Municipality Credit Iceland

Translation of Financial Statements for the year 2023

These financial statements is translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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Municipality Credit Iceland Plc.
Identity number 580407-1100
Borgartun 30, P.O. Box 8100
128 Reykjavik

Income statement and statement of comprehensive income

1 January through 31 December 2023

	Notes	2023	2022
Net interest income			
Interest income and CPI linked revenue		18.025.272.515	17.884.755.324
Interest expenses and CPI linked expenses		(16.465.913.657)	(16.634.128.103)
Total net interest income	5	1.559.358.858	1.250.627.221
Other operating income			
Net gain on fin. assets stipulated at FV through P&L	6	595.335.805	272.033.158
Net gain on fin. assets designated at FV through P&L	7	615.692	0
Net foreign exchange (loss) gain	8	(3.484.455)	9.452.334
Net impairment losses on financial assets	16	(4.517.856)	(2.278.277)
Total other operating income		587.949.186	279.207.215
Net operating income		2.147.308.044	1.529.834.436
Operating expenses			
Salaries and related expenses	9	119.468.038	119.138.399
Cost of bond issuance	10	69.272.377	63.593.517
FSA's annual fee and monitoring fee		13.248.000	11.408.000
Other operating expenses	11	79.521.406	75.714.190
Total operating expenses		281.509.821	269.854.106
Profit for the year and comprehensive income		1.865.798.223	1.259.980.330
Earnings per share			
Basic and diluted earnings per share	12	0,37	0,25

Notes on pages 6 to 26 are an integral part of the MCI Plc. financial statements.

Statement of financial position as at 31 December 2023

	Notes	31.12.2023	31.12.2022
Assets			
Goverment issued bonds and notes	13	5.988.494.372	7.334.314.132
Market securities and bonds	14	2.441.894.449	264.529.369
Loans and receivables to credit institutions	15	845.958.012	2.862.680.442
Loans and receivables to customers	16	190.761.615.712	170.229.808.990
Property, plant and equipment	17	68.183.154	70.051.996
Other assets	18	23.862.979	16.018.783
Total assets		200.130.008.678	180.777.403.712
Liabilities			
Debt securities issued	21	174.169.823.066	158.289.503.745
Other borrowed funds	22	2.975.577.658	1.282.894.331
Derivative contracts	24	7.496.075	0
Short term borrowings	25	121.000.568	227.437.106
Pension obligations	26	111.569.407	106.560.721
Other liabilities	27	21.215.611	13.479.738
Total liabilities		177.406.682.384	159.919.875.641
Equity			
Share capital		5.000.000.000	5.000.000.000
Reserves		1.344.938.541	1.316.581.459
Other equity		16.378.387.753	14.540.946.612
Total equity	28	22.723.326.294	20.857.528.071
Total liabilities and equity		200.130.008.678	180.777.403.712

Statement of changes in equity for the year ended 31 December 2023

	Share capital	Reserves*	Retained earnings	Total equity
Changes in equity 2023				
Equity as at 1 January	5.000.000.000	1.316.581.459	14.540.946.612	20.857.528.071
Profit of the year			1.865.798.223	1.865.798.223
Restricted unrealized change in fair value		28.357.082	(28.357.082)	0
Equity as at 31 December	5.000.000.000	1.344.938.541	16.378.387.753	22.723.326.294
Changes in equity 2022				
Equity as at 1 January	5.000.000.000	1.298.096.776	13.299.450.965	19.597.547.741
Profit of the year			1.259.980.330	1.259.980.330
Restricted unrealized change in fair value		18.484.683	(18.484.683)	0
Equity as at 31 December	5.000.000.000	1.316.581.459	14.540.946.612	20.857.528.071

* Reserves consist of statutory reserve and restricted unrealized change in fair value. Icelandic Act regarding annual statements require restricted equity due to unrealized changes in fair value that restrict the possibility of dividend. See also note 2.11 and 28.

The Board of Directors suggests that no dividend will be paid in 2024 based on the profit for the year 2023, as a part of strengthen the position of Municipality Credit Iceland and ensure growth of the equity. No dividend was paid in 2023 based on profit for the year 2022.

Statement of cash flows for the year ended 31 December 2023

	Notes	1.1.-31.12.2023	1.1.-31.12.2022
Cash flows from operating activities			
Profit for the period and comprehensive income		1.865.798.223	1.259.980.330
Items not affecting cash:			
Net interest income deducted		(1.559.358.858)	(1.250.627.221)
CPI linked and currency movements and accrued interests	15, 20	218.528.324	338.618.724
Bond discount and cost of borrowing	15, 20	(641.080.119)	(497.798.209)
Initial rights under land lease agreement	24	(615.692)	0
Initial obligation under land lease agreement	24	(895.414)	0
Impairment loss on financial assets	16	4.517.856	2.278.277
Depreciation	17	1.868.842	1.868.792
		(1.977.035.061)	(1.405.659.638)
Changes in operating assets			
Loans provided to customers		(22.040.491.049)	(10.950.000.000)
Loans collected from customers		16.861.191.101	14.800.272.446
Borrowings		20.515.499.793	12.262.095.473
Borrowings repaid		(13.423.375.631)	(12.435.270.298)
Bought own bonds		(1.318.732.142)	0
Repayments of own bonds		438.030.794	0
Derivative contracts		(34.500.000)	0
Change in government bond and bills		1.749.634.202	124.833.207
Change in marketable securities and bonds		(2.165.338.480)	(101.348.304)
Change in short term loans prov. to customers		(1.881.304.875)	(141.760.750)
Change in short term loans borrowings		(106.062.544)	(220.209.452)
Pension obligations, decrease		5.008.685	17.882.516
Change in other assets, (increase)		(7.844.196)	(7.852.394)
Change in other liabilities, increase (decrease)		7.735.873	(66.834)
		(1.400.548.469)	3.348.575.610
Interest received		4.656.442.075	3.830.581.992
Interest paid		(5.153.536.070)	(4.923.722.728)
		(1.897.642.464)	2.255.434.874
Net cash (to) from operating activities		(2.008.879.302)	2.109.755.566
Cash flows from financing activities			
Capitalized construction cost		0	(33.660.762)
		0	(33.660.762)
Net decrease in cash and cash equivalents		(2.008.879.302)	2.076.094.804
Currency effects on cash and cash equivalents		(7.843.128)	(971.489)
Cash and cash equivalents at the beginning of year		2.862.680.442	787.557.127
Cash and cash equivalents at end of period		845.958.012	2.862.680.442
Cash and cash equivalents			
Amounts due from credit institutions		845.958.012	2.862.680.442
		845.958.012	2.862.680.442

Notes

1. General information

Municipality Credit Iceland Plc. (MCI) is a statutory limited liability company owned by the Icelandic municipalities. MCI is a financial institution, and operates pursuant to Act No. 161/2002 on Financial undertakings; cf. The Companies Act No. 2/1995 and is supervised by the Icelandic Financial Supervisor. MCI is incorporated and domiciled in Iceland. The address of its registered office is: Borgartun 30, Reykjavik.

MCI´s main function is to secure favorable funding or guarantees to the municipalities and related organisations and enterprises. MCI is by law only allowed to fund municipal projects that are of general economic interest.

MCI has issued bonds which are listed at the Nasdaq Iceland and MCI has market maker agreements in place for a part of them.

The finanical statements were approved for issue by the Board of Directors of Municipality Credit Iceland on 27 February 2024.

2. Basis of Financial Reporting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial statement is also prepared in accordance with Icelandic laws on financial statements no. 3/2006, law on financial companies no. 161/2002 and regulations on accounting on financial institutes no. 834/2003.

