



INTERIM REPORT **FIRST HALF** **2020**



KOMMUNE
KREDIT

STEADY
& STABLE

TABLE OF CONTENTS

› MANAGEMENT'S REVIEW

Key figures and financial ratios	3
KommuneKredit at a glance	4
CEO letter	6
Financial review	12

› FINANCIAL STATEMENTS

Statement of comprehensive income	14
Statement of financial position	14
Statement of changes in equity	15
Statement of cash flows	15
Notes	16

› STATEMENT AND REPORTS

Statement by the Board of Directors and Management Board	24
Independent auditor's review report on the interim financial statements	25
Report by the auditor appointed by the ministry	26

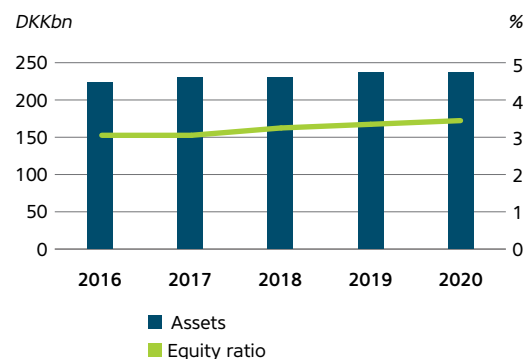
› CASES

Green focus at KommuneKredit	10
NORFORS	11

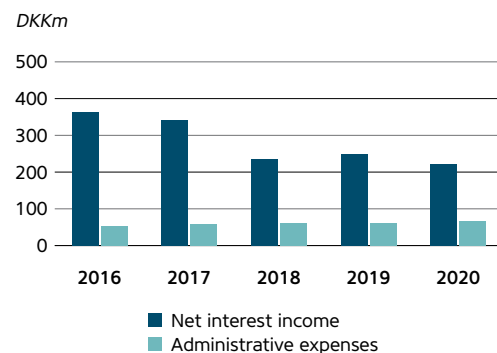


KEY FIGURES AND FINANCIAL RATIOS

ASSETS AND EQUITY RATIO FIRST HALF 2016-2020



NET INTEREST INCOME AND ADMINISTRATIVE EXPENSES FIRST HALF 2016-2020



Amounts in million	H1 2020 EUR	H1 2020 DKK	H1 2019 DKK	Full year 2019 DKK
KEY FIGURES FOR THE PERIOD				
Net interest income	30	221	250	496
Other operating income	1	5	7	13
Other operating expenses	-1	-8	-7	-13
Administrative expenses	-9	-67	-62	-126
Profit before value adjustment	20	152	187	369
Value adjustment of financial instruments	5	35	218	227
Tax on profit for the period	-6	-41	-89	-148
Comprehensive income for the period	20	145	316	441
Lending and leasing	25,626	190,698	185,878	184,965
Portfolio of securities	5,054	37,609	42,181	44,982
Assets	31,806	236,685	237,182	236,935
Debt securities issued	29,086	216,443	216,451	218,932
Equity	1,119	8,324	8,052	8,179
ACTIVITIES DURING THE PERIOD				
Lending and leasing, net additions in nominal value	526	3,914	2,774	2,427
Lending and leasing, gross additions in nominal value	3,215	23,926	17,995	36,745
Debt securities issued, gross additions in nominal value	3,609	26,855	31,762	49,699
CAPITAL STRUCTURE				
Total risk exposure amount (REA)	1,857	13,817	14,366	11,911
Common Equity Tier 1 (CET1) capital	1,119	8,324	8,052	8,179
Capital base	1,097	8,165	7,851	7,997
Capital ratio, pct.*	59	59	55	67
Equity ratio, pct.	3.5	3.5	3.4	3.5
SELECTED FINANCIAL RATIOS				
Losses on lending and leasing	0	0	0	0
Expenses/assets, pct.	0.03	0.03	0.03	0.05
Net interest income/assets, pct.	0.09	0.09	0.11	0.21
Liquidity resources, pct.	15	15	18	19
Number of full-time employees	79	79	74	76

Key figures and financial ratios have been calculated in accordance with "Recommendations & Financial Ratios" issued by CFA Society Denmark.
Exchange rate at 30 June 2020: EUR 100 = DKK 744.156.

KOMMUNEKREDIT – A SAFE INVESTMENT

For more than 120 years, KommuneKredit has been a financial link between global funding and local lending in Denmark.

