



KOMMUNEKREDIT

RIGA, 10 APRIL 2019



KOMMUNE
KREDIT

STEADY
& STABLE

A photograph of water reflecting a building and sky, with a dark blue gradient overlay on the left side of the slide.

FRAMEWORK CONDITIONS

LOCAL CONTEXT



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THE KINGDOM OF DENMARK

Denmark is part of the Nordic model with free market capitalism, a comprehensive welfare state and a cooperative spirit

KEY FACTS ON DENMARK

Capital	Copenhagen
Population	5.7m
Currency	DKK
EU	Member since 1973

Exceptions: Currency,
defense and judicial
cooperation

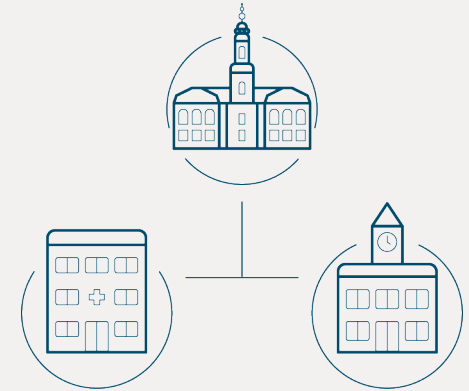


LOCAL GOVERNMENTS AS MAIN DRIVER OF WELFARE

- Danish Local Governments are defined by law and their autonomy is secured through the constitution and other legislation
- Municipalities and Regions are responsible for the majority of the services provided in the Danish welfare system
- The Local Government Sector expenditures amount to 2/3 of total public expenditures and approx. 28% of GDP
- Strong revenue base with an unlimited right to levy taxes on income and property

CENTRAL GOVERNMENT

Foreign policy, defense, police, universities, major roads, railways, supervision and equalisation



5 REGIONS

Hospitals and health care, regional development and specialized social institutions

98 MUNICIPALITIES

Childcare, care for elderly, primary schools, public transportation, utilities, environment and employment



STRONG PUBLIC FINANCES AND REGULATED PUBLIC BORROWING

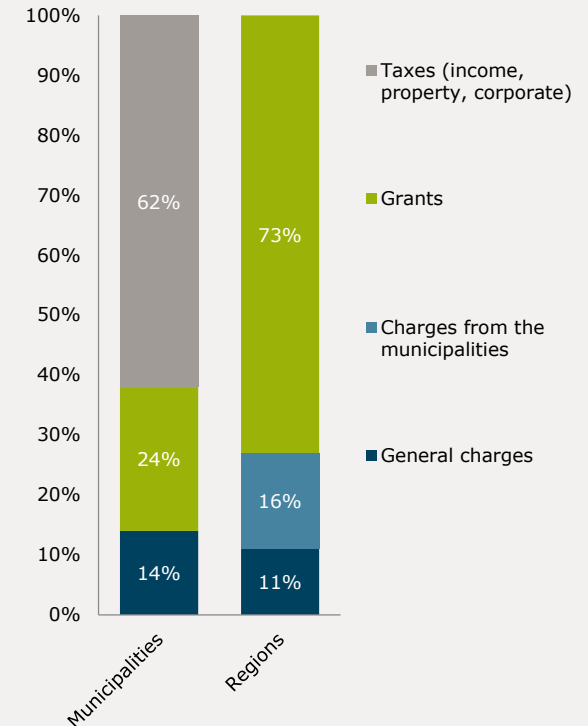
REVENUES

- Main source of revenue is income tax
- Low debt level – approx. 5.5% of GDP

SUPERVISION AND EQUALISATION

- The Local Governments are closely monitored and supervised by the Ministry of Economic Affairs and the Interior
- Balanced budgets required
- Borrowing is highly regulated
- Default not allowed
- Equalisation system

BUDGET FOR THE LOCAL GOVERNMENT'S INCOME BASE 2018



Source: KommuneKredit Annual Report 2018

LOCAL GOVERNMENT STRUCTURE

LOCAL GOVERNMENT REFORM IN 2007

- Purpose: More efficiency through scale of economics and new split of tasks
- 271 Municipalities was reduced to 98
- 13 Counties transformed to 5 new Regions

INTERNATIONAL COMPARISON

COUNTRY	DENMARK	SWEDEN	FINLAND	UK	GERMANY	FRANCE
Number of Regions	5	20	18	4	16	16
Number of Municipalities	98	290	313	419	11,313	36,658
Total number of inhabitants	5,627,235	9,644,864	5,451,270	64,308,261	80,780,000	65,856,609
Average number of inhabitants	57,421	33,340	17,416	153,480	7,140	1,797

Source: Council of European Municipalities and Regions (CEMR), Article: Local and Regional Countries in Europe / Council of Local Authorities for International Relations (CLAIR)

A photograph of water reflecting a building and sky, with a dark blue gradient at the bottom. The right side of the image is overlaid with a teal geometric pattern of overlapping triangles.

