



INTERIM REPORT

FIRST HALF 2019



KOMMUNE
KREDIT

STEADY
& STABLE

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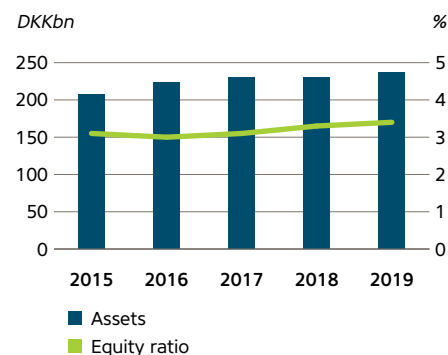
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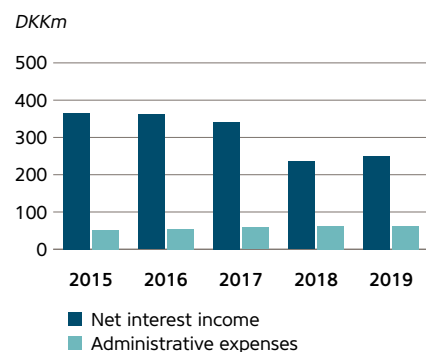


KEY FIGURES AND FINANCIAL RATIOS

ASSETS AND EQUITY RATIO FIRST HALF 2015-2019



NET INTEREST INCOME AND ADMINISTRATIVE EXPENSES FIRST HALF 2015-2019



Million	First half 2019 EUR	First half 2019 DKK	First half 2018 DKK	Full year 2018 DKK
KEY FIGURES FOR THE PERIOD				
Net interest income	33	250	235	441
Administrative expenses	-8	-62	-62	-127
Profit before value adjustments	25	187	172	314
Value adjustment of financial instruments	29	218	163	227
Tax on profit for the period	-12	-89	-74	-119
Comprehensive income for the period	42	316	261	405
Lending and leasing	24,899	185,878	176,788	177,454
Debt securities portfolio	5,650	42,181	45,683	42,944
Assets	31,771	237,182	229,599	226,609
Debt securities issued	28,994	216,451	207,718	208,218
Equity	1,079	8,052	7,593	7,736
ACTIVITIES DURING THE PERIOD				
Lending and leasing, net additions in nominal value	372	2,774	3,423	3,554
Lending and leasing, gross additions in nominal value	2,410	17,995	24,067	38,261
Debt securities issued, gross additions in nominal value	4,255	31,762	42,871	60,055
CAPITAL STRUCTURE				
Total risk exposure amount (REA)	1,924	14,366	19,926	13,843
Common Equity Tier 1 (CET1) capital	1,079	8,052	7,593	7,736
Capital base	1,052	7,851	7,340	7,520
Capital ratio, pct.	55	55	37	54
Equity ratio, pct.	3.4	3.4	3.3	3.4
SELECTED FINANCIAL RATIOS				
Losses on lending and leasing	0	0	0	0
Expenses/assets, pct.	0.03	0.03	0.03	0.06
Net interest income/assets, pct.	0.11	0.11	0.10	0.19
Liquidity resources, pct. (Note 5)	18	18	22	19
Number of full-time employees	74	74	69	70

Key figures and financial ratios have been calculated in accordance with "Recommendations & Financial Ratios" issued by CFA Society Denmark.
Exchange rate at 30 June 2019: EUR 100 = DKK 746.54.

KOMMUNEKREDIT IS STEADY AND STABLE

KommuneKredit has been providing funding to Danish local authorities since 1899. KommuneKredit is a steady and stable partner.

That steadiness is founded on the structure as an association in which all Danish local authorities are jointly and severally liable for KommuneKredit's obligations.

Steadiness is also reflected in the association's low risk appetite, prudent risk management and strong financial position.

KommuneKredit's stability is demonstrated by having provided a link between client financing requirements and investors for more than a century.

KommuneKredit has been assigned the highest rating from both Moody's and Standard & Poor's, consistent with the rating for the Kingdom of Denmark. This enables KommuneKredit to obtain funding at low interest rates. KommuneKredit does not have to generate dividends, allowing it to lend to its clients at a modest margin.

KommuneKredit plays an important part in society by creating financial latitude for local communities across Denmark.

KommuneKredit operates under a special legislative Act and is subject to supervision by the Danish Ministry of Industry, Business and Financial Affairs.

HIGHEST INTERNATIONAL CREDIT RATING



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



KommuneKredit's issues are placed in the highest liquidity category in the LCR Delegated Act.

0%

There is a risk weight of 0% when investing in KommuneKredit's bonds.

