

Research Update:

Danish Public-Sector Funding Agency KommuneKredit Affirmed At 'AAA' Amid Funding Scheme Change; Outlook Stable

April 16, 2025

Overview

- Under our revised public-sector funding agencies criteria, we now more closely link our analysis of KommuneKredit to the very strong credit quality of its asset base--the Danish local and regional governments (LRG) sector.
- KommuneKredit continues to play a leading role in providing financing to the Danish LRG sector and the agency's financial metrics remain robust.
- On March 26, 2025, the agency announced it stopped issuing bonds on the open market and will now be funded by the Danish government. We think this change won't weaken its credit quality.
- We therefore affirmed our 'AAA' long-term and 'A-1+' short-term issuer credit ratings on KommuneKredit. The outlook is stable.

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Rating Action

On April 16, 2025, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on the Danish public-sector funding agency KommuneKredit. The outlook is stable. We also affirmed our 'AAA' issue rating on KommuneKredit's senior unsecured debt and 'A-1+' short-term rating on the agency's commercial paper.

Outlook

The stable outlook on KommuneKredit reflects there are limited risks to the Danish LRG sector's strong credit quality and the near-monopoly role on the agency in providing funding to it.

Downside scenario

We could lower the rating on KommuneKredit if the agency's liquid assets depleted substantially.

Rationale

The affirmation reflects KommuneKredit's key role in providing funding to a solid Danish LRG sector combined with strong control over operations and very solid capitalization. While the liquidity position is very strong, it could weaken amid uncertainty over the technical details and legal framework of funding from the Danish government.

We also think KommuneKredit continues benefiting from the joint and several liability mechanism, which we understand there is no plan to change.

Sector risk profile: Very low risk in lending to Danish LRGs, supported by their strong financial performance and the sector's low debt

KommuneKredit's public-policy mandate is to provide funding to its Danish LRG members. It fulfills this mandate by lending directly to municipalities, regions, and companies with a municipal guarantee. KommuneKredit's loan book contains risk only from Danish LRGs.

In our view, Danish municipalities operate under a supportive institutional framework with a robust equalization system. We consider that Danish LRGs have sufficient resources to undertake their tasks, meaning their indebtedness will remain low. We think the extensive equalization between Danish municipalities supports revenue and expenditure management. Tight government oversight enforces strict budget discipline. Also, the sector benefits from automatic stabilizers that compensate for budget deviations. We therefore expect Danish LRGs will maintain their stable performance, despite increased expenditure. (For more information, see "Danish LRGs Benefit From Equalization And Central Government Support," published Dec. 10, 2024, on RatingsDirect.)

Individual credit profile: Very strong business position coupled with robust capitalization and liquidity

KommuneKredit's market share is close to 100%, and we don't think it will change in the next couple of years because its loans are becoming even more attractive for the Danish LRGs given the new funding scheme. The agency's total loans and leasing portfolio increased to Danish krone (DKK) 194 billion at year-end 2024 from DKK187 billion a year earlier, primarily on new lending provided to the district heating companies, which the respective municipality guarantees. The agency projects net lending for 2025 at DKK0.5 billion, as one of the large loans matures. We expect the new loans and leases to be in line with 2024 levels.

We view KommuneKredit's overall financial management and governance as strong, but not as robust as that of its Nordic peers. This is particularly relevant to credit assessment, where the agency relies on the Danish Ministry for Economic Affairs and the Interior to monitor LRGs.

We expect that KommuneKredit will maintain its very strong capitalization. In our view, the agency has a sufficient buffer in its S&P Global Ratings-adjusted risk-adjusted capital (RAC) to absorb the potential increase in lending and the concentration. Our adjusted RAC ratio for KommuneKredit (applying adjustments specific to public sector funding agencies and accounting for the agency's business concentration in Danish municipalities) equalled 29.8% on Dec. 31, 2024, well above the 15.0% threshold for the current capital assessment.

