



Municipality Credit Iceland Plc.

Translated Financial Statements for the year 2025

These financial statements are a translation of the original financial statements prepared in Icelandic. In the event of any discrepancies between the two versions, the Icelandic original shall prevail.

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Income Statement and Statement of Comprehensive Income

1 January to 31 December 2025

	Notes	2025	2024
Interest and indexation income		12.937	14.005
Interest and indexation expense		(11.508)	(12.506)
Net interest income	5	1.429	1.499
Net income from financial assets mandatorily measured at FV	6	1.043	894
Net income from financial assets designated at FV	7	(15)	2
Net foreign exchange difference	8	1	(14)
Impairment on loans to customers	16	(3)	(2)
Other operating income		1.027	879
Total operating income		2.455	2.378
Salaries and related expenses	9	151	132
Securities issuance costs	10	79	73
Annual and supervisory fees to the FSA		18	16
Other operating expenses	11	91	87
General administrative expenses		339	308
Profit and total comprehensive income for the year		2.117	2.070
Earnings per share			
Basic and diluted earnings per share	12	0,42	0,41

The notes on pages 7 to 28 are an integral part of the MCI's financial statements.

Statement of Financial Position as at 31 December 2025

	Notes	31 Dec 2025	31 Dec 2024
Assets			
Government bonds and treasury bills	13	8.273	7.435
Marketable securities and bonds	14	7.220	2.762
Loans and receivables to credit institutions	15	1.628	558
Loans and receivables to customers	16	211.558	200.021
Operating assets	17	64	66
Other assets	18	39	32
Total assets		228.782	210.875
Liabilities			
Debt securities issued	21	195.339	182.957
Other long-term borrowings	22	6.161	2.731
Derivative financial instruments	24	204	178
Short-term borrowings	25	0	72
Pension obligation	26	152	128
Other liabilities	27	16	16
Total liabilities		201.872	186.082
Equity			
Share capital		5.000	5.000
Restricted reserves		1.442	1.328
Retained earnings		20.468	18.466
Total equity	28	26.910	24.793
Total liabilities and equity		228.782	210.875

The notes on pages 7 to 28 are an integral part of the MCI's financial statements.

Statement of Changes in Equity 1 January to 31 December 2025

	Share capital	*Restricted reserves	Retained earnings	Total
Changes in equity 2025				
Equity as at 1 January	5.000	1.328	18.466	24.793
Total comprehensive income			2.117	2.117
Unrealized fair value changes		114	(114)	0
Equity as at 31 December	5.000	1.442	20.468	26.910
Changes in equity 2024				
Equity as at 1 January	5.000	1.345	16.378	22.723
Total comprehensive income			2.070	2.070
Unrealized fair value changes		(17)	17	0
Equity as at 31 December	5.000	1.328	18.466	24.793

*Restricted reserves consist of a statutory reserve and restricted unrealized fair value changes. According to the Icelandic Financial Statements Act, equity must be restricted due to unrealized fair value changes, which restricts the ability to pay dividends. See further details in note 28.

The Board of Directors of the Fund proposes that no dividends be paid to shareholders in 2026 in respect of the profit for the year 2025, in order to strengthen the Fund's financial position and ensure the growth of equity, similar to previous years.

The notes on pages 7 to 28 are an integral part of the MCI's financial statements.

Statement of Cash Flows 1 January to 31 December 2025

	Notes	Jan-31 Dec 2025	1 Jan-31 Dec 2024
Operating activities			
Profit and total comprehensive income for the year		2.117	2.070
Non-cash items included in profit:			
Net interest income		(1.429)	(1.499)
Indexation, exchange rate differences and accrued interest	16, 21	236	279
Discounts, borrowing fees and commissions on bonds	16, 21	(602)	(723)
Fair value changes of loans and advances to customers	19	15	(2)
Fair value changes of derivatives	19	(8)	1
Impairment allowance under IFRS 9	16	3	2
Depreciation	17	2	2
		(1.783)	(1.939)
Changes in operating assets and liabilities			
Loans and receivables provided to customers		(20.594)	(16.155)
Repayments of loans and receivables to customers		16.010	16.148
Issuance of debt securities and other long-term borrowings		23.069	13.900
Repaym. of debt secur. issued and other long-term borrowings		(13.505)	(13.364)
Repayments of own bonds		0	894
Changes in government bonds and treasury bills		(157)	(928)
Changes in marketable securities and bonds		(4.735)	(571)
Changes in short-term loans provided		367	(534)
Changes in short-term borrowings		(72)	(49)
Changes in pension obligation		25	16
Changes in other assets		(7)	(8)
Changes in other liabilities		(0)	(5)
		400	(656)
Interest received		5.631	5.596
Interest paid		(5.376)	(5.357)
		255	239
Net cash from (used in) operating activities		989	(285)
Effects of exch. rate changes on cash and cash equivalents		81	(3)
Cash and cash equivalents at the beginning of the year		558	846
Cash and cash equivalents at the end of the year		1.628	558
Components of cash and cash equivalents			
Loans and receivables to credit institutions		1.628	558
		1.628	558

The notes on pages 7 to 28 are an integral part of the MCI's financial statements.

Notes

1 General information

Municipality Credit Iceland Plc. is a public limited company owned by Icelandic municipalities. MCI is a credit institution operating under the Act on Public Limited Companies and the Act on Financial Undertakings, and is subject to the supervision of the Financial Supervisory Authority of the Central Bank of Iceland. Municipality Credit Iceland is domiciled in Iceland. MCI's registered office is at Borgartún 30, Reykjavík.

MCI's objective is to ensure that Icelandic municipalities, their institutions, and enterprises have access to capital on favourable terms by granting loans or guarantees. Its lending is restricted to projects of general economic significance.

MCI has issued bonds that are admitted to trading on the Nasdaq Iceland hf. exchange, and market making agreements are in place for the majority of the bonds.

The Board of Directors of Municipality Credit Iceland Plc. approved MCI's financial statements on 26 February

2 Basis of preparation

The financial statements of Municipality Credit Iceland Plc. are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are also prepared in accordance with the Icelandic Financial Statements Act No. 3/2006, the Act on Financial Undertakings No. 161/2002, and the Rules on Accounting for Credit Institutions No. 834/2003.

The accounting policies applied in the preparation of these financial statements are the same as those applied in the preparation of MCI's financial statements for the year 2024.

2.1 Going concern

The Board of Directors of MCI has assessed MCI's ability to continue as a going concern and has a reasonable expectation that MCI has adequate resources to continue in operational existence. MCI's financial statements are therefore prepared on a going concern basis.

2.2 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses in the financial statements. Accounting estimates and underlying management assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In the financial statements of MCI, there are no significant items subject to management's estimation that could have a material impact on the results of the financial statements.

2.3 Functional and presentation currency

The financial statements are prepared and presented in Icelandic krónur (ISK), which is both MCI's functional and presentation currency. All amounts are presented in ISK millions unless otherwise stated.

Transactions in foreign currencies are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are

2.4 Segment reporting

MCI's management defines its operations as a single operating segment, which consists of lending to municipalities and enterprises owned by them and/or the State. For this reason, MCI does not present segment reporting.

2.5 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for all interest-bearing financial instruments, except those designated at fair value. The effective interest method is based on calculating the initial carrying amount 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 flows through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability in the statement of financial position. 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 points paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs, premiums, and discounts.

