



ANNUAL REPORT **2016**



KOMMUNE
KREDIT

STEADY
& STABLE

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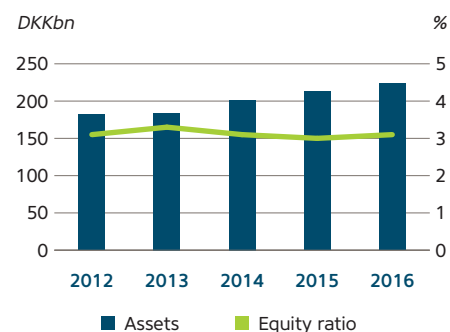
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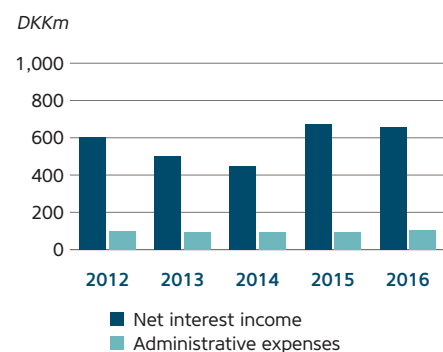
Cover foto: Kalundborg Water Supply A/S

FINANCIAL SUMMARY FOR KOMMUNEKREDIT

ASSETS AND EQUITY RATIO 2012-2016



NET INTEREST INCOME AND ADMINISTRATIVE EXPENSES 2012-2016



DKKkm	2016 EUR	2016 DKK	2015 DKK	2014 DKK	2013 DKK	2012 DKK
KEY FIGURES						
Net interest income	88	656	674	450	503	603
Administrative expenses	14	106	96	95	96	100
Profit before value adjustments of financial instruments	74	550	578	355	407	503
Value adjustments of financial instruments	12	89	-451	-17	-75	191
Tax on profit for the year	19	141	23	84	53	178
Comprehensive income for the year	67	497	103	249	279	516
Lending and lease receivables	22,677	168,589	157,693	152,085	142,711	136,296
Portfolio of securities	4,580	34,049	33,983	32,376	31,709	28,453
Assets	30,123	223,938	213,199	201,413	184,239	181,885
Debt securities issued	27,258	202,642	193,382	182,033	167,404	163,965
Equity	921	6,844	6,347	6,244	5,995	5,716
ACTIVITIES IN THE YEAR						
Lending and Leasing, net additions in nominal value (new lending, net)	1,210	8,998	7,273	6,835	9,627	6,662
Lending and lease receivables, gross additions in nominal value	4,185	31,113	30,517	28,752	31,583	35,101
Debt securities issued, gross additions in nominal value	11,563	85,963	102,462	66,190	91,299	81,025
CAPITAL STRUCTURE						
Total risk exposure (REA)	994	7,393	7,766	6,829	10,388	10,059
Common Equity Tier 1 (CET1) capital	921	6,844	6,347	6,244	5,995	5,716
Capital base	851	6,324	6,195	6,153	5,995	5,714
Capital ratio	86	86	80	90	58	57
Equity ratio (%)	3.1	3.1	3.0	3.1	3.3	3.1
SELECTED FINANCIAL RATIOS						
Loss on lending and lease receivables	0	0	0	0	0	0
Expenses/assets (%)	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
Net interest income/assets (%)	0.29%	0.29%	0.32%	0.22%	0.27%	0.33%
Liquidity resources as a percentage of total lending	16%	16%	18%	17%	18%	18%
Number of full-time employees	66	66	62	62	58	59

Key figures and financial ratios are calculated in accordance with the Danish Finance Society's "Recommendations and Financial Ratios 2015".
Exchange rate at 31.12.2016: EUR 100 = DKK 743.42 The format has been changed relative to last year. See the "Definitions" section for definitions of "Total risk exposure" and "Capital base".

KOMMUNEKREDIT IS STEADY AND STABLE

Since 1899, KommuneKredit has provided funding to Danish local authorities. KommuneKredit is a steady and stable business partner.

The steadiness is founded on KommuneKredit's structure as an association where all Danish local authorities are jointly and severally liable for KommuneKredit's liabilities and on its low risk tolerance, prudent risk management and strong financial position.

KommuneKredit's stability is demonstrated by the fact that it has been acting as a link between the clients' financing requirements and the investors for more than a hundred years.

KommuneKredit has obtained the highest rating from both Standard & Poor's and Moody's in line with the rating for the Danish government. Therefore, KommuneKredit can finance itself at low interest rates and lend to its clients at a modest margin. The association does not need to make a profit.

KommuneKredit plays an important part in society by creating financial latitude for the Danish local communities.

In 2016, total lending came to a little less than DKK 169 billion, and profit before value adjustments and tax totalled DKK 550 million.

Equity ratio at year-end corresponded to the Board of Directors' objective of at least 3.0 per cent. KommuneKredit has a capital ratio of 86 and a strong liquidity position.

KommuneKredit operates under a special act and is under supervision by the Ministry for Economic Affairs and the Interior.

The association has 66 employees and is based in Copenhagen.

HIGHEST INTERNATIONAL CREDIT RATING

LONG-TERM DEBT:

**AAA/
Aaa**

SHORT-TERM DEBT:

**P-1/
A-1+**

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

LCR:

HQLA
Level 1 assets

RISK WEIGHT

0%

KommuneKredit's issues are the highest liquidity category in the LCR delegated act

when investing in KommuneKredit's issuances

CAPITAL RATIO

86%

EQUITY RATIO

3%

JOINT AND SEVERAL LIABILITY FOR ALL KOMMUNEKREDIT'S LIABILITIES



KOMMUNE
KREDIT

STEADY
& STABLE



JOINT AND SEVERAL LIABILITY

KommuneKredit's members are Denmark's 98 municipalities and 5 regions, and the association thus represents the entire Danish population. The members are jointly and severally liable for all KommuneKredit's liabilities. That is the members' musketeer oath where everyone is obligated – one for all, all for one.

KOMMUNEKREDIT IS A LINK

KommuneKredit acts as a steady and stable link between local lending and global funding.

FUNDING OF LENDING

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



› CEO LETTER

KOMMUNEKREDIT MAINTAINED ITS STRONG POSITION IN 2016

Results of operations for 2016 lived up to our expectations, and KommuneKredit can once again report a stable development. It is important that KommuneKredit keeps strengthening the organisation's readiness for change and the way the business is organised, allowing us to act regardless of the framework.

The financial markets were characterised by turbulence in 2016 due to both Brexit and the presidential election in the US, and the future interest scenario is also associated with uncertainty. KommuneKredit's business model makes us a steady link between the Danish local authorities and the international investors – regardless of the market situation.

The association does not need to make a profit, but aims at an adequate equity ratio in the range of 3.0 per cent. Any additional earnings directly benefit KommuneKredit's clients in the form of low interest on loans.

RISING LENDING ACTIVITY, SATISFACTORY PERFORMANCE

In 2016, KommuneKredit maintained its strong market position and now meets almost all of the financing requirements of Danish local authorities. The fair value of our total lending grew by DKK 11 billion to DKK 169

billion, representing an increase relative to recent years' lending growth.

Total lending in 2016 covers a variety of projects. Examples include financing to improve sewerage plants, coastal protection and flood defences as well as a light rail project in the Municipality of Odense. All fine examples of how the infrastructure in Denmark is constantly expanding and improving.

Earnings from our clients are kept stable, whereas earnings from other sources were sizeable in 2016. Value adjustments were limited, as we adjust interest rates vis-à-vis our clients on an ongoing basis to ensure a high degree of consistency with our funding terms, including derivatives.

KommuneKredit thus reported pre-tax profit for the year of DKK 639 million and profit for the year of DKK 498 million, which is satisfactory.

» *It is important that KommuneKredit keeps strengthening the organisation's readiness for change*

THE FRAMEWORK APPLICABLE TO UTILITIES MAY AFFECT LENDING

KommuneKredit's lending is governed by the Ministry for Economic Affairs and the Interior by way of an executive order on borrowing, and KommuneKredit must comply with the EU's rules on state subsidies. According to the Ministry, lending can be provided only to clients in the public sector, which are non-commercial and not exposed to competition.

In 2016, the former government launched a proposal for a strategy aimed at enhancing the efficiency of the utilities sector in Denmark and, thus, realising savings for households and businesses. The proposal includes a principle whereby parts of the sector are to be exposed to competition. KommuneKredit's total lending to the utilities sector is DKK 54 billion, and exposing it to competition may mean that loans raised in KommuneKredit will have to be repaid.

It is important for us in KommuneKredit to focus on being client-orientated, ready for change and cost-efficient – no matter our lending volume.

In 2017, we aim to increase focus on professionalisation efforts, e.g. by strengthening and further developing the organisation and by renewing our IT platform. Regardless that we have more than a hundred years of experience, it is important that we do not relent, but continue to challenge status quo.

MORE SOURCES OF FUNDING ARE ADDED

KommuneKredit's funding terms were excellent in the past year, and our issuances were in high demand. We aim to offer well-diversified funding opportunities, and in 2016 we expanded our already broad selection of sources of funding with an Australian debt issuance programme.

As something new in 2017, we are making efforts to ensure that the large portion of lending that finances our clients' green objectives will form the basis for issuance of the first green bonds. The investors display great interest in green investments, and we are also very conscious of our social responsibility.

FOCUS ON RISK MANAGEMENT

Due to KommuneKredit's high rating, our bonds are considered a very safe investment. The joint and several

liability accounts for much of the reason, but it also places great demands on how we organise our business.

Consequently, risk management was a key topic throughout 2016 – and will continue to be so in 2017. Steady and stable will always be a focus area for our Management – not just in terms of risk management, but in terms of KommuneKredit's entire business.

In 2016, we made a special effort to maintain our strong liquidity position so that we can continue to finance the municipal and regional sector regardless of market conditions.

KommuneKredit's stable development is expected to continue in 2017 with net interest income and an equity ratio at the levels attained in 2016.

Copenhagen, 3 March 2017



Jens Lundager

Chief Executive Officer and Managing Director

› THE DANISH ECONOMY

KOMMUNEKREDIT AND DENMARK

All Danish local authorities are jointly and severally liable for KommuneKredit's liabilities. This is the main reason for KommuneKredit's high creditworthiness.

Denmark's 98 municipalities and 5 regions are all members of KommuneKredit. Thus, KommuneKredit is closely tied to the Danish municipal and regional sector.

KommuneKredit provides lending and finance leases to Danish municipalities and regions. KommuneKredit is governed by Act No. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark (lov om kreditforeningen af kommuner og regioner i Danmark). It appears from section 5 of the act that members of KommuneKredit are jointly and severally liable for all of KommuneKredit's liabilities.

KOMMUNEKREDIT'S RATING IS IN LINE WITH THAT OF THE CENTRAL GOVERNMENT

KommuneKredit has been awarded the highest possible rating by the international rating agencies Standard & Poor's and Moody's Investor Service: AAA and Aaa, respectively. Corresponding to the ratings of the Danish

KOMMUNEKREDIT'S AND THE DANISH CENTRAL GOVERNMENT'S HISTORICAL RATINGS

KommuneKredit
The Danish central government

MOODY'S – CURRENT LIABILITIES



STANDARD & POOR'S – CURRENT LIABILITIES



MOODY'S – LONG-TERM LIABILITIES



STANDARD & POOR'S – LONG-TERM LIABILITIES



› THE DANISH ECONOMY

central government. The arguments underlying the high ratings are:

- the robustness of the Danish economy
- the municipalities' and regions' strong position in the Danish economy
- the strict regulation of the public sector
- the members' joint and several liability for all of KommuneKredit's liabilities.

Also, weight is attached to KommuneKredit's important role in the economy as main provider of funding to the Danish local communities.

THE DANISH ECONOMY IS SOUND

The Danish economy is characterised as being sound and competitive. The Danish society is based on high institutional efficiency, mature political and institutional frameworks encouraging fiscal discipline and relatively modest national burden of debt.

Denmark has been a member of the EU since 1973, but has, among other areas, reserved its position on the common currency, EUR, which means that the monetary standard in Denmark is DKK. At the end of 2015 and measured by reference to current prices, Denmark had the third-highest GDP per inhabitant in the EU, surpassed only by Luxembourg and Ireland. In July 2016, the unemployment rate was 6.5 per cent, or 1.8 percentage points below the EU average. Average inflation in Denmark, measured from December 2015 to

December 2016 and based on the consumer price index harmonised by the EU (HICP), was 0.0 per cent.

MUNICIPALITIES AND REGIONS ARE KEY TO THE DANISH WELFARE SOCIETY

Denmark has one of the most de-centralised public sectors in the world, meaning that not only the central government, but also local authorities are responsible for public sector tasks.

Municipalities attend to most of the tasks directly related to citizens and are responsible for most of the public services offered in the Danish welfare system. The municipalities' responsibilities include public schools, elder care, day care facilities for children and young people, employment-creating measures, social integration efforts for marginalised people, roads, the environment, culture and preventive healthcare services.

Also, it is the municipalities' responsibility to provide various supplies to the citizens, such as water.

The regions are responsible for tasks which are best undertaken de-centrally, but which also call for a larger catchment population. The regions' responsibilities include hospitals, regional development and specialised social institutions and participation in regional traffic companies.

The great importance of the municipal and regional sector is illustrated by the fact that municipal and regional

MACROECONOMICS 2015

GDP PER INHABITANT, CURRENT PRICES (EUR)

DK 48 THOUSAND EU 29 THOUSAND

GDP REAL GROWTH

DK 1.6% EU 2.2%

CONSUMER PRICES

DK 0.2% EU 0.0%

UNEMPLOYMENT

DK 6.2% EU 9.4%

GOVERNMENT BUDGET BALANCE AS A % OF GDP

DK -1.7% EU -2.4%

EMU DEBT AS A % OF GDP

DK 40.4% EU 85.0%

Source: Eurostat

› THE DANISH ECONOMY

expenditure accounted for 28 per cent of the gross domestic product (GDP) in 2015, or more than half of the total public expenditure.

THE CENTRAL GOVERNMENT BEARS THE RISK ASSOCIATED WITH ECONOMIC TRENDS

Income taxes represent the dominant source of income for municipalities and account for more than half of total municipal funding. Moreover, municipalities are funded through block grants and central government reimbursements as well as user fees and property taxes that are set by the individual municipalities.

The municipalities are, basically, to finance their own capital expenditure from their current income without raising loans. However, they may raise loans for a number of purposes permitted by the Ministry for Economic Affairs and the Interior.

Regional funding consists of government grants and municipal contributions and charges. The regions are permitted to raise loans for a number of purposes, as well.

The Danish municipalities' and regions' debt-to-equity ratios are low seen in an international perspective.

Denmark has a very extensive economic equalisation system. Equalisation of local government resources comprises the tax base as well as the service expendi-

ture and aims at ensuring consistency in the ability to render a given service in all Danish municipalities.

The overall economy of the municipalities is not affected by economic setbacks, as it is the central government that bears the risk associated with economic trends. The central government mitigates such trends through the so-called balancing grant, which implies that excess expenditure related to transfer payments and reduced taxable income due to economic slow-down is balanced out by the block grant.

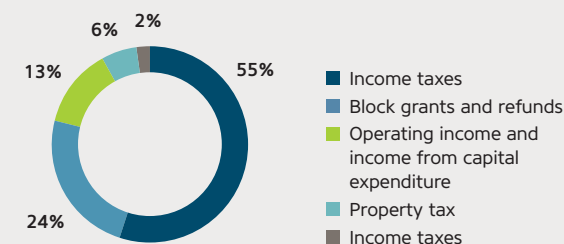
It has been decided by court order that Danish municipalities cannot file for restructuring proceedings, as it is the responsibility of the supervisory authority to ensure that a municipality can meet its financial obligations.

Throughout KommuneKredit's history, no municipality or region has defaulted on a loan. The Danish municipalities and regions are characterised by high credit-worthiness and a risk weight of zero.

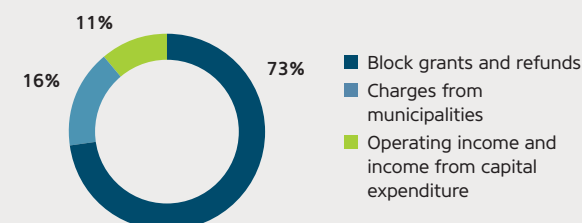
THE MINISTRY SUPERVISES KOMMUNEKREDIT

The Ministry for Economic Affairs and the Interior is the ultimate supervisory authority in respect of local authorities, and also supervises KommuneKredit. Such supervision ensures that local authorities can at all times settle their obligations and that KommuneKredit complies with the strict regulations.

