

INTERIM REPORT 2013 1ST HALF

MANAGEMENT COMMENTARY & FINANCIAL STATEMENTS

MANAGEMENT COMMENTARY

Financial summary

DKKm	1st Half 2013	1st Half 2012
Lending at nominal values		
Gross lending	20,196	19,284
Conversions/refinancing	9,244	10,640
Net lending	10,952	8,644
Key figures		
Net interest income	234	307
Value adjustments of financial instruments	2	200
Administrative expenses	45	47
Comprehensive income for the period	149	344
Lending and lease receivables*	141,510	136,296
Assets*	184,723	181,885
Equity*	5,865	5,716

*) Comparative figures as at 31 December 2012

In the first half of 2013, KommuneKredit's gross lending amounted to DKK 20.2 billion against DKK 19.3 billion in the first half of 2012. Net lending amounted to DKK 10.9 billion in the first half of 2013, which is DKK 2.3 billion more than in the first half of 2012. The increase in lending represents a small decrease in lending to municipalities and regions and an increase in lending to the energy sector, including district heating, power planted heating and waste incineration planted heating, as well as waste-water disposal.

Lending and lease receivables amounted to DKK 141.5 billion as at 30 June 2013 against DKK 136.3 billion at year end 2012. It is expected that the lending activity for the second half of 2013 will amount to approximately DKK 15 billion, which is slightly less than the second half of 2012, where lending amounted to DKK 16.5 billion. Consequently, gross lending for 2013 is expected to amount to DKK 35 billion against DKK 35.9 billion in 2012.

Net interest income decreased to DKK 234 million in the first half of 2013 against DKK 307 million in the first half of 2012. The decrease in net interest income is due to higher

cost of funding and an increase in the costs for basis swaps. Value adjustments of financial instruments showed a gain of DKK 2 million in the first half of 2013 against a gain of DKK 200 million in the first half of 2012. The decrease in value adjustments is mainly attributable to substantial non-recurring income originating from buy-backs of previously issued debt securities for the first half of 2012.

Profit before tax for the period amounted to DKK 189 million against DKK 459 million in the first half of 2012. Profit after tax amounted to DKK 149 million against DKK 344 million in the first half of 2012. Equity amounted to 3.2 per cent of assets as at 30 June 2013, which is an increase from 3.1 per cent at year end 2012.

In the annual report for 2012, KommuneKredit expected profit after tax for 2013, not including value adjustments of financial instruments, to be in the region of DKK 350 million. Profit after tax for the year, not including value adjustments of financial instruments, is now expected to be in the region of DKK 300 million.

STATEMENT OF COMPREHENSIVE INCOME

DKKm	Note	1st Half 2013	1st Half 2012
Interest income		1,720	2,420
Interest expense		1,486	2,113
Net interest income		234	307
Value adjustments of financial instruments		2	200
Administrative expenses		45	47
Adjustment of pension obligations		-2	-1
Profit before tax		189	459
Tax on profit for the period	1.5	40	115
Profit for the period		149	344
Comprehensive income after tax		0	0
Comprehensive income for the period		149	344
Appropriation:			
Transferred to equity		149	344
Total		149	344

STATEMENT OF FINANCIAL POSITION

Assets

DKKm	Note	30 Jun 2013	31 Dec 2012
Receivables from credit institutions	1.1	1,188	2,292
Lending	1.1	137,813	132,850
Lease receivables		3,697	3,446
Portfolio of securities	1.1	30,509	28,453
Derivative financial instruments	1.1, 1.3	11,297	14,687
Intangible assets		4	2
Property, plant and equipment		83	84
Other assets		132	62
Current tax assets		0	9
Total assets		184,723	181,885

Liabilities and equity

DKKm	Note	30 Jun 2013	31 Dec 2012
Liabilities			
Debt securities issued	1.1, 1.2	170,433	166,045
Derivative financial instruments	1.1, 1.3	7,504	9,342
Other liabilities		573	443
Pension obligations		65	65
Current tax liabilities		17	0
Deferred tax liabilities	1.5	266	274
Total liabilities		178,858	176,169
Equity			
		5,865	5,716
Total liabilities and equity		184,723	181,885

Note 1.4 Risk management

STATEMENT OF CHANGES IN EQUITY

DKKm	Note	1st Half 2013	1st Half 2012
Equity			
Equity at 1 January		5,716	5,200
Comprehensive income for the period		149	344
Equity at 30 June		5,865	5,544

STATEMENT OF CASH FLOWS

DKKm	Note	1st Half 2013	1st Half 2012
Cash flows from operating activities			
Profit before tax		189	459
Adjustment for non-cash operating items		-19	-18
Profit for the period adjusted for non-cash operating items		170	441
Change in operating capital			
Change in receivables		-70	-65
Change in trade payables and other payables		130	-21
Change in lending and derivative financial instruments		-1,824	-4,582
Change in debt securities issued and derivative financial instruments		2,550	8,067
Total change in operating capital		786	3,399
Total cash flows from operating activities		956	3,840
Cash flows from investing activities			
Receivables from credit institutions		183	38
Portfolio of securities		-2,056	-953
Intangible assets		-3	0
Property, plant and equipment		-1	0
Total cash flows from investing activities		-1,877	-915
Total cash flows for the period		-921	2,925
Cash and cash equivalents at 1 January		2,092	1,714
Cash and cash equivalents at 30 June		1,171	4,639
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		1,171	4,639
Receivables from credit institutions with a term to maturity of more than 3 months		17	23
Total receivables from credit institutions		1,188	4,662

NOTES

General

KommuneKredit's interim financial statements for the first half of 2013 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.

