



> Interim Report 2016

1ST HALF > MANAGEMENT COMMENTARY
& FINANCIAL STATEMENTS



KOMMUNE
KREDIT

STEADY
& STABLE



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Contacts

Jens Lundager, Chief Executive Officer, Managing Director

Johnny Munk, Managing Director

Morten Søtofte, Chief Financial and Risk Officer

For questions regarding issuances, please contact:

Eske Hansen, Head of Funding and Treasury

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: 26 August 2016

This interim report for the first half of 2016 is a translation of the original interim report in Danish. In case of discrepancies, the Danish version prevails.

KOMMUNEKREDIT IN BRIEF

KommuneKredit is an association, whose purpose is to provide funding and leases to Danish municipalities and regions, as well as to companies and institutions against full municipal guarantee. KommuneKredit operates under a special act and is supervised 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 regions and thereby contribute to greater financial latitude in the Danish society.

Today, all Danish municipalities and regions are members of KommuneKredit. The members are directly, jointly and severally liable for KommuneKredit's obligations.

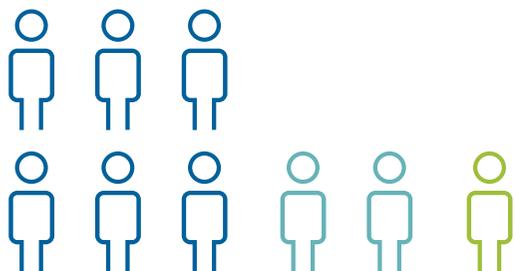
KommuneKredit has the highest credit rating, primarily due to the municipalities' and regions' direct, joint and several liability and to their strong standing in the national economy. The rating is the basis for KommuneKredit's ability to raise funding at attractive prices.

KommuneKredit relends funding at a modest margin.

The association does not need to make a profit.



>9 MEMBERS OF THE BOARD



6 members
chosen by the
municipalities

2 members
chosen by
the regions

1 independent
member chosen by
the Board of Directors

KommuneKredit's
members:

All **98**
municipalities
and **5 regions**
in Denmark plus
2 Faroese
municipalities

>Highest international credit rating

Long-term
debt :

Aaa/AAA

Short-term
debt :

P-1/A-1+

*KommuneKredit is rated by Moody's Investors
Service and Standard & Poor's.
Outlook: Stable*

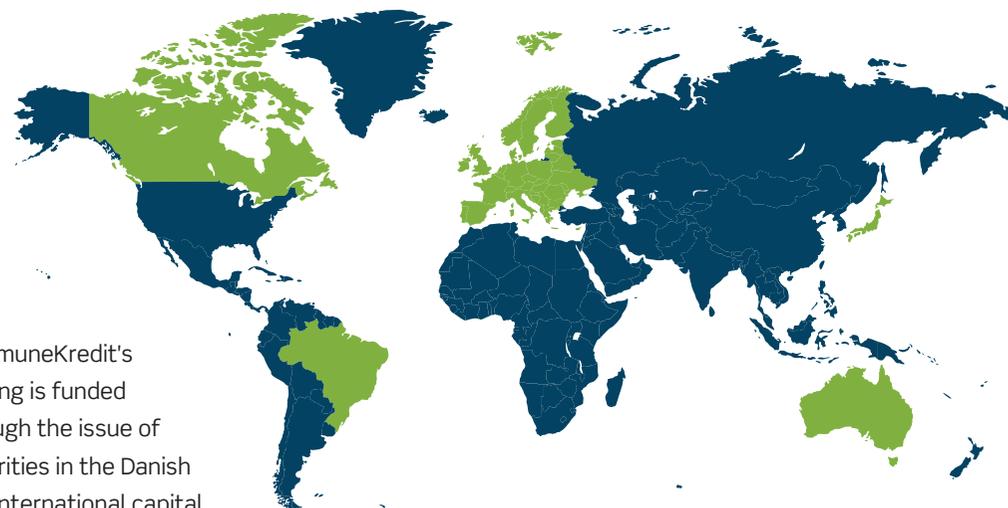
3%
Equity ratio

85%
Solvency ratio



KommuneKredit
spends **5 øre**
(DKK 0.05) on
administration
for every DKK
100 managed

KommuneKredit's
lending is funded
through the issue of
securities in the Danish
and international capital
markets



THE CEO'S COMMENTARY

KommuneKredit's profit for the first half of 2016, before value adjustments, is on a par with the same period last year, but higher than expected in the Annual Report for 2015. At the same time, value adjustments are relatively limited, which is satisfactory in light of the turbulent first six months in the financial markets.