BUDGET FOR THE MUNICIPALITIES' INCOME BASE 2017



BUDGET FOR THE REGIONS' INCOME BASE 2017



› STRATEGY

INCREASED FOCUS ON CLIENT RELATIONSHIPS AND INVESTORS

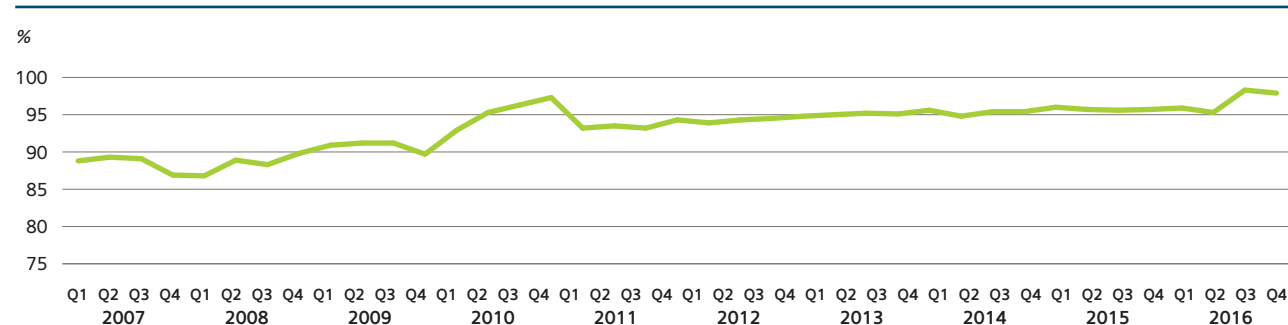
KommuneKredit's strategy is based on an overall objective of being steady and stable. This is maintained through prudent risk management and close relations with clients, investors and other business partners.

KommuneKredit's mission is to contribute to greater financial latitude in the Danish society by providing funding at the lowest possible interest rates and offering financial advice to the Danish local authorities. More than a hundred years' experience has created a solid basis for this mission.

At year-end 2016, KommuneKredit met 98 per cent of the local authorities' financing requirements.

To be able to maintain our strong position as the Danish local authorities' preferred provider of funding and relat-

KOMMUNEKREDIT'S WEIGHTED MARKET SHARE FOR LOCAL AUTHORITIES



KOMMUNEKREDIT'S STRENGTH PROFILE

- › HIGHEST CREDIT RATING (AAA/Aaa)
- › THE ASSOCIATION'S LEGAL STRUCTURE BASED ON JOINT AND SEVERAL LIABILITY
- › LOW FINANCIAL RISK
- › SOLID CAPITAL STRUCTURE AND ROBUST LIQUIDITY
- › EXPERT ORGANISATION

› STRATEGY

ed services, KommuneKredit has the following strategic landmarks:

- to create the best funding solutions for the clients
- to support, at any time, the Danish local authorities' ambitions by offering optimum financial advice and funding
- to be known for cooperating in a manner which is up-to-date, committed and efficient – with focus on high quality.

The strategic landmarks ensure that KommuneKredit can continue the necessary optimisation and professionalisation of the organisation. KommuneKredit wants to be competitive – setting aside the fact that we can offer low lending rates due to our high creditworthiness.

KommuneKredit exists solely for our clients, and our organisation's client-focused functions are specialised in

the individual client segments. This means that KommuneKredit has accumulated know-how to the benefit of our clients.

KommuneKredit will continue to professionalise and optimise our business to make it as flexible and ready for change as possible. We will maintain our tight focus on expenses, which, combined with an optimisation of the business, will limit the commercial risk.

The defined landmarks are decisive to our clients' and investors' trust in KommuneKredit as the natural link between Danish local authorities' borrowing and leasing requirements and the international investors' interest in safe investments.

A SIMPLE BUSINESS MODEL THAT WORKS

Steadiness and stability are an integral part of KommuneKredit's business model and culture.

KommuneKredit's business model is based on the idea that local authorities are more creditworthy combined than individually. The joint and several liability makes it possible, via KommuneKredit, to obtain attractive funding in the capital markets, which – at a modest margin – is lent on to Danish local authorities.

Through the simple business model and prudent risk management, cost savings are achieved, and the attractive funding terms are passed on to the local authorities to the benefit of the Danish local communities.

Notwithstanding the development in the financial markets, the business model has ensured attractive funding opportunities for local authorities, and KommuneKredit has, year after year, been able to report stable profits before tax and value adjustments.

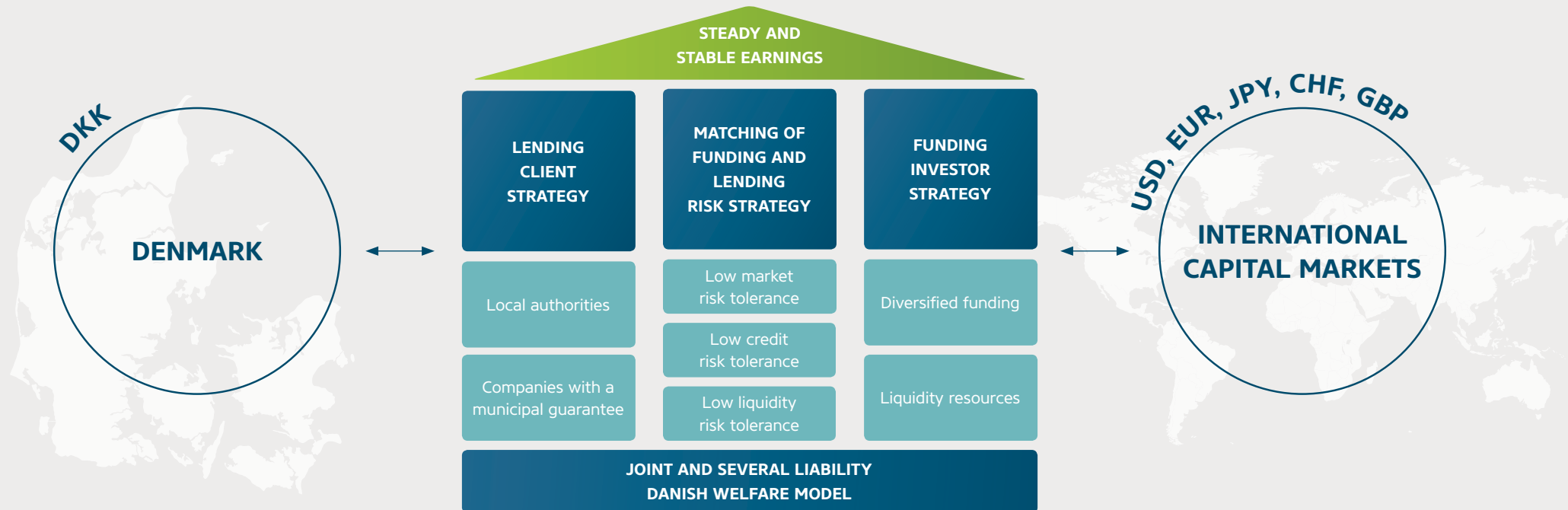


»» *In 2017, the good client relationships will be supported by the implementation of a new Customer Relationship Management (CRM) system*

Johnny Munk
Managing Director

KOMMUNEKREDIT'S BUSINESS MODEL

KommuneKredit acts as a steady and stable link between the international capital markets and the Danish local authorities' financing requirements.



> CASE: AABYBRO SCHOOL

FUNDING OF PPP PROJECT ENSURES STATE-OF-THE-ART SCHOOL



› CASE: AABYBRO SCHOOL

The Municipality of Jammerbugt has built a new school as a PPP. The new Aabybro School replaces the old Aabybro School, which was torn down in connection with the project. The new school can accommodate approx. 1,100 pupils.

The PPP agreement comprises design, project planning, construction as well as operation and maintenance of the building for a 25-year period. This means that the Municipality has got a construction in terms of overall economy where both the cost of construction and the cost of operation were clarified in the tendering process.

"To me as mayor, our new school is the crowning achievement of many public investments both in Aabybro and the rest of Jammerbugt, and I feel both proud and grateful that it was possible", says Mogens Gade, mayor.

Aabybro School is the biggest and most expensive construction project in the Municipality of Jammerbugt ever with a total capital expenditure of DKK 190 million.

The PPP project was financed partly by the Municipality's own funds and partly by KommuneKredit funding. The dialogue between the Municipality of Jammerbugt and KommuneKredit started already back in 2012.

FOR MORE INFORMATION:

Jette Moldrup, Head of Lending
jem@kommunekredit.dk

FACTS:

CONTRACTING ENTITY:

The Municipality of Jammerbugt.

PPP SUPPLIERS: NCC and
Ejendomsvirke.

ARCHITECT: Cebra Arkitekter.

ACREAGE: 11,000 sq. m.

CONSTRUCTION PERIOD:
2014-2016.

**PERIOD OF OPERATION AND
MAINTENANCE:** 25 years.

FINANCING INSTITUTION:
KommuneKredit.

FUNDING: DKK 170 million.

LENDING PRODUCT: Tailor-made
loans with a term to maturity of
25 years.



Aabybro School was inaugurated by Her Royal Highness Crown Princess Mary on 15 September 2016.

› LENDING

FOCUS IS ON THE CLIENTS' REQUIREMENTS

Long-term relations to Danish local authorities ensure the best funding solutions for the clients.

KommuneKredit provides funding to local authorities. Moreover, KommuneKredit provided lending to companies and institutions undertaking a municipal or regional task if one of more members of KommuneKredit put(s) up surety in respect of the principal of the loan.

KommuneKredit has previously provided lending to Faroese municipalities, but the last of these loans were completely redeemed in 2016.

SATISFIED CLIENTS

KommuneKredit's strong and yearlong client relationships manifested themselves very clearly in a satisfaction survey which was carried out at the end of 2016. More than 500 clients in the utilities sector were asked questions regarding the quality of advice given, of

service and of digital tools, and the average satisfaction score was 8.3 out of 9.

KommuneKredit has close relations to financial administrations and the political level of Denmark's local authorities, allowing insight and benefiting all parties.

FOCUS ON OPTIMISED FUNDING SOLUTIONS

Our clients' financing requirements are very diverse and depend on the individual client's borrowing facilities for the financing of construction projects. Moreover, the size and complexity as well as term to maturity and cash withdrawal requirements of the projects differ. Based on KommuneKredit's knowledge of the clients, we tailor our advice, products and services to ensure that each individual client gets the right funding solution.

LENDING LIMITS

KOMMUNEKREDIT FUNDS SUCH PUBLIC, NON-COMMERCIAL PURPOSES NOT EXPOSED TO COMPETITION AS ARE IN ACCORDANCE WITH THE MINISTRY FOR ECONOMIC AFFAIRS AND THE INTERIOR'S EXECUTIVE ORDERS ON BORROWING.

› LENDING

In 2016, tailor-made loans accounted for 90 per cent of total lending. Lease receivables accounted for 7.0 per cent, and the remaining 3.0 per cent of total lending were bond loans whose debt conditions were identical to the underlying debt security.

3,564 new loans were advanced in 2016, which is up 4.0 per cent on 2015. The total number of loans at year-end was 15,306.

GREEN LENDING

Lending to local authorities accounted for about half of gross lending in 2016, and the funding has supported, among other areas, energy-saving measures, climate proofing and more residential care facilities. The remainder of the lending was provided to companies which undertake municipal or regional tasks such as water and waste water supply, district heating production and distribution, waste incineration plants including heat utilisation, etc.

At the end of 2016, KommuneKredit's total lending was DKK 163 billion against DKK 153 billion at the end of 2015.

› [Read more in the case: Kalundborg Water Supply A/S on page 30.](#)

Lease receivables totalled DKK 5.6 billion at the end of 2016 compared to DKK 4.8 billion at year-end 2015, and properties still make up by far the largest share of lease receivables.

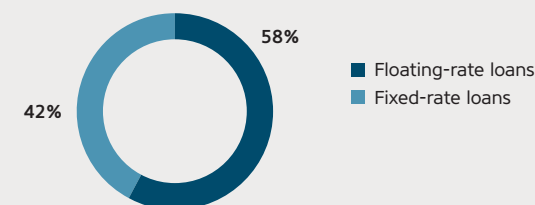
There was considerable interest in green investments in the municipal sector in 2016. For example, many municipalities borrowed funds to undertake energy upgrading of their properties with a view to reducing energy consumption, and several are in the process of climate-proofing urban as well as coastal areas based on funding from KommuneKredit.

Furthermore, KommuneKredit has in recent years financed several PPP projects based on public financing, including schools, healthcare centres and swimming and sports centres.

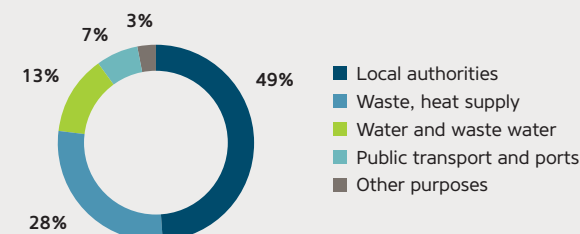
› [Read more in the case: Aabybro School on page 14.](#)

PPP projects can be carried out based on public financing while at the same time preserving the advantages of the PPP model, including distribution of risk.

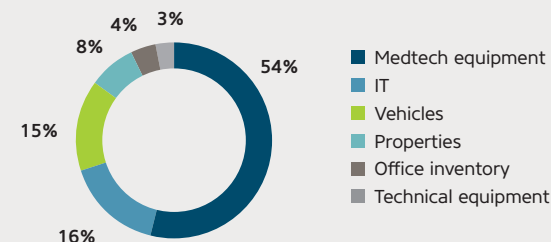
LENDING BY TYPE OF INTEREST



THE YEAR'S GROSS LENDING BY PURPOSE



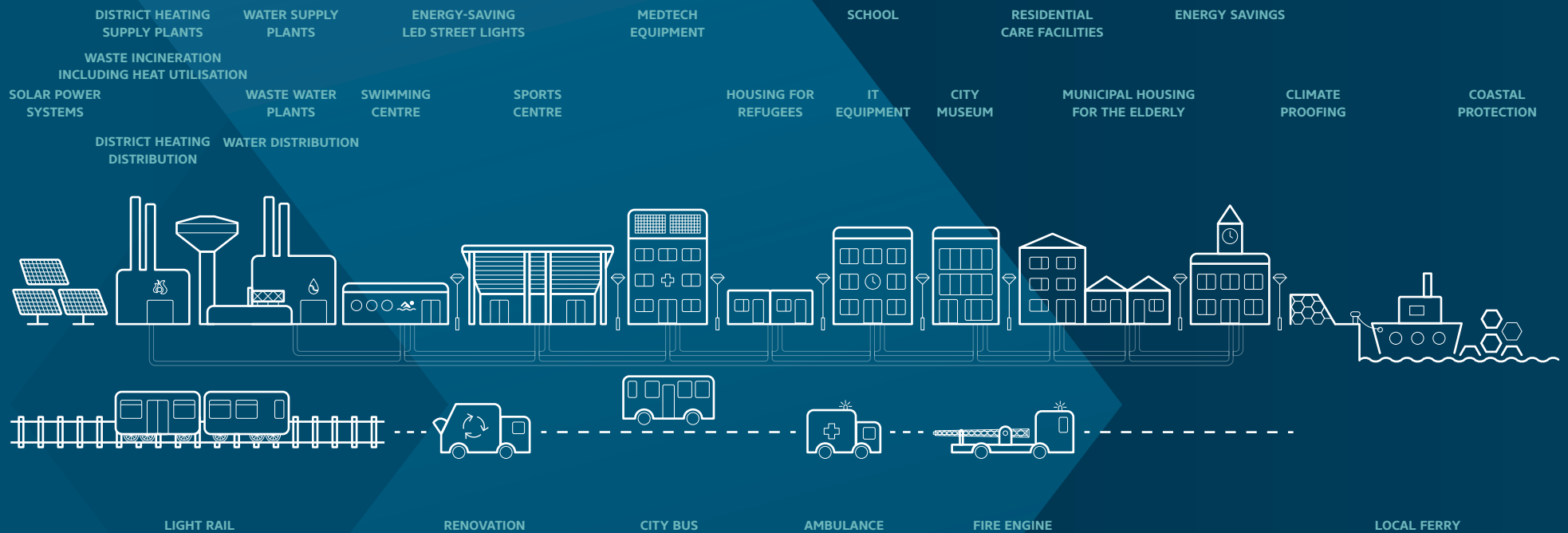
THE YEAR'S GROSS LEASE RECEIVABLES BY PURPOSE



> LENDING

KOMMUNEKREDIT FUNDS MANY PUBLIC PURPOSES

Lending covers many different local projects in Danish society, including many green investments as well as an expansion and improvement of the infrastructure.



