

## Appendix 2 – Icelandic Investments

### 1. Background

#### Investments in Iceland (Quoted in the Statutory Accounts 31/3/2012)

Cherwell District Council was one of at least 123 local authorities that were affected by the collapse of Icelandic banking institutions.

In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £6.5m deposited with one of these institutions, Glitnir, with varying maturity dates and interest rates as follows:

<b>Glitnir</b>	<b>Date Invested</b>	<b>Maturity Date</b>	<b>Amount Invested</b>	<b>Interest Rate</b>
Investment 1	06/02/07	08/02/10	£2,000,000	5.74%
Investment 2	26/10/06	26/10/09	£2,000,000	5.72%
Investment 3	31/08/07	30/03/09	£2,500,000	6.30%
			<b>£6,500,000</b>	

The Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in March 2012. An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 4.2%.

The balance left after distribution was £629,669, but retained in Icelandic Kroner, and has been held in escrow within the Íslandsbanki since that point. Interest has been accumulating at a rate of 3.7% - 4.2% per annum and exchange rates have risen and dropped over the ensuing years.

### 2. Current

As at 16/6/2016 our ISK balance had reached 313,703,286.

The Icelandic Government passed legislation on 22<sup>nd</sup> May 2016 allowing an auction of offshore Icelandic Krona held in escrow to be held on 16<sup>th</sup> June 2016. Cherwell District Council decided to participate in this auction with a view to recovering all of the Councils investment at the rate available on the day.

The exchange rate achieved in Euro's was 190.38, including bank commissions, which was better than originally predicted. The table below sets out the conversion from ISK to Euros.

ICELANDIC INVESTMENTS OUTCOME		
	ISK	Euro
CL20091121-1870	97,878,041	514,119.35
CL20091121-1888	118,229,221	621,017.02
CL20091121-1819	96,533,220	507,055.47
Balance at 31/5/2016	312,640,482	1,642,191.84
<b>Actual receivable</b>	<b>313,703,286</b>	<b>1,647,774.38</b>
	<b>16/06/2016</b>	<b>16/06/2016</b>

Given the volatility in exchange rates following the EU Referendum, in discussion with the Portfolio Holder for Financial Management, we had set up a Euro bank account to receive the funds and not have it directly converted to sterling, owing us the flexibility to convert at a time of our choosing.

The yielded Euro amount of 1,647,765.72 (after our bank charges) was paid into CDC's Euro account on 30<sup>th</sup> June 2016. At that time, after a significant drop in the £/Euro exchange rate the previous week following the Leave vote, the rate had been slowly rising. It was therefore decided to sell the Euros at a rate of 1.2119, converting to £1,359,655. Unfortunately, later that day the Governor of the Bank of England made an announcement on monetary policy which caused the rate to drop to 1.19. This typifies the current uncertainty in the economic outlook. The table below shows the potential recovery at the highest and lowest points a week before and a week after we sold our Euros.

<u>Date</u>	<u>Rate</u>	<u>£</u>	<u>Variance £</u>
23-Jun	1.3000	1,267,512	
30-Jun	1.2119	1,359,655	92,143
04-Jul	1.1900	1,384,677	25,022