We have helped support the development of what is known as the Danish welfare society: from the building of schools, institutions and eldercare facilities to infrastructure, hospitals and utilities and currently also to helping to fund the green transition.

KommuneKredit is organised as an association. Based on the idea that we are stronger together, our members – the Danish local authorities – are jointly and severally liable for our obligations. This provides our investors with a high degree of security. KommuneKredit has never suffered a loss on a loan.

A responsible approach is one of the cornerstones of our values. Our business model builds on tight regulation and very low risk tolerance, and we have been assigned the highest credit ratings by rating agencies Moody's Investors Service and Standard & Poor's. These ratings enable KommuneKredit to obtain funding at low interest rates in the market, thus ensuring that our members can raise loans from us at the lowest possible cost.

KommuneKredit's sole objective is to support our members in developing a better society for everyone; we do not have to make a profit on our lending and leasing operations and we do not pay out dividends.

KommuneKredit operates under a special legislative Act and is subject to supervision by the Danish Ministry of Industry, Business and Financial Affairs. The Ministry has delegated the task of conducting the ongoing supervision to the Danish FSA.

HIGH INTERNATIONAL CREDIT RATING

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



RISK WEIGHT

0%

There is a risk weight of 0% when banks invest in KommuneKredit's issuances.

EQUITY RATIO

3.5%

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

LCR



HQLA
LEVEL 1 ASSETS

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

CAPITAL RATIO

KommuneKredit has a capital ratio of 59% as calculated in accordance with the solvency requirements for financial institutions.

59%

LENDING AND LEASING

DKK
191 billion

At 30 June 2020, total lending and leasing amounted to DKK 191 billion, while profit for the period before value adjustments and tax totalled DKK 152 million.

EMPLOYEES

The association employed 79 people on average in the first half of 2020.

79
employees

JOINT AND SEVERAL LIABILITY FOR ALL KOMMUNEKREDIT'S LIABILITIES

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

As KommuneKredit's members are Denmark's 98 municipalities and 5 regions, our association represents the entire Danish population. The one-for-all-and-all-for-one approach of the members of accepting joint and several liability for KommuneKredit's obligations is an unconditional strength of the association.



KOMMUNE
KREDIT

STEADY
& STABLE



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.

CEO LETTER

The outbreak of COVID-19 caused turmoil in the international financial markets in spring 2020, and the global economy has taken a major hit. March and April in particular were characterised by low bond market activity amid relatively extensive widening of yield spreads. During May and June, markets started to normalise, and yield spreads have contracted somewhat again.

At KommuneKredit, we rely on well-functioning bond markets in the long term. To safeguard our activities, we have designed our business in such a way that – even during severe financial stress – we would still be able to continue our lending activities for up to 12 months without having to issue bonds. Furthermore, as part of our business model we pass on both increases and decreases in funding costs to our borrowers at a modest margin to cover our costs and any need for additional equity.

Despite the special situation this past spring, the financial performance of KommuneKredit in the first half of 2020 was in line with the expectations at the beginning of the year. Net interest income fell by DKK 29 million to DKK 221 million, while administrative expenses for the period were DKK 67 million. At DKK 152 million, profit before value adjustments was DKK 35 million lower than in the same period of last year. Relative to our guidance of a profit before value adjustments of DKK 250 million in 2020, our performance for the first half was better than expected.

SUPPORTING WELFARE DEVELOPMENTS

Among our loans in the first half of 2020 were DKK 30 million to the Municipality of Kolding to fund a wastewater project and DKK 2 million – with an exemption granted by the Danish Ministry of Social Affairs and the Interior – to the municipality of Samsø to fund the refurbishment of a local school. We granted a DKK 6.5 million loan to Tim Kraftvarmeværk for establishing “air-to-water” heat pumps and signed numerous agreements with the Municipality of Svendborg on finance

leases of cargo bicycles, which day care providers use to transport the children.

Our Green Bond Committee has approved close to 100 new green loans of a combined value of DKK 3.1 billion. With the latest approvals, which are testament to the green transition in the Danish local governments, the committee has approved green loans totalling DKK 22.4 billion. We fund the green loans by issuing our green bonds.

KOMMUNEKREDIT'S LENDING FRAMEWORK

Our members – municipalities and regions – undertake a number of key tasks under the financial framework concluded with the government. The framework lay down the level of service expenses and capital expenditure. The Danish government guarantees that local

» *To safeguard our activities, we have designed our business in such a way that – even during severe financial stress – we would still be able to continue our lending activities for up to one year without having to issue bonds.*

Jens Lundager
CEO

governments generally have funding for the agreed expenses.

