



KOMMUNE  
KREDIT

# INTERIM REPORT 2015

---

1ST HALF · MANAGEMENT COMMENTARY &  
FINANCIAL STATEMENTS

# CONTENTS

## **Management commentary**

Management commentary . . . . .	3
---------------------------------	---

## **Financial statements**

Statement of comprehensive income . . . . .	4
Statement of financial position. . . . .	5
Statement of changes in equity . . . . .	6
Statement of cash flows . . . . .	7
Notes . . . . .	8
Statements . . . . .	12
KommuneKredit in brief . . . . .	14

### **Contacts**

Johnny Munk, Interim CEO, Managing director  
Frank Hammer, Interim Managing director  
Jens Bloch Behrendt, CFO

### **Address**

KommuneKredit  
Kultorvet 16  
DK-1175 Copenhagen K  
Telephone +45 33 11 15 12  
kk@kommunekredit.dk  
www.kommunekredit.dk

CVR no. 22 12 86 12

Announcement date: 21 August 2015

The interim report comprises 16 pages

This interim report for the first half of 2015 is a translation of the original interim report in Danish. In case of discrepancies, the Danish version prevails.

# MANAGEMENT COMMENTARY

## Financial summary for KommuneKredit

DKKm	1st Half 2015	1st Half 2014
<b>Lending at nominal values</b>		
Gross lending	18,731	20,204
Conversions/refinancing	7,834	8,252
Net lending	10,897	11,952
<b>Key figures</b>		
Net interest income	362	229
Value adjustments of financial instruments	-95	26
Administrative expenses	51	47
Tax on profit for the period	51	51
Comprehensive income for the period	165	157
<b>DKKm</b>		
	<b>30 Jun 2015</b>	<b>31 Dec 2014</b>
Lending and lease receivables	155,686	152,085
Assets	207,176	201,413
Equity	6,409	6,244
Equity as a percentage of assets	3,1	3,1

In the first half of 2015, KommuneKredit's gross lending amounted to DKK 18.7 billion, which is DKK 1.5 billion less than in the first half of 2014. Net lending amounted to DKK 10.9 billion in the first half of 2015, which is DKK 1.1 billion less than in the first half of 2014. Lending and lease receivables amounted to DKK 155.7 billion as at 30 June 2015 against DKK 152.1 billion as at year end 2014. It is expected that the lending activity for the second half of 2015 will amount to DKK 9-11 billion, which is at the same level as the second half of 2014 where gross lending amounted to DKK 9.2 billion. Consequently, gross lending for 2015 is expected to amount to DKK 28-30 billion which is in line with DKK 29.4 billion in 2014.

Net interest income have increased to DKK 362 million in the first half of 2015 against DKK 229 million in the first half of 2014. The increase is primarily a consequence of the attractive short term interest rates that have been negative for most of the period. Value adjustments of financial instruments were negative in the amount of DKK 95 million in the first half of 2015 against a gain of DKK 26 million in the first half of 2014. The primary reason

for this development is due to the fact that the rising long term interest rates as at 30 June 2015 have resulted in negative value adjustments of DKK 104 million concerning the portfolio of securities financed by equity. Profit for the period amounted to DKK 165 million against DKK 157 million in the first half of 2014. Equity amounted to 3.1 per cent of assets at 30 June 2015, which is at par with the year end 2014. As at year end 2014, KommuneKredit expected profit after tax for 2015, excluding value adjustments of financial instruments, to be in the region of DKK 275 million. The number is now expected to be in the region of DKK 375 million.

### New management

Søren Høgenhaven, CEO and Managing Director, retired at the end of May 2015. From 1 June until 1 September 2015 Management will comprise Johnny Munk, interim Managing Director and CEO and Frank Hammer, interim Managing Director. As of 1 September 2015 Management will comprise Jens Lundager, CEO and Managing Director and Johnny Munk, Managing Director.