KOMMUNEKREDIT

IN BRIEF



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MISSION

KommuneKredit shall contribute to financial latitude in Danish municipalities and regions by providing funding and financial advice at the lowest possible cost.



VISION

We will always be the best funding choice for our clients, regardless of the given framework.

We will be modern, efficient and engaged, with a focus on high quality, steadiness and stability.

THE BUSINESS MODEL



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.

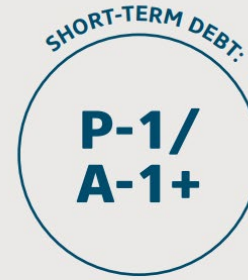
KEY FACTS

- Legally organized as an association (membership organisation) under Danish law - 100% public owned
- Membership restricted to Danish Municipalities and Regions only
- Members are directly jointly and severally liable for all KommuneKredit's obligations
- The guarantee of the members can be called upon any member without a preceding court decision – the guarantee has never been exercised
- KommuneKredit is the sole Local Government funding agency in Denmark

» *All the 98 municipalities and the 5 regions are members of KommuneKredit, thereby representing the entire population of Denmark.*



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



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

DKK 177 billion

In 2018, total lending amounted to DKK 177 billion, while profit before value adjustments and tax totalled DKK 314 million.



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

3.4%

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

70 employees

The association employed 70 people on average in 2018.

54%

KommuneKredit has a total capital ratio of 54% as calculated in accordance with the solvency requirements for financial institutions.

STRONG MARKET POSITION

FINANCING IS ONLY PROVIDED TO

- Danish Regions and Municipalities
- Semi-public entities guaranteed by Regions or Municipalities (waterworks, waste incineration, district heating etc.)

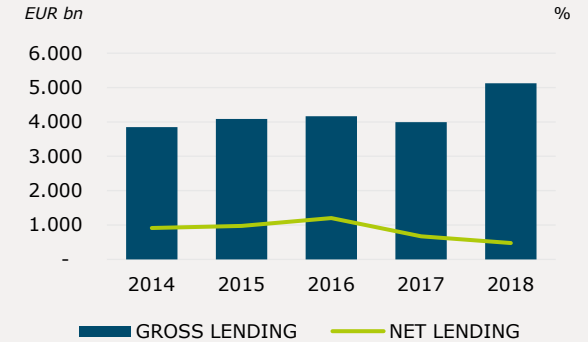
STRICT REGULATION

- Central government rules on Local Government's borrowing

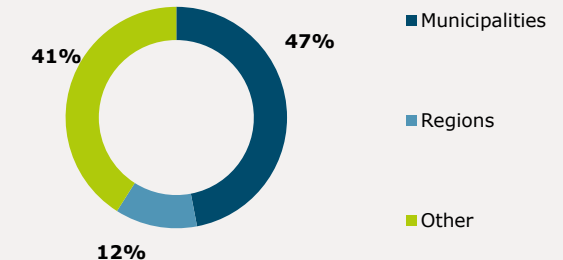
STABLE MARKET

- Stable loan volumes with a declining Net lending in 2018
- Open competition with banks and other lenders
- High market share – above 99%