3.4%

With an equity ratio of more than 3%, KommuneKredit has a strong capital position.

55%

KommuneKredit has a total capital ratio of 55% as calculated in accordance with the solvency requirements for financial institutions.

DKK 186 billion 74 employees

At 30 June 2019, total lending amounted to DKK 186 billion, while profit for the period before value adjustments and tax totalled DKK 187 million.

The association employed 74 people on average in the first half of 2019.

JOINT AND SEVERAL LIABILITY FOR ALL KOMMUNEKREDIT'S LIABILITIES

KommuneKredit plays an important role in society by creating a financial foundation for local communities in Denmark.



JOINT AND SEVERAL LIABILITY

KommuneKredit's members are Denmark's 98 municipalities and 5 regions, and the association thus represents the entire Danish population. The members are jointly and severally liable for KommuneKredit's liabilities. That is the members' musketeer oath where everyone is obligated – one for all, all for one.

KOMMUNEKREDIT IS A LINK

KommuneKredit acts as a steady and stable link between local lending and global funding.

FUNDING OF LENDING

KommuneKredit's lending is financed by the issue of debt securities in the Danish and international capital markets.

CEO LETTER

KommuneKredit recorded a satisfactory financial performance in the first half of 2019 with profit slightly exceeding expectations at the start of the year.

In spring 2019, KommuneKredit celebrated its 120th anniversary as a credit association. We cover almost all local financing requirements across Denmark within our defined operating parameters. This underlines that we still have a viable business model as a common debt office for Danish local authorities.

KommuneKredit's total lending and leasing has increased a little more than we expected at the start of the year. Our level of activity relies entirely on the borrowing requirements of local authorities within the borrowing framework established by the Danish parliament and the Ministry of Social Affairs and the Interior.

Examples of loans granted in the first half of 2019 include a loan of DKK 17 million to the City of Copenhagen to fund the weatherproofing of the handball arena Ryparken against cloudbursts, a loan of DKK 1 million to Fanø Hallen to fund changing room facilities and energy optimisation, a loan of DKK 2 million to Vikingelauget Valkyrien to fund new bathing facilities and a loan of DKK 2 million to Østsjælland's Flyveklub to fund a new club house.

Net interest income was also slightly higher than expected, while costs were in line with expectations for

the first half of the year. KommuneKredit now expects a profit before value adjustments and tax of about DKK 380 million, against a forecast of DKK 280 million at the start of the year.

We also recognised a major positive fair value adjustment of DKK 218 million in the first half of the year. Funding and lending are subject to fair value adjustments, and that may cause large accounting movements relative to the size of our profit, because we operate on a non-profit basis.

KOMMUNEKREDIT REGAINS AAA RATING WITH STANDARD & POOR'S

Since rating agency Standard & Poor's downgraded KommuneKredit in summer 2018, we have endeavoured to once again become a AAA issuer, which we have consistently been with the other major credit rating agency, Moody's. We are very satisfied to have achieved this after only one year, with our efforts including adjusting to fit some of Standard & Poor's calculation methods without having to change our business model.

STRATEGY 2022 ON TRACK

We are continuing to implement our Strategy 2022, focusing on client relations, steady and stable, and



› CEO LETTER

professionalisation. In the first half of 2019, our focus centred on consolidating our business development and IT systems, and we are in the process of updating our IT strategy from 2016. We have successfully migrated our IT servers from our own data centre at Kultorvet in Copenhagen to an external data centre.

We are also well under way in our efforts to establish a data warehouse and are working with corporate governance at KommuneKredit. Lastly, we continue to prioritise strengthening our internal control environment.

KOMMUNEKREDIT'S BUSINESS SUBJECT TO TIGHT REGULATION

Local government borrowing and guarantees are subject to strict regulation by the Danish parliament and the Ministry for Social Affairs and the Interior. When processing specific loan requests, KommuneKredit assesses both whether the purpose qualifies for a loan under municipal law and whether the loan complies with the EU state aid rules.

For loans to entities other than public authorities, the state aid considerations require that the loan be offered at the request of a municipality or region and

that the proceeds be used for a public sector project. Moreover, we need to assess whether the loan purpose represents economic activity and, if so, whether there is actual competition in the area, so that the loan may risk distorting the competition. If that is the case, KommuneKredit cannot grant the loan.

In connection with the previous government's strategy for the utilities sector a question arose in the spring of 2019 of whether Danish waste incineration plants operate in a competitive market, which would prevent KommuneKredit from granting loans. To ensure certainty that this is not the case KommuneKredit commissioned a competition analysis: "Waste energy, Report on waste incineration in Denmark", which is available in Danish at KommuneKredit's website.

