
Total	5,941.8	119,242.6	91.1	125,275.5
Financial liabilities				
Liabilities to credit institutions	-	-	-	-
Securities issued	112,586.9	39,024.2	5,149.7	156,760.8
Derivatives	-	3,284.2	567.2	3,851.4
Total	112,586.9	42,308.4	5,716.9	160,612.2

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

	Recognised value 31 Dec 2022	Recognised value 31 Dec 2021
Assets		
To level 1 from level 2	-	-
To level 2 from level 1	2,469.5	-
Liabilities		
To level 1 from level 2	-	-
To level 2 from level 1	65,306.3	31,929.0

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 levels 1 and 2. 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 2022 and 31 December 2021 for the preceding period.

Note 4, continued

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

2022	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Cash and balances with central banks	-	26,217.2	-	26,217.2	26,217.2
Sovereign bonds eligible as collateral	-	28,871.0	-	28,871.0	28,872.6
Lending to credit institutions	-	1,763.4	-	1,763.4	1,763.4
Lending	-	311,928.3	-	311,928.3	314,055.2
Bonds and other interest-bearing securities	309.5	1,196.7	-	1,506.2	1,505.9
Other assets	-	682.3	-	682.3	682.3
Total	309.5	370,658.9	-	370,968.4	373,096.6
Financial liabilities					
Liabilities to credit institutions	-	1,487.4	-	1,487.4	1,487.5
Securities issued	-	360,816.0	-	360,816.0	361,041.7
Change in value of interest-hedged items in portfolio hedging	-	2,886.3	-	2,886.3	2,886.3
Other liabilities	-	14,800.2	-	14,800.2	14,800.2
Total	-	379,989.9	-	379,989.9	380,215.7
2021					
	Level 1	Level 2	Level 3	Total fair value	Recognised value
Financial assets					
Cash and balances with central banks	-	7,672.5	-	7,672.5	7,672.5
Sovereign bonds eligible as collateral	-	29,072.1	-	29,072.1	29,072.1
Lending to credit institutions	-	1,334.7	-	1,334.7	1,334.7
Lending	-	351,561.5	-	351,561.5	351,749.0
Change in value of interest-hedged items in portfolio hedging	-	-	-	-	-
Bonds and other interest-bearing securities	691.0	5,849.0	-	6,540.0	6,537.0
Other assets	-	2,417.7	-	2,417.7	2,417.7
Total	691.0	397,907.5	-	398,598.5	398,783.0
Financial liabilities					
Liabilities to credit institutions	-	277.6	-	277.6	277.7
Securities issued	-	351,080.2	-	351,080.2	349,319.4
Change in value of interest-hedged items in portfolio hedging	-	381.8	-	381.8	381.8
Other liabilities	-	4,002.4	-	4,002.4	4,002.4
Total	-	355,742.0	-	355,742.0	353,981.3

Changes in level 3

The table below presents a reconciliation of opening and closing balances for those financial instruments that have been 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 2022	91.2	-567.2	-5,149.5	-5,625.5
Recognised gains and losses:				
- recognised in the income statement (net result of financial transactions)	-88.7	-859.4	906.4	-41.7
Loans raised/Issues	-	-	-	-
Maturing during the year	-	-	-167.9	-167.9
Closing balance, 31 Dec 2022	2.5	-1,426.6	-4,411.0	-5,835.1
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 Dec 2022	-3.6	-218.5	179.6	-42.5
2021				
Opening balance, 1 Jan 2021	485.1	-389.9	-7,664.4	-7,569.2
Recognised gains and losses:				
- recognised in the income statement (net result of financial transactions)	-393.9	-177.3	569.0	-2.2
Loans raised/Issues	-	-	-4,993.4	-4,993.4
Maturing during the year	-	-	6,939.3	6,939.3
Closing balance, 31 Dec 2021	91.2	-567.2	-5,149.5	-5,625.5
Gains and losses recognised in the income statement (net result of financial transactions) for assets included in the closing balance as per 31 Dec 2021	7.6	-213.1	202.1	-3.4

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.