2.6 Financial instruments

MCI initially recognises loans and receivables, deposits, and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are initially recognised on the trade date, which is the date that MCI becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, the date on which MCI commits to purchase or sell the asset.

Financial assets are measured at amortised cost if the objective is to hold the financial asset to maturity and collect contractual cash flows that consist solely of payments of principal and interest.

Financial assets measured at fair value through profit or loss are other financial assets. It is prohibited to reclassify and change the accounting treatment once a decision has been made to apply the respective classification.

(a) Loans and receivables to customers

MCI classifies the item loans and receivables as financial assets at amortised cost using the effective interest method. The item consists of loans to municipalities and companies owned by them, where the objective is to hold the financial assets to maturity and collect contractual payments consisting of principal and interest. Accrued interest is recognised as part of the carrying amount of the loans and receivables.

(b) Financial assets and liabilities mandatorily measured at fair value through profit or loss

Government bonds, treasury bills and marketable bonds

Government bonds, treasury bills and marketable bonds are measured at fair value, with fair value changes recognised in the income statement in accordance with documented risk management or investment strategy. Such financial assets are recognised in the income statement under "Net income from financial assets mandatorily measured at fair value". It is not possible to change the classification of those financial assets that have been placed in this category after initial recognition. Interest is recognised under "Net interest income".

Derivative contracts

Derivatives are initially recognised in the statement of financial position at fair value, and transaction costs are recognised in the income statement. Derivative contracts are measured at fair value determined by discounted cash flow models. MCI generally uses recognised valuation models to determine the fair value of interest rate and cross-currency swaps. Subsequently, derivatives continue to be measured at fair value, with all fair value changes recognised in the income statement under the item "Net income from financial assets mandatorily measured at fair value". Derivatives with a positive fair value are recognised in the statement of financial position as assets, and derivatives with a negative fair value are recognised as liabilities. Exchange rate gains and losses are recognised under the item "Net foreign exchange difference".

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

Loans and receivables to customers that have upon initial recognition been designated as financial assets at fair value. Fair value changes are recognised in the income statement under "Net income from financial assets designated at fair value". It is not possible to change the classification of those financial assets that have been placed in this category after initial recognition. Interest and indexation are recognised under "Net interest income".

(d) Debt securities issued and other long-term borrowings

MCI's borrowings are measured at amortised cost using the effective interest method, net of borrowing costs.

(e) Loans and receivables to credit institutions

Loans and receivables to credit institutions, including bank accounts, money market deposits and other deposits, are measured at amortised cost using the effective interest method.

2.7 Impairment of loans and receivables

According to Act No. 150/2006 on MCI, it is only permitted to lend to municipalities or their institutions and enterprises to finance projects that have general economic significance. A condition for MCI granting loans to enterprises and institutions of municipalities is that they are entirely owned by municipalities, or municipalities and the State, which guarantee their obligations to MCI.

Furthermore, a municipality is permitted under Paragraph 2, Article 68 of the Local Government Act No. 138/2011 to pledge its revenues as collateral for loans it takes or for guarantees it provides to MCI, cf. also Regulation on the Collateralisation by MCI in the Revenues of a Municipality No. 835/2012. MCI's policy is to demand such collateral as security for loans.

MCI is the only credit institution to which municipalities are legally permitted to pledge their revenues, giving MCI a very strong position regarding the repayment of loans. Furthermore, municipalities cannot become bankrupt according to Article 71 of the Local Government Act No. 138/2011. MCI defines a default event as when MCI is forced to take a write-off, partially or fully, if there are delays in past due payments exceeding ISK 20 million or 2% of municipal income tax revenues, for more than 90 days. Such an event should only occur if the Icelandic State defaults and cannot meet its obligations in accordance with Regulation No. 835/2012, or if the Local Government Act is amended such that State support for municipalities in financial difficulties is discontinued and municipalities are granted authorization to declare bankruptcy. MCI considers there to be no probability of these events occurring in the foreseeable future.

According to IFRS 9, an impairment allowance must be recognised based on an assessment of expected credit losses. The assessment of expected credit losses is twofold, where the allowance for expected credit losses (ECL) is based on either 12-month expected credit losses or lifetime expected credit losses of the financial instrument, depending on whether there has been a significant increase in credit risk since initial recognition. All loans and receivables to municipalities and companies owned by them fall under Stage 1, and the allowance is then estimated based on 12-month expected credit losses, as there has been no increase in credit risk since initial recognition. MCI defines a significant increase in credit risk, which leads to a transfer from Stage 1 to Stage 2, when a municipality has requested a debt write-off or undergone financial restructuring, provided such events are deemed to reflect increased risk since initial recognition. A transfer to Stage 3 occurs when loans are considered to be credit-impaired or when a municipality has been placed under financial administration.

The allowance is regularly assessed and calculated in accordance with MCI's methodology. The change for the year is recognised through profit or loss and into the impairment allowance account among loans in the statement of financial position. The balance of the impairment allowance according to IFRS 9 at year-end is recognised in the statement of financial position among loans and receivables.

2.8 Operating assets

Operating assets are recognised at cost less accumulated depreciation. The initial cost includes expenditure that is directly attributable to the acquisition of these assets.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits will flow to MCI and the cost of the item can be measured reliably. Maintenance and repairs are expensed in the income statement in the period in which they are incurred.

Depreciation of real estate is calculated using the straight-line method to allocate their cost less their residual value over their estimated useful life, which is 50 years. The residual value and useful life of the assets are reviewed at each reporting period and adjusted if appropriate.

2.9 Pension obligation

MCI and its partner institutions have a pension obligation for those employees who have had and have membership in the B-division of the Pension Fund for State Employees (LSR). MCI's obligation is recognised as a liability in the statement of financial position in accordance with an actuary's calculation. The calculation is based on the same actuarial assumptions used in the actuarial valuation of the B-division of LSR. The main assumptions are 2% interest, life expectancy according to LSR's experience in the years 2018 - 2022 with the Icelandic Actuarial Society's (FÍT) forecast of decreasing mortality, and disability probability according to LSR's experience in the years 2010 - 2014.

2.10 Share capital

In December 2006, Act No. 150/2006 was passed by Alþingi on the establishment of a public limited company for MCI. At MCI's constituent meeting, it was approved that the nominal value of the share capital should be ISK 5,000 million. MCI is owned by Icelandic municipalities, and the ownership shares of individual municipalities are defined in the law. Since then, municipalities have merged and ownership shares have merged into the combined municipality.

Basic and diluted earnings per share are calculated as the ratio of the profit for the year to the share capital.

2.11 Restricted reserves

According to the Icelandic Financial Statements Act No. 3/2006, valuation changes on financial assets, designated at fair value at initial recognition, shall be transferred from retained earnings to a fair value reserve within equity, from which it is prohibited to pay dividends. The fair value reserve shall be dissolved in equal proportion to realised changes in the respective asset or liability when it is sold or realised, or if the conditions for the valuation change no longer exist. Restricted reserves in the statement of financial position and the statement of changes in equity consist of a statutory reserve and restricted unrealized fair value changes.

2.12 Taxation

Municipality Credit Iceland Plc. (MCI) is exempt from the following:

- Payment of income tax according to the Income Tax Act No. 90/2003.
- Withholding tax on financial income according to the Act on Capital Income Tax No. 94/1996.
- Stamp duty according to the Act on Financial Undertakings No. 161/2002.
- Taxation according to Act No. 155/2010 on Special Tax on Financial Undertakings.