› FUNDING

DIVERSIFICATION ON MARKETS AND PRODUCTS CREATES STABLE FUNDING

Diversified funding, combined with the liquidity resources, reduces the financial risks and ensures stable and attractive funding to the benefit of KommuneKredit's clients.

KommuneKredit obtains funding through bond issues on Nasdaq Copenhagen and international issues of securities.

KommuneKredit carefully spreads its issues of securities among different markets, currencies and products. KommuneKredit issues both floating-rate and fixed-rate as well as structured bonds.

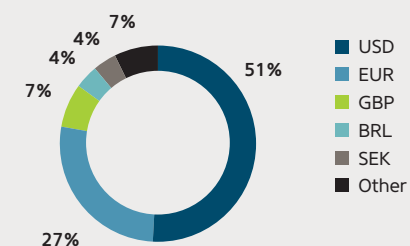
The spread across markets and products ensures stable financing opportunities. At the same time, its presence in different markets ensures that KommuneKredit can issue bonds in the markets where it is relatively cheapest.

KommuneKredit completes big, public bond issues, but also offers individual issues matching investors' specific needs.

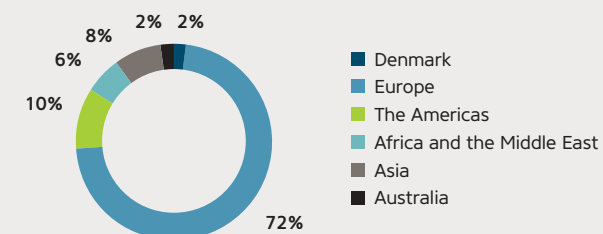
In 2016, KommuneKredit offered several big public bond issues, including several benchmark issues in USD and EUR, and the broad selection of funding sources was expanded by an Australian debt issuance programme in AUD.

The issues were to a wide extent acquired by central banks and public institutions.

THE YEAR'S FUNDING BY CURRENCY



THE YEAR'S FUNDING BY MARKET



› FUNDING

Benchmark issues typically have a term to maturity of 3 to 10 years, whereas European Commercial Papers (ECP) issues typically have a term to maturity of 3 or 6 months. As the financing requirements in 2016 were met by long-term benchmark issues rather than short-term ECP issues, the term to maturity of the issues combined was longer than in 2015.

LIQUIDITY RESOURCES ENSURE FLEXIBILITY

KommuneKredit is authorised to raise loans prior to lending at a maximum of 25 per cent of total lending.

In 2016, liquidity resources amounted to 18 per cent of lending on average, and the term to maturity was longer than in prior years. Liquidity resources provide flexibility so that bonds can be issued during periods that are most favourable for KommuneKredit. Liquidity resources also ensure stability so that KommuneKredit can also provide lending during periods when funding opportunities are less favourable. Liquidity resources are primarily invested in low-risk, highly liquid bonds.

KOMMUNEKREDIT'S FUNDING IN 2016

2016

JANUARY

EMTN (benchmark)
USD 1,000,000,000

ECP
GBP 150,000,000

ECP
USD 220,000,000

EMTN (private placement)
BRL 715,750,000

EMTN (uridashi)
JPY 3,353,000,000

FEBRUARY

EMTN (benchmark)
GBP 100,000,000

ECP
USD 627,000,000

EMTN (private placement)
EUR 400,000,000

MARCH

EMTN (benchmark)
EUR 1,000,000,000

EMTN (benchmark)
USD 500,000,000

ECP
USD 20,000,000

Nasdaq Copenhagen
DKK 129,103,440

EMTN (uridashi)
JPY 2,000,000,000

APRIL

ECP
GBP 400,000,000

ECP
USD 780,000,000

Nasdaq Copenhagen
DKK 1,004,298,647

EMTN (private placement)
NOK 500,000,000

EMTN (private placement)
BRL 100,000,000

MAY

EMTN (benchmark)
AUD 50,000,000

EMTN (benchmark)
EUR 500,000,000

EMTN (benchmark)
USD 1,000,000,000

Nasdaq Copenhagen
DKK 7,761,000

JUNE

EMTN (benchmark)
AUD 80,000,000

Nasdaq Copenhagen
DKK 127,791,053

EMTN (private placement)
EUR 200,000,000

EMTN (private placement)
BRL 30,000,000

EMTN (uridashi)
JPY 1,741,000,000

JULY

EMTN (benchmark)
AUD 85,000,000

EMTN (benchmark)
EUR 550,000,000

ECP
USD 350,000,000

Nasdaq Copenhagen
DKK 16,334,865

EMTN (private placement)
BRL 330,000,000

EMTN (uridashi)
ZAR 400,000,000

AUGUST

EMTN (benchmark)
AUD 100,000,000

EMTN (benchmark)
USD 1,000,000,000

ECP
USD 200,000,000

Nasdaq Copenhagen
DKK 53,084,008

EMTN (private placement)
SEK 1,000,000,000

EMTN (private placement)
USD 31,165,237

EMTN (uridashi)
JPY 536,000,000

SEPTEMBER

EMTN (benchmark)
AUD 100,000,000

Nasdaq Copenhagen
DKK 22,690,366

EMTN (private placement)
SEK 3,200,000,000

EMTN (uridashi)
JPY 5,593,000,000

OCTOBER

EMTN (benchmark)
EUR 500,000,000

ECP
USD 180,000,000

Nasdaq Copenhagen
DKK 111,411,873

EMTN (uridashi)
JPY 1,139,000,000

NOVEMBER

ECP
USD 342,000,000

Nasdaq Copenhagen
DKK 12,000,000

EMTN (private placement)
BRL 680,600,000

EMTN (private placement)
NOK 1,000,000,000

DECEMBER

Nasdaq Copenhagen
DKK 1,918,706,858

› CASE: INTERVIEW WITH THE HEAD OF FUNDING AND TREASURY

FIVE QUICK QUESTIONS TO THE HEAD OF FUNDING AND TREASURY

Focus on diversification and product development.

Q: WHAT WILL BE THE FUNDING STRATEGY IN 2017?

A: Our strategy is still to spread our issues of debt securities in different markets, currencies and products to ensure that our access to funding remains stable. Our budget for medium-term and long-term funding in 2017 is EUR 6-8 billion, and we are planning to issue 5-7 benchmark issues in, among other currencies, EUR and USD. In addition, we will still accommodate the investors' specific investment requirements. We also expect to be able to issue under the new Australian debt issuance programme during the year.

Q: WHICH INVESTOR SEGMENTS WILL BE IN FOCUS?

A: It is important to us that many investors can invest in KommuneKredit's debt securities. This allows us to diversify our activities and negotiate attractive terms for our clients. A vast number of central banks, multilateral institutions, banks, pension funds and fund managers all over the world have already put KommuneKredit on their list of approved investment counterparties. But we are making a targeted effort to attract new investors.



Eske Hansen is Head of Funding and Treasury in KommuneKredit. Before joining KommuneKredit in 1998, Eske Hansen was employed at Danske Bank.

For more information about KommuneKredit's issuances, please contact Eske Hansen on eha@kommunekredit.dk

Q: WILL THERE BE ANY NEW TYPES OF ISSUANCES?

A: Yes, we are planning KommuneKredit's first issue of green bonds in 2017. Green bonds are in increasing demand from our investors as part of improved social and environmental governance. By far the lion's share of the projects we assist in funding are based on a green, or partly green, objective, and we would be delighted to help visualise this – also, it will contribute to an even greater diversification of products.

»» *Our strategy is still to spread our issues of debt securities on different markets, currencies and products*

Q: IN WHAT WAY DOES KOMMUNEKREDIT DISTINGUISH ITSELF FROM OTHER ISSUERS?

A: KommuneKredit is a safe and stable investment for our investors, because all of Denmark's local authorities are jointly and severally liable for KommuneKredit. And, as opposed to other countries and similar credit institutions, Danish municipalities are entitled to levy taxes, they cannot be liquidated, and their activities are subject to very strict regulation.

Q: WHAT IS IN IT FOR THOSE INVESTORS WHO INVEST IN KOMMUNEKREDIT'S ISSUES?

A: KommuneKredit will often be the only option for investors who want exposure to the Danish public sector. The Danish economy is strong, and public debt is low. This means that the Danish central government only issues government bonds to a limited extent – and only denominated in Danish kroner.

RISK MANAGEMENT IS A HIGH PRIORITY

Prudent risk management is essential to maintaining the highest possible credit rating.

KommuneKredit is exposed to a number of risks which are identified, controlled and managed on an ongoing basis so as to match KommuneKredit's low risk tolerance at any given time.

The Board of Directors has laid down overall guidelines for KommuneKredit's financial risk management, including the definition of risk tolerance. As the supervisory authority for KommuneKredit, the Ministry for Economic Affairs and the Interior has laid down guidelines for interest rate risk and liquidity resources and is further authorised to make changes to the Board of Directors' guidelines.

LOW RISK TOLERANCE

KommuneKredit has a low risk tolerance, which is limited to financial risks deemed absolutely necessary in order to accomplish KommuneKredit's mission. As Danish local authorities are jointly and severally liable for KommuneKredit's liabilities, risks assumed by KommuneKredit are also their risks.

KommuneKredit's risk strategy for low risk tolerance ensures that KommuneKredit is free to manoeuvre regardless of market conditions. KommuneKredit's funding is denominated in different currencies and has different profiles of return. In case of financing requirements, KommuneKredit relends liquidity to the Danish local author-

ities – predominantly in Danish kroner. This means that KommuneKredit's role as a link is to convert the funding so that it matches the lending profile the clients want.

A small portion of approx. 20 per cent of KommuneKredit's total lending is distinct from the remainder of its lending in that it is based on a strict principle of balance where the profile of the loans matches the debt securities issued. This part of the business is not exposed to any financial risks.

LOW MARKET RISK

By way of financial instruments, all funding is converted into the currency and interest profile which lending and liquidity resources should have.



» *We attach importance to low risk and prudent risk management to ensure that KommuneKredit remains robust in all situations*

Erik Nielsen

Chairman of the Board of Directors

› RISKS

By hedging returns, fixed interest rates and currencies, KommuneKredit minimises its exposure to market risks. The low market risk limits the risk of loss resulting from changes in market prices.

LOW CREDIT RISK

KommuneKredit is exposed to credit risks in respect of clients, investment and financial counterparties with whom KommuneKredit has entered into financial instruments.

The credit risk related to clients has been reduced to a minimum. Danish local authorities are subject to strict regulation and close supervision by the Ministry for Economic Affairs and the Interior.

The credit risk related to investment counterparties is limited by high credit quality requirements – both in relation to the type of counterparty and the rating of the counterparty.

The credit risk in respect of financial counterparties is also limited by high credit quality requirements. KommuneKredit can only enter into financial instruments with counterparties with whom a bilateral collateral agreement has been entered into.

KommuneKredit has never incurred a loss as a result of a client or a counterparty not settling an obligation.

LOW LIQUIDITY RISK

To limit liquidity risk, binding lending commitments cannot be entered into unless at least corresponding

binding funding commitments are in place with at least corresponding terms to maturity. This ensures that KommuneKredit's lending is financed on all future terms to maturity. In addition, KommuneKredit is subject to guidelines corresponding to the international standards in the liquidity area, including CRR/CRDIV's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

KommuneKredit reduces its liquidity risk by regularly obtaining funding to maintain its liquidity resources. KommuneKredit's equity and liquidity resources make up its total liquidity resources. As a target for the total liquidity resources, KommuneKredit has adopted a 180-day survival horizon in an extreme stress scenario. As a supplement to the survival horizon, KommuneKredit has a liquidity resource contingency plan which can be activated in case of pressure on liquidity.

The low liquidity risk ensures that KommuneKredit can at all times settle its financial obligations to the benefit of the investors who focus on safe investments.

OPERATIONAL RISK

Most of KommuneKredit's activities are exposed to operational risk. By registering risk events in a database, focus is maintained on avoiding as many risks as possible while at the same time allowing KommuneKredit to systematically improve its business procedures and processes.

The written business procedures describe allocation of responsibilities, segregation of duties, process management and business practices. As many processes as possible are automated to reduce the risk of human error. All critical processes, be they automated or manual, must be supported by either peer checks or objective controls.

As KommuneKredit is highly dependent on its IT infrastructure, particular focus is placed on this area via a disaster recovery plan and an IT security policy reflecting the guidelines for access control, assignment of roles and rights, system crashes and errors, etc.

Each year, KommuneKredit's auditors conduct an IT audit of KommuneKredit's IT security.

RESPECTIVE RESPONSIBILITIES

Management is responsible for ensuring that the overall guidelines are translated into specific procedures and instructions for the employees.

Management has delegated the responsibility for regular monitoring and control of financial risks to the Finance and Risk Management department, and the Chief Financial and Risk Officer reports directly to the CEO.

Management has delegated the responsibility for regular monitoring and control of operational risks to the Secretariat, whereas the responsibility for regular monitoring and control of the IT security policy has been delegated to the IT department.

SATISFACTORY FINANCIAL PERFORMANCE

Results of operations in 2016 lived up to the expectations expressed in the interim report. Lending grew by 7.0 per cent, and profit before value adjustments and tax amounted to DKK 550 million.

EARNINGS AND CAPITAL BASE

The low interest rate level that prevailed in 2016 led to decreasing interest income and interest expenses, and net interest income fell by 3.0 per cent in 2016 from DKK 674 million to DKK 656 million.

KommuneKredit adjusted its lending rates on an on-going basis during the year to ensure they followed funding expenses including derivatives. Measured by

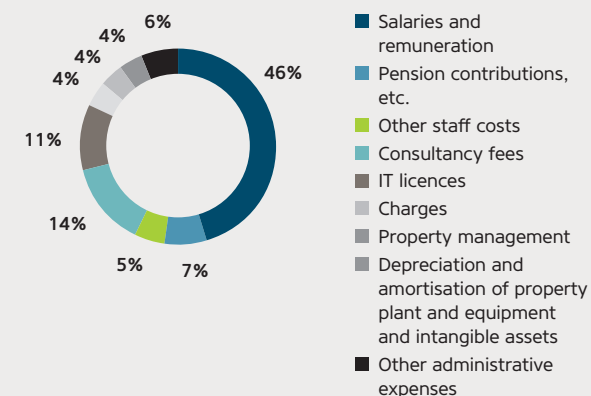
reference to total assets, net interest income in 2016 represented 0.3 per cent, which is in line with the past five years.

Administrative expenses rose from DKK 96 million in 2015 to DKK 106 million in 2016, primarily due to higher staff costs and higher IT expenses as a result of the initial steps in the process of rolling out a new IT strategy. In recent years, administrative expense have

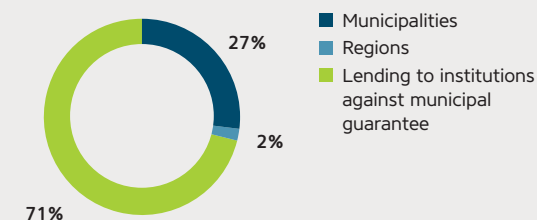
EXPECTATIONS EXPRESSED FOR 2016

	Annual report 2015	Interim report 2016	Profit for 2016
New lending, net, DKKm	6,000-7,000	7,000	8,998
Net interest income, DKKm	500	-	656
Profit before value adjustment of financial instruments, DKKm	400	600	550
The year's comprehensive income, DKKm	-	500	497
Equity ratio	min. 3%	around 3%	3.1%

ADMINISTRATIVE EXPENSES



DISTRIBUTION OF NEW LENDING, NET



› FINANCIAL REVIEW



» *KommuneKredit's stable financial development continued in 2016, which is supported by an unchanged equity ratio*

Morten Sjøtofte

Chief Financial and Risk Officer

accounted for a stable 0.5 per cent of total assets, which is in line with Management's focus on prudent cost control.

Profit for the year before value adjustments and tax dropped by DKK 28 million to DKK 550 million. This is below the expectations expressed in the interim report – DKK 0.6 billion – and is mainly owing to a DKK 56 million reclassification from net interest income to value adjustment of financial instruments in the financial statements for 2016.

Value adjustments of financial instruments totalled DKK 89 million at year-end 2016, mainly due to price adjustments of securities. In 2015, the value adjustment totalled DKK -451 million.

KommuneKredit maintains a high degree of symmetry between assets and liabilities and keep lending margins

at a constant level. Under normal circumstances, the value adjustments of financial instruments for accounting purposes would be low – like in 2016.

Comprehensive income for the year increased from DKK 103 million to DKK 497 million, corresponding to the DKK 0.5 billion expected in the interim report. The increase is attributable to the substantial negative value adjustment in 2015.

