



Annual Report 2021

KommuneKredit
Kultorget 16
DK-1175 Copenhagen K, Denmark
CVR No. 22 12 86 12



KOMMUNEKREDIT
STEADY & STABLE



»» We offer financing
on equal terms
regardless of
post code

Table of contents

Management's review

Key figures and financial ratios	4
Selected financial ratios	5
Chairman's report	6
CEO letter	8
About KommuneKredit	12
The Danish economy	14
Lending and leasing	18
Sustainability	22
Funding	23
Risks	28
Financial review	32
Outlook for 2022	34
Corporate governance	36

Cases

Refugee museum in Oksbøl	11
Green heating in Hornsyld	17
Bus depot in Esbjerg	27

Financial statements

Comprehensive income	44
Balance sheet	44
Statement of changes in equity	45
Statement of cash flows	45
List of notes to the financial statements	46
Notes	47

Statements and reports

Statement by the Board of Directors and Management Board	78
Independent auditor's report	79
Report by the auditor appointed by the ministry	83

Additional information

Definitions and formulas	85
--------------------------	----



Sustainability Report

Each year, KommuneKredit publishes a Sustainability Report, which is part of our permanent reporting segment.

► [Click here to read the report](#)



Corporate Governance

KommuneKredit reports on compliance with the corporate governance guidelines.

► [Click here to read the report](#)



Green Bond Impact Report

Each year, KommuneKredit reports on the environmental impacts of our green loans.

► [Click here to read the report](#)

Key figures and financial ratios for KommuneKredit

Million	2021	2021	2020	2019	2018	2017
	EUR	DKK	DKK	DKK	DKK	DKK
Key figures						
Net interest income	52	383	440	496	441	637
Other operating income	1	8	15	13	11	11
Other operating expenses	-2	-13	-14	-13	-12	-14
Administrative expenses	-19	-140	-130	-126	-127	-123
Profit before value adjustments	32	238	311	369	314	511
Value adjustment of financial instruments	34	249	-33	227	227	117
Tax on profit for the year	-15	-109	-60	-148	-119	-138
Comprehensive income for the year	51	378	218	441	405	489
Lending and leasing	26,235	194,948	192,457	184,965	177,454	173,580
Portfolio of securities	6,512	48,387	33,568	44,982	42,944	42,361
Assets	33,520	249,077	233,872	236,935	226,609	222,564
Debt securities issued	31,476	233,892	212,728	218,932	208,218	202,145
Equity	1,181	8,775	8,397	8,179	7,736	7,333
Activities during the year						
Lending and leasing, net additions in nominal value (net lending)	1,168	8,675	5,057	2,427	3,554	5,022
Lending and leasing, gross additions in nominal value	4,974	36,958	43,507	36,745	38,261	29,835
Debt securities issued, gross additions in nominal value	8,762	65,112	43,163	49,699	60,055	71,379

Million	2021	2021	2020	2019	2018	2017
	EUR	DKK	DKK	DKK	DKK	DKK
Capital structure						
Total risk exposure amount (REA)	1,865	13,859	11,496	11,911	13,843	17,544
Common Equity Tier 1 (CET1) capital	1,181	8,775	8,397	8,179	7,736	7,333
Capital base	1,165	8,660	8,277	7,997	7,520	7,121
Capital ratio, pct.	63	63	72	67	54	41
Equity ratio, pct.	3.5	3.5	3.6	3.5	3.4	3.3
Selected financial ratios						
Losses on lending and leasing	0	0	0	0	0	0
Expenses/assets, pct.	0.06	0.06	0.06	0.05	0.06	0.06
Net interest income/assets, pct.	0.15	0.15	0.19	0.21	0.19	0.28
Liquidity resources, pct.	20	20	13	19	19	20
Selected ESG figures						
CO ₂ e Scope 2 (indirect) (t)	7	7	13	18	21	20
Gender composition (women), pct.	39.2	39.2	41.1	39.9	42.6	43.9
Board meeting participation, pct.	80.0	80.0	82.1	83.3	86.1	80.6
Number of full-time employees	88	88	82	76	70	70

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

Exchange rate at 31/12/2021: EUR 100 = DKK 743.0737.

The table includes selected ESG figures from the Sustainability Report.

Selected financial ratios

High international credit rating

KommuneKredit is rated by Moody's and Standard & Poor's. The outlook is stable.



Green bonds

**DKK
2.2 billion**

KommuneKredit issued green bonds totalling DKK 2.2 billion in 2021.



Liquidity Coverage Ratio (LCR)



222%

KommuneKredit has an LCR of 222 pct. based on CRR/CRD IV, which is well above the statutory requirement for banks of 100 pct.

ESG rating

KommuneKredit holds an ESG rating of C+, which places us in the Prime category for our sector.



Equity ratio



3.5%

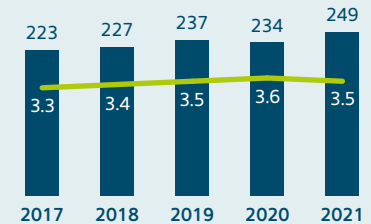
With an equity ratio of more than 3 pct., KommuneKredit has an adequate capital position.

Risk weight

0%

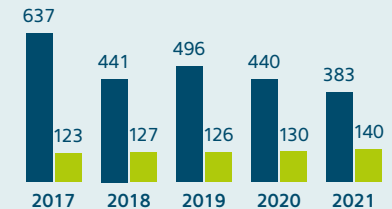
There is a credit risk weight of 0 pct. when banks invest in KommuneKredit's bonds.

Assets (DKKbn) and equity ratio (pct.)



■ Assets ■ Equity ratio

Net interest income and administrative expenses (DKKm)



■ Net interest income ■ Administrative expenses

Chairman's report

Having served more than 15 years as a member of KommuneKredit's Board of Directors – the last 4 as chairman – I would like to conclude my tenure with a plea to our legislators: take good care of KommuneKredit!

During the past few years, the Board of Directors has laid a solid foundation for the future KommuneKredit, and as part of these endeavours we have strengthened the Board's initiatives in a number of areas based, among other things, on the recommendations of the Danish Corporate Governance Committee. In our Strategy 2025, we have defined specific targets for the coming years aimed at ensuring a future for KommuneKredit as a well-run, accessible and sustainable publicly-owned financial enterprise.

I am therefore very confident about KommuneKredit's future as I step down as chair-

man of the Board of Directors when the new election period begins on 1 June 2022, after having served 15 good years on the Board – the last 4 as chairman.

On the basis of elections for municipal and regional councils, Local Government Denmark (KL) elects six members of KommuneKredit's Board of Directors, while Danish Regions (Danske Regioner) elects two members. These eight publicly-elected board members are supplemented by two independent members appointed by KommuneKredit's Board of Directors. In 2021, the Board of Directors performed a self-evaluation with external assistance based on the



» Without access to KommuneKredit loans, the green transition will be more expensive – not least in rural areas and for small district heating plants. And in some places there will be green projects for which financing will not be available.”

Lars Krarup
Chairman

Our history

123 years

The period during which KommuneKredit has been funding public undertakings on equal terms throughout Denmark – without suffering a loss.

Board of Directors' competency profile. We have made the outcome available to KL and Danske Regioner for them to consider which competencies the Board would benefit from strengthening and also to consider the optimum composition of the new Board of Directors in terms of diversity, continuity and renewal.

Overall, I'm very pleased with the continuing professionalisation of KommuneKredit and our unwavering focus on this issue. In this context, I would like to mention that we have published a corporate governance report for KommuneKredit that contributes to ensuring transparency towards investors and society in general with respect to the structure of KommuneKredit's corporate governance.

Furthermore, we have developed the organisation with a view to ensuring that KommuneKredit will remain a steady and stable market player, also in the future. I expect this will be further underpinned by the proposal for a new Act on KommuneKredit, which was submitted for consultation in autumn 2021 and is scheduled to be tabled in the Danish parliament in autumn 2022. As part of the bill, KommuneKredit must comply with the same rules as other financial en-

terprises in relevant areas and be subject to the supervision of the Danish FSA. We have come a very long way in the preparations and already comply with the requirements in the vast majority of the areas.

Finally, I would like to mention our strategic initiative to support the sustainable transition ambitions of local governments by providing funding at the lowest possible cost. We have been doing this for decades, for example by financing nearly all local investments in district heating, waste incineration and water and wastewater. At year-end we had outstanding loans to district heating companies with a market value of DKK 27 billion, to waste energy facilities with a market value of just over DKK 12 billion and to water and wastewater with a market value of DKK 22 billion.

KommuneKredit makes a specific assessment as to whether a given loan to e.g. district heating or waste incineration plants would comply with the EU rules on state aid. However, in both the district heating and the waste energy sector, political decisions have been made in Denmark in recent years which in the longer term could mean there would no longer be an adequate basis for KommuneKredit to grant loans to these

sectors. The area has become subject to uncertainty not least because municipalities, as of January 2019, can no longer order consumers to connect permanently to a network, but also due to the political agreement from 2020 on putting waste incineration out to tender.

If KommuneKredit loans are not available, the green transition will be more expensive – not least in rural areas and for small district heating plants. And in some locations, green projects will not be eligible for funding. I am sure that this was not the intention of the Danish parliament.

We have not been successful in our endeavours to have the matter settled in Denmark. Prolonged lack of clarity like this is unsustainable for KommuneKredit and for our members, and obviously it is inexpedient in terms of the green transition.

In the meantime, however, the European Commission has adopted new state aid guidelines, which propose extended and more flexible access to granting aid for energy-efficient district heating, including district heating based on waste incineration. Similar possibilities are offered in a proposal to revise the so-called block exemption

regulations, which is expected to be adopted in the first half of 2022. At KommuneKredit, we will study these possibilities closely and use them to the extent possible so that we can continue to support local Danish plans for the green transition of our common infrastructure.

KommuneKredit's objective is to create financial latitude across Denmark – from Copenhagen to the smallest local communities. We must safeguard our business model of the past 123 years, which has ensured cost-effective financing for local public-sector projects on equal terms for all – while we build a KommuneKredit for the future.

Let me therefore close this my last report as chairman by repeating a plea to our legislators that I have used before: take good care of KommuneKredit!

Lars Krarup
Chairman

CEO letter

KommuneKredit reported satisfactory financial performance in 2021. The profit for the year before tax amounted to DKK 487 million compared with DKK 278 million in 2020. The difference was due mainly to value adjustments. We recorded net interest income of DKK 383 million, against DKK 440 million in 2020, and administrative expenses rose as expected to DKK 140 million from DKK 130 million in 2020 owing to our developments projects as part of Strategy 2025.

Total lending and leasing rose by DKK 9 billion at nominal value and by DKK 2.5 billion at market value. The increase was driven, among other things, by lending of around DKK 6 billion to the regions to finance frozen holiday funds pursuant to the economic agreement between Danish Regions and the government. Other examples of 2021 include loans of DKK 135 million to 82 residential care facilities in the Municipality of Rødovre and DKK 3.4 million to a new climate-friendly facade cladding for Fonden Klosterhallen in the Municipality of

Tønder. We have leased 31 ambulances for the Central Denmark Region and provided loans for a little more than DKK 4.5 million for Kystsikringslauget Nørlev Strand in the Municipality of Ålborg.

Green bonds

KommuneKredit has been issuing green bonds since 2017, and at end-2021 we had a total outstanding amount of DKK 19.1 billion for the financing of local green investments. The purpose of our green funding is to support the green ambitions of our

Net lending

DKK 9 billion

in net lending incl. DKK 6 billion for the payment of frozen holiday funds.



members and accommodate the persistently growing interest among investors for sustainable bonds.

Over the past year, we have updated the framework for our green loans, and one of our ambitions is to increase the proportion of loans funded by the proceeds of our green bonds. Our new Green Bond Framework (GBF) was launched in February 2022, and the number of green loan categories was extended from four to six. This means more of the sustainable projects our members and customers engage in can be classified as green loans. The six categories are energy, sustainable water and wastewater management, pollution prevention and control, green buildings, clean transportation and climate change adaptation.

Our new GBF was prepared in accordance with the Green Bond Principles of the International Capital Markets Association (ICMA) and has been assessed by external independent experts, CICERO Shades of Green, which rated it a “Medium Green Shading” and an “Excellent Governance” opinion, which we are very pleased with.

When we issue green bonds, we undertake to report on the distribution of proceeds and the expected environmental and climate impacts. These reports are available on our website. Collaboration with our customers is important in this context because we need customer data to draw up a comprehensive report.

Strategy 2025

At the end of 2020, the Board of Directors adopted our new Strategy 2025, which based on clear ambitions for six selected priorities continues the strategic developments we commenced through our previous Strategy 2022.

In 2021, KommuneKredit recorded satisfactory progress in the development projects and activities that form the backbone of the strategy. We have completed the final part of our Data Warehouse project, strengthening the data quality throughout our business. In addition, we have outsourced the handling of collateral and have undertaken quality assurance of all our activities in subsidised loans. Both initiatives have eliminated or mitigated our operational risks. In addition, we continue to modernise our core systems relating to both lending and

leasing. In the area of leasing, we have made a comprehensive upgrade of our central systems. In the area of lending, we have identified and launched three development tracks, which in coming years will ensure modern and cohesive system support for our loan administration.

A key part of the foundation for successful strategic development is that our business has the right capabilities. With this in mind, we strengthened both system support and processes in our recruitment in 2021, and within our organisation we professionalised our long-term competency planning and development initiatives. We have also improved the capabilities of managers at all levels through a comprehensive training programme in change management.

Flexible workplace

The pandemic-induced lockdowns have taught us that we can serve our customers even during difficult circumstances and regardless of where the work is performed. From August to October 2021, we conducted a trial period with a more modern and flexible way of working, in which our employees, in close cooperation with their managers, plan where the work is to be

» With our green funding, we wish to support the green ambitions of our members and accommodate the persistently growing interest among investors for sustainable bonds.”

Jens Lundager
CEO

carried out. Shared responsibility is key in this respect.

After the trial period, we evaluated the process throughout the organisation. We would like to accommodate the needs and wishes of each individual employee for planning a flexible work life without KommuneKredit compromising efficiency and cohesion.

Employees and managers alike have been very positive about the more flexible work format, which is believed to have had a positive effect on the practical execution of assignments. The enhanced flexibility has given our employees room to concentrate and improved possibilities of a good work-life balance, among other things by cutting down on commuting time. At the same time, we find that our employees choose to work at the office to a sufficient extent to create social cohesion across our departments.

Our common goal is to offer an even more attractive workplace that thrives on satisfaction and commitment among employees and lets them perform to the best of their ability in all the areas we cover.

Jens Lundager
CEO

Russia

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

Climate and COVID-19

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 more information, see our assessment of the need for TCFD reporting in our Sustainability Report 2021.

COVID-19 had no noticeable impact on our operations in 2021.





CASE

New museum in Oksbøl highlights the plight of refugees

A former World War 2 refugee camp in Oksbøl outside Varde is under renovation and set to become Denmark's first museum dedicated to refugees and their histories. KommuneKredit has supplied interim financing for the establishment of the museum, which is expected to welcome its first visitors in summer 2022.

Denmark's first refugee museum – FLUGT: Refugee museum of Denmark – is being built in Oksbøl. The museum, which will tell the story of Denmark's largest refugee camp and put the flight of people in a global context, is part of Varde municipality's focus on cultural tourism. The hope is that the museum can inspire debate – for example, by looking at the flight of people from the perspectives of both the refugees and the recipient country.

The project, which is designed by the architect group BIG, includes the renovation of two hospital buildings from the original World War 2 refugee camp and the construction of a new extension that will connect the existing buildings and

house the arrival hall. Besides exhibitions, which can be experienced both inside the museum and out in the plantation, there will be educational facilities that can, for example, be offered for use by the municipality's schools and day-care institutions.

The museum is jointly financed by the local authority and private citizens via donations, crowdfunding and subsidies from the municipality, foundations, the government and the German Bundestag (parliament). KommuneKredit has supplied interim financing to the project via a construction credit for capital expenditure in connection with the establishment of the museum.

» *“The establishment of FLUGT (‘Flee’) is the culmination of many years of tenacious work to find funding for the project, which has been realised through donations and subsidies from both Denmark and Germany. Some of the donations arrived late in the project, so being able to break ground necessitated that we find interim financing in the form of a construction credit through KommuneKredit, for which the Municipality of Varde fortunately acted as guarantor.”*

Claus Jensen
Museum Director

Facts

Borrower:	Vardemuseerne
Guarantor:	Municipality of Varde
Loan purpose:	Capex expenses in connection with the building of a new museum
Loan amount:	DKK 50 million
Construction period:	2021-2022

Do you want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, chj@kommunekredit.dk



Steady and value creating

KommuneKredit plays an important role in helping Danish society grow and develop. 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.

Where we come in, for example, is when local communities establish new and modern facilities to support community activities or when 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 providing 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 a 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 worldwide. 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 guaranteed the lowest possible interest on their loans.

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 thus create a secure and stable link between global funding and local lending – both now and in 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 obligations, 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 lending, KommuneKredit provides a financial foundation for developing the Danish welfare society.

Funding of lending

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

KommuneKredit's role in the Danish society

By offering financing at the lowest possible cost, KommuneKredit helps ensure that all Danish citizens obtain as much growth and development as possible for their tax money.

KommuneKredit provides lending and finance leases to Danish municipalities, regions, inter-municipal partnerships and to companies undertaking municipal or regional tasks.

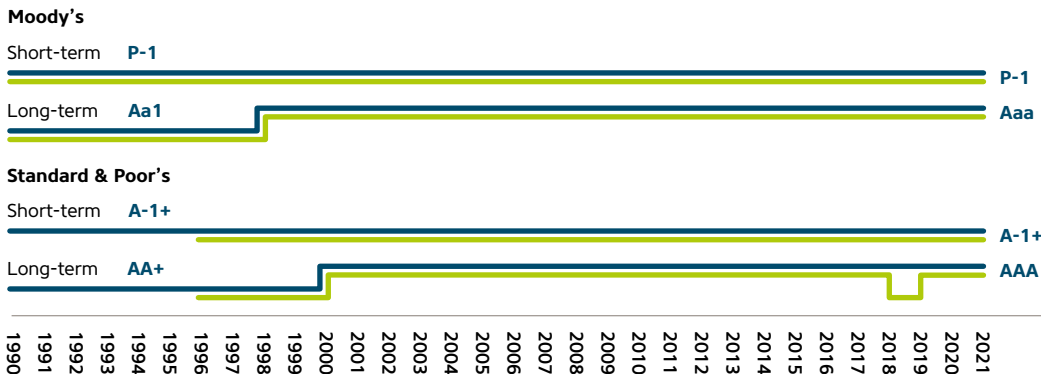
We are governed by Act No. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark (lov om kreditforeningen af kommuner og regioner i Danmark). Section 5 of the act stipulates that

members of KommuneKredit are jointly and severally liable for all of KommuneKredit's liabilities. The 98 municipalities and 5 regions are all members. Thus, KommuneKredit has close ties to the Danish municipal and regional sectors.

Another factor behind the high credit rating is that KommuneKredit plays an important role in the economy as the main provider of funding to the Danish municipal and regional sector.

Historical ratings of the Danish Central Government and KommuneKredit

— The Danish Central Government — KommuneKredit



Strong creditworthiness

KommuneKredit has the highest possible rating by the international rating agencies Moody's Investor Service (Aaa) and Standard & Poor's (AAA). This is in line with the credit rating assigned to the Danish central government.

The rating agencies base their assessment on the following factors:

- strong capitalisation;
- highly creditworthy borrowers and high-quality assets;
- very strong market position; and
- our members' joint and several liability.

Healthy Danish economy

The Danish economy is healthy and competitive, and Danish society is based on high institutional efficiency, mature political and institutional frameworks that encourage fiscal discipline and a relatively low national debt.

Denmark has been a member of the EU since 1973, but has opted out of the single currency, the euro (EUR). This means the currency in Denmark is the krone (DKK).