The association does not need to make a profit beyond what is necessary to sustain an adequate capital base. The goal is an equity ratio of at least 3 %. KommuneKredit's favourable funding opportunities may thus be channelled on to our customers by relending at a modest margin.



KommuneKredit
remains the same
– steady and stable

In the first half of 2016 we have increased the frequency of price adjustments as regards the customers, so that the continuous match, between our funding terms (incl. derivatives) and the terms by which the customers obtain loans from us, is even greater. Lending margins are aimed at being constant. This also limits the impact of fluctuations on the financial markets on KommuneKredit's value adjustments and thus on profit.

Total lending at nominal value increased by DKK 4.7 billion in the first six months. At the end of June, the distribution of lending at fair value is DKK 81 billion to municipalities, DKK 18 billion to regions, DKK 54 billion to utility companies and DKK 8 billion to other borrowers.

New lending for the period has, amongst other things, gone to water and waste water plants, as well as to the production and transmission of heat.

Lease receivables have increased by DKK 0.4 billion to DKK 5.2 billion in the first six months.

KommuneKredit has a strategy for the broad diversification of funding. In May we expanded our wide-ranging sources of funding with an Australian MTN-programme of AUD 5 billion – corresponding to DKK 25 billion. So far AUD 130 million has been issued under the programme.

We are focused on maintaining our strong liquidity position, so that we can continue to finance the municipal and regional sector regardless of market conditions.

The lay-out of the interim report is new, including the use of landscape format to increase readability on digital devices. But KommuneKredit remains the same – steady and stable.

Copenhagen, 26 August 2016

Jens Lundager
Chief Executive Officer, Managing Director



PHOTO: EHRHORN HUMMERSTON

”

We are focused on
maintaining our strong
liquidity position

Jens Lundager
*Chief Executive Officer,
Managing Director*

RESULTS AND EXPECTATIONS



KommuneKredit's steady development is expected to continue in the 2nd half of 2016

Gross lending at nominal value has increased by DKK 4,685 million (new lending, net). Lending growth for the year is expected to be DKK 7,000 million. KommuneKredit is the primary lender to the municipal and regional sector, and the minor increase in lending is due to increasing demand in the sector rather than to an increased market share.

Net interest income remains stable as lending margins are relatively constant and lending only slightly increasing. Net interest income for the period amounts to DKK 361 million, and expectations for the year are just under DKK 700 million. This is higher than the expectations of the Annual Report for 2015, but on a par with net interest income in 2015. The long-term target for net interest income is still in the region of DKK 500 million annually.

The period saw two price adjustments for new lending to keep lending margins relatively constant. In May lending rates were cut due to declining funding costs (including derivatives). Market unrest in the wake of the British referendum on leaving the EU caused funding costs to

increase, and at the end of June lending rates were raised slightly. Overall, the lending rates for the period decreased.

Value adjustments of financial instruments are DKK 88 million, of which market value adjustments on KommuneKredit's own portfolio of bonds make up DKK 72 million.

Profit for the period before tax and value adjustments is DKK 307 million, and profit for the year is expected to be just under DKK 600 million. This is higher than expected in the Annual Report for 2015, and is due to net interest income being greater than anticipated.

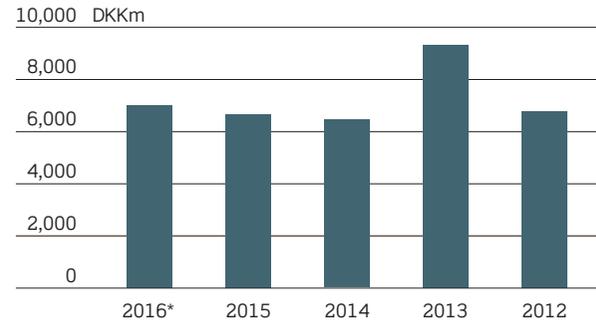
Comprehensive income for the period is DKK 308 million, and comprehensive income for the year is expected to be in the region of DKK 500 million against DKK 103 million for 2015. Changes in comprehensive income are primarily driven by accounting estimates on valuation, as net interest income and administrative expenses are stable.