## STATEMENT OF COMPREHENSIVE INCOME

DKKm	Note	1st Half 2015	1st Half 2014
Interest income		1,122	1,470
Interest expense		760	1,241
<b>Net interest income</b>		<b>362</b>	<b>229</b>
Value adjustments of financial instruments		-95	26
Administrative expenses		51	47
<b>Profit before tax</b>		<b>216</b>	<b>208</b>
Tax on profit for the period		51	51
<b>Profit for the period</b>		<b>165</b>	<b>157</b>
<b>Other comprehensive income</b>			
Actuarial adjustments		0	0
<b>Comprehensive income for the period</b>		<b>165</b>	<b>157</b>
<b>Appropriation</b>			
Transferred to equity		165	157
<b>Total</b>		<b>165</b>	<b>157</b>

## STATEMENT OF FINANCIAL POSITION

## Assets

DKKm	Note	30 Jun 2015	31 Dec 2014
Receivables from credit institutions	1.1	667	5
Lending	1.1	151,253	147,898
Lease receivables		4,433	4,187
Portfolio of securities	1.1	30,510	32,376
Derivative financial instruments	1.1, 1.3	20,115	16,634
Other assets		127	248
Current tax assets		71	65
<b>Total assets</b>		<b>207,176</b>	<b>201,413</b>

## Liabilities and equity

DKKm	Note	30 Jun 2015	31 Dec 2014
<b>Liabilities</b>			
Due to credit institutions		7	15
Debt securities issued	1.1, 1.2	189,020	184,049
Derivative financial instruments	1.1, 1.3	10,969	10,315
Other liabilities		462	480
Pension obligations		63	64
Deferred tax liabilities		246	246
<b>Total liabilities</b>		<b>200,767</b>	<b>195,169</b>
<b>Equity</b>		<b>6,409</b>	<b>6,244</b>
<b>Total liabilities and equity</b>		<b>207,176</b>	<b>201,413</b>

## STATEMENT OF CHANGES IN EQUITY

DKKm	Note	1st Half 2015	1st Half 2014
<b>Equity</b>			
Equity at 1 January		6,244	5,995
Comprehensive income for the period		165	157
<b>Equity at 30 June</b>		<b>6,409</b>	<b>6,152</b>

## STATEMENT OF CASH FLOWS

DKKm	Note	1st Half 2015	1st Half 2014
<b>Cash flows for the period</b>			
<b>Cash flows from operating activities</b>			
Profit before tax		216	208
Taxes paid		-56	-90
Adjustments for non-cash operating items		0	-1
Other assets		119	-41
Other liabilities		-18	-59
Portfolio of securities		1,866	-3,606
Lending and derivative financial instruments		-7,082	-7,554
Debt securities issued and derivative financial instruments		5,625	11,001
<b>Total cash flows from operating activities</b>		<b>670</b>	<b>-142</b>
<b>Total cash flows for the period</b>		<b>670</b>	<b>-142</b>
Cash and cash equivalents at 1 January		-10	359
<b>Cash and cash equivalents at 30 June</b>		<b>660</b>	<b>217</b>
Receivables from credit institutions		667	323
Due to credit institutions		-7	-106
<b>Net cash and cash equivalents at 30 June</b>		<b>660</b>	<b>217</b>

# NOTES

## General

KommuneKredit's interim financial statements for the first half of 2015 are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. The interim financial statements also comply with IAS 34 as issued by the IASB.

Except for the changes mentioned below the accounting policies remain unchanged compared to year end 2014. The financial statements for 2014 contain a complete description of the accounting policies.

## New standards and amendments to standards

In 2015, KommuneKredit has adopted the following amendments to standards that have been adopted by the EU effective for the financial year commencing on 1 January 2015: Amendments to IAS 19, parts of annual improvements to IFRSs 2010-12 Cycle and annual improvements to IFRSs 2011-13 Cycle. The new or amended standards have not affected recognition and measurement.

## Changes in accounting estimates

The method for calculating the monetary effect of credit spread on fair value adjustments has been changed so that the calculation as at first half of 2015 relies on market based probabilities of default, which represents a change from year end 2014 where the calculation relied on model based probabilities of default. The monetary effect amounts to DKK -41 million in value adjustments of financial instruments for the period from 1 January to 30 June 2015.

## NOTES TO FINANCIAL INSTRUMENTS

### Note 1.1 Specification of fair value of financial instruments

The applied methods for calculating fair values remain unchanged compared to year end 2014 apart from the above mentioned change in accounting estimates. The applied methods as well as uncertainties and estimates relating to the calculation of fair values are described in more detail in note 1.4 to the financial statements for 2014.