Comprehensive income for the year is transferred to equity, which now totals DKK 6,844 million.

KommuneKredit's equity consists in its entirety of retained earnings, meaning that the Common Equity Tier 1 (CET1) capital corresponds to equity.

According to the Board of Directors' guidelines, KommuneKredit's comprehensive income should ensure an

appropriate capitalisation, corresponding to an equity ratio in the order of 3.0 per cent, which was also the level attained at year-end 2016. Since 2012, KommuneKredit's equity ratio has been at least 3.0 per cent.

The total risk exposure (REA) totalled DKK 7,393 million at the end of 2016, which reflects the low risk as a result of the high credit quality of the assets and KommuneKredit's low risk tolerance. The capital ratio is 86 per cent.

LENDING AND LEASE RECEIVABLES

Total lending rose by DKK 10.1 billion to DKK 163 billion, or 7.0 per cent. The increase is owing to new lending, net, of DKK 8.2 billion and value adjustments of loans, DKK 1.9 billion.

The demand for financing to institutions against municipal guarantee was especially pronounced. Local

› FINANCIAL REVIEW

authorities accounted for 29 per cent of new lending, net, while lending to institutions against municipal guarantee accounted for 71 per cent.

Another reason for the increase in new lending, net, is the fact that KommuneKredit took over the government's loan to the Municipality of Furesø, totalling close to DKK 2.6 billion, in autumn 2016.

Lease receivables amounted to 0.8 billion in 2016, taking the total lease portfolio to DKK 5.6 billion at the end of the year. Leasing of medtech equipment accounted for the major part of the increase in lease receivables.

In nominal values, lending and lease receivables totalled DKK 31.1 billion, up DKK 0.6 billion on 2015. During the same period, the total fair value of lending and lease receivables went up from DKK 157.7 billion to DKK 168.6 billion at the end of 2016.

KommuneKredit did not record any losses on lending or lease receivables in 2016 either.

FUNDING AND INVESTMENTS

KommuneKredit's funding situation was favourable in 2016 as well, with considerable international interest in securities with a high credit quality.

In the year under review, KommuneKredit issued securities worth DKK 86 billion against DKK 102 billion in 2015. The decrease is primarily a result of the relatively longer term to maturity of the issues.

Overall, the value of debt securities issued increased by DKK 9.3 billion to DKK 202.6 billion, due both to an increase in nominal value and to increased value adjustment of the issues.

KommuneKredit's liquidity resources, i.e. excess funding, accounted for 16 per cent of total lending at year-end 2016. Liquidity resources and equity were invested in liquid securities and, combined, made up KommuneKredit's total liquidity resources. At the end of 2016, investments in securities totalled DKK 34 billion, which was more or less unchanged relative to 2015.

› OUTLOOK FOR 2017

STABLE DEVELOPMENT IN THE COMING YEAR

In line with KommuneKredit's strategy, a stable development is expected in 2017 with a constant equity ratio of approx. 3.0 per cent. New lending, net, is expected to be in the order of DKK 7.0 billion and profit before value adjustments and tax is expected to be around DKK 550 million.

The limits for local authorities' borrowing are set by the Danish government. The municipal capital expenditure framework for 2017 is DKK 16.3 billion, down DKK 0.3 billion on 2016. The regional capital expenditure framework for 2017 is DKK 7.2 billion in line with 2016.

On this basis, new lending, net, of approx. DKK 7.0 billion is expected, corresponding to net funding requirements in 2017 of DKK 8-9 billion and in the range of DKK 100 billion at gross level.

2017 may be characterised by substantial turbulence in the financial markets. The geopolitical situation is uncertain seen in light of the recent presidential election in the US, Brexit and the resulting interest rate trend.

KommuneKredit is not expected to be adversely affected by changed market conditions, since all financial and commercial risks are being hedged. However, from an accounting perspective KommuneKredit's balance sheet will, to a limited extent, be affected by interest rate and

currency trends, which will impact the level of value adjustments.

Regardless of the sentiment in the financial markets, stable and safe investments will always be in demand.

This allows for low funding expenses for KommuneKredit and, hence, low lending rates for our clients.

In 2017, net interest income is expected in the order of DKK 650 million, while profit before value adjustments and tax is expected to be close to DKK 550 million. The roll-out of KommuneKredit's IT strategy will be continued in 2017, resulting in a small increase in administrative expenses. In line with KommuneKredit's long-term strategy, the equity ratio will be maintained at approx. 3.0 per cent of total assets.

OUTLOOK FOR 2017

	Profit for 2016	Outlook for 2017
New lending, net, DKKm	8,998	7,000
Net interest income, DKKm	656	650
Profit before value adjustments of financial instruments, DKKm	550	550
Equity ratio	3.1%	3.0%

STATEMENTS REGARDING THE FUTURE

The expectations as to the future which are expressed in this annual report are, inherently, associated with uncertainty and may be affected by outside factors. Accordingly, the actual development and the actual results may differ from the expectations expressed in the annual report.



CASE: KALUNDBORG WATER SUPPLY A/S

FINANCING OF SUSTAINABLE WATERWORKS

In 2016, Kalundborg Water Supply A/S established new waterworks and a supply network on Sejerø.

Kalundborg Utilities A/S supplies water and district heating to the citizens and removes waste water all over the Municipality of Kalundborg. In a matter of one year, seven million cubic metres of water, drinking water and surface water need to be supplied to citizens and businesses in the Municipality of Kalundborg.

› CASE: KALUNDBORG WATER SUPPLY A/S

Drinking water consists of ground water, whereas process water for industry consists of surface water and purified surface water. Waste water is purified to minimise impact on the environment when the water is led back to nature.

It was decided in 2015 to construct new sustainable waterworks on Sejerø which will not harm the environment unduly.

"We chose KommuneKredit as the least expensive and most flexible partner to finance the expansion and repair of our water mains supply in 2016. Low financing costs contribute to low-cost, high-quality water supply," says Hans-Martin Friis Møller, CEO of Kalundborg Water Supply A/S

The investment on Sejerø is but one of several investments in the water supply in the Municipality of Kalundborg. Thus, great focus will be placed on good water quality and waste water handling going forward as well.

"To ensure eco-efficient purification of waste water in the future, we will very soon invest in a consolidation of the existing water purification plants into three high-efficient plants that can handle waste water."

The financing requirement in relation to the waterworks was DKK 8.0 million, and KommuneKredit is having an ongoing dialogue with the Municipality of Kalundborg regarding the aggregate financing requirements in the area.

FOR MORE INFORMATION

Jette Moldrup, Head of Lending
jem@kommunekredit.dk

FACTS:

CONTRACTOR: Kalundborg Water Supply A/S, a company owned by the Municipality and founded in 2009.

CONSTRUCTION PERIOD: 2016.

FINANCING INSTITUTION: KommuneKredit.

LOAN FINANCING: DKK 8.0 million.

LOAN PRODUCT: Tailor-made loan with a term to maturity of 25 years.



Hans-Martin Friis Møller, CEO of Kalundborg Water Supply A/S, is discussing financing opportunities with Jette Moldrup, Head of Lending in KommuneKredit



RESPONSIBLE AND EFFICIENT CORPORATE GOVERNANCE

KommuneKredit is organised as an association and has defined corporate governance as responsible and efficient management to the benefit of KommuneKredit's members and the surrounding world.

MANAGEMENT STRUCTURE

KommuneKredit's management structure is based on close cooperation with the association's members.

More than a hundred years ago, KommuneKredit was founded under the name "Kreditforeningen af Kommuner i Danmark", and the yearlong cooperation with the local authorities in Denmark is today the association's primary strength – also at managerial level.

The decision-making power lies with the Board of Directors and Management. The Board of Directors is responsible for the general management of KommuneKredit and lays down guidelines for the association's most important activities. Management is responsible for the day-to-day management of KommuneKredit and for executing the strategy.

BOARD OF DIRECTORS

The Board of Directors is responsible for the long-term strategy and, hence, the association's corporate social

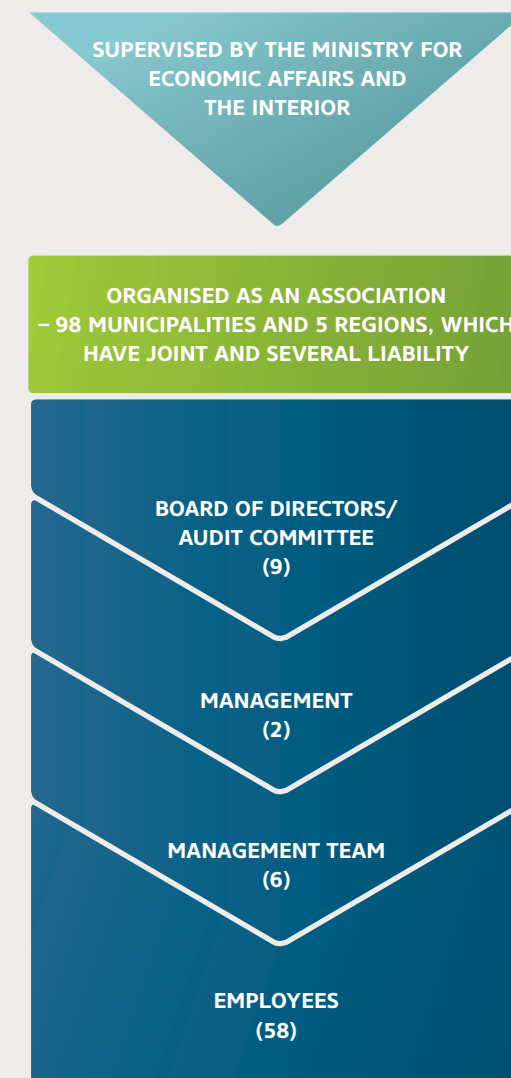
LEGAL BASIS AND ARTICLES OF ASSOCIATION

KommuneKredit is governed by Act no. 35 dated 19 March 1898, as abolished and replaced by Act no. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark (lov om kreditforeningen af kommuner og regioner i Danmark).

- › Read more on KommuneKredit's legal basis <http://kommunekredit.com/About-KommuneKredit/Act-on-KommuneKredit.aspx>
- › Read more on KommuneKredit's articles of association <http://kommunekredit.com/About-KommuneKredit/Articles-of-Association.aspx>

KommuneKredit is supervised by the Ministry for Economic Affairs and the Interior.

KOMMUNEKREDIT'S MANAGEMENT STRUCTURE



› CORPORATE GOVERNANCE

responsibility. The Board of Directors is furthermore responsible for risk management, generally accepted accounting policies and the appointment of members of Management.

The Board of Directors is especially attentive to KommuneKredit's overall risk profile and financial risk minimisation resources.

The Board of Directors consists of nine members, six of whom are elected by the municipalities, two by the regions and one by the Board of Directors. The member elected by the Board of Directors must be independent of KommuneKredit and possess accounting or auditing qualifications. Eight of the seats on the Board of Directors are distributed between political parties and electoral alliances in accordance with the method of proportional representation on the basis of the number of votes cast for a party or a candidate in the latest elections for municipal and regional councils.

Board members are elected for a term of four years at a time. Relative to the election terms applicable to municipalities and regions, the election terms applicable to the Board of Directors are staggered by five months. The most recent election took place in November 2013 for the period from 1 January 2014 to 31 December 2017. The current election term for KommuneKredit's Board of Directors runs from 1 June 2014 to 31 May 2018.

ANNUAL CYCLE OF WORK FOR THE BOARD OF DIRECTORS

Audit committee

Notification of the financial reporting process, forecasts and capitalisation, review of control systems and risk management

Review

of lending and leasing activities as well as funding

Discussion

of developments in leasing activities

IT

Strategy and security policy, etc.

Audit committee

Assessment of the auditors' independence, audit strategy, interim report

Review

of lending and leasing activities as well as funding

Discussion

of developments in lending and client relations

Review

of lending and leasing activities as well as funding

Discussion

of developments in the funding and investment strategy

Audit committee

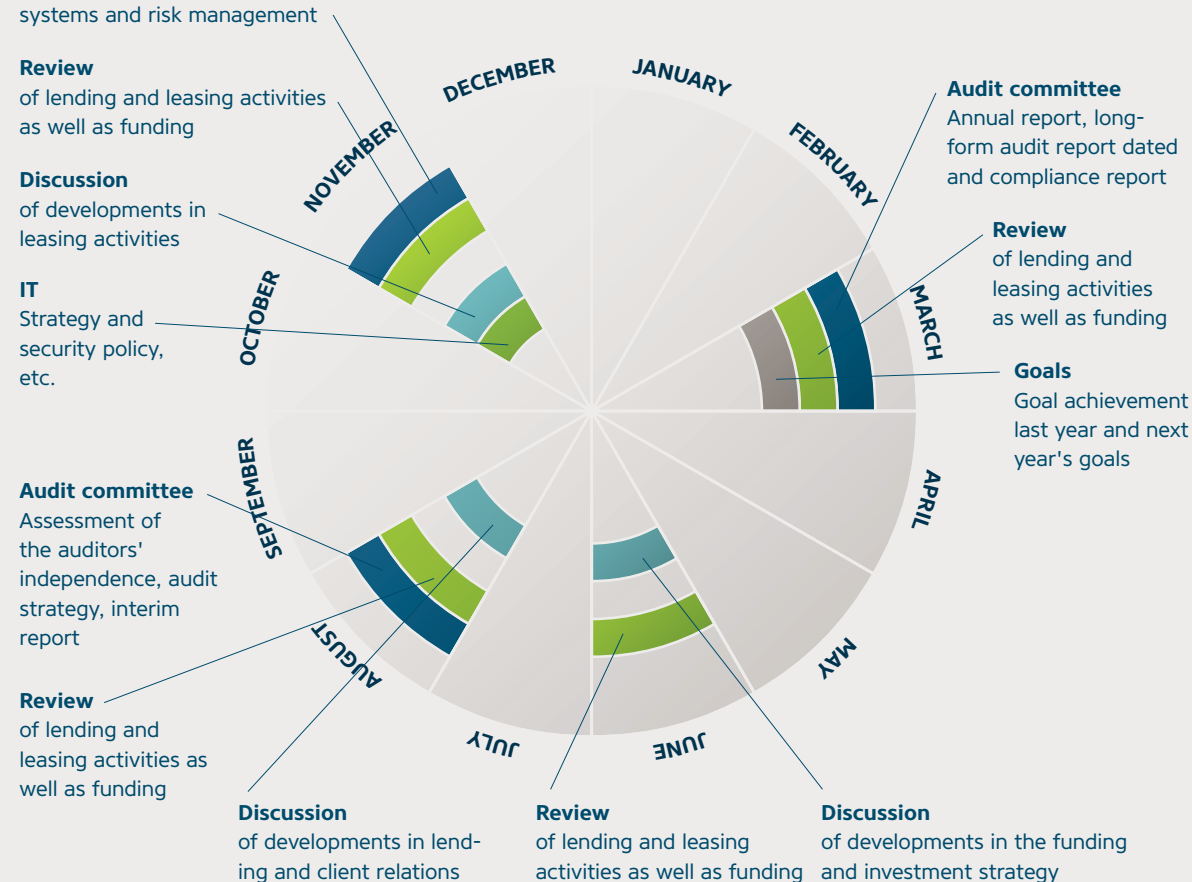
Annual report, long-form audit report dated and compliance report

Review

of lending and leasing activities as well as funding

Goals

Goal achievement last year and next year's goals



› CORPORATE GOVERNANCE

The Board of Directors meets at least four times a year and its duties follow an annual calendar covering every important business area. In 2016, the Board of Directors met in March, June, August and November.

The Board of Directors evaluates its work on an ongoing basis, and the next self-evaluation is to take place in autumn 2017. KommuneKredit has also established an audit committee whose functions are undertaken by all members of the Board of Directors. In 2016, the audit committee's terms of reference were revised in continuation of section 31 of Consolidation Act no. 1167 of 9 September 2016 on Approved Auditors and Audit Firms, resulting in an extension and specification of the audit committee's tasks. As issuer of bonds in a regulated market, KommuneKredit is a so-called public-interest entity (PIE entity), which, pursuant to the Act on Approved Auditors and Audit Firms, is subject to the rules applicable to audit committees. The audit committee held three meetings in 2016.

MANAGEMENT

Management is responsible for the day-to-day operation of KommuneKredit in accordance with the policies adopted and the guidelines laid down by the Board of Directors. Management, which consists of the Chief Executive Officer and a managing director, must ensure that the strategy devised by the Board of Directors is applied and must also follow up on the goals set for the year.

