



## **Municipality Credit Iceland**

**Condensed Interim Financial Statements  
for the period 1 January to 30 June 2011**

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# Report of the Board of Directors and the Managing Director

## Lending and borrowings

Disbursed long term loans throughout the period amounted to ISK 3,495 million, compared to ISK 2,014 million for the same period last year.

MCI has never suffered a loan loss since it commenced operations in 1967 and does not make provisions for estimated loan losses in its books. MCI takes pledge in the municipalities' revenues as collateral for loans and guarantees. At the date of signing these financial statements, the amount in arrears on outstanding loans was ISK 11 million.

Loans financed with share capital are CPI-linked and can be prepaid. The interests are variable but remained at 4.25% throughout the period. Borrowed money is re-lent with a 0.05% margin to cover part of operating costs. In the past MCI has never faced more than minimum currency and interest rate risk in its operation.

Bonds amounting to ISK 3,227 million were issued during the period to fund lending. The bonds are listed on the Icelandic Stock Exchange.

## Operating results and financial position

Profit for the period amounted to ISK 519 million, as compared to ISK 941 million the same period last year. Decreased profits are mainly due to the euro currency fluctuations in 2010 which were very favourable for MCI.

Total assets amounted to ISK 74,587 million, as compared to ISK 73,735 million at year end 2010. Total outstanding loans amounted to ISK 63,293 at the end of June. Equity amounted to ISK 14,696 million as compared to ISK 14,178 million at year-end 2010 which is an increase of 3.7% during the period.

The CAD ratio, based on Basel II, was 51% at the end of the period and decreases from 78% at year end 2010. The explanation for this decrease is to find in new regulation, nr.378/2011, about change in regulation nr. 215/2007 for capital requirement and risk weighted assets of financial undertakings, set by the Icelandic FSA and took effect on April 13th 2011. If current method would have been applied as of year end the CAD ratio would have been 48% as opposed to 78%.

MCI is owned by 76 municipalities in Iceland. Reykjavik city holds 17.5% share and is the only shareholder with a total share above 10%.

## Statement by the Board of Directors and the Managing Director

According to the board's best knowledge it is our opinion that the condensed financial statements for the period ended 30 June 2011 have been prepared in accordance with International Financial Reporting Standards, IAS 34, as adopted by the EU.

The Board of Directors of Municipality Credit Iceland and the Managing Director hereby confirm the condensed interim financial statements for the period January 1 to June 30, 2011, by means of their signatures.

Reykjavik, August 23, 2011

Magnus B. Jonsson  
Chairman

Svanfridur Inga Jonasdottir

Kristinn Jonasson

Ellidi Vignisson

Thorbjorg Helga Vigfusdottir

Ottar Gudjonsson  
Managing Director

# Independent Auditor's Review Report

## To the board of Municipality Credit Iceland

We have reviewed the accompanying condensed statement of financial position of MCI as at June 30, 2011, the condensed statement of comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and fair presentation of this condensed interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavik, August 23, 2011

**KPMG hf.**

Margrét G. Flóvenz

Hrafnhildur Helgadóttir

## Condensed Statement of Comprehensive Income

|                                                             | Notes | Six months ended 30 June  |                           |
|-------------------------------------------------------------|-------|---------------------------|---------------------------|
|                                                             |       | 30.6.2011                 | 30.6.2010                 |
| Interest income .....                                       |       | 3.100.666.471             | 2.615.910.427             |
| Interest expenses .....                                     |       | (2.470.304.341)           | (1.900.731.822)           |
| <b>Net interest income</b>                                  | 5     | <u>630.362.130</u>        | <u>715.178.605</u>        |
| Net loss on financial assets held for trading .....         | 6     | 0                         | (25.877.354)              |
| Net gain (loss) on financial assets at FV through P&L ..... | 7     | 25.318                    | (216.494)                 |
| Net foreign exchange (loss) gain .....                      | 8     | (48.588.035)              | 323.595.014               |
| <b>Other operating (expenses) income</b>                    |       | <u>(48.562.717)</u>       | <u>297.501.166</u>        |
| <b>Net operating income</b>                                 |       | 581.799.413               | 1.012.679.771             |
| Salaries and related expenses .....                         | 9     | 24.491.244                | 24.624.200                |
| Cost of bond issuance .....                                 | 10    | 13.184.746                | 16.078.892                |
| FSA's annual fee and monitoring fee .....                   |       | 4.356.000                 | 7.180.000                 |
| Other operating expenses .....                              | 10    | 20.471.318                | 23.268.002                |
| Depreciation .....                                          | 16    | 597.814                   | 597.814                   |
| <b>Operating expenses</b>                                   |       | <u>63.101.122</u>         | <u>71.748.908</u>         |
| <b>Net operating income and comprehensive income</b>        |       | <u><u>518.698.291</u></u> | <u><u>940.930.863</u></u> |
| <b>Earnings per share</b>                                   |       |                           |                           |
| Basic and diluted earnings per share .....                  | 11    | 0,10                      | 0,19                      |

Notes on pages 9 through 21 are an integral part of these interim financial statements.

## Condensed Balance Sheet

|                                                     | Notes | Balance as at         |                       |
|-----------------------------------------------------|-------|-----------------------|-----------------------|
|                                                     |       | 30.6.2011             | 31.12.2010            |
| <b>Assets</b>                                       |       |                       |                       |
| Cash and balances within the Central bank .....     | 12    | 8.840.437.238         | 8.969.736.222         |
| Amounts due from credit institutions .....          | 13    | 2.402.235.863         | 2.331.565.093         |
| Long term loans .....                               | 14    | 63.283.299.560        | 62.381.281.528        |
| Short term loans .....                              | 14    | 10.069.931            | 0                     |
| Financial assets designated at FV through P&L ..... | 15    | 354.397               | 329.079               |
| Property, plant and equipment .....                 | 16    | 50.814.166            | 51.411.980            |
| Other assets .....                                  |       | 516.026               | 941.987               |
| <b>Total assets</b>                                 |       | <b>74.587.727.181</b> | <b>73.735.265.889</b> |
| <b>Liabilities</b>                                  |       |                       |                       |
| Debt securities issued .....                        | 17    | 42.017.450.951        | 39.806.886.488        |
| Other borrowed funds .....                          | 18    | 16.609.238.653        | 18.160.976.640        |
| Short term borrowings .....                         | 19    | 1.205.242.286         | 1.532.327.435         |
| Other liabilities .....                             | 21    | 5.389.438             | 3.298.722             |
| Pension obligations .....                           | 22    | 54.036.904            | 54.105.946            |
| <b>Total liabilities</b>                            |       | <b>59.891.358.232</b> | <b>59.557.595.231</b> |
| <b>Equity</b>                                       |       |                       |                       |
| Share capital .....                                 |       | 5.000.000.000         | 5.000.000.000         |
| Reserves .....                                      |       | 1.250.000.000         | 1.250.000.000         |
| Retained earnings .....                             |       | 8.446.368.949         | 7.927.670.658         |
| <b>Total equity</b>                                 | 23    | <b>14.696.368.949</b> | <b>14.177.670.658</b> |
| <b>Total equity and liabilities</b>                 |       | <b>74.587.727.181</b> | <b>73.735.265.889</b> |