Comprehensive income for the period is transferred to equity, which is subsequently DKK 6,655 million. The equity ratio is stable at 3.0 %, and is expected to remain at 3.0 % by year-end 2016.

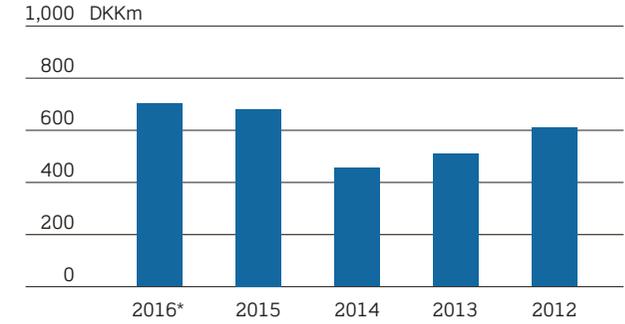
KommuneKredit's steady development is expected to continue in the 2nd half of 2016. Continued market unrest after the British referendum is not expected to cause increased counterparty risk, as KommuneKredit receives collateral for potential derivatives exposure from the majority of our counterparties.

RESULTS AND EXPECTATIONS

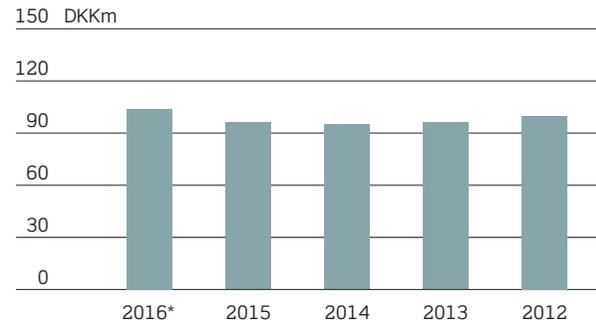
NEW LENDING, NET



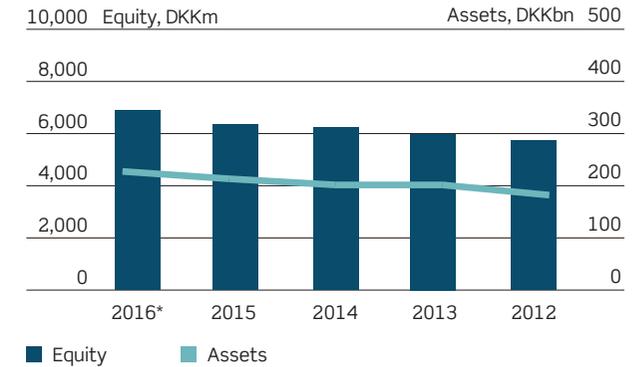
NET INTEREST INCOME



ADMINISTRATIVE EXPENSES



EQUITY AND ASSETS



Forward-looking statements

The expected future outcomes referred to in the interim report naturally involve uncertainties and can be influenced by external factors. Thus, the actual development and the actual results may differ markedly from the expectations of the interim report.

