



KOMMUNE
KREDIT

INTERIM REPORT 2012 1ST HALF

MANAGEMENT COMMENTARY & FINANCIAL STATEMENTS

MANAGEMENT COMMENTARY

As of 1 January 2012, KommuneKredit merged with its wholly-owned subsidiary, KommuneLeasing A/S, with KommuneKredit as the continuing entity. KommuneKredit's interim financial statements for the first half of 2012 thus correspond to the previous interim financial statements for the Group and can be regarded as fully comparable to previous interim financial statements for the Group.

Financial summary

DKK m	1st Half 2012	1st Half 2011
Lending at nominal values		
Total gross lending	19,284	14,087
Conversions/refinancing	10,640	4,722
Total net lending	8,644	9,365
Key figures		
Net interest income	306	292
Staff costs and administrative expenses	43	41
Value adjustments of financial instruments	200	29
Comprehensive income for the period	344	206
Total assets*	185,595	177,113
Equity*	5,544	5,200

*) Comparative figures as at 31 December 2011

In the first half of 2012, KommuneKredit's gross lending amounted to DKK 19.3 billion against DKK 14.1 billion in the first half of 2011. Net lending amounted to DKK 8.6 billion in the first half of 2012, which is DKK 0.7 billion less than in the first half of 2011. Gross lending to municipalities and regions increased by DKK 3.9 billion in the first half of 2012, and lending for water supply and waste-water disposal increased by DKK 0.8 billion, while lending for other purposes increased by DKK 0.5 billion. Overall lending as at 30 June 2012 amounted to DKK 129.7 billion against DKK 125.4 billion at year end 2011. It is expected that the lending activity for the second half of 2012 will amount to DKK 11-12 billion, which is on a level with the second half of 2011, where lending amounted to DKK 11.7 billion. Consequently, gross lending for 2012 is expected to amount to DKK 30 billion against DKK 25.8 billion in 2011.

Net interest income amounted to DKK 306 million in the first half of 2012 against DKK 292 million in the first half of 2011. Value adjustments of financial instruments showed a gain of DKK 200 million in the first half of 2012 against a gain of DKK 29 million in the first half of 2011. The main contributor to the increase has been the fact that investors have sold back issued debt securi-

ties resulting in a non-recurring income of DKK 133 million in the first half of 2012 against DKK 22 million in the first half of 2011.

Profit before tax for the period amounted to DKK 459 million against DKK 275 million in the first half of 2011. Comprehensive income for the period amounted to DKK 344 million against DKK 206 million in the first half of 2011. Equity amounted to 3.0 per cent of assets as at 30 June 2012, which is an increase of 0.1 percentage point since 31 December 2011.

In the annual report for 2011, KommuneKredit expected profit after tax for 2012, not including value adjustments of financial instruments, to be in the region of DKK 340 million. Profit after tax for the first half of 2012, not including value adjustments of financial instruments, amounted to DKK 194 million against DKK 185 million for the first half of 2011. In the beginning of 2012, KommuneKredit reduced prices on floating-rate loans. The price adjustments have not yet been fully reflected in profits, which is why lower net interest income is expected to materialise in the second half of 2012. Profit after tax for the year, not including value adjustments of financial instruments, is now expected to be in the region of DKK 350 million against DKK 387 million for 2011.

STATEMENT OF COMPREHENSIVE INCOME

DKKm	Note	1st Half 2012	1st Half 2011
Interest income		2,419	1,990
Interest expense		2,113	1,698
Net interest income		306	292
Other operating income		1	2
Value adjustments of financial instruments		200	29
Staff costs and administrative expenses		43	41
Amortisation of intangible assets and depreciation on property, plant and equipment		4	6
Adjustment of pension obligations		-1	-1
Profit before tax		459	275
Tax on profit for the period		115	69
Profit for the period		344	206
Comprehensive income after tax		0	0
Comprehensive income for the period		344	206
Appropriation:			
Transferred to equity		344	206
Total		344	206