Notes on pages 9 through 21 are inseparable part of this interim account.

## Condensed Statement of Changes in Equity

|                                  | Share capital        | Reserves             | Retained earnings    | Total                 |
|----------------------------------|----------------------|----------------------|----------------------|-----------------------|
| <b>Changes in equity 2010</b>    |                      |                      |                      |                       |
| Equity as at 1.1.2010 .....      | 5.000.000.000        | 1.250.000.000        | 6.679.593.045        | 12.929.593.045        |
| Profit, January-June 2010 .....  |                      |                      | 940.930.863          | 940.930.863           |
| Equity as at 30.6.2010 .....     | <u>5.000.000.000</u> | <u>1.250.000.000</u> | <u>7.620.523.908</u> | <u>13.870.523.908</u> |
| Profit, July-December 2010 ..... |                      |                      | 307.146.750          | 307.146.750           |
| Equity as at 31.12.2010 .....    | <u>5.000.000.000</u> | <u>1.250.000.000</u> | <u>7.927.670.658</u> | <u>14.177.670.658</u> |
| <b>Changes in equity 2011</b>    |                      |                      |                      |                       |
| Equity as at 1.1.2011 .....      | 5.000.000.000        | 1.250.000.000        | 7.927.670.658        | 14.177.670.658        |
| Profit, January-June 2011 .....  |                      |                      | 518.698.291          | 518.698.291           |
| Equity as at 30.6.2011 .....     | <u>5.000.000.000</u> | <u>1.250.000.000</u> | <u>8.446.368.949</u> | <u>14.696.368.949</u> |

Notes on pages 9 through 21 are inseparable part of this interim account.

## Condensed Statement of Cash Flows

|                                                                   | Notes | Six months ended 30 June     |                             |
|-------------------------------------------------------------------|-------|------------------------------|-----------------------------|
|                                                                   |       | 2011                         | 2010                        |
| <b>Cash flows from operating activities</b>                       |       |                              |                             |
| Profit for the period .....                                       |       | 518.698.291                  | 940.930.863                 |
| Items not affecting cash:                                         |       |                              |                             |
| Depreciation .....                                                | 16    | 597.815                      | 597.813                     |
| Indexation and exchange rate difference .....                     |       | (5.471.666)                  | (612.463.680)               |
| Post employment obligations, changes .....                        | 21    | (69.042)                     | (260.886)                   |
| Financial assets design. at FV through P&L - Deriv. Changes ..... |       | (25.318)                     | 216.494                     |
| Short term loans provided to customers .....                      |       | (10.000.000)                 | (480.000.000)               |
| Short term loans, borrowings .....                                |       | (328.082.157)                | 2.000.000.000               |
| Other assets, decrease .....                                      |       | 425.961                      | 1.551.607                   |
| Other liabilities, increase (decrease) .....                      |       | 2.090.716                    | (1.192.941)                 |
| <b>Net cash from operating activities</b>                         |       | <u>178.164.600</u>           | <u>1.849.379.270</u>        |
| <b>Cash flows from investing activities</b>                       |       |                              |                             |
| Loans provided to customers .....                                 |       | (3.494.500.000)              | (2.013.887.899)             |
| Loan collection from customer .....                               |       | 5.178.749.947                | 3.971.946.390               |
|                                                                   |       | <u>1.684.249.947</u>         | <u>1.958.058.491</u>        |
| <b>Cash flows from financing activities</b>                       |       |                              |                             |
| Borrowings .....                                                  |       | 3.308.280.885                | 3.340.014.410               |
| Borrowings repaid by MCI .....                                    |       | (5.229.323.645)              | (4.821.292.175)             |
|                                                                   |       | <u>(1.921.042.760)</u>       | <u>(1.481.277.765)</u>      |
| <b>Net change in cash and cash equivalents</b>                    |       | (58.628.213)                 | 2.326.159.996               |
| Cash and cash equivalents at the beginning of year .....          |       | <u>11.301.301.315</u>        | <u>5.398.631.377</u>        |
| <b>Cash and cash equivalents at the end of the period</b>         |       | <u><u>11.242.673.102</u></u> | <u><u>7.724.791.373</u></u> |
| Interest received .....                                           |       | 1.302.560.782                | 1.423.331.431               |
| Interest paid .....                                               |       | (1.046.333.909)              | (1.160.256.757)             |

Notes on pages 8 through 21 are inseparable part of this interim account.



# Notes

## 1. General information

Municipality Credit Iceland Plc. (MCI) is a statutory limited liability company owned by all the 76 Icelandic municipalities. MCI is a financial institution, and operates pursuant to Act No. 161/2002 on Financial undertakings, The Companies Act No. 2/1995 and is supervised by the FSA. MCI's main function is to secure favorable funding to the municipalities and related organisations and enterprises. In order for MCI to be able to lend to municipalities the respective project has to be of general economic interest.

MCI is incorporated and domiciled in Iceland. The address of its registered office is as follows: Borgartún 30, IS-105 Reykjavík.

MCI has issued bonds which are listed at the Nasdaq OMX Iceland hf. and part of them are being traded by market makers.