In accordance with IFRS 7, financial instruments measured at fair value are to be classified in a fair value hierarchy ranging from level 1 to 3 depending on how the fair value has been determined and the data on which it is based. Level 1 is used when the fair value is based on quoted prices in active markets, level 2 is used when the fair value is based on observable market data, and level 3 is used when the fair value is based partly or wholly on non-observable market data.

All financial instruments are calculated as recurring measurements of fair value and are classified in the fair value hierarchy.

KommuneKredit has not made significant transfers between levels 1, 2 and 3 in the first half of 2015.

During the first half of 2015 there have been significant movements in the financial markets. USD and CHF have appreciated during the period resulting in an increase in the value of debt securities issued in these currencies. Since this currency exposure is perfectly hedged this has exclusively had an effect on the statement of financial position. The long term interest rates have risen resulting in negative value adjustments on the portfolio of securities financed by equity. As KommuneKredit does not hedge interest rate risk in this portfolio this has resulted in negative value adjustments of financial instruments in the statement of comprehensive income. The rising interest rates have also resulted in decreasing value of lending and matched funding thereby reducing the statement of financial position.

The total effect of the movements in currencies and interest rates has resulted in an increase of total assets and liabilities.



## DKKm

## 30 Jun 2015

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Receivables from credit institutions	5	662	0	667
Lending	0	151,253	0	151,253
Portfolio of securities	25,312	5,198	0	30,510
Derivative financial instruments	0	18,748	1,367	20,115
<b>Total assets</b>	<b>25,317</b>	<b>175,861</b>	<b>1,367</b>	<b>202,545</b>

**Liabilities**

Due to credit institutions	7	0	0	7
Debt securities issued	0	155,368	33,652	189,020
Derivative financial instruments	0	6,485	4,484	10,969
<b>Total liabilities</b>	<b>7</b>	<b>161,853</b>	<b>38,136</b>	<b>199,996</b>

## 31 Dec 2014

**Assets**

Receivables from credit institutions	5	0	0	5
Lending	0	147,898	0	147,898
Portfolio of securities	19,995	12,381	0	32,376
Derivative financial instruments	0	14,806	1,828	16,634
<b>Total assets</b>	<b>20,000</b>	<b>175,085</b>	<b>1,828</b>	<b>196,913</b>

**Liabilities**

Due to credit institutions	15	0	0	15
Debt securities issued	6,178	142,083	35,788	184,049
Derivative financial instruments	0	7,404	2,911	10,315
<b>Total liabilities</b>	<b>6,193</b>	<b>149,487</b>	<b>38,699</b>	<b>194,379</b>

## Specification of level 3

## 30 Jun 2015

	<b>Assets</b>	<b>Liabilities</b>
Balance at 1 January	1,828	38,699
Additions	41	11,295
Disposals	279	12,171
Included in comprehensive income	-223	313
<b>Balance at 30 June</b>	<b>1,367</b>	<b>38,136</b>

## 31 Dec 2014

Balance at 1 January	1,503	29,090
Additions	86	24,216
Disposals	213	15,025
Included in comprehensive income	452	418
<b>Balance at 31 December</b>	<b>1,828</b>	<b>38,699</b>

## Note 1.2 Debt securities issued at nominal values

DKKm	1 January	Additions	Disposals and value adjustments	Total
30 Jun 2015	179,131	64,392	56,387	187,136
31 Dec 2014	166,445	79,652	66,966	179,131

## Note 1.3 Financial assets and financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements

KommuneKredit has entered into master netting agreements and related unilateral and bilateral collateral agreements for derivative financial instruments where KommuneKredit receives and posts collateral. The received and posted collateral is solely comprised of high-quality bonds.

KommuneKredit has not entered into master netting agreements or received or posted collateral in relation to lending, lease receivables or debt securities issued. Consequently, these financial instruments have not been included in the table below. The carrying amounts are depicted in the statement of financial position. The effect of master netting agreements and collateral agreements is shown in the table.