2022	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet ¹	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet			Net amount
				Financial instruments	Provided (+)/Received (-) collateral - security	Provided (+)/Received (-) cash collateral	
Assets							
Derivatives	32,214.0	-15,861.0	16,353.0	-2,105.8	-101.3	-14,042.6	103.3
Repos	-	-	-	-	-	-	-
Liabilities							
Derivatives	-28,290.6	25,456.4	-2,834.2	2,105.8	-	624.8	-103.6
Repos	-1,487.5	-	-1,487.5	-	1,487.5	-	-
Total	2,435.9	9,595.4	12,031.3	-	1,386.2	-13,417.8	-0.3

2021	Financial assets and liabilities, gross amounts	Amounts netted in the balance sheet ¹	Net amount reported in the balance sheet	Related amounts that are not netted in the balance sheet			Net amount
				Financial instruments	Provided (+)/Received (-) collateral - security	Provided (+)/Received (-) cash collateral	
Assets							
Derivatives	10,251.1	-4,521.8	5,729.3	-2,104.0	-400.8	-3,077.2	147.3
Repos	-	-	-	-	-	-	-
Liabilities							
Derivatives	-6,929.0	3,077.6	-3,851.4	2,104.0	-	1,569.2	-178.2
Repos	-277.6	-	-277.6	-	277.6	-	-
Total	3,044.5	-1,444.2	1,600.3	-	-123.2	-1,508.0	-30.9

1) The amount offset for derivative liabilities includes cash collateral of SEK 1,444.2 (5,190.7) million.

Note 6 Capital adequacy and leverage ratio

Capital adequacy

The capital adequacy requirements are calculated in accordance with the Supervisory Regulation (EU) No. 575/2013, also known as the CRR (Capital Requirements Regulation), which is directly applicable in Sweden and the Capital Adequacy Directive EU 2013/36, which is implemented in Sweden through legislation and regulations issued by Finansinspektionen. On 28 September 2021, the Swedish Financial Supervisory Authority (Finansinspektionen) decided to increase the buffer value to 1.0 percent, applicable as of 29 September 2022.

Capital base	2022	2021
Capital instruments	9,475.0	8,975.0
Retained earnings	676.2	629.8
Accumulated other comprehensive income and other reserves	17.5	17.5
Core Tier I capital before regulatory adjustments	10,168.7	9,622.3
Further value adjustments	-236.6	-218.9
Latent tax	-13.9	-
Intangible assets	-8.3	-4.2
Total regulatory adjustments to core Tier I capital	-258.8	-223.1
Total core Tier I capital	9,909.9	9,399.2
Tier I capital contributions	-	-
Total Tier I capital	9,909.9	9,399.2
Total Tier II capital	-	-
Total capital	9,909.9	9,399.2

Risk exposure amounts and minimum capital amounts

Risk exposure amounts and minimum capital amounts	2022			2021		
	Risk exposure	Capital requirement, percent	Capital requirement	Risk exposure	Capital requirement, percent	Capital requirement
Capital requirement, Pillar I						
Capital requirement for credit risks (the standardised method)	456.9	8.0%	36.6	383.9	8.0%	30.7
of which, institutional exposures	352.6	8.0%	28.2	267.1	8.0%	21.4
of which, corporate exposures	104.3	8.0%	8.4	116.8	8.0%	9.3
Operational risks, basic indicator method	692.6	8.0%	55.4	1,137.5	8.0%	91.0
Credit valuation adjustment	1,032.9	8.0%	82.6	845.3	8.0%	67.6
Total risk exposure amount and minimum capital amount	2,182.4	8.0%	174.6	2,366.7	8.0%	189.3

Capital adequacy ratios	2022	2021
Core Tier I capital ratio	454.1%	397.1%
Tier I capital ratio	454.1%	397.1%
Total capital ratio	454.1%	397.1%

Specific capital base requirements for risks other than insufficient leverage ratio ¹	2022		2021	
Additional capital base requirements, Common Equity Tier I capital	42.1%	918.1	42.1%	995.7
Additional capital base requirements, Tier I capital	14.0%	306.0	14.0%	331.8
Additional capital base requirements, Tier II capital	18.7%	408.1	18.7%	442.6
Total specific capital base requirements for risks other than insufficient leverage ratio	74.8%	1,632.2	74.8%	1,770.1

¹ In accordance with the Swedish Financial Supervisory Authority's (Finansinspektionen) decision of 24 September 2021, in connection with the review and assessment process and addressing specific capital base requirements, liquidity requirements and Pillar II guidance