The conclusion of the report is that the dedicated Danish waste incineration plants only compete on a limited scale with infrastructures of the same type or infrastructures of a different type. In other words, the facilities are not exposed to direct competition. We will continue to grant loans to such facilities as long as it is within the regulatory framework.

FUTURE OF THE DANISH REGIONS

After the general election in Denmark held on 5 June 2019, there is no longer a majority in favour of disbanding the regions. The political understanding between the ruling Social Democratic Party and its support parties, the Socialist People's Party, The Unity List (The Red-Green Alliance) and the Social Liberal Party, states as follows: "*The regions will be maintained to ensure a continued, decentralised healthcare system with decisive regional influence and decision-making power.*" This means KommuneKredit may continue granting loans and leasing to the regions.

MINISTRY RESPONSIBLE FOR KOMMUNEKREDIT

When the new government was formed, responsibility for KommuneKredit was transferred from the Danish Ministry of Economic Affairs and the Interior to the Danish Ministry of Industry, Business and Financial Affairs. Such a change of responsible ministry does not involve any change to the framework governing KommuneKredit's operations.

Copenhagen, 30 August 2019

Jens Lundager
CEO

» *We are very satisfied once again to be a Triple A issuer after only one year. Our efforts included adjusting to fit some of Standard & Poor's calculation methods without having to change our business model.*

Jens Lundager
CEO



GREEN CERTIFICATE FOR GREEN LOANS

KommuneKredit's borrowers may receive a green certificate for their website if they finance a green construction project using a green loan from KommuneKredit. The certificate may be used to promote an entity's environment and climate-supportive initiatives.

When our clients take out a green loan with KommuneKredit, it involves a reporting duty with respect to the expected green impact. Investors who buy KommuneKredit's green bonds may read about the reported impact data in an annual Green Bond Impact Report published by KommuneKredit.

KommuneKredit's green bonds are earmarked for investments in the areas of district heating, water, public transport and energy efficiency initiatives.



» With the green certificate we help our clients create awareness of their green investments."

Henrik Andersen
Managing Director

FOR ADDITIONAL INFORMATION:

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FINANCIAL PERFORMANCE REMAINING STABLE

Profit before value adjustments for the first half of 2019 was DKK 187 million, which was slightly more than in the same period of last year. There was an increase in the level of activity of the underlying business for both lending and leasing.

EARNINGS AND CAPITAL BASE

Net interest income totalled DKK 250 million in the first half of 2019, which is on a level with the first half of 2018.

At DKK 62 million, administrative expenses were on a level with the first half of 2018.

Profit for the period before value adjustments was DKK 187 million, which was DKK 15 million higher than in the same period of last year.

Value adjustments of financial instruments amounted to DKK 218 million in the first half of 2019, against DKK 163 million in the first half of 2018. In the first half of 2019, an increase in KommuneKredit's funding spreads gave rise to a positive value adjustment because the fair value of funding decreases when funding spreads rise. The margin on loans has been lowered in the same period, also resulting in a positive value adjustment of lending. The lower margin has still not truly fed through to net interest income.

Comprehensive income for the period amounted to DKK 316 million against DKK 261 million in the corresponding period last year.

Comprehensive income for the period is transferred to equity, which now totals DKK 8,052 million. KommuneKredit's equity consists in its entirety of retained earnings, as a result of which the Common Equity Tier 1 (CET1) capital corresponds to equity. The capital ratio rose by 18 percentage points to 55% from the first half of 2018 to the first half of 2019. The higher capital ratio was due to a fall in the total risk exposure amount (REA) owing to a smaller trading book and changed derivatives exposure.

The Board of Directors' target is for equity to amount to at least 3.0% of assets, which is considered adequate to support KommuneKredit's activities. As KommuneKredit has an equity ratio of 3.4%, the Board of Directors' target is met.

LENDING AND LEASING

In the first half of 2019, the value of lending and leasing rose by DKK 8.4 billion to DKK 185.9 billion. Of this amount, DKK 2.8 billion was due to new lending during the period exceeding repayment instalments and redemptions. The rest of the increase was attributable to value adjustments.

The positive trend in net lending reflects a moderate increase both in lending and leasing. During the period, demand was particularly strong for fixed-rate loans, and 60% of all new loans granted in the period carried a fixed rate of interest.

KommuneKredit has never incurred a loss or impairment on its lending or leasing during its 120-year history, and that track record was maintained in the first half of 2019.



» As KommuneKredit has an equity ratio of 3.4%, the Board of Directors' target is met.