3 Economic impact

3.1 General economic impact

The year 2025 was characterised by persistent inflation and high interest rates, although signs of subsiding inflation emerged during the year. Inflation reached 4.6% in January on an annualised basis, decreased slowly, and measured 4.5% at year-end.

The Central Bank of Iceland lowered the policy rate by a total of 1.25% during the year; the rate was 7.25% at the end of 2025 compared to 8.5% at the end of 2024. Despite the decrease, interest rates remain high, supporting continued high yields in the bond market. The yield on RIKS 33 was 2.73% at the end of 2025, unchanged from the end of 2024, while the yield on LSS 39 decreased from 3.63% to 3.51%. Consequently, MCI's spread against comparable government bonds decreased year-on-year, from 90 basis points to 78 basis points.

3.2 Impact on municipalities

The Association of Local Authorities in Iceland's analysis of the 2024 financial statements shows a turnaround in the operations of Part A: the operating result improved significantly after a difficult period, and working capital from operations was on average just over 8% of revenues, while investments and borrowing contracted, and the debt position improved somewhat.

The Association's dashboard for 2025 indicates that the revenue bases of Part A have strengthened and the debt ratio has remained within reference limits. Revenues are primarily shaped by PAYE tax paid during 2025 and property taxes, although the situation varies between municipalities.

The temporary exemption from the balance and debt rules of the Local Government Act (due to the COVID-19 pandemic) was valid until the year 2025. With the end of this period, the need for continued rationalisation and prioritisation increases widely to meet rising operating costs and align finances with statutory reference limits.

3.3 Impact and actions of MCI

Loans to municipalities were slightly above plan. MCI's issuance plan assumed an issuance of ISK 18–22 billion to finance loans, but the total sales value of auctions and other borrowing amounted to ISK 23.1 billion during the year. The result reflects stable demand and targeted adaptation of issuance to the funding needs of municipalities.

MCI's financial position is strong. The risk-weighted capital ratio with the application of mitigation is 320% based on the loan position at the end of 2025 (cf. 361% at the end of 2024), and without mitigation, the ratio is 54% (cf. 54% at the end of 2024). See further details in note 28.

3.4 Assessment of expected credit losses

It is the assessment of MCI's management that there is no reason to change the assessment of expected credit losses due to the financial position of municipalities. Municipalities have specific statutory authorization to pledge their revenues to MCI as collateral. It is also clear, in accordance with Article 71 of the Local Government Act No. 138/2011, that municipalities cannot be subjected to bankruptcy proceedings. Despite uncertainty in the revenue base of municipalities, it is not sufficient to meet the definitions underlying a transfer between stages in the assessment of expected credit losses. All loans and receivables to municipalities and companies owned by them fall under Stage 1, and the impairment allowance is estimated based on 12-month expected credit losses, as there has been no increase in credit risk since initial recognition.

4 Risk management

As a credit institution, MCI faces various types of risk in its operations. One of the main tasks of its management is to assess this risk, manage it, and keep it within predefined limits. Elements of effective risk management include the analysis of the main risk factors, measurement of risk, responses to limit the risk, and regular monitoring. The objective of MCI's risk management is to ensure that MCI can withstand all events that may occur in its environment.

MCI acts as an intermediary between Icelandic municipalities and their enterprises on the one hand, and financial markets, both domestic and foreign, on the other. MCI's objective is to secure capital for the aforementioned parties on favourable terms. Credit risk is therefore the main risk factor in MCI's operations, but liquidity risk, counterparty risk, and operational risk also exist in its operations. Market risk is kept to a minimum, but it does exist primarily in the form of interest rate risk.

4.1 Credit risk

MCI's credit risk is tied to Icelandic municipalities and the State Treasury. MCI lends exclusively to municipalities, their institutions, and enterprises. A condition for granting loans to enterprises and institutions of municipalities is that they are entirely owned by municipalities, or municipalities and the State, which guarantee their obligations to MCI. The Local Government Act forms a solid framework around the operations of municipalities; among other things, Icelandic municipalities cannot become bankrupt and there are provisions in the law regarding the involvement of the State Treasury if financial difficulties arise within a municipality, cf. Chapter VII of the Local Government Act No. 138/2011. Municipalities have proven to be reliable payers, and there has never been a write-off on loans to municipalities or companies owned by them since MCI began operations in 1967. All loans and receivables to municipalities and companies owned by them fall under Stage 1 in the impairment assessment of expected credit losses under IFRS 9.

According to Paragraph 2, Article 68 of the Local Government Act No. 138/2011, municipalities are permitted to grant MCI a pledge in their revenues as collateral for loans they take from MCI and for guarantees they provide. MCI makes it a condition for granting a loan that such a pledge is provided. At year-end, all long-term loans to municipalities and enterprises owned by them are secured by pledges in the revenues of the municipalities.

The amount of credit risk arising from the granting of loans is presented in the carrying amount of the portfolio in the statement of financial position. MCI reviews all loan applications with regard to whether the borrower meets the conditions for lending and, furthermore, whether the project being financed has general economic significance. A detailed assessment is carried out on the applicants and their guarantors, their financial position, and development prospects. All loans are presented to the Board of Directors, either for decision or introduction.

Large exposures

MCI monitors the position of large exposures both before and after the application of risk mitigating factors. At year-end, there were 18 large exposures at MCI (17 at year-end 2024) before mitigation was calculated. After the application of traditional mitigating factors, there were seven (eight at year-end 2024). Due to its statutory special position, MCI utilizes mitigation provisions for municipalities that are secured by pledges in their revenues, cf. Article 2 of Regulation No. 835/2012. When applying this provision, the exposures in question receive, to the extent that collateral exists, the same risk weight as the Icelandic State, i.e., 0% for loans in Icelandic krónur. Taking this mitigation into account, there were no large exposures at MCI at year-end.

4.1.1 Risk related to contractual obligations

MCI has collateral for its loans to municipalities and the guarantees they provide, as municipalities have specific statutory authorization in the Local Government Act to grant MCI a pledge in their revenues. MCI's contractual obligations are therefore guaranteed by the municipalities and the risk primarily consists of the municipalities themselves running into liquidity difficulties. Counterparty risk other than credit risk is limited to the State Treasury and entities guaranteed by it, as well as domestic financial institutions that hold an operating license from the Financial Supervisory Authority. Counterparty risk with foreign financial institutions is specifically addressed by the Board of Directors.

4.1.2 Counterparty risk

MCI monitors counterparty risk. The status of loans and arrears is regularly monitored. During the year, MCI did not apply its pledge in the revenues of municipalities, and MCI has only once had to apply its pledge, which was done in 2010. There are no arrears at MCI at year-end 2025.

The following table shows MCI's maximum possible counterparty risk.

	31 Dec 2025	31 Dec 2024
Counterp. risk pos. due to items in the statem. of financial pos. is as follows:		
Loans and receivables to credit institutions	1.628	558
Loans and receivables to customers	211.558	200.021
Government bonds and treasury bills	8.273	7.435
Marketable securities and bonds	7.220	2.762
Total counterparty risk	228.678	210.777

4.2 Liquidity and funding risk

Liquidity risk is the risk that MCI will not be able to meet its obligations as they fall due. MCI has set rules regarding its liquidity position and funding, which are intended to ensure and maintain flexibility. The main principle is not to grant binding loan commitments to prospective borrowers until the funding for those loans is secured. Furthermore, a large part of MCI's equity is invested for very short terms to ensure constant access to liquid funds and thereby flexibility. MCI measures, calculates, and monitors its liquidity position regularly by analysing the maturities of financial assets and financial liabilities to be able to safely repay all its liabilities on their due date. The following tables show the cash flows for financial assets and financial liabilities based on contractual payments.