Macroeconomics Q3 2021	DK	EU27
GDP nominal growth YTD	2.8%	4.3%
Consumer prices	2.6%	3.7%
Unemployment, year-end	5.1%	6.7%
Government budget balance as pct. of GDP, YTD	2.7%	-3.7%
EMU debt as pct. of GDP	39.5%	90.1%

Source: Eurostat

Municipalities and regions safeguarding the Danish welfare society

Denmark has one of the most decentralised public sectors in the world, with public sector tasks divided between the central government, municipalities and regions. Danish municipalities and regions combined represent more than half of public expenditure.

Municipalities attend to most of the tasks directly related to citizens and are responsible for most of the public services offered by the Danish welfare system. These include schools, elder care, day care facilities for children and young people, employment-creating measures, social integration of marginalised people, local roads, the environment, culture and the arts, and preventive health measures.

Municipalities are also responsible for planning various utility services to citizens, such as water and heating supplies, as well as the access to provide these services via municipal companies.

The regions are responsible for tasks which require a larger catchment population than that represented by even the large municipalities in Denmark. The regions' responsibilities include hospitals, regional development, participation in regional public transport companies, and specialist social institutions.

Central government bears the risk associated with economic fluctuations

Income taxes paid by the citizens represent a little more than half of the income for municipalities. The rest of the income are block grants and central government reimbursements as well as user fees and property taxes that are set by the individual municipalities.

As a rule, municipalities finance their capital expenditure through current revenue - without raising loans. However, municipalities may raise loans for municipal capital expenditure within the framework set by the Danish Ministry of the Interior and Housing. In addition, municipalities can provide

Municipalities and regions are key to the Danish welfare society



Government

Foreign policy, defence, police, universities, major roads, railways, supervision and equalisation.



5 regions

Hospitals and healthcare, regional development and public transport as well as specialised social institutions.



98 municipalities

Day care facilities for children and young people, elder care, schools, public transport, utilities, environment and employment.

The municipalities and regions are responsible for most of the services offered by the Danish welfare society.

Municipalities and regions are defined by law and their right of self-government is set out in the Danish constitution and other legislation.

loan guarantees for other entities' capital expenditure provided such guarantees are authorised under municipal law (e.g. utility companies). The Danish municipalities' debt-to-equity ratios are low in an international perspective.

Denmark has an extensive economic equalisation system between the municipalities that enables the municipalities to offer a more uniform level of service regardless of each municipality's tax base and service expenditure.

The overall economy of the municipalities is not affected by economic cycle setbacks, as central government bears the risk associated with general economic trends. Municipalities receive compensation for excess expenditure related to transfer payments and reduced tax revenues caused by an economic slowdown.

It is a basic principle under Danish administrative law that a municipality cannot be declared bankrupt. This principle was also upheld in a High Court ruling, referring to the fact that the supervisory authority, the Government, must ensure that a municipality is able to meet its financial obligations.

Regional funding consists of government grants and municipal contributions and charges. Regions may raise loans for specific capital expenditure within the framework set by the Danish Ministry of the Interior and Housing.

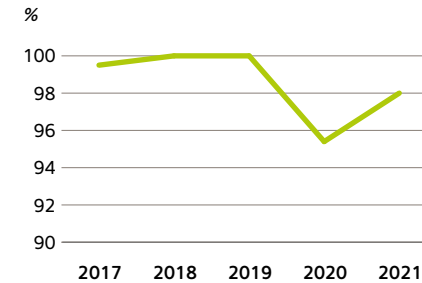
Throughout its 123-year history, KommuneKredit has never suffered losses on loans or leasing.

The Danish municipalities and regions are characterised by high creditworthiness, which is expressed in the CRR/CRD IV risk weight of 0 pct. The risk weight is used to calculate credit institutions' capital requirements. A risk weight of 0 pct. means that municipalities and regions belong to the most secure category, in which no losses are expected.

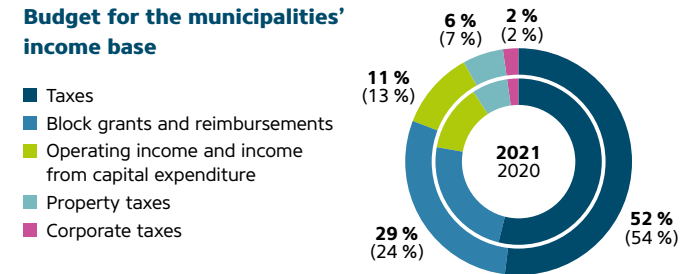
Ministerial supervision

The Ministry of the Interior and Housing is the ultimate supervisory authority in respect of municipalities and regions.

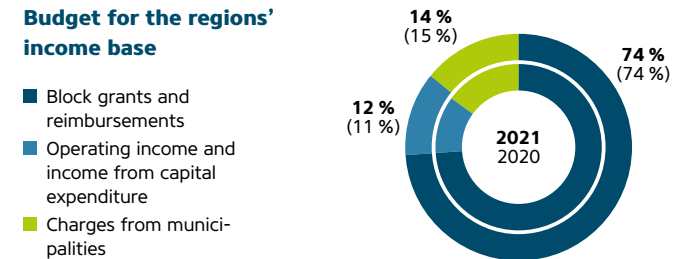
KommuneKredit's share of municipalities' and regions' long-term debt



Budget for the municipalities' income base



Budget for the regions' income base





CASE

Local enthusiasts want boilers out and district heating in

Boilers out and district heating in. That is what they are saying in the town of Hornsyld in the Municipality of Hedensted, where municipal buildings and private homes are replacing gas- and oil-fired boilers with surplus heat from local companies. The project, which is being driven by Hornsyld-Bråskov local council, is an integral element in achieving the municipality's 2030 target for CO₂ reduction.

They are busy digging in Hornsyld at the moment, laying the ground for the pipes that will transport surplus heat from local companies round to private homes and public institutions. The aim is that 90 pct. of the heat distributed to consumers should come from surplus heat. Normally, this by-product is lost, but new technologies allow the heat to be reused and thus generate both climate and financial benefits.

The surplus heat is converted by channeling steam into pipes that run parallel to

pipes containing cold water. This heats the water to 65 degrees before it reaches consumers' radiators. Hornsyld Klimavarme, the district heating company, is also establishing a heat pump that can function as a backup if additional heat is needed.

Many of KommuneKredit's borrowers make environment-friendly and sustainable investments that contribute to society's green transition. At KommuneKredit, we are keen to support the transition by attracting investors who prioritise green investments.

» Hornsyld Klimavarme is a modern heating cooperative based on new technologies, strong local ties and a societal mindset that has its roots in the thinking of the old cooperative societies. Our hope is that the project can serve as an inspiration to other local communities in Denmark.

Rasmus Ole Hansen
Chairman of the board at Hornsyld Klimavarme

Facts

Borrower:	Hornsyld Klimavarme
Guarantor:	Municipality of Hedensted
Loan purpose:	New district heating facility and piping to utilise excess heat
Loan amount:	DKK 73,125 million (construction credit)
Construction period:	2021-2022

Do you want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, chj@kommunekredit.dk



KommuneKredit is a steady and stable financing partner for the Danish welfare system

Since 1899, KommuneKredit has been providing financing for the benefit of welfare and development in Danish municipalities and regions at the lowest possible cost. We have done so on equal terms, no matter where in the country a project was executed or how large it was – and we continue to do so. Today, we cover more or less the entire local government need for raising loans.

Our total loans and leasing rose by DKK 2.5 billion to DKK 195 billion at the end of 2021. The increase in lending at nominal value, i.e. new lending less repayment instalments and redemptions, was DKK 8.7 billion, while value adjustments amounted to DKK -6.2 billion.

We have granted 56 pct. of the lending directly to municipalities and regions for the funding of public purposes, such as climate adaptation, housing for the elderly, hospital equipment and vehicles for the municipal home care service.

The remainder of the loans we provided to companies or institutions which carry out

public tasks, for example local sports centres, theatres and schools as well as companies operating within heat supply, waste and wastewater management or the production of drinking water.

Holiday funds and district heating drove lending activity higher

In 2021, KommuneKredit disbursed more than 700 new loans totalling DKK 34.8 billion.

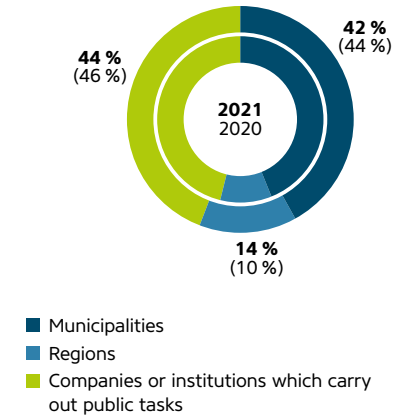
In 2021, regions were allowed to take out extraordinary loans to pay frozen holiday funds for an amount of DKK 6.4 billion. Moreover, at DKK 5.2 billion, loans to the district heating sector accounted for a large share of new loans.

In 2021, municipalities and regions entered into more than 2,700 new lease agreements with KommuneKredit for DKK 2.2 billion. The lease agreements cover many different types of assets, but most often the leasing of vehicles, vans, IT equipment and hospital equipment.

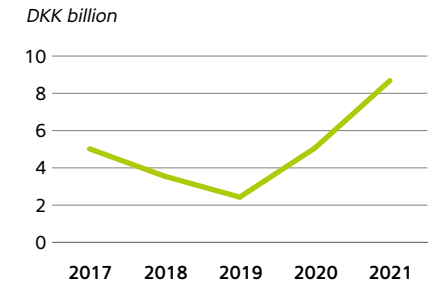
Electric and hybrid vehicles becoming more popular in public traffic

We are experiencing growing demand for the leasing of electric and hybrid vehicles for municipalities and regions. For example, the Municipality of Esbjerg has taken a giant step towards meeting the 2030 climate ambitions by using electric buses to reduce carbon emissions from public transport by

Total lending and leasing by borrower



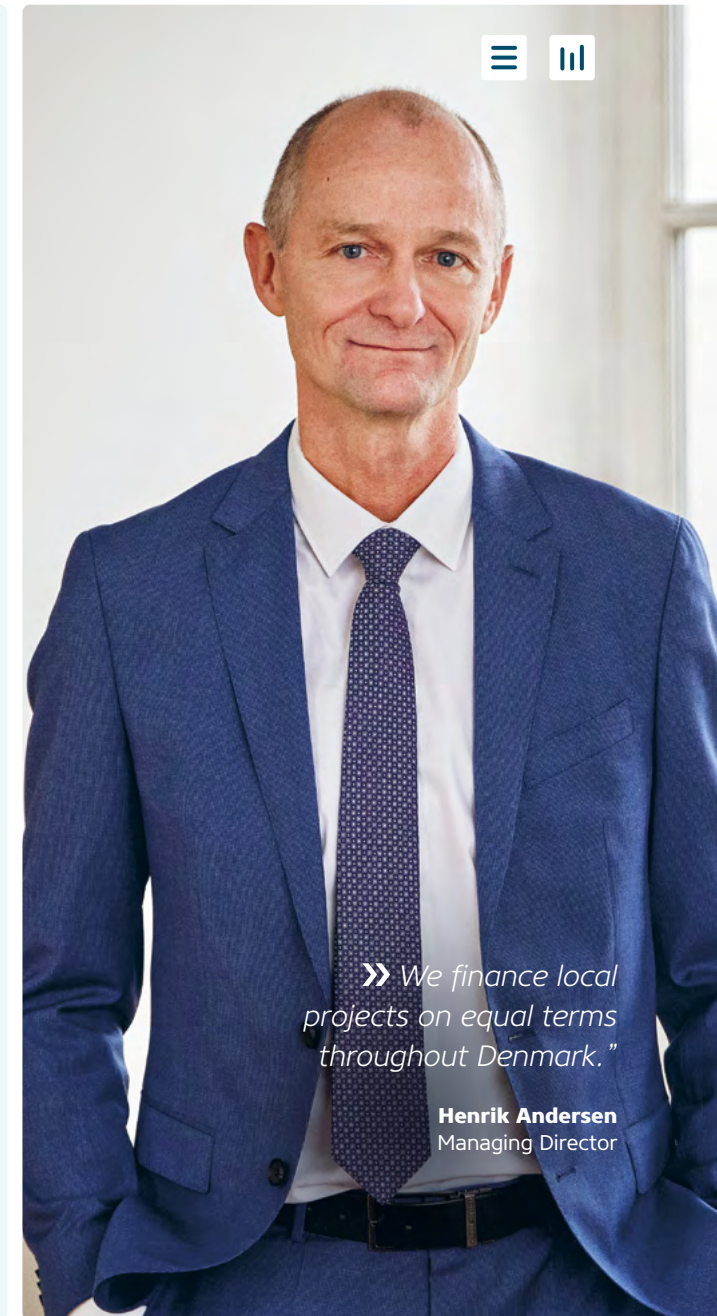
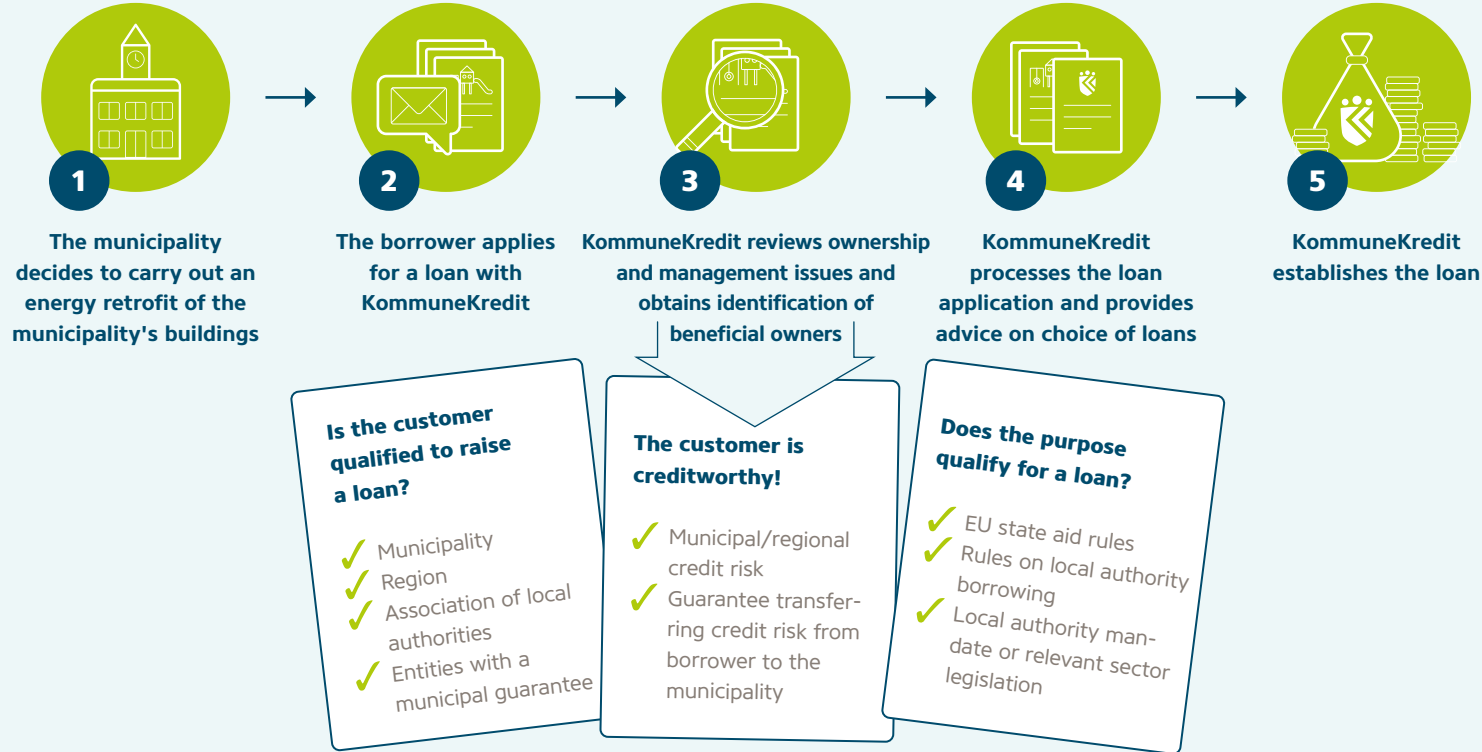
Development in net lending



The good customer experience

KommuneKredit provides funding for projects whose implementation is determined on the basis of democratic processes. This means that local or regional democratic support has been established for the investments for which municipalities or regions want to borrow funds through KommuneKredit.

Example



» We finance local projects on equal terms throughout Denmark."

Henrik Andersen
Managing Director

70 pct. Read more about the project on page 27.

Continuing activity in green loans

Green funding is a strategic priority in our Strategy 2025. It is our ambition to increase the volume of sustainable financing in coming years, and we are in the process of updating the framework for issuing green bonds which form the basis of our green loans. We do so to ensure that even more types of investment may be financed using green loans within the scope of applicable legislation and political support for a sustainable transition of our local communities.

KommuneKredit's Green Bond Committee uses fixed criteria to assess whether a loan qualifies as a green loan. Read more on page 22.

In 2021, the Committee approved 148 loans as being green, with total lending of just under DKK 5 billion. The majority of the approved green loans financed projects in district heating and water and wastewater management, while a small part of the loans were allocated to projects within energy-saving initiatives. The projects include rainwater tunnels in Gentofte and a storage tank for Halsnæs Varme.

Social purposes represent a large share of lending and leasing

KommuneKredit also finances social purposes such as the building of health centres, senior housing, kindergartens and schools, hospitals, sports and cultural facilities. For example, subsidised loans for senior housing accounted for more than DKK 22 billion of total lending at end-2021.

Being a customer should be easy

We have defined an ambition that it should be easy to be a customer at KommuneKredit. In 2021, we held many virtual meetings, allowing us to more quickly clarify any questions our customers may have. We have also held our first webinar on the special rules that apply to lending to ports. We will test and develop both these platforms in order to remain easily accessible. As we increasingly digitise our customer meetings, we have also introduced digital signing of debt instruments and digital completion of the green questionnaires we send to our customers in connection with the establishment of our green loans. The green data we collect in this way form the basis of our reporting to our green investors.

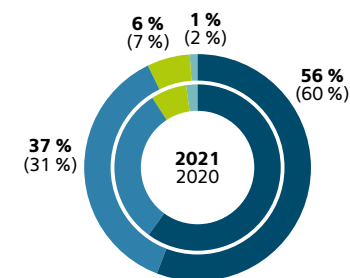


» We have become really good at holding virtual meetings, which is an advantage both to KommuneKredit and our customers. It allows us to hold meetings with customers in southern Jutland, northern Jutland and Bornholm on the same day."