The financial statements are prepared on historical cost basis, except for financial assets which are measured at fair value. A discussion of the main accounting methods used in the preparation of these financial statements is set out below. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years, unless otherwise stated.

2.1 Going concern

The Board of Directors and the CEO has made an assessment of MCI’s ability to continue as a going concern and is satisfied that MCI has resources to continue. MCI´s financial statement is prepared on a going concern basis.

2.2 Estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In MCI Annual statement are no significant items that are based on management´s judgement.

2.3 Functional and presentation currency

Functional and presentation currency of MCI are presented in Icelandic krona (ISK) unless otherwise indicated.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Segment reporting

Due to the nature of the MCI´s business its operation has not been split into different segments.

2.5 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified at fair value through profit or loss, are recognised within the income statement using the effective interest method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, MCI estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and payments paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.6 Financial instruments

MCI classifies from the outset in its accounts loans and claims, deposits and bonds issued on the day of the transaction. All othere financial assets or liabilities are registered on the day that MCI becomes counterparty to the financial undertaking. Regular buying and selling of financial assets are registered on the day of each transaction.

Financial assets are measured at amortized cost if it is the entity´s objective to hold the financial assets to collect contractual cash flow that represent solely payments of principal and interest.

All other financial assets are measured at fair value through profit and loss. Reclassification and measurements after initial recognition are not allowed in this category.

(a) Loans and receivables to customers

Loans and receivables to customers is classified as a financial assets at amortized cost using the effective interest method. Loans and receivables to customers consist of loans to municipalities and companies owned by them, where the objective is to own the financial assets until maturity and collect contractual payments consisting of principal and interest. Accrued interests are recognised as part of loans and receivables to customers.

(b) Financial assets stipulated at fair value through profit or loss

Government issued bonds and notes and market securities and bonds

Investments in goverment issued bonds and bills and market securities are managed and evaluated on a fair value basis in accordance with the MCI's documented risk management or investment strategy. These investments are initially recognised and subsequently measured at fair value in the balance sheet with fair value changes recognised in the income statement. After initial recognition as financial asset designated at fair value through profit or loss a resclassification is prohibited.

Derivative contracts

Derivatives are initially recorded on the balance sheet at fair value, and transaction costs are recognised in the income statement. Derivative contracts are recognized at fair value, which is determined by the cash flow method. MCI uses generally accepted value models to determine the fair value of interest rate and currency swap agreements. At a later stage, derivatives continue to be recorded at fair value, where all changes in fair value are entered in the income statement under the item "Net gain on fin. assets stipulated at FV through P&L". Derivatives with a positive fair value are recognised on the balance sheet as assets and derivatives with a negative fair value are recognised as liabilities. Exchange rate gains and losses are entered under the items "Net foreign exchange (loss) gain".

(b) Financial assets designated at fair value through profit or loss

Loans and receivables from customers that have been defined as financial assets at fair value at the time of initial listing. Changes in fair value are entered in the profit and loss account under "Net gain on fin. assets designated at FV through P&L". It is not possible to change the classification of the financial assets that have been placed in this category after the original transaction. Interest and indexation are entered under "Net interest income".

(d) Debt securities issued and other borrowing funds

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

(e) Loans and receivables to credit institutions

Loans to credit institutions consist of deposits and amounts due from credit institutions.

2.7 Impairment on loans and receivables

According to Act No. 150/2006 on MCI, MCI can only lend to Icelandic municipalities, their organisations and enterprises for projects which are of general public interest. The condition for the extension of credit to municipality-owned enterprises and institutions is that such enterprises and institutions must be wholly owned by municipalities or jointly owned by municipalities and the State Treasury, with both acting as guarantors to the MCI for the loans.

According to paragraph 2 of article 68 of Act No. 138/2011 (Local Government Act), municipalities may put up their revenues as security for loans they receive from MCI and for guarantees they grant. MCI's policy is to demand such pledge as security for the loans.

According to IFRS 9, precautionary depreciation must be recognised in accordance with the assessment of the expected credit loss. The assessment of expected credit losses is twofold, where the impairment for expected credit losses (ECL) is based either on the 12-month expected credit loss or over the life of the financial instrument, which is determined by increased credit risk since the initial listing. All loans and receivables to municipalities and their organisations fall under stage 1 and the impairment is assessed on the basis of 12 months of expected credit losses as there has been no increase in credit risk since the original listing. The condition for a transfer between level 1 and level 2 is if the municipality has requested the write-off of debts or is undergoing financial restructuring. The condition for moving to level 3 is an actual loss on loans or if the municipality has been appointed a financial board.

The write-down is regularly assessed and calculated in accordance with the MCI's methodology. Changes for the year are entered through operations and into the impairment fund among loans in the balance sheet. The balance of the impairment fund according to IFRS 9 at the end of the year is entered in the balance sheet among loans and receivables.

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, which is 50 years. The depreciation value and useful life of the assets are reviewed each period and adjusted if applicable.

2.9 Post-employment obligations

MCI and other jointly administrated institutions are subject to pension obligations related to their employees, that have and do participate in the B-department of the State Employees' Pension Fund. MCI's obligation is calculated at the end of the year and recorded as liability in the balance sheet in accordance with Actuary´s calculations. Those calculations are the same as for the B-department of the State Employees´ Pension Fund, with a 2,0% interest rate but with life expectancy as for 2014-2018 and the estimations of disability odds of the State Employees´ Pension Fund from 2011-2016.

2.10 Share Capital

In December, 2006 the Icelandic Parliament, Althingi, approved a new Act No. 150/2006 on the incorporation of Municipality Credit Iceland as a statutory limited liability company. On the initial shareholders´ meeting of MCI it was decided that the nominal value os share capital was to be ISK 5,000 million. The shareholders of MCI are all municipalities in Iceland, which are defined in Act No. 150/2006.

Basic profit and diluted earnings per share are calculated as a ratio between the year's profit on the fund's share capital.

2.11 Reserves

Based on Icelandic Act on Annual Statements No. 3/2006 all unrealized changes in value of financial assets, that are initially recognized at fair value, shall be recognize in a restricted reserve among equity, that prohibited dividend payments. This change in value should be realized equal to changes in the financial asset or liability when it is sold or realized or if the assumptions for the change in value are no longer available. Reserves consist of statutory reserve and restricted unrealized change in fair value.

2.12 Taxes

According to Act No. 90/2003 on Income tax, MCI is exempted from paying income tax.

According to Act No. 94/1996 on Capital tax, MCI is exempted from paying capital gains tax.

According to Act No. 161/2002 on Financial institutions, MCI is exempted from stamp duty.

According to Act No. 155/2010 on specific tax on financial institutions, MCI is exempted from any tax payments under those laws.

3. Economic affect

General economic affect

The year has been characterized by ongoing high inflation and high interest rates. Inflation peaked at 10,2% in February on an annualized basis and subsided slightly as the year progressed. Inflation measured at 7.7% in December 2023.

The central bank's key interest rate increased by 3,25% in 2023. The key interest rate was 9,25% at the end of 2023, but was 6,0% at the end of 2022. The increase in the key interest rate has had a direct effect on the increase in the yield on government bonds. At the end of 2023, the RIKS 30 yield was 2,97%, but at the beginning of the year it was 1,97%. This has also led to an increase in the yield on the MCI's bonds. The yield on LSS34 was at the beginning of the year 2,9%, but ended the year at 3,9%. This shows that the spread on the MCI's bonds is 95 points on top of the government bonds both at the beginning of the year and at the end of the year.