The condensed interim financial statements have been approved for issue by the Board of Directors of Municipality Credit Iceland on 23 August 2011.

The condensed interim financial statements have been reviewed but not audited by MCI's auditors.

## 2. Basis of preparation

The Interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Interim financial statements do not include all the detailed information as required in the annual financial statements and should therefore be read in relation to the financial statements of 2010. The 2010 financial statements can be found at MCI's offices or their website at [www.lanasjodur.is](http://www.lanasjodur.is) as well as on NASDAQ OMX Iceland hf.'s website [www.omxnordicexchange.com](http://www.omxnordicexchange.com).

The interim financial statements are presented in Icelandic krona (ISK) which is MCI's functional and presentational currency.

## 3. Summary of significant accounting policies

The same principal accounting policies have been applied for these interim financial statements as for the financial statements of the year 2010.

## 4. Financial risk management

### 4.1. General

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 continuous 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 keep the risk factors within predefined risk limits.

The Board of Directors determines MCI's risk management policy and is responsible for its uphold. The Managing Director is responsible to the Board of Directors and proposes new policies and if appropriate, risk limits and is responsible for the monitoring of the major risk factors.

MCI has been granted an exemption from operating an internal auditing department in accordance with guidelines from the Financial Services Authority nr. 4/2003. The guidelines spell out how an internal audit shall be conducted and that the main role of an internal audit is to oversee the operations to ensure that rules are being followed in accordance with the boards decisions. MCI's board contracts the annual internal audit of the fund in accordance with the Financial Services Authority's rules.

MCI is an intermediary for the Icelandic municipalities and their organisations and enterprises to the domestic and foreign 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 the fund. Market risk is kept at a minimum even though it is present in terms of interest and currency risk.

## 4.2. Risk policy

Exposure to *credit risk* arises from MCI's loans to Icelandic municipalities and the State Treasury. MCI solely grants loans to municipalities, their organisations and enterprises. The condition for the provision of credit to municipality-owned enterprises and organisations is that such enterprises and organisations must be wholly owned by municipalities or jointly owned by municipalities and the State Treasury, with both acting as guarantors to the Company for respective loans.

According to the Local Government Act No. 45/1998, municipalities may pledge their revenues as security for loans and guarantees granted by MCI. When granting loans it is the policy of MCI that such security should be provided for by the municipality in question. Income derived from the State Treasury and Ministry of Social Affairs serves as secure collateral for MCI.

*Liquidity risk* is the risk that MCI will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities. To maintain the flexibility needed MCI formulates liquidity management policies regarding its liquidity position and funding. The principal rule is to conclude 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.

*Counterparty risk*, excluding credit risk, is limited to the State Treasury and entities with guarantees from the State Treasury as well as domestic financial institutions which have a license from the Financial Services Authority, to a maximum of 25% of their equity. Risk related to a foreign financial institution shall be approved by the board.

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

Regarding *interest risk*, it is the policy of MCI to keep a balance between the interest bearing assets and liabilities as well as fixed and variable interest rates. Loans granted normally have the same maturity, payment schedule, interest rate, date of interest payments and date of terms re-evaluation as funding. The interest rates on the CPI linked loans which are funded with equity and have variable interest rates can be changed by MCI.

MCI is not permitted to invest in shares, raw materials or financial instruments linked to their price index.

The policy of MCI is to eliminate *currency risk* by minimizing the mismatch between financial assets and financial liabilities denominated in foreign currencies. The mismatch shall never exceed 4% of equity for each international currency and total net currency gap shall not exceed 6%.

## 4.3. Credit risk

The exposure in credit risk arises from MCI's loans to the municipalities. The maximum exposure is the book value of the loans recognised in the balance sheet.

#### 4.3.1 Lending process

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 on 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 in line with MCI's credit rules which are summarized on MCI's website.

#### 4.3.2 Loan portfolio

The exposure to credit risk is limited to the Icelandic municipalities. The municipalities have been reliable borrowers and there has not been a loan loss since MCI commenced operations in 1967.

The municipalities are now a total of 76, their numbers have decreased over the last years which has led to a stronger financial position. At year-end MCI had loans outstanding to 58 municipalities. The Local Government Act is a solid legal frame for the municipalities to operate under. The Icelandic municipalities can technically not become bankrupt as it is stated in the Local Government Act that the State secures the financial solvency of a municipality.

At the end of the period MCI had five customers defined as customers with large exposure. Large exposures are defined as exposures that exceed 10% of MCI's equity. Ten of the largest borrowers hold 56% of the total loans. According to laws and regulations, no single exposure may exceed 25% of MCI's equity.

#### 4.3.3 Impairments

MCI has strict requirements on granting loans to the municipalities and has therefore never suffered a loan loss since it commenced operations in 1967. An evaluation on the loan portfolio has never led to write offs and accordingly MCI does not make provisions for future estimated loan losses in its books. In addition to that the fund has good security as the municipalities are allowed to put their revenues as security for loans they receive from MCI and for guarantees they grant according to paragraph 3 of article 73 of Act No. 45/1998 (Local Government Act).

#### 4.3.4 Maximum credit risk

The following table shows MCI's maximum credit risk. Assets as they appear in the Balance Sheet are net assets.

|                                                                         | <b>Maximum credit exposure</b> |                  |
|-------------------------------------------------------------------------|--------------------------------|------------------|
|                                                                         | <b>30.6.2011</b>               | <b>30.6.2010</b> |
| <b>Credit risk position due to balance sheet assets in ISK million:</b> |                                |                  |
| Loans to municipalities and their companies .....                       | 63.283                         | 62.381           |
| Amounts due from credit institutions .....                              | 2.402                          | 2.332            |
| Other assets .....                                                      | 1                              | 1                |
| <b>Total credit risk</b>                                                | <b>65.686</b>                  | <b>64.714</b>    |

### 4.3.5 Credit risk management

The managing director is responsible for MCI's credit risk monitoring. Exposure to credit risk is regularly reviewed and managed through an analysis and evaluation of loans and defaults.

### 4.4 Liquidity risk

MCI monitors the maturities of its assets and liabilities in order to secure that it can pay all liabilities as they come due. MCI always has to have enough liquidity to be able to meet predictable and unpredictable obligations.