STATEMENT OF FINANCIAL POSITION

Assets

DKKm	Note	30 Jun 2012	31 Dec 2011
Receivables from credit institutions		4,662	1,775
Lending		129,701	125,441
Lease receivables		3,504	3,538
Portfolio of securities at amortised cost		155	404
Portfolio of securities at fair value		29,645	28,443
Shares		3	3
Derivative financial instruments		17,714	17,358
Intangible assets		4	6
Properties		80	80
Other property, plant and equipment		3	6
Other assets		124	59
Total assets		185,595	177,113

Liabilities and equity

DKKm	Note	30 Jun 2012	31 Dec 2011
Liabilities			
Debt securities issued	1	172,500	164,751
Derivative financial instruments		6,707	6,389
Other liabilities		360	381
Pension obligations		64	65
Current tax liabilities		145	52
Deferred tax liabilities		275	275
Total liabilities		180,051	171,913
Equity		5,544	5,200
Total equity and liabilities		185,595	177,113

STATEMENT OF CHANGES IN EQUITY

DKKm	Note	1st Half 2012	1st Half 2011
Equity			
Equity at 1 January		5,200	4,684
Comprehensive income for the period		344	206
Equity at 30 June		5,544	4,890

STATEMENT OF CASH FLOWS

DKKm	Note	1st Half 2012	1st Half 2011
Cash flows from operating activities			
Profit before tax		459	275
Adjustment for non-cash operating items		-18	-9
Profit for the period adjusted for non-cash operating items		441	266
Change in operating capital			
Change in receivables		-65	-94
Change in trade payables and other payables		-21	-43
Change in lending and derivative financial instruments		-4,582	2,316
Change in debt securities issued and derivative financial instruments		8,067	189
Total change in operating capital		3,399	2,368
Total cash flows from operating activities		3,840	2,634
Cash flows from investing activities			
Receivables from credit institutions		38	45
Portfolio of securities		-953	-3,829
Intangible assets		0	-2
Property, plant and equipment		0	-1
Total cash flows from investing activities		-915	-3,787
Total cash flows for the period		2,925	-1,153
Cash and cash equivalents at 1 January		1,714	1,393
Cash and cash equivalents at 30 June		4,639	240
Cash and cash equivalents comprise receivables from credit institutions with a term to maturity of less than three months at the date of conclusion.			
Cash and cash equivalents		4,639	240
Receivables from credit institutions with a term to maturity of more than 3 months		23	0
Total receivables from credit institutions		4,662	240

NOTES

Accounting policies

KommuneKredit's interim financial statements for the first half of 2012 are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. The interim financial statements also comply with IAS 34 as issued by the IASB.

Merger of KommuneKredit and KommuneLeasing A/S

As of 1 January 2012, KommuneKredit merged with its wholly-owned subsidiary, KommuneLeasing A/S, and the merger has been recorded with the use of the uniting-of-interests method. Through the application of the uniting-of-interests method, KommuneKredit has combined like items of assets, liabilities, equity, income, expenses and cash flows of the merged subsidiary with KommuneKredit with full elimination of administrative fees, intercompany interest and balances. No changes have been made in the comparative figures in the financial statements for the first half of 2011 since the historical interim financial statements for the Group are identical to the financial statements for KommuneKredit after the merger with KommuneLeasing A/S.

New accounting standards

In 2012, KommuneKredit adopted the standards and interpretations that have been adopted by the EU effective for the financial year starting on 1 January 2012. The new accounting standards and interpretations have not affected recognition and measurement, and the accounting policies therefore remain unchanged compared to 2011. The financial statements for 2011 contain a complete description of the accounting policies.

Change in presentation

Profit and loss from buy-backs of issued debt securities will henceforth be presented as value adjustments of financial instruments instead of the previous presentation as net interest income. The change in presentation has not affected recognition and measurement and has no effect in monetary terms. The accounting policies are otherwise unchanged compared to 2011. Profits from buy-backs amounted to DKK 133 million for the first half of 2012 against DKK 22 million for the first half of 2011. The comparative figures for the first half of 2011 have been adjusted accordingly.

