



KOMMUNE
KREDIT

INTERIM REPORT 2014 1ST HALF

MANAGEMENT COMMENTARY & FINANCIAL STATEMENTS

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The interim report comprises 16 pages

This interim report for the first half of 2014 is a translation of the original interim report in Danish. In case of discrepancies, the Danish version prevails.

MANAGEMENT COMMENTARY

Financial summary for KommuneKredit

DKKm	1st Half 2014	1st Half 2013
Lending at nominal values		
Gross lending	20,204	20,196
Conversions/refinancing	8,252	9,244
Net lending	11,952	10,952
Key figures		
Net interest income	229	234
Value adjustments of financial instruments	26	2
Administrative expenses	47	47
Tax on profit for the period	51	40
Comprehensive income for the period	157	149
	30 Jun 2014	31 Dec 2013
Key figures		
Lending and lease receivables	148,271	142,711
Assets	195,435	184,239
Equity	6,152	5,995
Equity as a percentage of assets	3.2	3.3

In the first half of 2014, KommuneKredit's gross lending amounted to DKK 20.2 billion, which is at the same level as the first half of 2013. Net lending amounted to DKK 12.0 billion in the first half of 2014, which is DKK 1.0 billion more than in the first half of 2013. Lending and lease receivables amounted to DKK 148.3 billion as at 30 June 2014 against DKK 142.7 billion as at year end 2013. It is expected that the lending activity for the second half of 2014 will amount to DKK 12-15 billion, which is more than for the second half of 2013 where gross lending amounted to DKK 10.1 billion. Consequently, gross lending for 2014 is expected to amount to DKK 32-35 billion against DKK 30.3 billion in 2013.

Net interest income amounted to DKK 229 million in the first half of 2014 against DKK 234 million in the first half of 2013. Value adjustments of financial instruments showed a gain of DKK 26 million in the first half of 2014 against a gain of DKK 2

million in the first half of 2013. Profit before tax for the period amounted to DKK 208 million in the first half of 2014 against DKK 189 million in the first half of 2013. Comprehensive income for the period amounted to DKK 157 million against DKK 149 million in the first half of 2013. Equity amounted to 3.2 per cent of assets at 30 June 2014, which is a decrease from 3.3 per cent at year end 2013. As at year end 2013, KommuneKredit expects profit after tax for 2014, excluding value adjustments of financial instruments, to be in the region of DKK 275 million.

Merger of EY and KPMG in Denmark

At 1 July 2014, KPMG Statsautoriseret Revisionspartnerselskab and EY in Denmark merged. As part of the merger, KPMG Statsautoriseret Revisionspartnerselskab changed name to Ernst & Young Godkendt Revisionspartnerselskab. Consequently, KommuneKredit has the same auditors as previously.

STATEMENT OF COMPREHENSIVE INCOME

DKKm	Note	1st Half 2014	1st Half 2013
Interest income		1,470	1,720
Interest expense		1,241	1,486
Net interest income		229	234
Value adjustments of financial instruments		26	2
Administrative expenses		47	47
Profit before tax		208	189
Tax on profit for the period		51	40
Profit for the period		157	149
Other comprehensive income			
Actuarial adjustments		0	0
Comprehensive income for the period		157	149
Appropriation			
Transferred to equity		157	149
Total		157	149

STATEMENT OF FINANCIAL POSITION

Assets

DKKm	Note	30 Jun 2014	31 Dec 2013
Receivables from credit institutions	1.1	323	367
Lending	1.1	144,324	138,929
Lease receivables		3,947	3,782
Portfolio of securities	1.1	35,315	31,709
Derivative financial instruments	1.1, 1.3	11,286	9,292
Other assets		187	147
Current tax assets		53	13
Total assets		195,435	184,239

Liabilities and equity

DKKm	Note	30 Jun 2014	31 Dec 2013
Liabilities			
Due to credit institutions		106	8
Debt securities issued	1.1, 1.2	182,022	169,076
Derivative financial instruments	1.1, 1.3	6,441	8,386
Other liabilities		417	476
Pension obligations		61	62
Deferred tax liabilities		236	236
Total liabilities		189,283	178,244
Equity		6,152	5,995
Total liabilities and equity		195,435	184,239

