



# Interim report **First half 2022**

**KommuneKredit**

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KOMMUNEKREDIT

STEADY & STABLE

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**Rising gas prices are setting the stage for sustainable district heating in Skive**

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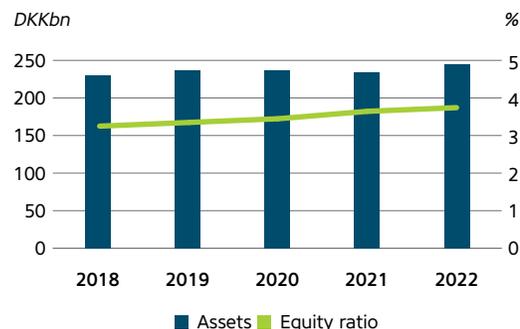


**Aalborg's new urban open space combines social interaction and consideration for the climate and the environment**

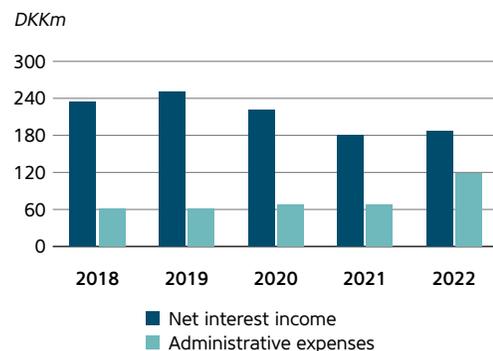
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# Key figures and financial ratios

## Assets and equity ratio first half 2018-2022



## Net interest income and administrative expenses first half 2018-2022



DKKkm	H1 2022 EUR	H1 2022 DKK	H1 2021 DKK	Full-year 2021 DKK
<b>Key figures for the period</b>				
Net interest income	25	187	180	383
Other operating income	0	4	3	8
Other operating expenses	-1	-6	-7	-13
Administrative expenses	-16	-119	-68	-140
Profit before value adjustments	9	65	109	238
Value adjustment of financial instruments	72	535	190	249
Tax on profit for the period	-18	-132	-66	-109
Comprehensive income for the period	63	468	233	378
Loans and leases	24,131	179,513	191,156	194,948
Portfolio of securities	6,792	50,530	36,745	48,387
Assets	32,978	245,327	234,368	249,077
Debt securities issued	29,813	221,784	216,970	233,892
Equity	1,242	9,243	8,630	8,775
<b>Activities during the period</b>				
Loans and leases, net additions in nominal value (net lending)	453	3,367	3,782	8,675
Loans and leases, gross additions in nominal value	2,273	16,912	19,874	36,958
Debt securities issued, gross additions in nominal value	4,479	33,319	35,229	65,112
<b>Capital structure</b>				
Total Risk Exposure Amount (REA)	2,187	16,267	12,202	13,859
Common Equity Tier 1 (CET1) capital	1,242	9,243	8,630	8,775
Capital base	1,228	9,136	8,530	8,660
Capital ratio, pct.	56	56	70	63
Equity ratio, pct.	3.8	3.8	3.7	3.5
<b>Selected financial ratios</b>				
Losses on loans and leases	0	0	0	0
Expenses/assets, pct.	0.05	0.05	0.03	0.06
Net interest income/assets, pct.	0.08	0.08	0.08	0.15
Liquidity resources, pct.	22	22	15	20
Number of full-time employees	94	94	87	88

Key figures and financial ratios have been calculated in accordance with "Recommendations & Financial Ratios" issued by CFA Society Denmark. Exchange rate at 30/06/2022: EUR 100 = DKK 743.91.

# Safe and value-creating

KommuneKredit plays a key role in helping to grow and develop Danish society. KommuneKredit enables Danish municipalities and regions to achieve their ambitions to create the best conditions and most sustainable solutions by providing financing at the lowest possible cost.

For example when local communities establish new and modern facilities to support associations or regions install new kitchens in hospitals. Or when municipalities lease cargo bicycles that allow day care providers to transport the children more easily, build modern, subsidised housing for the elderly to improve their quality of life, or build roadside ducts to protect urban areas against cloudbursts. Another example is financing for Danish waterworks when they roll out new technology to ensure that we can safely continue to drink our tap water.

Regardless of the size of the project or where in Denmark it takes place, we offer financing at the lowest possible cost and on equal terms for everyone. In this way, we not only create equal opportunities across Denmark – we also create cohesion and a platform allowing municipalities and regions and, ultimately, our citizens to get as

much growth and development for their money as possible.

We fund our loans by issuing bonds to investors all around the world. KommuneKredit is an association, and our members – all municipalities and regions in Denmark – are jointly and severally liable for our liabilities. This approach allows us to borrow funds at a very low rate of interest. As our administrative expenses are quite low – and we do not have to make a profit on our lending and leasing operations or pay dividends to our owners – our members are secured the lowest possible rate of interest.

On the basis of strong financial capabilities and a profound respect for the responsibility that comes with being the credit provider for municipalities and regions, we create a secure and stable link between global funding and local investments – both now and for the future.



## Mission

KommuneKredit shall contribute to financial latitude in Danish municipalities and regions by providing funding and financial advice at the lowest possible cost.



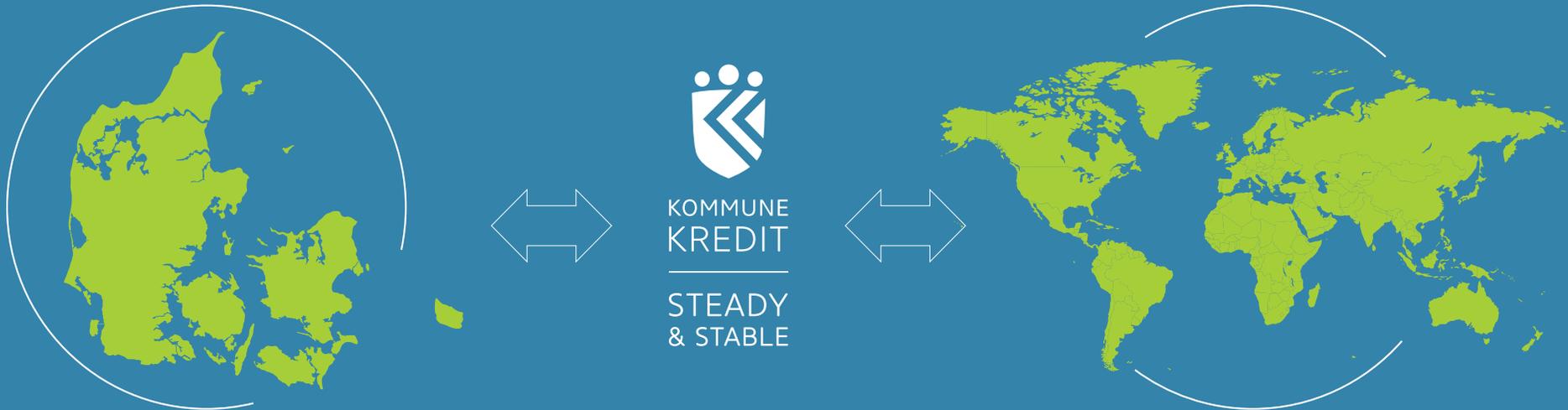
## Vision

We will always be the best funding choice for our customers, regardless of the given framework.

We will be modern, efficient and engaged, with a focus on high quality, steadiness and stability.

# Joint and several liability – an unconditional strength

All of Denmark's municipalities and regions are members of KommuneKredit. They have joint and several liability for our liabilities, and combined with our very secure business model this provides KommuneKredit with the highest possible credit rating – in line with that assigned to the Kingdom of Denmark.



## Joint and several liability

KommuneKredit is an association. Members – Denmark's 98 municipalities and 5 regions – represent the entire Danish population and are jointly and severally liable for our liabilities.