The following tables present the future cash flow for financial instruments. Accrued interests, discounts and lending fee is not included.

#### Financial instruments at 30.06.2011 in ISK million:

|                                       | 0 to 1<br>months | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | Over 5<br>years | Total  |
|---------------------------------------|------------------|------------------|-------------------|-----------------|-----------------|--------|
| <b>Financial assets</b>               |                  |                  |                   |                 |                 |        |
| Cash and deposits .....               | 11.243           | 0                | 0                 | 0               | 0               | 11.243 |
| Loans .....                           | 157              | 1.776            | 6.004             | 20.270          | 34.228          | 62.435 |
|                                       | 11.400           | 1.776            | 6.004             | 20.270          | 34.228          | 73.678 |
| <b>Financial liabilities</b>          |                  |                  |                   |                 |                 |        |
| Short term liabilities .....          | 1.204            | 0                | 0                 | 0               | 0               | 1.204  |
| Borrowed funds and bonds issued ..... | 87               | 1.364            | 7.977             | 17.308          | 33.186          | 59.922 |
| <b>Total financial liabilities</b>    | 1.291            | 1.364            | 7.977             | 17.308          | 33.186          | 61.126 |
| <b>Net, assets - liabilities</b>      | 10.109           | 412              | (1.973)           | 2.962           | 1.042           | 12.552 |

#### Financial instruments at 31.12.2010 in ISK million:

|                                       | 0 to 1<br>months | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | Over 5<br>years | Total  |
|---------------------------------------|------------------|------------------|-------------------|-----------------|-----------------|--------|
| <b>Financial assets</b>               |                  |                  |                   |                 |                 |        |
| Cash and deposits .....               | 11.301           | 0                | 0                 | 0               | 0               | 11.301 |
| Loans .....                           | 12               | 1.709            | 6.720             | 19.622          | 33.567          | 61.630 |
| <b>Total financial assets</b>         | 11.313           | 1.709            | 6.720             | 19.622          | 33.567          | 72.931 |
| <b>Financial liabilities</b>          |                  |                  |                   |                 |                 |        |
| Short term liabilities .....          | 1.532            | 0                | 0                 | 0               | 0               | 1.532  |
| Borrowed funds and bonds issued ..... | 18               | 4.124            | 5.132             | 18.232          | 31.783          | 59.289 |
| <b>Total financial liabilities</b>    | 1.550            | 4.124            | 5.132             | 18.232          | 31.783          | 60.821 |
| <b>Net, assets - liabilities</b>      | 9.763            | (2.415)          | 1.588             | 1.390           | 1.784           | 12.110 |

#### 4.4 Liquidity Risk cont.

##### Financial instruments - Repayment profile split by currency in ISK million 30.06.2011.

|                                    | CPI linked    |              | EUR           | USD          | JPY        | Other currencies | Total         |
|------------------------------------|---------------|--------------|---------------|--------------|------------|------------------|---------------|
|                                    | ISK           | ISK          |               |              |            |                  |               |
| <b>Financial assets</b>            |               |              |               |              |            |                  |               |
| Year 2011 .....                    | 2.642         | 8.856        | 4.977         | 53           | 13         | 8                | 16.549        |
| Year 2012 .....                    | 4.380         | 0            | 919           | 115          | 27         | 16               | 5.457         |
| Year 2013 .....                    | 4.139         | 0            | 919           | 115          | 27         | 16               | 5.216         |
| Year 2014 .....                    | 3.944         | 0            | 919           | 115          | 27         | 16               | 5.021         |
| Year 2015 .....                    | 3.848         | 0            | 919           | 115          | 27         | 16               | 4.925         |
| Over 5 years .....                 | 29.530        | 0            | 5.738         | 774          | 149        | 319              | 36.510        |
| <b>Total financial assets</b>      | <b>48.483</b> | <b>8.856</b> | <b>14.391</b> | <b>1.287</b> | <b>270</b> | <b>391</b>       | <b>73.678</b> |
| <b>Financial liabilities</b>       |               |              |               |              |            |                  |               |
| Year 2011 .....                    | 1.409         | 1.204        | 3.053         | 49           | 0          | 0                | 5.715         |
| Year 2012 .....                    | 4.118         | 0            | 2.615         | 235          | 0          | 0                | 6.968         |
| Year 2013 .....                    | 3.057         | 0            | 1.120         | 97           | 0          | 0                | 4.274         |
| Year 2014 .....                    | 3.106         | 0            | 1.120         | 97           | 0          | 0                | 4.323         |
| Year 2015 .....                    | 3.175         | 0            | 1.120         | 97           | 0          | 0                | 4.392         |
| Over 5 years .....                 | 29.518        | 0            | 5.522         | 414          | 0          | 0                | 35.454        |
| <b>Total financial liabilities</b> | <b>44.383</b> | <b>1.204</b> | <b>14.550</b> | <b>989</b>   | <b>0</b>   | <b>0</b>         | <b>61.126</b> |

##### Financial instruments - Repayment profile split by currency in ISK million 31.12.2010.

|                                    | CPI linked    |              | EUR           | USD          | JPY        | Other currencies | Total         |
|------------------------------------|---------------|--------------|---------------|--------------|------------|------------------|---------------|
|                                    | ISK           | ISK          |               |              |            |                  |               |
| <b>Financial assets</b>            |               |              |               |              |            |                  |               |
| Year 2011 .....                    | 4.632         | 9.184        | 5.104         | 781          | 26         | 15               | 19.742        |
| Year 2012 .....                    | 4.212         | 0            | 855           | 118          | 26         | 15               | 5.226         |
| Year 2013 .....                    | 3.953         | 0            | 855           | 118          | 26         | 15               | 4.967         |
| Year 2014 .....                    | 3.751         | 0            | 855           | 118          | 26         | 15               | 4.765         |
| Year 2015 .....                    | 3.650         | 0            | 855           | 118          | 26         | 15               | 4.664         |
| Over 5 years .....                 | 27.017        | 0            | 5.326         | 779          | 151        | 294              | 33.567        |
| <b>Total financial assets</b>      | <b>47.215</b> | <b>9.184</b> | <b>13.850</b> | <b>2.032</b> | <b>281</b> | <b>361</b>       | <b>72.931</b> |
| <b>Financial liabilities</b>       |               |              |               |              |            |                  |               |
| Year 2011 .....                    | 3.729         | 1.532        | 4.773         | 772          | 0          | 0                | 10.806        |
| Year 2012 .....                    | 3.781         | 0            | 2.427         | 236          | 0          | 0                | 6.444         |
| Year 2013 .....                    | 2.747         | 0            | 1.039         | 98           | 0          | 0                | 3.884         |
| Year 2014 .....                    | 2.786         | 0            | 1.039         | 98           | 0          | 0                | 3.923         |
| Year 2015 .....                    | 2.844         | 0            | 1.039         | 98           | 0          | 0                | 3.981         |
| Over 5 years .....                 | 26.240        | 0            | 5.127         | 416          | 0          | 0                | 31.783        |
| <b>Total financial liabilities</b> | <b>42.127</b> | <b>1.532</b> | <b>15.444</b> | <b>1.718</b> | <b>0</b>   | <b>0</b>         | <b>60.821</b> |