Effect on municipalities

According to analyses of the annual accounts for the year 2022 by the Icelandic Association of Local Authorities, the operating surplus of Part A of municipalities was negative and the deficit was about 4,6% of revenues. Higher inflation and higher interest rates were the main reasons for the poorer results. Financial expenses less financial income increased by ISK 11,7 billion between years. The operating surplus excluding financial items was positive by 9,4% of income in 2022. Total municipal debt increased by 15% between years, so it is quite clear that inflation has had a significant impact on municipal finances. When examining the results of the largest municipalities in the first 6 months of the year, the trend is for a continued operating deficit, or about 3,4% of revenues for the year.

Municipalities were authorized by law to deviate from the financial rules for long-term balance of operations, and the statutory authorization of 150% indebtedness of municipal revenues was abolished at the same time. The authorizations are now valid until 2025. Many local authorities will therefore have to undertake optimization measures in the coming years to compensate for the increase in costs and debts that has occurred.

Effect on Municipality Credit of Iceland

The MCI regularly communicates with representatives of municipalities and obtains available information about their financial situation. MCI published the fund's issuance plan at the beginning of 2023, and it was assumed that the total issuance for the year would amount to ISK 22 - 28 billion. MCI revised its issuance plan for the year in May 2023 and October 2023 and reduced the total issuance for the year to ISK 15 - 21 billion. The result of the year's issue was ISK 18,8 billion.

MCI's financial position is strong and the fund's weighted equity ratio is 416% based on the loan position at the end of 2023 and was 537% at the end of 2022, with the use of a mitigation clause when calculating equity. Without mitigation the weighted equity ratio is calculated at 53% at the end of 2023 and was 56% at the end of 2022. See explanation 28 for details.

Expected credit loss

There are no indications that have an effect on MCI assessment on expected credit loss. The Municipalities provide MCI with guarantees in their revenue and according to article 71 in law no. 138/2011, municipalities can not be bankrupt. All municipalities are initially classified in stage 1 unless any of the conditions in stage 2 and stage 3 are present. Despite uncertainty in municipality's revenue does not fulfill the conditions of stages 2 and 3 and there are no indications of increased credit risk. Therefore, the loss allowance is based on 12 months expected credit loss.

4. Financial risk management

Through MCI's activities it is exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management to some degree of risk or combination of risks. Effective risk management includes analysis of main risk factors, risk measurement, processes to limit risk and continous supervision. MCI´s aim is therefore to identify MCI´s main risk factors, implement processes to monitor them, assess them regularly, maintain supervision and rules in order to make sure that the company will surpass any potential macroeconomic scenarios.

MCI is an intermediary for the Icelandic municipalities and their organisations and enterprises to the domestic and international financial markets. The main objective is to secure funding on favourable terms. Credit risk is the greatest single risk faced by the company, however liquidity risk, counterparty risk and operational risk are also important to MCI. Market risk is kept at it´s minimum even though it is present in terms of interest and currency risk.

4.1 Credit risk

The MCI's credit risk is limited to Icelandic municipalities and the Treasury. The MCI only lends to municipalities, their institutions and companies. A condition for granting loans to companies and institutions of municipalities is that they are wholly owned by municipalities or municipalities and the Treasury, which is responsible for their obligations to the MCI. The Local Government Act provides a solid framework for the activities of the municipalities, e.g. Icelandic municipalities cannot go bankrupt, but there are provisions in the Act on the involvement of the state in the event of financial difficulties in a municipality, cf. Chapter VII of the Local Government Act No. 138/2011. The municipalities have proven to be reliable payers and have never been written off for loans to municipalities or companies owned by them since the MCI began operations in 1967. All loans and claims to municipalities and companies owned by them fall under step 1 in the assessment of impairment according to the impairment model of expected credit losses in IFRS 9.

According to the Local Government Act No. 138/2011, municipalities may pledge their revenues as security for loans granted by MCI and for guarantees it provides, but for no other loans or guarantees. When granting loans it is the policy of MCI that such security should be provided for by the municipality in question. At year end, 100% of MCI´s loans to municipalities and companies owned by them had such a pledge.

The total credit risk that MCI takes on when lending money is added to the total book value of loans outstranding in MCI´s balance sheet. When loan applications are reviewed, the borrower has to fulfill all of the legal requirements for receiving a loan as well as the project being of general economic interest. A thorough valuation of the financial position and development of the borrowers and their guarantors is performed. All loan applications are introduced to the board of directors, either for their approval or as an introduction.

Large exposures

The MCI manages large exposures before and after taking into account risk mitigating factors. At year-end, the Loan Fund had 17 large exposures, as in the previous year, before taking into account risk mitigating factors according to Regulation No. 233/2017. After taking into account traditional risk mitigating factors at the end of the year, there are 8 large exposures, as was the case with the Loan Fund at year-end 2022. Due to its special legal status, the MCI makes use of mitigation provisions for loans to municipalities secured by collateral on municipal income, cf. Article 2 of Regulation 835/2012. When mitigating measures are applied, the risk exposures in question, to the extent that collateral exists, will be given a risk weight similar to that of the Icelandic government, i.e. 0% for loans in ISK. Taking this risk mitigation into account, there are no large exposures with the MCI at the end of the year.

4.1.1 Contractual risk

The MCI has guarantees for its loans to municipalities and the guarantees they provide, but the municipalities have a special authority in the Local Government Act to grant the Loan Fund a mortgage on their income. The contractual obligations of the Loan Fund are therefore guaranteed by the municipalities, and the risk lies mainly in the municipalities themselves experiencing payment difficulties. Counterparty risk other than credit risk is limited to the Treasury and its guarantors, as well as to domestic financial institutions licensed by the Financial Supervisory Authority. Counterparty risk on foreign financial institutions is specifically addressed by the Board of Directors.

4.1.2 Counterparty risk

The MCI monitors counterparty risk. The status of loans and arrears is monitored regularly. During the year, the Fund did not exercise its lien on municipal income, but the MCI has had to exercise its lien once, which was done in 2010. There are no arrears at the end of the year.

The following table shows MCI´s maximum Counterparty Risk.

	2023	2022
Counterparty risk position due to balance sheet assets in ISK million:		
Loans and receivables to credit institutions	846	2.863
Loans and receivables to customers	190.762	170.230
Goverment issued bonds and notes	5.988	7.334
Market securities and bonds	2.442	265
Total counterparty risk	200.038	180.692

4.2 Liquidity and Funding Risk

Liquidity risk is the risk that MCI will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities. MCI formulates liquidity management policies regarding its liquidity position and funding, to maintain the flexibility needed. The principal rule is to finish the funding process of a loan before granting a loan commitment. Part of the equity resources is managed short term to ensure a constant access to liquid capital and to maintain flexibility. MCI monitors maturities on the financial instruments in order to secure that it can pay all liabilities on due dates. MCI always has to have enough liquidity to be able to meet predictable and unpredictable obligations. The following tables present the future cash flow in line with contractual repayments.