* Expectations



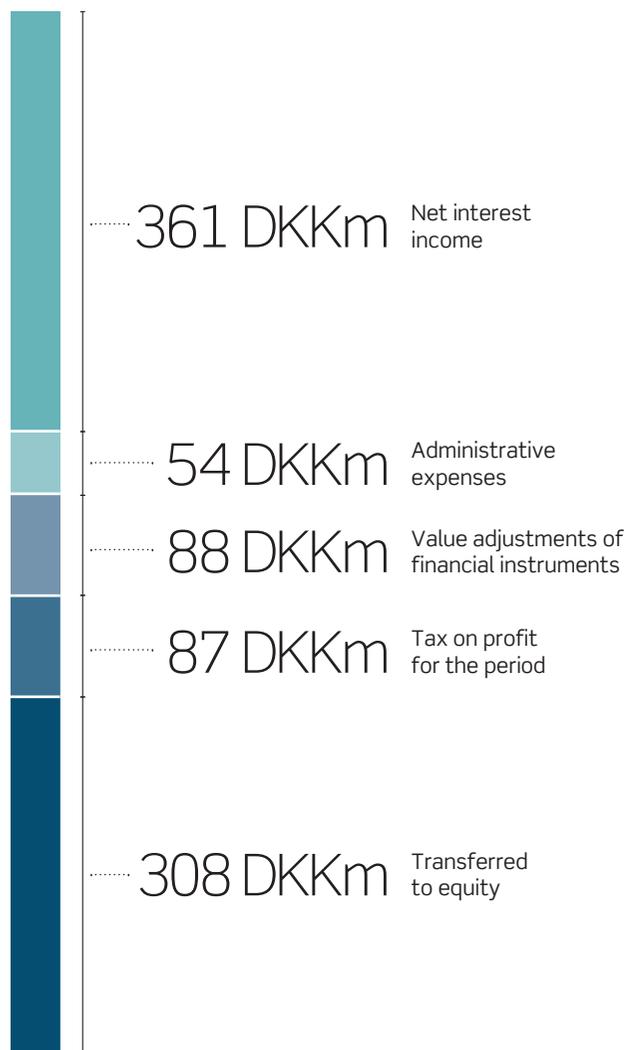
Eco-friendly district heating

The municipalities have access to raise loans for investments in the production and distribution of district heating. 64 % of Danish households have district heating. The production of district heating contributes to the move towards a green economy by phasing out coal, oil and natural gasses in favour of solar heating, biomass and other eco-friendly energy sources.

The solar heating system at Nykøbing Sjælland Varmeværk a.m.b.a., depicted here and on the cover of the interim report, is one of the district heating systems financed by KommuneKredit.

At the end of June 2016 KommuneKredit had financed Danish district heating plants to the sum of DKK 16 billion (including derivatives).

STATEMENT OF COMPREHENSIVE INCOME



DKK m	Note	1st Half 2016	1st Half 2015
Interest income		1,036	1,122
Interest expense		675	760
Net interest income		361	362
Administrative expenses		54	51
Profit before value adjustments of financial instruments		307	311
Value adjustments of financial instruments		88	-95
Profit before tax		395	216
Tax on profit for the period		87	51
Profit for the period		308	165
Other comprehensive income			
Actuarial adjustments		0	0
Comprehensive income for the period		308	165
Appropriation			
Transferred to equity		308	165
Total		308	165

STATEMENT OF FINANCIAL POSITION

Assets

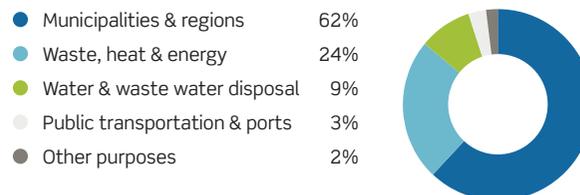
DKKm	Note	30 Jun 2016	31 Dec 2015
Receivables from credit institutions	2	40	818
Lending	2	161,040	152,881
Lease receivables		5,217	4,812
Portfolio of securities	2	35,690	33,983
Derivative financial instruments	2, 3	21,388	20,457
Other assets		168	135
Current tax assets		56	113
Total assets		223,599	213,199

Liabilities and equity

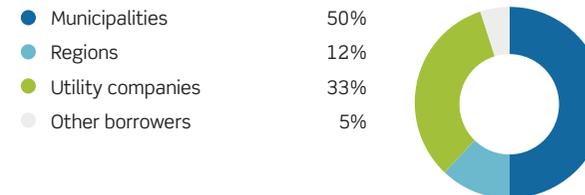
DKKm	Note	30 Jun 2016	31 Dec 2015
Liabilities			
Debt to credit institutions		0	0
Debt securities issued	2	204,369	194,784
Derivative financial instruments	2, 3	11,805	10,967
Other liabilities		442	771
Pension obligations		58	60
Deferred tax liabilities		270	270
Total liabilities		216,944	206,852
Equity		6,655	6,347
Total liabilities and equity		223,599	213,199