GROSS LENDING AND NET LENDING



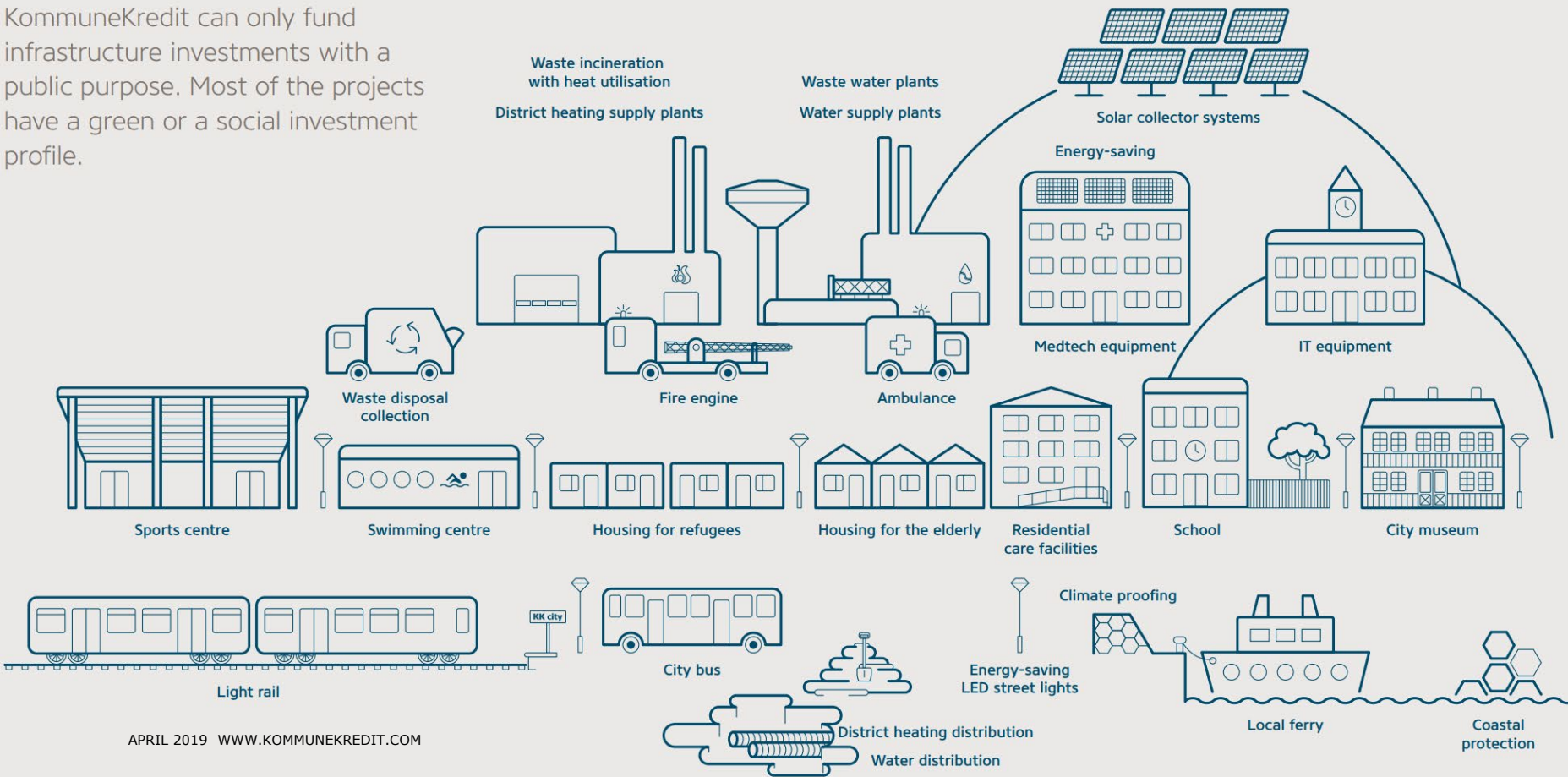
GROSS LENDING BY PURPOSE 2018



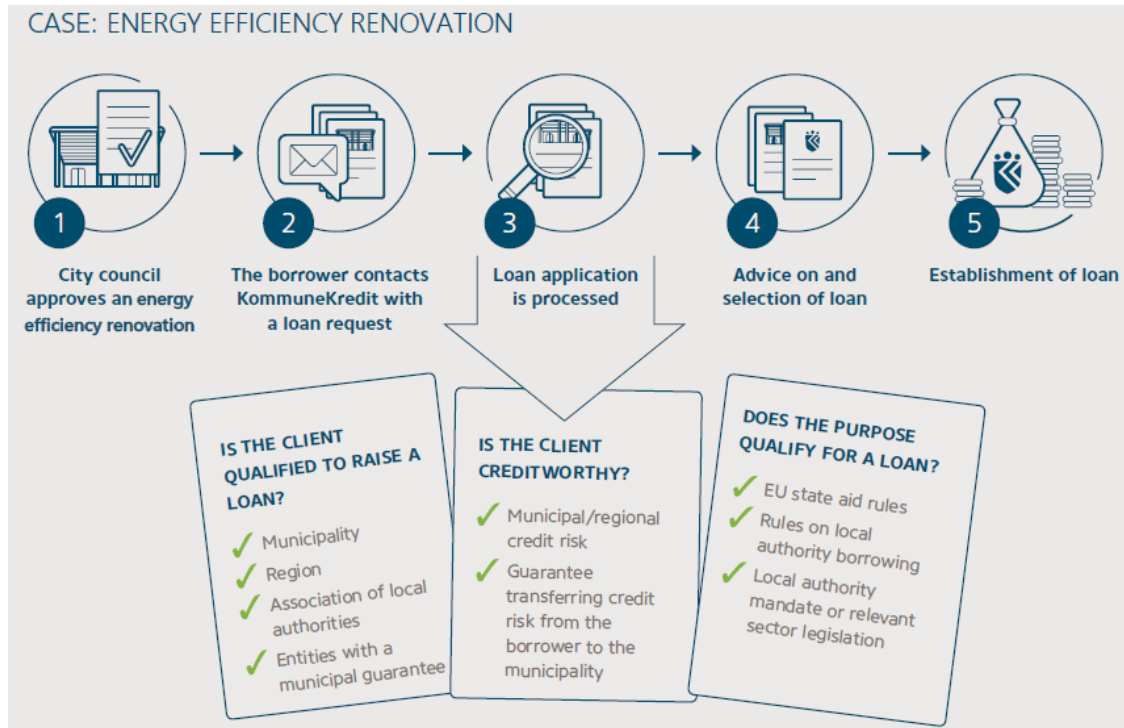
Source: KommuneKredit Annual Report 2018

PUBLIC PURPOSES

KommuneKredit can only fund infrastructure investments with a public purpose. Most of the projects have a green or a social investment profile.