Balance 31.12.2023 in ISK million	**0-1 months**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets						
Goverment issued bonds and notes	1.000	2.030	1.088	2.070	-	6.188
Market securities and bonds	7	662	1.633	512	-	2.814
Loans and receivables to credit inst.	767	80	0	0	-	847
Loans and receivables to customers	287	3.711	18.166	71.587	-	227.672
Derivative contracts	-	-	22	76	-	115
Total financial assets	2.061	6.483	20.909	74.245	133.938	237.636
Financial liabilities						
Debt securities issued	-	2.013	14.500	62.041	128.631	207.185
Other long-term loans	121	1	216	1.661	1.667	3.666
Total financial liabilities	121	2.014	14.716	63.702	130.298	210.851
Net assets - liabilities	1.940	4.469	6.193	10.543	3.640	26.785

Balance 31.12.2022 in ISK million	**0-1 months**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial assets						
Goverment issued bonds and notes	3.000	3.510	200	723	-	7.433
Market securities and bonds	5	-	-	-	-	298
Loans and receivables to credit inst.	2.788	-	-	-	-	2.788
Loans and receivables to customers	319	3.067	16.623	60.905	120.132	201.046
Total financial assets	6.112	6.577	16.837	61.907	120.132	211.565
Financial liabilities						
Debt securities issued	228	2.628	14.857	54.295	116.109	188.117
Total financial liabilities	228	2.628	14.857	54.295	116.109	188.117
Net assets - liabilities	5.884	3.949	1.980	7.612	4.023	23.448

4.3 Interest rate and CPI risk

MCI´s aim with regards to interest rate risk to balance the repayment profile of both assets and liabilities as well as to balance the fixed and variable interest rates. In general, loans are provided on the same terms as their financing with regards to life time of the loan, repayment profile, interest rates, interest periods as well as refixing interest premium. Part of the loans are funded with MCI´s equity with variable interest rates which the company can amend unilaterally. The amounts are sorted based on the date of contractual repricing or maturity, whichever occurs earlier.

Financial assets and liabilities, classified by interest repricing time, in ISK million as at 31.12.2023

	0-1 years	1-5 years	5-10 years	Over 10 Y	Total
Financial assets					
ISK - CPI linked	24.692	55.123	64.809	42.067	186.691
ISK - non indexed	10.106	557	1.264	-	11.927
Foreign currencies	1.202	104	130	26	1.462
Total financial assets	36.000	55.784	66.203	42.093	200.080
Financial liabilities					
ISK - CPI linked	13.732	52.290	64.074	42.312	172.408
ISK - non indexed	121	-	1.762	-	1.883
Foreign currencies	2.394	233	291	58	2.976
Total financial liabilities	16.247	52.523	66.127	42.370	177.267
Net assets - liabilities	19.753	3.261	76	(277)	22.813

Financial assets and liabilities, classified by interest repricing time, in ISK million as at 31.12.2022

	0-1 years	1-5 years	5-10 years	Over 10 Y	Total
Financial assets					
ISK - CPI linked	23.112	45.876	53.390	41.619	163.997
ISK - non indexed	13.213	-	1.652	-	15.126
Foreign currencies	964	233	292	117	1.606
Total financial assets	37.289	46.371	55.334	41.735	180.729
Financial liabilities					
ISK - CPI linked	14.680	45.441	53.750	42.660	156.531
ISK - non indexed	227	-	1.759	-	1.986
Foreign currencies	641	233	292	117	1.283
Total financial liabilities	15.548	45.675	55.800	42.776	159.800
Net assets - liabilities	21.740	696	(467)	(1.041)	20.929

Interest sensitivity

Interest sensitivity analysis with the assumption of average duration shows that 1 percentage interest increase would decrease net interest revenue by ISK 13 million or 0,06% of MCI´s equity as compared to ISK 93 million increase or 0,45% of MCI´s equity as of year end 2022. The table below shows the effects of interest rate increase split down to asset and liability groups according to repricing time in ISK million.

	Parallel upwards shift on interest curve (bps)	2023	2022
		Profit (loss)	
ISK - CPI linked	100	7	106
ISK - non indexed	100	(19)	(12)
Foreign currencies	100	(1)	(1)
Total		**(13)**	**93**

Inflation (CPI) risk

At year end, MCI´s CPI linked assets exceeded CPI linked liabilities by 12.457 millions as compared to 7.466 million at year end 2022. It has the effect that if the consumer price index increases by 1% then MCI's profit would increase by ISK 125 million and 1% decrease would reduce the profit by ISK 125 million.

4.3 Interest rate and CPI risk, cont.

CPI link effects	2023	2022
CPI linked assets	186.691	163.997
CPI linked liabilities	172.408	156.531
Net CPI linked position	**14.283**	**7.466**

4.4 Currency risk

MCI´s policy is to be in compliance with Central Banks rules and to eliminate currency risk by minimizing the mismatch between financial assets and financial liabilities denominated in foreign currencies.

Currency sensitiviy analysis

The table below illustrates the sensitivy analysis whereby MCI´s currency position is split down to each currency and shows the effect on profit and equity if the Icelandic krona would weaken by 10% with respect to foreign currencies.

Currency sensitivity analysis in ISK million	Currencies strengthening/ weakening towards the ISK	2023	2022
		Profit (loss)	
EUR	(10%)	16	18
USD	(10%)	3	4
JPY	(10%)	2	3
CHF	(10%)	6	7
GBP	(10%)	1	1
Total		**28**	**33**

The following table lists the exchange rates employed in calculations applicable to this annual statement.

	2023	2022	Change %
EUR/ISK	150,50	151,50	(0,7%)
USD/ISK	136,20	142,04	(4,1%)
JPY/ISK	0,9627	1,0771	(10,6%)
CHF/ISK	162,53	153,85	5,6%
GBP/ISK	173,18	170,81	1,4%

Financial assets and liabilities in ISK million as at 31.12.2023

	EUR	USD	Other currencies	Total
Financial assets				
Loans to credit institutions	114	1	-	115
Loans to customers	1.219	33	94	1.346
Derivative contracts	1.819	-	-	1.819
Total financial assets	3.152	34	94	3.280
Financial liabilities				
Debt securities issued	2.976	-	-	2.976
Total financial liabilities	2.976	0	0	2.976
Net, assets-liabilities	176	34	94	304

4.4 Currency risk, cont.

Financial assets and liabilities in ISK million as at 31.12.2022

	EUR	USD	Other currencies	Total
Financial assets				
Loans and receivables to credit institutions	114	1	-	115
Loans and receivables to customers	1.350	37	104	1.491
Total financial assets	1.464	38	104	1.606
Financial liabilities				
Other long-term loans	1.283	-	-	1.283
Total financial liabilities	1.283	0	0	1.283
Net, assets-liabilities	181	38	104	323

4.5 Operational risk

Regarding operational risk, MCI aims to have written and clear policies for all major business processes and standardise it´s loan agreements. It has also been a policy to outsource administrative services in order to minimise risk by distributing operations. As the operation of MCI can be characterised as relatively simple with the clients both being homogeneous and limited, the operational risk is limited.

4.5.1 Employee risk

MCI has three employees, Managing director, Loan officer and Treasury and Risk manager. In addition the company has outsourced various administrative services to The Association of Local Authorities in Iceland which has worked well and will be continued.

4.5.2 Legal risk

MCI operates pursuant to Act no. 150/2006 on the incorporation of Municipality Credit Iceland as a statutory limited liability company, Act no.161/2002 on financial undertakings and the companies Act no. 2/1995. Changes in law, court rulings or government decisions is outside of MCI´s control.

The legal risk is, among other things, that the Act on the MCI would be amended and the authority of municipalities to grant the MCI a pledge on income would be revoked. It is impossible to quantify this risk and it is the nature of the MCI to live with it. It would, however, be considered a violation of the principle of the Icelandic Constitution if the authorisation of a legal lien were to be abolished retroactively.

According to Icelandic Local Government Act, municipalities cannot go bankrupt. It is therefore considered highly unlikely that the MCI will have to write off municipal loans, although there may certainly be a delay in payments to the MCI if a municipality stops paying off its debts or delays payments. If a trustee board is appointed, it makes all decisions on payments from the municipal fund, which can have the same effect.