Position 31 Dec 2025	0 to 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Samtals
Financial assets						
Govt. bonds & bills		4.548	1.505	2.495		8.547
Marketable securities		377	3.458	3.877		7.712
Loans to credit inst.	1.628					1.628
Loans to customers	1.200	4.426	19.271	91.070	139.676	255.644
Derivative contracts			38	1.919		1.957
Total financial assets	2.828	9.351	24.271	99.361	139.676	275.488
Financial liabilities						
Debt securities issued		2.300	17.485	79.955	135.802	235.542
Other borrowings			289	2.871	4.082	7.242
Derivative contracts				2.179		2.179
Total financial liabilities	0	2.300	17.774	85.005	139.884	244.963
Net assets - liabilities	2.828	7.052	6.497	14.355	(208)	30.525

4.2 Liquidity and funding risk, cont.

Position 31 Dec 2024	0 to 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Samtals
Financial assets						
Govt. bonds & bills		2.867	324	4.523		7.714
Marketable securities		215	845	1.982		3.042
Loans to credit inst.	480	79				559
Loans to customers	1.731	3.539	17.666	81.199	136.316	240.451
Derivative contracts			58	988	965	2.011
Samtals fjáreignir	2.211	6.700	18.893	88.692	137.281	253.777
Financial liabilities						
Debt securities issued		1.610	15.874	71.003	130.247	218.734
Other borrowings	72		176	1.448	1.417	3.113
Derivative contracts			65	1.101	1.066	2.232
Samtals fjárskuldir	72	1.610	16.115	73.552	132.730	224.079
Net assets - liabilities	2.139	5.090	2.778	15.140	4.551	29.698

4.3 Interest rate and inflation risk

Regarding interest rate risk, MCI's policy is to maintain a balance between the residual maturities of interest-bearing assets and liabilities, as well as fixed and variable interest rates. Loans are therefore generally on the same basic terms as their funding with respect to loan term, repayment profile, interest terms, interest payment dates, and review dates of the interest margin. In addition, there are inflation-indexed loans funded by equity with variable interest rates. The amounts are classified based on the date of contractual repricing or maturity, whichever comes first.

Classification of MCI's financial assets and financial liabilities at 31 Dec 2025 by interest fixing period

	0-1 years	1-5 years	5-10 years	10 years+	Total
Financial assets					
ISK indexed	31.059	69.516	66.059	46.597	213.231
ISK non-indexed	6.197	8.225			14.422
Foreign assets	2.387	229	229		2.845
Total financial assets	39.644	77.970	66.288	46.597	230.498
Financial liabilities					
ISK indexed	16.331	66.412	66.934	46.679	196.357
ISK non-indexed		4.442			4.442
Foreign assets	2.225	227	227		2.679
Total financial liabilities	18.556	71.081	67.161	46.679	203.478
Net assets - liabilities	21.087	6.888	(873)	(81)	27.021

Classification of MCI's financial assets and financial liabilities at 31 Dec 2024 by interest fixing period

	0-1 years	1-5 years	5-10 years	10 years+	Samtals
Financial assets					
ISK indexed	24.225	64.002	66.893	42.433	197.553
ISK non-indexed	9.522	2.431			11.953
Foreign assets	2.549	222	278		3.049
Total financial assets	36.296	66.655	67.171	42.433	212.555
Financial liabilities					
ISK indexed	14.624	58.617	66.923	42.943	183.107
ISK non-indexed	72	1.765			1.837
Foreign assets	2.231	222	278		2.731
Total financial liabilities	16.927	60.604	67.201	42.943	187.675
Net assets - liabilities	19.369	6.051	(30)	(510)	24.880

4.3 Interest rate and inflation risk, cont.

Interest rate sensitivity

An analysis of net interest rate sensitivity at year-end 2025, based on the average life of assets and liabilities, shows that a 1 percentage point increase in interest rates would decrease MCI's net interest income by ISK 116 million on an annualised basis, which corresponds to 0.43% of equity. For comparison, a similar increase at year-end 2024 would have increased net interest income by ISK 170 million, or 0.69% of equity. The table below shows the effects broken down by asset and liability categories according to the repricing gap approach. The analysis covers both trading and non-trading book assets and liabilities, where the effects of the non-trading book emerge when interest income and interest expense are incurred. The interest rate risk arises mainly from mismatches in the length of interest fixing periods between assets and liabilities.

	Parallel upward shift in yield curve (bps)	31 Dec 2025	31 Dec 2024
		Profit (loss)	
ISK indexed	100	(55)	202
ISK non-indexed	100	(61)	(31)
Foreign currencies	100	0	(1)
Totals		(116)	170

Inflation risk

At year-end 2025, MCI's indexed assets exceeded its indexed liabilities by the amount of ISK 16,874 million (2024: ISK 14,445 million). Based on this position, a 1% change in the Consumer Price Index (CPI) would have an effect of approximately ISK 169 million on MCI's profit on an annualised basis; a 1% increase would increase profit by ISK 169 million, and a 1% decrease would decrease profit by ISK 169 million.

Indexation balance

	31 Dec 2025	31 Dec 2024
Indexed assets	213.231	197.553
Indexed liabilities	196.357	183.108
Net indexation balance	16.874	14.445

4.4 Currency risk

MCI's policy regarding currency risk is that MCI's foreign exchange balance shall be in accordance with the rules of the Central Bank of Iceland and shall, as far as possible within those rules, be in appropriate proportion to the ratio of foreign assets in the statement of financial position.

Currency sensitivity analysis

The following table shows the sensitivity analysis of MCI's foreign exchange position broken down by currency and shows the impact on MCI's profit or loss resulting from a 10% weakening of the Icelandic króna against

	Weakening of the ISK against foreign currencies	31 Dec 2025	31 Dec 2024
		Profit (loss)	
EUR	10%	7	21
USD	10%	2	3
JPY	10%	2	2
CHF	10%	5	5
GBP	10%	1	1
Samtals		17	32

MCI used the following exchange rates for foreign currencies for the accounting period covered by these financial statements:

	31 Dec 2025	31 Dec 2024	Change %
EUR/ISK	147,20	143,90	2,3%
USD/ISK	125,20	138,20	(9,4%)
JPY/ISK	0,8023	0,8815	(9,0%)
CHF/ISK	158,40	152,70	3,7%
GBP/ISK	168,96	173,30	(2,5%)

4.4 Currency risk, cont.

Foreign currency assets and liabilities 31 Dec 2025

	EUR	USD	Other for. curre.	Total
Financial assets				
Loans to credit institutions	26	1	0	27
Loans to customers	952	23	69	1.044
Derivative contracts	1.774			1.774
Total financial assets	2.752	24	69	2.845
Financial liabilities				
Other long-term borrowings	2.679			2.679
Total financial liabilities	2.679	0	0	2.679
Net assets - liabilities	73	24	69	167

Foreign currency assets and liabilities 31 Dec 2024

	EUR	USD	Other for. curre.	Total
Financial assets				
Loans to credit institutions	153	1		154
Loans to customers	1.048	29	79	1.156
Derivative contracts	1.738			1.738
Total financial assets	2.939	30	79	3.048
Financial liabilities				
Other long-term borrowings	2.731			2.731
Total financial liabilities	2.731	0	0	2.731
Net assets - liabilities	208	30	79	317

4.5 Operational risk

It is MCI's policy to have written and clear procedures for all major aspects of operations and to work with standardised loan agreements. Furthermore, MCI's policy has been to outsource back-office services and spread tasks among more parties to reduce risk. MCI's operations are relatively simple, and operational risk is therefore limited. The number of customers is limited and they are rather homogeneous.