## Safe link

Acting as a safe link between global funding and local investments, KommuneKredit provides a financial foundation for developing the Danish welfare society.

## Funding

KommuneKredit funds its loans and leases by issuing securities in the Danish and international capital markets.

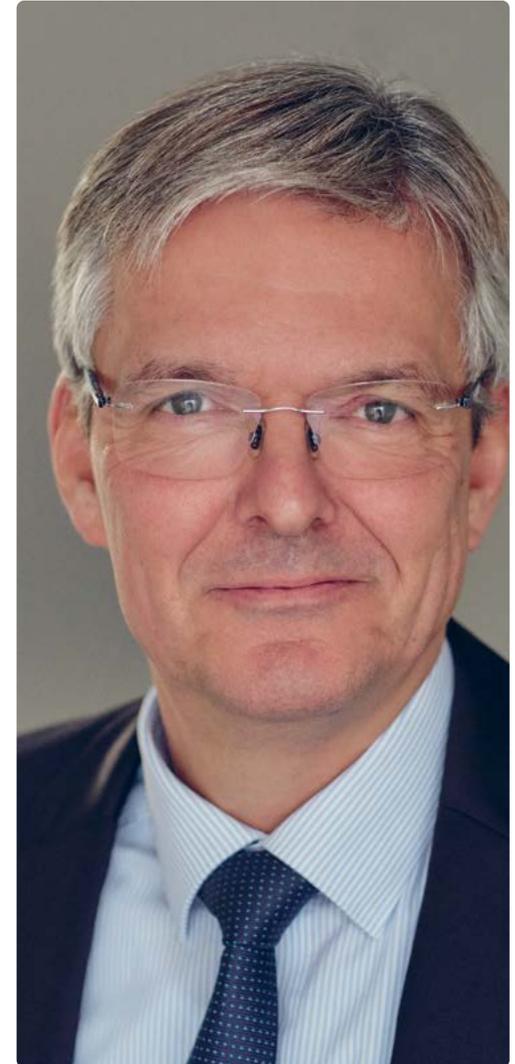
# CEO letter

KommuneKredit generated a profit before value adjustments and tax of DKK 65 million for the first half of 2022, which was just under DKK 30 million less than expected at the beginning of the year. Net interest income came to DKK 187 million, while administrative expenses amounted to DKK 119 million. The administrative expenses were DKK 37 million more than expected, which was mainly attributable to a provision for additional payroll tax, see note 4.1 in the Annual Report 2021. Including value adjustments of DKK 535 million, comprehensive income for the first half of the year was DKK 468 million.

While the financial markets were marked by volatility and rising interest rates in the first half of 2022 due to the war in Ukraine and high inflation, this did not affect our funding options. With sufficient liquidity reserves at 30 June 2022 to maintain lending and leasing levels for a year in a high-stress hypothetical scenario without access to the financial markets, we are well prepared to withstand a potential escalation of the situation.

Total loans and leases were down by DKK 15 billion to DKK 180 billion in the first half of the year, driven by negative fair value adjustments of loans totalling DKK 19 billion as a result of rising interest rates. In nominal terms, loans and leases were up by DKK 3 billion in the first six months of the year. In the first half of the year, we extended loans to, among others, the self-governing institution Bredballe Spejdercenter, guaranteed by Vejle Municipality, Enø-Lungshave Kystbeskyttelseslaug, guaranteed by Næstved

Municipality, and Skive Fjernvarme, guaranteed by Skive Municipality and intended to fund, among other things, an expansion of the district heating area in replacement of gas. Leases included Skanderborg Municipality's leasing of a day-care centre in Sølund accommodating 139 children, the Central Denmark Region's leasing of defibrillators and a new mini cyclotron for the treatment of coronary patients and the Region of Southern Denmark's leasing of a surgical microscope.



### **KommuneKredit's lending framework**

KommuneKredit's lending is subject to the Ministry of the Interior and Housing's rules on local government borrowing and guarantees. Furthermore, the loan purpose, i.e. the specific investment, must be a public sector task, and KommuneKredit's lending must comply with EU state aid rules.

Accordingly, we make a specific assessment as to whether a given loan for, for example, district heating or waste incineration plants would comply with the rules on state aid. A general requirement is that there must be no direct competition in the area in question. Alternatively, KommuneKredit may grant loans based on the European Commission's block exemption regulations.

With respect to waste incineration plants, work is ongoing to implement the political agreement from June 2020 which will expose this area to competition. This means that statutory authority must be in place to maintain the companies' existing loans with KommuneKredit, representing a current market value of DKK 8 billion.

It is expected that the new regulations on exposure to competition will uphold the

access of municipalities to guarantee loans to municipal entities.

In the district heating area, a number of political decisions affecting the competitive environment have been made in Denmark, and these decisions may affect the continued access of district heating companies to raise loans with KommuneKredit. Specifically, as of January 2019, municipalities can no longer order consumers to connect permanently to a network, and this may open up certain areas to competition from other, individual heating solutions – regardless of whether the municipality has decided that collective heating supply is the best solution from a socio-economic point of view.

Meanwhile, however, the European Commission has pointed to the rollout of district heating as a type of investment in energy-efficient supply infrastructure that member states and local authorities should be able to co-fund. Accordingly, in January this year, the Commission adopted new guidelines proposing extended and more flexible access to granting aid for energy-efficient district heating – with specific approval from the Commission. A draft of new block exemption regulations that, having been

submitted for consultation by the European Commission, is expected to be adopted later this year proposes similar access to support district heating investments.

Against this background, we at KommuneKredit will strive to ensure that district heating companies across the country can fund their major green investments at the lowest possible cost also in the future.

This also applies with respect to the funding of the huge district heating investments expected in connection with the phasing out of Russian gas, as set out in the political agreement of 25 June 2022, "Klimaafale om grøn strøm og varme 2022" (*Climate agreement on green power and heating 2022*). We stand prepared to take part in this.

### **Proposal for a new Act on KommuneKredit**

In connection with the change of government in 2019, the supervision of KommuneKredit was reassigned from the former Ministry for Economic Affairs and the Interior to the Ministry of Industry, Business and Financial Affairs. At the same time, a decision was made to introduce a motion to amend the Act on KommuneKredit, the

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**Jens Lundager**  
CEO

primary purpose being to adjust the supervisory framework and assign the supervisory responsibility to the Danish FSA.

A proposal for a new Act on KommuneKredit was submitted for consultation in autumn 2021, but due to a heavy parliamentary workload, the bill was deferred until the autumn of 2022, and a new consultation round was carried out in the spring of 2022.

We believe that the proposed model for the future regulation of KommuneKredit and the Danish FSA's financial supervision of KommuneKredit is well-balanced inasmuch as a principle of proportionality must be observed. KommuneKredit must comply with the same rules as other financial enterprises in relevant areas and will be subject to the supervision of the Danish FSA in this respect. However, KommuneKredit's exemption from the EU legislation applying to private credit institutions and intending to safeguard depositors and financial stability remains a basic element of the regulation. The reason for this exemption is our status as a special-purpose credit institution with a simple business model under which all municipalities and regions are jointly and severally liable for our liabilities.

The amended Act is expected to enter into force on 1 July 2023. We have come a long way in adapting to the anticipated new regulation and already satisfy most of the requirements.

### **Lending to municipalities in Greenland and the Faroe Islands**

The latest draft of the Act differs in one respect from the version submitted for consultation last year in that KommuneKredit will be able to grant loans to municipalities and certain municipal entities in Greenland and the Faroe Islands that will be fully guaranteed by the Danish State. The Greenlandic and Faroese municipalities in question will not become members of the association and will therefore not be liable for KommuneKredit's liabilities.