Christian Jeppesen

Director, Head of Lending and Leasing

Approved green loans by purpose



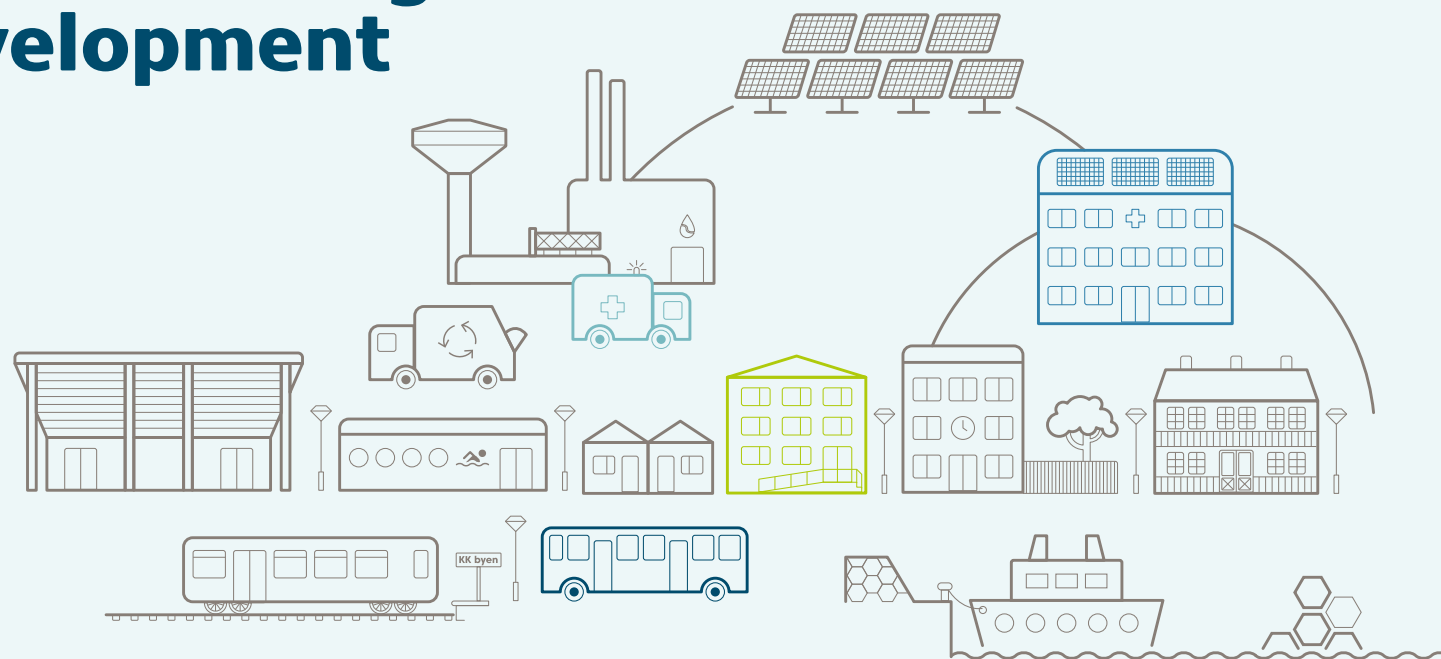
- District heating
- Water and wastewater
- Public transport
- Energy-saving initiatives

KommuneKredit financing growth and development

Our loans finance many different types of local projects in Danish society, including green investments as well as an expansion and improvement of the infrastructure.

KommuneKredit has financed a large number of municipal projects:

Waste incineration with heat utilisation, district heating supply plants and district heating distribution, waste water plants, water supply plants and water distribution, heat-producing solar collector systems, general energy-saving measures, waste disposal collection, fire engines, ambulances, medtech equipment, IT equipment, sports centres, swimming pools, housing for refugees, residential care facilities, schools, city museums, light rail solutions, city buses, energy-efficient LED street lights, climate proofing initiatives, local ferries, coastal protection



2,107
subsidised loans

Subsidised loans finance residential care facilities and housing for the elderly.

284
ambulances

Registered vehicles leased to customers include 284 ambulances.

796
electric vehicles

Of all the registered vehicles leased to customers 796 are electric.

22
x-ray machines

Hospitals across Denmark have received funding for 22 x-ray machines.

Sustainability efforts shift up a gear

KommuneKredit has strengthened the foundations of the association's strategic work with sustainability, and we have launched a new framework for our green funding. Going forward, this means we will be in an even better position to support our customers' green projects.

Our members have high ambitions for the green transition – initiatives that contribute to the government's 2030 climate target of cutting greenhouse gas emissions by 70 pct. relative to 1990 and being climate-neutral by 2050. As the largest lender to Danish municipalities and regions, we are keen to support this agenda, and we do so by connecting global funding with the lending the green transition prompts at the local level in Denmark.

Our members' sustainable projects drive our work with green financing. Sustainable investments across the entire country are in fact a prerequisite for KommuneKredit being able to issue green bonds – so high local climate ambitions strengthen Kom-

muneKredit's work with sustainable financing. When Danish municipalities and regions or entities with municipal guarantees erect district heat-generating solar plants, sustainable buildings or invest in climate-friendly transport, the vast majority of these projects can be financed with green loans from KommuneKredit – which is our basis for issuing green bonds.

New framework for our work with green loans and green bond issuance

KommuneKredit has worked intensively over the past year on updating the framework for our green financing. We have considered new and updated standards in the area and, based on these, have defined specific criteria and documentation requirements for when a

loan can be termed green at KommuneKredit. As a result, our green financing framework has expanded from four to six loan categories. Hence, our customers can now obtain green loans for investments in clean transportation, green buildings, sustainable water and wastewater management, pollution prevention and control, energy and climate change adaptation.

As an issuer of green bonds, KommuneKredit has to [report](#) annually on which projects the bonds finance and also on the projects' expected environmental and climate impact. That demands a close dialogue and ongoing collaboration with our customers, as we need data and documentation to prepare a report that meets the requirements.

Our new setup for green loans, our so-called Green Bond Framework, has been drawn up in accordance with the Green Bond Principles of the International Capital Market Association (ICMA). The framework is aligned with market practice and assessed by an independent rating expert, CICERO Shades of Green, which has given our updated Framework a "Medium Green Shading" and an "Excellent Governance" assessment. The assessment underpins that the green projects we finance contribute to the green

transition and that our work with green loans and green bonds is of high quality.

Stronger foundation for sustainability work at KommuneKredit

KommuneKredit provides financing for sustainable projects and integrates sustainability throughout our business – which is a strategic priority in KommuneKredit's Strategy 2025.

In 2021, we further reinforced our strategic work with sustainability by, for example, moving the organisational anchoring of the sustainability function from the department for Business Development and Strategy to the Finance department. The department at the same time changed its name to Finance & Sustainability.

We have also added new competences in the form of technical environmental knowledge that will benefit future green customer and investor dialogues and our reporting practice.

The above efforts and changes, along with Strategy 2025, represent yet another gearshift with respect to our sustainability work, our dedication to the area and our ambition to as far as possible support our members' climate ambitions and the green transition in Denmark.

Funding in place

KommuneKredit's customers have high ambitions for growth, development and the green transition of local Danish communities. We support their ambitions with a funding strategy that spreads bond issuance across several markets and which increasingly includes green bond issuances to ensure that we as an Aaa/AAA issuer continue to attract a broad and varied investor base.

Funding strategy

We fund our lending by issuing bonds on national and international capital markets. Issuances are spread across several different markets to ensure a solid and diversified investor base.

The tenor of the financing has to match the term of our loans. In recent years, our customers have increasingly financed using long-term, amortising loans with a long period of fixed interest rates, which means our issuances have longer terms to maturity.

Our bond issuances also have to finance a suitable liquidity buffer.

When determining which markets and currencies we wish to issue in, our starting point is the funding rate swapped to DKK. As

well as the direct interest rate costs on the bonds, our price model also considers the costs of, for example, hedging interest rates and currencies, providing collateral and the subsequent costs of the liquidity buffer.

The bulk of the financing is raised via large public issuances, so-called benchmark issuances, where a large number of investors participate. Currencies here very much tend to be USD, EUR and DKK, and bond maturities typically range from 2-10 years.

We also executed a green issuance of GBP 250 million – our first green issuance in GBP since we introduced green bonds in 2017.

In addition, we issue smaller private placements in various currencies, which typically

cover issuance requirements in longer maturities of up to 20-30 years.

We hedge ongoing short-term liquidity requirements by issuing European commercial papers (ECP) with maturities of less than a year and by taking short-term bank loans.

KommuneKredit issues bonds to finance subsidised adjustable-rate loans for municipally owned care and elderly dwellings. As in previous years, all bonds issued for care and elderly dwellings in 2021 were bought up by the Danish government.

In 2021, we issued our first bond referencing the new SOFR rate (Secured Overnight Financing Rate) in USD. Hence, KommuneKredit is ready to phase out LIBOR rates, which since the 1980s have func-



» At KommuneKredit we are proud our work with sustainability has resulted in a Green Bond Framework of high quality.”

Jette Moldrup
Chief Treasury & Sustainability Officer

tioned as reference rates for bond issuances, derivatives, etc.

KommuneKredit's bonds have the highest credit rating, Aaa/AAA, from Moody's and Standard & Poor's, which is on a par with Danish government bonds. The rating is important for KommuneKredit to be able to offer the cheapest possible financing to our customers.

In 2021, we issued bonds for DKK 65.1 billion in all, while the total outstanding amount of bonds (nominal value) at the end of the year was DKK 227.4 billion. Of this, outstanding green bonds accounted for DKK 19.1 billion. KommuneKredit's green committee has approved 649 green loans totalling DKK 27.2 billion as the basis for the green bonds.

Funding budget 2022

In 2022, KommuneKredit is budgeting with a new funding requirement (maturities >1 year) of DKK 37 billion. This figure is slightly down on last year, mainly due to our preparations for a great deal of funding redemptions in 2022, plus lending having increased in 2021 as a result of the regions extraordinarily financing frozen holiday allowances with loans.

We expect to undertake three to five public issuances this year. Furthermore, we expect customers will continue to want relatively long fixed interest rate periods on their amortising loans, which is why we will issue in short, medium and long maturities.

We will continue to use private placements as a tool for meeting specific long-term maturity needs.

KommuneKredit has been issuing green bonds every year since 2017, and we again expect to issue at least one new green bond in 2022, depending on how quickly new green projects are added to our underlying portfolio of green loans.

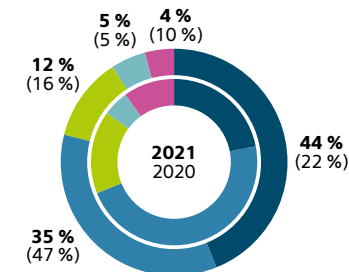
We expect once more to cover our short-term liquidity requirement in 2022 by issuing ECP.

Secure investments

KommuneKredit's investment policy only allows investments to be made in highly rated bonds issued by governments, regions, municipalities, multilateral development banks, financial institutions or mortgage credit institutions within the EU and OECD.

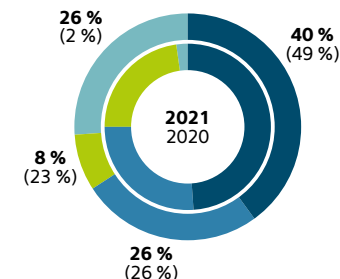
Investor distribution for benchmark issues

- Banks and treasury departments
- Central banks and supranationals
- Asset managers
- Corporations and pension funds
- Insurance companies and similar



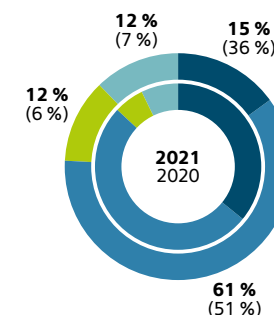
The year's funding by currency

- USD
- EUR
- DKK
- Other



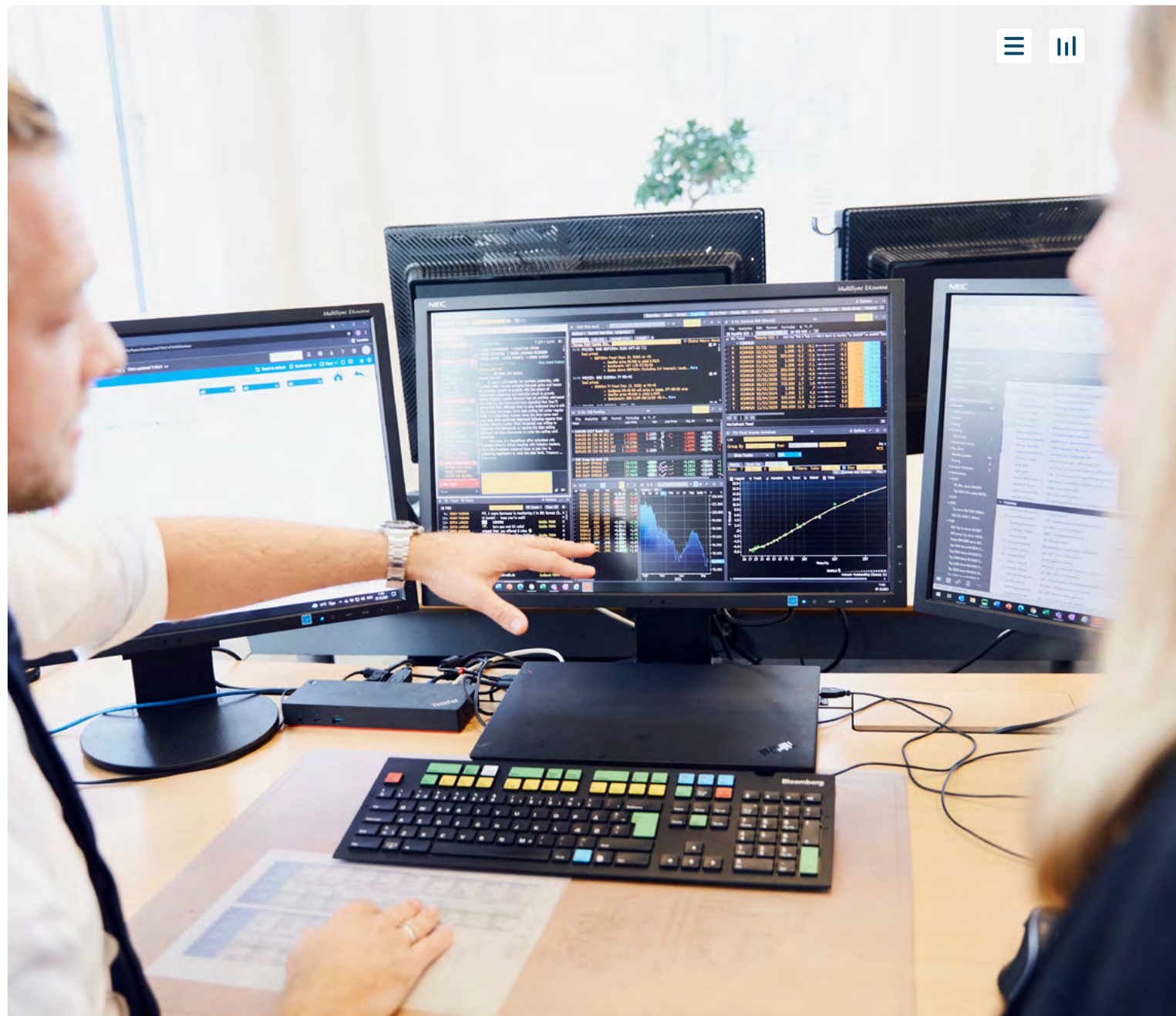
The year's funding by market

- Denmark
- Europe
- Americas
- Asia



As in previous years, in 2021 we invested the bulk of KommuneKredit's liquidity resources in AAA and AA-rated government and mortgage bonds. We have diversified our investments across many different issuers, and generally in short maturities, and 85 pct. of the portfolio will expire in 2022.

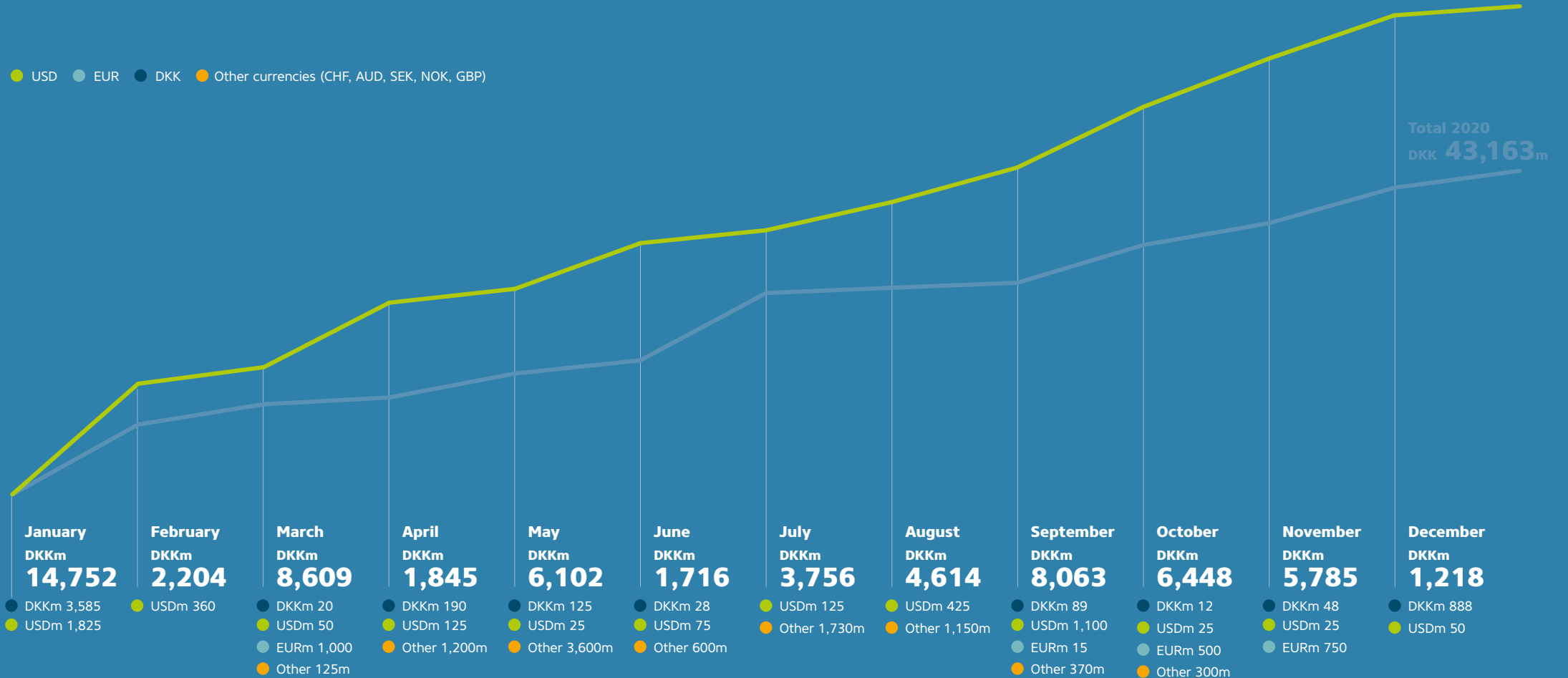
KommuneKredit regularly adjusts its total liquidity resources and, by extension, the investment portfolio. The objective is to adjust the total liquidity resources within applicable limits, while at the same time optimising returns and the balance sheet composition. Total liquidity resources increased from DKK 34 billion at end-2020 to DKK 48 billion at end-2021 because of refinancing in 2021 in preparation for extensive funding redemptions in 2022.



Bond issuance in 2021 by market per month

Total 2021
DKK **65,112** million

● USD ● EUR ● DKK ● Other currencies (CHF, AUD, SEK, NOK, GBP)





CASE

Esbjerg builds bus depot for the public transport of the future

Esbjerg Municipality has ambitions of being a sustainable urban centre. By establishing a bus depot and charging points for new electric buses in the town and surrounding area, they are taking a big step in the right direction. For local residents this means a healthier and more peaceful town – and for the local authorities, financial savings.

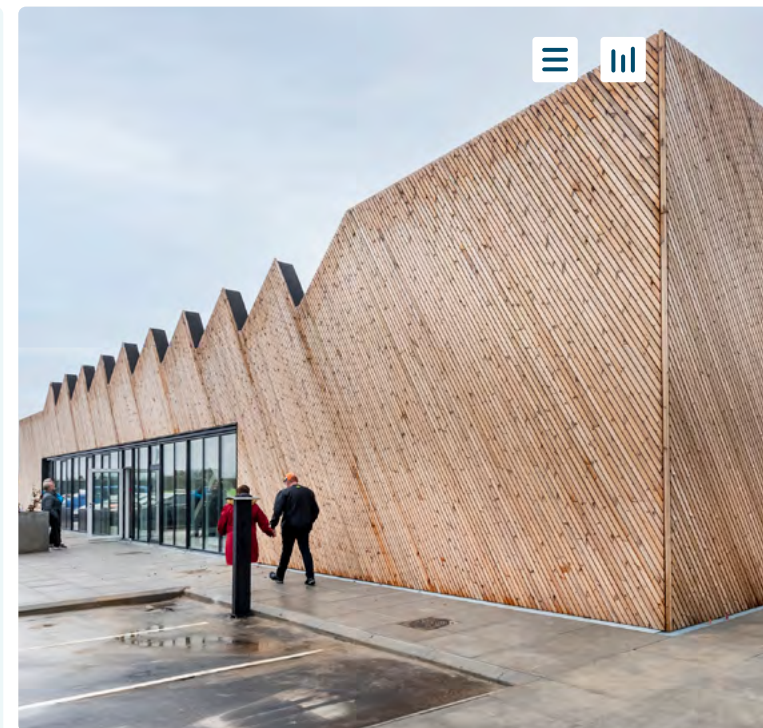
Esbjerg's new bus depot houses the municipality's 29 electric buses. The project contributes to the municipality's goal of being CO₂-neutral by 2030, but will also help ensure more peaceful and healthier city living for local residents, as the electric buses the depot houses are quieter than their diesel counterparts and do not emit diesel fumes. Moreover, the switch to electric buses means a financial saving, as operating costs are lower than for the old diesel-powered buses.