The accounting policies remain unchanged compared to year end 2012 except for the changes mentioned below. The financial statements for 2012 contain a complete description of the accounting policies.

New standards and amendments to standards

In 2013, KommuneKredit has adopted these standards (IAS and IFRS) and interpretations (IFRIC) that have been adopted by the EU effective for the financial year starting on 1 January 2013: IFRS 10, IFRS 11, IFRS 13, amendments to IFRS 7, amendments to IAS 1, amendments to IAS 19 and "Improvements to IFRSs 2009-2011". Below is a description of the new standards that have a material effect on the interim financial statements of KommuneKredit.

IFRS 13 clarifies that the fair value of derivatives should include movements in credit spread. The standard has been implemented prospectively from 2013 with no restatement of the comparative figures for 2012. The effect of the implementation of the standard as at 1 January 2013 has been a negative value adjustment of DKK 15 million before tax with a reduction of the assets of DKK 31 million and of the liabilities of DKK 16 million. The accumulated effect for the first half of 2013 has been a negative value adjustment of DKK 11 million before tax with a reduction of the assets of DKK 10 million and an increase in the liabilities of DKK 1 million, compared to the previous accounting policies.

The remaining new standards, amendments and interpretations have not affected recognition and measurement.

NOTES TO FINANCIAL INSTRUMENTS

Note 1.1 Specification of fair value of financial instruments

The applied methods for calculating fair values remain unchanged compared to year end 2012 except for the effects related to the implementation of IFRS 13, as described above in changes in accounting policies.

The applied methods as well as uncertainties and estimates relating to the calculation of fair value are described in more detail in note 1.4 to the financial statements for 2012. All financial instruments are calculated as recurring measurements of fair value and are classified in a fair value hierarchy.

KommuneKredit has not made significant transfers between levels 1, 2 and 3 in the first half of 2013.

DKKm

Specification of fair value of financial instruments

30 Jun 2013

Assets	Level 1	Level 2	Level 3	Total
Receivables from credit institutions	23	1,165	0	1,188
Lending	0	137,813	0	137,813
Portfolio of securities	19,443	11,066	0	30,509
Shares	0	0	3	3
Derivative financial instruments	0	9,446	1,851	11,297
Total assets	19,466	159,490	1,854	180,810

Liabilities

Debt securities issued	12,722	128,229	29,482	170,433
Derivative financial instruments	0	5,169	2,335	7,504
Total liabilities	12,722	133,398	31,817	177,937

31 Dec 2012

Assets

Receivables from credit institutions	320	1,972	0	2,292
Lending	0	132,850	0	132,850
Portfolio of securities	19,783	8,670	0	28,453
Shares	0	0	3	3
Derivative financial instruments	0	11,881	2,806	14,687
Total assets	20,103	155,373	2,809	178,285

Liabilities

Debt securities issued	5,767	128,267	32,011	166,045
Derivative financial instruments	0	6,160	3,182	9,342
Total liabilities	5,767	134,427	35,193	175,387

Specification of level 3

30 Jun 2013	Assets	Liabilities
Balance at 1 January	2,809	35,193
Additions	39	11,598
Disposals	198	15,058
Included in comprehensive income	-796	84
Balance at 30 June	1,854	31,817

31 Dec 2012

Balance at 1 January	4,256	40,688
Additions	40	15,732
Disposals	1,119	15,905
Included in comprehensive income	-368	-5,322
Balance at 31 December	2,809	35,193

Note 1.2 Debt securities issued at nominal values

DKKm	1 January	Additions	Disposals and value adjustments	Total
30 Jun 2013	161,326	87,074	81,063	167,337
31 Dec 2012	160,707	92,820	92,201	161,326

Note 1.3 Financial assets and financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements

KommuneKredit has entered into master netting agreements and related unilateral collateral agreements in which KommuneKredit receives collateral. The collateral received only comprises bonds of a high credit quality.

KommuneKredit has not entered into master netting agreements or received or posted collateral in relation to lending, lease receivables or debt securities issued. Consequently, these financial instruments have not been included in the table shown below. The carrying amounts are depicted in the statement of financial position. The effect of master netting agreements and collateral agreements is shown in the table.