DKKm

### Offsetting of derivative financial instruments presented in the statement of financial position

30 Jun 2015	Amounts offset		Amounts not offset			
	Carrying amount	Offset	Net book value	Financial instruments	Collateral	Net amount
Assets	20,115	0	20,115	-7,008	-10,349	2,758
Liabilities	10,969	0	10,969	-7,008	-2,782	1,179
<b>Total</b>	<b>9,146</b>	<b>0</b>	<b>9,146</b>	<b>-</b>	<b>-7,567</b>	<b>1,579</b>
<b>31 Dec 2014</b>						
Assets	16,634	0	16,634	-8,011	-5,666	2,957
Liabilities	10,315	0	10,315	-8,011	-1,227	1,077
<b>Total</b>	<b>6,319</b>	<b>0</b>	<b>6,319</b>	<b>0</b>	<b>-4,439</b>	<b>1,880</b>

The amount of derivative financial instruments, which is not offset, has been limited to the lesser amount of assets and liabilities, respectively, and is calculated per counterparty. The amount is included in both assets and liabilities. The amount of collateral is calculated per counterparty and has been limited to the calculated net asset amount or net liability amount, respectively.

Net amounts represent the potential effect of offsetting on the financial statements.

## NOTES TO RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

### Note 1.4 Risk management

KommuneKredit's credit risk, liquidity risk and market risk as well as the management of these, have not changed significantly since 31 December 2014. The annual report for 2014 contains a full description of financial risks and risk management.

### Note 1.5 Liquidity resources

The Ministry of Social Affairs and the Interior permits KommuneKredit to build up liquidity resources of up to 25 per cent of total lending as at the end of the previous quarter. Liquidity resources are calculated as dues to credit institutions and debt securities issued less total lending at book value. Debt securities issued are adjusted for the total net value of derivative financial instruments adjusted for derivative financial instruments hedging treasury investments. There has thus been an adjustment to the calculation, as dues to credit institutions and derivative financial instruments related to treasury investments are now included in funding. The change does not have a material effect on liquidity resources.

DKKm	30 Jun 2015	31 Dec 2014
<b>Liquidity resources</b>		
<b>Due to credit institutions, debt securities issued and derivative financial instruments</b>		
Due to credit institutions	7	15
Debt securities issued	189,020	184,049
Derivative financial instruments, liabilities	10,969	10,315
Derivative financial instruments, assets	-20,115	-16,634
Derivative financial instruments related to treasury investments	275	112
<b>Total due to credit institutions, debt securities issued and derivative financial instruments</b>	<b>180,156</b>	<b>177,857</b>
<b>Lending and lease receivables</b>		
Lending	151,253	147,898
Leases receivables	4,433	4,187
<b>Total lending and lease receivables</b>	<b>155,686</b>	<b>152,085</b>
<b>Total liquidity resources</b>	<b>24,470</b>	<b>25,772</b>
Liquidity resources may not exceed 25 per cent of total lending and lease receivables as at the end of the previous quarter.		
Liquidity resources	24,470	25,772
Total lending and lease receivables as at the end of the previous quarter	156,802	149,582
<b>Liquidity resources in per cent</b>	<b>16</b>	<b>17</b>

Total liquidity resources also comprise the part of the portfolio of securities financed by equity.

# STATEMENTS

## Statement by the Board of Directors and Management

The Board of Directors and Management have today discussed and approved the interim report of KommuneKredit for the period 1 January to 30 June 2015.

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

In our opinion, the interim financial statements give a true and fair view of the Association's financial position as at 30 June 2015

and of the comprehensive income of the Association's operations and cash flows for the period 1 January - 30 June 2015 and describes the material risks and uncertainties affecting the Association.

Furthermore, in our opinion, Management's commentary gives a fair review of the development in the Association's operations and financial matters, comprehensive income for the period and the Association's financial position as a whole.