Morten Sjøtofte
Director, CFO

FUNDING AND INVESTMENTS

Funding – due to credit institutions and issued debt securities – rose by DKK 8.2 billion relative to the end of 2018, corresponding to the increase in lending and leasing.

Funding during the period consisted primarily of benchmark issuances totalling DKK 15 billion. Two of the benchmark issuances were in DKK, and one was in USD. In connection with the USD issuance, KommuneKredit bought back DKK 3 billion in two other outstanding USD benchmark issuances maturing in 2019 and 2020, respectively. Buybacks are a component of KommuneKredit's balance sheet management strategy with a view to reducing the refinancing risk.

Most of the outstanding funding before currency hedging is still in EUR, USD and DKK.

Total investments – due from credit institutions and the debt securities portfolio – is unchanged at DKK 42.2 billion relative to DKK 42.9 billion at the end of 2018.

SPECIAL ACCOUNTING MATTERS

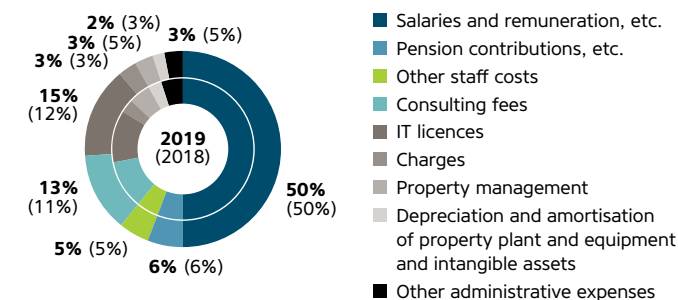
IFRS 16, Leasing was implemented with effect from 1 January 2019. The implementation of IFRS 16 has not had any impact on profit, total assets or equity because KommuneKredit only acts as lessor of operating leases.

GUIDANCE FOR 2019

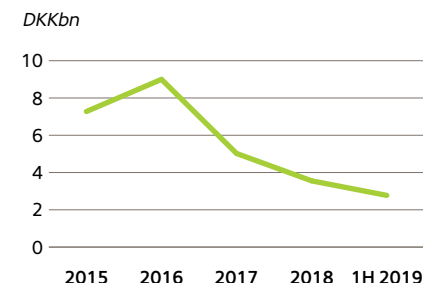
Net lending is still expected to amount to approximately DKK 2 billion in 2019. Guidance for net interest income for 2019 has been revised up from DKK 400 million to DKK 500 million.

Profit before tax, barring value adjustments, has been revised up from DKK 280 million to DKK 380 million. To which are added value adjustments, which in the first half of 2019 amounted to DKK 218 million.

ADMINISTRATIVE EXPENSES



DEVELOPMENT IN NET LENDING



THE EXPECTATIONS STATED IN THIS INTERIM REPORT ARE INHERENTLY SUBJECT TO UNCERTAINTIES AND MAY BE AFFECTED BY EXTERNAL FACTORS. THIS MAY HAVE THE EFFECT THAT ACTUAL DEVELOPMENTS AND ACTUAL RESULTS MAY DIFFER FROM THE EXPECTATIONS EXPRESSED IN THE INTERIM REPORT.

› CASE: HILLERØD FORSYNING

KOMMUNEKREDIT
FUNDS A SUSTAINABLE
WASTEWATER
TREATMENT PLANT
IN HILLERØD WITH
A GREEN LOAN



› CASE: HILLERØD FORSYNING

Wastewater from some 50,000 users is treated at Hillerød Forsyning's sustainable wastewater treatment plant, which has a capacity of 100,000 PE or 7-8 million cubic metres of wastewater per year. The wastewater treatment plant is the first covered facility in Denmark and seeks to be a beacon in Danish environmental technology.

The plant has a green sedum roof, making it look like a big hill from a distance. In between the functional parts of the plant there is a pedestrian area flanked by large glass panels, allowing people to view the water treatment process from A to Z.

The treatment plant is a part of Solrødgård Klima- og Miljøpark and as such a component of Hillerød Forsyning's vision of grouping water treatment, climate adjustment, resource recycling and energy production in a future-proof and financially sustainable solution. In the pedestrian area between the functional parts of the treatment plant citizens may come and get inspiration for local treatment of rainwater, or they may simply enjoy the park as a recreational area.

» *The ambition with our wastewater treatment plant is to test new technologies and put them to use in the facility. We aim to contribute to improving the utilisation of wastewater resources and to developing solutions that benefit the environment and the climate. In these endeavours, we must have the courage to lead the way, and that's what we have done with our new treatment plant, which is funded by KommuneKredit.*

Peter Underlin

Director of Water Treatment at Hillerød Forsyning

FACTS:

BORROWER:

Hillerød Forsyning

LOAN FROM KOMMUNEKREDIT:

DKK 306,486,000

The wastewater treatment plant is financed by a green loan from KommuneKredit.