Work is currently ongoing to draft a framework agreement between the Government of Greenland, the Danish State and KommuneKredit on the specific framework for state-guaranteed KommuneKredit loans to municipalities and municipal entities in Greenland. We expect to be able to provide loans to entities in Greenland from 1 July 2023.

A similar framework agreement on loans to municipalities and municipal entities in the Faroe Islands could be entered into between the Faroese Home Rule Government, the Danish State and KommuneKredit.

### **Strategy 2025**

Overall, the implementation of Strategy 2025 made satisfactory progress during the first half of 2022. The strategy sets out to ensure a future for KommuneKredit as a well-run, accessible and sustainable publicly-owned financial enterprise. The strategy covers six priority areas, each of which has its own clear ambition. Within that framework, we have defined three cross-institutional strategic priorities in 2022: Future-proofing lending and advisory services, Strengthening communication and sustainability and Enhancing IT security and governance.

Modernising our core platforms for both lending and leasing constitutes the most comprehensive project. In the area of lending, this affects all our business processes. We are reviewing our internal processes as well as those directed at customers in the context of three comprehensive development projects that we expect to implement in 2024. Furthermore, we are strengthening our lending advisory services by way of a

### **Russia**

Pursuant to our investment policy, KommuneKredit cannot invest in Russian securities, and, to the best of our knowledge, we have no direct relations or cooperation with Russian banks.

### **Climate-related issues**

KommuneKredit's business model is unaffected by climate change, and we therefore do not report on climate aspects for financial and non-financial risks. For our assessment of the need for TCFD reporting, see our [Sustainability Report 2021](#).

### **COVID-19**

COVID-19 had no noticeable impact on our operations in the first half of 2022.

new concept to be implemented through several activities in 2022. In the area of leasing, we expect to finalise a major upgrade of the core system supporting the entire leasing process in the autumn of 2022. In the spring of 2022, we finalised Project Green Bond Framework – a project to modernise the framework for our green lending and our issuance of green bonds and to future-proof the foundation for our green impact reporting. We have also finalised an upgrade of the system platform we use to register financial activities and calculate fair values for purposes of the financial statements.

Maintaining a high level of IT security is essential to KommuneKredit. We conduct regular security analysis so that we can adjust the level as needed. In the first half of 2022, we appointed an IT Security Manager and launched a number of measures to, among other things, monitor our infrastructure in a Security Operations Centre and strengthen our user management, with particular emphasis on users with widespread access and multiple rights. We also launched a campaign to keep our employees focused on IT security in their day-to-day work.

**Jens Lundager**

CEO



## Facts

- Borrower:** Skive Fjernvarme  
**Guarantor:** Skive Municipality  
**Loan purpose:** Establishing a new wood chip centre and expanding supply area  
**Loan amount:** DKK 259 million (construction credit)  
**Project period:** 2022 – 2026

### Want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, [chj@kommunekredit.dk](mailto:chj@kommunekredit.dk)



## CASE

# Rising gas prices are setting the stage for sustainable district heating in Skive

Skive Fjernvarme is building a new wood chip-fired district heating station that will form a green gateway into Skive. Focus is on security of supply, and in developing the solutions that will support Skive Municipality's supply of heating for many years into the future, allowance has been made for both local and sustainability considerations.

Skive Fjernvarme currently supplies heating to about 50 pct. of Skive's homes, but rising oil and gas prices have fuelled demand for district heating. Against this backdrop, Skive Fjernvarme is in the process of building a new wood chip-fired district heating station that – in combination with an expansion of the supply area to cover an additional 2,000 homes – is intended to future-proof heating supplies.

Skive Fjernvarme previously used wood pellets, the greater part of which was shipped from abroad. Going forward, the new district heating station, consisting of

a 10 MW hot-water boiler, will use wood chips produced locally within a radius of 50 km from Skive. By using wood chips, a residual product from forestry operations, Skive Fjernvarme will be able to enhance its security of supply and make it more sustainable. The station will also be able to use locally collected garden/park waste and geothermal heat.

Using the most sustainable solutions that will support Skive Municipality's goal of being carbon neutral by 2029, Skive Fjernvarme is thus thinking ahead. Calculations show that the new district heating station

and the expansion of the supply area will reduce carbon emissions from 8,500 tonnes to 1,500 tonnes per year.

» *Providing sustainable district heating that will help ensure high security of supply for our customers – also in the future – is one of our main priorities.*

**Tage Meltofte**  
CEO, Skive Fjernvarme



CASE

# Aalborg's new urban open space combines social interaction and consideration for the climate and the environment

Aalborg Municipality is currently establishing a new urban open space around the old Østerå stream. The intention is to provide a gathering point for social interaction, exercise and fun and to enable the city to interact with nature to enhance biodiversity for the benefit of all. Reopening old canals will enhance climate adaptation for purposes of supporting the Aalborg of the future.

Aalborg's Østerå stream is undergoing a transformation. For many years, the old stream that has connected the port and the city since the age of the Vikings was covered and had been replaced by sewers, but will now form the centre of a new green – and blue – gathering point for the residents of Aalborg.

The project combines urban development with consideration for the climate and the environment. As the stream runs through three parks and several recreational areas, the residents of Aalborg will have new opportunities for getting together and enjoying the interaction between the city and nature.

At the same time, new walkways and bike-ways will provide a link between raw nature and city centre.

The Østerå project also forms part of the municipality's efforts to ensure the requisite rainwater drainage capacity to strengthen the city's extreme precipitation resistance.

Lastly, the development of the stream environment will help enhance biodiversity and improve the aqueous environment by converting the closed canal system into an open stream system with gravel bottom and slopes.

» The new urban open space around the old Østerå stream will benefit both the city's residents and the climate, which is amazing. Attractive urban open spaces are highly popular among the city's residents, and I'm so pleased that we're now getting more such spaces in the very centre of Aalborg. We're making room for more fun. We're providing new places to meet or to exercise in the open while at the same time strengthening climate proofing measures and biodiversity. I can't wait to start using the new space together with our residents and visitors."

**Thomas Kastруп-Larsen**  
Mayor, Aalborg Municipality



## Facts

- Borrower:** Aalborg Municipality
- Loan purpose:** Reopening the Østerå stream
- Loan amount:** DKK 13 million (green loan)
- Construction period:** 2021-2025

## Want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, [chj@kommunekredit.dk](mailto:chj@kommunekredit.dk)

# Capitalisation remains strong amid significant interest rate movements

The general increase in interest rates in the first half of 2022 led to major balance sheet changes and a slight reduction in total assets. Net interest income and net lending developed as expected.

## Earnings and capital base

Net interest income amounted to DKK 187 million in the first half of 2022, which was largely unchanged compared with the year-earlier period and in line with expectations.

Since 2014, KommuneKredit has been a party to a case concerning the payment of additional payroll tax, as mentioned in note 4.1 on 'contingent liabilities' in the annual report. A decision has now been made in the case, and a provision of DKK 35 million for the payment of additional payroll tax has been made.

Against this background and due to considerable progress of the strategic projects to implement KommuneKredit's Strategy 2025,

administrative expenses increased to DKK 119 million in the first half of 2022 from DKK 68 million in the year-earlier period.

Profit before value adjustments and tax came to DKK 65 million, a year-on-year decrease of DKK 44 million. Relative to our full-year guidance of a profit before value adjustments and tax of DKK 185 million, the half-year performance was somewhat below expectations. This was due to an increase in costs related to the payment of additional payroll tax.

Value adjustments of financial instruments amounted to DKK 535 million in the first half of 2022, against DKK 190 million in the first half of 2021. The value adjustments were mainly due to value adjustments of

derivatives measured at fair value to hedge fixed-interest leases measured at amortised cost. Another factor behind the value adjustments was an increased investment return, thanks to which it was not necessary to raise lending rates at the rate of increase experienced in KommuneKredit's funding rates during the period.