#### 4.5 Interest rate risk

MCI monitors interest sensitivity of all interest bearing loans and funding with relation to their duration. Part of the loans are funded with MCI's equity which explains why financial assets are greater than financial liabilities in the chart

The table below shows the interest bearing loans and funding categorised by interest periods. Amounts with variable interest rates are categorised by the maturity of the interest. Accrued interest, discounts and lending fees are not included.

##### Financial assets and liabilities, classified by interest repricing time, in ISK million as at 30.06.2011.

|                                    | 0-1 years     | 1-5 years    | 5-10 years   | Over 10 y.    | Total         |
|------------------------------------|---------------|--------------|--------------|---------------|---------------|
| <b>Financial assets</b>            |               |              |              |               |               |
| ISK .....                          | 8.856         | 0            | 0            | 0             | 8.856         |
| ISK - CPI linked .....             | 9.976         | 1.658        | 3.610        | 33.239        | 48.483        |
| EUR .....                          | 14.391        | 0            | 0            | 0             | 14.391        |
| USD .....                          | 1.287         | 0            | 0            | 0             | 1.287         |
| JPY .....                          | 270           | 0            | 0            | 0             | 270           |
| CHF .....                          | 210           | 0            | 0            | 0             | 210           |
| SEK .....                          | 73            | 0            | 0            | 0             | 73            |
| CAD .....                          | 63            | 0            | 0            | 0             | 63            |
| GBP .....                          | 45            | 0            | 0            | 0             | 45            |
| <b>Total financial assets</b>      | <b>35.171</b> | <b>1.658</b> | <b>3.610</b> | <b>33.239</b> | <b>73.678</b> |
| <b>Financial liabilities</b>       |               |              |              |               |               |
| ISK .....                          | 1.204         | 0            | 0            | 0             | 1.204         |
| ISK - CPI linked .....             | 1.125         | 53           | 4.425        | 38.780        | 44.383        |
| EUR .....                          | 14.550        | 0            | 0            | 0             | 14.550        |
| USD .....                          | 989           | 0            | 0            | 0             | 989           |
| <b>Total financial liabilities</b> | <b>17.868</b> | <b>53</b>    | <b>4.425</b> | <b>38.780</b> | <b>61.126</b> |

##### Financial assets and liabilities, classified by interest repricing time, in ISK million as at 31.12.2010.

|                                    | 0-1 years     | 1-5 years    | 5-10 years   | Over 10 y.    | Total         |
|------------------------------------|---------------|--------------|--------------|---------------|---------------|
| <b>Financial assets</b>            |               |              |              |               |               |
| ISK .....                          | 9.184         | 0            | 0            | 0             | 9.184         |
| ISK - CPI linked .....             | 7.502         | 2.476        | 4.915        | 32.322        | 47.215        |
| EUR .....                          | 13.850        | 0            | 0            | 0             | 13.850        |
| USD .....                          | 2.032         | 0            | 0            | 0             | 2.032         |
| JPY .....                          | 281           | 0            | 0            | 0             | 281           |
| CHF .....                          | 192           | 0            | 0            | 0             | 192           |
| SEK .....                          | 71            | 0            | 0            | 0             | 71            |
| CAD .....                          | 62            | 0            | 0            | 0             | 62            |
| GBP .....                          | 44            | 0            | 0            | 0             | 44            |
| <b>Total financial assets</b>      | <b>33.218</b> | <b>2.476</b> | <b>4.915</b> | <b>32.322</b> | <b>72.931</b> |
| <b>Financial liabilities</b>       |               |              |              |               |               |
| ISK .....                          | 1.532         | 0            | 0            | 0             | 1.532         |
| ISK - CPI linked .....             | 0             | 2.228        | 4.337        | 35.562        | 42.127        |
| EUR .....                          | 15.444        | 0            | 0            | 0             | 15.444        |
| USD .....                          | 1.718         | 0            | 0            | 0             | 1.718         |
| <b>Total financial liabilities</b> | <b>18.694</b> | <b>2.228</b> | <b>4.337</b> | <b>35.562</b> | <b>60.821</b> |

## Interest sensitivity

Interest sensitivity analysis based on modified duration shows that a 1 percentage point increase in interest would increase net interest revenue by ISK 372 million or 2,53% of MCI's equity.

| <b>CPI link effects</b>        | <b>30.6.2011</b> | <b>31.12.2010</b> |
|--------------------------------|------------------|-------------------|
| CPI linked assets .....        | 48.483           | 47.215            |
| CPI linked liabilities .....   | 44.383           | 42.127            |
| <b>Net CPI linked position</b> | <b>4.100</b>     | <b>5.088</b>      |

## 4.6 Currency risk

The policy of MCI, as illustrated in Note 4.2, is to have a zero balance between the assets and liabilities denominated in international currency. Due to Glitnir bank hf. going into receivership in November 2008, MCI's outstanding derivatives contracts with Glitnir bank defaulted which affected MCI's currency hedging. The table below shows MCI's currency positions. Accrued interest, discounts and lending fees are not included.