PROJECTS BASED ON DEMOCRATIC PROCESSES



PUBLIC SECTOR ENERGY EFFICIENCY PROJECTS IN DENMARK

In Denmark, energy efficiency projects are typically publicly financed.

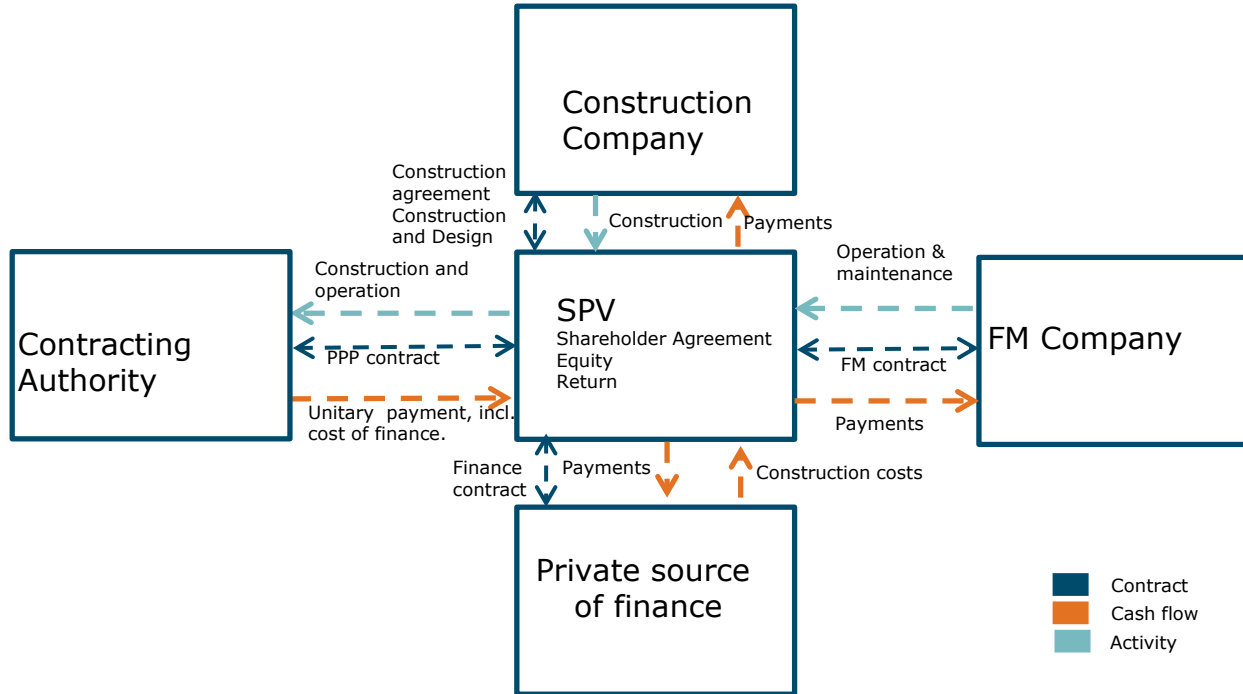


- Not scarcity of public funding
- Limited private finance in public infrastructure in Denmark
- Energy Performance Contracting (EPC) and public-private partnerships (PPP) are typically publicly financed
- As a general rule municipalities and regions in Denmark are not allowed to borrow money to finance capital expenditures.
 - However, as specified in the Danish municipal borrowing rules, a number of investment types are exempted from this general rule (Executive Order on Municipal Borrowing no. 1580 of 17th December 2013 (Lånebekendtgørelsen)).
 - Financing energy-saving investments is one of the exemptions.