There are no litigations outstanding against MCI.

4.6 Equity management

The aim with equity management is that MCI has always enough equity to counterbalance against MCI´s underlying risk

MCI´s equity consists of share capital, statutory reserve, and retained earnings (Tier 1). The risk factors in the minimum capital requirement are credit risk, market risk, and operational risk. In the internal capital adequacy assessment, more detaild assessment is made on MCI´s equity and its CAD ratio.

The minimum capital requirement according to paragraph 83 in Act no. 161/2002 is 8% of risk-weighted assets. MCI applies the standardised approach when it comes to calculating credit risk and market risk, but basic indicator approach when it comes to operational risk.

Financial companies are obligated to have capital buffers in addition to 8% minimum capital requirements to be able to take on financial stress or economic turbulence. MCI is obligated to additional bind 2,5% of equity due to capital conservation buffer and 2% as countercyclical capital buffer. MCI´s total minimum capital requirements at year-end are 12,50%.

5. Net interest income

	1.1.-31.12.2023	1.1.-31.12.2022
Interest income and CPI linked revenue		
Loans and receivables to credit institutions	17.887.430.634	17.828.425.541
Loans and receivables to customers	137.841.881	56.329.783
	18.025.272.515	17.884.755.324
Interest expense and CPI linked expenses		
Debt securities issued and other borrowed funds	16.465.913.657	16.634.128.103
Net interest income	1.559.358.858	1.250.627.221

6. Net gain on fin. assets stipulated at FV through P&L

	1.1.-31.12.2023	1.1.-31.12.2022
Goverment issued bonds and notes	484.529.261	258.981.685
Market securities and bonds	109.911.130	13.051.473
Derivatives contracts	895.414	0
	595.335.805	272.033.158

7. Net gain on fin. assets designated at FV through P&L

	1.1.-31.12.2023	1.1.-31.12.2022
Loans and receivables to customers	615.692	0
	615.692	0

8. Net foreign exchange gains

	1.1.-31.12.2023	1.1.-31.12.2022
Loans and receivables to credit institutions	(13.458.553)	38.406.812
Loans and receivables to customers	7.368.076	2.955.558
Other borrowed funds	10.706.022	(31.910.036)
Derivatives contracts	(8.100.000)	0
	(3.484.455)	9.452.334

9. Salaries and salary related expenses

At the end of year, there were three employees working for MCI. MCI has entered into a service agreement with the Icelandic Association of Local Authorities regarding the purchase of administrative services and such expense is recorded under the other operational expenses item. All board members receive 11,5% pension fund remuneration and the Managing director 12%. Change in employees are the cause of increase in Salary between the year-end. Salary structure of MCI is the same as in the Icelandic Association of Local Authorities.

	1.1.-31.12.2023	1.1.-31.12.2022
Salaries	89.110.733	82.717.253
Paid pension contribution	12.341.490	11.434.683
Calculated pensions costs related to pension obligations	10.382.340	17.882.516
Related expenses	7.633.476	7.103.947
	119.468.038	119.138.399
Óttar Guðjónsson, Managing director	33.721.270	29.962.090

Salaries and salary related expenses, cont.

Board of directors:		
Kristinn Jónasson, chairman of the board	2.546.448	2.619.650
Helga Benediktsdóttir, ex. vice chairm. and chairm.account.committee	0	1.829.852
Guðmundur B. Guðmunds., vice chairm. and chairm.account.committee	2.206.932	2.030.046
Elliði Vignisson, board member	1.697.640	1.690.518
Arna Lára Jónsdóttir, board member	1.697.640	1.690.518
Halldóra Káradóttir, board member	1.273.230	0
Katrín Sigurjónsdóttir, board member	565.880	565.880
Fannar Jónasson, alternative and member of acc. committee	650.762	141.470
Íris Róbertsdóttir, alternative	141.470	141.470
Gríumr Rúnar Lárusson, alternative	141.470	141.470
Fjóla St. Kristinsdóttir, alternative	141.470	141.470
	11.062.942	10.992.344

10. Bond issuance costs

	1.1.-31.12.2023	1.1.-31.12.2022
Market makers	54.000.000	50.000.000
Bond issuance fees	2.503.127	2.421.974
Annual fees related to bond issuance	12.769.250	11.171.543
	69.272.377	63.593.517

11. Other operating expenses

	1.1.-31.12.2023	1.1.-31.12.2022
Contract with the Icelandic Association of Local Authorities	30.048.448	28.195.173
Professional fees (legal and other)	5.557.784	4.524.220
Housing expenses	9.414.013	11.862.815
Computer and software	12.787.588	8.951.370
External auditor´s fees, audit	2.805.401	6.848.502
External auditor´s fees, audit-related servers	337.559	1.830.775
Internal auditor´s fees	1.955.264	1.693.548
Travelling expenses	4.297.198	2.732.048
Office equipment	1.343.429	1.229.030
Other operating expenses	9.105.880	5.977.917
Depreciation	1.868.842	1.868.792
	79.521.406	75.714.190

12. Basic and diluted earnings per share

	1.1.-31.12.2023	1.1.-31.12.2022
Profit for the year	1.865.798.223	1.259.980.330
Weighted average number of ordinary shares in issue	5.000.000.000	5.000.000.000
	0,37	0,25

13. Goverment issued bonds and notes

	31.12.2023	31.12.2022
Goverment issued bonds - CPI linked	1.976.139.109	689.426.204
Goverment issued notes - non indexed	1.058.575.063	0
Treasury bill	2.953.780.200	6.644.887.928
	5.988.494.372	7.334.314.132

Government bonds and government bills are valued at fair value at the end of the year based on the recorded price in an active market for similar assets and liabilities.

14. Market securities and bonds

	31.12.2023	31.12.2022
Covered bonds	2.176.187.220	0
Bank issued bond	265.707.229	264.529.369
	2.441.894.449	264.529.369

15. Loans and receivables to credit institutions

	31.12.2023	31.12.2022
Bank accounts	156.681.273	1.282.793.630
Money-market loans	689.276.739	1.579.886.812
	845.958.012	2.862.680.442

16. Loans and receivables to customers

	31.12.2023	31.12.2022
CPI linked loans*	182.955.938.547	163.307.665.312
Foreign currency loans	1.346.330.113	1.491.538.873
Non - CPI linked loans	4.453.124.156	5.325.605.470
Non - CPI linked short-term loans	2.048.199.551	142.458.134
	190.803.592.367	170.267.267.789
Expected credit loss according to IFRS 9	(41.976.655)	(37.458.799)
	190.761.615.712	170.229.808.990

The outstanding amount of amortisation and borrowing fees at the end of the year is negative by ISK 116,8 million. At year-end 2022, the remaining balance was positive by ISK 300,8 million. The reason for the change is that the yield on loans granted during the year was higher than the nominal interest rate on the loan.

Expected credit loss on loans to municipalities amount to ISK 37,5 million at beginning of the year. The loss allowance is calculated based on 12 month expected credit loss in stage 1. Changes in the period based on outstanding loans at year end amounts to ISK 4,5 million. Total expected credit loss accourding to IFRS 9 at end of the period is ISK 42 million.

According to the Local Government Act No. 138/2011, municipalities may pledge their revenues as security for loans and guarantess borrowed from MCI and MCI has the policy to take such a pledge for granted loans. At year end, 100% of MCI´s loans to municipalities and companies owned by them had such a pledge.