STATEMENT OF CHANGES IN EQUITY

DKKm	Note	1st Half 2014	1st Half 2013
Equity			
Equity at 1 January		5,995	5,716
Comprehensive income for the period		157	149
Equity at 30 June		6,152	5,865

STATEMENT OF CASH FLOWS

DKKm	Note	1st Half 2014	1st Half 2013
Cash flows from operating activities			
Profit before tax		208	189
Taxes paid		-90	-23
Adjustments for non-cash operating items		-1	4
		117	170
Other assets		-41	-74
Other liabilities		-59	130
Receivables from credit institutions		0	183
Portfolio of securities		-3,606	-2,056
Lending and derivative financial instruments		-7,554	-1,824
Debt securities issued and derivative financial instruments		11,001	2,550
Total cash flows from operating activities		-142	-921
Total cash flows for the period		-142	-921
Cash and cash equivalents at 1 January		359	2,092
Cash and cash equivalents at 30 June		217	1,171
Cash and cash equivalents comprise net receivables from credit institutions with a term to maturity of less than three months at the date of conclusion.			
Receivables from credit institutions		323	1,188
Due to credit institutions		-106	0
Net receivables from credit institutions		217	1,188
Receivables from credit institutions with a term to maturity of more than 3 months		0	-17
Cash and cash equivalents at 30 June		217	1,171

NOTES

General

KommuneKredit's interim financial statements for the first half of 2014 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 2013. The financial statements for 2013 contain a complete description of the accounting policies.

New standards and amendments to standards

In 2014, KommuneKredit has adopted the following amendments to standards and new interpretations that have been adopted by the EU effective for the financial year starting on 1 January 2014: Amendments to IAS 32, 36 and 39 and the new interpretation IFRIC 21. The amendments and the new interpretation 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 2013.

The applied methods as well as uncertainties and estimates relating to the calculation of fair values are described in more detail in note 1.4 to the financial statements for 2013. 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 2014.

DKKm

30 Jun 2014

Assets	Level 1	Level 2	Level 3	Total
Receivables from credit institutions	5	318	0	323
Lending	0	144,324	0	144,324
Portfolio of securities	27,288	8,027	0	35,315
Derivative financial instruments	0	8,486	2,800	11,286
Total assets	27,293	161,155	2,800	191,248

Liabilities

Due to credit institutions	106	0	0	106
Debt securities issued	21,893	125,935	34,194	182,022
Derivative financial instruments	0	5,913	528	6,441
Total liabilities	21,999	131,848	34,722	188,569

31 Dec 2013

Assets

Receivables from credit institutions	7	360	0	367
Lending	0	138,929	0	138,929
Portfolio of securities	20,380	11,329	0	31,709
Derivative financial instruments	0	7,789	1,503	9,292
Total assets	20,387	158,407	1,503	180,297

Liabilities

Due to credit institutions	8	0	0	8
Debt securities issued	12,170	129,865	27,041	169,076
Derivative financial instruments	0	6,337	2,049	8,386
Total liabilities	12,178	136,202	29,090	177,470

Specification of level 3

30 Jun 2014

	Assets	Liabilities
Balance at 1 January	1,503	29,090
Additions	500	9,857
Disposals	50	5,253
Included in comprehensive income	847	1,028
Balance at 30 June	2,800	34,722

31 Dec 2013

Balance at 1 January	2,806	35,193
Additions	18	15,264
Disposals	573	20,352
Included in comprehensive income	-748	-1,015
Balance at 31 December	1,503	29,090

Note 1.2 Debt securities issued at nominal values

DKKm	1 January	Additions	Disposals and value adjustments	Total
30 Jun 2014	166,445	39,686	29,835	176,296
31 Dec 2013	161,326	108,745	103,626	166,445

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 and bilateral collateral agreements for derivative financial instruments where KommuneKredit receives and posts collateral. The received and posted collateral is solely comprised of high-quality bonds.