DKKm

Derivative financial instruments presented in the statement of financial position

30 Jun 2013	Amounts offset		Amounts not offset			
	Carrying amount	Offset	Net book value	Financial instruments	Collateral	Net amount
Assets	11,297	0	11,297	-5,594	-3,724	1,979
Liabilities	7,504	0	7,504	-5,594	0	1,910
Total	3,793	0	3,793	0	-3,724	69
31 Dec 2012						
Assets	14,687	0	14,687	-7,102	-5,327	2,258
Liabilities	9,342	0	9,342	-7,102	0	2,240
Total	5,345	0	5,345	0	-5,327	18

The amount of derivative financial instruments that are not offset has been limited to the lesser amount of assets and liabilities respectively and is calculated per counterparty. The amount is included in both assets and liabilities. The amount of collateral is calculated per counterparty and has been limited to the calculated net asset amount.

Had the derivative financial instruments held by KommuneKredit qualified for offsetting, both assets and liabilities would have been reduced by DKK 5,594 million as at 30 June 2013, while the corresponding reduction amounted to DKK 7,102 million at year end 2012. Furthermore, the asset value of derivative financial instruments would likewise have been reduced by 3,724 million as at 30 June 2013, while the corresponding reduction would have amounted to DKK 5,327 million at year end 2012, and the value of the portfolio of securities would have increased by a similar amount. Net amounts represent the potential effect of offsetting on the financial statements.

NOTES TO RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

Note 1.4 Risk management

KommuneKredit's credit risk, liquidity risk and market risk, as well as the management of these, have not changed significantly since 31 December 2012. The annual report for 2012 contains a full description of financial risks and risk management.

NOTES ON TAX

Note 1.5 Tax on profit for the period and deferred tax

An amendment of existing tax legislation has taken effect and will reduce the corporate tax rate from 25 per cent in 2013 to 22 per cent in 2016 by means of a gradual reduction starting in 2014.

Tax on profit for the period has been calculated on the basis of the expected average tax rate for 2013.

The effect on deferred tax has been calculated using the tax rate that is applicable at the points in time when the deferred tax is expected to be realised. The combined effect of the changes in deferred tax is included in the expected average tax rate for 2013. The adjustment of deferred tax has resulted in a gain of DKK 7 million in comprehensive income for the first half of 2013.

STATEMENTS

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 2013.

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 Association’s financial position at 30 June 2013

and of the comprehensive income of the Association’s operations and cash flows for the period 1 January – 30 June 2013 and describes the material risks and uncertainties affecting the Association.

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

Copenhagen, 23 August 2013

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

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 2013 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 2013. Our responsibility is to express an opinion on the interim financial statements based on our review.

Scope of review

We 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 less in scope than an audit conducted in accordance with International Standards on Auditing and 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 2013 have not in all material respects been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Copenhagen, 23 August 2013

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 2013 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, 23 August 2013

Emil le Maire
Former Prefect

KOMMUNEKREDIT IN BRIEF

KommuneKredit is a credit association with the objective to provide funding and leases to Danish municipalities and regions as well as companies and institutions against full municipal guarantee. KommuneKredit operates under a special act and is under supervision by the Ministry of Economic Affairs and the Interior.

KommuneKredit's mission is:

- to provide the funding and related services required by Danish municipalities and regions and thereby contribute to greater financial latitude in the Danish society.

KommuneKredit's vision is:

- to be the absolute leading provider of funding to municipalities and regions,
- to be acknowledged as a professional advisor and trustworthy cooperative partner,
- to be an attractive, development-oriented organisation committed to effective processes and high quality achieved by dedicated and highly qualified employees.

KommuneKredit's members are municipalities and regions that have raised loans in or entered into leases with KommuneKredit or have guaranteed or are liable for loans raised in or leases entered into with KommuneKredit. The members are jointly and severally liable for KommuneKredit's liabilities. All municipalities and regions in Denmark are members of KommuneKredit.

A Board of Directors is responsible for the general management of KommuneKredit. The Board of Directors has ten members, of which eight are appointed by the municipalities and two by

the regions. A Management consisting of one chief executive officer and one managing director is responsible for the day-to-day management.

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

KommuneKredit is rated by Moody's Investors Service and Standard & Poor's, KommuneKredit's long-term rating is Aaa/AAA, and the short-term rating is P-1/A-1+, which is the same rating as that of the Kingdom of Denmark and the highest possible international credit rating.

The high rating is attributable to the joint and several liability of the municipalities and regions and the fact that they are strong players in the domestic economy, which is also why KommuneKredit can raise funding at attractive prices. Moreover, KommuneKredit's cost level is low, which means that the funding raised can be relent at a modest margin.

KommuneKredit is a modern service organisation based on dedicated employees and modern technology. The core values of KommuneKredit are:

- Customers in focus
- Job satisfaction and a positive working environment
- Quality in work
- Openness and a positive working relationship
- Delegation and responsibility



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