Comprehensive income for the first half of 2022 amounted to DKK 468 million against DKK 233 million in the first half of 2021. Comprehensive income for the period is transferred to equity, which now stands at DKK 9,243 million. According to the Board of Directors' targets, earnings should provide appropriate capitalisation, corresponding to an equity ratio of 3 pct. At 3.8 pct., the equity ratio was in line with the target defined



» *The value adjustments were mainly due to value adjustments of derivatives measured at fair value to hedge fixed-interest leases measured at amortised cost.*

**Morten Sjøtofte**  
CFO

by the Board of Directors and slightly higher than the expected 2022 level of 3.7 pct. The higher equity ratio was primarily due to a slight reduction in total assets.

The total risk exposure amount (REA) rose to DKK 16.3 billion at 30 June 2022 from DKK 13.9 billion at 31 December 2021. The increase was driven primarily by higher currency exposure to EUR and a greater counterparty risk. This brought the capital ratio, calculated in accordance with the solvency rules for credit institutions, to 56 pct. against 63 pct. at year-end 2021.

**Loans and leases**

Net lending, which is new loans including leases less repayment instalments and redemptions, amounted to DKK 3.4 billion in the first half of 2022. Net lending was thus in line with the volume expected for the full year, which is DKK 4.5 billion, as customers’ annual schedule indicate that net lending is usually higher in the first half of the year.

Total loans and leases dropped to DKK 179.5 billion from DKK 194.9 billion at the end of 2021. The fall was due to negative fair value adjustments of loans as a result of the

general increase in interest rates in the first half of 2022.

**Funding and investments**

Total investments, i.e. amounts due from credit institutions plus the portfolio of securities, rose by DKK 2.2 billion to DKK 51.1 billion as a result of an increase in liquidity resources.

Accumulated funding, i.e. amounts due to credit institutions plus debt securities issued, fell by DKK 12.1 billion to DKK 221.8 billion. The fall was mainly driven by a DKK 20.4 billion negative value adjustment of issued debt securities driven by the general increase in interest rates. The negative value adjustment thus exceeded the increase in the nominal value of debt securities issued by KommuneKredit.

The majority of the outstanding funding is still in EUR, USD and DKK.

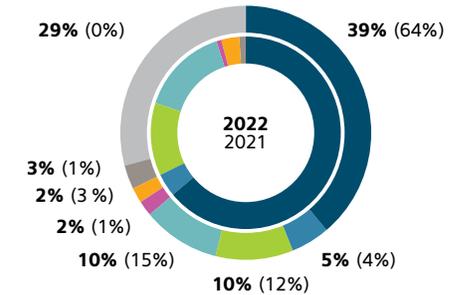
Despite the higher level of underlying activity, total assets were down by DKK 3.8 billion to DKK 245.3 billion due to the negative value adjustment caused by the general increase in interest rates.

**Outlook for 2022**

We still expect net interest income for 2022 of DKK 350 million and net lending of DKK 4,500 million. Reflecting the provision for additional payroll tax, administrative expenses are now expected at DKK 200 million, compared with the previous forecast of DKK 165 million. Barring any value adjustments, we expect a pre-tax profit of DKK 150 million. Value adjustments for the first half of 2022 amounted to DKK 535 million.

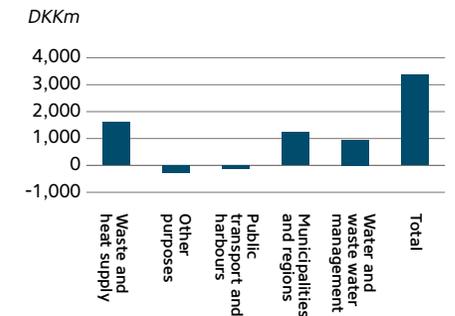
**The expectations stated in this interim report are inherently subject to uncertainties and may be affected by external factors. This may have the effect that actual developments and actual results may differ from the expectations expressed in the interim report.**

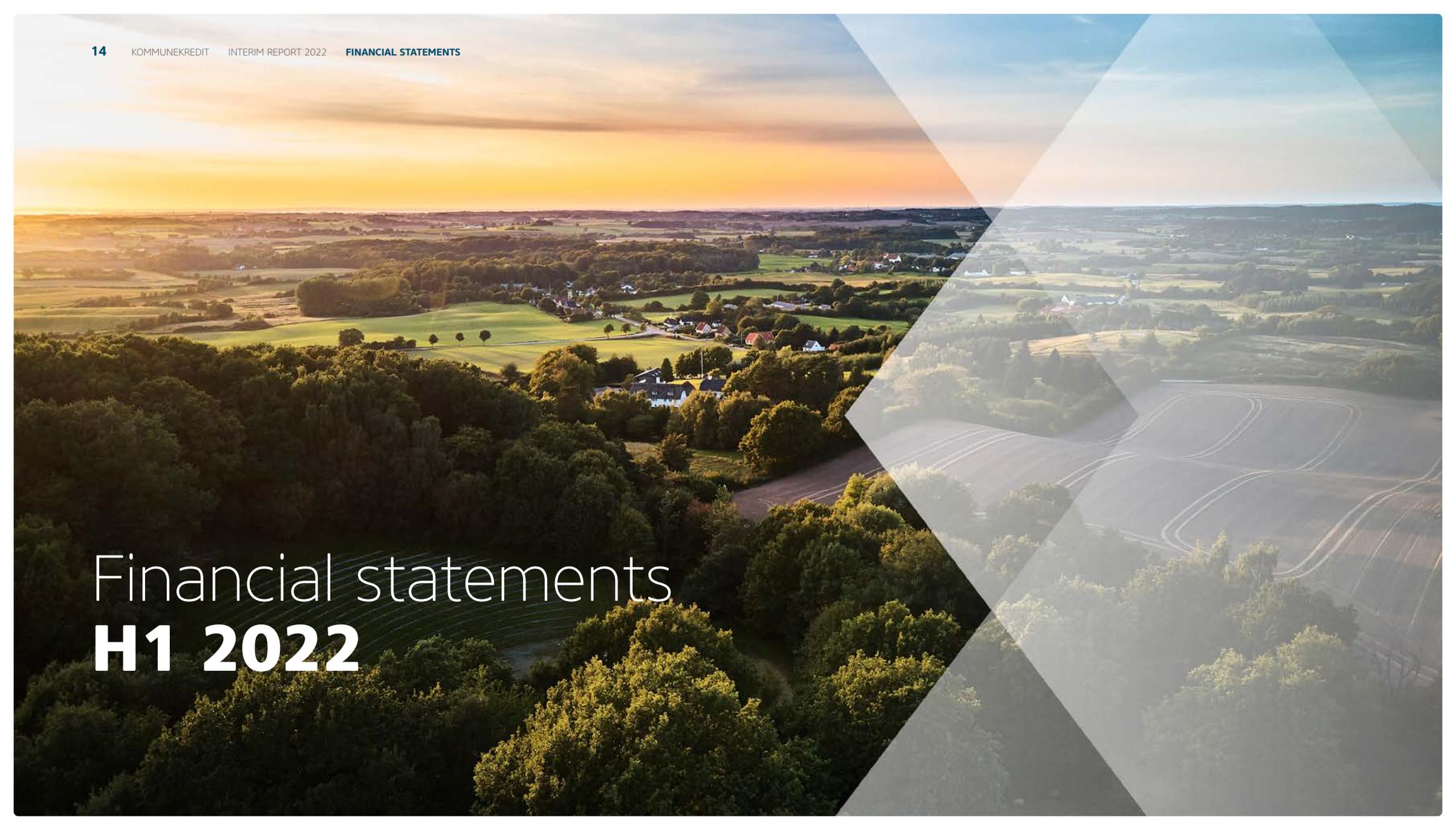
**Administrative expenses**



- Salaries, pension contributions, etc.
- Other staff costs
- Consulting fees
- IT licences
- Charges
- Property management
- Other administrative expenses
- Provision for payroll tax