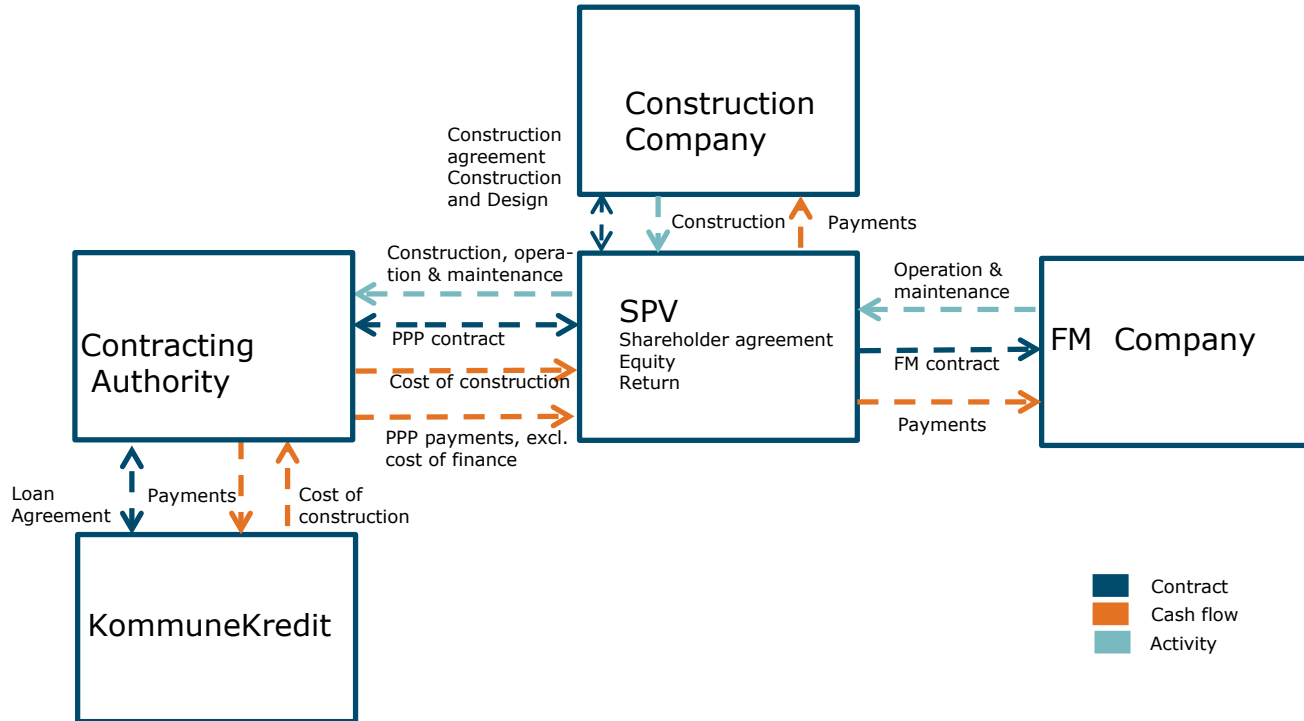
For more information about the Danish local public sector borrowing rules, see (in Danish only): <https://www.kommunekredit.dk/laan/laanebekendtgørelsen/>



PRIVATELY FINANCED PPP



PPP WITH KOMMUNEKREDIT FINANCE



A photograph of water reflecting a building and sky, with a dark blue gradient at the bottom. The reflection is distorted by ripples.

FUNDING AND RISK MANAGEMENT



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FUNDING STRATEGY

DIVERSIFICATION ON MARKETS, CURRENCIES, PRODUCTS AND INVESTORS

- Benchmark programme – plan to do several benchmark issues every year
- Green bond framework with second opinion from Cicero
- Public transactions in other markets eg. Denmark, Australia, Japan, Canada and UK
- Private placements that offer flexibility and meet specific investor demand
- Short term funding in the ECP market
- Maintaining long-term investor relationships is a high priority



STRATEGIC MARKETS

- Benchmarks
- Denmark
- Europe
- Australia
- Asia
- Americas and other markets



SOURCES

- Public issues
- MTN's
- Uridashi
- Private placements
- NSV and schuldscheine



DOCUMENTATION

- EUR 30bn EMTN Programme
- AUD 5bn Kangaroo Programme
- EUR 5bn ECP Programme
- Uridashi and Samurai shelf with sovereign status

DIVERSIFICATION ON MARKETS, CURRENCIES, PRODUCTS AND INVESTORS

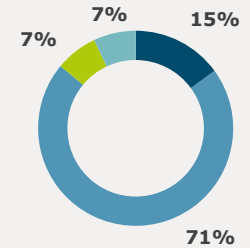
FUNDING PLANS FOR 2019

- Total long-term funding budget for 2019: EUR 6bn
- Ambition to issue 5-6 benchmarks in core currencies
- Kangaroo market
- Uridashi market
- Short term funding in the ECP market

2018 FUNDING HIGHLIGHTS

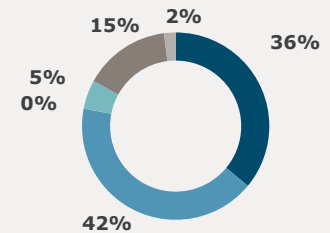
- Total funding in 2018: EUR 7bn
 - 2 x USD 1bn 3Y benchmarks with buyback
 - EUR 1bn 7Y benchmark and EUR 1bn 5Y benchmark
 - GDP 350m 4Y benchmark with buyback
 - AUD 50m new 10.5 year line
 - EUR 750m 10Y Green Bond
 - DKK 3bn new 5y

FUNDING BY MARKET 2018



■ Denmark ■ Europe ■ The Americas ■ Asia

FUNDING BY CURRENCY 2018



■ USD ■ EUR ■ AUD ■ GBP ■ DKK ■ Other

Source: KommuneKredit Annual Report 2018

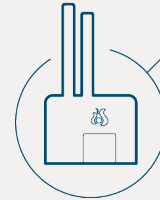
GREEN BONDS FRAMEWORK

- KommuneKredit issued its inaugural green bond in June 2017 with a 3 times oversubscribed orderbook
- Danish Local Governments are by law required to announce a strategy on climate sustainability
- KommuneKredit supports the greening of the Danish economy being a competitive provider of financing to Local Governments
- The Green Bond Framework is consistent with the four components of ICMA's Green Bond Principles (GBP)
- The first Green Bonds Impact Report was published in May 2018. District Heating projects amount to an annual CO2-reduction of 119,134 tonnes
- KommuneKredit has drafted a responsibility policy and has published its first responsibility report, including ESG data (Environment, Social and Governance data)