Note 1: Debt securities issued at nominal values

DKKm	1 January	Additions	Disposals and	
			Value Adjustments	Total
30 Jun 2012	160,707	46,954	40,239	167,422
31 Dec 2011	155,025	62,554	56,872	160,707

Note 2: Specification of fair value of financial instruments

The applied methods for calculating fair value remain unchanged since 31 December 2011. Likewise, KommuneKredit has not made significant transfers between levels 1, 2 and 3 in 2012. The applied methods as well as uncertainties and estimates relating to the calculation of fair value are described in more detail in notes 20 and 32 in the financial statements for 2011. The main contributors to the positive value adjustments of DKK 200 million in the first half of 2012 have been profits of DKK 133 million on buy-backs of debt securities issued, positive value adjustments of DKK 53 million on listed debt securities and the corresponding unlisted derivatives, positive value adjustments of DKK 17 million on the treasury portfolio and negative value adjustments of DKK 10 million on the portfolio of bonds financed by equity.

Note 3: Accounting estimates and evaluations

KommuneKredit's credit risk, liquidity risk and market risk, as well as the management of these, have not changed significantly since 31 December 2011. The annual report for 2011 contains a full description of financial risks and risk management.

STATEMENT BY THE BOARD OF DIRECTORS AND MANAGEMENT

The Board of Directors and Management have today discussed and approved the interim report of KommuneKredit for the period 1 January – 30 June 2012.

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

In our opinion, the interim financial statements give a true and fair view of the entity's assets, liabilities and financial position at

30 June 2012 and of the comprehensive income of the entity's operations and cash flows for the period 1 January – 30 June 2012 and describe the material risks and uncertainties affecting the entity.

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

Copenhagen, 31 August 2012

Management:

Søren Høgenhaven
Chief Executive Officer, Managing Director

Johnny Munk
Managing Director

/ Jens Bloch Behrendt
Chief Financial Officer

Board of Directors:

Erik Fabrin
Chairman

Henning G. Jensen
Vice-chairman

Kaj Petersen

Vibeke Storm Rasmussen

Hans Toft

Henrik Zimino

Anker Boye

Lars Krarup

Mariann Nørgaard

Aleksander Aagaard

AUDITOR REPORTS

Independent auditors' review report

To the Board of Directors of KommuneKredit

We have reviewed the interim financial statements of KommuneKredit for the period 1 January – 30 June 2012 comprising statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes. The interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

The Board of Directors and Management are responsible for the interim financial statements of KommuneKredit for the period 1 January – 30 June 2012. Our responsibility is to express an opinion on the interim financial statements based on our review.

Scope of review

We have conducted our review in accordance with ISRE 2410 DK "Review of Interim Financial Information performed by the Independent Auditor" and additional requirements under Danish audit regulation. A review of interim financial statements

consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially smaller in scope than an audit conducted in accordance with International Standards on Auditing and additional requirements under Danish audit regulation and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. We have not conducted an audit, and accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of KommuneKredit for the period 1 January – 30 June 2012 have not in all material respects been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Copenhagen, 31 August 2012

KPMG

Statsautoriseret Revisionspartnerselskab

Torben Bender
State authorised public accountant

Anders Duedahl-Olesen
State authorised public accountant

Report by the auditor appointed by the Ministry of Economic Affairs and the Interior

To the Board of Directors of KommuneKredit

As the auditor appointed by the Ministry of Economic Affairs and the Interior, I have reviewed the interim financial statements of KommuneKredit for the period 1 January – 30 June 2012 prepared by the Board of Directors and Management. In addition, I have read the Management commentary.

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

Copenhagen, 31 August 2012

Emil le Maire
Former Prefect



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