Read more about

KommuneKredit's green funding:
<https://www.kommunekredit.dk/en/green-bonds/>

FOR ADDITIONAL INFORMATION:

Christian Jeppesen

Director, Head of Lending
and Leasing

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Top: Peter Underlin,
Director of Water Treatment at Hillerød Forsyning

Bottom: Glass panels along the pedestrian area provide
a view of the treatment process from A to Z.



STATEMENT OF COMPREHENSIVE INCOME

DKKm	Note	H1 2019	H1 2018
Interest income		917	908
Interest expenses		-667	-673
Net interest income		250	235
Other operating income		7	6
Other operating expenses		-7	-7
Administrative expenses		-62	-62
Profit before value adjustments		187	172
Value adjustments of financial instruments		218	163
Profit before tax		405	335
Tax on profit for the period		-89	-74
Profit for the period		316	261
Other comprehensive income			
Actuarial gains and losses		0	0
Comprehensive income for the period		316	261
Allocated as follows:			
Transferred to equity		316	261
Total		316	261

STATEMENT OF FINANCIAL POSITION

DKKm	Note	30 Jun. 2019	31 Dec. 2018
ASSETS			
Due from credit institutions	3	15	2
Lending	3	177,876	170,312
Leasing		8,002	7,142
Debt securities portfolio	3	42,181	42,944
Derivatives	3, 4	8,938	6,056
Other assets		137	120
Current tax assets		34	33
Total assets		237,182	226,609
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions	3	699	716
Debt securities issued	3	216,451	208,218
Derivatives	3, 4	10,949	8,800
Other liabilities		437	571
Pension obligations		78	80
Current tax liabilities		92	63
Deferred tax liabilities		425	425
Total liabilities		229,131	218,873
Equity		8,052	7,736
Total liabilities and equity		237,182	226,609

EQUITY

DKKmn	Note	H1 2019	H1 2018
Equity			
Equity at 1 January		7,736	7,333
Impairment changes due to implementation of IFRS 9		0	-2
Change in payable tax due to implementation of IFRS 9		0	1
Transferred to equity			
Profit for the period		316	261
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			
		316	261
Equity at 30 June			
		8,052	7,593

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

Equity increased to DKK 8,052 million at mid-2019 from DKK 7,736 million at end-2018. At mid-2019, equity amounted to 3.4% of total assets, which was unchanged from 3.4% of assets at end-2018.

Under the legal framework applying to KommuneKredit, equity must equal at least 1.0% of total liabilities, equal to DKK 2,291 million. The Board of Directors' target is for equity to amount to at least 3.0% of assets, which is considered adequate to support KommuneKredit's activities.

CASH FLOWS

DKKmn	Note	H1 2019	H1 2018
Operating profit			
Operating profit		155	100
Depreciation, amortisation and impairment		1	2
Total		156	102
Financial income received			
Financial income received		917	908
Financial expenses paid			
Financial expenses paid		-667	-673
Taxes paid			
Taxes paid		-60	-102
Increase in lending			
Increase in lending		-8,424	-3,210
Other assets			
Other assets		-16	-57
Other liabilities			
Other liabilities		-137	21
Cash flows from operating activities		-8,387	-3,113
Acquisition, etc. of assets			
Acquisition, etc. of assets		-1	-4
Sale of property, plant and equipment			
Sale of property, plant and equipment		0	0
Change in issued debt securities			
Change in issued debt securities		763	-3,322
Cash flows from investing activities		762	-3,326
Change in issued debt securities			
Change in issued debt securities		8,220	5,560
Derivative financial liabilities			
Derivative financial liabilities		2,149	216
Derivative financial assets			
Derivative financial assets		-2,883	-21
Cash flows from financing activities		7,486	5,755
Change in cash and cash equivalents			
		17	-582
Deposits in credit Institutions			
Deposits in credit Institutions		2	3
Short-term payables to credit institutions			
Short-term payables to credit institutions		-440	-1,251
Cash and cash equivalents, 1 January		-439	-1,248
Deposits in credit Institutions			
Deposits in credit Institutions		15	429
Short-term payables to credit institutions			
Short-term payables to credit institutions		-437	-2,259
Cash and cash equivalents, 30 June		-422	-1,830

NOTE 1

ACCOUNTING POLICIES

GENERAL

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

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

Except for the changes described below, the accounting policies are unchanged from the policies applied in the annual report for 2018. Reference is made to the annual report for a complete description of the accounting policies.