**WATER
MANAGEMENT**



**ENERGY
EFFICIENCY**



**DISTRICT
HEATING**



**CLEAN PUBLIC
TRANSPORTATION**



ELIGIBLE PROJECTS

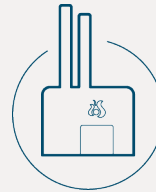
- Eligible Projects are defined as a selected pool of credit facilities and loans granted by KommuneKredit which are financing, partly or in whole, a client's project or investment that promotes the transition of low-carbon and climate resilient growth as determined by KommuneKredit
- The Green Bond proceeds will be used to finance either new investments, new investments in existing Eligible Projects or existing investments into existing Eligible Projects
- New projects are defined as projects financed within 15 months before the time of the Green Bond issuance
- It is a requirement that projects are in line with strict national legislation within each sector

GREEN BOND ELIGIBLE PROJECTS



WATER MANAGEMENT

New investments in and ongoing maintenance of water collection, treatment, recycling, cleaning, reuse, technologies and related infrastructure.



DISTRICT HEATING

New investments in and ongoing maintenance of distribution infrastructure and new investments and maintenance of non-fossil energy generation and associated technological solutions providing clients with district heating leading to a reduction in CO₂-emissions. With the exception of start-up and in cases of emergencies, the district heating may be created by back-up measures, e.g. generators run on fossil fuel.



ENERGY EFFICIENCY

New investments in and ongoing maintenance of existing buildings leading to more energy efficient buildings. New investment or ongoing maintenance of public street lighting leading to a more energy efficient system.



CLEAN PUBLIC TRANSPORTATION

New investments in and ongoing maintenance of low-energy or emission transportation assets, systems, infrastructure, components and services that facilitate modal shifts from private transportation to increased use of public transportation such as trains, underground trams and buses to the extent that these lead to a reduction in CO₂-emissions.



STRONG CREDIT RATINGS

KommuneKredit has been assigned a rating of Aaa by Moody's Investor Service and AA+ by Standard & Poor's

The ratings are based on the following arguments:

- strong capitalisation
- highly creditworthy borrowers and high-quality assets
- very strong market position
- the members' joint and several liability for all of KommuneKredit's liabilities

Another factor behind the high credit rating is KommuneKredit's important role in the economy as the main provider of funding to the Danish local authorities

KOMMUNEKREDIT'S AND THE KINGDOM OF DENMARK'S HISTORICAL RATINGS

KommuneKredit The Kingdom of Denmark

MOODY'S – SHORT TERM RATING

P-1

STANDARD & POOR'S – SHORT TERM RATING

A1+

MOODY'S - LONG-TERM RATING

AA1

Aaa

STANDARD & POOR'S – LONG-TERM RATING

AA+

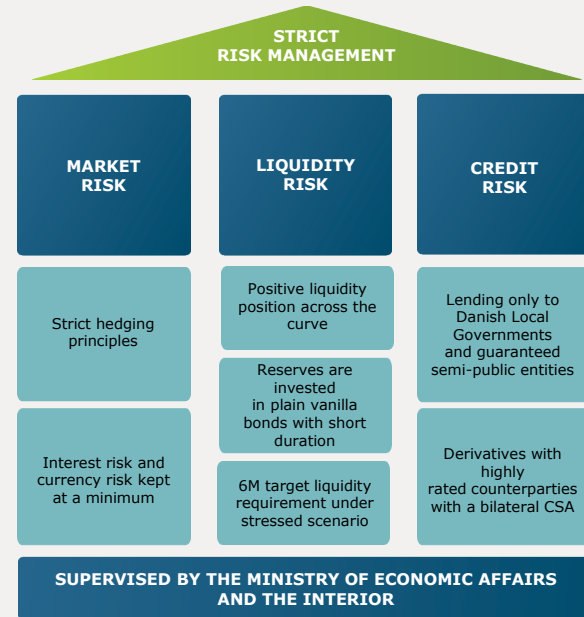
AA+

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RISK MANAGEMENT HAS A HIGH PRIORITY

VERY CONSERVATIVE RISK MANAGEMENT POLICIES

- Low risk tolerance
- Strict hedging principles
- Strict rules on liquidity
 - Positive liquidity position across the curve
 - 6m target liquidity requirement under stressed scenario
- Excellent asset quality in both lending and liquidity portfolio



CONTACT INFORMATION



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A photograph of water reflecting a building and sky, with a dark blue gradient at the bottom. The reflection is distorted by ripples.

