

Economic and monetary chronicle

July 2008

On July 3, the Board of Governors of the Central Bank of Iceland decided to leave the Bank's policy interest rate unchanged at 15.5%.

September 2008

On September 11, the Board of Governors of the Central Bank of Iceland decided to leave the Bank's policy interest rate unchanged at 15.5%.

On September 19, the Financial Supervisory Authority approved Byr Savings Bank's application to change the savings bank into a limited liability company.

On September 29, the Office of the Prime Minister announced an agreement between the government and the largest owners of Glitnir Bank hf., following consultation with the Central Bank of Iceland and the Financial Supervisory Authority, under which the government would contribute new share capital in the amount of 600 million euros, thereby becoming the owner of a 75% stake in Glitnir.

October 2008

On October 6, the Financial Supervisory Authority announced its decision to stop trading temporarily with all financial instruments issued by Glitnir Bank hf., Kaupthing Bank hf., Landsbanki Íslands hf., Straumur-Burðarás Investment Bank hf., SPRON hf., and Exista hf., and traded on a regulated securities exchange.

On October 6, Parliament passed the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. According to the Act, special and very unusual circumstances refers to particular financial and/or operational difficulties experienced by a financial undertaking, including the probability that it will not be able to honour its commitments vis-à-vis its customers or creditors, the likelihood that the premises for revocation of its operating licence exist, or the likelihood that the undertaking cannot meet the minimum requirements for equity, and the measures adopted by the Financial Supervisory Authority are not likely to limit the damage or risk of damage to the financial markets. Under such circumstances, the Financial Supervisory Authority is authorised to adopt special measures.

On October 7, the Financial Supervisory Authority announced its decision to define short sales of shares of specified issuers as behaviour opposed to accepted market practices. From October 7, 2008, through January 16, 2009, it is prohibited to sell short shares in Glitnir Bank hf., Kaupthing Bank hf., Landsbanki Íslands hf., Straumur-Burðarás Investment Bank hf., SPRON hf., and Exista hf., that had been admitted for trading on the regulated securities exchange in Iceland, unless the seller has the securities in his custody at the time of the offer. The

prohibition also includes all other financial instruments that have the same purpose and same economic exposure as the short sale of the specified shares, as well as other financial instruments whose value is determined by the price of the specified shares.

On October 7, the Financial Supervisory Authority announced that it had intervened in the operations of Landsbanki Íslands hf., based on the authority contained in the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of the Board of Directors of Landsbanki.

On October 7, the Financial Supervisory Authority announced that it had intervened in the operations of Glitnir Bank hf., based on the authority contained in the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of the Board of Directors of Glitnir.

On October 9, the Financial Supervisory Authority announced that it had intervened in the operations of Kaupthing Bank hf., based on the authority contained in the Act on Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, no. 125/2008. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of the Board of Directors of Kaupthing.

On October 9, New Landsbanki Íslands hf. commenced operations after having taken over a part of the operations of Landsbanki Íslands hf.

On October 13, the Financial Supervisory Authority granted MP Investment Bank hf. a commercial banking licence. The commercial banking licence took effect on October 10, 2008.

On October 14, the Central Bank of Iceland announced that it had drawn a total of 400 million euros on the currency swap agreements with the central banks of Denmark and Norway.

On October 14, the OMX Nordic Exchange Iceland hf. approved Landsbanki Íslands hf.'s request for the delisting of its shares. The bank's shares were removed from trading after the market closed on October 14, 2008.

On October 15, the Board of Governors of the Central Bank of Iceland decided to lower the Bank's policy interest rate by 3.5 percentage points, to 12%.

On October 15, the OMX Nordic Exchange Iceland hf. approved Glitnir Bank hf.'s October 14 request for the delisting of its shares. The bank's shares were removed from trading after the market close on October 14, 2008.

On October 15, the Central Bank of Iceland came to an agreement with market makers in the foreign exchange market, as well as with

several other financial undertakings, concerning temporary foreign exchange arrangements. Daily auctions of the euro against the króna provide an indication of the exchange rate of the króna vis-à-vis other currencies and ensures a minimum level of cross-border business activity. The exchange rate is determined by supply and demand for foreign currency, which is initially in accordance with the Central Bank's guidelines on modifications in currency outflow.