Combined buffer requirement	2022		2021	
Capital conservation buffer	2.5%	54.6	2.5%	59.2
Countercyclical buffer	0.6%	13.7	-	-
Systemic risk buffer	-	-	-	-
Total buffer requirements	3.1%	68.3	2.5%	59.2
Core Tier I capital available for use as buffer	371.3%	8,103.1	314.4%	7,439.8
Total risk-based capital base requirement	2022	2021		
Capital base requirement, Pillar I	8.0%	174.6	8.0%	189.3
Capital base requirement, Pillar II requirement ¹	74.8%	1,632.2	74.8%	1,770.1
Combined buffer requirement	3.1%	68.3	2.5%	59.2
Pillar II guidance ¹	-	-	-	-
Total assessed capital base requirement	85.9%	1,875.1	85.3%	2,018.6

¹ In accordance with the Swedish Financial Supervisory Authority's (Finansinspektionen) decision of 24 September 2021, in connection with the review and assessment process and addressing specific capital base requirements, liquidity requirements and Pillar II guidance

Other information to be provided in accordance with section 8 of the CRR and the Swedish Financial Supervisory Authority's (Finansinspektionen) regulations and general advice on annual accounts in credit institutions and securities companies, FFFS 2008:25, see Kommuninvest's website.

Note 6, continued

Leverage ratio

	2022	2021
Total assets	553,256.5	524,261.7
Less asset amounts deducted to determine the core Tier I capital	-258.8	-223.1
Adjustment for derivative instruments	-12,702.5	-2,176.8
Deduction in the form of exposure to members and their companies	-470,675.9	-460,650.3
Plus possible change in risk in connection with repo transactions	0.7	0.7
Total exposure	69,620.0	61,212.2
Tier 1 capital, calculated applying transitional rules	9,909.9	9,399.2
Leverage ratio	14.2%	15.4%

Leverage ratio, capital base requirements	2022		2021	
Capital base requirement, Pillar I	3.0%	2,089.0	3.0%	1,836.4
Capital base requirement, Pillar II requirement ¹	-	-	-	-
Pillar II guidance ¹	-	-	-	-
Total assessed capital base requirement	3.0%	2,089.0	3.0%	1,836.4

¹) In accordance with the Swedish Financial Supervisory Authority's (Finansinspektionen) decision of 24 September 2021, in connection with the review and assessment process and addressing specific capital base requirements, liquidity requirements and Pillar II guidance

Internally estimated capital requirements

The difference between the Company's internal assessment and Finansinspektionen's capital base requirements and Pillar II guidance, mainly comprises the capital requirement for insufficient leverage ratio. In the Company's assessment, the capital requirement for the risk of insufficient leverage ratio is equivalent to the difference between a leverage ratio of 0.7 and other risk-adjusted capital requirements, including the buffers in Pillars I and II. In Finansinspektionen's assessment, the Pillar II guidance on leverage ratio should be met at the Group level and not at the individual Company level.

Internally estimated capital requirements	2022	2021
Capital requirement, Pillar II		
Credit risk	48.3	31.6
Market risks	1,696.4	1,434.7
Capital planning buffer	764.3	1,006.0
Total internally assessed capital requirement (Pillar II), excluding the risk of insufficient leverage ratio	2,509.0	2,472.3
Internally assessed capital requirement for the risk of insufficient leverage ratio	1,032.1	934.0
Total internally assessed capital requirement (Pillar II)	3,541.1	3,406.3

Kommuninvest's internal capital assessment forms the basis for the internally assessed capital requirement.

Capital targets

The Company's capital target for 2022 amounts to SEK 6,900 (6,700) million, corresponding to a 1.0 percent leverage ratio plus the Board of Directors' buffer of SEK 1,400 (1,000) million. In relation to the Company's capital base, which amounts to SEK 9,909.9 (9,399.2) million, the capital target is met by a good margin. The aim of Kommuninvest's capital planning is for all operations to be adequately capitalised to meet both current and future regulatory requirements.

Capital targets	2022	2021
Internally estimated capital requirements	3,900	4,000
Estimated capital requirement (for the Group) according to Finansinspektionen	5,500	5,700
Board of Directors' buffer	1,400	1,000
Capital targets	6,900	6,700

Note 7 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, 14 February 2023

Ellen Bramness Arvidsson
Chairman

Lars Heikensten
Board Member

Catrina Ingelstam
Board Member

Mats Filipsson
Board Member

Erik Langby
Board Member

Kristina Sundin Jonsson
Board Member

Anette Henriksson
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 14 February 2023 at 16:00 p.m. CET. From 23 February, it will be possible to download the complete 2022 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 30 March 2023.



KOMMUNINVEST

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