APPENDICES



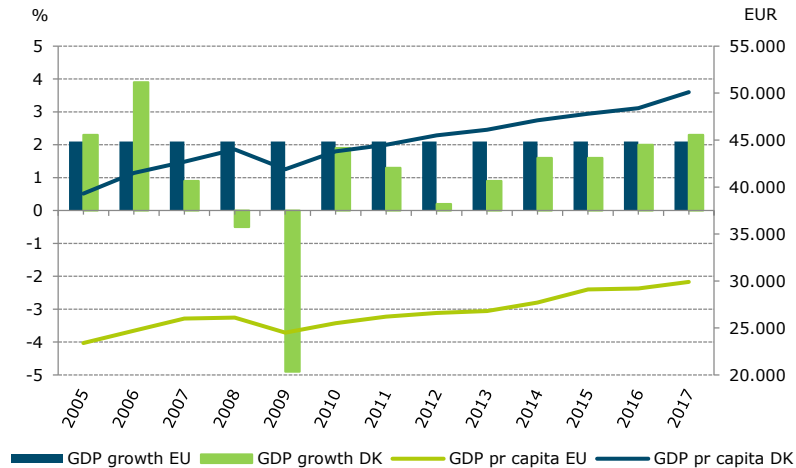
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KEY FIGURES ON DENMARK AND EU

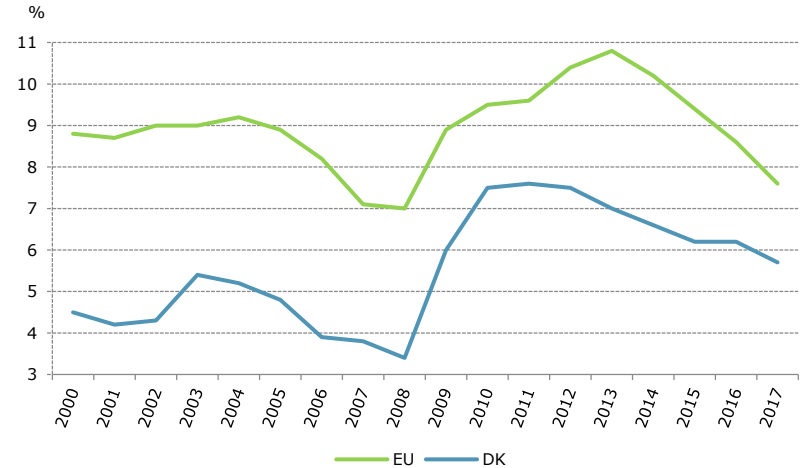
Denmark is performing well with positive GDP growth, high level of GDP per capita and low unemployment rate

GDP GROWTH (LEFT) AND GDP PER CAPITA IN EUR (RIGHT)



Source: Eurostat

UNEMPLOYMENT RATE IN DK AND EU

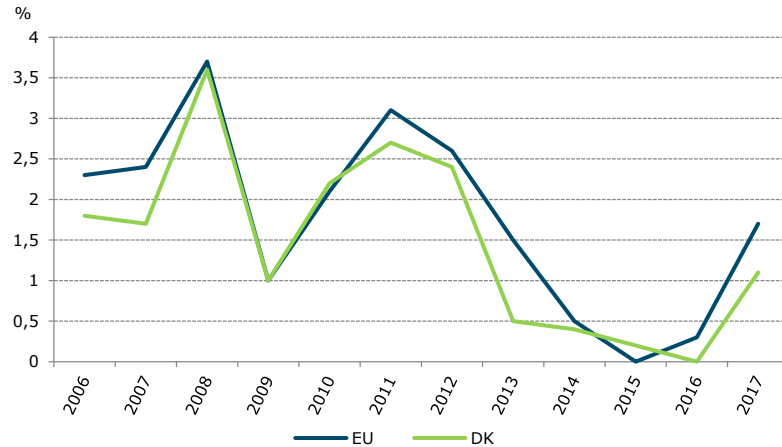


Source: Eurostat

KEY FIGURES ON DENMARK AND EU

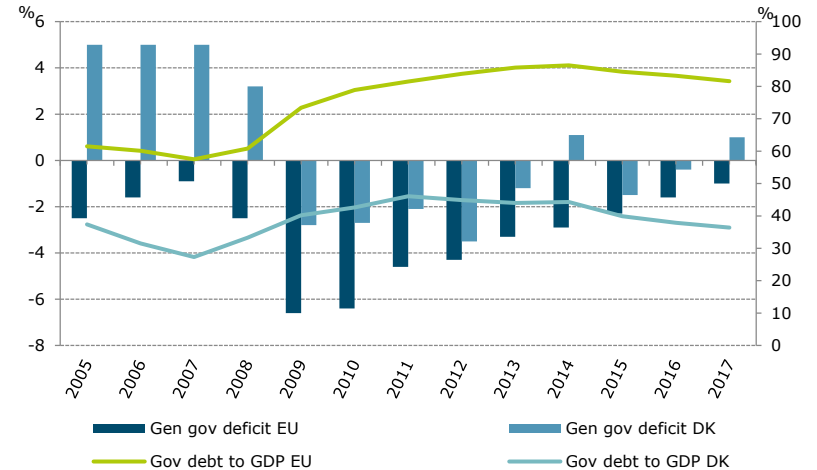
Denmark and EU have low inflation and a general government deficit to GDP.
Denmark has a significant lower level of government debt to GDP than EU