Overall, the setup should ensure climate-friendly and quieter public transport for the town's citizens, with a reduction in CO₂ emissions of 2,700 tonnes, or 70 pct., relative to the diesel buses.

The bus depot is financed as property leasing through KommuneKredit.

» *Esbjerg was the first city to replace its entire bus fleet in one go, and everyone in town is pleased with the quieter city buses that do not smell of diesel fumes. Moreover, we have had the pleasure of implementing a green solution which price-wise was not only on a par with but in fact proved cheaper than the previous solution.*

Jesper Frost Rasmussen
Mayor, Municipality of Esbjerg



Facts

Borrower:	Municipality of Esbjerg
Loan purpose:	Bus depot for electric buses in town and surrounding area
Loan amount:	DKK 42 million
Construction period:	2021

Do you want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, chj@kommunekredit.dk

Low risk, high level of security

KommuneKredit must always be a steady and stable link between the Danish local authorities and investors.

The Board of Directors has the overall responsibility for KommuneKredit's financial risk management, including risk tolerance decisions. The Ministry of Industry, Business and Financial Affairs, which is KommuneKredit's supervisory authority, is further authorised to order the Board of Directors to make changes to the guidelines it has adopted.

KommuneKredit's total risk exposure amount (REA) has been calculated at DKK 13.9 billion, equal to a capital ratio of 63 pct.

KommuneKredit is exposed to a number of risks which we regularly identify, control and mitigate so as to match KommuneKredit's low risk tolerance at any given time. KommuneKredit distinguishes between financial and non-financial risks.

Financial risks

KommuneKredit must be a steady and stable link between customers and investors and

cannot pay dividends to our members. We therefore have a low risk tolerance which is limited to financial risks absolutely necessary in order to accomplish KommuneKredit's mission. As Danish local authorities are jointly and severally liable for KommuneKredit's liabilities, risks assumed by KommuneKredit are ultimately also their risks.

KommuneKredit sources funding denominated in different currencies, and these sources are relevant for projects in Danish municipalities and regions. This means our role as a link is to schedule the funding to match the lending profile the customers want.

Market risk

Using derivatives, KommuneKredit converts all funding into the required currency and interest profile for lending and our total liquidity resources.

KommuneKredit hedges interest rate and currency exposure in order to keep our

market risk at a low level. The low market risk reduces the risk of loss resulting from changes in market prices.

Credit risk

KommuneKredit is exposed to credit risk in respect of investment counterparties as the total liquidity resources are invested in bonds, and in respect of financial counterparties with whom we have entered into derivatives agreements. The credit risk related to investment counterparties is limited by high credit quality requirements – both in relation to the type of counterparty and the rating of the counterparty. The credit risk in respect of financial counterparties is also limited by high credit quality requirements. In addition, we can only trade derivatives with financial counterparties with whom we have entered into a collateral agreement.

KommuneKredit grants lending or leasing only to Danish local authorities. Loans may also be granted against a 100 pct. guarantee

Loss

More than
120 years

Without loss on lending or leasing

Risk weight

0%

There is a credit risk weight of 0 pct. when banks invest in KommuneKredit's bonds.

Total risk exposure amount (REA)

DKK 13.9 billion

Calculated in accordance with the solvency requirements for financial institutions.

Local authorities

98 municipalities

and five regions are liable for KommuneKredit's obligations.

from these authorities. Danish local authorities are subject to strict regulation and close supervision by the Ministry of the Interior and Housing. Our lending and leasing are characterised by the highest level of security, and during our more than 120-year lifetime, we have never suffered a loss on lending or leasing.

Liquidity risk

To limit liquidity risk, KommuneKredit cannot enter into binding commitments on lending liquidity unless at least corresponding equity or binding funding commitments are in place with at least corresponding terms to maturity. This ensures that KommuneKredit's lending is financed throughout the commitment period.

KommuneKredit's total liquidity resources consist of highly liquid bonds with a very high credit quality (HQLA).

The Board of Directors has determined that KommuneKredit must have total liquidity resources to cover a situation of extreme stress in the financial markets for an extended period of time. As a supplement to this, KommuneKredit has prepared a total liquidity resource contingency plan which we can activate in case of pressure on liquidity.

Total risk exposure amount (REA)

KommuneKredit's total risk exposure amount has been calculated at DKK 13.9 billion. We calculate risk exposure in accordance with the solvency rules for credit institutions and this is used in the determination of the capital ratio. Risk exposure derives from the following areas:



Lending

Risk exposure on lending carries a weight of 0.



Portfolio of securities

KommuneKredit's risk exposure amount on its portfolio of securities totalled DKK 4.3 billion at the end of 2021. The portfolio of DKK 48 billion derives from bonds in the total liquidity resources.

The bonds are highly liquid bonds with a very high credit quality.



Derivatives

KommuneKredit's credit exposure on derivatives concluded with financial counterparties totalled DKK 8.1 billion at the end of 2021. The derivatives are used to hedge market risk arising as a result of KommuneKredit's role as link between the capital markets and the customers.

The risk exposure derives from a total principal against financial counterparties of DKK 475 billion. The financial counterparties are exclusively financial enterprises which the international rating agencies on average assess to be rated A- or higher, and all derivatives with financial counterparties are concluded under bilateral collateral agreements.



Other risk exposure

Other risk exposure totals DKK 1.5 billion. Other risk exposure mainly consists of operational risk totalling DKK 0.4 billion and currency risk totalling DKK 0.9 billion.

Moreover, the Board of Directors has defined guidelines for KommuneKredit with respect to Liquidity Coverage Ratio and Net Stable Funding Ratio, which are calculated in accordance with the Capital Requirements Regulation.

The low liquidity risk ensures that KommuneKredit can at all times settle its financial obligations.

Price risk on own funding spreads

KommuneKredit's funding spreads are KommuneKredit's relative funding costs relative to the variable market rate. As the funding is calculated at fair value, KommuneKredit is exposed to changes in own funding spreads. By maintaining relatively constant lending margins, changes are transferred from KommuneKredit's own funding spreads to lending prices. Since loans, other than leasing, are also recognised at fair value, we reduce the price risk on our own funding spreads.

The remainder of the price risk arises primarily for two reasons. The first reason is that KommuneKredit's funding commitment as a whole is longer than the binding period for lending to customers – a consequence of mitigating liquidity exposure. The other reason is that KommuneKredit has total liquidity

resources. The risk here arises because the fair value of funding is exposed to KommuneKredit's funding spreads, while that is not the case for the bonds in the total liquidity resources.

KommuneKredit endeavours to keep the risk on own funding spreads at a low level, but the risk is a part of KommuneKredit's business model and cannot be avoided.

Price risk on lending margins

KommuneKredit maintains relatively constant lending margins, but they are adjusted if our earnings requirement should change. We do this, among other things, to ensure adequate capital in the long term due to changed lending growth or higher costs related to our total liquidity resources. Since loans, other than leasing, are recognised at fair value, any change in the lending margin will also result in a fair value change on existing loans. However, as long as the loans are not redeemed early, the fair value change is temporary.



Non-financial risks

In addition to monitoring and managing the aforementioned financial risks, we pay special attention to a number of risks in our operations and the development of KommuneKredit's business. These risks may cause KommuneKredit a material financial loss, extended use of resources or loss of reputation.

Generally, non-financial risks are not considered to be directly associated with the revenue-generating activity reflected in the comprehensive income and the balance sheet. Nevertheless, they may have significant adverse strategic, business and/or reputational consequences. Non-financial risks include for example, operational risk (including IT risk) and compliance risk.

Non-financial risk is the risk of loss due to, for example, inadequate/failed processes, human error and actions, system error and external events.

The individual departments are responsible for the day-to-day management of operational risks. The

Non-financial risks, continued





efforts are centrally coordinated to ensure optimised management across KommuneKredit.

Most of KommuneKredit’s activities are subject to operational risk. We register risk events to improve our business procedures and processes systematically and thereby reduce the number of risk events.

Our written business procedures describe risk assessment, allocation of responsibilities, segregation of duties, process management and business practices. We automate as many processes as possible to reduce the risk of human error. All critical processes, be they automated or manual, must be supported by either peer checks or objective controls.

KommuneKredit is highly dependent on a well-functioning IT infrastructure. We place particular focus on this area via a disaster recovery plan and an IT security policy that sets guidelines for access control, assignment of roles and rights, system crashes and errors, etc.

The table describes the most significant non-financial risks.

	 Cyber attacks	 IT breakdown	 Critical business processes	 Internal fraud
What is the risk?	There is a constant risk of cyberattacks, and if our employees lack training or knowledge of how to protect the association against cyberattacks, the risk will increase significantly.	External factors such as power failure, water damage, lightning strikes, etc. create a risk that IT systems and hardware, e.g. servers or IT systems, will fail, break down or be inaccessible.	Critical business processes, including allocation of responsibilities and IT support, which are not adequately documented, increase the risk of system failure, dependence on specific individuals and financial loss.	Inadequate systems, allocation of responsibilities or processes may result in fraud against the association or its customers for personal financial gain.
What consequences could it have?	Inability to access our IT platform, to offer functionality to our customers or to protect customer and employee data.	IT systems are essential for running KommuneKredit’s business. Without access to our IT infrastructure, we would not be able to run our business.	The many different tasks handled by our association are not handled correctly, causing a risk of financial loss.	In addition to financial losses, internal fraud may result in a loss of reputation, which could ultimately affect KommuneKredit’s ability to run its business.
What mitigating measures have been taken?	Technical security measures are regularly updated and tested to respond to cyberattacks. All employees undergo training in how to respond to cyberattacks.	Systems are deployed in two separate data processing centres where data is mirrored and network traffic can be transmitted through different physical routes.	Processes are to the fullest extent possible supported by IT systems and business procedures. Working as a “second line of defence”, an in-house operational risk function monitors that operational risk is adequately managed.	All processes involving valuables (money and securities) have embedded IT controls, peer checks and segregation of functions. A management inspection is completed annually, including an assessment of the adequacy of checks and controls.

Positive capitalisation development allowed for a reduced lending margin

The financing of frozen holiday funds and loans to the district heating sector increased net lending in 2021, and satisfactory capitalisation developments enabled KommuneKredit to lower its lending margin. Combined with a positive value adjustment, this resulted in comprehensive income of DKK 378 million.

Earnings and capital base

With net interest income of DKK 383 million, our expectations of net interest income to the tune of DKK 400 million were met. The slight decrease in net interest income was due to the fact that developments in KommuneKredit's capitalisation in 2021 enabled us to reduce our lending margin.

Administrative expenses amounted to DKK 140 million, which was consistent with the expectations set out in our interim report. This is an increase of DKK 10 million on the year before, primarily driven by higher costs for the strategic projects launched to execute KommuneKredit's Strategy 2025.

Profit before value adjustments and tax totalled DKK 238 million. This was DKK 73 million lower than in 2020 and slightly lower than the level of DKK 260 million expected in our interim report. The decline was due to a combination of slightly lower net interest income and a small increase in administrative expenses. At the end of 2021, value adjustment for the year amounted to DKK 249 million. The positive value adjustment was driven partly by a reduced lending margin, partly by early redemption of loans.

KommuneKredit's low risk tolerance and relatively constant lending margin provide a high degree of symmetry between assets and liabilities, which under normal circum-

stances may lead to annual value adjustment fluctuations of +/- DKK 500 million. In 2021, the accumulated end-of-month value adjustments ranged between DKK -106 million and DKK 298 million. The fluctuations were mainly driven by the price risk from own funding spreads, but also to a limited extent by market risk, credit risk and the reduced lending margin.

Comprehensive income for the year amounted to DKK 378 million compared with DKK 218 million in 2020. The increase was driven primarily by a higher value adjustment in 2021. Comprehensive income for the year is transferred in its entirety to equity, which now totals DKK 8,775 million. Equity consists



» *Developments in KommuneKredit's capitalisation in 2021 enabled us to reduce our lending margin.*

Morten Sjøtofte
Director, CFO

of Common Equity Tier 1 (CET1) capital. According to the Board of Directors' targets, earnings should provide appropriate capitalisation, corresponding to an equity ratio of at least 3 pct. At year-end 2021, KommuneKredit's equity ratio was 3.5 pct., thus meeting the Board of Director's target.

The total risk exposure amount (REA) rose to DKK 13.9 billion at year-end 2021 from DKK 11.5 billion at the end of 2020. The increase was primarily due to a larger portfolio of mortgage bonds in the liquidity portfolio. The result is a capital ratio, which, calculated in accordance with the solvency rules for credit institutions, stands at 63 pct., against 72 pct. at year-end 2020.

Outlook provided for 2021

	Annual report 2020*	Interim report 2021*	Result in 2021
Net lending, DKKm	4,000	10,000	8,675
Net interest income, DKKm	400	400	383
Administrative expenses, DKKm	160	140	140
Profit before value adjustments and tax, DKKm	240	260	238
Equity ratio, pct.	3.5	3.5	3.5

* Outlook provided for result in 2021

Lending and leasing

Net lending, which is new lending incl. leasing less repayment instalments and redemptions, amounted to DKK 8.7 billion. The relatively large net lending figure was primarily due to extraordinary loans to the regions to finance frozen holiday funds and loans to the district heating sector. 2021 was also characterised by generally rising interest rates on lending, which resulted in a negative value adjustment of lending of DKK 6.2 billion and thus an increase in total lending of DKK 2.5 billion.

Funding and investments

Total investments – due from credit institutions and the portfolio of securities – rose by DKK 15.3 billion to DKK 48.9 billion at year-end 2021. The increase largely reflect-

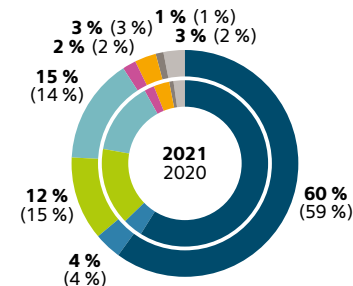
ed that large funding redemptions in 2022 were partly refinanced in 2021 and placed in liquid bonds to mitigate the refinancing risk. The increase in investments is reflected in the growing balance sheet.

Accumulated funding – due to credit institutions and debt securities issued – rose by DKK 21.2 billion. The increase was mainly due to the financing of the increase in lending and investments.

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

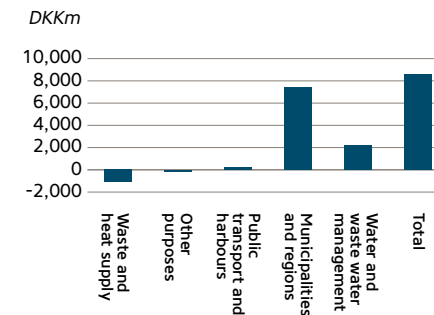
Total assets increased by DKK 15.2 billion, principally due to the increase in lending and investments.

Administrative expenses



- Salaries and remuneration, etc.
- Other staff costs
- Consulting fees
- IT licences
- Charges
- Property management
- Depreciation and amortisation of property plant and equipment and intangible assets
- Other administrative expenses

Distribution of net lending



Outlook for 2022 based on normalisation of lending activities

KommuneKredit expects lending activities to normalise during 2022 as the effects of the COVID-19 pandemic on local government borrowing start to wear off. The situation in Ukraine is not expected to affect the association's ability to source funding in the capital markets.

Developments in KommuneKredit's lending depend on the legislative framework for lending, the provision of guarantees and on the needs of customers to take out a loan. As the post-pandemic normalisation is expected to bring a reduced need for investment among customers, KommuneKredit expects more normal lending activity in 2022, equal to an increase in lending of around DKK 4.5 billion.

Depending on developments in lending, the need for funding with a term to maturity of more than one year is expected to be roughly DKK 37 billion in 2022.

KommuneKredit is keeping its lending margins relatively constant and has a low risk tolerance. Consequently, we do not expect net interest income for 2022 to be impacted by potential changes in market conditions -



including the war in Ukraine. Irrespective of sentiment in the financial markets, steady and stable investments will be in demand. KommuneKredit will therefore retain access to low funding costs, which we convert into low lending rates for our customers.

The slightly lower lending margin is expected to have a greater effect in 2022, and KommuneKredit therefore expects net interest income for the year to the tune of DKK 350 million. Combined with an expected increase in lending of some DKK 4.5 billion, this is assessed to be an appropriate level of net interest income that will ensure adequate long-term capitalisation.

Administrative expenses are expected to be around DKK 165 million, but the amount is very much subject to timing of the part of the expenses that relate to KommuneKredit's strategic projects. Barring any value adjustments, we expect a pre-tax profit of around DKK 185 million.

Under normal circumstances, we would expect annual maximum value adjustments of financial instruments of +/- DKK 500 million because of KommuneKredit's practice of hedging financial risks except price risk on own funding spreads.

We expect to maintain our equity ratio at not less than 3 pct. of total assets, which is consistent with KommuneKredit's target. In the short term, value adjustments of assets and liabilities could temporarily make the equity ratio deviate from the target. If the equity ratio deviates significantly from the target over a longer period of time, lending margins will be adjusted in order to re-establish an equity ratio of at least 3 pct.

Outlook for 2022

	Result in 2021	Outlook for 2022
Net lending, DKKm	8,675	4,500
Net interest income, DKKm	383	350
Administrative expenses, DKKm	140	165
Profit before value adjustments and tax, DKKm	238	185
Equity ratio, pct.	3.5	3.7

Forward-looking statements

The expectations stated in this annual 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 significantly from the expectations expressed in the annual report.

Responsible and efficient corporate governance

KommuneKredit is organised as an association, and we have defined corporate governance as responsible and efficient management that benefits members and investors alike.

Legal basis

KommuneKredit was established by way of Act no. 35 dated 19 March 1898, as replaced by Act no. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark (lov om kreditforeningen af kommuner og regioner i Danmark) – in the following referred to as the Act on KommuneKredit.

The Act and KommuneKredit's articles of association are available on www.kommunekredit.com.

Management structure

The distribution of responsibilities between the Management Board and the Board of Directors in KommuneKredit's principal activity areas is defined in a policy.

The Board of Directors is in charge of the overall and strategic management of

KommuneKredit's affairs and must ensure a sound organisation of KommuneKredit's business. The Board of Directors makes decisions on KommuneKredit's risk tolerance and risk policy and on capital and liquidity targets. Once a year, the Board of Directors takes a position on the matters related to the Board's performance of its responsibilities.

The Management Board is in charge of the day-to-day management of KommuneKredit in accordance with the Act on KommuneKredit and KommuneKredit's articles of association, the policies and guidelines laid down by the Board of Directors and any other instructions by the Board and other applicable legislation.

The Board of Directors delegates authority to the Management Board. However, the Board of Directors may not delegate to the Management Board authority belonging to

the overall management duties of the Board of Directors or of an unusual nature or of material significance for KommuneKredit.

Board of Directors

The Board of Directors consists of ten members. Six members are elected by the municipalities, two by the regions and two are elected by the Board of Directors and are independent and have skills in accounting, auditing, finance or risk management.