4.5.1 Personnel risk

MCI has three permanent employees: the CEO, the Risk and Treasury Manager, and a Loan Manager. Furthermore, MCI has entered into a service agreement with the Association of Local Authorities in Iceland for the purchase of various services. It is intended that the operational cooperation between MCI and the Association will continue.

4.5.2 Legal risk

MCI operates under Act No. 150/2006 on the establishment of a public limited company for MCI, Act No. 161/2002 on Financial Undertakings, and Act No. 2/1995 on Public Limited Companies. MCI cannot be held responsible for changes in legislation, court rulings, or decisions by authorities.

Legal risk includes, among other things, the possibility that the law governing MCI could be amended and the authorization of municipalities to pledge their revenues to MCI could be revoked. It is impossible to quantify this risk, and it is in the nature of MCI to coexist with it. It would, however, be considered a violation of the principles of the Icelandic Constitution if the authorization for statutory pledges were revoked retroactively.

According to the Icelandic Local Government Act, municipalities cannot become bankrupt. It is therefore considered highly unlikely that MCI would need to write off loans to municipalities, although delays in payments to MCI could occur if a municipality stops servicing its debt or delays payments. If a financial administration committee is appointed, it takes all decisions regarding payments from the municipal treasury, which can have the same effect.

MCI is not a party to any legal proceedings.

4.6 Capital management

The objective of capital management is to ensure that MCI always has sufficient equity to offset the underlying risk factors in MCI's operations.

MCI's capital base consists of share capital, restricted reserves, and retained earnings (general equity). In the minimum capital base, risk factors are divided into credit risk, market risk, and operational risk. In the additional capital base, a more detailed implementation of MCI's own assessment and measurement of the capital adequacy ratio is then carried out based on a risk assessment.

In accordance with Article 83 of Act No. 161/2002 on Financial Undertakings and Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions, MCI's risk-weighted capital adequacy ratio (CAD ratio) may not at any time fall below 8%. MCI applies the standardised approach for the calculation of credit risk and market risk, and the basic indicator approach for the calculation of operational risk.

Furthermore, financial undertakings are required to use appropriate capital buffers to further improve their capital position beyond the minimum 8% equity and thus be better equipped to deal with operational losses or economic fluctuations. According to the Act on Financial Undertakings, MCI is required to maintain, in addition to the 8% minimum capital ratio, a 2.5% capital conservation buffer and, in accordance with the decision of the Central Bank, a 2.5% countercyclical capital buffer on the risk base. The total capital requirement for MCI at year-end is therefore 13%. See further details in note 28.

5 Net interest income	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Interest and indexation income		
Loans and receivables to customers	12.865	13.882
Loans and receivables to credit institutions	72	123
	12.937	14.005
Interest and indexation expense		
Debt securities issued and other borrowings	11.508	12.506
Net interest income	1.429	1.499

6 Net income from fin. assets mandat. measured at FV	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Government bonds and treasury bills	679	596
Marketable securities and bonds	357	299
Derivative financial instruments	8	(1)
	1.043	894

7 Net income from financial assets designated at FV	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Loans and receivables to customers	(15)	2
	(15)	2

8 Net foreign exchange difference	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Loans and receivables to customers	20	(54)
Loans and receivables to credit institutions	3	(6)
Other long-term borrowings	(62)	125
Derivative financial instruments	40	(79)
	1	(14)

9 Salaries and related expenses

At year-end, three employees worked for MCI. MCI has entered into a service agreement with the Association of Local Authorities in Iceland for the purchase of various operational and service components, and that cost is recognised, among other things, as other operating expenses. Board members receive an 11.5% contribution to a pension fund from MCI, and the CEO receives 12%. Salaries of MCI's employees are in accordance with the salary scales of the employees of the Association of Local Authorities in Iceland.

	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Salaries	96,8	89,7
Pension fund contributions paid	13,8	12,7
Calculated pension cost due to pension obligations	32,2	22,3
Other salary-related expenses	8,3	7,7
	151,1	132,4
Óttar Guðjónsson, CEO	34,8	34,5
Board members:		
Kristinn Jónasson, Charmain of the Board	3,7	3,3
Fannar Jónasson, Member and Member of Audit Committee	3,2	2,6
Guðm. B. Guðmunds., Vice-Chairm. & Chairm. of Audit Com.	4,2	3,5
Halldóra Káradóttir, Member	2,5	2,2
Íris Róbertsdóttir, Member	2,3	0,4
Arna Lára Jónsdóttir, former Member	0,6	2,2
Fjóla St. Kristinsdóttir, Alternate	0,4	0,7
Grímur Rúnar Lárússon, Alternate	0,2	0,2
Helgi Hlynur Ásgrímsson, Alternate	0,6	0,0
Katrín Sigurjónsdóttir, Alternate	0,2	0,0
	18,0	15,2

10 Securities issuance costs	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Market making	61	58
Securities issuance fees	7	4
Annual securities costs	11	11
	79	73
11 Other operating expenses	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Service agreement with the Assoc. of Local Auth.	34,5	32,8
Specialist / legal services etc.	8,2	8,2
Housing and office operations	9,9	9,6
IT and software	11,0	12,6
Ext. auditor: Audit and review	5,0	4,9
Ext. auditor: Other services	1,2	2,0
Internal audit	2,4	2,1
Travel expenses	3,9	2,9
Office supplies	2,9	1,6
Membership fees	2,5	3,0
Other operating expenses	7,7	5,0
Depreciation	1,9	1,9
	90,9	86,5
12 Basic and diluted earnings per share	1 Jan-31 Dec 2025	1 Jan-31 Dec 2024
Profit and total comprehensive income for the year	2.117	2.070
Weighted average share capital	5.000	5.000
	0,42	0,41
13 Government bonds and treasury bills	31 Dec 2025	31 Dec 2024
Government bonds - indexed	4.033	4.372
Government bonds - non-indexed	2.769	312
Treasury bills	1.471	2.751
	8.273	7.435
Govt. bonds and treasury bills are measured at fair value based on quoted market prices in active markets.		
14 Marketable securities and bonds	31 Dec 2025	31 Dec 2024
Covered bonds	7.220	2.762
	7.220	2.762
15 Loans and receivables to credit institutions	31 Dec 2025	31 Dec 2024
Bank accounts	1.628	480
Money market loans	0	78
	1.628	558
16 Loans and receivables to customers	31 Dec 2025	31 Dec 2024
Indexed loans*	204.372	192.250
Loans in foreign currencies	1.044	1.156
Non-indexed loans	3.975	4.037
Short-term non-indexed loans	2.213	2.622
	211.605	200.065
Impairment on loans to customers	(47)	(44)
	211.558	200.021

* MCI measures two loans to customers at fair value. The loans are in Icelandic krónur at fixed indexed interest rates but were funded with foreign borrowings at variable rates. MCI uses derivative contracts to hedge against foreign exchange, interest rate, and inflation risk. See notes 19 and 24.