INFLATION (HICP)



Source: Eurostat

GENERAL GOVERNMENT DEFICIT/SURPLUS IN % OF GDP (LEFT)
AND GOVERNMENT DEBT TO GDP (RIGHT)



Source: Eurostat

TAXES AND INDIRECT TAXES

Total taxes and indirect taxes (2016): DKK 954bn (EUR 128bn)

INCOME TAXES (63%)

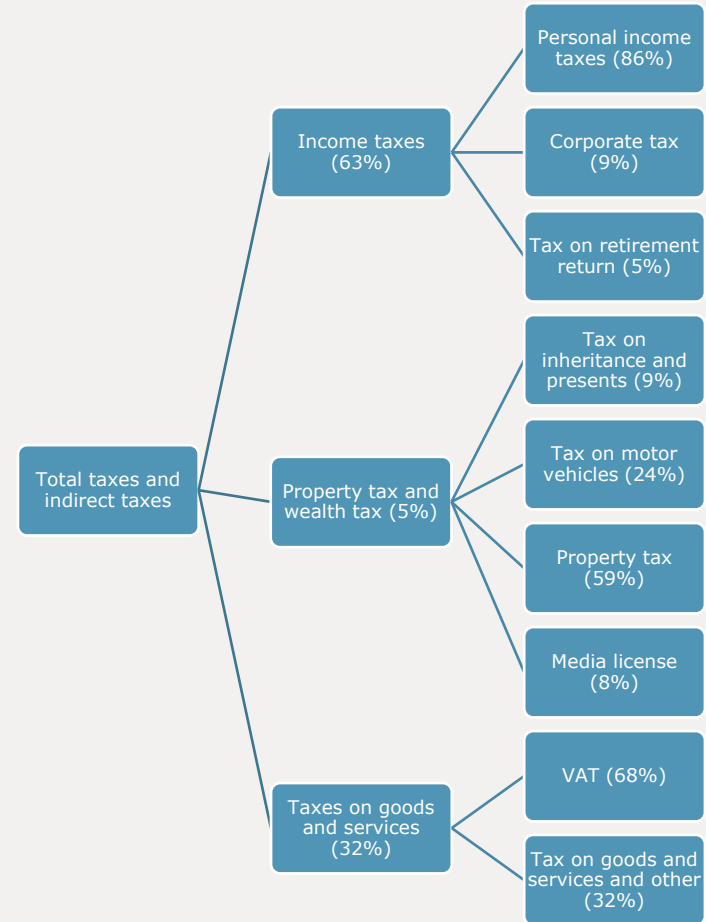
- Largest source: taxes on personal income
- Corporate tax rate: 22%

PROPERTY TAX AND WEALTH TAX (5%)

- Tax on motor vehicles
- Property tax is paid to and set by the municipality. The rate varies between 22.8‰ and 27.8‰

TAXES ON GOODS AND SERVICES (32%)

- VAT rate: 25% on all goods and services
- Indirect taxes on: cigarets, alcohol, electricity etc.



Source: Statistics Denmark and Danish Ministry of Taxation

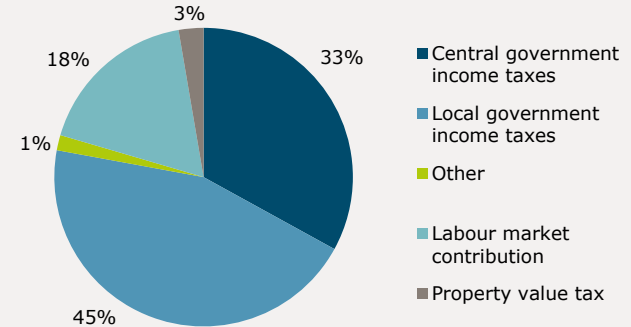
INCOME TAXES IN DENMARK

PERSONAL INCOME TAXES

- Central and Local Government income taxes accounts for the biggest fraction of personal income taxes
- Labour market contribution is a tax rate on 8% imposed on all working income
- The property value tax is paid to the central government and calculated as 1% of the public property value up to DKK 3.04 m and 3% of the rest. Tax stop at the moment
- Due to top tax, church tax etc. the marginal tax rate is close to 62%

» *Taxes are collected very efficiently in Denmark*

PERSONAL INCOME TAXES



INCOME TAX RATES IN DENMARK (2017)

	RATE
Central Government taxes	20.83%
Local Government tax (average)	24.91%
"Top" tax (Central Government tax)	15.00%
Church tax (optional)	0.87%
Total tax rate	61.96%

Source: Statistics Denmark and the Danish Customs and Tax Administration

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