**Distribution of net lending**





# Financial statements **H1 2022**

## Comprehensive income

DKKm	Note	H1 2022	H1 2021
Interest income		719	749
Interest expense		-532	-568
<b>Net interest income</b>		<b>187</b>	<b>180</b>
Other operating income		4	3
Other operating expenses		-6	-7
Administrative expenses		-119	-68
<b>Profit before value adjustments</b>		<b>65</b>	<b>109</b>
Value adjustments of financial instruments		535	190
<b>Profit before tax</b>		<b>600</b>	<b>299</b>
Tax on profit for the period		-132	-66
<b>Profit for the period</b>		<b>468</b>	<b>233</b>
<b>Other comprehensive income</b>			
Actuarial gains and losses		0	0
Tax on actuarial gains and losses		0	0
<b>Comprehensive income for the period</b>		<b>468</b>	<b>233</b>
<b>Allocated as follows:</b>			
Transferred to equity		468	233
<b>Total</b>		<b>468</b>	<b>233</b>

## Balance sheet

DKKm	Note	30 June 2022	31 Dec. 2021
<b>Assets</b>			
Due from credit institutions	3	571	501
Loans	3	170,766	187,045
Leases		8,747	7,903
Portfolio of securities	3	50,530	48,387
Derivative financial instruments	3, 4	14,514	5,079
Other assets		162	126
Current tax assets		37	36
<b>Total assets</b>		<b>245,327</b>	<b>249,077</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to credit institutions		1	0
Debt securities issued	3	221,784	233,892
Derivative financial instruments	3, 4	13,204	5,307
Other liabilities		579	568
Current tax liabilities		56	75
Deferred tax liabilities		460	460
<b>Total liabilities</b>		<b>236,084</b>	<b>240,302</b>
<b>Equity</b>		<b>9,243</b>	<b>8,775</b>
<b>Total liabilities and equity</b>		<b>245,327</b>	<b>249,077</b>

## Equity

DKKm	Note	H1 2022	H1 2021
<b>Equity</b>			
Equity at 1 January		8,775	8,397
<b>Transferred to equity</b>			
Profit for the period		468	233
<b>Other comprehensive income</b>			
Actuarial gains and losses		0	0
Tax on other comprehensive income		0	0
<b>Other comprehensive income after tax</b>		<b>0</b>	<b>0</b>
<b>Transferred to equity in total</b>		<b>468</b>	<b>233</b>
<b>Equity at 30 June</b>		<b>9,243</b>	<b>8,630</b>

The comprehensive income for the period is transferred to equity in accordance with the articles of association of KommuneKredit.

Equity increased to DKK 9,243 million at 30 June 2022 from DKK 8,775 million at year-end 2021. At 30 June 2022, equity amounted to 3.8 pct. of total assets, a small increase relative to year-end 2021. Equity consists in its entirety of transferred comprehensive income.

Under the legal framework applying to KommuneKredit, equity must equal at least 1.0 pct. of total liabilities, equal to DKK 2,361 million. The Board of Directors' target is for equity to amount to at least 3 pct. of assets, which is considered adequate to support KommuneKredit's activities.

Equity at 1 January and 30 June 2022 includes a DKK 2 million net revaluation reserve.

## Cash flows

DKKm	Note	H1 2022	H1 2021
Profit before tax		600	299
Depreciation, amortisation and impairment		0	-
Income tax paid		-150	-50
<b>Total</b>		<b>450</b>	<b>249</b>
Net interest income reversed		-187	-180
Financial income received		719	749
Financial expenses paid		-532	-568
Change in lending		15,435	1,300
Change in securities		-2,143	-3,178
Change in debt securities issued		-12,108	4,242
Change in derivative financial liabilities		7,896	-4,221
Change in derivative financial assets		-9,435	1,679
Change in other assets		-37	-15
Change in other liabilities		11	19
<b>Cash flows from operating activities</b>		<b>69</b>	<b>76</b>
<b>Cash flows from investing activities</b>		<b>-</b>	<b>-</b>
<b>Change in cash and cash equivalents</b>		<b>69</b>	<b>76</b>
Cash and cash equivalents at 1 January		501	22
<b>Cash and cash equivalents at 30 June</b>		<b>570</b>	<b>98</b>
Specified as follows:			
Deposits with credit institutions		571	305
Short-term payables to credit institutions		-1	-207
<b>Cash and cash equivalents, 30 June</b>		<b>570</b>	<b>98</b>

## Note 1

### Accounting policies

#### General

This interim report covers the period from 1 January to 30 June 2022.

The interim report is presented in accordance with IAS 34, "Interim Financial Reporting", as adopted by the EU, and additional disclosure requirements for interim reports.

Unless otherwise indicated, all amounts in the interim report are stated in DKK millions. The stated totals have been calculated on the basis of actual amounts before rounding. As amounts are rounded to DKK millions, there may be minor differences between the sum of individual amounts and the stated totals.

The accounting policies are consistent with the policies applied in the 2021 Annual Report. Reference is made to the annual report for a complete description of the accounting policies.

#### Change in accounting policies

There are no new or amended IFRS standards or interpretations entering into force and effective for the financial year 2022 or later which are considered to have an effect on the financial reporting for 2022.

#### Significant accounting estimates and judgments

In the preparation of the interim financial statements, management makes a number of accounting estimates and judgments. The estimates and judgments are made in accordance with the accounting policies based on assumptions that management finds reasonable and realistic but which are inherently uncertain and unpredictable. The accounting estimates and judgments are tested and assessed in an ongoing process to ensure that they reflect the historical experience and assessments of future conditions.

The accounting estimates and judgments deemed most critical to the financial statements are where the calculation of fair value is based on input not directly observable in the market and where there is no opposite effect.

In particular, estimates and judgments with respect to the valuation of debt securities issued that are not a part of the bond circuit may affect the financial statements. There is no active market for these securities, as a result of which significant accounting estimates are used in the valuation.

Estimates and judgments in the valuation of certain derivatives may also affect the financial statements, as there are no directly observable prices in the market. Observable input in generally accepted cash flow models is used instead.

There is no observable market for the valuation of loans which are not part of the bond circuit, which means that KommuneKredit applies own current lending prices as market prices.

For all other financial instruments, valuation does not involve significant estimates. This is either because these instruments have quoted prices in an active market, or because there is no significant accounting impact of the estimates applied.

Relative to the annual report for 2021, there have been no changes to accounting estimates, and a full description of applied methods and principles for determining accounting judgments and estimates with respect to the fair value of financial instruments is provided in the annual report for 2021.

COVID-19 did not have any material impact on KommuneKredit's results of operations or financial position. Additional information is provided in the management's review.

## Note 2

### Events after the balance sheet date

No significant events occurred after the balance sheet date.

## Note 3

### Specification of fair value of financial instruments

In accordance with IFRS 13, financial instruments measured at fair value must be classified in a fair value hierarchy ranging from level 1 to level 3, depending on how the fair values have been determined and the data on which they are based. The fair value is the amount for which a financial asset or a financial liability can be exchanged between knowledgeable, willing parties.

Fair value is measured on the basis of the following hierarchy:

**Level 1:** Quoted prices in an active market for identical assets or liabilities.

**Level 2:** Observable input based on quoted prices in an active market for similar assets or liabilities, or other valuation methods in which the valuation is based substantially on observable input.

**Level 3:** Non-observable input where the valuation is not based substantially on observable input.

The valuation of fair values in levels 2 and 3 is based on generally accepted models. KommuneKredit uses both A) listed prices for similar issues adjusted for liquidity, credit risk and conversion rights and B) discounted cash flow models, where all estimated and fixed cash flows are discounted using zero coupon interest curves, interest structure and options models.