CHANGE IN ACCOUNTING POLICIES

Effective 1 January 2019, KommuneKredit implemented IFRS 16, Leases. As KommuneKredit only acts as lessor of operating leases, the implementation will not have any material impact on results of operations or the association's financial position.

To provide a more fair presentation, KommuneKredit incorporated the item “Current tax liabilities” in the statement of financial position. This is not a change in accounting

policies but only an adjustment in terms of presentation.

Comparative figures presented in the interim report have been restated to reflect the above changes.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

The accounting estimates and judgments 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 issued debt securities that are not listed on NASDAQ Copenhagen may affect the financial statements.

Unlike for debt securities listed on NASDAQ Copenhagen, 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.

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

Relative to the annual report for 2018, there have been no changes to accounting estimates, and a full description of applied methods and principles for determining accounting judgments and estimates with respect to the fair value of financial instruments is provided in the annual report for 2018.

NOTE 2

EVENTS AFTER THE BALANCE SHEET DATE

On 24 July, Standard & Poor's upgraded KommuneKredit's long-term credit rating from AA+ to AAA (outlook stable). Standard & Poor's has maintained the short-term credit rating at the highest level, A-1+.

The upgrade is not expected to affect net interest income or value adjustments in the period until year-end 2019.

NOTE 3

FAIR VALUE

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 issuances 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 issued debt securities and loans which in-house 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 client plus a margin determined by KommuneKredit.

All of these debt securities 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 issuances adjusted for liquidity, credit risk and conversion rights are used instead. As the credit risk on loans to clients corresponds to the credit risk on the issued debt securities, the price of the issued debt securities 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 and the remaining part of the issued debt securities and loans raised at fair value. These are also considered illiquid, and the calculation of fair value in level 2 includes observable input like swap rates, FX base swap spreads and exchange rates, etc. KommuneKredit's estimate of the actual funding expenses is also included in the valuation of issued debt securities. The valuation of lending includes KommuneKredit's current lending prices. KommuneKredit aims to keep lending margins relatively constant by adjusting the actual lending prices on a regular basis against estimated, current funding expenses. The sensitivity on the estimated 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 350 million.

A small part of KommuneKredit's issued debt securities and derivatives is classified as fair value level 3. The level is used for issued structured debt securities 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 issued

structured debt securities 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 issuances will have an opposite effect on the derivatives.

KommuneKredit pursues a risk management strategy of eliminating market risk by using financial instruments. Consequently, the total net effect on the statement of comprehensive income and equity 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.

No transfers between the levels have been made in 2019.

NOTE 3

SPECIFICATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

DKKm	Level 1	Level 2	Level 3	Total
30 Jun. 2019				
Assets				
Due from credit institutions	15	0	0	15
Lending	0	177,876	0	177,876
Debt securities portfolio	41,198	983	0	42,181
Derivatives	0	8,143	795	8,938
Total assets	41,213	187,002	795	229,010
Liabilities				
Due to credit institutions	0	699	0	699
Debt securities issued	0	207,928	8,523	216,451
Derivatives	0	10,183	766	10,949
Total liabilities	0	218,810	9,289	228,099

DKKm	Level 1	Level 2	Level 3	Total
31 Dec. 2018				
Assets				
Due from credit institutions	2	0	0	2
Lending	0	170,312	0	170,312
Debt securities portfolio	42,944	0	0	42,944
Derivatives	0	5,309	747	6,056
Total assets	42,946	175,621	747	219,314
Liabilities				
Due to credit institutions	440	276	0	716
Debt securities issued	0	199,617	8,601	208,218
Derivatives	0	7,583	1,217	8,800
Total liabilities	440	207,476	9,818	217,734

NOTE 3

SPECIFICATION OF LEVEL 3 FAIR VALUE

DKKkM	1 Jan.	Additions	Disposals	Recognised in profit for the period	30 Jun.
30 Jun. 2019					
Assets					
Due from credit institutions	0	0	0	0	0
Lending	0	0	0	0	0
Debt securities portfolio	0	0	0	0	0
Derivatives	747	0	0	48	795
Total assets	747	0	0	48	795
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	8,601	0	279	201	8,523
Derivatives	1,217	0	316	-135	766
Total liabilities	9,818	0	595	66	9,289

DKKkM	1 Jan.	Additions	Disposals	Recognised in profit for the year	31 Dec.
31 Dec. 2018					
Assets					
Due from credit institutions	0	0	0	0	0
Lending	0	0	0	0	0
Debt securities portfolio	0	0	0	0	0
Derivatives	905	0	63	-95	747
Total assets	905	0	63	-95	747
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	13,938	520	5,724	-133	8,601
Derivatives	1,035	80	231	333	1,217
Total liabilities	14,973	600	5,955	200	9,818

NOTE 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 financial position. The total set-off amounts to DKK 4,153 million.