Management is responsible for presenting to the Board of Directors all significant changes in KommuneKredit's affairs and report on all important events of consequence for KommuneKredit's activities. Management is also responsible for notifying the Board of Directors of the status of accounting and the aggregate current risk profile, so that the Board of Directors can attend to its management duties.

At every meeting of the Board of Directors, Management reports on its compliance with the Board of Directors' financial risk management guidelines. Management is authorised, within the framework of the guidelines laid down by the Board of Directors, to make all necessary decisions. Decisions regarding lending, funding and derivative financial instruments require Management's consensus of opinion.

Management is moreover responsible for ensuring that KommuneKredit complies with applicable laws and regulations. In cooperation with the management team and the compliance function, Management monitors compliance and implements any necessary measures.

The Head of the Secretariat oversees the compliance function and reports directly to the Chief Executive Officer. Every year, the Head of the Secretariat prepares a report to the Board of Directors.

KOMMUNEKREDIT'S DAY-TO-DAY MANAGEMENT



› CORPORATE GOVERNANCE

MANAGEMENT TEAM AND EMPLOYEES

Focus is on extensive delegation of decision-making authority to the heads of departments and the individual employees. Management has taken several organisational initiatives to strengthen the management of KommuneKredit. A secretariat has been established, led by Helene Møllmann, to support Management. Na-deem Zafar, who is the new Head of the IT department, comes from the financial sector. From 2016 onwards, the Head of the Secretariat and the Head of the IT department are members of the management team, which consists of Management and the six heads of departments. Finally, the Finance department and the Risk Management department have been merged under the leadership of Morten Sjøtofte.

KommuneKredit has 66 employees and gives high priority to developing its employees' professional and personal qualifications to enable them to meet the demands of the outside world in respect of product development and work processes. High priority is also given to knowledge sharing and overlapping of work functions to maintain stability in operations.

REMUNERATION

KommuneKredit's remuneration policy is determined by the Board of Directors. A bonus plan allows employees to receive a bonus of up to one month's salary. Bonuses are based on the achievement of the overall per-

formance goals set for the year in question. Members of Management are not eligible for KommuneKredit's bonus plan.

GOALS AND POLICIES FOR THE GENDER COMPOSITION OF MANAGEMENT

While not formally subject to the rules on gender quotation at board level in major Danish business enterprises and the related reporting, KommuneKredit has nevertheless decided to follow these rules.

Two of KommuneKredit's nine board members are women. The Board of Directors has set a goal of 40/60 for the future gender composition, corresponding to a doubling of the number of the underrepresented gender at board level.

The ratio of the underrepresented gender at other levels of management is 25 per cent. KommuneKredit aims at a more equal gender composition at these levels of management too, but with a continuing relentless focus on professionalism in the final selection.

KommuneKredit considers it important to create a culture where employees have equal career opportunities – regardless of gender. This also applies in relation to diversity in general, for instance in relation to nationality, ethnicity, age and educational background.

CORPORATE SOCIAL RESPONSIBILITY

KommuneKredit fills an important function in Danish society by providing funding for investments in the municipal and regional sector. These investments contribute to conserving the environment and combating climate change, etc. By providing attractive funding opportunities, KommuneKredit creates financial latitude for improved municipal and regional services.

KommuneKredit has, moreover, established an education fund the purpose of which is to further development of training and education of municipal and regional politicians, workers and others.

KommuneKredit considers it important to act in a responsible way vis-à-vis all its relations – from society at large to employees, investors, business partners and members. A large number of initiatives are being considered and implemented on a regular basis, including environmental initiatives for purposes of reducing the consumption of electricity, etc. Thus, a new electricity agreement was entered into in 2016, effective January 2017, which is to reduce the emission of carbon dioxide by 74 tons a year. One of the means to meet this end is to buy electricity from the Danish wind farm Rødsand II.

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS



ANKER BOYE

KAJ V. HOLM

HENRIK ZIMINO

SOPHIE HÆSTORP
ANDERSEN

ERIK NIELSEN

LARS KRARUP

ANNE V.
KRISTENSEN

HANS TOFT

MIKAEL
KLITGAARD

› CORPORATE GOVERNANCE

ERIK NIELSEN, CHAIRMAN, MAYOR, MUNICIPALITY OF RØDOVRE,

Year of birth: 1953

Joined the Board of Directors:

1 June 2014

Up for election: 2018

Directorships:

LGDK

KOMBIT A/S (Chairman)

DAB (Dansk Almennyttigt Boligselskab)

I/S Vestforbrænding

Realdania (council)

Realdania, Fagkomité for Byudviklings-
forum

LARS KRARUP, VICE CHAIRMAN, MAYOR, MUNICIPALITY OF HERNING

Year of birth: 1972

Joined the Board of Directors:

1 January 2007

Up for election: 2018

Directorships:

Sport Event Danmark (Chairman)

LGDK

KOMBIT A/S (Vice Chairman)

Realdania

HANS TOFT, MAYOR, MUNICIPALITY OF GENTOFTE

Year of birth: 1947

Joined the Board of Directors:

1 January 1995

Up for election: 2018

Directorships:

I/S Vestforbrænding (Vice Chairman)

HMN Naturgas I/S (Vice Chairman)

Movia

Copenhagen Capacity

Wonderful Copenhagen

Gentofte Idrætsfond (Chairman)

Svenske Villa Fonden (Chairman)

HENRIK ZIMINO, MAYOR, MUNICIPALITY OF TÅRNBY

Year of birth: 1950

Joined the Board of Directors:

1 January 1995

Up for election: 2018

Directorships:

I/S Amager Ressourcecenter

(Vice Chairman)

CTR – Centralkommunernes transmis-
sionsselskab I/S

ANKER BOYE, MEMBER OF THE MUNICIPAL COUNCIL, MUNICIPALITY OF ODENSE

Year of birth: 1950

Joined the Board of Directors:

25 August 2015 (and 1 January 2004 –
31 May 2014)

Up for election: 2018

Directorships:

LGDK

Lindø Port of Odense (Chairman)

Nature Energy (Vice Chairman)

Odense Teater

Sampension (Chairman)

SOPHIE HÆSTORP ANDERSEN, REGIONAL COUNCIL CHAIRMAN, CAPITAL REGION OF DENMARK

Year of birth: 1974

Joined the Board of Directors:

1 June 2014

Up for election: 2018

Directorships:

Danish Regions

Vækstforum Hovedstaden (Chairman)

Amgro I/S (Chairman)

Plejecenter Langgadehus

Den almene boligorganisation KAB-Bolig

Wonderful Copenhagen

Greater Copenhagen & Skåne Committee

KAJ V. HOLM, DEPUTY CEO, ØRESUNDSBRO KONSORTIET

Director of Finance at Sund & Bælt
Holding

Year of birth: 1955

Joined the Board of Directors:

1 June 2014

Up for election: 2018

Directorships:

Rønne Havn A/S

MIKAEL KLITGAARD, MAYOR, MUNICIPALITY OF BRØNDERSLEV

Year of birth: 1954

Joined the Board of Directors:

1 June 2014

Up for election: 2018

Directorships:

Dronninglund Castle

Business Region North Denmark

NorthDenmarks EU-office (Chairman)

MANAGEMENT



JENS LUNDAGER

JOHNNY MUNK

JENS LUNDAGER, CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Year of birth: 1962

Joined Management: 1 September 2015

Former positions:

2011-2015	Assistant Governor, Danmarks Nationalbank
2009-2011	Deputy Permanent Secretary, the Danish Ministry of Economic and Business Affairs
2000-2009	Head of Department, Danmarks Nationalbank
1997-2000	Counsellor (Financial), Royal Danish Embassy, Washington DC
1991-1997	Economist, Danmarks Nationalbank
1987-1991	Economist, the Danish Ministry of Finance

Other positions of trust:

2016-	Chairman, Committee on Auditors (Revisorrådet)
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JOHNNY MUNK, MANAGING DIRECTOR

Year of birth: 1951

Joined Management: 1 June 2000

Former positions:

1993-2000	Head of Department, KommuneKredit
1990-1993	Office manager, KommuneKredit
1982-1989	Head of Secretariat, Greater Copenhagen Council
1980-1982	Economist, Greater Copenhagen Council
1979-1980	Economist, Roskilde Regional Authority



FINANCIAL
STATEMENTS

2016

STATEMENT OF COMPREHENSIVE INCOME

DKKkm	Note	2016	2015
Interest income	1.1	1,876	2,134
Interest expense	1.2	1,220	1,460
Net interest income		656	674
Administrative expenses	2.1 -2.3	106	96
Profit before value adjustments		550	578
Value adjustments of financial instruments	1.3, 1.4	89	-451
Profit before tax		639	127
Tax on profit for the year	3.1	141	23
Profit for the year		498	104
Other comprehensive income			
Actuarial gains and losses		-1	-1
Comprehensive income for the year		497	103
Appropriation:			
Transferred to equity		497	103
Total		497	103

STATEMENT OF FINANCIAL POSITION

DKKkm	Note	2016	2015
ASSETS			
Receivables from credit institutions	1.4	1,592	818
Lending	1.4, 1.5	162,990	152,881
Lease receivables	1.5, 1.6	5,599	4,812
Portfolio of securities	1.4, 1.7	34,049	33,983
Derivative financial instruments	1.4	19,557	20,457
Other assets		112	135
Current tax assets	3.2	39	113
Total assets		223,938	213,199
LIABILITIES AND EQUITY			
Liabilities			
Due to credit institutions	1.4	2,475	1,402
Debt securities issued	1.4, 1.8	202,642	193,382
Derivative financial instruments	1.4	10,992	10,967
Other liabilities		571	771
Pension obligations	2.3	57	60
Deferred tax liabilities	3.3	357	270
Total liabilities		217,094	206,852
Equity		6,844	6,347
Total liabilities and equity		223,938	213,199

STATEMENT OF CHANGES IN EQUITY

DKKm	Note	2016	2015
Equity			
Equity at 1 January		6,347	6,244
Transferred to equity			
Profit for the year		498	104
Other comprehensive income			
Actuarial gains and losses		-1	-1
Estimated tax on other comprehensive income		0	0
Other comprehensive income after tax		-1	-1
Transferred to equity in total		497	103
Equity at 31 December		6,844	6,347

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

Equity increased to DKK 6,844 million at year-end 2016 from DKK 6,347 million at year-end 2015. At year-end, equity amounted to 3.1 per cent of total assets, representing a small increase relative to year-end 2015. Equity consists in its entirety of transferred comprehensive income.

Under the legal framework applying to KommuneKredit, equity must equal at least 1.0 per cent of total liabilities, i.e. DKK 2,171 million. The Board of Directors's long-term target is for equity to amount to minimum 3.0 per cent of the assets, which is considered adequate to support KommuneKredit's activities.

STATEMENT OF CASH FLOWS

DKKm	Note	2016	2015
Cash flows for the year			
Cash flows from operating activities			
Profit before tax		639	127
Taxes paid		20	-47
Adjustment for non-cash operating items, etc.	4.1	0	-2
Other assets		19	111
Other liabilities		-200	292
Due to credit institutions		-139	-610
Portfolio of securities		-66	-1,608
Lending and derivative financial instruments		-9,997	-9,432
Debt securities issued and derivative financial instruments		9,286	11,997
Total cash flows from operating activities		-438	828
Total cash flows for the year		-438	828
Cash and cash equivalents at 1 January		818	-10
Cash and cash equivalents at 31 December		380	818
Cash and cash equivalents		1,592	818
Due to credit institutions		-1,212	0
Due to credit institutions with a term to maturity exceeding 3 months		-1,263	-1,402
Total receivables from credit institutions		-883	-584

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GENERAL

ACCOUNTING POLICIES

GENERAL

The annual report of KommuneKredit for 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. In addition, the annual report complies with IFRS as issued by the International Accounting Standards Board (IASB).

The financial year follows the calendar year. The functional currency is Danish kroner (DKK), and the annual report is presented in millions of Danish kroner (DKKm).

The accounting policies are consistent with those of last year.

A planning materiality has been applied in preparing the annual report. Certain items have been aggregated, and certain disclosures have been omitted, because they are immaterial, individually and in the aggregate, to the financial statements.

CHANGE IN PRESENTATION

Minor reclassifications of certain items and notes 1.1, 1.2, 1.5, 1.6, 1.8, 1.11.1 and 2.1 have been made relative to last year. This has not affected recognition or measurement in the financial statements.

NEW AND AMENDED STANDARDS

In 2016, KommuneKredit implemented and followed the new or amended standards as adopted by the EU, effective for financial years commencing on or after 1 January 2016.

CHANGES IN ACCOUNTING ESTIMATES

No changes were made in accounting estimates in 2016.

CURRENCY TRANSLATION

The presentation currency used in the financial statements is Danish kroner (DKK). Items denominated in foreign currencies are translated at closing rates on the balance sheet date. Realised and unrealised exchange rate adjustments are recognised in the statement of comprehensive income.

DATE OF RECOGNITION

Financial assets are recognised at the settlement date, and financial liabilities are recognised at the trade date. Unsettled trade is value-adjusted and recognised. Derecognition of both financial assets and financial liabilities is made at the settlement date.

OFFSETTING

Positive and negative fair values of financial instruments are included in separate items

in the statement of financial position, and positive and negative values are set off only when KommuneKredit has the right and the intention to settle several financial instruments net. Transaction costs and income are measured on initial recognition.

DETERMINATION OF THE VALUE OF FINANCIAL INSTRUMENTS BY APPLICATION OF THE FAIR VALUE OPTION

The fair value option comprises financial instruments designated at fair value with value adjustment through the statement of comprehensive income. KommuneKredit has decided to use the fair value option under IAS 39 to ensure consistent accounting treatment of receivables from credit institutions, lending, portfolio of securities, securities issued and derivative financial instruments in respect of risk and matching hedges. This implies that lending, securities and derivative financial instruments are measured at fair value with value adjustment through the statement of comprehensive income.

Further, the fair value option is applied, because KommuneKredit's measurement of investment returns is based on fair values, and the relating disclosures to Management and the Board of Directors are based on fair values.

Unless market prices or other observable market data are used, losses or gains cannot be recognised in connection with or immediately after the conclusion of transactions involving financial instruments.

To mitigate the operational risks associated with determination and manual handling of non-observable market data for purposes of fair value measurement of lending, securities issued and derivative financial instruments, KommuneKredit has internal controls and business procedures in place which ensure distribution of responsibilities, segregation of duties and process management. All critical manual processes are supported by objective controls or peer checks.

More details on quantification of the sensitivity which is, nevertheless, associated with the use of non-observable data are given in note 1.4 regarding the fair value of financial instruments.

SEGMENT INFORMATION

The annual report of KommuneKredit does not disclose information about operating segments, as KommuneKredit has one reportable business segment only.

CORE EARNINGS

NOTE 1.1 INTEREST INCOME AND NOTE 1.2 INTEREST EXPENSE

Interest income and interest expense are accrued and recognised in the statement of comprehensive income over the term to maturity. Interest income and interest expense comprise interest on financial instruments, lease receivables as well as administrative fees, consultancy fees and charges paid. Interest income and interest expense regarding financial instruments measured at fair value with value adjustment through the statement of comprehensive income are presented under net interest income.

DKKm	2016	2015
Interest income		
Lending	1,474	1,588
Lease receivables	44	48
Receivables from credit institutions	-2	-2
Portfolio of securities	336	475
Administrative fees	24	25
Total interest income	1,876	2,134
Interest expense		
Debt securities issued on Nasdaq Copenhagen	593	770
Debt securities issued internationally	617	680
Charges paid	10	10
Total interest expense	1,220	1,460

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.3 VALUE ADJUSTMENTS OF FINANCIAL INSTRUMENTS

Value adjustments comprise realised and unrealised value adjustments of financial instruments.

DKKm	2016	2015
Value adjustments of financial instruments		
Own portfolio of securities	45	-115
Treasury portfolio of securities	254	-121
Lending	1,912	-1,643
Securities issued	-3,975	2,573
Derivative financial instruments	1,853	-1,145
Total value adjustments of financial instruments	89	-451

NOTE 1.4 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 how the fair values have been determined and the data on which they are based.

All financial instruments measured at fair value on a regular basis are classified under a level in the fair value hierarchy.

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

Fair value level 2 is used if there are no quoted prices in an active market and where the valuation is based on generally accepted models and essentially observable market data.

Fair value level 3 is used if there are no quoted prices in an active market and the valuation is significantly based on non-observable market data.

The valuation of fair values is based on generally accepted models. Both discounted cash flow models, where all estimated and fixed cash flows are discounted using zero coupon interest curves, interest structure and options models, and listed prices for similar issues adjusted for liquidity, credit risk and conversion rights are used.

