



KOMMUNE
KREDIT

KOMMUNEKREDIT ANNUAL REPORT

Copenhagen, 7 March 2013

In 2013, KommuneKredit again retained its position as the absolute leading supplier of funding to municipalities. Net lending increased from DKK 17.0 billion in 2012 to DKK 17.9 billion in 2013, and gross lending decreased from DKK 35.9 billion in 2012 to DKK 30.3 billion in 2013. The decrease is due to a reduction of the number of loan conversions as a large number of loans had been converted to a lower interest rate in prior years, and as no interest-rate advantage could be gained from making further conversions.

KommuneKredit has a close dialogue with its members and other customers. Goals for customer visits are set on an annual basis, and satisfaction surveys are made on a regular basis in order to optimise customer services. KommuneKredit offers other financial services than lending and leases, including advisory services on municipal borrowing and management of long-term debt as well as refinancing of loans via derivatives (swaps).

KommuneKredit's funding situation in international capital markets remained favourable in 2013 with considerable interest from investors in acquiring securities with a high credit rating. For the first time, KommuneKredit made two benchmark issues of USD 1 billion and USD 1.25 billion, respectively, and the considerable interest from central banks in many countries in acquiring KommuneKredit's issues was particularly positive. The funding situation was also affected by the gradual reduction in 2013 of the very favourable swaps rates from USD to DKK applicable in 2012. Mid-2013, KommuneKredit therefore had to make minor price adjustments for floating-rate loans. However, KommuneKredit remains the most favourable source of funding for municipalities, who achieve considerable financial latitude by having established their own financial institute.

Net interest income amounted to DKK 503 million against DKK 603 million in 2012. The decrease in net interest income is attributable to the less favourable funding prices in 2013 compared to 2012. Of the net interest income of DKK 503 million in 2013, DKK 361 million related to lending activities, whereas DKK 142 million related to interest income from own portfolio of bonds. KommuneKredit's earnings target is based on two principles. First of all, it must be ensured that funding is provided to the members at the most attractive prices. Secondly, it must be ensured that the equity ratio is maintained at a solid level of approximately 3 per cent of the assets.

Value adjustments of financial instruments amounted to total negative adjustments of DKK 75 million for 2013. The negative adjustments are particularly attributable to negative value

adjustments of the own portfolio of bonds owing to declining prices. In 2012, significant non-recurrent income of DKK 148 million was realised from buy-backs of securities issued. In 2013, very few buy-backs have been carried out, which is the main reason for the reduced value adjustments.

Administrative expenses amounted to DKK 96 million, which is a decrease of DKK 4 million compared to 2012. This is due to a decrease in the adjustment of pension obligations as well as a decrease in amortisation of intangible assets. The corporation tax rate will be reduced during the period 2014-2016, and this has resulted in reversal of provisions for deferred tax, which triggers taxable income of DKK 28 million for 2013.

KommuneKredit's profit was DKK 279 million, which is a decrease of DKK 237 million compared to 2012. This corresponds to a profit of DKK 305 million, excluding value adjustments, whereas, in the interim report for 2013, a profit of DKK 300 million, excluding value adjustments, was estimated.

At year end 2013, KommuneKredit's total assets amounted to DKK 184.2 billion, which is an increase of DKK 2.3 billion compared to year end 2012. Lending increased by DKK 6.0 billion, and the portfolio of securities increased by DKK 3.2 billion, which strengthened the liquidity resources. Derivative financial instruments decreased by DKK 5.4 billion as a result of changed interest and exchange rate conditions.

Outlook for 2014

The municipal framework for capital investments in 2014 increased by DKK 2 billion to DKK 18.1 billion. However, the borrowing facilities of municipalities have not increased, and it is therefore assumed that the increased capital investments will be funded through economy in operation or drawings on liquidity. KommuneKredit therefore expects that total lending will be in line with 2013.

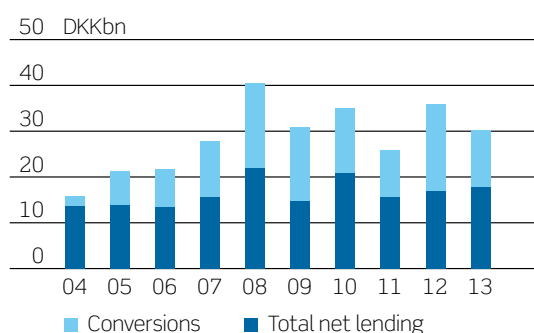
KommuneKredit furthermore expects that 2014 will also see favourable funding opportunities in the international financial markets with considerable interest from investors in issues from institutions and countries with a high credit rating. KommuneKredit prepares long-term forecasts for the balance sheet development on a regular basis and, on this basis, determines the earnings target for the individual year. KommuneKredit assesses that net interest income for 2013 is at a satisfactory level. Profit for the year, excluding value adjustments, is expected to amount to DKK 275 million against DKK 305 million for 2013.

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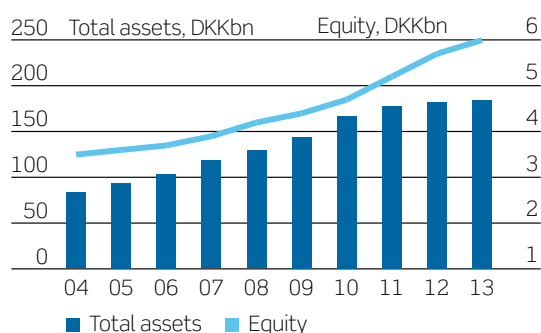
FINANCIAL SUMMARY FOR KOMMUNEKREDIT

DKKm	2013 EUR	2013 DKK	2012 DKK	2011 DKK	2010 DKK	2009 DKK
Lending, nominal values						
Bond loans	306	2,286	1,870	2,396	1,373	2,346
Tailor-made loans	3,754	28,009	33,992	23,403	33,478	28,474
Total gross lending	4,061	30,295	35,862	25,799	34,851	30,820
Conversions/refinancing	1,667	12,433	18,837	10,167	13,904	16,007
Total net lending	2,394	17,862	17,025	15,632	20,947	14,813
Leasing						
Gross lending	204	1,525	813	1,539	756	892
Instalments and repayments	159	1,189	905	847	783	787
Total net lending	45	336	-92	692	-27	105
Key figures						
Net interest income	67	503	603	611	453	350
Administrative expenses	13	96	100	95	89	91
Value adjustments of financial instruments	-10	-75	191	175	47	-4
Profit before tax	44	332	694	691	411	255
Tax on profit for the year	7	53	178	175	102	63
Profit for the year	37	279	516	516	309	192
Profit for the year excl. value adjustments	41	305	378	388	274	195
Lending and lease receivables	19,129	142,711	136,296	128,979	125,136	111,538
Total assets	24,696	184,239	181,885	177,113	166,206	143,207
Debt securities issued	22,663	169,076	166,045	164,751	156,235	133,926
Equity	804	5,995	5,716	5,200	4,684	4,375
Equity in pct. of assets	3.3	3.3	3.1	2.9	2.8	3.1
Number of full-time employees	58	58	59	60	60	57

NET LENDING AND CONVERSIONS 2004-2013



TOTAL ASSETS AND EQUITY 2004-2013



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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 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 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.

Contacts

Søren Høgenhaven, CEO, Managing director

Johnny Munk, Managing director

Jens Bloch Behrendt, CFO