In March 2020, the Danish government, Local Government Denmark (KL) and Danish Regions (Danske Regioner) entered into an agreement, which, among other things, removed the public expenditure cap for local governments in 2020. This means the local governments are able to accelerate investments that can generally be finalised in 2020. KL expects that investments for DKK 2.5 billion may be accelerated.

The budget agreement for 2021 between the government and KL also raises the capital expenditure cap for 2021 by DKK 2.5 billion relative to 2020. Similarly, the budget agreement for 2021 between the government and Danish Regions encompasses a DKK 1.0 billion

increase in the level of capital expenditure in 2021 to support economic activity and employment.

The access of local governments to raise loans and provide guarantees is subject to strict regulation in borrowing rules stipulated by the Ministry of Social Affairs and the Interior. Combined with Danish regulation of local governments' handling of assignments and EU rules on state aid, this defines the framework for KommuneKredit's lending operations.

Obviously, we monitor developments in these frameworks closely because changes may result in either increased or decreased lending for KommuneKredit. One specific change which could become relevant is if local governments are granted extended access to raising loans and providing guarantees for climate adjustments projects.

In June 2020, a political agreement was reached in the utilities area concerning the future structure of the waste sector. The consequences of the agreement in relation to the management of incinerable waste will be key to whether KommuneKredit may continue to grant loans for these facilities within the auspices of EU state aid regulation and practice.

Also, in continuation of the political climate agreement for energy and industry (June 2020), we intend to closely monitor the expected development of new regulation of the district heating sector to assess any consequences relative to access to loans from KommuneKredit.

KOMMUNEKREDIT GOING FORWARD

We are continuing to work on our Strategy 2022, focusing on Customer Relations, being Steady and Stable, and Professionalisation. With Strategy 2022 – which we are planning to update this autumn – we will transition KommuneKredit to a modern association that meets the standards and requirements of a well-run financial business with public ownership.

As part of our strategy work, in autumn 2019 we launched a transformation programme describing the future design of KommuneKredit's processes and systems. In the programme, we defined three tracks to serve as a platform for our further efforts: Customer Journey, Balance Sheet Optimisation and Sustainable Finance.

In spring 2020, we set up a strong project organisation to ensure progress in the ambitious development efforts, using, among other things, an agile project approach. We have also completed several system-related development projects with a view to preparing KommuneKredit for one of the most important projects in our organisation's 120-year history: implementing a new core system that will form the basis of our future customer and loan management processes. We expect to start the core system project towards the end of 2020 and to have it ready within two to three years.

Simultaneously, we are focused on creating a strategic step change when it comes to integrating sustainability at the core of our business. As part of these endeavours, we will explore whether we can extend the limits

for issuing green bonds and how we may improve our reporting on the positive impacts our loans contribute to in the areas of climate and the environment through local government investment.

KOMMUNEKREDIT AND COVID-19

During the public lockdown of Denmark in connection with the COVID-19 outbreak, we demonstrated that KommuneKredit is an adaptable business capable of serving customers and investors regardless of outside circumstances.

We will draw on the valuable experience gained in our continuing efforts to consolidate KommuneKredit's position as a modern and up-to-date business: we will allow our employees greater flexibility in relation to work planning. Also, we will continue to use virtual meetings – both in-house, with our customers and when we market our bonds – as this type of meeting has proven effective and is in many ways also climate-friendly.

Jens Lundager
CEO



> CASE: GREEN FOCUS AT KOMMUNEKREDIT



AMBITION: A MORE SUSTAINABLE FUTURE

KOMMUNEKREDIT IS PREPARING FOR THE FUTURE THROUGH ENHANCED STRATEGIC FOCUS ON SUSTAINABILITY

Through its funding of the capital expenditure of Danish local governments, KommuneKredit has helped build Denmark's welfare society as we know it. Global climate change is a real challenge, and across Denmark we are witnessing a strong and necessary focus on implementing more sustainable solutions. The local communities are well underway in terms of lifting this task, among other things with the help of KommuneKredit's funding.

Investors attach increasing importance to issuers having a strong sustainability profile. In addition, they are seeking more sustainable investment opportunities, including green bonds, and we expect this trend to escalate in coming years. Acting as the financial link between investors on the one hand and municipalities and regions on the other, KommuneKredit plays

a pivotal role in the green transition. We are well qualified to deliver sustainable long-term funding on the basis of the issuance of green bonds.

