



MUNICIPALITY CREDIT ICELAND

The collapse of a banking system

Presentation to ICLC

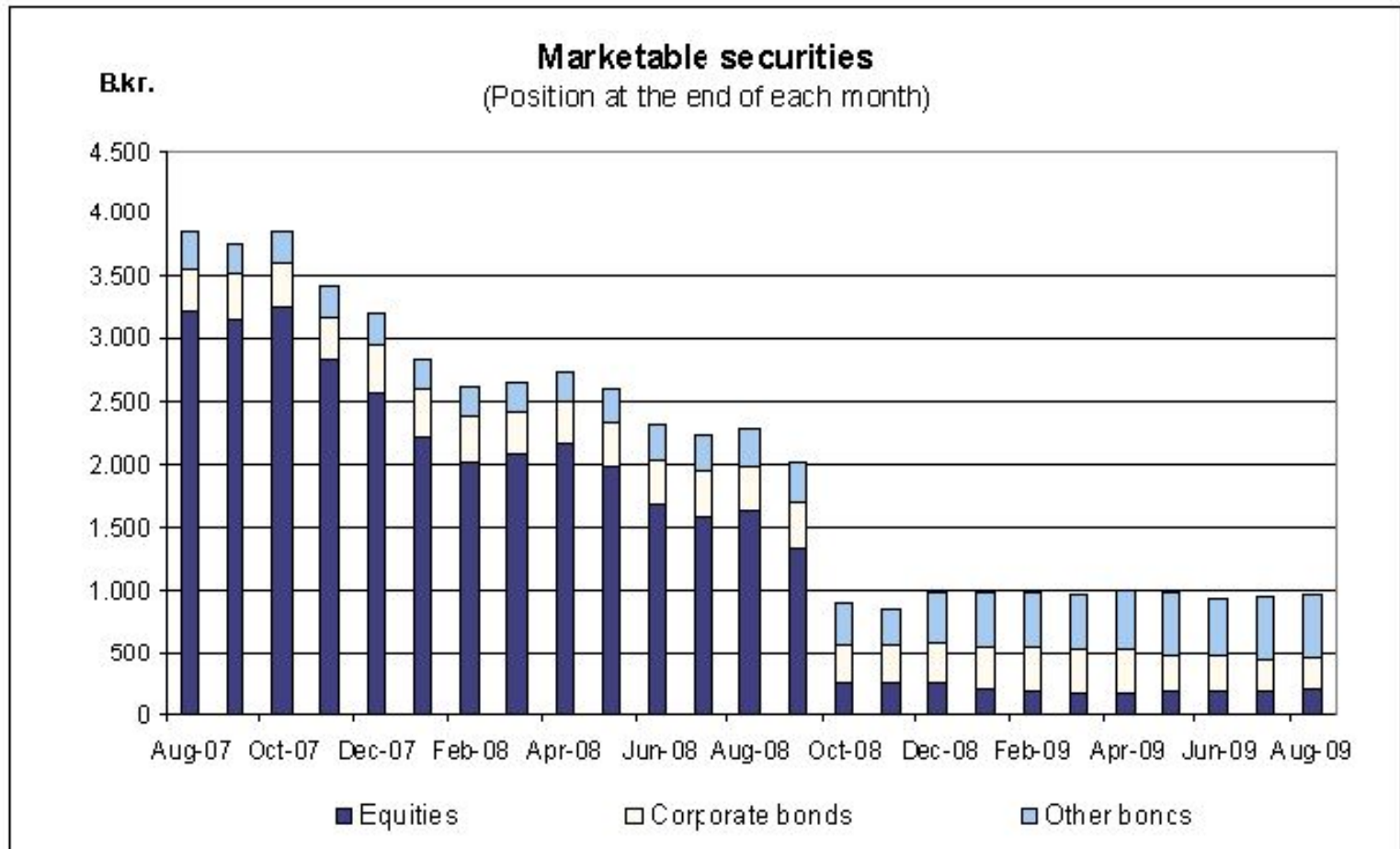
October 15th 2009



Icelandic banks, size June 2008

Company	ISK	Status	
Kaupthing	6.604	Default	
Landsbanki	3.970	Default	
Glitnir bank	3.863	Default	
Straumur Bank	1.020	Default	
Spron SB	247	Default	
Byr SB	226	185	
ICEBANK	289	Default	
Myrarsysla SB	53	Default	
Keflavik SB	91	94	
		Bn. EUR	
Total 30/6/2008	16.363	95,4	
Total 31/12/2008	279	1,6	1,7%

New banks have 260 bn. ISK equity but we have not seen the new balance sheets. That is about 22% of the equity in the old banks before the crisis.



Source: Central Bank of Iceland



Main impact of the crisis

- Activity in the financial market collapsed.
- The exchange rate dropped, EUR from 90 to 180.
- As a result inflation shot up, close to 20% 2008.
- Interest rates increased, CB rate to 18%.
- Asset prices declined.
- The economy contracted sharply, unemployment increased and so did bankruptcies. Treasury finances went into deep deficit and the debt soared.



The reaction

- With the help of the IMF, the government formed a threefold economic program to:
 - 1) restore the banking system,
 - 2) reopen the foreign exchange market and
 - 3) improve public finances over the medium term
- In addition to this the government collapsed and we called elections which gave us a new majority government.
- This has delayed the IMF plan by many months.



Development of municipality finances

- Debt levels up 48% during 2008 as a result of currency devaluation and inflation (194 to 287bn).
- Increased costs due to higher wages and interest payments.
- Tax revenue is up 2.5% year on year.
- Many have cut their capital expenditure.

- More or less municipalities will break even 2009.
- We do not forecast default.



The impact on and reaction of MCI

- Increased lending, in particular Q4 2008
- Total assets grew 53% in 2008
- New lending 2009 focused on refinancing.
- Growth in assets in 2009 7%.
- No new hard currency loans since the crisis.
- Net profits stable, 2007, 2008 and 1H/2009.
- No loan loss since start in 1967.
- No arrears.



Current position of MCI

MCI - introduction

- The Municipality Credit Iceland PLC (MCI) (Lánasjóður sveitarfélaga ohf) was established in 1967 and is the funding agency of the Icelandic municipalities. MCI is an intra governmental agency in the form of a statutory limited liability company, owned by all 77 Icelandic municipalities. With its non-competitive status, lending is limited to projects of general economic interest. The share capital of MCI is ISK5 billion. Shares may only be owned by Icelandic municipalities and organizations or enterprises fully owned by them. Iceland's capital city, Reykjavik, is the largest shareholder with 17.5% of the total shares. By mid year 2009 MCI equity totalled ISK 12 billion and the Capital Adequacy Ratio was **62%**.

MCI - organization and objectives

- MCI became a fully-fledged financial institution in 2005 and is supervised by the Financial Supervisory Authority and bound by the regulations of the Central Bank. For capital adequacy purposes, loans to the municipalities carry a 20% risk-weighting.
MCI's mission is to secure capital on favourable terms to Icelandic municipalities, their institutions and enterprises. A principal condition for granting loans to municipally-owned enterprises and institutions is that such enterprises and institutions are fully owned by the relevant municipality or jointly owned by municipalities and the State Treasury, which act as guarantors for the loans.

MCI – financial overview

- By the end of 2008 MCI covered 21% of Icelandic municipalities' total financing needs. Corresponding figure for 2006 is 18%.
- At the end of 2008 borrowing had increased significantly compared with 2006. Due to its limited size, MCI has so far not borrowed at the international capital markets; hence has not applied for a formal rating. Foreign funding has been limited to loans from financial institutions on a bilateral basis.