16 Loans and receivables to customers, cont.

Unamortized discounts and borrowing commissions at year-end are negative by ISK 1,754 million. At year-end 2024, the remaining balances were negative by ISK 943 million. The reason for the accumulated negative position is that the yield requirement was higher than the nominal interest rates of loans granted during the year.

The impairment allowance for loans stood at ISK 43.9 million at the end of 2024. The impairment for the period is entirely assessed based on 12-month expected credit losses in Stage 1. The change for the year based on the loan position at year-end was ISK 2.6 million, and the impairment allowance for loans stands at ISK 46.5 million at year-end.

According to Paragraph 2, Article 68 of the Local Government Act No. 138/2011, municipalities are permitted to grant MCI a pledge in their revenues as collateral for loans they take from MCI and for guarantees they provide. At year-end, all long-term loans to municipalities and companies owned by them are secured by pledges in the revenues of the municipalities. MCI does not grant loan commitments, and therefore there are no loan commitments at year-end.

Current maturities

Position 31 December 2025	Within 1 year	1 - 5 years	Over 5 years	Total
Indexed loans	16.639	70.035	117.698	204.372
Loans in foreign currencies	130	534	381	1.044
Non-indexed loans	317	2.809	850	3.975
Short-term non-indexed loans	2.213			2.213
	19.299	73.378	118.928	211.605

Position 31 December 2024	Within 1 year	1 - 5 years	Over 5 years	Total
Indexed loans	14.793	61.762	115.696	192.250
Loans in foreign currencies	131	523	503	1.156
Non-indexed loans	347	2.936	754	4.037
Short-term non-indexed loans	2.622			2.622
	17.892	65.220	116.953	200.065

17 Operating assets

	31 Dec 2025	31 Dec 2024
Carrying amount at the beginning of the year	66	68
	66	68
Depreciation for the year	(2)	(2)
Carrying amount at year-end	64	66
Carrying amount at year-end is specified as follows:		
Cost	93	93
Accumulated depreciation	(29)	(27)
	64	66

The current official real estate valuation amounts to ISK 133 million and the fire insurance valuation amounts to ISK 173 million. The insurance valuation of real estate is ISK 173 million.

18 Other assets

	31 Dec 2025	31 Dec 2024
Defense fund	37,5	30,0
Value added tax receivables	1,7	1,9
	39,2	31,9

The objective of the defense fund is to pay the legal defense costs of board members and employees arising from lawsuits directly related to their work for MCI in accordance with special rules. The defense fund's assets shall be preserved in the form of bank deposits or secure bonds owned by MCI. Assets belonging to the defense fund do not belong to cash and cash equivalents in the statement of cash flows. The contribution to the fund is ISK 7.5 million each year for 10 years, until the fund reaches ISK 75 million. Thereafter, an annual amount shall be paid as necessary to ensure the fund's value keeps pace with increases in the salary index each year. The base salary index of the fund is based on the salary index (778.6).

19 Classification and fair value of financial assets and financial liabilities

In accordance with the international financial reporting standard IFRS 9, financial assets must be classified into categories that reflect their cash flow characteristics and the objective of the business model under which the financial assets are managed. The measurement of each category after initial recognition is as follows:

- Financial assets and liabilities measured at amortised cost;
- Financial assets and liabilities measured at fair value through profit or loss;

The table below shows the classification of MCI's financial assets and financial liabilities in accordance with IFRS 9 and their fair value:

31 December 2025		Carrying amount			Fair value				
		Notes	Amortised cost	Assets at fair value	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value									
Gov. bonds and treasury bills	13		8.273	8.273	8.273				8.273
Marketable sec. and bonds	14		7.220	7.220	7.220				7.220
Loans and receivables to cust.	16		1.974	1.974		1.974			1.974
			0	17.466	17.466	15.492	1.974	0	17.466
Financial assets not at fair value									
Loans and receiv. to cr. Inst.	15	1.628	0	1.628		1.628			1.628
Loans and receivables to cust.	16	209.631	0	209.631		199.985			199.985
		211.259	0	211.259	0	201.613	0		201.613
Financial liabilities at fair value									
Derivative financial instruments	24		204	204		204			204
Financial liabilities not at fair value									
Debt securities issued	21	195.339		195.339	181.444				181.444
Other long-term borrowings	22	6.161		6.161		6.161			6.161
		201.500	0	201.500	181.444	6.161	0		187.605

MCI uses a fair value hierarchy to explain the different inputs of fair value. The hierarchy categorizes the inputs into three general levels in the following manner:

Stage 1: Quoted prices in active markets for identical assets or liabilities. The fair value of debt securities issued is based on the market price of MCI's bonds at year-end 2025.

Stage 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices). The fair value of loans and receivables to customers is estimated by discounting the portfolio's cash flows using the market yield requirement for MCI's bonds.

Stage 3: Inputs for the fair value of assets and liabilities are not based on observable market data, but rather on information such as the financial performance of the respective company, purchase and sale of shares, etc.

19 Classification and fair value of financial assets and financial liabilities, cont.

31 December 2024

		Carrying amount			Fair value			
		Amortised cost	Assets at fair value		Stage 1	Stage 2	Stage 3	Total
			value	Total				
Financial assets at fair value								
Gov. bonds and treasury bills	13		7.435	7.435	7.435			7.435
Marketable sec. and bonds	14		2.762	2.762	2.762			2.762
Loans and receivables to cust.	16		1.918	1.918		1.918		1.918
		0	12.115	12.115	10.198	1.918	0	12.115
Financial assets not at fair value								
Loans and receiv. to cr. Inst.	15	558		558		558		558
Loans and receivables to cust.	16	198.148		198.148		188.747		188.747
		198.706	0	198.706	0	189.305	0	189.305
Financial liabilities at fair value								
Derivative financial instruments	24		178	178		178		178
Financial liabilities not at fair value								
Debt securities issued	21	182.957		182.957	173.060			173.060
Other long-term borrowings	22	2.731		2.731		2.731		2.731
Skammtfímalántökur	25	72		72		72		72
		185.760	0	185.760	173.060	2.803	0	175.863

20 Offsetting financial assets and financial liabilities

The following tables contain an overview of financial assets and financial liabilities that are subject to master netting agreements or similar agreements that can be applied unconditionally.

Position 31 December 2025

	Financial instruments subject to netting agreements			Offsetting not recognised in balance sheet		Net liabilities within netting agreements	Liab. outside netting agreements	Net carrying amount in balance sheet
	Fin. Assets	Fin. liab.	Difference	Fin. Assets	Pledged collateral			
Derivatives	1.774	(1.978)	(204)	0	0	0	0	(204)

Position 31 December 2024

	Financial instruments subject to netting agreements			Offsetting not recognised in balance sheet		Net liabilities within netting agreements	Liab. outside netting agreements	Net carrying amount in balance sheet
	Fin. Assets	Fin. liab.	Difference	Fin. Assets	Pledged collateral			
Derivatives	1.738	(1.917)	(178)	0	0	0	0	(178)

21 Debt securities issued

	Weighted average interest rate*		31 Dec 2025	31 Dec 2024
	31 Dec 2025	31 Dec 2024		
LSB 280829 GB, maturity 2029 ...	4,27%	4,27%	1.770	1.766
LSF 32 1209, maturity 2032	8,35%		2.672	
LSS 08 1, maturity 2034	5,29%	5,29%	1.701	1.834
LSS 150434, maturity 2034	1,97%	1,97%	91.043	97.206
LSS 39 0303, maturity 2039	3,33%	3,14%	43.510	32.427
LSS 040440 GB, maturity 2040 ...	2,44%	2,43%	7.147	7.285
LSS 151155, maturity 2055	2,62%	2,51%	47.497	42.440
			195.339	182.957

* Weighted average interest rate is presented in accordance with the effective interest method.