### Financial assets and liabilities in ISK million as at 30.06.2011

|                                    | <b>EUR</b>    | <b>USD</b>   | <b>JPY</b> | <b>Other<br/>currency</b> | <b>Total</b>  |
|------------------------------------|---------------|--------------|------------|---------------------------|---------------|
| <b>Financial assets</b>            |               |              |            |                           |               |
| Cash and deposits .....            | 2.397         | 0            | 0          | 0                         | 2.397         |
| Loans .....                        | 11.994        | 1.287        | 270        | 391                       | 13.942        |
| <b>Total financial assets</b>      | <b>14.391</b> | <b>1.287</b> | <b>270</b> | <b>391</b>                | <b>16.339</b> |
| <b>Financial liabilities</b>       |               |              |            |                           |               |
| Borrowed funds .....               | 14.550        | 989          | 0          | 0                         | 15.539        |
| <b>Total financial liabilities</b> | <b>14.550</b> | <b>989</b>   | <b>0</b>   | <b>0</b>                  | <b>15.539</b> |
| <b>Net, assets-liabilities</b>     | <b>(159)</b>  | <b>298</b>   | <b>270</b> | <b>391</b>                | <b>800</b>    |

### Financial assets and liabilities in ISK million as at 31.12.2010

|                                      | <b>EUR</b>     | <b>USD</b>   | <b>JPY</b> | <b>Other<br/>currency</b> | <b>Total</b>  |
|--------------------------------------|----------------|--------------|------------|---------------------------|---------------|
| <b>Financial assets</b>              |                |              |            |                           |               |
| Cash and deposits .....              | 2.317          | 0            | 0          | 0                         | 2.317         |
| Loans .....                          | 11.533         | 2.032        | 281        | 369                       | 14.215        |
| <b>Total financial assets</b>        | <b>13.850</b>  | <b>2.032</b> | <b>281</b> | <b>369</b>                | <b>16.532</b> |
| <b>Financial liabilities</b>         |                |              |            |                           |               |
| Borrowed funds .....                 | 15.444         | 1.718        | 0          | 0                         | 17.162        |
| <b>Total financial liabilities</b>   | <b>15.444</b>  | <b>1.718</b> | <b>0</b>   | <b>0</b>                  | <b>17.162</b> |
| <b>Net, assets-liabilities</b> ..... | <b>(1.594)</b> | <b>314</b>   | <b>281</b> | <b>369</b>                | <b>(630)</b>  |

## Notes

### 5. Net interest income

|                                       | 1.1.-30.6.2011       | 1.1.-30.6.2010       |
|---------------------------------------|----------------------|----------------------|
| <b>Interest income and indexation</b> |                      |                      |
| Loans .....                           | 2.891.383.739        | 2.429.966.945        |
| Cash and short term funds .....       | 209.282.732          | 185.943.482          |
|                                       | <u>3.100.666.471</u> | <u>2.615.910.427</u> |

### Interest expense and indexation

|                                                       |                      |                      |
|-------------------------------------------------------|----------------------|----------------------|
| Debt securities issued and other borrowed funds ..... | <u>2.470.304.341</u> | <u>1.900.731.822</u> |
|-------------------------------------------------------|----------------------|----------------------|

### 6. Net gain (loss) on financial instruments held for trading

|                              | 1.1.-30.6.2011 | 1.1.-30.6.2010      |
|------------------------------|----------------|---------------------|
| Fair value adjustments ..... | <u>0</u>       | <u>(25.877.354)</u> |

### 7. Net gain (loss) on financial instruments at fair value

|                                 | 1.1.-30.6.2011 | 1.1.-30.6.2010   |
|---------------------------------|----------------|------------------|
| – Money market securities ..... | <u>25.318</u>  | <u>(216.494)</u> |

### 8. Net foreign exchange (loss) gain

|                                            | 1.1.-30.6.2011      | 1.1.-30.6.2010     |
|--------------------------------------------|---------------------|--------------------|
| Loans .....                                | 903.050.954         | (1.794.446.978)    |
| Borrowings .....                           | (951.638.989)       | 2.123.365.801      |
| Amounts due from credit institutions ..... | 0                   | (5.323.809)        |
|                                            | <u>(48.588.035)</u> | <u>323.595.014</u> |

### 9. Salaries and related expenses

At the end of the period three employees worked for MCI. MCI has entered into a service agreement with the Icelandic Association of Local Authorities regarding the purchase of administrative services and that expense is recorded under the item of other operating expenses.

| Salaries and related expenses are specified as follows: | 1.1. -30.6.2011   | 1.1. -30.6.2010   |
|---------------------------------------------------------|-------------------|-------------------|
| Salaries .....                                          | 20.127.129        | 20.234.826        |
| Related expenses .....                                  | 2.133.038         | 2.245.682         |
| Pension obligations .....                               | 2.231.077         | 2.143.692         |
|                                                         | <u>24.491.244</u> | <u>24.624.200</u> |



## Notes

### 9. Salaries and related expenses (cont.)

| <b>Salaries and other fees to the Board of Directors and the Managing Director are specified as follows:</b> | <b>1.1. -30.6.2011</b> | <b>1.1. -30.6.2010</b> |
|--------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Ottar Gudjonsson, Managing Director .....                                                                    | 8.283.096              | 8.257.596              |
| Board of Directors:                                                                                          |                        |                        |
| Magnus B. Jonsson, Chairman of the Board .....                                                               | 499.476                | 499.476                |
| Kristinn Jonasson .....                                                                                      | 332.982                | 332.982                |
| Svanfridur Inga Jonasdottir .....                                                                            | 332.982                | 332.982                |
| Thorbjorg Helga Vigfusdottir .....                                                                           | 332.982                | 332.982                |
| Ellidi Vignisson .....                                                                                       | 332.982                | 0                      |
| Jonmundur Gudmarsson .....                                                                                   | 55.497                 | 332.982                |
| Asta Stefansdottir .....                                                                                     | 55.497                 | 0                      |
|                                                                                                              | <u>1.942.398</u>       | <u>1.831.404</u>       |