STATEMENT OF FINANCIAL POSITION

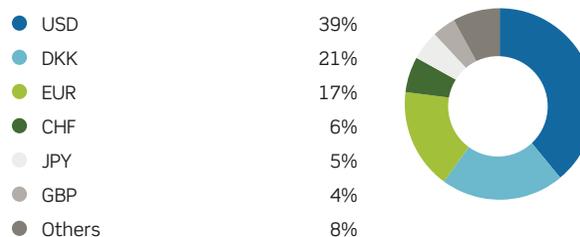
LENDING BY TYPE OF PURPOSE



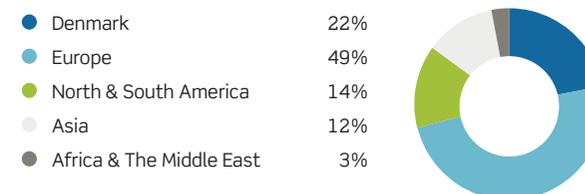
LENDING BY BORROWER



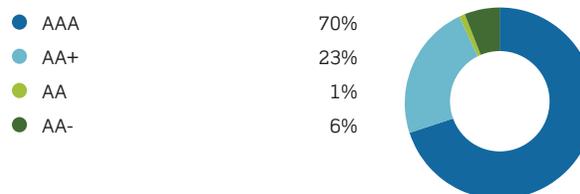
SECURITIES ISSUED, DISTRIBUTION BY CURRENCY



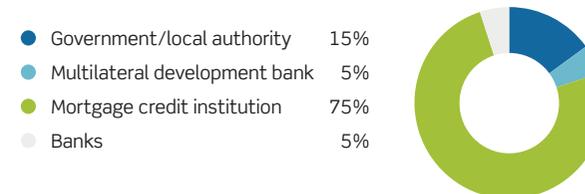
SECURITIES ISSUED, DISTRIBUTION BY MARKET



PORTFOLIO OF SECURITIES, DISTRIBUTION BY RATING*



PORTFOLIO OF SECURITIES, DISTRIBUTION BY COUNTERPARTY



* The rating is based on Moody's Investors Service, Standard & Poor's and/or Fitch Ratings. If 3 ratings are available the middle rating is used, and otherwise the lowest of the ratings.

In the first six months securities at a nominal value of DKKbn 58.5 have been issued.

STATEMENT OF CHANGES IN EQUITY

DKKm	Note	1st Half 2016	1st Half 2015
Equity			
Equity at 1 January		6,347	6,244
Comprehensive income for the period		308	165
Equity at 30 June		6,655	6,409

Comprehensive income for the period is transferred to equity in accordance with KommuneKredit's articles of association.

Equity for the 1st half of 2016 rose to DKK 6,655 million against DKK 6,409 million for the 1st half of 2015. At the end of June 2016 equity was 3.0 % of assets, which is unchanged from the end of June 2015.

Equity consists in its entirety of retained earnings.

Under the legal framework applying to KommuneKredit, equity must equal at least 1 % of total liabilities, i.e. DKK 2,169 million. KommuneKredit's long-term target is for equity to amount to at least 3 % of total assets, which is considered adequate to support the association's activities.