Unamortized discounts and borrowing costs at year-end are ISK 1,388 million. At year-end 2024, the remaining balances were ISK 2,059 million. The change is due to an increase in the market yield requirement.

Current maturities

Position 31 December 2025	Within 1 year	1 - 5 years	Over 5 years	Total
Debt securities issued	14.256	62.123	118.960	195.339

Position 31 December 2024	Within 1 year	1 - 5 years	Over 5 years	Total
Debt securities issued	12.743	56.018	114.196	182.957

22 Other long-term borrowings

	Interest rate		31 Dec 2025	31 Dec 2024
	31 Dec 2025	31 Dec 2024		
ISK loans	3,57%		3.483	
EUR loans	1,98%	2,48%	2.679	2.731
			6.161	2.731

Current maturities

Position 31 December 2025	Within 1 year	1 - 5 years	Over 5 years	Total
ISK loans	0	0	3.483	3.483
EUR loans	114	2.225	341	2.679
	114	2.225	3.823	6.161

Position 31 December 2024	Within 1 year	1 - 5 years	Over 5 years	Total
EUR loans	111	1.238	1.382	2.731

23 Changes in borrowings

Beginning of year 1.1.2025, debt securities indexed, cf. note 21	181.192
Beginning of year 1.1.2025, debt securities non-indexed, cf. note 21	1.766
Beginning of year 1.1.2025, other long-term loans, EUR, cf. note 22	2.731
	185.688
New debt securities and other long-term borrowings during the year	23.069
Borrowing costs	(35)
Repayments of debt securities and other long-term borrowings	(13.505)
Accrued interest	36
Indexation and exchange rate difference	6.790
Amortization of discounts	(543)
Position 31 December 2025	201.500

24 Derivative financial instruments

Position 31 December 2025		Fair value		
	Nominal	Asset	Liability	Difference
Derivative financ. instruments	1.800	1.774	1.978	(204)

Position 31 December 2024		Fair value		
	Nominal	Asset	Liability	Difference
Derivative financ. instruments	1.800	1.738	1.917	(178)

MCI uses derivative financial instruments to hedge against foreign exchange, interest rate, and inflation risk. The derivative financial instruments are used to protect MCI's operations against fluctuations in foreign currency exchange rates and changes in foreign interest rates, as loans to customers are in Icelandic krónur at fixed indexed rates. This risk arises from a mismatch in the composition of assets and liabilities. Clear limits are set regarding such mismatches, and management and the Board are regularly informed.

The derivative financial instruments are measured at fair value, and the fair value change is recognised, among other things, as other operating income under net interest income from financial assets mandatorily measured at fair value. The derivative financial instruments are recognised in the statement of financial position as an asset or

25 Short-term borrowings

	Interest rate		31 Dec 2025	31 Dec 2024
	31 Dec 2025	31 Dec 2024		
ISK loans (non-indexed)		7,20%	0	72

26 Pension obligation

MCI and its partner institutions have a pension obligation for former employees who have membership in the B-division of the Pension Fund for State Employees (LSR). An actuarial calculation of the pension obligation is performed annually and is recognised as a liability in the financial statements at year-end. The calculation is based on the same actuarial assumptions and notes used in the actuarial valuation of the B-division of LSR. The main assumptions are 2% real interest, life expectancy according to LSR's experience in the years 2018–2022, and disability probability according to LSR's experience in the years 2010–2014. There is no obligation regarding MCI's current employees.

The pension obligation is specified as follows:

	31 Dec 2025	31 Dec 2024
From previous year	128	112
Pension paid during the year	(8)	(6)
Increase in obligations	32	22
	152	128

27 Other liabilities

	31 Dec 2025	31 Dec 2024
Creditors	11	11
Unpaid salary-related expenses	5	5
	16	16

28 Equity

MCI calculates and discloses its capital adequacy ratio in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings. MCI applies the standardised approach for the calculation of credit risk and market risk, and the basic indicator approach for the calculation of operational risk. In accordance with the law, MCI is required to maintain, in addition to the 8% minimum capital ratio, a 2.5% capital conservation buffer and a 2.5% countercyclical capital buffer on the risk base. The capital requirement at year-end is 13%.

28 Equity, cont.

At year-end, the total nominal share capital of MCI is ISK 5,000 million. One vote is attached to each ISK 1 of nominal value.

The table below shows MCI's capital base, risk-weighted assets, and capital adequacy ratio at year-end.

	31 Dec 2025	31 Dec 2024
Capital base		
Share capital	5.000	5.000
Statutory reserve	1.250	1.250
Restricted unrealized fair value changes	192	78
Retained earnings	20.468	18.466
	26.910	24.793
Risk-weighted assets (RWA)		
Credit risk	1.413	1.336
Market risk	2.631	1.748
Operational risk	4.364	3.785
	8.407	6.869
Capital adequacy ratio		
Capital adequacy ratio with full mitigation	320%	361%

MCI utilizes mitigation provisions in capital calculations due to its statutory special position. In accordance with Paragraph 2, Article 68 of the Local Government Act No. 138/2011, municipalities can grant MCI a pledge in their revenues for loans they take from MCI and for guarantees provided to it in accordance with Paragraph 1 and 2, Article 69 of the same Act. When applying the mitigation, the relevant risk exposures receive, to the extent that collateral exists, the same risk weight as the Icelandic State, i.e., 0% for loans in Icelandic krónur.

MCI's weighted capital adequacy ratio is 320% based on the loan position at year-end 2025, compared to 361% at year-end 2024, utilizing the mitigation provisions in capital calculations. Without mitigation, the weighted capital adequacy ratio is 54%, which is the same ratio as at year-end 2024.

29 Related parties

MCI's related parties are defined as the Board, companies and institutions owned by municipalities related to board members, the CEO, key management personnel, and their close family members. Alternates on the Board fall under the definition from the time they attend a board meeting and participate in decision-making regarding MCI's operations. Municipalities that hold a qualified holding of at least 10% are also considered related parties, as well as companies and institutions in their ownership. One shareholder holds a qualified holding, see note 31.

Information on credit facilities to related parties is as follows:

	31 Dec 2025	31 Dec 2024
Balance at the beginning of the year.....	18.702	22.323
New loans.....	1.634	0
Repayments.....	(863)	(1.328)
Interest, indexation, and FX differences.....	568	857
Reclassification of related parties.....	(3.611)	(3.150)
Balance at year-end.....	16.429	18.702
Interest income.....	433	527

All credit facilities to related parties were granted on the same terms as regular credit facilities. They were subject to the same terms, including interest and collateral, as comparable transactions with third parties.

Information on management remuneration, see note no. 9.