**A)** KommuneKredit uses listed prices for similar issues adjusted for liquidity, credit risk and conver-

sion rights on the part of debt securities issued and loans which is referred to as the bond circuit. The bond circuit is characterised by being based on the mortgage credit balance principle where the terms and conditions underlying the debt securities issued by KommuneKredit are passed on directly to the bond loan to the customer plus a margin determined by KommuneKredit.

The securities in the bond circuit are listed on Nasdaq Copenhagen, but the bonds are illiquid as the frequency and volume of trading is insufficient. Consequently, the listed price cannot be used, and listed prices from similar issues adjusted for liquidity, credit risk and conversion rights are used instead. Similar issues could be mortgage or government bonds with similar characteristics. As the credit risk on loans to customers corresponds to the issued debt securities, the price of the debt securities issued is also used for the bond loan. Price changes will thus not have any impact on the result.

**B)** KommuneKredit uses discounting of cash flows on derivatives, on the remaining part of the debt securities issued, which are also considered illiquid, and on loans raised at fair value which are not part of the bond circuit.

The calculation of fair value in level 2 includes observable input like swap rates, cross-currency basis swap spreads, tenor spreads and exchange rates, etc. The valuation of debt securities issued also includes KommuneKredit's estimate of the actual

funding expenses. The valuation of lending includes KommuneKredit's current lending prices. KommuneKredit aims to keep lending margins relatively constant by adjusting the actual lending prices on a regular basis against estimated, current funding expenses. The sensitivity associated with estimating actual funding expenses will thus be partly set off by changes in current lending prices. This means that the total value adjustment is considered to have a maximum net effect in the range of +/- DKK 250 million.

A small part of KommuneKredit's debt securities issued and derivatives is classified as fair value level 3. The level is used for structured notes and pertaining hedging derivatives for which input, in addition to input that applies to fair value level 2, also consists of non-observable input like volatility of currencies, shares and commodities and the correlation between these. The structured notes issued are micro-hedged by derivatives, and changes in the non-observable input will therefore not have any significant impact on the profit as changes in issuance will have an opposite effect on the derivative.

KommuneKredit pursues a risk management strategy of eliminating market risk by using financial instruments. Consequently, the total net effect on the statement of comprehensive income and equity derived from changes in estimates and assumptions used to calculate the fair value under levels 2 and 3 is reduced to include changes in funding expenses and lending prices.

The ongoing "Interest Rate Benchmark Reform" serves to replace the "London Interbank Offered Rate" (LIBOR) with alternative risk-free rates. KommuneKredit will be affected by this change in two ways. First, future LIBOR interest payments on ongoing contracts must be replaced by interest payments based on the new alternative risk-free interest rates and, next, the discounting of cash flows in fair value levels 2 and 3 must be based on new alternative risk-free swap rates.

KommuneKredit has adopted ISDA's protocol concerning fallback clauses as stipulated in the protocol. The change in interest payments and in swap rates for discounting cash flows has not had any significant impact on either fair value adjustments or profits.

KommuneKredit continues to apply LIBOR rates on LIBOR interest payments that continue to exist after 30/06/2022 and will also continue to use the old, but still existing, corresponding LIBOR swap rates for the discounting of cash flows in the currencies affected. As the bulk of the remaining affected cash flows are hedged, the remaining shift away from LIBOR interest rates and LIBOR swap rates is not expected to have any significant impact on either fair values or profits.

No transfers between the levels were made in the first half of 2022.

## Note 3

### Specification of fair value of financial instruments

DKKm	Level 1	Level 2	Level 3	Total
<b>30 June 2022</b>				
<b>Assets</b>				
Due from credit institutions	571	0	0	571
Loans	0	170,766	0	170,766
Portfolio of securities	50,530	0	0	50,530
Derivative financial instruments	0	13,968	546	14,514
<b>Total assets</b>	<b>51,101</b>	<b>184,734</b>	<b>546</b>	<b>236,381</b>
<b>Liabilities</b>				
Due to credit institutions	1	0	0	1
Debt securities issued	0	216,141	5,643	221,784
Derivative financial instruments	0	12,940	264	13,204
<b>Total liabilities</b>	<b>1</b>	<b>229,081</b>	<b>5,907</b>	<b>234,989</b>

DKKm	Level 1	Level 2	Level 3	Total
<b>31 Dec. 2021</b>				
<b>Assets</b>				
Due from credit institutions	501	0	0	501
Loans	0	187,045	0	187,045
Portfolio of securities	48,387	0	0	48,387
Derivative financial instruments	0	4,443	636	5,079
<b>Total assets</b>	<b>48,888</b>	<b>191,488</b>	<b>636</b>	<b>241,012</b>
<b>Liabilities</b>				
Due to credit institutions	0	0	0	0
Debt securities issued	0	228,165	5,727	233,892
Derivative financial instruments	0	5,057	250	5,307
<b>Total liabilities</b>	<b>0</b>	<b>233,222</b>	<b>5,977</b>	<b>239,199</b>

## Note 3

### Specification of level 3 fair value

DKKm	1 Jan.	Additions	Disposals	Recognised in profit for the period	30 June
<b>30 June 2022</b>					
<b>Assets</b>					
Due from credit institutions	0	0	0	0	0
Loans	0	0	0	0	0
Portfolio of securities	0	0	0	0	0
Derivative financial instruments	636	0	0	-90	546
<b>Total assets</b>	<b>636</b>	<b>0</b>	<b>0</b>	<b>-90</b>	<b>546</b>
<b>Liabilities</b>					
Due to credit institutions	0	0	0	0	0
Debt securities issued	5,727	0	-75	-9	5,643
Derivative financial instruments	250	0	-52	66	264
<b>Total liabilities</b>	<b>5,977</b>	<b>0</b>	<b>-127</b>	<b>57</b>	<b>5,907</b>

DKKm	1 Jan.	Additions	Disposals	Recognised in profit for the year	31 Dec.
<b>31 Dec. 2021</b>					
<b>Assets</b>					
Due from credit institutions	0	0	0	0	0
Loans	0	0	0	0	0
Portfolio of securities	0	0	0	0	0
Derivative financial instruments	816	0	-1	-179	636
<b>Total assets</b>	<b>816</b>	<b>0</b>	<b>-1</b>	<b>-179</b>	<b>636</b>
<b>Liabilities</b>					
Due to credit institutions	0	0	0	0	0
Debt securities issued	6,360	0	-538	-95	5,727
Derivative financial instruments	397	0	-220	73	250
<b>Total liabilities</b>	<b>6,757</b>	<b>0</b>	<b>-758</b>	<b>-22</b>	<b>5,977</b>

## Note 4

### Specification of fair value of financial instruments

KommuneKredit settles foreign exchange transactions and derivatives on a net basis when a master netting agreement (ISDA Master Agreement) includes an agreement on Cross-Transaction Payment Netting. The net settlement entails that the accounting values for derivatives contain offsetting in the balance sheet. Total offsetting amounted to DKK 7,914 million at 30 June 2022, against DKK 6,473 million at 31 December 2021.

In ISDA Master Agreements where no Cross-Transaction Payment Netting is included, the accounting values will not include offsetting. The netting value of derivatives not offset has been limited to the lesser of assets and liabilities calculated per counterparty. The amount is included in both assets and liabilities.

ISDA Master Agreements include unilateral or bilateral collateral agreements relating to derivatives. Collateral received and posted under these agreements solely includes bonds with a high credit rating. The amount of collateral is calculated per counterparty and has been limited to the net value of the financial instruments for which the bonds have been provided as collateral. The collateral agreements only allow offsetting in case of bankruptcy and not on a regular basis. No offsetting is applied for the value of the collateral.