As part of the transformation programme we have launched to create a more modern, up-to-date and engaged association, we are dedicated to lifting KommuneKredit to the next sustainability level. The ambition is to create a vision and a strategic roadmap in which sustainability forms an integral part of the core business. Based on our total loan portfolio of DKK 191 billion, we are confident that we can make a difference.

We are currently in the process of revising our Green Bond Framework, which forms the foundation for our green bond issues. This involves exploring the possibility of extending the



» Acting as the financial link between investors on the one hand and municipalities and regions on the other, KommuneKredit plays a pivotal role in the local green transition.

Henrik Andersen

Managing Director, KommuneKredit and chairman of KommuneKredit's Green Bond Committee

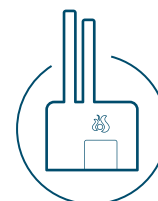
limits and, by extension, increasing the proportion of sustainable issues. We are also committed to optimising our green impact reporting to strengthen the documentation and reporting on the positive impact of our lending on the climate and the environment. We intend to become even better at showing the world the importance our green lending has for local governments, while giving investors even deeper insight into how their investments support the sustainable agenda. By intensifying our sustainability initiatives, we hope to establish a solid foundation that may allow us to an even greater extent to support our members' ambition of creating a more sustainable society.



> CASE: NORFORS

WASTE CONVERTED TO GREEN HEATING

NORFORS PARTICIPATES IN A JOINT MUNICIPAL PROJECT CALLED GRØN VARME (GREEN HEATING) WITH THE AIM OF DEFINING TARGETS AND SUB-TARGETS TO ENSURE FOSSIL-FREE HEATING NO LATER THAN 2035, AND THE PROJECT IS ALREADY WELL UNDERWAY.



» I'm proud that NORFORS uses intelligent and effective solutions to help create a sustainable future for us all.

Morten Slotved

Mayor, Municipality of Hørsholm
Chairman of the board of NORFORS

The new furnace line 5 at *Usserødværket* in Hørsholm north of Copenhagen, which is owned by NORFORS, is a facility designed to meet future climate conditions. The furnace line was built for the incineration of several types of fuel, including waste, biomass and sludge.

In the waste incineration process, a heat exchanger converts the energy from steam and flue gas condensation to district heating. This improves year-round reliability of supply and helps reduce the consumption of fossil fuels.

Boasting an energy efficiency of some 99%, the new furnace line can replace three old furnace lines and provide district heating to 15-20,000 households.

Without increasing the existing incineration capacity, with the new furnace line NORFORS will increase its district heating output by a little more than 30% – equal to approximately 87,000 MWh or the annual consumption of 5,000 households.

Each year, the furnace line displaces 96,600 tonnes of CO₂, 81,600 tonnes of NO_x and 13,300 tonnes of SO₂. The amount of water vapour condensed by the furnace line is transferred to furnace line 4 and is reused as process water used for flue gas condensation.

The overall annual saving is 62,000 m³ of city water. Furnace line 5 is funded by KommuneKredit loans.

NORFORS is a joint municipal waste and energy company owned by the municipalities of Allerød, Fredensborg, Helsingør, Hørsholm and Rudersdal, covering a population of some 210,000 residents. *Usserødværket* has an annual incineration capacity of 152,000 tonnes of waste and biomass, which yields an energy output of 500,000 MWh of electricity and district heating.

PROFIT FOR THE PERIOD UNAFFECTED BY COVID-19

The first half of 2020 has been in line with expectations at the start of the year despite COVID-19 and the volatility that the pandemic has caused in the financial markets. KommuneKredit's business model has proven its value – as it did during the financial crisis – and at the same time we have been a safe haven to investors.

EARNINGS AND CAPITAL BASE

Total net interest income for the first half of 2020 was DKK 221 million, down DKK 29 million from the year-earlier level. Due to an increase in the equity ratio, it was not necessary to maintain net interest income at last year's level.

Administrative expenses rose to DKK 67 million from DKK 62 million in the first half of 2019. In spite of the increase, the level remains low relative to our full-year expectations for administrative expenses of DKK 150 million. One of the reasons is that – due to COVID-19 – KommuneKredit has not launched IT projects as part of our transformation programme to the extent described in Annual Report 2019. However, in the second half-year we expect to recover the time lost and therefore maintain our expectations for full-year administrative expenses of DKK 150 million.