* The MCI calculates two loans to customers at fair value. The loans are granted in ISK at a fixed indexed interest rate. The loans were financed by foreign borrowing at variable interest rates. The MCI uses derivatives contracts to hedge against foreign exchange risk, interest rate risk and inflation risk. See note 22.

Next year's payments

Balance 31.12.2023 in ISK million	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
CPI linked loans	14.959.420.552	55.011.072.099	112.985.445.896	182.955.938.547
Foreign currency loans	136.695.587	546.782.953	662.851.573	1.346.330.113
Non - CPI linked loans	425.267.649	1.517.001.940	2.510.854.567	4.453.124.156
Non - CPI linked short-term loans	2.048.199.551	0	0	2.048.199.551
	17.569.583.339	57.074.856.992	116.159.152.036	190.803.592.367

Balance 31.12.2022 in ISK million	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
CPI linked loans	15.040.780.943	47.237.297.109	101.029.587.260	163.307.665.312
Foreign currency loans	137.479.416	549.917.662	804.141.795	1.491.538.873
Non - CPI linked loans	1.116.776.602	1.361.705.303	2.847.123.565	5.325.605.470
Non - CPI linked short-term loans	142.458.134	0	0	142.458.134
	16.437.495.095	49.148.920.074	104.680.852.620	170.267.267.789

17. Property, plant and equipment

	31.12.2023	31.12.2022
Net book amount at the beginning of the year	70.051.996	38.260.026
Capitalised during the year	0	33.660.763
	70.051.996	71.920.789
Depreciation during the period, property	(1.868.842)	(1.868.793)
Net book amount at period end	68.183.154	70.051.996

Real estate evaluation at year end amounted to ISK 125,3 million and fire compensation value is ISK 157,9 million. The insurance of real estate is ISK 157,9 million.

18. Other assets

	31.12.2023	31.12.2022
Legal Defence Fund	22.500.000	15.000.000
Collect VAT	1.362.979	1.018.783
	23.862.979	16.018.783

The objective of the Legal Defence Fund is to pay the legal defence costs of Board members and employees arising from cases directed against them as a result of their work for the MCI in accordance with special rules. The funds of the Defence Fund shall be held in the form of bank deposits or solid securities held by the MCI. Funds belonging to the Legal Defence Fund do not belong to cash in cash flow. The contribution to the fund is ISK 7.5 million each year for 10 years, until the fund reaches ISK 75 million. After that, the missing amount shall be paid annually so that the value of the fund keeps pace with the increases in the Salary index each year. The Fund's basic index is based on the Salary index (778.6).

19. Classification and measurement of financial assets and liabilities

According to IFRS 9 "Financial Instruments", financial assets and financial liabilities must be classified into specific categories which then determines the subsequent measurement of the instrument.

- Financial assets and liabilities at amortized cost
- Financial assets and liabilities at fair value through profit and loss

The following table shows the classification of financial assets and financial liabilities according to IFRS 9 and their fair value:

31 December 2023		**Book value**			**Fair value**			
		At amortized cost	**Financ. instr.m. at fair value**	**Total carrying amount**				
Financial assets at fair value	**Notes**				**Level 1**	**Level 2**	**Level 3**	**Total**
Goverment issued bonds and notes	13	-	5.988.494.372	5.988.494.372	5.988.494.372	-	-	5.988.494.372
Market securities and bonds	14	-	2.441.894.449	2.441.894.449	2.441.894.449	-	-	2.441.894.449
Loans and receivables to customers	16	-	1.826.986.418	1.826.986.418	-	1.826.986.418	-	1.826.986.418
		0	10.257.375.239	10.257.375.239	8.430.388.821	1.826.986.418	0	10.257.375.239
Financial assets not at fair value								
Debt securities issued	15	845.958.012	-	845.958.012	-	845.958.012	-	845.958.012
Loans and receivables to credit inst.	16	188.976.605.949	-	188.976.605.949	-	174.951.057.144	-	174.951.057.144
		189.822.563.961	0	189.822.563.961	0	175.797.015.156	0	175.797.015.156
Financial liabilities at fair value								
Derivitavies contracts	24	-	7.496.075	7.496.075	-	7.496.075	-	7.496.075
Financial liabilities not at fair value	**Notes**							
Goverment issued bonds and notes	21	174.169.823.066	-	174.169.823.066	174.169.823.066	-	-	174.169.823.066
Market securities and bonds	22	2.975.577.658	-	2.975.577.658	-	2.975.577.658	-	2.975.577.658
Loans to customers	25	121.000.568	-	121.000.568	-	121.000.568	-	121.000.568
		177.266.401.292	0	177.266.401.292	174.169.823.066	3.096.578.226	0	177.266.401.292

Classification and measurement of financial assets and liabilities, cont.

31 December 2022		**Book value**			**Fair value**			
Financial assets at fair value	**Notes**	**At amortized cost**	**Financ. instr.m. at fair value**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Goverment issued bonds and notes	13	-	7.334.314.132	7.334.314.132	7.334.314.132	-	-	7.334.314.132
Market securities and bonds	14	-	264.529.369	264.529.369	264.529.369	-	-	264.529.369
		0	7.598.843.501	7.598.843.501	7.598.843.501	0	0	7.598.843.501
Financial assets not at fair value								
Loans and receivables to credit inst.	15	2.862.680.442	-	2.862.680.442	-	2.862.680.442	-	2.862.680.442
Loans and receivables to customers	16	170.267.267.789	-	170.267.267.789	-	164.974.482.925	-	164.974.482.925
		173.129.948.231	0	173.129.948.231	0	167.837.163.367	0	167.837.163.367
Financial liabilities not at fair value	**Notes**							
Goverment issued bonds and notes	21	158.289.503.745	-	158.289.503.745	151.798.572.936	-	-	151.798.572.936
Market securities and bonds	22	1.282.894.331	-	1.282.894.331	0	1.282.894.331	-	1.282.894.331
Loans to customers	25	227.437.106	-	227.437.106	0	227.437.106	-	227.437.106
		159.799.835.182	0	159.799.835.182	151.798.572.936	1.510.331.437	0	153.308.904.373

MCI uses tiering to explain different inputs to fair value. The tiering ranks admissions into three general tiers as follows:

Level 1: Quoted prices on the active market for similar assets and liabilities. The fair value of securities issuance is based on the market price of the MCI's bonds on the market as of 31 December 2023.

Level 2: Assumptions are based on variables other than quoted prices on the active market (level 1) that can be acquired for assets and liabilities, directly or indirectly (derived prices). The fair value of loans and receivables to customers is estimated by discounting the cash flow of the loan portfolio with the yield on the market's bonds.

Level 3: The assumptions for the fair value of assets and liabilities are not based on data that can be obtained on the market, but on information on the performance of the company in question, purchase and sale of holdings, etc.

20. Netting of financial assets and liabilities

The following tables provide an overview of financial assets and liabilities that are subject to countervailing agreements or similar agreements that can be applied without conditions.

31.12.2023	Financial liabilities covered by countervailing agreements			Off-balance-sheet settlement				
Financial liability	Financial liabilities	Financial assets	Difference	Financial assets	Delivered insurance	Net financial liabilities within countervailing agreements	Financial liabilities outside countervailing agreements	Net book value on the balance sheet
Derivatives	(7.496.075)	0	(7.496.075)	0	0	0	0	(7.496.075)

No derivatives were available at the MCI at year-end 2022.