Expenses to the Association of Local Authorities in Iceland, see note no. 11.

30 Lending

Below is an overview of the loan position of all municipalities with MCI at year-end, totaling ISK 173,542 million. On the next page is an overview of lending to companies owned by municipalities.

Municipality	Amount	Popul.*	Municipality	Amount	Popul.*
Hafnarfjarðarkaupstaður	20.043	31.525	Dalabyggð	1.170	645
Mosfellsbær	18.780	13.715	Sveitarfélagið Hornafjörður	1.097	2.589
Reykjanesbær	18.548	22.499	Strandabyggð	1.051	405
Garðabær	15.994	20.116	Sveitarfélagið Vogar	1.041	1.741
Sveitarfélagið Árborg	14.974	12.064	Þingeyjarsveit	971	1.453
Kópavogsbær	11.509	40.040	Vopnafjarðarhreppur	945	648
Akureyrarbær	7.418	20.050	Hörgársveit	925	847
Skagafjörður	6.481	4.316	Snæfellsbær	873	1.669
Múlaþing	6.169	5.232	Norðurþing	814	3.114
Hveragerðisbær	5.961	3.300	Dalvíkurbyggð	722	1.906
Fjarðabyggð	4.091	5.247	Grímsnes- og Grafningsshr.	718	575
Suðurnesjabær	3.740	4.091	Skaftárhreppur	716	627
Borgarbyggð	3.703	4.102	Húnaþing vestra	664	1.203
Vesturbyggð	2.846	1.314	Langanesbyggð	659	560
Ísafjarðarbær	2.766	3.832	Akraneskaupstaður	420	8.285
Húnabyggð	2.624	1.374	Mýrdalshreppur	363	965
Bolungarvíkurkaupstaður	2.554	995	Skeiða- og Gnúpverjahreppur	169	617
Sveitarfélagið Stykkishólmur	2.472	1.285	Grytubakkahreppur	128	389
Bláskógabyggð	1.822	1.362	Reykholahreppur	120	246
Rangárþing ytra	1.627	1.940	Flóahreppur	110	726
Sveitarfélagið Ölfus	1.509	2.757	Seltjarnarnesbær	61	4.585
Grundarfjarðarbær	1.485	826	Kjósarhreppur	60	301
Rangárþing eystra	1.368	2.073	Ásahreppur	7	299
Hrunamannahreppur	1.250	914	Fjallabyggð	6	1.966

* Population according to Statistics Iceland 1 January 2025

Lending, cont.

Below is an overview of the loan position of companies that are 100% owned by municipalities with MCI at year-end, totaling ISK 39,839 million.

Company owned by municipalities	Amount	Company owned by municipalities	Amount
Félagsbústaðir hf	10.797	Norðurá bs.	169
Norðurorka hf	6.155	Félagsþjónusta A-Hún bs	148
Seltjarnarneskaupstaður	4.222	Fasteignafél. Hveragerðisbæjar	138
SORPA bs	3.002	Hitaveita Egilsstaða og Fella ehf.	137
Selfossveitur	2.631	Byggðasamlagið Oddi bs	122
Húsnæðisskrifstofa Hafnarfjarðar	1.870	Byggðasafnið í Skógum	115
Strætó bs	1.541	Rangbárping ytra	100
Fasteignaf. Akraneskaupstaðar	1.166	Brunavarnir Rangárvallasýslu bs.	83
Reykjaneshöfn	970	Fasteignir Húnavatnshrepps ehf.	81
Brunavarnir Suðurnesja bs	653	Sorpsamlag Strandasýslu	80
Ísafjarðarhöfn	624	Samb.sveitarfél. á Suðurnesjum	75
Brunavarnir Árnessýslu	549	Húnanet ehf.	72
Dvalarheimilið Kirkjuhvoll	522	Dalaveitur ehf	69
Þorlákshafnarhöfn	513	Hitaveita Flúða og nágrennis	63
Kjósarveitur ehf.	495	Langaneshafnir	53
Fallorka ehf	397	Hrunaljós	51
Hafnarsjóður Norðurþings	373	Hólmavíkurhöfn	50
Hitav. Grímsnes- og Grafningshr.	335	Hafnarfjarðarhöfn	44
Héraðsnefnd Árnesinga bs.	251	Veitustofnun Strandabyggðar	28
Vatnsv. Ranáþp. ytra og Ásahr.	225	Tónlistarskóli Árnesinga	19
Höfði hjúkrunar- og dvalarheimili	219	Félags- og skólaþj. Snæfellinga	17
Byggðasafn Árnesinga	204	Listasafn Árnesinga	16
Slökkvilið höfuðborgarsvæðisins	199	Héraðsskjalasafn Árnesinga	9
Sorpstöð Rangárvallasýslu bs	187		

MCI has received written authorization from its borrowers for the publication of information regarding their loan position with MCI. This is to enable the publication of itemised information on MCI's lending in public documents and how it is divided between municipalities and companies in their ownership. The authorization was obtained in accordance with Article 60 of the Act on Financial Undertakings No. 161/2002.

31 Shareholders

MCI has 62 shareholders, and it is owned by all municipalities in the country. Reykjavíkurborg is the only shareholder with a holding exceeding 10%, with a 17.5% share, while the 10 largest shareholders combined hold 56%. Below is a breakdown of all MCI's shareholders.

Municipality	Holding in %	Municipality	Holding in %
Akraneskaupstaður	2,41%	Langanesbyggð	0,62%
Akureyrarbær	5,49%	Mosfellsbær	1,49%
Árneshreppur	0,04%	Múlaþing	2,99%
Ásahreppur	0,04%	Mýrdalshreppur	0,37%
Bláskógabyggð	0,63%	Norðurþing	2,22%
Bolungarvíkurkaupstaður	0,83%	Rangárþing eystra	1,67%
Borgarbyggð	1,78%	Rangárþing ytra	1,72%
Dalabyggð	0,61%	Reykholahreppur	0,30%
Dalvíkurbyggð	1,35%	Reykjanesbær	3,03%
Eyja- og Miklaholtshreppur	0,05%	Reykjavíkurborg	17,47%
Eyjafjarðarsveit	0,37%	Seltjarnarnesbær	1,16%
Fjallabyggð	2,39%	Skaftárhreppur	0,38%
Fjarðabyggð	3,34%	Skagafjörður	2,42%
Fljótisdalshreppur	0,03%	Skeiða- og Gnúpverjahreppur	0,37%
Flóahreppur	0,25%	Skorradalshreppur	0,02%
Garðabær	3,76%	Snæfellsbær	1,77%
Grindavíkurbær	1,09%	Strandabyggð	0,45%
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	1,65%	Sveitarfélagið Skagaströnd	0,29%
Húnaþing vestra	0,89%	Sveitarfélagið Stykkishólmur	1,87%
Hvalfjarðarsveit	0,22%	Sveitarfélagið Vogar	0,42%
Hveragerðisbær	0,96%	Sveitarfélagið Ölfus	0,86%
Hörgársveit	0,17%	Tjörneshreppur	0,02%
Ísafjarðarbær	4,15%	Vestmannaeyjabær	5,81%
Kaldrananeshreppur	0,06%	Vesturbyggð	1,52%
Kjósarhreppur	0,08%	Vopnafjarðarhreppur	0,68%
Kópavogsbær	5,52%	Þingeyjarsveit	0,55%