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

ISDA Master Agreements include unilateral or bilateral collateral agreements relating to derivatives. Collateral received and posted under these agreements solely includes bonds with a strong 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 statement of financial position.

Derivatives presented in the statement of financial position

DKKmn	Values offset		Values not offset			
	Gross carrying amount	Set-off	Carrying amount	Financial instruments	Collateral	Net value
30 Jun. 2019						
Assets	13,091	-4,153	8,938	-1,980	-4,318	2,640
Liabilities	15,102	-4,153	10,949	-1,980	-5,449	3,520
Net	-2,011	0	-2,011	0	1,131	-880
31 Dec. 2018						
Assets	9,266	-3,210	6,056	-1,668	-2,481	1,907
Liabilities	12,010	-3,210	8,800	-1,668	-3,929	3,203
Net	-2,744	0	-2,744	0	1,448	-1,296

NOTE 5

LIQUIDITY RESOURCES

The supervisory authority has determined that KommuneKredit may build up liquidity resources, based on pre-funding, of up to 25% of total lending at the end of the preceding quarter. The upper limit amounted to DKK 45.4 billion at the end of the period, and KommuneKredit had liquidity resources of DKK 33.3 billion. The utilisation of the limit fluctuated throughout the

first half of 2019, and the highest level of liquidity resources at the end of a month was 19%.

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

	30 Jun. 2019	31 Dec. 2018
DKKm		
Liquidity resources		
Due to credit institutions, debt securities issued and derivatives		
Due to credit institutions	699	716
Debt securities issued	216,451	208,218
Derivatives, assets	10,949	8,800
Derivatives, liabilities	-8,938	-6,056
Total due to credit institutions, debt securities issued and derivatives	219,161	211,678
Lending and leasing		
Lending	177,876	170,312
Leasing	8,002	7,142
Total lending and leasing	185,878	177,454
Liquidity resources	33,283	34,224
Liquidity resources cannot exceed 25% of total lending at the end of the preceding quarter.		
Liquidity resources	33,283	34,224
Total lending at the end of the preceding quarter	181,584	176,046
Liquidity resources, pct.	18	19

NOTE 6

IFRS 9 IMPAIRMENT

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

KommuneKredit grants loans and leasing exclusively to municipalities, regions and municipal companies with a 100% municipal guarantee. Danish municipalities and regions are subject to strict supervision by the Ministry for Social Affairs and the Interior.

It has been decided by court order that Danish municipalities cannot file for restructuring proceedings. The Ministry for Social Affairs and the Interior 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, 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 cate-

gory 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.

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

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% and an increase in 12-month PD of 0.5 of a percentage point. Default will lead to a shift to stage 3.

The impairments at 30 June 2019 are shown in the table below, and all lease agreements at 30 June were in stage 1.

Impairment of assets at cost (leasing)

DKKmn	PD level	Cost	Impairment	Carrying amount
Stage 1 (12-month expected loss)				
1 January 2019	0.0% - 0.5%	7,144	2	7,142
Movement	-			860
30 Jun. 2019	0.0% - 0.5%	8,004	2	8,002

PD expresses the probability of default. At stage 1, the PD expresses the probability of the client 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 client.

The change from 1 January 2019 to 30 June 2019 was exclusively due to a higher business volume.

NOTE 7

KEY FIGURES

Million	First half 2019	First half 2019	First half 2018	First half 2017	First half 2016	Full year 2018
	EUR	DKK	DKK	DKK	DKK	DKK
KEY FIGURES						
Net interest income	33	250	235	341	362	441
Administrative expenses	-8	-62	-62	-58	-54	-127
Profit before value adjustments	25	187	172	282	307	314
Value adjustment of financial instruments	29	218	163	63	88	227
Tax on profit for the period	-12	-89	-74	-76	-87	-119
Comprehensive income for the period	42	316	261	269	308	405
Lending and leasing	24,899	185,878	176,788	172,271	166,257	177,454
Debt securities portfolio	5,650	42,181	45,683	42,706	35,690	42,944
Assets	31,771	237,182	229,599	230,199	223,599	226,609
Debt securities issued	28,994	216,451	207,718	210,357	204,369	208,218
Equity	1,079	8,052	7,593	7,113	6,655	7,736
ACTIVITIES DURING THE YEAR						
Lending and leasing, net additions in nominal value	372	2,774	3,423	4,939	5,090	3,554
Lending and leasing, gross additions in nominal value	2,410	17,995	24,067	19,008	16,670	38,261
Debt securities issued, gross additions in nominal value	4,255	31,762	42,871	54,741	52,090	60,055