Fair value calculations involving non-observable market data are based on assumptions and estimates. Changes in these assumptions and estimates may, depending on the fair value level concerned, affect the estimated fair value of unlisted and illiquid financial assets and liabilities. KommuneKredit follows a risk management strategy with the purpose of eliminating market risk by applying derivative financial instruments (see notes 1.9-1.11). Consequently, the total net effect on the statement of comprehensive income and equity 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 expenses relating to deposits and lending levels.

KommuneKredit's estimate of the actual funding expenses is included in the valuation of lending. KommuneKredit aims at keeping lending margins at a constant by adjusting the actual lending interest on a regular basis against the estimated, actual funding expenses. The sensitivity associated with estimating actual funding expenses will thus be partly set off by changes in the actual lending rates. This means that the total value adjustment is considered to have a maximum net effect on comprehensive income in the range of +/- DKK 350 million.

No transfers between the levels were made in 2016.

› NOTES

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.4.1 SPECIFICATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

DKKm	Level 1	Level 2	Level 3	Total
2016				
Assets				
Receivables from credit institutions	74	1,518	0	1,592
Lending	0	162,990	0	162,990
Portfolio of securities	28,526	5,523	0	34,049
Derivative financial instruments	0	18,299	1,258	19,557
Total assets	28,600	188,330	1,258	218,188
Liabilities				
Due to credit institutions	0	2,475	0	2,475
Debt securities issued on Nasdaq Copenhagen	0	41,117	1,210	42,327
Debt securities issued internationally	0	141,755	18,560	160,315
Derivative financial instruments	0	9,782	1,210	10,992
Total liabilities	0	195,129	20,980	216,109

DKKm	Level 1	Level 2	Level 3	Total
2015				
Assets				
Receivables from credit institutions	58	760	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	31,939	174,808	1,392	208,139
Liabilities				
Due to credit institutions	0	1,402	0	1,402
Debt securities issued on Nasdaq Copenhagen	0	42,938	2,202	45,140
Debt securities issued internationally	0	125,016	23,226	148,242
Derivative financial instruments	0	7,145	3,822	10,967
Total liabilities	0	176,501	29,250	205,751

› NOTES

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.4.2 SPECIFICATION OF LEVEL 3 FOR FAIR VALUE OF FINANCIAL INSTRUMENTS

DKKm	Assets	Liabilities
2016		
Balance at 1 January	1,392	29,250
Additions	52	7,715
Disposals	419	16,333
Included in comprehensive income	233	348
Balance at 31 December	1,258	20,980
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

NOTE 1.4.3 MONETARY EFFECT OF CREDIT SPREAD ON FAIR VALUE ADJUSTMENTS

The monetary effect of credit spread on fair value adjustments of the statements of comprehensive income and financial position is shown below. The calculations are based on a model based on the future positive and negative exposure adjusted for the probability of default and resulting losses. The calculations are based on market-based probabilities of default.

DKKm	2015	Develop- ment	2016
Statement of comprehensive income			
Value adjustments of financial instruments	-10	-22	-32
Total effect on statement of comprehensive income	-10	-22	-32
Statement of financial position			
Assets	-25	-16	-41
Liabilities	-15	6	-9
Total effect on statement of financial position	-10	-22	-32

› NOTES

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.4.4 OFFSETTING

KommuneKredit has entered into master netting agreements (ISDA Master Agreements) and related unilateral or bilateral collateral agreements relating to derivative financial instruments. Collateral received and posted under these agreements solely include bonds with a strong credit rating.

KommuneKredit has not entered into any netting agreements and has not posted or received any collateral in relation to lending, lease receivables or securities issued. Accordingly, these financial instruments are not included in the table below. Carrying amounts appear from the statement of financial position.

Derivative financial instruments presented in the statement of financial position

DKKm	Values offset		Values not offset			Net value
	Gross carrying amount	Set-off	Carrying amount	Financial instruments	Collateral	
2016						
Assets	19,705	-148	19,557	-7,243	-9,664	2,650
Liabilities	11,140	-148	10,992	-7,243	-2,258	1,491
Net	8,565	0	8,565	0	-7,406	1,159
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 values that are offset are the carrying amounts of foreign exchange transactions that are settled net. The total set-off is DKK 148 million.

The value of derivative financial instruments not offset has been limited to the lesser of assets and liabilities 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 receivable.

The net values represent the carrying amounts, corresponding to the potential accounting effect of offsetting.

› NOTES

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.4.5 SPECIFICATION OF COLLATERAL

DKKm					
Specification of collateral		Collateral posted		Collateral received	
Type of bond	Rating	Market value	Market value after haircut	Market value	Market value after haircut
2016					
Danish government bonds	AAA	0	0	225	218
Danish mortgage credit bonds	AAA	0	0	1,896	1,858
Danish mortgage credit bonds	AA+	0	0	159	156
Dutch government bonds	AAA	0	0	1	1
German government bonds	AAA	2,398	2,274	2,022	1,906
Finnish government bonds	AA+	0	0	1,122	1,096
British government bonds	AA	14	13	3,646	3,510
French government bonds	AA	0	0	1,330	1,279
Total		2,412	2,287	10,401	10,024
Of which non-nettable collateral		0	-29	0	-360
Total nettable collateral		0	2,258	0	9,664

DKKm					
Specification of collateral		Collateral posted		Collateral received	
Type of bond	Rating	Market value	Market value after haircut	Market value	Market value after haircut
2015					
Danish government bonds	AAA	0	0	468	455
Danish mortgage credit bonds	AAA	0	0	3,730	3,652
Danish mortgage credit bonds	AA+	0	0	732	717
Finnish government bonds	AAA	0	0	211	205
Dutch government bonds	AAA	15	15	656	637
German government bonds	AAA	919	882	2,367	2,288
British government bonds	AA+	703	645	2,198	2,113
French government bonds	AA	1,248	1,200	761	728
Total		2,885	2,742	11,123	10,795
Of which non-nettable collateral		0	-27	0	-63
Total nettable collateral		0	2,715	0	10,732

› NOTES

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.5 LENDING

Lending is measured at fair value with value adjustment through the statement of comprehensive income.

DKKm	No. of loans	2016	2015
Lending			
Balance at 1 January	14,781	157,693	152,085
Additions	3,564	31,134	30,679
Disposals	3,039	20,238	25,071
Total lending	15,306	168,589	157,693
Bond loans			
Bond loans	2,267	33,240	33,351
Tailor-made loans	4,155	129,750	119,530
Lease receivables	8,884	5,599	4,812
Total lending	15,306	168,589	157,693
Bond loans in nominal values			
Bond loans		33,240	33,351
Fair value adjustments		-2,264	-1,719
Bond loans in nominal values		30,976	31,632
Tailor-made loans			
Tailor-made loans		129,750	119,530
Fair value adjustments		-3,985	-2,632
Tailor-made loans in nominal values		125,765	116,898
Lease receivables			
Lease receivables		5,599	4,812
Fair value adjustments		0	0
Lease receivables in nominal values		5,599	4,812

NOTE 1.6 UNEARNED FINANCIAL INCOME RELATING TO LEASE RECEIVABLES

Lease receivables are not covered by the fair value option. KommuneKredit is the lessor of finance leases. Finance leases are recognised in the statement of financial position as a receivable at an amount corresponding to the future minimum lease payments discounted at the interest rate implicit in the lease. On subsequent recognition, lease receivables are measured at amortised cost in accordance with the effective interest method. The difference between the value on initial recognition and nominal value is amortised over the term to maturity and is recognised as "lease receivables" under Interest income.

DKKm	2016	2015
Net investments in finance leases, by lease term		
Up to 1 year	878	855
From 1 to 5 years	2,802	2,149
Over 5 years	1,919	1,808
Total lease receivables	5,599	4,812
Gross investments in finance leases, by lease term		
Up to 1 year	909	888
From 1 to 5 years	2,887	2,241
Over 5 years	2,030	1,919
Total gross lease receivables	5,826	5,048
Unearned financial income	227	236

› NOTES

FAIR VALUE ADJUSTMENTS, ETC.

NOTE 1.7 PORTFOLIO OF SECURITIES

The portfolio of securities is measured at fair value with value adjustment through the statement of comprehensive income.

DKKm	2016	2015
Portfolio of securities		
Government/public authorities	8,168	9,078
Multilateral counterparties	445	675
Mortgage credit institutions	24,126	21,411
Banks	1,310	2,819
Total portfolio of securities	34,049	33,983
Hereof portfolio of securities used as collateral	3,451	1,103
Portfolio of unencumbered securities	30,598	32,880

NOTE 1.8 DEBT SECURITIES ISSUED

Debt securities are measured at fair value with value adjustment through the statement of comprehensive income.

DKKm	1 January	Additions	Disposals/ value adj.	31 De- cember	Value adjustment	Fair value 31 De- cember
2016						
EMTN	124,684	60,443	37,241	147,886	2,496	150,382
Nasdaq Copenhagen	42,642	1,578	4,701	39,519	2,808	42,327
Private placement	5,735	0	492	5,243	-3	5,240
ECP	17,911	23,942	38,176	3,677	1,016	4,693
Total debt securities issued	190,972	85,963	80,610	196,325	6,317	202,642
2015						
EMTN	118,162	45,385	38,863	124,684	-939	123,745
Nasdaq Copenhagen	42,133	13,700	13,191	42,642	2,498	45,140
Private placement	4,985	769	19	5,735	859	6,594
ECP	11,837	42,608	36,534	17,911	-8	17,903
Total debt securities issued	177,117	102,462	88,607	190,972	2,410	193,382

FINANCIAL RISK MANAGEMENT

GENERAL

Our function as a financial link between the capital markets and the local authorities in Denmark exposes KommuneKredit to financial risks. It is ensured through prudent risk management that KommuneKredit's risk profile matches the Board of Directors' low risk tolerance. The low risk tolerance means that KommuneKredit only assumes financial risks that are absolutely necessary to accomplish KommuneKredit's mission.

KommuneKredit distinguishes between the following types of financial risks:

- Market risk is the risk that changes in market prices will affect the market value of a financial instrument. Market risk comprises currency risk, interest rate risk and other price risk.
- Credit risk is the risk that the counterparty to a financial instrument does not settle a liability and thus exposes KommuneKredit to a loss.
- Liquidity risk is the risk that KommuneKredit will not be able to settle its financial obligations.

NOTE 1.9 MARKET RISK

KommuneKredit limits the market risk by way of derivative financial instruments. The limited market risk minimises the risk of loss resulting from changes in market prices.

KommuneKredit distinguishes between three types of market risks:

- Currency risk is the risk that exchange rate fluctuations will affect the market value of a financial instrument.
- Interest rate risk is the risk that interest rate fluctuations will affect the market value of a financial instrument.
- Other price risk is the risk that changes in market prices other than those attributable to interest rate risks and currency risks will affect the market value of a financial instrument.

NOTE 1.9.1 CURRENCY RISK

POLICIES AND PROCEDURES

KommuneKredit's risk tolerance in respect of currency risks is very low, as it is not necessary to accept such risks to accomplish KommuneKredit's mission.

According to the Board of Directors' currency risk guidelines, funding must be translated by the use of financial instruments into the same currency as the currency in which loans were granted – typically DKK. Similarly, all liquidity resources must be invested in the same currency as the funding using financial instruments.

According to the guidelines, the net position calculated as the present value of future payments in EUR must not exceed DKK 1,000 million, and the net position for all other currencies combined must not exceed DKK 100 million. So far, these limits have only been utilised to a very limited extent.

MEASUREMENT

The currency position is presented separately for receivables and liabilities as well as derivative financial instruments where the position is calculated using market values not adjusted for basis swap spread. The distribution shows how the derivative financial instruments are used to hedge the resulting currency position from receivables and liabilities.

At the end of 2016, KommuneKredit's currency position was close to 0, which was also the case at year-end 2015. This reflects KommuneKredit' low risk tolerance in respect of currency risks.

› NOTES

FINANCIAL RISK MANAGEMENT

NOTE 1.9.1 CURRENCY RISK – CONTINUED

Currency risk

Market values				Derivative	
		Assets	Liabilities	financial	Currency
DKKm				instru-	position
				ments	
2016					
Australian dollar	AUD	0	6,928	6,928	0
Swiss franc	CHF	1,278	10,666	9,388	0
Euro	EUR	7,170	41,776	34,604	-2
Pound Sterling	GBP	0	4,896	4,896	0
Hong Kong dollar	HKD	0	1,157	1,157	0
Japanese yen	JPY	0	8,696	8,696	0
Norwegian kroner	NOK	0	4,778	4,778	0
Swedish kroner	SEK	0	3,551	3,551	0
US dollar	USD	3,590	76,166	72,578	2
Other currencies*		54	3,372	3,318	0
Total		12,092	161,986	149,894	0

Currency risk

Market values				Derivative	
		Assets	Liabilities	financial	Currency
DKKm				instru-	position
				ments	
2015					
Australian dollar	AUD	0	4,786	4,786	0
Swiss franc	CHF	1,906	13,466	11,560	0
Euro	EUR	7,954	18,636	10,682	0
Pound Sterling	GBP	0	17,839	17,839	0
Hong Kong dollar	HKD	0	1,279	1,279	0
Japanese yen	JPY	73	8,683	8,610	0
Norwegian kroner	NOK	0	3,440	3,440	0
Swedish kroner	SEK	208	652	444	0
US dollar	USD	3,616	77,935	74,319	0
Other currencies*		86	3,096	3,010	0
Total		13,843	149,812	135,969	0

* Other currencies comprise BRL, CAD, HUF, MXN, NZD, RON, TRY, ZAR.

FINANCIAL RISK MANAGEMENT

NOTE 1.9.2 INTEREST RATE RISK

POLICIES AND PROCEDURES

KommuneKredit's risk tolerance in respect of interest rate risks is limited, but it is deemed necessary to accept certain interest rate risks to accomplish KommuneKredit's mission.

KommuneKredit primarily accepts interest rate risks when equity is invested in bonds. Interest rate risks are accepted to a lesser degree between lending and funding when floating-rate loans and funding are fixed at varying dates.

According to the Board of Directors' interest rate risk guidelines, interest rate risks must not be accepted in respect of fixed-rate lending, funding or investments of the liquidity resources. This requirement is met by hedging, at the date of the agreement, all fixed-rate transactions of a certain size by way of derivative financial instruments. According to the guidelines, the interest rate risk must not exceed 4.5 per cent of equity at the time of the most recent quarterly financial statements, corresponding to DKK 299 million. The interest rate risk is calculated using a 1.0 per cent parallel shift of the interest curve based on market values not adjusted for basis swap spread.

MEASUREMENT

At year-end 2016, KommuneKredit utilised 13 per cent of the interest rate risk limit.

DKKm	2016	2015
Interest rate risk		
Core business	-4	0
Own portfolio of bonds	42	179
Total interest rate risk	38	179
Equity at 1 January	6,638	6,244
Interest rate risk limit of 4.5 per cent of equity	299	281
Total interest rate risk	38	179
Interest rate risk limit	299	281
Utilisation of the limit as a percentage	13	64

NOTE 1.9.3 OTHER PRICE RISKS

POLICIES AND PROCEDURES

KommuneKredit's risk tolerance in respect of other price risks is very low, as it is not necessary to accept other price risks to accomplish KommuneKredit's mission.

Other price risks may occur when KommuneKredit issues bonds related to a commodity index or the like. According to the Board of Directors' guidelines, other price risks must be hedged at the issue date. However, other price risks in the form of interest rate volatility risks may be assumed to a very limited extent. Interest rate volatility risks arise when KommuneKredit invests in callable bonds or bonds with a cap or floor.

According to the Board of Directors' guidelines, the interest rate volatility risk may account for up to 0.2 per cent of equity at the end of the preceding year, corresponding to DKK 13 million. The interest rate volatility risk is calculated based on a 1 percentage point shift in the interest rate volatility. At the end of 2016, there was no interest rate volatility risk.

NOTE 1.10 CREDIT RISK

POLICIES AND PROCEDURES

KommuneKredit is exposed to credit risk, partly when entering into the derivative financial instruments which reduce the market risk and partly when advancing loans to the municipal and regional sector in Denmark and when investing the funds from the liquidity resources and equity.

Credit risk accounts for a relatively large part of KommuneKredit's financial risks, since, in spite of KommuneKredit's low risk tolerance, it is a risk that is difficult to avoid in accomplishing KommuneKredit's mission.

Loans are only granted to Danish local authorities or against a 100 per cent guarantee from these authorities. In this section, recipients of such loans will be denoted clients, whereas financial counterparties as well as investment counterparties will be denoted counterparties.