Profit before value adjustments for the period was DKK 152 million. This is DKK 35 million less than the profit in the year-earlier period, but relative to the guidance of a profit before value adjustments of DKK 250 million in

2020, the half-year performance is above the expectations for the first half.

Value adjustments of financial instruments amounted to DKK 35 million in the first half of 2020, against DKK 218 million in the first half of 2019. The value adjustment was driven primarily by a limited increase in funding costs due to COVID-19. However, as our funding costs rose by less than they did in the financial markets in general, KommuneKredit has functioned as a safe haven, and during a period of funding market instability the association once again demonstrated the strength of its steady and stable business model.

» *During a period of funding market instability, KommuneKredit has once again demonstrated the strength of its steady and stable business model.*

Morten Søjtofte
Director, CFO

Comprehensive income for the period amounted to DKK 145 million against DKK 316 million in the corresponding period last year. The decrease was mainly driven by the lower value adjustment. Comprehensive income for the period is transferred to equity, which now totals DKK 8,324 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 Board of Directors' target is for equity to amount to at least 3.0 pct. of assets to support KommuneKredit's activities. As KommuneKredit has an equity ratio of 3.5 pct., the Board of Directors' target is met.



The capital ratio fell from 67 pct. at 31 December 2019 to 59 pct. in the first half of 2020. The lower ratio was due to an increase in risk exposure amount.

LENDING AND LEASING

In the first half of 2020, total lending including leasing rose by DKK 5.7 billion relative to the end of 2019 to DKK 190.7 billion. Of this increase, DKK 3.9 billion was due to new lending and leasing for the period exceeding repayment instalments and redemptions. The rest of the increase was attributable to value adjustments.

The positive trend in net lending was better than in the year-earlier period and also higher than our full-year expectations of DKK 2 billion. The positive trend was due to the Danish government removing the public expenditure cap for 2020 in connection with COVID-19, allowing for the acceleration of investments, which triggered a need for additional funding among KommuneKredit's customers. During the period, demand was particularly strong for fixed-rate loans, and 52 pct. of all new loans granted or remortgaged in the period carried a fixed rate of interest. KommuneKredit has never incurred a loss on its lending or leasing during its 120-year history, and that track record was maintained in the first half of 2020.

FUNDING AND INVESTMENTS

Funding – due to credit institutions and debt securities issued – fell by DKK 2.5 billion relative to the end of 2019. This development occurred despite the increase in lending because we have used our portfolio of securities to fund the higher net lending. The funding markets were subject to great volatility in the first half of 2020,

and KommuneKredit therefore relied on its liquidity resources to fund the increase in lending. In the first half of 2020, KommuneKredit primarily sourced funding by way of public issues in DKK, EUR and USD, for a total amount of DKK 26.9 billion.

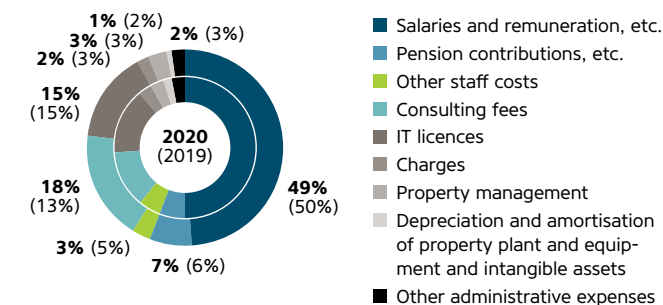
In connection with KommuneKredit's issue of USD 1 billion with a 5-year maturity, we bought back outstanding EMTN notes with maturities less than 12 months, for a total amount of USD 191 million. Buybacks are a component of KommuneKredit's balance sheet management strategy with a view to reducing the 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 portfolio of securities – fell to DKK 37.6 billion from DKK 45.0 billion at year-end 2019. The reason for the decrease was that it was more advantageous to reduce investments than to issue new bonds to fund the increase in net lending.

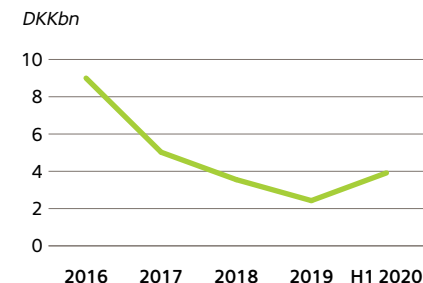
OUTLOOK FOR 2020

We still expect net interest income for 2020 of around DKK 400 million and administrative expenses of DKK 150 million. Barring any value adjustments, we maintain our guidance for profit before tax of DKK 250 million. In the first half of 2020, value adjustments amounted to DKK 35 million. We upgrade our guidance for net lending for 2020 from DKK 2 billion to DKK 4 billion. This is due to the agreements between the Danish government, Local Government Denmark (KL) and Danish Regions (Danske Regioner), which has removed the capital expenditure cap for local governments.