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 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

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

30 Jun 2014	Amounts offset		Amounts not offset			
	Carrying amount	Offset	Net book value	Financial instruments	Collateral	Net amount
Assets	11,286	0	11,286	-4,867	-4,552	1,867
Liabilities	6,441	0	6,441	-4,867	-46	1,528
Total	4,845	0	4,845	-	-4,506	339
31 Dec 2013						
Assets	9,292	0	9,292	-5,664	-2,754	874
Liabilities	8,386	0	8,386	-5,664	-	2,722
Total	906	0	906	0	-2,754	-1,848

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

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 2013. The annual report for 2013 contains a full description of financial risks and risk management.

Note 1.5 Liquidity resources

The Ministry of Economic Affairs and the Interior permits KommuneKredit to build up liquidity resources of up to 25 per cent of total lending as at the end of the previous quarter. Liquidity resources are calculated as debt securities issued less total lending at book value. Debt securities issued are adjusted for the total net value of derivative financial instruments.

DKKm	30 Jun 2014	31 Dec 2013
Liquidity resources		
Debt securities issued and derivative financial instruments		
Debt securities issued	182,022	169,076
Derivative financial instruments, liabilities	6,441	8,386
Derivative financial instruments, assets	-11,286	-9,292
Total debt securities issued and derivative financial instruments	177,177	168,170
Lending	144,324	138,929
Leases receivables	3,947	3,782
Total lending and lease receivables	148,271	142,711
Liquidity resources	28,906	25,459
Liquidity resources may not amount to more than 25 per cent of total lending and lease receivables as at the end of the previous quarter.		
Liquidity resources	28,906	25,459
Total lending and lease receivables as at the end of the previous quarter	145,788	142,164
Liquidity resources in per cent	20	18

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 to 30 June 2014.

The interim financial statements have been 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 as at 30 June 2014

and of the comprehensive income of the Association's operations and cash flows for the period 1 January - 30 June 2014 and describes the material risks and uncertainties affecting the Association.

Furthermore, 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, 22 August 2014

Management:

Søren Høgenhaven
Chief Executive Officer,
Managing Director

Johnny Munk
Managing Director

/ Jens Bloch Behrendt
Chief Financial Officer

Board of Directors:

Erik Nielsen
Chairman

Lars Krarup
Vice-chairman

Hans Toft

Henrik Zimino

Sophie Hæstorp Andersen

Erik Christensen

Kaj V. Holm

Mikael Klitgaard

Anne V. Kristensen

Independent auditors' report on the interim financial statements

To the Board of Directors of KommuneKredit

We have reviewed the interim financial statements of KommuneKredit for the period 1 January to 30 June 2014 comprising comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and notes. The interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Management's responsibility for the interim financial statements

Management is responsible for the preparation of the interim financial statements in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and for such internal control as Management determines is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express a conclusion on the interim financial statements. We conducted our review in accordance with the international Standard on Review of Internal Interim Financial Information Performed by the Independent Auditor of the Entity and additional requirements under Danish audit regulation. This requires us to conclude whether anything has

come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. This standard also requires us to comply with ethical requirements.

A review of the interim financial statements in accordance with the International Standard on Review of Internal Interim Financial Information Performed by the Independent Auditor of the Entity is a limited assurance engagement. The auditors perform procedures primarily consisting of making inquiries of Management and others within KommuneKredit, as appropriate, applying analytical procedures, and evaluate the evidence obtained. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with the International Standards on Auditing. Accordingly, we do not express an audit opinion on the interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU.

Copenhagen, 22 August 2014

ERNST & YOUNG

Godkendt Revisionspartnerselskab

Torben Bender

State Authorised Public Accountant

Hans Peter Lindegaard Buhrkal

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 financial statements of KommuneKredit for the period 1 January - 30 June 2014, 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 Ernst & Young Godkendt Revisionspartnerselskab did not give rise to any comments on my part.

Copenhagen, 22 August 2014

Emil le Maire

Former Prefect

KOMMUNEKREDIT IN BRIEF

KommuneKredit is an association with the objective to provide funding and leases to Danish municipalities, regions and 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 thereby contribute to greater financial latitude in the Danish society.

KommuneKredit's vision is:

- to be the absolute leading provider of funding to municipalities,
- 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 nine members, of which six are appointed by the municipalities, two by the regions and one member, who must be independent of the Association,

is appointed by the Board of Directors and this member must have competencies in accounting or auditing. 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 Danish government bonds and the highest 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 relented at a modest margin.

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

- The customer 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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