FINANCIAL RISK MANAGEMENT

NOTE 1.10 CREDIT RISK – CONTINUED

To reduce the credit risk related to counterparties with whom derivative financial instruments are entered into, KommuneKredit has adopted a policy according to which derivative financial instruments must only be entered into if a bilateral collateral agreement has been entered into. According to the guidelines on the posting of collateral, such agreements must meet the following requirements as a minimum:

- Daily exchange of collateral and low threshold values.
- Collateral received under the agreements must be high-quality liquid bonds.

In order to further reduce the credit risk on other counterparties, the credit risk guidelines include strict requirements as to the credit quality, both in relation to the type of counterparty and the rating of the counterparty by credit rating agencies. As a result, financial instruments may only be entered into with the following types of counterparties:

- Central governments, regions, municipalities and other public authorities.
- Multilateral development banks and international organisations.
- Banks, other financial institutions and issuers of covered bonds.

Counterparties must maintain residency in a country that has obtained the most low-risk OECD's Country Risk Classification or in a country that has not been audited or classified for these purposes, but is audited as a high-income OECD or Eurozone country.

In addition, the counterparty must have a rating of at least AA- from Standard & Poors or a similar rating from Moody's Investors Services and/or Fitch Ratings. If a bilateral collateral agreement has been entered into with a financial counterparty, ratings down to A- are accepted. Finally, agreements with lower-rated, systemically important Danish banks are permitted.

According to the Board of Directors' guidelines, counterparties satisfying these requirements may be granted a credit risk line by Management.

The daily utilisation of credit risk lines on financial instruments is calculated according to the same calculation method as is used by so-called IRB banks to reserve capital for unexpected credit risk losses in accordance with the EU regulation on prudential requirements for credit institutions and investment firms. Expected credit risk losses are recognised in the statement of comprehensive income on an ongoing basis.

KommuneKredit sets limits for the concentration of credit risks based on large exposures in the EU regulation on prudential requirements for credit institutions and investment firms. According to this regulation, exposures to a single client or a group of connected clients, net of fully and completely secured exposures, cannot exceed 25 per cent of the base capital, which for KommuneKredit's purposes corresponds to equity.

Management and the heads of department for risk management and funding meet monthly in a credit committee to assess the current credit risk.

NOTE 1.10.1 CREDIT RISK RATING

MEASUREMENT

Credit risks can be broken down into two main components. The first component is the credit risk associated with receivables from credit institutions and securities, collectively called investment credit risk. The other component is the credit risk associated with derivative financial instruments and related collateral, collectively called credit risk on derivative financial instruments.

Most of the aggregate credit risk exposure relates to investments based on funds from the liquidity resources and KommuneKredit's own portfolio of bonds, as the credit risk on derivative financial instruments is limited by collateral agreements, cf. KommuneKredit's business model.

Due to a risk weight of zero, there is no credit risk in respect of KommuneKredit's clients.

› NOTES

FINANCIAL RISK MANAGEMENT

NOTE 1.10.1 CREDIT RISK RATING – CONTINUED

Rating	Investment credit risk			Credit risk on derivatives				Total	
	Receivables from credit institutions	Securities	Total	Derivative financial instruments		Correction for neg. FV per counterparty	Collateral after haircut	Total	Net
				Positive	Negative				
2016									
AAA	0	26,291	26,291	0	-23	23	0	0	26,291
AA+	0	4,682	4,682	0	0	0	0	0	4,682
AA	0	2,720	2,720	103	-17	0	0	86	2,806
AA-	1	356	357	4,250	-4,692	1,572	-694	436	793
A+	1	0	1	707	-1,556	919	-70	0	1
A	372	0	372	7,542	-3,759	788	-4,196	375	747
A-	0	0	0	0	0	0	0	0	0
BBB+	1,218	0	1,218	5,537	-1,196	364	-4,704	1	1,219
Total	1,592	34,049	35,641	18,139	11,243	3,666	-9,664	898	36,539
2015									
AAA	0	14,442	14,442	2	-17	15	0	0	14,442
AA+	0	13,316	13,316	19	-1	0	0	18	13,334
AA	0	2,361	2,361	90	-19	0	0	71	2,432
AA-	2	3,864	3,866	6,052	-3,296	572	-2,506	822	4,688
A+	2	0	2	680	-2,151	1,603	-65	67	69
A	54	0	54	6,904	-4,337	1,639	-3,697	509	563
A-	0	0	0	1,926	-694	444	-1,652	24	24
BBB+	760	0	760	3,621	-514	0	-2,812	295	1,055
Total	818	33,983	34,801	19,294	-11,029	4,273	-10,732	1,806	36,607

FINANCIAL RISK MANAGEMENT

NOTE 1.10.1 CREDIT RISK RATING – CONTINUED

Exposures associated with credit risk decreased by DKK 0.1 billion from DKK 36.6 billion in 2015 to DKK 36.5 billion in 2016. The investment credit risk increased by DKK 0.8 billion, while the credit risk on derivative financial instruments decreased by DKK 0.9 billion.

The reason for the decrease in exposures relating to derivative financial instruments is the fact that the exposure to credit risk on derivative financial instruments fell less than the collateral. As a result, 91 per cent of the market value of the derivatives portfolio at year-end 2016 was covered by collateral received, compared with 86 per cent at the end of 2015.

The rating is based on Moody's Investors Service, Standard & Poor's and/or Fitch Ratings. If the counterparty is rated by two rating agencies, the lowest rating will be applied. If the counterparty is rated by three credit rating agencies, the middle rating of the three credit ratings is used. When investing in securities, the rating of the securities is used, and for all financial instruments covered by a guarantee, the rating of the guarantor is used.

Any collateral received that exceeds the fair value of derivative financial instruments at counterparty level is not included in the credit risk-reducing collateral. In respect of counterparties posting collateral for their liabilities vis-à-vis KommuneKredit, the collateral is classified based on the rating of the counterparty. Thus, the classification does not reflect the rating of the collateral. The credit risk-reducing element of the collateral equals the value of the netable collateral in note 1.4.5.

As the credit risk made up as fair value at counterparty level cannot be negative, an adjustment in this respect has been made in the column "Correction for neg. FV per counterparty".

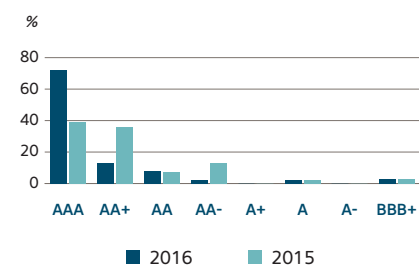
NOTE 1.10.2 CREDIT QUALITY

KommuneKredit has never incurred a loss as a result of a counterparty not settling an obligation.

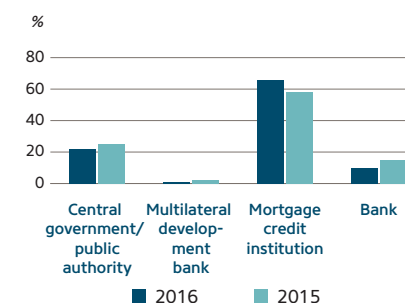
72 per cent of the total credit risk relates to counterparties with the highest rating, 23 per cent has a credit rating between AA+ and AA-, and only 5 per cent has a lower credit rating. The credit quality of KommuneKredit's counterparties is thus very high.

Compared to 2015, a larger portion of the investments were, at the end of 2016, placed in Danish mortgage credit institutions rather than in European central governments and financial institutions. This has resulted in a minor increase in the exposure on Danish counterparties.

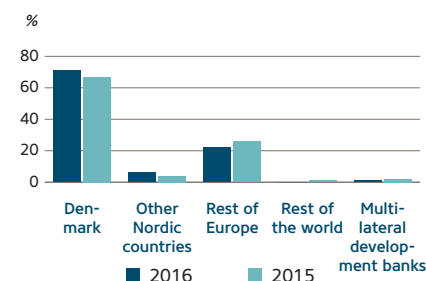
EXPOSURE BY RATING



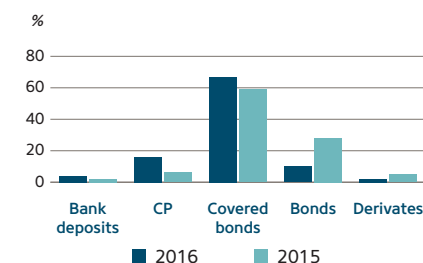
EXPOSURE BY TYPE OF COUNTERPARTY



EXPOSURE BY AREA



CREDIT RISK BY TYPE OF INSTRUMENT



FINANCIAL RISK MANAGEMENT

NOTE 1.10.3 COLLATERAL RECEIVED

All KommuneKredit's collateral agreements have been concluded as annexes (Credit Support Annexes) to ISDA Master Agreements. In order to ensure as high a credit risk reduction as possible, low threshold values have been agreed as well as daily valuations and exchange of collateral.

When collateral is posted, a haircut (deduction) is calculated in respect of the collateral, depending on instrument, rating and term to maturity. This haircut is a buffer protecting the parties against fluctuations in the market value in case the collateral is to be realised.

3,809 transfers of collateral totalling DKK 160 billion in nominal value were made in 2016. This high level of activity is a reflection of the low threshold values and the daily exchange, which ensures that collateral is posted on a regular basis for as large a part of the credit risk as possible.

To further reduce the credit risk, the collateral agreements also include strict requirements as to the quality of the collateral posted. Under the collateral agreements, collateral must be highly rated mortgage credit bonds or government bonds issued by highly rated countries. As indicated in note 1.4.5, 80 per cent of the collateral received at year-end 2016 was thus Danish, Dutch, German, Finnish, British or French government bonds. The remaining 20 per cent was Danish mortgage credit bonds with the highest or second-highest credit quality. Thus, all collateral received is high-quality liquid bonds. Moreover, collateral is received as transfer of title.

A minor share of the collateral received exceeds the net value of the derivative financial instruments at counterparty level. Accordingly, these are not included as credit risk-reducing collateral.

NOTE 1.11 LIQUIDITY RISK

POLICIES AND PROCEDURES

Even if KommuneKredit's risk tolerance in respect of liquidity risks is very low, such risks cannot be avoided, e.g. in connection with bilateral collateral.

The overall liquidity risk principle is based on a maturity match between funding and lending. As a consequence of the liquidity limit, binding lending commitments cannot be entered into unless at least corresponding binding funding commitments are in place with at least corresponding terms to maturity. The share of equity exceeding the statutory requirement of 1.0 per cent can be used for funding purposes.

According to the short-term liquidity guidelines, the total holding of high-quality, unrestricted liquid assets must exceed the accumulated liquidity outflows in a 30-day stress scenario. The guidelines are inspired by the principles of the international standards on liquidity, including Liquidity Coverage Ratio (LCR) known from CRR/CRDIV.

According to the long-term liquidity guidelines, the stable medium-term and long-term funding, i.e. more than one year, must exceed the liquidity requirements in a stress scenario. These guidelines are also inspired by the preliminary principles of the international standards on liquidity, including Net Stable Funding Ratio (NSFR) known from CRR/CRDIV.

In 2016, KommuneKredit began to apply a survival horizon of 180 days in a going concern stress scenario. The scenario is based on the assumptions that there is no access to the funding markets, that KommuneKredit continues new lending and that the markets are developing unfavourably for KommuneKredit in relation to investments and collateral for derivatives transactions. In consequence, KommuneKredit reduced the ratio of funding with a very short term to maturity in 2016. As a supplement to the survival horizon, KommuneKredit has a liquidity resource contingency plan which can be activated in case of pressure on liquidity.

To insure that the investments are highly liquid, KommuneKredit has imposed strict requirements as to the rating of the investments. This means that 74 per cent of all investments at the end of 2016 were AAA-rated and 22 per cent were rated from AA+ to AA-. There are, therefore, restrictions on the term to maturity, as short-term investments are, all things being equal, more liquid than long-term investments.

› NOTES

FINANCIAL RISK MANAGEMENT

NOTE 1.11.1 DISTRIBUTION OF MATURITY ACCORDING TO TERM TO MATURITY

The distribution of maturity according to term to maturity is based on nominal value. As for lending and funding where the binding commitment is shorter than the term to maturity, the binding commitment is applied.

Distribution of maturity DKKm	0-3 months	3-12 months	1-5 years	Over 5 years	Total
2016					
Financial assets					
Receivables from credit institutions	1,518	0	0	0	1,518
Portfolio of securities	6,901	9,559	16,892	75	33,427
Lending	71,131	19,013	31,312	35,285	156,741
Lease receivables	144	734	2,802	1,919	5,599
Total recognised financial assets	79,694	29,306	51,006	37,279	197,285
Funding commitments received	0				0
Total financial assets	79,694	29,306	51,006	37,279	197,285
Financial liabilities					
Due to credit institutions	1,211	869	389	0	2,469
Debt securities issued on Nasdaq Copenhagen	976	862	18,869	18,812	39,519
Debt securities issued internationally	24,606	15,816	75,962	40,422	156,806
Derivative financial instruments	-2,830	-1,038	-4,129	-1,094	-9,091
Total recognised financial liabilities	23,963	16,509	91,091	58,140	189,703
Loan commitments given	14,051				14,051
Total financial liabilities	38,014	16,509	91,091	58,140	203,754

Distribution of maturity DKKm	0-3 months	3-12 months	1-5 years	Over 5 years	Total
2015					
Financial assets					
Receivables from credit institutions	818	0	0	0	818
Portfolio of securities	26,816	4,585	1,828	0	33,229
Lending	61,343	19,791	31,473	35,923	148,530
Lease receivables	126	729	2,149	1,808	4,812
Total recognised financial assets	89,103	25,105	35,450	37,731	187,389
Funding commitments received	0				0
Total financial assets	89,103	25,105	35,450	37,731	187,389
Financial liabilities					
Due to credit institutions	0	128	1,222	50	1,400
Debt securities issued on Nasdaq Copenhagen	561	1,134	15,954	24,993	42,642
Portfolio of securities issued internationally	27,562	32,537	69,193	19,037	148,329
Derivative financial instruments	-1,880	-2,903	-6,211	-1,079	-12,073
Total recognised financial liabilities	26,243	30,896	80,158	43,001	180,298
Loan commitments received	5,816				5,816
Total financial liabilities	32,059	30,896	80,158	43,001	186,114

FINANCIAL RISK MANAGEMENT

NOTE 1.11.2 LIQUIDITY RESOURCES

The Ministry for Economic Affairs and the Interior allows KommuneKredit to build up liquidity resources, based on pre-funding, of up to 25 per cent of total lending at the end of the preceding quarter. The upper limit amounted to DKK 42.4 billion at the end of 2016, and KommuneKredit's liquidity resources amounted to DKK 28.0 billion. The utilisation of the limit fluctuated through 2016, and the highest level of liquidity resources at month-end was 23 per cent.

Liquidity resources are calculated as due to credit institutions, debt securities issued and derivative financial instruments less total lending and lease receivables recognised at carrying amount.

DKKm	2016	2015
Liquidity resources		
Due to credit institutions, securities issued and derivative financial instruments		
Due to credit institutions	2,475	1,402
Securities issued	202,642	193,382
Derivative financial instruments	10,992	10,967
Derivative financial instruments	-19,557	-20,457
Due to credit institutions, securities issued and derivative financial instruments	196,552	185,294
Lending and lease receivables		
Lending	162,990	152,881
Lease receivables	5,599	4,812
Total lending and lease receivables	168,589	157,693
Liquidity resources	27,963	27,601
Liquidity resources cannot exceed 25 per cent of total lending at the end of the preceding quarter.		
Liquidity resources	27,963	27,601
Total lending at 30 September	169,626	156,412
Liquidity resources as a percentage of total lending	16	18

ADMINISTRATIVE EXPENSES

NOTE 2.1 ADMINISTRATIVE EXPENSES

Administrative expenses comprise staff costs, other administrative expenses, adjustment of pension obligations and amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

Intangible assets and property, plant and equipment are measured at cost less accumulated amortisation/depreciation and impairment losses.

Cost comprises the acquisition price and any expenses directly attributable to the acquisition until such time as the asset is available for use. Where individual components of an intangible asset or an item of property, plant and equipment have different useful lives, they are accounted for as separate items and amortised/depreciated separately.

Development costs regarding software comprise consultancy fees and other expenses attributable to KommuneKredit's development activities. Development projects that meet the applicable accounting requirements are recognised as intangible assets. As for intangible assets and items of property, plant and equipment, amortisation/depreciation is provided on a straight-line basis over the expected useful lives of the assets or components, respectively, as follows:

- | | |
|---|-----------|
| ▪ Intangible assets (software, etc.) | 3 years |
| ▪ Properties | 75 years |
| ▪ Operating equipment, including IT equipment | 3-5 years |
| ▪ Cars | 3-4 years |
| ▪ Leasehold improvements | 5 years |

Land is not depreciated.