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.

STATEMENT OF COMPREHENSIVE INCOME

DKKkm	Note	H1 2020	H1 2019
Interest income		863	917
Interest expenses		-642	-667
Net interest income		221	250
Other operating income		5	7
Other operating expenses		-8	-7
Administrative expenses		-67	-62
Profit before value adjustments		152	187
Value adjustments of financial instruments		35	218
Profit before tax		186	405
Tax on profit for the period		-41	-89
Profit for the period		145	316
Other comprehensive income			
Actuarial gains and losses		0	0
Comprehensive income for the period		145	316
Allocated as follows:			
Transferred to equity		145	316
Total		145	316

STATEMENT OF FINANCIAL POSITION

DKKkm	Note	30 Jun. 2020	31 Dec. 2019
ASSETS			
Due from credit institutions	3	9	5
Lending	3	182,523	176,983
Leasing		8,175	7,982
Portfolio of securities	3	37,609	44,982
Derivatives	3, 4	8,196	6,610
Other assets		137	338
Current tax assets		35	35
Total assets		236,685	236,935
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions		256	244
Issued debt securities	3	216,443	218,932
Derivatives	3, 4	10,668	8,327
Other liabilities		498	746
Pension obligations	6	0	0
Current tax liabilities		20	31
Deferred tax liabilities		476	476
Total liabilities		228,362	228,756
Equity		8,324	8,179
Total liabilities and equity		236,685	236,935

EQUITY

DKKmn	H1 2020	H1 2019
Equity		
Equity at 1 January	8,179	7,736
Transferred to equity		
Profit for the period	145	316
Other comprehensive income		
Actuarial adjustments	0	0
Tax on other comprehensive income	0	0
Other comprehensive income after tax	0	0
Transferred to equity in total	145	316
Equity at 31 December	8,324	8,052

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

Equity increased to DKK 8,324 million at 30 June 2020 from DKK 8,179 million at the end of 2019. At mid-2020, equity amounted to 3.5% of total assets, which was unchanged from year-end 2019.

Under the legal framework applying to KommuneKredit, equity must equal at least 1.0% of total liabilities, equal to DKK 2,284 million. The Board of Directors' target is for equity to amount to at least 3% of assets, which is considered adequate to support KommuneKredit's activities.

Equity at 1 January and 30 June 2020 includes the DKK 2 million net revaluation reserve.

CASH FLOWS

DKKmn	Note	H1 2020	H1 2019
Profit before tax		186	405
Depreciation, amortisation and impairment		1	1
Operating profit		187	406
Net interest income reversed		-221	-250
Financial income received		863	917
Financial expenses paid		-642	-667
Taxes paid		-52	-60
Increase in lending		-5,734	-8,424
Other assets		201	-16
Other liabilities		-248	-137
Cash flows from operating activities		-5,832	-8,637
Acquisition, etc. of assets		0	-1
Change in securities		7,373	763
Cash flows from investing activities		7,373	762
Change in debt securities issued		-2,504	8,220
Derivative financial liabilities		2,341	2,149
Derivative financial assets		-1,586	-2,883
Cash flows from financing activities		-1,750	7,486
Change in cash and cash equivalents		-22	17
Deposits in credit institutions		5	2
Short-term payables to credit institutions		-80	-440
Cash and cash equivalents, 1 January		-75	-439
Deposits in credit institutions		9	15
Short-term payables to credit institutions		-107	-437
Cash and cash equivalents, 30 June		-98	-422

NOTE 1

ACCOUNTING POLICIES

GENERAL

This interim report covers the period from 1 January to 30 June 2020.

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

The accounting policies are consistent with the policies applied in the 2019 Annual Report. Reference is made to the annual report for a complete description of the accounting policies.

CHANGE IN ACCOUNTING POLICIES

There are no new or amended IFRS standards or interpretations entering into force and effective for the financial year 2020 or later which are considered to have an effect on the financial report for 2020.

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 is 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.

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 2019, 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 2019.

COVID-19 did not have any material impact on KommuneKredit’s results of operations or financial position. Additional information is provided in the management’s review.