Copenhagen, 21 August 2015

### Management:

Johnny Munk  
Interim Chief Executive Officer,  
Managing Director

Frank Hammer  
Interim Managing Director

/ Jens Bloch Behrendt  
Chief Financial Officer

### Board of Directors:

Erik Nielsen  
Chairman

Lars Krarup  
Vice-chairman

Hans Toft

Henrik Zimino

Sophie Hæstorp Andersen

Erik Christensen

Kaj V. Holm

Mikael Klitgaard

Anne V. Kristensen

## Independent auditors' report on the interim financial statements

To the Board of Directors of KommuneKredit

We have reviewed the interim financial statements of KommuneKredit for the period 1 January to 30 June 2015 comprising comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and notes. The interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

### 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 and for such internal control as Management determines is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express a conclusion on the interim financial statements. We conducted our review in accordance with the International Standard on Review of Internal Interim Financial Information Performed by the Independent Auditor of the Entity and additional requirements under Danish audit regulation. This requires us to conclude whether anything has

come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. This standard also requires us to comply with ethical requirements.

A review of the interim financial statements in accordance with the International Standard on Review of Internal 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 within KommuneKredit, as appropriate, applying analytical procedures, and evaluate the evidence obtained. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with the International Standards on Auditing. Accordingly, we do not express an audit opinion on the interim financial statements.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Copenhagen, 21 August 2015

### ERNST & YOUNG

*Godkendt Revisionspartnerselskab*

Torben Bender

*State Authorised Public Accountant*

Hans Peter Lindegård Buhrkal

*State Authorised Public Accountant*

## Report by the auditor appointed by the Ministry of Social Affairs and the Interior

To the Board of Directors of KommuneKredit

As the auditor appointed by the Ministry of Social Affairs and the Interior, I have reviewed the financial statements of KommuneKredit for the period 1 January - 30 June 2015, prepared by the Board of Directors and Management. In addition, I have read the Management commentary.

During my review, I did not identify any non-compliance with neither the Act on KommuneKredit nor the Articles of Association of KommuneKredit. The review procedures carried out by Ernst & Young Godkendt Revisionspartnerselskab did not give rise to any comments on my part.

Copenhagen, 21 August 2015

Emil le Maire

*Former Prefect*

## KOMMUNEKREDIT IN BRIEF

KommuneKredit is an association with the objective to provide funding and leases to Danish municipalities, regions and companies and institutions against full municipal guarantee. KommuneKredit operates under a special act and is under supervision by the Ministry of Social Affairs and the Interior.

KommuneKredit's mission is:

- to provide the funding and related services required by Danish municipalities and thereby contribute to greater financial latitude in the Danish society.

KommuneKredit's vision is:

- to be the absolute leading provider of funding to municipalities,
- to be acknowledged as a professional advisor and trustworthy cooperative partner,
- to be an attractive, development-oriented organisation committed to effective processes and high quality achieved by dedicated and highly qualified employees.

KommuneKredit's members are municipalities and regions that have raised loans in or entered into leases with KommuneKredit or have guaranteed or are liable for loans raised in or leases entered into with KommuneKredit. The members are jointly and severally liable for KommuneKredit's liabilities. All municipalities and regions in Denmark are members of KommuneKredit.

A Board of Directors is responsible for the general management of KommuneKredit. The Board of Directors has nine members, of which six are appointed by the municipalities, two by the regions and one member, who must be independent of the Association,

is appointed by the Board of Directors and this member must have competencies in accounting or auditing. A Management consisting of one Chief Executive Officer and one managing director is responsible for the day-to-day management.

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

KommuneKredit is rated by Moody's Investors Service and Standard & Poor's. KommuneKredit's long-term rating is Aaa/AAA, and the short-term rating is P-1/A-1+, which is the same rating as that of Danish government bonds and the highest international credit rating.

The high rating is attributable to the joint and several liability of the municipalities and regions and the fact that they are strong players in the domestic economy, which is also why KommuneKredit can raise funding at attractive prices. Moreover, KommuneKredit's cost level is low, which means that the funding raised can be relented at a modest margin.

KommuneKredit is a modern service organisation based on dedicated employees and modern technology.

The core values of KommuneKredit are:

- The customer in focus
- Job satisfaction and a positive working environment
- Quality in work
- Openness and a positive working relationship
- Delegation and responsibility





**KommuneKredit**

Kultorvet 16  
DK-1175 Copenhagen K  
Telephone +45 33 11 15 12

[kk@kommunekredit.dk](mailto:kk@kommunekredit.dk)  
[www.kommunekredit.dk](http://www.kommunekredit.dk)  
CVR no. 22 12 86 12