On October 15, New Glitnir Bank hf. commenced operations after having taken over a part of the operations of Glitnir Bank hf.

On October 17, a meeting of Icebank hf. shareholders approved a motion to change the name of the bank to Sparisjódabanki Íslands hf.

On October 22, New Kaupthing Bank hf. commenced operations after having taken over a part of the operations of Kaupthing Bank hf.

On October 27, the Financial Supervisory Authority announced its opinion that, on October 6, Landsbanki Íslands hf. was unable to remit payment of deposits in specified accounts to customers requesting such payment. Therefore, by law, the Depositors' and Investors' Guarantee Fund was obligated towards the Landsbanki Íslands hf. customers who did not receive payment from their accounts. Comparable obligations had developed on October 9 with respect to Kaupthing Bank hf., and on October 3 with respect to Glitnir Bank hf.

On October 28, the Board of Governors of the Central Bank of Iceland decided to raise the Bank's policy interest rate by 6 percentage points, to 18%.

Credit ratings – changes July-October 2008

Moody's credit ratings for foreign-currency obligations

| | <i>Affirmed</i> | <i>Long-term obligations</i> | <i>Short-term obligations</i> | <i>Financial strength</i> |
|------------------------|--------------------|------------------------------|-------------------------------|---------------------------|
| Republic of Iceland | Oct. 8 | Aa1→A1 | P-1 | |
| Housing Financing Fund | Oct. 8 | Aa1→A1 | | |
| Glitnir | Sept. 30 Oct. 8 | A2→Baa2 Caa1 | P-1→P-2 Not-Prime | C-→D E |
| Kaupthing | Oct. 9 | A1→Baa3 | P-1→P-3 | C-→D+ |
| Landsbanki | Oct. 8 | A2→Caa1 | P-1→Not-Prime | C-→E |

Fitch Ratings' credit ratings for foreign-currency obligations

| | <i>Affirmed</i> | <i>Long-term obligations</i> | <i>Short-term obligations</i> | <i>Individual rating</i> | <i>Support rating</i> |
|-----------------------------------|------------------------------|------------------------------|-------------------------------|--------------------------|-----------------------|
| Republic of Iceland | Sept. 30 Oct. 9 | A+→A- BBB- | F1→F2 F3 | | |
| Glitnir | Sept. 30 Oct. 7 Oct. 8 | A-→BBB- B D | F2→F3 B D | B/C→F F F | 2 4 5 |
| Kaupthing | Sept. 30 Oct. 8 | A-→BBB CCC | F2→F3 C | B/C→C E | 2 5 |
| Landsbanki | Sept. 30 Oct. 7 Oct. 8 | A→BBB B D | F1→F3 B D | B/C→C F F | 4 5 |
| Straumur-Burdaras Investment Bank | Sept. 30 Oct. 9 | BBB-→BB+ BB- | F3→B B | C/D D | 3 5 |

Standard & Poor's credit ratings for foreign-currency obligations

| | <i>Affirmed</i> | <i>Long-term obligations</i> | <i>Short-term obligations</i> | <i>Financial strength</i> |
|------------------------|-------------------------------|------------------------------|-------------------------------|---------------------------|
| Republic of Iceland | Sept. 29 Oct. 6 | A→A- BBB | A-1→A-2 A-3 | |
| Housing Financing Fund | Sept. 29 Oct. 6 | A→A- BBB | A-1→A-2 A-3 | |
| Glitnir | Sept. 29 Oct. 7 9. okt. | BBB+→BBB CCC D | A-3 C D | A-2→A-3 |

R&I's credit rating for foreign-currency obligations

| | <i>Affirmed</i> | <i>Long-term obligations</i> |
|---------------------|------------------------------|------------------------------|
| Republic of Iceland | Sept. 30 Oct. 7 Oct. 9 | AA+→AA A+ BBB- |