New funding scheme will grant KommuneKredit unlimited access to the government funding.

On March 26, 2025, the agency announced it stopped issuing bonds on the open market and will instead be funded by the government. The change is meant to reduce the funding costs for the Danish LRGs by about 50 basis points. We understand KommuneKredit will continue issuing bonds, and the Danish government will have an obligation to buy them. Before the change takes effect, the agency will use its liquid assets for debt repayments. Liquid assets totalled DKK43.6 billion (€5.8 billion) as of Dec. 31, 2024, well above the DKK21 billion debt maturing in 2025. The agency's one-year liquidity coverage was 1.55x on Dec. 31, 2024. Our calculations, which include stressed market conditions and an assumption that KommuneKredit would not have access to funding, indicate it has a strong liquidity position, can meet its financial obligations over a one-year period, and could do so while maintaining a liquidity buffer.

In our view, the liquidity position could become less strong. This follows some depletion of the liquid assets to meet current debt maturities in the next several months and overall diminishing relevance of maintaining such high liquid assets provided the new funding scheme.

KommuneKredit's liquidity portfolio is invested in liquid fixed-income securities issued at the state, regional, and local levels of government, as well as multilateral development banks and financial institutions rated 'AA-' or higher.

KommuneKredit continues benefiting from the joint and several liability mechanism, which we understand there is no plan to change.

The association's members are responsible for its obligations through the mechanism, which amounts to an explicit, statutory liability borne by all member municipalities and regions, and ultimately the central government. We assess the guarantee's structure as predictable and enforceable by law. The guarantee dictates that members will have to inject capital into KommuneKredit if its capital ratio, calculated as equity to total liabilities excluding equity, falls below 1%.

Table 1

KommuneKredit--Selected indicators

(Mil. DKK)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Business position					
Total adjusted assets	252,498	242,612	237,052	249,077	233,872
Customer loans (gross)	194,114	187,144	174,980	194,950	192,459
Growth in loans (%)	1.04	1.1	0.9	1.3	4
Net interest income	730	467	339	383	440
Noninterest expenses	194	193	224	140	130
Capital and risk position					
Total liabilities	242,310	232,432	227,286	240,302	225,475
Total adjusted capital	10,188	10,180	9,766	8,775	8,397

Table 1

KommuneKredit--Selected indicators (cont.)

(Mil. DKK)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Assets/capital	24.8	23.8	24.3	28.4	28
RAC ratio before diversification (%)	57.1	64.5	60	55.8	60
RAC ratio after diversification (%)	29.8	23.7	23.4	21	20
Gross nonperforming assets/gross loans	0	0	0	0	0
Funding and liquidity*					
Liquidity ratio with loan disbursement (1 year)	1.3	1.3	1.3	1.3	1.7
Liquidity ratio without loan disbursement (1 year)	1.6	1.5	1.4	1.4	2.3
Funding ratio (1 year)	1.6	1.7	1.8	1.4	1.5

*Funding and liquidity ratios for 2020 and 2021 as of end-March 2021 and 2022, respectively, and for 2022, 2023, and 2024 as of end-December 2022. Funding ratio is without loan disbursements. RAC--Risk-adjusted capital. DKK--Danish krone.

Ratings Score Snapshot

Issuer credit rating	AAA/Stable/A-1+
Sector risk profile	Very strong
Individual credit profile	
Business position	Very strong
Management and governance	Strong
Capital adequacy	Very Strong
Funding and liquidity	Strong
Anchor	aa+
Modifiers and caps	+1
Holistic analysis	0
Stand-alone credit profile	aaa
Extraordinary support	0

Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies, July 26, 2024
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., April 3, 2025
- Denmark, Feb. 10, 2025

Ratings List

Ratings Affirmed	
KommuneKredit	
Issuer Credit Rating	AAA/Stable/A-1+
KommuneKredit	
Senior Unsecured	AAA
Commercial Paper	A-1+

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