Million	First half 2019	First half 2019	First half 2018	First half 2017	First half 2016	Full year 2018
	EUR	DKK	DKK	DKK	DKK	DKK
CAPITAL STRUCTURE						
Total risk exposure amount (REA)*	1,924	14,366	19,926	9,699	7,582	13,843
Common Equity Tier 1 (CET1) capital	1,079	8,052	7,593	7,113	6,655	7,736
Capital base	1,052	7,851	7,340	6,590	6,450	7,520
Capital ratio, pct.*	55	55	37	68	85	54
Equity ratio, pct.	3.4	3.4	3.3	3.1	3.0	3.4
SELECTED FINANCIAL RATIOS						
Losses on lending and leasing	0	0	0	0	0	0
Expenses/assets, pct.	0.03	0.03	0.03	0.03	0.02	0.06
Net interest income/assets, pct.	0.11	0.11	0.10	0.15	0.16	0.19
Liquidity resources, pct. (Note 5)	18	18	22	24	18	19
Number of full-time employees	74	74	69	69	67	70

* The figures are not directly comparable over time because the format has been changed.

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

Exchange rate at 30 June 2019: EUR 100 = DKK 746.54.

STATEMENT BY THE MANAGEMENT

The Board of Directors and the Management Board have today considered and adopted the interim report of KommuneKredit for the period 1 January – 30 June 2019.

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

It is our opinion that the interim financial statements give a true and fair view of the financial position of KommuneKredit at 30 June 2019 and of the comprehensive income of KommuneKredit’s operations and cash flows for the period 1 January 2019 – 30 June 2019.

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, 30 August 2019

MANAGEMENT BOARD

Jens Lundager
Chief Executive Officer

Henrik Andersen
Managing Director

/Morten Søjtofte
Director, Head of Finance and Risk, 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

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE INTERIM FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF KOMMUNEKREDIT

We have conducted a review of the interim financial statements of KommuneKredit for the period 1 January 2019 – 30 June 2019, which comprises statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and notes including applied accounting policies.

MANAGEMENT'S RESPONSIBILITY FOR THE INTERIM FINANCIAL STATEMENTS

Management is responsible for the preparation of the interim financial statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. Management is, furthermore, responsible for such internal controls as Management deems necessary to prepare interim financial statements free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the interim financial statements. We have conducted our review in accordance with the international standard on Review of Interim Financial Information Performed by the Independent Auditor of the Entity and further requirements under

Danish audit regulation. This requires us to conclude whether anything has come to our attention, which causes us to believe that the interim financial statements, as a whole, have not in all material aspects been prepared in accordance with the relevant accounting framework. This also requires us to comply with ethical requirements.

A review of the interim financial statements conducted in accordance with the international standard on Review of Interim Financial Information Performed by the Independent Auditor of the Entity is a limited assurance engagement. The auditors perform procedures primarily consisting of making inquiries of Management and others in KommuneKredit, as appropriate, as well as applying analytical procedures and evaluating the evidence obtained.

The extent of the procedures carried out in a review is substantially less than in an audit performed in accordance with the International Standards on Auditing. Accordingly, we do not express an audit opinion on the interim financial statements.

OPINION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements for the period 1 January 2019 – 30 June

2019 have not, in all material respects, been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

STATEMENT ON MANAGEMENT'S REVIEW

As part of our review we have read Management's review. We have not performed further actions in addition to the completed review of the interim financial statements.

On this basis, we are of the opinion that the information in Management's review is in accordance with the interim financial statements.

Copenhagen, 30 August 2019

DELOITTE

Statsautoriseret Revisionspartnerselskab
Company reg. (CVR) no. 33 96 35 56

Anders Oldau Gjelstrup

State Authorised
Public Accountant
MNE no. 10777

Bjørn Würtz Rosendal

State Authorised
Public Accountant
MNE no. 40039

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 interim financial statements of KommuneKredit for the period 1 January 2019 – 30 June 2019, as prepared by Management. In addition, I have read the Management's review.

During my review, I did not identify any non-compliance with the 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, 30 August 2019

Thorkil Juul

DISCLAIMER The interim report is prepared in Danish and translated into English. In the event of discrepancies the Danish Version shall prevail.

PHOTOS TRUX and Hillerød Forsyning

THANKS to Hillerød Forsyning for participating in our case

DESIGN AND PRODUCTION Noted

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