Capital base DKKbn 6.4

Risk-adjusted exposure DKKbn 7.5

= Solvency ratio 85 %

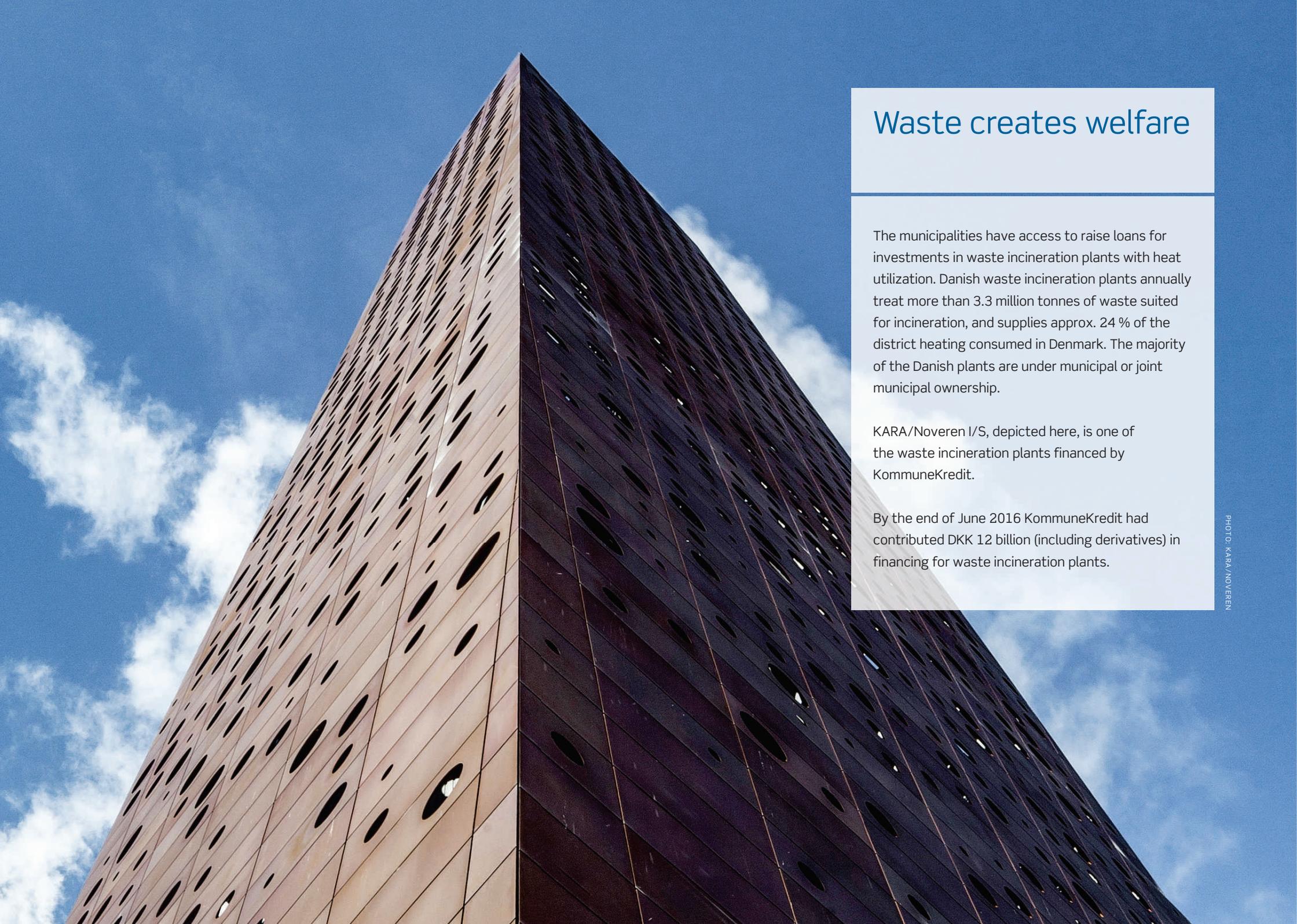
Equity DKKbn 6.7

Assets DKKbn 223.6

= Equity ratio 3 %

STATEMENT OF CASH FLOWS

DKKm	Note	1st Half 2016	1st Half 2015
Cash flows for the period			
Cash flows from operating activities			
Profit before tax		395	216
Taxes paid		-29	-56
Adjustments for non-cash operating items etc.		0	0
Other assets		-35	119
Other liabilities		-328	-18
Receivables from credit institutions		0	0
Portfolio of securities		-1,707	1,866
Lending and derivative financial instruments		-9,495	-7,082
Debt securities issued and derivative financial instruments		10,421	5,625
Total cash flows from operating activities		-778	670
Total cash flows for the period		-778	670
Cash and cash equivalents at 1 January		818	-10
Cash and cash equivalents at 30 June		40	660
Receivables from credit institutions		40	667
Debt to credit institutions		0	-7
Net receivables from credit institutions		40	660
Receivables from credit institutions with a term to maturity greater than 3 months		0	0
Total receivables from credit institutions		40	660



Waste creates welfare

The municipalities have access to raise loans for investments in waste incineration plants with heat utilization. Danish waste incineration plants annually treat more than 3.3 million tonnes of waste suited for incineration, and supplies approx. 24 % of the district heating consumed in Denmark. The majority of the Danish plants are under municipal or joint municipal ownership.

KARA/Noveren I/S, depicted here, is one of the waste incineration plants financed by KommuneKredit.

By the end of June 2016 KommuneKredit had contributed DKK 12 billion (including derivatives) in financing for waste incineration plants.

NOTES

› NOTE 1

ACCOUNTING

POLICIES

General

The interim financial statements 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.