KommuneKredit has not entered into any netting agreements and has not posted or received any collateral in relation to lending, leasing or debt securities issued. Accordingly, these financial instruments are not included in the table below. Carrying amounts appear from the balance sheet.

#### Derivatives presented in the balance sheet

DKKm	Values offset			Values not offset		
	Gross carrying amount	Set-off	Carrying amount	Financial instruments	Collateral	Net value
<b>30 June 2022</b>						
Assets	22,428	-7,914	14,514	-1,440	-12,274	800
Liabilities	21,118	-7,914	13,204	-1,440	-10,369	1,395
<b>Net</b>	<b>1,310</b>	<b>0</b>	<b>1,310</b>	<b>0</b>	<b>-1,905</b>	<b>-595</b>
<b>31 Dec. 2021</b>						
Assets	11,552	-6,473	5,079	-941	-3,075	1,063
Liabilities	11,780	-6,473	5,307	-941	-2,049	2,317
<b>Net</b>	<b>-228</b>	<b>0</b>	<b>-228</b>	<b>0</b>	<b>-1,026</b>	<b>-1,254</b>

## Note 5

### Liquidity resources

The supervisory authority allows KommuneKredit to build up liquidity resources, based on pre-funding of up to 25 pct. of total lending at the end of the preceding quarter. The upper limit amounted to DKK 46.4 billion at the end of the period, and KommuneKredit had liquidity resources of DKK 41 billion. The degree of utilisation of the limit has fluctuated in the first half of 2022, and the highest level of liquidity resources at the end of a month was 22 pct.

Liquidity resources are calculated as due to credit institutions, debt securities issued and derivatives less total lending and lease receivables recognised at carrying amount.

DKKm	30 June 2022	31 Dec. 2021
<b>Liquidity resources</b>		
<b>Due to credit institutions, debt securities issued and derivatives</b>		
Due to credit institutions	1	0
Debt securities issued	221,784	233,892
Derivatives, liabilities	13,204	5,307
Derivatives, assets	-14,514	-5,079
<b>Total due to credit institutions, debt securities issued and derivatives</b>	<b>220,475</b>	<b>234,120</b>
<b>Loans and leases</b>		
Loans	170,766	187,045
Leases	8,747	7,903
<b>Total lending</b>	<b>179,513</b>	<b>194,948</b>
<b>Liquidity resources</b>	<b>40,962</b>	<b>39,172</b>
Liquidity resources cannot exceed 25 pct. of total lending at the end of the preceding quarter.		
Liquidity resources	40,962	39,172
Total lending at 31 March 2022	185,563	193,841
<b>Liquidity resources, pct.</b>	<b>22</b>	<b>20</b>

## Note 6

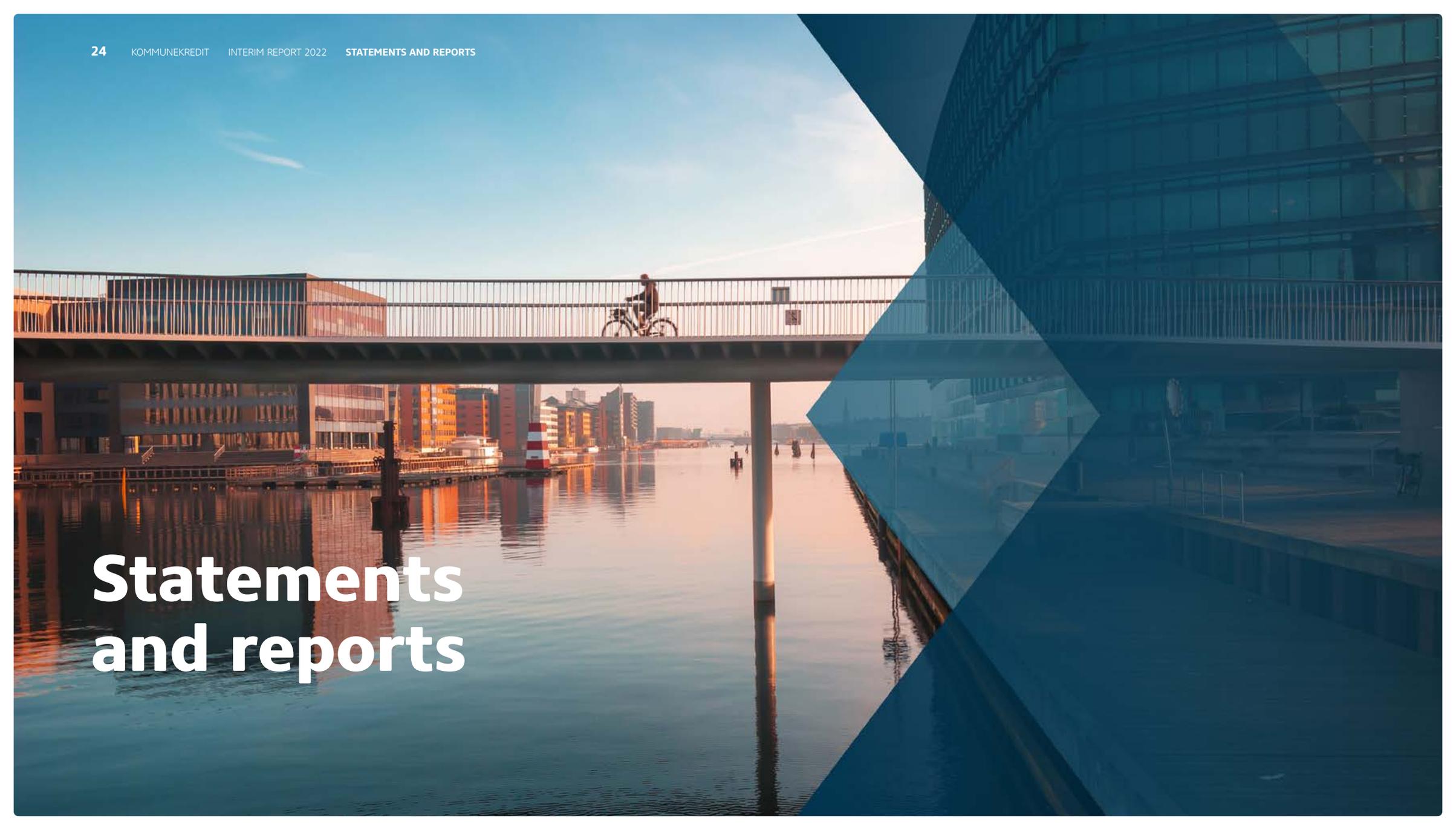
### Key figures and financial ratios

Million	H1 2022	H1 2022	H1 2021	H1 2020	H1 2019	H1 2018	FY 2021
	EUR	DKK	DKK	DKK	DKK	DKK	DKK
<b>Key figures for the period</b>							
Net interest income	25	187	180	221	250	235	383
Other operating income	0	4	3	5	7	6	8
Other operating expenses	-1	-6	-7	-8	-7	-7	-13
Administrative expenses	-16	-119	-68	-67	-62	-62	-140
Profit before value adjustments	9	65	109	152	187	172	238
Value adjustments of financial instruments	72	535	190	35	218	163	249
Tax on profit for the period	-18	-132	-66	-41	-89	-74	-109
Comprehensive income for the period	63	468	233	145	316	261	378
Loans and leases	24,131	179,513	191,156	190,698	185,878	176,788	194,948
Portfolio of securities	6,792	50,530	36,745	37,609	42,181	45,683	48,387
Assets	32,978	245,327	234,368	236,685	237,182	229,599	249,077
Debt securities issued	29,813	221,784	216,970	216,443	216,451	207,718	233,892
Equity	1,242	9,243	8,630	8,324	8,052	7,593	8,775
<b>Activities during the period</b>							
Loans and leases, net additions in nominal value	453	3,367	3,782	3,914	2,774	3,423	8,675
Loans and leases, gross additions in nominal value	2,273	16,912	19,874	23,926	17,995	24,067	36,958
Debt securities issued, gross additions in nominal value	4,479	33,319	35,229	26,855	31,762	42,871	65,112

