

## Economic and monetary chronicle

### May 2004

On May 4, Straumur Fjárfestingarbanki hf., an investment bank, was licensed as a securities broker.

On May 6, the Central Bank of Iceland announced that it had decided to raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.2 percentage points to 5.5% as of May 11. The Bank's other interest rates were also raised by 0.2 percentage points on May 11.

On May 11, the National Debt Management Agency signed agreements with market makers concerning issues of Treasury bonds. From June 1, 2004 six banks have been designated principal market makers: commercial banks Íslandsbanki hf., KB banki hf. and Landsbanki Íslands hf.; investment bank MP Fjárfestingarbanki, the savings banks' clearing house Sparisjóðabanki Íslands, and savings bank Sparisjóður Reykjavíkur og nágrennis.

On May 13, the Housing Financing Fund (HFF) announced it had commissioned Deutsche Bank AG of London to act as advisor and lead manager for the restructuring of its benchmark housing bonds.

On May 19, the Central Bank of Iceland announced changes to its Rules on Transactions with the Central Bank by Credit Institutions Subject to Minimum Reserve Requirements. Under the new Rules, maturities of the Bank's regular market instruments, i.e. repurchase agreements and certificates of deposit, are shortened from 14 days to 7 days, effective as of June 1, 2004.

On May 19, Fitch Ratings affirmed its credit ratings on the Republic of Iceland, awarding AA- for long-term obligations in foreign currency, AAA for domestic obligations and F1+ for short-term foreign debt. The outlook on the ratings was stable.

### June 2004

On June 1, the Central Bank of Iceland announced that it had decided to raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.25 percentage points to 5.75% as of June 8. The Bank's other interest rates were raised on June 11.

On June 7, Moody's Investors Service affirmed its ratings on the Republic of Iceland at Aaa for long-term obligations in foreign and domestic currency and P-1 for short-term obligations in foreign and domestic currency, with a stable outlook.

On June 7, KB banki hf. announced that it had established a London-based asset management business, New Bond Street Asset Management LLP (NBS). NBS will focus on generating a portfolio of floating-rate credit investments for KB banki hf. and managing funds from third parties. Funds under management are expected to reach up to 2 billion euros in the first two years, KB banki hf. announced.

On June 14, KB banki hf. announced that it had acquired the Danish bank FIH A/S from Swedbank. FIH provides medium- and long-term financing to the full spectrum of Danish corporations. The acquisition will double the size of KB banki hf.'s balance sheet. It was conditional upon approval by financial supervisory authorities in both Denmark and Iceland. Acquisition price was 1.0 billion euros, equivalent to just over 84 b.kr.

On June 14, the Housing Financing Fund was awarded ratings from Moody's Investors Service and Standard & Poor's that are matched to the Republic of Iceland's domestic government bond issuance, reflecting the HFF's close links to the Republic of Iceland and its status as a government agency.

On June 18, Stockholm Stock Exchange announced that KB banki hf. was among 13 new companies in

its Attract 40 index. Based on highest turnover rate, the index will be reviewed at the end of 2004.

On June 18, KB banki hf. announced that it had finalised a subordinated bonds issue totalling 450 m. euros, or approximately 40 b.kr., to finance the acquisition of the Danish bank FIH. Of the total issue, 150 m. euros constitute Tier I capital and the remained Tier II capital.

On June 18, the Iceland Stock Exchange (ICEX) Board of Directors approved Deutsche Bank AG London as an ICEX member.

#### July 2004

On July 1, changes to the Housing Financing Fund, which had been approved by parliament on May 28, went into effect. Issuance of housing bonds and housing authority bonds was discontinued and a new bond series was issued: HFF bonds in an annuity format, payable twice a year, with maturities of 20, 30 or 40 years. The main change was that loans are now disbursed in cash, not with housing bonds. Owners of the main housing bond and housing authority bond series were invited to swap them for HFF bonds, and exchanges were made for a total of 338 b.kr.

On July 1, the interest rate on HFF mortgages was lowered by 0.3 percentage points, to 4.8%. HFF rates were reduced by a further 0.3 percentage points to 4.5% on August 1, and by 0.15 percentage points to 4.35% on September 1. The sharp reduction was the result of a decrease in market yields on HFF bonds.

On July 5, a meeting of shareholders in KB banki hf. agreed to increase its share capital through the issue of 110,137,128 shares with pre-emptive rights. At a price per share of 360 kr., the total value of the issue was 39,649,366,080 kr. The KB banki hf. shareholders' meeting also authorised the Board of Directors to increase its share capital through a subscription of 110,000,000 new shares without pre-emptive rights.

On July 5, the Central Bank of Iceland announced that it had decided to raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.5 percentage points to 6.25% as of July 6. The Bank's other interest rates were raised on July 11.

On July 14, a new currency basket was announced by the Central Bank following the annual revision on the basis of Iceland's foreign trade in goods and services the preceding year. The new basket took effect on July 16.

#### August 2004

On August 9, 110,137,128 new shares in KB banki hf., to a nominal value of 1,101,371,280 kr., were listed on the ICEX Main List. The total number of listed shares in the bank thereby increased to 550,685,640, to a nominal value of 5,506,856,400 kr.

On August 12, Islandsbanki hf. made an offer to acquire all the outstanding share capital of Kredittbanken AS of Norway, at a price of NOK 7.25 per share. The offer price is equivalent to just over 3.5 b.kr. for all shares in the bank. The Board of Directors of Kredittbanken recommended to its shareholders to accept the offer, which is conditional upon acceptance by holders of 90% of all issued and outstanding share capital in Kredittbanken and approval by the relevant authorities in Iceland and Norway.

On August 23, KB banki hf. announced plans to offer inflation-indexed mortgage loans with a maturity of 40 years and carrying a fixed interest rate of 4.4%, subject to certain conditions. Subsequently, the other commercial banks and some savings banks and pension funds began offering loans on similar terms. Towards the end of the month the interest rate on mortgage loans was lowered to 4.2%, following an HFF bonds auction.