Accounting policies remain unchanged compared to the Annual Report for 2015. The financial statements for 2015 contain a complete description of the accounting policies.

As mentioned in the Annual Report for 2015, KommuneKredit implemented an update of the method for determining accounting estimates relating to the fair value of financial instruments in the 2nd half of 2015. The method for the calculation of fair value has thus been changed compared to 30 June 2015.

The methods used for determining accounting estimates as regards the fair value of financial instruments, as well as information on risk management, are described in more detail in the notes to the Annual Report for 2015. The calculation methods are adjusted and updated on a continuing basis.

Changes to accounting policies

KommuneKredit has implemented the new standards and interpretations that came into effect on 1 January 2016. The implementation has not affected recognition and measurement.

NOTES

› NOTE 2

FAIR VALUE

In accordance with IFRS 13, 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.

All financial instruments, which are measured on a continuing basis, are classified in the fair value hierarchy.

Level 1 is used when the fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 is used when there are no quoted prices in an active market, and where measurement is based on generally accepted models and mainly observable data.

Level 3 is used when there are no quoted prices in an active market and an essential part of the measurement is based on non-observable data.

There have not been any transfers between the levels in the first half of 2016.

NOTES

› NOTE 2

FAIR VALUE
(CONTINUED)

DKKm

30 Jun 2016

Assets	Level 1	Level 2	Level 3	Total
Receivables from credit institutions	40	0	0	40
Lending	0	161,040	0	161,040
Portfolio of securities	33,479	2,211	0	35,690
Derivative financial instruments	0	18,102	3,286	21,388
Total assets	33,519	181,353	3,286	218,158

Liabilities

Debt to credit institutions	0	0	0	0
Debt securities issued	0	177,661	26,708	204,369
Derivative financial instruments	0	10,586	1,219	11,805
Total liabilities	0	188,247	27,927	216,174

31 Dec 2015

Assets

Receivables from credit institutions	818	0	0	818
Lending	0	152,881	0	152,881
Portfolio of securities	31,881	2,102	0	33,983
Derivative financial instruments	0	19,065	1,392	20,457
Total assets	32,699	174,048	1,392	208,139

Liabilities

Debt to credit institutions	0	0	0	0
Debt securities issued	0	169,356	25,428	194,784
Derivative financial instruments	0	7,145	3,822	10,967
Total liabilities	0	176,501	29,250	205,751

NOTES

› NOTE 2

FAIR VALUE
(CONTINUED)

DKKm

Specification of level 3

30 Jun 2016	Assets	Liabilities
Balance at 1 January	1,392	29,250
Additions	1,443	6,468
Disposals	366	8,411
Included in comprehensive income	817	620
Balance at 30 June	3,286	27,927
31 Dec 2015		
Balance at 1 January	1,828	38,699
Additions	39	18,803
Disposals	365	28,449
Included in comprehensive income	-110	197
Balance at 31 December	1,392	29,250

Changes in non-observable data at level 3 are not considered to have significant impact on comprehensive income, as the non-observable data are part of micro-hedged elements. Changes in non-observable data will primarily influence the recognition of value in the statement of financial position, for which reason a sensitivity analysis is not presented.

NOTES

› NOTE 3

OFFSETTING

KommuneKredit has entered into master netting agreements (ISDA Master Agreement) and related unilateral or bilateral collateral agreements for derivative financial instruments. The received and posted collateral is solely comprised of high-quality bonds.

KommuneKredit has not entered into master netting agreements nor 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.

DKKm

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

	Amounts offset		Net carrying amount	Amounts not offset		
	Gross carrying amount	Offset		Financial instruments	Collateral	Net amount
30 Jun 2016						
Assets	21,458	-160	21,388	-9,584	-8,136	3,668
Liabilities	11,965	-160	11,805	-9,584	-1,381	840
Net	9,583	0	9,583	0	-6,755	2,828
31 Dec 2015						
Assets	20,457	0	20,457	-6,644	-10,732	3,081
Liabilities	10,967	0	10,967	-6,644	-2,715	1,608
Net	9,490	0	9,490	0	-8,017	1,473

The carrying amount of FX-trades is offset, when payments are subject to net settlement. Offsetting constitutes DKK 160 million.