NOTE 2

EVENTS AFTER THE BALANCE SHEET DATE

No significant events occurred after the balance sheet date.

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 the method and the data input used in the valuation of the instrument. The fair value is the amount for which a financial asset or a financial liability can be exchanged between market participants at the measurement date.

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 rate structure and option 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 bond 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.

All of these 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 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 bond 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 loans measured at fair value and on the remaining part of the debt securities issued. These issued debt securities are also considered illiquid.

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 costs 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 costs. The sensitivity associated with estimating actual funding costs 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 issued debt securities and derivatives is classified as fair value level 3. The level is used for structured issued 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 issuance will have an opposite effect on the derivative.

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 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 costs and lending prices.

No transfers between the levels were made in 2020.

NOTE 3

SPECIFICATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

DKKm	Level 1	Level 2	Level 3	Total
30 Jun. 2020				
Assets				
Due from credit institutions	9	0	0	9
Lending	0	182,523	0	182,523
Portfolio of securities	37,609	0	0	37,609
Derivatives	0	7,517	679	8,196
Total assets	37,619	190,041	679	228,338
Liabilities				
Due to credit institutions	107	149	0	256
Debt securities issued	0	209,668	6,775	216,443
Derivatives	0	10,241	427	10,668
Total liabilities	107	220,058	7,202	227,367

DKKm	Level 1	Level 2	Level 3	Total
31 Dec. 2019				
Assets				
Due from credit institutions	5	0	0	5
Lending	0	176,983	0	176,983
Portfolio of securities	43,014	1,968	0	44,982
Derivatives	0	5,796	814	6,610
Total assets	43,019	184,747	814	228,580
Liabilities				
Due to credit institutions	80	164	0	244
Debt securities issued	0	211,110	7,822	218,932
Derivatives	0	7,973	354	8,327
Total liabilities	80	219,247	8,176	227,503

NOTE 3

SPECIFICATION OF LEVEL 3 FAIR VALUE

DKKkm	1 Jan.	Additions	Disposals	Recognised in profit for the period	30 Jun.
30 Jun. 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	-5	-130	679
Total assets	814	0	-5	-130	679
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	7,822	0	-725	-323	6,775
Derivatives	354	0	-125	199	427
Total liabilities	8,176	0	-850	-124	7,202

DKKkm	1 Jan.	Additions	Disposals	Recognised in profit for the year	31 Dec.
31 Dec. 2019					
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	747	0	-14	81	814
Total assets	747	0	-14	81	814
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	8,601	0	-919	140	7,822
Derivatives	1,217	0	-858	-5	354
Total liabilities	9,818	0	-1,777	135	8,176

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. Total offsetting amounted to DKK 6,284 million at 30 June 2020 against DKK 5,289 million at 31 December 2019. The higher offsetting value was driven by an increase in the value of derivatives, with respect to which an agreement has been signed on net settlement.

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 offsetting 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

DKKm	Values offset			Values not offset		
	Gross carrying amount	Set-off	Carrying amount	Financial instruments	Collateral	Net value
30 Jun. 2020						
Assets	14,480	-6,284	8,196	-886	-5,604	1,706
Liabilities	16,952	-6,284	10,668	-886	-6,594	3,188
Net	-2,472	0	-2,472	0	990	-1,482
31 Dec. 2019						
Assets	11,899	-5,289	6,610	-874	-4,069	1,667
Liabilities	13,616	-5,289	8,327	-874	-4,359	3,094
Net	-1,717	0	-1,717	0	290	-1,427

NOTE 5

LIQUIDITY RESOURCES

The supervisory authority has stipulated that KommuneKredit may 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 46.5 billion at the end of the period, and KommuneKredit had liquidity resources of DKK 28.5 billion. The utilisation of the limit fluctuated throughout the first half of 2020, and the highest level of liquidity resources at the end of a month was 16 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.

DKKmn	30 Jun. 2020	31 Dec. 2019
Liquidity resources		
Due to credit institutions, debt securities issued and derivatives		
Due to credit institutions	256	244
Debt securities issued	216,443	218,932
Derivatives, liabilities	10,668	8,327
Derivatives, assets	-8,196	-6,610
Total due to credit institutions, debt securities issued and derivatives	219,171	220,893
Lending and leasing		
Lending	182,523	176,983
Leasing	8,175	7,982
Total lending and leasing	190,698	184,965
Liquidity resources	28,472	35,928
Liquidity resources cannot exceed 25 pct. of total lending at the end of the preceding quarter.		
Liquidity resources	28,472	35,928
Total lending and leasing at the end of the preceding quarter	186,146	188,371
Total liquidity resources, pct.	15	19

NOTE 6

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 statement of financial position 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 actuarially calculated net present value is recognised in the statement of financial position as pension obligations. 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.