Board members are elected for a term of four years. Relative to the election terms applicable to regional and local councils, the election terms applicable to the Board of Directors are staggered by five months. Election of members to KommuneKredit's Board of Directors was held in spring 2018 for the period from 1 June 2018 to 31 May 2022. However, the election term for one of the two independent board members is

Day-to-day management of KommuneKredit

Management Board

Jens Lundager, Chief Executive Officer and Managing Director
Henrik Andersen, Managing Director

Lending & Leasing

Christian Jeppesen
Director, Head of Department

Treasury & Sustainability

Jette Moldrup
Chief Treasury & Sustainability Officer,
Head of Department

Risk & Balance

Jonas Toft Månsson
Director, Head of Department, CRO

Legal

Helene Vinten
General Counsel, Head of Department

Finance

Morten Sjøtofte
Director, Head of Department, CFO

IT

Nadeem Zafar
Director, Head of Department, CIO

Business Development & Strategy

Søren Steen Mortensen
Director, Head of Department

Annual cycle of business for the Board of Directors 2021/2022



KOMMUNEKREDIT

Board meeting Q2 2021

(after completion of audit committee meeting)

Focus: Strategy

- Management Board report on developments in KommuneKredit's business and the transformation programme
- Compliance reporting
- Distribution of responsibilities between Board of Directors and Management Board
- Annual cycle of business and rules of procedure
- Report on KommuneKredit's lending and customer relations
- Report on KommuneKredit's funding and investment strategy

Annual board seminar

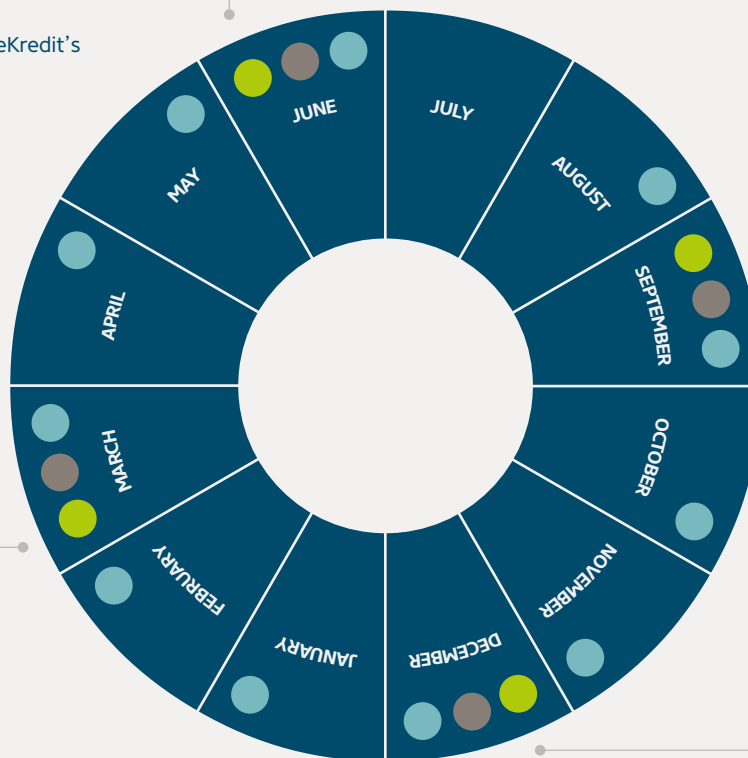
- Strategy 2025
- Strategic risks

Board meeting Q1 2022

(after completion of audit committee meeting)

Focus: Annual report

- Annual report, long-form audit report
- Sustainability Report
- Management Board report on developments in KommuneKredit's business and the transformation programme
- Long-term budget



Board meeting Q3 2021

(after completion of audit committee meeting)

Focus: Interim report

- Interim report and review long-form audit report
- Budget: Draft of level of administrative expenses
- Management Board report on developments in KommuneKredit's business and the transformation programme
- Procedure for selecting and recommending board candidates

Board meeting Q4 2021

(after completion of audit committee meeting)

Focus: Risk management

- Long-form audit report in respect of the interim audit
- Management Board report on developments in KommuneKredit's business and the transformation programme
- Budget: Approval of cost budget
- Risk management policy
- Other policies
- Reporting on operational risk
- Synopsis for annual report

- Board meeting
- Audit Committee meeting
- Management Board meets with the Chairman

staggered relative to the other board members by two years.

The Board of Directors holds at least four ordinary board meetings a year, and its duties follow an annual calendar covering every significant business area. In 2021, the Board of Directors met in March, June, September and December. A quorum exists when at least half of the members of the Board of Directors are present and participate in a vote. Resolutions are passed by a simple majority of votes. The Management Board usually participates in board meetings but is not a part of the Board of Directors. The Board of Directors carries out an annual evaluation of its work and of the cooperation between the Board of Directors and the Management Board.

Audit Committee

The Committee consists of the two independent board members, one of whom acts as chairman of the committee, and the Chairman of the Board of Directors. The Board of Directors has adopted the terms of reference for the Audit Committee's work. In 2021, four audit committee meetings were held.

At least once a year, the Audit Committee meets with the independent auditors

without the attendance of the Management Board or any other employees of KommuneKredit.

Management Board

The CEO is in charge of the day-to-day management of KommuneKredit. The CEO must to the extent possible perform his duties in cooperation with another member of the Management Board as decisions regarding lending, lease agreements, financing, the use of financial instruments and investments require Management Board consensus. In case of disagreement on matters in these areas in the Management Board, the Board of Directors will take a final decision on the matter.

The Management Board informs the Board of Directors about all significant changes in KommuneKredit's affairs and reports on all important events of consequence for KommuneKredit's business. The Management Board provides the Board of Directors with accounting, financial and risk-related information to update the Board on KommuneKredit's development and allowing the Board to attend to its management duties. At every meeting of the Board of Directors, the Management Board reports on compliance with the Board of Directors' guidelines for financial and operational risk management.

Risk management and compliance

The Board of Directors has resolved that KommuneKredit must have an internal control environment, which to a relevant degree is in accordance with the provisions of the Executive Order on Management and Control of Banks etc. This means KommuneKredit has a strong monitoring function - for financial and operational risk - and compliance function. These are independent functions intended to provide the framework for governance and risk management at KommuneKredit that complies with norms and standards for a well-run financial company.

Heads of department and employees

Focus is on delegation of decision-making authority to the seven heads of department to the heads of team within the respective departments and to the individual employees.

In 2021, KommuneKredit had an average of 88 full-time employees. KommuneKredit gives high priority to developing its employees' professional and personal qualifications so they meet external demands. High priority is also given to knowledge sharing and overlapping of work functions to maintain stability in operations.

Supervision

KommuneKredit is supervised by the Ministry of Industry, Business and Financial Affairs. The Minister of Industry, Business and Financial Affairs has delegated the task of conducting the ongoing supervision pursuant to the Act on KommuneKredit to the Danish FSA. Pursuant to the Act on KommuneKredit, the supervisory authority must appoint an auditor. The ministry has appointed Thorkil Juul, former head of the National Social Appeals Board, as auditor, who is to oversee, among

Corporate governance recommendations

While KommuneKredit is not directly encompassed by a corporate governance code, the association does, where relevant and within the provisions of the Act on KommuneKredit, apply the "Corporate governance recommendations" issued by the Danish Committee on Corporate Governance. The recommendations are available at the website of the Committee, <https://corporategovernance.dk/>. On the basis of the recommendations, KommuneKredit issues a report on corporate governance together with this annual report. The report is available on KommuneKredit's website <https://www.kommunekredit.dk/en/corporategovernance/>.

Gender composition, year-end

Men

8 on the Board of Directors



10 in Other Management

(Management Board, Heads of Department, Heads of Team)

48 Other employees

Women

2 on the Board of Directors



5 in Other Management

(Management Board, Heads of Department, Heads of Team)

32 Other employees

Total

10 on the Board of Directors



15 in Other Management

(Management Board, Heads of Department, Heads of Team)

80 Other employees

other things, that KommuneKredit's lending is in accordance with applicable rules on local government borrowing and the delimitation of KommuneKredit's customer group laid down in Danish legislation.

An agreement on segregation of duties has been signed by the auditor appointed by the ministry and the state-authorised public accountants appointed by the Board of Directors.

Remuneration

The Board of Directors has defined KommuneKredit's remuneration policy. The employees are not covered by collective

agreement. A bonus plan is in place, covering all employees with the exception of the Management Board. The Management Board distributes the combined bonus sum to departments based on the department's payroll and an assessment of efforts and performance during the year. Usually, the bonus for a full-time employee will be in the range between DKK 10,000 and the employee's monthly salary ex. pension.

Employee composition

KommuneKredit attaches importance to having a culture in which employees, regardless of gender, ethnicity and age, have equal opportunity to create a career.



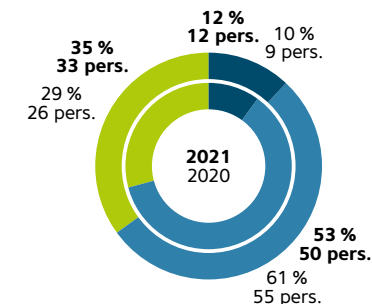
Age composition

Average age for employees, year-end

Men **44** years

Women **45** years

Age distribution for employees, year-end



- Aged 30 years or less
- Aged between 31 and 50 years
- Aged above 51 years

KommuneKredit's ESG figures (environmental, social and governance data) are available in the appendix to

➤ Sustainability Report

<https://www.kommunekredit.dk/en/about/responsibility/responsibility-report/>

Board of Directors



**Lars Krarup,
Chairman**

**Member of city council
Municipality of Herning**

Year of birth: 1972
Joined the Board of Directors:
1 January 2007

Directorships:

Realdania (chairman)
Team Danmark (chairman)



**Thomas Lykke Pedersen,
Vice Chairman**

**Mayor
Municipality of Fredensborg**

Year of birth: 1962
Joined the Board of Directors:
1 June 2018

Directorships:

Dansk Fjernvarmes Handelsselskab,
A.m.b.A. (chairman)
Center for Boligsocial udvikling
(chairman)
Nordsjællands Brandvæsen (chairman)
Espergærde Gymnasium og HF
(chairman)
Fredensborg Forsyning A/S
Norfors I/S
Gate 21



Martin Geertsen

**Regional Council Member
Capital Region**

Year of birth: 1970
Joined the Board of Directors:
1 June 2018

Directorships:

Danish Regions
Hovedstadens Letbane

Other fiduciary positions:

Member of parliament



Kaj V. Holm

**Deputy CEO of Øresundsbro
Konsortiet**

Director of Finance at
Sund & Bælt Holding A/S
Year of birth: 1955
Joined the Board of Directors:
1 June 2014

Directorships:

Rønne Havn A/S



Mikael Klitgaard

**Mayor
Municipality of Brønderslev**

Year of birth: 1954
Joined the Board of Directors:
1 June 2014

Directorships:

North Denmark EU Office
BRN (Business Region North Denmark)
NBE (Netværk for Bæredygtig
Erhvervsudvikling)
Holtegaard Køreforening
NT (Nordjyllands Trafikselskab)
EUC Nord
Fonden "Godt gjort" tilknyttet AVV
(Affaldsselskabet Vendsyssel Vest)



Erik Lauritzen

**Mayor
Municipality of Sønderborg**

Year of birth: 1960
Joined the Board of Directors:
1 June 2018

Directorships:

Valgbestyrelsen (chairman)
Project Zero Fonden
EUC Syd
Sct. Jørgens Hospital
Erhvervsakademiet
Erhvervshus Syd
Sønderborg Lufthavn
Lillebælt Vind
Sydtrafik



Leila Lindén

**Regional Council Member
Capital Region**

Year of birth: 1944
Joined the Board of Directors:
1 June 2018

Directorships:

Hospice Arresødal



Erik Nielsen

**Member of the Municipal Council
Municipality of Rødovre**

Year of birth: 1953
Joined the Board of Directors:
1 June 2014



Hans Toft

**Member of the Municipal Council
Municipality of Gentofte**

Year of birth: 1947
Joined the Board of Directors:
1 January 1995

Directorships:

I/S Vestforbrænding (vice chairman)
Wonderful Copenhagen
Gentofte Idrætsfond (chairman)
Svenske Villa Fonden (chairman)

Other fiduciary positions:

Member of the Regional Council,
Capital Region of Denmark



Birgit Aagaard-Svendsen

Member of the Board of Directors

Year of birth: 1956
Joined the Board of Directors:
1 June 2020

Directorships:

Copenhagen Malmö Port AB
Aker Solutions AS
Stiftelsen Det Norske Veritas and
related companies
Prosafe SE
Grama Design Aps
Otto Mønsted A/S
West of England Ship Owners Mutual
Insurance ass.

Management Board

Jens Lundager

Chief Executive Office, Managing Director

Year of birth: 1962

Joined the Management Board: 1 September 2015

Former positions:

- 2011-2015 Assistant Governor, Danmarks Nationalbank
- 2009-2011 Deputy Permanent Secretary, the Danish Ministry of Economic and Business Affairs
- 2000-2009 Head of Department, Danmarks Nationalbank
- 1997-2000 Counsellor (Financial), Royal Danish Embassy, Washington DC
- 1991-1997 Economist, Danmarks Nationalbank
- 1987-1991 Economist, Danish Ministry of Finance

Other fiduciary positions

- 2016- Chairman, Committee on Auditors (Revisorrådet)

Henrik Andersen

Managing Director

Year of birth: 1963

Joined the Management Board: 1 January 2018

Former positions:

- 2015-2017 Head of Group Treasury, Saxo Bank
- 2014-2015 Senior Vice President, Nykredit Realkredit A/S
- 2007-2014 Senior Vice President/Head of Treasury, Nykredit Bank A/S
- 1990-2007 Trainee, Economist, Head of Department, Nykredit A/S

From left to right:
Jens Lundager,
Chief Executive Officer,
Managing Director, and
Henrik Andersen,
Managing Director



Financial statements 2021

Comprehensive income

DKKm	Note	2021	2020
Interest income	1.1	1,462	1,696
Interest expense	1.2	-1,079	-1,256
Net interest income		383	440
Other operating income		8	15
Other operating expenses		-13	-14
Administrative expenses	2.1, 2.2	-140	-130
Profit before value adjustments		238	311
Value adjustments of financial instruments	1.3, 1.4	249	-33
Profit before tax		487	278
Tax on profit for the year	3.1	-109	-60
Profit for the year		378	218
Other comprehensive income			
Actuarial gains and losses		0	0
Tax on actuarial gains and losses	3.1	0	0
Comprehensive income for the year		378	218
Allocated as follows:			
Transferred to equity		378	218
Total		378	218

Balance sheet

DKKm	Note	2021	2020
Assets			
Due from credit institutions	1.4	501	22
Lending	1.4, 1.5	187,045	184,807
Leasing	1.6	7,903	7,650
Portfolio of securities	1.4, 1.7	48,387	33,568
Derivatives	1.4	5,079	7,670
Other assets		126	120
Current tax assets	3.2	36	35
Total assets		249,077	233,872
Liabilities and equity			
Due to credit institutions	1.4	0	50
Debt securities issued	1.4, 1.8	233,892	212,728
Derivatives	1.4	5,307	11,722
Other liabilities		568	479
Current tax liabilities	3.2	75	23
Deferred tax liabilities	3.3	460	473
Total liabilities		240,302	225,475
Equity		8,775	8,397
Total liabilities and equity		249,077	233,872

Equity

DKKm	Note	2021	2020
Equity			
Equity at 1 January		8,397	8,179
Transferred to equity			
Profit for the year		378	218
Other comprehensive income			
Actuarial gains and losses		0	0
Tax on other comprehensive income		0	0
Other comprehensive income after tax		0	0
Transferred to equity in total		378	218
Equity at 31 December		8,775	8,397

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

Equity increased to DKK 8,775 million at year-end 2021 from DKK 8,397 million at the end of 2020. At year-end 2021, equity amounted to 3.5 pct. of total assets, representing a small decrease relative to year-end 2020. Equity consists of Common Equity Tier 1 (CET1) capital.

Under the legal framework applying to KommuneKredit, equity must equal at least 1.0 pct. of total liabilities, equal to DKK 2,403 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 31 December 2021 includes the DKK 2 million net revaluation reserve.

Cash flows

DKKm	Note	2021	2020
Profit before tax		487	278
Depreciation, amortisation and impairment		1	1
Income tax paid		-71	-71
Total		417	208
Net interest income reversed		-383	-440
Financial income received		1,462	1,696
Financial expenses paid		-1,079	-1,256
Change in lending		-2,491	-7,492
Change in portfolio of securities		-14,819	11,414
Change in debt securities issued		21,114	-6,318
Change in derivative financial liabilities		-6,415	3,395
Change in derivative financial assets		2,591	-1,060
Change in other assets		-7	217
Change in other liabilities		89	-267
Cash flows from operating activities		479	97
Cash flows from investing activities		-	-
Cash flows from financing activities		-	-
Change in cash and cash equivalents		479	97
Cash and cash equivalents, 1 January		22	-75
Cash and cash equivalents, 31 December		501	22
Which are specified as follows:			
Deposits in credit institutions		501	22
Short-term payables to credit institutions		0	0
Cash and cash equivalents, 31 December		501	22

List of notes to the financial statements

General					
1.0	Accounting policies	47			
Net interest income					
1.1	Interest income	50			
1.2	Interest expenses	50			
Fair value adjustments, etc.					
1.3	Value adjustments of financial instruments	50			
1.4.1	Specification of fair value of financial instruments	51			
1.4.2	Specification of level 3 fair value	54			
1.4.3	Change in credit spreads	55			
1.4.4	Offsetting	55			
1.4.5	Specification of collateral	56			
1.5	Lending	57			
1.6	Unearned financial income relating to leasing	58			
1.7	Portfolio of securities	58			
1.8	Debt securities issued	59			
Financial risk management					
1.9	Market risk	60			
1.9.1	Currency risk	60			
1.9.2	Interest rate risk	62			
1.9.3	Volatility risk	62			
1.9.4	Other price risk	62			
1.10	Credit risk	63			
1.10.1	Credit risk calculation	64			
1.10.2	Credit quality	66			
1.10.3	Collateral received	66			
1.11	Liquidity risk	67			
1.11.1	Distribution of maturity according to term to maturity	68			
1.11.2	Liquidity resources	69			
Administrative expenses					
2.1	Administrative expenses	70			
2.2	Remuneration of the Board of Directors and Management Board	71			
Tax					
3.1	Tax on profit for the year	72			
3.2	Current tax assets/liabilities	73			
3.3	Deferred tax liabilities	73			
Other notes					
4.1	Contingent assets and liabilities	74			
4.2	Related parties	74			
4.3	Events after the balance sheet date	74			
5	IFRS 9 impairment	74			
6	Key figures and financial ratios	76			

General

Note 1.0 Accounting policies

General

The financial statements of KommuneKredit for 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

The financial year follows the calendar year. The functional currency is Danish kroner (DKK), and the annual report is presented in millions of Danish kroner (DKKm).

The concept of materiality has been applied in preparing the annual report. Certain items have been aggregated, and certain disclosures have been omitted because they are immaterial, individually and in the aggregate, to the annual report.

Unless otherwise indicated, all amounts in the annual 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 EU Commission delegated regulation 2019/815 on the single electronic reporting format (ESEF Regulation) specifies the use of a

special electronic reporting format for annual reports of companies issuing listed securities. More specifically, the ESEF Regulation requires the preparation of the annual report in XHTML format. In accordance with the requirements of the ESEF Regulation, the annual report approved by management consists of the zip file [Årsrapport 2021-ESEF](#) that contains an XHTML file that can be opened using standard web browsers.

Except for the changes described below, the accounting policies are unchanged from the policies applied in the annual report for 2020.

Change in accounting policies

In 2021, KommuneKredit implemented and followed the new or amended standards as adopted by the EU, effective for the financial year commencing on 1 January 2021. In particular, these include "Amendments to IFRS 9, IAS 39 and IFRS 7 regarding IBOR reform, phase 2". The IBOR reform entailed that a number of LIBOR rates ceased to exist at the end of 2021. KommuneKredit primarily has derivatives referring to these rates, but most of the exposure is hedged. The change is only expected to have a limited impact on the valuation of the derivatives, although there will be an increase in volatility. There are no new or amended IFRS standards or interpretations entering into force and effective for the financial year 2021 or

later which are considered to have an effect on the financial report for 2021.

