

# KOMMUNEKREDIT'S LIABILITY STRUCTURE

KOMMUNEKREDIT – THE CREDIT INSTITUTION FOR LOCAL  
AND REGIONAL AUTHORITIES IN DENMARK

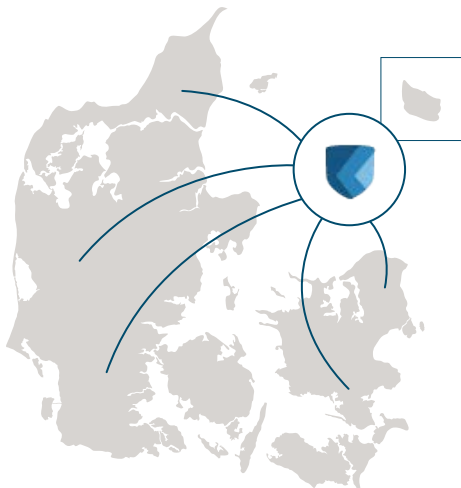


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## THE MINIMUM EQUITY CAPITAL IS GUARANTEED BY THE MEMBERS

KommuneKredit's members, the Danish municipalities and regions, have a statutory obligation to ensure that KommuneKredit meets the requirement of holding equity capital amounting to a minimum of 1 per cent of the total liabilities. In the event that the equity capital falls below 1 per cent, the Act on KommuneKredit provides that the members shall pay in the amount required to restore the equity capital to 1 per cent (within 1 month of receiving notification).

Members are not permitted to withdraw as member of KommuneKredit while any loan made to, or guaranteed by them, remains outstanding, and until they have satisfied any statutory joint and several liability on their part.



## ULTIMATELY CREDITORS ARE SECURED BY THE STATUTORY JOINT AND SEVERAL LIABILITY

The Act on KommuneKredit provides that "the members are directly, jointly and severally liable for all obligations of the association." This liability structure has existed since 1899 and safeguards all creditors of KommuneKredit. It has never been invoked.

Should KommuneKredit fail to meet any of its obligations, the creditor can directly invoke the joint and several liability. Being **jointly and severally** liable means that each and every member has assumed the liability for the entire amount owed by KommuneKredit.

According to Danish law of guarantees, this statutory liability constitutes a guarantee whereby each member undertakes to hold itself liable as a primary debtor. In the event that KommuneKredit does not meet an obligation in a timely manner, the creditor will therefore be entitled to require immediate payment of the debt from each and every member. The creditor does not need to initiate legal proceedings.

## A MUNICIPALITY OR REGION IN FINANCIAL DIFFICULTIES WILL BE PUT UNDER ADMINISTRATION

If a municipality or region breaches the so-called "overdraft rule", the Ministry of the Interior and Health will put the municipality/region under administration, i.e. the Ministry will oversee that sufficient recovery actions are taken. A recovery plan could imply spending cuts, and a municipality could implement tax increases. Also, special subsidies and loan dispensations from the Ministry could be granted.

This procedure has been used to varying extents in a number of cases.

## THE CENTRAL GOVERNMENT WILL ALWAYS ENSURE THAT THE MUNICIPALITIES AND REGIONS MEET THEIR OBLIGATIONS

It is an established principle under Danish administrative law that a municipality cannot be declared bankrupt. This principle has been confirmed in a High Court ruling, referring to that fact that the central government must ensure that a municipality is able to meet its financial obligations.



### THE CENTRAL GOVERNMENT BEARS THE RISK ASSOCIATED WITH ECONOMIC TRENDS

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



### THE MUNICIPALITIES AND REGIONS UPHOLD SOUND LIQUIDITY LEVELS

The administrative rules of the Ministry of Interior and Health ensure that the municipalities and regions uphold sound liquidity levels. The Ministry supervises and enforces these rules. According to the "overdraft rule", the total liquidity over one year shall, as a minimum, be positive. Consequently, the average of the daily balances on the overdraft account for the past 12 months should not exceed the average of total balances on the accounts for the liquid assets in the municipality during the same period. However, the Ministry pays increased attention to a municipality with a liquidity level lower than DKK 1,000 per inhabitant.