In 2019, KommuneKredit opted to pay the pension obligation to Sampension, and the obligation is therefore not recognised in the statement of financial position. However, KommuneKredit still has the financial obligation for paying future benefits to former employees.

NOTE 7

KEY FIGURES

Million	H1 2020	H1 2020	H1 2019	H1 2018	H1 2017	H1 2016	Full year 2019
	EUR	DKK	DKK	DKK	DKK	DKK	DKK
KEY FIGURES FOR THE PERIOD							
Net interest income	30	221	250	235	341	362	496
Other operating income	1	5	7	6	6	5	13
Other operating expenses	-1	-8	-7	-7	-7	-6	-13
Administrative expenses	-9	-67	-62	-62	-58	-54	-126
Profit before value adjustments	20	152	187	172	282	307	369
Value adjustments of financial instruments	5	35	218	163	63	88	227
Tax on profit for the period	-6	-41	-89	-74	-76	-87	-148
Comprehensive income for the period	20	145	316	261	269	308	441
Lending and leasing	25,626	190,698	185,878	176,788	172,271	166,257	184,965
Portfolio of securities	5,054	37,609	42,181	45,683	42,706	35,690	44,982
Assets	31,806	236,685	237,182	229,599	230,199	223,599	236,935
Debt securities issued	29,086	216,443	216,451	207,718	210,357	204,369	218,932
Equity	1,119	8,324	8,052	7,593	7,113	6,655	8,179
ACTIVITIES DURING THE PERIOD							
Lending and leasing, net additions in nominal value	526	3,914	2,774	3,423	4,939	5,090	2,427
Lending and leasing, gross additions in nominal value	3,215	23,926	17,995	24,067	19,008	16,670	36,745
Debt securities issued, gross additions in nominal value	3,609	26,855	31,762	42,871	54,741	52,090	49,699

Million	H1 2020	H1 2020	H1 2019	H1 2018	H1 2017	H1 2016	Full year 2019
	EUR	DKK	DKK	DKK	DKK	DKK	DKK
CAPITAL STRUCTURE							
Total risk exposure amount (REA)*	1,857	13,817	14,366	19,926	9,699	7,582	11,911
Common Equity Tier 1 (CET1) capital	1,119	8,324	8,052	7,593	7,113	6,655	8,179
Capital base	1,097	8,165	7,851	7,340	6,590	6,450	7,997
Capital ratio, pct.*	59	59	55	37	68	85	67
Equity ratio, pct.	3.5	3.5	3.4	3.3	3.1	3.1	3.5
SELECTED FINANCIAL RATIOS							
Losses on lending and leasing	0	0	0	0	0	0	0
Expenses/assets, pct.	0.03	0.03	0.03	0.03	0.03	0.02	0.05
Net interest income/ assets, pct.	0.09	0.09	0.11	0.10	0.15	0.16	0.21
Liquidity resources, pct.	15	15	18	22	24	18	19
Number of full-time employees	79	79	74	69	69	67	76

* 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 30/06/2020: EUR 100 = DKK 744.156.

STATEMENT BY THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

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 2020.

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 2020 and of the comprehensive income of KommuneKredit’s operations and cash flows for the period 1 January – 30 June 2020.

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, 3 September 2020

MANAGEMENT BOARD

Jens Lundager
Chief Executive Officer
Managing Director

Henrik Andersen
Managing Director

/Morten Søtofte
Director, 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 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 2020 – 30 June 2020, 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 2020 – 30 June

2020 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, 3 September 2020

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 2020 – 30 June 2020, 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, 3 September 2020

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 KommuneKredit, NORFORS, Municipality of Hørsholm

THANKS to NORFORS and Usserød-værket in Hørsholm for participating in our case

DESIGN AND PRODUCTION Noted

CONTACTS

Jens Lundager, Chief Executive Officer,
Managing Director

Please direct questions regarding bond
issuance to: Jette Moldrup, Director,
Head of Treasury

KOMMUNEKREDIT

Kultorvet 16
DK-1175 Copenhagen K, Denmark

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

Published on 3 September 2020



KOMMUNE
KREDIT

STEADY
& STABLE