The amount of collateral is calculated per counterparty and has been limited to the calculated net receivable/ net liability.

The value 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.

Net amounts represent the potential accounting effect of offsetting of values not offset.

NOTES

› NOTE 4

LIQUIDITY RESOURCES

The Ministry of Social Affairs and the Interior permits KommuneKredit to build up liquidity resources of up to 25 % of total lending. The utilization of the limit has fluctuated throughout the first half of 2016, and the highest level of liquidity resources at month-end has been 19 %.

The liquidity resources are determined at carrying value as debt to credit institutions, debt securities issued and derivative financial instrument less lending and lease receivables.

DKKm	30 Jun 2016	31 Dec 2015
Liquidity resources		
Debt to credit institutions, debt securities issued and derivative financial instruments		
Debt to credit institutions	0	0
Debt securities issued	204,369	194,784
Derivative financial instruments, liabilities	11,805	10,967
Derivative financial instruments, assets	-21,388	-20,457
Total debt to credit institutions, debt securities issued and derivative financial instruments	194,786	185,294
Lending and lease receivables		
Lending	161,040	152,881
Lease receivables	5,217	4,812
Total lending and lease receivables	166,257	157,693
Liquidity resources	28,529	27,601
Liquidity resources may not exceed 25 % of total lending and lease receivables as of the previous quarter		
Liquidity resources	28,529	27,601
Total lending and lease receivables as at the end of the last quarter	160,576	156,412
Liquidity resources in %	18	18



Ferry powered by liquefied natural gas

Danish municipalities and regions are under the supervision of the Ministry of Social Affairs and the Interior, who determines the purposes for which a municipality may raise loans or lease financing.

The terms for municipal borrowing are set out in Executive Order no. 1580 of 17 December 2013 on municipal borrowing and issuing of guarantees etc. The executive order provides municipalities with access to financing ferry services for sparsely populated areas.

KommuneKredit has financed the ferry service "M/F PRINSESE ISABELLA", which sails between Samsø and Jutland daily. The ferry operates on liquefied natural gas and thus contributes to reducing carbon dioxide emissions.

STATEMENT BY THE BOARD OF DIRECTORS AND MANAGEMENT

Copenhagen, 26 August 2016

Management:

The Board of Directors and Management have today discussed and approved the interim report of KommuneKredit for the period 1 January – 30 June 2016.

Jens Lundager
*Chief Executive Officer,
Managing Director*

Johnny Munk
Managing Director

/Morten Sætøfte
*Chief Financial and
Risk Officer*

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

Board of Directors:

In our opinion, the interim financial statements give a fair representation of the association’s financial position as at 30 June 2016 and of comprehensive income from the association’s activities and cash flows for the period 1 January – 30 June 2016.

Erik Nielsen
Chairman

Lars Krarup
Vice Chairman

Hans Toft

Furthermore, in our opinion, the Management commentary contains a fair review of the development in the association’s activities, financial matters, comprehensive income for the period and the association’s financial position as a whole.

Henrik Zimino

Anker Boye

Sophie Hæstorp Andersen

Kaj V. Holm

Mikael Klitgaard

Anne V. Kristensen

THE INDEPENDENT AUDITORS' REPORT

To the Board of Directors of KommuneKredit

We have reviewed the interim financial statements of KommuneKredit for the period 1 January – 30 June 2016, which comprises statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes. The interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Management's responsibility

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 the interim financial statements free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion 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 further requirements under Danish audit regulation.

This requires us to conclude whether anything has come to our attention, which caused us to believe that the interim financial statements, as a whole, has not in all material aspects been prepared 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, as well as applying analytical procedures and evaluating the evidence obtained.

The procedures performed in a review are substantially less than those performed 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 have not, in all material respects, been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Copenhagen, 26 August 2016

Ernst & Young
Godkendt Revisionspartnerselskab
CVR-no. 30 70 02 28

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 interim financial statements of KommuneKredit for the period 1 January – 30 June 2016, 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 the Act on KommuneKredit or the Articles of Association for KommuneKredit. The review procedures carried out by Ernst & Young did not give rise to any comments on my part.

Copenhagen, 26 August 2016

Emil le Maire
Former Prefect

➤ KommuneKredit
creates greater
financial latitude
in the Danish
society