The carrying amount of the assets is tested annually for evidence of impairment. If such evidence exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value of an asset less anticipated costs to sell and its value in use.

DKKm	2016	2015
Administrative expenses		
Salaries, remuneration, etc.	49	45
Pension contributions, etc.	7	4
Other staff costs	5	5
Consultancy fees	15	13
IT licences	12	13
Charges	4	4
Property management	4	4
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	4	3
Other administrative expenses	6	5
Total administrative expenses	106	96
Average number of employees	66	62

ADMINISTRATIVE EXPENSES

NOTE 2.2 REMUNERATION OF THE BOARD OF DIRECTORS AND MANAGEMENT

Fees to members of the Board of Directors consist of a fixed amount plus a fee for their membership of the audit committee.

Members of Management are not eligible for KommuneKredit's bonus plan. The pension obligation has been calculated based on actuarial assumptions.

DKK'000	2016	2015
Remuneration of the Board of Directors and Management		
Remuneration of the Board of Directors		
Erik Nielsen, Chairman	216	213
Lars Krarup, Vice Chairman	119	119
Hans Toft	71	72
Henrik Zimino	71	72
Anker Boye	70	23
Sophie Hæstorp Andersen	71	71
Kaj V. Holm	71	71
Mikael Klitgaard	71	71
Anne V. Kristensen	71	71
Retired board members		
Erik Christensen	0	48
Total remuneration of the Board of Directors	831	831

DKK'000	2016	2015
Remuneration of Management		
Jens Lundager, CEO 1.9.2015	2,483	815
Johnny Munk, Managing Director and acting CEO 1.6. – 31.8.2015	1,467	1,675
Frank Hammer, acting Managing Director 1.6. – 31.8.2015	0	444
Søren Høgenhaven, CEO 1.1. – 31.5.2015	0	1,091
Total remuneration of Management	3,950	4,025
Provision for Management's defined benefit plan in the year		
Johnny Munk	366	-575
Total provision for Management's defined benefit plan in the year	366	-575

› NOTES

ADMINISTRATIVE EXPENSES

NOTE 2.3 PENSION OBLIGATIONS

KommuneKredit has entered into pension plans with the majority of its employees. Obligations under defined contribution plans are recognised in the statement of comprehensive income in the period to which they relate, and any contributions outstanding are recognised in the statement of financial position as other liabilities.

KommuneKredit has entered into defined benefit plans with a few current and former employees. For defined benefit plans, an annual actuarial calculation is made of the present value of future benefits payable under the plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with KommuneKredit.

The actuarially calculated 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 present value attributable to changes in actuarial assumptions are recognised in other comprehensive income. The interest rate is unchanged at 1.5 per cent.

If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognised as historical costs. Historical costs are recognised immediately if employees have already earned the changed

benefits. If employees have not earned the benefits, the historical costs are recognised in the statement of comprehensive income over the period in which the changed benefits are earned by the employees.

DKKm	2016	2015
Pension obligations		
Balance at 1 January	60	64
Additions	1	1
Disposals	4	5
Total pension obligations	57	60
Hereof remuneration of Management	11	11

The additions reflect actuarial adjustments of DKK 1.0 million before tax through other comprehensive income.

› NOTES

TAX

KommuneKredit computes tax on financial instruments based on the market-value principle. The current corporate income tax rate is 22 per cent.

The measurement of deferred tax on all temporary differences between the carrying amount and the tax value of assets and liabilities depends on the expected date of realisation of those differences. On this basis, the average tax rate is calculated at 22 per cent.

NOTE 3.1 TAX ON PROFIT FOR THE YEAR

Tax on profit for the year comprises current tax for the year, changes in deferred tax for the year, estimated tax on other comprehensive income and prior-year adjustments.

DKKm	2016	2015
Tax on profit for the year		
Income tax charge for the year	54	0
Adjustment due to change in tax rate	0	-6
Deferred tax charge for the year	87	29
Estimated tax on other comprehensive income	0	0
Prior-year adjustments	0	0
Total tax on profit for the year	141	23
Distributed as follows:		
Estimated tax on the pre-tax profit for the year	141	29
Adjustment due to change in tax rate	0	-6
Estimated tax on other comprehensive income	0	0
Prior-year adjustments	0	0
Total tax on profit for the year	141	23
Effective tax rate	22	19

NOTE 3.2 CURRENT TAX ASSETS

Current tax assets and tax liabilities are recognised in the statement of financial position as the sum of current tax, prior-year tax receivables or payables and tax paid for the year.

The Swiss tax authorities owe KommuneKredit withholding tax on matured bond investments. Initially, the Swiss tax authorities refused to refund the withholding tax, but KommuneKredit finds this to be unjustified and expects that the withholding tax will be refunded. On this basis, the receivable, which totals DKK 34 million, has not been written down.

DKKm	2016	2015
Current tax assets		
Balance at 1 January	113	65
Current tax	-54	0
Prior-year adjustments	0	1
Income taxes paid for the year	-20	47
Total current tax assets	39	113

TAX

NOTE 3.3 DEFERRED TAX LIABILITIES

Deferred tax assets and tax liabilities are measured on all temporary differences between the carrying amount and the tax value of assets and liabilities. Deferred tax assets and tax liabilities are measured on the basis of the tax rules which will, given the legislation in force at the balance sheet date, apply once the deferred tax is expected to be triggered as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the statement of comprehensive income.

DKKm	2016	2015
Deferred tax liabilities		
Balance at 1 January	270	246
Adjustment due to change in tax rate	0	-6
Prior-year adjustments	0	1
Deferred tax charge for the year	87	29
Total deferred tax liabilities	357	270

Distributed as follows:

Property, plant and equipment and intangible assets	8	7
Assets held under leases	362	303
Pension obligations	-13	-13
Tax loss carry-forwards	0	-27
Total deferred tax liabilities	357	270

CASH FLOWS

The statement of cash flows shows cash flows from operating activities in the year, the year's changes in cash and cash equivalents and cash and cash equivalents at the beginning and end of the year.

CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities are made up as the pre-tax profit or loss, adjusted for income taxes paid, non-cash operating items, etc. and also comprise cash flows from lending and funding activities, additions and disposals of intangible assets and property, plant and equipment as well as acquisition and disposal of securities if the term to maturity exceeds three months at the date of conclusion. Receivables from and dues to credit institutions comprise fixed-term deposits and ECP notes with a term to maturity exceeding three months at the date of conclusion.

CASH FLOWS FOR THE YEAR

Cash flows for the year comprise cash flows from operating activities.

CASH

The item comprises on-demand deposits with credit institutions and ECP notes with a term to maturity of less than three months at the date of conclusion.

NOTE 4.1 ADJUSTMENT FOR NON-CASH OPERATING ITEMS, ETC.

DKKm	2016	2015
Adjustment for non-cash operating items, etc.		
Pension obligations	-4	-5
Amortisation/depreciation and provisions, etc.	4	3
Prior-year adjustments	0	0
Total adjustment for non-cash operating items, etc.	0	-2

OTHER NOTES

NOTE 5.1 CONTINGENT ASSETS AND LIABILITIES

Pursuant to section 81(4) of the Danish Securities Trading Act, KommuneKredit is liable, together with other custodian institutes, for compensation for losses resulting from reporting, etc. to VP SECURITIES A/S. KommuneKredit's liability is maximised to DKK 1.4 million.

Pursuant to section 82 of the Act, KommuneKredit guarantees, together with other custodian institutes, VP SECURITIES A/S' liabilities. KommuneKredit's liability is maximised to DKK 3.0 million.

In 2014, the Danish Customs and Tax Administration selected KommuneKredit for an audit, ordering KommuneKredit to pay additional payroll tax. KommuneKredit has appealed this decision to the Danish National Tax Tribunal where the case is pending. In KommuneKredit's opinion, there is every probability that KommuneKredit will win the case, and no expense or provision has consequently been recognised in the financial statements.

NOTE 5.2 RELATED PARTIES

KommuneKredit has no related parties exercising control over KommuneKredit. KommuneKredit's related parties exercising significant influence comprise the members of KommuneKredit's Board of Directors and Management and their close family members.

BOARD OF DIRECTORS AND MANAGEMENT

For information about remuneration of the Board of Directors and Management, reference is made to note 2.2. Managerial posts are mentioned in the "Corporate governance" section. No other transactions were carried out with members of the Board of Directors and Management in the year.

NOTE 5.3 EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date that have a significant impact on KommuneKredit's results of operations.

NOTE 5.4 FUTURE ACCOUNTING REGULATION

IASB has issued IFRS 9 "Financial Instruments" to take effect in 2018. The new IFRS 9 standard is not expected to have any material impact on the financial statements.

Based on the issued, but not effective, IFRS 16 Leases and IFRS 15 Revenue from "Contracts with Customers" and other amendments and interpretations, the implications for KommuneKredit are not considered to be material.

The standards and interpretations that are adopted with a different effective date in the EU than IASB's effective dates will, as a general rule, be early adopted so as to follow the IASB's effective dates.

A photograph of a metal walkway with railings over a body of water, likely a bridge or a pier. The walkway is made of metal grating and has a railing with vertical posts and horizontal rails. The water is calm, and the walkway and railing are reflected in it. The background is a bright, hazy sky, possibly at sunrise or sunset. The text "STATEMENTS AND REPORTS" is overlaid in the bottom right corner in a white, sans-serif font.

STATEMENTS
AND REPORTS

STATEMENT BY MANAGEMENT

The Board of Directors and the Management have today discussed and approved the annual report of KommuneKredit for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

It is our opinion that the financial statements give a true and fair view of the financial position of KommuneKredit at 31 December 2016 and of the comprehensive income of KommuneKredit's operations and cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a true and fair view of the development in KommuneKredit's operations and financial matters, the comprehensive income for the year and KommuneKredit's financial position as such.

Copenhagen, 3 March 2017

MANAGEMENT

Jens Lundager
Chief Executive Officer,
Managing Director

Johnny Munk
Managing Director

/Morten Søjtofte
Chief Financial
and Risk Officer

BESTYRELSE

Erik Nielsen
Chairman

Lars Krarup
Vice Chairman

Hans Toft

Henrik Zimino

Anker Boye

Sophie Hæstorp Andersen

Kaj V. Holm

Mikael Klitgaard

Anne V. Kristensen

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF KOMMUNEKREDIT

We have audited the financial statements of KommuneKredit for the financial year 1 January – 31 December 2016, which comprise a statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the financial statements give a true and fair view of the financial position of the association at 31 December 2016 and of the results of the association's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements according to Danish audit legislation. Our responsibilities under those standards and requirements

are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the KommuneKredit in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for audit of the financial statements" section, including in relation to the below

key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements as a whole.

Valuation of financial assets and liabilities at fair value

- **RISK ASSESSMENT:** Most of KommuneKredit's financial assets and liabilities, including lending, provisions and liabilities other than provisions, debt securities issued and derivative financial instruments, are measured at fair value, corresponding to 96 per cent of total assets and 98 per cent of total liabilities at 31 December 2016. The fair value estimate is based on various assumptions and judgements including both observable and non-observable data, which increases the degree of uncertainty. Significant parameters include currency margins, funding curves, credit spread and lending prices. We consider this to be a key audit matter due to the volume of financial assets and liabilities measured at fair value.

› STATEMENTS AND REPORTS

- **AUDIT PROCEDURES:** Our audit procedures included an assessment of the method and the appropriateness of valuation models and significant parameters used to assess the value of lending, portfolio of securities, debt securities issued and derivative financial instruments. In addition, we relied on internal controls relating to the process to determine the most significant parameters for fair value estimates, including reconciliation of positions. Finally, we assessed the completeness and accuracy of the information in relation to financial instruments to verify compliance with disclosure requirements.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Based on our procedures, we are of the opinion that the Management's review is in accordance with the financial statements. We did not identify any misstatement of the Management's review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU. Further, Management is responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing KommuneKredit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern principle of accounting in preparing the financial statements unless Management either intends to liquidate KommuneKredit or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual-

ly or individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain an attitude of professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KommuneKredit's internal control.
- Evaluate whether the accounting policies used are appropriate and whether the accounting estimates and the related disclosures made by Management are reasonable.

› STATEMENTS AND REPORTS

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on KommuneKredit's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause KommuneKredit to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including note disclosures, and whether the financial statements reflect the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide a statement to those charged with governance to the effect that we have complied with relevant ethical requirements related to independence and disclose to them all relations and other matters that could reasonably be expected to impact our independence and, if relevant, related safeguards.

Based on the matters communicated to those charged with governance, we determine which matters were of most importance in our audit of the financial statements for the current period and therefore are key audit matters. We describe such matters in our auditor's report unless law or other regulations rule out the publication thereof or, in the very rare cases where we determine that the matter should not be disclosed in our auditor's report, because the disadvantages of so

doing could reasonably be expected to outweigh the advantages of disclosing such matters to the general public.

Copenhagen, 3 March 2017

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 FOR ECONOMIC AFFAIRS AND THE INTERIOR

TO THE BOARD OF DIRECTORS OF
KOMMUNEKREDIT

As the auditor appointed by the Ministry for Economic Affairs and the Interior, I have reviewed the financial statements of KommuneKredit for the financial year 1 January – 31 December 2016, prepared by Management. In addition, I have read Management's review.

During my review, I did not identify any non-compliance with the Danish act governing KommuneKredit or KommuneKredit's articles of association. The audit procedures performed by Ernst & Young did not give rise to any comments on my part.

Copenhagen, 3 March 2017

Emil le Maire
Former Prefect

An aerial photograph of a large body of water, possibly a river or a wide channel. The water is dark and textured with ripples and small waves. On the left side, there is a prominent, turbulent section of white foam and churning water, suggesting a rapids or a narrow constriction. The overall lighting is somewhat dim, with a yellowish-brown tint, possibly due to the water's turbidity or the lighting conditions during the shot.

ADDITIONAL
INFORMATION

DEFINITIONS

DEFINITIONS AND FORMULAS

GROSS LENDING: New loans paid out.

CRR/CRDIV: Capital Requirements Regulation and Capital Requirements Directive IV are the European implementation of the international Basel III rules on, among other things, financial institutions' capital and liquidity resources.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) SYSTEM: A CRM system includes relations and data used for client relationship management.

ECP: European Commercial Paper issued under a standard loan programme with a short term to maturity.

EQUITY RATIO =
$$\frac{\text{Equity}}{\text{Total assets}}$$

COMMON EQUITY TIER 1 (CET1) CAPITAL: Equity net of various deductions, which in KommuneKredit's case is zero.

EMTN: European Medium Term Note issued under a standard loan programme with a medium or long term to maturity.

HAIRCUT: Deduction in the quoted price of bonds where the size depends on the liquidity properties of the bond.

ISDA MASTER AGREEMENT: Bilateral framework agreement for trading in OTC derivatives between financial counterparties.

CAPITAL BASE: Common Equity Tier 1 (CET1) capital net of various deductions (e.g. prudent valuation, current losses, intangible assets). The precise definition has changed over time.

CAPITAL RATIO =
$$\frac{\text{Capital base}}{\text{Total risk exposure (REA)}}$$

LIQUIDITY COVERAGE RATIO (LCR): Indicates the ratio between the portfolio of liquid assets and the net runoff from cash flows over a 30-day horizon in a stress scenario. The financial ratio was introduced in connection with Basel III and subsequently CRR/CRDIV.

NEW LENDING, NET: Net additions of lending.

NET STABLE FUNDING RATIO (NSFR): The ratio between defined stable funding and the estimated need for stable funding. The financial ratio was introduced in connection with Basel III and subsequently CRR/CRDIV.

PPP: Public-Private Partnership.

TOTAL RISK EXPOSURE (REA): The value of total assets when calculating the capital ratio, allowance having been made for the risk weight of the exposure. The precise definition has changed over time.

RISK WEIGHT: Weight attributed to the individual exposures when calculating the capital ratio. Set out by CRR/CRDIV.

COLLATERAL AGREEMENT: Agreement between financial counterparties regarding exchange of collateral in case of fluctuations in the market value of derivatives transactions.

LIQUIDITY RESOURCES: Amounts due to credit institutions, debt securities issued and derivative financial instruments minus lending.

PHOTOGRAPHERS Nicky Bonne, Henning Bagger and Ehrhorn Hummerston

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DISCLAIMER The annual report is prepared in Danish and translated into English. In case of discrepancies the Danish version shall prevail.

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KOMMUNE
KREDIT

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& STABLE