Change in presentation

Relative to last year, reclassifications have been made in cash flows. The item "Change in securities" is now included under "Cash flows from operating activities" against previously under "Cash flows from investing activities".

The items "Change in debt securities issued", "Derivative financial liabilities" and "Derivative financial assets" are now included under "Cash flows from operating activities" against previously under "Cash flows from financing activities".

This has not affected recognition or measurement in the financial statements. Comparative figures presented in the annual report have been restated to reflect the above changes.

Significant accounting estimates and judgments

In the preparation of the 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 that are deemed 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 are 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.

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

General

Note 1.0 Accounting policies (continued)

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.

Note 1.4 describes the accounting estimates and judgments relating to the fair value measurement of financial instruments, including how changes to the reference rates will affect KommuneKredit's financials and operations and how KommuneKredit can ensure optimum implementation of the transition, mitigate risk and incorporate changes to its contractual relations, etc.

Relative to information in the annual report for 2020, no changes were made to the accounting estimates made.

Currency translation

The presentation currency used in the financial statements is Danish kroner (DKK). Items denominated in foreign currencies are translated at closing rates on the balance sheet date. Realised and unrealised exchange rate adjustments are recognised in the statement of comprehensive income.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to KommuneKredit.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from KommuneKredit and the value of the liability can be reliably measured.

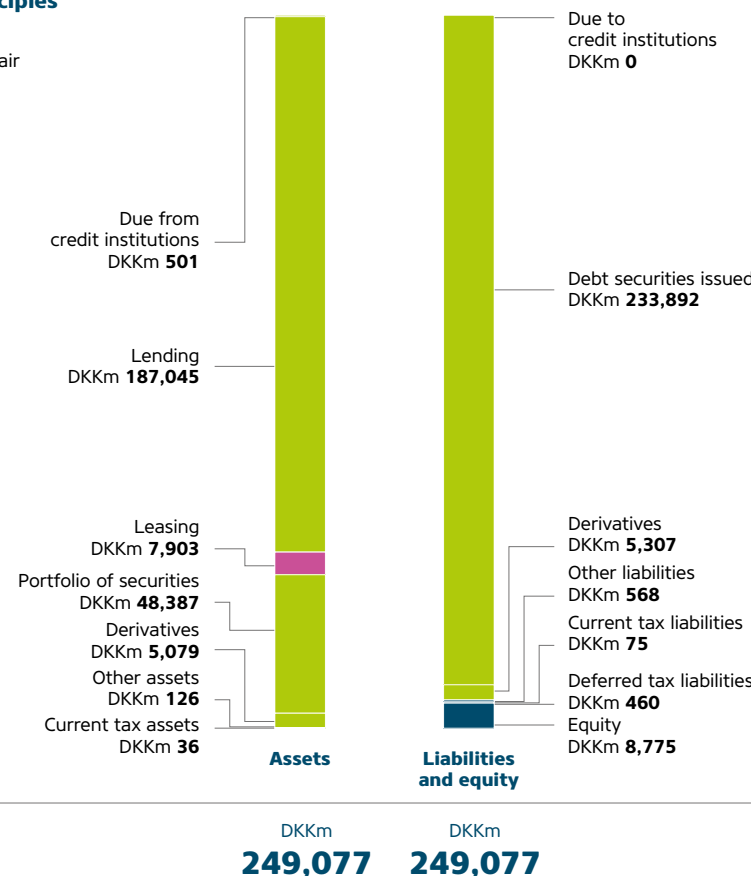
Income is recognised in profit or loss as earned. Costs are recognised when incurred by KommuneKredit.

Financial assets and financial liabilities are recognised at the transaction date. Realised and unrealised value adjustments of financial assets and financial liabilities at fair value using the fair value option over profit or loss are recognised in profit or loss under "Value adjustments of financial instruments". Derecognition of both financial assets and financial liabilities is made on expiry or at the time of sale.

The fair value is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price.

Valuation principles

- Fair value and fair value option
- Cost
- Other



General

Note 1.0 Accounting policies (continued)

If the market for one or more financial assets or financial liabilities is illiquid, fair value is determined using generally accepted valuation methods.

Transaction costs and income are measured on initial recognition.

Offsetting

Positive and negative fair values of financial instruments are included in separate items in the balance sheet, and positive and negative values are set off only when KommuneKredit has the right and the intention to settle several financial instruments on a net basis.

Determination of the value of financial instruments using the fair value option

KommuneKredit has decided to use the fair value option under IFRS 9 to give the reader a transparent and easy-to-understand calculation of the balance sheet components.

Using the fair value option also helps ensure consistent accounting treatment of amounts due from credit institutions, lending, portfolio of securities, debt securities issued and derivatives in respect of risk and matching hedges. This implies that lending, securities and derivatives are measured at fair value through profit or loss.

Overall, 96 pct. of the balance sheet items are measured at fair value.

Further, the fair value option is applied because KommuneKredit's measurement of investment returns is based on fair values, and the relating disclosures to the Management Board and the Board of Directors are based on fair values.

To mitigate the operational risks associated with determination and manual handling of non-observable market data for purposes of fair value measurement of lending, debt securities issued and derivatives, KommuneKredit has internal controls and business procedures in place which ensure distribution of responsibilities, segregation of duties and process management. All critical manual processes are supported by objective controls or peer checks.

More details on quantification of the sensitivity which is, nevertheless, associated with the use of non-observable data are given in note 1.4 regarding the fair value of financial instruments.

Other assets

Other assets comprise properties, other non-current assets, VAT receivable and other receivables.

Other liabilities

Other liabilities comprise pre-invoiced income, salary items payable and creditors.

Pension obligations

KommuneKredit has entered into pension plans with the majority of its employees. Liabilities relating to defined contribution plans are recognised in the income statement in the period in which they are earned, and payments due are recognised in the balance sheet under other liabilities.

KommuneKredit has entered into defined benefit plans with a few former employees. For defined benefit plans, annual actuarial calculations are made of the net present value of future benefits to be paid under the plan. The net present value is calculated based on assumptions of the future developments of salary, interest, inflation and mortality rates, among other things. The net present value is only calculated for those benefits earned by the employees through their employment with KommuneKredit to date.

The calculations are based on the Danish Financial Supervisory Authority's benchmark for mortality rates and longevity improvements. Adjustments to the calculated net present value attributable to changes in actuarial assumptions are recognised

in other comprehensive income. The yield curve is that which the Danish FSA instructs institutions to use in connection with measurement of insurance obligations and which is used in the budget agreement for municipal civil servants.

KommuneKredit has paid the pension obligation to Sampension, and the obligation is therefore not recognised in the balance sheet.

Segment information

The annual report of KommuneKredit does not disclose information about operating segments, as KommuneKredit has one reportable business segment only.

Net interest income and fair value adjustments, etc.

Note 1.1 Interest income and Note 1.2 Interest expense

Interest income and interest expense are accrued and recognised in the statement of comprehensive income. Interest income and interest expense comprise interest on financial instruments, leasing as well as administrative fees. Interest income and interest expense regarding financial instruments measured at fair value are presented under net interest income.

DKKm	2021	2020
Interest income		
Net financials at amortised cost		
Leasing	36	35
Net financials at fair value		
Fixed-term loans	1,218	1,297
Bond loans	326	361
Portfolio of securities	-118	3
Total interest income	1,462	1,696
Interest expense		
Net financials at fair value		
Bond deposits	310	334
Other loans and derivatives	769	922
Total interest expense	1,079	1,256

Note 1.3 Value adjustments of financial instruments

Value adjustments comprise realised and unrealised value adjustments of financial instruments.

DKKm	2021	2020
Value adjustments of financial instruments		
Portfolio of securities	-34	-120
Lending	-5,921	2,414
Impairment of leasing	0	0
Debt securities issued	6,535	-3,629
Derivatives	-331	1,302
Total value adjustments of financial instruments	249	-33

Fair value adjustments, etc.

Note 1.4.1 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 conversion 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 issued 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, FX base swap spreads, tenor spreads and exchange rates, etc. KommuneKredit's estimate of the actual funding expenses is also included in the valuation of debt securities issued. The valuation of lending also 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 their correlation. 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 the issuance will have an opposite effect on the derivative.

KommuneKredit pursues a risk management strategy of eliminating market risk by using financial instruments (see notes 1.9 -1.11). 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 the 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

Fair value adjustments, etc.

Note 1.4.1 Specification of fair value of financial instruments (continued)

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, and in autumn 2021 we replaced the LIBOR interest payments that no longer exist after 31 December 2021 with those stipulated in the protocol. Furthermore, in autumn 2021 KommuneKredit transitioned to the new alternative risk-free swap rates for discounting cash flows in the relevant currencies for which LIBOR rates no longer exist after 31 December 2021. 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 31 December 2021 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 2021.

Fair value adjustments, etc.

Note 1.4.1 Specification of fair value of financial instruments (continued)

DKKm	Level 1	Level 2	Level 3	Total
2021				
Assets				
Due from credit institutions	501	0	0	501
Lending	0	187,045	0	187,045
Portfolio of securities	48,387	0	0	48,387
Derivatives	0	4,443	636	5,079
Total assets	48,888	191,488	636	241,012
Liabilities				
Due to credit institutions	0	0	0	0
Debt securities issued	0	228,165	5,727	233,892
Derivatives	0	5,057	250	5,307
Total liabilities	0	233,222	5,977	239,199

DKKm	Level 1	Level 2	Level 3	Total
2020				
Assets				
Due from credit institutions	22	0	0	22
Lending	0	184,807	0	184,807
Portfolio of securities	33,568	0	0	33,568
Derivatives	0	6,854	816	7,670
Total assets	33,590	191,661	816	226,067
Liabilities				
Due to credit institutions	0	50	0	50
Debt securities issued	0	206,368	6,360	212,728
Derivatives	0	11,325	397	11,722
Total liabilities	0	217,743	6,757	224,500

Fair value adjustments, etc.

Note 1.4.2 Specification of level 3 fair value

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

DKKkm	1 Jan.	Additions	Disposals	Recognised in profit for the year	31 Dec.
2020					
Assets					
Due from credit institutions	0	0	0	0	0
Lending	0	0	0	0	0
Portfolio of securities	0	0	0	0	0
Derivatives	814	0	-11	13	816
Total assets	814	0	-11	13	816
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	7,822	0	-1,008	-454	6,360
Derivatives	354	0	-164	207	397
Total liabilities	8,176	0	-1,172	-247	6,757

Fair value adjustments, etc.

Note 1.4.3 Change in credit spreads

The monetary effect caused by credit spreads on fair value adjustments on the statement of comprehensive income and balance sheet (equal to CVA/DVA on derivatives) is shown below. The calculations are based on a model based on the future positive and negative exposure adjusted for the probability of default and resulting losses. The calculations are based on market-based probabilities of default.

DKKm	2020	Development	2021
Statement of comprehensive income			
Value adjustments of financial instruments	-27	0	-27
Total effect on statement of comprehensive income	-27	0	-27
Statement of financial position			
Assets	-38	11	-27
Liabilities	-11	11	0
Total effect on statement of financial position	-27	0	-27

Note 1.4.4 Offsetting

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 6,473 million at 31 December 2021, against DKK 4,965 million at 31 December 2020.

In ISDA Master Agreements where no Cross-Transaction Payment Netting is included, the accounting values will not include offsetting in the financial position. 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 entitle receipt of collateral 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
2021						
Assets	11,552	-6,473	5,079	-941	-3,075	1,063
Liabilities	11,780	-6,473	5,307	-941	-2,049	2,317
Net	-228	0	-228	0	-1,026	-1,254
2020						
Assets	12,635	-4,965	7,670	-759	-5,386	1,525
Liabilities	16,687	-4,965	11,722	-759	-8,052	2,911
Net	-4,052	0	-4,052	0	2,666	-1,386

Fair value adjustments, etc.

Note 1.4.5 Specification of collateral

DKKm	Collateral posted			Collateral received	
	Rating	Market value	Market value after haircut	Market value	Market value after haircut
Type of bond					
2021					
Danish government bonds	AAA	0	0	44	42
Danish mortgage bonds	AAA	0	0	332	325
Danish mortgage bonds	AA+	0	0	0	0
German government bonds	AAA	101	98	209	198
British government bonds	AA-	738	674	1,250	1,140
French government bonds	AA	1,609	1,542	1,537	1,424
Total		2,448	2,314	3,372	3,129
Of which non-nettable collateral		0	-265	0	-54
Total nettable collateral		2,448	2,049	3,372	3,075

DKKm	Collateral posted			Collateral received	
	Rating	Market value	Market value after haircut	Market value	Market value after haircut
Type of bond					
2020					
Danish government bonds	AAA	0	0	0	0
Danish mortgage bonds	AAA	0	0	0	0
Danish mortgage bonds	AA+	0	0	330	324
German government bonds	AAA	0	0	157	154
British government bonds	AA-	1,131	1,025	2,107	1,925
French government bonds	AA	7,403	7,128	3,318	3,083
Total		8,534	8,153	5,912	5,486
Of which non-nettable collateral		0	-101	0	-100
Total nettable collateral		8,534	8,052	5,912	5,386

Reference is made to note 1.10.3 for a detailed description of requirements, etc.

Fair value adjustments, etc.

Note 1.5 Lending

Lending is measured at fair value through profit or loss. Lending is measured at amortised cost, but is presented here for the sake of completeness.

DKKm	No. of loans	2021	2020
Lending			
1 January	18,956	192,457	184,965
Additions	3,409	36,958	43,507
Disposals	2,906	34,467	36,015
Total lending	19,459	194,948	192,457
Bond loans	2,200	29,460	30,138
Fixed-term loans	5,542	157,585	154,669
Leasing	11,717	7,903	7,650
Total lending	19,459	194,948	192,457

DKKm	2021	2020
Bond loans	29,460	30,138
Fair value adjustments	-1,591	-2,132
Bond loans in nominal values	27,869	28,006
Fixed-term loans	157,585	154,669
Fair value adjustments	-6,280	-11,923
Fixed-term loans in nominal values	151,305	142,746
Leasing	7,903	7,650
Impairment	2	2
Leasing in nominal values	7,905	7,652

Fair value adjustments, etc.

Note 1.6 Unearned financial income relating to leasing

Leasing is not covered by the fair value option. KommuneKredit is the lessor of finance leases. Finance leases are recognised in the balance sheet as a receivable at an amount corresponding to the future minimum lease payment discounted at the interest rate implicit in the lease. On subsequent recognition, leasing is measured at amortised cost. The difference between the value on initial recognition and nominal value is accrued over the term to maturity and is recognised as “interest on leasing” under interest income.

DKKm	2021	2020
Net investments in finance leases, by lease term		
Up to 1 year	1,193	1,177
From 1 to 5 years	3,142	3,262
Over 5 years	3,570	3,214
Total net leasing	7,905	7,653
Gross investments in finance leases, by lease term		
Up to 1 year	1,223	1,209
From 1 to 5 years	3,247	3,362
Over 5 years	3,793	3,403
Total gross leasing	8,263	7,974
Unearned financial income	358	321

Note 1.7 Portfolio of securities

The portfolio of securities is measured at fair value through profit or loss.

DKKm	2021	2020
Portfolio of securities		
Government/public authorities	7,018	10,917
Multilateral counterparties	1,057	1,193
Mortgage credit institutions	40,312	21,458
Banks	0	0
Total portfolio of securities	48,387	33,568
Of this portfolio of securities used as collateral	470	4,811
Portfolio of unencumbered securities	47,917	28,757

Fair value adjustments, etc.

Note 1.8 Debt securities issued

Debt securities issued are measured at fair value through profit or loss.

DKKm	Disposals &			Value 31 Dec. adjustment	Value 31 Dec.	Fair value 31 Dec.
	1 Jan.	Additions	value adj.			
2021						
Nasdaq Copenhagen	49,058	4,985	-4,694	49,349	2,769	52,118
ECP	2,303	15,569	-17,708	164	0	164
Private Placements	21,541	588	-118	22,011	2,260	24,271
Uridashi	2,504	0	-828	1,676	-404	1,272
Benchmark	120,695	43,392	-14,283	149,804	1,647	151,451
Kangaroo	3,737	578	81	4,396	220	4,616
Total issued securities	199,839	65,112	-37,550	227,400	6,492	233,892

DKKm	Disposals &			Value 31 Dec. adjustment	Value 31 Dec.	Fair value 31 Dec.
	1 Jan.	Additions	value adj.			
2020						
Nasdaq Copenhagen	48,154	9,526	-8,622	49,058	3,796	52,853
ECP	0	14,550	-12,247	2,303	-1	2,303
Private Placements	23,619	612	-2,690	21,541	3,390	24,931
Uridashi	4,992	0	-2,488	2,504	-582	1,921
Benchmark	129,623	18,474	-27,402	120,695	5,748	126,444
Kangaroo	3,731	0	6	3,737	539	4,276
Total issued securities	210,118	43,163	-53,442	199,839	12,890	212,728

Financial risk management

General

Our function as a financial link between the capital markets and the local authorities in Denmark exposes KommuneKredit to financial risks. Through prudent risk management, it is ensured that KommuneKredit's risk profile matches the Board of Directors' low risk tolerance. The low risk tolerance means that KommuneKredit only assumes financial risks that are absolutely necessary to accomplish KommuneKredit's mission. KommuneKredit has established a finance committee, which meets regularly to discuss relevant risk exposures like market risk and credit risk.

KommuneKredit distinguishes between the following types of financial risks:

- Market risk is the risk that market factor fluctuations will affect the value of a financial instrument. Market risk comprises currency risk, interest rate risk, volatility risk and other price risk.
- Credit risk is the risk of incurring a credit loss. Credit loss is defined both as the failure of a counterparty to honour its obligations towards KommuneKredit and as changes in market expectations to the ability of a counterparty to honour its obligations in general.
- Liquidity risk is the risk that KommuneKredit at any given time does not have and cannot source adequate liquid funds to cover its obligations and loan commitments given.

Note 1.9 Market risk

KommuneKredit limits the market risk by using derivatives. The limited market risk mitigates the risk of loss resulting from changes in market factors.

KommuneKredit distinguishes between the following types of market risks:

- Currency risk is the risk that exchange rate fluctuations will affect the value of a financial instrument.
- Interest rate risk is the risk that interest rate fluctuations will affect the value of a financial instrument.

- Volatility risk is the risk that changes in volatilities on interest rates, currencies, share indices, commodity prices or similar factors will affect the value of a financial instrument.
- Other price risk is the risk that changes in market factors other than those attributable to interest rate, currency and volatility fluctuations will affect the value of a financial instrument. This includes exposures to e.g. commodity indices, equity indices and exposure to KommuneKredit's own funding spreads.

Note 1.9.1 Currency risk

Policies and procedures

KommuneKredit's risk tolerance in respect of currency risk is very limited, as it is most often not necessary to accept such risk to accomplish KommuneKredit's mission.

Currency risk is managed either by hedging funding in foreign currency using derivatives or by investing the total liquidity resources in the same currency as the funding. In this way, KommuneKredit minimises its currency position. In the principal funding currencies such as EUR and USD, KommuneKredit on a smaller scale assumes currency risk in the form of unrealised gains and losses.

According to the guidelines, the net position calculated as the present value of future payments in EUR must not exceed DKK 1,000 million, and the net position for all other currencies combined must not exceed DKK 100 million.

Measurement

The currency position is presented separately for receivables and liabilities as well as derivatives where the position is calculated using values based on the same discount curve. The distribution shows how the derivatives are used to hedge the resulting currency position from receivables and liabilities.

At the end of 2021, KommuneKredit's currency position was DKK -367 million in EUR and DKK 4 million in USD, while all other currency exposures were very close to zero.