### 10. Other operating expenses

| <b>Cost of bond issuance</b>          | <b>1.1. -30.6.2011</b> | <b>1.1. -30.6.2010</b> |
|---------------------------------------|------------------------|------------------------|
| Market makers .....                   | 9.000.000              | 12.000.000             |
| Bond issuance registration fees ..... | 1.020.917              | 809.237                |
| Annual costs related to bonds .....   | 3.163.829              | 3.269.655              |
|                                       | <u>13.184.746</u>      | <u>16.078.892</u>      |
| <b>Other operating expenses</b>       |                        |                        |
| Joint office expenses .....           | 6.935.196              | 6.985.878              |
| Computer and software .....           | 5.092.629              | 6.933.157              |
| Auditor's fees .....                  | 1.850.666              | 4.478.013              |
| Housing expenses .....                | 2.084.143              | 1.541.519              |
| Professional fees .....               | 1.702.100              | 576.100                |
| Travelling expenses .....             | 1.142.333              | 776.295                |
| Office equipment .....                | 262.096                | 881.999                |
| Reception .....                       | 48.022                 | 108.007                |
| Other operating expenses .....        | 1.354.133              | 987.034                |
|                                       | <u>20.471.318</u>      | <u>23.268.002</u>      |

### 11. Earnings per share

| Earnings per share is specified as follows:               | <b>1.1. -30.6.2011</b> | <b>1.1. -30.6.2010</b> |
|-----------------------------------------------------------|------------------------|------------------------|
| Profit for the period .....                               | 518.698.291            | 940.930.863            |
| Weighted average number of ordinary shares in issue ..... | <u>5.000.000.000</u>   | <u>5.000.000.000</u>   |
| Earnings per share .....                                  | <u>0,10</u>            | <u>0,19</u>            |

## Notes

| <b>12. Amounts due from credit institutions</b>           | <b>30.6.2011</b>     | <b>31.12.2010</b>    |
|-----------------------------------------------------------|----------------------|----------------------|
| Non mandatory deposits with the Central bank .....        | 1.731.237.238        | 4.464.438.722        |
| Certificates of deposits issued by the Central bank ..... | 7.109.200.000        | 4.505.297.500        |
|                                                           | <u>8.840.437.238</u> | <u>8.969.736.222</u> |

Cash and balances within the Central bank as well as amounts due from credit institutions constitute cash and cash equivalents at the end of the period as stated in cash flow, amounting to ISK 11,243 million.

| <b>13. Amounts due from credit institutions</b> | <b>30.6.2011</b>     | <b>31.12.2010</b>    |
|-------------------------------------------------|----------------------|----------------------|
| Bank accounts .....                             | <u>2.402.235.863</u> | <u>2.331.565.093</u> |

| <b>14. Loans and receivables</b>                | <b>30.6.2011</b>      | <b>31.12.2010</b>     |
|-------------------------------------------------|-----------------------|-----------------------|
| Loans and receivables are specified as follows: |                       |                       |
| International currency loans .....              | 13.962.936.091        | 14.226.690.016        |
| CPI linked loans .....                          | 49.320.363.469        | 47.954.492.623        |
| Other loans .....                               | 10.069.931            | 200.098.889           |
|                                                 | <u>63.293.369.491</u> | <u>62.381.281.528</u> |

| <b>15. Financial assets designated at fair value</b> | <b>30.6.2011</b> | <b>31.12.2010</b> |
|------------------------------------------------------|------------------|-------------------|
| Money market loans .....                             | <u>354.397</u>   | <u>329.079</u>    |

MCI had outstanding derivatives contracts with Glitnir bank hf. which went into receivership in November 2008. As a consequence no payments were exchanged after that date between MCI and Glitnir bank hf. in relation to the before mentioned contracts. MCI's net claim on Glitnir bank amounted to ISK 1,472 million at year end 2008. Due to uncertainty of payments regarding the contracts, the claim was written down to 0 in MCI's annual statement for 2008 and is still 0. In november 2009 a claim of ISK 5,631 million was lodged against Glitnir bank receivership, as of today the receiveership has acknowledged receiving the claim but nothing further than that.

MCI took provision against a bond, issued by SPRON, of the amount of ISK 113 million in 2009. A claim of 144 million was lodged against SPRONG's Winding -Up Board on January 21st 2010. According to SPRON's claim list, dated on the 10th of March 2010, a confirmed claim was ISK 135 million. Expected claims are uncertain.

## Notes

### 16. Property, plant and equipment

#### At year end 2010:

|                                    |                   |
|------------------------------------|-------------------|
| Opening net book value .....       | 52.607.608        |
| Depreciation during the year ..... | (1.195.628)       |
| Closing net book value .....       | <u>51.411.980</u> |

Closing net book value as at year end 2010 is specified as:

|                                |                   |
|--------------------------------|-------------------|
| Historical cost .....          | 59.781.372        |
| Accumulated depreciation ..... | (8.369.392)       |
| Closing net book value .....   | <u>51.411.980</u> |

#### The year 2011

|                                            |                   |
|--------------------------------------------|-------------------|
| Opening net book value .....               | 51.411.980        |
| Depreciation during the period .....       | (597.814)         |
| Closing net book value as at June 30 ..... | <u>50.814.166</u> |

Closing net book value as at June 30 is specified as:

|                                            |                   |
|--------------------------------------------|-------------------|
| Historical cost .....                      | 59.781.372        |
| Accumulated depreciation .....             | (8.967.206)       |
| Closing net book value as at June 30 ..... | <u>50.814.166</u> |

### 17. Debt securities in issue

|                                     | Average<br>Interest rate* |       | Total as at<br>30.6.2011 | Total as at<br>31.12.2010 |
|-------------------------------------|---------------------------|-------|--------------------------|---------------------------|
|                                     | 2011                      | 2010  |                          |                           |
| Unlisted securities, due 2013 ..... | 5,00%                     | 5,00% | 53.955.816               | 50.926.054                |
| LSS '03, notes due 2018 .....       | 5,17%                     | 5,17% | 780.340.918              | 809.035.157               |
| LSS '04, notes due 2019 .....       | 4,08%                     | 4,08% | 1.708.790.360            | 1.620.139.768             |
| LSS '05-1, notes due 2012 .....     | 4,16%                     | 4,16% | 1.131.244.324            | 2.228.232.268             |
| LSS '05-2, notes due 2022 .....     | 4,30%                     | 4,30% | 5.918.304.689            | 6.363.828.325             |
| LSS '05-4, notes due 2020 .....     | 4,11%                     | 4,11% | 1.042.565.210            | 989.021.511               |
| LSS 150224, notes due 2024 .....    | 5,33%                     | 5,53% | 24.217.568.990           | 20.658.622.274            |
| LSS '08 1, notes due 2034 .....     | 5,25%                     | 5,44% | 7.164.680.644            | 7.087.081.131             |
|                                     |                           |       | <u>42.017.450.951</u>    | <u>39.806.886.488</u>     |

\* Average interest rate is calculated in accordance with the effective interest rate method.