Million	H1 2022	H1 2022	H1 2021	H1 2020	H1 2019	H1 2018	FY 2021
	EUR	DKK	DKK	DKK	DKK	DKK	DKK
<b>Capital structure</b>							
Total Risk Exposure Amount (REA)	2,187	16,267	12,202	13,817	14,366	19,926	13,859
Common Equity Tier 1 (CET1) capital	1,242	9,243	8,630	8,324	8,052	7,593	8,775
Capital base	1,228	9,136	8,530	8,165	7,851	7,340	8,660
Capital ratio, pct.	56	56	70	59	55	37	63
Equity ratio, pct.	3.8	3.8	3.7	3.5	3.4	3.3	3.5
<b>Selected financial ratios</b>							
Losses on loans and leases	0	0	0	0	0	0	0
Expenses/assets, pct.	0.05	0.05	0.03	0.03	0.03	0.03	0.06
Net interest income/assets, pct.	0.08	0.08	0.08	0.09	0.11	0.10	0.15
Liquidity resources, pct.	22	22	15	15	18	22	20
Number of full-time employees	94	94	87	79	74	69	88

Key figures and financial ratios have been calculated in accordance with "Recommendations & Financial Ratios" issued by CFA Society Denmark.

Exchange rate at 30/06/2022: EUR 100 = DKK 743.91.



# Statements and reports

# Statement by the Board of Directors and the Management Board

The Board of Directors and the Management Board have today considered and approved the interim report of KommuneKredit for the period 1 January – 30 June 2022.

The interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU.

In our opinion, the interim financial statements give a true and fair view of the financial position of KommuneKredit at 30 June 2022 and of the comprehensive income of KommuneKredit’s operations and cash flows for the period 1 January – 30 June 2022.

Further, in our opinion, the Management’s review gives a true and fair view of the development in KommuneKredit’s operations and financial matters, principal risks and uncertainties, the comprehensive income for the period and KommuneKredit’s financial position as such.

Copenhagen, 9 September 2022

## Management Board

**Jens Lundager**  
CEO, Managing Director

**Henrik Andersen**  
Managing Director

**/Morten Søjtofte**  
CFO

## Board of Directors

**Henrik Hvidesten**  
Chairman

**Thomas Lykke Pedersen**  
Vice Chairman

**Birgit Aagaard-Svendsen**

**Michael Fenger**

**Martin Geertsen**

**Mikael Klitgaard**

**Susanne Kure**

**Erik Lauritzen**

**Tormod Olsen**

**Peter Sørensen**

# Independent auditor's report on review of the interim financial statements

## To the shareholders of Kommunekredit

We have reviewed the interim financial statements of Kommunekredit for the period 01.01.2022 - 30.06.2022, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies.

## Management's responsibility for the interim financial statements

Management is responsible for the preparation of interim financial statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and Danish disclosure requirements for listed companies, and for such internal control as Management determines is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial statements. We conducted our review in accordance with the International Standard on Engagements to Review Interim

Financial Information Performed by the Independent Auditor of the Entity and additional requirements under Danish audit regulation. This requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared, in all material respects, in accordance with the applicable financial reporting framework. This also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with the International Standard on Engagements to Review Interim Financial Information Performed by the Independent Auditor of the Entity is a limited assurance engagement. The auditor performs procedures primarily consisting of inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the interim financial statements.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements for the period 01.01.2022 - 30.06.2022 have not been prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and Danish disclosure requirements for listed companies.

## Statement on the management commentary

Management is responsible for the management commentary.

Our conclusion on the interim financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our review of the interim financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the interim financial statements or our knowledge obtained in the review or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the interim financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 9 September 2022

## DELOITTE

Statsautoriseret Revisionspartnerselskab  
CVR No. 33 96 35 56

## Anders Oldau Gjelstrup

State Authorised Public Accountant  
Identification No (MNE) mne10777

## Jens Ringbæk

State Authorised Public Accountant  
Identification No (MNE) mne27735

# Report by the ministry-appointed auditor

## To the Board of Directors of KommuneKredit

As the ministry-appointed auditor, I have reviewed the interim financial statements of KommuneKredit for the period 1 January – 30 June 2022, prepared by Management. In addition, I have read the Management's review.

During my review, I did not identify any non-compliance with the Danish act governing KommuneKredit or KommuneKredit's articles of association. The audit procedures performed by Deloitte did not give rise to any comments on my part.

Copenhagen, 9 September 2022

**Thorkil Juul**



# Additional information

# Definitions and formulas

**Capital base:** Common Equity Tier 1 (CET1) capital less various deductions (e.g. prudent valuation, current losses, intangible assets).

$$\text{Capital ratio} = \frac{\text{Capital base}}{\text{Total Risk Exposure Amount (REA)}}$$

The capital ratio is calculated in accordance with the solvency requirements for financial institutions.

## Collateral agreement (Credit Support

**Annex):** Agreement between financial counterparties regarding exchange of collateral in case of fluctuations in the market value of derivatives.

**Common Equity Tier 1 (CET1) capital:** Equity less various deductions, which in KommuneKredit's case is zero.

**Cross-currency basis swap spread:** Premium or discount associated with raising funding in USD and exchanging it into another currency via a currency basis swap.

**Cross-Transaction Payment Netting:** When payments are netted into one net payment across multiple transactions.

**ECP:** European Commercial Paper. Issues under a standard loan programme with a short term to maturity.

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total assets}}$$

**Green Bond Framework (GBF):** The framework for KommuneKredit's issue of green bonds, including the criteria defining which loan purposes may be classified as green.

**IFRS:** International Financial Reporting Standards.

**ISDA Master Agreement:** Bilateral framework agreement and master netting agreement for trading in OTC derivatives between financial counterparties.

**LIBOR/IBOR:** Interbank Offered Rate is a daily reference rate based on the interest rates for unsecured loans charged among banks.

**Liquidity resources:** Amounts due to credit institutions, debt securities issued and derivatives less lending.

**Nasdaq Copenhagen:** The stock exchange in Copenhagen. Bonds issued here are often denominated in DKK.

**Net lending:** Net additions of loans and leases in nominal value.

**Risk tolerance:** The level of risk a business is willing to accept.

**Risk weight:** Weight attributed to the individual exposures when calculating the capital ratio. Given by the solvency rules for credit institutions.

**Structured notes:** Structured notes are typically a mixture of a bond and an embedded element of derivatives (most often options) which provides exposure to other forms of investment assets, for example developments in a price, interest rate or equity index or a selection of equities.

**TCFD:** Task Force on Climate-related Financial Disclosures.

**Tenor spread:** Premium or discount associated with raising funding that carries interest with a given interest payment frequency (e.g. every six months) and exchanging it into a different interest payment frequency via an interest rate basis swap.

**Total liquidity resources:** Total liquidity resources are composed of equity and liquidity resources.

**Total risk exposure amount (REA)** The value of total assets when calculating the capital ratio, allowing for the risk weight of the exposure. Total risk exposure amount is calculated in accordance with the solvency requirements for credit institutions.

**Volatility:** A measure of changes in, e.g., foreign exchange rates and interest rates.

**Disclaimer** the interim report is prepared in Danish and translated into English. In the event of discrepancies the Danish version shall prevail.

**Photos** Gottlieb Paludan Architects, Aalborg Municipality and KommuneKredit

**Thanks to** Skive District Heating and Aalborg Municipality for their participation in cases.

**Design and production** Noted

## Contact

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Please direct questions regarding bond issuance to: Jette Moldrup, Chief Treasury & Sustainability Officer

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