21. Debt securities issued

	Weighted average interest rate*			
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
LSS '08 1, notes due 2034	5,29%	5,29%	1.934.937.747	1.962.685.142
LSS 150224, notes due 2024	5,47%	4,62%	1.729.352.121	7.153.054.935
LSS 150434, notes due 2034	1,96%	1,96%	101.595.116.603	102.074.094.623
LSS 39 0303, notes due 2039	2,93%	2,19%	22.852.597.652	7.378.313.042
LSS 151155, notes due 2055	2,39%	2,31%	36.975.681.413	32.892.943.174
LSS 040440 GB, notes due 2040	2,43%	2,08%	7.320.033.511	5.069.971.069
LSB 280829 GB, notes due 2029	4,27%	4,27%	1.762.104.019	1.758.441.760
Debt securities in issue total			174.169.823.066	158.289.503.745

* Weighted average interest rate is calculated in accordance with the effective interest rate method.
Remaining balance of discounts and cost of borrowing at year-end is ISK 5.127 million. In 2022 year-end remaining balance were ISK 9.127 millions. This change is due to an increased in yield in the market.

Next year's payments

31.12.2023	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Debt securities issued	12.066.923.673	47.852.511.469	114.250.387.924	174.169.823.066

31.12.2022	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Debt securities issued	13.479.796.118	41.292.318.195	103.517.389.432	158.289.503.745

22. Other borrowed funds

	Interest rate			
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
EUR loans	4,27%	1,44%	2.975.577.658	1.282.894.331

Next year's payments

31.12.2023	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
EUR loans	116.233.501	1.296.003.550	1.563.340.607	2.975.577.658

31.12.2022	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
EUR loans	116.626.757	466.507.027	699.760.547	1.282.894.331

23. Changes in debt securities issued and other borrowed funds

Beginning of the year 1.1.2023, Debt securities issued, CPI linked loans, cf. notes 20	156.531.061.985
Beginning of the year 1.1.2023, Debt securities issued, Non - CPI linked loans, cf. notes 20	1.758.441.760
Beginning of the year 1.1.2023, Other borrowed funds, EUR, cf. notes 21	1.282.894.331
	159.572.398.076
Debt securities issued in the year	20.515.499.793
Debt securities issued repaid, in the year	(13.423.375.631)
Bought own shares	(1.304.375.569)
Received instalments on own shares	423.674.221
Accrued interests	19.136.115
CPI linked and currency movements	11.980.668.461
Bond discount and cost of borrowing	(638.224.742)
	177.145.400.724

24. Derivative contracts

31.12.2023		Fair value	
	Contract amount	Assets	Liabilities
Derivative contracts	8.391.489	0	7.496.075

The MCI uses derivative contracts to hedge against foreign exchange risk, interest rate risk and inflation risk. The derivatives contracts are used to protect the MCI's operations against the exchange rate of EUR and changes in EURIBOR rates, whereas loans to customers are denominated in ISK and at fixed indexed interest rates. Such risk arises from imbalances in the composition of assets and liabilities. Clarification is set regarding such imbalances, the management and the board of directors are regularly informed of the risks involved.

The derivatives contracts are calculated at the fair value and the change in fair value is recognised among other operating income as net interest income on financial assets at the required fair value. The derivative contracts are entered in chemical assets or liabilities depending on the status of the contracts on the settlement date.

25. Short term borrowings

	Interest rate			
	31.12.2023	**31.12.2022**	**31.12.2023**	**31.12.2022**
ISK loans, non-CPI linked	8,90%	5,45%	121.000.568	227.437.106

26. Post-employment obligations

MCI and other jointly administrated institutions are subject to pension obligations related to their employees, that have and do participate in the B-department of the State Employees' Pension Fund. The calculations of an actuary has been calculated for the pension obligations and recorded as liability in the balance sheet based on a 2,0% interest rate. New life expectancy rate according to 2014-2018 values. Post-employment obligation is not regarding present employees.

Post-employment obligations are specified as:	**31.12.2023**	**31.12.2022**
Pension liability at beginning of year	106.560.721	93.284.183
Paid during the year	(5.373.654)	(4.605.978)
Increase during the year	10.382.340	17.882.516
Pension obligation total	111.569.407	106.560.721

27. Other liabilities

	31.12.2023	**31.12.2022**
Creditors	10.068.137	8.787.558
Unpaid salary related expenses	11.147.474	4.692.180
Other liabilities total	21.215.611	13.479.738

28. Equity

The MCI calculates and publishes its capital ratio in accordance with Article 84 of Act No. 161/2002 on financial undertakings. The MCI applies the standardised approach to the calculating credit risk and market risk, and a basic indicator approach to the calculation of operational risk. At year-end MCI is obligated to bind an additional 8% minimum capital ratio, 2.5% in the protection buffer and 2.0% in the countercyclical capital buffer of risk-weighted assets. The capital requirement at year-end 2023 is 12.5%.

At the end of the year the total share capital was ISK 5.000 million. One vote is entitled to each nominal ISK.

Equity, cont.

The capital adequacy ratio is determined as follows:

Equity base	**31.12.2023**	**31.12.2022**
Share Capital	5.000.000.000	5.000.000.000
Statutory reserve	1.250.000.000	1.250.000.000
Restricted unrealized change in fair value	94.938.541	66.581.459
Retained earnings	16.378.387.753	14.540.946.612
Equity base total	22.723.326.294	20.857.528.071
Risk base		
Credit risk	1.366.917.702	1.485.773.805
Market risk	1.307.719.781	323.239.257
Operational risk	2.790.192.053	2.074.946.577
Risk base total	5.464.829.536	3.883.959.638
Capital adequacy ratio		
Capital adequacy ratio	416%	537%

The MCI makes use of mitigation clauses in capital calculations due to the MCI's statutory special status. According to Article 68(2) of the Local Government Act No. 138/2011, municipalities may provide the MCI with collateral on their income in respect of loans granted by the MCI and in respect of guarantees they grant to the MCI pursuant to Article 69(1) and (2) of the same Act. When mitigating measures are applied, the risk exposures in question, to the extent that collateral exists, will be given a risk weight similar to that of the Icelandic government, i.e. 0% for loans in ISK.

The MCI's CAD ratio is 416% based on the loan position at year-end, compared to 537% at year-end 2022, with the use of a mitigation clause in the capital calculation. Without mitigation, the weighted equity ratio remains at 53%, compared to 56% at year-end 2022.

29. Related party disclosures

Related parties are defined as municipalities and companies, owned by them, which are related to members and alternate members of MCI´s Board of Directors, CEO, key employees and close member of their family. Alternates become a related party from the moment that they are called into a boardmeeting and take part in MCI decision making.

One shareholder owns more than 10% of MCI, see note 31. Information regarding related parties is as follows:

	31.12.2023	**31.12.2022**
Balance at the beginning of year	21.063.779.606	45.850.339.341
New loans to related parties	960.000.000	800.000.000
Loan repayments from related parties	(1.690.588.729)	(4.135.921.022)
Other changes	1.990.065.131	(21.450.638.713)
Balance at year end	22.323.256.008	21.063.779.606
Interest income	586.563.651	1.152.001.222

All facilitation to related parties took place as usual facilitation. The same terms and conditions applied to them, including interest and collateral, as to comparable transactions with third parties.

Information about directors´salary, see note 8.
Expenses paid to the Icelandic Association of Local Authorities, see note 10.
Debt to related parties at year end, see note 29.

30. Outstanding loans

The table below shows the outstanding loans by municipality. MCI has lent ISK 159.407 million to municipalities. On next page is an overview of outstanding loans to companies owned by municipalities.