### 18. Other borrowings

|                                   | Average<br>Interest rate* |       | Total as at<br>30.6.2011 | Total as at<br>31.12.2010 |
|-----------------------------------|---------------------------|-------|--------------------------|---------------------------|
|                                   | 2011                      | 2010  |                          |                           |
| EUR loans (EURIBOR +margin) ..... | 0,24%                     | 0,27% | 14.593.105.514           | 15.476.923.812            |
| USD loans (LIBOR + margin) .....  | 0,13%                     | 0,13% | 991.074.475              | 1.720.480.247             |
| ISK loans (CPI linked) .....      | 6,09%                     | 5,76% | 1.025.058.664            | 963.572.581               |
|                                   |                           |       | <u>16.609.238.653</u>    | <u>18.160.976.640</u>     |

### 19. Short term borrowings

|                                   |       |       | Total as at<br>30.6.2011 | Total as at<br>31.12.2010 |
|-----------------------------------|-------|-------|--------------------------|---------------------------|
| ISK loans (Non- CPI linked) ..... | 2,45% | 3,00% | <u>1.205.242.286</u>     | <u>1.532.327.435</u>      |

## Notes

### 20. Payable to municipalities

In accordance with temporary provision no. I of Act No. 150/2006 on the incorporation of Municipality Credit Iceland as a statutory limited liability company, the annual general meeting of MCI for 2006 decided to reduce the equity of MCI by ISK 3 billion as MCI continues to comply with the conditions of statutory law regarding the equity ratio of financial undertakings, notwithstanding the reduction, and retains sufficient cash to meet its obligations. This reduction of ISK 3 billion was paid out to the municipalities during the years 2007-2010 with the last one paid out on July 1st 2010.

| <b>21. Other liabilities</b>    | <b>30.6.2011</b> | <b>31.12.2010</b> |
|---------------------------------|------------------|-------------------|
| Creditors .....                 | 3.392.011        | 1.285.917         |
| Salaries related expenses ..... | 1.997.427        | 2.012.805         |
|                                 | <u>5.389.438</u> | <u>3.298.722</u>  |

### 22. Post-employment obligations

MCI and other jointly administrated institutions are subject to pension fund obligations related to their employees that have and do participate in the B-department of the State Employees' Pension Fund. The calculation of an actuary is calculated for the pension fund obligations once a year. This calculation has not been done for the first six months of the year as the change in obligation is not material with regards to MCI's operation.

| Post-employment obligations are specified as follows: | <b>30.6.2011</b>  | <b>31.12.2010</b> |
|-------------------------------------------------------|-------------------|-------------------|
| Pension liability as at 1.1. ....                     | 54.105.946        | 48.656.022        |
| Paid during the period .....                          | (69.042)          | (329.785)         |
| Changes in the period .....                           | 0                 | 5.779.709         |
|                                                       | <u>54.036.904</u> | <u>54.105.946</u> |

### 23. Equity

|                                 |                       |
|---------------------------------|-----------------------|
| Balance as at January 1st ..... | 14.177.670.658        |
| Net profit for the period ..... | 518.698.291           |
|                                 | <u>14.696.368.949</u> |

At the end of the period the total share capital was ISK 5,000 million. One vote is attached to each nominal ISK one share.

Total equity as at 30 June was ISK 14,696 million or 20% of the balance sheet. At the end of the period the CAD ratio, based on Basel II was 51% as compared to 78% at year end 2010. The explanation for this decrease is to find in new regulation, nr. 378/2011, about change in regulation nr. 215/2007 for capital requirement and risk weighted assets of financial undertakings, set by the Icelandic FSA and took effect on April 13th 2011. If the current method would have been applied as of year end the CAD ratio would have been 48% as opposed to 78%. Under Icelandic law the minimum requirement is 8%.

| The capital adequacy ratio is determined as follows (in thousands ISK): | <b>Book value</b>     | <b>Weighted value</b> |
|-------------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                         |                       | <b>30.6.2011</b>      |
| Risk base:                                                              |                       |                       |
| Assets recorded in the financial statements .....                       | 74.587.727.181        | 25.079.759.134        |
| Market risk .....                                                       |                       | 960.721.000           |
| Operating risk .....                                                    |                       | 2.819.398.062         |
| Risk base total                                                         | <u>74.587.727.181</u> | <u>28.859.878.196</u> |
| Capital:                                                                |                       |                       |
| Equity, book value .....                                                | 14.696.368.949        | 14.696.368.949        |
| Capital total                                                           | <u>14.696.368.949</u> | <u>14.696.368.949</u> |
| Capital adequacy ratio .....                                            |                       | 51%                   |

## Notes

### 24. Related party disclosures

Related parties are defined as municipalities and companies owned by them, which are related to members of MCI's Board of Directors as well as municipalities and related companies who have significant influence as the largest shareholders of MCI. This definition is based on IAS 24. Information regarding related parties is as follows:

|                                           | <b>30.6.2011</b>      | <b>31.12.2010</b>      |
|-------------------------------------------|-----------------------|------------------------|
| 1 January 2011.....                       | 35.857.270.216        | 38.747.669.270         |
| New loans to related parties.....         | 1.163.000.000         | 3.538.000.000          |
| Loan repayments from related parties..... | (2.335.824.011)       | (5.409.060.389)        |
| Other changes.....                        | <u>1.564.533.785</u>  | <u>(1.019.338.665)</u> |
| 30 June 2011.....                         | <u>36.248.979.990</u> | <u>35.857.270.216</u>  |

No provision has been recognised with respect to loans given to related parties

Transactions with related parties are all within the normal course of MCI's activities.