Financial risk management

Note 1.9.1 Currency risk (continued)

DKKm		Assets	Liabilities	Derivatives	Currency position
2021					
Australian dollar	AUD	0	8,148	8,148	0
Brazilian real	BRL	0	75	75	0
Swiss franc	CHF	140	8,127	7,988	0
Euro	EUR	4,303	106,398	101,728	-367
Pound sterling	GBP	0	12,930	12,930	0
Japanese yen	JPY	0	1,314	1,314	0
Mexican peso	MXN	0	873	873	0
Norwegian kroner	NOK	0	8,071	8,071	0
Swedish kroner	SEK	0	4,032	4,032	0
US dollar	USD	781	31,374	30,597	4
Other currencies*		0	376	376	0
Total		5,224	181,718	176,132	-363

* Other currencies comprise CAD, HKD, NZD, TRY, ZAR.

DKKm		Assets	Liabilities	Derivatives	Currency position
2020					
Australian dollar	AUD	0	7,927	7,927	0
Brazilian real	BRL	0	529	529	0
Swiss franc	CHF	160	6,983	6,824	1
Euro	EUR	8,195	93,988	85,821	28
Pound sterling	GBP	0	2,973	2,973	0
Japanese yen	JPY	0	1,373	1,373	0
Mexican peso	MXN	0	1,057	1,057	0
Norwegian kroner	NOK	0	2,481	2,481	0
Swedish kroner	SEK	0	3,854	3,854	0
US dollar	USD	2,087	40,261	38,168	-6
Other currencies*		0	526	526	0
Total		10,442	161,952	151,533	23

* Other currencies comprise CAD, HKD, INR, NZD, TRY, ZAR.

Financial risk management

Note 1.9.2 Interest rate risk

Policies and procedures

KommuneKredit's risk tolerance in respect of interest rate risks is limited, but it is deemed necessary to accept certain interest rate risks to accomplish KommuneKredit's mission.

KommuneKredit primarily accepts interest rate risks when the total liquidity resources are invested in bonds.

The interest rate risk is managed by hedging lending, funding and investments with a fixed rate of interest of a certain size one-to-one using derivatives. The remaining interest rate risk is also managed using derivatives with hedging at portfolio level.

According to the guidelines, the interest rate risk must not exceed 4.5 pct. of equity, corresponding to DKK 389 million. The interest rate risk is calculated using a 1 percentage point parallel shift in the yield curve.

DKKm	2021	2020
Total interest rate risk	268	230
Equity used for limit	8,775	8,397
Interest rate risk limit of 4.5 pct. of equity	395	378
Utilisation of the limit as a percentage	68	61

Note 1.9.3 Volatility risk

Policies and procedures

KommuneKredit's risk tolerance in respect of volatility risk is very low, as it is not necessary to accept volatility risk to accomplish KommuneKredit's mission.

KommuneKredit may to a very limited extent assume volatility risk in the form of interest rate volatility risk. Interest rate volatility risks arise when KommuneKredit invests in callable bonds or bonds with a cap or floor.

According to the Board of Directors' guidelines, the interest rate volatility risk must not exceed 0.2 pct. of equity, corresponding to DKK 17 million. The interest rate volatility risk is calculated based on a 1 percentage point shift in the interest rate volatility. At the end of 2021, there was only limited interest rate volatility risk.

Note 1.9.4 Other price risk

Policies and procedures

KommuneKredit is exposed to risk associated with changes to its own funding spreads. By maintaining relatively constant lending margins, we transfer changes to KommuneKredit's own funding spreads to lending prices. As the funding is larger and has longer maturities than the binding loan commitments, part of the effect of changed funding spreads will not be passed on to lending prices. The risk on own funding spreads is a part of KommuneKredit's business model and will therefore be necessary in order to accomplish KommuneKredit's mission, but efforts are made to keep it low.

The risk associated with KommuneKredit's own funding spreads is measured and reported on a continuing basis.

KommuneKredit's risk tolerance in respect of other price risk than the risk of changes to its own funding spreads is very low.

Other price risk than the risk of changes to KommuneKredit's own funding spreads may arise when KommuneKredit issues bonds related to inflation indices or the like. According to the Board of Directors' guidelines, such other price risks must be hedged at the issue date.

Financial risk management

Note 1.10 Credit risk

Policies and procedures

KommuneKredit is exposed to credit risk in connection with investing in bonds for the total liquidity resources and when entering into derivatives which reduce the market risk. Moreover, credit risk attaches to lending and leasing to the municipal and regional sector in Denmark.

Lending and leasing are only granted to Danish local authorities or against a 100 pct. guarantee from these authorities. In this section, recipients of lending and leasing will be referred to as customers. Derivatives with customers are hedged in the same way as for lending and leasing. Investment counterparties and counterparties with respect to derivatives who are not customers will be referred to as counterparties.

Due to the special credit quality of its customers, KommuneKredit assesses that there is very limited credit risk associated with lending, lease agreements and derivatives with customers. However, in accordance with IFRS 9, credit risk and leases must be calculated and recognised at cost. The credit risk on leases has been calculated at DKK 2 million.

KommuneKredit has a Grants Committee, whose duties include approving loans for more than DKK 300 million or where a loan otherwise deviates from standard practice. Credit events such as a request for forbearance are also considered by the Grants Committee. KommuneKredit has never recorded a loss on a loan or lease agreement.

Credit risk on lending, leasing and derivatives with customers

DKKm	Carrying amount	Credit risk
2021		
Danish municipalities and regions	109,955	2
Institutions guaranteed by Danish municipalities and regions	85,537	0
Total	195,492	2
2020		
Danish municipalities and regions	102,016	2
Institutions guaranteed by Danish municipalities and regions	91,297	0
Total	193,313	2

In order to reduce the credit risk, KommuneKredit can only enter into financial instruments with counterparties with whom a bilateral collateral agreement has been concluded. According to the guidelines on the posting of collateral, such agreements must meet the following requirements as a minimum:

- Daily exchange of collateral and low threshold values for exchange.
- Collateral received under the agreements must be high-quality liquid bonds.

In order to further reduce the credit risk on other counterparties, the credit risk guidelines include strict requirements as to the credit quality, both in relation to the type of counterparty and the rating of the counterparty by credit rating agencies. As a result, financial instruments may only be entered into with the following types of counterparties:

- Central governments, regions, municipalities and other public authorities.
- Multilateral development banks and international organisations.
- Banks, other financial institutions and issuers of covered bonds.

Financial risk management

Note 1.10 Credit risk (continued)

Counterparties must be located in Zone A countries. These include EU member states and other countries which are full members of the Organization for Economic Cooperation and Development (OECD). The requirement that the counterparty must be located in a Zone A country does not extend to multilateral development banks and international organisations, as these are often not located in any specific country.

In addition, counterparties must have a rating of at least Aa3/AA- from Moody's Investors Services or Standard & Poor's or a similar rating from Fitch Ratings. If a collateral agreement has been entered into with the counterparty, ratings down to A- are accepted. Finally, agreements with lower-rated, systemically important Danish banks are permitted.

According to the Board of Directors' guidelines, counterparties satisfying these requirements may be granted a credit risk line by the Management Board.

Expected credit risk losses are recognised in the statement of comprehensive income on an ongoing basis.

KommuneKredit sets limits for the concentration of credit risks based on large exposures in the EU's regulation on prudential requirements for credit institutions and investment firms. According to this regulation, exposures to a single customer or a group of connected customers, net of fully and completely secured exposures, cannot exceed 25 pct. of the base capital, which for KommuneKredit's purposes substantially corresponds to equity. The Management Board has also defined limits for the maximum portfolio of securities issued by a specific issuer.

The concentration of credit risk by rating, counterparty type, geographical area and instrument type is shown in 1.10.2.

Note 1.10.1 Credit risk measurement

Measurement

Credit risks can be broken down into two main components. The first component is the credit risk associated with amounts due from credit institutions and securities, collectively called investment credit

risk. This derives from investments made using means from the total liquidity resources. The other component is the credit risk associated with derivatives and related collateral, collectively called credit risk on derivatives. This derives from the hedging of, primarily, interest rate risk and currency risk.

The credit risk on both components is limited due to the high rating requirements and requirement for collateral agreements when trading in derivatives.

Exposures associated with credit risk increased by DKK 15.2 billion from DKK 34.2 billion in 2020 to DKK 49.4 billion in 2021. The increase was exclusively due to a higher exposure on investments. The higher exposure on investments was the result of KommuneKredit in 2021 scaling up its activity in the funding market to prepare its total liquidity resources for large funding redemptions in 2022.

The credit quality of investments remains very high with 99 pct. of the exposure being placed in securities rated AA- or higher. Most of the investment portfolio consists of Danish mortgage bonds, French government bonds and other highly rated institutions and multilateral development banks.

The exposure on derivatives after collateral has fallen marginally. The exposure before collateral fell by DKK 2.4 billion, while the collateral after haircut fell by DKK 2.3 billion. At the end of 2021, 86 pct. of the fair value of the derivatives portfolio was covered by collateral received.

The rating is based on Moody's Investors Service, Standard & Poor's and/or Fitch Ratings. If the counterparty is rated by two rating agencies, the lowest rating will be applied. If the counterparty is rated by three credit rating agencies, the middle rating of the three credit ratings is used. When investing in securities, the rating of the securities is used if it exists – otherwise the issuer's rating is used. If the security is covered by a guarantee, the rating of the guarantor is used.

Any collateral received that exceeds the fair value of derivatives at counterparty level is not included in the credit risk-reducing collateral. In respect of counterparties posting collateral for their liabilities vis-a-vis KommuneKredit, the collateral is classified based on the rating of the counterparty. Thus, the classification does not reflect the rating of the collateral. The credit risk-reducing element of the collateral equals the value of the nettable collateral in note 1.4.5.

As the credit risk made up as fair value at counterparty level cannot be negative, an adjustment in this respect has been made in the column "Correction for neg. FV per counterparty".

Financial risk management

Note 1.10.1 Credit risk measurement (continued)

DKKm	Investment credit risk			Credit risk on derivatives				Total	
	Due from credit institutions	Securities	Total	Derivatives		Correction for neg. FV per counterparty	Collateral after haircut	Total	Net
				Positive	Negative				
2021									
AAA	0	44,324	44,324	0	0	0	0	0	44,324
AA+	0	0	0	0	0	0	0	0	0
AA	0	4,063	4,063	5,052	-5,092	1,545	-1,465	40	4,103
AA-	6	0	6	1,553	-1,242	581	-612	280	286
A+	495	0	495	2,831	-4,371	1,834	-181	113	608
A	0	0	0	321	-668	405	-58	0	0
A-	0	0	0	1,232	-385	0	-759	88	88
BBB+	0	0	0	0	0	0	0	0	0
Total	501	48,387	48,888	10,989	-11,758	4,365	-3,075	521	49,409
2020									
AAA	0	18,011	18,011	0	0	0	0	0	18,011
AA+	0	7,897	7,897	160	0	0	-154	6	7,903
AA	0	7,660	7,660	613	-382	223	-394	60	7,720
AA-	1	0	1	5,878	-7,126	3,731	-2,036	447	448
A+	3	0	3	2,185	-788	361	-1,641	117	120
A	18	0	18	1,397	-7,866	6,633	-152	12	30
A-	0	0	0	655	-228	0	-423	4	4
BBB+	0	0	0	870	-278	0	-585	7	7
Total	22	33,568	33,590	11,758	-16,668	10,948	-5,385	653	34,243

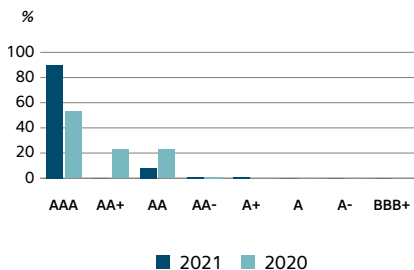
Financial risk management

Note 1.10.2 Credit quality

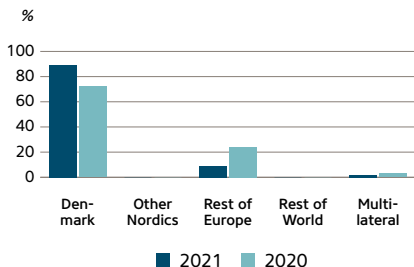
KommuneKredit has never incurred losses on loans or leases.

90 pct. of the total exposure relates to counterparties with the highest rating, 9% has a rating between AA+ and AA-, and 1% has a lower credit rating. The credit quality of KommuneKredit's counterparties is thus very high.

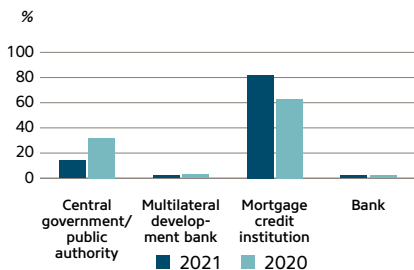
Exposure by rating



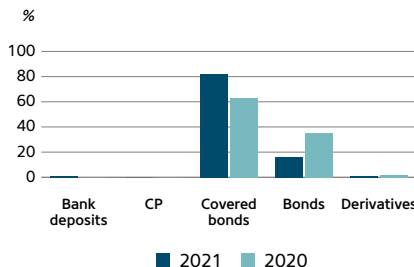
Exposure by geographical area



Exposure by type of counterparty



Exposure by type of instrument



Our work to prepare our total liquidity resources for larger funding redemptions in 2022 has resulted in an increase in securities compared with 2021. Securities in total liquidity resources consist primarily of Danish mortgage bonds with a rating of AAA and government bonds or bonds issued by other public authorities. All securities in the total liquidity resources have a minimum rating of AA, while more than 91 pct. of the securities are rated AAA.

Note 1.10.3 Collateral received

All KommuneKredit's collateral agreements have been concluded as annexes (Credit Support Annexes) to ISDA Master Agreements. In order to ensure maximum credit risk reduction, low threshold values have been agreed for the daily exchange of collateral.

When collateral is posted, a haircut (deduction) is calculated in respect of the collateral, depending on instrument, rating and term to maturity. This haircut is a buffer protecting the parties against fluctuations in the market value in case the collateral is to be realised.

3,076 transfers of collateral totalling DKK 94 billion in nominal value were made in 2021. This high level of activity is a reflection of the low threshold values and the daily exchange, which ensures that collateral is posted on a regular basis for as large a part of the credit risk as possible.

To further reduce the credit risk, the collateral agreements also include strict requirements as to the quality of the collateral posted. Under the collateral agreements, collateral must be government bonds issued by countries with a high rating or highly-rated mortgage bonds. As indicated in note 1.4.5, 90 pct. of the collateral received at year-end 2021 was thus Danish, British, French or German government bonds. The remaining 10 pct. was Danish mortgage credit bonds with the highest credit quality. Thus, all collateral received is high-quality liquid bonds.

A minor share of the collateral received exceeds the net value of the derivatives at counterparty level. Accordingly, these are not included as credit risk-reducing collateral.

Financial risk management

Note 1.11 Liquidity risk

Policies and procedures

Even if KommuneKredit's risk tolerance in respect of liquidity risks is very low, such risks cannot be avoided. The Management Board meets regularly with the other members of the Finance Committee to discuss liquidity risk.

The overall principle for liquidity risk mitigation is based on a maturity match between the commitment period for funding and lending. As a consequence of the liquidity limit, binding lending commitments cannot be entered into unless at least corresponding binding funding commitments are in place with at least corresponding terms to maturity. Equity may be used for funding purposes.

According to the liquidity guidelines, the total holding of high-quality, unrestricted liquid assets (HQLA) must exceed the accumulated liquidity outflows in a 30-day stress scenario. This is achieved by keeping the Liquidity Coverage Ratio (LCR) constantly above 110 pct. Furthermore, the stable medium-term and long-term funding, i.e. more than one year, must exceed the liquidity requirements in a stress scenario. This is achieved by keeping the Net Stable Funding Ratio (NSFR) constantly above 110 pct. LCR and NSFR are based on the Liquidity Coverage Ratio and Net Stable Funding Ratio of the Capital Requirement Regulation. At year-end 2021, LCR was 222 pct., and NSFR was 162 pct.

The guidelines also define a requirement on diversification of funding on sources, currencies and maturities, including requirements on diversification of funding redemptions, to ensure the best possible access to new funding.

To ensure that the bonds in the total liquidity resources are liquid, it is required that most of the bonds are HQLA bonds and categorised as eligible collateral with either Danmarks Nationalbank or the ECB. At year-end 2021, 99 pct. of all bonds were classified as HQLA, and 99 pct. were categorised as eligible collateral with either Danmarks Nationalbank or the ECB.

The Board of Directors has determined a minimum 180 day requirement for the survival horizon in a going concern stress scenario. At year-end 2021, the survival horizon was 320 days. The stress scenario is based on assumptions that there is no access to the funding markets, that KommuneKredit continues new lending and that the markets are developing unfavourably for KommuneKredit in relation to investments and collateral for derivatives. Loans subject to renegotiation, for which the binding liquidity commitment is shorter than the term to maturity of the loan, are in the scenario considered as non-terminable.

The survival horizon is supplemented by additional stress scenarios for short-term liquidity, and KommuneKredit has a total liquidity resource contingency plan which can be activated in case of pressure on liquidity.

Financial risk management

Note 1.11.1 Distribution of maturity

The distribution of maturity is shown in nominal value, excl. interest, according to term to maturity or the liquidity binding period where this is shorter. Loan commitments with known disbursement dates are recognised on the basis of the current date. Loan commitments for which dates and amounts are unknown are recognised on the basis of the term to maturity and the remaining amount for the credit lines in question.

DKKm	0-3 months	3-12 months	1-5 years	Over 5 years	Total
2021					
Financial assets					
Due from credit institutions	501	0	0	0	501
Portfolio of securities	9,253	31,654	7,212	0	48,119
Lending	29,880	17,500	47,345	84,959	179,684
Leasing	173	1,020	3,142	3,570	7,905
Total recognised financial assets	39,807	50,174	57,699	88,529	236,209
Funding commitments received	-	-	-	-	-
Total financial assets	39,807	50,174	57,699	88,529	236,209
Financial liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	5,730	30,937	90,502	100,231	227,400
Derivatives	131	-411	-726	-936	-1,941
Total recognised financial liabilities	5,862	30,526	89,776	99,295	225,459
Loan commitments given	2,271	5,150	2,148	76	9,645
Total financial liabilities	8,133	35,676	91,924	99,371	235,104

DKKm	0-3 months	3-12 months	1-5 years	Over 5 years	Total
2020					
Financial assets					
Due from credit institutions	22	0	0	0	22
Portfolio of securities	9,773	5,329	18,057	0	33,159
Lending	32,853	20,953	43,638	73,612	171,055
Leasing	120	1,057	3,262	3,214	7,653
Total recognised financial assets	42,767	27,339	64,957	76,826	211,889
Funding commitments received	-	-	-	-	-
Total financial assets	42,767	27,339	64,957	76,826	211,889
Financial liabilities					
Due to credit institutions	0	50	0	0	50
Debt securities issued	9,574	12,227	93,887	84,151	199,839
Derivatives	403	768	1,270	-341	2,100
Total recognised financial liabilities	9,977	13,045	95,157	83,810	201,989
Loan commitments given	2,403	4,503	2,971	0	9,877
Total financial liabilities	12,380	17,548	98,128	83,810	211,866

Financial risk management

Note 1.11.2 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 48.5 billion at the end of 2021, and KommuneKredit had liquidity resources of DKK 39.2 billion. The utilisation of the limit has fluctuated in 2021, and the highest level of liquidity resources at the end of a month was 21 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	2021	2020
Liquidity resources		
Due to credit institutions, debt securities issued and derivatives		
Due to credit institutions	0	50
Debt securities issued	233,892	212,728
Derivatives, liabilities	5,307	11,722
Derivatives, assets	-5,079	-7,670
Total due to credit institutions, debt securities issued and derivatives	234,120	216,830
Lending and leasing		
Lending	187,045	184,807
Leasing	7,903	7,650
Total lending and leasing	194,948	192,457
Liquidity resources	39,172	24,373
Liquidity resources cannot exceed 25 pct. of total lending at the end of the preceding quarter.		
Liquidity resources	39,172	24,373
Total lending at the end of the preceding quarter	193,841	191,349
Total liquidity resources, pct.	20	13

Administrative expenses

Note 2.1 Administrative expenses

Administrative expenses comprise staff costs and other administrative expenses, adjustment of pension obligations and amortisation/depreciation and impairment of intangible assets and property, plant and equipment. Actuarial adjustments and changes are recognised in the line item “actuarial gains and losses” in comprehensive income and not in administrative expenses.