Municipality	Amount	Habitants	Municipality	Amount	Habitants
Hafnarfjarðarkaupstaður	16.744	30.568	Sveitarfélagið Hornafjörður	945	2.547
Garðabær	15.420	18.891	Sveitarfélagið Vogar	937	1.396
Kópavogsbær	14.823	39.810	Norðurþing	924	3.156
Mosfellsbær	14.224	13.430	Rangárþing Ytra	906	1.866
Sveitarfélagið Árborg	14.003	11.239	Dalvíkurbyggð	812	1.906
Reykjanesbær	13.447	22.059	Grímsnes- og Grafningshreppur	797	535
Akureyrarbær	7.477	19.893	Húnaþing vestra	764	1.258
Sveitarfélagið Skagafjörður	6.117	4.306	Strandabyggð	704	428
Múlaþing	6.069	5.208	Vopnafjarðarhreppur	698	661
Fjarðabyggð	4.394	5.262	Hörgársveit	670	780
Seltjarnarneskaupstaður	4.323	4.674	Tálknafjarðarhreppur	567	268
Hveragerðisbær	4.231	3.196	Akraneskaupstaður	561	7.997
Suðurnesjabær	3.636	3.925	Langanesbyggð	550	592
Ísafjarðarbær	3.202	3.864	Skaftárhreppur	428	680
Húnabyggð	2.160	1.295	Mýrdalshreppur	253	877
Bolungarvíkurkaupstaður	2.139	997	Dalabyggð	193	653
Stykkishólmsbær	2.108	1.308	Skeiða- og Gnúpverjahreppur	190	577
Borgarbyggð	1.896	4.090	Grýtubakkahreppur	146	379
Vesturbyggð	1.832	1.182	Reykhólahreppur	128	242
Bláskógabyggð	1.748	1.280	Kjósarhreppur	124	285
Sveitarfélagið Ölfus	1.678	2.573	Flóahreppur	108	708
Rangárþing eystra	1.529	2.035	Fjallabyggð	36	1.977
Grundarfjarðarbær	1.327	861	Skagabyggð	24	89
Hrunamannahreppur	1.241	874	Ásahreppur	8	295
Þingeyjarsveit	1.160	1.393	Súðavíkurhreppur	2	235
Snæfellsbær	1.004	1.678	Árneshreppur	1	47

30. Outstanding loans, cont.

The table below shows the outstanding loans by companies owned by municipalities. MCI has lent ISK 31.396 million to companies owned by municipalities.

Municipal owned company	Amount	Municipal owned company	Amount
Félagsbústaðir hf	10.751	Félagsþjónusta A-Hún bs	141
Norðurorka	5.135	Byggðasamlagið Oddi bs	119
Selfossveitur	2.433	Brunavarnir Rangárvallasýslu bs.	92
SORPA bs	1.571	Fasteignir Húnavatnshrepps ehf.	90
Húsnæðisskrifstofa Hafnarfjarðar	1.551	Samb.sveitarfél. á Suðurnesjum	84
Strætó bs	1.550	Húnanet	79
Reykjaneshöfn	953	Dalaveitur	77
Brunavarnir Suðurnesja bs,	677	Orkuveita Reykjavíkur	76
Ísafjarðarhöfn	663	Sorpsamlag Strandasýslu	66
Fallorka ehf	523	Hitaveita Flúða og nágrennis	65
Þorlákshafnarhöfn	521	Byggðasafnið í Skógum	62
Dvalarheimilið Kirkjuhvoll	513	Langaneshafnir	60
Hafnarsjóður Norðurþings	421	Hafnarfjarðarhöfn	57
Kjósarveitur ehf.	413	Hrunaljós	57
Brunavarnir Árnessýslu	399	Hólmavíkurhöfn	55
Héraðsnefnd Árnesinga bs.	276	Flóaljós	37
Höfði hjúkrunar- og dvalarheimili	246	Veitustofnun Strandabyggðar	29
Vatnsveita Ragnárþings ytra og Ása	244	Tónlistarskóli Árnesinga	21
Byggðasafn Árnesinga	227	Félags- og skólaþjónusta Snæfellinga	19
Norðurá bs.	223	Listasafn Árnesinga	18
Slökkvilið höfuðborgarsvæðisins	220	Héraðsskjalasafn Árnesinga	10
Sorpstöð Rangárvallasýslu bs	219	Bolungarvíkurhöfn	4
Hitaveita Egilsstaða og Fella ehf.	186	Orkuveita Húsavíkur	1
Fasteignafél. Hveragerðisbæjar	161	Hitav. Húnaþings vestra	1

MCI has received permission in writing from its borrowers whereby they approve of the publication of their total borrowings from MCI. This is done in order to be able to publish the information in financial statements and investor reports where total loans are split down by municipalities and companies owned by them. This permission was sought in accordance with article 60 of Act no. 161/2002 on financial institutions.

31. Shareholders

MCI is owned by all 64 municipalities in Iceland. Reykjavik is the only shareholder with a share above 10%, holding 17,5% of MCI´s shares. The ten largest shareholders together own 56% of MCI´s shares. Below is a table presenting all MCI´s shareholders and their respective share.

Municipality	Shares in %	Municipality	Shares in %
Akraneskaupstaður	2,41%	Mosfellsbær	1,49%
Akureyrarbær	5,49%	Múlaþing	2,99%
Árneshreppur	0,04%	Mýrdalshreppur	0,37%
Ásahreppur	0,04%	Norðurþing	2,22%
Bláskógabyggð	0,63%	Rangárþing eystra	1,67%
Bolungarvíkurkaupstaður	0,83%	Rangárþing ytra	1,72%
Borgarbyggð	1,78%	Reykhólahreppur	0,30%
Dalabyggð	0,61%	Reykjanesbær	3,03%
Dalvíkurbyggð	1,35%	Reykjavíkurborg	17,47%
Eyja- og Miklaholtshreppur	0,05%	Seltjarnarnesbær	1,16%
Eyjafjarðarsveit	0,37%	Skaftárhreppur	0,38%
Fjallabyggð	2,39%	Skagabyggð	0,03%
Fjarðabyggð	3,34%	Skeiða- og Gnúpverjahreppur	0,37%
Fljótsdalshreppur	0,03%	Skorradalshreppur	0,02%
Flóahreppur	0,25%	Snæfellsbær	1,77%
Garðabær	3,76%	Strandabyggð	0,45%
Grindavíkurbær	1,09%	Sveitarfélagið Stykkishólmur	1,87%
Grímsnes- og Grafningshreppur	0,22%	Suðurnesjabær	1,09%
Grundarfjarðarbær	0,60%	Súðavíkurhreppur	0,30%
Grýtubakkahreppur	0,13%	Svalbarðsstrandarhreppur	0,18%
Hafnarfjarðarkaupstaður	4,25%	Sveitarfélagið Árborg	3,05%
Hrunamannahreppur	0,24%	Sveitarfélagið Hornafjörður	1,35%
Húnabyggð	1,62%	Sveitarfélagið Skagafjörður	2,42%
Húnaþing vestra	0,89%	Sveitarfélagið Skagaströnd	0,29%
Hvalfjarðarsveit	0,22%	Sveitarfélagið Vogar	0,42%
Hveragerðisbær	0,96%	Sveitarfélagið Ölfus	0,86%
Hörgársveit	0,17%	Tálknafjarðarhreppur	0,20%
Ísafjarðarbær	4,15%	Tjörneshreppur	0,02%
Kaldrananeshreppur	0,06%	Vestmannaeyjabær	5,81%
Kjósarhreppur	0,08%	Vesturbyggð	1,32%
Kópavogsbær	5,52%	Vopnafjarðarhreppur	0,68%
Langanesbyggð	0,62%	Þingeyjarsveit	0,55%