Intangible assets and property, plant and equipment are measured at cost less accumulated amortisation/depreciation and impairment charges.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Where individual components of an intangible asset or an item of property, plant and equipment have different useful lives, they are accounted for as separate items and amortised/depreciated separately.

Development costs regarding software comprise consultancy fees and other expenses attributable to KommuneKredit’s development activities. Development projects that meet the applicable accounting requirements are recognised as intangible assets. As for intangible assets and items of property, plant and equipment, amortisation/depreciation is provided on a straight-line basis over the expected useful lives of the assets or components, respectively, as follows:

- Intangible assets (software, etc.), 3 years
- Operating equipment, including IT equipment, 3-5 years
- Cars, 3-4 years

Land is not depreciated.

The carrying amounts are tested annually to determine whether there is any indication of impairment. When there is evidence that an asset may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset’s fair value less expected costs to sell and its value in use.

DKKm	2021	2020
Administrative expenses		
Salaries, remuneration, etc.	84	76
Other staff costs	6	5
Consultancy fees	17	19
IT licenses	21	19
Charges	3	3
Property management	4	4
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	1	1
Other administrative expenses	4	3
Total administrative expenses	140	130
Average number of employees	88	82

Developments in costs were driven by an increase in salaries because of a higher headcount.

DKK'000	2021	2020
Fees to auditors as per the articles of association:		
Statutory audit of financial statements	456	439
Other assurance engagements	34	32
Other services	148	153
Total audit fees	638	624

Fees for other services comprise various statements and comfort letter for the annual update of the issuance programme, etc.

Administrative expenses

Note 2.2 Remuneration of the Board of Directors and Management Board

DKK'000	2021	2020
Remuneration of Management		
Remuneration of the Board of Directors		
Lars Krarup, Chairman	233	231
Thomas Lykke Pedersen, Vice Chairman	128	127
Martin Geertsen	77	77
Kaj V. Holm*	98	82
Mikael Klitgaard	77	77
Erik Lauritzen	77	77
Leila Lindén	77	77
Erik Nielsen	77	77
Hans Toft	77	77
Birgit Aagaard-Svendsen (from 1 June 2020)*	117	54
Total remuneration of the Board of Directors	1,038	956

The members of KommuneKredit's Board of Directors receive a fixed fee.

* In addition to the fixed fees, a committee fee is paid to the independent members of the Audit Committee.

DKK'000	Contractual remuneration	Pension	Total
Remuneration of the Management Board			
2021			
Jens Lundager, CEO	2,828	221	3,049
Henrik Andersen, Managing Director	2,067	212	2,279
Total			5,328
2020			
Jens Lundager, CEO	2,759	278	3,037
Henrik Andersen, Managing Director	2,094	207	2,301
Total			5,338

The Management Board is not covered by KommuneKredit's bonus plan.

Tax

Note 3.1 Tax on profit for the year

KommuneKredit computes tax on financial instruments based on the mark-to-market principle. The current corporate income tax rate is 22 pct.

Deferred tax is measured on all temporary differences between the carrying amount and the tax base of assets and liabilities. On this basis, the average tax rate is calculated at 22 pct.

Tax on profit for the year comprises current tax for the year, changes in deferred tax for the year, estimated tax on other comprehensive income and prior-year adjustments.

DKKm	2021	2020
Current tax	123	63
Deferred tax charge for the year	-13	-3
Prior-year adjustments	-1	0
Total tax on profit for the year	109	60
Tax on profit for the year is explained as follows:		
Estimated tax on the pre-tax profit for the year	107	61
Non-taxable income	0	-1
Non-deductible expenses	3	0
Prior-year adjustments to current tax	-1	0
Adjustment of deferred tax relating to prior years	0	0
Total tax for the year	109	60
Effective tax rate	22	22
Tax on other comprehensive income:		
Tax on actuarial adjustment	0	0
Tax on other comprehensive income, total	0	0

Tax

Note 3.2 Current tax assets/liabilities

Current tax assets and tax liabilities are recognised in the balance sheet as the sum of current tax, prior-year tax receivables or payables and tax paid for the year.

The tax asset concerns a pending case in Switzerland regarding withholding tax on matured bond investments.

DKKm	2021	2020
Balance at 1 January	35	35
Current tax	0	0
Value adjustment for the year	1	0
Income taxes paid for the year	0	0
Total current tax assets	36	35
Balance at 1 January	-23	-31
Prior-year adjustments	0	0
Current tax	-123	-63
Income taxes paid for the year	71	71
Total current tax liabilities	-75	-23

Note 3.3 Deferred tax liabilities

Deferred tax assets and tax liabilities are measured on all temporary differences between the carrying amount and the tax value of assets and liabilities. Deferred tax assets and tax liabilities are measured on the basis of the tax rules which will, given the legislation in force at the balance sheet date, apply once the deferred tax is expected to be triggered as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the statement of comprehensive income.

DKKm	2021	2020
Balance at 1 January	473	476
Prior-year adjustments	0	0
Deferred tax charge for the year	-13	-3
Total deferred tax liabilities	460	473
Deferred tax liabilities break down as follows:		
Property, plant and equipment and intangible assets	5	5
Assets held under leases	468	485
Pension obligations	-17	-17
Total deferred tax liabilities	460	473

Other notes

Note 4.1 Contingent assets and liabilities

In 2014, the Danish Customs and Tax Administration selected KommuneKredit for an audit, ordering KommuneKredit to pay additional payroll tax. KommuneKredit has appealed this decision to the Danish National Tax Tribunal where the case is pending. In KommuneKredit's opinion, KommuneKredit will most likely win the case, and no expense or provision has consequently been recognised in the financial statements.

KommuneKredit has a contingent liability for those pension obligations that relate to the defined benefit schemes. The calculations are based on the FSA's benchmark for mortality and life extensions and applying an insurance technical basis. The commitment is calculated at DKK 62 million as of 31 December 2021. In addition, there are excess reserves of DKK 10 million to cover future changes of the scheme. Adjustments in the calculated capital value attributable to changes in actuarial assumptions are recognised in other comprehensive income. However, this only happens if the bonus reserve cannot cover the changes.

Note 4.2 Related parties

KommuneKredit has no related parties exercising control over KommuneKredit. KommuneKredit's related parties exercising significant influence comprise the members of KommuneKredit's Board of Directors and Management Board and their close family members.

Board of Directors and Management Board

Management's remuneration is disclosed in note 2.2. Fiduciary positions are mentioned in the "Corporate governance" section. No other transactions were carried out with members of the Board of Directors and Management Board in the year.

Note 4.3. Events after the balance sheet date

No events have occurred after the balance sheet date that have a significant impact on KommuneKredit's results of operations.

Note 5 IFRS 9 impairment

KommuneKredit uses the fair value option for a significant part of its balance sheet, as a result of which IFRS 9 only affects the measurement of leasing.

KommuneKredit grants loans and leases exclusively to municipalities, regions and companies with a full local government guarantee. Danish municipalities and regions are subject to strict supervision by the Ministry of the Interior and Housing.

It has been decided by court order that Danish municipalities cannot file for restructuring proceedings. The Ministry of the Interior and Housing has laid down administrative rules (executive orders) to ensure that municipalities and regions maintain an adequate level of liquidity. Compliance with these rules is controlled and enforced by the ministry. Pursuant to the so-called "overdraft rule", liquidity in a municipality, calculated as a 12-month average, must as a minimum be positive.

This means that all Danish municipalities and regions are highly creditworthy and subject to a low Probability of Default (PD). Therefore, they are all placed in the category with the lowest PD level. The strong creditworthiness is reflected in the applied PD value in which the Credit Default Swap (CDS) price on the Danish State is used as a proxy to determine the current value.

The CDS price on the Danish State is determined on the basis of observable market data, and the calculation of value impairment is made using the same LGD value as for determining the CDS prices.

As a result of the use of IFRS 9, the measurement of leasing includes an expected credit loss. This means that, already when the lease agreement is established, the undertaking must recognise an impairment charge at an amount equal to the expected credit losses resulting from default events within 12 months. The impairment is recognised in three stages depending on credit risk developments:

Other notes

Note 5 IFRS 9 impairment – continued

STAGE 1:

If the credit risk has not increased significantly, the impairment equals the expected credit losses resulting from default events that are possible within the next 12 months.

The impairment charge is recognised at the time when the lease agreement is established and is subsequently adjusted to reflect non-significant changes to the credit risk.

STAGE 2:

If the credit risk has increased significantly, the agreement is transferred to stage 2 and an impairment equal to the lifetime expected credit losses is recognised. A shift to stage 2 would take place in case of an increase in PD on the expected term to maturity of the financial asset of 100 pct. and an increase in 12-month PD of 0.5 of a percentage point.

STAGE 3:

In the case of default or other credit impairment, the agreement is transferred to stage 3. Impairment is recognised using the same principles as in stage 2, but with the difference that interest income attributable to the write-down portion of the agreement is recognised on the basis of the write-down value.

When calculating the expected loss, the term to maturity of the agreement is capped at the contractual term. Model-calculated stage 1 and stage 2 impairment charges are based on transformations of PD and LGD values at short term (12 months) or long term (term to maturity of agreement).

Throughout the history of KommuneKredit, there have been no losses on loans or leases to municipalities and regions, and therefore all leasing is classified as stage 1. There were no shifts between the stages during the reporting period.

Impairment at 31 December 2021 is shown in the table below, and all leases were in stage 1 on the balance sheet date.

Impairment of assets at cost

DKKm	PD level	Cost	Impairment	Carrying amount
Stage 1 (12-month expected loss)	0	0	0	0
1 Jan. 2021	0.0% - 0.5%	7,652	2	7,650
Movement	-	253	0	253
31 Dec. 2021	0.0% - 0.5%	7,905	2	7,903

PD expresses the probability of default. At stage 1, the PD expresses the probability of the customer defaulting on its obligations towards KommuneKredit within the next 12 months.

LGD (Loss Given Default) expresses the proportion expected to be lost given default by the customer.

The change from 1 January to 31 December 2021 was exclusively due to a changed business volume.

Other notes

Note 6 Key figures

Million	2021	2021	2020	2019	2018	2017
	EUR	DKK	DKK	DKK	DKK	DKK
Key figures						
Net interest income	52	383	440	496	441	637
Other operating income	1	8	15	13	11	11
Other operating expenses	-2	-13	-14	-13	-12	-14
Administrative expenses	-19	-140	-130	-126	-127	-123
Profit before value adjustments	32	238	311	369	314	511
Value adjustment of financial instruments	34	249	-33	227	227	117
Tax on profit for the year	-15	-109	-60	-148	-119	-138
Comprehensive income for the year	51	378	218	441	405	489
Lending and leasing	26,235	194,948	192,457	184,965	177,454	173,580
Portfolio of securities	6,512	48,387	33,568	44,982	42,944	42,361
Assets	33,520	249,077	233,872	236,935	226,609	222,564
Debt securities issued	31,476	233,892	212,728	218,932	208,218	202,145
Equity	1,181	8,775	8,397	8,179	7,736	7,333
Activities during the year						
Lending and leasing, net additions in nominal value (net lending)	1,168	8,675	5,057	2,427	3,554	5,022
Lending and leasing, gross additions in nominal value	4,974	36,958	43,507	36,745	38,261	29,835
Debt securities issued, gross additions in nominal value	8,762	65,112	43,163	49,699	60,055	71,379

Million	2021	2021	2020	2019	2018	2017
	EUR	DKK	DKK	DKK	DKK	DKK
Capital structure						
Total risk exposure amount (REA)	1,865	13,859	11,496	11,911	13,843	17,544
Common Equity Tier 1 (CET1) capital	1,181	8,775	8,397	8,179	7,736	7,333
Capital base	1,165	8,660	8,277	7,997	7,520	7,121
Capital ratio, pct.	63	63	72	67	54	41
Equity ratio, pct.	3.5	3.5	3.6	3.5	3.4	3.3
Selected financial ratios						
Losses on lending and leasing	0	0	0	0	0	0
Expenses/assets, pct.	0.06	0.06	0.06	0.05	0.06	0.06
Net interest income/assets, pct.	0.15	0.15	0.19	0.21	0.19	0.28
Liquidity resources, pct.	20	20	13	19	19	20
Number of full-time employees	88	88	82	76	70	70

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

Exchange rate at 31/12/2021: EUR 100 = DKK 743.0737.



Statements and reports

Statement by the Board of Directors and Management Board

The Board of Directors and the Management Board have today considered and adopted the annual report of KommuneKredit for the financial year 1 January – 31 December 2021.

It is our opinion that the annual report with the filename [Årsrapport 2021-ESEF](#) has in all respects been prepared in accordance with the ESEF Regulation.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

It is our opinion that the financial statements give a true and fair view of the financial position of KommuneKredit at 31 December 2021 and of the comprehensive income of KommuneKredit's operations and cash flows for the financial year 1 January – 31 December 2021.

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, 31 March 2022

Management Board

Jens Lundager Chief Executive Officer, Managing Director	Henrik Andersen Managing Director	/Morten Søjtofte CFO
---	---	--------------------------------

Board of Directors

Lars Krarup Chairman	Thomas Lykke Pedersen Vice Chairman		
Martin Geertsen	Kaj V. Holm	Mikael Klitgaard	Erik Lauritzen
Leila Lindén	Erik Nielsen	Hans Toft	Birgit Aagaard-Svendsen

Independent auditor's report

To the board of directors of Kommunekredit

Opinion

We have audited the financial statements of KommuneKredit for the financial year 1 January to 31 December 2021, which comprise the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the Association's financial position at 31 December 2021 and of its financial performance and cash flows for the financial year 1 January to 31 December

2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of KommuneKredit in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and

the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No. 537/2014.

We were appointed auditors of KommuneKredit for the first time on 26 August 2016 for the financial year 2017. We have been reappointed annually by decision of the Board of Directors for a total contiguous engagement period of five years up to and including the financial year 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2021. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Fair value measurement of financial assets and liabilities

Generally, KommuneKredit's loans and advances, securities, derivatives and bonds issued are measured at fair value based on listed prices or input market data for yield curves and exchange rates.

In particular, KommuneKredit's financial assets comprise positive derivatives that are measured at fair value of Level 3 of the fair value hierarchy, corresponding to DKK 636 mio. of the assets at 31 December 2021 (2020: DKK 816 mio.). Financial liabilities particularly comprise negative derivatives that are measured at fair value of Level 3 of the fair value hierarchy, corresponding to DKK 250 mio. of the liabilities at 31 December 2021 (2020: DKK 397 mio.).

Because of the general materiality of measuring financial assets and liabilities at fair value and especially the complexity of measuring derivatives at fair value of Level 3 of the fair value hierarchy, these matters are key audit matters.

The measurement principles are described in the Summary of significant accounting policies, and Management has described the determination of fair values and the management of market risks in more detail in the notes on fair value adjustments etc. and financial risk management.

Determining fair values is generally based on correct input and use of different observable market prices and parameters. Particularly the measurement of instruments in Level 3 of the fair value hierarchy is based on non-observable input and estimates.

How the matter was addressed in our audit

Our audit comprised a review of relevant business procedures, test of key controls and analysis of developments in fair values.

Furthermore, our audit procedures included:

- Testing master data on contracts on a sample basis, including in particular correlation with counterparties
- Testing of input and use of parameters to determine fair values
- Assessment and testing of the measurement of instruments classified into Level 3 of the fair value hierarchy.

Finally, the audit comprised testing for compliance with disclosure requirements for financial assets, liabilities and derivatives.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish disclosure requirements for issuers of listed bonds.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the Danish disclosure requirements for issu-

ers of listed bonds. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Association's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and

perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
 - Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material
- uncertainty exists related to events and conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation

precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF regulation

As part of our audit of the financial statements of KommuneKredit, we have performed procedures to express an opinion on whether the annual report for the financial year 1 January to 31 December 2021, with the file name [Årsrapport 2021-ESEF](#), has

been prepared, in all material respects, in compliance with Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation), which includes requirements related to the preparation of an annual report in XHTML format.

Management is responsible for preparing an annual report that complies with the ESEF Regulation, including preparation of an annual report in XHTML format.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in com-

pliance with the ESEF Regulation based on the evidence we have obtained and to issue a report that includes our opinion. The procedures include testing whether the annual report is prepared in XHTML format.

In our opinion, the annual report for the financial year 1 January to 31 December 2021, with the file name [Årsrapport 2021-ESEF](#), has been prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 31 March 2022

DELOITTE

Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Anders Oldau Gjelstrup

State-Authorised Public Accountant
Identification number: mne10777

Jens Ringbæk

State-Authorised Public Accountant
Identification number: mne27735

Report by the auditor appointed by the ministry

To the Board of Directors of KommuneKredit

As the auditor appointed by the Ministry, I have reviewed the financial statements of KommuneKredit for the financial year 1 January – 31 December 2021, 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, 31 March 2022

Thorkil Juul



Additional information

Definitions and formulas

Benchmark: Public issues under a standard loan programme. Maturities often vary between 3 and 10 years depending on currency.

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.

CO₂e Scope 2: Indirect emissions of CO₂ from purchased energy (such as electricity and district heating).

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

CVA/DVA: Credit Value Adjustment (CVA) designates the value by which derivatives must be adjusted to reflect the probability of a counterparty's default. Debt Value Adjustment (DVA) designates the value by which derivatives must be adjusted to reflect the probability of KommuneKredit's default.

Cyclical fluctuations: Cyclical fluctuations are the rises and falls in economic activity in the Danish society over a long period of time.

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

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

Funding spread: KommuneKredit's funding spread is its funding costs relative to the variable market rate in DKK.

GELx index: Global Employee and Leadership Index (GELx) is a global benchmark survey measuring work enjoyment, commitment and management.

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

Haircut: Deductions in the quoted price of bonds, the size depending on the liquidity properties of the bond.

HQLA: High-quality liquid assets.

ICMA: International Capital Markets Association.

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

Kangaroo: Issues in AUD primarily for Australian and Japanese investors under a standardised loan programme.

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

Liquidity Coverage Ratio (LCR): Indicates the ratio between the portfolio of liquid assets and the net runoff from cash flows over a 30-day horizon in a stress scenario. The financial ratio was introduced in connection with Basel III and subsequently CRR/CRD IV.

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

Local authority mandate: The rules on local authority mandates are based on unwritten legal doctrines that allow municipalities to undertake assignments and make certain financial transactions of an economic nature without explicit statutory authority.

Nasdaq Copenhagen: Bonds listed on the stock exchange in Copenhagen. These bonds are often denominated in DKK.

Net lending: Net additions of loans and leasing in nominal value.

Net Stable Funding Ratio (NSFR): The ratio between defined stable funding and the estimated need for stable funding. The financial ratio was introduced in connection with Basel III and subsequently CRR/CRD IV.

Private placement: An issue directed at a single investor. Issues may be denominated in different currencies and maturities.

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 financial institutions.

SOFr: Secured Overnight Financing Rate.

STP: In the financial sector, Straight-through-processing (STP) defines financial transactions with no manual intervention involved.

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 Disclosure.

Total liquidity resources: The 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 rules for financial institutions.

Uridashi: Issue for the Japanese retail market under a standardised loan programme.



Disclaimer The annual report is prepared in Danish and translated into English. In case of discrepancies the Danish version shall prevail.

Photos KommuneKredit, BIG Bjarke Ingels Group, &greenprojects og Esbjerg Kommune

Design and production Noted

Thanks to FLUGT, Hornsyld Klimavarme and Esbjerg Kommune for participating in cases.



Contact

Jens Lundager, Chief Executive Officer, Managing Director

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

KommuneKredit

Kultorvet 16
DK-1175 Copenhagen K, Denmark

Tel. +45 33 11 15 12
kk@kommunekredit.dk
www.kommunekredit.dk
CVR No. 22 12 86 12

Published on 31 March 2022

